# Consumer Response to Staff Report on Fuel Deliver Temperatures

John Siebert
OOIDA Foundation
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# The Report on Fuel Deliver Temperatures:

- Leaves some questions asked by the commission, unanswered…
- Raises new questions about the study’s final methodology
- States conclusions that contradict other sections of the report
- And accepts assumptions that are not supported by real world practices or experience.

# Executive Summary on Page 1 Identifies First and Presumably the Most Important ATC Issue

- “If temperature compensation has been instituted for most wholesale transactions for the purpose of removing the inequity of temperature variations from financial transaction, why has that practice not extended all the way to the California retails consumer? “
- Where’s the answer to this question?

# New Questions Raised by Report

- Although 80% of CA fuel is sold through C-Stores, there is no attempt to characterize the other 20% of sales.

# Other Retail Fuel Outlets

- Large retailers (Costco, Wal-Mart, Home Depot) are adding fuel islands as a strategy to get customers into their store parking lot.

- To do that, they may be selling fuel at a break-even point or even as a loss leader.

- If this is the case why would these sellers pass through 100% of the additional costs related to ATC?

# New Questions Raised by Report

- By recognizing  $3.2 million in consumer benefits, the Report reverses the preliminary benefit estimates presented at the last public meeting of this group.

(i.e.: a ROI of six months and annual consumer benefits at $24 million for two counties.)

- Is there an explanation for this shift ?

# New Questions Raised by Report

- In the conclusions the Report states the temperature differential accounts for $438million of extra fuel Californians must purchase .
- Then the conclusions state “staff calculates the consumer benefits to be $3.2 million a year.”
- Are those calculations available to share with the public?

# New Questions Raised by Report

- The Report refers readers to Appendix R for further explanation of how the benefits were calculated.
- Appendix R is a theoretical model with no real values plugged into its variables.
- Can the staff provide us with the model filled in with California data to show how the monetary benefits were derived?

# New Questions Raised by Report

- Why does the cost benefit analysis ignore the natural replacement of 5% of the pumps every year, and assume all pumps will require retrofit kits, and financing?
- ATC in new replacement pumps is cheaper than a retrofit kit and the six year of implementation would provide savings for 30% of the new ATC pumps.

# New Questions Raised by Report

- Why is there concern over consumer confusion if there should be permissive ATC?
- There is no evidence the Canadians were confused.
- The status quo is one of total consumer ignorance.  Does the commission prefer consumer ignorance to consumer confusion?

# Conclusions Contradicting Earlier Sections of the Report

- And speaking of Canadians…
- In an earlier analysis of the Canadian ATC experience, the Report states that consumers were benefitting from cold gallons, and retailers were finding it tough to maintain their margins due to inventory shrinkage.
- If that section on cold fuel is true, shouldn’t the same economic dynamics play out in California hot fuel situation?

# Conclusions Contradicting Earlier Sections of the Report

- When the Report first visits consumer benefits of ATC, it acknowledged: price transparency, information symmetry, more accurate measurement , and equity.

- In the conclusions section these earlier consumer benefits are ignored and the only consumer benefits mentioned are monetary.

# Assumptions are Based on a Faulty Economic Model

- Only two economic models allow additional costs to be passed through at a 100% level:

1. Theoretical Pure Competition or,
2. Theoretical Pure Monopoly

- The California retail fuel market is neither of these.

# Make-up of the California Retail Fuel Market

- 10% of retailers are refiner owned.
- 46% are major leased dealers
- 26% are branded independents
- 18% are un-branded independents

(Only the un-branded independents seek out the cheapest supply and set their margins independent of long term supply contracts with one specific producer.)

# C-Store Margins

- CA C-Stores have experienced shrinking margins over the past 10 years due to downward wholesale pressure

- C-Stores are loath to raise fuel, or in-store prices, because  consumers are very price sensitive.

- There is more C-store profit in a $10 sale of chips and soda than $50 of fuel.

# Refiner/Wholesaler Margins

- CA Refiners and Wholesalers are the agents contracting the C-Stores margins.
- Meanwhile the Refiners and Wholesalers are enjoying ever stronger margins and profits.
- It's in the Refiner and Wholesalers best interests to not "kill the retail goose" but just keep him lean. Would they not revise their supply contracts to keep their retail outlets healthy rather than force them to take on 100% of the ATC costs?

# Concluding Thoughts

- The Report should be internally consistent. Conclusions should flow naturally from a well consider analysis.

- The Report's conclusions should be based on sound economic theory and actual practice.

- Calculations should be presented to stand or fall on their own merit.

# Concluding Thoughts

- These are not  just off the cuff comments.
- I will submit written comments with references I used for this presentation for inclusion in the record.