

## Fuel Price Forecast

### Budget Year FY2013

As has been done in previous years, I have checked a number of sources for fuel pricing forecasts for the upcoming year – both Department of Energy & Kiplinger sources as well as our local fuel suppliers – and all are indicating even more price volatility than last year.

#### **Gasoline**

Based on the numbers produced by the Department of Energy as well as forecasts from Kiplinger, the retail price of gas as of early February is now averaging \$3.63 per gallon, which is up from the previous week and last month, and is expected to hit \$3.80 to \$4.00 by early June. In many places, these forecasts have already been exceeded. Just to put the volatility in perspective, in September forecasters were predicting a peak price of \$3.50/gallon. In 2011, the average retail price was \$3.53/gallon which was 27% higher than it was in 2010. As of the February report, Department of Energy Sources forecast a calendar year average retail price of \$3.55 in 2012 and \$3.59 in 2013. That however was before the latest market uncertainty. I expect we could see a revision upwards to these forecasts when the next report is issued in March.

For comparison purposes, through December of this fiscal year, Hamilton County has purchased a total of 272,534 gallons of gasoline at an average price of \$2.77 per gallon [weighted average of regular unleaded and E10] for a total expense of \$754,950 for 6 months. [Remember we are tax exempt and this would equate to a retail price of about \$3.17.] Historically prices begin to rise in January and our January purchases were already well above this level [\$3.03 for unleaded, with E10 at \$2.72]. It is important to note that the ethanol subsidies have now expired, so costs will increase starting in February]. Given the economic forecasts and the expiration of the ethanol subsidies, I expect average pricing of \$3.45 to \$3.75 for January through June.

For FY2011, we used a total of 493,242 gallons at an average price of \$2.499 per gallon for a total expense of \$1,232,489. For FY2010, we used a total of 528,049 gallons at an average price of \$1.998 per gallon for a total expense of \$1,055,044.

#### **Diesel**

Based on the numbers produced by the Department of Energy as well as forecasts from Kiplinger, the retail price of diesel is now averaging \$3.94 per gallon, which is up from the previous week and last month, and is expected to hit \$4.10 to \$4.30 by early June. As with unleaded, in many places, these forecasts have already been exceeded. Just to put the volatility in perspective, in September forecasters were predicting a peak price of \$3.80/gallon. In 2011, the average retail price was \$3.84/gallon which was 28% higher than it was in 2010. Department of Energy Sources forecast a calendar year average

retail price of \$3.91 in 2012 and \$3.99 in 2013. That however was before the latest market uncertainty. Again, I expect we could see a revision upwards to these forecasts when the next report is issued in March given the current economic forecasts.

For comparison purposes, through December of this fiscal year, we have used a total of 119,305 gallons of diesel at an average price of \$3.053 per gallon for a total expense of \$364,243 for 6 months.

[Remember we are tax exempt and this would equate to a retail price of about \$3.48.] As with regular gasoline, historically prices begin to rise in January. Our January purchases were already above this level [\$3.057 per gallon]. I expect average diesel pricing of \$3.65 to \$3.85 for January through June.

For FY2011, we used a total of 232,847 gallons at an average price of 2.669 per gallon for a total expense of \$621,546. For FY2010, we used a total of 220,224 gallons, at an average price of \$2.023 per gallon for a total expense of \$445,513.

### **Forecast for FY 2013**

In review, for budget year **FY2012** based on the economic forecast in February, I had recommended the following pricing:

- Gasoline [regular unleaded]: \$2.90 to \$3.00 per gallon
- Diesel: \$3.10 to 3.20 per gallon

For FY2012 budget purposes, a single number of \$2.75 was used, combining gasoline and diesel. This was much lower than the forecast at budget time and clearly much lower than the actual costs we are now experiencing. The only reason that we are even close on the average price is that we converted to E10 in June. However the federal subsidy which we experienced for 7 months has now expired. Thus pricing for the 2<sup>nd</sup> half of FY 2012 are expected to be higher. I now believe that the actual weighted average number will be closer to \$3.50 per gallon.

For next year, **FY 2013**, I recommend the following based on the forecasts by the experts as our current experiences:

- Gasoline: \$3.20 to \$3.40 per gallon
- Diesel: \$3.30 to 3.60 per gallon
- **Weighted Average: \$3.25 to 3.50 per gallon**

Again, the market is highly volatile at this point. Additionally, since this is an election year, politics will likely play a role in the pricing. However, I strongly recommend that we use a significantly higher number than the \$2.75 we used in the FY 2012 budget if we are to accurately reflect the costs of operation in our budget.