



Oil Express

exclusive report serving informed petroleum marketers nationwide

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Gasoline Price Barometer

Crude oil and refined products futures spiked higher last week, largely thanks to enthusiasm about a global economic recovery. In the space of less than two weeks, crude bounced from less than \$70/bbl to about \$79/bbl at presstime.

Gasoline rose as much as 20cts/gal in some of the markets that had been shaky through the first eight weeks of the year. Chicago spot gasoline, for example, moved from about \$1.75/gal to \$2.02/gal. Gulf Coast unleaded also moved above \$2.00/gal. The West Coast saw a smaller increase but left sub-\$2.00/gal quotes in the dust.

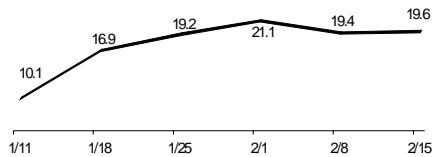
Ethanol, on the other hand, did not participate in a recovery. That enabled splash blenders in some Midwestern states to slash wholesale costs by as much as 7cts/gal.

Diesel posted gains thanks to the crude rise, even though sales were deemed miserable.

The casualties in the wholesale surge were retailers. Rack-to-retail margins narrowed to well under 10cts/gal in most states.

National Rack-to-Retail Margins

(Averages in cts/gal)

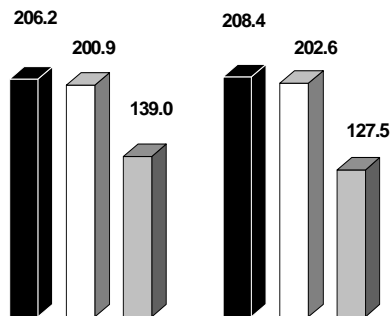


Source: OPIS Retail Fuel Watch
For more information call 1-888-301-2645.

Average U.S. Contract Price

(in cts/gal)

Unleaded Gasoline No. 2 Oil



Source: Oil Price Information Service

■ Current Week □ Previous Week ▒ Year Ago

Gilbarco POS PCI problem, more tech costs coming

Marketers rushing to install Gilbarco Passport EPOs at their stations to comply with new PCI data security mandates may be in for an unpleasant surprise – additional tech visits of \$1,000/site.

Gilbarco reps have been blaming the need for the additional work on PCI requirements, saying software for Passport is still not PCI-compliant. But there have also been some major operational bugs with the Passport program, Oil Express learns.

“We have been racing to install Passports and will be doing so for the next month. We’ve just got some of them in and now our Gilbarco distributor has told us that we will have to upgrade to software version 8.20 to make them PCI-compliant,” says an angry East Coast jobber. “According to the Gilbarco guy, it will shut down our sites again for a good part of a day and will cost upwards of \$1,000/site in labor. The installer must be online with a Gilbarco tech the whole time so the work has to be done during the day and they don’t even know when they’ll get the software.”

The multi-branded marketer says he believes that many large chains have stopped installing Passports completely while they wait for the new Gilbarco software to become available, rather than have to have their operations disrupted a second time and face paying extra labor costs.

“Large Gilbarco distributors are just pushing and pushing sales of the equipment, telling their sales people to just get the stuff in stores and then worry about PCI later. We were told that it will be impossible for Gilbarco to meet the PCI deadline because it is now entailing two trips to each site and there aren’t enough techs in the country to accomplish that,” the jobber said.

The marketer says he was told it will take 10 hours per store to install the new software for the Passports, which are costing him \$16,000 each. He says Gilbarco reps also blame the introduction of loyalty programs by BP and Shell for installation delays. Both majors have been pushing Gilbarco to install the price rollback equipment as soon as possible – BP has been bragging that it will have all its sites equipped by year-end.

“I can’t understand why BP and Shell just don’t postpone the rollouts, given all this PCI stuff that has to be done,” he said. “And I wonder how many jobbers realize that these overpriced computers that they’re putting in are not PCI-compliant.”

Refiners have been pushing marketers to install new Passports and other supposedly PCI-compliant equipment in order to meet a July 1 PCI deadline. Some have even promised to help marketers pay for the equipment. BP, for instance, has said it will pay marketers up to \$1,000 for every Gilbarco G-site they replace, capped at \$3,000 per site. The catch: They have to install the equipment by March 31. BP had previously told its jobbers that the new Passports would be ready to go in 2009.

There are approximately 30,000 Gilbarco G-sites in the U.S. and it

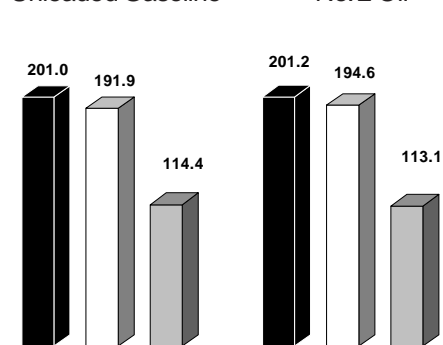
Gasoline Supply Barometer

Weather played a big role in DOE stats released last week, and the trading world is willing to write off poor February demand because of storms. But weather also may have skewed demand numbers to levels that may not be repeatable through the rest of the year.

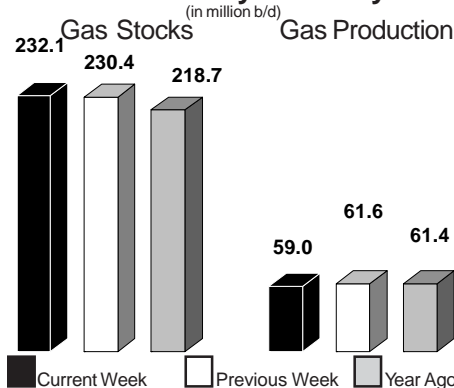
Gasoline demand last week fell to 8.521 million b/d, the lowest single week for gas demand since Jan. 30, 2004. The rolling four-week average demand level of 8.630 million b/d represents the lowest number on that basis since Feb. 13, 2004. For further perspective, consider that from 2006 through 2008, these numbers were regularly above 9 million b/d.

Storms skewed other elements in the EIA report, however. Gasoline imports dropped by 442,000 b/d on the East Coast, and that accounted for nearly all of the nationwide slippage of 459,000 b/d in cargo arrivals. Distillate imports plummeted from 620,000 b/d on the East Coast to 371,000 b/d.

Average U.S. Spot Price (in cts/gal)



U.S. Refinery/Inventory (in million b/d)



seems highly doubtful that marketers will be able to comply with the July 1 deadline because Gilbarco won't be able to replace them all in time.

Majors have known that the Passport software was not PCI-compliant since last October. Even before the PCI issue arose, there were troubles with the software, say Oil Express sources.

Gilbarco sent majors copies of the software to test, and there were some huge bugs in the system. For example, some refiners found that store reports didn't total properly, and that dispensers locked up and had to be rebooted when discounts for carwash and other services were offered. "They were not issues specific to one major, but Gilbarco-wide," says an official with one major oil company. "Most of the stuff is fixed now, but not all."

Additionally, there is the PCI delay, although that is expected to be dealt with soon, the source says. Certification for PCI compliance is a two-step process. Gilbarco has received a green light for one part of the process but not the other.

If majors knew there would be a delay because of bugs in the Gilbarco POS and the PCI approval situation, they should have said so – by not speaking up, they have cost their marketers additional money, says the jobber.

PCI compliance is expected to cost about \$20,000/site, says a credit card industry expert. "If it wasn't for the PCI deadline and the shortage of techs, I'd tell retailers to wait until Gilbarco had the POS ready. But given the backlog of work, I think marketers had better put the Passports in now and use the time 'til the software is available to train their people on the systems. It's great for Visa to throw out all these deadlines, but there are thousands of small business people in the oil industry who are suffering as a result."

According to the marketer, BP did not tell jobbers that there were problems with the Passport software and has not indicated whether it will now look at extending its \$3,000 G-site incentive for jobbers or offer some other assistance to its wholesalers – BP did not respond to questions on the issue by presstime.

Some oil companies have agreements with Gilbarco that will move their marketers to the head of the line when it comes to installation appointments and parts delivery.

BP did not respond when asked if it had such an agreement or any other plan to help its marketers deal with the current situation, and did not address questions about whether bugs in the Gilbarco software for BP sites had been fixed.

Gilbarco did not respond to a request for comment by presstime.

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BP jobbers who don't play along will lose ability to accept Visa; Shell jobbers will pay site fee

Shell and BP marketers question benefits of supplier loyalty offers

Shell is starting to ramp up the rollout of its new loyalty offer with 31-state grocery chain Kroger, but some of its jobbers are concerned that it will cost them more than they can afford to pay.

Pushback is coming from marketers unhappy with the 3.5cts/gal fee Shell will charge on loyalty sales, after an initial 25cts/gal introductory offer expires after 120 days (OE 01/18/10).

“We’re not even making 3.5cts/gal,” said one marketer, “and we have no intention of signing up for a program that exceeds our margin,” said one East Coast marketer, although he admitted to being impressed with Shell’s PR campaign for the program.

Another jobber said that his dealers are only operating on a 4cts-5cts/gal margin on unleaded now and he doesn’t see how he can convince them to part with a large chunk of that in support of the Kroger program.

Shell says those marketers may be looking at the program the wrong way.

“Jobbers should realize that this 3.5cts is only on sales to Kroger customers, not on all their sales,” says one Shell exec. “They need to look at their average pool margin for the year. If someone’s making 4-5cts overall, then he’s got challenges. But he’s probably getting a higher margin – say 6cts – over all his grades.”

According to Shell, even at a 40% to 45% cannibalization rate, marketers should at least break even or make money from the Kroger program. Here’s Shell’s math.

Suppose a marketer’s weighted average margin is 6cts/gal. If the Kroger customer is an existing Shell customer, then the marketer is indeed out 3.5cts/gal. But if he nets back 2.5cts for every 1.5 new customers, he gets an extra 5cts/gal.

“Marketers also need to consider how they can capitalize on the new traffic they’re drawing to their sites, in terms of extra services like carwashes and c-store sales,” he says.

Meanwhile, Shell is in the process of issuing one-year evergreen contracts that jobbers must sign if they want to take part in the program.

According to a copy of the agreement obtained by Oil Express, jobbers are required to commit to pay the 3.5cts/gal transaction fee, which helps fund the Kroger discounts. They are also bound to put up Shell and Kroger POP at sites promoting the program, and to have their station hardware and software upgraded to PCI security standards 30 days prior to the program launch in their market.

Jobbers who want to withdraw one of their stations from the program can do so but only at the end of the one-year agreement and then upon 60 days notice to Shell. If he pulls the Kroger plug on a site before the contract has expired, he will be hit with a \$750 fee per site to “reimburse Shell for implementation costs.”

The Shell contract also bars marketers from entering into loyalty agreements with any other company that would involve fuel discounts while they are part of the Kroger program.

The Kroger loyalty offer is built onto Shell’s existing price rollback program, called “Shell Rewards,” which allows retailers to customize discounts for drivers tied to their purchase history – for example, 3cts/gal off for co-branded credit card customers. That means that marketers who are running, say, their own 5cts/gal promotion for customers who buy premium will pay that also to the Kroger customer, or a total 15cts/gal. It all depends on what reward the marketer’s company is offering that month.

While a change of heart by a Shell jobber on a loyalty deal results in a fine of sorts, BP’s penalty is worse. Any marketer who decides he no longer wants to be part of BP’s price rollback program will not be able to accept BP’s co-branded Visa card in the future. The major is in the process of reworking its deal with its bank, Chase, to re-issue the card as cents/off plastic. Currently, the card offers consumers statement credits.

“The new BP Visa product under development will not be redeemable at the site,” a BP exec confirmed. “Over time, we expect the price rollback functionality to be a part of many of our offers,” he added.

Both companies claim to be the industry leader in loyalty programs

Both BP and Shell claim they are winning the race for loyalty lucre, but they are taking different routes to what they see as the winner’s tape.

BP garnered newspaper headlines recently by bragging that it would be the first major to have its entire

network of 10,000 stations equipped with price-rollback technology by year's end.

BP bases that claim on the fact that it has persuaded jobbers operating 93% of its stations – 8,110 outlets – to sign up for its price rollback program. The only states in its network where BP has not signed up wholesalers are Alabama and New Jersey.

So far, 350 out of BP's 10,000 stations have begun installing the necessary equipment – BP is managing and paying for the deployment process.

However, the company has few actual loyalty deals to offer its marketers at present. BP must rely for much of its progress on Excentus, a third-party processing firm in Texas. Excentus owns the “fuelperks!” rewards program that BP has contracted to offer to its marketers. The problem is, BP can't expand the grocery offer until Excentus sells more supermarket chains on the deal.

The number of BP stations actually redeeming loyalty rewards so far stands at 211 outlets in Wisconsin, Minnesota, Georgia, Florida and the Carolinas. Shell has 696 stations offering loyalty rewards so far. BP has entered agreements with regional chains Roundys, Bi-Lo and Winn-Dixie.

BP is charging marketers 35 cents per transaction for loyalty sales.

BP believes it has an edge over Shell that will make its loyalty offer the best. It says Excentus will sign agreements before year's end with nationally known, non-grocery chains that will give marketers access to a huge new customer base – chains like Home Depot, Best Buy and Borders Books, for example, have been hinted at as potential loyalty partners.

At first blush, big-name merchandising chains would seem to be an alluring addition to whatever grocery offers BP eventually unveils, but some marketers question whether there may be more glitz than glamour involved where their bottom line is concerned.

“Sure it sounds good, even makes for a good sales pitch, but I'm wondering about the frequency of their visits to us,” says one BP jobber. “It's not that a Best Buy or a Home Depot won't add some volume, but those stores can't stand alone as a base, like a grocery store chain. People buy groceries every week, but how often do they buy electronics and home improvement stuff? I'm not sure how much those people will add to our bottom line at day's end.”

Shell is taking the opposite approach to BP – it is signing loyalty agreements with large regional grocery chains first and then, with an actual agreement in hand, is asking its jobbers to sign onto the deals.

So far, it says it has contracts with more than 3,500 grocery stores located within 10 miles of 6,000-plus stations and is going market-by-market to pitch the plan to marketers.

Shell claimed it has “six times the coverage of announced programs from any other gasoline brand” – a reference to BP – in a recent communication with jobbers.

As well as Stop & Shop stores in the East and Bi-Lo and Winn-Dixie in the South, and the main Kroger sites, the Shell agreements also cover Kroger subsidiary brands, 11 companies that include Fred Meyer, Dillons, Ralphs, Food 4 Less, King Sooper and City Markets. Kroger is the No. 1 national grocery chain, while Stop & Shop, Winn-Dixie and Bi-Lo are the regional No. 1 chains.

Its agreements cover 40 states across the U.S. The only states not covered so far are New Jersey, Delaware, Maine and Alabama, along with Iowa, Minnesota, and North and South Dakota, Wisconsin and Hawaii.

Shell expects to have at least 95% participation among its jobbers.

According to Shell, the company says marketers who helped it test its loyalty offers are happy with the results. It quotes as an example a Southeast marketer accepting the Bi-Lo loyalty card. The jobber says he has locations registering gallons' increases of 12% to 27%. His sites have also seen a jump in merchandise sales. “The results are almost instantaneous and are easy to measure with settlement reports,” he said.

Kroger customers either scan or swipe their Kroger card at Shell dispensers or enter a 12-digit barcode number on the back of the card. They earn 100 points for every \$100 spent on groceries, or eligible prescriptions. Fuel purchases are capped at 35 gallons for both gasoline and diesel, and the Kroger points earned are available for redemption through the end of the month after the grocery purchase was made.

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Motiva aggressively courting unbranded marketers

Marketers who buy unbranded gasoline or diesel in Gulf and East Coast states may be in the driver's seat when it comes to negotiating new supply deals. Marathon's newly upgraded Garyville, La., refinery is already bringing another 180,000 b/d of fuels to market, and now comes word that Motiva is looking to secure long-term supply contracts to place product from its biggest refinery expansion in over 30 years.

Marathon's pitch to jobbers (OE 11/30/2009) included flexible terms on branded and unbranded sales of fuel, including pegging sales prices to formulae benchmarking OPIS low or average rack postings, and spot-plus deals based on Gulf Coast values. While Motiva is in the early stages of own sales pitch, marketers say they've been told that similarly flexible options are available.

Motiva, the joint venture between Shell and Saudi Refining, needs to move quickly, however. It has passed the point of no return in expanding its 325,000 b/d Pt. Arthur, Texas, refinery into a 600,000 b/d plant that will be the largest facility in the U.S. Work was originally scheduled to be completed in 2010, but was delayed until 2012. Still, that means the major will have 115,000 b/d of additional gasoline and 125,000 b/d of additional distillate to sell some two years from now. The company is already "net long" in refined products, but that length will increase dramatically in 2012.

While most unbranded marketers welcome Shell's courtship, some branded Shell jobbers are uncomfortable, given the company's recent reorganization. A year ago, jobbers would deal with separate reps for branded or unbranded product. Now, all the sales fall under the jurisdiction of a single Motiva rep. There are worries that a company that say, reflagged from Shell to another brand, might not get the same lucrative unbranded terms as a loyal Shell marketer.

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NACS: Retailers need liability protection if EPA approves E15 ethanol blends

Biofuel supporters need to push Congress into providing some sort of liability protection if they want blends of up to 15% ethanol to be sold by fuel retailers, says the National Association of Convenience Stores.

In March 2009, ethanol lobbying group Growth Energy and 52 ethanol producers asked EPA to grant a waiver that would permit the sale of blends containing up to 15%.

EPA decided in December last year to postpone a decision on the issue until mid-2010, when the result of more studies on ethanol usage should be available.

"Should the test results remain supportive and provide the necessary basis, we will be in a position to approve E15 for 2001 and newer vehicles in the mid-year timeframe," EPA Assistant Administrator Gina McCarthy said in a Nov. 30, 2009, letter to Growth Energy.

"How is a 17-year-old clerk supposed to tell the difference between a 1999 and 2001 model" vehicle, asked NACS VP John Eichberger, addressing approximately 1,300 attendees at a renewable fuels conference in Orlando this week.

If a consumer accidentally fills up a vehicle with E15 that is not designed for the blend, the retailer would be liable – and perhaps the refiner also – if the fuel later causes problems, he said.

"Congress didn't think through infrastructure issues," Eichberger noted. "We need to protect the retailer from liability ... otherwise 90-95% of retailers won't go above 10% ethanol and refiners won't blend without protected liability," he added.

Eicheberger added, "This is a real issue that some people are trying to sweep under the carpet. The RFS [expanded renewable fuels standard] will absolutely fail if we don't address these issues."

Eichberger also noted the challenge that E85 retailers currently face, with Underwriters Laboratory yet to complete certification of E85 pumps. According to UL, "E85 pumps are illegal right now," he said.

Other speakers also warned of the potential for damage if there are problems with higher ethanol blends. "Danger to a corporate reputation is huge," said Cliff Cook, Marathon's senior supply and distribution VP.

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Special Report: Tank firms, contractors blame refiners, marketers for ULSD woes

Steel tank manufacturers are pushing for a review of ULSD fuel specs, citing rust and corrosion that they say is rotting submersible pumps, eating up tank probes and causing dispenser meters to fail.

“Someone needs to lead, bring all the interested parties together and spearhead the conversation,” says Lorri Grainawi, technical services director of the Steel Tank Institute, a Lake Zurich, Ill., lobbying group representing steel tank companies. “We simply can’t wait 20, 30 or 40 years to see if any tanks fail.” The corrosion problem is “widespread” and “extremely urgent,” she says.

Grainawi has been campaigning on the corrosion issue, making a presentation to the American Society for Testing Materials and helping to organize a meeting with EPA to raise awareness (OE 02/01/10).

Grainawi collected much of the data for her presentations by posting a message on a website used by equipment installers. She said she was “collecting facts for a distributor.” She did not identify herself as working for steel tank manufacturers.

“My goal is to have this problem looked at by the groups developing the fuel standards,” she wrote. She asked for the name of the refiner or blender supplying stations where corrosion was an issue, asked when the fuel was purchased, the age of the damaged equipment, and details of maintenance records.

Refiners and marketers acknowledge that reports of accelerated ULSD corrosion should be looked at to see how pervasive the problem is, but some are puzzled by the STI’s sudden spurt of activity – especially since equipment contractors have been complaining about corrosion problems since 2007. “People should be asking why the steel tank companies are choosing to do this at this particular time,” says one source.

Warranty worries may be one reason

STI operates STICO Mutual Insurance Co., which is funded by tank manufacturers and administered by former STI exec Brian Donovan. STI used to offer 30-year warranties but cut that back to 10 years in January 2008 after STICO said it wasn’t earning enough in premiums and was worried about the effect future alcohol fuel blends would have on tanks (OE 07/02/07, 05/28/07).

“When you start seeing corrosion in tanks, a lot of people start worrying about warranties,” says Zane Miller, a professional engineer with Atlanta-based Testing LLC. “Everyone is running scared right now.”

Miller has several theories as to what’s causing the problems with ULSD, and says that refiners and marketers have brought much of the current trouble on themselves (See P. 7).

Grainawi admits she has “heard a few rumblings” about tank deterioration, according to a recent interview she gave to the Petroleum Equipment Institute’s magazine, but told Oil Express this week that there have been no tank failures.

In the PEI interview, Grainawi pointed a finger at refiners.

“It’s funny. The first thing I’m always asked is whether something has changed with the equipment,” she said. “Are the manufacturers using different steel now? Are the tank systems being constructed differently now? And the answer is no. The equipment hasn’t changed. What we know has changed is the fuel.”

Some marketing execs are irked by her statements.

“They have to make it look like the fuel is at fault because otherwise they could have a huge warranty problem on their hands and problems with future tank sales,” says one source.

A special industry panel has been formed to devise a questionnaire that will be sent shortly to equipment companies, refiners, marketers and others in an effort to see how widespread the problems are. Based on the responses, the industry may fund research on the issue.

STI has suggested that the corrosion problem is “more likely” caused by rust, not microbial activity.

“Bugs need two things to live: water and something to eat,” Grainawi says. “Unusually microbial issues occur where water and fuel meet – those environments give the bugs the water that they need and fuel (hydrocarbons) that they eat. In this case, however, the corrosion is occurring in the meters and even in the vapor zone. That suggests either it’s not microbial, or we’re dealing with some kind of bug we’ve never seen

before,” she said in the PEI magazine.

Some in the fuels end of the business are skeptical of Grainawi’s position.

Corrosion is being found near the tops of tanks, and has caused gauges, STPs, and fuel drop tubes to become covered with sediment that looks like coffee grounds and smells like rotten eggs. That is one tell-tale sign of microbial-caused corrosion, say marketers and equipment experts.

“The big question is, over time will the corrosion reach the tank itself? STI is anxious to avoid talk of microbial contamination because it puts the spotlight on steel tanks. Remember, steel tanks corrode from the inside out, and the microbial contamination issue has bigger implications.”

Grainawi refused repeated requests to make a copy of her report to ASTM available but other sources supplied details from the document to Oil Express. She also declined to answer e-mailed questions or discuss the corrosion issue by phone. Grainawi said in a brief e-mail message that only fiberglass tanks were involved in the corrosion problems. However, a document she presented to the ASTM committee included a report about a jobber who had to scrape the inside of his steel tanks with shovels to try to clean out residue.

Tank contractor: Refiners, marketers need to improve housekeeping skills

Among the five cases Grainawi referred to in her ASTM presentation was information provided by Dale Simmons, co-owner of Estes Equipment Co., based in Birmingham, Ala.

“We’ve had several cases of warranty nozzles returned for ULSD dispensers in the last several months,” Simmons said. In one case involving a 20-year-old steel tank, the STP was corroded that it was possible to make a groove down the metal with a pencil. “We pulled a Veeder Root probe the other day out of a ULSD tank and the probe cable and the top of the probe came off,” Grainawi quoted him as saying.

According to Simmons new filters were stopped up with “brown metal crud” a day after they were replaced, and the meter on a one-year-old Wayne dispensers locked up multiple times from “the metal powder coming through the filters.”

Other equipment firms have reported a large array of problems on PEI’s Web forum:

- Corrosion clogging filters, leading to overfills of vehicle tanks – the automatic shut-off for nozzles requires a 5-gallon per minute flow rate but corrosion is slowing the amount of fuel flowing;
- Corrosion not only in the product line but also in areas where diesel is not present, such as the STP housing – “we barely got the STP up through the riser with a fork lift,” said a Houston firm. Nozzles, seals and solenoid valves are all “going bad;”
- A California firm claims to have had seven meters fail in less than 10 months at four sites. The fuel was tested for water, acidity and microbes and all were said to be “within normal limits.” The fuel came from a jobber pulling diesel straight off the pipeline who was not adding anything to the fuel;
- One commercial account reported seeing “extreme degradation” in an aboveground, double-walled tank. The tank was new and put into service six months prior. Examination showed a heavy concentration of microbial materials near all opening areas at the top of the tank, like fill pipe and gauge.

Transport drivers duck water-testing of tanks

A large number of corrosion issues initially involved Shell ULSD, but problems are now showing up at BP, Exxon and ConocoPhillips-supplied sites too, say Miller and other equipment contractors.

ULSD doesn’t hold water as well as previous, higher-sulfur diesels. The water tends to drop out of the fuel and settle on the bottom of the tank. Water can get into a tank through fuel deliveries, humidity and condensation, as well as vent holes at the top of the tank. The average tank can accumulate 10 gallons of water over three months, Miller told Oil Express.

“Microbes love water, it is their perfect environment to breed,” says Miller. “With ULSD, you need to remove the water more frequently if you don’t want it sucked up through the STP and into your dispensers.

Once you get six inches of water in a tank, that's fatal," he says.

Miller lays much of the blame for marketers' corrosion woes on the oil industry itself, from the refinery to the transport driver who drops off fuel loads without checking for water.

Sources of tank debris can include bad fuel tank waste mix at a blending plant, loading racks, and water in fuel being shipped through pipelines. Loose tank-top fittings and something as simple as a leaf stuck in a containment bucket drain valve can all have an impact. Improper electrical grounding of equipment can be another cause of internal corrosion.

Delivery drivers also are culprits in some cases, Miller says.

Some drivers are not paid by the hour but paid by the load. They are supposed to stick tanks before dropping fuel to see how much water is in the tank. If it's over a certain amount, they are not supposed to deliver the fuel. However, if they don't drop the load, they don't get paid. Some drivers stick the tank but deliberately do not use water paste.

Rules vary but most states have a maximum amount of water that they will tolerate in an underground tank before requiring the tank to be shut down. In Georgia, for example, a one-inch accumulation is allowed. In California, the tolerance level is zero, Miller says.

Miller says more than 90% of the tanks his company cleans show signs of bug activity, which includes colony-massing and ionic wastes in water-fuel interfaces, bio films and tank-bottom debris. Sulfur in diesel used to act as an "antiseptic," in that bugs would often lay dormant. Now there's much less sulfur in the fuel, and when microbial waste combines with other debris in the tank, it makes the water more acidic and therefore more corrosive.

The result is a "cauldron effect" at the bottom of the tank producing noxious mixtures that can lead to major problems for marketers.

A tank's construction and integrity may be affected by localized corrosion and pitting long before the contamination reaches a dispenser filter or a fueling customer's car or truck, Miller says.

"Majors need to address the problem and come up with maintenance protocols for water removal and filtration of the fuel," Miller says.

He estimates that less than 10% of tanks are on a regular maintenance program for water removal and filter-changing. A regular maintenance program costs about \$50 to \$100. Absent a preventative program, a callout to deal with water removal from a tank costs 10 times that, \$500 to \$1,000 per tank.

Shell urges its marketers to clean up their tank act

One refiner – Shell – alerted its marketers to diesel corrosion problems in a special bulletin in July 2008. Since ULSD was introduced at retail in the summer and fall of 2006, the diesel fuel industry has seen more water in tanks, an increase in microbial growth and a spike in the number of product incidents with consumers. "The entire industry has noticed this increase," Shell said at the time. "We have only seen a single incident where the water issue in diesel fuel was related to the terminal."

In most cases, water – typically less than 1 inch – and tank bottom problems are a result of 'housekeeping' and water management issues at stations, the company said.

According to Shell, lower throughput tanks are generally at a heightened risk, particularly after a new load is received into the tank and the water-diesel interface is disrupted.

Dispenser filters can only handle a certain amount of sediment and only for a certain period of time. The key indicator of problems is slow product flow due to clogged filters.

To diagnose the problems early, Shell suggests that marketers:

- Always know the true water levels in any tank. Since detection of water levels below 1 inch is not always accurate with an automatic tank gauge system, weekly stick readings with water detecting paste should be used;
- Incorrect tank slope may also mask the presence of water, even by sticking, so marketers should know the low

- point of the tank and be able to stick there. Remove water from the tank if the water level reaches 1 inch or more.
- At the first signs of slow-flow issues, clogged filters or indications of equipment corrosion, check and change filters and take a tank bottom sample.
 - Have the tank properly cleaned if a significant amount of tank bottom or metallic material is found. The product pumped out from the tank should not be reloaded into the tank after cleaning, because it will be contaminated. Monitor the tank closely after the tank cleaning, and track deliveries from terminal supply points.
 - Increases in water after rain may indicate there an issue with tank integrity or drainage on the pad. If bio cides are used to kill bugs, they can only be introduced after tank cleaning.
 - At stations where there are chronic problems, try to stick both ends of the tank, especially if there is a known slope.
 - Use the fill tube to take a sample from the bottom of the tank. A “Bacon Bomb Sampler” or a “Gammon Tank Sampling Device” can be used, or any apparatus that will get a sample from the bottom.
 - Put the sample in a clear, clean and water-free glass container and document the appearance of the sample by taking a digital picture.
 - Water is heavier than gasoline or diesel. If there is water present, a water layer will be on the bottom and a product layer on the top. It may be necessary to let the sample settle for a few minutes to see the two layers or see any solid material settle to the bottom. If rust, corrosion material or other debris can be seen, run a magnet across the bottom to see if the particles are magnetic.
 - If there are two layers, see if there is any evidence of material at the interface of the two layers. This is called a “rag layer.” If a rag layer or a multiphase layer sample is not observed, a sample should be obtained on the turbine end of the tank. This ensures that if the tank is sloped, a sample will be obtained from the low end where the water will accumulate.
 - At that point, Shell-branded marketers can call Shell for assistance or contact their maintenance contractor.

Study by steel tank companies seems to contradict some STI claims

With biofuels increasing their market share, it is important for STI to be able to convince tank customers that they are not likely to have to deal with corrosion and leaks down the road.

STI’s suggestion that rust, rather than corrosion caused by bugs, is the cause of current problems is at odds with a study it has been heavily promoting over the past year at equipment industry events. STI funded the study, along with biodiesel interests and heating oil trade group, the National Oilheat Research Alliance.

According to STI press statements, the study by the Southwest Research Institute shows that steel tanks are compatible with ULSD and all the new biodiesel blends, making them safe for the fast-growing renewable fuels market.

The study measured the corrosion rate of steel in various biodiesels, as well as petroleum and biodiesel blends. Half the fuel samples also contained water to simulate what STI called “worst-case conditions.” The test was run over 12 weeks, with heat used to simulate “typical” storage tank conditions that would exist over a 12-month period.

According to STI, the laboratory found “no significant level” of corrosion and no formation of pits.

When a mix of 5% biodiesel, ULSD and 1% water was tested, the corrosion rate was calculated at 0.09 millimeters a year, or .00354 inches a year. A visual inspection showed only a “small amount of surface rusting, although rusting “was slightly higher” in 100% ULSD than in biodiesel or bio-USLD blends.

The study “reinforced the compatibility of steel” for various blends, said Grainawi. The corrosion rate was “imperceptible,” she said a press release last year.

Underwriters Laboratories had been raising questions about the compatibility of biodiesel in tanks, Grainawi told a biodiesel magazine. “STI offers warranties on steel tanks and that was part of the drive for the study,” she said.

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Marketer fends off price-fixing case

Lawyers for New England marketer Drake Petroleum have secured a summary judgment in a class action suit that accused Drake of gasoline price gouging and price fixing in Martha's Vineyard. Plaintiffs included some Martha's Vineyard residents and a local business, and together they alleged a decade long conspiracy to fix gasoline prices. They also alleged that Drake engaged in price gouging in the wake of Hurricanes Katrina and Rita in 2005. As part of the action, four gas stations in Martha's Vineyard were sued, charging that the marketers violated the Sherman Act and the Massachusetts Consumer Protection Act. An appeal is pending.

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Mid-Atlantic jobber expands base

Virginia jobber Joe Mamo has completed the purchase of 29 ExxonMobil stations in the metro Washington, D.C. area. The acquisition, through his newly formed firm, Capital Petroleum Group LLC, was financed through Petroleum Capital and Real Estate LLC and a private equity real estate investment trust. "We are excited that we could help facilitate this transaction," said John C. Flippen Jr., of Petroleum Capital. "This is the fifth acquisition that we have helped Joe Mamo facilitate and during that time Mr. Mamo has purchased a combined total of 140 locations from Exxon and Shell."

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Sunoco debt downgraded

Sunoco may need a quicker turnaround in currently depressed refining margins than most other processors. Moody's Investors Service downgraded Sunoco's long-term debt rating to "Baa3" from "Baa2."

That still keeps Sunoco's debt in the investment grade category, but just barely. Another downgrade would put the refiner's debt into junk status. Moody's said that the ratings outlook on Sunoco remains negative and added that the recent downgrade reflects "weak refined product demand and margin conditions in Sunoco's core refining and supply business."

Sunoco does have cash on the balance sheet, but poor margins could conceivably make the refiner dip into that cash to make up for deficits rather than reduce debt.

Sunoco CEO Lynn Elsenhans talked about using that \$377 million in cash (as of end-2009) as a "buffer to ride through the refining down cycle."

She also indicated that the company has targeted a cost structure where \$4-\$5/bbl would represent break-even margins.

Year-to-date margins compiled by OPIS suggest that the company's Toledo, Ohio, refinery may be hard pressed to get anywhere near that target. The Ohio plant is a victim, or beneficiary, of Chicago-style economics. So far in 2010, unleaded regular in that region has fetched a price just \$4/bbl above sweet crude, and ULSD has commanded about \$5.88/bbl above WTI. The Philadelphia refining complex has fared slightly better: OPIS data on a year-to-date basis shows northeastern spot regular gasoline averaging \$7.24/bbl above sweet crude, with ULSD at a spread of \$8.69/bbl.

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GM wants more ethanol fueling sites

General Motors is asking for more ethanol stations to help fuel its growing fleet of hybrid vehicles, according to a Reuters report. The car maker is producing more vehicles able to run on ethanol-gasoline blends. Tom Stevens, GM vice chairman for global product operations, pointed out that more ethanol stations in America will help slash emissions output and lower U.S. reliance on foreign oil. By the 2012 model year, half of all GM vehicles will have the ability to perform on E85 (15% gasoline and 85% ethanol).

"GM is spending about \$100 million a year adding flex-fuel capability to our vehicles. We can't afford to leave this capital stranded," Stevens said at a Renewable Fuels Assn. conference in Orlando. Making the cars able to handle E85 increases the product cost close to \$70 per vehicle. Currently, GM has manufactured more than half (4 million) of the 7.5 million flex-fuel cars now on the road, said Coleman Jones, GM biofuels implementation manager.

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