One Nation but Two Very Different Tales with Regard to Fuel Prices

January 12, 2026 - In much of the United States, gas prices have quietly slid back to levels not seen since before the pandemic. Nationally, the average cost of a gallon of regular gasoline is hovering around $2.80, and in some places, it's fallen even further.

Drivers in parts of Iowa, Oklahoma, and Texas are seeing prices dip below $2 a gallon. In Polk County, Iowa, some stations were recently selling regular gas for $1.89. The same is true in nearby Dallas County and select areas across the South and Plains, where prices are well below the national average.

These low prices are the result of several intersecting factors. Winter gasoline blends are cheaper to produce. Demand is softer during colder months. Local refinery capacity remains strong. And in many of these states, taxes and regulatory costs on gasoline are minimal. For drivers in these areas, all of that adds up to real savings.

But these circumstances are nearly exactly opposite for residents of California. And the price at the pump there tells a very different story. Regular gas in most of the state remains well above $4 per gallon. In some areas, it's much higher. That's not just a blip-it's the result of long-standing policy decisions and market isolation that make California one of the most expensive places in the country to fill up a tank.

California mandates a unique blend of gasoline designed to reduce air pollution, and that fuel is more expensive to refine. The state also imposes the highest fuel taxes in the country, along with a regulatory framework that many in the oil industry say is costly and adversarial.

In recent years, those regulations have pushed major refiners to leave the state. Phillips 66 shut down its Wilmington plant near Los Angeles in December. Valero has announced it will idle its Benicia refinery this spring. Together, those closures will cut 17% of California's in-state gasoline production and in Valero's case, the company elected to take a $1.1 Billion write down rather than continue to do business in the state. That says a lot about how difficult California is to deal with.

Rather than invest further in facilities that would need major upgrades to comply with state rules, companies are choosing to exit the market and write down the value of their assets. In some cases, they've opted to import finished fuel instead. But that means California will rely more heavily on fuel shipped in from elsewhere-an expensive and slower alternative to refining gasoline in-state.

This declining refinery capacity, combined with California's regulatory model, has kept prices high even as the rest of the country sees relief.

In the end, it's a tale of two fuel economies. While large parts of the U.S. enjoy pump prices that haven't been seen in years, Californians are still paying some of the highest prices in the nation, largely due to policy decisions driven by the state legislature and Gavin Newsome. Unless there's a major shift in how the state manages its fuel market, that divide is unlikely to close anytime soon.

by Jim Malmberg