



Operational Compliance for Business Results

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Greg Salverson has close to 10 years of industry experience in the technology and oil and gas industries. Prior to joining FuelQuest, Greg managed the India and China Level 4 support team for HPS-SAP IT with Hewlett Packard in South East Asia. While with Hewlett Packard, Greg proposed standard SAP resolutions that adhered to development standards, managing the deliverable from design to go-live. Greg began his career with Chevron-Texaco as a member of the pricing and tax team, implementing SAP's IS Oil solution and Taxware for all North American downstream business units, including retail marketing, product supply, lubricants, and asphalt, as well as domestic and international aviation. Greg holds a BS in management information systems from California State University, Chico.



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As fuel marketers enter the new decade, it isn't enough to operationally do the bare minimum and expect to reach—dare exceed—business goals. Price volatility will continue. Supply will fluctuate. Weather patterns remain unpredictable and the EPA is boosting regulations.

Just managing the fuel tax changes by state can be a daunting, full-time effort. In 2010, innovative fuel marketers and retailers are looking ahead and implementing strategies that combine new business processes, improved workforce training, and a better use of technology and collected data that will ultimately improve the supply chain, increase margins, and decrease working capital. Many will go beyond standard operations and implement best practices systematically or choose to assess their current structure and make step-by-step improvements. By focusing on an overall compliance strategy, organizations can anticipate improved financial performance and inventory management, streamlined demand fulfillment and fewer regulatory challenges.

Government Compliance 101

Moving forward, the EPA program priorities are to: meet the mandate to inspect all 623,000 federally-regulated tanks every three years, boost compliance rates to minimize future releases, and clean up old and new tank leaks. Moreover, the EPA is starting to develop new regulations for biofuels storage and contamination issues. Given the past challenges and the future changes ahead, fuel marketers and retailers have the opportunity to effectively use the fuel management data they are collecting to strengthen operational and environmental compliance.

Recently a fuel island operator had a small tank leak resulting in a loss of 15 to 30 gallons per day equating to

a gross monthly loss of 700 gallons of fuel. The specific state inventory control requirement based on throughput of sales would have allowed that amount to pass compliance; therefore, the leakage went undetected for over a month. In just two month, this fuel island operator lost 1,400 gallons of fuel.

When the state finds out about the leak, and someday they will, having an automated environmental compliance solution means that the business will be able to produce documentation proving the 1,400 gallons of fuel was slowly leaked at a rate within environmental compliance laws. The documentation will support that the store did in fact pass compliance and that the leak rate was so minimal by government standards that it was in accordance with state laws. Having a systematic, operational process and documentation strategy could save fuel operators from a \$10,000 fine.

Dodging the \$10,000 fine is good, but the store still lost 1,400 gallons of fuel. The 2009 average price of fuel was \$2.35 per gallon. In 2010, it's expected to be \$2.84 per gallon. By only doing the minimum compliance, the store lost \$4,000 over two months. The average convenience store's fuel margin for two months is \$30,902.64 or 13.1 cents per gallon. By essentially letting \$4,000 leak into the ground, the fuel marketer lost 12.9% of margin by only operating at the minimum regulatory requirement. According to NACS:

- The average c-store sells 117,949 gallons per month
- The average margin is 13.1 cent per gallon
- Average monthly margin is \$15,451.32

A streamlined tracking process can also help better manage inventory replenishment and reduce run-outs and retains. Imposing discipline in the system to not only manually record fuel volumes throughout the day, but also to enter it into a spreadsheet or other system that will leave you the appropriate documentation should the EPA call, results in a staff that is more efficient in their day-to-day responsibilities. Though inventory levels that are tracked by paper can support tank leak challenges and EPA compliance, importing this critical fuel gauge data into an automated program increases the reliability of delivery counts.

State excise motor fuel tax laws are also continually changing and in some areas the number of changes can be up to 400% in just one year. Financial officers and business owners alike are consistently challenged by tax overpayment and undercharging customers, tracking and maintaining rate and rule changes to stay compliant, and finding and retaining competent tax resources throughout the country. Very similar to managing the fuel supply, fuel marketers can do the bare minimum and hope for the best or start integrating their entire fuel supply and tax determination process for maximum business benefits.

“Proactive inventory tracking and forecasting gives organizations control and security over their fuel supply and businesses can achieve from two to six cents per gallon of cost savings – a significant savings no matter how many gallons of fuel managed. ”

For example, one fuel marketer was overpaying its suppliers due to the use of an improper tax rate - a simple mistake with huge ramifications. Once the issue was uncovered, the finance team re-engineered its business process, quickly retrained staff and took advantage of available tools that resulted in finding \$800,000 in overpayment within the first month of identifying the problem. Not only did the fuel marketer reduce tax risks and exposure long-term, they were able to have better control over their supply chain and suppliers and create competitive advantage throughout.



Improvements Increase Business Compliance & Competitive Advantage

When to buy fuel continues to be a critical factor in profitability for both unbranded operations that buy spot and branded fuel marketers managing under contracts. The best contract or spot price cannot be determined by comparing your supplier to other suppliers alone. With daily volatility, it is critical to benchmark the best supplier's current price against the market to see if the order that is placed can wait until market prices change and ultimately save 3 cents per gallon or \$264 per load. This load shifting is good practice in today's market to maximize margins and manage contracts. Market volatility is increasing and merely buying from the lowest spot option or setting a contracted price and ordering is not enough. Holding back an order, moving an order forward, shifting loads to take advantage of spot opportunities can save a business \$264 per load and thousands per year. The following facts alone support good load shifting strategies:

- In 2009, the EIA spot market had daily volatility of 3.59 cents per day. The market had a daily spot movement of over 1 cent per gallon 82% of the year.
- In 2010, the EIA spot market has a daily volatility of 2.91 cents per day. The market has a daily spot movement of over 1 cent per gallon 88% of the year.

Proactive inventory tracking and forecasting gives organizations control and security over their fuel supply and businesses can achieve from two to six cents per gallon of cost savings – a significant savings no matter how many gallons of fuel managed. Costs can be reduced through a number of ways; load shifting, operating with lower volumes of fuel

Required for
ALL Operators

Ensure Governmental Compliance

- Local, state, & federal environmental regulations
- Local, state, & federal tax laws

Practiced by
BETTER Operators

Enable Business Compliance

- Ensure security of supply
- Meet branding & purchase obligations

Differentiators for
BEST Operators

Improve Financial Performance

- Detect theft and loss
- Identify billing errors
- Optimize sourcing
- Minimize working capital

Operator Compliance Checklist

than industry standards while avoiding retains and run-outs, and so on. Some fuel managers are now using software tools and mobile applications for pricing decisions and the most innovative companies have implemented supply chain automation tools to manage fuel management activities. For those who have automated some parts of the supply chain, gathering and using important data, whether manually retrieved or not, can still drive results. The consistent sharing of the data needs to be part of the overall process to continually ensure supply security no matter what the level of functional integration.

Best Practices for Financial Performance

Operational excellence can easily lead to top-line growth and bottom-line results. By automating fuel supply chain best practices and using intelligent business data to minimize the cost of acquiring and owning fuel, fuel marketers and retailers can detect loss and theft on-demand, reconcile invoicing even before fuel is sold, decrease working capital, and continue to optimize sourcing. By greatly improving processes, removing most of the manual data

gathering and using automation tools, businesses can take the guesswork out of every stage of the fuel supply and taxation cycle to drive financial results. As with any initiative, finding the time and resources to dedicate to a new business strategy takes careful planning and executive and workforce buy-in. By initiating operational changes at each part of the fuel supply chain, organizations can achieve government and business compliance and long-term financial performance.

About FuelQuest

Since its founding in 2000, FuelQuest has focused on reducing the cost of procuring and managing fuel for retail, fleet and transportation companies through innovative, technology-based solutions. Its Zytax subsidiary reduces the cost and improves the accuracy of indirect tax determination and excise motor fuels compliance for the energy industry.

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