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AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 54(RES)

1 Page 1, line 2:

2 Delete "exorbitant or excessive"

3 Insert "unconscionable"

4

5 Page 1, lines 11 - 12:

6 Delete "exorbitant or excessive"

7 Insert "unconscionable"

8

9 Page 2, line 25:

10 Delete "exorbitant or excessive"

11 Insert "unconscionable"



**TESORO**

Tesoro Alaska Company  
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April 3, 2009

The Honorable Hollis French  
Chair  
Alaska Senate Judiciary Committee  
State Capitol  
Juneau AK 99801-1182

RE: CS SB 54 (RES)

Dear Senator French:

Despite significant changes to the original bill, the Resources version of SB 54 imposes a great deal of risk to our business in Alaska. For that reason Tesoro opposes the Resources Committee substitute.

Without understandable definitions for the terms "excessive" and "exorbitant", refiners, wholesalers and retailers would be subject to serious business and legal risk while selling fuels.

I have heard testimony discounting this risk, so let me try to expand on our concern.

The current consumer protection laws, especially those prohibiting collusion and monopoly powers, are well defined, and make compliance straightforward. The regular investigations conducted by the Attorney General over the past decades have all been conducted in a consistent manner, regardless of who was serving as Attorney General.

The Attorney General recently concluded that supply and demand have, and are currently determining fuel price in Alaska. However, based on testimony, the sponsors believe that fuel prices in Alaska have been, and are now, excessive and exorbitant. If we imagined a world where "excessive" and "exorbitant" were law, we would have to consider the legislative record that indicates we are perceived to be in violation of the hypothetical law. Given our core value of complying with all laws, my company would be unwilling to risk breaking an undefined law, thus exposing shareholders to enormous penalties and costly legal proceedings.

April 3, 2009  
The Honorable Hollis French  
Page 2 of 2

Finally, the sponsors of this legislation reference the intent to give the Attorney General better tools to protect consumers. The anti-trust laws already on the books are powerful and effective in preventing anti-competitive behavior. Assuming that a market economy exists, logic would dictate that gouging is impossible – when prices rise to a level high enough, new competitors will enter the market, or an existing competitor will lower prices to gain market share.

Because the Attorney General has extensive authority under law to redress any market situation that would limit those reactions to prices, he already is empowered to prevent “gouging.”

Thank you for the opportunity to comment. Please call me at 907-261-7221 with any questions.

Sincerely,



Kap Knudson

# COST OF LIVING

## ACCRA COST OF LIVING INDEX\*

For Selected Cities  
2008 Annual Average Data

City	Composite Index 100%	Grocery			Trans- portation	Health Care	Msc. Goods & Services
		Items	Housing	Utilities			
		12.49%	29.18%	9.98%	11.10%	4.06%	33.19%
<b>West:</b>							
Fairbanks, AK	136.1	125.9	149.6	199.2	110.8	140.2	117.0
Anchorage, AK	125.5	142.5	136.4	97.7	106.9	130.1	123.7
Kodiak, AK	125.1	149.1	116.8	146.2	116.4	128.0	119.5
Phoenix, AZ	101.1	103.4	100.1	90.9	100.2	99.4	104.8
Oakland, CA	147.9	128.6	224.5	89.4	111.7	119.1	120.9
Denver, CO	105.0	108.5	110.3	96.3	99.2	105.8	104.0
Idaho Falls, ID	89.3	88.2	81.3	87.3	96.1	90.2	94.8
Kalispell, MT	102.3	114.4	100.0	96.9	98.8	105.9	102.1
Farmington, NM	98.7	103.8	97.4	97.6	97.8	103.5	97.9
Seattle, WA	123.0	117.2	151.2	83.8	110.5	120.8	116.5
Laramie, WY	103.3	116.4	110.7	99.0	94.9	96.2	96.8
<b>South:</b>							
Miami, FL	116.6	106.7	142.4	96.9	107.9	107.1	107.5
Atlanta, GA	97.2	98.9	91.3	87.6	103.0	102.0	102.1
Lafayette, LA	98.6	91.9	105.0	89.6	107.2	86.5	96.9
St. Joseph, MO	94.1	94.9	81.0	97.2	93.8	106.7	103.0
Tulsa, OK	88.2	93.0	68.2	91.5	99.6	102.7	97.4
Memphis, TN	88.2	94.2	74.2	87.6	93.8	97.2	95.4
Dallas, TX	92.1	99.8	70.8	105.3	102.9	104.3	98.9
<b>North Central:</b>							
Indianapolis, IN	91.7	93.4	88.6	89.4	102.0	99.0	90.2
Grand Rapids, MI	95.2	100.1	96.6	107.2	95.2	86.8	89.5
Wausau, WI	94.8	90.9	87.3	110.5	98.8	99.9	96.1
<b>Northeast:</b>							
New York, NY	219.8	142.4	409.6	167.5	120.2	132.6	141.8
Philadelphia, PA	123.9	124.9	144.5	118.2	104.1	109.0	115.7
Boston, MA	133.6	115.9	156.7	140.6	108.1	133.6	126.4
Raleigh, NC	102.6	104.1	99.3	94.3	97.8	107.3	108.4
Richmond, VA	104.2	97.1	109.4	108.5	104.6	108.2	100.4
Avg. of 322 Urban Areas	100.0	100.0	100.0	100.0	100.0	100.0	100.0

238x  
higher  
= 237%  
MoE

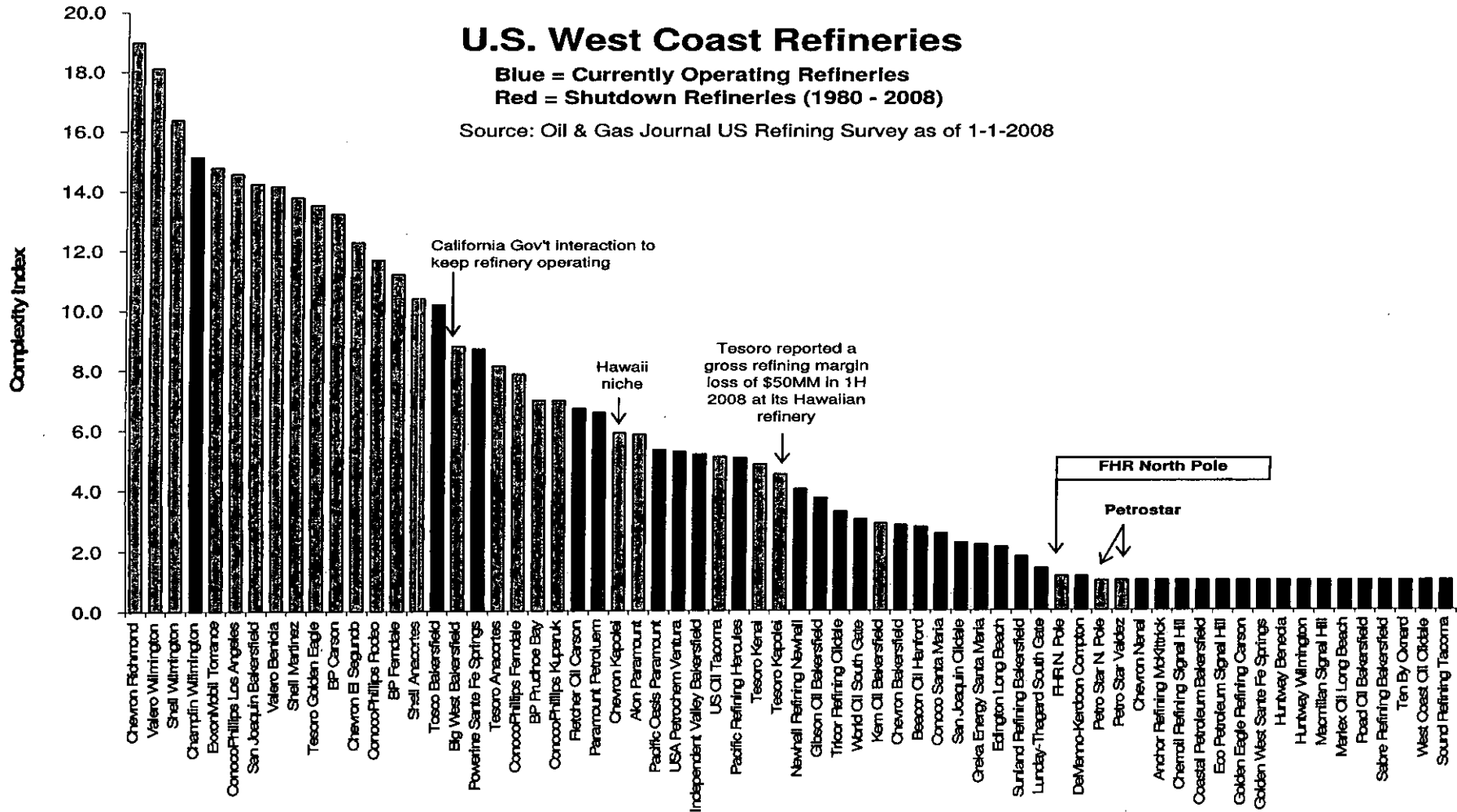
SOURCE: ACCRA (American Chamber of Commerce Researchers Association), "ACCRA Cost of Living Index," 2008 Annual Average Data.

NOTE: The ACCRA Cost of Living Index does not measure inflation (price change over time). Because each quarterly report is a separate comparison of prices at a single point in time, and because both the number and the mix of participants changes from one quarter to the next, Index data from different quarters cannot be compared. For inflation data you will need to use the CPI (Consumer Price Index).

\* Item percentages change so please watch for current percentages.

# N. Pole is a Low Complexity Refinery

History shows that low complexity refineries like N. Pole do not survive unless they have other sources of competitive advantage.



# ALASKA STATE LEGISLATURE

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*Session*  
State Capitol, Rm. 115  
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Senator Bill Wielechowski

## SPONSOR STATEMENT Senate Bill 54

"An Act making sales of and offers to sell certain energy resources by a refiner at prices that are exorbitant or excessive an unlawful act or practice under the Alaska Unfair Trade Practices and Consumer Protection Act."

Alaskans are paying far too much for heating and motor fuel. This bill will help reduce the cost of gasoline, and heating fuel for many Alaska residents, from road system communities where the price of gasoline is excessive, to rural communities where the price of heating fuel is far too high.

There is evidence that Alaska's refiners are marking up the cost they pay for crude oil at a rate that far exceeds the markup charged by West Coast refiners, and that is higher than the historical Alaska mark up. Many other states have price gouging laws, and Alaska should have one too.

Most Alaska motor fuel and heating oil is produced by the Tesoro and Flint Hills refineries, with most motor fuel coming from the former. Evidence to date shows that the high price Alaskans are paying for motor fuel and heating oil is caused in large part by this refiner mark-up. While it is understandable that fuel prices will rise and fall with the price of oil, there is questionable justification for the margins Alaska's main refiners are adding to their cost for Alaska crude oil.

This bill provides protection for Alaskan communities, individuals, and businesses that rely on refined petroleum products for heating and transportation by prohibiting refineries from charging excessive or exorbitant prices for heating oil, diesel, and automobile and aircraft fuel. An objective threshold is established where prices are presumed to be excessive or exorbitant, which refiners can rebut by showing that their prices are a reasonable response to expenses. The bill provides for monetary damages to deter potential violators.

During the recent fuel cost crisis, the rate at which Alaskan prices have been higher than Lower 48 rates has consistently exceeded historical norms, and Alaskan prices have increased while Lower 48 rates decreased. Even suspending Alaska's gasoline tax has not been able to eliminate this disparity.

This bill targets refinery prices, because the investigations conducted by the Legislative Research Division and the House Judiciary Committee have shown that the price disparities have arisen because of the prices that refineries sell products to retailers. This bill does not set or control pricing, and disparate pricing would still be legal if refiners can show their prices to be reasonable. This bill only applies to refiners with annual sales of over one million gallons of applicable fuel, exempting smaller community refiners.

While many other states' prohibitions against excessive fuel prices only apply in the event of natural disasters, terrorist attacks, or declared emergencies, Alaska has a unique Constitutional responsibility to ensure that natural resources are used to the maximum benefit of the Alaskan people. This bill prohibits refineries from charging exorbitant or excessive prices that are detrimental to state and local economies and the welfare of individual Alaskans. Also, this recent crisis has shown that high fuel costs alone can be enough to create an economic emergency.

## LETTERS TO THE EDITOR

### Gas gouging

Fairbanks Daily News-Miner (AK) - Wednesday, March 25, 2009  
Author: Bill Mitchell, Fairbanks

It is starting to appear that our state Legislature isn't going to do anything to protect Alaskans from the price gouging that we've been victimized by at the pump for a long time now.

I will not be able to vote for any incumbent who isn't willing to do whatever it takes to correct this massive injustice that we've faced for far too long. I hope that enough feel the same way that most if not all incumbents up for re-election are sent packing after the next election cycle. Regardless of their party affiliation, they will have demonstrated that they are unworthy of the position they hold. I guess legislative salary issues trump protecting the people from the ongoing pillaging at the pump.

Is there nothing the governor can do to stop the pillaging? I thank her for refusing the federal funds that would have created more future overhead.

### North Pole gas prices

Fairbanks Daily News-Miner (AK) - Tuesday, March 17, 2009  
Author: Sherry Smith, North Pole  
March 16, 2009

To the editor :

The local tax has been removed, and we are still paying more than Fairbanks. What I find really odd is the fact that the gas prices in Tok also are less than ours. Last time I checked, Tok was quite a bit further away from the refinery. I guess Fairbanks is too.

Why are we paying so much more?

### High gas prices in state smell fishy

Anchorage Daily News (AK) - Monday, March 16, 2009

Today I researched using "gasbuddy.com" prices for fuel in the following cities. I then subtracted the state fuel tax for each type of fuel and compared those prices to Anchorage fuel prices , with the following results:

Great Falls -- regular gas \$0.64; diesel \$1.70.

Phoenix -- regular gas \$0.55; diesel \$1.67.

Seattle -- regular gas \$0.61; diesel \$1.69.

Honolulu -- regular gas \$0.26; diesel \$ 0.67.

As this information shows, we are being taken advantage of by our local oil companies and refineries. When we are paying more than Hawaii and have an in-state source for crude, then there can be no excuse for the high prices .

Also, these prices are compared with Anchorage prices . Most of the state pays far higher.

Everyone, and I mean everyone, needs to make our legislators and governor aware that this situation is not acceptable. Consider that most of us are affected by transportation for our food and necessities, and we are paying an additional \$1.70 for diesel.

-- Charles Foster

Wasilla

### **Fuel tax suspension helps a little**

Anchorage Daily News (AK) - Saturday, March 14, 2009

Glad to hear Gov. Sarah Palin pledged her support to extending the motor fuel tax suspension. The governor and lawmakers working together last year set the policy in place as part of the governor's comprehensive energy plan. I encourage legislators to keep this important tax suspension in place. Alaskans are still paying higher prices at the fuel pump than our neighbors in the Lower 48. Thank you, governor, for protecting our pocketbooks.

-- Corie Cruise

Wasilla

### **Gasoline threat**

Fairbanks Daily News-Miner (AK) - Thursday, February 26, 2009

Author: Thomas McGhee, North Pole

Feb. 17, 2009

To the editor :

No illegal activity? A threat to create oil shortages and dire consequences intentionally would directly affect individuals, companies and entire communities. The evidence already is here today. "Jeff Cook, spokesman for Flint Hills Resources Alaska, forecast fuel shortages and other dire consequences should lawmakers approve anti-gouging or price cap bills." (Daily News-Miner, Feb. 13.) If that's not a threat, I don't know what one is.

There are no oil shortages, and there never has been a lack of oil other than those made by the companies. And why would anyone not want to protect residents?

Sell or close Flint Hills! It won't make it any worse for North Pole or the Fairbanks North Star Borough. We will survive your failures.

The truth is, price -gouging oil companies, greedy CEOs and outrageous union pay scales have put the public and private sector into stop-spending-and-protect-ourselves mode. In turn, it has

back-fired and crippled everyone. Thanks, big oil companies, out-of-control unions and overpaid CEOs; you didn't look out for the consumer.

Is this referred to as biting the hand that feeds you?

### **No gouging?**

Fairbanks Daily News-Miner (AK) - Tuesday, February 17, 2009

Author: Bob Bederka, Fairbanks

Feb. 13, 2009

To the editor :

OK, let me get this right. Jay Ramras and the rest of our politicians say there is no gouging on our fuel price .

Someone please explain to me then how oil can drop to \$34 a barrel and gas in Fairbanks goes up? For that matter, explain why we are paying high gas prices to subsidize jet fuel prices ? Anyone in town who drives a jet, please raise your hand.

Jay should quit sniffing whatever it is he is sniffing and smell the coffee. That's coffee bought locally and not imported for him by his pals in the oil companies.

For that matter, all the doom and gloom that the oil companies and Jay predict will happen if we enact price caps might affect Jay's and Sarah's political contributions and actually be a good thing for us, the average normal Joe. Our prices are way out of line and it's time for something to be done. After all, tourist season is coming and all that does is give producers and retailers reason to raise our prices more!

Oh, and on a separate note ... Scott, leave Mount McKinley alone. We already renamed Alaskaland to Pioneer Park because some idiot somewhere thought it was supposed to be like Disney World with rides and roller coasters. Out-of-staters should quit being allowed to run our state.

### **Cut prices**

Fairbanks Daily News-Miner (AK) - Tuesday, February 10, 2009

Author: Cami Pena, Fairbanks

Jan. 30, 2009

To the editor :

I dread going to the grocery store. There's nothing to fear more than looking at your barely-a-week-family-of-three groceries and realizing it slightly passes \$200.

What happened to the days when a box of Wheat Thins was only \$2, instead of rounding up to \$4? I understand that as times get tough in our economy (i.e. Iraq War) prices will skyrocket. Yet how come they don't come back down?

Gasoline was such a huge struggle and although Alaska is still a dollar higher than the Lower 48,

the prices still dropped. In a sense it infuriates me that grocery stores think that since the need for food is so high, people will still purchase groceries at a low income. The average American family's income has dropped dramatically with the recent downfall in employment. It would be nice if we could catch some sort of a break, soon!

Now don't get me wrong, I strongly appreciate the Safeway Club Card, Fred Meyer Rewards and even Wal-Mart's low prices , but it's still not enough. If most of Americans are overweight, how do you expect this to change with healthier and organic food prices through the roof?

So in regard to President-elect Obama, I understand he'd like to help the economy, but let's help the families first and cut prices .

### **Alaska should build a refinery**

Anchorage Daily News (AK) - Monday, February 9, 2009

Once again the Legislature has failed to do its job. After completing a 54-page report, the House Judiciary Committee has said that it has based its findings on "intuition" (ADN article Feb 3).

I think it's based on something else, but I won't go there. Their findings are based on the refiners subsidizing jet fuel prices by gouging the public at the gas pump.

The article's statement that "Because jets can refuel anywhere, jet fuel prices are controlled by the world market" is total hogwash. As a retired airline pilot I can tell you that jets don't land just anywhere, they usually like to land at their destination. Anchorage is one of the largest air cargo crossroads of the world because of its location. It is a shorter distance from here to there, period. If the cargo haulers don't land here where will they land? Whitehorse? Reykjavik? Greenland?

Those places would have trouble refining jet fuel at world prices . Will they fly extra and go out of their way to buy cheaper fuel? I don't think the savings would add up. Some agency outside the Legislature, the Attorney General's office perhaps, should do the investigating. Better yet, the state should build its own modern refinery and run it like the profit-making railroad.

-- Bob Picard  
Anchor Point

### **Villages need fuel, food relief now**

Anchorage Daily News (AK) - January 16, 2009

Recent reports from Emmonak, a village of 800 on the mouth of the Yukon River, have raised grave concerns. The high price of heating oil is causing families to choose between heat and basic food supplies. It is a problem that should concern us all. Immediate action is needed by the state to ensure villages faced with these unique problems have enough food, and if this can't happen the private citizens of Alaska need to organize a relief campaign. Time is wasting.

-- Brian Whittle

Anchorage Daily News (AK) - Thursday, January 15, 2009

## **Price gouging is out of control**

Your solution for high oil prices in Alaska does not go far enough. In a recent national campaign, a sandwich shop advertised \$4.99 sandwiches that cost \$5.99 here. My knee surgeries cost twice what they would have in Seattle. Years ago, when I was buying a new car from an Outside company, the local dealership wanted \$800 to accept delivery, when the Outside rate for the same service was \$150.

We need investigation into all of the higher prices we pay. Using your standard, we need a state agency that will investigate any price that is more than 10 percent above a specified Lower 48 average, maybe Seattle's. This agency should have the power to levy fines against plumbers and doctors and retailers and anyone else who is price gouging.

We need an agency that will determine what a fair profit to make is on any and all transactions. Why I have heard in the good years, fishermen can really rake it in. Why do I have to pay those exorbitant prices for halibut? A lot I had my eye on on the Hillside was going for \$150,000. They bought it years ago for a fraction of that. Talk about gouging.

Let's get all of the Alaska price gouging under control, not just the refiners. A state agency to regulate profits is just what the doctor ordered.

-- **Brian Leach**

Anchorage

## **Take a gasoline holiday**

Anchorage Daily News (AK) - Wednesday, January 14, 2009

Too bad everyone can't do as I do. If they could, gas would be \$.50 a gallon; not \$2.50 like it is here.

I filled the truck in Anchorage Nov. 3, and still have 1/4 tank. I am striving to buy gas every two months.

Not everyone can do that but still everyone has the power to bring down the price . If everyone would pick a day and not buy gas -- say Wednesday -- the price would come down. But will they? No! How could that be a problem? Not buy gas on a designated day? If you believe in doing this, notify all friends and relatives in and out of state.

-- Cliff Wade

Soldotna

## **Palin should take on gas prices**

Anchorage Daily News (AK) - Monday, January 12, 2009

I used to find it amusing when friends from the Lower 48 would ask how much we pay for gasoline here. I particularly enjoyed telling them the reason why it was so much cheaper here than wherever they live: "We grow it up here."

Now we find ourselves paying nearly a buck a gallon more than any of them and, as far as I can tell, there is only one thing that has changed between the time of my attempts at humor and now when it is no longer a joke.

Sarah Palin bragged while on the VP campaign trail that she took on the oil companies and raised their taxes here in Alaska. Her adoring public, in the Lower 48 and here, cheered this.

Are you cheering now? I honestly think that the oil companies, rather than spreading their new tax burden amongst all of their customers, are sticking it to us here.

Every time I fill up now, I think of this "Palin Tax" and wonder why she should be considered as a heroine to any of us. And why she refuses to do anything about this.

-- Jim O'Toole

Anchorage

### **Monopoly keeps fuel prices high**

Anchorage Daily News (AK) - Sunday, January 4, 2009

I hope the state refineries and their retailers had a prosperous Christmas -- we're currently paying twice as much for gas as many places in the Lower 48. I'm a free marketer. Unfortunately we don't have a free market for gas/fuel oil in Alaska: We have a near-monopoly.

Bush Alaska is practically dying on the vine and the state economy is hurting all over because of this greed. The state should either buy Flint Hills and expand it to distribute gas at cost, or probably the easier thing would be to tax these guys 11 cents for every 10 they're over the national average. Hopefully the state legislators will grow a spine and takes steps to rectify this in the spring.

-- **Richard Kent**

Homer

### **Gas issues**

Fairbanks Daily News-Miner (AK) - Friday, January 2, 2009

Author: Janice Stables, North Pole  
Dec. 29, 2008

To the editor :

I, too, have noticed the current plateau in local gasoline prices . According to a recent article in your pages, there has been a nationwide decline of 73 percent in oil prices since last summer. The national average price for gasoline is \$1.69 per gallon.

I've done the math. Locally, our gasoline runs around \$2.50 per gallon, 48 percent higher than the national average.

We have been told that our prices are based on the cost of gasoline plus the cost of shipping to Alaska (which in itself is questionable since we produce our own oil and gasoline).

I find it hard to believe that shipping costs are more than

3-5 cents per gallon. I find it even harder to believe that shipping costs 81 cents per gallon.

Is the Legislature done with its inquiry into local gasoline prices ? I hope not. Alaskans are still being taken for a ride.

### **OK, we elected you. Get to work!**

Anchorage Daily News (AK) - Saturday, December 27, 2008

Where are our elected leaders? What are they doing? Only last month were they on my doorsteps, on radio, on television, in the newspaper, sending fliers bombarding me begging for my vote. Well, you got it! What are you doing for us now? Have you forgotten who put you in office? I am writing about gas prices. Alaska has the highest gas prices in the nation. Are you kidding? Oil prices are now down to \$25 a barrel. We are still paying more than \$2 a gallon. Or have you not noticed? I will remember you the next time you need my vote.

-- Andrea Smith

### **Why so high?**

Fairbanks Daily News-Miner (AK) - Wednesday, December 24, 2008

Author: Randy Frank, Fairbanks

To the editor :

How many other people have noticed the price plateau reached lately for the cost of a gallon of gas at local stations? As of Dec. 22, 2008, the lowest price per gallon has been stuck at \$2.479 for about two weeks and I have to wonder why. The price of Alaska crude is still sliding; today it was \$33-plus per barrel.

The Web site GasBuddy.com gives good gas prices throughout Canada and the United States. Even smaller communities in the Lower 48 states are seeing gas prices of less than \$2 and there are some places in Utah and Wyoming where the price is below \$1.40 per gallon.

According to GasBuddy, Tesoro is selling gas in Honolulu at \$2.29 per gallon, and that is about the highest price in the city. Gas is selling for about \$1.65 per gallon in Seattle.

This really makes me wonder, and why is diesel now a dollar more than gasoline when it used to be cheaper? I know that the requirement for diesel to be low or ultra-low in sulfur content has something to do with the added cost, but gasoline has to be low-sulfur also. Some price difference can be explained because we use less diesel than gasoline, although refining diesel is easier than making gasoline, so I think that would compensate some for the difference in the amounts used.

I am at a real loss to understand why our gasoline prices are so high relative to the Lower 48 states. I am sure of one thing, though — the refiners would have a real good answer for me. But I don't know that I would believe them. Oh, and today I paid \$1.81 per gallon for No. 2 heating oil. Amazing and amusing.

### **State refinery could cut gas costs**

Anchorage Daily News (AK) - Saturday, December 13, 2008

Yesterday I returned from a visit to Georgia. Regular gasoline was selling for \$1.34 to \$1.45 and diesel was selling for \$2.42 to \$2.53 per gallon. Today **prices** here on the Kenai were \$2.79 for gasoline and \$3.79 for diesel, the highest **prices** in the nation. Why are Alaskans being charged almost double for fuel? Crude oil is selling for less than \$40 a barrel, far less than it was 18 months ago, yet our fuel **prices** have retreated very little and very slowly.

The oil companies or refineries are ripping us off big time and the state seems unable or unwilling to try to stop them. Since the federal government has entered the private sector with the bailout of banks and the insurance industry, why doesn't the state build a refinery and enter into competition with the private refineries? That would certainly help ALL Alaskans and would drive **prices** down to a more comparable level.

-- Quinton Thomas Cable

Kasilof

### **Highest gas**

Fairbanks Daily News-Miner (AK) - Tuesday, December 9, 2008

Author: Tracy Freel, Fairbanks

To the editor :

Alaskans get the shaft! In Alamosa, Colo., gas is \$1.73 a gallon and it has to be trucked a minimum of 200 miles. In Fort Bridger, Wyo., where crude has to be trucked and then gas has to be trucked to retail stations, gas is \$1.65 a gallon. Wildwood, Ga., — \$1.54. Preston, Md., — \$1.66. Garland, Texas, — \$1.53. Fort Collins, Colo., — \$1.47. Roanoke, Va., at Kroger gasoline station No. 3322 — \$1.34.

We here in Fairbanks have a refinery in North Pole with a pipeline feeding it (crude is not trucked one foot), and we still have the highest gas, not to mention heating oil prices , in the nation. As of Nov. 28, gas was \$2.629, and this was the lowest price in town. Is there something wrong with this picture, or is it just me? And all I can say when it goes back up is: Don't blame me, I didn't vote for him.

I'm proud to be an Alaska Republican, and I would like to say "thank you" to Ted Stevens for his years of service. He has my support and always has. Sarah Palin, I think, did a great job in the vice-presidential campaign and as our governor, and she has a strong backbone. She has the support of my family, and go get them and don't back down. Tracy Freel, Fairbanks

## **Gas price gouging small potatoes**

Anchorage Daily News (AK) - Sunday, December 7, 2008

Having worked with the oil companies for 28 years, I know exactly what they are capable of.

Price gouging? Please. That is the least of their sins. It would be swell to see our gas prices go down before I become severely unhappy.

-- Lillian K. Staats

Wasilla

## **Can't figure high gas prices ? Give 'Tyranny of Oil' a read**

Anchorage Daily News (AK) - Wednesday, December 3, 2008

The front page headlines in the Daily News Nov. 22 read "Alaska's high gas prices bewilder state lawmakers." For those citizens who would like an explanation, it can be found in a recent book written by Antonio Juhasz called "Tyranny of Oil".

Revealed is the history of the oil industry and how it has evolved to become the most powerful entity in the world. The industry's vertically integrated structure from well-head to consumer has allowed grossly high profits at the expense of the world's economy and its citizens. It is like a tax.

The oil industry was not able to be what it is today by just shrewd business practices. Their accomplishments have only been possible by political lobbying, influence peddling and campaign contributions at all levels of government. The millions of dollars spent have led to unchallenged corporate mergers, tax breaks, price manipulation, war in Iraq, and pollution at sea, in oilfields and refineries and in the air we breathe. Legislation has been and continues to be passed or defeated that benefits this industry.

Our elected officials have not and will not look after the people's well-being unless we hold them accountable. Who were the major contributors for the finance of the officials you voted for? Who are they indebted to and how will they stay in office? Who pays in the end?

-- Ronn Lund

## **Fuel disparities**

Fairbanks Daily News-Miner (AK) - Tuesday, November 25, 2008

Author: Wayne C. Grieme, Fairbanks

Nov. 22, 2008

To the editor :

Fuel prices in the local area are out of sight but not out of mind. Local diesel prices range from \$3.82 to \$3.99 in the Fairbanks area, unleaded ranges from \$2.79 to \$2.99. Our combined local, state and federal taxes for diesel are 24.4 cents per gallon and for gasoline are 18.4 cents per gallon.

In Montana, diesel prices range from \$2.62 to \$2.72 while unleaded prices range from \$1.80 to \$1.86. Their combined local, state and federal taxes are: diesel — 52.2 cents, and gasoline — 46.2 cents.

In Utah, diesel prices range from \$2.57 to \$2.58 while unleaded prices range from \$1.74 to \$1.82. Their combined local, state and federal taxes are: diesel — 48.9 cents, and gasoline — 42.9 cents.

In Washington, diesel prices range from \$2.66 to \$3.24 while unleaded prices range from \$1.89 to \$2. Their combined local, state and federal taxes are: diesel — 61.9 cents, and gasoline — 55.9 cents.

Why such disparity? When you remove the taxes, it's even worse. I'm afraid to look at the home heating fuel prices .

Is our fuel processed here, or is it hauled in from the Lower 48?

Fuel prices change daily, but they can be verified on flyingj.com. The above prices were based on Nov. 22, 2008.

### **It's time for Palin to come home and take care of state's business**

Anchorage Daily News (AK) - Monday, November 17, 2008

Our governor, Sarah Palin, needs to wake up and realize that the campaign is over. She lost. It is time to come home and do her job. It sounds like she is taking a victory lap by the speech she made at the governors' meetings rather than taking care of business at home. Let's get back on the job and take care of Alaska.

She can start with doing something about the outrageous **prices** of fuel oil. I have a small home in Wasilla, not five miles from her home, and it is costing me \$500 a month to keep it partly warm, and cold weather hasn't hit yet. Fuel oil is \$3.50 a gallon, higher then **gas** , with oil at \$55 a barrel, and lower refining costs. Why is that? Yes, she gave us \$1,200 to help with energy costs. That bought her a few votes I am sure, but I would have preferred a natural **gas** line on my street, or an additional **gas** refinery in our state.

Now that the election is over, governor, what can you do to help Alaska?

-- Bud Bass

Wasilla

### **Governor, deal with the gas that powers our vehicles**

Anchorage Daily News (AK) - Saturday, November 15, 2008

I was ready to discontinue my subscription to the paper if this morning (Tuesday) you had continued with your Ladies Home Journal style of journalism with the Palins in the kitchen. Glad to see we are back to news items.

My question for all Alaskans and Gov. Palin and staff, where is the uproar over **gas prices** ? I was in Manhattan two weeks ago, the most expensive place in the country, and **gas** was \$2.72 a gallon. Currently lower yet, with Midwest states being under \$2 a gallon, Seattle at \$2.38 a gallon, San Francisco at \$2.68 a gallon. What's up, Gov? Monopoly, **price** fixing after **price gouging**?

Where is the interest in what is best for Alaskans? Gov. Palin, you have a job to do. This is affecting every Alaskan. Can this be addressed soon?

-- Gail Sela

Palmer

### **Gasoline costs**

Fairbanks Daily News-Miner (AK) - Thursday, November 13, 2008  
Author: Shawna Hildebrand, Fairbanks  
Nov. 11, 2008

To the editor :

I am a college student here at the University of Alaska Fairbanks. This is my first semester back in Alaska. Upon moving back, I thought I was leaving the expensive gas prices of Durango, Colo., behind. As it turns out, gas prices are no better here than in most parts of the Lower 48.

Some of the counties down there are currently paying under \$2 per gallon, while we are still paying over \$3.

This is ridiculous, considering that we have resources that we could put to use for our state. Is it really that difficult to lower the prices to match the prices of the rest of our country? Or to at least try?

### **Alaskans getting gouged for gas**

Anchorage Daily News (AK) - Sunday, November 9, 2008

I returned home yesterday from a trip to Texas where I paid \$1.80 a gallon for gas. Our price here when I returned? \$3.20. Alaska gas is now officially more expensive than Hawaii's. Texas gas stations used to gouge residents after tornadoes and government was very swift to act. Why is there so little response here? It's obvious to everyone Alaskans are getting a long-term "gouging" up here.

-- Steve Lane

Wasilla

## **More regulation for refineries**

Anchorage Daily News (AK) - Tuesday, November 4, 2008

The ADN article "Local gas prices still lead nation" (Oct. 24) quoted economist Barry Pulliam as saying Alaska's "two refiners hold not a monopoly but a 'duopoly.'" This is an interesting observation because Chugach Electric and Municipal Light and Power can be considered a "duopoly" and are regulated utilities because they provide essential energy and do not function in a free market as defined in any Economics 101 textbook.

Alaska's two refineries have a natural geographic position that allows them to charge a higher price, which is just lower than what it would cost to truck gasoline to Alaska from Outside. A question that needs to be answered is: Why shouldn't the state address this duopoly as a regulated utility?

-- Rich Sewell

Anchorage

## **Reverse prices**

Fairbanks Daily News-Miner (AK) - Sunday, October 26, 2008

Author: Andreas W. Gerlinger, Fairbanks

Oct. 21, 2008

To the editor :

I had a thought on how to make gas and oil prices fair again in Alaska. The prices for heating oil and gasoline are connected to prices of crude, so why not turn that around and make the crude connected to our price ?

Crude is about \$70 today, yet our pump price looks more like that is around \$100 to \$110.

## **Gas gouging**

Fairbanks Daily News-Miner (AK) - Sunday, October 19, 2008

Author: Michael Lenord, Fairbanks

Oct. 14, 2008

To the editor:

Why isn't everybody up in arms about the price of gasoline? In the state of Washington, gas is \$2.87 and diesel is \$3.29 a gallon. People in Washington pay 36 cents a gallon state tax, we pay nothing.

I must have missed the results of the big state investigation into gas price gouging; anybody out there hear anything? Think about it, if the Washington state gas tax was repealed like Alaska's, they would be paying \$2.51 for gas and \$2.93 for diesel. Am I the only one who thinks something here just isn't right?

## State attorney: Legal price-gouging going on

Lawmakers may push bills to regulate fuel prices during upcoming session

By Tim Bradner<

*Alaska Journal of Commerce*

Publication Date: 11/02/08

Alaska legislators say they'll consider gasoline price-regulation or other actions, including state investment in a refinery, if refiners in Alaska don't lower gasoline prices.

"We're under tremendous pressure from our constituents to do something," Rep. Jay Ramras, R-Fairbanks, said in a legislative hearing Oct. 23.

Gasoline prices are dropping fast across the nation as crude oil prices fall, but they remain high in Alaska.

Ramras chairs the House Judiciary Committee, which held hearings on the fuel price issue in Anchorage.

At the hearing the state's lead attorney in an investigation on fuel prices told legislators that gasoline prices in Anchorage were as much as 90 cents a gallon higher than Seattle this summer and fall. On Oct. 24 regular gasoline sold for \$3.51 per gallon in some Anchorage retail stations. On the same day gasoline prices averaged \$3.08 per gallon in Seattle and \$2.92 per gallon nationwide.

Prices were higher in small communities outside Anchorage. In Cordova, gasoline was selling for \$4.93 per gallon. Residents of Kake, in Southeast Alaska, were paying \$5.50 per gallon.

Ed Sniffen, head of the Department of Law's consumer protection division and lead investigator in the gasoline price inquiry, said he can find no explanation for the large price difference between Seattle and Alaska.

"Spreads like that raises anti-trust red flags," Sniffen told the Judiciary Committee.

It is possible that there is no illegal market activity and that the extended lag in price reductions results simply from the structure of the market, Sniffen said. He called it a "duopoly," or market domination by two suppliers.

Two refineries supply gasoline in Alaska. Tesoro Corp. is the state's main supplier, operating from its refinery near Kenai. Flint Hills Resources, a Koch Industries subsidiary, supplies gasoline to Interior Alaska markets from its refinery near Fairbanks.

Two other small refineries operated by PetroStar Inc., an Alaska company,

make only jet fuel and diesel.

All of Alaska's fuel requirements except in the Southeast panhandle region are supplied by Tesoro and Flint Hills. Southeast Alaska is supplied by refineries in the Pacific Northwest.

Tesoro declined to appear before the committee, but Sniffen said he and other state investigators met with company officials in Anchorage on Oct. 22. Tesoro was cooperative in providing information, but Sniffen said he was unable to tell legislators what was discussed because of confidentiality agreements.

Flint Hills' Alaska public affairs manager Jeff Cook did appear before the committee but told legislators he couldn't answer detailed questions because of the investigation. Cook said Flint Hills supplies only 15 percent of the state's gasoline market and all of that is in Interior Alaska.

He also said new federal and state environmental requirements on fuels have imposed costs on the company's refinery, with an additional result that it is unable to produce as much gasoline as it did previously.

Ramras asked Econ One Inc., a consulting firm working for the state Department of Law, to analyze the effects of several legislative options, including price controls.

Other lawmakers aren't enthused about controls.

"Price controls can be very dangerous. The answer is to increase competition," Rep. Bob Lynn, an Anchorage Republican, said in the meeting.

Rep. Les Gara, an Anchorage Democrat, said he favors either price regulation or a major state investment in one of two refineries serving Alaska so state officials will have a way to influence markets.

"If the state owns 51 percent of one of the refineries, we could decide to take a lower margin at certain times as a way of influencing behavior of the other refiner," Gara has said.

These ideas would obviously require a great deal more discussion, but Gara expects several legislators to introduce bills next spring.

There may be an opportunity for state investment in the Flint Hills refinery. The company is studying options for the plant, including selling it, because of poor financial performance. One of the problems is a high premium charged by the state for state-owned royalty oil supplied to Flint Hills.

Sniffen also told the legislative committee the state could act to induce new competition. When such a large price spread between regional markets exists, competitors typically rush new supply into that market to take advantage of higher prices.

That isn't happening in Alaska, Sniffen said, possibly because the gasoline market is small and the existing suppliers control storage and distribution.

"There might not be enough of an incentive for an entrepreneur to get into the market," Sniffen said.

Barry Pulliam, an economist with Econ One, agreed with Sniffen.

"In small markets the normal price discipline, the opportunity for competitors to bring product in from elsewhere, is often missing," he said. "It's a complex question but it's often difficult to get people to do it."

Hawaii's situation is similar to Alaska's in that the state is remote and has two refineries, and the market is relatively small. The price spread for gasoline between Hawaii and the West Coast is almost as high as in Alaska, Pulliam said.

California provided an example of what can happen when the opportunity to import competing supply is missing.

When the state of California imposed standards for gasoline formulation for environmental reasons, the price differences between California and Texas, for example, at times reached 50 cents to 60 cents per gallon even though it only cost 8 to 12 cents per gallon to transport fuel from the U.S. Gulf Coast to California. Because California imposed the special fuel standards and it wasn't made elsewhere, there was a supply restriction.

Ramras said the state could invest in bulk fuel tanks at Anchorage's port, which could then be leased to a competitor bringing gasoline to the state.

Sniffen said Alaska's toolbox to influence refiners is limited absent discovery of antitrust or illegal collusion, because the state doesn't have a price-gouging law. Refiners are free to charge whatever they think the market will bear.

"In theory, there is nothing preventing them from charging \$10 per gallon," he said.

But price-gouging laws in other states, which could serve as a model for Alaska, are typically linked to a natural disaster, such as a hurricane, and not to high crude oil prices. In those cases the state or other government entity must declare an emergency, which gives it powers to impose penalties if a marketer hikes prices unusually high compared with price levels prior to the event that triggered the emergency.

An alternative is for the Legislature to bring gasoline under state utility regulation that now covers telecommunications, electricity and natural gas sales, Sniffen said.

"That would work. It's a proven procedure," he said. The pitfalls with this are in the extended time needed for regulatory proceedings, he said.

Ramras said an option he wants to consider is to require refiners to maintain a certain spread between Anchorage and Seattle wholesale prices when crude oil prices exceed \$100 per barrel, and to apply penalties if the spread exceeds those limits.

Sniffen said Flint Hills and Tesoro face challenges with their refineries. Flint Hills operates a topping plant near Fairbanks that can only make certain products from crude oil. Most of the output is jet fuel sold to airlines flying into international airports in Anchorage and Fairbanks. Flint Hills is capable of making only limited quantities of gasoline and diesel.

The refinery is also dependent on state-owned royalty oil delivered through the trans-Alaska oil pipeline, for which it pays a premium.

Tesoro's refinery near Kenai is designed to process light crude oil from Cook Inlet fields, but that supply is supplemented with crude oil from the North Slope and elsewhere. The refinery also has limited options for selling its residual oil, which amounts to about a third of production, and takes a loss on this, Sniffen told legislators.

Ramras said he doesn't want to "demonize" the refineries because he recognizes the problems they face. "Both of these plants are not models of efficiency," he said.

Sniffen cautioned legislators on price controls because of possible unexpected effects.

"In the worst case, one of the two refineries could close, leaving you worse off. There could also be effects on supply reliability," if the state moved aggressively to control margins. "Contracts for delivery to remote communities could be affected, for example."

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**America's Newspapers****Letter tells personal side of Emmonak's fuel crisis - ENERGY CRUNCH: Man had villagers describe their plight as they make do, or do without.****Anchorage Daily News (AK) - Thursday, January 15, 2009****Author: KYLE HOPKINS khopkins@adn.com ; Staff**

With a phone and a computer keyboard, Nicholas Tucker has turned a spotlight on his neighbors in the western Alaska village of Emmonak by telling stories of people trapped in a food and fuel crisis.

Earlier this month, Tucker asked fellow villagers to describe what Alaska's rural energy crunch meant to them. He says he talked to a 70 year-old husband who cries when he's alone because he can't feed his family, and a young wife who can't sleep because she doesn't know where she'll get her next gallon of heating fuel.

In a long letter, he spelled out the heart-rending plights of 25 households, identified only by initials. He sent it to politicians, a food bank, a Native corporation and rural newspapers. Alaska Newspapers Inc. published the letter on its Web site earlier this week, and statewide public radio followed with an interview. By Wednesday, the story of Emmonak's plight was spreading across the blogosphere, and state officials and others were scrambling to figure out what was going on.

Division of Community and Regional Affairs Director Tara Jollie said the state has been working with the community, and that she had talked with city officials there this week.

"I'm not getting the same sense of crisis in the tone of voice, but I am hearing from all parties that it's a real tough time," she said.

It's unclear whether things are worse in Emmonak than other villages in the hard-hit Yukon-Kuskokwim Delta, or whether a single eloquent voice struck an Internet nerve.

In any case, by Wednesday Tucker's phone rang non-stop as churches offered to fly food to the village and strangers from the Lower 48 asked how they could help. The local Native store gave him a calling card Wednesday that Tucker planned to use to call the state.

"Have you heard anything about Emmonak? Is there anyone that can help us," he wants to ask..

Three factors have hammered the Yup'ik village -- home to about 800 people at the mouth of the Yukon River -- over the past year.

Local commercial fishermen didn't make any money from king salmon -- a staple of the economy -- Tucker said, and an early freeze-up forced the village to miss its winter fuel barge.

Then the cold snap hit.

Tucker says he suspects other nearby villages are hurting in the same way.

**HEATING OIL \$11 A GALLON?**

Jollie, the head of the Community and Regional Affairs Division, said she got copies of Tucker's letter from the Emmonak city clerk and Angoon Sen. Albert Kookesh.

"We're working as fast as we can to be thoughtful and responsive. There's fact-finding that has to happen in any situation," she said.

A rural subcommittee appointed by Gov. Sarah Palin will review the Division's findings at a special meeting planned for Friday, Jollie said.

Palin's rural advisor resigned in October. Palin spokesman Bill McAllister said possible replacements have been interviewed, but as far as he knows, no one's been selected to fill the job.

Emmonak leaders hoped the state would declare a fuel emergency in the village when an early freeze kept the barge carrying heating fuel and gasoline from arriving in October. But state officials said such declarations are reserved for natural disasters, such as a storm destroying village fuel tanks.

Heating oil currently costs \$7.68 a gallon, according to the Emmonak village corporation that sells the fuel.

But that price could soon rise, because the corporation had to start flying in extra heating fuel last week to make up for the missed barge.

Former Emmonak City Manager Martin Moore estimated in December that flying in the oil could raise the price as high as \$11 a gallon.

#### 'NOT MESSING AROUND'

The same day heating oil began to arrive by plane, Tucker put out a call over VHF radio asking people to tell him their stories. More than 20 people replied.

In the close-knit village where some people are embarrassed to have their private lives laid bare, Tucker identified the families by their initials.

He described a single father with five children living off moose meat alone: "Right now, we can't eat during the day, only at supper time. And, it is still not enough. If there had been no school lunch, our kids would be starving."

Another passage described a family of six: "(The husband's) family has been out of food for quite some time now. Their one-year-old child is out of milk, can't get it and he has no idea when he will be able to get the next can. He has been borrowing milk from anyone he can."

The next day, Tucker gave his letter to local officials who gathered for a meeting on fuel prices.

It calls for someone, anyone, to fly food into the village over the next several months. "I'm not messing around. If we can get a massive air lift, do it," he said in a phone interview Wednesday.

"I don't care how it's done," he said.

#### FOOD OR FUEL

The Food Bank of Alaska sends food from Anchorage to Emmonak to be distributed through the Emmonak women's shelter, said executive director Susannah Morgan.

Families can pick up a box of food per month, with the amount depending on how many people live in the household.

Morgan said the shelter currently has food to distribute and that she recently talked to shelter officials. Both sides agreed, she said, that not enough locals knew about the resource.

"It's not unusual for people who haven't been used to fighting hunger not to know where the hunger resources are," she said.

Tucker plans to ask the shelter to increase its orders.

Meantime, Alaska Newspapers Inc. -- a subsidiary of the regional Calista Corp. -- is launching a food drive for the village.

As Tucker notes in his letter, other villages may be struggling in the same way as Emmonak, said Managing Editor Tony Hall. "I really have to believe this is going on in a lot of other villages too, but we just haven't heard."

Tucker said churches in Fairbanks are also planning to send food and money by air, while people from the Lower 48 are calling him to ask how they can help.

A local Catholic church plans to hold a miniature potlatch this weekend -- an event where people can bring a few bags of ramen or boxes of pilot bread for their neighbors, Tucker said.

Many of the people he talked to told him they're choosing between food and fuel.

Tucker describes himself as a longtime advocate for fisheries and social issues in the region.

Asked what started Tucker on his mission, his wife Dorothy described a conversation she had one night with the couple's 8-year-old son.

The boy told her he was hungry.

"I said, 'I'm sorry we got nothing. We got no cereal we got nothing, so he went to bed hungry,'" Dorothy said.

Later, she talked to her husband.

"I told him I was really sad, and I was thinking of other people too. Some just have one meal a day, save the rest for the next day."

Daily News reporter Tom Kizzia contributed to this story.

THE LETTER: Read Nicholas Tucker's letter about life in Emmonak.

[adn.com/alaska](http://adn.com/alaska)

**Caption:** Photo 1: EmmonakLoc\_011509.jpg

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**Edition:** Final

**Section:** Main

**Page:** A1

**Record Number:** 1866290801/15/09

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**America's Newspapers****Report: Refineries behind high gas prices in Alaska**

Fairbanks Daily News-Miner (AK) - Monday, February 2, 2009

*Author: Rena Delbridge*

JUNEAU — A legislative committee tasked to look into high gas prices can't place a finger on any one reason Alaskans pay so much more at the pump.

House Judiciary Committee Chair Rep. Jay Ramras, R-Fairbanks, released a draft report today. Based on four public hearings and other information, the report cautions that any legislative action to force gas prices into parity with prices in the Lower 48 could drive refiners out of Alaska, leaving economic chaos in their wake.

Rep. John Coghill, R-North Pole, is a committee member.

He was somewhat frustrated by the lack of a conclusive finding, realizing that constituents are hurting at the gas pumps.

"They're really not gouging us," Coghill said.

Instead, he described a carefully choreographed dance between the higher prices Alaskans pay at the pump and the economic rewards the state realizes through the manufacture of jet fuel.

He shifted some of the question of high prices to Tesoro, which delivers about 85 percent of all motor fuel in Alaska. Flint Hills' North Pole Refinery turns out the other 15 percent.

Coghill said any final word on antitrust violations or price gouging will come from a state attorney general's office investigation, expected within days.

Ramras said the key finding is that the retail fuel and the aviation fuel businesses are tightly linked in Alaska.

"It's bad medicine to have to swallow, but Alaskans are sometimes, in some economic cycles, paying at the gas pump to keep the refineries producing jet aviation fuel, which represents 10 percent of the jobs in Alaska," he said.

He cautioned the analysis is intuitive and not based on any particular fact or document.

Some committee members are saying the draft — which they received at 5 p.m. Friday for a

1 p.m. hearing Monday — contains conclusions that weren't developed as a group.

Rep. Lindsey Holmes, D-Anchorage, doesn't know if she agrees with the report yet, because she hasn't had time to comb through it. She is critical of conclusions that she said weren't drafted by the committee.

"Really, they are comments by the committee chair," she said.

She also objected to the report picking apart a bill that didn't exist when the committee was at work by offering arguments against anti-gouging legislation. Ramras countered that the committee's original charge from former Speaker John Harris, R-Valdez, was to investigate retail gas prices and reach conclusions on possible legislative actions.

Introduced this session, House Bill 68 would make it illegal for Alaska refineries to sell gas, home heating fuel and diesel at prices more than 10 percent above the Washington state average.

Rep. Scott Kawasaki, D-Fairbanks, is among the bill's five sponsors. A parallel proposal, Senate Bill 54, is sponsored by three Anchorage Democrats.

Flint Hills Resources spokesman Jeff Cook said price-gouging legislation could have a significant, adverse affect on Alaska consumers and businesses, and could in fact prompt the refinery to change the way it does business.

"If the legislation is approved in Alaska, Flint Hills Resources may be forced to cease refining and fuel distribution in the state," Cook said.

If refiners shut up shop, Alaska loses its jet fuel production, which could place other economic cornerstones could be at serious risk, the report finds. Those include the Fairbanks and Anchorage airports because of a lack of jet fuel produced instate, the Alaska Railroad, which ships jet fuel and more, and Fort Wainwright and Eielson and Elmendorf air force bases, which draw on jet fuel manufactured instate.

John Binkley, chairman of the Alaska Railroad Corporation, confirmed that 40 percent of the railroad's revenue comes from hauling petroleum between North Pole and Anchorage.

"Without that base load, the railroad would look much different in terms of its size and its frequency of service," he said.

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**Section:** Alaska News

**Record Number:** ac801364d36b6fdfa6f381dcf92466ca66d3a2e1

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**America's Newspapers**

## Opinion

**Anchorage Daily News (AK) - Sunday, February 8, 2009**

**Author: Staff**

Gas price mystery

Rep. Ramras relies on intuition, leaves Alaskans wondering

Rep. Jay Ramras tried to have it both ways last week in his report on Alaska gasoline prices.

While the House Judiciary Committee report acknowledges a growing gap in Alaska and Lower 48 prices in the last year, Rep. Ramras advises against any "heavy-handed" government intervention to lower those prices.

He said that while he didn't have actual figures, he intuited that Alaskans were paying at the pump for the peculiarities of our fuel market, that high gasoline prices are the price we pay for a lively jet fuel market that keeps airports busy and jobs filled in Anchorage and Fairbanks and in between. If refiners have to cut jet fuel prices to remain competitive, they need to make it up at the pump when you fill your pickup.

Ramras' report was critical of House and Senate bills that would require refiners to justify their margins when the prices of fuels was more than 10 percent higher than Washington state prices.

Mess with the retail markets, he warned, and we might lose the Tesoro and Flint Hills refineries, which supply that jet fuel as well as gasoline, diesel and other fuels.

At the same time, he wrote that the committee shared the cynicism of Alaskans about the high refiners' margin, the difference between what it costs refiners to produce gasoline and the price they charge retailers. That margin is why Alaskans pay so much more for gasoline than drivers in Washington state -- as of Friday, about 42 cents per gallon more, and that's even more striking given that Alaskans pay 36 cents less per gallon in taxes than our brethren in Washington.

Rep. Ramras wrote: "There must be a better answer -- somebody must be playing 'hide the ball.' But we could not find it."

So the conclusion is that something is wrong here, but we don't know exactly what, and in any event it would be too risky to do anything about it other than build more storage capacity for rural Alaska.

We needed hearings for this?

Rep. Ramras may be trying to spike the gas pricing bills, but his conclusion makes a strong argument in favor of passage.

He says he can't find the ball?

The bills require refiners to show us the ball.

Rep. Pete Petersen, sponsor of the gas price bill in the House, argues that his bill doesn't impose price controls but does require justification for higher costs -- and that's justification beyond "what the market will bear."

Devoted free marketeers might argue that what the market will bear is the fair price. But Tesoro and Flint Hills make a duopoly that takes advantage of the fact that "Alaskans must drive," as the Ramras report says. We don't have the range of transportation alternatives most Lower 48 markets enjoy, so Alaskans can't cut their

demand much when prices rise. And more competition is unlikely here for a variety of reasons. Small population and relative isolation preclude Alaska from the relief that is supposed to come from free market competition.

If jet fuel keeps so much of our economy running, and higher gasoline prices help subsidize those sales, then maybe those prices are justified. But the refiners should prove it. A lawmaker's intuition isn't enough.

**BOTTOM LINE:** We still need a better explanation for high Alaska gas prices. House Bill 68 will require it.

Who's up

Who's down

Rep. Jay Ramras: Fairbanks lawmaker and businessman spearheads food drive for strapped Alaska villages. Good work.

Rep. Jay Ramras: House Judiciary chair looks at Alaska gasoline prices, says something's wrong but let's not do anything about it. Huh?

Gov. Sarah: In one week she tangles with actress Ashley Judd over wolves, Rep. Jay Ramras over charity and Rep. Mike Hawker over budget cuts. Cue the banjos for Dueling Press Releases.

Todd and Palin aides: Senate votes them in contempt for ignoring Troopergate subpoenas. Contempt indeed. First Dude shrugs and revs up for Iron Dog.

Duct tape: Game face for Iron Doggers. Give an Alaskan duct tape, pilot bread, WD-40 and a little love, and he or she is set for life.

Alaska peony growers: There's gold in them thar flowers. Now if we can just find a market for fireweed and black spruce.

City of Anchorage: Assembly makes best of bad deal, agrees to buy Northpointe Bluff subdivision. Let's not do this again.

Seawolf women: UAA basketball team is the unanimous choice for No. 1 in the country. That's unanimous, sister. Wow.

Anchorage bond package: By even, we mean the chances of passage. Assembly helps with some judicious trimming. Don't ask for the moon in this economy.

Pilot bread: That Sailor Boy box is pitching books for Alaska kids. It's a natural -- kids curls up in a chair with Harry Potter and pilot bread. The crackers will last all seven volumes.

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**Edition:** Final

**Section:** Nation World

**Page:** B4

**Record Number:** 1881827402/08/09

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**America's Newspapers**

## Opinion

**Anchorage Daily News (AK) - Friday, January 9, 2009**

**Author: Staff**

### Gas price questions

'Something's out of whack'

Alaskans face a "duopoly" of gasoline suppliers in the state. Two refineries -- the Flint Hills operation in North Pole and Tesoro's Nikiski facility -- provide most of the state's gasoline.

So let's see ... Most of our gasoline is made here, yet as of December we were paying about 80 cents a gallon more than the national average.

Why?

The answer has been elusive.

State Sen. Bill Wielechowski has one. Alaskans, he said, are paying for "legal price gouging."

The senator and allies in the House -- Rep. Les Gara and Reps.-elect Pete Petersen and Chris Tuck -- have legislation in the works that would effectively roll back the "refiner's margin." That's the difference between what Alaska refiners pay for crude oil and what they charge retailers for their finished product.

What Alaskans want to know is why that margin keeps growing so fast, compared to refiners' margins in Washington state and the national average.

According to a legislative research report, the refiner's margin in Washington as of September 2008 was 60 cents a gallon. The U.S. average was 63 cents a gallon. The Alaska average was \$1.25 a gallon -- double the Outside margins.

That's the reason Sen. Wielechowski says, "Something's out of whack."

As of Dec. 16, out of whack at the pump read this way, according to a legislative research report:

Alaska average per gallon: \$2.67

National average per gallon: \$1.81

Anchorage average per gallon: \$2.45

Seattle average per gallon: \$1.82

The price difference is even more striking because it includes all taxes, which in Washington state run 36 cents higher than in Alaska. We pay no state gasoline tax right now, because lawmakers have suspended it for a year. Even when that tax goes back into effect, it's only 8 cents a gallon -- lowest in the nation.

Last fall, Rep. Jay Ramras' House Judiciary Committee held hearings on gas prices. Tesoro declined to participate. Jeff Cook of Flint Hills said he couldn't say much because of the attorney general and Legislature's ongoing investigations. The state attorney, Ed Sniffen, said he couldn't say much because of confidentiality agreements over refiners' proprietary information.

Alaskan consumers have something to say every time they pull up at the pump.

So next week, Sen. Wielechowski hopes to offer legislation empowering the state to investigate refiners whenever their margin is more than 10 percent above a specified Lower 48 average, maybe Seattle's. If refiners could show that the margin was necessary to cover higher labor or other costs in Alaska and still turn a healthy profit, then fine. They could charge the higher amount.

But if they could show no such justification other than it's what the market will bear, then they could face fines and penalties for price gouging.

Why not let the free market determine the price?

"When there's no competition, there really isn't much of a free market," Rep. Gara said.

He's right.

The state has noted the lack of competition before. When former Attorney General Bruce Botelho concluded back in 2002 that there was no evidence of price collusion, he did say that the absence of competition meant that the refiners could enjoy the profits of collusion without the crime of collusion. In other words, they charge more because they can.

Cook, spokesman for Flint Hills, said Thursday he still couldn't comment because of the ongoing investigations. Tesoro spokesman Kip Knudson said that while he couldn't comment on legislation until he sees it, Tesoro would continue to work with the lawmakers and the attorney general's office.

For going on 10 years, Alaskans have asked why our gasoline prices rise as swiftly as the nation's but are sometimes much slower to fall.

We're still waiting for a good answer. If it's not forthcoming, then the state should have the authority to demand one.

**BOTTOM LINE:** Why do Alaskans pay more for gasoline than residents of any other state? We need good answers -- or lower prices.

Fair pay

Don Young can do right again

Today, the U.S. House of Representatives can fix one of the more mystifying U.S. Supreme Court decisions handed down in recent years.

In 2007, the court threw out a woman's pay discrimination lawsuit, filed under federal law, by using a creatively interpreted technicality. To pursue her claim, the court said, Lilly Ledbetter should have filed her suit within 180 days of when her employer decided to pay the illegally low, discriminatory wage.

As the dissenting justices noted, it often takes workers a long time to figure out they're getting paid less than they deserve. Wage and salary information is often confidential, making comparisons with co-workers difficult. The court ruling rewards rule-breakers if they can hide their pay discrimination for 180 days.

That just isn't fair. Which is why the U.S. House voted in summer of 2007 for a common-sense correction to the law. It said the 180 day clock for lawsuits runs from the most recent discriminatory paycheck. The measure, the Lilly Ledbetter Fair Pay Act, died after a Republican filibuster in the Senate.

In the House, Alaska's Don Young was one of only two Republicans to vote for the measure. That was the right call then, and it will be the right call again today.

BOTTOM LINE: Don Young can help fix a bad pay discrimination ruling.

**Edition:** Final

**Section:** Nation World

**Page:** B4

**Record Number:** 1861213301/09/09

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# ALASKA STATE LEGISLATURE



Senator Bill Wielechowski

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Anchorage, AK 99501  
(907) 269-0120

Senator.Bill.Wielechowski@legis.state.ak.us

Senator Bettye Davis

716 W. 4<sup>th</sup> Avenue,  
Suite 450  
Anchorage, AK 99501  
(907) 269-0144

Senator.Bettye.Davis@legis.state.ak.us

August 11, 2008

Attorney General Talis J. Colberg  
P.O. Box 110300  
Juneau, AK 99811-0300

Dear Attorney General Colberg:

We are writing to request an investigation into gasoline pricing in Alaska. As you know, the price of gasoline in Alaska is the highest in the nation. As of today, the average Alaska price is \$4.62/gallon, while the national average is \$3.88/gallon. This gap of 75 cents is substantially higher than the 20 cent spread that has historically existed. In fact, the actual price spread is higher than 75 cents, as Alaska's gasoline tax—which was 8 cents/gallon until recently suspended—was the second lowest in the country.

We would like to know what is responsible for this unprecedented discrepancy in pricing. Specifically could collusion at the wholesale or retail level be inflating prices in Alaska? We note that in 1999, after the last investigation into gasoline prices was initiated, the spread between Alaska and Lower 48 prices narrowed dramatically. This has led many people to speculate about whether informal price-fixing may have been at work.

We urge you to initiate this investigation as soon as possible as many Alaskans are struggling with today's exorbitant prices and desperately need relief.

Please do not hesitate to contact us if you have any questions about this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Wielechowski".

Senator Bill Wielechowski

A handwritten signature in black ink, appearing to read "Bettye Davis".

Senator Bettye Davis

# STATE OF ALASKA

DEPARTMENT OF LAW  
OFFICE OF THE ATTORNEY GENERAL

Sarah Palin, Governor

P.O. BOX 110300  
JUNEAU, ALASKA 99811-0300  
PHONE: (907)465-2133  
FAX: (907)465-2075

August 11, 2008

The Honorable Bill Wielechowski  
Alaska State Legislature  
716 W. 4<sup>th</sup> Avenue, Suite 540  
Anchorage, AK 99501

The Honorable Bettye Davis  
Alaska State Legislature  
716 W. 4<sup>th</sup> Avenue, Suite 450  
Anchorage, AK 99501

Re: Alaska Gasoline Pricing

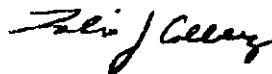
Dear Senators Wielechowski and Davis:

Thank you for your August 11, 2008 letter requesting an investigation into gasoline pricing in Alaska. I am also concerned with the high cost of gasoline and the apparent disparity between prices in Alaska and markets in other parts of the United States. On Saturday, August 9, 2008, at the request of the Governor, I directed the Consumer Protection Unit within the Department of Law to initiate an investigation into Alaska gasoline pricing.

We completed a similar investigation in November, 2002 which lasted over three years. The results of that investigation did not find evidence of any illegal activity. This type of investigation is complicated, and will require significant resources including the retention of experts to assist us in gathering and deciphering documents and information. We do not know when the investigation, which must remain confidential, will be completed.

Thank you again for your inquiry. Please contact my office if you have any questions.

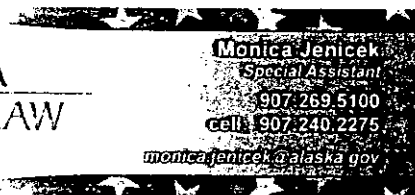
Sincerely,



Talis J. Colberg  
Attorney General



STATE OF ALASKA  
DEPARTMENT OF LAW



## Press Release

For Immediate Release

November 20, 2008

ATTORNEY GENERAL'S OFFICE

### UPDATE ON DEPARTMENT OF LAW'S GASOLINE PRICING INVESTIGATION

(Anchorage, Ak) - At the direction of Governor Sarah Palin, the Department of Law began an investigation into the pricing of gasoline in Alaska. The investigation was initiated in August, following the decline of gasoline prices across the country as the price of crude oil began to drop from record highs near \$150 a barrel in July. Gasoline prices in Alaska, however, did not follow national trends, and soon became the highest in the nation. The Department's investigation is focused on explaining the slow decline of gasoline prices in Alaska, and whether the price of gasoline is the result of any illegal conduct, like price fixing or other collusive behavior.

The Department's investigation is ongoing, and must remain confidential under state law. The Department has gathered significant information from refiners, distributors, and retailers about the pricing of gasoline, and continues to gather additional data and information. The Department has retained Barry Pulliam, a Senior Economist at the Los Angeles firm of Econ One, to assist the Department in its investigation. The Department has also attended two House Judiciary Committee hearings convened to discuss gasoline pricing issues.

The following is some useful information about gasoline pricing generally that may help explain some of the pricing for gasoline in Alaska.

1. The State of Alaska (or any state) does not regulate gasoline prices. Refiners, distributors, and retailers can sell gasoline at any price they want so long as those prices are not the result of collusive behavior, like "price fixing." If the price reached an "unconscionable" level, the price could also violate Alaska's consumer protection laws.

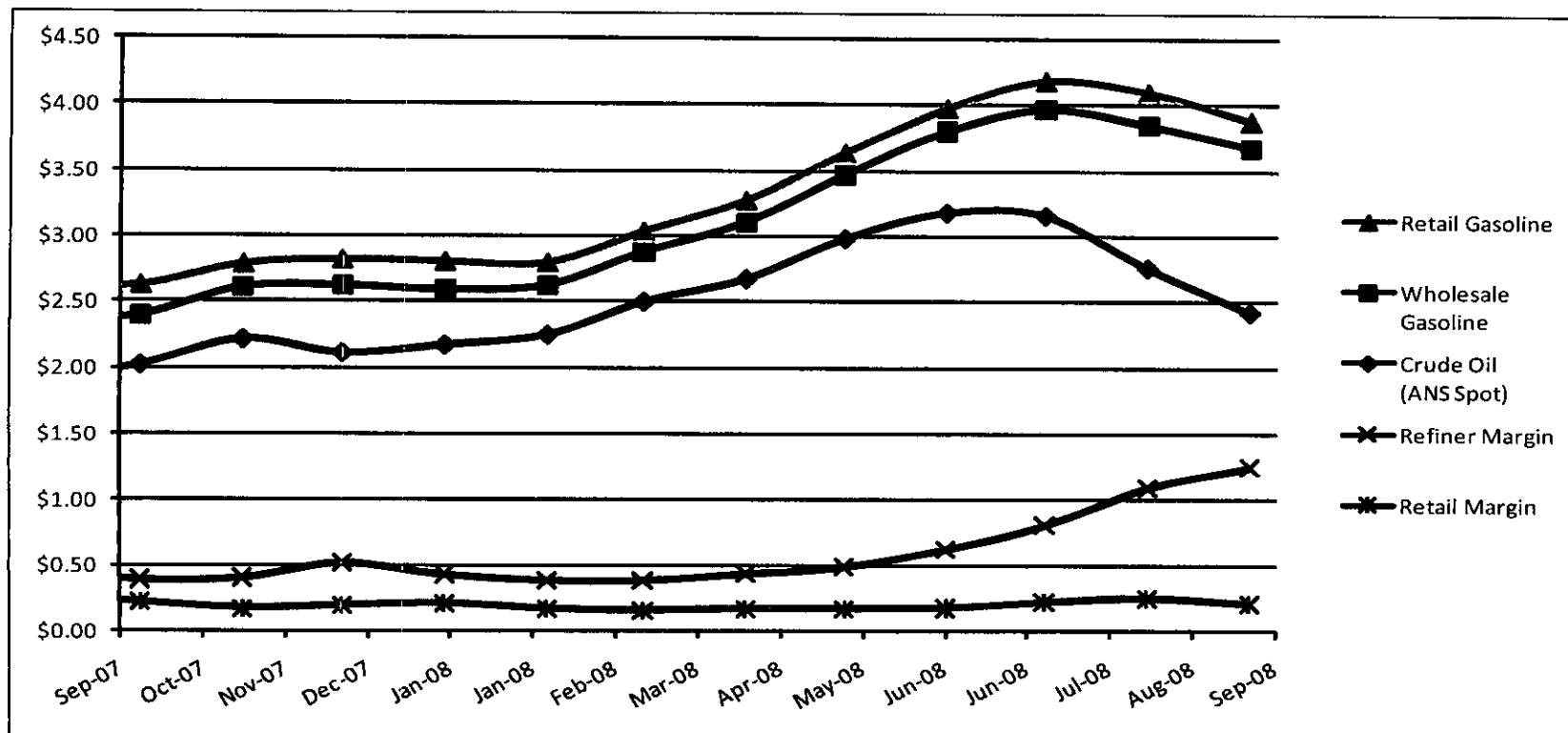
2. Because gasoline pricing is not regulated, economic forces including the available supply, consumer demand, and competition in the marketplace are the primary factors that determine gasoline prices.
3. Alaska does not have a price gouging law. Sellers of all goods and services (including gasoline) are not required to sell products on a "cost plus" basis. Thus, it does not matter what it costs the seller to acquire the goods or provide a service. Sellers can sell their products for whatever the market will bear. There is no "cap" on the amount of profit any business can make.
4. It does not matter what gasoline prices were when the price of oil was the same as it is today. For example, if refiners sold gasoline for \$1.10/gallon when oil was \$60 a barrel, this does not require them to sell it for \$1.10 every time oil is \$60 a barrel.
5. The price of gasoline in the lower 48 is not a good indicator of what prices "should be" in Alaska. The competitive forces that operate to control gasoline prices in the lower 48 are completely different from Alaska. The dynamics of supply, demand, and competition are unique in Alaska.
6. The demand for gasoline is not as "price sensitive" in Alaska as it is in other parts of the country. This means that regardless of the price, the demand does not change by much. This creates less incentive for suppliers to lower their price compared to areas of the country where demand drops significantly when prices rise.
7. Gasoline sold in Southeast Alaska is barged up from the Pacific Northwest and from Cook Inlet. Because fuel is only barged in once a month or every few months, it takes longer for prices to reflect current market conditions. It may take two or three months to exhaust current supply before less (or more) expensive gasoline is available and sold to retailers.
8. Some cities and boroughs charge tax on fuel sales. In the Kenai and Soldotna area, for example, the pump price adds a 6% city and borough tax that is not present in other cities, like Anchorage. Coupled with lower volumes and fewer stations, prices will tend to be higher in these communities.

The Department will complete its investigation to determine if there is any illegal activity among gasoline sellers that may be a cause of the high price of gasoline, and will prepare a summary of its findings when the investigation is done.

For further information, contact Department of Law Assistant Attorney General Clyde (Ed) Sniffen at (907) 269-5200.

###

**Figure 1: Selected Components of Alaska Gasoline Prices, September 2007 to September 2008**



**Notes:** All dollar amounts are per gallon. We use the word "margin" to mean the proportion of gasoline costs attributable to a certain step in the process of bringing a gallon of gasoline to the retail market. In this context, only a percentage of the total margin is taken as profit.

1) "Retail Gasoline" is the average price of gasoline "at the pump" to end-users and include taxes;

2) "Wholesale Gasoline" is the average price of gasoline charged by Alaska refiners to resellers;

3) "ANS Spot" is the cost of Alaska North Slope crude oil on the commodity market. We calculated this cost by dividing the price per barrel by 42 (the number of gallons in a standard barrel);

4) "Refiner Margin" is refiner wholesale price minus ANS Spot prices;

5) "Retail Margin" is retail price minus wholesale price.

**Sources:** U.S. Department of Energy, Energy Information Administration, <http://www.eia.doe.gov/>; ANS Spot prices are from the Alaska Department of Revenue, Tax Division, <http://www.tax.state.ak.us/>.

Data provided by [Oil Price Information Service](#) in cooperation with [Wright Express](#)

Media are encouraged to localize fuel price stories by contacting their local [AAA club media](#) representative.

**Current State Averages: Click on state for detailed information**

*\*Prices Are In US Dollars Per Gallon.*

State	Regular	Mid	Premium	Diesel
Alaska	\$2.500	\$2.646	\$2.797	\$3.422
Alabama	\$1.961	\$2.096	\$2.159	\$2.187
Arkansas	\$1.965	\$2.073	\$2.205	\$2.167
Arizona	\$1.944	\$2.027	\$2.144	\$2.197
California	\$2.256	\$2.401	\$2.441	\$2.388
Colorado	\$1.992	\$2.131	\$2.227	\$2.140
Connecticut	\$2.126	\$2.307	\$2.367	\$2.621
District of Columbia	\$2.109	\$2.246	\$2.313	\$2.702
Delaware	\$1.975	\$2.098	\$2.191	\$2.287
Florida	\$2.101	\$2.276	\$2.318	\$2.313
Georgia	\$1.949	\$2.095	\$2.188	\$2.206
Hawaii	\$2.415	\$2.554	\$2.602	\$3.805
Iowa	\$2.027	\$2.134	\$2.236	\$2.186
Idaho	\$1.905	\$2.011	\$2.066	\$2.167
Illinois	\$2.143	\$2.306	\$2.378	\$2.316
Indiana	\$2.042	\$2.196	\$2.258	\$2.215
Kansas	\$2.009	\$2.063	\$2.143	\$2.207
Kentucky	\$1.993	\$2.137	\$2.234	\$2.161
Louisiana	\$1.973	\$2.103	\$2.201	\$2.185
Massachusetts	\$1.983	\$2.132	\$2.214	\$2.431
Maryland	\$2.042	\$2.172	\$2.227	\$2.318
Maine	\$2.066	\$2.229	\$2.291	\$2.446
Michigan	\$2.057	\$2.179	\$2.266	\$2.197
Minnesota	\$2.019	\$2.099	\$2.154	\$2.217
Missouri	\$1.933	\$2.012	\$2.129	\$2.077
Mississippi	\$1.945	\$2.052	\$2.144	\$2.128
Montana	\$2.024	\$2.111	\$2.212	\$2.203
North Carolina	\$2.025	\$2.149	\$2.244	\$2.231
North Dakota	\$2.075	\$2.146	\$2.223	\$2.246
Nebraska	\$2.090	\$2.137	\$2.197	\$2.209
New Hampshire	\$1.954	\$2.116	\$2.192	\$2.320
New Jersey	\$1.877	\$2.012	\$2.088	\$2.222
New Mexico	\$2.076	\$2.211	\$2.307	\$2.208
Nevada	\$2.124	\$2.239	\$2.320	\$2.239
New York	\$2.161	\$2.312	\$2.361	\$2.640
Ohio	\$2.038	\$2.174	\$2.261	\$2.243
Oklahoma	\$1.941	\$2.007	\$2.119	\$2.067
Oregon	\$2.153	\$2.272	\$2.306	\$2.321
Pennsylvania	\$2.072	\$2.185	\$2.281	\$2.450
Rhode Island	\$2.056	\$2.187	\$2.260	\$2.478
South Carolina	\$1.920	\$2.041	\$2.140	\$2.119
South Dakota	\$2.049	\$2.180	\$2.269	\$2.206
Tennessee	\$1.939	\$2.053	\$2.151	\$2.157
Texas	\$1.980	\$2.095	\$2.170	\$2.166
Utah	\$1.854	\$1.956	\$2.041	\$2.151
Virginia	\$1.977	\$2.074	\$2.153	\$2.250
Vermont	\$2.024	\$2.178	\$2.272	\$2.497
Washington	\$2.266	\$2.347	\$2.464	\$2.404
Wisconsin	\$2.133	\$2.215	\$2.317	\$2.237
West Virginia	\$2.135	\$2.232	\$2.344	\$2.350
Wyoming	\$1.842	\$1.920	\$2.046	\$2.123

# STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

FRANK H. MURKOWSKI, GOVERNOR

1031 WEST 4<sup>TH</sup> AVENUE, SUITE 200  
ANCHORAGE, ALASKA 99501-1994  
PHONE: (907) 269-5255  
FAX: (907) 279-8644

December 29, 2004

Ms. Rynniva Moss  
Office of Representative John Coghill  
State Capitol, Room 204  
Juneau, Alaska 99801-1182

Re: Studies regarding gasoline prices in Alaska by AG's office

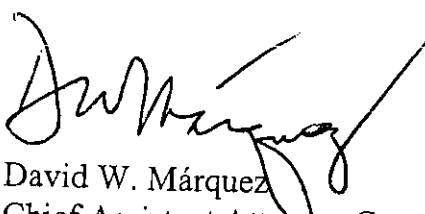
Dear Ms. Moss:

You have requested that the Department of Law provide you with copies of any reports done regarding investigation of gasoline pricing in Alaska. I have located two such reports which are enclosed, one prepared by the Alaska Department of Law dated December 21, 2001 and entitled, "Alaska Petroleum Products Pricing Investigation: Update and Status," and the other also prepared by the Alaska Department of Law, dated November 21, 2002 entitled, "Alaska Petroleum Products Pricing Investigation: Closing Report." Please let me know if you have any further questions.

Sincerely,

GREGG D. RENKES  
ATTORNEY GENERAL

By:

  
David W. Márquez  
Chief Assistant Attorney General  
Legislation and Regulations Section  
Legislative Liaison

DWM:cb

cc: Gregg D. Renkes, Attorney General  
Scott Nordstrand, Deputy Attorney General  
Kevin Jardell, Director, Governor's Legislative Office

ALASKA PETROLEUM PRODUCTS PRICING INVESTIGATION:  
UPDATE AND STATUS

Prepared by the Alaska Department of Law  
December 21, 2001

**Introduction**

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

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

**Background**

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

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

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

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

## Price Differences Between Alaska and the Lower 48

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

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

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

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

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

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

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

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

### **Supply and Demand of Petroleum Products**

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

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

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

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

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

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

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

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

### **Alaska's Gasoline Industry Is Highly Concentrated**

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

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

### **Competition, Oligopoly, and Illegal Behavior**

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

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

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

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

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

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

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

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

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

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

### **Additional Information on the Investigation**

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

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

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

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

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

### Other Resources

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

<http://www.eia.doe.gov>

There is information on average wholesale prices at:

[http://www.eia.doe.gov/pub/oil\\_gas/petroleum/data\\_publications/petroleum\\_marketing\\_monthly/current/pdf/pumtab35.pdf](http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_marketing_monthly/current/pdf/pumtab35.pdf)

The following article discusses the reasons that West Coast prices tend to be higher than those in the rest of the country:

[http://www.eia.doe.gov/pub/oil\\_gas/petroleum/presentations/2001\\_senate\\_testimony/index.htm](http://www.eia.doe.gov/pub/oil_gas/petroleum/presentations/2001_senate_testimony/index.htm)

The following article explains the many factors influencing the costs of refining:


[http://www.eia.doe.gov/emeu/finance/usl&to=downstream\\_index.html](http://www.eia.doe.gov/emeu/finance/usl&to=downstream_index.html)

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

<http://www.ftc.gov/bc/gascon/>

The American Automobile Association publishes daily average gasoline prices at:

<http://www.fuelgauge.com>



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# ALASKA PETROLEUM PRODUCTS PRICING INVESTIGATION: CLOSING REPORT

Prepared by the Alaska Department of Law

November 21, 2002

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## Introduction

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

## Conditions Prompting the Investigation

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

## Legal Standards

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

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

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

## The Investigation

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

## Findings

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

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

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