

Written Testimony prepared for:

U.S. Senate
Committee on Energy and Natural Resources
Vermont Field Hearing
Monday, August 6, 2012
Burlington City Hall
149 Church Street
Burlington, Vermont

My name is Ben Brockwell and I am Director of Data, Pricing & Information Service with OPIS (Oil Price Information Service).

OPIS is a privately-held, independent business information company, a division of Gaithersburg, Maryland-based UCG. The parent company provides business information services across a wide array of businesses including oil and energy, the specialty of OPIS. Other UCG business units deal in health, banking, and technology fields.

UCG celebrates 35 years in business in 2012.

OPIS celebrates its 32 year as part of UCG in 2012.

OPIS essential business function is to independently value the price of refined oil products (gasoline, diesel, jet fuel, propane, etc.) as they move along the supply chain from the refiner producer to the end-user consumer.

OPIS prices provide independent benchmarks for bulk buyers and sellers of petroleum needing an independent source to value their daily buy/sell transactions for specific products.

OPIS tracks wholesale rack or terminal prices at close to 400 city locations through all fifty U.S. states and in Canada.

OPIS wholesale prices are highly referenced benchmarks used by petroleum wholesalers to sell product to end-users. Our prices are typically used as reference points around which contract prices between a supplier and a consumer rise or fall, escalate or de-escalate.

The U.S. government through its Defense Energy Support Center (DESC) relies on OPIS data to buy its bulk fuel needs for the military.

OPIS, through its retail gasoline/diesel group, also tracks retail gasoline prices at some 175,000 gasoline stations through all fifty states, including Vermont.

OPIS retail prices are site specific, brand specific, and product specific, and updated daily via credit card transaction reads mainly through Portland, Maine-based Wright Express, a credit card services company serving small, medium, and large sized fuel fleets.

OPIS also collects prices directly from some of the large chain retailers who have a vested interest in our data being correct because OPIS retail gasoline prices are being used by automobile companies as part of the dashboard software used to find gasoline stations and other consumer services – GPS based technology.

Retail gasoline and diesel prices are aggregated in a retail fuel data base and sorted in a variety of formats so the information can be sold on a fee-subscription basis.

A sampling of OPIS retail fuel products include: Retail Fuel Watch (RFW), a weekly publication that tracks rack-to-retail gasoline and diesel prices profit margins by geographical region (Northeast, for example); by state (Vermont); and by metropolitan location (Burlington). Among other things, RFW ranks by region the most profitable and least profitable cities to market gasoline. It also rates the top earning brands by region.

OPIS stores lots of retail pricing data in its Retail Data House, which can be used to generate comparative price studies over time by region, by brand, by state, etc.

OPIS also publishes a Retail Radius Report which essentially provides competitive station pricing data by specific geographical region within a specified radius of any selected station location.

OPIS also published from time to time special retail reports, including an Annual Retail Market in Review that summarizes and compares various data components, including gallons sold, annual margins, market share by brand, branded supplier price comparison, unbranded supplier price comparisons, branded versus unbranded price comparisons, etc.

Because of OPIS recognized expertise in wholesale and retail gasoline prices, I was contacted by the office of Senator Bernie Sanders regarding possible pump pricing discrepancies in Vermont, specifically the variation between prices in Burlington, Vermont and other areas of the state.

I was made aware of a July 2012 letter that the Senator had sent to the U.S. Attorney General and the Federal Trade Commission asking for an investigation to explain why Burlington, Vermont prices were some 35cts/gal higher than places like Middlebury, less than 30 miles from Burlington.

Senator Sander's office asked OPIS to provide some historical information on rack-to-retail gasoline margins in Vermont over time to determine how Burlington profit margins compare to other Vermont cities, the U.S. average, plus the northeastern regional average.

OPIS provided several data series to aid the senator with his inquiry.

I was asked by the senator's office if there was a reasonable explanation why Burlington prices were so much higher than neighboring areas.

My immediate response was to take the senator's office through a number of variables that I would examine to help explain any significant price differences.

One of the first avenues of inquiry was to verify the type of gasoline that Burlington may use versus other areas of Vermont, the possibility that Burlington required what is known as reformulated gasoline, gasoline that is required in certain metropolitan areas to comply with ozone and clean air requirements.

RFG gasoline tends to be much more expensive than conventional gasoline because the fuel is tougher for refiners to make and requires the use of more expensive blend stocks.

Burlington, Vermont is not one of the metropolitan locations required to burn reformulated gasoline or low Reid Vapor Gasoline to meet clean air standards.

Burlington uses conventional gasoline at its stations, the same gasoline used through the entire state.

So my initial conclusion was that fuel specification differences did not explain the price discrepancies the senator outlined in his letter to the attorney general.

I then looked at state, county, and local gasoline tax possibilities as a reason one area's price could be so much higher than another – perhaps some Burlington city tax existed or some additional county tax on gasoline existed beyond the normal Vermont state gasoline tax that would create a price difference related to gasoline taxes.

I believe the Vermont gasoline tax structure is pretty uniform and to my knowledge no additional or special gasoline taxes or fees are in place in Burlington or in the neighboring counties that would explain the price differences mentioned by Senator Sanders' office.

So gasoline taxes didn't seem to me to offer a reasonable explanation of the retail gasoline price differences outlined by Senator Sanders.

I also took a look at transportation – the possibility that it cost more to deliver gasoline to Burlington than to other markets but the major oil terminals are located closer to Burlington than to other markets so I eliminated this as a cause for the price differences described by the Senator in his letter to the attorney general and chairman of the Federal Trade Commission.

Companies that deliver gasoline for a living tell me it costs about 2.4cpg to deliver gasoline from zero to 25 miles; 3.4cpg from 26 to 50 miles; 4.6cpg from 51 to 75 miles; 6 cpg from 76 to 100 miles; and approximately 13 cpg to deliver fuel 200 miles. Time and

distance are the controlling variables that determine transportation rates, along with loading and unloading product, which is built into the rates.

Real estate values in Burlington may offer one explanation but it is a variable I am not in a position to evaluate: the point being that the cost of building a running a station in Burlington may be higher than in other Vermont locations so retailers strive to earn bigger profits to offset higher expenses.

Senator Sanders mentioned in his letter to the attorney general that the Burlington retail gasoline market was mostly controlled by four companies, suggesting a possible lack of local competition. That is an avenue of inquiry that might deserve closer inspection.

The impact of having a low-cost gasoline provider in a market can be significant. In New Jersey, for example, areas that have Wawa gasoline outlets tend to be 15 to 24cpg lower-priced than areas that don't.

Based upon my inquiry into this matter I have been unable to find a reasonable explanation to justify or explain why Burlington, Vermont retail gasoline prices are higher than neighboring areas.