

Hawaii caps gas prices

HONOLULU (AP) — In an effort to gain some control over what Hawaii motorists pay at the pump, the state Public Utilities Commission on Wednesday set the nation's first state caps on the wholesale price of gasoline.

The 2004 law authorizing the price ceilings is intended to force Hawaii's two refiners, Chevron and Tesoro, to set their wholesale prices closer to mainland rates. Proponents of the law said the refiners are taking advantage of the small, isolated market to charge exorbitant prices.

"Over a period of time, Hawaii consumers will realize savings at the pump," said state Sen. Ron Menor, the chief architect of the law. "Hawaii prices will better reflect the prices that are being charged on the mainland and the world market."

The oil companies say the state would more effectively keep down prices if it deregulated a market hobbled by rent controls and other restrictions.

"We continue to believe that this law is flawed and not in the best interest of the state," Chevron said in a statement, *The Wall Street Journal* reported on its Web site Wednesday night. Tesoro said its Hawaii operation believes any cap "will only serve to distort market forces and will result in long-term negative impacts to the citizens and the economy of Hawaii."

The state's Public Utilities Commission said Wednesday the wholesalers may not charge more than \$2.1578 — or about \$2.67 including federal, state and county fuel taxes — in Honolulu for a gallon of regular unleaded gasoline. The commission set separate price caps for other islands.

The price consumers pay at the pump will depend on the retailer markup and the state's general excise tax.

On Wednesday, the average retail prices of regular unleaded in Honolulu stood at \$2.761 — a record high.

Direct comparisons between the gas cap and current wholesale prices are not possible because the oil companies do not release wholesale price data.

The ceilings will be in effect through Sept. 4. Next week, the commission will announce a new set of gas caps for Honolulu and seven other geographic zones for Sept. 5-11.

Hawaii has long endured some of the highest gasoline prices in the nation.

On Wednesday, the average statewide retail price of a gallon of regular unleaded reached a record \$2.84, four cents higher than California and the highest in the nation, according to AAA's Daily Fuel Gauge Report.

Prices on Maui have already topped \$3 a gallon this week.

Frank Young, a member of Citizens Against Gasoline Price Gouging, a group that has backed the gas cap law, said the cap would ensure Hawaii residents paid fair prices.

But Fereidun Fesharaki, an energy expert with the East-West Center in Honolulu, said the gas cap was "a stupid idea" and a futile attempt to hold down oil prices as they rose around the globe.

"This kind of thing it just gives us a bad name, frightens people from investing — it may make one of the refineries shut down and leave Hawaii," Fesharaki said. "It reduces competition and does all harm but doesn't gain us anything."

Consumers are also skeptical of how effective it would be.

Nathan Slenk, a 25-year-old student at Kapiolani Community College, said he doubts the state's effort would do anything to shield him from every-rising prices.

"The gas prices that are continuing to go up — how am I supposed to afford it?" said Slenk as he pumped regular unleaded gas into his small black sedan for \$2.79 a gallon at downtown Honolulu gas station. "I think the state tries to do a lot of things, but as far as I'm concerned they never done good on anything."

The caps are based on a baseline price calculated from the five-day average of spot rates from three mainland markets: Los Angeles, New York harbor and the U.S. Gulf Coast.

The commission then adds on allowances for the cost of shipping to the state and for transporting gasoline from Oahu to more remote and less populated islands.

For example, under next week's cap wholesalers may not charge more than \$2.3058 — about \$2.74 including tax — for a gallon of regular unleaded gas in Hilo on the Big Island. Allowing for a retailer's markup, prices at the pump in Hilo could be close to \$3 a gallon or more.

On Wednesday, the average retail price of a gallon of regular unleaded in Hilo stood at a record high of \$2.849.

Federal, state, and county authorities each impose a fuel tax on wholesale gasoline. The state's excise tax is also imposed on gasoline at the wholesale and retail levels.

Gov. Linda Lingle, who unsuccessfully sought repeal of the 2004 law, has said she feels the cap will actually increase prices and create fuel shortages.

But Menor, D-Mililani, said Hawaii would be facing even higher prices now if the cap were not on the verge of being introduced.

The governor has the power to suspend the price caps if she determines they would cause a major adverse impact on the economy, public order, or the health, welfare or safety of the people of Hawaii.

The state Legislature first passed a gas price cap law in 2002 based on the average weekly price on the West Coast, but it was never implemented. Lawmakers in 2004 amended the law to set the cap based on an average index of prices around the country.

"The fact that their pricing mechanism is market-related minimizes the risk that a physical shortage would arise," said Tim Evans, senior oil analyst at IFR Energy Services in New York.

"They are attempting to go about this in an intelligent fashion," he added.

But other analysts were less sanguine about the possible damage from interfering in the market.

"It's a slippery slope," said Tom Kloza, director of the Oil Price Information Service in Wall, N.J. "You run the risk of dissuading some folks from marketing in certain areas."

Only time will tell, Kloza added.