

ENERGY PIPELINE

Industry Insights – Low Gasoline Prices Mean Happy Motorists

By Dan Larson

Gasoline is the ultimate commodity, and as a commodity, its price is driven by market forces and competition.

But for the vast majority of motorists, when the price of a gallon of go-juice goes up, it draws grumbles and resentment. When prices go down, few people notice.

Here in the United States, we tend to take inexpensive gasoline as a birthright. When the price posted to the big sign outside the station goes up, we don't take it well.

Our anger can come from many different places. Some motorists were around 40 years ago when geopolitical forces resulted in gas lines at the pump and closed stations. Large, faceless oil companies were an easy target for anger and conspiracy theories, and for many drivers, they still are.

Another reason we find it so easy to direct anger at the oil company when fuel prices rise is the invisibility factor. We must buy gasoline to keep the car going but we never actually see what we're buying. While standing at the pump, we might catch a whiff, but we can't watch what goes into the tank. A few days later, we're back at the station paying more money for something we never see.

A Real Bargain

The fact is, gasoline is a bargain. For the past two years, gasoline has been selling at historical lows and according to several forecasts, will continue to sell well below its inflation-adjusted average for at least the next two years.

Let's have a look at where we are now.

According to the *Gas Buddy* website, the average retail price of a gallon of regular unleaded across the US on Aug. 8 was \$2.35. Colorado's average price was about a cent higher than the national average, it reported.

Prices have been trending upward since hitting \$2.21 on July 4, so far, the low point for this year. That is more than a buck and a half below where it was five years ago.

After hitting a high of \$3.86 in September 2012, gasoline retail prices bounced around \$3.50 until mid-2014 when they began a six-month slide that bottomed out in January 2015, at \$2.05 per gallon. Through July of that year, prices climbed nearly 75 cents before heading into another slide, this one steeper and faster and a reflection of falling crude prices.

Both crude oil and gasoline struck bottom in February 2016. At that time, crude hit \$28.50 per barrel and the U.S. average was \$1.70 for a gallon of unleaded. Some Colorado independent stations at the time were posting \$1.50, roughly equivalent to a gallon jug of water at the grocery store.

An analysis of prices going back 100 years shows that while there have been spikes, the price of gasoline has consistently remained below the point it would be if it tracked with inflation, says a researcher who crunches data from the federal Energy Information Administration.

If it had moved with inflation, he says, today's average price would be \$2.64 per gallon, 30 cents higher than the current street price.

Tim McMahon is editor of the Moore Inflation Predictor and publisher of the InflationData.com website. He forecasts a declining inflation rate through the end of this year and then a trend upward to about 2.3 percent by the end of the first half of next year.

McMahon acknowledges that most people view gasoline prices from the perspective of the past five years but when viewed in a historical context, gasoline is inexpensive. He adds that motorists in places such as Texas and Georgia usually pay considerably less than those in California or New York.

The difference is often the excise and sales taxes applied by the states.

User Tax

Colorado ranks among the lower third of states for its state gasoline tax, according to the American Petroleum Institute. Colorado's state tax is 22 cents per gallon. At either end of the state gasoline tax spectrum are Pennsylvania, topping the list at 58.3 cents per gallon, and Alaska, which is No. 50 at 12.25 cents.

The federal tax on gasoline is 18.4 cents per gallon. Neither the federal government nor Colorado has raised gasoline tax rates since 1993.

In California, the state legislature this year passed an increase on one of its two gasoline excise taxes, which when added to its 2.25 percent sales tax, a 2 cent underground gasoline storage tank tax, and the 18.4 cent federal tax means California drivers pay 76.7 cents tax on every gallon at the pump. And, due to its mandate for more expensive reformulated gasoline, the millions of cars and trucks running California's freeways, and its geographic isolation from the product pipeline grid, California typically posts some of highest pump prices in the nation.

When it comes to spending motor fuel taxes on its roads, Colorado lands near the middle of the pack.

According to the Tax Foundation, a D.C.-based policy think tank, about half, 51.3 percent, of Colorado's road spending comes from tolls, user taxes and fees, placing it at No. 21 on the list. Our neighbor to the north, Wyoming, allocates just 25.8 percent of its motor fuel taxes to road projects, placing it at No. 47 among states. The balance of Wyoming's road funds are generated mostly from resource severance taxes, the foundation notes.

Of the lower-48 states, New Jersey tops the list, directing 73.6 percent of motor fuel taxes to roads while South Dakota is lowest with 25 percent of its road funds coming from fuel taxes.

Whether gasoline taxes fund road work or not, they are seen as regressive taxes because they have the greatest impact on those who can least afford to pay them. Adding 10 cents to a state's gasoline tax means an extra dollar for every 10-gallon fill-up, which a higher income motorist might not notice but a person with lower income likely would.

Raising the motor fuel tax, while politically risky at any time, is often seen as easier to pass during periods of low prices.

September 2017

Energy Pipeline magazine is published monthly by the Greeley Tribune, Greeley, CO