
City of Bethel, Alaska

City Council Minutes

December 13, 2000

Special Meeting

Bethel, Alaska

CALL TO ORDER

A special meeting of the Bethel City Council was held on December 13, 2000, at 12:00 p.m. in the Council Chambers, Bethel, Alaska.

Mayor Rodgers called the meeting to order at 12:20 p.m.

ROLL CALL

Comprising a quorum of the Council, the following were present:

Mayor Rodgers	Jerry Drake
Carl Berger	Karol Pobrislo

Also in attendance were the following:

Bob Herron, City Manager
Colleen Soberay, City Clerk

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

Item A — Discussion Item: Fuel Prices

Larry Shelver, President of Yukon Fuel Company, spoke to Council in regard to recent fuel prices. Mr. Shelver explained a 1998, 1999 and 2000 fuel price flow chart to Council. He also explained purchasing and transporting of fuel and current prices and future prices.

He said that in 1998 prices generally declined in the summer and were lower in January 1999 in January 1998. He said prices started a rapid climb in 1999 because of the Japanese economy, mostly, and because of problems on the West Coast. He said a real supply shortage on the West Coast impacted us, because all of the fuel purchased for delivery to western Alaska is purchased off the West Coast pricing structure. He said in 2000 there was a big price increase in March and the price dropped back down only to rise again in September and stayed pretty much the same through December and that, he said, was because of a heating fuel crisis back East which affects the prices here.

He also said they are looking three and four months ahead to see what the future's market on the fuel will be. He said everything Yukon Fuel sees for early delivery next summer looks like it's going to be about 30 cents less per gallon than it is currently.

The bad news, he said, is that even with OPEC adding production, the Asian economy is picking up again and they are using a lot of fuel which impacts everyone's fuel prices.

He explained when Yukon Fuel buys fuel from the refineries it's bought every week for whatever price is set and that everyone buys it the same way. The other thing that happens when prices go up, he said, is the barge companies raise their rates for transport because the barge companies themselves pay more for fuel.

Mr. Shelver also explained the transport process to Council. He said Yukon Fuel has no control over what any of the local retailers sell their fuel for, but people do have the capability of coming to the plant and to buy a 50-gallon barrel of fuel.

He explained the weighted average at fuel tank farms in regard to price structure.

Council member Berger reviewed information he obtained from the Yukon Fuels Co. website in regard to the difference in fuel prices in villages vs. Bethel and asked Mr. Shelver about capacity of St. Mary's and Hooper Bay's fuel tank farm.

Mr. Shelver answered St. Mary's tank farm has a 675,000 gallon capacity and Hooper Bay's tank farm has a 300,000 gallon capacity.

Council member Berger also reviewed information that Yukon Fuel contracted with LKSD and AVEC to provide fuel in this area and that some of that fuel was supposed to have been delivered last summer but didn't arrive and asked if that fuel is being taken from the bulk fuel in Bethel.

Mr. Shelver said that wasn't the case and clarified fuel taken from Bethel for outer villages. Council member Pobrislo asked Mr. Shelver to explain the fuel process from the time it's pumped from the ground to when it reaches the retail companies.

Mr. Shelver said Yukon Fuel does not get involved with the process until the fuel has been refined and ready to be sold to wholesale fuel companies. He said Yukon Fuel must tell the refinery how much fuel they will buy, so that the refinery can schedule the production and barges. He also explained the scheduling of the barges and how it relates to the way fuel is bought by Yukon Fuel. He said Yukon Fuel first buys fuel from a refinery, ships it, then adds transport costs to the fuel price. He said almost all of Yukon Fuel's contracts are based on the Oil Pricing Index Service (OPIS).

Council member Pobrislo asked how many people profit off the fuel before it reaches the consumer. Mr. Shelver said four used to be involved, but now only three since Yukon Fuel bought Bethel Fuel.

Mayor Rodgers said fuel delivered to the villages is cheaper than it is in Bethel. He said why is this, especially considering Bethel buys greater quantities. He asked why villages can keep their prices down, while Bethel cannot.

Mr. Shelver explained the differences between the fuel tank farms. He said insurance, Fire Marshall, DDC, EPA and Coast Guard requirements must be abided by in the larger tank farms.

Mr. Shelver said virtually none of the small tank farms are monitored and if a fuel tank is under 420,000 nobody pays any attention to it, while Bethel's tank farm must be in compliance with all state laws and is highly monitored. Not being monitored, he said, keeps their costs down because they don't have to pay for up-keep and insurance.

He said the costs associated with up-keep and compliance for Bethel's fuel tank does not compare to the smaller fuel tank farms in most of the villages. He explained the expenses involved with bringing Bethel's fuel tank farm up to standards.

He also explained that wholesale fuel companies operate in a 3 to 6 percent NET profit and that Yukon Fuel operates on a cents per gallon margin, not on a percentage profit. He said as the price of fuel goes up, Yukon Fuel's profits don't go up. He said it's a capital intensive business.

Council member Drake said with Yukon Fuel's purchase of Bethel fuel there are now three companies involved rather than four. He asked if by eliminating one extra hand, as Mr. Shelver said earlier, did Mr. Shelver feel comfortable that Yukon Fuel has done its best to try and keep the fuel prices as low as possible on its end while still making a reasonable profit.

Mr. Shelver explained why Yukon Fuel bought Bethel Fuel. He said Yukon Fuel is a more attractive customer to the refinery companies than a smaller company because Yukon Fuel buys a 100 million gallons a year and the central location of Bethel ties in with their barging along the coast which makes Yukon Fuel's operation more efficient. He also said the benefits to the community, in a normal year, are a more assured fuel supply, long-range planning and the ability to finish the environmental repairs to this plant. He said Yukon Fuel's advantage is economies of scale. The advantage to the community is Yukon Fuel has more sources to purchase fuel from than the previous owner had. He reiterated Yukon Fuel has no control over the retail market.

Council member Berger referred to Mr. Shelver's mention of economies of scale and referred to some bid order forms for AVEC, which he said are very small quantities, and reviewed prices. He said the prices are lower for smaller quantities of fuel that are shipped past Bethel and asked why a larger town, like Bethel, pays more than these small villages with smaller quantities.

Mr. Shelver explained the differences between the smaller fuel tank farms and Bethel's in terms of selling fuel to Bethel vs. selling fuel to the villages.

Council member Berger asked what Mr. Shelver could do as a new player to bring the costs of fuel down in our community. Mr. Shelver replied the only thing Yukon Fuel can do is buy fuel wholesale and get it into Bethel as cheaply as possible.

Council member Pobrislo asked if there was competition in Bethel, would the prices go down.

Mr. Shelver said he didn't think any new wholesale company would find the economics any different, so no, but it may drive the retail prices down.

Council member Berger asked what contributions does Yukon Fuel have in the way of giving back to the communities.

Mr. Shelver said Yukon Fuel has always been very active with the local communities by providing educational scholarships. He said Yukon Fuel wants to help kids get a better

education rather than provide funding for things such as sports. He said Yukon Fuel is active in the community and doesn't spend a lot of money on advertising, rather their money is spent at the local level with the customers.

Council thanked Mr. Shelver for discussing fuel prices. Mr. Shelver said he would like to come back in March and layout a program showing Yukon Fuel can, in fact, bring cheaper fuel into Bethel.

EXECUTIVE SESSION

There was no business to be discussed in executive session.

ADJOURNMENT

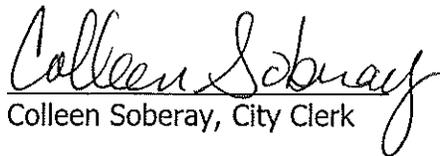
MOVED BY:	Pobrislo	To adjourn the meeting.
SECONDED BY:	Drake	

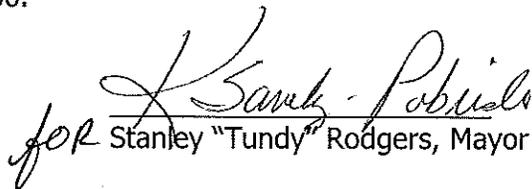
VOTE ON MOTION	Motion carried by unanimous voice vote.
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With no further business before the Council, the meeting adjourned at 12:55 p.m.

APPROVED THIS 9th DAY OF JANUARY, 2000.

ATTEST:


Colleen Soberay, City Clerk


for Stanley "Tundy" Rodgers, Mayor