

**8 / 31 / 09**

**ISER**

**FUEL**

**COST**

**STUDY**

<target><bill></bill><subject>8-31-09 ISER FUEL COST  
STUDY</subject><comm>SF26</comm></target>

**Components of Fuel Costs III  
For Sen. Stedman and Sen. Hoffman**

Proposed Scope of Work and Budget

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**Abstract**

This study is designed to be *both* an update *and* an evolution of previous “Components of Fuel Costs” studies. It will update the most recent Components study by collecting and reporting the most recent fuel prices. It will be an evolution of the previous studies in that the investigation and analysis will attempt to describe in greater detail and scope the structure of Alaska fuel markets as well as identify possible ways to lower the cost of fuel in Alaska.

**Purpose of this Project**

Many Alaskans face extremely high, volatile and variable fuel prices. Little is publically known about the actual structure of Alaska’s various fuel markets and what drives the price for each community. Alaska State Senators Burt Stedman and Lyman Hoffman are interested in investigating ways to lower the price and cost of fuel to Alaska communities. They have asked ISER to investigate Alaska fuel markets and to identify any fuel market inefficiencies that could be targeted by legislative action in order to reduce fuel prices.

**Scope of Work**

As a starting point, ISER will update the fuel prices for the ten study communities that were investigated in the previous two fuel cost analyses. ISER will expand the Discussion section of the previous reports to specifically address issues identified by Senators Stedman and Hoffman including an investigation of possible market inefficiencies. In its analysis of Alaska fuel markets, ISER will collaborate with Alaska’s fuel markets participants including: refineries, distributors, retailers, fuel purchasing co-ops and government agencies involved in community fuel purchases. The work will be completed in five stages outlined below.

**1. Update the prices of the previous report.** This will entail surveying the ten communities to determine the current price of retail fuel oil. Information regarding the timing of fuel deliveries, the landed price, timing of pricing and accounting and inventory practices will be investigated. The report will contain the same community by community descriptions of the components of fuel cost.

**2. Describe the structure of Alaska fuel markets in detail.** We will identify different Alaska heating fuel and propane markets (including interior, remote rural, southern coastal and southeast markets) and describe the structure of each market. We will identify which refineries the fuel likely originates from, where it is stored and for how long, how many times it changes hands, the transportation and delivery methods for reaching the final community, and how the fuel is stored, distributed and sold within the community.

**3. Identify potential “market inefficiencies” that could result in higher than necessary costs/prices.** Based on the analysis of the structure of Alaska fuel markets we will identify areas of potential market inefficiencies.

Examples of potential market inefficiencies:

- Using market power to generate excess profits
- Communities and fuel users who fail to coordinate purchases to take advantages of economies of scale
- Inefficiencies in transportation, distribution and storage systems
- Communities and fuel users who pay unnecessarily high finance costs because they do not have adequate cash or access to low cost loans
- Deficient infrastructure that increases the cost of fuel transportation, delivery and storage.

**4. Allow for “comment” on market inefficiencies.** Instead of directly trying to explain or determine whether the potential market inefficiencies are actually driving up prices we will allow for involved parties, businesses, and agencies to directly comment on and “explain” why or why not the identified costs are increasing prices. This section will clearly identify the words and ideas of third parties as not the words and ideas of ISER. The inclusion of this section is meant to facilitate greater participation of those directly affected by this study by giving them a direct voice.

**5. Discussion of policy solutions.** ISER will identify potential state actions that could reduce high fuel costs. ISER will identify the potential economic impact of alternative state policies on fuel markets and prices.

### **Key Contacts and Collaborators**

ISER will work with the following people and companies. These contacts have expertise and many years of experience regarding the structure of Alaska fuel markets.

**Mark Smith**, formerly of Crowley and Yukon Fuel. We will explore using Mr. Smith as a contracted consultant as he has unparalleled insight into Western Alaska fuel markets.

**Office of the Attorney General, State of Alaska.** The Office of the Attorney General is investigating Alaska fuel markets and will share information with ISER. However, ISER's research and report will be an independent analysis.

**Del Conrad, Rural Alaska Fuel Services (RAFS).** Rural Alaska Fuel Services is a not-for-profit corporation organized to contract for the operation and maintenance of rural Alaska bulk fuel storage facilities constructed by the Denali Commission and granted to selected communities. RAFS can provide insight on fuel markets from their experience and expertise managing fuel deliveries and cooperative buying to rural tank farms.

**Alaska fuel distributors.** Including, Crowley, Delta Western, Petro Marine, Ruby Marine and Shoreside Petroleum.

**Meera Kohler, Alaska Village Electric Association (AVEC).** AVEC is a large purchaser of fuel in rural Alaska and can share insight into the pricing structure and the benefits of large, coordinated fuel purchases.

**Budget and budget justification**

This project has a total budget of \$49,974. The following table shows budget expenditures for salary, leave and benefits for each study task as well as non-labor components, including \$10,000 to be paid to Mark Smith for subcontracting services.

**Detailed Hours by Task**

	Total	Nick Szymoniak	Ginny Fay	Ben Saylor	Toby Schwoerer	Steve Colt	Student Intern	Clemencia Merrill
<b>Update Previous Study</b>								
Phone survey of 10 study communities	94	27	0	0	0	0	67	0
Gather community, crude oil and refinery data	42	0	0	8	0	0	34	0
Update text and tables	55	13	0	8	0	0	34	0
<b>Analysis of Alaska Fuel Markets</b>								
Compile existing studies and data	17	17	0	0	0	0	0	0
Contact with industry experts for initial draft	122	67	34	0	8	0	13	0
Draft "Structure of Alaska Fuel Markets"	138	67	34	0	17	7	13	0
Contact with industry experts	58	34	17	0	0	0	7	0
<b>Report</b>								
Draft Report	108	67	34	0	0	0	7	0
Final Report	84	34	17	0	0	7	13	13
<b>Total</b>	<b>718</b>	<b>326</b>	<b>136</b>	<b>16</b>	<b>25</b>	<b>14</b>	<b>188</b>	<b>13</b>

**Budget Summary - UAA Categories**

	Hourly		
	Rate FY10	hours	Amount
<b>Salaries and Wages</b>			
Ginny Fay	50.48	136	6,865
Nick Szymoniak	23.70	326	7,726
Ben Saylor	23.70	16	379
Toby Schwoerer	27.45	25	686
Steve Colt	69.44	14	972
Student Intern	14.92	188	2,805
Clemcia Merrill	23.02	13	299
<b>Leave Allowance</b>			
	Rate	Base	Amount
Ginny Fay	1.7%	6,865	117
Nick Szymoniak	20.2%	7,726	1,561
Ben Saylor	20.2%	379	77
Toby Schwoerer	20.2%	686	139
Steve Colt	18.7%	972	182
Student Intern	0.0%	2,805	-
Clemcia Merrill	21.3%	299	64
<b>Total Salaries &amp; Wages</b>			<b>21,872</b>
<b>Staff Benefits</b>			
	Rate	Base	Amount
Ginny Fay	31.9%	6,982	2,227
Nick Szymoniak	44.1%	9,287	4,096
Ben Saylor	44.1%	456	201
Toby Schwoerer	44.1%	825	364
Steve Colt	28.2%	1,154	325
Student Intern	8.0%	2,805	224
Clemcia Merrill	57.0%	363	207
<b>Total Staff Benefits</b>			<b>7,644</b>
<b>Total Personnel</b>			<b>29,517</b>
<b>Travel</b>	miles	rate	
[no travel planned]			-
<b>Total Travel</b>			-
<b>Contractual</b>			
	hours	rate	
Task order to Mike Smith			10,000
Duplication			50
Long distance phone			400
<b>Total Contractual</b>			<b>10,450</b>
<b>Commodities -- no commodities planned</b>			
<b>Total Direct Costs</b>			<b>39,967</b>
<b>Facilities &amp; Admin</b>			
	Rate	Base	Amount
F&A on ISER direct	25.0%	29,967	7,492
F&A on 1st 25k of subcontract	25.0%	10,000	2,500
<b>Total F&amp;A</b>			<b>9,992</b>
<b>Total Cost</b>			<b>49,958</b>

**Budget Summary – RSA Categories**

Personal Services	29,517
Travel	-
Contractual	10,450
Supplies	-
Equipment	-
Grants	-
Other (Facilities & Admin	9,992
<b>Total</b>	<b>49,958</b>