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Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 445 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to information on royalty oil and
7 gas."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1, AS 38.05.183 is amended by adding new subsections to read:

10 (h) The department shall collect and compile information neces-
11 sary to determine on a monthly basis a representative

12 (1) price paid for state royalty oil and gas by in-state
13 refiners;

14 (2) refinery gate sales price of in-state refined fuel
15 products;

16 (3) wholesale or market exchange sales price of in-state
17 refined fuel products; and

18 (4) retail price of in-state refined fuel products.

19 (i) The commissioner may not enter into a contract of more than
20 one year for the sale of state royalty oil or gas to an in-state
21 refiner unless the refiner agrees to provide information to, and
22 assist or allow the collection of information by, the department on a
23 monthly basis to determine the representative monthly wholesale price,
24 market exchange sales price, and refinery gate sales price of the
25 in-state refined fuel products of the refiner.

26 (j) A person who contracts to purchase royalty oil from the
27 state under this section under a contract of more than one year for
28 in-state use shall provide to the commissioner, during the period that
29 the purchaser takes, refines, transports, or otherwise deals with the

1 purchased royalty oil, a report for the preceding month that indicates
2 for the purchased royalty oil

3 (1) the volume of oil taken;

4 (2) the products, including residual oil, produced from the
5 oil;

6 (3) the volume of oil sold in the state; and

7 (4) the volume of oil exported from the state.

8 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

9 (24) "fuel products" means all oil and gas refined products
10 produced at an in-state refinery from state royalty oil and gas.

11 * Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to
12 contracts of more than one year for the purchase of royalty oil for in-
13 state use from the state that are entered into on or after the effective
14 date of this Act.

HOUSE
COMMITTEE REPORT

4/29
5

(9)
Date referred: 2/21/86

FURTHER REFERRALS: FINANCE

DATE: 4/28/86

The RESOURCES Committee has considered HB 445

"An Act requiring in-state refiners to submit and the Department of Commerce and Economic Development to collect information concerning the purchase and sale price of royalty oil and gas and fuel products by in-state refiners."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS for HB 445 (Resources) same title
- new title

and recommends do pass

further referral to the _____ Committee

- and attaches:
- letter of intent
 - first fiscal note
 - new fiscal note
 - zero fiscal note

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

Pearce [Signature]

Jenkins [Signature]

Cato [Signature]

Shultz [Signature]

[Signature] Herrmann No Rec.

[Signature] Sund

[Signature] Co-Chairman

[Signature] Shultz

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2/19/86

REQUEST

Bill/Resolution No. : CSHB 445 (oil + gas)
 Title : An Act Requiring Refiners
TO Submit
 Sponsor : Signalberi
 Requestor : Signalberi
 Date of Request : 2/17/86

FISCAL DETAIL

Agency Affected : Natural Resources
 BRU : Oil & Gas
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	3900	3900	3900	3900	3900	3900
TRAVEL	500	500	500	500	500	500
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	4400	4400	4400	4400	4400	4400

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND	4400	4400	4400	4400	4400	4400
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME	1/12	1/12	1/12	1/12	1/12	1/12
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Ned Farquhar Phone : 465-2400
 Division : Commissioner's Office Date : 465-2400

Approved by Commissioner : *Esther C. Wunnicke* Date : 2-19-86
 Agency : Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 26, 1986

MEMORANDUM

TO: Representative Marco Pilon

FROM: Gretchen Keiser *G. Keiser*
Legislative Analyst

RE: A Comparison of Royalty Oil and Retail Fuel Prices
Research Request 86-187

You asked us to provide a comparison of the price paid by instate refiners for royalty oil with retail prices for gasoline and heating fuel in Anchorage and Fairbanks during 1985 and 1986.

Table 1 summarizes the prices of royalty oil (paid by Tesoro Petroleum Company), unleaded regular gasoline (self service), and heating fuel #2 in Anchorage. We provide prices on a quarterly basis for the first half of 1985, and monthly September 1985 through February 1986. You will note that Tesoro's royalty price maintained a fairly narrow range of \$16.90 - \$17.13/barrel between January and December 1985.¹ However, the February 1986 royalty oil price of \$10.88/barrel is markedly lower than the \$17.13 price of December 1985--about 36 percent lower.

During the same period, the changes in retail fuel prices were mixed. Unleaded regular gasoline prices in Anchorage dropped over 6¢/gal. between January and December 1985, but experienced a negligible decline between December 1985 and February 1986. The retail price of heating Fuel No. 2 increased during 1985 and declined less than a 1¢/gal between December 1985 and February 1986. Figure 1 graphs these price changes for Tesoro royalty oil and Anchorage retail fuel prices.

Table 2 presents the prices of royalty oil (paid by MAPCO Petroleum Company), unleaded regular gasoline (self service), and heating fuel No. 1 (also called Arctic Diesel) in Fairbanks. Unfortunately, consistent retail price data are not readily available for Fairbanks, particularly in the case of heating fuel prices. Nevertheless, we can

¹Tesoro began receiving royalty oil under a new 26,000 bpd contract in October 1985--in addition to its existing 46,000 bpd contract. We weighted the two separate royalty oil contract prices in order to obtain an average price for this memorandum.

Representative Pignalberi
April 26, 1986
Page Two

make the following general observations about the prices.

- 1) MAPCO royalty oil prices did not change markedly during 1985, but the price dropped about 33 percent between December 1985 (\$17.30/barrel) and February 1986 (\$11.64/barrel).
- 2) Unleaded regular gasoline retail prices increased over 7¢/gal during 1985 and then remained virtually unchanged until early April 1986 when a survey by the Community Research Center (Fairbanks North Star Borough) noted an average drop of about 9¢/gal (or six percent).
- 3) Heating fuel No. 1 retail prices declined about 10¢/gal between September 1985 and early April 1986.

* * * * *

I hope this information is useful. Please contact me if I can be of further assistance.

GK

TABLE 1
 COMPARISON OF ROYALTY OIL AND RETAIL GASOLINE AND HEATING FUEL PRICES
 IN ANCHORAGE: 1985-1986

Date	Tesoro Royalty	-----Retail Price-----	
	Oil Price (\$/Barrel)	Unlead Reg Gas (\$/gal)	Heating Fuel #2 (\$/gal)
January 1985	\$16.95	\$1.268	\$1.117
April	16.90	1.225	1.115
June	16.97	1.261	1.115
September	16.91	1.274	1.115
October**	17.06	1.192	1.104
November	17.07	1.197	1.107
December 1985	17.13	1.200	1.134
January 1986	15.53	1.198	1.136
February	10.88	1.196	1.132
March	na	na	na

**Beginning in October 1985, the royalty oil price is weighted to account for different prices under two separate contracts.

Sources: Royalty prices: Royalty Accounting Section, Dept. of Natural Resources.
 Retail prices: Bureau of Labor Statistics, U.S. Dept. of Labor.

Prepared by the House Research Agency, April 1986.

FIGURE 1

Tesoro Royalty Oil Prices 1985-1986

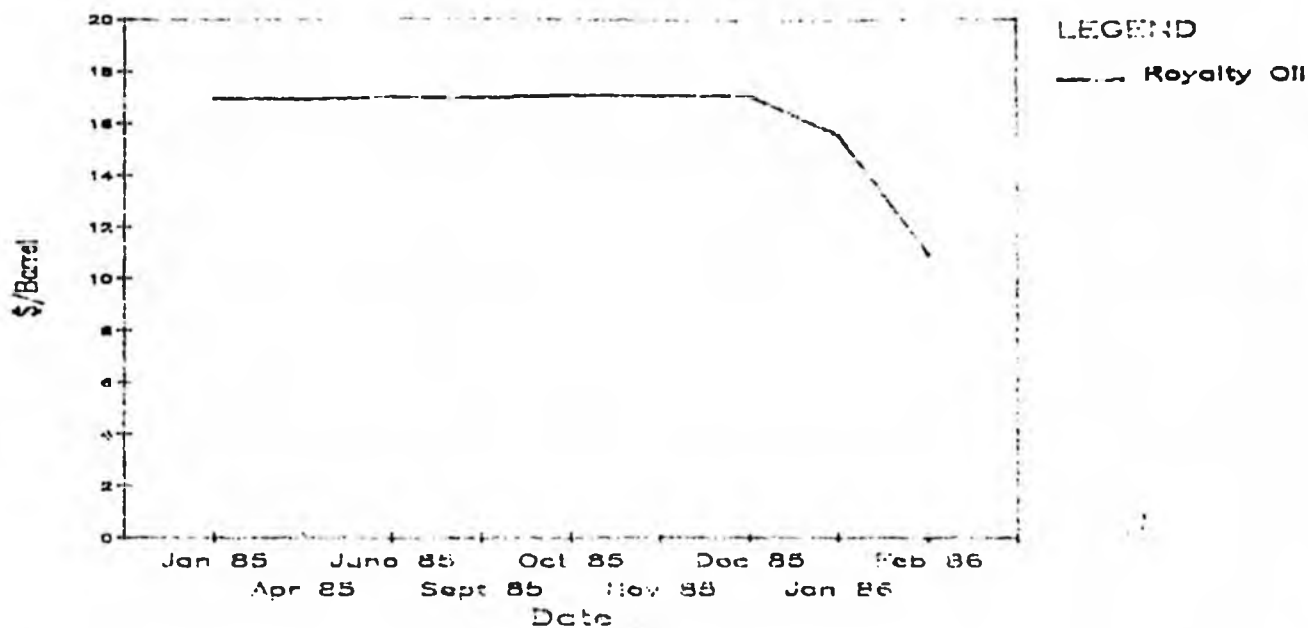
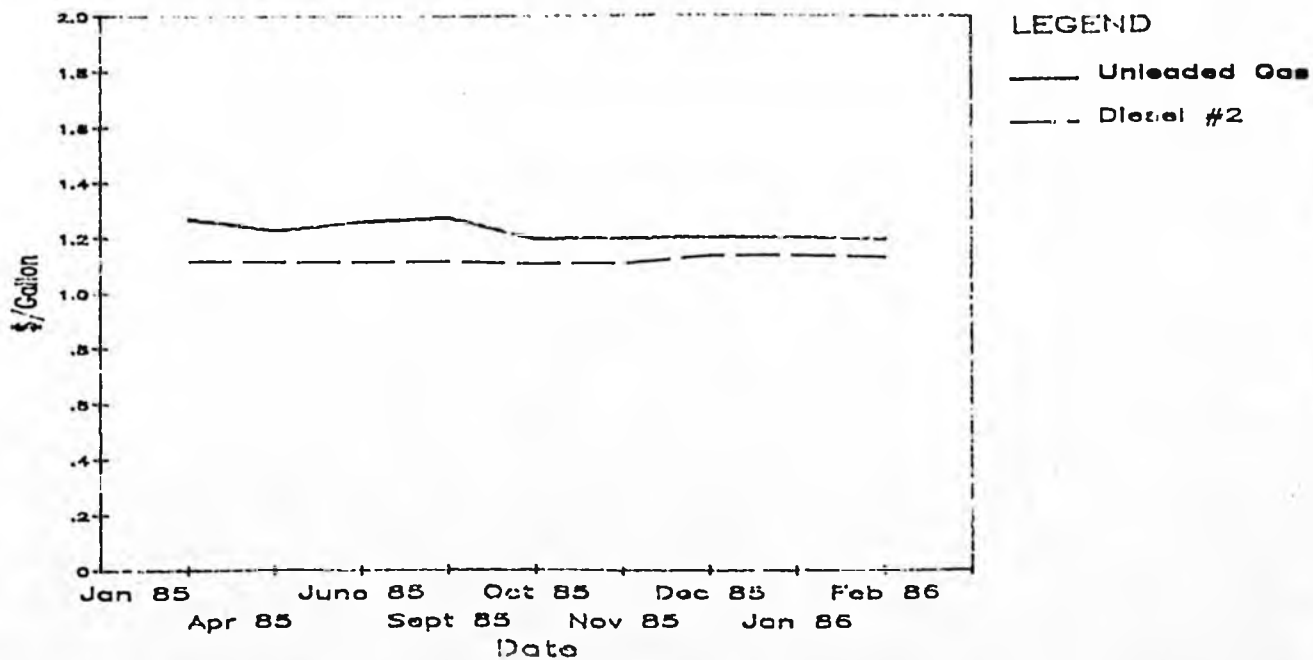


FIGURE 2

Anchorage Retail Fuel Prices 1985-1986



Prepared by the House Research Agency, April 1986.

TABLE 2
 COMPARISON OF ROYALTY OIL AND RETAIL GASOLINE AND HEATING FUEL PRICES
 IN FAIRBANKS: 1985-1986

Date	MAPCO Royalty Oil Price (\$/Barrel)	-----Retail Price-----	
		Unlead Reg Gas (\$/gal)	Heating Fuel #1 (\$/gal)
January 1985	17.13	1.299	na
March	--	1.291	na
April	17.20	na	na
June	17.25	1.312	na
September	17.09	1.347	1.098
October	17.15	na	na
November**	17.13	na	na
December 1985	17.30	1.373	na
January 1986	16.34	1.375	na
February	11.64	na	na
March	na	1.373	na
April	na	1.285	0.990

**MAPCO begins producing gasoline at the North Pole refinery.

Sources: Royalty prices: Royalty Accounting Section, Dept. of Natural Resources.
 Retail prices: Community Research Center, Fairbanks North Star Borough and
 Alaska Dept. of Law.

Prepared by the House Research Agency, April 1986.

BILL SHEFFIELD, GOVERNOR

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 11, 1986

The Honorable Bill Sheffield
Governor
State of Alaska
P.O. Box A
Juneau, AK 99811

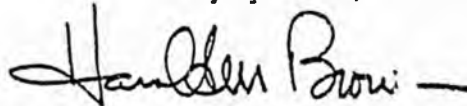
Dear Governor Sheffield:

Enclosed is my office's report on Fairbanks gasoline prices, as requested by your letter of January 13, 1986. As you know, during the last year gasoline prices in Fairbanks have increased, during a time when crude oil prices have decreased substantially.

Our investigation looked at all levels of the gasoline distribution system in Fairbanks: retail, wholesale, distributor, and refinery. Our conclusion is that the higher prices are the result of price increases at the refinery level. That is, the refineries are charging more for refined gasoline, even though they are paying less for the crude oil they use to make the gasoline. This price increase has been entirely passed on through the distribution chain to the Alaska consumer.

There is no law against charging high prices, as far too many Alaskans can testify. However, this situation is particularly deplorable. Alaskans are being paid less and less for the state royalty oil that goes into the refinery, but are being charged more for the product that comes out of the refinery.

Sincerely yours,



Harold M. Brown
Attorney General

HMB:RDM:cck
Enclosure:

cc: Hon. Mike Davis
Alaska State House of
Representatives

FAIRBANKS GASCLINE REPORT

February, 1986

The Fairbanks North Star Borough Assembly passed a resolution on December 9, 1985, requesting that the Governor investigate the price of gasoline and fuel oils in Interior Alaska. The Assembly asked for an explanation of why retail prices for gasoline and fuel oils in Interior Alaska have increased during a time when (1) world oil prices have declined, (2) the supply of crude oil exceeds the demand, and (3) retail gasoline and fuel oil prices have declined in many Lower 48 markets. The Governor referred the matter to the Attorney General for investigation.

The Attorney General's investigation focussed primarily on the price of motor gasoline at the refiner, wholesale, and retail levels in the Fairbanks and North Pole area. Where appropriate, the Fairbanks gasoline market was compared to the Anchorage and Juneau markets. Additionally, the investigation examined the Fairbanks home heating oil market, as requested by the Borough Assembly's resolution.

In preparing this report, the Attorney General's Office interviewed numerous petroleum product distributors, gasoline retailers in Fairbanks and North Pole, state economists, and industry representatives familiar with the Anchorage, Fairbanks,

and Juneau gasoline markets. 1/ Several subpoenas for testimony and documents were issued pursuant to the Attorney General's authority under the Alaska Restraint of Trade Act, AS 45.50.562 -- AS 45.50.596.

This report contains a general summary of our findings. Most of the individuals and corporations who provided information did so under the condition that some or all of the specific information related to us be kept confidential from their competitors. Additionally, information received pursuant to the Alaska Restraint of Trade Act is confidential as a matter of law. AS 45.50.492(e). Therefore, the material presented in this report is of necessity general in nature. In all instances, the prices charged, volumes of gas sold, and other information have been verified independently from more than one source.

A. General Market Characteristics and Comparisons

1. Fairbanks

Most gasoline retailers in Fairbanks purchase their gasoline from independently-owned distributors known as "jobbers," who own bulk fuel storage facilities. The jobbers purchase bulk fuel either from Tesoro's bulk fuel storage

1/ For a more complete description of the Juneau gasoline market, please refer to the Attorney General's report concerning that subject dated May 13, 1985.

facility in Fairbanks, from Tesoro's Nikiski refinery via Alaska Railroad shipments, or from the Mapco refinery in North Pole. The Mapco refinery began selling motor gasoline as of October 31, 1985.

The four motor gasolines sold on the retail level in Fairbanks are Chevron, Tesoro, Texaco, and Union Oil of California. The Chevron, Texaco, and Union jobbers each mix a unique additive package into the Tesoro or Mapco fuel they purchase before selling it as brand-name gasoline.

Within a rough five-mile radius of the downtown Fairbanks core area there are 32 retail gas stations. This area includes the City of Fairbanks and the Chena Gold Stream, University, and Steese fire service areas, and has an approximate population of 48,000 persons. Consequently, there is one gas station in the Fairbanks area for about every 1,500 people. These stations range from complete-service branded gas stations to convenience stores with gas pumps to unbranded "pumps-only" self-serve operations.

2. Anchorage

The Anchorage retail market offers the same four branded motor gasolines sold in Fairbanks. All motor gasolines sold in Anchorage originate from Tesoro's Nikiski refinery. Chevron, Texaco, and Union each have product exchange agreements with Tesoro under which they receive gasoline in Anchorage in

return for delivering a similar quantity of crude oil or refined gasoline to Tesoro at designated Lower 48 locations. Chevron, Texaco and Union "additize" Tesoro gasoline before selling it in the Anchorage area as their own branded product. Unlike the jobber system in Fairbanks, most retailers in Anchorage buy gasoline directly from bulk plants owned by the major companies. There is approximately one gas station for every 2,300 persons in Anchorage.

3. Juneau

Juneau area retailers buy gasoline directly from one of just two bulk fuel suppliers: a Chevron commission agent and a Union distributor. Juneau area gasoline originates from west coast refineries in the Lower 48 and from Tesoro's Nikiski refinery. There is approximately one gas station per 3,200 persons in the Juneau-Douglas area.

B. Alaska Gasoline Retailers Passed on Wholesale Price Increases to Consumers during 1985

According to retail gas price data compiled by the Community Research Center of the Fairbanks North Star Borough, the average per gallon retail price of leaded regular gas in Fairbanks increased by 7.9 cents between January 1985 and December 1985. This figure exceeds the 7.3 cent per gallon increase over the same period in the leaded regular wholesale price by .6 cents per gallon. See Appendix A, Price Comparison Charts, and Appendix B, Price Comparisons.

Fairbanks Community Research Center data shows a 7.4 cent per gallon increase in the average retail price of unleaded regular between January 1985 and December 1985. This also exceeds the 6.8 cents per gallon increase over the same period in the wholesale price paid by Fairbanks retailers by .6 cents per gallon. It appears that Fairbanks retailers passed the wholesale price increases they experienced in the last year on to Fairbanks consumers without significantly increasing their profit margins.

Anchorage retail prices for leaded and unleaded regular gas increased by an average of about 8 cents and 9.7 cents per gallon, respectively, between January 1985 and January 1986. These average retail price increases match the average wholesale price increase of 8.0 cents per gallon during the same period in the case of leaded regular, and slightly exceed the average wholesale price increase of 8.0 cents per gallon in the case of unleaded regular. Thus, Anchorage retailers also passed along wholesale price increases directly to local consumers.

Juneau retail prices for leaded and unleaded gas each increased by an average of 2.5 cents per gallon between January 1985 and January 1986. The retail price increases considerably exceeded the average wholesale price increases of .8 cents (leaded) and 1.8 cents (unleaded) over the same period. Therefore, Juneau retailers not only passed along wholesale price

increases to the local consumer, but increased their profit margins as well.

C. Profit Comparisons

"Gross Profit Margin Per Gallon" is used by the industry to describe the difference between a retailer's per gallon sales price and the per gallon wholesale price, including federal tax (9 cents per gallon), state tax (8 cents per gallon in Alaska) and any local tax (4 percent in Juneau, none in Fairbanks or Anchorage). The "gross profit margin per gallon" is calculated prior to deduction of overhead costs such as utilities, salaries, insurance, rents/mortgages, etc.; and often varies according to grade of gasoline (leaded, unleaded, supreme, or diesel), type of service (self-serve or full serve), and method of payment (cash or credit). Many, but not all, stations charge more for credit card purchases than for cash transactions. Sales volume also varies according to grade, type of service, and method of payment.

When the weighted average is computed for all gross profit margins at a particular service station, the result is what the industry refers to as the "pool margin." Pool margins for Fairbanks dealers average about 18 to 22 cents per gallon, as compared to 9 to 11 cents per gallon for Anchorage dealers and about 21 to 23 cents per gallon for Juneau dealers.

Fairbanks dealers pump an average of about 65,000 -- 70,000 gallons of gas per month, although there are a number of gasoline retailers in Fairbanks that sell either substantially above or below that average. At 70,000 gallons per month, and with a 20 cent per gallon pool margin, a Fairbanks retailer's annual gross profits from gasoline sales would total \$168,000.

Anchorage and Juneau dealers, on the average, pump about 100,000 gallons monthly, although as with Fairbanks retailers, there are a number that sell substantially above or below the average. At 100,000 gallons per month, and with a 10 cent per gallon pool margin, an Anchorage retailer's annual gross profits from gasoline sales would total \$120,000. At 100,000 gallons monthly, and with a 22 cent per gallon pool margin, a Juneau retailer's annual gross profits from gasoline sales would total \$264,000. Thus, Fairbanks is squarely in the center of Alaska's three largest cities as far as retail gasoline profits are concerned.

Slightly higher average overall operating expenses translate into an average 3 cents per gallon higher cost of doing business for Fairbanks retailers as compared with their Anchorage counterparts. Utilities and rents/mortgages are chiefly responsible for the operating cost differential between Anchorage and Fairbanks. Salaries paid by Fairbanks retailers are, on the average, only marginally higher than those paid by Anchorage

retailers, and insurance costs run about the same for each location.

Thus, Fairbanks retailers make greater profits per gallon than their Anchorage counterparts. To illustrate, the Fairbanks-Anchorage average retail price differential is 22.5 cents per gallon. Subtracting the 11.8 cent per gallon average wholesale price differential and the 3.0 cent per gallon higher cost of doing business from this figure leaves a 7.7 cent per gallon higher average profit margin for Fairbanks retailers than for Anchorage retailers. This 7.7 cent per gallon difference translates into annual profits of about \$65,000 for the average Fairbanks retailer.

D. Comparative Market Dynamics: Fairbanks and Anchorage

Although Anchorage and Fairbanks are both railbelt communities, the market dynamics of the two cities are quite different. The 22.5 cent per gallon average retail price difference between Fairbanks and Anchorage is only partially explained by the approximately 11.8 cent per gallon higher wholesale prices paid by Fairbanks retailers and the 3.0 cent per gallon higher cost of doing business in Fairbanks.

Anchorage profit margins have been less than half of those of Fairbanks dealers for the last several years. This is primarily because of the presence of high volume discount retailers in the Anchorage market. Low profit margins in

Anchorage means that retail prices there have been held at the lowest levels in Alaska for a protracted period. Industry officials consistently characterize the Anchorage market as "fiercely competitive."

It appears that the absence in Fairbanks of a high volume price cutter along the lines of those currently found in Anchorage has enabled Fairbanks dealers to hold on to their higher profit margins. With one gas station in Fairbanks for every 1,500 people, compared with one for every 2,300 people in Anchorage, competition should be stronger. 2/

E. North Pole: Potential Retail Price Reductions

North Pole is a community of about 1,600 people and is located 13 miles southeast of downtown Fairbanks. There are three gas stations at the intersection of the Richardson Highway and Badger Road/Santa Claus Lane that, according to a November 4, 1985 article in The North Pole Paper, were engaged at the time in a "gas war." All three stations were selling gas at self-serve cash prices of \$1.149 (leaded) and \$1.209 (unleaded), and one

2/ This is not to say that there are no high volume gas stations in the Fairbanks area. Two high volume stations are found in the South Cushman Street area of Fairbanks. However, after differences in wholesale prices and operating costs are taken into account, high volume stations in Fairbanks do not cut prices anywhere near as much as the Anchorage discount stations.

station reportedly claimed to be selling gasoline below cost. During the week of January 13, 1986, prices at these stations had increased slightly to \$1.189 (leaded) and \$1.249 (unleaded). This was roughly 12.5 cents per gallon cheaper than the Fairbanks price.

The prices at the North Pole stations have over a period of months remained at least 12 to 13 cents below average self-serve cash prices in Fairbanks. The station owners we interviewed stated that these low prices were a direct result of intense competition among the three stations for the commuter trade. The North Pole stations still make an approximate 5.0 cents per gallon profit on these sales.

Even though the three North Pole stations are 13 miles from downtown Fairbanks, if this price difference persists over a long period of time, it may very well have a lowering effect on Fairbanks prices. The retailers we interviewed were acutely aware of the North Pole prices. One Fairbanks dealer expressed great concern over this price difference. Another reported that his customers have asked him for explanations of why retail prices are higher in Fairbanks than in North Pole. A third dealer stated that he is watching the gas pricing of the North Pole stations very closely; and that if the North Pole retail marketing strategy of waging gas wars reaches the Fairbanks market, it will have a considerable effect on Fairbanks prices.

F. Heating Oil Prices

Unlike motor gasoline prices, number 1 and number 2 heating oil prices in the Fairbanks areas have been on the decline. The Fall 1985 Community Research Quarterly published by the Fairbanks North Star Borough Community Research Center indicates that the average retail prices for number 1 and number 2 heating oil have decreased by 5.5 cents and 5.2 cents per gallon respectively, between September 1984 and September 1985; (see page 83 of that publication).

The average per gallon price in September 1985 for number 1 heating oil was \$1.098 and the average for number 2 was \$1.04. A January 1986 phone survey of home heating oil prices in Anchorage revealed an average per gallon price for number 1 of \$1.195 and an average price for number 2 of \$1.115. (Both Fairbanks and Anchorage prices cited here are based on automatic delivery of 500 gallons of heating oil.) Thus, home heating oil prices in Fairbanks are not only declining, but also average 9.7 cents (number 1) and 7.5 cents (number 2) per gallon less than Anchorage home heating oil prices.

CONCLUSIONS

A. Higher Margins in Fairbanks Due to Weak Competition

The Attorney General's Office examined the possibility that price differences between Anchorage and Fairbanks are due in part to violations of the state's antitrust laws. However, we have found no evidence to date which indicates any widespread conspiracy on the part of Fairbanks retailers to engage in price fixing, nor is there any indication that such activity has occurred at the jobber or refiner levels. 3/

Instead of uncovering antitrust violations, the investigation revealed that the higher Fairbanks profit margins are the result of unaggressive pricing by retailers. Price competition in the Fairbanks retail gas market is sluggish, despite a comparatively high concentration of retail gas stations. The high per capita gas station ratio in Fairbanks should encourage much more vigorous competition than presently exists.

3/ There are indications that at least one gas station attempted to fix prices by trying to convince a nearby competitor to join in a plan to raise prices. Further investigation, however, revealed that the competitor who was approached with the price-fixing proposal did not agree to it. In the absence of an agreement by two or more competitors to fix, raise, maintain, or otherwise manipulate prices, there is no conspiracy in restraint of trade actionable under state antitrust laws.

Instead, Fairbanks dealers are able to maintain consistently high prices and thus high profit margins. When asked to explain this phenomenon, one Fairbanks dealer offered the following explanation:

Everybody here seems to have a feel for what it costs to operate, and they're not really trying to prove anything to anybody. Tomorrow, if I wanted to, I could knock 10 cents a gallon off of all of my prices. I'll pick up volume for maybe one or two days. But the minute that's up, (my competitors) are going to see that I went down and I guarantee that within two or three days they'll match me. So therefore, there's no advantage for me to be down there. The only advantage is, it would make us all go broke, and that's just common sense. In this area up here, we know that, and we know that's basically how it's worked for years up here. Everybody watches everybody. By watching everybody in that aspect, you really kind of, I would say, control the market. I would never say it's a form of price fixing, but it's a form of maintaining your margins, I would say.

To the extent that these comments are representative of Fairbanks dealers generally, they reflect a less-than-aggressive attitude toward competitive pricing, and are consistent with some of the conclusions reached in a February 1, 1983 report entitled, "Alaska Petroleum Product Pricing" prepared for the Alaska Senate Resources Committee by Louis F. DeLong and Lloyd M. Pernela of Pacific-Alaska, Inc. The DeLong and Pernela report, which covered the period of 1980 -- 1982, arrived at the following conclusions:

The prices of motor gasoline in Fairbanks at the retail level increased significantly during 1980,

a period of increased costs of crude oil. Starting in early 1981 until today (February 1, 1983), gasoline prices have remained steady in spite of significant decreases in crude costs. The motor gasoline retail market has reacted to cost increases on the upside but not on the downside. This lack of a market reaction to declining costs seems to indicate a "structured" noncompetitive retail environment in Fairbanks.

DeLong and Pernela, 1983, at 83.

We were told by several sources that by summer's end this year, between 4 and 12 additional gas stations of various types will have opened in the Fairbanks area. This would result in the highest concentration of gas stations per capita in Alaska, if not in the entire Northwest. There is speculation that these new stations will sell gasoline substantially below current prices to establish a market share. In that event, existing gas stations would be forced to lower prices to preserve their current market share. Whether this scenario actually becomes a reality, of course, remains to be seen.

As matters stand, we conclude that weak competition and tacit agreement between Fairbanks retailers "not to rock the boat" has kept their profit margins high during the last several years. This does not explain, however, why Fairbanks gasoline retail prices have increased during the last year, when in-state oil prices have dropped significantly. The increase in retail prices does not appear to be the result of increased profit margins at the retail level. Rather, the retailers have simply

passed on price increases at the wholesale level to the Fairbanks consumer. These wholesale price increases, we have determined, are due to price increases at the refinery level. 4/

3. Alaska Price Increases Result from High Refinery Prices

The price of crude oil purchased by Tesoro, Alaska's principal in-state refiner of motor gasoline during 1985, is governed largely by a long-term royalty oil supply contract with the State of Alaska. Under this contract, Tesoro's purchase price is set at the weighted average of in value amounts reported monthly by Prudhoe Bay producers and is subject to adjustment in accordance with the current litigation over the value of North Slope oil production. Unlike the rapidly fluctuating world spot prices, the reported in value North Slope royalties, and hence the price under Tesoro's long-term contract, generally react slowly to changes in the world oil market. 5/

4/ See Appendix B. The refinery price for leaded gasoline increased by 6.2 cents per gallon between January, 1985 and January, 1986. The jobbers passed this increase (with a little extra) on to the retailers, increasing the wholesale price by 7.3 cents per gallon during the same period. Unleaded gasoline went up 6.8 cents per gallon at the refinery, and 6.8 cents per gallon at the wholesale level. Thus, the refinery price increase for unleaded was passed-through by the jobbers to the retailers with only a slight surcharge.

5/ Between early December 1985 and mid-February 1986, world spot

The slow decline in royalty contract prices does not provide an explanation of why gas prices in Fairbanks have increased over the last year. Despite a documented one dollar per barrel decline in reported Prudhoe Bay royalty oil prices over the last year, our office has independently verified that Alaska's major gasoline producer has actually raised its selling prices during that time.

Tesoro is the only in-state refiner which produced motor gasoline throughout the entire calendar year 1985. As mentioned earlier, Mapco only started refining motor gasoline as of October 31, 1985. All gasoline sold in Fairbanks and Anchorage is either Tesoro or Mapco gasoline, regardless of what brand name is on the pump. The bulk of Tesoro's Nikiski refinery feedstock in 1985, approximately 40,000 barrels per day, comes

market prices have dropped by more than \$10 per barrel, to the \$15 per barrel range. However, the posted price of a major Prudhoe Bay producer, Sohio, has only fallen \$4 per barrel in that period. Further, that decline did not occur until February 1986.

The decline resistance of North Slope crude oil prices is amplified for in-state refiners since there is a two-month lag period before price changes are passed on to Alaska refiners. This is due to the method used to report and calculate the value of royalty oil. Thus, the current decline in spot market prices will not be reflected in state royalty oil contracts until this spring.

from the long-term state Prudhoe Bay royalty oil contract described above.

Because of the lag in the price changes under the royalty oil contracts, the per barrel price billed to Tesoro for royalty oil in January, 1985 was based on the in value amount reported by the Prudhoe Bay producers for the month of November 1984. That price, as most recently revised, was \$17.96 under Tesoro's 40,000 barrel-per-day contract.

The per barrel price billed to Tesoro under the same contract in January 1986, based on November 1985's reported in value amount, was \$16.99. Therefore, the per barrel price paid by Tesoro for the bulk of its 1985 Prudhoe Bay feedstock decreased by 97 cents between January 1985 and January 1986. This amounts to a 2.3 cent reduction on a per gallon basis.

Despite the decrease in Tesoro's price for the bulk of its 1985 feedstock, the wholesale prices for all four brands of gasoline in Anchorage and Fairbanks increased by an average of about 6.5 cents per gallon over the last year.

The inverse relationship between decreasing 1985 royalty oil prices and increasing 1985 selling prices is a strong indication that Tesoro and the oil companies which sell Tesoro gasoline under their brand names have been pursuing a "what the market will bear" pricing strategy for selling motor gasoline in Alaska. Over the last year, increases established by oil

companies in their Alaska selling prices have been passed on throughout the petroleum distribution chain to retailers, and ultimately to Alaskan consumers.

Conversely, reductions in crude acquisition costs during 1985, insofar as such data is available to us, do not appear to have been passed along by the oil companies. In this regard, the DeLong and Pernela report, on page 82, asserts that one reason Alaska refineries are highly profitable is that "... the reductions in crude pricing are not being reflected in the Alaska market price of the refined products."

A sustained lowering of crude supply prices, in traditional economic theory, should result in an eventual lowering of retail prices to consumers. However, Alaska refiners appear to be stretching their profit margins by increasing their prices despite the lower cost of crude oil. As reported in an Anchorage Daily News article dated February 12, 1986, titled "Alaska Won't See Cheaper Gas Soon," oil industry officials expressed uncertainty as to whether and when Alaska's consumers will benefit from the kind of retail gas price reductions currently enjoyed by consumers in many Lower 48 markets. The consumer certainly will not see lower gas prices at the pump when prices at the refinery are going up.

APPENDIX A
PRICE COMPARISON SHEET
(Self-Serve Cash Prices)

I. January 1985 Leaded regular Gas Average Per Gallon Prices

	Fairbanks	Anchorage	Juneau
Average Jobber Buying Price	\$1.031	\$0.943	N/A
Average Wholesale Price	\$1.080	\$0.955	\$1.165
Average Retail Price	\$1.237	\$0.990	\$1.405
Average Retail Profit Margin	\$0.157	\$0.035	\$0.240

II. January 1986 Leaded Regular Gas Average Per Gallon Prices

	Fairbanks	Anchorage	Juneau
Average Jobber Buying Price	\$1.093	\$1.008	N/A
Average Wholesale Price	\$1.153	\$1.035	\$1.173
Average Retail Price	\$1.316	\$1.070	\$1.430
Average Retail Profit Margin	\$0.163	\$0.035	\$0.257

III. January 1985 Unleaded Regular Gas Average Per Gallon Prices

	Fairbanks	Anchorage	Juneau
Average Jobber Buying Price	\$1.077	\$0.989	N/A
Average Wholesale Price	\$1.132	\$1.002	\$1.205
Average Retail Price	\$1.301	\$1.070	\$1.464
Average Retail Profit Margin	\$0.169	\$0.068	\$0.259

IV. January 1986 Unleaded Regular Gas Average Per Gallon Prices

	Fairbanks	Anchorage	Juneau
Average Jobber Buying Price	\$1.141	\$1.056	N/A
Average Wholesale Price	\$1.200	\$1.108	\$1.223
Average Retail Price	\$1.375	\$1.167	\$1.489
Average Retail Profit Margin	\$0.175	\$0.059	\$0.266

Note: All prices include 17 cents federal/st te tax.

APPENDIX B
PRICE COMPARISONS

I. JOBBER BUYING PRICES

Many fuel purchaser who buy motor gasoline at jobber buying prices hold a qualified dealer's license which enables them to make fuel purchases on a tax-exempt basis. Some companies who are not qualified dealer license holders are able to purchase motor gasoline from an oil company at jobber buying prices, but such purchases are not tax-exempt. For the sake of uniformity and for ease of comparison with wholesale and retail prices presented later in this report, the jobber buying prices presented in this section are inclusive of federal and state tax.

A. Fairbanks

In January 1985, the average per gallon price of gasoline paid by Fairbanks jobbers to the major oil companies, including 17 cents federal/state tax, was \$1.031 for leaded regular and \$1.077 for unleaded regular. By January 1986, the average price for these products had increased to \$1.093 (leaded) and \$1.41 (unleaded). This resulted in an average per gallon increase over the last year of 6.2 cents (leaded) and 6.4 cents (unleaded).

B. Anchorage

Even though most Anchorage retailers do not buy gasoline from jobbers, the major oil companies maintain jobber buying prices for the Anchorage area, as some retailers are served by

jobbers. In January 1985, the average per gallon jobber buying price of gasoline in Anchorage, including 17 cents federal/state tax, was \$.943 (leaded) and \$.989 (unleaded). By January 1986, these averages had increased to \$1.008 (leaded) and \$1.056 (unleaded), representing average per gallon annual increases of 6.6 cents and 6.7 cents, respectively.

C. Juneau

Since branded motor gasolines in Juneau are sold to retailers by bulk facilities owned by Chevron and Unocal rather than by independently-owned jobbers, no jobber buying prices are available for Juneau.

D. Fairbanks/Anchorage Jobber Buying Prices

In January 1985, Fairbanks jobber buying prices averaged 8.8 cents per gallon higher than for both leaded and unleaded gasoline than Anchorage jobber buying prices. In January 1986, Fairbanks jobber buying prices averaged 8.5 cents per gallon higher for both leaded and unleaded gasoline than Anchorage jobber buying prices.

II. WHOLESALE PRICES

A. Fairbanks

In January 1985, the average per gallon delivered wholesale price of gasoline paid by Fairbanks retailers, including 17 cents federal/state tax, was \$1.08 for leaded regular and \$1.132 for unleaded regular. By January 1986, the

average price paid by Fairbanks retailers for these products increased to \$1.153 and \$1.20 respectively. Thus, over the last year, the average wholesale price increased by 7.3 cents per gallon for leaded regular and 6.8 cents per gallon for unleaded regular.

B. Anchorage

In January 1985, the average per gallon delivered wholesale price of gasoline paid by Anchorage retailers was \$.955 for leaded regular and \$1.002 for unleaded regular. By January 1986, these averages increased to \$1.035 and \$1.108 respectively. Thus, over the last year, the average wholesale price increased by 8.0 cents per gallon for leaded regular and 8.0 cents per gallon for unleaded regular. In early 1985, Anchorage average wholesale prices were lower than those in Seattle. However, at present, Seattle wholesale prices average about 10 cents lower than those in Anchorage.

C. Juneau

In January 1985, the average per gallon delivered wholesale price of gasoline paid by Juneau retailers was \$1.165 for leaded regular and \$1.205 for unleaded regular. By January 1986, these figures were \$1.173 and \$1.223 respectively. This represents an average net increase of .8 cents (leaded) and 1.8 cents (unleaded) as between January 1985 and January 1986. However, Juneau wholesale prices actually rose to a mid-1985

average of about 4 cents per gallon higher than 1985 year-end levels.

D. Fairbanks/Anchorage/Juneau Wholesale Price Comparison

In January 1985, Fairbanks retailers paid an average of 12.5 cents per gallon more for leaded regular and 13.0 cents per gallon more for unleaded regular than did Anchorage retailers. At the same time, Juneau retailers paid an average of 8.5 cents (leaded) and 7.3 cents (unleaded) per gallon more than Fairbanks retailers.

In January 1986, Fairbanks retailers paid an average of 11.8 cents per gallon more for leaded regular and 11.8 cents per gallon more for unleaded regular than did Anchorage retailers. In the same month, Juneau dealers paid an average of 2.0 cents (leaded) and 2.3 cents (unleaded) more than Fairbanks retailers.

Freight and loading costs associated with transporting motor gasoline from Anchorage to Fairbanks have ranged from about 9 to 12 cents per gallon, depending upon the quantity of fuel shipped.

III. RETAIL PRICES

A. Leaded Regular

During the week of January 13, 1986, with one or two exceptions, cash prices for self-serve leaded regular gasoline in the Fairbanks area (excluding North Pole) ranged from \$1.279 to \$1.349 per gallon, and averaged \$1.316 per gallon. During the

same week, leaded gas at self-serve cash prices in Anchorage sold at between \$1.039 and \$1.099, with an average of about \$1.07 per gallon. In Juneau, with one or two exceptions, self-serve cash prices for leaded regular ranged from \$1.319 to \$1.469, with an average of \$1.43 per gallon.

B. Unleaded Regular

During the week of January 13, 1986, with one or two exceptions, cash prices for self-serve unleaded regular gasoline in the Fairbanks area ranged from \$1.319 to \$1.409 with an average of \$1.375. Unleaded self-serve cash prices in Anchorage during the same week ranged from \$1.139 to \$1.199, and averaged about \$1.167. In Juneau, with one or two exceptions, unleaded regular cash prices ranged from \$1.369 to \$1.519, and averaged \$1.489. (Note: For about a 35-day period at the end of 1985, several Juneau retailers lowered their prices by approximately 20 cents per gallon.)

C. Average Retail Price Comparisons

Fairbanks leaded regular self-serve cash prices during the week of January 13, 1986 averaged 24.6 cents per gallon higher than those in Anchorage, and 11.4 cents per gallon lower than those in Juneau. Fairbanks unleaded regular self-serve cash prices during the same week averaged 20.8 cents per gallon higher than those in Anchorage, and 10.5 cents per gallon lower than those in Juneau. Overall, Fairbanks self-serve cash prices

FAIRBANKS GASOLINE REPORT

February, 1986
Page 26

averaged about 22.5 cents per gallon higher than Anchorage prices, and about 11.0 cents per gallon lower than Juneau prices during mid-January 1986.

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : _____

REQUEST

Bill/Resolution No. : CSHB 445
 Title : An Act relating to information on royalty oil and gas.
 Sponsor : Marco A. Pignalberi
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Economic Development
 BRU : Economic Development Advocates
 Components : Research and Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	-0-	55.0	58.0	60.6	63.0	65.5
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	55.0	58.0	60.6	63.0	65.5

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						


POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

DCED plans to subcontract the task in the form of a telephone survey and report the results of this survey on a monthly basis. It is assumed that transactions of royalty oil and refined products, as well as transaction prices, will be reported to DCED by oil producers and refiners.

Prepared by : Orhan Yildiz, Chief Economist Phone : 465-2079
 Division : Research and Support Date : February 13, 1986

Approved by Commissioner :  Date : 2/13/86
 Agency : Commerce & Economic Development

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 445
 Title : Requiring in-state refiners to submit and Dept. of Commerce and Economic Development to....
 Sponsor : Rep. Pignalberi
 Requestor : Rep. Pignalberi
 Date of Request : 2-6-86

FISCAL DETAIL

Agency Affected : Natural Resources
 BRU : Petroleum Management

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

No fiscal impact.

Prepared by : Bob Butts *RB*
 Division : Oil and Gas

Phone : 465-2400
 Date : 2-6-86

Approved by Commissioner : Wm D. Amodeo, Deputy
 Agency : Natural Resources

Date : _____

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requester
- Office of Management and Budget
- Impacted Agency(ies)

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

OFFICE OF THE COMMISSIONER

February 7, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

* As you requested, the Department has examined House Bill 445, which is entitled "An Act relating to information on royalty oil and gas." The bill calls for the submission and gathering of a variety of data to enable precise estimates of the consumer benefits attributable to in-state royalty oil contracts. The availability of such data would enhance considerably the department's ability to address this very complex and recurring question.

The department annually gathers the data mentioned in this bill that pertain to the regional and intrastate movement of refined products. That task represents a large share of the staff time embodied in the Historical and Projected Oil and Gas Consumption report. As was mentioned in my letter to you of February 4, 1986, some reporting requirements are also contained in the royalty contracts held by Tesoro and Chevron. A similar clause appears in the Petro Star/Chevron royalty contract presently before the Legislature.

With some exceptions, the new data sought under House Bill 445 relates to wholesale and retail product prices. The implementation of the reporting and data gathering system for those prices is the department's main area of concern with this bill. The foremost difficulty with obtaining such data stems from the language of the royalty oil contracts presently in force or before the Legislature. MAPCO, Tesoro, and Chevron, which together nearly constitute the State's refining industry, did not negotiate their long-term royalty oil contracts with price reporting provisions. Such a provision would doubtless be regarded as a material item by those refiners.

The absence of direct wholesale information from those refiners severely undermines the ability of this or any other department to gather such data. Of the first set of four data items listed in this legislation, the refinery

February 7, 1986

gate sales price (3) and the wholesale and market exchange sales price (4) would be affected by this limitation. As presently written, a number of areas would also be left to the interpretation of the agency charged with this task. For example, the distinction between refinery gate, wholesale, and market exchange prices is not clear.

The interpretation of the term "regional" as it corresponds to "average" may also prove troublesome. For instance, the second data item shown in the bill refers to the retail price of refined products. While such prices would be relatively easy to gather, they vary substantially within the State according to region. Further, considerable price variation can be expected within any region selected since transportation costs, even over small distances, account for much of that variation. A hypothetical region such as Western Alaska, where retail prices in Dutch Harbor are markedly less than those of Bethel, is a case in point. The retail price differentials between Fairbanks and remote locations in the Interior region provide a further example. Since there are nearly as many "retail price regions" as there are remote settlements in Alaska, the attempt to produce average retail prices on a regional basis, if this is intended, would not yield meaningful figures.

The apparent utility of the data requested is to learn the price effects of state royalty oil contracts. However, the task of relating retail prices to refinery gate prices, even when available, is much complicated by the interim activities of transportation and distribution. In that process, the ownership of refined products may change several times before reaching the final consumer. These factors are a prime obstacle to a satisfactory measurement of the price effects of royalty oil contracts to in-state refiners. The measurement of those price effects must entail a comparison to some base case. That base case would be the price of Alaska refined products in the absence of state royalty oil contracts. This in turn depends on the actual cost of refining, including the amortization of refinery capital stock at present value. Such sensitive cost data would not likely be made available to the State. Generally, the price advantages traceable to a royalty oil contract could not exceed the difference between the cost of royalty oil and the cost of alternative feedstocks, plus what value the purchasers may place on the advantages of a long-term contract.

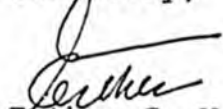
The cost to the department of implementing this bill is very dependent on which agency is given the task of compiling the information, the bill's interpretation, and the degree of cooperation from in-state refiners. As now written, the

February 7, 1986

* fiscal impact in DNR is negligible since the Department of Commerce and Economic Development is responsible for compiling the information. If it is decided to give DNR this responsibility and under the most demanding interpretation with no cooperation from in-state refiners beyond their present contractual obligations, the department conservatively estimates that the equivalent of one staff member would be permanently assigned to this task. This preliminary estimate is based on a discussion with staff from the University's Institute of Social and Economic Research and the department's previous experience with the annual Historical and Projected Oil and Gas Consumption report.

I hope this is helpful. Please contact Kay Brown if you would like additional information.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: Kay Brown, Director
Division of Oil and Gas

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

February 4, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative ^{Marco} Pignalberi:

I am writing in response to your recent information requests of the department regarding mental health lands and royalty oil.

It would be costly and take a great deal of staff time to reproduce a complete set of maps, status plats, and reports on state mental health lands. Instead, we have provided your office a copy of the Alaska-wide map indicating townships containing mental health lands. I also would be willing to meet with you to describe the programs and would gladly put our microfiche records and hard-copy reports at your disposal if you or your staff wish to do research in Juneau or Anchorage. Please let me know if you need anything more on this topic.

The department does not keep a royalty oil chart of the kind that you requested, and it would be expensive and time consuming to undertake the preparation of one. Similar information is available in the historic oil and gas supply/demand report submitted annually to the Legislature. The House Research Agency might be able to prepare a chart like the one you have requested.

* In response to your inquiries of January 16 and January 30, 1986, on royalty oil management, I would like to raise several points helpful to your consideration of a bill calling for specific reporting requirements of in-state royalty oil purchasers. Presently, two of the state's four in-state refiners are contractually obligated to report on a monthly basis most of the data listed in your letter. The long-term negotiated royalty contract for Petro Star/Chevron presently before the Legislature also contains those reporting obligations, but on a quarterly basis. The earlier

Mapco contract contains no regular reporting obligation, however, the contract calls for Mapco to consult with the state prior to exporting refined products from Alaska. (See Sec. 3.3 and 3.3.1 of the contract.)

Section 2.12 of the Tesoro, Chevron, and Petro Star/Chevron royalty oil contracts states in part that the purchaser shall report "the quantity of refined petroleum products produced and marketed in the State of Alaska...." While this section does not explicitly call for the product slate of the purchaser, the purchasers have, as a matter of practice, included their product slate with the monthly report. Petro Star, which has a very narrow product slate, is expected to follow suit. To avoid prospective competitive disadvantages, Chevron has requested that its monthly report be held confidential.

* In addition to a more explicit requirement with respect to product slate, the department believes there may be merit to your suggestion for an export report requirement. However, this information may be roughly deduced by comparing the volume of products marketed in Alaska to the volume of refined products produced in Alaska. The volume of residual oil may be obtained in a similar manner.

As your letter acknowledges, it probably would be difficult at this point to tighten the reporting requirements of Mapco, Tesoro and Chevron. We are also precluded against taking such action with the Petro Star/Chevron contract for two reasons: 1) Petro Star has virtually no capacity for export, and 2) Petrostar's limited product slate may be ascertained by examining its report of the volume of refined products produced in Alaska, as the product ratios of this simple distillation refinery are relatively inflexible. Nevertheless, I believe the reporting requirements you are considering may be of some aid to the department's data gathering efforts in the future. Naturally, the degree of resistance to these requirements on the part of a potential purchaser is an offsetting factor.

* With respect to the additional price related data mentioned in your correspondence of January 30, 1986, the royalty contracts presently in force or before the Legislature do not call for the reporting of such price information. As for the last two items of that correspondence regarding the volume of oil sold in and exported from the state, I believe you are referring to refined products and perhaps residual oil, all of which is either directly or indirectly attainable from Tesoro, Chevron, and Petro Star.

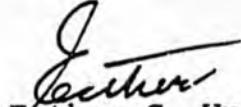
The Hon. Marco Pignalberi

-3-

February 4, 1986

We are preparing a response to your most recent information request regarding HB 445 and will be in touch with you as soon as our work is complete. If you have any further questions, please contact me or Kay Brown, Director of the Division of Oil and Gas.

Sincerely.



Esther C. Wunnicke
Commissioner

cc: Tom Koester, Department of Law
Kay Brown, Division of Oil and Gas
Tom Hawkins, Division of Land and
Water Management
Jim Ayers, Governor's Office