Fuel Cost Stabilization

What is Fuel Hedging?

- Managed program to limit the volatility of fuel pricing
- Purchase a series of diesel future contracts that create greater price certainty
- Differs from prior hedging program which paid for insurance against outsized price moves (cap)
Un-Hedged vs. Hedged

- No Hedging
- Wide Range of Possible Cost
  - Green and Red Lines
  - Maximum Risk Exposure
  - High Budget Risk

- Hedging 90%
- Narrower Range of Expected Cost
  - Green and Red Lines
  - Managed Risk Exposure
  - More Certain Future Costs

Existing Fuel Purchase Agreement

- OPIS
  - $0.012

- Fuel Supplier
- Samtrans

- Diesel
  - OPIS price: 5 day average rack rate for No. 2 CARB Clear ULSD fuel
  - Price differentials to the OPIS index are based on location and delivery method
Adding a Fuel Hedge

- Net cost of fuel = Hedge Price + (OPIS – 1.2 cents) – Spot Price

Hedge Mechanics/Pricing

**Key Assumptions**

- Budget Price: $1.50
- Fuel Demand: 150,000 gal/month
- Hedge Ratio: 80%

<table>
<thead>
<tr>
<th></th>
<th>Price Increase</th>
<th>Price Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Supplier Cost</td>
<td>$2.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$300,000</td>
<td>$150,000</td>
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<tr>
<td><strong>Forward Pricing (120,000 gal)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Price</td>
<td>$1.50/gal</td>
<td>$1.50/gal</td>
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<tr>
<td>Spot Price</td>
<td>$2.00/gal</td>
<td>$1.00/gal</td>
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<tr>
<td>Realized Gain</td>
<td>$0.50/gal</td>
<td>($0.50)/gal</td>
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<tr>
<td>Realized Gain (Loss)</td>
<td>$60,000</td>
<td>($60,000)</td>
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<tr>
<td><strong>Net Fuel Cost</strong></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>$240,000</td>
<td>$210,000</td>
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<td></td>
<td>$1.60/gal</td>
<td>$1.40/gal</td>
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Potential Risks

- Basis risk – mismatch between OPIS index and spot diesel prices
- Over-hedging – hedging more fuel than is needed

Why Now?

10 Year Diesel History 3/26/20
Next Steps

- **Staff is recommending the board approve:**
  - Repealing the existing Fuel Hedge Policy most recently amended in 2015 via Resolution 2015-22.
  - Adopting a new Diesel Fuel Hedging Policy allowing the Agency to buy, sell, and trade Diesel Fuel Futures Contracts.
  - Authorizing the General Manager/CEO to open a commodities futures account on behalf of the Agency to buy, sell, and trade Diesel Fuel Futures Contracts.