



June 28, 2022

Honorable Joe S. San Agustin
Ran Care Bldg. Suite 203
761 S. Marine Corps Drive
Tamuning, Guam 96931
(Submitted by email to: senatorjoessanagustin@gmail.com)

**Re: Submission of Mobil Oil Guam Inc.'s Written Testimony in Response to
Bill 320-36 – Requesting for gas prices to be capped**

Dear Senator San Agustin,

Mobil Oil Guam Inc. shares the concerns of the people of Guam about the cost of fuel and its impact on everyday life. While we understand the intent of Senator Clynton Ridgell's proposed Bill 320-36 (COR) to control and cap gas prices in Guam, our view is that passage of such a bill would be detrimental to Guam consumers.

This is because the Bill does not address the main driver of high prices at the pump, which is driven by complex international dynamics. Most significantly, the Bill's proposed pricing mechanism could have a negative impact on Mobil Oil Guam Inc.'s ability to continue operations in Guam and the Upper Pacific Islands, which in turn could affect the community's access to a safe and reliable fuel supply.

The proposal also goes against the principals of free market competition, and creates a rigid and uncertain market environment which will make it difficult for fuel providers to invest in and operate in Guam long-term.

The Bill is premised on some fundamental misconceptions that are important for us to address:

- Prices at the pump are influenced by different factors, which include the wholesale price of gasoline and diesel. Recent geopolitical and economic events continue to put pressure on crude and wholesale product prices (including gasoline and diesel). The commodity price dynamic is complex and is not determined by any one company, but by an entire international system. This international price dynamic has been driving the higher fuel costs. Therefore, the proposed changes put forth in the Bill will **not** address the **main driver** of the current high gas prices at the pump.
- Mobil Oil Guam Inc. does not see any increase in earnings from higher oil prices. We purchase our fuel products – such as gasoline and diesel – from refineries at prices determined by international price benchmarks, and import the product by shipping tankers to the island. The fuel products are stored in large tanks constructed and maintained by Mobil at the Mobil terminals, before they are then transported by fuel tank trucks to service stations and customers island-wide. Our operations comply with stringent safety requirements to ensure the product is delivered to our customers safely, reliably and timely, and to ensure that there is no interruption to the fuel supplies to our customers in Guam and the neighboring islands.

- Other costs, which impact the prices at the pump for Mobil Oil Guam Inc., are unrelated to the cost of refined gasoline or diesel. They include: freight cost, storage and terminal costs, government taxes, tank truck transportation costs and service station operating costs such as labor, utilities and land leases. These costs cannot be represented by a formula specifically linked to landed cost (product cost + freight) as the Bill proposes. Landed cost is determined by a completely different set of parameters including international geopolitics and economic activities.
- Guam's retail fuels business is mature and volumes are relatively smaller than other geographies. This leads to a higher unit cost per gallon of gasoline to factor in fixed and variable costs. In addition, the business has and continues to be affected by lower local demand since the start of the pandemic. In 2020, our retail sales at the pump suffered huge losses at the height of the pandemic and lockdown. Despite this, we remain focused on maintaining safe and reliable terminal facilities, workforce, service station network and operations to serve the Guam community.
- The Guam retail fuels market is highly competitive with service stations located within close proximity of each other making it easy for customers to choose to fill up at other stations. The price at the pump needs to be competitive in the marketplace. Mobil service stations also compete through our Smiles loyalty program, discounts, promotions, backcourt facilities, station environment and customer service offered at the station to give our customers value and convenience.
- Mobil Oil Guam Inc. also provides fuel to Guam businesses, industries and government entities through other commercial and wholesale arrangements. These customers require larger fuel volumes for their businesses through bids or negotiated contracts from Mobil and/or other suppliers. In this competitive market, Mobil would determine our offer based on many factors including the term of contract, quantity of fuel, terms of payment, and economies of scale. The fuel price offered to these large-volume customers would be unique to each one of them, taking into consideration all of the factors mentioned.

Mobil Oil Guam Inc. is an entity that needs to manage its operating expenses through the ups and downs of business cycles and the market environment, so that it can continue to reliably and safely supply fuel to consumers and the community. Seeking to cap the price at the pump will in effect:

- Constrain our business model which runs best in a free and open market.
- Potentially affect longer-term business viability for retail fuels operators with the lack of control to competitively run the business for Guam and the surrounding islands that obtain fuel from Guam's terminal.
- Create an uncertain business environment and impact any future investment decisions for Mobil Oil Guam Inc. and other businesses in the territory. To ensure the safe and reliable supplies of fuel to motorists and industry requires high investment, high cost, long-term investments in equipment and expertise, and in the people whom we employ through the end-to-end operations.

We remain strongly committed to our mission to provide reliable and affordable energy to the community, in a safe and environmentally-responsible way.

Sincerely,

A handwritten signature in black ink, appearing to be 'JTH' with a stylized flourish at the end.

Jimmy Tim Chau Hau
President