

Erie Times News

Times In-Depth: Making sense of Erie's gasoline prices

By Jim Martin, June 5, 2011

Only 46 miles of Erie County separate eastern Ohio from western New York.

But gasoline prices in the three states can be much farther apart, with New York prices sometimes topping those in Ohio by as much as 40 cents a gallon, according to AAA's Fuel Gauge report.

Prices in Pennsylvania, like the state's spot on the map, are usually somewhere in the middle.

That's why Jan Hutchinson, who lives in Westfield, N.Y., but works at WQLN Public Media in Summit Township, said she doesn't remember the last time she bought gas in her home state of New York.

The math is all too clear.

If gasoline in New York costs 20 cents more than in Pennsylvania, filling her minivan costs an additional \$3.60.

That van, which she drives about 35,000 miles a year, gets about 23 miles per gallon. Over the course of a year, filling up in Pennsylvania instead of New York should save her \$304 in gas.

Hutchinson jokes that she would save even more if she had a job in Ohio.

"It's a good thing I love my job at WQLN," she said.

National and international gas prices rise and fall, tugged and pulled by the influence of supply and demand, the forces of nature and the whims of speculators.

But once gas is delivered locally, myriad other factors determine what we pay.

Those factors -- including taxes, location and just how badly the gas station wants to sell you a bag of chips -- all contribute to the difference in price that can be found at pumps 46 miles apart.

The price spread

Gas prices have fallen dramatically in recent weeks, and the normal price differences between Pennsylvania, New York and Ohio have been compressed.

On Thursday morning, a single penny stood between the \$3.78 charged at the Clark station in Conneaut, Ohio, and the \$3.79 posted outside a Country Fair store at 5008 Peach St. A few miles east in New York, gas was selling for \$3.999 at the Kwik Fill in Westfield.

The price differences are often far more substantial.

Peggy Allin, owner of Hansen's Errand Services in Erie, said she often sees a difference of 15 to 20 cents a gallon between stations in the Erie area and lower-priced competitors in Ohio.

"We take clients to the Cleveland Clinic and to the Cleveland airport all the time," Allin said. "I always tell the guys to fill it up on the way back. Every time you can save money it's an asset to the bottom line."

Hutchinson, of WQLN, said she's likewise motivated by the chance to save.

Hutchinson said she held her breath as she drove to work from New York on Thursday morning. The low-gas light was on the entire time.

"I literally was praying I would make it," she said. "It's purely about the money."

Allin and Hutchinson take for granted the sometimes-dramatic localized price differences. But neither can say exactly why those differences exist.

"I do wonder about that," Hutchinson said. "I always tied it to taxes. Taxes in New York State are almost always higher on everything."

A taxing question

Taxes do make a difference.

Federal taxes are the one constant. For each gallon of gas sold in the United States, the federal government imposes a tax of 18.4 cents that's already been included in the price at the pump.

Also included in that price is an additional amount levied by each state. Those state taxes vary from a low of 8 cents a gallon in Alaska to a high of 47.7 cents in California.

New York, Hutchinson would not be surprised to learn, levies the second-highest tax, at 47.2 cents per gallon.

Pennsylvania ranks 14th, adding 32.3 cents to every gallon sold in the Keystone State. Ohio ranks 18th, with a tax of 28 cents.

Location, location, location

Taxes account for a big part of the difference in gas prices. But they can't always explain the entire difference. Nor do tax differences explain why gasoline in Erie sold last week for 12 cents more a gallon than it did in Lancaster.

There are other factors at work, said Travis Sheetz, vice president of operations for the Altoona-based chain of Sheetz convenience stores, which sold more than a billion gallons of fuel in 2010.

High on that list is the source of the gasoline.

Ohio is just a few miles from Erie, but chances are good that gasoline for the two areas comes from different sources, Sheetz said.

"Many times in Ohio they pull gas from Chicago. That cost basis can be much different from the New York Harbor or the Gulf," Sheetz said. "We compete in both markets and there are times it's cheaper for us to bring gas in from Ohio to PA."

Dave Seib, a longtime employee of Romesburg's service station at 5235 Peach St., has seen the difference that transportation costs can make.

The station recently ended its relationship with Exxon.

Gas, which once was delivered from Neville Island, near Pittsburgh, is now trucked from United Refining in Warren.

Not only is the company no longer paying a premium for Exxon's gasoline, but transportation costs have been cut.

Now, the full service station that historically charged a few cents a gallon more than most of its competitors is charging the same price.

The competition

But why does gasoline in York cost 13 cents less than in Erie? Competition is another major factor.

More than anything else, Sheetz said, the variation comes down to the presence of retailers who are willing to sacrifice gas profits to drive customers to their stores to buy other things.

Is Erie that sort of market?

Sort of, Sheetz said.

"Erie is mildly competitive," he said. "Country Fair is strong and they have been around for a while. But it's not like markets we have in the D.C. area. Ohio is a really great market."

In the most competitive markets, he said, "There are serious players who really have the ability over the course of time to not make money on gasoline."

Under normal circumstances, the margin on a gallon of gasoline might be less than some would expect.

An analysis by Sageworks Inc., a North Carolina-based financial information company, shows that for every \$50 spent at the gas pump, the station earns about \$1 after covering the cost of labor, equipment, gasoline, delivery and credit card fees.

Intensely competitive markets push that threshold even lower, Sheetz said.

Sheetz said his own company sometimes loses money on gas while it promotes a new location or is battling for market share in a highly competitive area.

Although Sheetz, a family-owned chain, makes much of its income on what's sold inside the store, "We need to make money on gas," Travis Sheetz said. "If we have to lose money for a while, we can't do it long-term and we can't do it across the whole company."

United Refining Co. in Warren, which owns Kwik Fill and Country Fair and is the area's nearest refinery, did not respond to a telephone message seeking comment.

Where the money is

Brad Schaefer is an analyst at Sageworks who worked on a recent study on gas station profits. He said rising prices haven't necessarily left gas stations flush with cash.

The Sageworks research showed it's the sale of candy, chips and sandwiches that drives gas station profits, which have risen nationally each of the past four years, climbing from 0.9 percent in 2007 to 2.1 percent in 2010.

"The main purpose of the gas is to get you into the store and the parking lot. It's not to make a profit on the gas," Schaefer said.

Although gas retailers have seen their profits rise, sharp price increases can be bad for gas stations, Schaefer said.

"It hurts them when those prices are up," he said. "People don't have as much money to spend on other items."

Gas profits might be modest, but massive volume helps.

Sheetz said an 8,500-gallon tanker load of fuel might last a week or longer for a small retailer.

"In one of our good stores, it lasts 12 hours," he said.

In the end, the research suggests, gas stations are going to be as competitive as they need to be. Last week that meant gas prices of \$3.79 in Erie, \$3.99 in Westfield and \$4.19 in Fairbanks, Alaska.

With some exceptions -- places like Romesburg's -- gas sales are no longer dependent on the skills of an honest mechanic to draw customers.

It's about price, Sheetz said.

"Gas is a true commodity," he added. "No other product is advertised on 12-foot signs in front of every store."

That emphasis on price explains why Allin made sure the tank got filled Thursday when one of her employees made a trip to Cleveland.

And it's why Hutchinson has no plans to buy gas in New York anytime soon -- even if it means holding her breath while she says a little prayer and nurses her car to a Pennsylvania gas pump.

For the full article featuring Sageworks' private company data, visit the Erie Times-News- [Times In-Depth- Making Sense of Erie's Gasoline Prices](#)