

## Gasoline Pricing in Oregon

The price of crude oil is near its historic high of \$42 per barrel or \$1 per gallon. That explains why the U.S. national average is about \$2.05 per gallon. It does not explain why prices are higher on the West Coast than they are on the Gulf Coast. States with the highest average regular gasoline prices are: California \$2.351, Hawaii \$2.335, Washington \$2.283, Oregon \$2.279, and Nevada \$2.277. States with the lowest prices are: Texas \$1.904, Georgia \$1.897, South Carolina \$1.879, Missouri \$1.869, and Oklahoma \$1.861. (1)

Why are retail gasoline prices in Oregon typically higher than other parts of the country?

First, as part of the West Coast market that includes Washington and California, Oregon is isolated and distant from the principal refining centers found in Texas and the Gulf Coast. The least expensive method to transport fuel is by pipeline, followed by tanker, rail, and truck. The West Coast market lacks a network of pipelines to connect with the Gulf Coast. Fuel from around the world, including the Gulf Coast, must be shipped to California and other West Coast ports by tankers that take eleven to forty days per trip. This adds \$0.03 to \$0.12 per gallon.

Second, West Coast refining capacity is tight. California is the third largest gasoline market in the world, behind only the remaining U.S. states and Japan, and that market is supplied almost entirely by refineries within its borders. These refineries make different blends of fuels for different markets, including

special low-emissions formulations for southern California. They operate at about 97 percent of capacity, while the national average is about 93 percent. With virtually no spare capacity, supply disruptions or mechanical failures cause immediate price spikes throughout the West Coast market. This can add \$0.04 to \$0.07 per gallon.

Third, the retail market is highly concentrated. Since 1990, the U.S. petroleum industry has undergone an unprecedented wave of mergers and consolidations – 2,600 in all. While the industry maintains that these mergers were necessary to achieve efficiencies and cost savings, they also represent market power or leverage to maximize profits and shareholder wealth by pricing above competitive levels. According to a recent General Accounting Office (GAO) report (2), industry mergers and increased market concentration have generally led to higher wholesale gasoline prices. For conventional gasoline, the impact has ranged from a decrease of \$0.01 to an increase of \$0.05 per gallon. In California, where low-emissions fuels are required, the wholesale price increased \$0.07 per gallon.

Fourth, Oregon has higher transportation costs for fuel. Since no refineries are located in the state, Oregon depends heavily on the 400-mile Olympic pipeline connecting refineries north of Seattle, Washing-

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ton with the distribution terminals in Portland and Eugene. This pipeline carries twelve million gallons of fuel each day. Any disruption of supply or damage to the pipeline leads to immediate price spikes.

Some fuel deliveries are made by truck from California refineries. Among the West Coast states, Oregon has the highest percentage of vehicle miles of travel (VMT) driven in rural areas, about 53 percent. Rural VMT is about 32 percent in Washington and 19 percent in California. Rural areas can only be supplied by truck. Further, demand is insufficient in rural areas to foster competition. All of these conditions lead to higher fuel prices in rural areas.

Fifth, Oregon law prohibits self-service gasoline. Available in virtually every other state, industry sources claim this adds as much as \$0.05 per gallon.

Some would argue that Oregon's gas tax is another reason that Oregon's retail gasoline price is higher than other states. It is not. Oregon's gas tax of \$0.24 per gallon is slightly above the national average of \$0.21. But this comparison does not include state sales taxes and local option taxes. When these taxes are considered, California's average tax is nearly \$0.34 per gallon (state excise tax is \$0.18) and Nevada's average tax is nearly \$0.34 as well (state excise tax is \$0.248). Washington increased its gas tax in July 2003 from \$0.23 to \$0.28 per gallon. In fact, Oregon's gas tax is lower than any other state in the West Coast market.

In summary, there are five reasons that Oregon retail gasoline prices are typically higher than other parts of the country. They are: 1) As part of the West Coast market, Oregon is isolated and distant from the Gulf Coast refineries, 2) West Coast refining capacity is tight, 3) the retail market is highly concentrated, 4) Oregon has higher transportation costs for fuel, and 5) Oregon law prohibits self-service gasoline.

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(1) As of June 8, 2004. Sources: AAA, OPIS Energy Group, and Wright Express, LLC.

(2) GAO-04-96 *Effects of Mergers and Market Concentration in the U.S. Petroleum Industry*, Washington, D.C., May, 2004.