



## **Net to Gross Q&A**

### **How is the conversion from net to gross calculated?**

All petroleum products expand and contract depending on the temperature of the fuel. How much it expands or contracts is a factor of the temperature of the fuel and the gravity of the fuel. The American Petroleum Institute has prescribed the use of table 6B to determine that amount of volume change. This table looks at a fuels' temperature and gravity and has a very precise conversion factor to apply to the gross gallon to determine the net gallons. This is the method by which all oil traders and wholesalers buy oil. As a matter of fact most wholesale rack sales in all regions of the country other than the northeast are based on net temperature corrected volume.

### **Will this cause the price of the product I buy to increase?**

No, this will make sure that you know the real price of the product you buy. Historically, since wholesalers buy at net we have had to factor this cost, referred to as **shrink**, into our gross price. With our move to a net temperature corrected volume, we will no longer include this element in our cost before determining a price for our product. The end effect is that in a typical winter load where the fuel is at less than 60 degrees F, you will get billed for more gallons than you actually put in your truck but it will be at a corresponding lower price per gallon. At the end of the day the price for that total load of oil will be the same. Please look at the attached example to see how that is calculated.

### **How do I know exactly how many gallons are involved on a BOL?**

Upon loading you will get a computer generated BOL that will reflect the exact temperature and gravity of the fuel as well as the gross gallons loaded and the net gallons to be invoiced. This will allow you to see the exact gallon impact. Even if some of your other suppliers are billing on a gross gallon basis, you should ask them to show you those same factors so that you can compare for yourself.

### **How do I account for this change in my cost of sales?**

1. If you have temperature compensating meters on your truck, you will not need to account for shrink in your pricing to your customers.
2. If you sell your customers on a gross basis, you will need to account for shrink in your pricing for your customers. The easiest way is to compare the gross quantity to the net quantity to see the gallons impacted. The following formula can be used to calculate the shrink cost you should include in your pricing to your customers:



$$\text{Shrink cost} = \frac{(\text{Gross gallons lifted} - \text{net gallons lifted}) \times \text{your purchase price/gallon}}{\text{Gross gallons lifted}}$$

By way of example:

Gross gallons lifted:	3,000
Net gallons lifted:	3,040
Net gallon price:	\$2.0269

$$\begin{aligned} \text{Shrink cost per gallon} &= \frac{(3,000 - 3,040) \times \$2.0269}{3,000} \\ &= \$0.0270 \text{ per gallon} \end{aligned}$$

In this example, you would need to add \$0.0270 per gallon to your price in order to account for shrink in sales to your customers

**How often does this factor change and by how much?**

Normally this factor will not swing widely from day to day at any one terminal. Generally fuel coming off the water is fairly warm by virtue of the fact that it has been on the water. Once it hits the tank it very slowly cools to the ambient temperature. So you will only see a slight change from load to load until we get a large delivery into the tank which will change the temperature and possibly the gravity.

**Since some suppliers will still bill on a gross basis, how can I accurately compare prices?**

First you should ask all your suppliers to bill on a net basis. It is the only way to accurately compare pricing eliminating the benefit they get from heating a product. But until that happens we have a spreadsheet on our website that will help you to compare supplier's prices.

**How will this impact contracts I have already bought?**

All existing contracts will be honored. Our system will be able to track those gallons and bill you on a gross basis. All future contracts will be sold on a net basis, you should check with your sales rep to learn your new lower price differential for those new contracts.