

Fuel Cost Stabilization

April 1, 2020
Board of Directors
Finance Item #7

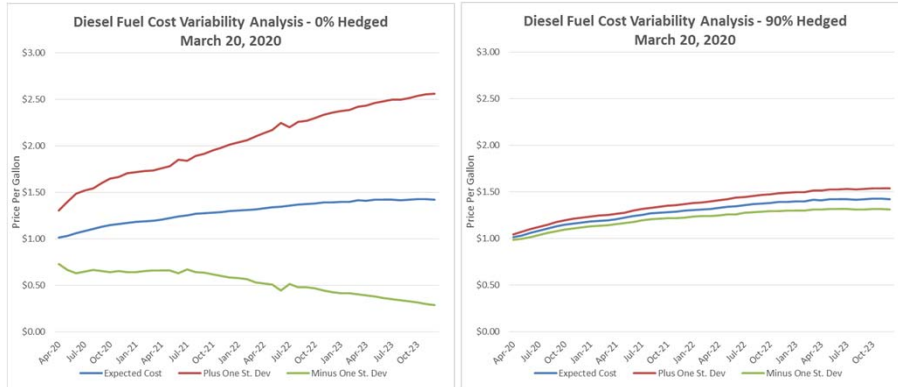


What is Fuel Hedging?

- 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

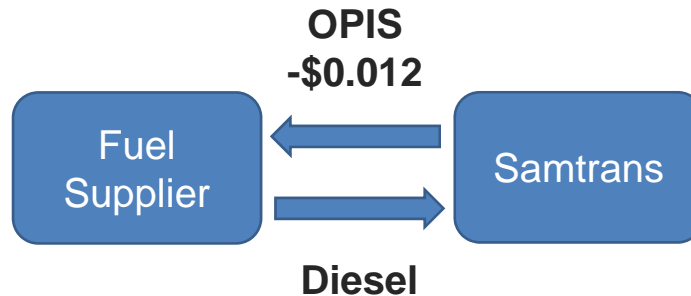


- No Hedging
- Wide Range of Possible Cost
 - Green and Red Lines
- Maximum Risk Exposure
- High Budget Risk

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

SamTrans

Existing Fuel Purchase Agreement

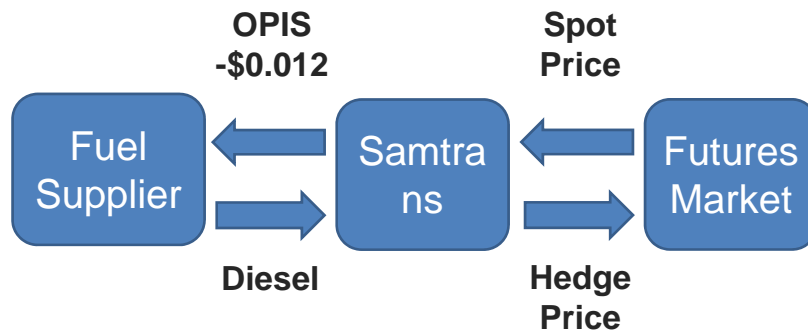


- OPIS price: 5 day average rack rate for No. 2 CARB Clear ULSD fuel
- Price differentials to the OPIS index are based on location and delivery method

4

SamTrans

Adding a Fuel Hedge



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

5

samTrans

Hedge Mechanics/Pricing

Key Assumptions

Budget Price \$1.50

Fuel Demand 150,000 gal/month

Hedge Ratio 80%

	Price Increase	Price Decrease
Actual Supplier Cost (\$/gal)	\$2.00	\$1.00
Total Cost	\$300,000	\$150,000
Forward Pricing (120,000 gal)		
Hedge Price	\$1.50/gal	\$1.50/gal
Spot Price	\$2.00/gal	\$1.00/gal
Realized Gain	\$0.50/gal	(\$0.50)/gal
Realized Gain (Loss)	\$60,000	(\$60,000)
Net Fuel Cost	\$240,000	\$210,000
	\$1.60/gal	\$1.40/gal

6

samTrans

Potential Risks

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

7

samTrans

Why Now?

10 Year Diesel History 3/26/20



8

samTrans

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.