

STAFF WORKSHOP  
BEFORE THE  
CALIFORNIA ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION

In the Matter of: )  
 )  
Implementation of Assembly Bill 868 ) Docket No.  
(Davis, Chapter 398, Statutes of 2007) 07-HFS-1  
 )  
Fuel Delivery Temperature Study )  
\_\_\_\_\_ )

CALIFORNIA ENERGY COMMISSION  
HEARING ROOM A  
1516 NINTH STREET  
SACRAMENTO, CALIFORNIA

THURSDAY, JUNE 5, 2008

9:08 A.M.

**ORIGINAL**

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<b>DATE</b>	JUN 05 2008
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STAFF PRESENT

Gordon Schremp, Project Manager

Nicholas R. Janusch

Susan Brown, Advisor to Commissioner Boyd

ALSO PRESENT

Jay McKeeman  
California Independent Oil Marketers Association

Prentiss E. Searles  
American Petroleum Institute

Judy Dugan  
The Foundation for Taxpayer and Consumer Rights

Ken Lake  
Department of Food and Agriculture  
Division of Measurement Standards  
State of California

Carl Boyett  
Boyett Petroleum  
Society of Independent Gasoline Marketers of  
America

John Siebert  
Owner-Operator Independent Drivers Association  
Foundation

Ross Anderson (via teleconference)  
New York State Department of Agriculture and  
Markets

Tom Robinson  
Robinson Oil  
National Association of Convenience Stores

Ronald C. Hasemeyer  
Agriculture/Weights and Measures Department  
County of Alameda

Jim White (via teleconference)  
BP America, Inc.

I N D E X

	Page
Proceedings	1
Opening Remarks	1
Introductions	3
AB-868, CEC Fuel Delivery Temperature Study Update	6
Summary of County-Specific Data Analysis	29
Review, Cost/Benefit Analysis Methodology	68
Schedule	150
Closing Remarks	157
Adjournment	158
Certificate of Reporter	159

## P R O C E E D I N G S

9:08 a.m.

MR. SCHREMP: We were just waiting to give people a little bit more opportunity to make their way here. I know it's 9:00; it'll be difficult for parking. We also have a bit of a freeway closure issue which shouldn't be a problem for most folks now, but it's more of a problem when some folks are going back to the airport northbound. So, that's on highway 5.

So I appreciate everyone's patience. And I'll do a little bit of housekeeping at this point. Then we'll do some introductions. And then we'll, I guess, get into the presentation.

My name is Gordon Schremp. I'm the Senior Fuels Specialist in the transportation division at the California Energy Commission. And I'm Lead on the AB-868 study.

So, I'll read the prepared comments, prepared for everybody. For those of you not familiar with this building the closest restrooms are located across the foyer there. And there's a snack bar on the second floor under the white awning.

Lastly, in the event of an emergency and

1 the building is evacuated, please follow our  
2 employees to the appropriate exits in an orderly  
3 fashion, of course. No panic.

4 We will reconvene at Roosevelt Park,  
5 located diagonally across the street from the  
6 Commission building. Please proceed calmly and  
7 quickly, again following the employees with whom  
8 you are meeting to safely exit the building.  
9 Thank you for your cooperation.

10 So, those are my prepared comments for  
11 housekeeping.

12 All right, everybody, I think, has a  
13 copy of the agenda. We will see how the pace of  
14 the workshop is proceeding, and if everyone here  
15 agrees, we will keep pressing forward to just  
16 finish early and not have a lunch break. So it  
17 will be up to everyone here. We'll just see how  
18 we're going. Just want to let people know in  
19 advance of that. And that's for people here, as  
20 well as people participating via the WebEx.

21 So, I think right now we'll do some  
22 introductions. And then I'll talk about what the  
23 procedures will be for questions. So, I've  
24 already introduced myself, so I think we'll go  
25 around the room here and we'll, I think, have to

1 use the microphone.

2 MR. JANUSCH: Hi, I'm Nick Janusch,  
3 California Energy Commission.

4 (Whereupon, introductions were made  
5 around the room.)

6 MR. SCHREMP: Okay, now I think we'll  
7 meet everybody who is listening via WebEx. Please  
8 introduce yourself and your affiliation, if you  
9 could.

10 (Whereupon, introductions were made via  
11 the WebEx.)

12 MR. SCHREMP: I guess that's in online.  
13 Thank you, everybody. We'll go ahead and put you  
14 on mute.

15 For questions, how we'd like to handle  
16 questions during the proceeding this morning, and  
17 possibly into the afternoon, we'll take questions  
18 from participants in attendance at the workshop  
19 first. And then we'll go ahead and open up to  
20 people online.

21 There is a feature, you can raise your  
22 hand in WebEx, and note that you'd like to either  
23 make a point or ask us a question. So, we'll go  
24 ahead and repeatedly go to the folks online as we  
25 go through this process. But the sequence will be

1 first people with questions or a point to make  
2 here at the workshop, and then go to the WebEx.

3 Okay, I think that's about it for our  
4 basic housekeeping. I'll start in on the  
5 presentation and I'll dim the lights to do that.

6 We have a couple of tools that allow  
7 people to, after the fact, review what's been  
8 stated. We have a transcript that will be  
9 provided I believe a couple weeks after the  
10 proceedings. We also have a recording of this  
11 WebEx activity, and that includes the slides as  
12 well as the audio recording during the WebEx  
13 proceeding.

14 We also have a presentation that will be  
15 posted on the internet. The presentation that I  
16 have today has been updated. And for the folks in  
17 the audience we have a couple of slides that have  
18 changed. And I'll note those as I go through. So  
19 apologize for the last-minute revisions to some of  
20 the slides, but what you'll see here today during  
21 the WebEx are the updated slides.

22 So we have a bit of a long list to go  
23 through. The primary focus is going to be  
24 certainly our methodology, how we're attempting to  
25 quantify the benefits and quantify the costs.

1 Make sure we have no unidentified cost or benefit  
2 factors that we're overlooking. As well as for  
3 people to examine what our exact methodology is.  
4 So that's what's sort of our primary focus today.

5 I know there's some other sort of not  
6 really side issues, but there's a lot of other  
7 important issues that have to do with labeling,  
8 you know, consumer awareness, things like that.  
9 We will be covering those in the draft document  
10 when our draft staff report is prepared. But  
11 we're not -- the focus of today's workshop is not  
12 those issues that have been raised in the previous  
13 two workshops.

14 I will cover some background  
15 information, and I apologize to many of you who  
16 have been through this a couple of times, but  
17 that's for people who may be listening for the  
18 first time. So I may go through some of those  
19 slides rather quickly.

20 Once again, it's the consumer impacts,  
21 the business impacts, the agency impacts and what  
22 additional information, or I guess work -- we're  
23 still underway. We have a lot of work to do on  
24 the study from an analytical perspective. We also  
25 have a lot of work to do that includes some



1 additional data collection. And I'll talk about  
2 that later in the workshop.

3 So we're nowhere near the point of  
4 putting together some final numbers, so if people  
5 were hoping to get final numbers today,  
6 unfortunately we're not going to have that. But  
7 they will be certainly in the draft report that we  
8 will have in advance of our September Committee  
9 workshop. And I'll talk about that.

10 So, we're going to try to get some  
11 consensus on our methodology primarily, and,  
12 people, you know, please tell us what you feel  
13 today. And you'll also have the opportunity to  
14 give us comments after the fact. So here we go  
15 into the background.

16 Liquids do expand and contract with  
17 changes in temperature. This is the whole reason  
18 we're here today. And that seems to have a  
19 problem with -- okay, I apologize, I think your  
20 slides are okay, but the one on the screen seems  
21 the graphic has shifted over.

22 But essentially this is not a new  
23 phenomena. People have known about expansion and  
24 contraction in liquids in the petroleum industry  
25 for a long time. There is a reference standard of

1       60 degrees Fahrenheit used in most transactions at  
2       the wholesale level to make sure we're all talking  
3       about a transaction that occurs at a constant  
4       temperature. So temperature is not a factor in  
5       either expansion or contraction in those  
6       transactions.

7               But there is no compensation in an  
8       identical manner at the retail level in the United  
9       States at this time.

10              There are colder areas of the country  
11       and warmer areas of the country. California  
12       certainly falls in the latter category where we're  
13       in the warmer area. And what we mean by warmer is  
14       the fuel temperature being dispensed at retail, on  
15       average warmer than 60 degrees Fahrenheit, the  
16       reference temperature.

17              There have been automatic temperature  
18       compensation of which we will continue to refer to  
19       as ATC in this process. We will be looking at  
20       quantifying the benefits, what we refer to as  
21       benefits to consumers, in the form we characterize  
22       here as more fuel. And that's almost like  
23       there'll be an adjustment to the fuel that's being  
24       dispensed based on temperature and there'll likely  
25       be an adjustment on the retail price as a

1 consequence of that. And I'll get into that.

2 And there certainly is a very  
3 quantifiable cost on the equipment and the labor  
4 to install these types of retrofit devices at  
5 existing retail locations.

6 So this is just meant to illustrate a  
7 generic distribution pattern that does exist in  
8 California. Temperature compensation is occurring  
9 at the distribution rack. That's basically where  
10 the trucks load up. And then the fuel is either  
11 taken directly to a retail establishment, down  
12 here on the bottom; or is taken to a say,  
13 independent large jobber who may, in turn, load  
14 additional trucks for taking to retail or even  
15 taking to other nonretail locations, construction  
16 sites, yards, et cetera.

17 There are bills of lading that are  
18 produced when the wholesale transaction is  
19 consummated. And that bill of lading information,  
20 what we understand, has both net, gross,  
21 temperature, even density information on the bill  
22 of lading, as well as the date, obviously.

23 And the posted prices, we understand, at  
24 the wholesale level are actually, those are net  
25 gallons or petroleum gallons, that reference 60

1 degree petroleum gallon.

2 And at the retail level the sales to  
3 consumers or end users is a gross sale, or a U.S.  
4 gallon sale. Which, lo and behold, we do have  
5 definitions of the both.

6 I know a lot of people in the ATC  
7 discussion arena use net and gross gallons  
8 typically. And we just want to clarify that, you  
9 know, what we mean by net is what everyone else  
10 does, but they don't use petroleum gallon. And  
11 U.S. gallon is what consumers see, but it doesn't  
12 actually state that. It just says gallons. But  
13 that's the form of measurement.

14 The distinction is certainly the U.S.  
15 gallon is 231 cubic inches regardless of the  
16 temperature of the fuel being dispensed.

17 The distribution of fuel does involve  
18 those previous steps I outlined, the loading of  
19 the truck, the driving to the retail station, the  
20 loading to the underground storage tank. And then  
21 the dispensing through the nozzle into the  
22 consumer's tank.

23 Through those various steps it's  
24 possible the temperature of the fuel can change in  
25 transport, can change while underground in the

1 storage tank, and it can change from the storage  
2 tank to the nozzle that's dispensing the fuel.

3 We do not have data that's tracking  
4 those changes in temperature. At this time we  
5 don't know if we're going to be able to get some  
6 distribution terminal temperature information. We  
7 will attempt to do so to see if there are some  
8 differences between that and the DMS temperature  
9 data from the storage tanks.

10 But the storage tanks, most people in  
11 the industry believe that there is not a great  
12 deal of temperature change in California in the  
13 underground storage tanks due to the nature of  
14 their construction. Double-wall construction;  
15 they're almost like, if you will, an underground  
16 thermos.

17 And on top of that, the through-put at a  
18 lot of stations in California, especially the  
19 middle to higher through-put stations, are going  
20 through a load of fuel, in some cases two loads of  
21 fuel, or even more, per day. So as you get an  
22 idea, that fuel is not sitting in the underground  
23 storage tank for very long. Hours, in some cases.  
24 So there isn't a lot of time for it to change  
25 temperature anyway.

1                   But we do recognize that there could be  
2           other areas of the country that may be  
3           considerably cooler. That fuel could actually  
4           have a more of an opportunity to cool down.  
5           Stations that have -- don't sell very many gallons  
6           per month have a long, sort of latency of the fuel  
7           underground, have an opportunity to cool down in  
8           the cooler months.

9                   So we recognize that there could be some  
10          shrinkage, meaning the fuel is a cooler  
11          temperature than when it's initially purchased.  
12          And then once eventually dispensed there's  
13          actually a little bit less volume in terms of U.S.  
14          gallons dispensed than was originally purchased at  
15          wholesale.

16                  So, we're not at this stage of the study  
17          trying to exactly quantify that amount of  
18          shrinkage, if you will. But we recognize that it  
19          is a legitimate phenomena.

20                  And these are sort of the points I was  
21          referencing where the fuel is put into the  
22          underground storage tank. I just want to point  
23          out that the temperatures that the county sealers  
24          were taking when they were making, doing their  
25          normal visits to a retail establishment, were

1 essentially the dispenser temperature C, or what's  
2 referred to in our slides and some of the  
3 information as approver temperature. That's the  
4 canister the fuel goes into to verify the accuracy  
5 of the dispensing device.

6 And the temperature B in the underground  
7 storage tank is another temperature that was  
8 sampled in addition to the ambient air temperature  
9 at the time of the visit to that location.

10 So those are the three basic  
11 temperatures that DMS has provided in their  
12 dataset that's online, and that we will be talking  
13 about this morning.

14 Just want to clarify one thing that  
15 temperature compensation that we've been charged  
16 to look at for California on a cost/benefit basis  
17 at the retail locations will have no effect, no  
18 physical effect at the wholesale operations.

19 Temperature compensation already exists  
20 at wholesale operations, and none of that will  
21 change. There won't be any -- we're not -- we  
22 haven't been directed to look at wholesale  
23 locations. And, besides, there's already  
24 temperature compensation at those locations. So,  
25 we just want to point out that there won't be any

1 change in the wholesale operation.

2 Some of the basics in the legislation,  
3 which is referred to as AB-868. We are working in  
4 partnership with Division of Measurement Standards  
5 and the California Air Resources Board. DMS has  
6 been sort of at the forefront of getting the data  
7 collected from the county sealers; putting it -- I  
8 think there's some checking or some level of QC.  
9 But it's hard unless you have the raw data from  
10 the sites. Some of these field notes actually a  
11 check is that the right number they entered. So I  
12 understand that that's not the case.

13 And they're also responsible, they put  
14 the information together. They have a website and  
15 people can look at the histograms they have of the  
16 fuel temperatures.

17 DMS has provided us with the dataset.  
18 We have gone through the dataset and we'll show  
19 some of the graphics as a consequence of our  
20 analysis. And we'll talk about there were a  
21 couple pieces of data that looked to be a little  
22 bit off. And we think we've discovered a couple  
23 of entries that may be a little bit inaccurate.  
24 And I'll give an example of one of those.

25 But for most of the data, when you graph



1       it out, it does look remarkably similar to earlier  
2       work in sampling of fuel in California. So the  
3       shape, the seasonal shape of the fuel temperature  
4       does follow the same similar pattern as the  
5       earlier NIST work. But you'll see when you look  
6       at the charts we've put out.

7               The Air Resources Board is also one of  
8       our partners. And they're working on some  
9       sampling, as we speak, in the field to collect  
10      some density information for gasoline, diesel  
11      fuel, at the retail location.

12             We will also be obtaining some density  
13      information from the refinery production  
14      information that the Air Resources Board has. And  
15      the purpose of that is to compare to the assumed  
16      density or average density that people do use at  
17      the wholesale level when they do a volume  
18      correction factor.

19             The study is to be complete by the end  
20      of this year. We have -- I mean we fully believe  
21      we'll be able to meet that. We are on schedule,  
22      so we don't see a problem with that.

23             And our study must include  
24      recommendations to the Legislature. So, we'll  
25      have those in our report. And some of those

1 recommendations we'll be working closely with DMS  
2 people, especially with regard to what steps have  
3 to be -- people have to go through in the state to  
4 develop regulations, if, in fact, we determine  
5 that temperature compensation is beneficial on a  
6 net basis in California.

7 Some of the upcoming dates we have.  
8 September 17th will be our next -- oh, sorry --  
9 there's a question from Jay?

10 MR. McKEEMAN: Actually it's on this  
11 slide. Jay McKeeman, California Independent Oil  
12 Marketers Association. I was looking through  
13 these slides before you got to this one.

14 September 17th is going to be a problem  
15 for many of the oil marketers. That's the end of  
16 the Pacific Oil Conference up in Reno. September  
17 18th or the following week would be a lot better  
18 for us.

19 MR. SCHREMP: Okay, Jay, we'll see if  
20 that can be moved. I think we had a slightly  
21 later date because of the Pacific Oil Conference,  
22 and this is really the only --

23 MR. McKEEMAN: -- regional conference of  
24 weights and measures -- earlier.

25 MR. SCHREMP: Earlier, yeah. No, we

1 changed it. But, we'll see if we can work with  
2 our two Commissioners who are on the  
3 Transportation Committee to see if we can delay  
4 that a little --

5 MR. McKEEMAN: I mean at the very best,  
6 I mean one day would be great --

7 MR. SCHREMP: Okay.

8 MR. McKEEMAN: -- if you could do it the  
9 next week, it's just, you know, a lot of people  
10 spend a lot of time out of office, and it will be  
11 difficult to make -- we can't make the September  
12 meeting, the 17th meeting. The 18th we could  
13 make, or the following week.

14 MR. SCHREMP: Okay. Well, we will look  
15 at that, and then what we'll do, Jay, is after  
16 conferring with the Commissioners' Advisors, we  
17 will then send out an email to all the advisory  
18 group and the other AB-868 participants.

19 MR. McKEEMAN: Great, thank you.

20 MR. SCHREMP: All right. The changes,  
21 up until this point we've been conducting staff  
22 workshops, technical staff workshops. And the  
23 next set of public meetings will actually be  
24 what's deemed a committee workshop.

25 So that usually has, it consists of two

1 Commissioners that are on a standing committee, in  
2 this case the Transportation Committee, at the  
3 Energy Commission. And they'll be up on the dais  
4 with their Advisors.

5 And so the structure will be maybe a bit  
6 more formal. They will likely have questions  
7 through the proceedings that technical staff and  
8 others may need to address. And we will be  
9 providing them with a draft report for their  
10 consideration, as well as everyone else who is  
11 interested in these proceedings.

12 And so I think that's the important  
13 distinction. I know most, if not all, of these  
14 workshops so far people have had very little  
15 information in advance of the workshops. That  
16 will change. For this Committee workshop you'll  
17 have an actual draft staff report with findings  
18 and staff recommendations.

19 So there will be a lot of information in  
20 there. And so, to Jay's comment, we certainly  
21 want to maximize participation during the  
22 Committee workshop. Because, after all, the  
23 Commissioners, you know, need -- it's important  
24 that they hear what your concerns are regarding  
25 the work.

1           So, if we go with the 17th, we're  
2   looking at a release date electronically and on  
3   the web no later than September 3rd. And if we  
4   are able to change that September 17th date, to  
5   slide that a little bit, we'll notify you and  
6   notify you when the draft report should be  
7   available.

8           If that only moves a day or two there  
9   shouldn't be any problem in keeping the October  
10  27th second Committee workshop date. Once again,  
11  that would be -- there would be a report in  
12  advance of that, a revised report. It'll probably  
13  be a Committee report at that point, a draft  
14  Committee report. And it will have revisions  
15  based on stakeholder input, as well as input from  
16  the Committee members.

17          So that's the process here. And  
18  eventually the culmination of all the proceedings  
19  is an adoption at a business meeting at the  
20  California Energy Commission about mid-December.  
21  I think that's the schedule at this point. Like I  
22  said earlier, we think we can maintain this  
23  schedule; we don't see any problems at this point.

24          You have a question? I think you have  
25  to come up to the dais, unfortunately, Prentiss.

1 Thank you.

2 MR. SEARLES: Prentiss Searles, American  
3 Petroleum Institute. Gordon, I just want to go  
4 back a slide. It was just a clarification. You  
5 said that you were going to make a recommendation  
6 to the Legislature.

7 And the question was, is the  
8 recommendation going to include how you would  
9 implement that? And if so, how would that fit in  
10 with what the -- how it might be used by the  
11 National Conference on Weights and Measures?

12 I'm just trying to figure out how the  
13 two would mesh.

14 MR. SCHREMP: I think, I mean, the  
15 legislation, I believe, is pretty clear that we  
16 are to come up with, you know, legislative  
17 language. But to what extent, if, in fact, we  
18 determine ATC is, you know, is net beneficial, to  
19 what extent that legislation language includes  
20 some fine details in actual implementation, you  
21 know, timetables and sequences, we'll be looking  
22 to DMS to help us understand the developmental  
23 process for those rules and regulations.

24 And so it may be more that there's a  
25 recommendation, if we once again think it's on a

1 net benefit basis way to go, we may not go into  
2 that detail. We may defer to DMS for that kind of  
3 language development.

4 But, we'll cross that bridge when we get  
5 to it, so it may not have all that detail. We do  
6 recognize, as you point out, Prentiss, that there  
7 is a national debate, has been a national debate  
8 on this issue. And that at this point they're  
9 waiting to see what comes out of our study.

10 And I know on the national level they  
11 have talked in concept about what type of phasing  
12 schedule, you know, might be best if one were to  
13 go ATC in the United States. And they talk about  
14 sort of the pros and the cons of the different  
15 types of phasing schedules.

16 And so we recognize that and we will be  
17 discussing that in our draft report. And the  
18 consequences of either going, you know, date-  
19 certain voluntary long phase-in, et cetera. We  
20 just want to lay out what those different options  
21 are.

22 But I think what we're going to be doing  
23 in the draft document, Prentiss, we're actually  
24 going to be coming down on one or the other as  
25 what we would think would be our best

1 recommendation. Rather than just throw many  
2 options out on the table without an opinion.

3 MR. SEARLES: Thank you.

4 MR. SCHREMP: You're welcome.

5 We have a website that we've been  
6 posting information to. And we will continue to  
7 update. We also have, for those of you who may  
8 not have ever received an email from us announcing  
9 a workshop, there is an opportunity on that  
10 website to go ahead and sign up for listserve to  
11 get future information for proceedings.

12 So, please do, if you haven't already  
13 yet. Or approach me or one of the other staff  
14 here and give us a business card and we'll go  
15 ahead and put you on a distribution list that we  
16 have.

17 We seek, we encourage comments from all  
18 parties. We have certainly learned an awful lot  
19 over these several months. And we expect to  
20 become even more knowledgeable as we continue  
21 through this process. But that's only because of  
22 the input of people who are actually, this is  
23 their livelihood, this is what they do, on all  
24 aspects of temperature compensation.

25 So please continue giving us your



1        comments. We've had excellent feedback from lots  
2        of stakeholders, and we expect that to continue.  
3        And any means imaginable you can provide  
4        information to us.

5                We will, and I didn't mention this about  
6        the Committee workshops, but there will certainly  
7        be comments after those workshops. Probably  
8        because of the tight sequencing of the two  
9        Committee workshops, we may only allow maybe seven  
10       days after the workshop.

11               But, once again, the September workshop  
12       you'll have a report in-hand two weeks in advance.  
13       So that should give people plenty of time to read  
14       through that and come prepared with some comments  
15       and some input.

16               This is a copy of our website. it may  
17       have changed a little bit since then, but go ahead  
18       and take a look. If you haven't, we've been  
19       posting some additional information on studies  
20       from other locations, and we'll continue to do so.

21               So, this is, in some ways, review for  
22       people. The main objectives of AB-868 are for us  
23       to examine whether or not temperature compensation  
24       makes economic sense for California at a retail  
25       application.

1                   And this legislation mentions two  
2           specific forms of temperature compensation. One  
3           is changing a reference temperature, or as I  
4           mentioned earlier, wholesale transactions are done  
5           60 degrees Fahrenheit in the United States and  
6           many other locations around the world. Hawaii,  
7           I'll talk about that in just a minute, has a  
8           different reference temperature, but not in the  
9           way people would think for wholesale transactions.  
10          It's an adjustment of the retail gallon size, and  
11          I'll talk about that.

12                   And we're also supposed to look at ATC  
13          equipment or temperature compensation equipment in  
14          California for existing facilities as well as  
15          future facilities. So that's part of our  
16          analysis. Two primary endeavors.

17                   So, the Hawaii example is, once again, a  
18          statewide reference, but I believe actually it's  
19          closer to changing the size of the gallon as it's  
20          dispensed to retail.

21                   As I mentioned, in the United States,  
22          excluding Hawaii, in the United States when a  
23          consumer dispenses fuel into their tank, it reads  
24          gallons on the volume readout, on the electronic  
25          or mechanical dispenser. And each gallon is 231

1 cubic inches regardless of temperature.

2 In Hawaii there was a determination,  
3 after some analysis and deliberation, and they  
4 came to a conclusion that sort of the average  
5 temperature for dispensed fuel is 80 degrees  
6 Fahrenheit.

7 They looked on their compensation chart  
8 and they saw well, how much would the fuel expand  
9 if it was 80 from the reference of 60. And they  
10 said, oh, it'll expand 2.3 inches. So, now you  
11 have a gallon in Hawaii when it's dispensed is  
12 actually 233.3 cubic inches. Each and every  
13 gallon, regardless of temperature. So that is  
14 what Hawaii did.

15 And we're supposed to look at a similar  
16 construct in California. We recognize in the  
17 Hawaii example certainly fuel will not always be  
18 exactly 80 degrees. Sometimes a little bit  
19 warmer; sometimes cooler. And we don't know, we  
20 haven't seen any data of whether or not 80 is  
21 actually right in between the high and the low  
22 points, or if that's the dead average. Don't know  
23 the answer to that question.

24 So, a similar concept in California  
25 would be we sort of change the size of the

1 California gallon. We'd have a California gallon.

2 So, that entails some modifications,  
3 adjustments to existing electronic and mechanical  
4 dispensers. We're working with some dispenser  
5 manufacturers to understand what the implications  
6 are of that, as well as some sealers and DMS. So  
7 we'll have this as part of our analysis.

8 But we want to be clear that, I guess,  
9 in terms of equity and consumer awareness, that  
10 certainly in a temperature-compensation retail  
11 world, that scenario, gasoline and diesel fuel  
12 being dispensed is being compensated at retail.  
13 And so wherever a consumer went they would know  
14 they're getting a petroleum gallon, and it would  
15 be temperature compensated.

16 In this Hawaii example, you're just sort  
17 of changing the average. And so sometimes  
18 gasoline or diesel would be warmer, sometimes  
19 cooler. So it wouldn't be as accurate, but it's  
20 likely it will be less costly. But we have to  
21 look at all of those issues for this example.

22 I guess the more analytically  
23 challenging intensive part is actually what was  
24 done in Canada. And that is temperature  
25 compensation at retail. Temperature compensation

1 is approximately 99 and 95 percent in use in  
2 Canada, probably closer to the 95 percent number.  
3 Oh, by the way, the fuel is, on average, cooler  
4 than the reference temperature.

5 And the retail establishment owners felt  
6 it was in their economic best interest to make a  
7 modification on a voluntary basis. As people  
8 started doing that, retailers starting doing that,  
9 others did not want to be at a competitive  
10 disadvantage and also made modifications.

11 And from what we've learned from talking  
12 to some of the retailers up there, they've  
13 actually, you know, they're happy with the change.  
14 And this is something we're looking at in  
15 California. The only difference is the fuel here  
16 is warmer on average. And we'll talk about the  
17 cost and benefits in a little bit.

18 So, some of the information. The  
19 structure of our study is not to produce a  
20 statewide number. The purpose is to look at  
21 individual counties. We think there may be in  
22 some cases significant differences between  
23 counties. But we want to at least do the analysis  
24 on that level; have that analysis available to see  
25 what those differences are.

1           The monthly analysis does not cover  
2     January through December period, it actually  
3     covers a time period that mates up with the data  
4     collection for temperature information. So that's  
5     April 07 through March 08.

6           The information we'll be showing you in  
7     the slides in some cases will include through  
8     February. And the reason is although we have the  
9     temperature data for March, we don't have some  
10    taxable sales figures from the Board of  
11    Equalization yet for that month. So we will soon,  
12    and that will be in our draft report. So some of  
13    the information we present will be like 11 months  
14    worth of data.

15          So, we're looking at -- on the  
16    temperature side we're looking at dispensed fuel  
17    temperature, or prover temperature. And then  
18    ambient temperatures. And then we're also looking  
19    at the fuel sold as an important component in the  
20    analysis, as well, what the average retail prices  
21    are by fuel type.

22          And we also need information from retail  
23    establishments, dispensers, make and model, number  
24    of meters, et cetera. So that's information we're  
25    still in the process of collecting.

1           And we're also looking at installation  
2           and inspection labor estimates. And that would be  
3           the amount of time, as well as the average labor  
4           rates, or a range of labor rates.

5           So, what I'm going to do at this point  
6           is, once again -- this is a lot of just basic  
7           review and background for most of you -- see if  
8           there are any questions here in the audience. And  
9           if I don't see any hands up, I guess -- oh, wait,  
10          Judy.

11          MS. DUGAN: Just one quick question.  
12          AB-8, when it was written, -- AB-868, is the list  
13          of possible recommendations exclusive? I mean can  
14          no other possible solution ever be considered?

15          MR. SCHREMP: Oh, I believe that's our  
16          interpretation. We look to legislation as  
17          guidance. And what is usually put in legislation  
18          is sort of like a bare minimum. We have to at  
19          least look at that.

20          MS. DUGAN: Okay, so it doesn't exclude  
21          any other possibilities?

22          MR. SCHREMP: That's correct. So if  
23          somebody, you know, either has some information  
24          they want to pass on to us now, some other concept  
25          to look at, or after we've produced our draft

1 report, raise some other concept that may be more  
2 cost beneficial, please let us know, yeah.

3 MS. DUGAN: My magic krypton --

4 MR. SCHREMP: So, you're right, --

5 MS. DUGAN: -- temperature rate will be  
6 considered then?

7 (Laughter.)

8 MR. SCHREMP: Have to ask maybe a third  
9 party to check that out.

10 All right, no other questions from the  
11 audience. I think we'll open up online and does  
12 anybody have their hand up? All right. We will  
13 proceed.

14 Temperature study. As I mentioned, the  
15 Division of Measurement Standards is the lead in  
16 this arena. They have been working very closely  
17 with the county sealers. After all, the county  
18 sealers are the ones who go out and inspect the  
19 retail establishment, verify the dispensers are  
20 accurately calibrated.

21 And it is during these typical visits to  
22 assess the calibration of the equipment at retail  
23 that they also, by the way, took some temperature  
24 information.

25 And the temperature information was not



1 collected for each visit. It was collected from a  
2 subset of visits, you know, I think up to 20  
3 percent was a goal. And it was not attained in  
4 all counties, probably due to workloads. I think  
5 Jay has a question? Maybe Jay might sit up front  
6 now.

7 MR. McKEEMAN: It appears that not all  
8 the slides are in the handout.

9 MR. JANUSCH: Yeah, we're currently  
10 copying and fixing the problem so even numbers  
11 will be in here --

12 (Laughter.)

13 MR. JANUSCH: So I'll go around. I have  
14 a temporary solution, 20 copies. They're smaller  
15 slides, but right now we're --

16 MR. McKEEMAN: If we have those by the  
17 end of the meeting that would be helpful. Okay.

18 MR. JANUSCH: I'll pass them out.

19 MR. SCHREMP: Those were the most  
20 sensitive slides we wanted to withhold at this  
21 time.

22 (Laughter.)

23 MR. SCHREMP: All right, well, Jay, you  
24 found us out. Technology doesn't always work and  
25 we try to save paper, but I guess it defeated the

1 goal.

2 All right, going back to the temperature  
3 data. Many of you have gone to the DMS website,  
4 looked at the data. And we will be looking at the  
5 data here this morning.

6 You'll see in our maps where we  
7 represent information on which counties have data  
8 for them and which counties don't. It may look  
9 like several counties are missing. You go, oh, my  
10 goodness. Well, actually most of the largest  
11 consumption counties in California do have data,  
12 pretty good data representation for this  
13 temperature information.

14 And what I put here is essentially 82  
15 percent based on taxable gasoline sales are  
16 represented for gasoline and 75 percent for diesel  
17 fuel. So, that's a pretty good survey, that's  
18 pretty extensive. But we'll talk about what steps  
19 we're going to take to try and maybe fill in some  
20 of the missing gaps.

21 So, as I mentioned, when the county  
22 sealers were making their routine inspections, air  
23 temperature or ambient temperature, fuel  
24 underground as well as fuel dispensed. But we do  
25 have no data for mid-grade gasoline sales. Mid-

1 grade is typically produced by combining premium  
2 and regular grades at the nozzle as it goes into  
3 the retailer's tank. And so in those cases there  
4 wouldn't even be an underground dedicated mid-  
5 grade storage for gasoline.

6 So we understand why there is no mid-  
7 grade data for temperature. But we'll talk about  
8 how we're going to approximate that.

9 So this is a summary -- which is this an  
10 odd or even? I don't know if you have this in  
11 your package. But this is the gasoline survey,  
12 and I've shown regular grade here. We have  
13 premium grade data, or DMS does, that they  
14 forwarded to us. And the differences are very  
15 small between the two datasets, even when on a  
16 paired basis, site by site, the differences are  
17 not that great. There is some fluctuation, but  
18 it's almost in the noise. But we'll talk about  
19 that in our report, but we're not going to talk  
20 about that today.

21 The important point is to show that  
22 there's variations; and the variations are similar  
23 with the premium gasoline dataset for temperature.

24 So, the average, and once again you'll  
25 see the term weighted average. Counties are --

1 the data for average temperature in each county,  
2 we don't just take an arithmetic average of each  
3 of them and treat them all equally. We treat  
4 counties that have greater consumption as that's  
5 sort of a higher weighting when we do the  
6 averaging of that information.

7 So that's what we did, the weighted  
8 average based on consumption estimates by county  
9 for gasoline and for diesel fuel. So that's how  
10 we came up with these weighted averages. So if  
11 some of you have maybe done some analysis of the  
12 data and taken some averages, your average  
13 statewide for the dataset may be different than  
14 what we're presenting today. And that's part of  
15 it.

16 So, that's 72.3, about 12.3 degrees  
17 above the 60-degree reference. Highest average  
18 statewide, again, 82. No surprise, August. And  
19 lowest 60.7, barely above the reference of 60, in  
20 January. So those aren't surprises at all.

21 Some of the little nuggets of  
22 information. The 91 degrees was the highest  
23 monthly average for a particular location, and  
24 that happened to be in Yuba County in August. And  
25 the highest recorded temperature in the dataset,

1 102 degree Fahrenheit, July in Tulare County.

2 Lowest average, once again, Amador  
3 County, 43 degrees. That's pretty cool. In  
4 January. And 43 degrees was actually the lowest  
5 recorded. So, maybe not a lot of datapoints for  
6 January for Amador County, as one can conclude  
7 from that.

8 Diesel fuel. A little bit warmer on  
9 average, 74 degrees compared to 72.3 for gasoline.  
10 Highest in August, 84; lowest December, not  
11 January, 60.6. Tulare County again highest, 95  
12 degrees, and almost 107 degrees in Riverside  
13 County in July at one location.

14 And lowest county warmer than the 43 we  
15 saw in the dataset for gasoline, almost 52 degree,  
16 Butte county in January, and 50.6 degrees, Butte  
17 County, lowest temperature at any datapoint.

18 So, what happens when you graph this on  
19 a -- put all these numbers out. And this kind of  
20 looks like some stockmarket report. But what  
21 we're trying to illustrate here is both the  
22 arithmetic average that people may have done with  
23 this dataset, as well as this weighted average  
24 which I presented.

25 And so we show these on a month-by-month

1 basis. But you do see a pattern in the  
2 information, and that is it rises to a point that  
3 maximizes under some indistinguishable words here  
4 at the bottom -- don't know what happened to that  
5 in the software, I see there's lots of changes  
6 there -- but, this is essentially in August. And  
7 this low point is in January down here.

8 So, the bars, the top bar is actually  
9 the maximum temperature in any particular county  
10 that has data. And then the low point is  
11 obviously the lowest for that particular month  
12 average county temperature.

13 So this just illustrates that there is a  
14 variation from county to county in the data in any  
15 particular month. And that the weighted averages  
16 are a little bit higher than the arithmetic  
17 averages which are these little triangles. So  
18 just a little bit difference, two to three  
19 degrees. It's not a lot. A little bit more  
20 difference down here in the cooler periods.

21 Statewide temperature for premium  
22 gasoline, same shape, very similar. Prentiss, you  
23 have a question?

24 MR. SEARLES: Just real quick. Weighted  
25 average, what's it weighted on?

1           MR. SCHREMP: It's weighted on the  
2       estimated consumption of fuel in that county. And  
3       I'll talk about that in a little bit, but briefly,  
4       Prentiss, we have taxable gasoline sales  
5       statewide. Not by county, statewide.

6           Caltrans, California Department of  
7       Transportation, does an estimate of consumption of  
8       gasoline and diesel fuel by individual county. We  
9       took the ratio for all those county consumption  
10      estimates from Caltrans and applied them to the  
11      statewide number from Board of Equalization. So  
12      that's how we populated all of these counties each  
13      and every month for both gasoline and then for  
14      diesel fuel.

15           This is one of the ones we wanted to  
16      withhold from you. So, I don't -- this software --  
17      -- so I don't know why this is not showing the  
18      temperature. While we pause for a minute I'm  
19      going to try to actually see if it'll let me load  
20      up another copy of the presentation that has these  
21      maps on it. So, if you'd bear with me just a few  
22      minutes, we'll try to get that loaded up here now.

23           (Brief recess.)

24           MR. SCHREMP: Here at the workshop,  
25      because Jay found this out, we had to bring up new

1       copies that actually had all the pages.

2               So, in fact, these slides include the  
3       modifications to five of the slides that were done  
4       this morning. So you actually have the same  
5       presentation that I'm going through on the slides.  
6       So just want to let people know that.

7               And for those of you online, we will be  
8       posting the revised version of the presentation  
9       today. Not sure exactly when.

10              With regard to handouts for folks that  
11       are here today, we also have, as you may have  
12       noticed, some printouts for California counties.  
13       And we do include the monthly average temperature  
14       data for regular, premium grades of gasoline by  
15       every single county and every single month that  
16       has data. And we also have done that for diesel  
17       fuel.

18              And one other handout has all the  
19       counties and lists that percent of consumption of  
20       gasoline by individual county, as well as percent  
21       consumption of diesel fuel.

22              Jay, yes?

23              MR. McKEEMAN: Jay McKeeman, CIOMA.  
24       Have you done any graphing or segregation of data  
25       by county showing high- and low-temperature



1 variance in a particular month in a county?

2 MR. SCHREMP: Do you mean a variance  
3 within a county on a specific date or through  
4 during the month?

5 MR. McKEEMAN: Well, I guess you'd have  
6 to look at that day-by-day, yeah.

7 MR. SCHREMP: We haven't prepared any  
8 graphs, but we can look at those kinds of spreads.

9 MR. McKEEMAN: Okay.

10 (Pause.)

11 MR. SCHREMP: Okay, and the final  
12 handout we have here is a color county map of  
13 California with the county names, because some of  
14 the graphics we present today don't have the  
15 county names on the figures. Which would be  
16 something like this.

17 We've taken the temperature information,  
18 and these are, once again, the average, arithmetic  
19 averages, for each of the counties. And we're  
20 basically showing the cooler counties in dark,  
21 actually can you --

22 (Pause.)

23 MR. SCHREMP: Well, I think we've lost  
24 the pointer for this application because we're  
25 using PowerPoint. That's okay. We'll continue on

1       here.

2               But for those of you here, and watching  
3       from remotely, the very dark blue is the coldest  
4       temperature. And once again, we refer to that as  
5       prover temperature. And that is essentially the  
6       fuel coming out of the dispensing nozzle.

7               And I believe it's the -- it's not the  
8       initial amount of fuel that comes out of the  
9       nozzle; it's the gallons six through ten that come  
10      out of the dispensing nozzle that was actually  
11      measured for temperature in the prover.

12              I believe that's right. All right, so  
13      as you can see, no surprise in January, the colder  
14      areas are more in northern California and along  
15      the coast. And the warmer areas are in the milder  
16      climate of southern California and as you go into  
17      the desert regions in January.

18              Now, in August, certainly the warmer or  
19      orange-colored counties, central valley,  
20      Sacramento Valley, San Joaquin Valley, down in  
21      southern California. And along the coast, the  
22      cooler temperatures in the 60s to 70s for the  
23      fuel, it's no surprise when you look at this data.

24              The only, I guess, interesting is the 79  
25      degrees over there, but we'll have to take a look

1 at that.

2 Diesel temperatures. This is the  
3 monthly chart. And I've circled something that  
4 looks suspicious like maybe there's an issue there  
5 with one of the datapoints. And that happens to  
6 be for Riverside County that had a temperature of  
7 39 degrees for diesel.

8 And we thought that was interesting, so  
9 we looked at the data and we saw a temperature of  
10 14 degrees, and one of 64 or 68 degrees. So we  
11 decided to toss those two numbers in that county  
12 average out because obviously the 14 degrees is  
13 not correct. It was probably meant to be 64  
14 degrees, not 14 degrees.

15 And when you make that change it bounces  
16 back up to more of a normal-looking shape. So  
17 that's one thing we identified. And what we plan  
18 to do in the report is list a particular datapoint  
19 that we think is incorrect and explain what we did  
20 to the dataset as part of the report.

21 I think there's a couple of other things  
22 we've identified that we'll also address in the  
23 report. But, not bad. I mean you are going to  
24 have some erroneous entries. And, once again, you  
25 know, DMS didn't have the datasheets with them so

1       that they can compare and contrast. That's the  
2       county sealers doing the data entry remotely. So,  
3       we have to just look at the data and see if  
4       something looks suspiciously out of whack.

5               Some of the other information. We're  
6       going to see if we can contact the sealer and find  
7       out if, in fact, oh, yeah, that's the wrong  
8       number, here's the right number. So there may be  
9       some instances to do that, but for most all  
10      intents and purposes it looks like the data's  
11      pretty good.

12             Same approach, taking the same color  
13      ranges for diesel fuel. Northern California,  
14      coolest for diesel fuel, and along the coast in  
15      January. Warmer temperatures southern California.  
16      And in August, during the hottest months  
17      certainly, the warmest temperatures are out in the  
18      desert and in the central valley, and cooler  
19      temperatures along the coast. A similar pattern,  
20      a little bit slightly higher on average.

21             I talked about this earlier, but as you  
22      can see from those county maps, 31 counties either  
23      don't have any data, or a very -- some spotty  
24      data, intermittent reporting. But, once again, 18  
25      percent for gasoline, 25 percent are those missing

1 or spotty counties. So, we have a pretty rich  
2 data source here for the temperature data.

3 But we would like to develop estimates  
4 for these other counties as part of our analysis.  
5 So we believe that there is a relationship between  
6 ambient air temperature and fuel temperature. And  
7 what we mean by fuel temperature is the prover or  
8 dispensed fuel temperature.

9 There is, I believe, ample ambient data  
10 temperature available from the National Climate  
11 Data Center, many cities in California. We would  
12 not not necessarily, as I've indicated here,  
13 weight them by population of those cities. This  
14 temperature information, in many cases, is daily  
15 temperature information. And they create monthly  
16 averages or means for each of these locations.

17 But we can actually weight them by the  
18 number of retail outlets in these locations from  
19 our A-15 data survey.

20 So we have, we believe, information that  
21 we can tap into. We believe we have a  
22 mathematical relationship between ambient  
23 temperature and fuel temperature that we can use.  
24 And so, once again, this is something that we're  
25 proposing to do. And if you have any comments,

1       please let us know.

2               Here are a couple of examples of what we  
3       refer to as the relationship between the air  
4       temperature on the bottom X axis, and the prover  
5       or dispensed fuel temperature on the Y axis.

6               And this is for San Diego, a primarily  
7       coastal area in southern California. And in the  
8       central valley, Fresno County, a little bit  
9       stronger relationship in terms of an R-squared of  
10      .84. So this is for regular grade gasoline. I  
11      didn't show any charts for diesel. It's similar.

12              So we're just proposing that there is a  
13      relationship. We will likely use either adjoining  
14      similar climate counties for that relationship.  
15      Also in terms of fuel distribution. As well as  
16      this national dataset for ambient temperatures to  
17      develop estimates of fuel temperature in the  
18      missing counties.

19              But, once again, that work is trying to  
20      fill in the missing gap for 18 percent of the  
21      volume for gasoline and 25 percent for diesel.  
22      You have a lot of data already in hand, more than  
23      enough. But we wanted to see if we could fill in  
24      those missing gaps.

25              Mid-grade gasoline. As I mentioned

1 earlier, no -- I'm sorry, Prentiss has a question?

2 MR. SEARLES: Prentiss Searles, API.

3 Just was thinking more about Jay's question. And  
4 that was where the differences are in this within  
5 a county. Or, if you're looking at it and if  
6 you're looking at Los Angeles County, which has 8-  
7 9-million people in it. Pretty large expansive  
8 area.

9 Are you looking at specific places, or  
10 specific markets within Los Angeles County? Do  
11 you have the addresses of the facilities that  
12 you're taking the temperature at where you could  
13 at least do an analysis of what are the different  
14 temperatures for people that are within -- or,  
15 people -- for businesses that are within a two-  
16 mile radius, or a five-mile radius?

17 So you can see whether or not they're  
18 all selling about the same temperature fuel.

19 MR. SCHREMP: I don't believe that is in  
20 the dataset that we have in terms of the physical  
21 location mated with the temperature and the date.  
22 We don't have that data.

23 MR. LAKE: Yeah, we realized when we  
24 started this voluntary survey, which preceded AB-  
25 868, that it would be very difficult and tedious

1 to include things like the through-put of an  
2 individual station. We knew that there's stations  
3 at different elevations, and most counties in  
4 California have mountainous regions. And the  
5 through-put and the customer and seasonality of  
6 the stations all would be factors that were  
7 complex.

8 This is work that's aside from what  
9 they're responsible for. And we realize that  
10 they're really busy and we did not embark on that  
11 kind of detail. And we didn't get the -- I think  
12 San Bernardino County may have put the locations,  
13 or at least the regions in their county where they  
14 collected the samples. And maybe some of the  
15 other counties might have that data.

16 But we certainly didn't ask for it, to  
17 answer your question.

18 MR. SEARLES: If I can do a followup,  
19 then. I think one of the things you were looking  
20 for methodology for issues you should consider.  
21 And that would be what are the implications if the  
22 average temperature, and I'm just looking at your  
23 chart here, you know, if the average temperature  
24 in Los Angeles is 70.2, and everybody is selling  
25 at roughly 70.2, then what are the differences in



1 potential competition being able to take advantage  
2 of the temperature of the fuel in the pricing of  
3 your fuel.

4 So that would be something that I would  
5 suggest you would want to look at for your  
6 methodology.

7 Do you understand what I'm -- you're  
8 looking quizzically at me.

9 MR. SCHREMP: Well, we recognize there  
10 are, even though as Ken pointed out, we don't have  
11 that type of specificity in the information to say  
12 yes or no. There's variations within say a zone  
13 of competition, if you will.

14 But we recognize that there's variation  
15 in the source of the fuel, and the through-put of  
16 stations. And how far a truck is driven, and  
17 there's other variables that affect the ultimate  
18 temperature of the fuel being dispensed.

19 And so likely there are variations  
20 within a zone of competition. We just don't have  
21 the critical information to measure what those  
22 differences are.

23 But, so the point of having that  
24 information, I mean it's like -- I mean a  
25 competitor may not necessarily know where the

1 other competitor's receiving their fuel from.  
2 Probably certainly doesn't know what the  
3 temperature of the fuel his competitor or her  
4 competitor is receiving. And all they really can  
5 see and verify is what the street price is within  
6 their sphere of competition. That's readily  
7 visible and available.

8 But, we understand that there are many  
9 factors that go into pricing in terms of  
10 competition. And that there are many different  
11 cost structures and revenue streams for the  
12 various people within a specific sphere of  
13 competition.

14 So, we recognize those are other very  
15 important factors with regard to competition and  
16 ultimate street prices. So I don't know, quite  
17 sure, since we don't even have that data, what we  
18 might accomplish if we did.

19 Is there a source of that that you  
20 know or --

21 MR. SEARLES: Not that I'm aware of. I  
22 was hoping that that information would be  
23 available within here. In looking at the raw data  
24 I seem to recall that there was much more detail  
25 from day to day that you could look at. And so

1       you end up with, you know, there's more  
2       information if you look at it in the raw as  
3       opposed to the average for an individual county.  
4       To where you could what the difference in the  
5       overall temperature is between different stations.

6                Again, if you're looking at the  
7       difference between a station that has 200,000  
8       gallons of through-put versus a station that has  
9       50,000 gallons of through-put, they may or may not  
10      be in competition with each other. For multiple  
11      reasons.

12              And so, when you're looking at your  
13      analysis, those are factors that you need to take  
14      into account.

15              MR. SCHREMP: And, Prentiss, we'll go  
16      and look through that data. As Ken briefly  
17      mentioned, there may be a county or two that has  
18      that kind of specificity. And see if we can tease  
19      out those kinds of differences within a very sort  
20      of tight geographical area.

21              And your other point about differences  
22      in through-put by location. Yeah, we're going to  
23      address that in the report in terms of, you know,  
24      of someone incur a greater per-gallon cost than  
25      others based on their through-put, and the nature

1 of their station. If ATC were to be required, as  
2 a retrofit basis.

3 MR. SEARLES: No, I think what I was  
4 saying was --

5 MR. SCHREMP: No, I'm not saying  
6 you're --

7 MR. SEARLES: Oh, okay.

8 MR. SCHREMP: I'm just saying that is  
9 one of the issues we're going to address with  
10 regard to differences in through-put.

11 MR. SEARLES: Right.

12 MR. SCHREMP: I know you weren't saying  
13 that.

14 MR. SEARLES: Okay. And the other piece  
15 of that for the methodology is essentially mapping  
16 out how many terminals are in a given area. And  
17 how many, you know, which is your source for  
18 product.

19 So if your question was are they  
20 actually getting the fuel from the same place, and  
21 the question is very likely they are if they're in  
22 the same area. You know, typically terminals are  
23 located along pipelines, and typically there's not  
24 a whole lot of terminals. So those are other  
25 factors that you might want to consider.

1                   MR. SCHREMP: Yeah, I think we can. We  
2                   certainly do collect, before we get to Jay's  
3                   question here, we do collect information from  
4                   distribution terminals in terms of their through-  
5                   put, Prentiss. So we can look at during this  
6                   period sort of what those average through-puts  
7                   were and by region. So we can take a look at  
8                   that.

9                   Yes, Jay?

10                  MR. McKEEMAN: Jay McKeeman, California  
11                  Independent Oil Marketers. I think what Prentiss  
12                  was talking about is something that we raised in  
13                  our last communication to you. Which is we think  
14                  that an intellectually honest understanding of  
15                  fuel temperature includes whether fuel temperature  
16                  is, a) either an important factor in fuel pricing,  
17                  or, b) is not.

18                  And we suggested that you needed to take  
19                  a look at really whether fuel temperature is, in  
20                  fact, a critical element in the pricing structure.

21                  I mean I can make a very generalized  
22                  argument that says Californians pay 25 to 50 cents  
23                  a gallon more than the rest of the nation, and  
24                  therefore, temperature is, in fact, included in  
25                  that pricing structure. That's a very general

1 statement.

2 But there is a way to say that there is  
3 some inclusion of increased temperature in the  
4 fuel price already included in California.

5 And it's just that investigation that we  
6 think is important to take a look at whether  
7 temperature is, in fact, included in current  
8 pricing structure.

9 Because that will modify your benefit  
10 discussion. If it's already included in the  
11 pricing structure, the only benefit -- well, the  
12 only thing that will happen is that the cost will  
13 go up because of additional technology.

14 MR. SCHREMP: I think we look at that  
15 from just a slightly different perspective, Jay.  
16 But we will be touching on sort of that concept.

17 And so it's more of a what would happen  
18 afterwards, what would change. We understand when  
19 temperature compensation, if that was to be  
20 installed, we understand how the equipment and  
21 electronics would work. And how the compensation  
22 occurs in additional volume. If it's warmer, less  
23 volume, if it's cooler.

24 Further, we understand that that would  
25 be a change in I guess revenue stream, if you

1 will, for the retail establishment operator.

2 So, what's going to happen? Will they,  
3 if on average that's a force of revenue that would  
4 go away? Is there no adjustment made by the  
5 retailer to the market price they offer for fuel,  
6 and the retail price of other nonfuel goods?

7 That's a question. And so we believe  
8 that -- think of it this way, Jay, if you will.  
9 That temperature compensation would be a cost  
10 borne by the business like any other and many  
11 programs and requirements, modifications. And  
12 that costs are, to a great extent, for the  
13 industry as a whole, passed through over the long  
14 run, especially if you have an industry that  
15 remains profitable.

16 So, somehow some way --

17 MR. McKEEMAN: We have no argument with  
18 that discussion. I mean we think that you've done  
19 the right, you know, you've established the right  
20 approach to look at the cost side.

21 It's the benefit side that we're  
22 concerned about. And that benefit is -- I mean  
23 one way to look at benefit is just take through-  
24 put, multiply it by a temperature and a density,  
25 and say, that's something that's not being

1 received by the customer right now. That's not  
2 necessarily true.

3 You got to dig a little deeper into that  
4 equation and find out if, in fact, the customer is  
5 paying for that right now, or not paying for that.

6 And by just doing that simple  
7 calculation you don't get at the root of that  
8 understanding.

9 MR. SCHREMP: So, just to understand,  
10 Jay, I'll ask a couple questions. So, are you  
11 saying that, say, for example, a retailer will  
12 pick up a load of fuel, see what the temperature  
13 is on the bill of lading, and make an adjustment  
14 of their retail price?

15 MR. McKEEMAN: No. The temperature  
16 volume is something that is included in the whole  
17 pricing complex. And whether temperature is  
18 included in the price or not a significant part of  
19 the price right now, is something that we think  
20 that you need to look at. Because that  
21 examination is not included in the report.

22 MR. SCHREMP: Well, I just -- I mean  
23 maybe I'm not fully understanding what you're  
24 referring to. But, I mean, for example, during a  
25 warmer period in California, you know, we believe



1 most of the retailers are picking up their fuel  
2 and they're purchasing net gallons, petroleum  
3 gallons. And that they are selling at retail  
4 gross gallons, or U.S. gallons.

5 And so during a warmer period you'll  
6 have a bit more gross gallons in your load --  
7 you're paying net gallons but you get a little bit  
8 more gross gallons in a warmer period. During a  
9 cooler period, if it's below 60, you could have  
10 fewer gross gallons than the net you purchased,  
11 and fewer gross gallons to sell at retail.

12 And so we understand that that can  
13 affect the total revenue you're receiving for  
14 fuel. You know, in a warmer period for a retailer  
15 and in a cooler period for a retailer, absent the  
16 phenomena, as others like Ross Anderson have  
17 raised, about shrinkage. So those extra gross  
18 gallons you may have had when you pick up your  
19 load may have shrunk a little bit, you didn't have  
20 all of them to sell to retail.

21 So, we understand that affects the total  
22 revenue stream, you know, month-in-and-month-out,  
23 you're getting as a retailer. So, --

24 MR. McKEEMAN: Again, on the broadband  
25 discussion, you know, prices are lower in the

1 winter and higher in the summer. I mean in a very  
2 generalized sense you could say the temperature's  
3 being compensated, or that, you know, the price of  
4 the fuel is being adjusted based upon temperature  
5 fluctuations.

6 Now, I don't know that for a fact. I  
7 don't think anybody knows that for a fact. But we  
8 think that that's something that really need to be  
9 looked into.

10 And the fact that competition between  
11 stations that are selling, you know, generally the  
12 same temperature fuel, maybe that temperature  
13 doesn't make a difference.

14 I don't know, there's an intellectual  
15 inquiry that we think needs to be worked on and  
16 addressed in fairly understanding the benefit side  
17 of the equation.

18 MR. SCHREMP: Okay, we'll continue this  
19 dialogue, Jay, certainly. Okay.

20 And did that elicit some other comments?  
21 Okay. And we'll get to the folks online in just a  
22 minute. We have some other people making comments  
23 first.

24 MR. BOYETT: Carl Boyett representing  
25 the Society of Independent Gasoline Marketers of

1 America.

2 Just to give you an example of a little  
3 bit about what Jay might have been talking about,  
4 we operated a station in South Lake Tahoe for ten  
5 years roughly. And during the winter I know we  
6 lost thousands of gallons of gasoline.

7 And so, you know, that probably was  
8 partly due to temperature, with snow on the ground  
9 and whatever. So we consciously raised prices to  
10 try to compensate for that during that period of  
11 time.

12 So I think that probably is what Jay was  
13 referring to. And by the same token if we happen  
14 to gaining gas, I imagine subconsciously or  
15 consciously we would lower prices because we  
16 could, or to compete in the same area.

17 MR. SCHREMP: Thanks, Carl. I think  
18 that's what I was getting at is in terms of, you  
19 know, when you said you lost gallons, you didn't  
20 have those to sell and that affected your revenue  
21 stream.

22 And, yeah, so we recognize that. And  
23 the opportunity, if you have more gallons, you  
24 can, you know, look at maybe lowering your price  
25 in terms of trying to gain some additional

1 customers within your --

2 MR. BOYETT: Right. I mean we  
3 consciously said, we're losing 1 to 2 percent of  
4 gasoline at Lake Tahoe in the wintertime, so we're  
5 going to compensate for that somehow.

6 MR. SCHREMP: Okay, thank you. John.

7 MR. SIEBERT: John Siebert, Owner/  
8 Operator Independent Drivers Association.

9 And what he just said makes sense, but  
10 it doesn't make sense compared to what Jay said,  
11 because Jay said we're paying more in the state,  
12 and that takes in temperature compensation. If  
13 it's warmer we should pay less because the value  
14 of the energy is less. So we should pay less for  
15 the expanded gallons.

16 He's having to charge more in the winter  
17 and should charge less in the summer if it's  
18 expansion. The price that you pay in the state  
19 being 25 cents more, wouldn't all the other states  
20 across the southern tier be charging, also?

21 I think it's a state-specific thing. I  
22 don't think you find this in Arizona, which is  
23 even hotter than California. It doesn't have any  
24 of the elevation or any of the -- well, has some  
25 in the mountains, but doesn't have the elevation.

1                   MR. SCHREMP: Thanks, John. I think  
2                   when Jay said that, I mean I was thinking that he  
3                   meant the opposite, like what Carl was saying  
4                   about -- yeah, so okay.

5                   MS. DUGAN: That certainly shortens my  
6                   comments. Judy Dugan, Consumer Watchdog.

7                   I would agree with Jay if there were  
8                   data available. I do not believe that any of us  
9                   can make an honest intellectual inquiry about any  
10                  conscious or unconscious adjustment for price in  
11                  gasoline without data.

12                  And I also am unsure how a station owner  
13                  can make this conscious or unconscious decision  
14                  unless it's a sole provider for a fairly large  
15                  area, because the station owner has no way of  
16                  knowing what the temperature is in a competitor's  
17                  underground tanks, whether they be across the  
18                  street or half a mile away.

19                  So, without bill of lading data and  
20                  pricing charts and conscious decisions and  
21                  descriptions of them, it seems very hard to  
22                  consider.

23                  MR. SCHREMP: Okay. John.

24                  MR. SIEBERT: John Siebert,  
25                  Owner/Operator Independent Drivers Association,

1       again.  Sorry, I left off a part.

2               It's all right that subconsciously we  
3       might be making these decisions.  I'd like to see  
4       it based on sound science.  And I'd like to see  
5       the opportunity for retailers to compete on a  
6       level playing field.  And I'd like for the  
7       consumers to have that same level playing field  
8       when they make their selections for the best  
9       value.

10              MR. SCHREMP:  I think we have some  
11       questions from WebEx folks.  Okay.  I think --  
12       Ross, go ahead, please.

13              MR. ANDERSON:  Thanks, Gordon.  Ross  
14       Anderson from New York.  A couple of comments.  
15       One of the points that I picked up on is when you  
16       look at that yearly data, the -- curves that you  
17       produced, and the limits above and below the  
18       average and the weighted average.

19              One of the parts that would be very  
20       helpful for me to see, as an analyst, is to see  
21       whether those curves are bell shaped.  My guess  
22       is, just looking at what's going on there, that  
23       those individual monthly curves will form sort of  
24       a bell.

25              And that means that, you know, when I

1        buy once a week or once every, you know, five  
2        days, to fill my car to make my daily commute in  
3        to work, I'm sampling from that curve multiple  
4        times during the month. And there are canceling  
5        of errors.

6                So, that, you know, I think that part of  
7        variation is something that people often forget is  
8        that random errors that I buy at this station  
9        today and that station tomorrow, or even if I buy  
10       at this station and use a different gas pump, I  
11       get a different amount of gas every time. And  
12       those errors tend to cancel out.

13               What's really important to me, as I  
14       looked at the data that you showed, was in the  
15       summertime the variance was about plus or minus  
16       10, 12 degrees. In the wintertime it was about  
17       plus or minus 7 degrees from the weighted average.

18               When you put that all in the perspective  
19       of \$4.50 a gallon price, we're talking about --  
20       we're talking a tank or maybe two tanks. That's  
21       all we're talking about in the plus or minus two  
22       pennies in that whole bell.

23               And that's over the whole State of  
24       California. We're not talking about even within  
25       one county. And I think there's another thing, if

1 we look at Los Angeles County, which averaged 83  
2 in July, and 81 up into the desert, and only  
3 increased 2 degrees from being down in the city to  
4 being up in the desert. Two degrees. It only  
5 went from 83 to 85 degrees average temperature.

6 We're really not looking at the facts  
7 that are really huge here, especially when you're  
8 talking about \$4.50 a gallon, you know, 1 percent,  
9 4.5 cents takes 15 degrees.

10 So my point here is that if we see that  
11 these are bells, and that the errors do cancel as  
12 I buy more gas during the year, some of these  
13 differences that we see between stations tends to  
14 cancel, and becomes really unimportant in the  
15 overall view of things. Because variation is part  
16 of the system.

17 Also I just wanted to say I think Jay  
18 got it mixed up, too. And as far as shrinkage is  
19 concerned, we've known since 1935 that the  
20 shrinkage occurs in the summer, but not in the  
21 winter. The winter you should actually be seeing  
22 gains from temperature. You're going to see  
23 temperature growth in the underground storage tank  
24 in the wintertime, and loss in the summertime, if,  
25 in fact, it's the shrinkage factor that I have



1       been talking about in my writings and  
2       presentations.

3               So that's all for me, thanks, Gordon.

4               MR. SCHREMP:  Thanks, Ross.  And we're  
5       going to pose on our website that Jay got it  
6       wrong, so --

7               (Laughter.)

8               MR. SCHREMP:  -- it's clear.  Anybody --

9               MR. McKEEMAN:  Along with your page  
10      missing --

11              MR. SCHREMP:  Well, along with my mea  
12      culpa, we withheld information initially.

13              Is there anybody else who may have a  
14      question that's online?  We're going to open the  
15      line for the WebEx folks.  Anybody else have a  
16      question at this time?

17              Hearing none, we have a question back  
18      here in the audience.  John.

19              MR. SIEBERT:  John Siebert from the  
20      Owner/Operator Independent Drivers Association.  
21      And I'm responding to Mr. Anderson's statement.

22              And I think we're still dealing with a  
23      New York example where they buy gross, sell gross.  
24      And the differences of 2 and 3 degrees.

25              I think if you look at the data that was

1 collected, there was one example of a very wide  
2 variance in temperature out of L.A. County. And  
3 it was as much as -- it was over 25 degrees. Over  
4 25 degrees.

5 And that's not 2 or 3 degrees  
6 difference, and 2 or 3 cents. If you're looking  
7 at an overall temperature that's near 75, 1  
8 percent of \$4 isn't 2 cents.

9 MR. SCHREMP: Okay. Tom.

10 MR. ROBINSON: Just to sort of follow up  
11 a little bit on just that last comment, and on  
12 what Prentiss was talking about, is I agree if  
13 there is a 25 degree difference between two  
14 locations across the street from each other on the  
15 same day, and that's happening regularly. I mean  
16 it's happening all the time. Then I think that is  
17 important.

18 And I think coming back to where  
19 Prentiss was starting from is it would be nice to  
20 understand if that is occurring. Because if that  
21 25 degrees is occurring from one area of the  
22 county to the other area of the county, a high  
23 point to a low point, a warm place to a low point,  
24 or from the first of the month to the last of the  
25 month, then I'm not sure that it's really -- it's

1 all that important.

2 So that's where, I think, understanding  
3 what all the data is saying is helpful.

4 MR. SCHREMP: And thanks, Tom. And,  
5 once again, we will go through the dataset and see  
6 if we can find some of those very tight geographic  
7 locations and what those differences in  
8 temperature are for fuel.

9 But I think, I believe Prentiss made  
10 this point that, you know, the nature of the  
11 location, the distribution terminals in closer  
12 proximity to the retail locations, 25 degrees  
13 across the street would seem to be, you know,  
14 unusual based on how fuel is. But certainly  
15 within a county, understandable. Or even in a  
16 region across county lines, yeah, I could see  
17 differences like that based on where the fuel may  
18 be coming from and latency in the tank.

19 But right across the street, because of  
20 the nature of the distribution system, and even if  
21 there's sort of similar through-puts, yeah, that  
22 would be hard to believe.

23 But we will go through that dataset, see  
24 if we can't find examples of that to get some  
25 empirical information, okay. Thanks for the

1 comment.

2 I think we have another question in the  
3 audience here, and then we'll go to someone  
4 online.

5 MR. HASEMEYER: Ron Hasemeyer, Alameda  
6 County. This would be for my county. Generally  
7 speaking, if I have two temperature sets on the  
8 same day that are taken from different parts of  
9 the county, I tend not to send my inspectors to  
10 the same region.

11 So that might help in settling some of  
12 your questions there.

13 MR. SCHREMP: Okay. And I mean it's  
14 also something else we can consider looking at, is  
15 if we actually don't have the data, we can talk to  
16 some of the country sealers and sort of ask them  
17 about the nature. I'm sure they have some field  
18 notes of when they did the sampling, and see if  
19 they're kind of the same location getting those  
20 samples for temperature. Or they actually were  
21 spreading them around.

22 So we'll see it as another way, if we  
23 can't find the data in the dataset for a couple of  
24 the counties that Ken mentioned.

25 So we'll see what we can do about that.

1 And I think we're going to go to Ross. Go ahead,  
2 please.

3 MR. ANDERSON: Ross Anderson, New York,  
4 again. Just to follow up to John's comments.

5 Let me just say that my point about the  
6 bell shaped curve was very important because we  
7 might see if 25 degree difference because you got  
8 a station that's only doing 50,000 a month.  
9 You've got other stations that are doing 300,000 a  
10 month, half a million a month.

11 The point about the bell shaped curve  
12 that I was trying to get across is that there's  
13 risk here. What is the risk of you seeing 25  
14 degree change across the street.

15 I think what I'm hearing is that that  
16 risk is very very very small. Can it happen?  
17 Well, possibly. But the risk is very very small.

18 And that when we look at these curves,  
19 and particularly if you look at the bell shaped  
20 curve for a couple counties, and just draw a  
21 circle of like 25 or 50 miles and say, let's look  
22 at all of those gas station data. You're going to  
23 see a bell. And the bell is going to hit in the  
24 center. And the chances are the more you buy gas  
25 the closer you get to the center.

1                   And so the point being is you got to  
2           also factor in what are the risks that you're  
3           going to lose that much money. And it drops off  
4           pretty dramatically. Remember one-third is within  
5           one segment, actually two-thirds within one  
6           segment. It's another third between the next, and  
7           you only get 5 percent out with that chance of  
8           getting a 10 or 12 or 15 degree difference from  
9           the station next door. The chances of that become  
10          very very slim.

11                   But then that's the point that I think  
12          needs to be included in the analysis. Thank you.

13                   MR. SCHREMP: Thank you, Ross.

14                   Now, where was I? Okay. I think we  
15          were talking about our intent is to try to fill in  
16          the missing gaps in our information through a  
17          specific methodology. And as I mentioned, mid-  
18          grade gasoline is a creation primarily of most  
19          retailers by combining the premium and the regular  
20          grades.

21                   We have data, same location for regular  
22          and premium. Our intention is to do an arithmetic  
23          average of the two to create an estimate for mid-  
24          grade temperature at that location to create some  
25          mid-grade temperature estimates by county.

1                   And that's because the octane of regular  
2                   grade California is 87, and for premium 91. And  
3                   89 is mid-grade. Octane used to be 92, but it's  
4                   91 now, so it's an easy, you know, 50/50 ratio is  
5                   the combination at the dispenser for mid-grade.  
6                   So that's our intention of how we're going to  
7                   create these mid-grade temperatures.

8                   Now, we're going to transition into the  
9                   benefit and sort of how we did this. And I think  
10                  this slide doesn't look right. Take a look at  
11                  something in here.

12                 All right, I think the equation is a  
13                 little off. I think we've corrected this in the  
14                 slide, but essentially what we need to calculate  
15                 for our benefit is we need fuel volume, we need  
16                 fuel price and that's the retail price, and we use  
17                 a volume correction factor which takes into  
18                 consideration the temperature.

19                 And there's an assumed density for  
20                 gasoline and an assumed density for diesel fuel.  
21                 Sort of an API-accepted, or ASTM-accepted standard  
22                 for the United States.

23                 Oh, by the way, we will be looking at  
24                 density information -- I'll take about that in  
25                 just a minute -- to see what difference there is

1 in California for the gasoline and diesel relative  
2 to these accepted densities.

3 But we used the ASTM volume correction  
4 factor equation to develop what sort of small  
5 percent of volume expansion or shrinkage there may  
6 have been according to the temperature at that  
7 location. So these are the -- this is the  
8 information we used to develop the benefits.

9 Roughly 16 billion gallons and 4 billion  
10 gallons of gasoline in California. I think  
11 gasoline demand is down a little bit because of  
12 the very high prices. Diesel demand continues to  
13 be strong in California.

14 The diesel figures you see in your sheet  
15 are about 75 percent of the 4 billion number. And  
16 that's because those are taxable diesel fuel  
17 sales, not total diesel fuel consumption for all  
18 purposes. So, that's why there's that difference.

19 Once again I'm talking about how we used  
20 the Caltrans county-specific estimates to get  
21 these in conjunction with the Board of  
22 Equalization taxable data to get volume estimates  
23 by county.

24 I just want to -- as you'll see from  
25 these maps that the lion's share of the fuel



1 consumed in California, no surprise southern  
2 California. This is population-driven, which  
3 drives, you know, the number of vehicles for  
4 gasoline.

5 And these other areas that are a light  
6 blue on this map are all under 1 percent. So you  
7 see those very northern counties and along the  
8 spine, the eastern spine of California, those are  
9 relatively lower population counties, and they  
10 have lower demand as a consequence.

11 Diesel fuel, similar pattern. This is  
12 much more heavy in southern California. There's a  
13 lot of goods movement related to diesel demand.  
14 There's a lot of also agricultural in the San  
15 Joaquin Valley and Sacramento Valley, as well as  
16 down in Imperial.

17 So diesel is a function of goods  
18 movement and agricultural activity primarily. Not  
19 so much light-duty vehicle activity.

20 So we do see, I think that's Santa Clara  
21 County that has a rather larger, about 5 percent,  
22 consumption in that county for diesel fuel.

23 So, for the diesel data we do have -- I  
24 guess what we'll talk about first is we don't have  
25 any premium, regular and mid-grade sales data or

1 consumption data from the Board of Equalization.

2 We have one number for gasoline. The  
3 Board of Equalization does not provide us with a  
4 breakdown by grade of gasoline.

5 So what we're doing is we're going to  
6 estimate how much premium, mid and regular grade  
7 gasoline is consumed in each county. Well, how do  
8 we do that? Well, we have a survey that we refer  
9 to as our annual retail outlet survey, or A-15  
10 survey. And that goes -- all retail  
11 establishments are required to report to us their  
12 annual sales breakdown by fuel type, lots of other  
13 specifics for each physical location.

14 From that, those survey results, we're  
15 able to look at the ratio of those three grades of  
16 gasoline in each county. So we're taking that  
17 data result and applying that to that one gasoline  
18 number we have for each county to create premium,  
19 mid and regular grade.

20 Yes, Jay.

21 MR. McKEEMAN: I know the last time I  
22 talked to the Energy Commission Staff about the A-  
23 15 survey you were disappointed in the results  
24 that you had gotten in your first year. Are you  
25 getting better results?

1                   MR. SCHREMP: Yes, Jay. Good point. We  
2                   initially started this in 2006, the 2006 calendar  
3                   year. And we did not have as strong a response as  
4                   we had hoped for. This really isn't a voluntary  
5                   survey, it's a mandated survey.

6                   And that was a consequence, I think, of  
7                   how we reached out to people, how we informed them  
8                   that they were required to report. And in  
9                   addition to that, I think there was some  
10                  uncertainty of how to respond to some of the  
11                  questions in the survey we have crafted for 2006.

12                 We made some modifications based on  
13                 input. And we developed a much better mailout  
14                 list, and sort of a call-them-back procedure. So  
15                 we've gotten, I think, over 75 percent response so  
16                 far, or maybe a little bit -- almost 80 percent.  
17                 So much better.

18                 And in addition to that we've clarified  
19                 how they report the mid-grade sales, because there  
20                 was some confusion on that. So we think the 2007  
21                 survey was a lot more successful. And we've used  
22                 the '07 data for these grade splits.

23                 MR. McKEEMAN: Do you know if -- I know  
24                 previous discussion, the independent service  
25                 stations was kind of a problem. Is that still, I

1 mean in terms of your missing data, is it  
2 independent service stations that tend to be  
3 missing out of the dataset?

4 MR. SCHREMP: What we have in the  
5 dataset right now is primarily from a lot of the  
6 majors, and some of the larger independents. We  
7 have some electronic submittals. So that was the  
8 first in.

9 We're in the midst of putting the rest  
10 of the paper documents in, which would be more of  
11 a traditional independent operator.

12 MR. McKEEMAN: Okay.

13 MR. SCHREMP: So we can't quite answer  
14 the question whether or not, yeah, we have, that  
15 they've made a response. But, we will be  
16 producing a staff report on this survey by the end  
17 of this year.

18 MR. McKEEMAN: Great.

19 MR. SCHREMP: And in there we can have  
20 those kinds of statistics, Jay.

21 MR. McKEEMAN: Okay, thank you.

22 MR. SCHREMP: Thank you. So, in 2007 --  
23 oh, yes, Prentiss.

24 MR. SEARLES: Do you mind if we go back  
25 a couple slides?

1 MR. SCHREMP: Not at all. This one

2 or --

3 MR. SEARLES: TC benefits methodology.

4 MR. SCHREMP: Okay. There we go.

5 MR. SEARLES: I'm a little slow.

6 Prentiss Searles, API. The question I've got is  
7 when you're looking at the temperature  
8 compensation benefits methodology, it looks like  
9 it's a very simple equation of here's the amount  
10 of volume that was sold times the amount of retail  
11 price times volume correction factor, and that'll  
12 give you, you know, that will give you some number  
13 that looks like, you know, X billion of dollars  
14 was lost by the consumer because they overpaid for  
15 their fuel.

16 Is that -- I mean this looks like the  
17 equation that's been used, that was used in the  
18 Kansas City Star in their general depiction of  
19 this issue in the first place.

20 My question is, is it an accurate and is  
21 it the best, most representative model. And I  
22 don't know what it would look like, but the  
23 question is, how do you take into account, if  
24 you're going to sell fuel at 72 degrees or 73  
25 degrees, whatever the average temperature is, and

1       that number goes to, instead of 231 cubic inches  
2       it's 233 cubic inches.

3                Would you expect to pay more for that  
4       fuel, or would you expect to be charged the same  
5       price? And this doesn't seem to take into account  
6       that piece of the equation.

7                I'm not sure how to do it, but it seems  
8       overly simplistic for as complex of an industry  
9       and as complex as the pricing structure is.

10               MR. SCHREMP: This is actually one in  
11       three primary steps in the overall analysis. So,  
12       the first step is to do this as, you know, as you  
13       referred to sort of a more simplistic benefit  
14       quantification based on these factors.

15               We have a cost valuation step that takes  
16       into consideration station attribute information,  
17       retrofit kit cost, labor rates, et cetera, labor  
18       time, to develop a cost of, you know, monetize a  
19       cost figure.

20               The third step is what would happen if  
21       ATC were to be put into effect. How would the  
22       pricing of fuel possibly change as a consequence.  
23       That's the third more complex step about -- and I  
24       was referring to earlier, sort of the change in  
25       the revenue stream for the retailer.

1                   How should that -- will the retailer  
2           attempt to get that, you know, that decreased  
3           revenue stream back. And, if so, how. So, I'll  
4           talk about that in this presentation, but you're  
5           right, Prentiss, that's not in this initial step  
6           of the three-step process. We don't show that  
7           right here, but that's something we will be  
8           looking at to try to answer that question.

9                   MR. SEARLES: Okay, thank you.

10                  MR. SCHREMP: You're welcome. Judy.

11                  MS. DUGAN: Just one other point. In  
12           the benefits, the listing of possible benefits,  
13           will there be later discussion of nonmonetary  
14           benefit of trust and information symmetry between  
15           the purchaser and the seller?

16                  It seems to me that money is not the  
17           only benefit when economic modeling shows that  
18           information equality is an economic benefit.

19                  MR. SCHREMP: I think, I mean we have  
20           internally discussed asymmetry. And I know we've  
21           had some discussions with folks outside. And so I  
22           believe it's our intention is to include an  
23           asymmetry discussion in the report.

24                  MS. DUGAN: As long as it's discussed.

25                  MR. SCHREMP: Yeah.

1 MS. DUGAN: Thank you.

2 MR. SCHREMP: Thanks, Judy. John?

3 MR. SIEBERT: John Siebert with the  
4 Owner/Operator Independent Drivers Association.

5 Interestingly enough, Searles -- Mr.  
6 Searles, Prentiss, the methodology here is the  
7 same as used by the Australians. With the  
8 Australian Petroleum Institute study that has been  
9 brought out and recognized by the petroleum  
10 industry as being significant.

11 The methodology was the same. They  
12 talked about damages to the consumers in the  
13 different states in Australia. It's just that  
14 they had a very inflated cost that it was going to  
15 cost the public. And that cost was refuted by the  
16 Australian government. But by that time the  
17 government had turned over and ATC didn't have a  
18 chance then.

19 But it is the same methodology that  
20 Australia was using.

21 MR. SCHREMP: Thanks, John.

22 Okay, back to finish up on the grade  
23 split part of the presentation. The results we  
24 have so far, I believe, is for 35 percent of all  
25 retail locations, or thereabouts, about a third,



1 we believe. The grade splits on a statewide basis  
2 are about 74 percent regular grade, 16 percent  
3 premium and 10 percent mid-grade.

4 And I believe that's a little bit higher  
5 premium ratio than is in the United States on  
6 average. So I don't know if it's all those  
7 expensive vehicles in Los Angeles and the Bay  
8 Area, premium gasoline.

9 So, fuel prices, as I mentioned earlier,  
10 we used a data service, the Oil Price Information  
11 Service. A lot of people in the industry use this  
12 as resource. They have information they get from  
13 credit card swipes daily by many locations. So  
14 it's an awful lot of data pouring in, so it's  
15 pretty rich source of retail price information.

16 And so that's what we've used, actually,  
17 to calculate the average county-specific retail  
18 prices. But, we do not have diesel fuel price for  
19 all counties.

20 And that's primarily more of a  
21 consequence of those are a lot of truckstop  
22 locations. That's primarily where a lot of the  
23 diesel is dispensed. And in some counties you're  
24 really not going to have something like that.

25 And you certainly have gasoline

1 representation in all counties, but some of the  
2 very sparse counties it's not a surprise we don't  
3 have some diesel retail price information. But  
4 we're going to try to estimate the retail price of  
5 diesel fuel in some of these other counties based  
6 on proximity to counties that we have information  
7 for.

8 So, we'll be showing you what those are,  
9 what counties we used as a surrogate. So, we will  
10 be clear about that.

11 The fuel prices, just how the numbers  
12 worked out. And this is all 12 months, April  
13 through March 08. And gas was a bargain at 3.21  
14 for the study period. And it's a different price  
15 now, of course.

16 The highest price was 3.76 in the latter  
17 stages of the analysis period, March. It's since  
18 gone up a little bit higher than that. And some  
19 of the highest counties are Sierra -- up in the  
20 Sierras, San Mateo, South Bay and the San  
21 Francisco Bay Area counties. And those are  
22 normally some of the higher priced counties or  
23 location in California when we look at the daily  
24 price information, or monthly. Anyway, lowest,  
25 Placer and Sacramento Counties, right around the

1 state capitol. Probably no coincidence there.

2 Diesel retail prices. A little bit  
3 higher, 3.28. And that dynamic has markedly  
4 changed in the U.S. and in California. Diesel  
5 prices are significantly greater than gas prices.  
6 So, the prices we have for this benefit  
7 calculation may not be, or are not representative  
8 of what they are today. But we'll talk about that  
9 sort of in the future, what implication that may  
10 have for sort of annual benefit/cost calculations.

11 So, once again, same time period for  
12 diesel fuel. Highest point was a lot higher. And  
13 once again, most recent data, March; Humboldt and  
14 San Luis Obispo 4.18; and lowest was at the very  
15 early stages of the study period and that was in  
16 the central valley.

17 And this is just taking those prices.  
18 We show high/low county averages with these bands.  
19 And these are a weighted average based on, once  
20 again, on consumption estimates by county. And so  
21 we see prices rose, declined in the summer, and  
22 back up again in, if you look, from March and on,  
23 the price track does go up, and it does, in fact,  
24 go off the top end of this chart now.

25 Same for diesel fuel prices, which were

1 already exhibiting a rise through the study  
2 period. And that rise has continued up over \$5,  
3 at least to this point in time.

4 So, missing data. We don't have any  
5 mid-grade or premium retail prices from the  
6 information we purchased. The Energy Information  
7 Administration does publish a weekly price for  
8 California, regular, mid, premium.

9 We have taken that data, that's a  
10 statewide number average, and we've looked at the  
11 differential between regular and mid, and regular  
12 and premium, and that turns out to be 10.1 for  
13 mid-grade and 21 cents for premium.

14 No surprise to anybody who stops in any  
15 station where you traditionally see premium  
16 gasoline 20 cents higher than regular, and mid-  
17 grade 10 cents higher than regular. That's pretty  
18 much a lot of places almost wherever you go.

19 Not necessarily so in all parts of the  
20 country. I have looked at data that shows that  
21 the 10 and 10 cents don't hold in other parts of  
22 the country, but California, certainly that's  
23 usually the case. And we see from the data from  
24 EIA that that seems to pay out.

25 So, we're going to take those

1       differentials and we have taken those  
2       differentials and we've created mid-grade premium  
3       prices in each county, by using these  
4       differentials to the regular price we already  
5       have.

6                So that's how we created the missing  
7       retail price information.

8                Now I'll shift gears and talk about fuel  
9       density really quickly. I've already covered this  
10      previous. We understand that density varies from  
11      refinery to refinery. And we also understand that  
12      density can vary seasonally for gasoline.

13              And we will be working with the  
14      California Air Resources Board to obtain some  
15      gasoline density information at retail. And we  
16      will be looking at refinery density information.  
17      And when we complete that analysis we'll be  
18      comparing that to the accepted API gravities that  
19      we use in our benefit calculations. How the  
20      densities differ, and if you use a different  
21      density, how that change results; and if so, by  
22      how much.

23              We recognize that, as I mentioned,  
24      there's a seasonal variation in density for  
25      gasoline, not specific to California. This is a

1 nationwide phenomena, you go from winter blends to  
2 summer blends and then back again. And there's a  
3 density difference.

4 So, a point has come up in the past  
5 about well, should the density figure or assumed  
6 density for gasoline be changed. Should you do it  
7 twice a year. Two different numbers.

8 And we recognize that that would be sort  
9 of an additional burden, not only on the inspector  
10 who has to go out and make that modification or  
11 some service that does that, but that's an initial  
12 calibration step. So instead of going to stations  
13 once a year for inspection, twice a year would  
14 certainly result in increased cost for station  
15 owners. And to what, you know, additional benefit  
16 of that increased accuracy, would that entail.  
17 And we're going to try to quantify that, but we  
18 recognize that that would create some additional  
19 burdens to try to come up with, you know, twice-a-  
20 year density adjustments at retail.

21 So there are some outstanding issues,  
22 and I've basically covered all of them. We're  
23 going to be looking at density information from  
24 the field and from refinery data, and comparing to  
25 what we used, and seeing what that difference does

1 mean.

2 So, at this point, does anybody have any  
3 additional questions or points on the benefits  
4 here? John.

5 MR. SIEBERT: John Siebert, the  
6 Owner/Operator Independent Drivers Association.  
7 The average density value, I think the Henry  
8 Opperman work that's been done in the National  
9 Conference of Weights and Measures fairly shows  
10 that we're taking the margin of error down to a  
11 half of 1 percent.

12 This goes along with a slide we saw last  
13 time. The temperature is putting a 5 percent  
14 differential between the high and low temperatures  
15 you find over a year. But using the average  
16 density goes down to a half of 1 percent.

17 MR. SCHREMP: Okay, thanks, John. Do we  
18 have any questions online? I'm seeing no. All  
19 right. We will continue here.

20 Costs. This is sort of step two of the  
21 three-step process essentially. The other side of  
22 the equation is this equipment is not free, either  
23 in terms of equipment cost, nor labor, nor in  
24 terms of increased inspection cost.

25 So, we're looking at the business cost,

1       its dispenser, make and model. There are  
2       variations between manufacturers of retrofit kits.  
3       There are variations whether or not the dispenser  
4       has three fuels or four fuels, includes diesel.  
5       And there are also variations in the installation  
6       time required and the rates charged.

7               So, we have to look at all of that. And  
8       we're going to be performing all that analysis,  
9       like everything else, on a county-specific basis.  
10      So, once again, gasoline and diesel dispensers.

11             Many of the attributes, I've already  
12      covered all of this. Oh, I'm sorry, -- Carl.

13             MR. BOYETT: I have some -- Carl Boyett,  
14      Society of Independent Gasoline Marketers, -- I  
15      have some friends in Canada, and they say the  
16      county time and cost of doing this is much higher.  
17      I want to say that they had to go through 75  
18      gallons per meter to do high-flow, low-flow,  
19      whatever -- I think, what do we do now? Ten or 15  
20      gallons per meter, high flow and low flow?

21             But anyway, what they used to do with  
22      them when they've gotten temperature correction,  
23      the testing is much more time consuming, much more  
24      expensive.

25             MR. SCHREMP: And, Carl, as part of our



1       agency cost of analysis that we will include in  
2       the report, we are working with DMS and county  
3       sealers to try to understand how their inspection  
4       process would change.

5               And that has to do, in part, in DMS,  
6       what type of rules and regulation and calibration  
7       procedures would they come up with. And then the  
8       county sealers would say, well, that means I would  
9       have to spend, you know, this much more time. And  
10      what kind of --

11             MR. BOYETT: And our fees would go up  
12      appropriately.

13             MR. SCHREMP: Right, and what kind of  
14      equipment.

15             MR. BOYETT: Right.

16             MR. SCHREMP: And I'll talk about -- you  
17      talked about that a little bit. And we also  
18      recognize that there's a potential limit to how  
19      much additional fees could be imposed on retail  
20      establishments under current statute in  
21      California.

22             Some districts may be at or near the cap  
23      they're allowed to charge for an inspection fee.  
24      And so that's also part of what will be in the  
25      report. And an acknowledgement that maybe that

1 cap would have to be raised if the inspection  
2 requires, you know, significant addition of time  
3 or equipment or something that may increase that  
4 cost, you know, by more than a very modest amount.

5 MR. BOYETT: Right, thank you.

6 MR. SCHREMP: Yeah, so we're going to  
7 address that. Thanks, Carl. John.

8 MR. SIEBERT: John Siebert with the  
9 Owner/Operator Independent Drivers Association.  
10 Steve Malone at the National Conference of Weights  
11 and Measures has made a presentation on how to do  
12 the temperature compensation test.

13 And he's saying that right now the  
14 recommended way to do it where you just pull out  
15 of it, pull out of the dispenser the first time  
16 for the prover, is -- he's saying that you should  
17 never put a station out of service for that first  
18 draw. That actually the first one you ought to  
19 use is the third draw.

20 And you can do the temperature  
21 compensation and the other one off that third  
22 draw. So actually we're just adding -- we're  
23 getting out of the temperature in the pipes  
24 underneath the pavement and that kind of thing,  
25 and getting into that third draw which is the only

1 draw that needs to be done for temperature  
2 compensation.

3 MR. SCHREMP: And somebody has their  
4 hand up offline there. Ross, go ahead, please.

5 MR. ANDERSON: Ross Anderson, New York.  
6 Having actually gone to Canada and witnessed this,  
7 I think this is a little bit over-hyped in terms  
8 of its impact.

9 The extent of the testing done that we  
10 did in Canada said that typically you can do this  
11 with three test drafts pretty consistently. And  
12 the only time you might have to run a fourth test  
13 draft is if you got very divergent temperature  
14 swings going on.

15 So, basically it's going to be, as John  
16 pointed out, when Nebraska -- was the first test,  
17 that it's not going to be so good, mainly because  
18 you've got to equilibrate your own test measures.  
19 And the test measure, itself, introduces a lot of  
20 the variations that we're seeing in that first  
21 test draft.

22 The interesting part about it is that  
23 the Canadians can use that first test draft  
24 because they're only looking at gross gallons, and  
25 they don't expect too much from it.

1           But basically by the time you run your  
2   third draft you know what that gas pump is doing.  
3   And with the proper calculations, which the  
4   steering committee are working on, and we're  
5   trying to simplify that so they can be as  
6   efficient as possible for the inspectors.

7           But I don't really think this is going  
8   to add, you know, it's not going to double our  
9   time; maybe it's going to add 20 to 30 percent  
10  more time, but that's probably about it.

11          Thank you.

12          MR. SCHREMP: Thank you, Ross. And just  
13  to reiterate, we will be working closely with DMS  
14  and the county sealers to understand as best we  
15  can what incremental time will be required and  
16  equipment, and how we monetize that into an  
17  increased fee.

18          So we are constructing a database of  
19  retail establishments with sufficient information  
20  to try to mate up with retrofit kit costs. We're  
21  running into a bit of a challenge, although make  
22  and model information is collected for most of the  
23  counties on sort of a population basis from the  
24  Air Quality Management Districts.

25          In most cases that information from the

1 gasoline-dispensing facility certificate has not  
2 been put into a database. Other information has,  
3 but not that information.

4 So, we're going to endeavor to try to  
5 obtain hard copies of that information, and have  
6 to do some data entry, ourselves. So, we've  
7 embarked upon that and we'll see how far we can  
8 go.

9 But we will certainly start off with an  
10 estimate for the cost of retrofit kits, both in  
11 terms of by type of dispenser, as well as the  
12 amount of labor involved. And we will have that  
13 for all counties. And to the extent that we can  
14 improve upon that sort of low/high range for each  
15 county, and narrow that down, we will, using this  
16 kind of information as we try to collect as much  
17 as we can from these air districts.

18 But it's a little disappointing that  
19 we're not able to get as much as we had hoped in  
20 electronic format, making our analysis step a  
21 little bit easier. But we're not deterred. We're  
22 still going to try to get as much of that as we  
23 can and do the data entry, ourselves.

24 Another approach is because a certain --  
25 that doesn't cover all of the counties and all of

1 the retail establishments. We will be looking to  
2 work with the county sealers in terms of doing a  
3 survey in some of these other more remote  
4 counties, or less populated counties.

5 And so we expect to have a set of survey  
6 questions for the county folks to take a look at.  
7 So we're going to, I think, work through Kurt.  
8 We'll send him something to take a look at and see  
9 about getting a survey out from the county  
10 sealers. And then the survey results would go  
11 back to us.

12 So that's a way of trying to populate  
13 the other missing counties with dispenser  
14 information.

15 Yes, Judy.

16 MS. DUGAN: Before you're sending  
17 sealers out to the most distant stations, are we  
18 doing this -- we are doing this, I assume, on the  
19 assumption that some stations will be excepted  
20 from any requirement because of very low volume  
21 and perhaps being the only provider in a location.

22 I mean that's sort of been the way it's  
23 been talked about for a long time.

24 MR. SCHREMP: Well, I guess, first  
25 things first. The survey I speak of is actually a

1 letter from the county sealer to retail  
2 establishments in their jurisdiction.

3 And the retail establishment would be  
4 responsible for filling out and mailing it back to  
5 us.

6 So we're not requesting their county  
7 sealers make additional trips to the field, which  
8 we know would be quite a burden on them, anyway.

9 I mean --

10 MS. DUGAN: Yeah.

11 MR. SCHREMP: -- their staffing  
12 perspective.

13 With regard to more remote facilities  
14 that have lower-than-average through-put,  
15 potential economic harm, yes, that will be a  
16 section in the report.

17 You're right, Judy, we have repeatedly  
18 raised that issue. And we plan to do that. Just  
19 because we're collecting the data doesn't mean,  
20 you know, -- we want to make sure we collect the  
21 data first so we understand what that sort of cost  
22 burden may be on them relative to their through-  
23 put. And, you know, sort of what the density of  
24 service stations may be. But we already have some  
25 of that data from our A-15 survey mechanism.

1                   So, yes, we haven't forgotten about  
2                   that. And we intend to have it in the report.

3                   MS. DUGAN: Just so you don't frighten  
4                   mom and pop to death.

5                   MR. SCHREMP: Yeah. Thank you, Judy.

6                   So, this is just a rehash of what we  
7                   covered before. Basically you need to know how  
8                   much, what type, how many and what the retrofit  
9                   kits are, and how much labor and what the labor  
10                  rates are.

11                  And so we've come up with some estimates  
12                  for today in our examples that we'll be talking  
13                  about in just a few minutes.

14                  If, in fact, ATC were to go forward in  
15                  California, and there would be a retrofit program,  
16                  there's also -- Jay, all right.

17                  MR. McKEEMAN: Sorry, you're going  
18                  faster than my brain works, which is pretty easy  
19                  today.

20                  One thing TC cost installation, did not  
21                  see permitting in there. And I don't know if  
22                  changing the mechanics in a dispenser may require  
23                  either a use permit or a air pollution control  
24                  district permit to do that. It's just something  
25                  that you need to look into.



1           MR. SCHREMP: Do any of the DMS folks or  
2 county sealers have any idea about potential  
3 permit implications like that, or -- that's all  
4 right, just an open question.

5           Thanks, Jay. We'll look into that. I  
6 mean that's certainly a good question to pose to  
7 the people that require the certificate of  
8 operation, the AQMDs. And is that just a notation  
9 of the equipment is on that now, the certificate,  
10 or is that also an additional separate permit.  
11 Hopefully not, not another piece of paperwork.

12           So, as I was saying, there's a retrofit  
13 application to the analysis of the existing retail  
14 establishment. But, what happens when we forward  
15 in a post-ATC world for new facilities.

16           We anticipate that the incremental cost  
17 for ATC-ready dispenser is less than that of  
18 retrofitting an existing dispenser. And that cost  
19 is primarily -- or the cost reduction is primarily  
20 associated with not having the labor and the  
21 delivery of the parts to the location, the  
22 shipping and the site visit for the installer.

23           And it's also, to some extent, the  
24 incremental cost can be just a little bit less,  
25 but it may not be a very small number as some have

1       assumed.

2               Yes, Jay.

3               MR. McKEEMAN: A couple of other areas,  
4       cost areas that may not be included. We've talked  
5       about signage, and that's definitely not in this,  
6       you know, punch list of costs. So, I think if  
7       there are signage changes, those need to be  
8       addressed in the cost of the -- or the potential  
9       cost of the requirement.

10              And we talked last time about ticket  
11     printers, and I don't know if you have to change  
12     out the ticket printer mechanism in the machine if  
13     you do this. I just don't know that. And if that  
14     is another part of the machinery that needs to be  
15     changed out, that would need to be included, as  
16     well.

17              MR. SCHREMP: And, thanks, Jay. We will  
18     be including a section in the draft document about  
19     signage, labeling, if you will. We understand  
20     there would be a labeling requirement likely on  
21     the big sign, a notation that there's temperature  
22     compensation. It could be pretty short.

23              And there would be something likely on  
24     the face of the dispenser, an indication that the  
25     fuel being dispensed is temperature compensated,

1 as they do in Canada. It's a rather short, little  
2 brief statement.

3 With regard to the printer mechanisms, I  
4 don't know, but if the route to go if we were  
5 going to to ATC, would be like that of Canada. In  
6 Canada there's no requirement to put like  
7 temperature or net gross gallons on the receipt.  
8 All there is is an indication on, I guess it's not  
9 even a requirement, I believe, that temperature  
10 compensation has occurred.

11 Ken has a point. If I misspoke, he can  
12 correct me. Good.

13 MR. LAKE: Ken Lake with Measurement  
14 Standards. Generally where temperature  
15 compensation exists the receipts do have to show  
16 that it's temperature compensated to 60 degrees.

17 I suggest that the service agents, maybe  
18 some of those on the list that I gave you, might  
19 be responsible for getting permits. And they also  
20 would be the ones that would know if they have to  
21 retrofit any of the ticket printers in addition to  
22 the rest of the device. They would be a good  
23 source for that kind of information.

24 MR. SCHREMP: Thank you, Ken. And  
25 thanks for those contacts. And I guess a final

1 note, Jay, to sort of include that message on your  
2 printed consumer receipt, it's our understanding  
3 that that's easy to do. You can put, "Thank you  
4 very much. Come back again soon." or you can sort  
5 of put any message you want on there through the  
6 current program for the electronic dispensing  
7 facilities. So that doesn't seem to be a problem.

8 But, we will verify that, in fact, no,  
9 there's no sort of mechanism change required,  
10 because you have that.

11 I'm sorry, we have a question online.

12 MR. JANUSCH: Jim White --

13 MR. SCHREMP: Jim --

14 MR. WHITE: Yes. Hello, Gordon.

15 MR. SCHREMP: Hi, Jim.

16 MR. WHITE: Jim White with BP. The  
17 question has to do with the potential for impact  
18 on the device in the back room called the  
19 automatic tank gauge, for, in California, the in-  
20 station diagnostics.

21 There is some interaction between that  
22 device and the electronics in the dispenser. And  
23 I think it's very important that that be  
24 investigated as you go forward.

25 MR. SCHREMP: And, Jim, do you have

1       anybody like you can put us in contact with to  
2       start with to get an idea of what might be  
3       involved?

4               MR. WHITE:   Yeah, the California Air  
5       Resources Board.

6               MR. SCHREMP:   Okay.   And sort of the in-  
7       station diagnosis, does that have to deal with  
8       monitoring the tank inventory levels like the  
9       VDEROU (phonetic) system?   Is it something like  
10      that?

11              MR. WHITE:   The ATG is, yes -- the  
12      VDEROU system both have -- here in California,  
13      both have the ATG and the ISD.   The ISD is to  
14      monitor the vapor system; the ATG monitors the  
15      inventory and product flow and all that kind of  
16      stuff.

17              MR. SCHREMP:   Okay, so we'll also put  
18      this on our longer list with ARB and see if there  
19      may be a change required for that equipment, as  
20      well, as a consequence.

21              MR. WHITE:   Yeah, and some kind of  
22      interface change or whatever.   And you may want to  
23      check with the Water Board relative to the ATG  
24      portion.

25              Actually it may be easier just to go to

1 VDEROU.

2 MR. SCHREMP: If you have a name to  
3 start with we'd appreciate that.

4 MR. WHITE: I can send that to you.

5 MR. SCHREMP: Thanks a lot, Jim.

6 MR. WHITE: Sure enough.

7 MR. SCHREMP: Any other questions  
8 online? Okay, we'll continue.

9 As I mentioned earlier, the Hawaii  
10 example or sort of changing to -- oh, before I --  
11 all right, Prentiss has a question.

12 MR. SEARLES: Prentiss Searles, again,  
13 API. The question, maybe I'm just missing the  
14 semantics here, on the previous slide, not even  
15 three slides back, just the previous slide.

16 You're saying it's assume the  
17 incremental costs to produce dispensers is less  
18 than the retrofit to existing ones. I assume  
19 you're collecting data.

20 MR. SCHREMP: Yes.

21 MR. SEARLES: Okay. So you're going to  
22 be looking at the difference in all the different  
23 pumps, and that was thus trying to fill in the  
24 data gaps, okay.

25 MR. SCHREMP: And some early data we

1 have, for example, we see a cost differential of  
2 like \$1500. So between an ATC-ready dispenser and  
3 a non-ATC dispenser. So, you know, I know in the  
4 past people have talked about like a couple of  
5 hundred dollars. But, you know, some of the  
6 information we have for the same make and model,  
7 just ATC and nonATC, is upwards of \$1500. But we  
8 will be basing that on information from the  
9 dispenser providers in those two models.

10 MR. SEARLES: Okay, thank you.

11 MR. SCHREMP: Thanks, Prentiss. We have  
12 a question online. Jim White, go ahead.

13 MR. WHITE: Thank you, Gordon. Jim  
14 White with BP, again. I just wanted to make the  
15 observation that we're going through right now an  
16 implementation of a very expensive program called  
17 enhanced vapor recovery phase two.

18 And a lot of the problems that we've  
19 been running into have to do with what Jay  
20 mentioned earlier, the permitting process and  
21 trying to fit these new enhanced vapor recovery  
22 systems into existing dispensers.

23 It's become a real problem out there.  
24 And we're almost trying to seek resolutions on a  
25 case-by-case basis.

1           But I just thought I'd give some rise to  
2     the sensitivity of what's happening in this other  
3     arena because this is a very costly program. It's  
4     proven to be quite disruptive to those of us that  
5     are trying to implement it.

6           And it could have some -- I think you  
7     ought to carefully monitor this relative to the  
8     potential of rolling out yet another program  
9     that's going to impose a lot of disruption and  
10    potential costs, increased costs to the regulated  
11    community.

12          MR. SCHREMP: Thanks for raising that,  
13    Jim. I know that others like Jay have been  
14    keeping us apprised of what's been going on and  
15    the developments. But, yeah, we understand that  
16    to the extent that any sort of new requirement may  
17    reduce availability of service stations, yeah,  
18    we'd certainly be interested in that kind of  
19    potential impact. So thanks for raising that,  
20    Jim.

21          All right, anything else? We'll  
22    continue here.

23          Back to Hawaii, which we're not at but  
24    it's pretty mild here today. As I mentioned, our  
25    assumption when we're being instructed by the



1       Legislature to look at the sort of Hawaii  
2       examples, we refer to it, we're looking at  
3       basically a different quantity of gasoline being  
4       dispensed or diesel dispensed with each gallon.

5               So it wouldn't be a U.S. gallon anymore,  
6       it wouldn't be a petroleum gallon, it would be a  
7       California gallon.

8               And so what does it take to go into the  
9       retail establishments and make a modification to  
10      an electronic dispenser to be able to do that, as  
11      well as a mechanical dispenser.

12              So we understand that there could be  
13      even limits. You can make adjustments and that's  
14      sort of part of make sure it's calibrated  
15      properly, 231 cubic inches. So is there enough  
16      sort of latitude in adjustment capability to go up  
17      to something higher. Don't know the answer to  
18      that question, but we'll be working with folks who  
19      are knowledgeable in this area to see what exactly  
20      would be required to go in there.

21              But, at this point, you know, I'm saying  
22      there's not a great deal of hardware as would be  
23      the case in ATC retrofit. So, we're anticipating  
24      the cost would be less, but we don't have a  
25      quantification at this point. But we will have

1 one in the report.

2 So, what is still, I guess, outstanding.  
3 And this is, I think, what we talked about when I  
4 was responding to what Prentiss was saying, one of  
5 his questions, is what's going to happen -- oh, I  
6 guess before we get going we have a question --

7 MR. JANUSCH: Jim White, again.

8 MR. SCHREMP: Jim, go ahead.

9 MR. WHITE: On the Hawaii issue I meant  
10 to ask this question but I didn't push the button  
11 quick enough. This is all very focused on retail.  
12 And I just wanted to get clarification.

13 The gallons delivered to the retail site  
14 would, of course, be adjusted prior to delivery,  
15 is that correct?

16 MR. SCHREMP: Well, today there's an  
17 adjustment when the truck is loaded; the  
18 temperature of the fuel loading event is  
19 temperature compensated. And that event, that  
20 activity, equipment, bill of lading, printing,  
21 everything won't change in a post-ATC world, even  
22 in the retrofit-ATC world or the Hawaii example of  
23 retrofit.

24 We're not talking about changing sort of  
25 the reference gallon for wholesale transactions,

1       we're just --

2               MR. WHITE: Well, then you're saying  
3       that the gallons delivered at retail would be the  
4       same gallons that we're delivering today, which  
5       are delivered by gross stages. And the gallons  
6       sold from the retail site would be adjusted to  
7       be -- referred to earlier as California gasoline  
8       gallons.

9               MR. SCHREMP: I don't think that's  
10      exactly right, Jim. What's delivered today to  
11      retail is essentially net gallons are paid for  
12      primarily at wholesale. And then a gross gallon  
13      is the retail transaction today.

14              So, in the Hawaii example, net gallons  
15      still would come to the retail establishment, and  
16      the retail transaction would be this new  
17      California gallon, 231-plus cubic inches, each and  
18      every instance, regardless of temperature.

19              So that would be the change. No change  
20      on the wholesale movement.

21              MR. WHITE: Thanks for the  
22      clarification.

23              MR. SCHREMP: No problem. Carl. We  
24      have a question here, Carl.

25              MR. BOYETT: Yeah, Carl Boyett, Society

1 of Independent Gasoline Marketers. Would  
2 retailers be then required to buy at net instead  
3 of gross?

4 MR. SCHREMP: As far as we know they  
5 have -- there's an option to purchase net or  
6 gross. We further understand that that's not an  
7 option they can do one day and the next. I guess  
8 it's a commitment they have --

9 MR. BOYETT: Right, it's a 12-month  
10 commitment.

11 MR. SCHREMP: Right. And so I don't  
12 think we're going to be suggesting that they be  
13 required. I mean we're not -- I don't think we're  
14 suggesting that we interfere with the options  
15 available to people who pick up a wholesale now.  
16 I mean they have an option today --

17 MR. BOYETT: They have an option to go  
18 gross or net, but --

19 MR. SCHREMP: That's correct.

20 MR. BOYETT: -- but the concern seems to  
21 be that we're buying net and selling gross. But  
22 maybe a lot of us are just buying gross and  
23 selling gross.

24 MR. SCHREMP: And to that extent, Carl,  
25 like I said, we're trying to get verification from

1 sellers at wholesale what predominately they do.

2 MR. BOYETT: Yeah, --

3 MR. SCHREMP: What kind of transactions.

4 MR. BOYETT: -- I certainly don't know,  
5 but it's certainly something to think about.

6 MR. SCHREMP: Yeah. Ken.

7 MR. LAKE: Yeah, Ken Lake with  
8 Measurement Standards. The law currently requires  
9 that you offer, in California since 1975, to  
10 compensate sales of 5000 gallons or more. So, you  
11 have to offer it to the retailer.

12 Well, the retailer is the one that can  
13 require it or not.

14 MR. SCHREMP: We have a question online.

15 MR. JANUSCH: Ross Anderson.

16 MR. SCHREMP: Ross, go ahead.

17 MR. ANDERSON: Gordon, Ross Anderson,  
18 New York. The real issue for me in this  
19 discussion of the California gallon or the Hawaii  
20 gallon or whatever, is information.

21 One of the discussions we had before was  
22 that when you buy gross gallons you don't get  
23 information. Well, I've tried to show that that  
24 is simply not true. All the information is there  
25 on the bill of lading.

1                   And I'll give you an example. If I buy  
2   8000 gross gallons, and this is the point  
3   retailers order gross, they take inventory at  
4   gross and they sell gross. They get their price  
5   from their supplier based on that, but they're  
6   buying gross gallons.

7                   They buy 8000 gross gallons today; in  
8   the spring it's 60 degrees, and they pay \$32,000  
9   for 8000 gallons of gas. They order it in the  
10  summer at 90 degrees, they get 8000 gross gallons,  
11  but it only costs them \$31,360. Why? Because  
12  they only paid for 7840 gallons net.

13                  In the winter in a cold state when they  
14  buy at 30, they buy 30, then they buy 8160 gallons  
15  net. But they get 8000 gallons to put into their  
16  inventory and sell. And so the price variations  
17  that occur to the retailer is costed by inventory.  
18  It's very clearly transmitted.

19                  Now, when you change the size of the  
20  gallon that he now is required to sell, now you  
21  put another whole layer of confusion back into the  
22  system. And now he has to figure out, well, all  
23  right, I got 8000 gross gallons, but that's only  
24  7930 California gallons. And it just makes it so  
25  hard for everybody to understand.

1           So, I think you have to build in what's  
2     the cost to try and understand this, and make the  
3     appropriate correction. When you're getting gross  
4     gallon or even net gallon, if you want to think  
5     about it that way, figures from your supplier, how  
6     do I now translate those into price per gallon of  
7     California gas.

8           Another layer of complexity, and not all  
9     of these gasoline station operators are the  
10    sharpest tacks, I mean, you know, on the board.

11           (Laughter.)

12           MR. ANDERSON: Another thing to  
13    consider. But, again, the information is all out  
14    there. Nobody's hiding anything. All of this is  
15    very clear.

16           And I think if I could make a point,  
17    someone said that nobody knows what's going on  
18    behind the scenes. Well, I've made this point a  
19    hundred times, I guess I'll have to make it a  
20    hundred more. Go to WalMart; ask them what they  
21    spend for their inventory. Go to any retailer and  
22    ask them what they spend for their inventory. And  
23    they're going to tell you it's none of your  
24    business what I spend for my inventory.

25           And we're not entitled in a market

1 economy to know that information. So, you know,  
2 the transparency is out there on the board on the  
3 side of the road. That's the transparency. I can  
4 drive down on my way to work; I can say, well,  
5 that's where I'm going to buy gas tomorrow when I  
6 need it. Thank you.

7 MR. SCHREMP: Thanks, Ross. Well, I  
8 think, as I was saying and as was discussing when  
9 Prentiss had some questions, is sort of the third  
10 part is what's going to happen in a post-ATC world  
11 with the retail price of fuel. Will there be a  
12 change because ATC equipment was installed and  
13 turned on. And what will that change look like.

14 So, we believe that in a post-ATC world  
15 there will be a change in the revenue stream for a  
16 retail establishment owner. And everything else  
17 being equal, hold the prices steady, what would  
18 they do to -- what changes would they make in  
19 their business operations to try to adjust for a  
20 loss of revenue.

21 And so we believe, like any other cost  
22 incurred by a business, they will tend to make up  
23 for the loss of revenue by trying to raise the  
24 value of other commodities they sell.

25 And so in the industry today, it's not



1 the industry 20 years ago, the revenue streams at  
2 retail establishments are multiple. There's fast  
3 food, ice cream; there's -- people are selling  
4 cellphones, C-store, fuel. Repairs are gone by  
5 the wayside, but there's been a change in the  
6 revenue structure or revenue income for these  
7 stations.

8 So a typical station today is a C-store.  
9 That's 80 percent of the sales in the United  
10 States. I mean, so they're the lion's share  
11 dominant structure of a retail establishment.

12 So that kind of business has an  
13 opportunity to pass on any cost increase whether  
14 it's wage, rents, Visa card fees, what-have-you,  
15 try to pass that along as best they can to remain  
16 competitive and to remain as a profitable, ongoing  
17 venture, you know, off in the future.

18 So, that's the struggle, like any other  
19 businesses. And so my point is there's an option  
20 for them to try to recover any lost revenue from  
21 whatever incremental expense or change they incur.  
22 But where do they try to recover it.

23 So that's sort of that part three part  
24 of this; going to be the toughest spot for us to  
25 deal with.

1                   Briefly want to talk about agency  
2       impacts. I've gone over this. We're looking at  
3       trying to quantify how much additional time is  
4       required for an inspection in a post-ATC world.  
5       And what that might do to fees, and whether or not  
6       if it's a large enough incremental cost for  
7       inspection, will that then sort of push the  
8       ceiling on those fee limits that are currently in  
9       place for certain jurisdictions.

10                  So, we'll also talk about in the report  
11       and look to DMS for what would be involved if we  
12       were going to go to ATC, what would they have to  
13       do, what kind of regulation development. And  
14       there's a timeline associated with that. And  
15       there's also a cost associated with that. So we  
16       want to better understand what those sort of steps  
17       are and implications of those various aspects.

18                  And so we will, as I said, we're going  
19       to be quantifying these things, looking to people  
20       with expertise to try to do that. And that will  
21       be in our report that comes out prior to the  
22       September workshop.

23                  So I think at this point I guess we  
24       didn't go as fast as I thought, but we are at ten  
25       minutes to 12:00. And we do have a few slides to

1 go through, so do people want to take a break, or  
2 do we want to keep going? All say aye. All  
3 opposed. All right. It looks like we'll keep  
4 going. Is that okay? All right, we'll keep  
5 going.

6 Yes, Judy.

7 MS. DUGAN: Could we go back to the  
8 outstanding issues slide? The line where you say  
9 it should be assumed that retail margins will be  
10 the same pre- and post-ATC. And I wondered  
11 whether you were going to be going to the branded  
12 suppliers because their determination of daily  
13 wholesale costs to the station is really what  
14 matters in this.

15 If stations start to sell gasoline  
16 differently, it may be up to their suppliers to  
17 respond. I mean if a station says, okay, you  
18 know, I'm making 8 cents now, but I'm only going  
19 to make 7.25 cents under ATC, and I'm going to  
20 have to raise my price by .75 cent, what has been  
21 written about and what appears to be fairly common  
22 in this world is that if a retailer raises price  
23 by a few cents, then the supplier may, on the next  
24 order, also raise price by a few cents.

25 And perhaps there needs some discussion

1 with suppliers of how they intend to respond.  
2 Rather than just dealing with the retailers on  
3 this. Maybe Prentiss can get together, the big 5,  
4 to talk about this.

5 MR. SCHREMP: Absent any anti-trust  
6 implications, but -- Prentiss.

7 MR. SEARLES: I just feel compelled to  
8 get up and say there's not a chance in the world  
9 we would get everybody together to discuss that.  
10 There are anti-trust issues and competitive issues  
11 all associated with that.

12 Individually, if you wanted to go out to  
13 each of the suppliers and ask them how they plan  
14 on or what they might do or how they might do it,  
15 you can feel free to do that, but don't expect  
16 that API would ever do something like that. Thank  
17 you.

18 MR. SCHREMP: Can we use your listserve,  
19 though, to organize it?

20 (Laughter.)

21 MR. SCHREMP: Okay, never mind. All  
22 right, Jay.

23 MR. McKEEMAN: You have a better  
24 listserve than they do.

25 (Laughter.)

1                   MR. McKEEMAN: This is Jay. Judy does  
2 bring an interesting point forward, though, in  
3 that discussion, that there are basically two  
4 pricing models at retail. There's dealer take --  
5 pricing and then there is the independent service  
6 station buying the fuel on a, you know, on a load-  
7 by-load basis. So I think we need to take a look  
8 at those two situations kind of separately.

9                   MR. SCHREMP: Thanks, Jay. It's lunch  
10 again already. Okay. All right, for this slide I  
11 want to over-emphasize the word examples. So we  
12 put together some examples to demonstrate how our  
13 methodology translates through to some, you know,  
14 monitorization of cost and monitorization of  
15 benefits.

16                   So, these will not be the final results  
17 for these two counties. We will further refine  
18 these estimates based on additional information  
19 collection. But for purposes of today we have  
20 constructed these examples.

21                   But we are using information we've  
22 obtained on, for example, the cost of retrofit  
23 kits. We have our estimates for labor. I talked  
24 about that in there. So, change the assumptions  
25 of what we have used in our calculations, and the

1 results will vary a little bit. So I just want to  
2 have that at the outset.

3 Two places we looked at for today were  
4 Alameda County and Fresno County. And I just want  
5 to put their average temperatures up on this  
6 chart. It has the weighted averages for -- this  
7 is for regular grade gasoline.

8 And as you see, the blue line, the lower  
9 line, is Alameda County. An, on average, cooler  
10 location. And the red line, the upper line above  
11 the average for most of the months, except when we  
12 get into December and January, is for Fresno  
13 County.

14 So those are the temperature from the  
15 dataset. And sort of shows one location that's  
16 warmer than average, and another location that's  
17 cooler than average.

18 So this is a bit of a corrected formula  
19 from the other one where basically you look at the  
20 fuel dispenser by the type of equipment. So you  
21 have dispensers and equipment costs sort of going  
22 together. And then you have a labor rate, the  
23 amount of labor involved and the rate.

24 So we've looked at two different labor  
25 rates, \$50 an hour and \$80 an hour a lower and a

1 high range. And feel free to say that's off by  
2 like a factor of ten or something. Just kidding a  
3 little bit.

4 But we have two -- we groups dispensers  
5 into two types, three-prod dispensers, four-prod  
6 dispensers. We understand there are some two-prod  
7 dispensers out there. But for purposes of this  
8 analysis, for the example we've used those two  
9 types.

10 And we have assumed a installed,  
11 retrofit installed labor time of between two and  
12 four hours per dispenser. So, once again, if you  
13 think those are way out of whack, please let us  
14 know. But we will be further refining these  
15 estimates as we go through all of the counties and  
16 collect additional information from both  
17 installers and retrofit equipment providers.

18 Yes, Jay.

19 MR. McKEEMAN: Jay, CIOMA. Are you  
20 finding that there is retrofit options for the  
21 variety of dispensers that are out in the  
22 marketplace?

23 MR. SCHREMP: I think at this stage we  
24 do have a great deal of retrofit kit cost  
25 information by make and model. There are, as you

1       guys know better than I do, I want to say a myriad  
2       of variations that you could do.  Hose placement,  
3       you know, the number of nozzles, how the display  
4       panel looks.  There's all kinds of things.

5               But when you look at the various  
6       retrofit kits, the greatest differences occur when  
7       you go from a two-prod to a three-prod to a four-  
8       prod you see a much more sort of significant price  
9       change, if you will.

10              So, we do have a lot of information,  
11       Jay.  And what we're endeavoring to do is to mate  
12       up the exact make and model to that exact kit  
13       required.

14              MR. McKEEMAN:  Right.  That's really the  
15       question.  I mean --

16              MR. SCHREMP:  Right.

17              MR. McKEEMAN:  -- if you -- I mean the  
18       important part in my mind is making sure that  
19       you've got a good match of equipment, retrofit  
20       equipment, that's supplied by somebody that  
21       actually fits on X, Y or Z dispenser.

22              We don't have that information.  That's  
23       been very hard to obtain, so I'm glad to hear that  
24       maybe you're getting better luck than we have.

25              MR. SCHREMP:  Not to say we won't run



1       into some museum pieces that the manufacturer  
2       goes, "Huh? -- retrofit kit. We can make one  
3       from scratch for that." Maybe not economically,  
4       but --

5               So, here are some stats from the Alameda  
6       County number of establishments. Not quite 400.  
7       We have a three-prod dispenser, a little under  
8       \$3000, and the average cost about \$2000 for those,  
9       for the kit. And as I mentioned, you go to a four  
10      prod, the costs do increase. They average about  
11      \$2300. And these same prod dispenser average cost  
12      for use in both the Alameda and the Fresno County  
13      examples.

14             So you take that information with the  
15      number of dispensers, the average cost for  
16      retrofit kit for those dispensers and you come up  
17      with an equipment cost, sort of a one-time  
18      equipment cost of over \$6 million. And based on  
19      our labor rates of \$50 to \$80 per hour, and the  
20      estimates per dispenser of \$2 to \$4, you get a  
21      range of, you know, a third of a million to a  
22      million dollars. So the total at the bottom is  
23      sort of, for purposes of today, an example of the  
24      cost estimates for Alameda County, this range of  
25      \$7- to \$7.5 million.

1           So the same methodology for Fresno  
2           County once again. The same average dispenser  
3           cost, three and four product. The number of  
4           dispensers different. And the equipment cost in  
5           total cost estimate for Fresno County is a little  
6           bit less, due to less establishments and less  
7           dispensers.

8           There are additional costs. We've  
9           already covered this, but I wanted to reiterate  
10          that there are other costs. We recognize that  
11          even though we may not have quantified them at  
12          this point.

13          For purposes of this analysis, and  
14          you'll see when I show the cost slides, I included  
15          in incremental cost per year per site of \$500.  
16          Just as a starting point. Will that be less, will  
17          that be more, we will improve that estimate over  
18          time.

19          But it's likely that based on what we've  
20          understood from our discussions with DMS and other  
21          folks, that if the test, in fact, is as simple as  
22          taking the temperature of the fuel that's in your  
23          prover on your second or your third draw, and  
24          you're looking on your table and you're saying,  
25          okay, yeah, it's properly calibrated. And you've

1 looked at the output from the dispenser in terms  
2 of what it says the temperature was. And you've  
3 checked all that. How much additional time does  
4 that take per visit. It seems to be not an  
5 inordinate amount of time.

6 So the incremental time and cost per  
7 inspection may not -- may be somewhat modest. But  
8 once again, we don't have -- we have not completed  
9 that analysis. But from early indications we  
10 don't think that's an extreme cost. So we just  
11 want to say that in our analysis we have included  
12 something for that.

13 Yes, Carl.

14 MR. BOYETT: Carl Boyett, Society of  
15 Independent Gasoline Marketers of America. Do we  
16 know that this equipment is foolproof enough and  
17 dependable enough to still warrant once-a-year  
18 inspections and certifications of the meters?

19 MR. SCHREMP: So, if you're talking  
20 about will a service company have to come out to -  
21 -

22 MR. BOYETT: No, I'm talking about the  
23 inspections. I mean are the counties, the sealers  
24 satisfied that this equipment is foolproof enough  
25 so that a once-a-year inspection is still

1       adequate.

2               MR. SCHREMP: I don't know the answer to  
3       that. Ken, do you have any reaction or --

4               MR. LAKE: I don't think it's -- the  
5       Canadians indicate that there's very little --

6               MR. SCHREMP: Yeah.

7               MR. LAKE: -- associated with the  
8       equipment that's installed up there. You know,  
9       obviously you have prod fail or something, and you  
10      notice that during your test, you're in for a  
11      similar time in that particular location. But it  
12      doesn't appear to happen very often.

13              MR. BOYETT: Also do we know -- I mean  
14      what happens now a meter tends to -- at least it  
15      used to, I don't know what they do now, but they  
16      used to have a wear in the meter and dispense more  
17      gas as they got older. And so there would be a  
18      creep in the gallons. And normally the retailer  
19      would actually, not without realizing it, be  
20      giving more fuel to the consumer. You know, even  
21      though minor, over time.

22              Do we know what happens when a prod  
23      fails? Does it quite dispensing? Does it sell it  
24      at 60 degrees, does it sell it at 100 degrees,  
25      does it sell it not at all? Does anybody know

1       what happens with them?

2               MR. LAKE:  I don't think we really have  
3       the answer yet to that, but the Canadians have  
4       indicated that they don't find the equipment prone  
5       to failure or additional.  I don't think it would  
6       have an impact on the measuring, and I don't think  
7       that's what you were indicating with your example.

8               The prods, themselves, could fail.  If  
9       they do fail the test process -- yeah, if you're  
10      taking a temperature --

11              MR. BOYETT:  No, but I mean just in  
12      general if they fail.

13              MR. LAKE:  Oh, would you know?  It  
14      should compare pretty closely to your system, the  
15      dispenser temperature, itself, what's monitored at  
16      the dispenser.  It's a little warmer in the  
17      summer, but they're very close usually, as a rule.

18              MR. SEARLES:  Is there a flag that pops  
19      up that says --

20              MR. LAKE:  I don't know.  The  
21      manufacturers would be able to answer that  
22      question.  I'm not aware of internal mechanisms  
23      that might be in any system.

24              MR. SCHREMP:  You know, we can talk to  
25      the manufacturers about that, but certainly, you

1 know, what Ken alluded to is, you know, it's our  
2 understanding, too, that in the Canadian  
3 experience to date is not that there is some  
4 inordinate degree of failure of this equipment in  
5 the field that requires, you know, replacement or  
6 a service visit. That doesn't have seemed to have  
7 been the experience to date.

8 So, is the climate maybe, you know, the  
9 warmth in California, could that be a factor in  
10 terms of, you know, longevity of the electronics  
11 that are put in. But, you know, because that's a  
12 factor according to the current electronics that  
13 are in the electronic dispensers.

14 MR. BOYETT: Okay, I guess to go a  
15 little further then, would we still be able to  
16 self-check these? I mean we have our repairmen  
17 come around and check. And do they reset them, if  
18 necessary, still? I mean if they're certified to  
19 do so.

20 MR. SCHREMP: Thanks, Carl.

21 Okay, monthly benefit calculation.  
22 Yeah, this is the same thing, nothing different.  
23 That equation at the top of that slide is  
24 incorrect. We didn't change that one, did on the  
25 other slide.

1           So this is taking the monthly data, the  
2     retail price, the estimate of consumption, the  
3     average temperature and mating that up in the  
4     volume correction factor into that equation with  
5     an assumed density for gasoline and diesel.

6           And this is the breakdown we have for  
7     the study period. April 07 through February 08.  
8     And this is 11 months worth of data. And, once  
9     again, we don't have March yet until we get the  
10    March taxable gasoline sales so we can complete  
11    that.

12          So I think over 11 months, I think if  
13    you added up all those numbers it's a little less  
14    than \$10 million over that period of time. I'll  
15    just check in my notes I have here. And that is  
16    correct.

17          And the breakdown for those bars is  
18    about, when you add up all of those bars, and you  
19    subtract for where it's negative. And this is sort  
20    of what Ross Anderson has talked about, in terms  
21    of the fuel being dispensed is actually cooler  
22    than the reference temperature of 60 degrees. So  
23    that does happen in Alameda County for this  
24    example for this period of time.

25          And then, so you add up those numbers.

1 It's about 6.8 million for the regular grade, less  
2 the million for mid-grade, about 1.8 for premium  
3 and a smaller amount, about 200,000 for the diesel  
4 fuel. Dispensing diesel fuel in Alameda County is  
5 a lot less than the average in some other  
6 counties.

7 Especially when we go to Fresno County.  
8 Similar shape. Of course, the shape will follow  
9 that of the average temperature. And we'll see,  
10 when you add up all of those numbers and then  
11 subtract the amount below the line, you come up  
12 with about \$12 million in this example.

13 And, of course, there's more diesel  
14 sales as a percent of total sales in Fresno  
15 County; greater agricultural trucking activity  
16 along the main transportation routes. So you have  
17 a larger diesel number. I think that diesel  
18 number is about \$2 million in this example.  
19 Premium is 1.4 million; 800,000 for mid-grade; and  
20 7.8 million for regular grade gasoline.

21 So, no surprise that it follows the same  
22 temperature pattern for both counties. But  
23 different heights and different fuel mixes. But  
24 price variations do occur in California, but  
25 they're not really that extreme.



1           And so if we were to do this  
2       monetization today we would certainly probably see  
3       higher numbers. Why? Assuming temperature  
4       profiles were the same on a seasonal basis,  
5       because we have a higher basis of fuel. That goes  
6       without saying.

7           Just as so with the cost. If we change  
8       the assumption or the cost increase to produce the  
9       equipment and install the equipment, scarcity of  
10      installers, then the cost estimates rise in that  
11      example, on that side of the equation.

12          So these, for illustrative purposes  
13      these examples can change if you change some of  
14      the embedded assumptions that we've used for  
15      today.

16          So, taking the cost information and  
17      taking that benefit information and showing them  
18      on the same chart is just -- this is just meant to  
19      illustrate over time sort of a stream of benefits,  
20      a stream of cost that would incur.

21          And this example assumes that ATC would  
22      be retrofit all basically in one year. And then  
23      January of year two, the devices would be turned  
24      on or activated. And that's when consumers would  
25      start to realize this benefit.

1           And, once again, for what Prentiss  
2       raised earlier, this is essentially, you know,  
3       step number one. Step number two, quantifying  
4       benefit, quantifying the cost.

5           Now, what happens to the retail price.  
6       How will that, you know, the loss, of loss or  
7       change in revenue stream for the retailer, how  
8       will that change.

9           So that's not what's illustrated here.  
10      That's that third step about -- so will all of  
11      those benefits be there for consumers. And the  
12      answer is no, they won't be. A portion will be  
13      there. So we will be discussing that in our draft  
14      report and illustrating the range of the  
15      flexibility that retailers may have to try to  
16      recover revenue predominately in their fuel sales,  
17      or predominately in the nonfuel sales. And what  
18      the implications of both of those options are for  
19      a retailer on these results.

20           So, once again, these are step one and  
21      two, with the third step not yet employed. And we  
22      want to show it this way because there's also, we  
23      assume there's some incremental or some ongoing  
24      costs for retailers. Why? New entrants into the  
25      market, either through a new station or a major

1 retrofit of an existing station that there's a  
2 pump, dispenser replacement.

3 That's when they would obviously not  
4 retrofit, a brand new pump that they buy. They  
5 would purchase an ATC-ready device.

6 And so we assume that the cost of those  
7 is similar only for materials moving forward. And  
8 there is no labor that you would experience in the  
9 field, the labor costs.

10 So that's what these additional costs  
11 are on the bottom in years two through ten. And  
12 it's about, we're assuming about, I think for  
13 these purposes, about a ninth of the inventory is  
14 experiencing either new establishments or a major  
15 retrofit.

16 Now, what is sort of the turnover in  
17 dispensers in the existing inventory of retail  
18 stations, as well as what is the sort of how many  
19 retail establishments retire typically each year,  
20 and how many new ones come in. We don't know the  
21 answer to those questions. We understand there's  
22 a turnover, but we don't have data.

23 If we had consistent information from  
24 our retail survey and had been doing it long  
25 enough, that would be someplace to look. But we

1 don't have data on the turnover.

2 So, once again, we're looking for people  
3 to give us some help and that maybe to be from  
4 some large independents, from some of the majors,  
5 and sort of how that inventory changes. Because  
6 that affects the assumption of what percent each  
7 year would be requiring an ATC-ready device for  
8 either a large retrofit or a new facility.

9 So, this is just meant to show that  
10 there are a stream of costs and benefits over time  
11 with this example of all at once you do it, and  
12 then you start. And I'll show you an example  
13 where you phase in over time a little bit.

14 Fresno. Same approach. Same shape,  
15 just the numbers are slightly different both in  
16 the costs and the benefits.

17 So, this is what I've been describing a  
18 couple times already. Once again, want to  
19 reiterate that we believe there will be a change.  
20 One impact on the retail station is not,  
21 obvious -- the obvious impact of an incremental  
22 cost for ATC equipment and installation and  
23 inspection.

24 But we also believe there will be a  
25 change in how fuel is being dispensed. Will the

1 total fuel consumed in California change as a  
2 result of ATC being installed. No. Assuming  
3 vehicle miles traveled, population being the same,  
4 you're changing how it's being dispensed.

5 It's basically, it's a petroleum gallon  
6 now, not a U.S. gallon. And so the equipment will  
7 operate based on temperature differences from 60,  
8 and change sort of how much fuel's coming out, or  
9 how little fuel is coming out.

10 The total amount of fuel going through  
11 the entire system won't change because consumers  
12 will burn that. How it's being measured and sold  
13 to them is what's changing.

14 And so I just want to note that. So we  
15 would be going from a gross retail dispensing to a  
16 net retail dispensing essentially, under an ATC  
17 retrofit example.

18 So what will retailers do, and, you  
19 know, how would they react to that change in their  
20 revenue stream. You know, if you go back in time  
21 and put in the ATC equipment, that would be the  
22 change.

23 So that's the third step, Prentiss,  
24 where we have to say, okay, a loss of revenue, now  
25 what. You just accept it moving forward and it's

1 a permanent loss of revenue, no harm, no foul. We  
2 don't think that's how a business will operate.  
3 We think that there's a reaction by the business  
4 owner to try to recover a change in the revenue  
5 stream, a decrease in the revenue stream. To  
6 remain profitable over time.

7 And that has to do with is the industry  
8 profitable over time. Yes, it is. Do talk about  
9 convenience stores here. I'll show a couple  
10 slides of information. But why convenience  
11 stores. Because they are the lion's share of the  
12 gasoline sales or fuel sales in the United States  
13 and in California.

14 And this is information from National  
15 Association of Convenience Stores. And we have  
16 data through 2006. So what's, I guess,  
17 interesting, these are profit margins not profits.  
18 Profit margins, and it's broken into instore  
19 commodities or sales, and motor fuel is down at  
20 the bottom.

21 So you see instore profit margins  
22 remaining fairly constant. But motor fuel margins  
23 are declining over time. And so the combined  
24 margin is actually declining over time.

25 So but what does that mean for profits.

1       So these are actually from the same dataset, same  
2       survey mechanism. I guess pre-tax profits,  
3       meaning taxes still owed. And this is on a per-  
4       store basis.

5               So as we see, the per-store profits to  
6       vary over time. I'm sure due to many factors.  
7       And changes in expenses for operation and changes  
8       in the economy, the ability to pay by consumers,  
9       all kinds of factors, relative competition.

10              So we do see over time still profitable  
11       venture, but no consistent trend here, if you  
12       will, in the most recent, I guess the eight years  
13       of data.

14              So, the point is the industry  
15       collectively has been profitable. We further  
16       assume in our analysis that moving forward  
17       profitability will continue regardless of what  
18       additional costs are incurred by the industry for  
19       a new regulation, an ATC retrofit, if you will.

20              We do recognize that some entrants in  
21       the retail establishment arena will drop out. The  
22       ones that are maybe marginally competitive right  
23       at this time and another cost is something that  
24       could put them out of business.

25              We understand that new entrants will

1       come into the field that may have a lower cost  
2       structure and able to compete a little bit more  
3       aggressively. So that's the changing dynamics.  
4       But collectively we believe the industry will  
5       remain profitable at the retail establishment  
6       level moving forward here over the study period,  
7       over the analysis period, excuse me.

8               But if somebody wants to say that they  
9       might all go out of business, you can let me know.  
10      So. But we think consumers will still want  
11      gasoline.

12             Phase-in schedule. This is something,  
13      this is actually a very important issue that has  
14      been discussed on the national level. It's really  
15      good information on the national level. The  
16      implications of, you know, over a short period of  
17      time, a long period of time, what the various  
18      steps are in a phase-in schedule, if you were to  
19      do ATC.

20             And so we want to look at that, and  
21      we're going to include that in our report. And  
22      talk about sort of the pros and the cons of going,  
23      you know, very quickly all at once, phasing in  
24      over time. You know, what are those implications  
25      both for the retail establishment operators as



1 well as for the consumers in these cost and  
2 benefits, you know, calculations. So, we'll be  
3 covering that.

4 Date certain phase-in over time --  
5 sorry, Prentiss.

6 MR. SEARLES: Always one slide behind.

7 MR. SCHREMP: No problem. This one or -  
8 -

9 MR. SEARLES: The one before that. Yeah.  
10 Another one before that.

11 MR. SCHREMP: All right.

12 MR. SEARLES: One before that.

13 MR. SCHREMP: Okay.

14 (Laughter.)

15 MR. SEARLES: It goes back to the  
16 phased-in cost versus benefits.

17 MR. SCHREMP: Oh, go back even further?

18 MR. SEARLES: Yeah, even further. Again  
19 yet. There you go, that'll work.

20 MR. SCHREMP: All right.

21 MR. SEARLES: And I know you addressed  
22 it in your comment, but I wasn't sure how the  
23 methodology addresses it.

24 This is assuming -- the consumer benefit  
25 is assuming that the price of gasoline doesn't go

1 up. Now, I'm not talking about the methodology  
2 for how do you assume the costs and take into the  
3 costs of implementing. I'm talking about how do  
4 you take into account the actual -- what would  
5 possibly be a change in the price of the fuel,  
6 itself.

7 If you're selling more fuel you're not  
8 going to expect, I wouldn't expect that you would  
9 sell it for the same value. If I'm going to get a  
10 20-ounce soda, and now you're going to tell me I'm  
11 going to give you a 21-ounce soda, I'm probably  
12 going to change my price.

13 So the question is how does that -- I  
14 know you've said you're taking it into account,  
15 but I haven't heard how it's going to be taken  
16 into account.

17 MR. SCHREMP: Well, the -- essentially  
18 the benefit is sort of the change in revenue  
19 stream for a retailer that will occur collectively  
20 say in this county. Assuming no one did anything  
21 over this period, you're looking at the benefits  
22 or essentially what the consumer is a transfer, if  
23 you will, to the consumer that would occur if ATC  
24 had been installed and was working.

25 And the transfer is informed of a little

1 bit more fuel they would receive at a petroleum  
2 gallon price. So the revenue stream for the  
3 retailer will decrease by that amount.

4 So the question, Prentiss, is does the  
5 retailer just turn around and say, okay, well,  
6 I'll just raise my fuel price an equivalent amount  
7 to completely recover that transfer of revenue to  
8 the consumer from raising my price that much to  
9 get all that back.

10 We don't believe they will do that to  
11 100 percent because they have the option to  
12 increase values of other commodities they sell to  
13 try to adjust a loss of revenue and recover  
14 somewhere else.

15 There's no rule that says, let's say I  
16 have a -- I pay my employees more. All I know,  
17 I'll raise the price of my gasoline and diesel  
18 fuel only. I won't change any other commodities  
19 the price that I sell for. I won't try to  
20 increase and get some more revenue from them.

21 The flexibility for a retail  
22 establishment operator is to price their goods,  
23 both fuel and nonfuel, in a competitive manner  
24 that maximizes the revenue and minimizes their  
25 cost. That's what they do collectively year in

1 and year out.

2 What each will do to try to recover a  
3 change in revenue stream, you know, we're not  
4 saying. But we're not saying it's going to be one  
5 extreme or the other. We will talk, when we talk  
6 about the third step of the analysis, what the  
7 implications are if, in fact, that would be the  
8 scenario. How would that change this flow of  
9 benefits and cost.

10 And then if it swung the other way, or  
11 somewhere in between, how would those flows to  
12 benefits and costs change.

13 You're right, you don't see that here.  
14 But we will be doing that analysis and showing you  
15 what the implication is of that change in revenue.

16 Yes, Carl.

17 MR. BOYETT: Carl Boyett. I mean, even  
18 if I raise my soda price or my single beer price,  
19 or whatever, it still costs the consumer. You  
20 know, if I get 2 cents of it from the gasoline and  
21 3 cents from soda, it's still costing the consumer  
22 the same thing.

23 So how does moving it to another product  
24 benefit the consumer?

25 MR. SCHREMP: See, now you're talking

1 about societal cost.

2 MR. BOYETT: Well, but I will tell you,  
3 as a businessman, I am going to try to recover all  
4 my cost increases.

5 MR. SCHREMP: That's correct.

6 MR. BOYETT: Okay.

7 MR. SCHREMP: We believe that's how you  
8 remain profitable in the long run.

9 Yes, Judy.

10 MS. DUGAN: Well, just one point. Judy  
11 Dugan, Consumer Watchdog. This all sort of comes  
12 down to whether, as Mr. McKeeman and Mr. Boyett  
13 have said, and I think Ross Johnson (sic) has  
14 said, that these costs of fuel heating and cooling  
15 are already accounted for in the retail cost, even  
16 though we cannot prove it.

17 If, indeed, that is what is occurring,  
18 the only incremental cost to consumers would be  
19 the little bitty bar at the bottom. There would  
20 be no excess incremental costs. And, of course,  
21 all fuel that was sold would be the same in terms  
22 of size of gallon.

23 But I mean, it isn't both ways, you  
24 know. If they're correcting now, then the amount  
25 that could be added onto consumers would be

1 relatively small if they're --

2 MR. SCHREMP: Well, I mean I don't want  
3 to --

4 MS. DUGAN: Maybe my math isn't working  
5 here.

6 MR. SCHREMP: I'm not going to speak for  
7 them. I know there's the -- I know what you talk  
8 about, Judy, is, you know, temperature is already  
9 accounted for in sort of --

10 MS. DUGAN: Right.

11 MR. SCHREMP: -- how the fuel is  
12 ultimately priced over the year, and with their  
13 competitors. But for the sake of argument in  
14 California purchasing net wholesale, selling gross  
15 retail, warmer fuel you get a little bit more  
16 gross gallons to play with and sell.

17 And to the extent that you characterize  
18 that like, oh, well, they know that. I mean they  
19 look at, watch inventory; they all do that. Or  
20 they have the ability to do that. And that's sort  
21 of the way it is.

22 Well, then if that dynamic changes, and  
23 that sort of additional fuel they're able to sell  
24 that helps with their bottomline, that's an  
25 additional revenue, helps their bottomline. Maybe

1       they can price the fuel, try to -- maybe that's a  
2       little bit lower as they --

3               MS. DUGAN: Right.

4               MR. SCHREMP: -- tend to remain as  
5       competitive as possible.

6               MS. DUGAN: There are an awful lot of --

7               MR. SCHREMP: You're changing -- that  
8       will change. And so that's what's going to  
9       change. So, the question is, is the change only  
10      on the fuel side.

11              MS. DUGAN: Right. There are also  
12      variables on the fuel side that have to do with  
13      wholesale pricing. That the pricing structure  
14      that we haven't now is, in part, predicated on these  
15      extra gallons that retailers have to sell. That  
16      when you're buying net there are variable amounts  
17      of extra gallonage that you're selling.

18              There will be no extra gallonage. You  
19      can't, quote, make it up, selling the free  
20      gallons.

21              So, maybe I think it's an issue where  
22      the whole pricing structure, if you're going to  
23      have a pricing structure that is the same from  
24      refiner to retailer, there won't be that weird  
25      bump in the middle of it where there are extra

1 gallons, on average extra gallons in California  
2 that may be built into the wholesale pricing  
3 structure.

4 That's all.

5 MR. SCHREMP: Okay. Thanks, Judy. Tom.

6 MR. ROBINSON: Judy, with all due  
7 respect, you really just don't understand.

8 MS. DUGAN: That could be --

9 MR. ROBINSON: Two things. One is to  
10 think, and this goes back earlier on, to think  
11 that somehow suppliers are going to illegally, in  
12 an anti-trust manner, collude on what they're  
13 going to do to subsidize their wholesale prices is  
14 somewhere between naive and unrealistic. And  
15 illegal.

16 You know, if you switch -- go a slide or  
17 two forward and I'll tell you how it gets  
18 impacted. It's the one that's got the  
19 profitability. There it is.

20 That's how it gets passed on. It gets  
21 passed on in a messy fashion. Obviously in 2002  
22 the industry did a very poor job of recouping  
23 their costs, and had their lowest profitability.  
24 Obviously in 2005 and 1999 they did a much better  
25 job.



1           So, that slide there shows you how  
2     retailers, in a competitive environment, pass  
3     along their costs.

4           If a retailer loses a benefit, the gain,  
5     and has a cost, the installation of the equipment  
6     and the maintenance of the equipment, something's  
7     got to give there. Their choice is to either  
8     raise their prices or the line is going to go  
9     below the zero line.

10          And as you can see from 1998 to 2006  
11     that has not occurred. This industry has, in some  
12     shape or form, passed on. It's messy as to who it  
13     occurs to. Some have obviously done better than  
14     others, but the industry, as a whole, has passed  
15     it along.

16          Gordon, you made just one comment, and  
17     that was the assumption is that retailers won't  
18     pass it all along. I would argue that in 2005,  
19     let's just go on -- if you compare 2005 versus  
20     2002, retailers passed on more. And in 2002 they  
21     passed along less.

22          If you took an average of all those  
23     lines together, that would be an indication of  
24     sort of the years that they passed on better and  
25     the years they passed on less.

1                   MR. SCHREMP: Yeah, thanks, Tom. Yeah,  
2                   this -- Ross, are you ready to go?

3                   MR. ANDERSON: Yeah, I'm ready to go.

4                   MR. SCHREMP: Okay.

5                   MR. ANDERSON: I think this is -- and  
6                   the thing about this, to me, is that it's not  
7                   hidden. We've always known how to do this.

8                   Literally, when I buy 8000 gallons of  
9                   inventory gross, and I look at the net, I ignore  
10                  it today. And I look at my total cost, divided by  
11                  8000 gallons of gross inventory. That's what I  
12                  have to sell today.

13                  Tomorrow what changes is the amount of  
14                  inventory I have. I change from a gross gallon  
15                  inventory to a net gallon inventory because my  
16                  pumps are selling net gallons out the other end.

17                  Instead of using the gross gallon price  
18                  from the bill of lading, I will then start to use  
19                  the net gallon. And the total price for that load  
20                  of fuel is the same. It's the same total cost,  
21                  whether I count it as quarts or pints, liters or  
22                  gallons, the inventory is still the same.

23                  The price per gallon will change because  
24                  I take my total cost, divided it by total  
25                  inventory available for sale, and that's what

1 comes out to be my cost of inventory.

2 And the thing is I then have to add my  
3 cost of employee payments, taxes, rent,  
4 maintenance, all those other costs get added on.  
5 And then I add on my profit margin.

6 So, the point is that it's always been  
7 there; it's always been transparent on the bill of  
8 lading because Weights and Measures told them they  
9 had to have both gross and net on the bill of  
10 lading when they sold net so that people could  
11 make these conversions. And it's as simple as  
12 that.

13 And the thing is it's out there right on  
14 black-and-white paper, that all you have to do is  
15 go and look.

16 And then the other thing that somehow  
17 the industry had extra gallons to sell. Well,  
18 wait a minute. When we go look at the inventory  
19 records of a retailer those inventories match to  
20 like .1 or .2 of a percent over a whole year.  
21 There's no extra gallons to sell.

22 And it turns out the vast majority of  
23 retailers that I've talked to all end up with a  
24 negative inventory balance.

25 So where is this extra fuel? This extra

1 fuel is in somebody's imagination. The real  
2 world, there is no extra fuel. Every gallon is  
3 accounted for for the tax department, for the  
4 environmental folks, for weights and measures or  
5 fuel quality issues. Every gallon is accounted  
6 for except for a very very small amount that we  
7 really can't account for every year.

8 And so my answer is, you know, this is  
9 just going to be a business of instead of taking  
10 8000 gallons of inventory in in the summertime,  
11 I'm going to take 7840 gallons in. And that means  
12 that if I'm going to recover the same \$3200 for  
13 that inventory, my price has to go up. It's just  
14 very simple math, and it's all there in black and  
15 white on the paper if you want to go look at it.

16 Thank you.

17 MR. SCHREMP: Thanks, Ross. But I  
18 believe the dynamic you're describing of a gross  
19 purchase, gross sale is a dynamic that doesn't  
20 exist in California. It's our understanding that  
21 it's a net purchase at wholesale and a gross sale  
22 at retail. So, it's --

23 MR. ANDERSON: Gordon, wait a minute,  
24 wait a minute. That was one of the assumptions  
25 that I strongly suggested that people verify.

1           That would mean that retailers in  
2       California are taking net gallons and putting that  
3       value into their inventory record. And then at  
4       the end of the year they would end up with another  
5       10,000 extra gallons.

6           But the fact is they're not ending up  
7       with 10,000 extra gallons because the tax  
8       department is telling us they're not. The tax  
9       department is saying they bought this many  
10      gallons, they sold this many gallons. And those  
11      are in very close agreement every year or the tax  
12      department would come down on them. Or the  
13      environmental people would come down on them.  
14      Where's this extra gas.

15          The fact of the matter is what you're  
16      talking about is how they calculated the price was  
17      based on the net gallons. But the gross gallon  
18      figure on the bill of lading is the one that went  
19      into the inventory record. And that's how they  
20      run their business.

21          Even though they may pay on a net gallon  
22      calculation of price, the number that they take  
23      into their inventory is a gross gallon figure.  
24      And that's the only way they can make their  
25      inventory balance at the end of the year.

1                   And so they may pay on a net gallon, but  
2                   they're buying gross gallons at a net gallon  
3                   price.

4                   MR. SCHREMP: Well, Ross, like I say,  
5                   we'll verify the transaction steps in California  
6                   and the inventory steps that you describe. And  
7                   we'll make sure that's very clear. Thanks for  
8                   raising that.

9                   John, do you want me to stay on this  
10                  slide?

11                  MR. SIEBERT: Oh, that'd be fine. We've  
12                  often heard that we need to talk to the state tax  
13                  people. And I actually made a presentation to the  
14                  state tax people at their national conference.

15                  And several of them, after the  
16                  presentation, said, well, doggone it, that's maybe  
17                  the reason that our books never balance. We've  
18                  never been able to look at the amount of fuel that  
19                  was sold, and the amount of tax that we receive.  
20                  The excise taxes for the federal government and  
21                  the state are collected at the rack on temperature  
22                  compensated gallons.

23                  But the retailers are going to collect  
24                  taxes on every U.S. gallon they sell. It's stated  
25                  on the pumps, in many cases. And I've heard that

1 oh, that's just a general thing. In some of the  
2 states it says every gallon sold through this pump  
3 has this federal and state tax applied to it. And  
4 they have the amount, how many cents it is. In  
5 some states; I don't know about California.

6 But there's a discrepancy there. And we  
7 don't see that when we look at it through a New  
8 York set of sunglasses.

9 MR. SCHREMP: Thanks, John.

10 Let me see, I went a little too far  
11 there. Okay. So, once again, changing our  
12 assumptions on the phase-in schedule will have  
13 implication on those stream of cost and stream of  
14 benefits.

15 And this is just, once again, an example  
16 of sort of shifting the, spreading the cost out  
17 over a three-year period. The lower retail  
18 station cost bars. And then delaying the benefits  
19 until year four. And then the benefit stream  
20 ensues. Same example, phased-in approach, in  
21 Fresno County.

22 So I think that -- what did I do there?  
23 I don't think that's correct. I think there  
24 shouldn't be any benefits in the years one, two  
25 and three. So that mistake -- that slide seems to

1 be in error. I don't know why there's a positive  
2 benefit. So, that's not right. So, we'll fix  
3 that and place the revision on our website.

4 So this is only to demonstrate that the  
5 phase-in schedule will vary. I also mentioned  
6 that we'll look at a phase-in schedule, the whole  
7 issue of voluntary versus mandatory. I know  
8 concerns have been raised about if ATC is being  
9 phased in over time, are you allowed to turn them  
10 on and have an ATC-ready establishment while  
11 others that may not have installed ATC don't have  
12 one. What are those implications. Does it put  
13 them at a competitive disadvantage to an ATC-ready  
14 station.

15 So, we will have that in the report.  
16 We'll talk about the implications of that kind of  
17 approach. So we want to look at phasing in very  
18 quickly over a short period of time, phasing in  
19 over a period of time, as well as voluntary and  
20 mandatory date-certain schedules.

21 So, once again, national people have  
22 done a lot of work in this area. And that's Ross  
23 and his Committee. And looked at what those  
24 implications are and what some appropriate steps  
25 are for a ATC regulation structure. So we'll be



1 tapping into a lot of that work.

2 Any other questions on the phase-in at  
3 this point? All right.

4 Next step. As I mentioned, we have a  
5 workshop in September. I have a date on here, but  
6 we're going to be checking to see if we can shift  
7 this to September 18th. We will still plan  
8 starting at 9:00 early, so we can get done early.

9 But I suspect this next workshop may  
10 last a little bit longer because everyone will  
11 have a lot of results and recommendations to pore  
12 over and to make comment on. So, I suspect this  
13 will be a lengthier meeting.

14 We will be putting out a notice in July.  
15 Once we -- and, of course, will verify and let  
16 people know earlier than that through email  
17 distribution that we've been able to modify this  
18 date. So we're going to check on that, Jay, and  
19 see if we can change that, see if our  
20 Commissioners are available to be able to move.

21 And that's usually the most typical step  
22 in the process for us, is the Commissioners'  
23 availability, for both of them to set up a date.  
24 We make ourselves available no matter what.

25 (Laughter.)

1           MR. SCHREMP: That's how it works. So,  
2     to let you know we will be emailing that staff  
3     report at least two weeks in advance. So people  
4     have at least two weeks to read over the report.

5           And the format will be the same. We'll  
6     be doing a PowerPoint presentation, presenting our  
7     results, recommendations, you know, our staff  
8     recommendations.

9           And then, you know, we'll go from there.  
10    It's possible that our Commissioners will give us  
11    direction during the workshop and maybe some new  
12    areas to examine, so we'll have to see how that  
13    goes.

14           I guess that's it. Any -- Prentiss?

15           MR. SEARLES: I was waiting for the  
16    slide of additional questions and resources to  
17    come up, so I didn't interrupt you and ask you to  
18    go back four or five slides.

19           One of the points that Carl made earlier  
20    was that the costs would be borne by, you know, at  
21    some point, and you agreed, a cost would be passed  
22    on to the consumer.

23           Now, I don't know how anybody would do  
24    that or how they might do that. That's something  
25    that individual companies and businesspeople.

1           But he said, you know, this is where it  
2           will happen. And you said, yeah, now you're  
3           talking about societal costs. If you're looking  
4           at this issue of what does it cost the retail  
5           gasoline consumer, the question is is it  
6           appropriate if you're to assume that the cost will  
7           be borne inside of the C-store instead of at the  
8           pump.

9           So, you were asking about, you know,  
10          your societal costs of passing it on through sodas  
11          and peanuts, literally peanuts, versus not putting  
12          it through as a cost of the fuel. And that's a  
13          societal cost.

14          But if you're looking at it, shouldn't  
15          you be looking at what is the cost straight to  
16          gasoline, and how will that cost be borne out.  
17          And not look at it from a business perspective of  
18          a convenience store/petroleum retail facility.

19          You may want to look at both models and  
20          figure out, you know, and play them both out and  
21          see how those impacts come in. And, again, just  
22          looking at methodology so you're making the best  
23          decisions.

24          MR. SCHREMP: Like I said, we're going  
25          to look at, I think, both extremes in that

1       example. Of that an attempt to recover lost  
2       revenue, one approach is to raise the value of the  
3       fuel you're selling a commensurate amount to try  
4       to recover all.

5               Another is to raise the value of other  
6       commodities you sell, and try to recover revenue  
7       in that fashion.

8               It's likely to be somewhere in between.  
9       Not one extreme or the other. And this is for  
10      basically any incremental expense that the  
11      business comes under. They have the option of  
12      multiple revenue streams and the option of  
13      adjusting those values to try to maximize  
14      revenues, maximize profits in an arena of  
15      competition.

16              You can't raise it whatever you want to  
17      do anytime you want. We see this when we have  
18      temporary price spikes, we see that there's a  
19      difficulty to immediately pass through all those  
20      costs. And then there's a period when the  
21      wholesale price declines when retail margins may  
22      grow back, and there's an attempt to recover some  
23      revenue that was temporarily foregone because  
24      couldn't quite pass it all on immediately. Not a  
25      one-for-one every single price move.

1           So, this is it looks like another  
2       expense that they're trying to recover the cost  
3       on. We don't say they only can do it this way, or  
4       only do it that way. They have the ability in  
5       today's environment of how retail fuel is  
6       dispensed to the public.

7           It's not like it was 20 years ago when  
8       we only had stations. But we, in fact, let's say  
9       we were looking at that, Prentiss. Well, what  
10      were they selling. Fuel. What else were they  
11      selling. Service. They're repairing your  
12      vehicles. Well, we'd have to look at that and  
13      say, okay, well, they charge more to repair  
14      vehicles as an attempt to recover some revenue  
15      there.

16           MR. SEARLES: Yeah, I'm glad to hear  
17      that you're planning on doing both extremes. If  
18      you pass it through completely or you decide to  
19      just meet it. Do you pass it through completely  
20      on the gasoline price, per se. Or do you pass it  
21      through your convenience store goods.

22           If you're doing both that's all I was  
23      looking for. Thank you.

24           MR. SCHREMP: Okay, thanks, Prentiss.  
25      John.

1                   MR. SIEBERT: John Siebert with the  
2                   Owner/Operator Independent Drivers Association. I  
3                   don't know, sometimes I have a little difficulty  
4                   in figuring out some of the relationships in the  
5                   room.

6                   Because if you look at the convenience  
7                   store profit margins, they've gone from 12 percent  
8                   to 5 percent on gasoline. Where do you buy your  
9                   gasoline. You buy it from the wholesalers and the  
10                  producers.

11                  And it seems to me that your price-  
12                  takers, not price-askers. You take it whatever it  
13                  is at that rack, and you go out and sell it.

14                  And the integrated oil companies are the  
15                  ones that have forced you down to a 5 percent  
16                  margin on gasoline.

17                  It's just a comment.

18                  (Laughter.)

19                  MR. SIEBERT: Well, I like Prentiss,  
20                  too. But I have a bone to pick with --

21                  (Parties speaking simultaneously.)

22                  MR. SCHREMP: Well, that seems like a  
23                  place to stop --

24                  (Laughter.)

25                  MR. SCHREMP: Oh, no, no, someone

1       online. And the last word is?

2               MR. JANUSCH: Ross Anderson.

3               MR. SCHREMP: Ross.

4               (Laughter.)

5               MR. ANDERSON: I didn't plan on having  
6       the last word, but I did want to say that maybe  
7       John needs to take his rose-colored glasses off,  
8       too.

9               The interesting part about this is that,  
10       Gordon, I think what you're proposing here is  
11       fair. Let's let the chips fall where they lie. I  
12       don't think it makes a difference whether you  
13       recover the cost in the price of the gas or in the  
14       price of the cup of coffee or the newspaper. All  
15       of that is recovering costs.

16               And what weights and measures people are  
17       wrestling with in their deliberation is, we know  
18       that incremental costs to reduce variability in  
19       measurement get more and more costly as you get  
20       closer and closer to 100 percent. We're at 99.5  
21       right now. And the real issue is, is it going to  
22       cost us \$1 to save 10 cents. That's the real  
23       issue.

24               And it's a real crux of what's going on  
25       here, is these costs have to be recovered,

1 including the regulatory costs.

2 Now my accounting advisor basically said  
3 you also have to remember that businesses make a  
4 markup, that means profit, on regulatory costs.  
5 It goes in with all the other costs.

6 So if we put a regulatory cost of \$6  
7 million on the retail trade, there's going to be  
8 profit on that \$6 million. And that profit is to  
9 pay their costs and to pay their costs of doing  
10 business.

11 So, you know, -- willing to let the  
12 chips fall where they lie and when we see what the  
13 numbers crunch out at, then let's make a good  
14 decision from that. I think you're on the right  
15 track and I think everything you presented today  
16 was perfect, right on-target.

17 Thank you.

18 MR. SCHREMP: Thanks, Ross, and was that  
19 the last word?

20 (Parties speaking simultaneously.)

21 MR. SCHREMP: Looks like it was. Okay.  
22 Well, I thank everybody who spent a lot of time to  
23 come here today; I thank everybody online for  
24 attending via WebEx. And everybody's feedback  
25 today.



1                   And we certainly will be looking for  
2       people to give us comments on our reports. The  
3       draft report that comes up, that is the most  
4       important set of comments you stakeholders will  
5       provide to us and to our Commissioners during the  
6       Committee workshops.

7                   So, thanks, again, everybody. I really  
8       appreciate your input.

9                   (Whereupon, at 12:50 p.m., the workshop  
10       was adjourned.)

11                   --o0o--

## CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,  
do hereby certify that I am a disinterested person  
herein; that I recorded the foregoing California  
Energy Commission Staff Workshop; that it was  
thereafter transcribed into typewriting.

I further certify that I am not of  
counsel or attorney for any of the parties to said  
workshop, nor in any way interested in outcome of  
said workshop.

IN WITNESS WHEREOF, I have hereunto set  
my hand this 14th day of June, 2008.

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345