Testimony of Joseph L. Choquette III
US Senate Energy & Natural Resources Committee
Monday, August 6, 2012
Contois Auditorium
Burlington City Hall

Senator Sanders and members of the committee:

Thank you for the opportunity to provide some perspective on the issues you have raised regarding gasoline prices in the greater Burlington area. My name is Joe Choquette. I have worked with many of the companies that are spotlighted here for more than 25 years, first as the executive director of the Vermont Petroleum Association and more recently as the VPA's government and public affairs advisor.

The Vermont Petroleum Association, a division of the Vermont Grocer's Association, is a trade group that serves the needs of Vermont's motor fuel distributors. In general, these are second and third generation family-owned businesses that have operated here for many years.

It is worth noting that Vermont's annual gasoline sales of 329 million gallons is the lowest in the lower 48 United States and second only to Alaska among all of the states. In New England, even tiny Rhode Island beats us, selling 395 million gallons of gasoline in 2010. This is a small market served by as many as five terminals located in four states and two countries. It is a complex market with many challenges – the distance to refineries, high real estate costs, strict environmental regulations and high taxes.

In Vermont, there are approximately 75 licensed wholesale distributors. These companies provide gasoline and diesel fuel under many different contractual arrangements to branded and unbranded gasoline stations. None of these are major oil companies. The major oil companies abandoned this market long ago because of low volumes and narrow margins.

We have identified at least ten licensed distributors who actively serve the Chittenden County market. The relationship of these distributors to the stores they serve varies greatly. They might own the store and operate it with their own employees. They might own the property and equipment and lease the business to an independent dealer, or they might sell directly to an independent dealer who owns all of his own property and equipment. Some dealers even buy their product directly from the terminal and arrange delivery through a common carrier.

Along with variations in ownership come variations in capital costs. From buying land to equipping stations, capital costs can total millions of dollars per location. Some dealers make a major investment in real estate and equipment. Some have nothing invested.

Which brings me to the purpose of the hearing.

First, we recognize that the difference between the wholesale rack price for gasoline at the Burlington terminal and the average retail price in the Burlington area during the period you selected was above average both across the country and in this area in general. However, the petroleum industry is a volatile industry, and such periods are routinely offset by periods when the difference between wholesale costs and retail prices is narrow and often negative. This was true during some periods of October through March.

Second, margins are not profits. From the gross difference between wholesale and retail, distributors and dealers have to meet the cost of running their businesses. It costs at least $1.5 million to build a convenience store from scratch and an estimated $250,000 to replace three underground petroleum storage tanks and two multiple product dispensers. Credit card fees alone cost about ten cents per gallon. In the end, our companies gamble that the highs and the lows will average out and that they are able to maintain their equipment, pay their employees a fair wage, keep the business running, and make a fair and reasonable profit.

Third, sales volume varies considerably and low volumes mean slow turnover. The original cost of the product stored underground is almost always different from the current price at the terminal. This phenomenon adds even more to the complex economics of running a gasoline station. Simply put, these companies have to earn a living when the market allows them to do so.

An analysis by the National Association of Convenience Stores prepared for this hearing illustrates this point. NACS estimates that the average cost of running a convenience store nationwide is about 17 cents per gallon. The data that you have selected for the months of January through March shows extremely narrow, and sometimes negative, net margins during the first three months of the year when the average cost is applied. Companies need to recover those costs somewhere or close their business.

Further, the margins cited in your report only measure the difference between rack and retail, and the costs calculated by NACS apply only to the store or station. It fails to consider the cost of running a distribution business. Thus, it makes no distinction between two different businesses and the two businesses are being included as one.

You have questioned whether the Burlington market is competitive, citing a 20 cent per gallon difference between Burlington and Middlebury at one point. A search for prices on the publicly-available www.gasbuddy.com consistently shows at least a 17 cent per gallon difference between the low price in the <u>Burlington</u> area and the high price in the <u>Burlington</u> area. Last week the difference was 24 cents. Smart consumers shop for lower prices and they have many choices in the Burlington area If consumers always bought at the lowest price, all of the prices would quickly come down; but consumers also shop for convenience, by brand, or to earn brand-related discounts.

An analysis of the ownership and density of stores in the Chittenden Country area performed by NACS reveals a population-to-store density and a diversity of store ownership that is more competitive than the national and regional average, and not less competitive. Of 105 stores in Chittenden County, 61 appear to be operated by independent dealers and 44 are operated by eight distributors operating 4 or more stores. Chittenden County has 1,492 people per retail outlet. Across the northeast there are 2,877 persons per store and nationally, 2,576. Thus, there are more independent stations competing for your business here than elsewhere.

The companies and businesses I represent, in general, are long-time legacy businesses that are now in the second and third generation of family ownership. They have come to supply this area after major oil companies have sold their assets and stopped doing business here because of low volumes and shrinking profits. In short, we are at the end of the pipeline in the motor fuel industry. These companies are the survivors.

Our distributors and retailers give back to their communities every single day, and they demonstrated their social responsibility long before the term became popular. Among the actual causes supported by these local family businesses:

- C. Douglas Cairns Hockey Arena in South Burlington
- The Muscular Dystrophy Association
- The Children's Hospital
- The Make a Wish Foundation
- Vermont National Guard Scholarship Fund and Christmas Fund
- Vermont Food Bank
- Ronald MacDonald House

In the past few weeks the wholesale price of gasoline has increased more than 20 cents per gallon, yet retail prices have moved very little, especially in the Burlington area. Last week the average price in Chittenden County was below both the state and national average, despite paying a 5-6 cent per gallon premium for gasoline delivered by rail to the Burlington terminal.

Now, as then, there is at least a 17 cent per gallon difference between the high price in Burlington and the low price. There is virtually no other product that puts its price on three foot signs that are visible on the street, so customers can make informed decisions on where to buy their gasoline.

Thank you for listening, and I will be happy to answer your questions.