



FUEL PRICES

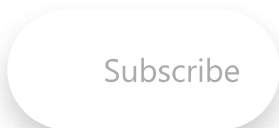
# Alaska villages can already pay \$10 or more for a gallon of fuel. A war-driven spike could produce a 'survival scenario.'



Nathaniel Herz

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One electric utility executive says diesel prices could double this year.





Nome residents paid \$7.01 a gallon for gas in the summer of 2023. (Nathaniel Herz/Northern Journal)

The war in Iran is risking what could be a catastrophic spike in the price of fuel in the rural villages and hub communities across Alaska's coast – and distributors are also warning of possible supply shortages.

Even before the war, fuel prices in the state's off-road system communities were eye-wateringly high: Unleaded gas was \$6.72 a gallon this winter in the Western Alaska hub town of Bethel, while in the Northwest Alaska village of Ambler, the price of gas and heating fuel has been \$17.50 a gallon for the past year, according to local officials.

Vendors that sell bulk fuel to those regions are now warning that prices could rise 50% due to the war-driven supply crunch, according to Ingemar Mathiasson, energy manager

for the Northwest Arctic Borough, which held a meeting attended by fuel company representatives last week in the regional hub town of Kotzebue.

Rural communities can receive as little as a single bulk fuel delivery during a shipping season that runs only through the summer — meaning that rates can be locked in at that price for the whole next year, even if global commodity prices fall. Government and Native corporation subsidies can help offset costs, but prices are still high and about to get higher.

“We're looking at, maybe, a survival scenario for rural Alaska,” Mathiasson said in a phone interview Monday. “At those prices, I would imagine that people are going to try to move into Anchorage. I don't know if you can heat your house at over \$20 a gallon.”

Policymakers say they're tracking the problem but haven't announced concrete steps to protect consumers.

“This is one of the things that is top of my list right now, this week, here in Washington — to raise this within the administration to try to get in front of it,” said U.S. Sen. Lisa Murkowski. “It has to be a full-on effort to make sure that these communities are not left high and dry.”

The energy shock from the Iran war is landing worldwide, as Iran's effective shutdown of the Strait of Hormuz keeps some 20% of global oil production out of the markets.

The effects have landed particularly hard in Asia, the destination of 80% of the oil that typically transits the Strait. And Asian refineries produce much of the supply for the more than 160 Western Alaska communities that receive maritime fuel deliveries during the May through October season, according to the Alaska Chadux<sup>^</sup> Network, a tanker and fuel distribution industry trade group.

Buying fuel from other sources “may be possible,” but likely at “significantly elevated prices,” the network's chief executive, Buddy Custard, wrote in a [recent letter](#) received by Alaska policymakers.

“Despite best efforts, a supply gap remains a credible risk,” Custard wrote in his letter, dated March 31. “An undefined portion of the estimated 140 million gallons of fuel may be

at risk of non-delivery, affecting dozens of communities, regional hubs, and critical infrastructure that serve as lifelines for surrounding villages."



West Coast oil refineries, like this one operated by Chevron in Richmond, California, have also been hit hard by shortages in imports from the Middle East. (Nathaniel Herz/Northern Journal)

Custard said he was unavailable for an interview, but he shared additional correspondence with a state House member's office from last week in which he said it's difficult to "confirm specific outcomes or timelines" given the "highly dynamic and unpredictable" situation in the Middle East.

"It is not that alternative sources are entirely unavailable, but rather that they are constrained by a combination of limited refining capacity for the required fuel types, existing contractual commitments, and significantly higher costs," Custard wrote. "In short, limited supply may be available, but not necessarily in the volumes, timeframe, or at the price points required to support Western Alaska communities."

The uncertain outlook poses a dilemma for leaders at rural institutions that purchase fuel, including village governments and utilities, who are questioning whether to commit to fuel purchases now, later, in full, or in multiple orders to spread out the cost.

“I don't know what to tell members who say, ‘Should I wait?’ I don't know what to tell members who say, ‘I can do this much now, this much later;” said Nils Andreassen, executive director of the nonprofit Alaska Municipal League, which supports local governments. “I don't know how to keep ahead of it. And the current global uncertainty is not giving me a lot of confidence.”

Fuel vendors — which for Western Alaska include Vitus, Crowley and Delta Western — are urging customers to not delay placing their orders in hopes that prices will improve, according to a written summary of their comments from last week's meeting in Kotzebue.

“We're really getting squeezed on all this,” Tom Atkinson, the general manager of Kotzebue's electric utility, said in a phone interview. “Nobody wants to lock in at this high price.”

Atkinson said that his utility's diesel fuel supply for the past year cost \$3.10 a gallon. This year's delivery of a million gallons, he said, could come in at more than \$6 a gallon.

In prior years, fuel companies have sometimes loaded their tankers with more supply than communities have ordered, expecting to sell the excess once the cargo arrives in Alaska. But this year, vendors say the price is too high for them to buy and transport fuel that risks going unsold.

A cold winter has also produced more sea ice than usual, which could shorten the delivery season. If communities miss the tanker delivery window, those that end up with shortages may have to turn to deliveries by plane, at even higher prices.



The Northwest Alaska hub town of Kotzebue sits on the Baldwin Peninsula. (ShoreZone under Creative Commons License)

“We end up with situations where if the communities don't fill their tanks, we don't have enough airplanes in Alaska to help,” said Mathiasson, the Northwest Arctic Borough energy manager. “You just can't wait until the last minute.”

Energy shocks have hit Alaska before, notably in a major price spike in 2008. That year, lawmakers used a [huge windfall in taxes](#) paid by Alaska's oil-producing companies to help fund a “resource rebate” added to the annual checks written by state government to residents. The total paid to each recipient that year was \$3,269, double the amount of the previous year.

This year, given the state's tighter budget, advocates are pushing for measures that more narrowly target the communities in need. One concept supported by the municipal league is boosting the \$750,000 cap on a [state program](#) that offers loans to local governments and utilities when they make their bulk fuel purchases.

“I'm not done turning over every stone and seeing what we can do,” House Speaker Bryce Edgmon, who represents a rural legislative district centered in the Bristol Bay region, said in a phone interview from Juneau. “If this war continues, there's no question it's going to be catastrophic.”

Edgmon noted that rural Alaska communities already were seeing higher costs for groceries and goods delivered through a federal program called bypass mail, which had a [9% rate increase](#) last year.

A spokesperson for Gov. Mike Dunleavy declined to comment on the outlook for rural Alaska fuel prices and policies under consideration to address them.

In a worst-case scenario of a \$5-a-gallon increase, the overall hit to rural Alaska from the war-driven fuel price spike could reach hundreds of millions of dollars, according to one economist's estimate.

Each rural Alaskan, on average, requires some 1,200 gallons of fuel a year to meet their demand for heat, transportation and electricity, according to economist Steve Colt, who works with the Alaska Center for Energy and Power. By Colt's calculation, the added expense could reach \$6,000 per person and \$450 million across the state's rural communities.

Even before the spike, electricity and heating fuel can cost households in one region of Western Alaska, the Kusilvak Census Area, some 45% of their income, according to data collected by the energy center's founding director, Gwen Holdmann. That area already faces a poverty rate of more than 30%, triple the statewide level.

“It's definitely a serious issue that we're raising up to the highest level,” Mathiasson said.

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