



California Service Station and Automotive Repair Association

1202 Grant Avenue, Suite B1

Novato, CA 94945

415-892-1243 FAX 415-892-4173 <http://www.cssara.org/car/>

January 14, 2002

Mr. Donald S. Clark
Office of the Secretary
Room 159H
Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, DC 20580
Consentagreement@FTC.com



RE: Competitive Factors Related to the Valero/UDS Merger

Dear Mr. Clark:

I am writing to inform the FTC about the real-world implications of the proposed Valero/UDS merger, and to request your assistance in overseeing its just implementation. The financial aspects of the originally proposed merger have changed significantly. Since the merger's inception, Valero has reneged upon incentives – and, the merger is not yet even complete!

If we allow this merger to go through without some modification, we eliminate retail marketers' ability to compete effectively. Therefore, the proposed merger of Valero/UDS will result in higher California gasoline prices (which already are the highest in the continental United States).

The most recent example of manipulation is Valero's announcement to discontinue their Volume Incentive Program (VIP). Attached you will find a notice from Blair Skellie, Valero's West Coast Region Director. This notice was sent to all CA Valero Retailers announcing the discontinuation of VIP.

The VIP equated up to 4 cents/gallon. The average California Service station retails in excess of 1,560,000 gallons of gasoline per year. This translates to additional operating capital of \$62,400/station/year. By Valero Refining Company discontinuing the VIP, the potential increase in operating expense to the Valero retailer could exceed \$62,400 per year. The only way the retailer can offset this increase in operational cost is to increase the retail price of gasoline to the California motorist.

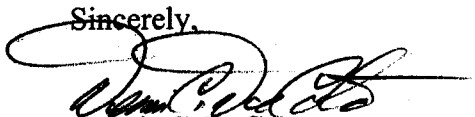
Valero Refining Company will argue that they lowered their Dealer Tank Wagon (DTW) pricing by 4 cents to accommodate the removal of the VIP. This, however, is a smokescreen. Because DTW pricing is fluid and is not a guaranteed price, this reduction was only temporary. **Due to zone pricing, the DTW has already been increased to minimize the effects of any reduction to the dealer.** Therefore, many dealers have already been forced to raise the retail price of gasoline up to 4 cents/gallon. This translates to higher consumer prices. And, eliminating the VIP is just one of the incentives that Valero/USD have not delivered. A monetary stipend for station maintenance is another incentive that was discussed, but did not materialize.

You are already aware of the problems with Zone Pricing. **The gasoline supply contract is their key problem.** The contracts are so restrictive to dealers they cannot negotiate a cost-effective product, which is available. It has historically been a contract of adhesion ("either take it or leave it").

The Valero/USD merger today is very different from the proposed merger entered into by the FTC and Valero/USD in the descent decree. Many components (incentives) of this proposed merger that were attractive to retailers have been eliminated.

We are asking your assistance in forcing Valero to reinstate the incentive programs that were in existence at the time of descent decree approval. These incentives should continue for as long as the gasoline supply contract is in effect. We feel very strongly that this is the only way to enable competition to continue in California.

Sincerely,



Dennis C. DeCota
Executive Director

CC: California Attorney General, Bill Lockyer



Valero Refining Company - CA
2402 East Anaheim Street
Wilmington, CA 90744

*B. E. (BLAIR) SKELLIE, DIRECTOR
WEST COAST REGION*

(925) 287-3738

January 2, 2002

Dear Retailer:

The purpose of this letter is to inform you that Valero will discontinue the monthly VIP incentive effective with the month of January 2002.

Your Territory Manager will also be available to discuss any questions you may have concerning this change.

Sincerely,

A handwritten signature in cursive script that reads "Blair E. Skellie".

Blair E. Skellie

cc: R. Barrantes
D. Kolberg



HATO CORPORATION

2101 Somersville Road
Antioch, CA 94509
Tel: 925.757.2853
Fax: 925.757.7469
Station # 7962

12 January 2002

Valero Refining Company- CA
2402 East Anaheim Street
Wilmington, CA 90744
B.E. Skellie, Director
West Coast Region

RE: VIP rebate program.

Dear MIS Skellie:

I would like to inform you that the cost of me doing business as a Valero dealer has increased substantially with the elimination of the VIP rebate program. The result of your merger with UDS should make it more profitable for Valero, the consumer, and myself rather than harm my ability to be competitive. I respectfully ask that you reconsider your decision, and reinstate the rebate.

Sincerely,

A handwritten signature in black ink, appearing to be 'H. To'.

Ha To

hatoCorp@aol.com

cc: Dennis Decota CSSARA Service.

INDEPENDENT VALERO RETAILERS OF CALIFORNIA

**CSSARA-Chapter Administrator
1202 Grant Avenue, Suite B-1
Novato, CA 94945**

Phone: (415) 892-1243

Fax: (415) 892-4173

PRIVILEGED AND CONFIDENTIAL MEMORANDUM

Sample letter

Valero Refining Company- CA
2402 East Anaheim Street
Wilmington, CA 90744
B.E. Skellie, Director
West Coast Region

January 11, 2002

Dear MIS Skellie:

I would like to inform you that the cost of me doing business as a Valero dealer has increased substantially with the elimination of the VIP rebate program. The result of your merger with UDS should make it more profitable for Valero, the consumer, and myself rather than harm my ability to be competitive. I respectfully ask that you reconsider your decision, and reinstate the rebate.

Sincerely,
your name

cc: Dennis Decota CSSARA Services.

Please mail a similar letter to MIS Skellie, and fax a copy to Dennis at 415-892-4173

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El Camino Exxon (Valero)
3725 El Camino Real
Santa Clara CA, 95015

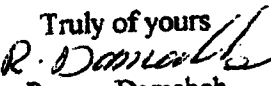
Jan. 10. 2002

Dear Ms. Blair:

I would like to take this opportunity to congratulate you for new position that you have earned due to your outstanding leadership and hard work. Good luck to you and best wishes.

Also, a matter that I would like to discuss which concerns when we (valero) purchased Exxon's stations, promises were made that we be very competitive and the lowest prices in the market. As low margin as I worked with, I have a hard time to stay under chevron in opposite corner or Costco within a mile. Keep it in mind I used to be under them by 14cent a gallon while I was working with Exxon.

As it was brought up to our attention that we will no longer work with the incentive program, I hope you and the company have a better strategy for dealers and also the consumers, which as you know in the long run will benefit the company. Thanks for your consideration in this matter.

Truly of yours

Reza - Damabeh

CC :
Chairman Bill Greehey
Mr. Jim Daskal
Mr. D. Decota

January 11, 2002

To: Blair Skellie
From: Scott Brendel Valero 7099

I was very dismayed to receive notice that Valero has discontinued the Fuel Rebate Program. It is ludicrous to make such a change when we just received the letter that stated that your top priority is to look for more ways to effectively serve our needs. In order for us to be a viable player in this extremely competitive market we need to be noticeably competitive with our street price. Valero is still relatively unknown and even more importantly does not have a credit card customer base. We are operating at a disadvantage and PRICE is one of the most important components of enticing customers into our location.

You stated in your December 31st letter that it is your goal to make Valero a stronger company and a better business partner. You have just taken away the very tool we need to make that vision a reality. Please re-think this decision or find a solution that will accomplish the same (or better) financial result.

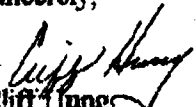
Valero Refining Company, CA
2402 East Anaheim Street
Wilmington, CA 90744
B. E. Skellie, Director
West Coast Region

January 13, 2002

Dear Ms Skellie:

This is to inform you that I am so sorry to hear that the cost of me doing business as a Valero dealer has increased substantially with the elimination of the VIP rebate program. The result of your merger with USD should make it more profitable for Valero, the consumer, and myself rather than harm my ability to be competitive specially in my area. In this area there are Arco and Safeway with very lowest price to compete with me. I didn't see any help from Valero instead of cancel rebate program. Under this most difficult situation, I need your help not try to kill me. I please ask that you reconsider your decision, and keep the rebate.

Sincerely,


Cliff Hong
Store # 7210
7840 Amador Valley Blvd.
Dublin, CA 94568

DANVILLE VALERO SERVICE CENTER
736 SAN RAMON VALLEY BLVD.
DANVILLE, CA. 94526

JAN.10,2002

VALERO REFINING CO. CA.
2402 EAST ANAHEIM STREET
WILMINGTON CA. 90744

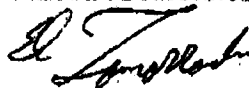
ATTENTION: MIS BLAIR SKELLIE
DIRECTOR WEST COAST REGION

DEAR BLAIR,
WITH ALL RESPECT, REFERENCE IS MADE TO THE FIRST 2 LINES OF SECOND PAGE OF YOUR LETTER DATED DEC. 31, 2001. 'WORKING WITH YOU TO MAKE YOUR BUSINESS MORE SUCCESSFUL BECAUSE WE KNOW THAT OUR SUCCESS DEPENDS ON YOUR SUCCESS' CONTRADICTS YOUR SECOND IMMEDIATE LETTER OF JAN. 2, 2002 BY INFORMING 'VALERO WILL DISCONTINUE MONTHLY VIP INCENTIVE EFFECTIVE WITH THE MONTH OF JAN. 2002.'

ELIMINATION OF THE VIP REBATE PROGRAM HAS SUBSTANTIALLY INCREASED COST OF DOING BUSINESS AS VALERO DEALER, IN OTHER WORDS THE RESULT OF YOUR MERGER WITH UDS SHOULD MAKE IT MORE PROFITABLE FOR VALERO, THE CONSUMER AND ME RATHER THAN HARM MY ABILITY TO BE COMPETITIVE IN THE MARKET.

I RESPECTFULLY REQUEST THAT YOU RECONSIDER YOUR DECISION AND URGENTLY REINSTATE THE REBATE PROGRAM.

SINCERELY
SHAHNAM ZOMORRODI



CC: MR. DENNIS DECOTA CSSARA SERVICES



COMPLETE FOREIGN & DOMESTIC AUTO REPAIR

2411 Oak Grove Rd. ■ Walnut Creek, CA 94598 (Corner of Ygnacio Valley Rd.) ■ 925-939-4848

January 14, 2002

Valero Refining Company-CA
2402 East Anaheim Street
Wilmington, CA 90744
B.E. Skellie, Director
West Coast Region

Dear MIS Skellie:

I am writing to let you know how disappointed I am that Valero has eliminated the VIP rebate program. This will increase the cost of doing business substantially. Without the VIP rebate our competitive edge is greatly reduced. The merger with UDS should make it more profitable for Valero. I hope you would reconsider your decision and reinstate the rebate.

Sincerely,

Michael Roesbery

Cc: Dennis Decota CSSARA Services.

M ONTEREY VALERO

MONTEREY VALERO
5200 MONTEREY HWY.
SAN JOSE, CA 95111

PHONE 408-281-3682
FAX 408-225-3582

January 13, 2002

Blair Skellie, Director
Valero Refining California
2402 East Anaheim Street
Wilmington, CA 90744

Dear Ms. Skellie:

Subject: Elimination of the VIP incentive program

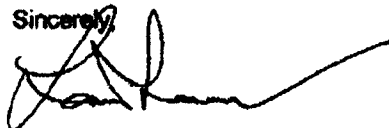
Since your cancellation of the VIP incentive program I am now at a great disadvantage to other gas stations around me. In order to make ends meet, I must now price at or the same price with the major oil or higher with the independents.

Should the merger with UDS help me or hurt me?

As soon as the merger was done, you cancelled the VIP incentive program immediately. Will our relationship be like this from now on? You should help me with the VIP incentive so I can be more competitive and in turn that will help you.

Please reconsider your position and reinstate the VIP incentive program.

Sincerely,



Pham, Lam
Business owner

cc: Dennis Decota CSSARA Services

**Valero of Saratoga
Pham, Troy**

601 Saratoga Ave
San Jose, CA 95129

Phone 408-996-8810
Fax 408-996-3501
Email troypham@pacbell.net

January 12, 2002

Blair Skellie
Valero Refining California
2402 East Anaheim St.
Wilmington, CA 90744

VIP Rebate cancellation

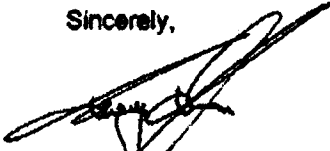
Dear Blair,

Since you cancelled the VIP rebate program my business has been severely affected. Currently I am priced 2 cents higher than the Shell station across the street just to survive. Apparently the Shell dealer is getting VIP rebate from the company so he was able to price the same or lower than me. As a result, every customer is stopping at the Shell station instead of my station where they are paying less for a known brand name gasoline.

How will I survive and be able to pay my rent? Your current DTW price without the VIP rebate is still too high for me to make a good enough margin. If your current DTW price is lowered to compensate for the cancelled of the VIP rebate, why is the other oil major's pricing is the same or lowered than me?

Please reinstate the VIP rebate so we can have a win - win situation for me and you.

Sincerely,



Pham, Troy

cc: CSSARA Services - Dennis Decota



Blair Skellie
Director, West Coast Region
Valero Refining Company-Ca

January 14, 2002

Dear Blair:

It is very unfortunate that Valero has discontinued the VIP rebate program as of 01/01/2002. It is my understanding that, as a result of the above rebate program, dealers have been able to keep Valero brand gasoline retail prices low in the year 2001, making the business profitable for consumer, Valero and the dealers as well.

You have been in this business as a decision maker for years and you know a wrong decision now will make it very hard to take care of terrible results in future.

I would like to respectfully ask you to share your experiences, discuss dealers views with Valero management and take another look at the costs of doing business as a gasoline retailer in California.

Very Sincerely,
Saeid A. Amiri

A handwritten signature in black ink, appearing to read 'Saeid', with a large, loopy flourish above it.

CC: Dennis Decota, CSSARA Services.

Central Valero
5430 Central Avenue • Richmond, CA 94804
Ph: 510.525.7679 • Fx: 510.525.8358

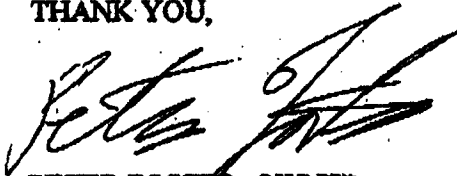
Attn: Dennis

**PETER'S VALERO
532 E. WASHINGTON ST.
PETALUMA, CA 94952
(707) 769-0769**

TO THE VALERO COMPANY,

**HERE AT PETER'S VALERO WE ARE VERY DISSAPPOINTED OF THE .04[#] VIP
RETRACTION. NOT ONLY WAS IT DONE IN A SHARP RUDE MANNER, IT
WILL ALSO HURT OUR WORKING RELATIONSHIP AS BUSINESS PARTNERS.
I MYSELF HAVE USED THIS REBATE TO BRING THE LOWEST PRICES ON
THE
STREET TO THE CUSTOMERS. SOME HAVE EVEN THANKED ME FOR DOING
SO. IT WILL HINDER US IN GIVING TO SUCH IMPORTANT COMMUNITY
CAUSES AS: THE BOYS/GIRLS LITTLE LEAUGE, DARE AND BOYS/GIRLS
SOCCER ECT. I HOPE YOU WILL RECONSIDER YOUR DECISION ON THE
REBATE.**

THANK YOU,



PETER FOSTER, OWNER

36 Washington St.
Santa Clara, Ca. 95050

7960

I would like to know why the
cost of me doing business as a VALERO
dealer went up significantly on the first
day of VALERO and UDS merger was
completed

Just Bernal

1-10-02

C.C. SSSARA