HB

27

Alaska State Legislature

REPRESENTATIVE BILL HUDSON

P.O. BOX V
Juneau, Alaska
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COMMITTEES:
Transportation
HESS
Telecommunications
Fisheries
International Trade

January 19, 1989

Representative Dave Donley, Chairman
House Labor and Commerce Committee
Alaska State Legislature
Juneau, Alaska

Re: HB 27, Regulation of Bulk Fuel Suppliers.

Dear Representative Donley:

HB 27, "An Act relating to regulation of certain bulk fuel suppliers by the Alaska Public Utilities Commission" was referred to the House Labor and Commerce Committee. It would be very much appreciated if you would schedule this bill for a hearing as soon as possible.

For two years I have tried to find ways to lower the embarrassingly high cost of fuel in our capital city. I operated a gasoline hot line for one full year and have petitioned our mayor and assembly to find a solution to the siting problems that appear to keep out one or more bulk fuel providers and a free competitive spirit.

I visited both bulk fuel dealers and have talked to most of our retail fuel dealers and have concluded we must take some constructive action to halt the exceptionally high pricing habits in this and other districts in our state.

I have also heard from other Alaskans in smaller isolated communities where gasoline and diesel prices are both much lower and higher than ours. Barring some regulation action, it appears our citizens are at the mercy of those who control the supply of this vital commodity.

With this in mind, I have concluded that the public's best interest will be served by treating fuel under certain circumstances as a public utility and subject it to price controls where necessary.

In a free market private enterprise system, competition is relied upon to promote the public welfare. It has long been accepted that some industries, in which competition is not fully effective, government regulations are necessary to protect the public interest.

Public utilities normally refer to a diverse group of businesses long subjected to detailed local, state and federal regulation as to rates and services. These generally accepted public utilities include electricity, natural gas, telephone, water and sewer or those that provide public transportation such as railroads, motor freight and gas and oil pipelines.

These public utilities generally tend to operate more effectively as a monopoly and since their economic power cannot be controlled by free competition, they must be controlled by public authority to protect the public welfare.

The legislature usually decides what industries should be regulated, based upon economic characteristics, social philosophies and other political considerations.

The characteristics of the Southeast Alaska fuel market, especially those communities with two or fewer fuel distributors and exceptionally high prices, appear to meet the economic criteria for regulation. This would equally apply to other areas with similar market characteristics.

High fuel costs to the consumer in all but our major urban centers simply are not justified by transportation, operations and reasonable profit costs.

From my conversations with both Juneau bulk fuel distributors, I came away with the sense that price was more a product of "what the market will bear" rather than reasonable pricing structure. No wonder then that Juneau leads the nation in gasoline prices.

House Research Report 88.114 supports the theory that Southeast fuel distributors as well as distributors in other similar areas could fall under regulatory control while holding out the question as to whether we have the power to regulate wholesale profit levels.

An article in Western Energy Update dated March 22, 1988 states, "The Supreme Court has ruled that states may regulate gasoline prices and profits."

I believe we owe it to the Alaska people to properly research this question and if these vital fuels are, as I believe, similar to natural gas and electricity, they should be regulated to protect the general public interest.

Given the fact that not only Juneau, but several other largely rural land-locked communities are so highly dependent upon gasoline and home heating and power generating fuels, and so often no competitive reason exists for some pricing practices, I believe this is a matter of vital interest to the citizens of this state and regulations are necessary to protect Alaska's consumers.

I am enclosing several documents in support of HB 27.

Your scheduling HB 27 for deliberation by the House Labor and Commerce Committee as soon as possible, will be very much appreciated.

Respectfully,

Bill

Bill Hudson

BH:lkh

Enclosures

Juneau gasoline prices among highest in nation

According to a list compiled by the Alaska Public Interest Research Group, Juneau consumers are paying the highest gasoline prices in the nation – about 20 cents a gallon higher than Anchorage and 35 cents higher than Seattle.

The AKPIRG research found local retailers earn an average gross profit of 21 cents a gallon, compared to 4-3 cents a gallon in Anchorage and Seattle, while wholesalers are earning 25 cents a gallon profit. The cost of transportation is estimated to be 7-8 cents a gallon.

The following are the retail self-serve gas prices for Juneau's nine outlets, according to the survey:

- Valley Chevron: Regular 131.9 cents, unleaded – 137.9 cents.
- Downtown Chevron: Regular – 125.9 cents, unleaded – 130.9 cents.
- Downtown Union: Regular – 125.9 cents, unleaded – 130.9 cents.
- Airport Union: Regular 125.9 cents, unleaded – 130.9 cents.
- Paul's Chevron: Regular 125.9 cents, unleaded – 130.9 cents.
- Woodsey's Union: Regular 123.9 cents, unleaded – 128.9 cents.
- Gas 'n Go: Regular – 120.9 cents, unleaded – 126.9 cents.
- Fisherman's Bend: Regular – 116.9 cents, unleaded – 120.9 cents.
- Dehart's: Regular – 115.9 cents, unleaded – 119.9 cents.

Diesel is available at three local outlets. The cheapest is at Downtown Union at 126.9 cents a gallon, while the most expensive is 144.9 cents a gallon at Valley Chevron. The other diesel outlet is Paul's Chevron, which sells the fuel for 131.9 cents a gallon.

9-4-87

DELTA AIR LINES, INC.
HARTSFIELD ATLANTA INTERNATIONAL AIRPORT
ATLANTA, GEORGIA 30320

ROBERT W. COGGIN
ASSISTANT VICE PRESIDENT
MARKETING DEVELOPMENT

August 31, 1987

Representative Bill Hudson
Alaska State Legislature
Post Office Box V
Juneau, Alaska 99811

Dear Mr. Hudson:

Your letter of July 20 regarding the cost of air travel out of Juneau has been brought to my attention. While I know that you have received responses from our Juneau Station Manager and District Marketing Manager in Anchorage, I wanted to pass on a few comments which may be of some help in understanding the fare situation in Juneau.

In answer to the question you raised in your letter regarding fuel prices, our average cost for jet fuel in Juneau is currently over 83¢ per gallon, nearly 46% above our system average of 57¢ per gallon. Since fuel comprises over 40% of our direct operating expenses in Juneau, our costs per operation there are significantly higher than our system average.

Another major factor which reflects itself in the price of any product is potential sales volume. Juneau has a relatively small traffic base, and Delta (formerly Western) has typically averaged less than thirty Juneau passenger enplanements per flight over the past two years. With this small traffic base, opportunities to recover price reductions through increases in volume are very limited. I should also point out that Delta has always been fully price competitive with Alaska Airlines in all markets we serve out of Juneau.

I hope that the foregoing has provided some of the reasons and information you were seeking relative to Juneau air fares, and I want to assure you of Delta's continued interest and commitment to Alaska.

Sincerely,

Bob Coggin

78 cents in two days, on the New York Mercantile Exchange. ("Oil Daily," April 13; "Wall Street Journal," April 12 & 21)

Meanwhile, the Texas Railroad Commission, is seeking a role in the OPEC-led drive to cut world oil production and lift petroleum prices. A representative of the TRC plans to attend the conference with OPEC and non-OPEC producers. It is not the first time the TRC has acted unconventionally. In the early, 1930s, when oil prices dipped below 10 cents a barrel and anarchy and violence plagued the Texas oil fields, the TRC -- backed by the state militia -- stabilized prices and restored order. "Historically, from 1933 to 1973, the TRC, through conservation practices, in effect set world oil prices," said TRC Commissioner Kent Hance. ("Denver Post." April 20; "The Energy Report," April 18)

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* The Supreme Court has ruled that states may regulate gasoline prices and profits. The unanimous decision reinstated such controls imposed by the Puerto Rico Department of Consumer Affairs. The oil industry had argued that Congress, by deregulating gasoline prices, mandated a free market in petroleum products. In his opinion for the court, Justice Antonin Scalia said that while there may have been a "general congressional desire" for a free market, "Without a text that can...plausibly be interpreted as prescribing federal pre-emption (of state power) it is impossible to find that a free market was mandated by federal law. ("Denver Post," April 20)

The House Merchant Marine and Fisheries Committee's Subcommittee on Fisheries and Wildlife began discussions this week on a new proposal to open the Arctic National Wildlife Refuge to oil and gas development. The subcommittee rejected an attempt to delay development for 21 months; instead, the subcommittee authorized phased development as long as the activities do not significantly harm the ecology of ANWR. The subcommittee's proposal would also: eliminate the requirement for an independent National Academy of Sciences study and a revision of the Interior Department's 1002 report; make the leasing program contingent on Alaska not challenging the 50-50 royalty split; require full compliance with the National Environmental Policy Act for all lease sales; reduce the size of the proposed Protective Management Zone to 247,000 acres; create a Reclamation Liability Trust Fund (from a 5-cent per barrel royalty) to ensure reclamation is completed; add new bonding requirements to ensure emergency response to spills and other incidents; increase the 2-mile development ban to three miles, but loosen the restrictions; and eliminate non-government members from the proposed ANWR Scientific Advisory Panel. ("The Oil Daily," April 18; "Denver Post," April 22)

Like a voice from the past, the U.S. Energy Association, an organization of 90 energy trade groups and companies, is calling for an energy mobilization board to cut red tape for new energy projects. The group is also calling for a 50 cent/gallon gasoline tax that would cut the national deficit by $50 billion per year. More fuel efficient cars, clean coal development, oil and gas production incentives, "reinstatement" of the nuclear option, intensified R&D, and regulatory reform for the electric power industry were also on the group's suggestion list. The group's report noted: "An annual oil import bill ranging from $150 billion to $200 billion is projected within the next 10 years -- an amount greater than our total trade deficit today, raising serious questions about our ability to reduce the trade deficit." ("Energy Report," April 11; "Oil Daily," April 11)

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western energy update
4/22/88

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

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March 4, 1988

Hon. Bill Hudson
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Re: House Research Agency Report 88.114 (Feb. 16, 1988)

Dear Representative Hudson:

The House Research Agency kindly sent me a copy of Report 88.114, "Gasoline and Fuel Oil Price Regulation," prepared at your request.

This otherwise very thorough survey of the arguments for and against regulation of fuel prices failed to point out that Alaska law presently provides for regulation of fuel distributors in certain situations. The definition of "public utility" in AS 42.05.720 states:

> (4) "public utility" or "utility" includes every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for
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> . . .
>
> (E) furnishing for distribution or by distribution petroleum or petroleum products to the Alaska public for compensation when the consumer has no alternative in the choice of supplier of a comparable product and service at an equal or lesser price....

AS 42.05.720(4)(E).

In most coastal communities of Alaska, other than those in the Southcentral region connected to the road system, consumers do not have any choice of fuel supplier. This is particularly true in Western Alaska and in the smaller communities of Southeast. However, it is my understanding that the Alaska Public Utilities Commission does not presently regulate fuel distributors, despite the many local monopoly situations that exist.

The House Research Agency's conclusion that "consumers of fuel products can shift freely between providers and there potentially are many different suppliers of fuel" would be hotly disputed in many communities across the state. Moreover, its conclusion that "it does not appear that fuel is a public necessity" would come as a surprise to Alaska citizens living in the colder regions of our state, where fuel for home heating, as well as for transportation, is a vital necessity of life.

Please let me know if you have any questions or comments. I am available at your convenience to discuss this matter further, if you feel that would be helpful.

Sincerely yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By:
Richard D. Monkman
Assistant Attorney General

RDM/pjg

cc: Commissioner Susan M. Knowles
APUC - Anchorage

Hon. Mike Davis
Alaska House of Representatives - Juneau

Ginny Fay, Legislative Analyst
House Research Agency - Juneau

2-17-88

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

February 16, 1988

MEMORANDUM

TO: Representative Bill Hudson

ATTN: Landa Krossa-Holtan

FROM: Ginny Fay
Legislative Analyst

RE: Gasoline and Fuel Oil Price Regulation
Research Request 88.114

You requested information on the potential for regulation of gasoline and fuel oil prices when only one or two distributors provide fuel to a community. You specifically want to know if regulation is possible and, in general, what effects regulation might have. To respond to your questions, this memorandum first provides a brief overview of the Southeast Alaska fuel market.[1] This is followed by a discussion on the role of government regulation. In light of characteristics of the Southeast Alaska fuel market, this section also discusses the desirability and potential effects of regulation. The final section suggests an alternative to regulation. This memorandum primarily addresses the economic justification for regulation as opposed to its legality.

Southeast Alaska Fuel Market[2]

The Southeast Alaska fuel market extends from Ketchikan north to Yakutat, and consists of a handful of larger communities and numerous small villages and logging camps scattered throughout the region. Fuel products are

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[1]This memorandum reviews bulk fuel regulation in light of the Southeast Alaska fuel market. Its general applicability, however, extends to other areas of the state with similar market characteristics.

[2]This section summarizes information in the House Research Agency Memorandum 88.016 (attached).

imported by a few distributors via marine barges and tankers from distant West Coast refineries (or from Tesoro's equally distant Southcentral Alaska refinery).

The Southeast Alaska fuel market is relatively small. The most recent records readily available indicate that net fuel supplies into Southeast Alaska in 1981 were only 15 percent of those used in Southcentral Alaska and about 60 percent of the Western Alaska fuel market.[3] Unocal and Chevron were the major fuel distributors in Southeast Alaska for several decades. In 1986, Chevron began to divest its bulk fuel tank farms statewide; Delta Western purchased Chevron plants in Juneau, Wrangell, Yakutat, Dutch Harbor, Naknek, and Dillingham, while White Pass Alaska bought Chevron facilities in Ketchikan, Sitka, Petersburg, Haines, and Skagway. Both Delta Western and and White Pass Alaska continue to sell Chevron products as branded wholesalers in the Southeast Alaska market.[4] Unocal's Southeast Alaska tank farms are located in Ketchikan, Sitka, Juneau, Petersburg, and Wrangell. Unocal recently announced that, except for its Southeast Alaska operation, it is pulling out of Alaska. Sitka Fuels is a Texaco wholesaler in the Sitka vicinity and Mobil Oil Company has a wholesale plant in Ketchikan; each maintains a small share of the fuel markets in those communities.

Notwithstanding the recent departure of Chevron as a regional fuel wholesaler, the Southeast Alaska fuel market has undergone little change since the Alaska Department of Law conducted an investigation in early 1985 at the request of several legislators.[5] Then, as now, there were typically two fuel wholesalers (Unocal and Chevron) in each larger community--with the exception of Sitka (Texaco) and Ketchikan (Mobil) which each have a third distributor. The Department of Law concluded that the few wholesalers do not have to compete strongly with each other to maintain their market share.

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[3]<u>Fuel Consumption and Pricing in Alaska: A Regional Analysis</u>. House Research Agency Report 83-C, January 1984, pp. 23-29.

[4]As Chevron branded "jobbers" in Southeast Alaska, Delta Western and White Pass Alaska are committed to sell only Chevron products at their facilities that bear the Chevron logo. They are not restricted, however, from marketing other fuel products under their own company logo by expanding into additional communities or by seeking fuel contracts with, for example, logging or mining operations.

[5]Letter from Attorney General Norman Gorsuch to Representative Mike Miller, re: Southeast Alaska Gasoline Price Investigation, May 13, 1985.

Since the 1985 Department of Law report, Chevron has been replaced by Delta Western and White Pass Alaska without a dramatic change apparent in the regional wholesale fuel market. Delta Western and White Pass Alaska are essentially middlemen tied to Chevron's Seattle refinery prices, which, in turn, largely reflect the overall West Coast Market. Unocal distributors are in a similar situation. Tesoro's fuel product deliveries are unlikely to have a measureable effect on competition in the Southeast Alaska fuel market. According to Wade Rogers at Tesoro, Tesoro is not interested in establishing itself as a fuel wholesaler in Southeast Alaska and, therefore, is not likely to displace the present distribution and retail networks.

Regulation

The economy of the United States is often described as a competitive, private enterprise system. In such a system, the economy is organized on the decentralized lines of private property and private enterprise. Since competition is relied upon to promote the public welfare, the market is the central institution regulating economic activity. But it has long been accepted that some industries, in which competition is not fully effective, must be regulated by the government to protect the public interest. By common usage, those businesses which have been subjected to detailed public regulation are known collectively as "public utilities."[6]

Public utilties, as commonly used, refers to a diverse group of businesses which have been subjected over several decades to detailed local, state, and federal regulation as to rates and services. These businesses generally fall into two major classes: 1) those which provide, directly or indirectly, continuous or repeated services through a more or less permanent connection between the supplier and buyer (e.g., electricity, natural gas, telephone, water, and sewer) and 2) those that provide public transportation services (e.g., airlines, bus companies, motor freight carriers, railroads, and gas and oil pipelines). In these respects, public utilities differ in several ways from other industries in the economy. These public utilties generally tend toward monopoly or, more accurately, the firms in these industries seem to operate more efficiently as monopolies. If their economic power is not controlled by the competitive market, it must be controlled by public authority to protect the public welfare. The need for regulation of these industries in the United States is compelling because the majority are under private ownership; in most other Western countries, the need for regulation is eliminated by the public ownership of these natural monopolies.

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[6]Charles F. Phillips, The Regulation of Public Utilities, Arlington, Virginia: Public Utility Reports, Inc., 1985, pp. 3-4.

Regulation is an economic, legislative, and legal concept. The legislature ususally decides what industries should be regulated. Such decisions may be based upon the economic characteristics of certain industries, prevailing social philosophies, or political considerations. From an economic standpoint, regulation applies to situations in which competition, as a practical matter, cannot exist or survive for long, and in which an unregulated market will not produce competitive results. Such an inherently noncompetitive market structure is due to the technology of an industry, so that one ("natural monopoly") or a small number ("natural oligopoly") of optimum-size firms have adequate productive capacity to supply the demand in a market. Under these circumstances, there is an economic justification for regulation. The justification for regulation, however, neither implies the degree of regulatory activity that is desirable nor the goals that public policy should seek.

The characteristics of the Southeast Alaska fuel market, especially those communities with two or fewer fuel distributors and exceptionally high prices, certainly meet the economic criteria for regulation. The fuel market is not unlike a number of other product markets in Alaska--higher prices cannot be accounted for simply by transportation and operating costs. Population growth during the 1980s has resulted in lower prices of a variety of commodities because market expansion increased competition. From a public policy perspective, relevant questions regarding fuel regulation are--"do market barriers exist that prevent the entry of potential competitors despite high industry profits that should, theoretically, attract competition?" and "is fuel a public necessity--such as water or electricity--that justifies regulation?"

A potential barrier to entry into the fuel market in Southeast Alaska is the high upfront costs of building fuel storage facilities. This agency estimates that the cost to build a 500,000 gallon tank farm (less than one-quarter the size of the existing tank farm in Juneau) is about $360,000 ($30/barrel). At 12 percent interest, loan repayments (20-year term) would be about $48,000 annually, or about three cents per gallon if the annual plant throughput were 1.5 million gallons.[7] Given the high level of profit (about 15-20 cents per gallon wholesale and another 5-10 retail in Juneau), this cost does not appear to be a major economic barrier to entry. It is likely that there are obstacles to entry other than construction costs. This is discussed in the following section of this memorandum.

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[7]For more details, see House Research Agency memorandum 88.016, attached.

Although one could argue that fuel is a public necessity similar to electricity, there is a major difference. Unlike electricity consumers, purchasers of fuel are not permanently connected to providers. Thus, consumers of fuel products can shift freely between providers and there potentially are many different suppliers of fuel. In this regard, it does not appear that fuel is a public necessity requiring regulation.

It is also questionable that the State of Alaska would have the authority to regulate wholesale prices for fuel that is shipped to Alaska from the West Coast. Generally speaking, the federal government, rather than individual states, has the jurisdiction to regulate interstate commerce. States have the authority to regulate intrastate commerce. The state might have the jurisdiction to regulate retail rates but given the high wholesale profit level, the benefit to consumers would be minimal. No other states regulate fuel prices.[8]

It should also be noted that while regulation is intended to protect consumers from excessive prices when a competitive market fails to provide this protection, regulation also protects the provider of services or commodities from competition. Generally speaking, a company that is regulated is also certified to provide a service. For example, providers of electricity, natural gas, and garbage services in Alaska are certified to provide services in their exclusive areas at rates to be reviewed and approved by the Alaska Public Utilities Commission (APUC). The APUC statutes require that certificated utilities be granted: (1) a reasonable return on their investments and (2) rates that allow recovery of justifiable operating costs. The competitive market offers no such guarantees. Therefore, regulation of fuel prices may in the short-run provide consumers with more reasonable prices, but erect a long-run barrier to increased competition that would result in lower prices. As part of the certification process, regulated utilities have an obligation to serve all customers. It is questionable whether the fuel industry has an obligation to serve since it is not a natural monopoly providing an essential service.

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[8]Michael Foley, National Association of Regulatory Utility Commissioners, stated that, at least in the rest of the country, gasoline distribution does not constitute a natural monopoly that justifies regulation. Therefore, fuel prices are not regulated in any other states.

Alternative To Regulation

While the cost of construction might not constitute an economic barrier to competition, the availability of suitable land is a major obstacle to tank farm development in Juneau. The City and Borough of Juneau does not currently have a long range port plan to offer clear guidance on a siting location. Rather than impose regulation, the long-term best interests of consumers may be better served if local government clarified policy and planning for industrial port development. This would decrease siting uncertainty and make entry into the fuel market more economically appealing.

It should also be noted, that differences in gasoline prices at the retail level do not have a major impact on the behavior of the majority of Juneau gas consumers. This does not necessarily imply that Juneau consumers are price insensitive--given the short distances driven and the high percentage of small fuel efficient cars, the price differentials are probably inadequate to justify travelling to a different part of town to buy gasoline at a slightly lower price.

* * *

I hope this information is useful. Please do not hesitate to contact us if you have additional questions.

Attachment

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

September 28, 1987

MEMORANDUM

TO: Representative Bill Hudson

ATTN: Sioux Plummer

FROM: Gretchen Keiser
Legislative Analyst

RE: Wholesale and Retail Fuel Prices in Juneau
Research Request 88.016

You requested us to examine the fuel product market in Juneau in order to explain the relatively high retail prices paid by local consumers for gasoline. You were also interested in information about Tesoro Alaska Petroleum's intentions with respect to the Southeast Alaska fuel market. In order to answer your request, we gathered information from several sources: the major wholesale fuel distributors in Southeast Alaska; a regional fuel barge line; West Coast refineries; Tesoro; the Alaska Departments of Law and Revenue; the City and Borough of Juneau and local retail fuel outlets.

This memorandum first provides background information about the Southeast Alaska fuel market. We discuss current fuel product distribution and marketing, specifically highlighting the changes which have occurred in the two years since the Attorney General's office investigated the regional fuel market in 1985. The second section of this memorandum considers in greater detail the Juneau fuel market at both the wholesale and retail levels. Our research has been constrained somewhat by the confidential nature of company data and local sales tax records as well as by an understandable reluctance of private businesses to offer detailed information. To the extent possible, we provide recent price data from the refinery gate to the retail outlets in Juneau, with a discussion of the costs involved at each level of the distribution chain.

THE REGIONAL FUEL MARKET IN SOUTHEAST ALASKA

The Southeast Alaska fuel market extends from Ketchikan north to Yakutat, and consists of a handful of larger communities and numerous small villages and logging camps scattered thoughout the region. Fuel products are imported by a few distributors via marine barges and tankers from distant West Coast refineries (or from Tesoro's equally distant Southcentral Alaska refinery).

The Southeast Alaska fuel market is relatively small. The most recent records readily available indicate that net fuel supplies into Southeast Alaska in 1981 were only 15 percent of those used in Southcentral Alaska and about 60 percent of comparable figures for the Western Alaska fuel market.[1] Records from 1981 and 1982 further showed the following pattern of consumption by fuel type: diesel (61 percent); jet fuel (10 percnt); and gasoline (29 percent). The development of several hydroelectric power projects in Southeast Alaska during the 1980s has undoubtedly reduced the proportion of fuel consumption currently attributable to diesel fuels. Regional marine shipment data and State motor fuel tax records from 1981 and 1982 peg annual fuel consumption at roughly 70 - 85 million gallons (192,000 - 233,000 gallons/day). Unfortunately, there are no readily available records of current fuel consumption throughout the region.

Unocal and Chevron were the major fuel distributors in Southeast Alaska for several decades. In 1986, Chevron began to divest its bulk fuel tank farms statewide; Delta Western purchased Chevron plants in Juneau, Wrangell, Yakutat, Dutch Harbor, Naknek and Dillingham, while White Pass Alaska bought Chevron facilities in Ketchikan, Sitka, Petersburg, Haines and Skagway. Both Delta Western and White Pass Alaska continue to sell Chevron products as branded wholesalers in the Southeast Alaska market.[2] Unocal's Southeast Alaska tank farms are located in Ketchikan, Sitka, Juneau, Petersburg, and Wrangell. Sitka Fuels is a Texaco wholesaler in the Sitka vicinity and Mobil Oil Co. has a wholesale plant in Ketchikan; each maintains a small share of the fuel markets in those communities.

At this time, the refined fuel products consumed in Southeast Alaska are imported primarily from Washington (Chevron, Mobil and Texaco) and California (Unocal) refineries. Delta Western receives Chevron fuel via a 900,000 gallon contract barge owned by Ketchikan-based South Coast, Inc. A

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[1] Fuel Consumption and Pricing in Alaska: A Regional Analysis. House Research Agency Report 83-C, January, 1984, p 23-29.

[2] As Chevron branded "jobbers" in Southeast Alaska, Delta Western and White Pass Alaska are committed to sell only Chevron products at their facilities which bear the Chevron logo. However, they are not restricted from marketing other fuel products under their own company logo by expanding into additional communities or by seeking major fuel contracts with, for example, logging or mining operations.

typical Seattle-Southeast Alaska run includes stops in Wrangell, Juneau, Yakutat, Hoonah and Pelican, although Delta Western sometimes dedicates a full barge load solely to its Juneau market.[3] White Pass Alaska brings Chevron products from Seattle and Vancouver into its major terminals in Ketchikan and Skagway. White Pass supplies other Southeast communities out of Ketchikan; the Skagway bulk plant supplies the Yukon Territory. Unocal products entering Southeast Alaska originate primarily from the Los Angeles, California area. A typical fuel shipment averages about 2.5 million gallons and is delivered to the company's Ketchikan facility. A smaller company barge distributes Unocal's fuel products throughout the region.

According to Wade Rogers, Marketing Manager for Tesoro Alaska Petroleum, Tesoro is interested in supplying fuel products to Southeast distributors from its Nikiski refinery on the Kenai Peninsula. Tesoro has been increasing its refinery throughput in recent months to fulfill military contracts for jet fuel A/arctic diesel and is undoubtedly looking for customers for its gasoline and diesel No. 2 products. In fact, Tesoro recently delivered a barge load of gasoline and diesel products to Unocal's regional distribution facility in Ketchikan.

Notwithstanding the recent departure of Chevron as a regional fuel wholesaler, the Southeast Alaska fuel market has undergone little change since the Alaska Department of Law conducted an investigation in early 1985 at the request of several legislators.[4] Then, as now, there were typically two fuel wholesalers (Unocal and Chevron products) in each larger community--with the exception of Sitka (Texaco) and Ketchikan (Mobil) which each have a third distributor. The Department of Law concluded that the few wholesalers do not have to compete strongly with each other to maintain their market share.

Since the 1985 Law report, Chevron has been replaced by Delta Western and White Pass Alaska without a dramatic change apparent in the regional wholesale fuel market. It is important to keep in mind the small size of the Southeast Alaska fuel market. For a major, vertically integrated oil company such as Unocal, Southeast Alaska is a miniscule portion of its U.S. market. Unocal corporate decisions regarding the pricing of fuel products sold here are undoubtedly based, to a considerable extent, on larger West Coast refining and marketing strategies, rather than Southeast Alaska

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[3]Mr. Richard Standifer, owner of South Coast, Inc., personal communication, September 17, 1987.

[4]Letter from Attorney General Norman Gorsuch to Representative Mike Miller, Re: Southeast Alaska Gasoline Price Investigation. May 13, 1985. See Attachment A.

regional market forces. The replacement of the second major oil company (Chevron) with two smaller fuel wholesalers suggests that, in theory, fuel prices may become more sensitive to regional market forces in the future. Nevertheless, Delta Western and White Pass Alaska are essentially middlemen presently tied to Chevron's Seattle refinery prices, which also largely reflect the overall West Coast market.

The ability of Delta Western and White Pass Alaska to agressively compete with the long-established Unocal depends to a large extent on their willingness to accept lower returns on their recent capital investments in Southeast fuel facilities. An informal survey (conducted by telephone in early September) of wholesale unleaded gasoline prices in the major Southeast communities indicates that White Pass Alaska is undercutting or matching Unocal's gasoline prices, whereas Delta Western's prices tend to be slightly higher than Unocal's in the communities where they are competitors. As a general observation, it appears that White Pass Alaska is more willing and/or able to compete with Unocal than Delta Western at this time.

Tesoro's fuel product deliveries are unlikely to have a measureable effect on competition in the Southeast Alaska fuel market. Tesoro is not interested in establishing itself as a fuel wholesaler in Southeast Alaska and, therefore, is not likely to displace the present distribution and retail networks. Furthermore, Tesoro refinery prices generally track prices at West Coast refineries--the primary sources of fuel products in Southeast Alaska. Also, Tesoro does not have a transportation advantage because the shipping distance between Nikiski and Ketchikan is roughly the same as that between Los Angeles and Ketchikan. To the extent that Tesoro has fuel products surplus to its Railbelt/Southcentral and Western Alaska markets, it will presumedly seek to ship products to Southeast Alaska--even at close to cost--rather than reduce prices in the Railbelt.

Following this general discussion of the Southeast Alaska regional fuel market, we now examine in greater detail the fuel market in Juneau. We first consider the annual volume sales, the wholesale distributors and retail outlets. We then present recent heating fuel and gasoline price data as a framework for our discussion of costs and competition in the Juneau fuel market. Finally, we consider the possibility of a third fuel wholesaler entering the Juneau market.

JUNEAU'S FUEL MARKET

Annual fuel sales in Juneau total about 24 million gallons, including:

7	million	gals. motor gasoline (30 percent)
2	"	gals. aviation gasoline (two percent)
11	"	gals. diesel fuels (46 percent)
4	"	gals. jet fuel (16 percent)

Wholesale Distributors.

Delta Western brings Chevron products into Juneau from the Seattle area via contract barge (at six days travel time) to their marine terminal and Willoughby Avenue wholesale plant. Fuel deliveries occur about every three to four weeks and average 500,000 gals. Delta Western's storage capacity is about 2.2 million gals. (580,000 gals. motor gasoline, 1.7 million gals. diesel/jet fuels, and 125,000 gals. aviation gasoline). The tank farm, which is located on property leased from Alaska Electric Light and Power, was purchased from Chevron in April, 1986. The facility was built about 30 years ago, although individual storage tanks are 8 - 25 years old. Delta Western serves several heating fuel and gasoline retailers in Juneau as well as filling a number of commercial/industrial and government contracts.

Unocal barges fuel products to its company-owned tank farm in Juneau about every 35 to 45 days from its regional distribution center in Ketchikan. As noted previously, most of the Unocal products sold in Southeast Alaska are refined in the Los Angeles area and tankered to Ketchikan. An average shipment into Juneau is about 486,000 gals. Unocal's Juneau plant, built in the mid 1930s and remodeled in 1971, can accommodate 800,000 gals. of gasoline and 1.7 million gals. of diesel fuel. While Unocal owns the tank farm and the 10-acre site, Taku Oil Sales (the Unocal distributor in Juneau) leases the facility and purchases the Unocal products for resale to commercial customers and local retailers.

Heating Fuel and Gasoline Retailers.

There are two heating fuel distributors (Taku Oil Sales and Douglas Oil Heat) and four gasoline retailers (Downtown Union, Airport Union, Woodsey's Union, and DeHart's) selling Unocal products in Juneau at this time. Chevron products are currently sold by three heating fuel companies (Chilkat Fuel, Reliable Transfer and Ike's Fuel) and four gasoline retailers (Gas 'n Go, Paul's Chevron, Valley Chevron and Fishermen's Bend).[5] About two-thirds of the motor gasoline and diesel fuel products sold in Juneau carry the Chevron brand name, with the remaining one-third being Unocal products.

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[5]According to Dominic Tagliavento, local manager for Delta Western, the company intends to break ground in the near future on the construction of a new downtown gasoline station/convenience store at 8th Street and Egan Drive. At this time, Delta Western intends to own and operate the retail outlet.

Wholesale and Retail Fuel Prices in Juneau.

Table 1 presents unleaded regular gasoline prices at Seattle and Los Angeles refineries, Seattle retail stations, Juneau wholesale distributors and at Juneau retail outlets during the period June - mid September, 1987. We present these data in order to discuss competition in Juneau's gasoline pricing in relation to West Coast trends during the past few months. Upon examination of the data, we offer the following observations regarding unleaded regular gasoline prices:

1. West Coast refinery gate prices have generally moved upwards since June, most notably during July and August and in the Seattle area;

2. the significant drop in Juneau's wholesale gasoline prices during the third week of August occurred independent of general price trends at the refinery sources, even if the roughly 30 to 60 day lag between refinery pickup and wholesale distribution is taken into consideration;

3. the decrease in Juneau wholesale prices (which averaged about 5.8 cents/gal.) was not passed through in its entirety by all local retail outlets. Only two of the eight gasoline retailers fully passed on the reduction in their wholesale price to consumers at the pump (Attachment B provides recent gasoline prices for Juneau's retail outlets).

The August decrease in Juneau's wholesale gasoline prices appears more anomalous when one understands that wholesale diesel prices increased at the same time. Records indicate that the wholesale price for diesel No. 2 increased an average of 9 cents/gallon during the third week of August in Juneau. One explanation offered for the increase in diesel prices by a local wholesaler indicates a major oil company reaction in mid-summer to the potential for crude oil supply constraints due to Middle East unrest which could, in turn, disrupt company cash flow 6 to 12 months in the future. We do not find the increase in diesel prices to be particularly unusual given the general upward trend in refinery prices mid-summer as well as the fact that we are now entering the winter heating season.

TABLE 1

UNLEADED REGULAR GASOLINE PRICES AT WEST COAST AND JUNEAU LOCATIONS: SUMMER 1987
(In cents/gallon)

Date	Los Angeles, CA. Refinery Gate Ave.	Los Angeles Retail Ave. (exc. taxes)	Seattle, WA. Refinery Gate Ave.	Seattle Retail Average (exc. taxes)	Juneau Wholesale Ave.	---- Juneau Average (exc. taxes)	Retail ---- Range (exc. taxes)	---- Juneau Average (inc. taxes)	Retail ---- Range (inc. taxes)
Month of June	55.38		53.22						
June 1		--		--	91.3	109.8	100.8-115.8	131.9	122.9-137.9
June 10		79.6		64.3					
Month of July	55.2		54.3						
July 1		77.5		65.2	91.3	unchanged	unchanged	unchanged	unchanged
July 15		76.6		65.5					
July 29		77.9		67.9					
Month of August	59.62		58.19						
August 12		78.6		69.3	91.3	unchanged	unchanged	unchanged	unchanged
Approx. Aug 19					85.5	na	na	na	na
Through Sept 14	58.78		59.29						
September 1-2		76.5		71.0	85.5	106.8	98.8-115.8	128.9	120.9-137.9
September 9		76.5		71.3					
September 17			60.4						
September 23						unchanged	unchanged	unchanged	unchanged

Notes: Los Angeles and Seattle refinery gate prices represent averages of Monday prices reported in Platt's Oilgram.
Los Angeles and Seattle retail prices were obtained from the Oil and Gas Journal.
Juneau wholesale prices are averages of Delta Western and Unocal prices to local retailers.
Juneau retail prices were collected through informal telephone surveys. The final columns include about 22 cents/gal. of federal, state and local taxes.

Prepared by the House Research Agency, September 1987 (88.016; 870509-06).

The decrease in wholesale gasoline prices in Juneau (and Ketchikan) suggests to us that Unocal is flexing its muscles in the local/regional marketplace. Dropping prices in light of increasing refinery prices demonstrates a considerable degree of pricing flexibility on Unocal's part (and may also illustrate the profitability of the Southeast market at the wholesale level). Unocal appears to be the price leader in Juneau; once they dropped prices, Delta Western lowered prices. Given that Delta Western followed with price reductions, it is unlikely that Unocal's pricing strategy was based on an attempt to increase its share of the gasoline market (particularly when retail outlets failed to pass through the entire price reduction). A plausible explanation suggested to us is that Unocal, in effect, may be reprimanding the other fuel wholesalers (particularly Delta Western) for successfully outbidding Unocal on some large fuel contracts. We believe that the gasoline price decrease is probably temporary, especially if West Coast refinery prices remain at current levels or continue to drift upward.

We calculate that the markup between the Seattle and Los Angeles refinery prices and the Juneau wholesale prices is currently about 28 - 29 cents/gal.(excluding all taxes in each location). Prior to the August wholesale price reduction, the markup was roughly 33-35 cents/gal. There are a number of costs to be accounted for in these markups, including:

> SUPPLY COSTS: the expenses of supplying a market (shipping, handling, wharfage fees, administration, insurance, facility operation and maintenance, and leases);
>
> CAPITAL COSTS: the cost of storage facilities and holding an inventory; and
>
> PROFIT: an investor expects to earn a competitive rate of return on his capital investment.

A fuel wholesaler will set his prices, over the long term, so he can recover all operating costs plus a reasonable rate of return on his investment. We were not able to obtain detailed cost data, but we do know that shipping costs between Seattle and Juneau are 7 to 8 cents/gal., whereas fuel products coming from Ketchikan bear about 5.5 cents/gal. in shipping and handling costs.

It is difficult to judge the "reasonableness" of the rate of return on investment--or profit--enjoyed by the local fuel wholesalers. The recent entry of Delta Western and White Pass Alaska into the Southeast Alaska market in 1986 and 1987 suggests that historic fuel pricing in the region was attractive to these newcomers and demonstrated an ability to generate an acceptable return on their investments. The Department of Law concluded in the report of its previously cited 1985 investigation of the Southeast wholesale fuel market that: "...competition at the wholesale level in Southeast is low, and both wholesale and retail prices are higher as a direct result." In the course of our research, we did not discover information which suggests that the wholesale fuel market had undergone any fundamental change (toward widespread competition) since the Department of Law's 1985 analysis.

Retail Gasoline Prices.

We note a persistent disparity in retail gasoline prices throughout the Juneau market. Self-service unleaded regular gasoline currently costs between $1.209/gal. and $1.379/gal., depending upon which of eight retail outlets one patronizes (Attachment A provides retail prices at all stations). A spread of at least 15 cents/gal. in the pump price for unleaded regular gasoline at the different retail outlets has occurred in Juneau at least back to the Department of Law's April 1985 investigation. This retail price spread provokes several observations:

1. retail gasoline pricing in Juneau appears to be unaggressive; each retailer more or less maintains his place in the price range and presumedly his share of the market;

2. in order for the highest priced retailers to stay in business, a sizable portion of Juneau gasoline customers appear to be quite insensitive to, or ignorant of, the price range; and

3. the cheapest gasoline can generally be purchased from the retailers who sell gasoline as only one aspect of a broader, nongasoline business (i.e., Fishermen's Bend, DeHart's and Gas 'n Go). On the other hand, gasoline prices tend to be higher at the other traditional stations (with sales and service) where, according to city records, gasoline sales represent, on average, about 85 percent of the gross sales reported.

If we examine the difference between Juneau's wholesale and retail unleaded regular gasoline prices, typically called the gross profit margin, we estimate that the current average gross profit margin in Juneau to be about 21 cents per gallon (with a range of 17 to 34 cents per gallon). Earlier this summer, prior to the August reduction in wholesale prices, the average gross profit margin was about 19 cents per gallon. In comparison, the Department of Law estimated a 21 cents per gallon average gross profit margin for Juneau's gasoline retailers in April, 1985. In the 1985 report, the department noted that gross profit per gallon in Anchorage and Seattle was 4 to 8 cents. At that time, the department concluded that "...high profit margins are primarily due to a lack of vigorous competition on the retail level." Further, "...most gasoline in Southeast is sold by traditional service stations enjoying relatively stable market shares. The boat does not get rocked too often." Current gross profit margins in Juneau suggest that the situation has changed very little during the past two and one-half years.

One additional observation regarding Juneau's retail gasoline market can be made. If one compares average unleaded gasoline prices in the Juneau, Seattle and Los Angeles markets, we note that the gaps between both Juneau-Seattle prices and Juneau-Los Angeles prices have widened during the past four years. In early September 1987, Juneau's unleaded regular gas was about 36 cents per gallon higher than Seattle's and 30 cents per gallon higher than the average price in Los Angeles. However, in April 1985 the differences amounted to 29 cents per gallon (Juneau-Seattle) and 21 cents per gallon (Juneau-Los Angeles).

After examining the price trends in the three retail markets, we can offer two explanations for this trend. Whereas retail (unleaded) gasoline prices dropped about 24 percent in Seattle and Los Angeles between April 1985 and June 1986, Juneau customers experienced only a 15 percent reduction in gasoline prices. Since 1986, retail prices in Seattle have dropped further--apparently due to fierce competition--whereas Juneau's prices have increased (except for the very recent decrease which is likely to be temporary). These retail gasoline price trends suggest a sluggish retail market in Juneau and decreasing correlation between Seattle retail prices and those in Juneau. It appears, in some respects, as though our fuel market is becoming more isolated from market forces operating elsewhere on the West Coast.

A THIRD FUEL WHOLESALER IN JUNEAU

There is considerable discussion and speculation about town with respect to the possibility of a third fuel wholesaler opening business in Juneau. We have talked with three parties looking at the wholesale market, including White Pass Alaska and Sitka Fuels, and have heard of a fourth party as well. At this time, Tesoro does not want to establish a wholesale distributorship in Juneau, but expressed interest in considering any proposal to supply some other new Juneau wholesaler with fuel products from their Nikiski refinery.

Based on several conversations, we offer the following observations regarding the prospects for a third fuel wholesale plant in Juneau:

1. Juneau is Southeast Alaska's largest fuel market. Nevertheless, Juneau's market is still relatively small, which suggests that a third wholesaler attracted to this market will also probably be relatively small.

2. A fundamental roadblock at this time appears to be a suitable and available waterfront location. Trucano Construction's tank farm proposal at their West Juneau site is currently under administrative appeal, while the acreage for sale at the "rock dump" immediately south of town along the Thane Road is potentially complicated due to financial difficulties of the present owner. Trucano's location would be attractive only to an outfit interested in a landlord-tenant arrangement, which may be unacceptable to someone considering a significant capital investment in the bulk storage facility. Furthermore, at this time the City and Borough of Juneau does not have a long range port plan to offer clear guidance on a siting decision.

3. A tank farm requires considerable up front capital--which might cost a party 9 to 14 percent currently, depending on their corporate track record. For example, a 500,000 gallon tank farm (less than one-quarter the size of either existing tank farm in Juneau) would require about \$360,000 to build at a ballpark figure of \$30/barrel.[6] At 12 percent interest, loan repayments (20-year term) would equal \$43,200 annually, or about 3 cents per gallon if the annual plant throughput were 1.5 million gallons. The overall feasibility would be highly sensitive to interest rates, property costs, and facility size.

4. The size of the new wholesale storage facility, in turn, depends upon the transportation economies of scale and shipping scheduling, as well as targeted market share. One hurdle mentioned is retailer loyalty to existing wholesalers and their concerns about uninterrupted deliveries from a new wholesaler.

5. The newcomer would have to have considerable financial "staying power" to accommodate the enhanced competition which would likely ensue from the existing fuel wholesalers. It appears that Unocal has more pricing flexibility and greater potential for inflicting hardship on a new wholesaler than does Delta Western.

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[6]A barrel in the crude oil and refined product business typically holds 42 gallons.

Beyond clarification and perhaps facilitation by the local government with regard to municipal policy and planning for industrial port development in Juneau, it appears that the decision will be determined in the marketplace. If a third party decides there is enough money to be made to warrant investment in a tank farm, a third wholesaler will appear on the local scene.

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

Attachments

ATTACHMENT A
Memo to Representative Miller from
Attorney General Norman Gorsuch

May 13, 1985

Honorable M. Mike Miller
Chairman, House Judiciary Committee
Alaska State Legislature
Pouch
Juneau, AK 99811

Re: Southeast Alaska Gasoline
Price Investigation

Dear Representative Miller:

At the request of Representatives Ben Grussendorf, Jim Duncan, Peter Goll, John Sund, Robin Taylor and yourself, made by letter dated March 13, 1985, the antitrust section has been investigating the high retail gasoline prices of Southeast Alaska. This is the second time in recent years that we have looked into this problem. Our 1983 investigation focused on wholesale prices of gasoline in Juneau. This investigation has re-examined the wholesale market for gasoline, but has also looked into the retail market in depth, both in Juneau and elsewhere in Southeast.

During our investigation, we interviewed officials of Chevron, Union Oil Co., Tesoro, and Texaco. The Juneau Consumer Protection Office conducted a detailed price survey of all retail gasoline outlets in Southeast. Statements were taken from a large number of retailers, employees of retailers, and former owners of retail outlets in Southeast. Pursuant to the Attorney General's authority under the Restraint of Trade Act, AS 45.50.-590, six depositions taken of individuals connected with the industry, and several thousand documents relating to the price of gasoline in Southeast were reviewed in detail. The Washington State Attorney General's Office kindly provided us with valuable information about the Seattle gasoline market.

This report contains a general summary of our findings. In most instances, the individuals contacted requested anonymity, and asked that specific information related to us be kept confidential from their competitors. Additionally, information received pursuant to subpoena under the 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 gasoline sold, and other figures have been verified independently from more than one source.

1. Wholesale prices. The wholesale price of gasoline in Southeast is about $.20 to $.25 per gallon higher than the wholesale price in either Anchorage or Seattle. Of this, about $.09 to $.15 per gallon is attributed by industry sources to the higher cost of distribution in Southeast, including costs of transportation and costs associated with the relatively small volume of fuel sold in Southeast. The remainder of the price difference appears to be due to a very low level of competition between wholesalers in Southeast, which permits higher profit margins.

Anchorage has four wholesale gasoline suppliers, who are engaged in "fierce" price competition according to industry sources. Seattle is served by about 15 major oil companies and independent gasoline suppliers. Industry competition in Seattle is "stiff but not cutthroat," according to the Washington Attorney General's Office. The wholesale prices seem to bear this out: regular gasoline in Anchorage costs $.75 to $.80 per gallon wholesale; in Seattle, regular gasoline wholesales for $.80 to $.85 per gallon. [1/]

By contrast, the wholesale price of regular gasoline in Southeast is reported at $.99 to $1.07 per gallon. Unconfirmed reports indicate the wholesale price in smaller Southeast towns is even higher. As noted above, only a part of this price difference can be attributed to the higher costs of doing business in Southeast. The only other factor, we were told bluntly by industry officials, is the low level of competition. Wholesalers in Southeast simply do not have to compete strongly in order to maintain their market share.

One reason is that there are fewer wholesalers. While four different oil companies sell wholesale gasoline in Southeast, most communities are only served by one or at most two wholesalers. The market shares of the two largest wholesalers in
*Southeast -- Chevron and Union Oil Co. -- appear to have remained substantially the same for a long period of time. Texaco in Sitka and Mobil in Ketchikan have only made small inroads into the wholesale market.

[1/] In all instances, the wholesale price of unleaded gasoline is $.04 to $.05 higher than the price of regular.

The two largest wholesalers in Southeast appear to be content with their market positions, and do not compete with each other anywhere near as vigorously as do wholesalers in Anchorage. The two smaller wholesalers have not obtained a large enough presence in the Southeast market to make much difference in the overall competitive picture. Wholesale gasoline prices in Southeast change because of price fluctuations at the refinery Outside, not because of local competition.

Both during this investigation and during our 1983 investigation, we looked for evidence of collusion between wholesalers as a reason for the high price of gasoline in Southeast. We have not discovered any evidence of price-fixing, market allocation, or other agreements in restraint of trade among the wholesalers. In general, industry officials appear to understand the antitrust laws, and appear to take precautions to avoid any violations. The prices charged by the wholesalers in Southeast, while not greatly different, are not identical, and have not fluctuated during the past several years in any pattern which would indicate collusion.

Industry officials strongly maintain that the wholesale prices in Southeast are "reasonable," and do not amount to "price-gouging." They insist that the prices in Anchorage and Seattle are artificially low, because of unusual levels of competition. Be that as it may be, competition at the wholesale level in Southeast is low, and both wholesale and retail prices are higher as a direct result.

2. Retail prices. There is a striking difference in retail gasoline prices between Southeast, on the one hand, and Anchorage and Seattle on the other. Regular gasoline in Anchorage retails from \$.96 to \$1.01 per gallon, with some high volume retailers charging as little as \$.88 per gallon. Seattle prices are slightly higher, generally ranging from \$1.04 to \$1.12 per gallon. In April, 1985, regular gasoline cost over \$1.50 per gallon in three Southeast communities, with an average regional price of about \$1.43 per gallon. [2] Thus, there is a price

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[2] The highest prices found in our survey were in Wrangell, \$1.536 per gallon regular (\$1.576 unleaded); Petersburg, \$1.52 per gallon regular (\$1.54 unleaded); and Hoonah, \$1.59 per gallon regular. Lowest prices were in Sitka, \$1.339 per gallon regular (\$1.389 unleaded); Juneau, \$1.309 per gallon regular (\$1.379 unleaded); and Klawock, with a reported price of \$1.187 per gallon regular (\$1.227 unleaded).

difference of between $.40 and $.50 per gallon between Southeast prices and Anchorage or Seattle prices.

This price difference can only be partially explained by the higher wholesale price of gasoline in Southeast. Subtracting the wholesale price differential from the retail prices still leaves a difference of $.20 to $.25 per gallon between Anchorage and Southeast retail prices. The costs of running a service station in Ketchikan or Juneau are not markedly different from the costs of running a station in Anchorage. In comparing data, we found the major difference to be the "gross profit per gallon" figures of Southeast and Anchorage retailers.

"Gross profit 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 ($.09 per gallon), state tax ($.08 per gallon in Alaska, $.18 in Washington), and any local tax ($.04 in Juneau, none in Anchorage or Seattle). The "gross profit per gallon" is prior to deduction of overhead costs such as utilities, salaries, insurance, rent, etc.

In making this comparison, we focused on Juneau prices. Juneau, Anchorage, and Seattle gas stations have many similar market characteristics. There is roughly one gas station in Juneau for every 3,200 people; in Anchorage it is one per 2,300 people; in Seattle, one per 2,600. The average number of gallons pumped per month in Juneau is 98,000 per station [3/]; in Anchorage, about 100,000 gallons per month per station; and Seattle, about 89,000 gallons per month per station. The "gross profit per gallon" computation does not figure in overhead costs, but industry sources contend that Anchorage and Juneau overhead costs are roughly comparable, with Seattle overhead costs lower.

The gross profit per gallon in Anchorage and Seattle falls between $.04 and $.08, with many dealers earning less. At these rates, a retailer selling 100,000 gallons per month will earn from $4,000 to $8,000 in gross profit per month from gasoline sales. By contrast, we estimate the current average gross profit in Juneau to be $.21 per gallon. At 98,000 gallons per month, a Juneau retailer could reap over $245,000 per year in gross profit from gasoline sales alone. This contrasts with the Anchorage average of about $60,000 annual gross profit, on slightly higher volume.

[3/] Excluding two low volume retailers in Auke Bay.

Fisherman's Bend
DeHart

The actual figures for each retailer vary. On the date of our initial price survey, we found one Juneau retailer selling self-serve regular gasoline for $1.46 per gallon; one selling self-serve regular for $1.31 per gallon; and four selling self-serve regular at $1.40. On that date, the wholesale price plus all taxes in Juneau was about $1.18. Thus, gross profit margins per gallon varied from $.28 to $.13 for self-serve regular, with higher margins on full-serve and unleaded.

Gross profit margins elsewhere in Southeast appear to be similar. In many smaller communities, the volume of gasoline sold is nowhere near the Juneau volume, and overhead costs per gallon can be much higher. In Sitka, where there are three competing wholesalers, the average price per gallon and profit margin is lower than Juneau. Nonetheless, the gross retail profit margin on a gallon of gasoline in Southeast is roughly 350 percent to 500 percent higher than the gross profit margin per gallon in either Anchorage or Seattle. *

Industry officials, once again, claim that these profit margins are "reasonable." But for stiff competition at both wholesale and retail levels in Anchorage, they say, profit margins (and prices) would be higher there. Still, it came as no surprise to our investigators when one former owner of a Juneau gas station called it "an instant cash machine."

Overall, it appears that the high profit margins in Southeast primarily are due to a lack of vigorous competition on the retail level, and not due to illegal activity.[4/] Unlike Anchorage or Seattle, where high-volume, low-frill discounters keep the pressure on prices, most gasoline in Southeast is sold by traditional service stations enjoying relatively stable market shares. The boat does not get rocked too often. The few occasions related to us of Southeast retailers drastically lowering prices were when a station changed hands, and the new owners held "opening day specials." These special discounts rarely last more than a day or two, with prices reverting to the "going rate" in short order.

[4/] Our investigation looked into violations of the antitrust laws as a possible cause of the difference in price between Southeast and Anchorage. We have found indications that collusion on prices may have occurred between two or three of the nine Juneau retailers. At this point, it must be stressed, we have not reached any final conclusions as to whether or not an actionable

(Footnote Continued)

Several retailers asserted that Southeast consumers are price-insensitive. They claim that lowering their prices has not, in the past, increased volume enough to make up for lost revenues. However, it should be noted that the lowest priced retailer in Juneau does more than twice the average volume of business -- despite offering none of the amenities of the traditional service station.

3. Conclusions. Unfortunately, the antitrust laws do not provide an easy solution for the problem of low competition in the Southeast Alaska gasoline market. In communities where there are only one or two gasoline wholesalers, and only a handful of retail outlets, competition will not be as high as in a larger, more diverse market. Southeast is fragmented geographically into many small sub-markets, with no inter-community competition for gasoline sales. A high volume, low cost retailer in Ketchikan, for example, will not draw customers from Juneau. By contrast, a price-discounting retailer in a good Anchorage location is able to attract customers who live in all parts of the city.

The industry sources we spoke with are well aware of the low level of price competition, but have little or no incentive to change the situation. One retailer stated, "In a price war, only the customers win." This attitude is pervasive in the Southeast gasoline industry. Only in Sitka, where a new wholesaler entered the market fairly recently, did we identify any real price competition. Even there, due to low volume and high capital costs, the new wholesaler is at a disadvantage, and prices are not as low as they could be. Sitka Fuels

Vigorous enforcement of the present antitrust laws can put a stop to any direct price-fixing, or to blatant market allocations between competitors. In the long term, however, the competitive situation in Southeast will not i[illegible]ve unless more actors enter the market, both at the wholesale [illegible]d retail levels. In pure economic theory, the high profit margins in Southeast should encourage new entrants. Countering the attraction of high profits, however, are the costs of building bulk plants, setting up distribution networks, and establishing retail outlets in the scattered communities of Southeast. What steps could be taken by the Legislature to lower entry barriers to the Southeast g[illegible]soline

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(Footnote Continued)
violation of the antitrust laws occurred. Our investigation in this area is continuing.

market are beyond the scope of this report, but certain
further attention by the Southeast legislative delegation

Sincerely yours,

Norman C. Gorsuch
Attorney General

NCG/glg

Enclosure

cc: Honorable Ben Grussendorf
Speaker of the House
w/enclosures

Representative Peter Goll
Representative Robin Taylor
Representative Jim Duncan
Representative John Sund
w/enclosures

ATTACHMENT B
Unleaded Regular Gasoline Prices
at Juneau's Retail Outlets

UNLEADED REGULAR GASOLINE PRICES AT JUNEAU'S RETAIL OUTLETS
(In Dollar/Gallon and includes federal,
State and local taxes)

Retail Outlet	June 1, 1987	September 1, 1987	September 23, 1987
Unocal Brand			
Downtown Union 76	$1.359	$1.309	$1.309
Woodsey's Union	1.289	1.289	1.289
Airport Union 76	1.359	1.309	1.309
DeHart's	1.269	1.229	1.229
Chevron Brand			
Gas 'n Go	$1.329	$1.279	$1.279
Valley Chevron	1.379	1.379	1.379
Paul's Chevron	1.359	1.309	1.309
Fishermen's Bend	1.229	1.209	1.209

Note: Prices collected via telephone surveys.

Prepared by the House Research Agency, September 1987.