

## **GAS PRICE HIKES ON THE HORIZON**

As you may know, the average price of regular gas in Georgia is \$3.478 per gallon (\$3.879 for diesel) as of the time of the writing of this article. Nationally, the averages are \$3.45 for regular and \$3.875 for diesel. A year ago, the averages were \$3.101 and \$3.532.

It's certainly difficult to recall that as recently as the wind-down of the George W. Bush administration back in December 2008, regular gas was averaging \$1.61!

Looking forward, the experts are forecasting prices between \$4 and \$5 per gallon by the summer of 2012. This, despite our "success" in Iraq. Evidently it is feared that Iran will retaliate against Western embargoes over its nuclear program by closing the Strait of Hormuz, through which some 20 million barrels of crude normally pass daily. Because of such threats, we now hear phrases like "record levels" intertwined with terms like "2012 oil prices".

Naturally, in the construction industry, fuel pricing is the prime factor that impacts across the board pricing of materials, supplies and labor. The general public and most lawmakers do not realize that fuel accounts for about 3% of total construction costs, and even more in construction specialties that involve PVC piping, steel, lumber, asphalt, roofing materials and other plastic and petroleum-based products.

What can a construction contractor do about the impending fuel price hikes? Here are a few ideas:

- When estimating potential projects, include adequate cushion for the future uncertainty in oil prices
- Factor contingency reserves into your contract to provide for unexpectedly high material prices
- Include an escalation clause in your contracts that addresses variable fuel prices
- When bidding on distant jobs, seek economies with respect to material delivery costs
- Try to align the locations of the jobs with the locations of the job crews to minimize travel time and costs
- Consider tech-savvy ways to economize on lengthy business travel by using tools like Skype and GoToMeeting.com
- Carefully examine price vulnerability in a fixed fee contract (as opposed to cost-plus-fixed-fee contracts)
- Re-evaluate company procedures governing change orders to make sure you are not leaving money on the table
- Analyze other possible efficiencies that could help reduce fuel expenditures

The most common comment we get when we discuss the first couple ideas above is "we'll never get the job if we add a cushion or contingency reserve". This may be true, but do you really want the job if you end up losing money due to fuel price increases? Therefore, try adding an escalation clause or one of the other ideas to try to offset the expected fuel price increases this summer.

Hopefully, any gas price hikes will be temporary in nature and perhaps the next presidential administration will take bold steps toward reducing our historical dependence on foreign oil. Meanwhile, we can only play the cards we are dealt and try to avoid being blind-sided by a potentially astronomical fuel price hike.

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