



TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: January 14, 2021

RE: **Petro Marine Services Purchase of Crowley Fuels, LLC**

As indicated in the attached article published in the January 13, 2021 edition of the Ketchikan Daily News, Petro Marine Services has entered into an agreement to acquire Crowley Fuels, LLC. According to representatives of Crowley Fuels, the purchase is expected to close by mid-February. The attached memorandum from Acting Port & Harbors Director Mark Hilson is self-explanatory and requires little elaboration on the part of my office. Should the City Council share Mr. Hilson's concerns regarding maintaining a competitive marketplace in Ketchikan, taking action as the Port & Harbors Director suggests may be warranted. I agree with Mr. Hilson's assessment that Ketchikan has not benefited from the contraction that has occurred in southeast Alaska's shipping and freight sector.

Mr. Hilson will attend the City Council meeting of January 21, 2021, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended the City Council adopt the motion directing the City Manager to take such action regarding the purchase of Crowley Fuels, LLC by Petro Marine Services as determined appropriate by the City Council.

Recommended Motion: I move the City Council direct the City Manager to take such action regarding the purchase of Crowley Fuels, LLC by Petro Marine Services as determined appropriate by the City Council.

MEMORANDUM

TO: Karl Amylon, City Manager
CC: Lacey Simpson, Assistant City Manager
FROM: Mark Hilson, P.E., Public Works Director, Acting Port and Harbors Director
DATE: January 14, 2021
SUBJECT: **Petro Marine Services Purchase of Crowley Fuels, LLC**

As communicated in the attached correspondence from Crowley Fuels, as of mid-February its assets and business concerns in Ketchikan will be transferred to Petro Marine Services. Until this purchase, Petro Marine Services and Crowley Fuels, LLC (and prior to 2013, Anderes Oil), have competed against each other for a share of the fuel supply market in Ketchikan. This competition has helped keep price increases in check not only for the community at large, but also for the City. Both Crowley and Petro Marine Services have at different times been the fuel supplier for the City of Ketchikan.

Petro Marine Services purchase of Crowley Fuels, LLC will establish a monopoly for fuel supply to marine vessels. Petro Marine Services will also secure for itself a virtual monopoly on home heating oil and vehicle fuel, at least in the short term. The only competition would be the newly established Delta Western operation at Ward Cove. Ironically, Petro Marine's purchase of Crowley's Ketchikan Operations may accelerate the timing of Delta Western's expansion into the Ketchikan fuel supply market. And, while I believe Delta Western intends to offer competition in the fuel supply market in Ketchikan, they are not yet fully able to do so in all aspects of fuel supply. In particular it will be difficult for Delta Western to compete by supplying marine vessels since their location at Ward Cove is too far away from the fish processors and the harbors to make that practical. Delta Western has very limited vehicle fuel (one location outside the City at Ward Cove) and at the time of writing this memo very limited home heating oil distribution service in Ketchikan. I am concerned that if this sale proceeds, and if Delta Western is not able to expand to provide meaningful competition in timely fashion, it may allow Petro Marine Services to follow the business model of Alaska Marine Lines and other local monopolies with exorbitant price increases (case in point is AML's 2020 price increase of 28%, followed by a 5% price increase less than a year later).

While Petro Marine Services has indicated that they will honor Crowley's contract obligations to the City for vehicle fuel, had there not been competition and had that contract hypothetically only had one bidder, Petro Marine Services, staff estimates it would have cost the City at least another \$28,000. Another example of the anticipated increases in costs can be found by looking at the Solid Waste Division's fuel consumption and pricing. If price increases are implemented on the scale of what AML has historically been doing, the 5 year cost increase to that Division is estimated to approach \$50,000. The City of Ketchikan would have no choice but to pass those costs onto consumers and businesses via rate increases in order for the Solid Waste Division to remain solvent.

Any creation of a monopoly, whether it is for a relatively short term duration, or whether it is confined to a particular area of fuel supply may set the stage for unbridled cost increases not only for the City of Ketchikan, but the residents of Ketchikan at large, and the commercial fishing fleet. These price increases will drive the cost of living and the cost of doing business in Ketchikan higher with future rate increases outpacing relevant price index escalations. Given the tenuous economic situation facing Ketchikan due to the pandemic, and the significant economic headwinds that we as a community are facing, pursuing legal/regulatory/legislative intervention in order to ensure uninterrupted competition exists across all aspects of fuel supply, warrants serious City Council consideration.

RECOMMENDATION

It is recommended that City Council adopt a motion authorizing staff to pursue legislative and regulatory intervention to ensure uninterrupted competition exists across all aspects of fuel supply.

Recommended Motion: I move the City Council authorize staff to pursue legislative and regulatory intervention to ensure uninterrupted competition exists across all aspects of fuel supply.



January 8, 2021

Dear Valued Customer:

Happy New Year! Like you, I'm sure, Crowley Fuels is excited to welcome in 2021! We hope our state, and the world at large, will return to some sense of normalcy later in this year. For now, we hope you and your loved ones are staying safe and healthy.

Since acquiring Taku Oil in Juneau, and Anderes Oil in Ketchikan, back in 2013, Crowley has worked hard to earn your respect and trust as we served your community with quality products, delivered in a safe manner while working to protect the environment. We have enjoyed creating a meaningful relationship within the communities that we serve. I want to take this opportunity to advise you that Crowley Fuels has entered into an agreement with Petro Marine Services, a subsidiary of Petro 49. This agreement facilitates Petro Marine's purchase of Crowley assets and ongoing business concerns in Southeast Alaska. Though due diligence continues, we anticipate the deal will close by mid-February. Upon execution of the sale, Crowley assets will be transferred to Petro Marine and they will assume sales and delivery of products to our current customers.

Petro Marine, a family owned Alaskan business, serving Alaskans since 1959, is a quality organization, a fixture in the community, and we are confident they will continue to serve Juneau and Ketchikan in fine fashion. Over the next number of weeks, the Crowley team will be working together with Petro Marine to ensure a smooth, and seamless, transition of our business interests. The Crowley team members in Juneau and Ketchikan have been given the opportunity to join the Petro Marine team. You'll see the same familiar faces within an expanded Petro Marine team!

Crowley will continue to sell / deliver products until the sale is executed. In addition, Crowley will collect payments for all orders delivered by Crowley. Payments for Crowley invoiced products can be mailed to:

Crowley Fuels, LLC
201 Arctic Slope Ave, Anchorage, AK, 99518
1-866-770-5587 (for credit card payments)

Petro Marine will soon be reaching out to Crowley customers to discuss the transition of business further. In the meantime, Petro Marine can be reached as follows:

Petro Marine – Juneau
3560 N. Douglas Highway
(907) 586-4400

Petro Marine – Ketchikan
1100 Stedman Street
(907) 225-2106

We have enjoyed serving your petroleum product needs and value you as a customer, as well as our business relationship. We will continue to serve you in the weeks ahead! We wish you all the best in the months and years ahead. Thank you for your business and thank you for your support.

With appreciation and thanks,

Rick

Rick Meidel
Vice-President & General Manager

201 Arctic Slope Ave.
Anchorage, AK
99518
P: 907.777.5505
crowleyfuels.com

Petro Marine to acquire Crowley Fuels

Crowley Fuels employees will resume work at Petro Marine

KETCHIKAN (KDN) — Petro Marine Services will acquire Crowley Fuels LLC's businesses in Ketchikan and Juneau in mid-February, Crowley announced last week.

The move "meets the strategic plans and long-term objectives of both companies. Most importantly, Alaskans will continue to receive high-quality fuel services for their homes and businesses in Juneau and Ketchikan," stated Rick Meidel, the vice president and general manager of Crowley Fuels.

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Crowley entered the Ketchikan market in 2013 when it purchased the Ketchikan-based Anderes Oil Co.

Petro Marine Services is a subsidiary of Petro 49 Inc., an Anchorage-based fuel supply company that got its start in Seward in 1936. Petro Marine Services has plant and marina facilities in Ketchikan, Sitka, Craig, Juneau, Petersburg, Wrangell and Skagway.

In a Monday press release, Petro Marine said it expects to complete the transfer by Feb. 17.

"We are prepared to expand our product and service offerings to new residential and commercial customers in Southeast Alaska, as we have well-established supply and distribution channels across the region," Kurt Lindsey, the president and CEO of Petro 49, said in a prepared statement. "Our neighbors who were formerly Crowley customers can count on our team members to serve them safely and dependably."

Both companies stated that all Crowley Fuels employees will be able to continue their work at Petro Marine.

Crowley will continue to sell and deliver products until the acquisition is complete, and will continue to collect payments for all orders delivered by Crowley.