



# Oil Express

exclusive report serving informed petroleum marketers nationwide

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## Gasoline Price Barometer

Crude oil and refined prices retreated last week, impacted by poor demand, falling global asset prices, and a strong U.S. dollar.

The typical wholesale price for gasoline dropped more than 20cts/gal in ten days. Prices for diesel fell by 25cts/gal in many markets.

Despite the downturn, crude oil remained just above the \$75/bbl number described by OPEC in December as a “fair price” but regarded by non-integrated refiners as extreme.

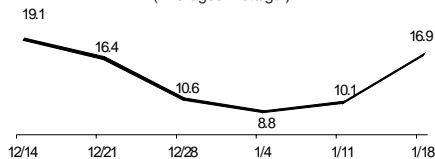
Most U.S. spot markets saw gasoline fetch about \$5/bbl to \$6/bbl over crude, and there was little difference between unleaded values and ULSD.

For the short term, marketers were beneficiaries with almost all portions of the country yielding rack-to-retail spreads of more than 10cts/gal. But that followed a very poor fourth quarter.

Ethanol eased with the overall commodities segment with prices dropping into the \$1.70s in the Midwest. Where logistics allowed it, blending economics were substantial.

## National Rack-to-Retail Margins

(Averages in cts/gal)

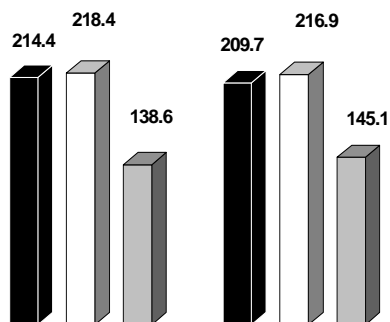


Source: OPIS Retail Fuel Watch  
For more information call 1-888-301-2645.

## Average U.S. Contract Price

(in cts/gal)

Unleaded Gasoline      No. 2 Oil



Source: Oil Price Information Service

■ Current Week    □ Previous Week    ▒ Year Ago

## BP to launch major expansion of loyalty card offer

BP is expanding its “fuelperks!” loyalty offer into North Carolina, Oil Express learns. It will debut Jan. 31 at Bi-Lo grocery stores in the Charlotte market. The major has similar supermarket programs with Winn-Dixie in Jacksonville, Fla., and Roundy’s in Wisconsin and Minnesota. The “fuelperks!” system is owned by Abilene, Texas-based Excentus, which partners with merchants to introduce the concept.

Shoppers at Bi-Lo stores in Charlotte will earn a 5cts/gal discount for every \$50 they spend, with no cap on what they may earn. Their rewards will be tracked automatically and in “real time” and are redeemed by swiping a Bi-Lo loyalty card at participating BP sites. The price per gallon automatically rolls back by the discount amount. Bi-Lo shoppers can pump up to 20 gals per visit. BP will charge marketers a 35cts transaction fee on every “fuelperks!” sale, sources say.

With the addition of the Charlotte market, BP will have more than 200 price rollback sites. BP plans to deploy rollback software across its entire network this year, which will allow marketers to redeem not only grocery rewards but also honor other loyalty cards – Home Depot and Best Buy are among possible future loyalty partners.

BP also plans to launch a new BP Visa offering instant cents per gallon rewards (OE 11/16/09, 11/09/09, 11/02/09). Its current co-branded Visa pays a 5% discount that is credited to the consumer monthly. Being able to accept a cents-off Visa is important, since not every BP site has a participating grocery store nearby.

Shell also has a loyalty deal in the works with Kroger for 31 states, plus Stop and Shop in 10 states, and Winn-Dixie in Jacksonville. Shell will charge marketers a 3.5cts/gal fee, but will reduce it to 2.5cts/gal for 120 days after a loyalty offer launches (OE 01/18/10).

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## Thieves empty jobber’s ATM using factory default PIN

First it was gas pumps, now a scam involving factory pre-set PIN numbers for ATMs has surfaced, costing a Midwest marketer the contents of his cash dispenser in a matter of moments.

The marketer blames himself for the loss. “If we had just read the manual that came with the ATM, we would have known to change the code, but we didn’t,” he told Oil Express.

The theft from the marketer’s truckstop ATM could become the first of many as the industry consolidates and marketers buy and sell older stores, inheriting in the process older ATMs.

“We would advise anyone with a legacy ATM that’s more than five years old to check whether the PINs were ever changed and to make sure that they have the latest software installed,” says James Phillips, a spokesman for ATM manufacturer Triton. ATM vendors, including Triton, have free software available that should block the scam pulled on the Kansas marketer, he says.

## Gasoline Supply Barometer

Total input to U.S. refineries last week slipped below 14 million b/d via a 515,000-b/d decline in feed. That takes production down to levels not seen since hurricanes ravaged the Gulf Coast in 2008.

On a seasonal basis, the low runs have a more ancient precedent. Not since 1997 have we seen U.S. refiners process less raw material than last week.

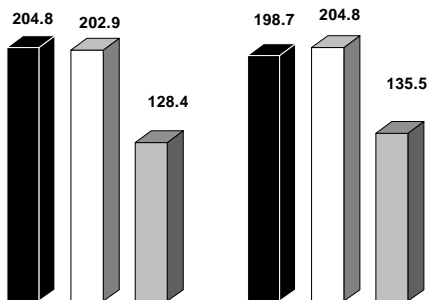
The lower input has manifested particularly in lower distillate output. Total distillate production was just 3.483 million b/d last week, and that included a 339,000-b/d slide in ultra-low-sulfur diesel.

Gasoline stocks, meanwhile, rose by 3.95 million bbl, or by about three times the build that many traders had expected. Gasoline output tipped some 54,000 b/d higher, thanks mostly to increased blending on the East Coast and West Coast. The Gulf Coast saw a 126,000-b/d gasoline production decline.

### Average U.S. Spot Price

(in cts/gal)

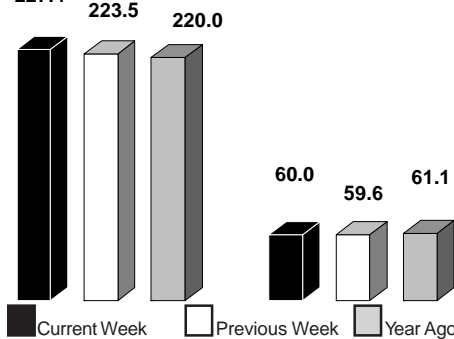
Unleaded Gasoline      No. 2 Oil



### U.S. Refinery/Inventory

(in million b/d)

Gas Stocks      Gas Production



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ATMs straight from the factory contain a PIN or default code that allows the ATM owner access to the machine's menu in order to retrieve and print transaction and inventory reports. The PIN does not provide access to the cash vault itself, but the thieves who hit the jobber's truckstop didn't need that to clear out what was left of the original \$13,000 cash the ATM contained. They simply changed the denomination of the bills the ATM dispensed.

Most managers load ATMs with \$20 bills. They input their access code on the ATM keypad and use the menu to tell the ATM the number and denomination of the bills put into the ATM's cash vault. The ATM then calculates the correct number of bills to dole out to customers, say five \$20 bills for a \$100 withdrawal.

Using the PIN code, the thieves accessed the marketer's ATM menu and changed the denomination of the bills to be dispensed from \$20 to \$1 notes. As a result, the ATM thought it was issuing \$1 bills. So, when the thieves, for example, asked for a \$20 withdrawal, they received 20 \$20-bills, or \$400.

"They swiped an ATM card, which was presumably stolen, three times and emptied our ATM," the marketer said. "We have the crooks on video and the authorities are investigating. The crooks are believed to travel up and down the Interstate, searching for certain brands of ATMs. He says. "If you have ATMs, make sure all the codes have been changed from the factory defaults."

He never viewed the PIN as a risk because he thought it facilitated only printing and transaction reports. "I thought there was no danger of loss from the ATM unless some redneck attached a chain to it and drove off down the highway. The pie is definitely on our face."

ATM vendors learned of the menu scam four or five years ago. ATMs manufactured since then are programmed to force the operator to change the PIN before he can put the machine into service, says Triton's Phillips. However, there are still a large number of older, vulnerable ATMs in the marketplace. "In a lot of cases, it's not a random person but a rogue technician or an ex-employee who knows the code," says Phillips.

Around 2004 or 2005, Triton and other vendors made available a free software fix to protect older ATMs. The marketer has to install it himself. "Customers should work with their equipment distributor or processor to put in the software as soon as possible," Phillips said.

The ATM scheme bears a strong resemblance to the fuel thefts involving Gilbarco dispensers, where thieves use Gilbarco factory default PINs to put pumps into stand-alone mode and help themselves to as much fuel as their vehicle tanks will take. Oil Express exclusively reported on the Gilbarco PIN scheme in 2005 (OE 05/02/05). The Gilbarco access codes were still available on the Internet three years later (OE 03/05/08).

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## Refiners warn that new round of card rate hikes may be on the way

Marketers should be prepared for another hike in the cost of accepting debit cards.

MasterCard's Maestro network plans a 0.75% increase Feb. 1 and the Star network will raise rates 0.16% on the same day, sources say. Their moves follow a 0.16% hike by the NYCE debit system last November.

"There's a lot of speculation among refiners that Visa will at least match MasterCard's increase," says a major oil exec. "The bottom line is that you'll probably see rate increases passed through from refiners."

However Chevron actually cut its PIN debit card rate by 0.50% Jan. 1, bringing it down to 1.60%, plus 10 cents, per transaction, as reported (OE 01/11/10). So why are some majors talking about charging more?

The answer is simple. Chevron's fee is "ridiculously high," compared to what other majors assess their retailers, says a second oil official. For example, Shell's PIN debit fee is 0.95% plus 15cts, while BP's is 0.60%, plus 18 cents. "Chevron could easily have afforded to reduce their rates even more than they did."

Visa and MasterCard have preferred to see consumers choose the "credit" button when they pay at the pump because they collect higher fees on credit transactions. When a driver chooses "debit," but does not input a PIN, the card networks treat the sale as "signature" debit, for which they also charge a higher fee.

But the card giants have upped PIN debit rates significantly in recent years, to the point where they are nearing the higher "signature debit" level. "There's less and less reason for Visa and MasterCard to care because debit cards are becoming more profitable for them and the banks that issue them," the exec said.

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## Marketer seeking to sell salary-operated c-stores

Another marketer is looking to exit company-operated retail. Quarles Petroleum, a seven-state jobber based in Fredericksburg, Va., has put some 20 c-stores up for sale. Quarles president Ben Wafle could not be reached for comment by presstime, but is said to have retained broker Matrix Capital to handle the transaction. Quarles has not been aggressive in expanding its c-store business, Oil Express sources say.

Quarles is not looking to dispose of other operations, sources say. Apart from the company-operated stores, it supplies dealer locations flying Sunoco, Shell and Citgo branded flags. It also has a large fuel oil and propane business, and is a lube oil distributor for Shell and Pennzoil products. The company has two terminals, in Newington and Fredericksburg, Va., and an 80-site cardlock network that offers accounts a "Q" card, according to its website.

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## Chevron sweetens offer in bid to get jobbers in pullout states to waive their rights

Chevron says it will offer additional aid to jobbers in 11 states where it intends to quit branded marketing on June 30.

But some wholesalers say the new plans Chevron has outlined in a letter to them are not detailed enough for them to make a decision on whether to waive their legal rights against the major.

And some say the offer looks nice on paper, but amounts to very little when analyzed.

Chevron announced in December that it would withdraw from Delaware, Indiana, Kentucky, Maryland, the Carolinas, West Virginia, Pennsylvania, Virginia, New Jersey and a large part of Tennessee, effective June 30 this year. The move will affect about 45 jobbers supplying 1,100 stations.

Chevron previously told jobbers in the pullout states that it would forgive any unamortized image money they owed if they signed a document waiving any legal claims they might have against the company by Jan. 31 this year. It also promised that jobbers who inked waiver agreements would receive \$5,000 per site in debrand costs, as exclusively reported (OE 12/14/09).

Some wholesalers subsequently asked attorneys to look into their legal options. They say the \$5,000 offer

will not nearly cover debranding costs. Among problems they cited: The destruction of fascia that debranding involves because of Chevron's lighting requirements and the cost of new permits for retail sites. Rebranding sites where dealers only have five years or fewer left on supply contracts can also be nettlesome, given that many majors won't allow a jobber to amortize branding costs until the fifth year of a contract, they said (OE 12/21/09).

Chevron's latest letter to jobbers notes that company officials have met with each of the affected marketers and now plan to take "prompt actions" to address some of the issues raised at those meetings. According to Craig Peterhansen, Chevron's eastern region retail manager, Chevron will:

- "Give consideration" to paying additional money to marketers who branded a new station or converted an existing site after Dec. 31, 2008 if they can show that their costs exceeded the company's branding allowance. Jobbers would have to sign the waiver and forego the \$5,000 allowance for that site;
- Allow marketers to return as new and unused equipment or materials ordered from vendors under its "Image Refresh" program, providing it's still in the "proper packaging." Chevron will cover shipping costs and any restocking fees – if marketers agree to sign the legal waiver. "We will not pay for improvements made to facilities that do not need to be removed in debranding the sites," Chevron cautions. "The balance of any upfront monies provided for the sites above actual costs incurred for Image Refresh will be due back to Chevron."
- "Consider" reimbursing marketers for the cost of "Image Refresh" work at their sites, beyond the allowance provided under its incentive program. However, it won't decide what qualifies for reimbursement until it looks at the invoices marketers paid. And, again, marketers would have to sign the legal release first. In addition, a jobber who seeks the reimbursement will have to give up the \$5,000 debrand incentive for the site concerned;
- Waive the \$120 "retail technology fee" increase it introduced January for marketers who have upgraded from Gilbarco G sites and Verifone Ruby EPOS systems. Chevron will also transfer ownership of the equipment "at no charge" to marketers who currently lease it from the company. Marketers are not impressed by the offer, since much of the equipment will soon be obsolete under PCI requirements. As for leased Dresser Wayne Nucleus terminals, they must be returned to Chevron;
- Waive mandatory participation in the "Customer First" image program and will not conduct "mystery shops" or image reviews in the pullout areas or bill them for the inspections. "Naturally, this also means that the Business Development Fund will not apply in the impacted areas in 2010," Chevron notes. All outstanding BDF money owed from 2009 will be paid by March 31. If any marketer wants to continue in the BDF program in 2010, he has to opt in by Jan. 15 and pay the "Customer First" fees;
- Review and adjust credit line amounts as stations are debranded;
- Coordinate an effort that would allow jobbers who have to debrand to sell reusable branded marketing materials to other Chevron jobbers in non-pullout markets.

Marketers aren't bowled over by Chevron's latest offer.

"According to the letter, Chevron will give 'consideration' to reimbursing some of our expenditures, but our attorney says that needs to be clarified before we sign anything," says one jobber. "What does consideration mean anyway?"

Marketer attorneys also continue to question Chevron's legal grounds for some of its actions.

For example, they ask how can Chevron hold out forgiveness of unamortized funds as a carrot for jobbers to sign waivers, given that the company's market withdrawal makes it impossible for those marketers to honor their financial commitment to fly the Chevron flag?

And, the question of whether Chevron can even terminate some jobber contracts remains. Under the Petroleum Marketing Practices Act, a franchisor must have given – or offered – a franchise agreement of three years or longer before it can terminate the contract. Some Chevron marketers now facing debranding were put on day-to-day supply last year when their current supply contracts expired. That means they did not have a contract that can be legally terminated under the PMPA, says marketer attorney Al Alfano.

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## Canadian roll-up firm snags another U.S. marketer

Superior Plus, the Canadian company that has been buying up U.S. marketers in the Northeast, just picked up its third jobbership in less than four months – it’s acquiring long-time marketer Griffith Holdings, a wholesale and retail distributor of gasoline, heating oil and propane in upstate New York. Purchase price is \$125 million, says Calgary-based Superior Plus.

Griffith moved nearly 295 million gallons of product in its 2008-2009 fiscal year ending June 30, 2009. Superior cited gross profit numbers of 42% from Griffith’s retail propane sales, 13% from heating oil, and 23% from other fuels. Wholesale operations delivered 18% of the firm’s profits and service contracts accounted for 4%. The company has approximately 97,000 retail customers and 400 wholesale accounts.

About 29% of the Griffith business is retail and 71% is wholesale or dealer-operated. Other assets include 26 bulk storage facilities and three terminals, with a combined 20 million gallons of capacity. The terminals are located in Big Flats and Rochester, N.Y., as well as Stevenson, Ont. Superior says it will integrate Griffith’s management with Superior’s refined fuels business team.

The deal fits in neatly with other purchases made by Superior Plus late in 2009. The company first popped up in U.S. downstream markets when it purchased Sunoco’s retail heating oil and propane assets in September. Then in December, it bought Griffith Energy Services. That company is a subsidiary of Central Hudson and not related to Griffith Holdings. The deal with Griffith Energy Services added retail heating oil, propane, and motor fuel customers in Connecticut, Rhode Island and Pennsylvania.

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## Valero reshuffles top execs, sells one refinery, looks for buyers for a second

Valero is formally shopping its 166,000-b/d Paulsboro, N.J., refinery and has retained investment bank UBS to handle the sale. The refinery was identified as a non-core asset more than three years ago but thanks to a sharp downturn in refining margins, might fetch less than half the price that it was valued at in 2007. Valero is mum on plans for the plant, saying only that it has been exploring “strategic alternatives.”

Refinery consolidator Tom O’Malley is said to have looked at Paulsboro as well as the 210,000-b/d Delaware City refinery. At presstime, according to some sources, O’Malley was closeted with Valero and state government officials and an announcement that he had purchased the Delaware City facility was being drafted. O’Malley is the key man behind PBF Energy, a joint venture of his firm Petroplus and private equity groups Blackstone and First Reserve.

The Paulsboro refinery “will be a survivor” of the current refining crunch, predicts John Auers, a senior VP with refinery consulting firm Turner Mason. The plant “did very well” in the early 2000’s, during the so-called “Golden Age” of refining when margins soared. Unlike the Delaware City refinery, which was losing an estimated \$1 million/day in late 2009, the Paulsboro plant should be able to make money during all but the most hostile refinery down-cycles.

Refinery deals are scarce these days for several reasons. Buyers are understandably conservative because of the uncertainty of the economic recovery and various regulatory initiatives. Some analysts say refinery assets are like “Pink Sheet” stocks these days, with staggering variations between bid and asked numbers.

The Paulsboro refinery was valued in the \$1.5-2.0 billion range in 2007, but that number now seems as archaic as the \$280 million price that Valero paid Mobil for the facility back in 1998. Sources suspect that buyers might be interested at a price of around \$500-\$600 million.

The plant isn’t a big contributor to branded Valero supply in the Northeast. When Valero acquired the refinery in 1998 it inked a 10-year offtake deal with ExxonMobil for light products. Products still go to the major but it’s not known whether a new operator would inherit the contract. The refinery has more than 2 million barrels of strategic storage, which is a key selling point, given the high prices being paid for East Coast tankage that has access to deepwater.

Meanwhile, Valero has shed some top managers in what may represent a shift in the way it markets products downstream. Gone is Eric Moeller, who served as marketing VP since late in 2006. In his place and bearing the title of senior vice president, product supply and wholesale marketing, is David Parker. Parker arrived at Valero 14 years ago via the Ultramar Diamond Shamrock merger and has recently managed the light fuel activities for the Valero system.

Word on the street is that Parker and other top managers will focus on brand growth and commercial development, although it's not clear whether that might mean a swing in emphasis for branded sales and programs. Under Moeller, Valero had a relatively low profile on the branded side. Jobbers say that the company stressed competitive sales prices but largely shunned brand differentiation via credit card efforts, promotions and broad advertising.

Valero isn't talking about the reshuffle but sources say that at least a half-dozen senior managers at its San Antonio HQ are no longer with the company. Poor refining economics in 2009 and in the first three weeks of 2010 have pressured the company to reduce staff, sources add.

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## **Chevron's smallest U.S. plants seen targeted for closure**

Chevron will be substantially smaller in North American refining and marketing by the time this year is over, but that weight loss is not likely to see the outright closure of money-making refineries in California, say mergers and acquisitions analysts.

Chevron downstream VP Mike Wirth told employees through a video conference this week that jobs would be cut from worldwide refining, marketing and retail operations. Specifics on job losses and the closure of assets or market withdrawals will be released in March.

Two of Chevron's refineries have performed miserably in recent years – the 52,000-b/d Honolulu, Hawaii, refinery and its 55,000-b/d Burnaby, British Columbia, facility and both are expected to be out of the Chevron system a year from now. Neither asset has been offered for sale as yet, but sources believe both complexes may be combined in an asset package for potential acquirers this quarter. It's questionable whether either refinery might attract a buyer that would process crude at the two facilities – one or both plants may end up as terminals, sources stress.

The vagueness of Chevron's announcement led to widespread trade and media speculation about cutbacks in every segment of its U.S. downstream business. Just last month, Chevron announced that it would stop marketing branded fuels in 11 states and the District of Columbia. That news spawned reports that Chevron might sell its Pascagoula, Miss., refinery or divest its entire portfolio of assets east of the Rockies. This time, the company's fuzzy communication prompted reports in national and local news outlets that Chevron might close its Richmond, Calif., refinery.

Analysts discount such talk – the plants are described as “advantaged assets” that can make money even when the business cycle in refining is near its nadir, one consultant said. Many are surprised that Chevron has held on to the Hawaiian refinery for this long. Since retail prices on the islands are generally the highest in the U.S., the public incorrectly assumes that the plant is a money-maker, but refining experts say it is disadvantaged because it requires expensive grades of crude, cannot make ultra-low-sulfur diesel, and requires hundreds of millions of dollars in upgrades to meet top clean fuels standards.

Meanwhile, Chevron jobbers in states where the major has under 150 sites – Alaska, Colorado, Idaho, Montana, New Mexico, Oklahoma and Wyoming – fear market withdrawals may be in the cards.

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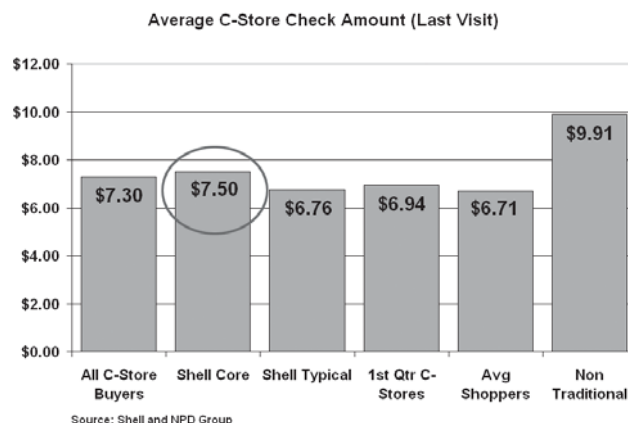
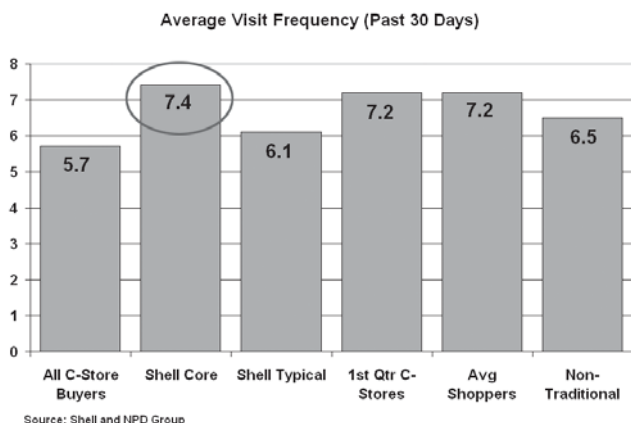
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## Shell report card: C-store marketers doing well, but could improve

Shell says data gathered by survey firm NPD Group show its c-stores have the second largest “chain” market-share in the U.S., trailing only 7-Eleven.

But while Shell stores outpaced other major brand sites in terms of customer visits over the past 12 months, the company admits that it came nowhere close to the growth seen by chains like Wawa and Sheetz and QuikTrip, which it regards as the “best in class” or “first quartile” chains.



Only 16% of Shell customers buy c-store items when they fill up their cars, compared to more than 25% of “first quartile” customers. And while they report spending more on c-store products than other customer categories, they are not necessarily spending all that money at Shell outlets, Shell admits.

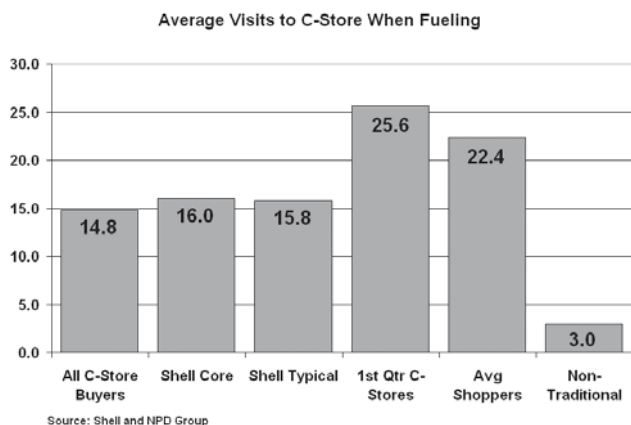
Shell commissioned the survey from Port Washington, N.Y.-based NPD Group to compare the performance of its c-stores to others in the industry. NPD bases its data on surveys it sends to 10,000 U.S. households monthly. Approximately 3,500 of those households answer questions about their past c-store purchases.

Shell does not have a c-store logo as such, but says that customers clearly view the Shell brand as a “chain.” It says its marketers are doing well, compared to other major brands, but they could do better. Customers are looking for strong c-store offers and retailers “must evaluate their stores to ensure that the convenience store is able to capture the value of the Shell brand,” the refiner says in a recent report to retailers.

Shell breaks its own customers into two distinct groups.

“**Shell Core**” customers are seen as the most loyal because they always fuel at Shell sites. They’re younger, have a lower education, are blue collar or clerical workers, and tend to have a larger household. After gas,

their main purchases are cigarettes, sweet snacks, and cold and frozen drinks. They make 7.4 visits a month, spending an average \$7.50. Their average monthly convenience store spending is \$55.35.



The “**Shell Typical**” shopper, on the other hand, buys two or three fuel brands, in addition to Shell. He values a quick in and out, wants sports drinks, candy, and soda. He’s younger, too, but a college graduate, middle-income white or blue collar worker with children. He cross-purchases cigarettes, gas and beer, high-end candy and sports drinks. His average check is \$6.76 and he spends \$41.10/mo at c-stores.

The report then compares Shell’s shoppers with the customers of the “first quartile” group, including the QuikTrips and Wawas, and the “average shoppers,” those who frequent stores like RaceTrac, Speedway/SuperAmerica, The Pantry’s Kangaroo chain, 7-Eleven and Circle K.

“**First quartile**” customers make 7.2 visits/mo to their chosen store, spending an average \$6.94, and \$49.83 monthly. They choose the store because of its appearance, its fresh prepared foods, product selection and clean restrooms. When they cross-purchase, they choose soda and other drinks, coffee and fresh foods. They’re mainly middle-income, blue-collar professionals with young children.

The “**average shopper**” also makes 7.2 visits/mo, but spends an average of only \$6.71 each time. Total c-store spending monthly is around \$48.45. They’re in larger markets, have younger families, and a higher income and education. They cross-purchase gas and coffee, and fountain and frozen drinks. They also choose slushy drinks and package sandwiches.

According to Shell, the NPD survey shows that the highly-desired “core” customers frequent c-stores more often than any other group – even slightly more often than the “first quartile” chains. They also spend 33% more per visit than the average c-store shopper – \$55.35/mo versus \$41.61/mo.

“The problem is that these loyal customers are not always getting their convenience store fix at Shell-branded locations,” the major admits. “Why are they not also shopping the store at the time of fuel purchase, given their affinity to shop convenience stores?” Shell asks marketers.

The key is to stop Shell fuel customers from taking detours to other stores for their merchandise needs, the company says. Shell retailers have “a golden opportunity” if they can just “entice Shell-loyal customers to spend more money inside the store.”

Not surprisingly, NPD data show that 7-Eleven leads the c-store pack, with 10.4% of households reporting they shopped at one of the chain’s outlets in September 2009.

Out of the majors, Shell came the closest to 7-Eleven, but with only 4.2% of c-store shoppers naming the Shell brand. BP came in at No. 3 with 3.6%, followed by a cluster of independents – Wawa, SuperAmerica, Circle K and QuikTrip.

Reasons for Selecting Chain				
Factor	Shell Core	Shell Typical	First Quartile	Av. Chain
Site location	80.7%	86.5%	86.8%	87.4%
Name of chain	19.4	10.6	29.6	20.1
Clean bright store	24.1	17.5	29.7	18.7
Price of products	25.9	18.2	32.7	23.4
Price of gas	38.7	29.8	36.1	21.9
Restrooms	20.7	12.8	21.2	9.9
Fresh prepared food	12.4	4.9	24.6	9.3
Friendly employees	38.7	22.4	30.9	25.2

Bringing up the rear were Chevron, at 2.3%, Exxon at 2.1%, Arco at 2%, and Valero and Mobil, each with 1.8%. Valero showed the greatest improvement of all stores – going from 0.2% of c-store visits in 2005 to 1.8% last September.

The NPD study shows that Shell has significantly more customers aged between 18 and 34 years than the industry as a whole. Those customers bring their kids with them to Shell sites and that’s a plus, given concern within the industry about the aging of the population, according to Shell.

“A younger, loyal, quality fuels oriented customer with kids is a potential gold mine,” says Shell. If marketers can keep young customers and their children, they will be poised for long-term success, the major told its retailers. However, as the size of households increase, many consumers are more likely to shift their purchases to grocery and dollar stores, Shell adds.

Shell says what’s important to its customers, compared to rival brands, can vary.

For example, Shell “core” customers cited clean restrooms 43% more than average when asked why they shopped at a Shell site, a result that Shell says barely trails numbers posted by the “first quartile” chains. Conversely, “Shell Typical” customers seem to care much less about the bathrooms.

The price of gasoline was a bigger factor for Shell “core” customers than it was “first quartile” shoppers, who put more value on food offerings and the price of other products.

The heaviest c-store shopping period for all four of the customer groups cited was between 2 p.m. and 6 p.m.

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## Shell, dealers back in court

A group of New England dealers and Shell argued their case before the U.S. Supreme Court this week, wrapping up what has been a 10-year battle over rents and contracts. At issue: Did Shell's failure to continue dealer rent support amount to "constructive termination" of dealer contracts, in violation of the Petroleum Marketing Practices Act. Dealers say when they signed new Shell leases "under protest," it was tantamount to "constructive non-renewal." They argue that Shell's decision to abandon its long-running Variable Rent Program in favor of a Fair Market Value program raised their rents in the middle of their leases. The same group of dealers won a settlement of several million dollars from Shell in 2008.

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## Shell, Chevron to hike lube prices

Shell and Chevron are among the suppliers who will increase prices of lubricants in coming weeks. Shell will hike prices for select products by as much as 8% effective Feb. 22. In certain cases, prices for specific products may change in amounts that fall outside of the general increase, Shell said in a letter to customers. Chevron has told sources that it will increase prices on all of its lubricants by 6% to 8% effective March 1. The increases are due to price hikes in raw materials costs, the suppliers said.

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## Sunoco faces suit over firing of traders

Four ex-crude oil traders from Sunoco could file separate lawsuits for wrongful termination against their former employer after being let go by Sunoco in December, sources say. A Sunoco spokesman was not immediately available for comment. The four veteran crude oil traders were placed on administrative leave with pay by Sunoco for about six months prior to the job termination, following alleged violations of company policy involving a crude oil processing transaction, as reported (OE 06/29/09). Tony Hepworth, Joe Colella, Meredith Earley and Anwar Elahi were the subject of an internal investigation as well as a federal inquiry. The U.S. Dept. of Justice found no wrongdoing in

the transactions involved, sources say. The termination of the four traders is not expected to have a significant impact on Sunoco's restructured trading operation. Late last year, Sunoco split its supply and trading business into two. The crude oil trading segment was moved under the refinery operations group, and the products trading team is now under the aegis of the branded marketing group. During this transition period over the next several months, Sunoco is expected to tone down its third-party trading business, focusing more on supply trading. This is also partly due to the departure of some products traders last year.

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## C-store count holds firm, despite economy

The number of c-stores in the U.S. fell 0.2% over the past year and now stands at 144,541 as of December 31, 2009, according to data from the National Assn. of Convenience Stores. It is the second straight year that the count has declined, but only the fourth time in the last 15 years. The impact of fluctuating gas prices is one reason for the drop, says NACS. Interchange fees charged by credit card firms have also taken their toll, the group says. "That our numbers largely held firm in a miserable economic climate and the dismal lending environment is a testament to our overall industry's strength and offer," said NACS Vice Chairman of Research Greg Parker, CEO of The Parker Companies in Savannah, Georgia. Despite extreme price and profit volatility for motor fuels, c-store retailers still consider fuel operations to be important. A total of 115,340 stores have fuel pumps, a 0.6% increase over last year. Overall, 78.8% of all c-stores sell motor fuels. The c-store business also continues to be dominated by single-store operators, who accounted for 62.3% of the industry. While the overall industry store count declined 334 stores, one-store operators increased by 452 stores. Texas once again led in terms of overall stores, with 14,226 stores, nearly one of every 10 in the country.

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## **ConocoPhillips expects loss**

ConocoPhillips is expected to report a loss for its refining and marketing segment in the fourth quarter of 2009, with sharp year-on-year margin drops on the U.S. West Coast. The weak margins are also hurting the major's international refining and marketing operations. Only two regions, the U.S. Northeast and Gulf Coast, showed a year-on-year margin increase. Meanwhile, ConocoPhillips has reorganized its global supply and trading operations. The company will increase its focus on third-party or directional oil trading as it believes that this segment would add to its net profitability.

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## **Kinder Morgan acquiring more terminals**

Beefing up its biofuel distribution access, Kinder Morgan (KMP) has announced that it plans to acquire three ethanol handling terminals from U.S. Development Group for \$195 million. The terminals are in Linden, N.J., Baltimore, Md., and Dallas, Texas. KMP owns an interest in or operates more than 28,000 miles of pipelines and 170 terminals. Last year, it also continued exploring the possibility of shipping biodiesel blends in a segment of the Plantation common carrier pipeline.

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## **Citgo will match Haitian donations**

Citgo told marketers, vendors and others doing business with it that it will donate \$1 million for relief aid following the Haitian earthquake, and will match any donations it receives from them up to a maximum \$600,000. The money will be donated via Citgo's charitable arm, the Simon Bolivar Foundation.

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## **U.S. official: Data on higher ethanol blends reveals no problems so far**

An official leading a study of the effects of higher ethanol blends on vehicles says no major difficulties so far. The tests are being conducted at the National Renewable Energy Laboratory (NREL), an arm of the U.S. Dept. of Energy. The

data being compiled will be used by EPA to help determine whether it will grant the use of ethanol blends up to 15%. "We have not uncovered any problems so far," said Keith Knoll, a senior NREL project leader.

The data being compiled by NREL and its sister organization, Oak Ridge National Lab, will include testing on catalytic converters, tailpipe and evaporative emissions, fuel system components, engine durability and on-board diagnostic equipment, Knoll explained. Data on the first phase of these components should be completed "by late summer," he added.

The ethanol industry is eagerly awaiting the completion of the data, hoping it will bolster claims that higher ethanol blends will not damage vehicle engines. The DOE testing is also cited by EPA in its Nov. 30, 2009 letter to ethanol lobby group Growth Energy announcing that the agency has delayed a decision on higher level blends.

"Should the test results remain supportive, and provide the necessary basis, we would be in a position to approve E15 for 2001 and newer vehicles in the mid-year timeframe," EPA noted.

Ethanol groups including the American Coalition for Ethanol, the Renewable Fuels Assn., and Growth Energy are puzzled why EPA chose the 2001 cut-off date, however EPA has not publicly justified its decision.

"We are moving [on the testing] as fast as we can," Knoll said, noting that his agency is turning over all of its data to EPA.

NREL's testing builds on preliminary results published in February 2009 by the agency, in which testing on 16 late-model vehicles, and 28 small, non-road engines were tested on four different fuel formulations –E0, E10, E15 and E20. That study found that the use of higher ethanol blends didn't cause any major problems, although when tested under full-throttle conditions, about half of the cars exhibited slightly increased catalyst temperatures with E15 and E20. At that time, DOE cautioned that more study was needed.

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