SB

214

Need help with heating bills?

The Heating Assistance Program strives to ensure that no one's health is jeopardized due to the inability to pay heating bills.

For many Alaska households, heating costs place a severe and continuing stress on the family's budget. In some instances, the household is forced to make painful decisions regarding which bills to pay and which necessities to survive without.

The Heating Assistance Program (HAP) helps eligible low-income households pay for winter heating costs. HAP will provide a one-time benefit to eligible households to be used for heat and associated electric bills. The payment amount is determined by geographic location, fuel type, income, and household size.

How does it work?

We provide a one-time benefit to eligible households to be used for heating bills.

- An overdue bill or cut-off notice is not required.
- You do not have to own your home or pay heating bills directly to be eligible for assistance.
- You do not have to be receiving public assistance to qualify.

How to apply...

STEP 1: Application

Application forms are available from your heating supplier, electric company, WIC clinic, Senior Center, Division of Public Assistance Office, or we'll mail one to you upon request. You can also download one from our web site at:
http://www.hss.state.ak.us/dpa/heat

To apply, complete the application form, enclose the following information, and mail it to us:

- Proof of gross income from all household members for the calendar month prior to application date;
- A copy of your current heat and electric bills (if you pay for your home energy directly);
- If you rent, a copy of your rental agreement and a recent rent receipt.

STEP 2: Notification

We will determine if you are eligible based on the information provided. You will be notified of eligibility status within 45 days. If you are eligible, you will be informed of the amount of assistance you will receive.

STEP 3: Payment

If you are eligible, a payment is made to your heating vendor as a credit to your account or, in some cases, directly to you.

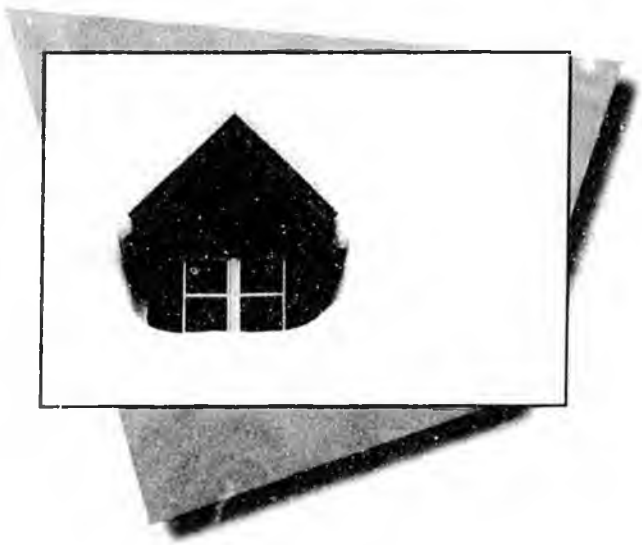
For more information contact us at:
(800) 470-3058
www.hss.state.ak.us/dpa/heat

It's easy to apply!

Just complete the application form, enclose the requested information and mail it to us.

Applications must be postmarked between September 1 and April 30. Payments are awarded beginning November 1.

Income guidelines change annually. This information may be obtained on our website at *www.hss.state.ak.us/dpa/heat* or by calling (800) 470-3058.



The Heating Assistance Program is funded by the federal Low Income Home Energy Assistance Program (LIHEAP)

State of Alaska
Heating Assistance Program
400 Willoughby, Suite 301
Juneau, AK 99801-1700

The Heating Assistance Program

Let us help you stay warm this winter!

(800) 470-3058
www.hss.state.ak.us/dpa/heat

HAP
Health and Social Services
Div. of Public Assistance

Alaska State Legislature

Senate Majority Web: www.akrepublicans.org

Sponsor:	Senator Albert Kookesh
Sponsor:	Senator Gene Therriault
Current Version:	SB 214
Contact:	Dave Stancliff, 465-4797

Fact Sheet for: Senate Bill 214

Summary:

- Appropriates the following amounts from the general fund for energy assistance and weatherization:
  - $150,770,000 for an energy dividend to residents eligible for the 2005 permanent fund dividend.
  - $5,700,000 for the power cost equalization program.
  - $10,000,000 to be allocated over the next six years for the low income weatherization program.

Benefits:

- Helps Alaska residents cope with escalating energy costs.
- Provides three methods to share a portion of the current budget surplus with Alaskans.
- Assists rural Alaskans by providing the funding needed for the power cost equalization program for 2006.

Background:

- SB 214 funds three separate programs to provide relief for high energy costs. The energy dividend program would pay $250 to each individual who was eligible for a 2005 permanent fund dividend, and is contingent on passage of SB 215, which establishes the program.

  The PCE program, administered through the Department of Commerce, Community and Economic Development, was established in 1984 as a successor to similar programs in effect since 1980. It reduces the cost of electricity in communities whose primary source of electricity is diesel fuel—characteristically small, remote communities with small populations.

  The Alaska Housing Finance Corporation administers the low-income weatherization program to improve the energy efficiency of low-income homes statewide.

Alaska State Legislature

SENATOR
GENE THERRIAULT
Mailing Address
119 N. Cushman, Suite 101
Fairbanks, Alaska 99701
(907) 488-0857
Fax (907) 488-4271

While in session
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797
Fax (907) 465-3884
Senate District F

Senate

Senate Bills 214 and 215

Background

During the fall of 2005 I participated in two public forums in Interior Alaska discussing the approaching winter season and the impact on individual Alaskans from high-energy costs.

At the first meeting fuel oil distributors and lenders in the interior market attended. The members of the Interior Delegation who were in attendance that day heard concerns from the distributors that a growing number of their customers were likely to be unable to pay their monthly fuel bills and they as independent businesses would not be able to carry these unpaid accounts on their books. After I prompted some discussion on the current low income heating assistance program the response back from the distributors was that they feared there would be many households that did not qualify for the (LIHEAP) (Low Income Energy Assistance) program and were struggling to cover their energy costs.

The second forum was a radio call in program where much of the discussion centered on energy costs. One caller suggested that the state should sell its oil resources below market value to lower energy costs to citizens. After I had discussed the constitutional prohibitions such actions and the impact it would have on the permanent fund, the caller challenged me to propose a way to give Alaskans assistance to mitigate the rapid escalation of energy costs. The result of those meetings and subsequent discussions in my office was the introduction of SB 214 and SB 215.

Email: Senator_Gene_Therriault@legis.state.ak.us

TO: Senator Gene Therriault

FROM: Citizens of Nulato

DATE: November 21, 2005

SUBJECT: 2006 Supplemental Energy Dividend Bill

During 2005 while the State of Alaska earned well over $1 billion from the oil industry, everyone else throughout Alaska experienced rising fuel costs that caused municipalities to shutdown, strained the working man's budget, all this and more while the state's coffers were consistently added to.

It's time that the State of Alaska consider the distressing conditions of its citizens, especially those in the rural villages who are burdened with $5.00 to $10.00 per gallon of gas.

As the 2006 Legislature gets underway in January, 2006, your first order of business must be to pass a Supplemental Energy Dividend Bill, payable to every Alaskan who received a 2005 Permanent Dividend Check.

A $500.00 supplemental dividend check for 2006 will help alleviate the Alaskan's financial woes and help them meet their energy expenses.

Signed by the Citizens of Nulato

PRINTED NAME:	SIGNATURE:
Elyan Peter	Elyan Peter
WALTER STICKMAN SR.	Walter Stickman Sr.
HARRY DEMOSKE	Harry Demoske
Vernon A Moses Sr.	Vernon A Moses Sr.
Doug Peter	Doug Peter
Ross Moses	Ross Moses
George Agnes SR	George D. Agnes Sr.
Christopher Stanley	Christopher Stanley
Lisa Patsy	Lisa Patsy
Shirley Moses	Shirley Moses
Ladean Ambrose	Ladean Ambrose

PRINTED NAME:	SIGNATURE:
Jennie Nickoli	Jennie Nickoli
Grace L. Patsy	Grace L. Patsy
Shirley Kriska	Shirley Kriska
Josephine McGinty	Joseph McGinty
RUTH A. MADROS	Ruth A Madros
Berchmen Esmailka	Berchmen Esmailka
Rita Demoski - Painter	Rita Demoski - Painter
Marilyn Marshall	Marilyn Marshall
Jim Bob Webb	Jim Bob Webb
Connie Stickman	Connie R. Stickman
[illegible] Demoski	[illegible] Demoski
LAVANA Sommer	Lavana Sommer
Maryana Patsy	Maryana Patsy
Eileen M. Stickman	Eileen M. Stickman
HAZEL D. Painter	Hazel D. Painter
Kathleen M. Sam	Kathleen M. Sam
Eddie Hildebrand	Eddie Hildebrand
Flora Esmailka	Flora Esmailka
[illegible] Sr	[illegible]
[illegible] ESMAILKA SR	[illegible] Esmailka SR
[illegible] Sommer Sr III	[illegible] Sommer [illegible]
Rudolph J. Peters Sr.	Rudolph J. Peters Sr
Bruce D. Painter II	Bruce D. Painter
Walter Yaska Sr	[illegible]
Robert Ruzicka	Robert Ruzicka
Virginia Patsy	Virginia Patsy
EDWARD Demoski	Edward Demoski
George Semaken	[illegible]
Howard Esmailka	Howard Esmailka
Michael W. Silas	Michael W. Silas

PRINTED NAME:	SIGNATURE:
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FRED SIMMER SR.	[illegible]
Frank Paul Frantz	[illegible]
Ida Demoski	[illegible]
ADOLPH C EKADA	[illegible]
Rudy Demoski	[illegible]
Flora Nickoli	[illegible]
Carl Nickoli	[illegible]
Mary D Stickman	[illegible]
Michael J Stickman	[illegible]
Rodney Hildebrand	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
Colleen Stickman	[illegible]
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Melanie Hibbert	[illegible]
[illegible]	[illegible]
GLORIA ZIEBELL	[illegible]
Jessica Lohmer	[illegible]
Nathan Ekada	[illegible]
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Mary N. Madros	[illegible]

PRINTED NAME:	SIGNATURE:
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George Semaken	[illegible]
[illegible]	[illegible]
Joseph Stickman	Joseph Stickman
Rosal Peter	[illegible]
Ronald Stickman SR	[illegible]

State of Alaska
Legislative Members
Juneau, AK.

Subject: Budget Considerations/Priorities
Reference: Denali Park North Access and Stampede Road Projects

Dear Sen. Jerry Therriault

I have attended several meetings in reference to studies/updates on the proposed Denali Park Northern Access Route via Stampede road. I do not criticize the concept of a Northern access to Denali. As a matter of fact, I embrace it. I simply think that the Stampede route is too restrictive and not very well thought out. A majority of the Denali Borough is opposed to the Stampede route.

It seems there has been no thought given to the town of Healy. What will Healy become in 5, 10, 15, 20, or even 50 years? Is there any projected size or direction of Healy's growth? Due to its geographical location, Healy has to grow to the North when it grows, and growth will surely happen. Healy, and the Denali Borough, are both in their infancy, but not for long.

Since the Parks Highway is the major North/South route between Fairbanks and Wasilla, is there a projection of its increase in size/width? Will it become a multiple lane, limited access road, requiring frontage roads in the Healy area?

If Stampede is selected as the northern access route, will it soon be in the middle of a city center? Will it become the source of congestion that it is proposed to eliminate? I don't think residents are willing to blindly follow legislators that have not considered probable future growth issues, especially when those legislators do not live or work in this area themselves.

The more tourist industries grow, the more support elements will be required. More support elements could be located in Healy, giving us good growth possibilities for business development and better job opportunities for local residents.

Why would you want to strangle us to death, by restricting growth potential, in any way? Denali National Park borders stampede road on three sides. This pretty much limits business growth to tour companies. Tour companies, who take the profits made and go home, leaving a ghost town, for all but four months of the year. Can't we do better than that?

Even if the expansion is for only four or five months, what services will be required by the Denali Borough and/or the Healy area? Must we provide 24 hour medical, fire, and emergency services? Is there a need to identify and site refuse disposal facilities? Or, is what we now have, sufficient for the next 30 years? Do we need water and/or sewage treatment plants to accommodate an ever-increasing population, both seasonal and permanent? Do laundry/shower facilities need to be increased from current levels? Do we need motor home, bus, and/or car wash facilities? How about a bank, a supermarket, a hardware store, or automotive maintenance facility?

Perhaps a cold storage facility to make storage/access to supplies more readily available to tour companies, as well as local businesses and residents, in a more economically feasible situation than we already have? We certainly have close enough proximity to the railroad, which could be utilized to service such a facility. Would this reduce some of the truck traffic on the Parks Highway?

Have you even asked ANY of these questions before you voted for approval of this project? As the project is currently funded, there would be zero benefits to the local residents. Experience base for tourists would not be realized. No relief for traffic congestion at the current park entrance would be forth coming. There would be little, or no, natural resource development opportunities.

One thing is for sure... There would be no additional monies approved for maintenance budgets for local D.O.T. facilities. You folks are always real quick to cut maintenance budgets, (except for education). You took additional funds for education from the permanent fund, but you don't even concern yourselves with the fact that school busses can't safely pick up children for school. School bus stops and turn-a-rounds are not plowed and/or sanded BEFORE busses are on routes. If education is really important enough to tap the permanent fund, would it not follow that safety of the students (and teachers) should be considered, to and from the schools? The permanent fund is there for the good of all residents of the state of Alaska. It is not there just for a

dividend check. Heck... I'd give it back if our community could benefit, as a whole, under a leadership of wisdom.

This state builds all kinds of nice rest facilities along the Parks Highway. They must be built for the tourists, because when the tourists are gone, these facilities are locked up, closed down, and few are even plowed out. They are not opened until the following spring. So, for seven months, or so, there are no facilities available to resident/local night travelers. If you need to use a bathroom at night, there is nothing open from Fairbanks to the Veterans Memorial! It would seem the five million dollars earmarked for the Stampede project, could be better spent lighting, heating, cleaning, and plowing all the rest areas. It would sure be nicer, (and less of a health hazard) than having to clean up feces, underwear, handkerchiefs, T-shirts and toilet paper, at the ends of our driveways and /or the few pull outs that are open.

You folks that live in the city are way out of touch with the reality of rural Alaska, (which, by the way, is the biggest part of this state)! It seems that personal gain and greed are a driving force behind all of our legislative actions for some reason. You guys took the longevity checks from our pioneering seniors. That debt would have been reduced every year by attrition alone, and would ultimately be gone. Yet you took this small check from them on the premise that it was so small, they didn't need it anyway. Then, you voted yourselves a big fat raise. Evidently, the budget was not really a concern, as was stated.

Governor Murkowski bought himself a private jet that can't even be landed at most of the airports in Alaska, especially not at most of the villages. Taxpayers furnish a house in Anchorage, for him, because he may need to be close to his doctor. How is he, or any of you, more important than any other Alaska resident? I think the concept of REAL leadership was lost somewhere along the way. There are no Generals leading charges anymore. None of our leaders go without food or water to make sure that their people have plenty. Where have we gone wrong? Has God decided who should have enough to eat and a place to live, or is it a genetic predisposition among our "leaders"? Leaders are our legislators, at all levels of government. Recent Emergencies have proven that a large gap exists, especially between Republicans and everybody else. Things have gone very wrong over the 60 years that I have been alive. Ethics no longer have any relationship with humanities and moral issues.

My first thought when I heard about the five million dollars for the Stampede extension was, "I wonder how many legislators, or their families/friends own or have interests in property or businesses that would benefit from this project?"

My second thought is that, "It makes no sense to throw five million dollars at a project that could not achieve any of the stated goals, unless it's just a 'foot-in-the-door' and an excuse to not consider any of the alternate routes."

Please don't cram this project down our throats! Especially when you are not prepared to fund the project in its entire scope. Allow us to grow and have some say in our future. This is our home! We'll have suggestions and questions that you won't even think of/about.

Please review your decisions and look at the proposed alternate routes for the Parks North Access. Wouldn't it be nice if the access route could do double duty by opening up state and Native lands, and provide access to villages like McGrath, Lake Manchumina, and others? The Stampede route would provide no possibility of such potential year round access.

I do apologize for expressing so much grief and frustration with the actions of current officials in our government, but I needed to get it said. Perhaps you can be a part of the solution, rather than a part of the problem. I pray that this can be so!

Respectfully,

Charles L. Saylor

Charles L. Saylor
HC 1, Box 3780
Healy, A. 99743

State of Alaska

Department of Health & Social Services

Frank H. Murkowski
Governor
P.O. Box 110001
Juneau, Alaska 99811-0001
FACT SHEET

Karleen Jackson
Commissioner
907-465-3030
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December 6, 2005

Heating Assistance Program Funding

What is the Heating Assistance Program?

- The Heating Assistance Program (HAP) provides assistance to low-income households to offset the cost of home heating.
- The program is 100 percent federally funded by the Low-Income Home Energy Assistance Program (LIHEAP) block grant.
- The Heating Assistance Program accepts applications from September 1 through April 30, and begins issuing benefits on November 1. An eligible household will receive one heating assistance grant during this period. The grant is typically paid to the home energy vendor and reflected as a credit on the customer's account.
- Congress is expected to fund LIHEAP in FY 2006 at the same level as FY 2005, a total of $11.9 million for Alaska's state and tribal LIHEAP.

Issues

- The Governor is requesting $8.8 million in state funds in fiscal year 2006 to supplement the LIHEAP funds. The funds will be used to increase household grants. The Department will also grant funds to the Alaska tribal LIHEAP providers to supplement their programs.
- The price of home heating oil has increased 90% over the past two years, based upon Alaska spot market prices from 10 communities around the state. This is creating great difficulties for low income Alaskans, as their grants do not adequately cover their increased costs.
- In Kotzebue the average grant two years ago purchased 735 gallons of home heating oil compared to 402 gallons today. In Nome the number of gallons has decreased from 650 to 339 gallons.
- In fiscal year 2005, 9,055 households received a HAP grant, with another 4,924 households served by tribal LIHEAP providers. So far this winter the number of applications received by the HAP has increased 18 % over the same time last year. Low-income households in virtually every community in Alaska are assisted by LIHEAP.

-- More --

Major Goals

- Increase benefits for Heating Assistance Program recipients and tribal LIHEAP programs to counter increases in energy prices.
- Continue to provide benefits to all eligible Alaskan households that apply for assistance.
- Minimize the economic impact of customer bad debt on Alaska home energy suppliers, particularly in rural Alaska.

-30-

For more information, please contact

Sherry Hill (907) 465-1618, Cell (907) 321-2838
Jeff Kasper (907) 465-8194

DIVISION OF COMMUNITY ADVOCACY
REPORT TO THE COMMISSIONER

CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA

INTRODUCTION

Fuel prices have significantly increased over the past year across Alaska. With the onset of the winter season and associated extreme low temperatures, rural Alaska communities and households that are reliant on fuel to heat their homes and buildings and to generate electricity are confronted with the challenge of paying increased retail fuel prices to meet basic survival needs. Current nationwide statistics suggest households heated primarily with heating fuel are paying approximately 32% more in 2005 than in 2004 (United States Energy Information Administration, 2005). Significantly increased fuel and energy costs combined with high unemployment rates, limited local economic bases, and local governments that are struggling to provide basic local services have presented rural Alaska communities and households with difficult circumstances.

In response to current rural Alaska energy challenges, Governor Frank Murkowski has pledged to seek financial assistance to meet rising fuel costs, provide emergency assistance for small municipalities, and provide a state contribution to a federal program that helps low-income households pay for energy. The Murkowski Administration has advocated for a variety of specific programs focused on alleviating the consequences of increased retail fuel prices including the following: 1) Small Municipality Energy Assistance Program; 2) Bulk Fuel Revolving Loan Fund; 3) Fuel Bridge Loan Program; 4) Power Cost Equalization; 5) Low Income Home Energy Assistance Program; 6) Power Project Loan Fund; 7) Power, Fuel, and Hyrdo Training; and 8) Bulk Fuel Upgrades.

In an effort to assess current retail fuel prices and start tracking longitudinal price changes across rural Alaska, the Division of Community Advocacy conducted a statewide survey of retail heating fuel and gasoline prices in a cross-section of select Alaska communities. This report, *Current Community Conditions: Fuel Prices Across Alaska*, summarizes fuel survey findings, provides a national perspective of fluxuating fuel prices, and presents a short case study of increased fuel costs and associated impacts to electrical costs in five rural Alaska communities.

PREPARED BY RESEARCH AND ANALYSIS SECTION
DIVISION OF COMMUNITY ADVOCACY
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

DECEMBER 2005

METHODOLOGY

The DCA Research and Analysis Section, in consultation with the Local Government Assistance Section, developed the survey instrument and community sample frame. In short, communities were selected to represent differing socioeconomic conditions and various Alaska regions including the Interior, North Slope, South Coastal, Southeast, and Western Regions. Selected communities had also generally been the recipient of an Alaska Energy Authority bulk fuel project in the past. Since a non-probability sampling method was utilized, this survey should be considered a non-scientific study with results not generalizable to the entire population of rural Alaska communities.

Local Government Specialists from DCA Regional Offices implemented the survey instrument during November 17 – 29, 2005. In total, local fuel retailers from 100 communities were contacted (via telephone) and requested to provide current heating fuel and gasoline prices. Survey results should be considered one-time measurements and representative of fuel prices on the particular day of contact. Furthermore, heating fuel and gasoline prices may have changed between the time of contact and publishing of this report.

CURRENT FUEL PRICES ACROSS ALASKA

As Table 1 on the following page illustrates, average heating fuel prices per gallon vary across Alaska by region. Western Alaska communities report the highest average heating fuel retail price at $3.73 per gallon while North Slope communities report the lowest retail price at $1.64 per gallon. Of noteworthy importance, the North Slope Borough provides free heating fuel for residential use through village corporations who distribute fuel to borough community residents, charging only a delivery fee on a per gallon basis. The North Slope Borough does not subsidize heating fuel to village corporations for commercial use. Consequently, heating fuel retail price for commercial entities is higher than residential use heating fuel (see Table 2).

To accurately summarize statewide heating fuel prices, it is appropriate to exclude North Slope Borough communities due to the North Slope Borough subsidy for residential use heating fuel. When considering statewide heating fuel prices, Everts Fuel in Hughes (Western Alaska) reported the highest heating fuel retail price at $5.40 per gallon. In contrast, the City of Akutan (South Coastal Alaska) reports the lowest heating fuel retail price at $2.30 per gallon. On average, heating fuel retail price is $3.48 per gallon across Alaska with 93 communities reporting heating fuel prices.

Table 1. Heating Fuel (#1) Retail Price Summary

High	$5.40	$5.40	$5.40	$2.50	$4.75	$4.10	$4.65
Low	$1.20	$2.30	$2.31	$1.20	$2.30	$2.80	$2.99
Range	$4.20	$3.10	$3.09	$1.30	$2.45	$1.30	$1.66
Mean	$3.37	$3.48	$3.34	$1.64	$3.30	$3.24	$3.73
Median	$3.39	$3.40	$3.05	$1.53	$3.15	$3.10	$3.70
Total Communities Reporting	**99**	**93**	**15**	**6**	**27**	**11**	**40**

As Tables 2 and 3 illustrate, average gasoline prices per gallon also vary across Alaska by region. North Slope communities report the highest average gasoline retail price at $4.26 per gallon while Southeast communities report the lowest retail price at $3.29 per gallon. Statewide retail prices indicate significant variation in gasoline retail price. Specifically, Kuukpik Corporation in Nuiqsut (North Slope Region) reports the highest gasoline price at $6.25 per gallon. In contrast, Nenana Heating in Anderson (Interior Alaska) reports the lowest gasoline retail price at $2.11 per gallon. On average, gasoline retail price is $3.83 per gallon across Alaska with 95 communities reporting gasoline prices.

Table 2. North Slope Heating Fuel (#1) and Gasoline Retail Prices

Anaktuvuk Pass	Nunamiut Corporation	$1.20	$4.29	$5.94
Atqasuk	Atqasuk Corporation	$1.45	Not Available	$4.10
Barrow	BUEC, Inc	Natural Gas	Natural Gas	$3.95
Kaktovik	Kaktovik Inupiat Corporation	$1.60	$4.25	$2.65
Nuiqsut	Kuukpik Corporation	$2.50	Not Available	$6.25
Point Hope	Tigara Corporation	$1.64	$3.90	$3.57
Wainwright	Olgoonik Corporation	$1.45	$3.26	$3.35

Table 3. Gasoline Retail Price Summary

High	$6.25	$5.00	$6.25	$5.25	$4.15	$5.50
Low	$2.11	$2.11	$2.65	$2.75	$2.76	$3.39
Range	$4.14	$2.89	$3.60	$2.50	$1.39	$2.11
Mean	$3.83	$3.61	$4.26	$3.65	$3.29	$4.09
Median	$3.75	$3.50	$3.95	$3.46	$3.20	$4.09
Total Communities Reporting	**95**	**15**	**7**	**22**	**11**	**40**

Method of transporting heating fuel and gasoline varies across Alaska with fuel retailers using barge, air, truck, or a combination to transport fuel into the community (Table 4). With 100 communities reporting, the wide majority (83%) report barging fuel into the community. In contrast, nine communities (nine percent) report trucking fuel into the community, three communities (3%) report air freighting fuel into the community, and four communities (4%) utilize multiple methods of transporting fuel into the community (i.e., barge/truck, barge/air, or truck/air). Valdez reports no need to transport fuel because an on-site refinery exists within the community.

Table 4. Fuel Transportation Method

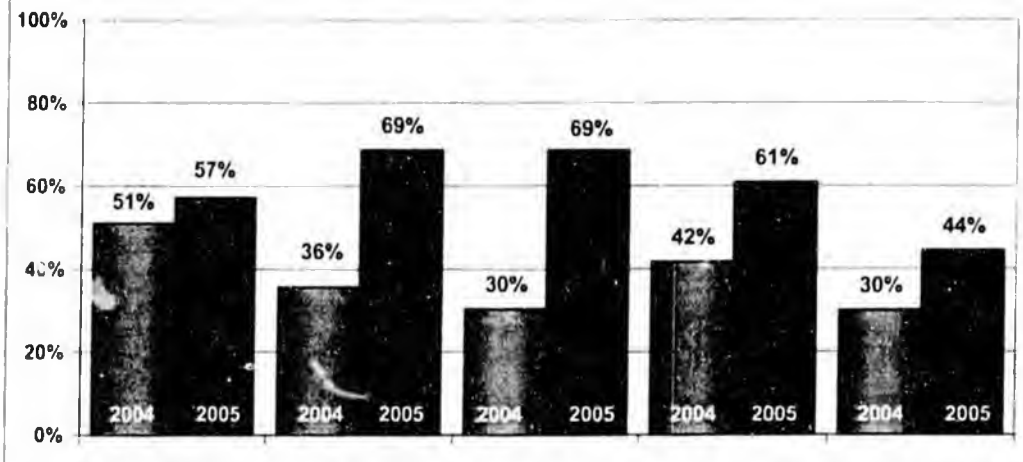
No Transport Required	1	0	0	1	0	0
Barge Only	83	4	4	24	11	40
Truck Only	9	8	0	1	0	0
Air Only	3	3	0	0	0	0
Barge/Truck	1	0	0	1	0	0
Barge/Air	2	0	2	0	0	0
Truck/Air	1	0	1	0	0	0
Total Communities Reporting	**100**	**15**	**7**	**27**	**11**	**40**

COMMUNITY CASE STUDIES: INCREASING FUEL PRICES AND ELECTRICAL COSTS

Rural communities rely heavily on diesel fuel to generate electricity and to heat homes and buildings. Not only do rural communities depend on this form of fuel for meeting basic energy needs, the cost of fuel as a percent of total community operating cost is also significant. As a supplement to the community fuel survey, the DCA Research and Analysis Section also examined longitudinal fuel costs as a percent of total electrical costs in a select number of remote communities from various Alaska regions. In total, five case-study communities were selected for further evaluation including Coffman Cove, McGrath, Ouzinkie, St. Paul, and Tanana.

As Figure 1 illustrates, case-study findings suggest Coffman Cove, McGrath, Ouzinkie, St. Paul, and Tanana have generally experienced significant increased fuel costs as a percent of total electrical costs between 2004 and 2005. Specifically, fuel costs as a percent of total electrical costs increased six percent in Coffman Cove, 14 percent in Tanana, 19 percent in Ouzinkie, 33 percent in McGrath, and 36 percent in Ouzinkie. Of noteworthy importance, 2005 figures were current through mid summer and are likely to have increased by the end of the year.

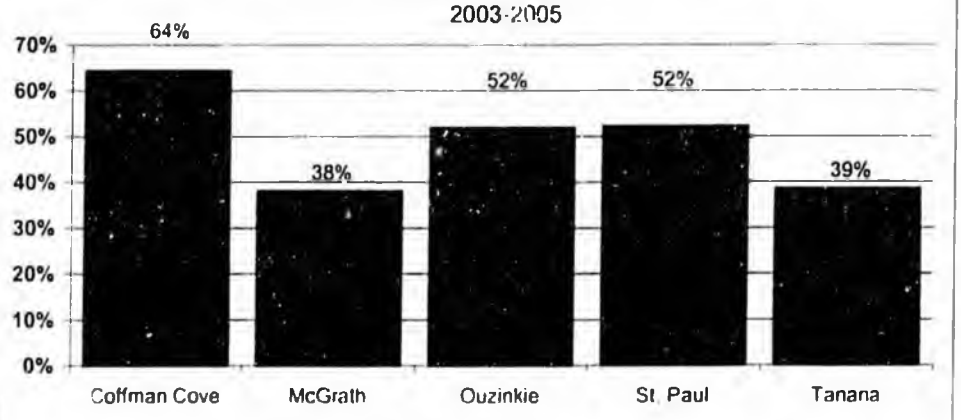
Figure 1
Changes in Fuel Costs as a Percent of Total Electrical Costs



Source: Power Cost Equalization Program, Division of Community Advocacy

Figure 2 depicts a three-year average (2003 – 2005) of fuel cost changes in selected case-study communities. Coffman Cove reports the highest average diesel fuel cost increase at approximately 64 percent. In contrast, McGrath reports the lowest average diesel fuel cost increase at approximately 38 percent. The remaining case-study communities, Ouzinkie, Tanana, and St. Paul, have also experienced diesel fuel cost increases ranging from 39 to 52 percent.

Figure 2
Increased Diesel Fuel Prices for Electrical Utilities
3 Year Change in Select Alaska Communities
2003-2005



Source: Alaska Industrial Development and Export Authority

THE NATIONAL CONTEXT

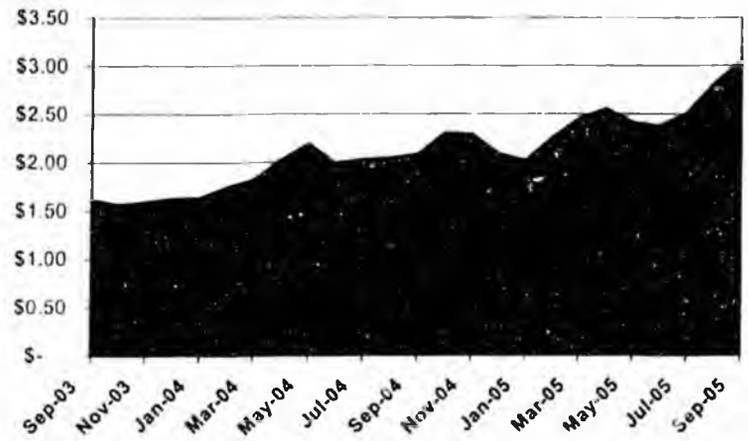
Gasoline and diesel fuel prices are expected to remain elevated over the short term as U.S. refining companies continue their gradual recovery following the devastation of September hurricanes Katrina and Rita in the Gulf of Mexico.

In September 2005, retail diesel fuel prices nationwide averaged $3.18 per gallon compared with $2.07 one year ago (Figure 3). According to the U.S. Energy Information Administration, which publishes official energy statistics from the United States Government, residential heating expenditures for this reporting period reflected fuel supply concerns following the hurricanes.

As recently as October 2005, the U.S. Department of Energy reported up to 15 percent of the U.S. refining capacity could be out of service for numerous weeks – especially with over 90 percent of the Gulf of Mexico's crude oil production shut down as a result of hurricane damage. However, recent U.S. Energy Information Administration mid-term trend information regarding heating fuel inventories and pricing predicts lower fuel prices heading into the 2005/2006 winter season.

It now appears fuel supply concerns are diminishing due in part to an unusual act of good luck and timing. Following the damages sustained from Hurricane Katrina, foreign fuel suppliers immediately responded to demand by increasing their exports to the United States. These new supplies of energy began entering the U.S. fuel distribution chain just as the second devastating hurricane (Rita) made landfall. The predicted crash in supply never occurred and some damaged refineries managed to come back on line sooner then expected.

Figure 3
Nationwide Diesel Fuel Retail Price



Source: U.S. Energy Information Administration

U.S. residential heating fuel prices decreased for the second time during November, going from $2.51 per gallon during week one to $2.47 per gallon by November 14. However, the current price for heating fuel ($2.47 per gallon) still represents a $0.45 increase over the same time last year, which is equivalent to a 22 percent per gallon price increase. Wholesale heating fuel prices (current November 14) stand at $1.77 per gallon, down $0.08 from November first, but up $0.37 per gallon from a year ago.

ADDRESSING THE FUEL CHALLENGE: SHORT- AND LONG-TERM STRATEGIES

Effective short-term strategies for alleviating high fuel costs and corresponding impacts for rural energy primarily include implementing energy assistance funding programs, which can only occur through the continued cooperation between federal agencies, state agencies, local governments, and tribal governments. Currently, the State of Alaska has implemented several programs to assist with the high cost of energy. The Small Municipalities Energy Assistance Program (SMEAP), which began in Fiscal Year 2005, offers municipalities with populations less than 2,500 grants ranging from $22,396 to $67,188 for fuel purchase. Governor Murkowski announced he will again ask the legislature for another $6.4 million to be added to the Small Municipality Energy Assistance Program for the upcoming winter. Alaska Energy Authority's (AEA) Bulk Fuel Revolving Loan Fund provides loans to communities, utilities, or fuel retailers in rural communities to purchase emergency, semi-annual, or annual bulk fuel supplies. The Fuel Bridge Loan Program provides loan assistance to communities that are ineligible for AEA's Bulk Fuel Revolving Loan Fund. To date, the Fuel Bridge Loan Program has serviced 13 communities across Alaska. Governor Murkowski announced he will again seek full and supplemental funding from the Legislature for the Power Cost Equalization Program (PCE), which helps reduce the cost of electricity for residential consumers

and community facilities in rural Alaska. For the first time, Governor Murkowski has requested the addition of State funds for the federal Low Income Home Energy Assistance Program, which provides fuel purchase assistance to low-income households. The Power Project Loan Fund provides loans to local utilities, local governments, or independent power producers for the development or upgrade of electric power facilities, which includes bulk fuel storage facilities, waste energy conservation, or potable water supply projects.

While a variety of funding programs exist to address the short-term fuel challenge, long-term strategies remain elusive when considering the prognosis of predictable and sustainable energy costs. Seeking long-term solutions to the current fuel challenge will likely include a combination of greater fuel supply, developing appropriate local bulk fuel infrastructure, reducing transportation costs, and increasing local human capital. Specifically, AEA in collaboration with the Denali Training Fund, provides training opportunities to local residents regarding energy projects and infrastructure. The purpose of the training is to ensure community personnel have the appropriate skills to maintain bulk fuel infrastructure in a consistent and sustainable manner. Addressing the adequacy of bulk fuel farms is also a critical component of a long term strategy to addressing fuel prices. Specifically, many bulk fuel farms were constructed more than 20 years ago and are currently in poor condition. With substantial contributions from the Denali Commission, the Bulk Fuel Upgrades Program provides funding for the design/engineering, business planning, and construction management services to build bulk fuel farms in rural communities.

Recognizing the need to study and develop feasible short- and long-term strategies to address rural energy in Alaska, Governor Murkowski commissioned the formation of the Rural Energy Action Council (REAC). During 2005, REAC closely reviewed the Power Cost Equalization (PCE) Program, energy conservation measures, diesel alternatives, the development of fuel cooperatives, and the cost of energy for schools. As a result, REAC recommended short- and long-term strategies to lower the cost of energy in rural Alaska. Short-term strategies included the following: 1) fully fund the PCE Program; 2) front-load the PCE endowment; 3) develop a bulk fuel operator technical assistance program; 4) incorporate downstream tanks and pipes into bulk fuel infrastructure upgrades; 5) support the development of regional bulk fuel cooperatives; 6) recommend higher loan limits for Bulk Fuel Revolving Loan Program single and cooperative applicants; 7) improve power plant operational efficiencies and remote capabilities; 8) increase support for development of alternative energy sources including coal, instream, wind, and gas projects; 9) accelerate renewable energy programs and implement energy conservation measures; 10) continue low-income home energy assistance program funding; and 11) create a new line-item for school district energy funding.

REAC also identified the following as elements of a long-term approach to improving the affordability of rural energy: 1) study the direct impacts of high fuel cost in rural Alaska; 2) develop regional energy centers on rural campuses; 3) support a feasibility study to examine links with the Railbelt Energy Grid; 4) develop a fuel price reporting system for "non-PCE" communities; 5) divest the State of rural energy infrastructure; and 6) improve transportation and distribution systems. For further information regarding REAC and its resultant rural energy recommendations, please visit the following website: http://www.akenergyauthority.org/REAC/.

Appendix

Community Heating Fuel and Gasoline Survey

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.33):	Transport Method:		
Alatna	Interior	Everts Fuel	(907) 450-2307	$4.00	15%	$4.50	17%		Air	
Anderson	Interior	Nenana Heating	(907) 832-5445	$2.32	-33%	$2.11	-45%			Truck
Arctic Village	Interior	Everts Fuel	(907) 450-2307	$3.83	10%	$4.08	7%		Air	
Circle	Interior	Interior Fuel	(907) 456-1312	$2.85	-18%	$3.30	-14%			Truck
Delta Junction	Interior	Delta Fuel Company	(907) 895-4515	$2.31	-34%	$2.72	-29%			Truck
Eagle	Interior	Telegraph Hill Services	(907) 547-2261	$3.25	-7%	$3.50	-9%			Truck
Fairbanks	Interior	Petro Star - Flint Hill	(907) 488-2575	$2.44	-30%	$2.59	-32%			Truck
Galena	Interior	Crowley Marine Services	1-800-977-9771	$3.50	1%	$3.52	-8%	Barge		
Healy	Interior	Nenana Heating	(907) 832-5445	$2.54	-27%	$2.97	-22%			Truck
Hughes	Interior	Everts Fuel	(907) 450-2307	$5.40	55%	$4.75	24%		Air	
Huslia	Interior	Yukon Fuel	(907) 832-5476	$4.50	29%	$5.00	31%	Barge		
Minto	Interior	Alaska Petro	(907) 488-2575	$3.05	-12%	$3.75	-2%			Truck

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:		
Nenana	Interior	Interior Fuel	(907) 832-5445	$2.46	-29%	$2.96	-23%			Truck
Ruby	Interior	Dinega Fuel Corporation	(907) 832-5476	$4.15	19%	$4.40	15%	Barge		
Tanana	Interior	TCCo.	(907) 832-5476	$3.55	2%	$3.98	4%	Barge		
Anaktuvuk Pass	North Slope	Nunamiut Corporation	(907) 661-3026	$1.20	-66%	$5.94	55%	Barge	Air	
Atqasuk	North Slope	Atqasuk Corporation	(907) 633-6414	$1.45	-58%	$4.10	7%	Barge	Air	
Barrow	North Slope	BUEC, Inc	(907) 852-6166	Natural Gas	N/A	$3.95	3%	Barge		
Kaktovik	North Slope	Kaktovik Inupiat Corporation	(907) 640-6120	$1.60	-54%	$2.65	-31%	Barge		
Nuiqsut	North Slope	Kuukpik Corporation	(907) 480-6711	$2.50	-28%	$6.25	63%		Air	Truck
Point Hope	North Slope	Tigara Corporation	(907) 368-2235 or (907) 368-2126	$1.64	-53%	$3.57	-7%	Barge		
Wainwright	North Slope	Olgoonik Corporation	(907) 763-2614	$1.45	-58%	$3.35	-13%	Barge		
Akutan	South Coastal	City of Akutan	(907) 698-2228	$2.30	-34%	$2.78	-27%	Barge		
Atka	South Coastal	Atka Native Store	(907) 839-2230	$4.35	25%	$4.90	28%	Barge		
Chenega Bay	South Coastal	Chengega Bay Utility	(907) 573-5132	$3.00	-14%	$3.60	-6%	Barge		

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:		
Chignik	South Coastal	City of Chignik	(907)749-2280	$2.83	-19%	None Sold	N/A	Barge		
Chitina	South Coastal	Chitina Services Oil and Gas	(907) 822-3375	$2.69	-23%	$2.83	-26%	Barge		
Clark's Point	South Coastal	City of Clark's Point	(907) 236-1221	$3.82	10%	$3.82	0%	Barge		
Cordova	South Coastal	Hovers Mover	(907) 424-3221	$3.39	-3%	$3.36	-12%	Barge		
Dillingham	South Coastal	Delta Western	(907) 842-5441	$4.00	15%	$4.69	22%	Barge		
Glennallen	South Coastal	Service Oil and Gas	(907) 822-3375	$2.99	-14%	$2.87	-25%			Truck
Goodnews Bay	South Coastal	Mumtram Pikkai Village Corporation	(907) 967-8520	$3.08	-11%	$2.75	-28%	Barge		
Homer	South Coastal	Homer Run Oil	(907) 235-1393	$2.55	-27%	$2 89	-25%	Barge		Truck
King Cove	South Coastal	Peter Pan Seafood	(907) 497-2234	$2.58	-26%	$2.97	-22%	Barge		
Kodiak	South Coastal	Thompson Transfer	(907) 486-5774	$3.01	-14%	None Sold	N/A	Barge		
Kokhanok	South Coastal	Kokhanok Tribal Council	(907) 282-2202	$4.00	15%	$5.00	31%	Barge		
Larsen Bay	South Coastal	City of Larsen Bay	(907) 847-2211	$3.12	-10%	$3.25	-15%	Barge		
Nelson Lagoon	South Coastal	Crowley	(907) 989-2204	$3.30	-5%	$3.61	-6%	Barge		
New Stuyahok	South Coastal	New Stuyahok Village Corporation	(907) 693-3122	$3.80	9%	$4.63	21%	Barge		

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:
Nondalton	South Coastal	City of Nondalton	(907) 294-2235	$4.75	36%	$5.25	37%	Barge
Old Harbor	South Coastal	City of Old Harbor	(907) 286-220.	$3.15	-9%	None Sold	N/A	Barge
Ouzinkie	South Coastal	Ouzinkie Native Corporation	(907) 680-2208	$2.91	-16%	None Sold	N/A	Barge
Port Lions	South Coastal	Kizhuyak Oil Sales	(907) 454-2422	$3.39	-3%	$3.57	-7%	Barge
Saint George	South Coastal	Delta Western	(907) 859-2456	$3.86	11%	$3.86	1%	Barge
Sand Point	South Coastal	Paul Gundersen	(907) 383-2026	$3.15	-9%	None Sold	N/A	Barge
Seldovia	South Coastal	Seldovia Fuel and Lube	(907) 234-7622	$3.15	-9%	$3.16	-17%	Barge
Togiak	South Coastal	Togiak Village Corporation	(907) 493-5520	$4.38	26%	$4.51	18%	Barge
Unalaska	South Coastal	Delta Western	(907) 581-1295	$2.99	-14%	$3.18	-17%	Barge
Valdez	South Coastal	North Pacific	(907) 838-8850	$2.47	-29%	$2.84	-26%	On-site Refinery
Angoon	Southeast	Angoon Oil and Gas	(907) 788-3436	$3.30	-5%	$3.20	-16%	Barge
Craig	Southeast	Petro Marine	(907) 826-3296	$3.10	-11%	$2.76	-28%	Barge
Gustavus	Southeast	Gustavus Dray - Gustavus Propane	(907) 697-2481 or (907) 697-2481	$2.80	-20%	$3.30	-14%	Barge
Hoonah	Southeast	Hoonah Trading	(907) 945-3211	$3.41	-2%	$3.08	-20%	Barge

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	ercent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Ga[illegible] Average ($3.83):	Transport Method:		
Juneau	Southeast	Reliable Oil - Fred Meyer Gas	(907) 586-1490	$2.94	-16%	$2.91	-24%	Barge		
Kake	Southeast	Kake Tribal Fuel	(907) 785-36[illegible]1	$3.38	-3%	$3.49	-9%	Barge		
Pelican	Southeast	Lisianski Oil - Pelican Sea	(907) 735-2233 or (907) 735-2204	$3.47	0%	$3.69	-4%	Barge		
Petersburg	Southeast	Petro Marine	(907) 772-4251	$2.96	-15%	$3.06	-20%	Barge		
Point Baker	Southeast	Point Baker Trading Post	(907) 559-2204	$4.10	18%	$4.15	8%	Barge		
Thorne Bay	Southeast	Petro Alaska	(907) 828-3900	$2.85	-18%	$2.99	-22%	Barge		
Wrangell	Southeast	Wrangell Oil - Fennemore's Service	(907) 874-3276 or (907) 874-3687	$3.28	-6%	$3.55	-7%	Barge		
Akiak	Western	Kokarmiut Corporation	(907) 765-7228	$3.95	14%	$4.20	10%	Barge		
Anvik	Western	Deloyges, Inc.	(907) 663-6396	$3.85	11%	$5.50	44%	Barge		
Atmautluak	Western	Atmauthluak Limited	(907) 553-5539	$3.05	-12%	$3.55	-7%	Barge		
Bethel	Western	Crowley	(907) 543-2421	$3.37	-3%	$3.61	-6%	Barge		
Brevig Mission	Western	Brevig Mission Native Store	(907) 642-4091	$3.40	-2%	$3.80	-1%	Barge		
Deering	Western	Deering IRA	(907) 363-2138 or (907) 363-2157	$3.50	1%	$3.60	-6%	Barge		
Emmonak	Western	Emmonak Corp. Tank Farm	(907) 949-1129	$3.96	14%	$4.11	7%	Barge		

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:		
Gambell	Western	ANICA (Gambell Native Store)	1-800-426-2128 or (907) 985-5211	$3.45	-1%	$3.79	-1%	Barge		
Golovin	Western	Golovin Public Utilities	(907) 779-3681	$3.60	3%	$3.85	1%	Barge		
Grayling	Western	AYL Grayling Fuel Company	(907) 453-5124 or (907) 453-5240	$4.00	15%	$5.00	31%	Barge		
Holy Cross	Western	Holy Cross O.L. Company	(907) 476-7155	$3.70	6%	$4.25	11%	Barge		
Hooper Bay	Western	Crowley Marine	(907) 758-4007	$4.00	15%	$4.16	9%	Barge		
Kaltag	Western	Kaltag Cooperative	1-800-977-9771	$3.90	12%	$4.15	8%	Barge		
Kiana	Western	Kiana Traditional Council	(907) 475-2109	$4.25	22%	$4.75	24%	Barge		
Kotlik	Western	Kotlik Yupik Enterprises	(907) 899-4013	$3.50	1%	$3.98	4%	Barge		
Kotzebue	Western	Kikiktagruk Inupiat Corporation	(907) 442-3211 or (907) 442-3165	$4.55	31%	$4.65	21%	Barge		
Koyuk	Western	Koyuk Native Corporation	(907) 963-2424	$3.55	2%	$3.78	-1%	Barge		
Kwigillingok	Western	KWIK Marina Inc.	(907) 588-8112 or (907) 588-8313	$3.40	-2%	$3.79	-1%	Barge		
Marshall	Western	Masercuq Inc.	(907) 679-6617	$4.10	18%	$4.52	18%	Barge		
McGrath	Western	Crowley	(907) 524-3019	$3.97	14%	$4.14	8%	Barge		

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF Average ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:		
Mountain Village	Western	Azachorak Fuel	(907) 591-2825	$3.70	6%	$4.40	15%	Barge		
Noorvik	Western	Morris Trading Company	(907) 636-2161	$4.49	29%	$4.68	22%	Barge		
Nulato	Western	City of Nulato	(907) 832-5[illegible]6	$3.25	-7%	$3.75	-2%	Barge		
Nunapitchuk	Western	Nunapitchuk LTD.	(907) 527-5717	$3.00	-14%	$3.45	-10%	Barge		
Pilot Station	Western	Pilot Station Native Corporation	(907) 549-[illegible]512	$4.23	22%	$4.76	24%	Barge		
Quinhagak	Western	Qanirtuuq Corporation	(907) 556-3712	$3.52	1%	$3.88	1%	Barge		
Russian Mission	Western	Russian Mission Corporation	(907) [illegible]4-5885	$3.85	11%	$4.20	10%	Barge		
Saint Michael	Western	Saint Michael Fuel Company	(907) 9[illegible]-3271	$3.15	-9%	$3.50	-9%	Barge		
Savoonga	Western	ANICA (Savoonga Native Store)	1-800-426-2128 or (907) 984-6134	$3.45	-1%	$3.79	-1%	Barge		
Scammon Bay	Western	Askinuk Corporation	(907) 558-5411	$4.10	18%	$4.15	8%	Barge		
Shishmaref	Western	Shishmaref Native Store	(907) 649-3741	$2.99	-14%	$3.39	-11%	Barge		
Sleetmute	Western	Henry Hill Store	(907) 449-4427	$4.65	34%	$5.25	37%	Barge		
Stebbins	Western	Tapraq Fuel Company	(907) 934-2400	$3.25	-7%	$3.40	-11%	Barge		

Community	Region	Community Retailer: (entity selling fuel)	Community Retailer Telephone Number:	Heating Fuel #1 Retail Price: (selling price per gallon)	Percent +/- Statewide HF ge ($3.48):	Gasoline Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($3.83):	Transport Method:		
Teller	Western	City of Telle	(907) 642-3401	$4.02	16%	$3.91	2%	Barge		
Toksook Bay	Western	Nunakauiak Yupik Corporation	(907) 427-7928	$4.26	22%	$4.55	19%	Barge		
Tuntutuliak	Western	Qinarmiut Corporation	(907) 256-2315	$3.95	14%	$4.18	9%	Barge		
Unalakleet	Western	Unalakleet Native Corporation	(907) 624-3411	$3.15	-9%	$3.50	-9%	Barge		
Upper Kalskag	Western	City of Upper Kalskag	(907) 471-2220	$4.25	22%	$4.25	11%	Barge		
Wales	Western	Wales Native Store	(907) 664-2138	$3.80	9%	$4.07	6%	Barge		
White Mountain	Western	White Mountain Native Store	(907) 638-2210	$3.09	-11%	$3.39	-11%	Barge		

Energy Price Impacts on the U.S. Economy

What has happened to the share of energy in the U.S. economy since the early 1970s?

- Prior to the embargo of 1973-74, total energy expenditures constituted 8 percent of U.S. gross domestic product (GDP), the share of petroleum expenditures was just under 5 percent and natural gas expenditures accounted for 1 percent. The price shocks of the 1970s and early 1980s resulted in these shares rising dramatically to 14 percent, 8 percent, and 2 percent respectively, by 1981. Since that time, the shares have fallen consistently over the last two decades to current levels of about 7 percent for total energy, while petroleum has fallen even further to 3.5 percent and natural gas to just over 1 percent. The shares were lower during 1998, when oil and natural gas prices were lower, but have risen recently in response to higher oil and natural gas prices. (Figure 1)

- Part of the reason for the overall decline in the energy shares is the decline in the world oil price from its peak in 1981. The other reason is the steady decline in energy intensity, measured by energy consumption per dollar of GDP. This ratio has declined due to structural shifts in the economy and improvements in energy efficiency. (Figure 2)

- Although the U.S. has reduced its use of petroleum as a share of its economy, there is a growing dependence on imported oil. In 1973, net imports of petroleum made up 35 percent of petroleum product supplied (consumption). For 2000, this share has risen to over 50 percent and is expected to reach 64 percent by 2020. (Figure 3)

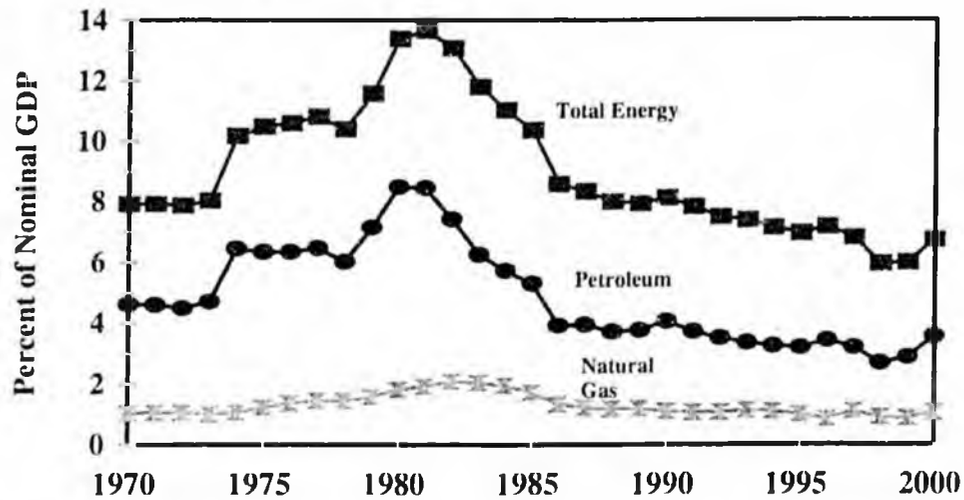
What does history tell us about how energy prices affect the economy?

- Viewed from a long-term perspective, inflation, measured by the rate of change in the consumer price index (CPI), tracks movements in the world oil price. Not only do oil and other energy prices constitute a portion of the actual CPI, but downstream impacts on other commodity prices will have a lagged effect on the CPI inflation. (Figure 4)

- Looking from the 1970s forward, there are observable, and dramatic changes in GDP growth as the world oil price has undergone dramatic change. The price shocks of 1973-74, the late 1970s/early 1980s, and early 1990's were all followed by recessions, which have then been followed by a rebound in economic growth. The pressure of energy prices on aggregate prices in the economy created adjustment problems for the economy as a whole. (Figure 5)

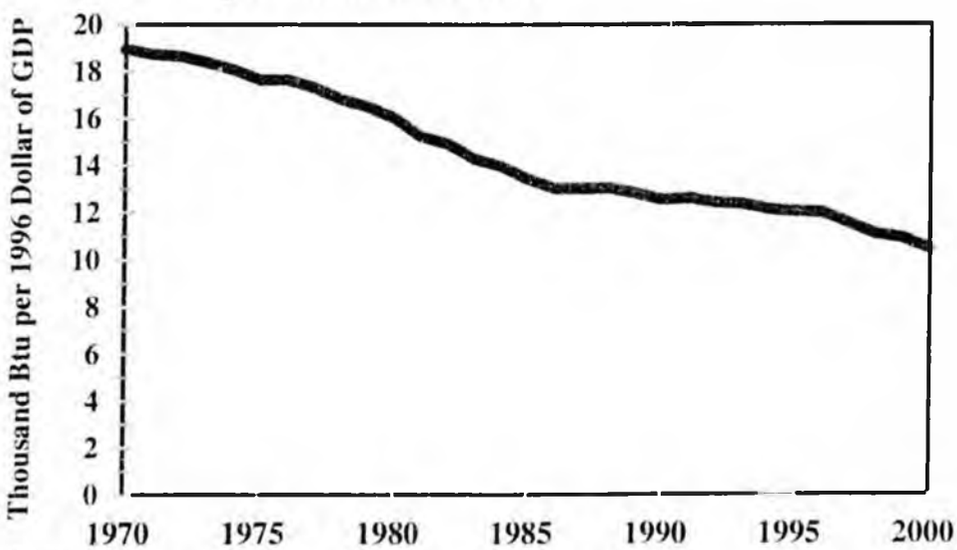
- In the past year, forecasters have acknowledged that higher energy prices can become a drag on the overall economy. Initially, overall CPI inflation was still very low, principally because inflation in commodities other than energy and agriculture was extremely low. However, the sustained high level of oil prices has begun to effect core inflation (minus energy and food) through continued pressure on prices of other commodities, in the United States and worldwide. And as historical events suggest, a downward adjustment in the growth of economic activity might be expected. In 1999, the inflation rate for the Consumer Price Index (All Urban Consumers) was 2.2 percent and the core inflation rate was 2.1 percent. However, during 2000 the CPI inflation rate rose to 3.4 percent, led by energy prices. Moreover, the core inflation rate also rose to 2.4 percent. The economy was no longer able to absorb the energy price rise, and higher energy prices began to affect prices of other goods and services. (Figure 6)

Figure 1. Energy Expenditure Share of the Economy



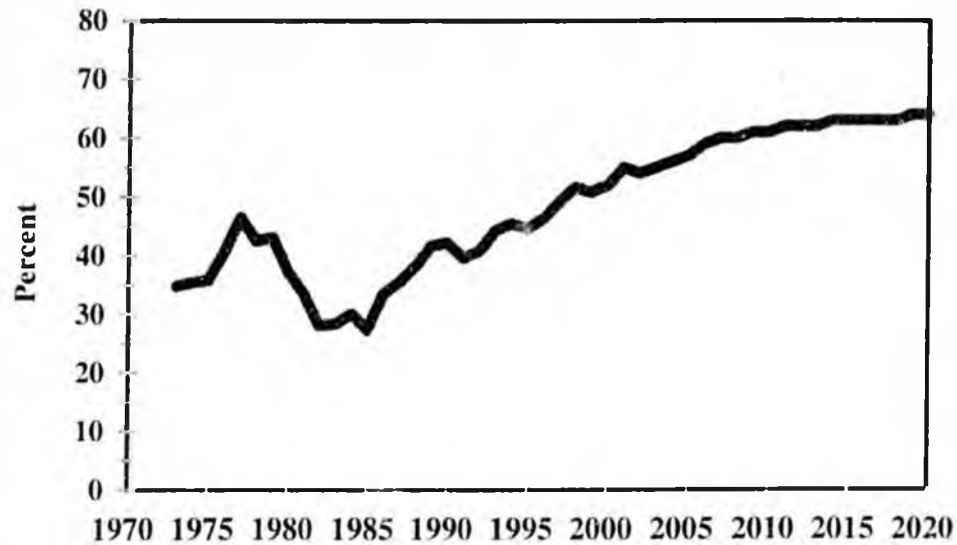
Sources:
State Energy Price and Expenditure Report 1997, Energy Information Administration, Aug. 2000;
Annual Nominal GDP Data from the Bureau of Economic Analysis found at http://www.bea.doc.gov/bea/dn1.htm
Annual Energy Outlook 2001, National Energy Modeling System run AEO2001.d101600a

Figure 2. Energy Consumption per Dollar of GDP



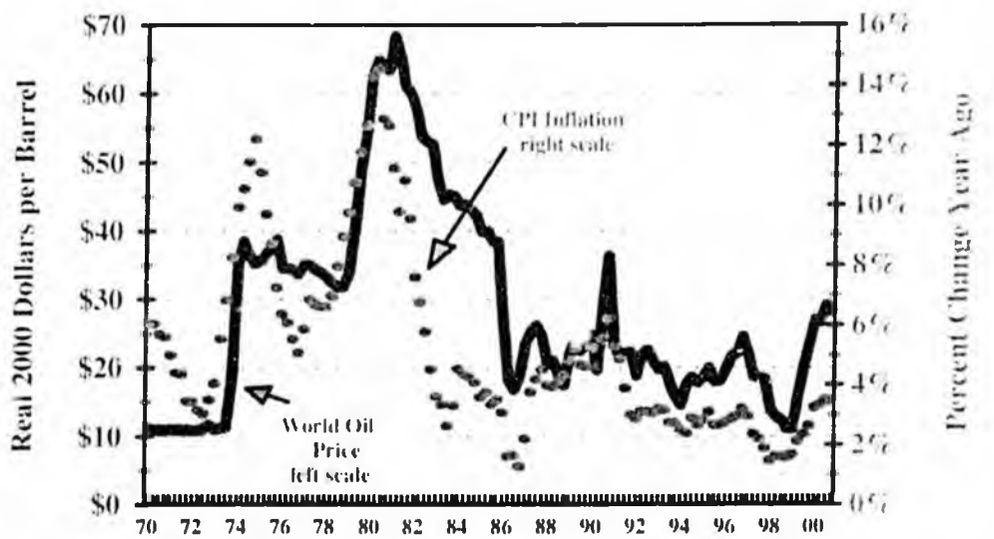
Sources:
Monthly Energy Review, January 2001, Table 1.8
Annual Energy Outlook 2001, National Energy Modeling System run AEO2001.d101600a

Figure 3. Net Import Share of Petroleum Consumption



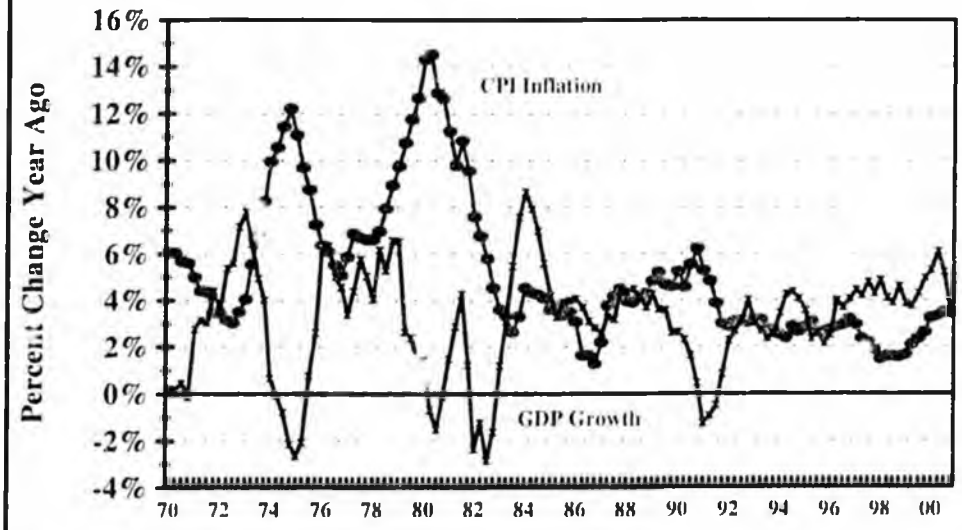
Sources:
Monthly Energy Review, January 2001, Table 1.8
Annual Energy Outlook 2001, National Energy Modeling System run AEO2001.d101600a.

Figure 4. Movements in the World Oil Price and Inflation



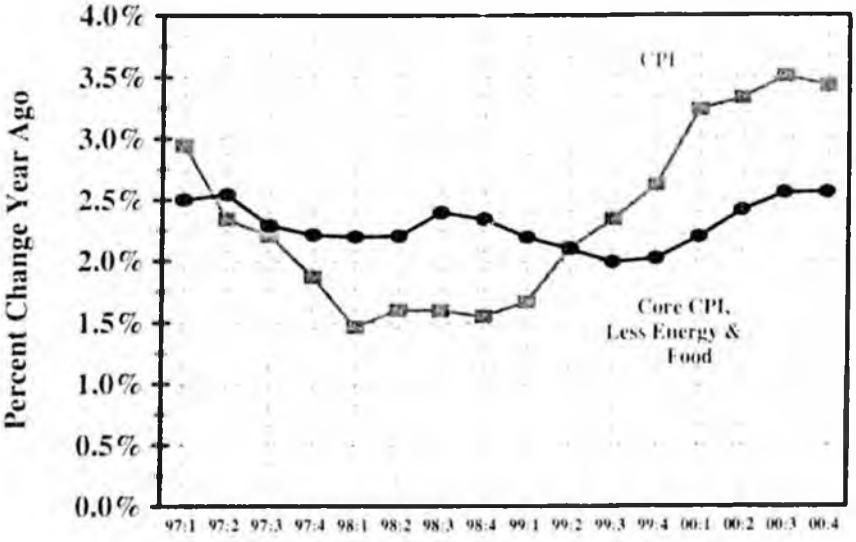
Sources
CPI: Bureau of Labor Statistics at http://stats.bls.gov/cpihome.htm
World Oil Price: Refiner Acquisition Cost for Imported Oil, Energy Information Administration, Monthly Energy Review at http://www.eia.doe.gov/mer/contents.html

Figure 5. Movements in Inflation and GDP Growth



Sources
CPI: Bureau of Labor Statistics at http://stats.bls.gov/cpihome.htm
GDP: Bureau of Economic Analysis at http://www.bea.doc.gov/bea/dn/st-tabs.htm

Figure 6. CPI & Core Inflation



Sources
CPI and Core CPI: Bureau of Labor Statistics at http://stats.bls.gov/cpihome.htm

How are these events shaping the forecast of economic growth for the near term?

- Most forecasters are suggesting that a soft-landing for the economy is probable, with a significant reduction in expected growth in the next year, but with no recession. The table below shows forecasts for the year 2001 from four groups. The forecasts done in January for the year 2001 indicate expected growth in the 2.4 percent to 2.8 percent range, clearly less than the growth of 5.0 percent that took place in 2000. Note however, that the DRI, WEFA and EIA forecasts prepared one month earlier in December, projected higher growth for the year 2001 than the forecast in January. Forecasts in February and March revised projected growth further downward because of the trends indicated by new data.

Comparison of Forecasts for the Growth Rate of Real GDP for 2001

	December 2000	January 2001	Februarv 2001	March 2001
Standard&Poor's DRI	3.1	2.5	2.1	1.7
The WEFA Group	3.0	2.8	2.0	1.8
EIA, Short-Term Energy Outlook (STEO)*	3.2	2.6	2.2	1.9
Congressional Budget Office		2.4		

* Since the EIA forecast is a modified version of the DRI forecast, the date for the EIA forecast is the month of preparation of the macroeconomic forecast and matches up with the vintage of the DRI and other forecasts. The STEO based on this macroeconomic forecast is released one month later when the energy forecast is complete. The March forecast of 1.9 percent GDP growth will support the April STEO.

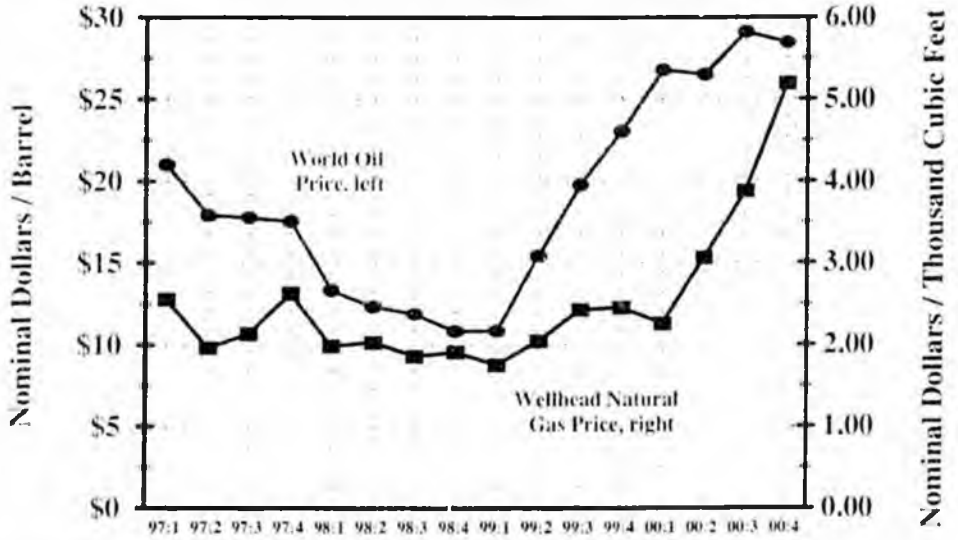
Sources:
- Standard&Poor's DRI, *The U.S. Economy*, issues 2000/12, 2001/1, 2001/2 and 2001/3
- WEFA, *US Outlook*, issues December 2000, and January, February and March 2001.
- Energy Information Administration, *Short-Term Energy Outlook*, http://www.eia.doe.gov/emeu/steo/pub/contents.html
- Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=2727&sequence=3

- It is important to note that, while energy prices and events have contributed to the slowdown, there are many other events that have affected the economy in the past two years. For example, between June of 1999 and May of 2000, the Federal Reserve Board's Federal Open Market Committee made a number of upward adjustments in the federal funds rate citing concern about the risk of rising inflation while providing for sustainable economic growth. In total, the federal funds rate rose by 175 basis points during this period. In January of 2001, the Federal Reserve Board expressed concern about weakening sales and production, lower consumer confidence, tight conditions in some financial markets, and high energy prices sapping household and business purchasing power. In response to these conditions, the Federal Reserve Board twice lowered the federal funds rate in January by 50 basis points for a total reduction of 100 basis in one month. In March the federal funds rate was lowered another 50 basis points.

How has the economy reacted to the volatile energy prices of the past four years?

- Most of the recent concern about energy prices has focused on their rapid rise beginning in the second quarter of 1999 to the present, with less attention given to the decline in energy prices during 1997 and 1998. Looking back to the first quarter of 1997(1997:1), the world oil price expressed in nominal dollars per barrel fell from $21.02 to a low of $10.86 in the first quarter of 1999. Then, in the second quarter of 1999, the world oil price began to rise dramatically, ultimately almost tripling to a high of $29.11 in the third quarter of 2000. The path for the wellhead natural gas price was less volatile than for oil between 1997:1 and 2000:1, fluctuating between a high of $2.63 per thousand cubic feet to a low of 1.76. However, beginning with the second quarter of 2000, the wellhead natural gas price increased dramatically. From the first quarter to the second quarter of 2000, the wellhead natural gas price rose from $2.26 to $3.06 and by the fourth quarter to $5.19 per thousand cubic feet. (Figure 7)

Figure 7. World Oil Price and Wellhead Natural Gas Price



Sources
World Oil Price is the Refiner Acquisition Cost for Imported Oil
Wellhead Natural Gas Price
Energy Information Administration, Monthly Energy Review
at http://www.eia.doe.gov/mer/contents.html

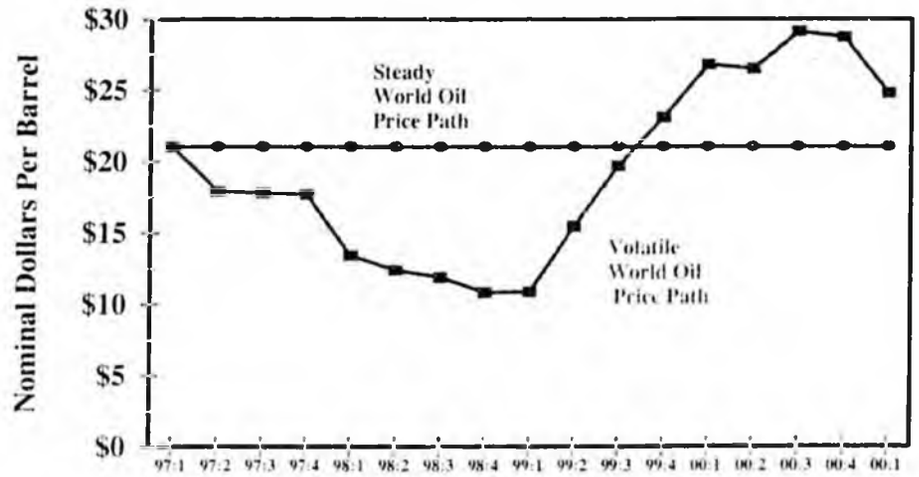
- Each of these events — first falling, then rising energy prices — undoubtedly had effects on the growth of the economy. To assess the economic impacts of these rapidly changing energy prices, EIA compares two cases:

(1) the Volatile Energy Price case mimics the energy price percent changes seen from the period between 1997:1 to 2001:1. This includes the prices movements for petroleum, natural gas, coal and electricity; and

(2) the Steady Energy Price case assumes steady energy prices throughout the four-year period.

Figure 8 shows the alternative paths for the world oil price. Other energy prices were done in a similar fashion.

Figure 8. Simulation of Volatile vs. Steady Energy Prices



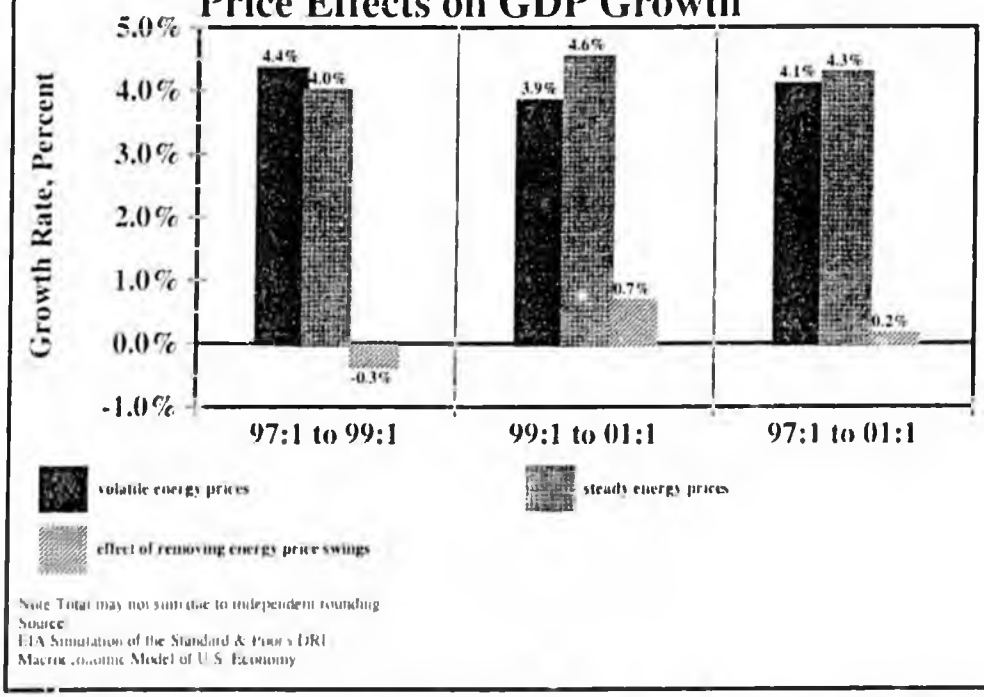
Sources
World Oil Price: Refiner Acquisition Cost for Imported Oil. Energy Information Administration, Monthly Energy Review at http://www.eia.doe.gov/mer/contents.html
Projection for 2001.1: Short-Term Energy Outlook, March 2001 at http://www.eia.doe.gov/emeu/steo/pub/contents.html

- The experiment asks the question " **If energy prices remained steady throughout the four-year period from 1997:1 to 2001:1, what impact would this have had on the growth of the economy?**"

- Two distinct patterns emerge. During the two-year period from 1997:1 to 1999:1, falling energy prices boosted the economy. If energy prices remained steady over this period instead, the growth rate of GDP may have been reduced by 0.3 percentage points (Figure 9). However, during the next two-year period from 1999:1 to 2001:1, energy prices first rose dramatically, then began to decline again. If this rapid rise in energy prices had not occurred, there may have been as much as 0.7 percentage points of additional GDP growth. Over the entire four-year period, a steady energy price path could have potentially boosted GDP growth by 0.2 percentage points. In interpreting these values, keep in mind that any attempt to make a judgement about what might have occurred in the past based on an hypothetical experiment, cannot fully account for the dynamic events which shape history. Nonetheless, such an experiment can help to provide insights about the likely direction and potential magnitude of impact.

- Volatility matters for all consumers and producers in the economy. Business firms, both energy and non-energy, make investment decisions based on expectations about prices. If decisions are made on the expectation of low (or high) energy prices, and the energy market varies sharply from these expectations, firms may make inappropriate investment and business decisions. Even

Figure 9.Simulation of Volatile Energy Price Effects on GDP Growth



Note: Total may not sum due to independent rounding
Source:
EIA Simulation of the Standard & Poor's DRI
Macroeconomic Model of U.S. Economy

those firms that expect volatility may be adversely affected by simply putting off a decision until the market is more stable. Consumer purchases of housing and consumer durables such as autos and appliances are also affected by instability in energy markets. The economy would most likely perform better with stable or predictable energy prices, than when the price of energy fluctuates greatly.

How will oil price movements affect other countries?

- Similar to the U.S., all countries stand to experience higher inflation due to rising oil prices. While the U.S. has been successful in reducing its dependence on oil from a consumption-per-unit of output perspective, this is not the case in many other countries, where oil use is key to their developing industrial and transportation sectors. Moreover, for the U.S., the net import share of total oil consumption is above 50 percent, and this share is expected to rise steadily in the future. Other countries face the same prospect. Higher oil prices have direct and dramatic effect on the trade patterns between countries. Here, trade in oil is just one side of the story. As higher oil prices get translated into higher commodity prices, there are likely to be changes in the prices of non-energy exported and imported goods which will affect trade beyond just the oil accounts.

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