Justin Powell
1075 Trianon Dr.
Fairbanks, Alaska
www.fairbanksgas.com

Testimony to Labor and Commerce Committee on HB68
April 1, 2009

First of all I would like the thank Chairman Olson for holding public testimony on this bill. I applaud this committee's acknowledgment that this bill is far too important to the people of Alaska for it to die in this committee. As Rep. Coghill knows very well, his constituents are paying $2.67 a gallon today in North Pole, at stations that are less than a mile away from two refineries who obtain their crude oil directly from the Trans Alaska Pipeline. In my testimony today I will point out several omissions from the House Judicial Committee report that dramatically affect the conclusions reached by the committee chair.

The burden that high gas prices have on Alaska residents is real and our prices over the last year are unjustified. Gasoline, diesel and heating oil are not luxury items that households can simple go without. In the winter, heating oil is literally a life and death matter. High energy prices have a ripple effect throughout the economy as every resident pays for our higher fuel costs several times over.

We have been paying over a dollar a gallon more than US averages at the gas pumps and this has been a highly visible and contentious issue. Today that spread has narrowed slightly but at 175% for gasoline and 536% for diesel the margins remain well above historic averages. (Fig. 2) What is less obvious than the impact on our wallets at the gas pump is the tertiary effect of these high prices. We pay more in increase freight costs for food, clothing and retail products. We pay more to heat our homes, drive to work and then in turn have to pay more for goods and services as businesses are forced to pass on their additional energy costs.

Lacking from the judicial committee report was quantitative information. Based upon the latest published information, the annual gasoline consumption in Alaska is 285 million gallons[1]. At a conservative estimate of $.80 cents/g. over Seattle prices, Alaska consumers have already paid an additional $230 million dollars over the past year in gasoline expenses alone. This is money that leaves our state and provides us no direct or indirect benefit. From a labor and commerce perspective this is money that adds to business expenses and deducts from personal discretionary spending. As past economic studies have illustrated the ripple effect of this $230 million dollars is likely in excess of a billion dollars annually if it were to stay within our state economy.

The judicial committee report also stated that Ft. Greely, Eielson and Ft. Wainwright would be impacted and potential shut down by any potential legislation. It is far flung to conclude that the military would sacrifice our national defense if jet fuel

[1] U.S. Energy Information Administration 2006 report, Consumption of 6,789 thousand barrels of gasoline.

increased several cents per gallon. The increasing threat from North Korea dictates that Alaska air defenses remain ready and capable. Additionally, the prime supplier for all military installations in Alaska is the Petrostar refinery who would be exempted under section (f) of this bill.

We have heard many times over that Alaska's small gasoline market is a factor for our high prices. The benefit to this is that the possibility of a supply shortage is negligible despite Jeff Cook's threats to the contrary. In the event of a refinery slowdown existing supply channels via road, rail and water could quickly bring in product from outside suppliers and still provide us a lower price. Did we run out of milk when the Mat Maid dairy shutdown? You only have to look as far as the gas pumps in Juneau to realize that reasonably priced alternatives are possible.(Fig.1) In fact the Juneau gas price today of $2.07 a gallon is the lowest in the state and nearly .40 cents less than the price in Fairbanks only miles from the Flint Hills refinery.

In conclusion I feel that lower gas prices would have a positive effect on our economy and that the benefits far outweigh the potential risks. Industries such as fishing, tourism, recreation and ground transportation are all dramatically impacted by high energy costs. The $230 million dollars extra we are currently paying at the pump could be spent within the state, benefiting Alaska's economy several times over, rather than subsidizing the profits of the David and Charles Kosh, two of the richest men in America

I have included yesterday's OPIS rack reports for Anchorage and Seattle that highlight the disparity in product prices at Alaska's refineries.

Thank You,
Justin Powell

Figure. 1

Fuel Price Comparison 3/30/2009

	Anchorage	Juneau	Washington (-tax)	US Average (-tax)
Gasoline	2.36	2.07	1.93	1.75
Diesel	3.34	2.59	2.06	1.96

Figure. 2

Crack spread is a term used in the oil industry for the differential between the price of crude oil and petroleum products extracted from it - that is, the profit margin that an oil refinery can expect to make by "cracking" crude oil. http://en.wikipedia.org/wiki/Crack_spread

Gasoline Crack Spread

Alaska	$2.12 x 42g./bbl - $49.38(ANS crude spot) = $39.66
Seattle	$1.52 x 42g./bbl - $49.38(ANS crude spot) = $14.46
Difference	**$25.26** or **175%**

Diesel Crack Spread

Alaska	$2.92 x 42g./bbl - $49.38(ANS crude spot) = $73.26
Seattle	$1.45 x 42g./bbl - $49.38(ANS crude spot) = $11.52
Difference	**$61.74** or **536%**

Wholesale Rack Prices ANCH vs. SEA (Gasoline)

Average Rack difference 54 cents/gallon

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OPIS CLOSING BENCHMARK FILE

OPIS NET CLEAR PRICES

	Terms	Unl	Move	Mid	Move	Pre	Move	Date
Shell	b N-10	197.90	- 2.00	204.90	- 2.00	213.90	- 2.00	02/27
Chevron	b N-10	205.80	+ 5.00	213.80	+ 5.00	221.80	+ 5.00	03/27
FlntHlsRs	u N-10	218.00	- 5.00	225.00	- 5.00	232.00	- 5.00	03/31
Tesoro	b N-10	220.00	+ 4.00	227.00	+ 4.00	234.00	+ 4.00	03/25
Tesoro	u N-10	220.00	+ 4.00	227.00	+ 4.00	234.00	+ 4.00	03/25
LOW RACK		197.90		204.90		213.90		
HIGH RACK		220.00		227.00		234.00		
RACK AVG		212.34		219.54		227.14		
BRD LOW RACK		197.90		204.90		213.90		
BRD HIGH RACK		220.00		227.00		234.00		
BRD RACK AVG		207.90		215.23		223.23		
UBD LOW RACK		218.00		225.00		232.00		
UBD HIGH RACK		220.00		227.00		234.00		
UBD RACK AVG		219.00		226.00		233.00		
CONT AVG-03/31		212.34		219.54		227.14		
CONT NET AVG-03/31		212.34		219.54		227.14		
CONT NET LOW-03/31		197.90		204.90		213.90		
CONT NET HI-03/31		220.00		227.00		234.00		

ANCHORAGE, AK

LOW RETAIL	232.33
AVG RETAIL	236.25
LOW RETAIL EX-TAX	213.66
AVG RETAIL EX-TAX	217.59

SEATTLE, WA 2009-03-31

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OPIS NET CLEAR PRICES

	Terms	Unl	Move	Mid	Move	Pre	Move	Date
Cenex	b 1-10	148.50	- 5.00	158.40	- 5.00	168.30	- 5.00	03/30
COP	u N-10	151.25	- 4.00	160.25	- 4.00	169.25	- 4.00	03/30
Chevron	b N-10	151.60	- 3.00	161.10	- 3.00	170.60	- 3.00	03/30
Texaco	b N-10	151.60	- 3.00	161.10	- 3.00	170.60	- 3.00	03/30
Shell	b N-10	153.50	- 1.00	163.00	- .20	172.50	- 1.00	03/30
Tesoro	u N-10	153.75	- 4.50	162.75	- 4.50	171.75	- 4.50	03/30
US Oil	u N-10	154.25	- 8.50	163.25	- 8.50	174.25	- 8.50	03/30
LOW RACK		148.50		158.40		168.30		
HIGH RACK		154.25		163.25		174.25		
RACK AVG		152.06		161.41		171.04		
OPIS PACIFIC NORTHWEST DELIVERED SPOT (SRI)								
FOB SEATTLE		146.84		-- --		163.34		
BRD LOW RACK		148.50		158.40		168.30		
BRD HIGH RACK		153.50		163.00		172.50		
BRD RACK AVG		151.30		160.90		170.50		
UBD LOW RACK		151.25		160.25		169.25		
UBD HIGH RACK		154.25		163.25		174.25		
UBD RACK AVG		153.08		162.08		171.75		
CONT AVG-03/31		152.28		161.64		171.28		
CONT NET AVG-03/31		152.06		161.41		171.04		
CONT NET LOW-03/31		148.50		158.40		168.30		
CONT NET HI-03/31		154.25		163.25		174.25		

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LOW RETAIL	207.98
AVG RETAIL	227.05
LOW RETAIL EX-TAX	154.04
AVG RETAIL EX-TAX	173.45

Wholesale Rack Prices ANCH vs. SEA (Diesel)
Average Rack difference ULS $1.47/gallon -- #2 Heating Oil 52 cents/gallon

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OPIS CLOSING BENCHMARK FILE

OPIS NET NO.2 DISTILLATE PRICES

	Terms	No.2 LS	Move	No.2 HS	Move	No.2 ULS	Move	Date
FlntHlsRs	u N-10	-- --	-- --	189.00	+ 5.00	292.00	- 3.00	03/31
LOW RACK		-- --		189.00		292.00		
HIGH RACK		-- --		189.00		292.00		
RACK AVG		-- --		189.00		292.00		
UBD LOW RACK		-- --		189.00		292.00		
UBD HIGH RACK		-- --		189.00		292.00		
UBD RACK AVG		-- --		189.00		292.00		
CONT AVG-03/31		-- --		189.00		292.00		
CONT NET AVG-03/31		-- --		189.00		292.00		
CONT NET LOW-03/31		-- --		189.00		292.00		
CONT NET HI-03/31		-- --		189.00		292.00		

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OPIS NET NO.2 DISTILLATE PRICES

	Terms	No.2 LS	Move	No.2 HS	Move	No.2 ULS	Move	Date
Valero	b N-10	-- --	-- --	-- --	-- --	142.12	- 8.20	03/30
COP	b 1-10	-- --	-- --	-- --	-- --	143.45	- 8.00	03/30
Shell	u N-10	137.40	- 8.25	-- --	-- --	144.39	- 7.86	03/30
COP	u N-10	-- --	-- --	-- --	-- --	144.40	- 4.00	03/30
Shell	b 1-10	-- --	-- --	-- --	-- --	144.43	- 7.94	03/30
Tesoro	b N-10	-- --	-- --	-- --	-- --	144.50	- 8.00	03/30
US Oil	u N-10	-- --	-- --	-- --	-- --	144.50	- 8.00	03/30
Tesoro	u N-10	-- --	-- --	-- --	-- --	145.00	- 8.00	03/30
Cenex	b 1-10	-- --	-- --	-- --	-- --	145.53	- 4.50	03/30
BP	u N-10	-- --	-- --	-- --	-- --	146.45	- 8.00	03/30
Chevron	b N-10	-- --	-- --	-- --	-- --	147.50	- 4.00	03/30
Texaco	b N-10	-- --	-- --	-- --	-- --	147.50	- 4.80	03/30
LOW RACK		137.40		-- --		142.12		
HIGH RACK		137.40		-- --		147.50		
RACK AVG		137.40		-- --		144.98		
OPIS PACIFIC NORTHWEST DELIVERED SPOT (SRI)								
FOB SEATTLE		137.12		-- --		140.12		
BRD LOW RACK		-- --		-- --		142.12		
BRD HIGH RACK		-- --		-- --		147.50		
BRD RACK AVG		-- --		-- --		145.00		
UBD LOW RACK		137.40		-- --		144.39		
UBD HIGH RACK		137.40		-- --		146.45		
UBD RACK AVG		137.40		-- --		144.95		
CONT AVG-03/31		137.40		-- --		145.35		
CONT NET AVG-03/31		137.40		-- --		144.98		
CONT NET LOW-03/31		137.40		-- --		142.12		
CONT NET HI-03/31		137.40		-- --		147.50		