AMERICA'S LEADING FUEL MARKETERS

IGM

INDEPENDENT GASOLINE MARKETING

JANUARY | FEBRUARY 2023

SIGMA

inside:

SIGMA 2023 DISTINGUISHED MARKETER: THOMAS L. ROBINSON, ROBINSON OIL CORPORATION

SIGMA 2023 DISTINGUISHED STATESMAN: DAVID NELSON, PH.D., STUDY GROUPS AND WESTERN WASHINGTON UNIVERSITY

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SIGMA

About SIGMA: Founded in 1958, SIGMA: America's Leading Fuel Marketers has become a fixture in the motor fuel marketing industry. After more than sixty years of leadership, SIGMA is the national trade association representing the most successful, progressive, and innovative fuel marketers and chain retailers in the United States. From the outset, the association has served to further the interests of both the branded and unbranded segment of the industry while providing information and services to members.

SIGMA's approximately 260 corporate members command more than 50 percent of the petroleum retail market, selling approximately 80 billion gallons of motor fuel each year. These member companies operate throughout the United States and Canada.

Regular membership in SIGMA is available to companies involved in motor fuel retailing or wholesaling that are not owned by a refiner. In addition, Associate membership is available to fuel supplier companies and to companies that offer financial services, fuel transport services, and fleet card services. SIGMA member companies have long been recognized, both within and outside the industry, as the most aggressive, innovative, and price competitive segment of petroleum marketers.

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Dale Boyett
SIGMA President

viewpoint

What's in Store in 2023

I am very excited to be SIGMA's new president. I have been involved with the association for many years, as was my father before me, and a member of the Board of Directors since 2017. With a new year and a new Congress in Washington, your involvement in SIGMA is even more important. I urge you to mark your calendar and make plans to attend as many of SIGMA's events as you can this year. The more you participate, the more people you meet, the more opportunities there will be for you to network and grow your business.

When you attend a SIGMA event, you will be impressed with the caliber of the event and the drive and innovation of our members. From the kick-off Executive Leadership Conference in January, to the Spring Conference in May, to the Annual Conference November, these three meetings are critical. If you really want to boost the value of your membership, send some of your people to a SIGMA Share Group (they are back in 2023, look for more info coming soon!). By sharing best practices with their industry peers on a job-related topic, they will gain insight and knowledge in how to do their job better, as well as a deeper connection to the industry– something that can only benefit your company. All of the SIGMA events for this year are on the Events page on the SIGMA website. I encourage you to bookmark it and put them on your calendar now.

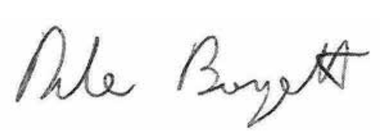
It is really true that SIGMA is a ground-up organization. By that I mean that the direction of our association is driven by the membership, not set by the Board or the staff. So, if you have an idea, share it! Have a thought on how to boost membership? Share it with SIGMA's Membership Directors. Have a great idea for an education session? SIGMA's Director of Education would love to hear it. There are committed people in SIGMA moving us forward. Become one of them.

With a new Congress in Washington, D.C., 2023 is the year you should become politically engaged. If you have been to any SIGMA events, I know you have heard this before. Make this the year you do it. Invite your Congressman to your facility to meet your staff and see firsthand the value your company provides to the local community. Take it a step further and meet with your state representatives – when the federal government is considering an action that will hurt or help your business, your state representatives can be your best allies in the fight. At a minimum, come to the SIGMA Summer Legislative Conference and Day on the Hill on July 18-19. It's on the SIGMA Event page, so put it on your calendar. SIGMA has an important role in advancing and protecting our industry with the lawmakers in Washington, D.C. The more SIGMA members that come walk the halls of Congress in July, the stronger SIGMA's presence will be. You can't assume someone else will do it for you. And no one is a better advocate for your business than you.

I am lucky to be supported by an extremely strong Executive Committee: Matt Ports of Ports Petroleum as 1st Vice President; Erin Graziosi of Robinson Oil Corp. as 2nd Vice President; Bob Bollar of SC Fuels as Secretary/Treasurer; and Richard Guttman of Guttman Energy as Immediate Past President. In addition, we welcomed new members on to the SIGMA Board in November: Stephen Hightower II of Hightowers Petroleum, Jeff Mansfield of Global Partners, Rod Veazey of Gresham Petroleum, and Brian Young of Young Oil. These SIGMA members join the rest of the Board in volunteering their time, service, and intelligence to keep our association moving forward. Take a minute to introduce yourself when you see them and thank them, as I do, for their generosity and willingness to serve.

There is a lot of value in your SIGMA membership if you make the effort to connect with fellow SIGMA members. I hope 2023 will be the year you do it.
Sincerely,

Dale Boyett, Boyett Petroleum
SIGMA President ★

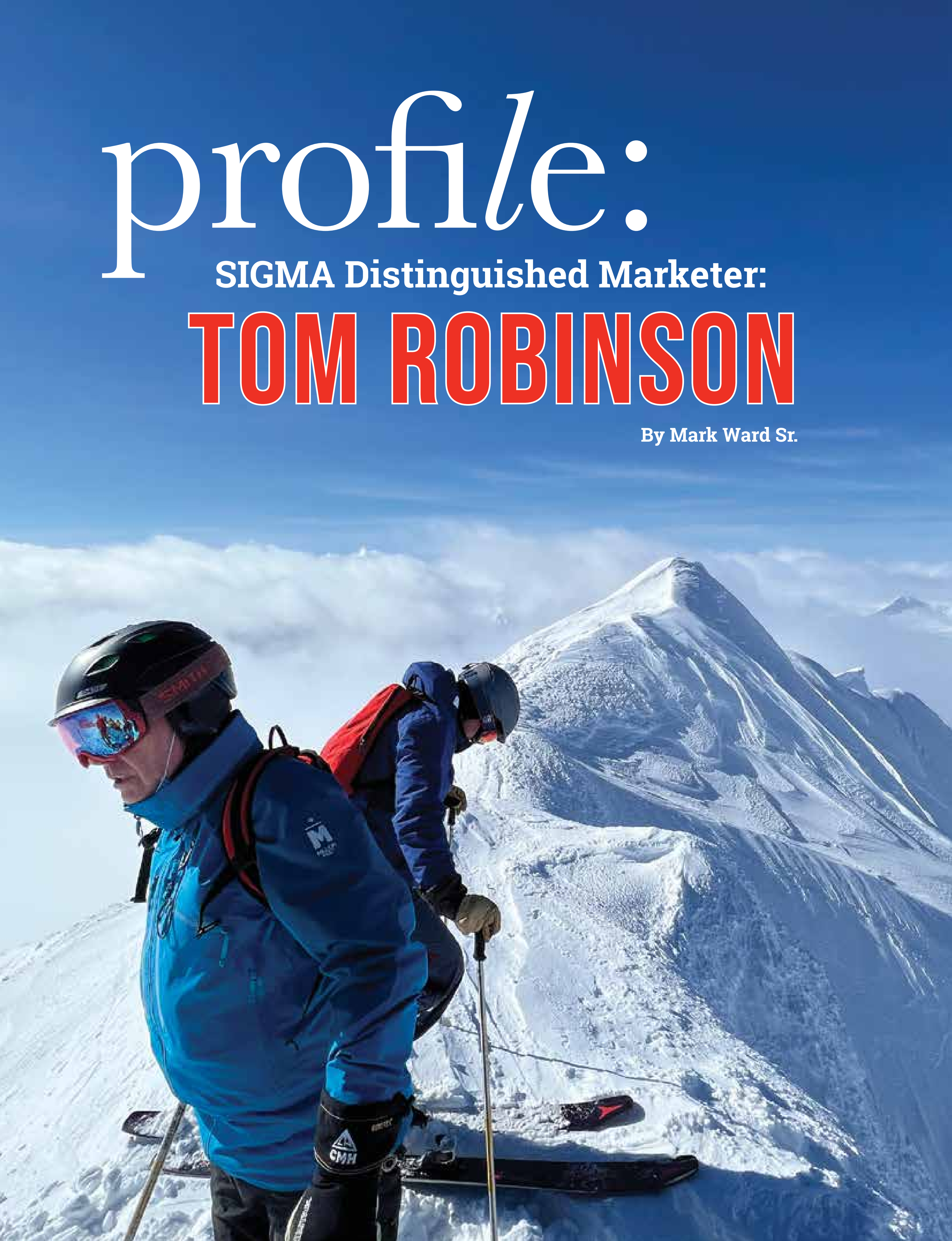


profile:

SIGMA Distinguished Marketer:

TOM ROBINSON

By Mark Ward Sr.



In a career of nearly 50 years, Tom Robinson can claim three unique achievements. As president of Robinson Oil Corporation in Santa Clara, California, he honored the heritage of previous generations while adapting their legacy to a changing industry. As SIGMA president from 1999 to 2001, he led independent marketers in affirming their traditional strengths while preparing for a new century. And his example of combining proven values with innovative change has equipped a new generation to lead his company into the future.

In November, that example became a legacy for all independent marketers as SIGMA conferred on Robinson its highest honor, the Distinguished Marketer Award. In its citation, the association described Robinson's commitment to "passing down his knowledge and insight to those coming behind him" by "volunteering his time and expertise to improve the industry." At the same time, his career has upheld the values of being "a good company as measured by our employees, customers, community, neighbors, vendors, and owners."

Daughter Erin Graziosi, president of Robinson Oil since 2019, further testifies to her father's values. "I've worked with him for 20 years," she relates. "He's always been transparent, consistent, and welcomed questions and discussion. He's willing to make the decision when needed, but secure enough to accept others' ideas and be willing to change."

That approach guided the succession at Robinson Oil. Both Graziosi and sister Reilly Musser, vice president of marketing and merchandising, grew up around the family business. "But we never felt 'forced' to join the company," Graziosi says. "Dad encouraged us to make our own career choices."

Later, when the two sisters chose to join Robinson Oil, their father was an ever-present mentor. As the time came to consider succession, Graziosi recalls, "Dad didn't think first about himself. His concern was always what would help my sister and me be successful. Were we ready? Is the timing what we wanted? And when it happened, he stepped away from day-to-day duties and gave us the freedom to lead. It was just a natural generational transition."

Continuity and Change

Robinson's approach to succession mirrored his own experience. When he came to Robinson Oil in 1974, the company already had a 40-year history. Founded in the 1930s by his maternal grandfather William Mathson and purchased in the 1950s by his father Don Robinson, the younger Robinson joined the family enterprise as a recent college graduate with a degree in economics. ▶

In a 2000 Independent Gasoline Marketing profile, Robinson recalled as a child riding in his father's delivery truck. Robinson Oil was then a small business and so "you can go to work with your dad, blow the horn on the truck, play on the tanks, and hang out with him." As a teen, Robinson worked part-time for the family business in a variety of jobs. He joined the payroll full-time after college. Thirty-four years later, his own succession culminated in 2008 when father Don retired and son Tom bought out his share.

Today, Robinson Oil operates 36 retail fueling sites across northern California and provides commercial fueling for local and regional fleet owners. The retail side, however, has drawn the most attention in the trade press for its unique branding strategy. In 1973 the company adopted the name Rotten Robbie for its private gasoline brand, a playful moniker that has proven remarkably durable in generating local brand identity and customer loyalty.

Tom Robinson's combination of proven values and a willingness to change came into focus when his company opened its first convenience stores. As he explained in 2004 trade press article, the Rotten Robbie gasoline brand was adopted "at a time when we never envisioned becoming a c-store operator." Years later, however, "We had a lot of brand equity in our Rotten Robbie name and didn't want to lose that when we got into the c-store business."

What to name the stores? "We obviously couldn't call our stores 'Rotten Food Marts,'" he laughed. The solution was "to feed off our recognized Rotten Robbie brand, but also try to emphasize the feminine aspect and the family atmosphere of the stores."

Thus, the company came up with Mrs. Robbie's Market as a store brand, employing a similar color scheme to the fuel offering but using different logos and type fonts.

Such savvy was so respected by Robinson's peers that in 2011-12 he was elected chairman of the board for the National Association of Convenience Stores. In so doing, he became only the second person, after RaceTrac's Carl Bolch Jr., to serve as the top elected leader for both SIGMA and NACS.

Leadership for a New Century

For his term as SIGMA president, Robinson brought years of experience with legislative and regulatory affairs. Through service on the legislative committee of the California Independent Oil Marketers Association, he dealt with trendsetting state environmental initiatives including vapor recovery, underground storage tanks, and fuel specifications. This knowledge proved invaluable as Robinson testified numerous times before Congress on behalf of SIGMA.

When Robinson took the reins of SIGMA at the start of a new century, he confronted another challenge. As industry consolidation accelerated, the association faced a dilemma. As he told Independent Gasoline Marketing in 2000, "Because a significant portion of SIGMA's revenues come from dues, there is financial pressure on the organization if there are fewer members." Yet he was confident that SIGMA was positioned to prosper "because we have a good, solid membership of dynamic companies. People value the relationships they make through SIGMA ... and you get information and a chance to network."

Under Robinson's leadership, SIGMA began evaluating its professional development programs. Ultimately, the association transitioned away from programming aimed only at chief executives. Over time, offerings have been diversified to meet the educational needs of executives in operations, finances, marketing, transportation, legal representation, and more.

Robinson's leadership style was summed up by SIGMA past president Bill Shipley in a 2012 trade press article: "[He] is particularly inspiring in that he puts the needs of the organization ahead of his own ... He is a good listener and, of course, a good talker. The combination of both qualities is rare. As a leader with SIGMA, Tom was energetic in the attention he gave to each member and strategic in how he structured governance to capitalize on strengths" as a member-run association.

Leaving a Legacy

After his term as SIGMA president, Robinson continued to set an example. As his Distinguished Marketer Award citation noted, "His involvement in Study Groups and other industry associations has turned industry peers into lifelong friends and those industry relationships are the key to his success."

Daughter Erin Graziosi reports that today her father "hasn't retired from Robinson Oil and is active as chairman of our board. He also goes to SIGMA meetings and his study group because he enjoys being engaged and likes to learn."

She adds that her father impressed on her the importance of association involvement: "What if nobody stepped up? Dad always said that being involved is a responsibility." Graziosi has taken that commitment to heart, joining SIGMA's Executive Committee in November through her election as second vice president.

Not least important, the SIGMA award citation notes, "Tom and his wife Lynn have created a close-knit family. He is father to Reilly, Chris, and Erin and 'Papa' to the fifth generation—nine grandchildren who benefit from his patience, enthusiasm, and unstinting love."

Graziosi echoes that commendation. When asked to describe her father's legacy in her own words, she says, "He did a lot in legislative affairs. But I would say my father's legacy is his ability to bring our family perspective to the industry. Being a good person and a good listener was always his vision for being a good steward of our company and our industry." ★

profile:

SIGMA Distinguished Marketer:

DAVID NELSON, PH.D.

By Mark Ward Sr.

"Since joining the petroleum marketer financial Study Group, my business has more than doubled," says Kenny Retif, CEO of Retif Oil and Fuel in Harvey, Louisiana.

Greg Parker, CEO of The Parker Companies in Savannah, Georgia, reports, "The bottom line is that the Study Group will help me to improve my bottom line." He adds that the "ability to benchmark off of others is very valuable."

At Spinx Oil Company in Greenville, South Carolina, Stewart and Steve Spinks explain that their Study Group provides "an open, honest, and non-threatening meeting of industry peers motivated to share successes, failures, ideas and concerns for our mutual benefits." Discussion and interaction "let us know what might work and what will not work without having to go out and figure it out for ourselves."

Study Groups is a simple concept—peers meeting together to learn from each other—as well as a company in Bellingham, Washington, that today coordinates 65 groups and works with more than 600 leaders of some 300 companies that collectively market more than 15% of the refined petroleum consumed in the United States.

David Nelson, who founded Study Groups in 1985, was honored in November for "the countless contributions he has made to petroleum and convenience marketers" when SIGMA presented him its Distinguished Statesman Award—only the sixth individual the association has so recognized.

An Idea and a Vision

Nelson's work with petroleum marketers began nearly 50 years ago when he was a doctoral student in economics at the University of Oregon. "He was exploring an arbitrage opportunity in another industry when one of the potential investors, who was a petroleum marketer, mentioned an idea," explains Study Groups president Jed Brewer. "The man had heard about a study group of auto dealers, and he suggested to David that petroleum marketers could do the same."

After earning his Ph.D., Nelson joined the faculty of Western Washington University where he has taught economics since 1977. "He got to know the petroleum industry by doing business valuations for different marketers," continues Brewer. "The idea of peer groups stayed with him as he saw through his relationships a need for lonely-at-the-top business leaders to have a peer group with whom to share, benchmark, and develop genuine friendships. So, David started Study Groups in 1985 with five initial companies."

Since then, notes the SIGMA award citation, "The financial benchmarking component of Study Groups is key to helping companies compare and improve their operations." Using his research expertise, Nelson helps "define how industry participants look at their businesses and gauge success. Study Groups' financial system has been a foundation for reporting data in the petroleum and convenience industry and it is the engine that powers the NACS [National Association of Convenience Stores] State of the Industry Summit for convenience retailers."

Over four decades, Brewer adds, "The industry keeps changing. Peer groups are a vital way for marketers to talk about dealing with those changes. And Study Groups has evolved in ways that mirror SIGMA's evolution."

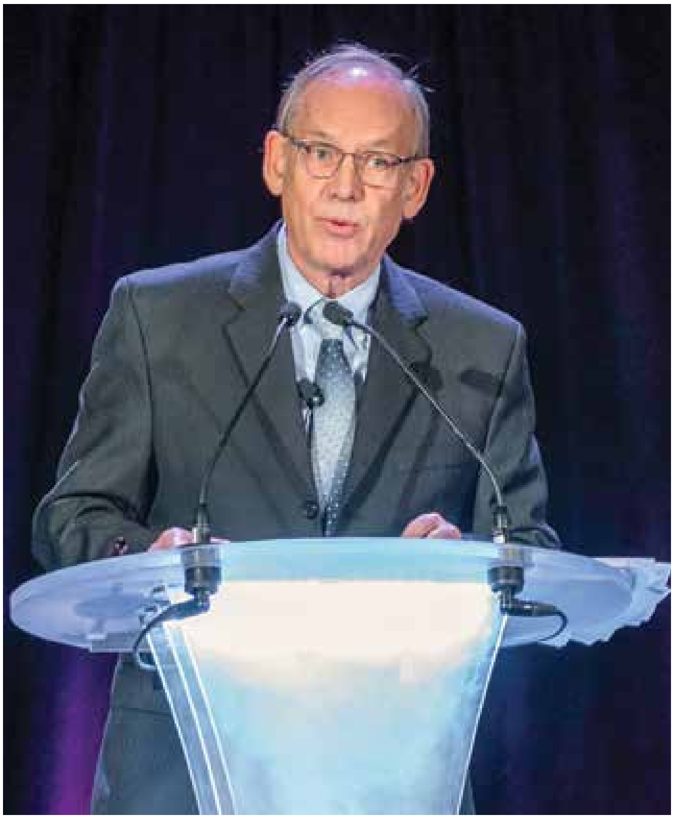
Prior to 2000, Brewer states, programming focused on company owners and presidents. But as industry consolidation accelerated in the new century, "Study Groups and SIGMA have transitioned to serve other leaders within each company—chief financial officers, chief operating officers, legal counsels, human resources, marketing, transportation, and more."

A Lasting Legacy

When Brewer took an undergraduate course in economics, he was impressed not only with Nelson's expertise. "I remember him speaking at a university gathering I attended where he shared his personal life journey and the impact God had had on him," Brewer recalls. "I was inspired to see an accomplished, distinguished professor be so real, transparent, and human."

Later, Nelson hired Brewer to help organize Study Group members' company data. "Under his guidance, I put together national averages for industry performance and examined the characteristics of top performers," Brewer relates. "It was my first exposure to petroleum marketing." With his mentor's encouragement, Brewer went on to earn his own Ph.D. with a dissertation on the petroleum marketing industry.

Brewer ultimately became Study Groups' first full-time employee and later a partner. Today he serves as president, while Nelson holds the titles of founder and CEO. ▶



In addition to his industry contributions, Nelson's scholarly accomplishments are no less distinguished. He is a full professor, the highest rank in academe, and has published research on money and banking, macroeconomics, public finance, economic education, forensic economics, and the economics of petroleum marketing. He serves on the board of the Washington Council on Economic Education and on the board of Childcare International, a nonprofit organization devoted to helping the world's poorest children.

"This year, David is retiring from over 40 years of teaching and service to his university

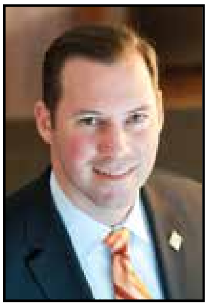
and the academic community," says Brewer. "On the personal front, he's supported hundreds of children in some of the poorest regions of our world. He and his wife Lynne have a philanthropic motto: to find human suffering, anywhere and everyone, and help alleviate it."

At the same time, Brewer adds, Nelson is not retiring from Study Groups and will remain active in the company and the industry. Retirement from teaching will allow Nelson "more time to travel and to spend with his four kids and his grandkids," Brewer says. Then, too, in the offing is a new Legacy Study Group for company leaders in the latter stages of their careers.

"David's legacy goes back to what I first saw in him as a student—that he's real, transparent, and human," relates Brewer. "To do all that he's done in so many arenas, his passion comes from a sense of God's calling and being a good steward of the resources he's been given so that he can empower others. He's charitable, others-focused, and a true servant leader."

Those traits are behind the vision statement that Study Groups developed last year. The vision encompasses five values: Servant Attitude, Have Integrity, Act Professionally, Respect, Ensure Win/Win. "The values we want to imbue are the values that David imbues. In a very real way, we aspire as a company to be what David is."

An orientation to serve others is likewise acknowledged by SIGMA in Nelson's award citation, which recognizes how "David and Study Groups have focused on helping companies be better, helping them grow, and even helping them position for selling out when the time is right." The citation further recognizes Nelson for his personal character "as a man of integrity and a friend ... [with] a heart of generosity and giving back. He's mentored and left an impression on younger leaders in this industry, in the university, and beyond." ★



Inside SIGMA

BY RYAN MCNUTT, CEO, SIGMA

Member Driven

"Find a group of people who challenge and inspire you, spend a lot of time with them, and it will change your life forever." – Amy Poehler

As we start a new year, I think it's important to highlight the unique structure of SIGMA. As Dale said in his Viewpoint column, SIGMA is member driven. Those aren't just words; they are at the core of how the association operates. We understand that our job is twofold: to provide excellent value and to listen and respond. With the guidance of the Board of Directors, if a course correction is necessary because we have missed the mark, we will do it.

I am excited for the events SIGMA has planned this year. Our Spring Conference May 2-4 at the Waldorf Astoria Roosevelt New Orleans Hotel in New Orleans, LA is one you will not want to miss. New Orleans is hopping in the Spring – as they say, it's easy to love and hard to leave the Big Easy!

The Waldorf Astoria Roosevelt Hotel building, our conference hotel, was once the home of Louisiana's legendary governor Huey P. Long, also known as "The Kingfish." Today, the hotel features historic New Orleans memorabilia, a luxury spa, and a rooftop pool and cabanas Canal and Bourbon streets are around the corner, and The Roosevelt is within a mile of the French Quarter.

This year the New Orleans Jazz Fest bookends our conference. If you are a music aficionado, or just someone who enjoys a good time, you may want to take advantage of the timing and get tickets to the festival. New Orleans also has a fantastic food scene. The city's Caribbean, Spanish, French, and African cultures collide in a brilliant explosion of flavors. You will want to taste it all—start planning now so you don't miss out on an exceptional dining experience. You may also want to get up just a little earlier than usual during your stay to start your day with some famous New Orleans coffee and beignets. I know I will.

SIGMA's conferences bring together the best in our industry, under one roof, for three days of education and networking. You can meet with suppliers, with business service partners, and with your industry peers. It may be the most productive three days of your entire year. Although location is a consideration (because exploring new places and revisiting those you love is fun), it is the activity inside the hotel that is the heartbeat of any SIGMA event. It is the energy in the building, the dynamic interaction of our members, the exchange of best practices, of anecdotes, of advice and future plans that make SIGMA conferences stand out from the rest. It is the sense that we are in this together, as an industry, working to ensure our future success that resonates with each attendee. A SIGMA conference reflects the commitment of its members to our industry and to the association. That is its measurement of success. That is being member driven.

I look forward to seeing you in New Orleans in May. ★

Sincerely,
Ryan McNutt, CEO, SIGMA

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Washington WATCH

LOOKING AHEAD INTO 2023

BY TIFFANY WLAZLOWSKI NEUMAN

Few things will shape the political landscape in 2023 more than the 2022 midterm elections.

The New Year ushers in a new chapter for the Biden Administration. With Republicans edging out a slim control of the House of Representatives and Democrats holding the Senate, many expect a legislative logjam in 2023.

The election flipped four years of Democratic House control, which means Republicans will take over the speakership and chairmanships of key committees, including the House Transportation and Infrastructure as well as Energy and Commerce committees. Among the most notable transitions, Nancy Pelosi stepped down as Speaker of the House after two decades in House leadership.

House Energy and Commerce Republicans will focus on ramping up domestic energy production in 2023. Committee Chair Cathy McMorris Rodgers (R-WA) said that in the interest of protecting US energy security and independence, she will shift the committee to an "all-of-the-above" approach to production.

In the Senate, Mitch McConnell (R-KY) won re-election as Senate Minority Leader, overcoming a challenge from Rick Scott (R-FL). Sens. Tom Carper (D-DE) and Shelley Moore Capito (R-WV) will continue as Chair and Ranking Member, respectively, of the Senate Environment and Public Works Committee, which oversees climate change and air quality and carries jurisdiction over the Environmental Protection Agency.

Sen. Joe Manchin (D-WV), often a determining vote in legislative advancement, will return as Chairman of the Energy and Natural Resources panel in the 118th Congress, pursuing his bipartisan approach to federal energy and environment policy.

Issues Overview

In the coming year, SIGMA will continue to advance market-oriented policies that can enhance the fuel supply while lowering fuel prices for consumers and improving the environmental attributes of transportation energy.

The fuel supply tightness that laced through 2022, coupled with inflationary pressure, is expected to remain a concern for consumers for the foreseeable future, and the market, while stable, remains vulnerable to outages and disruptions amid tight inventories.

Congress in 2023 will begin the long process of reauthorizing two major pieces of legislation key to fuel-related policy and of importance to SIGMA. Specifically, the Senate Committee on Commerce, Science, and Transportation and the House Committee on Transportation and Infrastructure will need to pass legislation reauthorizing major aviation programs before the end of September 2023. The FAA reauthorization signed in 2018 provided the FAA with $97 million in funding until September 30, 2023.

Additionally, Democrats leading the Senate Agriculture, Nutrition, and Forestry Committee and Republicans leading their House counterparts, will gear up to write the 2023 farm bill. Sen. Chuck Grassley (R-IA), a senior member of the Senate agriculture committee, said that "[2023] will be almost totally related to the farm bill."

Each of these have the potential to have a profound effect on the legislative priority policies of SIGMA in the coming year.

Biden Administration Oversight

Democrats and Republicans alike have said they will continue in the 118th Congress to prioritize oversight of the Infrastructure Investment and Jobs Act (IIJA), albeit with differing approaches. Democrats will continue to focus on emissions reductions as Republicans prioritize reining in regulations, including on the transportation and energy sectors.

IIJA implementation is well underway. In 2023, state departments of transportation will begin to receive their EV charging grant funds under the National Electric Vehicle Infrastructure (NEVI) program of the IIJA. U.S. DOT approved state EV charging plans for all 50 states, which means the initial allotments of the $7 billion in EV charging grants will begin to flow this year.

States are required to partner with the private sector to install EV charging stations along alternative fuel corridors. SIGMA continues to work with its members to ensure that they can partner with their state departments of transportation to access available funds while also educating state DOTs about the policy changes necessary to ensure that the private sector can profitably invest in electric vehicle charging stations.

Implementation of the Inflation Reduction Act of 2022 (IRA) will continue to be a top SIGMA issue in 2023 as the association seeks to address provisions in the broad energy tax title that will rework existing biofuel and alternative fuel incentive structures for the next several years.

Chief among them is the $1.25 - $1.75 special tax credit for sustainable aviation fuel (SAF), which is up to $.75 more per gallon than the $1 per gallon biodiesel and renewable diesel blenders' tax credit. The SAF tax credit will in practice limit the amount of renewable diesel and biodiesel that will be available to the trucking industry.

The U.S. Department of Energy in late 2022 unveiled a Sustainable Aviation Fuel plan outlining the government's strategy for scaling sustainable aviation fuels production across the United States.

SIGMA continues to advance its position that policies designed to minimize the carbon emissions from the transportation sector should not give special treatment to aviation fuel over renewable diesel.

Renewable aviation fuel is more expensive and reduces fewer emissions than renewable diesel. The airline industry has made emission reduction commitments that they are only capable of satisfying if the taxpayer foots the bill. But unless and until sustainable aviation fuel has more attractive emissions characteristics than renewable diesel and biodiesel, the Administration's support for SAF will remain misguided.

Renewable Volume Obligations And E-Rins

EPA issued its proposed renewable volume obligations (RVOs) for 2023, 2024, and 2025 under the Renewable Fuel Standard (RFS), surprising the industry by setting limited growth targets in the advanced category coupled with ambitious growth targets in the ethanol category.

EPA has proposed to require 20.82 billion gallons of renewable fuel in 2023.

SIGMA thinks that a lack of growth in the advanced category is perplexing given the amount of production capacity the industry expects will come online in the near-term. EPA is not fully taking advantage of an opportunity to signal to the market that investments in lower carbon fuels will be rewarded.

EPA further set ambitious growth in the ethanol category, which is surprising considering that fuel is less environmentally friendly than other, advanced biofuels, as well as ongoing policy uncertainty and infrastructure, supply, and compatibility impediments. Advanced biofuel production will continue to enable the market to satisfy the blending mandates, but it is imperative that EPA ensure going forward that any growth in ethanol demand does not crowd out incentives for more proven, environmentally attractive advanced biofuels.

Of importance to SIGMA members, EPA also proposed a framework for how electronic Renewable Identification Numbers (e-RINs), would be permitted under the Renewable Fuel Standard (RFS). The proposal would allow automakers to generate a RIN when electricity is produced from qualifying renewable biomass.

SIGMA opposes placing the value of e-RINs at other segments of the value chain, such as with automakers. Doing so would not incentivize private investment in charging stations or consumer investment in EVs because the e-RINs' value would not be shared throughout the value chain but rather will provide additional incentives to an industry already encouraged to invest in EVs via separate federal policy.

For charging station owners and operators, E-RINs represent an opportunity to offset costs for fuel retailers so that they can make the investments in EV charging stations.

SIGMA will file comments on the proposal ahead of the deadline in February 2023.

Year-Round E-15

At the time of this writing, lawmakers in the House and the Senate had introduced legislation seeking to allow for the year-round sale of E-15.

Senators Deb Fischer (R-NE) and Amy Klobuchar (D-MN) introduced the Consumer and Fuel Retailer Choice Act, S. 5145. House Representatives Angie Craig (D-MN) and Adrian Smith (R-NE) in December introduced companion, bicameral legislation that would enable the year-round, nationwide sale of ethanol blends higher than 10 percent.

Lawmakers in both the Senate and the House acknowledged the support of SIGMA in announcing the bills. In statements issued by lawmakers, SIGMA said it applauded efforts to "remove unnecessary regulatory barriers to the sale of higher ethanol blends. E-15 offers retailers an opportunity to diversify fuel options and improve gasoline's emissions characteristics while lowering costs for consumers and enhancing America's energy security."

An arcane provision of the Clean Air Act limits some regions of the country from selling E-15 during the summer months. The Biden Administration provided waivers for the summer of 2022, citing supply disruptions due to the conflict in Ukraine, but a permanent solution is needed in advance of the 2023 summer driving season. Allowing E-15 to be sold year-round throughout the country would enhance the supply of motor fuel, mitigating higher crude costs and lowering prices for all American fuel consumers.

It's clear that 2023 is bound to be a busy year for fuel marketers. SIGMA looks forward to advocating on your behalf on all of these important issues in the coming year. ★

Tiffany Wlazlowski Neuman represents SIGMA on public affairs matters.

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Inside RISK MANAGEMENT

BY SENIOR NATIONAL ACCOUNT EXECUTIVE NATE OLAND, FEDERATED MUTUAL INSURANCE COMPANY

Leading with Safety — Risk Management Culture at your Business

Establishing and promoting a culture of risk management can have a significant impact at your business. Emphasis on workplace safety and loss prevention — from senior management to front line employees — can help businesses run more efficiently and avoid errors that could dent or break your bottom line.

Every injury, lawsuit, poor hire, and missed opportunity to plan ahead can lead to losses. Insurance can help pay for some of the direct costs of a loss, such as property damage, medical bills, and legal expenses. But your business is responsible for some related expenses such as: Hiring and training new employees, lost productivity, low morale, damaged reputation, and potentially higher insurance premiums. With this in mind, prioritizing safety, good judgment, and a solid risk management plan can help protect your people and your profits.

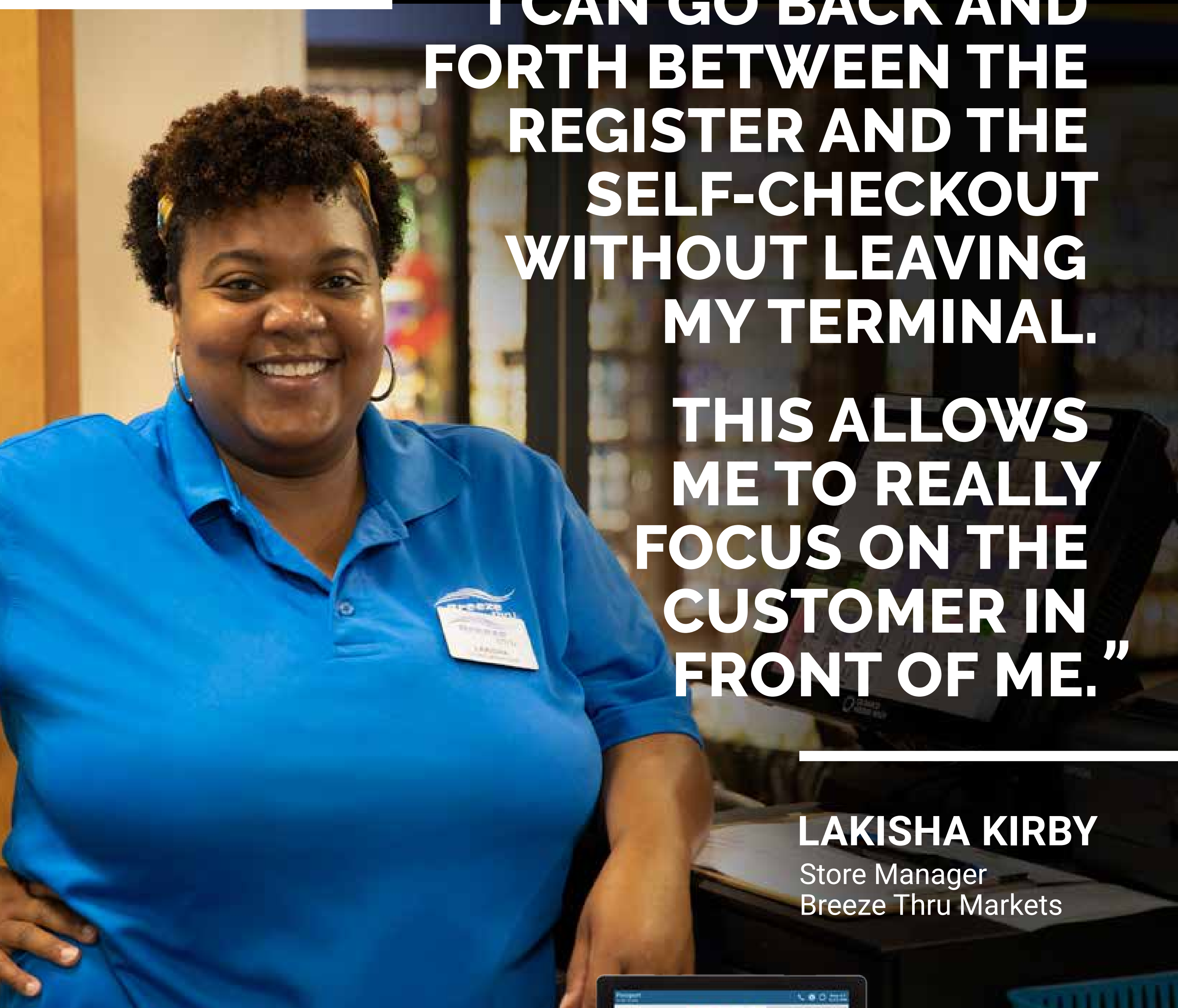
This is something that Chief Financial Officer Karin Cookson at Volta Oil in Plymouth, Massachusetts understands well. "We are committed to being a leader in safety training and keeping our employees informed and educated on health and safety rules, regulations, and processes that impact our industries, workplaces, and communities," Cookson said.

Volta Oil invests in resources and programs to encourage employees to actively participate in health and safety objectives, goals, and responsibilities. They have formed an internal Health and Safety Committee, and continue working to improve workspace conditions for all — employees and clients alike.

Cookson notes that they have three specific initiatives that they have implemented to help reduce risk:

1. Communicating with and listening to employees at all levels to help them identify unsafe work practices and safety hazards.
2. Maintaining a companywide claim and incident log that their committee reviews monthly.
3. Publishing a Safety Blog with their monthly company newsletter that is emailed to all employees and posted on communication boards in stores and within their time clock platform. ▶

GILBARCO VEEDER-ROOT



“I CAN GO BACK AND FORTH BETWEEN THE REGISTER AND THE SELF-CHECKOUT WITHOUT LEAVING MY TERMINAL.

THIS ALLOWS ME TO REALLY FOCUS ON THE CUSTOMER IN FRONT OF ME.”

LAKISHA KIRBY
Store Manager
Breeze Thru Markets

The Passport Express Lane self-checkout adds a definite “wow” factor. With self-checkout, customers have the option to side-step the line and be on their way. That can be very helpful if lottery tickets are a popular item with your c-store clientele. Self-checkout improves the customer experience and lets your team members work more efficiently while putting the “convenience” back in “c-store”.

To hear more from Lakisha, and see the full suite of Passport POS products in action, visit info.gilbarco.com/lakisha

In addition, Volta Oil maintains an open and honest relationship with employees regarding safe work practices so that they are included in the entire process. They actively listen to employees and take their ideas about improvements, new processes, and identifying unsafe or high-risk areas to heart within each department.

"Risk management is high priority at our company because we think there is nothing more important than the safety of our customers and employees," said Cookson. "We stress that no job is so important, and no order is so urgent that we cannot take time to perform our work safely and question those who do not. Long term, we feel that our investment in risk management and safety is a strategic goal that will help us keep our customers and employees safe and injury free, and will enhance the store and work experience."

No two petroleum businesses are the same, so it's important to understand that one size doesn't fit all when it comes to risk management strategies. Whatever your specific needs are, remember that a solid foundation is key. Basic regulatory requirements need to be examined first, then you can delve into your business's deeper needs.

It Starts at the Top

A risk management culture is more than just documented policies on a piece of paper. Management should be committed to upholding safety and risk mitigation across the board, and that commitment should have a ripple effect on everyone — from the most senior veteran employee to the newest hire. You can lead by example, by:

- Encouraging open communication
- Introducing new employees to your risk management culture and company expectations
- Enforcing and reinforcing safety policies
- Investing in risk management resources

Take Control and Enforce Safety Policies

With the knowledge that many claims are preventable, it's important to create and enforce policies related to safety, conduct, and hiring. Designating a risk manager to address these critical practices is one way to take the reins. Consider the risks of not enforcing a risk management plan. It may be tempting to disregard certain infractions with the hope that an incident won't occur, but that could lead to serious repercussions down the road. A single individual failing to follow your safety practices could be costly, lead to long-lasting effects, and could lead to low morale among employees who must deal with the consequences.

Consider the Financial Impact

Hidden claims expenses can quickly add up. Additionally, losses can impact your workers compensation experience modification rate, which may lead to higher insurance costs. Although fully committing to a risk management culture requires an investment, potentially including money, time, or additional personnel into your safety program, this is a case where you may be better off safe than sorry. Knowing that your business is well-equipped with the right risk management culture solutions can allow you to address emerging challenges and various market conditions, all while maintaining a positive, productive work environment.

As SIGMA's strategic partner, Federated Insurance® offers member clients the opportunity to access mySHIELD®, a personalized, online destination for risk management resources. Continue fostering a risk management culture at your business — both for the safety of your employees, and the well-being of your business as a whole. For more information and resources, reach out to your local Federated Insurance marketing representative today. ★

Inside CONVENTIONS

Join SIGMA in New Orleans for the 2023 Spring Conference – *Let the Good Times Roll!*

No matter the time of year, New Orleans welcomes visitors in a grand way. Music is everywhere, people live to eat, and every day is a party in the birthplace of jazz. The city is also home to Creole cuisine, centuries-old Spanish oak trees, and historic streetcars. With a unique combination of city life, swamp tours, festivals, cultural significance, and revelry during Mardi Gras, New Orleans has the perfect recipe to captivate everyone. Come explore it with SIGMA!

Hotel

Waldorf Astoria Roosevelt New Orleans. History meets luxury, moments from Canal Street.

Operating as a hotel since 1893, the Waldorf Astoria Roosevelt Hotel building was once home to Louisiana's legendary governor Huey P. Long. Today, the hotel features historic New Orleans memorabilia, a luxury spa, and a rooftop pool. Canal and Bourbon streets are around the corner, and The Roosevelt is within a mile of the French Quarter.

Weather

In early May, the weather in New Orleans is usually comfortable with early morning lows mostly in the mid to upper 60s F (18-21 C) and afternoon high temperatures mostly in the lower 80s F (27-28 C). You can't rule out a stray shower, so packing an umbrella or rain jacket is advised.

Food Scene

New Orleans has food and dining to please every palate. Few other towns feature so many award-winning restaurants, famous chefs, or food festivals. The plates can be bone china or paper; the dining rooms can resemble a chateau or a roadhouse. It makes no difference. New Orleans serves up some of the most delicious food on the planet. ▶

For full conference information and to register visit www. https://www.sigma.org/conference/2023-spring-conference/.

Deposit Photos

A few options to consider:

Antoine's
Arnaud's
Galatoire's
Brennan's
Commander's Palace
La Petit Grocery
Gautreau's
Restaurant August

New Orleans is home to 22 James Beard award-winning restaurants and bars, too many to list – the world would be far less flavorful without you!

Don't feel like venturing out? The Roosevelt offers three dining options: Domenica, which offers a local take on rustic Italian cuisine (lunch/dinner), Teddy's Cafe, a cafe style outlet serving light fare (sandwiches, bagels, pastry) and PJs Coffee, and The Fountain Lounge, featuring live music, innovative cocktails, and small plates.

Explore New Orleans

Whether this will be your first time to New Orleans or you're a seasoned visitor, the city's invigorating spirit is sure to inspire, captivate, and motivate you to jump in and see and as much as you can. With so many possibilities, narrowing the options can be a challenge. Think of it this way: divide how much time you have by what your priorities are – history, art, music, culture, and on and on – and then add in a little time for the spontaneous joy that is the Crescent City's calling card and you have the perfect beginning for an amazing New Orleans experience.

A few options to consider:

New Orleans 2023 Jazz Fest – April 28-30, May 4-7

The New Orleans Jazz & Heritage Festival, or as the locals call it, Jazz Fest, is the celebration of the unique culture and heritage of New Orleans and Louisiana. Featuring an endless amount of music, succulent local and regional delicacies, one-of-a-kind handmade arts and crafts, second-line parades and so much more – there is something for everyone at Jazz Fest! With 13 stages of soul-stirring music—jazz, gospel, Cajun, zydeco, blues, R&B, rock, funk, African, Latin, Caribbean, folk, and much more—the New Orleans Jazz & Heritage Festival is a singular celebration. (Tickets available at www.nojazzfest.com)

The French Quarter

Often called the Crown Jewel of New Orleans, the French Quarter is one of NOLA's most historic neighborhoods. But you'll find plenty of new mixed in with the old. There's a reimagined French Market, modern boutiques and artisan cocktails mix with beloved antique stores and old restaurants.

Harrah's New Orleans - .7 miles

Around 1822, America's first gambling casino opened in New Orleans. Like modern casinos, it was open 24/7. In 1999, Harrah's brought the action back to New Orleans with the opening of Harrah's New Orleans Casino. Today, you can take a shot at more than 1,500 of the hottest slots and more than 130 table games including blackjack, roulette, baccarat, craps, and three card poker. The poker room boasts more than 20 poker tables, offering several exciting varieties of poker that are suited to the recreational poker players and seasoned veterans.

Jackson Square - .8 miles

Known as one of New Orleans' most recognizable landmarks, Jackson Square is a National Historic Landmark nestled in the center of the French Quarter. Jackson Square is also the location of an open-air artist colony, where artists display their work on the outside of the iron fence. Visitors even have the opportunity to see the artists at work and perhaps have their portrait drawn by one of the many talents utilizing Jackson Square as their studio. Grab coffee and beignets from Cafe du Monde and enjoy breakfast while people watching in the Square.

Audubon Aquarium of the Americas - .8 miles

The Audubon Aquarium of the Americas is also consistently ranked as one of the best in the country. Its immersive, awe-inspiring exhibits transport visitors to the underwater worlds of the Caribbean, the Gulf of Mexico and the tropical environs of the Amazon Rainforest. Home to more than 250 species and 3600 animals, including endangered ones like African penguins, the Audubon Aquarium in New Orleans delivers a one-of-a-kind experience that you won't find anywhere else.

The Ogden Museum of Southern Art - .9 miles

Located in the vibrant Warehouse Arts District of downtown New Orleans, Louisiana, Ogden Museum of Southern Art holds the largest and most comprehensive collection of Southern art and is recognized for its original exhibitions, public events and educational programs which examine the development of visual art alongside Southern traditions of music, literature and culinary heritage to provide a comprehensive story of the South.

National WWII Museum – 1 mile

The National WWII Museum takes visitors on a powerful, inspiring journey through the eyes of the men and women who fought for freedom and democracy in the war that changed the world. Immersive galleries and exhibits, interactive experiences, oral histories and more bring the American experience during World War II to life in ways that will stay with you long after your visit is over.

Uptown and the Garden District – 2.2 miles

Those handsome neighborhoods, like the St. Charles Avenue streetcar, trundle upriver, unfolding as a series of distinctive names: Oretha Castle Haley, The Garden District, Irish Channel, Riverside, the Black Pearl, Carrollton. Uptown's homes – gleaming white and tiered like wedding cakes or shot-gunned into long, narrow lots – are the place's glory and sheltered by canopies of leafy green or family trees as branched and blossoming as any ancient magnolia. The air's opulent with the scent of jasmine and a slower, grander age. The smart shops on Oak and Maple, Freret and Magazine, rival anything anywhere else.

New Orleans Museum of Art – 3 miles

As New Orleans' oldest fine arts institution and one of the top art museums in the South, the New Orleans Museum of Art, or NOMA, hosts an impressive permanent collection of more than 40,000 objects. Known for its extraordinary strengths in French and American art, photography, glass, African and Japanese works plus rotating exhibits, NOMA offers a little something for everyone and anyone seeking inspiration and enjoyment through art and culture.

Register now while rates are lower. Once you have registered and paid, you will receive a confirmation with a link to make your hotel reservation.

See you in NOLA! ★

For full conference information and to register visit www. https://www.sigma.org/conference/2023-spring-conference/.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or 801-524-2784
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6 Takeaways from SIGMA Annual Conference 2022

BY TOM HUNT, GRAVITATE

In November in Hollywood, California, the Gravitate team attended the invitation-only SIGMA Annual Conference 2022, an event that stands out in the fuel industry for its exclusivity and high-quality networking and educational opportunities. Each year at SIGMA, top-level decision-makers in the fuel marketing space come together with fuel buyers, transportation companies, vendors, and business partners to learn, discuss trends, share ideas, and build relationships.

During our time at SIGMA, here are the main takeaways that stood out as important in understanding the current state of the fuel marketing industry.

1. Volatility is the new normal.
For a while, we've been talking about severe shortages of truck drivers and workers in general. Throughout 2022, this trend continued. Additionally, world events, such as the Russia-Ukraine war, have accelerated market volatility and supply chain constraints.

What this means for customers is that the right software has even more value and is more critical than ever—it can help fuel companies take advantage of these market dynamics and identify ways to become even more efficient and profitable.

2. Customers are open to new software.
As a result of inherent challenges associated with labor shortages, we found that fuel companies are eager to share their business challenges and learn how industry partners can help them solve their problems and discover opportunities for optimization. Many companies have specific new functionalities in mind that they are looking for from software vendors.

For example, price volatility has led wholesale refined products companies to focus on real-time sales. On the buying side, companies understand that they need to be more dynamic in their buying processes to take advantage of volatility.

3. Software vendors are open to working with each other.
For software vendors, the previously prevailing sentiment that we're always in competition with each other for customers is fading away. Instead, software vendors are now working together to support each other and mutually enhance our offerings to better serve customers and increase our value to the industry. In fact, about one-quarter of the meetings our team attended at SIGMA involved other software vendors. Potential partners include pricing services, ERP systems, and data security providers. ▶

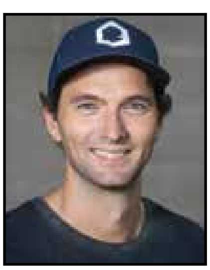
4. Educational opportunities were incredibly high quality.
As evidenced by the high attendance levels at seminars, SIGMA shines in offering interesting, informative, and engaging educational content.

As an example of the strong quality of the seminars, Gravitate co-founder Mike Scharf presented at a SIGMA learning session alongside Paulette Hosick of Huck's Convenience Stores about how to leverage artificial intelligence (AI) to create a dynamic and modern supply and logistics organization and thrive despite market volatility. The presentation emphasized all the new available technologies—from AI to open-source tools—and how the market has created a need for using technology in a different way to automate, make better supply decisions, and address business challenges.

5. Everyone is optimistic about the future.
Compared to the start of the year and the spring SIGMA conference when there was a lot of market uncertainty and concerns about world events, the mood at the latest SIGMA conference was decidedly more optimistic. As a result of market volatility and supply constraints, many SIGMA attendees actually had a pretty good year.

6. But it's not always sunny in Southern California.
Despite everything the Beach Boys told us, it does rain in Southern California. Like it did the entire time we were at SIGMA. So much for beaches, warmth, and sunshine—it was wet and in the mid-50s for the duration of our trip.

All was not lost, though. We still got to see the Hollywood sights and enjoy a meal at the legendary Frank & Musso's. ★



Tom Hunt is the VP of Sales at Gravitate and focuses on helping fuel marketers find the right solution that solves their biggest problems. Tom is an energy industry expert and has a background encompassing the entire oil and gas value chain from previous roles at capSpire, BG Group and Shell in the U.S, Australia, India, and the UK.

Inside FAMILY BUSINESS

PRESENTED BY RONALD C. REECE, PH.D. –
ADAPTED FROM AN ARTICLE BY GLENN R. AYRES

Family Business Meetings: Things to Consider and Do

Anxiety, excitement, curiosity, love, creativity, negotiation, decision making, history, storytelling, arguments, reconciliations, family employment policies, future vision, and so much more happen during family business meetings. Families meet informally in a variety of ways: weddings, funerals, holidays, birthdays, encounters planned and unplanned. Members of business families often discuss business at social occasions. Some families try to limit business discussions on social occasions. Few succeed.

Those who actively work in the family business have all sorts of occasions to discuss business. Some are well structured for business communication. Many are not. Haphazard communications and misunderstandings often result. Some congregate in management meetings, board meetings, and even shareholder meetings without real communication taking place. Often families say they have "communications problems" or "we need to be better at communication".

Most business families are not very well organized as families. The legal forums, such as boards of directors and shareholder meetings, do not include all or even most of the family.

Think about how many meetings, reports, and advisors' billable hours are devoted to managing the business and ensuring its success. Now compare that to how much time, money and effort are spent on building family cohesion and unity. In very few families would the total even come close.

There is usually no defined forum, no process, no standard procedure for gathering the family to talk about foundational beliefs, business, values, successes, concerns, assets, dreams, etc.

Why Have Such Meetings?

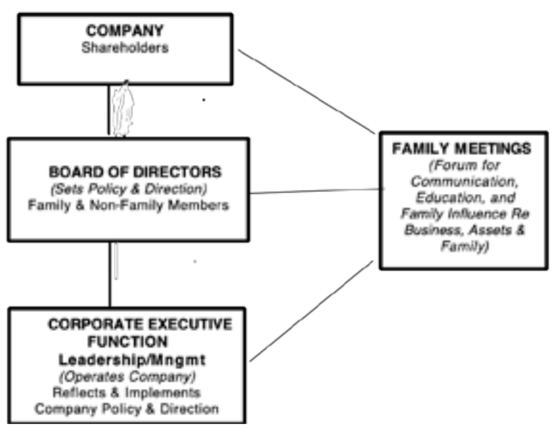
Families Are Messy. Family Meetings Help Manage the Mess and Strengthen Cohesion, Harmony, and Unity. ▶

Business families need a framework for strategizing about who they are as a family or what they want to accomplish as a group. Without such a framework, family issues can become more threatening than business issues.

Simply Put Family Cohesion Should Be a Strategic Advantage. In order for a family enterprise to make this happen, it must devote resources to building a common sense of purpose among family members and to creating effective governance and leadership to manage the overlap of family and business.

Regular Planned Family Meetings, Boards with Non-family Members and Business Strategic Planning are part of good governance and three of the critical best practices in a business family's ongoing success.

Governance Model for the Family Business



Some Reasons to Hold Family Meetings

1. Build a stronger family
2. Build a stronger business
3. Plan for the future ownership of the business
4. Plan family participation in the business
5. Help children manage inherited wealth
6. Open up the succession process
7. Preserve family values, traditions, and history
8. Professionalize the business
9. Manage family-board relations
10. Recognize and resolve conflict

Over the course of my years as an advisor to business families I have facilitated several hundred family meetings for many different purposes. The largest one had more than 30 members in attendance. No matter the purpose there are always common factors even though each meeting is unique to the family involved.

How to Do It?

To hold a successful meeting, the family must answer the following:

- What is the purpose of the meeting?
- What is the meeting location?
- Who is invited?
- How long will the meeting last?
- What will the agenda and format include?

All families approach the first family meeting with some anxieties. They worry about escalating differences or revisiting old hurts. They worry about relatives becoming "emotional." The fear of making things worse discourages many families from making the effort. Other families assume that nothing constructive would happen anyway, that the business leader would monopolize the conversation, that real issues would be buried, that the discussion would wander.

Deciding who to invite is an important step. You are saying who is "family" and who is not. Being inclusive of all stakeholders means spouses too. In-laws provide a valuable window into the family. Their children are the next generation. Conversations among in-laws can be very revealing.

Someone must take the lead to make it happen but be sure to ask for input. A few initial questions or survey are good ideas. Ask preference as to dates, location, suggested agenda items, entertainment, and activities, etc. Work with a small committee. Try to accommodate everyone's schedule, but 100% attendance is not always possible. Do not give anyone an unintentional "veto" over the meeting.

Every meeting can be viewed as having two communication components: content and process. The content of a meeting refers to the "what" – the subject matter that is discussed: values, the estate plan, the investment strategy, use of the family cottage, employment in the business or family conflict issues. The process of the meeting refers to the "how" of the meeting: who will attend, how the agenda is established, how people are communicating, how they treat each other, or how they listen. Attending to the content ensures that you will stick to your agenda. Attending to the process ensures that you will be tuned in to underlying factors that may enhance or detract from the meeting's success.

While you're thinking about planning your first family business meeting, think also about making these gatherings a routine part of your year. Twice a year is a good pattern.

Where to convene? Neutral territory. Not at home, plant/office, family cabin. In a place where everyone is on equal par. Remove notions about fixed relationships. Seat so all feel equally important.

What to talk about? Predetermined agenda. All have a chance to submit ideas. It is everyone's meeting.

Who is in charge? Anyone but the senior owner/leader or President. Balance power and involvement. Voice for everyone, give all a chance to be heard.

Where to start? Comfortable, uniting topics. Family and business history. Vision of the founders. Values. Individual dreams, goals, and plans. Defining stories about the family - some attendees may have heard them repeatedly; to others, such as new in-laws, these stories will be new and fascinating.

What else? What's critical to the family? Advantages and disadvantages of having a family business. Family financial needs and plans. Communication patterns and teamwork strategies. Succession of leadership. Future ownership intentions. Difficult family situations.

Outside Facilitator or Not:

Having a consultant to facilitate takes the pressure off family members to be "in charge." A facilitator helps set the agenda, guide the discussion, and follow-up. After a few meetings, the facilitator role can probably be taken over by family members. But, for most families, an outside facilitator is a necessity in the early stages and very beneficial even beyond. Here are some suggestions about outside facilitators:

Choose a professional facilitator. Someone other than the family lawyer or accountant is best.

Encourage the facilitator to meet individual family members in some way before the first retreat. He or she may want to meet with small groups in advance. This helps bring something new to the table and avoids recycling old arguments and hurts.

Don't call a meeting until you and the facilitator agree that the family is "ready".

Rely on the facilitator about how to raise sensitive issues.

The facilitator may want to review past meeting notes, by-laws, buy-sell agreements, etc.

Don't burden the facilitator with arrangements and logistics. Handle these within the family.

Share information about the costs of the retreat, including the facilitator's compensation, with other family members. This helps remind them of the stakes.

Consult the facilitator about the meeting room, arrangement of chairs, audiovisuals, etc.

The facilitator will help establish ground rules. The facilitator is in charge of the process. The participants are in charge of the outcomes and future actions. The facilitator will maintain confidentiality of family and business information. ►

A Sample Agenda

9:00am til Noon	**The Business of Family**
9:00am – 9:45am	**Introduction, Orientation and Setting the Stage**
9:45am – 10:45am	**Family Business is Never Just Business, Benefits, Challenges and More**
10:45am – 11:00am	**Break**
11:00am – Noon	**Family History, Who We Are, Values, Foundational Beliefs & Mission, Family Actions**
12:00pm til Adjourn	**The Business of Business**
12:00pm – 12:45pm	**Lunch**
1:00pm – 2:15pm	**Company History, Vision, Mission, Values, Generational Dialogue, Current Status**
2:15pm – 2:30pm	**Break**
2:30pm – 3:45pm	**Succession Matters, Future Possibilities & What If's**
3:45pm – 4:15pm	**Business Actions & Commitments**
4:15pm – 4:30pm	**Next Steps/Next Meeting**
4:30pm	**Adjourn**

Golden Rules for Family Meetings

- Have an agenda and a scribe
- Seek first to understand, then to be understood
- Show respect and avoid making demands
- Say what you mean, but no personal attacks
- Be prepared to explain your reasoning
- Ask for clarification and avoid vagueness
- Do not interrupt, even if you disagree
- Focus on the present and the future, not the past
- Aim for consensus – "win-win"
- Write action items: define responsibility and deadlines
- Set the date for the next meeting before adjourning; designate someone or a group to spearhead and plan for it

Some Items That Come from Family Meetings

- Written/Video Family and Business History
- Family Member Employment Policy
- Family Mission & Values Statement
- Foundational Beliefs About Family & Business
- Compensation Policy
- Ownership Policy

Be proactive while goodwill defines the atmosphere. Don't wait for a precipitating event such as a dispute about succession or dissatisfied outside shareholders or a substantial change in business. Someone make a proposal to the family. Take charge and make it happen.

Soon,
Ron

__Ronald C. Reece, Ph.D.__ is a Consulting Psychologist who Specializes in Family and Closely Held Business Consulting.

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Global Tumult Casts Shadow on 2023 U.S. Fuel Supplies

BY JARED AINSWORTH, ARGUS MEDIA

While motorists may be seeing lower prices for on-road fuel this past month, the supply situation remains tight. Yes, U.S. demand has eased and U.S. production has risen. But, global supply woes remain because of the Russia/Ukraine conflict and a new round of European sanctions aimed at Russian fuel sales.

This could mean the United States. is in for a bumpy ride come 2023.

Refined oil product markets at the U.S. Atlantic coast and U.S. midcontinent will likely maintain heightened vulnerability to global supply tightness in 2023 following a year in which refinery fires and prolonged maintenance sparked record price swings. U.S. gasoline and diesel stockpiles have pushed higher in the fourth quarter of this year, as refiners hiked activity to pre-Covid-19 levels to partially offset a supply shock caused by Russia's ongoing conflict with Ukraine. But volatility lingers amid persistently reduced transatlantic shipments to the U.S. Atlantic coast and robust export markets that continue to attract U.S. Gulf coast shipments that may have otherwise headed to the midcontinent and east coast.

East coast distillate fuel oil stocks — which include ultra-low sulphur diesel (ULSD) and ultra-low sulphur heating oil (ULSH) — climbed to nine-month highs during the first week of December at 30.1mn bl, but this was still down by 32pc from the same week a year earlier, according to data from the U.S. Energy Information Administration (EIA). Stockpiles have lagged typical levels as waterborne imports at the East Coast were reduced by 50pc to nearly 130,200 b/d from September through the first week of December compared to a year earlier, according to oil analytics firm Vortexa. Diesel arrivals from Europe were slashed by 72pc to nearly 18,800 b/d during that same stretch.

Meanwhile, market participants say a refinery in eastern Pennsylvania has undergone maintenance since mid-November, further tightening oil product stockpiles at the New York Harbor and Philadelphia, Pennsylvania. Thin supply at the East Coast comes as demand is likely to swing higher as temperatures drop since portions of the U.S. Northeast use distillate fuel oil for home heating. And the tightness has been compounded by robust export markets that continue to draw barrels from the U.S. Gulf Coast.

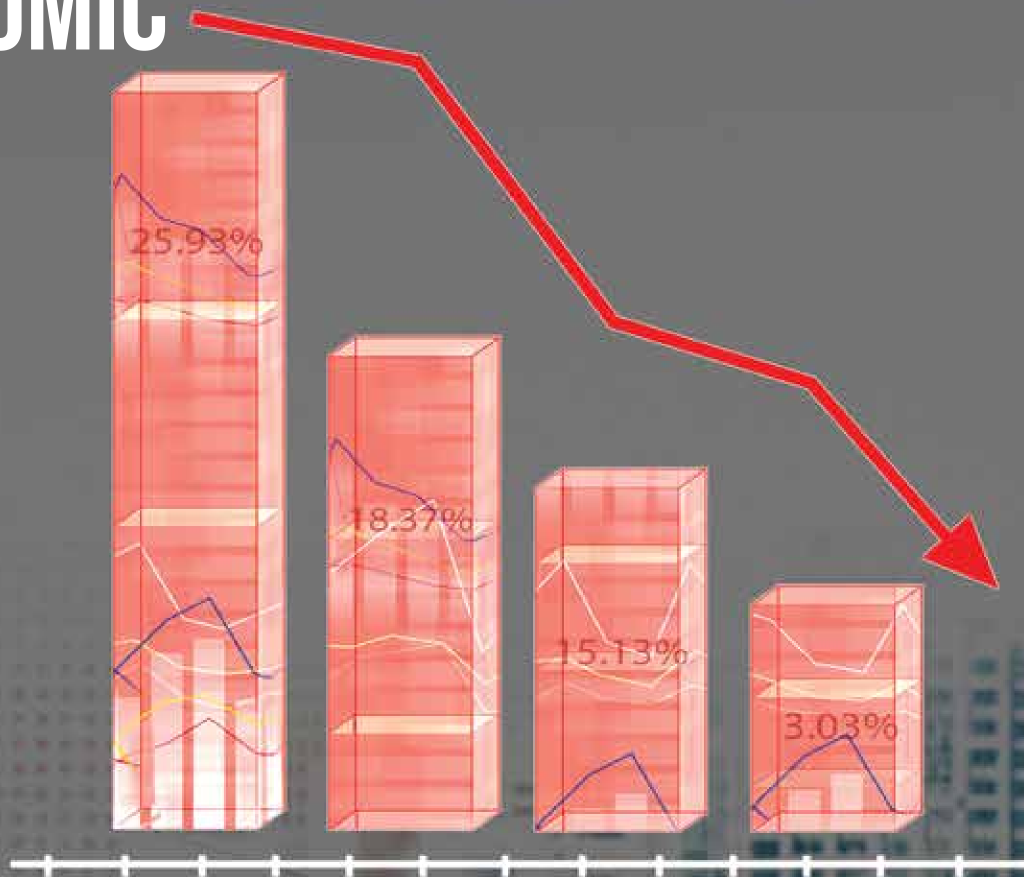
Waterborne diesel exports out of the Gulf Coast have averaged 1.11mn b/d since the beginning of September through 12 December, up by 58pc from a year earlier, Vortexa data show. Additionally, agricultural activity at the U.S. midcontinent typically bolsters ahead of the spring planting season, and this could also attract increased shipments from the Gulf coast during the first quarter of 2023.

Midcontinent Prices Spike on Refinery Fires

Global supply tightness has also been felt at the U.S. midcontinent when regional refinery issues buoyed record price swings. A deadly fire closed BP's 160,000 b/d Toledo, Ohio, refinery on 20 September, causing Chicago West Shore/Badger pipeline CBOB gasoline prices to spike by 90¢/USG to a $1/USG premium to Nymex RBOB futures during a four-day stretch from 20-23 September. That spread grew to $1.10/USG by 30 September, marking the widest premium to the Nymex since Argus began assessing West Shore/Badger CBOB in May 2009.

The Toledo fire occurred less than a month after an electrical fire at BP's 410,000 b/d Whiting, Indiana, refinery shut operations for more than two weeks, and the outage came as midcontinent gasoline stocks were already at record-low levels. Midcontinent gasoline inventories fell to 45.55mn bl the week ended 9 September, the lowest for any week on record since at least January 1990, according to U.S. Energy Information Administration (EIA) data. Gasoline stocks in the region since climbed to 47mn bl the first week of December, but this still trailed the five-year average by 3.6pc. Inventories will likely grow further as on-road driving demand softens during the winter months. But refinery activity often slows early in the year as some refineries undergo seasonal maintenance, and any unplanned outages could spark another drop in stocks and potential price movement. ★

ECONOMIC Recession *Woes*



BY MAURA KELLER

As large corporations and small businesses within the gasoline industry continue to fight for success in today's sputtering economy, the focus on the bottom line is at the forefront as the recessionary economy begins to take hold. But what does a recession mean for the gasoline marketing industry and how can marketers stay ahead?

From an economic perspective, all industries are impacted by a recession and the gasoline and transportation industries are no exception. In their attempt to save money, individual consumers tend to spend less money on gas during recessionary times, which in turn can have a negative impact on the revenue of gasoline marketers. Consumers also tend to be less likely to purchase goods or vehicles during a recession, which also has an impact on the transportation industry, and subsequently the gasoline industry, as a whole.

Christopher Koetting, senior vice president, strategic growth at Ipsos, says that historically, recessions see a decrease in retail sales as consumers have less to spend and businesses lay off workers or even close in response.

"As petroleum is integral to transportation and a whole host of common products, a recession can have a snowball effect on consumer spending and the economy as a whole," Koetting says. "The industry itself supports millions of jobs and as a recession can have an impact across the labor market. Even a minor change in demand for commodities such as oil and gas can impact economic health."

So, what concerns OPEC and other oil producers the most about a recession and how do those concerns reverberate among gasoline marketers?

Although recent reports on consumer spending and job growth show some resistance to the effects of inflation and the likelihood of a recession, Koetting says OPEC and oil producers continue to be wary about what could be the effect of a growth-weakening recession on the market and act accordingly, limiting production to maintain order and price stability.

"Unfortunately, the pre-recession timing of OPEC's production policies can take an economic toll along with inflationary pressures and domestic interest rate hikes," Koetting says.

That said, Koetting is still seeing fuel consumption and associated travel spending, somewhat attributed to consumer desire to break free of the earlier COVID restrictions, continue at near record levels (although there are some signs of slowing consumer exuberance due to the overall effects of inflation).

"And though a predicted slowdown in fuel consumption does present concern at the retail level, c-store owners and gasoline marketers have more pressing and immediate challenges of labor shortages and not only at within the store but across the supply chain – impacting product availability," Koetting says.

Irina Tsukerman, business and geopolitical analyst, president of Scarab Rising, Inc., a media and security strategic advisory, and program vice chair of the American Bar Association's Oil and Gas Committee, says the Saudi Energy Minister denied reports that OPEC+ is boosting output in response to concerns about global recession, China's COVID lockdowns, and other economic factors.

"Similarly, UAE denied rumors and reports of pushing for a change in the OPEC output agreement, and Kuwait issued a statement denying any such discussions are taking place," Tsukerman says. "Whatever the concerns about potentially increased global recession, OPEC so far denies that increased output would be effective in countering the entrenched problems which have led to this situation, or that an increase in output would be in any way beneficial to OPEC's own interests or the global economy."

OPEC+, which includes Russia, met in early December 2022 before the European and G7 price cap on Russian oil is expected to commence. However, as Tsukerman explains, the price cap on Russian oil is so high (higher than the natural average over time) that many experts question its effectiveness or believe it could even be counterproductive in countering Russian energy manipulation and dependency.

"The oil so far has continued to rise; OPEC+ continues the strategy of supply cuts to 'stabilize the market in light of global uncertainty', thus showing more concern over other market factors than the recession," Tsukerman says. "Indeed, from the Saudi perspective much of the market uncertainty is not driven so much by the predictable course of the recession but by the unpredictable destabilizing and risk factors such as the possibility of Houthi aggression in the Strait of Hormuz, which could lead to the disruption of the global maritime oil and gas trade and potentially even to additional attacks on ARAMCO and UAE, endangering the supply."

For that reason, Tsukerman says Saudi and UAE in particular are adapting a very conservative approach, to protect their own supply storage from the impact of regional aggression.

"Leading OPEC countries are concerned about preserving their own supplies from local attacks, which to them is at least as likely to lead to a recession as managed production reduction," Tsukerman says. ▶

Counter Measures

Overall, gas companies will inevitably be reacting to government policies to figure out the best strategy to save costs and make a profit. As Tsukerman explains, in the current climate, where the administration is threatening tax hikes on these companies amidst rising production costs and the pressure to export oil and gas abroad at cost, these companies will continue doing what they have already been doing – raising prices and perhaps reducing availability of supplies in select areas.

"Generally, prolonged recessions can leave permanent impact on oil production and consumption, and result in spare capacity in the aftermath," Tsukerman says. "In general, the fuel companies raise the prices before the recession fully sets in since, if demand falls sharply, they will likely have to lower prices to balance out the needs. However, this will not necessarily be the case in the expected recession because the gas needs outside the United States will rise over the winter and due to geopolitical factors such as the war in Ukraine. This means these companies will be able to raise prices for exports and compensate for any losses resulting from the falling domestic demand."

For gasoline marketers, maintaining and growing wallet share in these turbulent economic times is about remaining flexible to consumer desires and courting consumers for retention. In thinking about the backcourt of the gasoline marketing space, Koetting says that gasoline marketers must stay in tune to evolving consumer product and service preferences and applying budget with the most effect.

"Savvy brands know that they must meet the needs of multiple consumer segments and place the most marketing emphasis where those segment desires 'cross,'" Koetting says. Understanding what makes certain consumer demographics "tick" in the purchasing process can help offset any retail impact a recession may have on the gas marketing segment.

For example, the youthful consumer and the mature consumer will both have a desire for speed and convenience with the c-store environment, but possibly for different reasons. As Koetting explains, the youthful consumer may desire convenience due to limited or competing schedules, their confidence and familiarity with the digital mechanisms for convenience, and perhaps the belief that the convenience process may inherently be more cost-effective. The mature consumer may be driven to convenience from a concern about health and safety and limiting their exposure to public places and engagement.

"So even with different reasons, the base need transcends both segments. And the convenience ability itself continues to evolve," Koetting says. For example, Circle K is now debuting a higher speed delivery option via the Food Rocket app, an ultrafast grocery delivery service backed by Circle K's parent company Alimentation Couche-Tard.

During a recession, savvy companies also recognize the value of a well-managed and orchestrated loyalty and rewards program that differentiates the offering(s) and extends the engagement beyond the confines of the brick and mortal location. This is especially prevalent in today, as consumers are more apt to purchase online to save the expense of fuel.

Tom Zauli, senior vice president of SOFTRAX, a revenue management system provider and compliance consultancy, says because of such unsettled conditions in the world surrounding fuel and the looming recession, gas station convenience store retailers have been leveraging data at the pump more directly to better understand customer demands.

"This has led to some convenience stores revamping loyalty programs to meet the needs of repeat customers," Zauli says. "This trend is reflective of stores looking to provide consumers with what they need so that the convenience store becomes a stop valued for more than one item, such as gas. Convenience store owners can build on the data they get from gas sales and loop it into these customer loyalty programs to have a better customer connection in 2023."

Koetting also stresses that remaining flexible to consumer desires and courting for retention can and should be applied in the fuels/forecourt environment – especially during a recession. For example, general consumer expectation is that hand sanitizing solutions should be positioned and provided throughout the retail environment. This applies to the fuel dispensing and transaction process as well.

"But our research and experience with retail brands also shows that maintaining the pre-COVID basics is just as important for maintaining and driving wallet share, especially in this evolving, volatile market." Koetting says. "As it can traditionally be the first and possibly only touch with a consumer, it is critical to always meet base consumer expectations in the forecourt."

Making a concerted brand "statement" is vital for gasoline marketers in order to capture consumers' interests. These brand "statements" don't have to be complicated. In fact, they can be simple, yet impactful tactics that make a consumer take notice.

As Koetting points out, basics include safety and lighting, access to amenities and restrooms, and fueling completion and speed of delivery, and the lack of any can make or break what would otherwise be an overall acceptable or premier experience.

"Squeegees in frozen and dirty water, missing paper when requesting an auto-receipt at the pump, or standing in spilled diesel while refueling are just some of the 'make or break' experiences a brand can avoid with a disciplined, monitored and visible approach to maintenance," Koetting says.

Of course, especially during times of inflation, prices are a major determining factor in whether a consumer will do business with a retailer. As Michael Jaszczyk, CEO, GK Americas explains one way retailers can ensure a competitive advantage is through dynamic pricing, which has the added benefit of improving margins.

"Dynamic pricing uses artificial intelligence technology to react to internal and external factors in order to quickly and effectively establish prices for individual products," Jaszczyk says. "Dynamic pricing takes into consideration competitor prices, price relationships between products and time of day."

The Long-Term Impact

As oil drives the very foundations of today's global economy, it's no surprise that the very fear of a recession can cause havoc across retail fuel and associated industries. As Koetting explains, the strategic level reaction to economic instability, for example federal interest rate hikes to control inflation coupled with OPEC production cuts, can have a significant effect in the retail "downstream" – ultimately driving higher prices and reduced consumer spending.

"Depending on the length of the contraction, small to mid-level providers and retailers will be at risk of increased debt burdens and compressed margins," Koetting says. "This can leave an opportunity for brand consolidation which is not always good for the consumer as retail networks are centralized and reduced to the more profitable and stable sites."

Tsukerman says that in general, the long term impact of the recession can permanently damage oil production and lead to a slump in prices. In the current scenario, however, the fuel companies, while cognizant of the recession, are well positioned to weather the crisis and the costs will likely be mostly born by the private consumer.

"The uncertainty regarding whether prices will rise or fall depend on the course of the war in Ukraine and responses to it, increased or decreased demand by China, European response to its own economic stress factors, and federal and state energy policies," Tsukerman says. "However, overall, the demand for oil and gas production will not fall; it may, however, shift among various sectors." ★

The Only Constant in the U.S. Gasoline World? It's Always Changing.

BY ANNA TRIER, S&P GLOBAL COMMODITY INSIGHTS

Diving into the world of gasoline introduces a hodgepodge of acronyms, terminology, and ever-evolving regulations. As the energy sector expands into renewables, electric vehicles, and carbon credits, regulations on the gasoline industry also increase. How have these regulations, and subsequently prices, changed over the years, and what's in store for gasoline even before any migration to an EV future?

Conventional Blendstock for Oxygenate Blending (CBOB) and Reformulated Blendstock for Oxygenate Blending (RBOB) are two of the most well-known gasoline terms in today's market. Both grades are similar in that they are unfinished blendstocks that need to be blended with other components such as alkylate or reformate and get mixed with ethanol at the rack-level. Where they differ is that RBOB is subjected to much more-stringent environmental requirements and is mandated for use in populated, urban areas, while CBOB is often used in more rural areas and has higher emission allowances. RBOB is currently used in 16 states and accounts for about 25% of gasoline sold in the United States, according to the U.S. Environmental Protection Agency.

But long before the world of RBOB and CBOB, there was just one kind of gasoline in the market: conventional. Sixty years of regulations have transformed the industry into what it is today. From the phase-out of leaded gasoline to the introduction of the renewable fuel standards, these regulations have undoubtedly had significant impacts on both the environment and consumers' wallets.

The Clean Air Act of 1970 set into motion the phase-out of leaded gasoline, created air quality standards, and established the U.S. Environmental Protection Agency. While tetraethyl lead was an effective anti-knocking additive in gasoline, it had serious health and environmental impacts. Knocking, as it's known, is when a fuel in an engine ignites earlier than expected and causes the fuel to burn unevenly, resulting in a much shorter lifespan for the engine. Anti-knocking additives work by increasing the temperature at which gasoline ignites and increasing the octane rating of the fuel.

Twenty years later, Congress passed the Clean Air Act Amendments of 1990, which introduced a requirement for high-smog areas to begin using reformulated gasoline. The initial reformulated gasoline parameters focused on lowering benzene and RVP levels and adding oxygen to the fuel. While this was the beginning of the RBOB blendstock that is so ubiquitous today, it wasn't popularized until years later. Platts started assessing U.S. Gulf Coast Colonial Pipeline RBOB and New York Harbor barge RBOB in November 2003.

As the industry began phasing out lead in gasoline ahead of the Jan. 1, 1996, ban, a now-controversial additive took its place: MTBE. According to EPA archives, low levels of MTBE were

used in gasoline as an anti-knocking agent from 1979, but use of the octane-booster really spiked between 1992 and 2005 to meet the oxygenate requirements introduced in the 1990 Amendment.

MTBE was the choice additive to combat knocking over ethanol before the 2000s due to it being cheaper and more readily available, a market source said.

Convenience also played a key role in the use of MTBE over ethanol. While MTBE is produced in a petroleum refinery, ethanol is produced by biofuel refiners. With MTBE as an additive, a refiner can produce all of the components needed to blend gasoline in the same place, whereas with ethanol as a fuel additive, that product needs to be sourced from outside of the refinery. Another factor is that MTBE has a higher energy density than ethanol, meaning that fuels blended with ethanol have less fuel economy than those blended with MTBE. Additionally, while MTBE can be blended into gasoline blendstock and moved via pipeline, ethanol must be added closer to the consumer, often blended at the rack, due to its ability to absorb water and cause pipeline corrosion.

Another important outcome of the 1990 amendment was that MTBE use became far more prevalent in the United States as gasoline needed to adhere to a set of oxygenate requirements. Adding oxygen to gasoline helped reduce tailpipe emissions as gasoline burns more cleanly in the presence of oxygen, according to EPA archives. While MTBE was not the only oxygenate available for gasoline blending, ethanol was already a possibility, MTBE was cheaper than ethanol. However, after it was discovered that MTBE can contaminate groundwater and is toxic to public health, the Energy Policy Act of 2005 was passed to encourage the use of ethanol over MTBE in fuel. Consequently, ethanol production began rising in 2006.

This switch to ethanol had a varied impact on the different regions in United States, like the land-locked Midwest known as PADD 2 or export-driven Gulf Coast known as PADD 3.

"In PADD 2, the MTBE ban had an insignificant impact on the market as ethanol was already the preferred octane booster then due to the proximity of the corn/ethanol industry there," said S&P Global Analyst Debnil Chowdhury. "Where it played a bigger impact was in regions such as PADD 3 where MTBE was the preferred source of octane."

Platts launched the U.S. Gulf Coast FOB MTBE assessment on June 16, 1989, and Chicago Argo ethanol on June 9, 2003.

From June 9, 2003, through 2004, Chicago Argo ethanol averaged 29 cents/gal premium over U.S. Gulf Coast FOB MTBE, according to Platts pricing data. The year before ethanol demand spiked on the RFS, 2005, ethanol priced at a 36 cents/gal discount to MTBE.

The year after? A more than $1/gal trend reversal occurred, putting ethanol at an average of nearly 70 cents/gal over MTBE. After that initial surge, ethanol prices have averaged at a discount to MTBE for 14 out of the last 16 years. In 2020, Chicago pipeline ethanol prices were mostly on par with MTBE prices, averaging just 69 points/gal higher for the year, and in 2021, ethanol prices spiked to a 15 cents/gal premium over MTBE.

In 2022, USGC MTBE prices have reverted to more a normal relationship with Chicago pipeline ethanol, averaging a nearly $1.02/gal discount to MTBE through Dec. 14.

In 2020, as the pandemic crashed gasoline demand, and gasoline prices plummeted, ethanol prices surpassed gasoline prices. Then in 2021, summer drought caused corn prices to recover faster than the oil complex.

The 2018-2019 Chicago pipeline average ethanol price compared to Gulf Coast Colonial Pipeline CBOB and RBOB averaged a discount of 34 cents/gal and 40 cents/gal, respectively.

From March 9, 2020, through December 2021, ethanol prices averaged a 29 cents/gal premium over USGC pipeline CBOB and a 26 cents/gal premium over USGC pipeline RBOB.

The Energy Policy Act of 2005 also created Renewable Fuels Standards that led to the introduction of Renewable Identifications Numbers (RINs) into the market. When a US refiner produces a road-based fossil fuel, they incur a Renewable Volume Obligation to also produce a corresponding amount of biofuels. Conversely, when refiners create biofuels, like ethanol, they create RINs, which can balance RVO balances and are traded openly in the market like other commodities.

"In the past 20 years, in my opinion, the RFS combined with the MTBE phaseout was the largest regulatory impact on both formulation and blending economics," Chowdhury said.

RINs and RVO prices have played an increasingly important role in the fuel industry as biofuel mandates continue to rise. While RINs prices fluctuate through the day, the RVO is calculated from the daily RINs prices.

In 2018 through 2019, RVO prices averaged around 3.50 cents/gal.

RVO prices climbed from an average of 2.10 cents/gal in January 2020 to an average of 4.75 cents/gal in April that same year. By the end of 2020, RVO averaged 9.4 cents/gal in December.

Those prices continued to climb in 2021 and 2022, averaging 16.2 cents/gal in 2021 and 18.25 cents/gal in 2022 through Dec. 14.

Strong RINs prices can also be used to encourage more biofuel blending into the gasoline pool if federal biofuel targets surpass current consumption.

A key driver behind rising RINs prices was that small refinery exemptions (SRE) were no longer being granted. Under the Trump administration, 31 refiners were granted SREs in 2019, which meant that those refineries did not incur an RVO and did not need to purchase offsetting RINs.

In April 2022, the EPA denied 36 SRE requests for the 2018 RFS compliance year, overturning the exemptions granted in 2019, which has supported strong RINs prices.

On Dec. 1 the EPA released a proposal to increase the amount of renewable fuel that U.S. refiners must incorporate into gasoline and diesel over the next three years.

The proposal set the 2023 advanced biofuel mandate at 5.82 billion gallons, up 3.4% from the 2022 mandate; the 2024 advanced biofuel mandate at 6.62 billion gallons, up 13.7% from the 2023 proposal; and put the 2025 mandate at 7.43 billion gallons, up 12.2% from the 2024 proposed figure.
The new biofuel blending requirements, if finalized, would maintain the implied ethanol blending level in 2023 at 15 billion gallons, but raise it in 2024 and 2025 to 15.25 billion gallons.

Another frontier of regulation has been sulfur content, which contributes to air pollution and can damage engine through the creation of sulfuric acid. Tier 2 and Tier 3 regulations aim to reduce the sulfur content of gasoline and standardize motor fuel regulations among all types of passenger vehicles. Tier 2 regulations required that the refinery annual average of sulfur in gasoline was capped at 30 ppm, down from 300 ppm. Tier 3 regulations, which went into effect in 2017 for the majority of refiners, excluding small refiners, capped this annual average at 10 ppm.

Then in 2021, the EPA moved away from the Volatile Organic Compound (VOC) performance standard and shifted to using a 7.4 RVP per-gallon maximum standard, reshaping the summer gasoline blending pool. The change cut RBOB specification parameters down from 11 to just three: RVP, sulfur, and benzene measurements.

One aspect of this change was that RBOB and CBOB became essentially the same product in the winter.

The Gulf Coast Colonial Pipeline RBOB to CBOB spread from mid-Oct. 2018 through the first week of March in 2019 averaged plus 1.40 cents/gal, with both grades at matching RVPs for that pre-pandemic time period. ▶

Following the EPA ruling, from late Oct. 2021 through early March 2022, that spread averaged 0.44 cent/gal, according to Platts pricing data.

In the U.S. Atlantic Coast, the barge RBOB and CBOB winter spread was minus 0.17 cent/gal for 2018-2019, but minus 0.07 cent/gal for the 2021-2022 winter season. The New York Harbor barge RBOB and CBOB spread for summer grade gasoline, which runs from late March through mid-Sept. averaged plus 5.60 cents/gal in 2019 and plus 4.20 cents/gal in 2022. Pricing expectations around the movement from the VOC model were thwarted, or at least dampened, by the global pandemic.

The move away from the VOC model meant that more N+A naphtha and reformate barrels could be incorporated into the gasoline blending pool in the summer. It would also allow the inclusion of lighter blending components that aren't normally used in the summer, like butane.

The change was expected to be bullish for naphtha and reformate and bearish for alkylate. It didn't turn out that way, with alkylate prices soaring but naphtha tanking until 2022 on weak petrochemical demand. Octane demand, however, soared, resulting in record premium gasoline spreads over regular grades in mid-2022.

The gasoline industry continues to be a changing landscape as environmental concerns, global fundamentals, and moving regulations reshape its dynamics time and time again. Increased regulations can often mean costly spending for refiners as they conform to the latest standards. Additionally, small refiners are often disproportionally impacted by regulations as equipment upgrades or monitoring costs can be expensive.

Competing interests and perspectives on which aspect of the industry to prioritize continue to shape industry regulations. While some focus on lowering costs for the consumer, other regulations are more focused on scaling back the environmental impacts of using fossil fuels to power cars – trying to find balance between the two can be tricky in such a global market.

In November 2021, the EPA proposed tougher methane regulations on U.S. oil and gas producers to increase emission monitoring on new and existing wells.

Then in 2022, the EPA released a proposal to further reduce methane emissions by, among other things, establish emission standards for dry seal compressors, and increase recovery of natural gasoline that would go to waste, according to the EPA press release Nov. 11. The proposal estimates that methane emissions could be reduced by 87% from covered sources by 2030 when compared to 2005 levels. The proposed regulations include routine leak monitoring and also aim to reduce flaring at refineries. To reduce emissions, refineries could need to upgrade storage tanks or other equipment.

The EPA also implemented penalties for methane emissions in the Inflation Reduction Act of 2022. The new rules, which go into effect in 2025 based on 2024 emissions, would cost $900 per metric ton of methane emissions above 25,000 metric tons per year. The fines are set to rise within two years of implementation to $1,500 per metric ton.

Other regulatory changes lie outside of the pump with companies investing in carbon credits, implementing Environmental, Social, and Governance (ESG) policies, and the expanding into more renewable sources of energy.

"Low-sulfur carbon credits, further edits to ethanol RVO, and octane specification changes will probably be the biggest game changers," Chowdhury said about the future of the gasoline industry.

Ethanol has been front and center in 2022, particularly as a Biden Administration initiative to lower prices at the pump for consumers was an E15 waiver, issued by the EPA in April 2022 in response to tight supply dynamics which were caused by the Russia-Ukraine war. Nine midwestern states (Iowa, Illinois, Kansas, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin, and Ohio) have petitioned the EPA to allow year-round E15 sales, instead of just in winter. E15 gasoline is not typically used in the summer due to its higher volatility.

The introduction of the E15 legislation is just one example of how the industry is continuously evolving and changing. A bigger evolution may be coming from the emerging EV industry and expansion of carbon credits, but that's a much longer-term worry, Chowdhury said.

"The fleet on average takes 12 years to turn over and the impacts on demand we expect over the next few years from more efficient fleets are more related to CAFE standards from 10 years ago increasing the efficiency of internal combustion engine vehicles," Chowdhury said. "In the 2030s however, we do see gasoline cracks being pressured by increasing penetration rates of EVs. However, carbon credits programs in states like California are expected to have upward retail price pressure on gasoline there specifically. " ★

About S&P Global Commodity Insights

S&P Global Commodity Insights is the leading independent provider of information, benchmark prices with Platts assessments, and analytics for the energy and commodities markets. For over 100 years, we've brought clarity and transparency to the energy and commodities markets, enabling companies, governments and individuals to act with conviction. We know that data is key to decision making, but information alone isn't informative: it can be interpreted in many ways and inform drastically different decisions. The knowledge and experience of our people makes the difference, offering insight that helps customers in 190 countries to interpret fluctuations, uncover new commercial opportunities and gain a competitive edge.

A division of S&P Global, S&P Global Commodity Insights is headquartered in London and employs over 1,200 people in more than 19 offices worldwide located in global business and energy centers on five continents. We employ only the best in the market, and each member of our team is committed to providing an unbiased perspective to help our customers monitor market movements, value commodities, recognize opportunities, mitigate risk, and plan with greater confidence.

Anna Trier is a Senior Pricing Specialist with the Americas oil team at S&P Global Commodity Insights, covering Atlantic Coast gasoline. Anna comes from a scientific background and received her bachelor's degree in chemistry from the University of Houston with an emphasis on research.

4 Key Operations Improvement Opportunities in 2023

BY MATTHEW MOSSOTTI, PDI EXECUTIVE IN ENTERPRISE PRODUCTIVITY

Approaching the end of 2022, the petroleum and convenience retail industry faces multiple challenges. Topping that list are ongoing industry consolidation, workforce staffing shortages, and high interest rates—along with the lingering effects of a global pandemic.

But the most difficult challenge might be macroeconomic uncertainty. An unpredictable financial sector climate looms over every industry, including—and perhaps especially—downstream petroleum. Will supply chains continue to be disrupted? Will inflation continue to rise? Will we see the same degree of fluctuating market dynamics?

While no economist can definitively answer those questions today, everyone can take away a key lesson from the pandemic. When the convenience retail and petroleum industry changed almost overnight, operators who adapted faster than their competitors not only survived—they thrived. A large part of that success stemmed from the ability to utilize innovative technologies and operate with greater agility and efficiency, driving profitability.

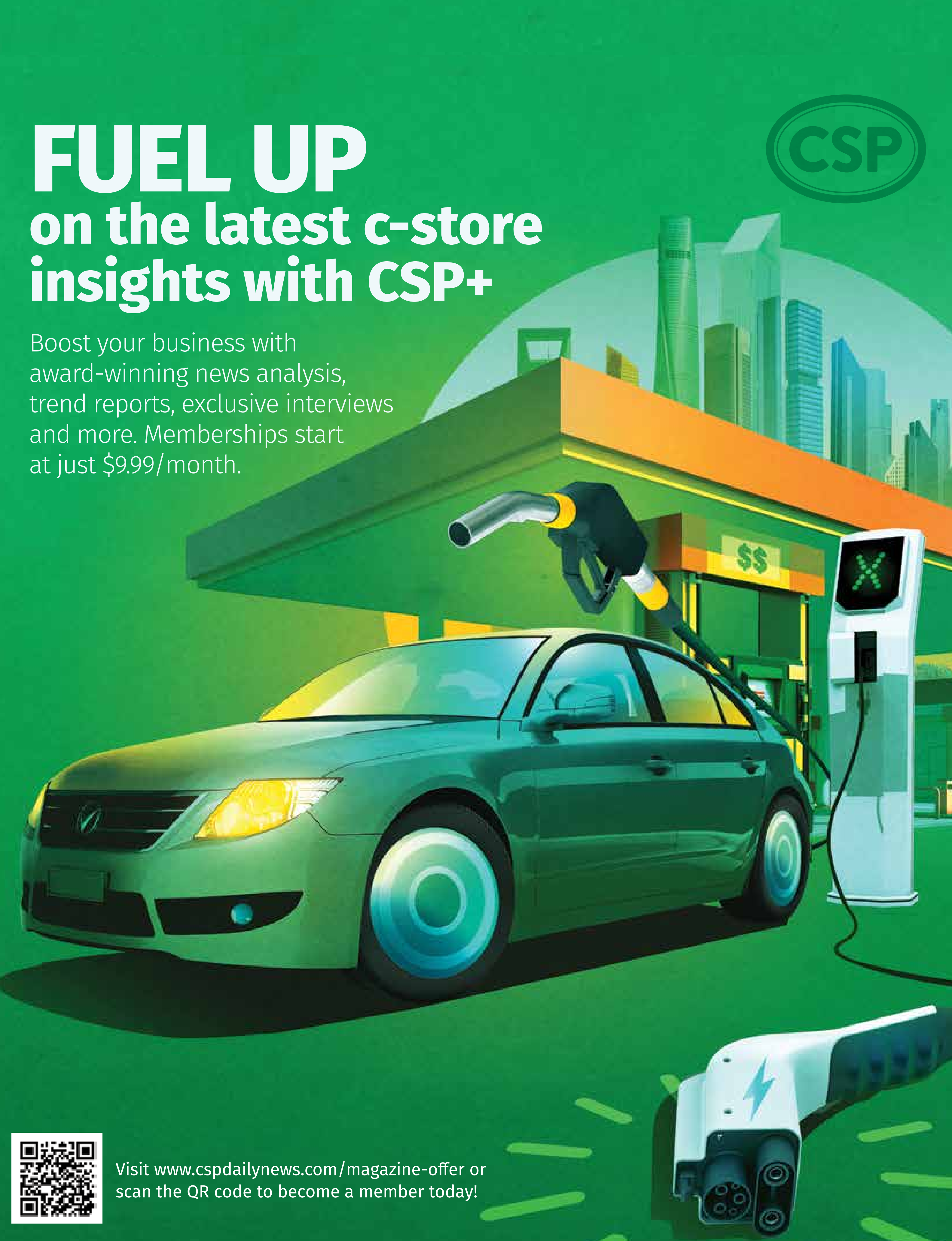
In the past two years, the ability to differentiate brand value and deliver an exceptional customer experience has clearly separated the market leaders from the followers. As the calendar flips to 2023, it's important to remember how adaptability and a flexible technology infrastructure are critical for addressing the latest trends and acting upon new business opportunities faster than the competition.

To maintain success, here are four big areas of opportunity for SIGMA Members in 2023:

1. Increasing efficiency across enterprise resource planning (ERP) and logistics operations
2. Optimizing fuel pricing strategies
3. Differentiating loyalty programs
4. Strengthening cybersecurity posture

1. Increasing Efficiency across ERP and Logistics Operations

When facing acute staffing shortages, businesses need to incorporate more intelligence and automation into their decision making and rely less on human knowledge. Doing so requires advanced technologies and more effective use of data. Tighter ▶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integration between platforms, electronic data sharing, and optimized data flows are also key to improving efficiency.

Streamlining ERP and logistics operations is especially valuable in periods of fluctuating fuel supply and demand. The good news is that there are more effective tools to leverage data and easily integrate it across platforms to make informed decisions on how to get fuel in the right place to meet demand at the right time. For instance, businesses can use tank sensor and transaction data to ensure that pumps never run dry and that a healthy profit remains. In turn, that profit can free up funds to finance loyalty campaigns related to fuel sales.

2. Optimizing Fuel Pricing Strategies

In the last few years, the petroleum and retail convenience industry has witnessed longer periods of unpredictable fuel supply and demand, as well as supply chain disruptions. With so much uncertainty, it's important for downstream businesses to control what they can. Leveraging industry data to optimize fuel pricing strategies is extremely valuable for continuing to attract both new and existing customers.

When economic concerns are top of mind and consumers increasingly scrutinize their fuel purchases, convenience retailers must also continually identify the optimal fuel price against their competitors to ensure maximum profit. Leveraging modern tools with real-time data about the competition helps businesses make and/or automate faster and more effective pricing decisions. The right pricing attracts more customers and drives more in-store traffic.

3. Differentiating Loyalty Programs

The ongoing demand destruction of fuel volumes will continue to put a premium on strong c-store offers. Businesses will also need to balance rising labor costs with the fact that they'll need to continue investing in data and an increasingly digital customer experience.

Today's consumers prefer to engage with brands that deliver real value and a frictionless shopping experience. As a result, convenience retailers must find creative ways to build customer loyalty at a time when more shoppers are focusing on price rather than brand. One solution is to personalize loyalty programs that provide a richer customer experience while keeping costs down. C-stores can also attract a growing segment of consumers searching for sustainable options by integrating an element of sustainability into their loyalty programs—such as carbon offsetting when customers purchase gas.

4. Strengthening Cybersecurity Posture

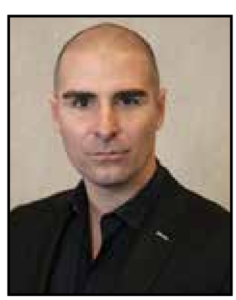
None of these other trends matter unless businesses have a strong cybersecurity posture. Ransomware and other cyberattacks threaten to impact small and large operators alike. Unfortunately, it's increasingly difficult—and expensive—to hire and retain skilled cybersecurity professionals. Even worse, attempting a DIY approach for cybersecurity can leave businesses unnecessarily exposed to risk and existential threats.

As with all other aspects of their operations, downstream petroleum businesses need to identify what their teams do well and what responsibilities they should leave to the experts. In the case of cybersecurity, partnering with a managed security services provider (MSSP) often makes good business sense. Working with an experienced, reputable MSSP offloads the burden from internal IT teams while delivering the advantages of the latest cybersecurity tools and expertise, along with round-the-clock monitoring. Embedding strong security not only protects the business—it also benefits their customers.

Do Not Delay

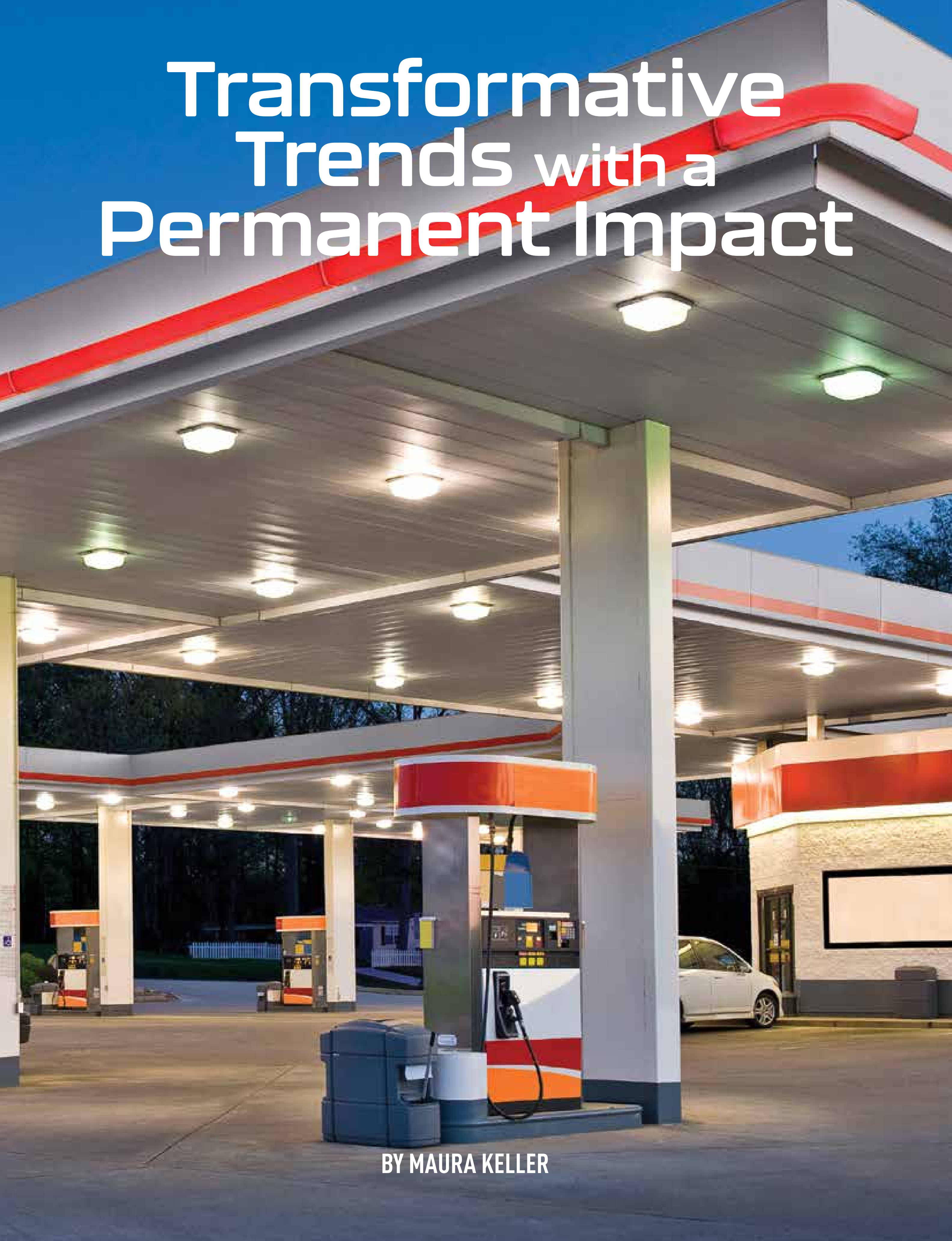
By acting on these trends and increasing operating flexibility, downstream petroleum businesses will be prepared to adapt in 2023. To help them get the most out of their technology investments, PDI offers a wide range of integrated solutions for the convenience retail and petroleum industries.

PDI works with thousands of fuel and convenience retailers around the globe to collect valuable data and turn it into actionable insights that provide a distinct competitive advantage. To learn how PDI can help, visit pditechnologies.com/trends or contact us today. ★



Matthew has served as a sales and marketing leader in the petroleum and retail convenience markets for more than a decade. He came to PDI as part of the FireStream acquisition in 2017, where he served as Vice President of Sales and Marketing to oversee the go-to-market strategies for enterprise resource planning and fuel logistics software and technology. In his spare time, Matthew has authored a fictional series of graphic novels (SpeciMen Trilogy, released 2019) and a nonfiction philosophical treatise (Physics of Spirit, scheduled to release in 2022).

Transformative Trends with a Permanent Impact



BY MAURA KELLER

Think back to the c-store environment of 20 years ago and compare it to today's c-store space. Does anything look familiar? Certainly, the essential elements of the c-store facility are still in place – gas pumps and convenience items are still the mainstay, but how these items are purchased and the impact technology is having on the c-store industry is jaw-dropping. And the transformation of the industry is not slowing down anytime soon, as gasoline marketers turn their attention to the next wave of trends that will modify how they run their business.

Mike Welsh, CCO at Mobiquity, says that as the work-from-home lifestyle becomes more permanent and EV sales continue to rise, consumers don't need to fuel up as often as they used to – questioning the lifespan of some c-stores. "However, given consumers' overwhelming preference for convenience, we'll likely see stores stick around, just in a new fashion," Welsh says.

Features such as mobile ordering, curbside takeaway, and food delivery through established partners like DoorDash and Uber Eats aren't going away; this focus on mobile food/item ordering rather than mere fuel sales has helped ensure c-store operators remain viable longer-term retail players.

Welsh says another trend is that gasoline marketers are beginning to see themselves more as data service providers that happen to do fuel and convenience.

"Furthermore, when a c-store possesses this level of data, artificial intelligence and machine learning can anticipate a customer's needs and wants even before they pull up to the pump," Welsh says.

Kendra Keller, vice president and general manager at Dover Fueling Solutions North America, points to several key technology trends enveloping the c-store market, all of which are strongly rooted in three things: ease of transaction, speed of transaction, and tailoring the customer experience.

"In our recent customer experience report, we found that of the top three features consumers most want to see at the pump, 66% of consumers want fast payments and 51% want the ability to pay for store items at the same time as fuel," Keller says.

Technology, like self-checkout kiosks, order-ahead apps, drive-through lanes, or QR codes for coupons or discounts, is simplifying transactions and helping retailers lean into digital experiences to communicate with their customers like never before.

"Mobile payment methods and contactless payment options expedite checkouts by leveraging the latest payment processing technologies," Keller says. "Wireless connectivity options for site data communications are faster and more secure than traditional buried cables, which helps retailers process transactions quicker than ever with less risk of data vulnerability."

Because highly tailored content creates loyalty, customer engagement is a top priority for retailers. Keller says that's why c-stores are investing in mobile apps, digital signage, and tailored promotions based on purchase history to connect with consumers and position their store as the one that communicates throughout the purchase cycle to make consumers feel special.

"We are seeing a customer experience evolution that transcends the simple 'hello!' when customers enter stores to an automated communication flow that can serve targeted ads and connect to customers on a personal level in real time," Keller says.

Trending Food Options

C-stores and the food they serve have long had a stigma of being low quality. However, as Welsh points out, chains such as Wawa and Kwik Trip are changing this notion, and have demonstrated to consumers that c-store operators can make sandwiches that are just as good, or better, than a QSR chain down the road, and often at a lower price.

"Scratch kitchens are also becoming more common in the space, and this is a trend that should expand," Welsh says. "In fact, if a c-store isn't considering how it can improve its own food offerings, it'll struggle mightily when EVs make up a majority of vehicles on the road in the not-too-distant future. In the now, scratch kitchens are a fantastic differentiator for operators, especially when well-integrated into a mobile app, loyalty system, or delivery partner."

The blending of retail concepts has increased consumer demand for fresh items within c-stores. As Michael Jaszczyk, CEO, GK Americas, explains, these stores now serve as touchpoints for shoppers to stock up on essential items outside of their larger grocery runs, including products like bread, fruit, or milk. In addition, prepared foods are also growing in popularity as they offer a quick meal when shoppers are short on time.

"Offering fresh food options is an opportunity for c-stores to gain a competitive edge and market share," Jaszczyk says. "However, retailers must have efficient inventory and assortment management to ensure they meet consumer demand levels and not have overstocks, especially as it relates to perishable items and food waste." ▶

As Linnea Geiss, chief operating officer at PDI Technologies explains, there has been a continued shift from relying on fuel profits to a focus on food service and a diversified in-store product mix.

"Consumers are seeking more personalization, a better experience and better-for-you options – particularly within the fresh food options available. QSR competition is real, meaning convenience retailers will need to continue to evolve food service options in order to better serve and retain customers," Geiss says. "The rise in electric vehicle adoption creates an opportunity for convenience retailers to become a destination with more sophisticated food service and dine-in seating options, WiFi, and other amenities for customers to utilize as they wait for their vehicles to charge."

Consumers want fresh food, made to order, and are willing to pay for it. Fuel retailers have invested in high-tech kitchen equipment and expansive menus with customization options. Made-to-order meals are now expected at c-stores with ordering options from mobile apps, self-service kiosks inside, or placing food orders from the fuel dispenser while fueling.

Throughout GetGo stores, they also invest heavily in other self-service technologies where guests can create and customize a variety of food products, like fountain drinks and milkshakes.

"These are really popular right now, so we're leaning more heavily into this technology with our coffee offerings. Starting now in many of our locations, we're upgrading our coffee stations to include self-service machines to make everything from cold brew coffee to nitro (nitrogen-infused) coffee," says Farley Kaiser, director of GetGo Culinary & Innovation.

GetGo's customers have shown they have a strong preference for grab-and-go options, which makes sense considering the convenience store environment. In GetGo's cold-hold machines, they offer wraps, sandwiches, salads, sides, and desserts, all fresh and ready for the taking. They also offer hot foods, which are made fresh all day, and those include foods like breakfast sandwiches, chicken tenders, appetizers, and more.

"These are all really popular, and we have to restock those holds constantly, especially around mealtimes," Kaiser says.

Enhancing the Forecourt Experience

The forecourt experience also is evolving to meet consumer interests. If you glanced as a photo of a c-store forecourt pre-pandemic and compared it to today, there would be a few changes including numbered parking spots for mobile orders and an uptick in digital signage at the pumps.

"It's no longer simply a place for guests to pump fuel, but rather one in which c-store operators can improve the overall c-store experience," Welsh says.

It's important to note that fuel operations are often still siloed, particularly between forecourt and in-store payments. However, Jaszczyk says the savviest retailers have realized that an integrated platform helps support a range of customer touchpoints and helps ensure a unified shopping experience.

"What's more, it's important to consider EMV compliance and end-to-end encryption, which future-proof the point of sale for both in-store and forecourt payments," Jaszczyk says. "Another interesting evolution can be found in some retailers creating additional touchpoints at the pump to increase foot traffic in-store, including targeted promotions, and videos that showcase relevant products."

Matthew Mossotti, vice president of sales, Enterprise Productivity at PDI Technologies, points out that over the past few years, the forecourt has experienced some long-needed evolution in connecting with the consumer. From video and polls on screens at the pump, to personalization within applications, consumer data is now utilized to push relevant ads and offers.

"In turn, this has helped retailers use the forecourt to do more than just dispense fuel; it now has become a place to engage the consumer and showcase value," Mossotti says. "This has been difficult in the convenience store space because of the technical complexity of integrating with pumps, POS systems, payment systems, loyalty schemes, and programs that may have once been different between the forecourt and the retail brand. Digital transformation has made this an imperative that cannot be ignored, especially as convenience operators are now competing for consumers with other retailers like QSR operators, small format grocery stores, and delivery alternatives."

Evolution of Staff

With the challenges in the labor market, Iliya Rybchin, partner in Elixirr Consulting, says the gasoline marketplace will see even more unstaffed retail in the convenience space. Elixirr Consulting is helping several national retailers look at automated solutions to replace or augment staff.

"No doubt you have seen the various vending machines in places like airports that sell everything from food to diapers to laptop

chargers. This will move more aggressively to the convenience space," Rybchin says. "Wundermart is a technology we are already seeing deployed in hotel lobbies, but it works well in convenience store environments." Other examples to look at for inspiration include Auchan in France and WooSox AI Market. At the recent U.S. Open, Amex set up a human-less convenience store on the grounds of the National Tennis Center.

"Related to this trend, we will likely see more retail bots," Rybchin says. "Large grocery chains like Stop and Shop have deployed retail robots for years. We will see these bots become more common in convenience stores. They will offer assistance and help improve the shopping experience."

Purchasing Experiences at Play

Today's consumers are using mobile apps to earn rewards for their fuel purchases, purchase goods, and food, and utilize digital wallets to ease the payment process. Looking forward, and as they move further away from using fuel sales to drive a bulk of their revenue, Welsh says more c-stores may look to adopt "just walk out technology"– or the "Amazon Go" experience.

"Customers will continue to look for freedom in less interaction, digital direction, and suggestions from operators to the customer," Welsh says.

Rybchin points out that delivery services also will expand within the c-store space. We have seen services like Uber bring deliveries of products to consumers. However, this will expand, and many large convenience store companies will get into this business themselves.

"Some will leverage the growth of autonomous delivery vehicles to experiment with automated deliveries," Rybchin says. "For many large convenience stores, their broad store footprint offers an advantage over Amazon – which must ship from central distribution centers. Therefore, for small items that are needed the same day or the next day, a large convenience store chain has an unfair distribution advantage over Amazon."

Jaszczyk agrees that since a convenience store is often thought to be a place for a quick "pit stop," the main way to draw consumers in is to ensure a quick, frictionless journey. For example, long lines are a common deterring factor that keeps a shopper from moving beyond the forecourt and into a store.

"Contactless technology is an easy way to reduce wait times, as shoppers can scan and pay for items directly from their mobile devices," Jaszczyk says. Mobile-enabled technology allows retailers to foster loyalty, such as through sharing personalized offers or messages post-purchase. ▶

By enabling contactless technology, c-store consumers can control their shopping experience, in the way that works best for them. Retailers are ensuring their stores can support multiple payment types across all contactless options — including tap-to-pay via credit cards, mobile pay, and even QR codes.

Brandon Daniels, manager of public relations at Giant Eagle, which owns GetGo, a convenience store chain, says that as technology advances, the GetGo team is constantly looking for ways to improve not only the company's own processes, but also the guest experience. Some of the more significant trends they've seen involve inventory management, self-service, and display screens.

"On the inventory side, data analytic systems are getting increasingly better at trending sales – which is really helpful in understanding consumer demand – but they're also helpful in forecasting demand, which has improved how we approach placing orders," Daniels says. "We're able to more accurately predict what will sell and in what quantities, so that we can place more accurate orders, reducing the chances that products will expire on shelves. I don't want to make it sound like this is easy to implement. There's no silver bullet that will just automatically improve your inventory management process. We have a team of data analysts who are constantly improving every aspect of our value chain to ensure we stay stocked with profitable, high-demand products. The technology we use facilitates this work, and with new tools to help us visualize the data and drill into different scenarios, we can make better decisions all around."

In the areas of self-service, GetGo leans heavily into giving customers the ability to control their own experience in the stores. They offer self-ordering kiosks for placing orders for fresh, made-to-order food. GetGo stores also have self-checkout stations that can be converted back and forth from cashier-operated as demand requires.

Interestingly, despite adding so many automated and self-service stations throughout the store, GetGo stills see a preference for our team members.

"For example, at our peak busiest times, we'll see Guests prefer to wait in line for a cashier even though both self-checkout stations are open. We invest in self-service as a way to serve all of our customers' needs and preferences – and sometimes these stations come in handy when we're short staffed – but despite this investment, we know our team members provide better customer service than we could ever expect from a display screen," Daniels says.

A Technological Transformation

Welsh predicts the digital transformation of the in-store experience also will accelerate. "The convenience store of the future will look more like an Apple Store and less like a bodega," Welsh says. "In 2023, changes in the retail market will drive progress toward the store of the future, both substantial and incremental."

In the short term, tech and personalization have the ability to guide customers toward preferred items and alert them when there is only one left in the cooler.

Welsh believes that in the more distant future, the application of facial recognition to the in-store experience could have transformative capabilities, like micro-personalization – the ability to guide people through stores in ways unique to their wants, needs, and habits.

Mossotti says that heading into 2023, technology should be seen as an optimizing investment to help reduce costs and increase customer loyalty.

"Consumers are increasingly looking to engage with brands that deliver value and help reduce stress by creating the best possible experiences," Mossotti says. "Companies that can provide meaningful and scalable solutions to help brands deliver better value and improved experiences will be able to differentiate themselves effectively in the marketplace."

Convenience retailers can successfully do so by adopting tools that automate processes. Mossotti says this may include AI-powered videos that can supplement in-store interactions or can detect when a shelf needs to be restocked. Additionally, reducing friction and automating tasks by introducing technology such as self-checkout can enable employees to focus on the customer on the front and back end. Frictionless checkout will continue to grow in popularity, as consumers increasingly desire efficient solutions.

Innovating Loyalty

"Convenience retailers will also continue to lean on technology to analyze data to drive customer traffic through loyalty programs and promotions. This will help solve cash flow issues such as rising labor costs and a potential decrease in margins due to the current economic climate," Mossotti says. "Nailing down repeat customers isn't easy due to the come-and-go nature of the convenience store, so now is the time for convenience retailers to focus on proactive marketing, strong app design, and attractive rewards programs to encourage repeat customers."

In the not-too-distant future, however, not owning your own data will cease being a thing. Outsourcing data will continue to be less common, so companies need to create programs to keep their data pond fully stocked – enter loyalty programs.

"Operators need to focus more on creating consistently great experiences that make consumers want to join and use regularly so that their business can glean the insights necessary to inspire true loyalty, not just influence short-term transactions," Welsh says.

Additionally, Welsh stresses that operators can't forget that loyalty programs aren't the differentiator they once were.

"It's 2022, every major player has a mobile app/loyalty system for customers. To stand out, c-stores need to prove they are truly listening to a customer's shopping experience," Welsh says.

"Technology is definitely changing the landscape, but I want to reiterate that it's not replacing the consumer preference for interpersonal interactions," Daniels says. "Technology makes everything easier and can be a huge help in times of labor shortage, but guests will always respond well to those face-to-face encounters."

As the c-store industry continues to become more competitive, Jack Hogan, vice president of strategic partnerships at Mashgin says retailers will emphasize focus on customer service and experience.

"Returning customers are more likely to spend more money, so it's important to make them feel welcome and delighted each time they visit," Hogan says.

In addition, there is so much available data to help anticipate what each individual wants, instead of serving what they've been told a customer wants, and these emerging technologies will be critical in removing barriers and creating those personalized experiences. "None of this will be easy, and it won't happen overnight, but look for more innovative, forward-thinking companies to dive in and get started," Welsh says. "There will be a lot of experimentation in 2023 and beyond." ★

Have you Outgrown the Way you Manage your Forecourts Today?

BY TONY CAPUTO, WARREN ROGERS

As we know, changes in technology can be challenging and investing in new technology can be a complex discussion for many companies. With so many competing forces for capital spending these days, from new store investment, remodels, food service, self-checkout, EV chargers, and more, it can be difficult to build a case for operational technology to improve your overall business. However, operational savings can far exceed the return on investment in other areas. But the "hard sell" for operational investment remains.

In today's fuel forecourts, many things can go wrong, often without your knowledge. Or, at the very least, without your immediate knowledge. In most cases, quicker reaction could have been taken and lowered your eventual loss or repair costs. Fuel leaks, fuel theft, meter drift, clogged fuel filters, broken dispensers, delivery shortages, and other issues can occur at any time. Unfortunately, only after the 10th or 100th customer complaint, does the issue reach the ear of the store manager. In the meantime, your customers have gone to your competitors for fuel.

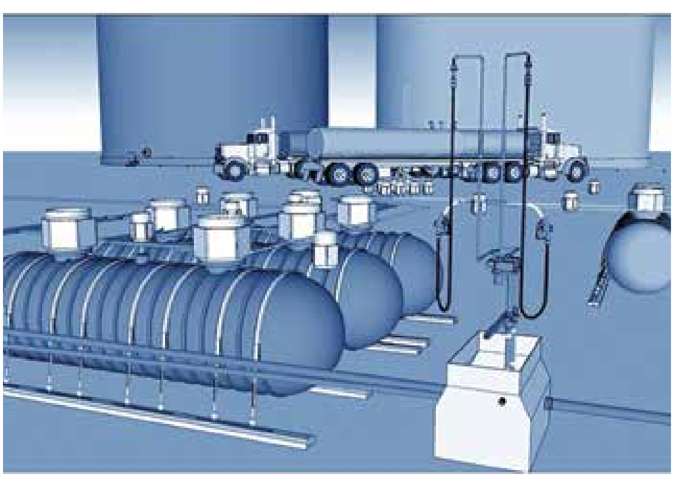
Today, manual effort and legacy processes consume an inordinate amount of time for store and corporate staff. While manual effort can be considered a soft cost for corporate and store staff, the amount of labor used, and the lack of true operational insight may be costing your business substantially more than you realize. In a nutshell, any manual process you are performing today in the areas of environmental fuels compliance and forecourt maintenance diagnostics can be automated, freeing up store and corporate staff to focus on more important tasks related to the customer. The other benefits include more immediate control and insight into how your forecourts are performing, potentially leading to an improved overall operation and higher customer satisfaction.

Below are just 5 ways that technological investment in your remote monitoring services could make your programs easier to execute and improve results:

Automatic Tank Gauge (ATG) Alarm Management

In many travelcenter and c-store chains, the management of critical ATG alarms is handled in a manual way. ATG alarms occur and may only sound at the ATG panel inside of the store. A store manager or alert clerk then reviews the alarm, assesses how critical it may be, and reports the more-serious ones via telephone or email to the appropriate party for repair. In some cases, these alarms may be silenced and not reported, leading to potential shutdown, fines, leaks, contamination, and costly delays in repair. In some cases, the alarms are reported via e-fax or email to corporate staff for review. However, alarms such as printer out of paper may receive the same level of attention as a PLLD shutdown, given the number of alarms that are generated by ATGs across multi-site operations. The overwhelming amount of alarms, critical and less-critical, can lead to paralysis or inattention to more-serious alarms.

Technology exists today to electronically-prioritize a set series of priority alarms to generate emails, texts, and even voice calls and immediately alert essential parties to the more-serious ATG alarms. All alarms are tracked and archived, but corporate staff or support desks only need to be concerned with the priority alarms they receive. This process may lead to more attention to critical issues and faster, less-costly repairs.



Leak Detection Compliance Tracking, Report Generation, and Collection

The collection of leak detection results in a multi-site fuel operation can be quite time-consuming. Not only do you need to collect the results for potential regulatory inspections, but the locations should also be monitored daily for issues that may be indicating leaks or preventing the "passes" needed to meet regulatory requirement frequency. Smaller operations may be asking store staff to execute commands on their ATGs in order to generate the report results once every 30 days. This may require quite a bit of follow-up by corporate staff or local regional managers. Plus, when the report deadlines occur, it could be too late to fix the issues at hand, resulting in failed "passes" and the requirement to report the failures to the state environmental agency as potential leaks.

These ATG report results are then scanned or photographed and emailed or texted to corporate staff. These often-unreadable reports are then manually noted on a tracking spreadsheet or other tool and filed for future reference. In some cases, corporate users can "dial in" to the store ATGs and electronically pull the reports one or more stores at a time.

However, technology exists to free up store and corporate staff from these manual processes. Connected software can monitor daily testing for "passes" and report on which stores have not yet passed their 30-day testing. When the stores do receive passes, automated reports are generated and archived in electronic form on the supplier's dashboard. The supplier's dashboard can also share sensor status and other equipment information, such as active ATG alarms and history, to help diagnose when a tank, line, or sensor is not in a normal status.

Fuel Inventory and Delivery Control

Today, many companies are reliant on standard tank gauge level and delivery readings, delivery bills of lading, and point-of-sale information to compute their tank inventories. There is a high chance for error when using what is considered an old-fashioned approach to fuel inventory control. The variances generated from this method can result in high fluctuations from day to day as well as overall high write-downs of fuel related to fuel "shrink". While using this process is "what we have always done", there are better ways to account for your fuel inventories.

With the latest technology in place, precision inventory control can give you a better idea of where you stand on inventory and where fuel variances could be occurring. For example, when a tank is installed, the original tank chart information is normally programmed into the ATG. Over time, the tank can settle, tilt, and deform based on the groundwater and soil composition. ▶

However, the ATG is not always updated. Advanced precision charting can be performed on the tank, taking these issues into consideration and providing a more-reliable tank level chart.

Deliveries and current tank contents are also dramatically impacted by temperature. Advanced analytics can take the temperatures of the deliveries and current tank contents in mind and compute the new tank levels after delivery, with density, temperature, and other physics considered. The end result is more accurate inventory levels. Other advanced systems can also track sales dispensed during a delivery to give you a calculated delivery amount for every load. These insights can help to pinpoint delivery shortages or overages by drivers, haulers, and terminals. Comparisons can also be made between calculated deliveries and fuel bills of lading to determine any unusual variances. Finally, when you add up all the new insights obtained with the latest technology, you can more-accurately track the inventory levels and variances within any tank. Not only can you better-track the source of fuel loss, you can better ensure that you are not losing product to theft, loss, or leakage.

Flow Rate Detection

The reporting of slow-flowing fuel dispensers is a manual process for many fuel operators today. Often, the burden of reporting inadequate fuel flow at the lanes lies on the customer and store staff. However, it can take several customer complaints before a store manager reports the concern to company maintenance. By this time, some customers have left your business out of frustration, never to return. Other opportunities for failure include delays in reporting, failure to report the repair need, or reporting the repair incorrectly.

Technology exists today to track flow rate and alert the operator when the flow rate of a dispenser gets below an acceptable level. This allows the operator to target filter changes to specific dispensers. Often, when slow flow occurs on a dispenser or two, the inclination is to change all filters on every dispenser. That is not necessary with repair targeting and maintenance savings can add up fast! Also, by tracking flow rate on all dispensers, you can also identify when submersible pump issues may be at play. With connectivity, your supplier may be able to troubleshoot equipment issues early on before it becomes a larger problem for your forecourt.

Dormant Dispenser Detection

Today, the reporting of broken dispensers can fall upon the shoulders of the store manager and store staff. Often, there are delays in reporting of the repair need or the repair is reported incorrectly or ignored by the service provider.

Technology exists today to electronically track each dispenser for alarms and errors that may indicate that they are no longer functioning properly. Many applications track sales from each dispensing point and alert savvy operators when sales are no longer transacting. Real-time dashboards can capture all non-transacting dispensers across your enterprise and summarize them on your desktop, tablet, or mobile devices. Reports can be generated and disseminated via email to field personnel and store and general managers to investigate when a dispenser is no longer transacting. Return on investment can be captured quickly with this approach as non-functioning dispensers can negatively impact your customer flow and total gallons sold by 5-15% or more if not repaired quickly.

There is no better time than the present to investigate better ways to manage the above areas. Take time to research tools from various remote monitoring suppliers that provide modern forecourt monitoring technology. Many suppliers offer no-cost service trials and access to operational dashboards to view how their tools interact with your toughest locations. Then, schedule a meeting with your manager to discuss how the use of new technology could make your department more effective and improve the customer experience in the forecourt.

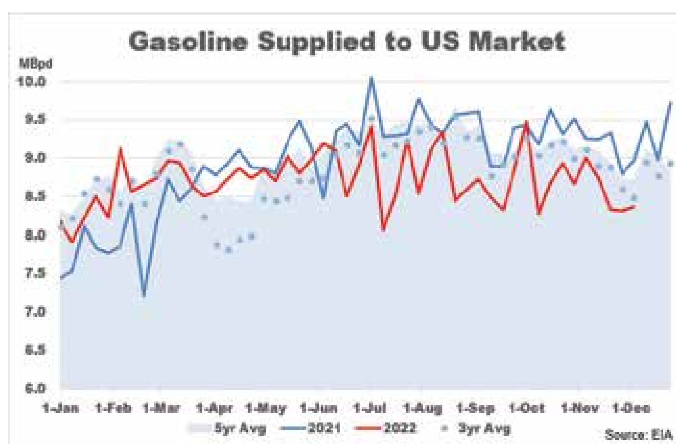
And, what improves the forecourt performance benefits your customers with a more-satisfactory experience. ★

Recession and Gasoline Demand in this Modern World

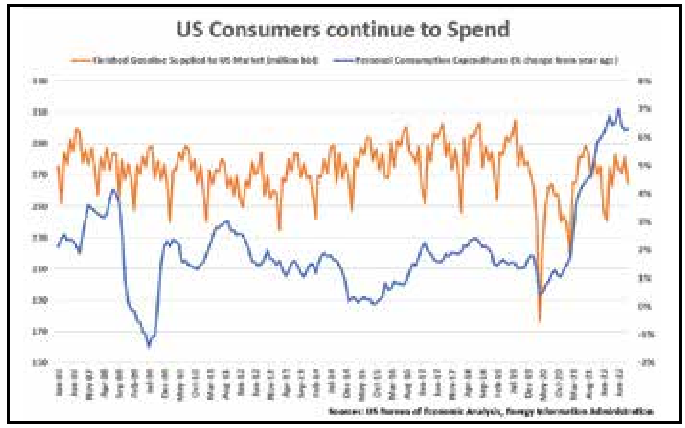
BY BRIAN L. MILNE, DTN EDITOR, ANALYST

After racing higher in the second half of 2021 into early 2022, gasoline supplied to the U.S. market moved below the year-ago consumption rate in late March and stayed there through December even as the U.S. economy expanded after contracting during the first half of 2022. If these were the only two statistics available, you might conclude recession has an enduring negative effect on the consumer psyche and behavioral response.

And maybe it does, but not in 2022 when consumer spending soared, and many even questioned if the U.S. economy was in recession for the first six months of the year, which is defined as two consecutive quarters when annualized Gross Domestic Product is negative. The national unemployment rate held near a 50-year low 3.7% for much of 2022, and open positions were more than 10 million in ending October, according to the Bureau of Labor Statistics Job Openings and Labor Turnover Survey.



As we begin 2023, a growing chorus believes recession is an almost certainty sometime over the next several months as the U.S. Federal Reserve lifts interest rates to bring down inflation, with the only question remaining is whether it will be shallow or deep. The central bank is acting on its mandate from the U.S. Congress defined in the Federal Reserve Act of 1977 to ensure "maximum employment, stable prices, and moderate long-term interest rates." To stabilize prices, the Fed must slow the economy, and increasing borrowing costs by lifting the federal funds rate is the hammer they have deployed. ►



How high interest rates must go to bring inflation under control is still unknown, and data released in late 2022 suggests inflation will be more enduring than many had expected. While manufacturing and construction activity have contracted, along with other rate-sensitive industries, growth in the service sector continued to expand. Also working against the Fed was job and wage growth, which surprised to the upside late in the year.

"Creating more slack in the labor market will require a further softening of aggregate demand, implying that the Federal Reserve will need to continue tightening financial conditions until it can be confident that the necessary labor market slack has been created. As a result, the unemployment rate is likely to rise, perhaps considerably, and job losses will probably be disproportionately concentrated among less-advantaged workers," explains Karen Dynan with the Peterson Institute for International Economics, and Wilson Powell III of the Harvard Kennedy School in a December article entitled "US job and wage growth beat expectations, making the Fed's job harder."

The Nobel prize winning economist Milton Friedman noted inflation was everywhere and forever a monetary phenomenon, meaning the more money in circulation, the higher prices will go. His refrain is ominous when considering there's still a great deal of excess savings following the pandemic giveaways, which economists estimate were about $1.2 to $1.8 trillion in the third quarter, according to the Wall Street Journal's Harriet Torry.

"That buffer, combined with a strong labor market and rising wages, has helped consumers continue spending in recent months, even with inflation and mortgage rates at multidecade highs," writes Torry in "As Savings Shrink, Spending at Risk."

It will take several months, maybe longer, for the excess savings (which are disproportionately held by higher earning households) to be spent, according to economists and investment banks. This poses the risk that the Fed will need to lift the federal funds rate beyond the 5% to 5.25% terminal rate some have come to expect to lower inflation closer to the central bank's 2% target, causing economic hardship for some consumers and businesses.

In mid-November, the Federal Reserve Bank of Philadelphia surveyed 38 Professional Forecasters who viewed the forward-looking economic picture more pessimistically than in earlier surveys, seeing a "substantial risk of a contraction in real GDP in 2023."

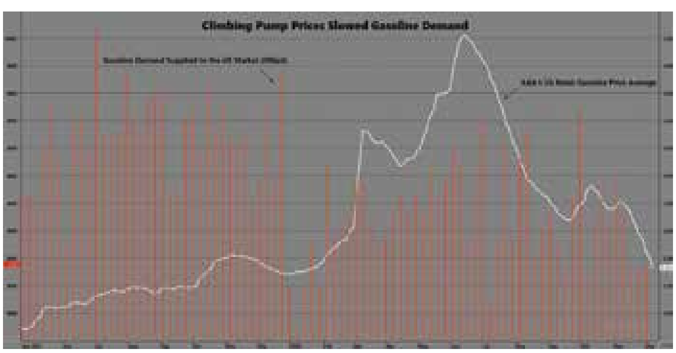
"[T]hey have substantially raised their probability estimates of a negative quarter for the following three quarters and predict a near-50 percent chance of a contraction in real GDP in any of the four quarters in 2023," said the Philadelphia Fed.

Historically, an economic recession in the United States has slowed gasoline demand in two ways. First, job losses climb, meaning there are fewer workers commuting to and from the workplace. Second, for those who are still working, they tend to reduce their discretionary spending out of concern they too might become unemployed. Discretionary spending has had a close correlation with gasoline demand as consumers dial back purchases when they have decided they need to conserve, which means less time traveling to a store, including c-stores. Consumers also look to conserve on driving to save on gasoline costs by being strategic in their travel.

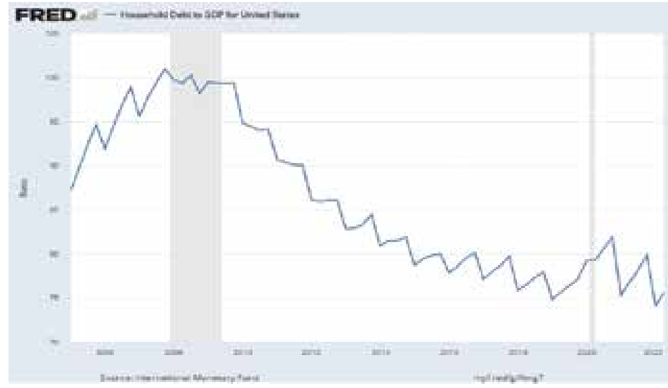
In our post-COVID modern world, work commuting still lags the pre-pandemic volume, which was roughly 30% of gasoline consumption prior to the pandemic, according to Garrett Golding, a senior business economist in the Research Department at the Federal Reserve Bank of Dallas. "A continuation of the work-from-home trend could help reduce fuel demand and increase price elasticity going forward," said Golding in a June 2022 paper entitled "High Fuel Prices in the U.S. May Crimp Oil Demand Soon."

Golding noted in his paper that it was too early to tell if the work-from-home trend would continue, and there has been increasing pressure from employers for employees to return to the workplace. That demand might grow as tight labor market conditions in the United States abate. Yet, there's also a large number of employers allowing work-from-home for all or some of the week.

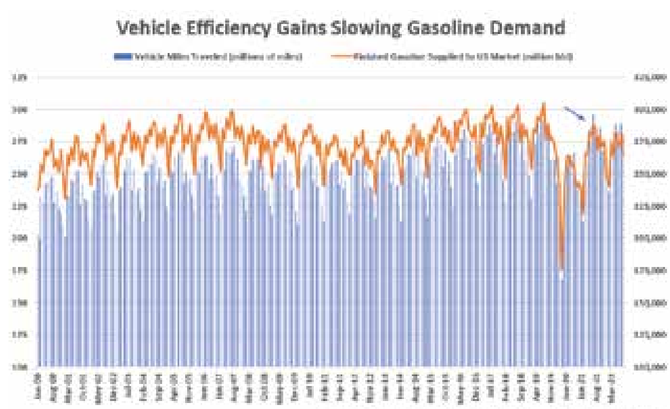
Lending credibility to Golding's research, as retail gasoline prices topped $5 gallon nationally for the first time on record in June 2022, commuting activity slowed, suggesting a loosening of the inelastic dynamic that has long tightly gripped the U.S. gasoline market. This dynamic was buttressed by anecdotal accounts during the summer 2022 that rising costs for gasoline and groceries were prompting conservation by some motorists.



Yet debt levels are far lower now than during the 2008–2009 Global Financial crisis, and the reason for an expected recession sometime in 2023 or 2024 would almost certainly be due to actions by the Federal Reserve, not a structural collapse caused by a housing crisis and the implosion of Lehman Brothers (the fourth largest investment bank before filing for bankruptcy) in September 2008; in the aftermath, it took seven years before gasoline demand would return to its 2008 highs.



Against this history and hypothesis, one must factor in expanding efficiencies in vehicles and the gradual growth in electric vehicle sales. The pandemic lockdowns and Russian invasion of Ukraine caused prolonged global supply chain constraints that slowed vehicle manufacturing considerably. As those constraints continue to unravel, more vehicles will be sold that can travel more miles per gallon of gasoline than before the pandemic. ★



Brian L. Milne is a 26-year veteran of the energy industry, serving in multiple roles at DTN including Editor and Analyst. Milne has delivered dozens of presentations on a wide range of topics discussing energy markets, and has been quoted widely in the media, including the Wall Street Journal, Barron's, USA Today, Newsweek, CNN, National Public Radio, and major regional news outlets. He has authored numerous articles for international magazines, exploring market dynamics and providing forward-thinking commentary and analysis. Milne graduated Monmouth University in New Jersey with a B.A. in History and an Interdisciplinary in Political Science (Magna Cum Laude).

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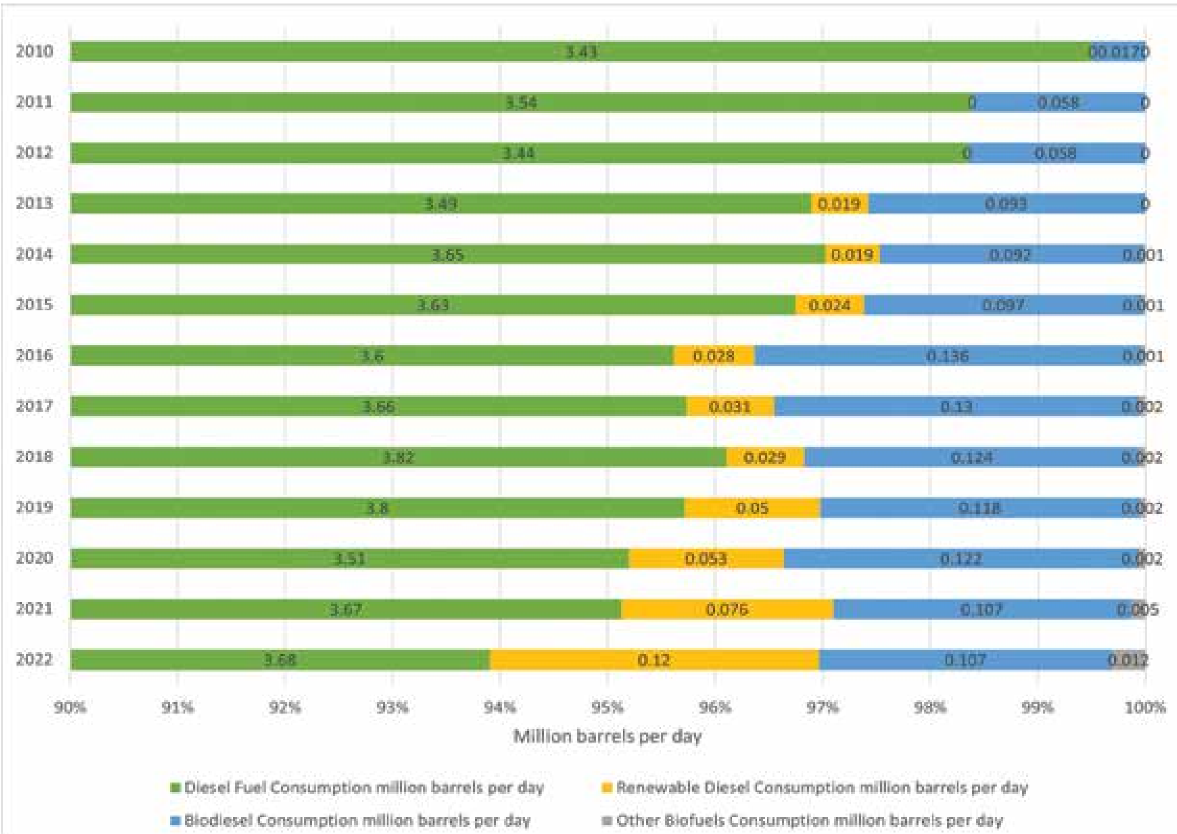
"The SIGMA Marketer Legal Counsel group provides a unique and invaluable opportunity to meet and network with some of the industry's leading lawyers. The members choose the topics for discussion and educational presentations, so what is discussed and presented is always timely, practical and informative. I have found over the years that, after each Marketer Legal Counsel meeting, I can come home and implement a handful of practices, solutions or ideas gleaned from the meeting. I would highly recommend the Marketer Legal Counsel group for any lawyer leading the legal department of a petroleum marketing company."
— Tate Seideman, Vice President & General Counsel, The Fikes Companies

Biodiesel and Renewable Diesel Rise to the Challenge

BY PAUL WINTERS, DIRECTOR OF PUBLIC AFFAIRS, CLEAN FUELS ALLIANCE AMERICA



Source, Energy Information Administration, Short Term Energy Outlook, November 202

The pandemic that hit the United States in the second quarter of 2020 impacted different fuel types differently. While consumers avoided daily commutes and airline travel throughout the year – drastically reducing gasoline and jet fuel demand – they still needed food and other essential goods delivered to their homes and neighborhood stores.

The pandemic reduced demand for gasoline in 2020 by approximately 13.5% compared to 2019 levels, according to Energy Information Administration (EIA) data. But diesel demand dropped by only 7.1% in 2020.

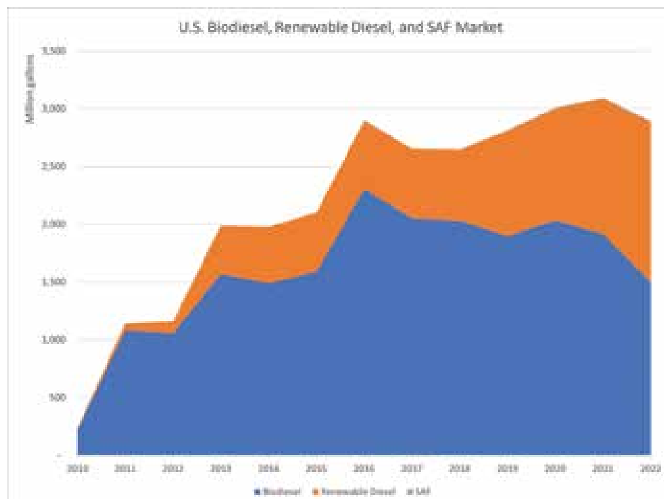
Keeping the economy moving requires heavy duty transportation, which relies on diesel fuel. And strong economic growth in 2018 and 2019 raised demand for diesel fuel to above-average levels compared to the preceding decade.

Demand for diesel also rebounded much more quickly than gasoline and jet demand as the economy addressed and recovered from the pandemic. In 2021, diesel demand reached levels that were just 3% below 2019 levels but fully consistent with earlier years. Through 2022, diesel demand is projected only 1.3% below 2019 levels. Gasoline demand in 2022 is still projected to be 4.4% below 2019 levels and remains below the average for the decade.

The imbalance in demand for gasoline, diesel, and jet fuel is a challenge for petroleum refineries, which must maintain margins for distillation products. Biodiesel and renewable diesel producers turned the challenge into an opportunity. Production and availability of these fuels increased year over year during the pandemic and economic recovery. In 2020 and 2021, these renewable drop-in diesel alternatives increased their market space by 200 million gallons each year and met roughly 5% of on-road diesel demand. In 2022, their market share is on track to meet 6% of on-road demand. ▶

The U.S. market for biodiesel and renewable diesel reached 3.1 billion gallons in 2021, including approximately 350 million gallons of fuel exports, according to EPA data. Through October 2022, the market reached 2.9 billion gallons, with approximately 370 million gallons of exports.

The biodiesel and renewable diesel industry is also growing to meet demand from new markets like rail, marine and aviation fuels. For instance, 14 million gallons of sustainable aviation fuel were introduced to the U.S. market in 2022 (through October), according to EPA Moderated Transaction System data. While there are multiple pathways to sustainable aviation fuel under the ASTM D7566 standard, the hydrotreated vegetable oil is the first to reach commercial production in the United States.



In addition to higher fuel costs resulting from the market imbalances triggered by the pandemic, the rail, marine and aviation industries are being challenged to reduce carbon emissions by consumer-facing parts of the essential goods supply chain.

By all accounts, the U.S. market and production of biodiesel and renewable diesel are poised for tremendous growth. In 2021, the EIA projected that renewable diesel capacity could reach 5 billion gallons per year by the end of 2024, based on announced plans from companies. Clean Fuels Alliance America has set a goal to double the size of the industry by 2030, with domestic production – not just the overall market – reaching 6 billion gallons annually.

That growth brings substantial economic benefits.

The industry already supports a significant number of jobs and economic opportunities among crop growers, fuel producers, and other agricultural sectors. Biodiesel and renewable diesel production is at the center of $23.2 billion in economic activity that supports 75,200 jobs. The data comes from a new study, “Economic Impact of Biodiesel on the U.S. Economy 2022,” conducted by LMC International for Clean Fuels. For every 100-million-gallon increase in domestic clean fuel production, the direct, indirect and induced economic activity increases by $1.09 billion and U.S. jobs grow by 3,185.

The new study also demonstrates a substantial increase in overall economic activity associated with market growth for biodiesel, renewable diesel and sustainable aviation fuel compared to a prior study in August 2019. That study – also conducted by LMC International –demonstrated an increase in economic activity of $780 million for every additional 100 million gallons in the market. The 2019 study calculated an overall economic impact of $17 billion and 65,600 jobs based on a U.S. market of 2.5 billion gallons.

The newer study evaluates economic impacts across the value chain of renewable fuel production, which covers everything from raw material production, collection, and processing to fuel production and distribution. The 75,200 employees in 2021 earned $3.6 billion in annual wages, which contributes to additional economic activity in the communities where the workforce lives – often rural areas of the United States.

According to the new study, biodiesel and renewable diesel production generates most of the economic and employment benefits in the farming, oilseed processing, and fuel production sectors. The farm sector is the focal point of 30% of the overall economic activity, roughly $7.41 billion. It also supports 28,236 U.S. jobs earning $1.36 billion in wages. The oilseed processing industry is associated with 21% of the economic activity or $4.97 billion along with 6,024 U.S. workers earning $380 million in wages. The waste grease recycling and animal fat rendering sector contributes 14,661 workers earning $560 million to the totals.

Production of biodiesel and renewable diesel supports $9.57 billion in economic activity – equal to 41% of the overall economic impact – and 17,120 U.S. jobs, earning $880 million in wages.

The economic impact is naturally largest for Midwest states that lead in soybean production. For example, Iowa's biodiesel and agriculture industry is associated with $4.29 billion in economic activity and supports more than 10,500 jobs. Illinois' industry – including soybean growers, crushers, and biodiesel producers – generates more than $2.75 billion in economic activity and supports 7,800 jobs. For Missouri, the clean fuels industry generates more than $2 billion in economic activity and is associated with more than 5,500 jobs. Indiana, Minnesota, and Texas each benefit from more than $1 billion in economic activity. And Kansas, Nebraska, and Texas each benefit from more than 5,000 jobs in the state.
Clean Fuels Alliance America's vision of producing 6 billion gallons of these fuels by 2030 would increase the economic benefits even further. The study calculates that overall economic activity would rise from the current $23.2 billion to $61.6 billion and support 187,003 jobs earning $8.8 billion in wages. The construction of additional capacity would increase economic activity by an added $4.3 billion and support an additional 144,500 related temporary jobs earning $5.8 billion in wages.

The envisioned growth is aggressive but achievable, based on existing investments in oilseed processing, fuel production, and infrastructure.

The U.S. crushing industry has existing operable capacity to process nearly 2.2 billion bushels of soybeans annually, according to the American Soybean Association. Overall, the industry is investing more than $4 billion in additional oilseed processing capacity. The existing facilities are scheduled to expand capacity to process an additional 255 million bushels. Beyond that, planned new facilities will add 494 million bushels of processing capacity over the next several years. Combined, the expansions and new capacity could support growth of an additional billion gallons of biodiesel and renewable diesel.

Infrastructure to provide clean fuels to consumers is also attracting new investment. The USDA's Higher Blends Infrastructure Incentive Program provided more than $25 million in shared-cost grants to projects that will support 1 billion gallons of biodiesel storage and dispensing infrastructure. USDA is set to announce another round of grants soon. And a follow-on grant program – the Biofuel Infrastructure and Agricultural Market Expansion Program – is set to begin in 2023 with Congressionally authorized funding through 2030.

The industry's vision to double U.S. production of better, cleaner drop-in replacements for diesel and jet fuel by the end of this decade is picking up steam. It will help fuel and transportation markets realign to the new economic realities created by the pandemic, which may have permanently changed patterns of commuting and air travel as well as transportation of essential goods. Biodiesel and renewable diesel have an opportunity to meet more and more of the demand for heavy-duty transportation and support renewed economic growth. ★

PFAS: What Do Forever Chemicals Mean for Fuel Marketers?

BY JACK SHELDON, SENIOR REMEDIATION SPECIALIST, ANTEA GROUP, WEST DES MOINES, IOWA

Each day, our news has stories of "forever chemicals" being found in drinking water from coast to coast. Some are even the subject of a documentary (The Devil We Know), a movie (Dark Waters), and book (Exposure). As these emerging contaminants garner a lot of attention and represent the potential for significant liability and exposure, here is a summary of what they are and what they could mean for SIGMA members.

What are "Forever Chemicals"?

"Forever chemicals," or Per and Polyfluoroalkyl Substances (PFAS), are a family of greater than 12,000 compounds (see figure) found to be persistent in the environment with limited, cost-effective treatment available to remove/destroy them. PFAS are persistent because their chemical structure makes them less treatable by conventional environmental remediation technologies. To complicate things, PFAS are measured in environmental media at concentrations ranging from parts per million to parts per trillion, meaning it takes an extraordinarily tiny amount of PFAS released to see a detection. To provide some perspective, most other contaminants are measured in parts per million or parts per billion. One part per trillion is equivalent to 1 second in approximately 32,000 years or 1 drop of water in 20 Olympic size swimming pools.

PFAS are abundant in commercial products, as they impart desirable characteristics such as heat, stain and grease resistance, waterproof properties, durability and glide properties, and fire-retardant properties. They are commonly used as fluorosurfactants in many consumer products and are key ingredients in firefighting foam used in catastrophic situations to save life and property.

Cause for Attention

PFAS have been linked to several adverse health effects including various cancers, reproductive issues, and immune system problems. The United States Environmental Protection Agency (USEPA), which considers PFAS an emerged contaminant, are completing toxicology profiles on a subset of the best know PFAS compounds. They also have created a PFAS Action Plan with a series of steps to be implemented over the next five years.

There have been several legal settlements with PFAS manufacturers resulting in payout of hundreds of millions of dollars. In the past couple of years, more bodily injury and personal property suits have been brought related to PFAS. Plus, over the last year, consumers have begun to bring product lawsuits related to PFAS.

What does this mean to Fuel Marketers?

As a fuel marketer, potential areas of PFAS risk to your operations include:

- Aqueous Film Forming Foam/Alcohol Resistant Aqueous Film Forming Foam (AFFF/AR-AFFF) released to extinguish fires either from fire department use or fire suppression system discharge or testing.
- Car wash soap and wax
- Greases, lubricants, cleaners, and hydraulic oils
- Food packaging in convenience stores

PFAS regulations/bans are beginning to ramp up at a Federal level and from state to state. As an example, USEPA is targeting specific industries and their PFAS discharges. They are about to declare two common PFAS, PFOS (perfluorooctane sulfonate) and PFOA (perfluorooctanoic acid), as hazardous substances. USEPA is also pushing for new analytical methods for PFAS with the ability to analyze more PFAS compounds at lower detection limits. They also have issued new health advisories for four common PFAS that are orders of magnitude lower than previous levels.

What can you do to understand your PFAS risk? There are five basic steps:

1. Become knowledgeable on PFAS – what they are and where they are used.
2. Track PFAS developments at the federal level and in states where you operate.
3. Audit your operations to see if you are making, using, or selling PFAS-containing materials, and consider replacing them with non-PFAS alternatives.
4. Develop an AFFF/AR-AFFF management plan for fire emergencies and fire suppression system releases. If possible, switch to fluorine free foam.
5. If you do have a PFAS release to the environment, understand the types of remediation technologies available to prevent migration or remove/treat the PFAS.

In summary, there is no reason for panic when it comes to PFAS, but with the complexity of this class of compounds and rapid changes occurring, now is an ideal time to assess your risk and manage your level of risk tolerance. ★

Helpful websites:

USEPA -https://www.epa.gov/pfas/epa-actions-address-pfas
Interstate Technology & Regulatory Council - https://pfas-1.itrcweb.org/

References:

The Devil We Know – documentary directed by Stephanie Soechtig, Sundance Film Festival, 2018 (now on Netflix)
Dark Waters – film directed by Todd Haynes, 2019
Exposure, authored by Rob Bilott, Atria Books/Simon & Shuster, New York, New York, 2019

Comparing EBITDA Transaction Multiples: Where Accuracy and Confusion Collide

BY SEAN P. DOOLEY, CFA, MANAGING DIRECTOR, MATRIX CAPITAL MARKETS GROUP, INC.

When you hear about a company in the petroleum marketing and convenience retailing industry that sold for "X times EBITDA", what does that mean to you as a private business owner in the same industry? The level of EBITDA multiple quoted and the source that provided the information are both very important points to take into consideration when trying to ascertain what the data points really mean to you. This article will focus on the different levels of EBITDA and resulting multiples observed in the industry, as well as synergies from the buyer's perspective which can often create a much different EBITDA multiple point-of-view between the counterparties of the transaction.

Store (Asset) Level EBITDA vs. Corporate Level EBITDA

One of the more important areas of distinction to be cognizant of is that public companies in the industry trade based on corporate level EBITDA (i.e., EBITDA burdened with overhead expenses) and free cash flow. However, when most private companies in the industry are sold there is more emphasis by the buyer pool on store level EBITDA (i.e., EBITDA without overhead expense burden). Buyers typically focus more on store level EBITDA as they will not be replicating the full expense and numerous duplicative functions of a seller's back office, since they (typically a larger organization and strategic buyer in the industry) already have overhead personnel and functions in place. In the provided example, the hypothetical seller has $2 million of corporate overhead expense with $10 million of Corporate Level (Unadjusted) EBITDA compared to $12 million of Store Level (Unadjusted) EBITDA.

	July 2022 TTM
Corporate Level Unadjusted EBITDA	**$ 10,000,000**
Plus: Seller Corporate SG&A Expenses (i.e., non-store level expenses)	2,000,000
Store Level Unadjusted EBITDA	**$ 12,000,000**

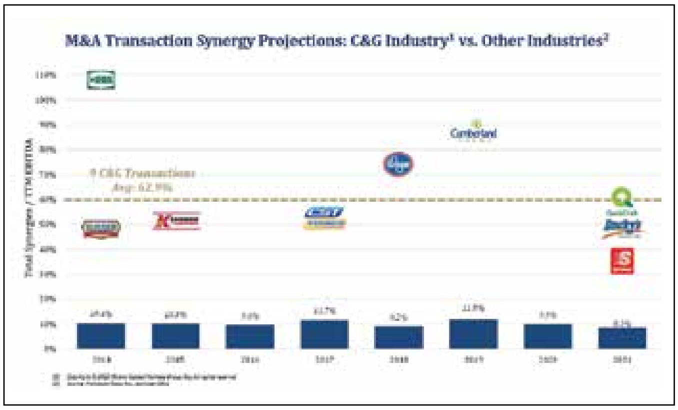
Non-Recurring, Discretionary & Pro Forma Adjustments to EBITDA

As a potential acquirer, knowing if you are analyzing store level income statements or corporate level income statements is an important baseline; however, there are almost always additional adjustments needed to more accurately reflect the *true* financial performance of a portfolio of convenience stores. As an example, many closely held, private companies in the industry are organized with several different legal entities, of which a Property Company (PropCo) and Operating Company (OpCo) structure is fairly common. In short, the OpCo pays related party rent to the PropCo. If a buyer is acquiring the real estate at a given store location in a transaction, then the related party rent expense needs to be eliminated to accurately depict the financial performance of that store. Other adjustments are often made for non-recurring items (e.g., exorbitant repair & maintenance expense in a given year) as well as other one-time type items, such as branded fuel supplier image incentive funds. One must also consider if any of the stores in the portfolio are not yet mature and/or do not reflect a full 12 months of financial performance in a given time period, e.g., if a new-to-industry store was recently constructed and opened in the last 12 months. In the provided example, the hypothetical seller has $2 million of non-recurring, discretionary & pro forma adjustments, which takes Store Level Unadjusted EBITDA of $12 million to $14 million of Store Level Adjusted Pro Forma EBITDA.

	July 2022 TTM
Store Level Unadjusted EBITDA	**$ 12,000,000**
Non-Recurring, Discretionary & Pro Forma Adjustments	
Eliminate: Related Party Rent	1,500,000
Eliminate: Non-Recurring Repairs & Maintenance	500,000
Eliminate: Non-Recurring Upfront Fuel Supplier Branding Funds	(250,000)
Add: Maturity Adjustment for New-to-Industry Store	250,000
Total Non-Recurring/Discretionary & Pro Forma Adjustments	**2,000,000**
Store Level Adjusted Pro Forma EBITDA	**$ 14,000,000**

Strategic Buyer Synergistic Adjustments to EBITDA

Thus far we have focused on seller-specific adjustments to EBITDA, which are more easily observed because, by nature, they are not specific to a particular buyer. Different buyers bring different synergies (in both scope and dollar-amount) to a potential transaction. For example, one strategic buyer may procure fuel and/or merchandise on significantly better economic terms than the seller, while a different strategic buyer may only be able to mildly enhance procurement costs. Some strategic buyers prefer to utilize proprietary food service options, while others lean towards more nationally recognized QSR brands (which, in some cases, are operated by a third-party tenant, thus generating rental income to the buyer). These buyer-specific, synergistic adjustments are rarely shared outside of the buyer's organization, unless the transaction is very large or between two publicly traded companies (seeexamples below). Further, the projected synergies by the buyer are typically multi-year projections and can be difficult to benchmark until after the target company is fully integrated into the buyer's organization.



Lastly, regardless of the absolute size of the buyer, as well as the relative size to the seller, there is typically some amount of incremental overhead expense that a buyer will incur post-closing to run the seller's operations. In the provided example, the net of the buyer's fuel & merchandise procurement synergies, merchandising & foodservice improvements, and expected incremental corporate overhead expense is $1 million.

	July 2022 TTM
Store Level Adjusted Pro Forma EBITDA	$ 14,000,000
Strategic Buyer Synergistic Adjustments	
Fuel Procurement Synergies	1,000,000
Merchandise Procurement Synergies	250,000
Merchandising & Foodservice Improvements	250,000
Buyer's Expected Incremental Corporate Overhead	(500,000)
Total Strategic Buyer Synergistic Adjustments	**1,000,000**
Strategic Buyer Synergistic Corporate EBITDA	$ 15,000,000

Four EBITDA Multiples (or more) for a Single Transaction; how can that be?

Throughout this article we have dissected different levels of EBITDA and how various adjustments cause you to arrive at different levels of EBITDA. In isolation, each level of EBITDA and the resulting multiple are correct; however, they can be misleading without the proper context and underlying detail provided as to how one arrived at a given level of EBITDA.

The example table below is a cumulative snapshot of the prior three tables with the resulting EBITDA multiple detailed in the right-hand column based on a purchase price of $100 million. The multiples range from a high of 10x seller's Corporate Level Unadjusted EBITDA to a low of 6.7x for the Strategic Buyer's Synergistic Corporate EBITDA with two data points in between. Another point of consideration: is the EBITDA performance cited for the multiple on average over the past few years, the most recent fiscal year, and the trailing twelve months performance (which could be the highest EBITDA period ever for the seller), a projection for the next 12 months?

The next time someone quotes you a multiple they paid or were paid, or you read about deal multiples in industry publications, ask yourself: (1) which level of EBITDA and time period are they likely referring to; and (2) are they more motivated to cite a higher or lower EBITDA multiple?

Purchase Price of $100 Million and Resulting Multiples	July 2022 TTM	EBITDA X
Corporate Level Unadjusted EBITDA	$ 10,000,000	10.0x
Plus: Seller Corporate SG&A Expenses (i.e., non-store level expenses)	2,000,000	
Store Level Unadjusted EBITDA	$ 12,000,000	8.3x
Non-Recurring, Discretionary & Pro Forma Adjustments		
Eliminate: Related Party Rent	1,500,000	
Eliminate: Non-Recurring Repairs & Maintenance	500,000	
Eliminate: Non-Recurring Upfront Fuel Supplier Branding Funds	(250,000)	
Add: Maturity Adjustment for New-to-Industry Store	250,000	
Total Non-Recurring/Discretionary & Pro Forma Adjustments	**2,000,000**	
Store Level Adjusted Pro Forma EBITDA	$ 14,000,000	7.1x
Strategic Buyer Synergistic Adjustments		
Fuel Procurement Synergies	1,000,000	
Merchandise Procurement Synergies	250,000	
Merchandising & Foodservice Improvements	250,000	
Buyer's Expected Incremental Corporate Overhead	(500,000)	
Total Strategic Buyer Synergistic Adjustments	**1,000,000**	
Strategic Buyer Synergistic Corporate EBITDA	$ 15,000,000	6.7x

Other Valuation Drivers of Transaction Multiples

While the focus of this article is based on different levels of and the composition of EBITDA, there are many different valuation drivers that can impact valuation multiples, such as: buyer synergies (as mentioned), growth opportunities, diversity of profit centers, condition of the physical assets, capital expenditure forecast, barriers to entry, geography / real estate values, real estate control conveyed to the seller, etc. It might seem counter-intuitive, but a well operated portfolio of large, modern stores may not always yield a higher EBITDA multiple as compared to an average portfolio due to the lack of upside (i.e., less "low hanging fruit") and therefore lower relative synergies to the acquirer. A higher multiple does not always mean greater value, as the well operated portfolio of large, modern stores are likely to be generating significantly more EBITDA currently than the average portfolio. Therefore, the seller could be realizing more value for its stores on a per store basis (e.g., $4 million vs. $2 million per store). ★

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Independent Gasoline Marketing
is published six times a year
by SIGMA, 1330 Braddock Pl., #501
Alexandria, VA 22314

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