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It's the taxes: Comparing Pa., Ohio gas prices

By Colin McNickle

Taxes matter. That's the simple takeaway from a new analysis by the Allegheny Institute for Public Policy of the oft-questioned differential in gasoline prices between Pennsylvania and Ohio.

Western Pennsylvania motorists complain on a regular basis that a drive about an hour away to Eastern Ohio yields gas prices that are markedly lower.

To wit, as think tank senior research associate Frank Gamrat documents (*in Policy Brief Vol. 17, No.26*), on May 15 the statewide average for a gallon of gasoline in Pennsylvania (according to AAA) was just above \$2.57. But it was just under \$2.26 a gallon in Ohio.

That's a difference of 31.4 cents, or nearly 13 percent.

"How can *that* be?" we've often heard the plaint. "It's a Big Oil *racket!*" some even have said. But, simply stated, just about all of that differential is a matter of respective state taxes, Gamrat reminds.

Ohio's tax rate for gasoline and diesel at the pump is 28 cents per gallon. But in Pennsylvania, the retail rate per gallon of gasoline is 58.2 cents and 74.6 cents for diesel. That's a difference of more than 70 percent and nearly 91 percent, respectively.

The federal tax on gasoline is 18.4 cents a gallon. The tax on diesel is 24.4 cents.

"Removing the effect of each state's gasoline tax brings the (May 15) price before state tax to slightly more than \$1.99 in Pennsylvania and just under \$1.98 in Ohio – making Pennsylvania 1.2 cents higher," Gamrat says. Sans state taxes, the price differential for diesel was 2.3 cents per gallon.

But Gamrat found that two weeks later, on May 31, Pennsylvania's average gas prices were 3.6 cents cheaper per gallon (\$2.002 vs. Ohio's \$2.038), again, factoring out state taxes.

On June 14, that differential was 2.4 cents per gallon, this time to Ohio's advantage, he says. Gamrat also found the see-saw effect in the differential in refiners' prices to companies who then sell gasoline to consumers.

“From 2010 to 2013, Pennsylvania’s average monthly wholesale/retail price charged by refiners was more expensive than in Ohio, ranging from 1.60 cents greater in 2010 to 7.28 cents in 2012,” Gamrat found.

“However, from 2014-2016, Pennsylvania enjoyed the advantage with the average monthly price of gasoline at the wholesale/retail level being cheaper, in the range of 0.3 cents (2014) to 2.76 cents (2016),” he says.

Through the first quarter of 2017, Gamrat says Pennsylvania’s average monthly wholesale/retail price was 1.03 cents higher than our Buckeye State neighbors. The Allegheny Institute scholar found the average difference from 2010 to this year’s first quarter to be about 1.5 cents higher for the Keystone State.

“(It’s) not a substantial difference,” Gamrat reminds. “Of course, these are snapshots for the statewide averages. Note there are fluctuations over short periods but the prices, excluding state taxes, are fairly close.”

But Gamrat’s detailed analysis *did* find markedly higher prices for Western Pennsylvania vs. those in Eastern Pennsylvania.

To wit, the West-East price differential on May 15 was 8.8 cents more expensive in the Erie/Pittsburgh metro areas than those found in the Philadelphia/Scranton-Wilkes Barre metros. On May 31, the differential was 5.9 cents. And on June 14, that difference was 6.5 cents higher for the western metros.

“Perhaps it’s just coincidental that these data points put western metro prices higher than in two eastern metros,” Gamrat concedes. “But the price gaps are large enough to suggest there is an underlying factor explaining the gap.”

Because taxes are not a factor in the cross-state differential, Gamrat ponders if it’s the cost of transporting the fuel.

And if that’s the case, it makes a stronger argument for reversing the flow of the western end of the Laurel Pipeline, which would provide more, and presumably cheaper, fuel from Midwestern refiners to Western Pennsylvania gas pumps, he says.

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