

WASHINGTON STATE FERRIES FISCAL YEAR 2021 FUEL HEDGING REPORT

WSF/WSDOT FUEL HEDGING PROGRAM AND ACTIVITY – FY 2021

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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

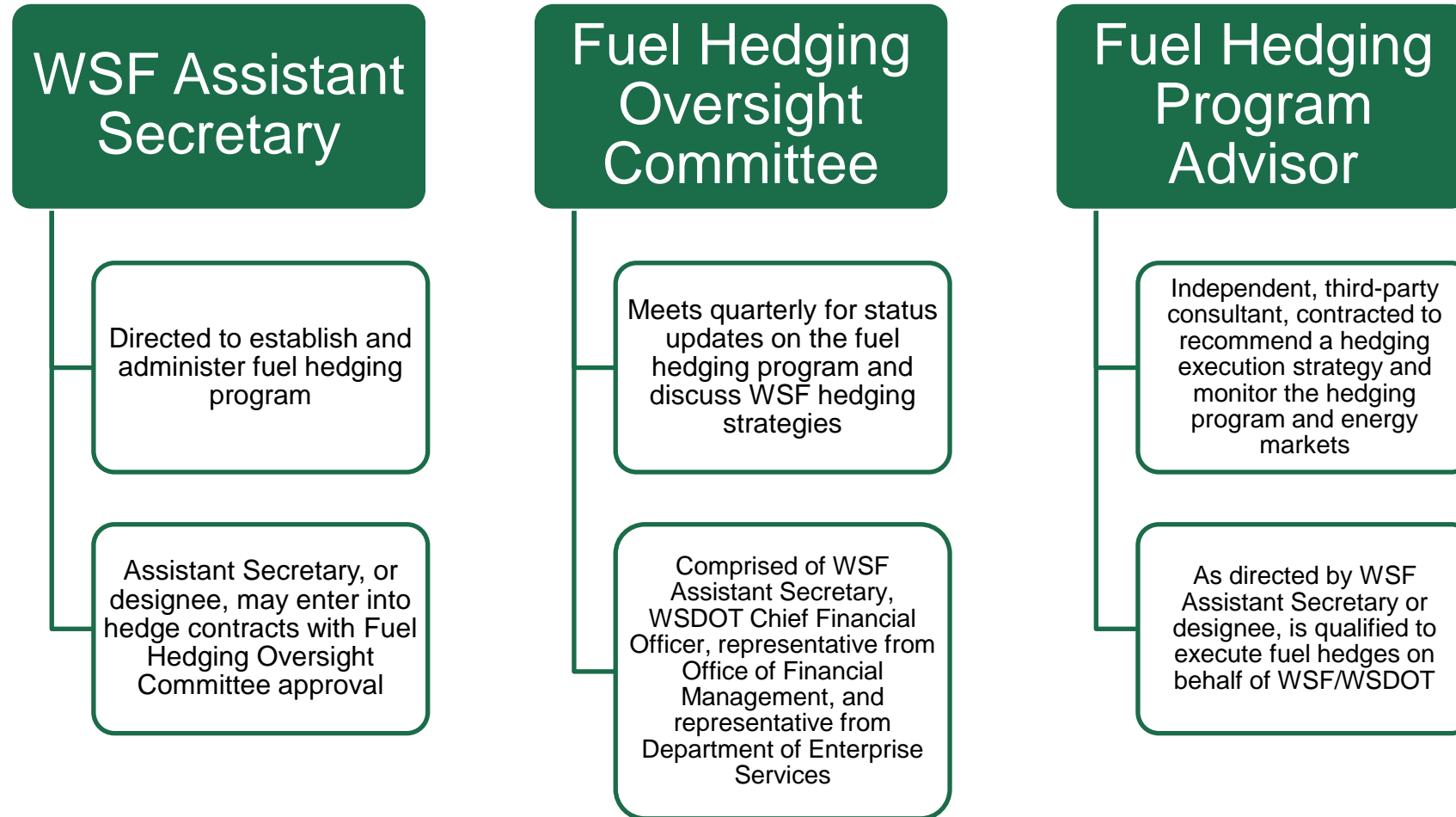
- State Law authorizes fuel purchasing strategies, such as financial hedges, under RCW 47.60.830
 - These strategies are “designed to reduce the overall cost of fuel and mitigate the impact of market fluctuations and pressure on both short-term and long-term fuel costs”
 - This report is required under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

WSF/WSDOT FUEL HEDGING POLICY (cont.)

- 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/WSDOT FUEL HEDGING PRACTICE

- 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

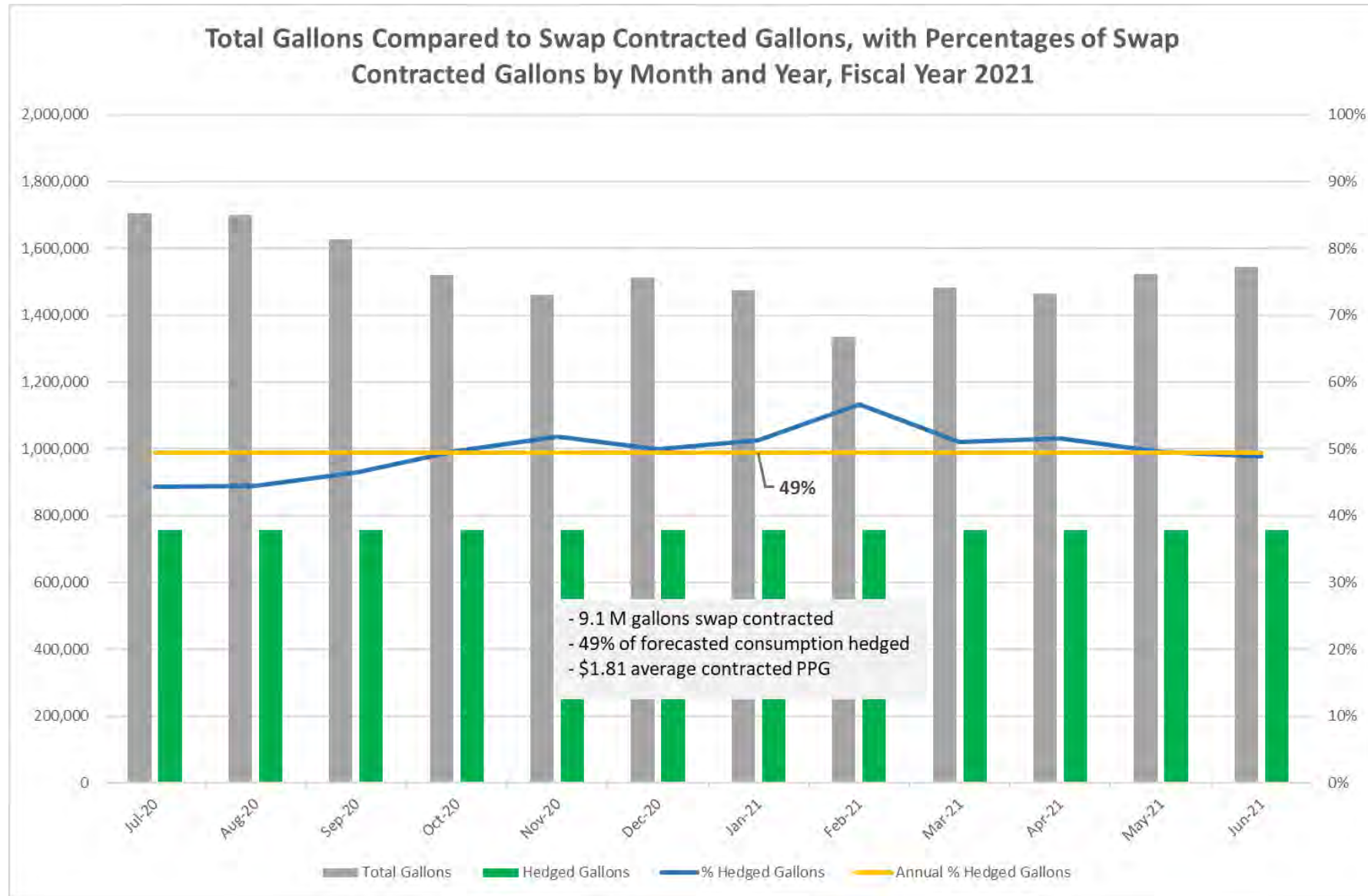
For what portion of the WSF fuel budget did WSDOT execute swaps?

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

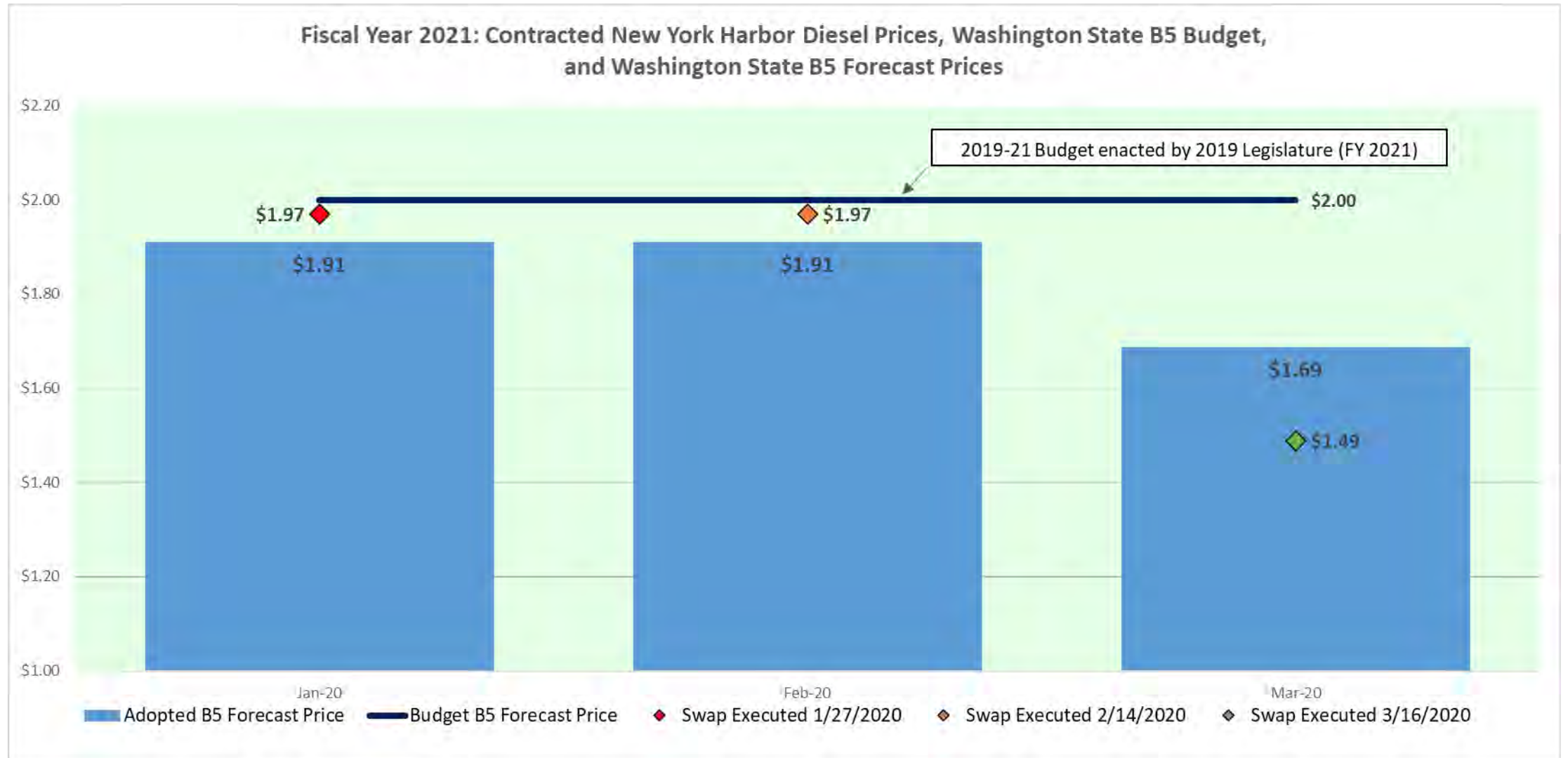
What were day-to-day fuel prices in fiscal year 2021?

How did swaps perform in fiscal year 2021?

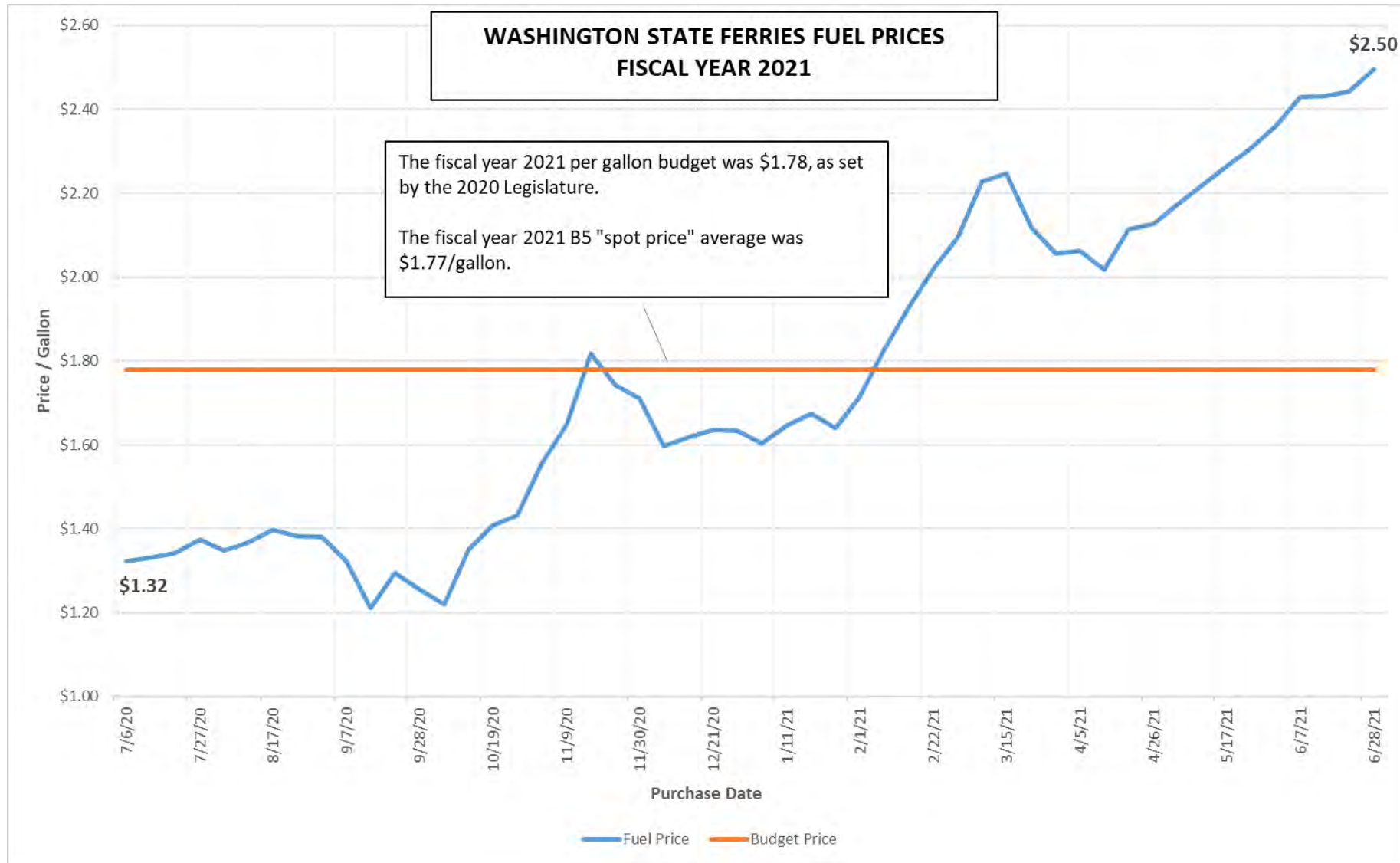
SWAP GALLONS AS A % OF FUEL BUDGET



CONTRACTED PRICES COMPARED TO BUDGET AND FORECAST PRICES



SPOT FUEL PRICES IN FISCAL YEAR 2021



FINANCIAL PERFORMANCE OF SWAPS

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

Price Swap	Jul-2020	Aug-2020	Sep-2020	Oct-2020	Nov-2020	Dec-2020	Jan-2021	Feb-2021	Mar-2021	Apr-2021	May-2021	Jun-2021	FY 2021 Total
Swap 1	\$ (121,313)	\$ (120,935)	\$ (149,159)	\$ (143,262)	\$ (118,692)	\$ (68,342)	\$ (35,456)	\$ 16,657	\$ 34,524	\$ 35,960	\$ 76,079	\$ 101,153	\$ (492,786)
Swap 2	\$ (121,489)	\$ (121,111)	\$ (149,335)	\$ (143,438)	\$ (118,868)	\$ (68,519)	\$ (35,633)	\$ 16,481	\$ 34,348	\$ 35,784	\$ 75,902	\$ 100,976	\$ (494,903)
Swap 3	\$ (227)	\$ 151	\$ (28,073)	\$ (22,176)	\$ 2,394	\$ 52,744	\$ 85,630	\$ 137,743	\$ 155,610	\$ 157,046	\$ 197,165	\$ 222,239	\$ 960,246
FY 2021 Total	\$ (243,029)	\$ (241,895)	\$ (326,567)	\$ (308,876)	\$ (235,166)	\$ (84,118)	\$ 14,540	\$ 170,881	\$ 224,482	\$ 228,791	\$ 349,146	\$ 424,368	\$ (27,443)

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

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	FY21 Totals
Budgeted Gallons	1,704,282	1,699,654	1,626,725	1,520,084	1,460,185	1,511,843	1,474,172	1,334,688	1,481,726	1,464,567	1,523,710	1,544,902	18,346,538
Actual Gallons	1,109,012	1,071,742	1,249,198	1,225,497	1,370,602	1,450,025	1,392,318	1,215,960	1,392,695	1,280,569	1,358,617	1,275,391	15,391,626
Variance	595,270	627,912	377,527	294,587	89,583	61,818	81,854	118,728	89,031	183,998	165,093	269,511	2,954,912
Percent Variance	34.9%	36.9%	23.2%	19.4%	6.1%	4.1%	5.6%	8.9%	6.0%	12.6%	10.8%	17.4%	16.1%

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.

5) RECENT SWAPS - MARKET CONDITIONS

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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