FORS
FLEET OPERATOR
RECOGNITION SCHEME

Smart strategies for cutting fuel costs

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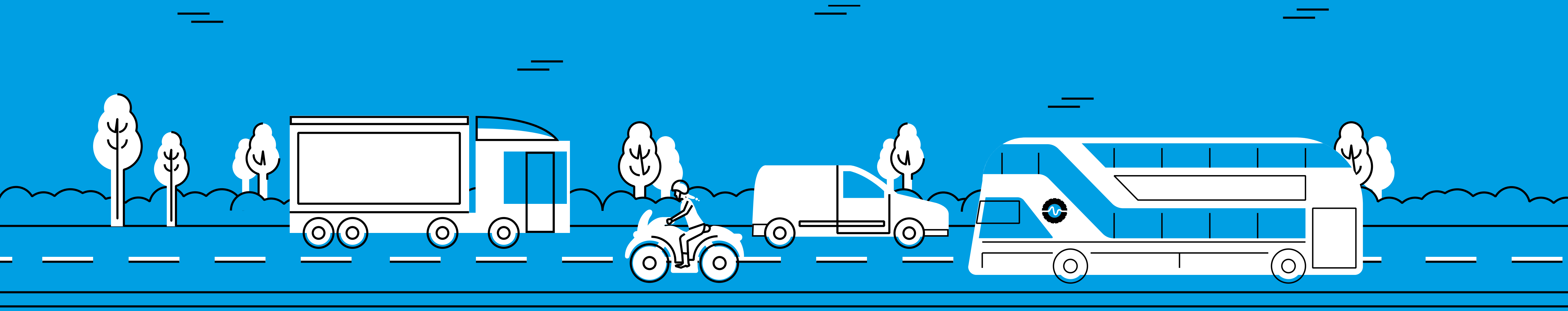


Agenda

- **Portland Analytics –** Who are we?
- **Pricing Mechanisms –** UK price structure and how it varies by purchase method
  - Breakdown of UK price structure
  - Impact of legislation (RTFO)
  - Lag periods and how they can affect comparable pricing
- **Procurement Strategy –** Fuel buying tips for bulk and fuel card
  - Bulk; spot vs contract, supply chain optimisation and contract price structure
  - Fuel Card; fixed vs floating and benefits of bunkering (supply chain model)
- **Mitigating Risk –** How to protect your business from market volatility
  - Long term fixed pricing as a budgetary tool
  - Fuel escalator mechansims
- **Q&A**

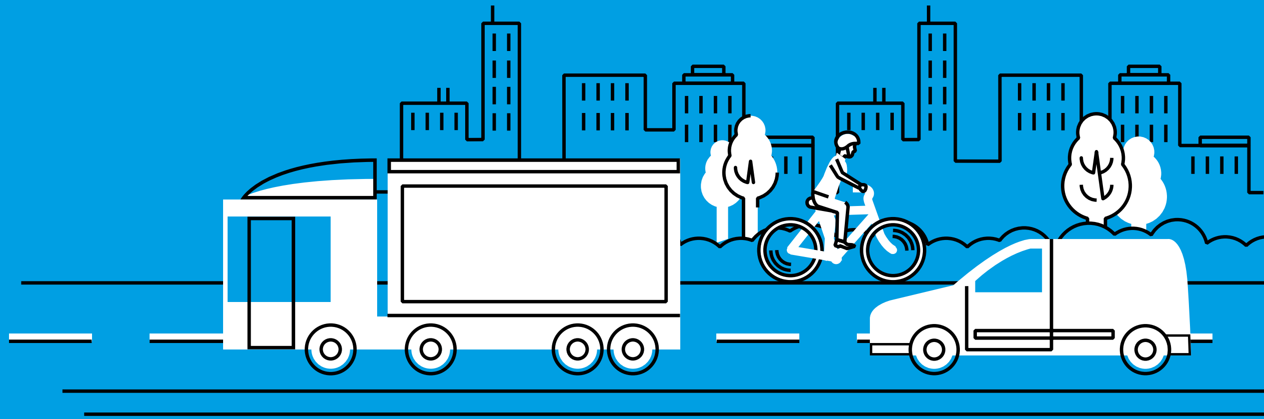
Introduction to Portland Analytics

- FORS affinity partner
- Specialist fuel consultancy, providing advisory services to commercial fuel buyers, providing:
  - Fuel procurement review and strategy
  - Managed tender services
  - Alternative fuels transition
  - Training
  - Market reporting
- Former owner Portland Pricing used by 300+ companies in the UK
- Part of the wider Portland group of companies, founded in 2009, which includes hedging and physical fuel supply operations

Portland

Pricing Mechanisms

UK price structure and how it varies by purchase method



Wholesale pricing and the ARA market

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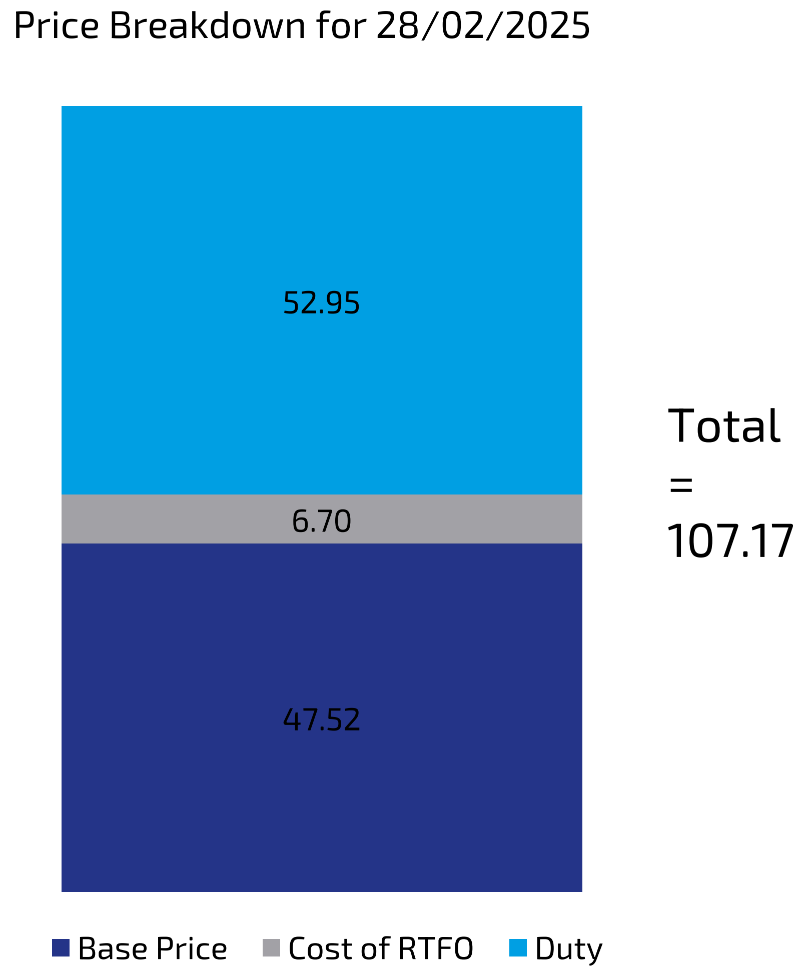
- Fuel prices across Northwest Europe, including the UK, reflect trading in the Amsterdam-Rotterdam-Antwerp (ARA) region
- Price reporting agencies (PRAs) such as S&P Global Platts and Argus Media publish daily prices for a variety of commodities based on trade data
- Wholesalers (importers and refiners) use this information as the basis of their fuel pricing, which filters down the supply chain to the end user
- Fuel products are generally traded and published in USD per metric tonne, which are converted to pence per litre for UK pricing (meaning UK market is exposed to FX rate)

UK market pricing

- Base price = wholesale cost of fossil product e.g. diesel
- Cost of RTFO = difference between the cost of bioproduct and fossil product, multiplied by the relevant rate of RTFO for the grade, plus the cost of DFO buy-out
- Duty = set by the UK government (currently 52.95 ppl for road diesel)
- Supply premium = varies by delivery method e.g. bulk, bunker, fuel card
- **The supply premium is the only negotiable part of the price structure**



Supply Premium Breakdown

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Bulk

- Product (ex-rack)
- Transport to site
- Supply margin

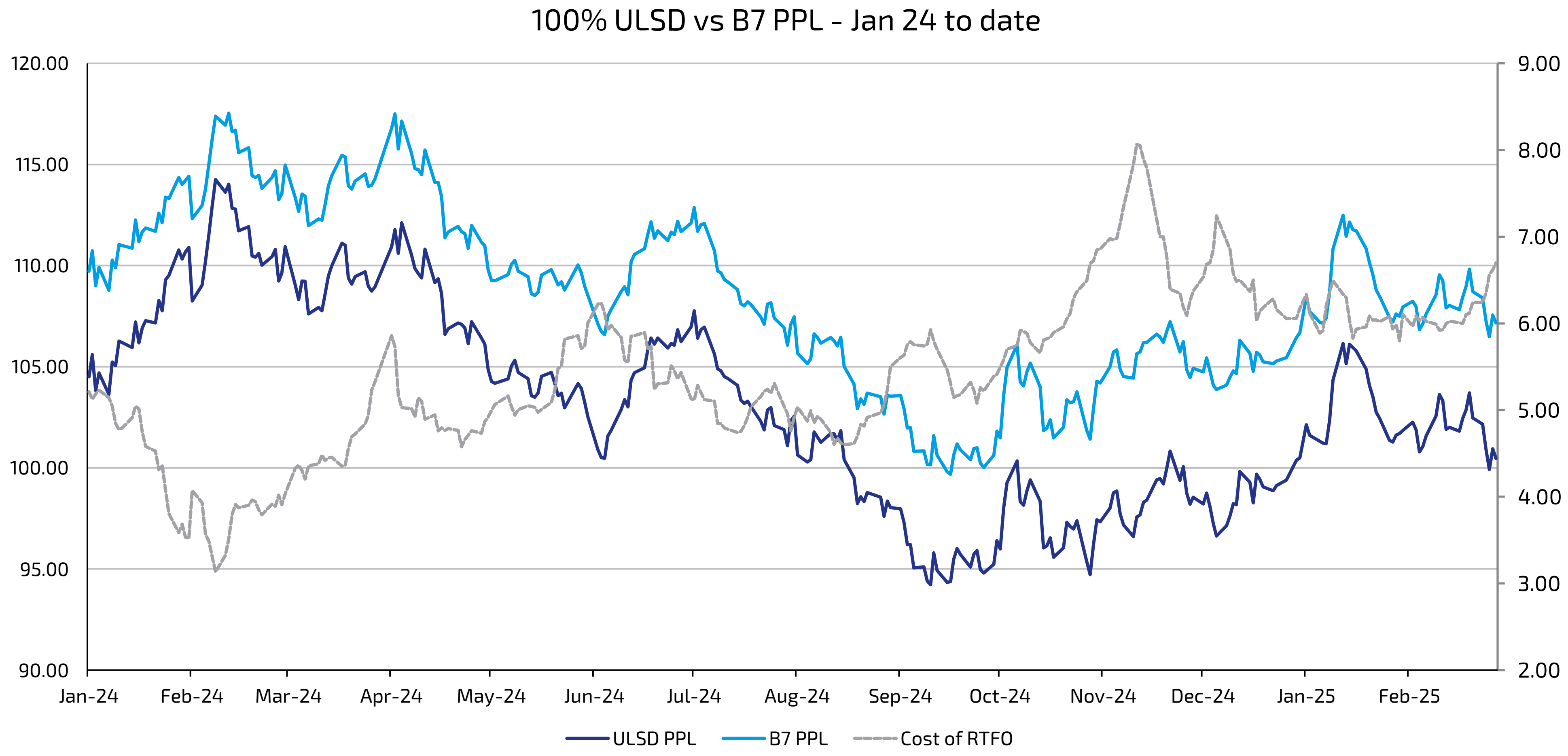
Bunker

- Product (ex-rack)
- Transport to network
- Supply margin
- Network handling

Card

- Product (ex-rack)
- Transport to network
- Supply margin
- Network handling
- Card provider margin

Chart – Price Movement & Impact of RTFO

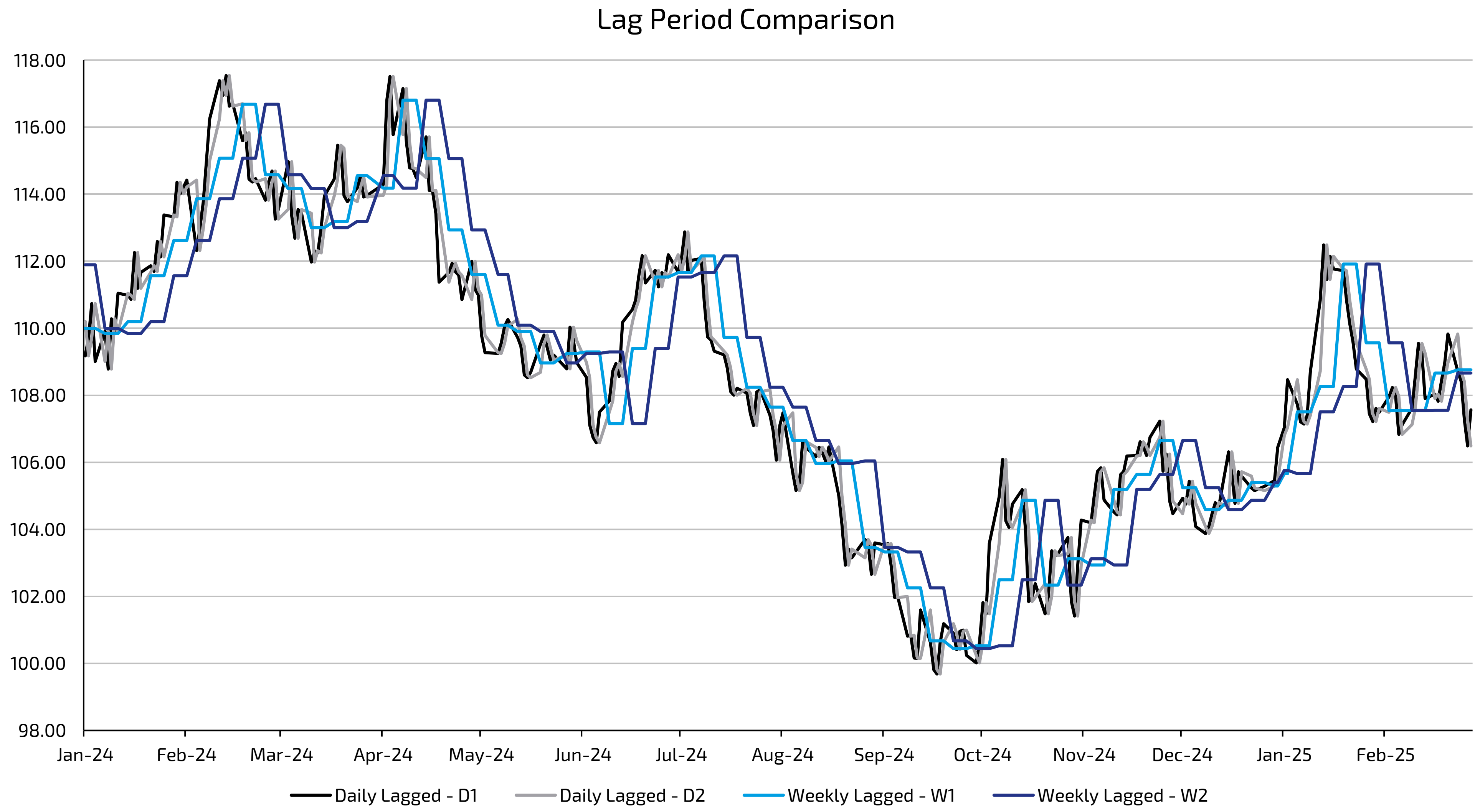


Note: prices above are wholesale inclusive of duty, and do not account for transport costs, network fees or supply premiums, which will vary dependent on delivery method (bulk, card, retail).

Pricing Periods

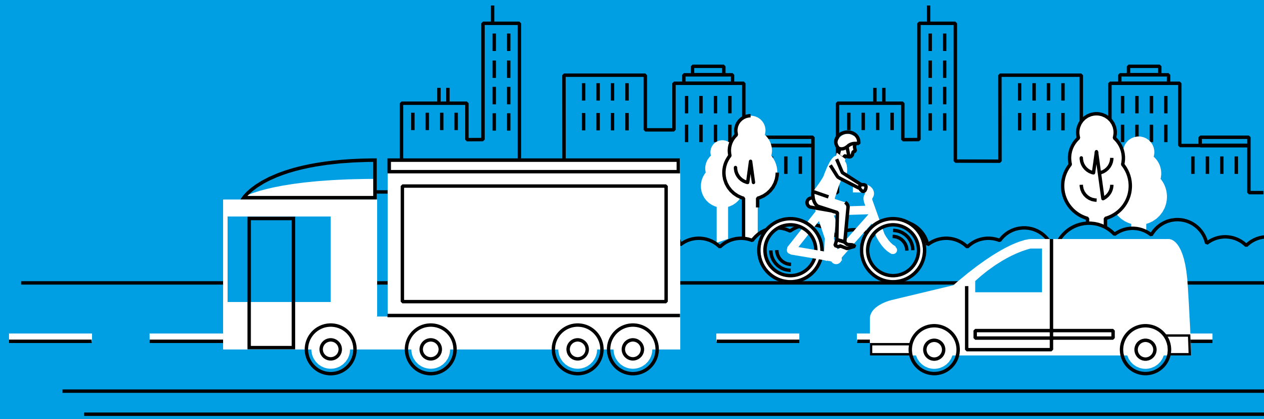
- Pricing periods can vary by supplier or purchase method
- Most common methods are daily-lagged, weekly-lagged and spot
  - Daily-lagged/D-1/D-2 = based on prices for the previous day/day before
  - Weekly-lagged/W-1 = based on average prices over the previous week
  - Spot = based on the live market
- Daily lagged and spot are more commonly used for bulk purchasing
- Weekly lagged is used for fuel card and contract bulk/bunker agreements
- However, certain suppliers will use different lags e.g. W-2, to reflect changes in supply chain in recent years (Russia/Ukraine, Red Sea etc.)
- **Having supply options on multiple lags can be used to the buyer's advantage**

Chart – Differences in lag periods



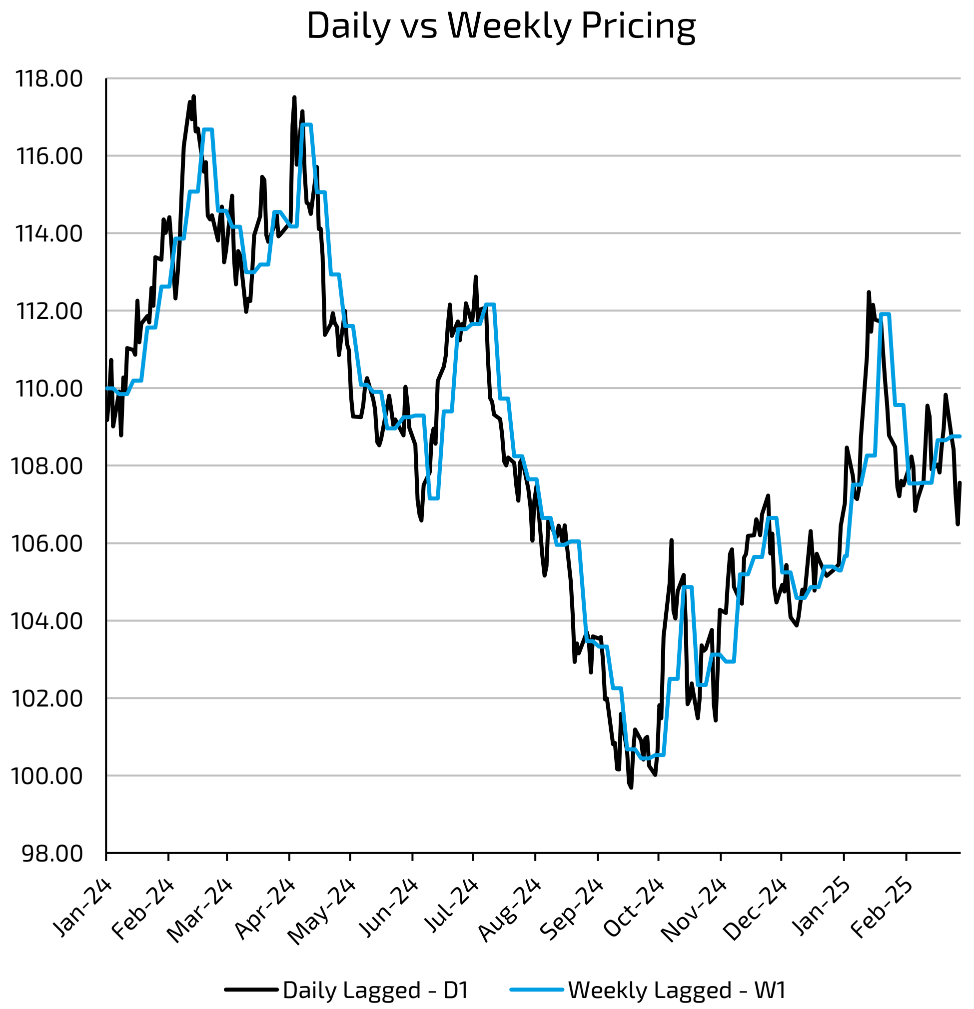
Procurement Strategy

Fuel buying tips for bulk and fuel card purchasing



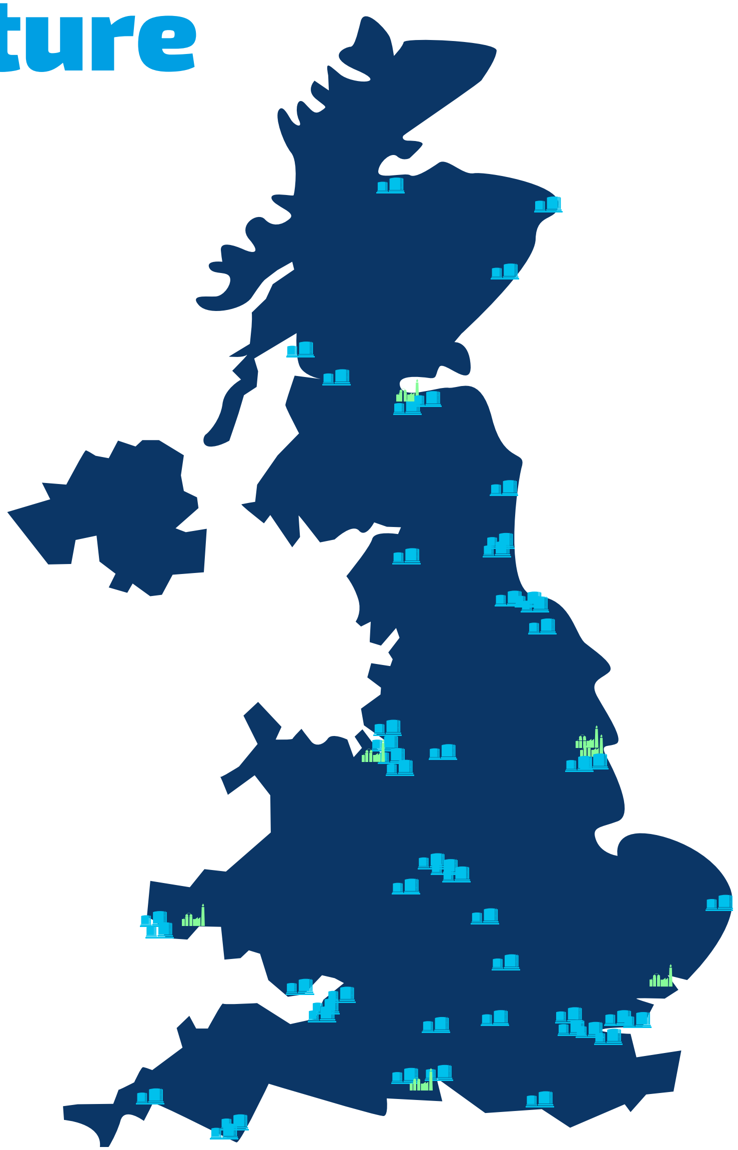
Bulk – Spot vs Contract

- Bulk fuel can be purchased within a contracted framework, usually based on a fixed premium above the weekly wholesale price, or on the live 'spot' market
- Spot pros;
  - Not contracted to a single supplier
  - Spread credit across multiple suppliers
  - Take advantage of falling live market
- Spot cons;
  - No guarantee of supply/availability
  - Premium is variable
  - High premiums if supply is limited
- Contract pros;
  - Security of supply – contracts take priority
  - Fixed premium is guaranteed
  - Administratively simple, no requirement to 'ring round'
- Contract cons;
  - Agreed volume must be fulfilled
  - Cannot take advantage of intraday dips
  - Bound to one supplier/credit line



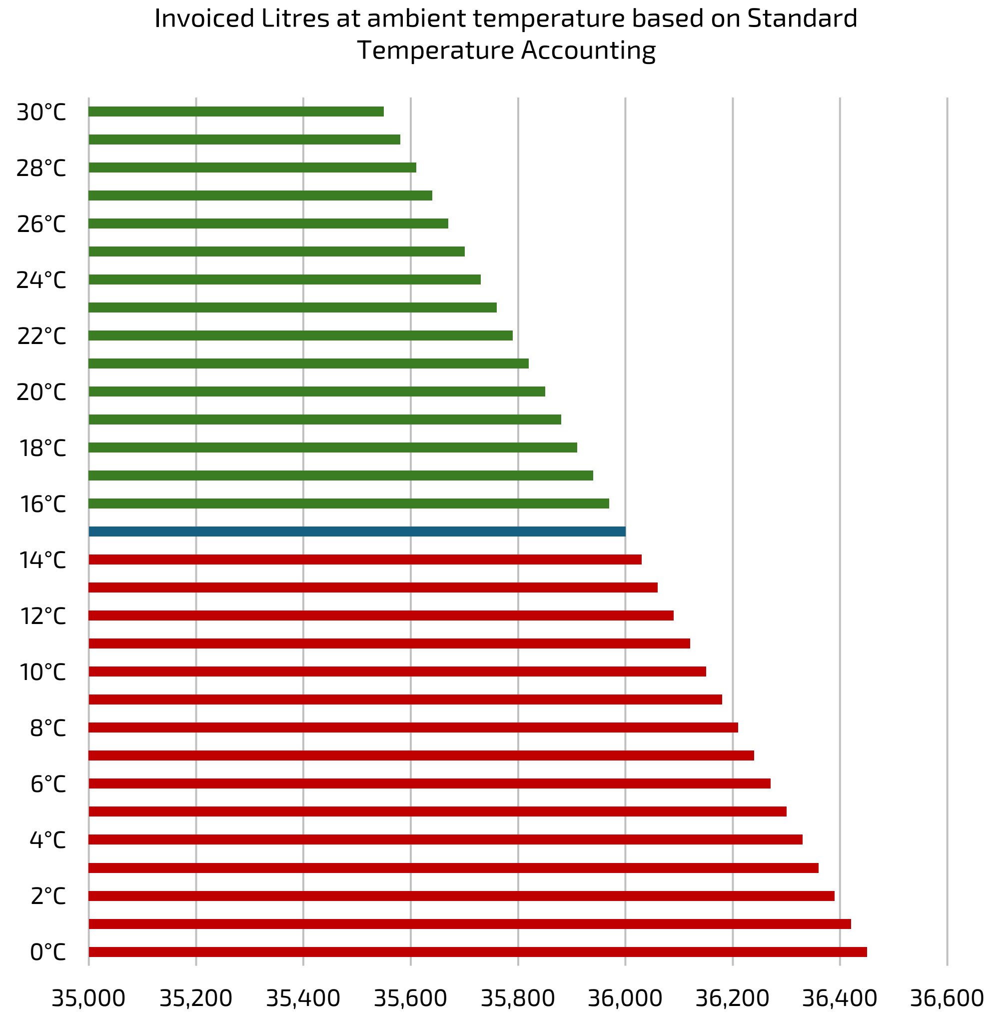
Bulk – UK Supply Infrastructure

- Product and transportation costs for bulk supply vary due to proximity to infrastructure
- Product cost (i.e. the cost to lift ex-rack) can vary based on location e.g. coastal/inland due to import costs
- Transport cost varies based on distance (£ per mile haulage cost) and load size
- The most cost-effective way to buy bulk is in a full load (36,000 litres) – haulage costs remain the same, however the ppl cost is reduced as it is spread over a higher volume:
  - £500 / 36,000 = 1.39 ppl
  - £500 / 30,000 = 1.67 ppl
  - £500 / 18,000 = 2.78 ppl



Bulk – Temperature Accounting

- Fuel contracts/expands dependent on temperature, leading to fluctuations in stock levels in tank
- To account for this suppliers may adjust volume sold to its equivalent density at 15°C – called Standard Temperature Accounting
- Alternative is measured/ambient i.e. the volume at which it is loaded to the tanker
- Stock loss/gain is usually accounted for within supply premiums, particularly if product is ex-refinery (hot)
- Method of temperature accounting will be specified in your contract – check and ensure you have the method that best suits your location/storage

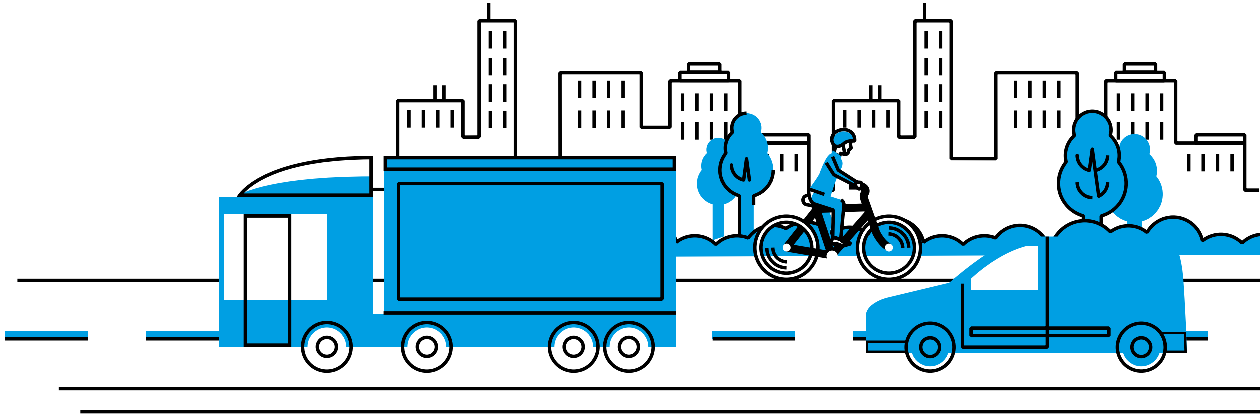


Bulk – Contract Price Structure

- Contract base price structure is standardised across the industry, as a blend of fossil and bioproduct in line with RTFO
- This enables suppliers to compare offered premiums above the base price like-for-like
- However, in practice, there are several areas within the base price mechanism that often have hidden costs, such as;
  - $/mt product premia
  - Bio-freight charges
  - Storage costs
- It is important to establish whether there are additional cost elements within your base price mechanism, and if so calculating what this equates to in ppl
- Combining these additional costs with your premium offer gives a true cost, enabling you to compare ‘apples with apples’

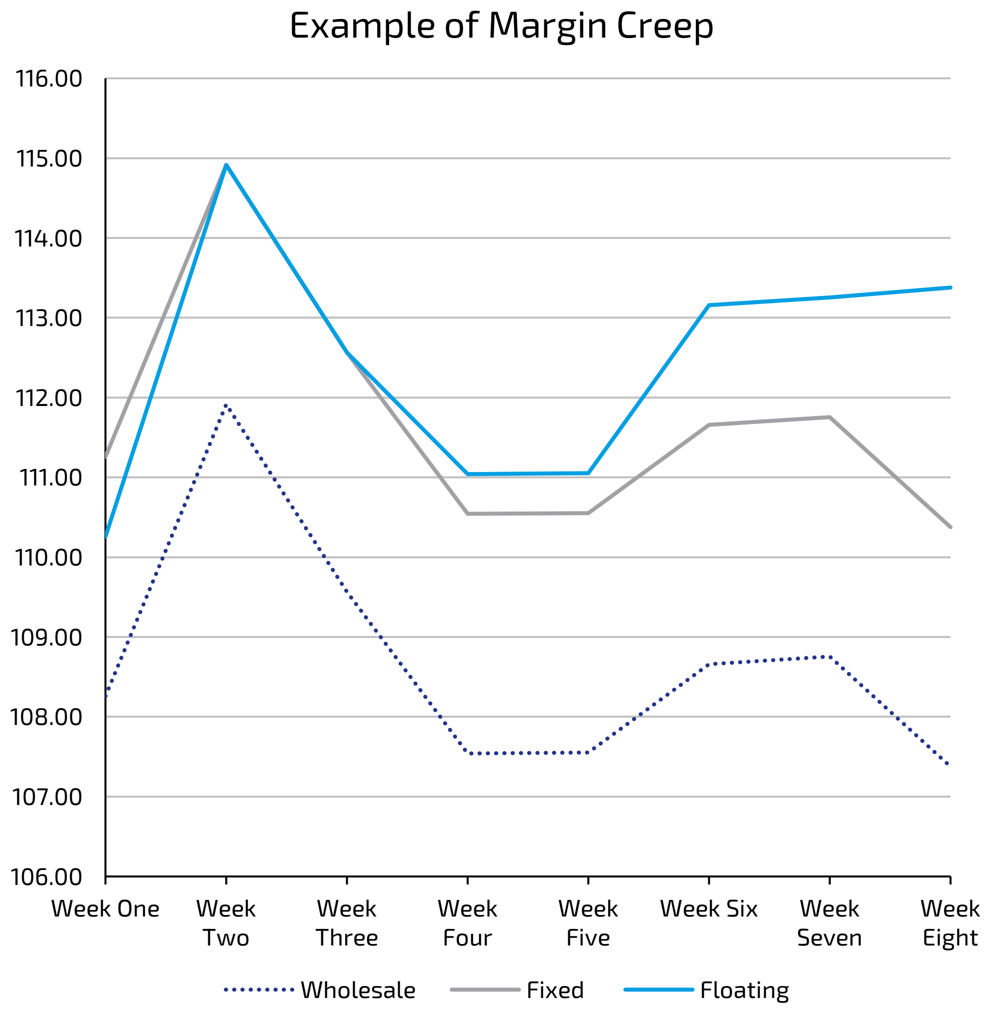
Case study: Bulk Buying

Experiences of Geraint Davies, FORS Director



Fuel Card – Fixed vs Floating

- Similar to bulk contract/spot purchasing, fuel cards may be based on a fixed or floating premium above the wholesale base price
- However, unlike spot buying which allows buyers to take advantage of intra-day price movement, floating fuel card prices are weekly, just the margin is not fixed
- As a result, buyers can sometimes suffer from ‘margin creep’ whereby an initially attractive price starts to increase upon card use
- The simplest way to avoid this is by negotiating a fixed premium above the wholesale base price

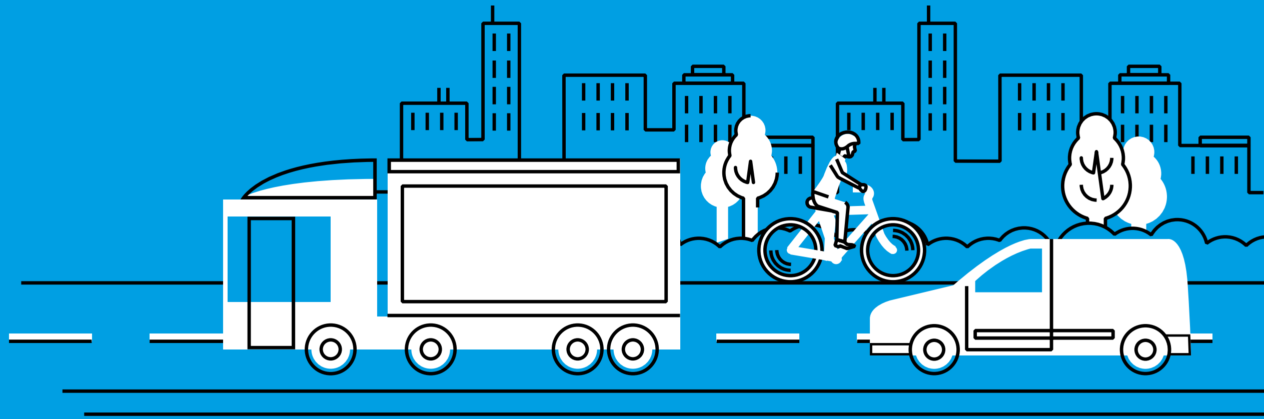


Fuel Card – Benefits of Bunkering

- Card resellers for the UK Fuels and Keyfuels networks hold a virtual stock account with the network operator
- Each week they purchase fuel from physical suppliers to the network, which is transferred into their stock account and gradually drawn down by card users
- The network charges the reseller a ‘handling fee’, which is passed through to the end user
- Therefore, the premium cost to the user is built up of the cost of product supplied to the network (which includes the physical supplier’s margin), the handling fee, and the reseller’s margin
- Larger buyers can set up this arrangement themselves, shortening the supply chain and reducing cost
- This involves setting up a bunker suspense account direct with the network operator and setting up arrangements with physical suppliers to transfer virtual stock into account
- This can be done on a spot basis, although network operators require a minimum stockholding, therefore contracted supply for weekly transfers is most common

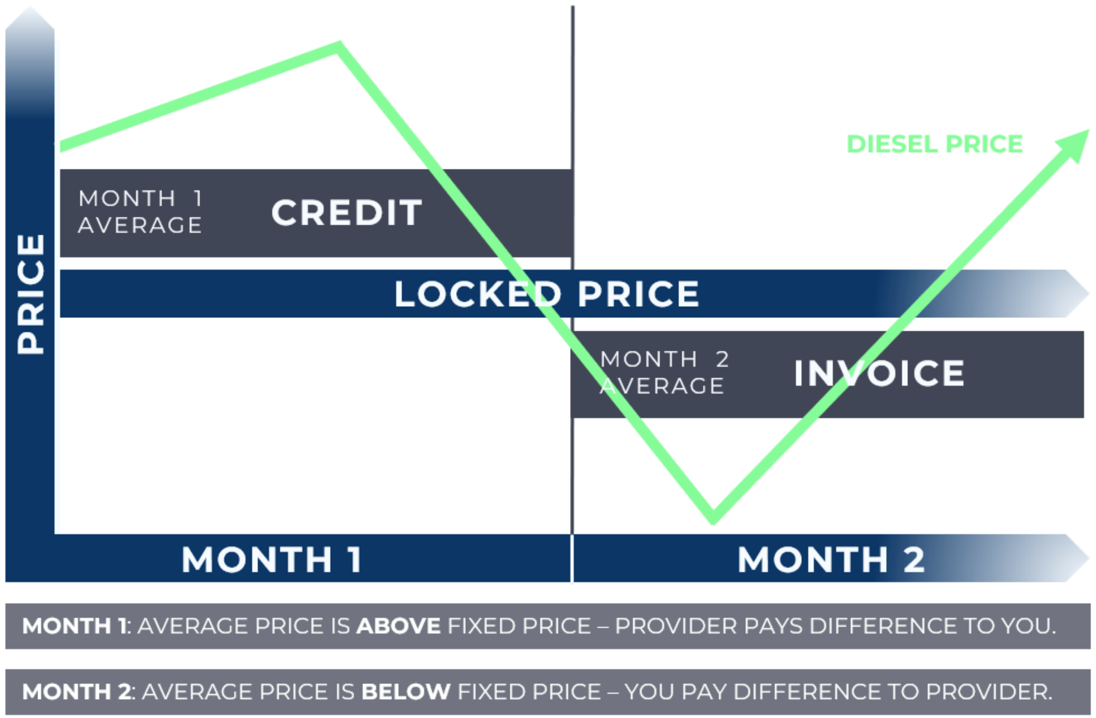
Mitigating Risk

Long term fixed pricing and fuel escalators



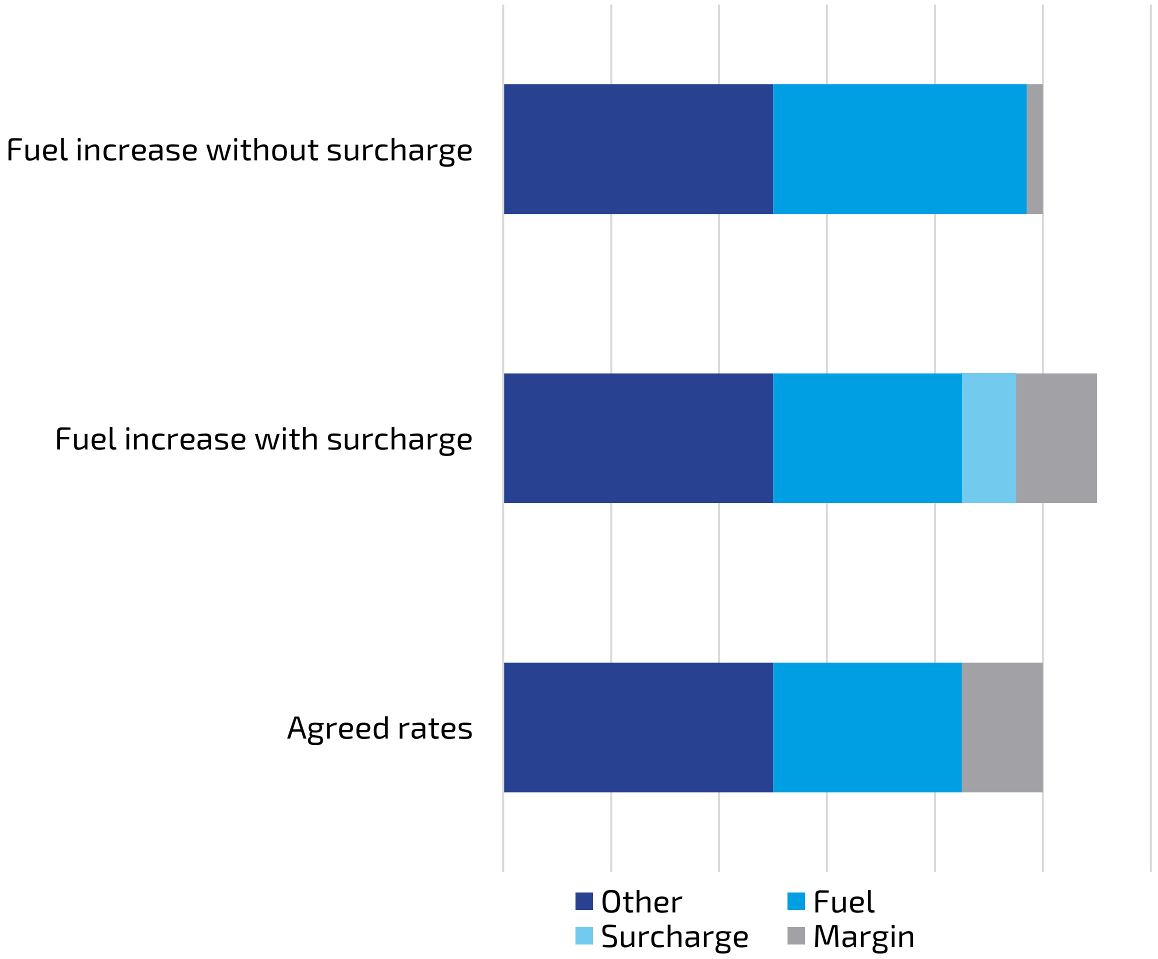
Long Term Fixed Pricing

- Fixed pricing is a way for commercial fuel buyers to budget their fuel spend by locking in a price for up to 12 months in advance
- This can be done via a 'paper' hedge, whereby a monthly settlement is invoiced/credited depending on movement in price
- It is important to ensure that a paper hedge lines up with the way you buy physical fuel (e.g. RTFO inclusive) to avoid hidden exposure
- Alternatively, some suppliers may offer a fixed price as part of a contracted supply agreement, where fuel is supplied and invoiced at a single, unchanging rate



Fuel Escalator Mechanism

- Fuel escalators/surcharges are a way for companies that have an exposure to movement in the cost of fuel to pass this through to their customers in a transparent way
- A surcharge calculation is generally included as part of a transport agreement e.g. a haulage contract
- A base price is agreed, with both parties agreeing that the rate will be revised weekly/monthly based on the difference between the base price and an agreed reference index
- The difference is applied to the percentage of the overall rate that is attributed to the cost of fuel, generally 30-35% in haulage

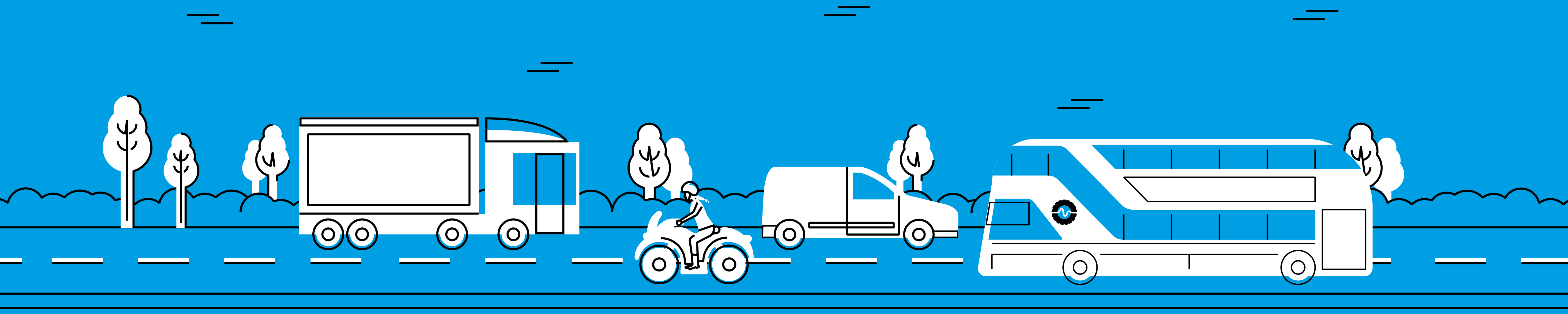


Key takeaways

- Bulk
  - Check which purchase arrangement works best for your business (spot or contract)
  - Re-assess your supply options based on proximity to infrastructure
  - Check contracts for hidden costs and method of temperature accounting
- Fuel Card
  - Assess whether a fixed margin agreement would be more beneficial for your business
  - If already on a fixed margin (or when negotiating), again check contract for add-ons
  - Providing volume is high enough to make it worthwhile, explore benefits of bunker model
- Manage exposure to movements in price, through fixed pricing or fuel escalators
- Portland specialises in negotiating contract supply agreements for fuel buyers across all purchase methods
- Review of procurement strategy, with prescriptive approach to next steps – contact us for a free initial 30-min consultation

Q&A

- Web: **www.fors-online.org.uk** Tel: **08448 09 09 44** Email: **enquiries@fors-online.org.uk**



Contact details

For more information on Portland’s fuel procurement advisory services and to schedule an initial, no-obligation review, please contact:

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