9/10/08

OVERVIEW: HIGH GAS & HEATING OIL PRICES IN AK

TABLE OF CONTENTS

1. **ENERGY INFORMATION ADMINISTRATION:**
   - WHERE DOES MY GAS COME FROM
   - DIESEL FUEL PRICES
   - A PRIMER ON GASOLINE PRICES
2. **EXHIBITS**
   - CHART FOR #2HO FH ANCH OPIS RACK
   - GAS PRICE COMPARISONS AS OF SEPTEMBER 4, 2008
   - ADN.COM: COMPARING GAS PRICES
   - ADN.COM: SMALL DECLINE IN ANCHORAGE GAS PRICES
   - ADN.COM: ALASKANS PAYING MORE AT THE PUMP
   - GAS BUDDY.COM: HISTORICAL PRICE CHARTS (PAST YEAR)
   - COMPARISON CHARTS
3. **NEWS ARTICLES**
4. **TESORO ALASKA OVERVIEW**
5. **SECTION FIVE: ALASKA REFINING SALES AND CONSUMPTION**
6. **ECONOMIC DE . ELOPMENT THROUGH STATE OWNERSHIP OF OIL AND GAS: EVALUATION ALASKA'S ROYALTY-IN-KIND PROGRAM (FEBRUARY 2005)**
7. **COMMUNITY & REGIONAL AFFAIRS DIRECTOR'S REPORT: CURRENT COMMUNITY CONDITIONS: FUEL PRICES ACROSS ALASKA (JUNE 2008 UPDATE) AND SUPPLEMENTAL (JULY 2008)**
8. **INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH: UAA RESEARCH SUMMARY:**
   - OCTOBER 2006 EFFECTS OF RISING UTILITY COSTS ON ALASKA HOUSEHOLDS
   - MAY 2008 DOLLARS OF DIFFERENCE: WHAT AFFECTS FUEL PRICES AROUND ALASKA?
9. **AAG: ALASKA PETROLEUM PRODUCTS PRICING INVESTIGATION**
   - CLOSING REPORT (NOVEMBER 21, 2002)
   - UPDATE AND STATUS (DECEMBER 21, 2001)
10. **NATIONAL CONFERENCE OF STATE LEGISLATURES: PRICE GOUGING LEGISLATION (MAY 6, 2008)**
11. **HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT**
    - FEBRUARY 24, 1998
    - MARCH 19, 1998
12. **LETTERS/CORRESPONDENCE**

Energy Information Administration Brochures

Brochure #: DOE/EIA-X059
Release Date: April 2008
Next Release Date: April 2009

Click on image to down-load a printer-friendly version.

Where Does My Gasoline Come From?

The United States consumes about 21 million barrels (882 million gallons) of each day, almost half in the form of gasoline used in over 210 million motor vehi billion miles per day.

Most gasoline is made from crude oil, formed from the remains of plants anc hundreds of millions of years ago. These remains were covered with layers of With extreme pressure and high temperatures over millions of years, these rema of liquid hydrocarbons (an organic chemical compound of hydrogen and carbon oil. Refineries break down these hydrocarbons into different products. These include gasoline, diesel fuel, heating oil, jet fuel, liquefied petroleum gases, residu other products.

Products Made from a Barrel of Crude Oil, 2007 (Gallons)

Note: A 42-U.S. gallon barrel of crude oil yields between 44 and 45 gallons of petroleum products. These totals are greater than 42 gallons due to processing gain.
Source: Energy Information Administration

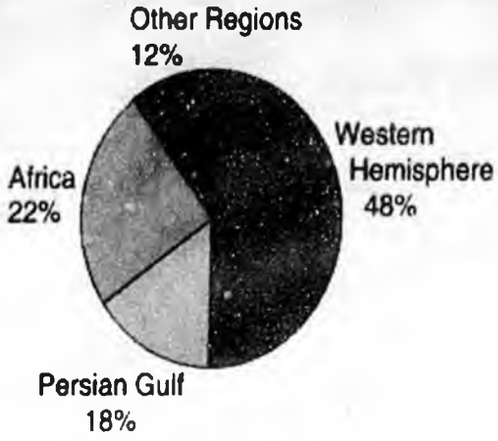
The most basic refining proce oil into its various compon heated and put into a distill different hydrocarbon compo and recovered as they cor temperatures.

The molecular structure of changed in processes using as well as catalysts that in reactions without being const

The characteristics of the depend on the type of crude the setup of the refinery wh Gasoline characteristics are other ingredients that may such as ethanol. Most of the to gasoline is made from United States. The gasoline meet industry standards regulations that vary by locati

U.S. Petroleum Net Import Sources, 2007 (Percentage)

In 2007 U.S. refineries produced 90 percent of the gasoline used in the United States. Although the United States is the world's third largest crude oil producer, less than 35 percent of the crude oil used by U.S. refineries was produced in the United States. Net petroleum imports (imports minus exports) accounted for 58 percent of our total petroleum consumption. About 48 percent of



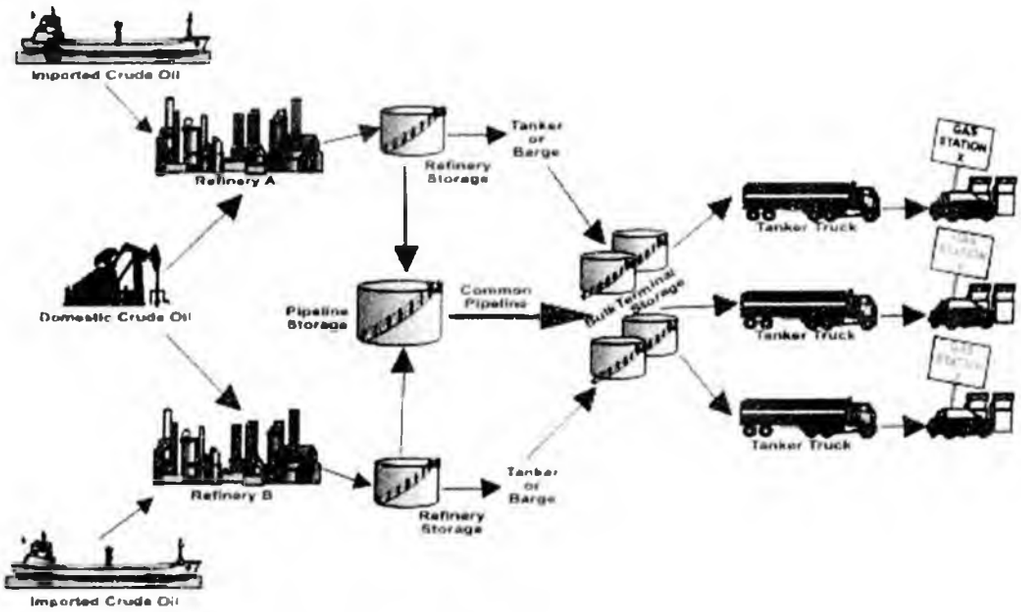
Source: Energy Information Administration

our net petroleum imports were from countries in the Western Hemisphere, 18 percent from the Persian Gulf, 22 percent from Africa, and 12 percent from other regions.

From Refinery to Consumer

After crude oil is refined into gasoline and other petroleum products, the products must be distributed to consumers. The majority of gasoline is shipped first by pipeline to storage terminals near consuming areas and then loaded into trucks for delivery to individual gas stations. Gasoline and other products are sent through shared pipelines in "batches." Since these batches are not physically separated in the pipeline, some mixing or "commingling" of products occurs. This is why the quality of the gasoline and other products must be tested as they enter and leave the pipeline to make sure they meet appropriate specifi cations. Whenever the product fails to meet local, State, or Federal product specifications, it must be removed and trucked back to a refinery for further processing.

Distribution



After shipment through the pipeline, gasoline is typically held in bulk storage terminals that often service many companies. At these terminals, the gasoline is loaded into tanker trucks destined for various retail gas stations. The tanks in these trucks, which can typically hold up to 10,000 gallons, usually have several compartments, enabling them to transport different grades of gasoline or petroleum products. The truck tank is where the special additive packages of gasoline retailers get blended into the gasoline to differentiate one blend from another. In some areas, ethanol may be "splash blended" in the tanker to meet environmental requirements. When the tanker truck reaches a gas station, the truck operator unloads each grade of gasoline into the appropriate underground tanks at the station.

Can I tell which country or State the gasoline at my local station comes from?

The Energy Information Administration (EIA) cannot definitively say where gasoline at a given station originated since EIA does not collect data on the source of the gasoline sold at retail outlets. The name on the service station sign does not tell the whole story. The fact that you purchase gasoline from a given company does not necessarily mean that the gasoline was actually produced by that particular company's refineries. While gasoline is sold at about 167,000 retail outlets across the nation, about one-third of these stations are "unbranded" dealers that may sell gasoline of any brand. The remainder of the outlets are "branded" stations, but may not necessarily be selling gasoline produced at that company's refineries. This is because gasoline from different refineries is often combined for shipment by pipeline, and companies owning service stations in the same area may be purchasing gasoline at the same bulk terminal. In that case, the only difference between the gasoline at station X versus the gasoline at station Y may be the small amount of additives that those companies add to the gasoline before it gets to the pump. Even if we knew at which company's refinery the gasoline was produced, the source of the crude oil used at that refinery may vary on a day-to-day basis. Most refiners use a mix of crude oils from various domestic and foreign sources. The mix of crude oils can change based on the relative cost and availability of crude oil from different sources.

Grades and Formulations

Service stations usually sell several grades of gasoline: premium, mid-grade, and regular. These grades have different "octane ratings" which reflect the gasoline's anti-knock properties. The owner's manual for your car tells you what grade of gasoline your car needs. Most cars can run on regular gasoline, which is the cheapest.

Besides the different grades of fuel, gasoline sold by a single company may differ depending on location or season. Some areas of the country are required to use gasoline that is specially formulated to reduce certain emissions. Environmental programs, aimed at reducing carbon monoxide, smog and air toxics, include the Federal and/or State-required oxygenated, reformulated, and low-volatility (evaporating more slowly) gasolines. These distinct and area specific gasoline requirements mean that gasoline is not a homogenous product nationwide. Gasoline produced for sale in one area may not be suitable for use in another area that has a supply shortage.

Can I tell which companies purchase imported crude oil or gasoline?

While EIA cannot identify which companies are selling imported gasoline, EIA does collect data on which companies import crude oil and refined products. However, the fact that a given company imported crude oil or gasoline does not mean that those particular imports will end up being sold to motorists as that company's brand of gasoline. The origin of the crude oil that a refinery processes is determined by market economics at a given time and may change from month-to-month or even day-to-day. Company-level import data can be found at: http://www.eia.doe.gov/oil_gas/fwd/cli.html

The Energy Information Administration(EIA) is an independent statistical agency, within the U.S. Department of Energy, whose sole purpose is to provide reliable and unbiased energy information.

For further information, contact:
National Energy Information Center, NEIC
Energy Information Administration
1000 Independence Ave., SW
Washington, DC 20585

Telephone: 202.586.8800, 9:00am-5:00pm Eastern time.
E-mail: infoctr@eia.doe.gov---normal response is 3 business days.

Other consumer-oriented brochures can be accessed on the Web at:
http://tonto.eia.doe.gov/reports/reportsA.asp?type=other

EIA's Web Site:
www.eia.doe.gov

Energy Information Administration
Official Energy Statistics from the U.S. Government

search
Glossary

Energy Information Administration Brochures

Brochure #: DOE/EIA-X040
Release Date: May 2008
Next Release Date: May 2009

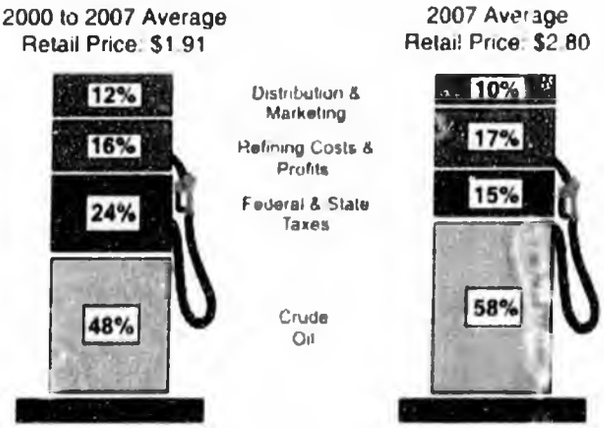
Click on image to down-load a printer-friendly version

A Primer on Gasoline Prices

Gasoline is one of the major fuels consumed in the United States and the main product refined from crude oil. Consumption in 2007 was about 142 billion gallons, an average about 390 million gallons per day and the equivalent of about 61% of all the energy used for transportation, 44% of all petroleum consumption, and 17% of total U.S. energy consumption. About 47 barrels of gasoline are produced in U.S. refineries from every 100 barrels of oil refined to make numerous petroleum products. Most gasoline is used in cars and light trucks. It also fuels boats, recreational vehicles, and farm, construction, and landscaping equipment. While gasoline is produced year-round, extra volumes are made and imported to meet higher demand in the summer. Gasoline is delivered from oil refineries mainly through pipelines to an extensive distribution chain serving about 167,500 retail gasoline stations in the United States.[1] There are three main grades of gasoline that are based on octane levels: regular, mid-grade, and premium. Premium grade is the most expensive; the price difference between grades is generally constant at about ten cents per gallon.

[1]National Petroleum News, 2007 Industry Scorecard

Figure 1. What Do We Pay for in a Gallon of Regular Grade?



Source: Energy Information Administration

What are the components of the retail price of gasoline?

The cost of crude oil as a share of the retail price varies over time and among regions of the country. In 2007, the price of crude oil averaged about $68 per barrel and accounted for about 58% of the national average retail price of a gallon of regular grade gasoline (Figure 1). In comparison, in 2005 the average crude oil price was $50 per barrel and the crude oil cost was 53% of the retail price. From 2000 to 2007 the average crude oil price was about $39 per barrel and the crude oil cost share of the retail gasoline prices averaged 48%.

Federal, State, and local government taxes are the next largest part of the retail price of gasoline. In 2007, taxes (not including county and local taxes) accounted for about 15% of the cost of a gallon of regular gasoline. Federal excise taxes were 18.4 cents per gallon and State excise taxes averaged 21.5 cents per gallon.[2] Eleven States levy additional State sales and other taxes, some of which are applied to the Federal and State excise taxes. Additional county and city taxes can have a significant impact on the price of gasoline in some locations. From 2000 to 2007, taxes averaged about 24% of the retail gasoline price.

[2]Energy Information Administration, Petroleum Marketing Monthly, December 2007, Table EN1 at

Refining costs and profits were about 17% of the national average retail price of regular gasoline in 2007, close to the 2000 to 2007 average of 16%. This component's share varies from region to region mainly due to the different gasoline formulations required in different parts of the country.

Distribution, marketing, and retail dealer costs and profits in 2007 were 10% of the gasoline price, down from the 2000 to 2007 average of 12%. Most gasoline is shipped from the refinery first by pipeline to terminals near consuming areas where it may be blended with other products (such as ethanol) to meet local government and market specifications, and is then delivered by tanker truck to individual stations. Some retail outlets are owned and operated by refiners, while others are independent businesses that purchase gasoline from refiners and marketers for resale to the public. The price on the pump includes the retailer's cost to purchase the finished gasoline and the costs of operating the service station. It also reflects local market conditions and factors, such as the desirability of the location and the marketing strategy of the owner.

Why do gasoline prices fluctuate?

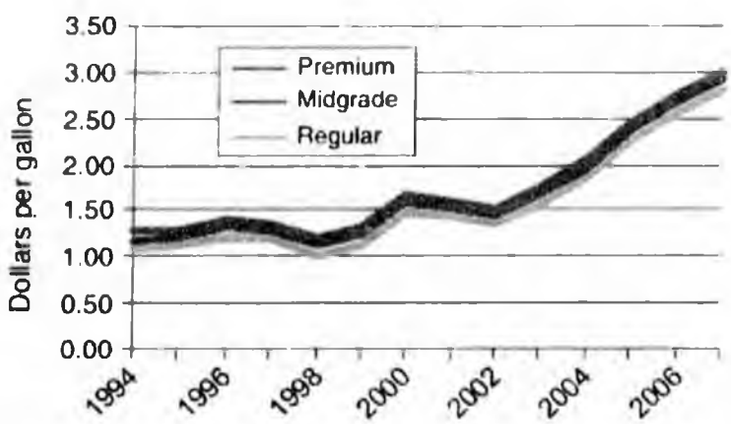
Retail gasoline prices are mainly affected by crude oil prices and the level of gasoline supply relative to demand. Strong and increasing demand for gasoline and other petroleum products in the United States and the rest of the world is exerting intense pressure on available supplies. Even when crude oil prices are stable, gasoline prices fluctuate due to seasonal demand and local retail station competition. Gasoline prices can change rapidly if something disrupts the supply of crude oil or if there are problems at refineries or with delivery pipelines.

Seasonal demand for gasoline Retail gasoline prices tend to gradually rise in the spring and peak in late summer when people drive more, and then drop in the winter. Good weather and vacations cause U.S. summer gasoline demand to average about 5% higher than during the rest of the year. If crude oil prices do not change, gasoline prices typically increase by 10-20 cents from January to the summer.

Crude oil supply and prices – Crude oil prices are determined by worldwide supply and demand. Events in crude oil markets that caused spikes in crude oil prices were a major factor in all but one of the five major run-ups in gasoline prices between 1992 and 1997, according to the National Petroleum Council's study "U.S. Petroleum Supply - Inventory Dynamics." Rapid gasoline price increases occurred in response to crude oil shortages caused by the Arab oil embargo in 1973, the Iranian revolution in 1978, the Iran/Iraq war in 1980, and the Persian Gulf conflict in 1990. The cost of crude oil has been the main contributor to recent increases in gasoline prices. World crude oil prices reached record levels in 2007 due mainly to high worldwide oil demand relative to supply. Other factors contributing to higher crude oil prices include political events and conflicts in some major oil producing regions, as well as other factors such as the declining value of the U.S. dollar (the currency at which crude oil is traded globally).

The Organization of Petroleum Exporting Countries (OPEC) has significant influence on world oil prices, because its members produce over 40% of the world's crude oil and have more than two-thirds of the world's estimated crude oil reserves. OPEC members are also the only countries that have "spare production capacity" and the ability to bring more oil into production relatively quickly. Since it was organized in 1960, OPEC has tried to keep world oil prices at a target level by setting production levels for its members.

Figure 2. Average Annual U.S. Motor Gasoline Prices, 1994 to 2007, by Grade.



Gasoline supply and demand imbalances – Gasoline prices tend to increase as the available supply of gasoline grows smaller relative to real or expected demand or consumption. The supply of gasoline is a function of crude oil supply and refining, imports of refined gasoline, and gasoline inventories (stocks). Stocks are the cushion between major short-term supply and demand imbalances, and their levels can have a significant impact on gasoline prices. If

refinery or pipeline problems and/or reductions in imports cause supplies to decline unexpectedly, gasoline inventories (stocks) may drop rapidly. This may cause wholesalers to bid higher for available supply over concern that future supplies may not be adequate. Imbalances have also occurred when a region has changed from one fuel type to another (e.g., to cleaner-burning gasoline) as refiners, distributors, and marketers adjust to the new product. Gasoline may be less expensive in one summer when supplies are plentiful vs. another summer when they are not. Prices for all commodities fluctuate, but gasoline prices are generally more volatile than prices of other goods. For example, consumers generally have options to substitute between food products when prices change but most do not have that option for fueling their vehicles

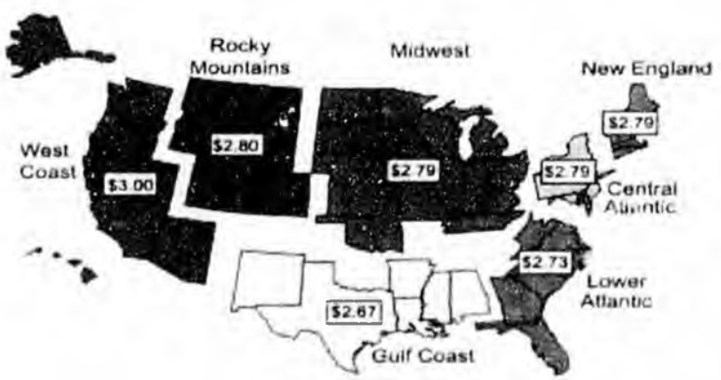
Why are gasoline prices higher in some regions than in others?

Although price levels vary over time, En. y Information Administration (EIA) data indicate that average retail gasoline prices are often highest in certain States or regions (Figure 3). Besides taxes, there are other factors that contribute to regional and even local differences in gasoline prices:

Distance from supply – Retail gasoline prices tend to be higher with greater distance from the source of supply: ports, refineries, and pipeline and blending terminals. About 66% of the crude oil processed by U.S. refineries in 2007 was imported, with most transported by ocean tankers. The U.S. Gulf Coast is the source of about 40% of the gasoline produced in the United States and the starting point for most major gasoline pipelines.

Supply disruptions - Any event that slows or stops production of gasoline for even a short time, such as planned or unplanned refinery maintenance or the refinery shutdowns that occurred when the Hurricanes Katrina and Rita hit the Gulf Coast in 2005, can prompt bidding for available supplies. If the transportation system cannot support the fl ow of surplus supplies from one region to another, prices will remain comparatively high.

Figure 3. 2007 Average Regular Grade Gasoline Prices at Retail Outlets by Region (dollars per gallon, including taxes).



Source: Energy Information Administration, *EIA-878, Motor Gasoline Price Survey*

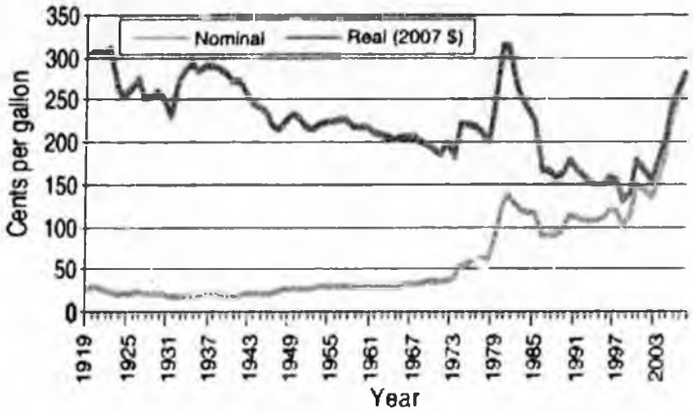
Retail competition and operating costs – Pump prices are often highest in locations with few retail gasoline stations. Even stations located close together have may have different traffic patterns, rents, and sources of supply that influence their pricing. Drivers face a trade-off between stations with high prices and the inconvenience of driving further to find a station with lower prices.

Environmental programs - Some areas of the country are required to use special "reformulated" gasoline with additives to help reduce carbon monoxide, smog, and air toxics that result when gasoline is burned or when gasoline evaporates during fueling. Other environmental programs put restrictions on fuel transportation and storage. These programs tend to add to the cost of producing, storing, and distributing gasoline. About a third of the gasoline sold in the U.S. is reformulated. Each oil company prepares its own formulation to meet Federal emission standards.

How do gasoline prices in 2007 compare with historical prices?

There are two ways to compare recent prices with historical prices. One is to compare the price actually paid at the pump or the "nominal" price. The other is to compare the "real" price, which is the price adjusted for inflation, so that prices in the past are in "today's" dollar value. The figure below shows the average annual nominal and real prices of regular gasoline from 1919 to 2007, where the real price is based on the value of the dollar in 2007. During that period, consumers paid the highest prices for gasoline in real terms in the early 1920's and 1980's.

Figure 4. Historical Average Annual Gasoline Prices - Nominal and Real (Regular Grade).



Source: Energy Information Administration, *Short Term Energy Outlook, January 2007*

Why are California Gasoline Prices more Variable Than others?

California prices are higher and more variable than prices in other States because there are relatively few supply sources of its unique blend of gasoline outside the State. The State of California's reformulated gasoline program is more stringent than the Federal government's. In addition to the higher cost of this cleaner fuel, there is a State sales tax of 7.25 percent on top of an 18.4 cent-per-gallon Federal excise tax and an 18.0 cent-per-gallon State excise tax.

California refineries need to be running near full capacity to meet the State's gasoline demand. If more than one of its refineries experiences operating problems at the same time, California's gasoline supply may become very tight and prices can soar. Even when supplies can be obtained from some Gulf Coast and foreign refineries, they can take a relatively long time to arrive due to California's substantial distance from those sources. The farther away the necessary relief supplies are, the higher and longer the price spike will be.

California was one of the first States to ban the gasoline oxygenate additive methyl tertiary butyl ether (MTBE) after it was detected in ground water. Ethanol, a non-petroleum product usually made from corn, is being used in place of MTBE. Gasoline with ethanol requires changes in the way gasoline is produced and distributed. Some supply dislocations and price surges occurred in the summer of 2003 as the State moved to ethanol and away from MTBE. Similar problems have also occurred as a result of other fuel transitions.

The Energy Information Administration(EIA) is an independent statistical agency, within the U.S. Department of Energy, whose purpose is to provide reliable and unbiased energy information.

For further information, contact:
National Energy Information Center, NEIC
Energy Information Administration
1000 Independence Ave., SW

Washington, DC 20585

Telephone: 202.586.8800, 9:00am-5:00pm Eastern time.
E-mail: infoctr@eia.doe.gov---normal response is 3 business days.

This and other consumer-oriented brochures can be accessed on the Web at:
http://tonto.eia.doe.gov/reports/reportsA.asp?type=other

For links to current gasoline prices and analyses, see:
http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp

EIA's Web Site: **www.eia.doe.gov**

Energy Information Administration Brochures

Brochure # DOE/EIA-X045
Release Date: June 2008
Next Release Date: June 2009

Click on image to download a printer-friendly version

Diesel Fuel Prices
What Consumers Should Know

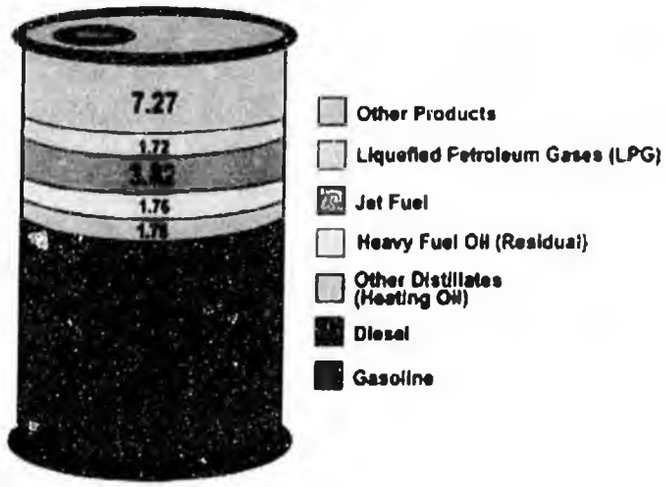
INTRODUCTION

Diesel fuel is the common term for the motor vehicle fuel used in the compression ignition engines named for their inventor, the German engineer Rudolf Diesel, who patented his original design in 1892. While diesel engines are capable of burning a wide variety of fuels, (see Biodiesel below) diesel fuel refined from crude oil is the most widely used today. Diesel fuel is important to America's economy, quality of life, and national security. This Energy Information Administration (EIA) brochure discusses the factors that affect and determine diesel fuel prices.

How Diesel Fuel Is Made

Petroleum diesel is a "distillate" refined from crude oil. There are various grades or types of distillates, but Number 2 (No. 2) distillate is the primary source for the motor diesel fuel consumed in the United States. It is also used as a fuel oil for heating buildings and by industry. Diesel fuel is No. 2 distillate with a relatively low sulfur content. New U.S. Environmental Protection Agency (EPA) standards for diesel fuel sulfur content were implemented in 2006. By June 1, 2006, 80 percent of the on-highway diesel fuel sold in the United States had to be Ultra-Low Sulfur Diesel (ULSD) fuel with a sulfur content of no more that 15 parts per million (ppm), replacing most Low Sulfur Diesel (LSD) fuel, which contains a maximum of 500 ppm sulfur. By December 1, 2010, all on-highway diesel fuel must be ULSD fuel. The diesel fuel standards for off-highway consumption began a phase-in period in 2007. Nearly all diesel fuel used in the United States will be ULSD by the end of 2014.

Figure 1. Products Made From a Barrel of Crude Oil (Gallons)



Source: Energy Information Administration

Biodiesel

One of the fuels that Rudolf Diesel originally considered for his engine was vegetable seed oil, an idea that is now coming back as so-called "biodiesel." Biodiesel can be manufactured from vegetable oils, animal fats, or recycled restaurant grease. It is biodegradable and can reduce vehicle emissions of particulates, carbon monoxide, and hydrocarbons. Blends of 20 percent biodiesel with 80 percent petroleum diesel (B20) can generally be used in unmodified diesel engines. Biodiesel may be one of the "additives" used to improve lubricity of ULSD fuel, which is negatively affected by the removal of sulfur to meet the ULSD standards. Biodiesel production increased from very little 10 years ago to about 75 million gallons in 2005 and to about 450 million gallons in 2007. Most biodiesel is produced from soybean oil at about 105 facilities and is available in every State.(Source: National Biodiesel Board, http://www.biodiesel.org/) More information on biodiesel is available on the web site of DOE's Office of Energy Efficiency and Renewable Energy: http://www.eere.energy.gov/afdc/fuels/biodiesel.html.

How Diesel is Used

Nearly all semi-trucks, delivery vehicles, buses, trains, ships, boats and barges, farm, construction and military vehicles and equipment have diesel engines. For the year 2007, diesel fuel accounted for about 18 percent of total refined petroleum products and 82 percent of the total distillate consumed in the United States. On-highway motor vehicles use about 75 percent of total diesel fuel, with the rest consumed by "off-highway" construction, farming equipment, military and railroad vehicles and equipment, and marine craft.[1]

[1]Sources: *Petroleum Supply Monthly* June 2008 with data for April 2008 (http //www eia doe gov/oil_gas/fwd/psm html) and *Fuel Oil and Kerosene Sales 2006*(http //www eia doe gov/oil_gas/petroleum/data_publications/fuel_oil_and_kerosene_sales/foks html)

Where Diesel Fuel Comes From and How It's Supplied to Retailers

Most diesel fuel consumed in the United States is produced in U.S. refineries. In 2007, about 4.5 percent was imported from foreign countries, mainly Canada, and the Virgin Islands. U.S. refineries produce diesel fuel from domestically produced and imported crude oil, of which about 66 percent was imported in 2007. Most diesel fuel is transported by pipeline (some by barge and rail) from refineries and ports to terminals near major consuming areas, where it is loaded into tanker trucks for delivery to retail service stations.

WHAT ARE THE COMPONENTS OF THE RETAIL PRICE OF DIESEL FUEL?

The cost to produce and deliver diesel fuel to customers includes the costs of crude oil, refinery processing, marketing and distribution, and retail station operation. The retail pump price reflects these costs and the profits (and sometimes losses) of the refiners, marketers, distributors, and retail station owners. The relative share of these cost components to the retail price varies over time and among regions of the country. Figure 2 illustrates the percentage share for each major cost element of the national average retail price as of May 2008.

The price at the pump also includes Federal, State, and local taxes. In 2008, Federal excise taxes were 24.4 cents per gallon and State excise taxes averaged about 22.0 cents per gallon.[2] Some States and county and city governments levy additional taxes. The retail price also reflects local market conditions and factors such as the location and the marketing strategy of the owner. Some retail outlets are owned and operated by refiners, while others are independent businesses that purchase diesel fuel for resale to the public.

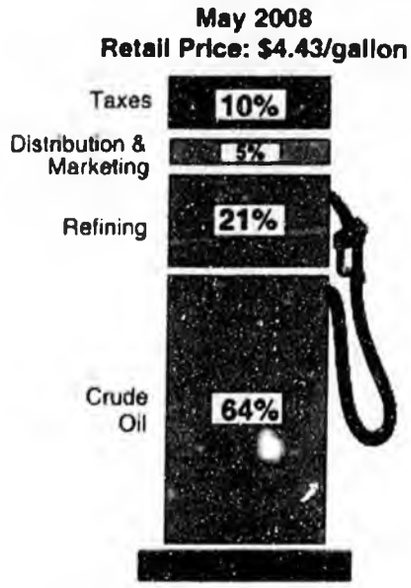
[2] Energy Information Administration, *Petroleum Marketing Monthly*, May 2008, Explanatory Notes, Table EN1 (http //www eia doe gov/oil_gas/fwd/pmm html).

Why are diesel fuel prices higher than gasoline prices?

Historically, the average price of diesel fuel has been lower than the average price of gasoline. However, this is not always the case. In some winters where the demand for distillate heating oil is high, the price of diesel fuel has risen above the gasoline price. Since September 2004, the price of diesel fuel has been generally higher than the price of regular gasoline all year round for several reasons. Worldwide demand for diesel fuel and other distillate fuel oils has been increasing steadily, with strong demand in China, Europe, and the United States, putting more pressure on the tight global refining capacity. In the United

States, the transition to ultra-low-sulfur diesel fuel has affected diesel fuel production and distribution costs. Also, the Federal excise tax on diesel fuel is 6 cents higher per gallon (24.4 cents per gallon) than the tax on gasoline.

Figure 2. What We Pay For in a Gallon of Diesel Fuel



Source: Energy Information Administration

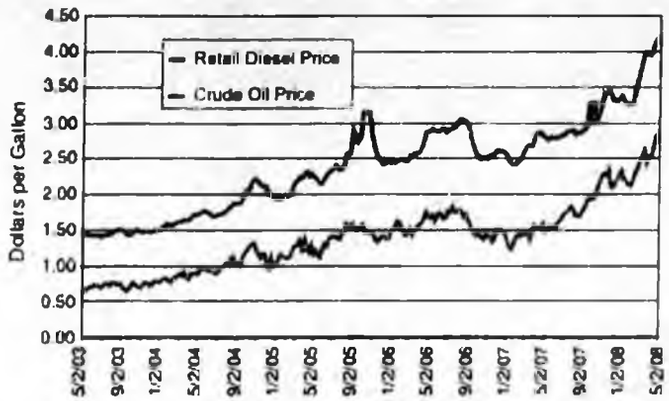
WHAT ARE THE MAIN FACTORS THAT AFFECT DIESEL PRICES?

Besides excise taxes, the following are the main factors that affect diesel fuel prices:

Cost and supply of crude oil Crude oil prices are determined by worldwide supply and demand, and over the past few years increasing demand has put intense pressure on available supplies. The Organization of Petroleum Exporting Countries (OPEC) exerts significant influence on prices by setting an upper production limit on its members who produce about 40 percent of the world's crude oil. OPEC countries have essentially all of the spare production capacity, and possess about two-thirds of the world's estimated crude oil reserves. Prices spike in response to disruptions in the international and domestic supply of crude oil, such as the Arab oil embargo in 1973, the Iran/Iraq war in 1980, the current war in Iraq, unrest in the Niger River delta region of Nigeria, and the hurricanes in the Gulf of Mexico in 2005.

Tight refining capacity and international diesel fuel demand U.S. refineries have been operating at around 90-percent capacity over the last 10 years. Most other countries rely even more heavily on distillates and diesel fuel than does the United States, and refining capacity is tight worldwide. U.S. diesel fuel prices are more and more affected by competing international demand for refined distillates.

Figure 3. Diesel Fuel Prices Follow Crude Oil



Source: Energy Information Administration

Product supply/demand imbalances. Prices of transportation fuels are generally more volatile than prices of other commodities because the U.S. vehicle fleet is so heavily dependent on petroleum and few alternative fuels are available. If supply declines unexpectedly due to refinery problems or lagging imports, diesel inventories (stocks) may decline rapidly. When stocks are low and falling, some wholesalers and marketers may bid higher for available product. If the diesel fuel transportation system cannot support the flow of surplus supplies from one region to another quickly, prices will remain comparatively high. These are normal price fluctuations experienced in all commodity markets.

Seasonality in the demand for diesel fuel and distillates. While U.S. diesel fuel demand is fairly consistent and generally reflects the overall health of the economy, prices tend to gradually rise during the fall, decline in the late winter, rise through the early spring, and then drop a bit in the summer. Seasonal upward pressure on diesel prices also results from demand by farmers in the summer, cold weather in the winter, and stores building up inventories during the winter holiday season.

Transportation Costs. Transportation costs generally increase with increasing distance between the retail location and distribution terminals and refineries. Areas farthest from the Gulf Coast (the source of nearly half of the diesel fuel produced in the United States) tend to have higher prices.

Regional operating costs and local competition. The cost of doing business by individual dealers can vary greatly depending on where the dealer is located. These costs include wages and salaries, benefits, equipment, lease/rent, insurance, overhead, and State and local fees. Even retail stations next to each other can have different traffic patterns, rents, and sources of supply that affect their prices. The number and location of local competitors can also affect prices.

OUTLOOK FOR 2008 AND 2009

Retail diesel fuel prices are likely to remain elevated as long as crude oil prices and world demand for distillate fuels remain high. According to EIA's June 2008 Short-Term Energy Outlook, national average retail diesel fuel prices will peak in the third quarter of 2008 at $4.75 before falling to $4.11 per gallon by the fourth quarter of 2009, primarily due to the forecast for the price of West Texas Intermediate crude oil to average between $121 and $133 per barrel during this same period. However, the recent volatility seen in crude oil and petroleum product prices, if continued, may significantly alter these price projections.

The phase-in of the U.S. Environmental Protection Agency's (EPA) sulfur standards for diesel fuels has the potential to continue to influence diesel fuel prices. The logistics of delivery of ULSD to retail service stations can be a challenge. Most ULSD travels through pipelines on the way to bulk terminals for final transfer by tanker truck to retail stations. Other diesel fuels and petroleum products with a higher-sulfur content in the pipeline, storage, and local distribution systems might contaminate ULSD (jet fuel, for example, can have 3,000 ppm of sulfur). If contaminated, it may not be possible to correct a ULSD fuel batch by blending with additional low-sulfur product, and contaminated batchs have to be returned to a refinery for reprocessing, a difficult and expensive problem. Even without potential delivery problems, it costs relatively more to produce ULSD fuel.

Why are West Coast diesel fuel prices higher and

more variable than others?

Diesel prices on the West Coast, especially in California (CA), are relatively higher than other regions of the country, partly because of taxes, but mainly because of supply issues. The State of California assesses a combined State and local sales and use tax of 7.25 percent on top of the 24.4 cents/gallon Federal excise tax and an 18.0 cents/gallon State tax. Washington's tax of 34 cents/gallon is one of the highest in the country. Besides taxes, West Coast retail prices are more variable than others because there are relatively few supply sources: 21 of the 36 refineries located in West Coast states are in CA. California refineries need to be running at near full capacity just to meet in-state demand. If more than one refinery in the region experiences operating difficulties at the same time, the diesel supply may become very tight and prices may spike. The West Coast's substantial distance from Gulf coast and foreign refineries is such that any unusual increase in demand or reduction in supply results in a large price response in the market before relief supplies can be delivered. The farther away the necessary relief supplies are, the higher and longer the price spike will be.

FUEL SURCHARGES

Many transportation companies and freight carriers include a fuel-cost surcharge in their rates and invoices to cover increases in the cost of diesel fuel. There is no Federal regulation of fuel surcharges, and EIA does not calculate fuel surcharges or review fuel surcharge formulas. Companies that apply surcharges use their own formula for calculating their surcharge. EIA's retail diesel price data (see below) are often cited as a refererice by companies that have fuel surcharges. Every company has its own method for calculating surcharges. Many major carriers have infromation on how they claculate their surcharges on their web sites. EIA cannot and does not endorse a particular method, but you can perform an Internet search for "fuel surcharge trucking" for more information.

Every Monday, EIA conducts a survey of retail on-highway diesel fuel prices from a sample of approximately 350 truck stops and retail service stations around the country. The survey results are published by 5:00 p.m. Monday (or on Tuesday when there is a Federal holiday on Monday). The results are compiled into a U.S. average price and average prices for eight regions of the country and California. These survey results are made available through EIA's Motor Fuels Price Hotline (202-586-6966), EIA's web page, and by E-mail listserves (regular and wireless). You can access the results as well as details on the survey at: http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp

The Energy Information Administration (EIA) is an independent statistical agencywithin the U.S. Department of Energy whose purpose is to provide reliable and unbiased energy information. For further information, contact:

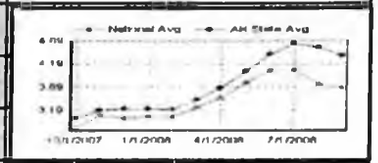
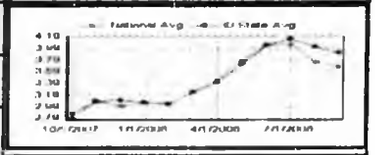
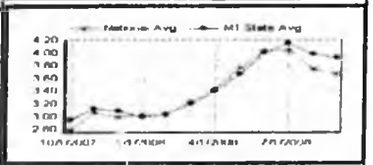
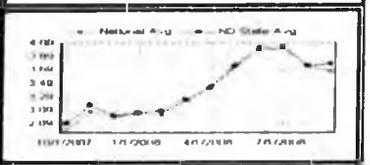
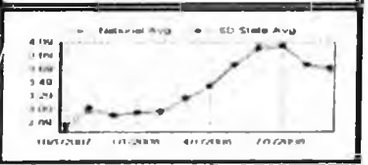
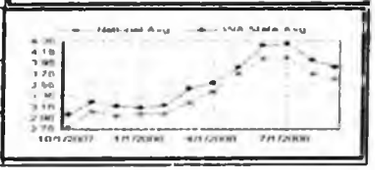
National Energy Information Center, NEIC
Energy Information Administration
1000 Independence Ave., SW
Washington, D.C. 20585

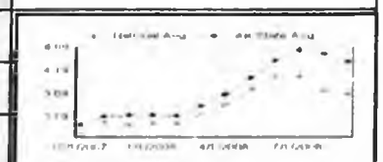
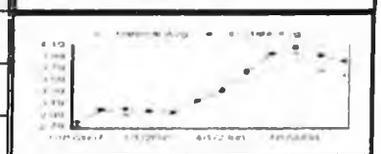
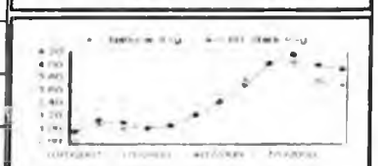
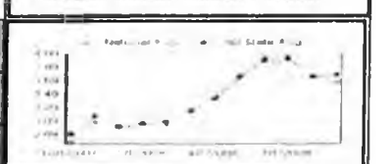
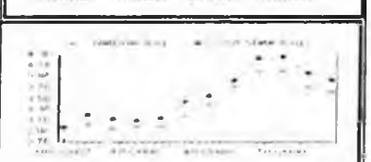
Telephone: 202.586.8800, 9:00am-5:00pm Eastern time.
E-mail: infoctr@eia.doe.gov---normal response is 3 business days.

This and other consumer-oriented brochures can be accessed on the Web at:

http://tonto.eia.doe.gov/reports/reportsA.asp?type=other

2

GAS PRICE COMPARISION CHART AS OF SEPTEMBER 4, 2008								
	REGULAR	MID	PREMIUM	DIESEL	*LESS STATE SALES TAX*	NET COST LESS TAXES (REG. GAS)	NET COST LESS TAXES (DIESEL)	ONE YEAR COMPARISONS
USA AVERAGE	$3.678	$3.835	$3.951	$4.267	*$0.203*	$3.475	$4.064	☆ = US AVERAGE
USA ONE MONTH AGO	$3.871	$4.037	$4.159	$4.644	*$0.203*	$3.568	$4.441	○ = STATE AVERAGE
USA ONE YEAR AGO	$2.792	$2.963	$3.071	$2.937	*$0.203*	$2.589	$2.734	
ALASKA AVERAGE	$4.447	$4.617	$4.856	$5.006	*NOW AT 0.00*	$4.447	$5.006	
ALASKA ONE MONTH AGO	$4.646	$4.824	$5.074	$5.246	*$0.080*	$4.566	$5.266	
ALASKA ONE YEAR AGO	$3.056	$3.234	$3.419	$3.009	*$0.080*	$2.976	$2.929	
IDAHO AVERAGE	$3.899	$4.038	$4.128	$4.344	*$0.250*	$3.649	$4.094	
IDAHO ONE MONTH AGO	$4.109	$4.255	$4.351	$4.787	*$0.250*	$3.859	$4.537	
IDAHO ONE YEAR AGO	$2.781	$2.935	$3.017	$3.030	*$0.250*	$2.756	$2.780	
MONTANA AVERAGE	$3.939	$4.090	$4.202	$4.337	*.270 (gas), diesel (.275)*	$3.669	$4.062	
MONTANA ONE MONTH AGO	$4.074	$4.230	$4.346	$4.623	*.270 (gas), diesel (.275)*	$3.804	$4.348	
MONTANA ONE YEAR AGO	$2.945	$3.071	$3.219	$3.051	*.270 (gas), diesel (.275)*	$2.675	$2.776	
NORTH DAKOTA AVERAGE	$3.800	$3.918	$4.092	$4.290	*$0.230*	$3.570	$4.060	
NORTH DAKOTA ONE MONTH AGO	$3.999	$4.122	$4.238	$4.691	*$0.230*	$3.769	$4.461	
NORTH DAKOTA ONE YEAR AGO	$3.191	$3.302	$3.420	$3.116	*$0.230*	$2.961	$2.886	
SOUTH DAKOTA AVERAGE	$3.712	$3.855	$4.013	$4.110	*$0.220*	$3.492	$3.890	
SOUTH DAKOTA ONE MONTH AGO	$3.838	$3.987	$4.150	$4.541	*$0.220*	$3.618	$4.321	
SOUTH DAKOTA ONE YEAR AGO	$3.071	$3.268	$3.402	$3.078	*$0.220*	$2.851	$2.858	
WASHINGTON AVERAGE	$3.874	$3.997	$4.112	$4.477	*$0.310*	$3.564	$4.167	
WASHINGTON ONE MONTH AGO	$4.129	$4.260	$4.382	$4.807	*$0.310*	$3.819	$4.597	
WASHINGTON ONE YEAR AGO	$2.856	$2.959	$3.106	$3.111	*$0.310*	$2.546	$2.801	

GAS PRICE COMPARISION CHART AS OF SEPTEMBER 4, 2008								
	REGULAR	MID	PREMIUM	DIESEL	*LESS STATE SALES TAX*	NET COST LESS TAXES (REG. GAS)	NET COST LESS TAXES (DIESEL)	ONE YEAR COMPARISONS
USA AVERAGE	$3.678	$3.835	$3.951	$4.267	*$0.203*	$3.475	$4.064	= US AVERAGE
USA ONE MONTH AGO	$3.871	$4.037	$4.159	$4.644	*$0.203*	$3.568	$4.441	○ = STATE AVERAGE
USA ONE YEAR AGO	$2.792	$2.963	$3.071	$2.937	*$0.203*	$2.589	$2.734	
ALASKA AVERAGE	$4.447	$4.617	$4.856	$5.006	*NOW AT 0.00*	$4.447	$5.006	
ALASKA ONE MONTH AGO	$4.646	$4.824	$5.074	$5.246	*$0.080*	$4.566	$5.266	
ALASKA ONE YEAR AGO	$3.056	$3.234	$3.419	$3.009	*$0.180*	$2.976	$2.929	
IDAHO AVERAGE	$3.899	$4.038	$4.128	$4.344	*$0.250*	$3.649	$4.094	
IDAHO ONE MONTH AGO	$4.109	$4.255	$4.351	$4.787	*$0.250*	$3.859	$4.537	
IDAHO ONE YEAR AGO	$2.781	$2.935	$3.017	$3.030	*$0.250*	$2.756	$2.780	
MONTANA AVERAGE	$3.939	$4.090	$4.202	$4.337	*.270 (gas), diesel (.275)*	$3.669	$4.062	
MONTANA ONE MONTH AGO	$4.074	$4.230	$4.346	$4.623	*.270 (gas), diesel (.275)*	$3.804	$4.348	
MONTANA ONE YEAR AGO	$2.945	$3.071	$3.219	$3.051	*.270 (gas), diesel (.275)*	$2.675	$2.776	
NORTH DAKOTA AVERAGE	$3.800	$3.918	$4.032	$4.200	*$0.230*	$3.570	$3.970	
NORTH DAKOTA ONE MONTH AGO	$3.806	$3.922	$4.038	$4.501	*$0.230*	$3.576	$4.271	
NORTH DAKOTA ONE YEAR AGO	$3.191	$3.302	$3.420	$3.116	*$0.230*	$2.961	$2.986	
SOUTH DAKOTA AVERAGE	$3.712	$3.855	$4.013	$4.110	*$0.220*	$3.492	$3.890	
SOUTH DAKOTA ONE MONTH AGO	$3.838	$3.987	$4.150	$4.541	*$0.220*	$3.618	$4.321	
SOUTH DAKOTA ONE YEAR AGO	$3.071	$3.268	$3.402	$3.078	*$0.220*	$2.851	$2.858	
WASHINGTON AVERAGE	$3.874	$3.997	$4.112	$4.477	*$0.310*	$3.564	$4.167	
WASHINGTON ONE MONTH AGO	$4.129	$4.260	$4.382	$4.807	*$0.310*	$3.819	$4.597	
WASHINGTON ONE YEAR AGO	$2.856	$2.959	$3.106	$3.111	*$0.310*	$2.546	$2.801	

[Become A Member] [Log In]

GasBuddy.com

Sign Up To Join The Fight Against High Gas Prices!
Free Classifieds at SuperAds.com

Home | Historical Price Charts | Map Gas Prices | Gas Price Temperature Map | Wireless | Helpful Tips | Contact Us | Media Ideas

Historical Price Charts

Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years

72 Month Average Retail Price Chart

Add these dynamic charts to your website

Customize price charts

Area 1: USA Average | Time Period: 6 Year | US $/G | Create Chart
Area 2: Alaska, AK | Show Crude Oil Price | Canadian c/L
Area 3:

Step One - Select a single city in order to identify price trends or to identify a historical price most accurately. Select multiple cities to compare pump prices between cities.

Step Two - Selection of time duration will define how long into history the prices will be displayed. In some cities only limited price history information is available and in those cases the line will be flat for extended periods.

Step Three - When comparing US cities to Canadian cities you have a choice of price units. The standard unit of measure in the US is dollars per gallon and in Canada the standard is cents/liter. Comparison of US and Canadian cities is done using recent currency exchange rates and uses the conversion factor of 1 US gallon being equal to 3.78 liters. For simple plotting of US cities use dollars per gallon ($/G) and for simple plotting of Canadian cities use cents/liter (c/L).

Step Four - Click the "Create Chart" button to create the chart.

adn.com

Comparing gas prices

Anchorage and Alaska are among the most expensive places to buy gas in the U.S.. Prices for major U.S. cites as of 5 pm Thurday

Top 5 most expensive cities		Top 5 most expensive states	
Anchorage	**4.37**	Hawaii	4.55
Honolulu	4.36	**Alaska**	**4.51**
San Francisco	4.30	California	4.16
San Jose	4.22	Utah	4.10
New York City	4.16	Washington	4.10
Top 5 cheapest cities		**Top 5 cheapest states**	
Columbus	3.55	Kansas	3.63
Wichita	3.54	Minnesota	3.62
Des Moines	3.52	South Carolina	3.61
Oklahoma City	3.50	Oklahoma	3.57
Tulsa	3.49	Missouri	3.53

Source: gasbuddy.com

adn.com

Small decline in Anchorage gas prices

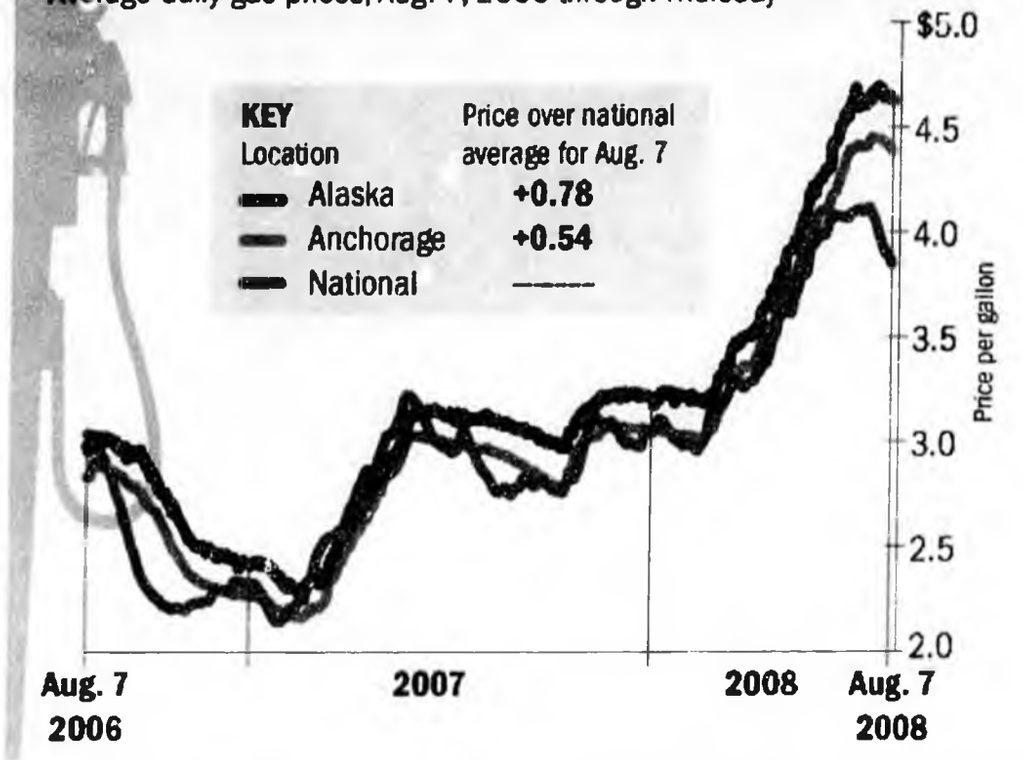
Gas prices for selected major U.S. cities

Selected cities	One year ago	One month ago	Prices Thursday	Difference from last month
Anchorage	2.95	4.39	4.37	-2
Spokane	2.98	4.13	4.06	-7
Seattle	2.84	4.36	4.07	-29
Portland	2.73	4.22	3.89	-33
Boise	2.95	4.11	4.02	-9
San Francisco	3.18	4.59	4.29	-30
Fresno	2.92	4.55	4.05	-50
Denver	2.88	3.95	3.85	-10
Columbus OH	2.74	3.97	3.63	-34
Nashville	2.71	3.98	3.68	-30
Minneapolis	2.83	3.94	3.62	-32
Scranton PA	2.77	4.04	3.74	-30
Columbia SC	2.59	3.90	3.55	-35
Kansas City MO	2.77	3.99	3.78	-21

Source: gasbuddy.com

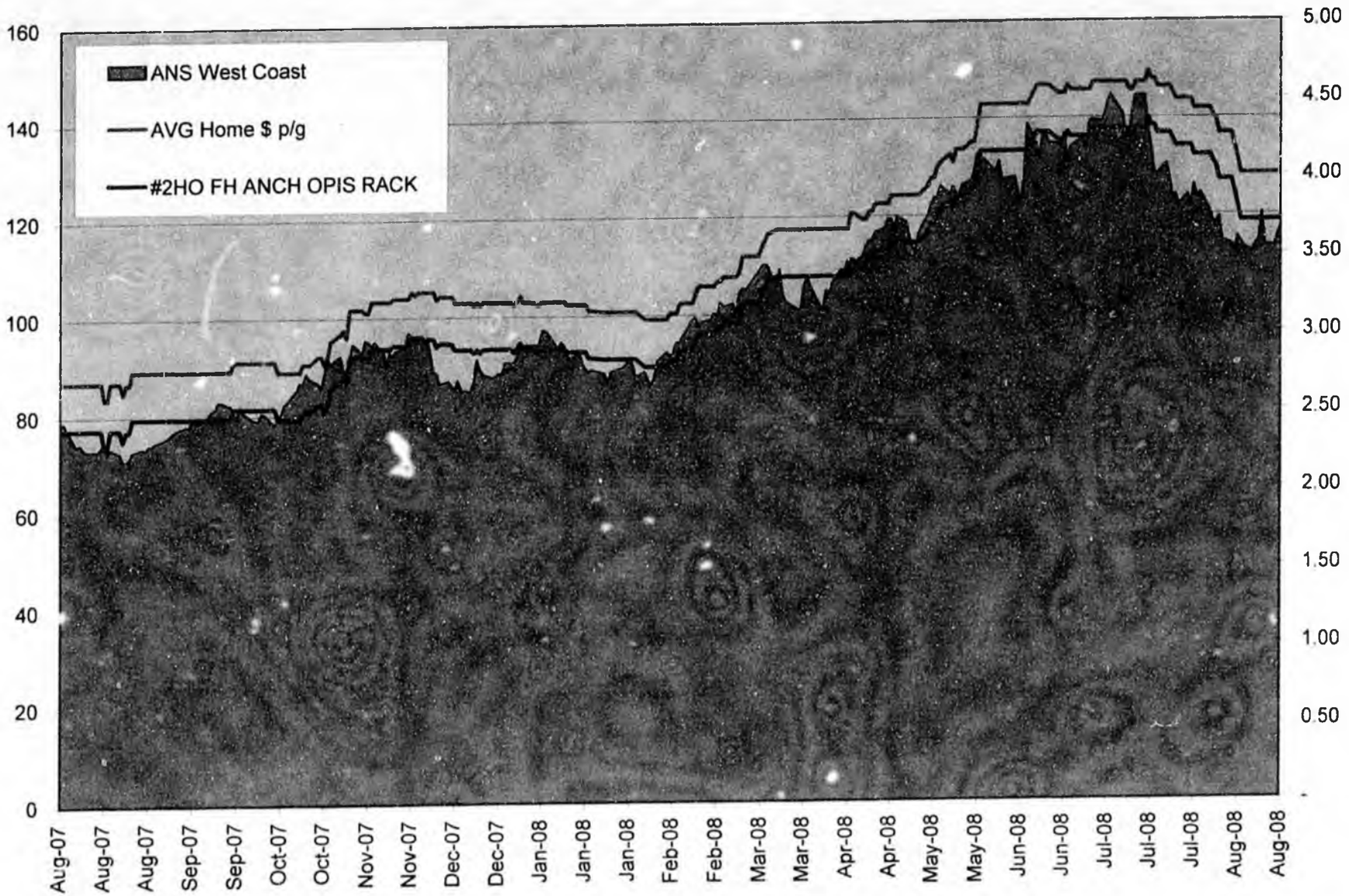
Alaskans paying more at the pump

Average daily gas prices, Aug. 7, 2006 through Thursday



Source: AAA MountainWest

RON ENGSTROM / Anchorage Daily News


ANS West Coast
AVG Home $ p/g
#2HO FH ANCH OPIS RACK
160
140
120
100
80
60
40
20
0
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
-
Aug-07
Aug-07
Aug-07
Sep-07
Sep-07
Oct-07
Oct-07
Nov-07
Nov-07
Dec-07
Dec-07
Jan-08
Jan-08
Jan-08
Feb-08
Feb-08
Mar-08
Mar-08
Apr-08
Apr-08
May-08
May-08
Jun-08
Jun-08
Jul-08
Jul-08
Jul-08
Aug-08
Aug-08

Date	ANS West Coast	#2HO FH ANGH OPIS RACK	AVG Home $ p/g	Avg Com. $ p/g	
8/1/2007	$78.53	$ 2.42	$ 2.72	$ 2.59	
8/2/2007	$78.86	$ 2.42	$ 2.72	$ 2.59	
8/3/2007	$77.48	$ 2.42	$ 2.72	$ 2.59	
8/6/2007	$74.06	$ 2.42	$ 2.72	$ 2.59	
8/7/2007	$74.42	$ 2.42	$ 2.72	$ 2.59	
8/8/2007	$73.60	$ 2.42	$ 2.72	$ 2.59	
8/9/2007	$73.04	$ 2.42	$ 2.72	$ 2.59	
8/10/2007	$72.92	$ 2.42	$ 2.72	$ 2.59	
8/13/2007	$73.07	$ 2.42	$ 2.72	$ 2.59	
8/14/2007	$73.83	$ 2.42	$ 2.72	$ 2.59	
8/15/2007	$74.78	$ 2.31	$ 2.61	$ 2.48	
8/16/2007	$72.45	$ 2.31	$ 2.61	$ 2.48	
8/17/2007	$73.43	$ 2.42	$ 2.72	$ 2.59	
8/20/2007	$72.57	$ 2.42	$ 2.72	$ 2.59	
8/21/2007	$70.92	$ 2.35	$ 2.65	$ 2.52	
8/22/2007	$70.76	$ 2.41	$ 2.71	$ 2.58	
8/23/2007	$71.43	$ 2.41	$ 2.71	$ 2.58	
8/24/2007	$72.79	$ 2.49	$ 2.79	$ 2.66	
8/27/2007	$73.42	$ 2.49	$ 2.79	$ 2.66	
8/28/2007	$73.18	$ 2.49	$ 2.79	$ 2.66	
8/29/2007	$74.01	$ 2.49	$ 2.79	$ 2.66	
8/30/2007	$73.86	$ 2.49	$ 2.79	$ 2.66	
8/31/2007	$74.54	$ 2.49	$ 2.79	$ 2.66	
9/4/2007	$75.55	$ 2.49	$ 2.79	$ 2.66	
9/5/2007	$76.23	$ 2.49	$ 2.79	$ 2.66	
9/6/2007	$76.80	$ 2.49	$ 2.79	$ 2.66	
9/7/2007	$77.20	$ 2.49	$ 2.79	$ 2.66	
9/10/2007	$77.99	$ 2.49	$ 2.79	$ 2.66	
9/11/2007	$77.73	$ 2.49	$ 2.79	$ 2.66	
9/12/2007	$79.41	$ 2.49	$ 2.79	$ 2.66	
9/13/2007	$79.59	$ 2.49	$ 2.79	$ 2.66	
9/14/2007	$78.60	$ 2.49	$ 2.79	$ 2.66	
9/17/2007	$80.07	$ 2.49	$ 2.79	$ 2.66	
9/18/2007	$81.01	$ 2.49	$ 2.79	$ 2.66	
9/19/2007	$81.43	$ 2.49	$ 2.79	$ 2.66	
9/20/2007	$82.82	$ 2.49	$ 2.79	$ 2.66	
9/21/2007	$82.92	$ 2.49	$ 2.79	$ 2.66	
9/24/2007	$82.15	$ 2.49	$ 2.79	$ 2.66	
9/25/2007	$80.88	$ 2.55	$ 2.85	$ 2.72	
9/26/2007	$79.40	$ 2.55	$ 2.85	$ 2.72	
9/27/2007	$81.98	$ 2.55	$ 2.85	$ 2.72	
9/28/2007	$80.76	$ 2.55	$ 2.85	$ 2.72	
10/1/2007	$79.34	$ 2.55	$ 2.85	$ 2.72	
10/2/2007	$79.15	$ 2.55	$ 2.85	$ 2.72	
10/3/2007	$79.04	$ 2.55	$ 2.85	$ 2.72	
10/4/2007	$80.54	$ 2.55	$ 2.85	$ 2.72	
10/5/2007	$80.32	$ 2.55	$ 2.85	$ 2.72	
10/8/2007	$78.12	$ 2.55	$ 2.85	$ 2.72	
10/9/2007	$79.36	$ 2.48	$ 2.78	$ 2.65	

10/10/2007	$80.40	$ 2.48	$ 2.78	$ 2.65	
10/11/2007	$82.18	$ 2.48	$ 2.78	$ 2.65	
10/12/2007	$82.79	$ 2.48	$ 2.78	$ 2.65	
10/15/2007	$85.23	$ 2.48	$ 2.78	$ 2.65	
10/16/2007	$86.71	$ 2.48	$ 2.78	$ 2.65	
10/17/2007	$86.50	$ 2.53	$ 2.83	$ 2.70	
10/18/2007	$88.67	$ 2.53	$ 2.83	$ 2.70	
10/19/2007	$87.70	$ 2.53	$ 2.83	$ 2.70	
10/22/2007	$86.66	$ 2.58	$ 2.88	$ 2.75	
10/23/2007	$85.67	$ 2.58	$ 2.88	$ 2.75	
10/24/2007	$88.20	$ 2.53	$ 2.83	$ 2.70	
10/25/2007	$91.91	$ 2.58	$ 2.88	$ 2.75	
10/26/2007	$90.56	$ 2.68	$ 2.98	$ 2.85	
10/29/2007	$92.23	$ 2.72	$ 3.02	$ 2.89	
10/30/2007	$89.08	$ 2.75	$ 3.05	$ 2.92	
10/31/2007	$89.08	$ 2.70	$ 3.00	$ 2.87	
11/1/2007	$92.19	$ 2.88	$ 3.18	$ 3.05	
11/2/2007	$94.63	$ 2.88	$ 3.18	$ 3.05	
11/5/2007	$92.68	$ 2.88	$ 3.18	$ 3.05	
11/6/2007	$95.40	$ 2.86	$ 3.16	$ 3.03	
11/7/2007	$95.07	$ 2.86	$ 3.16	$ 3.03	
11/8/2007	$94.16	$ 2.93	$ 3.23	$ 3.10	
11/9/2007	$95.02	$ 2.93	$ 3.23	$ 3.10	
11/12/2007	$93.32	$ 2.93	$ 3.23	$ 3.10	
11/13/2007	$89.87	$ 2.93	$ 3.23	$ 3.10	
11/14/2007	$92.79	$ 2.93	$ 3.23	$ 3.10	
11/15/2007	$92.13	$ 2.95	$ 3.25	$ 3.12	
11/16/2007	$93.15	$ 2.95	$ 3.25	$ 3.12	
11/19/2007	$93.69	$ 2.95	$ 3.25	$ 3.12	
11/20/2007	$96.93	$ 2.95	$ 3.25	$ 3.12	
11/21/2007	$96.09	$ 2.99	$ 3.29	$ 3.16	
11/22/2007	$96.09	$ 2.97	$ 3.27	$ 3.14	
11/23/2007	$96.23	$ 2.99	$ 3.29	$ 3.16	
11/26/2007	$95.75	$ 2.99	$ 3.29	$ 3.16	
11/27/2007	$92.47	$ 2.99	$ 3.29	$ 3.16	
11/28/2007	$88.67	$ 2.99	$ 3.29	$ 3.16	
11/29/2007	$88.56	$ 2.94	$ 3.24	$ 3.11	
11/30/2007	$86.26	$ 2.96	$ 3.26	$ 3.13	
12/3/2007	$86.86	$ 2.96	$ 3.26	$ 3.13	
12/4/2007	$85.87	$ 2.96	$ 3.26	$ 3.13	
12/5/2007	$85.04	$ 2.92	$ 3.22	$ 3.09	
12/6/2007	$86.98	$ 2.92	$ 3.22	$ 3.09	
12/7/2007	$85.03	$ 2.92	$ 3.22	$ 3.09	
12/10/2007	$84.61	$ 2.92	$ 3.22	$ 3.09	
12/11/2007	$86.77	$ 2.90	$ 3.20	$ 3.07	
12/12/2007	$91.24	$ 2.92	$ 3.22	$ 3.09	
12/13/2007	$89.10	$ 2.90	$ 3.20	$ 3.07	
12/14/2007	$88.12	$ 2.92	$ 3.22	$ 3.09	
12/17/2007	$87.48	$ 2.92	$ 3.22	$ 3.09	
12/18/2007	$87.73	$ 2.92	$ 3.22	$ 3.09	
12/19/2007	$88.31	$ 2.92	$ 3.22	$ 3.09	
12/20/2007	$88.20	$ 2.92	$ 3.22	$ 3.09	

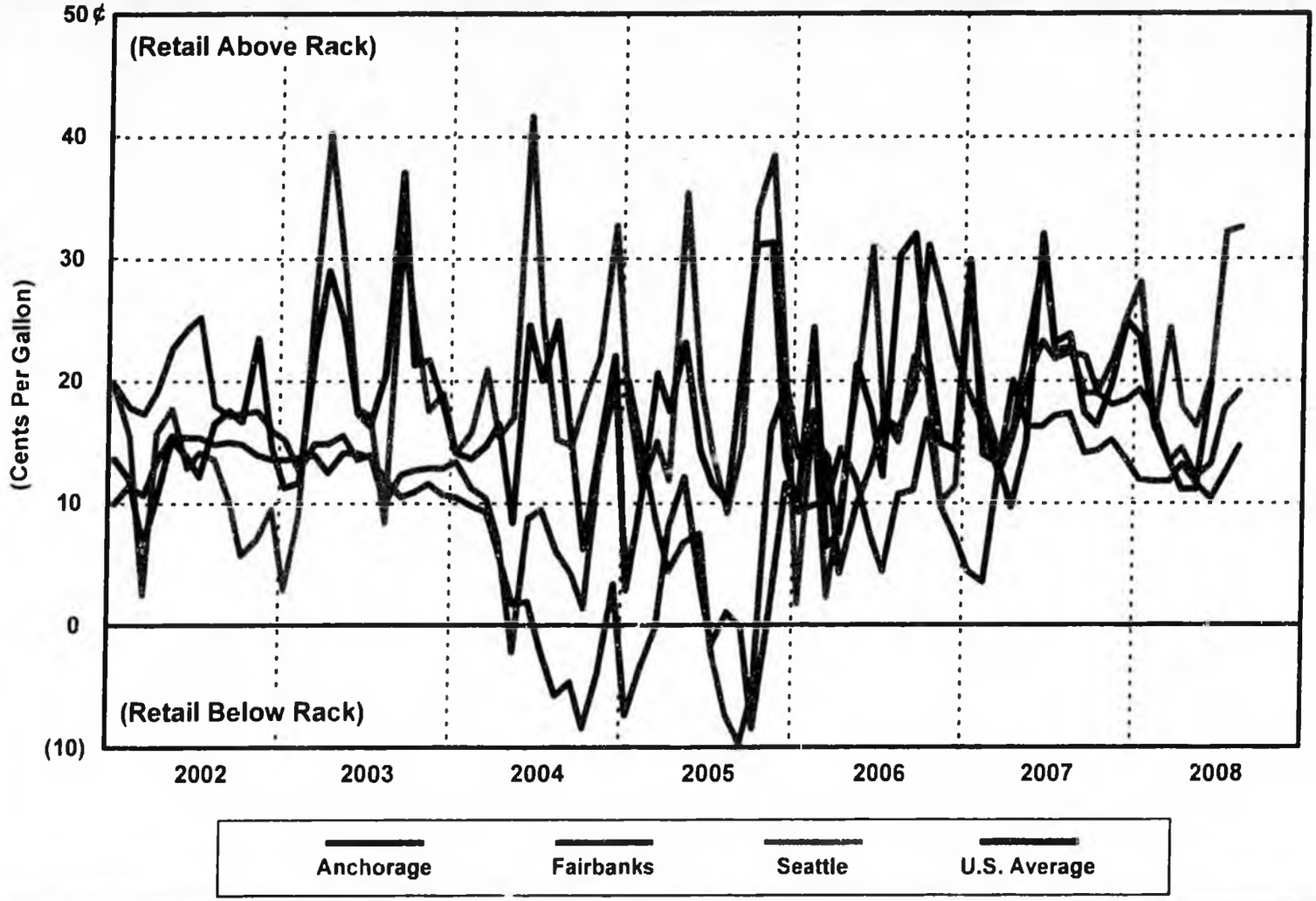
12/21/2007	$90.50	$ 2.92	$ 3.22	$ 3.09	
12/22/2007	$90.50	$ 2.92	$ 3.22	$ 3.09	
12/23/2007	$90.50	$ 2.92	$ 3.22	$ 3.09	
12/24/2007	$90.50	$ 2.90	$ 3.20	$ 3.07	
12/26/2007	$93.47	$ 2.96	$ 3.26	$ 3.13	
12/27/2007	$94.12	$ 2.92	$ 3.22	$ 3.09	
12/28/2007	$94.12	$ 2.92	$ 3.22	$ 3.09	
12/29/2007	$94.12	$ 2.92	$ 3.22	$ 3.09	
12/30/2007	$94.12	$ 2.92	$ 3.22	$ 3.09	
12/31/2007	$94.12	$ 2.90	$ 3.20	$ 3.07	
1/1/2008	$94.12	$ 2.90	$ 3.20	$ 3.07	
1/2/2008	$97.12	$ 2.92	$ 3.22	$ 3.09	
1/3/2008	$96.98	$ 2.92	$ 3.22	$ 3.09	
1/4/2008	$96.21	$ 2.92	$ 3.22	$ 3.09	
1/7/2008	$93.39	$ 2.92	$ 3.22	$ 3.09	
1/8/2008	$94.63	$ 2.92	$ 3.22	$ 3.09	
1/9/2008	$93.97	$ 2.92	$ 3.22	$ 3.09	
1/10/2008	$92.01	$ 2.90	$ 3.20	$ 3.07	
1/11/2008	$90.99	$ 2.90	$ 3.20	$ 3.07	
1/14/2008	$92.50	$ 2.90	$ 3.20	$ 3.07	
1/15/2008	$90.20	$ 2.90	$ 3.20	$ 3.07	
1/16/2008	$89.14	$ 2.90	$ 3.20	$ 3.07	
1/17/2008	$88.43	$ 2.86	$ 3.16	$ 3.03	
1/18/2008	$88.87	$ 2.86	$ 3.16	$ 3.03	
1/22/2008	$88.15	$ 2.85	$ 3.15	$ 3.02	
1/23/2008	$85.94	$ 2.85	$ 3.15	$ 3.02	
1/24/2008	$88.36	$ 2.85	$ 3.15	$ 3.02	
1/25/2008	$88.69	$ 2.85	$ 3.15	$ 3.02	
1/28/2008	$89.34	$ 2.85	$ 3.15	$ 3.02	
1/29/2008	$89.99	$ 2.85	$ 3.15	$ 3.02	
1/30/2008	$90.68	$ 2.85	$ 3.15	$ 3.02	
1/31/2008	$90.10	$ 2.85	$ 3.15	$ 3.02	
2/1/2008	$87.31	$ 2.85	$ 3.15	$ 3.02	
2/4/2008	$88.37	$ 2.80	$ 3.10	$ 2.97	
2/5/2008	$86.76	$ 2.80	$ 3.10	$ 2.97	
2/6/2008	$85.49	$ 2.80	$ 3.10	$ 2.97	
2/7/2008	$86.86	$ 2.80	$ 3.10	$ 2.97	
2/8/2008	$90.52	$ 2.80	$ 3.10	$ 2.97	
2/11/2008	$92.44	$ 2.80	$ 3.10	$ 2.97	
2/12/2008	$91.63	$ 2.84	$ 3.14	$ 3.01	
2/13/2008	$92.12	$ 2.84	$ 3.14	$ 3.01	
2/14/2008	$94.31	$ 2.84	$ 3.14	$ 3.01	
2/15/2008	$94.35	$ 2.90	$ 3.20	$ 3.07	
2/19/2008	$98.86	$ 2.90	$ 3.20	$ 3.07	
2/20/2008	$99.59	$ 2.96	$ 3.26	$ 3.13	
2/21/2008	$97.38	$ 3.01	$ 3.31	$ 3.18	
2/22/2008	$98.51	$ 3.01	$ 3.31	$ 3.18	
2/25/2008	$99.03	$ 3.01	$ 3.31	$ 3.18	
2/26/2008	$100.43	$ 3.01	$ 3.31	$ 3.18	
2/27/2008	$99.49	$ 3.04	$ 3.34	$ 3.21	
2/28/2008	$102.44	$ 3.04	$ 3.34	$ 3.21	
2/29/2008	$101.69	$ 3.07	$ 3.37	$ 3.24	

3/3/2008	$102.30	$ 3.07	$ 3.37	$ 3.24	
3/4/2008	$99.37	$ 3.07	$ 3.37	$ 3.24	
3/5/2008	$104.37	$ 3.10	$ 3.40	$ 3.27	
3/6/2008	$105.32	$ 3.20	$ 3.50	$ 3.37	
3/7/2008	$105.00	$ 3.20	$ 3.50	$ 3.37	
3/10/2008	$107.75	$ 3.20	$ 3.50	$ 3.37	
3/11/2008	$108.60	$ 3.20	$ 3.50	$ 3.37	
3/12/2008	$109.77	$ 3.25	$ 3.55	$ 3.42	
3/13/2008	$110.18	$ 3.30	$ 3.60	$ 3.47	
3/14/2008	$110.09	$ 3.34	$ 3.64	$ 3.51	
3/17/2008	$105.53	$ 3.37	$ 3.67	$ 3.54	
3/18/2008	$109.27	$ 3.37	$ 3.67	$ 3.54	
3/19/2008	$104.33	$ 3.37	$ 3.67	$ 3.54	
3/20/2008	$102.64	$ 3.37	$ 3.67	$ 3.54	
3/24/2008	$100.91	$ 3.37	$ 3.67	$ 3.54	
3/25/2008	$100.97	$ 3.37	$ 3.67	$ 3.54	
3/26/2008	$105.90	$ 3.37	$ 3.67	$ 3.54	
3/27/2008	$107.58	$ 3.37	$ 3.67	$ 3.54	
3/28/2008	$105.62	$ 3.37	$ 3.67	$ 3.54	
3/31/2008	$101.58	$ 3.37	$ 3.67	$ 3.54	
4/1/2008	$100.98	$ 3.37	$ 3.67	$ 3.54	
4/2/2008	$104.83	$ 3.37	$ 3.67	$ 3.54	
4/3/2008	$103.83	$ 3.37	$ 3.67	$ 3.54	
4/4/2008	$106.23	$ 3.37	$ 3.67	$ 3.54	
4/7/2008	$109.09	$ 3.37	$ 3.67	$ 3.54	
4/8/2008	$108.50	$ 3.37	$ 3.67	$ 3.54	
4/9/2008	$110.87	$ 3.37	$ 3.67	$ 3.54	
4/10/2008	$110.11	$ 3.47	$ 3.77	$ 3.64	
4/11/2008	$110.14	$ 3.47	$ 3.77	$ 3.64	
4/14/2008	$111.76	$ 3.43	$ 3.73	$ 3.60	
4/15/2008	$113.79	$ 3.43	$ 3.73	$ 3.60	
4/16/2008	$114.93	$ 3.48	$ 3.78	$ 3.65	
4/17/2008	$114.86	$ 3.48	$ 3.78	$ 3.65	
4/18/2008	$116.69	$ 3.53	$ 3.83	$ 3.70	
4/21/2008	$117.48	$ 3.53	$ 3.83	$ 3.70	
4/22/2008	$119.37	$ 3.53	$ 3.83	$ 3.70	
4/23/2008	$119.40	$ 3.58	$ 3.88	$ 3.75	
4/24/2008	$117.21	$ 3.58	$ 3.88	$ 3.75	
4/25/2008	$119.70	$ 3.58	$ 3.88	$ 3.75	
4/28/2008	$118.75	$ 3.58	$ 3.88	$ 3.75	
4/29/2008	$115.63	$ 3.58	$ 3.88	$ 3.75	
4/30/2008	$113.46	$ 3.58	$ 3.88	$ 3.75	
5/1/2008	$112.52	$ 3.58	$ 3.88	$ 3.75	
5/2/2008	$116.32	$ 3.58	$ 3.88	$ 3.75	
5/5/2008	$119.97	$ 3.64	$ 3.94	$ 3.81	
5/6/2008	$121.84	$ 3.69	$ 3.99	$ 3.86	
5/7/2008	$123.53	$ 3.69	$ 3.99	$ 3.86	
5/8/2008	$123.69	$ 3.76	$ 4.06	$ 3.93	
5/9/2008	$125.96	$ 3.79	$ 4.09	$ 3.96	
5/12/2008	$124.23	$ 3.84	$ 4.14	$ 4.01	
5/13/2008	$125.80	$ 3.79	$ 4.09	$ 3.96	
5/14/2008	$124.22	$ 3.87	$ 4.17	$ 4.04	

5/15/2008	$124.12	$ 3.87	$ 4.17	$ 4.04	
5/16/2008	$126.29	$ 3.87	$ 4.17	$ 4.04	
5/19/2008	$127.05	$ 3.92	$ 4.22	$ 4.09	
5/20/2008	$129.07	$ 3.92	$ 4.22	$ 4.09	
5/21/2008	$132.57	$ 4.04	$ 4.34	$ 4.21	
5/22/2008	$130.21	$ 4.16	$ 4.46	$ 4.33	
5/23/2008	$131.59	$ 4.16	$ 4.46	$ 4.33	
5/27/2008	$128.85	$ 4.16	$ 4.46	$ 4.33	
5/28/2008	$131.03	$ 4.16	$ 4.46	$ 4.33	
5/29/2008	$126.62	$ 4.16	$ 4.46	$ 4.33	
5/30/2008	$127.35	$ 4.16	$ 4.46	$ 4.33	
6/2/2008	$127.76	$ 4.16	$ 4.46	$ 4.33	
6/3/2008	$124.31	$ 4.16	$ 4.46	$ 4.33	
6/4/2008	$122.30	$ 4.16	$ 4.46	$ 4.33	
6/5/2008	$127.79	$ 4.16	$ 4.46	$ 4.33	
6/6/2008	$138.54	$ 4.16	$ 4.46	$ 4.33	
6/9/2008	$134.35	$ 4.28	$ 4.58	$ 4.45	
6/10/2008	$131.31	$ 4.28	$ 4.58	$ 4.45	
6/11/2008	$136.38	$ 4.28	$ 4.58	$ 4.45	
6/12/2008	$136.74	$ 4.28	$ 4.58	$ 4.45	
6/13/2008	$134.86	$ 4.28	$ 4.58	$ 4.45	
6/16/2008	$134.61	$ 4.23	$ 4.53	$ 4.40	
6/17/2008	$134.01	$ 4.23	$ 4.53	$ 4.40	
6/18/2008	$136.68	$ 4.23	$ 4.53	$ 4.40	
6/19/2008	$131.18	$ 4.28	$ 4.58	$ 4.45	
6/20/2008	$133.87	$ 4.25	$ 4.55	$ 4.42	
6/23/2008	$135.25	$ 4.25	$ 4.55	$ 4.42	
6/24/2008	$135.65	$ 4.25	$ 4.55	$ 4.42	
6/25/2008	$133.28	$ 4.25	$ 4.55	$ 4.42	
6/26/2008	$138.89	$ 4.25	$ 4.55	$ 4.42	
6/27/2008	$139.46	$ 4.30	$ 4.60	$ 4.47	
6/30/2008	$139.10	$ 4.30	$ 4.60	$ 4.47	
7/1/2008	$140.07	$ 4.30	$ 4.60	$ 4.47	
7/2/2008	$142.97	$ 4.30	$ 4.60	$ 4.47	
7/3/2008	$144.59	$ 4.30	$ 4.60	$ 4.47	
7/7/2008	$140.67	$ 4.30	$ 4.60	$ 4.47	
7/8/2008	$135.34	$ 4.30	$ 4.60	$ 4.47	
7/9/2008	$135.35	$ 4.25	$ 4.55	$ 4.42	
7/10/2008	$140.95	$ 4.25	$ 4.55	$ 4.42	
7/11/2008	$144.38	$ 4.30	$ 4.60	$ 4.47	
7/14/2008	$144.48	$ 4.30	$ 4.60	$ 4.47	
7/15/2008	$138.04	$ 4.37	$ 4.67	$ 4.54	
7/16/2008	$133.90	$ 4.32	$ 4.62	$ 4.49	
7/17/2008	$128.59	$ 4.32	$ 4.62	$ 4.49	
7/18/2008	$128.18	$ 4.27	$ 4.57	$ 4.44	
7/21/2008	$130.34	$ 4.27	$ 4.57	$ 4.44	
7/22/2008	$127.25	$ 4.27	$ 4.57	$ 4.44	
7/23/2008	$122.94	$ 4.23	$ 4.53	$ 4.40	
7/24/2008	$124.04	$ 4.19	$ 4.49	$ 4.36	
7/25/2008	$121.76	$ 4.19	$ 4.49	$ 4.36	
7/28/2008	$124.03	$ 4.19	$ 4.49	$ 4.36	
7/29/2008	$121.49	$ 4.19	$ 4.49	$ 4.36	

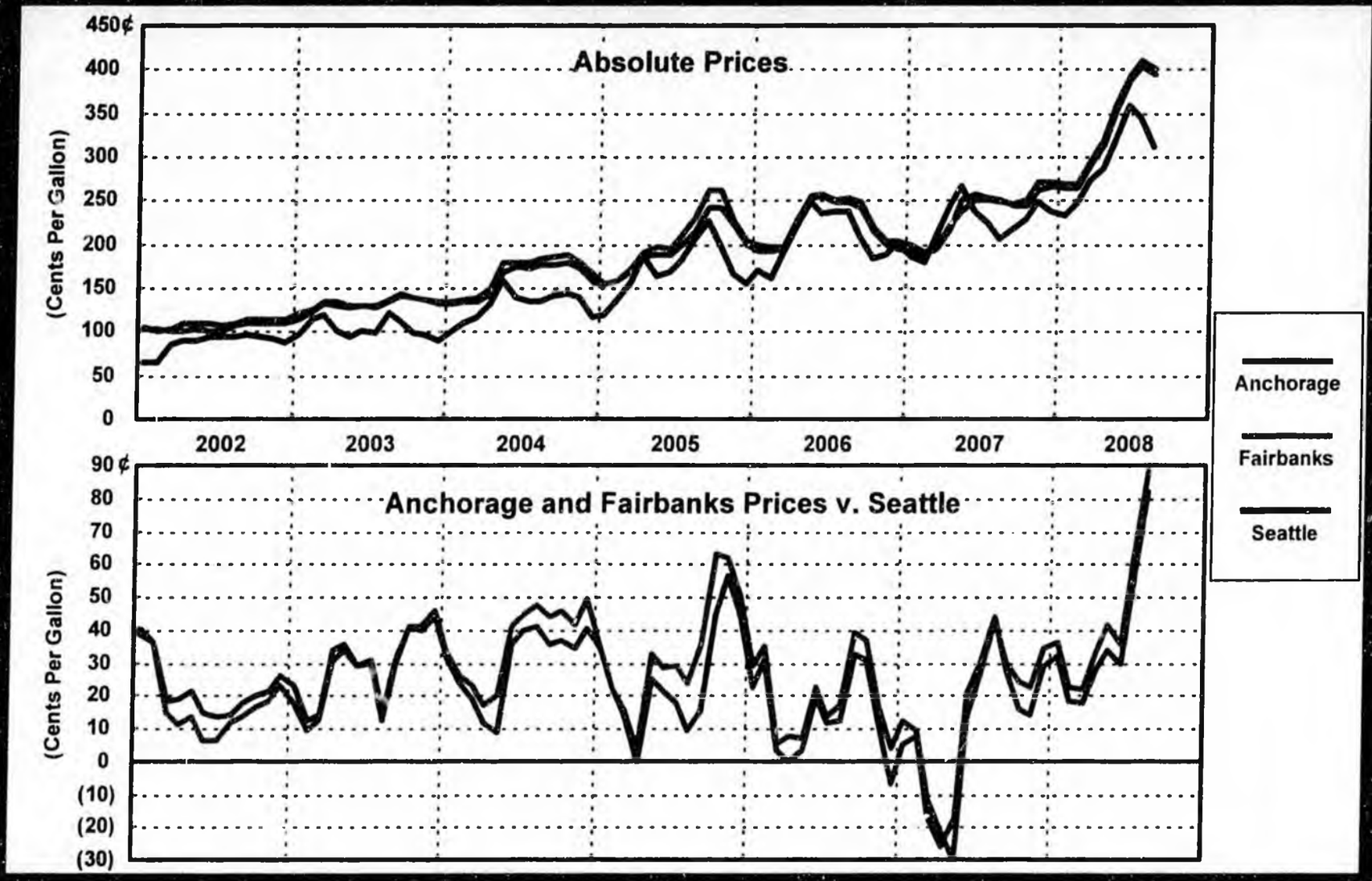
7/30/2008	$126.07	$ 4.13	$ 4.43	$ 4.30	
7/31/2008	$123.38	$ 4.13	$ 4.43	$ 4.30	
8/1/2008	$124.40	$ 4.13	$ 4.43	$ 4.30	
8/4/2008	$120.71	$ 4.13	$ 4.43	$ 4.30	
8/5/2008	$118.47	$ 4.09	$ 4.39	$ 4.26	
8/6/2008	$117.88	$ 4.06	$ 4.36	$ 4.23	
8/7/2008	$119.32	$ 3.97	$ 4.27	$ 4.14	
8/8/2008	$114.50	$ 3.97	$ 4.27	$ 4.14	
8/11/2008	$113.75	$ 3.97	$ 4.27	$ 4.14	
8/12/2008	$112.31	$ 3.89	$ 4.19	$ 4.06	
8/13/2008	$115.30	$ 3.81	$ 4.11	$ 3.98	
8/14/2008	$114.31	$ 3.71	$ 4.01	$ 3.88	
8/15/2008	$113.07	$ 3.71	$ 4.01	$ 3.88	
8/18/2008	$112.17	$ 3.71	$ 4.01	$ 3.88	
8/19/2008	$113.83	$ 3.71	$ 4.01	$ 3.88	
8/20/2008	$114.28	$ 3.71	$ 4.01	$ 3.88	
8/21/2008	$120.23	$ 3.71	$ 4.01	$ 3.88	
8/22/2008	$113.54	$ 3.71	$ 4.01	$ 3.88	
8/25/2008	$113.34	$ 3.71	$ 4.01	$ 3.88	
8/26/2008	$115.57	$ 3.71	$ 4.01	$ 3.88	
8/27/2008	$117.45	$ 3.71	$ 4.01	$ 3.88	

Comparison of Rack to Retail Regular Unleaded Gasoline Prices (Before Taxes)
Anchorage, Fairbanks, Seattle and U.S. Average
January 2002 - August 2008



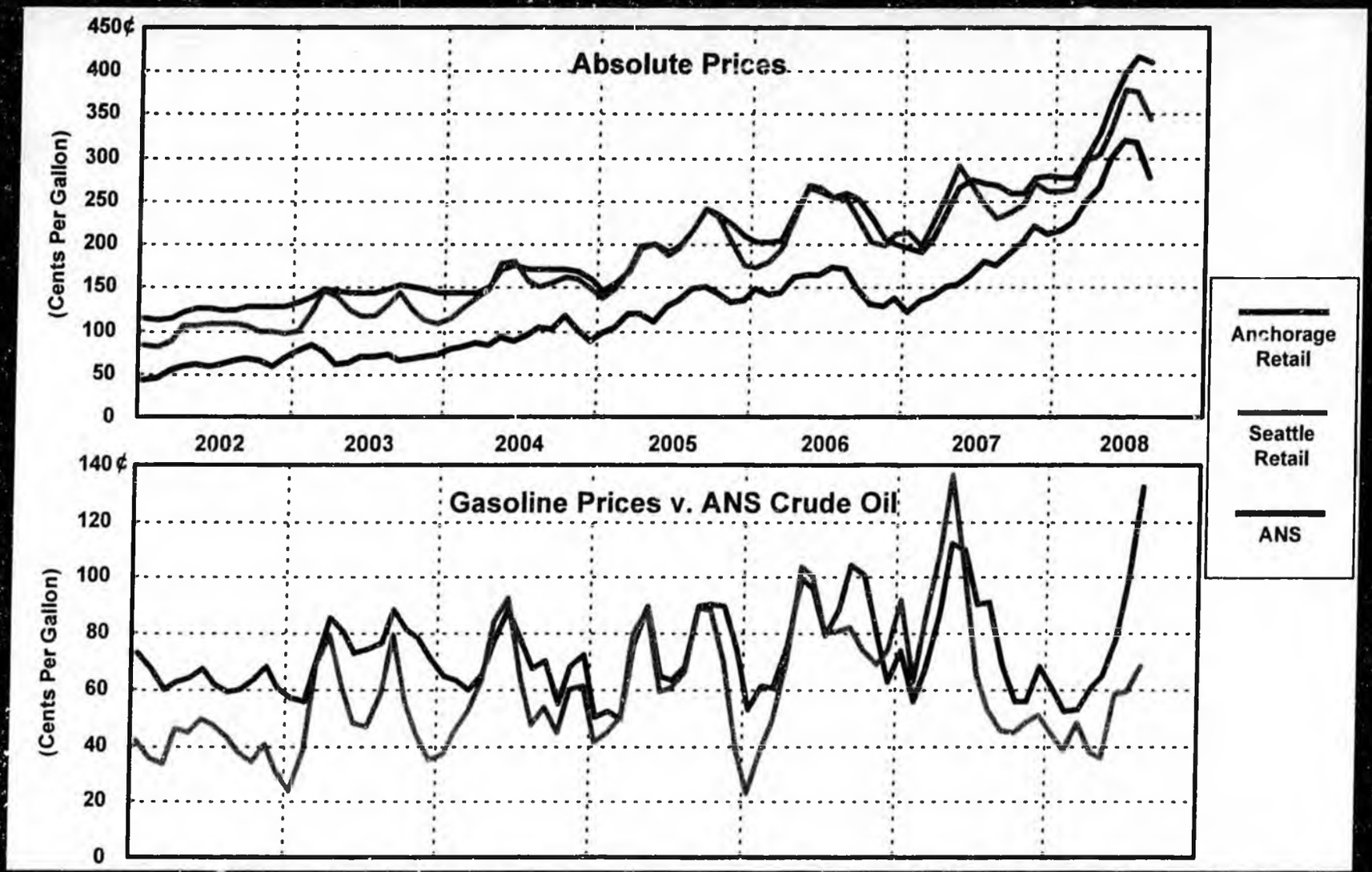
Source: EIA; Oil & Gas Journal; OPIS.

Comparison of Regular Unleaded Branded Rack Gasoline Prices (Before Taxes)
Anchorage, Fairbanks and Seattle
January 2002 - August 2008



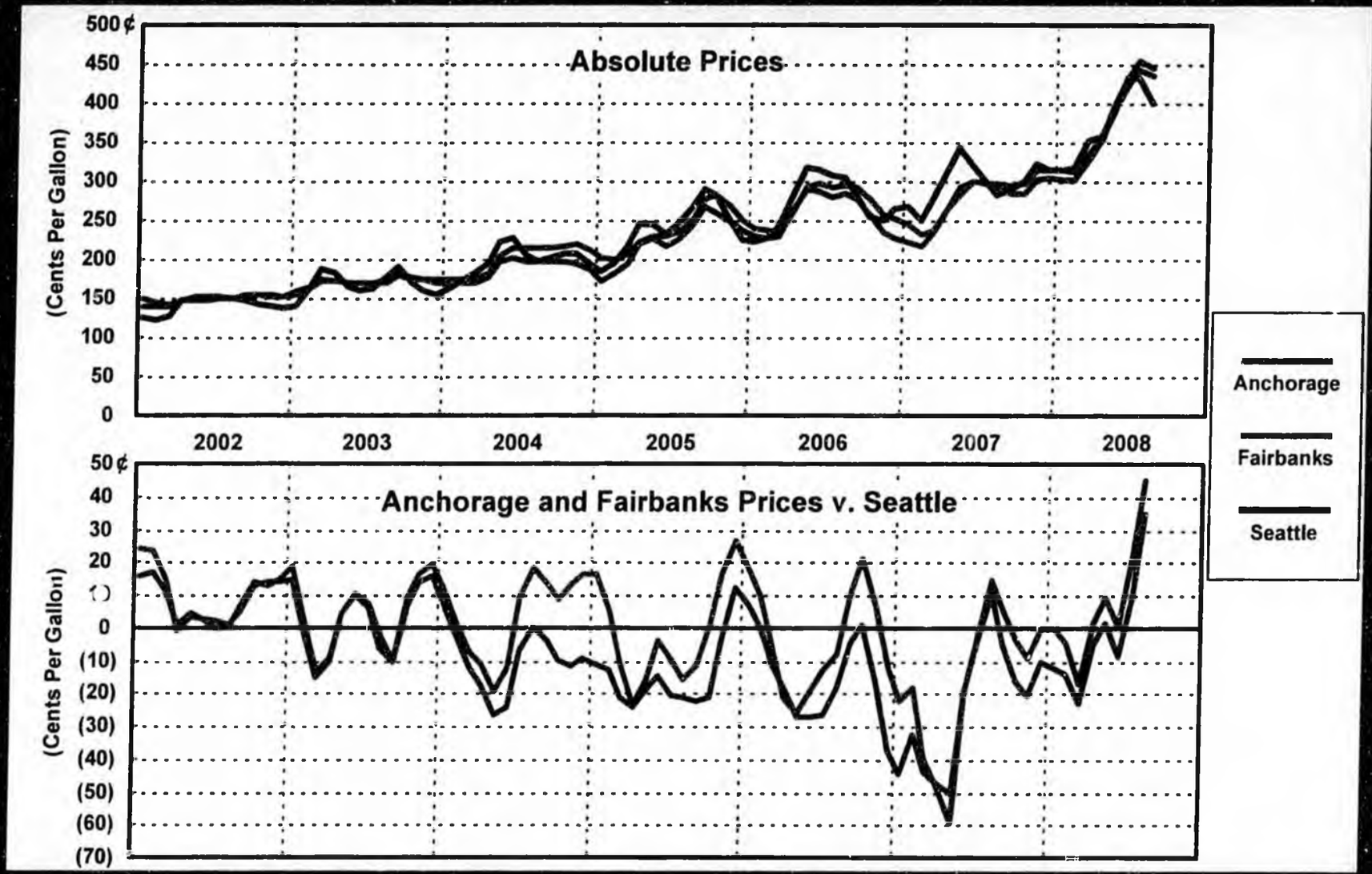
Source: EIA; OPIS.

Comparison of Regular Unleaded Gasoline Prices and ANS Crude Oil Prices
Anchorage and Seattle (Before Taxes)
January 2002 - August 2008



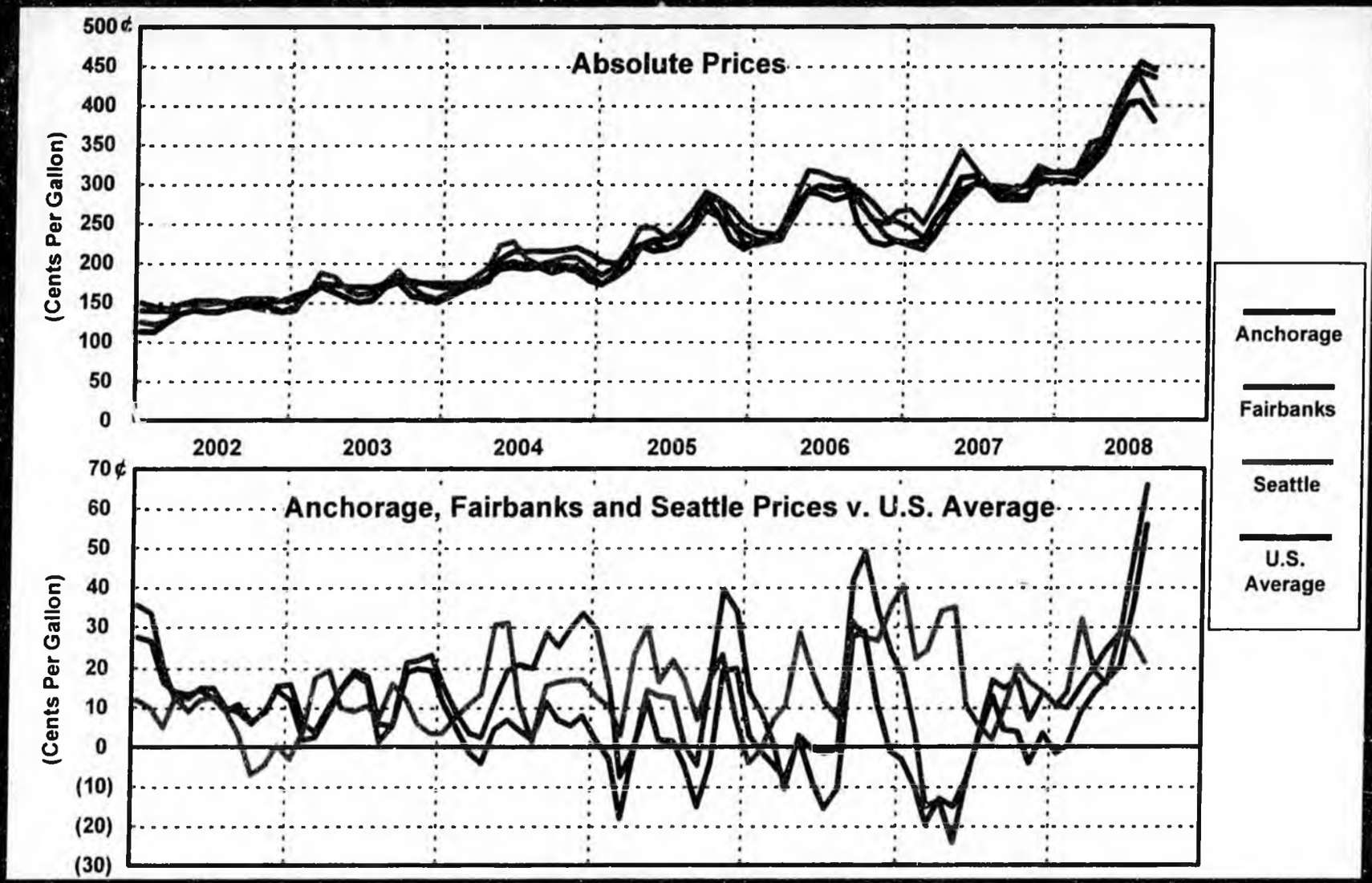
Source: OPIS; Platt's.

Comparison of Regular Unleaded Retail Gasoline Prices (After Taxes)
Anchorage, Fairbanks and Seattle
January 2002 - August 2008



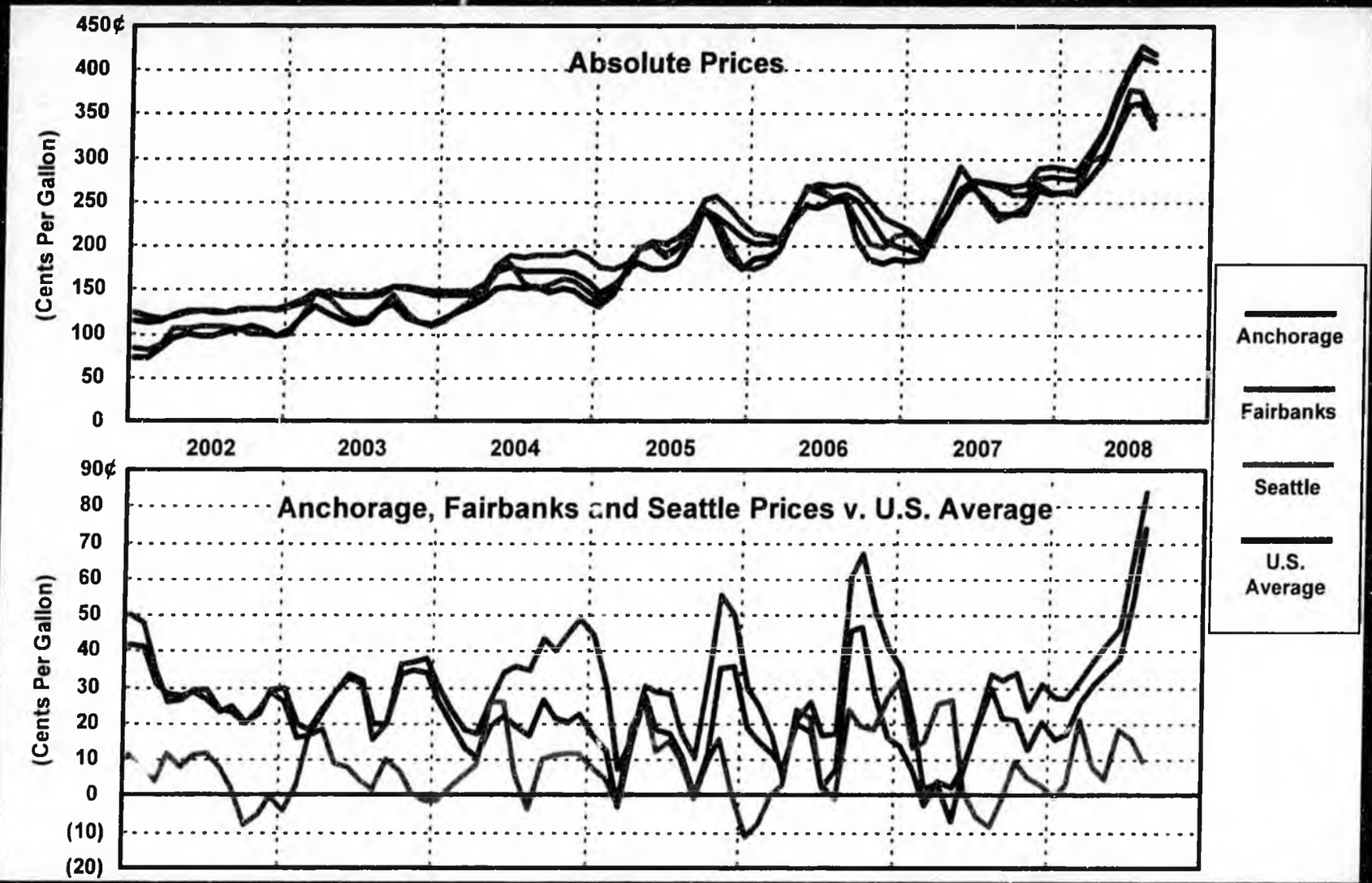
Source: OPIS.

Comparison of Regular Unleaded Retail Gasoline Prices (After Taxes)
Anchorage, Fairbanks, Seattle and U.S. Average
January 2002 - August 2008



Source: Oil & Gas Journal; OPIS.

Comparison of Regular Unleaded Retail Gasoline Prices (Before Taxes)
Anchorage, Fairbanks, Seattle and U.S. Average
January 2002 - August 2008



Source: EIA; Oil & Gas Journal; OPIS.

Summary of State Taxes on Motor Gasoline

Period	Alaska	Washington	U.S. Average
	(Cents Per Gallon)		
	(1)	(2)	(3)
Jan 2002 - Jun 2003	8.0¢	23.0¢	22.3¢
Jul 2003 - Jun 2005	8.0	28.0	23.1
Jul 2005 - Jun 2006	8.0	31.0	24.9
Jul 2006 - Jun 2007	8.0	34.0	25.4
Jul 2007 - Jun 2008	8.0	36.0	25.2
Jul 2008 - Aug 2008	8.0	37.5	26.0

3

AndrewHalcro.com 9/8/08

Why are gas prices so high in Alaska?

As Alaska State lawmakers begin an inquiry into why gasoline prices in Alaska are not falling as fast as the rest of the country, be prepared for the same answer a similar inquiry reached in 2002 under former Governor Tony Knowles; economics.

With a small market for supply and demand and refineries that aren't as effecient, the lack of competition and the cost of doing business in Alaska are higher than lower 48 markets, thus keeping retail prices higher.

The state's largest refinery, owned by Flint Hills, at North Pole, is 30 years old. It burns costly oil to power the refinery instead of cheaper natural gas as at most Lower 48 refineries. At today's spot market prices, natural gas is selling at the equivalent of $45 oil – but Flint Hills is paying royalty rates of $100+ for state royalty oil.

The refinery at peak capacity could process 220,000 barrels a day, but last year it averaged just 60,000 barrels a day (more inefficiency). It processes what the market demands, no more. Flint Hills is the fourth owner of the plant (that says something about its profitability?). About 60% of its refined product is jet fuel, the rest is gasoline and other products.

The other refineries in the state are Petro Star (North Pole and Valdez) and Tesoro (Kenai). The Tesoro plant produces gasoline, low-sulfur diesel, jet fuel and other products. The two smaller Petro Star refineries produce kerosene, diesel, jet fuel, home heating fuel – no gasoline, according to Petro Star's Web site.

Acording to industry data profiling profitability for fuel marketers, Anchorage ranks as the tenth worst earning market in the western region. The average margin in Anchorage is 10 cents per gallon compared to Medford, Oregon at 52 cents per gallon and Bellingham, Washington at 38 cents per gallon.

Local Alaska refiners like Tesoro have welcomed the legislature's inquiry according to a recent story in the Anchorage Daily News.

"That's fine. We wish them the best. We'll help," Kip Knudson, spokesman for Tesoro Alaska Co., said of the state investigations. Tesoro makes much of the state's gasoline at its Nikiski refinery, and it owns or supplies dozens of gas stations.

Investigators are likely to find the high prices are the result of market forces, Knudson said.

As for why Alaska prices aren't dropping as fast as in the Lower 48, he said Alaska is a small market and "smaller markets tend to be slower in response."

Assistant Attorney General Ed Sniffen said that could be because competition isn't as intense here as Outside. "There's never an incentive to drop prices unless your competitors are dropping prices," he said.

While many have raised the point that Alaska's proximity to oil & gas resources should provide lower cost at the pump. that doesn't reflect natural market competition. In many Alaska markets, prices are based on a gallon of gas refined in Puget Sound and the cost of transporting it back to Alaska.

The high crude oil prices of recent months have made it even worse for gasoline prices in Alaska. Since gasoline from Puget Sound sets the price for Alaska, the higher shipping costs (tanker charges, to cover the oil burned by the tanker) have driven up the gasoline price in Alaska.

Alaska has already investigated high gas prices back in 2002 under the administration of former Gov. Tony Knowles. The investigation carried out by former Attorney General Bruce Bothello found no antitrust violations.

The state of Washington also investigated high gas prices recently, concluding in April that fuel supply and transportation costs, increasing worldwide demand for oil and refinery crunches influenced prices at the pump -- not illegal price manipulation.

It is also worth mentioning that the legislature recently voted to suspend the state's gasoline tax to help consumers. The state's gas tax at eight cents per gallon is the lowest in the country and hasn't been raised since 1961.

adn.com
Anchorage Daily News

Oil's plunging in price, so why isn't gasoline?

RECOUPING COSTS: Experts say gas prices never went high enough.

By KEVIN G. HALL
McClatchy Newspapers
(09/07/08 01:31:24)

WASHINGTON -- Oil prices have fallen more than 26 percent from their July 11 record high of $147.27 a barrel, and all evidence points to further declines. The price Americans pay at the gas pump has fallen by a more modest 12 percent at Friday's national average of $3.67 a gallon.

That's led some consumers to wonder if they're being gouged. Here are some explanations for why the price of gasoline, while falling, isn't moving in lockstep with falling oil prices.

Q. Why aren't gasoline prices mirroring oil's slide?

A. "Because they didn't go up high enough in the first place," explains Phil Flynn, an expert in oil contracts for Alaron Trading in Chicago. "The truth of the matter is when crude oil went up to $147 a barrel, the refiners weren't able to pass on the entire cost of crude at the pump."

In mid-March, oil prices were just under $100 a barrel and gasoline stood at an average of $3.27 a gallon. When oil hit $147, it was a 47 percent jump. Gasoline prices peaked 84 cents higher, a rise of about 25 percent.

Q. In other words, oil refiners weren't able to pass along all their rising oil costs to consumers and now they're trying to take profits on the downside?

A. That seems to be the case. The soaring oil prices clearly were not responding to simple supply and demand. Prices shot up earlier this year in part because of factors like a weakening dollar, inflation and fears of a U.S. financial meltdown. Investing in oil contracts became a safety hedge, kind of like investing in gold on fears the dollar would weaken further. (Gold prices, too, have since fallen dramatically.)

Even as evidence mounted that demand for oil and gasoline was falling, especially in the United States, oil prices moved up despite the contrary demand signals.

Q. So gasoline prices should have been higher than the record $4.11 a gallon nationwide average on July 17?

A. "Had the cost of gasoline kept up with the cost of crude ... gasoline prices at the peak should have been 20 percent to 25 percent higher," said Flynn, adding that refiners had to eat a lot of the rising costs and now "are trying to make back some of the money as prices go back down."

Q. Well that's the view of an oil trader. Who else shares that view?

A. The AAA Motor Club believes that gasoline prices did not match the run-up price and thus won't likely parallel the drop in oil prices.

"We're in general agreement. Definitely when oil got to $147 a barrel back in July, that cost was not fully passed along to the consumer because, as many Americans know, we were making fewer visits to the gasoline station for most of this spring and summer," said Geoff Sundstrom, a national spokesman for AAA. "And so to a certain degree the profit margins at your local gasoline station were slim to none. ... I don't think it has anything to do with manipulation."

Q. What's going to happen to gasoline prices going forward?

A. On just supply-demand variables, everything points to further drops in oil and thus gasoline. Thursday's gasoline inventory report from the Energy Information Administration showed that last week's gasoline supply fell by 1 million barrels, not the 1.8 million expected in most forecasts. That pushed prices for next-month oil delivery down to $107.92 Thursday on the New York Mercantile Exchange.

Americans are simply driving less and switching to more fuel-efficient vehicles. Gasoline consumption fell by 1.6 percent over the peak summer season in July and August, the EIA said, and that's the first time that's happened in 16 years. And a weakening global economy means even less demand for oil and gasoline.

"We believe that as long as the oil price stays near current levels ... the nationwide average price would hit $3.50 a gallon sometime this month," said Sundstrom. "We're talking about an additional decline of 15 cents to 17 cents per gallon."

If oil prices fall below $100 a barrel after the hurricane season -- predicted by some analysts -- Americans could be looking at $3 a gallon gasoline later this year.

A lot of factors would have to come together for that to happen, however. And the oil export cartel OPEC meets Wednesday, with some members like Iran vowing to slash production to prevent prices from falling under $100 a barrel.

Print Page | Close Window

House speaker asks for legislative investigation into high gas prices

By Tim Bradner
Alaska Journal of Commerce
Publication Date: 09/07/08

Alaska's House speaker has asked for a legislative investigation of gasoline prices in the state. Rep. John Harris, R-Valdez, has asked the Judiciary Committee of the state House to initiate an inquiry.

"We expect the committee to take some action fairly soon. We'd like to know why fuel prices are still high in Alaska even though the price of crude oil is dropping," Harris said Sept. 2.

Gasoline prices in the Lower 48 states are averaged $3.68 per gallon last week but averaged $4.50 per gallon in Alaska, Harris said.

"It just doesn't make sense to me, and to other Alaskan consumers, that when the price of crude oil goes up the price at the pump goes up too, right away. Yet, when the price of crude goes down, the price at the pump is a lot slower to drop," Harris said. "It seems logical that fuel prices should move in tandem with crude prices, and we want to know why it dosn't in our state."

Rep. Jay Ramras, R-Fairbanks, chairman of the House Judiciary Committee, will lead the inquiry, Harris said. A separate investigation of fuel prices in the state is under by the state Attorney General. Harris said he expects the Legislature's investigation to work in tandem with that of the attorney general.

Alaska has four refineries but only two - a plant near Fairbanks operated by Flint Hills Resources and a second refinery near Kenai operated by Tesoro - supply gasoline in the state. Flint Hills purchases all of its crude oil from the state of Alaska through a long-term royalty oil sales contract. Tesoro purchases crude oil from Cook Inlet and North Slope producers but also imports crude. Both companies were unavailable for comment.

Tim Bradner can be reached at
tim.bradner@alaskajournal.com">tim.bradner@alaskajournal.com.
Click here to return to story:
http://www.alaskajournal.com/stories/090708/hom_20080907024.shtml

Gas prices 9/4/08

PRINT

The tax is off, price stays high

THAT SUDDEN DROP in the price of a gallon of gas in Alaska has to do with only one thing: The temporary suspension of the 8-cent-a-gallon state tax on motor fuel. Thank the Legislature for that, as one of its energy relief act during the last special session.

The price drop, in other words, was not the result of any decision by gasoline station owners to get prices here more i line with the rest of the country — where prices at the pump have fallen precipitously and rapidly over the past few weeks.

In fact, the problem here has prompted yet another call . . .

(cont'd from front page) for an investigation as to why Alaska motorists are paying so much.

House Speaker John Harris, a Republican from Valdez, put it this way:

"It just doesn't make sense to me — and to other Alaskan consumers — that when the price of crude oil goes up, the price at the pump goes up, too, right away. Yet when the price of crude goes down, the price at the pump is slower to drop."

Much slower, in fact.

To try to find out why, Harris has called upon Rep. Jay Ramras, R-Fairbanks, the chairman of the House Judiciary Committee, to open an investigation of retail gas prices in Alaska.

He wants to know, he said, "what actions the Legislature can take to make sure Alaskans are treated fairly in the future."

When Harris wrote to Ramras seeking a formal inquiry, he said the average price of gasoline Outside was $3.68 a gallon, compared to an average of $4.50 in Alaska.

"As we enter the winter season," he said, when more fuel and home heating oil will be purchased, it would be helpful t have retail prices that are closer to the national average."

Helpful, indeed. We hope Ramras hops to it on this one.

Comments (0)

Close Window

adn.com
Anchorage Daily News

Investigation to start on high gas prices

(08/30/08 11:44:18)

State lawmakers will start investigating why gas prices are so high in the state.

House Speaker John Harris on Friday sent a letter asking House Judiciary Chairman Jay Ramras to open an investigation.

Specifically, Harris asked Ramras to look at why Alaska prices are not falling as fast as they are in the Lower 48.

Harris says the average price of a gallon of gasoline in Alaska is $4.50 or more, while it's fallen to an average of $3.68 elsewhere in the country.

"It just doesn't make sense to me - and to other Alaskan consumers - that when the price of crude oil goes up, the price at the pump goes up, too, right away. Yet, when the price of crude goes down, the price at the pump is a lot slower to drop," Harris said.

Motorists will soon get a break at the pumps, courtesy of the energy relief package passed by the Legislature. Part of the plan is eliminating the 8 cents a gallon state tax for a year.

That starts Monday, but consumers may not get immediate relief. It will start only after retailers clear inventory and start selling tax-free fuel from their suppliers, said Ed Sniffen, a state assistant attorney general who specializes in consumer protection.

He said retailers also are on the honor system to pass the break along to motorists.

Democratic lawmakers and Gov. Palin asked Attorney General Talis Colberg to look into gas prices. Sniffen has started that investigation, and says of recent gasoline pricing trends: "It's really looking fishy to me."

Petroleum economist Barry Pulliam of the Los Angeles consulting firm Econ One has been hired to help with the investigation. Sniffen said formal demands for records from refiners and others might be issued, Sniffen said.

"That's fine. We wish them the best. We'll help," said Kip Knudson, spokesman for Tesoro Alaska Co. Tesoro makes much of the state's gasoline at its Nikiski refinery, and it owns or supplies dozens of gas stations.

Knudson said the investigations will likely show the high prices are the result of market forces. Prices aren't dropping here as fast as other places because Alaska is a smaller market, and "smaller markets tend to be slower in response."

Sniffen said that could be because competition is not as intense in Alaska as the Lower 48.

"There's never an incentive to drop prices unless your competitors are dropping prices," he said.

Print Page | Close Window

adn.com
Anchorage Daily News

Want cheaper gas? Move to another city

ANCHORAGE TOPS NATION: Prices in many major cities have dropped below $4 a gallon.

By BETH BRAGG
bbragg@adn.com

(08/08/08 02:08:27)

You just got off the phone with your brother-in-law in Portland, Ore., who said he's finally taking the family on vacation now that gas is down to $3.89 a gallon.

You head to your neighborhood gas station in Anchorage -- and pay $4.37 a gallon.

As the sky-high cost of crude oil begins to come back down to earth, gas prices in major cities around the United States are falling daily.

Except here.

While the per-gallon price of gas in Portland dropped 33 cents in the past month, it fell only two pennies here in Anchorage, according to statistics compiled daily by the Web site gasbuddy.com.

It's down 29 cents a gallon, to $4.07, in Seattle. Nine cents, to $4.02, in Boise. Thirty cents, to $4.29, in San Francisco. Thirty-two cents, to $3.62, in Minneapolis.

On Thursday afternoon, Anchorage had the highest gas price of any major city in America, according to the Web site. Higher than San Francisco. Higher than Honolulu (although that city was running neck-and-neck with us through most of the day).

So as you watch the dollars add up as you fill your tank, you might ponder the reasons why gas prices are defying national trends:

• Must be the high cost of shipping things to Alaska.

Wrong. According to the state Department of Revenue, 95 percent of all gasoline consumed in Anchorage and the rest of the state is refined right here in Alaska. No shipping costs, except those involved with trucking it from refineries in Nikiski, North Pole and Valdez.

• Gotta be those darn taxes.

Wrong. At eight cents a gallon, Alaska's motor fuel tax is the lowest in the nation. If you want to blame the government for high gas prices, go to California. The state tax on gas there is 56.5 cents a gallon, the highest in the nation.

• Surely there's a conspiracy among producers, wholesalers or retailers.

Don't be so sure. The state attorney general, which investigated that very thing less than 10 years ago, has received no evidence of collusion. The 1999 investigation, which lasted more than two years, ended after the Department of Law failed to find sufficient evidence that anti-trust laws were violated.

'RED FLAGS'

So far, the state hasn't launched another investigation to see if illegal practices are keeping Anchorage and Alaska gas prices so high. But that could change.

"If something doesn't happen to correct itself soon, it's going to raise some red flags for us," said Ed Sniffen, a consumer protection lawyer for the state.

"I don't know why we haven't dropped to less than $4 a gallon. We should get there soon. When I saw that Seattle dropped below $4, I thought for sure we'd be right on their coattails, but boy, the market was slow to react. And I start to raise my eyebrows."

He's not alone.

Denise Harris, a spokeswoman for the AAA Auto Club, said it's curious that Anchorage prices aren't falling as fast as they are in the Lower 48.

"It seems to happen every time prices start falling elsewhere. Alaska's doesn't fall. It's not surprising, but that doesn't make it right," she said. "The funny thing is (Alaska prices) are pretty reactive on the way up, but slower on the way down."

SOME THEORIES

Why? We asked, and all we got were guesses, albeit educated ones. Most involve that familiar Economics 101 rule of supply and demand.

• Paul Laird, general manager of the Alaska Support Industry Alliance: "My guess is that demand up here has not fallen as precipitously as in the Lower 48 and therefore retailers are not feeling as compelled to drop prices as quickly. That's capitalism."

Johanna Bales, state Department of Revenue: "We get complaints all the time. We tell them it's a fair market and people charge what they think the market can bear. If we're getting most of our (gas) from in-state refineries, you've gotta look at our salaries, which are generally higher. But really, I have no idea. There's no good answer other than it's what the market bears."

Bales says she hears often from consumers who repeat the answers they get from the guy at the gas pump or the driver delivering home heating fuel.

"A lot of time distributors will say, 'It must be the tax.' Alaska's tax is the lowest in the nation, and there's no tax at all on home heating fuel," she said.

• Kip Knudson, spokesman for Tesoro Alaska, whose Nikisk refinery supplies much of the gas pumped in Southcentral: "My chief economist tells me it's because small markets generally respond to price changes slower. And Alaska is a tiny, tiny market when it comes to motor fuels.

"People don't understand that it's a free market. It's not a regulated industry. ... It can only be explained by market forces."

• Tom Kloza, chief oil analyst for the Oil Price Information Service: "I'm not sure why the retail numbers in Alaska are so much above (the) Lower 48 range. While U.S. demand is down on a nationwide basis it may be that some of the energy-active states have stronger demand. This is the case in Texas, albeit to a small degree.

"... I'm not familiar with any particular global or local problem that has kept Alaska prices so high. Needless to say, it's a market that doesn't have many of the high-volume chains (that operate) in the Lower 48."

• Matt Berman, an economist for UAA's Institute of Social and Economic Research, when interviewed recently by The Associated Press, chalked up high prices to Alaska's small market and high shipping costs.

A lack of competition lets in-state refineries charge gas stations at a rate close to what the stations would pay for importing gas, he said. And because the price to ship gas from the Lower 48 is steep, the refineries can sell at a price that approaches what stations would pay for imported gas, Berman said.

• Sniffen, the consumer protection lawyer for the state: "People say, wait a minute, it only costs this much to get oil, this much to refine it, this much to get it to the station, so how come we're paying so much more? There's no requirement that any of the people in that chain can only make so much profit. There's no law saying you can only make so much profit in America.

"... There's a fundamental misperception that retailers should only sell for what it cost them and a little bit more. No law says they have to do that. You have to rely on the market to do that."

PARALLEL PRICING

The only thing the law can do, Sniffen said, is punish collusion -- an illegal pact between competitors to set their prices at an agreed level.

He doesn't know of any state that regulates gasoline prices. Hawaii tried it, he said, but the law was repealed quickly after most or all retailers priced their gas at the maximum allowed by the state.

Often what consumers think is that collusion is actually a legal practice called parallel pricing, Sniffen said. It's particularly common thing among gas retailers.

"Prices are displayed for everyone to see, so you get parallel pricing, which happens when one station owner says, 'Joe down the street raised his prices, I'm gonna raise mine.' There's no collusion there. He just steps out in the street and looks at the sign. That's not illegal. People try to match other people's prices all the time."

Find Beth Bragg online at adn.com/contact/bbragg or call 257-4309.

Print Page Close Window

The Bismarck Tribune

02-15-2008: news-state

North Dakota refinery expansion a plus, but carries risk, official says

By DALE WETZEL
Associated Press Writer

North Dakota would reap greater benefits from refining its crude oil instead of exporting it, but the strategy carries risk and requires added pipeline space to ship gasoline, a state regulator says.

"When you figure in all the multipliers that go with an expanded refinery - the additional jobs, the sales tax revenue ... it's always better to add value locally," said Lynn Helms, director of the state Department of Mineral Resources.

However, "the only way that you can economically build or expand a refinery is if you've got the pipeline infrastructure to move the refined products to a market," Helms said. "You cannot, in today's market, build a refinery and truck the refined products to gas stations, or to jet airplanes, or whatever."

Helms spoke Thursday to the Legislature's interim Budget and Finance Committee. It is examining the effects of increased oil production on North Dakota's tax collections, and the risks of relying on oil price forecasting in state budgeting.

The panel's chairman, Rep. Al Carlson, R-Fargo, asked Helms to speculate about the economic benefits and risks of an expansion of North Dakota's refinery capacity. North Dakota has one oil refinery, the Tesoro Corp. facility near Mandan.

The subject is likely to arise in this fall's campaign for governor. Republican Gov. John Hoeven is seeking his third term. A potential rival, Sen. Tim Mathern, D-Fargo, has discussed developing a state-owned oil refinery, and a group of Democratic legislators have formed a committee to study the subject.

North Dakota's oil production has been rising, spurred by development in the Bakken shale rock formation in the western part of the state. Oil production has spiked in some newly explored regions in Mountrail and Dunn counties.

Daily production has risen from 113,000 barrels in December 2006 to 135,000 in December 2007, according to Department of Mineral Resources statistics.

In Dunn County, December production jumped from 3,053 barrels daily in December 2006 to almost 8,000 barrels daily last December. In Mountrail County, it rose from 1,948 barrels daily to almost 13,500 barrels during the same time period.

North Dakota has difficulty exporting its crude oil because of competition for pipeline space from Montana and Canadian oil, although the situation is easing because of construction of added pipeline capacity, Helms said.

TransCanada Corp.'s proposed Keystone pipeline, which would take Canadian crude to Illinois and Oklahoma, would clear even more space for North Dakota crude exports, he said.

Fueling Alaska: there aren't a lot of new customers, so those in the retail and wholesale fuel business have to provide quality service at competitive prices. (Industry Overview)

Article from: Alaska Business Monthly Article date: November 1, 2002 Author: Jones, Patricia

Despite a growing number of vehicles on the nation's roads, few, if any, full-service gas stations remain. Remember those corner service stations from years ago? A friendly smile and oil check accompanied the gas-pumping and cash-collecting service provided by the mom and pop-owned and -operated business.

Now, drivers have many more choices of locations, as gas stations crowd busy corners and sprout up seemingly overnight in the parking lots of large retail chain stores such as Fred Meyer, Wal-Mart and Safeway. Few gas stations remain truly independently owned, as bulk purchasing power puts additional pressure on locally owned operations.

"We supply gas to Safeway, and we see that increasing volumes are going to those stores, those high volume retailers," said Ron Noel, vice president of Tesoro Alaska, which, in addition to operating a refinery at Nikiski, oversees 33 company-owned or independently owned gas retail stores throughout Alaska. "It's having a competitive effect on the rest of the market."

That trend of fuel sales shifting toward new high-volume stations has certainly been noticed by Alaska-owned retailers.

A SMALLER PIECE OF THE PIE

"We've seen that the retail margins have shrunk over the last couple years," said Jim Boltz, chief operating officer of Petro Star, which owns nine retail gas stations in the Fairbanks area and one each in Kodiak and Dutch Harbor. "You just have to be very, very competitive and run a better operation. It makes for a much more difficult market for us to sustain."

In addition to its retail fuel stations, Petro Star operates wholesale fuel sales under its subsidiaries, Sourdough Fuel in the Interior and North Pacific Fuel in Valdez, Kodiak and Dutch Harbor.

And finally, Petro Star, which is owned by the Arctic Slope Regional Corp., refines North Slope crude in two locations-North Pole and Valdez.

"That's not necessarily an advantage over other distributors," Boltz said. "We distribute fuels just about statewide ... from the Interior throughout."

Williams Alaska Petroleum, Alaska's other large refiner of petroleum-based retail products, is also noticing an impact in the retail market.

"Safeway and the other big box stores... depending on the location of our store, we see a little bit of an impact," said Jeff Cook, vice president of external affairs at Williams Alaska Petroleum. "For the consumers, stores are getting better; we have the added convenience of credit card readers on all the pumps and there's some moderation in prices from the competition."

Williams operates the state's largest oil refinery and owns 29 retail fuel stations in Alaska.

"The Alaska retail market is certainly not growing-gas demand is constant," Cook added. "It's probably hurting the small independents more."

Gus Johnson, one of those few remaining independent fuel distributors and retailers, thinks a little differently. President of Alaska Petroleum, a fuel distributorship based in North Pole, Johnson said his small corporate size gives him flexibility that larger companies and big retail chains don't have.

"I can change my prices every day, if I want to, just as long as I pay the bills and employ Alaskans," he said.

His company also owns and operates two gas stations in Fairbanks, both called The Gas Line. His second store opened in January on the Steese Highway. Now he's watching as the neighboring Safeway store on College Road is constructing a gas outlet in its parking lot.

The addition of big box stores to the retail fuel market"... hurts the bigger guys, with multiple stores. A little guy like me, with only one stockholder in the company, I don't have bunch of stockholders to answer to and look for profit," Johnson said. "In the Gas Line, against Williams or Tesoro, I have an advantage because they have to answer to stockholders and I don't have to."

FOUR REFINERY CHOICES

Retailers must obtain their fuel products from some source and in Alaska, it's one of four refineries. Williams's North Pole taps directly off the transAlaska oil pipeline. Tesoro converts some North Slope crude and Cook Inlet crude oil to retail products in its plant in Nikiski, and PetroStar refines North Slope crude in its plants in both Valdez and North Pole.

Those four refineries supply the entire state, with exception of some Southeast communities, with gasoline, jet fuel, diesel, home heating oil and other petroleum-based products created in the refining and distillation processes.

"They are refiners, but they have to sell me the fuel just the same as anybody else," Johnson said. "Almost everybody in the Fairbanks area buys from Williams. Tesoro tried trucking to Fairbanks from Kenai, but it was not competitive."

So Alaska's wholesale fuel distributors have limited choices for the source of their products, but it's a steady stream they can rely on, thanks to proximity to the natural energy resource.

"We buy mostly from Williams and Petro Star, some from Tesoro ... wherever we can get the best buy to pass on to customers," said Marc Wery, operations manager of Interior Fuels.

Strictly a wholesale distributor and propane supplier in Fairbanks, Interior Fuels is owned by Service Oil & Gas in Glennallen, which also has branches in Anchorage, Palmer, Wasilla, Talkeetna, Valdez and Delta Junction. Service Oil does sell retail fuel-gasoline and diesel-at their Wasilla and Palmer locations.

"The markets are a little different. Right now, Fairbanks is pretty well shutting down on construction and in Palmer, it's still going strong," Wery said. "And now, in Fairbanks, people are thinking about home heating oil."

One thing remains constant throughout the state-competition for customers. The supply or number of purchasers is not growing, according to both wholesale and retail fuel companies.

"I usually tell people it's a state with two roads and a half-million people. Alaska is not a growing market," said Noel. "Tesoro's challenge is to make our products more attractive to our customers in convenience, price and in-store offerings."

WHOLESALE TRENDS

In the wholesale market, fewer players are providing the same service now, compared to 20 or more years ago, according to Johnson at Alaska Petroleum.

"When I started in 1980, there were 17 businesses selling oil in the area, and now it's down to seven. The bigger ones bought up the little ones," said Johnson. "It's competitive-we travel all over trying to steal customers from someone else in the home heating oil business. We gain every year, so we must be doing something right."

Other wholesale distributors agree, saying customers shop for the best price.

"It's an extremely competitive market. You see some variance on the products and buying power, but basically, to be number one, you have to provide a very good service and at a very competitive rate," Wery said. "It's a very sensitive market. People seem to feel that fuel companies are getting rich and taking advantage of the consumer, but there's a lot of cost and risk in this business."

For example, Interior Fuel's fuel delivery trucks must operate throughout the harshest conditions that Mother Nature can deliver in the Tanana Valley.

"On the heating oil end, we work our trucks the hardest when it's 50 below," Wery said. "Maintenance is the highest because we're always trying to run in extreme conditions."

In an effort to increase efficiency of such home heating oil deliveries, Sourdough Fuel has set up in Fairbanks two bulk plants, which are supplied from the company's refinery in North Pole.

"It does make it more convenient for delivery trucks," said Boltz, at Petro Star. "It helps us to minimize the distance the trucks have to drive between fill-ups."

Wholesale fuel distributors deal with a variety of customers, ranging in size from large users of fuel, such as construction firms, down to homeowners who have a 200-gallon tank filled on an as-needed basis.

"With home heating oil, you have to keep the service good ... the margin and profit isn't as high as it seems," said Wery. "A lot of money changes hands, but there's not a lot of

profit."

Other than card lock systems in the Matanuska Valley, Service Oil and Gas has opted to stay out of the retail fuel market. "It's just better to focus on the other direction we're headed," Wery said. "In retail sales, you have the extra high investment on the store and the return isn't great."

CREDIT REIGNS

Another changing trend in the retail market is the electronic method of paying. Cash isn't king any more, unless one is willing to pre-pay for fuel. Instead, many now rely on plastic to power their fuel purchases, without ever stepping foot inside the convenience stores that have replaced automobile service stations.

And while it may save time for motorists in a hurry, credit card payments have been implemented by industry in an effort to reduce fuel theft.

"Nationwide, drive-offs are a big problem everywhere. Many places are pre-pay exclusively," said Cook, at Williams Alaska Petroleum.

In Alaska, drive-off theft accounts for about 260,000 gallons of fuel lost annually by Williams, Cook said. And the problem isn't just here.

"Some states have a potential fine, jail time and you can lose your license," he said. "But with all the other crime, police do not have the time or ability to chase all those (drive-offs) down."

A CHANGE OF HANDS

Still unknown is how Alaska's fuel supply and retail industry might change, with new ownership of the Williams Alaska Petroleum assets. The Tulsa-based parent company announced earlier this year plans to sell its Alaska assets, which include the 29 retail stations, the 100,000-square-foot cargo facility at Anchorage International Airport and the North Pole refinery.

Currently, the Williams refinery produces about 70,000 barrels a day of retail products. The bulk of that, about 41,000 barrels, is distilled into jet fuel, which is then shipped to Anchorage. The remaining mix includes about 6,000 barrels of gasoline, 9,000 barrels of diesel, 8,000 barrels of naphtha and about 2,500 barrels of a special turbine fuel produced for Golden Valley Electric Association and Alyeska Pipeline Service Co.

"We're still talking about a sale by the end of the year," said Cook, in mid-September.

At that time, no word had surfaced about what company or companies might be negotiating for such a purchase. An independent investment firm is handling the sale transaction and negotiations, Cook added.

"For 99.9 percent of our employees who are working here, they'll still be working after it's sold," he said. "There's just two or three of us at the top who are wondering what will happen."

Others in the retail and wholesale market wonder the same. "It won't do anything to us, but we're just waiting to see who it is," said Noel, at Tesoro. "We assume that the company that will take over the refinery will also take the convenience stores."

Wery, at Interior Fuels, is also watching the ownership change closely. "We're not sure what their pricing philosophy will be ... goals for the future, where their focus will be," he said. "It's hard to say, and unknowns in business is not where you want to be."

Knight Ridder Tribune

Price Falls at Gas Pump, but Alaska Still Above Average.

Article from: Knight Ridder/Tribune Business News
Article date: February 22, 1998 More results for: gas prices in alaska

By Mike Hinman, Anchorage Daily News
Knight Ridder/Tribune Business News

Feb. 21--Lower oil prices have brought Anchorage residents a drop in gasoline prices, but they still are paying well above the national average for a gallon of gas.

Prices in Anchorage have fallen 7 or 8

cents a gallon since last summer, with the most recent drop occurring in the last week when two refineries lowered their prices.

But the average price per gallon of gasoline nationwide has dropped 20 cents since the end of August, according to Joe Lastelic with the American Petroleum Institute in Washington, D.C. The price is below $1 per gallon in parts of California, Georgia and isolated spots elsewhere in the Lower 48.

The national average retail gasoline price has fallen to $1.04 per gallon of regular unleaded as of Feb. 16, according to Lastelic. The American Automobile Association, which does its own gas-price survey, pegs the national average at $1.11.

The price in Anchorage was as low as $1.19 on Friday, but above $1.20 at most gas retailers.

So why are Alaska prices falling so much more slowly and why are they well above the national average when Alaska has two refineries in the Railbelt?

That's a mystery, if you talk to the retailers, wholesalers and refiners of gasoline. Each says it has passed along lower oil prices to its customers.

State Rep. Jerry Sanders, R-Anchorage, wants to address the question of why gasoline and diesel costs are high and what kind of an economic effect high fuel prices have on the state.

Sanders called a hearing of the House Economic Development Committee for Tuesday to answer some of those questions.

"I think, and I can't condemn this, that they sell for what the market will bear," Sanders said.

"There's not enough competition. We're isolated and we get taken advantage of."

Among the experts called to testify Tuesday is David Reaume, a Juneau-based economist who has researched Alaska gasoline pricing in the past.

If the companies in the gasoline industry were seriously competing in Alaska, prices would be lower, Reaume said.

Jeff Cook, vice president of external affairs for Mapco Alaska Petroleum Inc., one of the state's gasoline refiners, said he wouldn't comment on Sanders' remarks other than to say Alaska has good competition.

Don Heep, senior vice president of administration for Tesoro Alaska Petroleum Co., another refiner, said he had no comment.

The recent gasoline price drops stem from falling crude oil prices caused by a worldwide glut of oil, according to Lastelic of the Petroleum Institute. Several large oil developments have come on line in the past year, and demand in fast-growing Asian countries is below projections because of their currency and economic crises, he said. Beyond that, a mild U.S. winter has cut demand, he said.

In Anchorage, gasoline prices dropped abruptly in the last week.

At Garrett's Tesoro, which has two gas stations in Anchorage, the price fell about a week ago when the wholesaler told the station about a price reduction, said owner Nelson Garrett. The station's prices then fell another 4 cents a gallon Thursday night, he said.

The later price drop is in anticipation of the wholesaler lowering its prices, Garrett said.

"This time we're going down without a phone call," Garrett said. "There's kind of a gas war going on right now."

Still, compared with a year ago, pump prices have dropped considerably, but gas hasn't kept up with the price reduction of oil.

Alaska oil prices on West Coast open markets have fallen by about a third since mid-October, and closed Friday at $13.36 per 42-gallon barrel.

However, the price from Alaska refineries to wholesalers has remained about the same since summer, until late last week, according to Jerry Blackburn from Petro Products Inc., an independent gasoline wholesaler.

"It kind of stabilized until last weekend," when Tesoro dropped its price 7 cents a gallon on Friday and Mapco followed suit on Monday, Blackburn said.

Linny Pacillo, owner of the independent gas station Courtney's Tudor Service, agreed that the wholesale price of gas has remained about level since summer. When the wholesale price drops, Pacillo passes it along to her customers.

"It's pretty straightforward," Pacillo said.

Heep of Tesoro Alaska said the Tesoro refinery sets its prices according to the competition.

"Sometimes we lead, sometimes we follow," he said.

Gasoline prices don't immediately respond to an oil-price drop, Heep and the gas retailers said.

The price Alaska refineries pay for oil is based on an average monthly price of what the state receives for its oil in California, according to Kevin Banks, a petroleum market analyst for the state. That average price can't be determined until the end of the month.

"It will take a while for us to get the benefit of that $13," Heep said. "Maybe

next month."

In general, Alaska gas prices will run higher than some found in the Lower 48, spokesmen for the refineries said.

"We're a relatively small state," said Cook of Mapco Alaska. Other costs of doing business account for the price difference from Outside, including the higher cost of doing business in Alaska and the lower economies of scale because of the smaller market, he said.

The future may hold cheaper prices yet for Anchorage.

"I would look for (prices) to go down more," Garrett said.

More articles like this:

Magazine

How higher oil prices affect states, companies, consumers
National Petroleum News; April 1, 1991 ; Emond, Mark; 787 words... Higher oil prices became traumatic after...related to higher oil prices were studied by two...are hurt by higher oil prices, and the degree is...much more by higher oil prices than people in the...hurt. How do higher oil prices affect oil ...

Wisconsin State Journal :

GOOD NEWS FOR SUMMER GAS PRICES THE DECLINE IS EXPECTED TO CONTINUE...
Wisconsin State Journal (Madison, WI); April 9, 2003 ; 384 words...keep sliding to a

4

TESORO

Alaska House Judiciary Committee Hearing

September 10, 2008

Kip Knudson

Tesoro Is An Independent Refiner

Kenai, Alaska
- 72,000 bpd
- Key products: Jet & Gasoline

Martinez, California
- 166,000 bpd
- Key products: CARB Gasoline & CARB Diesel

Wilmington, California
- 100,000 bpd
- Key products: CARB Gasoline & CARB Diesel

Kapolei, Hawaii
- 94,000 bpd
- Key products: Jet& Gasoline

Tesoro System Highlights:

- Headquartered in San Antonio, Texas
- 7 Refineries
- 660,000 bpd total crude capacity
- Retail network of over 900 sites
- 5,500 Employees

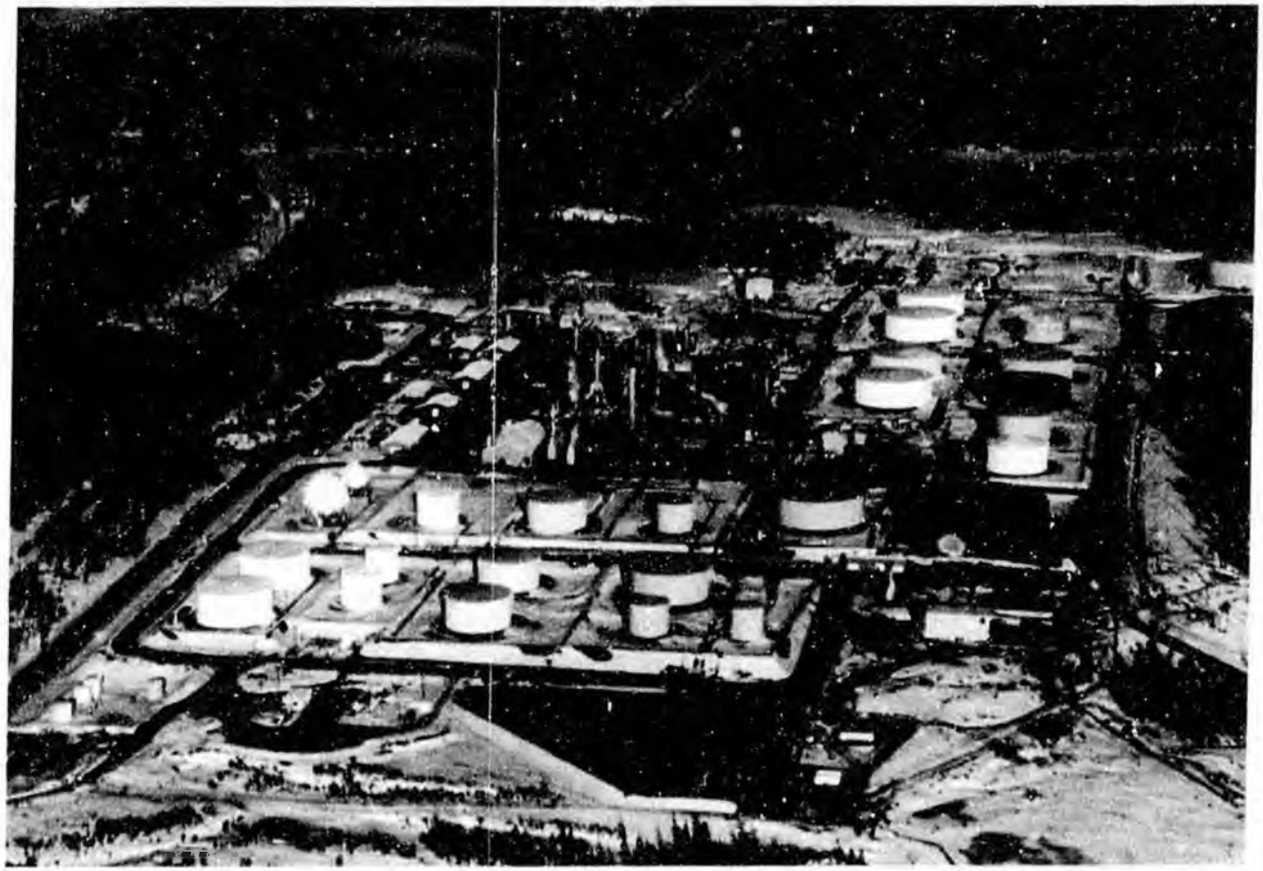
Anacortes, Washington
- 115,000 bpd
- Key products: Gasoline & Diesel

Salt Lake City, Utah
- 58,000 bpd
- Key products: Gasoline & Diesel

Mandan, North Dakota
- 58,000 bpd
- Key products: Gasoline & Diesel

Tesoro Alaska

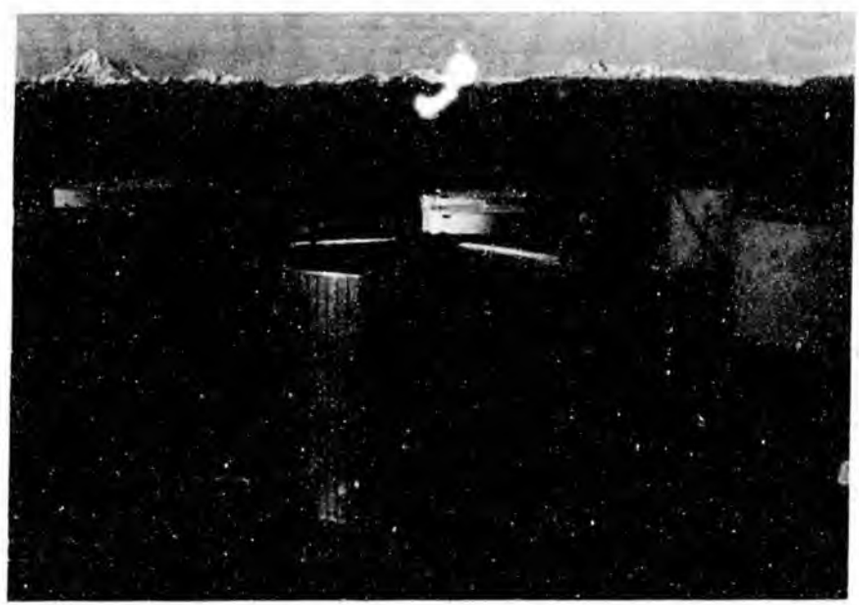
- Kenai Refinery
- Distribution
- Retail



TESORO

Kenai Refinery

- 72,000 bpd nameplate capacity
- Employs over 200 people
- Award-winning safety record
- Product mix
  - Propane
  - Gasoline
  - Jet Fuel
  - Diesel Fuel
  - Heavy Vacuum Gas Oil
  - Fuel Oil / Bunker
  - Road Asphalt



TESORO

Crude Types

- Alaska North Slope - approximately 50%
- Cook Inlet - approximately 25%
- Light Foreign - approximately 25%

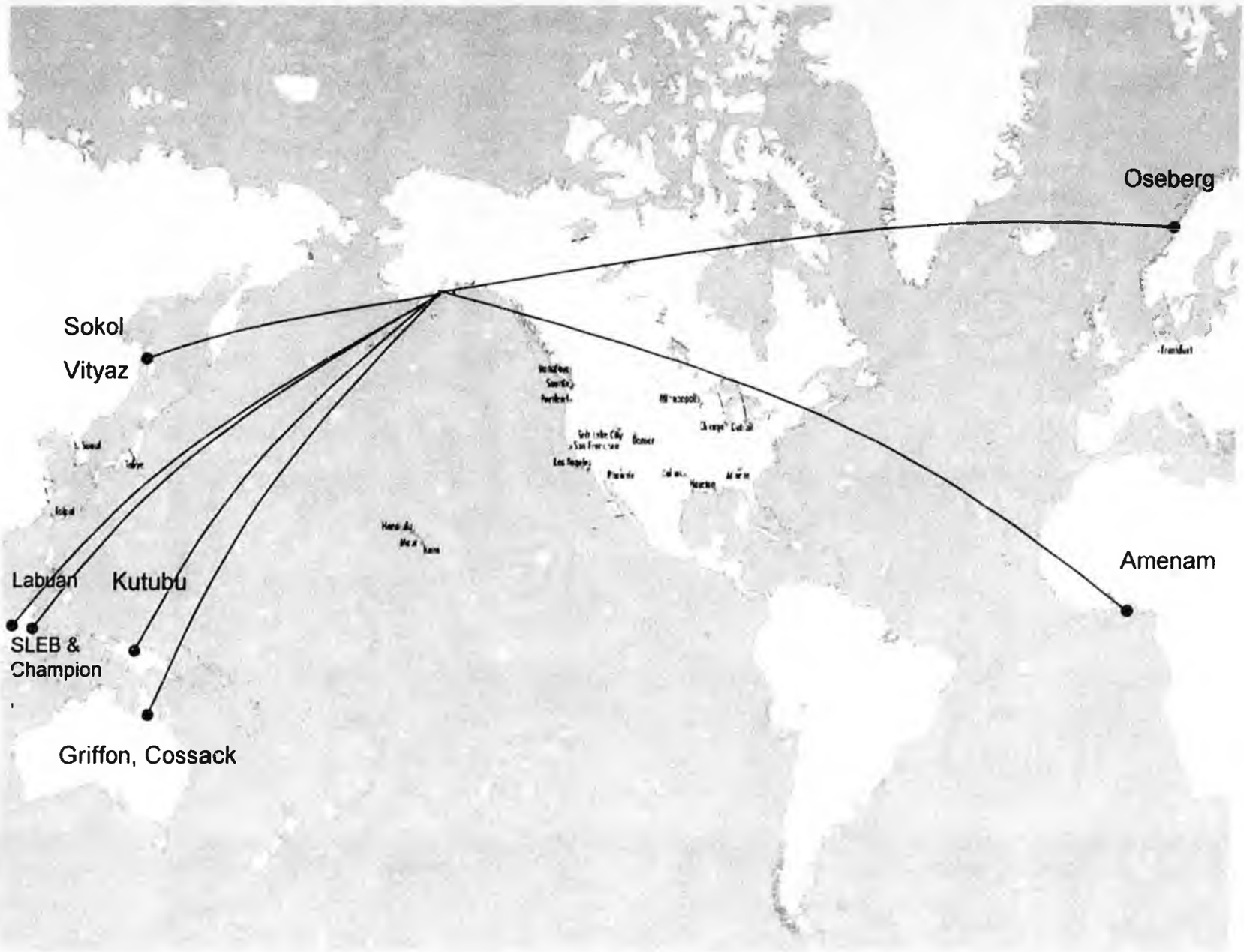
TESORO

Crude Types

- Alaska North Slope - approximately 50%
- Cook Inlet - approximately 25%
- Light Foreign - approximately 25%

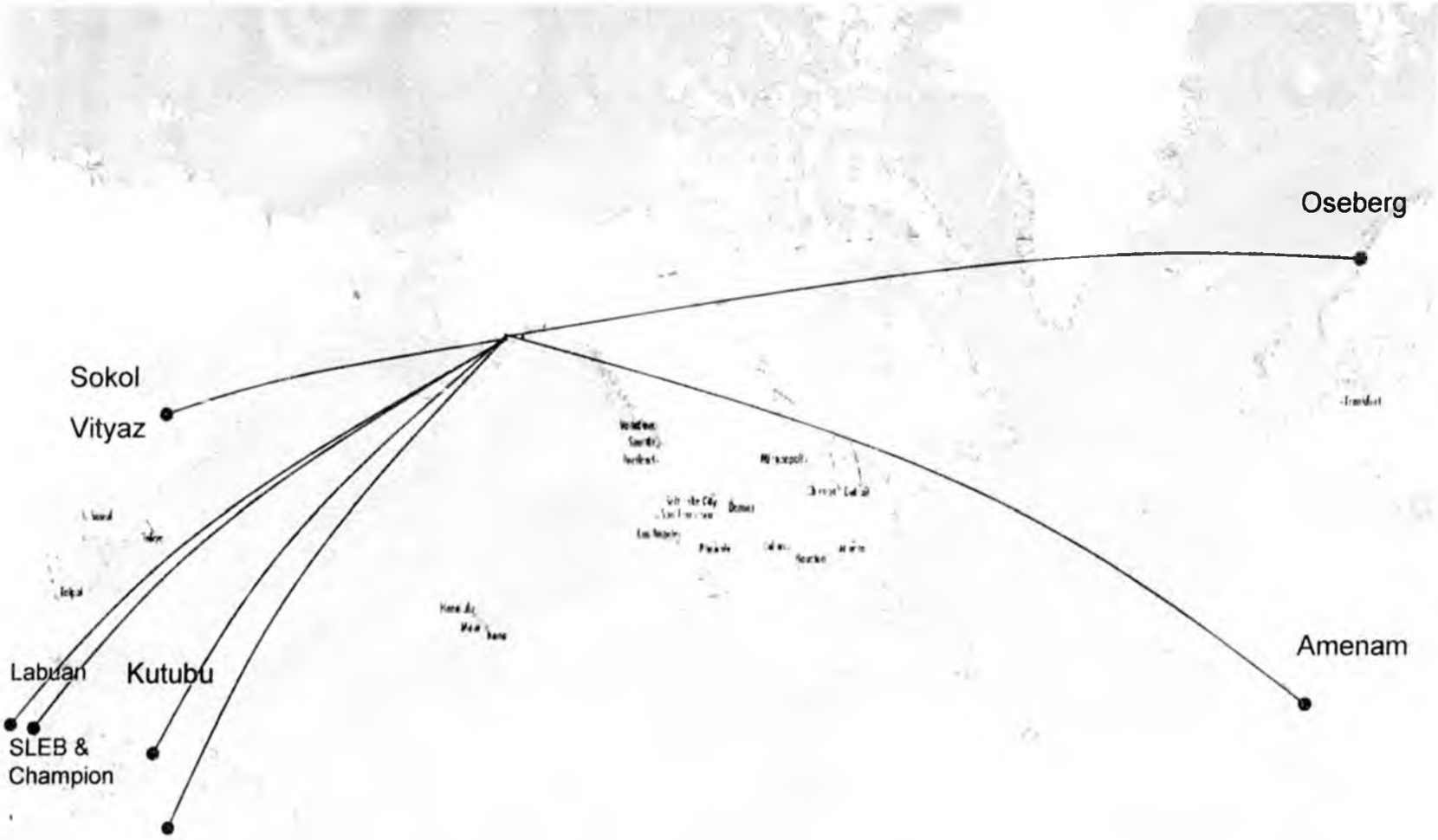
TESORO

Foreign Crude



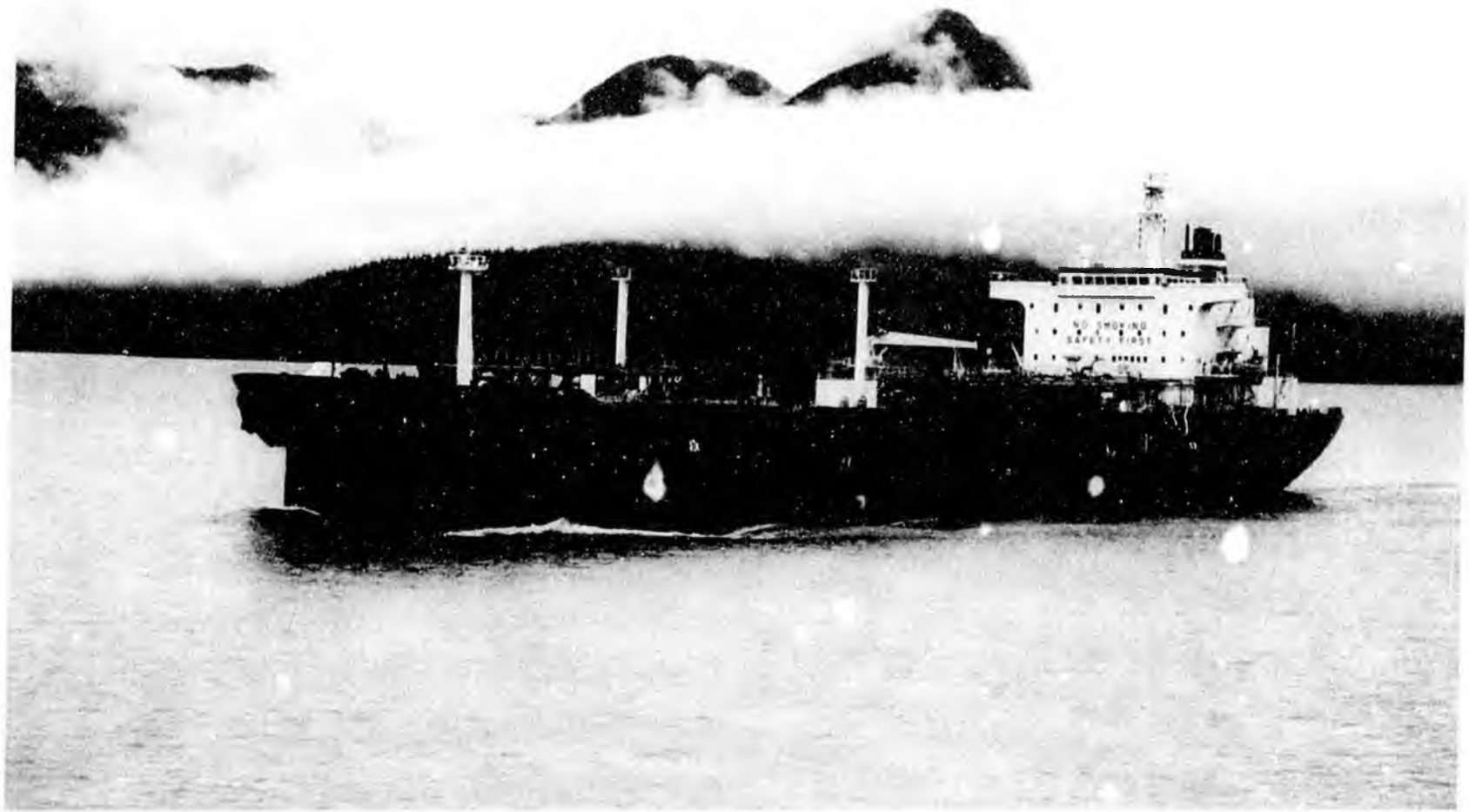
TESORO

Foreign Crude



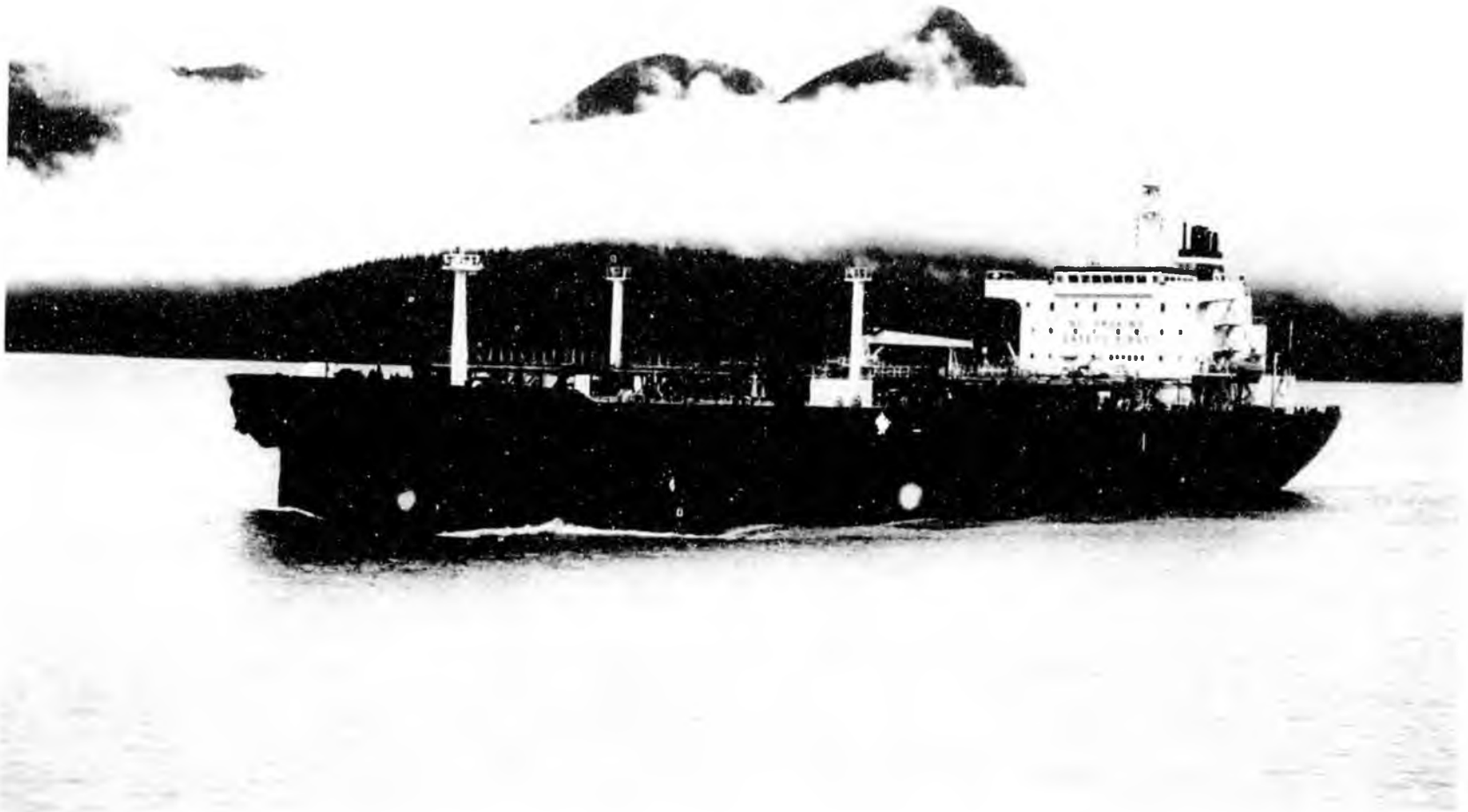
TESORO

Chartered Vessels



TESORO

Chartered Vessels

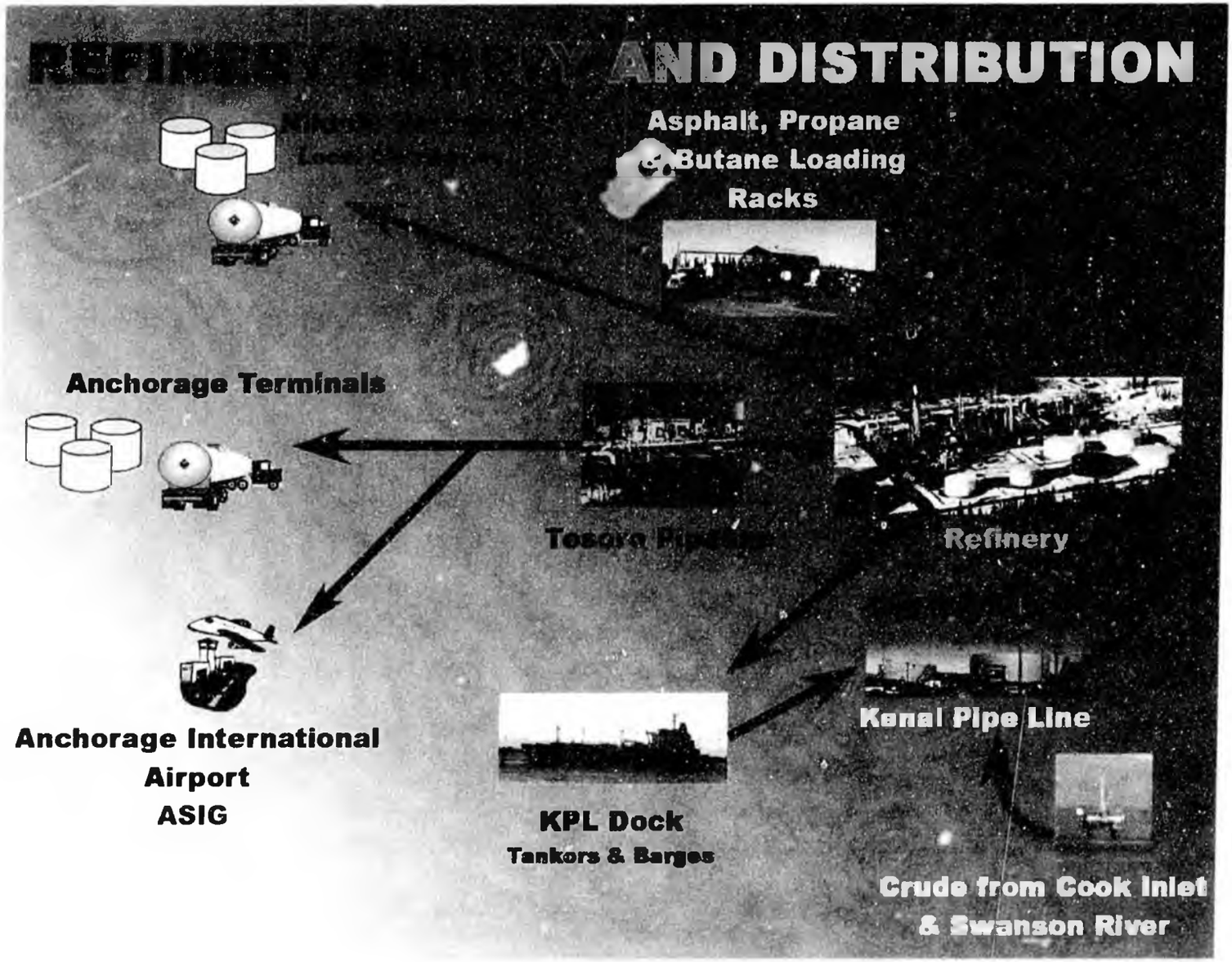


TESORO

Chartered Vessels

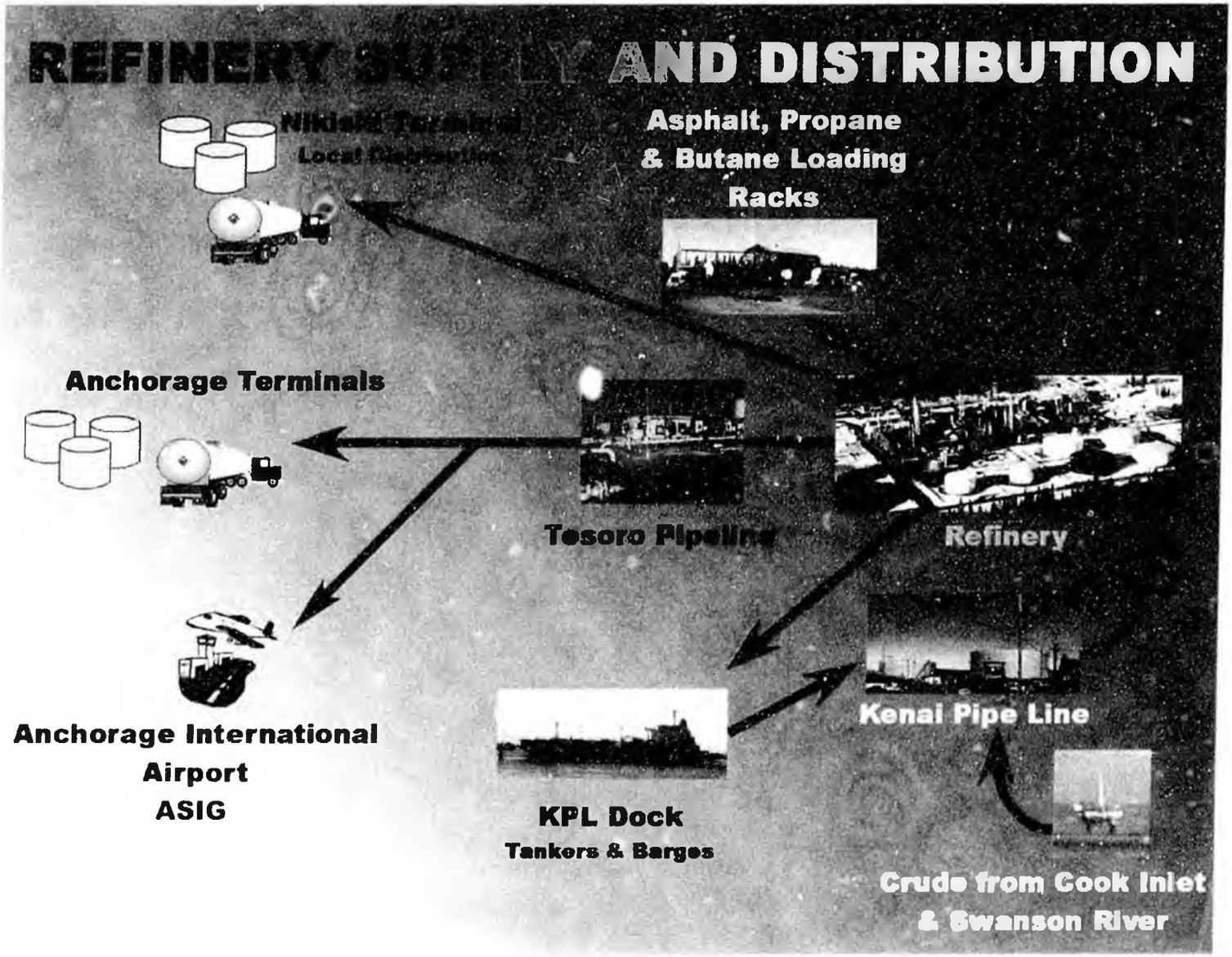
TESORO

Products Distribution



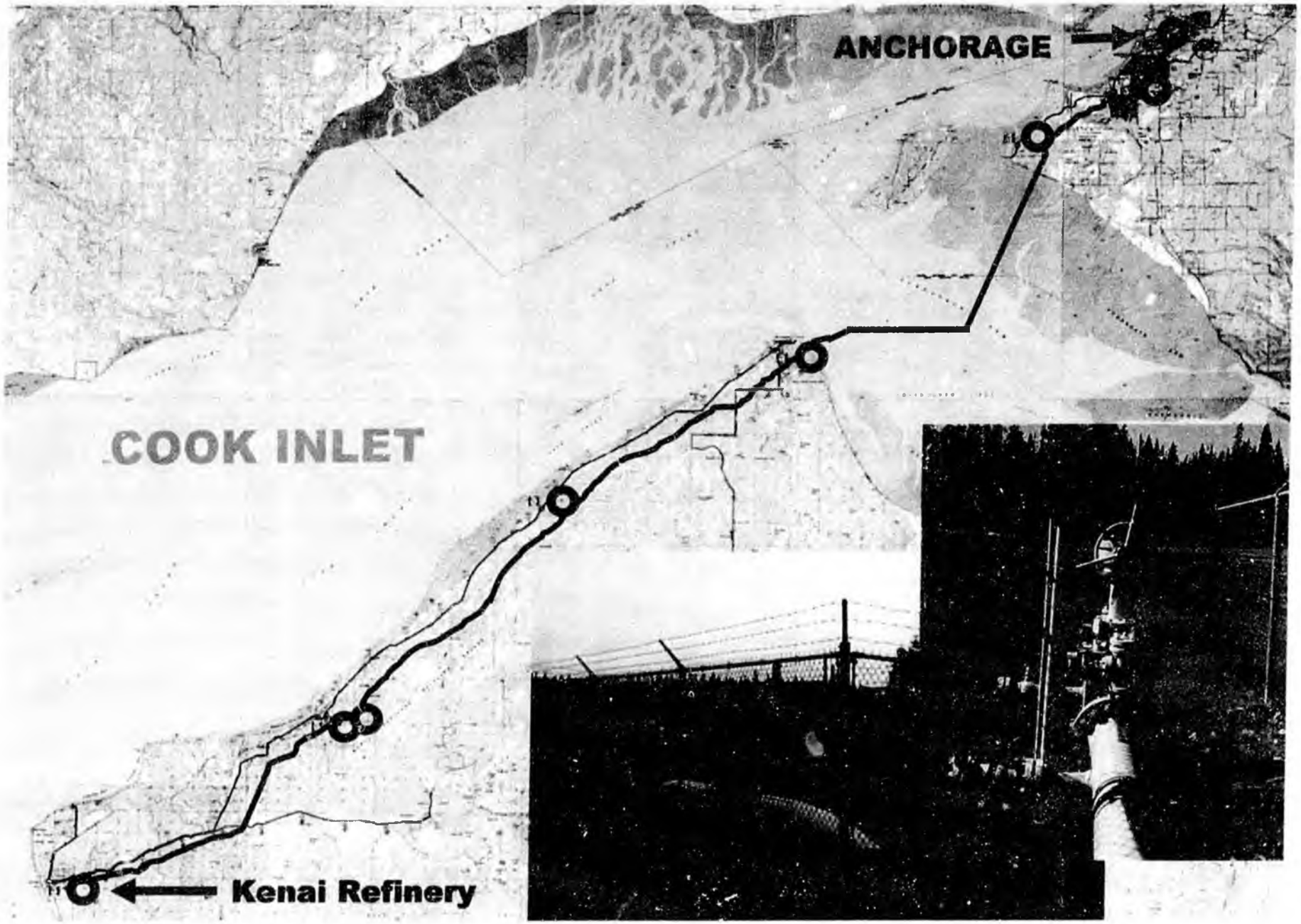
TESORO

Products Distribution

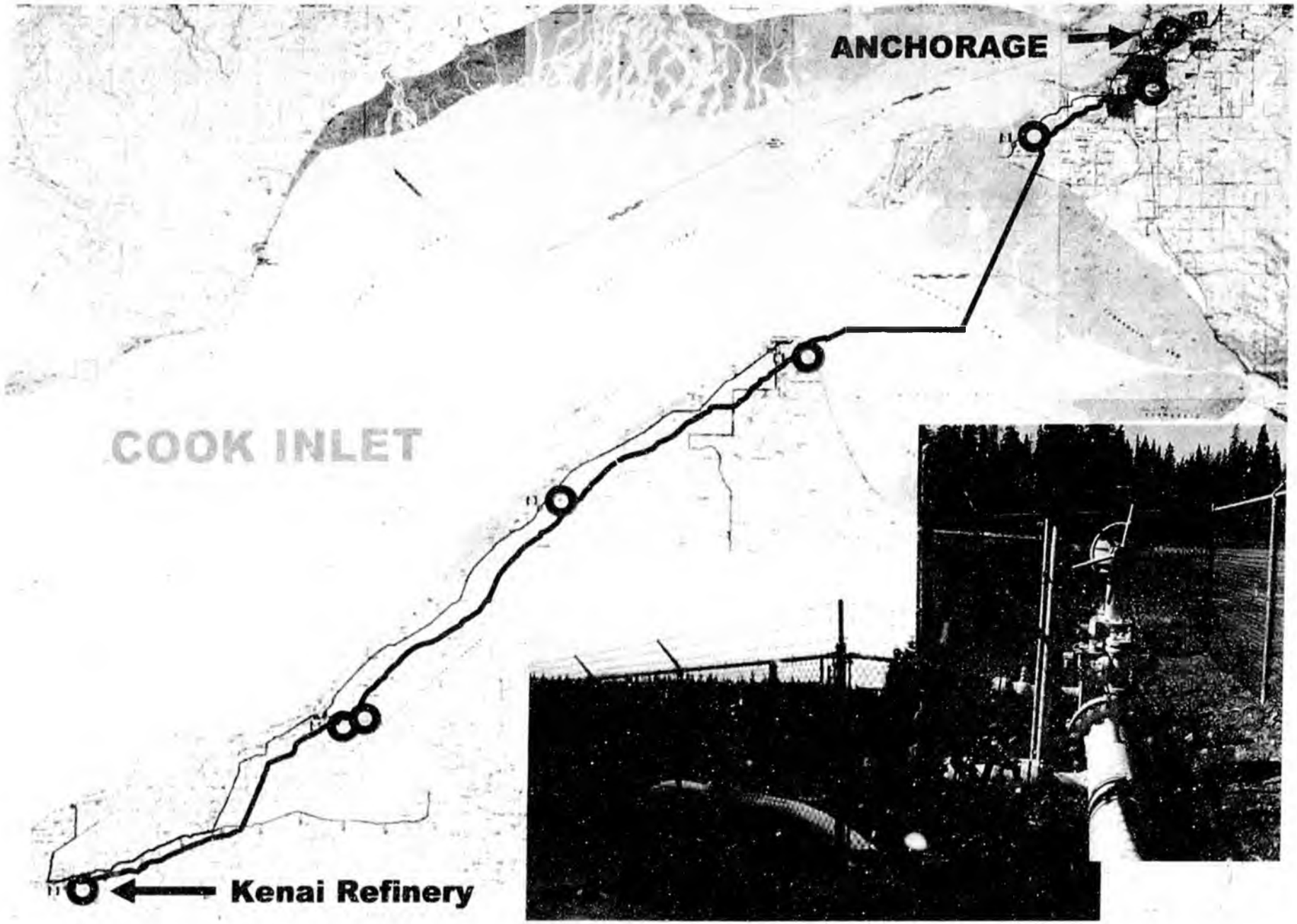


TESORO

Tesoro Alaska Pipeline



Tesoro Alaska Pipeline



Anchorage Terminals

Anchorage Terminal # 2

Anchorage Terminal # 1

Tesoro Alaska Pipeline
Receiving Station

TESORO

Anchorage Terminals

Anchorage Terminal # 2

Anchorage Terminal # 1

Tesoro Alaska Pipeline
Receiving Station

TESORO

Retail Operations

- 31 company-owned convenience stores - 29 sell fuel
- Over 58 branded dealers

2GO TESORO

TESORO

TESORO

What Makes Up Gas Prices?

- Cost of crude oil
- Cost to refine
- Cost to distribute
- Cost of marketing
- Taxes
- Competition

TESORO

Cost Factors

Different cost factors respond to different market conditions:

- Cost of Crude - global factors
  - Supply and demand
  - Value of the dollar
  - Geopolitical concerns
  - Flow of investment funds
- Refining/Distribution Costs - global/regional factors
  - Electricity/natural gas costs
  - Environmental regulations
  - Equipment costs
  - Availability of qualified labor

TESORO

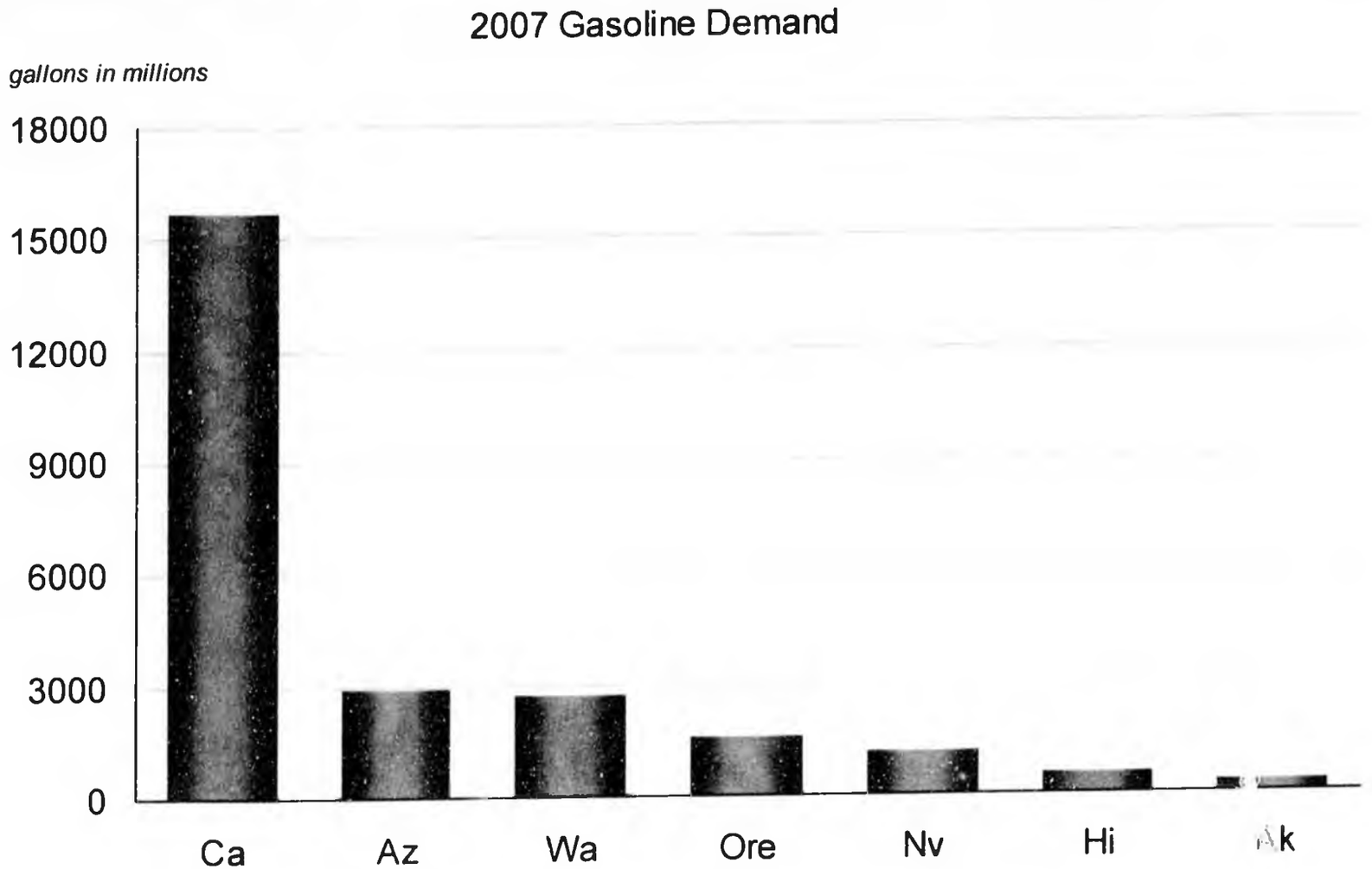
The Market Sets The Price

The price of gasoline is set by competition and local market characteristics, not cost plus:

- Large spot market price- LA, SF, Seattle
  - Global competition
  - Import/Export flows
- Wholesale terminal prices
  - Pipeline flows
  - Tank sizes
  - Trucking rates
- Retail prices
  - Market size
  - Seasonality
  - Station count
- Alaska has unique characteristics

TESORO

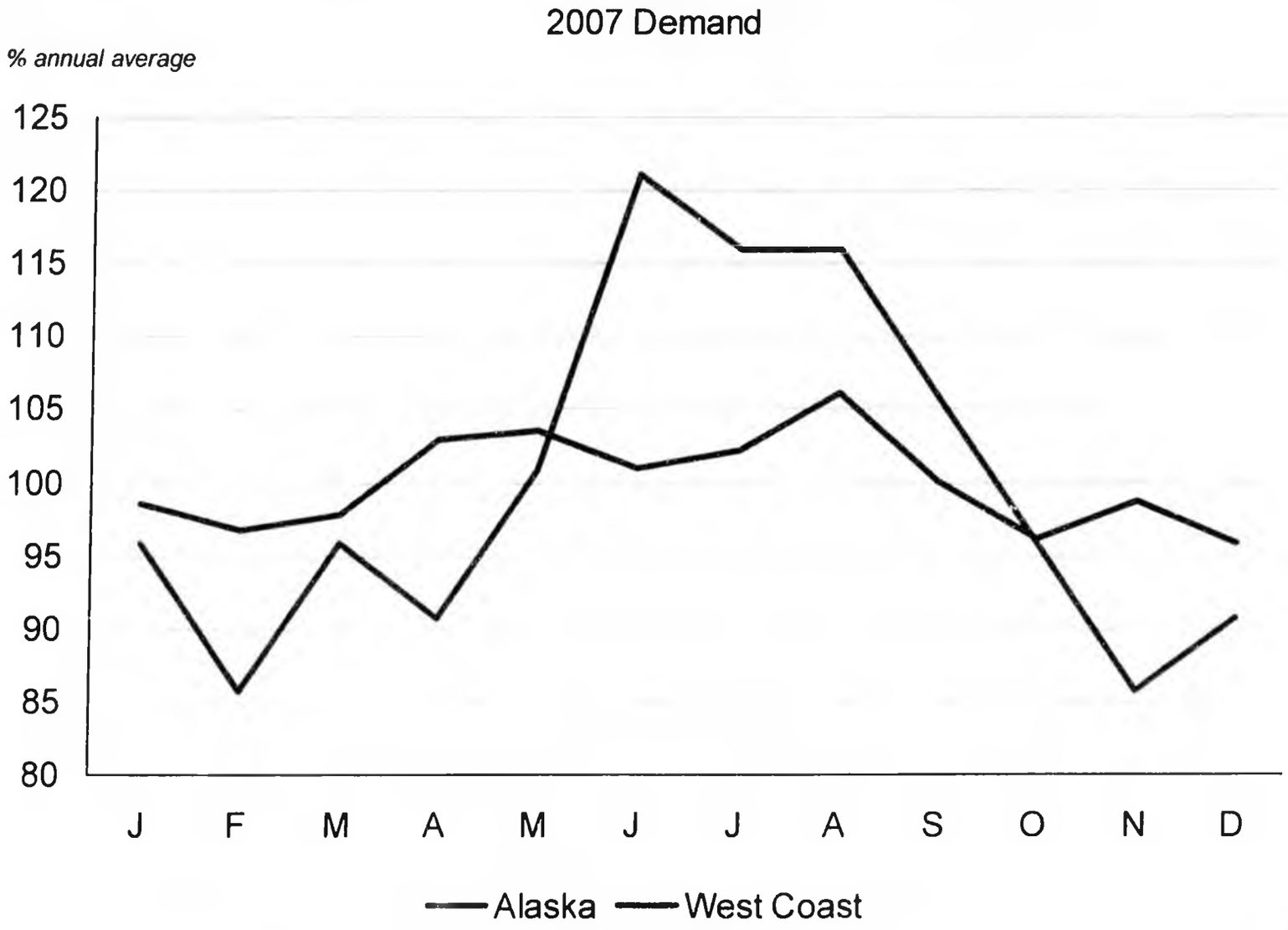
Alaska and Other Western Markets



Source: Federal Highway Administration

TESORO

Alaska Market Shows More Seasonality



Source: Federal Highway Administration, DOE

TESORO

What We Would Like To Emphasize

- Retail prices are set by individual retail owners
- Retail prices respond to differing local conditions
- The Alaska market is very small and very seasonal
- Tesoro only prices 29 stations of 566 in the state
- Tesoro will respond to the AG investigation with confidential information that cannot be shared in an open forum

TESORO

5

Section Five

Alaska Refining
Sales and Consumption

Page left intentionally blank

Alaska Refineries

Alaska is a leading supplier of United States crude oil, ranking second in crude oil production (excluding federal offshore production), according to the U.S. Department of Energy, Energy Information Administration. Prudhoe Bay on Alaska's North Slope is the highest yielding oil field in the United States, producing approximately 400,000 barrels per day. The trans-Alaska oil pipeline system (TAPS) throughput peaked at 2.1 million barrels of crude oil per day from North Slope oil fields to the Port of Valdez in 1988. In 2006, North Slope production had dropped to 781,000 barrels per day. From Valdez, North Slope crude is shipped primarily to refineries in Washington and California.

The state's six refineries have a combined crude distillation capacity of about 373,500 barrels per day. Five of the six facilities are "topping" plants which only remove the lighter, higher valued transportation fuels from the crude oil stream while injecting the degraded bottoms back into the crude oil in the pipelines serving the refineries.

As shown in Table V.1, two small refineries, owned by the Prudhoe Bay Unit and the Kuparuk River Unit, are located on the North Slope. The remaining four refineries are located in North Pole near Fairbanks, Nikiski on the Kenai Peninsula, and at Valdez near the TAPS marine terminal. These refineries serve a variety of residential, commercial, industrial, and transportation sectors across the state.

Table V.1 Alaska Refineries and Service Stations

Refinery	Location	Distillation Capacity (Barrels Per Day)
Flint Hills Resources AK LLC (FHR)	North Pole	210,000
Tesoro Petroleum Corp.	Nikiski (Kenai)	72,000
Petro Star Inc.	Valdez	48,000
Petro Star Inc.	North Pole	17,000
ConocoPhillips AK, Inc.	Kuparuk	14,000
BP Exploration (Alaska) Inc.	Prudhoe Bay	12,500
Total Distillation Capacity		*373,500*
Gasoline Service Stations	Statewide	460 Outlets

Alaska North Slope (ANS) oil comes from several units. The quality of the crude produced from each unit is somewhat different. To properly account for the difference in quality and value of the streams coming from the different units, each unit is assigned a quality bank value. The quality bank is the method of making monetary adjustments among shippers of ANS oil which either compensates or charges a shipper for the difference in quality between the crude oil tendered by that shipper at the unit LACT meter and the crude oil received by that shipper at the destination point. Through the quality bank process, the total payments paid by shippers equal the total payments received by shippers. The current methodology values the tendered crude oil on the value of the components of the oil. Similarly, the refineries in North Pole and Valdez take oil out of TAPS, extract the valuable components of the oil in manufacturing petroleum products, and inject into the pipeline a mixture of lower-valued components. The return streams from the refineries bear a quality bank payment to each of the shippers of the passing TAPS stream.

Flint Hills Resources Alaska (FHR) acquired its North Pole refinery – Alaska's largest – from Williams Alaska Petroleum, Inc., in 2004. FHR also owns a 700,000-barrel jet fuel terminal in Anchorage, and a 20,000-barrel jet fuel terminal in Fairbanks. The North Pole refinery, expanded in 1998, receives North Slope crude via TAPS and has a crude oil throughput of about 226,500 barrels per day; however, only about 60,000 barrels per day was refined into products for sale and the rest was injected back into TAPS. FHR processes North Slope crude and supplies gasoline, jet fuel, heating oil, diesel, gas oil, and asphalt to local and international markets. About 60 percent of the refinery's production goes to the aviation market. The company also owns and operates products terminals in Fairbanks and Anchorage that store and distribute asphalt, diesel, jet fuel, and gasoline produced at the North Pole refinery.

Constructed in 1965, the FHR Anchorage Terminal receives products from the North Pole Refinery via tank cars delivered by the Alaska Railroad. In 2006, more than 25,000 tank cars were delivered and offloaded. Each tank car holds approximately 550 barrels of product. Product from the FHR Anchorage terminal is distributed via pipeline, truck and rail racks locally and to locations throughout Alaska. The FHR Anchorage terminal facility can store more than 700,000 barrels of refined products. A pipeline system extends from the terminal one-half mile away to the Port of Anchorage and enables bulk fuel transfers to and from other terminals and vessels berthed at the Port of Anchorage municipal docks. The terminal loads an average of 60 to 80 vessels annually with refined product. The Fairbanks Terminal stores, in bulk, jet fuel that is delivered by tanker truck from the refinery. Jet fuel is loaded from tanks into 10,000-gallon aircraft refueling trucks called fuel tenders, or "DARTS," and delivered to airline customers. The DARTS fuel 18 to 24 flights per day. The Fairbanks Terminal was built in the early 1970s. The company produces low-sulfur gasoline at the North Pole Refinery and purchases ultra-low-sulfur diesel from other sources to meet local demand. FHR has also retrofitted its fuel terminals in North Pole and Anchorage to handle low-sulfur fuels.

Flint Hills North Pole refinery production by volume

Gasoline & Naphtha	10%
Jet Fuel/#1 Fuel Oil	77
#2 Diesel	8
Gas Oil	4
Asphalt	1
Total	100%

FHR transported about 1.4 million gallons per day of jet fuel in 2006, and about 70,000 gallons per day of gasoline by rail to Southcentral Alaska. The North Pole refinery accounts for more than half of Anchorage jet fuel consumption. FHR purchases between 56,000 and 77,000 barrels per day of Alaska royalty oil per its state royalty contract.[1]

[1] Flint Hills Resources, LP; www.fhr.com/alaska/
and ADNR, Division of Oil and Gas http://www.dog.dnr.state.ak.us/oil/programs/royalty/rik_sale/flint_appx_a.pdf

Alaska Refining

Tesoro Corporation operates Alaska's first oil refinery, which opened in Nikiski in 1969 and currently has a throughput capacity of 72,000 barrels per day. The refinery processes all of the oil produced in Cook Inlet and supplements this supply primarily with Alaska North Slope and foreign crudes. In December 1994, Tesoro completed installation of a vacuum unit at Nikiski. The vacuum unit reduces the volume of bottoms and residual production by approximately half. The Nikiski refinery produces an average of approximately 55,000 barrels per day of petroleum products to serve its 125 Tesoro-branded retail stations and other customers across the state. Process units at the refinery include a hydrocracker that is used to maximize the production of jet fuel for sale at Ted Stevens Anchorage International Airport, where the refinery serves about 40 percent of the total monthly jet fuel demand. A 75-mile, 10-inch, multi-product pipeline traverses Cook Inlet from Nikiski to Tesoro's terminal facility located at the Port of Anchorage. A pipeline spur allows direct delivery into the airport's tank farm.

Asphalt produced at Nikiski is sold in Alaska. Nearly all of the remaining heavy oil, for which there is no local market, is exported to other states. Tesoro sells all of its summer gasoline production in the state, but must ship gasoline and diesel to markets in the Pacific Northwest during the winter season. As an example of the synergies, Tesoro capitalizes on its refineries by shipping heavy vacuum gas oil to its Anacortes, Wash., refinery where it is used as a feedstock to produce gasoline.

Tesoro Nikiski refinery production by volume:

Gasoline & Naphtha	28%
Jet Fuel	45-55
Diesel	
Gas Oil	
Bottoms/Resid (Asphalt)	22
Total	100%

Petro Star Inc. (PSI) operates refineries in North Pole and Valdez and is owned by the Arctic Slope Regional Corp. Petro Star was founded in 1984 to process light fuels for heating homes and operating businesses in rural Alaska and built its first refinery at North Pole in 1984. Petro Star acquired fuel distribution companies, including Sourdough Fuel in 1986, and began to distribute its products throughout Interior Alaska and the Arctic Slope, including Prudhoe Bay. In 1991, Petro Star expanded into the lubricants market with the purchase of Alaska Lube and Fuel, now known as PSI Lubricants. Also that year, plans for a larger refinery in Valdez got under way. By 1993, the PSI Valdez Refinery began continuous operations. PSI began servicing military and commercial aviation clients in Anchorage in 1994. Today, jet fuel production is the refinery's largest business sector. The company acquired Valdez Petroleum Terminal in the mid-1990s and began serving customers in western Alaska with the purchase of Kodiak Oil Sales in 1997 and North Pacific Fuel in 1998.

PSI's smaller North Pole refinery has throughput capacity of 18,000 barrels per day; while the Valdez refinery processes 48,000 barrels per day. Both refineries are relatively small scale, located adjacent to TAPS and process ANS crude oil. Approximately 25 percent of the throughput is retained as product and refinery fuel with the balance returned to TAPS in a similar manner to the Flint Hills North Pole refinery.

Petro Star North Pole and Valdez refinery production by volume:

Jet Fuel / # 1 Fuel Oil	68%
Diesel / # 2 Heating Oil	32
Total	100%

Alaska Refining

The main function of the BP-operated Prudhoe Bay Unit Crude Oil Topping Unit (COTU) is to provide arctic heating fuel (AHF) for the operation of North Slope equipment and drilling operations. The COTU currently receives crude oil for processing from the Endicott/Badami/FS2 oil transit line (OTL). After the AHF is distilled from the crude, all remaining residual oil, naptha and trace water are re-injected into the OTL. The supply and return volumes are metered and recorded.

The COTU consists of two parallel distillation plants that are very similar in equipment and operation. The incoming crude is split between the two plants. Each plant then heats the crude to approximately 550 degrees Fahrenheit and distills off the AHF in a simple distillation tower. This AHF is sent to their storage tanks and the remaining fluids are recombined and re-injected back into the OTL. Each plant is capable of processing approximately 7,000 to 8,000 Bbls per day of crude oil with a production of 1,200 to 1,400 Bbls per day of AHF. The production of Jet-A is done on a periodic batch basis and is the same operation with similar production figures. AHF and Jet-A are the only products the COTU produces for distribution. As stated, the main function of the COTU is to provide AHF for the Prudhoe Bay operation. The majority of the production is distributed for this purpose. The remaining production that is in excess of the unit's requirements is distributed to non-Prudhoe Bay operations. The COTU does not ship any AHF or Jet-A south of the Brooks Range for sale or distribution.

BP Prudhoe Bay Crude Oil Topping Unit production by volume:

Arctic Heating Fuel (Diesel)	97%
3% Jet–A	3
Total	100%

The ConocoPhillips-operated Kuparuk Unit Topping Plant is designed to process pipeline-quality crude oil feedstock from Central Processing Facility #1 (CPF1) for support of drilling and production operations. This feedstock is sent through a distillation process to extract AHF. The AHF is extracted from the distillation tower and further processed to control the flashpoint of the fuel before being transferred to a storage facility where the various users can take delivery. The plant processes approximately 14,500 barrels per day of crude-oil feedstock, which results in a yield of 1,700 to 2,400 barrels per day of AHF, depending on specific end product requirements.

ConocoPhillips – Kuparuk Crude Oil Topping Unit production by volume:

Arctic Heating Fuel	100%

Statewide Total Fuel Consumption

In-state consumption of refined products includes in-state production and imports. Sales volumes, a proxy indicator for consumption, are reported by the U.S. Department of Energy, Energy Information Administration[2] (EIA) in its *Petroleum Marketing Annual* and the Alaska Department of Revenue (ADOR) in its fuel sales tax reports. Total or gross annual fuel sales volume and price by major product type are summarized in Tables V.2.A and B. Annual gross fuel sales volumes increase over time for most products, except for No. 2 diesel fuel. Annual jet fuel sales volumes show a steady increase over the time period, despite slight declines in 2001 and 2003. The jet fuel decline in 2003 was probably related to a sharp nationwide decline in commercial aviation. Alaska's refineries supply approximately 88 percent of in-state jet fuel consumed based on EIA data on prime supplier sales.

Table V.2.A Prime Supplier Sales for Alaska, 1995 – 2006

(Thousands of Gallons per Day) Alaska Prime Supplier Sales Volumes of Petroleum Products

Year	Total Gasoline[a]	Aviation Gasoline	Kerosene Type Jet Fuel	Propane	No. 1 Distillate	No. 2 Diesel Fuel	No. 2 Fuel Oil	Total Fuel Sold
1995	691.9	49.9	1,714.7	W	243.2	W	280.2	2979.9
1996	698.8	46.4	1,935.3	40.2	219.6	W	277.1	3217.4
1997	694.6	47.4	2,193.2	W	255.0	W	421.7	3611.9
1998	771.4	57.6	2,285.2	W	254.8	427.7	357.4	4154.1
1999	784.4	58.7	2,434.4	W	276.6	467.2	295.9	4317.2
2000	744.8	58.7	2,502.9	W	216.7	396.5	287.6	4207.2
2001	761.2	61.2	2,461.9	W	233.6	462.5	227.4	4207.8
2002	755.2	55.3	2,777.1	W	233.9	512.8	W	4334.3
2003	784.0	W	2,627.4	W	185.9	551.8	W	4149.1
2004	826.8	W	2,970.9	W	162.8	361.9	263	4585.4
2005	838.0	W	3,201.9	32.3	W	298.9	300.7	4671.8
2006	778.9	W	3,080.9	30.9	W	W	270.4	4161.1

In the last 10 years, all product prices have nearly doubled. Propane sales volume data is limited, but a flattening consumption trend is evident since the mid-1990s. Alaska propane price data are not available.

Table V.2.B Prime Supplier Alaska Petroleum Product Prices, 1995 – 2006

(Dollars per Gallon – Taxes Excluded) Alaska Prices, Sales Volumes and Stocks

Year	Total Gasoline[a]	Aviation Gasoline	Kerosene Type Jet Fuel	No. 1 Distillate	No. 2 Diesel Fuel	No. 2 Fuel Oil
1995	1.13	W	0.61	0.75	0.82	0.83
1996	1.20	W	0.71	0.74	1.06	0.91
1997	1.18	W	0.67	0.67	1.08	0.97
1998	0.99	W	0.49	0.57	0.91	0.85
1999	1.00	W	0.61	0.81	0.81	0.97
2000	1.33	1.49	0.96	1.02	W	1.34
2001	1.38	W	0.81	0.83	1.26	1.38
2002	1.29	W	0.76	0.84	1.10	1.09
2003	1.48	W	0.90	W	1.29	1.24
2004	1.70	W	1.30	1.26	1.54	1.52
2005	2.09	W	1.77	W	2.04	2.06
2006	2.40	W	2.05	W	2.42	2.40

Table Notes:

[a] Includes regular, mid-grade, and premium blends of motor gasoline.

[W] Withheld to avoid disclosure of individual company data. Source: Energy Information Administration, U.S. DOE, Prime Supplier Sales in Alaska

[2] Fuel consumed is based on EIA data on prime supplier sales. Prime suppliers include firms that produce, import, or transport petroleum products across state boundaries and local marketing areas and sell the products to local distributors, local retailers, or end users. According to the EIA, prime supplier sales within a given state may serve as a proxy for consumption but may not equal actual consumption by the end-users in the state because a product may be sold by a prime supplier in one state and transported by local distributors to another state for final consumption. Price data for 2006 may be subject to revision upon final publication in the Petroleum Marketing Annual.

No. 2 diesel fuel and No. 2 fuel oil prices and sales volumes are classified in accordance to what the product was sold as, regardless of the actual specifications of that product (i.e., if a No. 2 distillate was sold as a heating oil or fuel oil, the volume and price would be published in the category "No. 2 Fuel Oil" even if the product conformed to the higher specifications of a diesel fuel.

Seasonal Taxable Aviation Gas, Jet Fuel, Motor Gas and Diesel Sales

Seasonal fuel sales shown in Figures V.3 through V.6 represent taxable sales only and are less than the total sold in any given month. The range (maximum and minimum values) of monthly sales over the six-year period 2001–2006 is presented as the shaded region in each of the four figures. Monthly sales during 2006 are shown with a black line within the shaded high-low range. Aviation gas sales for 2006 were near the historic low for the six-year period, whereas jet fuel sales in 2006 were high compared to previous years during the period. Motor gas sales tend to fluctuate between the upper and lower limits of its range while diesel sales tend to be at the peak range.

ADOR reported fuel sales totals do not match the monthly figures published by the EIA.[3] The primary reason for the difference is the ADOR totals represent taxable values, whereas the EIA prime supplier sales volumes are based on total sales volumes. The EIA reported prime supplier sales include firms that produce, import, or transport petroleum products across state boundaries and local marketing areas and sell the products to local distributors, local retailers, or end users. According to the EIA, prime supplier sales within a given state may serve as a proxy for consumption but may not equal actual consumption by the end-users in the state because a product may be sold by a prime supplier in one state and transported by local distributors to another state for final consumption. The largest discrepancy between EIA and ADOR data is in jet fuel, and is probably due to jet fuel used in commercial foreign flights.[4] ADOR data excludes jet fuel purchased in Alaska that is used in commercial flights that originated in a foreign country or where the next destination is a foreign country. For example, several international airlines refuel in Anchorage where the flight originated, say, in Korea or Hong Kong. Even if the flight is then destined for a U.S. city, the fuel is tax-exempt under AS 43.40.100(2)(B)(i). ADOR data includes only that fuel upon which the excise tax was due or collected.[5,6]

[3] The monthly EIA data contain numerous missing values, which limits its applicability.

[4] The primary reason for the difference is ADOR totals only count taxable volume, whereas, the EIA, Prime Supplier Sales Volumes are based on total or gross statewide sales. For the period 2001 through 2006, the ADOR taxable portion averages approximately 80% of the EIA total for all products except Jet Fuel, which averages 20 percent of the EIA reported total.

[5] Source: Energy Information Administration, U.S. DOE, Prime Supplier Sales in Alaska. http://tonto.eia.doe.gov/dnav/pet/pet_cons_prim_dcu_SAK_a.htm

[6] Motor Fuel tax is levied on motor fuel sold, transferred or used within Alaska. Motor fuel taxes are collected primarily from wholesalers and distributors who are licensed as qualified dealers. Persons who first transfer or sell motor fuel in the state are subject to the tax. Motor fuel tax rates are as follows: gasoline, diesel, and gasohol - highway 8¢ / marine 5¢; aviation gas 4.7¢; and jet fuel 3.2¢ per gallon. Motor fuel tax returns are filed monthly and are due with payment of tax by the last day of the month following the month in which sales were made, or taxable use occurred. See http://www.tax.state.ak.us/programs/motorfuel/index.asp. More information on AS 43.40, Motor Fuel Tax, can be found at: http://www.tax.state.ak.us/programs/motorfuel/reports/2005_MF_Annual_Report.pdf.

Figures V.3 and V.4 Seasonal Aviation Gas and Jet Fuel Sales

Statewide (Thousands of Gallons per Day)

Figure V.3 Seasonal Aviation Gas Sales 2006

Maximum-Minimum Range 2001-2006

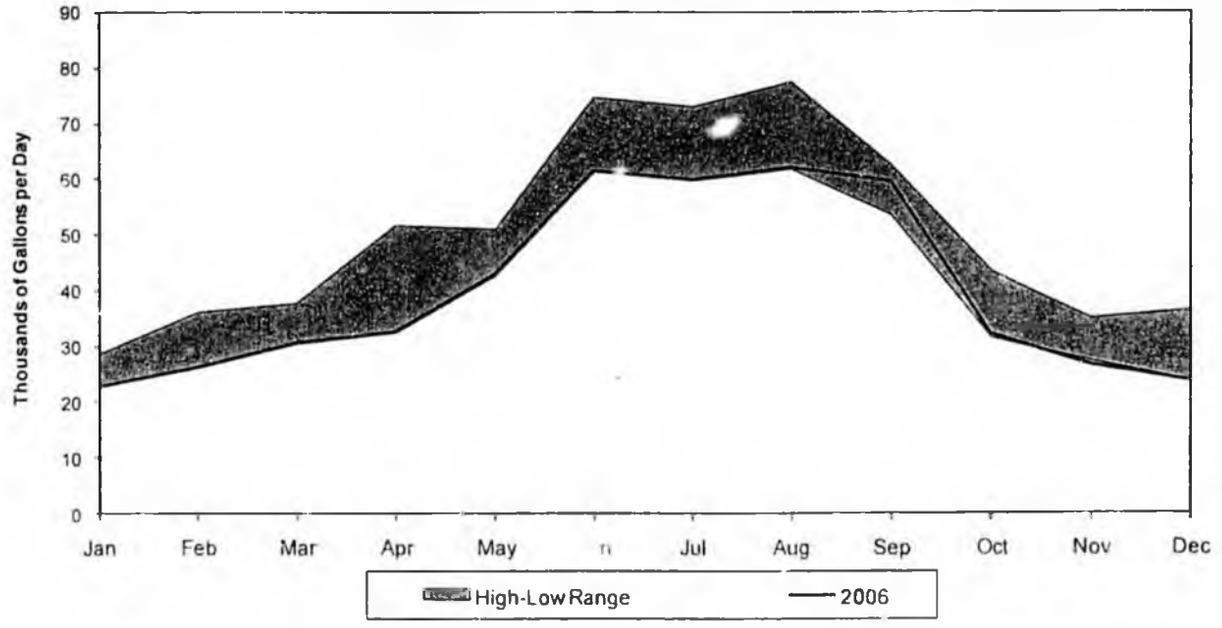
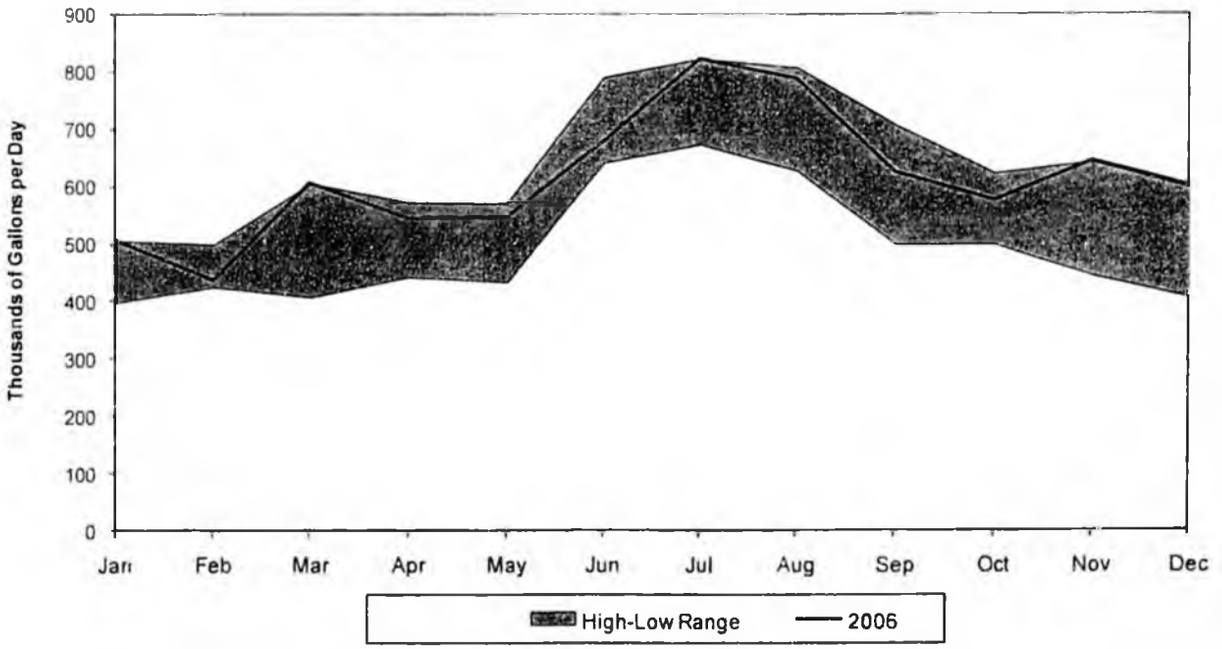


Figure V.4 Seasonal Jet Fuel Sales 2006

Maximum-Minimum Range 2001-2006



Source: State Of Alaska - Department of Revenue (Special Tabulations from Tax Division)

Figures V.5 and V.6 Seasonal Motor Gasoline and Diesel Sales

Statewide (Thousands of Gallons per Day)

Figure V.5 Seasonal Motor Gasoline Sales 2006

Maximum-Minimum Range 2001-2006

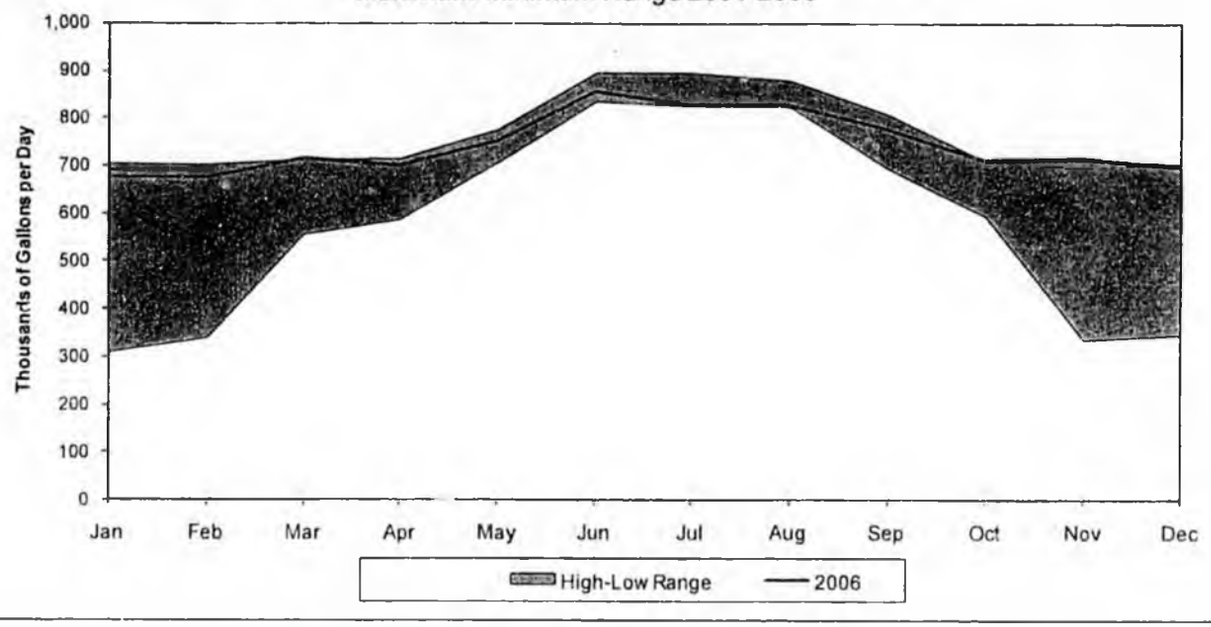
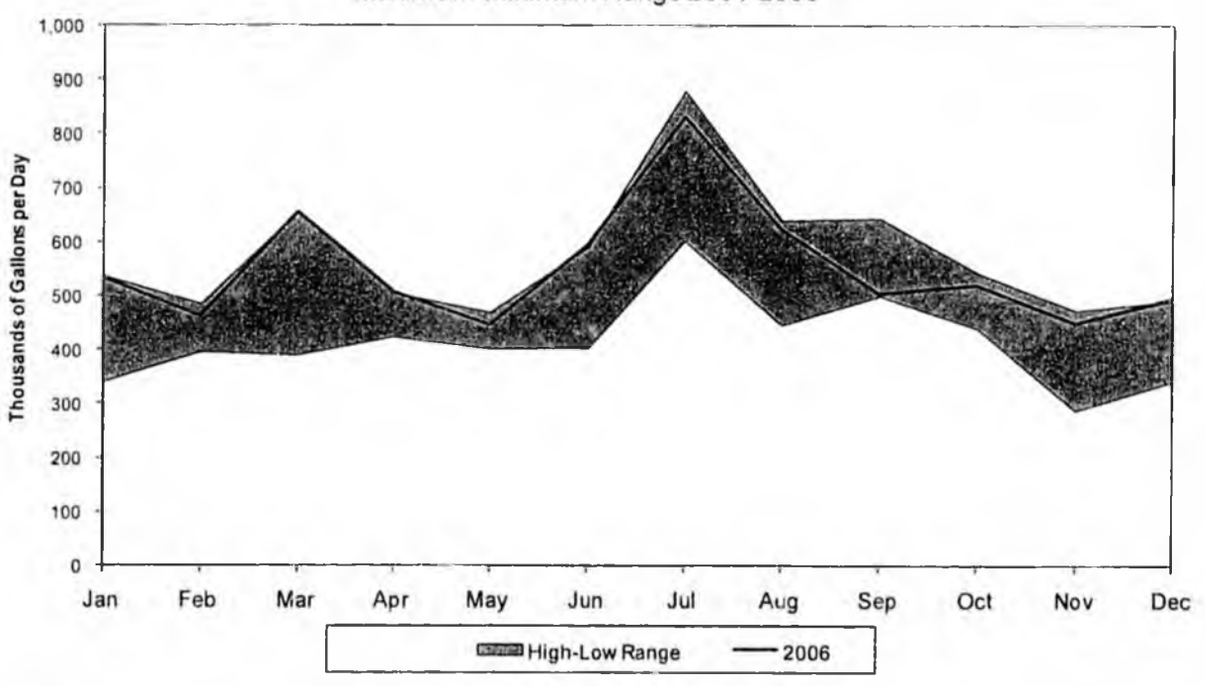


Figure V.6 Seasonal Diesel Sales 2006

Maximum-Minimum Range 2001-2006



Source: State Of Alaska - Department of Revenue (Special Tabulations from Tax Division)

Key Terms	Department of Energy Definitions*
Aviation Gasoline (Finished)	A complex mixture of relatively volatile hydrocarbons with or without small quantities of additives, blended to form a fuel suitable for use in aviation reciprocating engines. Fuel specifications are provided in ASTM Specification D 910 and Military Specification MIL-G-5572. Note: Data on blending components are not counted in data on finished aviation gasoline.
Catalytic Hydrocracking	A refining process that uses hydrogen and catalysts with relatively low temperatures and high pressures for converting middle boiling or residual material to high-octane gasoline, reformer charge stock, jet fuel, and/or high-grade fuel oil. The process uses one or more catalysts, depending upon product output, and can handle high sulfur feedstocks without prior desulfurization.
Gas Oil	European and Asian designation for No. 2 heating oil and No. 2 diesel fuel.
Kerosene-Type Jet Fuel	A kerosene-based product having a maximum distillation temperature of 400 degrees Fahrenheit at the 10 percent recovery point and a final maximum boiling point of 572 degrees Fahrenheit and meeting ASTM Specification D 1655 and Military Specifications MIL-T-5624P and MIL-T-83133D (Grades JP-5 and JP-8). It is used for commercial and military turbojet and turboprop aircraft engines.
Motor Gasoline	A complex mixture of relatively volatile hydrocarbons with or without small quantities of additives, blended to form a fuel suitable for use in spark-ignition engines. Motor gasoline, as defined in ASTM Specification D 4814 or Federal Specification VV-G-1690C, is characterized as having a boiling range of 122 to 158 degrees Fahrenheit at the 10 percent recovery point to 365 to 374 degrees Fahrenheit at the 90 percent recovery point. Motor Gasoline includes conventional gasoline; all types of oxygenated gasoline, including gasohol; and reformulated gasoline, but excludes aviation gasoline. Note: Volumetric data on blending components, such as oxygenates, are not counted in data on finished motor gasoline until the blending components are blended into the gasoline. Finished motor gasoline includes all ethanol blended gasoline (e.g. E10, E85).
No. 1 Distillate	A light petroleum distillate that can be used as either a diesel fuel (see No. 1 Diesel Fuel) or a fuel oil. No. 1 Diesel Fuel: A light distillate fuel oil that has distillation temperatures of 550 degrees Fahrenheit at the 90 percent point and meets the specifications defined in ASTM Specification D 975. It is used in high-speed diesel engines generally operated under frequent speed and load changes, such as those in city buses and similar vehicles. No. 1 Fuel Oil: A light distillate fuel oil that has distillation temperatures of 400 degrees Fahrenheit at the 10-percent recovery point and 550 degrees Fahrenheit at the 90 percent point and meets the specifications defined in ASTM Specification D 396. It is used primarily as fuel for portable outdoor stoves and portable outdoor heaters.
No. 2 Diesel Fuel	A fuel that has distillation temperatures of 500 degrees Fahrenheit at the 10 percent recovery point and 640 degrees Fahrenheit at the 90 percent recovery point and meets the specifications defined in ASTM Specification D 975. It is used in high-speed diesel engines that are generally operated under uniform speed and load conditions, such as those in railroad locomotives, trucks, and automobiles.
No. 2 Distillate	A petroleum distillate that can be used as either a diesel fuel (see No. 2 Diesel Fuel) or a fuel oil (see No. 2 Fuel Oil).
No. 2 Fuel Oil (Heating Oil)	A distillate fuel oil that has a distillation temperature of 640 degrees Fahrenheit at the 90 percent recovery point and meets the specifications defined in ASTM Specification D 396. It is used in atomizing type burners for domestic heating or for moderate capacity commercial/industrial burner units.
PADD	Petroleum Administration for Defense District **PADD V** (West Coast): Alaska (North Slope and Other Mainland), Arizona, California, Hawaii, Nevada, Oregon, Washington

*Source for Terms and Definitions: United States Department of Energy, Energy Information Administration; www.eia.doe.gov/glossary/glossary_a.htm

Petroleum Products	Petroleum products are obtained from the processing of crude oil (including lease condensate), natural gas, and other hydrocarbon compounds. Petroleum products include unfinished oils, liquefied petroleum gases, pentanes plus, aviation gasoline, motor gasoline, naphtha-type jet fuel, kerosene-type jet fuel, kerosene, distillate fuel oil, residual fuel oil, petrochemical feedstocks, special naphthas, lubricants, waxes, petroleum coke, asphalt, road oil, still gas, and miscellaneous products.
Prime Supplier	A firm that produces, imports, or transports selected petroleum products across state boundaries and local marketing areas, and sells the product to local distributors, local retailers, or end users.
Propane (Consumer Grade)	A normally gaseous paraffinic compound (C_3H_8), which includes all products covered by Natural Gas Policy Act Specifications for commercial and HD-5 propane and ASTM Specification D 1835. It is a colorless paraffinic gas that boils at a temperature of -43.67 degrees Fahrenheit. It does not include the propane portion of any natural gas liquid mixes, i.e., butane-propane mix.
Refiner	A firm or the part of a firm that refines products or blends and substantially changes products, or refines liquid hydrocarbons from oil and gas field gases, or recovers liquefied petroleum gases incident to petroleum refining and sells those products to resellers, retailers, reseller/retailers or ultimate consumers. "Refiner" includes any owner of products that contracts to have those products refined and then sells the refined products to resellers, retailers, or ultimate consumers. For the purposes of this survey, gas plant operator data are included in this category.
Reformulated	Finished motor gasoline formulated for use in motor vehicles, the composition and properties of which meet the requirements of the reformulated gasoline regulations promulgated by the U.S. Environmental Protection Agency under Section 211(k) of the Clean Air Act. This category includes oxygenated fuels program reformulated gasoline (OPRG) but excludes reformulated gasoline blendstock for oxygenate blending (RBOB).
Regular	Gasoline having an antiknock index (average of the research octane rating and the motor octane number) greater than or equal to 85 and less than 88. Note: Octane requirements may vary by altitude.
Reseller	A firm (other than a refiner) that is engaged in a trade or business that buys refined petroleum products and then sells them to a purchaser who is not the ultimate consumer of those refined products.
Residual Fuel Oil	A general classification for the heavier oils, known as No. 5 and No. 6 fuel oils, that remain after the distillate fuel oils and lighter hydrocarbons are distilled away in refinery operations. It conforms to ASTM Specifications D 396 and D 975 and Federal Specification VV-F-815C. No. 5, a residual fuel oil of medium viscosity, is also known as Navy Special and is defined in Military Specification MIL-F-859E, including Amendment 2 (NATO Symbol F-770). It is used in steam-powered vessels in government service and inshore power plants. No. 6 fuel oil includes Bunker C fuel oil and is used for the production of electric power, space heating, vessel bunkering, and various industrial purposes.
Retailer	A firm (other than a refiner, reseller, or reseller/retailer) that carries on the trade or business of purchasing refined petroleum products and reselling them to ultimate consumers without substantially changing their form.
Topping Plant	Facilities that top off the lighter products from the crude stream that are used for internal refinery fuel use.

*Source for Terms and Definitions: United States Department of Energy, Energy Information Administration; www.eia.doe.gov/glossary/glossary_a.htm

6

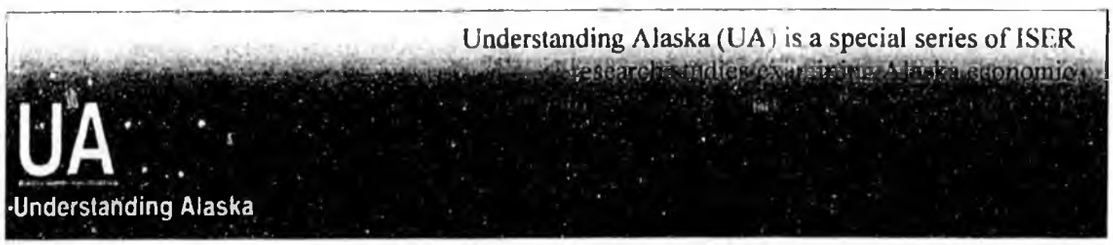
Economic Development Through State Ownership of Oil and Gas: Evaluating Alaska's Royalty-in-Kind Program

Matthew D. Berman

Institute of Social and Economic Research,
University of Alaska Anchorage
3211 Providence Drive, Anchorage,
Alaska 99508 USA
(907) 786-5426
matthew.berman@uaa.alaska.edu

Prepared for presentation to the
Western Regional Science Association Annual Meeting,
San Diego, California

February 2005



Economic Development Through State Ownership of Oil and Gas:

Evaluating Alaska's Royalty-in-Kind Program

Abstract

Government owners of petroleum subsurface rights often face constituent pressure to exercise control over the disposition of these resources in pursuit of economic development objectives. At the same time, states cannot simply dissipate the potential rent from their resources without losing a principal revenue source. The paper takes a retrospective look at the state of Alaska's policies and programs regarding disposition of oil and gas resources, focusing on the evolution of the royalty-in-kind program. It examines the relative success of different programs in achieving objectives of import substitution and value-added export relative to the cost in foregone revenue. The analysis leads to general conclusions about programs of this type, along with specific insights as the state prepares to embark on the biggest test yet related to the disposition of North Slope natural gas.

Economic Development Through State Ownership of Oil and Gas: Evaluating Alaska's Royalty-in-Kind Program

Introduction

Governments in remote regions often possess few options for economic development. At the same time, their narrow economic base provides few options for raising revenue. A dilemma arises for such states that are fortunate enough to own rights to rich natural resource assets. Constituent pressures to exercise control over the disposition of these resources in pursuit of development objectives may conflict with constituent pressures to fund public services. Governments in remote resource-rich regions can stimulate economic development by giving away their natural resources to sponsors of projects that promise attractive economic benefits. Yet such states cannot simply dissipate the potential rent from their resources without losing a principal revenue source.

The greatest potential for conflict between these two objectives occurs in oil-producing states, because the economic rents -- and associated revenues -- from oil are so large. Alaska is unique among North American sovereign jurisdictions in its per-capita state-owned petroleum wealth. The challenge of economic development in Alaska's remote, petroleum-based economy in some ways more closely resembles that of oil-rich developing nations than it resembles that of other US states and Canadian provinces. In other respects, Alaska's situation resembles that of other remote regions in more developed nations (Morehouse and Huskey, 1992). The state of Alaska's experience with balancing the conflicting pressures over the use of oil and gas for revenue enhancement versus economic development provides a laboratory for understanding the opportunities and limits to government-sponsored development programs based on natural resources. Alaska attempted to resolve the dilemma by leasing its oil lands competitively, while retaining the option to dispose of its royalty share -- the share retained by the landowner of oil and gas produced from leased lands -- in kind to prospective industrial developers.

In this paper, I discuss how the State of Alaska has approached the tradeoff between revenue and development through administration of its royalty-in-kind program. In the next section I provide the economic context by summarizing the state's development problem and the role that disposition of the royalty share could play in economic development. Next, I review the history of the state's policy and programs for the disposition of its royalty oil and gas. Then, I discuss the outcomes of the program, describing industrial facilities built, economic benefits, and impacts on state oil revenues. I also discuss disposals that failed to achieve their promise. Following the analysis of outcomes, I evaluate the program to try to explain the pattern of successes and failures, and analyze their implications for likely future royalty disposals. I conclude with broader lessons for economic development policy for Alaska, other remote regions, and for developing areas with petroleum resources.

Petroleum and Alaska Economic Development

The United States is one of the few nations in the world in which petroleum and other subsurface resources may be privately owned. The history of oil and gas development in most of the nation is a history of struggles among private owners over the development and disposition of petroleum (Lovejoy and Homan, 1975; McDonald,

1971). Two factors made Alaska an exception to this rule when it entered the union in 1959. First, the federal government awarded the new state a 102-million-acre land entitlement, including subsurface rights, to be selected from unreserved public domain. Second, the 1953 Submerged Lands Act settling intergovernmental disputes over offshore resources had recently awarded coastal states offshore mineral rights within three miles of land. Alaska's long coastline entitled the state to a vast nearshore estate. The geology was fortuitous, rewarding the state handsomely with oil and gas resources on both onshore and offshore entitlements.

Objectives and constraints of economic development

At the time Alaska entered the union, oil and gas resources in the Cook Inlet region were seen as key to the new state's economic viability (Rogers, 1962). Discovery of the largest field in North America at Prudhoe Bay in 1964 entrenched and enhanced Alaska's status as a petroleum state. The oil and gas industry provided new high-paying jobs, but many of these were held by non-resident workers.[1] "Downstream" vertical integration in the form of petroleum refining and petrochemical industries provided a logical opportunity for increasing resident employment and other economic benefits from oil and gas production. Downstream development does not remove the link to world energy markets, so it does not really make the state economy less dependent on petroleum. Nevertheless, it provides a direct opportunity to increase value added in the state from the state's resource endowment.

Alaska economists have defined three objectives for regional industrial development. New industry can (1) increase jobs and personal income, (2) expand the state and local tax base, and (3) increase share of economic activity retained in the region (increase the economic multiplier) (Kresge et al., 1984: 192). To these one might add a fourth objective of providing benefits to regional consumers. Consumers benefit from development that reduces the cost of living or cost of doing business, or provides products and services that were not previously available locally. This was a particularly relevant objective in Alaska in the 1960s, where the high cost of living and high cost of business posed significant barriers to economic development and diversification.

Two key factors that determine how expansion of different industries might differently achieve the development objectives are: (1) whether wages in the industry are relatively low or high, and (2) the relative capital intensity (Kresge et al., 1984: 198-199). Oil and gas processing industries are capital intensive -- meaning that they provide relatively few jobs as a percentage of value added -- but those jobs are highly skilled and pay high wages (Tussing and Kramer, 1981). Consequently, one would expect that petroleum processing would be provide relatively few permanent jobs, but relatively more enhancement to the property tax base and per-capita income.

The geology and economics that allow large quantities of oil and gas to be produced in Alaska do not guarantee that petroleum processing in the state will be feasible. Alaska faced -- and still does face -- significantly higher construction costs relative to the nation as a whole. In addition, its remote location makes relative transportation costs of raw materials and manufactured products a key factor in economic viability. Crude oil is very inexpensively moved around the globe by tanker. Natural gas, because of its lower value per volume and the expense to liquefy for marine transport, is relatively expensive to move long distances. Refined products and

[1]Although major oil companies made a concerted effort to move employees to Alaska, non-resident workers still represent 28 percent of oil industry employees (Fried and Windisch-Cole, 2003).

petrochemicals are typically more expensive to move than crude oil but less expensive to move than natural gas over long distances.

These basic facts led Tussing and Kramer (1981: 114) to postulate three axioms for location of petroleum processing facilities based on the transportation economics of oil and gas:

(1) Petroleum refineries tend to be located near their markets

(2) Naptha and gas-oil based petrochemical plants tend to be located near refineries.

(3) Natural-gas-based petrochemical plants tend to be located near raw-materials sources.

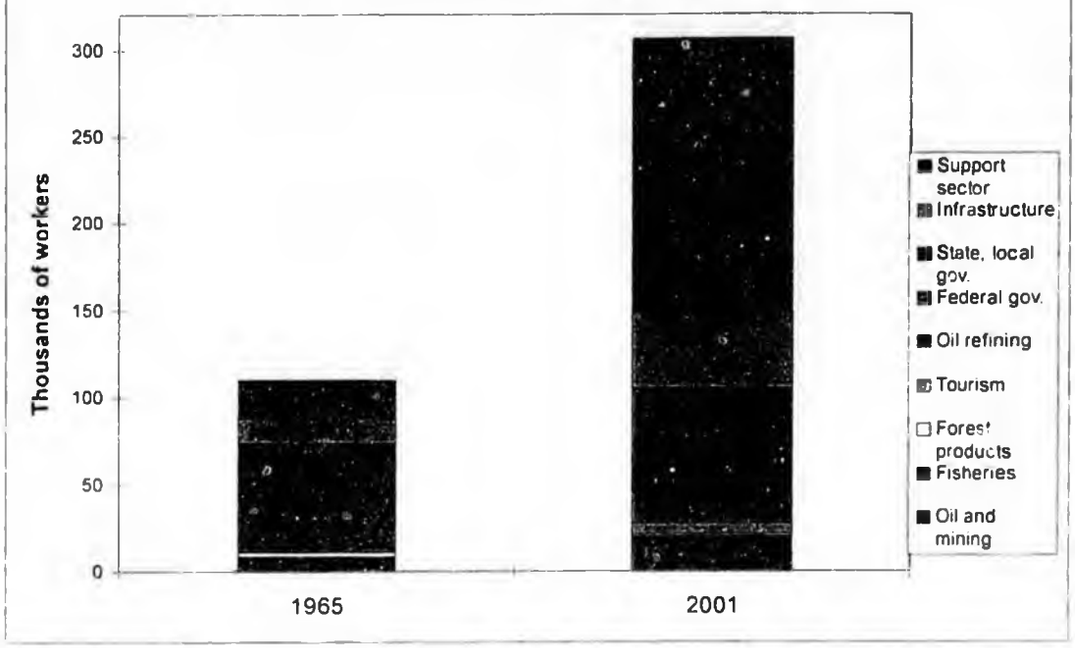
As a result, transportation economics disfavor Alaska locations for export petroleum refineries and oil-based petrochemical plants, but might favor refineries to serve in-state needs. Transportation economics favor converting Alaska gas to petrochemicals in-state, if anywhere (Tussing and Kramer, 1981: 115).

Import substitution vs. export-led growth

Traditional economic wisdom holds that the path to economic development in less-developed regions is through trade; that is, through increased exports. This maxim definitely applies to resource development in remote regions, where exporting minerals to world markets provides the most obvious opportunity for growth. Traditional Alaska "basic" industries such as fisheries, tourism, mining, and forest products, as well as oil and gas, are examples of trade-dependent exports. In Alaska, especially in the early years of statehood, however, federal civilian and military government employment provided the largest source of basic industry employment. Federal government employment is an export industry in the sense that the demand for the services is determined by forces external to the state; i.e., the U.S. Congress.

Figure 1 illustrates the shares of Alaska employment by major industry in 1965, and compares 1965 total employment and employment shares to those in 2001. In 1965 the federal government was by far Alaska's largest employer, employing 50,000 civilian and military workers -- nearly one in two Alaskan workers. All resource industries and tourism combined employed only about 11,000 workers, or 10 percent of the total. The budget shares for 2001 contrast sharply with those of 1965. One obvious difference is the decline in federal government employment (largely due to military staff cutbacks), and the growth in oil and gas and state employment. But by far the biggest change in numbers is the growth in support sector employment. This sector, composed primarily of trade services, grew sevenfold. This growth was largely accomplished through import substitution -- replacement of imported services by locally produced services.

Figure 1. Alaska Employment: 1965 vs. 2001
Source: ISER MAP Database



Import substitution also an option to export-led growth in the manufacturing sector. Tuck et al. (1988) used national data to analyze what manufacturing industries were present in Alaska in the 1980s. One of their principal findings was that nearly all manufacturing industries then in Alaska directly served either a basic industry or final consumer demand. That is, Alaska produced relatively few intermediate goods: inputs to other manufacturers. In contrast, the majority of manufacturing industries nationally (at the 4-digit SIC level) produced intermediate goods. Another finding was that a much higher share of Alaska industries than U.S. industries had high transport costs: 60 percent vs. 30 percent. They defined a high-transportation-cost industry as one for which more than three percent of total costs typically paid for transportation. These findings suggest that successful Alaska manufactures are industries that are either favored by a location close to consumers, or have other geographic limitations on location (such as needing to be near a key input with very high transport costs) (Tuck et al., 1988: III.B.4-5).

Another structural feature of the Alaska economy bears on the import-substitution vs. export-led growth question: the state a big petroleum-based fuel-user. Geography -- Alaska's remoteness and sparse population density -- requires that the state burn a lot of fuel per capita in transportation. Its industrial base other than oil -- fishing, tourism, logging, mining, and aviation -- all rely on refined petroleum products as essential production inputs. The statistics confirm these intuitive observations. Energy Information Administration (EIA) 2001 data show that Alaska consumes more than three times as much energy per capita as the U.S. average -- 30 percent more per capita than the next most energy-intensive state (Wyoming). Even without an industrial base using petroleum as feedstock for petrochemicals, Alaska consumes nearly 3.5 times as much petroleum products per capita as the nation, and nearly 40 percent more than the next highest state (Louisiana). Still, the total amount -- about 140 thousand barrels per day -- is relatively small.

Economies of scale

The relatively small size of the Alaska economy can discourage production for local use if there are economies of scale in manufacturing. Petroleum refining and petrochemical manufactures, like most chemical process industries, have substantial economies of scale (Tussing and Kramer, 1981). Scherer et al. (1975) compiled information on minimum efficient scales (MES) -- the smallest size plant that achieves competitive costs -- for a variety of manufacturing industries based on technology available in 1967. They reported an MES for petroleum refining of 1.9 percent of production (Scherer et al., 1975: 80). Using EIA historical consumption data, this translates into a throughput of roughly 230 thousand barrels per day (Mb/d), substantially more than current Alaska consumption and nearly eight times consumption in 1965.

Scherer et al. (1975: 91) also computed the cost disadvantage for plants operating less than the MES. For petroleum refining, a plant with a capacity of one-third the MES in 1967 (approximately 70 Mb/d) faced a cost disadvantage of 4.8 percent relative to an MES plant. For an Alaskan refinery at a scale appropriate for serving the local market in the late 1960s, the projected cost disadvantage might be closer to ten percent.

Petroleum refining will produce a mix of products, not all of which have a market in Alaska. Even configured to maximize recovery of fuels that have large Alaskan demand, a local refinery would have to find a market for some products outside the state. The combination of economies of scale, process limits on the product mix in refinery runs, and the size of Alaska's product markets suggest that a refinery producing for the local market could face significant cost disadvantages that might not be able to be offset by higher transportation costs for competitors' imported petroleum products. It is in this context that I now turn to the issue of disposition of the state's royalty oil.

Royalty-in-Kind program

Many states and the federal government have RIK programs. Alaska has been more aggressive in pursuing this option than other states. Since 1969, Alaska has made upwards of 30 sales involving more than 800 million barrels of oil, or just over half of all state royalty oil. The intellectual roots of the state's development policy toward oil and gas were well established before the oil wealth was realized.

Evolution of the program

Frustration with federal control of fisheries (Cooley, 1963) and national forests (Rakestraw, 2002) played a prominent role in the drive for statehood. In his keynote address to the Alaska Constitutional Convention (Nov. 8, 1955), E.L. Bartlett reflected prevailing views when he said:

> ...The financial welfare of the future state and the well-being of its present and unborn citizens depend upon the wise administration and oversight of these developmental activities. Two very real dangers are present. The first, and most obvious, danger is that of exploitation under the thin guise of development. The taking of Alaska's mineral resources without leaving some reasonable return for the support of Alaska government and the use of all the people in Alaska will mean a betrayal in the administration of the people's wealth. The second danger is that outside interests, determined to stifle any

> development in Alaska which might compete with their activities elsewhere, will attempt to acquire great areas of Alaska's public lands in order *not* to develop them until ... they see fit. [emphasis in original] (quoted in Fischer, 1975: 131)

Delegates clearly had Bartlett's ideas in mind when they drafted Article VIII, section 1 of the Alaska Constitution, which reads, "It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest"; and section 2: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters for the maximum benefit of its people." But as a consensus document, the language is suitably vague. To some Alaskans, state ownership of petroleum and other resources gave the government the opportunity to push aggressively for specific utilization and development projects that were deemed in the public interest. This perspective is closely aligned with the so-called *owner-state* model of governance championed by former governor Walter Hickel (2002). To others, the public interest was better served with the state taking a more passive stewardship role, leaving development decisions to private initiative and market forces.

Alaska's royalty-in-kind program resembles production-sharing contracts popular in the developing world in the sense that they reserve a share of the state's oil and gas to the state landowner for disposal to promote economic development. However, Alaska, like the federal government and other U.S. states, never considered creating a state oil company or entering the oil production business. The practice since statehood has been to lease lands competitively to private developers in arms-length transactions, much as economists argued was appropriate for federal lands (McDonald, 1979). The state retains a royalty share from its leases.[2] Alaska law permits the Department of Natural Resources to take its royalty oil and gas in kind or in value (that is, letting the oil companies market it on behalf of the state). Many Alaskans believed that maximizing revenue from oil lands was the only legitimate role for the state. Others, however, favored taking the state's royalty share in kind and making it available to specific projects that would provide additional private-sector jobs, and possibly stimulate additional development. Jack Roderick, Commissioner of Natural Resources for Alaska's first governor, Bill Egan, reported that the governor saw a dual role for royalty-in-kind disposals: job creation and reduced costs for Alaskans. Roderick (1997: 401).

In this regard Alaska, differed from other states and the federal government, where the primary purpose of a royalty-in-kind option was to maximize revenue. Like production sharing contracts in developing countries, Alaska's choice to dispose of royalties in kind for any purpose other than revenue maximization subjected the program to charges of political favoritism, and potentially, corruption. This is exactly what transpired the first time that the Commissioner of Natural Resources entered into a royalty-in-kind contract during the first term of Governor Hickel, who followed Egan. In February 1969, Commissioner Kelley negotiated a deal to sell all the state's Cook Inlet royalty oil up to 15,000 barrels per day for eight years -- at that time all the state's royalty oil -- to a company called Alaska Oil and Refining Company. The company, which

---

[2]In 1979 Alaska's oil and gas leasing law was changed to give the state the option of net profit share leases that do not include a royalty share. However, that provision was used only one time -- in the 1979 Beaufort Sea sale -- and has not been used since. According to a former petroleum economist with the Department of Natural Resources, one reason that the state did not use its net profit share lease option is that these leases do not provide the state with royalty oil for disposition (Ed Phillips, personal communication).

appeared to have been created entirely for the purpose of purchasing Alaska's royalty oil, promised to build a refinery in Alaska and pay the state the same price for its oil as the producers received for theirs (the so-called in-value price). Suspicions deepened when the company merged five months later with Tesoro, a small independent oil company. Tesoro did immediately begin construction of a refinery to process the oil in Nikiski, north of Kenai, but the lack of transparency in the negotiations leading to the sale rankled legislators and created lingering doubts about whether the public interest had been served (Roderick, 1997: 248-249).

The euphoria over the $900 million brought in by the 1969 North Slope oil lease sale quickly diverted public attention from the Tesoro case. But legislative debate about the propriety of the 1969 royalty disposal continued, spilling over into the larger question of the appropriate state role in the Trans-Alaska Pipeline System (TAPS) and other projects involving North Slope oil and gas. According to Roderick, things came to a head in a September 1973 special legislative session called by Gov. Egan (elected again after Hickel resigned) to address these issues. Roderick (1997: 367) called this a pivotal time in Alaska's political history, one of two times when the relationship between the state and the oil industry changed in a significant way.[3] Legislators dropped a proposal for a 20 percent equity ownership in TAPS and a right of way leasing law that could set tariffs, and raised severance taxes instead. The following year, the legislature rewrote the statutes governing royalty-in-kind disposals, in a bid to ensure transparency of negotiations for future sales of royalty oil and gas from Prudhoe Bay.

The 1974 statute set criteria and standards for the Commissioner of Natural Resources to meet in royalty-in-kind disposals (AS38.05.183). Royalty-in-kind disposals must be competitive unless the state's best interest required that they be noncompetitive (AS 38.05.183(c)), and earn at least as much as if the oil were taken in-value. Instate domestic and industrial needs had priority over export sales of royalty-in-kind oil and gas (AS 38.05.183(d)). AS 38.05.183(e) defined the constitutionally required "maximum benefits" to the state as based on cash, effects on the economy, benefits of instate processing, provision of products to benefit instate consumers, and specific criteria related to local economic development benefits. The 1974 statute also created a Royalty Oil and Gas Development Advisory Board (ROGDAB) which would hold public hearings on proposed sales, review benefit claims against the statutory criteria, and recommend to the legislature whether to ratify contracts (AS38.06).

The changed climate favoring transparency was evident in the way that governor Jay Hammond, who succeeded Egan, announced the next proposed royalty-in-kind sale: a proposal to sell Prudhoe Bay royalty gas in support of an "All-Alaska Pipeline."[4] In a statewide radio address, the governor carefully articulated the reasons for his best-interest finding. The rationale included how delivery of gas to tidewater improved the chances of using the gas for industrial purposes in Alaska, an assurance that royalty gas in-kind removed in Alaska would not be subject to federal regulation, and a negotiated "takeback" provision if a need developed for in-state use of the gas (Hammond, 1976). By the time Hammond left office in 1983, his administration had sufficiently institutionalized royalty disposals that his deputy commissioner, Geoffrey Haynes, found

---

[3]The other time was in 1981, when the legislature bowed to oil company pressure to revise its tax code.

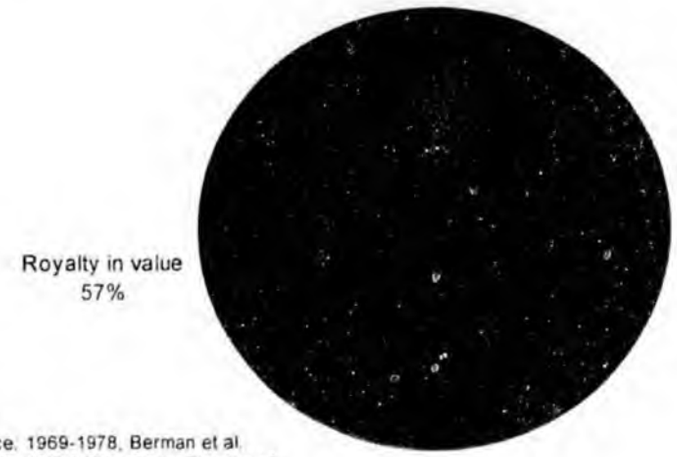
[4]The purchasers of the proposed contract were Tenneco (50% share), Southern Nat. Gas. Co. (25%), and El Paso Natural Gas Company, (the pipeline sponsor (25%). The contract was approved but never implemented because El Paso did not receive federal certification for the project.

it necessary to write a thick handbook explaining the process for the incoming commissioner (Haynes, 1983).

Summary of Disposals

Between 1969 and 2003, slightly more than one-half of all Alaska state royalty oil was taken in-kind (Figure 2). Relatively little gas was taken in kind, however, despite several attempts[5] The state sold 10.4 billion cubic feet -- about one-half of one-year's worth of Cook Inlet royalty gas -- to the local gas distributor, Alaska Pipeline Company (Enstar), from 1977 to 1984 (Division of Oil and Gas, 2004: 5.1).

Figure 2. Disposition of Alaska Royalty Oil, 1969-2003



Source: 1969-1978, Berman et al. (1984); 1979-2003, Alaska Division of Oil and Gas Annual Reports

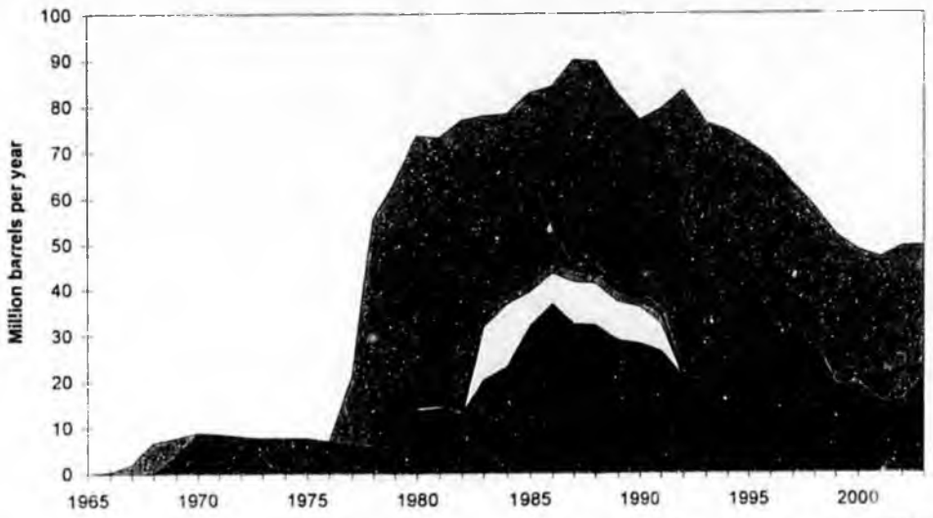
Figure 3 shows the distribution over time of state royalty oil and the disposals by purchaser. Oil production began in 1958 on federal lands in the Cook Inlet region. Alaska received 90 percent of the revenue from this production but did not control disposition. Production on state-leased lands generating royalties for potential disposal in-kind commenced in 1966. State royalties dramatically increased with completion of TAPS in 1977. Figure 4 shows the distribution of cumulative Alaska oil royalty-in-kind disposals by purchaser through 2003. Two instate refiners -- Tesoro and Mapco (later Williams and now Flint Hills) -- each purchased nearly 40 percent of oil royalty-in-kind oil. Chevron (also an instate refiner), purchased another 10 percent. Two percent was sold to Golden Valley Electric Association (GVEA) -- the Fairbanks area electric utility -- for turbine fuel.[6] Itogether, 94 percent of royalty-in-kind oil was sold to promote instate use, with the remainder sold in competitive auctions. Not all royalty disposals, as we shall see below, successfully served their intended purpose.

---

[5]In addition to the All-Alaska gas pipeline sale mentioned above, several natural gas pipeline companies and Dow-Shell acquired options to purchase large quantities of North Slope natural gas and gas liquids, but never exercised their options. This project is discussed further in the next section.

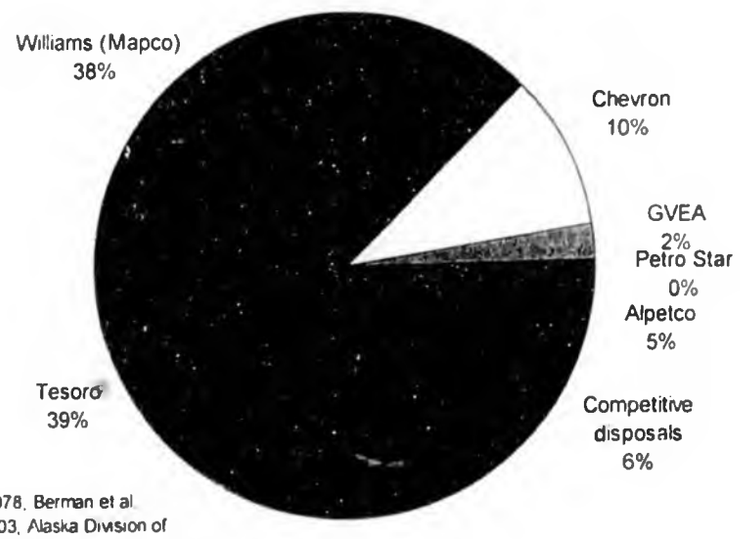
[6]GVEA never took physical custody of the oil, but swapped the crude oil in exchange for refined turbine fuel from Mapco (Alaska Division of Oil and Gas, 2004: 5-2).

Figure 3. Disposition of Alaska Royalty Oil



Source: 1969-1978, Berman et al (1984), 1979-2003, Alaska Division of Oil and Gas Annual Reports

Figure 4. Distribution of Alaska Royalty-In-Kind Oil, 1969-2003



Source: 1969-1978, Berman et al (1984), 1979-2003, Alaska Division of Oil and Gas Annual Reports

Evaluation of Royalty-in-Kind Dispositions

In order to evaluate the success or failure of Alaska's royalty-in-kind program, one needs answers to four main questions. The first and most obvious question is: "What facilities were constructed related to the program?" A second question would be, "What facilities were proposed and supported with RIK disposals but never opened for business? Third is the question of how much it cost the state and the taxpayers. How much more money might the state have made if they had sold all oil competitively? Finally, what can be said about the degree to which RIK oil and gas contracts might have been necessary to get the facilities constructed or their operations successful?

Facilities constructed

When Alaska entered the union in 1959, no oil and gas processing facilities existed anywhere in the state. All petroleum products were imported from the lower '48 states or abroad, and there was no natural gas distribution system.[7] Table 1 summarizes Alaska oil and gas processing facilities constructed between 1959 and 2004. The table shows that many of the early Cook Inlet facilities were constructed without the benefit of any state royalty oil or gas. Chevron constructed the first modern oil refinery in Alaska in 1963, although the company did purchase some royalty oil later. Faced with the need to make large expenditures to convert the refinery from Cook Inlet to North Slope feedstock as Cook Inlet production declined, Chevron closed and dismantled the plant in 1991, after 27 years in operation.

Other Cook Inlet facilities constructed in the early years, in addition to the Tesoro refinery mentioned above, were the Phillips-Marathon LNG plant and an ammonia-urea fertilizer plant, using natural gas as feedstock. The Collier Chemical Company, later merged into Unocal, built the fertilizer plant to serve Pacific Rim demand. Unocal sold the plant to Agrium in 2000. After North Slope oil started flowing through TAPS, two oil refineries were built near Fairbanks and a third was constructed in Valdez. All three take oil from TAPS, refine it into products for Alaska markets, and return the residual back to the TAPS oil stream. They pay a fee, called a Quality Bank adjustment, for reducing the quality of the oil stream. Earth Resources (later Mapco), a partnership involving the Doyon regional native corporation, built the largest of these refineries. The Mapco refinery, later sold to Williams, which recently sold it to Flint Hills, has been expanded several times over the years. Arctic Slope Regional Corporation, another Alaska Native regional corporation, owns an interest in Petro Star, the operator of the other two TAPS refineries.

---

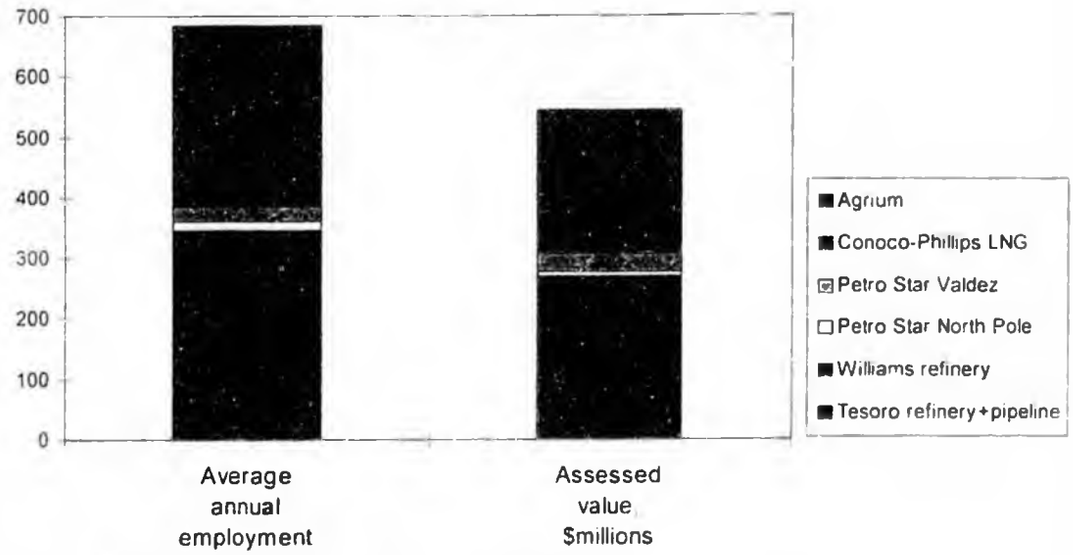
[7]A small oil refinery had been operation in Katalla in the early part of the 20th century but burned down in the 1930s (Rakestraw, 2002).

Table 1. Alaska Oil and Gas Processing Facilities Constructed

Owner	Location	Start	Feed-stock	Capacity	Royalty-in-kind	Products	Destination	Status (2/2005)
Conoco-Phillips	Prudhoe Bay	1975?	Crude oil	14,000 b/d	No	Diesel	Prudhoe Bay	Operating
Conoco-Phillips	Kuparuk	1981	Crude oil	14,000 b/d	No	Diesel	Kuparuk	Operating
Flint Hills (Williams/Mapco)	North Pole	1977	Crude oil	220,000 b/d	yes	Gasoline	Alaska	Operating
						Jet fuel	Alaska	
						Diesel	Alaska	
						Gas oil	Alaska	
						Asphalt	Alaska	
						Residual	Returned to TAPS	
Petro Star	North Pole	1985	Crude oil	15,000 b/d	Yes	Kerosene	Alaska	Operating
						Jet fuel	Alaska	
						Diesel	Alaska	
						Residual	Returned to TAPS	
Petro Star	Valdez	1992	Crude oil	46,000 b/d	Option, not exercised	Jet fuel		Operating
						Diesel		
						Residual	Returned to TAPS	
Tesoro	Nikiski	1969	Crude oil	72,000 b/d	Yes	Gasoline	Alaska	Operating
						Jet Fuel	Alaska	
						Diesel	Alaska	
						Fuel oil	Export	
						Asphalt	Alaska	
						Propane	Alaska	
						Sulfur	Lower '48	
						Residual	Lower '48, export	
Chevron	Nikiski	1963	Crude oil	18,000 b/d	Initially no, later yes	Naptha	Lower 48	Closed in 1991
						Jet fuel	Alaska	
						Diesel	Alaska	
						Fuel oil	Lower '48	
						Asphalt	Alaska	
Conoco-Phillips-Marathon	Nikiski	1969	Natural gas	235,000 Mcf/d	No	Liquefied Natural Gas	Japan	Operating
Agrium (Unocal/Collier)	Nikiski	1969	Natural gas	160,000 Mcf/d	No	Ammonia	Export	Operating below capacity
						Urea		

Figure 5 illustrates the magnitude of the benefits to the Alaska regional economy generated by the facilities listed in Table 1. In 2003, the six major facilities employed 685 workers on an average annual basis. Agrium was the largest employer, with nearly 40 percent of the total, followed by Tesoro. The jobs generate a payroll of roughly $550 million annually (precise figures are considered proprietary). The contribution that these facilities make to the local property tax base is about equal to the annual payroll. Alaska has no state property tax for oil and gas processing facilities, but all these facilities are located in local governments -- the Kenai Peninsula Borough, the Fairbanks North Star Borough, and the city of Valdez -- that levy property taxes to support schools and other local government activities. Tax rates vary by jurisdiction, but these capital-intensive plants have probably allowed the boroughs to reduce their overall tax rates somewhat.

Figure 5. Employment and Assessed Value in Alaska Oil and Gas Processing, 2003



Sources: Employment: Alaska Department of Labor, Research and Analysis; Property Tax Assessments: Kenai Peninsula Borough, Fairbanks North Star Borough, City of Valdez Assessors

The economic benefits that Figure 5 summarizes leave out information for the two small North Slope, built by Arco Alaska (now Conoco-Phillips) to serve oilfield operations. Figures for employment and assessed value for these refineries are relatively small and not separately reported from those of the oil production operations.

Facilities proposed but not constructed

Table 2 summarizes Alaska oil and gas transportation and processing facilities that were proposed, and supported by royalty-in-kind disposals, but never constructed. All three were massive undertakings conceived during the national energy crisis in the late 1970s. None of the three could meet a market test after oil and gas wellhead prices were deregulated in the early 1980s.

Alaska Petrochemical Company (Alpetco) was the winning bidder in the first solicitation for offers to purchase royalty-in-kind oil from Prudhoe Bay. Alpetco, a

partnership of Alaska Interstate (later Enstar) (60%), Alaska Consolidated Shipping (itself a consortium of Native corporations and Seatrain) (20%), and Barbour Oil (20%), proposed to build a world-scale oil-based petrochemical plant (see Table 2). The plant, to be located at tidewater in Southcentral Alaska, would produce up to 2.1 million pounds per year of polyethylene, polypropylene, styrene and similar products. It would cost an estimated $1.5 billion to build, and require an additional $400 million of working capital, ultimately generating a $2.3 billion tax base. Construction would require 3,500 to 4,000 temporary workers, while operations would generate 2,000 permanent jobs (Alaska Petrochemical Company, 1977). In 1978, the state agreed to sell up to 150 thousand barrels per day (Mb/d) of royalty oil for 27 years to support the project. After review by the ROGDAB, the legislature approved the contract, with minor amendments (Haynes, 1983).

Table 2. Proposed Alaska Oil and Gas Facilities Not Constructed, Receiving Royalty-In-Kind Contracts or Options

Owner	Location	Start	Feedstock	Capacity	Royalty-in-kind	Products	Destination
El Paso Natural Gas	Prudhoe Bay to Valdez	1978	Natural gas	2 billion cf/d	Option, not exercised	Liquefied Natural Gas	Lower '48
Alaska Oil Co. (Alpetco)	Valdez	1977	Crude oil	150,000 b/d	Yes, renegotiated	Polyethylene	Lower '48, export
						Polypropylene	Lower '48, export
						Styrene	Lower '48, export
Alpetco	Valdez	1980	Crude oil	100,000 b/d	Yes, terminated	Naptha	Lower '48, export
						Olefins	Lower '48, export
Dow-Shell	Valdez	1982	Natural gas liquids	210,000 b/d	Option, not exercised	Ethylene	Lower '48, export
						Polyethylene	Lower '48, export
						Ethylene glycol	Lower '48, export

In early 1980, U.S. oil markets were deregulated, rapidly changing the market outlook for Alaska oil. That May, the parties agreed to Alpetco's request to amend the contract to construct. By then, the project's sponsor had changed to the Alaska Oil Company, whose major partner was Charter Oil, a Caribbean refiner. Alpetco's new partnership proposed a 100 Mb/d refinery in Valdez to produce Naptha and Olefins for further processing elsewhere. Alpetco would receive 75 Mb/d beginning July 18, 1980, until the refinery was operational. At that point, the volume would rise to 100 Mb/d. The market outlook continued to deteriorate for Alpetco's project. One year later, the company abandoned its refinery project, and its contract was terminated in January 1982.

As mentioned above, the state entered into a contract to sell Prudhoe Bay royalty gas to a consortium including El Paso pipeline, the sponsor of the All-Alaska gas pipeline project. When the federal government selected the Alaska Natural Gas

Transportation System (ANGTS) as the preferred route for the project, a second proposal emerged for a natural gas liquids (NGL) pipeline following the route El Paso had proposed. After reviewing proposals from several contenders, the state selected a consortium headed by Dow Chemical and calling itself the Dow-Shell Group to perform a detailed feasibility study of the project. As outlined by the proposers, the project would manufacture 210 Mb/d of ethane and liquified petroleum gasses (LPG) -- propane, butane, etc. -- into petrochemicals for export (Dow-Shell Group, 1980; 1981). The project entailed a complex of four interrelated facilities costing roughly $7 billion, including:

1. a $1 billion plant on the North Slope to extract NGLs from produced gas;
2. a 20" pipeline from Prudhoe Bay to Valdez or Cook Inlet, costing $2.3 billion;
3. a $175 million fractionation plant to separate ethane from the LPGs;
4. a petrochemical plant using 90Mb/d of ethane feedstock, costing $3.5 billion.

The petrochemical infrastructure would develop in two phases. In phase 1, the plant would have the capacity to produce up to 4 million lbs/year of ethylene, polyethylene, and ethylene glycol. In phase 2, capacity would expand to produce another 3.5 million pounds of derivative products. Peak construction employment would top 11,000, while 3,500 permanent workers would be needed for operations in phase 1, and 6,800 in phase 2.

In addition to a commitment from the state to sell its entire royalty share of NGLs, Dow-Shell had obtained a right of first refusal from Arco, and an agreement to negotiate in good faith with Sohio. Exxon, the other major North Slope owner, refused to negotiate with Dow-Shell, and instead pursued its own feasibility study. Dow-Shell's (1981) detailed feasibility study concluded that crude oil prices would have to remain at $38 (in 1981 prices) to make the NGL pipeline feasible. Shortly after releasing the feasibility study, world oil prices started to decline. Dow-Shell backed out of the project in 1982, citing adverse market trends.

The first North Slope royalty-in-kind solicitations and the Alpetco and Dow-Shell bids spawned much debate among Alaskans about whether petrochemical development at this scale was appropriate for the state. Although no royalty hydrocarbons ever made their way into a petrochemical product, the official deliberations created a litany of engineering and market feasibility studies. Mostly funded by the state, the state's urgent need to understand the parameters and implications of the industry spread a windfall to engineering firms and other consultants in the state and around the nation.

Since the Alpetco-Dow-Shell episode, state officials have been more cautious about approving royalty oil and gas sales other than for in-state refining. Several gas and NGL offers have been made in recent years. Agrium requested Cook Inlet royalty gas at a low price, but the state balked with other gas purchasers objected. Williams once expressed interest in buying North Slope NGLs for a petrochemical plant, but backed out before making a formal offer when it determined that transportation costs made it infeasible to ship ethylene or polyethylene to the Japanese market.[8] The state continues to get expressions of interest, some more credible than others. The state has not kept a comprehensive record of denied requests. According to Kevin Banks, manager of the

[8]The state has also recently tried to use its royalty gas a leverage to shape the course of negotiations over a North Slope natural gas pipeline. Anadarko and Encana were awarded contract for the option to take up to 70% of the state's North Slope gas royalty share, giving them a right to claim capacity of a common pipeline carrier. The idea was to force the main North Slope producers to increase the design capacity of the pipeline to encourage gas exploration.

program for DNR, most smaller traders lose interest as soon as they see the bureaucratic process involved in obtaining a best-interest finding that is required to complete a sale (Kevin Banks, personal communication, 8/05/04).

How much did RIK disposals cost the state?

By statute, the state must earn at least as much from a royalty-in-kind disposal as it would earn if the oil had been taken in-value: the default method. No one has ever challenged a sale on the grounds that it failed to achieve this statutory requirement. So leaving aside the administrative cost of the analyses leading to the requisite best-interest findings, one could argue that the burden or proof would be on detractors to prove that the program has cost the state anything at all. In truth, however, the question is not so easy to answer.

Most royalty-in-kind disposals involved contracts with a pricing provision that specifies that the purchaser will pay the royalty-in-value price, or a slight premium above it. While this should in principle have guaranteed that the state not lose money on RIK sales, the state and producers have been in litigation over some aspect or another of in-value royalty accounting for more than 25 years (the so-called Amerada-Hess case). Various aspects of the lawsuit have been settled out of court, but not until years had passed from the royalty sales. Limitations of contracts and the passage time have made it difficult if not impossible for the state to collect from all past royalty purchasers when it receives retroactive payments from producers in an in-value settlement. The state must negotiate a separate settlement for each contract (assuming that the firm that held the contract is still in business). The price in the most recent contract with Williams (Flint Hills) is not directly tied to the in-value price. A full and accurate retrospective accounting of the RIK program would be a monumental undertaking.[9]

Arguably, however, the correct test should not be based on in-value prices but on whether the state *expected* to receive at least as much over the long term from its RIK sales as it could have *expected* to have received from the *best opportunity available at the time.* Unfortunately, there are also many reasons why the comparison of expected sales receipts to the opportunity cost would be difficult to make over the years. Why this might be true will become clearer after a brief historical review of the supply and demand for Alaska's oil, natural gas, and manufactured hydrocarbon products.

First of all, most RIK disposals are long-term contracts. Available market indicators for oil and gas reflect short-term, or spot prices. The spot market is extremely volatile, and often diverges substantially from long-term conditions. The outcomes of the state's few competitive short-term disposals illustrate the difficulty of comparing the two markets at any given time.

As illustrated in Figures 3 and 4, the state sold about 6 percent of its oil in competitive sales, totaling about 50 million barrels. In the first North Slope competitive sale, held in 1981 at a time when the state believed that the in-value price was below the true market value, the average premium of winning bidders was $2.57 above in-value. All purchasers in this contract ended up losing money. When it came time to start taking the oil several months later, prices had slid, sending one firm into bankruptcy and causing another to default (Haynes, 1982). Over the life of the one-year contracts, I estimate that the state had received less than $1.82 on average above in-value, not

[9]DNR staff did at one time attempt to construct a retrospective analysis of in-kind vs. in-value sales prices for royalty oil. However, this analysis was never published, due to doubts among agency staff about its accuracy (Kevin Banks, personal communication).

counting substantial legal costs to settle with the largest purchaser. Desiring to avoid repeating this experience in the next competitive sale (1985), the state allowed purchasers an option of early termination. Only three of seven contracts in that sale lasted the full year. The state also offered up to 4,000 barrels a day in competitive sales of Cook Inlet oil for export, beginning in 1987, with a Taiwanese company picking up the contract. In 1991 after the eruption of Mt. Redoubt temporarily shut down operations at the Cook Inlet westside oil terminal, the company claimed *force majeure* and backed out of the contract.

Second, both spot and long-term markets for Alaska oil have been replete with market distortions, causing the value of Alaska oil to diverge from what free competitive markets would signal. These distortions arose from federal and state regulation, combined with imperfect competition. Between 1974 and 1980, the federal government controlled wellhead oil prices throughout the nation. Cook Inlet and North Slope oil had different regulatory status and traded at very different prices.[10] When Congress authorized TAPS in 1973, it prohibited exports of Alaska oil. This created a surplus of oil on the U.S. west coast, which kept prices for Alaska oil from rising as fast after deregulation as they did elsewhere. Shipping between U.S. ports was subject to the Merchant Marine Act of 1920 (Jones Act), which required that products move in U.S.-built tankers operated by U.S. crews. This increased shipping costs substantially and further depressed Alaska wellhead prices.

The major Alaska oil producers enjoyed significant market power in west-coast markets. Rather than engage in arms-length sales that might reveal the profitability of their Alaska production, these firms sold most of their Alaska oil to their own refineries at artificial transfer prices. One way that they used their market power was to divert some oil through the Panama Canal to the U.S. gulf coast at an apparent loss, in order to relieve downward pressure on west-coast prices. Alpetco had proposed its refining and petrochemical project in the midst of these distortions. Refined products, unlike crude oil, could be exported in foreign vessels at unregulated competitive prices. Export refinery economics were therefore based on a series of market distortions created by the combination of the export ban on crude oil, the resulting west-coast surplus, the lack of transparency in netback prices, and the ability to avoid the Jones Act. When just one of these pillars of this structure gave way -- wellhead price regulation -- the project was revealed to be uneconomic, and started to unravel.

Still another regulatory artifact affecting in-value in oil prices and the value of RIK oil relates to price adjustments for oil of differing characteristics. TAPS ships oil commingled from several different fields with varying chemical properties. Fields producing lower quality oil pay a fee into a Quality Bank, which pays out to fields producing higher quality oil. Alaska refineries at North Pole and Valdez also pay into the Quality Bank when they discharge their residual oil back into TAPS. The Quality Bank charges, like other aspects of royalty pricing, reflect a legal settlement that mediates conflicting interests over a variety of issues. The state obtained a Quality Bank settlement that favored the TAPS refineries, to the displeasure of the refineries' main competitor: Tesoro.

---

[10] In 1980, when Congress deregulated oil prices, it passed the Windfall Profits Tax. This tax had a variable rate depending on the previous regulatory status of the oil. Cook Inlet oil was taxed at the highest rate (90% of the difference between the market and the previous regulated price). State royalty oil was exempt from taxation. The tax phased out when the oil market collapsed in 1986.

The history of Alaska natural gas markets is likewise convoluted. Cook Inlet gas was mostly developed during the era of wellhead price regulation. Under wellhead price regulation, consumer prices were based on historical cost, without reference to current supply and demand conditions. During the late 1970s, this practice resulted in acute gas shortages in lower '48 states, leading to passage in 1978 of the Natural Gas Policy Act (NGPA). NGPA further extended regulation to allocate gas to preferential uses. Alaska won an exemption from some aspects of NGPA, allowing it to continue process natural gas into fertilizer and LNG for export, as well as burn gas to generate electric power, as these activities were being curtailed elsewhere in the nation. It was in this environment that the NGL-based petrochemical project appeared. Petrochemicals manufactured from NGLs were exempt from price regulation. If exported, they could also avoid the Jones Act shipping cost penalty. The phased deregulation of natural gas in the 1980s began shifting U.S. natural gas supplies toward higher-valued uses. Concurrently, Dow-Shell lost interest in its Alaska petrochemical project.

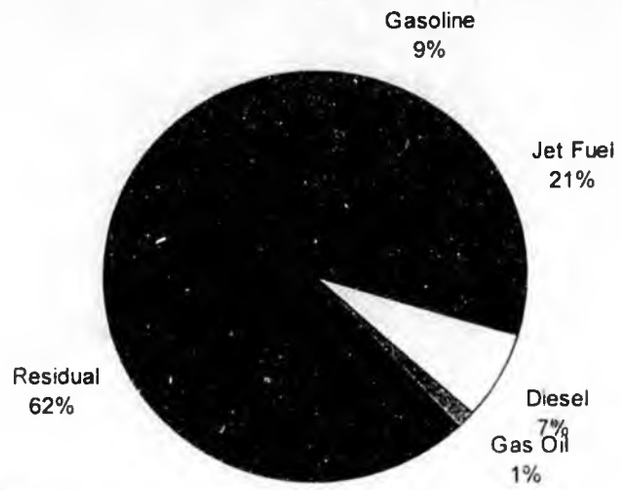
These array of distortions in oil and gas markets make it extremely difficult to determine ex-post whether the state's expected revenues from RIK sales matched or exceeded the expected revenues from the best alternative option. It would have been impossible to expect that the state could have made this determination at the time. It remains unclear that the program made any significant difference in the royalty revenues that would otherwise have been received. The slight premium over in-value prices must be balanced against the cost of administration, especially in dealing with the failed contracts.

Role of RIK contracts

If the net cost of the program was small, one must ask, then, whether the program produced any significant economic benefits for the state and for society? If so, were the RIK contracts important to the success of projects that generated these benefits? Arguably, the wages and taxes paid were just reallocations of economic activity and did not consist of true benefits. Alaska is an open economy, with net migration balancing labor markets relatively quickly. Workers constructing and operating Alaska oil and gas processing plants probably would not have moved to Alaska if these plants had not been built. Once here, they need more local government services which the larger tax base can provide. The local economy is larger, but economic well-being has improved relatively little.

What about benefits to Alaska consumers from import substitution? Figure 6 shows the approximate distribution of products produced. These percentages varied over time depending on market conditions, and the exact distribution at any given time is proprietary. However, the figure gives a snapshot of the approximate product mix. The largest share of production is residual oil, which is all exported from the state into competitive world markets. Three products -- jet fuel, gasoline, and number 2 diesel -- dominate the output of Alaska refineries marketed within the state.

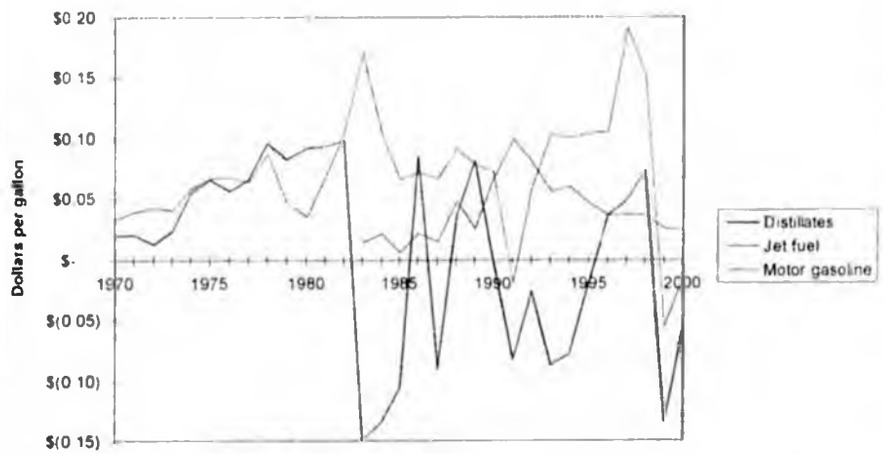
Figure 6. Approximate Alaska Refinery Product Percentages



Source: estimated from Alaska Division of Oil and Gas Annual Reports and data provide by the refining companies

Figure 7 compares price differentials over time calculated from EIA data for distillate fuels (diesel), jet fuel, and motor gasoline. The five to ten-cent premium in the 1970s largely reflects the transportation cost differential. After 1980, competition between Mapco and Tesoro appears to have periodically given Alaska consumers substantial diesel price savings of up to $0.20 per gallon. Substantial gasoline price savings also appeared in 1991 and again after 1998. Jet fuel prices have also been drifting down since 1991, at a time when Alaska refineries have continued to raise jet fuel production, suggesting a benefit from competition of a few cents per gallon. The price differentials in Figure 7 show no huge savings, but do suggest that Alaska consumers and businesses have benefited measurably from the competition among Alaska refineries.

Figure 7. Alaska-Washington Price Differentials for Selected Petroleum Products, 1970-2000



Source: EIA, total energy consumption, transportation sector

If RIK contracts did not involve a subsidy, then were they really needed for the success of the projects they supported? Royalty-in-kind contracts at fair market value provided three direct benefits to the purchasers. First, the long-term contracts provided an element of security from the volatility of spot oil markets. Large integrated oil producers enjoyed this advantage, and the state's contracts helped level the playing field for independent refiners like Tesoro and Mapco. The security from spot market fluctuations played a significant role in financing refinery expansion. For example, in 1992, Petro Star obtained an option to buy RIK oil to start a refinery in Valdez. After it was able to obtain financing, the company decided it did not need the oil, and elected not to exercise its option (Alaska Division of Oil and Gas, 2004L 5-2). A second, related advantage that the contracts provide independent refiners is the diversification of supplies, in particular, a source outside major oil company control. The major North Slope producers may be perceived to have a vested interest in restraining competition in the west Coast market, which includes Alaska. Once it was clear that the new refineries were going to be built, the producers appeared to have been willing to sell them oil at competitive prices.

If RIK contracts have these advantages, then why has the state not elected to take more of their oil and gas in-kind? In general, according to DNR staff, the refiners have not asked for more oil. They pay a slight premium for long-term contract, and appear comfortable with buying the rest of their need from the producers (Kevin Banks, personal communication).

Conclusions: Lessons Learned

Alaska's royalty-in-kind program has fostered the development of a local refining industry. The refining plants have employed relatively few workers but contributed significantly to local tax bases. Competition from Alaska refiners appears to have provided benefits to Alaska consumers and businesses. Instate refining has not only made a direct value-added contribution to the economy, it presumably has made an indirect contribution to diversification by substituting instate-manufactured fuel for imported fuel with at least some reduction in price. Since many important Alaska industries are fuel-intensive, any reduction at all in their fuel costs is potentially significant.

Political pressure to give away the state's resources to project sponsors promising economic benefits has been muted by the state's dependence on royalty revenues. The constitutional amendment that created the Permanent Fund requires that at least 25 percent of royalty revenue be deposited into the fund. The distribution of Permanent Fund Dividends to residents ensures that citizens, not just politicians, have a direct stake in the tradeoff between development and revenues. The Permanent Fund Dividend effect will likely protect the transparency that the program has enjoyed since the 1974 legislative amendments.

The successes and failures of the program suggest four lessons for development policy for Alaska and elsewhere. The first lesson is an affirmation of the benefits of transparency. A bad proposal is likely to wither under public scrutiny. Alaska was very fortunate to have avoided the potential economic disaster that would have occurred if it

had embarked on either of the massive proposed petrochemical development schemes. Because cautious state officials had built milestones that Alpetco and Dow-Shell had to meet before they received additional help, both companies withdrew from their contracts early before they could inflict serious losses on the state.

The second lesson is that projects that rely on free market forces are more likely to succeed in the long run than projects built around regulatory policies or economic distortions. Market distortions are inherently arbitrary and ephemeral. They can change rapidly due to factors unrelated to Alaska conditions or to global supply and demand. The political risk of relying on these incentives only compounds the inherent economic risks that all projects face.

A third lesson to draw from Alaska's RIK program is that import substitution is as effective as exports for providing economic benefits. In some cases, import substitution can be preferable, as in the case of Alaska fuels, where it might reduce the cost of a critical imported input to a broad range of industrial activities.

The final lesson is that projects that can start at a small scale and expand gradually over time are more likely to succeed than ones that require a huge, risky up-front investment. Alaska's main refineries all started relatively small, and have made a series of upgrades over the years to keep pace with market opportunities. Today, the combined capacities of the two largest refineries substantially exceed the proposed size of Alpetco's export refinery. But unlike Alpetco, which had to raise $1.5 billion at one time, Tesoro and Mapco and its successors had two decades over which to raise a comparable sum.

References

Alaska Petrochemical Company. 1977. Preliminary proposal to purchase Alaska State royalty crude and to construct a petrochemical refinery complex in Alaska. Houston: the Company.

Berman, Matthew, Eric Myers, Will Nebesky, Karen White, and Teresa Hull. 1984. *Alaska Petroleum Revenues: the Influence of Federal Policy*. Anchorage: Institute of Social and Economic Research.

Cooley, Richard. 1963. *Politics and Conservation: the Decline of Alaska Salmon*. New York: Harper & Row.

The Dow-Shell Group. 1980. Petrochemical Development for Alaska: a Proposal. Midland, Mich., Dow Chemical U.S.A.

The Dow-Shell Group. 1981. Alaska Petrochemical Industry Feasibility Study : a Report to the State of Alaska. Midland, Mich., Dow Chemical U.S.A.

Division of Oil and Gas. 2004. *Annual Report*. Juneau: Alaska Department of Natural Resources.

Energy Information Administration, no date. *State Energy Data 2001: Consumption*. (http://www.eia.doe.gov/emeu/states/_use_multistate.html).

Fischer, Victor. 1975. *Alaska's Constitutional Convention*. Fairbanks: U. of Alaska Press.

Fried, Neal, and Brigitta Windisch-Cole. 2003. The Oil Industry. Alaska Economic Trends 23(9) (September): 3-12.

Hammond, Jay. 1976. *Alaska's Royalty Gas: a Statewide Radio Address*. Juneau: Alaska Office of the Governor, November 12.

Haynes, Geoffrey. 1983. *Review of Alaska Royalty Oil*. Juneau: Alaska Dept. of Natural Resources.

Hickel, Walter J. 2002. *Crisis in the Commons: The Alaska solution*. Oakland: ICS Press.

Kresge, David, Daniel Seiver, Oliver S. Goldsmith, and Michael Scott. 1984. *Regions and Resources: Strategies for Development*. Cambridge: MIT Press.

Lovejoy, W.F., and P.T. Homan. 1967. *Economic Aspects of Oil Conservation Regulation*. Baltimore: The Johns Hopkins Press for Resources for the Future.

McDonald, S.L. 1971. *Petroleum Conservation in the United States*. Baltimore: The Johns Hopkins Press for Resources for the Future.

McDonald, S.L. 1979. *The Leasing of Federal Lands for Fossil Fuels Production*. Baltimore: The Johns Hopkins Press for Resources for the Future.

Morehouse, Thomas, and Lee Huskey. 1992. Development in Remote Regions: What Do We Know? *Arctic*, 45(2) (June).

Rakestraw, Lawrence. 2002. *A History of the U.S. Forest Service in Alaska*. Juneau: U.S. Dept. of Agriculture, Forest Service, Alaska Region.

Roderick, Jack. 1997. *Crude Dreams: A Personal History of Oil and Politics in Alaska*. Fairbanks: Epicenter Press.

Rogers, George. 1962. *The future of Alaska; economic consequences of statehood*. Baltimore: The Johns Hopkins Press for Resources for the Future.

F.M.Scherer, Alan Beckenstein, Erich Kaufer, and R.D.Murphy. 1975. The Economics of Multi-Plant Operation: An International Comparisons Study. Cambridge: Harvard University Press.

Tuck, Bradford, Lee Huskey, Dona Lehr, and Eric Larson. 1988. *Alaska Economic Growth and Change: Opportunities for Import Substitution*. Anchorage: Institute of Social and Economic Research.

Tussing, Arlon, and Lois Kramer. 1981. *Hydrocarbon Processing: A Primer for Alaska*. Anchorage: Institute of Social and Economic Research

7

CURRENT COMMUNITY CONDITIONS:
FUEL PRICES ACROSS ALASKA
JUNE 2008 UPDATE

INTRODUCTION

Retail fuel prices have continued to climb across Alaska. While increased energy prices have benefitted the State of Alaska through increased treasury revenues, households, small businesses, and communities have been under extreme duress. This is especially true in remote rural Alaska where environmental and climate conditions are harsh and electric generation and home heating are rarely powered by sources other than diesel fuel. A recent study[1] indicated low-income households in remote rural Alaska may be paying 41% of their income on home energy use, compared to four percent for the average Alaska household. Additionally, the cost of goods, services, and subsistence activities are disproportionately high in remote regions due to the impact of high fuel costs on transportation and basic survival needs.

During June 2008 the Division of Community & Regional Affairs (DCRA) repeated a statewide survey of retail heating fuel and gasoline prices in a cross-section of 100 select Alaska communities first initiated during 2005 (*Community Conditions: Fuel Prices Across Alaska*). This report, *Current Community Conditions: Fuel Prices Across Alaska, June 2008 Update* summarizes fuel survey findings, discusses changes in fuel prices during the past six months, and provides a current and historical perspective of fluctuating fuel prices.

Of critical importance, this report details fuel prices in each community on the date of contact. Many communities in remote rural Alaska are still awaiting spring fuel shipments or selling the remainder of last year's fuel shipment at 2007 prices. The severity of fuel price increases in these communities will not be fully realized until spring fuel arrives and 2008 prices are implemented. Given what is being experienced in other rural remote Alaska communities, an overall price increase of approximately 30% - 50% in the cost of heating fuel is anticipated in communities where fuel vendors are selling last year's supplies.

[1] *Estimated Household Costs for Home Energy*, University of Alaska Anchorage, Institute of Social and Economic Research, 2008

METHODOLOGY

The DCRA Research and Analysis Section, in consultation with the Local Government Assistance Section, developed the survey instrument and community sample frame during 2005. Communities were strategically selected to represent differing socioeconomic conditions and all 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 during the recent past. Since a non-probability sampling method was utilized, this survey is considered a non-scientific study with results not generalizable to the entire population of rural Alaska communities. To accurately and consistently track longitudinal changes in fuel prices, the 2005 survey instrument and community sampling frame was used to collect 2006, 2007, and 2008 fuel information – the communities and questionnaire items remained the same from 2005 to 2008.

DCRA Research and Analysis staff implemented the survey instrument during June 23 - 25, 2008. In total, local fuel retailers from 100 communities were contacted (via telephone) and requested to provide current heating fuel (#1) and gasoline per gallon prices. Survey results are one-time measurements and representative of retail fuel prices on the particular day of contact. Heating fuel and gasoline prices may have changed between the time of contact and publishing of this report.

NATIONAL CONTEXT

In November 2007, federal analysts projected crude oil prices would average over $80 per barrel in 2008.[2] Prices have exceeded projections as crude oil prices have remained over $100 per barrel since early March and reached $140 by the end of June. Short-term estimates have been modified, with the average price per barrel now projected at $122 in 2008 and $126 per barrel in 2009.

In November 2007, the 2008 projected price per gallon for unleaded gasoline was slightly over $3.40 per gallon. The national average price per gallon on June 30, 2008 was $4.10 and is now projected to peak at $4.15 in August. As with crude oil, short-term projections have been modified, with the average price per gallon projected at $3.78 in 2008 and $3.92 in 2009.

Diesel fuel has risen at a faster rate than unleaded gasoline due to its strong demand in emerging markets. While unleaded gasoline increased from an average price of $2.81 per gallon in 2007 to $4.08 on June 16, 2008, diesel fuel has increased from an average price of $2.88 per gallon in 2007 to $4.69 on June 16, 2008. Short-term projections indicate diesel fuel prices will remain near $4.70 over the summer and average $4.32 per gallon in both 2008 and 2009.

[2] United States Department of Energy. Energy Information Administration
Note - All federal projections are based on calendar year (January 1 to December 31) cycles. Federal projections use West Texas Intermediate (WTI) crude pricing as its standard. The price per barrel for WTI crude may vary from Alaska North Slope (ANS) crude.

ALASKA CONTEXT: ALASKA NORTH SLOPE CRUDE

While generally unpredictable, Alaska North Slope (ANS) crude prices have shown a historical pattern of balancing over time. This was true for the period spanning Fiscal Year (FY) 1989 to FY 2002[3] when the annual average price of ANS crude consistently hovered between $12 and $28 per barrel. In the six years hence, the annual average price of ANS crude has jumped from $21.79 (FY 2002) to approximately $96.57[4] (FY 2008) per barrel, an increase of 443% (Figures 1 and 2).

Figure 1. ANS Price per Barrel (FY02 - FY08)

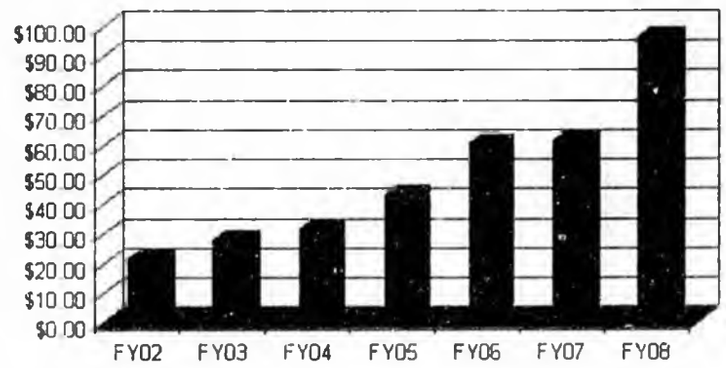
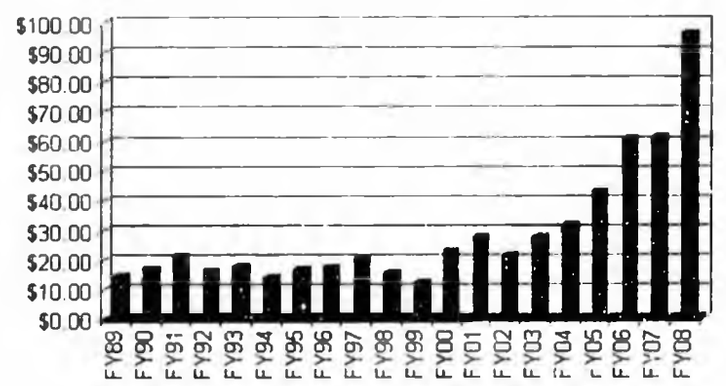


Figure 2. ANS Price per Barrel (FY89 - FY08)



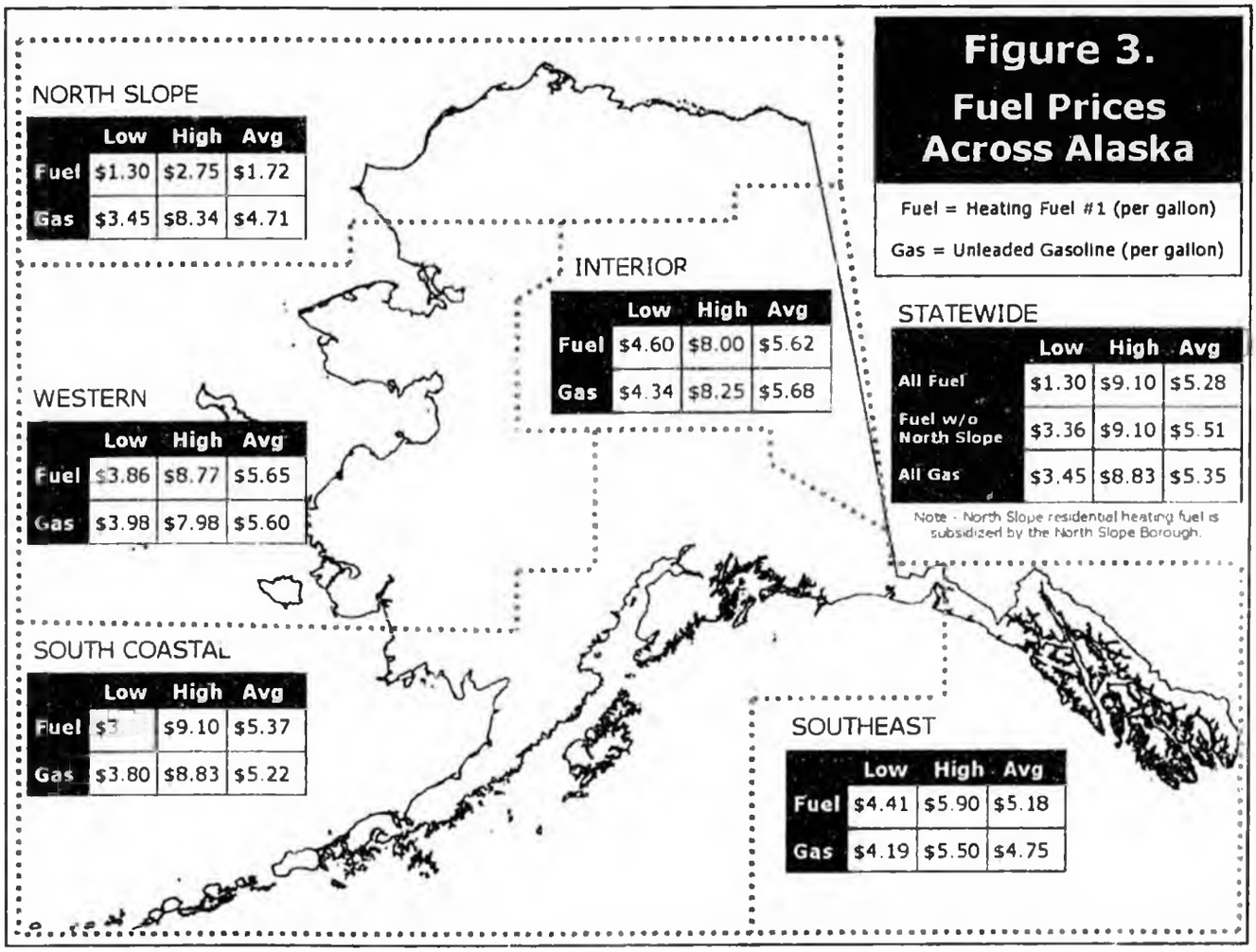
From FY 1989 to FY 2005, the average price of ANS crude went up from one month to the next slightly more often (55%) than it went down (45%). During FY 2006 to FY 2008, month-to-month price increases were more than twice as common (71%) as price decreases (29%). The effect has been even more pronounced lately, as month-to-month price increases have occurred five times out of six (83%) from July 2007 to June 2008.

Not only has the frequency of month-to-month increases been more pronounced, but the amount prices have increased from one month to the next has been unprecedented. Of the twenty highest month-to-month increases, 80% have occurred since the beginning of FY 2006. Of the six highest month-to-month increases, five have occurred since November 2007,[5] with increases ranging from $7.31 to $13.00. These increases pushed ANS crude to a record high of $139.46 on June 27, 2008 - nearly double what ANS crude had cost one year prior ($70.82 on June 27, 2007).

[3] Alaska Department of Revenue, Tax Division, http://tax.alaska.gov/
[4] FY 2008 average is an estimate based upon the daily West Coast price of ANS crude and should not be considered an official figure. All other annual averages are calculated by the Tax Division using a weighted average of sales to West Coast, Gulf Coast, and foreign destinations.
[5] In August 1990, the price of ANS crude increased by $10.44 over the previous month.

As unprecedented as the month-to-month changes have been, an analysis of daily ANS crude prices from January 1, 1999 to June 30, 2008 reveals day-to-day increases in price per barrel have also become more pronounced.[6] Of the 25 largest day-to-day increases during this period, 20 have occurred since October 25, 2007. The four largest day-to-day increases all occurred in June 2008 with the largest ($10.75, June 6, 2008) representing a one-day increase of greater significance than any month-to-month increase prior to May 2008.

CURRENT FUEL PRICES ACROSS ALASKA



[6] Alaska Department of Revenue, Tax Division, http://tax.alaska.gov/

As Figure 3 illustrates, average heating fuel prices per gallon vary across Alaska by region. Western Alaska communities report the highest average heating fuel retail price at $5.65 per gallon while North Slope communities report the lowest average retail price at $1.72 per gallon. Of noteworthy importance, the North Slope Borough provides free heating fuel for residential use through village corporations who distribute fuel to residents throughout the Borough, charging only a delivery fee on a per gallon basis. The North Slope Borough does not subsidize heating fuel for commercial use. Consequently, heating fuel retail price for commercial entities is significantly higher than residential use heating fuel (Table 1). Compared to other regions, and excluding the North Slope, Southeast Alaska communities experience relatively lower heating fuel prices indicated by an average price of $5.18 per gallon.

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

Community	Community Retailer	Heating Fuel Retail Price		Gasoline Retail Price
		Residential	Commercial	
Anaktuvuk Pass	Nunamiut Corporation	$1.30	$9.20	$8.34
Atqasuk	Atqasuk Corporation	$1.40	$4.10	$4.10
Barrow	BUEC, Inc.	Natural Gas	$4.65	$4.45
Kaktovik	Kaktovik Inupiat Corporation	$1.50	$4.95	$3.45
Nuiqsut	Kuukpik Corporation	$2.75	$3.95	$3.75
Point Hope	Tigara Corporation	$1.90	$5.05	$4.25
Wainwright	Olgoonik Corporation	$1.45	$5.84	$4.63

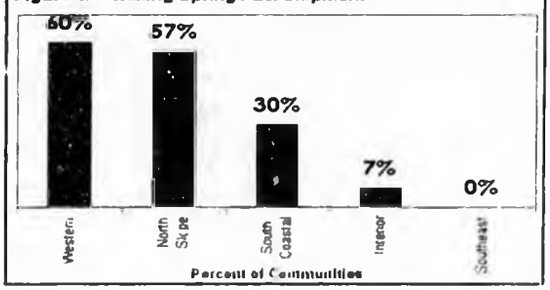
To accurately summarize statewide heating fuel prices, it is appropriate to exclude North Slope Region communities due to the North Slope Borough subsidy for residential use heating fuel. When considering statewide heating fuel prices, the Kokhanok Tribal Council in Kokhanok (South Coastal Region) reports the highest heating fuel retail price at $9.10 per gallon (see Appendix). In contrast, the City of Akutan in Akutan (South Coastal Region) reports the lowest heating fuel retail price at $3.36 per gallon. On average, heating fuel retails for $5.51 per gallon across Alaska with 93 communities reporting heating fuel prices (excluding North Slope Region communities).

As Figure 3 illustrates, average gasoline prices per gallon also vary across Alaska by region. Interior communities report the highest average gasoline retail price at $5.68 per gallon while North Slope communities report the lowest average retail price at $4.71 per gallon. Statewide retail prices indicate significant variation in gasoline retail price. Specifically, the Kokhanok Tribal Council in Kokhanok (South Central Region) reports the highest gasoline price at $8.83 per gallon. In contrast, the Kaktovik Inupiat

Corporation in Kaktovik (North Slope Region) reports the lowest gasoline retail price at $3.45 per gallon. On average, gasoline retail price is $5.35 per gallon across Alaska with 97 communities reporting.

Of noteworthy importance, the majority of Western (60%) and North Slope (57%) communities and one-third of South Coastal (30%) communities have not yet received a 2008 fuel shipment (Figure 4). Additionally, some retailers in these regions have elected to sell the remainder of their 2007 fuel stocks at last year's prices before instituting price increases. As fuel barges continue to deliver to remote rural Alaska communities and retailers begin selling this year's fuel stocks, the cost of fuel in these regions will increase significantly.

Figure 4. Awaiting Spring Fuel Shipment



CHANGE IN FUEL PRICES ACROSS ALASKA (11/2007 TO 6/2008)

During the past six months, heating fuel and gasoline retail prices have significantly increased from November 2007 to June 2008. With 93 communities reporting (excluding North Slope Region communities), the statewide average heating fuel price increased from $4.32 per gallon to $5.51 per gallon (Table 2). This $1.19 per gallon average price increase represents a 28% increase in statewide average heating fuel per gallon price. Prices have increased by one-third in the South Coastal (36%), Southeast (36%), and Interior (30%) Regions, and by nearly one-quarter (20%) in the Western Region. The Western Region has the highest average price at $5.65 per gallon.

Table 2. Regional Change in Heating Fuel (#1) Price (11/07 to 6/08)

Region	Communities Reporting	6/08 HF Average	Percent +/- 6/08 Statewide Average ($5.51)*	11/07 HF Average	Percent +/- 11/07 - 6/08
Interior	15	$5.62	2%	$4.32**	30%
North Slope	6***	$1.72	-69%	$1.46	18%
South Coastal	27	$5.37	-3%	$3.94	36%
Southeast	11	$5.18	-6%	$3.82	36%
Western	40	$5.65	3%	$4.71	20%
Statewide	**93****	**$5.51****	**n/a**	**$4.32**/****	**28%**

* Excludes North Slope Region communities, as heating fuel is subsidized by the North Slope Borough
** This reflects a data correction from the November 2007 report. Heating fuel in Arctic Village in 11/2007 was $6.36 per gallon, not $9.00 per gallon as reported
*** Seven North Slope communities surveyed; one (Barrow) does not use residential heating fuel and is consequently excluded.
**** Statewide heating fuel average excluding North Slope Region communities

With 97 communities reporting, the statewide average gasoline price increased from $4.54 to $5.35 per gallon from November 2007 to June 2008 (Table 3). This $0.81 per gallon average price increase represents an 18% increase in the statewide average. Prices have increased by more than one-quarter in the Interior (28%), Southeast (28%), and South Coastal (26%) Regions. The North Slope (12%) and Western (9%) Regions have experienced a more modest increase in average gasoline per gallon price; however, it is important to note a majority of communities in these two regions have not yet received a fuel shipment in 2008.

Table 3. Regional Change in Gasoline Price (11/07 to 6/08)

Region	Communities Reporting	6/08 Gas Average	Percent +/- 6/08 Statewide Average ($5.35)	11/07 Gas Average	Percent +/- 11/07 - 6/08
Interior	15	$5.68	6%	$4.44	28%
North Slope	7	$4.71	-12%	$4.20	12%
South Coastal	26*	$5.22	-2%	$4.15	26%
Southeast	11	$4.75	-11%	$3.71	28%
Western	38**	$5.60	5%	$5.13	9%
Statewide	**97*/****	**$5.35**	**n/a**	**$4.54**	**18%**

* One South Coastal community, Ouzinkie, reports they do not presently stock unleaded gasoline.
** Two Western communities, Atmautluak and Brevig Mission, had no gasoline available for sale during the June 2008 survey period.

Notably, the increases in price per gallon for heating fuel and gasoline from the period spanning November 2007 to June 2008 exceeded the increases from the two-year period spanning November 2005 to November 2007. From November 2007 to June 2008, the statewide average price of heating fuel increased by $1.19 per gallon, compared to an increase of $0.84 per gallon from November 2005 to November 2007. Similarly, from November 2007 to June 2008, the statewide average price of gasoline increased by $0.81 per gallon, compared to an increase of $0.71 per gallon from November 2005 to November 2007.

Retailers were queried regarding whether market demand for heating fuel or gasoline had generally increased, decreased, or remained the same during the past 12 months. Findings suggest a strong regional relationship regarding change in demand for heating fuel and gasoline. A significant percent of retailers in the Interior (40%) and Southeast (45%) Regions report a decrease in demand for heating fuel (Table 4). Vendors in the Interior Region report customers are more likely to heat with wood. Vendors in the Southeast Region report customers are either heating with wood or electric, depending on local availability of hydroelectric power. Two-thirds or more of vendors report an increase or no change in gasoline demand in the North Slope (100%), South Coastal (74%), and Western (72%), compared to only one-quarter (27%) in the Interior Region. The stable market demand for both heating fuel and gasoline in communities outside of road system

and Southeast Region communities is likely due to reliance on diesel for heating and electric, lack of developed options for alternative energy, and need for gasoline to participate in subsistence-related activities.

Table 4. Change in Demand for Heating Fuel (#1) and Gasoline (past 12 months)

Region	Heating Fuel			Gasoline		
	Increased	Decreased	No Change	Increased	Decreased	No Change
Interior	13%	40%	47%	7%	73%	20%
North Slope	0%	0%	100%	33%	0%	67%
South Coastal	28%	32%	40%	30%	26%	44%
Southeast	10%	45%	45%	10%	45%	45%
Western	31%	14%	55%	17%	28%	55%
Statewide*	**23%**	**26%**	**51%**	**19%**	**34%**	**47%**

* 92 communities reporting on heating fuel. 91 communities reporting on gasoline.

METHODS OF PAYMENT ACCEPTED BY FUEL VENDORS

Recent proposals to provide energy relief have led to a discussion of the most practical way to disburse funds to eligible Alaska residents. A proposal to issue debit cards to Alaska residents was recently dismissed after rural legislators claimed some of their constituents are not served by vendors who accept credit cards. As part of the June 2008 survey, fuel retailers were asked what methods of payment they accept and whether they accept energy assistance payments through the federal Low Income Housing Energy Assistance Program (LIHEAP) on behalf of their customers. In Alaska, LIHEAP payments may be issued by the State of Alaska Department of Health and Social Services (DHSS) Heating Assistance Program or by approved tribal organizations. Retailers were also asked whether credit accounts are issued to customers, if a formal credit check is required to set up an account, and approximately what percent of customers are using accounts.

Not surprisingly, all vendors (100%) accept cash and personal checks (Table 5). Nearly all vendors (96%) report receiving heating assistance payments on behalf of their customers. Three-quarters (73%) accept credit cards and two-thirds (64%) accept debit cards. Given the significant number of local fuel vendors in rural Alaska who do not accept credit cards and debit cards as a method of payment, implementing statewide energy relief through the distribution of debit cards is likely not practical or feasible.

Two-thirds of vendors (64%) offer some form of in-house credit to their customers, ranging from 52% of vendors in the South Coastal Region to 73% of vendors in the Southeast Region. Vendors in the Southeast Region were most likely to require a formal credit check, with three-quarters of vendors (75%) who extend credit requiring a credit check to open an account. Statewide, less than half of vendors (45%) who extend credit to their customers require a credit check. In every region outside of Southeast, only a minority of vendors require a credit check prior to extending credit. Only one-third of vendors (30%) in the Interior Region require a credit check prior to extending credit.

Table 5. Payment Methods Accepted by Fuel Retailers

Region	Cash	Check	Credit Card	Debit Card	LIHEAP Energy Asst.	In-Store Account
Interior	100%	100%	60%	53%	87%	67%
North Slope	100%	100%	71%	71%	100%	71%
South Coastal	100%	100%	70%	59%	96%	52%
Southeast	100%	100%	100%	91%	100%	73%
Western	100%	100%	73%	63%	97%	68%
Statewide	**100%**	**100%**	**73%**	**64%**	**96%**	**64%**

How vendors utilize in-house credit varies greatly. Some vendors extend credit to an entire community, while others offer it to a few select customers who they know and trust (range = 2% to 100%, see Appendix). Statewide, vendors who extend credit report approximately half of customers (50%) use in-house credit, ranging from 45% in the Western Region to 61% in the North Slope and South Coastal Regions.

METHODS OF FUEL TRANSPORTATION

Methods 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 6). With 100 communities reporting, the wide majority (83%) report barging fuel into the community. In contrast, nine communities (9%) report trucking fuel into the community, four communities (4%) 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). Fairbanks and Valdez do not transport heating fuel because of a local on-site refinery, gasoline is transported by truck and barge respectively.

Table 6. Fuel Transportation Method

Transportation Method	Statewide	Interior Region	North Slope Region	South Coastal Region	Southeast Region	Western Region
Barge Only	83	4	5	23*	11	40
Truck Only	9	8*	0	1	0	0
Air Only	4	3	0	1	0	0
Barge/Truck	2	0	0	2	0	0
Barge/Air	1	0	1	0	0	0
Truck/Air	1	0	1	0	0	0
Total Communities Reporting	**100**	**15**	**7**	**27**	**11**	**40**

*Heating fuel is refined in Fairbanks and Valdez, gasoline is transported by truck and barge respectively.

ADDRESSING THE IMMEDIATE CHALLENGE

To date, short-term strategies for alleviating high fuel costs and corresponding impacts for rural energy have primarily included implementing temporary energy assistance funding programs. Such programs have only been possible through 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 immediate cost of energy. Community Revenue Sharing (CRS) has been reinstituted for FY 2009 and will provide $60 million to 233 Alaska communities. While not technically an energy relief program, municipalities and nonprofit community associations have the option of using funds to alleviate rising fuel prices, improve energy efficiency in community facilities, or upgrade local utility systems.

Prior to CRS, the State had authorized $48.7 million in one-time payments during FY 2008 for the Community Energy Assistance Program (CEAP) and $48 million in one-time payments during FY 2007 for the Municipal Energy Assistance Program (MEAP). CEAP payments were issued to 233 Alaska communities and MEAP payments were issued to 163 municipal entities across Alaska for the purpose of purchasing fuel for community or municipal use.

Alaska Energy Authority (AEA) is the administrative authority for the Bulk Fuel Revolving Loan Fund, the Bulk Fuel Bridge Loan Program, and the Power Cost Equalization (PCE) Program. The Revolving Loan Fund provides loans to communities, utilities, and fuel retailers in rural communities to purchase emergency,

semi-annual, or annual bulk fuel supplies. From January 1, 2008 to June 27, 2008 a total of 19 Revolving Loan Fund applications were approved by AEA. The combined value of these loans is $5.3 million.

The Bridge Loan Program provides loan assistance to communities that are ineligible for loans from the Revolving Loan Fund. Presently, the Bridge Loan Program administers loans to 14 communities. Since its inception in 2004, the Bridge Loan Program has issued loans to 26 communities valued at a combined $6.7 million. Of noteworthy importance, the Bridge Loan Program has never experienced a loan default.

PCE provides energy cost relief to rural residential customers by providing a credit per kilowatt hour used, up to 500 kilowatt hours per month. The amount of the credit is determined using a formula based on the average retail residential rate in Anchorage, Fairbanks, and Juneau. In FY 2007, PCE provided over $25 million in energy relief to approximately 78,500 people in 183 rural Alaska communities..

Funds from the federal Low Income Home Energy Assistance Program (LIHEAP) are administered and distributed in Alaska by the Department of Health and Social Services, Division of Public Assistance, Heating Assistance Program (DHSS-HAP) and by approved tribal organizations. LIHEAP provides heating assistance to households with gross incomes of up to 150% of the federal poverty guideline for Alaska. In FY 2007, DHSS-HAP disbursed $6.6 million in LIHEAP funds to 8,896 households in 156 communities. Statewide, LIHEAP funds provided $9.1 million to 13,321 households in 257 communities.

With the passage of House Bill 152 in the last legislative session, DHSS-HAP will be issued $10 million in State funds during FY 2009 to distribute to households with gross incomes exceeding 150% of the federal poverty guideline for Alaska but not exceeding 225%, greatly increasing the reach of heating assistance to middle class Alaskans.

The Alaska Housing Finance Authority (AHFA) provides direct grants to homeowners across Alaska through the Home Energy Rebate Program and the Weatherization Program. The Home Energy Rebate Program allows all Alaska homeowners to have their home reviewed by a certified energy rater and provides up to $10,000 for home improvements leading to improved energy efficiency. In addition, 15-year loans of up to $30,000 are available to qualified borrowers whose rebates do not cover the full amount of energy upgrade costs. The Home Energy Rebate Program has received $100 million in funding for FY 2009.

The Weatherization Program is a need-based program providing free weatherization assistance for homes, rental units, and multifamily dwellings with priority given to the elderly, disabled, families with young children, and families earning less than 60% of the median income, as defined by the U.S. Department of Housing and Urban Development. The Weatherization Program has received $200 million in funding for FY 2009. These two programs reduce the amount of energy required to heat their residences, regardless of homeowner status.

ADDRESSING THE LONG-TERM CHALLENGE

A primary long-term concern for rural Alaska is the quality, quantity, and management of available storage in rural bulk fuel tank farms. In many rural communities, city and tribal governments own and operate the bulk fuel tank farms. DCRA's Local Government Assistance Section provides training and direct assistance to communities leading to improved financial management and utility management, more effective local governance, and better communication with regulatory agencies.

The Bulk Fuel Upgrade Program, co-administered by AEA and the Denali Commission, continues to assist communities to make necessary repairs or upgrades to ensure bulk fuel tank farms are safe and code-compliant.

With the recent spike in fuel prices, particularly in rural Alaska, increased focus has been placed on improved efficiency and alternative energy generation. The Rural Power System Upgrade Program, administered by AEA, provides funding to improve the efficiency of an existing diesel generation system, replace an existing system with a more efficient design, or fund heat recovery systems to reduce a community's energy draw. AEA and the Denali Commission are also providing funding for feasibility studies, design assistance, and construction through the Alaska Alternative Energy Projects Program. These two agencies have awarded over $5 million in FY 2009 to 33 projects across the state in the areas of wind, hydro, biomass, solar, and geothermal power.

SUMMARY

Alaska North Slope (ANS) crude prices have been rising at an unprecidented rate over the past three years. Instead of moderating, the pace of growth has been increasing. Five of the six highest month-to-month increases in crude oil prices have occurred since November 2007 and the four highest daily increases over the past decade occurred in June 2008.

From November 2007 to June 2008, heating fuel prices across 100 Alaska communities increased from $4.32 per gallon to $5.51 per gallon and gasoline prices increased from $4.54 per gallon to $5.35 per gallon, increases of 28% and 18% respectively. As daunting as those numbers are, they do not accurately paint the picture of fuel prices outside of Southeast and road system communities. Due to a late spring breakup, the majority of remote rural Alaska communities have yet to receive fuel and institute 2008 pricing. When fuel shipments arrive and pricing is adjusted, many of these vendors will be selling heating fuel at $2.00 to $3.50 per gallon more than reported.

High heating fuel and gasoline prices combined with high unemployment rates, limited local economies, and local governments struggling to provide basic services have presented remote rural Alaska communities and households with challenging circumstances. As energy costs continue to soar, there is increasing urgency within these communities for both short- and long-term solutions.

Community Heating Fuel and Gasoline Prices - June 2008 Update

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 6/2008 Retail: (selling price per gallon)	Percent +/- Statewide HF Average ($5.61*):	Percent +/- 11/2007 Retail: (selling price per gallon)	Gasoline 6/2008 Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($5.38):	Percent +/- 11/2007 Retail: (selling price per gallon)
Alatna	Interior	Alatna Traditional Council	$5.50	0%	-8%	$7.00	31%	17%
Anderson	Interior	Nenana Heating	$4.88	-11%	42%	$4.89	-9%	39%
Arctic Village	Interior	Arctic Village Traditional Council	$8.00	45%	34%*	$8.00	50%	14%
Circle	Interior	(HF#1) Steese (Gas) HC Company Store	$4.98	-10%	42%	$5.35	0%	47%
Delta Junction	Interior	Delta Fuel Company	$4.63	-16%	41%	$4.49	-16%	39%
Eagle	Interior	Telegraph Hill Services	$4.95	-10%	41%	$5.50	43	47%
Fairbanks	Interior	Petro Star - Flint Hill	$4.60	-17%	44%	$4.34	-19%	40%
Galena	Interior	Crowley Marine Services	$6.62	20%	54%	$6.13	15%	31%
Healy	Interior	Keith's Healy Service	$5.20	-8%	49%	$4.92	-8%	38%
Hughes	Interior	Hughes City Council	$7.50	36%	0%	$8.25	54%	38%
Huslia	Interior	Huslia Gas & Oil	$5.75	4%	28%	$5.75	7%	15%
Minto	Interior	North Fork Store	$5.70	3%	39%	$5.55	4%	37%
Nenana	Interior	Nenana Heating	$4.88	-11%	42%	$4.89	-9%	39%
Ruby	Interior	Denega Fuel Corporation	$6.15	12%	43%	$4.50	-16%	0%
Tanana	Interior	Tanacon Fuel	$4.95	-10%	25%	$5.70	7%	14%
Anaktuvuk Pass	North Slope	Nunamiut Corporation	$1.30	-78%	30%	$8.34	56%	52%
Atqasuk	North Slope	Atqasuk Corporation	$1.40	-75%	0%	$4.10	-23%	0%
Barrow	North Slope	Eskimo Inc	Natural Gas	n/a	n/a	$4.45	-17%	0%
Kaktovik	North Slope	Kaktovik Inupiat Corporation	$1.50	-73%	-3%	$3.45	-36%	0%
Nuiqsut	North Slope	Kuukpik Corporation	$2.75	-50%	90%	$3.75	-30%	12%
Point Hope	North Slope	Tigara Corporation	$1.90	-66%	15%	$4.25	-21%	0%
Wainwright	North Slope	Olgoonik Corporation	$1.45	-74%	-14%	$4.63	-13%	7%

Community Heating Fuel and Gasoline Prices - June 2008 Update

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 6/2008 Retail: (selling price per gallon)	Percent +/- Statewide HF Average ($5.51*):	Percent +/- 11/2007 Retail: (selling price per gallon)	Gasoline 6/2008 Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($5.35):	Percent +/- 11/2007 Retail: (selling price per gallon)
Akutan	South Coastal	City of Akutan	$3.36	-39%	22%	$3.80	-29%	17%
Atka	South Coastal	Atka Native Store	$7.99	45%	60%	$5.09	-5%	0%
Chenega Bay	South Coastal	Chengega Bay Utility	$5.60	2%	70%	$5.70	7%	54%
Chignik	South Coastal	City of Chignik	$4.29	-22%	28%	$4.32	-19%	52%
Chitina	South Coastal	Chitina Services Oil and Gas	$4.70	-13%	39%	$4.75	-11%	38%
Clark's Point	South Coastal	City of Clark's Point	$5.13	-7%	9%	$4.70	-12%	-8%
Cordova	South Coastal	Hovers Mover	$5.47	-1%	31%	$5.32	-1%	31%
Dillingham	South Coastal	Delta Western	$5.78	5%	36%	$5.18	-3%	4%
Glennallen	South Coastal	Service Oil and Gas	$4.29	-22%	25%	$4.75	-11%	38%
Goodnews Bay	South Coastal	Mumtram Pikkai Village Corporation	$4.00	-27%	0%	$5.10	-5%	0%
Homer	South Coastal	Homer Run Oil	$4.72	-14%	38%	$4.77	-11%	42%
King Cove	South Coastal	Peter Pan Seafood	$3.77	-32%	34%	$4.34	-19%	21%
Kodiak	South Coastal	Thompson (HF) Petro Marine (Gas)	$4.74	-14%	45%	$4.64	-13%	33%
Kokhanok	South Coastal	Kokhanok Tribal Council	$9.10	65%	46%	$8.83	65%	31%
Larsen Bay	South Coastal	City of Larsen Bay	$6.68	21%	54%	$6.11	14%	49%
Nelson Lagoon	South Coastal	Nelson Lagoon Enterprises	$5.96	8%	45%	$5.71	7%	18%
New Stuyahok	South Coastal	New Stuyahok Village Corporation	$4.99	-9%	8%	$6.10	14%	12%
Nondalton	South Coastal	City of Nondalton	$7.95	44%	29%	$7.82	46%	28%
Old Harbor	South Coastal	City of Old Harbor	$6.57	19%	55%	$5.83	9%	40%
Ouzinkie	South Coastal	Ouzinkie Native Corporation	$3.56	-35%	16%	n/a	n/a	n/a
Port Lions	South Coastal	Kizhuyak Oil Sales	$5.25	-5%	42%	$4.65	-13%	16%
Saint George	South Coastal	Delta Fuel Company	$5.50	0%	23%	$4.02	-24%	0%

Community Heating Fuel and Gasoline Prices - June 2008 Update

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 6/2008 Retail: (selling price per gallon)	Percent +/- Statewide Heating Fuel Average ($5.61*):	Percent +/- 11/2007 Retail: (selling price per gallon)	Gasoline 6/2008 Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($5.35):	Percent +/- 11/2007 Retail: (selling price per gallon)
Sand Point	South Coastal	Trident Seafoods	$5.04	-9%	49%	$4.45	-17%	37%
Seldovia	South Coastal	Seldovia Fuel and Lube	$5.33	-3%	50%	$4.98	-7%	39%
Togiak	South Coastal	Togiak Village Corporation	$6.02	9%	63%	$5.59	4%	33%
Unalaska	South Coastal	Delta Western	$4.43	-20%	27%	$4.15	-22%	27%
Valdez	South Coastal	North Pacific	$4.74	-14%	46%	$4.93	-8%	48%
Angoon	Southeast	Angoon Oil and Gas	$5.15	-7%	32%	$4.87	-9%	19%
Craig	Southeast	Petro Marine	$4.68	-15%	30%	$4.26	-20%	25%
Gustavus	Southeast	Gustavus Dray - Gustavus Propane	$5.18	-8%	43%	$4.04	-8%	38%
Hoonah	Southeast	Hoonah Trading	$5.38	-2%	29%	$4.80	-10%	26%
Juneau	Southeast	Delta Western - Fred Meyer Gas	$4.83	-12%	39%	$4.42	-17%	34%
Kake	Southeast	Kake Tribal Fuel	$5.90	7%	44%	$5.34	0%	37%
Pelican	Southeast	Pelican Fuel Dock	$5.72	4%	36%	$4.19	-22%	3%
Petersburg	Southeast	Petro Marine	$4.93	-11%	34%	$4.31	-19%	28%
Point Baker	Southeast	Point Baker Trading Post	$5.50	0%	38%	$5.50	3%	41%
Thorne Bay	Southeast	Petro Alaska	$4.41	-20%	27%	$4.40	-18%	25%
Wrangell	Southeast	Wrangell Oil - Fennemore's Service	$5.35	-3%	42%	$5.25	-2%	39%
Akiak	Western	Kokarmiut Corporation	$4.70	-15%	2%	$5.10	-5%	2%
Anvik	Western	Deloyges, Inc	$6.25	13%	39%	$5.75	7%	15%
Atmautluak	Western	Atmauthluak Limited	$5.19	-8%	8%	OUT	n/a	n/a
Bethel	Western	Crowley	$6.33	15%	49%	$5.77	8%	28%
Brevig Mission	Western	Brevig Mission Native Store	$4.45	-19%	0%	OUT	n/a	n/a
Deering	Western	Deering IRA	$3.86	-30%	-3%	$5.15	-4%	21%

Community Heating Fuel and Gasoline Prices - June 2008 Update

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 6/2008 Retail: (selling price per gallon)	Percent +/- Statewide HF Average ($6.61*):	Percent +/- 11/2007 Retail: (selling price per gallon)	Gasoline 6/2008 Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($5.35):	Percent +/- 11/2007 Retail: (selling price per gallon)
Emmonak	Western	Emmonak Corp. Tank Farm	$4.85	-12%	0%	$5.91	10%	0%
Gambell	Western	ANICA (Gambell Native Store)	$4.75	-14%	0%	$5.85	9%	0%
Golovin	Western	Golovin Public Utilities	$4.00	-27%	0%	$4.25	-21%	0%
Grayling	Western	AYL Grayling Fuel Company	$4.50	-18%	0%	$5.50	3%	0%
Holy Cross	Western	Holy Cross O L Company	$5.90	7%	30%	$5.90	10%	11%
Hooper Bay	Western	Crowley Marine	$5.05	-8%	0%	$5.32	-1%	0%
Kaltag	Western	Kaltag Cooperative	$6.25	13%	39%	$6.00	12%	20%
Kiana	Western	Kiana Traditional Council	$5.67	3%	10%	$7.00	31%	18%
Kotlik	Western	Kotlik Yupik Enterprises	$5.11	-7%	14%	$7.32	37%	31%
Kotzebue	Western	Crowley	$4.20	24%	0%	$4.36	-19%	0%
Koyuk	Western	Koyuk Native Corporation	$3.98	-28%	0%	$3.98	-26%	0%
Kwigillingok	Western	KWIK Manna Inc	$4.85	-12%	0%	$5.30	-1%	-1%
Marshall	Western	Maserculiq Inc	$7.25	32%	49%	$4.64	-13%	-4%
McGrath	Western	Crowley	$7.04	28%	43%	$6.45	21%	13%
Mountain Village	Western	Azachorak Fuel	$5.07	-8%	5%	$5.01	-8%	0%
Noorvik	Western	Moms Trading Post	$4.60	-17%	0%	$4.88	-9%	0%
Nulato	Western	City of Nulato	$6.75	23%	35%	$6.00	12%	20%
Nunapitchuk	Western	Nunapitchuk LTD	$5.19	-6%	9%	$5.24	-2%	5%
Pilot Station	Western	Pilot Station Native Corporation	$7.13	29%	19%	$6.41	20%	5%
Quinhagak	Western	Qanirtuuq Corporation	$7.02	27%	48%	$8.22	16%	19%
Russian Mission	Western	Russian Mission Corporation	$4.75	-14%	0%	$5.52	3%	0%
Saint Michael	Western	Saint Michael Fuel Company	$4.84	-12%	4%	$5.18	-3%	4%

Community Heating Fuel and Gasoline Prices - June 2008 Update

Community	Region	Community Retailer: (entity selling fuel)	Heating Fuel #1 6/2008 Retail: (selling price per gallon)	Percent +/- Statewide HF Average ($5.51*):	Percent +/- 11/2007 Retail: (selling price per gallon)	Gasoline 6/2008 Retail Price: (selling price per gallon)	Percent +/- Statewide Gas Average ($5.35):	Percent +/- 11/2007 Retail: (selling price per gallon)
Savoonga	Western	ANICA (Savoonga Native Store)	$4.69	15%	0%	$5.59	4%	0%
Scammon Bay	Western	Askinuk Corporation	$5.00	-9%	0%	$5.00	-7%	3%
Shishmaref	Western	Shishmaref Native Store	$5.09	-8%	0%	$5.25	-2%	0%
Sleetmute	Western	Henry Hill Store	$8.20	49%	45%	$7.70	44%	21%
Stebbins	Western	Tapraq Fuel Company	$6.00	9%	21%	$5.41	1%	0%
Teller	Western	City of Teller	$8.00	45%	111%	$4.25	-21%	0%
Toksook Bay	Western	Nunakauiak Yupik Corporation	$8.77	59%	67%	$7.98	49%	35%
Tuntutuliak	Western	Qinarmiut Corporation	$7.66	39%	49%	$6.65	24%	33%
Unalakleet	Western	Unalakleet Native Corporation	$6.81	24%	49%	$4.88	-9%	5%
Upper Kalskag	Western	City of Upper Kalskag	$5.00	-9%	0%	$5.15	-4%	0%
Wales	Western	Wales Native Store	$4.94	-12%	2%	$4.94	-8%	0%
White Mountain	Western	White Mountain Native Store	$6.25	13%	57%	$5.99	12%	31%

Note - Statewide heating fuel average price does not include North Slope communities as they are subsidized by the borough and therefore not comparable.
* This reflects a correction of data from the November 2007 report. Heating fuel in Arctic Village in November 2007 was $6.36 per gallon, not the previously reported $9.00 per gallon

Heating Fuel and Gasoline Vendor Information - June 2008 Update

Community	Region	Transport	Spring Fuel Arrived?	Change in HF Demand? (increase, decrease, remain same)	Change in Gas Demand? (increase, decrease, remain same)						
Alatna	Interior	Air	Yes	Increase	Decrease	No	No	Yes	Yes	No	5%
Anderson	Interior	Truck	Yes	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a
Arctic Village	Interior	Air	Yes	Increase	Increase	No	No	Yes	No	n/a	n/a
Circle	Interior	Truck	Yes	Decrease	Same	No	No	Yes	No	n/a	n/a
Delta Junction	Interior	Truck	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	70%
Eagle	Interior	Truck	Yes	Decrease	Decrease	Yes	No	No	Yes	No	95%
Fairbanks	Interior	Truck	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	75%
Galena	Interior	Barge	Yes	Same	Same	Yes	Yes	Yes	No	n/a	n/a
Healy	Interior	Truck	Yes	Same	Same	Yes	Yes	No	Yes	Yes	75%
Hughes	Interior	Air	Yes	Same	Decrease	No	No	Yes	Yes	No	15%
Huslia	Interior	Barge	Yes	Decrease	Decrease	No	No	Yes	Yes	No	25%
Minto	Interior	Truck	Yes	Same	Decrease	Yes	Yes	Yes	Yes	No	75%
Nenana	Interior	Truck	Yes	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a
Ruby	Interior	Barge	No	Decrease	Decrease	No	No	Yes	Yes	No	10%
Tanana	Interior	Barge	Yes	Same	Decrease	Yes	Yes	Yes	Yes	No	80%
Anaktuvuk Pass	North Slope	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	Yes	90%
Atqasuk	North Slope	Barge/Air	Yes	Same	Same	No	No	Yes	No	n/a	n/a
Barrow	North Slope	Barge	No	n/a	Increase	Yes	Yes	n/a	No	n/a	n/a
Kaktovik	North Slope	Barge	No	Same	Increase	No	No	Yes	Yes	No	50%
Nuiqsut	North Slope	Air/Truck	Yes	Don't Know	Don't Know	Yes	Yes	Yes	Yes	Yes	Don't Know
Point Hope	North Slope	Barge	No	Same	Same	Yes	Yes	Yes	Yes	Don't Know	100%
Wainwright	North Slope	Barge	No	Same	Same	Yes	Yes	Yes	Yes	No	5%

Heating Fuel and Gasoline Vendor Information - June 2008 Update

Community	Region		Spring Fuel Arrived?	Change in HF Demand? (increase, decrease, remain same)	Change in Gas Demand? (increase, decrease, remain same)						
Akutan	South Coastal	Barge	No	Same	Increase	No	No	Yes	No	n/a	n/a
Atka	South Coastal	Barge	Yes	Same	Same	Yes	Yes	Yes	No	n/a	n/a
Chenega Bay	South Coastal	Barge	Yes	Increase	Increase	No	No	Yes	No	n/a	n/a
Chignik	South Coastal	Barge	No	Decrease	Decrease	No	No	Yes	Yes	No	Don't Know
Chitina	South Coastal	Barge/ Truck	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	No	Don't Know
Clark's Point	South Coastal	Barge	No	Decrease	Same	No	No	Yes	No	n/a	n/a
Cordova	South Coastal	Barge	Yes	Decrease	Don't Know	Yes	No	Yes	Yes	Yes	50%
Dillingham	South Coastal	Barge	Yes	Don't Know	Don't Know	Yes	Yes	Yes	Yes	Yes	Don't Know
Glennallen	South Coastal	Truck	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	Don't Know
Goodnews Bay	South Coastal	Barge	No	Same	Same	Yes	Yes	Yes	No	n/a	n/a
Homer	South Coastal	Barge/ Truck	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	50%
King Cove	South Coastal	Barge	Yes	Don't Know	Don't Know	Yes	Yes	No	No	n/a	n/a
Kodiak	South Coastal	Barge	Yes	Same	Same	Yes	Yes	Yes	No	n/a	n/a
Kokhanok	South Coastal	Barge	No	Increase	Increase	No	No	Yes	No	n/a	n/a
Larsen Bay	South Coastal	Barge	No	Same	Same	Yes	Yes	Yes	Yes	No	Don't Know
Nelson Lagoon	South Coastal	Barge	No	Increase	Same	Yes	No	Yes	No	n/a	n/a
New Stuyahok	South Coastal	Barge	No	Increase	Increase	Yes	Yes	Yes	No	n/a	n/a
Nondalton	South Coastal	Air	Yes	Increase	Increase	Yes	No	Yes	No	n/a	n/a
Old Harbor	South Coastal	Barge	Yes	Same	Same	No	No	Yes	Yes	No	100%
Ouzinkie	South Coastal	Barge	Yes	Same	n/a	No	No	Yes	Yes	No	75%
Port Lions	South Coastal	Barge	Yes	Decrease	Same	No	No	Yes	No	n/a	n/a
Saint George	South Coastal	Barge	Yes	Decrease	Decrease	Yes	Yes	Yes	No	n/a	n/a
Sand Point	South Coastal	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	No	50%

Heating Fuel and Gasoline Vendor Information - June 2008 Update

Community	Region	Fuel Source	Spring Fuel Arrived?	Change in HF Demand? (increase, decrease, remain same)	Change in Gas Demand? (increase, decrease, remain same)						
Seldovia	South Coastal	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	No	50%
Togiak	South Coastal	Barge	Yes	Increase	Increase	Yes	Yes	Yes	Yes	No	95%
Unalaska	South Coastal	Barge	Yes	Increase	Increase	Yes	Yes	Yes	Yes	Yes	3%
Valdez	South Coastal	Barge/ Refinery	Yes	Same	Decrease	Yes	Yes	Yes	Yes	Yes	75%
Angoon	Southeast	Barge	Yes	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a
Craig	Southeast	Barge	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	70%
Gustavus	Southeast	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	No	20%
Hoonah	Southeast	Barge	Yes	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a
Juneau	Southeast	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	Yes	Don't Know
Kake	Southeast	Barge	Yes	Increase	Increase	Yes	No	Yes	Yes	Yes	40%
Pelican	Southeast	Barge	Yes	Decrease	Same	Yes	Yes	Yes	No	n/a	n/a
Petersburg	Southeast	Barge	Yes	Decrease	Same	Yes	Yes	Yes	Yes	Yes	85%
Point Baker	Southeast	Barge	Yes	Same	Decrease	Yes	Yes	Yes	Yes	No	33%
Thorne Bay	Southeast	Barge	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	Yes	30%
Wrangell	Southeast	Barge	Yes	Decrease	Same	Yes	Yes	Yes	Yes	Yes	45%
Akiak	Western	Barge	No	Decrease	Same	Yes	Yes	Yes	Yes	No	10%
Anvik	Western	Barge	Yes	Increase	Same	No	No	Yes	Yes	No	95%
Atmautluak	Western	Barge	No	Same	Decrease	Yes	Yes	Yes	Yes	Don't Know	25%
Bethel	Western	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	Yes	15%
Brevig Mission	Western	Barge	No	Same	Same	No	No	Yes	Yes	No	80%
Deering	Western	Barge	No	Same	Same	No	No	Yes	No	n/a	n/a
Emmonak	Western	Barge	Yes	Don't Know	Don't Know	Yes	Yes	Yes	Yes	Yes	95%
Gambell	Western	Barge	No	Same	Same	Yes	Yes	Yes	No	n/a	n/a

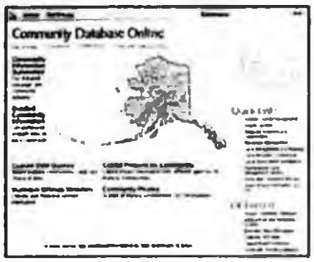
Heating Fuel and Gasoline Vendor Information - June 2008 Update

Community	Region	[illegible]	Spring Fuel Arrived?	Change in HF Demand? (increase, decrease, remain same)	Change in Gas Demand? (increase, decrease, remain same)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Golovin	Western	Barge	No	Same	Same	No	No	Yes	No	n/a	n/a
Grayling	Western	Barge	Yes	Increase	Increase	No	No	Yes	Yes	Yes	45%
Holy Cross	Western	Barge	Yes	Decrease	Same	Yes	Yes	Yes	Yes	No	33%
Hooper Bay	Western	Barge	No	Same	Same	Yes	Yes	Yes	Yes	Yes	2%
Kaltag	Western	Barge	No	Same	Decrease	No	No	No	Yes	No	40%
Kiana	Western	Barge	No	Increase	Increase	Yes	Yes	Yes	No	n/a	n/a
Kotlik	Western	Barge	Yes	Same	Increase	Yes	Yes	Yes	Yes	No	33%
Kotzebue	Western	Barge	No	Same	Same	Yes	Yes	Yes	Yes	Yes	30%
Koyuk	Western	Barge	No	Increase	Increase	No	No	Yes	No	n/a	n/a
Kwigillingok	Western	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	No	30%
Marshall	Western	Barge	No	Increase	Same	Yes	Yes	Yes	Yes	No	50%
McGrath	Western	Barge	Yes	Increase	Same	Yes	Yes	Yes	Yes	Yes	2%
Mountain Village	Western	Barge	Yes	Decrease	Decrease	Yes	No	Yes	Yes	Yes	80%
Noorvik	Western	Barge	No	Decrease	Same	Yes	Yes	Yes	No	n/a	n/a
Nulato	Western	Barge	Yes	Increase	Decrease	Yes	Yes	Yes	No	n/a	n/a
Nunapitchuk	Western	Barge	No	Increase	Increase	Yes	Yes	Yes	Yes	Yes	100%
Pilot Station	Western	Barge	No	Increase	Same	Yes	Yes	Yes	Yes	Yes	4%
Quinhagak	Western	Barge	Yes	Same	Decrease	Yes	No	Yes	Yes	Yes	10%
Russian Mission	Western	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	No	100%
Saint Michael	Western	Barge	No	Same	Same	No	No	Yes	No	n/a	n/a
Savoonga	Western	Barge	No	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a
Scammon Bay	Western	Barge	No	Don't Know	Don't Know	Yes	No	Yes	Yes	Don't Know	Don't Know
Shishmaref	Western	Barge	No	Don't Know	Don't Know	Yes	No	Don't Know	No	n/a	n/a

Heating Fuel and Gasoline Vendor Information - June 2008 Update

Community	Region	Fuel Delivered	Spring Fuel Arrived?	Change in HF Demand? (increase, decrease, remain same)	Change in Gas Demand? (increase, decrease, remain same)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sleetmute	Western	Barge	Yes	Decrease	Decrease	Yes	Yes	Yes	Yes	No	15%
Stebbins	Western	Barge	No	Increase	Decrease	No	No	Yes	No	n/a	n/a
Teller	Western	Barge	No	Same	Same	No	No	Yes	Yes	No	Don't Know
Toksook Bay	Western	Barge	Yes	Same	Decrease	Yes	Yes	Yes	Yes	Yes	50%
Tuntutuliak	Western	Barge	Yes	Same	Same	Yes	Yes	Yes	Yes	Yes	20%
Unalakleet	Western	Barge	No	Same	Same	Yes	Yes	Yes	Yes	No	50%
Upper Kalskag	Western	Barge	No	Increase	Increase	No	No	Yes	No	n/a	n/a
Wales	Western	Barge	No	Don't Know	Don't Know	Yes	Yes	Yes	Yes	No	100%
White Mountain	Western	Barge	Yes	Same	Decrease	Yes	Yes	Yes	No	n/a	n/a

The Division of Community and Regional Affairs (DCRA) offers a wide range of online data and information resources to communities, agencies, and the public. The following is a select listing of DCRA's varied information resources:



The **Community Profiles Database** contains profiles for more than 390 places in Alaska, the majority of which are communities. Information found in this database includes population, history, culture, facilities, census data, and more. Visit the **Community Profiles Database** at:

http://commerce.alaska.gov/dcra/commdb/CF_COMDB.htm

The **Municipal Officials Directory (MOD) Online System** offers dynamic contact information for communities across the state, including local and regional contacts, municipal officials, and employee listings. Visit the **MOD Online System** at:

http://commerce.alaska.gov/dcra/MOD/MOD.htm

The **Alaska Economic Development Resource Guide (EDRG)** is an inventory of programs and services which can provide economic development assistance to Alaska communities and businesses. Visit the **EDRG** at:

http://commerce.alaska.gov/dcra/edrg/EDRG.htm

The **Capital Projects Database** contains descriptions, funding levels, and status for over 8,000 capital projects in Alaska communities. The **Capital Projects Database** is designed to quickly deliver requested queries in Excel to your email in-box. Visit the **Capital Projects Database** at:

http://commerce.alaska.gov/dcra/commdb/CF_RAPIDS.htm

Community Profile Maps display land use, land suitability, land ownership, and ANCSA 14(c) land settlement boundaries. These maps are ideal for use in planning economic development projects within mapped communities. Visit **Community Profile Maps** at:

http://commerce.alaska.gov/dcra/profiles/profile-maps.htm

Division of Community & Regional Affairs

The Community Fuel Survey was conducted by the Alaska Department of Commerce, Community, and Economic Development, Division of Community & Regional Affairs (DCRA). If you have any questions or comments regarding the survey or this report, please contact:

Nicole Grewe, Ph.D., Development Specialist, (907) 465-8249, nicole.grewe@alaska.gov
Eric Caldwell, Research Analyst, (907) 465-3961, eric.caldwell@alaska.gov

COMMUNITY & REGIONAL AFFAIRS
DIRECTOR'S REPORT

CURRENT COMMUNITY CONDITIONS:
FUEL PRICES ACROSS ALASKA
JULY 2008 SUPPLEMENTAL

As follow-up to the report *Current Community Conditions: Fuel Prices Across Alaska, June 2008 Update*, the Division of Community & Regional Affairs contacted fuel vendors between July 23 – 25, 2008 in communities where a spring or summer bulk fuel shipment had not been received prior to the original survey period (June 23 – 25, 2008). Specifically, the majority of Western (60%) and North Slope (57%) communities and one-third of South Coastal (30%) communities had not received a fuel shipment prior to the original survey period. In total, local fuel retailers from 37 communities were contacted (via telephone) and queried whether spring fuel had arrived, whether fuel pricing had been updated, and to provide current heating fuel (#1) and gasoline per gallon prices. Survey results are one-time measurements and representative of retail fuel prices on the particular day of contact (July 23 – 25, 2008). Heating fuel and gasoline prices may have changed between the time of contact and publishing of this summary. This brief report, *Current Community Conditions: Fuel Prices Across Alaska, July 2008 Supplemental* summarizes fuel survey findings and changes in prices since November 2007.

Heating Fuel and Gasoline Survey - July 2008 Supplemental

Community	Region	Community Retailer:	Heating Fuel #1 7/2008 Retail:	Percent +/- 11/2007 Retail:	Gasoline 7/2008 Retail Price:	Percent +/- 11/2007 Retail:	Spring Fuel Arrived?	Spring Pricing Instituted?
Ruby	Interior	Dinega Fuel Corporation	$6.15	43%	$4.50	0%	Yes	HF Only
Barrow	North Slope	Eskimo Inc.	Natural Gas	n/a	$4.45	0%	No	n/a
Kaktovik	North Slope	Kaktovik Inupiat Corporation	$1.50	-3%	$3.45	0%	No	n/a
Point Hope	North Slope	Tigara Corporation	$1.90	15%	$4.25	0%	No	n/a
Wainwright	North Slope	Olgoonik Corporation	$1.45	-14%	$4.63	7%	No	n/a
Akutan	South Coastal	City of Akutan	$4.78	74%	$4.38	35%	Yes	Yes
Chignik	South Coastal	City of Chignik	$4.29	28%	$4.32	52%	Yes	No
Clark's Point	South Coastal	City of Clark's Point	n/a	n/a	n/a	n/a	n/a	n/a
Goodnews Bay	South Coastal	Mumtram Pikkai Village Corp.	$6.14	54%	$5.10	0%	Yes	HF Only
Kokhanok	South Coastal	Kokhanok Tribal Council	$9.25	48%	$8.83	31%	Yes	Yes
Larsen Bay	South Coastal	City of Larsen Bay	$6.68	54%	$6.11	49%	No	n/a
Nelson Lagoon	South Coastal	Nelson Lagoon Enterprises	$5.96	45%	$5.71	18%	Yes	No

[illegible]	[illegible]	Community Retailer:	Heating Fuel #1 7/2008 Retail:	Percent +/- 11/2007 Retail:	Gasoline 7/2008 Retail Price:	Percent +/- 11/2007 Retail:	Spring Fuel Arrived?	Spring Pricing Instituted?
New Stuyahok	South Coastal	New Stuyahok Village Corp.	$4.99	6%	$6.10	12%	No	n/a
Akiak	Western	Kokarmiut Corporation	n/a	n/a	n/a	n/a	n/a	n/a
Atmautluak	Western	Atmauthluak Limited	$5.69	18%	$5.75	20%	Yes	Yes
Brevig Mission	Western	Brevig Mission Native Store	$4.45	0%	$5.10	0%	Yes	No
Deering	Western	Deering IRA	$3.86	-3%	$5.15	21%	No	n/a
Gambell	Western	ANICA (Gambell Native Store)	$4.75	0%	$5.85	0%	No	n/a
Golovin	Western	Golovin Public Utilities	$8.23	106%	$7.50	76%	Yes	Yes
Hooper Bay	Western	Crowley Marine	$7.37	46%	$7.24	36%	Yes	Yes
Kaltag	Western	Kaltag Cooperative	$6.25	39%	$6.00	20%	No	n/a
Kiana	Western	Kiana Traditional Council	$6.45	25%	$7.00	18%	Yes	Yes
Kotzebue	Western	Crowley	$6.09	45%	$5.80	33%	Yes	Yes
Koyuk	Western	Koyuk Native Corporation	$3.98	0%	$3.98	0%	Yes	No
Marshall	Western	Maserculiq Inc.	$7.25	49%	$6.98	45%	No	n/a
Noorvik	Western	Morris Trading Post	$4.60	0%	$5.05	3%	Gas Only	No
Nunapitchuk	Western	Nunapitchuk LTD.	$5.69	20%	$5.74	15%	Yes	Yes
Pilot Station	Western	Pilot Station Native Corp.	$7.13	19%	$6.55	8%	Yes	Yes
Saint Michael	Western	Saint Michael Fuel Company	$7.75	67%	$7.50	51%	Yes	Yes
Savoonga	Western	ANICA (Savoonga Native Store)	$4.69	0%	$5.59	0%	No	No
Scammon Bay	Western	Askinuk Corporation	$6.96	39%	$6.81	40%	Yes	Yes
Shishmaref	Western	Shishmaref Native Store	$5.09	0%	$5.25	0%	No	n/a
Stebbins	Western	Tapraq Fuel Company	$7.98	61%	$7.71	43%	Yes	Yes
Teller	Western	Teller Native Corporation	n/a	n/a	n/a	n/a	n/a	n/a
Unalakleet	Western	Unalakleet Native Corporation	$6.49	42%	$4.65	0%	Yes	HF Only
Upper Kalskag	Western	City of Upper Kalskag	$5.25	5%	$5.15	0%	No	n/a
Wales	Western	Wales Native Store	$4.70	-1%	$4.80	-3%	Yes	No

The Community Fuel Survey was conducted by the Alaska Department of Commerce, Community, and Economic Development, Division of Community & Regional Affairs (DCRA). If you have questions or comments regarding the survey or report, please contact:

Nicole Grewe, Ph.D., Development Specialist, (907) 465-8249, nicole.grewe@alaska.gov
Eric Caldwell, Research Analyst, (907) 465-3961, eric.caldwell@alaska.gov

Institute of Social and Economic Research

RESEARCH SUMMARY

R.S. No. 68 University of Alaska Anchorage • May 2008

Dollars of Difference: What Affects Fuel Prices Around Alaska?

By Meghan Wilson, Ben Saylor, Nick Szymoniak, Steve Colt, and Ginny Fay

The spike in oil prices has hit rural Alaskans especially hard, because they rely mostly on fuel oil for heating. But some rural residents are paying much more than others—at times 100% more.

The Alaska Energy Authority asked ISER to analyze what determines the prices rural households pay for fuel oil and gasoline. The agency hopes this research can help identify possible ways of holding down fuel prices in the future. In this summary we report only fuel oil prices, but the full report (see back page) also includes gasoline prices.

We studied 10 communities that reflect, as much as possible, the forces driving fuel prices. We collected information in November 2007, and fuel prices have gone up a lot since then. Crude oil sold for $120 a barrel in mid-May, up from about $80 in fall 2007.

But the factors that influence fuel prices haven't changed—and it's those factors that are most important, rather than prices at a specific time.

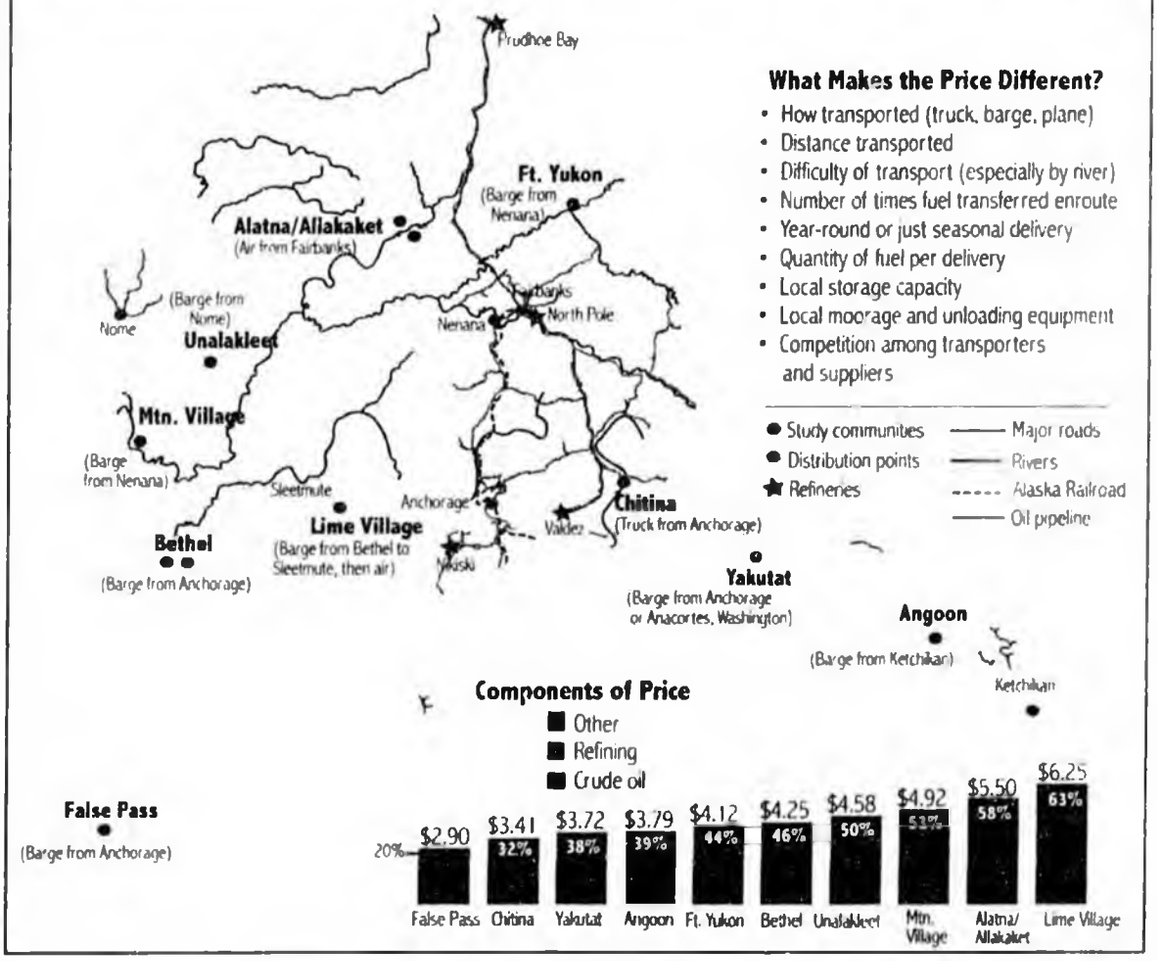
The map tells a big part of the story. The 10 study communities are scattered across Alaska. They include places that get fuel by truck, barge, and air. Some are much closer to refineries and distribution hubs than others. Some can get fuel through fairly simple transportation routes, and others get fuel only after it has been loaded and unloaded several times.

All those things influence prices. But so do less obvious factors, like the condition of local docks and fuel-handling equipment, the amount of competition among both suppliers and transportation companies, and community storage capacity. Sometimes small remote communities can take advantage of economies of scale, if commercial operators maintain large local storage tanks.

At the base of fuel prices are the costs of buying and refining crude oil (the blue and green bars in the map). In November 2007 those costs together accounted for an estimated $2.31 of the price Alaska households paid for a gallon of fuel oil. Transportation and other costs added 59 cents to $3.94 to the price in various study communities—making up from 20% to 63% of the final price for a gallon of fuel oil.

Inside we discuss all the factors that make fuel prices so different around Alaska—and the possibilities for influencing those prices.

$2.90 to $6.25 Per Gallon: Price of Fuel Oil in Study Communities, November 2007



What Affects the Price of Fuel Oil?

Fuel oil (also often called diesel) is one of several products distilled from crude oil and used for heating fuel or engine fuel. Fuel used for home heating is exempt from federal and state taxes, but not from local sales taxes.[1] Many but not all rural communities have sales taxes.

When we refer to fuel oil prices, we specifically mean the price *households* pay. Most rural Alaskans rely on fuel oil for heating houses and other buildings and generating electricity. Anchorage and a few nearby towns—and Barrow on the North Slope—have access to natural gas. Some places in southeast Alaska have hydro-powered electricity.

All communities have special characteristics that influence prices, but there are a few common contributing factors:

- *Crude oil and refining costs.* For this analysis, we assumed these costs were the same for fuel sold in all communities. In reality they vary, depending on when the fuel was purchased and other factors. But we couldn't get enough data to assign crude-oil costs to fuel in each community. Instead we based our estimates on costs the Energy Information Administration reported for September 2007.
- *Cost of transporting, storing, and distributing fuel.* These costs make up most of the difference in price among communities, but they are very difficult to segregate.
- *Other factors*, like the effects of competition (or lack of competition) are hard to quantify but also affect prices.

World Price of Crude Oil

Crude oil is processed into fuel oil, gasoline, jet fuel, and other fuels. Petroleum is also used in hundreds of other products, including tires, medicines, and plastics. The price of crude oil is driven by worldwide demand for petroleum products, but it's also influenced by political events and natural disasters that disrupt or threaten oil flows.

Oil from the North Slope has made Alaska a top U.S. oil producer since the late 1970s, and some oil is also still produced in Cook Inlet, where it was first discovered in the 1950s.

Refining Crude Oil into Fuel Oil

Fuel oil for most of Alaska is produced in Alaska. The big exception is southeast Alaska, where communities are strategically located to take advantage of the best prices available from either Alaska or West Coast refineries. Alaska's refineries are at North Pole in the Interior, Nikiski on the Kenai Peninsula, and Valdez, the terminal of the oil pipeline (see map, page 1). Oil companies also operate two refineries on the North Slope—but their production is only for North Slope operations, and we don't include it in this discussion.

Much of the oil for Alaska refineries comes from the North Slope, some from Cook Inlet, and some from other countries. Alaska refineries currently produce something in the range of 127,000 barrels (or 5.3 million gallons) of petroleum products daily. Production varies during the year, with demand for jet fuel and gasoline higher in the summer and demand for fuel oil higher in the winter.

As the figure at the bottom of the page shows, fuel for home heating and for vehicles makes up on average about 11% of the production at Alaska refineries. Even though winters are long and cold, the state population is small, at about 675,000. Also, the city of Anchorage (where 40% of Alaskans live) and nearby communities have access to natural gas for home heating.

Gasoline, the main product of many U.S. refineries, makes up only about 15% of Alaska's refinery production. Again, that's because the in-state market is small. Jet fuel is the main product of state refineries, making up about 60% of total production but 70% or more at individual refineries during the summer season. Anchorage's international airport creates much of the demand for jet fuel, but the Fairbanks airport and Air Force bases in the state also buy jet fuel.

Refineries in Alaska can compete with other U.S. refineries because transporting fuel the long distance to Alaska usually eliminates whatever price advantage the Outside refineries might have. From 2000 to 2007, average wholesale prices (adjusted for inflation) for a gallon of fuel oil in Alaska were comparable to those in the West Coast and Rocky Mountain regions and somewhat higher than the U.S. average.

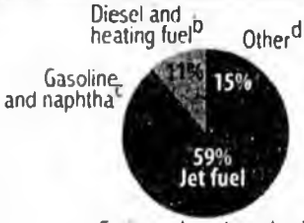
Average U.S. Wholesale Prices, Gallon of Fuel Oil,* 2000-2007
(In 2007 Dollars)

Gulf Coast	$1.30
U.S. average	$1.34
Midwest	$1.36
Alaska	$1.42
West Coast	$1.43
Rocky Mountain	$1.45

*# 2 fuel oil
Source: U.S. Energy Information Administration

Estimated Production by Petroleum Refineries in Alaska, 2008[a]

(Based on average production. Seasonal production varies.)



- Jet fuel is the main product of Alaska's refineries, varying from 50% to 70% of production at individual refineries.
- In other states, gasoline is the main refinery product. But in Alaska the market for gasoline is small (because the population is small) and the market for jet fuel is large, mostly because of traffic at Anchorage's international airport. The Fairbanks airport and Air Force bases in Alaska also use locally produced jet fuel.
- The level and composition of production varies substantially by season and with demand. Demand for jet fuel and gasoline climbs in the summer and demand for heating fuel drops.

Estimated total production:
Approximately 127,250 barrels (5.3 million gallons) per day[a]

[a]This estimate is based on information available from Alaska refineries, which have different mixes of products and report their production at different levels of detail. It includes production at the Flint Hills refinery at North Pole, the Tesoro refinery at Nikiski, and the Petro Star refineries at Valdez and North Pole. It does not include production at the two refineries on the North Slope, operated by BP Alaska and Conoco Phillips, which produce about 2,700 to 3,800 barrels per day of Arctic heating fuel for industry needs on the North Slope.

[b]Includes various products distilled from oil that can be used as a fuel for heating homes and other buildings or for vehicles, boats, generators, and other machinery.

[c]Naphtha is a byproduct of gasoline production and is used as a feedstock for the manufacture of chemicals and other products. Most naphtha produced in Alaska is exported. A small amount of light naphtha produced in Alaska is used to power generators.

[d]Includes asphalt, propane, and various other products, some of which are exported. Also includes the share of production the Flint Hills refinery uses to fuel its own needs.

Sources: Alaska Division of Oil and Gas; Flint Hills Resources; Tesoro Refineries; and Petro Star Inc.

Getting Fuel to Communities

Fuel buyers typically have contracts with transportation companies, specifying fuel delivery charges. We weren't able to learn current contract delivery prices, because companies keep that information confidential. Instead, we looked at all the factors that contribute to the costs of getting fuel to communities.

Sometimes fuel oil goes directly to Alaska communities from the refinery. But most often, fuel is first transported by rail, pipeline, truck, or barge to distribution hubs and then on to small rural communities.

Almost all rural Alaska communities are along the coast or on rivers or lakes. Some, mostly in southcentral and interior Alaska, are on the road system. So most rural places get fuel by barge and perhaps a couple of dozen by truck. A very small number—typically on rivers too shallow for fuel barges to navigate—routinely get fuel by air.

Trucking fuel is generally cheapest. Road communities are usually closer to distribution hubs, can get more frequent deliveries, and have lower storage and inventory costs. But so many factors affect fuel prices—for example, the timing of a fuel purchase—that even road communities don't always have the lowest prices.

Flying fuel is the most expensive, and communities will only get fuel by air if they have to because of their location or if they face a fuel shortage at a time when barges can't deliver.

Barging fuel is complex and risky, and in many places barges can only deliver during a short ice-free season. So while barging is cheaper than flying, it's still expensive, for many reasons. Those include:

- *Distance from the refinery.* The further away the community, the higher the cost. Also, communities closer to more than one refinery can choose among sources and take advantage of any lower prices.
- *Quantity of fuel purchased.* Communities can save money by buying fuel in larger quantities, because the fixed delivery costs are spread over more gallons of fuel. But to buy more fuel, communities must have the money not only to buy the fuel but also to increase their storage capacity.
- *Short seasons.* Ice prevents deliveries in many western and northwestern communities during the winter—so fuel transporters have to recover their capital costs during the short shipping season.
- *Fuel transfers.* Fuel for some small communities has to be transferred several times on its way from the refinery. Loading and unloading the fuel, storing it at hub communities, and incurring other transfer costs all add to the price at the final destination.
- *Navigational hazards.* Many stretches of Alaska rivers are risky, increasing running time and insurance and crew costs. Also, navigating rivers requires a lot of local knowledge—making it hard for inexperienced firms to compete.
- *Custom-built barges.* Barges operating in Alaska's western rivers must be custom-built to draw no more than 3.5 feet of water.
- *Small and shallow ports.* In many communities, fuel from has to be lightered ashore in smaller vessels, increasing the handling costs.
- *Inadequate moorage and fuel-pumping equipment*—making it more difficult, time consuming, and risky to unload fuel in some locations.

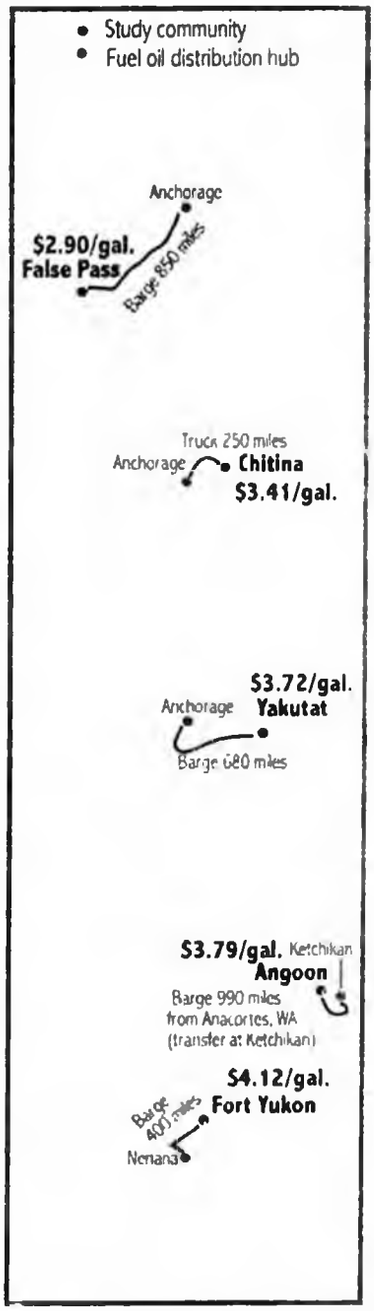
Storing and Distributing Fuel

Communities across Alaska also face the costs of storing fuel once it arrives. Fuel tanks are expensive to buy and maintain and have to meet government environmental regulations. And finally, distributing fuel to individual customers also adds to the price. A few communities allow customers to pick up the fuel themselves.

Study Communities

The maps on this page and the next show transportation routes to the 10 study communities and community fuel oil prices (in order from the lowest to the highest) as of November 2007.

- *False Pass* (population 54) is in the Aleutians. Fuel is barged 850 miles from Anchorage (or Dutch Harbor) once a year—which can have price benefits, depending on the timing of the fuel purchase. A seafood processor maintains 330,000-gallon storage tanks there; local residents can also buy that fuel. Local sales tax on fuel is 3%.



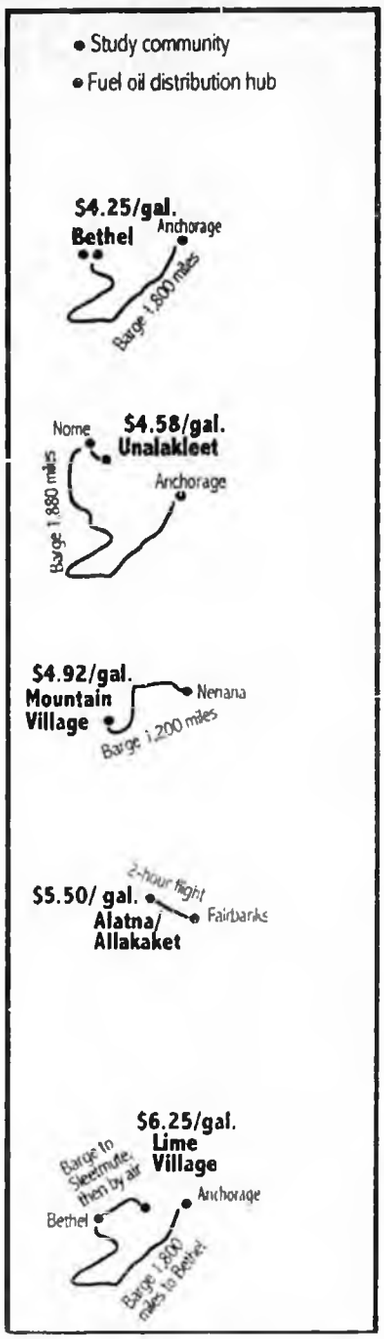
- *Chitina* (population 110) benefits from being on the road, 250 miles from Anchorage. But storage is limited, and frequent fuel purchases mean the community is quickly affected by rising prices. There is no local sales tax on fuel.
- *Yakutat* (population 620) is on the Gulf of Alaska and has an ice-free, deep harbor. Fuel is barged from Anchorage (680 miles) or Anacortes, Washington (1,300 miles). Very large storage tanks (6.5 million-gallon) owned by a transportation company and a major airline benefit residents. Local sales tax on fuel is 4%.
- *Angoon* (population 500) is on Admiralty Island. Fuel can be barged year-round from Anacortes (or Anchorage), which helps reduce prices. But the fuel has to be transferred at Ketchikan and lightered ashore at Angoon. Also, the community has little storage. There is no local tax on fuel.
- *Ft. Yukon* (population 570) is on the upper Yukon River. Fuel has to be barged 400 miles upriver from Nenana and lightered ashore. Ice prevents winter deliveries. But there is relatively large (660,000-gallon) storage capacity. The local tax on fuel sales is 3%.

- *Bethel (population 5,800) is a fuel distribution hub on the Kuskokwim River* in southwest Alaska. It benefits from large (14.8 million-gallon) storage tanks a transportation company owns there. But fuel is barged 1,800 miles from Anchorage, ice prevents winter deliveries, and fuel has to be lightered ashore. There is no local tax on fuel.

- *Fuel for Unalakleet (population 710) on Norton Sound* is first barged nearly 1,900 miles from Anchorage to the Nome fuel hub. Ice prevents winter deliveries, and fuel is lightered ashore. Local sales tax on fuel is 3%.

- *Fuel for Mountain Village (population 790) on the lower Yukon River* is usually barged nearly 1,200 miles downriver from Nenana. Fuel can be delivered only during a short season, in a shallow-draft barge. The community has limited storage capacity. Local sales tax is 3%.

- *Allakaket and Alatna (population about 125) are neighboring villages* on the upper Koyukuk River, where barges can't navigate. They get fuel by air from Fairbanks. They also have small (16,000 gallon) storage tanks. There is no local sales tax.



- *Lime Village (population 25) is on the Stony River* in the Kuskowim Delta. Barges can't reach the community. Fuel comes 1,800 miles by barge from Anchorage to Bethel, where it is transferred and shipped up the Kuskokwim River to Sleetmute, then flown to Lime Village. The storage tank holds only 1,800 gallons. There is no local sales tax.

Conclusions

We weren't able to break out all the factors driving fuel prices, because we couldn't distinguish some distribution costs from profits. Also, some of the study communities are so small and hard to reach that typically just one or two companies compete for their business. It's impossible to specify the price effects of that limited competition.

Still, we learned a lot about what drives fuel prices and have thought about what the state might do to help hold down prices. It's important to point out that the state has already created or expanded programs to help communities buy fuel or pay fuel companies and to help low-income households having trouble paying their energy bills.

The Alaska Energy Authority and the Denali Commission are also working together to improve fuel-storage capacity in many rural communities. Being able to store more fuel should help reduce community fuel prices. Other potential policies include:

- Consider selling state royalty oil to Alaska refineries at below-market prices, since the price of crude oil has a big effect on fuel prices. But the state wouldn't be able to control the downstream costs, and it's not clear how much benefit households would see after the fuel had passed through the entire distribution chain.

- Investigating the extent of cooperative buying in communities among utilities, schools, the state (which buys fuel for state facilities), and others would be worthwhile. Our research didn't include that assessment, but we heard anecdotally that deliveries may not be well-coordinated. Taking advantage of economies of scale could have price benefits.

- Having non-profit brokers to coordinate and fund collective fuel purchases could help reduce prices. We know that lack of cash frequently limits how much fuel small communities can buy at one time.

- Investigating possibilities for improving barge landings in small communities. Delivering fuel in places with inadequate infrastructure is harder and more expensive. But building barge landings is expensive for small communities, and there are also potential liability issues in the event of fuel spills. If there were a way to improve barge landings and resolve liability questions, both the delivery costs and the risk of fuel spills might be reduced.

Fuel will always cost more in small, remote places than in bigger, more accessible places. Public policies can't change that. But there are a number of points along the chain of fuel distribution where policymakers might find ways to help alleviate high fuel oil prices.

And in the long run, rural Alaskans may have other energy choices. The North Slope has one of the largest accumulations of natural gas in the U.S., and the state and oil companies are considering options for building a pipeline to carry that gas to market. The Alaska Natural Gas Development Authority is also examining ways to make the gas available in-state. The Alaska Legislature has appropriated money for a variety of renewable energy projects and studies. But it's still uncertain when rural Alaskans might have access to natural gas or other less-expensive energy sources.

Note

1. Although fuel oil is not subject to state or federal taxes, diesel for motor fuel—a virtually identical product—is taxed. In other states, fuel oil is dyed to distinguish it from the taxable motor fuel. But because Alaska markets are so small, Alaska is not required to dye fuel oil, and the two products can be shipped together. Because the taxable and non-taxable fuels are typically mixed for shipment, it is possible that at times households may in fact pay taxes on fuel oil—because the taxes have been levied at some earlier point. In that case, households can apply for refunds on those taxes. But our research indicates that in most cases households do not pay federal and state taxes on fuel oil. Instead, wholesale or retail sellers (depending on the circumstances of the sale) determine which sales are exempt from federal and state taxes, and apply for refunds of any such taxes they paid on fuel ultimately sold for home heating.

This summary is based on the report, *Components of Delivered Fuel Prices in Alaska*, by the same authors. That full report will be available in summer 2008 and will be posted on ISER's Web site:

Web site: www.iser.uaa.alaska.edu

Editor: Linda Leask • Graphics: Clemencia Merrill

Institute of Social and Economic Research

RESEARCH SUMMARY

R.S. No. 61 University of Alaska Anchorage • October 2006

Effects of Rising Utility Costs on Alaska Households

By Ben Saylor and Sharman Haley

Households in remote rural places face utility costs 50% higher now than in 2000. In Anchorage those costs are up 35% and in other large or road-system communities about 39%, as Figure 1 shows.

The share of household income going to utilities is also up. Utility costs in urban and rural areas are now anywhere from about 3% to 10% of income for the typical household.

Those are median figures for all households. Utilities take a much bigger share of income among low-income households. Utility costs now amount to more than a third of income among low-income households in remote places.

These are among the findings of an ISER analysis of how rising energy prices have increased utility costs for Alaska households since 2000. By "utility costs" we mean costs for heat, electricity, and water and sewer systems. We divided Alaska communities into three regions, based on their size and location. A map on the back page shows the areas in each region.

The 2000 costs we use are annual out-of-pocket costs Alaska households reported in the spring 2000 U.S. census. The spring 2006 figures are ISER estimates for the same households, based on increases in energy prices since the census.

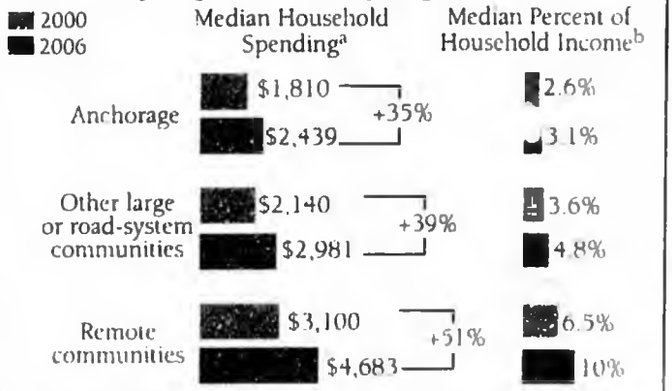
Utility costs were higher to start with and have increased more in remote places because they rely mostly on diesel for heating houses and generating power. Anchorage and a few other places have access to natural gas. (See map, page 2.) Both diesel and natural gas prices are up sharply, but diesel is still more expensive. Households paid on average four times more for diesel than for gas in 2005, measured by energy content (Figure 2).

Incomes in remote areas are also lower, which exacerbates the effect of higher utility costs. So it's not surprising that Alaskans in remote places use less household energy—roughly half as much per person as places with natural gas (Figure 3).

The inside pages show more about energy and utility costs. But to put utility costs in perspective, remember they're only a part of total housing costs—and total housing costs are significantly higher in urban Alaska (see back page). Also, higher energy prices directly affect transportation costs and indirectly affect many other costs. We only report effects on utility costs.

And "income" here includes only cash. Public programs that help households pay medical, housing, or other costs also effectively add to household incomes. So do the wild fish and game many Alaskans harvest. But the value of such non-cash contributions doesn't show up in traditional income measures.

Figure 1. Utility Costs for Alaska Households, Spring 2000 and Spring 2006



[a]Spring 2000 costs are out-of-pocket costs for previous year, reported by Alaska households in the 2000 U.S. census. Spring 2006 costs are ISER estimates for previous year, based on changes in energy prices from 1999 through 2005.

[b]Based on 1999 cash incomes Alaska households reported in 2000 U.S. census and estimated 2005 household cash incomes, adjusted for Permanent Fund Dividends not reported in the census.

Sources: See list of sources on page 4

Figure 2. Prices Households Pay for Natural Gas and Diesel, 2005

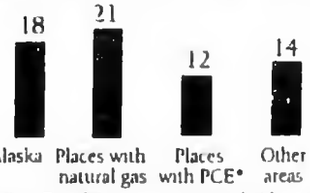
(In Dollars per Million BTUs*)

*British thermal units, a standard measure of energy content

Source: ISER calculations with data from Alaska Housing Finance Corporation and Regulatory Commission of Alaska

Figure 3. Estimated Annual Energy Consumption for Household Uses, Per Person

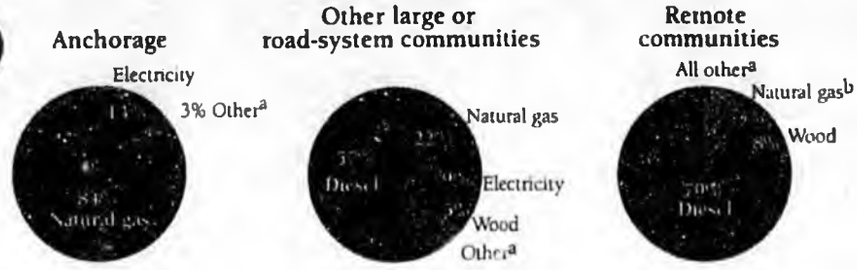
(Energy from All Sources, Converted to Barrels of Oil)



*The state Power Cost Equalization program subsidizes part of electricity costs in rural communities that generate electricity mainly with diesel.

Sources: Power Cost Equalization data base; Scott Goldsmith, *Alaska Power Statistics, 1960-2001*, ISER 2003; Steve Colt estimates, ISER, revised September 2006.

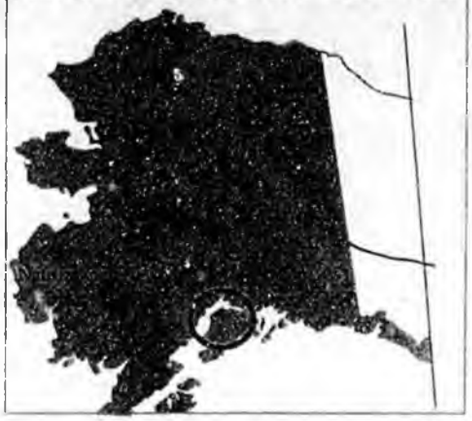
Figure 4. How Do Alaskans Heat Their Houses?
(Share of Households Using Various Energy Sources)



[a]Any fuel type not specified. Sources of heat include natural gas, propane, electricity, diesel, coal, wood, and solar energy. [b]Barrow has access to natural gas from local wells

Source: 2000 U.S. census

Places with Access to Natural Gas



Analysis Regions and Data Sources

Our baseline data are from the 2000 federal census, and we defined utilities the way the U.S. Census Bureau does: electricity, heating fuels, and water and sewer systems. But analysts don't all agree about what should be considered as "utilities."

Our analysis regions are based on five Alaska regions the U.S. Census Bureau uses for reporting detailed household information—Public Use Microdata Areas, which group communities based on size and proximity to road systems. We combined the five into three: (1) Anchorage; (2) other large or road-system communities; and (3) remote communities. A map on the back page shows the regions.

We report median household utility costs—that is, the midpoint figure, with half of households spending more and half spending less. We report those medians for all households and for the wealthiest and the poorest households. Our data on energy prices come from a number of sources, cited in the figures and listed on the back page.

We used figures from the 2000 U.S. census and the 2005 American Community Survey to estimate changes in household income.

Sources of Energy

Natural gas and diesel are the two big sources of energy Alaskans use. For heating, households use gas or diesel directly. Electricity is mostly generated either with gas or diesel, depending on which is available. (For some towns, mostly in southeast Alaska, hydropower generates electricity.) Water and sewer utilities also get the power they need from gas or diesel.

Natural gas from Cook Inlet fields is available in Anchorage and some (but not all) places on the Kenai Peninsula to the south and the Mat-Su Borough to the north. Some Fairbanks households use liquified natural gas (LNG), which is trucked in, and Barrow has access to gas from local wells.

Other Alaska communities rely mainly on diesel. Figure 4 shows how households heat their houses. Only in Anchorage do most heat with gas. In remote places about 80% of households use diesel, as do more than half the larger or road-system communities.

The majority of Alaskans—about 85%—live in Anchorage and other large or road-system communities and 15% in remote places (Figure 5).

Figure 5. Where Do Alaskans Live?

2005 Alaska population: 663,661

Source: Alaska Department of Labor

Figure 6. Increase in Natural Gas Prices For Anchorage Households, 2000-2006

	2000	2006	Increase
Price per 100 cubic feet	$ 32	$ 61	91%

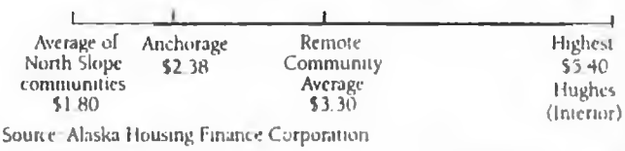
Sources: Regulatory Commission of Alaska and Enstar Natural Gas

Figure 7. Increase in Prices of Diesel for Home Heating, Per Gallon, Fall 2000 - Winter 2005

Anchorage	57%
Other large or road-system communities	70%
Remote communities	83%

Source: Population-weighted average prices, based on Alaska Housing Finance Corporation surveys.

Figure 8. Range of Diesel Prices for Home Heating, Per Gallon, Winter 2005



Source: Alaska Housing Finance Corporation

Rising Energy Costs

Natural gas prices in Anchorage and diesel prices in remote places increased roughly the same percentage in recent years. Anchorage households paid nearly twice as much for natural gas in early 2006 as in 2000 (Figure 6). Diesel prices increased 83% in remote areas from fall 2000 through winter 2005 (Figure 7). Data on September 2006 diesel prices, collected by

the Alaska Division of Community Advocacy in a number of remote places, showed continuing increases in diesel prices.

And diesel prices have gone up more in remote places than in places closer to roads, because prices customers pay include the additional costs of transporting fuel and maintaining community storage tanks.

Fuel prices also vary a lot among remote places. In winter 2005, prices varied from a low of $1.80 per gallon among North Slope communities to $5.40 in Hughes, in the Interior (Figure 8). The average price in remote places was $3.30.

North Slope villages are among the state's most remote communities, but they pay lower prices because the borough government subsidizes residential fuel costs. In other places considered "remote," some are much more remote than others —so the costs of getting fuel to them are higher. Also, the price households pay varies by when the fuel was purchased and how long the community supply bought at a specific time lasts.

Electricity rates have also increased, but not as much. The rate for customers of Anchorage's largest electric utility was up 28% between March 2000 and March 2006. Many remote communities receive Power Cost Equalization—a state program that subsidizes electricity costs in places that generate electricity mainly with diesel. In those places, rates went up 40% between 2000 and 2005, even taking the subsidy into account.

Figure 9. Increase in Electricity Prices, Rural Communities and Anchorage

Effective Rate for PCE residential customers (Median price per kWh for first 500 kWh[a])

2000	2006	Increase
17¢	24¢	41%

Rate for Anchorage Households[b] (Per 1,000 KWh)

March 2000	March 2006	Increase
$94.79	$121.00	28%

[a]Weighted by number of Power Cost Equalization customers per community

[b]For customers of Chugach Electric Association

Sources: Alaska Energy Authority and UA Cooperative Extension Service

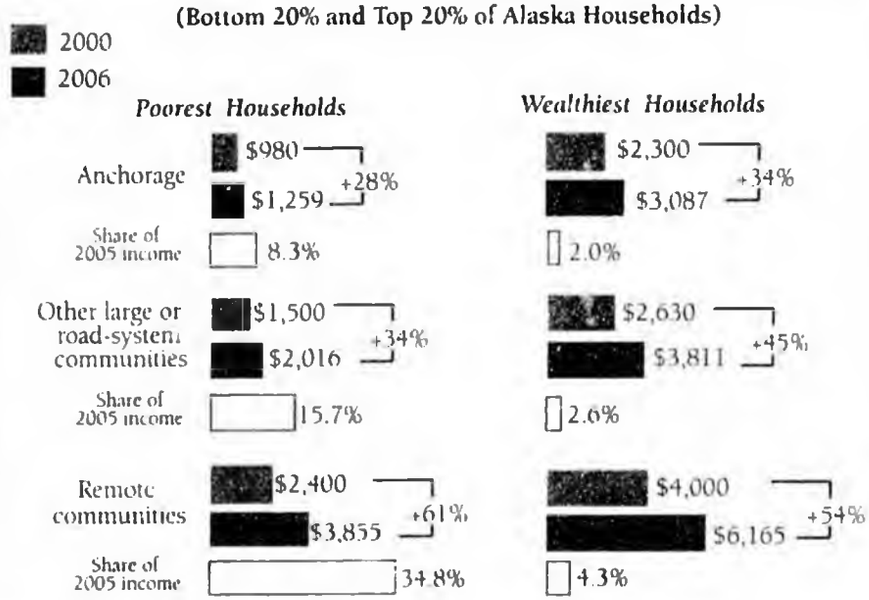
Poor and Wealthy Households

Figure 10 looks at how utility costs and shares of income going to utilities changed since 2000 among the state's wealthiest and poorest households—the 20% of households at the top of the income range and the 20% at the bottom.

Alaskans with lower incomes spend less for utilities than wealthier residents, because they live in smaller houses or apartments with fewer amenities.

Figure 10. Median Utility Costs for Poorest and Wealthiest Households, 2000 and 2006

(Bottom 20% and Top 20% of Alaska Households)



Source: See list of sources, page 4

In Anchorage and other urban places, many poor households rent and are more likely to heat with electricity. That's an expensive way to heat—but since prices for electricity didn't increase as much as prices of natural gas, utility costs for poor households in urban areas didn't increase as much as for wealthy households.

In remote areas, people with lower incomes are often homeowners who heat with diesel. In those places, poor households saw their annual utility costs increase 60%.

Costs for wealthier households statewide were higher to start with and went up more—because Alaskans with more money generally live in bigger houses that require more heat and electricity. Dollar costs for the wealthier households in urban areas went up 34% to 45% and in remote areas 54%.

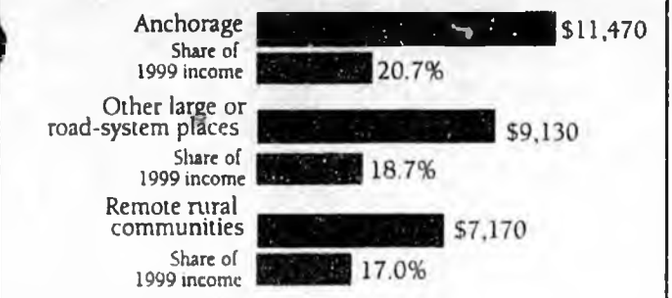
But even though dollar costs for utilities are higher among wealthy households, utility costs take a much bigger share of the smaller incomes of poor households. That's especially true in remote places, where incomes are lowest. Utility costs take from 8% to 35% of the income of poor households but about 2% to 4% among wealthy households.

Total Housing Costs

This analysis looks just at changing utility costs, but there are of course other housing costs—mortgages and rent payments being the biggest. Utility costs are higher in remote areas, but total housing costs are higher in urban areas. Most urban homeowners have mortgages, while many homeowners in remote places don't. Land values are higher in larger towns, and houses tend to be bigger and have more amenities.

Figure 11 shows that as of 2000, total housing costs were 60% higher in Anchorage than in remote places. We didn't estimate how total housing costs have changed since 2000, but we know they've gone up—since house prices, property taxes, and other costs are also up.

Figure 11. Total Household Housing Costs, 2000
(Median of Utility and All Other Housing Costs*)



*Housing costs reported in the 2000 U.S. census.

What's Ahead?

It's not news to Alaskans that they're paying more to heat their houses and run their freezers than they did a few years ago. Many have probably done things like lowering their thermostats and increasing the insulation in their houses. We weren't able to estimate how household energy use may have changed as energy prices rose.

But economic studies tell us that Americans' energy use is relatively inelastic—that means they typically don't cut their energy use much, even when prices are rising. So to pay their energy bills, some may try to reduce what they spend on other things, or work longer hours.

Some just aren't paying their utility bills—which has a cascading effect on utilities and businesses they owe money. The largest utility in rural Alaska said in late 2006 that it was considering cutting off electricity for hundreds of customers who hadn't paid their bills.

Higher energy prices have also directly increased transportation costs (and increased many other costs indirectly)—which we haven't talked about in this summary. Higher utility and transportation costs affect budgets not only of households but of businesses, local governments, and schools too.

There are state, federal, and private programs that provide municipal grants, community loans, and other energy assistance to households and communities. But such aid programs come and go and funding changes from year to year—and in any case they can't resolve the persistent issue for small communities where cash incomes are low and costs are high. A few rural communities are investigating the use of wind power to generate electricity.

Where energy prices will go from here is unpredictable. By fall 2006, worldwide prices of oil and natural gas had dropped considerably from their recent highs. But energy prices are notoriously volatile—as Alaskans have seen many times—and the link between world energy prices and consumer prices for products like diesel are neither direct nor instantaneous. It seems unlikely that utility costs are going to drop much any time soon.

This summary is part of an ongoing ISER study of the effects of higher utility costs on Alaska households. The work is being funded by the Rural Development section of the U.S. Department of Agriculture, Palmer office.

Editor: Linda Leask

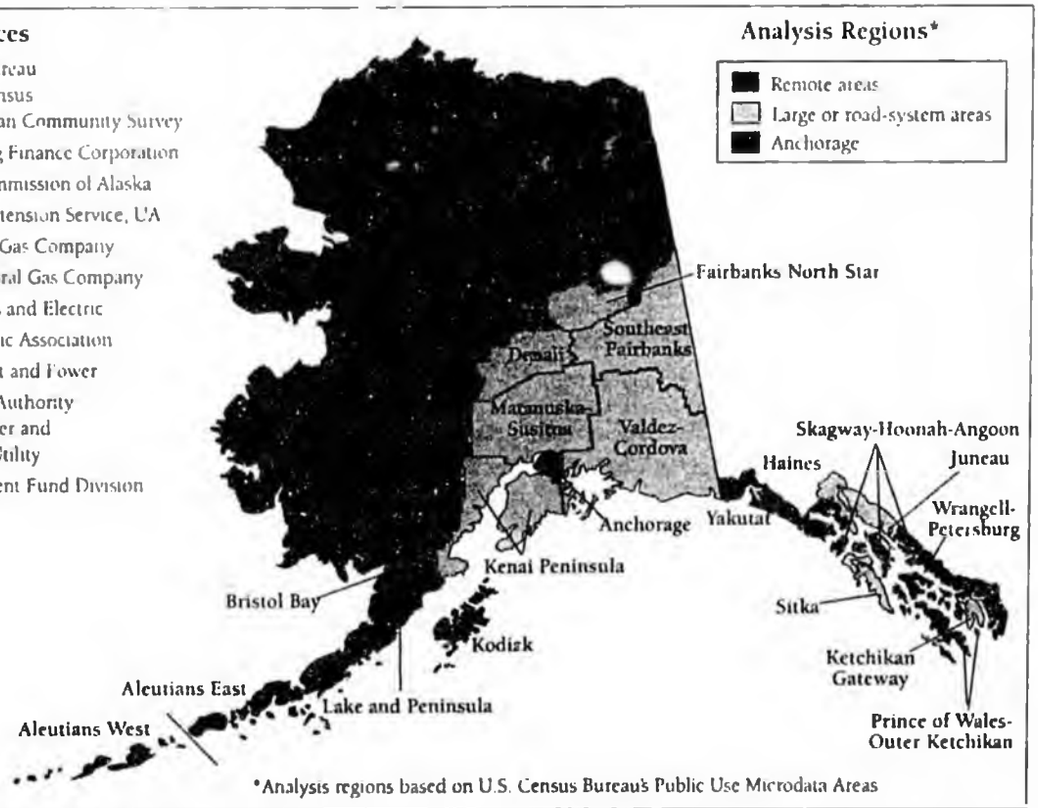
Graphics: Clemencia Amaya-Merrill

For more information about energy and many other issues of interest to Alaskans, visit ISER's Web site at:

www.iser.uaa.alaska.edu

Data Sources

U.S. Census Bureau
2000 U.S. census
2005 American Community Survey
Alaska Housing Finance Corporation
Regulatory Commission of Alaska
Cooperative Extension Service, UA
Enstar Natural Gas Company
Fairbanks Natural Gas Company
Barrow Utilities and Electric
Chugach Electric Association
Municipal Light and Power
Alaska Energy Authority
Anchorage Water and Wastewater Utility
Alaska Permanent Fund Division



*Analysis regions based on U.S. Census Bureau's Public Use Microdata Areas

ALASKA PETROLEUM PRODUCTS PRICING INVESTIGATION:

CLOSING REPORT

Prepared by the Alaska Department of Law

November 21, 2002

Introduction

At my direction, the Alaska Department of Law conducted an extensive three-year investigation into the pricing of petroleum products in Alaska. The investigation was initiated in 1999 in response to public complaints about the high price of gasoline in Alaska in comparison to other states. I am closing the investigation because there is insufficient evidence indicating a violation of the antitrust laws.

Conditions Prompting the Investigation

Historically, the price of gasoline on the West Coast of the United States averaged 11 cents per gallon (cpg) higher than the average retail price throughout the 50 states, excluding taxes,[1] and the price of gasoline in Alaska has tended to be higher than the price of gasoline on the West Coast by about 9 cpg. Between 1995 and 1998, however, gasoline prices in Alaska were as much as 17 cpg higher than West Coast prices. This was the impetus for the investigation. Immediately after I initiated the investigation, beginning in 1999, the spread between prices in Alaska and the West Coast narrowed dramatically, more closely tracking the historical spread between Alaska and the other states.

Legal Standards

In order to establish a violation of Alaska's antitrust statute, AS 45.50.562 and AS 45.50.564 (or the comparable federal law), there must be evidence that two or more companies entered into an express or "tacit" agreement to fix petroleum prices. A showing that companies charged prices in excess of the competitive level, or raised and lowered prices in a parallel fashion, is not enough to establish the existence of a tacit agreement. Instead, evidence of uniform pricing must be accompanied by additional evidence demonstrating that two or more parties had a "meeting of the minds" to engage in cooperative pricing behavior, such as: (1) actions contrary to an entity's independent economic interests; (2) departure from normal business practices; (3) motive to conspire; (4) opportunity to conspire; (5) high level of inter-company communications; and (6) past antitrust violations involving collective action.[2]

---

[1] Retail gasoline prices at the pump include federal, state, and local taxes. Since Alaska has one of the lowest gasoline taxes in the nation, retail price comparisons understate the differences between prices in Alaska and elsewhere unless taxes are deducted.

[2] *See, In re Baby Food Litigation*, 166 F.2d 112, 122 (3d Cir. 1999) (proof of plus factors is a "prerequisite to finding that parallel action amounts to a conspiracy").

The Investigation

The investigation began in the summer of 1999 when my staff issued Civil Investigative Demands (CIDs) to refiners and distributors of petroleum products in the state. Hundreds of boxes of documents were produced in response to the demands. The investigation involved the review of thousands of pages of internal company documents, detailed analysis of pricing data, interviews of witnesses and potential witnesses, and formal depositions of several current and former oil company employees and executives.

Findings

My staff provided a summary of the investigation in a report entitled "Alaska Petroleum Price Fixing Investigation: Update and Status," December 21, 2001, http://www.law.state.ak.us/civil/oil-gas-mining/AKPPPI-1a_final.pdf. That report describes the economic conditions and market forces present in Alaska that affect the pricing of petroleum products. All of the information and data provided to me in response to the CIDs is, by statute, confidential. AS 45.50.592(e).

The investigation found that Alaska's gasoline industry is highly concentrated, in that four marketers accounted for the vast majority of gasoline sales during the relevant time period. When there are few sellers in a market, like Alaska, it is easier for them to observe how competitors react to decisions regarding output and prices, and each may take into account the potential impact of its own actions on market prices and the potential responses from other sellers. This type of interdependent behavior on the part of sellers often leads to parallel pricing, but that is not, in the absence of an express or implied agreement to set prices, a violation of the antitrust laws so long as each business develops and implements its pricing and output decisions independently. The investigation has not produced evidence of an express or implied agreement to set prices or to otherwise violate antitrust laws.

For the reasons set forth above, I am closing this investigation without further action. However, I expect the Department of Law to continue to monitor gasoline prices in Alaska.

ALASKA PETROLEUM PRODUCTS PRICING INVESTIGATION: UPDATE AND STATUS

Prepared by the Alaska Department of Law
December 21, 2001

Introduction

The Office of the Attorney General for the State of Alaska began an investigation of Alaska petroleum prices in 1999 by issuing Civil Investigative Demands to petroleum refiners and product distributors. The investigation was begun because of public complaints and inquiries to the Attorney General about the high price of gasoline in Alaska in comparison to other states. The purpose of the investigation is to determine whether Alaska petroleum product pricing is the product of illegal price fixing or other anticompetitive behavior in violation of state or federal statutes.

The Attorney General's investigation is ongoing. The Department of Law is reviewing the documents and data provided by the state's gasoline marketers. The Department of Law has not made a determination regarding whether there is sufficient evidence to warrant bringing an antitrust or other enforcement action.

Background

To bring an action under Section One of the Sherman Act (the federal antitrust law) or under AS 45.50 (Alaska's antitrust law), there must be evidence of an illegal agreement. This could be an actual written agreement, testimony, or other evidence of an agreement to fix prices, divide the market, or otherwise restrain competition.

Under existing law, the State of Alaska does not attempt to regulate wholesale or retail gasoline prices. A business is free to set its own price, but it is illegal for a business to collude with competitors to set prices.

The state has reviewed thousands of pages of documents, conducted interviews, and reviewed market data to determine whether there is direct evidence of an illegal agreement.

All material and data provided to the state in response to the civil investigative demands of the Attorney General are confidential by statute. AS 45.50.592(e). The following is a summary of the non-confidential portions of the analysis prepared by the department to date.

Price Differences Between Alaska and the Lower 48

Retail prices of gasoline in Alaska have more closely followed prices in other West Coast states than prices in the rest of the U.S. Given Alaska's relative proximity to the West Coast, this probably is to be expected. Though Alaska's refineries supply much of the petroleum products required in the state, jet fuel, diesel, and gasoline have regularly been shipped from West Coast refineries to Alaska during the past decade. (Alaska's sources of supply for petroleum products are discussed in greater detail below.) In addition, gasoline and other products have been exported from Alaska to the West Coast. Because West Coast refineries are the closest alternative source of refined petroleum products outside Alaska, and because refined products move from Alaska to the West Coast, Alaska prices are influenced by West Coast prices.

Unfortunately, gasoline prices on the U.S. West Coast have, historically, been higher than prices in the rest of the U.S. Over the past seven years, the average retail price for gasoline, excluding taxes[1], on the West Coast has been 11 cents per gallon ("cpg") higher than the average retail price throughout the 50 states.

Concerns expressed by consumers and others about West Coast gasoline prices prompted the Federal Trade Commission ("FTC") to initiate an investigation. The FTC studied West Coast gasoline pricing practices for almost three years, but ultimately concluded that there was nothing unlawful about the manner in which West Coast wholesalers priced gasoline.

The FTC closed its West Coast investigation in May 2001. In doing so, it concluded that the West Coast has several important characteristics that set it apart from much of the rest of the U.S. gasoline market. One of the most important characteristics is the West Coast's relative distance from the Gulf Coast. The Gulf Coast is the largest refining center in the U.S. and an important source of supply of gasoline and other refined products. Refined products move to much of the U.S. from Gulf Coast refineries through a network of pipelines. There are no pipeline connections, however, between the Gulf Coast's refineries and the West Coast. This means that products like gasoline moving from the Gulf Coast's refineries to the West Coast must be shipped through the Panama Canal on marine tankers. This may explain in part why gasoline and other products refined on the West Coast command higher prices.

Unique product requirements, such as those imposed by the California Air Resources Board ("CARB"), also tend to raise the price of gasoline. In addition, there are a limited number of gasoline refiners and wholesalers on the West Coast, and all refiners and wholesalers do not compete in all metropolitan areas.

---

[1] Retail gasoline prices at the pump include federal, state, and local taxes. Since Alaska has one of the lowest gasoline taxes in the nation, retail price comparisons understate the differences between prices in Alaska and elsewhere unless taxes are deducted.

Apart from the CARB standards, the West Coast market characteristics identified above are also present in Alaska. Compared to the West Coast, however, Alaska is even more distant from Gulf Coast product markets, has fewer refiners, and has even greater wholesale market concentration. This may explain in part why Alaska prices tend, on average, to be higher than those in other western states.

Yet these market characteristics, by themselves, do not explain why the price difference between Alaska and the West Coast grew sharply between 1995 and 1998. During this period, Anchorage-area prices were on average 17 cpg above retail prices in the Seattle area, a level nearly double the 9 cpg difference seen in the prior four years. This is curious given that Alaska refiners produced more gasoline during this period than was consumed here, and exported the surplus to the West Coast and Far East at prices lower than those offered in Alaska. Beginning in 1999, however—after the Attorney General initiated this investigation—the spread narrowed dramatically. Between January 1999 and December 2000, Anchorage-area retail prices averaged just 3 cpg above Seattle-area retail prices.

Supply and Demand of Petroleum Products

In addition to gasoline, the other major petroleum products sold in Alaska are jet fuel and diesel (No. 2 heating oil and No. 2 diesel fuel). These products and gasoline constitute more than 95% of the total volume of petroleum products sold in the state.

The Tesoro and Williams refineries produce gasoline, jet fuel, and diesel. The PetroStar refinery produces jet fuel and diesel, but no gasoline.

The Williams refinery, near Fairbanks, and the PetroStar refineries, near Fairbanks and in Valdez, all take Alaska North Slope crude ("ANS") directly from the TAPS line. Both companies reinject the unrefined portion of ANS back into the TAPS line.

Alaska's current demand for refined petroleum products is approximately 100 thousand barrels per day (MBD), or 1.5 billion gallons per year. Jet fuel consumption is just over 60 MBD, accounting for a little more than 60% of total demand for refined product in the state. Consumption of diesel and gasoline in Alaska runs approximately 16 MBD, or 245 million gallons per year, for each product.

More gasoline is produced in Alaska than is consumed. The excess is exported to the West Coast and foreign destinations. Nevertheless, gasoline, diesel, and jet fuel are barged into southeastern Alaska from Seattle-area refineries.

Historically, Alaska's refineries have not produced enough jet and diesel fuel to supply the state. These products are imported from the Far East or the West Coast.

Tesoro's refinery supplies the majority of gasoline consumed in Alaska, but Williams supplies most of the gasoline sold in Fairbanks and interior Alaska. Williams also ships gasoline and jet fuel by rail to Anchorage.

The Anchorage metropolitan area accounts for about 60% of the state's retail gasoline sales while Fairbanks, Juneau, the Kenai Peninsula, and Western Alaska account for roughly 10% of retail sales each. There are approximately 300 service stations in Alaska. About one-third of Alaska's 300 retail gasoline stations are located in the Anchorage area. The average retail station in Anchorage is larger and sells much higher volumes than stations in the rest of the state.

Alaska's Gasoline Industry Is Highly Concentrated

Williams, Tesoro, Chevron, and Texaco[2] account for the vast majority of gasoline marketed in Alaska. The state's two gasoline refiners, Williams and Tesoro, were also its largest gasoline marketers, accounting for nearly 65% of Anchorage-area sales between them in 1999. Chevron and Texaco accounted for approximately 32% of Anchorage volumes. These same four marketers have accounted for nearly all of Alaska's gasoline sales over the past decade.

For purposes of analyzing competition within a market, the U.S. Justice Department and the Federal Trade Commission categorize markets into the following three groups: Unconcentrated, Moderately Concentrated, Highly Concentrated. Alaska's gasoline industry is Highly Concentrated at both the refining and wholesale distribution levels. Wholesale gasoline markets in Alaska are more concentrated than in most other wholesale gasoline markets in the U.S. and on the West Coast. Analysis of the available market share data shows that with the exception of the southeast part of the state, concentration levels are much higher in regions outside of Anchorage.

Competition, Oligopoly, and Illegal Behavior

Unconcentrated markets are characterized by a large number of sellers offering the same or similar products to consumers who can shop for the best value. Unconcentrated markets are generally assumed to be competitive. The more sellers, the more likely competition will thrive. In a competitive situation, no single seller has market power; the

---

[2] Since the late 1990's, in the West and Midwest, Texaco brand gasoline has been marketed by Equilon, a joint venture between Texaco and Shell. As a condition to approving the recent merger of Chevron and Texaco, Alaska, other states, and the Federal Trade Commission required Texaco to divest its interest in Equilon to Shell or another buyer. Therefore, the Chevron-Texaco merger should not reduce competition in the Alaska gasoline market.

power to influence prices in the market on its own. Also where there are many sellers, it is difficult for sellers to coordinate their behavior or agree to volume or price restrictions without being detected.

In a competitive market, sellers are motivated to lower their prices in order to increase their sales, while buyers are motivated to seek out the best deal. Prices will tend to drop over time until they are close to sellers' costs. If prices begin to rise above costs, sellers will try to take advantage of the opportunity to increase profits by making more of the product available in the market. This increase in supply will in turn drive prices down to the point where they again are close to the sellers' costs. If prices fall to a level that does not cover sellers' costs, some sellers will go out of business. Those that are left will offer less of the product until prices start to increase again.

On the other end of the spectrum are highly concentrated markets, where there are relatively few sellers of a particular product. Economists call such a market an "oligopoly." Oligopolies do not always lead to higher prices, however. Prices in an oligopoly can be competitive even when there are very few sellers if, for example, potential new sellers are ready, willing, and able to enter the market in the event of even a small increase in price. In this situation, the threat of additional competition may tend to keep prices low. However, if there are relatively high costs associated with entering a market (entry barriers), existing sellers may be able to increase prices without much concern about attracting new competition.

When there are few sellers in a market, it is, presumably, easier for each to observe how its competitors react to decisions regarding output and prices, and each may take into account the potential impact of its own actions on market prices and the potential responses from other sellers. This type of competitive behavior, which is dependent in part on the expected actions or reactions of other sellers, is often referred to as "oligopolistic pricing" or "oligopolistic interdependence." In this environment, it is easy for sellers to develop a "live and let live" attitude toward their rivals that would not be possible to maintain in a competitive market. As a result, oligopolistic behavior can result in prices that are above competitive levels over extended periods of time.[3]

This type of interdependent behavior on the part of sellers is not generally regarded as a violation of antitrust laws so long as each business develops and implements its pricing and output decisions independently. That is, in determining what volumes to produce or what prices to offer, businesses can incorporate their expectations about a rival's likely reactions as long as those expectations are developed independently and without the aid of other sellers. If the sellers communicate about price setting or enter into

[3] Not all economists agree with this theory, and some would require empirical evidence supporting the theory before considering it valid for a particular market. In any event, whether higher-than-competitive prices in a market can be explained by oligopolistic interdependence is highly dependent on the facts.

an agreement that affects prices, it is considered collusion and a violation of the antitrust laws.

Economists believe collusion is more likely when certain conditions are present in a market, especially in markets for a relatively homogenous product like gasoline. These conditions include (1) the presence of only a few sellers (oligopoly), (2) inelastic demand, (3) relatively static or declining demand over time, (4) easy detection of sales by competitors, (5) price visibility, (6) difficulty of entry by potential new competitors, (7) frequent contact between sellers, and (8) few "fringe" or smaller sellers. All of these conditions are present in Alaska. But their presence, together with gas prices higher than one would expect in a competitive market, do not in themselves constitute a legal basis for an antitrust enforcement action. There must also be evidence of an illegal agreement or evidence that would allow the inference of such an agreement.

Additional Information on the Investigation

The companies have recently finished producing documents to the state. The state is in the process of reviewing and analyzing those documents to determine whether any laws or regulations have been violated.

Under Alaska's antitrust law, many aspects of this case are to be kept confidential. In particular, documents and their contents provided to the state in response to the Civil Investigative Demands (CIDs) issued by the Office of the Attorney General are to be kept confidential in the absence of a court order authorizing their disclosure to the public. AS 45.50.592(e). Such an order might be requested by the state if the investigation leads to an enforcement action. If the state finds no evidence of a violation of the antitrust laws, CID information may not be disclosed to the public in the absence of express authorization by the firm that provided the documents. AS 45.50.592(e). Because of the lawsuits filed against the state by some of the companies being investigated, court pleadings have been filed in the public record that contain some information about the investigation that would normally not be available to the public.

The state's initial CIDs were served upon several dealers of wholesale petroleum products in June, July, and August of 1999. Shortly thereafter, Tesoro, Chevron, and Texaco filed suit in Alaska Superior Court in Anchorage protesting the scope of the CID questions and the state's intended use of the produced documents. Those cases were consolidated under case number 3AN-99-8544CI. In an order issued October 7, 1999, the Superior Court upheld the propriety of the CIDs, with minor modification to a small number of questions, and the right of the state to share the documents with contract counsel without permission of the producing companies.

On October 13, 1999, Tesoro filed an appeal of the Superior Court's decision in the Alaska Supreme Court (Case No. S9379). Tesoro appealed both the scope of the CIDs and the state's right to share documents with contract counsel. The Alaska Supreme Court heard oral argument on November 15, 2000, but has yet to issue a decision.

The initial petition filed by Tesoro in the Superior Court explains Tesoro's contentions with respect to the scope of the CID. The CID, attached to the petition as an exhibit, lists the issues being examined by the Department of Law. Likewise, the state's opposition to Tesoro's petition outlines the issues that are the focus of the CID. The state's brief in the Alaska Supreme Court analyzes the issues being pursued and gives a brief history of the case proceedings. These documents are available at the state court clerk's office in Anchorage.

Other Resources

Interested persons may obtain gasoline pricing information from a number of sources on the Internet. The Energy Information Agency of the Federal Department of Energy tracks petroleum-related information nationwide. It compiles retail and wholesale gasoline pricing data and maintains reference documents about petroleum economics and various aspects of the energy markets:
http://www.eia.doe.gov/

There is information on average wholesale prices at:
http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_marketing_monthly/current/pdf/pmmtab35.pdf

The following article discusses the reasons that West Coast prices tend to be higher than those in the rest of the country:
http://www.eia.doe.gov/pub/oil_gas/petroleum/presentations/2001/senate_testimony/index.htm

The following article explains the many factors influencing the costs of refining:
http://www.eia.doe.gov/emeu/finance/usi&to/downstream/index.html

In August 2001, the Federal Trade Commission conducted a hearing regarding factors influencing the price of refined petroleum products. Testimony and information regarding that hearing can be found at:
http://www.ftc.gov/bc/gasconf/

The American Automobile Association publishes daily average gasoline prices at:
http://www.fuelgaugereport.com/

Disclaimer: This page contains hyper links to World Wide Web sites that are created and maintained by other organizations. We have included these links because we think that visitors to our site may find them of interest. We do not guarantee the accuracy or completeness of any information presented on these sites. The Office of the Attorney General does not necessarily endorse the views expressed on these web sites.

10

NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

7700 East First Place Denver, CO 80230
ph (303) 364-7700 fax (303) 364-7800
www.ncsl.org

Price Gouging Legislation
May 6, 2008

Compiled by Kate Marks, Energy Program Director

CT S 521	INTRODUCER:	Joint Committee on General Law
	TITLE:	Price Gouging
	INTRODUCED:	02/27/2008
	LAST AMEND:	03/27/2008
	DISPOSITION:	Pending
	LOCATION:	Joint Committee on Finance, Revenue and Bonding

SUMMARY:
Concerns price gouging; protects consumers in the event of an energy resource market disruption emergency.

STATUS:

04/07/2008	To JOINT Committee on FINANCE, REVENUE AND BONDING.

2008 CT S 521
AUTHOR: Joint Committee on General Law
VERSION: Substituted
VERSION DATE: 03/27/2008

STATE OF CONNECTICUT

General Assembly Substitute Bill No. 521
February Session, 2008 * SB00521GL 031108 *

AN ACT CONCERNING PRICE GOUGING AND THE PETROLEUM PRODUCTS GROSS EARNINGS TAX.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 42-234 of the general statutes is repealed and the following is substituted in lieu thereof (Effective from passage):

(a) As used in this section:

(1) "Energy resource" shall include, but not be limited to, middle distillate, residual fuel oil, motor gasoline, propane, aviation gasoline and aviation turbine fuel, natural gas, electricity, coal and coal products, wood fuels and any other resource yielding energy;

(2) "Seller" shall include, but not be limited to, a supplier, wholesaler, distributor or retailer involved in the sale or distribution in this state of an energy resource;

~~(3) "Abnormal market disruption" refers to any stress to an energy resource market resulting from weather conditions, acts of nature, failure or shortage of a source of energy, strike, civil disorder, war, national or local emergency, oil spill or other extraordinary adverse circumstance.~~

(3) "Additional costs" means all replacement and transportation costs and taxes incurred by a person within the chain of distribution;

(4) "Gross disparity" means an increase of more than fifteen per cent in the price of an energy resource;

(5) "Unconscionably excessive" means a price that represents a gross disparity between the price of an energy resource when compared to the highest price such energy resource was sold or offered for sale by the seller in the usual course of business during the seven days immediately prior to the declaration by the Governor of an energy resource market disruption emergency pursuant to subsection (c) of this section.

(b) No seller during any ~~period of abnormal market disruption~~ energy resource market disruption emergency declared by the Governor pursuant to subsection (c) of this section, or during any period in which ~~an imminent abnormal market disruption~~ such emergency is reasonably anticipated shall sell or offer to sell an energy resource for an amount that represents an unconscionably excessive price.

(c) Evidence that (1) the amount charged represents a gross disparity between the price of an energy resource that was the subject of the transaction and the price at which such energy resource was sold or offered for sale by the seller in the usual course of business immediately prior to ~~(A) the onset of an abnormal market disruption, or (B)~~ an energy resource market disruption emergency declared by the Governor pursuant to subsection (c) of this section, or any period in which ~~an imminent abnormal market disruption~~ such emergency is reasonably anticipated, and (2) the amount charged by the seller was not attributable to additional costs incurred by the seller in connection with the sale of such product, shall constitute prima facie evidence that a price is unconscionably excessive.

(d) This section shall not be construed to limit the ability of the Commissioner of Consumer Protection or the courts to establish certain acts or practices as unfair or unconscionable in the absence of ~~abnormal market disruptions~~ an energy resource market disruption emergency declared by the Governor pursuant to subsection (c) of this section.

(e) In the event of a state-wide or regional shortage or threatened shortage of an energy resource due to an abnormal market disruption resulting from a natural disaster, weather conditions, acts of nature, strike, civil disorder, war, national or local emergency or other extraordinary adverse circumstance, the Governor may proclaim that an energy resource market disruption emergency exists. Upon the declaration of such emergency, the Governor may, in connection therewith, issue orders designating an energy resource to be in short supply or in danger of becoming in short supply in the state or in a specific region of the state and imposing price restrictions or rationing with respect thereto. Prior to the issuance of such an order, the Governor shall make written findings that there is

an abnormal market disruption, that the energy resource is in short supply or is in danger of becoming in short supply due to such disruption, that the energy resource is essential to the health, safety and welfare of the people of the state, and that the imposition of price restrictions on the energy resource or rationing of such resource is necessary to assure the health, safety and welfare of the people of the state.

(f) Any proclamation or order issued pursuant to this section shall become effective upon its filing in the office of the Secretary of the State and with the clerks of the Senate and the House of Representatives. Such proclamation or order shall be published in full at least once in a newspaper having general circulation in each county, provided failure to publish shall not impair the validity of such proclamation or order. Unless disapproved in accordance with the provisions of subsection (g) of this section, any proclamation or order shall remain in effect until the Governor proclaims an end to the emergency or until ninety days after the date of the proclamation of the emergency, whichever occurs first.

(g) Any proclamation or order issued pursuant to this section may be disapproved by a majority vote of each house of the General Assembly. Any such disapproval shall become effective upon filing notice of such action with the office of the Secretary of the State.

(h) A natural person, trade association, corporation or other entity may register with the Commissioner of Consumer Protection as an agent for the purpose of being notified by said commissioner or said commissioner's agent in the event the Governor declares an energy resource market disruption emergency pursuant to subsection (e) of this section. Such natural person, trade association, corporation or other entity shall be notified of such emergency by said commissioner or said commissioner's agent in an expeditious manner when the Governor declares an energy resource market disruption emergency.

(i) A violation of the provisions of subsection (b) of this section shall be deemed an unfair or deceptive trade act or practice under subsection (a) of section 42-110b.

Sec. 2. Section 12-587 of the 2008 supplement to the general statutes is repealed and the following is substituted in lieu thereof (Effective from passage):

(a) As used in this chapter: (1) "Company" includes a corporation, partnership, limited partnership, limited liability company, limited liability partnership, association, individual or any fiduciary thereof; (2) "quarterly period" means a period of three calendar months commencing on the first day of January, April, July or October and ending on the last day of March, June, September or December, respectively; (3) "gross earnings" means all consideration received from the first sale within this state of a petroleum product; (4) "petroleum products" means those products which contain or are made from petroleum or a petroleum derivative; (5) "first sale of petroleum products within this state" means the initial sale of a petroleum product delivered to a location in this state; (6) "export" or "exportation" means the conveyance of petroleum products from within this state to a location outside this state for the purpose of sale or use outside this state; and (7) "sale for exportation" means a sale of petroleum products to a purchaser which itself exports such products.

(b) (1) Except as otherwise provided in subdivision (2) of this subsection, any company which is engaged in the refining or distribution, or both, of petroleum products and which distributes such products in this state shall pay a quarterly tax on its gross earnings derived from the first sale of petroleum products within this state. Each company shall on or before the last day of the month next succeeding each quarterly period render to the commissioner a return on forms prescribed or furnished by the commissioner and signed by the person performing the duties of treasurer or an authorized agent or officer, including the amount of gross earnings derived from the first sale of

petroleum products within this state for the quarterly period and such other facts as the commissioner may require for the purpose of making any computation required by this chapter. Except as otherwise provided in subdivision (3) of this subsection, the rate of tax shall be (A) five per cent with respect to calendar quarters prior to July 1, 2005; (B) five and eight-tenths per cent with respect to calendar quarters commencing on or after July 1, 2005, and prior to July 1, 2006; (C) six and three-tenths per cent with respect to calendar quarters commencing on or after July 1, 2006, and prior to July 1, 2007; (D) seven per cent with respect to calendar quarters commencing on or after July 1, 2007 ~~, and prior to July 1, 2008; (E) seven and one-half per cent with respect to calendar quarters commencing on or after July 1, 2008, and prior to July 1, 2013; and (F) eight and one-tenth per cent with respect to calendar quarters commencing on or after July 1, 2013~~.

(2) Gross earnings derived from the first sale of the following petroleum products within this state shall be exempt from tax: (A) Any petroleum products sold for exportation from this state for sale or use outside this state; (B) the product designated by the American Society for Testing and Materials as "Specification for Heating Oil D396-69", commonly known as number 2 heating oil, to be used exclusively for heating purposes or to be used in a commercial fishing vessel, which vessel qualifies for an exemption pursuant to section 12-412 of the 2008 supplement to the general statutes; (C) kerosene, commonly known as number 1 oil, to be used exclusively for heating purposes, provided delivery is of both number 1 and number 2 oil, and via a truck with a metered delivery ticket to a residential dwelling or to a centrally metered system serving a group of residential dwellings; (D) the product identified as propane gas, to be used exclusively for heating purposes; (E) bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil to be used in any vessel having a displacement exceeding four thousand dead weight tons; (F) for any first sale occurring prior to July 1, 2008, propane gas to be used as a fuel for a motor vehicle; (G) for any first sale occurring on or after July 1, 2002, grade number 6 fuel oil, as defined in regulations adopted pursuant to section 16a-22c, to be used exclusively by a company which, in accordance with census data contained in the Standard Industrial Classification Manual, United States Office of Management and Budget, 1987 edition, is included in code classifications 2000 to 3999, inclusive, or in Sector 31, 32 or 33 in the North American Industrial Classification System United States Manual, United States Office of Management and Budget, 1997 edition; (H) for any first sale occurring on or after July 1, 2002, number 2 heating oil to be used exclusively in a vessel primarily engaged in interstate commerce, which vessel qualifies for an exemption under section 12-412 of the 2008 supplement to the general statutes; (I) for any first sale occurring on or after July 1, 2000, paraffin or microcrystalline waxes; (J) for any first sale occurring prior to July 1, 2008, petroleum products to be used as a fuel for a fuel cell, as defined in subdivision (113) of section 12-412 of the 2008 supplement to the general statutes; (K) a commercial heating oil blend containing not less than ten per cent of alternative fuels derived from agricultural produce, food waste, waste vegetable oil or municipal solid waste, including, but not limited to, biodiesel or low sulfur dyed diesel fuel; or (L) for any first sale occurring on or after July 1, 2007, diesel fuel other than diesel fuel to be used in an electric generating facility to generate electricity.

(3) The rate of tax on gross earnings derived from the first sale of grade number 6 fuel oil, as defined in regulations adopted pursuant to section 16a-22c, to be used exclusively by a company which, in accordance with census data contained in the Standard Industrial Classification Manual, United States Office of Management and Budget, 1987 edition, is included in code classifications 2000 to 3999, inclusive, or in Sector 31, 32 or 33 in the North American Industrial Classification System United States Manual, United States Office of Management and Budget, 1997 edition, or number 2 heating oil used exclusively in a vessel primarily engaged in interstate commerce, which vessel qualifies for an exemption under section 12-412 of the 2008 supplement to the general statutes shall be: (A) Four per cent with respect to calendar quarters commencing on or after July 1, 1998, and prior to July 1, 1999; (B) three per cent with respect to calendar quarters commencing on or after July 1, 1999, and prior to July 1, 2000; (C) two per cent with respect to calendar quarters

commencing on or after July 1, 2000, and prior to July 1, 2001; and (D) one per cent with respect to calendar quarters commencing on or after July 1, 2001, and prior to July 1, 2002.

(c) (1) Any company which imports or causes to be imported into this state petroleum products for sale, use or consumption in this state, other than a company subject to and having paid the tax on such company's gross earnings from first sales of petroleum products within this state, which earnings include gross earnings attributable to such imported or caused to be imported petroleum products, in accordance with subsection (b) of this section, shall pay a quarterly tax on the consideration given or contracted to be given for such petroleum product if the consideration given or contracted to be given for all such deliveries during the quarterly period for which such tax is to be paid exceeds three thousand dollars. Except as otherwise provided in subdivision (3) of this subsection, the rate of tax shall be (A) five per cent with respect to calendar quarters commencing prior to July 1, 2005; (B) five and eight-tenths per cent with respect to calendar quarters commencing on or after July 1, 2005, and prior to July 1, 2006; (C) six and three-tenths per cent with respect to calendar quarters commencing on or after July 1, 2006, and prior to July 1, 2007; (D) seven per cent with respect to calendar quarters commencing on or after July 1, 2007 ~~, and prior to July 1, 2008; (E) seven and one-half per cent with respect to calendar quarters commencing on or after July 1, 2008, and prior to July 1, 2013; and (F) eight and one-tenth per cent with respect to calendar quarters commencing on or after July 1, 2013. Fuel in the fuel supply tanks of a motor vehicle, which fuel tanks are directly connected to the engine, shall not be considered a delivery for the purposes of this subsection.~~

(2) Consideration given or contracted to be given for petroleum products, gross earnings from the first sale of which are exempt from tax under subdivision (2) of subsection (b) of this section, shall be exempt from tax.

(3) The rate of tax on consideration given or contracted to be given for grade number 6 fuel oil, as defined in regulations adopted pursuant to section 16a-22c, to be used exclusively by a company which, in accordance with census data contained in the Standard Industrial Classification Manual, United States Office of Management and Budget, 1987 edition, is included in code classifications 2000 to 3999, inclusive, or in Sector 31, 32 or 33 in the North American Industrial Classification System United States Manual, United States Office of Management and Budget, 1997 edition, or number 2 heating oil used exclusively in a vessel primarily engaged in interstate commerce, which vessel qualifies for an exemption under section 12-412 of the 2008 supplement to the general statutes shall be: (A) Four per cent with respect to calendar quarters commencing on or after July 1, 1998, and prior to July 1, 1999; (B) three per cent with respect to calendar quarters commencing on or after July 1, 1999, and prior to July 1, 2000; (C) two per cent with respect to calendar quarters commencing on or after July 1, 2000, and prior to July 1, 2001; and (D) one per cent with respect to calendar quarters commencing on or after July 1, 2001, and prior to July 1, 2002.

(d) The amount of tax reported to be due on such return shall be due and payable on or before the last day of the month next succeeding the quarterly period. The tax imposed under the provisions of this chapter shall be in addition to any other tax imposed by this state on such company.

(e) For the purposes of this chapter, the gross earnings of any producer or refiner of petroleum products operating a service station along the highways or interstate highways within the state pursuant to a contract with the Department of Transportation or operating a service station which is used as a training or test marketing center under the provisions of subsection (b) of section 14-344d, shall be calculated by multiplying the volume of petroleum products delivered by any producer or refiner to any such station by such producer's or refiner's dealer tank wagon price or dealer wholesale price in the area of the service station.

This act shall take

effect as follows and
shall amend the
following sections:
Section 1 from passage 42-234
Sec. 2 from passage 12-587

GL Joint Favorable Subst.

IL H 1933

SPONSOR:	Eddy (R)
COSPONSOR(S):	Pritchard (R), Reis (R)
TITLE:	Renewable Motor Fuels Retail Infrastructure
INTRODUCED:	02/23/2007
DISPOSITION:	Pending
LOCATION:	House Rules Committee

SUMMARY:

Creates the Renewable Motor Fuels Retail Infrastructure Development and Maintenance Act. Makes it a violation to sell motor fuel below cost. Provides that it is a violation of the Act to engage in motor fuel price gouging in response to the occurrence of a national disaster or State emergency, except where the sale is both an isolated and inadvertent incident.

STATUS:

03/23/2007	Rereferred to HOUSE Committee on RULES.
PRIVATE FILE:	EnergyDatabase
Subject:	Gasoline

LA H 1354

AUTHOR:	Lopinto (R)
TITLE:	Price Gouging
INTRODUCED:	04/28/2008
DISPOSITION:	Pending
LOCATION:	HOUSE

SUMMARY:

Relates to price gouging during an emergency or during a named tropical storm or hurricane; provides that the prices charged or the value received by individual merchants may not exceed the prices ordinarily charged by the individual merchant; deletes specified activities as constituting prima facie proof of a violation.

STATUS:

04/28/2008	INTRODUCED.
04/28/2008	Substituted for H. 142
04/28/2008	Ordered Engrossed.

2008 LA H 1354
AUTHOR: Lopinto
VERSION: Engrossed

VERSION DATE: 04/28/2008

HLS 08RS-2737 ENGROSSED
Regular Session, 2008

HOUSE BILL NO. 1354 (Substitute for House Bill No. 142 by Representative Lopinto)

BY REPRESENTATIVE LOPINTO

COMMERCE: Provides relative to price gouging during emergencies or hurricanes

AN ACT

To amend and reenact R.S. 29:732(A) and 734(B), relative to price gouging during an emergency or during a named tropical storm or hurricane; to provide that the prices charged or the value received by individual merchants may not exceed the prices ordinarily charged by the individual merchant; to delete specified activities as constituting prima facie proof of a violation; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 29:732(A) and 734(B) are hereby amended and reenacted to read as follows:

Section 732. Price gouging; prohibited

A. During a state of emergency as declared by the governor or as declared by the parish president, or during a named tropical storm or hurricane in or threatening the Gulf of Mexico, the prices charged or value received by individual merchants for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged by those individual merchants ~~for comparable~~ their goods and services in the same market area at or immediately before the time of the state of emergency. However, the value received may include reasonable expenses and a charge for any attendant business risk, in addition to the cost of the goods and services which necessarily are incurred in procuring the goods and services during the state of emergency. Notwithstanding any other provision of law to the contrary, it shall not be deemed a violation of this Section if the prices charged for goods and services sold within the designated emergency area by an individual in the same market area, at or immediately before the time of the emergency, have not changed except as allowed herein during an emergency.

* * *

Section 734. Violations; judicial relief; prima facie proof

* * *

B. In any proceeding instituted pursuant to this Section, ~~the following shall constitute prima facie proof of a violation:~~

~~(1) Evidence~~ evidence that the amount charged represents a gross disparity between the price of the goods or services which were the subject of the transaction and their value, measured by the price at which such goods or services were sold or offered for sale by the merchant in the usual course of business immediately prior to the onset of the abnormal disruption of the market, and the amount charged by the merchant was not attributable to additional costs imposed by its suppliers shall constitute prima facie proof of a violation.

~~(2) Evidence that the amount charged grossly exceeded the price at which the same or similar goods or services were readily obtainable by other consumers in the trade area and the amount charged by the merchant was not attributable to additional costs imposed by its suppliers.~~

* * *

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

Lopinto HB No. 1354

Abstract: Requires that the prices charged or the value received by individual merchants for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged by the individual merchant for goods and services immediately before the time of the state of emergency.

Present law provides that during a state of emergency the value received for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged for comparable goods and services in the same market area at or immediately before the time of the state of emergency.

Proposed law requires that the prices charged or the value received by individual merchants for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged by the individual merchant for goods and services immediately before the time of the state of emergency.

Present law provides that the value received may include reasonable expenses and a charge for any attendant business risk, in addition to the cost of the goods and services which necessarily are incurred in procuring the goods and services during the state of emergency.

Proposed law provides that it shall not be deemed a violation if the prices charged for goods and services sold within the designated emergency area by an individual in the same market area, at or immediately before the time of the emergency, have not changed, except as allowed by these provisions during an emergency.

Present law provides that the following shall constitute prima facie proof of a violation for price gouging:

(1) Evidence that the amount charged represents a gross disparity between the price of the goods or services which were the subject of the transaction and their value, measured by the price at which such goods or services were sold or offered for sale by the merchant in the usual course of business immediately prior to the onset of the abnormal disruption of the market, and the amount charged by the merchant was not attributable to additional costs imposed by its suppliers.

(2) Evidence that the amount charged grossly exceeded the price at which the same or similar goods or services were readily obtainable by other consumers in the trade area, and the amount charged by the merchant was not attributable to additional costs imposed by its suppliers.

Proposed law deletes (2) of present law (above) so that (2) no longer constitutes prima facie proof of a violation for price gouging.

(Amends R.S. 29:732(A) and 734(B))

LA H 506	**AUTHOR:**	Ponti (R)
	TITLE:	Consumer Protection
	INTRODUCED:	03/31/2008
	DISPOSITION:	Pending
	LOCATION:	Senate Judiciary A Committee

SUMMARY:
Provides for certain exceptions to price gouging during a state of emergency.

STATUS:

05/05/2008	Passed HOUSE. *****To SENATE.
05/05/2008	To SENATE Committee on JUDICIARY A.

2008 LA H 506
AUTHOR: Ponti
VERSION: Engrossed
VERSION DATE: 04/28/2008

HLS 08RS-1129 ENGROSSED
Regular Session, 2008

HOUSE BILL NO. 506

BY REPRESENTATIVE PONTI

CONSUMERS/PROTECTION: Provides for certain exceptions to price gouging during a state of emergency

AN ACT

To amend and reenact R.S. 14:329.6(A)(9) and R.S. 29:732(A), relative to price gouging during a proclamation of a state of emergency; to provide for price changes attributable to market conditions; to provide for business risk expenses; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 14:329.6(A)(9) is hereby amended and reenacted to read as follows:

Section 329.6. Proclamation of state of emergency; conditions therefor; effect thereof

A. During times of great public crisis, disaster, rioting, catastrophe, or similar public emergency within the territorial limits of any municipality or parish, or in the event of reasonable apprehension of immediate danger thereof, and upon a finding that the public safety is imperiled thereby, the chief executive officer of any political subdivision or the district judge, district attorney, or the sheriff of any parish of this state, or the public safety director of a municipality, may request the governor to proclaim a state of emergency within any part or all of the territorial limits of such local government. Following such proclamation by the governor, and during the continuance of such state of

emergency, the chief law enforcement officer of the political subdivision affected by the proclamation may, in order to protect life and property and to bring the emergency situation under control, promulgate orders affecting any part or all of the territorial limits of the municipality or parish:

* * *

(9) Prohibiting the sale or offer for sale of goods or services within the designated emergency area for value exceeding the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the state of emergency , unless the price by the seller is attributable to fluctuations in applicable commodity markets, fluctuations in applicable regional or national market trends, or to reasonable expenses and charges for attendant business risk incurred in procuring or selling the goods or services during the state of emergency . ~~However, the value received may include reasonable expenses and a charge for any attendant business risk in addition to the cost of the goods and services which necessarily are incurred in procuring the goods and services during the state of emergency, pursuant to the provisions of R.S. 29:701 through 716.~~

* * *

Section 2. R.S. 29:732(A) is hereby amended and reenacted to read as follows:

Section 732. Price gouging; prohibited

A. During a state of emergency as declared by the governor or as declared by the parish president, ~~or during a named tropical storm or hurricane in or threatening the Gulf of Mexico,~~ the value received for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the state of emergency , unless the price by the seller is attributable to fluctuations in applicable commodity markets, fluctuations in applicable regional or national market trends, or to reasonable expenses and charges for attendant business risk incurred in procuring or selling the goods or services during the state of emergency . ~~However, the value received may include reasonable expenses and a charge for any attendant business risk, in addition to the cost of the goods and services which necessarily are incurred in procuring the goods and services during the state of emergency.~~

* * *

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

Ponti HB No. 506

Abstract: Provides that an increase in prices ordinarily charged is not price gouging if the price by the seller is attributable to fluctuations in applicable commodity markets, fluctuations in applicable regional or national market trends, or to reasonable expenses and charges for attendant business risk incurred in procuring or selling the goods or services during the state of emergency.

Present law provides that following a proclamation by the governor of a state of emergency, and during the continuance of such state of emergency, the chief law enforcement officer of the political subdivision affected by the proclamation may, in order to protect life and property and to bring the emergency situation under control, promulgate orders affecting any part or all of the territorial limits of the municipality or parish including prohibiting the sale or offer for sale of goods or services within the designated emergency area for value exceeding the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the state of emergency.

Proposed law provides that prices may not exceed the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the state of emergency, unless the price by the seller is attributable to fluctuations in applicable commodity markets, fluctuations in applicable regional or national market trends, or to reasonable expenses and charges for attendant business risk incurred in procuring or selling the goods or services during the state of emergency.

Present law provides that the value received may include reasonable expenses and a charge for any attendant business risk in addition to the cost of the goods and services which necessarily are incurred in procuring the goods and services during the state of emergency.

Present law provides that during a state of emergency as declared by the governor or as declared by the parish president, or during a named tropical storm or hurricane in or threatening the Gulf of Mexico, the value received for goods and services sold within the designated emergency area may not exceed the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the state of emergency.

Proposed law provides that during a state of emergency as declared by the governor or as declared by the parish president the price for goods and services may not exceed prices ordinarily charged unless the price by the seller is attributable to fluctuations in applicable commodity markets, fluctuations in applicable regional or national market trends, or to reasonable expenses and charges for attendant business risk incurred in procuring or selling the goods or services during the state of emergency.

(Amends R.S. 14:329.6(A)(9) and R.S. 29:732(A))

MA S 1375	AUTHOR:	Candaras (D)
	COAUTHOR(S):	Flanagan (D), Augustus (D)
	TITLE:	Price Gouging Prohibition
	INTRODUCED:	01/10/2007
	LAST AMEND:	03/18/2008
	DISPOSITION:	Pending
	LOCATION:	Senate Ethics and Rules Committee

SUMMARY:
Prohibits price gouging during states of emergency.

STATUS:

03/31/2008	To SENATE Committee on ETHICS and RULES.

2007 MA S 1375
AUTHOR: Candaras
VERSION: Introduced
VERSION DATE: 01/10/2007

SENATE No. 1375

THE COMMONWEALTH OF MASSACHUSETTS

In The Year Two Thousand And Seven.

AN ACT TO PROHIBIT PRICE GOUGING DURING STATES OF EMERGENCY.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Chapter 23 of the General Laws is hereby amended by striking out section 9H the following section: --

Section 9H. As used in this section the following words shall have the following meanings: --

"Commodity" means goods, services, materials, merchandise, supplies, equipment, resources, or other articles of commerce, and includes, without limitation, food, water, ice, chemicals, petroleum products, and lumber essential for consumption or use as a direct result of a declared state of emergency.

"Unconscionable price" an amount charged which represents a gross disparity between the price of the commodity or rental or lease of a dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility that is the subject of the offer or transaction and the average price at which that commodity or dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility was rented, leased, sold, or offered for rent or sale in the usual course of business during the 30 days immediately before a declaration of a state of emergency, and the increase in the amount charged is not attributable to additional costs incurred in connection with the rental or sale of the commodity or rental or lease of the dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility, or regional, national, or international market trends; or grossly exceeds the average price at which the same or similar commodity, dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility was readily obtainable in the trade area during the 30 days immediately before a declaration of a state of emergency. Such price shall not include a price during that period set as a result of a bona fide manufacturer's or suppliers limited discount or rebate; provided however that the increase in the amount charged is not with rental or sale of the commodity or rental or lease of the dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility, or as the result of regional, national, or international market trends, or is attributable to additional costs in connection with the disaster, including replacement costs imposed by the vendors source.

Whenever the governor shall determine that an emergency exists in respect to food or fuel or any other common necessity of life, including the providing of shelter, it shall be a violation of this section for a person or his agent or employee to rent or sell or offer to rent or sell a commodity at an unconscionable price within the area for which the state of emergency is declared; or impose unconscionable prices for the rental or lease of a dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility within the area for which the state of emergency is declared. This prohibition remains in effect until the declaration expires or is terminated. Upon a declaration of a state of disaster by the President, in which the disaster area includes all or a portion of the commonwealth it is unlawful and a violation of this article for a person or his agent or employee in this state to: rent or sell or offer to rent or sell a commodity at an unconscionable price within the area for which the state of disaster is declared; or impose unconscionable prices for the rental or lease of a dwelling unit, including a motel or hotel unit or other temporary lodging, or self-storage facility within the area for which the state of disaster is declared. This prohibition remains in effect until ten days after the declaration expires or is terminated. A price increase approved by an appropriate government agency is not a violation of this section. This section does not apply to sales by growers, producers, or processors of raw or processed food products, except for retail sales of those products to the ultimate consumer within the area of the declared state of emergency or disaster.

This section does not preempt the powers of local government, except that the evidentiary standards contained in this section are the sole evidentiary standards to be adopted by ordinance of a local government to restrict price escalation during a declared state of emergency of disaster. In the event a local government declares a state of emergency or disaster in which the disaster area includes all or a portion of the area under the local government's jurisdiction, and restricts price escalation during that emergency or disaster, the governmental entity must notify the Governor's office of such declaration. The Governor's office must notify registered agents simultaneously at the time of the declaration and also at the termination of the state of emergency.

A violation of this section shall be punished by a fine of not more than $5,000 or by imprisonment for not more that 2 1/2 years or both.

NC H 653	**AUTHOR:**	Gibson (D)
	TITLE:	Motor Fuel Tax
	INTRODUCED:	03/15/2007
	DISPOSITION:	Failed - Adjourned
	LOCATION:	House Finance Committee

SUMMARY:

Stabilizes the motor fuel tax by imposing a cap on the variable wholesale component of the motor fuel tax rate at its current rate; provides relief for consumers by providing for price gouging investigations by the Attorney General.

STATUS:

07/24/2007	Withdrawn from HOUSE Committee on TRANSPORTATION.
07/24/2007	Re-referred to HOUSE Committee on FINANCE.
PRIVATE FILE:	EnergyDatabase
Subject:	Gasoline

2007 NC H 653
AUTHOR: Gibson
VERSION: Introduced
VERSION DATE: 03/15/2007

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2007

H 1

HOUSE BILL 653

Short Title: Cap Variable Rate of the Gasoline Excise Tax. (Public)

Sponsors: Representatives Gibson; Brown, Faison, Howard, Hurley, Justice, McGee, Stiller, Underhill, and Wainwright.

Referred to: Transportation, if favorable, Finance.

March 15, 2007

A BILL TO BE ENTITLED

AN ACT TO STABILIZE THE MOTOR FUEL TAX BY IMPOSING A CAP ON THE VARIABLE WHOLESALE COMPONENT OF THE MOTOR FUEL TAX RATE AT ITS CURRENT RATE AND PROVIDING RELIEF FOR CONSUMERS BY PROVIDING FOR PRICE GOUGING INVESTIGATIONS BY THE ATTORNEY GENERAL.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-449.80(a) reads as rewritten:

"(a) Rate. - The motor fuel excise tax rate is a flat rate of seventeen and one-half cents (17 1/2 cents) a gallon plus a variable wholesale component. The variable wholesale component is either three and one-half cents (3 1/2 cents) a gallon or seven percent (7%) of the average wholesale price of motor fuel for the applicable base period, whichever is greater. In no case may the variable wholesale component be greater than twelve and four-tenths cents (12.4 cents) a gallon.

The two base periods are six-month periods; one ends on September 30 and one ends on March 31. The Secretary must set the tax rate twice a year based on the wholesale price for each base period. A tax rate set by the Secretary using information for the base period that ends on September 30 applies to the six-month period that begins the following January 1. A tax rate set by the Secretary using information for the base period that ends on March 31 applies to the six-month period that begins the following July 1."

SECTION 2. G.S. 75-38 reads as rewritten:

"Section 75-38. Prohibit excessive pricing during states of disaster.

(a) It shall be a violation of G.S. 75-1.1 for any person to sell or rent or offer to sell or rent at retail during a state of disaster, in the area for which the state of disaster has been declared, any merchandise or services which are consumed or used as a direct result of an emergency or which are consumed or used to preserve, protect, or sustain life, health, safety, or comfort of persons or their property with the knowledge and intent to charge a price that is unreasonably excessive under the circumstances. In determining whether a price is unreasonably excessive, it shall be considered whether:

(1) The price charged by the seller is attributable to additional costs imposed by the seller's supplier or other costs of providing the good or service during the state of disaster; and

(2) The seller offered to sell or rent the merchandise or service at a price that was below the seller's average price in the preceding 60 days before the state of ~~disaster.~~ disaster; and

(3) The seller was pricing above market prices when no alternative seller was available.

If the seller did not sell or rent or offer to sell or rent the merchandise or service in question prior to the time the state of disaster was declared, the price at which the merchandise or service was generally available in the trade area shall be used as a factor in determining if the seller is charging an unreasonably excessive price.

NY S 5043 **SAME AS:** NY S 223
SPONSOR: Fuschillo (R)
TITLE: Right to Action for Unlawful Price Gouging
INTRODUCED: 04/25/2007
DISPOSITION: Pending
LOCATION: SENATE
SUMMARY:
Creates a private right to action for unlawful price gouging for injunctive relief and recovery of actual damages or a specific amount, whichever is greater, or both, in addition to right of action granted to Attorney General; permits the court to award a prevailing plaintiff an additional penalty for a willful or knowing violation and reasonably attorney's fees.
STATUS:
01/29/2008 From SENATE Committee on CONSUMER PROTECTION.

2007 NY S 5043
AUTHOR: Fuschillo
VERSION: Introduced
VERSION DATE: 04/25/2007

STATE OF NEW YORK

5043

2007-2008 Regular Sessions

IN SENATE

April 25, 2007

Introduced by Sen. FUSCHILLO -- read twice and ordered printed, and when printed to be committed to the Committee on Consumer Protection

AN ACT to amend the general business law, in relation to price gouging

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Section 396-r of the general business law is amended by adding a new subdivision 5 to read as follows:

5. IN ADDITION TO ANY RIGHT OF ACTION GRANTED TO THE ATTORNEY GENERAL PURSUANT TO THIS SECTION, ANY PERSON WHO HAS BEEN INJURED BY REASON OF ANY VIOLATION OF THIS SECTION MAY BRING AN ACTION IN HIS OR HER OWN NAME TO ENJOIN SUCH UNLAWFUL ACT OR PRACTICE, AN ACTION TO RECOVER HIS OR HER ACTUAL DAMAGES OR ONE THOUSAND DOLLARS, WHICHEVER IS GREATER, OR BOTH SUCH ACTIONS. THE COURT MAY, IN ITS DISCRETION, AWARD THE PREVAILING PLAINTIFF IN SUCH ACTION A PENALTY

necessary for the health, safety and welfare of consumers, no party within the chain of distribution of such consumer goods or services or both shall sell or offer to sell any such goods or services or both for an amount which represents an unconscionably excessive price. For purposes of this section, the phrase "abnormal disruption of the market" shall mean any change in the market, whether actual or imminently threatened, resulting from stress of weather, convulsion of nature, failure or shortage of electric power or other source of energy, strike, civil disorder, war, military action, national or local emergency, or other cause of an abnormal disruption of the market ~~which results in the declaration of a state of emergency by the governor~~. For the purposes of this section, the term consumer goods and services shall mean those used, bought or rendered primarily for personal, family or household purposes. This prohibition shall apply to all parties within the chain of distribution, including any manufacturer, supplier, wholesaler, distributor or retail seller of consumer goods or services or both sold by one party to another when the product sold was located in the state prior to the sale. Consumer goods and services shall also include any repairs made by any party within the chain of distribution of consumer goods on an emergency basis as a result of such abnormal disruption of the market.

3. Whether a price is unconscionably excessive is a question of law for the court.

(a) The court's determination that a violation of this section has occurred shall be based on any of the following factors: (i) that the amount of the excess in price is unconscionably extreme; or (ii) that there was an exercise of unfair leverage or unconscionable means; or (iii) a combination of both factors in subparagraphs (i) and (ii) of this paragraph.

(b) In any proceeding commenced pursuant to subdivision ~~four~~ FIVE of this section, prima facie proof that a violation of this section has occurred shall include evidence that

(i) the amount charged represents a gross disparity between the price of the goods or services which were the subject of the transaction and their value measured by the price at which such consumer goods or services were sold or offered for sale by the defendant in the usual course of business immediately prior to the onset of the abnormal disruption of the market or

(ii) the amount charged grossly exceeded the price at which the same or similar goods or services were readily obtainable by other consumers in the trade area. A defendant may rebut a prima facie case with evidence that additional costs not within the control of the defendant were imposed on the defendant for the goods or services.

4. ANY PERSON WHO VIOLATES THE PROVISIONS OF THIS SECTION SHALL BE GUILTY OF A VIOLATION.

5. Where a violation of this section is alleged to have occurred, A DISTRICT ATTORNEY MAY FILE AN ACCUSATORY INSTRUMENT WITH A CRIMINAL COURT WITHIN THE JUDICIAL DISTRICT IN WHICH SUCH VIOLATIONS ARE ALLEGED TO HAVE OCCURRED, AND the attorney general may apply in the name of the People of the State of New York to the supreme court of the State of New York within the judicial district in which such violations are alleged to have occurred, on notice of five days, for an order enjoining or restraining commission or continuance of the alleged unlawful acts. In any such proceeding, the court shall impose a civil penalty in an amount not to exceed ~~ten~~ TWENTY-FIVE thousand dollars and, where appropriate, order restitution to aggrieved consumers.

Section 2. This act shall take effect immediately.

INTRODUCED: 02/02/2007
DISPOSITION: Pending
LOCATION: Senate Consumer Protection Committee
SUMMARY:
Relates to price gouging; imposes criminal penalties for price gouging; removes language relating to the declaration of a state of emergency.
STATUS:
02/02/2007 INTRODUCED.
02/02/2007 To SENATE Committee on CONSUMER PROTECTION.

2007 NY S 2347
AUTHOR: Schneiderman
VERSION: Introduced
VERSION DATE: 02/02/2007

STATE OF NEW YORK

2347

2007-2008 Regular Sessions

IN SENATE

February 2, 2007

Introduced by Sens. SCHNEIDERMAN, ADAMS, BRESLIN, DUANE, GONZALEZ, HASSELL-THOMPSON, KLEIN, KRUEGER, KRUGER, MONTGOMERY, PARKER, SABINI, SAMPSON, SERRANO, SMITH, STACHOWSKI, STAVISKY, THOMPSON, VALESKY -- read twice and ordered printed, and when printed to be committed to the Committee on Consumer Protection

AN ACT to amend the general business law, in relation to price gouging

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Section 396-r of the general business law, as amended by chapter 510 of the laws of 1998, is amended to read as follows:

Section 396-r. Price gouging. 1. Legislative findings and declaration. The legislature hereby finds that during periods of abnormal disruption of the market caused by strikes, power failures, severe shortages or other extraordinary adverse circumstances, some parties within the chain of distribution of consumer goods have taken unfair advantage of consumers by charging grossly excessive prices for essential consumer goods and services.

In order to prevent any party within the chain of distribution of any consumer goods from taking unfair advantage of consumers during abnormal disruptions of the market, the legislature declares that the public interest requires that such conduct be prohibited and made subject to civil <u>AND CRIMINAL</u> penalties.

2. During any abnormal disruption of the market for consumer goods and services vital and

(b) In the event the Attorney General investigates a complaint for a violation of this section and determines that the seller has not violated the provisions of this section and if the seller so requests, the Attorney General shall promptly issue a signed statement indicating that the Attorney General has not found a violation of this section. The Attorney General shall maintain the confidentiality of all evidence, testimony, documents, statements, or other results of an investigation under this section, including the names of the complainant and the individual, corporation, or other entity that is the subject of the investigation. Nothing herein shall be construed to prevent the presentation or disclosure of any information or evidence in an action or proceeding brought under this section or pursuant to an order from a court of competent jurisdiction.

(c) For the purposes of this section, the end of a state of disaster is the earlier of 45 days or the termination of a natural or man-made disaster or emergency as declared in accordance with G.S. 166A-6 or G.S. 166A-8.

(d) The Office of the Governor shall maintain a mailing list of individuals who have requested, in writing, notice of the issuance of a declaration of a state of disaster or emergency. When the Office of the Governor declares a state of disaster or emergency, it must provide, by electronic or U.S. mail, a copy of the declaration to each individual on the list."

SECTION 3. G.S. 166A-4(1) reads as rewritten:

"(1) Disaster. - An occurrence or imminent threat of widespread or severe damage, injury, economic well-being, or loss of life or property resulting from any natural or man-made incidental, accidental, military or paramilitary cause."

SECTION 4. There is appropriated from the General Fund to the Highway Fund and Highway Trust Fund an appropriate amount of funds to offset the loss of revenue from capping the motor fuels excise tax.

SECTION 5. This act becomes effective July 1, 2007.

NJ A 2313	**SPONSOR:**	Diegnan (D)
	COSPONSOR(S):	Vas (D), Egan (D)
	TITLE:	Price Gouging
	INTRODUCED:	02/26/2008
	DISPOSITION:	Pending
	LOCATION:	Assembly Consumer Affairs Committee

SUMMARY:

Prohibits price gouging during a declared state of emergency.

STATUS:

02/26/2008	INTRODUCED.
02/26/2008	To ASSEMBLY Committee on CONSUMER AFFAIRS.

2008 NJ A 2313
AUTHOR: Diegnan
VERSION: Introduced
VERSION DATE: 02/26/2008

ASSEMBLY, No. 2313

STATE OF NEW JERSEY

213th LEGISLATURE

INTRODUCED FEBRUARY 26, 2008

Sponsored by:

Assemblyman PATRICK J. DIEGNAN, JR.

Assemblyman JOSEPH VAS

Co-Sponsored by:

Assemblyman Egan

SYNOPSIS

Prohibits price gouging during a declared state of emergency.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning prohibited pricing practices and supplementing Title 2C of the N w Jersey Statutes.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. a. A person commits a crime of the fourth degree if, during or within 180 days following a state of emergency declared by the President of the United States or the Governor, or upon the declaration of a state of local disaster by an authorized local government official that person sells or offers to sell any essential commodity including, but not limited to, supplies, services, provisions or equipment that is necessary for consumption or use as a direct result of the emergency, at a price of more than 10% above the price ordinarily charged for comparable goods and services immediately prior to the declared state of emergency. It is an affirmative defense to a prosecution under this section that if the increase in price was directly attributable to additional costs imposed on the seller by the supplier of the goods or directly attributable to additional costs for labor or materials used to provide the services, provided that in those situations where the increase in price is attributable to additional costs imposed by the seller's supplier or additional costs of providing the good or service during the state of emergency, the price represents no more than 10% above the total of the cost to the seller plus the markup customarily applied by the seller for that good or service in the usual course of business immediately prior to the onset of the state of emergency.

Each sale or offer to sell in violation of this subsection constitutes a separate offense.

b. It shall be unlawful for any contractor, during or within 180 days following a state of emergency declared by the President of the United States or the Governor, or upon the declaration of a state of local disaster by an authorized local government official to sell or offer to sell any repair or reconstruction services or any services used in emergency cleanup for a price of more than 10% above

the price ordinarily charged by that person for those services immediately prior to the declared state of emergency. It is an affirmative defense to a prosecution under this section that if the increase in price was directly attributable to additional costs imposed on the contractor by the supplier of the goods or directly attributable to additional costs for labor or materials used to provide the services, provided that in those situations where the increase in price is attributable to additional costs imposed by the contractor's supplier or additional costs of providing the good or service during the state of emergency, the price represents no more than 10% above the total of the cost to the contractor plus the markup customarily applied by the contractor for that good or service in the usual course of business immediately prior to the onset of the state of emergency.

Any person who violates this subsection shall be guilty of a crime of the fourth degree. Each sale or offer to sell in violation of this subsection constitutes a separate offense.

2. This act shall take effect immediately.

STATEMENT

This bill makes it a crime of the fourth degree for any person to sell or offer to sell any goods or services during or within 180 days following a declared state of emergency or local disaster at a price of more than 10% above the price ordinarily charged for comparable goods or services immediately prior to the proclamation of emergency. The bill further provides that it is an affirmative defense to a prosecution under this bill if the increase in price was directly attributable to additional costs imposed on the seller by the supplier of the goods or directly attributable to additional costs for labor or materials used to provide the services. In those instances where the increase in price is attributable to additional costs imposed by the seller's supplier or additional costs of providing the goods or services during the state of emergency, the price shall represent no more than 10% above the total of the cost to the seller plus the markup customarily applied by the seller for that good or service in the usual course of business immediately prior to the onset of the state of emergency.

In addition, this bill makes it a crime of the fourth degree for any contractor to sell or offer to sell any repair or reconstruction services used during an emergency cleanup for a price of more than 10% above the price ordinarily charged by the contractor for those services immediately prior to the declared state of emergency or local disaster. The bill further provides that it is an affirmative defense to a prosecution under this bill if the increase in price was directly attributable to any additional costs imposed on the contractor by his supplier or additional costs for labor or materials used to provide the service, provided that the price represents no more than 10% above the total cost to the contractor plus the markup customarily applied by the contractor for those goods and services in the usual course of business immediately prior to the onset of the state of emergency.

NY A 2641 **SPONSOR:** Thiele (R)
TITLE: Motor Fuel Prices
INTRODUCED: 01/17/2007
DISPOSITION: Pending
LOCATION: Assembly Consumer Affairs and Protection Committee
SUMMARY:
Provides that prices of motor fuels set pursuant to the practice of zone pricing shall be deemed to be unconscionably excessive and such practice of zone pricing shall be prohibited.

STATUS:
01/17/2007 INTRODUCED.
01/17/2007 To ASSEMBLY Committee on CONSUMER AFFAIRS AND PROTECTION.

2007 NY A 2641
AUTHOR: Thiele
VERSION: Introduced
VERSION DATE: 01/17/2007

STATE OF NEW YORK

2641

2007-2008 Regular Sessions

IN ASSEMBLY

January 17, 2007

Introduced by M. of A. THIELE, McKEVITT -- Multi-Sponsored by -- M. of A. ALFANO -- read once and referred to the Committee on Consumer Affairs and Protection

AN ACT to amend the general business law, in relation to declaring zone pricing for the sale of motor fuels to be price gouging

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Section 396-r of the general business law is amended by adding a new subdivision 2-a to read as follows:

2-A. PRICES SET PURSUANT TO THE PRACTICE OF ZONE PRICING, WHEREBY A WHOLESALE OR RETAIL DISTRIBUTOR OF MOTOR FUELS SETS PRICES ON THE BASIS OF GEOGRAPHIC REGIONS SHALL BE DEEMED TO BE UNCONSCIONABLY EXCESSIVE AND SUCH PRACTICE OF ZONE PRICING SHALL BE PROHIBITED.

Section 2. This act shall take effect on the seventh day after it shall have become a law.

NY S 1547 SAME AS: NY A 425
SPONSOR: Fuschillo (R)
TITLE: Price Gouging
INTRODUCED: 01/22/2007
DISPOSITION: Pending
LOCATION: Assembly Consumer Affairs and Protection Committee
SUMMARY:
Increases the civil penalty authorized to be imposed by a court for price gouging of

consumers to an amount not to exceed twenty-five thousand dollars.

STATUS:

02/25/2008	Passed SENATE. *****To ASSEMBLY.
02/25/2008	To ASSEMBLY Committee on CONSUMER AFFAIRS AND PROTECTION.

2007 NY S 1547
AUTHOR: Fuschillo
VERSION: Introduced
VERSION DATE: 01/22/2007

STATE OF NEW YORK

1547

2007-2008 Regular Sessions

IN SENATE

January 22, 2007

Introduced by Sens. FUSCHILLO, ALESI, BONACIC, DeFRANCISCO, FARLEY, GOLDEN, HANNON, JOHNSON, LAVALLE, LEIBELL, MALTESE, MARCELLINO, MORAHAN, PADAVAN, RATH, ROBACH, SALAND, SKELOS, TRUNZO, VOLKER, WINNER, YOUNG -- read twice and ordered printed, and when printed to be committed to the Committee on Consumer Protection

AN ACT to amend the general business law, in relation to increasing the civil penalty for price gouging of consumers

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Subdivision 4 of section 396-r of the general business law, as amended by chapter 510 of the laws of 1998, is amended to read as follows:

4. Where a violation of this section is alleged to have occurred, the attorney general may apply in the name of the People of the State of New York to the supreme court of the State of New York within the judicial district in which such violations are alleged to have occurred, on notice of five days, for an order enjoining or restraining commission or continuance of the alleged unlawful acts. In any such proceeding, the court shall impose a civil penalty in an amount not to exceed ~~ten~~ TWENTY-FIVE thousand dollars and, where appropriate, order restitution to aggrieved consumers.

Section 2. This act shall take effect immediately.

NY S 2347 **SPONSOR:** Schneiderman (D)
TITLE: Price Gouging

UP TO FIVE THOUSAND DOLLARS. IF THE COURT FINDS THE DEFENDANT WILLFULLY OR KNOWINGLY VIOLATED THE PROVISIONS OF THIS SECTION, THE COURT MAY AWARD REASONABLE ATTORNEYS' FEES TO A PREVAILING PLAINTIFF.

Section 2. This act shall take effect immediately.

OH SCR 13 **SPONSOR:** Roberts (D)
TITLE: Gasoline Price Gouging
INTRODUCED: 06/19/2007
DISPOSITION: Pending
LOCATION: Senate Energy and Public Utilities Committee
SUMMARY:
Expresses support for the efforts of the Congress of the United States to enact legislation prohibiting gasoline price gouging against consumers and urges Congress to enact additional legislation that addresses price gouging by companies that produce crude oil, gasoline, natural gas, and all petroleum distillates.
STATUS:

06/20/2007	From SENATE Committee on REFERENCE: Recommended referral.
06/20/2007	To SENATE Committee on ENERGY AND PUBLIC UTILITIES.

PRIVATE FILE: EnergyDatabase
Subject: Gasoline

07 OH SCR 13
AUTHOR: Roberts
VERSION: Introduced
VERSION DATE: 06/19/2007

As Introduced

127th General Assembly
Regular Session
2007-2008

S.C.R. No. 13

Senator Roberts

Cosponsors: Senators Schuring, Miller, D., Cafaro, Morano, Padgett, Mason, Wilson

A CONCURRENT RESOLUTION To express support for the efforts of the Congress of the United States to enact legislation prohibiting gasoline price gouging against consumers and to urge Congress to enact additional legislation that addresses price gouging by companies that produce crude oil, gasoline, natural gas, and all petroleum distillates.

BE IT RESOLVED BY THE SENATE OF THE STATE OF OHIO(THE HOUSE OF REPRESENTATIVES CONCURRING):

WHEREAS, The price per barrel of oil has steadily increased over the last several years yet the price per gallon of gasoline has skyrocketed. As gasoline prices have soared, oil companies have made

some of the highest profits in history; and

WHEREAS, In May, 2007, the United States House of Representatives passed a bill, the Federal Price Gouging Protection Act, that would make gasoline price gouging a federal offense. The bill would ban sellers of gasoline from charging prices that are unconscionably excessive or take unfair advantage of consumers; and

WHEREAS, Although the bill is a positive step toward controlling gasoline prices, additional legislation is needed. That legislation would address companies that produce crude oil, gasoline, natural gas, and all petroleum distillates and that price gouge consumers. It would need to specify that civil and criminal penalties would be assessed against oil companies that price gouge consumers and that have realized excess profits from the price gouging; now therefore be it

RESOLVED, That we, the members of the 127th General Assembly of the State of Ohio, express support for the efforts of the Congress of the United States to enact legislation prohibiting gasoline price gouging against consumers and urge Congress to enact additional legislation that addresses price gouging by companies that produce crude oil, gasoline, natural gas, and all petroleum distillates; and be it further

RESOLVED, That the Clerk of the Senate send duly authenticated copies of this resolution to the Speaker and the Clerk of the United States House of Representatives, to the President Pro Tempore and the Secretary of the United States Senate, to the members of the Ohio Congressional delegation, and to the news media of Ohio.

OK S 1871

AUTHOR: Garrison (D)
TITLE: Price Gouging of Fuel
INTRODUCED: 02/04/2008
DISPOSITION: Pending
LOCATION: Senate Appropriations Committee
SUMMARY:
Relates to contracts; authorizes the Attorney General to investigate consumer complaints relating to price gouging of fuel; authorizes Attorney General to request funding; declares an emergency.
STATUS:
02/06/2008 To SENATE Committee on APPROPRIATIONS.

2007 OK S 1871
AUTHOR: Garrison
VERSION: Introduced
VERSION DATE: 02/04/2008

STATE OF OKLAHOMA

2nd Session of the 51st Legislature (2008)

SENATE BILL 1871

By: Garrison

AS INTRODUCED

An Act relating to contracts; authorizing the Attorney General to investigate consumer complaints relating to price gouging of fuel; authorizing Attorney General to request funding; providing for codification; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 777.6 of Title 15, unless there is created a duplication in numbering, reads as follows:

A. The Attorney General of this state is authorized to investigate consumer complaints alleging price gouging by producers and marketers of petroleum fuel products. Such complaints may investigated at any time separately or in addition to complaints alleged pursuant to the provisions of the Emergency Price Stabilization Act, Section 777.1 of Title 15 of the Oklahoma Statutes, during an emergency declared by the Governor.

B. The Attorney General may request additional funding as necessary to be appropriated by the Legislature to implement the provisions of this act.

SECTION 2. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

VT HJR 20 AUTHOR: Obuchowski (D)
TITLE: Retail Gasoline Prices
INTRODUCED: 04/05/2007
DISPOSITION: Pending
LOCATION: House Transportation Committee
SUMMARY:
Urges the federal government to take immediate steps to lower retail gasoline prices.
STATUS:
04/05/2007 INTRODUCED.
04/05/2007 To HOUSE Committee on TRANSPORTATION.
PRIVATE FILE: EnergyDatabase
Commentary:
Urges the federal government to take immediate steps to lower retail gasoline prices.

2007 VT HJR 20
AUTHOR: Obuchowski
VERSION: Introduced
VERSION DATE: 04/05/2007

J.R.H. 20

Rep. Obuchowski of Rockingham offered a joint resolution, entitled

Joint resolution strongly urging the federal government to take immediate steps to lower retail gasoline prices;

Whereas, Vermont is a rural state with minimal public transportation, and thousands of individuals must drive their cars to work daily, many for extended distances, and

Whereas, the state of Vermont's economy is heavily reliant on automotive tourism and other recreation-related activities, including snowmobiling, which according to a 2002 Johnson College study, generates annually revenue of $500,000,000.00 in the state, and

Whereas, farmers are dependent on gasoline to operate tractors, combines, trucks, and other absolutely essential equipment, without which they could not perform their daily chores and sustain their livelihood, and

Whereas, the federal Energy Information Administration announced on March 26, 2007 that the nationwide average retail price of regular unleaded gasoline stood at 261.0 cents per gallon, and the comparable New England figure was even higher at 261.2 cents per gallon, and

Whereas, the U.S. average price represented a 0.033-cent increase over the prior week, and

Whereas, the average nationwide price is now 0.112 cents higher than at this time in 2005, and

Whereas, in the Northeast, where ethanol is in short supply, the price of gasoline is again starting to rise, and

Whereas, higher retail gasoline prices cause a financial hardship for a large percentage of Vermonters, and

Whereas, U.S. Secretary of Energy Samuel Bodman has stated that the strategic petroleum reserve will not be opened except for an emergency that interrupts the supply, and the U.S. Energy Department does not consider the current situation to be an emergency, and

Whereas, notwithstanding the secretary's comments, the steadily rising retail price of gasoline constitutes an economic emergency of the first order, demanding a decisive and immediate response on the same magnitude Americans would expect if OPEC were to impose another embargo on all oil shipments to the United States as it did in the 1970s, and

Whereas, while the nation's motorists are paying exorbitant prices for gasoline at the pump, compensation for oil company executives continues to rise, and

Whereas, ExxonMobil is now among the most profitable publicly traded companies in the United States, and

Whereas, the combination of high prices and corporate profitability could indicate that the oil companies are engaging in price gouging, and

Whereas, a year ago U.S. Representative and now Senator Bernard Sanders and U.S. Representative Peter DeFazio of Oregon wrote a joint letter to President George W. Bush requesting that the President "convene an emergency summit of congressional leaders, oil industry executives and consumer advocates to address the soaring price of gasoline," now therefore be it

Resolved by the Senate and House of Representatives:

That the General Assembly strongly urges the executive and legislative branches of the federal government to take prudent but immediate steps, both on the economic domestic front and on the international diplomatic stage, that are deemed most effective, including the convening of an emergency energy price summit as Senator Sanders has requested, the initiation of a federal investigation of oil price gouging, the regulation of the petroleum futures' market, the selling of the crude oil set to be placed or already stored in the Strategic Petroleum Reserve, imposing temporary price controls on retail gasoline sales, and engaging in diplomatic bargaining with the nations and, in particular, OPEC, that set the price for crude oil at the wellhead, and be it further

Resolved: That the General Assembly urges the U.S. House Committee on Energy and Commerce and the U.S. Senate Committee on Energy and Natural Resources to investigate whether the major oil companies are engaging in any price gouging activity in the sale of gasoline on the wholesale or retail level, and be it further

Resolved: That the secretary of state be directed to send a copy of this resolution to the President of the United States, to U.S. Secretary of Energy Samuel W. Bodman, to U.S. Speaker of the House Nancy Pelosi, to U.S. Representatives John Boehner, John Dingell, and Joe Barton, to U.S. Senators Trent Lott, Harry Reid, Jeff Bingaman, and Pete Domenici, and to the members of the Vermont Congressional Delegation.

VT H 846

AUTHOR: Moran (D)
TITLE: Price Gouging
INTRODUCED: 02/04/2008
DISPOSITION: Pending
LOCATION: House Commerce Committee
SUMMARY:
Expands the petroleum price gouging prohibition to apply in situations, other th during market emergencies, if the price is grossly in excess of the price at which similar product is sold.
STATUS:
02/05/2008 To HOUSE Committee on COMMERCE.

2007 VT H 846
AUTHOR: Moran
VERSION: Introduced
VERSION DATE: 02/04/2008

H.846

Introduced by Representatives Moran of Wardsboro, Consejo of Sheldon, Fitzgerald of St. Albans City, Klein of East Montpelier, Martin of Springfield, Masland of Thetford, Mrowicki of Putney, Pearson of Burlington, Pillsbury of Brattleboro and Zenie of Colchester

Referred to Committee on

Date:

Subject: Commerce; consumer fraud; price gouging

Statement of purpose: This bill proposes to expand the petroleum price gouging prohibition to apply in situations, other than during market emergencies, if the price is grossly in excess of the price at which similar product is sold.

AN ACT RELATING TO PETROLEUM PRICE GOUGING WHEN A MARKET EMERGENCY IS NOT IN EFFECT

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 9 V.S.A. Section 2461d is amended to read:

Section 2461d. PRICE GOUGING OF PETROLEUM PRODUCTS AND HEATING FUEL PRODUCTS

(a) Definitions. For the purposes of this section:

(1) A "market emergency" shall be declared by the governor. The market emergency shall continue for 30 days or until terminated by the governor. The governor may extend the market emergency for additional 30-day periods. "Market emergency" means any abnormal disruption of any market for petroleum products or heating fuel products, including any actual or threatened shortage in the supply of petroleum products or heating fuel products or any actual or threatened increase in the price of petroleum products or heating fuel products resulting from severe weather, convulsion of nature, supply manipulation, failure or shortage of electric power or other source of energy, strike, civil disorder, act of war, terrorist attack, national or local emergency, or other extraordinary adverse circumstances.

(2) "Petroleum or heating fuel product" means motor fuels, liquefied petroleum gas, fuel oil, kerosene, and wood pellets used for heating or cooking purposes.

(3) "Petroleum or heating fuel-related business" means any producer, supplier, wholesaler, distributor, or retail seller of any petroleum or heating fuel product.

(b) It is an unfair and deceptive act and practice in commerce and a violation of section 2453 of this title for any petroleum or heating fuel-related business ~~during a market emergency or seven days prior thereto~~ to sell or offer to sell any petroleum product or heating fuel product for an amount that represents an unconscionably high price.

(c) A price is unconscionably high if:

(1) the amount charged during ~~the~~ a market emergency or seven days prior thereto represents a gross disparity between the price of the petroleum product or heating fuel product charged by the petroleum or heating fuel related business , and:

(A) the price at which the same product was sold or offered for sale by that business in the usual course of business immediately prior to the date of the declaration of the market emergency; or

(B) the price at which the or similar petroleum product or heating fuel product is readily obtainable by the buyer and buyers in the trade area in which the petroleum- or heating-fuel-

related business markets the product; and

(2) the disparity is not substantially attributable to inc: eased prices charged by the petroleum product or heating fuel product suppliers or increased co ts due to a market emergency.

(d) A price is unconscionably high if it is grossly in excess of the price at which similar product is sold.

WI A 200	AUTHOR:	Schneider (D)
	COAUTHOR(S):	Carpenter (D), Toles (D)
	TITLE:	Fuel Price Gouging
	INTRODUCED:	03/19/2007
	DISPOSITION:	Failed
	LOCATION:	ASSEMBLY
	SUMMARY:	
	Relates to fuel price gouging and providing a penalty.	
	STATUS:	
	03/21/2008	Failed to pass pursuant to Senate Joint Resolution 1.
	PRIVATE FILE:	EnergyDatabase
	Subject:	Gasoline

In bill text the following has special meaning
underline denotes added text
~~struck out text denotes deleted text~~

2007 WI A 200
AUTHOR: Schneider
VERSION: Introduced
VERSION DATE: 03/19/2007

2007 - 2008 LEGISLATURE

2007 ASSEMBLY BILL 200

March 19, 2007 - Introduced by Representatives SCHNEIDER and TOLES, cosponsored by Senator CARPENTER. Referred to Committee on Judiciary and Ethics.

AN A(T :o create 943.29 of the statutes; relating to: fuel price gouging and providing a penalty.

Analysis by the Legislative Reference Bureau

This bill prohibits a retail or wholesale seller of petroleumbased fuel (such as gasoline, diesel fuel, propane, or liquefied petroleum gas) from increasing the fuel's price by more than the amount of any concurrent increase in the person's acquisition, production, distribution, or operating costs. A person who violates this prohibition may be fined not more than $25,000, sentenced to a term of imprisonment of not more than 12.5 years (which, if the sentence is for more than one year, includes a term of confinement and a term of extended supervision), or both.

Because this bill creates a new crime or revises a penalty for an existing crime, the Joint Review Committee on Criminal Penalties may be requested to prepare a report concerning the proposed penalty and the costs or savings that are likely to result if the bill is enacted.

For further information see the state and local fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 943.29 of the statutes is created to read:

943.29 Fuel price gouging. (1) In this section, "fuel" means gasoline, diesel fuel, fuel oil, kerosene, propane, liquefied petroleum gas, or any other petroleumbased product that is used for hearing or providing power.

(2) Any person engaged in the business of selling fuel at retail or wholesale who intentionally increases the price of the fuel by an amount that exceeds any concurrent increase in any costs of acquisition, production, distribution, or operation that are incurred by the person and that are related to the fuel being sold is guilty of a Class F felony.

WV S 30	**SPONSOR:**	White (D)
	TITLE:	Fuel Price Gouging
	INTRODUCED:	01/09/2008
	DISPOSITION:	Failed - Adjourned
	LOCATION:	Senate Judiciary Committee
	SUMMARY:	
	Authorizing Attorney General to investigate and charge certain fuel price gouging.	
	STATUS:	
	01/09/2008	INTRODUCED.
	01/09/2008	To SENATE Committee on JUDICIARY.
	PRIVATE FILE:	EnergyDatabase
	Subject:	Gasoline

2008 WV S 30
AUTHOR: White
VERSION: Introduced
VERSION DATE: 01/09/2008

Senate Bill No. 30

(By Senators White and Hunter)

[Introduced January 9, 2008; referred to the Committee on the Judiciary.]

A BILL to amend and reenact Section 46A-6J-3 and Section 46A-6J-5 of the Code of West Virginia, 1931, as amended, all relating to giving the office of the Attorney General the power to investigate and charge, at any time, home heating oil, gasoline or other motor fuel price gouging.

Be it enacted by the Legislature of West Virginia:

That Section 46A-6J-3 and Section 46A-6J-5 of the Code of West Virginia, 1931, as amended, be amended and reenacted, all to read as follows:

ARTICLE 6J. PROTECTION OF CONSUMERS FROM PRICE GOUGING AND UNFAIR PRICING PRACTICES DURING AND SHORTLY AFTER A STATE OF EMERGENCY.

Section 46A-6J-3. Prohibited unfair pricing practices.

(a) Upon the declaration of a state of emergency, and continuing for the existence of the state of emergency or for thirty days following the declaration, whichever period is longer, it is unlawful for any person, contractor, business or other entity to sell or offer to sell to any person in the area subject to the declaration any consumer food items, essential consumer items, goods used for emergency cleanup, emergency supplies, medical supplies, home heating oil, building materials, housing, transportation, freight and storage services or gasoline or other motor fuels for a price greater than ten percent above the price charged by that person for those goods or services on the tenth day immediately preceding the declaration of emergency, unless the increase in price was directly attributable to additional costs imposed on the seller by the supplier of the goods or directly attributable to additional costs for labor or materials used to provide the services. ~~Provided, That~~ In those situations where the increase in price is attributable to additional costs imposed by the seller's supplier or additional costs of providing the good or service during the state of emergency, the price is no greater than ten percent above the total of the cost to the seller plus the markup customarily applied by the seller for that good or service in the usual course of business on the tenth day immediately preceding the declaration.

(b) Upon the declaration of a state of emergency, and for a period of one hundred eighty days following that declaration, it is unlawful for any contractor to sell or offer to sell any repair or reconstruction services or any services used in emergency cleanup in the area subject to the declaration for a price greater than ten percent above the price charged by that person for those services on the tenth day immediately preceding the declaration, unless the increase in price was directly attributable to additional costs imposed on it by the supplier of the goods or directly attributable to additional costs for labor or materials used to provide the services. ~~Provided, That~~ In those situations where the increase in price is attributable to the additional costs imposed by the contractor's supplier or additional costs of providing the service, the price is no greater than ten percent above the total of the cost to the contractor plus the markup customarily applied by the contractor for that good or service in the usual course of business on the tenth day immediately preceding ~~to~~ the declaration of the state of emergency.

(c) Any business offering an item for sale at a reduced price ten days immediately prior to the declaration of the state of emergency may use the price at which it usually sells the item to calculate the price pursuant to subsection (a) or (b) of this section.

(d) The price restrictions imposed by this article may be limited or terminated by proclamation of the Governor.

Section 46A-6J-5. Penalties, remedies and enforcement.

(a) A violation of this article is an unfair or deceptive act or practice within the meaning of section one hundred two, article six of this chapter and is subject to the enforcement provisions and remedies provided by this chapter.

(b) Any person violating the provisions of this article is guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than one thousand dollars, or confined ~~the county or regional~~ in jail not more than one year, or both.

(c) The remedies and penalties provided by this article are cumulative, and do not prohibit any other remedy or punishment available under the laws of this state.

(d) Notwithstanding any contrary provisions in this article, the Office of the Attorney General of this state shall investigate and charge at any time any person, contractor, business or other entity selling or offering to sell to any person home heating oil, gasoline or other motor fuels for a price unreasonably greater than ten percent above the prevailing market price. A person, contractor, business or other entity in violation of this subsection (d) is subject to the penalties and remedies of this section. The Office of the Attorney General may petition any circuit court of this state for the issuance of a temporary restraining order or injunction or for any other remedy, as may be appropriate, to compel a person, contractor, business or other entity to comply with this subsection (d). In the event the state substantially prevails in any action against a person, contractor, business or other entity for violation of a provision of this article, the state shall be awarded reasonable attorneys' fees and costs incurred in such action, and the offending party shall be liable for the attorneys' fees and costs.

NOTE: The purpose of this bill is to give the Office of the Attorney General the power to investigate and charge home heating oil, gasoline or other motor fuel price gouging, at any time.

US S 357

SPONSOR:	Feinstein (D)
COSPONSOR(S):	Menendez (D), Sanders (I), Akaka (D), Boxer (D), Collins (R), Dodd (D), Cantwell (D), Cardin (D), Inouye (D), Lautenberg (D), Kerry (D), Leahy (D), Lieberman (D), Snowe (R), Reed (D), Durbin (D), Nelson Bi (D)
TITLE:	Passenger Automobile Fuel Economy and Safety
INTRODUCED:	01/22/2007
DISPOSITION:	Pending
LOCATION:	SENATE

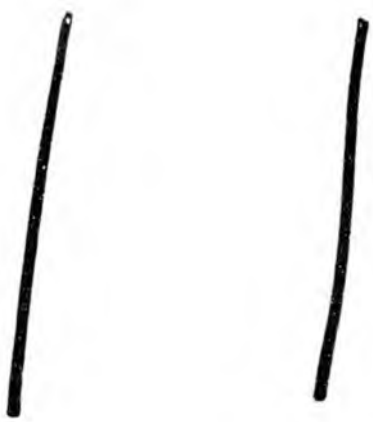
SUMMARY:

Improves passenger automobile fuel economy and safety; reduces greenhouse gas emissions; reduces dependence on foreign oil; relates to other purposes.

STATUS:

04/07/2008	From SENATE Committee on COMMERCE, SCIENCE, AND TRANSPORTATION: Reported with an amendment in the nature of a substitute.
04/07/2008	Reported in SENATE. Printed version.
04/07/2008	In SENATE. Placed on SENATE Legislative Calendar.

(Attached)



Committee Minutes
House SPECIAL CMTE ON ECONOMIC DEVELOPMENT Minutes

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT
February 24, 1998
2:10 p.m.

COMMITTEE CALENDAR

FUEL PRICES AND THE EFFECT ON THE ECONOMY

TAPE(S)

98-1, SIDE(S) A & B

CALL TO ORDER

Representative Jerry Sanders, Chairman, convened the House Special Committee on Economic Development meeting at 2:10 p.m.

PRESENT

Committee members present at the call to order were Representative(s) Sanders, Ivan, Berkowitz, Hodgins and Williams. Representative Austerman attended via teleconference from Kodiak.

Also attending:

Representative Joe Ryan and Representative Pete Kott

SUMMARY OF INFORMATION

CHAIRMAN SANDERS thanked all the representatives present and gave a summary of why he has called the meeting. He stated that gas prices in Alaska look to be 15 percent to 20 percent higher, with the prices in the Lower 48 running $.99 to $1.01 per gallon and Alaska's prices at $1.15 to $1.27. But when broken down, you have to look at that Alaska does not have to pay freight on the crude, the refineries save roughly $.10 per gallon right there. Alaska also only has a fuel tax of $.08 per gallon while California pays $.28 per gallon. California has been selling their gas for $.99 per gallon, take the $.28 off the top, their selling their gas for $.69 per gallon while at a $1.27 per gallon with the tax off, Alaska is selling for $1.19 per gallon. This has an effect on the economy of Alaska. Why are these things true? There are some obvious reasons, low volume in Alaska, great distances to transport the fuel and severe weather problems. However, government employees and organizations like the Department of Transportation cite the same reasons when they are questioned about costs. They all have the same problems. It is his belief that this has a very significant effect on the economic development of Alaska. There is not a lot of records to go back and check on, but there are some nationwide records. Going back over the country the last 175 years, one can see that for 150 years America has an economic rate of growth that 3.4 percent on an average. In 1973, when the OPEC (Organization of Petroleum Exporting Countries) nations tripled the price of oil, it dropped down, and for 25 years the economic growth rate has been only 2.3 percent. Now that sounds like a difference

of 1 percent point but it's not. When you have a 3 percent growth rate and it drops 1 percent, that is a 50 percent drop. That is what has happened with the nation and surely it is the same for Alaska. A slow economic growth rate caused by the price of fuel is the main cause for the political and social unrest that faces Alaskan's today. Its effect can be felt in Alaskan's personal self-esteem and Alaskan's frame of reference as a state. It makes one look for scapegoats. Is it rural people or it is urban people to blame? Possibly governmental employees? Someone is to blame and it is the slow growth that's inh'biting the state's development. Alaskan people appreciate how much they gain when crude prices go up, but what happens when prices fall? Why do retail prices go up three days after an increase, but it takes a year for it to come down when prices fall? The next question is the hardest. What, if anything, can the legislature do about it to get prices down and the growth rate up? Chairman Sanders said he will call on people from the public, but first will let any representatives with questions or comments speak first.

REPRESENTATIVE JOE RYAN stated that he had a copy of a report done in 1980, by Mr. Frank DeLong and another fellow whose name he has forgotten. It was written for Senator Fahrenkamp's Resources Committee. Mr. DeLong resides in Fairbanks and was the person who started the North Pole Refinery for Earth Resources. He had it for a couple years and sold it. Mr. DeLong states in the report that there are a couple of the major refiners that sell refined products in Alaska and their prices always seem to be within reach of each other, within a penny or so. The report talked about the refinery in North Pole being one of the most profitable in the history of the oil business. They do get royalty oil under a special agreement with the state and that, supposedly, under the agreement the citizens of Alaska would receive lower petroleum prices. They pay a degradation fee of some $80 million. He has seen an article where there is a 20 percent degradation in the oil that is taken out and then put back in. The refiner should be paying $.12, but are only paying about $.04 due to the 20 percent degradation. Fairbanks had a very large economic development program at the airport to bring foreign air carriers in because it is 250 to 300 miles shorter on the great circle route to the Far East than it is to Anchorage. It was a consortium of people who bought pretty cheap fuel products in Singapore, poured them into Anchorage in the duty free zone and lowered the pric $.06 per gallon. That just took care of Fairbanks, they could not compete with those prices. Representative Ryan questioned how fuel could be shipped to Anchorage and sold cheaper than where it was refined. Due to the market, competition? He didn't think that was it. He Also questioned why prices were always constant with Tesoro. Why is there no difference if there is competition? With the trades they do, instead of shipping petro up the Kenai Peninsula to Fairbanks, they trade with Tesoro stations then get a corresponding agreement from the lower areas to save shipping costs. The report listed some of these things that the committee is now questioning.

REPRESENTATIVE A[illegible]TERMAN stated that he is in Kodiak and gasoline prices are $1.529 for regular, but one can go down to the plant and buy gas for little cheaper, like $1.05 plus taxes on top of that of $.314.

REPRESENTATIVE BILL WILLIAMS didn't feel comfortable getting into a position of dealing with the private sector business, but would like to hear from people in the public sector.

REPRESENTATIVE MARK HODGINS agreed that it is difficult in getting involved in the competitive market. He stated that the House Special Committee on Oil and Gas is looking into some of the

spillage and tanks that led to the underground tank thing. That costs the industry a lot of dollars and it could or could not have something to do with the high prices. If there was just one business that had high prices, there might be something to look at but with competition, it is difficult to try and come in to mess with the economic situation. Prices have fallen in Juneau since three years ago when Mapco came in. The main axiom is that when you're in business, they owe it to their customers to continue to offer their services. It's kind of thin ice that the committee is treading on, but he still thinks it's a good idea to have meeting to see if they can get them to self-examine themselves.

CHAIRMAN SANDERS thanked the other representatives and introduced the first public person to testify.

DAVID REAUME, Economic Consultant from Juneau, stated that the information suggested that there is something worth investigating. Is not the fact prices in Alaska are generally higher than elsewhere, or the Kodiak prices are higher than Anchorage prices? Those differences can be explained by such things as weather. He said he thinks it is interesting the way prices respond over time or fail to respond over time. He gave examples of numbers he has taken between January and December of 1997. The price that Mapco paid for crude oil fell 30 1/2 percent and the price Tesoro paid for crude fell a little bit more than 38 percent. The two companies have different contracts. At the same time, prices at the pumps in Anchorage fell less than 2 percent. If one expects to see a one for one translation of crude oil prices changes into pump prices, that would depend on the percent of the total operating costs and other factors that crude oil took up. Mr Reaume passed out some annual report statements he had gotten off the Internet for Unical, Mapco and Tesoro. He addressed Tesoro's and said to illustrate under the income statement for December 1996, and December 1995, these are the year ending statements. The costs of goods sold, let's set a high percentage of something like 8/9th, whatever translates into somewhere above 80 percent of the revenue is the costs of goods sold. The costs of goods sold has in it other items other than simply crude oil, but he thinks it's safe to conclude from this that crude oil, the acquisition price of crude, constitutes something in excess of half the total costs for these operations. If one was to see a 40 percent reduction in crude oil and if that were translated competitive market to retail pump, one could expect to see something like a 20 percent reduction at the pump instead of the 2 percent. There are some time elements involved.

REPRESENTATIVE ETHAN BERKOWITZ said that's assuming there is no other costs in the price of production.

MR. REAUME stated that was correct. (Indisc.) no, this was suggestive, it did not prove anything but it was suggestive. It did state the issue.

REPRESENTATIVE HODGINS pointed out, from memory, that Tesoro uses about 55 percent of the barrel and gasoline was 25 percent to 30 percent of that so in the barrel itself, they only get 55 percent out that they can actually utilize. The rest was recedes that some of the refineries get to put back into the pipeline. Tesoro had to ship it out to get rid of it and it costs them $20 million. What struck him was that it's not the portion of the barrel that goes for gasoline, it's like maybe 25 percent of the barrel, so even if there is a 25 percent decrease, they are looking at at least an 8 percent to 10 percent decrease that should be for the cost of the crude. It is not a ratio of one to one.

MR. REAUME said no and that was what he tried to point out, that the percentage translation at the pump under a competitive market would be, in part, a function of the share of total costs that the product in question took up. If there were no other changes, the costs of crude oil was 50 percent of the total cost producing a slate of products than one would expect something like one half the percentage reduction in retail price then one saw in terms of the acquisition price of crude. So crude prices dropping 38 percent, that implies something in the order of 15 percent to 20 percent reduction. With all things equal in a competitive market and sometime lags involved, but thinks that the issue whether or not there is a problem there. It isn't simply that gas prices are $1.50 in Kodiak and a $1.20 in Los Angeles that directs attention in the wrong direction. We need to look at how pump prices change when crude oil prices change and some other things. For example, compare, if the data is available, the way in which average gas prices charged by Tesoro and Mapco have changed in the same January to December period. Mr. Reaume said he thinks that the nature of the problem is better focused drawn to the way in which retail prices relate to changes in crude oil prices rather than simply enter area costs differentials. The next point he made was regardless of whether one is talking about the retail or the wholesale level, there is both extensive empirical and theoretical research indicating that price fixing is not only possible, but in fact has gone on a relatively regular basis across the United States for a number of years. He gave the committee a copy of a journal article from the Autumn 1996 Rand Journal of Economics by two authors. One is Sevrin Borinstine from the University of California Berkley. He has done a fair amount of work on the question of the relationship between retail petroleum prices and crude oil prices and the issue of how one, if one were a player in the market, would one go about price fixing without getting caught. If one wanted to contact someone who is not only capable of analyzing but in effect up to speed, that would be the sort of person to contact. He gave the telephone number of Mr. Borinstine to the committee. One of the papers passed out to the committee was co-authored by Mr. Borinstine titled, "Do Gasoline Prices Respond as Symmetrically to Crude Oil Prices Change." Mr. Reaume stated that the mere fact that somebody at the University of California has a research paper that asked that question suggests that somebody around here has been looking at some numbers that a least make a reasonable being want to inquire into it. The second article was authored by Karen Brock, he was not an acquaintance of hers, titled, "The Behavior of Retail Gasoline Prices Symmetric or Not?" What that discusses when they are talking about symmetry is the tendency for people (indisc.) to see and these can tell you whether they have actually recorded them. Retail prices going up when crude oil goes up is relatively lock step fashion and then falling to come down. That's the symmetry that they are referring to in these two articles. The third article Mr. Reaume passed out was from the GAO US Journal Accounting Office, its "Energy Security and Policy: Analysis of the Pricing of Crude Oil and Petroleum Products." These three articles are fairly readable and have other references.

REPRESENTATIVE BEPVOWITZ said it seems to him that according to the Rand Journal, there is an assumption that there is a tacit collusion as opposed to active collusion. When dealing with a retail market for gasoline. It's competitive as there are a lot of players. There is a good knowledge base by everyone. How does one distinguish between tacit collusion and just competition?

MR. REAUME answered to distinguish tacit collusion from active collusion and then competition from tacit collusion. "Active collusion" means one gets on the phone and talks to the other guy

and they plot, a memo changes hands. That, on occasion, has been found. Tacit collusion usually is embodied in what is called price leader/price follower behavior where for a time they might have tried to cut each others throats. They learned that it makes sense for them as business people to simply let one of them set the tone with respect to raising and lowering prices or changing the way they do business and that qualifies as tacit collusion. When firms are tacitly colluding, they refrain from taking aggressive action on price and other marketing methods against one another. They, in effect, let the lead firm dictate what is going on. That can break down but he has seen it only once in 20 odd years here in Alaska. It happened once in Juneau when Mapco came to town, then it appeared that somebody had reestablished themselves as the price leaders if that model is to be believed. If one is to believe tacit collusion is going on in Juneau, what one might have seen was a period of competition when Mapco first came in followed by a renewed understanding that it isn't the best way for them to conduct business. Competition is simply one does what one thinks is best for their own business. If it means one thinks it's best to match somebody else's price to keep from losing customers, which it usually does, that also means that from that point of view, it is pretty difficult to determine if tacit collusion or competition is going on. If the committee believes that there is a problem, then the anti-trust road is where they have to head. If they believe that a company or group of companies is behaving in an anti-competitive manner, there are only two avenues in which to establish a case. One is statistical and the other is finding the smoking gun. Having someone come forth and testify that is credible or having memos, tapes of telephone conversations, things of that nature. Based on Mr. Reaume's reading of history on anti-trust cases, ones based on statistical evidence are drawn out and frequently come to no conclusion. That is not a cost effective way to use public money unless there is a large amount of money at stake. He cited the example of tobacco companies, the antitrust cases against them were years in the making and until the "smoking gun" came forward in the forms of memos and testimony from Ligget*, was going no where. He thinks that if the committee is looking to pursue litigation, it has a long way to go. He gave an idea that he thinks is pretty straight forward but it is not fully developed. They could consider making the price of which companies pay for royalty crude dependent upon their retail performance. He couldn't give a formula, but said it could in effect say if retail prices don't behave symmetrically according to a formula figured out by the state and written into a contract that has been signed, then there is going to be a transfer of funds in effect, the price of royalty crude would go up or vise versa. If the problem is that prices tend to go up with the price of crude but don't tend to go down quite as rapidly this is an avenue the committee might want to seriously investigate. He concluded that the period of investigation has just begun and they might find prices to be reasonable. He doesn't think they are but would keep an open mind and asked if there were any questions from the committee members.

REPRESENTATIVE RYAN stated that he had comments regarding Representative Hodgins' remarks. Tesoro does not have the luxury of reinjecting residual fuel. (Indisc.) He checked the prices of bunker fuel in the West Coast, it was about $13.

REPRESENTATIVE HODGINS questioned Mr. Reaume about selling royalty oil and tying the price to retail prices. He didn't know how it would be a savings to the consumer and didn't it seem more like a tax.

MR. REAUME answered that suppose the company fails to perform, that the price of crude oil goes down and they fail to pass it through

to the consumer. The nature of the formula would be to see that the break in crude oil prices is passed on to the consumer. If they fail to pass it on to consumers a portion of money is passed over to the state treasury. It doesn't affect the retail price of crude immediately but it is passed over.

REPRESENTATIVE BERKOWITZ asked why the state should get involved.

MR. REAUME answered that the justification Representative Berkowitz was looking for in constructing such a formula was an arguable point. It would be a testable hypothesis that if installed he conjectured the result would not be failure to perform, the result would be performance on the part of companies for fear that the other would perform and thereby create a noncompetitive situation for those that were not performing. Failure to respond would lead to the second part of this. Assuming right now that there is a problem and there is structured a formula and both companies fail to perform. The companies would have a certain amount in public interest advertising. They are concerned about the legislative body investigating, it could lead to different tax laws, regulatory changes. The failure to respond at the retail level leads to publicity in the form of the public knowing the company had to write a check back to the state because prices did not go down. That would stimulate price changes. There are really two ways in which a formula of this sort, if constructed properly, would impact the consumer in a positive way. One would be by one company trying to avoid have to pay back money and the other would be the negative publicity that would arise if the company did have to pay back the money. He stated he could not go beyond this in terms of the formula, he has not thought it all the way through but thinks it is worthy of further investigation.

AN UNKNOWN SPEAKER asked Mr. Reaume was his background in retail at all. Because what he described was if they punish the companies then they will drop their prices and be more competitive but if they didn't punish them, then there was no competition.

REPRESENTATIVE BERKOWITZ said he thought they would be competitive in either stance.

MR. REAUME answered that the discussion of the formula was on the assumption there was a finding of minimum tacit collusion, if there is no finding of that then nothing need be done. He did not have a problem using the word punish.

REPRESENTATIVE BERKOWITZ was not ready to jump to a conclusion there was anything going on.

MR. REAUME said he was not either but was conjecturing.

REPRESENTATIVE BERKOWITZ asked if there was any information that Mr. Reaume knew of that compared Alaska's wholesale prices with those of the Lower 48. He saw through looking through the information retail prices but no wholesale prices.

MR. REAUME said that it is possible to get it but a subpoena might be needed in some cases. These prices are not typically published and made readily available to the general public. He did not know of any place he could get those numbers right away but knew of where to get them in principal but it would take time. He went on to say that there was a time that the attorney general's office was looking into this matter and the answers they got from the local stations was the stations were only passing on the higher prices due to the high wholesale price. If one were to figure out the differences between the prices of Southeast Alaska and Seattle,

being very generous with tanker travel costs, one could never get the wholesale price differential that they had come up with. At that point in time, it appeared that Chevron and Unical were taking advantage of their duopoly (ph.) in Southeast Alaska and exploiting it. The prices in Juneau as it was then and the prices as they would have been under a really competitive market was probably eaten up by the wholesale markup. He did not have those numbers but the AG's office did and probably got them cooperatively, he was not sure if they had to subpoena the companies.

CHAIRMAN SANDERS asked Mr. Reaume if he thought that if they could get the television stations to give out the prices of gas, showing where the lowest prices were, if it would have any affect on prices. He thought though getting the stations to do it might prove difficult due to advertising dollars.

MR. REAUME answered that the first problem would be getting them to do it and that it could lower prices for awhile, but after a time there would not be a long run effect. He wanted to point out something else also when he was talking about deviation gas prices, average gas prices has dropped he conjectures, more or less with the price of crude. That situation exists in other fields. He gave an example of trash pick up in Juneau ten years ago. Consumers were paying the lion's share of the profit margin of the company instead of the businesses, who dumped the most garbage. Individual consumers are not organized and, therefore, have a harder time getting things changed, where as larger consumers would have less of a problem. That is a general theme, anytime one constitutes the largest part of a business, they have more of a say on prices.

REPRESENTATIVE RYAN gave a scenario and asked if it was reasonable. If the legislature looked at the contracts of Mapco and Tesoro and see if there is advantage. Looking at the general oil business, refineries in particular, they are located near a large seaport because they receive ocean shipments of oil. Fairbanks has a unique situation, the refinery is allowed to tap off the TransAlaska pipeline and pay a degradation fee. He doesn't remember if there is a transportation fee involved.

MR. REAUME gave his understanding of the degradation charge. That it is based on the volume put back versus the volume taken out, that's one factor and the BTU value of what was put back versus what was taken out. There may be additional factors going into the composition of what was taken out but he didn't know. It is the quantity and quality of what is taken and that is figured right at the Fairbanks terminal. Transportation should not figure in for the crude that goes on down to the Valdez terminal. He would be surprised if it was. He thinks the issue is the total amount they exact and that they do to take out valuable hydrocarbons at Fairbanks that could otherwise be sold to the West Coast, Gulf of Mexico.

REPRESENTATIVE RYAN asked if that fee makes up for the transportation from Fairbanks to Valdez. The fees are supposedly for the degradation of the oil. Someone has to pay it.

MR. REAUME answered that the ultimate buyer at the end of the line pays for that.

REPRESENTATIVE RYAN asked is that a concession.

MR. REAUME answered yes.

REPRESENTATIVE RYAN said if that's true and they have given certain

concessions and under the tacit understanding he was reading about. Mr. Reaume interrupted and said that it really isn't a concession, it is a reflection that when Mapco takes the oil, it doesn't have to go all the way. Oil purchased in the Gulf of Mexico is going to be higher due to transportation costs. It is a cost advantage for Mapco over having not to transport it from Valdez.

REPRESENTATIVE RYAN asked what does Tesoro get out of the market when they have to pay transportation costs and they are getting a product that is of less value due to have Mapco putting back in the degraded oil residue. It lowers the value of the royalty oil at the Valdez terminal. They are at a competitive disadvantage to Mapco. How can they stay competitive and still make a profit.

MR. REAUME answered that it is cheaper to ship refined products than it is to ship crude so Mapco has to ship their products to Anchorage and that offsets some of the costs. He said it is a good point Representative Ryan was trying to make and he thinks it bears investigating. One has to look at the total cost of acquisition of crude and the quality of crude they are buying, what sort of competitive edge would Tesoro have over Mapco and vise versa in a well defined market. He didn't have any answers and that is one of the things the committee needed to look into to before any firm conclusions can be drawn.

CHAIRMAN SANDERS asked that if transportation costs are higher for Mapco to ship down to Anchorage, why is the price $.13 to $.15 lower in Anchorage than it is in Fairbanks.

MR. REAUME said that is one of the questions the committee will need to send its research people. It is going to take investigating and will take time.

CHAIRMAN SANDERS thanked Mr. Reaume for his testimony and said that the next person to testify would be someone who uses fuel for his business. The focus would be on diesel fuel, which drives the economy.

ERROL CHAMPION, Silver Bay Logging, Southeast Alaska, testified that the business' costs for fuel was their second largest expense next to personnel costs. He thinks that statement would hold true for any business which is in natural resource harvesting. They operate all over the state. Their business uses a fleet of helicopter which last year used 954,000 gallons of fuel. The small fleet of turbo planes used 67,000 gallons. They have five tugs and they haul their own fuel to the smaller locations because it cannot be delivered any other way. The five tugs burned 1,550,000 million gallons of fuel in 1997. The traditional logging and construction sights that operate across the state burnt 4,680,000 gallons of fuel. Total fuel 7,257,000 in 1997. Wholesalers who bring it out by barge weekly deliver the fuel in Southeast. Montague Island and Afognak Island are supplied by the company's own tugs which take up to 250,000 gallons loaded up in Anacortes Washington. They make five trips a year. The quick math on that is that they spent 7.2 million dollars on fuel last year and a dime off a gallon is a savings of three quarters of a million. That amount of savings goes to the bottom line, allowing the company to make other investments, improve their operation, etc. The cost of fuel is extremely significant to the business's operation.

CHAIRMAN SANDERS said he assumes they buy their fuel in Anacortes because it is cheaper than Alaska. Kenai is closer and if it was cheaper, they would save money.

MR. CHAMPION said it is approximately 40 percent cheaper in

Anacortes than to purchase it in Kenai. The company buys in bulk consistently and pays about $.80 a gallon. They purchase it from Texaco or BP. There are three refineries and they are very competitive with each other. Even if they filled their tugs at the Seattle waterfront, they will pay less than buying in Alaska. Ballard WA the price is about $.90 per gallon.

CHAIRMAN SANDERS asked if the crude was from Alaska.

MR. CHAMPION replied that was correct.

REPRESENTATIVE RYAN asked what was the cost of transporting the fuel back up to Alaska.

MR. CHAMPION said they figured it was about $.06 per gallon. The fuel is from Alaska and they transport it back. They try to have a back run of logs, whatever, so they don't make an empty trip.

CHAIRMAN SANDERS asked what taxes were involved. They do have a water born freight and tax tariff.

MR. CHAMPION said that was included in the price. It does not include any federal highway tax or sales tax. But it would be the same here.

REPRESENTATIVE RYAN asked if they received a rebate on the Federal highway tax for using a marine application.

MR. CHAMPION said if they paid it, they would get rebate but they avoided doing that, as it was a long time to get the rebate checks. They try and buy from a wholesale dealer who is not levied. They don't run on federal highways, they are consistently in remote locations. They consume their fuel on off road situations.

CHAIRMAN SANDERS asked Representative Austerman if this seemed to comport with information he had in Kodiak about diesel prices. Are prices less outside.

REPRESENTATIVE ALAN AUSTERMAN said that was true. Small businesses buy off the West Coast also.

MIKE PRINCE, Emmonak, Alaska, representing Lower Yukon School Board, gave testimony on gas prices for the school board. They pay $2.30 per gallon and they have a $.03 sales tax. They might dip in price a little bit in summer but it is usually $2.30. They use the gas for their snow machines. They use stove oil and it is $2.20 per gallon. They bring it in by barge. He said that his household uses about 110 a month on stove oil, maybe more. Their house is pretty well insulated. The figures might be conservative. He has a wood stove and uses 100 to 110 per month. Fuel use for machines is broken down, that in summer they use outboard motors and winter for their snow machines.

REPRESENTATIVE RYAN asked what amount of fuel did the school use.

MR. CHAMPION said that they put it out to bid. They have 11 sights and seems like bulk rate for heating fuel is about $1.73. They buy a lot of fuel and that price might be a bit conservative. They have on occasion transferred fuel to local entities on an emergency basis. It's an emergency basis only as they are very tight on fuel. The fuel is deliver as late of September, maybe October. They are mandated by insurance companies to have the barges out of the area by a certain time. He did not know where the distributors got their fuel.

ART HECKLAN, Pilot Station, runs the retail store in Pilot Station. They retail their gas for $2.60 per gallon. They have a holding tank for approximately 50,000 gallons for heating fuel and gas. That includes the $.04 per dollar sales tax. Heating fuel is $2.30 per gallon. His household uses about 1,000 to 1,500 per year to heat up his home. He uses driftwood to supplement heating costs. The school has a holding tank of, his guesses, 8,000 gallons for heating fuel. That covers the school and the living quarters for the teachers. The light plant has anywhere between 80,000 to 110,000. The electric company tacks on a charge for 55 gallons of fuel to each bill. That is approximately $75 per month to each bill. He said that their distributor got their fuel from the West Coast. It was cheaper. The people run out of heating fuel around spring. They cannot live a subsistence lifestyle, there are only 40 permit holders for subsistence use. When the people run out of fuel, they have to rely on neighbors. Everyone rations their gas. When people want to moose hunt, they are limited to five to six gallons but they need much more to hunt moose.

ADJOURNMENT

The meeting was adjourned at 3:30 p.m.

COMMITTEE ACTION

Committee took no action.

NOTE:

The meeting was recorded and handwritten log notes were taken. A copy of the tape and log notes may be obtained by contacting the House Records Office at 130 Seward Street, Suite 211, Juneau, Alaska 99801-1182, (907) 465-2214, and after adjournment of the second session of the Twentieth Alaska State Legislature, in the Legislative Reference Library.

Committee Minutes
House SPECIAL CMTE ON ECONOMIC DEVELOPMENT Minutes

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT
March 19, 1998
5:10 p.m.

COMMITTEE CALENDAR

FUEL COSTS AND THE EFFECT ON THE ECONOMY

TAPE(S)

98-2, SIDE(S) A & B
98-3, SIDE(S) A

CALL TO ORDER

Representative Jerry Sanders, Chairman, convened the House Special Committee on Economic Development meeting at 5:10 p.m.

PRESENT

Committee members present at the call to order were Representatives Sanders, Ivan, Williams, Kemplen, Hodgins, Berkowitz, Croft and Austerman.

Also Attending:

Representative Vic Kohring and Senator Jerry Ward also attended the meeting.

SUMMARY OF INFORMATION

Representative Sanders introduced people standing by on-line to testify via teleconference. On-line was Anchorage, Fairbanks, Kenai, Gakona, Kodiak and Glennallen. Representative Sanders asked for their testimony on the effect of high fuel prices in their area of the Alaskan economy.

FRANK DILLON, Executive Vice President, Alaska Trucking Association, stated that the trucking industry's lifeblood is diesel fuel. His company has noticed that the cost of diesel fuel remains higher in Alaska then outside of Alaska. He also stated that the added out-of-state fuel tax is about .20 cents a gallon compared with the Alaska fuel tax of .08 cents a gallon, you come up with a fuel differential of about 92 cents per gallon outside of Alaska for self serve verses $1.25 in the state. He believes that competition is an effective way for the market to respond to pricing. Anytime there is a reduction in the price of fuel, that reduction is passed on to the consumer and everybody in Alaska. It definitely has a positive effect on the general quality of life. He is pleased to see this committee inquiring into this matter.

LARRY KORDECKI once tried to institute a class action suit against Mapco and Tesoro regarding gasoline and diesel fuel prices. Nothing came of it. Since then, he had given up on it until Representative Sanders brought attention to the issue. He stated

that he would have liked to have had Representative Sanders around four years ago when the Governor or the legislature would not even talk to him about this issue. He doesn't feel that the market will take care of itself. It is time for the legislature to really do something.

DANIEL J. MAY, Polar Mining Company, did not attend but submitted a letter into public testimony. The letter dealt with the large difference in prices of fuel refined in North Pole and available to consumers there. The same fuel, which is available to consumers in Washington State, is less by 27 cents per gallon. Mr. May believes consumers in Fairbanks are being gouged. Legislative Assistant Patricia Everson read the testimony which is on file.

CHRIS BERNS, Commercial Fisherman, Kodiak, stated that he has a small fishing vessel and his fuel costs are about 10 percent of his boatload. Everything that is done in the fishing industry is driven by diesel - the boats and the processing plants. All this adds up to making an already strapped industry that more burdened. He applauds the investigation into this matter by the Representative Sanders and the legislature.

ALAN LEMASTER, Texaco Dealer, Glennallen, stated that he would be available to answer questions or help in any way.

RICH CLINE, Owner, Clines Tesoro, Anchorage, stated that he is a retailer that has been in Alaska since 1964. He must maintain a certain margin of markup to make a living and pay his expenses, such as tank insurance, taxes, and workmen's compensation and garage insurance. When he buys his fuel, there is an amount of mark up that he has to have to pay his expenses. The price of fuel at his station today is $1.11 a gallon. At Mapco in Anchorage gasoline is $1.15 a gallon on one side of town and as high as $1.22 a gallon on the other side of town. They seem to have a .07 to .08 cent difference in prices depending where they are located.

MR. LEMASTER stated that it costs him a quarter of a million dollars to replace on pump that has six hoses. He is a very small station in rural Alaska. He doesn't have the number of gallons pumping out of his station per day that other stations do in Anchorage or Fairbanks. Therefore, his cost is much higher being that his volume is so much less. As a result of where he lives, he is stuck with raising his prices more per gallon than what you would pay in Anchorage. If he dropped his prices even a penny or so it would cost him to run the station.

BILL JEFRESS, representing Gold Mining in Fairbanks said his company uses approximately 310,000 gallons of diesel fuel per month. He stated that oil prices are at a 10-year low but gold prices are at an 18-year low. He feels that there is preferential charging. It seems that a lower price is being charged to the international freight haulers in Anchorage for fuel that is actually refined 16 miles from Fairbanks. His company would like to buy locally, but they are forced to go outside.

JERRY MCCUNE, President, Cordova District Fisherman United, stated that fuel prices for fisherman have been high. The lack of competition is part of the problem in some of the rural areas. We should find a way to refine some of our heating fuel here. Heating fuel costs are a big part of people's income in this state, even more so if you live somewhere like Fairbanks. Every penny or two that is saved on fuel means thousands of dollars for communities, fishermen, processing plants and workers.

EDDY BURKE, Anchorage Resident, stated he was a Texaco dealer for

four years and a Chevron dealer for ten years. He has been out of the gasoline retail business for one year. From his standpoint the environment has changed so much in the last 15 years or so. When he started his business in 1984, most gas stations were all mom and pop owned, they were your neighbors. It seems when Mapco came to town all that seemed to change - some changes for the good and some for the bad. The service station business has changed dramatically. We have stations, such as Chevron, owning their own facilities across the state. It is not the independent dealers that are holding the profits. Station owner profits have done nothing but decrease. We have oil companies getting rid of independent mom and pop dealers. It seems three big oil companies are controlling the whole market. He believes Mapco dictates the prices and the other stations follow suit.

RON KOVALIK, Fairbanks, said he has been retired for the last twenty years. He asked why only one representative in all this time has brought this issue up. It almost seems as if the attorney general is in engaged in selective enforcement. You don't need collusion to have price gouging; all you need is deaf and blind enforcement. The state ought to get a little tighter about their royalty oil sales and tie it to the sale price of Alaska oil in the Lower 48. Mr. Kovalik stated that he would like to see some of these antitrust laws discussed. This government appears to be bought off. Commissioner Shively is doing the bidding if the governor; he can't make these decisions on his own.

MR. BURKE referred to a Los Angeles news article stating that San Diego has passed legislation banning oil companies from owning stations. He thinks something along those lines should be done here.

STEVE WORMINGTON, Vice President, Tesoro, Anchorage, started his testimony by stating that he would like to dispel the concept that Tesoro is making millions. He gave an example of a $300 million investment that only profited $700,000. He went on to say that in 1996, Tesoro did have an improvement of $2 million, 2 percent pretax profit and in 1997, we more than tripled to a 7 percent return on our investment, for a total of $20 million. Tesoro is extremely dollar limited. We currently have 170 branded locations in the state of Alaska and he would like to state that those are not concentrated in the Anchorage area, as most other companies are. Tesoro is throughout the state. The majority are 35 companies owned and operated locations that we set the price on. The remainders of stations are independent dealers. He told us of one of his dealers, who works about 16 hours a day, 7 days a week, stated If you look at his location, he is not getting rich. Basically, it's a tough business. It's predicated on what the dealer can sell his product for. Their profits are based upon margin and how many gallons they sell. The more gallons, the lower the margin. He stated that generally most dealers are operating stations that sell well less than 100,000 gallons per month, compared to the average Mapco station, per their last report that I saw was 177,000 gallons per month. They are basically three times the size. He stated that it does get to the point where it is extremely difficult for an independent to operate his station as efficiently as someone who is pumping three times as much gasoline as he is. He went on to state that he does believe that Mapco a certainly built some very nice locations, they have put a lot of dollars back into the economy and I think that is what the general public is wanting. When asked about collusion among oil companies, he stated that he personally didn't want to wear a striped suit, so he can assure us that there is no way he is talking to anybody about collusion in oil prices. It's very clear what the impact of that is and I don't quite make enough money to justify wanting to

do that to myself. He stated that he had just come from the Department of Natural Resources and said we were looking at talking to them about our royalty contract, which comes up next year. The price is going to be the same as what is being offered to Mapco. The problem is the quality isn't going to be the same. When asked about prices being so high when we are so close to the source, he responded that he believes having two refineries in the state for gasoline has lowered the overall cost to the Alaska consumer. He stated that Tesoro supplies approximately 60 percent of the state's gasoline requirements, but of that, that is heavily weighted towards outside the Anchorage area. When asked when will we, the citizens of Alaska, actually see competition occur in the price of gasoline and when will we see the benefits of the market place at work, he replied, "If you haven't seen a drop in gasoline prices, then you and I are living in different places."

REPRESENTATIVE ALLEN KEMPLEN asked if Tesoro made a fairly sizeable profit amount from the sale of gasoline here in the state.

MR. WORMINGTON answered that it is certainly much more profitable then selling residue fuel in Los Angeles.

CHAIRMAN SANDERS asked do you produce more gas than you can sell in the state. Do you produce any home heating fuel?

MR. WORMINGTON answered that they do to a limited degree. Diesel and home heating fuel are very similar products, so he would have a hard time telling us if someone was using it for home heating oil.

CHAIRMAN SANDERS asked if Tesoro sells any diesel or very much diesel fuel to Petro Marine or Delta Western.

MR. WORMINGTON answered that Petro Marine was previously purchased from Tesoro until about 2 years ago. They started purchasing the majority of their product from Mapco and they formed a deal in Southeast, where Petro Marine has built a service station where they make Petro Express. We have sold large amounts of product to Delta Western. Delta Western is currently experiencing some financial difficulties and we have not made sales to them recently.

CHAIRMAN SANDERS asked if the Alaska public would be better served if you kept that gasoline in the state of Alaska and lowered your price and got a bigger share then the 60 percent that you currently have.

MR. WORMINGTON answered that the problem is that Tesoro makes more then the state of Alaska uses. So it really won't make much difference what the price was. He stated he would have to say that he has a good idea that we will trade the gasoline that we're shipping outside the state for crude oil and let the state sell that then. He stated that he was being facetious. We would like very much to sell our entire product in state and that is what we have started to press, we have stated that.

REPRESENTATIVE KEMPLEN stated that when you have an excess supply, prices drop and demand picks up correspondingly and if your saying that you have excess supply of gasoline, he would expect based upon economics, that the price would drop and so then demand would pick up. He asked why that didn't that work in this case.

MR. WORMINGTON answered that he thinks the point earlier that Mapco is basically the leader of pricing and he won't tell us that it's a matter of collusion, but when we make a price move, Mapco is going to be moving to. He further stated that if Tesoro drops

prices 10 cents a gallon, that Mapco will drop it that much more.

CHAIRMAN SANDERS asked, "So you are telling me this whole me this whole thing hinges on Mapco. If we can get a grip on Mapco, everything will come down?"

MR. WORMINGTON answered, No sir, he was not saying that. It hinges on the free market place and that he believe the price of gasoline does change over a period of time. One item he would like to mention here, and he apologized that he failed to mention earlier, everyone wants to talk about the price of crude and why we don't have an immediate drop in the price of gasoline. As of the end of February, Tesoro had 4.2 million barrels of crude and products in storage, now since we have to transport the crude to the refinery by vessel and the associate is somewhat of an unstable means of transport sometimes, we have about 1.5 million barrels of stored crude oil. That's a months supply. He stated that Tesoro's prices in March, 1997, were $1.35, they are now in the $1.15 range. He refereed to an article from the American Petroleum Institute that stated that October, 1997, through early March, 1998, the average price of gasoline throughout the United States fell from 1.254 a gallon to 1.075 a gallon. We have a lag, now we could sit there and say the refinery on the pipeline doesn't have a lag because they have no inventory. Of course, on the other side, we'll tell you when prices go back up and he can assure us it is when, not if, we will have lower cost crude in our tanks then our competition do, when Mapco does, so it will average out over a period of time.

CHAIRMAN SANDERS asked if they would keep the prices down for three months when it goes back up.

MR. WORMINGTON offered his apology and stated that he wants to be sure that we understand that he does not set the price on the street at any location other then the ones that we own and operate.

MR. LEMASTER asked if he could throw another factor into the equation. If I'm a Tesoro dealer and I'm paying the distributor $1 a gallon and I mark my gas up 10 cents a gallon. Where as the cost of gasoline goes down considerable, it's going to go down 20 cents, I'm still making my 10 cents a gallon, but my profit margin, my percentage of profit to my investment is considerably greater. If his price goes from $1 to $1.50, and I still have to charge my 10 cents a gallon to be competitive, then my percentage of profit goes down.

AN UNIDENTIFIED SPEAKER replied, "You're making the same number of dollars but you are right, your percentage of profit is different."

CHAIRMAN SANDERS stated that he thought that Mr. Wormington was going to be here for the meeting, so he prepared a beautiful chart for him, showing the prices in Anchorage, Juneau, Fairbanks and California.

REPRESENTATIVE VIC KOHRING stated that he is not member of this committee but would like to have a minute to offer some remarks. First of all, he stated that he would like to let Representative Sanders know that he appreciates him scheduling this hearing and bringing forth this issue. He needs to study this issue a little more before He can come to any definitive conclusion, but what he did deduce from this is that his constituents are being gouged However being the pure, free market purist that he is, he really doesn't think that government ought to be dictating the process here. He stated he doesn't think the government ought to be coming in and implementing laws, regulations, whatever, to control the free market process out there and he really thinks that it should

be run on a supply and demand basis. He thinks perhaps there is a role that the legislature can play. If there is a problem it is the legislatures duty to expose it.

REPRESENTATIVE IVAN IVAN stated that this has been a learning experience for him. Gasoline in his community is about $2.30 a gallon and heating fuel is around $2 but he understands that that might be part of the shipping cost. He would like to call on someone to explain, the effective commissioners, whoever they are, that are involved in the execution of regulations are statutes that pertain to this. He certainly believes in the free enterprise system and that's what makes the world go round. This certainly has an impact on the cost of living where he comes from. He said he looks forward to more meetings. Hopefully, something will come out of this.

REPRESENTATIVE KEMPLEN stated that he is certainly concerned by what he has heard at this meeting. He is concerned that Tesoro is not dropping prices even though they have extra supply and Ron Kovalik he made the statement that Tesoro will charge what the market will bare. It seems to him that there is something not quite kosher. Government does have a legitimate roll to play in enforcing the rules of the market place. When we cut government budgets just for the sake of cutting government budgets we are shooting ourselves in the foot and were doing a disservice to the citizens of Alaska, because here it seems to me is an example of why we have government, to enforce the rules of the game, so that the citizens of Alaska get a fair deal.

CHAIRMAN SANDERS stated that he would wind it up by saying that his primary interest is not in the price of the crude today or the fluctuation from last week or the relationship between crude in the last month and the price. His question is to the price of fuel in Alaska over the last 25 years. When the refineries were built in Alaska and the royalty crude was sold to them, the idea was that their was to be price benefits to the citizens of Alaska and I don't see where those benefits are coming to Alaska. Least of all where Representative Ivan comes from. He questioned what he getting out of his royalty oil and what are his constituents getting out of their royalty oil. He thinks that's the question here. We are going to keep working on it and we will have the Administration in and at some point we will have all the oil companies or refineries here. We will sit down and talk to them, someone is going to explain this to us.

ADJOURNMENT

The meeting was adjourned at 7:10 p.m.

COMMITTEE ACTION

The committee took no action.

NOTE:

The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at 130 Seward Street, Suite 211, Juneau, Alaska 99801-1182, (907) 465-2214, and after adjournment of the second session of the Twentieth Alaska State Legislature, in the Legislative Reference Library.

12

Alaska State Legislature

Interim: (June-Dec)
71[illegible]ST 4TH AVENUE, SUITE 600
ANCHORAGE, AK
99501-2133
(907) 269-0129
FAX (907) 269-0128

Session: (Jan-May)
STATE CAPITOL, ROOM 208
JUNEAU, AK
99801-1182
(907) 465-4859
FAX (907) 465-3799

JOHN HARRIS
Speaker of the House

August 29, 2008

The Honorable Jay Ramras
Chairman, House Judiciary Committee
Alaska House of Representatives
State Capitol
Juneau, Alaska 99811

Dear Rep. Ramras:

By this letter, I am requesting that you, as Chairman of the House Judiciary Committee, begin an investigation regarding the retail price of fuel in Alaska, specifically why reductions in price significantly trail reductions in price nationwide.

As we have seen in the very recent past, the price at the pump in Alaska, and nationwide, has risen dramatically as the price of crude oil has pushed above $140 per barrel. Currently, however, the price nationwide has dropped to an average of $3.68 per gallon as the price per barrel dropped to around $115, yet, the price in Alaska has remained at an average above $4.50. Obviously, purchasers of home heating fuel suffer from this same market problem. Bush communities suffer even more.

This is intolerable for Alaskan consumers. The cost of living and commuting in our state is already prohibitive for many residents. The slow response of the market to dropping crude oil prices adds a layer of insult to that injury.

Please look into this, and prepare a report with solid recommendations for action the Legislature can take as soon as practicable.

Thank you. If you have any questions about this request, please contact me through my office or on my cell phone.

Sincerely,

Rep. John Harris
Speaker of the House

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
.epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

State Capitol, Room 120
Juneau, Alaska 99801

SENT VIA EMAIL: steve.rush@holidaycompanies.com

September 9, 2008

Steve Rush, J.D.
Counsel for Holiday Companies Retail Stores

Re: House Judiciary Hearing

Dear Mr. Rush:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a more specific time for testimony as soon as a schedule has been finalized.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701

September 2, 2008

Mr. Jeff Cook
Flint Hills Resources
1100 H & H Lane
North Pole, AK 99705

Via e-mail: jeff.cook@fhr.com

Re: House Judiciary Hearing

Dear Mr. Cook:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you a more specific time as soon as a schedule has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701

State Capitol, Room 120
Juneau, Alaska 99801

September 2, 2008

Mr. Doug Chapados
Petro Star, Inc.
3900 C Street, Suite 802
Anchorage, AK 99503

Via e-mail: dlchapados@petrostar.com

Re: House Judiciary Hearing

Dear Mr. Chapados:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701

State Capitol, Room 120
Juneau, Alaska 99801

September 2, 2008

Mr. Kip Knudson
Tesoro
2700 Gambell Street, Suite 500
Anchorage, AK 99503

Via e-mail kknudson@tsocorp.com

Re: House Judiciary Hearing

Dear Mr. Knudson:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a more specific time for testimony as soon as a schedule has been finalized.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701

State Capitol, Room 120
Juneau, Alaska 99801

September 2, 2008

Mr. Glenn Peterson
Safeway, Inc.
6401 A. Street
Anchorage, AK 99518

Via e-mail glenn.peterson2@safeway.com

Re: House Judiciary Hearing

Dear Mr. Peterson:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantiall nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a more specific time for testimony as soon as a schedule has been finalized.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

State Capitol, Room 120
Juneau, Alaska 99801

September 9, 20084, 2008

Representative Bob Roses
716 W. 4th Ave., Ste. 660
Anchorage, AK 99801-1182

Re: House Judiciary Hearing

Dear Representative Roses:

I would like to invite you to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

State Capitol, Room 120
Juneau, Alaska 99801

September 2, 2008

Representative Bob Roses
716 W. 4th Ave., Ste. 660
Anchorage, AK 99801-1182

Re: House Judiciary Hearing

Dear Representative Roses:

I would like to invite you to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
epresentative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

State Capitol, Room 120
Juneau, Alaska 99801

September 2, 2008

Mr. Ed Sniffen, Jr.
Senior Assistant Attorney General
1031 W 4th Ave., Ste. 200
Anchorage, AK 99501-1994

Re: House Judiciary Hearing

Dear Mr. Sniffen:

I would like to invite you and/or a representative of your organization to testify at a special House Judiciary Committee hearing on September 10, 2008 from 9:00 a.m. to 5:00 p.m., at the Legislative Information Office in Fairbanks (1292 Sadler Way, Suite308). The purpose of this hearing is to discuss the market price of fuel in Alaska.

At this meeting, we will address the price of fuel at the pump as well as the price of home heating oil and why the prices have dropped substantially nationwide but, the prices in Alaska have remained relatively flat by comparison.

We will be taking testimony from refiners, distributors, and retailers, as well as testimony from the Department of Law as to the status of their investigation.

I look forward to your testimony, and to a productive hearing on September 10th. I will provide you with a schedule as soon as it has been drafted.

Should you have any questions or require further information concerning this matter, please do not hesitate to contact this office.

Sincerely,

Representative Jay Ramras, Chair
House Judiciary Committee