

Refineries blamed for sluggish drop in Alaska gasoline prices

INVESTIGATION: State's 2 refiners say they're struggling to turn profit.

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An investigation into why Alaska's gasoline prices are falling more slowly than those in the Lower 48 is showing that refineries -- not gas stations -- have kept prices high, according to the state attorney leading the investigation.

But the ultimate question of the investigation -- why Alaska refineries haven't dropped their prices in step with plunging oil prices -- hasn't been answered yet.

In the past two months, the Anchorage average gasoline price declined 4.5 percent. The U.S. average price dropped 11 percent.

"We're going to find the answer," said Ed Sniffen, the state assistant attorney general heading up the investigation, said at a legislative hearing in Fairbanks on Wednesday.

State lawmakers asked Alaska refineries and retailers on Wednesday to explain why Alaska's prices are dropping more slowly.

The public perception is that Alaskans are getting gouged, said Rep. Mike Hawker, R-Anchorage.

The two companies that produce gasoline at their Alaska refineries -- Tesoro Alaska Co. and Flint Hills Resources -- said "market forces" determine prices, but they didn't directly answer why the price drop has been sluggish.

Executives from the two refineries told the House Judiciary Committee that they aren't making big profits. Instead, they are struggling -- Tesoro has lost money this year and its stock value has plummeted 65 percent, for example. Flint Hills' president said in May that he was considering selling its North Pole refinery.

"There are all these external forces telling us how expensive it is going to be to manufacture the product," said Kip Knudson, spokesman for Tesoro, which makes most of the state's gasoline at its Nikiski refinery.

Executives from Safeway Stores, which owns gas stations, said they pay a higher wholesale price in Alaska than they pay in the Lower 48.

"(The Alaska prices) are higher because of the limited refining capacity," said Glenda Wood, Safeway's national director for fuel pricing.

Basically, refineries just need to keep their prices below what it would cost their customers to ship gasoline into the state from Seattle, Safeway executives and others at the hearing suggested.

But that doesn't fully explain why refinery prices in Alaska haven't declined as much as they have

in the rest of the country.

"There is something else going on," Sniffen said.

He said there was no reason for a refinery to drop its wholesale price unless its competitor does. In Alaska, there are only two competitors, he said.

Rep. Jay Ramras, who chaired the committee meeting Wednesday, termed it a duopoly.

"Consumers are suffering because of a duopoly (that) has pricing power," he said.

His comment, as well as Sniffen's explanation about the role of refineries in Alaska's high prices, came late in the afternoon, long after the refinery executives' testimony.

A spokesman for Flint Hills said Wednesday night that he left the hearing before Sniffen's explanation. He declined to answer any questions.

Knudson of Tesoro could not be reached for comment.

Ramras said the Judiciary Committee will hold a follow-up hearing in October to discuss ways to reduce the gap between price declines in Alaska and the Lower 48, and perhaps eliminate any connection between how much it would cost to ship gasoline from Seattle and wholesale prices in Alaska.

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Sticky Anchorage gas prices

- \$4.20: Average price in Anchorage Wednesday
- \$4.40: Average price in Anchorage two months ago
- 4.5%: How much the price declined

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