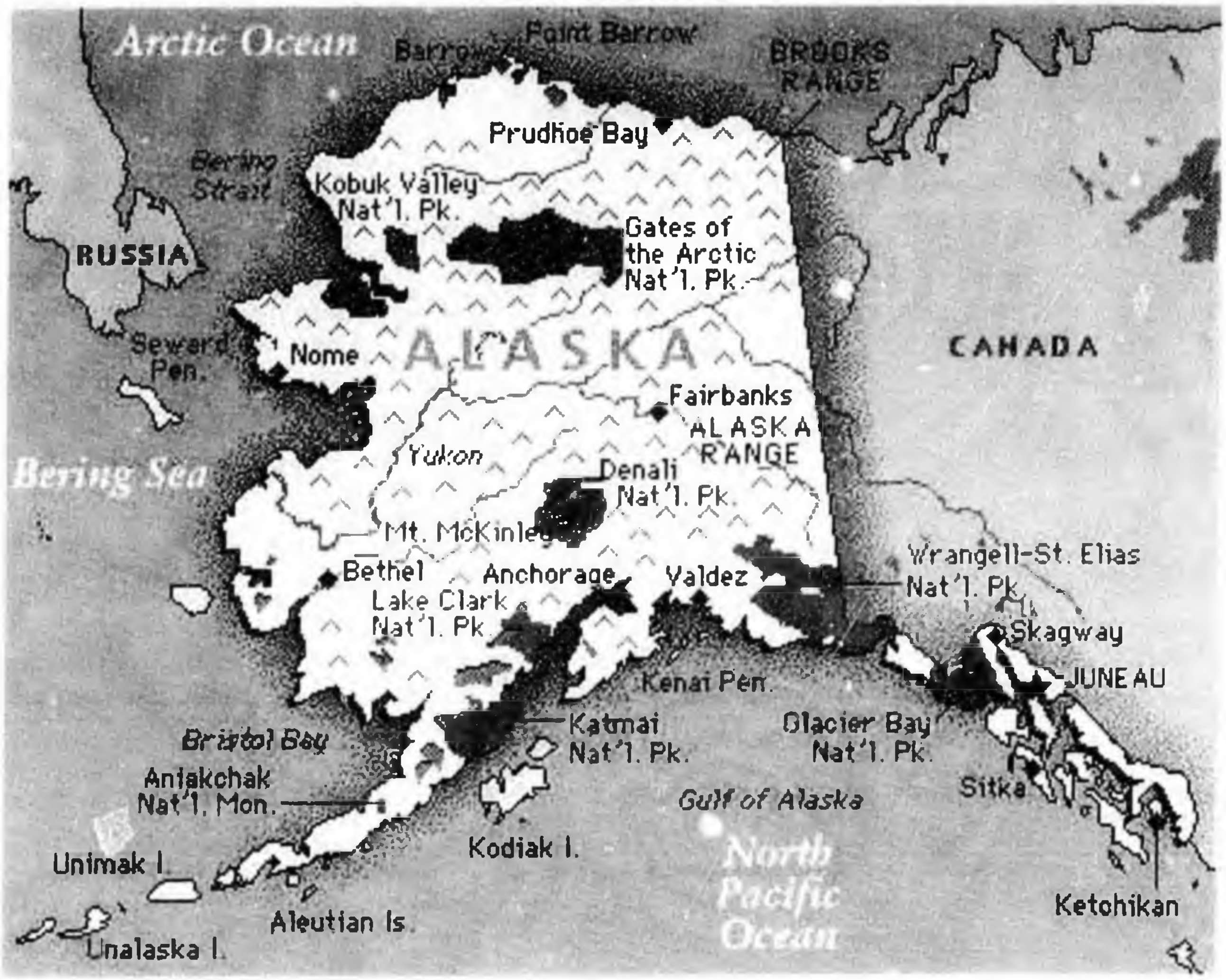
10/23/08 OVERVIEW: HIGH GAS & HEATING OIL PRICES IN AK

CONTENTS



REGULAR GAS

PRICE PER GALLON

CITY

AVERAGE

ANCH	DELTA	FBKS	HOMER	HPR BAY	JUNEAU	KETCH	KOTZ	NOME
3.54	4.015	3.58	4.06	7.16	4.085	4.25	7.25	5.31
PTRSBG	**SALCHA**	**SEWARD**	**SITKA**	**TKA**	**TOK**	**VALDEZ**	**WASILLA**	
4.22	3.99	4.26	3.97	3.59	4.05	4.199	3.54	

10/21/08

REGULAR GAS

PRICE PER GALLON

CITY

AVERAGE

ANCH	DELTA	FBKS	HOMER	HPR BAY	JUNEAU	KETCH	KOTZ	NOME
3 54	4 015	3 58	4 06	7 16	4 085	4 25	7 25	5 31
PTRSBG	SALCHA	SEWARD	SITKA	TKA	TOK	VALDEZ	WASILLA	
4 22	3 99	4 26	3 97	3 59	4 05	4 199	3 54	

10/21/08

REG. GAS DAILYS ALL TAXES INCLUDED							Bold = Spike in price	
DATE	NATIONAL	ALASKA	IDAHO	MONTANA	[redacted]	SOUTH DAKOTA	WASHINGTON	WYOMING
9/12/2008		4.393	3.819	3.863	[redacted]	3.668	3.814	3.747
9/16/2008	3.854	**4.398**	3.806	3.844	[redacted]	**3.688**	3.803	3.736
9/17/2008	**3.855**	**4.399**	3.796	3.837	[redacted]	3.704	3.802	3.728
9/18/2008	3.835	4.389	3.791	3.829	[redacted]	3.702	3.793	3.719
9/22/2008	3.739	4.297	3.738	3.705	[redacted]	3.608	3.736	3.669
9/23/2008	3.726	**4.319**	3.738	3.704	[redacted]	3.599	3.725	3.659
9/25/2008	3.700	4.300	3.718	3.689	[redacted]	3.593	3.711	3.642
9/29/2008	3.643	4.275	3.687	3.654	[redacted]	3.526	3.674	3.609
10/1/2008	3.619	4.235	3.670	3.612	[redacted]	**3.533**	3.660	3.594
10/2/2008	3.598	**4.243**	3.657	3.581	[redacted]	3.519	3.646	3.579
10/3/2008	3.576	4.230	3.637	3.553	[redacted]	3.505	3.633	3.556
10/6/2008	3.504	4.224	3.591	3.493	[redacted]	3.443	3.584	3.510
10/7/2008	3.480	4.158	3.581	3.477	[redacted]	3.412	3.571	3.492
10/8/2008	3.447	4.156	3.559	3.446	[redacted]	3.376	3.556	3.460
10/9/2008	3.403	**4.165**	3.532	3.398	[redacted]	3.300	3.530	3.419
10/10/2008	3.350	4.107	3.500	3.334	[redacted]	3.224	3.496	3.373
10/13/2008	3.206	4.088	3.411	3.252	[redacted]	3.096	3.404	3.270
10/14/2008	3.163	4.071	3.400	3.203	[redacted]	3.061	3.376	3.248

REG. GAS	DAILYS	ALL TAXES		INCLUDED			Bold = Spike in price	
DATE	NATIONAL	ALASKA	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WASHINGTON	WYOMING
9/12/2008		4.393	3.819	3.863	3.753	3.668	**3.814**	3.747
9/16/2008	3.854	**4.398**	3.806	3.844	3.744	**3.688**	**3.803**	3.736
9/17/2008	**3.855**	**4.399**	3.796	3.837	3.739	3.704	**3.802**	3.728
9/18/2008	3.835	4.389	3.791	3.829	3.729	3.702	**3.793**	3.719
9/22/2008	3.739	4.297	3.738	3.705	3.648	3.608	**3.736**	3.669
9/23/2008	3.726	**4.319**	3.738	3.704	3.630	3.599	**3.725**	3.659
9/25/2008	3.700	4.300	3.718	3.689	3.624	3.593	**3.711**	3.642
9/29/2008	3.643	4.275	3.687	3.654	3.572	3.526	**3.674**	3.609
10/1/2008	3.619	4.235	3.670	3.612	**3.580**	**3.533**	**3.660**	3.594
10/2/2008	3.598	**4.243**	3.657	3.581	3.561	3.519	**3.646**	3.579
10/3/2008	3.576	4.230	3.637	3.553	3.535	3.505	**3.633**	3.556
10/6/2008	3.504	4.224	3.591	3.493	3.446	3.443	**3.584**	3.510
10/7/2008	3.480	4.158	3.581	3.477	3.402	3.412	**3.571**	3.492
10/8/2008	3.447	4.156	3.559	3.446	3.378	3.376	**3.556**	3.460
10/9/2008	3.403	**4.165**	3.532	3.398	3.333	3.300	**3.530**	3.419
10/10/2008	3.350	4.107	3.500	3.334	3.242	3.224	**3.496**	3.373
10/13/2008	3.206	4.088	3.411	3.252	3.068	3.096	**3.404**	3.270
10/14/2008	3.163	4.071	3.400	3.203	3.013	3.061	**3.376**	3.248

REG. ***GAS***	***DAILYS***	***ALL TAXES***		***INCLUDED***			**Bold = Spike in price**	
10/15/2008	3.125	4.066	3.380	3.179	[illegible]	3.017	**3.347**	3.238
10/16/2008	3.084	**4.068**	3.349	3.135	**2.940**	2.972	**3.311**	3.174
10/20/2008	2.923	3.887	3.244	2.985	**2.810**	2.832	**3.130**	3.045
10/21/2008	2.889	3.844	3.201	2.966	**2.750**	2.779	**3.095**	3.012

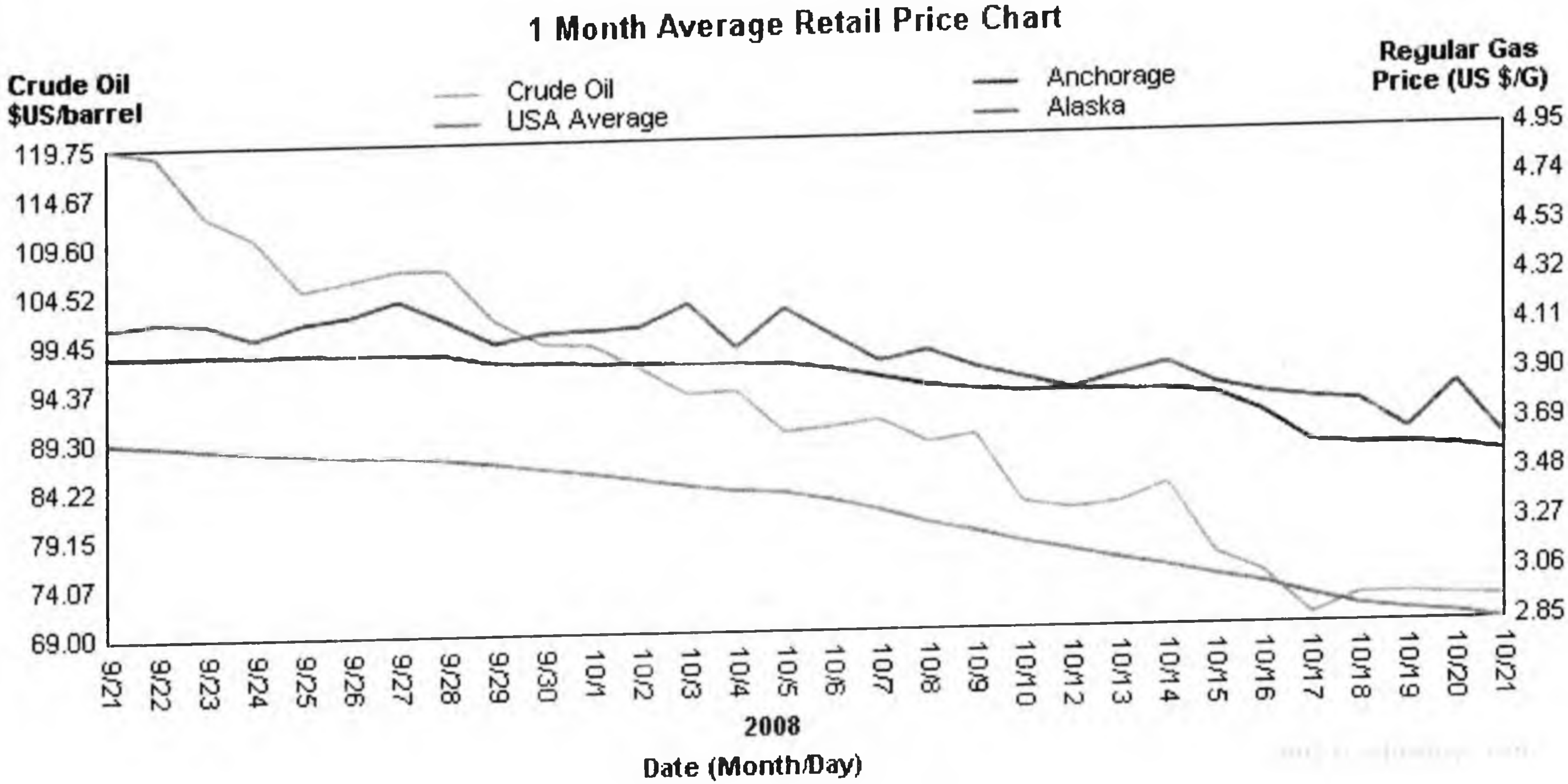
REG. ***GAS***	***DAILYS***	***ALL TAXES***		***INCLUDED***			**Bold = Spike in price**	
10/15/2008	3.125	4.066	3.380	3.179	[redacted]	3.017	3.347	3.238
10/16/2008	3.084	**4.068**	3.349	3.135	[redacted]	2.972	3.311	3.174
10/20/2008	2.923	3.887	3.244	2.985	[redacted]	2.832	3.130	3.045
10/21/2008	2.889	3.844	3.201	2.966	[redacted]	2.779	3.095	3.012

DIESEL	*DAILYS*	*ALL TAXES*		*INCLUDED*			**Bold = Spike in price**	
DATE	***NATIONAL***	***ALASKA***	***IDAHO***	***MONTANA***	***NORTH DAKOTA***	***SOUTH DAKOTA***	***WASHINGTON***	***WYOMING***
9/12/2008		4.994	4.224	4.262	[illegible]	4.025	4.368	4.155
9/16/2008	4.020	**5.032**	4.195	4.214	4.060	3.989	4.320	4.118
9/17/2008	**4.052**	5.002	4.196	4.209	4.062	3.979	4.317	**4.121**
9/18/2008	4.036	4.956	4.180	4.188	4.052	3.968	4.295	4.096
9/22/2008	**4.101**	4.908	4.117	4.070	4.031	3.904	4.160	4.049
9/23/2008	4.105	4.864	4.087	**4.073**	4.017	**3.920**	**4.142**	4.035
9/25/2008	4.102	**4.883**	4.082	4.070	4.009	3.915	4.130	4.009
9/29/2008	4.084	4.858	4.061	4.058	**4.050**	**3.961**	4.108	3.990
10/1/2008	**4.087**	**4.870**	4.052	**4.063**	**4.052**	**3.986**	4.096	**3.993**
10/2/2008	4.076	4.858	4.047	4.057	**4.056**	3.981	4.086	3.981
10/3/2008	4.065	4.857	4.034	4.043	4.055	3.963	4.059	3.965
10/6/2008	4.016	4.844	3.992	4.005	4.021	3.938	4.005	3.930
10/7/2008	4.006	**4.849**	3.985	3.990	3.988	3.927	3.984	3.918
10/8/2008	3.990	4.842	3.975	3.972	3.988	3.906	3.959	3.911
10/9/2008	3.960	4.822	3.945	3.947	3.971	3.881	3.927	3.889
10/10/2008	3.927	4.795	3.927	3.900	3.939	3.845	3.891	3.865
10/13/2008	3.837	4.732	3.871	3.821	3.841	3.751	3.791	3.781
10/14/2008	3.815	4.716	3.849	3.781	3.822	3.723	3.768	3.762

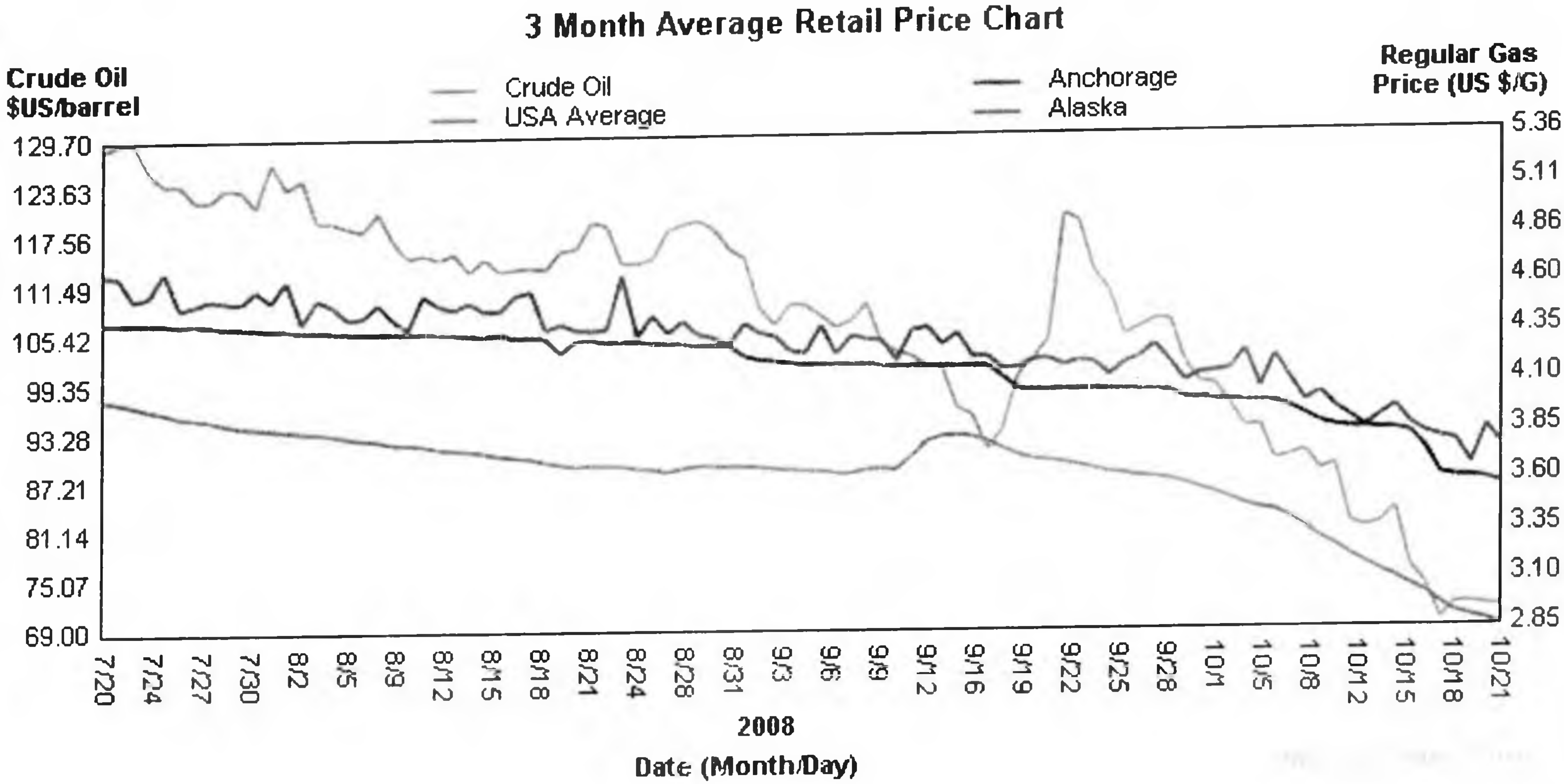
DIESEL	*DAILYS*	*ALL TAXES*		*INCLUDED*			Bold = Spike in price	
DATE	***NATIONAL***	***ALASKA***	***IDAHO***	***MONTANA***	***NORTH DAKOTA***	***SOUTH DAKOTA***	***WASHINGTON***	***WYOMING***
9/12/2008		4.994	4.224	4.262	4.107	4.025	4.369	4.155
9/16/2008	4.020	**5.032**	4.195	4.214	4.066	3.989	4.320	4.118
9/17/2008	**4.052**	5.002	4.196	4.209	4.063	3.979	**4.317**	**4.121**
9/18/2008	4.036	4.956	4.180	4.188	4.052	3.968	4.295	4.096
9/22/2008	**4.101**	4.908	4.117	4.070	4.031	3.904	4.160	4.049
9/23/2008	4.105	4.864	4.087	**4.073**	4.017	**3.920**	**4.142**	4.035
9/25/2008	4.102	**4.883**	4.082	4.070	4.009	3.915	4.130	4.009
9/29/2008	4.084	4.858	4.061	4.058	**4.050**	**3.961**	4.108	3.990
10/1/2008	**4.087**	**4.870**	4.052	**4.063**	**4.052**	3.986	4.096	**3.993**
10/2/2008	4.076	4.858	4.047	4.057	**4.056**	3.981	4.086	3.981
10/3/2008	4.065	4.857	4.034	4.043	4.055	3.963	4.059	3.965
10/6/2008	4.016	4.844	3.992	4.005	4.021	3.938	4.005	3.930
10/7/2008	4.006	**4.849**	3.985	3.990	3.988	3.927	3.984	3.918
10/8/2008	3.990	4.842	3.975	3.972	3.988	3.906	3.959	3.911
10/9/2008	3.960	4.822	3.945	3.947	3.971	3.881	3.927	3.889
10/10/2008	3.927	4.795	3.927	3.900	3.939	3.845	3.891	3.865
10/13/2008	3.837	4.732	3.871	3.821	3.841	3.751	3.791	3.781
10/14/2008	3.815	4.716	3.849	3.781	3.822	3.723	3.768	3.762

DIESEL	DAILYS	ALL TAXES		INCLUDED			Bold = Spike in price	
10/15/2008	3.795	4.700	3.844	3.781	**3.818**	3.682	**3.767**	3.752
10/16/2008	3.764	4.668	3.816	3.746	**3.778**	3.650	**3.731**	3.706
10/20/2008	3.637	4.655	3.719	3.634	**3.678**	3.456	**3.588**	3.608
10/21/2008	3.619	4.655	3.697	3.588	3.654	3.453	3.585	3.581

DIESEL	DAILYS	ALL TAXES		INCLUDED			Bold = Spike in price	
10/15/2008	3.795	4.700	**3.844**	3.781	[redacted]	3.682	**3.787**	3.752
10/16/2008	3.764	4.668	3.816	3.746	[redacted]	3.650	3.731	3.706
10/20/2008	3.637	4.655	3.719	3.634	[redacted]	3.456	**3.588**	3.608
10/21/2008	3.619	4.655	3.697	3.588	[redacted]	3.453	3.585	3.581



1 Month Average Retail Price Chart
Crude Oil $US/barrel
Regular Gas Price (US $/G)
Crude Oil
USA Average
Anchorage
Alaska
119.75
114.67
109.60
104.52
99.45
94.37
89.30
84.22
79.15
74.07
69.00
4.95
4.74
4.53
4.32
4.11
3.90
3.69
3.48
3.27
3.06
2.85
9/21 9/22 9/23 9/24 9/25 9/26 9/27 9/28 9/29 9/30 10/1 10/2 10/3 10/4 10/5 10/6 10/7 10/8 10/9 10/10 10/12 10/13 10/14 10/15 10/16 10/17 10/18 10/19 10/20 10/21
2008
Date (Month/Day)



3 Month Average Retail Price Chart
Crude Oil $US/barrel
Crude Oil
USA Average
Anchorage
Alaska
Regular Gas Price (US $/G)
129.70
123.63
117.56
111.49
105.42
99.35
93.28
87.21
81.14
75.07
69.00
5.36
5.11
4.86
4.60
4.35
4.10
3.85
3.60
3.35
3.10
2.85
7/20 7/24 7/27 7/30 8/2 8/5 8/9 8/12 8/15 8/18 8/21 8/24 8/28 8/31 9/3 9/6 9/9 9/12 9/16 9/19 9/22 9/25 9/28 10/1 10/5 10/8 10/12 10/15 10/18 10/21
2008
Date (Month/Day)

	Diesel Vehicle Fuel Economy Improvement									
	55%	50%	45%	40%	35%	30%	25%	20%	15%	10%
Retail Gasoline	**Diesel fuel can cost this much more than gasoline and still break even with gasoline fuel cost**									
$2.00	$1.10	$1.00	$0.90	$0.80	$0.70	$0.60	$0.50	$0.40	$0.30	$0.20
$2.25	$1.24	$1.13	$1.01	$0.90	$0.79	$0.68	$0.56	$0.45	$0.34	$0.23
$2.50	$1.38	$1.25	$1.13	$1.00	$0.88	$0.75	$0.63	$0.50	$0.38	$0.25
$2.75	$1.51	$1.38	$1.24	$1.10	$0.96	$0.83	$0.69	$0.55	$0.41	$0.28
$3.00	$1.65	$1.50	$1.35	$1.20	$1.05	$0.90	$0.75	$0.60	$0.45	$0.30
$3.25	$1.79	$1.63	$1.46	$1.30	$1.14	$0.98	$0.81	$0.65	$0.49	$0.33
$3.50	$1.93	$1.75	$1.58	$1.40	$1.23	$1.05	$0.88	$0.70	$0.52	$0.35
$3.75	$2.06	$1.88	$1.69	$1.50	$1.31	$1.13	$0.94	$0.75	$0.56	$0.38
$4.00	$2.20	$2.00	$1.80	$1.60	$1.40	$1.20	$1.00	$0.80	$0.60	$0.40
$4.25	$2.34	$2.13	$1.91	$1.70	$1.49	$1.28	$1.06	$0.85	$0.64	$0.43
$4.50	$2.48	$2.25	$2.03	$1.80	$1.58	$1.35	$1.13	$0.90	$0.68	$0.45
$4.75	$2.61	$2.38	$2.14	$1.90	$1.66	$1.43	$1.19	$0.95	$0.71	$0.48
$5.00	$2.75	$2.50	$2.25	$2.00	$1.75	$1.50	$1.25	$1.00	$0.75	$0.50

Example:

Diesel cost 53 cents more / gallon than regular grade gasoline (Source CEC Weekly Transportation Fuels Trend 4/10/08) (Diesel $4 18/gal - regular gasoline $3.68/gal = diesel is 53 cents/gallon more than gasoline)

Assume the diesel Acura gets 45% higher fuel economy (actual 52% city, 46% highway, 48% combined)

Using the above table and $3.50 for gasoline and 45% diesel improvement you get $1 58 / gallon break even price.

The diesel Acura saves $1.05 / gallon compared to the gasoline Accura $1 58 (fuel economy benefit) - 0 53 (higher retail price) = $1 05 cents /gallon

For more information, visit www.dieselforum.org

Fuel taxes

Another factor in diesel and gasoline costs are motor fuel taxes collected at the federal, state and sometimes the local levels. The federal motor fuels tax goes toward the highway trust fund, which was established to repair and maintain the nation's highway infrastructure. State taxes are used for a variety of purposes.

Since October 1, 1997, the federal government has imposed a 24.4 cents-per-gallon tax on diesel fuel compared to an 18.4 cents-per-gallon tax on gasoline. Every state also levies a diesel tax, the average of which is 22 cents per gallon (ranging from 8 cents in Alaska to 32.9 cents in Wisconsin). Some states levy the same tax rate on gasoline and diesel fuel; however, 15 states currently tax diesel more than gasoline with only six states imposing higher gasoline taxes. More information about state fuel taxes can be found here.

Future diesel fuel prices

All energy prices are expected to remain high in the near future. EIA's Short-Term Energy Outlook is projecting that diesel fuel will continue to sell at a higher price than gasoline through the 2008 summer, although the price differential between the two fuels is expected to narrow. Retail diesel fuel prices in 2008 are projected to average $3.94 per gallon, and then drop to an average of $3.67 per gallon in 2009.

Continuing or expanding economic growth in developing countries like India and China will add pressure to crude oil and finished distillate product prices. However, there are several key U.S. policy influences and market developments that could reduce the demand for crude oil and petroleum products in the U.S. – particularly gasoline.

- Oil companies are responding to the increasing demand for diesel fuel through new refining capacity and shifts in production.[1] Seven separate refinery

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[1] **Marathon Petroleum** announced in 2007 an expansion of its Garyville (LA) refinery to increase production by 180,000 barrels/day or 1.2 billion gallons of distillate products annually.

Shell Oil Products US announced an expansion of its Port Arthur (TX) refinery that will make it able to refine 600,000 barrels/day, and make it the largest US refinery. It currently produces 52,000 b/d of distillate products.

Valero plans to spend $3.8 billion through 2011 to increase diesel production at two of its 17 refineries, the ones in Port Arthur and St. Charles, La. The investment will yield an additional 103,000 barrels per day of ultra-low sulfur diesel coming online in 2010.

NuStar Energy LP is considering adding more than $300 million in diesel-making equipment at one of two U.S. asphalt refineries it acquired recently from Venezuela. It's making the diesel investment in the one on the Delaware River. New diesel production there could start in 2011.

Tesoro Corp. is switching some gasoline production to diesel without making any large equipment investments. Executives at San Antonio-based Tesoro declined to say how much more diesel is being produced, but the Los Angeles refinery already has shifted production to make 7,000 to 9,000 additional barrels of distillates, including diesel, per day.

Saudi Aramco and Total announced May 15, plans to build a 400,000 barrels per day refinery in, Jubail, Saudi Arabia focused mainly on ultralow sulfur distillates, beginning operations end of 2012.

Saudi Aramco and ConnocoPhillips announced May 2008, a 400,000 barrel per day export refinery in Yanbu, Saudi Arabia. That will produce ultra-low sulfur refined products. This refinery will be online by 2013.

announcements of new or expanded distillate fuel refining capacity have been announced in the last six months.

- The Renewable Fuel Standard and the higher fuel economy standards in the *Energy Independence and Security Act of 2007* (EISA07) will reduce crude oil and gasoline use.
- Although the U.S. diesel passenger car market is expected to double or triple in the next 5-10 years, diesel vehicles are 20-40 percent more fuel efficient, leading the EIA to project that existing diesel fuel supplies will be able to meet this demand. Click here for the full EIA presentation.

What does all this mean for consumers driving diesel cars or considering a new diesel car?

Higher diesel fuel prices in the short term may lengthen the payback period for diesel owners to receive the full return on their investment. If a diesel car is 30 percent more fuel efficient than a gasoline car, with gasoline at $3.75 a gallon, diesel can cost up to $1.13 more per gallon (or $4.88 in this example) and a diesel driver will still break even with gasoline in terms of fuel cost. *(See table below for additional examples and assumptions.) Visit www.dieselForum.org and download a Web tool that will allow you to calculate fuel economy savings for diesel versus gasoline car.*

Making any personal car choice requires taking the long-term view on all the factors involved, including performance, purchase price, owning and operating costs, useful life, resale value, fuel economy and fuel prices. The next generation of clean diesel cars offers consumers the best overall ownership value when considering driving performance, fuel efficiency, environmental footprint and resale prices.

Beginning in 2008, consumers will have more fuel-efficient diesel choices than ever before. Thirteen new models were announced by 12 manufacturers at the Detroit Auto Show in January 2008. In addition to a superior driving performance and low-emissions, clean diesel is a technology that provides proven real-world fuel economy benefits under any mix of vehicle operation. New clean diesel cars coming out in 2008-2010 will likely be eligible for a federal fuel tax credit of $300 to $3400 dollars, depending on fuel economy ratings. It was recently announced that purchasers of the new Volkswagen Jetta TDI will qualify for a $1300 federal tax credit. For more information, click here.

Diesel Technology Forum

DIESEL FUEL PRICES: Why are they rising and what does this mean for current and prospective diesel car owners?

August 2008

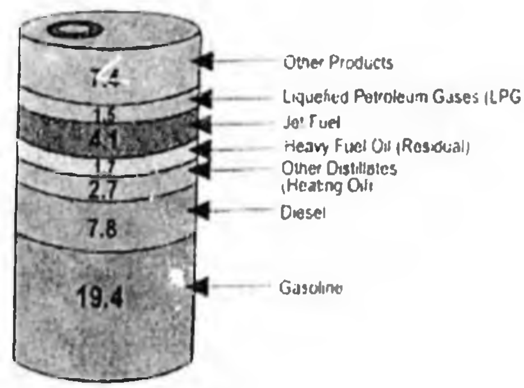
What is happening with diesel fuel prices?

For many years, diesel fuel prices tended to be lower than gasoline. Since September 2004, this trend has disappeared, with diesel fuel prices tracking or exceeding gasoline. In May 1998, the national average diesel fuel price was $1.069 and gasoline was $1.038; in May 2008, diesel was $4.33 and gasoline was $3.72. As of July 28, 2008, the average diesel price in the U.S. was $1.71 higher than one year ago; gasoline was $1.07 higher. (*For weekly updated gas and diesel price information, visit www.EIA.DOE.gov).*

This price differential is due to a variety of factors – global and domestic, economic and political. Both gasoline and diesel fuel prices will increase as the price of crude oil rises, however other influences have worked to accelerate diesel's price relative to gasoline. To understand the cause of this increase and its implications for the future, this paper provides a brief summary of the production process and the elements contributing to the current price spread between gasoline and diesel fuel.

Fuel production

Each barrel of oil is 42 gallons, approximately 19 percent of which is generally dedicated to the production of diesel fuel. This compares to approximately 47 percent used for gasoline and 10 percent for kerosene-type jet fuel. The remaining 24 percent is split among a variety of oils and gases. While refiners have some ability to alter these percentages, they are unlikely to swing more than 7-8 percent in any direction. As a result, each barrel of crude oil will always produce more gasoline than diesel fuel.



42 Total Gallons

Why have diesel prices risen so significantly in the last few years?

Fuel demand

Demand for distillates – such as diesel and jet fuel – in Europe, Asia, and the Middle East has continued to grow at a fast pace. In Europe, financial incentives continue to promote the transition from gasoline-powered to diesel-powered cars and light trucks, while a growing economy has lifted transportation sector consumption overall.

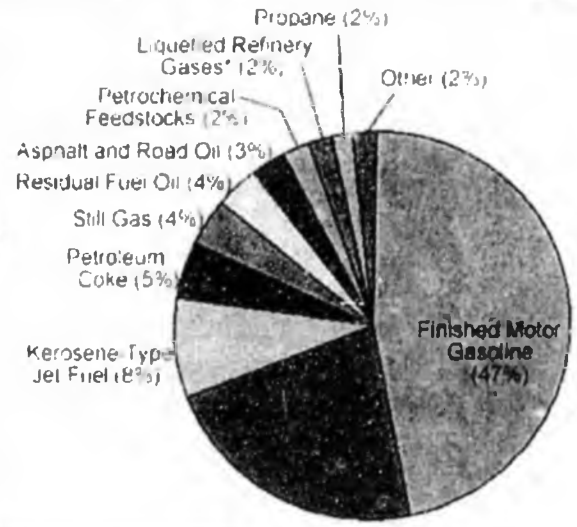
In the U.S., meanwhile, weakness in the economy has led to a softening in gasoline demand. So while gasoline prices increased this winter due to surging crude oil prices, they have not risen as high as they would have if year-on-year gasoline demand growth were unfolding at normal rates. As a result, the gap between U.S. gas and diesel prices has grown.

These shifting patterns have even affected seasonal patterns in diesel fuel prices. According to the Energy Information Administration (EIA), gasoline is usually more expensive than diesel in the spring and summer, the peak driving season. In the autumn, demand for distillate fuels (heating oil and diesel) picks up due to farm use and trucking of goods ahead of the holidays while the demand for gasoline begins to soften.

Inventories and supply balances

As Europe's demand for diesel has grown through the dieselization of the passenger fleet, economic growth, tighter emissions standards and other factors, Europe's supply capacity has been strained. At the same time, a supply shortage also developed in the U.S due in part to U.S. exports of distillate fuel to Latin America and Europe to meet their high demand, leaving diesel fuel inventories at their lowest levels in five years.

Source: US Energy Information Administration www.eia.doe.gov



How much diesel fuel is produced relative to other petroleum products?

U.S. Refiner and Blender Net Production of Refined Petroleum Products in 2006 (Total = **6.56 Billion Barrels**)

Economic, political and other factors driving up diesel fuel prices

In addition to the law of supply and demand, there are a number or other factors affecting the price of diesel. These include:

- A weakened U.S. dollar buys less crude oil on the global market than in past years.
- As energy prices rise, investors are putting more dollars into energy stocks and predictions of future crude oil prices, which helps drive up energy prices even further.

- China has been stockpiling diesel to prepare for the Olympics. (See EIA's "This Wee In Petroleum," June 4, 2008.)

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ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
(907) 465-3004
Fax: (907) 465-2070
Representative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701
(907) 452-1088

Committee Members:
Representative Nancy Dahlstrom,
Vice-Chairman
Representative John Coghill
Representative Bob Lynn
Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 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 October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 W. 4th Ave., Suite 200). The purpose of this hearing is to discuss the market price of fuel in Alaska. Pursuant to our correspondence might you also see if Mr. Pulliam from EconOne is available to testify?

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 October 20th. 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
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Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 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 October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 4th Ave., Suite 200). 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 October 20th. 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

TESORO

Tesoro Alaska Company
P.O. Box 196272
Anchorage, Alaska 99519-6272
907 561 5521
907 561 5047 Fax

October 16, 2008

The Honorable Jay Ramras
Alaska State Legislature
State Capitol, Room 120
Juneau, Alaska 99801

Dear Chairman Ramras:

Tesoro declines your invitation to appear before the House Judiciary Committee for a second time at the October 23, 2008 hearing.

Tesoro is cooperating with the Attorney General's investigation on gasoline prices and we are meeting with Mr. Sniffen on the 22nd We believe that forum is best due to the proprietary business information we are providing. We assume you will receive a report of the conclusions of the Attorney General's investigation.

Sincerely,

Kip Knudson
External Affairs Manager

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY COMMITTEE

Representative Jay Ramras
Chairman
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Committee Members:
Representative Nancy Dahlstrom,
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Representative John Coghill
Representative Bob Lynn
Representative Ralph Samuels
Representative Max Gruenberg
Representative Lindsey Holmes

State Capitol, Room 120
Juneau, Alaska 99801

October 10, 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 the second special House Judiciary Committee hearing on October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 W. 4th Ave., Suite 200). 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 and why the prices have dropped substantially nationwide and the price of oil has dropped substantially but, the price of gas in Alaska have remained relatively flat by comparison.

We will be taking testimony from the Department of Law, Barry Pulliam from EconOne as well as refiners, distributors, and retailers.

I look forward to your testimony, and to a productive hearing on October 20th. 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
Representative_Jay_Ramras@legis.state.ak.us
1292 Sadler Way, Suite 324
Fairbanks, AK 99701

October 10, 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 October 20, 2008 from 9:30 a.m. to 4:30 p.m., at the Legislative Information Office in Anchorage (716 4th Ave., Suite 200). 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 October 20th. 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

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Representative Jay Ramras
Chair, Judiciary
Labor & Commerce
Oil & Gas
Military & Veteran Affairs
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Alaska State Legislature

While in Session
State Capitol, Room 118
Juneau, Alaska 99801-1182
(907) 465- 3004
Fax: 465-2070
Toll Free: (877) 465-3004

House District 10

House of Representatives

Fax

To: Pam Finley

Fax #: (907) 465-2029 Number of pages including cover: 2

From: Jane W. Pierson

Date: April 16, 2008

Re: Confidentiality Agreement

Pam,

The committee was leaning towards being able to talk with Ed Sniffen about his findings, more than actually going through the materials that were gleaned through the CIDs. I made a few changes on the confidentiality agreement to reflect this. However, they are probably not in legalize. Can we take another shot at this? I will have to get it approved by Tesoro and Flint Hills' legal departments.

Jane

Representative_Jay_Ramras@legis.state.ak.us

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM October 20, 2008

SUBJECT: Confidentiality agreement

TO: Representative Jay Ramras
Chair of House Judiciary Committee
Attn: Jane Pierson

FROM: Pam Finley
Revisor of Statutes

You have asked for language for a confidentiality agreement concerning responses to CIDs the House Judiciary Committee receives from the Department of Law related to the price of petroleum products in the state. I suggest the following:

> This agreement concerns materials the House Judiciary Committee receives from the Department of Law during 2008 and that the Department of Law has received as a result of Civil Investigative Demands to refiners and distributors of petroleum products in the state (hereinafter "the confidential materials").
>
> I agree to keep the confidential materials confidential and not to make them available to my staff or to any other person. I further agree not to discuss the contents of the confidential materials except in an executive session of the House Judiciary Committee. This agreement does not require me to keep confidential (1) my opinions based on the confidential material or (2) general factual conclusions drawn from the confidential material so long as the factual conclusions do not disclose or suggest the identity of the refiner or distributor or disclose proprietary information or trade secrets.
>
> ____________________ ____________
> Signature Date

Note that I limited the materials to those received during 2008 because I thought some specificity would be useful and assumed that the materials would be disclosed before 2009. If that's not true, the date can be changed. The last sentence of the agreement is my attempt to allow some public discussion. It will, however, require the legislator to figure out what is proprietary or a trade secret. If the Department of Law cannot accept this, the last sentence can be deleted.

Please let me know if you have any additional questions.

PF:ljw
08-308.ljw

LEGAL SERVICES

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M E M O R A N D U M

September 12, 2008

SUBJECT: State sale of royalty oil at below market prices
(Work Order N . 26-LS0097)

TO: Repres ntative Jay Ramras
Attn: Jane Pierson

FROM: Donald M. Bullock Jr.
Legislative Counsel

You have asked whether the state can legally sell its royalty oil at a below market price to an oil refinery in Alaska that intends "to sell the products in-state to benefit the citizens of Alaska."

If such a sale is "consistent with the public interest," made for the "maximum benefit of [Alaska's] people,"[1] and approved by the legislature,[2] the state may sell its royalty gas to an in-state refinery at a price below market value.

---

[1] The Alaska Constitution's art. VIII, secs. 1 and 2, provide that :

> SECTION 1. Statement of Policy. 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.
>
> SECTION 2. General Authority. 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.

[2] AS 38.06.055 provides:

> (a) In addition to the recommendation by the [Alaska Royalty Oil and Gas Development Board] required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver

I have a few comments related to your question.

1. Legislative approval of a below market price sale of state royalty oil should be made based on appropriate findings supported by evidence.

The Alaska Constitution is silent as to the considerations or factors to be employed in establishing what constitutes the "maximum benefit" for Alaska's people. The legislature is entrusted with broad responsibility for such a determination. A legislative finding, supported by a strong factual record, concluding that Alaskans would benefit from such a sale would improve any such measure's chance of surviving a court challenge. AS 38.05.183(e),[3] which provides statutory guidelines that the commissioner of natural

---

of the rights to receive future production of royalty oil or gas only by enacting legislation.

(b) The provisions of (a) of this section do not apply to

(1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;

(2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; and

(C) 2,400 Mcf of natural gas per day.

(c) A sale, exchange, or other disposition of oil or gas under (b)(1) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

See also AS 38.05.183(h) that concerns the sale, contingent upon legislative approval, of royalty gas taken in kind by the state to gas or electric utilities at a negotiated price, if the commissioner of natural resources, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state.

[3] AS 38.05.183(e) provides:

(e) When a sale, exchange, or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange, or other disposal shall be awarded by the commissioner to resources must consider in determining whether a sale of royalty oil or gas should be made otherwise than by competitive bid, suggests appropriate criteria that could be employed to make that determination.

2. Any below market sale of state royalty oil to an in-state refinery implicates the Commerce Clause, article I, section 8, clause 3, Constitution of the United States.

The Commerce Clause grants Congress the power "[to] regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes." "Although the Clause thus speaks in terms of powers bestowed upon Congress, the Court long has recognized that it also limits the power of the States to erect barriers against interstate trade."[4] "[O]nce a state law is shown to discriminate against interstate commerce 'either on its face or in practical effect,' the burden falls on the State to demonstrate both that the statute 'serves a legitimate local purpose,' and that this purpose could not be served as well by available nondiscriminatory means."[5]

Thus, the United States Supreme Court distinguishes between state statutes that burden interstate transactions only incidentally and those that affirmatively discriminate against these transactions. While statutes in the first group violate the Commerce Clause only if the burdens they impose on interstate trade are "clearly excessive in relation to the putative local benefits," statutes in the second group are subject to more demanding scrutiny. If a state law is shown to discriminate against interstate commerce "either on its face or in practical effect," the burden falls on the State to demonstrate both that the statute "serves a legitimate local purpose," and that this purpose could not be served as well by available nondiscriminatory means.

> the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider
>
> (1) the cash value offered;
>
> (2) the projected effects of the sale, exchange, or other disposal on the economy of the state;
>
> (3) the projected benefits of refining or processing the oil or gas in the state;
>
> (4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and
>
> (5) the criteria listed in AS 38.06.070(a).

[4] *Maine v. Taylor*, 477 U.S. 131, 137, 106 S.Ct. 2440, 91 L.Ed.2d 110 (1986), quoting *Lewis v. BT Investment Managers, Inc.*, 447 U.S. 27, 35, 100 S.Ct. 2009, 64 L.Ed.2d 702 (1980).

[5] *Taylor*, 477 U.S. at 138, quoting *Hughes v. Oklahoma*, 441 U.S. at 336 (1979).

Alaska's oil is an article of commerce that has become a resource of profound national importance. Under the generally applicable rule of Commerce Clause analysis, the sale of Alaska oil at a below market price to an in-state refinery could be struck down if the state was unable to "show that it advances a legitimate local purpose that cannot be adequately served by reasonable nondiscriminatory alternatives." If the state is selling its royalty oil at a below market rate to stimulate in-state development of its industries and resources, the state should be able to meet its burden under an asserted Commerce Clause-based objection. Even in the leading case critical of this state's efforts to construct a system of economic protection, the United States Supreme Court left open the door, under some circumstances, to state efforts to provide a limited preference for a state's own citizens in the use of publicly-owned resources.[6]

3. The assertion by Spencer Hosie to the legislature in June 2008 that Alaska could not sell its royalty gas at below market prices is based on a misinterpreted legal precedent.

In June of this year, the issue of selling the state's royalty interest at a price below the market price was discussed in a hearing related to the legislative approval of a license proposed by the commissioner of revenue and the commissioner of natural resources to pursue the development of a gas pipeline from the North Slope. The "Alaska Special Session Report"[7] recounted the following exchange between Representative Fairclough and Spencer Hosie, a private attorney that has represented the State in oil and gas litigation:

> Rep. Anna Fairclough questioned the accuracy of a claim [Mr. Spencer] Hosie made that Alaska could take its royalty gas and sell it at below-market prices for in-state use, including for the Agrium fertilizer plant on the Kenai Peninsula. When Hosie addressed legislators on his second day, he acknowledged that he had erred.
>
> 'I was wrong,' [Hosie] said, citing a 1979 case in which Judge Allen Compton said it's unconstitutional for Alaska to sell its royalty-in-kind [gas or oil] below market value.[8]

---

[6] *Hicklin v. Orbeck*, 437 U.S. 518, 533 - 534 (1978).

[7] Gregg Erickson, *Attorney says producers can't warehouse gas*, Alaska Special Session Report, Vol. 3, No. 2, June 10, 2008, at 13.

[8] An audio recording of this exchange is currently available online at: http://www.legis.state.ak.us/basis/get_minutes.asp?session=25&comm=ENR&chamb=B&date1=20080609&date2=20080609 (6/09/2008 10:06 am, 10:09 - 10:12).

If Mr. Hosie's citation of *State v. Amerada Hess, et al.*[9], is understood as a wholesale refutation of the possibility that Alaska can constitutionally sell its royalty-in-kind oil or gas below market value, it is not accurate.

In *State v. Amerada Hess, et al.*, Judge Compton did not rule that it was unconstitutional for Alaska to sell its royalty-in-kind gas or oil below market value. Instead, Judge Compton ruled that the commissioner of natural resources, acting without legislative approval, did not have the requisite authority to determine gas or oil royalty obligations. Specifically, he concluded that absent legislative approval, the commissioner did not have the authority to enter into lease agreements that provided that the value of gas or oil taken "in-kind" would be less than that taken "in-value."

Amerada Hess concerned (1) the point at which the state's "in value" royalty interest in oil should be determined (before field cost deductions or after field cost deductions at the Lease Automatic Transfer Meter (LACT meter)) and (2) the interpretation of the existing statutory and specific lease language surrounding the determination of both "in value" and "in kind" royalty payments for oil and gas under the defendant's leases.[10]

Judge Compton ruled that the state's "in value" or "in kind" royalty share should be determined only after the oil or gas is ready for sale (in this case, at the LACT meter), basing his decision in large part on the Alaska Constitution's art. VIII, secs. 2 and 12.[11] The judge held that these constitutional provisions "*require[d]*" (emphasis in original)[12] that the legislature set the terms of oil and gas leases as to provide the maximum benefit for Alaska's people and that any interpretation of the relevant statutes or language of the mineral leases that provided for a determination of an "in value" oil royalty before the

[9] Civil Action No. 77-847 (1st J.D. AK, April 6, 1979).

[10] Of some historical interest is the fact that after this decision, the lessees and the state agreed to settled the dispute on different terms. The court approved the parties' settlement and allowed it to supersede the courts previous ruling on the merits. *See Exxon v. State*, 40 P.3d 786, 789 (Alaska 2001).

[11] These provisions provide in pertinent part:

> Sec. 2. General Authority. 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.
>
> Sec. 12. Mineral Leases and Permits. The legislature shall provide for the issuance, types and terms of leases for coal, oil, gas, oil shale, sodium, phosphate, potash, sulfur, pumice, and other minerals as may be prescribed by law. Leases and permits giving the exclusive right of exploration . . . may be authorized by law.

[12] *Amerada Hess*, at 18.

LACT meter would be unconstitutional because the unproduced product was "something that had no or negligible market value." *Id.* at 19.

Of greater relevance to Mr. Hosie's statement and your inquiry is that the case concerned lease agreements providing that if the State were to take its royalty oil or gas "in kind," there would be a deduction for "cleaning and dehydrating [the oil and gas]" prior to computing the royalty. *Id.* at 2. Because of this provision, if the state were to take its royalty "in kind" from the lease, the amount realized would be less than if taken "in value," and consequently the people of Alaska would not receive maximum benefit for "in kind" royalty payments. What the judge wrote, and I believe was misconstrued, is that:

> Constitutional and statutory limitations preclude the State from taking royalty "in kind" unless it is in the best interests of the State and for the maximum benefit of its people. This must mean, and can be compatibly construed to mean that the price paid when the royalty is taken "in value" is the minimum or floor below which the *agency* may not go.

(Emphasis added) *Id.* at 20 - 21.

This "minimum floor", or prohibition against the state accepting its royalty "in kind" if the "price paid" would be less than if the royalty is taken "in value," is applicable only to the facts of the case. It is a decision in which the court was speaking to the limits of an administrative agency's authority, holding that the "Commissioner [of Natural Resources] is prohibited from collecting royalty 'in kind' if the amount realized would be less than if taken 'in value,'"[13] because

> This Court need not decide the extent of the Commissioner's authority to administer the provisions of AS 38.05.180(a). It is satisfied that such authority does not extend to determining the amount of royalty obligations. [The Alaska Constitution's art. VIII, secs. 2 and 12] <u>require</u> that the legislature set the terms of oil and gas leases in such a manner as to provide the maximum benefit for its people.

(Emphasis original) *Id.* at 19.

This ruling establishes only that the *Department of Natural Resources* cannot on its own volition decide to accept an "in kind" royalty that is worth less than the "price paid when the royalty is taken 'in value.'" *Amerada Hess* involved the limits of authority exercised by an administrative agency and whether "the legislature has impermissibly delegated a constitutional duty to an administrative agency." *Id.* at 18. Nothing in the state constitution, or in the *Amerada Hess* decision, should be construed as to preclude the *legislature* itself from approving sale of Alaska's oil or gas at a price below that which

[13] *Id.* at 5.

would be received if the royalty were taken "in-value" if that sale were determined to be for the maximum benefit of Alaska's people.

If I may be of further assistance, please advise.

DMB:lmb
08-220.lmb

Jane Pierson

From: Sniffen, Clyde E (LAW) [ed.sniffen@alaska.gov]
Sent: Wednesday, October 08, 2008 12:41 PM
To: Jane Pierson
Subject: RE: Legal Opinion re: Royalty Oil Sales at Below Market Value
Follow Up Flag: Follow up
Flag Status: Red

Hi Jane. I just got around to reading this opinion. While it might be theoretically possible for the Legislature to determine that selling royalty oil for less than market value is in the "best interest of Alaska," it would be extremely difficult to do. "Best interest of Alaska" means all residents of Alaska. Selling oil below market value to Tesoro and Flint Hills would only benefit (maybe) residents served by those refineries. No one else in Alaska would receive that potential benefit. When we sell oil at market value, the money goes to the GF and benefits everyone. Thus, Judge Compton's conclusion that market value sets the floor at which we can dispose of the state's royalty oil is a good one (even if it was directed only to DNR). At the end of the day, the Alaska Supreme Court would probably make the decision on whether such a Legislative proclamation violates the Alaska Constitution.

So . . . I agree with Mr. Bullock that the Amerada Hess case may not preclude some kind of legislative action that declares the sale of royalty oil for less than market value is in the state's best interest. But as a practical matter, this would be very difficult to do, and may not pass Constitutional review. There may be some separation of powers problem with this kind of review, but I haven't focused on that aspect yet. The sure bet, as I testified, is a Constitutional amendment.

Hope that helps!

Clyde "Ed" Sniffen Jr.
Senior Assistant Attorney General
Commercial & Fair Business Section
Alaska Department of Law
1031 W. 4th Ave. #200
Anchorage, AK 99501
(907) 269-5200
(907) 276-8554 (fax)

From: Jane Pierson [mailto:Jane_Pierson@legis.state.ak.us]
Sent: Friday, October 03, 2008 10:23 AM
To: Tuck, Deneen (LAA); Waldo, James (LAA); Lidster, Karen (LAA); Hay, Linda J (LAS); Manly, Nancy S (LAA); Lynn, Bob (LAA); Coghill, John (LAA); Holmes, Lindsey (LAA); Gruenberg, Max F (LAA); Dahlstrom, Nancy (LAA); Samuels, Ralph (LAA); Wallen, Susan E (LAA); Gieser, Tisha (LAA)
Cc: Roses, Bob (LAA); Stoltze, Bill (LAA); Hawker, Mike (LAA); Kawasaki, Scott Jw (LAA)
Subject: Legal Opinion re: Royalty Oil Sales at Below Market Value

I thought that this was an interesting legal opinion to share, and something that we may want to address at the next House Judiciary Committee Meeting regarding gas prices. I am currently looking at scheduling the next meeting in Anchorage on either the 20th or 21st of October. Committee members please let me know if you are not available on these dates and I will try to adjust accordingly.

Please also let me know if there is anything in particular that anyone wants addressed.

Thank you,

Jane W. Pierson, Aide
House Judiciary Committee
1292 Sadler Way, Ste. 324
Fairbanks, AK 99701
Phone: (907) 452-1088
Cell: (907) 978-5115
Fax: (907) 452-1146

4

Topic:
FUEL PRICES; GASOLINE; LEGISLATION; PRICE CONTROL;
Location:
GASOLINE;

OLR RESEARCH REPORT

September 12, 2005 2005-R-0681

HAWAII GASOLINE PRICE CAP LAW

By: Kevin E. McCarthy, Principal Analyst

You asked for information on Hawaii's law capping wholesale gasoline prices, including its history and the impact it has had.

HAWAII GASOLINE PRICE CAPS

History

In 2002, the legislature adopted Act 77 (Ha. Rev. Stat. Ch. 486H) which established maximum pre-tax wholesale and retail prices for regular unleaded gasoline sold in the state. The act was originally scheduled to go into effect on September 1, 2004. It subjected wholesalers and jobbers who knowingly violated the law to a fine of three times the amount of the overcharge or $ 250,000, whichever is greater, plus reasonable attorney's fees and costs as determined by the court.

The act was passed after the state settled a price-fixing lawsuit with the state's two major refiners for $ 22 million. The act makes extensive findings, including that "the major oil companies have been realizing profit margins far in excess of the margins realized in other oligopolistic and equally concentrated markets. " (An oligopoly exists when there are only a few suppliers serving a market.)

Under the act, the governor may suspend the gasoline cap law or any implementing regulation by issuing a written determination that strict compliance will cause a major adverse impact on the economy, public order, or the health, welfare, or safety of state residents, Under most

circumstances, the suspension remains in effect until the earlier of (1) the adjournment of the next regular or special session of the legislature or (2) the effective date of any legislation intended to address the major adverse impact.

The act required the Department of Business, Economic Development, and Tourism to conduct a comprehensive study of the petroleum industry, gasoline market, and price controls and other policy options to lower gasoline prices. The department's report presented a number of recommendations aimed at fostering competitive gasoline prices. It recommended the price caps not be imposed, because its analysis showed they would actually raise retail prices and cause other unintended negative consumer, economic, and policy impacts.

In 2004, the legislature amended the law by passing Act 242, which found that the problem of high gasoline prices is principally due to a lack of vigorous competition in the wholesale market. In contrast, the legislature found that there is competition at the retail level. Among other things, Act 242: (1) limited the cap to wholesale prices, (2) extended the cap to apply to mid-grade and premium gasoline, (3) changed the baseline for the cap by using the average of the spot prices on the New York, Gulf Coast, and Los Angeles markets, (4) established price zones within the state and allowed the Public Utilities Commission (PUC) to vary the cap by zone, and (5) extended the effective date of the caps to September 1, 2005. The act went into effect without the governor's signature.

On August 24, 2005, the PUC issued its order setting caps for the period September 1 through September 4. The wholesale cap ranged from $ 2. 16 for unleaded regular on Oahu to $ 2. 50 on Lanai. Chevron, Shell Oil, and Tesoro, the major wholesalers in the state, and the Hawaii Petroleum Marketers Association, asked the PUC to reconsider the order, but it declined to do so.

On August 31, 2005, the PUC issued its caps for the period September 5 through September 11. The caps range from $ 2. 43 for Oahu to $ 2. 77 for Lanai. Also on August 31, 2005, the PUC increased the cap for Kauai, upon the petition of gasoline jobber, after finding that this adjustment might be needed to avoid supply shortages. The PUC's Webpage, http: //www. hawaii. gov/budget/puc/gaspricecaps/, provides information about the caps. As noted above, the caps do not include federal, state, and county taxes, which amount to about 58 cents per

gallon. The caps also do not include the dealer's markup, which the Honolulu *Star-Bulletin* estimates have been historically about 12 cents per gallon.

Impacts

Since the caps were just implemented it is too soon to determine the impact, if any, they will have on prices or supply. According to the American Automobile Association's Fuel Gauge Report (http: //www. fuelgaugereport. com), the average retail price for regular, unleaded gasoline on September 7, 2005 in Honolulu, Oahu was $ 3. 005. Assuming the markup remains the same, the current wholesale cap would allow retail prices to be approximately $ 3. 13 per gallon on Oahu.

It is worth noting that the increase in gasoline prices on the mainland in the year before the caps went into effect was substantially greater than the price increase in Hawaii during this period. On October 6, 2004, the nationwide average price for regular unleaded was $ 1. 84, compared to $ 2. 31 in Hawaii (i. e. , gasoline was 47 cents per gallon more in Hawaii). In contrast, by August 6, 2005, the nationwide average was $ 2. 34 and the Hawaii average was $ 2. 68 (a 34 cents difference). By the time the caps went into effect, the Hawaii average was only a few cents less per gallon than the nationwide average. This suggests that Hawaii is subject to market forces that differ substantially than those affecting the rest of the country.

Governor Linda Lingle has said she would suspend the price cap if either or both of the state's refineries indicated plans to close. She also said she would suspend the cap if Hawaii were to experience wholesale or retail gas shortages stemming from curtailed shipments to the state.

KM: dw

CBS NEWS

BACK | PRINT

Hawaii Gives Up on Gas Price Controls

HONOLULU, May. 8, 2006

(AP) Hawaii's gasoline price controls have sputtered to a stop. The island state whose drivers pay the highest pump prices in the nation has given up on price caps after an eight-month, first-in-the-nation experiment. Some complained that the restrictions actually led to higher prices, because oil companies knew they could charge up to the maximum allowed.

"In a lot of people's minds, they thought the gas cap wasn't working," said Republican state Sen. Paul Whalen, a strong supporter of the price controls. "It was hard to generate lots of support for it because we're paying more than we ever were before."

Gas is particularly expensive in Hawaii because of high state taxes and because of the costs of transporting oil across the Pacific. Last fall, Hawaii became the only state to cap the cost of fuel to try to give some relief to motorists.

Under the price control legislation, Hawaii set weekly caps on wholesale gas prices. Those caps were based on the average of prices in Los Angeles and New York and on the Gulf Coast. Then allowances were added for what it costs wholesalers to ship to Hawaii and distribute gas to more remote islands.

But there was no cap on the markup added by gas stations.

With regular gasoline climbing past an average of $3.38 per gallon in the past few weeks, lawmakers sent Republican Gov. Linda Lingle a bill last week to suspend the controls. She signed it on Friday.

Because the oil refiners keep their profit margins and costs private, it was difficult for even experts to say whether Hawaii drivers were paying more or less than they would without the gas cap.

"It's ridiculous. Prices jumped up 20 cents in the last couple of days," said Calvin Reddick, who paid $15 for just over four gallons of gas for his Volkswagen Beetle. "Usually when you have a cap, it's supposed to freeze prices off. Obviously, their idea of a cap is different from mine."

One study by an economics professor showed the gas cap cost consumers 5 cents more per gallon. An analysis by the state Department of Business, Economic Development and Tourism estimated that island motorists paid $54.9 million more than they otherwise would have in the first five months under the cap. But research by cap supporter Rep. Marcus Oshiro indicated the limits saved drivers $33 million.

"It was a failure, and other experts that have looked at it have said the same thing," said Anita Mangels, a spokeswoman for the Western States Petroleum Association, which represents ChevronTexaco and Shell Oil. "It was well-intended, but apparently according to the state's own agency has not served consumers well."

With customer unrest mounting, oil companies lobbying aggressively to get rid of the cap, and the November elections looming, lawmakers felt compelled to act.

Rather than forcing down gas prices with a lower price ceiling, the mostly Democratic Legislature suspended the cap and gave Lingle, who had opposed any regulation of gas prices, the power to bring it back if she decides fuel has gotten too expensive. The legislators passed the responsibility to the governor.

At the same time, the new law provides for the computation of a hypothetical gas cap to let customers know what gasoline would cost if there were price controls.

Also, the law requires oil companies to make their wholesale price information public so that customers can compare pump prices with actual costs. Currently, that information is kept confidential.

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On the Net:

AAA Fuel Gauge Report: http://www.fuelgaugereport.com

Hawaii Legislature, HB3115: http://www.capitol.hawaii.gov

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Questions

Refinery Questions

1. Is Flint Hills making less gasoline in favor of making more jet fuel?

2. Did gasoline prices go up high enough when the price of a barrel of oil escalated this past year, or are refineries still trying to recoup their losses?

3. How have environmental regulations affected refineries in Alaska?

4. Approximately, what would it cost to convert Flint Hills to natural gas?

5. What do you see the future looking like for refining in Alaska and specifically your refinery?

6. What do you see as the major factors that contribute to the fact that gas prices do not come down as quickly as in the Lower 48 and lag behind the price of oil when it falls?

Ed Sniffen/Barry Pulliam

1. Why has Alaska not seen a reduction in retail motor fuel similar to what has occurred with the price of a barrel of crude, a reduction of 50%?

2. Do you think that the definition of "disaster" be expanded to include "economic well-being"?

3. Do you think that the legislature should introduce a "price gouging" statute this upcoming session?

4. Should the legislature tighten penalties regarding Alaska's antitrust laws?

5. Did gasoline prices go up high enough when the price of a barrel of oil escalated this past year, or are refineries still trying to recoup their losses?

6. Is the price of royalty oil somewhat responsible for the high price of fuel?

7. Should the State of Alaska regulate all refining and distribution of petroleum products or would the price of fuel simply go up even higher under a regulated environment?

8. Would it be possible to limit the price of royalty oil for in-state use, and what affect it would have on gasoline and home-heating oil?

9. If there was more available storage would the price of gasoline be lower in Alaska.

10. Are Alaska's unit costs differentials inherent to smaller refineries?

11. What explains the differential in gas prices across the SOA? - Contributing factors.

12. Is bringing gas up from the lower 48 to AK economical? why does this point out that refiners' prices in AK are relatively high? import parity

13. Limited refining capacity appears to be part of the prob. what should be done

14. Does import parity drive the prices our refineries are charging?

15. ~~Rack prices~~ are AK Retail prices paralleling Rack prices?

16. ~~is~~ DOL

Penalty provisions — in antitrust laws & consumer protection — misc! should they be raised

17. If refiners could make a profit selling gasoline for $2.77 gal a year ago when oil was $81/bbl, what is the justification for charging $3.94 gal when oil is back down to $81/bbl?

18. What should SOA do about it from a legal

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Committee Minutes
House RULES Minutes

ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RULES STANDING COMMITTEE
SENATE SPECIAL COMMITTEE ON ENERGY
June 8, 2008
12:43 p.m.

DRAFT

MEMBERS PRESENT

HOUSE RULES STANDING COMMITTEE

Representative John Coghill, Chair
Representative Anna Fairclough
Representative Craig Johnson
Representative Ralph Samuels (AGIA Subcommittee)
Representative Beth Kerttula (AGIA Subcommittee)

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Fred Dyson
Senator Kim Elton
Senator Lyda Green
Senator Lyman Hoffman
Senator Donald Olson
Senator Gary Stevens
Senator Joe Thomas
Senator Thomas Wagoner
Senator Bill Wielechowski

MEMBERS ABSENT

HOUSE RULES STANDING COMMITTEE

Representative John Harris (Chair, AGIA Subcommittee)
Representative David Guttenberg

SENATE SPECIAL COMMITTEE ON ENERGY

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Representative Buch
Representative Chenault
Representative Crawford
Representative Dahlstrom
Representative Doll
Representative Doogan
Representative Edgmon
Representative Gara
Representative Gardner
Representative Gatto

Representative Gruenberg
Representative Holmes
Representative Johansen
Representative Joule
Representative Kawasaki
Representative Kelly
Representative Lynn
Representative Meyer
Representative Neuman
Representative Olson
Representative Ramras
Representative Roses
Representative Seaton
Representative Stoltze
Representative Wilson

Senator Bunde
Senator Davis
Senator Ellis
Senator French
Senator Therriault

COMMITTEE CALENDAR

HOUSE BILL NO. 3001
"An Act approving issuance of a license by the [illegible] of revenue and the commissioner of natural resources to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd., [illegible] licensee, under the Alaska Gasline [illegible] Act; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 3001
"An Act approving [illegible] of a [illegible] of revenue and the commissioner [illegible] Alaska Company [illegible] Foothills [illegible] licensee, under the Alaska Gasline [illegible] for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: [illegible]1
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(S): [illegible] BY REQUEST OF THE GOVERNOR

[illegible]	(H)	READ THE FIRST TIME - REFERRAL
06/03/[illegible]	(H)	RLS
06/03/[illegible]	(H)	WRITTEN FINDING[illegible] & DETERMINATION
06/04/08	(H)	RLS AT 9:[illegible] AM CAPITOL [illegible]
06/04/08	(H)	Subcommittee [illegible]
06/05/08	(H)	RLS AT 9:00 AM TERRY MILLER GYM
06/05/08	(H)	House Special Subcommittee on AGIA
06/06/08	(H)	RLS AT 10:00 AM TERRY MILLER GYM
06/06/08	(H)	House Special Subcommittee on AGIA
06/07/08	(H)	[illegible] AT 10:00 AM TERRY MILLER GYM
06/07/08	(H)	[illegible] Special Subcommittee on AGIA
06/08/08	(H)	RLS AT 1:00 PM TERRY MILLER GYM

BILL: SB3001
SHORT TITLE: APPROVING AGIA LICENSE
SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

06/03/08	(S)	READ THE FIRST TIME - REFERRALS
06/03/08	(S)	ENR
06/03/08	(S)	REPORT ON FINDINGS AND DETERMINATION
06/04/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/04/08	(S)	Heard & Held
06/04/08	(S)	MINUTE(ENR)
06/05/08	(S)	ENR AT 9:00 AM TERRY MILLER GYM
06/05/08	(S)	Heard & Held
06/05/08	(S)	MINUTE(ENR)
06/06/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/06/08	(S)	Heard & Held
06/06/08	(S)	MINUTE(ENR)
06/07/08	(S)	ENR AT 10:00 AM TERRY MILLER GYM
06/07/08	(S)	Heard & Held
06/07/08	(S)	MINUTE(ENR)
06/08/08	(S)	ENR AT 1:00 PM TERRY MILLER GYM

WITNESS REGISTER

TOM IRWIN, Commissioner
Department of Natural Resources
Anchorage, Alaska
POSITION STATEMENT: Presented a summary of the findings and determination of the TransCanada Alaska Company [illegible] ("TransCanada") project.

PATRICK GALVIN, Commissioner
Department of Revenue
Juneau, Alaska
POSITION STATEMENT: [illegible] TransCanada project during the hearing on [illegible]

[illegible] BISHOP, Commissioner
Department of Labor & Workforce Development
Juneau, Alaska
POSITION STATEMENT: Offered [illegible] PowerPoint presentation regarding jobs and training [illegible] the TransCanada project.

[illegible] BELL, [illegible] Commissioner
Director
Central Office
[illegible] Administrative Services
Department of Labor & Workforce Development
POSITION STATEMENT: Gave the first [illegible] presentation regarding [illegible] and training [illegible] the proposed TransCanada project.

BRYNN KEITH, Research Chief
Research & Analysis
Central Office
Division [illegible] Administrative Services
Department of Labor & Workforce Development
POSITION STATEMENT: Gave the [illegible] presentation regarding [illegible] and [illegible] the proposed TransCanada project.

CONRAD [illegible], Consultant
ARCADIS
Denver, Colorado
POSITION STATEMENT: Presented a PowerPoint [illegible] short and long term employment generated by construction and operation of an Alaska Natural Gas Pipeline Project.

G. ALLAN VAN FLEET, Attorney
Greenberg Traurig, LLP
Houston, Texas
POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

SPENCER HOSIE, Attorney
Hosie McArthur LLP
San Francisco, California
POSITION STATEMENT: Presented legal issues affecting producer participation in TransCanada's proposed gasline.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the joint meeting of [illegible] House Rules Standing Committee Subcommittee on AGIA and the Senate Special Committee on Energy to order at 1:[illegible] PM.

HB [illegible] APPROVING AGIA [illegible]CENSE

SB 30[illegible]-APPROVING AGIA LICENSE

1:[illegible]6:59 PM

[illegible] announced the [illegible] would [illegible] today's presentations by hearing an overview [illegible] Irwin, followed by an [illegible]

[illegible]

[illegible] TOM [illegible] Department [illegible] Natural [illegible] presented a summary [illegible] the [illegible] and [illegible] Canada Alaska Company [illegible] project [illegible] that [illegible] is known that development [illegible] Alaska [illegible] the cornerstone of the state [illegible] economy, [illegible] world class natural [illegible] basin. He said [illegible] we [illegible] looking at [illegible] trillion cubic feet of [illegible] recoverable reserves, in addition [illegible] There [illegible] significant volumes of natural gas which [illegible] Irwin described as "economically [illegible] energy for Alaska, for the United States, for the world." He said [illegible] factors are right: time, quantities, and [illegible]

COMMISSIONER IRWIN offered an historical review. In the '70s and '80s, he relayed, Alaska "worked hard and dreamed of getting natural gas to market." Considered at the time were an overland route, an "over the-head" route from Alaska to Canada, and liquefied natural gas (LNG). He said, "Frankly, gas prices stopped it all - drum price." In 1998, he continued, the Stranded Gas Development Act was passed, which Commissioner Irwin said was a good Act. At the time, gas was around $2 per thousand thousand British thermal units (MMBtu). The idea behind the Act was to work with interested companies to bridge the economic gap. Five groups submitted applications [illegible] one group was selected, and, through negotiations, a draft fiscal contract was released [illegible] May [illegible] on [illegible] the negotiation [illegible] required, the [illegible] 3 [illegible] producers essentially committed to [illegible] the [illegible] exchange [illegible] which included [illegible] of [illegible] taxes [illegible] legislative and administrative [illegible] that [illegible] development [illegible] natural gas [illegible] per MMBtu [illegible] He stated that it seems [illegible] was [illegible] energy, yet nothing was moving forward.

COMMISSIONER IRWIN [illegible] the [illegible] Act (AGIA) was passed by the Alaska State Legislature [illegible] with [illegible] The purpose of AGIA was [illegible] encourage an expedited construction of a natural gas pipeline through an open, transparent process that allows competition. In exchange for commitments required in AGIA, the legislature offered a package of inducements. The legislature made the inducements available to an AGIA licensee, if that licensee would agree to meet the requirements and make the commitments that the legislature deemed necessary to protect the state's interest, which Commissioner Irwin said he believes was a wise decision.

1:12:30 PM

COMMISSIONER IRWIN recollected that in July 2007, when AGIA became law, the state issued a request for application for a license to be issued under AGIA. Five applications were submitted, and only the TransCanada application was found to be complete. Commissioner Irwin said he and Commissioner Pat Galvin decided that TransCanada's net present value and likelihood of success could not be evaluated fairly without also looking at the LNG option and the BP, ConocoPhillips Alaska, Inc., Denali project.

COMM[illegible] IRWIN said technical [illegible] and hydrocarbon reserves teams were formed in order to make a fair evaluation of the projects. He stated that the teams were counted on to independently review the existing information and [illegible] opinion. He [illegible] the integrity and expertise of those involved, and [illegible] the [illegible] available to the legislature. He also emphasized that [illegible] of the administration [illegible] study [illegible] the information but to make itself and its consultants available to each legislator to ensure "right answers" are provided.

[illegible] PM

COMMISSIONER IRWIN said he and Commissioner Galvin found that the "path" offered by TransCanada is likely to succeed. That company presented a work plan that is technically reasonable, feasible, and specific, he said. The plan would include the use of technology that TransCanada is currently using to operate pipelines in climates similar to Alaska's. Regarding the schedule, he said, "Including the timing of U.S. and Canadian regulatory approvals is aggressive but reasonable and appropriate." He stated that TransCanada has the financial ability to contribute equity to the project, as well as to obtain the financing necessary for construction. TransCanada has a strong record of performance in developing other large projects and positive records of integrity and business ethics. Commissioner Irwin said commissioners also considered whether sufficient natural gas exists on the North Slope to fill the capacity of TransCanada's proposed pipeline for 25 years.

1:16:18 PM

COMMISSIONER IRWIN relayed that the conclusion made [illegible] that Alaska has enough natural gas resources to fill the TransCanada pipeline for 25 years and for decades longer." He added "that [illegible] is true even though Point Thompson [illegible] gas may not be available for any project during its [illegible] years [illegible] the [illegible] geology. [illegible] Commissioner [illegible] said [illegible], Petrotel Inc. to do modeling to [illegible] what [illegible] on [illegible] Point Thompson. He said the model [illegible] are there likely several million barrels [illegible] at Point Thompson, but there are also several hundred [illegible] barrels of oil. He mentioned the way [illegible] Gas Conservation Commission (AOGCC) works, and said, "Any reasonable state or sovereign would want that recovered first." Commissioner Irwin said, "What we have been told in the past and what we know today is significantly different. We have learned this state needs to continue to understand things from its own basis." He talked about being honest and letting the legislature know when things have changed. He continued:

Now, let's say we, as a sovereign, said "We a...

waste that energy; we will waste the liquids from the gas condensate; we will waste the oil; we'll just pull the gas off." Our problem is this field is called a retrograde field. [There are] over 10,000 pounds per square inch [illegible]ssure. The experts say if we start dropping that pressure, the liquid condensates start falling out; we can lit[illegible]ally plug the field where we'll certainly lose the liquids, but we can also start plugging conductivity so we lose the gas. Point Thompson is a [illegible]remendous area. We have a lot [illegible] liquids. We need to recover them first.

But let me tell you, when that news hit the gasline team, it was a shock. We immediately thought, "Do we have a gasline project? What are we going to do?" And we went back to the modeling. We modeled different volumes, different [illegible] scenario[illegible]. Our conclusion: we have [illegible] for the producers, [illegible] the [illegible] the state, and for [illegible]Alaska [illegible] and to move this pro[illegible] forward.

COMMISSIONER IRWIN said additionally, the commissioner considered the claim by the major North Slope producers [illegible] TransCanada cannot succeed because of the [illegible] a project. It would be [illegible] speaking with TransCanada the [illegible] consultants consider whether [illegible] what the [illegible] the [illegible] impact financing. The commissioners found that the potential claims against TransCanada and its affiliates are "extremely weak," and that the producers have "failed to support their speculative theory." As a result the commissioners concluded that the risk litigation of this issue "does not present the significant barrier" to the likely success of the TransCanada project, including its ability to obtain financing.

1:20:59 PM

COMMISSIONER IRWIN stated that the commercial terms proposed by TransCanada are reasonable. The proposal provides the major North Slope producers with several significant, commercial opportunities. He said, "They can construct and own the gas treatment plant in the North Slope; they can own an equity share in the TC Alaska pipeline." Although there are project risks, he noted, none of them are significant enough to outweigh the TransCanada project's likelihood of success. Natural gas prices are not likely to climb enough to make the project uneconomic, he said. Furthermore, he related that the risk that there are insignificant resources [illegible] the proposed pipeline is low. He stated that the [illegible] that the state's current [illegible] structure will allow companies that develop North Slope [illegible] and transport [illegible] TransCanada pipeline [illegible] earn a [illegible] profit."

COMMISSIONER IRWIN stated that [illegible] TransCanada [illegible] [illegible] able will [illegible] to the [illegible] and federal governments as well as the North Slope producers and TransCanada, and [illegible] and [illegible] stands likely to succeed. He noted that the legislature has [illegible] through other presentations [illegible] help determine whether TransCanada's pipeline proposal maximizes benefits and [illegible] in the best interest of the state. The commissioners felt that [illegible] project options needed to be [illegible]. He noted that later in the hearing schedule experts would testify. He mentioned the North Slope, an LNG plant [illegible] Valdez, and the producer plan. He continued:

Using the same assumptions used to analyze the TC

Alaska project, all LNG project options resulted in less value to the state and the major North Slope producers. In cases, it showed clearly economic, but all cases were less than the North Slope producers' route.

COMMISSIONER IRWIN said that although an LNG project would be able to tap the higher prices that are seen in Asian markets, the LNG projects have significantly higher costs, and thus result in lower market potential value (MPV) to the state or to the major North Slope producers. He said he and Commissioner Galvin did not find comparative benefits in either [illegible] or costs associated with an LNG project. He highlighted that even if LNG had demonstrated MPV comparable [illegible] the TransCanada project, the LNG projects would still not be preferable [illegible] the TransCanada pro[illegible]. He expla[illegible] analys[illegible] reveals that the LNG pr[illegible] have a [illegible] lower likelihood of [illegible] compared to TC Alaska's project. [illegible] project, he continued, will face [illegible] [illegible] multiple [illegible] [illegible] transport, [illegible] sale of natural gas. He said LNG [illegible] challenges and the North Slope [illegible] that the Asian market [illegible] Additionally, the LNG project will [illegible] significant risk of not being permitted to export the gas [illegible] primary market in Asia. He stated, "That's a [illegible] and evident [illegible] risk, get [illegible] that type of export license, particularly if we don't have energy going to the United States - to the Lower 48 - first."

[illegible] PM

COMMISSIONER IRWIN stated that when compared to an exclusive LNG project, the overland gas line proposed by TransCanada provides an opportunity for a successful LNG "Y" line. The big line, he explained, takes care of the upstream gas pipeline plant, as well as a big line to Delta Junction. He stated, "The door is wide open to someone who wants to come in and do an LNG project." The likelihood of success in an LNG project, he noted, is greatest when it is constructed as a "Y" line.

COMMISSIONER IRWIN stated:

> The dynamics of a producer-owned and operated pipeline are very different, as you've heard in the last few days, than those of a third party owned pipeline. An entity that produces natural gas and owns the pipeline, like the producer project, earns revenues through sales of natural gas and shipment of the natural gas. Such an entity [illegible] necessarily as [illegible] to keep costs low [illegible] learned that [illegible] have learned that all the way through the Supreme Court. If you own the pipeline and the costs are high, you pay yourself [illegible] the upstream producer. If the upstream producers own the pipeline [illegible] we have seen [illegible] higher tariff [illegible] the producer [illegible] the state [illegible] would [illegible] state for those type of high tariffs.

COMMISSIONER IRWIN continued:

> [illegible] explore for and develop additional [illegible] such time in the producer's emphasis on "producer's" [illegible] and it is necessary to maintain shipping volumes through the pipeline.

Now, we heard a bit of talk yesterday about, "Well, they might want to go bigger; they might want to move gas from somewhere else in the world and do their part here later." A pipeline company is in sync with the goals of the state; it is not necessarily true with a producer owned pipeline.

As the state, as I've mentioned, has experienced with [the Trans-Alaska Pipeline System] (TAPS), combining pipeline and shipper responsibilities can truly cause significant harm to the state's interest. This is significant. For many of the same reasons, the producer project suffers the risk of being stalled by anti trust challenges. It's really

COMMISSIONER IRWIN stated that AGIA [illegible] was not designed to preclude the major North Slope producers from [illegible] and operating the natural gas pipeline. [illegible] it was [illegible] the [illegible] if they did [illegible] would act [illegible] as an independent pipeline company, rather than an integrated producer and company.

[illegible]:48 PM

COMMISSIONER IRWIN said [illegible] were told negotiations [illegible] fiscal conditions were a precondition [illegible] moving forward [illegible] the project. What are those conditions. We do know that the conditions were from "stranded gas." He said the administration chose [illegible] continue the competitive AGIA process [illegible] exclusive negotiations. He suggested the legislature ask themselves why BP and ConocoPhillips Alaska, Inc. announced the pursuit of another gas pipeline project, Denali, and [illegible] the timing of that announcement. He asked "Why are they running so many ads to convince the public this is a good thing?" He asked the legislature to respectfully ask the following question: "Is their goal to destroy AGIA in the competition, or is their goal to get gas to market in the favor of the state's interest?" He said "we" tried to analyze the Denali plan, using the same "12 pages" that the legislature has seen. He related that none of the important commercial terms of the producer plan are defined. Furthermore, unlike TransCanada, the producer plan makes no enforceable commitments such as adhering to a state timeline or achieving additional milestones, such as applying for a Federal Energy Regulatory Commission (FERC) certificate. He said there is no information on tariffs, let alone an enforceable commitment to provide [illegible] access. He said, "This makes their option, currently [illegible], extremely risky for the state. The producer plan was [illegible] outside the AGIA process and may continue ... parallel to [illegible] Alaska [illegible] efforts. We love it; the competition is great."

COMMISSIONER [illegible] said someone suggested that [illegible] save its $50[illegible] million, because the producers are going to spend their $2[illegible] [million] plus and don't need the state [illegible]

Have you ever been around a business [illegible] money for its board, its stockholders [illegible] individual pay, their bonuses [illegible] that would turn [illegible] $[illegible] million? I would propose that they feel the [illegible] and I can't speak for them [illegible] if AGIA fails, they [illegible] in a position to get much more. But no one would turn down $500 million.

COMMISSIONER [illegible]RWIN said the key is for the state to [illegible] its resources and start "moving things forward." He warned the legislators not to forget history. He stated, "This state rudely threw out a bunch of companies and negotiated behind closed doors. Regarding the $500 million, he said an important factor is risk and reward. He opined that the risk is [illegible] compared to the reward, which is so huge.

1:32:43 PM

COMMISSIONER IRWIN summarized his presentation, by reviewing the following points: the TransCanada project is economically viable, sound, and feasible; TransCanada has a proven track record; extreme positive economics of TransCanada's project, combined with the legal and political context, provide favorable conditions for attracting shipping commitments; and overall the TransCanada project is likely to succeed. Exclusive LNG projects do not compete, but a "Y" line is significant and is an opportunity for the state to work between market options. He stated, "The key for adding the real long term jobs for Alaskans is a pipeline that encourages exploration and development. The TransCanada project will not preclude construction of a smaller pipeline." He stated that if anyone wants to [illegible] matters, he would encourage them to look at [illegible] report [illegible] One, which is available to LB&A.

COMMISSIONER IRWIN said that similar to the failed Stranded Gas Development Act contract, the producer plan is not guaranteed to continue to advance the project. He stated that [illegible] Commissioner Galvin's conclusion that "this is clearly [illegible] way to go." He encouraged the legislature to [illegible] is the right thing to do for the state.

1:34:55 PM

COMMISSIONER IRWIN stated that ultimately the matter comes down to a decision of "yes" or "no." He continued:

> Here's what you get with "yes": a company that I believe is the best in Northern America doing pipelines. It's a company that works with these other

companies every day; they know how to get gas into their pipeline. And remember Mr. Palmer saying, "We don't own any gas, and yet we have 36,000 miles of pipeline." We get a premier company in North America. We get firm timelines to open season; we get firm timelines to FERC certification. We are clearly moving forward. Now, when Alaska makes a new law, and in effect, by saying yes, you have told the whole world, "Alaska is now going to protect open access" [illegible] companies adjust, companies understand. But until [illegible] do that, they will rather defeat AGIA, because then you get to the no answer.

What happens if it is "no"? In simple terms, last week I said, "They own us." That's what you get if you [illegible] no. We will wait and hope they do something [illegible] understand ... they're not here because they [illegible] Alaska. They're here to make money. [illegible] they look worldwide at their decisions. Alaska [illegible] to stand up for what [illegible] right for Alaska's business. We have a clear path. But [illegible] subservient to them; they own us.

COMMISSIONER IRWIN expressed appreciation for the time [illegible] legislature is giving to this matter.

1:46:54 PM

CHAIR HUGGINS noted that he did ask one of [illegible] aforementioned Denali project "why they were doing [illegible]" and their answer simply was, "The price of gas." He stated that it appears that in talking with some of [illegible] no matter what the scenario, the price of gas is the variable that is the most different [illegible]

1:37:24 PM

REPRESENTATIVE FAIRCLOUGH stated that she is present to listen to facts and figures in order to make a successful decision on moving a project forward. She said she wants to know why the Monte Carlo approach was chosen over the Wood Mackenzie report if "best practice" is involved, and whether the Wood Mackenzie report "was not using as safe type of criteria."

COMMISSIONER IRWIN said the administration's consultants are qualified to answer that question and could address [illegible] during their upcoming testimony.

REPRESENTATIVE FAIRCLOUGH indicated that the [illegible] was told during this special session that [illegible] TransCanada a 1 to 2 percent inflation [illegible] Anchorage, the administration's consultants spoke of [illegible] percent [illegible] inflation factor. [illegible] questioned the [illegible]

COMMISSIONER IRWIN explained that [illegible] TransCanada the [illegible] order [illegible] another [illegible] He [illegible]

[illegible] when we went to our consultants [illegible] the analysis [illegible] range [illegible] system we can see the variance [illegible] best [illegible] worst case and there's hundreds of items [illegible] of items that have to be evaluated. We [illegible] check all the permutations [illegible] best [illegible] worst case and that's what a Monte Carlo system allows you to do. One was to compare [illegible] other was we didn't, frankly [illegible] way: trust and verify. We're learning [illegible] matter what you're told, trust and verify and [illegible] why the significant difference with our consultants.

1:40:52 PM

PATRICK GALVIN, Commissioner, Department of Revenue, expanded upon Commissioner Irwin's response by noting that the assumptions that TransCanada used in its application were the same assumptions used by all the applicants. The reason, he said, is because [the administration] asked the applicants to do "a project planning effort" to identify what their costs were according to a single point assumption given to [illegible] by the administration. He explained that the administrat[illegible] was not asking its experts to determine what gas would [illegible] on a particular day and determine the economics from that, [illegible] rather [illegible] look at the sensitivities across a number [illegible] these variables." He said the administration was trying to [illegible] the range of possibility to the leg[illegible]. The [illegible] present the "[illegible]-case" and then exp[illegible] around that.

[illegible]:42:53 PM

REPRESENTATIVE FAIRCLOUGH said [illegible] understand[illegible] sensitivities, but she stated concern [illegible] the pub[illegible] through the media [illegible] an in-depth definition [illegible] cost inflation factor versus a [illegible] percent [illegible] [illegible] the legislature [illegible] construction costs have been rising at close [illegible] every year for the last four years. She said [illegible] you're [illegible] those toggles, we need a sense of reality on where [illegible] coming from."

REPRESENTATIVE FAIRCLOUGH asked whether the commissioners have sent a letter of inquiry to the Alaska Oil and Gas Conservation Commission (AOGCC) about "what could be extracted [illegible] Prudhoe Bay," and whether there is an answer related to the [illegible] billion cubic feet (bcf) amount that was "presented in Anchorage as a way to make this project successful."

COMMISSIONER IRWIN responded as follows:

> We have asked, and that is not complete, but from all of the information we have: Point Thompson ... will be out for years; Prudhoe Bay will be available for draw down. ... All of our expert advise we've been given is: we have the gas resources to make this project happen.

REPRESENTATIVE FAIRCLOUGH noted that Commissioner Irwin has had the TransCanada application in his possession since November, and she asked him when he asked AOGCC "how much you could draw down for your economic analysis."

COMMISSIONER IRWIN said he does not [illegible] that inform[illegible] [illegible] hand.

COMMISSIONER GALVIN stated [illegible] belief that the [illegible] was started a year ago, after the AGIA bill passed, because at that time, the issue had surfaced regarding potential off-take. Continual efforts have been made to try to [illegible] that [illegible] said the issue faced by [illegible] is the fact that AOGCC [illegible] operate along the decision making framework where [illegible] chooses what the off take should be; it [illegible] an adjudicatory body that merely grants a yes or no to request. That may come [illegible] He continued:

> And so, the exercise that they've been doi[illegible] undertaking is providing [illegible] with [illegible] the range of what they think may be within the possibility of what might get a yes vote, but it would be based upon the request and the data that would [illegible] presented

> ... Kathy Forrester, I think the current chairman of AOGCC, has spoken publicly about ... her comfort level with discussion of an off-take in the 3.5 range that we discuss in our finding. And it, that's, I think, the furthest AOGCC is likely to go before they get an actual application.

COMMISSION IRWIN added that the producers, with their proposal, certainly feel comfortable that they can move forward. Furthermore, TransCanada really understands this information" and feels comfortable to move forward. He stated, "When it comes close to a gasline really moving forward, the exploration we'll have in this state will significantly increase gas availability." He named the Wyoming and British Columbia charts as examples of that growth. He added, "And don't forget, most of our gas is found in oil basins, not in the gas basins."

1:4[illegible]9 PM

[illegible] and [illegible] evaluation on the licensee before [illegible] and although she can appreciate hearing [illegible] the [illegible] producers, the purpose of the legislature [illegible] out why the administration is supporting TransCanada [illegible] said TransCanada has convinced her that [illegible] qualified to undertake a gas line project. Additionally, [illegible] the administration has convinced her that [illegible] billion liability [illegible] a remote possibility. She clarified, "But what I don't hear is spin telling me where product is available." She indicated having been told by Ms. Forrester that AOGCC was "getting ready to retract a previous statement that they had gas available." She continued:

> Again, I just would ask everyone who is presenting to talk about the project that is before us and not

throwing darts at a project that we don't know an,thing about, as has been said by the producers. I don't care why the producers are moving a project forward; I care that this administration is saying, "This is the next step for Alaska." And I want to, on behalf of the people that have chosen to put me in my seat, ... make the best decision possible for Alaska. And so, it is important whether we have gas on the line to go into the [illegible] ine. ... I'm not trying [illegible] be disrespectful; I want to be able to push the g[illegible]een button and vote yes for what you're present[illegible]ng, [illegible] please tell me why we have gas from our position go[illegible] forward and not about other people [illegible]

1:49:[illegible]8 PM

COMMISSIONER IRWIN expressed appreciation of Representative [illegible] study of the [illegible] and her desire [illegible] hear the facts. He said his inten[illegible] convey [illegible] but to convey, from his position, why he fee[illegible] Alaska [illegible] enough gas. He explained that he shared other [illegible] that [illegible] and Commissioner Galvin had to address [illegible] getting to their present [illegible] because he thinks not [illegible] think the Denali pr[illegible] better [illegible] hiding information from the legislature.

[illegible]:50:[illegible] PM

CHAIR HUGGINS requested that Commissioner Irwin provide a [illegible] aid that shows risk allocation related to the [illegible] Canada project [illegible] me line and dec[illegible]sion-making process, and [illegible] the downsides or conflicts, not just "[illegible] positives."

1:52:09 PM

COMMISSIONER IRWIN said he thinks he can readily do that with the information at hand.

CHAIR HUGGINS clarified for those listening that he is requesting from the commissioner an overview of risk allocation and "where you allocated those in your consideration," and is requesting that the commissioner "reemphasize that as we go through the points in the documents."

1:53:34 PM

SENATOR STEDMAN said there was a reference made not only by Commissioner Irwin today, but by other presenters in the last couple days to $10 billion "on gives from the state to the major oil producers under the previous administration's proposal in the Stranded Gas Act." He recalled that quite a bit of that calculation had to do with a [illegible] percent capital credit. He asked if that is correct.

1:54:34 PM

COMMISSIONER IRWIN responded that [illegible] of [illegible] defined in the [illegible] report. He [illegible] amount of [illegible] billion specifically "because when we [illegible] ourselves we came up with [illegible] billion [illegible] with Econ One."

1:55:[illegible] PM

MS. [illegible] GALVIN offered further [illegible]:

Econ One at the time, as they are now [illegible] working for the Legislature and [illegible] the [illegible] analysis of that contract. And that was the number [illegible] came up with, in terms of the value [illegible] the project under the existing [illegible] scenario versus the value of the project under what was proposed in the contract.

1:55:[illegible] PM

SENATOR STEDMAN reiterated that part of that calculation had to do with a 20 percent capital credit, which he noted is in place currently. He remarked, "So, ... I'm not quite sure that a tight parallel with those numbers to what we're dealing with today is even a legitimate issue to have."

COMMISSIONER GALVIN said he agrees with Senator Stedman that "it does change when you compare it with where we are today." He continued:

> Because when we look at the issue today, what we recognize is that under that analysis there actually was a gas production tax that was based on a [illegible] rate ... in the neighborhood of, I think [illegible] percent. If you compare that to, for example, the ACES end result, you're going to end up with probably a larger [illegible] that would be associated with the [illegible] Gas [illegible] from what we have in place today [illegible] And we wanted [illegible] because it was [illegible] that [illegible] [illegible]

[illegible] STEDMAN [illegible] behind closed doors [illegible] was [illegible] that [illegible] and [illegible] basin open."

COMMISSIONER IRWIN told Senator [illegible]

[illegible] PM

SENATOR STEDMAN, regarding FERC [illegible] a reference to TAPS. He said a majority [illegible] legislators feel that it would have been nice if the state had been in a better position dealing with TAPS over the years, because there are concerns regarding the tariff. He said, "We all understand: the higher the tariff [is], the lower our net back to us as a state [will be]." He asked, "How correlated is the gasline to oil line in dealing with access issues?"

COMMISSIONER IRWIN replied that the two are not regulated the same: "one is common carrier and one is a contract carriage."

SENATOR STEDMAN asked if that is a substantial difference, one that the legislature should tune in and pay attention to, or if it is just a minor technicality, in which case the legislature could only have TAPS to think about.

COMMISSIONER IRWIN responded as follows:

> It's actually much more important [illegible] my mind, [illegible] pipe[illegible] in the gasline. In an oil line . . . if the line [illegible] room can be [illegible] proportiona[illegible] [illegible] room isn't made for the new [illegible] that [illegible] critical step.
>
> The reason [illegible] reference to TAPS [illegible] the tariff[illegible] [illegible] one major issue [illegible] exp[illegible] to [illegible] similar [illegible] producer who owns [illegible] and [illegible] you have [illegible] upstream produ[illegible] who owns [illegible] they are incented, [illegible] a pipeline company, [illegible] keep [illegible] low tariff[illegible] because at the end of the year the extra tariffs they paid [illegible] back ... to the producer. If it's a pipeline company, their incentive is to keep it low for new exploration.

SENATOR STEDMAN offered his understanding that this matter would be covered in a few days by means of representation of FERC. He indicated that future discussion would attempt to answer why, for example, ExxonMobil Corporation does not "own all the pipelines in the world if it's such a sweet deal." He said it is his impression that mid-stream players like TransCanada concentrate in building and managing gaslines in a regulated return environment, while other companies - for instance, BP or ConocoPhillips Alaska, Inc. - enjoy the arena of unregulated returns and seek higher rates of return than they would get in an unregulated pipeline.

[illegible]:45 PM

COMMISSIONER IRWIN echoed [illegible] company like ExxonMobil Corporation [illegible] making money [illegible] likely chooses [illegible] projects with low rates of return [illegible] money other places to get [illegible]

[illegible] PM

[illegible] STEDMAN recalled that Commis[illegible] the legislature does not adopt the [illegible] before [illegible] three major companies [illegible] ExxonMobil [illegible] ConocoPhillips Alaska, Inc. [illegible] that subsequently he had said the [illegible] those companies. He stated that [illegible] with that sentiment. He said he has two [illegible] [illegible]

COMMISSIONER IRWIN clarified that he is [illegible] individual legislator, but rather [illegible] talking about the state. He said the state knows that its oil product [illegible] He predicted that Alaska, as a state [illegible] going [illegible] increasingly desperate to figure out how to pay its bills. He emphasized:

> When you're in a desperate situation, and someone comes to you and says, "I will get your gas to market, but you need to help me," you're position at that time is much, much harder than it is today with the competition we're seeing.

2:04:03 PM

SENATOR STEDMAN issued a reminder that roughly half of the state's tax is coming from progressivity, [illegible] which the last administration didn't like, and the current administration wanted to lower." The legislature is the entity that stood up for [progressivity].

[illegible]

[illegible] regarding [illegible] description of what the state would [illegible] asked what the state would gain or lose [illegible] TransCanada [illegible] subsequently is not able [illegible] says no to the state.

[illegible] PM

COMMISSIONER IRWIN responded, "That is why we [illegible] AGIA that we develop past open season toward certificate." He offered further details, concluding that it [illegible] the choice of the company, but he thinks [illegible] companies will participate.

2:08:10 PM

REPRESENTATIVE ROSES said he would like Commissioner Irwin [illegible] state for the public's benefit, what Alaska may stand [illegible]

TransCanada says no.

COMMISSIONER IRWIN said the biggest risk would be if Alaska bails on TransCanada, in which case it risks $875 million. Furthermore, he said, the state would lose an open-access pipeline and basin, which he said would be a tremendous loss.

REPRESENTATIVE ROSES noted that Commissioner Irwin had said he is "relatively comfortable that they are going to come to an open season and that they will make a commitment." Regarding that commitment, he recollected discussions related to AOGCC that "what they recommend be taken off" has a direct [illegible] on whether or not the pipe will be built. The amount [illegible] determines not only financial success and [illegible] of investment but also has a direct impact [illegible] whether or not they're going to be able to get the financing in order to be able to do the project." He said he heard Commissioner [illegible] say this morning that he is not considering the undiscovered [illegible] that will be brought on through new exploration [illegible] he asked, "How [illegible] going to be able to take that unexpected, undeveloped, unfound gas when they go to try to get money to finance this pipeline. That's a [illegible] [illegible] commitment."

COMMISSIONER IRWIN responded that because of the [illegible] the basin, and in addition to the [illegible] board has made the decision [illegible] that [illegible] worth the risk [illegible] here. He continued:

I think it's important to [illegible] that we have asked [illegible] and have the money through the [illegible] request through the legislature [illegible] that we will [illegible] modeling Prudhoe Bay as we did Point Thompson. We need to know, and we're pursuing, those issues, but [illegible] the very best knowledge of our team - the experts [illegible] we feel ... TransCanada is voting - with their talent and with their money that they also could go elsewhere with - ... that it's worth being here and it's worth taking that risk.

REPRESENTATIVE ROSES said the legislature has heard repeatedly that what drives the economics is the commitment; therefore, if there is a lower commitment than anticipated, the only way to build capacity is through "the proposition of the undiscovered gas being put into that pipeline." He asked how much the economic specialists with whom the administration has held discussions are willing to finance based on speculation on what may be put in the line.

COMMISSIONER IRWIN replied that the determination was that "it can be financed."

COMMISSIONER GALVIN said this issue is one that has been discussed in relation to Point Thompson, as well as both the off take and total reserve at Prudhoe Bay. A 4 bcf line, financed over 25 years, results in 40 50 tcf, "whether you're 4 or 4.5." He asked, "We only have 24 known in Prudhoe and 5 or 6 outside of that outside of Point Thompson where's the rest of the gas? Are these guys ... betting on the come?" He said the answer to that is yes - "if they want to assume maximum profit." He described a scenario in which no additional gas is found or nobody else finds additional gas that "they can sell their capacity to," and "they end up with unused capacity as the Prudhoe Bay production ends up going through its normal decline." He concluded, "They'll still make sufficient profits on this to justify making that investment, even if they do not find any additional gas." Commissioner Galvin said that was a significant finding.

REPRESENTATIVE ROSES said he is glad Commissioner Galvin brought up the Point Thompson issue, because he thinks it shows how "that point and that field plays into all of this."

COMMISSIONER IRWIN said the administration was very surprised to discover how economic the gas at Prudhoe Bay is, but he explained that it makes sense because [illegible] much of the development is there already. He said he suspects that when individual companies, such as TransCanada and others "look at that," they know "there's a real strong foundation to make those risk decisions."

[illegible]:15:43 PM

COMMISSIONER GALVIN, in response to Representative Roses previous question regarding what the risk to the state would be if, during open season, TransCanada decides it will walk away, offered two answers. The first answer could be determined by answering what the obligations [illegible] TransCanada [illegible] its application and what remedies are available to the state [illegible] that company should breach [illegible] happen. He said, the state would [illegible] money, but also all the work product the company provided, and [illegible] able to pursue other [illegible] available [illegible] pointed out TransCanada has [illegible] commercial [illegible] to live up to their obligations."

COMMISSIONER GALVIN, regarding financial [illegible] exposure, said [illegible] the state wanted to "[illegible] off of the AGIA track [illegible] and go in a different direction." [illegible] important to recognize that [illegible] damage exposure will grow only as [illegible] expenditures that [illegible] actually made to the project grow. He continued:

Given that it's tied to the TC Alaska expenditure separate from what the state reimburses them for, and after an open season, as it has been discussed, the expenditure profile changes to 90 percent state 10 percent TC Alaska. But that treble damages exposure goes down as well; they're expending much slower. At the end of the day ... [when] we get the first certificate and all the money's been expended by [illegible] the state and TC Alaska, ... the total exposure to the state, including the $500 million, plus the treble damages, is ... $875 [million]. But ... when we get to an open season, at that particular point [illegible] the state will have expended our ... [illegible] million of the $81 [million] that's been projected [illegible] to get to that point, and our treble damage exp[illegible] been three times the [illegible] And so, [illegible] exp[illegible] at that point is [illegible] million across the [illegible] that's everything [illegible] that [illegible] [illegible] and our treble damage [illegible]. [illegible] it's important for the [illegible] legislators here [illegible] understand that we [illegible]mmediately get on the hook for our [illegible] million [illegible] some calculation of three times the [illegible]

[illegible] PM

REPRESENTATIVE [illegible] [illegible] [illegible] that TransCanada [illegible] the state [illegible] company only if a mediator determined that the [illegible] economic and thus the company should [illegible] have been [illegible] back out of the contract.

COMMISSIONER GALVIN confirmed that [illegible] correct. He [illegible] ago there was much debate to determine when a project [illegible] deemed uneconomic. Various factors [illegible] into the determination. He stated "The world would have to change dramatically [illegible] for them to conclude that this project is uneconomic." He clarified that if, during the open season, TransCanada were to conclude that the project was uneconomic, then the State of Alaska would have to seriously consider the project as worth pursuing.

REPRESENTATIVE ROSES stated:

> The amount of commitment you get for the gas is going to determine whether or not they get the financing; whether or not they get the financing and how much risk is involved determines the interest rate that they're going to have to pay on that money. So, even though you say that you're going to have people out there that are willing to finance on the speculation, the more speculative [illegible] the higher [illegible] the higher the interest [illegible] the higher the cost [illegible] economic [illegible] because this [illegible] tied together [illegible] when people [illegible] and [illegible] king about whether [illegible] companies will [illegible] gas [illegible] [illegible] will [illegible] much we [illegible] drilling to be able to fill that pipe [illegible] to the economics [illegible] whether [illegible] going to be a pipeline that will succeed or a pipeline that will fail. All of those dynamics play together even though they appear to be separate [illegible]

COMMISSIONER IRWIN said Representative Roses [illegible] absolutely correct. He continued:

> I took the top number that were at [illegible] [illegible] mentioned 156. [illegible] depends on spending [illegible]

obviously. We hope it goes faster, ... but on what we anticipate, that 166 goes to 2007. The next year, 3 6. I should round these off in big quantities: 550, 725, and the 873.60 I round off to 875. So, that gives you an idea as you're asking the progression on it.

COMMISSIONER GALVIN clarified that the information Commissioner Irwin was citing was from slide 38 of the commissioners' findings packet distributed a couple days ago.

2:22:54 PM

REPRESENTATIVE GARA expressed concern that in waiting [illegible] the end of the 60 days of the combined special sessions, the legislature may delay the start of a [illegible]. He asked the commissioners by which date the legislature would need [illegible] in order not to [illegible] another [illegible].

COMMISSIONER GALVIN [illegible] that [illegible] be [illegible] his app[illegible] because [illegible] the trade off of the cost [illegible] Anc[illegible]. He relayed that yesterday [illegible] Mr. P[illegible] that [illegible] decision was made [illegible] with Mr. Palmer [illegible] knowing how that a decision will be [illegible] is much more valuable than knowing [illegible] that decision is going to be made that day.

COMMISSIONER IRWIN added, "We will [illegible] work with TransCanada and reaffirm with Mr. Palmer so he can also speak [illegible] his company."

REPRESENTATIVE GARA requested a follow up in writing from the commissioners showing the following: when a vote would save time, how much time might be saved, and "when knowing when that vote's going to be would also help." He said then the legislature can make a decision, and [illegible] would be encouraging that decision to happen sooner than later.

2:26:19 PM

CHAIR HUGGINS asked the commissioners for the original objective the administration had in bringing its proposal to the legislature, and when that actually happened. He explained that he would like to "see what's happened to the timeline.

COMMISSIONER IRWIN said he believes the date was in Apr[illegible]. He continued:

> Understand when we had the issue of determ[illegible]ng the LNG contract was not complete, we [illegible]nderstood we would be delaying the project or the [illegible] [illegible]es, but we [illegible] determined it was abs[illegible] [illegible] [illegible] [illegible] come to the legislature and [illegible] [illegible] [illegible] [illegible] made a determina[illegible] without evalua[illegible] the LNG [illegible]ptions. We felt it was appropriate to do that and it also required time.

[illegible]:[illegible]4 [illegible]M

SENATOR GREEN stated that [illegible] doesn't want anyone [illegible] think the legislature would in any way delay [illegible] [illegible] [illegible] [illegible] [illegible] anyone [illegible] to be blamed, [illegible] [illegible] in the process [illegible] extensions on various dates. [illegible]he opined that the [illegible] [illegible] has been forthright [illegible] [illegible] amount of time taken for [illegible] hearings. She indicated that information requested by the legislature was never received. [illegible]he stated, "[illegible], I don't think we're at a point where we need to expedite our hearings [illegible] [illegible] of the schedule we've been placed on." She said she thinks the legislature's reason for having these hearings [illegible] not only [illegible] get the legislators up to speed on this [illegible]ssue, but also to ensure that the public has access to all the information available, as well as the opportunity to testify and ask questions.

2:28:30 PM

SENATOR FRENCH, regarding gas ownership, said he knows a lot of Alaskans believe that choosing TransCanada as a pipeline builder is a bad idea, because the company does not own any gas. He said he would like to know how many miles of existing pipelines were built by resource owners versus pipeline companies, and whether higher gas prices shift the balance and make pipeline construction and ownership more attractive to a resource owner, or whether the regulated rates of return always serve as a disincentive to a production and exploration company when it comes to building pipelines.

SENATOR FRENCH stated that the North Slope is a separate and isolated basin. He asked:

> How will the fact that there will ultimately probably only be one [illegible] one gas pipeline coming out of that basin to bring that gas to market ... lead to antitrust problems should the producers elect to build the pipeline ... particularly given that they've chosen to operate outside the framework of AGIA?

SENATOR FRENCH said he would like the [illegible] made available to everybody present.

COMMISSIONER GALVIN said Senator French's first set of questions would be answered by "the folks who are actually in the pipeline business," while his antitrust questions would be answered by the administration's legal counsel.

2:30:50 PM

SENATOR WIELECHOWSKI, regarding availability of gas and gas off take, asked the commissioners if they put any weight in the fact that the producers put in a bid under the Stranded Gas Act and are now preparing their Denali project, which is similar to the bill before the joint committees. He asked if that gives the administration any sort of confidence that there is enough gas and gas off take available.

COMMISSIONER IRWIN said it gives him a lot of confidence. He said he takes comfort in seeing a company like TransCanada looking at this proposal and being willing to take [illegible] risks itself after have its board discuss the issues at great length. Furthermore experts involved with the [illegible] States [illegible] Survey (USGS), from the Division of Geological & Geophysical Services (DGGS) and some company representatives are saying [illegible] gas amounts are available.

[illegible] PM

[illegible] stated [illegible] sentence that reads: [illegible] be exported, [illegible] ...ted, [illegible] evidence."

CHAIR HUGGINS said that after [illegible] break [illegible] would like Com[illegible] Galvin to explain what that sentence means and what effect [illegible] or what the legislature [illegible] to [illegible].

The committee took an [illegible] from [illegible] PM [illegible] PM.

CHAI[illegible] HUGGINS noted that Commissioner [illegible] had asked [illegible] the break to defer answering [illegible] Huggins' question.

CHAIR HUGGINS announced that the joint committee would [illegible] next from Commissioner Clark Bishop.

2:53:19 PM

CLARK "CLICK" BISHOP, Commissioner, Department of Labor & Workforce Development, offered an introduction preceding a PowerPoint presentation regarding jobs and training related to the TransCanada project. He spoke of his experience in his field. He noted that when AGIA was passed, AS [illegible] 90.470 mandated that a workforce must be trained. He stated [illegible] he brought together industry, labor, education, state government and federal government to pull a training plan together that was presented to the legislature in February. That is phase one. Phase two, he explained, is the project implementation by schedule-time and by strategy. Phase three, [illegible] to be completed, will be training capacity throughout the state. Phase three, he indicated, will be to identify training [illegible] and define what their exact training capa[illegible] spec[illegible] area of exper[illegible]

COMMISSIONER BISHOP [illegible] the [illegible] done inside the AGIA training plan [illegible] the [illegible] training programs. He said [illegible] bringing training providers together [illegible] never communicated with each other. He said [illegible] everybody pulling together [illegible] mission of having the best educated, best trained [illegible] the state. He concluded, "I can't do it alone; [illegible] help. I need everybody [illegible]"

2:[illegible] PM

GUY BELL, Assistant Commissioner, Director, [illegible] Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the first part [illegible] PowerPoint presentation regarding jobs and training [illegible]ated to the proposed TransCanada project.. He stated that the workforce goal for AGIA is: "a trained and available workforce for gas pipeline-related occupations." He relayed that with the help of the steering committee and the research and analysis section, the department identified 113 occupations that are the focus for the gas pipeline training plan.

MR. BELL described the workforce development process, as shown on slide 4 of the PowerPoint presentation. He said the first step is to identify "skills gaps," which are occupations for which there are no Alaska workers available. He said Bryan Keith would expound on that issue. He said the department makes efforts to minimize those gaps by various means, [illegible]: awareness; effective labor exchange, [illegible] based services and the job center network; and [illegible] services accessible and affordable.

MR. BELL directed [illegible] on [illegible] training system [illegible] [illegible]ce," which [illegible] described as a collaborative dynamic [illegible]." He said that [illegible] Commissioner Bishop noted [illegible] partners to develop a workforce [illegible] with [illegible] in the secondary education system and proceeding postsecondary education system [illegible] employment services. Often [illegible] workers find [illegible] to return to postsecondary training [illegible] skill, while they are working.

MR. BELL turned to slide 6, which addresses [illegible]. Economic cycles are one challenge. While Alaska has [illegible] years of consecutive and steady employment growth, [illegible] there has been significant fluctuation within [illegible] that period. Another challenge is the ebb and flow of workers. Mr. Bell reported that 70,000 people move in and out of Alaska each year. 113,[illegible]00 Alaskans are Baby Boomers, ages [illegible] and will begin leaving the workforce, while 11,000 Alaskans turn 18 each year - an indicator of the number of people entering the workforce. A third challenge is b[illegible] awareness, the understanding of the jobs available, not just professional but significant opportunities in blue collar jobs, as well. A fourth challenge is the cost and accessibility of training. The last challenge relates to job barriers. For example, employees need to be drug-free, often a driver's license is required, basic skills are necessary to be employable, and certification needs to be meaningful and transferrable.

3:5[illegible]:17 PM

MR. [illegible] noted that Commissioner [illegible] had [illegible] the AGIA training plan, which was derived with the [illegible]sistance of a high-level steering committee; phases one and two of which have effectively been completed. He referred to information on slides [illegible] of the PowerPoint, which addresses and des[illegible] the "Four AGIA Strategies." [illegible] development. The second [illegible] strategy. M[illegible] said [illegible] ensure that by the time Alaska's students [illegible] they are [illegible] employability skills [illegible] reading, and locating informat[illegible] education opportunities [illegible] work towards "comprehensive and [illegible]" standards to guide training entities [illegible] have the skills to enter employment once they exit [illegible] noted that there is a program that is funded this year and next, which offers basic skills training in the construction industry to in school and out-of school youth and adults.

MR. BELL said the third strategy is to increase registered apprenticeships and on-the job training opportunities. Registered apprenticeship offers a program of work and training, which leads to a skilled and high-paying career. The [department] is working with employers and - through the educational process - workers around the state to meet the goal of the third strategy. He said, "We do offer financial support for training, as well as partial payment of wages, subject to agreement by employers, to train and retain workers. The department measures the outcomes. Those measurements include the number of people who successfully complete training and pre and post training wages. The fourth strategy, Mr. Bell said, is "to increase training for operations, technical, and management workers." He shared that another success story was [illegible] doubling [illegible] size of the engineering program at the University of Alaska, thanks to funding from the legislature. Mr. Bell [illegible] other goal toward meeting strategy number [illegible] a better [illegible] of recruiting Alaskans [illegible] high [illegible] training opportunities and to focus [illegible] incumbent workers [illegible] ensure they have the opportunity [illegible] access training for advancement opportunities, as well as [illegible] pace with [illegible]

[illegible]

BRYNN [illegible], Research Chief, [illegible] Office, Division of Administrative Services, Department of Labor & Workforce Development (DLWD), gave the second part [illegible] PowerPoint presentation regarding job and training related to the proposed TransCanada project. She stated that the department's charge, as it relates to the AGIA project [illegible] quantify employment needs. She addressed the [illegible] of focus, as shown beginning on slide 12 of the PowerPoint presentation. She said because it is too early in the process for Research & Analysis to develop solid employment estimates for the gasline project, the department has focused its research efforts on identifying preliminary measures of current and possible skills gaps, as they relate to both the gas line and the economy

MS. KEITH said that, as shown on slide 13, the department, working with industry partners, identified 113 AGIA occupations, which ranged from those working in the camps, on logistics, safety, or craft, and those operating equipment. The department used a great deal of existing data received from employers around the state, based on unemployment insurance quarterly reports, and annual employer surveys. Furthermore, [illegible] considered data derived from the permanent fund dividend (PFD) [illegible] to the potential skill sets of individuals in the labor market. As shown on slide [illegible], Ms. Keith said to determine [illegible] gap, the department looked at the number of [illegible] Alaska's labor market. She said there are a lot of reasons an employer would hire a non-Alaskan [illegible] the primary [illegible] the lack of a locally available skilled work[illegible] that [illegible] over [illegible] percent of workers were nonresidents of the state, which represents a significant opportunity [illegible] Alaskans. The future gap [illegible] is much more [illegible] quantity. She said one factor that can be considered is the age of the incumbent workforce, [illegible] they will need to be replaced. [illegible] the figures from [illegible], she noted more than [illegible] percent of individuals working in AGIA occupations [illegible] or older.

[illegible] PM

REPRESENTATIVE GRUENBERG asked what percentage of the [illegible] percent is included within the 16 percent. He [illegible] that he wants to know whether a majority of the older people are Alaskans or nonresidents.

MS. KEITH said she does not have that statistic at hand. Notwithstanding that, she said younger workers tend to move; therefore, generally speaking, a higher percentage of the nonresidents would be in the younger age groups. In response to a request from Representative Gruenberg, she agreed to provide that information in writing to the members.

MS. KEITH turned to slide 15, which lists seven of the core occupations involved in the gasline project, and arrayed the data that we've been discussing for the last couple of [illegible]. She said she used the PFD definition to determine whether or not an individual is a resident, which [illegible] a restrictive definition of residency. The column referring to worker age is taken from 2006, as previously noted. The hourly wage data shown on slide [illegible] was gleaned from surveys produced with Alaska [illegible] annually. The occupations listed range from [illegible] highly skilled, to very skilled to high wage. She noted that the reason there is no wage listed for [illegible] because the survey response was not adequate; however, she noted that the [illegible] wage was approximately [illegible]. In [illegible] nonresident workers, Ms. Keith said [illegible] that Alaska has always borrowed or stolen workers from the lower 48 when needed, whether it is due to the seasonality of the labor market or employment growth needs. However, the aging of the state's workforce is not a problem unique to Alaska; rather it is a national and global occurrence. She said that depending [illegible] what goes on in the economic scene globally and nationally, Alaska may find it much more difficult to meet the state's labor needs by recruiting workers from out of the state [illegible]. She said that indicates a need for Alaska to grow its own. Assuring that Alaskans have the skills needed for the occupations not only helps residents find good career options and make a living wage, but ensures, to some degree, that the needs of Alaska's employers are being met.

CHAIR HUGGINS said there are multiple engineers concerned that the state currently has an initiative to modify the licensing of Canadian engineers to operate in Alaska, but without reciprocity. He asked what the status is of that initiative.

MS. KEITH said she does not know the status of that initiative. She said she could try to get the information, but explained that that is something her office does not follow.

[illegible]:11:33 PM

[illegible]NEAD MULLIGAN, [illegible] ARCADIS, presented [illegible] modeling of short- and long-term [illegible] generated [illegible] construction and operation of an Alaska Natural [illegible] He relayed that ARCADIS [illegible] model [illegible] exercise to determine [illegible] and [illegible] impacts of the construction and operation [illegible] pipeline project [illegible] Alaska. He pointed out that any [illegible] references the pipeline, [illegible] larger pipe [illegible] the figures [illegible] employment figures for [illegible] start [illegible] figures he is providing are estimates [illegible]

MR. MULLIGAN, [illegible] explained that ARCADIS is neither an [illegible] abbreviation. He offered his belief that ARCADIS [illegible] from the Greek name, "Arcadia," which is a place [illegible] Greek mythology in which earth and water were in harmony and [illegible].

He stated that ARCADIS is an engineering consulting firm

MR. MULLIGAN referred to slide 2 and stated that ARCADIS projected employment for the following three phases: the construction phase of the pipeline, including the installation of compressor stations, the gas treatment plant, and LNG facility; the operation phase; and the exploration and development phase, to include work on the North [illegible]ope that would be spurred by the operation of a natural gas pipeline. He referred to slide 3, labeled "Sources of Data/Model Used," and reviewed the sources of its data. He stated that ARCADIS used information from TransCanada's AGIA application, from the state's consultants, and from the state Division [illegible] and Gas. He noted that the model used is called "Impian" and was originally developed by the [illegible] Forest Service which [illegible] been privatized.

[illegible] PM

MR. [illegible]LLIGAN stated that [illegible] Alaska specific [illegible] information from the Lower 48 [illegible] figures.

MR. MULLIGAN referred [illegible] slide [illegible] labeled [illegible] Assumptions " and reviewed [illegible] assumption that the gas treatment plants [illegible] Prudhoe Bay and [illegible] LNG facility would be constructed [illegible] the [illegible] [illegible] and that [illegible] purchased outside the state, primarily to eliminate [illegible] for "shadow" or "false return" on large expenditures [illegible] such as turbines and the pipe [illegible] He [illegible] that the labor force for construction of an LNG facility in Valdez would be constrained by the size of the camp that [illegible] be [illegible] in Valdez, since the area is a geographically limited area. [illegible] referred to slide 5, labeled, "Construction Phase Employment Results," and stated that any natural gas pipeline project will create thousands of short-term jobs throughout the state. He offered that the largest numbers of these construction jobs would be available during a very brief peak period. He suggested that for an overland pipeline, the peak would be approximately three years long. He opined that the state could expect three to four years of "employment in the hundreds range," followed by a couple years of employment "in the low thousands," followed by a massive spike in employment reaching a peak, after which the numbers would drop off gradually. He relayed that the state might expect a peak of 16,000 [illegible] the year in which construction of the LNG project took place, which would consist of a 48-inch pipeline from Prudhoe Bay [illegible] and construction of an LNG facility to handle 4.5 bcf per day. He pointed out that the LNG would have [illegible] peak construction period due to the [illegible] processing trains that wo[illegible] [illegible] that for an overland pipeline [illegible] proposed [illegible] producers there would be slightly fewer [illegible] jobs in the peak year [illegible] approximately [illegible] period.

MR. MULLIGAN referred to slide [illegible] labeled "Operat[illegible] Employment Results," and estimated [illegible] the state [illegible] expect [illegible] operations jobs [illegible] an overland pipeline [illegible] itself within Alaska and operate the [illegible] treatment [illegible] Prudhoe Bay. He opined that the LNG facility would [illegible] would [illegible] facility and ARCADIS [illegible] approximately [illegible] jobs would be created for a facility [illegible] that an LNG option would offer approximately [illegible] operat[illegible] in Alaska.

3:17:59 PM

SENATOR WIELECHOWSKI inquired as to whether Mr. Mulligan could provide a breakdown of the jobs in Canada versus the jobs in Alaska for each one of his projections.

CONRAD MULLIGAN answered that all of the jobs he is referring to are jobs in Alaska and that ARCADIS did not project any jobs in Canada.

3:18:19 PM

CHAIR HUGGINS inquired as to whether including LNG w[illegible] create five times as many jobs in Alaska.

MR. MULLIGAN answered that from an operations standpoint, approximately 6[illegible] jobs would be created in Alaska versus [illegible] new jobs for an overland pipeline. In response to a further question by Chair Huggins, Mr. Mulligan clarified [illegible] the estimated 4[illegible] jobs at the LNG facility are [illegible] the overall [illegible] jobs figure.

3:1[illegible]:17 PM

MR. MULLIGAN, referred to slide [illegible] labeled "E.D Empl[illegible] How we generated our results [illegible] Scenarios," and stated [illegible] the real [illegible] shows the [illegible] ARCAD[illegible] developed two scenarios. The [illegible] [illegible] access pipeline which [illegible] capacity [illegible] from the [illegible] 4.5 bcf per day capacity. [illegible] assumed no new natural gas production [illegible] associated [illegible] and development work on the North Slope until [illegible] currently producing fields began to fall off their plateau [illegible] scenario was based on TransCanada's plan which includes capacity expansions and also assumes that the pipeline would offer reasonable tariffs. He opined that ARCADIS deduced [illegible] that project would incite explorers to work on the North Slope [illegible] search of new natural gas to ship on the pipeline. Referring to the graphs, he stated that the green area in the graph on the left shows production from current fields at 4.5 Bcf per day, while the blue area shows the gas under each scenario. Thus, under a non-open access pipeline, new natural gas would begin production in approximately 2031, while under an open access pipeline - which assumes reasonable tariffs and a vibrant natural gas exploration and development industry beginning in the North Slope exploration and development jobs could be generated to produce the larger blue shaded area [illustrating some jobs beginning in 2020, with the bulk [illegible] the [illegible] commencing [illegible] 2037].

3:28:53 PM

CHAIR HUGGINS asked for clarification of non open access [illegible] offered his understanding [illegible] under FERC [illegible] would be open access.

MR. MULLIGAN, using an LNG project as an example, offered understanding that FERC would [illegible] require the [illegible] facility at the end of pipe to be operated in an [illegible] manner; therefore "it would serve as a bottleneck [illegible] the pipeline capacity." He said, "And [illegible] we [illegible] capacity expansions on the pipeline upstream of the LNG [illegible] in that case." In response to a follow up question from [illegible] Huggins, he said non open access would apply to any pipeline that was not operating capacity expansions as [illegible] explorers and or that did not offer tariffs [illegible] were sufficiently low to encourage folk[illegible] explore [illegible] new natural gas and request expansions."

CHAIR HUGGINS advised that during the first day that the legislature will meet in Anchorage, Alaska, further [illegible] would de[illegible] this and bring greater definition [illegible] courses of action.

3:22:27 PM

REPRESENTATIVE NEUMAN noted that some people might be confused as to whether this refers to TransCanada's proposal or the Denali proposal. He pointed out that each one is an open-access pipeline and would have negotiated terms. Thus, in reviewing the scenario of transporting natural gas from Alaska, he said he felt it was important to note that both the TransCanada and Denali proposals are for open access pipelines.

MR. MULLIGAN explained that ARCADIS [illegible] trying [illegible] convey, [illegible] an employment point of view, a best-case/worst case [illegible] and a best case scenario.

[illegible]3:29 PM

REPRESENTATIVE NEUMAN related his understanding [illegible] presentation [illegible] based on [illegible] that [illegible] added processing [illegible] be created. [illegible] pointed out that value added processing [illegible] could create [illegible] long term [illegible] inquired as to whether [illegible] Mulligan [illegible] also include [illegible] information based on value added [illegible] plants. He further inquired as to Mr. Mulligan perspective if an in-state gas pipeline was [illegible] open to provide cheaper gas [illegible] Alaskans.

MR. MULLIGAN answered that ARCADIS did not [illegible] any employment impacts from [illegible] that may be developed [illegible] result of the development of [illegible] the pipeline.

REPRESENTATIVE NEUMAN inquired as to what [illegible] gasline would have on employment.

MR. MULLIGAN answered that he would hesitate to answer the employment effects of an in-state gas pipeline since he did not examine that aspect. He offered to examine exploration and development jobs on the North Slope for members.

3:25:19 PM

CHAIR HUGGINS related his understanding than any gas to liquids, value-added jobs would potentially happen in Alberta. He opined that "we owe it to Alaskans" to find out how having that sort of facility in Alaska might affect its job base. He asked Mr. Mulligan to look at that so the legislature would under[illegible] and the numbers for the labor force.

COMMISSIONER BISHOP said he believed that his department [illegible] provide that information before the body reconvene[illegible].

3:[illegible] PM

MR. MULLIGAN referred to slide [illegible] labeled "Operat[illegible] Employment Results," and noted that AK[illegible]AD[illegible] [illegible] new production facilities would be constructed on the N[illegible] Slope. He reiterated that [illegible] would be brought on [illegible] the pipeline full at a given capacity, which for the best case [illegible] [illegible] per day and [illegible] worst [illegible] [illegible] 4. bcf per day.

MR. MULLIGAN referred to slide [illegible] labeled [illegible] Employment," and explained that [illegible] results [illegible] the modeling runs were [illegible] for the TransCanada scenario assuming [illegible] bcf per day throughput [illegible] approximately [illegible] exploration and development jobs during the [illegible] timeframe. He offered that a non open access project with [illegible] bcf per day throughput would produce approximately 47[illegible] exploration and development jobs over the 20[illegible] timeframe. He opined that job creation may be delayed in a non open access pipeline due to the characteristics of natural gas production and [illegible] coming off plateau that could extend as late as 2026 versus a more optimistic timeframe of 2015 as exploration development begins in anticipation of that pipeline being available to carry the natural gas to market.

3:28:16 PM

CHAIR HUGGINS asked for the rationale for the 2026 date.

MR. MULLIGAN answered that the date is a function of when natural gas fields on the North Slope would begin their gradual decline. The non open access project scenario assumes that exploration and development work would not begin until the fields began to fall off of plateau. He referred to that point as a "capacity wedge" that would be available in the pipeline. Thus, that is how the timing of the exploration and development jobs was assessed.

3:29:10 PM

MR. MULLIGAN referred to the final slide labeled [illegible] Employment and opined that the timing of exploration and development job creation is likely to be a function of a pipeline's characteristics. Thus, an open access pipeline with reasonable tariffs and capacity expansions [illegible] translate into jobs sooner, rather than a more restrictive scenario, which could cause a delay in job creation [illegible] the previous slide. He stated that the importance [illegible] the new natural gas basin related jobs in Alaska [illegible] likely to occur [illegible] declines. He pointed out that Prudhoe Bay production continues to decline. Additionally, he offered that creation of new jobs will also help to maintain the existing skill sets and talent pool in Alaska.

3:30:41 PM

REPRESENTATIVE FAIRCLOUGH inquired as to whether law enforcement will be geared up and ready to combat crime since it takes a long time to train Alaska State Troopers or train law enforcement personnel.

COMMISSIONER BISHOP answered that the department has identified occupations, including law enforcement, fire safety, and health as part of AGIA.

3:32:11 PM

REPRESENTATIVE FAIRCLOUGH noted that all types of [illegible] spiked during construction of the Trans-Alaska Pipeline System. She inquired as to whether the planning process outlines educational opportunities to offset unemployment issues that arise at the end of the construction cycle.

COMMISSIONER BISHOP answered that some jobs will be transferable from construction to the [illegible] [illegible] [illegible] training [illegible] workers [illegible]

REPRESENTATIVE FAIRCLOUGH [illegible] that [illegible] infrastructure [illegible] road [illegible] improvements. She further pointed [illegible] need additional infrastructure.

CHAIR HUGGINS inquired as to the number [illegible] new jobs that are anticipated to be filled by non-Alaskans, which [illegible] be necessary.

[illegible] PM

SENATOR STEVENS expressed his [illegible] Alaska [illegible] had pretty poor record with assisting students with financial need. He acknowledged that the state has done a reasonable job assisting high achievers. However, he recalled that the

National Conference of State Legislatures (NCSL) gave Alaska the grade of an "F" in terms of fiscal assistance for its students. He offered his desire to provide grants and scholarships to assist students and adults. He inquired as to what the department plans to do to help students financially.

COMMISSIONER BISHOP answered that his department will ask the legislature for financial assistance. He agreed with Senator Stevens that students seeking an Associate Degree or [illegible]ational Education have not received much assistance. He stated that providing that assistance is one of his priorities. [illegible] plans will be forthcoming that will expand scholarships [illegible] secondary students in the state.

SENATOR STEVENS acknowledged that the [illegible] not work. He pointed out that if the [illegible] continues on [illegible] same path, the problem will not get solved. He opined [illegible] take an enormous amount of money.

COMMISSIONER BISHOP summarized [illegible] administration and training plan [illegible] are coming [illegible] point in time in Alaska in which the [illegible] historical standard. [illegible] plan is not just about a paper [illegible] this legislature appropriated for the [illegible] mining and health care. The funding has been [illegible] the department. He [illegible] He [illegible] He [illegible] that this plan is not a [illegible] Plan," which provided good foreign policy [illegible] "I think this training [illegible] our work here going forward." He [illegible] that [illegible] be accomplished. He further opined that [illegible] country is the most successful country on the planet is that it provides the best educated and best trained workforce on the planet. He asserted that with the legislature's help, with his help, and with his staff's help - "we're going to put Alaska back on that map." He further pledged that Alaska's $ [illegible]000 high school seniors and 1,500 general education development (GED) recipients will "get the first shot at these jobs."

3:38:48 PM

REPRESENTATIVE DOLL applauded Commissioner Bishop's efforts. She expressed concern with the timeframe and noted that it takes time to complete apprenticeship programs. She inquired as to whether the department can address that issue. She further inquired as to whether the workforce needs could be met even if the programs were fully functioning right now since the state might only be eight years out.

COMMISSIONER BISHOP acknowledged that the state is [illegible] the curve. He related that the baby boomers represent [illegible] labor force, which has been diminishing [illegible] that collectively Alaska needs [illegible] employers [illegible] Alaskan children the opportunity to gain entry level [illegible] stressed the need for Alaska to make every effort for [illegible] incumbent workers, older workers, and [illegible] of people have a shot at the pipeline jobs. He agreed with Representative Fairclough that Alaska must train its workers to be [illegible] or upstream jobs [illegible] exploration and development, [illegible] jobs or distribution jobs in Fairbanks. He stated that it should be Alaska's job to train its workers so that they can acquire the long-term [illegible] jobs.

3:41:15 PM

SENATOR DYSON, with respect to reciprocity for engineering credentials, noted that the United States/Canadian [illegible] Pacific NorthWest Economic Region (PNWER) has been performing some work on reciprocity. He opined that some progress has been made on engineering reciprocity and credentials. He indicated a degree of reciprocity exists for welder certification. To Commissioner Bishop he offered to provide contacts for people who have been working on this issue. He opined that organized labor will provide a huge asset to help facilitate that process. He noted that Alaska's Canadian neighbors have large construction projects in process and are very interested in working together on projects.

3:42:42 PM

CHAIR HUGGINS challenged Commissioner Bishop [illegible] in facilitating cross-border projects.

COMMISSIONER BISHOP noted his plans to meet with the Premier of the Yukon Territory to seek ways [illegible] which Alaskans can work in the Yukon Territory and vice versa.

[illegible] PM

[illegible] whether [illegible] sees the potential for the Alaska [illegible] Jobs Corps to modify its [illegible] approach [illegible] produce workers for a pipeline [illegible]

COMMISSIONER BISHOP answered "Yes [illegible]" He [illegible] that he has personally been involved [illegible] years. He said, [illegible] discussions with the [illegible]

3:4[illegible]:03 PM

CHAIR HUGGINS announced that the next [illegible] Spencer [illegible], Hosie McArthur LLP, who [illegible] and A[illegible] Van Fleet, Greenberg Traurig LLP, for a panel discussion.

3:45:47 PM

G. ALLAN VAN FLEET, Attorney, Greenberg Traurig, LLP, presented legal issues affecting producer participation [illegible]n the proposed TransCanada gasline project. He stated that the panel would focus on, "How do you get the gas?" Mr. Van Fleet proffered that asking how to get the gas is kind of like asking for the recipe for bear stew: For the stew, first get a bear; for the gas, first get a pipeline proposal that is attractive and can offer transportation services at commercially reasonable rates. He said although TransCanada was on the schedule to address the issue, Mr. Palmer has addressed all the questions about TransCanada's ability to build a pipeline that [illegible] offer transportation at commercially reasonable rates. He noted that along with Spencer Hosie, he would address legal issues that [illegible] assured the producers will have [illegible] when [illegible] decision. He noted that he and [illegible] would [illegible] information regarding producer and pipe[illegible] relationships [illegible] in particular, would address some of the previous questions that Senator French asked the body. Mr. Hosie, he related, would discuss the issues that affect the relationship between the state as the owner of the land and the [illegible] the [illegible] of that land. He provided some [illegible] Hosie, such as that he has advised many [illegible] on the aforementioned relationship between [illegible] the producer. He said he believes [illegible] the country's expert on these issues. [illegible] further details regarding Mr. Hosie.

[illegible]:44 PM

SPENCER HOSIE, Attorney, Hosie McArthur LLP, presented legal issues affecting producer participation. He stated that he has practiced oil and gas for over [illegible] years. He noted that he was the lead trial lawyer for the State of Alaska for what was then known as the Alaska North Slope (ANS) royalty litigation, which established the "right method" for computing royalties on North Slope oil He offered that for the past 10 years he [illegible]as been the lead outside lawyer for the State of Louisiana [illegible] energy matters, and that he has worked with state attorneys general and the federal government. He said that it [illegible]s fai[illegible] to say that he has been involved in dozens and dozens of oil and gas [illegible]atters, not just in Alaska, but throughout the Lower 48. He [illegible]sserted [illegible]hat through those cases, he has had the opportunity to read millions of pages of oil company documents. He opined [illegible] has given him a fairly detailed knowledge of how [illegible] industry thinks about upstream decisions what factors [illegible], which ones don[illegible], and why [illegible] producers are willing [illegible] spend money [illegible] certain locations. He [illegible]ated, [illegible] real world, [illegible] the trenches experi[illegible] I bri[illegible] very [illegible]mportant question of the North [illegible] gasl[illegible].

[illegible] producers came to Alaska with the [illegible] that oil might exi[illegible] on the North Slope. He state[illegible] producers recogn[illegible]zed [illegible] the landowner did not [illegible] expertise for exploration and development [illegible] hydrocarbon. However [illegible] oil companies had that [illegible]. Thus, the oil and gas producers reached an agreement [illegible] the oil and gas lease. The oil compan[illegible] [illegible] [illegible]se their experti[illegible]e to diligently explore [illegible] dev[illegible] market any hydrocarbons [illegible]ound. As a [illegible]sequence [illegible] [illegible], the oil companies are entitled to [illegible] percent [illegible] of any oil and gas found and sold. The state [illegible] royalty [illegible] is 12.5 percent. He acknowledged that they got "the [illegible] of the royalty stream" due to the very promises [illegible]. Under the oil and gas lease for Alaska, which [illegible] and gas leases generally, the parties have what the [illegible] "a relationship of mutual benefits." Once the oil companies entered into the lease, they were no longer free to make decisions based on their unilateral economic best interests. Instead, the law is clear that the companies have an obligation to make decisions, including investment decisions, based on the mutual interests of the oil companies and the state as landowner. Thus, in making decisions, the producers must demonstrate due regard for the interests of the state as the royalty owner. He offered that to conceptualize this is to appreciate that the oil companies don't have any obligation to treat the state better than they treat themselves, but they should never treat the state worse.

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MR. HOSIE pointed out that in many situations the economic interests of the oil companies and the state are aligned, such as that everyone benefits from higher oil prices. He stated that the one key area in which the economic interests of the oil companies tended to verge from those of the landowner is related to ongoing or future development and the obligation to spend money. He opined that a landowner almost invariably wants the field developed in production immediately since the landowner benefits through royalty share of the hydrocarbon sale. Sometimes the oil companies may not want to develop a field immediately, due to a cash problem or the opportunity to put investment dollars in more lucrative projects elsewhere in the world. For example, if an oil company's return is 40 percent in Qatar and 20 percent in Alaska, it would rather make the investment in Qatar and, in doing so, act as a rational economic business. However under existing oil leases the oil companies are not free to make decisions on their interest alone and must consider the state, their partner.

MR. HOSIE offered that the courts have addressed this inherent conflict through a court rule, which is straightforward, such that if a given project in a given field is economic, based on its own merits, the oil companies have an obligation to move forward. He asked, "Why is that?" He answered, "Because that's the deal they made to get the lease. When they came to Alaska 45 years ago, they promised to use their expertise and their money to develop the field." Thus, he explained, the courts review the question of whether additional development dollars had to be spent and weigh in that if it is economic and reasonably profitable, the oil companies have an obligation to move forward. He noted that given the producers' duty, the Alaska gasline or any Alaska project does not have to be the most profitable project available to the producers. The state is not in competition for the development dollars given the pre-existing lease obligation. He opined that if the state was attempting to initially attract the oil industry, it would be a different question. Under Alaska leases, the oil companies agree to take risks, which is why the companies are entitled to 87.5 percent [of the value of the oil and gas] without any guarantee of profitability.

3:56:07 PM

MR. HOSIE said:

> And so, the extent that there's a notion that they're entitled to a reduced risk deal in Alaska that is contrary to the obligations they undertook so many years ago. ... What's happened in Alaska? Well, many years ago the state went to the producers and said, "We'd like a gasline." And the producers said, "We'd like a gasline, too, but we've looked at it and we don't think it's economic without substantial concessions - financial concessions from the state."

Since they did not find it economic, absent substantial economic concessions, the oil industry effectively said, "We don't think it's economic." That led to the Stranded Gas Act, the protracted negotiations, [and] the contract that was not approved several years ago.

When that contract failed to come to fruition, the state was left with three alternatives, three options, none good. The first option is that they could have simply accepted the producers' insistence for concessions and "sweeten the pot," ... but the state was not willing to do that at the time. The second option is that they could have said, "Well, we will live with your decisions on timing, producers. You tell us when you're ready to build, and we'll wait patiently until you are ready to go forward, for whatever complex of your own reasons might project when it's time to pull the trigger . And since the state wants a gasline, needs the jobs, wants the resource produced - turned into money - that wasn't a very palatable alternative either. The third option would have been to sue the producers to prove the gasline economic and try to compel them to build it. ... Of the three options that was, I think, far and away, the least appealing. You never want to compel someone to be a partner of yours, and a litigation to try to prove a gasline economic would have been extremely protracted, maybe as long as a decade, and it would have given the producers the very thing that some felt they wanted, which was delay. the notion of suing them to try to make a gasline a reality really was a nonstarter from the get-go.

And so, this administration found a fourth way, and that's AGIA. Essentially they said, "Well, you know, if the producers don't find the line economic, if they don't want to build it, let's find somebody who might think about it differently, who might say, "You know what, we're willing to build that line." And they found that party, and of course it's TransCanada.

Now, the TransCanada bid is - in terms of the "duty to develop" analysis - really a game changer. It really changes everything, and here's why: It moved the entire argument with the producers about whether they think the gasline is economic. It doesn't matter what their internal hurdle rates are. It doesn't matter, for instance, that Exxon - it was reported in the Wall Street Journal last Friday has an upstream internal hurdle rate of more than 35 percent. All those questions are moot because there is a third party willing to spend the money and build the pipeline. And that changes everything.

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MR. HOSIE concluded that the "duty to develop" question boils down to whether, if TransCanada goes forward, it's producers can say they really don't want a third party to own or operate the pipeline, that they will not tender gas, thereby essentially stopping the project. In other words, Mr. Hosie said, the question is whether the producers have veto power over a third power pipeline by refusing the tender their gas. He stated, "The answer is: under the duties they have under the leases - no, so long as they have the opportunity to tender to TransCanada on reasonably commercial terms." He said ExxonMobil Corporation has already recognized that it would tender the gas to TransCanada on reasonably commercial terms, and he said he thinks the company has stated as much because "that is its obligation under its leases." He stated that that is equally true for ConocoPhillips Alaska, Inc. and the other North Slope producers.

4:00:34 PM

SENATOR WAGONER offered that the legislature has heard a lot of talk about a gas treatment plant, who should pay for it, et cetera. He inquired as to whether it is customary industry practice for producers to deliver gas that is marketable gas and meets all pipeline gas quality specifications prior to delivering that gas to the transporting pipeline.

SPENCER HOSIE answered yes.

4:01:21 PM

SENATOR WIELECHOWSKI offered that the legislature has heard a lot of discussion about instate gas, that an instate bullet line would not provide low-cost gas. He stated that what has happened in Cook Inlet is that producers or gas developers set the gas rate for example, at Henry Hub. He related his understanding from Regulatory Commission of Alaska (RCA) hearings that the rate to produce the gas in Cook Inlet is about a dollar per million cubic feet (Mcf), but that the producers sell the gas at $6.80 per Mcf, which is nearly a 700 percent profit. He inquired as to whether the state can compel producers to provide low-cost gas.

MR. HOSIE answered that the state can take its gas in-kind and then could sell it at whatever price it elects. He noted that it is interesting that Senator Wielechowski referenced Cook Inlet since the producers in the Cook Inlet have publically stated that they are not making enough money from the sales levels at Cook Inlet to warrant future exploration and development. He opined that it is hard to believe this is true, given the figures Senator Wielechowski pointed ot because these are older fields with the current sales realization. He opined that what has happened in Cook Inlet is essentially what has happened with the state in the Stranded Gas negotiations, which are negotiations that say, "We want you to make our economics better and, of course, conversely yours worse."

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REPRESENTATIVE GARA related his understanding that sophisticated companies - the major producers - are not going to tell the state that they are going to sell gas if they have an interest in building their own line or in blocking this gasline. He opined that it is in their corporate best interest not to advise the state affirmatively that it will sell its gas. He surmised that it could lead to litigation and at some point the producers might acquiesce and tell the state they will sell the gas. He further surmised that they would do so because they might not just lose the litigation, but may lose their leases worth possibly 20 billion dollars. He opined that they are "playing with fire by pushing this issue." Thus, he opined that if the state finds a pipeline project that it likes, it seems "smart to us not to flinch when the producers don't necessarily commit to publically selling their gas. It is our expectation that that's what they should be doing." He inquired as to whether that is a fair assessment and, if not, why it is not.

MR. HOSIE answered that Representative Gara makes an accurate statement. He stated that power means leverage and leverage means a better deal for the producers. He opined that one would not expect a party in a negotiation to inform another party of its future plans or true intent, if that knowledge would strengthen its opponent. He pointed out that this process is a negotiation and is all about money. He pointed out the importance of the state's understanding the preexisting legal relationship and the producers' preexisting obligations. He stated, "No party writes on a clean slate here. They have obligations. The state has rights." He pointed out that one of the state's rights is to insist that a project that is economic on its own terms moves forward. He opined that if the producers, after years of effort, simply decline to do so, without the state substantially "sweetening the pot," the state has every right to find a third party to do the very thing the producers have refused to do. And that third party is AGIA, he opined, and it raises questions, he said, "about what the proper rate of return is and how much money is sufficient and how much money is too much."

REPRESENTATIVE GARA related his understanding that if we dump everything else and just go [the producer's] way, at that point [the producers] have an incredible amount of leverage over the state to try to obtain tax concessions.

MR. HOSIE agreed that Representative Gara's assessment is correct. He opined that once the state has left only one party standing, the party in this case the producers would have enormous negotiation leverage. He further opined that what happened to the state in the Stranded Gas negotiations would happen again, with ever escalating requests for concessions.

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SENATOR BUNDE inquired as to the projected length of time litigation would last if litigation were to occur as a result of the producers' refusal to commit gas to the line or to commit to what the state would define as "what's reasonably profitable." Furthermore, he asked if Mr. Hosie could offer examples of how long suits have lasted elsewhere under similar circumstances.

MR. HOSIE answered that the precedent the state should hope to avoid is the ANS royalty case he previously mentioned which spanned a decade of active litigation. The state had the obligation to essentially prove all the economic underpinnings of the producers' business, including what it cost to produce and ship oil. He recalled that it became an enormously complicated factual fight and "that's their sandbox." He opined that that case represents exactly the fight the state would be engaged in if it were to sue the producers to say the state believes the pipeline is economic and wants the producers to move forward. That option would be least appealing because, after ll, if the producers' goal is to delay, then the state's suing them would give them exactly what they want.

MR. HOSIE described AGIA as . "game changer," because if AGIA is willing to spend its money and build a pipeline, to back the project with its equity, the only question for the producer is, "Can I tender in on commercially reasonable terms?" Mr. Hosie said that is a far simpler question than asking whether building the pipeline in the first place is economic or asking about the cost of fuel or the "widget costs" or deciding how many laborers to utilize. He estimated that "that piece of litigation, should the state ever get there, would be much shorter" perhaps two years rather than ten. That said, Mr. Hosie noted that the larger point is to try to avoid any litigation whatsoever and to try to get a pipeline built. "That," he opined, "is why this sort of public process ... is so tremendously beneficial, because it gives transparency to the process." He noted that Representative Gatto had asked the straightforward question: "Are the producers willing to ship over a third-party line?" He also noted that ExxonMobil Corporation was kind enough to answer, "Yes, we are." He added that the corporation said that because "that is their obligation." Once TransCanada is willing to bid, the question is whether gas can be shipped on reasonable terms, which Mr. Hosie opined is a much simpler and easier question to answer.

SENATOR BUNDE inquired as to whether another governmental agency, such as FERC would intervene in the event that there is not a commitment to ship [the gas] and the state doesn't want to sue.

4:11:16 PM

MR. HOSIE answered yes and offered that Mr. Van Fleet would address that question.

4:11:22 PM

SENATOR STEDMAN noted that it appears that BP and Conoco are moving forward with the Denali project - their version of a gasline. He related his understanding that the producers intend to spend up to $600 million and pre-apply with FERC. He inquired, "So, how does ... this play when it appears that we actually have two of the producers that are moving forward to build a line, versus all three of them just flat not showing up to build the line under your 'duty to produce'?"

MR. HOSIE offered that it represents a "wonderful development" for the state. He echoed Commissioner Irwin's comment that "competition is a wonderful thing." He opined that if the producers are serious, commit to deadlines, and move forward, that is a "good thing," because competition between two pipeline entrants can only benefit the state. He opined that the overarching question is whether the Denali project is real or is an attempt to derail AGIA. He said he does not think that anyone knows the answer to that question, but that it is a relevant one.

SENATOR STEDMAN recalled that Mr. Hosie mentioned the process that did result in a gasline. He pointed out that the legislature did not act on the matter and it did not move forward. He inquired as to whether that would "strengthen or weaken the producer's hand" especially if the state claims the producers are refusing to build the line when the legislature was the entity that "refused to bless that past agreement."

4:13:36 PM

MR. HOSIE responded that he thinks it would neither strengthen nor weaken the producers' position, since AGIA moved the question, and since the state is not trying to force the producers to build the gasline. He opined that the state has simply accepted the producers' word that [building the pipeline] is not economic and TransCanada is willing build it. He noted that the state can sidestep all those questions about whether it can compel the producers to come forward since TransCanada is willing to do the very thing that the producers have refused to do.

SENATOR STEDMAN inquired as to whether this process of duty to produce" has ever gone forward before.

MR. HOSIE answered that it has not occurred in Alaska but has happened in the Lower 48, and some cases go back 50 years that ask the question as to when an oil producer has an obligation to move forward. He acknowledged that sometimes it is a small matter such as drilling a couple of development wells. However, he noted that it sometimes has been a matter of installing a line to connect a stranded field to a preexisting pipeline. He pointed out that the legal answer is always the same, which is as long as the project is reasonably economic and measured objectively, the producers have an obligation to proceed. However, he cautioned that he was not aware of any case in which a royalty owner sued producers to try to compel them to spend $30 billion. He opined that would be "a recipe for disaster." He offered that the "beauty of AGIA" is that the state has found someone willing [to build the gasline].

CHAIR HUGGINS offered that Mr. Hosie will be available tomorrow to answer questions.

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SENATOR DYSON related that he appreciates that the anti-trust implications will be covered. He recalled his conversations with FERC commissioners, who reminded him that this project is different than any other FERC reviews because Congress has acted and declared that it is in the national interest and in essence "must be done." He offered that the legislators have often heard the threat of delaying lawsuits. He inquired as to whether any venue could compel the shipping of gas while legal questions are still being decided. He recalled that Mr. Hosie said that a refusal to ship would be a breach of contract and far less extended and convoluted than other lawsuits. He further inquired as to whether that might be within the purview of FERC.

MR. HOSIE suggested that Mr. Van Fleet wo ld address that concern.

4:18:14 PM

MR. VAN FLEET, Shareholder, Greenburg Traurig, LLP, noted that several legislators, as well as Mr. Hosie, identified what are essentially the contract rights between a landowner and a producer who leases that land, although he noted that in this case, the landowner is the state, and the state has responsibilities to its citizens that make the issue much broader. He pointed out that the gasline creates a great deal of interest, including that of those in the Lower 48 who want gas to heat or cool their homes. He offered to speak about the broader public interest that is reflected in federal and state anti-trust laws and also federal legislation that addresses energy market manipulation.

MR. VAN FLEET shared his background practicing anti-trust law for 30 years. He stated that he has represented oil and gas companies and pipelines, and he has sued oil companies for withholding supply from the market. He noted he has defended [companies] and advised them on how to avoid anti-trust laws. He said, "Out of longevity, more than anything, I've been honored by my peers in the American Bar Association." He announced that he will be chair of the ABA anti-trust section in 2010. He referred to a slide labeled, "Standard Oil Monopoly," and he noted that ironically, 2010 is the one hundredth anniversary of the breakup of Standard Oil.

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MR. VAN FLEET referred to a slide labeled, "Anti trust Statutes." He explained that the anti-trust acts are the Sherman Act, Sections 1 and 2, which are enforced by the U.S. Attorney General acting through the Assistant Attorney General. The Federal Trade Commission Act (FTCA), Section 5, broadly prohibits all unfair means of competition. He offered that has been interpreted over many years to include violations of the anti-trust laws, and through that vehicle, the Federal Trade Commission (FTC), as well, has the authority to enforce the anti-trust laws of the United States. He pointed out that each state has its own anti-trust laws. The Alaska Restraint of Trade and Monopolies Act, contained in AS 45.50.562 - 596, is largely the same as Sections 1 and 2 of the Sherman Act, and is enforced by the state's attorney general. He further noted that the state's attorney general is empowered to act on behalf of the people of Alaska in bringing actions under federal anti-trust statutes. He said what that means is that Alaska's attorney general can act under state and federal anti-trust laws. Essentially, Section 1 and 2 of the Sherman Act, and AS 45, prohibit exclusionary conduct in order to maintain monopoly power and joint action by competitors to withhold supply from the market. He related as an example that at the turn of the century, Standard Oil controlled 90 percent of the petroleum in the United States. Standard Oil maintained its monopoly through severe exclusionary conduct, such as blowing up its competitors' pipelines.

MR. VAN FLEET referred to his next slide, which shows that in 1910, Standard Oil was broken up into the "Seven Sisters," and action affirmed by the U.S. Supreme Court. The Seven Sisters, as shown on the slide, include: Standard Oil of New Jersey (Esso), Royal Dutch Shell (Anglo-Dutch), Anglo-Persian Company (APOC), Standard Oil Com any of New York (Socony), Standard Oil of California (Socal), Gulf Oil, and Texaco. He related that Exxon and Mobil Oil merged to become ExxonMobil Corporation, and Chevron now includes Gulf Oil and Texaco. He pointed out that the reason to break up the monopoly was to turn it into competing businesses. Thus, instead of jointly deciding how much production ought to be on the market to control prices, companies compete with one another. He offered that with competition in place, if Esso kept its product off market, Mobil Oil could sell its product and make that money.

MR. VAN FLEET said:

> If there is an attractive pipeline that is there and available on commercially reasonable terms to ship North Slope gas to the Lower 48 or to Alberta to be

sold elsewhere, and the producers say "no," one might ask, "What's going on here?" And if they all do it together, one might ask, "What's going on here? Are they withholding this supply from the market because they're concerned about how that Alaska gas will affect the prices of natural gas and LNG in the Lower 48 and around the world where these three producers have significant ... gas and LNG holdings?" We do know this: they've looked at the question together

MR. VAN FLEET referred to his next slide, which shows a printout of the web site for ICF International, Inc , a highly respected, large consulting firm. He noted that the web site highlights the firm's projects to attract business.

MR. VAN FLEET referred to his next slide, which shows ICF market studies, and he cited a sentence at the lower portion of the slide, which read as follows:

> For producers on the Alaskan North Slope, ICF International evaluated the effect of Alaskan and MacKenzie Delta gas on U.S. and Canadian gas markets, prices, and pipeline flows.

MR. VAN FLEET said, "So, any of these antitrust enforcers might want to be asking if all the producers together are declining to commit gas to a viable pipeline, what's going on here?"

TIME STAMP

MR. VAN FLEET moved on to a series of slides labeled, "Market Manipulation Statutes," and said that in addition to the anti-trust laws, Congress, in recently years has passed specific market manipulation statutes. He said FERC, specifically empowered by the Energy Policy Act of 2005, was given enhanced enforcement powers over natural gas and electricity markets to identify and punish any attempts to manipulate those markets. He noted two recent cases which are pending, on appeal. In one case, FERC imposed a $200 million penalty, and it imposed a nearly $100 million penalty in another case, which is in addition to the requirement that the gas companies return the profits that were unjustly earned hrough market manipulation.

MR. VAN FLEET stated that the Energy Independence and Security act of 2007 prohibits any manipulative or deceptive device or contrivance in connection with the purchase or sale of crude oil, gasoline, or petroleum distillates. It authorizes the Federal Trade Commission (FTC) to investigate those instances and to prescribe regulations.

MR. VAN FLEET referred to his next slide labeled, "FTC Advance Notice of Proposed Regulation." He pointed out that even though this deals with the liquid side of the petroleum market, a recent advance notice of proposed regulations gives some insight into how the FTC looks at these issues and how it might look at the liquids market, or perhaps the gas market, as to what it considers might constitute manipulation. He offered that this notice identifies "potential practices" that might constitute market manipulation. The FTC wants comments on the circumstances, if any, "under which a firm's decision regarding supplying a market - whether to reduce, increase, or maintain unchanged the amount it supplies should be considered manipulative or deceptive." He added, "So, in addition to being a potential anti-trust problem, they're considering that under their new powers to prohibit market manipulation."

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MR. VAN FLEET referred to his next slide labeled, "FTC Advance Notice of Proposed Regulation," and he explained that the FTC notes that regulated petroleum pipelines may not allow new shippers a share of a pipeline's capacity when historical shippers seek to transport more petroleum products than the pipeline is capable of transporting. Thus, the commission is currently seeking comments on whether pre-announcements that pipelines are approaching capacity straints might be a conduit for market manipulations or deceit. He added, 'And it's interesting the commentary that they add to this particular question.

MR. VAN FLEET referred to his next slide labeled, "FTC on BP in Alaska North Slope," and offered that the FTC discusses its investigation of BP's acquisition of ARCO. He recalled that the big three producers in the North Slope used to be ExxonMobil Corporation, BP and ARCO. He noted that BP acquired ARCO and the FTC, in order to approve that merger, required BP to divest ARCO's North Slope holdings. The holdings were divested to Phillips, which is now Conoco Phillips. The FTC said, in its investigation, that "the commission had reason to believe that BP occasionally had exported ANS crude oil to the Far East in order to increase spot prices for ANS crude on the West Coast, and that BP benefitted from those higher spot prices because of its status as a merchant marketer." He opined that the kinds of things that are being discussed that the state fears might be happening are precisely the kinds of things the federal government, FERC, the FTC, and the U.S. Department of Justice's Antitrust Division are concerned about and review. He offered that these agencies would be the appropriate venues to raise questions about what may be happening.

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MR. VAN FLEET referred to his next slide labeled, "Competition Law 360," and stated that at about the same time of the

Anchorage presentations, someone pointed out to him that the U.S. Commodity Futures Trading Commission (CFTC) had announced an investigation. He related that Conoco Phillips revealed it was subpoenaed. The CFCT is investigating possible fraud in the trading of crude oil futures. He acknowledged that doesn't mean the companies are guilty of any wrongdoing. However, he pointed out that the CFCT generally reviews particular trader transactions and investigates any company that it believes is fraudulently bidding up prices on contracts, which is deceptive trading.

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REPRESENTATIVE NEUMAN pointed out that some of the information provided, such as whether ANS crude oil is shipped to the Far East, seems to discredit some of the larger producers. He inquired as to whether Mr. Van Fleet could comment on the effect of lawsuits.

MR. VAN FLEET responded that his testimony is not meant to "bash producers." He related that he has worked with general counsel of major oil companies such as ExxonMobil Corporation and ConocoPhillips Alaska, Inc. He opined that the state does not want to rely on federal or state agencies to force producers into taking action on the pipeline. He surmised that the producers will be aware of the possibility of federal or state action if they do not have a rational economic explanation for their actions "except for keeping product off the market or delaying it as long as possible."

MR. VAN FLEET, in further response to Representative Neuman, answered that he is working for the attorney general.

4:33:36 PM

REPRESENTATIVE OLSON inquired as to whether he could name the two companies that are currently under appeal.

MR. VAN FLEET answered that the producers are not any of the ANS producers.

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CHAIR HUGGINS noted that that in the interest of time, he would bring up that question tomorrow for presenters to address.

4:34:34 PM

SENATOR BUNDE pointed out that [producers] booking reserves before the U.S. Securities Exchange Commission would be helpful for the producers' stock portfolios. He opined that booking the reserves would represent a de facto acknowledgment that the gas is marketable or profitable. He recalled that some attempt has been made to book reserves. He inquired whether producers could hint at reserves since actually booking the reserves would be illegal unless the producers could bring the gas to market.

MR. VAN FLEET responded that it not his area of expertise, but stated his understanding that the producers cannot book reserves in order to boost their balance sheets while simultaneously acknowledging that it is not economically feasible to get the reserves to market. He recalled Mr. Hosie's testimony such that the prospect of losing the reserves because they are not being developed would have a greater impact on the financial records of the producers. He spoke of an expectation for rationality, "not to lose both the Wall Street benefit as well as the physical gas."

4:36:25 PM

REPRESENTATIVE GRUENBERG inquired as to whether improvements are needed to update Alaska's statutes.

MR. VAN FLEET answered that he has reviewed the Alaska statutes. He stated that in recent years, Congress has increased penalties to a maximum of up to 10 years in prison and fines of up to $100 million for violation of federal anti-trust statutes. He said Alaska's statutes provide for a misdemeanor and small fines for violation of anti-trust statutes. He opined that while the civil consequences and civil recovery for violation of Alaska's anti-trust statutes could be huge, the criminal penalties are weak.

4:37:50 PM

REPRESENTATIVE GRUENBERG related his understanding that a new series of federal laws have been adopted. He asked, "Does that preempt the field; should the state be looking at filling any gaps there?"

MR. VAN FLEET answered that the state could always look at "filling in the gaps." He stated that approximately 15 years ago, the U.S. Supreme Court held that the nationwide purview of federal anti-trust statutes does not preempt the states from enforcing their own laws. He said this occurred in the context of a merger that the federal anti-trust authorities had approved and were not going to challenge. However, he offered his belief that this did not prevent California from raising its own objections under its Cartwright Act, even though that would have had immense national implications. He related that the states are free to act under their own anti-trust laws, regardless of whether the feds act under theirs. Mr. Van Fleet noted that since the Reagan Administration, when there is a matter of national importance that is also particularly important to an individual state or group of states, very often the federal anti-trust authorities will work with the states' attorneys general, either one or several, through the National

Associations of Attorneys General, which ha a specific anti-trust committee. So, he said, the cooperation of federal and state governments is something that is well entrenched and a tradition in anti-trust enforcement.

4:39:36 PM

REPRESENTATIVE KERTTULA inquired as to whether Mr. Van Fleet's quote that the FTC believes that BP is occasionally exporting ANS to increase spot prices came from the FTC decision.

MR. VAN FLEET answered that he was not sure if that information was contained in the decision on the merger, whether that information is in the consent order in which BP agreed to divest the ANS holdings of ARCO. He recalled that the information is described in the live request for comments on their advanced notice of proposed rule making. He offered that the FTC pointed out that that was the type of market manipulation that it saw during its investigation of the merger, and is something it wants to consider as "being within their enforcement powers under the new market manipulation statute." In response to Representative Kerttula, he noted that notices of advance proposed regulations can be found on the FTC web site.

4:40:57 PM

REPRESENTATIVE FAIRCLOUGH recalled that Mr. Hosie stated that Alaska could take its royalty in-kind in oil and then sell that oil or gas onto the market for any price it so desires. She inquired as to whether that's true since she further recalled that the state previously researched that matter during the closing of the Agrium plant and found that the state did not have that ability.

MR. VAN FLEET answered that he is not prepared to answer that question without first conducting significant research. He said:

> Alaska, like other landowners in other stares, has the option - and, as I recall, under the Stranded Gas Act was going to have the requirement - to take gas in-kind. Now, if the state has the option or the requirement to take gas in-kind and it can't sell it, well, that's not a very good deal and clearly there must be some opportunity to dispose of that. But as I say, that is not something I've researched and [I] would be misleading this body if I were to pretend expertise on that ....

4:42:54 PM

REPRESENTATIVE FAIRCLOUGH recalled that it was on record from Mr. Hosie that Alaska could sell the commodity for any price it wants. She offered her belief that in Alaska it would have to be at a competitive price to others in the market.

CHAIR HUGGINS interjected that he will follow up with the administration and Mr. Hosie.

MR. VAN FLEET elaborated that the anti-trust laws display basic faith in the market. He said that the anti-trust officials don't want to be in the business of setting prices. Thus, it is extremely rare that anti-trust laws will examine the prices at which a particular company is selling its goods, its products, and its services, he stated. He pointed out that the anti trust officials become involved only when a company has monopoly power or a dangerous probability of gaining monopoly power and sells its product below cost. He offered that when it is clear that the company's motive is to put someone out of business at that below-cost price, it is then that the anti-trust officials become involved in pricing.

4:44:37 PM

REPRESENTATIVE FAIRCLOUGH expressed her concern that if the state could offer its gas at below market value, that action might create anti-trust problems for the state. She stated on a separate matter that one of her constituents informed her that the Texas Railroad Commission based an allocation for access to a pipeline of proven reserves. She related her understanding that access to pipelines is based on contract versus common carriers. She inquired as to whether Mr. Van Fleet could speak to the issue of access to pipelines based on proven reserves.

MR. VAN FLEET responded that is not fundamentally an oil and gas lawyer and is not familiar with those commission regulations He added, "It would be strictly intrastate pipelines, and I don't think we have many of those anymore." He said that regulation would be up to FERC.

4:45:55 PM

CHAIR HUGGINS inquired as to whether there were other questions and there were none.

MR. VAN FLEET concluded his presentation by offering that he is not here "to bash oil companies and gas producers." He noted that he has worked for them, has advised them, and has many personal friends in the industry. He said:

> These are serious matters that come into play beyond the simple private relationship between the state as landowner and the producers as the contracting producer and are something that make this of interest beyond Juneau, beyond Alaska, and of interest to us in the Lower 48, as well, and I do thank you for your time and your attention.

4:46:56 PM

CHAIR HUGGINS announced that this concludes the presentations for the day. He noted that the meeting would resume at 10:00 a.m. tomorrow and that the committee would take up follow-up questions for Mr. Hosie, followed by regulatory and commercial issues, and LNG economics.

DRAFT

ADJOURNMENT

There being no further business before the committee, the Joint meeting House Rules Standing Committee and the Senate Special Committee on Energy meeting was adjourned at 4:47 p.m.

DRAFT

7

Refineries Location	Owned by	Production Level
Kenai Refinery	TESoro	72000 bbl/d
Valdez Refinery	Petro Star	50 000 bbl /d
North Pole Refinery	PetroStar	17000 bbl /day
Kuparuk Refinery	ConocoPhillips	14400 bbl /d
North Pole Refinery	FlinT Hills Resources	210 000 bbl /d
Prudhoe Bay Refinery	BP	12,500 bbl/d

Idaho - no refineries

Montana - 4 Refineries

Billings Refinery	Conoco Phillips	58 000 bbl/d
Billings Refinery	Exxon Mobil	60 000 bbl /d
Great Falls Refinery	Holly Corporation via Monta Refining	8200 bbl /d
Laurel Refinery	Cenex	55000 bbl /d

North Dakota

Mandan Refinery	TESoro	60,000 bbl/d

South Dakota - no refineries

Washington - 5 Refineries

~~Tesoro~~ A - see back

Tesoro Anacortes Refinery		Tesoro	108000 bbl/d.
Shell Anacortes Refinery		Shell	145000 bbl/d
Cherry Point Refinery (Blaine)		BP	225000 bbl/d
Conoco Phillips Ferndal Refinery		Conoco Phillips	105 000 bbl/d
Tacoma Refinery		US Oil + Refining	35000 bbl d

Wyoming

Cheyenne Refinning	Frontier Oil	52000 bbl/d
Evanston Refinery	Silver Eagle Refining	3000 bbl/d
Evansville Refinery	Little America Refining	24500 bbl/d
Newcastle Refinery	Wyoming Refinery	12500 bbl/d
Sinclair Refinery	Sinclair Oil	10,500 bbl/d

House Judiciary Committee meeting
September 10, 2008
Fairbanks Legislative Information Office

Representative Ramras, House Judiciary Chair convened the hearing at 9:16 a.m. by welcoming those in attendance.

Members of House Judiciary Committee:
Rep Gruenberg, Rep Holmes, Rep Dahlstrom (on line), Rep Coghill

Other Legislators:
Rep Hawker, Rep Guttenberg, Rep Kawasaki, Rep Roses

Ed Sniffen, Senior Assistant Attorney General

Rick Solie, Conoco-Phillips;
Jeff Cook, Flint Hills; Mark Gregory, Flint Hills; Alan Hallock, Flint Hills; Mark Palazzo, Flint Hills;
Kip Knudson, Tesoro;
Doug Chapados, Petro Star

Representative Ramras asked the first speaker to come forward and address the committee.

Lois Hein, Co-owner Riverview Quick Stop
1316 Badger Road, North Pole, AK 99705 (Business address)

Lois stated that a few weeks ago they called for gas and could not get it, because Flint Hills was slowing production. At that point we had to close our pumps. I called around to find out what was happening. If they could not get gasoline it would have to be shipped up from Anchorage. For a small quick stop not having gasoline, especially in bad times, makes it even worse.
People that come into the store have been signing a petition against high fuel pric in Fairbanks, even though prices are going down all around the other states. She saw a 20 cent decrease a few weeks ago and then another 8 cents when the gas tax was taken off. She is glad the investigation is being conducted; people feel they have no recourse. We see a lot of people that are going to have to move. The petition has approximately 146 signatures. She was going to forward them to Sarah Palin, hoping she is not too busy. She would like to give them to Rep Ramrus.

Rep Ramrus said that he would take the petition and have copies sent to appropriate state agencies.

Lois - wants to be able to tell people something is happening and that they have a voice.

Rep Holmes - where does your gas comes from?

Lois - it is delivered by Alaska Petroleum from the Flint Hills refinery.

Rep Holmes - has this been a problem in the past?

Lois - never.

Rep Gruenberg - has been looking at some of the other states that are considering anti-gouging legislation, but most seem to trigger their protections on a declaration of a state of emergency. At least one state has amended their legislation to broaden the definition of "state of emergency" to include economic emergency. If a situation is bad economically, the governor can declare a state of emergency. Do you think it would be appropriate for us to consider that there could be an economic emergency to trigger protection?

Lois - there are people who do not pay their bills and with all the rising prices in the grocery store, it is costing everyone more. Vendors are raising their prices 3 or 4 times a year. People can't afford to live here.

Rep Gruenberg – do you know how much the prices have been raised?

Lois - we raise them every week, but we are still having a difficult time buying product for the store because of increased prices.

Rep Gruenberg – how much has it increased in the last week.

Lois – about $1.00 – the price is now $4.38

Rep Ramras – can you comfortably tell us what your margin is – pennies per gallon; what is the fee if you pay by credit card, and what you estimate your volume is in relation to big box stores?

Lois – we put 20 cents a gallon on gas, credit card prices are 5 cents more. That is the same with diesel. We used to sell about 700 gallons a day and now its about 300 gallons a day. I think that is because people are driving less. We are 20 cents higher then they are in town at places like Fred Meyer and Safeway.

Rep Guttenberg – when you call your distributer and they tell you it is not available, do you get a reason?

Lois – I have never gotten that response ever before. It has always been available. That morning I was told to call back later. I called back later and they explained there was a problem at the refinery and it was a little later we discovered that production had stopped.

Rep Gruenberg – for the record and information – when I mentioned that the definition of disaster was expanded it is in House Bill 653 from North Carolina and is in the packet.

Rep Ramras asked Lois to leave signatures with Jane and copies will be sent to appropriate state agencies. He thanked her for her testimony.

Rep Ramras asked Ed Sniffen to provide a legal and historical perspective of this issue and give the committee members an update on the Attorney General's investigation.

Ed Sniffen, Senior Assistant Attorney General, - he was not here when the prior gas investigation was done from mid 90's to 2000 – but that the focus was whether or not there was anything illegal going on; there was not. The AG is once again looking at those issues. When I heard the testifier talk earlier about higher prices, I am sympathetic to those concerns, but have to ask myself – what do we want to do about it, what can we do about it. We cannot control the prices that businesses set, whether its a can of tuna, or a car dealer, we rely on the market to set those prices. You sell it for whatever the consumer is willing to buy it for. The problem is that the demand for gas does not change much. When there is a demand increase it might cause producers to look at their prices and be able to make a higher profit. When it comes to gas – it relatively does not change. We have to use it - we have to buy it. There is not a broad transportation system, so we have to buy gas and it is one of the realities that we live with. The demand does not go down. Looking at how can we lower the prices, lower the demand. Also, look at whether there is anything illegal going on with the pricing. We do not have a price gouging statute in Alaska, and in states that do have those statutes, they are all triggered by a state of emergency. They stop businesses from jacking up prices until the emergency is gone in order to not take advantage of fear. If we had that statute, it probably would not apply. There are problems with legislating market prices. Maybe it could include economic strife.
Then there are anti-trust laws. It conjures up images of things that are hard to get your mind around. We want the operation of the market to stay competitive, and fair competition usually drives prices down. Our laws exclude price fixing – so looking from an anti trust perspective is - are these people colluding in such a way to keep the prices high, or are they doing something else that is keeping the prices high. When it comes to pricing goods and services, the legal remedies are narrow and few. We look to see if it is running competitive and without collusion, then it is a competitive market and prices are what they are. There were some components of the production that had to be fixed before more production could continue and so the lack of product was due to that rather than anything illegal and Flint Hills will address that.

Rep Ramras – as the price of oil went to $145-$147 a barrel – if price had followed that, we might have seen gas run as high as $6 per gallon, and yet as the price per barrel comes down, people expect the price at the pump to come down. He gave an example of where it can take months to bring the price at the pump down when the price per barrel comes down. He talked about the State of Alaska selling royalty oil at super premium, so if there is a culprit it might be the state. He talked about pricing for retail customers and the disconnect that may exist between the price of oil and how the relationship is restored.

Ed Sniffen - had this discussion with the economist the AG's office has retained. We discussed the lag, where the price has not gone up enough, the refiners are in a deficit, and then the prices come down slower. Historical price wave in Anchorage, the historical trend has always lagged a bit behind, as it does in Seattle. This lag is particularly long, and when prices started to fall and prices did not go down and after a month they still did not fall, the question was why? We are speculating and in the investigation we are trying to find out why. Seems like the run-up was so dramatic and so fast, that it caught everyone off guard. We see prices coming down a little bit, but we don't really know how much of the market is being driven by the tax break but we need to see what happens

Rep Ramras made reference to a chart that shows pricing in Alaska compared to other states in the U.S. There are comparisons between the small states, and those that are also producers. North Dakota and Montana are small states with similar characteristics as Alaska.

Rep Gruenberg – anti trust and anti gouging. We are a common law state and so the state can use common law. Has the common law developed anything?

Ed Sniffen - if prices got too high, there is a rule of conduct that the price is so high that it cannot be allowed. He has never seen it applied to gasoline.

Rep Gruenberg - ever seen it in any jurisdiction for any product?

Ed Sniffen – not aware of any. But when we look at different areas, if you have something like that going on there is usually fraud going on and so the fact of the high price alone has them usually focus on some type of illegal action.

Rep Gruenberg – any common law in consumer protection?

Ed Sniffen - almost all consumer protection is code based.

Rep Hawker – talk that the state does not set market prices and we hesitate to step in – but we do have a large precedent of regulated prices – essential life services, a whole body of regulated prices. There is something that we could do if we did a regulatory process, the Regulatory Commission of Alaska. If we did embark on a regulatory process, we could grab the refiners by the horns and regulate them – but if we were really regulating that process and in fact the actual prices were not being passed on, would it be likely that the regulators would require the seller to incur losses, or do you have the right to recoup your capital costs; so in fact if we were regulating prices we actually might have seen higher prices?

Ed Sniffen – that is absolutely correct. The state of Hawaii did initiate regulation of prices and it failed quickly. Prices went up very quickly and never came down - it was a disaster. It is a very difficult thing to do. Under our current regulatory theme, if the utilities want to change the price, they have to have a study done and then the price is set. If we regulated refineries, the rate would be set and then if there is a change there would have to be overview again. It would be difficult, the markets move much more quickly with oil.

Rep Hawker – recognition regarding the price that the state charges for royalty oil, but is there not a settled court case, a ruling that has the state sell its oil at market rates.

Ed Sniffen – not sure what the provision is, but the constitution says that the state must sell at market rates for the benefit of all the citizens. However, it is a double-edged sword, because it is what causes the prices to be higher.

Rep Hawker – in referring to the chart are the prices reflected less states sales taxes or is that just the excise tax?

Jane – the numbers do not represent the excise tax.

Rep Hawker – wants to make sure that apples are being compared to apples, because the sales tax is Alaska's excise tax.

Rep Ramras – there is a relationship between Alyeska and the producers and refiners, and he asked Mr. Sniffen to talk about the mechanism that gets oil from the north slop to the consumer, which entities that goes through. Which entities have common ownership and vertical integration from oil production to consumer.

Ed Sniffen – from the refinery to consumer I can discuss, but upstream from the refinery I cannot answer. When refineries makes the gasoline product that goes to the stations – they may be leased, or perhaps a private company or they may be branded stations and to be branded you have requirements and then there are some independent stations (Polar Fuel) and they call as they need gasoline. Then some go to the rack and take the fuel to their own station. But there is usually a relationship with the refinery. The agreement usually includes a rack price and the different relationships come into play to get the product to the consumer. Pricing decisions for the most part are left to the independent retail stations. Those decisions are driven by the refinery price at the rack.

Rep Ramras – define some of the words being used and how refinery prices at the rack are set and possibly tracked.

Ed Sniffen – Rack – outlet at the refinery where fuel is sold. Opis tracks rack rates from all over the world. Jobbers are entities that transport the fuel from the rack to different stations. Usually jobbers are related to the station owners and the refinery in some way, there may be some common ownership or common control. Independent distributors will deliver to anyone, they charge so much per gallon.

Rep Ramras – relationship is from refinery to jobber or any type of distributor to the retail consumer station.

Rep Coghill – jobber possibly has a brand loyalty and gets some kind of benefit for that.

Rep Roses – to go back to where Rep Gruenberg asked about anti trust issues. Are you familiar with the anti trust case that came about in the 70s? It was the only other time that an anti trust case was filed and it was filed against 18 independent owners in Anchorage.

Ed Sniffen – there was that one and one in the 90's where there was collusion going on.

Rep Roses – to put it on the record, when the state did this – it was when there was the gas shortage. It was against 18 owners and included about 30 stations. There were shortages all over the country. Cars lined up for blocks and during that time you could get a call 5 times a day that prices would change. And if you got gas when it was lower, you could make money, or you could lose it. There will be more discussion when I give my testimony later this afternoon. I was one of those 18 owners.

Rep Ramras stated that the committee will now hear from representatives from the oil industry.

Jeff Cook, Director of External Affairs, Flint Hills Resources
1100 H&H Lane North Pole, Alaska 99705

Mr. Cook read a prepared statement into the record. 60 years of experience. They have owned the North Pole Refinery since 2004, and have refineries in other states. Began after the Trans Alaska Pipeline was completed. Configuration of Flint Hills is pretty much unchanged. It is a topping plant, can't turn all crude into refined product . 180,000 – 220,000 barrels of crude taken in per day. After crude is distilled and turned into a few basic products the rest is returned to TAPS. Only about 50,000 barrels a day of saleable products – majority of which is jet fuel. A quantity is kept to heat the crude in the refining process.
Increased environmental emissions regulations caused many topping plants to close. Increasingly stringent federal requirements on the type of fuels produced forced others to close. North Pole Refinery was able to keep pace with new environmental regulations, but changes in type of fuels required has impacted the amount of gasoline that can be produced . While the Refinery still produces some gasoline and off-road diesel, we now buy gasoline and diesel fuel from other sources in order to meet the full needs of our customers. We are not in the crude production and do not own retail stations. All products are sold on the wholesale market. We provide less than 1/5th of gas in Alaska and only 1/3rd of heating fuel in the Fairbanks area.

Rep Ramras - there is ongoing tension with the state that Flint Hills will not open its books for state review. Flint Hills is still using oil to refine its gasoline even though natural gas is cheaper. Can you talk about that distinction and costs that are unique to Flint Hills Refinery?

Jeff Cook – we refine the crude oil into a product into gas to run our refinery. So high prices impact us. Most plants run on natural gas. Most have to run on a product we refine. We are at a disadvantage. Energy equivalent is 6 to 1.

Rep Ramras – if we had natural gas in Fairbanks can you refine for less and then pass savings on to consumer.

Jeff Cook – assuming that natural gas comes in at a price like Anchorage it would reduce our costs and though there are variables – a price like what is in Anchorage would make a significant difference to us.

Rep Ramras – can you give us some numbers on what it would mean if we could change oil to gas for you to use for your refinery production. It would be a material component for us to look at for our consumers to save on. Flint Hills would use about 5 bcf in order to make the swap. Am I fairly on?

Jeff Cook – you are within the approximation. We are working with the state on providing info they want for their investigation while maintaining our confidentiality. Would be pleased to work out confidentiality so our numbers can be shared with this committee.

Rep Hawker – if you can lower costs you can lower price to producer. But what would be the capital requirement cost that would have to be addressed and how significant?

Jeff Cook – does not have number.

Rep Gruenberg – do you know zone pricing?

Jeff Cook – not familiar with it.

Rep Gruenberg – Legislation in NCSL 2641 – prices set pursuant to the zone. A wholesale price set based on geographic regions shall be deemed excessive. Done where wholesale or retain sets prices decided on regions.

Jeff Cook – does not know anything about that.

Rep Kawasaki – how do you set your heating fuel rack prices?

Jeff Cook – market sets the price and we remain competitive. Everyone wants to know if there is some magical formula, but there isn't - it is the market.

Rep Roses – zones were created for wholesalers – you could be situated in a geographical situation where you pull fuel from different states, and that would not set up a situation ~~re they could price lower because they were purchasing the gas at a lower price. ~~ey wanted to level the playing field, and that is how it was set up years ago. It is not available here in Alaska.

Doug Chapados , Pre.,dent, Petro Star Inc.
3900 C Street Anchor, ge Alaska 99503

Doug Chapados read a prepared statement into the record. Incorporated in 1984 and in terms of companywide refining capacity, is smallest in-state refiner, only one owned and controlled by Alaskans. Operates 2 refineries. North Pole crude oil processing capacity of 20,000 barrels per day; and Valdez with a crude oil processing capacity of 48,000 barrels per day. Simple plant – military and commercial jet fuel and home heating oil and diesel fuels. It also markets fuel to end users. It refines crude oil, but does not produce gasoline. Gasoline we sell at the eleven convenience stores is purchased from third parties. Challenges facing refineries are increasing environmental regulations. Modifying one of the refineries to produce ultra-low sulfur diesel is estimated to cost more than it did to build the refinery in the first place. Looking at whether or not it can be justified and if not what next. Record high prices are good, but also create hardships for Alaska families. Passed along fuel tax rebate to its customers. We try to stay competitive, but we do not control prices that we are charged.

Rep Ramras – asked again if we had natural gas would it reduce cost of production?

Doug Chapados – natural gas would be cheaper. There is some limit on how much we could use natural gas because of components in some production of gas. But it would blend into our production. Low sulfur is a federally imposed regulation.

Rep Ramras – is gasoline one of the few value added products that the State produces.

Doug Chapados – disagrees.

Rep Hawker – increasing challenges to produce home heating fuel. What is the challenge.

Doug Chapados – basically all the fuel quality standards are at the federal level. We are a little different as we are defined as a small refiner. We get to delay implementation of meeting the low sulfur s' dards for 4 years. But that benefit has then limited the amount of high sulfur fuels we can produce. The volume caps were based on years we sold less volume and now we are in a position where our North Pole refinery can produce and sell less than it used to. We have to limit the sale of high sulfur fuels. So we have excess production on the north slope. We truck product to Anchorage and then to meet interior demand truck to North Pole. Each step adds more cost. Trucking fuel that could be sold locally but because of cap we are selling it in Anchorage. Caps cause an increase in costs. This is all part of the low sulfur fuel provisions from EPA. State of Alaska had some input how they would be applied and the state did a good job in making a distinction between rural and local areas. A good help to the citizens of Alaska.

Rep Hawker – the low sulfur business and clean air – is worth tradeoff. Make a comment on refineries on west coast and our area – is it really an issue in Alaska. Or is it just because we are getting one size needs to fit all.

Doug Chapados – it does apply because diesel vehicles cannot burn high sulfur gasoline. Like the unleaded and leaded gasoline with the converters on vehicles. As the automobiles change, we need to change our fuel sulfur rates.

Rep Hawker – remember days of oil embargo and everyone shifted to diesel because it was cheaper and now gas is cheaper – why?

Doug Chapados – prior to implementation of on road and off road low sulfur diesel standards, all refineries in the state could produce highway diesel but now only Tesoro can produce it. You went from 6 to 1 refinery that could product it. But it did not come cheap to Tesoro, but at the same token Petro Star has a limited ability to produce low sulfur and we really only take care of our own needs.

Rep Ramras - you have 11 retain establishments. Can you tell us your margin on a per gallon basis. Lois is 20 cent gross profit per gallon.

Doug Chapados – in response to what the price margin was on his retail establishments, he said they fluctuate and would prefer not to comment. What we are trying to do is be competitive and yet break even with gasoline. There are times when we break even and sometimes lose. Make more money on inside sales than gasoline.

Rep Kawasaki – how do you design your rack rate.

Doug Chapados – just like Flint Hills – it is market driven and needs to be competitive.

Rep Kawasaki – can you prove that you took the 8 cent tax break off your price at the pump.

Doug Chapados – can get the number to the committee.

Rep Ramras – there is a sense of extraordinary profitability during pricing spike and can you talk about whether or not there was a great premium enjoyed by Petro Star on your profitability or does your company enjoy more equilibrium of profit when there is greater stability in the commodity.

Doug Chapados – with respect to increased profitability – sales of jet fuel are to large customers and tied to Opis info and is used to enter into an agreement through bid or negotiation and the price is tied to that index. Sometimes the price is up but is outside of our control. We have seen the up and down of it. We don't have much influence on that price. As for gas, we don't produce it so can't comment. We don't think we passed on all the increase of costs when gas went up so high.

Rep Ramras – well it sounds like you did not get record profits, but people seem to feel that there have been enormous profits made by the fuel companies during these times of higher oil prices. We need to see if a new law or constitutional amendment is needed in order to deal with this. Initial charge from Speaker Harris, is why when price of oil comes down price at retail establishment does not come down.

Doug Chapados – as Mr. Sniffen indicated is that price run up in crude oil was not carried over.

Rep Coghill – you deal mostly with contract jet fuel and heating oil – what is your volume? How would the refinery do if it could not contract with the military? I am trying to get an idea of price balance of military contract or heating fuel. I understand you have a sizeable market share of heating fuel in Fairbanks.

Doug Chapados – noting before – if we were to lose the Eielson volume we are prevented from selling that product as heating oil in the Interior because of the caps. Jet fuel is excluded from that cap. Only outlet would be to truck it to Anchorage to sell.

Rep Ramras – one of the things we are uncovering is that all the refineries are fragile not the vast profits that some assume.

Rep Coghill – will be asking – the volume of gas produced and consumed and necessary for Alaska.

Rep Hawker – it helps to see the fragile nature of this industry. The importance of the military contract so high sulfur jet fuel can be sold. Does the coming commitment from DOD to convert to synthetic fuels become a problem within the state.

Doug Chapados – it is a threat. They are watching it very closely.

Rep Hawker – we have to build new refinery capacity and it is going to happen. You lose that portfolio it will be worse and layered on the retail consumers.

Rep Ramras – you are referring to Mayor Whittakers coal to liquids for Eielson as a response to DOD's decision to change to synthetic fuels.

Rep Ramras – what would happen if Alaska said oil would not be sold for more than $100/barrel. How would that change the cost structure. Contemplate an answer to that question.

Kip Knudson, External Affairs, Tesoro Alaska Company
471 W. 36th Avenue Suite 100, Anchorage, Alaska 99503

Kip Knudson – (power point presentation) Tesoro has a refinery in Nikiski. Need to look at refinery as most valuable more value added industry in Alaska. Tesoro is an independent refiner and marketer. Publicly traded. Kenai Refinery has distribution and retail. 72,000 bpd capacity. Medium complexity refinery. Do some conversion at the plant. Take 100% volume and make 125% volume. Heavy Vacuum Gas Oil, Fuel Oil/Bunker and Road Asphalt – have no market in Alaska and those are exported. Crude acquired from North Slope 50%, buying it from Anadarko. Integrated ducers have their own refineries. Cook Inlet 25% purchased. 225,000 per day currently 16,000 per day. It is a mature region. 25% foreign imports. Charter vessels – time charters, about 500,000 per tanker. Showed a slide of where fuel comes in and where it goes out to. Refinery, to racks, Nikiski terminal for local distribution – as in Anchorage and Anchorage airport. Sells to anyone that will purchase from them.

From Kenai refinery to Anchorage port. 10" pipe, clean products only. Two terminals at port of Anchorage. Company owns 31 convenience stores of which 29 sell fuel. They have over 58 branded dealers. 2GO and Tesoro. What makes up the gas prices – cost of crude oil, cost to refine, cost to distribute, cost of marketing, taxes and competition. The cost of crude oil is the lions share of cost. Cost of crude responds to different markets – crude responds to global factors, supply and demand, value of dollar, geopolitical concerns and flow of investment funds. Refining/distribution costs – global regional factors – electricity/natural gas costs, environmental regulations equipment costs and availability of qualified labor. Additional capital investments because of external regulations and trying to stay in business by changing refinery. Market sets the price. Set by competition and local market characteristics. Not cost plus. Alaska and other western markets. Alaska is really a very small demand. Jet is king in Alaska and that is what the refineries were built for, gasoline and diesel is a byproduct. Also there is such a seasonality of the market and quite different than west coast. Emphasize – retail prices are set by individual retail owners. Retail prices respond to differing local conditions. Alaska market is very small and very seasonal. Tesoro only prices 29 stations of 566 in state. Tesoro will respond to AG investigation with information that can't be shared in open forum.

Rep Roses – interesting feature is taxes, speak to that and how it changed after ACES passed.

Kip Knudson – no change. Oil is globally set. No change in prices.

Rep Hawker – you have a change. When they buy crude they can put some back. When you buy crude you can't put it back.

Kip Knudson – roughly 1/3rd of our output is sent outside for processing or something. We buy it we own it. Bottom third generally sells at cost or below price. The economic prospects are shown in the stock market price of Tesoro.

Rep Hawker – did not realize 25% was from foreign source.

Kip Knudson – foreign source will increase as Cook Inlet continues to decline in production.

Rep Hawker – if possible would you use more North Slope than foreign.

Kip Knudson – would love to have more product from North Slope. Tesoro used to be a big royalty oil consumer, but that has diminished and not sure that the crude buyers were happy with the way the royalty oil was sold.

It is relevant. How do we keep the cost of product lower in Alaska, but reliable. Appreciates the integrated TAPS owners, but the State is carrying a lot of royalty oil too. Have you ever approached the State.

Kip Knudson – used to be a big royalty oil purchaser. Not as much now, there is less and I am not sure the buyers were pleased with the royalty oil process. After you bought the barrel years later you might get an adjustment. We are not purchasing now, maybe in the future.

Rep Coghill – the ability for you to get Alaska crude could not be from ships, because of regulation.

Kip Knudson – no it is part of the Jones act. We have foreign flag ships. Cook Inlet is limited on how much can be on tankers due to spill response. Can't enter inlet with more than 500,000 barrels.

Rep Coghill – 25% of whatever you import you don't have a refined or partly refined product.

Kip Knudson – it is raw – but has to be similar to Cook Inlet crude.

Rep Coghill – wants to look at what you have to do to sell the bottom three and if there is a similarity cost. Look at the quality bank issue, and what the balance of the cost is.

Rep Ramras – you do refine with natural gas, but you have bottom third to equal out.

Kip – spaces in the market, each refinery has issues, we have the bottom third to deal with.

Kawasaki – how do you decide what the rack price for distributors is?

Kip Knudson – honestly don't know, but if I did know, can't say because of confidentiality.

Rep Kawasaki – Slide 15 – large spot market pricing in LA, SF, & Seattle. What factor does that have in your decision making. Is it a high factor. Do you look at prices in Seattle when you decide what the price will be in Alaska.

Kip Knudson – those spot markets are guidelines, but are unbelievable fluid compared to Alaska. They are taking product from hundreds of refineries and sometimes they do not apply, but are taken into consideration.

Rep Hawker – what proportion of highway motor fuel sold in Alaska both gas and diesel does Tesoro provide? Are you a large player, and who are your competitors?

Kip Knudson – not known. Because of what is being delivered to a barge and it could end up as jet fuel, motor, or diesel fuel. We are a large player. Because we don't know when our competitor brings in product, until maybe after we see price movements. We don't get a report that said X competitor is bringing in product. From state reports product comes in from Korea or Japan. On ultra low sulfur diesel we are the only plant that can produce it. So that raises our share of market.

Rep Kawasaki – the 8 cent gas tax can you show that your price was reduced?

Kip Knudson – yes we changed the price to reflect the tax reduction from the State.

Rep Ramras asked Doug and Jeff up to the table to discuss why the prices do not seem to come down at the pump even though the price per barrel is lower. Refer to the chart that shows the difference in prices at the pump and why the disparity in pricing?

Kip Knudson – Alaska average – retail gas price from Bethel and averaging that with Fairbanks (this reflects urban markets in rail belt area). Market forces have produced these prices. 3/2007 – Anchorage has lowest gas prices.

Jane explained that the A ska prices are from markets along the rail belt.

Rep Hawker – three of you represent the major market players in the Alaska market at the refiners level. Crude oil topped out, at about $147 per barrel. We are trading about $101 a 46% reduction in last three months. Why have people in Alaska not seen a 46% production in their price?

Jeff Cook – Flint Hills – less than 1/5th of gas market. But if you were to look at crude and retail price – it would have been $6 per gallon. For the majority of the last 12 months we have lost money.

Rep Hawker – had you truly passed on all the price increases you would have been attempting to sell at least in the State of Alaska at $6 per gallon.

Jeff Cook – look at the traditional relationship, it would have been a lot higher. We can't continue to lose money and still pay high prices to run the refinery and retail prices have not followed crude prices.

Rep Hawker – the direct answer is truly the retail prices have not followed the crude prices. You can't draw a linear conclusion – crude prices dropped 46% - you can't expect that retail gas prices should have dropped the same. It is not apples to apples.

Rep Holmes – what is different everywhere else in the country? The prices did not go up to $6 per gallon, so the up was similar but other parts of the country are coming down. Why so different here?

Kip Knudson – AG inquiry in State of Washington, they went county by county to look at variability in WA every county had a different story. Different story for each area. Within each county it was sometimes different. The data of market share cannot be arrived at – but the economist can through a confidential basis and come up with some answers for you.

Rep Ramras – what percentage of the highway motor fuels comes from Tesoro. Who else is producing motor fuels in Alaska?

Kip Knudson – we know who is producing it, but we don't know who is importing gasoline.

Rep Ramras – what if there was a constitutional amendment that put a cap on how much gasoline was sold to from the state's royalty share to the refiners. Trying to find ways that the consumer could derive the benefit, rather than the resource rebate. Would that help the consumer derive a direct benefit?

Kip Knudson – virtually impossible to predict. That is why economists go to school for years.

Rep Coghill – market dynamic of that and ability to supply that to the refiners and the constitutional issue and how do we make those work together is the question. The ability to produce enough royalty oil to meet the demand of our refiners. Get DNR to help us.

Rep Ramras – it was a surprise that Tesoro imports foreign oil. And when is the state not going to be able to meet its royalty oil obligation. When do you think that would happen?

Jeff Cook – we are allowed 77,000 barrels per day, but not more than 95% from any given field. With those restrictions if we were demanding the max it would be hard for the state to provide it.

Doug Chapados – we get our crude oil supply from a major producer.

Rep Kawasaki – if they are not taking all that they are allotted, if that is true, can you explain that regarding your capacity.

Jeff Cook – we take as much royalty oil as we have product demand to sell. But because of the restrictions – we are at the maximum capacity we can do for gasoline.

Kip Knudson – the production rate we have is to meet market demand and we don't want to do more. Production capacity changes daily. Every day can be different.

Doug Chapados – Valdez refinery runs near capacity, doing some expansion work, to process more. North Pole refinery because of volume cap limitations does not run at capacity at all times. We have to anticipate what volume will be on heating oil and low sulfur and find out what the volume will be and sometimes we have to cut back or truck to Anchorage and that cuts into crude oil.

Rep Roses – at any point in time do you run 100% of capacity.

Kip Knudson – does not think he has every maxed out. Don't want idle equipment, but can't say what the capacity might be. Does not know the actual output rates. Info is being given to AG.

Rep Hawker – operates in multiple state sites and can you talk about the economy of scale and how the unit costs compare to the mega refineries. We don't have Exxon sitting here and it is relevant – are some of our costs driven by small production. Are unit costs pretty similar across the different states. Tesoro has a single refinery in North Dakota and the chart is going to prove and when they get net cost less taxes, and it is going to be cost to the consumer (sales price) and one year ago ND $2.90/gallon Alaska $2.90 cents – right on the mark. Now ND $3.50 Alaska $4.50 and so again. I am wondering how you explain the difference.

Kip Knudson – can't answer the question today. But the cautionary note is that there are other pipes and trucks that move around North Dakota. Will try and get the data for you.

Rep Ramras – a follow up meeting in October will be important and see how these prices fluctuate and see how the market should correct itself. We will get in the other information that will be necessary to see how these prices are changing. Home heating oil has come down $1.00 but not gasoline. What is difference in these products. diesel vs gasoline?

Kip Knudson – heating oil is a high sulfur product, highway fuel is a low sulfur product.

Rep Ramras - market force has lowered heating oil, but not gasoline.

Rep Coghill – he heard that the cost of upgrading to the low sulfur takes time to recoup the cost. Is that one of the reasons for the lag in prices at the pump coming down?

Kip Knudson – can't answer the question. AG is looking at those types of things. Just because we make a capital investment does not mean we raise the price of fuel to capture that cost. But that is not a guarantee.

Rep Hawker – recently made a 60 million dollar investment to stay in gasoline business (specifically for diesel). Then you are operating in a multi-state environment and the prices are less competitive than in the other states you operate in. Does not want the prices high here to recover the costs that are more difficult because the market is more competitive.

Kip Knudson – can't answer the question. Mr. Sniffen will be looking at that data and come to a conclusion.

Rep Gruenberg – I don't hear a simple or concise answer to the problem, and they are competitors, and some other states have specifically authorized their AG to investigate these areas and there is confidentiality, ultimately the legislature would be well advised to get a handle on what the causes are whether they are external or internal. And when prices went down – why was there no investigation done and what did happen?

Kip Knudson –no idea why prices went down. Internet sites to track fuel pricing. They go up or down and eventually intersect. Pricing to a great extent is based on local conditions. How many retail sites and how many trucks and how many refineries are all important to what the price is.

Rep Gruenberg – is it because we don't know or can't know.

Kip Knudson – how good is the state at setting prices. Some prices can be estimated and projected, but ultimately how accurate are the predictions.

Rep Gruenberg – can we know more than we do now, even if it is not precisely. Because it would benefit the individual and government. How can we solve the problem?

Kip Knudson – consumers may not like the price but the market is performing as it should. Markets operate in a way they are expected to operate.

Rep Roses – just a comment. I appreciate the testimony of these three folks and understand how difficult it is for them to answer questions. He gave information about a situation he was involved in in Anchorage when he was a station owner. Prices were so volatile in Anchorage the owners decided to come together to talk once a week. Group called Gasoline Retailers Organization was put together. They would meet one day a week to talk about the market. Did not discuss prices. I was invited to meetings and finally went to one meeting. At no point did anyone talk about how they raised the prices. But someone was watching that these meetings were taking place. No one talked about prices. But the waitress was wired and everyone that was there was charged. I was asked how do you determine what your price is, I drive around and decide what my price will be – competition. Quit advertising my price, I fixed it at the pump, if you want to know price come to the pump and look. They considered that price fixing. Called tacid coordination – collusion. Out of the18 people, I was never prosecuted. But some were fined $50,000 and as independents they had to lower their gas prices for the same period of time they had been meeting. That just about put al independents out of business. That is why these gentlemen will not talk about prices.

Recessed at 12:06 until 1:15 pm.

Reconvened at 1:50 p.m.

Rep Ramras called the meeting back together there will be testimony from Safeway,
Rep Bob Roses and
Ed Sniffen

Cherrie – Director of public and government affairs for Safeway.\
(Also Joe, Glenda, and Ray)

Ray Weston, Attorney for Safeway – Glenda Wood is director of fuel pricing nationally which includes the Alaska territory. I would like first of all to understand the testimony and know that one of the concerns is how public this information is going to be. Am I correct in assuming that the testimony is public.

Rep Ramras – yes and we may offer a setting where testimony may be more private. But it is public. Focus of our mission is why the price of gasoline runs up so rapidly but why it is so slow to return to normal pricing when price per barrel comes down. Suggested that gasoline came possibly through the Port of Anchorage. Who do you purchase your gasoline fro Which refiner?

Ray Weston stated that he could not necessarily answer that. Can get back to you. We do bring some in.

Glenda Wood – they get most of their gasoline from Tesoro and Flint Hills. In southwest Alaska we get our gasoline through brokers and from a few different brokers in the state of Alaska.

Rep Ramras - give us an overview of Safeway locations and who provides gasoline. Take us through the state.

Jay – described the number of Safeways with fuel distribution and where they were located. One under construction in Fairbanks at University. Bently Mall has been operating for 3 years, D – under Fairbanks at University, Dahlstrom, 3 in anchorage and Juneau a 1 Ketchikan. And one at the new Bently Mall. Ketchikan come in on south And rest from rail belt.

Rep Hawker – you talked about the retail outlets and where is the market nationally.

Glenda – gasoline stations in WA , OR, CA, Denver, Phoenix, Texas, Chicago and a few stations on the east coast. We are mainly a west coast operator.

Rep Hawker – in the past year the increases were added on but as price came down the price at the pump has not. Why does Alaska does not seem to pull back as quickly as the rest of the nation.

Glenda - in general the % up and down is similar for each of the regions we market in. In the last 30 days she is not sure.

Rep Hawker – across the states you operate in even though the increases were radical, was the highs and lows relatively consistent.

Glenda – volatility has never been seen before, I have been in this business over 20 years. Prices are higher and lower much more rapidly. Difficulty in trying to price competitively across the US and Canada. It is a nation-wide problem, not just in Alaska.

Rep Hawker – since you operate in WA as well as Alaska, a year ago in Alaska the average regular price was pushing $2.97 while WA was $2.54. About a 40 cents difference. A month ago, that margin was at AK $4.06 and $3.00 in WA. The differential had almost doubled what it had been a year ago. Do you maintain the analysis.

Glenda – we don't look at states differentially, but look at it as a whole. The rapid cost increases with the not so rapid cost decreases in all of our stations.

Jay - can you tell us how recently that occurred.

Rep Ramras – based the prices off Triple A price finder. Some significant price differences. We are trying to find out why the lag in pricing. Talk to us about pricing power vs those that don't. Talk to us about Safeway being a dealer and how you go about determining how much pricing power you have in a region.

Jay - in the discussions we have we don't think we have much pricing power at all. We survey our competitors.

Glenda - the cost is factored into it and with the costs substantially higher in Alaska. We are not a fully integrated refiner, we are buying gasoline from independent producers and they can decide how much they are going to pass on to the retail market. We buy at the best possible price we can and then we have to price accordingly.

Rep Ramras – are you saying the wholesale pricing is higher in Alaska.

Glenda – absolutely.

Rep Ramras – do you know why there is the variation or do you just accept the rack model and then price accordingly.

Glenda – basically the wholesale prices are higher because of the limited refining capacity in Alaska. A few refiners and are independent and their cost is higher as they buy their crude and then add on their markup and we buy at our contracted rates. Then there are the logistics getting the gas transported from the refinery to the retail unit. Higher transportation costs. Lack of refining capacity so the costs will be higher. A few of our stations get their gas outside of Alaska. So even though there is a lot of crude in Alaska, there is not a lot of refined product in Alaska.

Rep Hawker – there is a lot of motor fuel procured outside the state of Alaska shipped in. You are thinking more to the southeast and those areas accessed by barge.

Ray – we ship to southeast Alaska from Washington State. Not sure we can say definitively, but there is not a lot of competition. Those refiners are subject to the spot crude market too. They have to find it from the majors. So whoever refines crude has to pass those costs on.

Rep Gruenberg – if in fact one of the reasons for the higher price is the additional transportation costs, you pay the additional cost for everything you sell at Safeway, yet it seems that the cost of gas higher than the other items you sell.

Ray – it would take more analysis than we have done. Those things we sell do include a premium for transportation. We have to ship gasoline differently, because of regulation on how gasoline is shipped. We have not done the analysis to find out exactly what the cost differences are.

Rep Gruenberg – it seems that maybe the differences in price is due to the people in the petroleum industry and you may have put a finger on the price goes back to the transportation industry.

Ray – refiners price in Alaska is relatively high. Does not mean that transportation is reason for higher costs. We think limited refining is a problem.

Rep Ramras – North Dakota is similar to Alaska. Oil instate and a local refiner. When we looked at the price of North Dakota a year ago there was a small price difference, however there is now about a dollar difference in the price. We are trying to find out what would be the reason for that difference. Market price in Alaska is not necessarily the price set by the refiner, but the cost on the dock and then find a market price, where North Dakota sets the price from the different distributors that come into that state.

Ray – hard to imagine economically how the wholesale price in Seattle plus the cost of shipping would to some extent set the cost of what refineries are charging in Alaska. We have not done the research to confirm that.

Rep Hawker – just as a consumer living in Anchorage and you have a major fueling facility outside my area you have a great business model and a good job on a great run business in Alaska.

Rep Ramras – spoke to Safeway as a good corporate citizen and spoke about Glenn Peterson. Heard from an independent dealer that she sells about 700 gallons per week, non branded, and then we heard from Petro Star, they operate a number of facilities, they said gasoline would be a break even for them, they make their money on the inside purchases. How does Safeway see its gasoline sales. Is it seen as a lost leader.

Glenda – Safeway is in the gasoline business to sell groceries. It is supposed to be a customer convenience. Provide them with one stop shopping, so they can be more efficient. Customers liked the cents off on their gasoline.

Ray – but they are expected to show a profit.

Rep Ramras – ideally if I am a Safeway gas customer with brand loyalty. Am going to the store once a week and I go to your store and spend $300 and then purchase my gas at 20 cents below what is market price. Nature of it though it lowers the price of gas but the groceries are full price, but as I spend the $100. I get the discount. But the price at the gasoline pump should be basically the same as what other stations are priced at.

Ray – it is a reward for shopping with us. No fuel stations in North Dakota.

Rep Ramras - in the state of WA you have the same price, but then I get the discount when I shop there.

Glenda – basically they are all part of the Seattle division and we look at it as a whole. If gas price in WA is $3.56 but in AK $4.46 you are probably buying gas at about $1.00 difference. More competitive in WA.

Rep Ramras – fair to assume that refined gas is 90 cents cheaper in WA than it is here.

Ray – getting into an area that is very competitive and we would not want Chevron or Tesoro to know what our costs and margins are.

Rep Ramras – markets are competitive everywhere. We can assume that it is 90 cents different in Alaska.

Rep Ramras asked Rep Roses to share with the committee his experience as a service station owner in Anchorage.

Rep Roses - not sure what to talk about, but will share some history on price of gasoline. Typically what happened (2 stations) and built two car washes and gas was added feature. Did not want to give it away, but profit was car wash. Profit margin was 5 cents sometimes 3 cents. Selling it sometimes below what I had paid for it. To compete had to lower price. But get them on the lot and sell them the other products he offered. 20 years ago most stations were full service stations. Auto work, sold tires and lot of independents that owned the stations and so they had tradeoffs. There was full service and self service and a built in opportunity for other sales. There was Union 76 and the other was Tesoro we also had Chevron, and other places we could buy fuel. What I got was if I took a Union 76 card I did not have to pay a fee, other credit cards had to pay a fee. Each morning I would call to find out what the price of fuel was that day. Had to sell the fuel and always trying to find out if it was going up or down, this went on for about 8 months. Then a regulation passed where you had to be insured for 1 million dollars for spill.....virtually all independents went out of business. That is when Tesoro branded their own stations and then they would lease it to the person that used to be the independent. The underground storage tank regulations put more people out of work. Call to find out what the price was for the day, drive around and see what the others were charging and then price your gas accordingly and competitively. There is not a profit structure in gas, you are not going to be in business; it is too regulated, too restrictive and you can't make it if all you have is gas.

Rep Ramras – whatever the prevailing price is – is not the driver. Profit margin can be with distributors and refiners and how competitive that network is. The smaller it is the tougher it is.

Rep Roses – consider transportation costs. There was price for fuel and the transportation cost was included. But for the one in Wasilla there was a distributor that would load at the port and deliver fuel and was buying at relatively same price, but it was costing 5 cents more to have it delivered. So price was higher.

Rep Ramras – Rep Chenault talked about stations right beside refinery on Nikiski and then to North Pole – should be same.

Lisa Sundborg, Alaska Petroleum. - we deliver wholesale and retail fuel. We purchase from two refiners Flint Hills and Petro Star. We purchase gasoline from Flint Hills and some heating oil. and primarily buy #1 and #2 heating oil from Petro Star. We have about 17 trucks and go to the refinery and load and deliver and collect. Gas station went out of business – could not compete. Can't compete with big box prices. Gasline on the Steese. Haul to Prudhoe Bay and south. To enter the market you need a lot of money to purchase fuel. Our profit is at 14%. We deliver to Riverview Quickstop and our own station.

Rep Ramras – markup on distributor is not high.

Lisa – at our gas station at pump $4.19 or $4.20 and we purchase it without tax at about $3.77 and then the federal tax – would be about $3.95 and sell it for $4.20 and then you have to get it to the service station. The little bit of markup is still over what they are charging at Fred Meyers and Safeway. Does not know the reason for that. Heard it is lost leader.

Rep Roses – as a fellow gas station friend in business. Have you seen the cost of liability insurance and all that is included in transportation increase?

Lisa – there is no aspect of the trucking business that is not higher. All the things are impacted just because of the increase in fuel.

Rep Roses – when you deliver to the other station – you base your price on what you paid for it, then what you charge them, and they are trying to sell it for what they paid for it and then it might be lower, but you try not to have to lower your price, but then no one comes in and buys the gasoline.

Ed Sniffen - explained what the AG's office is doing and had a question that he asked Lisa. You buy ultra low sulfur from Flint Hills and you purchase heating fuel from Petro Star and Flint Hills, why is that?

Lisa – well it is about the same price, but the difference is how long you can hold off payment. And that is the difference in the purchase.

Ed Sniffen – do you perceive competition between the refineries?

Lisa – credit terms are driving issue. Product – Petro Star does not make nor distribute the ultra low sulfur or unleaded gasoline. We deliver fuel to Flint Hills.

Lisa - we have some home fuel deliveries but our only gas stations are Riverview and our own Gasline. Tesoro gets its own fuel from their own producer; Chevron has its own agreements. Could be selling to independents, but they are better off to buy brand. My credit terms may not be attractive. There are not a lot of independent stations.

Rep Ramras – asked for an update on the Attorney General's investigation.

Ed Sniffen – given direction from AG to look into these issues and did so right away. Made contact with retailers, refiners and distributors to try and figure out the bubble issue. We have received good cooperation from everyone. Flint Hills is responding as is Tesoro. Made some contact with Chevron, because I need to know why other gasoline retailers are not bringing up product from outside. One of the things we look at is something called import parody. Term used to describe what it would cost a competitor to bring fuel up here and get in the market. If Flint Hills and Tesoro find that prices are really high, an independent would just barge fuel up. Import parody drives pricing decisions here in Alaska. Keep the prices below parody so other independents do not get into the market. What would it cost someone to get into doing something like that. Provided a chart that dealt with the rack rates for fuel. He referred to the chart (Section 2) comparison of unleaded prices after taxes for Anchorage, Fairbanks and Seattle. Absolute price and bottom graph shows Anchorage, Fairbanks and Seattle price. It is the price that drives the import parody. Generally from 2002-2008 prices in Anchorage and Fairbanks have paralleled with Seattle. So lots of the testimony we have heard – those things have been the same for many years and the graph shows what the trends have been. The big spike that goes down and we don't know why that happened. Fairbanks was lower than Anchorage and lower than the rest of the country. Generally our prices parallel the Seattle and national averages. Compares Anchorage and Seattle with prices of ANS Crude Oil Prices before taxes. This graph shows that the prices have followed the ups and downs of the ANS crude price. Just to show that the percentages have remained the same. But the last chart is the comparison of rack to retail – U.S. average is the zero line. This shows what the retail margins are from rack to pump price. Green line is Seattle and retail margin spike up and down and are much more volatile than Anchorage and Fairbanks. When you get to the end in 2008, the national average is going up and Seattle is incredibly high. This shows us that the problem is not the price from rack to retail – it is the rack rate. Average was $4.02 but in Seattle it was $3.90. That is high. Sometimes 50 or 60 cents but it does not hold for very long. But at 90 cents it is very unusual and we are confident that the price has to do with the refining issues. Does not think that distributors and retailers are colluding and making lots of money. So we are trying to figure out why the rack rates are what they are. If you go back through the last decade all the things they are saying are issues, have always been issues – so that is not the answer. If it is an operational issue it would have happened before. There is something unusual going on and is very unique to Alaska. We are narrowing our focus on rack rates. Less concerned with retailers and distributors. Meeting with Flint Hills, Tesoro and Chevron and will have a better sense for what this bubble is caused by. Discussion about selling the royalty oil cheaper, but would have to make sure that it stayed in-state or it could be sent out and a lot of money made on it. In June of this year prices started coming down but Fairbanks and Anchorage kept going up.

Rep Coghill – surprise to me was importing for local refinery from foreign source. What is coming in that might affect rack price.

Ed Sniffen - at the end of 2002 Alaska was an exporter and believes that is still true today. Tesoro is possibly still exporting today. Between Anchorage and Fairbanks that is about 70% of gas usage.

Rep Ramras - it is my intention to let the Speaker know that we are going to prepare a report and within 30 days have another meeting, it is my intention to host a meeting every 30 days until we see a congruence and disparity reduction done.

Rep Coghill - agreed at least until we find a credible reason for an answer to give our constituents.

Rep Ramras - we will meet in Anchorage and if we have to go to Kenai and try to bring some light to this issue.

Rep Gruenberg - spoke with Ed Sniffen and wondered if he would share about some possible legislation.

Ed Sniffen - there is not a price gouging statute. Not sure that would resolve the issue. Have to figure out when it would trigger, even if you had economic duress. Asked laws in other states to come together. Other issue is we do not have a penalty section in anti trust laws now. Federal law does, all other states do. If there is a violation it is a misdemeanor. They are all prosecuted, but having an anti trust penalty provision would be helpful. It would be something that they could bring forth in legislation.

Rep Gruenberg - wants to see that followed through and also have a confidentiality provision.

Rep Coghill – lets see some other study put into it, but am not ready to get to that point.

Rep Ramras - lets see what happens within the next 30 days. Rather than make a motion now, lets wait and see. Lets anticipate that in 30 days we will look forward to tracking these and have a few more graphs and see in the near term. We could have a report and see how we end up with recoupling with in-state pricing. Then with that news try and find a way to close the gap.

Rep Coghill - there is a huge disparity and I have a refinery in my district and we pay some of the highest prices. We need some answers.

Rep Ramras – the bill from the Judiciary Committee would be a good direction for us to go. I learned a lot today. Thanked Rep Roses for his testimony.

Rep Gruenberg – do anti trust issues go beyond the petroleum issue. Since I have served in the legislature it has not happened, but I don't know if the legislature has ever looked at that. Maybe it is time to look at the best anti trust laws.

Ed Sniffen - our laws are like the federal law. Penalty provisions in the statutes are lacking but otherwise we mirror federal law. We don't get into a lot of anti trust issues here, but there are a few things that pop up, but have not had a need to focus on them and strengthen them.

Rep Kawasaki – asked for timeline.

Ed Sniffen – we don't have a specific timeline yet. Last time it took us three years, when we asked for info we got 350 boxes. We are trying to get info from just this year. Saying that, we are hopeful that we will have preliminary findings by the end of the year.

Rep Kawasaki – how do the refineries establish their rack prices; how do you investigate that?

Ed Sniffen – want to know what it costs to produce a unit as far as what the different costs are. Find out what costs vary from year to year. Oil prices go up and down. But what happens in the refinery that would change that causes the rack price to change. Based on that information we can get a good idea on why it would cause a producer to change their rack prices.

There was a discussion about how the rack price is figured and what the AG's office is trying to do.

Rep Ramras made final comments about what the goal of this meeting is, what is trying to be accomplished. There will be a report on the findings.

Rep Gruenberg – a report might make a suggestion on what the next legislative session could do and what it should look at. It would be a good guide for the next two years.

Rep Ramras - next meeting will be at the Anchorage LIO and will take up the parity on the rack rate.

Adjourned at 4:02 p.m.

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY STANDING COMMITTEE
Fairbanks, Alaska
September 10, 2008
9:14 a.m.

MEMBERS PRESENT

Representative Jay Ramras, Chair
Representative Nancy Dahlstrom, Vice Chair (via teleconference)
Representative John Coghill
Representative Max Gruenberg
Representative Lindsey Holmes

MEMBERS ABSENT

Representative Bob Lynn
Representative Ralph Samuels

COMMITTEE CALENDAR

OVERVIEW(S): MATTERS PERTAINING TO THE HIGH GAS AND HEATING OIL PRICES IN ALASKA AND WHY GAS PRICES HAVE FALLEN IN THE LOWER 48 BUT NOT IN ALASKA

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LOIS HEIN, Co-Owner
Riverview Quick Stop, Inc.
North Pole, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

REPRESENTATIVE DAVID GUTTENBERG
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Asked questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

CLYDE (ED) SNIFFEN, JR., Senior Assistant Attorney General
Commercial/Fair Business Section
Civil Division (Anchorage)
Department of Law (DOL)
Anchorage, Alaska
POSITION STATEMENT: Provided comments and answered questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

REPRESENTATIVE MIKE HAWKER
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Provided comments and asked questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

JANE W. PIERSON, Staff
to Representative Jay Ramras
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Responded to a question during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

REPRESENTATIVE BOB ROSES
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Asked questions and provided comments during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

JEFF COOK, Director
External Affairs
Flint Hills Resources
North Pole, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

REPRESENTATIVE SCOTT KAWASAKI
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Asked questions and provided comments during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

DOUG CHAPADOS, President

Petro Star Inc. (PSI)
Anchorage, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

KIP KNUDSON, Manager
External Affairs
Tesoro Alaska Company
Anchorage, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

RAY WEST, Senior Corporate Counsel
Safeway, Inc.
Pleasanton, California
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

GLENDA WOOD, Director
Pricing and Promotion
Safeway, Inc.
Pleasanton, California
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

JOE GULLEY, Manager
Denali District
Safeway, Inc.
Anchorage, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

LISA SUNDBORG, Office Manager
Alaska Petroleum Distributing Inc.
Fairbanks, Alaska
POSITION STATEMENT: Provided comments and responded to questions during the presentation on matters pertaining to the high gasoline and heating oil prices in Alaska.

ACTION NARRATIVE

CHAIR JAY RAMRAS called the House Judiciary Standing Committee meeting to order at 9:14:06 AM. Representatives Gruenberg, Dahlstrom (via teleconference), Holmes, and Ramras were present at the call to order. Representative Coghill arrived as the meeting was in progress.

Overview(s): Matters pertaining to the high gas and heating oil prices in Alaska

9:15:29 AM

CHAIR RAMRAS announced that the only order of business would be consideration of matters pertaining to the high gas and heating oil prices in Alaska and why gas prices have fallen in the Lower 48 but not in Alaska.

CHAIR RAMRAS relayed that he and Representative Harris have discussed the issue of rising retail gasoline prices and whether they are the result of "pricing power" in the market or of inefficiencies in the market due to volume issues - consumption [volume] or production [volume]. He offered his recollection that antitrust issues were investigated during the Knowles Administration, and the Department of Law (DOL) concluded that the pricing situation at that time was not due to antitrust behavior but was simply the result of the market. He mentioned that the hearing today would be largely informational; that Mr. Sniffen from the DOL would be providing an overview of the State's current ongoing inquiry into these matters; that a follow-up hearing would be held in about a month; that the House Judiciary Standing Committee will be producing a report for the legislature; and that energy issues and the cost of fuel oil, gasoline, and natural gas are of importance to constituents.

9:21:32 AM

LOIS HEIN, Co-Owner, Riverview Quick Stop, Inc., relayed that a couple of weeks ago she'd called for delivery of gasoline but couldn't get it because of a slow-down in production, and therefore had to "bag off" the pumps at her station. Upon contacting Alaska Petroleum Distributing Inc. and Big State Logistics, Inc., she discovered that "if we couldn't get gas through the refinery, we were going to have to ship it in by rail car," which would result in increased cost to consumers at the pump. Not having gas at the pumps during bad times, she remarked, makes things even worse, and these are very difficult times right now. She noted that her customers have signed a petition against the high price of fuel in Fairbanks; they are distressed that gasoline prices across the nation are going down as is the price per barrel of oil and yet those decreases aren't reflected in the price they are paying at the pump.

MS. HEIN noted that there had been a $.20 decrease in the price of [gasoline] a couple of weeks ago, as well as an $.08 decrease when the governor's legislation repealing the State's motor fuel tax took effect. She expressed favor with the investigatory efforts being undertaken, adding that many people feel that they have no recourse, and that she is seeing a lot of people who are going to have to move. In response to questions, she indicated that many people signed the aforementioned petition, and that she would be providing the signed petition to the committee and to Governor Palin.

CHAIR RAMRAS said the committee would include a copy in its forthcoming report and forward a copy to the "appropriate state agencies."

MS. HEIN relayed her comfort with that proposal, adding, "I would like to be able tell the people, who are asking daily, that they do have a voice, [that] ... the State works for them - ... we aren't forgotten little people." In response to questions, she explained that her company buys gasoline from Alaska Petroleum Distributing Inc, the vendor from the refinery, and that there have been no previous problems getting gasoline.

9:25:42 AM

REPRESENTATIVE GRUENBERG noted that his research indicates that other states are considering "anti-gouging" legislation, though the protections in a number of those pieces of legislation are only triggered by the declaration of a state of emergency. One state, however, has considered broadening the definition of a "state of emergency" to include an "economic emergency". He asked Ms. Hein whether she thinks it would be appropriate for Alaska to do something similar.

MS. HEIN indicated that she thinks that the current situation could be considered an economic emergency, adding that she is aware of people who are not able to pay their utility bill and their fuel bill and their rent. Furthermore, prices in the grocery store are rising, and vendors are raising their prices three to four times a year as well. "It's affecting everything right down the chain," she remarked, adding that people just can't afford "to live here." In response to further questions, she said that every week the price of gasoline has been going up; that her company has been having difficulty buying product because she couldn't afford to pay that much more to the gasoline company every week; that in the last year, for example, the cost of gasoline has risen close to $1/gallon; and that currently the price of gasoline at her pumps is $4.38/gallon.

CHAIR RAMRAS asked Ms. Hein what her "margin is" per gallon, what the fees currently are for credit card users compared to a year ago, and what volume of gasoline she sells compared to other retail gas stations associated with large stores.

MS. HEIN said that her company has a markup of $.20/gallon; pays [$.05/gallon] on credit card purchases; and used to sell about 700 gallons/day but now only sells about 300 gallons/day. She said she assumes that this drop is due to people driving less. She noted that she charges about $.20 more per gallon than some gas stations located in town, such as "Fred Meyer," "Safeway," and "Holiday."

9:30:35 AM

REPRESENTATIVE DAVID GUTTENBERG, Alaska State Legislature, asked Ms. Hein whether, when her distributors told her that gasoline was not available, she was given a reason why production was down.

MS. HEIN said she was simply told that there was a problem at the refinery, and only discovered later that production had stopped.

REPRESENTATIVE GUTTENBERG asked whether that was due to the refinery making less gasoline in favor of making more jet fuel.

MS. HEIN said she was not given that information.

REPRESENTATIVE GRUENBERG offered his understanding that Section 3 of North Carolina's proposed House Bill 653 expands the definition of "disaster" to include "economic well-being".

CHAIR RAMRAS indicated that the committee would be pursuing these issues well into October and on into the next legislative session.

9:34:52 AM

CLYDE (ED) SNIFFEN, JR., Senior Assistant Attorney General, Commercial/Fair Business Section, Civil Division (Anchorage), Department of Law (DOL), relayed that he focuses on enforcing Alaska's consumer protection and antitrust statutes, and that although he was not in that position when the aforementioned previous gasoline-pricing investigation occurred, he was when the final report was issued. That investigation, which looked at gasoline pricing in Alaska from the mid-1990s to 2000, focused on whether there was anything illegal about the pricing, and the report concluded that there was not. The attorney general is now again looking at those issues.

MR. SNIFFEN relayed that although he is sympathetic to concerns that the high price of gasoline is causing people to think about leaving Alaska, it also raises the questions of, "What do we want to do about it?" and "What can we do about it, from a legal perspective?" For the most part, [the State] doesn't control what prices businesses set for their goods and services; there is no law that says businesses can only sell their products at cost plus a certain amount of profit. Instead, [the State] relies on the market to set prices; businesses sell their products for whatever consumers are willing to pay for them. One of the unfortunate aspects of gasoline is that the demand for it is relatively inelastic regardless of price. Lacking an [adequate] public transportation system in Alaska, people have to buy gasoline in order to travel to and from work, for example, particularly in the winter months. This inelasticity regarding demand seems to have a huge impact on pricing.

MR. SNIFFEN suggested that one way to help the market drive prices down would be to lower the demand for it, though that could prove to be difficult. Another thing to consider is whether there is anything illegal going on with regard to gasoline pricing. Alaska currently doesn't have a "price-gouging" statute - the State can't simply tell a business that it is charging too much for a product. Furthermore, price-gouging statutes in other states are all triggered by a declared state of emergency - when Hurricane Katrina hit, for example, there was a declared state of emergency, and [Louisiana's] price-gouging statute prohibited businesses from raising prices during that state of emergency and thereby taking advantage of consumer fears - so even if Alaska did have a similar statute, it probably wouldn't apply under the current circumstances.

MR. SNIFFEN relayed that although a price-gouging statute triggered by economic strife of some kind might be warranted in Alaska, he is leery about having legislation interfere with market forces. He acknowledged, though, that such would be a policy call for the legislature to make. Alaska's antitrust laws, on the other hand, also help to control pricing in a peripheral manner, and are aimed at keeping the market competitive. The State doesn't want competitors colluding with each other or doing things that disrupt the normal operation of the market. Fair competition drives prices down, and benefits consumers. Alaska's antitrust laws are limited in scope in that they target exclusionary conduct and conduct that suggests that price fixing or coordinated activity has occurred. From an antitrust perspective, the DOL will look to see whether businesses are colluding with each other in some way to keep the price of gasoline at a certain level, or whether individual businesses are attempting to exercise market power in an illegal fashion in order to keep gasoline prices high.

9:41:22 AM

MR. SNIFFEN said that when it comes to the pricing of goods and services, the legal remedies are narrow and few. When there is no collusion or other illegal antitrust conduct occurring, and the market is operating competitively, then prices are simply what prices are; it's really just a supply-and-demand world, and supply and demand affects prices. One reason for the recent shortage of gasoline in the Fairbanks area, he surmised, pertained to an operational issue at the refinery - some components required in the manufacture of gasoline had to be repaired and it took several weeks for that to occur. Such operational issues can account for spikes [in supply and therefore price].

CHAIR RAMRAS offered his understanding that Tesoro Corporation, as a publicly traded company, lost 75 percent of its market value over the last year; and that research indicates that that's due to a lack of pricing power at the refinery level - that as the price of gas goes up, consumption goes down, and so refiners lose their margin. He said he's heard arguments that had the price of gasoline truly followed the price of a barrel of oil, the price of gasoline might have gone as high as $6.00/gallon. Consumers, he surmised, related the price of gasoline to the price of a barrel of oil and thus assumed that there should now be a correlating decrease in price. After referring to the Healy Clean Coal Plant (HCCP), Chair Ramras said that he'd met with the CEO of Golden Valley Electric Association (GVEA), and offered his understanding that GVEA estimates the price of oil going forward 90 days, missed a "radical" move in the market and so lost over $25 million, and has since only been able to recapture $2.5 million of that loss every month and thus it will take GVEA 10 months of price correction to recoup the total $25 million. Consumers, on the other hand, see only that the price they are paying has not correspondingly dropped with the drop in the price of a barrel of oil. He relayed that GVEA has indicated that it will have to recoup the aforementioned $25 million loss before it can "re-price" [its rates] to correlate with the [current] cost of diesel, which generates the majority of [GVEA's electric] kilowatts.

CHAIR RAMRAS, remarking that the state is somewhat responsible for the high price of oil because it's selling its royalty oil at the premium price that the market will bear, asked Mr. Sniffen to speak about "pricing for retail customers ... and the disconnect that may exist between [the] price of a barrel of oil, the relationship to refining, and how long consumers have to wait until that relationship is restored."

MR. SNIFFEN, suggesting that representatives from the refineries might be better able to respond to those points, relayed that the administration has retained the services of a petroleum economist - Barry Pulliam, senior economist at Econ One Research, Inc. - and that he and Mr. Pulliam have discussed the fact that the retail price of gasoline did not correspondingly go as high as the price of a barrel of oil, thus resulting in a deficit for some refineries, which in turn have delayed decreasing their prices until they can recoup their loses. Historical data regarding the price of gasoline in Alaska's Railbelt communities - Anchorage, Fairbanks, Kenai - illustrates a trend for the price of gasoline to lag a bit behind "what the market has done." Even Seattle, for example, lags behind the national market, and Alaska lags even a bit further behind.

MR. SNIFFEN remarked that the current lag has been particularly long, and that even when the prices elsewhere started to fall, the prices in Alaska still have not, even a month later. Mr. Pulliam, Mr. Sniffen relayed, has indicated that perhaps some other operational issues in Alaska have been a factor in keeping prices in Alaska up. Mr. Sniffen said that [he and Mr. Pulliam] will be investigating that point further. Mr. Sniffen suggested that the fast and dramatic increases in the price of a barrel of oil caught everybody off guard, and so it may be awhile before prices come down further, though the suspension of the State's motor fuel tax has resulted in a bit of a decrease.

9:49:19 AM

CHAIR RAMRAS referred to a chart in members' packets which illustrates average gasoline prices, gasoline prices a month ago, and gasoline prices a year ago, in Alaska, Idaho, Montana, North Dakota, South Dakota, Washington, and the U.S. as a whole. He remarked that North Dakota is similar to Alaska in that the population is small, it's rural in nature, there's no population density, it's an oil exporter and an oil producer, and has one refinery. Consumers in Alaska, he remarked, have put forth the argument that since the state owns the oil, they ought to be able to purchase it for less. Chair Ramras expressed interest in having Mr. Pulliam testify during the next hearing on these issues, as well as in obtaining information from states with characteristics similar to those of Alaska.

MR. SNIFFEN, in response to a question, proffered that the current high cost of gasoline in Alaska might be causing some people to purchase their gasoline at stations that have cheaper prices. So although the volume of gasoline sold at Ms. Hein's station, for example, has decreased, he doesn't know whether the total volume of gasoline sold in the Fairbanks area has necessarily decreased. He surmised that in some communities where residents have the ability to cut down on consumption, there has been a decrease in consumption. Consumption has gone down even in Anchorage, for example, but only by a small fraction, nothing large enough to have affected [retailers'] pricing decisions.

REPRESENTATIVE GRUENBERG asked whether Alaska has developed any common law that would remedy "this."

MR. SNIFFEN offered his understanding that if prices rose to an unconscionable level, that there is a "rule of equity" which might allow the argument to be made that a business's pricing is so outrageous that it's unfair and thus shouldn't be allowed. He added, however, that he hasn't ever seen that [argument] successfully applied to the price of gasoline. In response to a question, he indicated that in cases where that theory has been raised, there has almost always been a better theory raised as well - such as that fraud or a consumer protection violation occurred that resulted in the unconscionable price - and so the fact of a high price alone has not been the focus [of any subsequent investigation]. In response to another question, he observed that almost all consumer protection statutes are code-based.

9:54:59 AM

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, remarked that there is precedent for the state to regulate the price of essential life services via the Regulatory Commission of Alaska (RCA), so the state could simply regulate all refining and distribution of petroleum products. Should something like that occur, he asked, would that result in consumers having to absorb the entirety of such losses as those mentioned earlier? In other words, would the price of petroleum products simply go up even higher under a regulated environment?

MR. SNIFFEN surmised that that could be a possibility. He noted that when Hawaii put its refineries under regulatory control a few years ago, prices went up right away to the maximum allowed by statute and then never came down. Doing something similar in Alaska would be very difficult, he opined, and mentioned that Mr. Pulliam had been involved in coming up with Hawaii's regulatory framework. Under Alaska's current regulatory regime, if a utility company wants to set a price for delivery of its gas, it has to go before the RCA for a rate hearing. So if the refineries in Alaska had their rates set by the RCA, and something happened whereby they incurred a lot of costs, they would either have to seek some emergency relief from the RCA or wait until their next regular rate hearing before adjusting their rates and trying to recover their loses. This would be difficult, he again opined, because crude oil markets move far more dynamically than those associated with other types of energy utilities that the state already regulates.

REPRESENTATIVE HAWKER asked whether the courts have ruled that the state may not sell its royalty oil below market price.

MR. SNIFFEN said yes, adding that there is also a constitutional requirement for the state to sell its royalty oil at market rates so as to maximize the state's resources for the benefit of the people, and companies like Tesoro Corporation and Flint Hills Resources must pay the price set in the world market.

REPRESENTATIVE HAWKER, referring to the aforementioned chart, asked whether the column listing taxes includes excise taxes.

10:01:41 AM

JANE W. PIERSON, Staff to Representative Jay Ramras, Alaska State Legislature, said that that column just lists sales taxes.

MR. SNIFFEN, in response to comments and a question, offered his understanding that when a refinery manufactures a gasoline product, it goes to various types of gas stations in a variety of ways. For example, there are company-owned gas stations that are affiliated with the refinery in some way - they may be leased through the company that owns the refinery, or they may be "branded" stations, which have to comply with certain requirements - and then there are some independent gas stations that use various distributors to transport fuel to them from the refinery. Furthermore, some independent gas stations might have the resources to buy their own fuel trucks, and so will just go pick up their own fuel.

MR. SNIFFEN indicated that most gas stations, though, have some kind of a relationship with a refinery - via some kind of agreement, which might include a reduction from the "rack rate" - and have gas delivered through various types of transportation companies. Pricing decisions are primarily left to the retail stations, and are clearly driven by the refinery's price for gasoline at the rack, which is the term used for the outlet at the refinery where the gasoline is sold and picked up by the fuel trucks. A rack rate is what the refinery is selling its gas for at the rack, various services track rack rate information for refineries around the world, and the administration is using Oil Price Information Service (OPIS) to track rack rates as part of its investigation.

MR. SNIFFEN explained that jobbers are entities that transport fuel from the rack to the different stations, and are related to the gas stations owners and the refineries in some way. There are also independent distributors that own fuel trucks and transport fuel to anyone who needs it, charging so much per gallon for that service.

REPRESENTATIVE COGHILL, remarking that his father worked as a jobber, offered his belief that jobbers have "brand loyalty."

MR. SNIFFEN concurred.

10:09:30 AM

REPRESENTATIVE BOB ROSES, Alaska State Legislature, asked Mr. Sniffen whether he was familiar with "the antitrust prosecution that occurred against independent service station owners back in the '70s."

MR. SNIFFEN said he is familiar with that prosecution as well as with an investigation that occurred in the early or mid-'90s in which it was found that there was some collusion occurring, though he is not sure whether the subject of that investigation was indicted or subjected to criminal penalties.

REPRESENTATIVE ROSES, referring to the [prosecution] that occurred in the '70s, explained that the State brought a lawsuit against 18 different service station owners and that there were about 30 stations involved because some of the people under investigation owned several stations. This occurred back when there were gas shortages all over the country, and [as one of those service station owners, he'd] get calls from his distributor five times a day saying that the price of gasoline had changed again. During those times, if a service station owner was lucky enough to buy 10,000 gallons of gasoline at one of the day's low prices, then he/she could actually make a profit, but if not, then he/she would end up "giving it away" in order to stay competitive with other service stations. Representative Roses explained that he was one of the aforementioned 18 service station owners.

10:12:33 AM

JEFF COOK, Director, External Affairs, Flint Hills Resources, paraphrased from his written testimony, which in part read [original punctuation provided]:

> Our Company has more than 60 years of experience in the refining business. Along with the North Pole Refinery, which we have owned since 2004, we also own and operate refineries in Minnesota and Texas.
>
> The North Pole Refinery began operating in 1977, shortly after the TransAlaska Pipeline System was completed. The facility has gone through various modifications over the years, but its basic configuration has remained unchanged. Our refinery is a topping plant meaning it lacks the sophisticated processing capability to turn all of the crude oil that comes into the plant into refined products.
>
> The North Pole Refinery takes in between 180,000 to 220,000 barrels per day of crude oil. We heat that crude oil to distill it into a few basic products which we retain to sell. The rest of the stream is then returned to TAPS. As a result, we keep only about 50,000 barrels a day of saleable products, the majority of which is jet fuel. In addition, we keep a

quantity of fuel that is used to heat the crude oil in the refining process.

There were many topping plants operating in the United States when the North Pole Refinery opened for business in 1977. Now, there are just a few. Increased environmental emissions regulations caused many topping plants to shut down and increasingly stringent federal requirements on the type of fuels produced forced others to close.

The North Pole Refinery was able to keep pace with new environmental regulations but the changes in the type of fuels required has impacted the amount of gasoline that can be produced at our North Pole plant.

Since federally mandated decreases in sulfur content for gasoline and diesel fuel came into effect in the last few years, our ability to produce those two fuels has been substantially diminished. While the refinery still produces some gasoline and off-road diesel, we now buy gasoline and diesel fuel from other sources in order to meet the full needs of our customers.

We are not in the crude production business nor do we own retail stations and all of our products are sold on the wholesale market.

It's also important to note that we provide less than one-fifth of the gasoline used in Alaska and only a third of the heating fuel in the Fairbanks area.

10:16:17 AM

CHAIR RAMRAS offered his understanding that Flint Hills Resources is contemplating taking "draconian measures" because it is having a difficult time staying in business and has ongoing tension with the State, that most refineries are able to use natural gas to refine their products into gasoline; that the price of natural gas is equivalent to oil at about $45 per barrel; and that Flint Hills Resources is still using oil to refine its products into gasoline, resulting in more cost compared to the refinery at Nikiski, which, he said he assumes, uses natural gas.

MR. COOK relayed that Flint Hills Resources has to refine its crude oil into the product - basically, gasoline - it uses to run its refinery in North Pole, so the high prices of crude oil have definitely impacted the company. Most refineries in the country do run on natural gas, and this puts the North Pole refinery at a competitive disadvantage. It costs about $21/MMBtu (million British thermal units) to run that refinery.

CHAIR RAMRAS offered his belief that "usually the energy equivalent between natural gas and oil is six to one"; that the current price of natural gas at the Henry Hub is about $7; and that the current price of Alaska North Slope (ANS) crude oil will be about $100 per barrel. If there was natural gas in Fairbanks, would Flint Hills Resources be able to refine its product for less, he asked. And, if so, would Flint Hills Resources pass that savings on to the consumer?

MR. COOK said that if that natural gas were to be priced similar to what it's priced in the Anchorage area, it would certainly reduce his company's costs significantly, though long-term market forces are what define price.

CHAIR RAMRAS surmised that if Flint Hills Resources were to change the type of fuel it uses to refine its product, it would result in future savings for consumers. He offered his understanding that 1 Bcf/year would supply the Fairbanks market, and that Flint Hills Resources would use about 5 Bcf "in order to swap natural gas for the function that oil is playing in refining products at the topping plant."

MR. COOK, in response to questions, indicated that some of his company's proprietary information could be provided to the legislature as long as confidentiality agreements were signed.

10:22.06 AM

REPRESENTATIVE HAWKER asked what it would cost to convert the North Pole refinery so that it could use natural gas to refine its products.

MR. COOK said he would try to provide that information to the committee.

REPRESENTATIVE GRUENBERG raised the issue of "zone pricing," and noted that proposed legislation in New York would make such illegal; that legislation - NY A 2641 - in part reads: "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." Representative Gruenberg asked Mr. Cook whether he's heard of zone pricing taking place in Alaska.

MR. COOK said he has not.

10:24:23 AM

REPRESENTATIVE SCOTT KAWASAKI, Alaska State Legislature, asked how Flint Hills Resources determines what its rack price for heating fuel will be.

MR. COOK said that there is no specific formula that's used, and that market forces set the price and Flint Hills Resources must remain competitive in order to stay in business.

REPRESENTATIVE ROSES offered his understanding that zone pricing pertains to businesses that can access refineries in more than one state, and is therefore not an issue in Alaska.

10:27:11 AM

DOUG CHAPADOS, President, Petro Star Inc. (PSI), paraphrased from his written testimony, which in part read [original punctuation provided]:

> Petro Star was incorporated in 1984 and became a wholly owned subsidiary of Arctic Slope Regional Corporation (ASRC) in 1987. In terms of companywide refining capacity, Petro Star is, by a wide margin, the smallest in-state refiner and the only one that is owned and controlled by Alaskans. ...
>
> Today Petro Star operates two refineries. North Pole is our original plant and has a crude oil processing capacity of 20,000 barrels/day. Our second plant is located in Valdez and has a crude oil processing capacity of 48,000 barrels/day. These very simple topping units produce military and commercial jet fuel and, with increasing restrictions, home heating oil and diesel fuels.
>
> In addition to refining, Petro Star also markets fuel to end users in Interior, South Central, and Western Alaska through our North Pacific and Sourdough Fuel divisions. It is important to note that while we refine crude oil, we do not produce gasoline. The

gasoline sold at the eleven convenience stores we operate statewide is purchased from third parties. For this reason, Petro Star is just like any other gasoline retailer. ...

It is part of Petro Star's culture to be good corporate citizens. We employ approximately 290 Alaskans, more than half of whom reside here in the Fairbanks area. Our remaining employees can be found in the other communities where we do business - Kodiak, Unalaska, Valdez and Anchorage. Almost all of ASRC's 9,600 shareholders - our owners - live and work in Alaska. We provide economic benefits in the form of employment opportunities which positively impact Alaska's economy, and by acting as a good community partner.

Petro Star is very aware of, and sensitive to, the negative impacts of high fuel costs on Alaskans. A large majority of our employees and their families live in areas where energy costs are extremely high. It is mostly out of necessity that Alaskans live energy intensive lifestyles, and we recognize that high energy costs fall especially hard on the residents of this state. High costs have also opened the fuel industry to criticism, but we consider it a privilege to provide this essential service, especially in the more isolated regions of Alaska. ...

The challenges facing refiners across the country are growing and this is especially true for small refiners like Petro Star. Increasing environmental regulations, such as the proposed carbon tax and the ongoing implementation of low sulfur fuel standards to name but two, pose significant economic challenges for our company and undoubtedly will impact the prices Alaskans pay for fuel in the future.

Modifying just one of our small refineries to produce ultra-low sulfur diesel is estimated to cost substantially more that it did to build the refineries in the first place and we are now in the process of deciding whether this huge investment can be justified and what our options are if it can't. ...

Record high crude oil costs are a mixed blessing; on one hand they provide substantial revenue to the state treasury and help grow the Permanent Fund, yet these same high crude oil prices also create very real hardships for Alaskan families and businesses, and impose drag on our nation's economy.

Though admittedly a short term solution, Petro Star views the Resource Rebate as a positive step and can report that we immediately implemented another provision of this legislation by passing along the savings from suspension of the State Motor Vehicle Fuel Tax to our customers.

While the last few years have been good for Petro Star, our business is volatile and good years are often offset by bad ones. Being small, Petro Star does not have the same economies of scale enjoyed by our larger competitors, and while we always price our products to be competitive, we are not in a position to dictate the prices we pay for fuel or the market prices of the products we produce.

Petro Star has deep roots in the state of Alaska and we are committed to providing superior and competitive services to our customers. We take pride in our ability to successfully compete in the Alaska marketplace and look forward to a continued positive relationship with our customers, the communities in which we do business, and the State of Alaska.

10:32:19 AM

CHAIR RAMRAS asked whether having access to natural gas in Fairbanks would reduce Petro Star's production costs, and whether the same would be true if there was natural gas available in Valdez.

MR. CHAPADOS said natural gas would be cheaper than the fuels Petro Star currently burns at its refineries, but pointed out that there is some limit with regard to how much natural gas could be used to supplant the existing fuels. For example, there are components in the crude oil stream - when crude is processed in the refinery - that are not practical to return to the pipeline, and so those components are burned as refinery fuel. Petro Star could take advantage of natural gas prices, but not to the extent that it might at first appear. In response to a question, he explained that low-sulfur fuel standards are part of the Clean Air Act, began taking effect in

Alaska June 1, 2006, and address the sulfur content of diesel fuels and gasoline. In response to another question, he concurred that refined fuel is a value-added product, and characterized it as a signific nt contributor to the state's economy.

MR. CHAPADOS, in response to other questions, explained that fuel-quality standards are set at the federal level; that Petro Star has been designated by the Environmental Protection Agency (EPA) as a small refiner; that that designation allows Petro Star to delay complying with federal low-sulfur fuel standards for roughly four years, but limits the volume of high-sulfur fuels - such as diesel for off-road use and heating oil - that it can sell from its two refineries; that the volume caps that were imposed on Petro Star were based on years when the company sold less volume; and that as a consequence, Petro Star must now truck product from its refinery in the Interior down to Southcentral Alaska, and truck product from it's refinery in Southcentral up to the Interior, thus incurring greater cost, which it must recoup. He mentioned that it is far more efficient and cost effective to transport fuel by barg than by truck. In response to another question, he indicated that the aforementioned delay in having to comply with the federal low-sulfur fuel standards was the result of input from the state regarding the distinction between urban and rural areas of the state.

10:39:27 AM

REPRESENTATIVE HAWKER questioned whether low-sulfur standards are really necessary in Alaska or whether it's just a case of Alaska getting swept up in the national trend.

MR. CHAPADOS indicated that those standards should be applied in Alaska because modern vehicles that are designed to burn ultra-low-sulfur diesel cannot burn high sulfur diesel. In response to comments and a question, he explained that prior to implementation of low-sulfur diesel standards, all refiners in Alaska could produce "highway diesel fuel," but now the only in-state refinery that is now capable of producing ultra-low-sulfur diesel fuel is the one owned by Tesoro, and that [conversion] did not come cheap to Tesoro. In contrast, Pe ro Star has a limited ability to produce what is known as low-sulfur diesel fuel, but, again, Petro Star is also limited with regard to the volume it may sell.

CHAIR RAMRAS asked Mr. Chapados what Petro Star's profit margin is with regard to the sale of gasoline at its 11 convenience stores.

MR. CHAPADOS declined to provide that specific information. He added that in general, Petro Star is seeking to be competitive with other gas stations near its retail locations and at least break even on its "gasoline volumes"; Petro Star makes more money on the other products it sells at its convenience stores that it does on gasoline sales.

10:45:23 AM

REPRESENTATIVE KAWASAKI asked how Petro Star calculates its rack rates.

MR. CHAPADOS said Petro Star is seeking to be competitive, adding that his company won't sell heating oil to other distributors, for example, if its prices aren't competitive.

REPRESENTATIVE KAWASAKI asked Mr. Chapados if he could prove that Petro Star is passing on to consumers the $.08 savings resulting from the repeal of the State's motor fuel tax.

MR. CHAPADOS agreed to get that information to the committee.

REPRESENTATIVE KAWASAKI expressed concern that because gasoline goes from a refiner to a distributor and then to a retailer, that that savings has not been passed on to consumers and is instead simply being absorbed somewhere.

MR. CHAPADOS indicated that he would be providing information which illustrates that his company's prices dropped by $.08 as of September 1, 2008. In response to comments and questions, he explained that jet fuel is typically sold to large commercial or military entities and so retail prices are tied to published indices regardless of what a barrel of crude oil is selling for on the global market. He relayed that during that period when the cost of a barrel of oil increased so dramatically, Petro Star did not pass on that increase to its heating fuel customers.

CHAIR RAMRAS offered his belief that the public perception is that "everybody in the chain" did exceedingly well during that time period and engaged in bad behavior and took advantage of the situation. The goal of the committee, he relayed, is to determine why, as the price of a barrel of oil comes down, there is not a commensurate decrease in the retail price of gasoline.

MR. CHAPADOS said his sense is that that increase in the price of crude oil was not passed on in its entirety. In response to a question, he explained that heating oil makes up the smallest part of Petro Star's sales.

REPRESENTATIVE COGHILL questioned whether Petro Star, if it no longer had the military bases in the Interior as customers, it could start selling more heating fuel to people in the Fairbanks area.

MR. CHAPADOS said it could not because of the aforementioned volume caps pertaining to high-sulfur diesel; the only other outlet for that product would be to truck it all down to Anchorage as jet fuel.

CHAIR RAMRAS remarked that Alaska's fuel market is fragile and tied to the military, and noted that when he'd spoken of the problems facing Flint Hills Resources to someone in the administration, that person indicated that Petro Star would simply buy Flint Hills Resources. All refineries have a fragile nature, he concluded, and are not making vast amounts of profit as is assumed by the public.

REPRESENTATIVE COGHILL asked what the state's gasoline needs are and whether it is necessary to import gasoline into Alaska to meet those needs.

CHAIR RAMRAS offered his understanding that Southeast Alaska must get its gasoline from Seattle.

10:54:49 AM

REPRESENTATIVE HAWKER asked whether the commitment from the U.S. Department of Defense (DOD) to require a conversion from regular diesel fuel to synthetic fuel at Alaska's military basis will threaten the fuel industry's stability in the state.

MR. CHAPADOS said it is a threat.

REPRESENTATIVE HAWKER surmised that the state would have to build new refineries to accommodate such a conversion, and that the resulting costs being passed onto retail consumers will get even worse.

CHAIR RAMRAS indicated that an example of a synthetic fuel would involve converting "coal to liquids." He surmised that a closure of Eielson Air Force Base would also pose a threat to Petro Star.

MR. CHAPADOS concurred.

CHAIR RAMRAS relayed that he would like to hear comments regarding a proposal to limit the price of crude oil for in-state use, and what effect that would have on the prices of gasoline and home-heating oil.

10:58:23 AM

KIP KNUDSON, Manager, External Affairs, Tesoro Alaska Company, referring to his PowerPoint presentation, said that Tesoro's Kenai refinery [in Nikiski] was first started in 1969 and is now heavily integrated with the community, and suggested that members should look at the refining industry as the most successful value-added industry that the state has ever had. He relayed that Tesoro Corporation is an independent refiner and marketer - with the Kenai refinery remaining what he called the legacy asset - and is publicly traded as TSO on the New York Stock Exchange (NYSE).

MR. KNUDSON indicated that Tesoro Alaska Company has three major elements: the refinery, a distribution network, and its retail sites. The Kenai refinery's "nameplate" capacity is 72,000 barrels per day, though it never operates at that capacity, and it has over 200 employees and an award-winning safety record recognized nationwide. The Kenai refinery is what he called a "medium-complexity refinery"; it makes several different products, and production volume is increased via the addition of catalysts. Of the seven products that the Kenai refinery produces, there are three - heavy vacuum gas oil, fuel oil/bunker, and road asphalt - that don't really have any market in Alaska, and thus one-third of the plant's production has to be exported. About 50 percent of the Kenai refinery's crude oil supply comes from the North Slope, about 25 percent comes from Cook Inlet, and about 25 percent comes from foreign sources - illustrated on slide 6 of his PowerPoint presentation - because the refinery can't currently buy enough crude from Alaska sources to satisfy its demands.

MR. KNUDSON relayed that Tesoro was the first company hauling crude oil and refined products into the state to use double-hulled tankers, currently charters two tankers with a capacity of roughly 500,000 barrels each, and has exceeded regulatory requirements by stationing a chartered "assist tug" at its Nikiski dock to help tankers on and off the dock. He indicated that slide 9 of his PowerPoint presentation illustrates the paths that the Kenai refinery's product takes in terms of supply and distribution. The Kenai refinery has racks at Nikiski for asphalt, propane, butane, gasoline, and diesel, and has a 70-mile, 10-inch, "clean products only" pipeline that runs from Nikiski up to the port of Anchorage and - via a spur line - the Anchorage airport.

11:06:14 AM

CHAIR RAMRAS asked whether Tesoro sells product only to Tesoro distributors.

MR. KNUDSON said Tesoro will sell product to anyone who will buy it. After noting that Tesoro has two terminals at the port of Anchorage, he indicated that slide 12 of his PowerPoint presentation references the 31 convenience stores owned by Tesoro - 29 of which sell fuel under the "2go" logo - and Tesoro's 58-plus branded dealers. Acknowledging that consumers are extremely frustrated with the high price [of gasoline], he offered the following contributing factors: the cost of the raw crude oil, the cost to refine that product, the cost to distribute that refined product, the cost of marketing, taxes, and [the influence of] competition. Furthermore, there will be fluctuation daily with regard to which of those factors is contributing most heavily to the retail price, though the cost of crude oil constitutes "the lion's share" of costs to the company.

MR. KNUDSON observed that Tesoro is in a commodity business; it buys a commodity, that being crude oil, and sells a commodity, that being gasoline and heating oil, both of which are traded on the mercantile exchanges, which in turn - to a large extent - have some influence over what retail consumers are paying. Tesoro, he assured the committee, is not "in a cost plus business"; just because the company has costs doesn't mean that those costs will ultimately be recouped via sales. Several [global] factors influence the price of crude oil, and thus it is hard to predict what that price will be from month to month.

MR. KNUDSON explained that refining and distribution costs are based on global and regional factors: regional factors within the state, regional factors in the state "writ large," West Coast factors, and world factors. On the issue of environmental regulations, he relayed that Tesoro invested $60 million in the sulfur-stripping process at the Nikiski refinery just to essentially stay in the diesel business, and this investment won't be increasing production amounts at all. That same investment had to be made just to stay in the gasoline business; furthermore, an additional capital investment will have to be made in the future in order to meet [forthcoming] new requirements regarding benzene levels. These are all external forces influencing the retail price of the product.

11:11:06 AM

MR. KNUDSON offered his belief that as the state's natural gas pipeline moves forward, it will be difficult to keep [employees at the refinery]. The market sets the price, he went on to say, and referred to slide 15 of his PowerPoint presentation as illustrative of those things that influence the market. In response to a question, he said that the graph on slide 16 shows that Alaska has a very small market for motor fuel [compared to some other western states].

CHAIR RAMRAS asked that the committee be provided a similar chart with comparisons between Alaska and Idaho, Montana, North Dakota, and South Dakota.

MR. KNUDSON agreed to do that, adding that Alaska's small market is a contributing factor with regard to how the market performs. He explained that jet fuel "is king in Alaska"; that's what the refineries in Alaska were built to produce in order to satisfy the international jet fuel trade at the Anchorage and Fairbanks airports. Gasoline and diesel fuel, to a certain extent, are simply byproducts of those refineries. Additionally, the Alaska market shows more "seasonality" even when compared with the West Coast. The times when one wouldn't want to be either a refiner or gas station owner are February, April, and November.

MR. KNUDSON, referring o slide 18 of his PowerPoint presentation, emphasized that retail prices are set by retail station owners, and Tesoro only controls retail pricing at its 29 convenience stores that sell gasoline, and has no influence over the prices at any of the other stations in the state. Retail prices also respond to differing local conditions. Again, the Alaska market is very small and very seasonal. He relayed that Tesoro, under confidentiality agreements, will be working with Mr. Sniffen to provide him the information he is seeking.

REPRESENTATIVE ROSES asked how Tesoro's price structure changed after the adoption of Alaska's Clear and Equitable Share (ACES) legislation.

MR. KNUDSON said passage of that legislation didn't affect what Tesoro is paying for its crude oil because that price is based on the global price, and the tax rate that producers pay is independent of that price. He indicated that after the recent repeal of the State's motor fuel tax, some retailers relayed to him that they were concerned that that repeal didn't take into account that they purchased their product when the tax was still owed but then didn't sell it until after that tax was repealed.

11:16:12 AM

REPRESENTATIVE HAWKER asked whether, when Tesoro buys a barrel of crude oil, Tesoro must then use all of it because it can't be put back into the pipeline.

MR. KNUDSON said yes, and reiterated that roughly a third of Tesoro's refined products must be exported to markets outside of Alaska; furthermore, those products generally sell at or below the price of the raw crude oil used to make them. In response to questions, he relayed that the percentage of foreign oil that Tesoro buys will be going up as production in Alaska declines; that the "crude buyers" at his company would love to be able to purchase more Alaska crude oil; and that up until the late '90s, Tesoro was a big purchaser of the state's royalty oil, but doesn't purchase such oil now.

MR. KNUDSON, in response to further questions, relayed that the tankers which Tesoro contracts operate under the Jones Act; that Tesoro does receive shipments from foreign vessels; and that Cook Inlet is limited with regard to the number of barrels that can be onboard a vessel because of spill response requirements. He noted also that Tesoro has to use crude with a chemical signature similar to that found at the North Slope because it was around that signature that the refinery was built. In response to still further questions, he said that Tesoro uses natural gas in its refining process, and that each refinery has its own advantages and disadvantages in the market.

REPRESENTATIVE KAWASAKI asked how Tesoro's rack price is determined.

MR. KNUDSON said he doesn't know, but surmised that such information would be proprietary in nature and that Mr. Sniffen would be investigating Tesoro's rack pricing processing. Pricing is a market-driven opportunity, he added.

REPRESENTATIVE KAWASAKI, referring to slide 15, asked how the large spot market price in Seattle, San Francisco, and Los Angeles factors into Tesoro's pricing decisions.

MR. KNUDSON explained that those spot market prices are guidelines and are unbelievably fluid compared to market prices in Alaska; that those markets take in product from tens if not hundreds of refineries; and that the characteristics and swings in those markets don't always apply to Alaska, but are always taken into consideration.

11:25:26 AM

REPRESENTATIVE HAWKER asked how much of Alaska's demand for motor fuel Tesoro supplies.

MR. KNUDSON said he is not sure, and is also not sure that anyone at Tesoro is keeping track of those statistics. He offered his guess that Tesoro is a large player in satisfying Alaska's demand for motor fuel, but noted that imports can also have influence on retail price.

REPRESENTATIVE HAWKER surmised that it would be hard for someone to buy gasoline in Washington, ship it to Anchorage, and then be competitive with Tesoro.

MR. KNUDSON said he doesn't know that to be the case, particularly given that at some point, other refineries will also be producing ultra-low-sulfur diesel.

REPRESENTATIVE KAWASAKI asked Mr. Knudson to provide the committee with proof that the repeal of the $.08 motor fuel tax is being passed on to Tesoro's consumers.

MR. KNUDSON agreed to do so for Tesoro's 29 convenience stores that sell gasoline.

CHAIR RAMRAS - referring to the aforementioned chart which illustrates average gasoline prices, gasoline prices a month ago, and gasoline prices a year ago, in Alaska, Idaho, Montana, North Dakota, South Dakota, Washington, and the U.S. as a whole - questioned why there is such a great disparity in pricing between Alaska and other rural states with small populations.

MR. KNUDSON surmised that in that chart, Alaska's average price was calculated using the retail gasoline prices in both urban and rural communities - for example, averaging the retail price in Fairbanks with the retail price in Bethel.

CHAIR RAMRAS offered his understanding that instead the average prices for Alaska were calculated using only retail gasoline prices in Alaska's Railbelt communities.

MR. KNUDSON said, "It's market forces that have ... produced these prices, [for both] the price one year ago and the ... current [price]." He mentioned that he has a newspaper clipping stating that in March 2007, Anchorage had the nation's lowest gasoline prices.

REPRESENTATIVE HAWKER asked why Alaskans haven't seen a reduction in retail motor fuel prices similar to what occurred with the price of a barrel of crude oil over the last three months - a 46 percent reduction.

MR. COOK, reiterating that Flint Hills Resources provides less than one-fifth of the gasoline used in Alaska, concurred with an earlier statement that had the retail price of gasoline kept up with the price of crude oil, gasoline prices would have been closer to $6/gallon, or certainly a lot higher than they did get. Because the retail price of gasoline did not keep up with the price of a barrel of crude oil, he explained, Flint Hills Resources lost money during the majority of the last 12 months. Furthermore, even though the price of crude oil has dropped recently, it is still at an unprecedentedly high price, and so in order to stay in business, Flint Hills Resources can't afford to continue to lose money, particularly given that the costs of operating its refinery are also unprecedentedly high. He assured members that Flint Hills Resources would be providing, under confidentiality agreements, proprietary information to the DOL.

11:36:15 AM

REPRESENTATIVE HOLMES pointed out, though, that retail prices of gasoline have already come down everywhere else in the country, and they never got up to $6/gallon in those locations either.

MR. KNUDSON mentioned that over a year ago, he'd participated in an inquiry conducted in the state of Washington, wherein investigators went county by county, looking at the variability in retail gasoline prices within the state of Washington, and every county had different reasons for charging a particular price, and every county had finished product from a variety of different sources. Mr. Knudson surmised that Mr. Pulliam, when looking at Alaska's data, will be able to glean answers from the data, but he doesn't have the ability to do so. In conclusion, Mr. Knudson said it seems like the market is currently working the way it always has.

CHAIR RAMRAS remarked, "Certainly not for the benefit of the consumers." He asked what percentage of the state's motor fuel needs is being satisfied by Tesoro.

MR. KNUDSON said he doesn't know, and, even if he did, he wouldn't be able to divulge that proprietary information in this venue. In response to a question, he said that although one might be able to find out who is producing gasoline in the state, one wouldn't be able to find out who is importing it into the state, particularly given that there is nothing preventing someone from importing gasoline to any tidewater port in the state.

CHAIR RAMRAS questioned what would occur if a constitutional amendment were introduced [and passed by the voters] to put a cap on how much crude oil was sold for - from the state's royalty share - to [in-state] refiners for the production of gasoline and heating oil [for in-state use].

MR. KNUDSON said it would be difficult to predict what the results would be until such an amendment was actually passed.

CHAIR RAMRAS countered, "We certainly couldn't do it until you predicted what it would do."

REPRESENTATIVE COGHILL surmised that market dynamics, whether Alaska has the ability to sell [enough royalty oil to meet in-state demands], and the constitutionality of such a cap would all have to be considered.

11:42:12 AM

CHAIR RAMRAS asked at what point will the state itself have to buy oil from the producers in order to meet its contractual obligations.

MR. COOK pointed out that Flint Hills Resources is only allowed to have 85 percent of what it buys be royalty oil, with no more than 95 percent of that coming from any given field. Today, with the reduction in the Trans-Alaska Pipeline System (TAPS), and the aforementioned restrictions, if Flint Hills Resources were to demand the maximum amount of royalty oil it could, the state would be hard pressed to meet that demand; Flint Hills Resources is taking far less than its maximum allowable amount of 77,000 barrels per day.

MR. CHAPADOS, in response to a question, said that Petro Star gets its crude oil supply from one of the major producers.

MR. COOK, in response to a question, said that Flint Hills Resources takes in as much royalty oil as it has product demand to sell, and, because of the aforementioned federal restrictions, is at maximum capacity with regard to gasoline [production].

MR. KNUDSON said the production rate [at his company] is geared to meet market demand, and so [his company] doesn't want to make 25 percent more, for example, than there is demand for, one, because there isn't any place to store it and, two, that's just not good business. Furthermore, production [demand] changes daily and monthly.

11:45:11 AM

MR. CHAPADOS said that Petro Star's Valdez refinery runs very near capacity, and is doing some expansion in order to be able to process more crude oil. The North Pole refinery, because of the aforementioned federal restriction, doesn't run at capacity at all times. Petro Star is having to anticipate what its volumes of high-sulfur diesel and heating oil products will be, and so may have to either forego some sales or transport product down to Anchorage. "That has cut into our crude oil runs at that North Pole ... [refinery]," he added.

MR. KNUDSON, in response to questions, reiterated that Tesoro's Kenai refinery never runs at maximum capacity, but also doesn't want to have idle equipment, because a lot of plants don't run well when operating under capacity. He indicated that details with regard to Tesoro's output rates will be provided to Mr. Sniffen under confidentiality agreements. In response to a further question, he said he doesn't know how Tesoro's average refineries compare with other refineries in the U.S. with regard to unit costs.

REPRESENTATIVE HAWKER opined that such information is relevant. He indicated that he is questioning whether some of Alaska's costs are driven by a unit cost differential inherent in smaller refineries. He asked whether Tesoro's unit costs are consistent at all its refineries.

MR. KNUDSON said he would research that issue further.

REPRESENTATIVE HAWKER - referring to the aforementioned chart which illustrates average gasoline prices, gasoline prices a month ago, and gasoline prices a year ago, in Alaska, Idaho Montana, North Dakota, South Dakota, Washington, and the U.S. as a whole - pointed out that a year ago, the price of regular gasoline less taxes in Alaska was about the same as it was in North Dakota, where Tesoro owns the only refinery, whereas a month ago, the price of regular gasoline less taxes in Alaska was about a dollar more than it was in North Dakota.

11:50:47 AM

MR. KNUDSON said he doesn't know why that is.

CHAIR RAMRAS noted that with the recent decrease in the price of a barrel of oil, the retail price of heating oil has dropped in his area, but, again, a similar decrease in the price of gasoline has not occurred. He questioned what the difference is between those two types of fuel that would account for such a discrepancy.

MR. KNUDSON relayed that heating oil is a high-sulfur product whereas highway fuel is an ultra-low-sulfur product, so they are really two different products these days.

CHAIR RAMRAS clarified that his point is that market forces appear to have affected the price of heating fuel but don't appear to have affected the price of gasoline.

REPRESENTATIVE COGHILL asked how, if companies spent the capital to upgrade their refineries so as to be able to produce ultra-low-sulfur fuel, that cost would be passed on to the consumers.

MR. KNUDSON said he couldn't answer that question accurately today, but surmised that Mr. Sniffen would be investigating that issue in the near future. He remarked, however, that just because his company makes a capital investment, that doesn't mean that it will be able to just raise the price of fuel in order to recapture that investment - there is no connection between the two. In response to comments, he indicated that he wouldn't be able to say whether Tesoro Corporation tries to recoup costs incurred at its refineries in competitive areas of the nation through its prices in Alaska, where competition is not so stiff.

REPRESENTATIVE GRUENBERG offered his understanding that some other states have authorized - and provided funding for - their attorneys general to investigate these types of issues, and opined that the legislature would be well advised to try and get a handle on what the causes [of continued high retail fuel prices] are in Alaska, and investigate whether anything can be done to help keep costs down. He remarked that if they could figure out why [in March 2007] gasoline prices in Anchorage were the lowest in the nation, it could perhaps provide some clues as to how to make it happen again.

11:59:00 AM

MR. KNUDSON suggested that perhaps some Internet sites could provide some pricing data from that time. He remarked that although prices in the Lower 48 tend to go up and down much more sharply than they do in Alaska, "they always intersect over the long term - always."

REPRESENTATIVE GRUENBERG asked whether pricing is entirely random.

MR. KNUDSON offered his belief that to a very great extent, pricing is based on local market conditions, such as the number of retail sites, wholesalers, trucks, pipelines, and refineries there are in a particular local. In response to a question, he surmised that attempting to explain what the retail price of gasoline will be is the same as attempting to predict what the price of a barrel of oil will be. They are both a commodity and therefore subject to all kinds of market influences and factors only some of which can be charted, studied, estimated, and projected over the years.

REPRESENTATIVE GRUENBERG suggested that even a little bit more information would be helpful in attempting to solve the problem.

MR. KNUDSON predicted that when the DOL's investigation is concluded, it will show that there isn't really a problem; consumers may not like the price, but the market is performing as it should. He then referred to the aforementioned Washington investigation, and noted that although an unbelievable amount of data was analyzed, the conclusion was that the markets were operating as expected, regardless that they weren't predictable or understandable at every point in time.

REPRESENTATIVE ROSES relayed that back when he was a gas station owner, the prices were so volatile that a group of service station owners in Anchorage decided to form a gasoline retailers association. That group would meet to talk about what was occurring in the market, but didn't discuss price fixing. Representative Roses said he went to one meeting, and when he was asked at that meeting how he determined what price to charge, he said he simply looked to see what his nearby competition was charging, and when asked what he did about his signs, he said he stopped displaying prices because he was tired of having to change his signs several times a day. He indicated that his refusal to post prices was considered to be price fixing. Those of that group who were successfully prosecuted were required to lower their gasoline prices for the next six months. Representative Roses said that during that time, when he was competing with those stations that had had to lower their prices, he was selling his gas for $.04/gallon less than he paid for it.

The committee took a recess from 12:07 p.m. to 1:59 p.m.

CHAIR RAMRAS - after stating the committee's goal and recapping what transpired earlier in the meeting for the representatives from Safeway, Inc. - asked who provides Safeway stores in Alaska with gasoline products; in other words, which refiner do those products come from and what distribution source does Safeway use.

2:04:37 PM

RAY WEST, Senior Corporate Counsel, Safeway, Inc., said that some of the company's gasoline products come from out of state, and offered to research that issue further.

2:05:05 PM

GLENDA WOOD, Director, Pricing and Promotion, Safeway, Inc., relayed that in Alaska, Safeway gets most of its gasoline from either Flint Hills Resources or [Tesoro Alaska Company].

2:05:23 PM

JOE GULLEY, Manager, Denali District, Safeway, Inc., added that because of logistics, gasoline for the Safeway stores in

Southeast Alaska - Juneau and Ketchikan - comes through the Seattle distribution link.

MS. WOOD relayed also that in Southwest Alaska, Safeway stores get their gasoline through a couple of different brokers in Alaska.

MR. GULLEY, in response to a question, listed the Safeway stores in Alaska.

MS. WOOD, in response to questions, said that Safeway also operates gasoline stations in Washington, Oregon, California, Colorado, Arizona, Texas, Illinois, on the East Coast, and in Canada; that in general, the percentage that Safeway's retail gasoline prices rise or fall is similar in all of its retail markets; that in the last five years, market volatility has increased, and thus Safeway has had difficulty in all of its markets dealing with high costs while still pricing its gasoline competitively; and that Safeway prices its gasoline as a whole and doesn't differentiate price according to which state the gasoline will be sold in - but the company has seen the rapid cost increases along with the not-so-rapid cost decreases at all of its stations.

2:13:47 PM

CHAIR RAMRAS, in response to a question, relayed that for its chart that illustrates average gasoline prices, gasoline prices a month ago, and gasoline prices a year ago, in Alaska, Idaho, Montana, North Dakota, South Dakota, Washington, and the U.S. as a whole, the committee used information from the American Automobile Association (AAA) web site. That chart illustrates quite a difference in pricing in Alaska compared to other states in the [Pacific Northwest].

MR. WEST questioned whether the recent troubles at the Flint Hills Resources refinery might have had an impact on Alaska's prices.

CHAIR RAMRAS said the committee is specifically interested in the apparent lag in which prices in Alaska - compared to prices elsewhere in the country - are dropping back down to something considered normal. He asked for information about Safeway's "pricing power."

MR. WEST said he is not sure that Safeway considers itself to have much pricing power; instead, generally, Safeway simply surveys its competitors to determine how to price its product.

MS. WOOD added that Safeway also factors in the substantially higher wholesale costs in Alaska. In Alaska, Safeway purchases product from independent refiners who in turn have had to buy product from the secondary market; Safeway buys its product at the best possible prices from the independent refiners - though those prices are higher in Alaska than they are in other states - and then prices its retail product accordingly. In response to a question, she proffered that wholesale prices in Alaska are higher because of the state's limited refining capacity. The few refiners there are in Alaska are small and have to buy their raw crude from one of the major companies and then mark up their prices accordingly. Safeway buys refined products at contracted rates, but must then transport those products to its retail sites, thus incurring transportation costs. And when Safeway has to import its gasoline from out of state, Safeway's retail prices reflects those higher transportation costs. Most of the gasoline used in Alaska is not refined in Alaska, she noted.

MR. WEST, in response to a comment, reiterated that for its Ketchikan and Juneau stores, Safeway transports gasoline up from Washington. He remarked that in Alaska, there isn't a lot of competition among refiners, and that those refiners, just like refiners everywhere else, are subject to the "spot crude oil markets."

REPRESENTATIVE GRUENBERG said that if it were true that the transportation costs of Safeway's gasoline products are what results in higher retail prices, then those same transportation costs should also be affecting the prices of Safeway's other products, but that doesn't seem to be the case - the price of Safeway's gasoline is higher, proportionally, than the price of its other products.

MR. WEST offered his belief that most products that Safeway cannot source in Alaska do include a premium for transportation, though he is not sure how big that premium is or how it compares to [the one associated with Safeway's retail gasoline], particularly given that gasoline must be shipped differently due to regulatory requirements and other issues.

2:25:00 PM

REPRESENTATIVE GRUENBERG noted that the committee is questioning whether the increase in gasoline price is due to those in the petroleum industry or due to those in the transportation industry.

MR. WEST said:

> The fact that we are able to ship gas from the ... state of Washington economically points to the fact that the ... refiner's price in Alaska is relatively high. Were that not the case, I think it's obvious that we could ship the product from Alaska, economically, rather than having to go to Seattle to get it. Which doesn't necessarily mean that ... transportation cost is solely to blame for higher prices in Alaska; we think also that limited refining capacity there is part of the problem.

CHAIR RAMRAS pondered whether refiners in Alaska set their prices based on what it would cost an outside refiner to ship petroleum products to Alaska from the Lower 48.

MR. WEST said that from an economic standpoint, it's hard to imagine how the wholesale price in Seattle and the cost of shipping wouldn't, to some extent, influence and perhaps discipline the price that refineries in Alaska are charging.

[illegible] PM

CHAIR RAMRAS asked how Safeway views its gasoline sales.

MS. WOOD indicated that because Safeway is primarily in the business of selling groceries, it views its gasoline sales as a customer convenience. Particularly as gasoline prices escalate, selling gasoline at lower prices provides Safeway's customers with another form of a reward for shopping there, and Safeway has found that providing discounts for gasoline is viewed by its customers as a more meaningful reward than providing discounts for grocery items.

MR. WEST added, though, that Safeway still expects its fuel department to show a profit at the end of the year and certainly not to lose money.

CHAIR RAMRAS surmised that the assumption of Safeway's customers is that Safeway's posted retail gasoline prices before any reward discounts are applied - really are comparables with those of nearby competitors.

MS. WOOD, in response to comments and questions, relayed that Safeway's divisions are looked at as a whole, and that Safeway's costs are reflected in its retail prices.

MR. WEST, in response to comments and questions regarding Safeway's profit margins and costs in the different states in which it operates, declined to answer on the basis that that information is proprietary.

MS. WOOD added that research of rack price data would reveal whether, in each state in which it operates, Safeway's retail prices are a consistent percentage higher than its wholesale costs.

2:43:25 PM

REPRESENTATIVE ROSES relayed that back when he owned two car washes that also sold gasoline, it was not his intention to make money on his gasoline sales, and, in fact, he occasionally sold gasoline for less than he bought it for because his goal was to encourage customers to use his car wash services. Back then, he noted, his average price markup was $.05/gallon, and almost all gasoline stations were full service stations, and a lot were owned by mechanics who also happened to sell gasoline. Back then, the retail market was extremely competitive, and one of the advantages he obtained when he became a branded retailer for Union 76 gasoline products was that he didn't have to pay a fee on any sales paid for with a Union 76 credit card, whereas the fee he was charged for all other credit card sales was about 2 percent. He then reiterated some of his comments from earlier in the meeting, and indicated that even when he was able to buy gasoline products for a lower price from his distributor, he still had to mark up his retail prices such that he could afford to pay the [potentially] higher cost of his next purchase.

[The chairing site muted audio due to teleconference interference; therefore, no audio is available for that timeframe.]

2:51:25 PM

REPRESENTATIVE ROSES provided anecdotal information about his experience as a gas station owner, and recalled how state and federal taxes were simply included as part of the price he paid for a load of fuel; therefore, when he was also charged a corporate tax, it was based on his gross sales, which included federal and state taxes, and so he was taxed on the money he was paying for taxes. He remarked that gasoline is not a product upon which to make money, because the retail gasoline industry is too competitive, too regulated, and too restrictive.

CHAIR RAMRAS surmised that retailers aren't making a profit, and therefore any profit to be made in this industry must be being made by either the distributors or the refiners, though the latter only with difficulty.

REPRESENTATIVE ROSES pointed out that transportation costs must also be factored in.

CHAIR RAMRAS suggested, though, that some retailers are very close to a refinery and so therefore don't bear much in the way of transportation costs but still charge retail prices competitive with those stations that have to have their fuel transported in from further away.

REPRESENTATIVE HAWKER noted, though, that some of those stations are located in areas that have a sales tax.

REPRESENTATIVE ROSES indicated that depending on what a refinery is charging, a retail station owner might be able to purchase gasoline from further away and have it shipped for less cost than he/she could buy it for from a nearby refinery.

5:01:21 PM

LISA SUNDBORG, Office Manager, Alaska Petroleum Distributing Inc., relayed that her company delivers fuel, both wholesale and retail; that it purchases fuel from the two refineries in North Pole - the one owned by Flint Hills Resources, and the one owned by Petro Star Inc. (PSI); that it purchases all its ultra-low-sulfur diesel and all of its gasoline products from Flint Hills Resources, as well as some home heating oil - both number 1 and number 2; that it primarily purchases its home heating oil - both number 1 and number 2 - from PSI; that it doesn't have any storage facilities; that it has about 17 trucks; and that it goes to the refinery, loads the fuel, and then delivers the fuel, and then - hopefully - collects payment for it. She noted that at one point her company had two gasoline stations but had closed one of them because it couldn't compete with any of the "box stores," since they could buy and then sell fuel at the pump cheaper than her company could buy it from the refinery.

In response to a question, she said the company's trucks, in addition to hauling home heating oil, haul gasoline to its remaining station and bulk [amounts of gasoline] to Prudhoe Bay and other locations.

CHAIR RAMRAS asked whether it would be easy to buy trucks and go into the business of hauling fuel.

MS. SUNDBORG said permits would have to be acquired, and one would have to have enough funds to buy the product to begin with. For example, the majority of the cost her company contends with is the cost of the product itself, and the company generally sells its product for about 14 percent more than it paid for it. In response to a question, she said her company really only delivers gasoline to two gasoline stations - the one owned by the company and another one - and although it had delivered to other gasoline stations in the past, it isn't now because that's such a hard market; a station has to able to pay for product up front before her company will deliver it.

CHAIR RAMRAS offered his understanding that the markup for distributing fuel is not extraordinary.

MS. SUNDBORG concurred, adding that at the company's gasoline station, the pump price is $4.20, but the company is purchasing product for $3.77 and then paying federal tax of approximately $.18, thus resulting in a markup of only $.25. And although her company doesn't charge itself to deliver that fuel, it still costs the company something to deliver it. Again, on most days, box stores in the area are selling gasoline cheaper than her company can buy it for. In response to a question, she indicated that all of her company's costs are significantly higher now than they used to be. In response to comments, she relayed that when the gasoline stations near her company's station decide to drop their retail prices, the company's station must also drop its prices, even if it means losing money, or it won't have any customers.

4:18:39 PM

MR. SNIFFEN said he thought he'd heard Ms. Sundborg say that her company purchases ultra-low-sulfur fuel from Flint Hills Resources, but had heard someone else say earlier that Tesoro owns the only refinery in Alaska that can produce ultra-low-sulfur fuel.

MR. COOK explained that Flint Hills Resources purchases ultra-low-sulfur fuel from that Tesoro refinery and then resells it at its own rack.

MR. SNIFFEN asked Ms. Sundborg whether Flint Hills Resources and PSI have different prices for home heating oil.

MS. SUNDBORG said no, their prices are pretty much the same; the difference is that PSI provides a different payment option, which her company prefers.

MR. SNIFFEN asked Ms. Sundborg whether she perceives competition occurring between PSI and Flint Hills Resources.

MS. SUNDBORG said that credit terms are the driving factor for her company. In addition, though, PSI neither makes nor distributes ultra-low-sulfur fuel, so her company doesn't have a choice in where to obtain that product - it must get it from Flint Hills Resources. She noted that her company also delivers fuel to Flint Hills Resources, which prefers to use its own product. In response to a question, she clarified that her company also delivers gasoline in bulk to some commercial enterprises that aren't gas stations. In response to a further question, she surmised that a couple of reasons why her company doesn't have many gasoline stations as customers is because, one, most stations are branded stations and thus purchase only branded fuel, and, two, her company demands payment on delivery, which might not suit most independent stations.

3:15:[illegible] PM

MR. SNIFFEN relayed that about a month ago, his office was directed to start investigating "these issues," and so started by requesting information from the refineries, the retailers, and the distributors, and has since received only cooperation from everyone. His office has also requested information from "Chevron" to try to find out why other gasoline retailers don't obtain product from the Lower 48, and what some of the barriers to that process might be. This information will be helpful in considering what he termed import parity, particularly as it pertains to Southcentral Alaska. Import parity illustrates the difference in what it would cost to bring fuel up from the Lower 48 and then sell it in Alaska's market, as opposed to simply getting fuel directly from one of Alaska's refineries. Import parity could illustrate, for example, whether Alaska's refineries are colluding with each other - he added, though, that at this point his office has no reason to believe that that's what's occurring.

MR. SNIFFEN said that if prices at Alaska's refineries get high enough, competitors might decide to just barge product up from the Lower 48. Mr. Sniffen indicated that Mr. Pulliam has relayed that import parity somewhat drives some of the pricing decisions being made by Alaska's refineries. Refiners must ensure that their prices stay at or below a certain level so as not to encourage the aforementioned type of competition. Knowing what it would really cost for someone to import fuel from the Lower 48 would assist the DOL in determining whether prices in Alaska are [significantly] above what one would expect in a market that's operating in a rational and normal manner.

MR. SNIFFEN referred to a pair of graphs in members' packets illustrating regular unleaded retail gasoline prices after taxes in Anchorage, Fairbanks, and Seattle between January 2002 and August 2008. The first graph illustrates absolute prices in those locations, and the second graph compares the prices in Anchorage and Fairbanks with those in Seattle. He explained that the prices in Seattle are used in calculating import parity. Generally, absolute prices in Anchorage and Fairbanks have pretty much paralleled the absolute prices in Seattle. He mentioned that there is another pair of graphs that illustrate these same things but include a national average price. He pointed out that all the issues which some have argued are responsible for increasing retail gasoline prices in Alaska - refining costs, labor costs, transportation costs, fuel costs, operating costs - are not new; those issues have been around for the last decade and have not changed significantly. These graphs show what the trends have been. He noted that in the aforementioned second graph, one can see that in 2007, the prices in Anchorage and Fairbanks were quite a bit lower than they were elsewhere in the country.

1:21:[illegible] PM

MR. SNIFFEN referred to another pair of graphs that illustrate regular unleaded gasoline prices in Anchorage and Seattle in comparison with the price of ANS crude between January 2002 and August 2008 before taxes. The graph illustrating absolute prices indicates that although Alaska's prices are higher, they have generally followed the trend of ANS crude prices. This rules out any argument that the percentage of how much higher Alaska's prices are has increased recently.

MR. SNIFFEN referred to another graph illustrating rack prices compared to retail regular unleaded gasoline prices in Anchorage, Fairbanks, Seattle, and the U.S. - on average - between January 2002 and August 2008 before taxes. This graph illustrates what the retail margins are, with the "zero line" illustrating the [rack rate]. Seattle's prices are always above the rack rate and spike much more drastically and more often than do the prices in Anchorage and Fairbanks; furthermore, the prices in Anchorage and Fairbanks have occasionally dropped below the rack rate. In 2008, the prices in Anchorage and Fairbanks had started to rise from the rack rate, with the rise in the price in Fairbanks paralleling the rise in the national average price, with the rise in the price in Anchorage being much less dramatic than either of those two, and with an incredible rise in the price in Seattle.

MR. SNIFFEN said this latter graph indicates that the current price increase is not due to retail or distribution pricing; instead, it seems to be the rack rate that drives price. For example, in August, the average rack rate in Alaska for Tesoro gasoline was $4.02, whereas in Seattle it was around $3.10; this approximate $.90 difference is high, he remarked, and should instead be around $.20-$.40. He said he is not so concerned that retailers are colluding to keep prices high, or that distributors are making a lot of profit; the data just doesn't support either of those things as the cause of Alaska's high prices. Therefore, the DOL will instead be focusing on refining issues and on why rack rates are what they are; they don't seem to be moving nearly as much [as they should].

3:16:08 PM

MR. SNIFFEN, referring to the arguments put forth earlier by the refiners that regulatory requirements and changes in fuel consumption have increased their costs, pointed out that those factors have also been present for the last decade. He indicated that his office, therefore, is questioning why the lag in a corresponding decrease in Alaska's retail prices has drug out for three or four months. He added, "It can't be an operational issue - ... we would have seen that kind of stuff happen before - so there is something else going on, ... [though] I'm not suggesting it's something that's illegal or violates any of our laws." If that lag is really due to the rapid increase in the price of crude oil, a similar lag would be taking place everywhere else in the country and it's not. Once the DOL receives the requested information from the refiners, it will have a better sense of what might be occurring.

MR. SNIFFEN indicated that it is important to know the causes so as to be able to take appropriate steps now and in the future should something similar occur again. He referred to the earlier discussion about possibly making changes to the restrictions regarding how much the state must sell its royalty oil for, though noted that such changes would raise other issues which would have to be addressed. In conclusion, he remarked that other graphs in members' packets detail information similar to that which the graphs that were discussed detailed - and all illustrate that Alaska's prices somewhat intersect with prices elsewhere up until June of this year, after which the differences in prices became more dramatic and the lag in any corresponding price decrease has been long.

CHAIR RAMRAS surmised that constituents would concur.

REPRESENTATIVE COGHILL said he was surprised to learn that one of the refiners has to import 25 percent of its crude oil in order to meet its demands. He indicated that he still has questions that remain unanswered such as whether there is some finished product being imported into Alaska that's affecting the retail price.

MR. SNIFFEN relayed that at the end of the aforementioned previous gasoline-pricing investigation, it was determined that Alaska was a net exporter of refined products. Alaska could refine all the fuel needed in the Railbelt, and have an excess supply of gasoline to sell outside of Alaska. He offered his belief that that is still true today, and that Alaska has the capacity to refine all the gasoline products that are used in Alaska. Usage in Anchorage and Fairbanks make up 70 percent of the state's total gasoline usage, with about 60 percent being used in Anchorage and about 10 20 percent being used in Fairbanks.

[illegible]:32:[illegible]1 PM

CHAIR RAMRAS said he intends to hold monthly meetings on this topic until such time as there is no longer a disparity between prices in Alaska compared with other states, and reiterated that the committee would be producing a report. He predicted that if someone undertook to import inexpensive gasoline to the state, the refineries' prices would snap back to something more conventional.

REPRESENTATIVE COGHILL indicated agreement with the intention of holding meetings until something can be resolved.

REPRESENTATIVE GRUENBERG asked Mr. Sniffen whether he could suggest a possible legislative solution.

MR. SNIFFEN said he is not sure that a "price gouging" statute would really resolve the issue, though it wouldn't be a bad idea for the state to have one. The question of when such a statute would be triggered should be considered. If it were triggered upon a declared state of emergency, for example, merely having high gas prices wouldn't reach that level even in times of economic distress. He indicated that the DOL has drafted such legislation in the past, though it never made it though the process, and he would be happy to share it with the committee. He also noted that currently, Alaska's antitrust law has no penalty provisions, though those of other states do, as does federal law. Under federal law, a violation carries with it a maximum penalty of $100 million for a corporation and $1 million for an individual; under Alaska law, a violation is merely a misdemeanor. The DOL prosecutes all antitrust violations occurring in the state, and "this" would be included as a consumer protection Act violation as well.

[illegible] PM

REPRESENTATIVE GRUENBERG expressed interest in pursuing a statutory solution.

[Following was a brief discussion regarding how the committee might be proceeding.]

REPRESENTATIVE COGHILL pointed out that although there is a refinery in his district, his constituents pay some of the highest prices [for gasoline and home heating oil].

REPRESENTATIVE GRUENBERG expressed disfavor with the fact that Alaska does not have what he characterized as a better antitrust law.

CHAIR RAMRAS expressed concern that the high retail prices of petroleum products are already causing damage to constituents.

[Following was another brief discussion regarding how the committee might be proceeding.]

MR. SNIFFEN, in response to a question, explained that Alaska's antitrust statute is patterned after federal law, but, again, is lacking penalty provisions. Although some issues regarding competition have been raised over the last few years, the DOL has not yet had a chance to focus on the state's antitrust law.

3:49:00 PM

REPRESENTATIVE KAWASAKI offered his understanding that an article in the Anchorage Daily News indicates that 95 percent of all the gasoline used in the state is refined in Alaska. He asked when the DOL will be able to release its findings regarding the current investigation.

MR. SNIFFEN said he hopes to be able to share some preliminary findings before the end of the year.

REPRESENTATIVE KAWASAKI asked how the DOL will determine the veracity of the argument that rack prices are driven by market forces.

MR. SNIFFEN said that the DOL is asking refiners how much it costs to produce "a unit," what those costs consist of, and what costs are variable from year to year. He surmised that many of those costs won't have actually changed. He went on to say:

> Based on that information, I can get a good idea of why [the rack price] ... should change - other than the crude price - and what's going into that decision. And so we'll have some economic answers [to the question of] ... what are the stimuli that would cause a [gasoline] producer to change their prices at the rack. ... We're going to try and dissect it out, to all its component parts as much as we can, and come up with how it is they're justifying their rack rates.

MR. SNIFFEN, in response to a question, said he doesn't think that this type of information was sought during the last investigation, and the report that was made public was just a summary of the DOL's confidential report. He mentioned that his office will also be seeking the aforementioned information from refiners outside of Alaska.

REPRESENTATIVE KAWASAKI - paraphrasing from the findings' portion of a document titled, "Alaska Petroleum Products Pricing Investigation Closing Report, Prepared by the Alaska Department of Law November 21, 2002", and noting its use of the term "parallel pricing" - asked for more information about parallel pricing.

MR. SNIFFEN explained that parallel pricing is what occurs when a person can see what a competitor is charging for a product or service and then sets the same price for his/her product or service. The existence of parallel pricing does not necessarily mean that collusion is occurring; it is simply that someone has matched an advertized price, and in the retail gasoline business, prices are displayed for everyone to see. The same can be said to some extent with regard to rack rates because there are services that track rack rates. He said that when considering the question of why retail prices are quick to increase and slow to decrease, one must realize that when the cost of fuel rises, there is an immediate economic incentive to raise retail prices, but when the cost of fuel decreases, there is no economic incentive to lower prices until the competition does so. The same is true of rack rates. One possible reason to lower one's rack rates before the competition does so would be to obtain more of the market share, but in Alaska, the market share for the refiners is pretty much already divided up due to the geographic locations of the refineries, and so not much change is going to occur. And given that, it's simply just easier for the refiners to maintain similar [high] rack rates.

4:57:[illegible] PM

CHAIR RAMRAS characterized the current situation regarding the refiners as a duopoly, and again predicted that if someone undertook to import inexpensive gasoline to the state, the refiners' rack rates would immediately drop.

MR. SNIFFEN concurred.

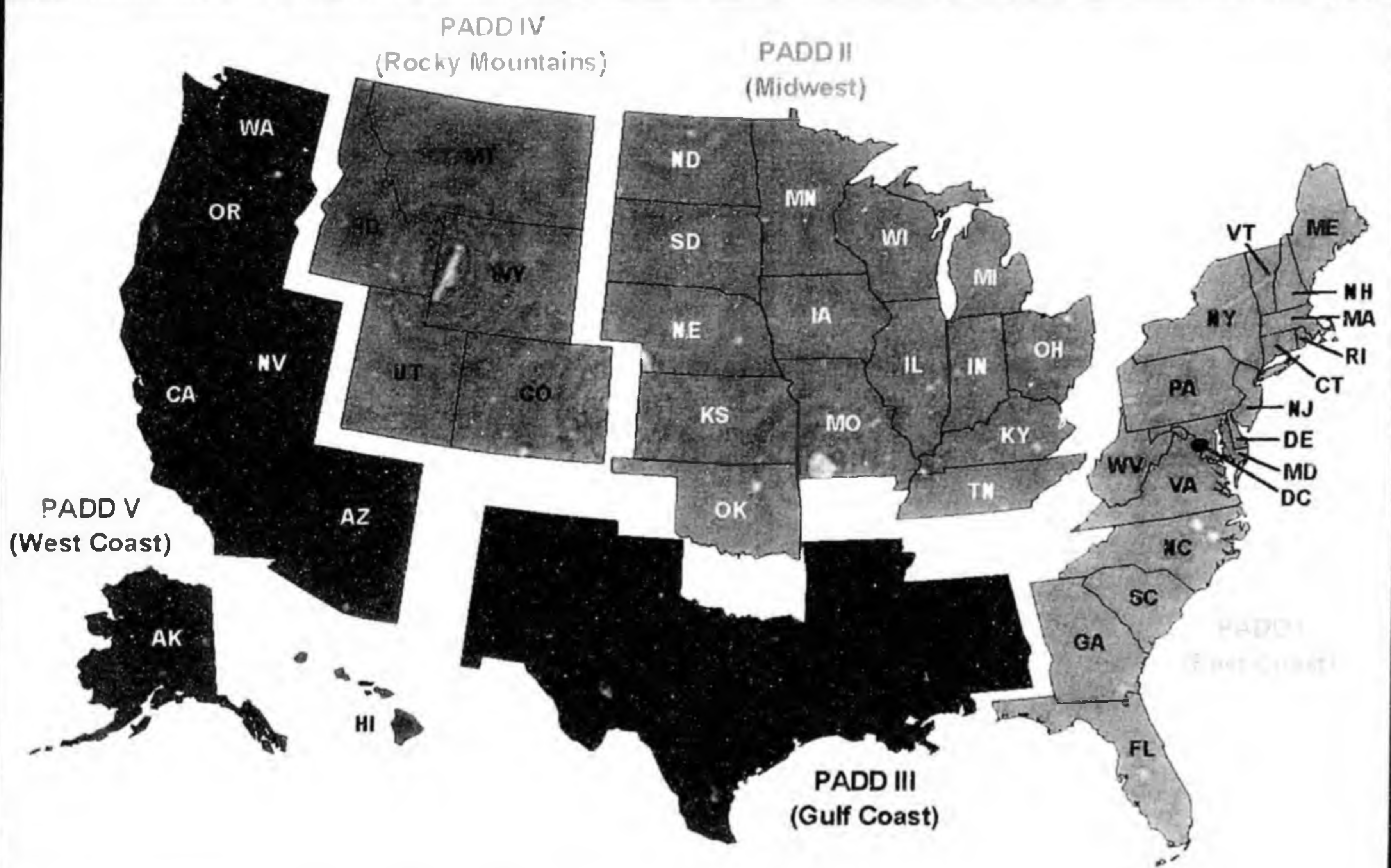
REPRESENTATIVE GRUENBERG posited that the aforementioned forthcoming committee report could provide guidance to the next legislature.

ADJOURNMENT

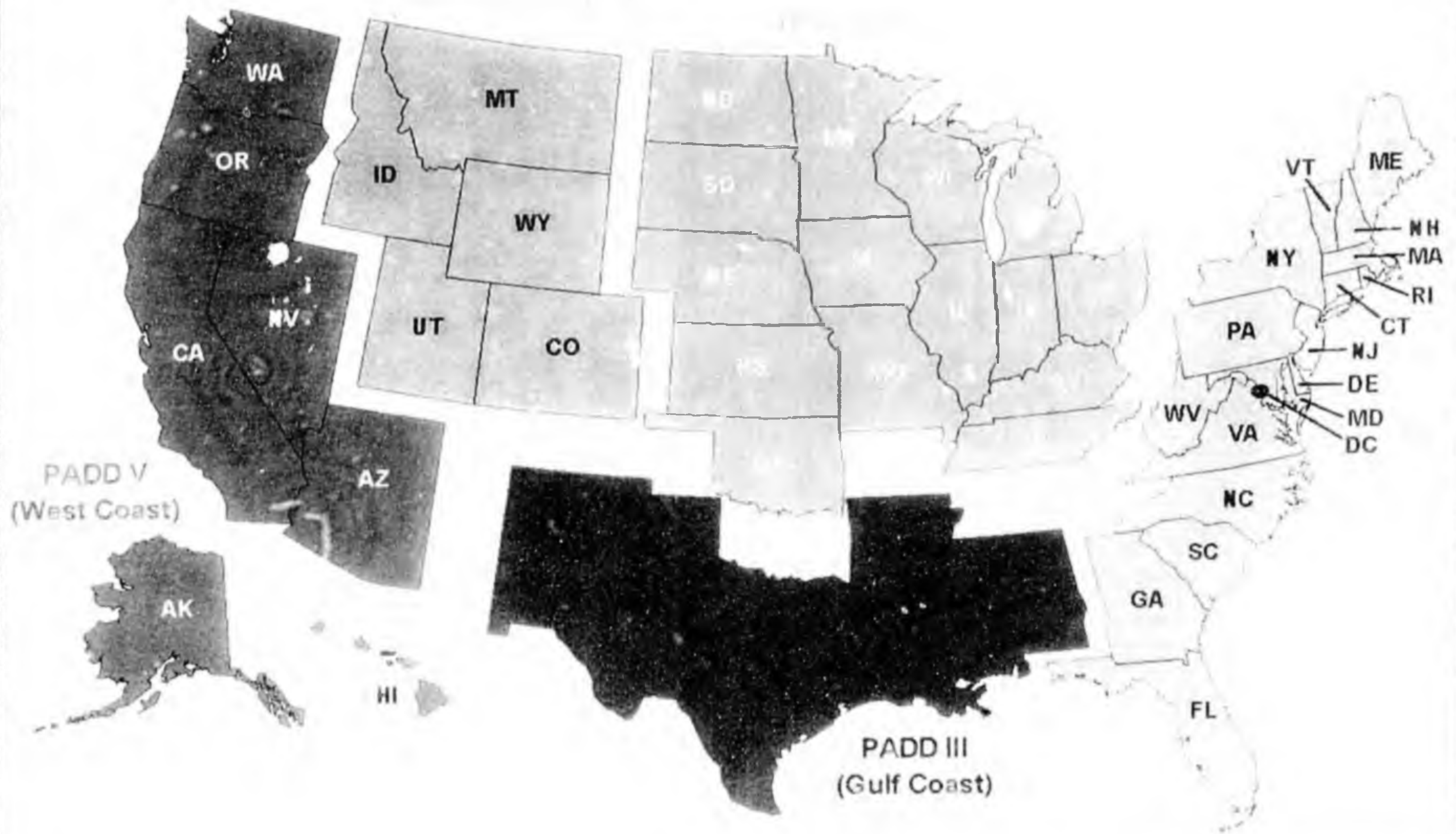
There being no further business before the committee, the House Judiciary Standing Committee meeting was adjourned at 4:01 p.m.

8

Petroleum Supply Regions



Petroleum Supply Regions



Motor Gasoline Sales: Selected States
January – December 2007

U.S. Rank	State	Volumes (Million Gals.) (1)	As Percent of Total U.S. (Percent) (2)
1	California	15,591	11.3%
.			
16	Washington	2,780	2.0%
.			
30	Oregon	1,533	1.1%
.			
43	Hawaii	474	0.3%
.			
50	*Alaska*	*268*	*0.2%*

Source: EIA, Prime Supplier Sales of Motor Gasoline by State.

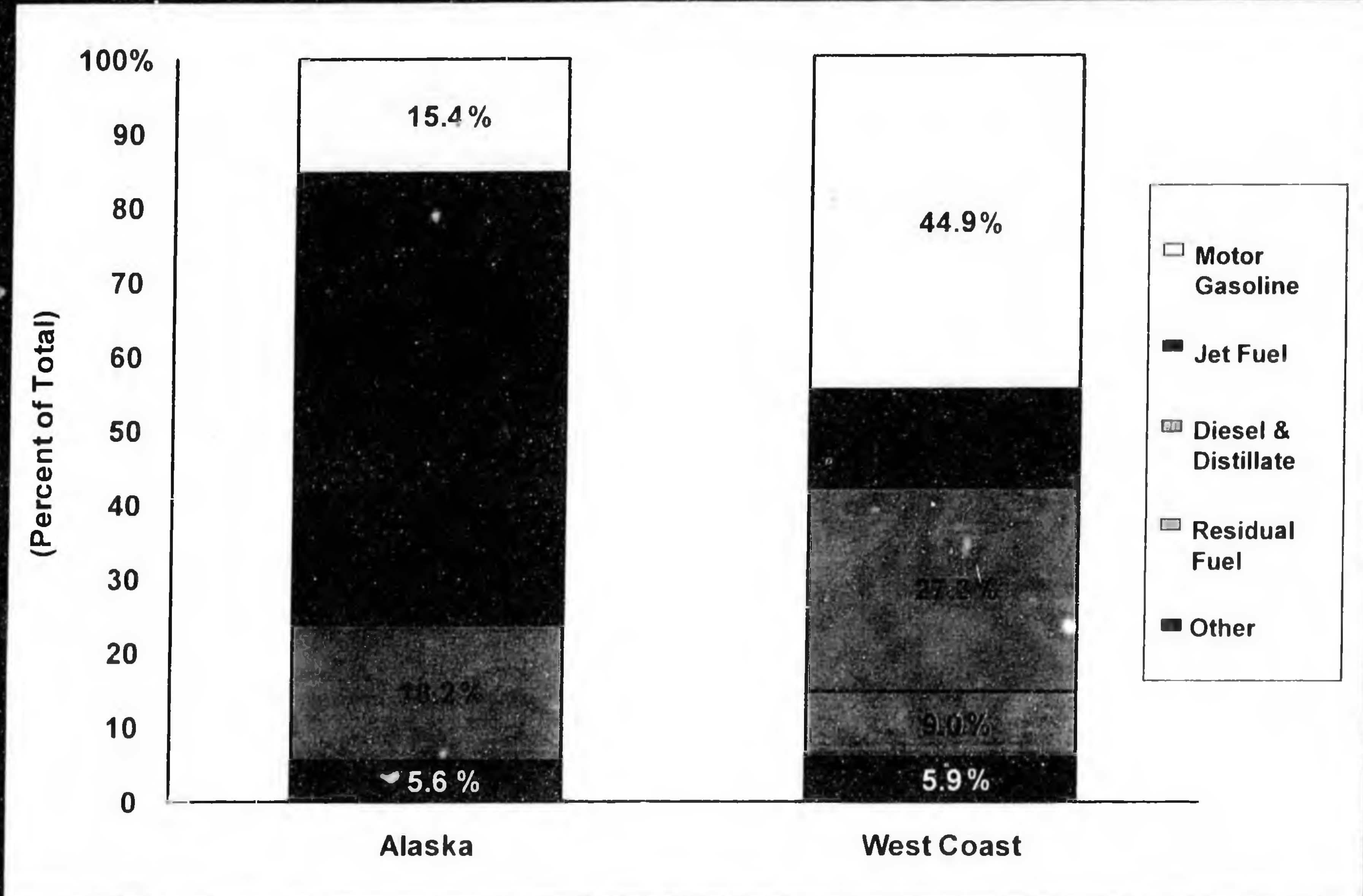
Summary of Gasoline Producing Refineries
Alaska v. West Coast (California and Washington)
2008

Description	Alaska	West Coast
(1)	(2)	(3)
Number of Refineries:	2	18
Number of Refiners:	2	10
Average Capacity (MB/D):	60 *	140
Average Complexity:	3.3	10.8

* Flint Hills refinery has throughput capacity of approximately 200 MBD but produces only about 50 MBD product.

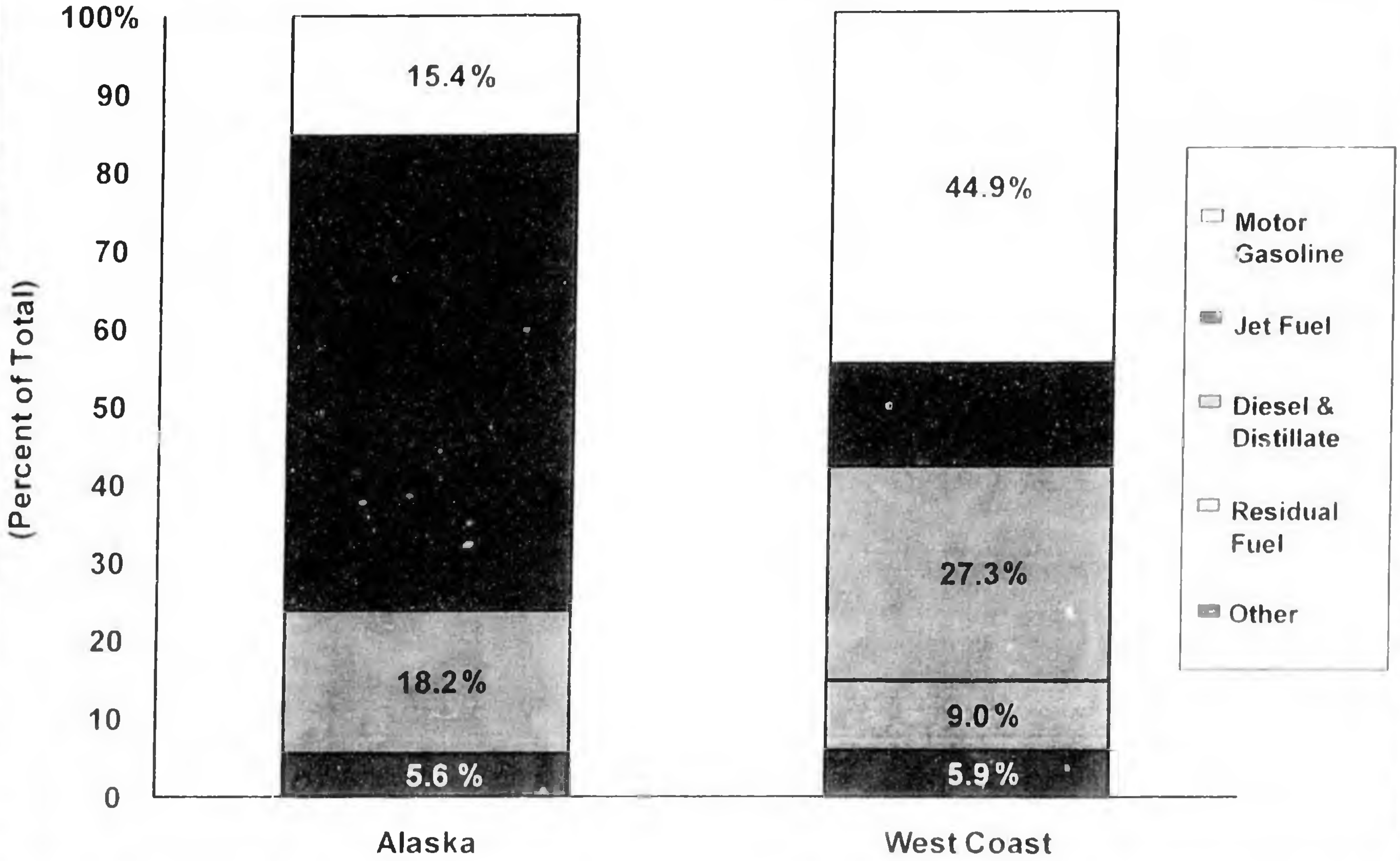
Source: Oil and Gas Journal.

Petroleum Product Sales in Alaska and West Coast (PADD V) 2007



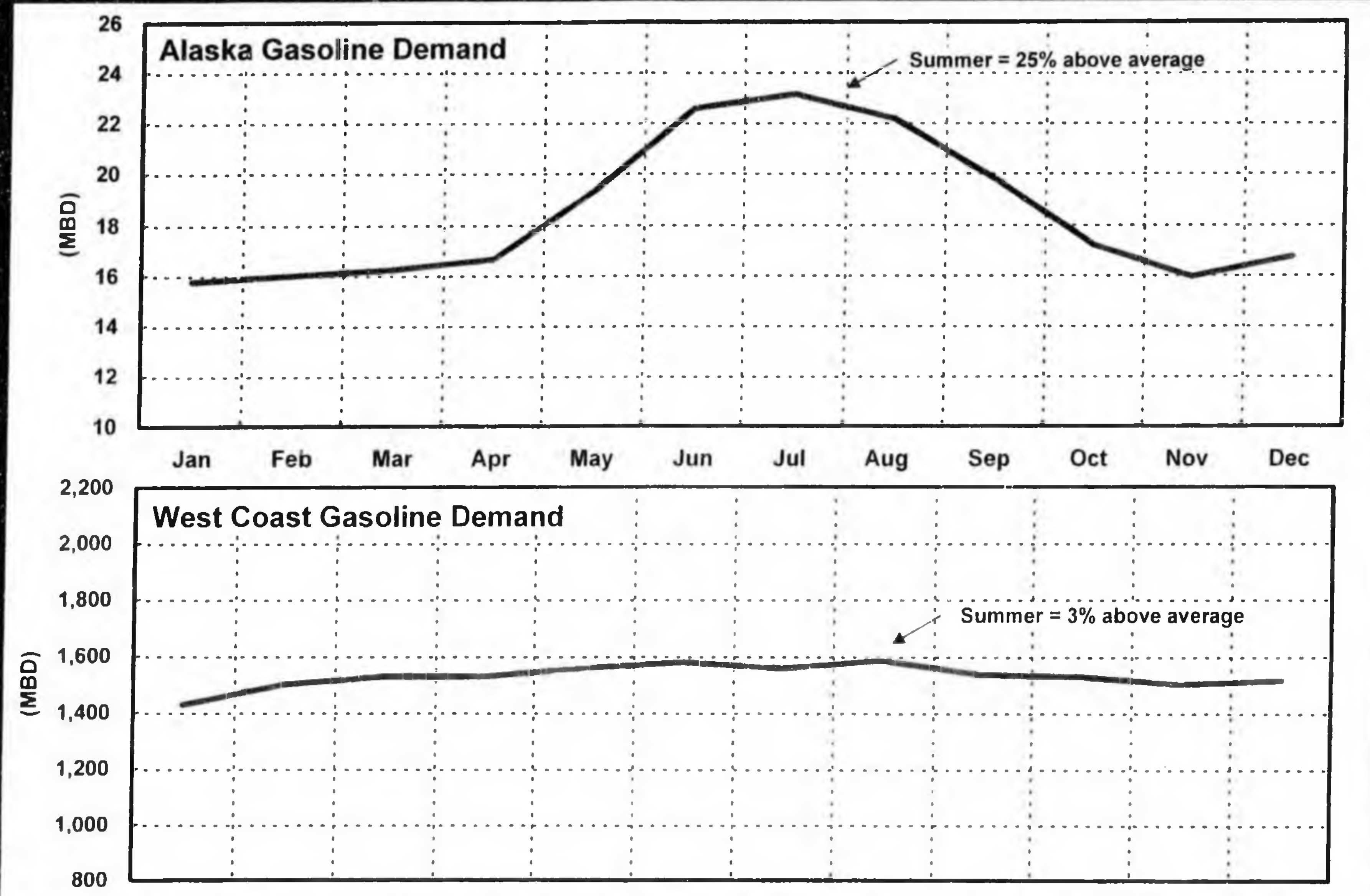
Source: EIA

Petroleum Product Sales in Alaska and West Coast (PADD V) 2007



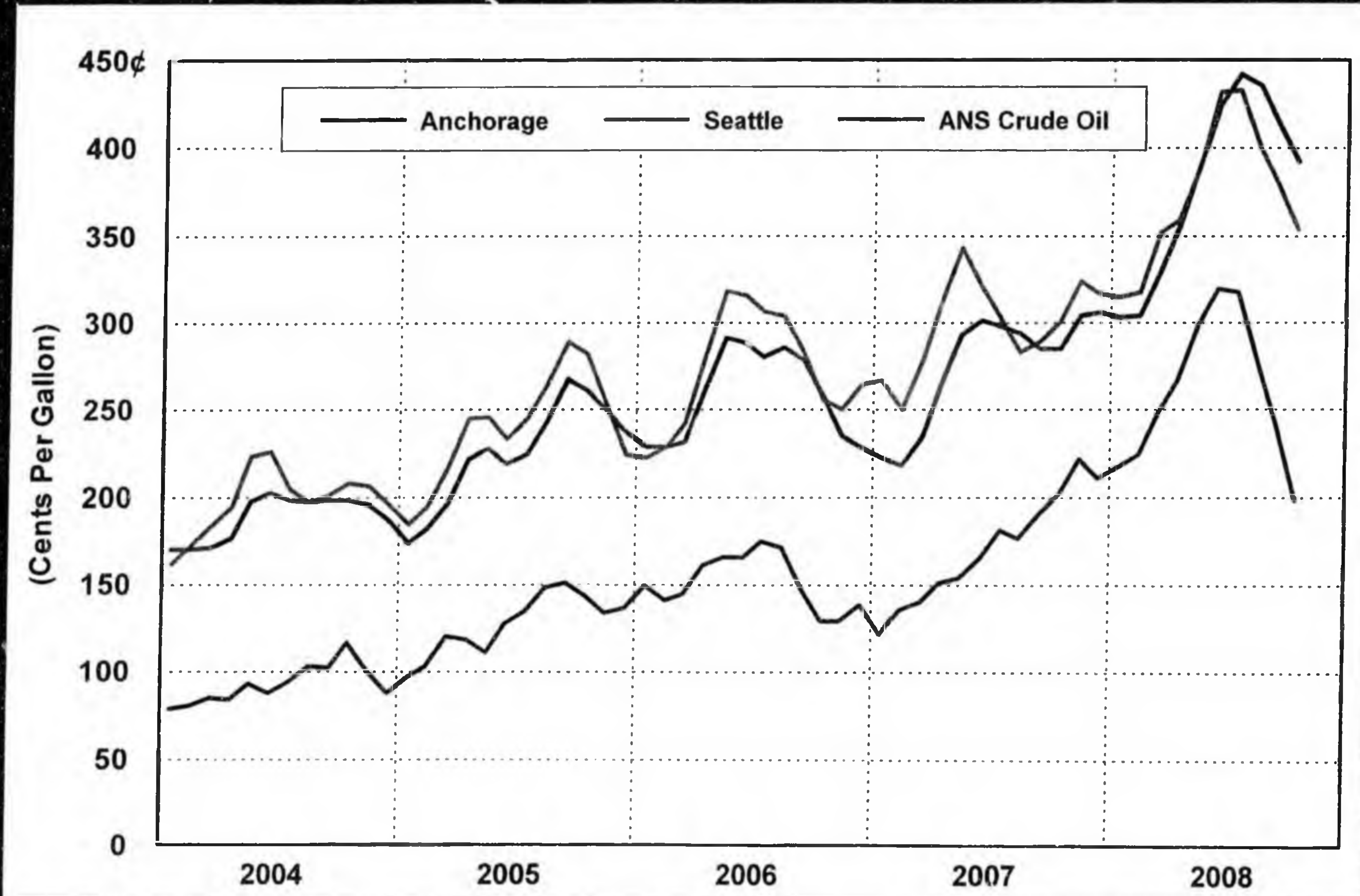
Source: EIA.

Gasoline Demand in Alaska is More Seasonal than West Coast
10-year Averages (1999-2008)



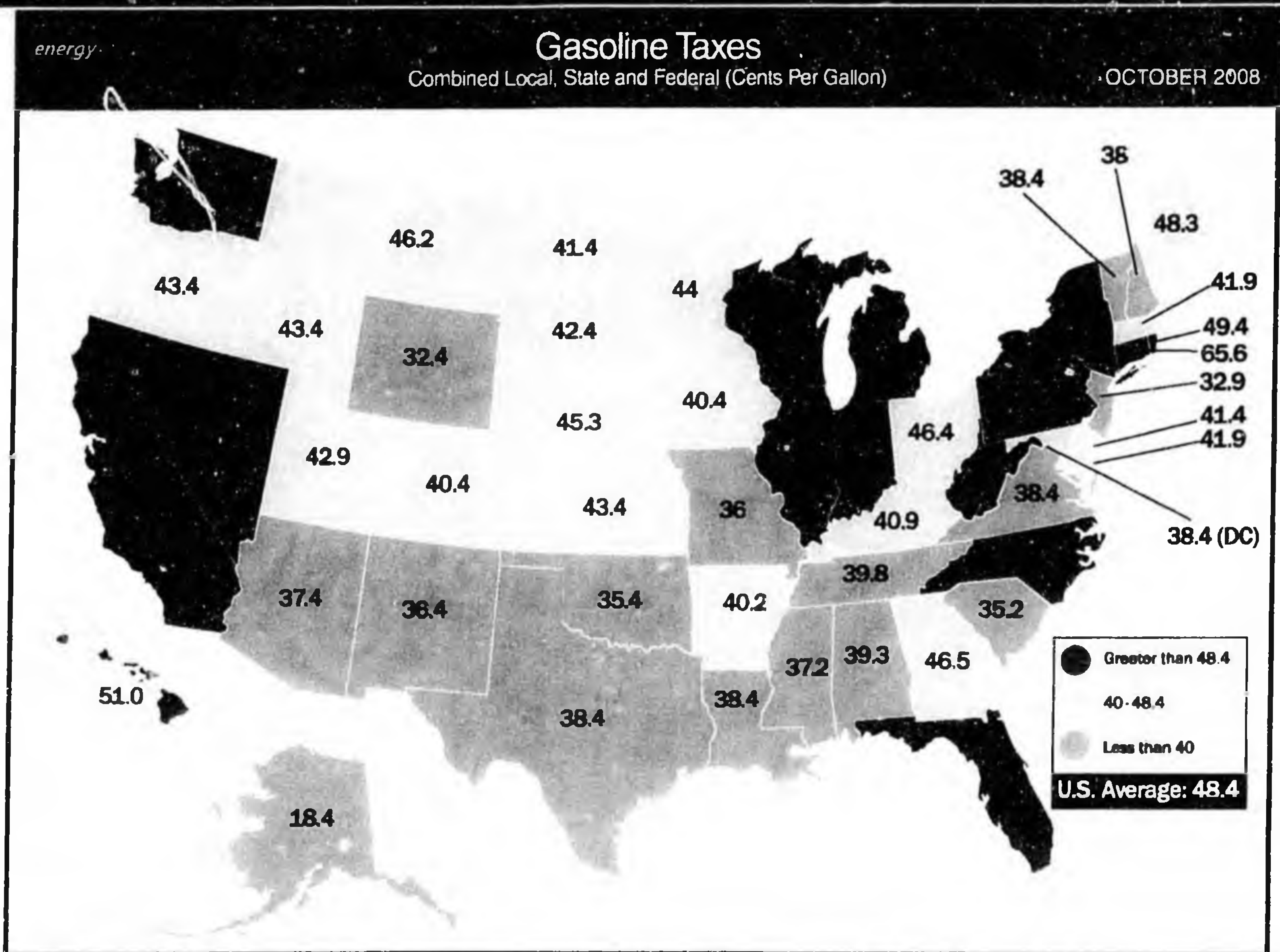
Source: EIA

Comparison of Regular Unleaded Retail Gasoline Prices (After Taxes)
Anchorage, Seattle and ANS Crude Oil
January 2004 – October 15, 2008



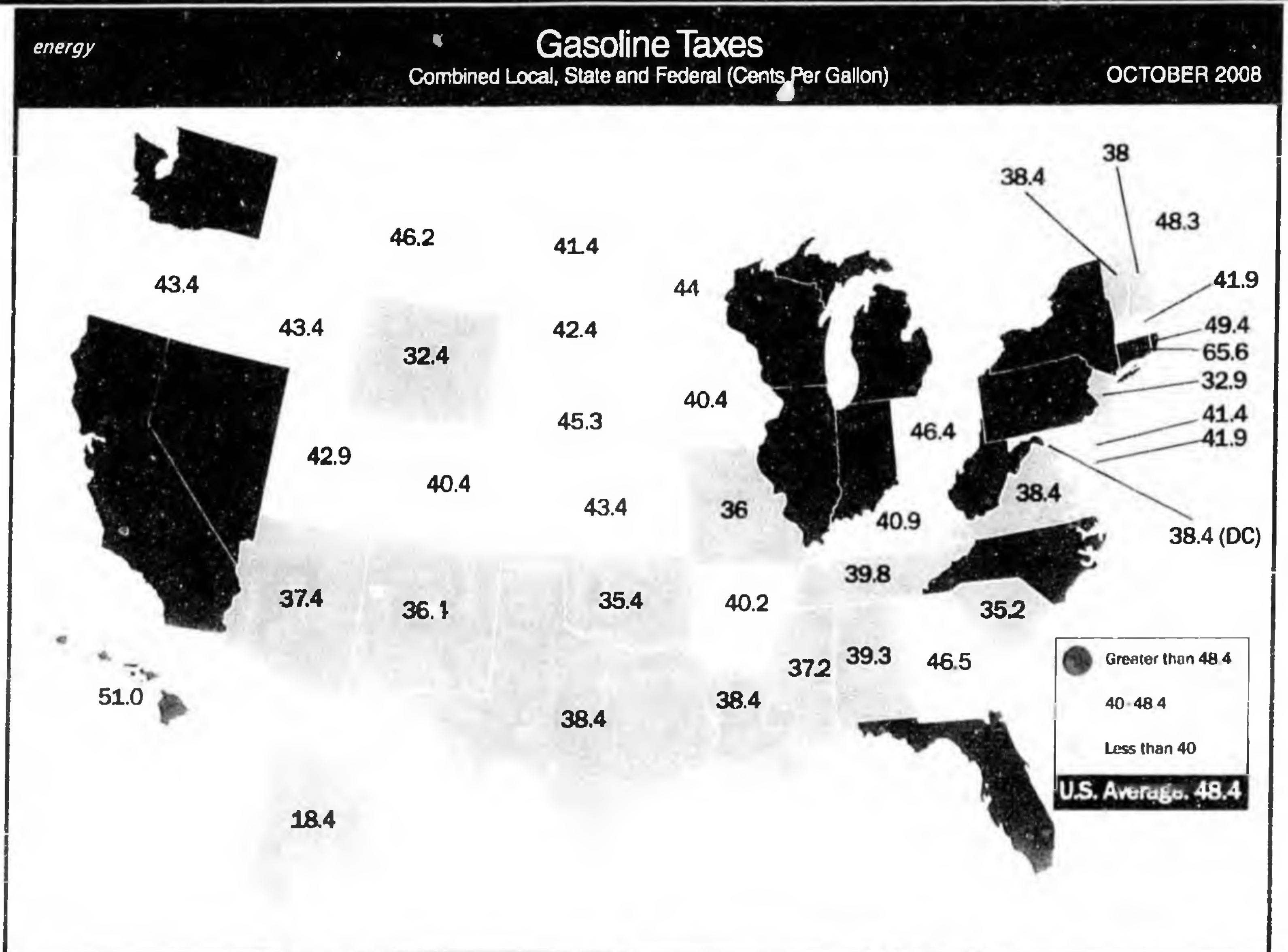
Source: AAA; OPIS; Platts

Gasoline Taxes by State



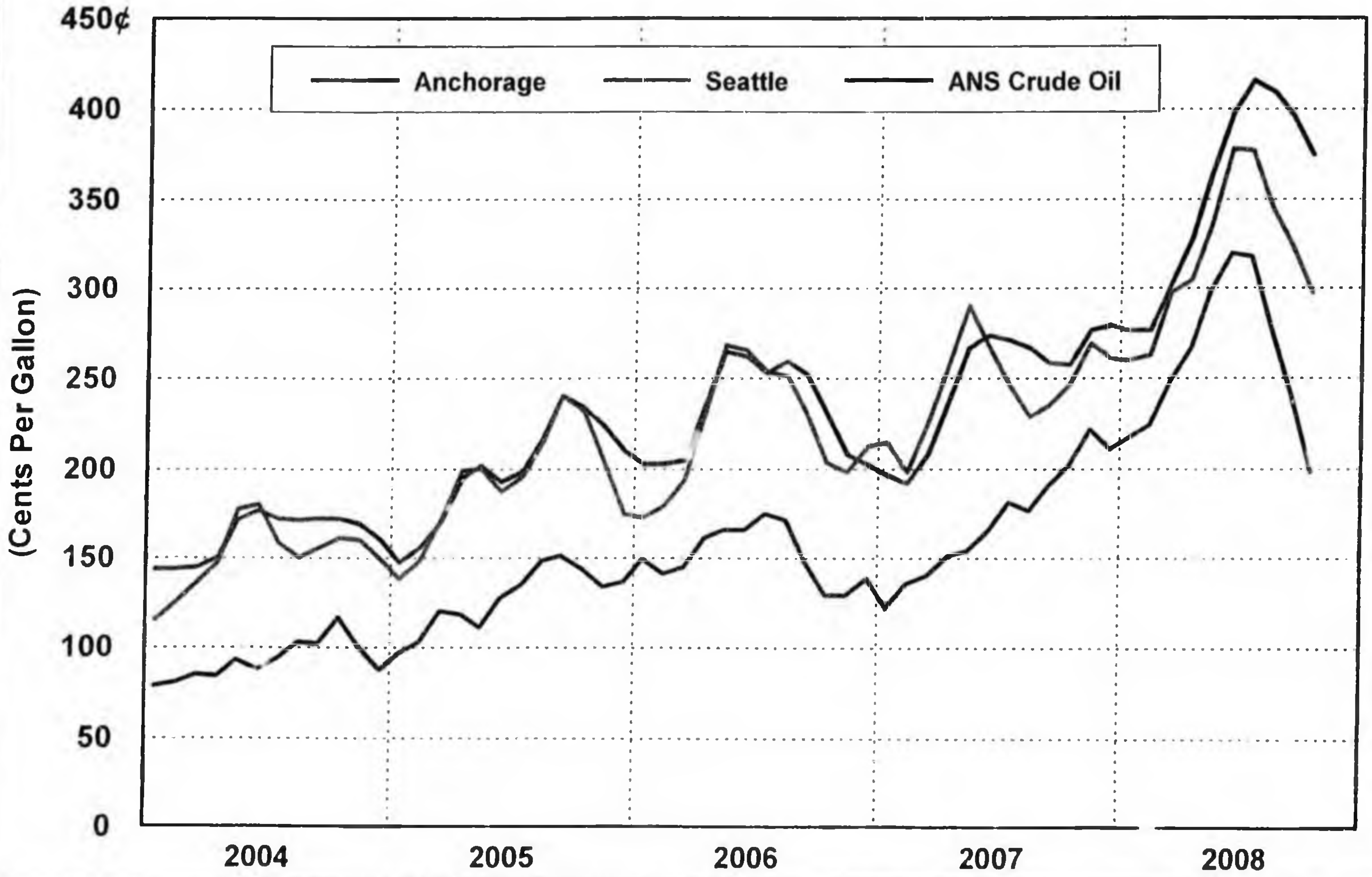
Source: API

Gasoline Taxes by State



Source: API.

Comparison of Regular Unleaded Retail Gasoline Prices (<u>Before</u> Taxes)
Anchorage, Seattle and ANS Crude Oil
January 2004 – October 15, 2008



Source: AAA; EIA; OPIS; Platts.

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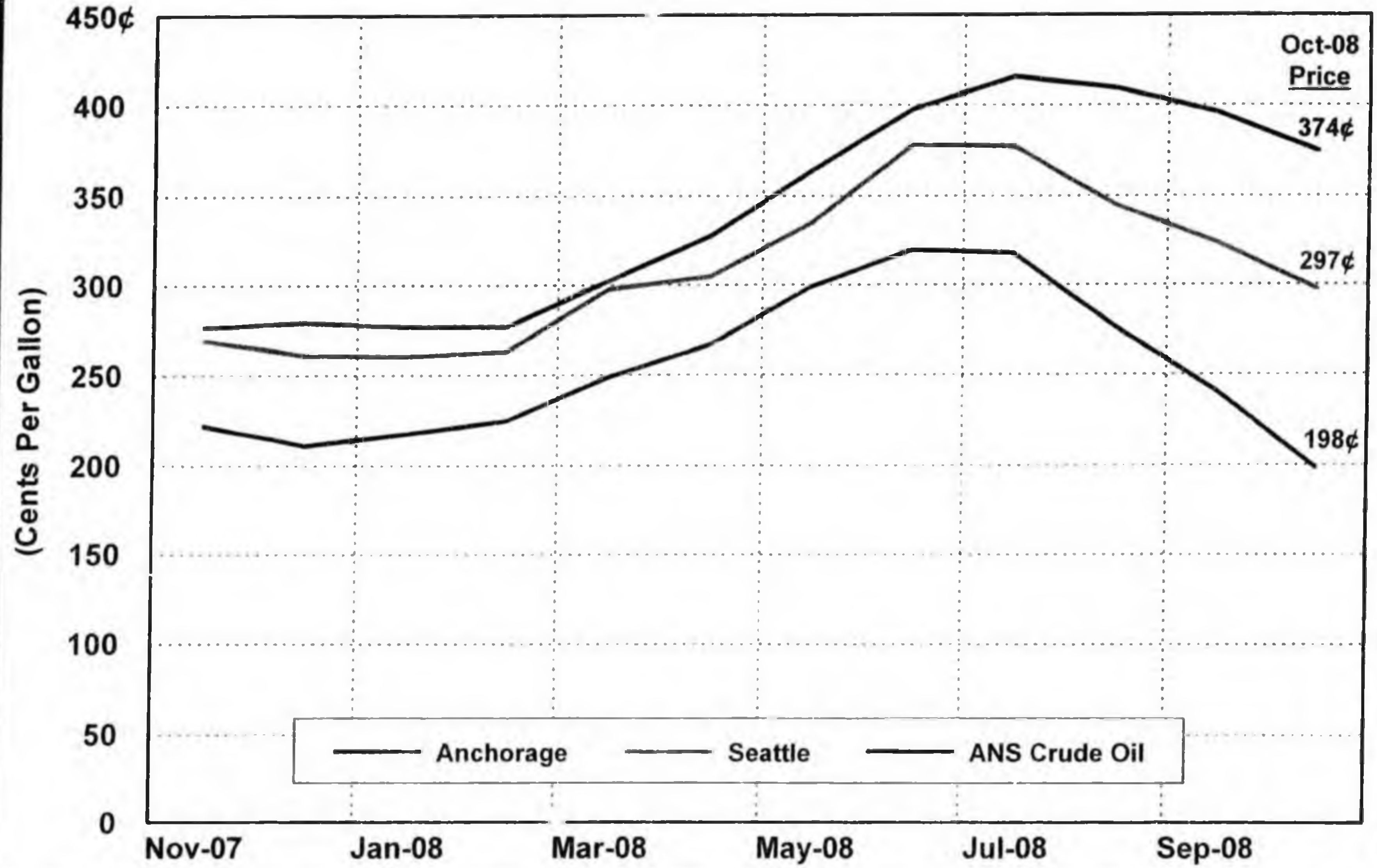
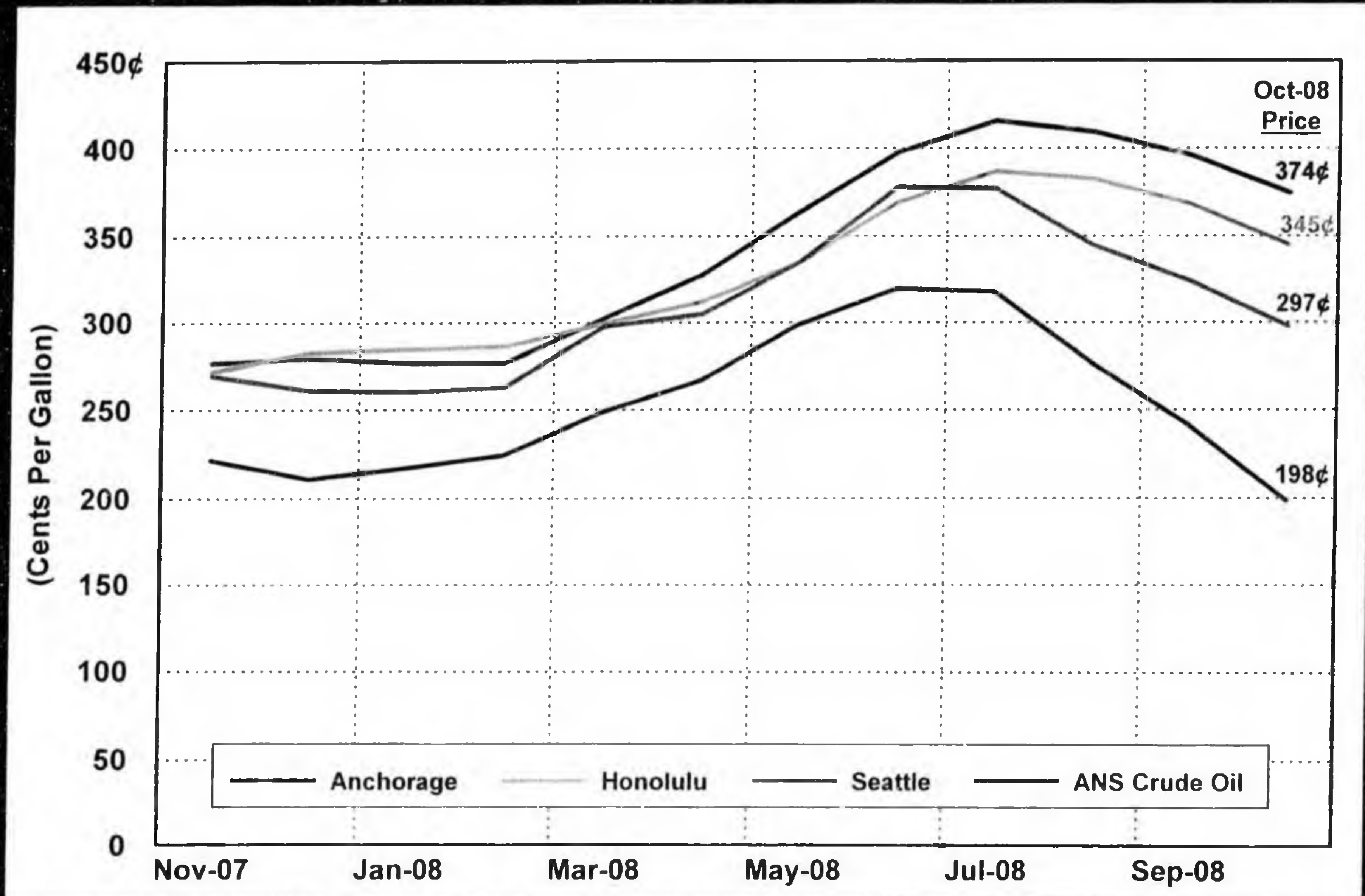
Comparison of Regular Unleaded Retail Gasoline Prices (Before Taxes)
Anchorage, Seattle and ANS Crude Oil
November 2007 – October 15, 2008



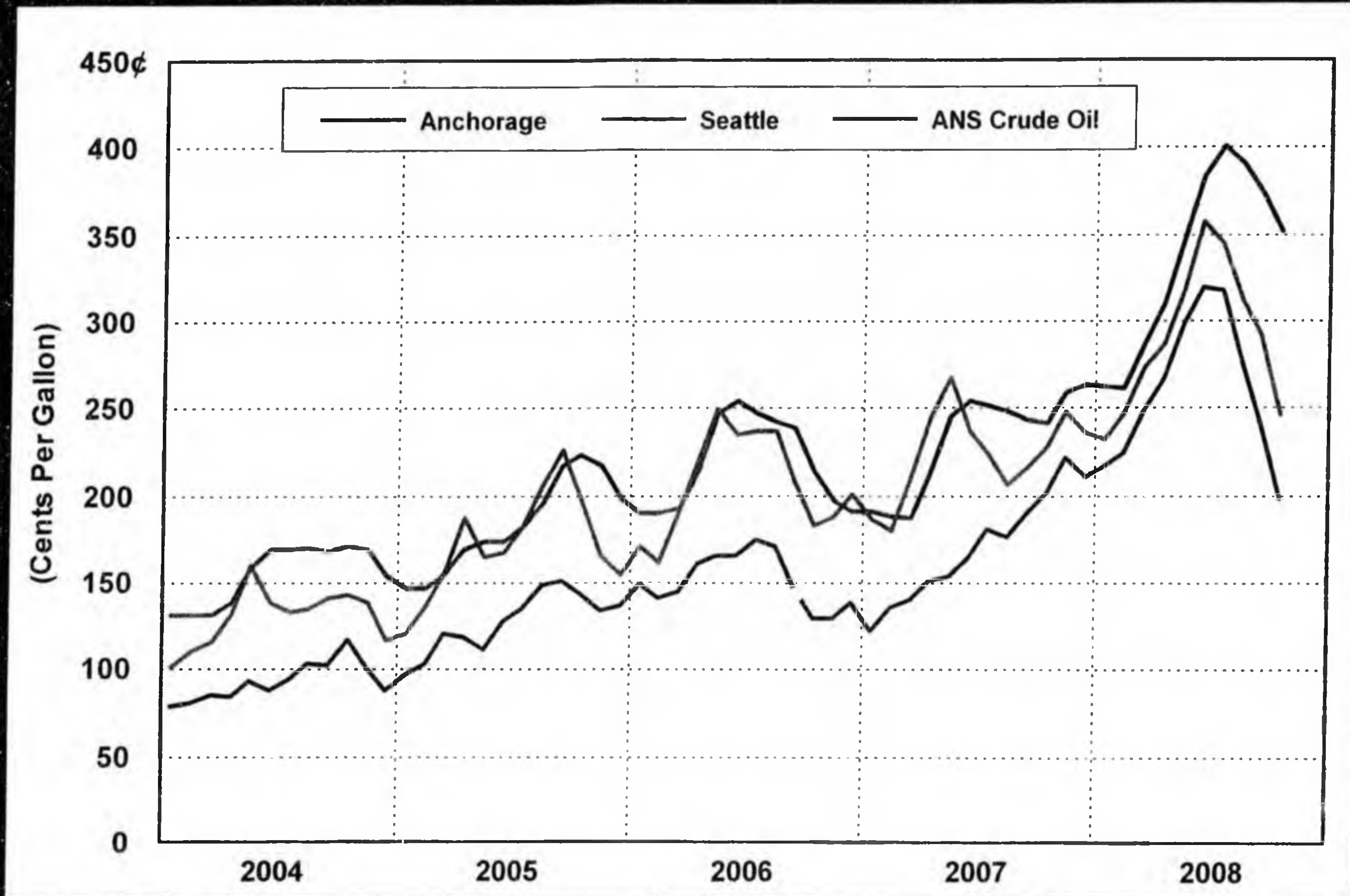
Source: AAA; EIA; OPIS; Platts

Comparison of Regular Unleaded Retail Gasoline Prices (Before Taxes)
Anchorage, Honolulu, Seattle and ANS Crude Oil
November 2007 – October 15, 2008

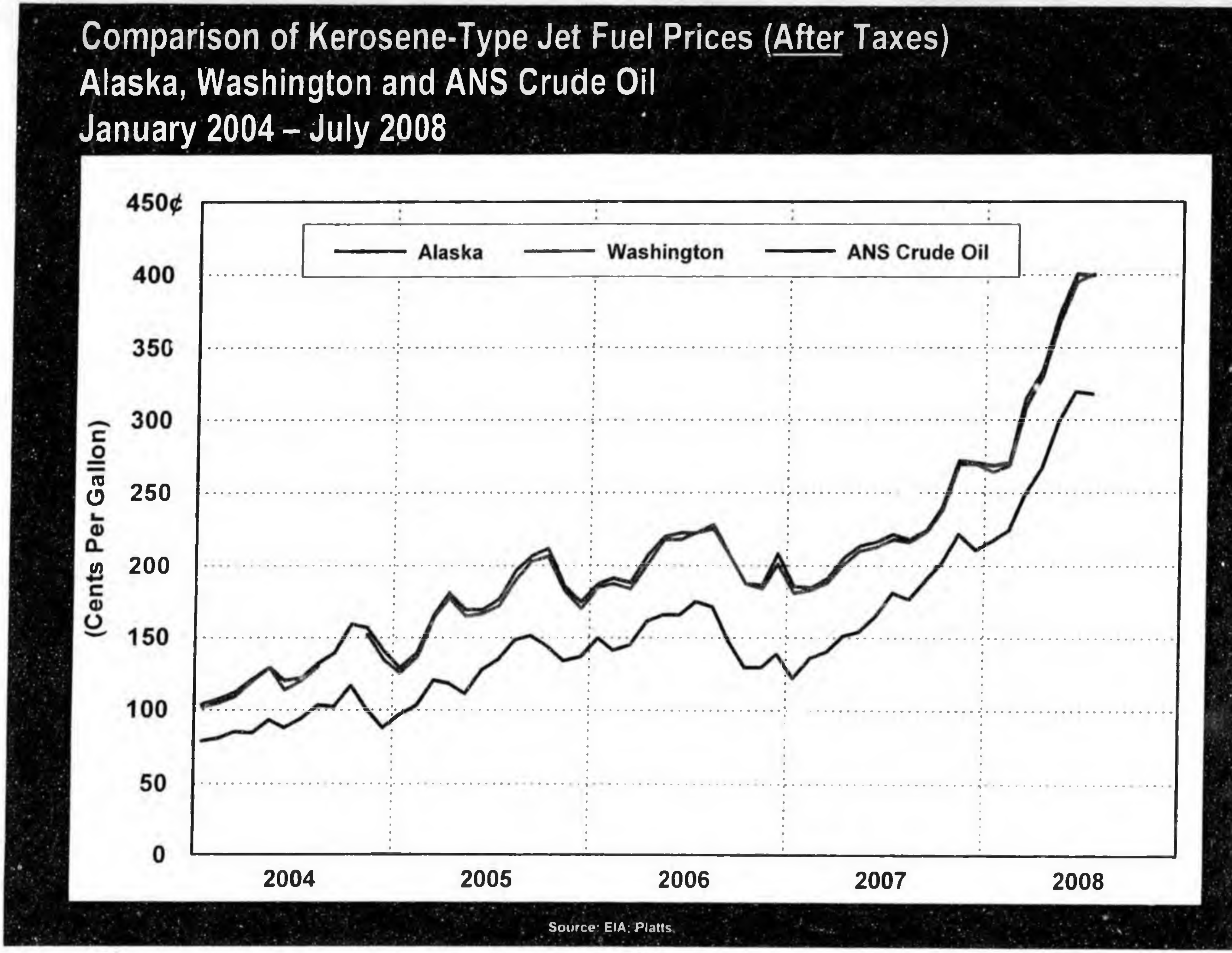


Source: AAA; EIA; OPIS; Platts.

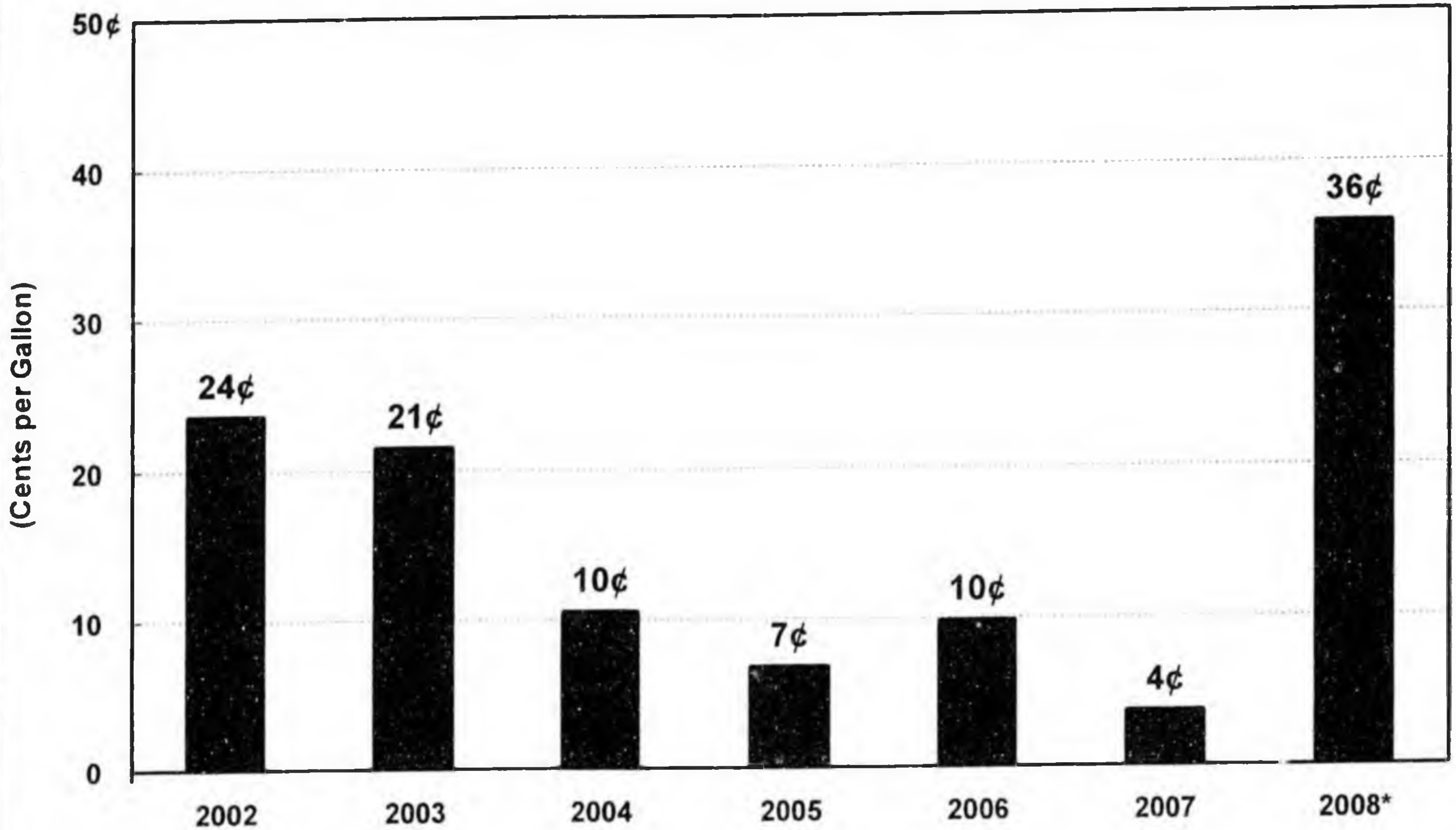
Comparison of Regular Unleaded Rack Gasoline Prices (Before Taxes) Anchorage, Seattle and ANS Crude Oil January 2004 – October 15, 2008



Source: OPIS; Platts.


Comparison of Kerosene-Type Jet Fuel Prices (After Taxes)
Alaska, Washington and ANS Crude Oil
January 2004 – July 2008
Alaska
Washington
ANS Crude Oil
450¢
400
350
300
250
200
150
100
50
0
(Cents Per Gallon)
2004
2005
2006
2007
2008
Source: EIA; Platts

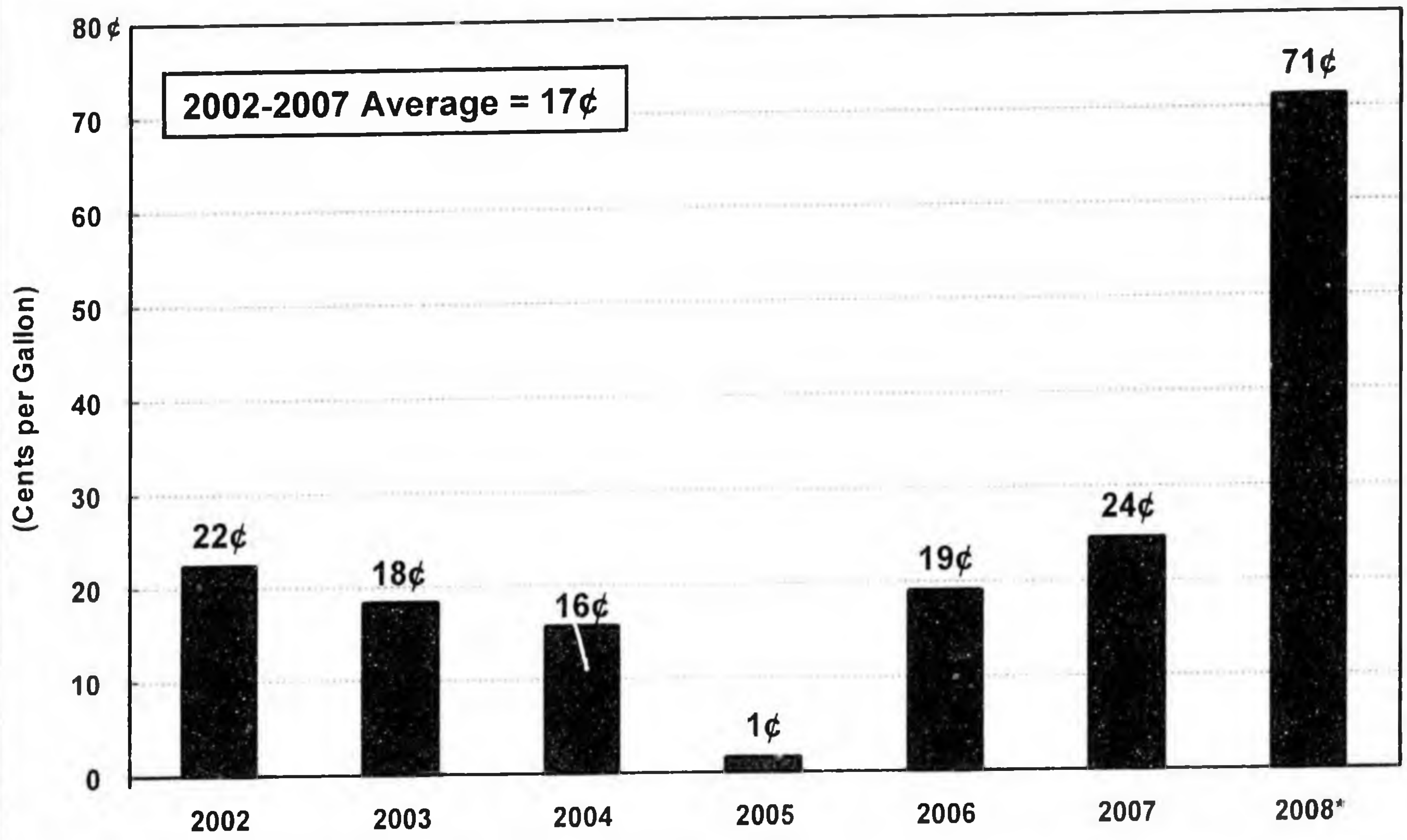
Spread Between Anchorage & Seattle Retail Gasoline Price (Before Taxes)
Annual Averages 2002-2008



* 2008 figures are through October 15.

Source: AAA; EIA; OPIS

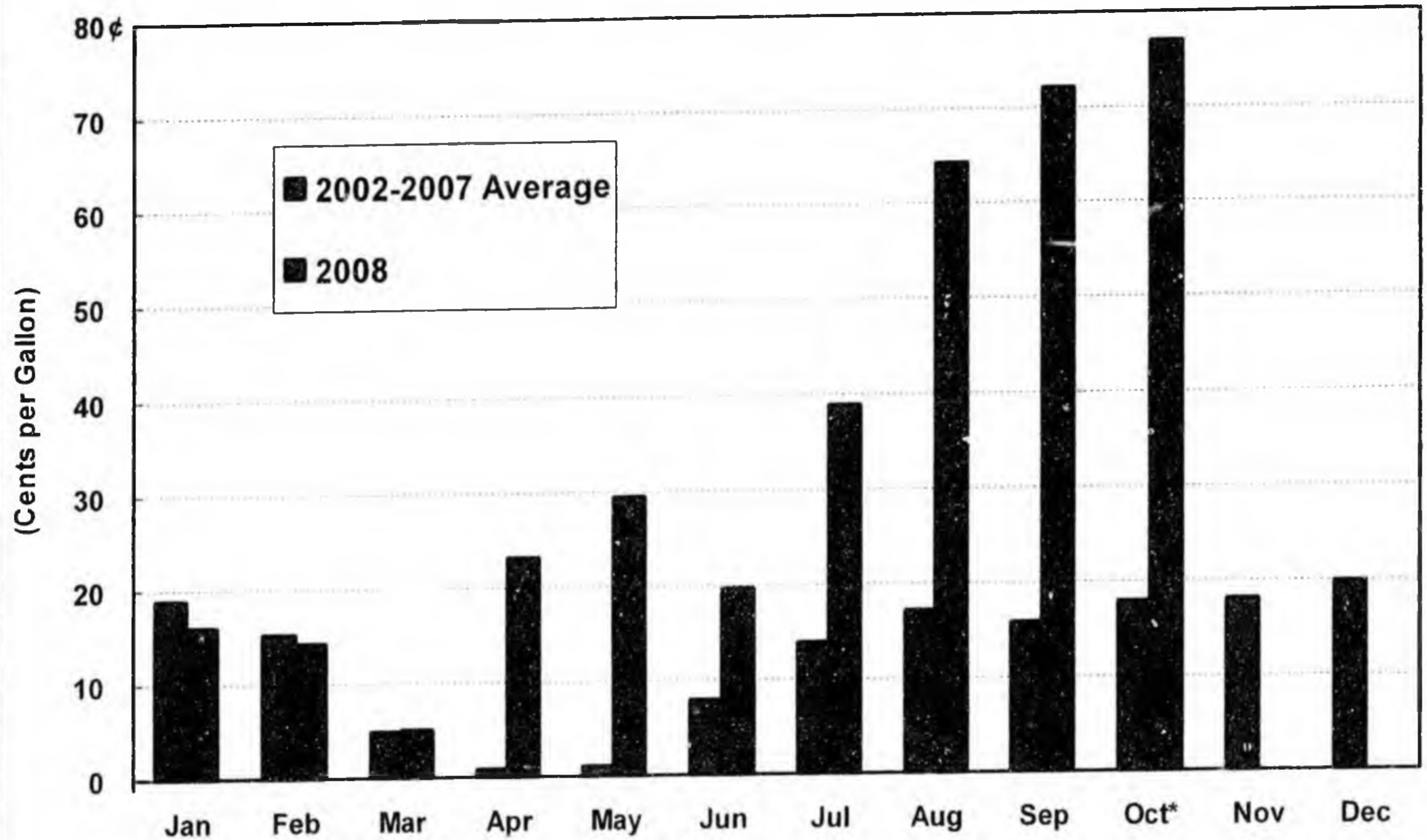
Spread Between Anchorage & Seattle Retail Gasoline Price (Before Taxes)
August-October Averages 2002-2008



* 2008 figures are through October 15.

Source: AAA; EIA; OPIS.

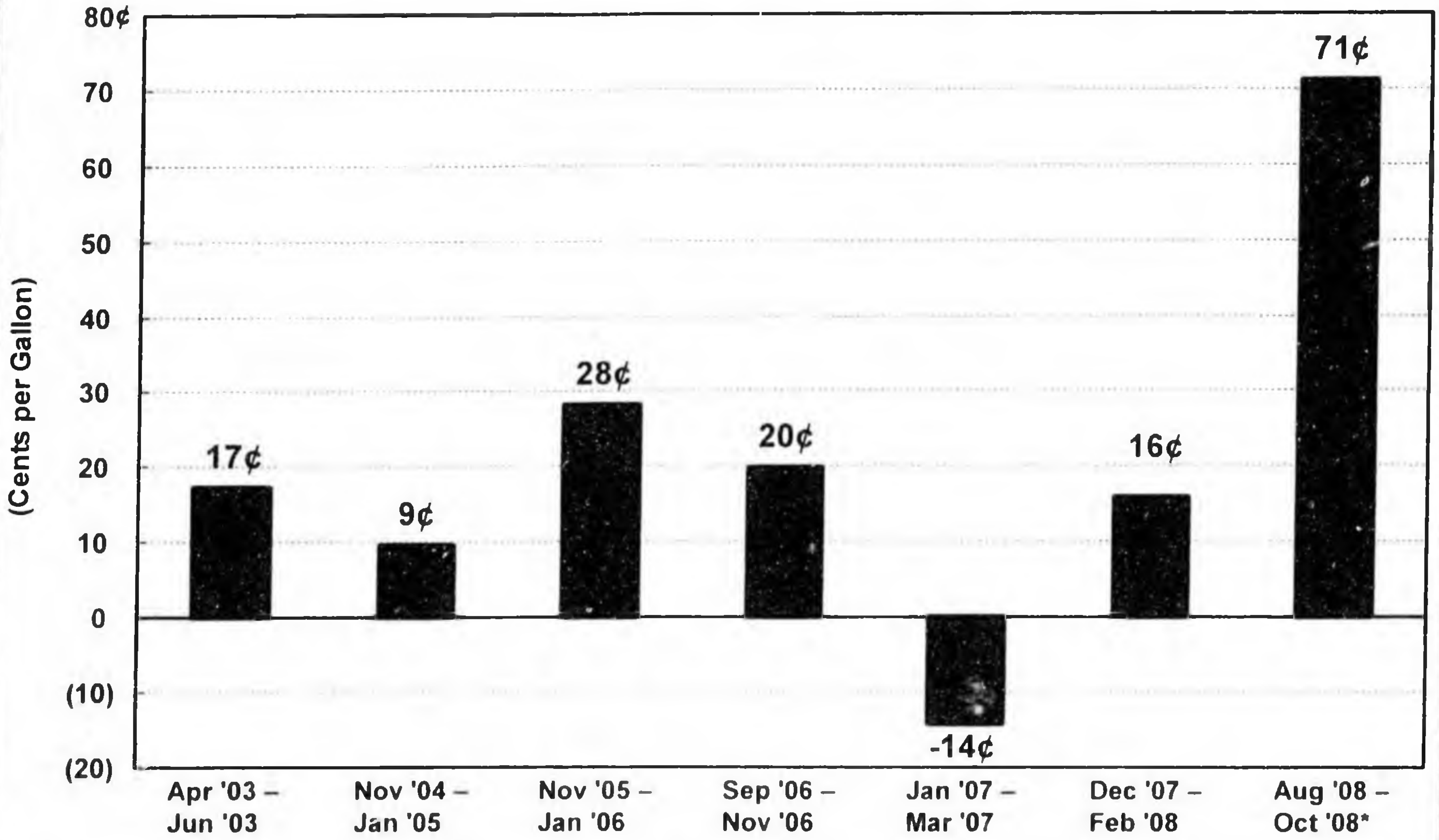
Spread Between Anchorage & Seattle Retail Gasoline Price (Before Taxes)
Monthly Averages 2002-2008



* 2008 figures are through October 15.

Source: AAA; EIA; OPIS.

Spread Between Anchorage & Seattle Retail Gasoline Price (Before Taxes) During Periods Following Sharp Crude Oil Price Decline 2002-2008



* 2008 figures are through October 15.

Source: AAA; EIA; OPIS.

9

Legislative Teleconference Network

SPONSOR: HOUSE JUDICIARY
SUBJECT: GAS PRICES
Date: 10/23/08

Please Print

NAME	CITY OF RESIDENCE	REPRESENTING	TESTIFY (Y or N)	BILL NO.
Daryl Nelson	ChugiAK	Self		
Bonnie "	"	"		
Cody Rice	Anchorage	State of AK, Division of Oil and Gas	N	
Paul D Kendall	Anch	Citizen	Y	
Eric Auten	Palmer	Rep. Gatto	N	
[illegible] Gregory	Fairbanks	FNR	N	
Wesley Loy	Anchorage	Anchorage Daily News	No	
Jeff Cook	Fairbanks	Flint Hills Resources Alaska	Yes.	
Charles Laird	Eagle River	Consumer	N	
Tim Bradner	Anchorage	AK Journal of Commerce	N	
Darcy Sullivan	Los Angeles	Attorney General's office	Y	
Ed Sniffen	Anchorage	Dept. of Law	Y	

Legislative Teleconference Network

SPONSOR: House Judiciary
SUBJECT: Gas Prices in Alaska
Date: 10/23/08

Please Print

NAME	CITY OF RESIDENCE	REPRESENTING	TESTIFY (Y or N)	BILL NO.
JERRY McCutcheon	Anch	SCL	N	
Steve Ribuffo	Anch	Port of Anchorage	Y	

10

What's the deal? Last Thursday, October 16th I drove back to Homer from Anchorage. In Anchorage I paid $3.59 per gallon when I arrive five hours later, having driven 225 miles to Homer, gas was still priced $4.26 per gallon.

Why are we paying this price for the resource that is being removed from Cook Inlet and being processed nearby? "Outside" this week gas is priced less than three dollars a gallon.

Please look into the gas price discrepancy both on the Kenai Peninsula related to Anchorage and Alaska compared to the lower forty-eight states.

Thank you

Brenda Dolma

Jane Pierson

From: Sniffen, Clyde E (LAW) [ed.sniffen@alaska.gov]
Sent: Friday, October 24, 2008 11:30 AM
To: Avanti Corp.; Rep. Jay Ramras; Rep. Mike Hawker
Subject: RE: Gasoline prices

Mr Gardner

Thank you for your e-mail and your interest in Alaska's gasoline prices I'll try to answer as many of your questions as I can.

1. Tesoro has refiners across the West Coast, including Washington, California, Hawaii, Utah and North Dakota Tesoro does ship some gasoline outside Alaska, but not much

2. The demand for gasoline in Alaska is fairly static Lowering prices does not mean Tesoro would sell more fuel if the other stations also lowered their prices

3. Shell does not ship their fuel to a refinery in the lower 48 then back up to Anchorage

4. Station owners cannot "switch" to different brands of gasoline unless they are independent stations Most stations in Alaska are "Branded" stations and have contracts with Tesoro. Chevron, Shell, or other suppliers for the purchase and sale of fuel under a brand name

5. The legislature is considering some kind of regulation for Alaska refineries, but this also has its problems Hawaii tried to regulate the wholesale price of gasoline (i e the refineries) in 2004 and it did not work well The Hawaii Legislature let that law lapse and is not considering any new attempts to regulate gasoline

6. Because the demand for fuel in Alaska is relatively small (the smallest in the nation), and is not growing much, the economics of adding additional refining capacity in Alaska (either from a state owned refinery or another private refinery) is questionable We currently have enough refining capacity to meet the gasoline needs of the State A new refinery would mean that an existing refinery would either lose market share, would have to reduce production (which is very costly) or would have to export gasoline The impacts of this scenario on local gasoline prices is uncertain Southeast communities would probably receive no benefit at all unless the refinery was located in Southeast Alaska

Gasoline pricing in Alaska is very complex, and the market for gasoline here is substantially different that just about any place in the U S Because the state does not regulate the price of gasoline, suppliers and retailers can price it however they want, so long as the price is not the result of illegal conduct like price fixing, or collusive conduct Our current investigation is focused on whether there is such collusion between or among the suppliers and sellers of gasoline We hope to publish some preliminary results from our investigation by the end of the year

Thanks you again Please let me know if you have any questions

Clyde E. Sniffen Jr.
Senior Assistant Attorney General
Commercial and Fair Business Section
Alaska Department of Law
1031 West 4th Avenue #200
Anchorage, AK 99501
(907) 269-5200

From: Avanti Corp. [mailto:avanti@mtaonline.net]
Sent: Friday, October 24, 2008 10:58 AM

To: Sniffen, Clyde E (LAW); rep.jay.ramras@legis.state.ak.us; rep.mike.hawker@legis.state.ak.us
Subject: Gasoline prices

Gentlemen,
In reading the Anchorage Daily News today, "Local Gas Prices Still Lead nation". There are a few things that I am curious about.

Tesoro is opening new gas stations in the lower 48 and not in Alaska. Are they supplying those stations with their own fuel from Alaska?
If Tesoro and Flint Hills lowered their price, They would probably sell more fuel.
Shell Oil, ships their fuel to a refinery in the lower 48, and then ships it to Alaska in a Large Tanker Ship, and then delivers it to the local Stations while still being competitive with Tesoro and Flint Hills?
If a station owner switches to Shell gasoline, they receive a 4 cent per gallon discount for a few years. (told to me from a station owner 2 years ago)
The refineries should be regulated. Maybe the State of Alaska should build their own refinery to keep everyone competitive.
Have a great day and thank-you for your time.
Paul Gardner

Jane Pierson

From: John Manly

Sent: Tuesday, October 21, 2008 4:07 PM

To: Jane Pierson

Cc: John Bitney

Subject: gas prices

Hi, Jane --- I got a call from a constituent at Kenny Lake (actually, one of Woody's) who is upset about the disparity in pump prices between Alaska communities. For example, the price in Palmer is $3.55, but it's $4.21 in Glennallen/Kenny Lake. She said she was recently in Tok, where the price at the Tesoro was about 30 cents cheaper than at Glennallen, and when she asked the operator where they got their gas, he said it was delivered by Crowley from Glennallen. I don't know if the committee is going to be drilling down this far into this issue, but it would be nice if we could get some rational explanation for that kind of price structure.
Thanks --- John

Jane Pierson

From: Cheryl Hanson [chanson@dgsd.k12.ak.us]
Sent: Saturday, October 18, 2008 2:41 PM
To: Rep. Jay Ramras
Subject: Question For You

Follow Up Flag: Follow up
Flag Status: Red

Dear Representative Ramras,

My husband and I had the pleasure of speaking with Representative Harris during the Deltana Fair at the end of July. We had a very long discussion regarding many things.

One of the topics that we covered was the high price of gasoline in our state. My question was why were we paying so much more for our gasoline considering that we produce it in our state. Representative Harris' reply was that we had to keeping line with the national average.

Well the price for a barrel of oil is now down below $80 and I have yet to see that we are keeping up with the national average. I've been watching the prices at our pumps here in Delta and there have been very little adjustment.

One Day my husband and I were in one of the gasoline stations and when we asked the clerk behind the counter when we would see some relief. Her response was that it would be a slow adjustment. Also, because we get our fuel brought in from Anchorage there were added costs. We have always had our fuel brought in from Anchorage. Yet, if the price of barrel of oil goes up the price of gasoline at the pump can go up 25 cents overnight.

We then asked her who they got their fuel from and she said she could not tell us. She was then very defensive. My response to her was, "is it a secret?" And she responded by saying , "Yes, it is a secret."

My question to you is, when are we going to see a change? When are we going to be in-line with the national average? Also, what are you doing about the obvious 'price gouging?"

Thank you for your time,
Cheryl Hanson
Delta Junction

I hope that just because I live in an area that isn't a borough my concerns will matter.

Anchorage International Airport 10/23/08
Jet fuel prices

Are these excessive fuel prices passed on to the national and international users of jet fuel at Anchorage International ?

If not? Why not? If so? Why ? At onetime 'they' were bring in foreign jet fuel, are they still ?

What is the price of jet fuel at Anchorage international V. elsewhere? V. Prince George?

Prince George is after Anchorage International Airports business. Prince George asserts that they are <u>now</u> the low cost provider.

Once Prince George gets some Anchorage International's carriers they will take almost all of the rest of the international carriers thus it is critical to see that Anchorage International keeps competitive and act before the fact not after the fact. Not much point in closing the barn door after the horses are gone!

Jerry McCutcheon susitnahydronow@yahoo.com

//

Oil Falls Near $70 a Barrel, 16-Month Low, Alarming OPEC

By JAD MOUAWAD

Oil prices plummeted on Thursday, falling below $70 a barrel for the first time in 16 months, and prompting the OPEC cartel to call for an emergency meeting next week.

The rapid decline in prices had alarmed petroleum executives and oil producers who are becoming increasingly nervous that it is undermining the stability of energy markets.

Oil prices have dropped sharply in recent weeks amid the economic crisis and lower consumption in developed nations. In New York, oil futures fell as much as 8 percent, to $68.57 a barrel, on Thursday, their lowest since June 2007. At the close, oil was down $4.69 a barrel, to $69.85.

Oil has lost half its value since hitting a record closing price of $145.29 a barrel in July.

While not a quite rout, the precipitous drop undermines the elusive quest for stability that both oil producers and petroleum executives say they need to invest over the long term. Thursday's sharp decline moved OPEC members to schedule an emergency meeting for next week to look for ways to stem the price decline. Analysts expect the cartel's producers to reduce their production by about a million barrels a day.

The surprise announcement came a week after the Organization of the Petroleum Exporting Countries, which controls about 40 percent of the world's oil exports, said its members would meet in November "amid growing unease over the situation." But some OPEC members have been alarmed at the panic selling in the commodity markets and successfully lobbied for an earlier meeting.

The concern now for both producers and petroleum executives is that the fall-off in prices could crimp investments and reduce revenue. Iran's oil minister, Gholamhossein Nozari, told reporters in Tehran on Tuesday, "I think the low price is a real damage to the future of production."

The same question is also weighing on the mind of many energy experts: Is the oil industry about to repeat the errors of the past, and slash investments as prices fall? Since oil is a cyclical business, some energy analysts fear that today's downturn could set the stage for a new price rally if oil companies cut their exploration spending.

From its inception more than a century ago, the oil industry has gone through countless cycles, and oil companies have often underinvested in periods of falling prices. The price collapse of the 1980s forced companies to slash investments and prompted a wave of mega-mergers through the sector.

But the industry's retrenchment in the face of lower prices left the world scrambling for oil when demand from Asian and Latin American economies soared.

Now, after nearly a decade of growth, the economic slowdown means there will be less demand for energy in the foreseeable future.

These concerns were on the minds of petroleum executives who gathered at an industry conference in Venice last weekend. The titans of the oil industry worried that a prolonged recession, tighter credit and lower energy consumption would mean slower growth in energy supplies in coming years. The credit freeze has already forced some projects to be scaled back, some energy analysts said.

"This is a real test," Jeroen van der Veer, the chief executive of Royal Dutch Shell, said during an interview on the sidelines of the conference. "Some people will be overstretched and there will be some delays in some projects."

But if companies pared their investments, they would set the stage for a surge in prices when demand eventually picks up, said J. Robinson West, the chairman of PFC Energy, the consulting company that held the conference.

Many experts have warned that such a squeeze may occur in the next five years, and could once again propel oil prices into triple-digit territory. In the last decade, the growth in oil consumption has outpaced the ability of producers to increase production.

A senior oil executive said that the industry was determined not to let history repeat itself. Many oil executives do not expect the current crisis to fundamentally alter the fact that developing economies will need more energy. By 2030, more than three-quarters of the world's energy will still be derived from hydrocarbons, including oil, gas and coal.

"Investments in exploration and production are very much linked to the price of oil," said Didier Houssin, the head of oil markets at the International Energy Agency, which advises industrial nations on energy policy. "What we can fear is that the financial crisis leads to delays in many projects."

The drop in prices has already created problems for producers, who have become accustomed to high prices. Iran and Venezuela both need oil prices at $95 a barrel to balance their budgets, Russia needs $70, and Saudi Arabia needs $55 a barrel, according to Deutsche Bank estimates. Algeria's oil minister, Chakib Khelil, estimated on Thursday that the "ideal" price for crude oil was $70 to $90 a barrel.

In Russia, which is not part of OPEC, the drop in prices is threatening to the country's ability to bolster production. The Russian government has reportedly agreed to allocate $9 billion to its four major producers — Lukoil, Gazprom, Rosneft and TNK-BP — to help them cope with investment needs amid the credit crisis.

In the United States, Chesapeake Energy, a gas producer, has recently indicated that it will reduce its capital investments over the next few years in response to falling prices.

Global oil demand is undeniably slowing, particularly in developed nations. Japanese oil consumption dropped 12 percent in August, while in the United States, demand has been cut by 8 percent in September.

Still, consumption is growing in developing nations, albeit at a slower pace. The International Energy Agency expects global oil demand to grow by just 400,000 barrels a day this year, to 86.5 million barrels a day. At the beginning of the year, the agency was expecting growth of more than 2 million barrels for 2008.

"We pretty much know where supplies are going to come from in future years, but today the biggest uncertainty is demand," the chief executive of the French oil company Total, Christophe de Margerie, said.

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How Decreases in Oil Translate at the Pump

The Average Price of Gas Dropped 4 Cents a Gallon Last Week

By RYAN OWENS, COLE KAZDIN and MUTALE NKONDE

July 21, 2008 —

Drivers received a brief reprieve from soaring gas prices when the price of oil dropped $16 a barrel last week, but consumers should pump the brakes on the idea of a large, instant price reduction at their local stations.

"I do not think that lower oil prices will mean lower prices at the pump immediately," said McGuire Energy Institute director Bruce Bullock.

Though the price decrease of crude oil last week was the biggest three-day drop in decades, it only resulted in easing the nation's average cost per gallon from $4.11 to $4.07, according to AAA.

Economists said roughly every dollar change in the price of oil moves the price of gasoline two-and-a-half cents. So, a $16 decline in oil prices should produce a 40-cent drop in gasoline prices.

But such a decrease takes time to show up at the pumps. AAA predicts if the price of oil can stay below $130 a barrel — and that's a big if — the price at the pump will decrease even more.

"We should see the national average price of gasoline drop from where it is today around $4.11 per gallon to below $4," said Geoff Sundstrom, of AAA.

Drivers aren't the only ones who would benefit from such a decline. The country's major airlines also need a break from sky-high jet fuel prices, which have grounded flights, forced carriers to raise ticket prices and lay off employees.

Oil would have to slide much further to take the pressure off the airline industry and McGuire Energy' Bullock predicted the price per barrel will likely increase.

"I think over time we will see $150 a barrel, certainly by the end of the year," Bullock said.

BREITBART.COM

Oil price slides below $72 to 13-month low

Oct 15 08:16 AM US/Eastern

AFP

The price of oil slumped below 72 dollars on Wednesday, its lowest level for more than 13 months, as recession fears raised concerns about a prolonged drop in energy demand, analysts said.

The global financial crisis will give a vicious twist to an economic slowdown and is hitting world demand for oil, although the effect on emerging economies is unclear, OPEC said on Wednesday.

The Organization of Petroleum Exporting Countries slashed its estimate of growth in demand this year and shaved its estimate for 2009, largely because of an "excessive" easing of demand in the United States, the single biggest energy market.

Prices also fell Wednesday on news that a Nigerian court has ordered Anglo-Dutch energy giant Royal Dutch Shell to hand over land to locals, a key demand of armed rebels camped in Nigeria's oil-producing region.

Brent North Sea crude for November delivery fell to 71.60 dollars a barrel -- the lowest level since August 2007 -- before recovering to 72.41 dollars, down 2.12 dollars compared to Tuesday's close.

New York's main contract, light sweet crude for November, shed 1.98 dollars to 76.65 dollars.

Brent crude has fallen by more than half from a record high 147.50 dollars in July, when prices rocketed on fears of supply disruptions.

Oil prices are sliding on "concerns that the coordinated action by central banks over the last week will not be enough to rescue economies from falling into a global recession and hence weighing on oil demand," Sucden analyst Nimit Khamar said.

A top US central banker, Janet Yellen, said Tuesday that the United States "appears to be in a recession." There are also growing fears Japan and Europe are heading for a spell of economic stagnation or recession.

The German economy is heading for a slowdown but the downturn will not be a long-lasting one, Chancellor Angela Merkel said Wednesday.

Meanwhile a Nigerian court ordered Shell to hand over land around its giant Bonny oil terminal to the local population, the multi-national said Wednesday.

"The ruling was given some months ago but we have appealed," Shell's spokesman in Nigeria, Precious Okolobo, told AFP.

He did not say whether oil lifting and export activities at the terminal, considered to be the largest in Africa, would be affected by the ruling.

Markets were meanwhile awaiting the latest weekly snapshot of US energy inventories due Thursday for a lead on the state of demand for oil in the world's biggest consumer of crude.

The Department of Energy's latest data on inventories has been delayed a day owing to a public holiday in the United States on Monday.

Oil traders were also looking ahead to an extraordinary meeting of OPEC on November 18 as member countries fret over falling prices, with some calling for cuts in output as a result.

JUNEAU EMPIRE.COM

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Study to look at oil, gas infrastructure

Firms to review, rank the risks along state's aging pipeline, oil fields

ANCHORAGE - A study of risks posed by Alaska's aging oil and gas infrastructure will begin this fall.

The study, authorized by the Alaska Legislature, involves a lengthy review and ranking of oil and gas-related risk along the 800-mile trans-Alaska oil pipeline, the Valdez tanker port, and North Slope and Cook Inlet fields. The study will not be finished until early 2010.

The study was an outgrowth of spills, leaks and corrosion discovered on the North Slope in recent years. The legislature approved $5 million for the study.

"Some of the things they should have done already," said Rep. David Guttenberg, D-Fairbanks, who has worked construction jobs on the North Slope.

Accidents on the Slope keep happening, he said, noting a high-pressure natural gas pipeline at Prudhoe Bay that blew up last week. The incident sent a pipe segment onto tundra and led to a shutdown at two oil production pads.

Leaks from two corroded oil pipes in 2006 caus d half of Prudhoe Bay to shut down for weeks, temporarily slowing oil revenue to the state

Prudhoe Bay oil field operator BP is replacing 16 miles worth of corroded pipe at a cost of $260 million.

Prudhoe Bay, the North Slope's oldest field, was built more than 30 years ago.

"No one has really taken a comprehensive look at the whole system before," said Ira Rosen, the Alaska Department of Environmental Conservation manager running the project.

The study group includes two consulting firms, Doyon Emerald of Anchorage and Houston-based ABS Consulting. The group will look at paperwork and it's unclear how much time it will spend in the field inspecting oil and gas equipment, Rosen said.

BP has a long history of cooperating with state agencies, said spokesman Steve Rinehart, but its participation in the study has not been determined.

"They haven't actually said what it is they'd like us to do yet," he said.

The scope of the study also has not been determined. The state this month is hosting public meetings to hear what Alaskans say the study should focus on.

A recent meeting in Fairbanks drew more regulators and contractors than members of the public, according to people who attended it. Some who attended came away with differing opinions on whether the study was on the right track.

Richard Fineberg, a longtime oil industry watchdog, said he is worried that the state's team will not spend enough time in the field or get access to important facts.

"It runs the risk of being a highly bureaucratized thing," he said.

An environmentalist who went to the meeting, Gabe Scott of Cordova, said the study should take a hard look at oil-field management and cost-cutting. He also says the study team should weigh the benefits of creating a citizen group to monitor the trans-Alaska oil pipeline.

Citizen groups backed financially by the oil industry monitor tankers in Cook Inlet and Prince William Sound, but do not monitor activity on the North Slope or in communities along the pipeline route, he said.

The public meeting for comment in Anchorage area is scheduled for Oct. 15.
Click here to return to story:
http://juneauempire.com/stories/100708/sta_341273560.shtml

Markets

Commodities

1 day 5 days 1 month 1 year

Light sweet crude	95.35	-11.54	-10.80%

Market Summary

At 5:14 PM ET, Nov. 08 light sweet crude futures and Dec. 08 gold futures are both down in after-hours electronic trading. Nov. 08 light sweet crude futures are down $11.54, or 10.80%, to $95.35 a barrel in Nymex trading ... Dec. 08 gold futures are down $0.00, or 0.0[illegible]%, at $893.40 ... Dec. 08 ... futures ... down $0.30 ... or 5.52%, to $5.13 a bushel.

Light sweet crude	Nov. 08	277,407	95.35	-11.54	95.04	106.91
					51.75	149.47
Brent crude	Nov. 08	920	93.98	[illegible]	94.41	99.70
					93.08	217.95
Heating oil	Nov. 08	54,414	2.77	[illegible]	2.76	3.02
					1.93	4.25
Natural gas	Nov. 08	113,995	7.39	-4.04	7.14	7.87
					4.75	14.00
RBOB gasoline	Nov. 08	72,502	2.74	[illegible]	2.73	2.81
					1.96	3.55

S&P 500		Dow		Nasdaq	
1,106.42		10,365.45		1,983.73	
-106.85	-8.81%	-777.68	-6.98%	-199.61	-9.14%

Commodities

1 day | 5 days | 1 month | 1 year

Light sweet crude [illegible] 95.35 −11.64 −10.80%

Market Summary

At 3:14 P.M. ET, Nov. 08 light sweet crude futures and Dec. 08 gold futures are both down in after-hours electronic trading. Nov. 08 light sweet crude futures are down $11.64, or 10.80%, at $95.36 a barrel on Nymex. [illegible] and Dec. 08 gold futures are down $0.00, or 0.00%, at $894.40 [illegible] Dec. 08 [illegible] futures closed down $0.30 [illegible], or 4.52%, at $6.13 [illegible]

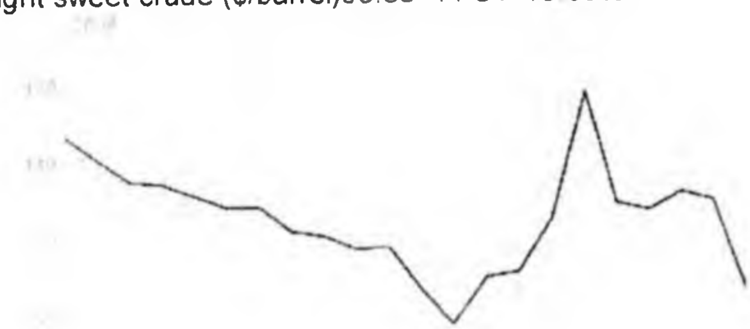
Light sweet crude	Nov. 08	277,407	95.35	[illegible]	95.04	106.97
					57.75	148.41
Brent crude	Nov. 08	920	93.98	[illegible]	94.42	99.10
					86.09	117.93
Heating oil	Nov. 08	54,414	2.72	[illegible]	2.70	3.02
					1.99	4.25
Natural gas	Nov. 08	131,901	7.16	[illegible]	7.14	7.67
					6.75	14.00
RBOB gasoline	Nov. 08	72,562	2.38		2.53	2.61
					1.96	3.51

S&P 500	Dow	Nasdaq
1,106.42	10,365.45	1,983.73
−106.85 −8.81%	−777.68 −6.98%	−199.61 −9.14%

- OIL
- GOLD
- CORN

At [illegible]14 PM ET

Light sweet crude ($/barrel)95.35−11 54−10 80%



Integrated Oil & Gas

1 DAY	5 DAY	1 MONTH	1 YEAR	MKT CAP
-1.33%	-0.75%	-5.45%	-8.77%	201.9B

The integrated Oil & Gas industry consists of companies engaged in the exploration, production, refinement and distribution of oil and gas. Companies classified in this industry usually have global operations and significant activities in both Exploration & Production and Refining & Marketing operations. Companies in this industry are also frequently engaged in Energy Related Equipment & Services operations.

Integrated Oil & Gas

[illegible] Energy Pr[illegible]	4.1M	[illegible]	[illegible]	[illegible]
BP p.l.c. (ADR)	170.2B	1.43	[illegible]	[illegible]
[illegible] Corporation	178.6B	[illegible]	[illegible]	[illegible]
China Petroleum & [illegible]	74.1B	[illegible]	[illegible]	[illegible]
Clayton Williams E[illegible]	941.6M	[illegible]	[illegible]	[illegible]
ConocoPhillips	115.9B	-0.75	[illegible]	[illegible]
Eagle Rock Energy [illegible]	846.6M	[illegible]	[illegible]	[illegible]
[illegible]	412.9B	[illegible]	[illegible]	[illegible]
[illegible]	29.1B	[illegible]	[illegible]	[illegible]
[illegible]	983.6M	[illegible]	[illegible]	[illegible]
Marathon Oil Corp[illegible]	28.6B	[illegible]	[illegible]	[illegible]
Murphy Oil [illegible]	13.3B	[illegible]	[illegible]	[illegible]
Noble Energy [illegible]	10.1B	[illegible]	[illegible]	[illegible]
[illegible]	63.2B	[illegible]	[illegible]	[illegible]
[illegible]	17.7B	[illegible]	[illegible]	[illegible]
[illegible]	204.1B	[illegible]	[illegible]	[illegible]
[illegible]	38.8B	[illegible]	[illegible]	[illegible]
[illegible]	198.5B	[illegible]	[illegible]	[illegible]
[illegible]	201.2M	[illegible]	[illegible]	[illegible]
[illegible]	144.5B	[illegible]	[illegible]	[illegible]

Page 1 [illegible]

Sectors

[illegible]

MARKETS

AMERICAS EUROPE ASIA BONDS COMMODITIES

S&P 500	Dow	Nasdaq
1,106.42	10,365.45	1,983.73

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Integrated Oil & Gas

1 DAY	5 DAY	1 MONTH	1 YEAR	MKT CAP
−1.33%	−0.75%	−5.45%	−8.77%	201.9B

The Integrated Oil & Gas industry consists of companies engaged in the exploration, production, refinement and distribution of oil and gas. Companies classified in this industry usually have global operations and significant activities in both Exploration & Production and Refining & Marketing operations. Companies in this industry are also frequently engaged in Energy Related Equipment & Services operations.

Integrated Oil & Gas

Williams Companies	14.7B	[illegible]	[illegible]	[illegible]
XTO Energy	27.1B	4.4%	[illegible]	[illegible]
YPF SA (ADR)	19.0B	[illegible]		

Page 1 2

Sectors

Oil Falls Sharply on Renewed Economic Fears

By JAD MOUAWAD

Oil prices dropped sharply on Monday as the House voted down a $700 billion bailout plan for the financial markets, raising the specter of slower economic growth and depressed demand for petroleum products. The House leadership, however, plans a second attempt to pass the bill.

Crude oil futures fell $10.68 to close at $96.21 a barrel on the New York Mercantile Exchange. They have lost nearly $25 since last Monday, and dropped sharply as the House voting began.

In the last two weeks, commodity markets have been shaken by the turmoil on Wall Street while still recovering from the impact of two powerful hurricanes in the Gulf of Mexico. After reaching $145.29 a barrel in July, prices had slumped to nearly $90 a barrel earlier this month as the nation's economic prospects dimmed. But in a wild market, they spiked back up last week on the back of tremendous uncertainty in the financial markets.

Anxiety once again gripped investors on Monday after Congressional leaders failed to garner enough votes to pass a compromise bailout agreement that was reached over the weekend. The plan, the biggest bailout in history, would have allowed the Treasury Department to buy back troubled assets held by banks and other financial institutions. It is unclear when the House can reschedule a vote, or whether it will pass this time.

Before the vote, investors were also reminded that the financial crisis was far from over. In the latest episode of the unfolding meltdown, Citigroup will buy the banking operations of the Wachovia Corporation, the government said Monday. Meanwhile, the Belgian, Dutch and Luxembourg governments partially nationalized the European financial conglomerate Fortis, another sign that the crisis that began because of sour home mortgages in the United States could be spreading.

Analysts at Barclays Capital said the frantic weekend negotiations that led to the bailout agreement "appear to have failed to revive market sentiment." As the economic situation deteriorates, the demand for commodities, including oil, is expected to slow.

"The outlook for global equity, interest rate and exchange rate markets has become increasingly uncertain," analysts at Deutsche Bank wrote in a note to investors. "We believe commodities will be unable to escape the contagion. From a commodity perspective our most pressing concern is to what extent the U.S. virus spreads globally and specifically to China."

The bank's analysts pared their expectations for next year as oil consumption drops because of slowing economic growth, reducing their oil and gas price forecasts by about 20 percent for 2009.

Concerns that the crisis might be spreading to Europe helped push down the value of the European common currency. The euro dropped against the dollar to $1.43 on Monday from $1.46 on Friday.

The weaker economic outlook could further push down oil prices in the coming months if demand for oil in developed countries keeps falling, according to Ben Dell, an analyst at Bernstein Research. He expects oil consumption could fall by 1.3 million barrels a day, or 2.6 percent, in the fourth quarter this year. That is much more than the 470,000 barrels a day drop forecast from the International Energy Agency.

"This dynamic is similar to that of the 1980s and suggests that investors would be increasingly concerned with the slowdown in Europe, Japan and the U.S.," he wrote in a note to clients.

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BACK PRINT

Oil Prices Plunge Despite OPEC Cuts

VIENNA, Austria, Oct. 24, 2008

(AP) An OPEC attempt to stem the free-fall in oil prices fizzled Friday with crude plunging to lows last seen 15 months ago on world economic fears, despite the 13-member group's decision to slash production by a daily 1.5 million barrels.

Oil's imperviousness to production cutbacks - the most potent weapon in the OPEC arsenal - reflected the cartel's diminishing control over prices. And the language of an OPEC statement announcing the cut reflected how seriously it viewed the erosion of its revenues, as did the unusually short deliberations leading to the decision.

"Oil prices have witnessed a dramatic collapse - unprecedented in speed and magnitude," said the 13-nation organization. "This slowdown in demand is serving to exacerbate the situation in a market which has been oversupplied with crude for some time."

It also warned of further hard times ahead for suppliers, saying "the fall in demand will deepen" in the coming months.

In more orderly economic times, any Organization of Petroleum Exporting Countries move to reduce output led to an upward spike on fears that demand would outstrip supply. But Friday's oil market reaction reflected present realities: with the financial vortex sucking the U.S. and other major consumers into recession - and even China's and India's booming economies slowing - even less oil at lower prices will have trouble finding a buyer.

"The power to influence oil prices is moving farther and farther away from OPEC," said oil trader and analyst Stephen Schork. "Everyone thought China and India would go on buying oil forever, but that's not the case.

"The demand is no longer there," said Schork. "I think people fooled themselves when they said emerging markets could weather a U.S. downturn. That's yanked OPEC right out of its role as the key player."

Steeply dropping world stock markets that reflected fear of a global recession proved the dominant influence on oil markets, sidelining any OPEC hopes that its steepest output cut in five years would remedy crude's plunge.

Major European bourses that were down more than 10 percent during the day improved by closing time but still suffered losses as high as 5 percent. Asian stocks also closed sharply down. Russia's two exchanges were shut down early because of double-digit losses and officials said they wouldn't resume trading until Tuesday.

On Wall Street, the Dow Jones industrials were down 400 points well into the trading day.

Benchmark crude futures were trading at US$64.60 a barrel on the New York Mercantile Exchange after falling as low as US$62.85 earlier in the day, shortly after OPEC announced its cut, to take effect starting next month.

Crude prices have now fallen 56 percent from the highs reached in July, and more than US$41 per barrel in just the last 30 days.

Reflecting the huge demand slump facing OPEC, a U.S. Department of Transportation report released Friday showed the largest monthly decline in miles driven in 66 years.

Americans drove 5.6 percent less, or 15 billion fewer miles, in August 2008 compared with August 2007 - the biggest single monthly decline since the data was first collected regularly in 1942.

In terms of overall use, the latest weekly report from the U.S. Department of Energy shows that crude demand has fallen in 38 of the past 42 weeks. U.S. demand is down nearly 10 percent during the past four weeks year on year.

The figures are significant because the U.S. still consumes one out of every four barrels of oil produced.

The 11 OPEC nations under quotas are already producing more than their allotments - overall output from them is about 300,000 barrels a day past the stated OPEC daily target of about 29 million barrels.

So if they stop overproduction, and comply with the 1.5 million cut agreed on Friday, OPEC should end up producing about 1.8 million barrels less a day.

But against increasingly alarming economic developments not only in America but in most corners of the world, even an OPEC cut closer to 2 million barrels a day is unlikely to turn near-term prices around.

The cut reflected a compromise between OPEC members such as Iran and Venezuela, which were looking to yank up to 2 million barrels a day off the market, and oil powerhouse Saudi Arabia and its Gulf allies that are more open to U.S. appeals for plentiful crude on the market.

It also tried to balance OPEC members' concerns over eroding revenue with demands from the U.S. and other major consumers for affordable crude.

But the U.S. criticized the move.

"It has always been our view that the value of commodities, including oil, should be determined in open, competitive markets, and not by these kinds of anti-market production decisions," deputy press secretary Tony Fratto said Friday. "The high oil prices from the past year contributed to the slowdown in demand and the subsequent downturn in the economy, and we would ask that everyone keep that in mind going forward."

Still, OPEC officials left no doubt that they were ready to slice deeper quickly if Friday's decision does not end the price free fall.

Friday's meeting was called unexpectedly in response to prices that have entered a tailspin since their historic high of nearly US$150 in July. OPEC President Chakib Khelil said OPEC was ready to convene another emergency session before its next planned gathering in December in Algeria "if there are further decisions that have to be m 'e" on slashing prices.

"It's clear that the ministers are attempting to underpin at US$60 a barrel," said James Crawford an analyst with Inter Emirates. "B t where the market will settle remains open."

In an appeal to Russia and other major oil exporters outside OPEC, the oil ministers meeting in Vienna indirectly urged them not to undercut their efforts to prop up prices.

"OPEC cannot be expected to bear alone the burden of restoring equilibrium," said the statement.

OPEC Secretary-General Abdullah El-Badri said before a meeting with Russian President Dmitry Medvedev on Wednesday that he would not ask Russia for oil production cuts as global prices fall. Some analysts have said Russia was unlikely to agree to production cuts, given that it already is battling with falling output as West Siberian oil fields mature.

But others spoke of behind-the-scenes negotiations between Russia and OPEC on the issue.

El Badri took pains Friday to emphasize that OPEC's move was predicated by a need not to raise prices but to put a floor underneath them. Iran, Venezuela and other OPEC members have suggested that, for them, selling oil under US$80 was a loss-maker, and Iraq said Thursday it would have to rethink next year's national budget if prices remain under that level.

El-Badri said OPEC could not be expected to solve the world's financial crisis - something the organization did not cause and could not cure.

"OPEC cannot bail out the problems of others," he said.

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Beaufort Sea Areawide	Oct. 22, 2008
DNR	North Slope Areawide	Oct. 22, 2008
DNR	Alaska Peninsula Areawide	May 2009
DNR	Cook Inlet Areawide	May 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
DNR	North Slope Foothills Areawide	October 2009
MMS	Sale 209 Beaufort Sea	2009
MMS	Sale 211 Cook Inlet	2009
DNR	Alaska Peninsula Areawide	May 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
MMS	Sale 212 Chukchi Sea	2010
MMS	Sale 217 Beaufort Sea	2011
MMS	Sale 214 North Aleutian basin	2011
MMS	Sale 219 Cook Inlet	2011
MMS	Sale 221 Chukchi Sea	2012

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

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● FINANCE & ECONOMY

Oil markets expected to remain tight

EIA says while current economic slowdown contributes to decline in demand, sluggish production expected to keep markets tight

PETROLEUM NEWS

The current slowdown in economic growth is contributing to the decline in oil demand and to a sharp decline in oil prices, but sluggish production growth is expected to keep oil markets relatively tight, the U.S. Department of Energy's Energy Information Administration said in its short-term energy report released Oct. 7.

The agency said strong global demand and low surplus production capacity contributed to the run up to record crude oil prices in July. While the current slowdown in economic growth is contributing to recent declines in oil demand and to the sharp decline in prices since July, absent a major worldwide economic downturn, EIA said it expects West Texas Intermediate crude oil prices to average $112 per barrel both this year and next.

A winter colder than last year is expected to contribute to high fuel use in many areas, with the National Oceanic Atmospheric Administration's most recent projection for the Lower 48 of a winter 2.4 percent colder than last winter, although 2 percent warmer than the 1971 to 2000 30-year average. EIA said average household expenditures for all space heating fuels are projected to average $[illegible] for Oct. 1 through March 31, a [illegible] percent increase from last winter, with the largest increases for households using heating oil and natural gas.

Saudi production up

EIA said Saudi Arabia had higher crude oil production this summer which, combined with the demand response to extremely high prices and recent credit market problems that point to a lower trajectory for the world economy and oil consumption growth, is currently contributing the settlement of a loosening in the global oil balance." Because of those factors, recent supply disruptions in the Gulf of Mexico have not pushed up oil prices as much as if they had occurred earlier in the year.

But, the agency said, unless the global economy is weaker than expected, Organization of Petroleum Exporting Countries will not be able to meet the crude oil demand over the next six months. That combined with relatively low commercial oil inventories in Organization for Economic Cooperation and Development countries "suggest some upward pressure on prices."

EIA said the determining factor in price pressures may be whether non-OPEC oil production increases as expected next year.

Global oil consumption is expected to increase by some 300,000 barrels per day in 2008 and by almost 800,000 bpd in 2009. EIA said 2008 growth is nearly 150,000 bpd lower than in its September projection, "reflecting the deteriorating global economic outlook."

Natural gas use up

Natural gas consumption is expected to increase by 1.0 percent in 2008 and by 1.9 percent in 2009, EIA said, with U.S. marketed natural gas production expected to be up by 6.7 percent this year and by 4.[illegible] percent next year. Lower 48 non-Gulf of Mexico production continues to lead domestic production, with a growth of 9.7 percent expected this year.

U.S. imports of liquefied natural gas are below year-ago levels, with third-quarter imported cargoes less than half what they were last year. "Demand growth in Europe and Asia combined with limited global supply increases to date continue to weigh on the market," EIA said. LNG imports to the U.S. are not expected to increase in the remainder of the year. "2009 import growth remains vulnerable to additional delays in new capacity and unexpected maintenance on existing capacity."

LNG imports for 2008 are expected to total some 350 billion cubic feet; 450 bcf is expected in 2009 as more global LNG capacity comes online.

The September Henry Hub spot price averaged $7.88 per thousand cubic feet, down 62 cents from the average in August. EIA said the recent decline in prices was the result of demand loss associated with recent hurricanes in the Gulf of Mexico, moderate temperatures, lower oil prices and uncertainties over future economic growth.

Consumer prices for natural gas this winter, however, are expected to be up some 18 percent compared to last winter, "the result of the particularly high spot prices that were recorded earlier this year as a portion of the inventories for the upcoming heating season were being built."

EIA said beyond this winter the continued growth in on-shore U.S. production is expected to bring the natural gas price down, with the price expected to average $9.67 per thousand cubic feet this year and $8.13 in 2009, compared to $7.17 in 2007. ●

Elizabeth Brown

From: garry remsberg [cynnabelle@hotmail com]
Sent: Friday, October 24, 2008 2:39 PM
To: Timothy Clark; Jesse Kiehl; Rep. Jay Ramras
Subject: RE High Juneau Gas Prices

I listened to the hearing on Thursday and read this write-up :

Lawmakers hold second hearing on gasoline prices

Story last updated at 10/24/2008 - 8:21 am
The Associated Press
ANCHORAGE - State lawmakers are not finding easy answers in their investigation into high gasoline prices.
After a second hearing Thursday, they still have more questions than answers why Alaskans pay 70 to 90 cents more per gallon than drivers in Seattle or Hawaii.
State Rep. Jay Ramras says the problem does not lie with retailers.
The Fairbanks Republican says that leaves the distributor and the refineries and lawmakers can't seem to "peel the onion back" to find answers.
Senior Assistant Attorney General Ed Sniffen says there is no price gouging law in Alaska that says they have to charge any specific price.
The Attorney General's office conducted a similar gasoline investigation in the late 1990s that produced inconclusive results.

So where does this "investigation" go from here?

Thanks.

Garry Remsberg

From: Timothy_Clark@legis.state.ak.us
To: cynnabelle@hotmail.com
Date: Wed, 15 Oct 2008 11:01:03 -0800
Subject: RE: High Juneau Gas Prices

Hi Garry

I ve just double-checked the committee schedules and the Judiciary hearing on gas pricing is indeed set for 9 30 Thursday the 23rd (Sen Elton s staff may have been mistaken due to an Energy Task Force meeting for the 21st)

Tim

From: garry remsberg [mailto:cynnabelle@hotmail.com]
Sent: Wednesday, October 15, 2008 10:50 AM
To: Timothy Clark
Subject: RE: High Juneau Gas Prices

I received an e-mail from Kim Elton aide and he said there was a meting on Tuesday 21st:

"Sen. Elton asked me to reply to your message.

The Alaska Department of Law is looking at the very question you pose. The House Judiciary Committee will hold a meeting to hear from the department on Tuesday, October 21 at 10:00 am. The Juneau delegation will monitor the meeting by teleconference, and we're eager to hear whether there's a good explanation for the price differences you've noticed.

If you'd like to listen, the audio will be available live on the Internet at www.ktoo.org/gavel/audio.cfm. If you can't listen while the meeting's going on, Gavel to Gavel will archive the meeting on that same site and you can listen any time you'd like"

Has this meeting moved to Thursday 23rd at 9:30am?

Please let me know as there are many folks interested in hearing this meeting.

Thanks for your time.

Garry

From: Timothy_Clark@legis.state.ak.us
To: cynnabelle@hotmail.com
Date: Wed, 15 Oct 2008 10:26:59 -0800
Subject: RE: High Juneau Gas Prices

Hi Garry,

Just a quick update on the investigation into persistently high gas costs in the state

There is a Judiciary Committee hearing on the subject scheduled for 9 30 a m next Thursday, the 23rd They will probably be hearing from state attorney Ed Sniffen on the issue. You should be able to listen in by going to www ktoo org and clicking on "Gavel-to-Gavel."

Sincerely,

Tim Clark, Legislative Aide
Office of Representative Andrea Doll
Capitol Building, Room 426
Juneau, AK 99801
Ph. 907-465-3744
Fax 907-465-2273

NEWS

Update for Friday, October 24th, 2008

Empire > Today's Updates > Lawmakers hold second hearing on gasoline prices

Lawmakers hold second hearing on gasoline prices

St ry last updated at 10/24/2008 - 8:21 am

Th ssociated Press

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9 Responses to "Lawmakers hold second hearing on gasoline prices"

REPORT ABUSE

REPORT ABUSE

REPORT ABUSE

REPORT ABUSE

REPORT ABUSE

REPORT ABUSE

How tough can this be ??? What did you pay? How much did you charge? What is your overhead? Duh. I would like to use my life line

REPORT ABUSE

8. Jaune Says
October 24th, 2008 at 1:... pm

Unfortunately, this is happening all over the country, not just in AK. Our government seems to allow it and it is one of many other things that's draining our country and putting us into the situation we are faced with now.

REPORT ABUSE

9. Curiousity Kills the Cat Says
October 24th, 2008 at 1:45 pm

Something must be going on... anyone watching the gas price drop 10 cents a gallon in less than a week? Keep watching... the ... dropping... but yet diesel isn't and neither is home heating oil.

REPORT ABUSE

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HOMER TRIBUNE

House judiciary holds hearing on price of fuel

Thursday meeting from 9:30 a.m. to 4:30 p.m. in Anchorage seeks testimony from refineries

By Naomi Klouda
Homer Tribune
October 22, 2008

Where does fuel come from, and how much is paid for it, are questions the Alaska Attorney General's office and the Alaska Legislature's House Judiciary Committee is asking, to determine if Alaska consumers are getting a fair price.

The price of crude is about the only known factor. Tuesday's close was $64.63 a barrel. The rest of the costs from refinery to pump are trade secrets we won't be told, but the investigation promises at least some public explanation in the coming months.

Ed Sniffen, senior assistant attorney general, said he is looking at why summer gas prices did not go down in Alaska when they tumbled in the states.

"We get calls every day from people saying 'I'm getting gouged by these gas prices,'" Sniffen said.

Homer sits 85 miles from the oil refinery terminals at Nikiski that supply fuel to the town, much of it barged here by a private Seattle company called K-Sea Transportation.

At the dock, Barge 282 pulled by the 100-foot tug Pacific Challenger drops off thousands of barrels of fuel twice a month. It also offloads fuel for Seldovia, Port Graham and Nanwalek before heading to Kodiak.

That fuel is purchased by Petro Marine Services. HomeRun Oil purchases its fuel directly from Nikiski or at the Port of Anchorage and hauls it to Homer by its own 18-wheeler transport.

There's no law broken when gas stations charge what they want, Sniffen said. Alaska doesn't have a law regulating the profits a company can make, following the free market system in American ideology, he said.

"Yet, there was a little window of time starting in early June and lasting until early September when the prices of fuel seemed supra-competitively high, a bubble way above those levels for no specific reason," Sniffen said. "At no time in Alaska history, tracing the price of fuel back, did prices track in such a way.

"Every place in the nation was going down and Alaska stayed the same for a long time," he said.

That's when the AG office decided to start investigating the matter, conducting hearings with fuel retailers and wholesalers to figure out what was going on. In conjunction with the AG office's efforts, the House Judiciary Committee headed up by Rep. Jay Ramras, R-Fairbanks, also is looking into the matter. The committee convenes in Anchorage for a second time Thursday, now to hear from the refineries.

"Certainly, we are seeing some weird things that suggest to me something fishy is going on," Sniffen said.

The House can ask questions of Alaska's three petroleum refineries, Petro Star, Tesoro Alaska and Flint Hills, but they can't require them to answer specific cost and price questions because those are protected by confidentiality. But the AG's office can subpoena documents, Sniffen said.

"We have a meeting with Tesoro on Wednesday, and have requested documents," he said of the process so far. They also have requested information from Crowley and Delta Western, the two shipping companies in Southeastern Alaska that supply fuel.

Petro Marine's director of marketing, Smokey Norton, said there are a number of reasons why consumers in Homer didn't see a price dip when the cost of crude tipped to $72 from a long haul of over $100 a barrel.

"Crude could go down 10 percent and it doesn't mean it will travel down 10 percent on the street," Norton said. Right now wholesalers are still holding on to inventory from July when crude remained high, he said.

"If you buy it at $2 a gallon, even though it goes down to $1 a gallon, consumers won't see that at the pump until (wholesalers) purchase new fuel at the lower price."

Norton estimated it takes at least a month for per-barrel prices to translate at the gas station. Other factors such as how much fuel is held in inventory and the costs from the refinery factor in to price passed on to consumers.

Ramras' office has been canvassing the state, gathering information about pump prices by region. Jane Pierson, Ramras' assistant, has found that among rural residents, Sitka currently is paying the lowest price, and receives its fuel from Seattle, at $3.30 a gallon. She likewise gathered numbers from Rep. Paul Seaton's Homer office on gas prices here. "You're paying as much or more than certain areas of southeast," she said.

Other than remote rural villages, some of the highest prices are in southeast, according to her findings. In Fairbanks, where a Flint Hills refinery is located, fuel costs comparable to Anchorage at about $3.40 a gallon.

"We're seeing bizarre anomalies in the mark[illegible]. About every four days the price is going down, and then there's a spike that goes up," Pierson said. "It's a very strange market."

Only Flint Hills and Petro Star agreed to present at the Thursday House Judiciary Committee meeting, with Tesoro Alaska opting out, Pierson said.

The committee is looking at possible legislative measures, Pierson said. Hawaii tried to regulate fuel prices through legislative action, then rescinded the law after it didn't prove effective.

"What happened in Hawaii was a cap – they had placed a top on fuel prices and so the prices rose to the cap and stayed there," Pierson said. "All fluctuations stopped there. We don't know if we want to go into an anti-gouging statute."

The only Alaska law currently in place that would apply to any price-fixing is an anti-trust law, which would only come into effect when refiners are in collusion to set prices, he said.

By the end of the year, he hopes to have information to be made public. The House Judiciary Committee, meanwhile, will likewise issue its findings and perhaps shape legislation to be taken up when the Legislature convenes in January.

435 E. Pioneer Ave. Homer, Alaska 99603
Phone: (907) 235-3714 Fax: 235-3716

Alaska lawmakers hold second hearing on gasoline prices

ANCHORAGE Alaska -- State lawmakers are not finding easy answers in their investigation into high gasoline prices

After a second hearing Thursday, they still have more questions than answers why Alaskans pay 70 to 90 cents more per gallon than drivers in Seattle or Hawaii

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Community Discussion

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FreeDarfur

10/24/2008 8:22 a.m.
Suggest removal

They ADN in the extended version of this article stated that one of the contributing factors could be the two refineries in Fairbanks hold a duopoly and keep prices at a level that is just enough to ward off any new competitor from entering this market

kozloski

Flint Hills is trying to sell their refinery at North Pole. The best way to make it attractive to a buyer is to improve the bottom line of the operation. By increasing refining prices to the highest level that the market will stand and them some more, they have increased their profits and enhanced the prospects of a sale. The Tesoro refinery in Nikiski goes along with the game out of sheer greed. Alaskans are the pawns in this scheme

silverwindrune

Not to mention we are paying the shipping on gas both was to Anchorage and to fairbanks.... Wheres a leader for real change when you need them

Oh and in the quite whispers of gas stations Flint hills is thinking of closeing down...... Hmmm I wonder if the state will buy it and use it to help us

[illegible] and those refinery's are buying the rolity oil from the state.... Should that be going out of state to bring in more money in steed of us buying it over and over again???

FreeDarfur

OPEC announced today that they will reduce production by 1.5 million barrels a day and the Brent dated crude closed at $60 a barrel. Despite reduction, the price of oil reduced itself. This was not what OPEC expected. Who knows what will happen next. This State's economy based in oil isn't looking to good right now. Does anyone [illegible] that if they could have sold the refinery, Flint Hills would have done so. There just aren't buyers out there for this market

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LETTER TO THE EDITOR

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Gas price inquiry

Brian Stoffel North Pole

Published Friday, October 17, 2008

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STUMBLE IT!

Oct. 15, 2008

To the editor:

On Oct. 8, 2007, crude oil prices per barrel were $81. On Oct. 8, 2007, the national average retail price per gallon of gasoline was $2.77. On Oct. 14, 2008, crude oil prices per barrel were $81. On Oct. 14, 2008, the national average retail price per gallon of gasoline was $3.09.

On Oct. 13, 2007, the crude oil price per barrel was $81, and the Alaska average gasoline price per gallon was $2.80. On Oct. 14, 2008, the crude oil price per barrel was $81, and the Alaska average gasoline price per gallon was $3.94.

Why is the average price for a gallon of gasoline in Alaska 85 cents per gallon more than the national average when one year ago today it was virtually the same? Why is the average price for a gallon of gasoline in Alaska $1.14 higher than it was one year ago today? Why is the national retail fuel price average gasoline per gallon 32 cents higher than one year ago for the same price oil?

The Fairbanks Daily News-Miner on Aug. 30, 2008, ran a story about an investigation into price-fixing in Alaska. What happened to that investigation? What is the status of this inquiry? We Alaskans demand answers! It seems that our delegates in Juneau and Washington have forgotten us! Where do we turn? What is the answer to this problem?

Prices are in U.S. dollars and collected from plastemart.com, consumerreports.com, newsminer.com and alaskagasprices.com.

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Community Discussion

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AKpatriot

10/16/2008 11:55 p.m. Monopoly pricing. Not fun for the consumer.

Suggest removal

Alaska1

WA. Study
AK. Study

10/17/2008 12 44 a m
Suggest removal

Here Hear!!

On my to work tonight Tesoro on Peger was at 3.63! I was nearly giddy seeing that sign. and then I chuckled outloud and shook my head at myself for being happy about 3 63 a gallon I wasn't satisfied just happy to see the prices continuing to fall

I believe that a part of the reason of prices differences over a year ago is the demand for oil That said however, we need to be looking into other ways to fule our vehicles What about Compressed Gas (CG)

If we can put a man on the moon. and rescue men on their way to the moon (Apollo 13). we can damn sure figure out a way to fuel ourselves cheaper than we are at present

hairbrain

10/17/2008 2 53 a m
Suggest removal

Lets just keep voting people back into office like Mike Kelly and maybe we can keep screwing ourselves

jennings99705

10/17/2008 3 11 a m
Suggest removal

Let me stand up and be counted as one who is very upset with the current price of fuel I burn wood not because I like to but to offset the unnecessarily high price our state legislature and local refiners are extorting from us Fairbanks community is suffering from decreased air quality due to the increased wood and coal burning

Our state mandates that oil be sold to both of the local refiners at west coast price I recommend that the state drop troopergate and open the fuel gates buy selling oil to the 3 refineries on the Alaska pipeline at 1/2 price of west coast Maybe they are all too busy running for office

Both refiners in North Pole are responsible at the local level for fuel prices to remain high While they don't set the price for a barrel they do set the price per gallon

It is past time for the governor to get back in town pull off the lipstick and do the job she was hired to do Help the residents of this state

Shortpath

10/17/2008 3 12 a m
Suggest removal

I am currently in OKC and upon arrival drove down Meridian Avenue Lowest price I saw was 2 43 at a Seven-Eleven

Hopefully when I return at the end of the month it will be 3 43 in Fairbanks

Dirk

10/17/2008 3 55 a m
Suggest removal

May the owners of the refineries their immediate shareholders. and others who suck the life-blood from working people all the while killing the economy. find themselves in the bread line at a soup kitchen begging for food. cold to their bones. shivering and wishing for a home to lay their heads down in

Jay Ramras

10/17/2008 4 12 a m
Suggest removal

This is Jay Ramras

We hosted a hearing in Fairbanks in September on retail gasoline at the Legislative Information Office in the Alaska USA building It was well attended by R's and D's from Anchorage and Fairbanks

In attendance were the two in-state gasoline refiners. Flint Hills and Tesoro in Nikiski/Kenai along with distributors and representation from Safeway (telephonically) and local gasoline retailers along with Ed Sniffen the Attorney General's representative on Consumer Affairs

We determined that we effectively have a duopoly in Alaska and that there is no anti-trust issue as long as the two refiners don't speak to each other. We determined that Alaska prices have decoupled from other rural states with low population density—that Alaska prices mirrored North Dakota, for example, a year ago, but now Alaska prices are considerably higher than these other states' prices for retail gasoline.

We agreed to host another hearing in a month, and to continue to do so until we saw a recoupling of prices with these rural states that mirror our population base and low population density characteristics.

That next hearing will be in Anchorage next Thursday at 9 am. You can listen in by going to the Fairbanks LIO.

We will host a follow up hearing in November.

We will then issue a report, as we were charged to do. One of our recommmendations will be to encourage those elected in the next legislature to consider statutory changes that will be recommended by the Palin administration's Attorney General's office and their expert consultant, Barry Pulliam from Econ One. We also will encourage the next Legislature to maintain monthly hearings "to jawbone" through the public process the price of gasoline down until we see a recoupling in prices with our Lower '48 counterparts.

The unique characteristic that Lower '48 states have that we do not, it appears, is a road system that allows for more competition from surrounding refineries. Also, the feedstock for Flint Hills is crude oil rather than less expensive natural gas. For the Kenai refinery, they deal with the "bottoms" which is the last 1/3 of a barrel of oil that they claim they sell for a loss. Half of Kenai's crude comes from Cook Inlet, a quarter from Valdez and a quarter from around the world. They refine with natural gas, which is the equivalent feedstock of approx $40 per barrel of crude.

We inquired with former Gov Sheffield, director of the Anchorage Port, to see if we could import gasoline by tanker from Seattle where the rackrate has been consistently $0.30 per gallon lower than Alaska's. The port does not presently have that capacity.

The legislature has limited power to solve this problem, but we do have the ability to continue to have regular hearings and to shine sunlight on the pricing disparity. We will issue a report before January on retail gasoline. There should be monthly hearings until we see pricing parity with the Lower '48 reemerge.

Gov. Sheffield
Diane 343-6200
-Thursday-
978-5115

calendar

10/17/2008, 4:31 a.m.
Suggest removal

Jay, for your information and use. I am currently in Aberdeen, SD and the price for regular unleaded gas today is $2.79 per gallon! Keep the pressure on the refiners!

hairbrain

10/17/2008, 4:59 a.m.
Suggest removal

Bla. Bla. Bla. I'm going back into the bathroom to puke again!

Irusuallyright

10/17/2008, 5:08 a.m.
Suggest removal

Jay,

How did you determine the two refiners don't speak to each other? Did you take their word for it? If you ask me, they (the refiners) are not a very trustworthy source. I guess its just a coincidence their price is identical.

If the refiners could make a profit selling gasoline for $2.77/gal a year ago when oil was $81/bbl, what is their justification, other than greed, for charging $3.94/gal now when oil is back down to $81/bbl?

The legislature may not have the power to solve the problem, but surely the AG has the power to launch a more in-depth investigation.

Jay Ramras

10/17/2008, 5:25 a.m.

To Irusuallyright,

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

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Short-Term Energy Outlook

November 12, 2008 Release
(Next Update: December 9, 2008)

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Highlights | Global Petroleum | U.S. Petroleum | Natural Gas | Electricity | Coal

Highlights

- The current U.S. and global economic downturn has led to a decrease in global energy demand and a rapid and substantial reduction in crude oil and other energy prices. As a result, projections for both energy demand and prices are considerably lower than last month's *Outlook*.
- The monthly average price of West Texas Intermediate (WTI) crude oil fell from over $133 per barrel in July to about $77 per barrel in October, indicative of the abrupt decline in world petroleum demand growth. The annual average WTI price is now projected to be $101.45 per barrel in 2008 and $63.50 in 2009.
- The average U.S. prices for regular-grade gasoline and diesel fuel, at $2.22 and $2.94 per gallon respectively on November 10, were both more than $1.80 per gallon below their highs in mid-July. With a weak economy continuing through most of 2009, along with lower projected crude oil prices, the annual average retail gasoline and diesel prices in 2009 are projected to be $2.37 and $2.73 per gallon, respectively.
- Residential heating oil prices during the current heating season (October though March) are projected to average $2.75 per gallon, a reduction of about 17 percent from the 2007-2008 heating season. Residential propane prices are projected to average $2.22 this winter, a decrease of 10 percent from last winter. Residential natural gas prices are projected to average $13.02 per thousand cubic feet (Mcf), an increase of 2 percent from last winter.
- The impact of the economic downturn on demand is also lowering current and expected natural gas prices. The Henry Hub natural gas spot price is projected to average $9.27 per Mcf in 2008. The projected 2009 annual average Henry Hub price is $6.82 per Mcf compared with $8.17 in the previous *Outlook*.

Economic Outlook

The recent dramatic deterioration in the outlook for economic growth in the United States and the rest of the world has led to a significant reduction in this *Outlook*'s assumptions for world economic growth and projections of energy demand and prices. World real gross domestic product (GDP) growth is projected to slow from about 4 percent in 2006 and 2007 to about 2.5 percent this year and 1.8 percent in 2009. Last month's *Outlook* assumed world GDP would increase by 3.0 percent in 2008 and by 2.8 percent in 2009. Previous lows for world economic growth were 0.3 percent in 1982, 1.7 percent in 1993, and 1.5 percent in 2001.

The year-over-year changes in U.S. real GDP in last month's *Outlook* were 1.8 percent growth in 2008 and 0.8 percent growth in 2009. U.S. real GDP growth in the current *Outlook* has been lowered to 1.3 percent for 2008 and is projected to decline by 1.4 percent in 2009. The 2009 average unemployment rate has been raised from 6.2 percent to 7.9 percent in this forecast. The U.S. manufacturing production index was lowered by 1.1 percent and 7.0 percent for 2008 and 2009, respectively, with the 2009 growth rate of the index falling from a positive 0.5 percent (growth) to negative 5.5 percent (decline).

Global Petroleum

Price Summary

	Year				Percent Change		
	2006	2007	2008	2009	06-07	07-08	08-09
WTI Crude[a] ($/barrel)	66.02	72.32	*101.45*	*63.50*	9.5	*40.3*	*-37.4*
Gasoline[b] ($/gal)	2.58	2.81	*3.29*	*2.37*	8.9	*17.4*	*28.0*
Diesel[c] ($/gal)	2.70	2.88	*3.81*	*2.73*	6.6	*32.2*	*28.3*
Heating Oil[d] ($/gal)	2.48	2.72	*3.36*	*2.63*	9.5	*23.5*	*21.7*
Natural Gas[d] ($/mcf)	13.75	13.00	*13.74*	*12.55*	-5.4	*5.7*	*8.7*

[a] West Texas Intermediate [b] Average regular pump price
[c] On-highway retail [d] Residential average

Detailed STEO Information:
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- **Real Petroleum Prices** charts, data, projections

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pdf - printer-friendly table
All Tables in a single Excel file

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Overview
Rising prices, especially the high oil prices in the first half of 2008, and slowing global economic growth have caused oil demand growth to slow dramatically. The recent announcement by the Organization of the Petroleum Exporting Countries (OPEC) to lower its production target by 1.5 million barrels per day (bbl/d), effective November 1, is aimed at offsetting this lower oil demand and stabilizing prices at or above recent levels. OPEC members plan to meet again in Algeria on December 17 to review market conditions.

Future price levels will primarily depend on the magnitude and duration of the economic downturn as well as OPEC and non-OPEC behavior. Our current expectation of future oil prices assumes that the OPEC production cut may limit, but not reverse, the recent sharp fall in oil prices. We project oil prices to remain relatively flat, averaging $60 to $65 per barrel throughout 2009. The condition of the global economy is expected to remain the most important factor driving world oil prices.

Consumption. World oil consumption is projected to increase by almost 100,000 bbl/d in 2008 and to remain virtually flat in 2009. In both years, growth in countries outside of the Organization for Economic Cooperation and Development (OECD)— especially China, Latin America, and oil-exporters in the Middle East—offset projected sharp declines in oil consumption in OECD countries (World Oil Consumption). Between 2007 and 2009, non-OECD oil consumption is projected to rise by 2.3 million bbl/d compared with a decline of 2.2 million bbl/d in the OECD. We expect economic growth in non-OECD countries not to fall as precipitously as in the OECD countries, with the non-OECD countries maintaining modest oil demand growth.

Non-OPEC Supply. Non-OPEC supply is expected to decline in 2008, but growth should return in 2009 because of projects currently near completion. EIA expects non-OPEC supply to fall by 280,000 bbl/d in 2008. A combination of factors contributed to the decline in 2008, including project delays and large supply disruptions in Central Asia and the Gulf of Mexico. EIA projects that non-OPEC supply will grow by 500,000 bbl/d in 2009, with the largest sources of growth coming from the United States, Azerbaijan, and Brazil. In the United States, production of petroleum and other liquids is expected to rise by 450,000 bbl/d in 2009 because of the start-up of several offshore crude oil production platforms, recovery from hurricane-induced shut-ins, and continuing growth in fuel ethanol production.

Non-OPEC supply growth is at continual risk to unexpected disruptions or project delays, but the global economic slowdown brings additional difficulties as well. Lower oil prices bring into doubt the viability of some high-cost non-OPEC projects. If problems in global financial markets lead to delayed investment in existing and new oil fields, then even a short-lived economic downturn could have longer-term ramifications for world oil supply. This would heighten the risk of a return to a tight supply situation once the world economy (and thereby oil demand growth) recovers.

OPEC Supply. OPEC decided at its October meeting to cut its crude oil production targets by 1.5 million bbl/d in response to the global economic slowdown, weakening oil demand, falling oil prices, and in anticipation of rising non-OPEC supplies. The extent of actual OPEC compliance to its new production target is uncertain. This *Outlook* assumes that the recent sharp decline in oil prices will lead to compliance that is above historical levels. EIA projects that OPEC crude oil production will fall from 32.3 million bbl/d in October 2008 to 31.3 million bbl/d in the first quarter of 2009, where it will remain relatively stable through the end of 2009. This represents a decline of 1 million bbl/d from October 2008 production levels, or about 70 percent of the announced cut. Last month's assessment already had a 600,000-bbl/d reduction in OPEC crude production over this period, so the new estimate represents an additional 400,000-bbl/d cut from last month's *Outlook*.

Lower crude oil production, combined with planned increases in OPEC production capacity, suggests OPEC surplus production capacity could increase from 1.6 million bbl/d in the second quarter of 2008 to nearly 4 million bbl/d by the end of next year (OPEC Surplus Oil Production Capacity). Although it is possible that weak market conditions could delay some of these capacity expansion plans, EIA expects OPEC surplus production capacity to rise above 3 million bbl/d next year for the first time since 2003, which would provide Saudi decision makers with a cushion large enough to provide a capability to dampen the impact of future disruptions or geopolitical uncertainties on oil prices.

Inventories. Revised data indicate that OECD commercial inventories rose by 400,000 bbl/d in the second quarter of 2008, or at about half of the historic level of inventory build rate during this time of year. OECD commercial inventories stood at 2.6 billion barrels at mid-year, or 56 days of forward consumption cover. On the basis of days of forward cover, OECD commercial inventories are well above historic levels, and EIA projects that they will remain there through the end of 2009 (Days of Supply of OECD Commercial Stocks).

U.S. Petroleum

xls - chart and data in an Excel spreadsheet
All figures and data in a single Excel file

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2. Gasoline and Crude Oil Prices	gif	xls
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Consumption. Consumption of all petroleum products is projected to decline substantially in 2008, driven down by the increase in prices and by a weakening economy during the second half of the year. Total domestic petroleum consumption is projected to average 19.6 million bbl/d in 2008, down 1.1 million bbl/d, or 5.4 percent, from the 2007 average (U.S. Petroleum Products Consumption Growth). This marks the first time since 1980 that annual total petroleum consump..on is expected to decline by more than 1 million bbl/d. In 2008, motor gasoline consumption is projected to decline by 280,000 bbl/d, or 3 percent, and distillate fuel consumption is projected to decline by 250,000 bbl/d, or 6 percent. In 2009, total petroleum product consumption is projected to sink by a further 250,000 bbl/d or 1.3 percent. This decline is more than twice that projected in the previous *Outlook*.

Production. In 2008, domestic crude oil production is projected to average 4.9 million bbl/d, down 120,000 bbl/d from 2007 levels. This is primarily due to the loss of production in the Federal Gulf of Mexico caused by Hurricanes Ike and Gustav (U.S. Crude Oil Production). Domestic crude oil production has been steadily declining since the 1970s, and the 2008 projection for crude oil production falls below 5 million bbl/d for the first time since 1946. However, domestic production is projected to increase in 2009 by 400,000 bbl/d to an average of 5.3 million bbl/d. Contributing to the increase in output are the Gulf of Mexico Thunder Horse platform, which is expected to come on stream later this year, and the Tahiti platform, expected to come on stream late in 2009.

Prices. As a result of world-wide economic stagnation, oil markets are expected to remain weak throughout the forecast. WTI prices are projected to average $101 per barrel in 2008. Under the current economic assumptions and assuming no major crude oil supply disruptions, WTI prices are expected to average $63.50 per barrel in 2009 (Crude Oil Prices). This is down from $112 per barrel average projected for 2009 in last month's *Outlook*. Further deterioration in actual or expected global economic growth as a fallout of the current financial crisis may lead to even lower oil prices.

Regular grade gasoline prices averaged $2.22 per gallon on November 10, down substantially from their July 14 peak of $4.11 per gallon. They are projected to average $2.37 per gallon in 2009, almost $1.20 per gallon below that projected in the previous *Outlook*. Because of the continued weakness in motor gasoline consumption, the difference between the price of gasoline and the cost of crude is expected to remain low throughout the forecast.

Residential heating oil retail prices this winter are projected to average $2.75 per gallon, a decrease of 56 cents from last winter's average. On-highway diesel fuel retail prices are projected to average $2.73 per gallon in 2009, down $1.08 from the 2008 average, compared with a 90-cent-per-gallon decline in the price of WTI crude oil. This narrowing of margins reflects a projected slowing of the growth in distillate fuel usage outside the United States and a weakening of refining margins during the economic slowdown.

Spot propane prices are strongly influenced by both crude oil and natural gas prices. Residential retail propane prices are projected to average $2.22 this winter (down from $2.68 in the previous *Outlook*), a decrease of about 10 percent from the 2007-2008 winter heating season. However, with current low inventories, propane markets are likely to remain relatively tight this winter, with the potential for upward pressure on residential propane prices if colder-than-expected weather occurs.

Natural Gas

Consumption. Total natural gas consumption is expected to increase by 1.1 percent in 2008 and fall by 0.2 percent in 2009 (Total U.S. Natural Gas Consumption Growth). Consumption in 2008 is projected to be higher in every sector except for electric power, led by 4.1- and 3.2-percent growth in the residential and commercial sectors, respectively. While very slight growth is expected in the residential and commercial sectors in 2009, the contracting economy is expected to cause a 2.2-percent decline in industrial sector consumption next year. The weakness in global economic growth could limit U.S. exports of natural-gas-intensive products and further reduce natural gas consumption by industrial consumers.

Production and Imports. Total U.S. marketed natural gas production is expected to increase by 6 percent in 2008 and by 2 percent in 2009. Production activity from unconventional fields in the States of Texas, Wyoming, and Oklahoma is expected to increase supply from the Lower-48 non-GOM by almost 10 percent this year. While continued onshore production growth is expected in 2009, lower average prices and poor economic conditions are expected to limit the expansion of supplies to 1.9 percent. For 2008, Federal GOM production is now expected to decline by 14.8 percent as repairs to supply infrastructure continue, while 2009 growth of 2.7 percent reflects the expectation of further recovery and less shut-in production during the 2009 hurricane season.

Strong global demand, supply constraints, and lower relative U.S. natural gas prices have all contributed to the decline in U.S. imports of liquefied natural gas (LNG), which are expected to fall from 770 billion cubic feet (Bcf) in 2007 to 350 Bcf in 2008, a reduction of 55 percent. LNG imports are expected to total about 410 Bcf in 2009. The limited natural gas storage facilities in LNG-consuming nations outside of the United States could lead to higher U.S. LNG import growth in 2009, particular during the storage injection season (April to September) as more global LNG capacity is brought online.

Inventories. On October 31, 2008, working natural gas in storage was 3,405 Bcf (U.S. Working Natural Gas in Storage). Current inventories are now 78 Bcf above the 5-year average (2003–2007) and 130 Bcf below the level during the corresponding week last year.

Prices. The Henry Hub spot price averaged $6.94 per Mcf in October, $0.94 per Mcf below the average spot price in September. The slowing economy, continued growth in domestic natural gas production, and the significant decline in oil prices have led to a dramatic shift in expectations for natural gas prices over the forecast. Still, household heating expenditures this winter are expected to be slightly higher than last year due to the pass-through of some higher-priced natural gas that was put in storage earlier in the year to meet winter demand. Beyond the winter, the weak economy and continued growth in onshore natural gas production are expected to keep prices relatively low. On an annual basis, the Henry Hub spot price, which averaged $7.17 per Mcf in 2007, is expected to average $9.25 per Mcf in 2008 and $6.82 per Mcf in 2009, $1.35 per Mcf lower than the forecast 2009 price in last month's *Outlook*.

Electricity

Consumption. The latter half of this summer was much cooler than the same period last year (U.S. Summer Cooling Degree-Days), especially in the upper Midwest and Northeast regions. As a result, residential electricity consumption is expected to fall 0.5 percent this year. The economic slowdown will impact consumption in all sectors during 2009, particularly the industrial sector, which is now expected to decline by 2.5 percent next year in contrast to the 0.2-percent decline projected in last month's *Outlook* (U.S. Total Electricity Consumption).

Prices. The recent drop in power generation fuel costs has caused some utilities to reconsider the steep price increases announced this past summer. However, fuel costs still remain high, and it is unlikely that electricity rates for most customers will fall significantly in the near term. U.S. residential electricity prices are expected to increase by about 6.5 percent in both 2008 and 2009 (U.S. Residential Electricity Prices).

Coal

Consumption. Although electric-power-sector coal consumption for the first half of 2008 grew by 1.3 percent, slow growth in summer electricity consumption is expected to keep annual growth flat in 2008. In 2009, weak economic growth, which will constrain growth in electricity consumption, coupled with projected increases from other generation sources (nuclear, natural gas, petroleum, and wind), will lead to a 0.4-percent decline in electric-power-sector coal consumption (U.S. Coal Consumption Growth).

Production Growth in both domestic consumption and exports is expected to contribute to a 2.1-percent increase in coal production in 2008. Production is expected to decline by only 0.5 percent in 2009 as lower domestic consumption is nearly offset by continued export growth (U.S. Annual Coal Production).

Exports. In the first half of 2008, U.S. coal exports increased by 13 million short tons, or 50 percent, over first-half 2007 shipments. Strong global demand for coal, combined with supply disruptions in several key coal-exporting countries (Australia, South Africa, and China), were the primary factors behind the increase in U.S. coal exports. Although the supply disruptions have ended, continued robust worldwide demand for coal is projected to lead to an overall 40-percent increase in U.S. coal exports in 2008. Coal exports are projected to be 86.5 million short tons, a 5.5-percent increase, in 2009.

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Suggest removal

The Attorney General's office has a separate investigation

Mr Sniffen is meeting early next week with corporate representatives from Tesoro's parent company from the Lower '48 Barry Pulliam, the economist from Econ One who is widely respected by both the legislative and executive branch and who was not available for our hearing in September will be joining us

The last time that an investigation was launched by the AG's office it was during the Knowles administration

It took several years to reach very negligible conclusion, chief amongst those conclusions was that there was no anti-trust violation between the refineries

We are working closely with Mr Sniffen He strikes me as knowledgeable trustworthy and a tough questioner He is definitely a proactive advocate for consumers across Alaska

I hope that the legislature is able to agitate the prices down through constant--albeit monthly--hearings bringing attention to the refiner's rack prices, and that we see a more in depth report emerge from the AG s office

When crude was at $70 last year we saw home heating oil at $2 50 to $2 75 for auto-fill customers I do not have the information with me at this early hour as to what retail gasoline was at the same time but I assume it was a lot cheaper than it is now

The refiners say they enjoy no economy of scale from the small refinery market in Alaska But as you and everyone reading these blogs know that rationale wears consumers' nerves thin very quickly

The price rises quickly with the price of crude, and then seems to come down at an unreasonably slow rate A reasonable person cannot reach the conclusion that there is any fairness to the consumer in the way the refineries explain the process

At the meeting next week I will ask Mr Sniffen from the AG's office when they anticipate issuing their report We will issue ours before the legislature convenes in January but we do not have access to the same confidential and proprietary information from the refiners that the AG's office enjoys

I hope this is helpful information to your question jay

JB

10/17/2008 6 06 a m
Suggest removal

Jay- we are going to pay how much more during those two months of talks? Lip service is easy! You are talking like a true politician explaining why something that should work is not Take a couple months discuss discuss, discuss All the while we are paying to much! I DO NOT CARE WHO SPEAK TO EACH OTHER! I care what I pay at the pump by comparison to the rest of our country and all of the rest that you said is what I called it already Lip service! Get off line go do your job to get reelected not commenting to sway voters and maybe we will get this straight Maybe
I am not down on Jay either I have known this man since he was in high school and I had worked for him prior to entering the Air Force while I finished college I do know that Jay has integrity when he bought the Food Factory from the IRS he paid more per dollar for the debts owed to other buisness in the area than he was required because he does care about this community and the only thing he really owns his name I do believe he does his best and I will probably vote for him again But I still say get off line and go do your job He-he feels good to tell a past employeer to go do HIS JOB!

fairbrain

10/17 2008 6 18 a
Suggest removal

JB thanks!!

FreeDarfur

10/17/2008 6 24 a m

I hate to tell you crude is at $68 a barrel OPEC is calling for an

Suggest removal

emergency meeting to look at cutting production due to the reduction for the need of oil and gas as a result of a global recession Only the US is not using the "r" word Go to "Bloomberg" and look at energy futures and prices My opinion, the companies know every Alaskan got an extra $1,200 and they are going to make sure they get it A bigger question is how will the legislator spend the surplus, knowing the hayday of $100 plus a barrel oil is over

pmcgraw

10/17/2008 6 31 a m
Suggest removal

A good friend of mine is paying 2 22 a gallon in Texas This is near all the hurricane damage and the still have higher taxes on fuel then we do This is outrageous

Pat

wife228

10/17/2008 6 42 a m
Suggest removal

Family back in Ohio is paying $2 30- $2 49 a gallon and oil is like $69 a barrel as of 10/16

Why can't we see some prices like that??

lakloey1

10/17/2008 7 04 a m
Suggest removal

I suggest the legislature not renew any royalty oil sales contract with Flint Hills unless and until they build a sulfur reduction unit on the refinery at North Pole Motor fuels have to be low sulfur and Kenai is the only place in state where it is made
If the state sells its oil at a lower cost to Flint Hills most of those savings will be seen in the jet fuel market That is most of what they make out there

1AkFox

10/17/2008 7 06 a m
Suggest removal

The price is high because the politicians take oil company donations and kiss their rump

And what do the companies get for their donations?

Dah "the prices are high because of the lack of a competitive market" and price gouging protection

The royalty crude oil price going to the refinery is set by the state of Alaska and the state can set the price coming out AS-A-CONDITION OF-SALE any-time-it-chooses

This is how royalty oil price is set
AS 38 05 183 Sale of Royalty (e)

What is going on

Analogy A hay farmer harvest's his corp of hay and sells it to the feed store

The feed store marks up the hay's price

Now the farmer goes to the feed store and buys his hay BACK at the increased price because he did not save any hay for his own use

Feeling gouged the farmer complains to his political the price of hay is high! And the politician says "the price is high because of the lack of competition in the hay market"

Yesterday I noticed the price of our "HAY" at Farmer's Loop vs Bently Mall Safeway was IDENTICAL!

FreeDarfur

10/17/2008 7 09 a m
Suggest removal

Flint Hills produces primarily aviation fuel which is actually going down faster than gasoline Anchorage airport is dependent on Flint Hills and who controls the legislative body

kenny6703

10/17/2008, 7 11 a m
Suggest removal

Sounds like you guys up there need to be asking Sara Palin "why is our gas so high?" I'm down here in the lower 48 enjoying $2 42 something seems strange

docalaska

10/17/2008, 7 18 a m
Suggest removal

I heard that FLint Hills made a long term contract to the military and when the price of oil went uo they started losing money so they just raised the price of gas to make up the difference So we have to pay for their bad deals What I would like to know Jay is how much does it cost to make a gallon of gas and diesel There are no real transportation costs here in North Pole and we should have the cheapest gas in the country Also how much are the refineries and associated workers contributing to the politicians "reelection" funds Then we'll see why the price of gas will never go down and our legislators will sweep it under the tundra again

Fairbanksgas

10/17/2008 7 21 a m
Suggest removal

We also suspended out State gas tax since last year which makes our current prices even more suspicious Check out the picture at www fairbankgas com of the sign in Texas for $2 22 a gallon I guess that the hurricane affected gas prices less than our refinery oligopoly While you are at it surf over to www hawaiigasprices com Their prices are less than ours and that includes over 50 cents of State tax I guess that it is cheaper to ship your raw crude across the Pacific and refine it on a tropical island than to pump it out of North America's largest pipeline?

I have a chart at fairbanksgas com that compares Alaska US average and crude prices over the last few years There is no mystery here we are getting screwed big time by Flint Hills and Tesoro

FreeDarfur

10/17/2008 7 45 a m
Suggest removal

Kenney6703 At least she gave each Alaskan $1 200 to help cover the high cost of energy What did you get in your State from the government to help you?

Jay Ramras

10/17/2008 7 58 a m
Suggest removal

This is Jay Ramras

To docalaska

We have already set the agenda for our meeting scheduled on October 23rd

As I said you can attend the hearing by going to the LIO on the 3rd floor of the Alaska USA building at 9 am

The meeting for November which has not yet been scheduled will allow for public testimony

The Attorney General's representative Mr Sniffen will be there I encourage you to attend or to testify by phone (location Anchorage or Fairbanks not determined yet)and provide information documentation to the AG's people The Attorney General's investigation will be much more thorough than the report generated by the legislature

It would be very helpful if you would testify with your thoughts about Flint Hills jay

akblogger

[illegible]

Go Tesoro!!!!! Amazing how Tesoro is leading the fuel war in North Pole!! Yesterday dropped from $3 939 to $3 739 All fuel stations in Fairbanks remained the same Hmm, amazing how one knows how to MARKET their customers and th eothers are greedy to get that last dime from us for fuel Tesoro, YOU are a true leader is fule price reduction At least here in North Pole Nice little convenient store as well Keep being THE leader and please keep those prices dropping Soon you will need to build a much larger store as your Competitor SOURDOUGH FUEL is way behind you Guess we can judge who has the GREED!!!!

JP_offroader

10/17/2008 8 23 a m
Suggest removal

Mr Ramras,
Thank you for stepping into the discussions and giving info I am sure you knew this group of folks weren t yes men and women before you even started typing so I give kudos to you for stepping up and looking this in the eye
To echo some of the other comments on here Jay, we are getting taken to the cleaners by refined oil pricing In my opinion some of it has to do with the fact that we got a 1200 dollar energy rebate Monthly meetings aren't gonna cut it We need action
Simply put the price of gasoline and heating fuel is inflated The price of diesel is inflated Elected officials get paid to work for the majority of the citizens and do what's best for the state How are MY elected officials working on the problems that We ALL need help with?
Public testimony I have done and can do again However isn't this is what we elect local government officials for?

Please advise

JP_offroader

10/17 2008 8 25 a m
Suggest removal

ak...gger
I notice that Holiday dropped to 3 63 this morning In FBX it seems that Holiday and Tesoro match most of the time

FYI in case you head into FBX and need fuel

FreeDarfur

10 17 2008 8 43 a m
Suggest removal

When you have a community that is so dependent on gas and oil for basic survival and has very few options from which to obtain the product do you expect the market will give you lower prices? Does anyone have the figures to show that there has been a consumption reduction in this community in response to the high cost Or have we paid higher prices and continued to consume the same level of the product Exactly what under the law can the legislators do? Are you people asking for price control?

bubwon

10/17 2008 8 47 a m
Suggest removal

FYI,
I left Fairbanks Saturday Morning to head south, paid $3 93 Filled up yesterday in Washington State for $3 09 In Oregon now prices are around $3 40

In between paid $1 59 ca/litre in Northern BC That hurt

But what really got me thinking was filling up for $1 19 ca/litre in Prince George

Doing the math 3 785 litres to a gallon, with the current exchange of $1 18 ca for every $1 us

I come up with gas being about $3 82 gallon in Prince George WOW things are really screwed up in this world Never dreamed of the day when I would fill up before crossing into the US No longer can we say Canada's gas prices are high!

(I did not fill before crossing back into the US and was happy with that decision when greeted with $3 09 / gallon in WA but still was amazed!)

bobgray1

10/17/2008, 9 06 a m
Suggest removal

Mr Ramaras,

I to want to thank you for weighing in on this extremely troubling issue I agree with JP_offroaders comments and would like to add that you and the other legislators are only hearing from the vocal minority The unseen side becomes VERY apparent when you talk to those folks on Social Security I was talking to a gentleman who was very worried that he wasn't going to be able to keep his house in heating oil He in his early 80's, lives in an old inefficient home and makes 1,325 00 a month on SS Last year his heating oil bill averaged 575 00 per month and his first fill this fall (mid September) was 1 185 00! He and all of the other's who are unable to speakup or feel that it won't do any good ALL of us need ACTION NOW not 60, 90 or 120 days from now Will the discussions and public comment prevent senior citizen's from freezing to death this winter making the life threatening choice - Heating oil, food, or needed medicines? Enough talk - Step up and aggressively lead the way like I know you can do HELP please

Jay Ramras

10/17/2008 9 12 a m
Suggest removal

this is Jay Ramras

to JP_offroader,

The Legislature is only in Session from mid-January to mid-April As a citizen legislature we have very little authority outside of that period

That is why the Attorney General's investigation with the Office of the Governor standing behind that office is our best bet However the last time an investigation was undertaken during the Knowles (D) administration it took a couple of years and reached few conclusions

Hawaii tried to do price regulating a few years ago and quickly repealed the effort Markets work efficiently but in Alaska's case we are trapped inside of a duopoly (only two gasoline refiners) and the transport of gasoline by tanker to Southeast communities like Juneau/Ketchikan Their fuel is more expensive than ours

Hearings and the pressure of "sunlight" appear to be the most available remedy to the legislature We are asking the Attorney General's office to recommend legislation that could be proposed for the upcoming Session in January

As I have said, a reasonable person cannot justify how quick prices are to rise and how slow they are to decline It defies reason But it doesn't appear to be illegal What remedy do you suggest? More government, more government regulation these kind of solutions don't usually have the desired outcome jay

jennings99705

10/17/2008 9 38 a m
Suggest removal

And whose idea was it to have such a short session?? Remind me again please

Skagdog

10/17/2008 9 38 a m
Suggest removal

Me me me I I I now now now That seems to be the public's arguement for legislatures to take action on gas prices Why don't we (voters) trust that our reps will do something good for us and if they don't then we (voters) get rid of them

Who knows maybe they'll find something and we ll end up with $2 00/gal gas with fries and a pickle

JP_offroader

10/17/2008 9 41 a m
Suggest removal

very true More government usually isn't the answer In this case it may be

I have a couple of questions I do not know the answer to

Does the duopoly of refineries traditionally report to or answer to allegations of price gouging to any governmental body?

Is there a direct relationship between the amount of money that a refinery charged vs lower 48 refineries and can that be taxed?

Whatever happened to NBC's old report "The Fleecing of America" :-)

If we were talking about selling a DVD in a store, I wouldn't ask the question I would just stop buying In this case, we are dealing with a commodity A necessity for Alaskan life Heating oil gasoline, diesel These are needed commodities I would imagine that there would be scrutiny of companies that restrict the livelihood of citizens with their financial grind of greed In my view duopoly is the same thing as monopoly in this case All you have to do in a duopoly is compete with the amount of greed that your competitor has and away you run with the profits

Call me uneducated, but I am mystified that with a huge silver pipeline stretching from one end of this state to the other with oil flowing through it constantly passing by gas stations and peoples houses, that we have the highest gas prices in the nation I am sure it isn't as simple as tapping into the pipe line and getting our gas there, but it isn't beyond the realm of logical thinking to get us to a poi'n where we aren't getting overcgharged for gasoline that is refined in our state from opil that is ours to begin with

JP_offroader

10/17/2008 9 48 a m
Suggest removal

Skagdog said

"Me me, me I, I, I, now, now, now That seems to be the public's arguement for legislatures to take action on gas prices Why don't we (voters) trust that our reps will do something good for us and if they don't then we (voters) get rid of them"

Actually J, you hit the nail on the head "Why don't we trust that our reps will do something good for us and if they don't then we get rid of them?" Because we just can't wait that long We've waited on our government to act in our best interests but I have yet to see any lasting good effect If we wait till the end of a reps term to analyse what he/she has or hasn't done the thought will get diluted with time I wager that a representatives report card be written daily by voters Tell a rep what you want/need/like the reps job is to listen, then act on behalf of the citizens for the best interest of the citizens of this state
That and something else Like most things in life the best effect is when you jump in and take part in your are of effectiveness as opposed of passively sitting and waiting for some one else to take action on your behalf

Slactivist

10/17/2008 9 49 a m
Suggest removal

Mr Ramras and the rest of the Legislature
Thanks for your efforts

However, if the best that you (all) can do with your scheduled sessions is to "shed light" on the disparity then we have no further use for any of you on this matter

The facts are clear to any reasonable person - there is collusion between the refinery owners and the consumers are being gouged due to poor infrastructure planning and a lack of choice Only the refineries can correct their prices not the legislature

Flint Hills might want to consider the purchase of an armored car for their executives The people aren't going to stand for this much longer You are taking food out of our childrens' mouths

update

10/17/2008 10 34 a m
Suggest removal

Remember that any fuel purchase from the refinery goes thru a change of fuel prices-company charges-dollar a gallon out of municipality and fuel delivery and driver charges and fuel Plane and employee charges delivery and Village fuel delivery charges=$9 35 a gallon

mike

10/17/2008 10 49 a m
Suggest removal

We could bailout ourselves by forcing the refineries to sell themselves to the FNSB Wait that would be socialist like in Washington, I mean Venezuela

grouchyolman

10/17/2008 11 a m
Suggest removal

All this talk is well and good if nothing else to show we are fed up As if the refineries aren't aware already It's going to go this way until the first frozen body in an armchair ir his or her own hon з with an empty oil tank and no way to fill it If I were an oil producing state, allowing that to happen would be inexcusable We DEMAND somr ng be done NOW!

FreeDarfur

10/17/2008 11 42 a m
Suggest removal

Oil jumped $2 50, in a few hours It is credited to OPEC's plan to announce next week they will reduce the oil production to force the price back up What would you expect the government to bring the price down to if it could? 99cents $3 00 a gallon, what? Heck I remember paying 20 cents a gallon $2 00 bought me a tank of gas for the week but coffee was also a nickle a cup and you could buy a house what a few months of mortgage payments today What price are you looking for?

JP_offroader

10/17/2008 11 55 a m
Suggest removal

Freedarfur
I believe I read last month that the average market price for gas in Alaska was 10 to 15 cents above the national average
According to the link on www alaskagasprices com the national average is 2 996 today
I don't expect a hand-out from big oil but I'd like them to kindly remove their hand from my pocket before we all get tired of this as voters and they have to remove our foots from their ass

twodecades

10/17/2008 12 12 p m
Suggest removal

Free Darfur-I am looking for a price commisserate with the cost of a barrel of oil and the associated refining cost When the price of a barrel of oil drops I expect to see the price I pay at the pump drop percentage for percentage I have no problem with "cost of business" increa that echo the economy over the long haul What I have a problem with is Exxon/Mobil etc making BILLIONS of dollars a quarter at the same time receiving BILLIONS of dollars in tax breaks while I have to choose between buying decent groceries or filling my fuel tank to heat my home and my gas tank to get around at -40 As the username implies I have been here twenty years this coming March and against the pleadings of my wife am going to stay one more winter in the town that I love and call home If something isn't done it will be my last year in Fairbanks She is afraid that given the economy and the fact that EVERYTHING that we require to live here has ridiculously increased in price over the last two years that we are going to eat up our future just to stay She may be right Leaving saddens me more than I can express but if the choice is losing everthing that we have worked for and saved or living in the town that I love I have no choice
As to M. Ramrus Thanks for the heads up that the legislature is going to waste our time and money on more of the same blah, blah blah that we have been seeing and hearing for years While you guys are at it, why don't you spend another few years TALKING about a gas pipeline instead of building one If the Legislature had ACTED when it should have nearly ten years ago the thing would be nearly built now and we would have affordable options to heat our homes and cook our food in a cleaner cheaper and more efficient way Good job guy ep it up
Sarcasm intended

Barks

10/17/2008, 12:54 p.m.
Suggest removal

I don't like the cost of fuel any better than anyone else , but I am smart enough to understand the free enterprise system There are so many that don't seem to understand it Example # 1 did the state of Alaska back off of that $140 a barrel oil back in July ? They should have said that "Naw" the state would except at the top $60 dollar a barrel anything above that is a rip off Of course that $60 a barrel would in time have meant a smaller pe manent fund check in the years ahead but I am sure that all the complainers that don't understand the free enterprise system would be glad to accept a smaller permanent check down the line All in the name of being fair

When I came to Fairbanks regulator gasoline had a price range of 48 to 54 cents per gallon about double the average price in many of the lower forty eight states Over on Minnie Street there was a little store that regulator could be had for 48 cents other full service stations sold a gallon from 50 to 54 cents depending on the status on the station They called all of that the free enterprise system Before Jimmy Cater Became president natural gas had price controls on it During The Carter administration those controls were lifted a lot of people were crying foul how could that rascal Carter the scoundrel do that , letting the gas producers have such a big rip off Now there is one thing that I an really sure of , and that is if ever there is such a thing as a natural gas line from the north slope of Alaska the people that are crying here will be out on the street waving banners and crying out at the top of their lungs that the price of gas is a rip off please put the controls back on natural ga reduce the price at least fifty percent alaska doesn't need all that ripoff money !!!

Barks

10/17/2008 1:19 p.m.
Suggest removal

There was two things that I failed to mention in the previous statement and that was I don't know how to spell regular and # two is in all the years that there have been talk of that gas pipeline from that north slope , did you ever hear a high up oil official say we ought to get in gear and build that gas line because the time is right to get started on it There are some valid reasons why you have never heard that from a high oil official

akhunter02

10/17/2008 1:29 p.m.
Suggest removal

If everyone stopped buying fuel at Freds or Safeway or pick one of the local retailers that retailer would drop thier price No one is dropping prices because they dont have to! River View on Badger has not dropped a penny in weeks they are still selling deisel at $4.90 I go out of my way to buy fuel somewhere else There is no compitition to force the price down I think Frieddies sells more fuel than any of the others lets stop buying from them and you will see the price drop fast

dih123

10/17/2008 2:11 p.m.
Suggest removal

wow i wish i was good at math then i'd understand some of this! haha what does the future look like? i heard the gas prices are suppose to rise again way high

Dondi

10/17/2008 2:54 p.m.
Suggest removal

Just my opinion for what it's worth

After the United States Supreme Courts ruling concerning damages for the Exxon-Valdez Oil Spill and the fact that Exxon sued itself in the litigation so that a large amount will never reach those who lost most if not all I believe it's the Lawyers fault or is it the fact that one of the Supreme Court Justices had to set this one out (So as not to breach the Rule of Court that requires the avoidance of impropriety and the appearance thereof) because he owns what is described by the news media as substantial stock in Exxon/Mobil Corporation

Corruption is weakening America Transperancy in Government, and Buisinesses of this Grande-of-Scale are in this day and age becomming more necessary than ever before in world history!

The legislature through our suggestions and plans can benifit more of us when we help in the solution!

As for heating and generation of power, wood smoke is still more enviromentally friendly than most other redily availible fuels for personal dwelling useage, but what about using catalytic conversion units for motor vehicles?
I seem to remember my Father mentioning about trucks and busses being ran on wood and or coal during the Second World War in India

Now we are looking forward to a coal gassification refinery it is supposed to provide fuel for the military jets that use high grade Diesel (JP-4) this means an offset of need placed upon the other refineries as thier demand from D o D will decrease when this comes on line Now look forward bit Eureka Coal can be refined even further and we have Gas again

Just a few short years ago we all remember seeing Mitch Usibelli sitting on top of the Coal train and telling us that the amount of coal at that mine is the energy equivelent to Somthing like several thousand times the North slope
But the questions remain How long will this take, and what if any effect will it have on the economy?

I believe that as long as this is ketp from private hands(for the most part) in it's manufature and distribution it might save us all if we can last that long!!!

DistantThunder

1[illegible]/2008 3 30 p m
Suggest removal

Jays comments about creating competition by using nat-gas as the feedstock for making our own fuels outside of AnchorRAGE gets us past the decades of talk-talk-nice-nice and onto a pathway of practical significance
This doesn't require legislative approval that will take another two years at least It doesn't require any funding from Juneau either[another waste of time unless the Holy Coptic Church of Juneau all of a sudden has an Ecclesiastical Epiphany]
Jay is absouletly right-on about fuels made from nat-gas being cheaper and cleaner to produce and the "economy of scale" becomes obsolete with gas-feedstock too because the refinery-equipment can be mini-modularized and manufactured anywhere then easily shipped to FBX by airfreight even

YES $2/GALLON PROPANE is a real possibility for all of Alaska [maybe cheaper!]
dual-fuel retrofits to existing vehicles can translate into 1000 fulltime jobs statewide for two years Retrofits for under $600 $1000 in most cases using Century or Impco parts

Aside from Patriotic-Terrorists shooting more holes in TAPS and pretending to be Volunteer Hazwopers from Ogoniland Nigeria
The quickest cheapest way to get a significant sized source of clean cheap fuels into FBX is this>>>>
http [illegible] s281 photobucket com albums [illegible]209

The main thing is to get propane piped over Atigun first
then the rest of the Monopoly Rule by Selfish A**holes will unravel

Don't look for any large group or organization to fully endorse this idea because it is painfully obvious to the BigWigs this is a superior architecture to The Big Steel Pipeline
And The Big Steel Pipeline is just like the Heebs worshipping the Golden HolyCow in Ancient Egypt
Once it's built it'll become another Trojan Horse like TAPS has become
OK a deep bow and a tip of my hardhat to ANGDA and RedDogMine for making moves toward some substantial 24" HDPE-pipeline projects

Polypipe Gas-& Fiberoptic Infrastructure in Alaska will make for ZERO-unemployment in Alaska It will totally transform the economy of the whole state
Imagine having several dozen little gaslines routed every whichway southward over the BrooksRange Add mini-modular GTL to the mix and the possibilities are endless Every 10miles all over the state will be access to bottled gas and broadband internet
polypipe-gas and fiberoptic go together like pie & icecream
Each zone of the polypipe network will be owned and operated by the

corresponding local borough or tribe or community

DistantThunder

10/17/2008 3 44 p m
Suggest removal

Dondi
http //www youtube com/watch?v=hSgL0le4z

Even though CTL is a proven technology.
CTL Coal To Liquids will take much longer to bring online in FBX than to squirt out a HDPE-gasline from Prudhoe to FBX

During the first winter a HDPE-gasline can be temporarily dropped into the snow and filled with LPG without any significant firehazard
This will supply all of the interior with bottled fuel ASAP
Everybody better start polishing-&-painting up your old propane bottles and pressure testing them
http //images google com/images?gbv=2&am

1AkFox

10/17/2008 4 19 p m
Suggest removal

Jay R

Is Flint Hills making jet fuel using our royalty crude?

Thank you for having courage to participate in the this discussion!!!

Dondi

10/17/2008 4 33 p m
Suggest removal

This is for Jay a bit off subject but I gotta
I think this pretty much covers the troopergate situation!!!
GO SARAH!!!
http //www touchngo com/lglcntr/akstats

FreeDarfur

10/17/2008 4 50 p m
Suggest removal

Wasn't it last July oil was at $147 and we were being told that it could exceed $200 We were told the high price was due to the cheap oil in the world had been used there was a limited supply and high demand etc Well it is pretty clear it was the hedge fund speculators who had a field day playing the market for big profit The word had been out for months before last July that they had set the price at $140 at which point they would sell

Does anyone hear either Presidential candidate or Congress addressing the issue of speculation in the stock market the housing market the commodities market? It is pretty clear that the market will not correct itself alone and there is a need for regulation reform on a global manner Europe and the US will have an interesting time doing this with the emerging countries demanding that they be part of this

We can complain all we want, but this just may be something that is beyond the State legislature to fix

SgtGump

10/17/2008 5 28 p m
Suggest removal

What happens when the refineries issue a statement saying that they are getting for their product what the market will bear and that they are making a pile of money? What would we do? What could we do? I don't like what's going on anymore than anyone else but I don t want my Government to get involved and start telling these businesses how to run Look at the commodity markets in Venezuela or Cuba and ask if that is what you want

My $0 02

Back_To_Alaska_Someday

10/17/2008, 5 38 p m

I live in Albany Oregon and the lowest price I saw today for regular

Suggest removal

unleaded was $2 95 !
I would think with a refinery just 14 miles down the road that you guys would be getting cheaper gas than you are
Sounds like price gouging to me

1AkFox

10/17/2008 5 41 p.m
Suggest removal

The sale price of our property, per AS 38 05 183 Sale of Royalty Oil is a 100% political decision

The Alaska legislature can fix the problem any time they want

The $1,200 dollars was equal to about 1/3 to 1/4 the amount of hidden royalty oil tax we paid on fuel

gr8whitehntr

10/17/2008 6 23 p m
Suggest removal

Thanks to everyone for your responses to my letter Mr Ramras thanks for joining the conversation and giving us some useful information I wrote this letter asking questions and hoping to start a conversation about what is happening in our community and it worked To extend another question why has the price of gas gone down about a quarter a gallon in the last week but diesel has only gone down about a nickel? This is the case in North Pole anyway I am not sure what they have done in Fairbanks because I don't get to town that often Thanks again to everyone and lets keep the pressure on our representatives in Juneau and Washington to figure this thing out and get us some relief

1AkFox

10/17/2008 6 44 p m
Suggest removal

Is Flint Hills making jet fuel using our royalty crude?

hairbrain

10/17/2008 7 50 p m
Suggest removal

Thats the rumor

Barks

10/17/2008 8 06 p m
Suggest removal

Cry howl and scream but the free enterprise is here to stay If the uninformed would study up on how this all works they wouldn't have to meander around in the dark wondering what happen The oil from the pump in the ground to the pump in town is a long progression I remember back in 1958 some people in Fairbanks were ordering their gas furnaces because the gas pipeline from the north slope was just a few months from being completed just a few months until they would be hooked up to that cheap gas Back then it took about six weeks to two months to get stuff up here when it had to be sent on the Alaska Steamship line
Of course they don't really pump the oil out of the ground at Prudhoe Bay It just flows out of the ground all by it's self The reason it flows out is because of all that gas that is caught down there in the ground is creating a lot of pressure that forces the oil to flow up and out Now when this round of talking about building the gas-line which started in the first part of the 80s had been successful there would have been a lot of gas let out of the ground and there might not be enough pressure left in the oil field that the oil would flow out If that was the case a lot of oil would have been unrecoverable Unless things have changes since the last time I was at Prudhoe , it will never be pumped like thay do in other places In others places they have a more shallow oil There is water injection that replaces the oil that is removed but never would force the oil out of the ground This info is what the experts told me when I was up there Taking the gas out before all the oil is out would be a terrible waste Who knows what the real truth is at Point Thompson !!! Why don't the politicians check all this out before they run off at the mouth looking and sounding like a bunch of turkeys in a rain storm

1AkFox

Suggest removal 8 p m

hairbrain

AS 38 05 183 the fine print is worth reading

Jay should know how much royalty crude is being used to make jet fuel?

Also I think jet fuel is quite simular to kerosene

DistantThunder

10/17/2008 8 38 p m
Suggest removal

Somewhere in my files I have a pdf-copy of the Mapco agreement to purchase Royalty Oil Mapco owned the refinery before Williams who sold it to Koch It looked like a real sweetheart deal

DistantThunder

10/17/2008 9 34 p m
Suggest removal

yup found it
it's a 41page pdf filesize 256k

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL
THIS AGREEMENT is entered into as of March 6 1998, by and between the State of Alaska (State) and Mapco Alaska Petroleum Inc an Alaska corporation with its principal offices located at 3201 C Street, Anchorage Alaska 99503 and Mapco Petroleum Inc a Delaware corporation with its principal offices located 1800 South Baltimore Avenue, Tulsa Oklahoma 74119 (collectively Mapco)
ARTICLE I
DEFINITIONS
As used in this Agreement the terms listed below shall have the following meanings
1 1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or the Commissioner's designee
1 2 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees from the Prudhoe Bay Unit, as described in the Unit Agreement in a Day
1 3 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12 01 a m , Alaska Standard Time
1 4 "Field Cost Agreement" means the Prudhoe Bay Royalty Settlement Agreement effective April 1 1980
1 5 "Leases" means the Oil and Gas leases subject to the terms of the Unit Agreement 1

hairbrain

10/17/2008 1 22 p m
Suggest removal

1AkFox, am I confused or are you answering your own question?
(not a rumor)

1AkFox

10/18/2008 1 36 a m
Suggest removal

DistantThunder

Thank you for the information

1)Does the agreement mention how many barrels per day?

2)1 4 "Field Cost Agreement" means the Prudhoe Bay Royalty Settlement Agreement effective April 1, 1980

This should give us some I idea as to the cost of production

Production estimates range from 2 to $15 per barrel
Using the highest estimate of $15 And a current oil price of $75 - $15 = $60 mark up profit

The state of Alaska is making a profit of $60 per per barrel selling our property to Flint Hills

The state's profit was about $90 to $130 when the oil price peaked

AS 38 05 183 "Sale of Royalty Oil" provides for a wave of the pen to sell our property at a price less than the OPEC price because it is in our best interest

"Our best interest" reasons are listed in sub section (e)

Thus, the state could sell the royalty crude at $50, $40, $30, $20, or even $15!!!!!! It is a 100% political decision

You will note the statute explicitly prohibits export of our royalty property

It is reasonable to conclude our royalty oil is being exported as jet fuel

ANY export is prohibited by law

In conclusion The cost of refined royalty oil is high because of the state's 60 dollar or more profit per barrel And the export of jet fuel

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The state is investigating the p..e of "oil"

If the investigation fails to mention the mark up sale price of our royalty crude to the refineries as the cause of the high prices

It is a cover up snow job to protect the state's hidden tax

Also when you hear someone claim the price is high because of the lack of "competition", "market forces" an earthquake in China, a flood in Texas a war some where hedge fund speculation and so on — elephant sized bull chips are in flight

If you believe it have a "S" tattooed on your for head Suckered

majast2211

10/18/2008 1 52 a m
Suggest removal

damn oil companies

hairbrain

10/18/2008 6 42 a m
Suggest removal

Now paying a small bit of attention to what 1AkFox has said I see a blareing not simple assumption While it is illegal to export royalty crude oil selling jet fuel simply is not the same The legal term is royalty crude oil In the same light, if it is illegal to export raw wheat does it not stand to reason that it would be legal to export a loaf of bread if not specifically referanced?

kar98k

10/18/2008 7 19 a m
Suggest removal

Greed pure and simple

The same goes for the Natural Gas Pipeline
It will never be put in while the State and the Producers and the Refiners are making huge profits from oil

1AkFox

10/18/2008 8 05 a m
Suggest removal

Your wrath is misdirected!!! Your target is your State of Alaska politicans

The oil companies up here do NOT control the wholesale price of your royalty crude sold to the 2 local refineries!

Your politicians control the price! Because they set the royalty crude oil's wholesale price

And take in at least $60 dollars royalty oil tax per barrel When you by your heating fuel oil you pay the tax!!!

Know thy enemy! Else ye attack windmills while wearing a barber's bowl helmet

1AkFox

10/18/2008 8 18 a m

Kar98K

Suggest removal

I don't think it is "greed" by the state, it is more like "sheep sheering !

Every wounder where the State gets the money to run a school for rural 5 kinds?

Read AS 38 05 183 and ask your candidate to explain it to you

All of the state house and 1/2 the senators are up for re election on Nov 4

1AkFox

10/18/2008, 8 31 a m
Suggest removal

FreeDarfur
We freeze in the dark, go poor, while our royalty oil is used to make aviation fuel for Anchorage

Did you Read AS 38 05.183 and subsection (c)
remove the - and -

http //touchngo com/lglcntr/akstats/Statutes/Title38/Chapter05/Section182 htm

Barks

10/18/2008 9 12 a m
Suggest removal

The blind leading the blind !!!

hairbrain

10/18/2008, 9 37 a m
Suggest removal

This is a cauldren of well intended justified complaint The simmering discontent of corrupt politics and energy practices in the state of Alaska is a poisinous brew of wicked proportion A true witch hunt encouraged by the citizens of Alaska with pitch forks, cycles, and lamps in hand is the foundation of what has made this country great Venimous lies spewing from those in power be it from business or polition have left the citizen nothing but lies to sift from the ruins
(Halloween is around the corner)

1AkFox

10/18/2008 9 45 a m
Suggest removal

Your right!!! blind leading the blind I don't think our leaders are blind they know exactly what is going on!

From the history book every time time a "rural community" has something of value oil gold sliver water timber fish they get fleeced Because of their lack of eduction re such matters

When the Indians sold Manhattan Island for $24 dollars worth of beads and hatchets Have you ever wondered who got the beads who got the hatchets and who got to look at 'um?

--CORRECTION IT SHOULD READ 183 NOT 182-

http //touchngo com/lglcntr akstats/Statutes/Title38/Chapter05/Section183 htm

FreeDarfur

10/18/2008 9 58 a m
Suggest removal

Just wait until Anchorage gas runs low and watch what happens Fairbanks has joined the ranks of rural Alaska when it comes to making any impact on what the legislative body will do They can spend a $100 000 plus amount of money on an investigation on the Governor and have it completed in a few months. But with the price of gas, they are saying it might be done in a couple of years Does anyone see something wrong with this picture

1AkFox

10/18/2008 10 28 a m
Suggest removal

Goes to show what is more important to Democrats — smearing Sarah while their constituents freeze in the dark.

You wounder, how I found out about the royalty oil rip?

I typed into Goggle search "Alaska Royalty Oil"
and found the statute governing the price

My total cost of doing the research about 10 cents thanks to the internet !!!!!!! 20 years ago it would have taken all day at the law library !!

Fairbanksgas

10/18/2008 11 48 a m
Suggest removal

I have an online copy of the invoice to Flint Hills for the royalty sale of Alaska's oil at www fairbanksgas com/INV_FHR102007final

It shows how many barrels were purchased and from what field on the North Slope It also shows that with oil at $84 a barrel, the Flint Hills refinery is paying $9,987 199 4 a month LESS than the refineries in Washington would for the same amount of oil

DistantThunder

10/18/2008 12 10 p m
Suggest removal

$10mil per month of gravy?
$10mil would build a 30mile HDPE/PEX-gasline extension of the 8" fuelgasline from Galbraith to Chandalar Shelf and a small LPG takeoff distribution yard, and also a small row of 250kw natgas-gensets setting up the HVDC line south to light up the haulroad would cost extra

DistantThunder

10/18/2008 12 46 p m
Suggest removal

oops make that $20mil
I forgot my per diem for grub&grog&java (-P)

Post a comment

Username jane_pierson (Log out)

Comment

Preview comment