

# HCR

# 19

<target><bill>HCR 19</bill><subject>HCR  
19</subject><comm>HFIN26</comm></target>

Chair, Judiciary  
Chair, Economic Development, Trade  
& Tourism  
Energy  
Military & Veteran Affairs  
Joint Armed Services  
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# Alaska State Legislature House of Representatives



While in Session  
State Capitol, Room 118  
Juneau, Alaska 99801-1182  
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Representative Jay Ramras  
District 10

## SPONSOR STATEMENT HCR 19 – AIDEA REPORT ON IN-STATE FUEL STORAGE

In 2009 the House Judiciary Committee investigated the unusually high price of gasoline in the state of Alaska relative to the rest of the country. The public outrage had grown steadily as the prices in the Lower 48 sank and the prices in Alaska did not. To further annoy consumers, Alaskan crude oil had fallen from an all time high in July 2008 of \$144.00 per barrel back to \$40.00 a barrel a year later, yet gasoline prices at the pump lacked the same elasticity.

At the same time the House Judiciary was conducting its investigation, the Attorney General was exploring whether there was any evidence of collusion among companies in Alaska to either expressly or tacitly agree to fix petroleum prices. The Attorney General concluded there was not.

Throughout these investigations, two different approaches to address the problem emerged. On the one hand, some legislators and constituents called for government controlled pricing or "price gouging" legislation, on the other hand were those who strongly believed that price controls do more to hurt the economy and result in unintended consequences – even causing a counter-productive affect of discouraging potential competitors from entering the market; competition that might force prices down. People opposed to government price controls sought other ways to impact the market without increasing government regulation.

HCR 19 is designed to encourage public discourse on other ways to impact the market without increasing government regulation of oil refineries and gasoline distributors. HCR 19 urges the Alaska Development and Export Authority (AIDEA) to analyze whether or not a fuel storage facility in the state, financed by AIDEA and operated by an independent third party, would be economically viable and assist the state in meeting the fuel needs of Alaskans at competitive prices. With the Anchorage port's recent expansion there is room for a new fuel storage facility. New storage capacity could encourage in-state suppliers to receive bulk shipments of fuel from refiners outside of the state to supplement fuels produced by in-state refiners; and in-state refiners will be able to stock-pile fuel to meet demand surges at more stable prices for consumers.

Representative\_Jay\_Ramras@legis.state.ak.us



# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: HCR 19  
(H) Publish Date: 3/4/10

Identifier (file name): HCR19 Fiscal Note L&C 3-1-10 Dept. Affected: \_\_\_\_\_  
Title: AIDEA Report on In-State Fuel Storage RDU: \_\_\_\_\_  
Component: \_\_\_\_\_  
Sponsor: Representative Jay Ramras  
Requester: House Labor & Commerce Committee Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>								
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2009) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: Konrad Jackson, Committee Aide  
Division: House Labor & Commerce  
Approved by: Representative Kurt Olson  
Chair, Labor & Commerce Committee

Phone 907-465-2693  
Date/Time 3/1/10 12:00 AM  
Date 3/1/2010

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Chair, Labor & Commerce Committee

Phone 907-465-2693  
 Date/Time 3/1/10 12:00 AM  
 Date 3/1/2010

House Finance Committee

March 29, 2010

Monday

1:30

HCR 19-AIDEA REPORT ON IN-STATE FUEL STORAGE

HB 386-CITATIONS

CS WORKDRAFT CS HB 386(FIN)

26-LS1525/E

## *AIDEA PORT OF ANCHORAGE LIQUID STORAGE FACILITY*

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The following pages will discuss benefits of the Alaska Industrial Development and Export Authority (AIDEA) building a liquid storage facility. The concept of this terminal would be that it is constructed by AIDEA and leased to a third party operator. The storage capacity would be leased to various fuel distributors, oil companies, energy trading companies, and end users.

### OVERVIEW

In the Attorney General's 2008 Alaska Gasoline Pricing Investigation it was found that the structural characteristics of Alaska's petroleum products market contributed to the unusually high gasoline prices relative to other parts of the country. Indeed, Alaska is very geographically isolated, even more so when it comes to energy. In other parts of the country refined petroleum products can easily move from market to market via thousands of miles of pipelines or coastwise using marine transportation. A great example of this would be putting gasoline into a pipeline in Houston, TX and receiving it in New York Harbor. In this example storage facilities in Houston and New York, as well as the pipeline between those two cities, are fairly open to parties that wish to participate in this trade. These markets would be considered to have ample liquidity. This is a stark contrast from Alaska. To ship petroleum products from Seattle to Anchorage is a difficult task. While products are fairly available in Seattle and other parts of the world, and transportation can be found, storage in Anchorage to receive the product does not exist. This forces us to be reliant upon instate refiners. And there is only one refiner that produces significant quantities of low-sulfur diesel and gasoline. The basic structural characteristic of Alaska's Petroleum Market is very different from the rest of the country.

- There is a lack of liquidity in the Alaska petroleum market.
- There is a lack of available storage and distribution infrastructure to support alternative supply.
- Changes in the maximum sulfur specification for fuels has had a significant impact on product supply.

A large bulk liquid storage facility in Anchorage would help resolve these issues.

### HISTORY

Alaskans use three primary sources of liquid fuels: jet fuel, diesel fuel, and gasoline. The product that has the most demand in the state is jet fuel or Jet-A. Jet-A is used for aviation, heating oil, and power generation. The majority of the jet fuel consumed in the state is done so at the Anchorage International Airport. Diesel fuel is used in vehicles, marine applications, power generation, and heating fuel. Gasoline is primarily used in cars, boats, snowmachines, and recreational vehicles.

**AIDEA PORT OF ANCHORAGE  
LIQUID STORAGE FACILITY**

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Demand for gasoline, diesel and jet from the 1990's to the early 2000's was fairly stable in the State of Alaska. The approximate demand (not including the Alaska North Slope) for these products was as follows (Barrels per Day (BPD)):

**In-State Demand**

<i>Type of Fuel</i>	<i>2000's BPD</i>	<i>1990's BPD</i>
Gas	16,000	15,500
Jet	67,000	65,000
Diesel	17,000	16,000

During the 1990's the State of Alaska was a net importer of Jet fuel and a net exporter of gasoline. During the early 2000's refining capacity was increased by all three in state refineries. This led to an in-state balance for jet fuel and additional gasoline for export. In-state production for these time periods was as follows:

**In-State Production**

<i>Type of Fuel</i>	<i>2000's BPD</i>	<i>1990's BPD</i>
Gas	20,000	18,300
Jet	67,000	46,300
Diesel	18,000	16,900

During the 1990's Anchorage International Airport used about 50,000 barrels of jet fuel per day. (The recent peak demand at the airport was over 60,000 BPD.) The balance of the state demand for jet fuel was for military jet fuel, power generation, heating oil, and vehicle use in the winter months.

During the 1990's prices in Alaska remained fairly consistent with the Pacific Northwest. Specifically, a comparison of OPIS (Oil Pricing Information Service) rack prices in Seattle versus OPIS rack prices in Anchorage would indicate a difference in cents per gallon (CPG) as follows:

**Anchorage OPIS Rack Prices – 1990's**

<i>Type of Fuel</i>	<i>CPG Difference to Seattle OPIS Rack</i>
Gas	16.5
Jet	11.3
Diesel	5.7

**AIDEA PORT OF ANCHORAGE  
LIQUID STORAGE FACILITY**

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In addition, the price differential for jet fuel at the airport was about 5 CPG above Los Angeles in the early 1990's. After the refiner expansions that lead to an increase for in-state production of jet fuel, these differentials dropped closer to 3 CPG.

**FAST FORWARD TO TODAY**

**What has changed?**

In June of 2006 the EPA mandated a shift to lower sulfur fuels. This change effected how refiners produce gasoline and diesel fuel. To produce these new fuels most refiners needed to make significant investments in their facilities. Only one Alaska refinery received such an investment to produce the lower sulfur fuels. The changes EPA mandated in the sulfur level (parts per million (ppm)) for diesel fuel and gasoline in Alaska were as follows:

**Change in Maximum Sulfur Content**

<i>1990's</i>	<i>Max Sulfur (ppm)</i>	<i>Versus:</i>	<i>Today</i>	<i>Max Sulfur(ppm)</i>
Gas	1,000		Gas	30
Diesel	5,000	Diesel	15	

These new fuels are called Ultra-Low Sulfur (ULS) fuels. This large reduction in sulfur has also created a large reduction in available in-state production. One example of lost production is that the Prudhoe Bay and Kuparuk facilities on Alaska's North Slope no longer operate at capacity. This requirement is sourced from elsewhere in the state. Presently, only one in-state refiner produces ULS diesel (ULSD). Gasoline produced in-state has also been reduced because of the sulfur mandate by about 3,000 BPD. Additionally, one refiner has discontinued production for its largest crude unit. This means a reduction of about 17,000 BPD of jet fuel produced here in the state.

The impact of lower in-state production on price differentials has been an increase in Anchorage OPIS rack prices versus Seattle OPIS rack prices. Current differentials are as follows:

**Current Anchorage OPIS Rack Prices**

<i>Type of Fuel</i>	<i>CPG Difference to Seattle OPIS Racks</i>
Gas	105
Jet	38
ULSD	110

**AIDEA PORT OF ANCHORAGE  
LIQUID STORAGE FACILITY**

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**LACK OF LIQUIDITY**

In petroleum markets that have sufficient liquidity, differentials are pegged at the transportation cost to move product from one market to another. In Alaska's case, the ability to bring product in from another market is not there as storage is unavailable to bring in a typical parcel (approximately 80 - 300,000 barrels). Storage is not available; thus, no liquidity exists. Current storage for ULSD and gasoline is owned and operated by in-state refiners. Sixty to seventy percent of the storage at the Port of Anchorage is controlled by two of Alaska's in-state refiners. The balance is used by the Airport Fueling Consortium and the United States Military.

The key to ensuring that Alaskans have sufficient energy at prices that change relative to the rest of the world is ensuring there is ample supply available. Current environment regulation mandates that imports are available to meet the demand requirements. Realistically those imports can only be facilitated by the two in-state refiners that control the storage facilities. To attract third-party imports, storage needs to be available for product to be brought in by barges or tank ships.

**SOLUTION TO CREATE LIQUIDITY**

AIDEA works with a bulk liquids terminal operator to develop construction costs and operating costs for a bulk liquids storage facility. Once construction and operating costs are identified AIDEA can go to potential users with an "Open Season" format in which to sell commitments for the facility. Once firm commitments are received AIDEA builds the facility at the Port of Anchorage. This facility would be able to receive marine or rail shipments. It would be capable of loading ships, barges, rail cars, and trucks. The facility would be leased and operated by a terminal operator for all companies willing to lease storage space. Potential candidates would include major ANS exploration companies, refiners, distributors, energy trading companies, utilities, and various other end users. Candidates would commit to storage space and sign long-term leases prior to construction. It is anticipated that the facility would have storage capacity between 500,000 barrels and 1,000,000 barrels and cost between \$50 - \$100 million. The facility would be able to handle other products like bio-diesel, methanol, and ethanol as well.

**IMPACT ON EXISTING INDUSTRY**

The AIDEA facility would allow existing refiners, distributors, end users, and others the ability to bring bulk liquids into south central for redistribution to other areas of the state. It provides access for out of state products to enter the Alaska market.

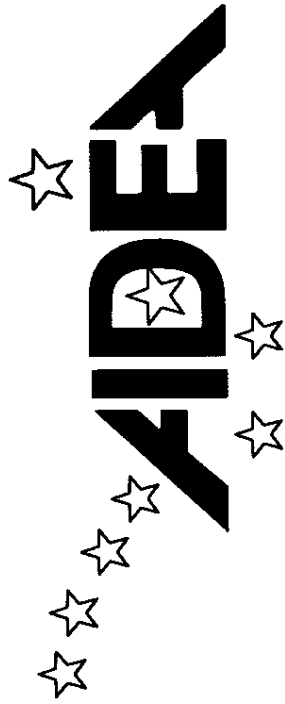
Industries that rely on diesel and gasoline for their business activities have limited options to manage their fuel costs. For the most part these companies rely on one source for their needs, as does the state. The AIDEA facility would allow for some options to meet these requirements.

*AIDEA PORT OF ANCHORAGE  
LIQUID STORAGE FACILITY*

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**SUMMARY**

An AIDEA supported bulk liquid storage facility would change the basic structural characteristic of Alaska's Petroleum Market to be more in line with the rest of the country. This additional storage in Anchorage will facilitate a re-balancing of supply and demand as was the case in the early 2000's. The project as a whole will also increase the liquidity in the Alaskan petroleum products market and lead to Seattle - Alaska rack pricing being more in line with the historical averages



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**Alaska  
Industrial  
Development  
and Export  
Authority**

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*Investing in Alaskans*

A Presentation to the House Finance Committee on HCR 19

James Hemsath  
Deputy Director – Business Development

29 March 2010

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## HCR 19 – Fuel Storage Business Case

Urging the Alaska Industrial Development and Export Authority to **present a business case** to the Alaska State Legislature that includes a method for financing, a plan to solicit proposals for a public and private venture, and an objective **analysis of the economic and business feasibility** of a state-built and privately operated fuel storage facility that would serve the public interest.



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## **AIDEA's Role**

- Provide an objective analysis examining both the economic development impact and feasibility of a storage facility as well as the long term viability of the project
- As part of the analysis identify potential private and public sector users of the facility
- In conjunction with EconOne, look all aspects of the fuel supply system in the State and the impact additional storage would have for the different regions
- Examine possible ways of financing this project which could include AIDEA financing through ownership as a Development Finance Project (AS 44..88)
- As a possible owner of the storage facility, act as a consolidator for multiple users and demands assuring open access to storage



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## Action Plan

- Market Analysis
  - Continuation of last years efforts by EconOne
  - Military
  - Long term Air Cargo
  - Fuel supply reliability
- Engineering Layout and Cost Estimate
  - Space constraints
  - Multiple tanks, vapor recovery, additives, labs
  - Schedule
- Establish Basic Business Case Model
  - Competition
  - Market risks
  - Economic impact

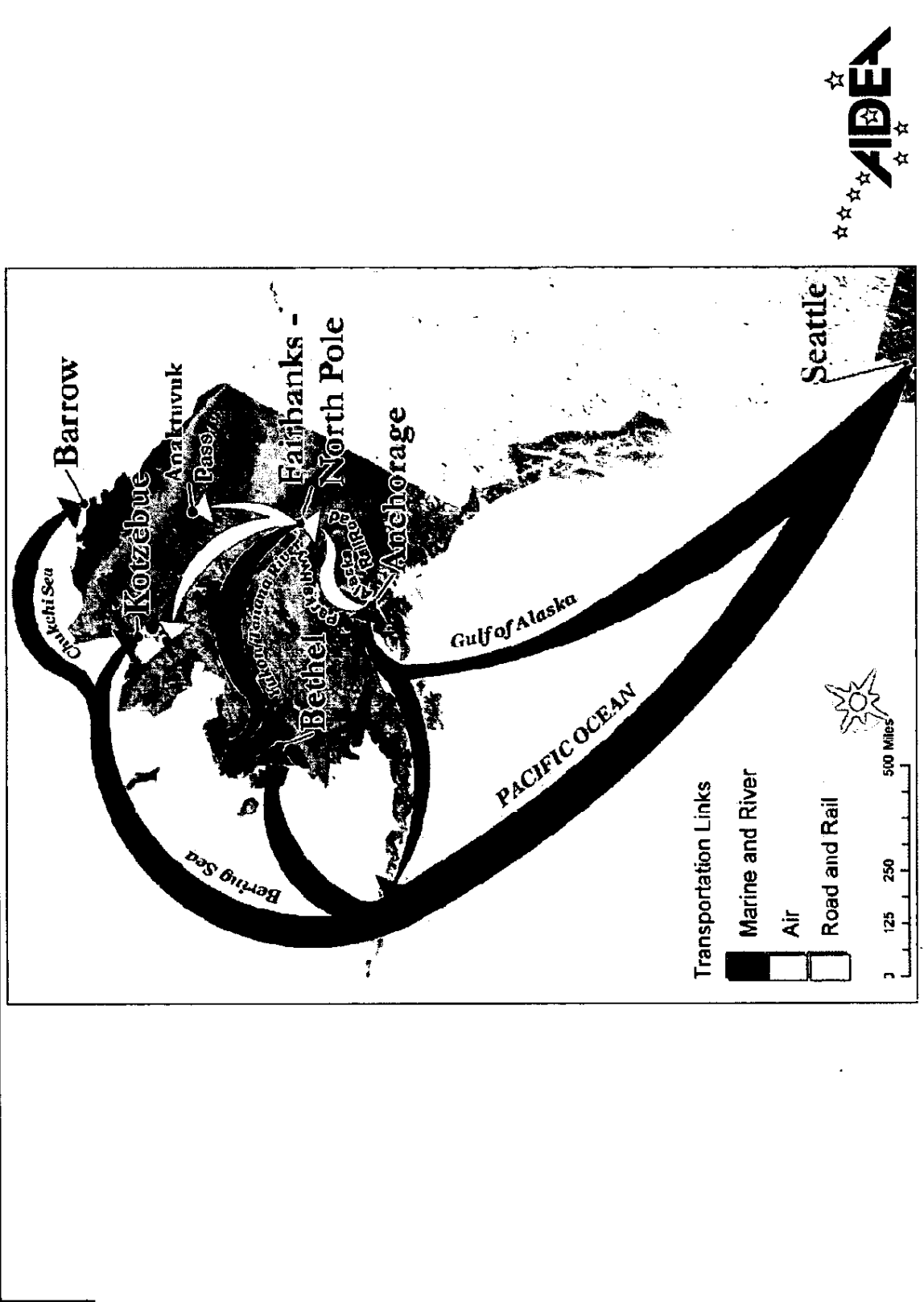


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## **AIDEA Business Case**

- Open access
- AIDEA owned – contracted operator
- Generate revenue
- Market and market risk
- Competition
- Economic development
  - Job creation/diversification
- Open Season

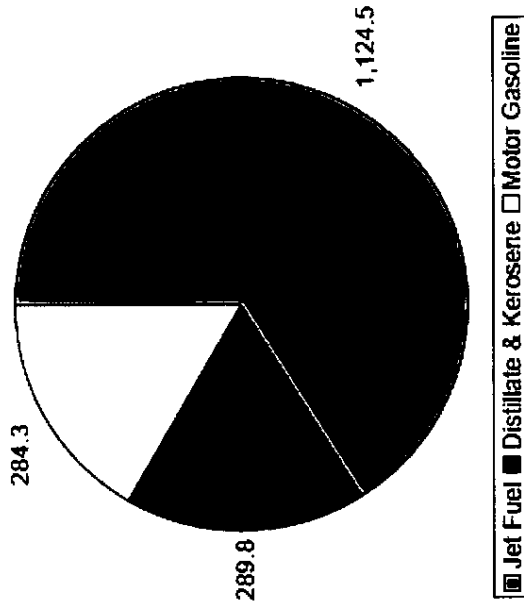




# Product Storage

- Jet Fuel
  - Commercial
  - Military
  - Fuel supply reliability
- Gasoline
  - Three grades
  - Processing capacity
- Distillate
  - Ultra low sulfur
  - #2 Fuel oil
  - Western Alaska

Figure 6. Annual Sales of Petroleum Products in Alaska, 2006  
(Millions of Gallons)



Source: EIA, 2007a. Prime Supplier Sales Volumes. Accessed at [http://hanto.eia.doe.gov/dnav/pet/pet\\_cons\\_prim\\_dcu\\_SAK\\_a.htm](http://hanto.eia.doe.gov/dnav/pet/pet_cons_prim_dcu_SAK_a.htm) on October 24 2007.





**PHASING NAME**  
 PHASE - FOR 2003-04  
 UMBRELLA AREA  
 YEAR FOLLOWED BY CONSTRUCTION  
 ACTIVITY TYPE

**LEGEND / SYMBOL**

**ACCT**

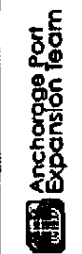
- (1) INITIAL DESIGN & PERMITS OPERATIONS TO BEGAIN CONSTRUCTION FALL 2010
- (2) WORK POL & SCULPT DESIGN FALL 2011 WORK BEGINS POL FALL 2012
- (3) REMAINS BACK TO BE WORK 2012

- (1) FULL AND COMPLETE
- (2) DESIGN CONSTRUCTION
- (3) INITIAL PERMITS DESIGN AND UTILITIES

SHEET: 1 OF 1  
 10.28.08

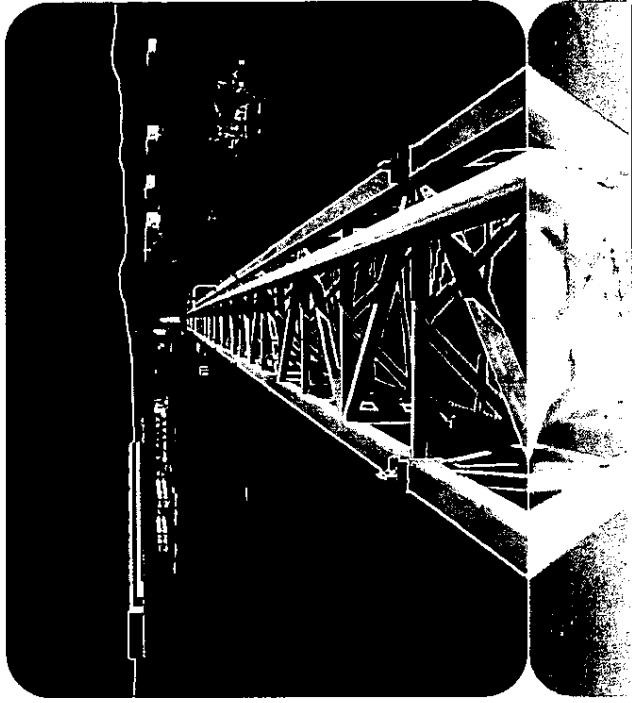
Part of Anchorage Intermodal Expansion Project  
**PHASING PLAN**

421 West Third Avenue, Suite 200  
 Anchorage, Alaska 99501  
 www.ICRC-ALASKA.COM



# Moving Forward

The mission of the Alaska Industrial Development and Export Authority is to promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment



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## Development Finance Program

Has the ability to acquire:

- An interest in a project as necessary or appropriate to provide financing for the project
- Manage and operate projects as the authority considers necessary or appropriate to serve a public purpose
- Equip, operate, maintain, construct, or install facilities that will enhance the competitiveness of the international airports (AS 44.88.080)



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## Development Finance Program

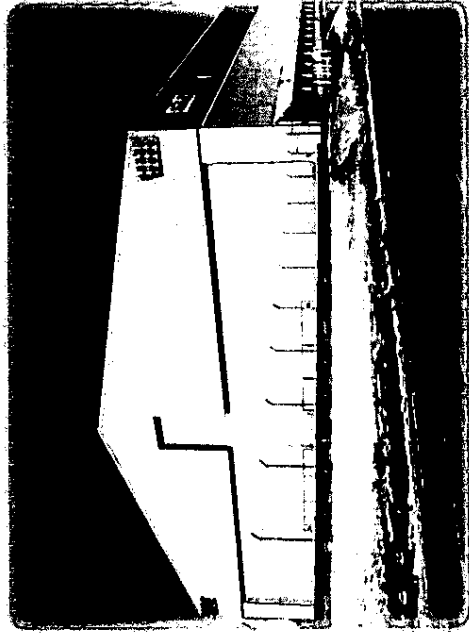
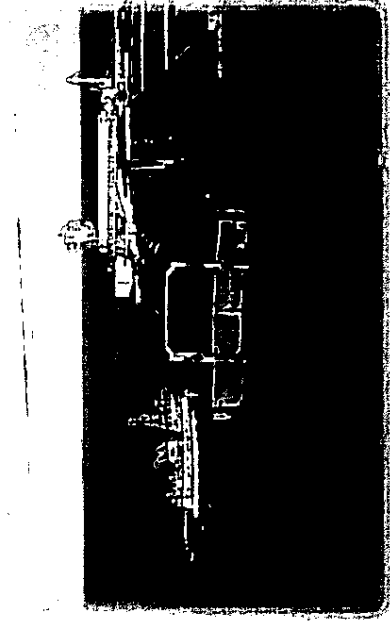
- Under AS 44.88, the project must be **endorsed** by the local government
- The project and its development must be **economically advantageous to the state** and to the general public welfare and will contribute to the economic growth of the state;
- The project applicant is **financially responsible**
- The project is economically and financially feasible and able to **produce revenue** adequate to repay the bonds or loans with which it is financed.



# Development Projects

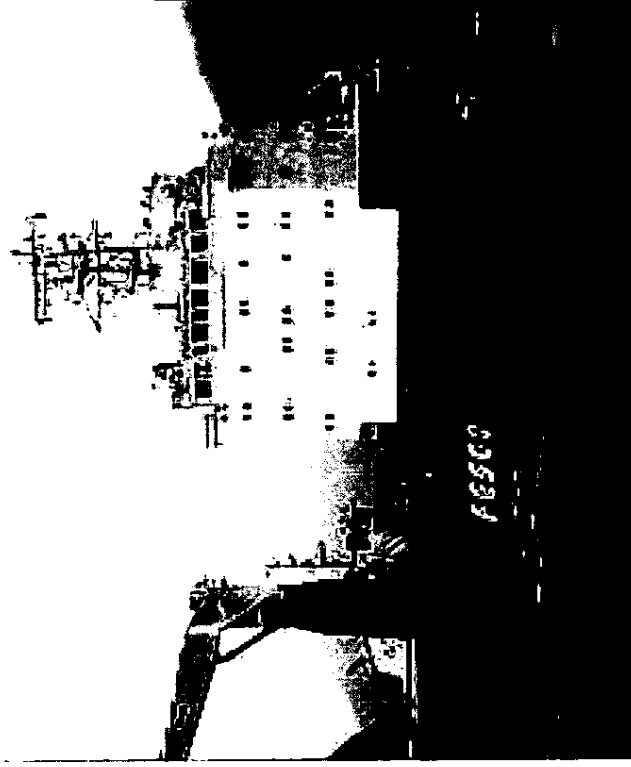


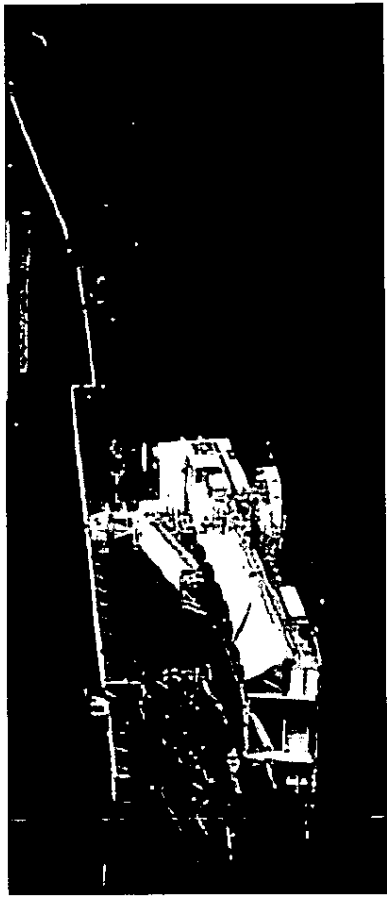
- DeLong Mt. Transportation System
- FedEx Maintenance Facility
- Snettisham Hydroelectric Project
- Ketchikan Shipyard
- Skagway Ore Terminal
- Healy Clean Coal Project



## Port of Anchorage Fuel Terminal

- 500,000 to 1,000,000 barrels of fuel storage capacity
- Open access
- Product transferred by pipeline, barge, truck and railcar
- Enhance the statewide fuel system
- AIDEA contract with operator
- Open season for storage commitment
- Estimated cost \$75 – 100 million





*Our Mission is to promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment*

*With the vision to be an active partner with Alaskans and a dynamic resource in Statewide economic development*



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# AIDEA

Alaska Industrial Development and  
Export Authority

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Anchorage, Alaska 99503

907-771-3000

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[www.aidea.org](http://www.aidea.org)

