From: Julie Brill
Sent: Tuesday, February 05, 2008 5:45 PM
To: AJ Van Tassel Sweet
Cc: Bonnie Boardman; Debbie DeVoe
Subject: FW: Gas Price Watch (GPW) Hotline Report
Attachments: gpw_Feb 02 08_vt.doc

AJ: here is a gas price complaint, for our file and spreadsheet. Bonnie, these go to AJ, with copy to me. Thanks. -- Julie

-----Original Message-----
From: Bonnie Boardman
Sent: Tuesday, February 05, 2008 7:45 AM
To: Julie Brill
Subject: FW: Gas Price Watch (GPW) Hotline Report

FYI

Bonnie Boardman
Administrative Secretary
Office of the Attorney General
109 State Street, 2nd Floor
Montpelier, VT 05609-1001
(P) 802-828-5507
(F) 802-828-5341
www.atg.state.vt.us

-----Original Message-----
From: JoAnn McKee
Sent: Monday, February 04, 2008 3:46 PM
To: Bonnie Boardman
Subject: FW: Gas Price Watch (GPW) Hotline Report

Bonnie: I am not sure who might want this. If you know, please forward. Thanks.

Lynn G.

-----Original Message-----
From: Gas Price Watch [mailto:GasPriceWatch@HQ.DOE.GOV]
Sent: Monday, February 04, 2008 10:50 AM
To: JoAnn McKee
Subject: Gas Price Watch (GPW) Hotline Report

The information attached to this message was provided to the Department of Energy by members of the public regarding possible gasoline price gouging. DOE has not independently verified the information and has not made any determination that action under Federal or state law is warranted. It is being provided to you, as the Vermont representative for further investigation and prosecution where appropriate.

http://gaswatch.energy.gov

If there is another party that should be receiving this report instead of or in addition to you, please reply to this message.

Gas Price Watch State Report

State: **VT**

Report Period: **Sunday, January 27, 2008 - Saturday, February 2, 2008**

Total Complaints:1 Web:1 Call Center:0

The information attached to this message was provided to the Department of Energy by members of the public complaining about what they view as price gouging. DOE has not independently verified the information and has not made any determination that action under Federal or state law is warranted. It is being provided to you, the representatives of the Federal Trade Commission, U.S. Department of Justice or individual State Attorneys General for further investigation and prosecution where appropriate.

Rec ID	Date	Consumer City	Gas Station Name	Gas Station Address	Regular	Medium	Super
NEWPORT							
5057906	1/28/2008 7:28:00A	Newport	Cumberland farms	Eastmain, Newport, VT. 05855	$3.16	$0.00	$0.00
	Hello My Name is Norman McAlllister I was wondering why Newport Always has higher gas prices then the rest of the country? This is a very poor area and the economical inpact is not heathly for the local economy considering the price of home heating oil.						
Consumer Responses: 1				**Highest price for city:**	**$3.16**	**$0.00**	**$0.00**
Total Consumer Responses: 1				**Highest price for reporting period:**	**$3.16**	**$0.00**	**$0.00**

Printed Date: 2/4/2008

From: Powers, Michael
Sent: Thursday, February 19, 2015 1:26 PM
To: Abrams, Jill
Subject: RE: Gasoline Prices-Need your help

Good point

From: Abrams, Jill
Sent: Thursday, February 19, 2015 1:23 PM
To: Powers, Michael
Subject: RE: Gasoline Prices-Need your help

Like you have a choice ☺

From: Powers, Michael
Sent: Thursday, February 19, 2015 1:18 PM
To: Abrams, Jill; Griffin, Judah; Murnane, Janet; Duquette-Hoffman, Jason; McDougall, Robert; Kline, Scot; Wagner, Helen
Cc: Kriger, Ryan; Morgan, Wendy
Subject: RE: Gasoline Prices-Need your help

I'll take part.

From: Abrams, Jill
Sent: Thursday, February 19, 2015 12:39 PM
To: Griffin, Judah; Murnane, Janet; Duquette-Hoffman, Jason; McDougall, Robert; Kline, Scot; Wagner, Helen; Powers, Michael
Cc: Kriger, Ryan; Morgan, Wendy
Subject: Gasoline Prices-Need your help

Consumer Protection is looking at gas pricing in Vermont. Because we've been told that Gas Buddy is not necessarily reliable, we're doing our own research. [redacted]

Please let me know if you're willing to participate. If you have suggestions on other AGO employees who are Chittenden County residents, please tell me. Thanks!

My email address has changed to jill.abrams@state.vt.us.

Jill S. Abrams
Assistant Attorney General
Public Protection Division
Vermont Office of the Attorney General
109 State Street
Montpelier, VT 05609
P: 802.828.1106

F: 802.828.2154

From: Julie Brill
Sent: Wednesday, April 02, 2008 10:23 PM
To: Wendy Morgan; Jay Bailey; Helen Wagner; AJ Van Tassel Sweet
Cc: Janet Murnane
Subject: RE: complaints re gas prices

And AJ, please let Wendy know how many complaints you have on our spreadsheet relating to gas pricing, broken down by year. She needs info by 10 a.m. Thanks. -- Julie

-----Original Message-----
From: Wendy Morgan
Sent: Wednesday, April 02, 2008 10:22 PM
To: Jay Bailey; Helen Wagner
Cc: Janet Murnane; Julie Brill
Subject: complaints re gas prices

Bill may have to respond to the press tomorrow noon re gas and fuel prices

Jay, can you tell me how many complaints we've received from the complaint through the complaint form on the web over what time period? recent increase would be helpful

how many has CAP received? or are the answers the same? to the extent that you can tell me the additional number, that would be helpful

From: Julie Brill
Sent: Friday, April 04, 2008 5:48 PM
To: Wendy Morgan
Subject: RE: gas prices

I don't know the answer either -- I'd have to go through the charts to figure that out. I'll ask Mike to pull one together for us. -- J

-----Original Message-----
From: Wendy Morgan
Sent: Friday, April 04, 2008 5:38 PM
To: Julie Brill
Subject: RE: gas prices

I think it's because we asked him to move quickly - not sure how much time that kind of integration from two sets of data takes - Bill did not seem distressed by any of it (and what was the answer to your question? How close are we to national average - at least now you understand why the answer wasn't so obvious that I knew)

From: Julie Brill
Sent: Friday, April 04, 2008 4:06 PM
To: Wendy Morgan
Subject: RE: gas prices

Well, I can say I'm disappointed in what Mike sent you. Perhaps he misunderstood, but he has in the past put together charts that showed, on one chart, Vermont's average prices compared to the national average prices. That would have been much more informative and useful for Bill. Maybe the reference to EIA threw him off.... Still, I'm a bit surprised he didn't understand, since he knew what was going on. -- J

-----Original Message-----
From: Wendy Morgan
Sent: Friday, April 04, 2008 2:12 PM
To: Julie Brill
Subject: FW: gas prices

From: Mike Powers
Sent: Thursday, April 03, 2008 8:03 AM
To: Wendy Morgan; Janet Murnane
Subject: RE: gas prices

The first is the February (most recent) Vermont fuel price report - 2 pages.
The second is an EIA gasoline price report.
The third (Table C.1) is the EIA table of heating oil prices. The bottom chart is for the current season.
The fourth (Table C.3) is the EIA table of propane prices. The bottom chart is for the current season.

Let me know if you need more.

<< File: 08feb.pdf >> << File: EIA U_S_ Retail Gasoline Prices.mht >> << File: tablec1.pdf >> << File: tablec3.pdf >>

Michael Powers
Vermont Office of the Attorney General

109 State Street
Montpelier, Vermont 05609-1001
mpowers@atg.state.vt.us
(802) 828-0096

-----Original Message-----
From: Wendy Morgan
Sent: Wednesday, April 02, 2008 10:35 PM
To: Mike Powers
Cc: Janet Murnane
Subject: gas prices
Importance: High

tomorrow morning by 10 am can you check the websites for average gas and heating oil prices in Vermont and national average per EIA, and send to Janet and me -- we need to get some info together for Bill for a noon press conference -- thanks so much! Wendy

From: Julie Brill
Sent: Wednesday, April 23, 2008 6:07 PM
To: Mike Powers
Subject: RE: gas prices

Thanks much, Mike. The Vermontgasprices.com graphs are very helpful, so I appreciate the extra effort to create them. -- Julie

-----Original Message-----
From: Mike Powers
Sent: Wednesday, April 23, 2008 9:21 AM
To: Julie Brill
Subject: gas prices

The first attachment includes the Vermontgasprices.com graphs comparing Vermont and other areas in the northeast to the US average price.
The second is the Vermont Fuel Price Report through march

<< File: VGP.com4-23-08.pdf >> << File: VFPR 4-23-08.pdf >>

Michael Powers
Vermont Office of the Attorney General
109 State Street
Montpelier, Vermont 05609-1001
mpowers@atg.state.vt.us
(802) 828-0096

From: Julie Brill
Sent: Friday, June 06, 2008 11:05 AM
To: AJ Van Tassel Sweet
Subject: FW: Call Joe Acinapura

AJ: please make sure to put this complaint in the gasoline price database. Thanks. -- Julie

-----Original Message-----
From: Janet Murnane
Sent: Tuesday, May 20, 2008 3:45 PM
To: Julie Brill
Cc: Wendy Morgan
Subject: Call Joe Acinapura

yes, that would be great if you would get back in touch with him. [redacted] thanks

-----Original Message-----
From: Julie Brill
Sent: Tuesday, May 20, 2008 1:25 PM
To: Janet Murnane
Cc: Wendy Morgan
Subject: RE: Fuel Costs

Janet: I sent the attached to Bill (and you and Wendy) in response. I have not followed up with Joe, since Bill didn't ask me to. I can if you like. Just let me know. -- Julie

-----Original Message-----
From: Janet Murnane
Sent: Tuesday, May 20, 2008 12:40 PM
To: Julie Brill
Cc: Wendy Morgan
Subject: RE: Fuel Costs

sorry, did we follow up on this?
-----Original Message-----
From: Bill Sorrell
Sent: Tuesday, April 29, 2008 11:27 AM
To: Julie Brill
Cc: Wendy Morgan; Janet Murnane
Subject: FW: Fuel Costs

Please see below. Your thoughts?

-----Original Message-----
From: Bill Sorrell

Sent: Tuesday, April 29, 2008 11:25 AM
To: 'Joe Acinapura'
Subject: RE: Fuel Costs

Joe,

I'll refer this to my antitrust folks. And next week I'll be meeting out west with other AGs on a range of energy issues, including fuel costs.

We'll get back to you.

Bill

-----Original Message-----
From: Joe Acinapura [mailto:jacinapura@leg.state.vt.us]
Sent: Tuesday, April 29, 2008 9:31 AM
To: Bill Sorrell
Subject: Fwd: Fuel Costs

Bill,
Can you help me with this?
This is terrible.
Joe
>>> "Kirk Israel" <[redacted]> 4/28/2008 1:04 PM >>>
Joe, I recently was visiting with a manager of a local fuel station and was discussing the rising process of fuel. She was telling me that her management told her that she was to watch the other stations near her and if their prices went up she was to raise her prices without regard for what the station actually paid for the fuel. This is pure profiteering on the backs of the public. All someone has to do is make a mistake in their price and everyone around is going to raise their prices to match without even considering what they paid for the fuel. I also have been noticing that some of the stations are having fuel sales to keep the public interested. Does that mean there is plenty of room in the fuel price so they all could lower their prices? I and many others have had enough of the roller coaster and reactionary pricing based on ASSumptions from the Middle-East and irrelevant and non-related events forcing the prices up. Lets start working on something important like the Vermonters survival now and especially this coming winter. It time to put our pant on and start a fight with big business. Kirk

From: Julie Brill
Sent: Monday, October 13, 2008 2:14 PM
To: Wendy Morgan; Elliot Burg
Cc: AJ Van Tassel Sweet
Subject: RE: Representative Kathy Keenan

I really can't deal with this now. Sorry....

From: Wendy Morgan
Sent: Monday, October 13, 2008 2:04 PM
To: Elliot Burg; Julie Brill
Cc: AJ Van Tassel Sweet
Subject: RE: Representative Kathy Keenan

do you really mean $2.60? if one station is undercutting all others for a time, they can do that, no? if you mean $3.60, shopping around will get a better price (I saw $3.17 on the way home last week)

From: Elliot Burg
Sent: Monday, October 13, 2008 1:51 PM
To: Julie Brill
Cc: Wendy Morgan; AJ Van Tassel Sweet
Subject: FW: Representative Kathy Keenan
Importance: High

Julie—I don't know if you're "taking" questions while the trial is on (and how's it going, by the way?), but Kathy Keenan called our office to complain that she understands that wholesalers (her term) are selling gasoline to local stations for under $2.60 a gallon. She feels that this is price-gouging (her term, too).

I explained the declared emergency aspect of our price-gouging law but promised to check around on this and call her back tomorrow. Any guidance that you or AJ can provide would be appreciated.

E

From: Holly Boucher
Sent: Monday, October 13, 2008 1:03 PM
To: Julie Brill; Elliot Burg
Subject: Representative Kathy Keenan
Importance: High

Just called the front office looking to speak to both of you. This is in regards to Gas pricing. She did not go into detail but would like to hear from you. I did let her know that we were minimum staffed today because of the holiday, but I would do my best to contact one of you. I assumed e-mail would be the fastest way.

Representative Keenan's phone numbers are: 802-524-5013 or 802-373-3469

From: Julie Brill
Sent: Tuesday, November 11, 2008 11:01 AM
To: Wendy Morgan; Janet Murnane
Subject: FW: Gasoline Costs?

Wendy and Janet: this complaint came to Bill S. and me yesterday from Senator Jim Condos. [redacted] -- j

-----Original Message-----
From: Jim Condos [mailto:jcondos@leg.state.vt.us]
Sent: Monday, November 10, 2008 12:55 PM
To: Bill Sorrell; Julie Brill; Mike McShane
Cc: Douglas Racine
Subject: Gasoline Costs?

Since I travel alot throughout new england, I thought I would bring to your attention - if you haven't already noticed - the huge discrepancies on gasoline prices.

Specifically, I want to bring to your attention the costs of gasoline in 3 states - VT, NY, and CT

The gas taxes in these 3 states are: VT - 38.4 cents per gal
NY - 60.9 cents per gal
CT - 65.6 cents per gal

During the runup in price of gasoline earlier in the summer, costs appeared to reflect these differences...

For instance, this past summer, when gas was around $4.00/gal in VT, it was about 4.35 - 4.40 in both NY and CT - significantly higher in CT and NY!

However, now that it has been coming down, gas in VT is around 2.52 (montp area)- 2.75 (burl area) and in NY and CT over this past week - it ranged from 2.29 - 2.49 - significantly higher in VT.

This defies logic in light of the gas tax differences - and I don't buy the "competition" or "transportation distances" in light of these differences. Frankly if "competition" were really the issue, it should be much lower in Burl area since there are more stations here in Chitt Cty.

I would urge that you begin an investigation into this pricing.

Sincerely, JIM

Senator JIM Condos
Vermont State Senate
Chittenden County

Member, Senate Economic Development, Housing & Gen. Affairs Member, Senate Finance Chair, Joint Legislative IT Committee

Address: 150 Dorset Street, PMB #307
South Burlington, VT 05403

Phone: 802-238-3809 (cell)
800-322-5616 (Statehouse-in session)

Email: jcondos@leg.state.vt.us

From: Julie Brill
Sent: Tuesday, November 11, 2008 12:11 PM
To: Wendy Morgan; Jason Duquette-Hoffman; HelenWagner
Cc: 'jmaillot@uvm.edu'
Subject: RE: Gasoline pricing complaints

[redacted] If instead the project entails merely crafting a response to legislators and consumers, I can try to work on something, but I have a lot of things I have to deal with ahead of that, and it won't get done any sooner than the time frame you mention below, Wendy. If the project entails something having to do with the website [redacted] I don't have the time for that either.

With respect to the response to legislators and consumers on the gas pricing issues, we go through this every few years. Can't someone -- Helen, perhaps -- pull up the responses we've written in the past to consumers the last time prices were falling nationally but not as rapidly here in VT? I seem to recall I drafted something that we put up on our website. It seems silly to reinvent the wheel each time we go through this economic cycle. -- Julie

-----Original Message-----
From: Wendy Morgan
Sent: Tuesday, November 11, 2008 12:04 PM
To: Jason Duquette-Hoffman; HelenWagner; Julie Brill
Cc: jmaillot@uvm.edu
Subject: RE: Gasoline pricing complaints

Julie just sent the same question (coming in from a legislator) to me and Janet -- clearly we need to figure this out -- that said, I'm hardly here for the rest of the week and in only 3 days next week -- [redacted] -- Julie, can you take the lead?

-----Original Message-----
From: Jason Duquette-Hoffman [mailto:Jason.Duquette-Hoffman@uvm.edu]
Sent: Tuesday, November 11, 2008 11:55 AM
To: Wendy Morgan; HelenWagner
Cc: jmaillot@uvm.edu
Subject: Gasoline pricing complaints

Howdy all,

We are receiving multiple calls per day from consumers concerned about gas prices. Across the board, consumers are reporting concerns that prices in Vermont, historically lower than those in NY and MA, are now well above prices in those states, and well above the national average.
Additionally, many consumers feel that competition that used to be in place in the market in Vermont appears to be diminishing, with far less variance among providers and more consolidation of ownership in the marketplace.

Consumers want to know what the State is doing about this issue.

Thoughts?

Jason

--
Jason M. Duquette-Hoffman, M.S., Outreach Professional Vermont Attorney General's Office Consumer Assistance Program 103B Morrill Hall, UVM Burlington, VT 05405
(800) 649-2424
(802) 656-3183
(802) 656-1423 FAX

From: Julie Brill
Sent: Tuesday, November 11, 2008 12:37 PM
To: Jason Duquette-Hoffman; Wendy Morgan
Cc: HelenWagner; jmaillot@uvm.edu
Subject: RE: Gasoline pricing complaints

Jason: I sent an email responding to this several minutes ago. Did you not receive it? I think we are all aware of what is happening in the market right now. We've seen it before, many times. Please review our website and earlier statements from several years ago to find templates, or ask Helen to help you find them. It would be more helpful to have our previous response to consumers on this "rocket and feather" phenomenon. Thanks. -- Julie

-----Original Message-----
From: Jason Duquette-Hoffman [mailto:Jason.Duquette-Hoffman@uvm.edu]
Sent: Tuesday, November 11, 2008 12:29 PM
To: Wendy Morgan
Cc: HelenWagner; Julie Brill; jmaillot@uvm.edu
Subject: Re: Gasoline pricing complaints

Here's some data to put the issue in perspective from GasBuddy.com

JDH

Wendy Morgan wrote:
> Julie just sent the same question (coming in from a legislator) to me
> and Janet -- clearly we need to figure this out -- that said, I'm
> hardly here for the rest of the week and in only 3 days next week --[redacted] -- Julie, can you
> take the lead?
>
> -----Original Message-----
> From: Jason Duquette-Hoffman [mailto:Jason.Duquette-Hoffman@uvm.edu]
> Sent: Tuesday, November 11, 2008 11:55 AM
> To: Wendy Morgan; HelenWagner
> Cc: jmaillot@uvm.edu
> Subject: Gasoline pricing complaints
>
> Howdy all,
>
> We are receiving multiple calls per day from consumers concerned about
> gas prices. Across the board, consumers are reporting concerns that
> prices in Vermont, historically lower than those in NY and MA, are now
> well above prices in those states, and well above the national average.
>
> Additionally, many consumers feel that competition that used to be in
> place in the market in Vermont appears to be diminishing, with far
> less variance among providers and more consolidation of ownership in
> the marketplace.
>
> Consumers want to know what the State is doing about this issue.
>

> Thoughts?
>
> Jason
>
>

--
Jason M. Duquette-Hoffman, M.S., Outreach Professional Vermont Attorney General's Office Consumer Assistance Program 103B Morrill Hall, UVM Burlington, VT 05405
(800) 649-2424
(802) 656-3183
(802) 656-1423 FAX

From: Julie Brill
Sent: Tuesday, November 11, 2008 1:08 PM
To: Jason Duquette-Hoffman; Wendy Morgan
Cc: HelenWagner; jmaillot@uvm.edu
Subject: RE: Gasoline pricing complaints- AGO RESPONSE FROM 2005

Wendy: Bill could decide to use his "bully pulpit" again, calling on gas stations to get their pricing in line with national averages. The reality of the market is probably that there is probably some more concentration since 2005, and there are dealers taking advantage of our price gouging statute, which requires a gubernatorial declaration of a "market emergency" before the provisions kick in. But the overall phenomenon is the same: we have many fewer dealers than other states, and price declines are led, primarily, by competition. Burlington is especially hard hit: it seems like there are lots of gas stations, but they are all supplied by a few jobbers, and owned by a relatively small number of entities, so the competition is non-existent up there.

I won't be in a position to turn back to this issue for several days at the earliest. There were other statements we prepared for CAP to use with consumers in similar, more recent periods of national market decline (I believe). Again, Helen and Jason can find those and circulate them, and work on crafting a response for consumers.

-----Original Message-----
From: Jason Duquette-Hoffman [mailto:Jason.Duquette-Hoffman@uvm.edu]
Sent: Tuesday, November 11, 2008 12:42 PM
To: Wendy Morgan
Cc: HelenWagner; Julie Brill; jmaillot@uvm.edu
Subject: Re: Gasoline pricing complaints- AGO RESPONSE FROM 2005

FYI, see below:

Homepage <http://www.atg.state.vt.us/index.php> >> News & Announcements
<http://www.atg.state.vt.us/display.php?pubsec=0&smod=63>

News & Announcements

Attorney General Sorrell Questions Why Gas Prices Are Not Plummeting

Contact: Julie Brill, Assistant Attorney General, (802) 828-5479

September 13, 2005 - Attorney General William H. Sorrell today called on gas stations to promptly pass lower wholesale gas prices through to consumers.

Attorney General Sorrell commented after reviewing the results of a survey of statewide and national retail gas prices. "They skyrocketed prices right off, in some cases several times in a day, when wholesale prices were increasing. But now that wholesale prices are falling rapidly, prices at the pump are falling slowly, if at all," said Sorrell. "There's a snake in this woodpile. Responsible dealers don't try to have it both ways. Some outrageous profits are being earned at the expense of Vermonters' wallets."

Attorney General Sorrell said that the Attorney General's Office is continuing its daily monitoring of gas prices at both the wholesale and retail level. "We have noticed that retail prices throughout the Northeast are higher than the national average."

Attorney General Sorrell has also been cooperating with a group of more than 40 state attorneys general to gather more detailed information on the root causes of the recent spike in gas prices.

Wendy Morgan wrote:
> Julie just sent the same question (coming in from a legislator) to me
> and Janet -- clearly we need to figure this out -- that said, I'm
> hardly here for the rest of the week and in only 3 days next week --
[redacted] -- Julie, can you
> take the lead?
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> -----Original Message-----
> From: Jason Duquette-Hoffman [mailto:Jason.Duquette-Hoffman@uvm.edu]
> Sent: Tuesday, November 11, 2008 11:55 AM
> To: Wendy Morgan; HelenWagner
> Cc: jmaillot@uvm.edu
> Subject: Gasoline pricing complaints
>
> Howdy all,
>
> We are receiving multiple calls per day from consumers concerned about
> gas prices. Across the board, consumers are reporting concerns that
> prices in Vermont, historically lower than those in NY and MA, are now
> well above prices in those states, and well above the national average.
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> place in the market in Vermont appears to be diminishing, with far
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--
Jason M. Duquette-Hoffman, M.S., Outreach Professional Vermont Attorney General's Office Consumer Assistance Program 103B Morrill Hall, UVM Burlington, VT 05405
(800) 649-2424
(802) 656-3183
(802) 656-1423 FAX

From: Julie Brill
Sent: Wednesday, November 12, 2008 11:32 PM
To: Julie Brill; Bill Sorrell; Wendy Morgan; Janet Murnane
Subject: RE: Gasoline Costs?

[redacted] I'll be available tomorrow and Friday by cell phone if anyone wants to talk about this. [redacted] I'm back in the office on Monday. Thanks. -- Julie

-----Original Message-----
From: Julie Brill
Sent: Wednesday, November 12, 2008 4:09 PM
To: Bill Sorrell; Wendy Morgan; Janet Murnane
Subject: RE: Gasoline Costs?

In 2005 we sent out a press release under similar circumstances of dropping national prices and lagging VT prices. We could do the same here. The bottom line is that we don't have much competition up north, in the BTV area. There are lots of stations, but few distributors, and many of the stations are owned by a few companies. So concentration is high, meaning there is no incentive to lower prices. [redacted] So perhaps we should start with calls to industry folks and a press release spelling out our concerns. -- j

-----Original Message-----
From: Bill Sorrell
Sent: Wednesday, November 12, 2008 3:18 PM
To: Julie Brill; Wendy Morgan; Janet Murnane
Subject: FW: Gasoline Costs?

I am perplexed as to why there are these disparities. The lower prices in Montpelier than Burlington seem so lacking in a legit basis. Any ideas on what we can do to look more closely at this?

-----Original Message-----
From: Jim Condos [mailto:jcondos@leg.state.vt.us]
Sent: Monday, November 10, 2008 12:55 PM
To: Bill Sorrell; Julie Brill; Mike McShane
Cc: Douglas Racine
Subject: Gasoline Costs?

Since I travel alot throughout new england, I thought I would bring to your attention - if you haven't already noticed - the huge discrepancies on gasoline prices.

Specifically, I want to bring to your attention the costs of gasoline in 3 states - VT, NY, and CT

The gas taxes in these 3 states are: VT - 38.4 cents per gal
NY - 60.9 cents per gal
CT - 65.6 cents per gal

During the runup in price of gasoline earlier in the summer, costs appeared to reflect these differences...

For instance, this past summer, when gas was around $4.00/gal in VT, it was about 4.35 - 4.40 in both NY and CT - significantly higher in CT and NY!

However, now that it has been coming down, gas in VT is around 2.52 (montp area)- 2.75 (burl area) and in NY and CT over this past week - it ranged from 2.29 - 2.49 - significantly higher in VT.

This defies logic in light of the gas tax differences - and I don't buy the "competition" or "transportation distances" in light of these differences. Frankly if "competition" were really the issue, it should be much lower in Burl area since there are more stations here in Chitt Cty.

I would urge that you begin an investigation into this pricing.

Sincerely, JIM

Senator JIM Condos
Vermont State Senate
Chittenden County

Member, Senate Economic Development, Housing & Gen. Affairs Member, Senate Finance Chair, Joint Legislative IT Committee

Address: 150 Dorset Street, PMB #307
South Burlington, VT 05403

Phone: 802-238-3809 (cell)
800-322-5616 (Statehouse-in session)

Email: jcondos@leg.state.vt.us

From: Julie Brill
Sent: Monday, November 17, 2008 5:10 PM
To: Janet Murnane
Subject: Accepted: Disc re gasoline pricing

Thanks, Janet. -- Julie

From: Julie Brill
Sent: Friday, November 21, 2008 4:50 PM
To: Michael Powers; Bill Sorrell
Subject: RE: Gasoline prices in Vermont

Thanks much, Mike. And were you able to compare today's prices with the prices earlier in the week, to see if they appear to be coming down in Vermont? Driving around the state I'm finding prices seem much lower -- out by BTV I saw a station selling for $2.11, and down in Randolph many stations are at $1.99. Please let us know how the averages have changed through the week. Thanks. -- Julie

-----Original Message-----
From: Michael Powers
Sent: Friday, November 21, 2008 3:28 PM
To: Bill Sorrell
Cc: Julie Brill
Subject: Gasoline prices in Vermont

On Wednesday and today, I looked at gas prices in Vermont and in the region as found at Vermontgasprices.com. As has been the case for a while, the northeast has higher average gas prices than some other parts of the country, especially some Midwestern states. Within the northeast, Vermont has had the highest average with the exception of New York. Within New York, most counties today have average gas prices of more than $2.31/gallon. Massachusetts and Connecticut appear to have the lowest average prices, each with some counties averaging $1.86 - $1.95 per gallon.

Within Vermont, Addison County has the highest average prices, according to the website, with an average price today of more than $2.27. Chittenden County and Orleans County have the next highest averages of between $2.25 and $2.27. The largest block of seven counties has an average price of $2.18 - $2.20. Windsor County has the lowest average in Vermont at $2.12 - $2.14.

These figures are, of course, only averages. At least a few service stations in Vermont, in towns such as Brattleboro and Ascutney, are selling gas at $1.99. At the other end, one station in Killington was reportedly selling gas at $2.69 today, while stations in Burlington, Eden, and Wolcott were selling gas at $2.39 per gallon.

Hope this is helpful.

Michael Powers
Vermont Office of the Attorney General
109 State Street
Montpelier VT 05609-1001
(802) 828-0096
mpowers@atg.state.vt.us

From: Julie Brill
Sent: Thursday, December 18, 2008 3:48 PM
To: 'Santos, Rodrigo S.D.'
Cc: Raitt, Susan
Subject: RE: Northeast Gasoline Price Investigation

Thanks Susan and Rodrigo. I know Warren well, and I'll call him today or tomorrow. I'll send in the form as soon as I can (this week or next). In terms of scheduling the interviews, I will still be in trial on the 12th, so the end of that week, or much preferably the following week, would be great. Thanks. -- Julie

Julie Brill
Vermont Assistant Attorney General
109 State Street
Montpelier, VT 05609-1001
802-828-3658 phone
802-828-2154 fax
jbrill@atg.state.vt.us

From: Santos, Rodrigo S.D. [mailto:rsantos@ftc.gov]
Sent: Thursday, December 18, 2008 3:41 PM
To: Julie Brill
Cc: Raitt, Susan
Subject: Northeast Gasoline Price Investigation

Hi Julie,

Susan asked me to forward the following e-mail to you.

Nice speaking with you this a.m.

Here is the form 712.

The contact at Senator Sander's office is Warren Gunnels: 202 224 5141. Would be great if you let us know about your conversation with him.

We will try to schedule interviews for the week of the 12th. Will keep you posted.

Happy Holidays!

Susan

From: Julie Brill
Sent: Thursday, January 15, 2009 6:29 PM
To: 'Santos, Rodrigo S.D.'
Cc: Raitt, Susan
Subject: RE: Northeast Retail Gas Price Inquiry

Hi, Rodrigo and Susan. I'll be available on Wednesday and Thursday next week. The following week is better for me. Please let me know what day you set up the interview for. I'll try to sit in. If you'd like to talk before the interview, please let me know so we can arrange a time. Thanks. -- Julie

Julie Brill
Vermont Assistant Attorney General
109 State Street
Montpelier, VT 05609-1001
802-828-3658 phone
802-828-2154 fax
jbrill@atg.state.vt.us

From: Santos, Rodrigo S.D. [mailto:rsantos@ftc.gov]
Sent: Thursday, January 15, 2009 5:13 PM
To: Julie Brill
Cc: Raitt, Susan
Subject: Northeast Retail Gas Price Inquiry

Hi, Julie,

We are continuing our inquiry about the retail gas prices in the northeast region.

We are trying to schedule an interview with Mr. Edward Faneuil, General Counsel of Global Companies, from the Burlington Terminal, for either the 21st or 22nd (next week), or probably the following week.

We would like to talk to you soon.

Thanks,

Rodrigo

Rodrigo Surcan dos Santos
Legal Intern
Federal Trade Commission
Northeast Region
One Bowling Green, Suite 318
New York, NY 10004
(212) 607-2817

From: Brill, Julie
Sent: Friday, December 19, 2008 1:26 PM
To: Santos, Rodrigo S.D.
Cc: Raitt, Susan; Jacalyn Barton
Subject: RE: Northeast Gasoline Price Investigation

Thanks, Rodrigo. -- Julie

Julie Brill
Vermont Assistant Attorney General
109 State Street
Montpelier, VT 05609-1001
802-828-3658 phone
802-828-2154 fax
jbrill@atg.state.vt.us

From: Santos, Rodrigo S.D. [mailto:rsantos@ftc.gov]
Sent: Friday, December 19, 2008 12:20 PM
To: Julie Brill
Cc: Raitt, Susan; Jacalyn Barton
Subject: RE: Northeast Gasoline Price Investigation

Hi, Brill,

I forward your e-mail with the attachment to the person responsible in the General Counsel.

Let me know if you need anything else.

Have a nice holiday,

Rodrigo Surcan dos Santos
Legal Intern
Federal Trade Commission
Northeast Region
(212) 607-2817

From: Brill, Julie
Sent: Thursday, December 18, 2008 4:26 PM
To: Santos, Rodrigo S.D.
Cc: Raitt, Susan; Jacalyn Barton
Subject: RE: Northeast Gasoline Price Investigation

Hi, Susan and Rodrigo. Here is our completed waiver request. We will mail to the FTC General Counsel. If you have an email or fax contact for General Counsel, please let me know. Or if you want to forward more expeditiously to General Counsel, that would be great. Thanks. -- Julie

Julie Brill
Vermont Assistant Attorney General
109 State Street
Montpelier, VT 05609-1001
802-828-3658 phone
802-828-2154 fax
jbrill@atg.state.vt.us

From: Santos, Rodrigo S.D. [mailto:rsantos@ftc.gov]
Sent: Thursday, December 18, 2008 3:41 PM
To: Julie Brill
Cc: Raitt, Susan
Subject: Northeast Gasoline Price Investigation

Hi Julie,

Susan asked me to forward the following e-mail to you.

Nice speaking with you this a.m.

Here is the form 712.

The contact at Senator Sander's office is Warren Gunnels: 202 224 5141. Would be great if you let us know about your conversation with him.

We will try to schedule interviews for the week of the 12th. Will keep you posted.

Happy Holidays!

Susan

To:	Re:
General Counsel Federal Trade Commission Washington, DC 20580	Request for Non-public Materials and Certification of Intent to Maintain Confidentiality and to Restrict Use to Law Enforcement Purposes

Pursuant to the Federal Trade Commission Act, as amended 15 U.S.C. §41 et seq., and Rules 4.6 and 4.11 of the Commission's Rules of Practice, 16 C.F.R. §§4.6 and 4.11, I hereby request access to materials concerning:

Investigation into price gouging and other pricing issues related to gasoline in the Burlington, Vermont area.

FTC File No. *(if known)*:	FTC STAFF CONTACT
	Susan Raitt, Northeast Regional Office

I certify on behalf of this office that any information received pursuant to this request will be maintained in confidence and used only for official law enforcement purposes.

CITE AGENCY'S AUTHORITY	DESCRIBE LAW ENFORCEMENT PURPOSE
Vermont Consumer Fraud Act, 9 V.S.A. Sec.2451 et seq.	Investigation of consumer fraud, price fixing and price gouging under Vermont's Consumer Fraud Act.

PLEASE CHECK ONE:

- ☐ A copy of this certification should be provided to submitters of the documents to which access is requested.
- ☑ I request that the Commission **NOT** send a copy of this Certification to submitters of the documents to which access is requested.

REQUESTER'S SIGNATURE

Julie Brill

PLEASE PRINT OR TYPE THE INFORMATION REQUESTED BELOW.

REQUESTER'S NAME AND TITLE	TELEPHONE NUMBER
Julie Brill-Assistant Attorney General	802-828-5479

OFFICE

Vermont Attorney General's Office

ADDRESS

109 State Street
Montpelier, VT 05609

From: Julie Brill
Sent: Thursday, December 18, 2008 4:24 PM
To: Jacalyn Barton
Subject: RE: [redacted]

Yes, please. I'll also see if we can get an email or fax contact. Thanks much.

-----Original Message-----
From: Jacalyn Barton
Sent: Thursday, December 18, 2008 4:23 PM
To: Julie Brill
Subject: RE: [redacted]

Great. So I will put it in the mail today.

-----Original Message-----
From: Julie Brill
Sent: Thursday, December 18, 2008 4:21 PM
To: Jacalyn Barton
Subject: RE: [redacted]

Perfect!

-----Original Message-----
From: Jacalyn Barton [mailto:jbarton@atg.state.vt.us]
Sent: Thursday, December 18, 2008 4:20 PM
To: Julie Brill
Subject: [redacted]

From: Raitt, Susan <SRAITT@ftc.gov>
Sent: Thursday, February 19, 2009 12:20 PM
To: Julie Brill; Sarah London
Cc: Zach, Daniel; Williams, Mark D.; Murphy, Elisabeth
Subject: RE: Burlington gasoline price investigation

Thanks, Julie. Congratulations again on your new position, and best of luck down there in NC.
Hello to you, Sarah, and welcome aboard. On our end, the FTC's Mergers III shop -- which specializes in oil and gas investigations -- is now on board. I am cc'ing the head of that team, Dan Zach, as well as Mark Williams, our economist, and Elisabeth Murphy, our RA (the latter two have been on our previous calls with Julie). I am sure we will speaking with you soon; additional interviews are being set up for the VT area .
. . .
Susan

-----Original Message-----
From: Brill, Julie
Sent: Wednesday, February 18, 2009 7:43 PM
To: Raitt, Susan
Cc: Sarah London
Subject: Burlington gasoline price investigation

Hi, Susan. As I mentioned to you, I'm about to go to the North Carolina Attorney General's office to run their entire consumer protection division. My replacement on the Burlington gasoline price investigation is Sarah London. Her contact info is slondon@atg.state.vt.us . She is copied on this email.

Good luck on the investigation. I'm sure we'll cross paths again.
Thanks. -- Julie

After March 2:

Julie Brill
Senior Deputy Attorney General
Chief, North Carolina Consumer Protection Division jbrill@ncdoj.gov
919-716-6006

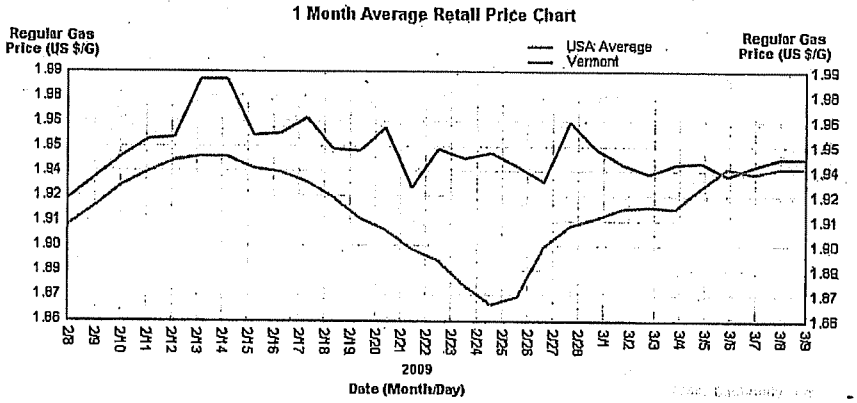
From: Michael Powers
Sent: Monday, March 09, 2009 9:43 AM
To: CONSUMER
Subject: gas prices 3-9-09
Attachments: 3-9-09.pdf

Michael Powers
Vermont Office of the Attorney General
109 State Street
Montpelier VT 05609-1001
(802) 828-0096
mpowers@atg.state.vt.us

Historical Price Charts

Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years

1 Month Average Retail Price Chart



Add these dynamic charts to your website

Customize price charts

Area 1: Vermont, VT | Time Period: 1 Month | US $/G | Create Chart

Area 2: USA Average | Show Crude Oil Price | Canadian c/L

Area 3:

Step One - Select a single city in order to identify price trends or to identify a historical price most accurately. Select multiple cities to compare prices between cities.

Step Two - Selection of time duration will define how long into history the prices will be displayed. In some cities only limited price history information is available and in those cases the line will be flat for extended periods.

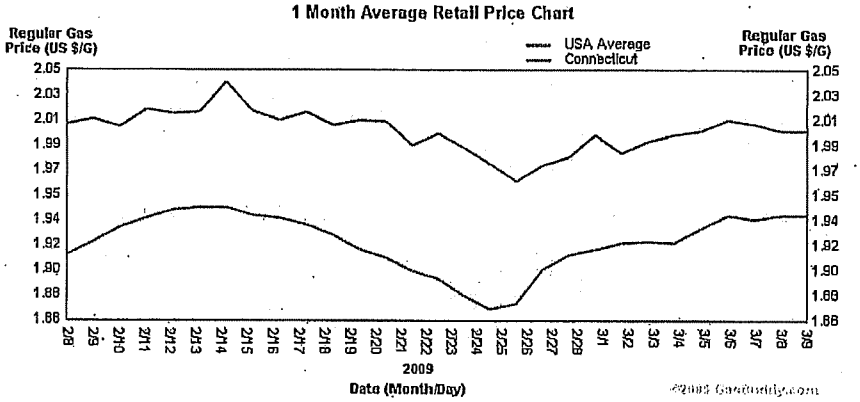
Step Three - When comparing US cities to Canadian cities you have a choice of price units. The standard unit of measure in the US is dollars per gallon and in Canada the standard is cents/liter. Comparison of US and Canadian cities is done using recent currency exchange rates and uses the conversion factor of 1 US gallon being equal to 3.78 liters. For simple plotting of US cities use dollars per gallon ($/G) and for simple plotting of Canadian cities use cents/liter (c/L).

Step Four - Click the "Create Chart!" button to create the chart.

"Consumers working together to save on gas"

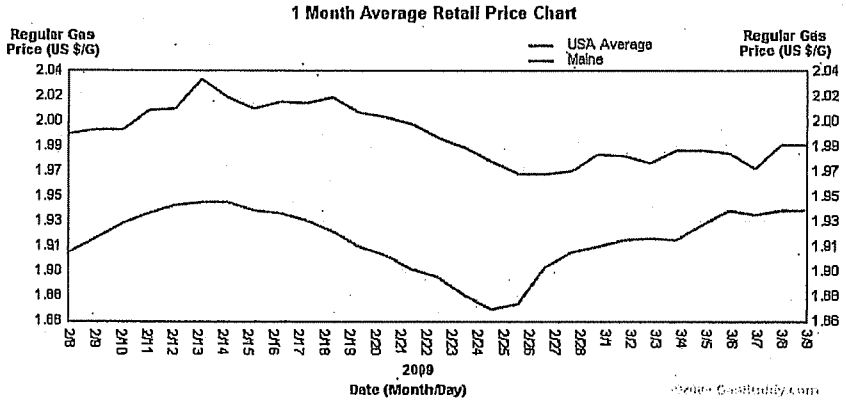
Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years

1 Month Average Retail Price Chart

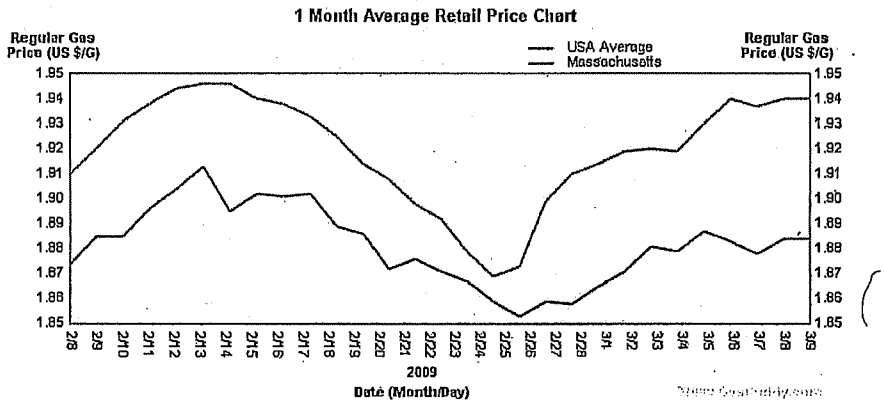


Add these dynamic charts to your website

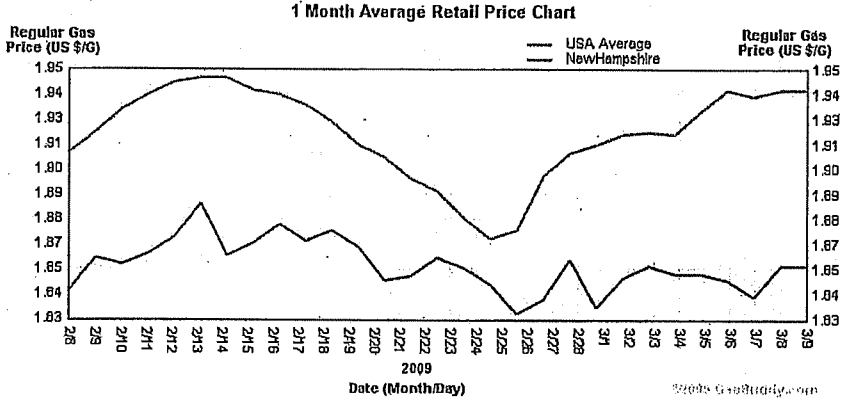
Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years



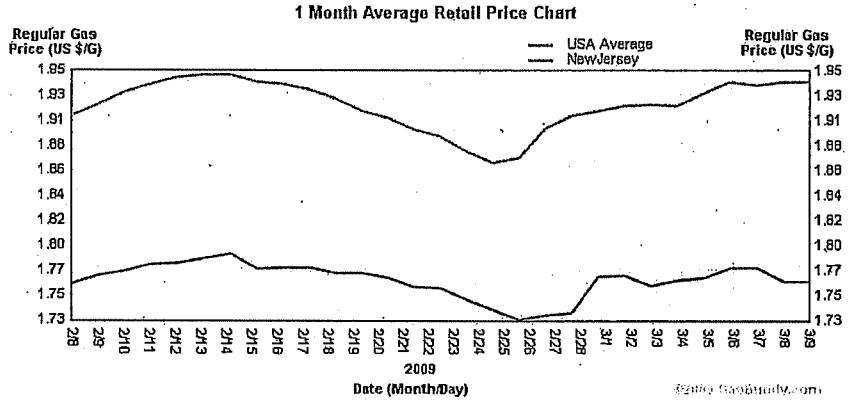
Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years



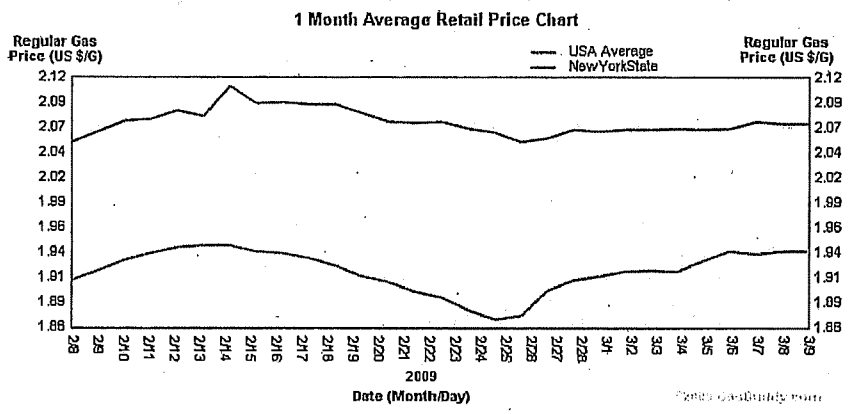
Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years



Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years



Quick charts: 1 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 month | 2 Years | 3 Years | 4 Years | 5 Years | 6 Years



From: Brill, Julie <jbrill@ftc.gov>
Sent: Friday, July 06, 2012 5:41 PM
To: Sorrell, Bill;Morgan, Wendy;Murnane, Janet
Subject: Letter to Sen. Sanders re: gas prices
Attachments: Letter to Sen. Sanders re gas prices.pdf

Hi, Bill, Janet and Wendy. Here is our response to Senator Sanders regarding Burlington gasoline prices. We consider this response "non-public". However, Senator Sanders' office has given us permission to share with you.

As always, please let me know if you want to chat about this.

Warmest regards, Julie

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

THE CHAIRMAN

July 6, 2012

The Honorable Bernard Sanders
United States Senate
Washington, D.C. 20510

Dear Senator Sanders:

I am pleased to respond to the letter of July 2, 2012, that you sent to Attorney General Holder and me concerning gasoline prices in the greater Burlington, Vermont, area. As your letter emphasizes – and as we discussed in our phone call on Monday – high gasoline prices are a source of serious concern for you and your constituents. We at the FTC are also very sensitive to the pain that high gasoline prices can cause for consumers, and we appreciate your steadfast vigilance on behalf of gasoline consumers in Vermont.

You observe that gasoline prices in the greater Burlington area "are substantially higher than in other parts of the state, New England, and similar areas throughout the country." You report that prices in Burlington and elsewhere in northwest Vermont are around 25 cents per gallon higher than in Middlebury, and that prices have fallen more slowly in Burlington than in other New England locales. You also note that statewide average gasoline prices are higher in Vermont than in New Hampshire – a price gap not explained by differences in state gasoline taxes. In addition, you ask how Burlington prices could be high relative to other areas when that city is the site of the only large gasoline storage and distribution facility in Vermont.

The FTC is constantly on alert to ensure that consumers in Vermont and throughout the United States are not subject to any conduct in the petroleum industry that violates the laws and rules that we enforce. The energy sector is one of our primary areas of law enforcement, and we work to detect and prevent any activities in the sector that may diminish competition and injure consumers. Indeed, that is the principal thrust of our ongoing investigation into whether illegal individual or cooperative conduct may have affected last year's crude oil and refined product pricing.

In that investigation – one of the latest chapters in the Commission's long history of closely scrutinizing and vigorously challenging mergers and nonmerger conduct in the petroleum industry – we have been using our compulsory process authority to investigate whether certain oil producers, refiners, transporters, marketers, physical or financial traders, or others have, among other things, engaged in anticompetitive or manipulative practices. This comprehensive

investigation focuses on a number of aspects of the industry, including utilization and maintenance decisions, inventory holding decisions, product supply decisions, product margins and profitability, and capital planning. We seek to determine whether any market participants may have violated the antitrust laws or the Commission's Prohibition of Energy Market Manipulation Rule, 16 C.F.R. Part 317.

In addition, the FTC staff monitors gasoline prices in Burlington, as it does in numerous areas throughout the United States. Our ten-years-running Gasoline and Diesel Price Monitoring Project tracks daily retail prices for gasoline and diesel fuel in approximately 360 cities across the nation and daily wholesale prices for those products in 20 major urban areas. The Price Monitoring Project shows that gasoline prices in northwest Vermont have been within their predicted range since January 2010 but have exceeded predicted levels during the last four weeks.[1] We have conferred with Vermont Attorney General William H. Sorrell regarding the situation. Staff is continuing to track gasoline pricing patterns in northwest Vermont and nearby areas.

The Commission shares your deep concern over the economic hardship consumers face when gasoline and other energy prices are high. Energy prices have an enormous effect on the entire United States economy and the well-being of all consumers; indeed, the bedrock nature of the energy sector is a major impetus behind the Commission's vigorous law enforcement role in this industry. Accordingly, the FTC does not hesitate to proceed against conduct that it has reason to believe is illegal. While FTC staff is hopeful that Burlington retail gasoline prices will soon be back in their predicted range, I can assure you that we exercise our statutory authorities to the fullest extent possible when we have indications of unlawful conduct.

Thank you again for bringing your concerns to my attention, and please let me know if we can be of further service in this or any other matter.

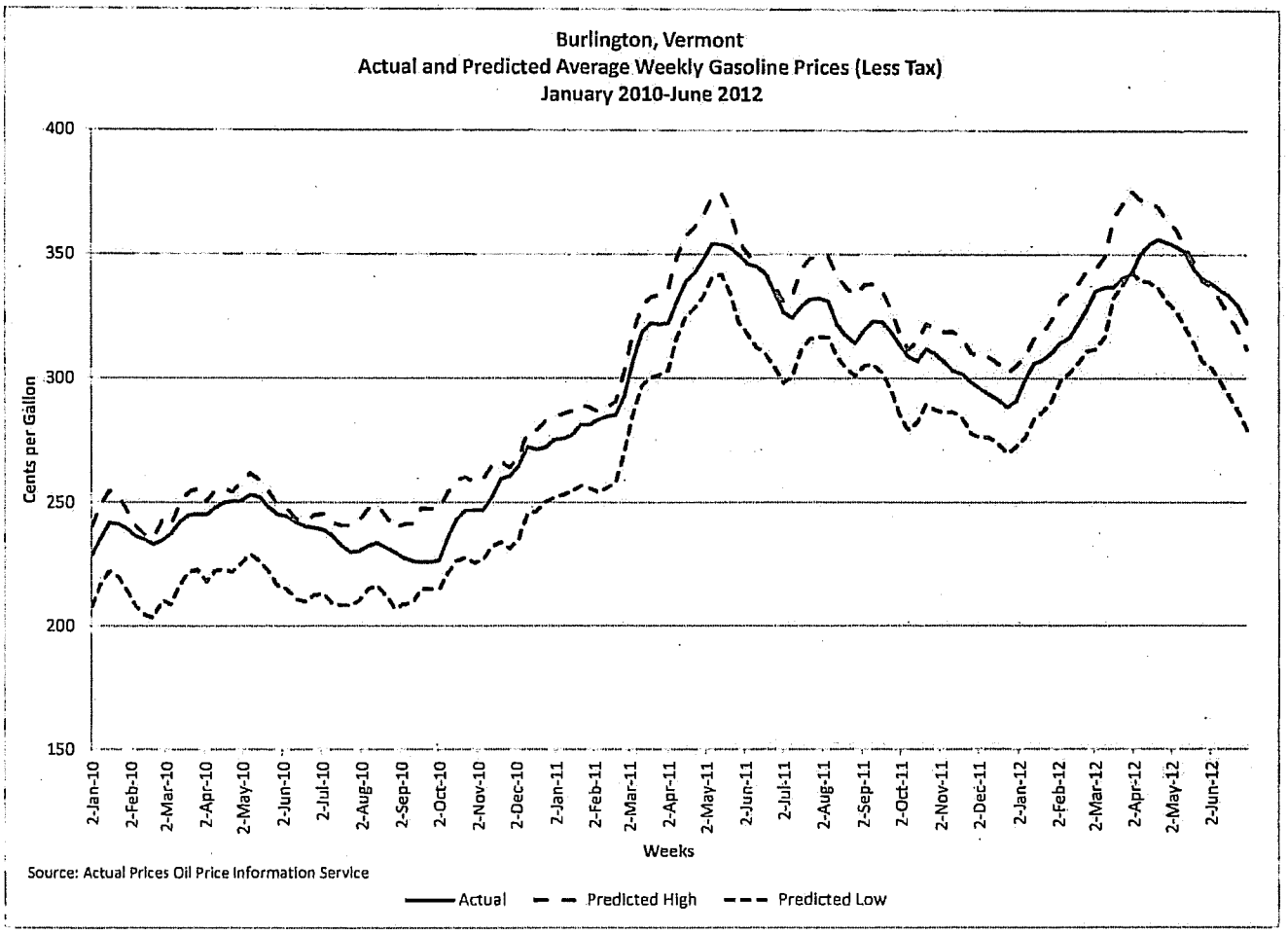
Sincerely,

Jon Leibowitz
Chairman

Enclosure

cc: The Honorable Eric H. Holder, Jr.
Attorney General of the United States

[1] Following a phone call with your staff on Tuesday, FTC staff provided your office with the enclosed graph of prices for regular grade gasoline in Burlington since January 2010.


Burlington, Vermont
Actual and Predicted Average Weekly Gasoline Prices (Less Tax)
January 2010-June 2012
Cents per Gallon
400
350
300
250
200
150
2-Jan-10
2-Feb-10
2-Mar-10
2-Apr-10
2-May-10
2-Jun-10
2-Jul-10
2-Aug-10
2-Sep-10
2-Oct-10
2-Nov-10
2-Dec-10
2-Jan-11
2-Feb-11
2-Mar-11
2-Apr-11
2-May-11
2-Jun-11
2-Jul-11
2-Aug-11
2-Sep-11
2-Oct-11
2-Nov-11
2-Dec-11
2-Jan-12
2-Feb-12
2-Mar-12
2-Apr-12
2-May-12
2-Jun-12
Weeks
Source: Actual Prices Oil Price Information Service
Actual
Predicted High
Predicted Low

From: Mitric, Janko (Sanders) <Janko_Mitric@sanders.senate.gov>
Sent: Monday, July 27, 2009 6:48 PM
To: Sarah London
Subject: RE: Antitrust issues in dairy industry

I have emailed my colleague Warren Gunnels (Warren_Gunnels@sanders.senate.gov) who works on these issues and I have asked him to send you a copy of the letter.

If you don't get it, please let me know.

janko

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Monday, July 27, 2009 5:53 PM
To: Mitric, Janko (Sanders)
Subject: RE: Antitrust issues in dairy industry

Thanks Janko. Again, we really appreciate Senator Sanders's work in this area.

I meant to ask – are you the person to ask re FTC letter to Senator Sanders regarding the recent investigation into gasoline prices in the Burlington area? My office was involved in this investigation, though I understand I must request the letter from your office. Can you send me a copy? Thanks very much.

We'll be in touch,
Sarah

From: Mitric, Janko (Sanders) [mailto:Janko_Mitric@sanders.senate.gov]
Sent: Monday, July 27, 2009 2:28 PM
To: Sarah London
Subject: RE: Antitrust issues in dairy industry

Great. I will try to reach you as close to 4 PM as possible.

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Monday, July 27, 2009 2:27 PM
To: Mitric, Janko (Sanders)
Subject: RE: Antitrust issues in dairy industry

I'm here until 5:30.

From: Mitric, Janko (Sanders) [mailto:Janko_Mitric@sanders.senate.gov]
Sent: Monday, July 27, 2009 2:21 PM
To: Sarah London
Subject: RE: Antitrust issues in dairy industry

I have a meeting at 3 but hope to be back by 4. How late can I call you?

Thanks - janko

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Monday, July 27, 2009 2:20 PM
To: Mitric, Janko (Sanders)
Subject: RE: Antitrust issues in dairy industry

I'll be available by phone at 4pm. 802-828-1106 is my direct line. That work for you? Thanks.

From: Mitric, Janko (Sanders) [mailto:Janko_Mitric@sanders.senate.gov]
Sent: Monday, July 27, 2009 12:44 PM
To: Sarah London
Subject: RE: Antitrust issues in dairy industry

Hello Sarah – what is a good time to chat today?

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Tuesday, July 21, 2009 3:11 PM
To: Mitric, Janko (Sanders)
Subject: RE: Antitrust issues in dairy industry

Sounds good, thanks Janko.

From: Mitric, Janko (Sanders) [mailto:Janko_Mitric@sanders.senate.gov]
Sent: Tuesday, July 21, 2009 1:18 PM
To: Sarah London
Subject: RE: Antitrust issues in dairy industry

Thanks for your email Sarah. Yes, let's connect over the phone. Let me look at a few times and get right back to you.

janko

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Tuesday, July 21, 2009 11:41 AM
To: Mitric, Janko (Sanders)
Subject: Antitrust issues in dairy industry

Hello Janko,
I seem to have gotten your email address wrong yesterday, please let me know if you receive this.

I understand you are the contact for Senator Sanders's antitrust work/concerns regarding Dean Foods, among others.

As you may know, our Commissioner of Agriculture and our legislature have asked my office to look into Capper Volstead issues in this area. I would love to touch base and get a sense of where things are with you – and DOJ, if you know.

Just let me know what's convenient for you in terms of speaking by phone. I am in all week.

Thanks,
Sarah

Sarah London
Assistant Attorney General

Vermont Attorney General's Office
Public Protection Division
109 State Street
Montpelier, VT 05609-1001
ph: (802) 828-5479
fax: (802) 828-2154

From: Gunnels, Warren (Sanders) <Warren_Gunnels@sanders.senate.gov>
Sent: Wednesday, August 12, 2009 10:35 AM
To: Sarah London
Subject: RE: Gasoline Price Investigation

Thanks Sarah!

Warren Gunnels
Senior Policy Advisor
Sen. Bernie Sanders
202-228-6358 (Direct)
www.sanders.senate.gov

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Wednesday, August 12, 2009 10:25 AM
To: Gunnels, Warren (Sanders)
Subject: RE: Gasoline Price Investigation

Thanks very much Warren. I received your voice message and left you a voice message in response.

Thanks again for forwarding,
Sarah

From: Gunnels, Warren (Sanders) [mailto:Warren_Gunnels@sanders.senate.gov]
Sent: Tuesday, August 11, 2009 3:05 PM
To: Sarah London
Subject: RE: Gasoline Price Investigation

Sarah,

Thanks for the e-mail.

I have attached the FTC letter and the accompanying tables.

While the FTC concluded that no illegal activity was responsible for the unusually high gas prices in Burlington during the fall and winter of 2008, they did find that VT has the highest retail to rack margins in the country. Have you looked into this? Thanks again.

Warren Gunnels
Senior Policy Advisor
Sen. Bernie Sanders
202-228-6358 (Direct)
www.sanders.senate.gov

From: Sarah London [mailto:slondon@atg.state.vt.us]
Sent: Tuesday, August 11, 2009 9:13 AM
To: Gunnels, Warren (Sanders)
Subject: Gasoline Price Investigation

Hello Warren,

Janko Mitric had said you would be able to send me a copy of the FTC letter to Senator Sanders regarding the joint antitrust investigation of gasoline prices in the Burlington area. (The FTC's position is that I can only get this letter from your office.)

Can you please email or mail me a copy? Please let me know if you need more information. Thanks very much,
Sarah

Sarah London
Assistant Attorney General
Vermont Attorney General's Office
Public Protection Division
109 State Street
Montpelier, VT 05609-1001
ph: (802) 828-5479
fax: (802) 828-2154

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

THE CHAIRMAN

July 9, 2009

The Honorable Bernard Sanders
United States Senate
Washington, D.C. 20510-4705

Dear Senator Sanders:

You requested a public report on the Federal Trade Commission's investigation into the possible reasons that gasoline prices in Burlington, Vermont, did not decline as quickly as prices in other cities during the late fall and early winter of 2008. Thank you for bringing this important issue to the Commission's attention.[1]

I share your concern about the impact of high gasoline prices on the day-to-day life of consumers and understand the frustration and hardship that are created when those prices rise significantly above those in surrounding areas without any obvious market explanation, as occurred in this instance. As I explained at our meeting of June 24, 2009, such situations receive the Commission's closest attention, and FTC staff conducted a careful and extensive investigation of this issue, including interviews with a number of market participants. The staff has concluded this review and did not find any evidence of illegal activity in gasoline markets in the Burlington area. This letter describes the scope of the investigation and summarizes the findings of Commission staff, subject to the Commission's obligations not to disclose confidential information.[2]

The Commission's ongoing Gasoline and Diesel Price Monitoring Project[3] identified retail gasoline prices significantly above predicted values in Burlington, and in some Western New York cities, during the fall and early winter of 2008. In response to these observations and to your request, Commission staff conducted an analysis of retail gasoline prices in Burlington and Western New York (1) to confirm that prices in those markets were unusually high relative to other areas; and (2) once confirmed, to investigate possible illegal or other reasons for the observed prices.

---

[1] Commission staff received your request for an investigation during a telephone conversation last fall.

[2] *See, e.g.*, 15 U.S.C. §§ 46(f), 57b-2; 16 C.F.R. § 4.11.

[3] The Gasoline and Diesel Price Monitoring Project is described at http://www.ftc.gov/ftc/oilgas/gas_price.htm.

include evidence that price levels during the time period under investigation followed a pattern that was inconsistent with patterns in other periods.

Commission staff and attorneys from the offices of the Vermont and New York Attorneys General interviewed more than 20 companies involved in these markets, including refiners, refined products pipeline operators, terminal operators, marketers, distributors, and retail gas station owners. The staff also purchased retail and wholesale price data from the Oil Price Information Service and obtained other relevant data from public sources, and used those data to analyze wholesale and retail price differentials between Burlington and Western New York communities in different time periods. This analysis included an examination of the range of prices at different retail stations in the affected areas last fall relative to other periods, as well as measurement of how quickly prices stabilize relative to each other.

The staff investigation showed that no company possessed a monopoly share of any retail gasoline market in Burlington or Western New York, nor was any company large enough to effectively attempt to create a monopoly through illegal means. Further, the staff identified no unfair method of competition that any company or group of companies employed to cause the observed price levels last fall, nor any evidence of such activity. Accordingly, the investigation focused on the only remaining plausible theory of illegal behavior that could explain the unusually high prices last fall – that companies in Burlington and Western New York might have engaged in collusion.

In Burlington – as well as in each of the Western New York cities that the staff examined – many companies set prices at retail gas stations, and no single station owner or group of owners controls a large share of the volumes sold in any of those cities. This is the type of setting in which collusion is difficult to achieve and maintain.[7] For example, the staff discovered that numerous firms in the affected cities contract with brand-name companies to sell branded gasoline while independently setting their own retail prices. Thus, even though only a limited number of brands of gasoline are sold in some of the affected cities, it is unlikely that major

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[7] It becomes increasingly difficult to achieve and maintain successful collusion as the number of parties increases within a collusive group. By way of illustration, the Federal Trade Commission and U.S. Department of Justice Horizontal Merger Guidelines state:

> If collective action is necessary for the exercise of market power, as the number of firms necessary to control a given percentage of total supply *decreases*, the difficulties and costs of reaching and enforcing an understanding with respect to the control of that supply might be *reduced*.

§ 2.0 (emphasis added). Consistent with the principle that an increase in the number of participating firms raises the hurdles to successful collusion, the Merger Guidelines presume that ten firms of equal size would be unlikely to collude successfully (although there are exceptions).

Again, thank you for bringing this matter to the Commission's attention. The maintenance of free and fair competition in our gasoline markets is of critical importance to the Commission and to consumers, and your ongoing vigilance is greatly appreciated.

Sincerely,

Jon Leibowitz
Chairman

Table 6	Comparative Price Spreads	Recent minimum-maximum price spreads in Vermont communities were between 7 to 11 cpg. These data suggest a recent price spread of about 21 cpg across the state. These price spreads are not large compared to communities in other states.
Figure 1	Burlington VT, Average Weekly Price vs Predicted Range, Jan 2008 to June 2009	Figure shows actual average Burlington VT retail prices and range of expected prices as predicted by the FTC Gas Price Monitoring Model. Burlington prices exceeded the predicted high for the week of October 18 and returned within range on December 6. Prices fell consistently through the period, but not as fast as predicted.
Figure 2	Burlington VT MSA Weekly Dispersion of Retail Prices as Measured by Standard Deviation and Interquartile Range.	During Fall 2008 both measures of price differences among gasoline stations increased. Increased disparity among Burlington stations, combined with consistently falling prices over the period, not suggestive of collusion.

Table 2.

Average Annual Rack Prices, Conventional, Regular Grade Gasoline, Ranked Highest to Lowest (cents per gallon)

2006		2007		2008	
AK	220.50	AK	234.70	AK	323.00
NV	217.90	NV	230.30	ID	269.40
NM	205.00	NM	225.90	NV	267.30
AZ	204.60	OR	224.80	NM	266.60
OR	204.40	ND	224.10	OR	263.80
WA	203.20	SD	223.90	WY	261.10
CO	201.40	IA	222.80	MD	260.80
WY	200.50	WY	222.60	UT	260.80
ID	200.10	ID	222.40	MT	259.80
IA	199.10	NE	222.30	VA	259.60
SD	196.70	MT	222.00	MO	259.30
ND	196.40	WA	221.50	AZ	258.80
NE	195.80	CO	220.90	KY	258.70
WI	195.80	AZ	220.50	CO	258.60
UT	195.60	KS	219.80	WA	258.40
MT	195.50	OK	219.70	OH	258.20
MO	194.30	UT	218.80	AL	257.20
IL	193.40	MI	218.40	FL	257.10
KS	193.40	WI	218.30	GA	256.90
ME	193.10	OH	217.30	TX	256.90
VT	192.70	MO	216.90	VT	256.50
IN	192.20	ME	216.30	IA	256.50
KY	192.10	IN	216.10	SC	256.00
GA	192.00	IL	215.60	ND	256.00
TX	191.70	KY	215.20	SD	255.90
MI	190.90	VT	214.80	WV	255.80
FL	190.80	WV	214.30	NC	255.60
SC	190.70	AR	213.70	IN	255.30
NY	190.60	GA	213.50	ME	255.00
WV	190.40	TX	213.20	NY	254.80
AL	190.40	AL	213.10	MI	254.60
TN	190.20	NY	212.70	AR	254.40
MD	190.10	FL	212.50	TN	253.70
NC	190.10	PA	212.10	IL	253.30
AR	190.10	SC	211.60	PA	253.10
OH	190.00	TN	211.50	WI	252.70
VA	189.30	NC	211.40	OK	252.50
MS	189.00	VA	211.00	MS	252.50
LA	188.90	MS	209.90	LA	252.00
OK	188.70	LA	209.60	NE	251.80
PA	187.80	MD	208.40	KS	243.50
US	192.50	US	215.50	US	256.30
Max	220.50		234.70		323.00
Min	187.80		208.40		243.50
Diff	32.70		26.30		79.50

Source: Energy Information Administration (EIA), Petroleum Navigator, Refiner, Reseller, and Retailer Prices; Gasoline Prices by Formulation, Grade, Sales Type; Rack
http://tonto.eia.doe.gov/dnav/pet/pet_pri_allmg_d_nus_PRA_cpgal_m.htm

Table 4.

State Tax Rankings

State	State and Fed Tax	Tax Rank
New York	$0.609	1
California	$0.583	2
Washington	$0.559	3
Connecticut	$0.548	4
Florida	$0.529	5
Illinois	$0.522	6
Hawaii	$0.520	7
Nevada	$0.515	8
Wisconsin	$0.513	9
Pennsylvania	$0.507	10
West Virginia	$0.506	11
Rhode Island	$0.494	12
Michigan	$0.493	13
North Carolina	$0.486	14
Maine	$0.483	15
Indiana	$0.481	16
Ohio	$0.464	17
Montana	$0.462	18
Nebraska	$0.457	19
Minnesota	$0.440	20
Oregon	$0.434	21
Kansas	$0.434	21
Idaho	$0.434	21
Utah	$0.429	24
South Dakota	$0.424	25
Maryland	$0.419	26
Massachusetts	$0.419	26
North Dakota	$0.414	28
Delaware	$0.414	28
Kentucky	$0.409	30
Iowa	$0.404	31
Colorado	$0.404	31
Arkansas	$0.402	33
Tennessee	$0.398	34
Alabama	$0.393	35
District of Columbia	$0.384	36
Vermont	**$0.384**	**36**
Louisiana	$0.384	36
Texas	$0.384	36
New Hampshire	$0.380	40
Virginia	$0.375	41
Arizona	$0.374	42
New Mexico	$0.372	43
Mississippi	$0.372	43
Missouri	$0.357	45
Oklahoma	$0.354	46
South Carolina	$0.352	47
New Jersey	$0.329	48
Wyoming	$0.324	49
Georgia	$0.308	50
Alaska	$0.184	51

http://www.fuelgaugereport.com/sbsavg.asp
Prices updated: 3/10/2009 3:06:42 AM

U.S. average **$0.432**

Table 6.

Comparative Price Spreads (cents per gallon)

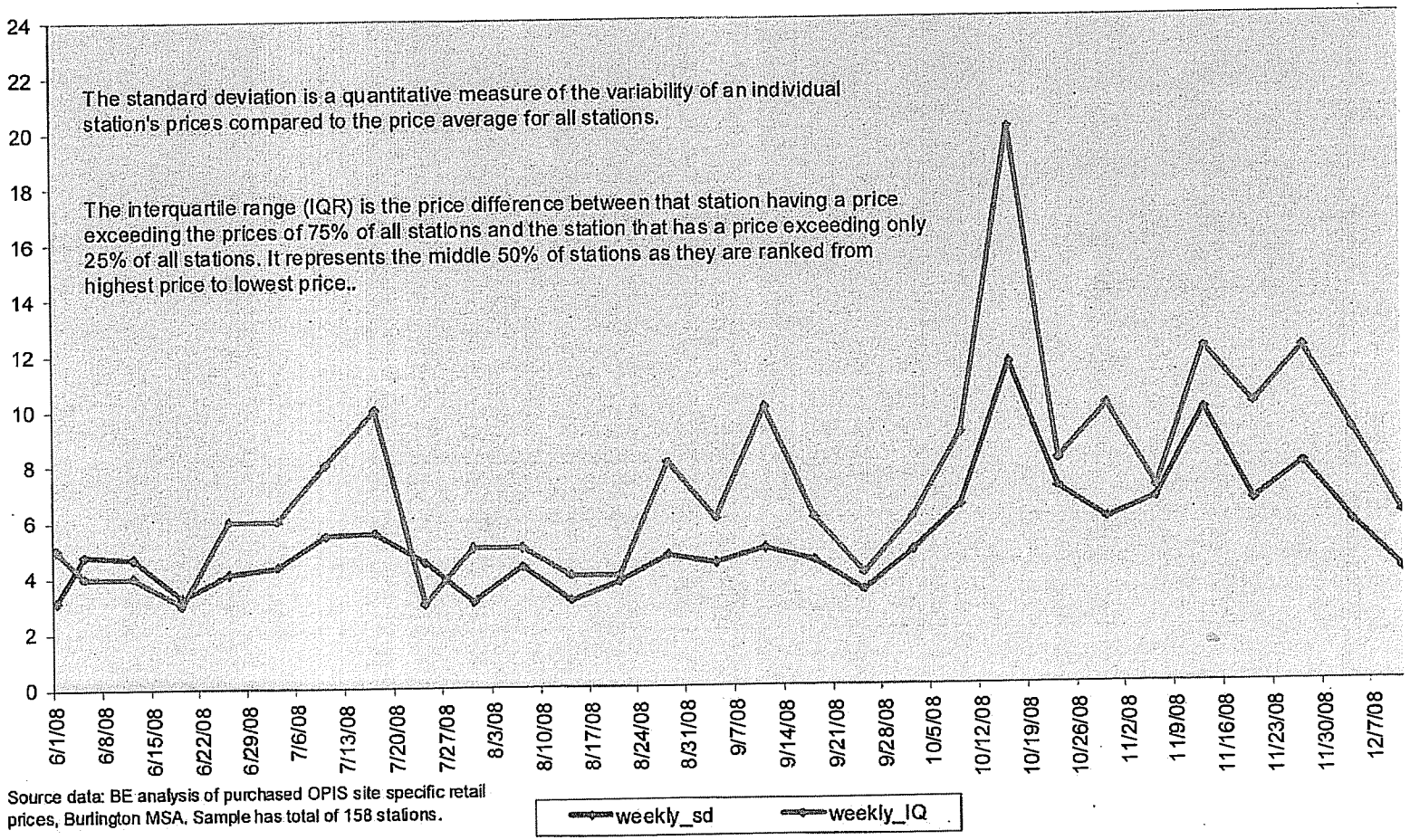
City	Spread (max - min)
Burlington, VT	7.0
Lyndonville, VT	11.0
Newport, VT	8.0
Rutland, VT	7.0
Across All Above Communities	21.0
North Adams, MA	7.0
Pittsfield, MA	12.0
Springfield, MA	21.0
Boston, MA	53.0
Brockton, MA	34.0
Lowell, MA	12.0
New Bedford, MA	32.0
Worcester, MA	22.0

Vermont retail prices including taxes are from a self-reporting web site;
Regular gas prices during the last 48 hours, accessed on 06/24/09
http://www.gasbuddy.com/Gas_Prices/Vermont/index.aspx

North Adams, Pittsfield, Springfield retail prices derived from OPIS data in 2008; Average spreads reflect retail prices from December 2006 through February 2008.

Boston, Brockton, Lowell, New Bedford and Worcester retail prices derived from OPIS data; Average spreads reflect retail prices for the week ending August 20, 2005.

Figure 2. Burlington, VT MSA
Weekly Dispersion of Retail Prices: Measured by Standard Deviation and Interquartile Range
June - Dec 2008



Source data: BE analysis of purchased OPIS site specific retail prices, Burlington MSA. Sample has total of 158 stations.

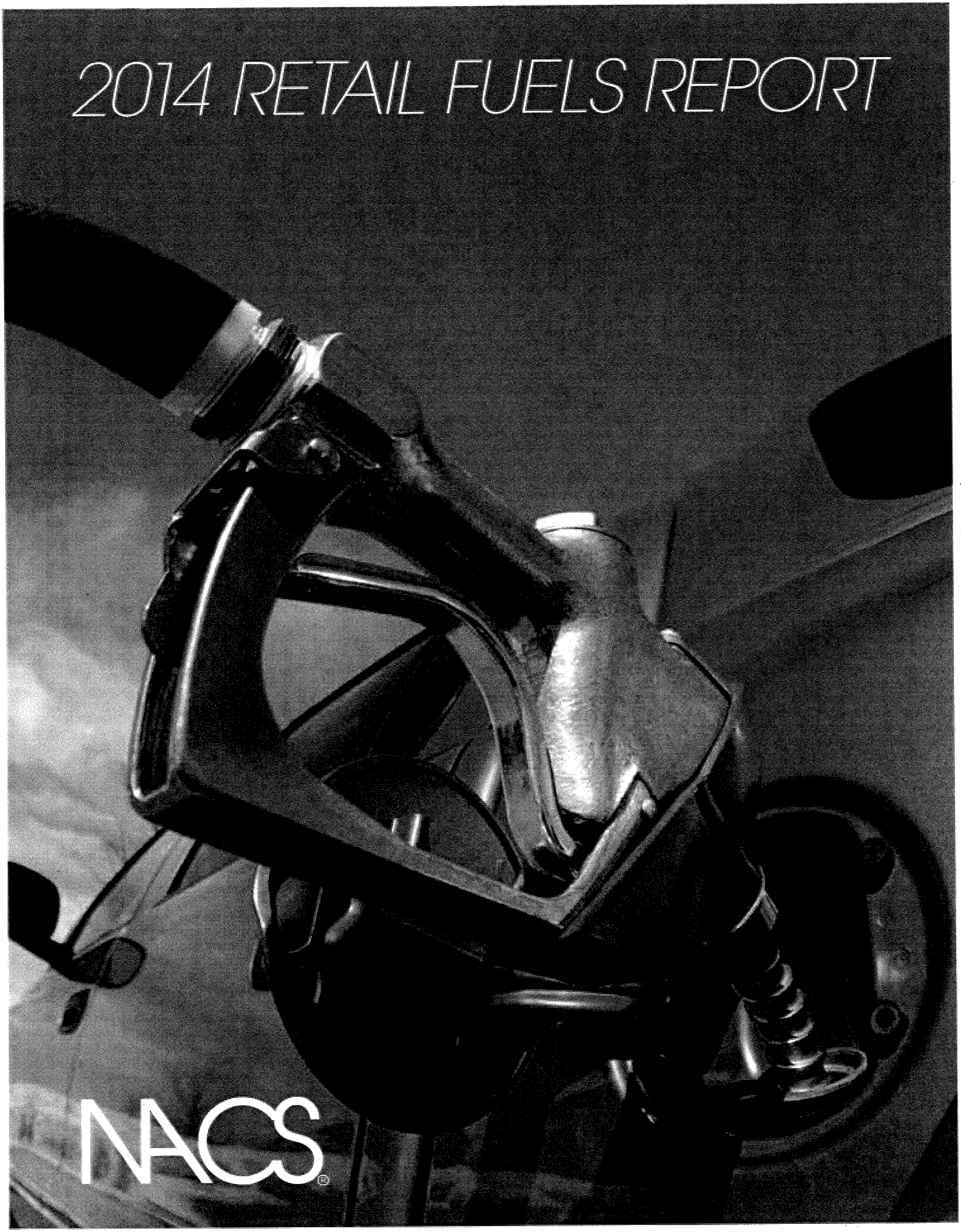
From: Powers, Michael
Sent: Thursday, February 19, 2015 3:43 PM
To: Morgan, Wendy
Subject: RE: NaCSonline.com
Attachments: 2014NACSFuelsReport_full.pdf

Still checking. Will pass along anything else found.

From: Morgan, Wendy
Sent: Thursday, February 19, 2015 3:18 PM
To: Powers, Michael
Cc: Abrams, Jill
Subject: NaCSonline.com

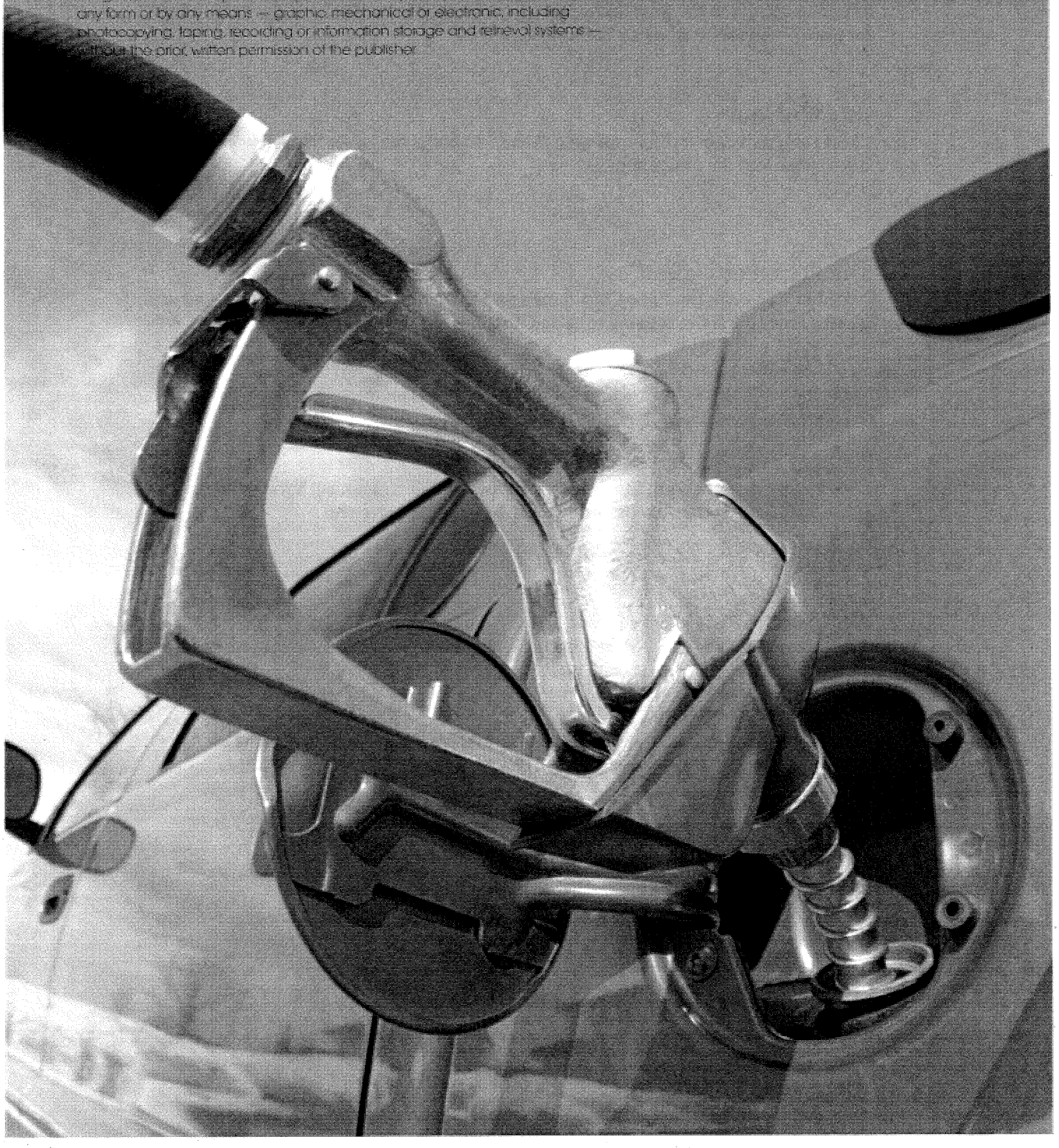
I heard today that the website of the national Association of Convenience Stores has a good description of the various relationships a convenience store might get into to sell motor fuel – could you find it for me? just didn't pop out at the site above . . thanks

2014 RETAIL FUELS REPORT



NACS®

2014 RETAIL FUELS REPORT



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MORE INFORMATION:

GRAPHICS:

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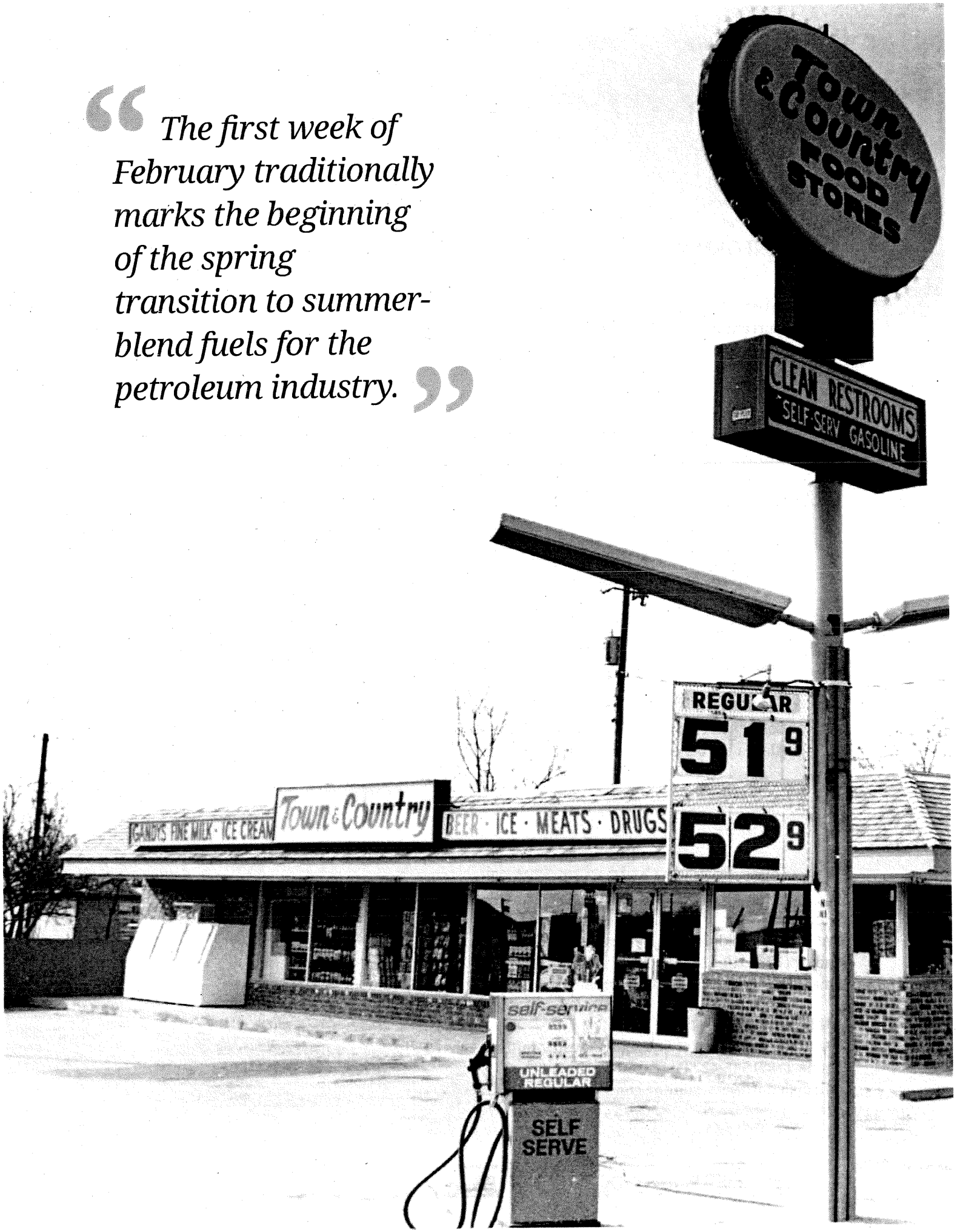
"The first week of February traditionally marks the beginning of the spring transition to summer-blend fuels for the petroleum industry."



Introduction

About 40 million Americans fill up their gas tanks on a daily basis, oftentimes searching for a good price and convenient location. But when gas prices increase, consumers often express frustration. Because U.S. convenience stores sell an estimated 80% of the gasoline purchased, NACS wants to demystify how the market works — from the time crude oil is extracted from the ground to when fuel flows into a consumer's gas tank.

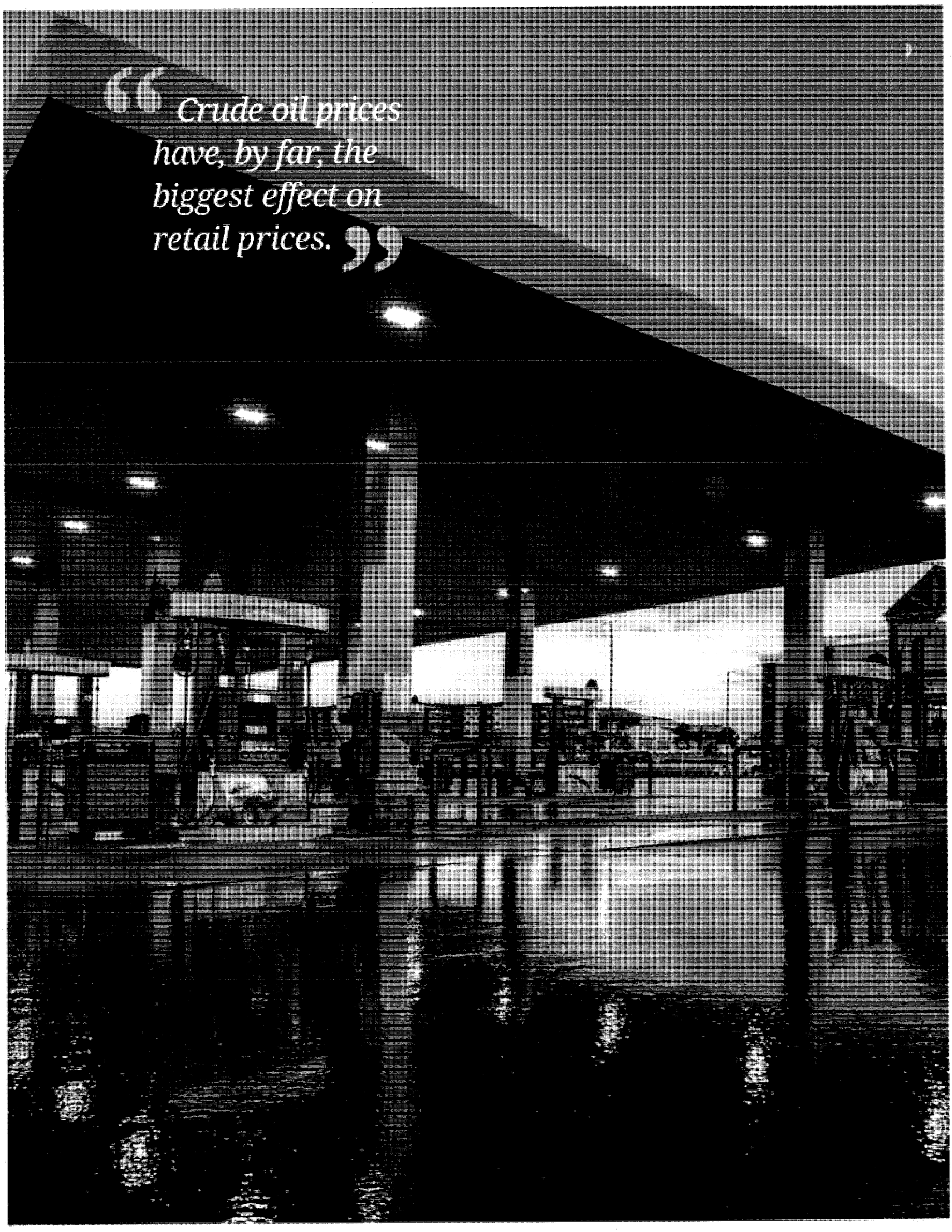
This year's report continues our tradition of providing a fact-based analysis of market dynamics to explain how gas is sold and the composition of the retail fuels industry. This resource is updated throughout the year, with monthly consumer survey data and new backgrounders featured at nacsonline.com/gasprices.

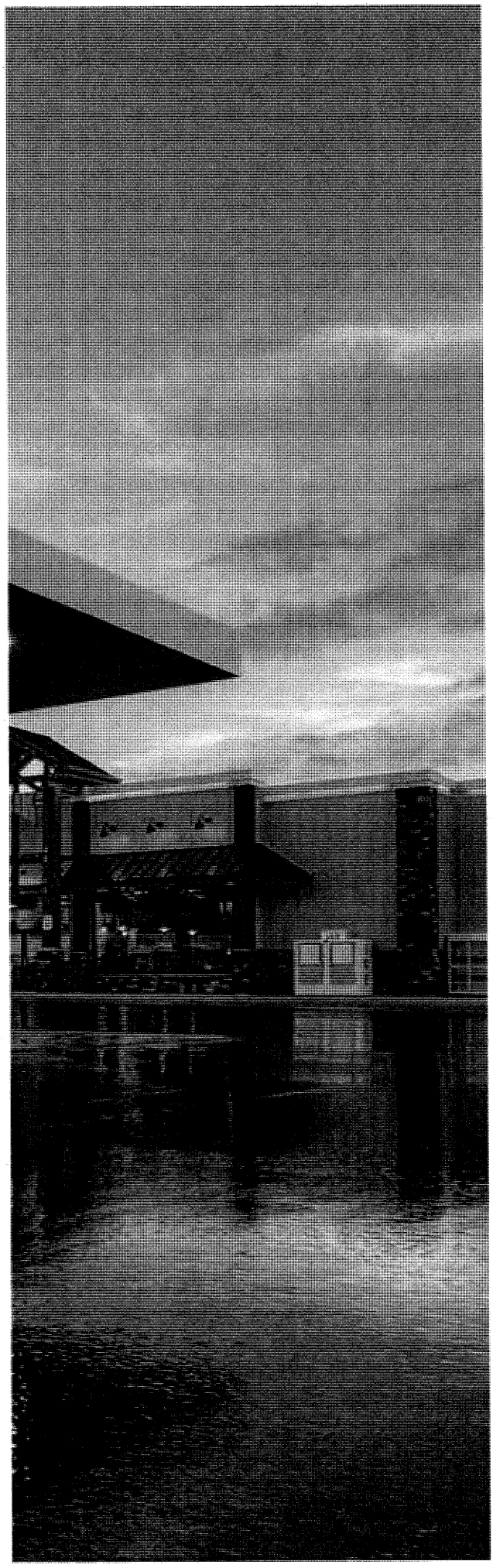
For more than a decade, NACS has timed the launch of this resource to occur in early February. The reason is simple: The first week of February traditionally marks the beginning of the spring transition to summer-blend fuels for the petroleum industry. Since 2000, gasoline prices have increased, on average, more than 50 cents between the first week in February and the time of the seasonal high price, typically in late May. While the circumstances may be different year-to-year, the overall pattern in the petroleum markets is surprisingly familiar.

In this report, we have incorporated the most current data on the fuel retailing industry as of late January 2014. For NACS-specific data, we have used 2012 NACS State of the Industry data.

It is difficult, if not impossible, to predict where crude oil or gasoline prices will go. There are simply too many variables that could influence the supply and demand of fuel, whether they are hurricanes or other natural disasters or refinery shutdowns. But these resources can help facilitate an open discussion about the issues impacting supply — and prices — through a better understanding of the retail fuels markets and help ease frustrations that consumers often experience when gasoline prices increase.

And, most importantly, we hope these resources can help provide insights and expertise on discussions that address the U.S. motor fuels industry.


“Crude oil prices have, by far, the biggest effect on retail prices.”



The Price Per Gallon

Retail gasoline prices are among the most recognizable price points in American commerce, yet they are among the least understood. Here is a primer on what goes into the price of a gallon of gasoline, and what causes prices to go up or down and vary from store to store.

Ownership and Supply Arrangements

Unlike a few decades ago, when the major oil companies owned and operated a significant percentage of retail fueling locations, less than 0.4% of all convenience stores selling fuels today are owned by one of the major oil companies. About another 4% are owned by a refining company. Instead, the vast majority — about 95% of stores — are owned by independent companies, whether one-store operators or regional chains. Each of these companies has different strategies and/or strengths in operations, which can dictate the type of fuel that they buy and how they sell it.

There are four broad factors that can impact retail prices:

- *FUEL TYPE:* Typically, stores that sell fuel under the brand name of a refiner pay a premium for that fuel, which covers marketing support and signage, as well as the proprietary fuel's additive package. These branded stores also tend to face less wholesale price volatility when there are supply disruptions.
- *DELIVERY METHOD:* Retailers who purchase fuels via "dealer tank wagon" have the fuel delivered directly to the station by the refiner. They may pay a higher price than those who receive their fuels at "the rack" or terminal. In addition, a retailer may contract with a jobber to deliver the fuel to his stations or operate his own trucks — the choice will influence his overall cost.

- *LENGTH OF CONTRACT:* Even if they sell unbranded fuels, retailers may have long-term contracts with a specific refiner. The length of the contract — which can be 10 years, sometimes longer — and associated terms of that contract can affect the price that retailers pay for fuels.

- *VOLUME:* As in virtually every other business, retailers may get a better deal based on the amount of fuels that they purchase, whether based on volume per store or total number of stores.

Even within a specific company, stores may not each have the same arrangements, since companies often sell multiple brands of fuels, especially if they have acquired sites with existing supply contracts.

Crude Oil's Affect on Gas Prices

No matter who owns the station, retail fuels prices are ultimately affected by four sets of costs: crude oil costs, taxes, refining costs and distribution and marketing (which accounts for all costs after the fuel leaves the refinery).

Crude oil prices have, by far, the biggest effect on retail prices. Crude oil costs are responsible for about two-thirds of the cost of a gallon of gasoline. In 2013, crude oil costs were 68% of the retail price of gasoline. While there may be slight variations in the costs of refining or distributing and retailing fuels, crude oil prices can experience huge swings.

Given there are 42 gallons in a barrel, a rough calculation is that retail prices ultimately move approximately 2.4 cents per gallon for every $1 change in the price of a barrel of crude oil. While this is not an exact calculation and ignores a variety of influencing factors, it helps demonstrate that as crude prices change, so does the price of retail gasoline.

Taxes are largely per gallon, although some areas have sales taxes on fuels, and those taxes increase as the price increases. There sometimes are significant tax disparities between stations located in the same market area but in different cities, countries or states. For instance, New Jersey has a gasoline tax of 32.9 cents per gallon, while neighboring New York's gas tax is 68.0 cents per gallon.

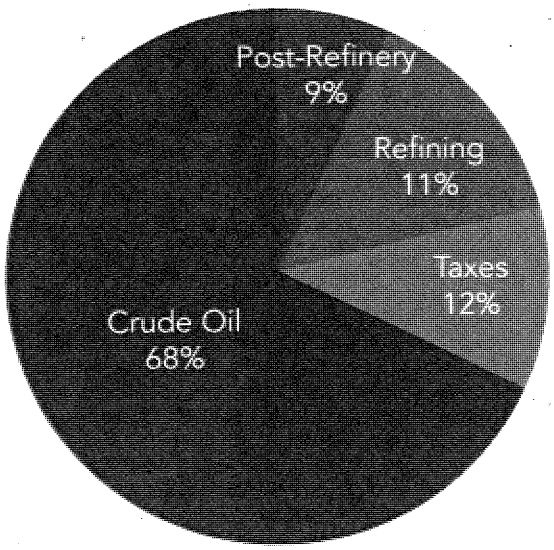
Sales Strategies Impact Gas Prices

Fuel retailers face the same question that all retailers face: sell at a low profit per unit and make up for it on volume, or sell at a higher profit per unit and expect less volume?

But there also are many more complications in setting fuel prices that retailers of other products don't face.

- *WHOLESALE PRICE CHANGES:* Gasoline is a commodity, and its wholesale price can have wild swings. It's not unusual to see wholesale price swings of 10 cents or more in a given day. Competing retailers in a given area may have very different wholesale prices based on *when* they purchased their fuel, especially during times of extreme price volatility. Depending on sales volumes and storage capacity, retailers get as many as three deliveries a day or as few as one delivery every three days. Due to competition for consumers, retailers may not be able to adjust their prices in response to an increase in wholesale prices because their competition may not have incurred a similar increase in their cost of goods sold. Conversely, a retailer may adjust his prices when the competition adjusts prices, either following or in advance of a shipment.

Costs in a gallon of gasoline



(Source: U.S. Energy Information Administration, cumulative 2013 monthly averages)

(Figures do not add up to 100% because of rounding.)

- ***CONTRACTS:*** Retailers sign long-term contracts (10 years is the norm) and these contracts may dictate the amount and frequency of their shipments. When supplies are tight, retailers with long-term contracts may have lower wholesale costs than retailers who compete for a limited supply on the open market, but they may also face allocations (a maximum amount of fuel that they may obtain) on the amount of fuel they receive. *How* retailers buy fuel can play a significant role in pricing strategy.
- ***BRAND:*** Branded retailers often pay a premium for fuel in exchange for marketing support, imaging and other benefits. Branded retailers typically have the least choice in how they obtain fuel, or at what price, but that is offset by the many benefits that a brand provides. *From whom* retailers buy fuel ultimately affects pricing strategies.

Each of these factors adds complexity to a retailer's pricing strategy, and they can create unusual market dynamics. There are times when the retailer with the highest posted price in a given area actually may be making the least per gallon, based on when, how and where the fuel was purchased.

No matter what their pricing strategy, retailers tend to reduce their markup to remain competitive with nearby stores when their wholesale gas prices go up. This can lead to a several-day lag from the time wholesale prices rise until retail prices rise. Likewise, when wholesale gas prices go down, retailers may be able to extend their markup and recover lost profits, with retail gas prices dropping slower than wholesale prices.

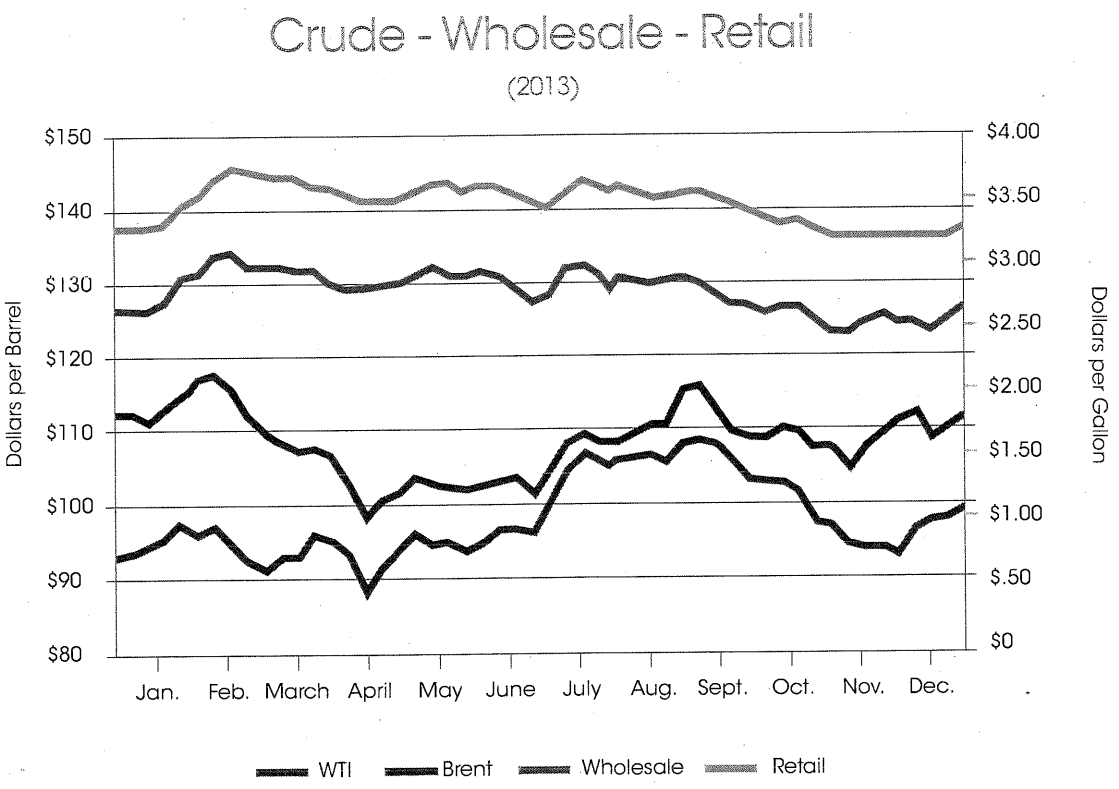
Despite extreme volatility, retail margins for fuel are fairly consistent on an annual basis. Over the past five years, the retail mark-up (the difference between retail price and wholesale cost) has averaged 17.1 cents per gallon.

Ultimately, retailers set a price that best balances their need to cover their costs with the need to remain competitive and attract consumers, who are very price sensitive and will shop somewhere else for a difference of a few cents per gallon.

Retail Profitability Measured Over Time

The pattern of retail profitability is the opposite of what most consumers think. Due to the volatility in the wholesale price of gasoline and the competitive structure of the market, fuel retailers typically see profitability decrease as prices rise, and increase when prices fall. On average, it costs a retailer about 12 to 16 cents to sell a gallon of gasoline. Using the five-year average markup of 17.1 cents, the typical retailer averages about 3 cents per gallon in profit. (Retailer costs to sell fuel include credit card fees, utilities, rent and amortization of equipment.)

Wholesale and retail gasoline prices track oil prices

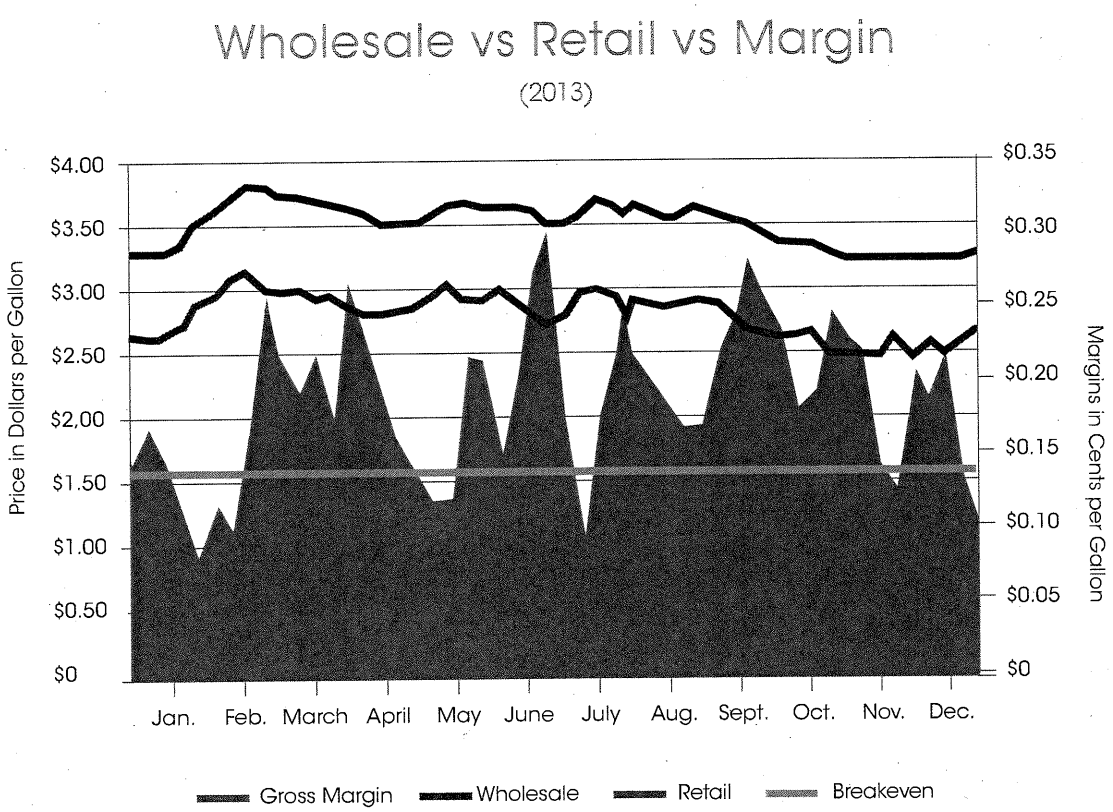


(Sources: U.S. Energy Information Administration; "OPIS "Retail Fuel Watch")

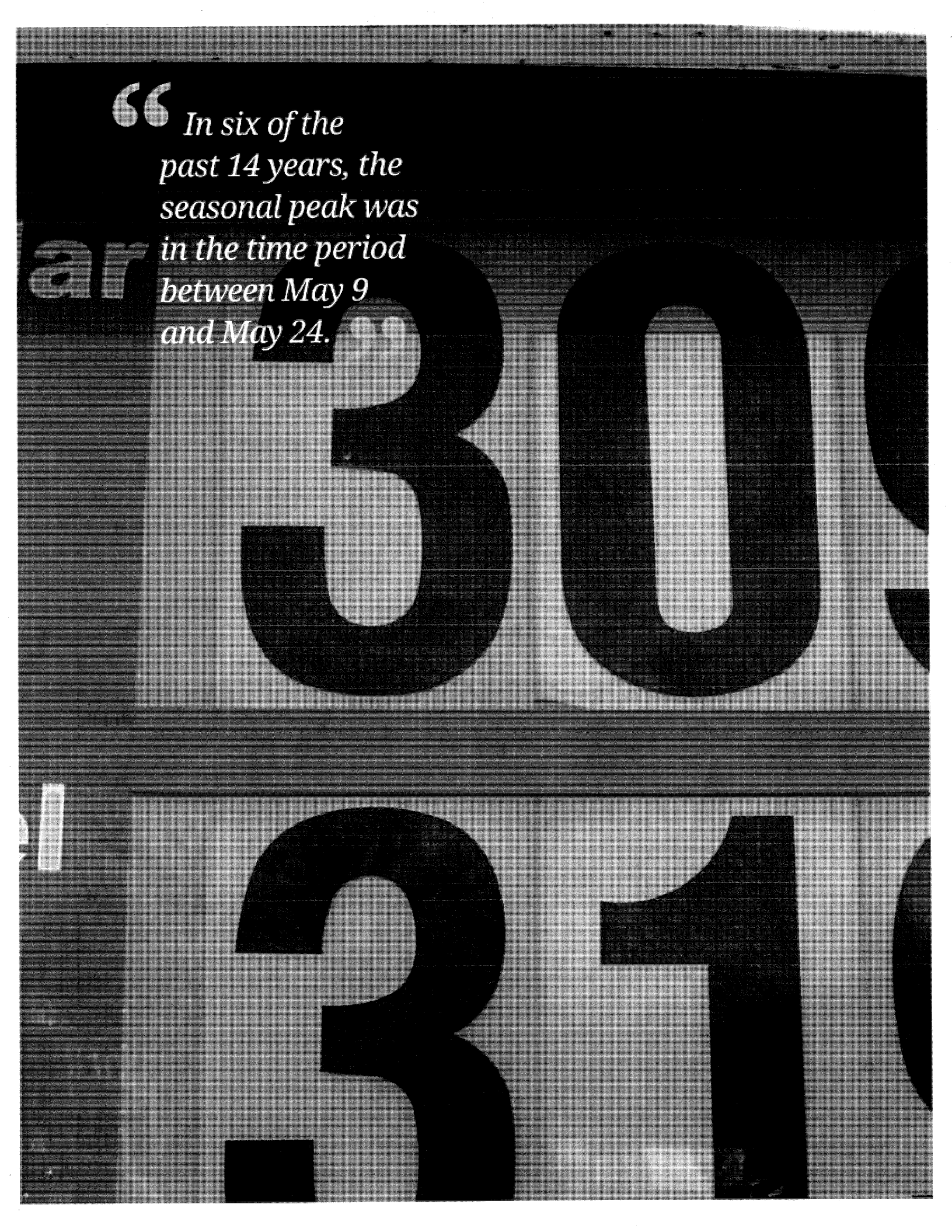
Over the course of a year, retail profits (or even losses) on fuels can vary wildly. In some cases, a few great weeks can make up for an otherwise dreadful year — or vice versa.

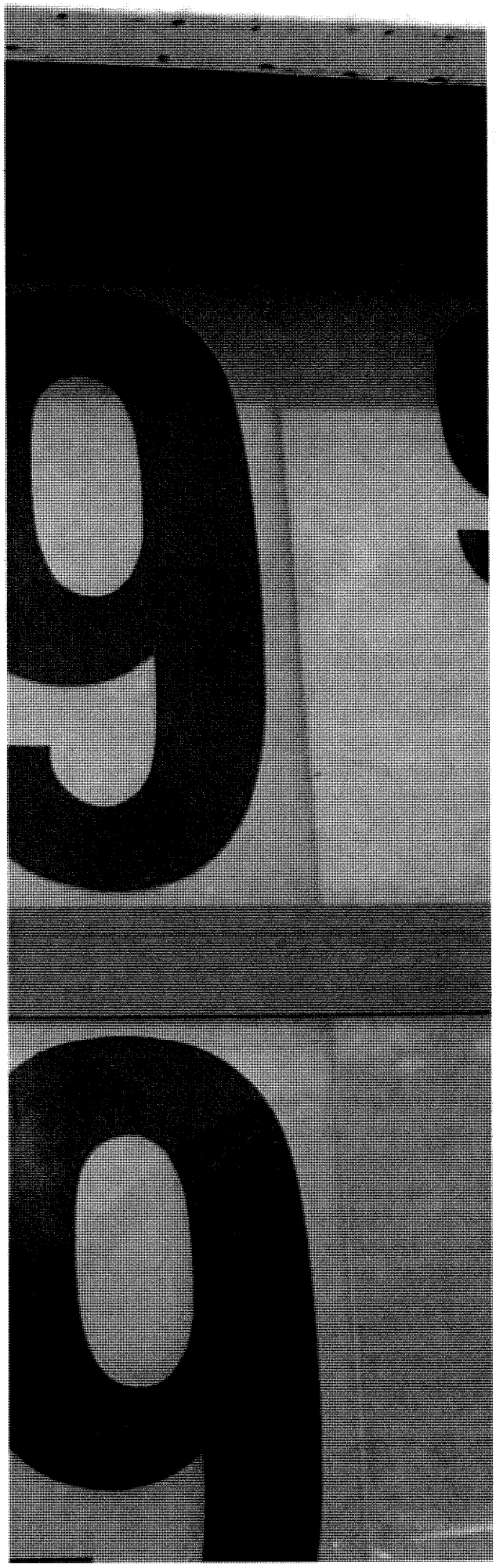
With its extreme volatility, fuels retailing is not for the faint of heart — or for those with limited access to capital. Perhaps that is why that since 1994, while overall fuels demand in the United States has increased, the total number of fueling locations (all convenience stores selling fuel, plus gas-only stations, grocery stores selling fuel, marinas, etc.) has decreased from more than 200,000 to a little more than 150,000 sites.

Retail fuel margins experience wild variations over time



(Source: "OPIS Retail Fuels Watch")


“In six of the past 14 years, the seasonal peak was in the time period between May 9 and May 24.



Why Prices Historically Go Up in the Spring

By springtime, gas prices begin to increase and generally peak around Memorial Day. Most consumers assume that prices peak at this point because of the advent of the summer-drive season. But is that the case?

To a certain extent, seasonal demand is a factor. But there are other events that collectively have a greater effect on prices each spring, leading to price peaks right before Memorial Day. In six of the past 14 years (43% of the time), the seasonal peak was in the time period between May 9 and May 24.

Crude oil prices drive gas prices, but how the crude oil is processed also plays a significant role in price increases. The petroleum industry's switchover to summer-blend fuels, a process that begins each February and ends June 1, creates challenges that also affect retail fuels prices. Since final implementation of the Clean Air Act Amendments in 2000, the seasonal transition to summer-blend fuel has helped gasoline prices climb significantly before they reached their peak. Comparing prices the first week in February to their seasonal peak, increases have ranged from a low of 20 cents in 2003 to a high of $1.13 in 2008; on average, the average annual increase is 52 cents per gallon.

Refinery Maintenance During the First Quarter

Refineries convert crude oil into a variety of products, including gasoline, diesel fuel (known as "distillates") and jet fuels, among other products. The United States has greater demand for gasoline (as opposed to diesel fuel) than most other countries. Therefore, U.S. refineries are optimized to produce gasoline, and their maintenance schedules are based on gasoline demand.

Demand for gasoline in the United States is generally lowest in the first two months of the year, so refinery maintenance, known as a "turnaround," is often scheduled during the first quarter of the year.

Gas Prices: The First Week of February vs. Peak

Year	Date	Price	Peak Date	Price	Increase	% increase
2013	**Feb. 4**	**$3.538**	**Feb. 25**	**$3.784**	**24.6¢**	**7.0%**
2012	Feb. 6	$3.482	April 2	$3.941	45.9¢	13.2%
2011	Feb. 7	$3.132	May 9	$3.965	83.3¢	26.6%
2010	Feb. 1	$2.661	May 10	$2.905	24.4¢	9.2%
2009	Feb. 2	$1.892	June 22	$2.691	79.9¢	42.2%
2008	Feb. 4	$2.978	July 21	$4.104	$1.126	37.8%
2007	Feb. 5	$2.191	May 21	$3.218	$1.027	46.9%
2006	Feb. 6	$2.342	May 15	$2.947	60.5¢	25.8%
2005	Feb. 7	$1.909	April 11	$2.280	37.1¢	19.4%
2004	Feb. 2	$1.616	May 24	$2.064	44.8¢	27.7%
2003	Feb. 3	$1.527	March 17	$1.728	20.1¢	13.2%
2002	Feb. 4	$1.116	April 8	$1.413	29.7¢	26.6%
2001	Feb. 5	$1.443	May 14	$1.713	27.0¢	18.7%
2000	Feb. 7	$1.325	June 19	$1.681	35.6¢	26.9%

(Source: U.S. Energy Information Administration)

Another reason for scheduling turnarounds in this period is that it is the time between peak heating oil season and peak summer drive season, allowing refineries to retool for summer-blend fuels.

A turnaround is a planned, periodic shut down (total or partial) of a refinery process unit or plant to perform maintenance, overhaul and repair operations and to inspect, test and replace materials and equipment. On average, refineries experience turnarounds about every four years, meaning that about one quarter of the country's refineries experience a turnaround in a given year. These turnarounds are scheduled at least one to two years in advance, and can be from one to four weeks in duration.

Because of the long lead time required to plan turnarounds, they are costly to reschedule and usually proceed as planned, even if refining capacity is suddenly tight because of unplanned refinery shutdowns elsewhere. Add to this mix the reduction in the number of refineries throughout the country — there are currently 143 operable refineries in the United States, about half the total from 1980 — and any unanticipated refinery shutdowns can have a ripple effect on supply. Further, like any maintenance, some turnarounds may not go as planned, and take longer than originally anticipated, further stressing the system. To minimize the impact of turnarounds on overall supply, they are staggered through a roughly three-month window.

Refineries Switch to Summer-blend Production

The U.S. Environmental Protection Agency (EPA) defines April to June as the "transition season" for fuel production as refineries switch over to summer-blend production in March and April.

The blends of gasoline used in the summer months are different than the blends used in the winter. In the winter, fuels have a higher Reid vapor pressure, meaning they evaporate more easily and allow cars to start in colder weather. In the warm summer months, these evaporative attributes would lead to increased emissions and the formation of smog.

The Clean Air Act Amendments of 1990, which had final implementation in 2000, requires that different fuels be used in many metropolitan areas, affecting more than 30 percent of the gas purchased in the country. Reformulated

gas, known as "RFG," is required in cities with high smog levels and is optional elsewhere. It is currently used in 18 states and the District of Columbia. (EPA publishes a listing of where RFG is used.)

Adding to the complications of producing new fuels, there are more of them. In the winter months, only a few fuels are used across the country. However, because of various state or regional requirements, 15 different fuel specifications are required for the summer months (see map on page 60). Refineries must produce enough for each area to ensure that there are no supply shortages.

Summer-blend fuel is more expensive to make than winter-blend fuel for two reasons. First, the process to produce it is more complicated and costly. Second, the overall yield of gasoline per barrel of oil is lower. Estimates vary as to the added cost per gallon for summer fuel, ranging from around 3 cents to as much as 15 cents per gallon to produce these higher-grade fuels.

In addition to the added cost to produce the fuel, the price of this fuel is magnified by increased demand, maintenance costs and capacity decreases.

Retail Deadlines Go Through June

The end point in a series of handoffs to prepare for summer-blend fuel is the date at which retailers must sell the fuel. In most areas of the country that require summer-blend fuels, retailers have until June 1 to switch to selling summer-grade gas.

Some retailers must sell summer-blend fuels much earlier. California, which has one-eighth of the country's population, has among the most stringent requirements, both in terms of the complexity of the fuel and the date at which summer-blend fuel must be sold. In Northern California, retailers must sell summer-blend fuel a month earlier than the rest of the country: May 1. In Southern California, the deadline is two months earlier: April 1. One of the reasons why California has a longer summer-blend period than other states is because of its longer period of high temperatures — particularly in the desert areas, which are located in the air district with the worst quality of air.

There are other key deadlines that additionally put stress on the system. Nationwide, refiners must produce summer-blend fuel no later than April 1. (Obviously, deadlines are earlier for California's fuels.) From refineries, fuels travel through pipelines at about 4 miles per hour, or 100 miles per day. Fuels refined in the Gulf Coast can take several weeks to reach storage terminals throughout the country. This is why the deadline to have summer-blend fuel at terminals and storage facilities is May 1 — a month after the transition at the refineries.

The May 1 deadline for terminals is considered one of the biggest factors in the seasonal price increases. Terminals have to fully purge their systems of winter-blend fuels and be near empty to make the transition and be in compliance. Those out of compliance face stiff penalties, so most terminal operators would rather be out of inventory than out of compliance. This regulatory requirement leads to lower inventories at the terminal. Combined with increased demand, this puts upward pressure on prices.

Demand Increases, Beginning in February

Demand is often cited as the main reason for spring price increases. U.S. demand is significant — in 2013, U.S. demand for petroleum products averaged 18.87 million barrels per day, of which 8.79 million were gasoline. But world demand for oil is around 90 million barrels per day, more than four times the total of U.S. demand and 10 times U.S. demand for gasoline alone. While U.S. demand for gasoline has declined over the past five years, world demand for oil has increased, which has elevated oil prices, which drive gas prices.

Still, U.S. gasoline demand is a factor in the annual spring increase. Demand increases every year beginning in February, and typically peaks in August. The common misperception is that there is a huge increase in demand for the Memorial Day weekend and the official beginning of the summer-drive season. There is an increase in demand, but it is only a few percentage points per month. However, a 1% increase in U.S. gasoline demand does mean that an extra 87,900 barrels per day must be produced, which is the equivalent of the output of a small refinery. During the seven-month period when demand increases, the problem is compounded. Demand in August 2013 was 836,000 million barrels per day (10.1%) greater than demand in January 2013. That demand increase creates enormous pressure on the system and makes it extremely vulnerable to supply disruptions.

A Slight Bump in the Fall

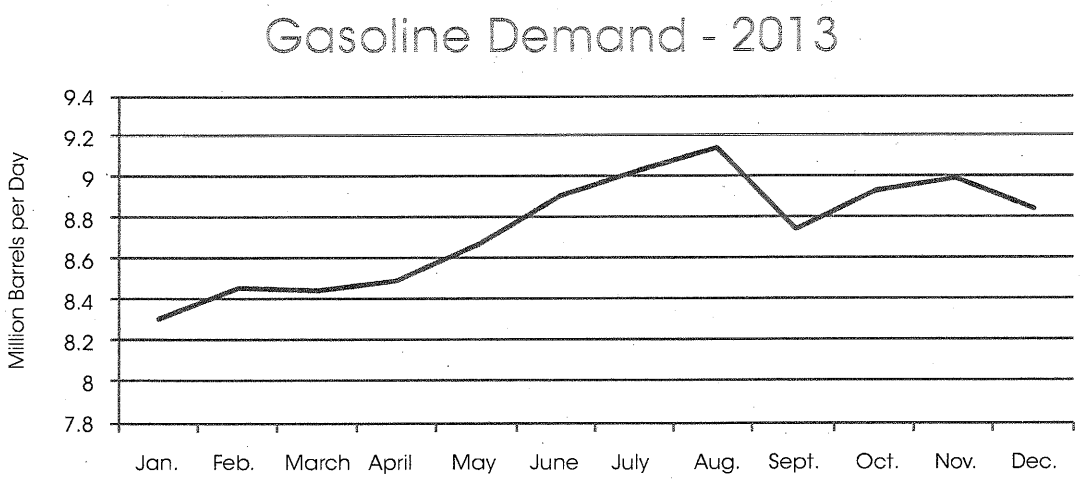
As demand decreases and temperatures cool, retailers can switch over to selling winter-blend fuel, beginning September 15. While these winter-blend fuels are cheaper to produce, the complications of the switchover often lead to a temporary bump in price, usually a few cents per gallon.

The weather may also affect gas prices in the fall. Hurricanes, especially those that damage Gulf Coast operations, can put significant pressure on supplies and affect prices across the country.

Unlike in the spring, the change to winter-blend fuel is not required. However, because winter-blend fuel costs less, retailers obviously want to sell the cheaper fuel so they can be as price competitive as possible. Not all retailers begin selling this fuel on September 15; most wait to make the switch until their inventories are low and need a new shipment. A retailer's volume will dictate how often a station gets deliveries, with some stores getting multiple deliveries per day and others getting one or two deliveries per week.

By the end of September, gas prices generally decrease as the complications from this switchover are worked through and demand continues to fall. Despite what conspiracy theorists believe, price decreases in the fall have everything to do with a decrease in demand and nothing to do with pre-election politics.

Also, California's summer-blend fuels season is longer than the rest of the country, on both



(Source: U.S. Energy Information Administration)

the front end and the back end. Both Northern and Southern California's summer-blend requirements go through the end of October. This exacerbated the problems with supply in California that were experienced in early October 2012, when fires at two important refineries limited state-specific production and caused wholesale and retail gas prices to spike to record levels.

Exceptions to the Rule

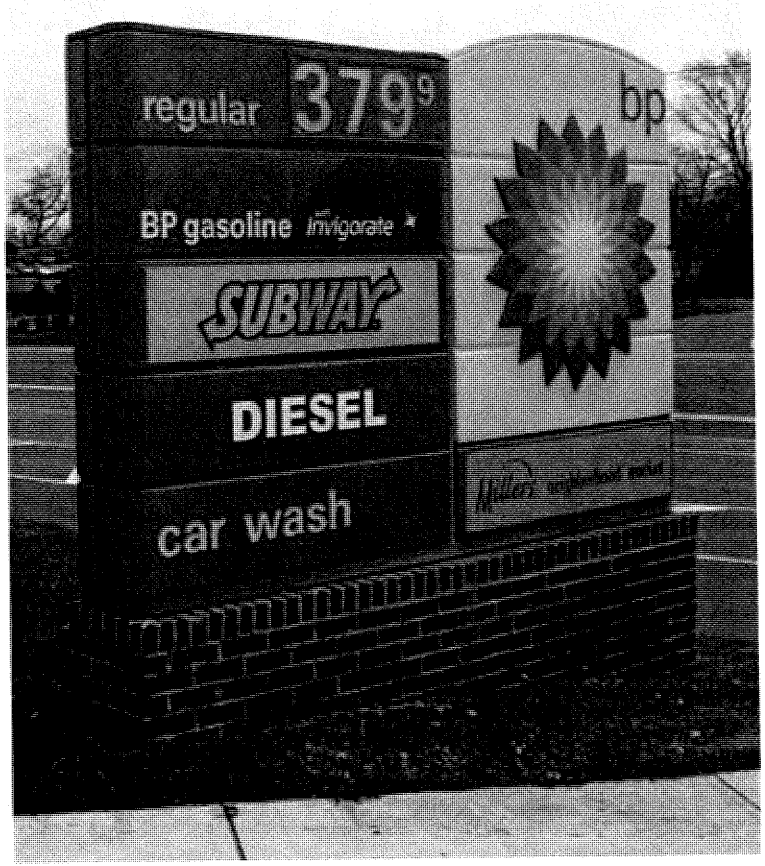
Summer-blend fuel requirements may be relaxed in times of emergencies or when potential shortages are possible. That was the case in 2005 as Hurricane Katrina made landfall in Louisiana at the end of August and significantly affected Gulf Coast refining operations. Several states successfully petitioned for waivers to temporarily exempt retailers from RFG requirements through September 15. Only the U.S. Environmental Protection Agency administrator has the authority to issue these waivers.

The Bottom Line

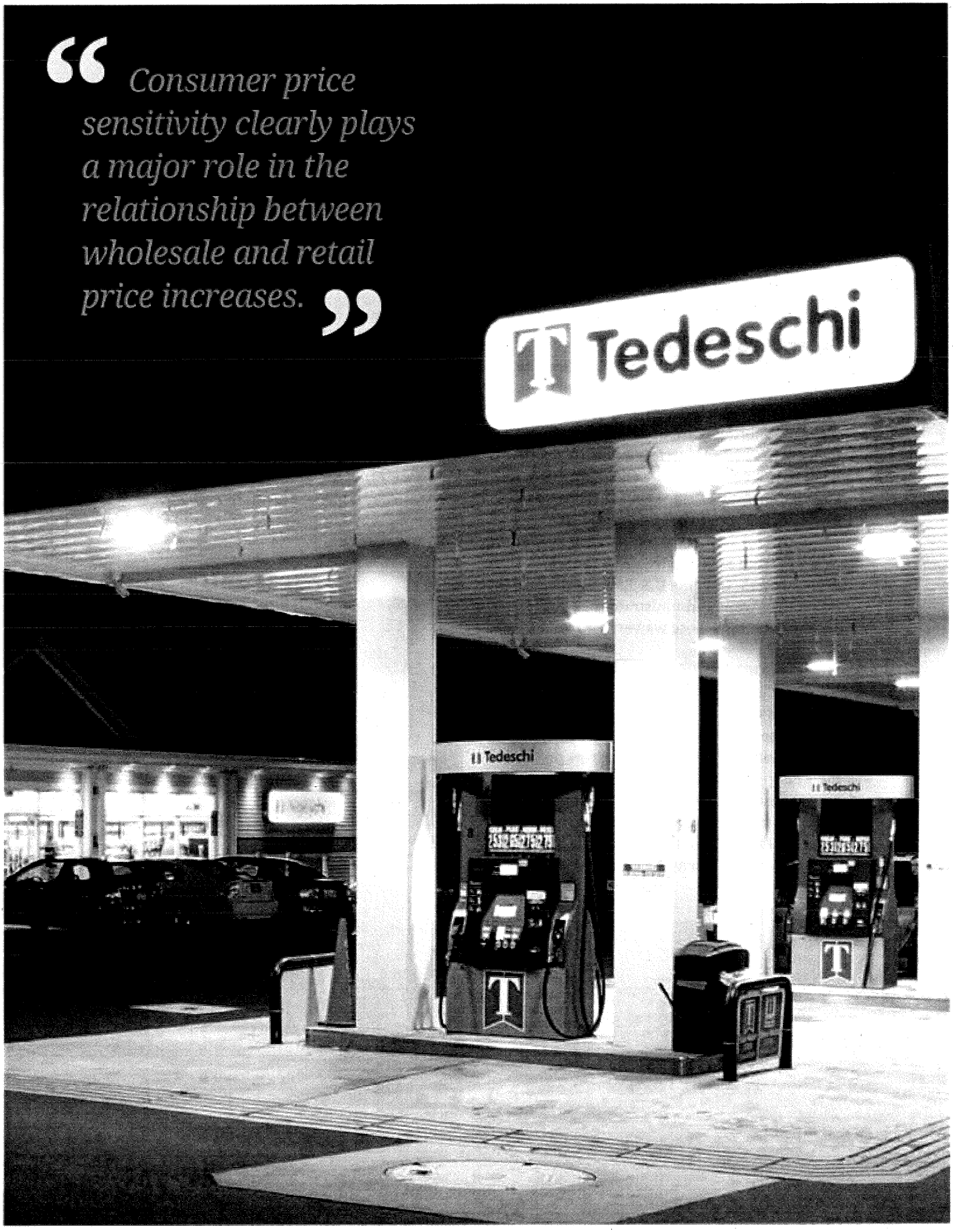
Combined with world demand for crude oil, the patchwork of summer-blend fuels requirements places enormous stress on the fuels distribution system each spring. It's often easy to have gas; the challenge is to have the right gas at the right place. And with different requirements across the country, you also need to have it there at the right time.

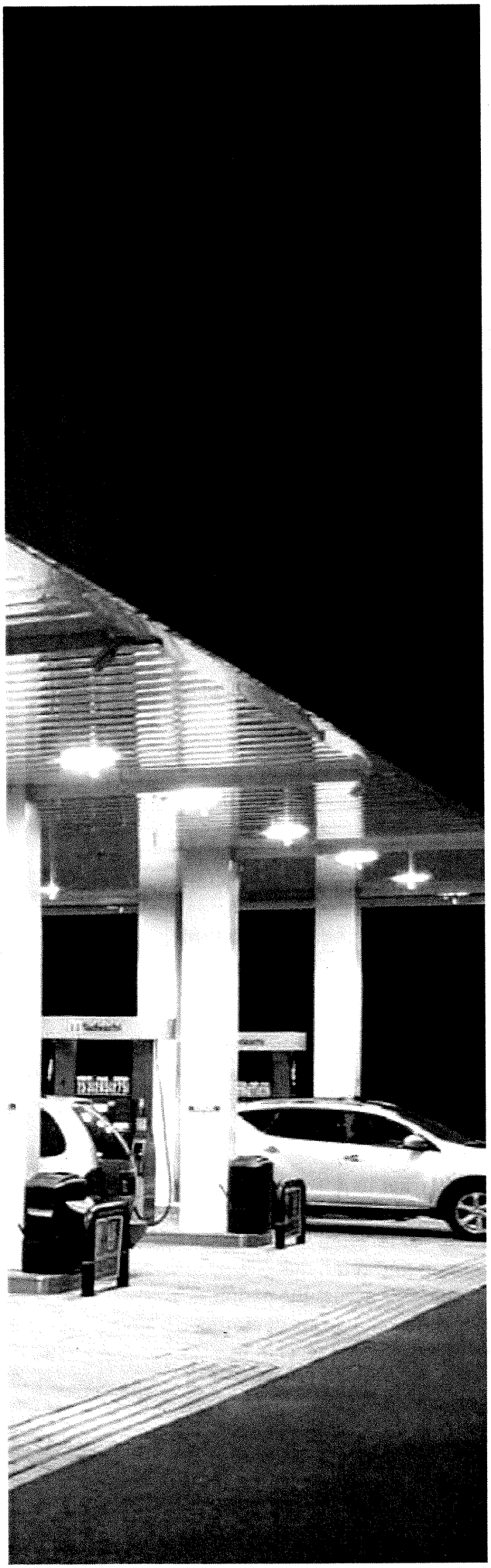
Month in 2013	Gasoline demand (million barrels/day)	Change from month prior
January	8.316	-2.83%
February	8.463	1.77%
March	8.447	-0.19%
April	8.506	0.70%
May	8.671	1.94%
June	8.919	2.86%
July	9.039	1.35%
August	9.152	1.25%
September	8.752	-4.37%
October	8.944	2.19%
November	9.006	0.69%
December	8.858	-1.64%

(Source: U.S. Energy Information Administration, "Weekly Average U.S. Product Supplied of Finished Motor Gasoline")



“Consumer price sensitivity clearly plays a major role in the relationship between wholesale and retail price increases.”





Rockets and Feathers

Do gasoline prices go up like a rocket and come down like a feather? And if so, why? During the past 30 years countless congressional hearings and government reports, ranging from the Federal Trade Commission (FTC) to the U.S. Energy Information Administration (EIA), have examined and studied these two questions. The short answer is that there is some asymmetry between price increases and decreases, but it's a stretch to say that prices shoot up like a rocket but fall like a feather.

Oil and gasoline are commodities and traded on various exchanges, which brings a great deal of transparency regarding how they are both priced. There is also great transparency at the retail level. Retailers post their prices on the street, mostly on signs that drivers can see before deciding to pull into their lot. In addition, groups like AAA publish retail gas prices on a daily basis, while various gas price websites update prices even more frequently. While not perfect companions, this market transparency is helpful in examining the rate of retail gas price increases and decreases.

The Wholesale/Retail Price Link

The link between oil prices and gas prices is most often used to draw the rocket/feather conclusion. Although retail prices are greatly affected by oil prices, linking the two to validate the rocket/feather theory doesn't necessarily work.

When oil prices increase there is often a delay before that price increase is seen at the corner store. The delay from an initial oil price increase happens for two reasons:

1. **There is another price between the crude oil price and the retail gas price**: The wholesale price — not the crude oil price — is what the retailer must pay for fuel that can then be sold to the consumer, and this price is influenced by its own commodities market, which often adjusts independent of crude oil prices.

2. **There is a lag between when wholesale gas prices increase and when retail gas prices increase.** This is because retailers usually hold back prices increases to draw in price-competitive customers.

It's also worth noting that most people don't notice that retail prices often remain unchanged during the first few days of an oil price increase. It's not until retail prices move that consumers become especially attuned to price increases. After that point, if oil prices and retail gas prices both increase, most consumers assume that the relationship between the two is immediate.

Naturally, when oil prices begin to decline from a peak, many consumers expect retail gas prices to immediately follow suit. But the lag continues, and it can take a few days for any price decreases to be felt at the retail level.

There are times when retail prices and wholesale prices change at different rates — but is this the rocket/feather phenomenon? Probably not, and here's why:

A September 2012 Federal Trade Commission report, "Asymmetric Pass-Through in U.S. Gasoline Prices," found that "price asymmetry persists for approximately 10 days until the paths are no longer distinguishable." So what exactly is happening that creates price declines that are somewhat slower than price increases? It comes down to consumer price sensitivity and market uncertainty.

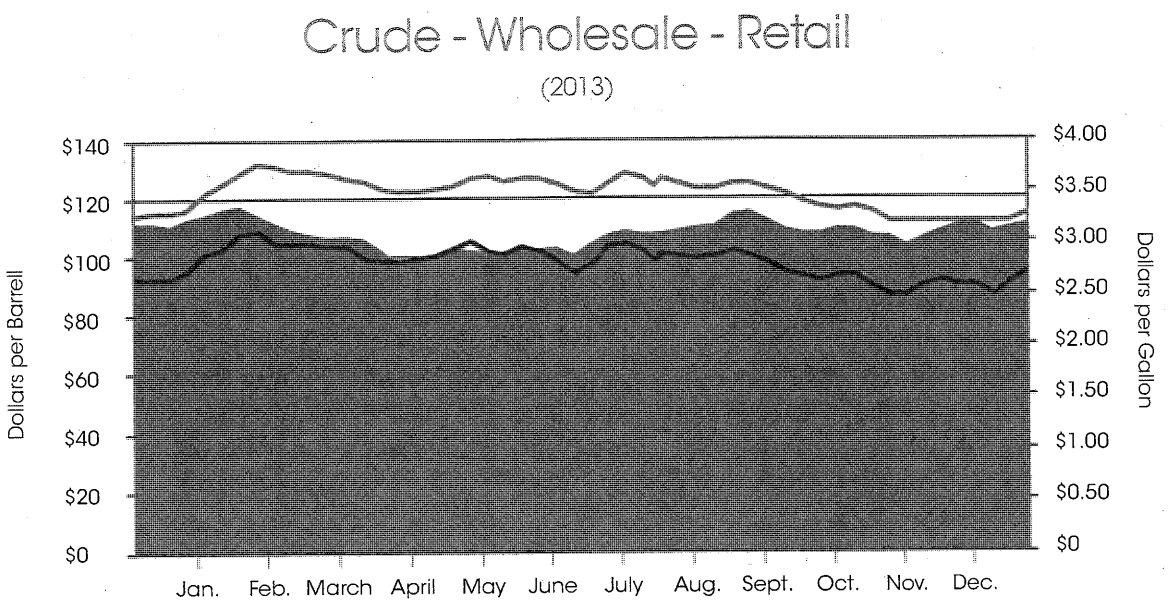
Consumer price sensitivity: Consumers are more price sensitive to gasoline than any other product. NACS consumer research conducted since 2007 has consistently shown that more than two-thirds of all gas consumers (66% in 2014) would drive five minutes out of their way to save five cents per gallon.

When wholesale prices rise as little as a few cents per gallon, retailers know that they can't pass along the full price increase because they don't know if the competition is incurring the same increase in costs, let alone whether they will pass them along through higher retail prices. In addition, there can be great variations in wholesale prices in a given market, depending on whether the station is branded or unbranded, the site's sales volume, the company's business strategy or even the time when its latest wholesale price was locked in. On days of extreme price volatility, wholesale gas prices can rise or fall in some markets by 20 cents per gallon — or more. This level of extreme price volatility is seldom seen at the pump because most retailers cut margin to fight for price-sensitive customers.

Over the past five years (2009-2013), retailer gross margins (before expenses) have averaged 17.1 cents per gallon. Expenses to sell that fuel range from about 12 to 16 cents per gallon, so any change in the gross margin has a significant effect on profit margins.

During times of rapidly escalating wholesale prices, retailers hold back the full price increase. Essentially, everybody plays a game of chicken to see who will blink first and raise their prices to pass along the increased wholesale costs. Because the first retailer in a market to fully adjust prices higher can potentially lose customers, most retailers instead cut margin and absorb some of the price increase.

And that's exactly what happened over the first few months in 2013. For instance, the February 7, 2013, "OPIS Retail Fuel Watch," which tracks prices and retail margins in more than 300 markets across the nation, reported that rack-to-retail gross operating margins were at their lowest level in five years. "National operating margins tumbled to 8.4 cents per gallon, a level unmatched in



(Sources: U.S. Energy Information Administration; "OPIS Retail Fuel Watch")

five years. When you factor out credit card processing fees, many retailers are pumping gasoline at a loss," the weekly publication noted.

However, when wholesale prices go down, retailers extend their margins to recoup what they lost when wholesale prices increased. Crude oil prices and wholesale gas prices may fall, but this decrease may not be fully reflected at the retail level. Consumer price sensitivity also plays a role. NACS consumer survey results suggest that when gas prices are rising, consumers search for a better deal. However, immediately after prices go down, consumers often stop searching for the lowest price on the street. This gives a cushion for retailers to lower prices in smaller increments and recapture lost margin.

Market uncertainty: Consumer price sensitivity clearly plays a major role in the relationship between wholesale and retail price increases, and market uncertainty is a significant influence when wholesale prices decline. On any given day, retailers don't know where wholesale prices could be heading, so they tend to try to recapture lost margin as quickly as possible — before prices rise and margins tighten. This means that retailers may pass along a smaller percentage of the wholesale price decrease.

Not only are retailers uncertain about the future of wholesale prices, they don't know how the competition will react. If any competitor "dives to the bottom" and quickly drops prices in an attempt to capture more price-sensitive consumers, retailers must

quickly follow suit or risk losing their market position. If they want to maintain consumer traffic, retailers must keep one eye on costs and margins and the other on the competition — because either one could change at a moment's notice.

In 2008, both margin extremes were demonstrated. The July 7, 2008, "OPIS Retail Fuel Watch" noted that the end of June 2008 was the "end to a miserable quarter which saw gross rack-to-retail margins average just 10.3 cents per gallon. Only two other quarters in the past six years saw lower profits... Most analysts are not optimistic about a crash in wholesale prices anytime soon."

But as we all know now, wholesale prices did crash in the second half of 2008. While retail prices marched $1.10 upward over the first seven months of the year (January to July), and appeared poised to continue that climb, they instead dramatically declined and the last five months (August to December) saw retail prices drop $2.50 a gallon.

"The year started off dismally however and looked like it would end with many chains going under," according to the July 7, 2008, OPIS report. "Some analysts were predicting $200 barrel crude and $5.00 per gallon retail prices but most felt that petroleum markets were overvalued and due for a correction. Few however could predict how fast and how far they would fall."

Even though the second half of 2008 delivered extraordinary margins, the abysmal first half and uncertainty over future prospects caused many fuels retailers to close. As a result, for only the third time in the past 15 years, the number of convenience stores selling gasoline *decreased* in 2008.

Wrapping It Up

While there may be asymmetry between gas price increases and decreases, it really isn't at the rocket and feather level.

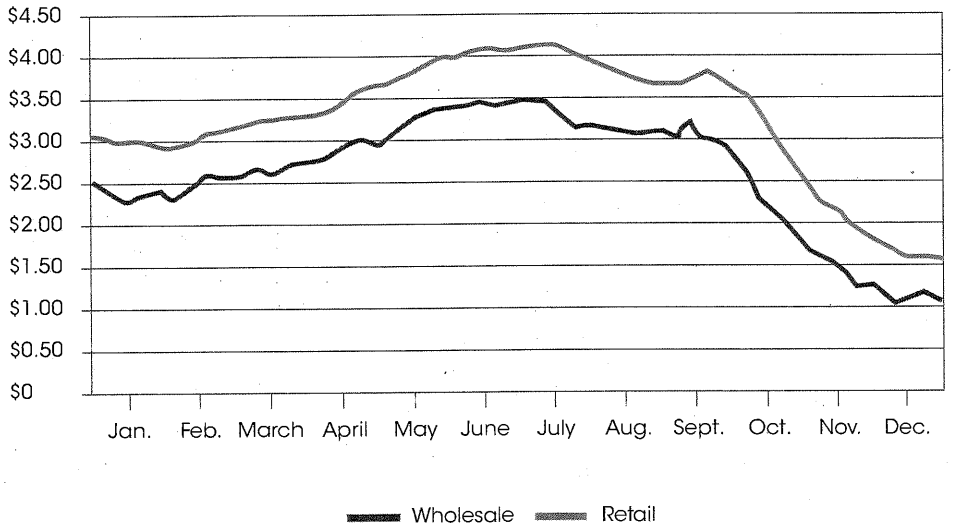
The Federal Trade Commission's "Asymmetric Pass-Through in U.S. Gasoline Prices" report noted that since 2006, the overall impact of price pass-through asymmetry was about 1 cent per gallon for unbranded retailers and 2 to 3 cents per gallon for branded retailers. These findings were consistent with those from a number of different government studies conducted over the years.

The U.S. Energy Information Administration's February 1999 report, "Price Changes in the Gasoline Market," noted that retail prices "do sometimes increase faster than they fall, but this is largely a lagged response to an upward shock in the underlying wholesale gasoline or crude oil prices, followed by a return toward the previous baseline. After consistent time lags are factored out, most apparent asymmetry disappears."

So what would happen if retailers were mandated to have symmetrical price pass-through?

According to FTC, this would actually hurt consumers. In its 2012 report, it noted that if price pass-through were symmetric, retail margins would likely be around 2.27 cents per gallon lower. Given that retail profit margins per gallon are typically around 1 to 5 cents per gallon, with all other factors equal, FTC concluded that these reduced margins "may cause firms to exit." And because competition puts significant downward pressure on prices, any reduction in competition would lessen that downward pressure and could ultimately hurt consumers.

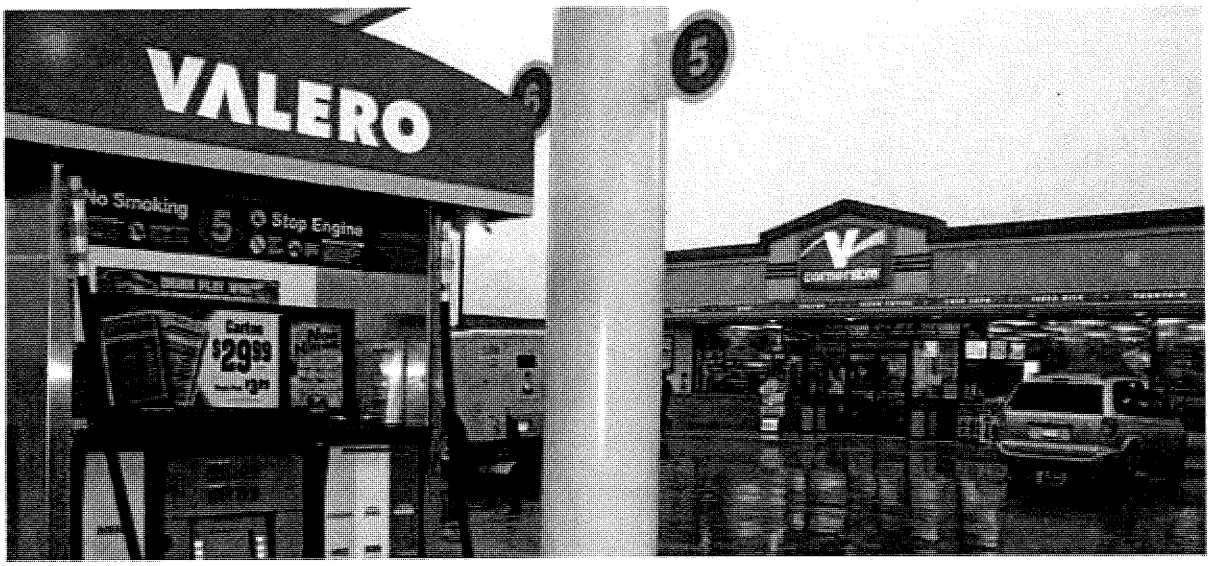
2008 Wholesale and Retail Gasoline Prices

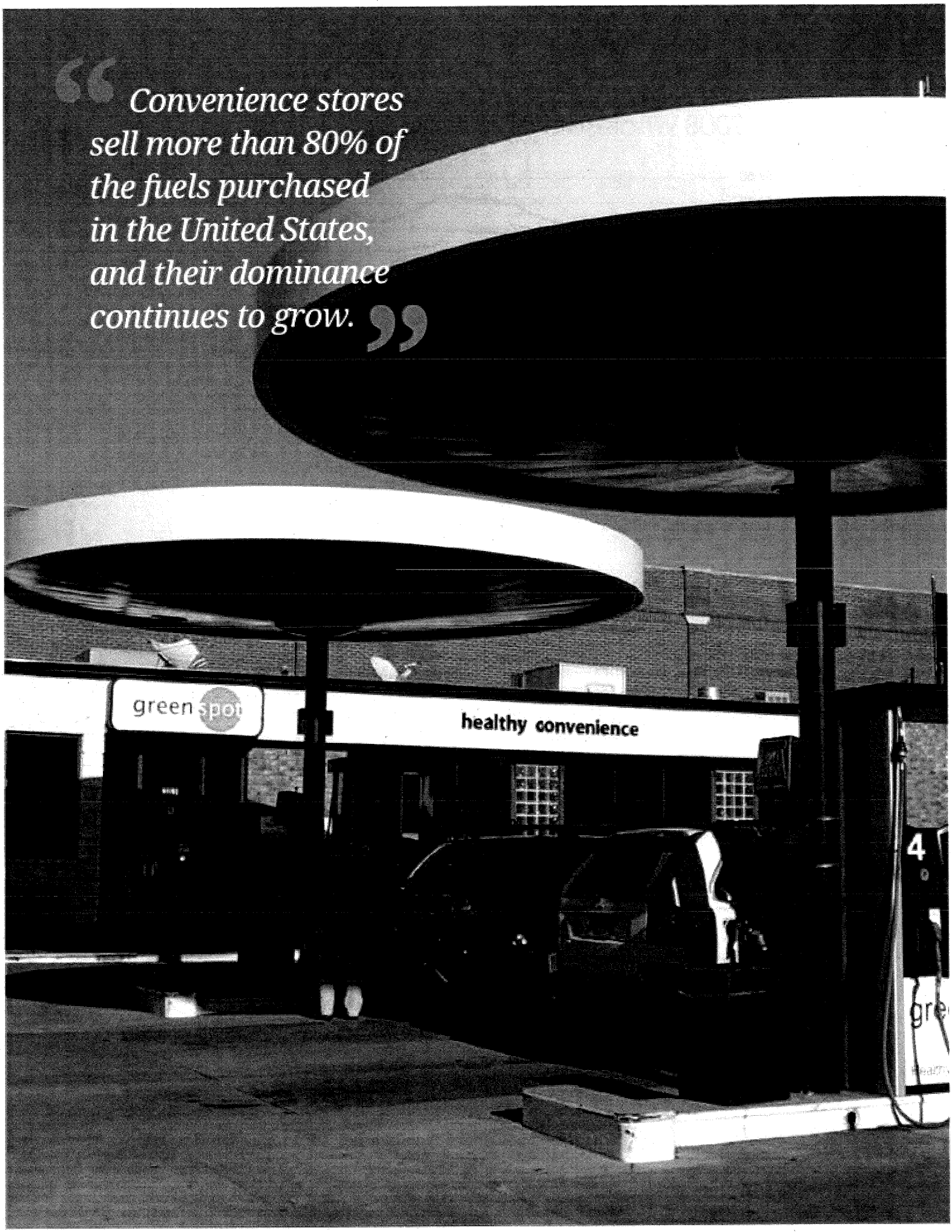


(Source: "OPIS Retail Fuel Watch")

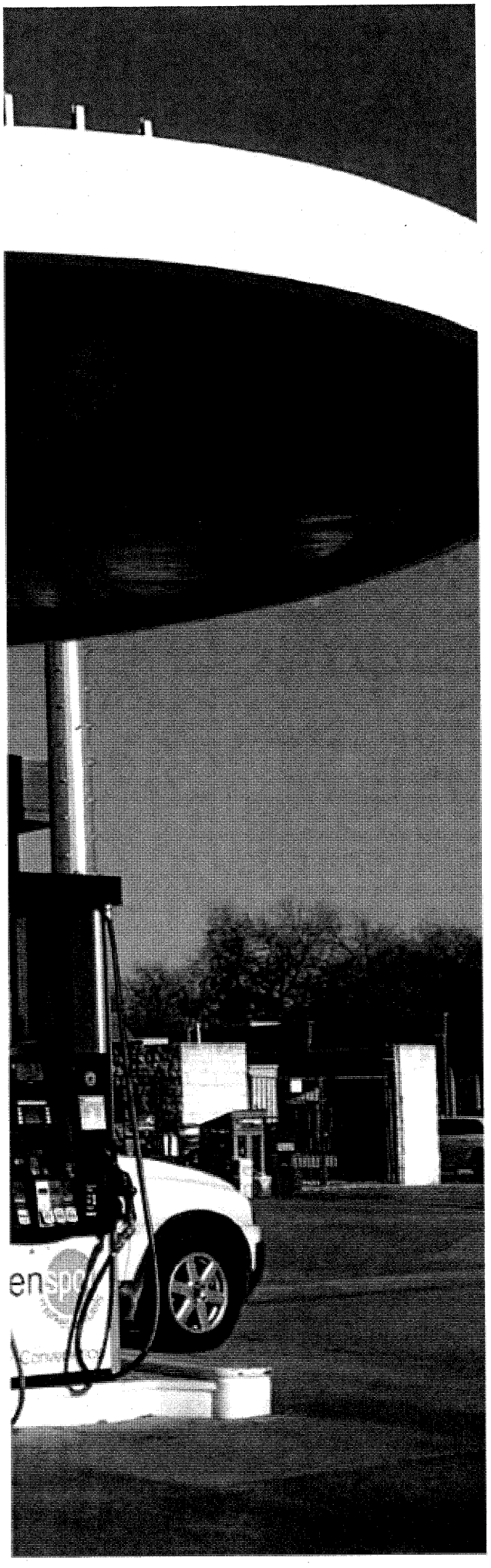
Gas is unique among a convenience retailer's products. While other products are affected by the prices of commodities — orange juice, bread or hamburger patties — gas *is* a commodity and its price can see dramatic changes — changes that happen over a period of days or even hours. At the same time, consumers are extremely price sensitive and will seek out "deals" to save as little as a few cents per gallon at the pump.

These dynamics affect every decision made by fuels retailers as they seek to attract consumers to their pumps and inside their stores, whether wholesale prices are increasing or decreasing.





"Convenience stores sell more than 80% of the fuels purchased in the United States, and their dominance continues to grow."



Who Sells America's Fuels?

Americans fuel up their cars about four to five times every month at roughly 153,000 fueling stations across the country. But who owns these fueling locations? It's highly unlikely that it's an oil company and very likely it's a one-store local business.

Small Businesses Fuel America

There are 126,658 convenience stores selling fuel in the United States, and these retailers sell an estimated 80% of all the fuel purchased in the country. Overall, more than 58% of the convenience stores selling fuel are single-store operators — more than 70,000 stores across the country. These small businesses often don't have the resources to brand their stores as anything beyond the brand of fuel they sell and promote on their canopies, often leading to consumer misperceptions that they are owned and operated by a major oil company.

Big Oil Continues to Exit Retail

Large, integrated oil companies, especially since 2007, have exited the retail business to focus more on resource production and refining operations. ExxonMobil, Shell, BP and ConocoPhillips have either begun or completed the process of selling off all of their directly operated facilities. Of the 126,658 convenience stores selling fuels, less than 0.4% (430 stores) were owned by one of the five major oil companies as of June 2013.

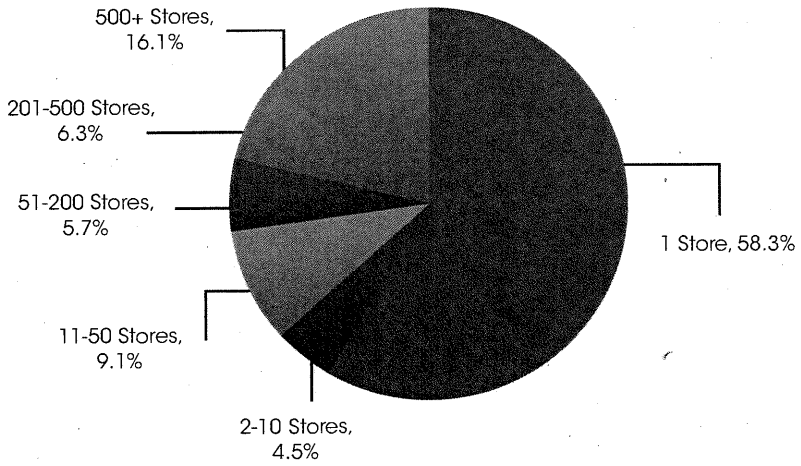
Major oil-operated retail outlets:

Chevron Corp.	406
Shell	23
ExxonMobil Corp.	0
BP North America	0
ConocoPhillips Inc.	1

(Source: Nielsen, June 2013)


STORE
REGULAR
18

Ownership of Convenience Stores Selling Fuel



(Source: NACS/Nielsen 2014 Convenience Industry Store Count)

Major Oil Keeps Its Brand Presence

While the major oil companies are withdrawing from retail operations, their brands remain. In fact, half of retail outlets sell fuel under the brand of one of the 15 largest refiner-suppliers. Virtually all of these branded locations are operated by independent entrepreneurs who have signed a supply contract with a particular refiner/distributor to sell a specific brand of fuel, but these retailers do not share in the profit/loss of their suppliers.

Of the 152,995 fueling stations in the country, approximately 31% have a major oil company brand, and another 19% carry the brand of another refining company. The remaining 50% sell "unbranded" fuel. These stations often are owned by companies that have established their own fuel brand (i.e., QuikTrip, Wawa, 7-Eleven) and purchase fuels either on the open market or via unbranded contracts with a refiner/distributor.

Other Retail Channels Sell Fuels

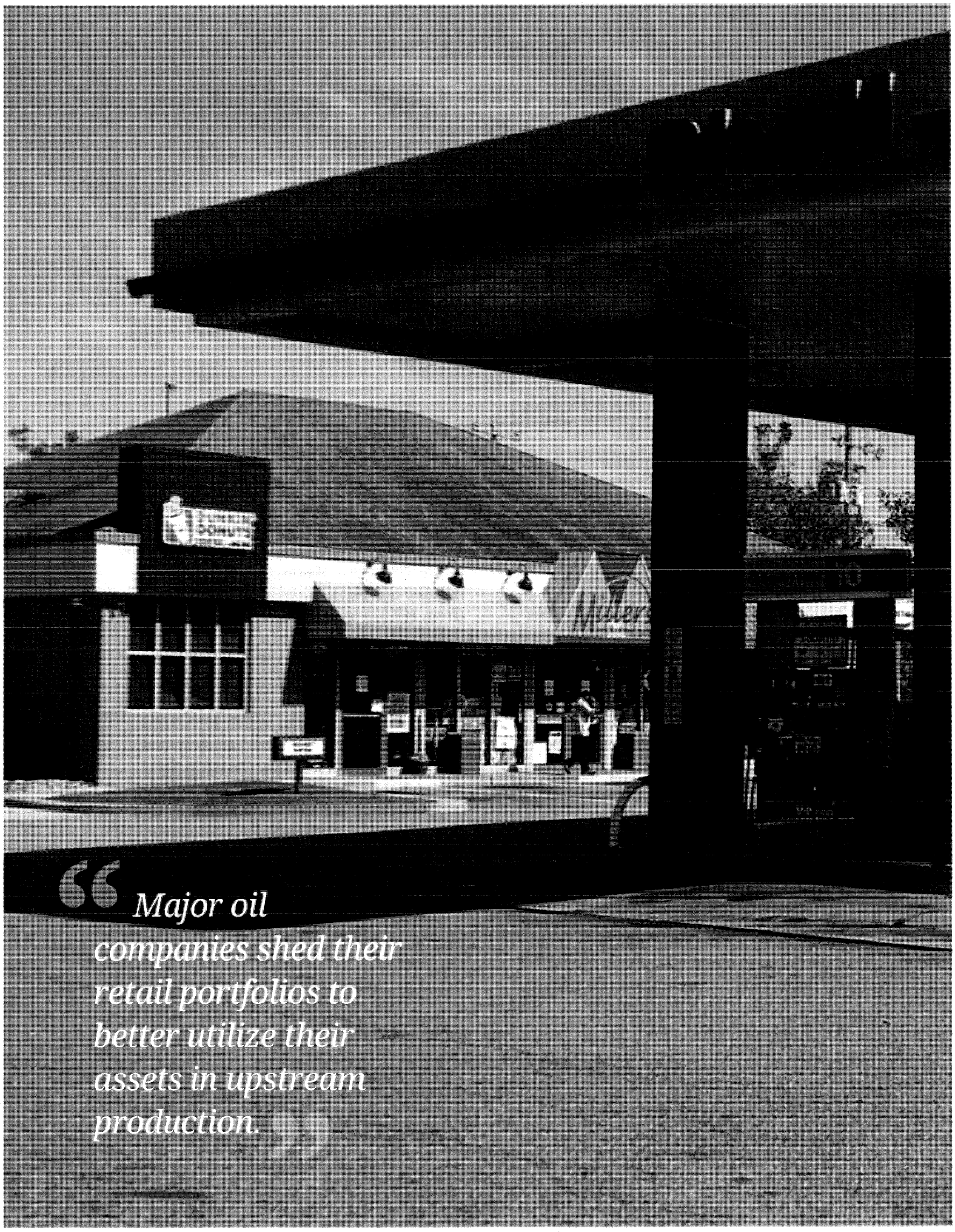
Convenience stores sell more than 80% of the fuels purchased in the United States, and their dominance continues to grow. Over the past decade, the number of convenience stores selling fuels has grown by 21.1% (from 104,600 to 126,658 stores). Meanwhile, the overall number of fueling locations has dropped 8.7% (from 167,571 to 152,995 sites).

Another channel also has seen growth over the past decade: big-box grocery stores and mass merchandising stores, otherwise known as "hypermarkets." As of March 2013, 5,093 hypermarket fueling sites sold an estimated 12.6% of the motor fuels purchased in the United States. These sites sell approximately 280,000 gallons per month, more than twice the volume of a traditional fuels retailer.

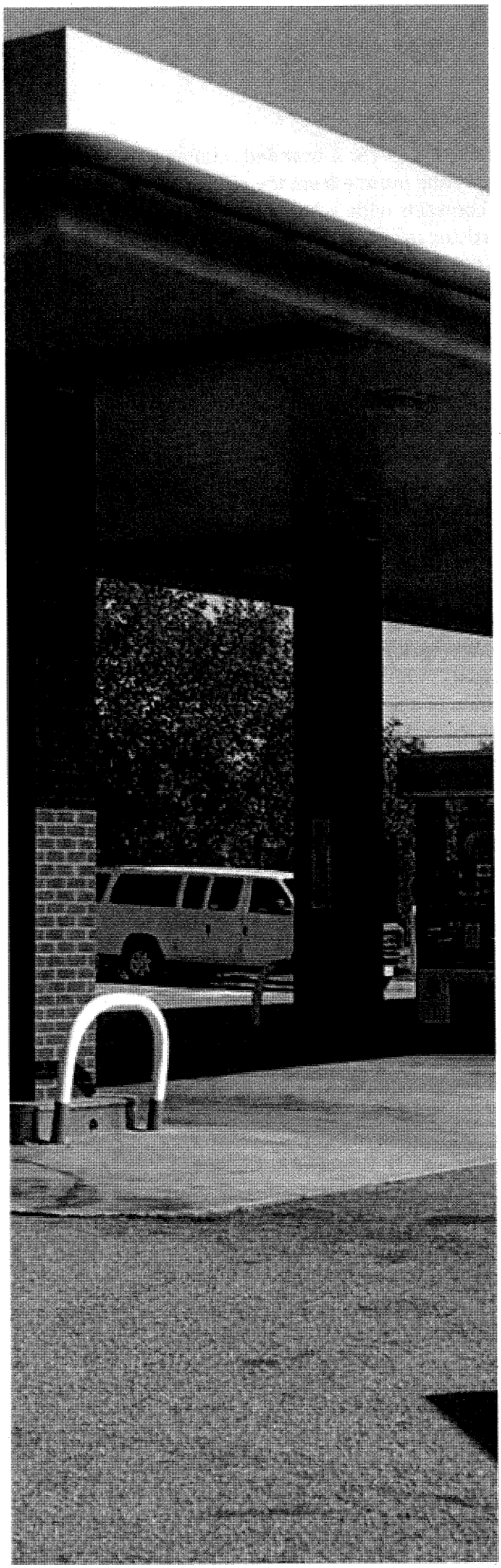
The top five hypermarkets, by store count, in fuels retailing are:

- Kroger (1,153)
- Walmart (1,067)
- Sam's Club (479)
- Costco (366)
- Safeway (337)

The remainder of fuels sales in the United States comes from traditional service stations without convenience operations and very low-volume fueling sites, such as at marinas.



"Major oil companies shed their retail portfolios to better utilize their assets in upstream production.



How Branded Stations Operate

Major oil companies have essentially exited the retail fuels business, but it often looks like they dominate the retail landscape. About half of the fueling stations in the country sell a brand of fuel from one of the 15 major refiners/suppliers, which often makes the signage touting a particular fuel brand seem like an oil company owns the store.

But instead the contractual relationship for fuels is much like that inside the store, where soda companies often help provide branded fountain dispensers that dispense a branded liquid. Both the oil company and the soda company help the retailer sell product, but that doesn't mean they own the store.

Retailer Benefits

For retailers, being branded means recognition. More than 58% of stores selling fuels are single-store operations, so having a branded contract with a major refiner/supplier instantly provides a retailer with a recognized brand for their number-one product: motor fuels.

A branded fuel can also determine where some customers choose to shop. While price is still the number-one determinant for gas purchases, about one in seven motorists consider fuel brand as the top reason for their purchasing decision. A branded contract also guarantees fuel supply, especially when supplies are tight. Supply guarantees can also smooth out extreme price volatility seen in the wholesale gas markets.

There are non-fuel benefits to branding as well. Operators can take advantage of the oil company's knowledge in retail best practices for attracting customers and employee training tools. Retailers can also receive financial support such as an imaging allowance (loan) to improve the look of the store.

Major Oil Company Benefits

Major oil companies shed their retail portfolios to better utilize their assets in upstream production — that is, oil refining and/or oil production.

Instead of tying up resources on real estate and making a few cents a gallon selling fuel, they can funnel their resources into large-scale, long-term projects. But there is obvious value to having your company name displayed in front of millions of consumers every day. And this is why the major oil companies continue to brand stations that they don't own or operate. A second reason is that branded relationships give oil companies a guaranteed customer for their product, and at predictable volumes. The same holds true for other refiners or supply companies.

Contractual Terms

What are the typical terms of these branded contacts? While every contract differs, here is a broad overview:

LENGTH: A typical contract is for 10 years, although contracts may be as long as 20 years or as short as 3 years for renewed contracts.

VOLUME REQUIREMENTS: Contracts typically set forth a certain amount of fuel each month that retailers must sell. Usually retailers can sell more than the agreed-to amount, but when supply disruptions exist, they may be put on allocation and only given a percentage of what they historically receive in a given time period. This enables the supplier to more efficiently manage fuel distribution to all branded outlets in an equitable fashion.

IMAGE REQUIREMENTS: A branded retailer receives marketing muscle from the oil company it contracts with, which may include broad advertising to encourage in-store sales. Also, the oil company may provide financial incentives to display its brands. This also depends on who operates the station and the store owner's access to capital. In exchange, the oil company expects the store to adhere to certain imaging requirements, including specific colors, logos and signage, standards of cleanliness and service. The oil company often relies on mystery-shopping programs to assess compliance.

WHOLESALE PRICE REQUIREMENTS: A branded retailer must purchase fuel from a branded supplier or distributor. Branded contracts benchmark the wholesale price to common fuels indexes, such as Platt's, plus a premium of a few cents for brand/marketing support. Some branded contracts also stipulate the retail markup on the fuel through a "consignment agreement," whereby the supplier or distributor retains ownership of the fuel until it is sold and pays the retailer a commission.

Types of Branded Retailers

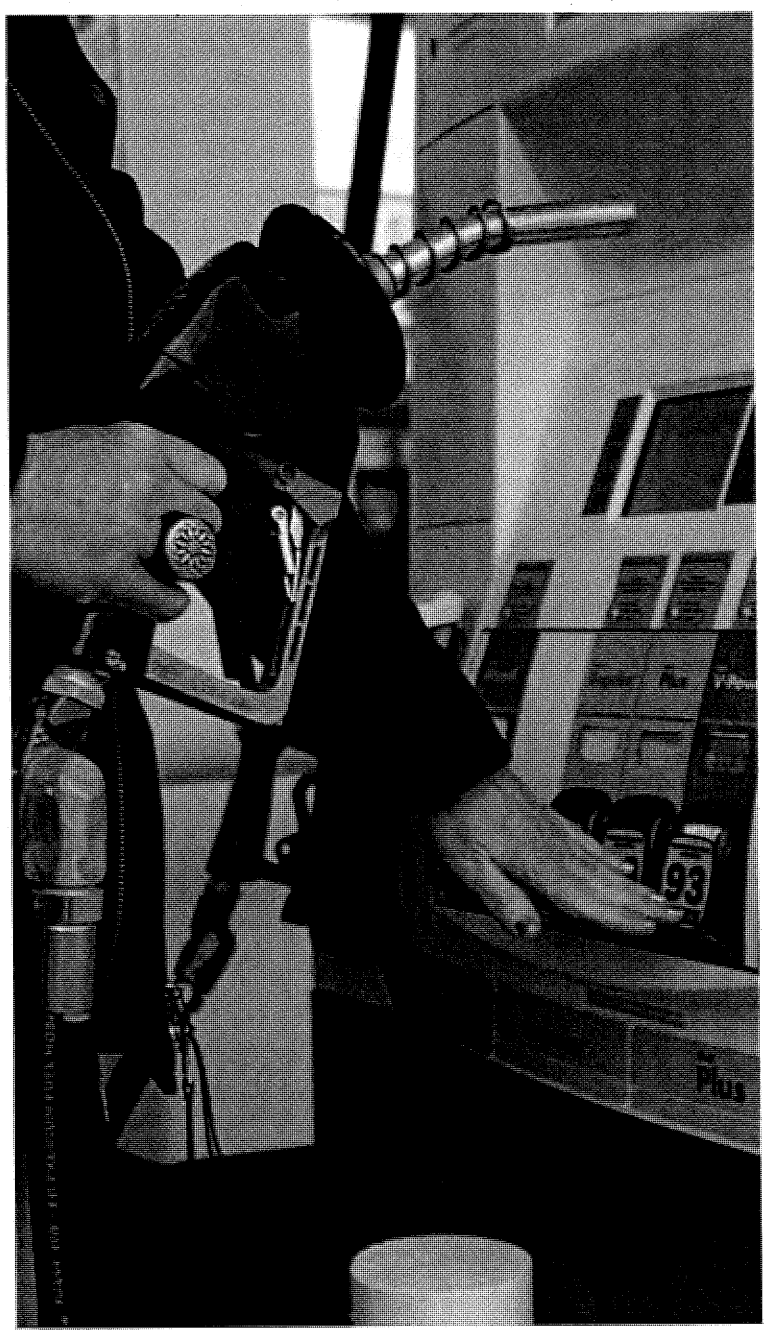
There are different ownership structures within the branded station universe:

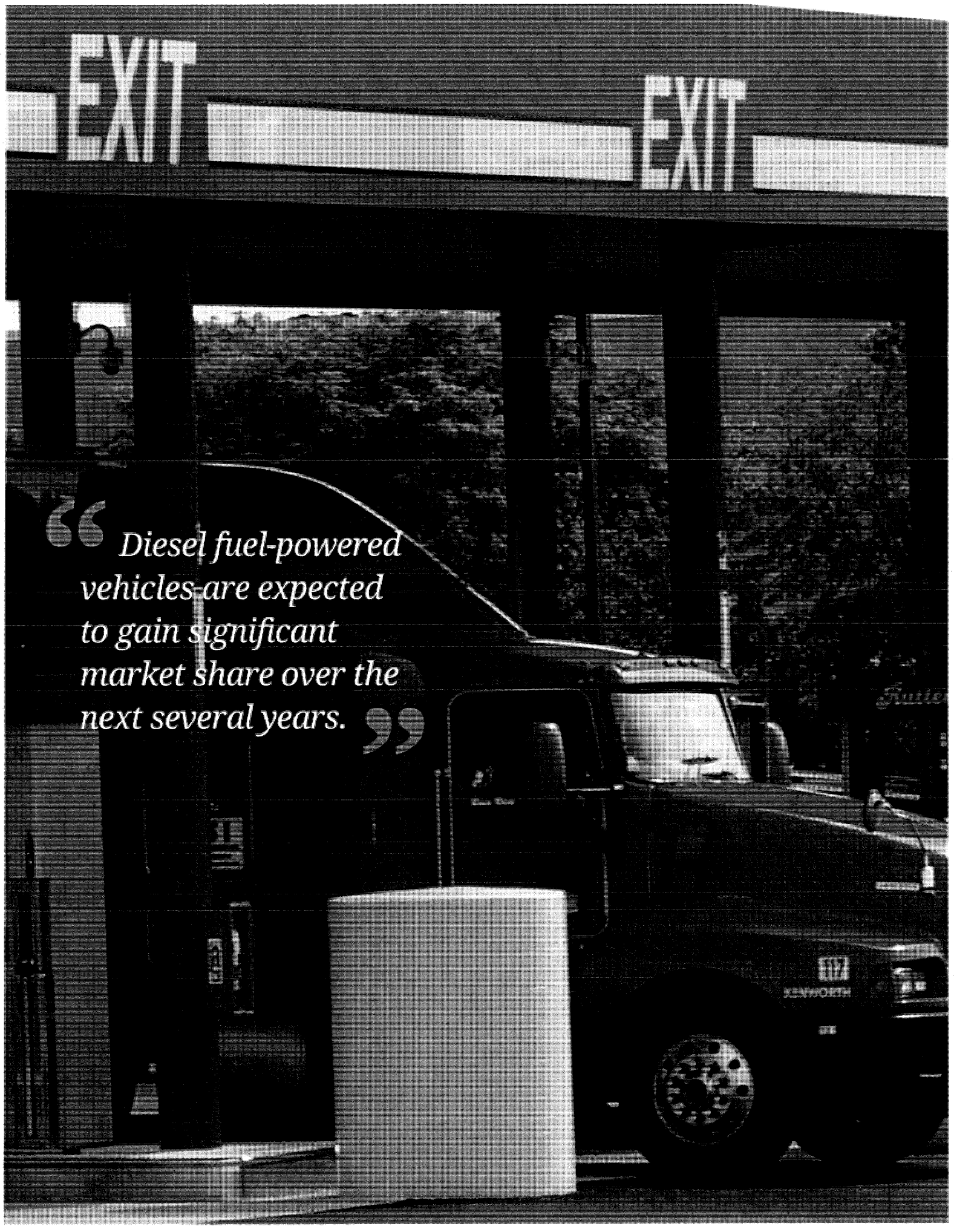
REGIONAL COMPANY OR CHAIN OPERATED: A chain of convenience stores with a common name can operate the branded locations. In many cases, a chain may sell different brands at different stores, based on the needs of the marketplace and terms of contracts that may have been carried forward from stores that were acquired from other operators. Many operations of this kind serve as distributors to themselves and maintain supply agreements with the branded oil companies.

LESSEE DEALERS: The dealer/retailer owns the business, while a major or regional oil company or a distributor owns the land and building and leases it to the dealer. The dealer operates the location and pays rent to the owner, as opposed to an open dealer who owns the property. This arrangement gives the oil company or distributor a guaranteed supply outlet for its petroleum products, pursuant to a supply contract. A typical lessee dealer may operate more than one facility and does not wholesale gasoline or sell to other dealers.

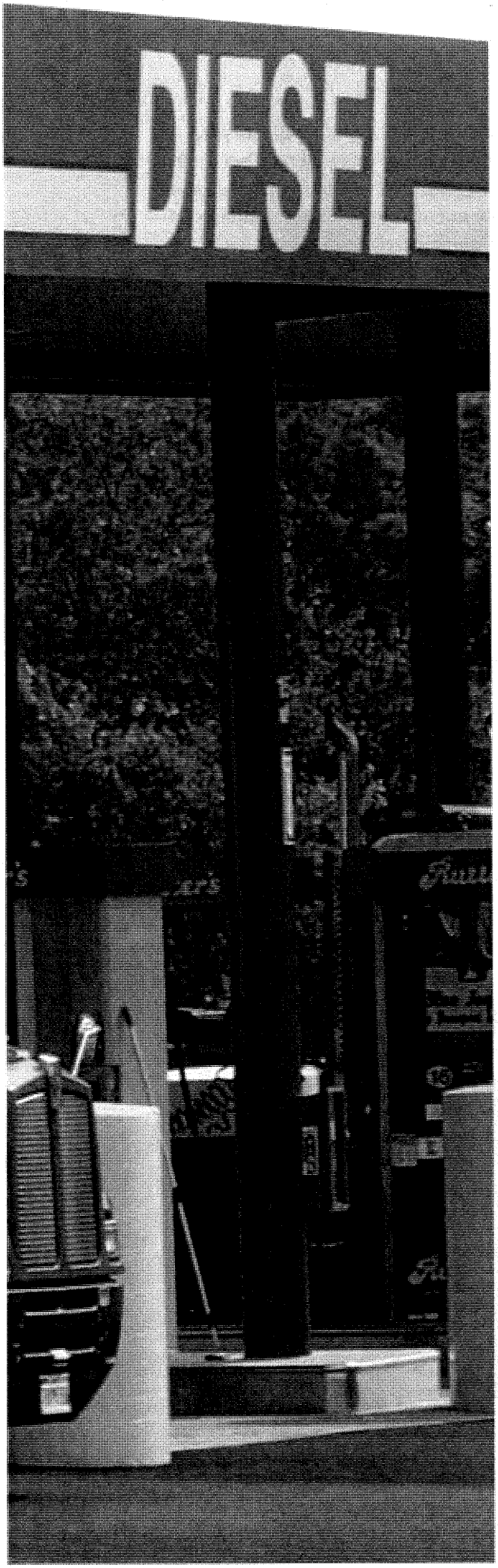
OPEN DEALER OPERATED: The independent dealer purchases fuel from the oil company or a distributor, supplies fuel to the station — and possibly others — owns the business and owns or leases the building/facility independent from any supply agreement. The dealer may contract with a manager to run the business or run it himself.

COMPANY OPERATED: A "salary operation" where a major or regional oil company or a distributor owns the building/facility and the business. The company pays a salary to the managers/ proprietors and supplies fuel to the location. This is also known as company-operated and direct operated retail.





"Diesel fuel-powered vehicles are expected to gain significant market share over the next several years."



Diesel Fuel: A New Growth Market

The United States is a gasoline-dominant fuels market. In fact, according to the U.S. Energy Information Administration (EIA) in 2012 gasoline contributed 99.28% of the energy consumed by light duty vehicles (LDV) in the United States. In addition, gasoline-powered vehicles represented 93.35% of all registered LDVs. Flexible fuel vehicles, which can run on either gasoline or E85, represented an additional 4.57%, which means that 97.92% of all LDVs could run on gasoline.

However, diesel fuel-powered vehicles are expected to gain significant market share over the next several years, as automobile manufacturers rely upon this proven technology to enhance the fuel efficiency of their fleets and satisfy federal requirements. Diesel vehicles can deliver 20% to 40% more miles per gallon than their gasoline equivalents.

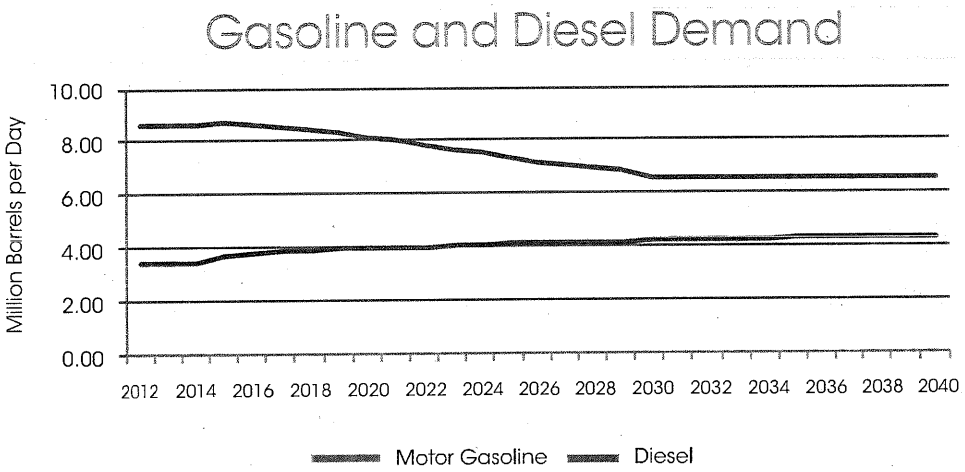
In 2012, diesel fuel contributed only 0.31% of the energy consumed by LDVs and represented only 0.46% of LDV inventories, according to EIA. However, another report published by the Fuels Institute based upon data supplied by Navigant Research puts the number of diesel-powered LDVs at 2.0% of the market. Regardless, the population of LDVs powered by diesel fuel is limited — but expected to change.

According to the Diesel Technology Forum, by 2015 up to an additional 40 LDV models equipped with diesel engines will be available for purchase in the United States. This is supported by EIA and Fuels Institute forecasts. EIA projects that by 2023, the number of diesel-powered LDVs in the U.S. will increase by 349% to represent 1.91% of the market; the Fuels Institute is more aggressive in its outlook, projecting diesel fuel LDVs to represent between 3.7% and 6.7% of the market.

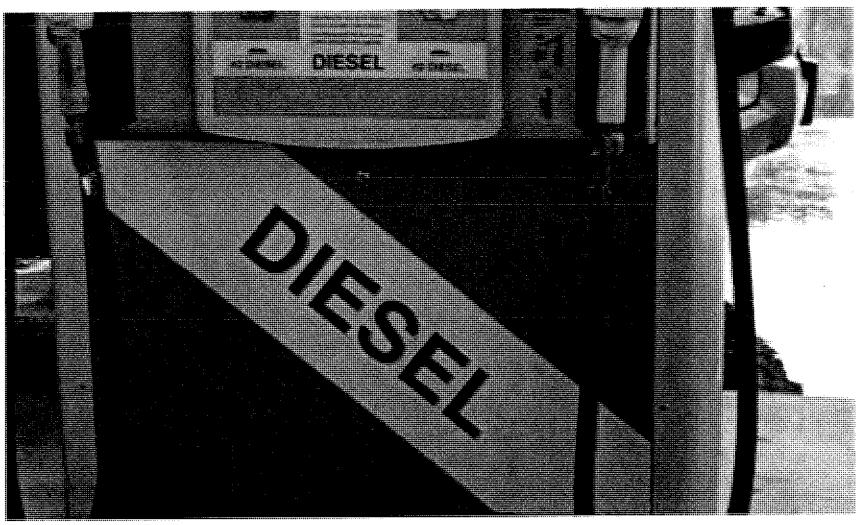
As for diesel fuel volumes, EIA forecasts drivers will consume 17.1% more diesel fuel by 2023 and 26.0% more by 2040. By contrast, gasoline demand is projected to decline by 14.8% by 2023 and 24.0% by 2040.

Changing Consumer Behavior

For the diesel market to expand as forecast by both EIA and the Fuels Institute, consumer behavior needs to adjust. One of the limiting factors to consumer demand for diesel fuel-powered vehicles is the price per gallon. In a May 2013 consumer survey, 69% of consumers were unlikely to consider a diesel vehicle and 54% of these consumers cited fuel price as the primary factor for their lack of interest. This result is not surprising, considering that in 2013 diesel fuel averaged $0.42 more per gallon than gasoline, a spread that has been consistent over time.



(Source: U.S. Energy Information Administration's AEO2014)



However, when consumers begin to consider the fuel economy benefits of diesel fuel-powered vehicles compared with equivalent gasoline engines, their perceived value of diesel may change. The difference between gasoline and diesel prices in 2013 averaged only 12% higher. For vehicles that generate 20% to 40% more miles per gallon, the dollars per mile value of a diesel fuel vehicle is more advantageous for the consumer.

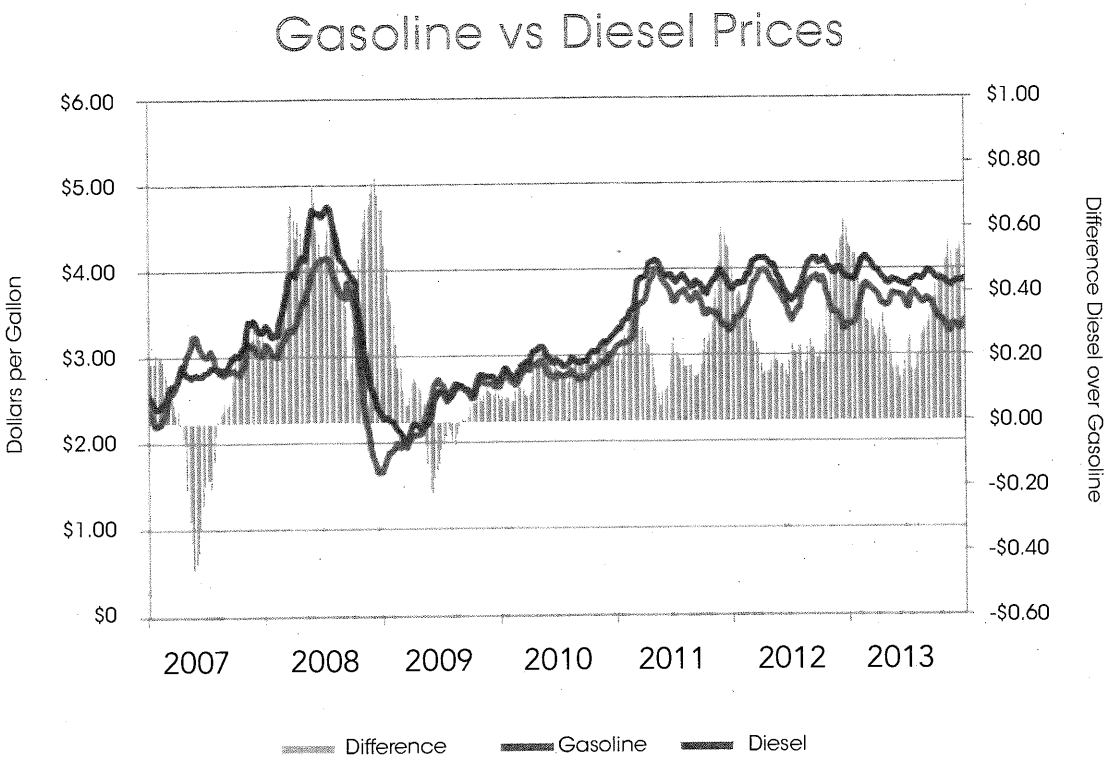
Another factor that will influence consumer choice is fuel availability. In 2013, approximately 50% of the fuel retail outlets in the United States sold diesel fuel. However, anecdotal reports indicate that this percentage will increase as more new and renovated stores install diesel fuel tanks and dispensers, largely in response to increasing consumer demand and to capture healthier margins on diesel fuel.

Why Diesel Fuel Is More Expensive

There are a number of reasons that diesel fuel is more expensive than gasoline. Below are some of the factors.

Fuel production levels influence prices. Because the United States is a gasoline-dominant market, the refining infrastructure is optimized to produce gasoline products. From a barrel of oil, on average U.S. refineries produce 18 to 21 gallons of gasoline and 10 to 12 gallons of diesel fuel. Refinery yields can be somewhat tweaked, but to produce significantly more distillate would require significant upgrades costing billions of dollars.

Diesel is an international commodity. While the U.S. remains predominantly reliant on gasoline, other countries throughout the world are more heavily reliant on diesel fuel. Diesel



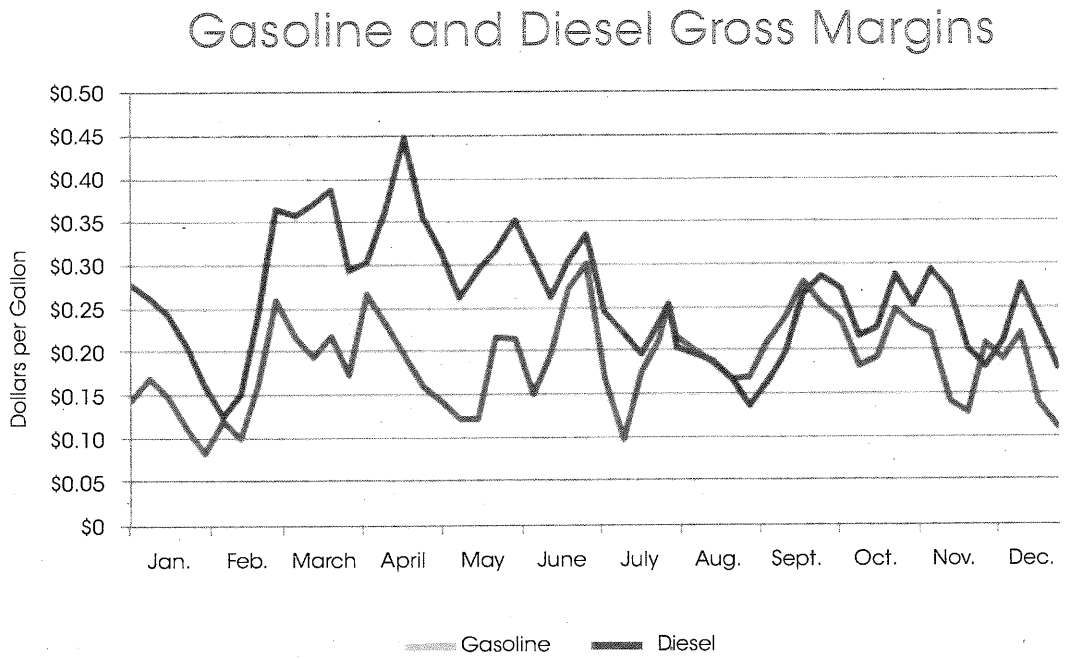
(Source: "OPIS Retail Fuel Watch")

fuel is used in the majority of new passenger vehicles in Europe. Strong international demand for diesel fuel — for both passenger vehicles and for industrial machinery in the rapidly growing developing countries — has placed a premium on diesel fuel.

Diesel fuel prices, like those for gasoline, are based upon a number of factors but are heavily reliant upon the open market and NYMEX. This market operates not only on a national level, but is influenced by international market demands. Consequently, the U.S. market for diesel is partially influenced by the strong demand for diesel fuel in other countries.

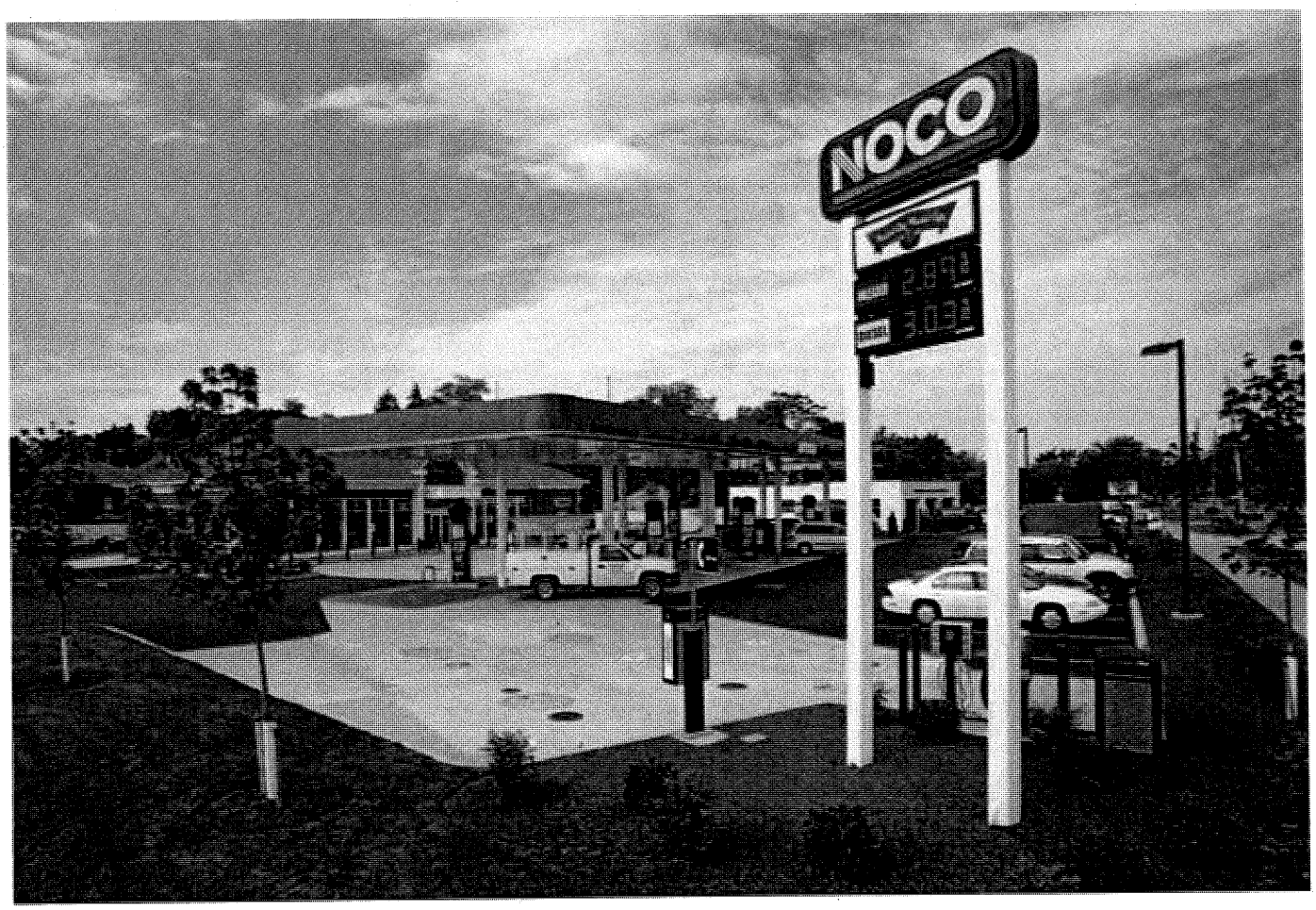
Ultra low sulfur diesel (ULSD) specifications increase the cost of production. ULSD is a clean-burning diesel fuel that is defined by the Environmental Protection Agency to have a maximum sulfur content of 15 parts per million (ppm). It was gradually phased into the market between 2006 and 2010, replacing the on-highway diesel fuel, known as Low Sulfur Diesel (LSD), which can have as much as 500 ppm sulfur content. In 2010, on-highway diesel fuel was 100% ULSD. This fuel is required for use in model year 2007 and later vehicles, which are equipped with advanced emissions control systems.

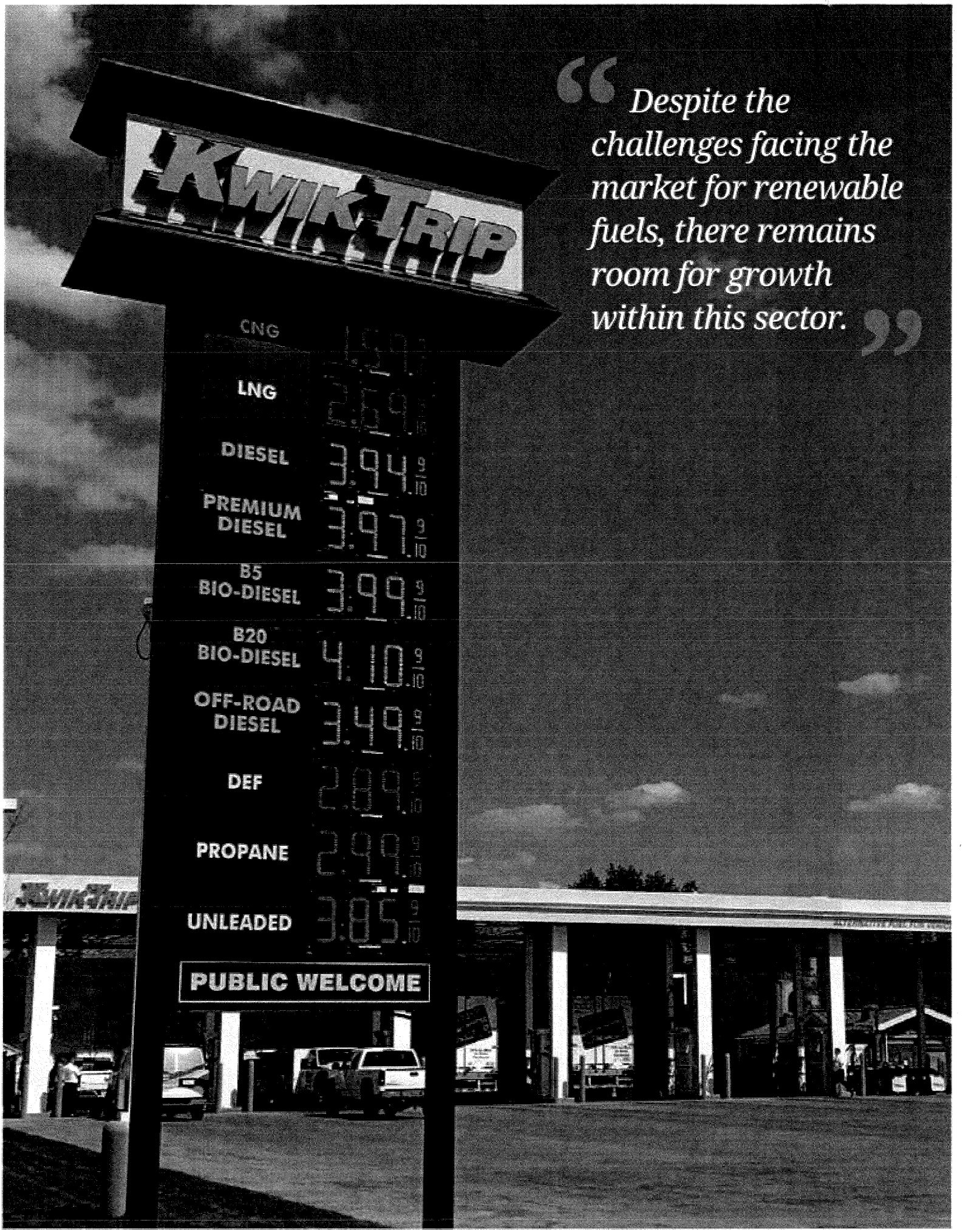
There are enormous environmental benefits to ULSD, but here are also challenges. To produce ULSD the refining industry had to invest approximately $8 billion in infrastructure upgrades, resulting in the daily production costs for ULSD that are higher than LSD, since the fuel requires more refining. This influences the cost of all diesel and results in a premium for ULSD, which is estimated to add about 10 cents per gallon to the cost of diesel fuel.



(Source: "OPIS Retail Fuel Watch")

Taxes are higher for diesel fuel. The federal tax on diesel fuel is 6 cents more than gasoline per gallon (24.4 cents vs. 18.4 cents). The last increase in the federal tax was in the early 1990s, back when diesel fuel was usually less expensive than gasoline. Taxes do not factor into why diesel fuel prices are higher than gasoline today — strong demand and USLD are the causes — but taxes are a factor in overall prices.





"Despite the challenges facing the market for renewable fuels, there remains room for growth within this sector."

From: Powers, Michael
Sent: Thursday, February 19, 2015 3:46 PM
To: Morgan, Wendy
Subject: RE: NaCSonline.com
Attachments: 2015 NACS fuel report.pdf

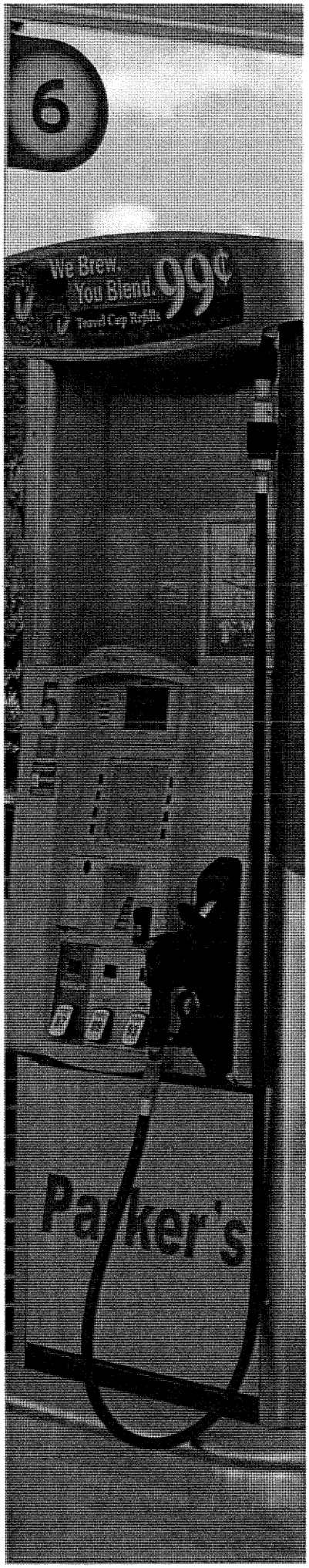
Newer report

From: Morgan, Wendy
Sent: Thursday, February 19, 2015 3:18 PM
To: Powers, Michael
Cc: Abrams, Jill
Subject: NaCSonline.com

I heard today that the website of the national Association of Convenience Stores has a good description of the various relationships a convenience store might get into to sell motor fuel – could you find it for me? just didn't pop out at the site above . . thanks

NACS®

2015 Retail Fuels Report



2015 NACS Retail Fuels Report

The NACS Retail Fuels Report, now in its 14th year, explains market conditions that affect gas prices — and what to watch for in 2015.

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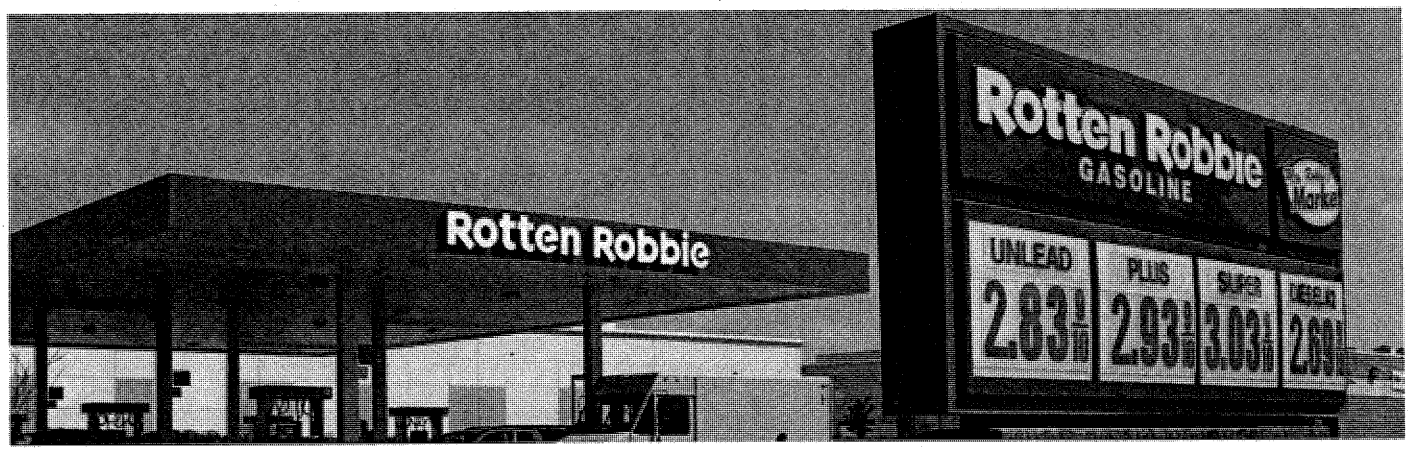
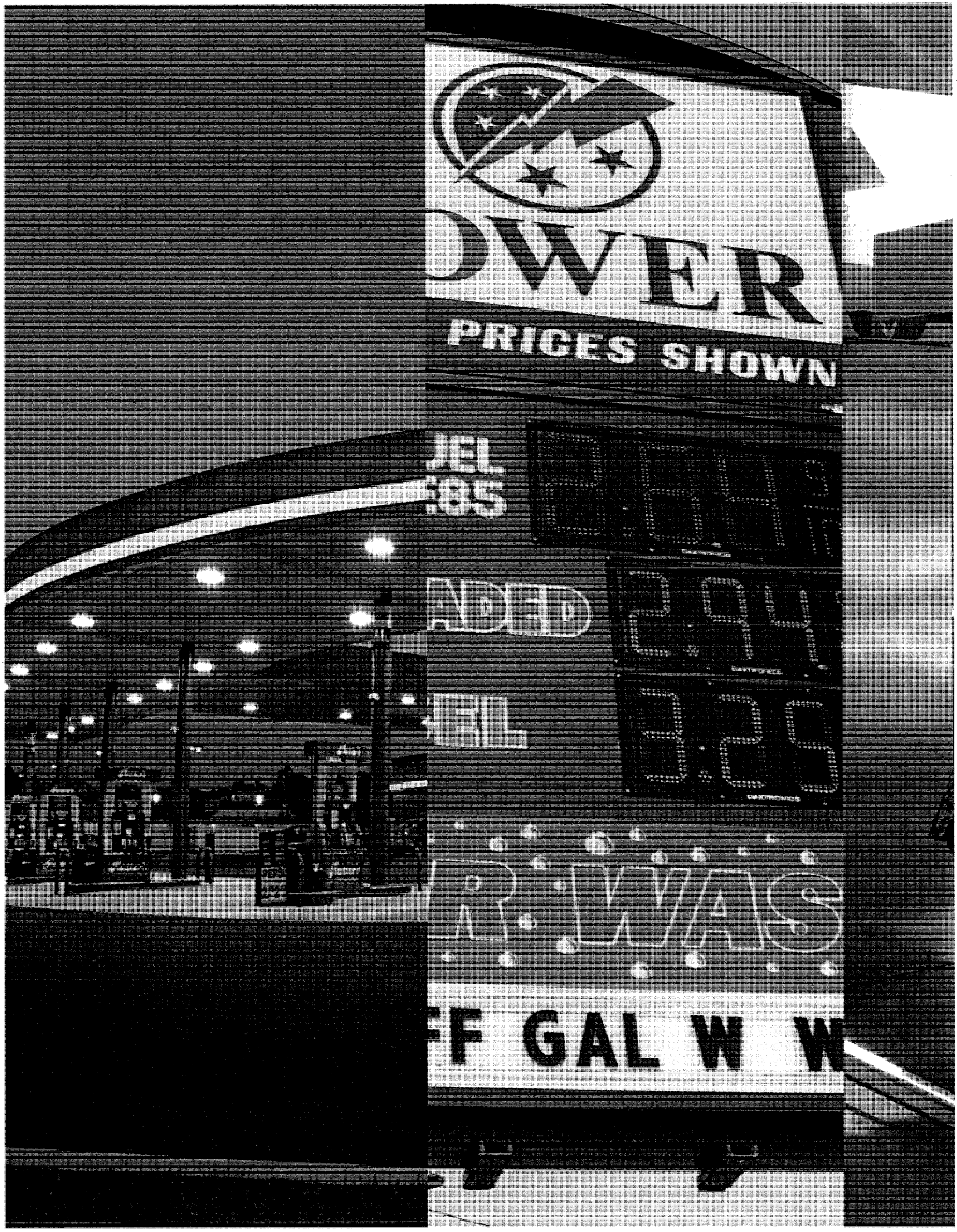
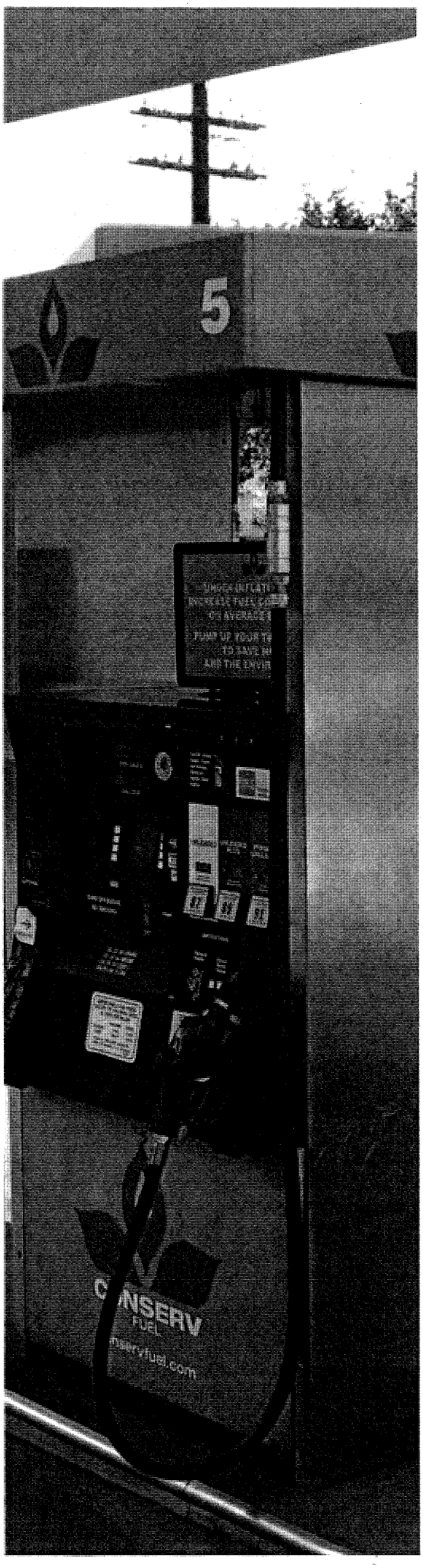


RETAIL OPERATIONS

GRAPHICS


PRICES SHOWN



INTRODUCTION

Nearly 40 million Americans fill up their gas tanks on a daily basis, oftentimes searching for a good price and convenient location. There is arguably no product that consumers think more about on a daily basis — yet at the same time is so misunderstood. Because U.S. convenience stores sell an estimated 80% of the gasoline purchased, NACS wants to demystify how the market works — from the time crude oil is extracted from the ground to when fuel flows into a consumer's gas tank.

The 2015 NACS Retail Fuels Report continues our tradition of providing a fact-based analysis of market dynamics to explain how gas is sold and the composition of the retail fuels industry. This resource is updated throughout the year online, with monthly consumer survey data and new backgrounders featured at nacsonline.com/gasprices.

As 2015 began, oil and gas prices were at six-year lows, and while consumers were delighted with lower prices, that could change as supply and demand shift, whether from world events or from the annual spring transition to summer-blend fuel.

For more than a decade, NACS has timed the launch of this resource to occur in early February. The reason is simple: The first week of February traditionally marks the beginning of the spring transition to summer-blend fuels for the petroleum industry. Since 2000, gasoline prices have increased, on average, more than 50 cents between the first week in February and the time of the seasonal high price, typically in late May. While the circumstances may be different year-to-year, the overall pattern in the petroleum markets is surprisingly familiar.

This resource was developed to help facilitate an open discussion about the issues impacting supply — and prices — through a better understanding of the retail fuels markets and help ease frustrations that consumers often experience when gasoline prices increase.

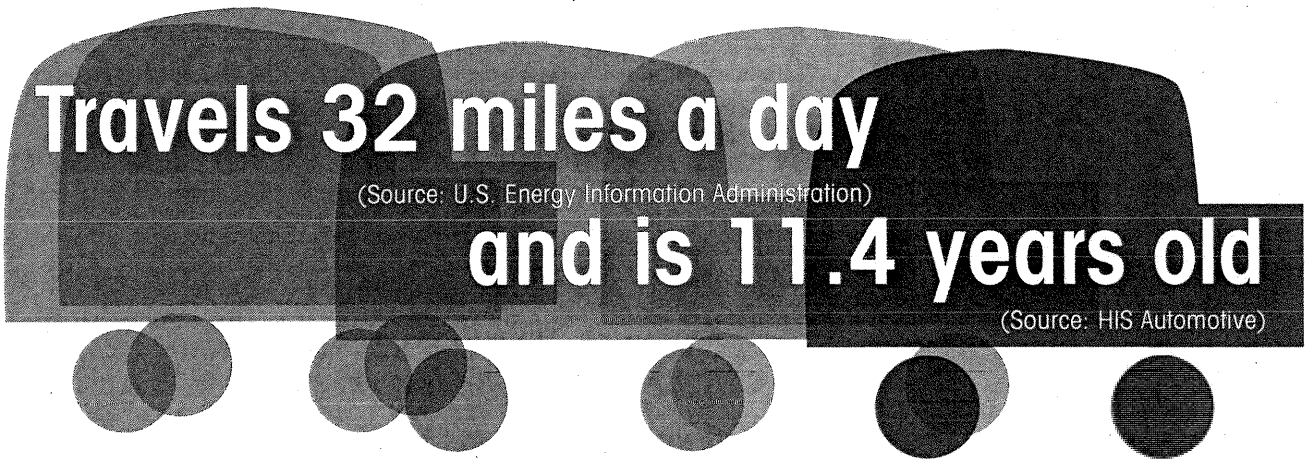
And, most importantly, we hope this resource can help provide insights and expertise on discussions that address the U.S. motor fuels industry.

More information on the fueling industry, including backgrounders on fuels and the fueling industry, is available at nacsonline.com/gasprices.

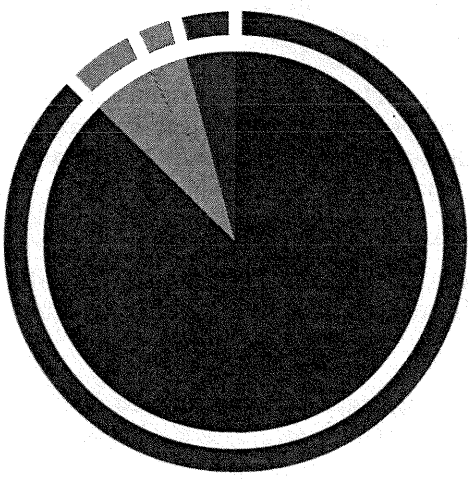
Are you average?

HOW THE AVERAGE AMERICA

The average U.S. vehicle:



HOW DO AMERICANS GET TO WORK?



85% drive or carpool

5% public transportation

3% walk

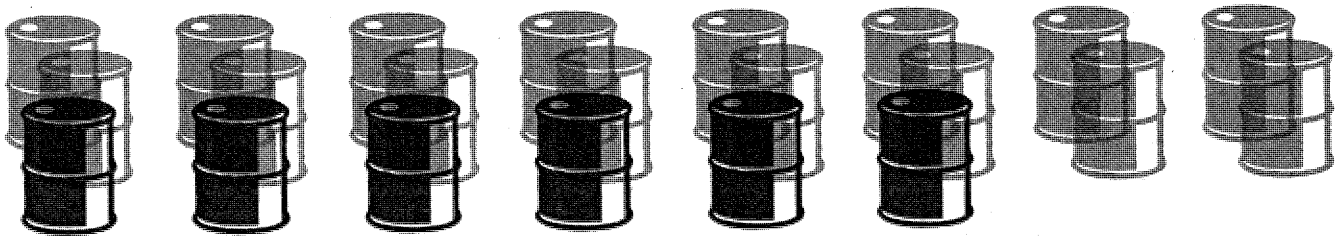
4% work at home

(Source: U.S. Census Bureau)

?

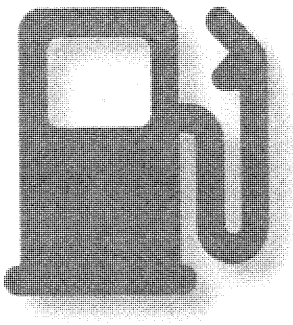
AN DRIVES AND USES FUELS

Over the course of a year, the average American uses:



22.27 barrels of oil

(Source: CIA World Factbook)

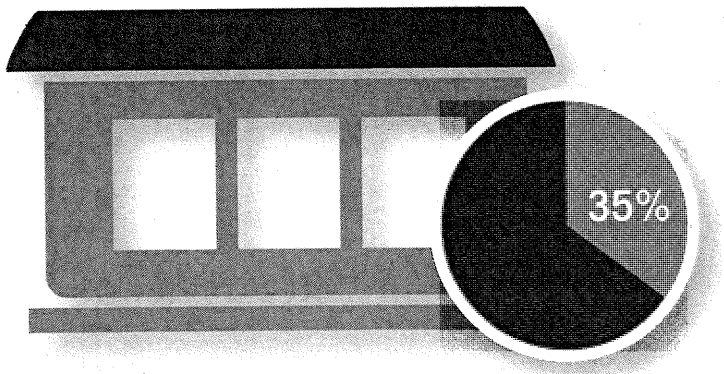


The average household buys:

729 gallons of gas each year

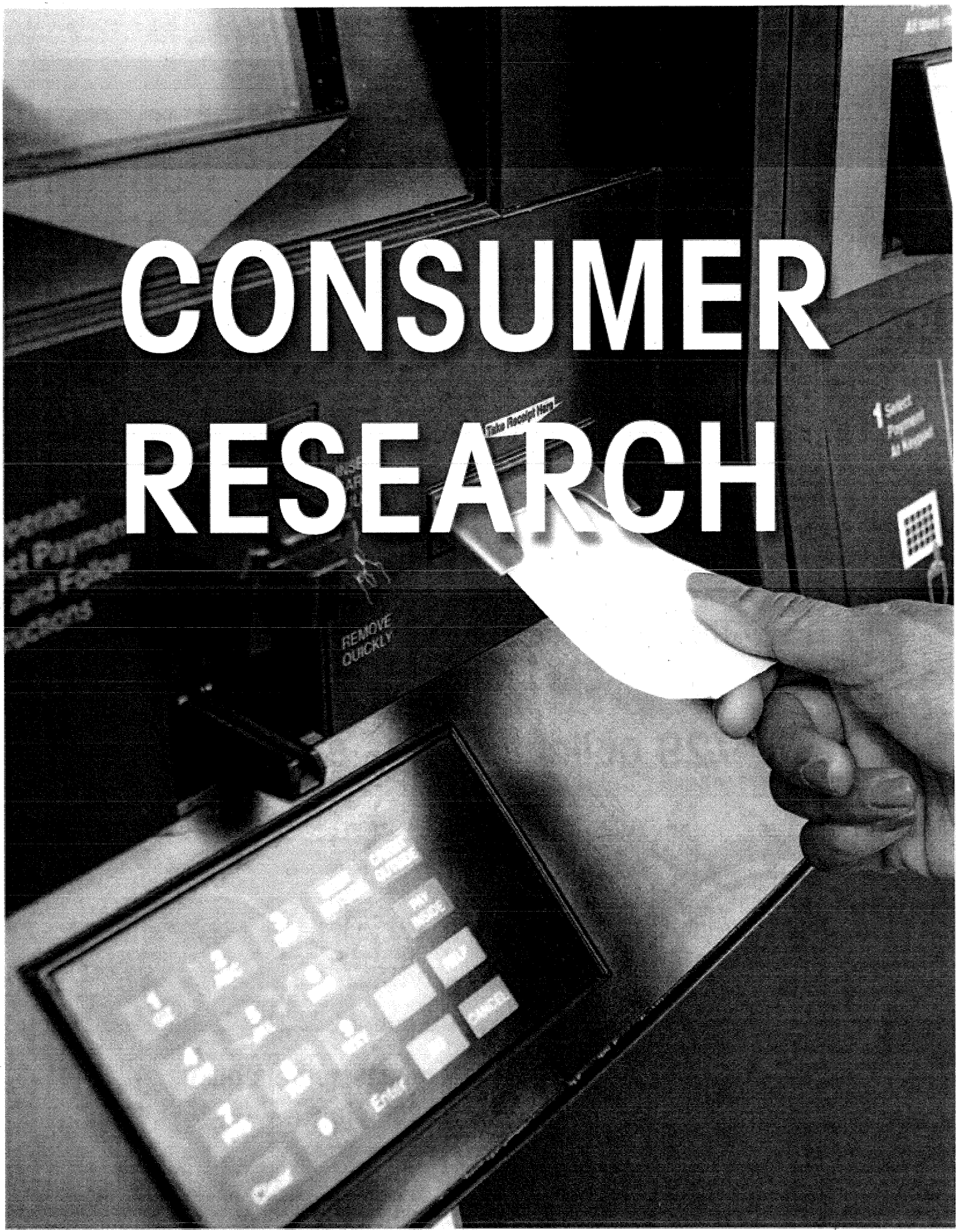
(Source: U.S. Energy Information Administration)

(Source: 2015 NACS Consumer Fuels Survey)



35% of gas customers also go inside the store

(Source: 2015 NACS Consumer Fuels Survey)


CONSUMER
RESEARCH
Ticket Receipt Here
REMOVE
QUICKLY

Price Still Dominates Gas Purchasing Decisions

It doesn't matter whether gas prices are $4 or $2 per gallon, price is the most dominant reason why consumers select a specific location to buy fuel.

Consumers are price sensitive for a number of reasons. For one, fuel expenses are a big part of their budgets. Fuels expenses have averaged around 5% of overall consumer spending over the past few years, according to the U.S. Energy Information Administration. Second, there is the opportunity to price shop. Because gas is a commodity, its price is constantly changing. (It is listed on NYMEX as "RBOB" but this price does not include taxes and delivery and retail costs. In addition, this price serves only as a benchmark and reflects the price for a specific formulation delivered to a specific region. Wholesale prices throughout the country can vary greatly from the NYMEX reported price.) Prices can vary from location to location based on wholesale costs, expenses and overall business practices.

And unlike any other product in the country, gas prices are prominently displayed outside stores, allowing drivers to price shop at 40 miles per hour. Add to the mix websites that compare prices or even songs about gas prices (Bruce Springsteen's "Held Up Without a Gun," The Kinks' "A Gallon of Gas" and NRBQ's "Get That Gasoline Blues" come to mind) and you can see why consumers always seem to care about gas prices, whether they are rising, falling or relatively stable.

Retailers understand this price sensitivity and it affects their marketing strategy to attract customers. If they can have competitive gas prices, they attract more customers, both at the pump and inside the store.

NACS has surveyed consumers about their perceptions related to gas prices since 2007, and has conducted monthly consumer sentiment surveys since 2013. The following results are from the NACS Consumer Fuels Survey, conducted January 6-8, 2015, by esteemed polling firm Penn Schoen Berland. Overall, 1,108 consumers were surveyed, and the margin of error for this survey is 2.94% at the 95% confidence level. In some cases, historical charts are included for context. In many cases, subcategory data is referenced, but is not included in the charts.

Overall Purchasing Behavior

Before examining what consumers will do at the pump, especially to save money, it's important to understand *how* they buy gas.

Of the two rush hours, consumers are much more likely to buy gas during the evening rush than morning (38% vs. 23%), likely because of morning time pressures of getting to work on time.

Q: Generally speaking, at what time of the day do you most often purchase gas?

		TRACKED		
PERCENT OF GAS CONSUMERS	2015	2014	2013	2012
Morning, or roughly 6:00 am to 10:00 am	23%	22%	17%	24%
Midday, or roughly 10:00 am to 3:00 pm	29%	31%	31%	22%
Afternoon, or roughly 3:00 pm to 7:00 pm	38%	38%	40%	29%
Night, or roughly 7:00 pm to 12:00 pm	10%	8%	11%	9%
Overnight, or roughly 12:00 pm to 6:00 am	0	1%	1%	0

Men are more likely than women to fill up in the morning (25% vs. 20%) and night (14% vs. 7%). Meanwhile, those age 50 and above are more likely to buy gas midday (38%) and those ages 18-34 are most likely to buy gas during the afternoon rush (48%).

Also, more than three quarters of consumers pay by plastic (78%). The percentage of consumers who pay by plastic has increased 24% over the past six years.

Q: Which method do you typically use to purchase gas with?

PERCENT OF GAS CONSUMERS	2015	TRACKED 2014	2013	2012	2009
Cash	23%	27%	27%	33%	35%
Credit	40%	37%	35%	41%	37%
Debit	38%	36%	37%	24%	27%
Total Debit and Credit	**78%**	**73%**	**72%**	**65%**	**64%**

Consumers buying gas mid-day are most likely to pay by cash (29%) and those age 50 and over are most likely to pay by credit card (48%). Credit card fees are typically 2%, so retailers often look for ways to reduce these costs and past the savings on to customers.

Price Remains Essential

It really doesn't matter what the price of gas is, consumers want to find the best price that they can. Approximately two in three consumers consistently shop on price, whether gas was as low as $1.62 per gallon in 2009 or as high as $3.28 per gallon in 2013 to start the new year. Even after the sharp gas price declines over the past few months, consumers still price shop for gasoline.

Q: When buying gas, which of the following factors is most important to you?

PERCENT OF GAS CONSUMERS	2015	TRACKED 2014	2013	2012	2009
Price	71%	66%	71%	63%	70%
Location of store/station	18%	20%	18%	20%	19%
Brand	8%	8%	8%	8%	9%
Ease of entrance or exit	3%	4%	2%	6%	0
Other	1%	1%	1%	2%	1%
Gas price on date survey was initiated*	**$2.22**	**$3.22**	**$3.28**	**$3.22**	**$1.62**

**Gas price determined by OPIS Retail Fuel Watch, published weekly*

There were slight variations by demographics. Females were more likely to price shop than men (74% vs. 68%) and consumers buying gas after 7:00 pm were most likely to price shop (75%), likely because they do not face the same time pressures of rush-hour drivers.

So how do price-sensitive consumers shop by price? The traditional gas price sign remains the most common method, particularly among drivers during the morning rush (67%). Loyalty cards remain a strong second choice and are used by nearly one in five (18%) price-sensitive consumers. Loyalty cards are most important to consumers shopping mid-day (21%) and least popular during the morning rush (13%).

Q: How do you shop for price (asked of the 71% who said "price" was the most important factor when buying gas)?

PERCENT OF GAS CONSUMERS	2015	TRACKED 2014	TRACKED 2013
Price sign at store	63%	57%	65%
Store tied to a loyalty card or other gas discount	18%	18%	16%
Online gas price aggregator / web site	9%	10%	7%
Company/store has reputation for low prices	9%	14%	10%
Other	1%	1%	1%

While 18% of price-sensitive consumers say that they regularly use loyalty cards to price shop, nearly two in three consumers (65%) have taken advantage of some sort of discount to reduce their gas price, whether by using a loyalty card, changing their payment method or by getting discounts for buying additional items.

Q: Have you ever taken advantage of any of these discounts offered by gas stations? Please select all that apply (multiple responses permitted)

PERCENT OF GAS CONSUMERS 2015	
Discount for using a loyalty card or app	43%
Discount for paying with cash instead of a debit/credit card	22%
Discount for using a specific credit card to buy gas	16%
Discount for buying something else at the gas station (carwash, something in the store, etc.)	14%
None of the above	35%

Consumers in the Northeast were most likely to have paid by cash or debit card to reduce their gas price (28%), while younger consumers were much more likely to buy additional items to reduce their gas price (19% of those ages 18-34, compared to only 9% of those age 50 and over).

Nearly half of all consumers have a preferred gas station or chain (48%), and not surprisingly, the main reason is lower prices.

Q: Why do you prefer that gas station or chain (asked to the 48% who had a preferred station or chain)?

PERCENT OF GAS CONSUMERS 2015	
It usually has lower prices	57%
Quality of fuel	46%
Loyalty program with chain	37%
Loyalty program with individual store	14%
Quality of items inside the store	11%
Other	5%

Consumers Will Change Their Behavior to Save Money

How might consumers adjust their behavior to save money on gas, beyond selecting the best price that they see in their neighborhood or their trip? Good news for retailers: Consumers especially would consider an alternative payment method to save money at the pump.

Q: Do you agree or disagree with the following statements?

PERCENT OF GAS CONSUMERS 2015	STRONGLY AGREE	SOMEWHAT AGREE	TOTAL AGREE
I would pay with a debit card instead of a credit card to save 5 cents per gallon on gas.	40%	29%	69%
I would pay with cash instead of a debit or credit card to save 5 cents per gallon on gas.	34%	38%	72%
I would take a left-hand turn across a busy street to save 5 cents per gallon on gas.	27%	37%	64%
I would drive 5 minutes out of my way to save 5 cents per gallon on gas.	25%	38%	63%
I would drive 10 minutes out of my way to save 5 cents per gallon on gas.	11%	25%	36%

While cash discounts have been around for a number of years, debit card discounts are much more recent. Younger consumers, who already are more likely to pay by plastic, would particularly embrace payment discounts. Of those ages 18-34, 82% would seek out debit card discounts and 78% would seek cash discounts.

Beyond payments, consumers also would go out of their way to save money on their gas purchases. Nearly two in three say that they would take a left-hand turn across a busy street (64%) or drive 5 minutes out of their way (63%) to save 5 cents per gallon.

And, more than one in three consumers say that they would drive 10 minutes out of their way to save 5 cents per gallon. While it might feel good to find a "deal" on gas prices, the action is a money-losing proposition, even with gas prices hovering around $2.20 per gallon.

Driving 10 minutes out of the way to save 5 cents per gallon means a 20-minute roundtrip. Assuming the car travels 45 mph and gets 30 miles per gallon, the trip would burn 0.5 gallons of gas — or $1.10 at January 2015 prices. To make it financially worthwhile, at 5 cents per gallon one would have to buy at least 22 gallons of gas at $2.20 per gallon simply to break even. Plus, there is the cost of 20 minutes of inconvenience.

More than anything else, this demonstrates consumer price sensitivity over gas prices. Whether or not they actually save money, consumers want to feel like they found a "deal" or did something about the price. And if they feel good, they may also go inside the store to buy other items.

Gas Prices Drive In-Store Traffic

Over the past five years, gross margins for gasoline have averaged 18.9 cents per gallon. After factoring in expenses, including credit card fees, the average profit per gallon is typically a nickel or less, or 1%-2% of the overall cost of the gas. So why would retailers operate on such slim margins? The reason is simple: If you get a consumer to your gas pump, you have a much better chance of getting that customer inside the store to buy other items with more traditional profit margins. And that is exactly what happens; more than one in three consumers (35%) go inside the store after buying gas there.

Q: Thinking just about the last time you purchased gas, did you also go inside a store associated with the gas station?

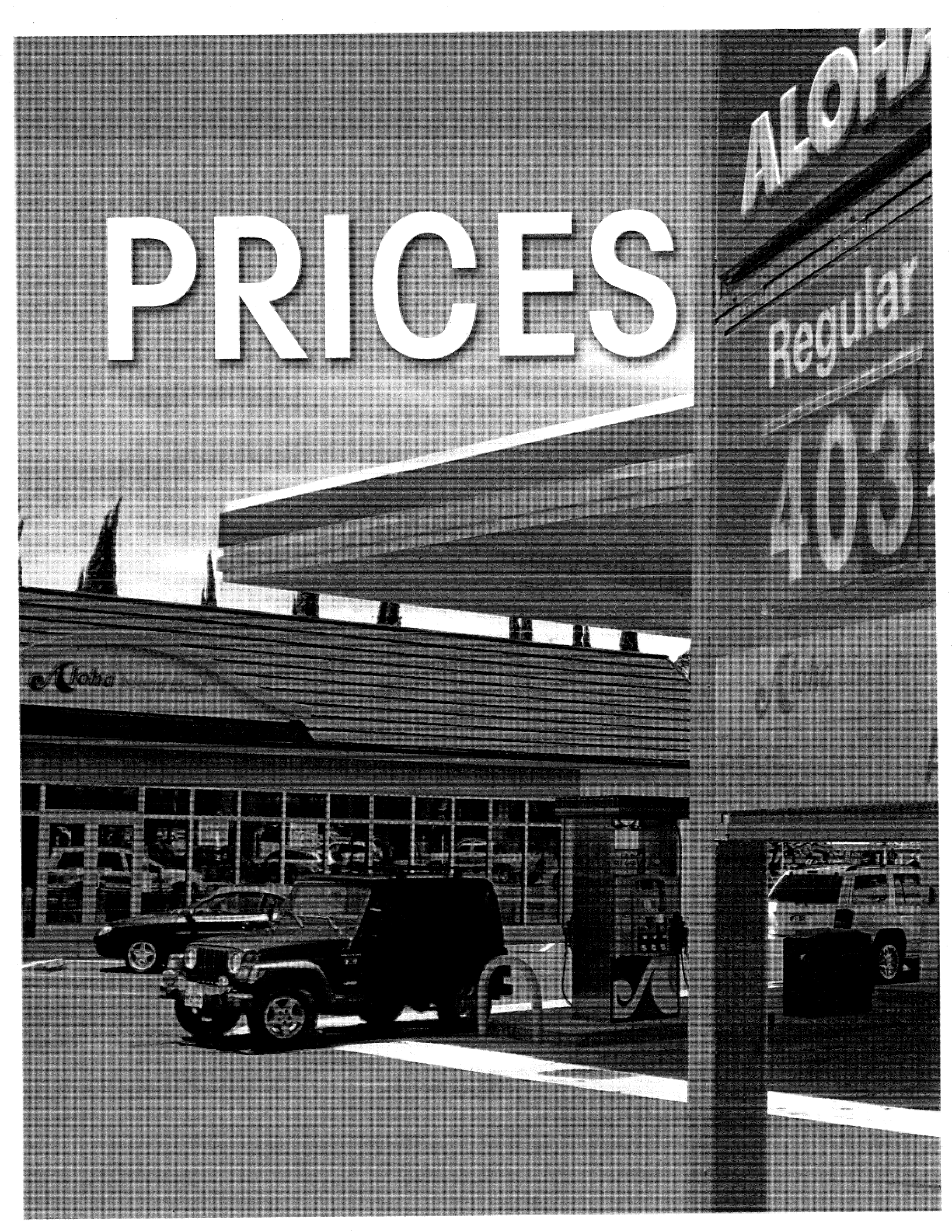
PERCENT OF GAS CONSUMERS 2015	
Yes	35%
No	61%
There was no store associated with that gas station.	4%

Younger consumers were most likely to go inside the store to buy other items: 42% of those ages 18-34 went inside the store the last time that they purchased gas.

Going inside the store doesn't necessarily mean that a consumer will buy items. Consumers may have intended to buy something but didn't find anything that they wanted. Or they may have come inside for other reasons, whether to use the bathroom or the ATM. Still, a sizable percentage of consumers buy one or more items, whether drinks, snacks or even meals, which are increasingly embraced by consumers at convenience stores that sell gas.

Q: Which of the following did you do while you were in the store associated with the gas station? Please select all that apply (asked of the 35% who went inside the store on their last visit; multiple responses permitted).

PERCENT OF GAS CONSUMERS 2015	
Paid for gas at the register	42%
Bought a drink (coffee, fountain drink, can or bottle)	36%
Bought a snack	33%
Bought cigarettes	24%
Bought lottery tickets	22%
Used the bathroom	17%
Bought beer / wine	11%
Bought fill-in grocery items, like bread or milk	9%
Bought a sandwich or other meal	8%
Used the ATMw	6%
Went in to look but did not buy anything	6%
Other	3%
None of the above	4%


PRICES
Regular
Aloha

The Price Per Gallon

Retail gasoline prices are among the most recognizable price points in American commerce. And with good reason: Gasoline purchases account for approximately 5% of consumer spending. The U.S. Energy Information Administration forecasts that the average U.S. household will spend about $2,000 for gasoline in 2015.

At the same time, gas prices are among the least understood prices in the country because they often appear to increase or decrease without much reason. Here is a primer on what goes into the price of a gallon of gasoline, and what causes prices to go up or down and vary from store to store.

Ownership and Supply Arrangements

Unlike a few decades ago, when the major oil companies owned and operated a significant percentage of retail fueling locations, less than 0.4% of all convenience stores selling fuels today are owned by one of the major oil companies. About another 4% are owned by a refining company. Instead, the vast majority — about 95% of stores — are owned by independent companies, whether one-store operators or regional chains. Each of these companies has different strategies and/or strengths in operations, which can dictate the type of fuel that they buy and how they sell it.

There are four broad factors that can impact retail prices:

- **Fuel Type** — Typically, stores that sell fuel under the brand name of a refiner pay a premium for that fuel, which covers marketing support and signage, as well as the proprietary fuel's additive package. These branded stores also tend to face less wholesale price volatility when there are supply disruptions.

- **Delivery method** — Retailers who purchase fuels via "dealer tank wagon" have the fuel delivered directly to the station by the refiner. They may pay a higher price than those who receive their fuels at "the rack" or terminal. In addition, a retailer may contract with a jobber to deliver the fuel to his stations or operate his own trucks – the choice will influence his overall cost.

- **Length of contract** — Even if they sell unbranded fuels, retailers may have long-term contracts with a specific refiner. The length of the contract — which can be 10 years, sometimes longer — and associated terms of that contract can affect the price that retailers pay for fuels.

- **Volume** — As in virtually every other business, retailers may get a better deal based on the amount of fuels that they purchase, whether based on volume per store or total number of stores.

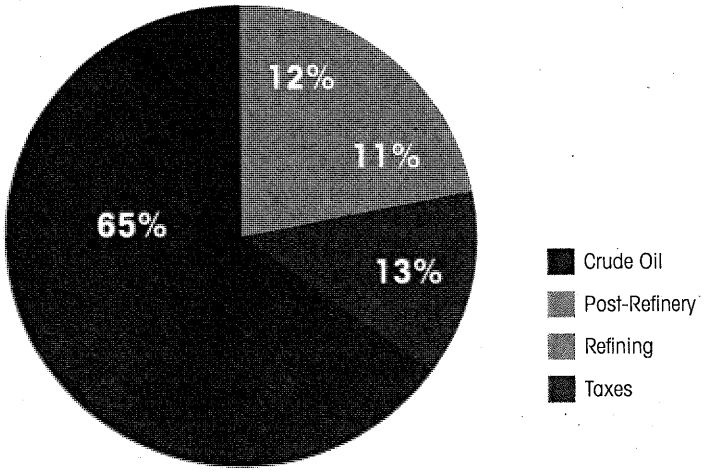
Even within a specific company, stores may not each have the same arrangements, since companies often sell multiple brands of fuels, especially if they have acquired sites with existing supply contracts.

Crude Oil's Affect on Gas Prices

No matter who owns the station, retail fuels prices are ultimately affected by four sets of costs: crude oil costs, taxes, refining costs and post refinery (which accounts for all costs after the fuel leaves the refinery).

Crude oil prices have by far the biggest effect on retail prices. Crude oil costs are responsible for about two-thirds of the cost of a gallon of gasoline. In 2014, crude oil costs were 65% of the retail price of gasoline. While there may be slight variations in the costs of refining or distributing and retailing fuels, crude oil prices can experience huge swings.

OIL IS TWO-THIRDS OF THE COST OF GASOLINE



(Source: U.S. Energy Information Administration, cumulative 2014 monthly averages. Figures do not add up to 100% because of rounding.)

Given there are 42 gallons in a barrel, a rough calculation is that retail prices ultimately move approximately 2.4 cents per gallon for every $1 change in the price of a barrel of crude oil. While this is not an exact calculation and ignores a variety of influencing factors, it helps demonstrate that as crude prices change, so does the price of retail gasoline.

Taxes are largely per gallon, although some areas have sales taxes on fuels, and those taxes increase as the price increases. There sometimes are significant tax disparities between stations located in the same market area but in different cities, countries or states. For instance, New Jersey has a gasoline tax of 32.9 cents per gallon, while neighboring Pennsylvania's gas tax is 68.9 cents per gallon. (See map of state tax rates on page 45.)

Sales Strategies Impact Gas Prices

Fuel retailers face the same question that all retailers face: sell at a low profit per unit and make up for it on volume, or sell at a higher profit per unit and expect less volume?

But there also are several considerations in setting fuel prices that retailers of other products don't face.

- **Wholesale price changes** — Competing retailers in a given area may have very different wholesale prices based on when they purchased their fuel, especially during times of extreme price volatility. Gasoline is a commodity, and its wholesale price can have wild swings. It's not unusual to see wholesale price swings of 10 cents or more in a given day. Depending on sales volumes and storage capacity, retailers get as many as three deliveries a day or as few as one delivery every three days or so. Due to competition for consumers, retailers may not be able to adjust their prices in response to an increase in wholesale prices because their competition may not have incurred a similar increase in their cost of goods sold. Conversely, a retailer may adjust his prices when the competition adjusts prices, either following or in advance of a shipment.

- **Contracts** — How retailers buy fuel can play a significant role in pricing strategy. Retailers sign long-term contracts (10 years is the norm) and these contracts may dictate the amount and frequency of their shipments. When supplies are tight, retailers with long-term contracts may have lower wholesale costs than retailers who compete for a limited supply on the open market, but they may also face allocations (a limit on the amount of fuel that they may obtain) on the amount of fuel they receive.

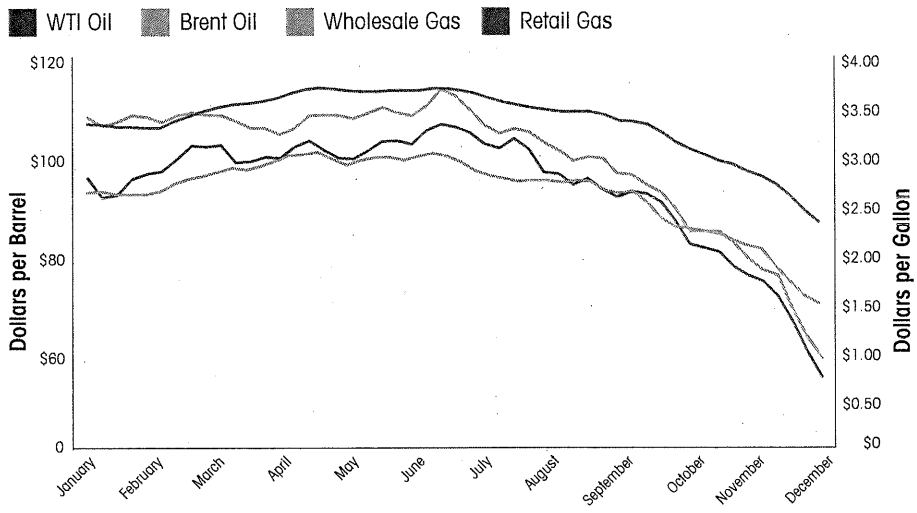
- **Brand** — Who retailers buy fuel from also affects pricing strategies. Branded retailers often pay a premium for fuel in exchange for marketing support, imaging and other benefits. Branded retailers typically have the least choice in how they obtain fuel, or at what price, but that is offset by the many benefits that a brand provides.

Each of these factors adds complexity to a retailer's pricing strategy, and they can create unusual market dynamics. There are times when the retailer with the highest posted price in a given area actually may be making the least per gallon, based on when, how and where the fuel was purchased.

No matter what their pricing strategy, retailers tend to reduce their markup to remain competitive with nearby stores when their wholesale gas prices increase. This can lead to a several-day lag from the time wholesale prices rise until retail prices rise. Likewise, when wholesale gas prices decrease, retailers may be able to extend their markup and recover lost profits, with retail gas prices dropping slower than wholesale prices.

Despite extreme volatility, retail margins for fuel are fairly consistent on an annual basis. Over the past five years, the annual average retail mark-up (the difference between retail price and wholesale cost) has averaged 18.9 cents per gallon. Ultimately, retailers set a price that best balances their need to cover their costs with the need to remain competitive and attract consumers, who are very price sensitive and will shop somewhere else for a difference of a few cents per gallon.

WHOLESALE AND RETAIL GASOLINE PRICES TRACK OIL PRICES (2014)



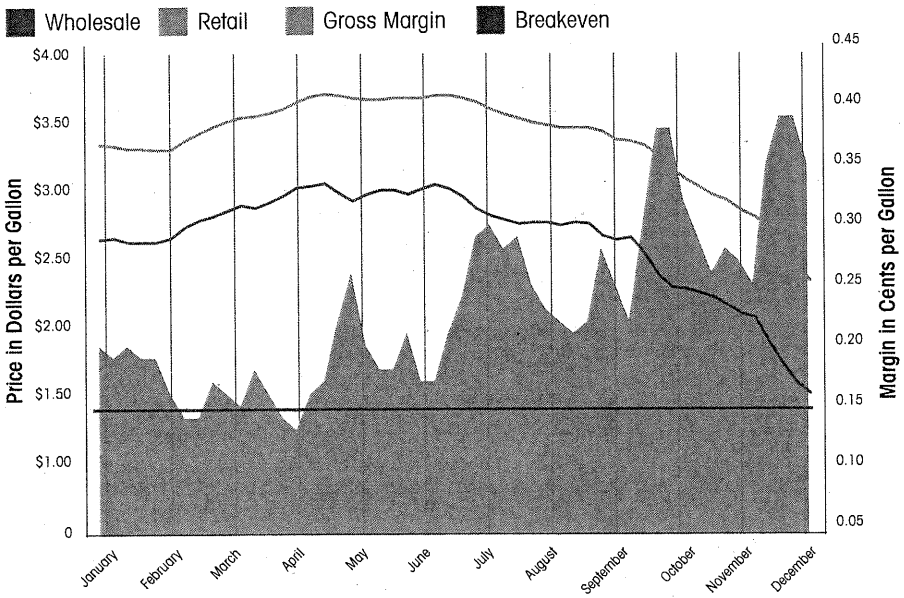
(Sources: OPIS "Retail Fuel Watch"; U.S. Energy Information Administration)

Retail Profitability Measured Over Time

The pattern of retail profitability is the opposite of what most consumers think. Due to the volatility in the wholesale price of gasoline and the competitive structure of the market, fuel retailers typically see profitability decrease as prices rise, and increase when prices fall. On average, it costs a retailer about 12 to 16 cents to sell a gallon of gasoline. Using the five-year average markup of 18.9 cents, the typical retailer averages about 3 to 5 cents per gallon in profit. (Retailer costs to sell fuel include credit card fees, utilities, rent and amortization of equipment.)

Over the course of a year, retail profits (or even losses) on fuels can vary wildly. In some cases, a few great weeks can make up for an otherwise dreadful year — or vice versa.

RETAIL FUEL MARGINS EXPERIENCE WILD VARIATIONS OVER TIME (2014)



(Sources: U.S. Energy Information Administration, OPIS)

With its extreme volatility, fuels retailing is not for the faint of heart — or for those with limited access to capital. Perhaps that is why that since 1994, while overall fuels demand in the United States has increased, the total number of fueling locations (all convenience stores selling fuel, plus gas-only stations, grocery stores selling fuel, marinas, etc.) has decreased from more than 200,000 to a little more than 150,000 sites.

Why Prices Historically Go Up in the Spring

By springtime, gas prices begin to increase and generally peak around Memorial Day. Most consumers assume that prices peak at this point because of the advent of the summer-drive season. But is that the case?

To a certain extent, seasonal demand is a factor. But there are other events that, with demand, collectively have a greater effect on prices each spring, leading to price peaks right before Memorial Day. In six of the past 15 years (40% of the time), the seasonal peak took place between May 9 and May 24.

Crude oil prices drive gas prices, but how the crude oil is processed also plays a significant role in price increases. The petroleum industry's switchover to summer-blend fuels, a process that begins each February and ends June 1, creates challenges that also affect retail fuels prices. Since final implementation of the Clean Air Act Amendments in 2000, the seasonal transition to summer-blend fuel has helped gasoline prices climb significantly before they reached their peak. Comparing prices the first week in February to their seasonal peak, increases have ranged from a low of 20 cents per gallon in 2003 to a high of $1.13 per gallon in 2008; on average, the average annual increase is 52 cents per gallon.

COMPARISON OF GAS PRICES — FEBRUARY VS. SEASONAL PEAK						
YEAR	DATE	PRICE	PEAK DATE	PRICE	INCREASE	% INCREASE
2014	Feb. 3	$3.279	April 28	$3.713	43.4¢	13.2
2013	Feb. 4	$3.538	Feb. 25	$3.784	24.6¢	7.0
2012	Feb. 6	$3.482	April 2	$3.941	45.9¢	13.2
2011	Feb. 7	$3.132	May 9	$3.965	83.3¢	26.6
2010	Feb. 1	$2.661	May 10	$2.905	24.4¢	9.2
2009	Feb. 2	$1.892	June 22	$2.691	79.9¢	42.2
2008	Feb. 4	$2.978	July 21	$4.104	$1.126	37.8
2007	Feb. 5	$2.191	May 21	$3.218	$1.027	46.9
2006	Feb. 6	$2.342	May 15	$2.947	60.5¢	25.8
2005	Feb. 7	$1.909	April 11	$2.280	37.1¢	19.4
2004	Feb. 2	$1.616	May 24	$2.064	44.8¢	27.7
2003	Feb. 3	$1.527	March 17	$1.728	20.1¢	13.2
2002	Feb. 4	$1.116	April 8	$1.413	29.7¢	26.6
2001	Feb. 5	$1.443	May 14	$1.713	27.0¢	18.7
2000	Feb. 7	$1.325	June 19	$1.681	35.6¢	26.9

(Source: U.S. Energy Information Administration)

Refinery Maintenance During the First Quarter

Refineries convert crude oil into a variety of products, including gasoline, diesel fuel (known as "distillates") and jet fuels, among other products. The United States has greater demand for gasoline (as opposed to diesel fuel). Therefore, U.S. refineries are optimized to produce gasoline, and their maintenance schedules are based on gasoline demand.

Demand for gasoline in the United States is generally the lowest during the first two months of the year, so refinery maintenance, known as a "turnaround," is often scheduled during the first quarter. Another reason for scheduling turnarounds during this period is that it is the time between peak heating oil season and peak summer drive season, allowing refineries to retool for summer-blend fuels.

A turnaround is a planned, periodic shut down (total or partial) of a refinery process unit or plant to perform maintenance, overhaul and repair operations and to inspect, test and replace materials and equipment. On average, refineries experience turnarounds about every four years, meaning that about one quarter of the country's refineries experience a turnaround in a given year. These turnarounds are scheduled at least one to two years in advance, and can be from one to four weeks in duration.

Because of the long lead time required to plan turnarounds, they are costly to reschedule and usually proceed as planned, even if refining capacity is suddenly tight because of unplanned refinery shutdowns elsewhere. Add to this mix the reduction in the number of refineries throughout the country — there are currently 142 operable refineries in the United States, about half the total from 1980 — and any unanticipated refinery shutdowns can have a ripple effect on supply. Further, like any maintenance, some turnarounds may not go as planned and take longer than originally anticipated, further stressing the system. To minimize the impact of turnarounds on overall supply, they are staggered through a roughly three-month window.

Refineries Switch to Summer-blend Production in April

The U.S. Environmental Protection Agency (EPA) defines April to June as the "transition season" for fuel production. Refineries lead this transition and switch over to summer-blend production in March and April.

The blends of gasoline used in the summer months are different than the blends used in the winter. In the winter, fuels have a higher Reid vapor pressure, meaning they evaporate more easily and allow cars to start in colder weather. In the warm summer months, these evaporative attributes would lead to increased emissions and the formation of smog.

The Clean Air Act Amendments of 1990, which had final implementation in 2000, requires that different fuels be used in many metropolitan areas, affecting more than 30 percent of the gas purchased in the country. Reformulated gas (RFG) is required in cities with high smog levels and is optional elsewhere. It is currently used in 18 states and the District of Columbia. (EPA publishes a listing at www.epa.gov/otaq/fuels/gasolinefuels/rfg/areas.htm of where RFG is used.)

There are also more fuels to produce during the transition season. In the winter months, only a few fuels are used across the United States. However, because of various state or regional requirements, 14 different fuel specifications are required for the summer months. Refineries must produce enough for each area to ensure that there are no supply shortages. (See map on page 46.)

Summer-blend fuel is more expensive to make than winter-blend fuel for two reasons. First, the production process takes longer and is costlier. Second, the overall yield of gasoline per barrel of oil is lower. These complexities add several cents per gallon to the cost to produce these higher-grade fuels.

In addition to added costs to produce the fuel, prices are also affected by increased demand, maintenance costs and capacity decreases.

Retail Deadlines Go Through June

The end point in a series of handoffs to prepare for summer-blend fuel is the date that retailers must sell the fuel. In most areas of the country that require summer-blend fuels, retailers have until June 1 to switch to summer-grade gas.

Some retailers must sell summer-blend fuels much earlier. California, which has one-eighth of the country's population, has among the most stringent requirements, both in terms of the complexity of the fuel and the date at which summer-blend fuel must be sold. In Northern California, retailers must sell summer-blend fuel a month earlier than the rest of the country: May 1. In Southern California, the deadline is two months earlier: April 1. One of the reasons why California has a longer summer-blend period than other states is because of its longer period of high temperatures — particularly in the desert areas, which are located in the air district with the worst quality of air.

There are other key deadlines that additionally put stress on the system. Nationwide, refiners must produce summer-blend fuel no later than April 1. (Obviously, deadlines are earlier for California's fuels.) From refineries, fuels travel through pipelines at about 4 miles per hour, or 100 miles per day. Fuels refined in the Gulf Coast can take several weeks to reach storage terminals throughout the country. This is why the deadline to have summer-blend fuel at terminals and storage facilities is May 1 — a month after the transition at the refineries.

The May 1 deadline for terminals is considered one of the biggest factors in the seasonal price increases. Terminals have to fully purge their systems of winter-blend fuels and be near empty to make the transition and be in compliance. Those out of compliance face stiff penalties, so most terminal operators would rather be out of inventory than out of compliance. This regulatory requirement leads to lower inventories at the terminal. Combined with increased demand, this puts upward pressure on prices.

Demand Increases, Beginning in February

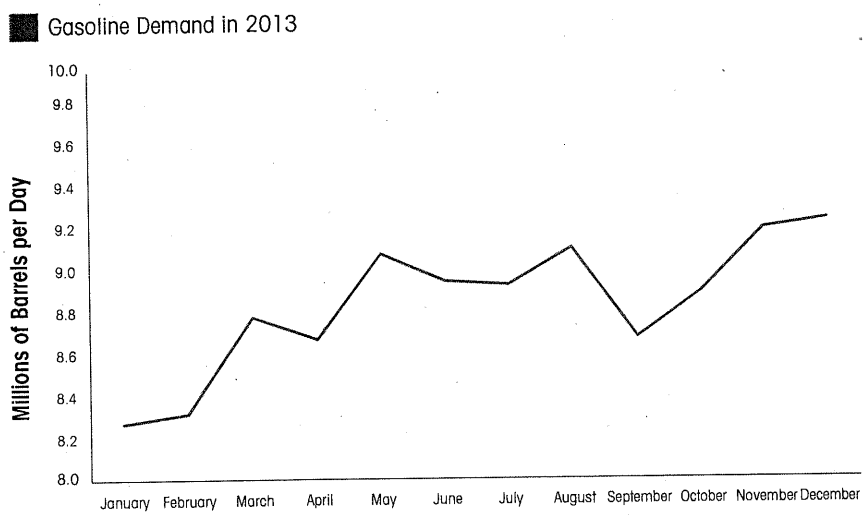
Demand is often cited as the main reason for spring price increases. In 2014, U.S. demand for petroleum products averaged 19.1 million barrels per day, of which 8.9 million were gasoline. But world demand for oil is around 91 million barrels per day, more than four times the total of U.S. demand and 10

times U.S. demand for gasoline alone. While U.S. demand for gasoline had declined from its peak in 2007, world demand for oil has increased, which elevates oil prices and subsequently drives gas prices.

Still, U.S. gasoline demand is a factor in the annual spring increase. Demand increases every year beginning in February, and typically peaks in August. The common misperception is that there is a huge increase in demand for the Memorial Day weekend with the official beginning of the summer-drive season. There is an increase in demand, but it is only a few percentage points per month. However, a 1% increase in U.S. gasoline demand does mean that an extra 90,000 barrels per day must be produced, which is the equivalent of the output of a small refinery. During the seven-month period when demand increases, the problem is compounded. Demand in August 2014 was 849,000 barrels per day (10.3%) greater than demand in January 2014. That demand increase creates enormous pressure on the system and makes it extremely vulnerable to supply disruptions.

2014 GASOLINE DEMAND		
	MILLION BARRELS/DAY	CHANGE FROM MONTH PRIOR
January	8.278	-6.5%
February	8.325	+0.6%
March	8.794	+5.6%
April	8.683	-1.3%
May	9.100	+4.8%
June	8.966	-1.5%
July	8.948	-0.2%
August	9.127	+2.0%
September	8.690	-4.8%
October	8.911	+2.5%
November	9.220	+3.5%
December	9.263	+0.5%

(Source: U.S. Energy Information Administration, "Weekly Average U.S. Product Supplied of Finished Motor Gasoline")



A Slight Bump in the Fall

As demand decreases and temperatures cool, retailers can switch over to selling winter-blend fuel, beginning September 15. While these winter-blend fuels are cheaper to produce, the complications of the switchover often lead to a temporary bump in price, usually a few cents per gallon.

The weather may also affect gas prices in the fall. Hurricanes, especially those that damage Gulf Coast refining operations, place significant pressure on supplies and affect prices across the country.

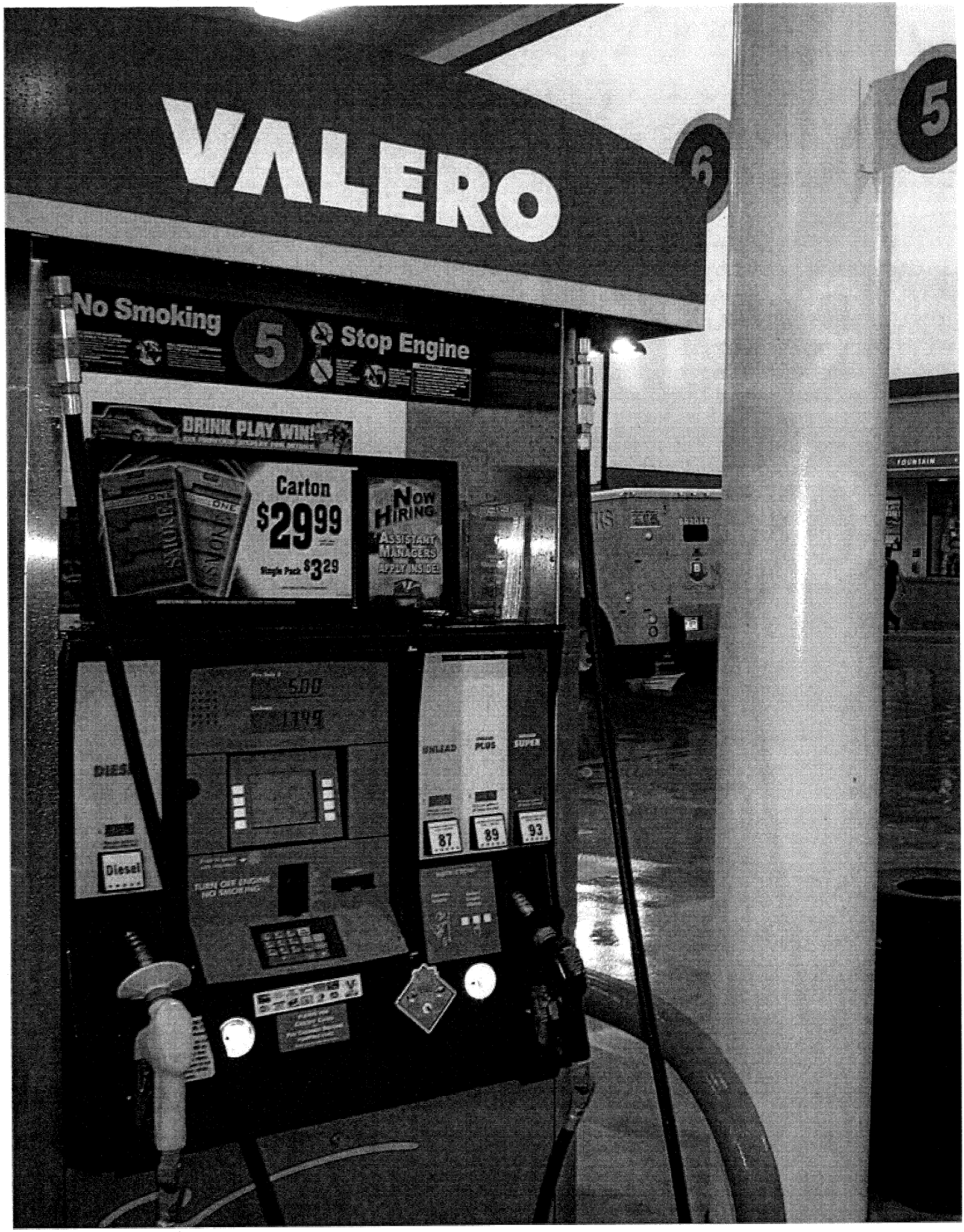
Unlike in the spring, the change to winter-blend fuel is not required. However, because winter-blend fuel costs less, retailers often sell the cheaper fuel so they can be as price competitive as possible. Not all retailers begin selling this fuel on September 15; most wait to make the switch until their inventories are low. A retailer's volume will dictate how often a station receives deliveries, with some stores having multiple deliveries per day and others needing just one or two deliveries per week.

By the end of September, gas prices generally decrease as the complications from this switchover are processed and demand continues to fall. Despite what conspiracy theorists believe, price decreases in the fall have everything to do with a decrease in demand and shift in fuel specifications and nothing to do with pre-election politics.

Also, California's summer-blend fuels season is longer than the rest of the country. Both Northern and Southern California's summer-blend requirements run through the end of October. This exacerbated the problems with supply in California in early October 2012, when fires at two important refineries limited state-specific production and caused wholesale and retail gas prices to spike to record levels.

Exceptions to the Rule

Summer-blend fuel requirements may be relaxed in times of emergencies or when potential shortages are possible. That was the case in 2005 as Hurricane Katrina made landfall in Louisiana at the end of August and significantly affected Gulf Coast refining operations. Several states successfully petitioned for waivers to temporarily exempt retailers from RFG and other fuel requirements through September 15. Only the U.S. Environmental Protection Agency has the authority to issue these waivers.


VALERO
No Smoking
Stop Engine
DRINK PLAY WIN
Carton
$29.99
Single Pack $3.29
NOW HIRING
ASSISTANT MANAGERS
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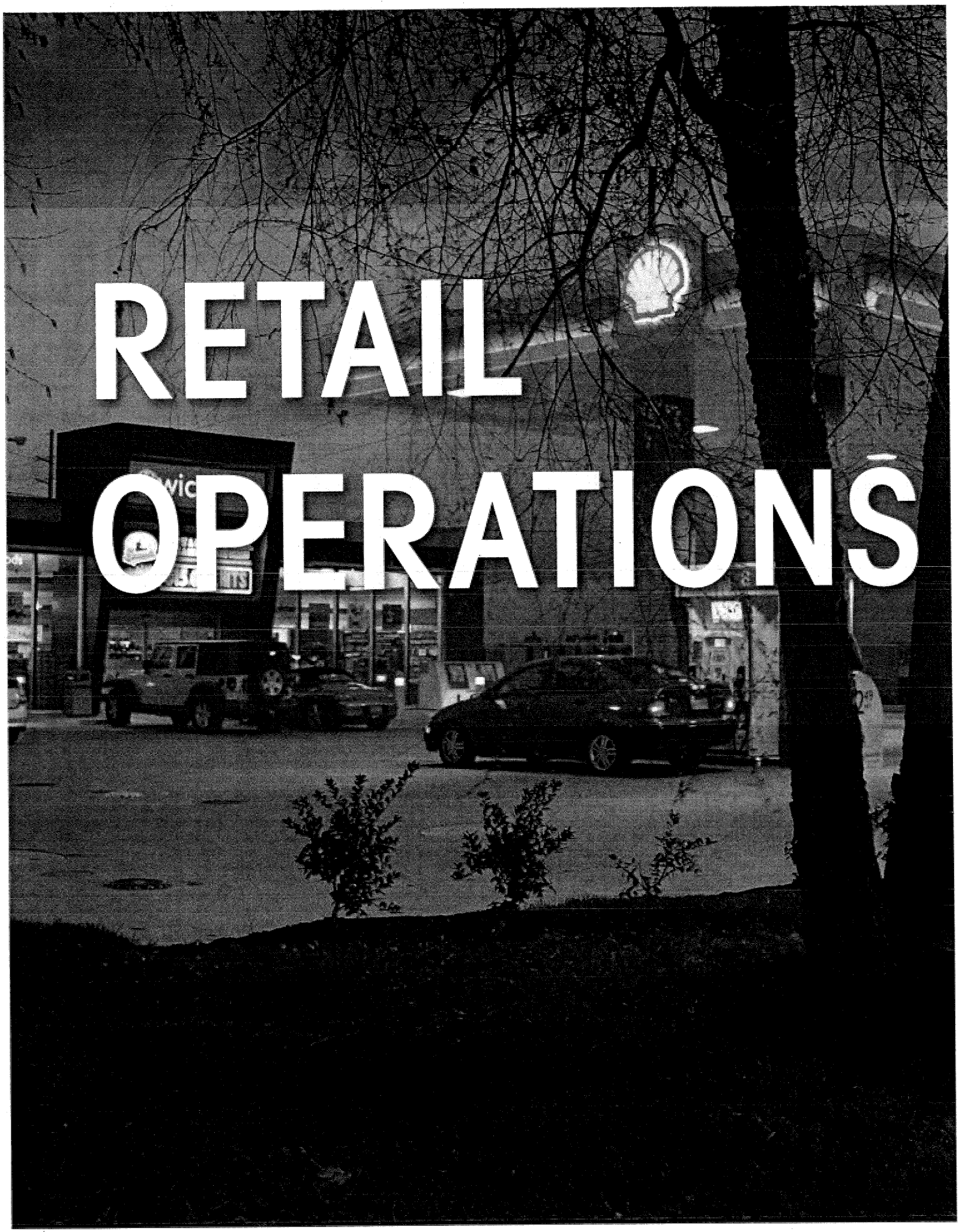
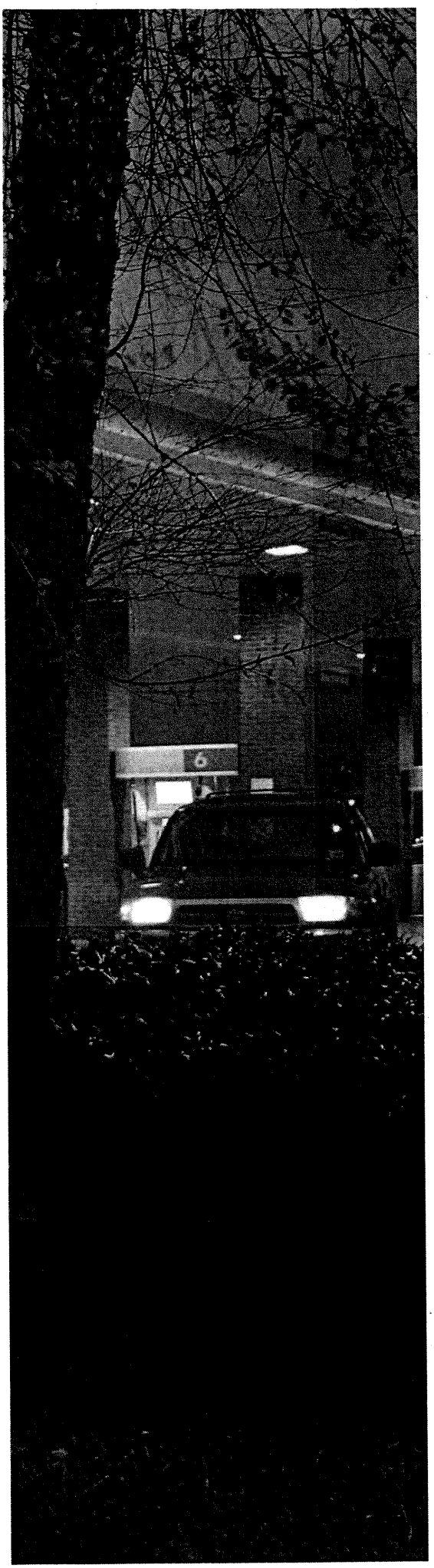


RETAIL OPERATIONS



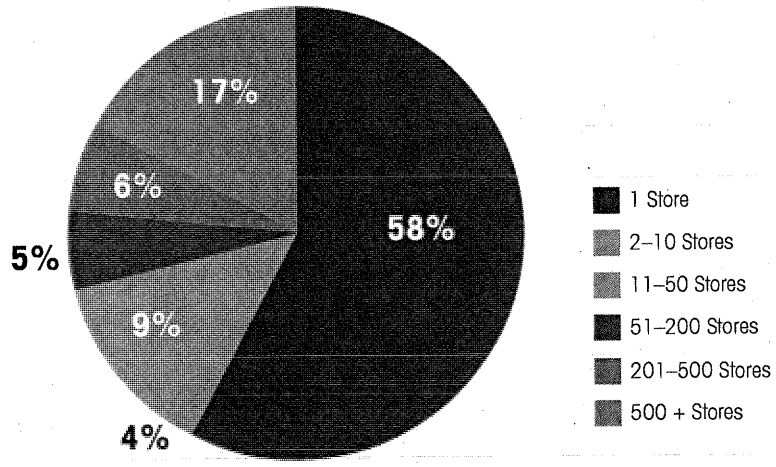
Who Sells America's Fuel?

Americans fuel up their cars about four to five times every month at more than 150,000 fueling stations across the United States. But who owns these fueling locations? It's highly unlikely that it's an oil company and very likely it's a one-store local business.

Small Businesses Fuel America

There are 127,588 convenience stores selling fuel in the United States, and these retailers sell an estimated 80% of all the fuel purchased in the country. Overall, 58% of the convenience stores selling fuel are single-store operators — more than 70,000 stores. Many of these small businesses may not have the resources to brand their stores separately from the brand of fuel they sell and promote on their canopies, often leading to consumer misperceptions that they are businesses owned and operated by a major oil company.

OWNERSHIP OF CONVENIENCE STORES SELLING FUEL



(Source: NACS/Nielsen 2015 Convenience Industry Store Count)

Big Oil Continues to Exit Retail

Large, integrated oil companies, especially since 2007, have exited the retail business to focus more on resource production and refining operations. ExxonMobil, Shell, BP and ConocoPhillips have either begun or completed the process of selling off all of their directly operated facilities. Of the 127,588 convenience stores selling fuels, less than 0.4% (443 stores) of them are owned by one of the five major oil companies as of June 2014.

MAJOR OIL-OPERATED RETAIL OUTLETS:	
Chevron	423
Shell	20
ExxonMobil	0
BP	0
ConocoPhillips	0

(Source: Nielsen, June 2014)

Major Oil Keeps Its Brand Presence

While the major oil companies are withdrawing from retail operations, their brands remain. In fact, roughly half of retail outlets sell fuel under the brand of one of the 15 largest refiner-suppliers. Virtually all of these branded locations are operated by independent entrepreneurs who have signed a supply contract with a particular refiner/distributor to sell a specific brand of fuel, but these retailers do not share in the profit/loss of their suppliers.

The remaining 50% sold "unbranded" fuel. These stations often are owned by companies that have established their own fuel brand (i.e., QuikTrip, Wawa, 7-Eleven) and purchase fuels either on the open market or via unbranded contracts with a refiner/distributor.

Other Retail Channels Sell Fuels

Convenience stores sell more than 80% of the fuels purchased in the United States, and their dominance continues to grow. Over the past decade, the number of convenience stores selling fuels has grown by 15% (from 110,895 to 127,588 stores). Meanwhile, the overall number of fueling locations has dropped.

There were 152,995 total retail fueling sites in the United States in 2013, the last year measured by the now-defunct *National Petroleum News*' MarketFacts. This was a steep and steady decline since 1994, when the station count topped 202,800 sites.

Another channel also has seen growth over the past decade: big-box grocery stores and mass merchandising stores, otherwise known as "hypermarkets." As of May 2014, the 5,236 hypermarket retail fueling sites sold an estimated 13.8% of the motor fuels (gasoline) purchased in the United States, according to Energy Analysts International. These sites sell approximately 278,000 gallons per month, more than twice the volume of a traditional fuels retailer.

The top five hypermarkets selling fuel, by store count:

- Kroger (1,220)
- Walmart (999 stations, mainly Murphy USA with small mix of others; up to 200 new Murphy USA sites are due by end of 2015 per agreement)
- Sam's Club (505)
- Costco (381)
- Safeway (346)

(Source: Energy Analysts International)

The remainder of fuels sales in the United States comes from traditional service stations without convenience operations and very low-volume fueling sites, such as at marinas.

How Branded Stations Operate

Major oil companies have essentially exited the retail fuels business, but it often looks like they dominate the retail landscape. About half of the fueling stations in the United States sell a brand of fuel from one of the 15 major refiners/suppliers, which often makes the signage touting a particular fuel brand seem like an oil company owns the store.

But instead the contractual relationship for fuels is much like that inside the store, where beverage companies often help provide branded fountain dispensers that dispense a branded soft drink. Both the oil company and the beverage company help the retailer sell product, but that doesn't mean they own the store.

Retailer Benefits

For retailers, being branded means consumer recognition. More than half of all convenience stores selling fuels (58%) are single-store operations, so having a branded contract with a major refiner/supplier instantly provides a retailer with a familiar brand for their top product: motor fuels.

A branded fuel can also determine where some customers choose to shop. While price is still the number-one determinant for gas purchases, about one in 12 motorists consider fuel brand as the top reason for their purchasing decision. A branded contract also guarantees fuel supply, especially when supplies are tight. Supply guarantees can also smooth out extreme price volatility seen in the wholesale gas markets.

There also are non-fuel benefits to branding. Operators can take advantage of the oil company's knowledge in retail best practices for attracting customers and employee training tools. Retailers can also receive financial support such as an imaging allowance (loan) to improve the look of the store.

Major Oil Company Benefits

Major oil companies shed their retail portfolios to better utilize their assets in upstream production — that is, oil refining and/or oil production.

Instead of tying up resources on real estate and making a few cents a gallon selling fuel, they can funnel their resources into large-scale, long-term projects. But there is obvious value to having your company name displayed in front of millions of consumers every day. And this is why the major oil companies continue to brand stations that they don't own or operate. A second reason is that branded relationships give oil companies a guaranteed customer for their product, and at predictable volumes. The same holds true for other refiners or supply companies.

Contractual Terms

What are the typical terms of these branded contacts? While every contract differs, here is a broad overview:

- **Length** — A typical contract is for 10 years, although contracts may be as long as 20 years or as short as 3 years for renewed contracts.

- **Volume requirements** — Contracts typically set forth a certain amount of fuel each month that retailers must sell. Usually retailers can sell more than the agreed-to amount, but when supply disruptions exist, they may be put on allocation and only given a percentage of what they historically receive in a given time period. This enables the supplier to more efficiently manage fuel distribution to all branded outlets in an equitable fashion.

- **Image requirements** — A branded retailer receives marketing muscle from its oil company partner, which may include broad advertising to encourage in-store sales. Also, the oil company may provide financial incentives to display its brands. This also depends on who operates the station and

whether the store owner has access to capital. In exchange, the oil company expects the store to adhere to certain imaging requirements, including specific colors, logos and signage, standards of cleanliness and service. The oil company often relies on mystery-shopping programs to assess compliance.

- **Wholesale price requirements** — A branded retailer must purchase fuel from a branded supplier or distributor. Branded contracts benchmark the wholesale price to common fuels indexes, such as Platt's, plus a premium of a few cents for brand/marketing support. Some branded contracts also stipulate the retail markup on the fuel through a "consignment agreement," whereby the supplier or distributor retains ownership of the fuel until it is sold and pays the retailer a commission.

Types of Branded Retailers

There are different ownership structures within the branded station universe:

- **Regional company or chain operated** — A chain of convenience stores with a common name that operates the branded locations. In many cases, a chain may sell different brands at different stores, based on the needs of the marketplace and terms of contracts that may have been carried forward from stores that were acquired from other operators. Many operations of this kind serve as distributors to themselves and maintain supply agreements with the branded oil companies.

- **Lessee dealers** — The dealer/retailer owns the business. A major or regional oil company or a distributor owns the land and building and leases it to a dealer. The dealer operates the location and pays rent to the owner, as opposed to an open dealer who owns the property. This arrangement gives the oil company or distributor a guaranteed supply outlet for its petroleum products, pursuant to a supply contract. A typical lessee dealer may operate more than one facility and does not wholesale gasoline or sell to other dealers.

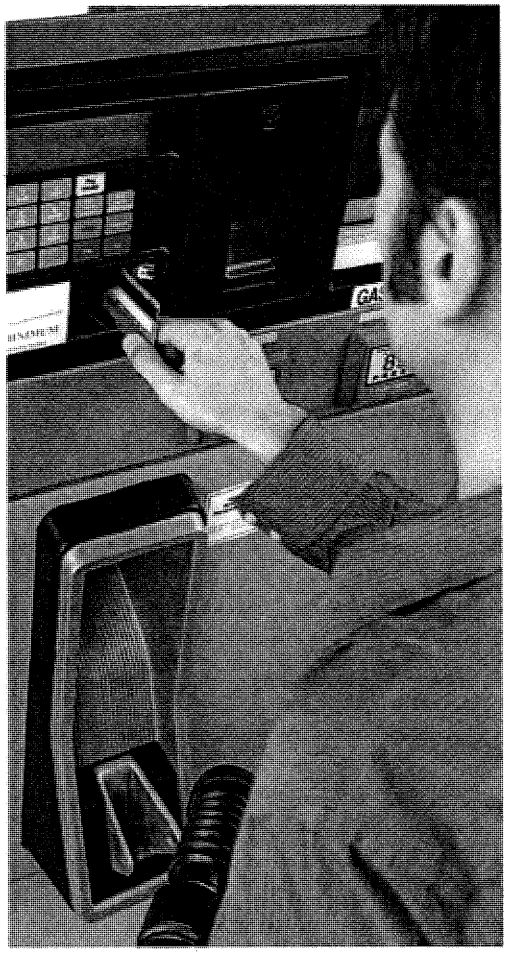
- **Open dealer operated** — The independent dealer purchases fuel from the oil company or a distributor, supplies fuel to the station — and possibly others — owns the business and owns or leases the building/facility independent from any supply agreement. The dealer may contract with a manager to run the business or run it himself.

- **Company operated** — A "salary operation" where a major or regional oil company or a distributor owns the building/facility and the business. The company pays a salary to the managers/proprietors and supplies fuel to the location. This is also known as company-operated and direct operated retail.

Credit and Debit Cards at the Pump

The use of plastic at the pump is incredibly convenient. But that convenience comes at a cost.

In 2003, Americans for the first time made more payments by credit or debit card at stores than they did with cash or checks, according to the American Bankers Association. Over the past decade, the trend has accelerated, especially at the gas pump. Today, 78% of consumers fueling up pay by plastic, according to results from the 2015 NACS Consumer Fuels Survey.



An estimated 40 million Americans fill up every day and 30 million of them pay at the pump. However, the system is not without its problems. Credit card and debit card rates are set in a duopoly, where the two largest card issuing companies (Visa and MasterCard) set rates and write rules for retailers that they can either follow or refuse to accept cards, which is not much of an option in today's competitive marketplace.

The rules that retailers must adhere to also are incredibly complex, running hundreds of pages long. Rates also vary based on the store and even the customer. The card fees that retailers pay are based on the type of card used (rewards cards cost retailers more to accept), the type of business (larger retailers may get better rates based on volume discounts) and how the card is used (fueling islands tend to have higher rates because it they are considered unattended terminals).

Ultimately, the convenience of paying at the pump comes at a cost — both in terms of higher gas prices and a slew of security-related challenges. This backgrounder examines these challenges with a look ahead at a system that began taking shape nearly a century ago.

Cards and Fueling: A Long History Together

The use of cards at the pump is almost as old as the service station. In 1924, only 11 years after the first purpose-built gas station opened, gas credit cards were issued. These cards followed the simple dog-tag style metal plates issued by department stores prior to World War I. While this nascent payment system was still developing, the onset of the Great Depression and World War II quashed the concept of credit cards for several decades.

Post War optimism rekindled the idea of charge cards. American Express considered the concept in 1946. Then in 1950, the modern credit card system was introduced by Frank McNamara and Ralph Schneider with their Diners Club Card. In 1958, Bank of America introduced BankAmericard (which later became Visa); American Express also began issuing cards in 1958. (Master Charge, which became MasterCard, was first issued in 1966.)

While credit card payments could be made with in some retail establishments, you couldn't easily charge for your gas. In 1964, the concept of remote fueling set the stage for its introduction. The simple innovation of being able to pump your own gas, without a service attendant, and then pay, was revolutionary. It allowed consumers to save a few cents a gallon because of reduced labor costs, but they still had to go inside to pay, whether by cash or by credit card.

Some retailers in the early 1980s experimented with pre-paid gas cards and installed card readers — similar to the technology used in rapid mass transit — into the pumps to read the cards.

Next, were credit card readers at the pump, which were introduced in the United States in 1986. (They were introduced in Europe in 1982.) E-Z Serve and its subsidiary AutoGas in Abilene, Texas, installed dispensers featuring a built-in credit/pre-paid card reader system.

However, not everyone in the industry embraced pay-at-the-pump. Many retailers were concerned that this convenience would reduce in-store sales because customers would buy their gas and then leave without any other purchases. Yes, many customers do buy gas and leave without going inside the store to buy other items. But it enhanced the shopping experience for everyone. Gas-only customers were able to quickly leave. And in-store customers had a better experience because they didn't have to stand in line behind someone who needed to pay for gas.

Still, adoption was slow. Only 13% of convenience stores had pay-at-pump technology by 1994, but 80% of convenience stores were using the technology by 2002, and virtually all stores do today.

The payments landscape also continues to evolve beyond cards. Some retailers, notably Tennessee-based MAPCO, allow consumers to pay for their gas via a mobile app and New England retailer Cumberland Farms was among the first

to embrace Apple Pay as a payment option. But while the method of payment is evolving, the cost associated with delivering convenient payment options remains a problem.

The Hidden Cost of Cards

With more than three-quarters of consumers at the pump paying by plastic, most retailers have no choice but to accept credit and debit cards. However credit and debit card transactions result in retailers paying swipe fees (also known as "interchange fees.") These fees typically average between 2% and 3% of the total purchase, but can be as high as 4%. Because retailers already have razor-thin margins on fuel (the average gross margin on fuel has averaged only 5.7% before expenses over the past 5 years), these costs are passed along to the consumer in terms of higher gas prices.

Gross margins aren't to be confused with profit margins. After factoring in expenses, most retailers make, at best, a few cents per gallon in pretax profit, and may even lose money on some sales when margins are tight and credit card expenses are high.

In every year since 2006, overall convenience store profits were lower than the fees that they paid credit card companies and banks for processing transactions. In 2013 the industry reported profits of $7.1 billion and credit card fees of $11.2 billion.

THE COSTS OF PAYMENTS

based on a 10-gallon fill-up when gas is *$3.00/gallon*

CASH: No cost.

DEBIT: 2.4 cents per gallon.

Debit fees are 21 cents per transaction*, plus other costs, with a maximum charge of 24 cents for the transaction. (*This is only true for the 60% of debit cards that are regulated. The other 40% of debit cards carry fees that are closer to those for credit cards: around 2%.)

CREDIT: 6 cents per gallon.

Credit card swipe fees include both fixed and variable costs. Taken together on a typical fueling, they average 2%, or 6 cents per gallon.

Retailers Fight to Change the Broken System

For more than a decade, retailers have fought to change the broken credit card system that costs consumers too much money at the pump and everywhere else they use plastic. Their argument is that credit card fees are essentially a "tax" that they collect for the credit card companies. When consumers are taxed, they have less money to spend, and that hurts retail sales.

NACS and other groups pushed for debit fee reform and it was signed into law on July 21, 2010, as part of the Wall Street Reform and Consumer Protection Act. That law directed the Federal Reserve to ensure debit swipe fees were "reasonable and proportional" to the costs incurred by the banks in handling an individual transaction, among other things.

Originally, the Federal Reserve proposed rates of 7 to 12 cents per transaction for debit cards, still significantly higher than the 4 cents per transaction that banks reported that debit processing costs. However, the final rules were markedly higher: 21 cents plus 1 cent for fraud prevention and 0.05% of the transaction to cover fraud losses, capped at 24 cents. NACS and others filed suit challenging the Fed's rules, but on January 20, 2015, the U.S. Supreme Court declined to hear the appeal.

NACS also filed private antitrust litigation against the major credit card companies and banks in 2005. Counsel for the class of retailers in that case reached a proposed $7.2 billion settlement that did not address problems with the broken payments system and was rejected by a majority of the plaintiffs. NACS led the opposition to the proposed settlement, but despite the objections of NACS and thousands of other merchants, the judge accepted the proposed settlement. The appeal process is ongoing.

Retailers Offer Consumers Savings to Reduce Costs

The rise in credit card expenses has led to an increasing number of retailers to seek alternatives, especially cash discounts. Amounts for the discount vary, but most retailers offer approximately 5 cents off per gallon to customers paying by cash. Some retailers offer significantly higher discounts for cash, particularly if the gas purchase is tied to another purchase, such as a car wash.

It's important to note that there is a difference between cash discounts and surcharges for paying by plastic. Until recently, surcharges were forbidden by the contracts developed by the credit card companies. As part of the proposed $7.2 billion antitrust settlement (see "Retailers Fight to Change the Broken System"), the card companies added a provision to allow surcharging. However, there are significant limitations and it is inherently consumer unfriendly. NACS is not aware of any retailer who has instituted surcharges.

Requirements for how retailers offer cash discounts are set by the state department of Weights and Measures. Typically, retailers must most prominently post the higher (credit) price. Some retailers also have dispenser "pumptoppers" and advertising billboards that rotate between the cash and credit price.

What about discounts for debit cards, which carry lower costs at the pump? Some retailers have adopted the practice as well. Nice N Easy Grocery Shoppes, a chain based in Canastota, New York, offers debit card users the same discount as it gives cash customers, even though there are costs associated with debit.

Clarifying the Confusion Over 'Holds'

As the use of plastic at the pump has increased, so have concerns over debit or credit "holds."

While online banking statements look like the hold has been placed by the retailer, the retailer is only responsible for setting the amount of the hold — a decision highly influenced by credit card rules that could later deny payments for some transactions.

Both Visa and MasterCard require that retailers place holds, or "pre-authorizations," on debit and credit card gas purchases. Most consumers don't notice holds on their credit cards because they have sufficient credit lines that they don't exceed, even with holds.

Holds are standard practice for any business that accepts plastic as a form of payment in a situation where the final dollar amount to be assessed is unknown in advance. Holds placed on gas purchases are similar to the pre-authorizations that hotels do with a credit card when you check in or at car rental counters. Most car rental agencies and hotels don't allow customers to use debit cards because the hold would be too large.

However, debit cards are permitted at the pump and it can cause problems — especially for those who carry low balances in their checking accounts. An unexpected debit hold can begin a cascade of overdraft fees or even cause a customer to be locked out of making vital purchases that they intended to make with their "held" money.

One more point of clarification. There are actually two charges that hit a customer's account when they purchase gas. One is an "authorization" charge, typically for $1. This charge isn't permanent and is later removed. Its purpose is to make

CONSUMERS HAVE A CHOICE

Consumers can make sure the hold is released immediately by using their PIN, since PIN debit transactions should be registered immediately. An increasing number of stations — an estimated 60%— also have PIN pads at the pump.

Consumers should ask their bank about its policy regarding the length of debit holds. If the hold lasts longer than a few minutes for PIN-based transactions, or longer than three days for signature-based debit transactions, consumers should discuss the matter with their bank to learn why the holds are lasting so long. Most banks print their phone numbers on the backs of their cards.

When posed with the option of credit or debit, consumers should always choose the PIN debit option because that transaction will be immediate, whereas credit or signature-based debit transactions can take days. Plus, PIN-based debit is much more secure.

Check online bank statements regularly and call the bank if something looks out of the ordinary on a statement.