

Testimony of Gail Horne
US Senate Energy & Natural Resources Committee
Monday, August 6, 2012
Contois Auditorium
Burlington City Hall

My husband Mark and I have owned and operated the Keelers Bay Variety Store in South Hero, VT since 1974. We are a family owned business with our daughter Wendy, now taking an active role in the management of the business. We have always sold gasoline along with a wide variety of food and beverages in our store.

Our customers have supported us since we began nearly 38 years ago and we do everything we can to support them with fair prices, community donations, good employment opportunities and a welcome place to see friends and neighbors. We work hard to be part of our community and donate back on a daily basis as much as we can. We support a wide variety of charities from the United Way and Grand Isle Food Shelf to local sports such as our Little League. On Wednesday we are donating 1% of store sales to Champlain Islanders Developing Essential Resources, which operates many of the senior programs, including Meals on Wheels, on the islands.

We are also active members of the Vermont Grocers' Association. I have served on its board of directors and was chair of the organization from 2005 to 2007. VGA has 180 member stores in the Chittenden, Franklin and Grand Isle counties. Over half of these sell gasoline.

In many respects I think we are typical of many other independent storekeepers. We don't charge our customers an annual membership fee and we accept Visa and MasterCard for payment from our customers, which alone can cost 8-10 cents per gallon. We also set our own retail price on gasoline.

There are a variety of ways a store like ours can buy and sell gasoline. The option we chose may not be the same for the next person.

When we replaced our underground storage tanks 25 years ago it cost us \$35,000. More recently (2006), we had our gasoline distributor replace the tanks and pumps. The cost 6 years ago had increased to an estimated \$150,000 or more. I shudder to think what it will be the next time.

Because that cost is much higher it is why we chose to turn over the ownership of the tanks and pumps to our distributor. Additionally our contract allows us to pay for the gasoline as it is sold not when it is put in the underground tanks. While that reduces our margin, it also reduces our cash needs and market risk as wholesale prices change daily. The 16,000 gallon capacity of our tanks represents \$56,000 of inventory at \$3.50 per gallon.

As such our margins may be significantly less than a station that owns its own equipment and is responsible for all the regulatory and capital costs associated with them. Nonetheless we are an independent operator and we set our own retail prices.

A number of factors go into the pricing of gasoline every day including market conditions, expected changes in wholesale prices, our costs of operation, and competition. Our small and somewhat seasonal community of South Hero, has 3 gas stations. We keep a close eye on the price everyone charges to make sure we are competitive. And because we are close to Colchester and other areas of Chittenden County, so many other options are also available to our customers.

Sometimes we make a few cents, sometimes we don't. Last week at one point we were actually selling below our wholesale cost. Probably not a good business practice.

When our supply contract is up for renewal in 2017 we have several options:

- We can get out of the gasoline business
- We can change distributors
- We can buy direct from the terminal and hire a trucker to bring us the product. This would involve paying the excise taxes, investing in the equipment upgrades and assume all the various regulatory compliance issues.

And with the contract with a distributor we have several additional options:

- Own the tanks and pumps and pay for the gasoline as it is delivered.
- Cover our own costs with credit cards for gasoline or have them embedded in our wholesale cost
- Have the distributor take ownership of the tanks and pumps and assume all the costs and compliance issues associated with them.
- And more variations thereof

According to a survey by the National Association of Convenience Stores

- 63% of customers say that price is the primary determining factor for where they buy fuel; location is primary for 20%
- 66% shop for price by driving around and looking at a stores' signage
- 40% of customers say they will drive 5 minutes out of their way to save as little as 3 cents per gallon; 71% for a 5 cent differential.

There is virtually no other product that puts its price on large three foot signs for all to see so customers can make informed decisions on where to buy their gasoline. As small business owners we work real hard to bring value to our customers every day. I am not here today to talk about hypothetical's and what I would have or wouldn't have charged in the past. I think our customers support is somewhat evidence of their recognition that we value their business and are their neighbors in the community. We are fortunate to have had a distributor that has chosen to partner with us for many years which has allowed us to stay in the gas business.

Thank you.