AMERICA'S LEADING FUEL MARKETERS

INDEPENDENT GASOLINE MARKETING

MARCH | APRIL 2023

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PROFILE - DALE BOYETT / BOYETT PETROLEUM

WASHINGTON WATCH: SIGMA CONSIDERS 2023 POLICY PRIORITIES

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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

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Join me in New Orleans for SIGMA's 2023 Spring Conference, May 2-4 at the Waldorf Astoria Roosevelt Hotel. Make plans now to attend this outstanding event! Networking, education, golf, great food, and the Welcome Reception is at the House of Blues. What more could you ask for? SIGMA will provide transportation to all off-property events, so you won't even have to hail a cab or open a rideshare app.

The conference will kick off with the Opening General Session on Tuesday May 2nd. Tom Kloza, Global Head of Energy Analysis for OPIS, will give us an outlook for U.S. and global refining. 2023 could be a very uneven year for supply for gasoline, diesel, and jet fuel. Tom will look at the North American hot spots and sore spots and detail why the "coming attractions" for new production capacity represent colossal "head fakes" for supply.

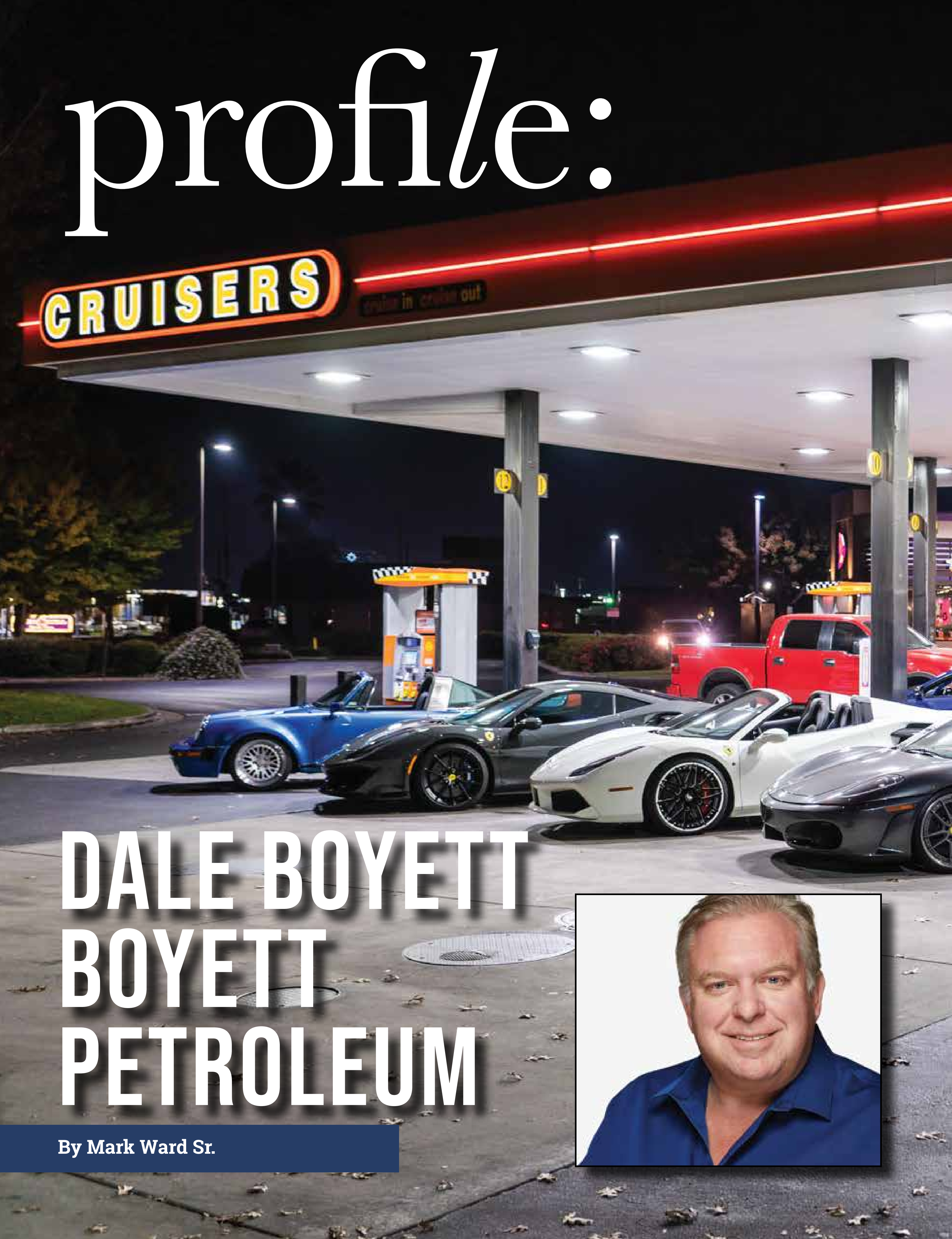
The SIGMA Open Scramble will be in the morning on May 2nd before the Opening General Session, so if you plan to play you will need to arrive on May 1st. The Scramble will be held at TPC Louisiana, consistently rated one of the "Best Places to Play" by Golf Digest. The breathtaking scenery at TPC Louisiana's golf course stretches over 250 acres of wetlands along the Mississippi River Delta. The championship course meets the highest course conditions is a wonderful representation of the natural local habitat. The golf course is part of the Audubon Golf Trail and a proud member of the Audubon Cooperative Sanctuary program – providing a landscape that many have compared to a private nature reserve. It's a special place to play, so start thinking of your foursome now and make sure to add golf to your registration to reserve your spot. Thanks to the generosity of ET Products and Ports Petroleum, SIGMA will have the entire course, but the Scramble is limited to 92 golfers to speed play.

Additionally, the New Orleans Jazz Fest bookends the SIGMA conference with live bands, food, and other entertainment on the weekends before and after our meeting. If jazz is your thing (or even if you have never been interested, but you want to check out something new), get tickets and enjoy the scene! The Jazz Fest is not downtown, so you'll need to make transportation arrangements to the fairgrounds.

2023 got off to a great start with our Executive Leadership Conference in Snowbird, Utah. The workshop education was great, there was plenty of snow, but boy was it cold. I am looking forward to more temperate weather in New Orleans in May and I hope to see you at the 2023 Spring Conference.

Dale Boyett, Boyett Petroleum
SIGMA President ★

Dale Boyett



profile:

DALE BOYETT
BOYETT PETROLEUM

By Mark Ward Sr.

Boyett Executive Team

When SIGMA marked its fiftieth anniversary in 2008, the late Carl Boyett, then CEO of Boyett Petroleum in Modesto, California, was elected president of the association. As he told Independent Gasoline Marketing at the time, "When SIGMA was founded—and when my parents were running their business—independent marketers pretty much shared the same business model. They were private-branded price warriors. Today, of course, independent marketers now operate according to a wide variety of business models."

Fifteen years later, the election of Dale Boyett as president in 2022 gives SIGMA its first father and son to each hold the association's highest office. Boyett Petroleum's current CEO credits the elder Boyett for instilling in him honored legacy values along with a willingness to adapt and grow. "What's changed since my dad was SIGMA president," says Dale, "is the industry keeps consolidating. No matter how big you get, the goalposts are always moving."

Consolidation is a challenge not only for SIGMA member companies such as Boyett Petroleum, but for the association as well. "In the years since my father was president, we're seeing fewer independent marketers that are family-owned," observes Boyett, "and more marketers with a corporate profile."

One impact of this trend, Boyett notes, is that SIGMA meetings are increasingly held at sites that are transportation hubs. "Our programs serve not only owners and presidents, but also other key executives," he reports. "As opposed to a retreat, they're looking for meeting venues where it's easy to get in and out."

SIGMA meetings remain a top draw for marketers, Boyett adds, because the association "is the place for fuel-related people. Our meetings are tops for networking. People at SIGMA meetings are open and willing to share. You can learn so much and come away each time with invaluable knowledge and ideas."

Boyett cites these benefits as the reason why the SIGMA 2022 Spring Conference drew its highest-ever attendance ever. "If consolidation means that marketers are becoming larger and more corporate," he states, "SIGMA is meeting their needs with programs that keep getting bigger and better. So, I look forward as president to staying on track with high-quality meetings."

This commitment, Boyett notes, builds on his father Carl's vision. As the elder Boyett told Independent Gasoline Marketing in a 2009 interview, "So how do we meet the needs of a diverse membership? I think it's got to start with education ... [that is] diverse and flexible," offering "tracks that help both the retail and wholesale sides of the industry ... [and] fit our members' schedules and time demands." ▶

President, Scott Castle and CEO, Dale Boyett

Such diversity and flexibility, Dale Boyett says, allow SIGMA education programs to address challenges that could not have been anticipated 15 years ago. When Carl Boyett was president, he cited credit card fees as marketers' top concern—an issue that continues today. In 2023, though, Dale acknowledges that "the biggest issue we face at the moment is being successful in coming out of the COVID pandemic."

Experienced Leadership

In the two years before his election as SIGMA president, Boyett chaired the association's Legislative Committee—as did his father Carl. Today, climate change concerns drive the top legislative and regulatory issues for marketers. These include a proposed Low Carbon Fuel Standard, rationalizing the existing Renewable Fuel Standard, building out the nation's electric charging infrastructure, and a movement to ban internal combustion engines.

"SIGMA's advocacy for marketers is always important," says Boyett. "Since my company is based in California, and since California is always on the bleeding edge of environmental policy, my dad brought that experience to SIGMA when he was president and now I do as well. But it's not up to any one person. Our government relations program is strong and our political action committee, SIGMAPAC, is effective."

Boyett's own experience, though, extends beyond legislative affairs. In 2023, he marks 30 years since joining Boyett Petroleum—and next year will mark twenty years since taking the reins as President and then CEO.

When Carl Boyett, who passed away in 2015, spoke to Independent Gasoline Marketing in 2009, he was asked to describe his leadership style. The elder Boyett cited his military service and MBA education to say, "I'm very organized, I like order, and I like dates to be scheduled ahead so that people can plan around them." At the same time, "My management philosophy has always been to recruit the best people and then let them do their jobs. Consequently, I end up being involved in non-petroleum areas such as our company's insurance and banking needs."

Overall, Carl Boyett then explained, "I see my role as 'steering the ship' rather than micromanaging daily operations." When it came to being SIGMA's president, he added, "I strive to be consensus-builder."

As a son, Dale Boyett mirrors the many lessons he learned from his father—but also brings to the table traits of leadership that stem from his own personality. "Like my dad," he says, "I'm organized when it comes to scheduling. And like him, my philosophy is to hire talented people and then let them do their job. I'm also more an idea guy, as opposed to day-to-day operations. So, like my dad, I get involved in different areas."

Along with that comes a relaxed style. "My schedule is organized," Boyett explains, "but once I'm in a meeting, I talk more off-the-cuff. When I became SIGMA president, they told me I had to wear a coat and tie! But around the office, it's shorts and sandals."

In 2009, Carl Boyett told Independent Gasoline Marketing that "my son Dale is doing a great job as president of our company, which helps give me the time to focus on being SIGMA president." Life has now come full circle as Dale last year he elevated Scott Castle to president of Boyett Petroleum. A 20-year veteran of the company, Castle is the first non-family member to hold the post. "Scott is a proven leader," says Boyett. "With him doing such a great job, I can focus more on business development and on SIGMA. My goal is the goal of any good leader, which is to empower our people so that the organization can function without me."

Dale's Partner, Tatiana Perez, Niece Illeana Estrada, Daughter Reese Boyett, Dale Boyett, and his son Cole Boyett

Generational Growth

Boyett Petroleum is a third-generation company whose founders, Stan and Carol Boyett, had each started with different oil companies when they wed in 1935. After Stan returned home from wartime military service, in 1947 they joined with a third partner to start a small chain of service stations in Modesto and surrounding communities. Then in 1962, Boyett Petroleum was formed when Stan and Carol purchased a Richfield Oil distributorship.

Son Carl joined the family enterprise in 1970 after completing an Army tour in Vietnam. Eight years later, Boyett Petroleum incorporated as Carl was named president. The company expanded through the 1980s into self-service gasoline, convenience stores, and cardlocks for commercial fueling.

Dale Boyett joined his father in 1993 and, became president in 2004. Today he oversees an enterprise at a decisive turning point. "For 70-plus years," he explains, "we marketed out of our home base of California. But as I said, industry consolidation is increasing. To be a player, you've got to keep pace. In August 2021 we acquired Oklahoma assets that give us a foothold to expand into the Rockies and the mid-continent markets."

In so doing, Boyett Petroleum builds on an impressive and diverse portfolio. On the retail side, the company owns and operates 10 "Cruisers" convenience stores around Modesto and neighboring communities. The sites sell 76TM brand fuel and offer fleet owners a convenient Cruise Americard program. Boyett Petroleum also operates two sites under the Kwik Serv name and owns the fueling equipment at nearly 70 dealer sites.

On the wholesale side, Boyett Petroleum supplies commercial and agricultural users across central California. But the company's core wholesale business is supplying a network of some 700 retail dealers. These dealers can choose unbranded product, Boyett's own Kwik Serv brand, or branded product from 76, Phillips, Conoco, Arco, Valero, Shamrock, Sunoco, and Sinclair. Boyett Petroleum is northern California's only authorized Arco distributor and the largest Valero distributor in the western United States.

Boyett Petroleum offers its dealers options that include fixed forward contracts and an innovative Pay As You Go program. In Pay As You Go, Boyett assumes the risk of maintaining fuel inventories by purchasing all the fuel in the dealer's tanks and then selling it to the dealer on a daily basis. Boyett pays to install tank monitoring equipment that automatically detects daily fuel sales and each morning emails the dealer an invoice at the previous day's price for the number of gallons sold. The dealer never runs out of fuel, pays for fuel sitting in the tanks, or risks a bad fuel purchase when market prices fall.

Boyett Petroleum's current success owes in part to its longtime brand identity in its home territory. Now Dale Boyett is optimistic about replicating that success as his company leverages its new Oklahoma City regional office to expand its dealer network into the Mountain West and Mid-Continent markets.

"What differentiates us with dealers," Boyett relates, "is that we have our own company-operated retail. We're experienced in retail. We speak retail. We have branded and unbranded programs to fit each dealer's market. Also, we can do fixed contracts and inventory management to help dealers be successful. For much of our history we focused on small and rural markets. But now we also have partner sites in major metro areas." ▶

While Boyett believes his company offers a strong value proposition to dealers, he notes that expansion is also the right move for Boyett Petroleum. “California may be a big state,” he says, “but geographically, the Pacific Ocean imposes a limit. Politically, the state isn’t friendly to business. It takes four years to get building permits, then construction costs are very expensive. And culturally, Californians won’t buy food at gas stations.”

By contrast, Boyett reports that Oklahoma is a friendlier business environment. “With our new regional office being built in Oklahoma City, we can plant our flag in the middle of the continent,” he says. “We’ll spend the next 3-4 years getting licensed in the Rocky Mountain and Mid-Continent states. With the industry consolidating, we need to grow beyond California and Nevada. But even as a bigger company, we’re still small enough to be nimble.”

Giving Back

Boyett’s enthusiasm for the mid-continent is also buoyed by his involvement in Wally’s—recently profiled in the September/October 2022 issue of Independent Gasoline Marketing. Wally’s launched in 2020 pioneering large-format, consumer-focused travel centers. The first site in Pontiac, Illinois boasts a $20 million-dollar, eight-acre property, a front court of almost 80 multi-product dispensers, and retro-themed destination store of 36,000 square feet staffed by 150 employees.

As an investor in the venture, Boyett believes, “The sky’s the limit in developing and expanding this new category. Not many people are doing it, so the market’s wide open. And the communities have welcomed Wally’s. Compared to four years in California, it took us only 18 months in Illinois and Missouri to get permitted.”

Boyett has also entered the tech world as a founding board member of Denver-based Cipher Skin, makers of wearable devices to track motion and biometric data for physical therapy, sports training, and virtual reality applications.

Excitement for his many ventures, however, is coupled with a commitment to giving back—a commitment Boyett picked up from his father Carl. The elder Boyett was a driving force behind creation of the Gallo Center for the Arts and served on the boards of California State University, Stanislaus, and the Modesto Symphony Orchestra, among others.

Make Dreams Real

Dale at Make Dreams Real

In 1989, Carl Boyett launched a Make Dreams Real golf tournament to raise money for children's causes. Before his death in 2015, the success of the annual event gave rise to the Make Dreams Real Endowment Fund, which today funds service-learning opportunities for local children to explore and extend their education.

For his part, Dale Boyett sits on several Modesto-area boards including the Gallo Center for the Arts and now oversees the Make Dreams Real Endowment Fund. The tournament is held annually in May and has expanded to golf, cornhole, bocce, pickleball, fishing, barbeque, and a mixology event. Boyett also spends time with his high school-aged sons Cole and Reese.

Giving back likewise motivates Boyett's industry involvement as a past president of the California Independent Oil Marketers Association and now as SIGMA president. "I'm excited about all the opportunities before us, both for my company and for marketers," he says. To put it in perspective, he relates a story.

"When we had our Christmas party at the new Oklahoma City office," he recalls. "There were about 20 people in the room. I thought to myself, 'This is like when I first joined my dad 30 years ago.' But that's how our industry is. We grow, but growth also brings new opportunities to start and do new things." ★

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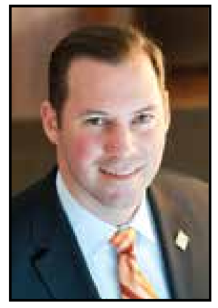

Inside SIGMA

BY RYAN MCNUTT, CEO, SIGMA

Headwinds

"What we need to do is always lean into the future; when the world changes around you and when it changes against you – what used to be a tail wind is now a head wind – you have to lean into that and figure out what to do because complaining isn't a strategy." ~ Jeff Bezos

In 2019, my column for this issue was about headwinds as we began to appreciate the considerable challenges facing our industry with the growing and pervasive perception that electrification of the fleet is the answer to our country's environmental problems. Fossil fuels, such as the liquid transportation fuels that SIGMA members market, were labeled the enemy with little understanding or appreciation for the climate, energy security, and safety costs of heading down that path. Since I wrote that column, the federal government has passed legislation providing huge incentives benefitting EVs and several states have banned the sale of new internal combustion engine cars beginning in just a few years. Headwinds indeed.

We continue to need all of SIGMA's members' considerable talents and acumen to convert our headwinds into tailwinds. To be successful, we need each SIGMA member to consider what you can do to strengthen our position. Do you have a compelling story to tell? Share it, so others can use it as an anecdotal resource in advancing the interests of our industry. Do you have relationships with Members of Congress that would be advantageous to our cause? Share them, so we can build on the foundation you have started. If you regularly attend SIGMA events for the networking, now is the time to become active in advocacy. With a divided government in Washington, much of the climate action will occur at the state level. If you aren't already, I encourage you to get involved with your state association to make a difference. There are opportunities out there to evolve your business to adapt to the changing market, but you need to be able to compete on a level playing field for there to be a case for private investment in EV charging infrastructure.

SIGMA has always been a great resource for making new connections. As we move forward, we need to continue to expand into the best place for sharing information. Our industry depends on it. Life and business histories are an important part of that process. Relationships are an important part of it. New ideas are a part of it. A willingness to take risk is a part of it. And your involvement is critical.

In the words of Henry Ford, "When everything seems to be going against you, remember, the airplane takes off against the wind, not with it." Our industry may be facing challenges, but we have adapted in the past and come out stronger. We can do it again, and today's headwinds will be tomorrow's tailwinds. ★

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Ryan McNutt, CEO, SIGMA

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Washington WATCH

SIGMA Considers 2023 Policy Priorities

In early February, SIGMA's Legislative Committee and other interested SIGMA members met virtually at the SIGMA Winter Legisative Conference to consider the associations' proposed priority legislative and regulatory issues for 2023. The discussion focused largely on policies that will enhance the fuel supply and improve the environmental attributes of transportation energy.

SIGMA's 2023 core legislative priorities focus on clean fuel policies and incentives, with the Legislative Committee proposing to the SIGMA Board of Directors three tiers of legislative priorities that will determine SIGMA's level of involvement Additional priorities considered also included climate change and transportation, retail crime and tobacco issues, and payment systems. Other areas of concern discussed were labor policy, business taxes, and food policy.

Congressional Outlook

SIGMA's engagement on its 2023 policy priorities comes against the backdrop of a divided government that many expect will result in a legislative logjam this year. House Speaker Kevin McCarthy (R-CA) holds a very narrow majority of just four seats in the House of Representatives despite the election of 76 new House members. Democrats, meanwhile, hold the Senate majority, led by Senate Majority Leader Chuck Schumer (D-NY).

Congress is expected to advance just four major pieces of legislation this year, including the must-pass Federal Aviation Authorization, Farm Bill, National Defense Authorization Act, and an appropriations bill. Each measure represents an opportunity for SIGMA to engage on its legislative priorities. The limited number of legislative vehicles, however, means that SIGMA ultimately will need to pursue its policy agenda through ▶

a myriad of regulatory agencies, including the Department of Treasury, which historically has not been an agency of oversight for the fueling industry.

Renewable Fuel Standard

Of importance to SIGMA members, the Committee proposed prioritizing the Renewable Fuel Standard and energy tax credits, including the need for tax parity between sustainable aviation fuel and biodiesel, the industry's long-standing efforts to sell year-round E-15, and the need to maintain renewable diesel labels on fuel pumps as top concerns in 2023.

Reflecting this level of prioritization, SIGMA filed lengthy comments in February on the Environmental Protection Agency's renewable volume obligations for 2034, 2024, and 2025 under the Renewable Fuel Standard (RFS).

Additionally, SIGMA Senior Policy Advisor Jessi Frend testified in January that EPA's newest proposal "is the most disappointing" that the industry has seen to date. Specifically, Frend testified that the agency is proposing an ambitious ethanol blending mandate that is more than a billion gallons higher than the agency acknowledges the market is likely capable of absorbing. She further testified that the agency should eliminate barriers to selling E-15 during summer months. SIGMA asked EPA to re-examine the decentralized regulatory requirements around lawfully storing and selling E15. SIGMA urged the agency to eliminate policy uncertainties that function as an artificial ceiling on the amount of ethanol that the market will consume. SIGMA also testified that EPA is squandering an opportunity in its E-RIN proposal by awarding E-RINS to automakers rather than EV charging station owners and operators, which could make investments in EV charging stations profitable sooner and therefore encourage fuel marketers to make investments.

Electric Vehicle Charging

The Committee also proposed prioritizing in 2023 that fuel marketers can profitably invest in electric vehicle charging stations in a fair and competitive marketplace.

In this regard, state departments of transportation this year will distribute their first round of electric vehicle charging grants under the National Electric Vehicle Infrastructure Formula Grants in the Infrastructure Investment and Jobs Act. State DOTs are expected to quickly open and accept grant applications following the Federal Highway Administration's (FHWA) February 15 announcement of a final rule on the minimum standards for EV charging.

SIGMA is working with FHWA, state DOTs, and its membership to ensure that fuel marketers are ready to access those grants, which must prioritize the private sector locations in designated alternative fuel corridors and that provide amenities for motorists.

New to the SIGMA's top policy priorities is the need to profitably invest in hydrogen fuel for commercial fleets, which are actively working to transition to this new fuel technology

in coming years. Both the Inflation Reduction Act and the IIJA included incentives for the development of hydrogen as a transportation fuel. The Legislative Committee proposed that SIGMA advocate for incentives for hydrogen refueling infrastructure, specifically focused on mobility and public access to the transportation fuel.

In recognition of the hurdles facing the liquid transportation fuels industry, the Committee proposed that climate change policies be similarly prioritized as SIGMA's core clean fuel policies. These issues include Environmental Social Governance, the Low Carbon Fuel Standard, fuel economy standards and internal combustion engine bans, as well as multi-state climate initiatives, carbon taxes, and cap-and-trade programs.

Other Legislative Priorities

Additional areas of discussion on which SIGMA will engage, but at a lower priority level, were transportation, food and tobacco issues, payment systems, and labor policy.

As it did last year, SIGMA will continue to engage in efforts to maintain the federal prohibition on the sale of fuel and other commercial services at rest areas, including EV charging. Although the Federal Highway Administration issued guidance in 2022 reaffirming that states may not implement EV charging stations at rest areas, the industry faces a challenge on this issue as certain agencies and state DOTs seek to reclassify charging stations as vending machines.

The Legislative Committee also proposed focusing resources on a number of issues that are detrimental to the overall health of the business community or pose unnecessarily burdensome compliance requirements:

- The SEC is expected to issue a final rule for its proposal on ESG reporting requirements in the Spring of 2023. The Biden Administration also has proposed to require certain federal contractors to report emissions data.

- Congress will reauthorize the Farm Bill in 2023, which includes the Supplemental Nutrition Aid Program (SNAP), among other food policy issues. SIGMA will continue to advocate for legislation that would allow for the purchase of hot foods with SNAP benefits.

- FDA's unified regulatory agenda indicates the agency plans to issue a final rule on a tobacco product standard that would prohibit menthol cigarettes and flavored cigars in August 2023. Similarly, FDA is scheduled to issue its proposal reducing nicotine in combustible cigarettes in October 2023.

- SIGMA will continue to support legislative efforts to bring down the costs of credit card transaction fees. Senators Dick Durbin (D-IL) and Roger Marshall (R-KS) have indicated their plans to reintroduce the bipartisan Credit Card Competition Act, legislation that would require two network routing options for credit card transactions.

- SIGMA also supports efforts that aid marketer's ability to run their business operations, including such labor concerns as joint employer status, the definition of an independent contractor, and the Biden Administration's recent push to ban non-compete agreements. SIGMA anticipates that the agencies that oversee labor regulations will finalize certain proposals such as the revised definition of a joint employer and the regulations that allow employers to classify certain workers as independent contractors. ★

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Inside RISK MANAGEMENT

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

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Mental distractions for your fleet drivers can be just as dangerous as physical ones — whether consumed by emotions such as anger, stress, and worry; phone use; or simply letting your mind wander.

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In-Cab Technology and Federated DriveSAFESM

Company drivers face dangerous mental distractions on a daily basis — and your employees' poor driving behaviors can put your company at greater risk of injuries and turnover, lost lives, litigation, lost productivity, and damage to your company reputation.

To help you combat increasingly dangerous roads, consider the use of in-cab technology. For example, Federated® has launched a free, value-added service for policyholders known as Federated DriveSAFESM. Through a combination of a mobile application, desktop portal, and in-cab vehicle tag, Federated DriveSAFE measures and helps improve driving behaviors in these areas:

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Drivers receive an overall score following each trip, as well as information about their trip that could help improve driving habits. Additionally, through the intuitive Fleet Portal, business owners and fleet managers will receive automated weekly summaries of how company drivers are doing behind the wheel, which helps them make informed decisions.

Evaluate Your Mental State Behind the Wheel

Additionally, in-cab technology can open up the floor for safe driving discussions and training opportunities. Plus, knowing that their driving behavior is being evaluated may help employees make better decisions on the road.

Above all else, you want your employees to make it home safe today. By utilizing in-cab technology, you can help your fleet drivers learn to avoid mental distractions and improve their driving habits with a constant reminder to stay mentally present when behind the wheel. ★

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Hotel

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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/.

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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.
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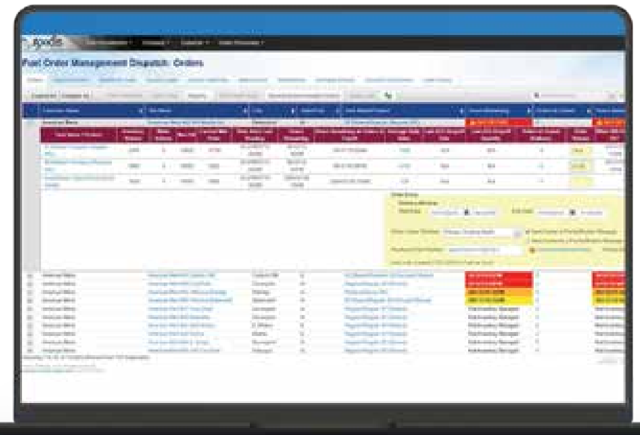

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U.S. Diesel Supplies Rise in Winter

JARED AINSWORTH, ARGUS MEDIA

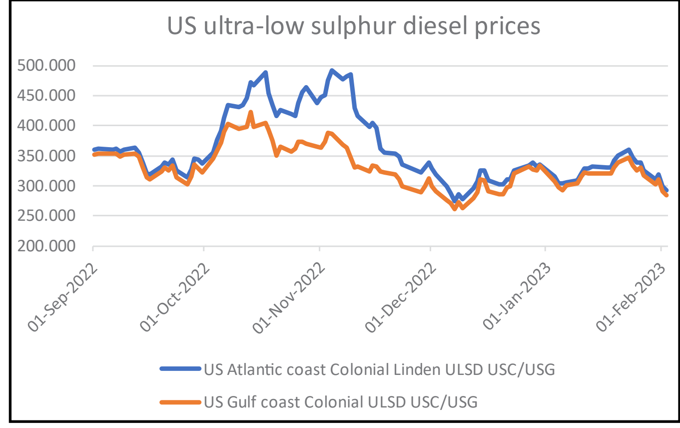
The global winter diesel supply outlook in the United States was gloomy last fall when inventories had tightened, frigid months loomed, and Russia's ongoing conflict with Russia cast a shadow of uncertainty. Instead, relatively mild temperatures in Europe ensued, failing to create neither an anticipated natural gas shortage nor a subsequent dearth of diesel supply. These dynamics were felt in the United States, where surging diesel imports and soft demand have built inventories.

Implied demand of U.S. distillate fuel oil — which includes diesel and heating oil — lagged year-earlier levels by 13% in January with a weekly average of 3.85mn b/d, according to the U.S. Energy Information Administration (EIA). U.S. distillate fuel inventories averaged 117mn bl that month, down by 7.7% from January 2022 and the lowest for any January since 2001. But the gap from typical stockpile levels has narrowed, as inventories have risen by nearly 10% since October, when they were 16% below year-earlier levels at 106mn bl.

At the U.S. Atlantic Coast, where some states use distillate fuel for home heating, fuel marketers and distributers in early December warned of potential distillate demand for electric generation, and that came to fruition when increased demand for fuel switching transpired later that month as U.S. Northeast natural gas prices pushed higher. Yet supply wasn't strained, as diesel stockpiles at the Atlantic Coast climbed by 30% to 33mn bl from October to January amid rising imports and steady pipeline movements from the U.S. Gulf Coast.

Waterborne diesel deliveries at the Atlantic Coast surged by 87% to about 302,000 b/d in January from December, marking a 77% rise from a year earlier to the largest import volume in 11 months, according to oil analytics firm Vortexa. Diesel arrivals from Canada were the highest since at least January 2016 at nearly 162,000 b/d, up by 50% from January 2022 as movements of Canadian diesel to Latin America were reduced by 45% to almost 15,000 b/d from a year earlier.

Diesel arrivals from India similarly climbed to the highest in nearly four years at nearly 87,000 b/d in January, which was up from zero a year earlier. This came as India curtailed shipments to Asia and the middle East by 43% to nearly 109,000 b/d from a year earlier. Meanwhile, domestic movements have steadily flowed into the Atlantic Coast, as Colonial Pipeline's main distillate-bearing Line 2 has been fully allocated for 21 consecutive cycles since late October. New York Harbor diesel prices have averaged a 35.71¢/USG premium to the Gulf Coast since the beginning of October, holding well above Colonial's 6.58¢/USG tariff for shipping from Pasadena, Texas, to Linden, New Jersey.



U.S. Diesel Demand Could Rise in Spring

Questions still linger regarding U.S. diesel supply heading into the spring. While diesel demand for home heating will taper in the coming months, demand for diesel in the agricultural sector will climb during the spring planting season. Diesel stockpiles have risen since last fall, but they remain well below usual levels. At the U.S. midcontinent, where most U.S. agricultural activity unfolds, diesel stockpiles lagged year-earlier levels by 9.8% at 28mn bl in January. Midcontinent diesel inventories fell to record lows last September ahead of the fall harvest season and rising agricultural activity could draw from stocks again in the spring. That upswing would likely pull increased pipeline shipments from the Gulf Coast, potentially tightening the amount of fuel headed northeast to the Atlantic Coast.

When midcontinent stocks were thin last fall, arbitrage economics strengthened with Gulf Coast prices fetching an average discount of 21.07¢/USG to Magellan Pipeline prices at Group Three, which serves much of the Great Plains. That marked the widest spread between the two regions for any October since at least 2013, and it was well above the 0.52¢/USG discount the Gulf Coast averaged a year earlier. ★

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Inside FAMILY BUSINESS

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

Greed

The recent headlines about FTX and Sam Bankman-Fried prompted me to offer this Reece Reminder from 2016.

Several years ago, I heard someone talking about what emotion she had encountered that totally destroyed people she had known. She went on to describe greed as the culprit. I'm not sure greed is something we typically categorize with other emotions such as fear, joy, sadness, etc. However, it certainly brings about a feeling of some kind but I would classify it more as a motivation to act in a certain way. This conversation got me thinking about greed in family business or business in general. We've all seen it in someone or maybe even in ourselves from time to time.

The dictionary defines greed as "a selfish and excessive desire for more of something than is needed." And of course, greed is one of the Seven Deadly Sins. If you're like me, you grew up learning the value of a dollar and went to work at a young age to make as much money as you could. But there is a difference between those of us who work to make a good living and those who cross that invisible line, the line that is always in pursuit of the next almighty dollar. More is never enough. The dollar then comes to supersede relationships and family. Cherishing things more than people or relationships is hurtful to those who are in proximity.

Money is the root of all evil. Not! The love of money is the root of all evil.

Greed is often born of scarcity – emotional scarcity most likely, but also the scarcity of other basic physical needs. Maslow's hierarchy of needs comes to mind.

Another view is that greed is programmed into our genes and is there to promote survival. Without it, individuals, communities, or society may be void of the motivation to build or achieve or change. ▶

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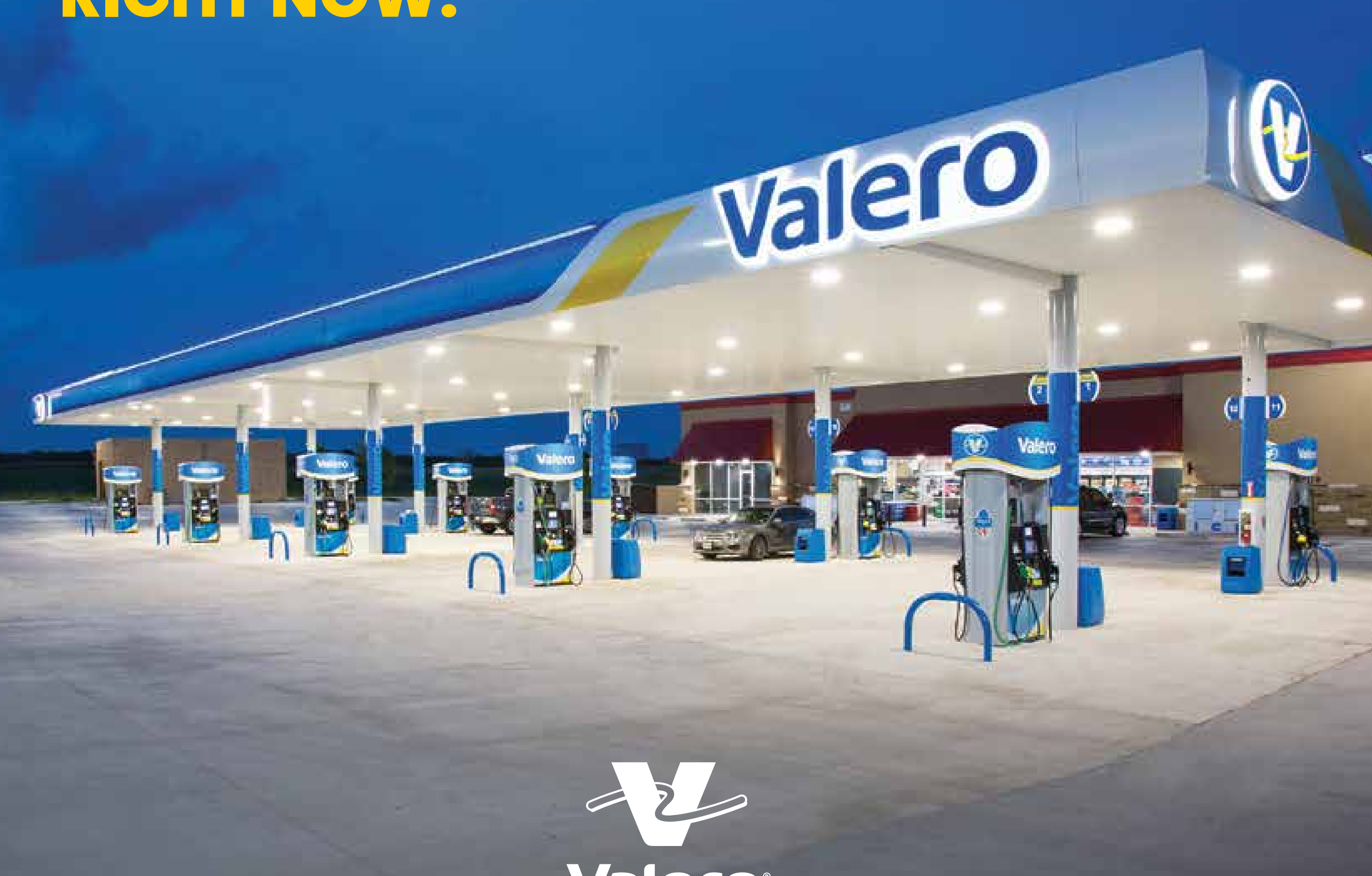

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I am often apt to say that, "I am a capitalist at heart" and many have heard me say, "Rich or poor, money helps."

Most any one reading this article, I believe, would describe themselves as a capitalist. And of course, we all know that all capitalists are just greedy – right?

The Ebenezer Scrooges and the Bernie Madoffs (and now Sam Bankman-Frieds) of the world give capitalism a bad name. Some would say their greed epitomizes the fundamental problem in capitalism, but what about Bill Gates, Steve Jobs, and Warren Buffett?

In the 1987 film Wall Street, Gordon Gekko said, "Greed, for the lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge has marked the upward surge of mankind."

Deception is a common outcome of greed, as are envy and spite. Greed is also associated with negative emotional states such as stress, exhaustion, anxiety, depression, and despair, and with maladaptive behaviors such as gambling, scavenging, hoarding, trickery, and theft. By overcoming reason, compassion, and love, greed undoes family and community ties and undermines the very values on which society and civilization are founded. Greed may fuel the economy, but looking at recent history it would be hard to argue that uncontrolled greed did not contribute significantly to the 2008 deep economic recession.

The 20th century economist Milton Friedman has argued that the problem for social organization is not to eradicate greed, but to set up an arrangement under which it does the least harm. For Friedman, capitalism is just that kind of system.

Economist Adam Smith spoke to this many years ago and more recently Jay W. Richards' book Money, Greed, and God does so as well.

Chapter 5 in particular is devoted to the myth that capitalism is driven by greed, and Richards makes a number of useful points to dispel many myths about capitalism and emphasizes that capitalism is not at all contrary to Christian principles as many people have said:

1. The fact that individuals in a capitalistic society happen to be greedy, does not mean capitalism is actually based on greed. Richards is quick to distinguish the greedy intentions of individuals (which, unfortunately, are prevalent), with the capitalistic system itself.

2. There is a difference between selfishness and self-interest. Capitalism is based on people operating out of their own self-interest, says Richards, not operating out of selfishness. Self-interest is not in itself immoral. Indeed, many of our daily actions are based on self-interest, such as brushing our teeth, looking both ways before crossing the street, and eating healthy foods.

3. Thus economic exchanges in a capitalistic system are mutually beneficial. Because capitalism is built on self-interest, it means that people only engage in economic activity when it is mutually beneficial. When Joe buys meat from the butcher he does so out of the belief that the meat is more valuable to him than the money it costs. Thus, he exchanges the money for the meat willingly. He is not forced to beg for the meat, nor is he forced to buy the meat. He buys it because it gives him a benefit. ▶

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GREED IS NOT GOOD BUT SELF INTEREST IS. GREED MAY BE SELF-INTEREST ON STEROIDS!

Likewise, the butcher also sells the meat willingly. He sells the meat because he believes the money is more valuable than the meat he is selling.

Thus, in a capitalistic system both parties benefit.

4. Capitalism does the best job of channeling selfishness for good ends. Although capitalism isn't based on selfishness, it does do a very good job at channeling it towards a good outcome. Imagine an economic system that required everyone to act selflessly – it would be doomed to fail. Instead, capitalism, argues Richards, accounts for the fact that some (most?) people will act selfishly and guides their actions into good outcomes. If the butcher is selfish and tries to sell a piece of spoiled meat, he cannot force people to buy it in a free economy. Thus, it is in his best interest to offer meat that the consumer actually wants. Richards comments, "The cruel, greedy butcher…has to look for ways to set up win-win scenarios. Even to satisfy his greed he has to meet your desires."

5. Capitalism actually encourages generosity. Richards points out, contrary to popular opinion, that there is no evidence that America is greedier just because it's capitalistic. In fact, America is, by a landslide, the most generous country in the world when it comes to charitable giving.

The joy of life is in sharing the wealth – the opportunities and ideas so that all boats rise. And we all know you can't take it with you. In all of my years of working with family businesses one thing that has continued to impress me is the level of community involvement and giving back. I've written about this previously.

Clearly, family business owners have a strong sense of social responsibility. But John Mackey, CEO of Whole Foods, and others think there is even more that businesses can do. They call it the Conscious Capitalism Movement. Check it out at http://www.consciouscapitalism.org/ if you are interested.

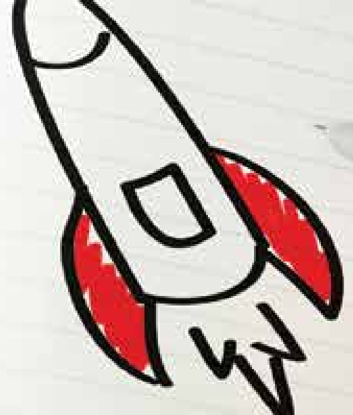
Anyway, several years ago one of my SIGMA clients asked, "Do you know how to not let money control you?" Almost simultaneously we said, "Give it away."

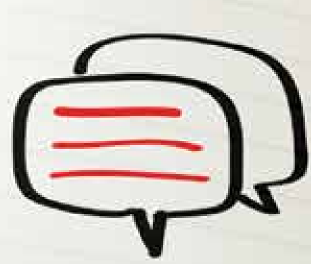
Soon,
Ron

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

He can be found at:
800 E. Washington St., Ste-C, Greenville, SC 29601
Phone 864-233-6648 Fax (864) 233-3706,
Email reeceassc@aol.com • Website www.ronreece.com

Building a Solid Company BRAND





BY MAURA KELLER

With companies vying to differentiate themselves in a crowded petroleum marketplace, there is a renewed respect for the potential power of the corporate brand. Just ask Dan Wallace, marketing advisor and professor in marketing at the University of Wisconsin.

"Brand management seeks to stimulate customer purchases and reinforce future purchases. If a brand is appealing, people might buy it. If the value received is satisfying, people may buy it again," Wallace says. "Eventually, buying the brand becomes a habit." Brand names, symbols, phrases, and consistent design position a brand promise and make it easier to quickly identify brands, recall experiences, and form habits. Strong corporate brands will help attract quality employees and investment capital. Strong retail brands attract customers to a store. And strong product brands lead to sales and profit.

Altitude Marketing's chief strategy officer Adam Smartschan, says that establishing and nurturing a strong brand has arguably never been more important than it is now. The competitive environment has never been more crowded, and economic concerns are starting to limit both corporate and consumer spending.

"As recently as 20 years ago, 'competition' probably meant one or two companies either down the street or in the broader market. Now, it's effectively unlimited; even what were once brick-and-mortar staples are facing 'as-a-service' competition in the digital sphere. That means differentiation – giving someone a reason to buy from you, and not the dozen other options – is critical," Smartschan says.

And that's where brand comes in. A recognizable, evocative brand is a business' calling card in the market, offering a reason to choose it instead of other options. And as Smartschan explains, done right, it can become shorthand for the company – and what the company represents.

"Want a safe car? You probably think of Volvo first. Luxury? That's Mercedes-Benz or BMW. Reliability? Toyota and Honda say hello. Are those the safest, most luxurious and most reliable options available? Maybe so, maybe not. But their brands immediately evoke it," Smartschan says. "Brands done right can even grow into part of customers' identities. Take Pennsylvania. There's Wawa country, and there's Sheetz country (with a little Turkey Hill, Royal Farms, and Rutter's for the contrarians.) Here, which you like better is a 'thing,' and it's used as an immediate gauge. Both are gas stations with quick-serve dining options. But one says "Philly" and the other says "country," no matter which way the Shmuffin crumbles."

Smartschan further suggests that establishing a solid brand is more than having a cool logo and name. It's about effectively communicating the importance of your brand to your audience and executing on that importance.

"Creating a solid company brand comes from having a solid brand strategy. Your brand must have strong positioning that differentiates your brand from competitors," Smartschan says. This information can come from competitive brand analysis, stakeholder insights, SWOT analysis, industry and persona research, and a positioning statement.

Smartschan says that once you've identified how to position your brand, you can develop your brand messaging. This is how your brand communicates with your target audience. This includes core, website, and creative messaging, which will be supported by your content. When creating content, you want to ensure it highlights your brand and is effective and useful for your audience.

"But it doesn't stop there. Workplace culture can also help build a solid brand," Smartschan says. "For instance, a mission statement explains your company's purpose. This is important because employees often follow mission statements, which will set the tone for success."

Attributes of a Good Brand

Increasing sales and profit over time is one indicator of a strong brand. Decreasing sales and profit over time is a sign of a weak brand.

"Although, there are many other factors at play such as economic conditions, competitive pressure and investments to create competitive advantages," Wallace says. "One way to understand the strength of a brand is to poll customers and ask if they would recommend the brand to their friends – if over 80% answer 'yes,' it suggests a strong brand."

Having a good company brand begins with the customer experience and the value customers receive from the brand. As Wallace explains, at a basic level, people want to save time, save money, increase pleasure, and decrease pain. Giving customers what they want is the best place to start.

"Kwik Trip is headquartered in La Crosse Wisconsin, the town where I live most of the year. It is a strong brand in the Upper Midwest. The Kwik Trip store brand began by focusing on efficient operations, quality products, and providing pleasant experiences in the physical stores and with employees," Wallace says. "They also invested in vertical integration, a strategic advantage that increased quality and lowered cost. Now Kwik Trip is improving brand communication. The rebranded Urge line of chips is an excellent example." ▶

Steps To Take In Establishing a Strong Brand

So what are the steps that companies can take to evaluate the strength of their brand?

Start by finding out what customers want, then improve the customer experience and value provided to customers. Wallace suggests companies become different from competitors in ways that are desirable to customers.

"Along the way, make sure that your brand communication is consistent and memorable across the customer journey, both online and in the real world," Wallace says. "It is expensive to re-engineer brand communication, so pay close attention to what you say along the way."

Paige Arnof-Fenn, founder & CEO at Mavens & Moguls has helped build several successful brands before starting a global branding and digital marketing firm 20 years ago. She believes branding is very important to growing your business because if you do not brand yourself, then the market will brand you instead.

"The single most important ingredient to creating a great brand is authenticity," Arnof-Fenn says.

Some tips Arno-Fein shares with regard to establishing a solid company brand include:

Be original. What makes you unique or special? Think about brands like Chick-Fil-A, they do not try to compete with other fast food brands on menu items, they are all about chicken, they have amazing customer service and they are closed on Sundays as a corporate policy and yet they continue to grow.

Be creative. How do you want people to think and feel after interacting with you versus your competition? Brands like Apple and Virgin transcend the products they sell. It is about a lifestyle and way of life when you consider purchasing from them.

Be honest. Let your brand be known for speaking the truth, and you become the trusted advocate and go-to source.

Be relevant. Brands aren't created in a vacuum. Nike does a great job of signing athletes across multiple sports to reach their audiences. So whether you are young or old, male or female, it is winter or summer, Nike has someone on their roster you can relate to.

Be consistent. Develop a cohesive message, and live it every day. Coca-Cola has been around for more than a century and you do not need to see the logo to know it is a Coke ad, they always have the familiar bottle/can, colors and images that build on their past and leverage the nostalgia for the brand.

Be passionate. Everyone loves to work with people who are passionate about what they do; it makes life much more fun and interesting. This is the bonus strategy where brands can really stand out. It is hard to fake passion, when your employees love their jobs the customers feel it too and brands that create evangelists have a huge competitive advantage in the market. Apple and Chick-Fil-A understand this and it shows.

"Having a good reputation is incredibly important to building a strong brand. To manage your online reputation and set yourself up for success, set up a Google Alert for your company's name and your key people to notify you any time one of your press releases post, when your name is mentioned on another website, or whenever you are indexed by Google," Arnof-Fenn says. "As a business leader, you'll want to monitor and track everything that reflects on your business and you personally as well. It is best to know what digital dirt exists on you so you do not get blindsided or surprised when people check you out online. Reputations are built on actions and those who deliver or exceed on their promises build strong legacies but when they disappoint their reputations get tarnished."

Smartschan points out that brand evaluation is a tricky thing. Some of it is cultural, and some of it is subjective. That said, it's all measurable if done right.

"The simplest brand evaluation tactic is focus groups – both during brand development and after it's been 'in the wild.' When it's shown, is it received well? Do people connect it with your company? Does it feel like it 'fits?' Think of the mobile games that show part of a logo and ask you to name the business. Could you pass that test in your market?" Smartschan says. "A weak brand will fail the recall test, or, worse, it will represent something different from what you offer. That could be a competitor, or just something 'off.' If it's not memorable, or if it's just not 'you,' it needs work."

Repetition and experience are key here – and they don't work without one another. You remember jingles not because they're great, but because you've heard them over and over. And they only evoke positive emotions in you if you tie them to a great experience.

"The same goes for the fuel and c-store space," Smartschan says. "Eastern Pennsylvania staple Wawa, for instance, has long pitched itself as tech-forward – its touchscreen ordering system goes back decades. It's taken things a step further with a user-friendly app that activates a pump as soon as you drive up. They're forward-thinking and convenient – it's been repeated, and it's lived."

Brand strategist, Victoria Zvade, says by performing research on their market, a company will understand what their core audience needs and expects. These needs can change with each new generation and geographic location, so it is important to get regular feedback from the audience.

"Companies should understand not only their own values and business objectives, but how language and culture can make an impact on translating those values into brand assets such as slogans, campaigns, and initiatives," Zvade says. "Without the proper considerations, bad marketing design can send the wrong message altogether. Bad design is noticed, and consumers immediately decide that the brand is not for them – even if they can't put their finger on a reason why. This is a huge reason why a brand would not stay in a consumer's mind. Consistency works because of the psychology behind advertising and the number of impressions it takes to warm a lead up to a sale and eventual loyalty. The effectiveness of a corporate brand identity is weakened by inconsistencies in advertising visuals, market positioning, and social values."

The Future of the Company Brand

While the concept of company brands as been a key target area among marketing teams for the last few decades, it is evident that brands will always be important, particularly for retail consumer brands. Wallace sees brands being linked to the customer experience, which has grown inherently importance in our digital age where a company's reputation can be tarnished with a click of a button.

"People form memories through experiences across time and space, and the total experience customers have turns into a brand. If the experience is valuable to customers, the brand will likely thrive," Wallace says.

Smartschan believes that "brand" and "marketing" will never be truly separate. They inherently play off each other – marketing appeals to the brand's memorability and evocation, while the brand relies on marketing for repetition and a place in everyday life.

"And competition – even in unexpected places – won't get lighter anytime soon. A strong brand is absolutely a way to create a reason for buyers to choose you," Smartschen says. "More and more, the brand conversation will be about whether it's backed up in the real world. It's never been easier to blast a message to the world. Even TV – once the domain of high-cost commercials – can be accessed via any DSP for a few hundred dollars, with better targeting than 20th century advertisers could have dreamed of. That means a lot of claims are being made. The key? Laying out a positive vision, making it hit home, and following through." ★

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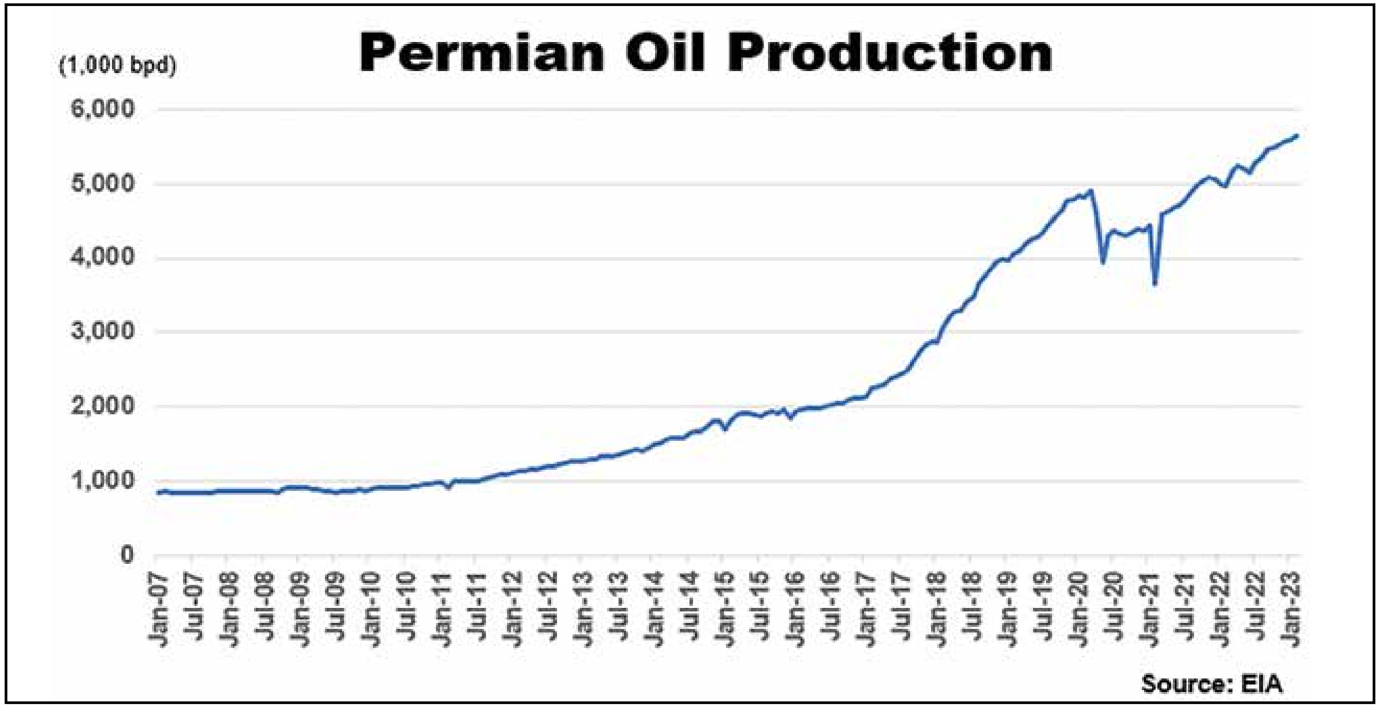
Evolving Upstream Dynamics Spurred by Export Markets

BY BRIAN L. MILNE, DTN EDITOR, ANALYST



U.S. crude oil production peaked during the final two months of 2019 at 13 million bpd before dropping below 10 million bpd five months later during the COVID lockdowns. As West Texas Intermediate futures averaged more than $100 bbl for five months in 2022, domestic crude output would climb only gradually, reaching 12.4 million bpd during the fourth quarter.

Quicker output growth was partly thwarted by a shortage of workers, with oilfield services and equipment employment growing to 652,090 in January, but still more than 50,000 below February 2020 when the sector employed 706,528 workers, according to the Energy Workforce and Technology Council. In its Short-term Energy Outlook released in February, the Energy Information Administration (EIA) doesn't expect U.S. crude production to top 13 million bpd on a quarterly basis over the next two years despite a projected decline in Russian crude output that is seen pressured lower by sanctions and embargos for Moscow's illegal aggression in Ukraine. EIA expects Russian oil and liquids production to decline this year by 1.07 million bpd or 9.8% to 9.87 million bpd.

EIA forecasts 2023 domestic crude production to climb a stout 590,000 bpd year-on-year to 12.49 million bpd, and then edge up 160,000 bpd or 1.3% annually in 2024 to 12.65 million bpd. Most of the growth in production is expected from the Permian Basin, where operators have consolidated amid a strong wave of acquisitions, with oil output in the basin averaging 5.635 million bpd in February.

Baker Hughes weekly oil rig count for North America illustrates the gradual pace in U.S. oil production growth, hobbled by rangebound trade for WTI futures since late November 2022. Typically, there is a 15 to 20 week lag between a change in WTI futures price and a change in the number of active rigs. Yet, as Rusty Braziel with RBN Energy LLC noted in a January blog, the rather recent phenomenon of "producer discipline" will throttle output growth, as publicly traded exploration and production companies cut drilling budgets to reward shareholders.

"Producer discipline is now a powerful, permanent force in the U.S. crude oil market and production is now much less sensitive to price," said Braziel, adding that this change in behavior "has big implications for 2023 and beyond." ▶

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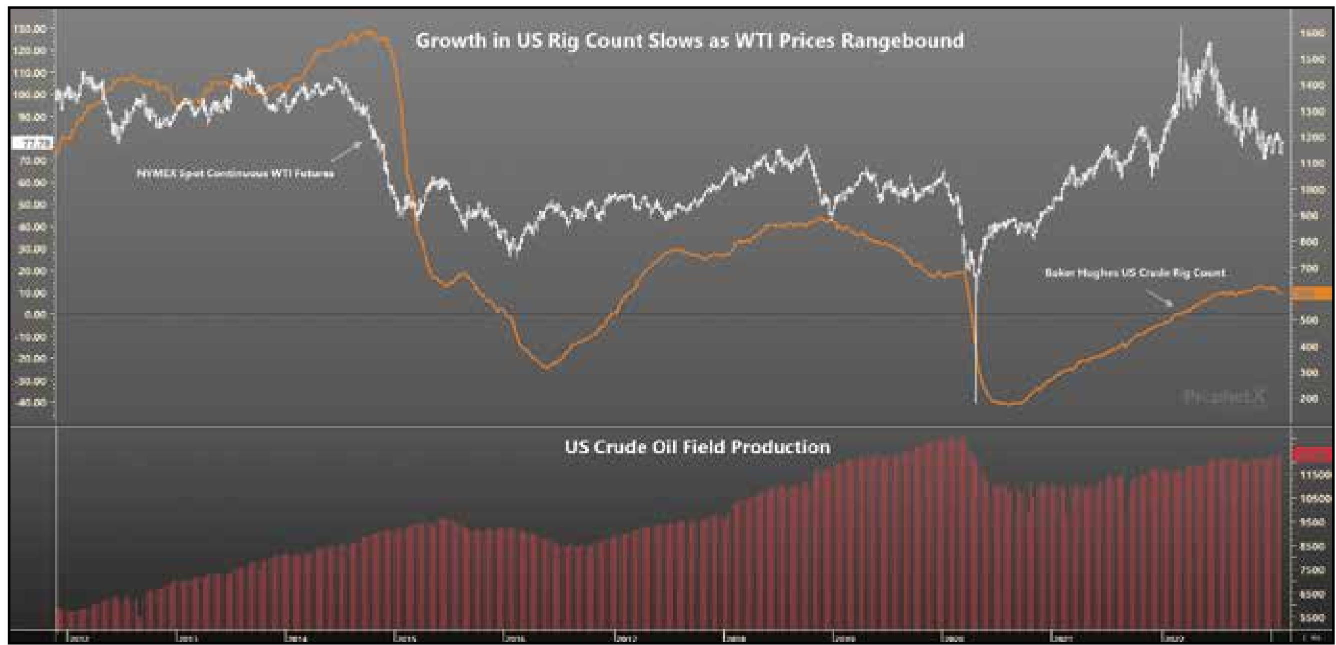
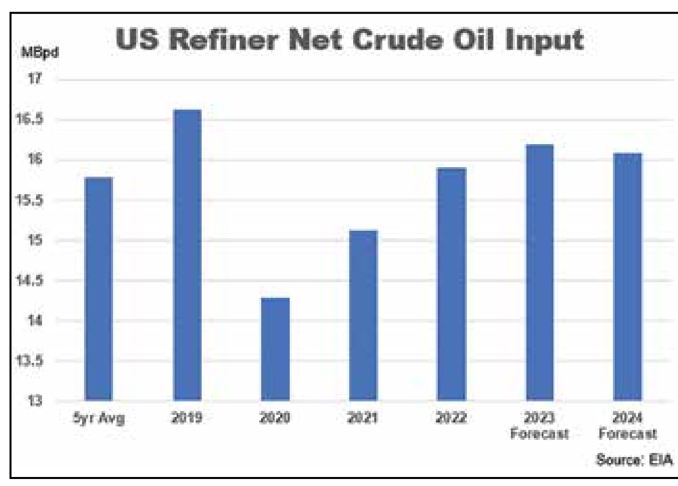


RBN Energy's Jason Lindquist noted in a blog series on the oil releases from the Strategic Petroleum Reserve in 2022 directed by President Joe Biden following Russia's invasion of Ukraine that those drawdowns from emergency reserves "may have also had the unintended consequence of hampering the acceleration of production."

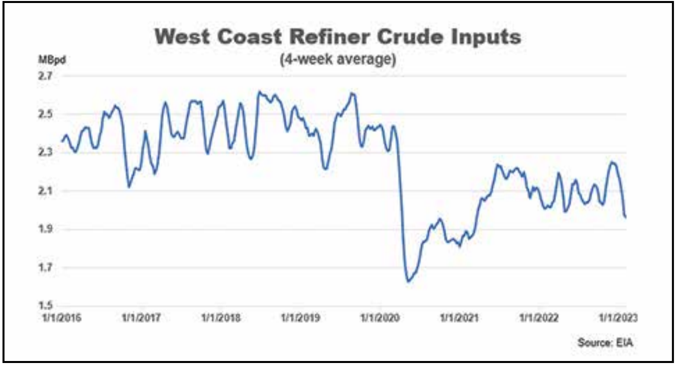
U.S. consumption of oil products is seen flatlining over the next couple of years, with gasoline consumption in 2023 seen flat at 8.76 million bpd and at 8.73 million bpd in 2024 even as vehicle miles traveled grows. Gasoline consumption averaged more than 9.3 million bpd from 2016 to 2019. In early January in response to a question about the effects of work-from-home dynamics at Goldman Sachs Global Energy and Clean Technology Conference, Jeff Dietert, vice president of Investor Relations with Phillips 66 Company said, "We've not seen commuters go back to that 33% that was pre-pandemic component of overall U.S. gasoline demand."



U.S. refining capacity declined by 700,000 bpd from 2019 to 2021 as lost demand during the pandemic prompted refinery shutdowns by Shell Oil Products US, closing their 211,146 bpd Convent refinery in Louisiana, and Phillips 66, who shut down their 255,600 bpd Belle Chasse refinery also in Louisiana. Several refiners have or will convert units to produce renewable diesel that process cooking, vegetable oils and animal fats instead of crude oil, further reducing domestic demand for crude oil.

Federal incentives to blend more renewable fuels are bolstered further along the West Coast by generous state credits to encourage the move away from petroleum. The incentives could lure in enough renewable diesel to dominate the diesel market along the West Coast.

"An average 520,000 b/d of distillate fuel oil was consumed on the West Coast in 2021. The region, which is also the largest renewable diesel importing region in the United States, could soon meet the majority of its distillate fuel needs from renewable diesel by 2025 if domestic renewable diesel capacity does, in fact, increase as scheduled," according to the EIA. ►



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LATAM	Brazilian refined products

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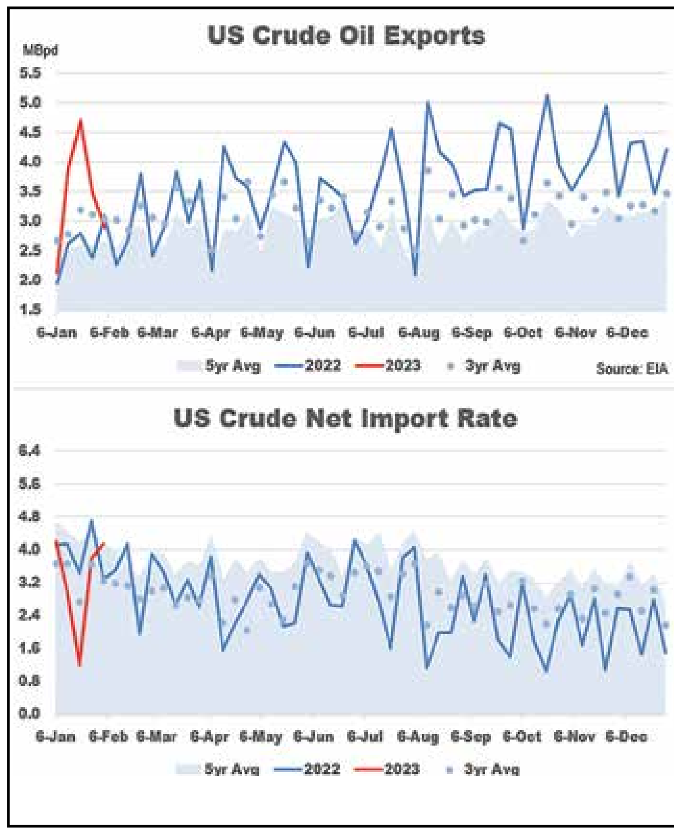
As the U.S. slate of refining capacity rationalizes in the face of slowing domestic downstream demand for products, U.S. refiner demand for crude is also weakening, prompting an historic shift in market forces that govern decisions by producers as to where crude flows. U.S. crude oil flows are now dictated by the export market, with crude exports in 2022 and early 2023 well above the five-year average. This trend will strengthen moving ahead, especially considering expanding refining capacity outside the United States in Asia, the Middle East, Nigeria, and Mexico.

An industry buildout over the past several years to move oil from the prolific Permian Basin in western Texas and eastern New Mexico to market centers is helping to facilitate this new paradigm. There are four key markets for Permian oil: the Cushing tank farm in Oklahoma, and three locations along the Texas coastline at Beaumont, Houston, and Corpus Christi. With the pipelines largely constructed, shipping economics are now the key driver in adding value for Permian producers. Corpus Christi—which has the capacity to load Very Large Crude Carriers that minimize the need for reverse lightering from smaller vessels—has seen a sharp increase in oil flow from the Permian Basin.



"That cost-efficiency edge has become increasingly important since the Russia/Ukraine war redirected crude flows into much less efficient routings, which has had the effect of blowing out ship charter rates, especially the rates for ships for smaller than the massive VLCCs, like Suezmax and Aframax vessels," explains Housley Carr with RBN Energy in a blog in January. (VLCCs can load two million bbl compared with one million bbl for a Suezmax vessel and 600,000 bbl for an Aframax vessel.)

U.S. oil producers will certainly contend with competition from the Organization of the Petroleum Exporting Countries, although one of the world's largest exporters, Russia, will experience declining output amid sanctions by the European Union and the international Group of Seven countries that include some of the world's largest economies.

"The prospects for Russian oil production in the near-term are affected most significantly by the formal and informal sanctions on imports of Russian oil. Further out, the outlook is most heavily influenced by the impact of sanctions on Russia's access to western technology and investment," said bp in their 2023 Energy Outlook.

Oil major bp expects Russian oil output to decline from about 11.5 million bpd in 2019 to between 5.5 and 6.5 million bpd in 2035 in an accelerated outlook that includes a quick transition to net zero carbon targets globally, or to around 8.5 million bpd in 2035 and 7 million bpd in 2050 amid a slower global transition to net zero in which global oil demand hovers near 100 million bpd through most of this decade. ★

Brian L. Milne is a 27-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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4 Keys to Improving Operating Efficiency in 2023

BY SID GAITONDE, PRESIDENT, ENTERPRISE PRODUCTIVITY, PDI TECHNOLOGIES

As a result of the pandemic and other factors in the past several years, approximately 5,000 convenience stores closed over a relatively short period of time—equating to nearly a 7% rate of closings across the industry. Unless you can apply the lessons from recent history to guide the evolution of your business, you risk becoming another statistic. Here are four trends that will impact c-store operators and wholesale marketers in 2023 and beyond.

1. Transforming convenience into a destination point

It wasn't long ago that consumers treated convenience stores more like a pit stop to gas up between their home and wherever they were going. Today, consumers expect c-stores to be a worthy destination point, and that requires you to uniquely differentiate your business.

Do you want to compete with nearby restaurants? Foodservice has become a popular area of differentiation, but it requires modern technology. The more fresh food and unique options you offer, the better you'll need to manage your inventory, kitchen, and staff scheduling with your ERP system.

Do you want to become a stopping point for fun merchandise and gifts? If you want to differentiate your brand through a unique product mix, you'll need to tie your expanded inventory into your ERP system for greater efficiency. That might include managing all the new SKUs and getting your vendors to refill stock-outs so you don't create more workload for your already busy employees. As a result, your ERP system will need to be much more adaptable and scalable—and better aligned with your supply chain.

No matter how you plan to differentiate your business and turn it into a destination point, your transformation must benefit both your customers and your employees—and everything depends on having a highly flexible ERP system.

2. Solving the employee shortage

We all know how difficult it is to hire and retain employees. It's especially hard when you train them for two months, get them productive, and then they leave. How do you shorten the training cycle and help your employees build the type of skills that will make them want to stay? It starts with automating or simplifying routine tasks, thus freeing up your team to deliver a memorable experience that keeps customers coming back to your store. ▶

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— Tate Sideman, Vice President & General Counsel, The Fikes Company

Automating certain tasks and processes can reduce the burden on your employees, such as introducing cashier-less checkout that's integrated with your point of sale (POS). If you can take computers out of your stores and leverage retail site management (RSM) technology in the cloud, that reduces the number of systems your employees must know and manage.

Another option for automation is to move inventory management from inside the store to the cloud. Pushing pricing changes through your POS directly to the shelf tags in the store can free up your employees to focus on proactive, value-added customer engagement activities.

In turn, this can help your hourly employees experience more satisfaction and discover opportunities for an upward career path. When you unburden them from routine chores, they can grow into becoming true sales representatives and brand ambassadors—improving retention rates in a tight labor market.

3. Delivering an omnichannel experience

It's almost impossible to attract new customers without offering them multiple ways to do business with you. Shoppers want options to buy and pay for items at the pump instead of going into the store. They want to view offers on their phone and make purchases tied to your loyalty program in a mobile app. They want to see real-time discounts and sales going on inside the store, they want to order ahead, and they want to pick up fresh food items curbside.

They also might want to place a mobile order and have that order fulfilled by a delivery service—never setting foot on your property. No matter how a customer wants to do business with your store, you need flexible technologies that will give them the choices they want. Providing a tightly integrated omnichannel experience is the only way you can accomplish that.

4. Optimizing your product mix

When price becomes a greater indicator of consumer behavior than brand loyalty, you must have a compelling product mix and an inventory management system that allows you to make decisions faster than ever. Staying on top of your game means avoiding stock-outs or not stocking items that consumers simply aren't buying.

Whether your customers are buying or not buying an item, you must be able to replace it quickly. For instance, if you're running a promotion that appears to be unsuccessful, how do you know before you've wasted an entire week to get a report?

If you can get the analytics and data in real time, you can take the necessary actions much sooner so you can adapt faster to changing consumer trends and preferences.

The same concept applies to your fuel pricing strategy. Being able to get a pricing change from the pump to your POS and to your sign board with the press of a button can maximize your fuel margins and increase the sales revenue inside your store. But it takes the right ERP system to provide the inventory management and fuel pricing modules that enable these competitive advantages.

One given in the midst of our industry's transformation is the need to understand ever-changing employee and customer needs alike. From there, c-store operators and wholesale marketers can invest in innovative technologies to help solve for those key audiences and build a path to operational success for years to come. ★

Sid Gaitond is President, Enterprise Productivity, PDI Technologies. PDI works with thousands of fuel and convenience retailers around the globe to help them improve efficiency and reduce costs across their supply chain. To learn how PDI can help your business, visit pditechnologies.com/trends or contact us today.

FULL STEAM AHEAD: Challenging Times

Facing the Industry

BY MAURA KELLER

One thing's for sure: The gasoline and oil industry is dealing with some of the biggest challenges in recent decades. From rising costs facing both companies and consumers to global competition on the part of Russia, Saudi Arabia, and Iran to evolving environmental regulations and shifting demand due to EVs, the industry is being kept on its proverbial "toes." In this ever-changing industry, its vital that companies stay on top of current and future challenges and plan accordingly.

Fluctuating Fuel Consumption

One of the biggest issues facing the industry, and consumers' spending habits, is price fluctuations at the pump. As Brian Milne, energy analyst at DTN explains, after a robust start to 2022, gasoline demand in the United States began a decline in the latter part of the second quarter as retail prices reached a record high, and has trended lower since, implying growing elasticity for the transportation fuel.

"Consumers pumped the brakes on their driving activity in response to high prices, with many workers exercising newfound flexibility in their work schedules, including a work-from-home option," Milne says. As retail prices reversed lower, gasoline consumption failed to improve materially, reflecting less commuting to and from work, improved vehicle efficiencies, and an increase in electric vehicle sales. Gasoline demand is expected to remain soft this year and in 2024 amid expanding vehicle efficiencies and EV sales."

Refining capacity also declined during COVID, with the rationalization of production allowing U.S. refiners to capture healthy profit margins.

According to Nikki Martin, president EnerGeo Alliance, a global trade alliance for the energy geoscience industry, normally when thinking about issues that can negatively impact our industry, we seldom think of issues beyond operations and regulation. But one of the greatest issues affecting the industry that we've seen is public perception.

"Perception or sentiment is a powerful tool in affecting policy. So, from the standpoint of how high pump prices affect the industry, the biggest impact is on the perception that energy companies have the power to rein in rising prices when in fact those companies play a very narrow role in the way gasoline prices are set," Martin says. "Gasoline prices are determined by a complex set of factors including supply and demand of crude oil, as well as expenses and available infrastructure for refining, distribution, retailing, and taxation. But the average consumer does not normally know this.

Martin says that there is no question that increased production along with refining capacity to replenish supply can help gasoline marketers and alleviate consumer costs. That increased production really depends on supportive government policies that ensure energy can be explored, produced, developed, refined, and transported safely and efficiently.

"The industry as a whole is working to meet the rising energy demand, but policy, legal, and business uncertainty complicate the existing market challenges," Martin says.

Let's look at the United States as an example. As Martin points out, for over a year, many operators have been waiting for energy geoscience permits to conduct ordinary survey work necessary to connect discoveries to existing production in the Gulf of Mexico because of a mathematical error by the National Marine Fisheries Service (NMFS).

"It was only announced earlier this month that NMFS is beginning to address the issue. This one issue alone has hampered energy development in the U.S. for more than a year," Martin says. "At the same time, President Biden was calling upon U.S. operators, and even OPEC, to increase production knowing his Administration was holding onto the permits required to do the work. That business uncertainty contributes to a difficult investment environment for energy that is needed to expand our resources."

Irina Tsukerman is a 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. Tsukerman says the biggest concern for domestic consumption is not international competition but rather domestic limitations.

"Limitations placed on pipelines, use of public lands, anti-fracking restrictions, and gas taxes are leading to much higher prices at the gas pumps. While the limitations by global producers such as OPEC can have short term impact on gas prices, ultimately these decisions do not necessarily have a long term impact if the domestic policies are consumer friendly," Tsukerman says. "Policies that limit domestic production lead to higher prices by the energy companies and ultimately impact consumers the most. With the U.S. having resources to lead in production on both oil and gas that should not be an issue, but with the artificial depression of domestic production and other countries which share in the same policies keep pump costs artificially high." ▶

Evolving Global Competition

Russia's invasion of Ukraine in February 2022 led to embargos on its oil sales, and sanctions on its procurement of Western technology. As Milne says, these actions are expected to reduce Russian crude production by more than one million bpd this year, and for output to continue to trend lower in coming years.

"In contrast, U.S. oil production is projected to increase this year and in 2024, with producers exporting a growing share of their output," Milne says. "Increased export sales will drive more barrels to the Texas coastline, with a higher global oil price filtering into procurement costs for refiners, and ultimately, for gasoline marketers and their customers."

Martin stresses that there are strong economic indicators, especially when we look at rising global energy demand to meet an increasing global population, and a growing supply gap, that we are at the beginning of an international upcycle for the petroleum and natural gas industry.

"But where our industry – the energy geoscience and exploration industry – invests now will be increasingly influenced by access to infrastructure and a stable regulatory environment, ability to collect modern insight on the subsurface, and a capable workforce," Martin says.

From a global perspective, Tsukerman says one major development is that Iran ended 2022 at a high, despite sanctions, poor economy, decline in global demand, and other factors. Meanwhile, Venezuela's oil exports went down despite the lifting of U.S. sanctions. Trinidad & Tobago, which is losing gas deposits and where the outcome of additional exploration is uncertain, has recently expressed readiness to boost gas exports to Europe.

As Tsukerman explains, Trinidad has requested permission to transport energy sourced in Venezuela, which will affect prices, but it is unclear whether that will happen.

"There also are potential new markets searching for opportunities despite local instability, such as South Yemen; Libya is seeking a return of U.S. and other international companies, but disputes among various Russian and Turkey-backed militias make it an unlikely target for 2023," Tsukerman says. "Egypt's discovery of additional gas deposits could shift the calculus and help with the internal economic problems inside the country as well as African and Mediterranean demands; however, it's very likely foreign actors such as France and Arab Gulf states will quickly invest in that stake, subsuming any tangential benefits. Turkey's natural gas finds will likely lead to additional opportunities – which may include joint projects with Russia. Turkey-Russian energy cooperation might be one of the top developments to watch for the coming year."

Another market to watch is Central Asia, which has until recently been dependent on Russia for exports, but seeking to redirect its findings to the Mediterranean, other Asian countries, and Europe.

"It has increased energy cooperation with Azerbaijan, so expect a potential emergence of a new regional bloc or cartel," Tsukerman says.

Environmental Regulations

The environmental regulation landscape for the gasoline industry varies greatly depending on where you are in the world. But, over the last few years, Martin says that we've seen countries move to ban oil and gas exploration and production and create nearly impossible conditions to obtain geoscience survey permits because of increasing environmental NGO pressure.

"I'm mentioning seismic and other types of geoscience surveys because the data these surveys provide is required for exploration and development. NGOs recognize the critical importance of seismic survey data as the 'tip of the spear' for any exploration and production activity, and so they have targeted this activity around the globe," Martin says. "Unfortunately, many countries' decisionmakers are believing the misinformation and by not allowing geoscience surveys, they are also compromising their net zero aspirations. You can't do offshore or onshore wind, carbon capture and storage, or pipelines, and the list goes on, without the data."

With a world population exceeding eight billion just this year and a growing energy demand globally, Martin says governments should be working to permit more energy activity instead of less, and that certainly includes petroleum and natural gas as nearly all projections estimate these two vital energy sources will constitute 50% of future energy demand in 2050.

Looking at the future of environmental regulations affecting the industry, Tsukerman says the concept of sustainability may shift from complete fossil fuel independence to the process of "clean" fossil fuel production and efficiency (i.e. reducing emissions rather than trying to eliminate oil and gas altogether).

There is also the issue of social and political risks related to ESG and arising from existing climactic conditions, geopolitical developments, and internal social and political developments in various countries.

"All of these conditions can impact the financials of companies involved in the industry in terms of litigation, financial challenges, sanctions, investigations, etc.," Tsukerman says. "These costs have risen over time due to disputes with and among assorted authorities, and potential conflicts over differences in ESG requirements from various entities towards companies with global presence and reach. This financial landscape will lead to additional pressures on the industry."

Shifting Demand for EVs

Despite PR clout from climate and sustainability advocates, EV vehicles remain relatively niche. Tsukerman points out that the demand for EVs is not rising at a rate that would have a significant impact on the industry; the war in Ukraine has also led to prices for various car part and new cars as a whole rising, which means new generations of EVs may be undersold or even taken out of production.

"EVs may have the advantage of requiring less service and having fewer moving parts than the traditional internal combustion engine, however there are other costs that offset that, such as the price of the vehicle itself and electricity," Tsukerman says.
While EV sales will continue to grow, stealing market share from traditional internal combustion engine vehicles, Milne believes it will take many years for EV sales to dominate the landscape.

"Nonetheless, the EV growth trajectory will be greater in certain markets, threatening fuel sales. Industry players in these markets should consider the availability of generous federal subsidies and other incentives to expand their reach by offering EV charging stations, especially c-store operators that can take leverage the charging stations to boost in-store sales," Milne says.

Legislative Impacts

There are a tremendous number of legislative issues on the federal and state levels that will impact the industry. For instance, the $737 billion Inflation Reduction Act passed in August 2022 incentivizes expanding infrastructure for EV charging stations and offers generous subsidies for consumers who purchase EVs. Milne advises gasoline marketers to monitor the pace of this expansion and consider taking advantage of the government largesse if conducive for their market.

In addition, Tsukerman points to three bills now rising in New Mexico: the Oil and Gas Justice and Reform Act, that would amend the Oil and Gas act to offer protections for the environment, and marginalized communities; New Mexico is also aggressively advocating for additional ESG requirements and enforcement. In Canada, there's major controversy over the "Just Transition" bill that is supposed to facilitate the transition of the workers in the fossil fuel sector to renewables. ▶

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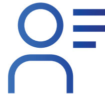

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StoneX Financial Inc. - FCM Division
1-816-410-3352 | James.Burr@StoneX.com

Josh Brockway | Vice President - Energy
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1-816-410-3311 | Joshua.Brockway@StoneX.com

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"The Trudeau government is looking to continue its fight against emissions, but will likely table this bill due to the concern that it will prematurely eliminate the jobs in the industry," Tsukerman says.

Other legislative issues Tsukerman recommends industry leaders watch include:

- Proposed GOP energy bills percolating in Congress are causing the White House to go on the offensive and to claim that these bills would result in rising fuel costs.

- New York state is reviving the Climate Change Superfund Bill that would charge oil companies for greenhouse gas emissions.

- California is pushing forward with windfall tax on gas profit, which is causing a backlash from the oil industry.

- Ohio is one of the states redefining natural gas as a "green" gas which can have impact on ESG reporting requirements, taxes, subsidies, and much more. Other states may follow.

- The U.S. House of Representatives passed a bill that would bar the sale of strategic oil reserves to China; the Senate may soon follow though it may take longer and involve changes in the legislative language.

Looking Ahead

One of the biggest issues that Tsukerman says to watch for in 2023 is the rise in cyberattacks and their impact on the industry overall and cybersecurity legislation and protection.

"There is already a proposed House bill that would channel funding towards the pursuit of education and professional dedication to cybersecurity in the energy sector," Tsukerman says. "After the Colonial gas pipeline attack and the recent energy sector attacks, advanced persistent threats (APTs) may pose a more prominent threat and the entire field of energy will eventually be formally reassessed as a national security issue in various countries, including the United States."

Tsukerman says financial power of integrated energy companies and the involvement of foreign actors in energy supply chain are also likely to emerge to the forefront of public discussions, in particular with respect to China, Russia, Iran, and North Korea.

"Geopolitical risk and evolving threats in various parts of the world will continue to lend pressure; there is a tendency to overall destabilization, failed statehood, sectarianism, and other risks in various countries which can led to upheaval and rising prices," Tsukerman says.

Martin believes oil prices will likely remain high and supply will not meet the growing demand. Also, the industry faces increasing workforce constraints and increasing geopolitical instability in Eastern Europe coupled with the continuing economic rebound following the pandemic.

"Policy uncertainty in some key producing countries may hamper increasing the supply globally," Martin says. "Also, many energy companies will remain capital disciplined for some time to come as they focus on currently producing assets. I think new investment in projects will remain quite limited for the foreseeable future." ★

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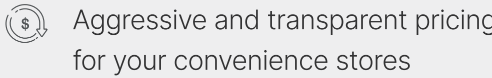

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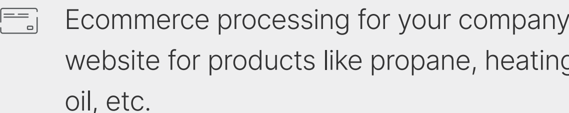

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Fuel Margins: The Siren Song Coaxing Retailers to Build Big, Pricey Travel Centers

BY TOM KLOZA, GLOBAL HEAD OF ENERGY ANALYSIS, OPIS A DOW JONES COMPANY

Gasoline demand is generally acknowledged to be on the decline, but the likely upslope of diesel demand this decade is prompting some of the country's highest volume gasoline retailers to gamble with newly built, expensive travel centers.

Compelling margins for diesel fuel are the biggest lure for successful gasoline marketers. They appear unintimidated by travel center building costs that are three or four times the amount employed for typical convenience stores, OPIS data suggest.
Gasoline margins broke records in 2022 with unleaded regular selling for 42.5cts/gal above cost on an annualized basis, according to OPIS. But it was an even more sensational year for diesel margins. Over the course of 2022, rack-to-retail margins on diesel averaged 56.5cts/gal and it was not uncommon for entire weeks to feature diesel margins of over $1/gal. The average margin last year was 53% above 2021 and 59% above 2020 levels.

But the typical OPIS data understates just how lucrative diesel was for the largest marketers. OPIS measures margins based on average rack prices and compares laid-in costs with street prices for diesel. Scale has counted for much more advantageous procurement prices in recent years, particularly for large companies that have shipper status on pipelines or buy at bulk numbers tied to spot replacement costs.

Some notable examples include QuikTrip, RaceTrac, Sheetz, and Wawa. Sheetz demonstrated it will jump through hoops to get local trucking business with at least three aggressive price promotions in the last six months. QuikTrip has quietly been rolling out new travel centers, and RaceTrac boasts about three dozen of the centers with plans to almost triple that count in the next two years.

Even more recently, Wawa brass have indicated they are looking at the travel center space with plans to test up to 10 sites at various locations in what will soon be a footprint in over 10 Mid-Atlantic and Southeastern states.

Buying Power Delivers Huge Edge

All of these companies can leverage their buying power and have access to wholesale price points that are often 10-50cts/gal below ▶

The Lucrative Margin Environment for Diesel Fuel				
LOCATION	BEST PROCUREMENT PRICE	OPIS AVERAGE RACK	LOCAL RETAIL AVERAGE	MARGIN BEST MARGIN
Birmingham, AL	$2.60/gal	$2.89/gal	$4.463/gal	67.8-95.8cts/gal
Phoenix, AZ	$2.90/gal	$3.16/gal	$4.561/gal	51.0-77.0cts/gal
Denver, CO	$3.28/gal	$4.01/gal	$4.749/gal	23.9-96.9cts/gal
Wilmington, DE	$2.81/gal	$3.23/gal	$4.305/gal	$1.072-$1.483/gal
Miami, FL	$2.94/gal	$3.29/gal	$4.807/gal	65.7-$1.210/gal
Atlanta, GA	$2.84/gal	$2.95/gal	$4.645/gal	98.7-$1.097/gal
Chicago, IL	$2.83/gal	$2.83/gal	$4.652/gal	69.8-85.8cts/gal
Indianapolis, IN	$2.87/gal	$3.10/gal	$4.758/gal	82.4-$1.054/gal
Portland, ME	$2.94/gal	$3.40/gal	$5.529/gal	$1.523-$1.983/gal
Baltimore, MD	$2.79/gal	$2.98/gal	$4.430/gal	78.75-97.75/gal
Boston, MA	$2.94/gal	$3.13/gal	$5.034/gal	$1.344-$1.534/gal
Billings, MT	$3.09/gal	$3.32/gal	$4.312/gal	39.5-62.5cts/gal
Las Vegas, NV	$2.97/gal	$3.17/gal	$4.791/gal	$1.045-$1.24/gal
Albuquerque, NM	$2.95/gal	$3.31/gal	$4.206/gal	37.6-73.6cts/gal
Cleveland, OH	$2.92/gal	$3.48/gal	$4.777/gal	53.3-$1.093/gal
Spokane, WA	$2.97/gal	$3.39/gal	$4.657/gal	47.9-89.9cts/gal

what small retailers might have to pay for rack diesel. It's this difference between the "best price" and the "average price" that often yields diesel profits that are considerably higher than for gasoline.

A sampling of diesel prices in early February underscored the wide span of prices on display every day across the 400 or so terminals in the United States. OPIS sampled prices for diesel at 16 cities on Wednesday, February 8 and recorded the best buying price and compared it to averages.

The best procurement prices often show up in the OPIS Bottom Line report and typically reflect a formulae deal tied to various spot indices. In the midwinter snapshot, OPIS took that number and compared it to the "average rack" price and the local retail number and adjusted for federal, state, and local taxes as well as a nickel cost for freight.

By any measure, the margins registered in this midwinter snapshot were exceptional, particularly for local fleets or light-duty vehicle owners who don't buy at negotiated prices. Large commercial fleets typically barter to purchase diesel on a "cost-plus" or "retail-minus" basis. Thanks to the vast difference between the best price and the average number, even those bulk sales were quite lucrative.

'Mile High' City Sees High Profits

Prices in Denver represented a prime example. Average rack prices on February 8 were at $4.01/gal at Denver terminals. Ostensibly, a customer that negotiated a deal at cost-plus 1cts/gal might pay the $4.01/gal rack, plus 46.15cts/gal in taxes for a total cost into the vehicle of $4.4715/gal.

But OPIS confirmed that on that same day some high-volume retailers had access to diesel for just $3.28/gal, reflecting a whopping edge of 73cts/gal versus the "average" rack price. Even a competitive cost-plus sale yielded a handsome fuel margin for the marketers privileged to buy at bottom-line numbers.

A Midwinter Diesel Marketer's Dream

The rollouts of travel centers for RaceTrac and QuikTrip have been targeted at smaller regional fleets as well as merchants in the construction, landscaping, and local delivery businesses rather than the long-haul customers courted by Pilot, TravelCenters of America, and Love's Travel Stops & Country Stores.

New travel centers tend to have much larger footprints than typical convenience stores, along with ample parking and scales, but no showers for drivers. In Wawa's case, the company will offer an in-house, made-to-order food program that is an alluring alternative to fast-food offerings.

Until recently, fresh food margins typically dwarfed the profits that marketers can get on the fuel category. But very quietly, the returns on fuel have soared with prices in recent years. ★

Tom Kloza has covered downstream oil markets for over 40 years, and was among the founders of OPIS. A magna cum laude graduate of St. Francis University, Tom has a degree in English and has analyzed crude oil, refined products, and gas liquids for parts of four decades. He has also written commentary for Marketwatch and is a regular guest commentator for Barron's Live, Bloomberg Financial Markets and NPR Marketplace.

He provides unbiased and expert commentary for print and electronic media during times of oil volatility, and is regularly quoted in virtually every U.S. and international periodical. He has commented specifically on OPEC matters and U.S. gasoline and diesel prices for the Wall Street Journal, BBC, CBS, NBC, CNN, MSNBC, CBS News, and ABC. He is also a frequent guest lecturer on fuel price economics at a number of colleges and universities as well as for key petroleum associations. He has also appeared live on camera in energy forums for CNBC, Nightline, the CBS Morning Show, and Good Morning America.

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NORTH REGION
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Delivering on the Vision for Clean Fuels

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

In 2020, Clean Fuels Alliance America established a bold vision for industry growth. Demand for clean fuels in transportation, home heating, aviation, and shipping was picking up pace and annual biodiesel and renewable diesel production capacity was growing steadily to meet it. To seize the opportunity, Clean Fuels laid out a path to sustainably build U.S. production to 6 billion gallons annually by 2030 and more than double that to reach 15 billion gallons by mid-century.

Today, that vision seems almost timid. The Energy Information Administration (EIA) recently counted eight new renewable diesel refineries that started up production in the past year, bringing annual capacity to 2.6 billion gallons. EIA projected that U.S. renewable diesel production capacity alone could reach 5.9 billion gallons per year by the end of 2025, based on announced industry investments.

And U.S. biodiesel production remains strong. In 2022, domestic producers generated 1.6 billion gallons of biodiesel to accompany 1.45 billion gallons of renewable diesel, according to data from the Environmental Protection Agency. That represented a combined 525-million-gallon increase over 2021.

Several U.S. companies – including World Energy and Diamond Green Diesel – have also announced projects that could bring more than 700 million gallons of sustainable aviation fuel capacity into production by 2025. That would represent a rapid scale up. Domestic production of renewable jet was at 7 million gallons in 2022.

Even with the rapid growth of capacity and the investments for the near future, demand for clean fuels seems to be outpacing supply in many markets.

Major corporations have adopted aggressive sustainability goals – and their customers and shareholders are demanding they deliver. Large companies are motivating supply chain partners – such as road-transport, shipping, and aviation companies – to seek clean fuels that can immediately reduce carbon emissions.

California is a leading market for all low carbon fuels, driven by the state's Low Carbon Fuel Standard program. The state consumed more than 1.2 billion gallons of biodiesel and renewable diesel in 2021. Oregon's Clean Fuels Program is creating a growing market for biodiesel and renewable diesel, and Washington state and others are set to follow with programs of their own.

States in the Northeast adopted requirements to use Bioheat® fuel, which is a blend of biodiesel in heating oil. All heating oil sold in Rhode Island must contain at least 50 percent biodiesel or renewable diesel by July 2030. And in Connecticut, all heating oil sold in the state must contain at least 50 percent advanced biofuel by 2035. In addition, new federal tax laws provide a $600 credit for installation of biofuel blend-compatible heating appliances. By 2026, that equipment must be suitable for blends of at least 50 percent biodiesel or renewable diesel, according to the new law.

Several Midwest states also are supporting market growth for biodiesel and SAF with state-level tax incentives and blend ►

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requirements. Additionally, multiple U.S. federal agencies are coordinating a Sustainable Aviation Fuel Grand Challenge to scale up production of low-carbon jet fuel to 35 billion gallons per year by 2050, with an interim milestone of 3 billion gallons by 2030.

Many fuel suppliers are asking where they can get enough of these fuels to meet the demand. Fuel suppliers are facing shortages – and resultant high prices – mainly from disruptions in global oil trade due to Russia's war in Ukraine. Markets for gasoline, diesel, and jet fuel also have not returned to pre-pandemic balances.

The good news is that the supply of biodiesel and renewable diesel – which makes up about 5% of U.S. on-road demand – is meeting some of the demand and keeping diesel prices from rising even higher.

The clean fuels industry is also making major investments in new distribution infrastructure, aided in part by USDA's Higher Blends Infrastructure Incentive Program (HBIIP). With this program, the industry has invested in two dozen projects that USDA estimates will support 1 billion gallons of biodiesel distribution and storage. The HBIIP grants match private investments by fueling stations, convenience stores, hypermarket fueling stations, and fleet and fuel distribution facilities, including terminal operations and home heating oil distribution centers.

The grants are helping the industry build new and retrofit older terminals, storage, and rail capacity to meet consumer demand for clean fuels. That includes blender pumps for ethanol as well as new pumps rated for higher blends (above 20%) of biodiesel. To date, the program has supported a total 1.2 billion gallons of fuel – which means that more than 80% of the supported volumes are biodiesel. The investments are set to continue as USDA announces a second round of grants with pre-existing funds this year and is authorized to provide an additional $500 million in matching grants through 2030. USDA has indicated that it will allocate the majority of the new funds as early as summer 2023 with a second round following in summer 2024.

Investments in fats and oilseed processing to support growth in biodiesel and renewable diesel production are also occurring. A 2021 LMC International study projected that U.S. soybean oil production could increase by 30% by 2025 through a combination of higher crop yields, a shift to varieties with higher oil content, and additional processing capacity. Like the industry's vision, that projection now appears conservative.

Based on industry investments of almost $5 billion, 19 new oilseed processing plants or expansions to existing plants will be completed by 2026. The new facilities span 10 different states and would add capacity of almost a billion gallons of soybean oil.

The bad news, though, is that EPA has constructed a series of roadblocks for consumer access to clean fuels.

EPA's recently proposed Renewable Fuel Standard volumes for 2023 through 2025 provide no growth for biodiesel, renewable diesel, or even sustainable aviation fuel. It's a major reversal from the agency's volumes for 2022, finalized just six months earlier, which increased market space by more than 300 million gallons for these advanced biofuels. Despite the industry's response – as noted before, increasing production by more than 500 million gallons – EPA is now proposing to limit market growth for the foreseeable future.

Even the agency's attempt to support electric vehicles spurns growth in renewable fuel supplies. EPA envisions shifting all existing renewable natural gas supplies away from existing on-road vehicles toward electricity generation – without any actual growth in RNG production. The rapid increase in renewable diesel production is already increasing supplies of LPG as a co-product. But EPA discounts this supply.

EPA's proposal represents a reversion to the flat-lined volumes for biomass-based diesel and other advanced biofuels characteristic of the RFS in earlier years. In fact, data EPA released in conjunction with the rule shows that more than 430 million gallons of domestically produced advanced biodiesel and renewable diesel was exported to foreign markets in 2022. At the same time, almost 50 million gallons of advanced renewable diesel produced for the RFS program by foreign facilities in 2022 was instead diverted to other overseas markets.

The signal EPA is sending has many scratching their heads. Because it would impact policy for three to four years, EPA's proposed RFS volumes is telling producers, distributors, and farmers to pull back on the investments they're making in capacity and distribution infrastructure. The proposal could make it even harder for fuel suppliers and retailers to access supplies and meet their customers' demand for cleaner fuels.

EPA is due to finalize the RFS rule by June 2023. Policy influencers in Congress and the White House need to hear from all stakeholders that the rule simply doesn't match the progress the industry and its partners are making in meeting the market challenge for clean fuels. ★

SIGMA's Share Groups are back! This year, SIGMA will host six Share Groups September 12-15 in San Antonio, Texas. In addition, SIGMA has a Retail/Foodservice Share Group that has both in-person and virtual events throughout the year. SIGMA Share Groups are smaller, topic-focused 1½ day meetings that combine presentations, breakout sessions, and peer networking. Share Groups provide a unique educational experience in different business areas related to fuel marketing.

Who Should Attend SIGMA Share Groups?

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September 12-13 Share Groups:

- Mobile Fueling, Tankwagon, and Cardlock
- Maintenance and Environmental
- Transportatio

September 14-15 Share Groups

- Credit
- Fuel Buying
- IT

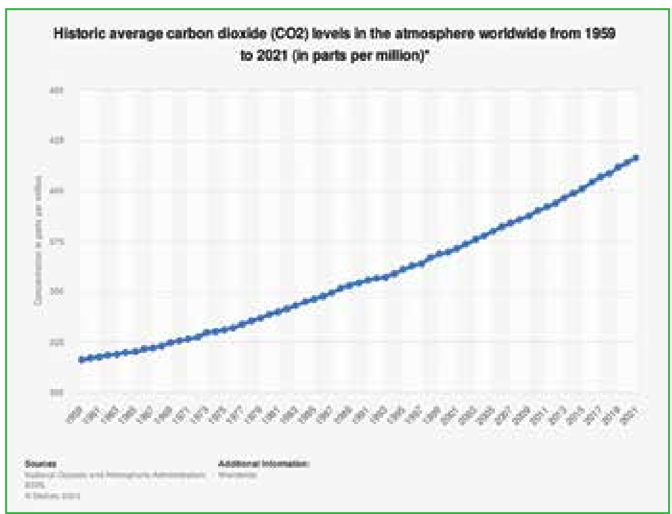
Reducing Carbon Emissions Effectively – Now and Tomorrow

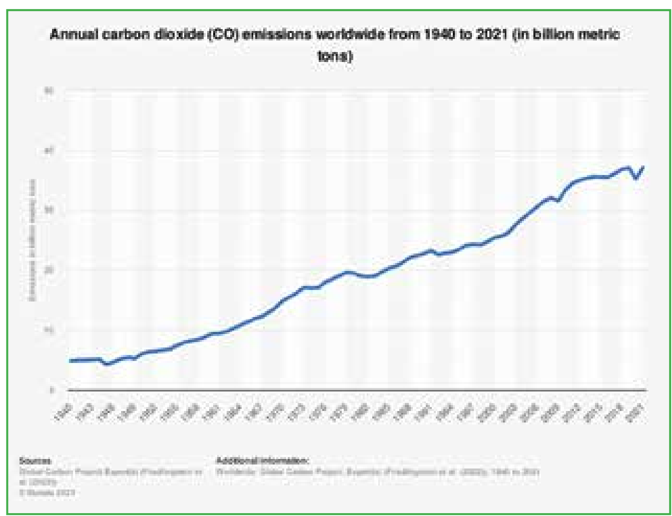
BY JOHN EICHBERGER, FUELS INSTITUTE

Why is the Fuels Institute so focused on identifying paths to lower transportation carbon emissions? Because that is the direction global leaders in government, finance, and business are driving the market (yes, pun intended). At this point, whether you agree with the direction or not is increasingly irrelevant. Policymakers, investment houses, vehicle manufacturers, energy producers – they are all exploring options to decarbonize transportation. Yet, their preferred approaches often differ dramatically and those who blindly adhere to a single idea can impede meaningful progress. If the market is to successfully reduce carbon emissions and preserve consumer access to affordable and reliable transportation, we should be pursuing and adopting a variety of solutions that build upon one another and help us transition to a future transportation system that benefits everyone.

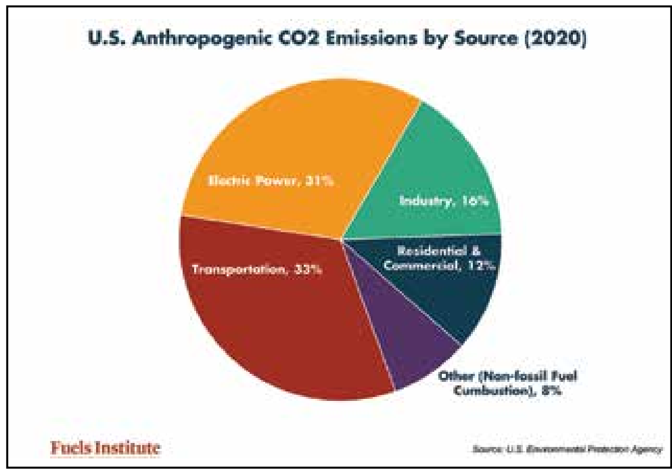
Carbon Cycle

First, it is very important to understand what nut we are trying to crack. Atmospheric concentrations of greenhouse gases (GHGs) have been steadily rising since the 1960s and global emissions are up more than 60% since 1990. ▶





Why do we care? Because there is evidence to demonstrate that GHG (most often referred to collectively in the common discussions as carbon dioxide equivalent, or CO2e) concentrations in the atmosphere can influence the world's climate in ways that may be detrimental. CO2e emissions caused by human activity (a.k.a., anthropogenic) is estimated by the United Nation's International Panel on Climate Change to account for 5% of CO2e emissions and, of that share, the United States is responsible for 13.9%, of which 33% comes from transportation. While 5% may not seem like much to some, most scientists consider that level of emissions to be a big deal and this perspective is leading the development of decarbonization policies and strategies.



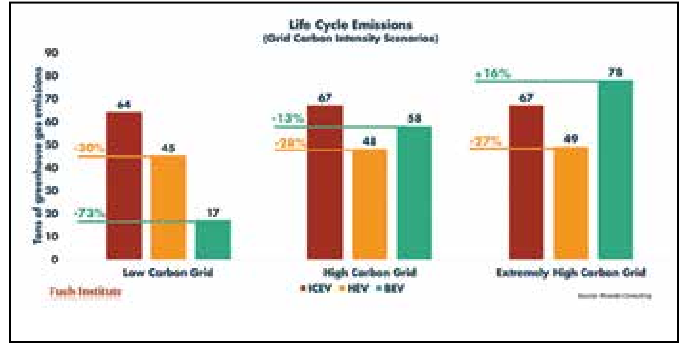
With respect to these policies and strategies, time is of the essence. This is largely because when these GHGs enter the atmosphere they settle in for a long winter's nap. When we consider the fact that CO2 can remain in the atmosphere for 100 years, we begin to understand its significance. If we mitigate a ton of CO2 emissions now, it will have a longer-term benefit to the environment than waiting 10 years to do so, which is why taking a multi-pronged approach to transportation carbon mitigation is important.

Global Warming Potential and Atmospheric Lifetime of Anthropogenic Gases		
Greenhouse Gas	GWP	Atmospheric Lifetime
Carbon Dioxide (CO_2)	1	100 years
Methane (CH4)	25	11.8 years
Nitrous Oxide (N2O)	298	109 years
Volatile Organic Compounds (VOC)	3.12	
Carbon Monoxide (CO)	1.57	Several months
Sources: GREET Model, U.S. EPA, NOAA		

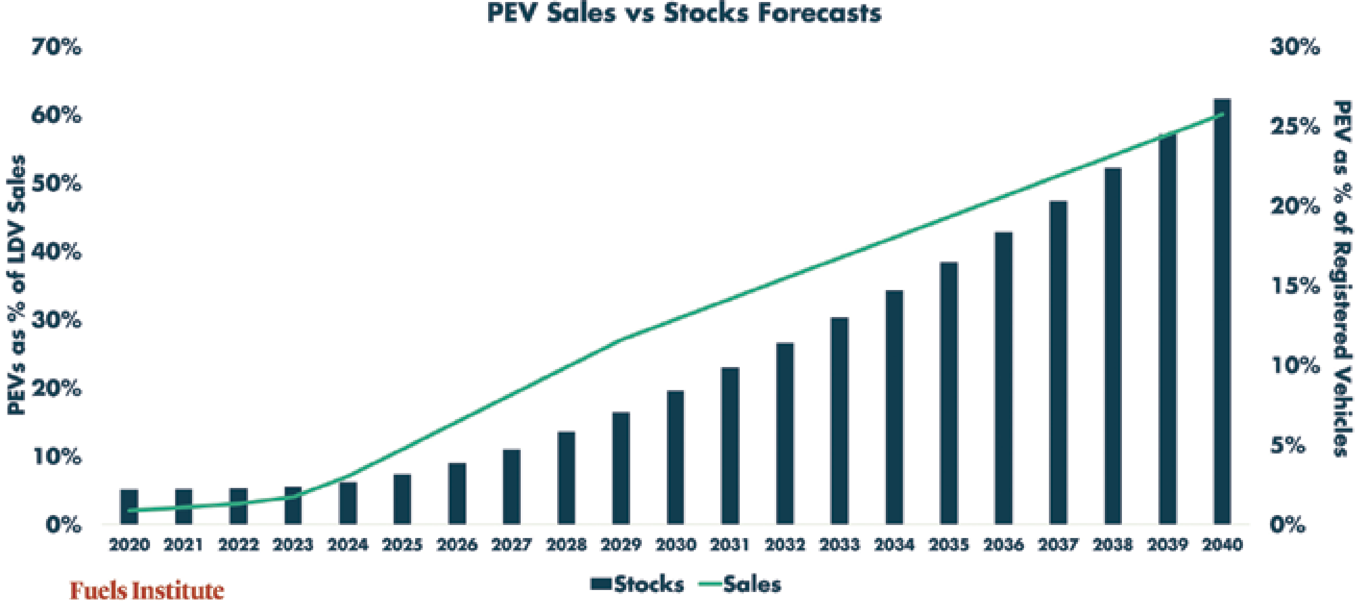
ZEVs - A Critical Component of a Strategy

In the effort to reduce transportation-generated carbon emissions, many have chosen to pursue the market's transition to zero emission vehicles, or ZEVs. These are most often defined as battery electric vehicles (BEVs), fuel cell electric vehicles (FCEVs), and in some cases plug-in hybrid electric vehicles (PHEVs). In the first two cases, these vehicles emit no GHGs during their operation, which has earned them the label of ZEV. They derive their power from the electricity grid or hydrogen, both of which have the potential to emit very small amounts of carbon on a life cycle basis depending upon their method of generation.

Strong advocates for BEVs are confident the electricity grid will transition away from fossil fuels like coal and natural gas and rely much more heavily on wind and solar, thereby reducing the life cycle carbon emissions that could be attributed to BEVs. And while they are most likely right, today this is not necessarily the case and electric power contributes 31% to the U.S. inventory of anthropogenic CO2e emissions. Once electricity generation does transition and dramatically reduces its CO2e emissions, BEVs will be a significant factor in reducing transportation GHG emissions. You can see in this graphic the promise of BEVs operating in low carbon electricity markets today.

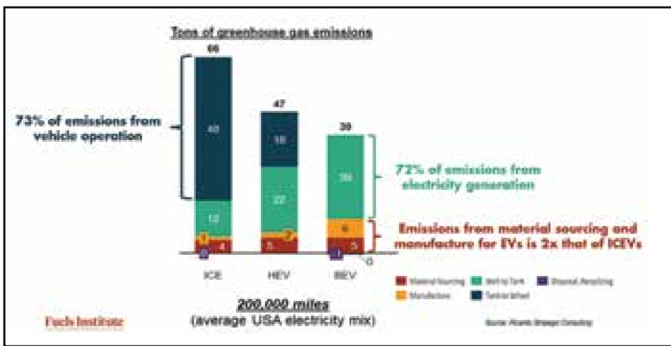


However, it will take decades for ZEVs to gain sufficient market share to leverage this cleaner energy to mitigate transportation CO2e emissions. As the following chart shows, if plug-in electric vehicles (PEVs) were to achieve 60% of all light duty vehicle sales in the United States by 2040, given average new vehicle sales and fleet scrappage rates, by 2040 only 27% of vehicles in operation would be PEVs. This would leave 73% still operating primarily on liquid fuels used in combustion engines. This means that BEVs and a cleaner electricity grid will not be able to significantly cut transportation-related CO2e emissions for many years to come, resulting in increased atmospheric concentrations that will linger for another 100-plus years.



Liquid Fuels as a Strategy

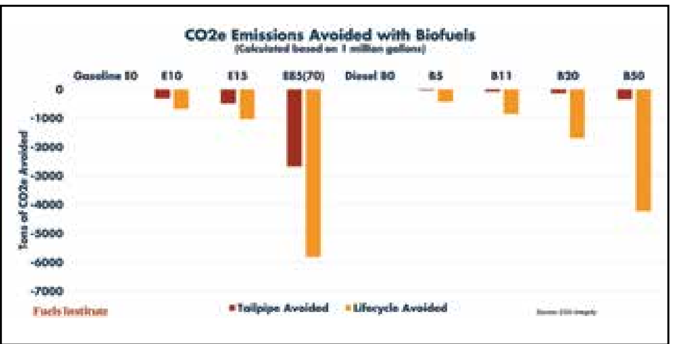
The promise of ZEV technologies and their ability to reduce CO2e emissions should not be underestimated – the vehicle technology is exceptional and when these vehicles gain market share and are able to leverage a lower carbon energy source, they will contribute tremendous value to decarbonizing transportation. In the meantime, however, the sector must make strides to reduce carbon from the existing vehicle and energy system. And the best way to reduce carbon emissions from the transportation sector is to address the carbon intensity of the fuel – which will benefit both new to market vehicles as well as those already in operation.



And the opportunities to achieve meaningful carbon reductions from the lifecycle of the fuel are significant. The following chart demonstrates the possibilities when we simply consider existing biofuels and their ability to reduce CO2e emissions.

But it does not stop there. There are a variety of other fuel options that can reduce carbon emissions, as well as process improvements upstream that can lower the final fuels' carbon intensity. From leveraging renewable energy to power petroleum and biofuels refineries to reduced carbon land use management practices for biofuel energy crops to carbon capture utilization and sequestration – there is a lot of carbon that can be removed from the system, which will positively affect GHG emissions from transportation.

In fact, according to an upcoming Fuels Institute report, through 2050 biofueled internal combustion engine vehicles are projected to account for as much as 76% of cumulative U.S. vehicle GHG reductions, even with the increase in market share of ZEVs. This is a significant contribution to lower emissions from the transportation sector and could be even more impactful if changes were made to capitalize on upstream carbon mitigation strategies, increase the contributions of biofuels to the fuel pool, and encourage engine manufacturers to continue leveraging new techniques to improve their fuel efficiencies. ▶



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Global Warming Potential and Atmospheric Lifetime of Anthropogenic Gases		
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Volatile Organic Compounds (VOC)	3.12	
Carbon Monoxide (CO)	1.57	Several months

Sources: GREET Model, U.S. EPA, NOAA

Together for One Purpose

There seems to have developed a bifurcation in the world – you are either pro-BEV or pro-ICEV. You are either for a rapid transition to electrification and against liquid fuels or the exact opposite. The problem with this situation is that it should not be an either/or situation – we need both.

Lower carbon fuels coupled with improved efficiency internal combustion engines can deliver near term and meaningful reductions in transportation-related carbon emissions. Increasing the market share for ZEVs while lowering the carbon intensity of electricity generation and increasing the production and availability of green hydrogen is critical to address the carbon emissions that cannot be mitigated by liquid fuel and engine improvements. We must play the short game and the long game – mitigate carbon where we can when we can as efficiently as we can, plan for technological advances in the future, and not vilify strategies that don't fit neatly into our bifurcated buckets.

This new report to be released by the Fuels Institute in the coming months dives deep into the importance and opportunities to reduce carbon emissions from combustion engine vehicles. It will serve as a basis for meaningful dialogue within industry and government to identify strategies that will simultaneously reduce emissions while ensuring continued access to affordable and reliable transportation for all consumers within all communities.

We can make great progress if we set aside our pre-conceived notions about what is "the answer" and open our minds to collaboration, cooperation, and innovation – it will be amazing what we can accomplish together in pursuit of a common objective. ★

John Eichberger is Executive Director of The Fuels Institute, a non-profit, independent think tank founded and managed by NACS, the association for convenience and fuel retailing. Drawing diverse stakeholders from the vehicle and fuels industries, the Institute encourages multi-industry collaboration and produces credible, independent analytical reports to better inform business leaders and policymakers about opportunities and challenges in the vehicles and fuels markets.

A Refresher on the Tax Cuts and Jobs Act Federal Tax Structure: A Steadying Force on the M&A Market Amidst an Uncertain Economic Backdrop

BY DAVID L. CORBETT, CFA, DIRECTOR, MATRIX CAPITAL MARKETS GROUP, INC.

The U.S. Federal Reserve has raised the benchmark federal funds rate a total of seven times in 2022 and already once so far in 2023 in an effort to combat inflation rates, which are at a level the United States hasn't experienced in decades. The rapid increase in the federal funds rate, which had been near zero since 2009, has understandably received substantial coverage in the media and the impact of higher interest rates on both corporate and personal finance has also been well documented. Interest rates still remain moderate relative to longer-term averages, but the recent prolonged period of abnormally low rates have reprogrammed perspective for many people. While corporate finance theory would tell you that all else being equal, higher interest rates increase the cost of capital, which should lower valuations of businesses and likely result in reduced M&A transaction volume, the market for petroleum marketing businesses has actually remained very robust. Businesses in the industry have continued to perform well despite the uncertain economic backdrop and volatility in the public equity and debt markets.

It is important to remember that a key driver of continued strength in M&A valuations, and ultimately volume, since 2018, has been tax rates that are very favorable by historical standards. Some of these favorable tax treatments are beginning to phase out, while for others there is simply uncertainty surrounding how much longer they will be in place.

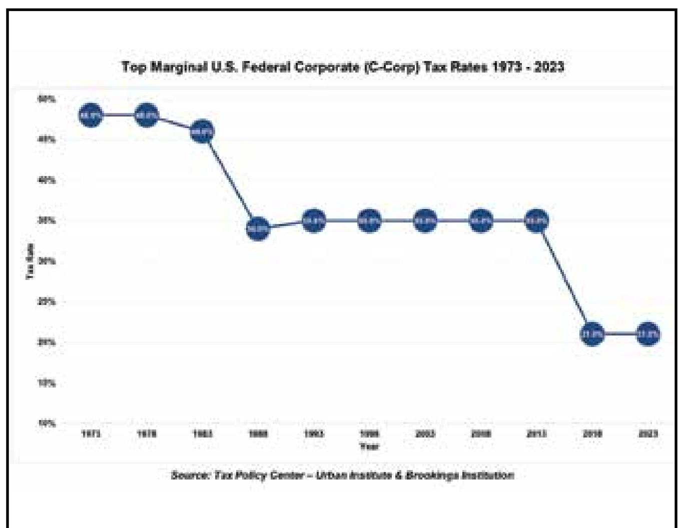
The Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law in December 2017 and due to the passage of time, it's easy to lose sight of the fact that this extensive tax code overhaul made it that much more attractive to sell a business from a net proceeds perspective and also provides substantial incentives to own a target business from a buyer's perspective. This article provides a refresher on some of the changes that were made to the tax code as part of the TCJA and highlights why those considering an exit in the near/medium term should keep the favorable tax treatment that currently exists top of mind, when comparing the tax implications of a sale

Selected Provisions of the Tax Cuts and Jobs Act		
	Pre-TCJA	TCJA (2018) to Present
Corporate Federal Tax Rates (C-Corps)	Maximum of 35.0%	21.0%
Top Federal Individual Income Tax Rate (for pass through entities)	39.6%	37.0%
C-Corp. Capital Gains	Taxed as Ordinary Income (35.0%)	Taxed as Ordinary Income (21.0%)
Depreciation Policy	50.0% in year one	100% year one expensing of many capital expenditures; The 100% allowance generally decreases by 20% per year in taxable years beginning after 2022 and expires Jan. 1, 2027
Qualified Business Income Deduction	N/A - taxed at ordinary income rate (maximum rate of 39.6%)	20% (with limitations)

relative to historical rates or where rates may be in the future. Some of the key business friendly provisions of the TCJA are summarized above.

Reduction in the Corporate Income Tax Rate

The TCJA reduced the income tax rate for C-corporations ("C-Corps") to a flat 21%. Prior to the TCJA, C-Corps paid income taxes on a graduated rate schedule with a top marginal federal income tax rate of 35%. The chart below provides a snapshot of the top federal corporate tax rate in the United States from 1973 - 2023 and puts into perspective how favorable the current flat 21% is when compared to top marginal tax rates as high as 48% in the 1970's. Unlike individuals or pass-through entities, which may pay lower tax rates on capital gains for the sale of certain classes of property, capital gains for C-Corps are generally taxed at ordinary income tax rates. As a result of the lower tax rate in effect today, current and future owners (i.e. buyers) of C-Corps are subject to lower annual federal income taxes on income, including gains on asset sales. While the 21% C-Corp tax rate does not have a sunset provision as part of the TCJA, the threat always remains that new tax laws could be passed, particularly given the burgeoning national debt.



Immediate Expensing for Qualifying Capital Investments

Prior to the TCJA, most property acquired in a trade or business was generally capitalized and recovered over time through annual depreciation deductions. While that construct has remained unchanged, the TCJA did include meaningful tax law changes that can significantly accelerate tax depreciation deductions.

Before the TCJA, Section 168(k) of the tax code allowed for additional first year 'bonus depreciation' to be deducted on certain qualifying property. Under this provision, 50% of the adjusted basis of 'original use' property, which was considered to be new rather than used property, could, but was not required to, be depreciated and expensed during the year in which it was acquired. An asset could qualify for this bonus depreciation under a few different tests, but the broadest and most applicable characteristic was for the property to have a regular depreciable life (tax-basis) of 20 years or less. Broadly speaking, this threshold includes most tangible personal property and excludes most real property (e.g. land and buildings – although convenience store/gas station buildings would typically qualify as 15-year property).

The TCJA retained the framework of Section 168(k) bonus depreciation, but also expanded it in several key ways. First, taxpayers were allowed starting in 2018 and through 2022 to deduct 100% of qualifying property and immediately expense it in the year of acquisition rather than depreciating it over multiple years. As of 2023, this provision is now in a stepdown period whereby smaller percentages of bonus depreciation can be taken in year one. The following is the schedule of year-one expensing of qualifying property over the next four years: 2023 (80%), 2024 (60%), 2025 (40%), 2026 (20%). The second key provision was that the requirement that the property must be 'original use' was removed, which allows complete first year expensing of qualifying assets, regardless of age, so long as it is the taxpayer's first use of the property. ▶

This expansion in the tax code has also had important implications in the M&A marketplace, especially in the downstream energy and convenience retail sector due in part to the favorable tax treatment of being able to immediately fully depreciate the value of buildings. Prior to the TCJA, the buyer in an M&A transaction, (assuming it was structured as an asset sale or a stock sale with a 338(h)(10) election), would step-up the tax basis of the acquired assets and depreciate them over time subject to the normal depreciable life of each asset, which typically spans three to 39 years. Since the acquired assets were considered used (i.e. not 'new') under the prior tax law, no bonus depreciation was allowed. Buyers in this same situation can now immediately expense qualifying assets and potentially realize the associated tax shield well in advance of what was possible prior to the TCJA.

While the bonus depreciation provision has begun its stepdown period from the prior 100% that was in place through 2022, it still remains a very favorable tax treatment for acquirors of businesses in the downstream energy and convenience store sector, which should continue to support valuations in the near term.

Qualified Business Income Deduction

Section 199A of the TCJA was designed to provide tax relief through a Qualified Business Income Deduction ("QBI") to sole proprietorships and pass through entities such as S-Corporations that did not receive the benefit from the reduction of the federal corporate tax rate to 21%. There is quite a bit of nuance in terms of the practical application of the QBI that is beyond the intended scope of this article, but generally speaking, the deduction is equal to the lesser of 20% of qualified business income plus 20% of qualified real estate investment trust ("REIT") and qualified publicly traded partnership ("PTP") income, or 20% of taxable income, less net capital gain. QBI is the net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer; however, it does not include any qualified REIT dividends or qualified PTP income. Combined QBI is the aggregate of the deductible amount for each of a taxpayer's qualified trades or businesses plus 20% of the taxpayer's aggregate REIT dividends and income from PTPs.

Like many provisions in the tax code, there are a number of caveats and exclusions that impact the application of the QBI provision. There are generally income limitations for the provision, particularly related to white collar-type service businesses, but fortunately the majority of businesses in the downstream energy and convenience retail sector sit outside of that definition and would be likely to take more complete advantage of the provision, subject to the general income limitations. The QBI provision is currently set to expire on December 31, 2025.

Conclusion

While rising interest rates and turbulent conditions in the public equity markets have captured the lion's share of headlines and consumed the focus of many so-called economic pundits, the fact that the corporate tax code remains extremely favorable and conducive to M&A activity is often lost. The TCJA tax code changes that have been in place since 2018 continue to serve as a very compelling reason for owners of petroleum marketing businesses that are considering a sale or divestiture to execute on a plan in the near term and capitalize on the benefits before some of those provisions sunset or are otherwise modified.

As always, readers should consult their tax, legal, and/or accounting advisors before making any decision or taking any action. ★

David L. Corbett, CFA
Director
Matrix Capital Markets Group, Inc.
804.591.2048
dcorbett@matrixcmg.com
www.matrixcmg.com

U.S. Gasoline Inventories Unseasonably Low as Domestic and Global Dynamics Discourage Storage

BY ANNA TRIER, S&P GLOBAL COMMODITY INSIGHTS

Two U.S. regions have been grappling with their lowest seasonal stocks in years at a time when gasoline inventories typically build, prompting questions whether prices will see a repeat of extreme local and global volatility in the upcoming summer driving season.

As diesel and gasoline both fight for attention in the global market, and in refiners' minds, U.S. gasoline inventories mirror global dynamics, with average winter inventories at 11-year lows of around 227 million barrels, or 6% below the five-year average, according to US Energy Information Administration data.

What is Driving Inventory Weakness Across the United States?

Two big factors are a decrease in domestic refining capacity over the past 15 years and, more recently, a shift in global attention to the distillate market.

"Diesel fundamentals are just as strong as gasoline," S&P Global Commodity Insights' Debnil Chowdhury said. "This makes the focus even more on diesel and less on gasoline at a time we should be focused on building inventories for the spring and summer gasoline season– particularly with the latest EU sanctions on Russian refined products."

Domestically, refining closures have grown substantially since 2018, increasing the country's reliance on foreign product. From 2008-2021, North America has seen refinery crude capacity decline 2.68 million b/d cumulatively, according to S&P Global Commodity Insight data. The United States accounted for around 85% of that figure.

If all U.S. regions are fundamentally impacted by dynamics playing out in the global stage, what are the unique factors driving inventory weakness on the US East Coast and in the Midwest? The answer lies in a confluence of freezing weather and resulting refinery outages, as well as a host of other factors such as an increase of cost to carry, unusual market structure, and stark volatility.

Even with a decline in domestic refinery crude capacity, the United States remains a net positive gasoline producer, with consumption around 8.7 million b/d of gasoline and ▶

production at around 9 million b/d including ethanol for 2022. The issue with inventories is that they are unequally distributed across the country and moving product between regions can be costly. Total gasoline inventories may have been low in the United States overall to start out 2023, but it's primarily the East Coast and Midwest driving the weakness.

Atlantic Coast winter inventories were at their lowest level in 10 years, EIA data showed. Winter inventories starting from December through the beginning of February averaged 56.5 million barrels in the 2022-23 season and were last lower in the 2012-2013 season. Midwest inventories during the same time period were at their lowest average since the EIA started publishing Midwest stock data in 1990, averaging 47.4 million barrels.

Gulf Coast and West Coast seasonal inventories were healthier, with the Gulf Coast averaging 84.2 million barrels and the West Coast averaging 32.5 million barrels – three-and five-year highs, respectively. The Gulf Coast is the production hub of the U.S. and also accounts for about 35% of US inventories, which helps keep inventories stable in the region. West Coast inventories saw a strong recovery in Q4 2022 as rising gasoline cracks encouraged refiners to continue making gasoline.

PADD 5 monthly ending stocks of total gasoline fell to 24.47 million barrels in September 2022, the lowest since April 1983. Cracks rose significantly across the area and refiners shifted yield toward gasoline production to get inventories back to healthier levels. The Los Angeles CARBOB crack against Alaska North Slope crude delivered into Long Beach, California, averaged $35.80/b in July 2022 before spiking to $75.07/b in September 2022, according to S&P Global pricing data.

What Role Does the Diesel Market Play in Weaker Gasoline Inventories?

Prior to the Russia-Ukraine war, diesel and gasoline took turns in the limelight. Refiners would focus on maximizing heating oil and diesel production in the fall and winter and maximize gasoline production in the spring and summer in line with demand. As the availability of molecules used to create distillates and gasoline come from the same pool, a race to create more diesel limits the molecules available in the gasoline pool. A yield shift has to occur for the increase of gasoline or diesel, and it comes at the expense of the other product. However, once global diesel cracks soared, U.S. refiners sought to maximize diesel production, even at times of peak domestic gasoline demand.

Europe, a key supply region to the U.S. Atlantic Coast, also sought to maximize diesel production as it's a key fuel used in that continent. Beyond yield shifts, imports out of Northwest Europe into the U.S. Atlantic Coast declined 20% in 2022 on unprecedented volatility in futures contracts. Since the U.S. East Coast accounts for about one-third of US gasoline demand and has a limited refining capacity, it relies heavily on European barrels to meet its needs.

Looking at the spread between the ULSD and RBOB futures contracts makes it clear why the market was so diesel-focused in 2022. The NYMEX ULSD and RBOB prompt futures spread averaged 44.2 cents/gal in May, June, and August of 2022. In 2019, that spread averaged just 8.4 cents/gal during the same months. Then later in 2022, that spread ballooned out to greater than $1/gal, averaging $1.24/gal in October. In December 2022 and January 2023, that spread averaged plus 82.1 cents/gal– almost triple 2019-2020 levels of plus 27.7 cents/gal during the same months.

While the spread between prompt ULSD and RBOB futures had cooled off considerably since the start of February, it's still strong compared to previous years. That spread averaged 43.4 cents/gal in the first part of February 2023, compared with 13 cents/gal in 2020, 17 cents/gal in 2018, and 10.50 cents/gal in 2017. 2019 was an outlier year with the spread at 47 cents/gal during the same time period.

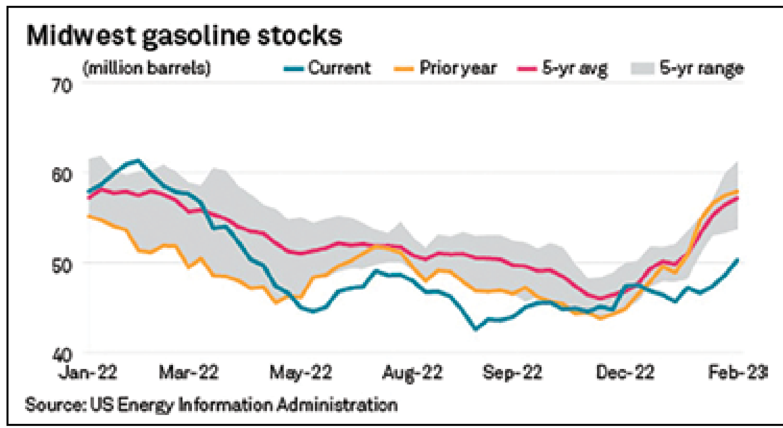
Beyond the global flurry around diesel, the U.S. East Coast and Midwest had other factors that played a hand in inventory weakness: refinery troubles. The U.S. East Coast's dependence on foreign refined product was exacerbated by the Philadelphia Energy Solutions explosion and fire in 2019 which permanently closed the 335,000 b/d refinery – the largest on the East Coast.

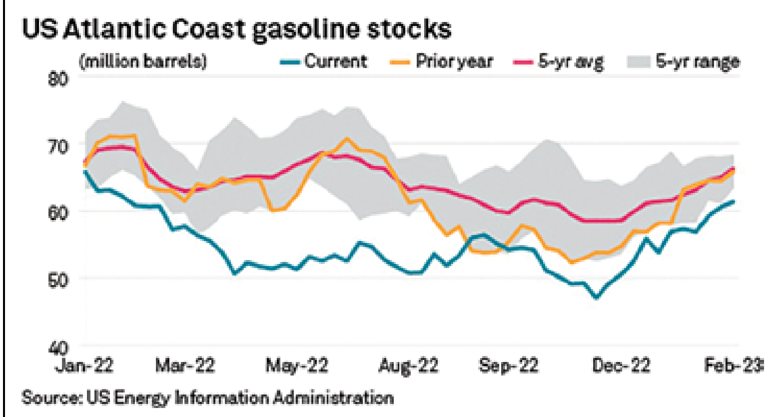
In Q2 2019 before the fire, PADD 1 refinery capacity was at 1.224 million b/d. In November 2022, it was at 878,000 b/d, a 28% decline, according to EIA data. The reduction in capacity has made PADD 1 increasingly dependent on PADD 3 and Europe to remain balanced.

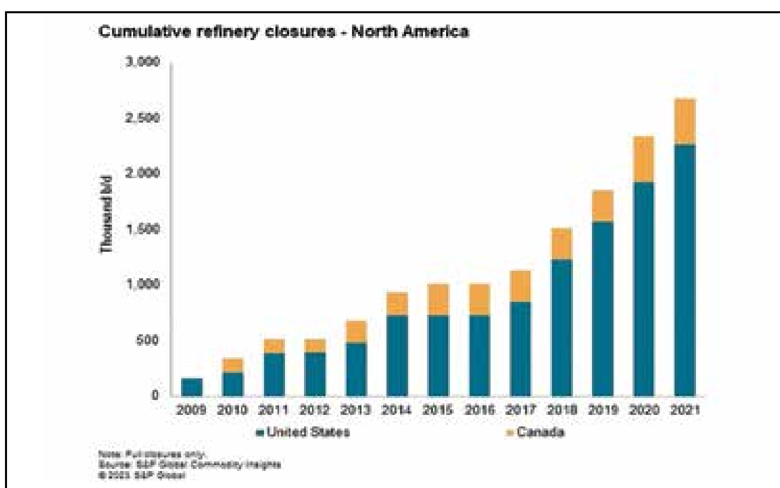
While refinery capacity may have declined in the area, post-pandemic demand has returned, increasing the region's susceptibility to global market disruptions. "The spring of 2023 is going to be the first real test on the PADD 1 refining system since we lost the Philadelphia Energy Solutions refinery," Chowdhury said.

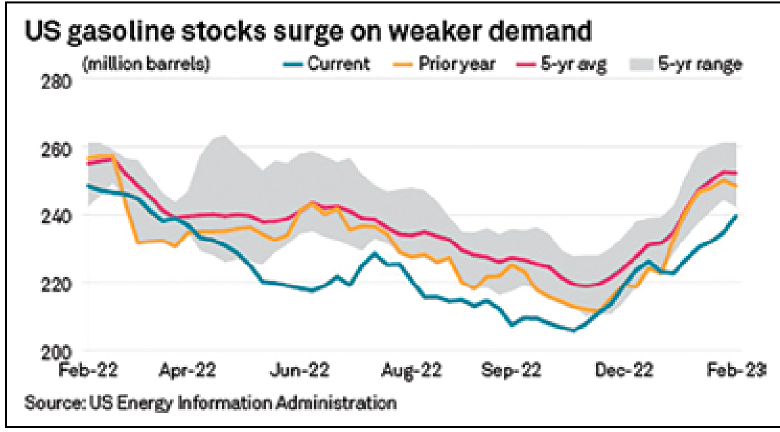
A landlocked Midwest is unable to depend on waterborne imports but makes up for it with a hefty refinery capacity. Yet despite its 4.2 million b/d refining capacity, gasoline stocks in the Midwest have fallen to their lowest seasonal level since at least 1990, according to EIA data. Market sources pointed to the BP-Cenovus Toledo, Ohio, refinery being offline as a major stressor in weak Midwest inventories. The 150,800 b/d Toledo plant was shut on Sept. 21, 2022, after a fire resulted in two fatalities. It had not reopened by mid-February.

U.S. GASOLINE INVENTORIES UNSEASONABLY LOW AS DOMESTIC AND GLOBAL DYNAMICS DISCOURAGE STORAGE









"In the Midwest, inventories are low partly due to the BP-Husky Toledo shutdown impacting supply as well as other refinery outages due to the freeze back in December, "energy analyst Andy Lipow of Lipow Oil Associates said. Husky is a subsidiary of Cenovus.

Lower Inter-PADD Transfers Also Contributed to the Depressed Inventories in the Midwest.

Midwest to Gulf Coast pipeline movements of gasoline blending components averaged 3.6 million barrels per month from January through November 2022, EIA data showed. That's down from an average of 4.2 million barrels per month in 2021 and 6.2 million barrels per month in 2019.

Roadblocks to building up gasoline inventories don't stop at the refining level. Rising federal interest rates are another important factor behind low gasoline inventories. The Federal Reserve hiked interest rates seven times in the past year and was eyeing additional hikes in 2023. As the cost to borrow climbs, so does the hesitation of market players to purchase and store barrels. "With financing costs increasing due to higher interest rates, it makes it even more difficult to store," Lipow said.

This rising cost to carry goes hand in hand with unpredictable market volatility which further discourages the storing of barrels. One market source pointed to how 2022 market volatility changed risk management, which resulted in more caution in securing physical positions.

"The volatility on the NYMEX, a place used for hedging purposes, blew up," the source said. "I'd say it wiped people out. People use the NYMEX to hedge positions, however the volatility made it actually the opposite of a hedge. So, risk appetite for NYMEX could have shifted for some time. It's not acting normal, therefore you cannot expect to use it for normal purposes."

A volatile futures contract undercuts the effectiveness of using futures as a hedging tool, which ups the risk for market participants when taking on physical product.

Furthermore, a noticeable lack of contango in the gasoline market has further decreased appetite to hold onto barrels. ▶

A contango structure is when something costs more in the future than it does today. When the structure between NYMEX RBOB futures contracts are in contango, it pays to hold onto barrels and sell them at a later date. This trend is generally seen in the winter due to seasonally depressed demand which incentivizes a much-needed build of inventories to prepare for the summer driving season.

Yet, like so many other market fundamentals that got turned on their heads after Russia's invasion of Ukraine in February 2022, the market structure present in gasoline was equally unusual and kept the market operating in a "hand-to-mouth" fashion. "Generally speaking, the gasoline market has been backwardated all winter. It does not make sense to hold on to inventory, so we have seen draws," Lipow said.

The spread between the prompt and second NYMEX RBOB futures contracts from Sept. 15 through December averaged an 8.56 cent/gal backwardation in 2022, compared with 1.98 cents/gal backwardation in 2019, creating an environment in which product storage doesn't makes sense. There's been a slight reversal in this trend at the start of the year, potentially an encouraging sign for inventories, but also a nod to depressed gasoline demand.

In January 2023, the spread between the NYMEX RBOB February and March futures contracts averaged a 67-point/gal contango, according to S&P Global Commodity Insight data. That market structure was more normal compared to 2021 and 2022 levels, but only about half as wide as pre-pandemic 2020 levels of a 1.13-cents/gal contango.

December 2022 U.S. refiner and blender net inputs of fuel ethanol, a proxy for gasoline demand, averaged 873,500 b/d, according to EIA four-week average data. That's around 3% below 2019 levels in the same month. Demand slid even further in the first part of 2023, with ethanol inputs for the first five weeks of the year averaging 823,200 b/d in 2023 compared with 867,400 b/d in 2019, a 5% decline.

Despite a shift into a contango market, the United States faces challenges for inventories to recover to more normal levels in the spring and summer considering the depths from which need they to recover. "It's hard to build gasoline days of supply in time for spring break driving season because diesel is so short and the whole world is so worried about diesel inventory because of EU sanctions. Because of this, the northeast will be dependent on Gulf Coast pipeline and Europe imports to remain balanced," Chowdhury said.

Similarly, the competing interests of building versus consuming inventories in the summer could contribute to difficulty in growing stocks. As it stands, U.S. gasoline inventory levels are only sufficient to cover 28.9 days of supply as of the week ended Feb. 3, EIA data showed.

"The main factor concerning the ability of PADDs 1 and 2 to build sufficient inventories for the spring and summer is what occurs with the winter distillate market," Chowdhury said. "When we are out of driving season in July and August, the days of supply are expected to return back within range of low and average."

The cascading impact of these global and local dynamics extends into a key focus for gasoline consumers: prices. Spot market prices across the US continue to reflect global market concerns and regional inventory tightness at 25-70% higher in the most recent winter season compared to pre-pandemic levels.

"There are two main determinants to gasoline prices: fundamental (which are tight) and crude oil prices. Crude prices have been the main driver in 2022. S&P Commodity Insight's view is that pricing will remain relatively flat unless there is a significant escalation in the Russia-Ukraine conflict," Chowdhury said.

Gulf Coast pipeline CBOB averaged $2.05/gal in December 2022 and $2.42/gal in January 2023, according to S&P Global pricing data. That's up 30% from December 2019 levels of $1.59/gal and up 56% from January 2020 levels of $1.55/gal. Further east, New York Harbor barge RBOB spot market values rose 33% in December 2022 compared with 2019 – $2.23/gal vs $1.67/gal – and 54% in January 2023 compared with 2020, at $2.48/gal vs. $1.62/gal.

Similar trends were seen in the Midwest and West Coast. S&P Global pricing data showed Group 3 suboctane out of Oklahoma averaged $2/gal in December 2022 and $2.45/gal in January 2023. That was up 27% and 56% compared with three-year prior levels of $1.58/gal and $1.57/gal, respectively.

On the West Coast, Los Angeles CARBOB averaged $2.23/gal in December 2022 vs. $1.66/gal in 2019 and $2.61/gal in January 2023 vs. $1.84/gal in 2020.

Spot market trends have followed strength in the underlying NYMEX RBOB futures contract, which averaged 34% higher in December 2022 compared with 2019 and 54% higher in January 2023 compared with 2020. “However, gasoline prices are not expected to go as high as in the summer of 2022 unless there are significant escalations in the Russia-Ukraine war pushing up crude prices,” Chowdhury said. Though if there’s any takeaway from the previous tumultuous year, it is that forward-looking prices and other fundamentals can be challenging to pin down as markets dynamics quickly change on turbulent global events.

One big question for U.S. East Coast inventories centers around potential impacts of the EU embargo on Russian refined products that went into effect Feb. 5. “In the face of a colossal supply loss of diesel out of Russia, Europe is expected to source diesel from India, the Middle East, and the US, and increase domestic refinery runs to maximum capacity. The increase in European runs may provide relief for PADD 1 gasoline supply through increased imports,” Chowdhury said.

As Europe becomes more dependent on its domestic production to meet demand, this could result in that region having more gasoline to export to the US as it’s not possible to exclusively produce just diesel or gasoline at a refinery, in effect bringing more balance to the Atlantic basin. “I expect that European refiners will operate at a high capacity to take advantage of the jet and diesel cracks, so excess gasoline will still come this way. I think that the loss of Russian naphtha for gasoline blending as well as Russian VGO to be used at EU refineries will have some impact on gasoline supplies,” Lipow said.

But as an increase in European diesel production could result in more gasoline availability to the United States, the opposite would be true of U.S. refiners. Why would the United States and Europe both continuing to maximize diesel production result in different consequences to the U.S. market?

While the United States primarily uses gasoline as motor fuel, and an increase of diesel over gasoline production threatens this ability during times of high gasoline demand, Europe uses both diesel and gasoline and so is able to export some of the gasoline they make to the United States.

How Long Can U.S. Gasoline Inventories Stay Low Before Prices Narrow their Abnormally Wide Spread to Diesel?

The unusual market interplay between diesel and gasoline could set up a significant reversal in the NYMEX RBOB and ULSD spread in the spring when heating oil demand falls and gasoline demand rises, Chowdhury said. So, while the global fuel market may be all diesel today, gasoline could be catapulted into the US spotlight this summer. Buckle up, this ride’s not over yet.

Oh yeah, and don’t forget to fill up on the way. ★

Anna Trier is a Senior Pricing Specialist with the Americas oil team at S&P Global Platts, 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.

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PUBLISHER

AMY RIDER
ASSOCIATE PUBLISHER & EXECUTIVE EDITOR

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Unbiased, Independent Advisor.

"Matrix became a trusted resource and advisor to the Quarles family over 15 years ago. During that time, Matrix advised on valuation, capital allocation, and executed on the divestment of our convenience store business in 2010, the divestment of our propane rail terminal in 2020, and the sale of our propane and refined fuels distribution, cardlock & fleet card, and lubricants distribution businesses in 2022.

Without hesitation, I knew I could reach out at any time, day or night, to bounce ideas off them. As an unbiased advisor and confidant, they listened intently and provided creative solutions and ideas. This was the foundation of our relationship and provided the trust and reassurance that when the time was right to pursue an acquisition or divestment, Matrix was our preferred advisor.

Maximizing return on capital for a large, diverse and extremely successful 80+ year old family-owned business required a lot of thought and planning. Matrix has the industry knowledge and professional staff to provide the guidance we needed. They handled every engagement with expertise, precision, and care. If you are seeking a trusted advisor to help build shareholder value, I encourage you to speak with Matrix."

Paul Giambra
Former CEO, Quarles Petroleum

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- **Spencer P. Cavalier, CFA, ASA**, Co-Head of Downstream Energy & Convenience Retail Investment Banking
  spcavalier@matrixcmg.com • 667.217.3320
- **Cedric C. Fortemps, CFA,** Co-Head of Downstream Energy & Convenience Retail Investment Banking
  cfortemps@matrixcmg.com • 804.591.2039

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