

# ALASKA STATE LEGISLATURE

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### Sponsor Statement

#### **SB 162: Heating Fuel Energy Relief**

*"An Act relating to a heating fuel energy relief program; and providing for an effective date."*

The residents of Alaska who rely on heating oil to keep warm during the long Alaskan winter need a specific short-term solution that meets their unique needs, in addition to the many other promising long-term solutions that are currently being considered and implemented.

Senate Bill 162 puts a solution in place in case the price of heating oil rises as rapidly as it has declined. In the past year, Alaskans' discretionary income has evaporated, consumer debt has risen sharply, and the cost of heating oil is still beyond the ability of many Alaskans to pay. A sharp rise in heating oil now, while beneficial to the State budget, would economically devastate individual Alaskans, business owners, and their families.

Senate Bill 162 will require the State of Alaska to offset home and commercial heating costs *when the price of a barrel of crude rises to a point where the State of Alaska is enjoying budget surpluses*. If – *and only if* – the price of heating oil triggers the measures outlined in Senate Bill 162, it is reasonable to ask the people of Alaska to pay \$2.50 per gallon while the state pays the balance from its surplus directly to the home heating oil dealers.

With that temporary solution in place, Alaskans can focus attention on long-term solutions that will restore optimism about our economic future, protect our families and businesses, and allow us to concentrate on our #1 priority – renewable and sustainable energy solutions for the State of Alaska.

Senate Bill 162 is easily administered. The dealers of home heating oil, as part of their current reporting requirements, send the State of Alaska a monthly breakdown of the quantities of the various petroleum products they sell, including home heating oil. The quantities of heating oil are easily verifiable and objectively determinable.

Senate Bill 162 is efficient. It does not create a bureaucracy of paperwork or require massive government employment to operate effectively. Rather than distributing checks or debit cards to tens of thousands of individuals, the State would make a payment directly to heating oil dealers. It is a relatively simple way to utilize a surplus in the State's bank account, due to the high cost of crude, to reduce the cost of heating oil for the Alaskans who need it most.

Senate Bill 162 requires the consumer price of heating oil to increase each of the next three years, reinforcing the need for Alaskans to conserve and plan for long-term solutions.

I urge your support of this legislation.

**SENATE BILL NO. 162**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

**BY SENATOR PASKVAN**

**Introduced: 3/25/09**

**Referred: Senate Special Committee on Energy, Resources, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to a heating fuel energy relief program; and providing for an effective**  
2 **date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1.** AS 44.33 is amended by adding a new section to read:

5 **Article 5A. Heating Fuel Energy Relief Payments.**

6 **Sec. 44.33.325. Heating fuel energy relief payment program.** (a) The  
7 Department of Commerce, Community, and Economic Development shall establish  
8 and, subject to appropriation made for the purpose, maintain a program that may be  
9 used to provide energy relief to customers relating to the retail sale of heating fuel.  
10 Whenever the average monthly light sweet commodity price per barrel of low sulfur,  
11 easily refined grade of crude oil, traded on the New York Mercantile Exchange for the  
12 previous month exceeds \$75, the energy relief payment provided by this section is the  
13 amount necessary to reduce the retail price of heating fuel to not more than

14 (1) \$2.50 a gallon for the period that begins on the effective date of

1 this section and ends June 30, 2010;

2 (2) \$2.75 a gallon for the period that begins July 1, 2010, and ends  
3 June 30, 2011;

4 (3) \$3 a gallon for the period that begins July 1, 2011.

5 (b) If money is appropriated for the purpose, the department shall pay the  
6 energy relief payment described in (a) of this section to a fuel distributor that applies  
7 for the energy relief payment on a form prepared by the department and who promises  
8 not to charge customers more than the retail price specified in (a) of this section.

9 (c) The heating fuel assistance fund is created in the department, consisting of  
10 money appropriated to the fund by the legislature. The department shall use money in  
11 the fund for the sole purpose of defraying the payment of retail costs of heating fuel as  
12 authorized by (a) of this section.

13 (d) Heating fuel for which an energy relief payment is paid under this section  
14 is not eligible for home heating assistance payments under AS 47.25.621 -  
15 AS 47.25.626.

16 (e) The department may adopt regulations to implement this section.

17 (f) In this section, "heating fuel" means Alaska Number 2 distillate or Alaska  
18 Number 2 residential heating oil.

19 \* **Sec. 2.** AS 44.33.325 is repealed June 30, 2012.

20 \* **Sec. 3.** This Act takes effect immediately under AS 01.10.070(c).

# LEGISLATIVE RESEARCH REPORT

FEBRUARY 12, 2009



REPORT NUMBER 09.136

## CRUDE OIL AND RETAIL HEATING OIL PRICES IN ALASKA

PREPARED FOR SENATOR JOE PASKVAN  
BY CHUCK BURNHAM, LEGISLATIVE ANALYST

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You asked about the price history for crude oil commodities and retail heating oil prices in Alaska. Specifically, for the period beginning January 2004 through the present, you wanted a comparison of monthly average prices for Alaska North Slope (ANS) crude oil, "light sweet" crude oil traded on the New York Mercantile Exchange (NYMEX), and retail heating oil in the City of Fairbanks. You also asked what volume of home heating oil is sold in the interior, rural, and statewide areas of Alaska.

To the extent that specific data are available, we present the information you requested below. Unfortunately, we were unable to locate a source for monthly average residential heating oil prices in Fairbanks.<sup>1</sup> Instead, we discuss the Alaska statewide monthly average prices for “Number 2 distillate,” which is a grade of fuel oil commonly used for residential heating purposes.<sup>2</sup>

## OVERVIEW

Briefly, our research generally leads us to conclusions in line with those of recent reports on the price components of petroleum products by this office and the Institute of Social and Economic Research (ISER), copies of which we have previously provided to you.<sup>3</sup> Specifically, we found that the main driver of variability in heating oil prices in Alaska communities is the underlying cost of crude oil. With that said, as ISER’s findings have illustrated, a great deal of the price variability *among communities* is driven by costs related to transportation and storage of fuel oil. This is especially true in remote rural communities not directly accessible by road.

With these prime drivers of variability in mind, it is nonetheless clear that there exists substantial variability in “downstream” components of retail fuel oil prices that do not appear to be uniformly related to crude oil prices or any other easily identifiable cause. These downstream components include, for example, costs and profits for refiners, transporters, distributors, and retailers.

Due to the proprietary nature of certain information, downstream costs are generally difficult to analyze and, therefore, when retail prices are high, these components often earn scrutiny from consumers and policymakers. Typically, increases in crude oil prices bring about higher downstream costs as well. This makes sense insofar as the operating costs for businesses involved in downstream activities rise with the price of oil, since petroleum products power certain refineries, barges and delivery trucks, and heat associated facilities. However, the positive correlation between prices for crude oil and the downstream components of fuel oil prices is not uniform. From this perspective, circumstances such as those that existed in mid-to-late 2008, when rapidly decreasing crude oil prices did not result in similarly steep decreases in retail prices, can be particularly difficult to explain.

## CRUDE OIL AND RETAIL FUEL OIL PRICES IN ALASKA

Table 1 compares average monthly commodity prices for ANS and NYMEX light sweet crude oils and the average monthly retail price in Alaska for No. 2 distillate heating oil from January 2004

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<sup>1</sup> We found no government or industry sources for community-specific fuel oil price information. Our efforts to gather such information from fuel distributors in Fairbanks have not yet elicited any data. If that information becomes available, we will provide you with an updated version of this report.

<sup>2</sup> We use the terms “No. 2 distillate,” “fuel oil,” and “heating oil” interchangeably. “Number 1 distillate” is also used for home heating, typically in smaller portable “space heaters” or fixed high-efficiency stoves such as those manufactured by the Toyotomi USA (“Toyo”) corporation. Unless otherwise noted, all information on heating oil consumption and costs is from the U.S. Department of Energy, Energy Information Administration (EIA). The EIA publishes information on a wide variety of energy-related topics on its website at <http://www.eia.doe.gov/>.

<sup>3</sup> Specifically, we provided copies of Legislative Research Report 09.053 “Petroleum Refineries and Gasoline Prices in Alaska,” December 2008, and “Components of Delivered Fuel Prices in Alaska,” *Institute of Social and Economic Research, University of Alaska Anchorage*, June 2008; <http://www.iser.uaa.alaska.edu/Publications/>.

through December 2008, the most recent month for which data are available.<sup>4</sup> We summarize the main points of comparison contained in Table 1 as follows:

- ◆ The price of a barrel of ANS crude oil varied from \$33.10 in January 2004 to an all-time high of \$133.78 in June 2008, a range of about 300 percent.
- ◆ The price of a barrel of NYMEX light sweet crude oil varied from \$34.22 in January 2004 to its all-time high of \$134.02 in June 2008;
- ◆ The price of NYMEX light sweet crude oil averaged about four percent higher than ANS crude oil over the time period in question. In December 2004, the spread between NYMEX and ANS oil prices reached a high of 18 percent. From May through September, 2007, however, the price for ANS crude was actually slightly higher than that of NYMEX light sweet.
- ◆ The average monthly price of No. 2 distillate heating oil in Alaska ranged from \$1.30 in January 2004 to a high of \$4.47 in July 2008—a variation of about 245 percent.

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<sup>4</sup> The per barrel prices of ANS and NYMEX light sweet crude oils are from the Alaska Department of Revenue, Tax Division and the U.S. Department of Energy, Energy Information Administration, respectively.

**Table 1: Monthly Average Price Comparison: Alaska North Slope Crude, NYMEX Light Sweet Crude, and Alaska Number 2 Distillate Retail, 2004-2008**

Month	ANS Spot <sup>1</sup> (per barrel)	NYMEX Light Sweet <sup>2</sup> (per barrel)	Difference NYMEX over ANS	ANS Month to Month Percent Change	NYMEX Month to Month Percent Change	Alaska Average No. 2 Distillate <sup>3</sup> (per gallon)	Distillate Month to Month Percent Change
Jan-04	\$33.10	\$34.22	3.4%	N/A	N/A	\$1.30	N/A
Feb-04	\$33.66	\$34.50	2.5%	1.7%	0.8%	\$1.31	0.8%
Mar-04	\$35.50	\$36.72	3.4%	5.5%	6.4%	\$1.37	4.6%
Apr-04	\$35.43	\$36.62	3.4%	-0.2%	-0.3%	\$1.44	4.9%
May-04	\$39.07	\$40.28	3.1%	10.3%	10.0%	\$1.57	9.3%
Jun-04	\$36.73	\$38.05	3.6%	-6.0%	-5.5%	\$1.57	0.0%
Jul-04	\$39.44	\$40.81	3.5%	7.4%	7.3%	\$1.63	3.8%
Aug-04	\$43.12	\$44.88	4.1%	9.3%	10.0%	\$1.61	-1.4%
Sep-04	\$42.71	\$45.94	7.6%	-1.0%	2.4%	\$1.61	0.3%
Oct-04	\$48.56	\$53.09	9.3%	13.7%	<b>15.6%</b>	\$1.82	<b>13.0%</b>
Nov-04	\$42.15	\$48.48	15.0%	-13.2%	-8.7%	\$1.81	-0.4%
Dec-04	\$36.66	\$43.26	<b>18.0%</b>	-13.0%	-10.8%	\$1.70	-6.2%
Jan-05	\$41.12	\$46.85	13.9%	12.2%	8.3%	\$1.68	-1.0%
Feb-05	\$43.59	\$48.05	10.2%	6.0%	2.6%	\$1.77	5.0%
Mar-05	\$50.63	\$54.63	7.9%	<b>16.2%</b>	13.7%	\$1.92	8.9%
Apr-05	\$49.75	\$53.22	7.0%	-1.7%	-2.6%	\$2.04	6.2%
May-05	\$46.77	\$49.87	6.6%	-6.0%	-6.3%	\$2.01	-1.5%
Jun-05	\$53.67	\$56.42	5.1%	14.8%	13.1%	\$2.00	-0.7%
Jul-05	\$56.67	\$59.03	4.2%	5.6%	4.6%	\$2.03	1.3%
Aug-05	\$62.40	\$64.99	4.2%	10.1%	10.1%	\$2.18	7.7%
Sep-05	\$63.47	\$65.55	3.3%	1.7%	0.9%	\$2.43	11.2%
Oct-05	\$60.37	\$62.27	3.1%	-4.9%	-5.0%	\$2.50	3.1%
Nov-05	\$56.11	\$58.34	4.0%	-7.1%	-6.3%	\$2.30	-8.2%
Dec-05	\$57.17	\$59.45	4.0%	1.9%	1.9%	\$2.20	-4.4%
Jan-06	\$62.85	\$65.54	4.3%	9.9%	10.2%	\$2.18	-0.5%
Feb-06	\$59.26	\$61.93	4.5%	-5.7%	-5.5%	\$2.23	2.2%
Mar-06	\$60.61	\$62.97	3.9%	2.3%	1.7%	\$2.25	0.9%
Apr-06	\$67.74	\$70.16	3.6%	11.8%	11.4%	\$2.34	4.1%
May-06	\$69.32	\$70.96	2.4%	2.3%	1.1%	\$2.60	11.2%
Jun-06	\$69.50	\$70.97	2.1%	0.3%	0.0%	\$2.61	0.2%
Jul-06	\$73.10	\$74.46	1.9%	5.2%	4.9%	\$2.58	-1.1%
Aug-06	\$71.74	\$73.08	1.9%	-1.9%	-1.9%	\$2.66	3.2%
Sep-06	\$62.33	\$63.90	2.5%	-13.1%	-12.6%	\$2.61	-1.9%
Oct-06	\$54.27	\$59.14	9.0%	-12.9%	-7.4%	\$2.28	-12.7%
Nov-06	\$54.26	\$59.40	9.5%	0.0%	0.4%	\$2.24	-1.7%
Dec-06	\$58.13	\$62.09	6.8%	7.1%	4.5%	\$2.36	5.1%
Jan-07	\$51.52	\$54.35	5.5%	-11.4%	-12.5%	\$2.26	-4.1%
Feb-07	\$57.00	\$59.39	4.2%	10.6%	9.3%	\$2.21	-2.3%
Mar-07	\$59.01	\$60.74	2.9%	3.5%	2.3%	\$2.24	1.4%
Apr-07	\$63.92	\$64.04	0.2%	8.3%	5.4%	\$2.38	6.3%

**Table 1: Monthly Average Price Comparison: Alaska North Slope Crude, NYMEX Light Sweet Crude, and Alaska Number 2 Distillate Retail, 2004-2008**

(contd.)

Month	ANS Spot <sup>1</sup> (per barrel)	NYMEX Light Sweet <sup>2</sup> (per barrel)	Difference NYMEX over ANS	ANS Month to Month Percent Change	NYMEX Month to Month Percent Change	Alaska Average No. 2 Distillate <sup>3</sup> (per gallon)	Distillate Month to Month Percent Change
May-07	\$64.76	\$63.53	-1.9%	1.3%	-0.8%	\$2.45	2.9%
Jun-07	\$69.11	\$67.53	-2.3%	6.7%	6.3%	\$2.48	1.1%
Jul-07	\$75.93	\$74.15	-2.3%	9.9%	9.8%	\$2.53	2.0%
Aug-07	\$73.83	\$72.36	-2.0%	-2.8%	-2.4%	\$2.56	1.4%
Sep-07	\$79.72	\$79.63	<b>-0.1%</b>	8.0%	10.0%	\$2.56	-0.2%
Oct-07	\$84.77	\$85.66	1.0%	6.3%	7.6%	\$2.76	8.0%
Nov-07	\$92.98	\$94.63	1.8%	9.7%	10.5%	\$3.03	9.7%
Dec-07	\$88.64	\$91.74	3.5%	-4.7%	-3.1%	\$3.01	-0.7%
Jan-08	\$91.16	\$92.93	1.9%	2.8%	1.3%	\$3.01	0.1%
Feb-08	\$94.42	\$95.35	1.0%	3.6%	2.6%	\$3.08	2.4%
Mar-08	\$105.06	\$105.42	0.3%	11.3%	10.6%	\$3.38	9.5%
Apr-08	\$112.37	\$112.46	0.1%	7.0%	6.7%	\$3.66	8.3%
May-08	\$125.41	\$125.46	0.0%	11.6%	11.6%	\$4.00	9.3%
Jun-08	<b>\$133.78</b>	<b>\$134.02</b>	0.2%	6.7%	6.8%	\$4.31	7.8%
Jul-08	\$132.87	\$133.48	0.5%	-0.7%	-0.4%	<b>\$4.47</b>	3.6%
Aug-08	\$115.98	\$116.69	0.6%	-12.7%	-12.6%	\$4.22	-5.5%
Sep-08	\$101.86	\$103.76	1.9%	-12.2%	-11.1%	\$3.90	-7.7%
Oct-08	\$73.65	\$76.72	4.2%	-27.7%	-26.1%	\$3.25	-16.6%
Nov-08	\$53.94	\$57.44	6.5%	-26.8%	-25.1%	\$2.61	<b>-19.9%</b>
Dec-08	\$37.70	\$42.04	11.5%	<b>-30.1%</b>	<b>-26.8%</b>	N/A	N/A
<b>Averages</b>	<b>\$65.17</b>	<b>\$67.23</b>	<b>4.0%</b>	N/A	N/A	<b>\$2.43</b>	N/A

**Notes:** Lows and highs for each column are in bold and shaded in blue and yellow, respectively.

1) "ANS Spot" is the commodity price for Alaska North Slope crude oil;

2) "NYMEX light sweet" is the commodity price for the low-sulfur, easily refined grade of crude oil traded on the New York Mercantile Exchange;

3) "Alaska Average No. 2 Distillate" is the statewide average retail price for "number 2" residential heating oil."

**Sources:** ANS Spot--Alaska Department of Revenue, Tax Division; NYMEX Light Sweet and Alaska Average No. 2 Distillate--U.S. Department of Energy, Energy Information Administration.

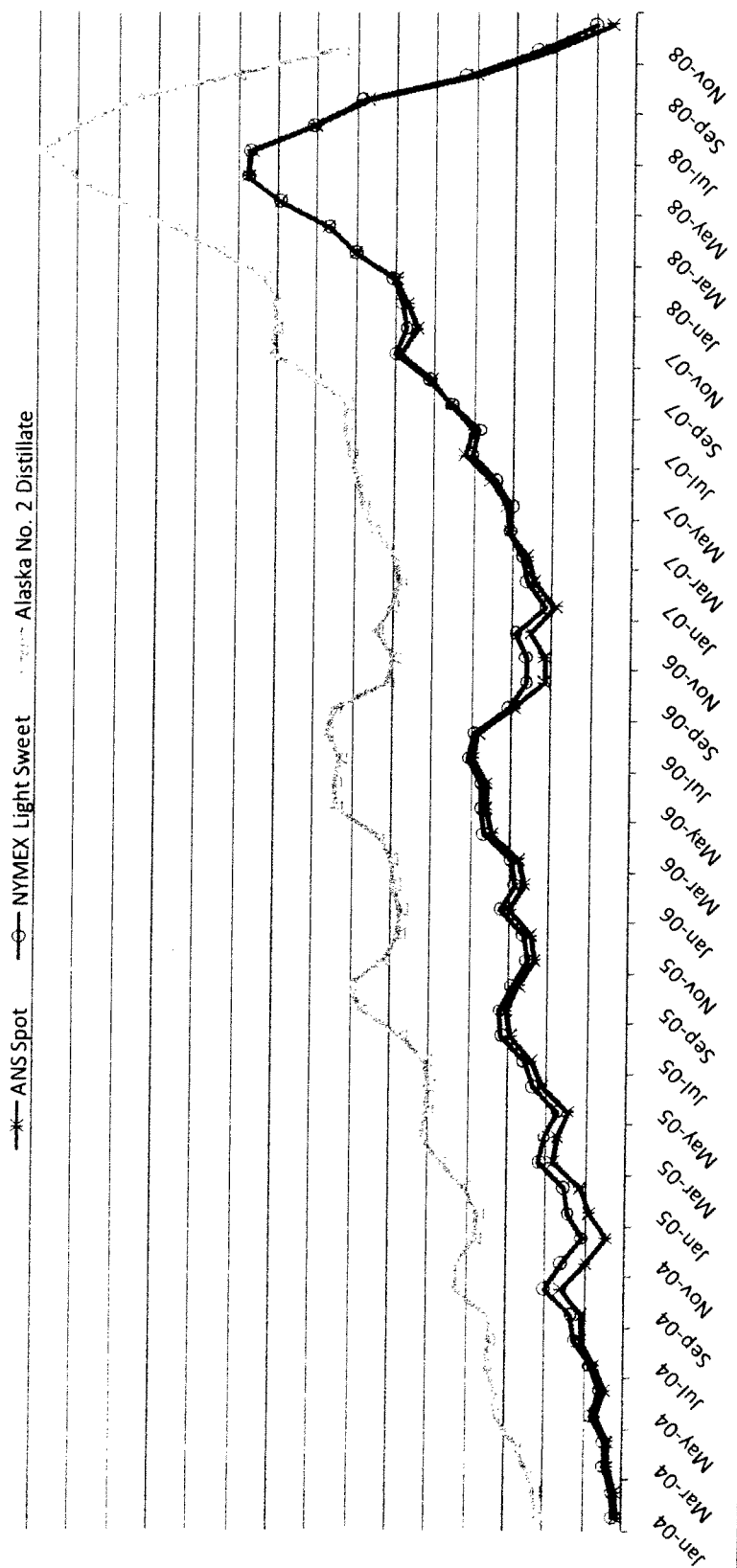


Figure 1 illustrates the relationship between ANS and NYMEX light sweet spot prices and the retail price of heating oil in Alaska. As you can see, these prices share a clear relationship; however, the correlation is not uniform. For instance, as oil costs increased dramatically in mid-2007 and early 2008, the spread between crude oil and retail prices at first shrank, then remained fairly steady through Spring 2008 when the spread increased substantially as crude oil prices hit all-time highs. The difference between the prices of crude oil and heating oil continued to increase through October as oil prices plummeted. Again, with the information available to us, we are unable to completely explain this degree of volatility and variability in downstream costs.<sup>5</sup>

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<sup>5</sup> We discuss the challenges of analyzing these costs with regard to gasoline prices in detail in Legislative Research Report 09.053. In that report we summarized the limitations we faced as follows: "Information on profits for individual petroleum refineries in Alaska and elsewhere is considered proprietary. Using the data available to us, we attempted a number of approaches to estimate the operating costs and profits of refineries . . . Unfortunately, those efforts were largely unsuccessful. Key points of crucial information unavailable to us include crude oil acquisition costs disaggregated by refinery, operating costs, and precise . . . output figures.

**Figure 1: Comparison of Price Changes for ANS Spot, NYMEX Light Sweet, and Alaska Fuel Oil, 2004-2008**



Notes: "ANS Spot" is the commodity price for Alaska North Slope crude oil; "NYMEX light sweet" is the commodity price for the low-sulfur, grade of crude oil traded on the New York Mercantile Exchange; "Alaska Average No. 2 Distillate" is residential heating oil.  
 Sources: ANS Spot—Alaska Department of Revenue, Tax Division; NYMEX Light Sweet and Alaska Average No. 2 Distillate—U.S. Department of Energy, Energy Information Administration.

## FUEL OIL USE IN ALASKA

According to the U.S. Census Bureau, in 2006 approximately 233,861 Alaska households, or about 35 percent of households statewide, used heating oil as their primary heating source.<sup>6</sup> Statewide figures are pushed lower by the fact that over half of the households in the state are located in the Anchorage and the Matanuska Susitna Boroughs where natural gas is widely available for home heating. Excluding those boroughs, about 71 percent of the remaining Alaska households used heating fuel as their primary heating source.

As Table 2 shows, fuel oil is even more common in interior and rural Alaska. For instance, approximately 79 percent of households in rural Alaska and about 78 percent of households in the combined boroughs of Denali, Fairbanks North-Star, Southeast Fairbanks and Valdez-Cordova used oil heat in 2006.<sup>7</sup>

We located no one source for community-specific fuel oil consumption in Alaska. Instead, we calculated average household consumption using a four-year average (2004-2007) of statewide fuel oil consumption figures from EIA data and multiplied that average by the number of households that used oil as the primary heat source. Our estimates assume a constant level of consumption statewide and make no allowances for climactic effects, variations in use related to heating oil costs, or other factors. As such, our calculations, the results of which are shown in Table 2, should be viewed only as rough estimates.

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<sup>6</sup> The U.S. Census Bureau's "American Fact Finder" is the online interface for data collected through the American Community Survey (ACS). According to the Bureau, the ACS "is a survey that is sent to a small percentage of our population on a rotating basis. These data previously were collected only in census years in conjunction with the decennial census. Since the ACS is conducted every year, rather than once every ten years, it will provide more current data throughout the decade." Please note, however, that the ACS relies on survey samples that are small relative to the full decennial census. As a result the margins of error for ACS data are higher than those of the census, particularly in areas with small populations such as rural Alaska. Therefore, estimates of households and heating fuel sources should be viewed as rough estimates. The American Fact Finder is available at <http://factfinder.census.gov>.

<sup>7</sup> "Rural Alaska" households in this context are those contained in U.S. Census Bureau Public Use Microdata Area (PUMA) 400. Specifically, this PUMA contains the boroughs/census areas of Aleutians East, Aleutians West, Bethel, Dillingham, Kodiak Island, Lake and Peninsula, Nome, North Slope, Northwest Arctic, Prince of Wales-Outer Ketchikan Skagway-Hoonah-Angoon, Yakutat, Yukon-Koyukuk, Wade Hampton, and Wrangell-Petersburg. The Denali, Fairbanks-North Star, Southeast Fairbanks, and Valdez-Cordova boroughs comprise PUMA 300. We include a map delineating PUMAs in Alaska as Attachment A.

**Table 2: Household Heating Oil Use and Estimated Consumption, 2006**

Location	Households	Households Heated with Fuel Oil		Estimated Fuel Oil Consumption <sup>1</sup>
		Number	Percent	
<b>Alaska</b>	233,861	81,617	34.9%	69,386,000
<b>Anchorage/Mat-Su Boroughs</b>	125,037	4,566	3.7%	3,881,723
<b>Alaska excluding Anchorage/Mat-Su</b>	108,824	77,051	70.8%	65,504,277
<b>Fairbanks-North Star Borough</b>	32,550	26,658	81.9%	22,663,319
<b>PUMA 300<sup>a</sup></b>	61,527	47,806	77.7%	40,642,029
<b>PUMA 400<sup>b</sup></b>	28,809	22,759	79.0%	19,348,348

**Notes:** Location-specific fuel oil consumption figures exceed statewide totals because the Fairbanks-North Star Borough is also included in PUMA 300.

1) We calculated average household consumption using a four-year average (2004-2007) of total statewide fuel oil consumption figures from EIA data and multiplied that average by the number of households that used oil as their primary heat source in 2006. Our estimates assume a constant level of consumption statewide and make no allowances for climactic effects, variations in use related to heating oil costs, or other factors. As such, our calculations should be viewed only as rough estimates.

a) "PUMAs" are Public Use Microdata Areas used by the U.S. Census Bureau to group populations in non-overlapping pools. PUMA 300 includes the Denali, Fairbanks-North Star, Southeast Fairbanks, and Valdez-Cordova boroughs.

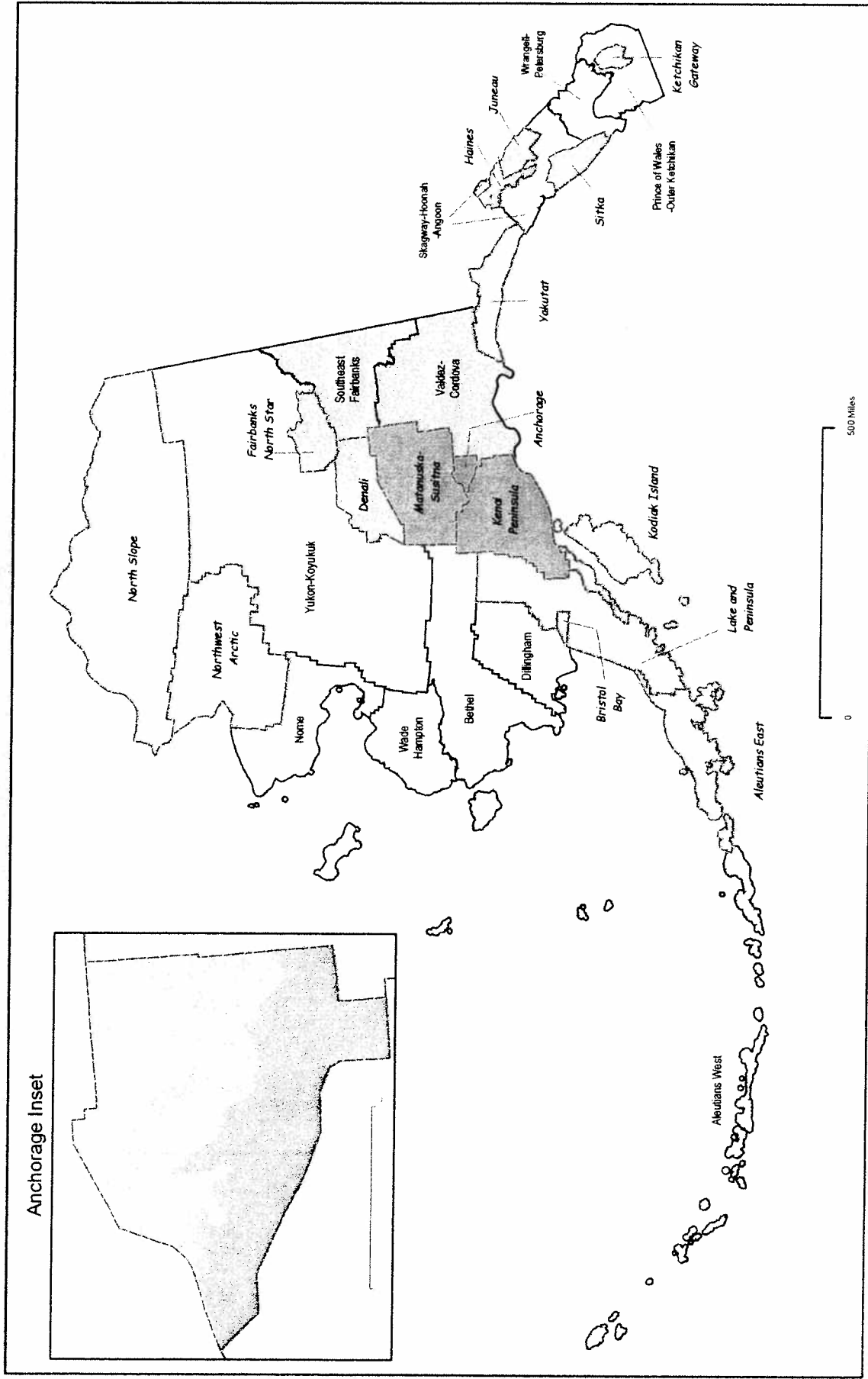
b) PUMA 400 contains most of what are typically considered Alaska's rural communities. Specifically included are the boroughs/census areas of Aleutians East, Aleutians West, Bethel, Dillingham, Kodiak Island, Lake and Peninsula, Nome, North Slope, Northwest Arctic, Prince of Wales-Outer Ketchikan Skagway-Hoonah-Angoon, Yakutat, Yukon-Koyukuk, Wade Hampton, and Wrangell-Petersburg.

**Sources:** Number of households and their primary heating sources, U.S. Census Bureau, "American Fact Finder," 2007 one-year *American Community Survey* data tables (from information reported in 2006); available at <http://factfinder.census.gov>.

Statewide fuel oil consumption data are from the U.S. Department of Energy, Energy Information Administration; <http://www.eia.doe.gov/>.

We hope you find this information to be useful. Please let us know if you have questions or need additional information.

# 2005 ACS Public Use Microdata Areas - PUMAs



Prepared by  
Alaska Department of Labor &  
Market Research  
Census & Geographic Information Network  
August 2006  
Source: US Census 2000 TIGER/Line  
Created in ArcGIS 9 using ArcMap  
Alaska Albers Projection



**Legend**

- 2000 Census Area
- 2000 Borough
- PUMA 101
- PUMA 200
- PUMA 300
- PUMA 400

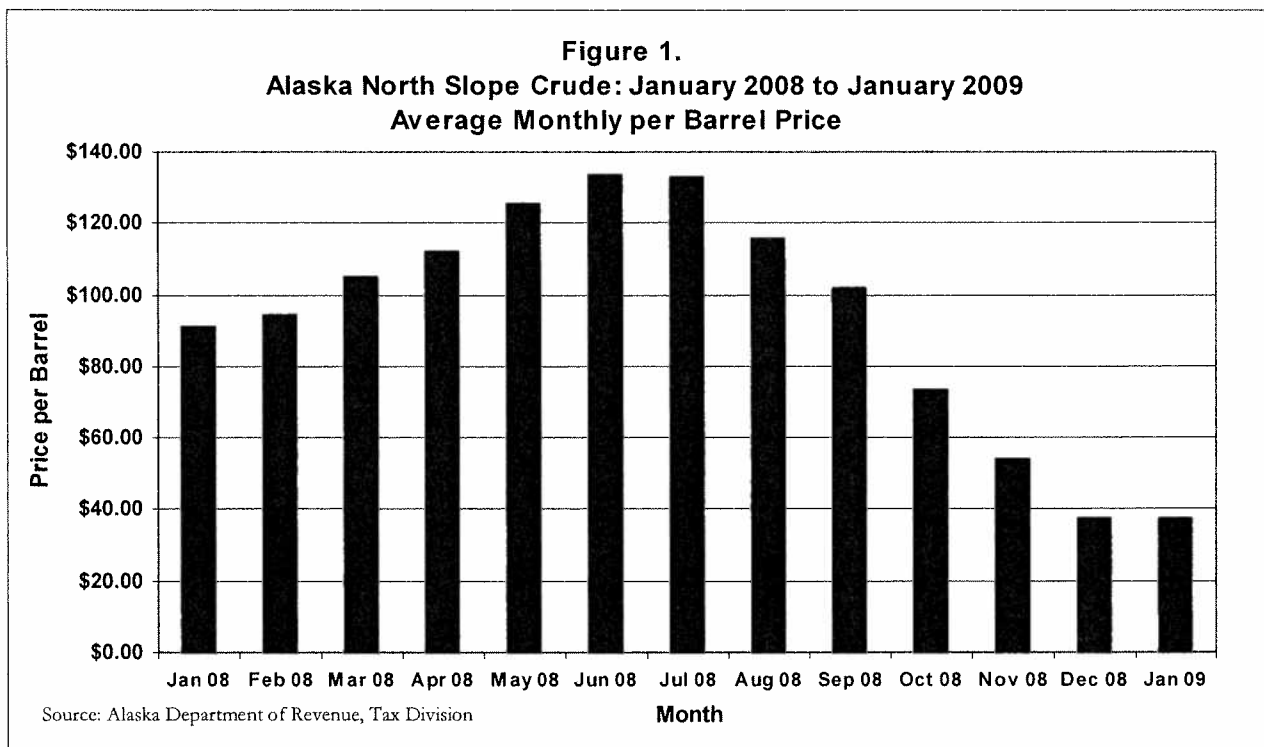


# DIVISION OF COMMUNITY & REGIONAL AFFAIRS REPORT TO THE DIRECTOR

## CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA

FEBRUARY 2009 UPDATE

### INTRODUCTION



In December 2008, the price of Alaskan North Slope (ANS) crude dropped to \$37.70, its lowest price since June 2004. This drop continued in January 2009, and prices fell to \$37.38. This is markedly lower than the price six months earlier in June 2008, when ANS crude oil reached a record average monthly price of \$133.78 per barrel (Figure 1). The national average price of gasoline dropped 55 percent from its peak of \$4.05 per gallon in mid-July to \$1.84 at the end of January. Similarly, national average heating fuel prices have dropped 36 percent since October

2008, from \$3.66 to \$2.36<sup>1</sup> per gallon. Alaska has not experienced the same level of decline. Due to transportation issues, many remote rural Alaska communities purchased most or all of this winter's fuel at peak prices during June and July. These communities are unlikely to see price relief until the middle of 2009.

During February 2009, the Division of Community & Regional Affairs (DCRA) repeated a statewide survey of retail heating fuel and gasoline prices in a cross-section of 100 select Alaska communities, first initiated during 2005 (*Community Conditions: Fuel Prices Across Alaska*). This report, *Current Community Conditions: Fuel Prices Across Alaska, February 2009 Update*, summarizes fuel survey findings, discusses changes in fuel prices during the recent past, and provides a current and historical perspective on fluctuating fuel prices. This report details fuel prices in each community on the date of contact.

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## METHODOLOGY

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The DCRA Research and Analysis Section and Local Government Assistance Section, developed the survey and selected a community sample during 2005. Communities were strategically selected to represent differing socioeconomic conditions and all Alaska regions, including the Interior, North Slope, South Coastal, Southeast, and Western regions. Selected communities had also generally been the recipient of an Alaska Energy Authority bulk fuel project during the recent past.

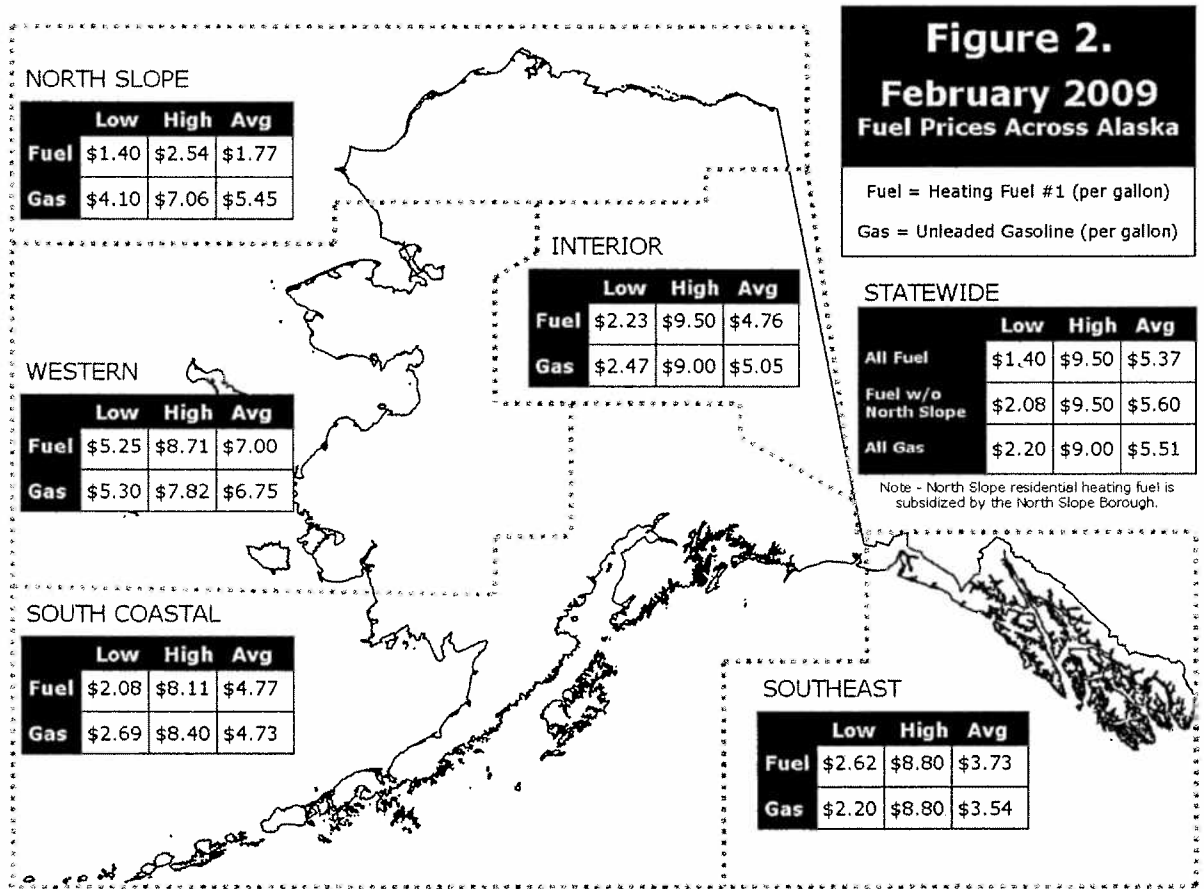
Since a non-probability sampling method was utilized, this survey is considered a non-scientific study with results not generalizable to the entire population of rural Alaska. To accurately and consistently track longitudinal changes in fuel prices, the 2005 survey and community sample were used to collect 2006, 2007, 2008, and 2009 fuel information – the communities and core questionnaire items remained the same from 2005 to 2009.

DCRA Research and Analysis staff conducted a survey between February 3 - 6, 2009. In total, local fuel retailers serving 100 communities were contacted (via telephone) and asked to provide current heating fuel (#1) and gasoline per gallon prices. Survey results are one-time measurements and representative of retail fuel prices on the particular day of contact. Heating fuel and gasoline prices may have changed between the time of contact and publishing of this report.

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<sup>1</sup> Source: United States Department of Energy, Energy Information Administration. Note: Heating fuel prices are only recorded from October to March. Gasoline prices are recorded year-round.

**CURRENT FUEL PRICES ACROSS ALASKA**



Average heating fuel prices per gallon vary across Alaska by region (Figure 2). Western Alaska communities report the highest average heating fuel retail price at \$7.00 per gallon, while North Slope communities report the lowest average retail price at \$1.77 per gallon. Of noteworthy importance, the North Slope Borough provides free heating fuel for residential use through village corporations, who distribute fuel to residents throughout the borough, charging only a delivery fee on a per gallon basis. The North Slope Borough does not subsidize heating fuel for commercial use. Consequently, the retail price of heating fuel for commercial entities is significantly higher than for residences (Table 1). Compared to other regions, excluding the North Slope, Southeast communities experience the lowest heating fuel prices, at an average price of \$3.73 per gallon.



**Table 1. North Slope Heating Fuel (#1) and Gasoline Retail Prices**

Community	Community Retailer	Heating Fuel Retail Price		Gasoline Retail Price
		Residential	Commercial	
Anaktuvuk Pass	Nunamiut Corporation	\$1.55	\$9.20	\$6.50
Atkasuk	Atkasuk Corporation	\$1.40	\$4.10	\$4.10
Barrow	BUEC, Inc.	Natural Gas	\$5.78	\$4.70
Kaktovik	Kaktovik Inupiat Corporation	\$2.00	\$6.95	\$4.90
Nuiqsut	Kuukpik Corporation	\$2.54	\$3.95	\$4.95
Point Hope	Tigara Corporation	\$1.65	\$6.35	\$5.95
Wainwright	Olgoonik Corporation	\$1.50	\$7.83	\$7.06

To accurately summarize statewide heating fuel prices, it is appropriate to exclude North Slope Region communities because of the North Slope Borough subsidy for residential use heating fuel. The Arctic Village Traditional Council in Arctic Village (Interior Region) reports the highest heating fuel retail price at \$9.50 per gallon (see Appendix). In contrast, Homer Run Oil in Homer (South Coastal Region) reports the lowest heating fuel retail price at \$2.08 per gallon. On average, excluding North Slope Region communities, heating fuel retails for \$5.60 per gallon across the 93 surveyed Alaska communities.

As Figure 2 illustrates, average gasoline prices per gallon also vary across Alaska by region. Western Region communities report the highest average gasoline retail price at \$6.75 per gallon while Southeast communities report the lowest average retail price at \$3.73 per gallon. Statewide retail prices indicate significant variation in gasoline retail price. Specifically, the Arctic Village Traditional Council in Arctic Village (Interior Region) reports the highest gasoline prices at \$9.00 per gallon. In contrast, Fred Meyer Gas in Juneau (Southeast Region) reports the lowest gasoline retail price at \$2.20 per gallon. On average, gasoline retails for \$5.51 per gallon across 99 Alaska communities.

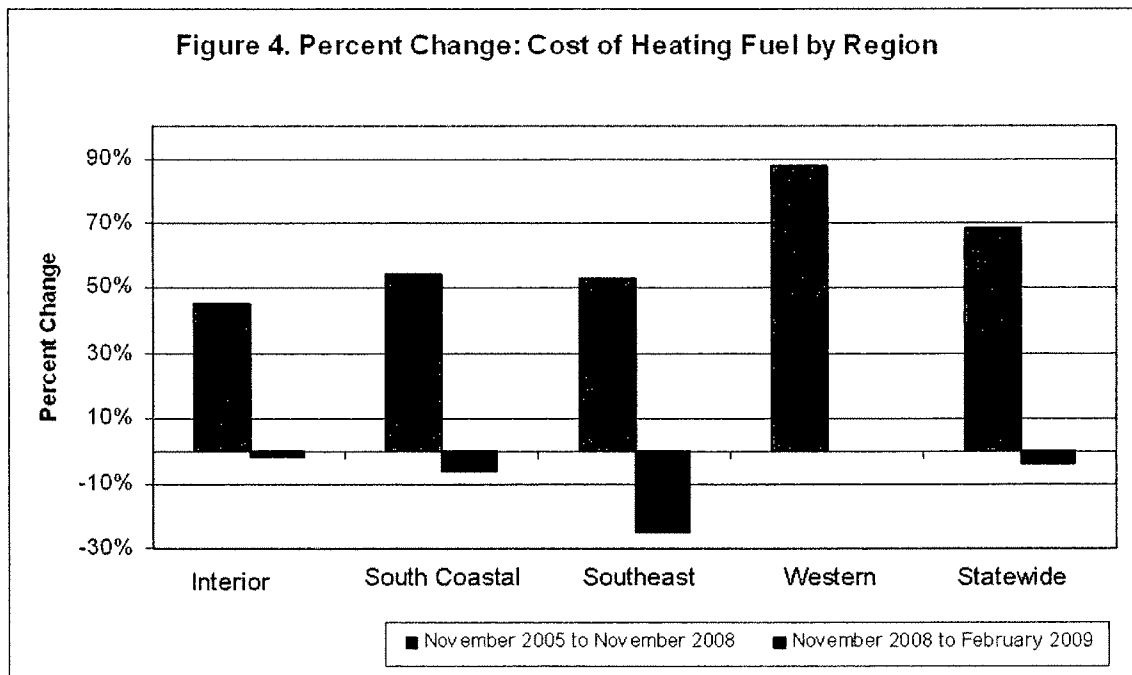
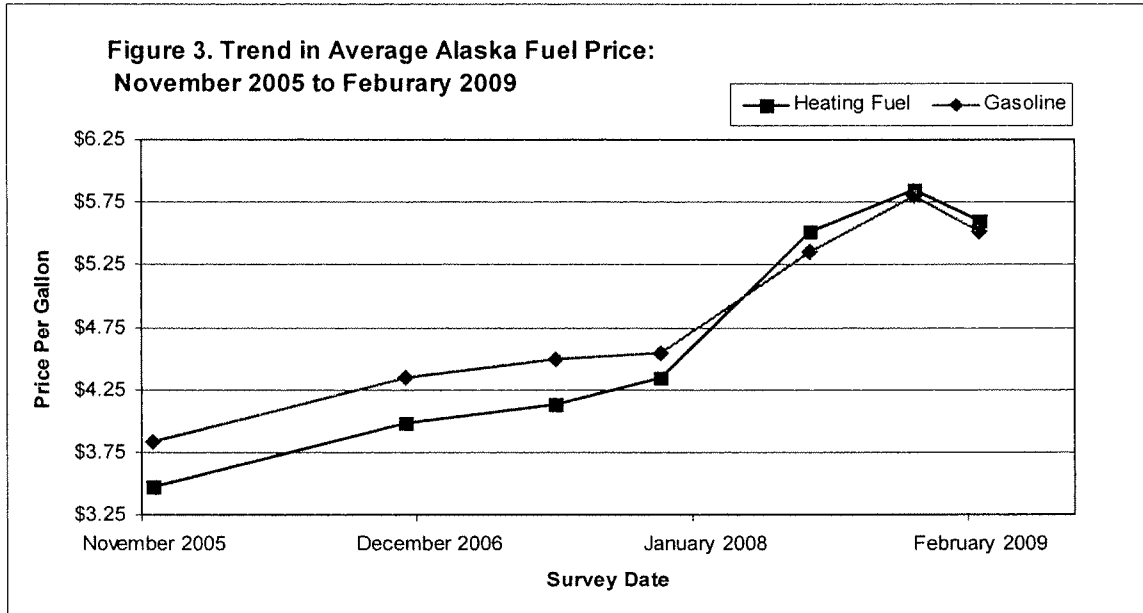
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## CHANGE IN FUEL PRICES ACROSS ALASKA

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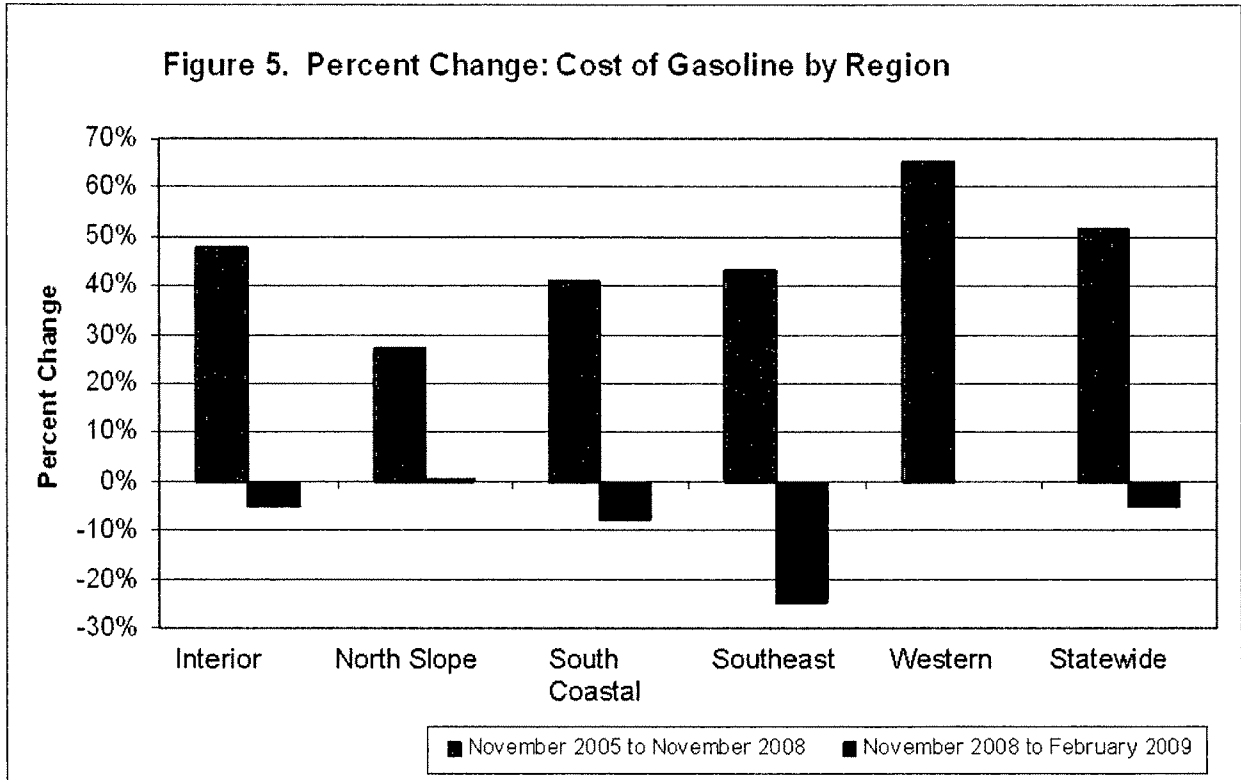
Portions of Alaska have begun to realize fuel price relief (Figure 3). Excluding North Slope Region communities, the statewide average per gallon heating fuel price decreased from \$5.85 to \$5.60 from November 2008 to February 2009. This \$0.25 per gallon average price change represents a four percent decrease in the statewide average heating fuel price per gallon. Prices in the Southeast (-25%), South Coastal (-6%), Interior (-2%), and North Slope (-2%) regions

decreased from November 2008 to February 2009 (Figure 4). The Western Region experienced a \$.01 increase, less than one percent.



The statewide average gasoline price also decreased from November 2008 to February 2009, from \$5.80 to \$5.51 per gallon (Figure 5). This \$0.29 per gallon average price decrease

represents a five percent decrease in the statewide average price per gallon of gasoline. Prices in the Southeast (-25%), South Coastal (-8%), and Interior (-5%) regions declined during the past three months. Western Region prices decreased by \$.01, less than one percent. Prices in the North Slope Region increased one percent.



From November 2005, when this survey began, to November 2008, the statewide average price for heating fuel increased \$2.37 per gallon. From June 2008 to November 2008, it increased \$0.34 per gallon; from November 2008 to February 2009, it decreased by \$0.25 per gallon. Similarly, from November 2005 to November 2008, the statewide average price for gasoline increased \$1.97 per gallon. From June 2008 to November 2008, it increased \$0.45 per gallon; from November 2008 to February 2009, it decreased by \$0.29 per gallon.

### ADDITIONAL DISCOUNTS ON HEATING FUEL

Due to the high price of fuel in Rural Alaska, vendors were asked if any discounts were being offered to residents. Of the one hundred surveyed, nine vendors were offering discounts. The discounts were not consistent. For example, Point Hope offers a 10% discount for elders, the

City of Akutan is selling their fuel at cost, and Dillingham dropped its gas tax from six to three percent (see Appendix). Twenty-one respondents were unsure whether the business offered discounts or not. Fuel vendors operated by a tribe, such as in Quinhagak, often give discounts to local tribal shareholders.

In the previous fuel survey, one of the questions posed to fuel vendors was whether they offered volume discounts. Volume discounts are more prevalent in larger and/or more accessible communities. In the Southeast Region, where most communities have regular barge service, two-thirds (64%) of fuel vendors offer volume discounts. Only five Western Region vendors (13%) offer volume discounts, two of them located in the regional hubs of Kotzebue and McGrath. Generally speaking, residents of remote rural Alaska communities have the least opportunity to benefit from volume purchases of residential heating fuel.

Other fuel cost relief came during the 2008 legislative special session, in which the final outcome was a \$1200 energy rebate to every Permanent Fund eligible individual. From September 1, 2008, through August 31, 2009, there was also a one-year suspension of both the state motor fuel tax of \$0.08 and the state tax on resident heating fuel. Despite these measures, the cost of fuel remains an issue for Alaska.

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## SUMMARY

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While Alaska North Slope crude oil prices have dropped significantly during the past few months, Alaskans have continued to pay high prices for heating fuel and gasoline. As the price of crude oil continues to drop, communities along the road system and in temperate coastal regions have seen their cost of fuel decline; however, many remote rural Alaska communities are still plagued with high fuel prices.

From November 2008 to February 2009, the statewide average per gallon price of heating fuel decreased four percent from \$5.85 to \$5.60. Concurrently, the statewide average per gallon price of gasoline decreased five percent from \$5.80 to \$5.51. Since DCRA began keeping track of fuel prices in November 2005, this period is the first time the average price of fuel has decreased. From November 2005 to November 2008, the statewide average cost of fuel increased 68%; from November 2008 to February 2009, prices declined 4%. Although the average cost of fuel is still several dollars higher in 2009 than it was in 2005, this decline in the price of fuel has offered some relief to residents of Southeast and communities on the road system. Unfortunately, many of the communities off the road system are not experiencing the same relief, continue to pay high fuel costs, and are unlikely to see a decline in fuel prices any time in the near future.

## Community Heating Fuel and Gasoline Survey – February 2009

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Alatna	Interior	Alatna Traditional Council	\$5.50	2%	0%	\$7.00	27%	0%	No	
Anderson	Interior	Nenana Heating	\$2.53	-53%	-10%	\$2.76	-50%	-21%	No	
Arctic Village	Interior	Arctic Village Traditional Council	\$9.50	77%	6%	\$9.00	63%	0%	No	
Circle	Interior	Steese (HF) HC Company Store (Gas)	\$2.46	-54%	-18%	\$3.60	-35%	-23%	No	
Delta Junction	Interior	Crowley Fuel (HF) Buffalo Service (Gas)	\$2.36	-56%	-14%	\$2.70	-51%	-7%	No	
Eagle	Interior	Telegraph Hill Services	\$4.95	-8%	0%	\$5.50	0%	0%	No	
Fairbanks	Interior	Alaska Petroleum	\$2.23	-59%	-15%	\$2.47	-55%	-10%	No	
Galena	Interior	Crowley Marine Services	\$6.27	17%	0%	\$6.00	9%	0%	No	

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38**):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Healy	Interior	Fisher Fuel (HF) Keith's Healy Service (Gas)	\$2.77	-49%	-16%	\$2.79	-49%	-20%	No	
Hughes	Interior	Hughes City Council	\$8.55	59%	0%	\$8.50	54%	0%	No	
Huslia	Interior	Huslia Gas & Oil	\$7.00	30%	0%	\$7.00	27%	0%	No	
Minto	Interior	North Fork Store	\$2.85	-47%	-14%	\$3.40	-38%	-16%	Don't know	
Nenana	Interior	Nenana Heating	\$2.44	-55%	-13%	\$2.87	-48%	-18%	No	
Ruby	Interior	Dinega Fuel Corporation	\$6.15	14%	0%	\$5.70	3%	0%	No	
Tanana	Interior	Tanacou Fuel	\$5.80	8%	26%	\$6.39	16%	0%	Don't know	
Anaktuvuk Pass	North Slope	Nunamit Corporation	\$1.55	-71%	0%	\$6.50	18%	-24%	No	
Atkasuk	North Slope	Atkasuk Corporation	\$1.40	-74%	0%	\$4.10	-26%	0%	No	

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (%) +/- Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Barrow	North Slope	Eskimo Inc.	Natural Gas	N/A	N/A	\$4.70	-15%	0%	No	
Kaktovik	North Slope	Kaktovik Inupiat Corporation	\$2.00	-63%	0%	\$4.90	-11%	0%	No	
Nuiqsut	North Slope	Kuukpik Corporation	\$2.54	-53%	-8%	\$4.95	-10%	0%	No	
Point Hope	North Slope	Tigara Corporation	\$1.65	-69%	0%	\$5.95	8%	0%	Yes - for elders	10%
Wainwright	North Slope	Olgoonik Corporation	\$1.50	-72%	3%	\$7.06	28%	48%	No	
Akutan	South Coastal	City of Akutan	\$3.65	-32%	-24%	\$4.40	-20%	0%	Yes	Selling at cost, no profit
Atka	South Coastal	Atka Native Store	\$7.99	49%	10%	\$5.09	-8%	0%	No	
Chenega Bay	South Coastal	Chenega Bay Utility	\$5.60	4%	0%	\$5.70	3%	0%	No	Costs them \$4000 to transport fuel
Chignik	South Coastal	City of Chignik (HF) Trident (Gas)	\$3.85	-28%	-1%	\$3.31	-40%	0%	No	

FEBRUARY 2009

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 CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA, FEBRUARY 2009 UPDATE  
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Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Chitina	South Coastal	Chitina Services (HF) Kenny Lake Mercantile (Gas)	\$2.87	-47%	-10%	\$2.91	-47%	-17%	No	
Clark's Point	South Coastal	City of Clark's Point	\$6.00	12%	0%	\$6.00	9%	0%	No	
Cordova	South Coastal	Hovers Mover	\$3.30	-39%	-24%	\$3.50	-36%	-29%	No	
Dillingham	South Coastal	Delta Western	\$6.12	14%	0%	\$5.76	5%	-9%	Yes	From Jan to Apr. city tax on gas drops from 6% to 3%
Glennallen	South Coastal	Crowley (HF) The Hub (Gas)	\$2.77	-49%	-13%	\$2.80	-49%	-19%	Don't know	
Goodnews Bay	South Coastal	Mumtram Pikkai Village Corporation	\$6.14	14%	0%	\$6.71	22%	-3%	Don't know	
Homer	South Coastal	Homer Run Oil	\$2.08	-61%	-22%	\$2.69	-51%	-15%	No	
King Cove	South Coastal	Peter Pan Seafood	\$4.64	-14%	0%	\$4.61	-16%	3%	No	
Kodiak	South Coastal	Petro Marine	\$3.10	-42%	-19%	\$2.85	-48%	-20%	Don't know	



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 CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA, FEBRUARY 2009 UPDATE  
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Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Kokhanok	South Coastal	Kokhanok Tribal Council	\$8.11	51%	1%	\$8.40	52%	-5%	Don't know	
Larsen Bay	South Coastal	City of Larsen Bay	\$5.53	3%	-3%	\$5.75	4%	-3%	Don't know	
Nelson Lagoon	South Coastal	Nelson Lagoon Enterprises	\$5.96	11%	0%	\$5.71	4%	0%	No	
New Stuyahok	South Coastal	New Stuyahok Village Corporation	\$6.64	23%	5%	\$6.34	15%	0%	No	
Nondalton	South Coastal	City of Nondalton	\$5.35	-1%	-11%	\$5.95	8%	-11%	No	
Old Harbor	South Coastal	City of Old Harbor	\$3.47	-36%	-22%	\$3.86	-30%	-35%	Don't know	
Ouzinkie	South Coastal	Ouzinkie Native Corporation	\$3.47	-36%	-3%	N/A	N/A	N/A	No	
Port Lions	South Coastal	Kizhuyak Oil Sales (open M, W, F)	\$5.65	5%	-13%	\$5.60	2%	0%	No	
Saint George	South Coastal	Delta Fuel Company	\$6.50	21%	0%	\$6.63	20%	0%	Don't know	

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (+/-) Statewide Gasoline Average (\$5.51*):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Sand Point	South Coastal	TDX Svcs (HF) Trident (Gas)	\$3.62	-33%	-26%	\$3.09	-44%	-22%	No	
Seldovia	South Coastal	Seldovia Fuel and Lube	\$4.29	-20%	5%	\$3.81	-31%	-2%	No	
Togiak	South Coastal	Togiak Village Corporation	\$5.87	9%	0%	\$5.53	0%	-2%	No	
Unalaska	South Coastal	Delta Western	\$3.44	-36%	-23%	\$3.00	-46%	-34%	Don't know	
Valdez	South Coastal	North Pacific (HF) Captain Joe's (Gas)	\$2.65	-51%	-15%	\$2.86	-48%	-8%	Don't know	
Angoon	Southeast	Angoon Oil and Gas	\$3.69	-31%	-26%	\$3.53	-36%	-29%	No	
Craig	Southeast	Petro Marine	\$2.75	-49%	-29%	\$2.71	-51%	-27%	Don't know	
Gustavus	Southeast	Gustavus Dray - Gustavus Propane	\$2.84	-47%	-39%	\$2.74	-50%	-37%	Don't know	
Hoonah	Southeast	Hoonah Trading	\$3.50	-35%	-23%	\$2.89	-48%	-30%	Don't know	

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (%) +/- Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Juneau	Southeast	Delta Western - Fred Meyer Gas	\$3.02	-44%	-26%	\$2.20	-60%	-24%	No	
Kake	Southeast	Kake Tribal Fuel	\$3.61	-33%	-26%	\$3.33	-40%	-29%	Don't know	
Pelican	Southeast	Pelican Fuel Dock	\$4.27	-21%	-28%	\$3.96	-28%	-38%	No	
Petersburg	Southeast	Petro Marine	\$2.62	-51%	-33%	\$2.63	-52%	-25%	Don't know	
Point Baker	Southeast	Point Baker Trading Post	\$8.80	64%	0%	\$8.80	60%	0%	Don't know	
Thorne Bay	Southeast	Petro (Craig - HF) Bayview (Gas)	\$2.75	-49%	-31%	\$2.91	-47%	-26%	Don't know	
Wrangell	Southeast	Wrangell Oil - Fennemore's Service	\$3.18	-41%	-35%	\$3.21	-42%	-28%	Don't know	
Akiak	Western	Kokarmiut Corporation	\$6.45	20%	0%	\$6.25	13%	0%	No	
Anvik	Western	Deloyges, Inc.	\$5.25	-2%	0%	\$5.50	0%	0%	No	

FEBRUARY 2009

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 ALASKA DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Atmautluak	Western	Atmautluak Limited	\$5.86	9%	0%	\$5.92	7%	0%	No	
Bethel	Western	Crowley	\$5.58	4%	-3%	\$5.48	-1%	-2%	Quantity discount	\$0.07/gallon if more than 100 gallon
Brevig Mission	Western	Brevig Mission Native Store	\$7.00	30%	-3%	\$6.80	23%	-3%	No	
Deering	Western	Deering IRA	\$7.88	46%	-1%	\$7.82	42%	0%	No	
Emmonak	Western	Emmonak Corp. Tank Farm	\$8.71	62%	11%	\$7.25	32%	0%	No	Lowest possible mark-up, barely making profit
Gambell	Western	ANICA (Gambell Native Store)	\$7.88	46%	0%	\$7.26	32%	0%	No	
Golovin	Western	Golovin Public Utilities	\$5.32	-1%	0%	\$5.30	-4%	0%	No	
Grayling	Western	AYL Grayling Fuel Company	\$7.00	30%	0%	\$6.00	9%	0%	No	
Holy Cross	Western	Holy Cross O.L. Company	\$7.66	42%	0%	\$7.28	32%	0%	No	

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Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent +/- Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (%) +/- Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Hooper Bay	Western	Crowley Marine	\$7.37	37%	0%	\$7.16	30%	0%	No	
Katlag	Western	Katlag Cooperative	\$5.50	2%	0%	\$5.75	4%	0%	Yes	\$.25/gallon rebate
Kiana	Western	Kiana Traditional Council	\$6.64	23%	0%	\$7.21	31%	0%	No	
Kotlik	Western	Kotlik Yupik Enterprises	\$7.79	45%	0%	\$7.55	37%	0%	No	
Kotzebue	Western	Crowley (HF) EZ Market (Gas)	\$6.35	18%	0%	\$7.25	32%	0%	No	
Koyuk	Western	Koyuk Native Corporation	\$8.06	50%	0%	\$7.71	40%	0%	No	
Kwigillingok	Western	KWIK Marina Inc.	\$6.70	25%	0%	\$5.75	4%	0%	No	
Marshall	Western	Maserouliq Inc.	\$7.21	34%	-4%	\$6.21	13%	-14%	No	
McGrath	Western	Crowley	\$6.85	27%	-1%	\$6.35	15%	0%	No	

FEBRUARY 2009

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 ALASKA DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

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Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/- Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (%) +/- Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price?	Amount Price Reduced?
Mountain Village	Western	Azachorak Fuel	\$7.02	30%	0%	\$6.50	18%	0%	No	
Noorvik	Western	Morris Trading Post	\$7.50	39%	0%	\$7.22	31%	0%	Yes	5%
Nulato	Western	City of Nulato	\$5.40	0%	0%	\$5.75	4%	0%	No	
Nunapitchuk	Western	Nunapitchuk LTD.	\$6.59	22%	12%	\$6.54	19%	11%	Don't know	
Pilot Station	Western	Pilot Station Native Corporation	\$7.42	38%	0%	\$6.66	21%	-1%	Don't know	
Quinhagak	Western	Qanirtuuq Corporation	\$7.02	30%	-4%	\$6.22	13%	-3%	No	Shareholders get for \$5.24 and \$5.26/gallon Markup
Russian Mission	Western	Russian Mission Corporation	\$6.15	14%	0%	\$6.05	10%	0%	Yes	lower this year (DK how much)
Saint Michael	Western	Saint Michael Fuel Company	\$8.06	50%	0%	\$7.80	42%	0%	No	
Savoonga	Western	ANICA (Savoonga Native Store)	\$7.88	46%	0%	\$7.26	32%	3%	No	

REPORT TO THE DIRECTOR  
 CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA, FEBRUARY 2009 UPDATE  
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Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (+/-) Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price? No Yes	Amount Price Reduced? Discount by volume Ration community members to 5.gall/day As low as possible Don't know (6%?) By less than a dollar
Scammon Bay	Western	Askinuk Corporation	\$7.04	31%	0%	\$6.93	26%	0%	No	
Shishmaref	Western	Shishmaref Native Store	\$7.91	47%	2%	\$7.54	37%	2%	No	
Sleetmute	Western	Henry Hill Store	\$7.75	44%	0%	\$7.70	40%	0%	No	Discount by volume
Stebbins	Western	Tapraq Fuel Company	\$7.99	49%	0%	\$7.71	40%	0%	No	Ration community members to 5.gall/day
Teller	Western	Teller Native Fuel Business	\$6.95	29%	0%	\$6.64	21%	0%	First year in business	As low as possible
Toksook Bay	Western	Nunakuiak Yupik Corporation	\$7.86	46%	0%	\$7.74	40%	0%	No	
Tuntutuliak	Western	Qinarmiut Corporation	\$6.86	28%	0%	\$6.60	20%	0%	Yes	Don't know (6%?)
Unalakleet	Western	Unalakleet Native Corporation	\$6.81	27%	0%	\$6.97	26%	0%	Yes	By less than a dollar
Upper Kalskag	Western	City of Upper Kalskag	\$6.50	21%	0%	\$6.50	18%	0%	No	

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 02/2009 Retail: (selling price per gallon - \$\$)	Percent (+/-) Statewide Heating Fuel Average (\$5.38*):	Percent +/- 11/2008 Retail: (selling price per gallon)	Gasoline 02/2009 Retail Price: (selling price per gallon - \$\$)	Percent (%) +/- Statewide Gasoline Average (\$5.51):	Percent +/- 6/2008 Retail: (selling price per gallon)	Reduced price? No	Amount Price Reduced? Tried to make as low as possible
Wales	Western	Wales Native Store	\$7.98	48%	0%	\$7.73	40%	0%	No	Tried to make as low as possible
White Mountain	Western	White Mountain Native Store	\$6.31	17%	1%	\$6.05	10%	0%	No	

\* Heating fuel average does not include North Slope Region communities, whose residential fuel is subsidized by the North Slope Borough.  
 \*\* Petro Alaska closed its Thorne Bay location in 2008. Heating fuel deliveries for Thorne Bay residents are now being provided by Petro Alaska in Craig.





## Division of Community & Regional Affairs

Department of Commerce, Community, and Economic Development

Sarah Palin, Governor • Emil Notti, Commissioner • Tara Jollie, Director

The Community Fuel Survey was conducted by the Alaska Department of Commerce, Community, and Economic Development, Division of Community & Regional Affairs (DCRA). If you have any questions or comments regarding the survey or this report, please contact:

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Previous editions of *Current Community Conditions: Fuel Prices Across Alaska* may be found on DCRA's website:  
<http://commerce.alaska.gov/dcra/researchanalysis/RAPublications.htm>

**STUDY OF THE COMPONENTS OF  
DELIVERED FUEL COSTS IN ALASKA  
JANUARY 2009 UPDATE**

GINNY FAY, BEN SAYLOR, NICK SZYMONIAK,  
MEGHAN WILSON AND STEVE COLT

PREPARED FOR: ALASKA STATE LEGISLATURE,  
SENATE FINANCE COMMITTEE

JANUARY 2009



Institute of Social and Economic Research (ISER),  
University of Alaska Anchorage

## Introduction

This is an update of our previous report titled “Components of Delivered Fuel Prices in Alaska.”<sup>1</sup> We provide more recent data on actual fuel prices in ten rural communities that we first examined in fall 2007.

Rural communities across Alaska face extremely high fuel prices. People in these remote, cold places need large quantities of fuel for heat, electricity, and transportation. The estimated household cost for energy use in remote rural Alaska has increased significantly since 2000—increasing from approximately 16% of total household income to 47% in 2008 for the lowest income households. It is a higher portion of income for all income levels in remote rural Alaska as compared to Anchorage.<sup>2</sup> In addition to the high price of fuel in rural Alaska, villages and communities have high unemployment rates, limited local economic bases, and local governments that are struggling to provide basic services to residents and businesses.<sup>3</sup> A 2008 report done by the Alaska Division of Community Advocacy stated that the price of gasoline in 100 Alaska communities ranged from \$2.75 (Fairbanks) to \$9.00 (Arctic Village) per gallon with a mean of \$5.80.<sup>4</sup>

In many areas of Alaska, transporting bulk fuel by air, barge, truck or a combination of these methods increases the price of fuel, most of which must be purchased prior to “freeze up” in cold winter months in order to allow time for delivery to remote villages. High remote rural fuel prices appear to be the result of a number of factors. These include high transportation costs to remote locations, limited and costly storage, small market size, and the financing costs associated with holding large inventories.

The main purpose of this research is to identify the components of the cost of delivered fuel across rural Alaska. By understanding these cost components, it may be possible to identify opportunities to address them and reduce the overall cost of fuel.

## Methods

Communities/villages across the state were selected to represent different conditions (social, economic, geographic, climate) likely to affect the cost of delivered fuel. In consultation with the Alaska Energy Authority (AEA), ten communities were chosen for data collection:

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<sup>1</sup> <http://www.iser.uaa.alaska.edu/Publications/Finalfuelpricedelivered.pdf>

This updated report is available at:

<http://www.iser.uaa.alaska.edu/Publications/fuelpricedeliveredupdate.pdf>

<sup>2</sup> Ben Saylor, Sharman Haley, and Nick Szymoniak, *Estimated Household Costs for Home Energy Use*, May 2008, Note No. 1 Revised June 24, 2008.

<http://www.iser.uaa.alaska.edu/Publications/webnote/LLFuelcostupdatefinal.pdf>

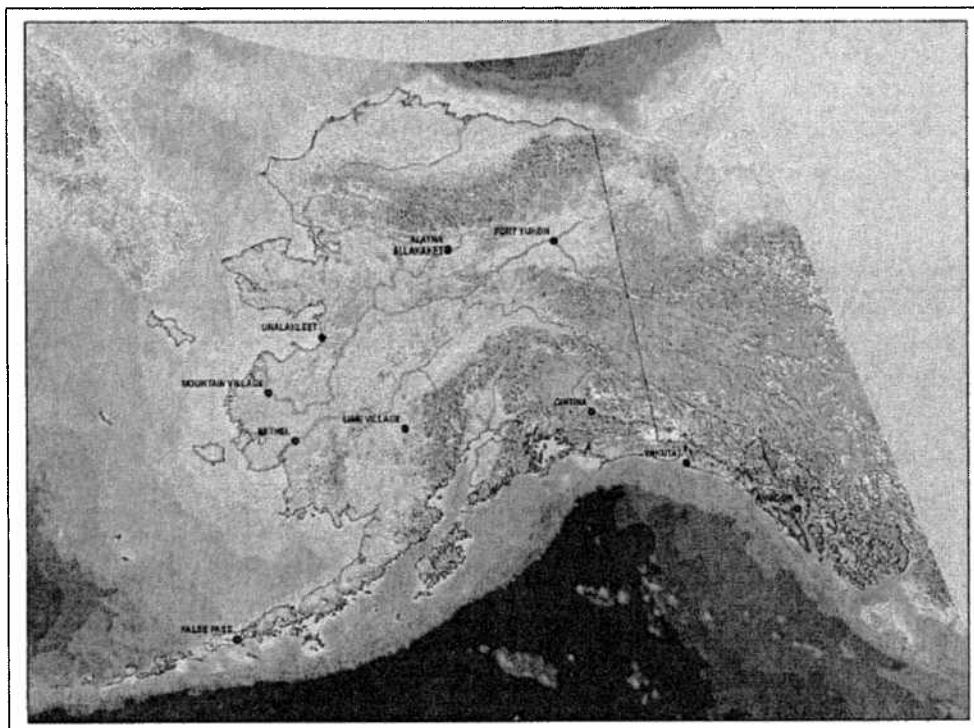
Ben Saylor and Sharman Haley, *Effects of Rising Utility Costs on Household Budgets, 2000-2006*, March 2007. See [www.iser.uaa.alaska.edu/Publications/risingutilitycosts\\_final.pdf](http://www.iser.uaa.alaska.edu/Publications/risingutilitycosts_final.pdf)

<sup>3</sup> Division of Community Advocacy – Report to the Commissioner. January 2007. Current Community Conditions – Fuel Prices across Alaska Fall – Winter 2006 Update.

<sup>4</sup> Division of Community Advocacy – Report to the Commissioner. November 2008. Current Community Conditions: Fuel Prices across Alaska.

1. Allakaket/Alatna
2. Angoon
3. Bethel
4. Chitina
5. False Pass
6. Fort Yukon
7. Lime Village
8. Mountain Village
9. Unalakleet
10. Yakutat

**Figure 1. Map of 10 Case Study Communities**



Data on the price of fuel and the components of that price were collected for the ten communities in November 2007. In January 2009 updated fuel price data was collected for the ten communities. We also confirmed that many of the characteristics of fuel purchases and sales remained the same as in fall 2007, and we recorded any significant changes. We used the same methods and questions about fuel prices that we used in November 2007. A copy of the January 2009 survey instrument is attached to this update. The previous report on the components of delivered fuel costs in Alaska released in June 2008 can be viewed on the ISER webpage: (<http://www.iser.uaa.alaska.edu/Publications/Finalfuelpricedelivered.pdf>). A research summary with interactive maps and maps of fuel delivery to each study community can be viewed at: <http://www.iser.uaa.alaska.edu/Home/ResearchAreas/fuelcosts2.html>

One change in methodology for this update is the way we selected dates for determining the “relevant” crude oil and refined oil prices used as components of delivered fuel prices. In the November 2007 analysis, crude oil and refinery gate prices were relatively stable and communities had received their winter fuel supplies. As a result, we did not ask for specific fuel delivery dates for each community. Given crude oil prices from July to November 2007, there should not have been much variability in final retail prices of fuels for each community based on when fuel was delivered.

In contrast, given the dramatic escalation of crude oil prices peaking in July 2008 (~\$140/barrel) and the crash in prices over the fall (~\$34 in January 2009), communities appear to have shifted their fuel purchasing strategies to better time fuel deliveries to take advantage of falling prices, to the extent possible. Given the variability in both delivery timings and rapidly changing prices, for this update we recorded the most recent fuel delivery date and collected crude oil and refinery gate prices for that month. While we do not know community fuel tank inventories at the time of delivery or the lags between orders and deliveries among the communities, this simple approach attempts to determine the extent to which rapidly changing crude oil and refinery gate prices affect delivered retail fuel prices.

We also used different data sources for crude oil and refinery rack wholesale prices. In the initial report, we used Refiner Acquisition Cost of Crude Oil for PADD 5 (West Coast), and Refiner Petroleum Product Prices by Sales Type, Sales for Resale, Alaska, both from the U.S. Energy Information Administration. However, these data series at the time of this writing are complete only through October, 2008. Therefore, for this update we used the best available data available through January 2009: weekly spot prices for U.S. crude oil from EIA, and wholesale rack prices for Anchorage from the Oil Price Information Service. For consistency, we changed the 2007 numbers in the matrix and charts to use the same datasets. We believe this approach allows for a fair comparison of figures for 2007 to the same data for 2008/2009.

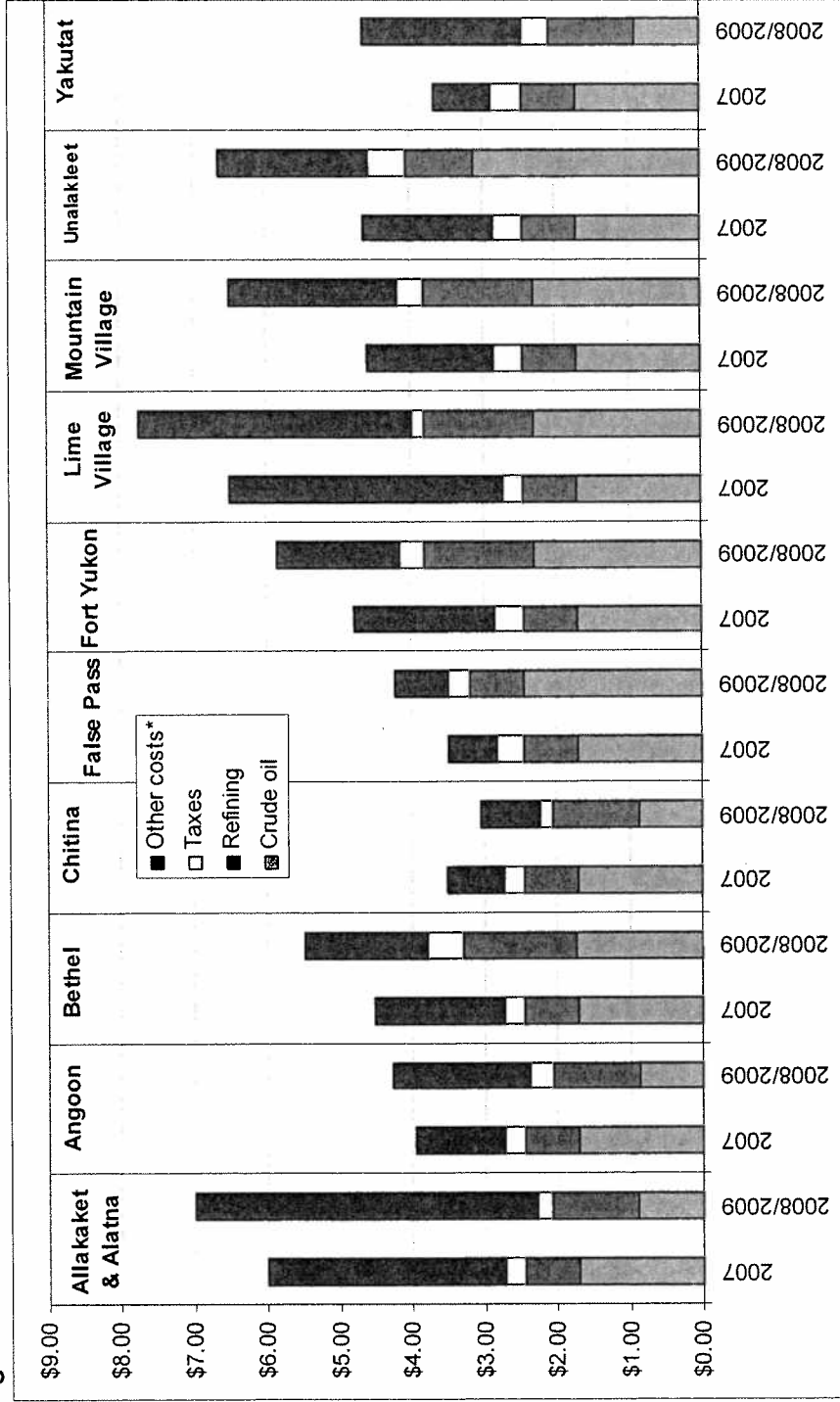
Table 1 provides a summary matrix of the factors affecting fuel prices in the ten case study communities. The table includes previous and current prices of fuel (gasoline, diesel fuel (DF) #1 and diesel fuel #2) as well as updated local tax and recent delivery information. Unless otherwise noted, other data are from the original 2007 study and not updated.

Figures 2 and 3 provide summary comparisons of fuel prices in 2007 and 2008/2009. These figures are followed by community summaries and figures. The final sections discuss major findings and present policy implications.

Table 1.

Components of Fuel Prices Analysis Ten Community Case Study Results										
	Community									
	Allakaket & Alatna	Angoon	Bethel	Chitina	False Pass	Fort Yukon	Lime Village	Mountain Village	Unalakleet	Yakutat
Population	125	478	5653	105	46	591	26	784	724	621
<b>Fall 2007 Prices</b>										
Crude (Sep 2007)	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
<b>Refining Cost (Sep 2007)</b>										
gasoline	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
diesel # 1	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69
diesel # 2	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81
<b>Retail (Nov 2007)</b>										
gasoline	6.00	3.96	4.52	3.52	3.49	4.79	6.50	4.60	4.65	3.67
diesel # 1	5.50	3.79	4.25	3.41	2.90	4.12	6.25	4.92	4.58	3.72
diesel # 2	NA	NA	4.54	NA	2.85	3.65	NA	NA	4.58	NA
<b>Winter 2008-2009 Prices</b>										
Crude (Month of delivery)	0.88	0.87	1.72	0.87	2.45	2.31	2.31	2.31	3.12	0.88
<b>Refining Cost (Month of delivery)</b>										
gasoline	1.20	1.18	1.57	1.18	0.73	1.49	1.49	1.49	0.93	1.20
#1 diesel	1.00	0.98	1.19	0.98	1.07	1.23	1.23	1.23	1.14	1.00
#2 diesel	1.00	0.98	1.19	0.98	1.03	1.23	1.23	1.23	1.14	1.00
<b>Retail (Jan 2009)</b>										
gasoline	7.00	4.27	5.48	3.03	4.23	5.85	7.75	6.50	6.64	4.64
diesel # 1	6.50	3.82	5.58	2.79	NA	5.87	7.80	7.02	NA	4.98
diesel # 2	NA	NA	NA	NA	4.18	5.86	NA	7.28	6.49	4.85
Most recent fuel delivery	Dec-08	Jan-09	Oct-08	Jan-09	Apr-08	Sep-08	Sep-08	Sep-08	Jul-08	Dec-08
<b>Taxes</b>										
Federal/gal.										
gasoline	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184
State/gal.										
gasoline	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
2007 Local (%)	0%	0%	0%	0%	3%	3%	0%	3%	3%	4%
2008-2009 Local (%)	0%	3%	6%	0%	3%	3%	0%	3%	5%	4%
Local tax included in retail price		No	Yes		No	Yes		No	No	No
<b>Transportation</b>										
State contract delivery price	0.57	0.21		0.04		0.40			0.63	0.53
Transfer points	4	4	4	2.5	4	4	8	4	5	2.5
Deliveries per year	2	8	10+	52	1	2		2	3	4
Quantity per year	7500	88,000		132,600	300,000		1,800	200,000	270,205	
Number of suppliers	2+	1	2	2	1	1	2	2	2+	1
Market contestability	y	y	y	y	y	n	y	y	y	y
<b>Storage</b>										
Capacity	16000	34,000	14,830,000	100,000	330,000	660,000	5,000	200,000	421,200	6,468,000
Owner	public	public	private	public	private	private	public	public	public	private
Financing	y	n	n	n	n	n	y	y	y	n
Annual O&M + R&R costs per gallon throughput	0	0	0	0	0	0	0	0	0	0
Construction cost	\$326,583	\$693,989	\$42,041,925	\$1,360,764	\$3,180,785	\$4,864,730	\$102,057	\$2,154,542	\$3,582,210	\$18,336,289
<b>Transportation Method</b>										
Air		Barge	Barge	Road	Barge	Barge	Barge/Air	Barge	Barge	Barge
Runway	Long						Short			
Flight time (hours)	2						2			
Price/gal	1.5						1			
<b>Barge</b>										
Ice-free	n/a	y	n	n/a	y	n	n	n	n	y
Moorage/header	n/a	y	y	n/a	y	y	n/a	y	y	y
Tides	n	n	n	n	n	n	n	n	n	n
Lighterage	n/a	y	y	n/a	y	y	y	y	y	n
Navigational risk	n	n	n	n	n	n	n	n	n	n
Wharfage fee	n	y	y	n	y	n	y	n	y	y
Barge distance		990	1,800		850	440		750	1,880	680
Road distance				247		415		415		
Road+Barge distance		990	1,800	247	850	855		1,165	1,880	680
<i>Notes: Italic = estimate</i>										
<i>NOTE: State Gasoline tax was suspended in 2008</i>										
<b>Bold = proxy from similar communities with state fuel contracts</b>										
<b>Sources:</b>										
U.S. Energy Information Administration: Weekly United States Spot Price FOB Weighted by Estimated Import Volume (Dollars per Barrel)										
<a href="http://tonto.eia.doe.gov/dnav/pet/hist/wtotusaw.htm">http://tonto.eia.doe.gov/dnav/pet/hist/wtotusaw.htm</a>										
Oil Price Information Service: Wholesale Rack Prices for Anchorage										

Figure 2. Gasoline



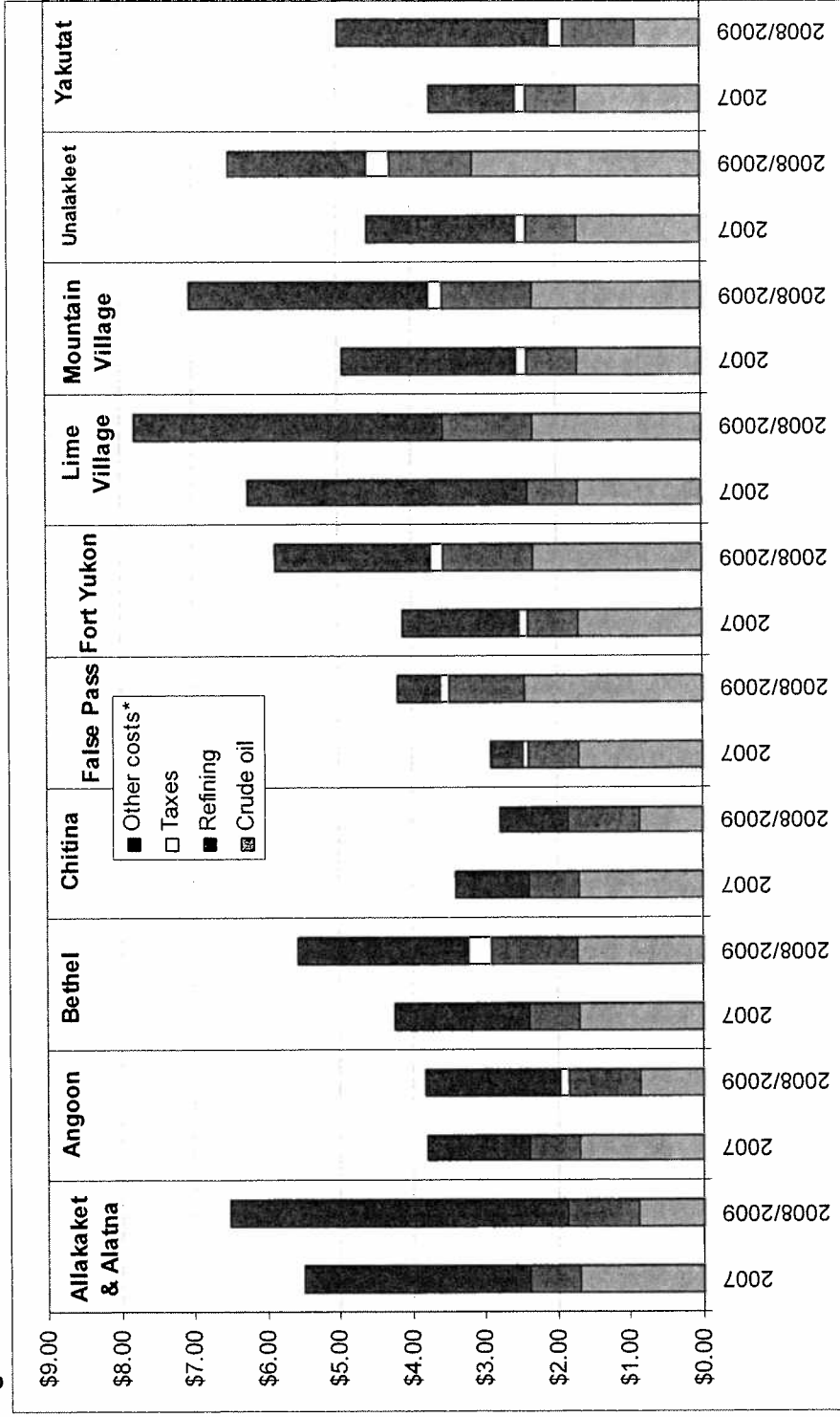
Notes: \*Other costs include transportation, storage and retailer markup.

The "refining" component is calculated as the difference between the OPIIS wholesale rack price (measured in Anchorage) and the EIA reported U.S. crude price.

Sources: U.S. Energy Information Administration: Weekly United States Spot Price FOB Weighted by Estimated Import Volume (Dollars per Barrel) <http://tonto.eia.doe.gov/dnav/pef/hist/wtotusaw.htm>

Oil Price Information Service: Wholesale Rack Prices for Anchorage, 1987-2009.

**Figure 3. Diesel Fuel**



Notes: \*Other costs include transportation, storage and retailer markup.

The "refining" component is calculated as the difference between the OPIS wholesale rack price (measured in Anchorage) and the EIA reported U.S. crude price.

Sources: U.S. Energy Information Administration: Weekly United States Spot Price FOB Weighted by Estimated Import Volume (Dollars per Barrel) <http://tonto.eia.doe.gov/dnav/pet/hist/wtotusaw.htm>

Oil Price Information Service: Wholesale Rack Prices for Anchorage, 1987-2009.

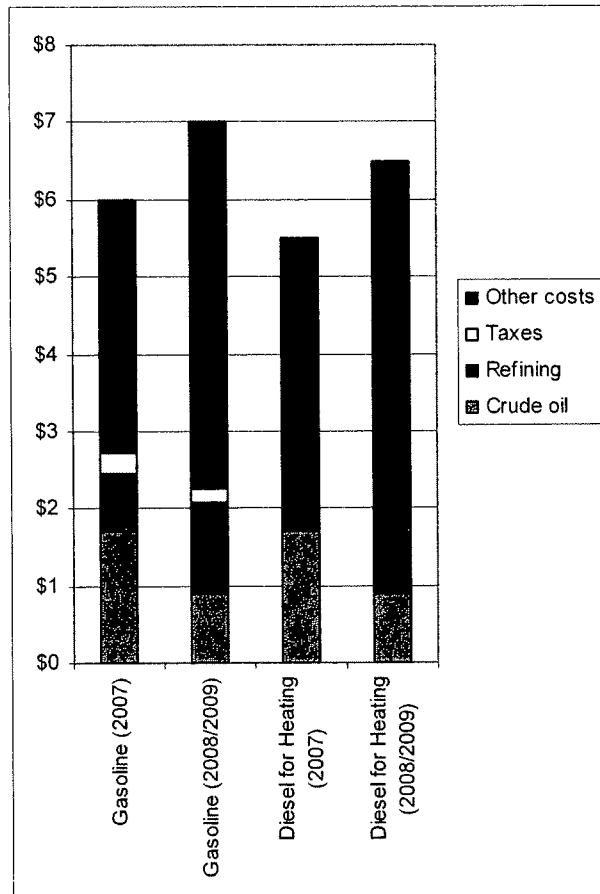


## Allakaket/Alatna

Together, the neighbor communities of Allakaket and Alatna (across the Koyukuk River from each other) have a total population of about 125. They are in northern Alaska, above the Arctic Circle. They receive their fuel by airplane, because fuel barges cannot navigate the upper Koyukuk River.

In November 2007 gasoline retailed for \$6.00 per gallon and diesel for heating (DF #1) was \$5.50 per gallon in Allakaket/Alatna. In January 2009 gasoline retailed for \$7.00 per gallon and diesel for heating (DF#1) was \$6.50 per gallon. There is no local sales tax in either community. Several factors tend to increase or ameliorate the “other” fuel prices in these locations:

- Only method of transportation is by air. Everts Air or Brooks Fuel usually deliver fuel to community.
- Because of small population, delivered quantities are small and so the delivery charge is spread across fewer gallons, raising the price per gallon.
- Storage capacity is only 16,000 gallons, but this does not seem to be a constraint on deliveries, because the quantity delivered in 2007 was only 7,500 gallons.
- There are at least two suppliers to the community, and barriers to entry in air transportation are low compared with those in barging—so there is potential for competition.
- Allakaket/Alatna get fuel about once a month. The last shipment of DF#1 was received December 16<sup>th</sup>, 2008 and gasoline delivery was in November 2008.
- Crude oil prices were significantly higher during fall 2007 accounting for \$1.70 of the final retail refined product price as compared to \$0.88 in December 2008—a \$0.82 or 48% decline per gallon. Despite this decline in crude oil prices, the price of gasoline increased \$1.00 or 17% per gallon and diesel #1 increased \$1.00 or 18% per gallon.

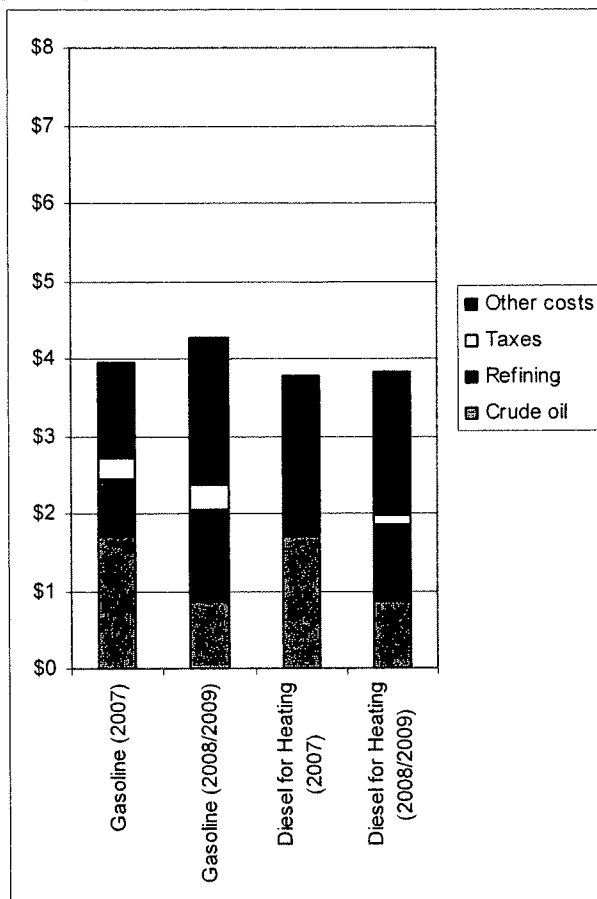


## Angoon

Angoon is located on Admiralty Island in Southeast Alaska, south of the capital city of Juneau. Angoon has a current population of 478; the population has decreased over the past few years. All fuel is barged to Angoon by Petro Marine.

In November 2007, gasoline retailed for \$3.96 per gallon and fuel oil (DF #1) for \$3.79 per gallon. In January 2009, gasoline retailed for \$4.27 per gallon and fuel oil (DF #1) for \$3.82. Factors tending to increase or ameliorate these “other” costs include:

- Only fuel delivery method is by barge from Petro Marine about every three weeks. Most recent shipment was January 5<sup>th</sup>, 2009.
- Ice-free port in Southeast Alaska, roughly 900 miles from both Anacortes and Anchorage.
- Fuel can be delivered any time; typically there are eight deliveries per year.
- Tlingit/Haida Energy program is helping to provide fuel in community.
- Additionally, the Inside Passage Electric Cooperative are upgrading and renovating the power plant (including the generation equipment and heat recovery system). The power plant provides waste heat for the school. The school is currently using more than expected amounts of DF#1 given school square footage and heating degree days.
- Petro Marine is currently delivering to community; Angoon is negotiating with Delta Western to deliver fuel to introduce price competition into the market.
- Similar to Allakaket and Alatna, crude oil prices were significantly higher during fall 2007, accounting for \$1.70 of the final retail refined product price as compared to \$0.87 in January 2009—a \$0.83 or 49% decline per gallon. Despite this crude oil price decline, gasoline in January 2009 was \$0.31 or 8% per gallon higher than fall 2007. Diesel #1 was \$0.03 or less than a 1% increase.

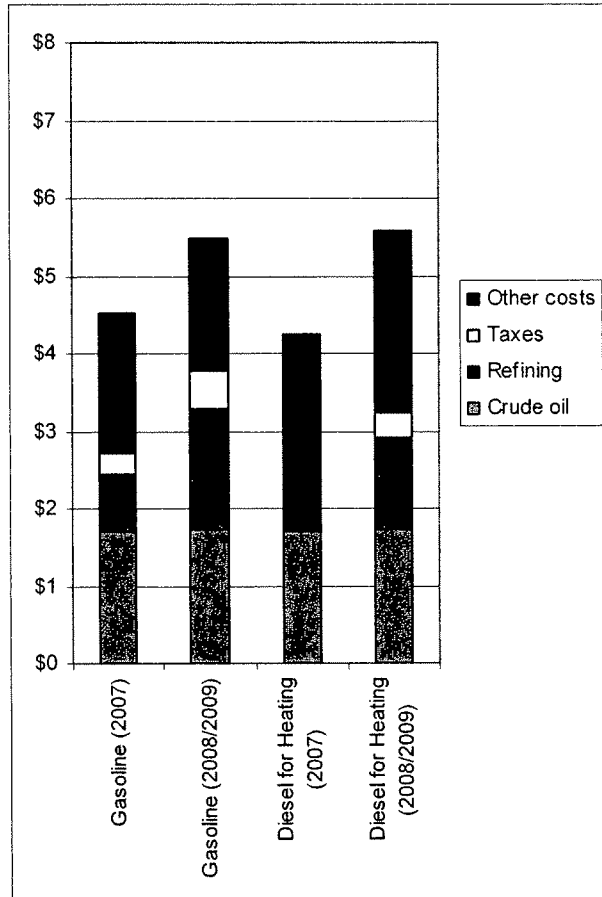


## Bethel

Bethel is located at the mouth of the Kuskokwim River and has a population of 5,653. All fuel for Bethel is barged on the Kuskokwim River. It is a regional fuel distribution hub and has a storage capacity of almost 15 million gallons.

In November 2007 gasoline retailed for \$4.52 per gallon and diesel for heating (DF #1) for \$4.25 per gallon. In January 2009, gasoline retailed for \$5.48 per gallon and diesel for heating (DF #1) for \$5.58 per gallon. Factors affecting the costs include:

- Large fuel hub community and large storage facility owned by Crowley Marine. We do not know how much fuel stored in the community is distributed to other regional communities and how much goes to Bethel residents.
- Port and river both freeze up in winter.
- Can receive multiple shipments (10+) per year when river is not frozen.
- In contrast, to Allakaket/Alatna and Angoon, Bethel's October 2008 fuel delivery coincided with higher crude oil prices as compared to fall 2007. The estimated October 2008 crude oil component of final retail fuel prices is \$1.72 as compared with \$1.70 per gallon—a \$0.02 per gallon – a 1% increase. In addition, the October 2008 refinery gate fuel price was \$0.82 per gallon higher on gasoline and \$0.50 per gallon higher on diesel #1 than fall 2007. The price per gallon of gasoline was \$0.96 or 21% than fall 2007. Diesel #1 was \$1.33 per gallon, or 31%, higher than fall 2007.

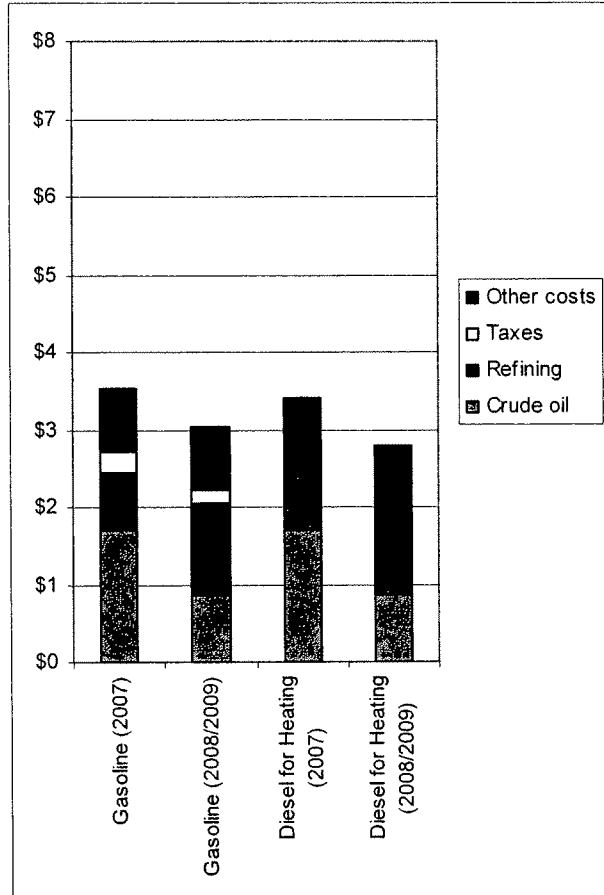


## Chitina

Chitina is on the road system in Southcentral Alaska. Chitina and has a population of 105. All fuel in Chitina is transported by road from Anchorage via Glenallen.

Gasoline retailed for \$3.52 per gallon and diesel for heating (DF #1) is \$3.41 per gallon in November 2007. The price in January 2009 for gasoline is \$3.03 per gallon and \$2.79 per gallon for heating fuel (DF #1). Various factors tend to increase or decrease the “other costs” components:

- Chitina One Stop (only gasoline retailer in community) shut down for the winter because of high gasoline prices. Now, residents purchase their gasoline at the Kenny Lake Mercantile, 23 miles away. Fuel Prices in Kenny Lake track closely with Chitina and other surrounding communities.
- On the road system only 247 miles from Anchorage.
- Can receive fuel any time; not weather dependent. Fuel comes by truck.
- Similar to Angoon, Chitina had fuel deliveries in January 2009 when crude oil prices had dropped. Crude oil prices were significantly higher during fall 2007 accounting for \$1.70 of the final retail refined product price as compared to \$0.87 in January 2009—a \$0.83 or 49% decline per gallon. The price of diesel declined \$0.49 or 14% and diesel # 1 declined \$0.62 or 18%.
- Chitina prices did fall with crude oil prices but at a lower rate of decline.

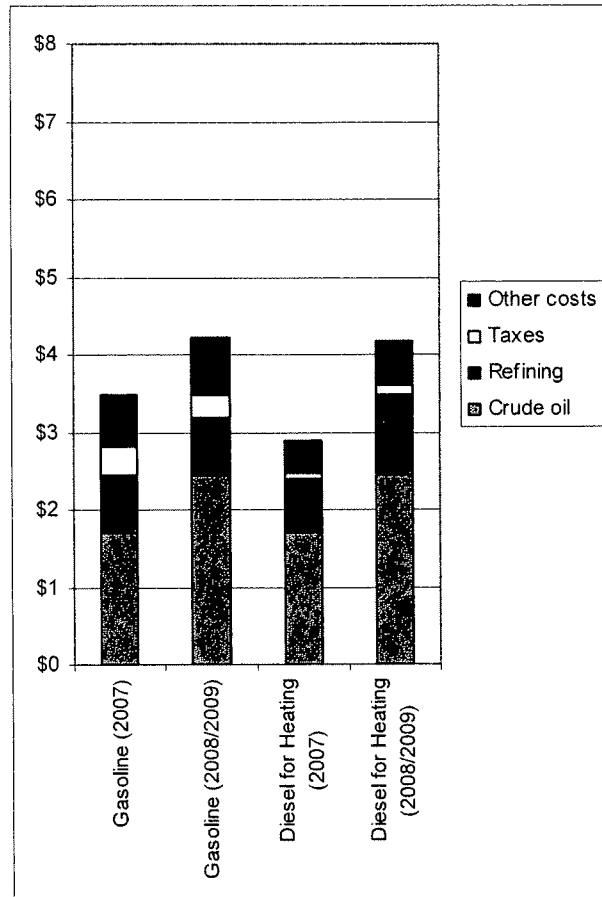


## False Pass

False Pass is on Unimak Island in the Aleutian Chain. It has a year-round population of about 46, the population increases when fishermen and fish processors arrive for the fishing season. All fuel for False Pass is barged.

In November 2007 gasoline retailed for \$3.49 per gallon and fuel oil (DF #2) for \$2.90 per gallon. In January 2009 gasoline retailed for \$4.23 per gallon and fuel oil (DF#2) for \$4.18 per gallon. Several factors tend to increase or hold down costs:

- Can only receive fuel by barge.
- Ice-free port.
- Relatively close to large ports (Dutch Harbor and Anchorage).
- Small marine distance from larger facilities.
- Only receives one delivery per year but has a large storage capacity to serve many commercial fisherman and fish processors in the area.
- Storage facility is owned by Peter Pan Seafood, a private company. Large throughput due to fishing fleet and location near multiple fishing grounds.
- Most recent delivery was April 2008.
- The April 2008 delivery was prior to the July peak in crude oil prices but still higher than fall 2007 when the crude oil component of delivered fuel prices was an estimated \$1.70 rather than the April 2008 estimate of \$2.45, a \$0.75 per gallon or 44% increase. The price of gasoline increased \$0.74 per gallon or 21%; diesel #2 increased \$1.33 per gallon or 47%. Compared to the other communities surveyed, the fall 2007 False Pass diesel fuel price was a comparatively low price.

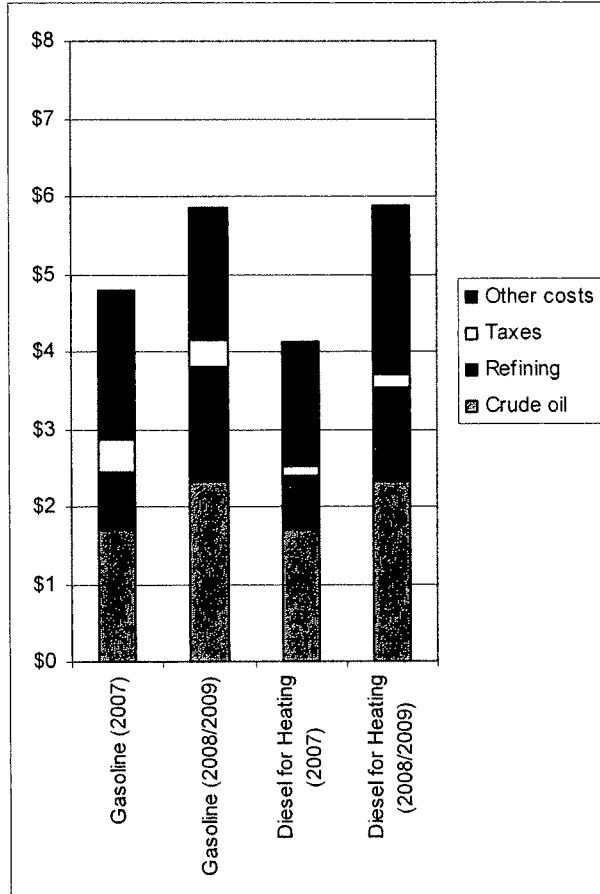


## Fort Yukon

Fort Yukon is on the upper Yukon River northeast of Fairbanks and has a population of about 591. All fuel for Fort Yukon is barged upriver from Nenana by Crowley Marine.

Gasoline retailed for \$4.79 per gallon and fuel oil (DF #1) for \$4.12 per gallon in November 2007. In January 2009, gasoline retailed for \$5.85 per gallon and fuel oil (DF #1) for \$5.87 per gallon. Costs can largely be attributed to several factors:

- Fuel barged 400 river miles upriver from Nenana.
- River and port freeze up during winter.
- Fort Yukon's most recent fuel delivery was September 2008 when crude oil prices are estimated to account for \$2.31 per gallon of refined fuel prices as compared to \$1.70 in fall 2007—a \$0.61 per gallon or 36% increase. In January 2009 the price of gasoline was \$1.06 per gallon higher or 22% higher and diesel #1 was \$1.75 per gallon or 42% higher.

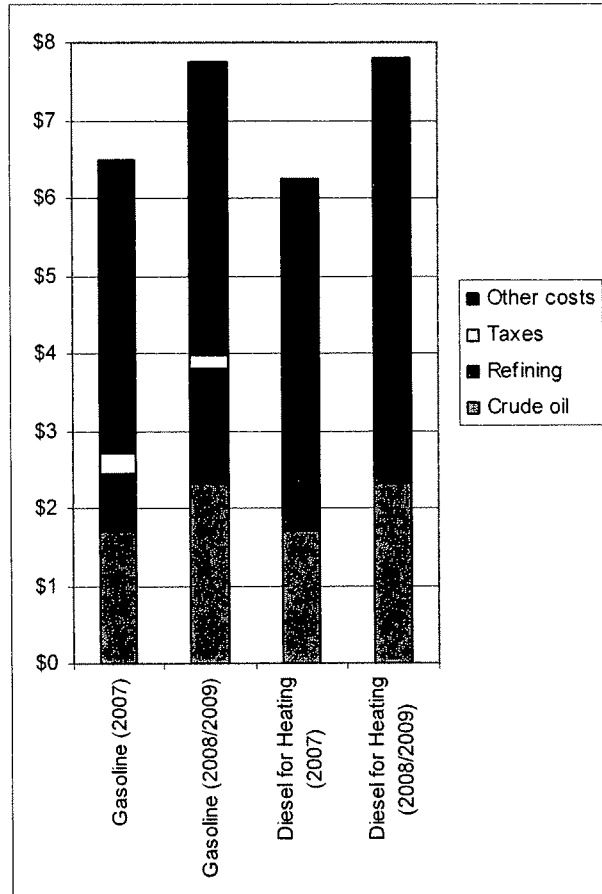


## Lime Village

Lime Village is on the Stony River in the Kuskokwim Delta of western Alaska. It has a total population of just about 26; the population has declined over the past few years due to lack of jobs and the school closing. All fuel for Lime Village is delivered by air.

In November 2007 gasoline retailed for \$6.50 per gallon and fuel oil (DF #1) for \$6.25 per gallon. In January 2009 gasoline retailed for \$7.75 per gallon and fuel oil (DF #1) for \$7.80 per gallon. Several things make those costs high:

- All fuel has to come by air, because barges can not navigate the Stony River to Lime Village
- Very short runway for airplanes; can only handle small shipments per trip.
- Fuel is barged from Bethel to Sleetmute and then transferred to planes for delivery to Lime Village.
- Can receive fuel shipments any time of the year.
- Storage facility is publicly owned, but is very small (only 1,800 gallon capacity for the community).
- Small population means delivery charges are spread over fewer gallons.
- Community is currently evaluating having fuel flown in directly from Anchorage. The community is not sure if this will save money. Currently, fuel is being barged to Sleetmute and then flown into Lime Village.
- Lime Village's most recent fuel delivery was November 2008 when crude oil prices were falling. However, Lime Village receives fuel that is first barged to Bethel, then barged to Sleetmute, before being flown to Lime Village. As a result, the fuel most likely was purchased by September to make it to Sleetmute before freeze up. The September crude oil component of fuel prices increased from \$1.70 in fall 2007 to \$2.31 per gallon, a \$0.61 per gallon or 36% increase. Gasoline prices increased \$1.25 per gallon or 19%. Similarly, the price of diesel #1 increased \$1.55 per gallon or 25%.



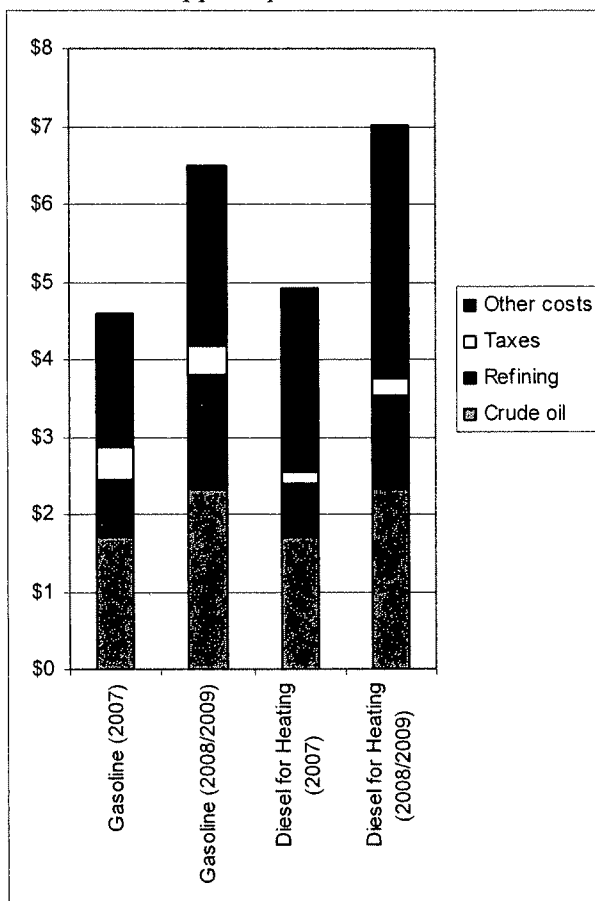
## Mountain Village

Mountain Village is on the Yukon River in Northwest Alaska, close to Norton Sound and the Bering Sea. About 784 people live there. Most fuel for Mountain Village is barged down the Yukon River from Nenana, but occasionally deliveries are lightered from ocean-going vessels at the mouth of the Yukon and shipped upstream.

In November 2007 gasoline retailed for \$4.60 per gallon and fuel oil (DF #1) for \$4.92 per gallon. In January 2009, gasoline retailed for \$6.50 per gallon and fuel oil (DF #1) for \$7.02 per gallon. Several things tend to increase or hold down costs:

- Can only deliver during times of the year when river is not frozen.
- Fuel has to be transported in a shallow draft barge; Nenana is main hub port, roughly 1,200 miles upriver.
- Publicly-owned storage facility, with a capacity of 200,000 gallons.
- Similar to Fort Yukon, Mountain Village received its most recent fuel delivery in September 2008 when crude oil prices are estimated to account for \$2.31 per gallon of refined fuel prices as

compared to \$1.70 in fall 2007—a \$0.61 per gallon or 36% increase. However, in January 2009 the price of gasoline was \$1.90 per gallon or 41% higher as compared to the \$1.06 per gallon higher or 22% higher increase in Fort Yukon. For diesel #1, the price increased \$2.10 or 43% in Mountain Village compared to Fort Yukon's \$1.75 per gallon or 42% higher.





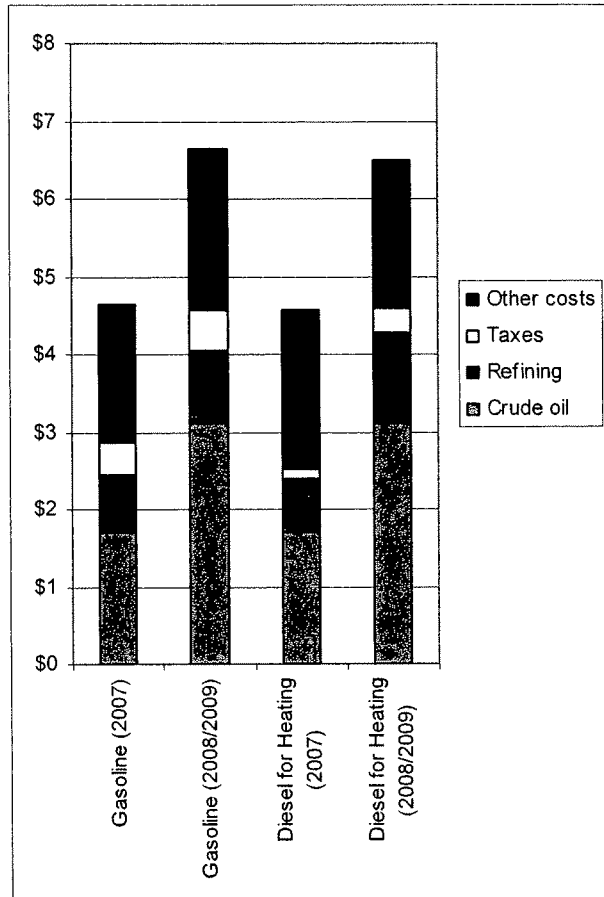
## Unalakleet

Unalakleet is in northwestern Alaska, on Norton Sound. Unalakleet has about 724 residents. All fuel is first barged to Nome in a line-haul vessel and then transported to Unalakleet in a shallow draft lighterage vessel.

Gasoline retailed for \$4.65 per gallon and fuel oil (DF #2) for \$4.58 per gallon in November 2007. In January 2009, gasoline retailed for \$6.64 per gallon and fuel oil (DF #2) for \$6.49 per gallon. Several things tend to add to or hold down those other costs:

- Barge is the only method of fuel delivery.
- Norton Sound freezes in winter; deliveries only during ice-free months.
- Fuel is transported from Nome in a lighterage vessel and pumped directly to a storage facility.
- Community receives three or more shipments per year during ice-free months.
- Publicly-owned storage facility with a capacity of 420,000 gallons.
- Of the study communities, Unalakleet was the unfortunate community that

took delivery of fuel at peak crude oil prices in July 2008. The crude oil component of fuel prices reached \$3.12 per gallon as compared to \$1.70 in fall 2007, a \$1.42 or 84% increase. Gasoline prices increased \$1.99 or 43% per gallon. Diesel #2 increased \$1.91 or 42% per gallon.

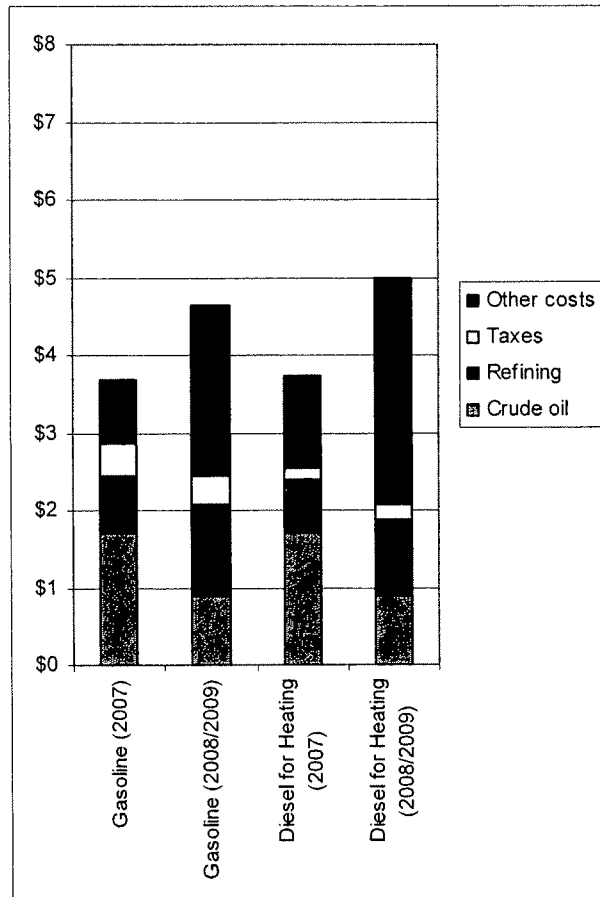


## Yakutat

Yakutat is in Southeast Alaska, on the Gulf of Alaska north of the capital city of Juneau. Yakutat has about 621 residents. All fuel is barged to Yakutat by Delta Western, which also owns a 6.5 million gallon storage facility in the community.

In November 2007 gasoline retailed for \$3.67 per gallon and fuel oil (DF #1) for \$3.72 per gallon. In January 2009, gasoline retailed for \$4.64 per gallon and fuel oil (DF #1) for \$4.98 per gallon. Price quoted is for purchases of 0-50 gallons. Fuel is less expensive in Yakutat than in many other places in Alaska because:

- Fuel transportation method is by barge, but no river barging is required and Yakutat can receive shipments from either Anchorage or Seattle, allowing for more potential fuel sources and thus, competition.
- Ice-free port allows year-round fuel deliveries.
- Deeper harbor accessible by larger shipments.
- Large storage facility maintained by one transportation company. Large volume of fuel throughput due to Alaska Airlines' twice daily service to the community.
- Yakutat's most recent fuel delivery was in December 2008. Crude oil prices were significantly higher during fall 2007 accounting for \$1.70 of the final retail refined product price as compared to \$0.88 in December 2008—a \$0.82 or 48% decline per gallon. Despite this decline in crude oil prices, the price of gasoline increased \$0.97 or 26% per gallon and diesel #1 increased \$1.26 or 34% per gallon.



## Discussion

Commercial fuel suppliers consider a number of costs that contribute to the final retail price of fuel. Many of these are proprietary, making it difficult to accurately quantify the components of fuel prices. In addition, there is limited competition in some markets, which makes it difficult to separate legitimate costs from high profits. Competition may be limited because the market can only support a small number of suppliers, each of whom must spread their fixed costs over some minimum sales volume.

Despite these limitations, this analysis does provide useful information about fuel prices in Alaska:

- World and Alaska crude oil prices are set in the global market and reflect both crude oil supply and demand and international global events that influence the real and perceived stability of oil supplies.
- Alaska can do little (or nothing) to influence world crude oil prices. Therefore, these are a relative fixed component of overall fuel prices. In late 2007, costs of crude oil made up approximately \$1.70 per gallon of final fuel retail prices.
- In this update, the crude oil component varied from \$3.12 per gallon in July 2008 (~\$140 per barrel of crude) to \$0.87 in January 2009 (\$35 per barrel of crude). The crude component dropped by \$2.25 in that time frame. The crude component was nearly 3.5 times higher in July 2008 than in January 2009.
- A significant portion of fuels used in Alaska are refined by in-state refineries. The balance is refined primarily in Washington.
- While the costs of fuel from Alaska refineries might be somewhat higher than from West Coast refineries, the additional transportation costs from West Coast refineries to Alaska traditionally have balanced out the costs of in-state refining. As a result, the combined crude oil and refinery components have tended to total the same amount, regardless of fuel refinery source.
- Refinery wholesale prices closely track crude oil prices. The difference tends to be constant rather than a percentage, which suggests it is based on actual costs.
- The average refinery component for gasoline in September 2007 was about \$0.59 and for #2 diesel was \$0.53.<sup>5</sup> The refinery component for gasoline ranged from \$0.73 in April 2008 to \$1.57 in October 2008. The refinery component for #2 diesel ranged from \$0.98 in January 2009 to \$1.23 in September 2008.
- The refinery component of final fuel prices increased for both in-state and out of state refineries; this was especially true for diesel fuels.
- The mix of refined products appears to be in flux both in Alaska as well as nationally. A shifting product mix could be caused by rapid changes in the price of crude oil or changes in the relative demand for petroleum products (e.g. the demand for gasoline has declined more rapidly than the demand for diesel as a result of the drop in vehicle miles driven).

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<sup>5</sup> These figures are different than the original publication because we changed the source of our refinery information from OPIS (Oil Price Information Service) rather than the PADD 5 because the latter information was only available through October 2008.

- State and federal taxes are a relatively constant component of fuel prices. Some communities charge local sales taxes, which increase final consumer prices.
- The state motor fuel tax (\$0.08 is for gasoline) was suspended September 1, 2008 through August 21, 2009. In this update we only investigated one community on the Railbelt road system; therefore it is unknown what impact the state motor fuel tax suspension has had on communities.
- For the communities that have roads and gasoline subject to the state motor fuel tax (Angoon, Bethel, Chitina, Yakutat), only Chitina saw a decline in the price of gasoline as a result of lowered crude prices. Chitina is also the only community with any significant potential for market competition. This suggests that the “other factors” have more impact on the final price of fuel than the price of crude. These are small non-competitive fuel markets and as a result a suspension of taxes may or may not be passed on to final consumers.
- The mechanisms for charging federal fuel taxes are complex and obtaining refunds for federal taxes on exempt fuels is cumbersome for consumers.
- Communities closer to refineries and with road, pipeline, or railroad access enjoy the lowest fuel prices. Variations in prices in those locations tend to reflect market competition.
- Communities that rely on air delivery of fuel face the highest prices depending on the community’s population and runway length—which determines the gallons flown in per delivery.
- Barge fuel delivery tends to cause the most variability in fuel prices and reflects in part the complexities of delivery, with seasonal ice being a major concern.
- Seasonal ice that limits deliveries also increases the need for storage capacity and the costs of maintaining inventories.
- In addition to seasonal ice that limits the number and timing of deliveries, the depth and characteristics of ports dictate the type of barge that can deliver to communities. The need for custom-built barges for deliveries to communities on shallow stretches of river that freeze up in the winter also increases delivery costs. The short season during which transporters need to recover the capital costs of these barges also increases the delivered price per gallon.
- In general, distance and population are major factors in final fuel prices, because much of the cost of delivering fuel is relatively fixed. Larger deliveries allow these fixed costs to be spread across more gallons.
- The “other costs” component of Alaska fuel prices is the most variable and reflects the wide variations among Alaska communities in distance from refineries, delivery methods, market competition, financial solvency, and many other factors.
- In this update, “other costs” are on average a larger portion of final retail prices than they were in 2007.
  - This could be caused by the inherent cost of price volatility, which raises uncertainty for communities regarding how much fuel to purchase and when, raising their transaction and financing costs.
  - So far, retail prices have tended to rise more rapidly as crude oil prices increased than they have fallen with the decline in crude prices.

- Accounting practices to address pricing for fuels bought at different times and crude oil prices, the size of fuel storage facilities, and the size of inventory remaining at the time of price changes may vary from community to community, thus changing the response time to changes in crude oil prices.
- Since fuel tends to be priced when it leaves the refinery, distance from refineries has an even greater impact on final retail prices under volatile market conditions. Communities that faced the highest prices due to their remoteness, also tend to be the last to experience current price declines. Lime Village illustrates this point with fuel first barged to Bethel, then barged to Sleetmute before being flown to Lime Village. Fuel received in November was probably shipped to Bethel back in the summer, when refinery gate prices were much higher.
- Communities that effectively enlarge their populations or increase their market size through fishing fleets or airline traffic offset the higher prices caused by small market sizes. Case study communities that strongly illustrate this point are False Pass and Yakutat in 2007. It is unclear why Yakutat prices are so much higher in January 2009 given crude oil prices in December 2008, when Yakutat received its most recent delivery.
- The small size of the markets and high cost of entry in terms of capital and skills, reduces the number of suppliers that can be supported. The information we would need to distinguish costs from profits is proprietary.
- In 2007, the wide variation in final prices to communities suggests that prices at least in part reflect the differing costs of delivering and storing fuel. The situation is less clear under current volatile fuel market conditions.

## Policy implications

State policies and actions cannot change many of the factors that influence final fuel prices. There are, however, a number of actions that may affect prices. These include:

- The State of Alaska could provide crude oil feedstock to Alaska refineries through royalty oil sales at reduced prices, to lower the crude oil component of fuel prices. But without continued control of “downstream” cost components, it is not clear whether the lower crude oil feedstock prices would be passed on to final consumers or be taken in higher profits by all the “handlers” between the refinery and the end user. It is also unclear whether direct assistance to the communities and households with the highest fuel costs would be a more efficient and fairer practice, since state petroleum revenues to fund such programs would increase with the price of crude oil.
- The State of Alaska could take a portion of its oil in-kind and contract for its refining and delivery through its fuel purchase contracts. This could increase the effective market size and influence of small remote villages.
- Fuel prices tend to reflect market size, so cooperative buying to increase the total volume per purchase may reduce prices. It is unclear the extent to which communities coordinate deliveries, or whether entities within communities—such

as electric utilities, schools, and others—coordinate their fuel purchases. The State of Alaska could more actively facilitate cooperative purchasing.

- The lack of cash to purchase fuels seems to inhibit some buyers from timely, coordinated purchases. A non-profit broker to coordinate and fund collective fuel purchases could further reduce prices if that broker had access to low-cost capital financing.
- Higher fuel prices disproportionately affect lower income communities and raise the risk of non-payment for fuel purchases. Therefore, a “risk premium” is added to the price of fuels for those communities who can least afford it. The State of Alaska could share the risk by expanding loan guarantee programs.
- The equipment and infrastructure for fuel delivery—such as docks, moorages, and marine headers—influence the costs of delivery. Ownership of these facilities links a responsible party to fuel spills. Facilities tend to be lacking in some communities in order to limit liability—but that results in higher delivery costs and increased risks of spills. Addressing this issue could lower both prices and environmental risks.
- While it would not directly impact prices, increased funding for the Low Income Energy Assistance Program (LIHEAP) would address the high cost of home heating. In the locations with the highest fuel prices and lowest incomes, the program would directly relieve the costs to those most burdened by high fuel prices. From an economic and administrative perspective, increased LIHEAP funding would probably be the most efficient way to address the short-run burden of sudden fuel price increases. In combination with the energy efficiency and weatherization programs funded by the Legislature in 2008, LIHEAP funding is an efficient part of a longer-term solution.

**Attachment: Fuel Cost Update Survey Form**

**AEA Delivered Fuel Cost (Part 2)**

**COMMUNITY:** \_\_\_\_\_

**Phone Number:** \_\_\_\_\_

**Contact Name:** \_\_\_\_\_

**Date Contacted:** \_\_\_\_\_

<b>Type of Fuel</b>	<b>Previous Price (per gallon)</b>	<b>Price (cost per gallon)</b>	<b>Delivery Method</b>	<b>Date of Delivery</b>	<b>Fuel Distributor Name</b>

**Who files the paperwork for Taxes?**

**How many times a year are you being asked to complete similar fuel surveys?**

**Notes:**

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**Daily News - Miner**

## Cap fuel oil costs

### Better price relief plan would target root of the problem

Published Thursday, August 7, 2008

Passing even more of private energy costs in Alaska to state government is a policy fraught with long-term peril, but since the current emergency has made action inevitable, the Legislature should adopt a simple, limited program with a clear expiration date.

The program that best fits those criteria would pay only for the cost of heating oil above a particular price. The payments would not go to individual Alaskans but to oil distributors, which already keep the necessary records. The dealers would charge customers a set price, say \$2.50 per gallon, and collect the rest of the market price from the state.

The market price would be set using fuel oil's historic relationship to other petroleum prices outside Alaska. The consumer's price cap would rise annually so it would phase out entirely within a few years.

This plan, touted by local attorney and legislative candidate Joe Paskvan, has a number of advantages over alternatives.

First, the state money goes to one of our most basic needs — heat. Simple cash payments to Alaskans, as both houses of the Legislature seem inclined to offer, would fail to target that basic need. The money could, and often would, be spent elsewhere.

Admittedly, there are creative ways that individuals can game a price cap to produce cash, but the problem would be much more limited by making sure the state's money initially goes to dealers with precise record-keeping systems. Paying dealers would avoid the need for a new bureaucracy to accept and review receipts from every Alaskan with a fuel tank.

Capping the fuel oil price at something near \$2.50, still high, would leave plenty of incentive for people to conserve. Ratcheting the cap up every year would reinforce that important message.



Limiting the state's program to fuel oil also would address nicely the regional heating cost differences. Fuel oil heats most of the state. The price of natural gas, which heats most of Anchorage, has not risen nearly so dramatically.

Throwing cash at Alaska's energy crisis is like trying to rid a yard of willows by mowing them down. Immediately, a multitude of new problem spots pop up. We need to get at the root of the problem. That's a long-term effort; our short-term efforts should proceed cautiously and conservatively.

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## **Daily News - Miner**

# **Residents in remote Alaska village tell state they are running out of food, fuel**

The Associated Press

Originally published Wednesday, January 21, 2009 at 11:04 a.m.

Updated Wednesday, January 21, 2009 at 2:08 p.m.

ANCHORAGE, Alaska - State officials are assessing conditions in a southwest Alaska village, where some residents say they're running short of food and fuel.

Representatives of five state departments traveled Tuesday to Emmonak, a community of just under 800 people at the mouth of the Yukon River.

Community members say a bad commercial fishing season and high fuel prices have put them in an economic bind. They asked Gov. Sarah Palin to declare a disaster for the area.

The state Department of Commerce, Community and Economic Development said reports from Emmonak have been inconsistent and the response team will assess the city's economic situation.

State lawmakers said Wednesday they are waiting to hear back from the state officials but the situation in Emmonak likely is not unique.

"I certainly think there's other areas of the state that may fall under some of these same guidelines," said House Speaker Mike Chenault, R-Nikiski.

Majority lawmakers are willing to work with rural legislators and the governor on a solution, he said.

"A lot of these issues are tied together, and that's trying to bring fuel, or food or other products into some of the more remote areas at time Mother Nature has a way of stepping in there and stopping that."

At a special session in August, lawmakers approved a one-time \$1,200 addition to Alaska

Permanent Fund dividends as a payment to offset high energy costs.

Chenault said he had doubts about another energy assistance deal.

"I won't say it won't be considered, but I certainly know with the price of oil, I doubt it would be, I guess I should say.

"The extra funding is not readily available right now, but I certainly think there will be conversations about it, whether we should or shouldn't."

State Rep. Les Gara, D-Anchorage, said in a press release that the increased attention on Emmonak is overdue. The crisis in the community, however, should not have come as a surprise.

Alaska's rural fuel cost crisis was a loud topic of debate during the August special session, Gara said. An alternative plan to the \$1,200 payments could have provided assistance to people paying more than \$3 per gallon for heating fuel for up to 850 gallons of fuel. Such a measure would have helped residents in Fairbanks, he said.

An alternative plan also could have supplemented the Low Income Heating Assistance Program, which offers heating fuel assistance to low income families and working families that earn up to 225 percent of the poverty level, Gara said.

The current situation faced by rural residents is worse than ever, given that off-road communities had to pay pre-winter fuel prices that approached and exceeded \$9 per gallon in some communities, Gara said.

SARAH PALIN, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

550 WEST 7<sup>TH</sup> AVENUE, SUITE 1100  
ANCHORAGE, ALASKA 99501-3560  
PHONE: (907) 269-8800  
FAX: (907) 269-8938

October 22, 2008

The Honorable Senator Gene Therriault  
State Capitol, Room 427  
Juneau, AK 99801-1182

Dear Senator Therriault:

Thank you for your September 25<sup>th</sup> e-mail. In responding to your suggestion, I will provide a brief recap and analysis of the plan along with a discussion of our concerns.

Proposal:

- Cap interior Alaskan's heating oil price at \$2.50 per gallon.
- State pays distributors directly for cost over 2.50 per gallon.
- Use historical pricing relationships to determine the payments to distributors.

Touted Advantages:

- Rebate is only used for heating fuel.
- No new bureaucracy required.
- \$2.50 per gallon provides incentive to conserve, price can be indexed.
- Only helps targeted group.
- \$125 MM benefit to interior residents (assumes 50 MM gallons at \$2.50 / gallon subsidy).
- Easy to administer, quantify, and determine.

Our preliminary analysis has found the following:

- 1) Annually about 120 MM gallons of heating fuel is distributed in Alaska.
- 2) Annual sales of road diesel approximate 200 MM gallons.
- 3) A concise description of which residents the program applies to is required.
- 4) New accounting, contracting, and audit functions to manage this system are required.
- 5) Of the 66 fuel distributors who may be eligible for the subsidy in Alaska, 12 operated only in the interior of Alaska.
- 6) Heating fuel volumes are reported to the state, prices are not.
- 7) Since the heating fuel used in Alaska is essentially road diesel, there will be a strong incentive for individuals to use the subsidized fuel for vehicles in violation of state and federal law.
- 8) Historic pricing relationships of heating fuel in Alaska are not available; reaching agreement with distributors on fuel pricing will be very difficult.
- 9) Local sales taxes on heating fuel sales will be negatively impacted.

The proposal to cap interior fuel oil prices to consumers at \$2.50 a gallon would be a difficult program to administer. The fundamental problem would be to determine the appropriate market price, so that the appropriate amount of the subsidy to be paid to the 66 distributors could be

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."*

determined. Because the state pays everything over \$2.50 a gallon, distributors will have strong incentive to inflate the delivered price of heating fuel. Since no clear pricing relationship exists today, determining future prices and subsidies will be fraught with disputes and litigation.

A May 2008 research study by the University of Alaska's Institute of Social and Economic Research (ISER) is available at [www.iser.uaa.alaska.edu/Publications/researchsumm/RS\\_68.pdf](http://www.iser.uaa.alaska.edu/Publications/researchsumm/RS_68.pdf). This study lays out why different communities pay different prices for home heating fuel. In November 2007, the study showed prices in ten villages ranged from \$2.90 to 6.25 per gallon, when the price at a commercial distribution center was estimated at \$2.31 a gallon. The major causes of the price disparity were the cost to transport the fuel to remote villages, the lack of competition in both the transportation and marketing sectors, and the lack of efficient facilities. These differences added 20 to 150% to the price at the village.

Under this proposal, different communities would receive drastically different subsidies. To minimize the cost, the state would likely need to set up a contracting and logistics system to obtain low bids and manage the deliveries of the fuel at the lowest cost. Managing this process would be complex, expensive for the state to administer, and might well put some companies out of business.


The home heating oil burned in rural Alaska is not fuel oil as commonly used elsewhere. Fuel oil would solidify in Alaskan winters, so a product that is essentially road diesel is used instead. This program would create an opportunity for unscrupulous individuals or companies to use subsidized diesel for road use. A system would be required to keep the unscrupulous in check.

The state does not have historic price data for diesel sales in Alaska, nor does the federal government. DOR levies fuel taxes based on the number of gallons sold, not the price at which it is sold. Consequently, the state has data on the number gallons of diesel sold for heating purposes, but not on the prices at which it was sold.

Although diesel burned for heating is exempt from federal and state sales taxes, it is not exempt from local sales taxes. According to ISER many rural communities have a local sales tax. Capping the sales price of heating diesel at \$2.50 would negatively impact the tax revenues received by many rural communities.

There is no doubt the high cost of heating fuel in rural Alaska is a problem of grave concern to the state. Even though your proposal seems an appealing answer to this problem, the administration of it would be more complex and costly than it appears at first glance.

Sincerely,



Kevin Banks  
Director

cc: Thomas Irwin, Commissioner, Dept. of Natural Resources  
Alan Dennis, Royalty Manager, Division of Oil & Gas

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Anchorage Daily News

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## **Our view: \$3 a gallon price cap?**

### **The Bush has a real problem; but this is the wrong solution**

*(01/31/09 20:52:58)*

Bethel Sen. Lyman Hoffman thinks the state should open its checkbook so Alaskans don't have to pay more than \$3 a gallon for heating fuel during the heart of winter. This is a spectacularly bad idea.

It would be a blank check that invites widespread price gouging.

It would saddle the state with a horrendously expensive new program, just as low oil prices are wreaking havoc on state finances.

It will discourage investments in energy conservation.

In some communities, it would encourage people to cut back on heating with wood, a local, renewable fuel that is a hassle to use, and fire up their much more convenient oil stoves and furnaces.

It is a great example of how NOT to relieve the pain of high energy prices.

No question, there is an energy cost crisis in the Bush this winter. The need is real. Alaska's remote villages had to buy a winter's worth of fuel when prices spiked well past \$100 a barrel.

The subsequent collapse in oil prices brings no relief to Bush Alaska. The state's \$1,200 a person "resource rebate," handed out to every Alaskan this fall, has been a huge help, but Bush energy prices rose so high, the one-time payment hasn't quelled this year's crisis.

Sen. Hoffman's proposal is far more generous than the state's subsidy for home electricity use. That program, known as Power Cost Equalization, has much better cost controls and retains some incentives for energy conservation.

It is run through local electric utilities, many of which are subject to state regulation -- oversight that protects against price gouging. And the electricity subsidies are not a blank check. The state aid covers 95 percent of the electricity price above a certain trigger level, with a price cap where the subsidy stops.

In other words, some subsidies are better designed than others.

Think about it this way. In Anchorage many people complain (with good reason) that the price of gasoline is too high, compared with the Lower 48. What do you think would happen at Anchorage gas stations if the state said OK, we'll pay 100 percent of the cost above, say, \$2 a gallon?

Prices would shoot through the roof, people would burn more gasoline, and the state would be saddled with enormous new costs. Money would go flying out of the state treasury like it was bonus payment day on Wall Street.

Well the same thing will happen if the Legislature approves this disastrous subsidy for rural heating fuel.

This situation cries out for leadership from Gov. Palin. Rural Alaskans have been hit especially hard by this year's fuel price crisis, but she has yet to offer any meaningful extra help targeted to them. In that vacuum, desperate residents and their elected leaders turn to terrible ideas like capping fuel prices at \$3 a gallon. Gov. Palin should get working on a more responsible alternative.

**BOTTOM LINE:** This subsidy would be disastrous. Let's try to find a more sensible way to alleviate the Bush's high energy costs.

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