OLR RESEARCH REPORT

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GASOLINE PRICES AND TAXES

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You asked for (1) a comparison of Connecticut's gasoline tax rate to that of the adjoining states and (2) an explanation of why gasoline prices have risen, particularly with regard to the price of crude oil.

Gasoline taxes are currently 41.9 cents per gallon in Connecticut, 23.5 cents per gallon in Massachusetts, 44.6 cents per gallon in New York, and 33.0 cents per gallon in Rhode Island, according to the non-profit Tax Foundation.

According to the Office of Policy and Management's weekly energy report, as of February 3, 2011, the statewide average retail price of regular gasoline was $3.34. While well below the 2008 peak of $4.39, the current price is 48.4 cents (17.0%) higher than one year ago and the price has risen steadily since October 2010.

Historically, the price of gasoline has closely tracked the price of crude oil, which is the largest component of the cost of gasoline. According to the federal Energy Information Administration (EIA), in 2009 the price of crude oil accounted for 61% of the total cost of gasoline nationally. The other components were state and federal taxes (18%), refining and profits (11%), and distribution and marketing (10%). In Connecticut, the cost of benchmark West Texas Intermediate (WTI) oil accounted for 60.2% of the average retail price of gasoline during the first week of February 2010 and 63.7% of the average retail price in the first week of February of 2011. Connecticut's gasoline taxes account for approximately 13.5% of the current average retail price. The federal tax accounts for another 5.5%.

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The increased price of oil is largely due to increased demand and flat supply. According to EIA, world oil consumption grew by about 2.2 million barrels per day (bbl/d) in 2010 to 86.6 million bbl/d. This surpassed the demand reached in 2007 before the recession. In recent years, the developing countries have accounted for the bulk of demand growth, and notably China overtook the U.S. as the biggest automobile market in the world in 2009. EIA projects that global demand will rise to 88.2 million bb/d in 2011 and 89.8 million bb/d in 2012. It expects the developed countries to account for all of the world's growth in oil demand over the next two years, with the largest demand growth coming from China, the Middle East, and Brazil.

In contrast, global oil production in 2010 was 86.4 million bb/d, requiring withdrawals from storage to meet demand. EIA projects that global production will be 87.8 million bb/d in 2011 and 89.3 million bb/d in 2012, below projected demand in both years.

EIA's February 2011 edition of its Short-Term Energy Outlook projects that regular gasoline prices will average $3.15 per gallon nationally in 2011, 37 cents per gallon higher than the 2010 average, with prices forecast to average about 5 cents per gallon higher in the peak driving season (April through September). The report notes that there is significant uncertainty surrounding the forecast, with the current market prices of futures and options contracts for gasoline suggesting a 35% probability that the national monthly average retail price could exceed $3.50 per gallon during summer 2011 and about a 10% probability that it could exceed $4.00. It states that rising crude oil prices are the primary reason for higher retail prices, but higher refining margins (the difference between the cost of crude oil and the wholesale price of gasoline and other finished products) are also expected to contribute.

EIA expects the price of WTI crude oil to average about $93 per barrel in 2011, $14 higher than the average price last year. For 2012, EIA projects that WTI prices will continue to rise, averaging $98 per barrel. These projections are based on a forecast of U.S. real gross domestic product (GDP) growth of 3.0% in 2011 and 2.8% in 2012, and world real GDP (weighted by oil consumption) growth of 3.9% and 4.0%, respectively, in 2011 and 2012.

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