

# WebMemo



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## Senate Energy Bill Would Increase Gas Prices

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The Senate is currently debating energy policy legislation that could result in significantly higher prices for gasoline consumers. A review of S. 1419, including the just-completed section on tax changes, reveals that the bill could increase the price of regular unleaded gasoline from \$3.14 per gallon (the early May national average) to \$6.40 in 2016—a 104 percent increase.

The Senate bill aims to slow and ultimately reverse the growth of carbon emissions from gasoline-powered vehicles, mainly through provisions requiring higher Corporate Average Fuel Economy (CAFE) standards for cars and more biofuel content in retail gasoline. The bill does not, however, contain significant funding or organizational plans for increasing the country's supply of petroleum. In addition, the bill contains a section directed at "price gouging." The bill proposes paying for the new mandates and programs with a series of tax increases, most of which would be paid by producers of gasoline. The combined effects of these policy changes would cause retail gasoline prices to increase.

**Biofuel Content.** The requirement to increase the biofuel content of retail gasoline would reduce flexibility in the nation's gasoline supply and add to the production costs—the latter stemming primarily from the higher costs of producing ethanol. Both trends would begin in the short term as the structure of gasoline production changed to conform to the bill's requirements.

**Increasing CAFE Standards.** If the nation's automobile and truck fleet achieves the higher fuel

efficiency targets, demand for gasoline will fall, exerting a downward pressure on gas prices. However, that pressure offsets only about a fourth of the increased costs resulting from biofuel requirements. Some analysts might argue that the downward pressure will be greater; however, recent history has demonstrated that higher fuel efficiency standards have a modest effect on price.

**Price Controls.** The Senate's least environmental initiative is the one most likely to increase prices. Many times over the past 100 years, well-meaning efforts to cap prices in order to protect U.S. consumers resulted in unintended reductions in supply and higher prices. A simple economic truth is that high prices spur producers to increase supply, which ultimately lowers prices for consumers. When policymakers set price caps to combat "price gouging," the result is the opposite of the one intended. Consumers increase their demand as a result of the capped price, but producers do not face any incentive to meet that demand. Supply fails to keep pace with demand, resulting in rationing or supply "brown outs."

**Increased Taxes.** The Senate bill contains a number of tax law changes that would also contribute to gasoline prices. Among the most prominent are:

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/EnergyandEnvironment/wm1512.cfm](http://www.heritage.org/Research/EnergyandEnvironment/wm1512.cfm)

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- a tax on finished gasoline as it leaves the production facility;
- a tax on gasoline produced in the United States and sold abroad;
- a decrease in the tax credit offered to producers of ethanol; and
- major changes in the tax credits and deductions afforded to gasoline producers under current tax law.

The loss of current gasoline company tax credits is particularly dangerous to consumers, since it is a large loss (about \$13 billion over 10 years). Taxpaying corporations tend to recoup increased tax payments in the form of higher retail prices.

Taken together, the four factors will raise the price of gasoline by the following estimated amounts:

The national average per gallon price of gasoline in May 2007 was \$3.14.<sup>1</sup> However, state-by-state monthly averages are not available, so the data is based on the average state gas price on May 15, 2007, which was \$3.11.<sup>2</sup> This average is the basis for the national and state-by-state increases in pump prices over the next several years (see Table 2). Heritage analysts projected estimates of gasoline prices for 2008 by first adjusting the mid-May 2007 rate for 1% inflation<sup>3</sup> and then adding 28 cents<sup>4</sup> to each state's average cost. Similarly, state-level estimates for 2010 through 2016 were calculated by adding the projected cost of S. 1419 to consumers to the previous year's inflation-adjusted pump prices. Gas consumers can expect to pay between \$3.16 and \$3.79 a gallon for gas in 2008 after adding in the estimated impact of the Senate energy bill. By 2016, all states can expect gas prices in excess of \$6. As a result of S. 1419, consumers would spend an average of \$1445 more per year on gasoline in 2016 than in 2008.

*Note:* The Heritage Foundation's website has an interactive map that displays the information from Table 2.<sup>5</sup>

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Table 1			W.M. 1512
<b>Estimated Impact of S. 1419 on Gasoline Prices</b>			
	2008	2016	
Per-Gallon Price, Current Policies	\$3.14	\$3.67	
Per-Gallon Impact of Biofuel Mandate, Fuel Efficiency, Price Caps	0.04	2.29	
Per-Gallon Impact of Tax Law Changes	0.24	0.45	
Total Per-Gallon Impact of S. 1419	0.28	2.74	
Per-Gallon Price Under S. 1419	3.42	6.41	

**Note:** Impact is calculated relative to the national average per-gallon price in May 2007.  
**Source:** Center for Data Analysis calculations.

1. Data on national average gasoline prices can be obtained from [http://tonto.eia.doe.gov/dnav/pet/pet\\_pri\\_gnd\\_a\\_epm0\\_pte\\_cpgal\\_w.htm](http://tonto.eia.doe.gov/dnav/pet/pet_pri_gnd_a_epm0_pte_cpgal_w.htm).
2. Data on average per gallon cost of gas on May 15 was collected on June 15 from [www.fuelgaugereport.com/sbsavg.asp](http://www.fuelgaugereport.com/sbsavg.asp) by selecting each state and recording the value in the "Month Ago Avg." field.
3. Since the calculations were based on mid-year prices, the adjustment for inflation was discounted to 1 percent, as opposed to a 2 percent inflation adjustment. Gas prices in 2010, 2012, 2014 and 2016 were adjusted for 4 percent inflation (2 percent inflation over 2 years = 4 percent inflation adjustment).
4. This is the estimated impact that S. 1419 would have on regular unleaded gasoline prices, as shown in Table 1.
5. "How High Will Gas Prices Go? A State By State Analysis" Heritage Foundation, at [www.heritage.org/Research/Economy/cdagasprices.cfm](http://www.heritage.org/Research/Economy/cdagasprices.cfm).

Table 2

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## States' Gasoline Prices Under S. 1419

State	Average Price Per Gallon, May 2007	Estimated Average Price Per Gallon in 2008	Estimated Average Price Per Gallon in 2016	Per-Person Impact of 2016 Prices (Relative to 2008 Prices)*
Alabama	\$2.91	\$3.22	\$6.17	\$1,564.59
Alaska	\$2.95	\$3.26	\$6.23	\$1,368.21
Arizona	\$3.09	\$3.40	\$6.39	\$1,140.51
Arkansas	\$2.98	\$3.29	\$6.26	\$1,519.62
California	\$3.47	\$3.79	\$6.84	\$1,264.76
Colorado	\$3.26	\$3.57	\$6.58	\$1,313.66
Connecticut	\$3.21	\$3.52	\$6.52	\$1,309.95
Delaware	\$2.98	\$3.29	\$6.25	\$1,607.20
District of Columbia	\$3.13	\$3.44	\$6.43	\$644.44
Florida	\$3.00	\$3.31	\$6.28	\$1,474.08
Georgia	\$2.96	\$3.26	\$6.23	\$1,591.74
Hawaii	\$3.37	\$3.69	\$6.72	\$1,088.65
Idaho	\$3.20	\$3.51	\$6.52	\$1,366.91
Illinois	\$3.36	\$3.67	\$6.70	\$1,237.86
Indiana	\$3.25	\$3.56	\$6.57	\$1,481.75
Iowa	\$3.19	\$3.50	\$6.50	\$1,667.03
Kansas	\$3.21	\$3.52	\$6.52	\$1,538.74
Kentucky	\$3.00	\$3.31	\$6.28	\$1,564.66
Louisiana	\$2.91	\$3.22	\$6.17	\$1,500.84
Maine	\$3.03	\$3.34	\$6.31	\$1,715.18
Maryland	\$3.02	\$3.33	\$6.30	\$1,331.24
Massachusetts	\$2.99	\$3.29	\$6.26	\$1,361.23
Michigan	\$3.32	\$3.63	\$6.66	\$1,458.51
Minnesota	\$3.17	\$3.48	\$6.48	\$1,583.40
Mississippi	\$2.89	\$3.20	\$6.15	\$1,648.88
Missouri	\$3.07	\$3.38	\$6.37	\$1,642.52
Montana	\$3.17	\$3.48	\$6.48	\$1,632.95
Nebraska	\$3.28	\$3.59	\$6.61	\$1,419.46
Nevada	\$3.25	\$3.56	\$6.58	\$1,108.86
New Hampshire	\$2.95	\$3.26	\$6.22	\$1,612.82
New Jersey	\$2.89	\$3.20	\$6.16	\$1,441.75
New Mexico	\$3.26	\$3.57	\$6.59	\$1,534.49
New York	\$3.15	\$3.46	\$6.46	\$879.22
North Carolina	\$2.98	\$3.29	\$6.25	\$1,498.59
North Dakota	\$3.22	\$3.53	\$6.54	\$1,665.85
Ohio	\$3.18	\$3.49	\$6.49	\$1,353.94
Oklahoma	\$3.14	\$3.45	\$6.44	\$1,839.07
Oregon	\$3.41	\$3.72	\$6.76	\$1,272.41
Pennsylvania	\$2.99	\$3.30	\$6.27	\$1,148.75
Rhode Island	\$3.03	\$3.34	\$6.32	\$1,353.13
South Carolina	\$2.85	\$3.16	\$6.11	\$1,704.67
South Dakota	\$3.23	\$3.54	\$6.55	\$1,698.71
Tennessee	\$2.89	\$3.20	\$6.15	\$1,631.45
Texas	\$2.94	\$3.25	\$6.21	\$1,577.61
Utah	\$3.21	\$3.52	\$6.53	\$1,385.20
Vermont	\$2.98	\$3.29	\$6.25	\$1,618.77
Virginia	\$2.92	\$3.23	\$6.19	\$1,558.64
Washington	\$3.44	\$3.75	\$6.80	\$1,290.24
West Virginia	\$3.14	\$3.45	\$6.44	\$1,277.94
Wisconsin	\$3.29	\$3.60	\$6.62	\$1,358.39
Wyoming	\$3.07	\$3.37	\$6.36	\$1,834.13
<b>United States</b>	<b>\$3.11</b>	<b>\$3.42</b>	<b>\$6.41</b>	<b>\$1,444.77</b>

\* Monthly cost to consumers was calculated by multiplying the price per gallon estimates by gallons of per capita gasoline use by consumers in 2004. This was then multiplied by 12 to obtain an annual estimate. See [www.energy.ca.gov/gasoline/statistics/gasoline\\_per\\_capita.html](http://www.energy.ca.gov/gasoline/statistics/gasoline_per_capita.html) for per capita gasoline use by state. The estimate presented in this column is the difference between annual cost in 2016 as compared to annual cost in 2008

Source: Center for Data Analysis Calculations, and California Energy Commission, "U.S. Gasoline Per Capita Use by State 2004," at [www.energy.ca.gov/gasoline/statistics/gasoline\\_per\\_capita.html](http://www.energy.ca.gov/gasoline/statistics/gasoline_per_capita.html).