WASHINGTON STATE FERRIES
FISCAL YEAR 2021
FUEL HEDGING REPORT

WSF/WSDOT FUEL HEDGING PROGRAM AND ACTIVITY – FY 2021

SETH STEINHOFF, OPERATING PROGRAM BUDGET ANALYST
WASHINGTON STATE FERRIES
Washington State Transportation Commission Meeting
March 15, 2022
PRESENTATION OUTLINE

1) WSF/WSDOT Fuel Hedging Program
   a) Overview of WSF/WSDOT Fuel Hedging Policy
   b) Key Players of the WSF/WSDOT Fuel Hedging Program
   c) Fuel Hedging Practice
2) Activity in Fiscal Year 2021
   a) Fuel Budget Portion Entered in Swaps
   b) Fuel Price History
   c) Contracted Prices Compared to Budget and Forecast Prices
   d) Financial Performance of Swaps
3) Fuel Consumption in Fiscal Year 2021
4) Hedging Effectiveness
5) Recent Activity (Swaps) and Current Market Conditions
1) WSF/WSDOT FUEL HEDGING PROGRAM

What authorizes the fuel hedging program?

Who is involved?

What does it mean to hedge?
WSF/WSDOT FUEL HEDGING POLICY

• State Law authorizes fuel purchasing strategies, such as financial hedges, under RCW 47.60.830
  – These strategies are “designed to reduce the overall cost of fuel and mitigate the impact of market fluctuations and pressure on both short-term and long-term fuel costs”
  – This report is required under RCW 47.60.830

• This authority is reinforced in the state transportation budget (SSB 5165, 5/18/2021)

(2) For the 2021-2023 fiscal biennium, the department may enter into a distributor controlled fuel hedging program and other methods of hedging approved by the fuel hedging committee, which must include a representative of the department of enterprise services.
• The WSDOT Secretary’s Exec Order E 1078 established the WSF/WSDOT Fuel Hedging Program
  – The Program’s objectives are to:
    • Decrease the volatility of fuel costs
    • Increase the likelihood that actual fuel cost will remain below the budgeted cost
  – Price certainty is the primary objective; savings is considered but price certainty is the paramount concern
**FUEL HEDGING PROGRAM KEY PLAYERS**

**WSF Assistant Secretary**
- Directed to establish and administer fuel hedging program
- Assistant Secretary, or designee, may enter into hedge contracts with Fuel Hedging Oversight Committee approval

**Fuel Hedging Oversight Committee**
- Meets quarterly for status updates on the fuel hedging program and discuss WSF hedging strategies
- Comprised of WSF Assistant Secretary, WSDOT Chief Financial Officer, representative from Office of Financial Management, and representative from Department of Enterprise Services

**Fuel Hedging Program Advisor**
- Independent, third-party consultant, contracted to recommend a hedging execution strategy and monitor the hedging program and energy markets
- As directed by WSF Assistant Secretary or designee, is qualified to execute fuel hedges on behalf of WSF/WSDOT
The WSF/WSDOT Fuel Hedging Program started executing financial hedges in 2015. This practice has carried forward through today.

With financial hedges, WSDOT uses a derivative security known as a “Swap Contract Agreement”:

- WSDOT and a counterparty, usually an investment bank, swap floating prices on a commodity for a fixed price over a set period of time
  - The commodity used is Heating Oil (Ultra-Low-Sulfur Diesel) on the New York Mercantile Exchange – this commodity is highly correlated with the price of fuel WSF pays to its fuel provider
  - This arrangement guarantees the fuel price in the financial market at a set future date

By using a financial hedge, the price for hedging fuel is lower than if WSDOT had hedged fuel directly with the supplier (a distributor-controlled hedge).

Swaps do not influence what WSF pays for fuel. Swaps only affect the WSF fuel budget based on their performance.
2) SWAP ACTIVITY IN FISCAL YEAR 2021

For what portion of the WSF fuel budget did WSDOT execute swaps?

How did swap contracted prices compare to budget and forecast prices?

What were day-to-day fuel prices in fiscal year 2021?

How did swaps perform in fiscal year 2021?
SWAP GALLONS AS A % OF FUEL BUDGET

Total Gallons Compared to Swap Contracted Gallons, with Percentages of Swap Contracted Gallons by Month and Year, Fiscal Year 2021

- 9.1 M gallons swap contracted
- 49% of forecasted consumption hedged
- $1.81 average contracted PPG
CONTRACTED PRICES COMPARED TO BUDGET AND FORECAST PRICES

Fiscal Year 2021: Contracted New York Harbor Diesel Prices, Washington State B5 Budget, and Washington State B5 Forecast Prices

2019-21 Budget enacted by 2019 Legislature (FY 2021)

- Adopted B5 Forecast Price
- Budget B5 Forecast Price
- Swap Executed 1/27/2020
- Swap Executed 2/14/2020
- Swap Executed 3/16/2020
The fiscal year 2021 per gallon budget was $1.78, as set by the 2020 Legislature.

The fiscal year 2021 B5 "spot price" average was $1.77/gallon.
FINANCIAL PERFORMANCE OF SWAPS

For fiscal year 2021, WSF ultimately paid $27,443 for the three executed swaps

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<tbody>
<tr>
<td>Swap 1</td>
<td>$(121,313)</td>
<td>$(120,935)</td>
<td>$(149,159)</td>
<td>$(143,262)</td>
<td>$(118,692)</td>
<td>$(68,342)</td>
<td>$(35,456)</td>
<td>$16,657</td>
<td>$34,524</td>
<td>$35,960</td>
<td>$76,079</td>
<td>$101,153</td>
<td>$(492,786)</td>
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<td>Swap 2</td>
<td>$(121,489)</td>
<td>$(121,111)</td>
<td>$(149,335)</td>
<td>$(143,438)</td>
<td>$(118,868)</td>
<td>$(68,519)</td>
<td>$(35,633)</td>
<td>$16,481</td>
<td>$34,348</td>
<td>$35,784</td>
<td>$75,902</td>
<td>$100,976</td>
<td>$(494,903)</td>
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<td>Swap 3</td>
<td>$(227)</td>
<td>$(151)</td>
<td>$(28,073)</td>
<td>$(22,176)</td>
<td>$(2,394)</td>
<td>$(52,744)</td>
<td>$(85,630)</td>
<td>$(137,743)</td>
<td>$(155,610)</td>
<td>$(157,046)</td>
<td>$(197,165)</td>
<td>$(222,239)</td>
<td>$960,246</td>
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<td>FY 2021 Total</td>
<td>$(243,029)</td>
<td>$(241,895)</td>
<td>$(326,567)</td>
<td>$(308,876)</td>
<td>$(84,118)</td>
<td>$(14,540)</td>
<td>$(170,881)</td>
<td>$(224,482)</td>
<td>$(228,791)</td>
<td>$(349,146)</td>
<td>$(424,368)</td>
<td>$(27,443)</td>
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3) FUEL CONSUMPTION FISCAL YEAR 2021

How much fuel did WSF consume in fiscal year 2021?
## BUDGET AND CONSUMPTION – FY 2021

### WSF X PROGRAM AUTO FERRY FUEL CONSUMPTION -- BUDGETED VS. ACTUAL

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<tr>
<td><strong>Budgeted Gallons</strong></td>
<td>1,704,282</td>
<td>1,699,654</td>
<td>1,626,725</td>
<td>1,520,185</td>
<td>1,511,843</td>
<td>1,474,172</td>
<td>1,334,688</td>
<td>1,481,726</td>
<td>1,464,567</td>
<td>1,523,710</td>
<td>1,544,902</td>
<td>18,346,538</td>
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<td><strong>Actual Gallons</strong></td>
<td>1,109,012</td>
<td>1,071,742</td>
<td>1,249,198</td>
<td>1,225,497</td>
<td>1,370,602</td>
<td>1,450,025</td>
<td>1,392,318</td>
<td>1,215,960</td>
<td>1,392,695</td>
<td>1,280,569</td>
<td>1,358,617</td>
<td>1,275,391</td>
<td>15,391,626</td>
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<td><strong>Variance</strong></td>
<td>595,270</td>
<td>627,912</td>
<td>377,527</td>
<td>294,587</td>
<td>89,583</td>
<td>1,414,147</td>
<td>81,854</td>
<td>118,728</td>
<td>89,031</td>
<td>183,998</td>
<td>165,093</td>
<td>269,511</td>
<td>2,954,912</td>
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<tr>
<td><strong>Percent Variance</strong></td>
<td>34.9%</td>
<td>36.9%</td>
<td>23.2%</td>
<td>19.4%</td>
<td>6.1%</td>
<td>4.1%</td>
<td>5.6%</td>
<td>8.9%</td>
<td>6.0%</td>
<td>12.6%</td>
<td>10.8%</td>
<td>17.4%</td>
<td>16.1%</td>
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4) HEDGING EFFECTIVENESS

Are WSDOT’s swaps operating and performing as expected and desired?
HEDGE EFFECTIVENESS ANALYSIS

• According to the statistical effectiveness test established by Government Accounting Standards Board Statement No. 53 (GASB 53), swaps executed by WSF/WSDOT are effective.

• The effectiveness test is based on three years of historical data and is evaluated on three statistical criteria. The test must prove that the price of the commodity used to execute swaps (Heating Oil on the New York Mercantile Exchange) is reliably consistent with WSF’s diesel market.

• Hedge effectiveness analysis for the three years ending June 30, 2021, shows WSF/WSDOT’s swaps fall within the acceptable tolerance level.

• This analysis is performed by the Fuel Hedging Program Advisor and confirmed by WSF/WSDOT.
What hedging activity has WSF/WSDOT executed in fiscal year 2022?

What is the market outlook in the short and long-term?
HEDGING ACTIVITY IN FISCAL YEAR 2022

• For the full fiscal year (FY 2022), WSF/WSDOT has executed swaps for 30% of budgeted gallons.

• For March-June, WSF/WSDOT swaps cover 50% of budgeted gallons (over 60% of purchased gallons).

• Based on market conditions, WSF/WSDOT currently does not plan to execute additional swaps, but will continue to monitor the oil futures and fuel markets.
FUEL PRICE MARKET OUTLOOK

• Short-term:
  – There are high levels of uncertainty about global supply due to geopolitical events (Ukraine)
  – Any reduction in Russian oil exports will contribute to higher prices (with demand exceeding supply), although the US uses a much lower percentage of oil from Russia than Europe
  – US producers are able to increase supply, but it is unclear to what extent this may occur and how soon
  – In the short-term higher prices will persist

• Long-term:
  – Markets are not expected to adjust to price increases for several months
  – It is unclear if additional supply will come to market; current events may cause suppliers to revisit this issue
  – If market conditions persist with high prices there is an increased threat of a recession
    • A recession would ultimately decrease prices and incentivize production growth
  – It is difficult to make definitive statements about long-term impacts from the recent events in Ukraine
QUESTIONS?

For additional information on the FY 21 Fuel Hedging Report, please contact:

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