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FUEL

Valero steps on the gas in state

By Elizabeth Douglass, Los Angeles Times Staff Writer
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ROAD WARRIOR: Eddie Rome of New Orleans and Holly Barrett of Los Angeles visit an L.A. Valero station. The company has added nearly 300 stations in California in the last three years as it competes with better-established brands.

The company's service station growth pace has been speedy since entering the California market in 2000.

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Three gas stations vie for customers along Interstate 5 in Cardiff-by-the-Sea, but Cheryl Ahern-Lehmann usually bypasses the Chevron and Arco in favor of a station she once spurned as too pricey.

That station in north San Diego County, a Texaco for years, won her business after it became a Valero in 2003.

"It just appeared here . . . I didn't know what it was," Ahern-Lehmann said of the gasoline brand. She's a regular there now because, she said, "they usually compete pretty well with the Arco, at least on the cash price, and I can use a credit card when I want to."

Ahern-Lehmann, who drives 30 miles south to teach nursing at the University of San Diego, sometimes buys gas at another Valero that popped up near the school. "It's been cheaper than the other gas stations" around there, she said.

That gas-pump competition is being played out across California as, station by station, Valero Energy Corp. pushes its way into a business that's been dominated for more than half a century by well-heeled brands such as Chevron, Shell, Exxon, Mobil, 76 and Arco.

San Antonio-based Valero, which began gasoline operations in California in 2000, now owns two of the state's 14 fuel-making refineries and displays its brand on 921 service stations out of a statewide total of around 9,400. In the last three years, the company has added nearly 300 Valero locations to its California roster.

Valero's quiet expansion, which has continued apace across the country as well, represents an unusually speedy entry for a new brand. The company's push is all the more unusual because it comes as many major oil companies shed dealers, sell off stations to wholesalers and concentrate on larger, high-volume locations known as "super-pumpers."

"All the major brands have indicated that they really don't want any more gas stations . . . and they're terrified of cost cutting by companies like Costco and Wal-Mart," said Charles Langley, gasoline project manager at the Utility Consumers' Action Network, a San Diego-based watchdog group. Of Valero, he said, "they're the only brand that I see that actually seems to be growing and is aggressive about growing."

Since 2000, Valero has gone from an industry footnote to the largest refiner in North America, with 17 plants from California to Aruba in the Caribbean. The company supplies 5,800 gas stations in 38 states using the Valero, Diamond Shamrock, Shamrock, Ultramar and Beacon brands. Most of the sites are owned and operated by individual dealers and distributors instead of by Valero.

In recent years, the company has boosted its public image through sports sponsorships and national advertising that touts its "All-American gasoline." But, Valero Vice President Eric Moeller added, "it's helpful . . . if you can put a lot of sites on the street corner, where everybody in America can see the name."

Consumer activist Langley has a beef with Valero: He says that many of its stations have adopted what he calls "run-with-the-pack pricing," putting them closer to the more expensive brands than to lower-priced stations such as Arco. If the company and its distributors sold fuel to its dealers at lower prices, the stations could offer motorists more competitive prices, Langley said.

When Ahern-Lehmann stopped by the Valero in Cardiff, for example, it was charging $3.28 for self-serve regular -- 6 cents below the Chevron across the street, but 8 cents above the nearby Arco. But that Valero, like several of its sister stations, gives customers the option of paying with cash, which saves the dealer from paying hefty credit card fees. On that day, cash customers could fill up for $3.20 a gallon -- matching the cost at Arco, which doesn't take credit cards.

Although he criticizes Valero for not allowing dealers to sell gas at prices closer to Arco's, Langley believes that the Valero incursion has been a plus for consumers because the stations generally sell fuel more cheaply than the bigger brands. In addition, Valero has provided a home for dealers who might have closed otherwise, thus keeping more competitors in the market and possibly driving prices lower, he said.

Valero got most of its heft in a series of acquisitions, snapping up refineries and service station networks at bargain prices compared with today. The company's entry into California came courtesy of Exxon Corp., which was forced to sell off its refinery in Benicia, Calif., to complete its merger with Mobil Corp. In addition to the Bay Area refinery, Valero picked up supply contracts for 350 Exxon gas stations -- and Valero made its retailing debut by renaming 80 of those stations.

A year later, Valero bought rival Ultramar Diamond Shamrock Corp., a major acquisition that included a refinery in Wilmington and a network of gas stations. Other purchases followed, including Valero's $8-billion acquisition of refiner Premcor Inc. in 2005.

In California, Valero ranked fifth in gasoline sales in 2006, with an estimated 11% share of the market, up from 7% in 2001, according to the state Energy Commission.

Nationwide, Valero passed better-known brands Marathon and Sunoco to grab a 5.5% market share and become the seventh-largest gasoline seller in September 2006, according to data compiled by Lundberg Survey Inc. in Camarillo.

Now, Valero is in transition. The architect of its ascent, Bill Greehey, left as chief executive to head up a spin-off, and Valero's president resigned unexpectedly in December. The company sold its Ohio refinery in 2007 and is considering other divestitures.

But Moeller, who is in charge of fuel supply contracts with dealers and distributors, says Valero sees no reason to slow its push to the pump.

"We've just hit our stride," Moeller said. "We're still growing . . . and we absolutely want our name to be continually better recognized."

It was a bold move for Valero to take on some of the nation's best-known names and launch a new brand amid a multiyear malaise in gasoline retailing. But the company pushed ahead, designing a logo and picking the colors -- teal, white and yellow -- that would ultimately adorn thousands of gas stations.

"Not everybody likes teal," Moeller said. "But we think it's very attractive, and in a world where there are pretty standardized colors, we look different."

Valero's strategy was to sign up existing stations instead of building a retail network from scratch. In a market that's been churned by mergers, shifting oil company demands and the emergence of big-box gasoline retailers like such as Costco, the company has had no trouble finding dealers willing to give Valero a try.

"Our competitors change their strategies all the time, and we have clearly benefited when some of them have either pulled back, withdrawn from markets, faltered or misstepped," Moeller said. "Where that happens . . . we've found a very welcome audience."

The company also picked up dealers such as Eytan Rosenberg and his father, Josh, who have operated a gas station on the corner of La Brea Avenue and Beverly Boulevard for more than a decade. It was an Exxon service station initially, then a Mobil, and in 2002, the Rosenbergs ditched name brands and sold gas as Top Fuel.

But in California, where fuel production falls short of consumer demand, independent stations such as Top Fuel must survive wild swings in fuel prices, sometimes selling gasoline at a loss. By contrast, stations that sell branded fuel have supply agreements that guarantee deliveries and provide more of a buffer during price spikes.

After a three-year struggle as Top Fuel, Rosenberg signed on with Valero in late 2005. "I'm happy that I'm not independent anymore," he said. Even so, Rosenberg and other dealers have complained that Valero's pricing has become less competitive over time, a shift that has brought them fewer customers and cut into the more profitable sales they get from car washes and convenience stores.

The change caused some disappointed dealers to dump Valero for other brands or to return to being an independent, said Andre van der Valk, a gas station operator and president of the trade group Automotive Trade Organizations of California.

Valero wasn't surprised by the criticism.

"You can't grow as fast as we've grown and not run into things like that," spokesman Bill Day said. "But you also can't grow as fast as we've grown without being popular . . . so we must be doing something right."

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