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Understanding Gas Prices

Devaluing America's Resources Won't Lower Prices at the Pump



Pumpjacks Working In The Oil Fields | Jeff Whyte

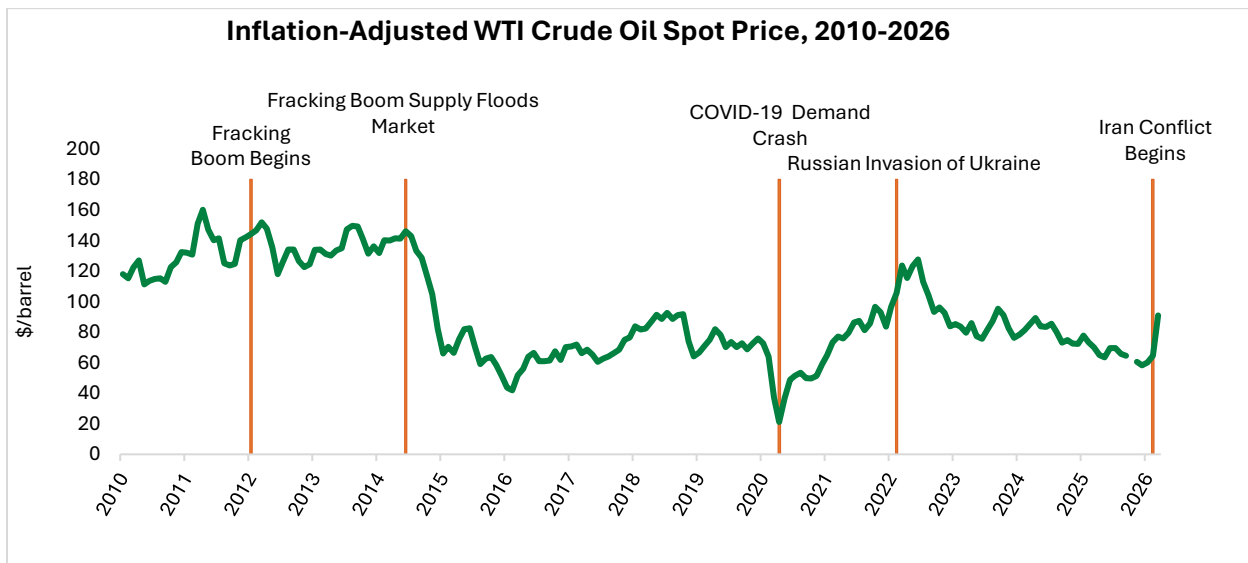
Many Americans are feeling the pinch as prices at the pump spiked due to escalating conflicts with Iran. As consumer sentiment dampens, policymakers are eager to take action to help. However, it's important to get the facts straight on how gas prices at the pump are set and what causes price shocks before ushering in subsidies and policies that only pad industry profits instead of truly offering relief for consumers.

Public policy changes can shape markets in the long-term, but the price of gas is determined by the balance of global supply and demand, even more so than most products we buy. In fact, the federal government has few options to affect gas prices, especially in the short term, that would not threaten the foundation of our market-driven economy and create more costs and liabilities for taxpayers and consumers down the road.

Global Market Dictates Gas Prices, Not Changes to U.S. Federal Oil and Gas Leasing

The price of transportation fuels—including gasoline and diesel—is determined by many domestic and international factors. The most dominant of these is the price of crude oil, which is determined in the global market by geopolitical and macroeconomic drivers like Organization of the Petroleum Exporting Countries (OPEC) production agreements, geopolitical events in high producing regions, economic activity driving oil demand, and even the strength of the U.S. dollar, which is used to settle all oil transactions around the globe.¹

When we plot the historical spot prices of West Texas Intermediate (WTI) crude oil, the true drivers of price spikes become obvious. Major price fluctuations over the last 15 years correlate to massive global oil supply or demand shocks. The hydraulic fracturing boom during the 2010s brought the cost of oil production down significantly. In 2020, COVID-19 destroyed global demand, crashing WTI daily spot price to below \$0 per barrel at one point. Prices bounced back as the world economy recovered from the pandemic. In 2022, the Russian invasion of Ukraine disrupted supply, spiking WTI spot prices back to above \$100 per barrel—a price level not seen in decades post fracking boom. Today, escalating conflicts with Iran and the threat to the Strait of Hormuz have once again injected a severe supply shock into the market, driving WTI past \$110 per barrel in April.



Source: TCS analysis using Energy Information Agency data on Spot Crude Oil Price: West Texas Intermediate (WTI) and Bureau of Labor Statistics Consumer Price Index for All Urban Consumers: All Items in U.S. City Average.

Total U.S. oil and gas production does have a significant impact on global oil supply, which will in turn affect global oil prices. However, U.S. production remains at near all-time highs. Monthly U.S. crude oil production averaged roughly 13.6 million barrels per day in 2025, surpassing its 2019 pre-covid peak.² Natural gas production is projected to set new records as well, with marketed output expected to average more than 120 billion cubic feet per day in 2026 and rise further in 2027.³

The United States is not only producing at historic levels; it is exporting at historic levels. The country has been a net exporter of total petroleum products for several years and ships roughly 6.3 million barrels per day of refined products.⁴ Liquefied natural gas exports have grown from essentially zero in 2016 to roughly 15 billion cubic feet per day by 2025, with projections exceeding 18 billion cubic feet per day by 2027.⁵ The United States is now one of the largest LNG exporters in the world. Despite being the world’s top producer and net exporter of oil and gas, American consumers are still price takers in the world oil market, as supply and demand shocks are typically experienced worldwide.

Federal policies that are often advertised to boost domestic oil and gas production often only target federal production, as states set their own rates and terms for production on state lands. Federal leasing policies such as keeping below-market royalty rates, opening up large swaths of federal land that have other more productive uses like hunting and recreation, or loosening

regulations on oil and gas well cleanup—will likely only cost taxpayers in the long run while doing nothing to lessen the pressure consumers feel at the pump. Foregoing revenue on publicly owned resources will only make federal taxpayers feel the pinch down the road as the national debt, already at an all-time high, continues to grow. State taxpayers and communities will be impacted too, as half of the revenue from federal production is returned to states to fund local priorities and important infrastructure such as roads and schools. And any production boost that does happen on federal land—if any—that comes from these policies won’t materialize years later anyway, as exploration often takes years before production eventually starts.

By the Numbers: Royalties Don’t Impact Prices at the Pump

To understand what policies are actually effective for lowering prices at the pump, it’s important to break down the factors that set prices. The price of crude oil is a dominant factor in the price of gasoline, but far from the only one—refining, distribution, and taxes make up the rest. For example, the uptick in the price of gasoline in August 2021 was largely unrelated to crude oil production, according to the U.S. Energy Information Administration (EIA). Instead, the increased price at the pump was due to “high summer driving demand, low gasoline stocks, refinery disruptions from Hurricane Ida, and relatively high ethanol costs.”^{6,7}

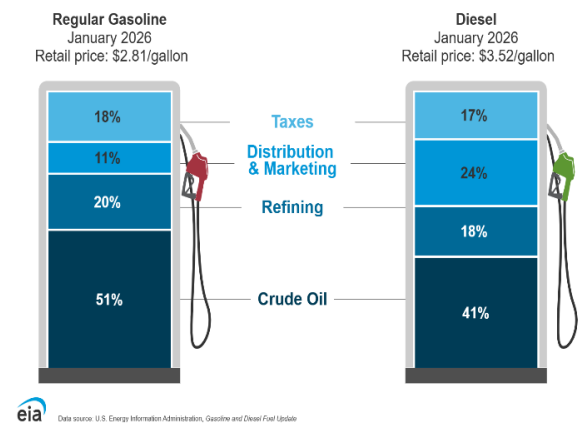
Policies affecting oil and gas produced on federal lands and waters do not dictate the global price of oil and thereby will have little impact on prices at the pump. One important policy governing oil and gas production on federal lands is the royalty rate. All entities developing federally owned oil and gas resources are charged a royalty—a set percentage of the value of oil and gas sold at market—with that revenue then shared between the federal treasury and the state where the lease is located.

Some policymakers worry that changing the royalty rate would impact the price of gas. However, some simple math demonstrates why any change would be negligible:

- The cost of crude oil determines just **51%** of the price of gasoline. Even ignoring international markets, federal oil sales have a small effect on U.S. supply. Oil production from federal lands made up just **10%** of total U.S. production over 2019-2024.
- The vast majority of federal oil and gas is produced on leases that were issued decades ago. Roughly half of onshore oil and gas royalty receipts in 2013 came from leases issued more than 50 years prior. Just 6% of oil and gas royalty payments came from leases issued in the last 10 years. For simplicity, let’s assume **6%** of onshore production would be subject to the higher royalty rate in 10 years.
- Increasing the onshore royalty rate to **16.67%** from the current rate of **12.5%** would only apply to new leases—which usually take years to develop—and have no impact on leases currently producing.

Crude Oil Is Only Half of the Equation

What we pay for in a gallon of:



Based on these assumptions, the math is straightforward:

1. **Start with the Pump Price:** In April 2026, gasoline prices averaged **\$4.12** per gallon.
2. **Isolate the Crude Oil Cost:** Crude makes up 51% of that price. $(\$4.12 \times 0.51) = \mathbf{\$2.10}$.
3. **Isolate the Federal Share:** Federal lands produce 10% of total U.S. oil. $(\$2.02 \times 0.10) = \mathbf{\$0.21}$.
4. **Isolate the Share of Leases that Would be Affected by Higher Royalty Rate:** Only 6% of onshore production would be subject to the higher 16.67% rate in the next 10 years. $(\$0.21 \times 0.06) = \mathbf{\$0.013}$
5. **Apply the Royalty Increase:** Assuming that the industry would increase prices to keep their take the same, the industry's take before and after the royalty rate increase (from 12.5% to 16.67%) would equal each other. $(1-0.125) \times 0.013 = (1-0.1667) \times (0.013 + P_{\text{increase}})$, where we can get that the price increase equals **\$0.0006**.

Even assuming oil companies pass 100% of this cost to consumers rather than absorbing it into their profit margins, **raising the royalty rate adds just \$0.0006 to a gallon of gas**. A similar dilution occurs with natural gas; because federal lands produce 11% of U.S. gas, meaning increasing the royalty rate from 12.5% to 16.67% has a virtually imperceptible impact on an average ratepayer's electricity bill.

Note: Calculations may not sum exactly due to rounding

Companies Drill Based on Resources and Prices — Not Royalty Levels

Other research has supported this math. For example, the Congressional Budget Office (CBO) found that any reduction in oil and gas production caused by federal leasing reform would be “negligible” over 10 years, especially in states that already charge a higher royalty rate than the federal government.⁸

The Government Accountability Office (GAO) published similar findings; officials from Colorado and Texas reported that higher state royalty rates did not significantly effect production on state lands. In February 2016, Colorado increased its royalty rate for oil and gas production from 16.67% to 20%, and, according to state officials, there had been no slowdown in interest in new leases as of August 2016. In fact, Colorado state officials said they were unsure whether the higher royalty rate played much of a role in companies' decision making. Additionally, Texas officials told us that over 30 years ago, Texas began charging a 25% royalty for most oil and gas leases on state lands, and this increase has not had a noticeable impact on production or leasing.⁹

As states that increased their royalty rates reported, the royalty rate for a lease plays little role in companies' decisions on where to produce and when. According to CBO, oil and gas companies are primarily influenced by physical factors and market forces.¹⁰ The probability of finding oil or gas, the expected amount, the extraction costs, the current and expected future prices for oil and gas, and the firms' costs of capital all have a large influence on a company's decisions. Factors within a given leasing system, like the royalty rate, have a lesser impact.

Conclusion

When retail energy prices spike, a predictable narrative emerges: federal oil and gas leasing policies are to blame, and increasing the federal royalty rate will pass crippling costs down to the consumer. However, a rigorous look at the data reveals this narrative is fundamentally flawed. Retail gasoline prices are dictated by the highly integrated global commodity market, not federal public lands policy.

Federal oil and gas leasing reform is vital for ensuring taxpayers get a fair return on their public resources, with no immediate or discernable impact on the price consumers pay at the pump. Lawmakers must separate the reality of global commodity markets from the fiction of domestic leasing impacts.

The global price of oil and consumer demand determine the price of gasoline. When global events cause supply shocks, as was the case with the recent conflicts with Iran, talks about “unleashing” domestic production emerge. But what really happens is that taxpayers continue to lose from a grossly outdated federal system that subsidizes oil and gas companies from leasing and drilling through production and well cleanup, all while doing little to ease the pressure felt at the pump. Increasing royalty and rental rates to get taxpayers a fair return for the resources we own will not impact the price at the pump. As oil prices soar, it’s time for taxpayers to get a fair return from our resources, now more valuable than ever.

¹ Congressional Research Service, “Oil Prices and the Value of the Dollar,” April 12, 2016.

<https://crsreports.congress.gov/product/pdf/IF/IF10386>

² U.S. Energy Information Administration (EIA), “EIA forecasts near-term U.S. crude oil production will remain near 2025 record,” January 22, 2026. <https://www.eia.gov/todayinenergy/detail.php?id=67045>

³ EIA, “U.S. natural gas production to reach record highs in 2026 and 2027,” February 13, 2026. <https://www.eia.gov/todayinenergy/detail.php?id=67166>

⁴ EIA, “Maritime exports of petroleum products increased in January 2026,” February 17, 2026. <https://www.eia.gov/todayinenergy/detail.php?id=67184>

⁵ EIA, “How will the start-up timing of the new U.S. LNG export facilities affect our forecast?” April 3, 2025. <https://www.eia.gov/todayinenergy/detail.php?id=64884>

⁶ EIA, *Short-Term Energy Outlook*, September 2021, pg. 10 <https://www.eia.gov/outlooks/steo/archives/sep21.pdf>

⁷ Ethanol costs, including the price of corn and the RIN market, affect oil prices because the Renewable Fuels Standard requires refineries to blend biofuels (mostly corn ethanol) into all gasoline; 10% of most U.S. gasoline is ethanol.

⁸ Congressional Budget Office (CBO), “Options for Increasing Federal Income From Crude Oil and Natural Gas on Federal Lands,” April 16, 2016. <https://www.cbo.gov/publication/51421>

⁹ Government Accountability Office, “Oil, Gas, and Coal Royalties: Raising Federal Rates Could Decrease Production on Federal Lands but Increase Federal Revenue,” GAO-17-540, June 20, 2017. <https://www.gao.gov/products/gao-17-540>

¹⁰ CBO, “Options for Increasing Federal Income From Crude Oil and Natural Gas on Federal Lands,” April 2018. https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51421-oil_and_gas_options-OneCol-3.pdf