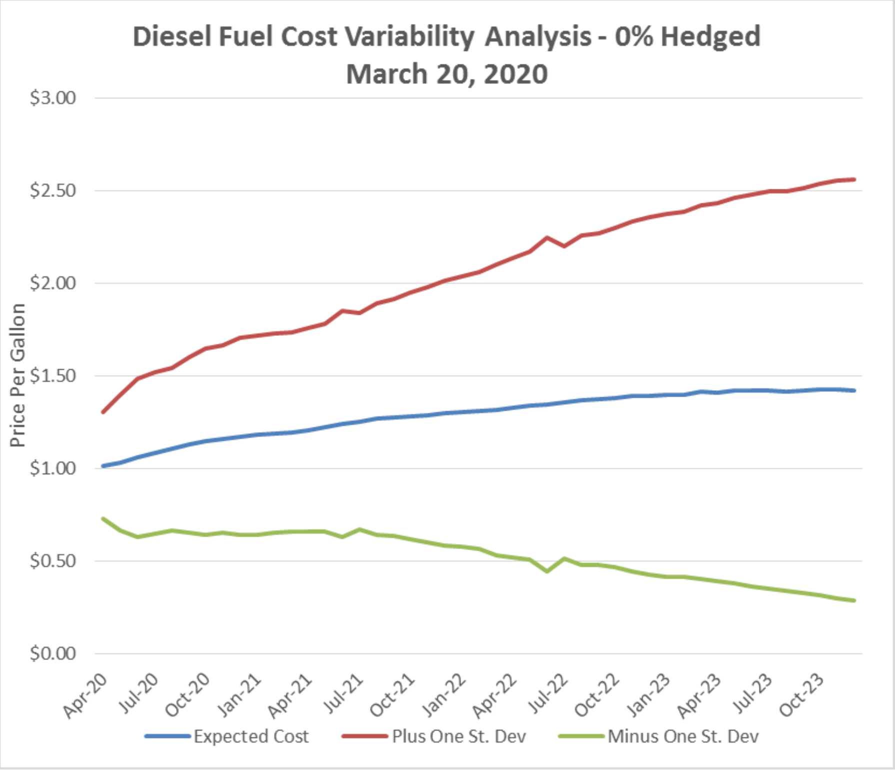
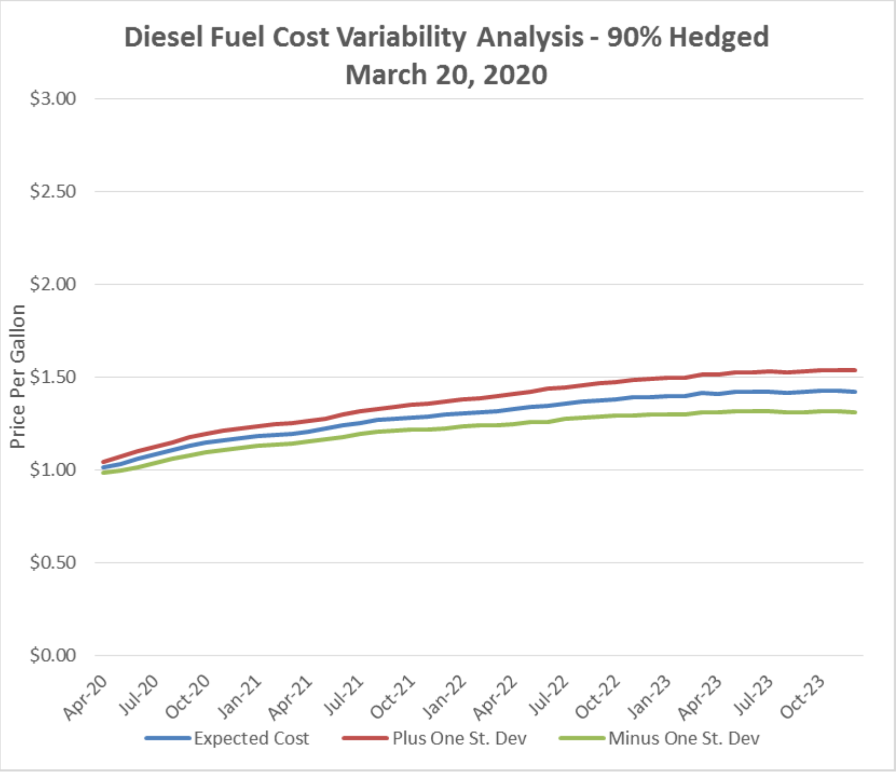
Fuel Cost Stabilization

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

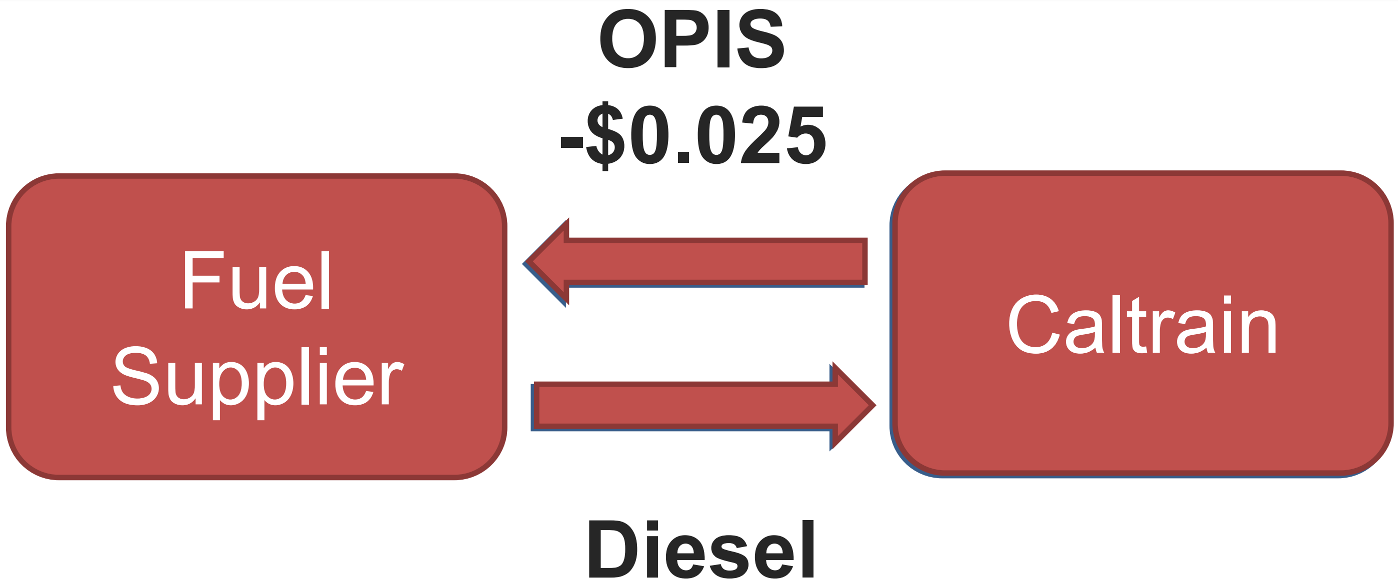




- No Hedging
- Wide Range of Possible Cost
  - Green and Red Lines
- Maximum Risk Exposure
- High Budget Risk

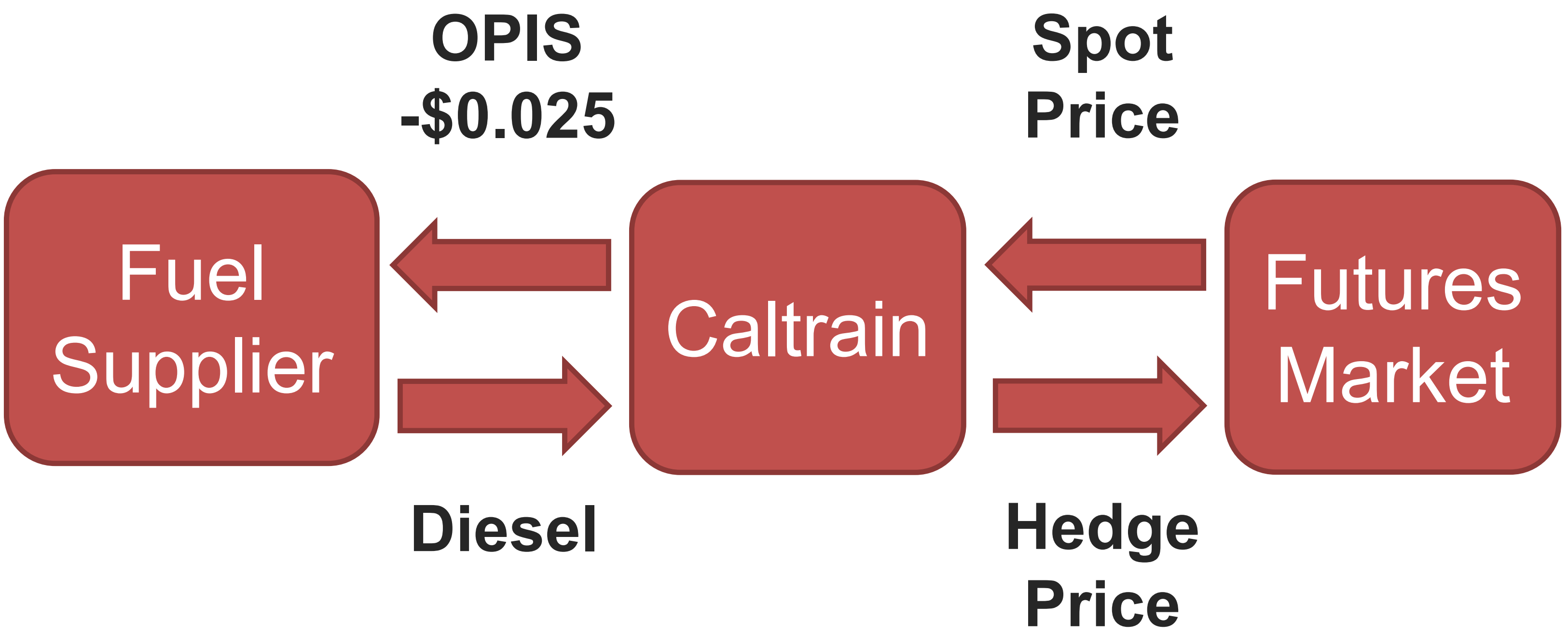
- Hedging 90%
- Narrower Range of Expected Cost
  - Green and Red Lines
- Managed Risk Exposure
- More Certain Future Costs

Existing Fuel Purchase Agreement



- OPIS price: 5 day average rack rate for No. 2 CARB Red-dye 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 – 2.5 cents) – Spot Price

Hedge Mechanics/Pricing

Key Assumptions

Budget Price $1.50

Fuel Demand 350,000 gal/month

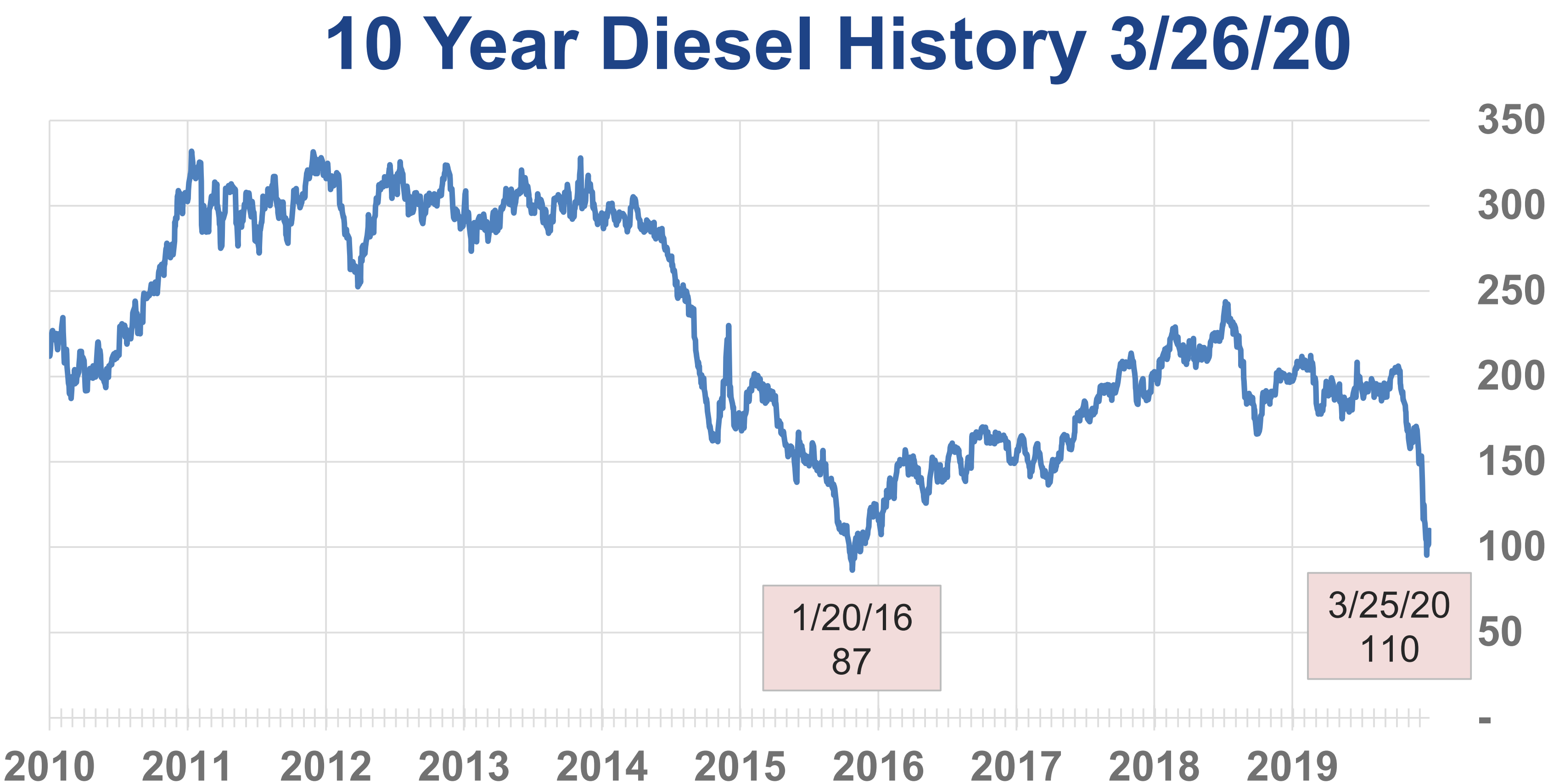
Hedge Ratio 80%

	Price Increase	Price Decrease
Actual Supplier Cost ($/gal)	$2.00	$1.00
Total Cost	$700,000	$350,000
Forward Pricing (280,000 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)	$140,000	($140,000)
Net Fuel Cost	**$560,000**	**$490,000**
	$1.60/gal	**$1.40/gal**

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
350
300
250
200
150
100
50
-
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
1/20/16
87
3/25/20
110

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.