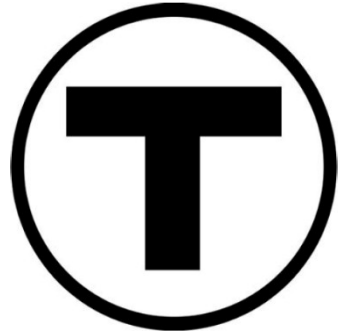




**Massachusetts Bay
Transportation Authority**

Energy Hedge – FY27

Audit & Finance Meeting

January 15, 2026

Patrick Landers, Treasurer

Summary and Purpose

- The MBTA has annually entered into diesel fuel hedging contracts, the purpose being to reduce budgetary risk. This is not to outsmart the market but utilize a 50% hedge which allows us to maintain upside potential while limiting downside risk.
- We use multiple counterparties and competitive bidding process to obtain transparent pricing for hedge contracts which are entered into on a forward basis, by doing so we provide pricing information for our operating budget with hedges that are entered into now but become effective in FY27.
- A board resolution is required, typically this is presented at A&F which then recommends it to the Consent Agenda for the full board.



Diesel Fuel Hedge Background

- MBTA has historically hedged the costs of its diesel fuel to minimize expenditure volatility and to provide greater certainty in budgeting.
- Since 2001, the hedging of fuel costs has been through the use of derivative contracts, which is more efficient than a price-fix with the vendor contract.
- To diversify risk among counterparties and ensure competitive bids, the MBTA has put in place a master hedge for specific amounts and terms.

Past counterparties include

JP Morgan
Citibank
Bank of America – Merrill Lynch
Morgan Stanley
Goldman Sachs
Wells Fargo

WHAT A FUEL HEDGE IS	WHAT A FUEL HEDGE IS NOT
 A method of reducing budgetary uncertainty	 An opportunity for MBTA to outsmart the market
 A tool to protect MBTA finances from fuel price volatility	 A tool to take advantage of market conditions
 A neutral posture with 50% hedged 50% unhedged positions (<i>If fuel prices go down, we benefit at the pump. If fuel prices go up, we benefit on the hedge.</i>)	 A gamble with the banks



How a Hedge Works

PHYSICAL DELIVERY



\$3 a gallon
Price falls to \$2.85



\$0.05 Distribution Cost



\$3.05 a gallon
Price now \$2.90
(\$0.15 savings)

Price drops \$0.15
at pump

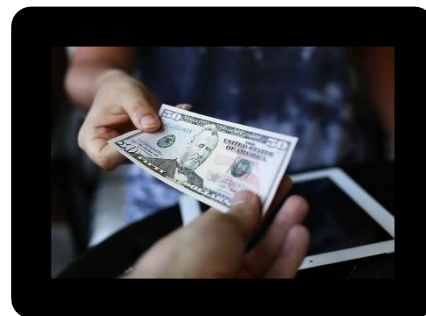


-\$0.15 + \$0.15 = \$0

HEDGE



Lock in rate at \$3 a gallon



If price goes up, Bank pays MBTA
If prices go down, MBTA pays Bank



Futures decline to \$2.85
(MBTA pays difference)

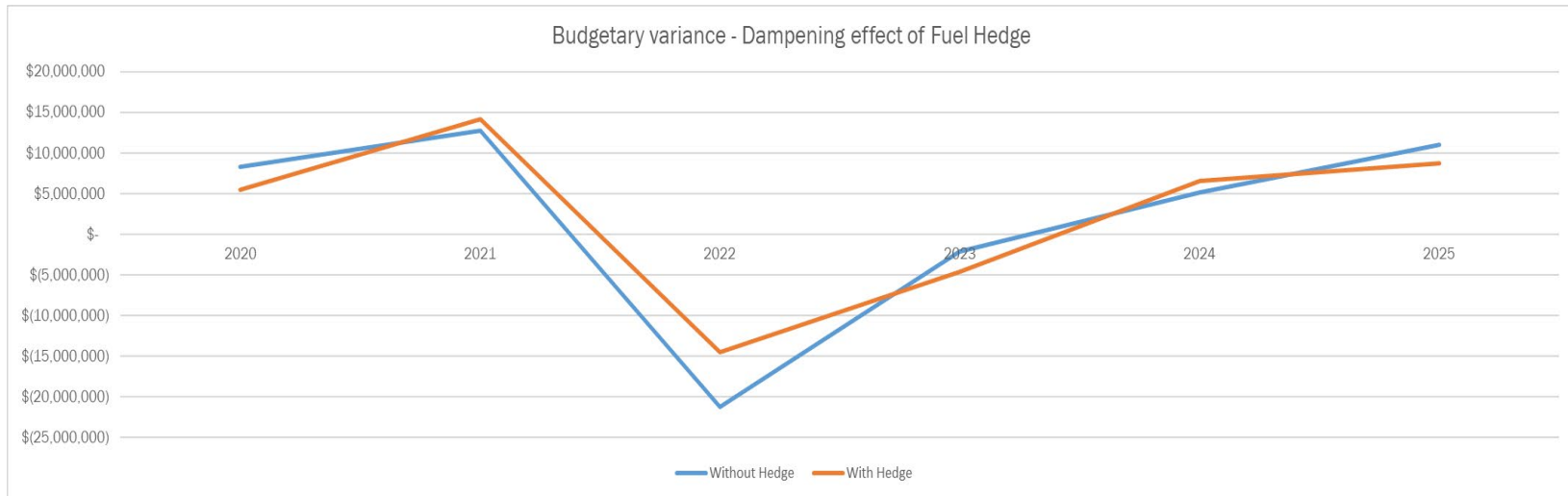
The result of
changes in the
price of Oil Futures



Recent Hedging

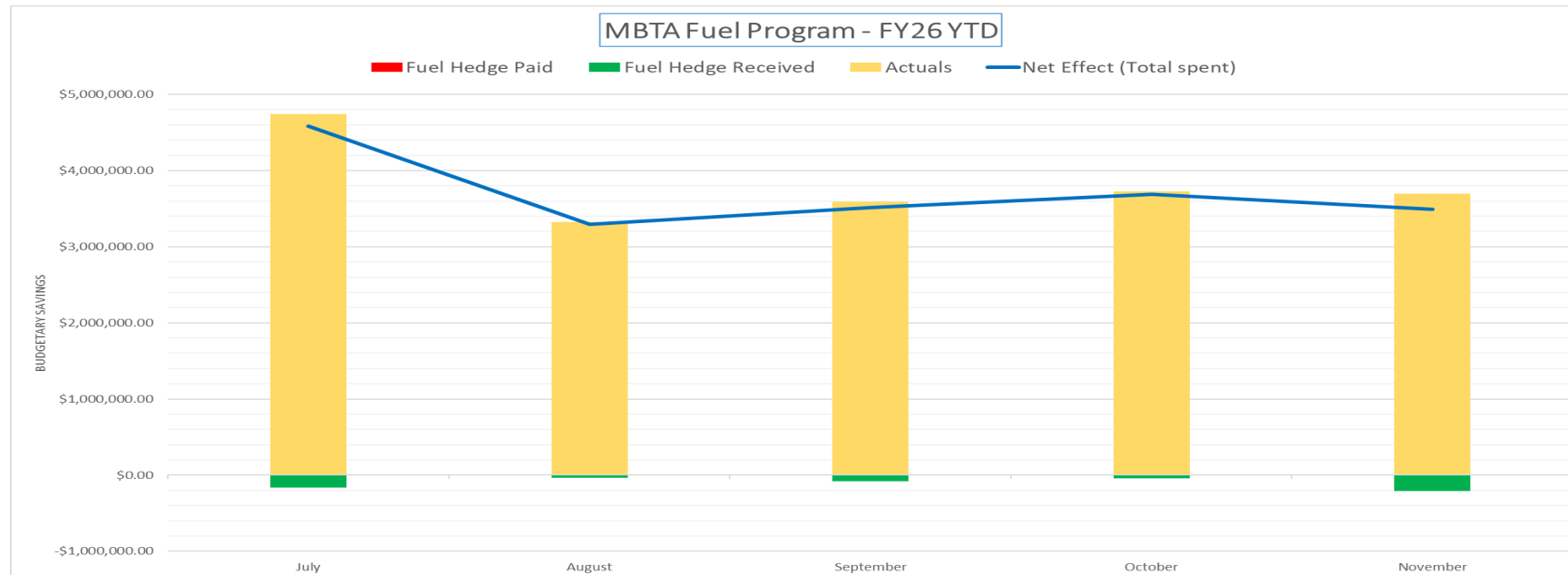
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Targeted percentage hedged	50%	50%	50%	50%	50%	50%	50%
Gallons hedged	8.8 million	9.9 million	8.8 million	9.95 million	9.83 million	10.6 million	10.8 million
Providers	Goldman	Wells Fargo	Morgan Stanley	Morgan Stanley, Citi, Goldman	Morgan Stanley, Citi, Goldman, Bank of America	Citi, BAML, Morgan Stanley	Morgan Stanley, Citi, Bank of America, RBC
Hedged Price Per Gallon	\$1.85	\$1.29	\$1.99	\$3.24	\$2.63	\$2.49	\$2.25

The MBTA hedges its diesel usage every year. The amount hedged varies each year, but the hedge must be for a specific volume of fuel for a specific term.



FY26 Fuel Hedge

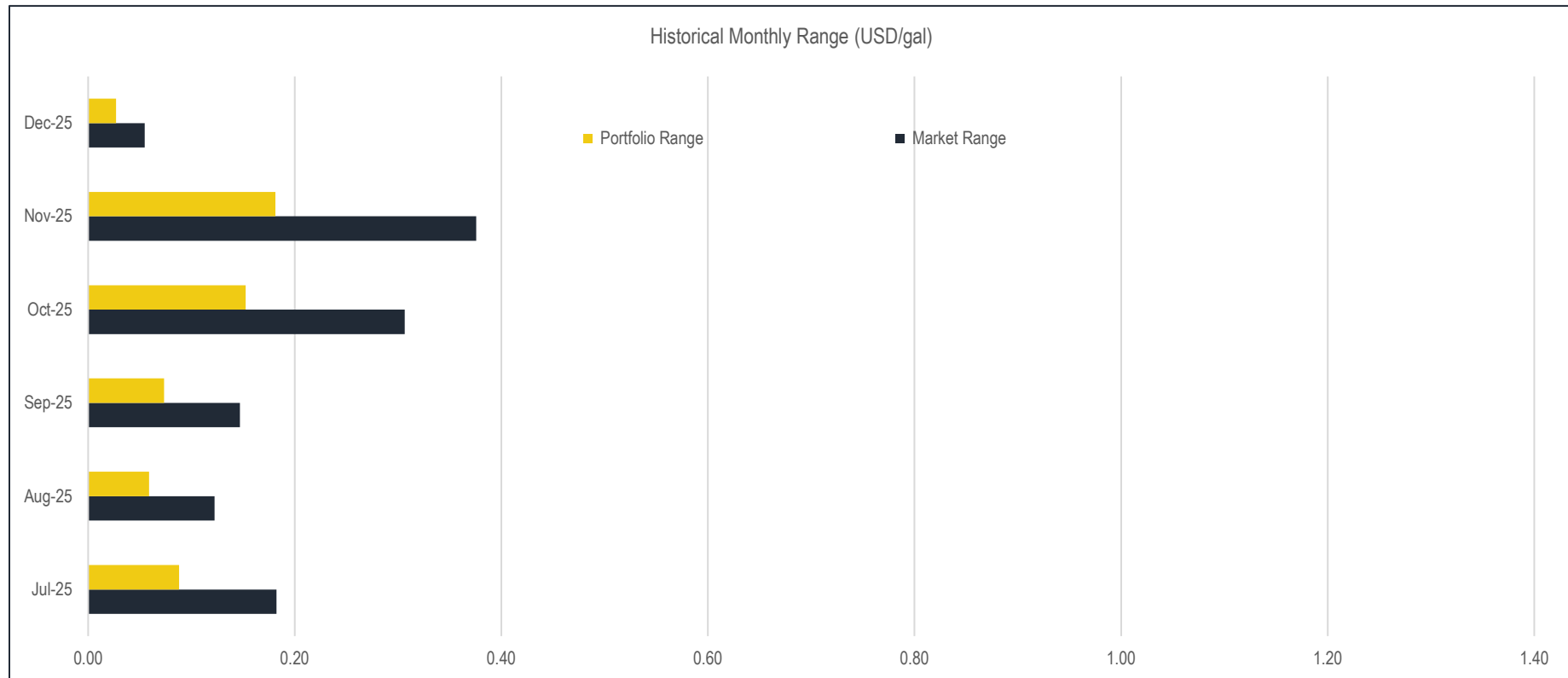
- The MBTA is currently hedging ~50% of its budgeted usage (10.8 million gallons).
- Weighted average price of \$2.25 per gallon
- Hedge counterparties – Bank of America, Citi, Morgan Stanley, and RBC.
- A 50% hedge performs when price per gallon increases. The remaining 50% unhedged portion performs when price per gallon decreases.



Yellow is what was paid at the pump (actual)
Red/green represents fuel hedge. Red is a payment we made to the counterparty. Green is a payment we received from the counterparty.
Blue line represents what MBTA actually paid on fuel (hedge and pump prices combined)

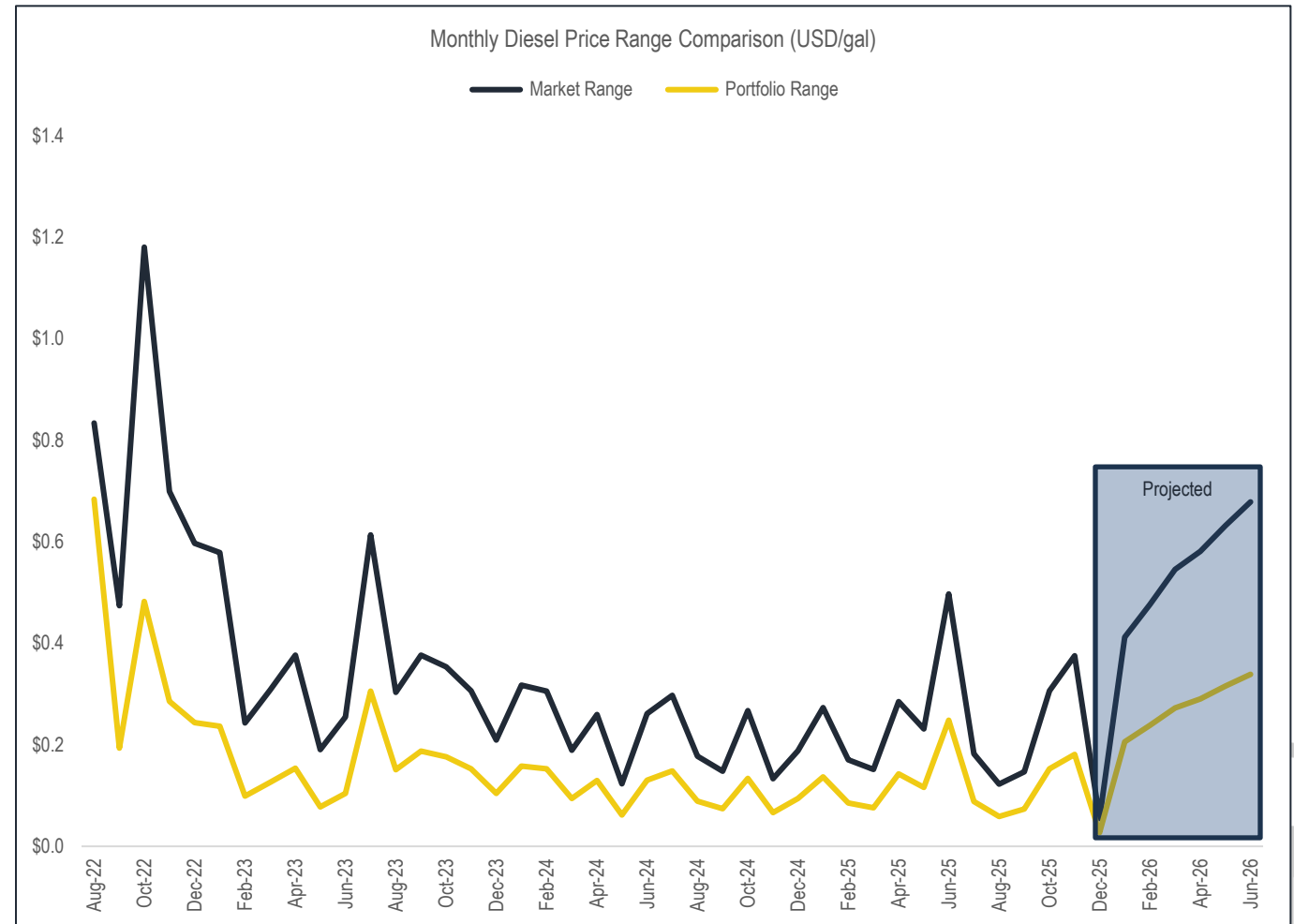
FY26 Fuel Hedge

- Realized volatility through the end of November averaged 30%, seeing stretches during which volatility exceeded 40% and even 50%.
- Market expectations have adjusted. Forward volatility trades at or above 30%, with focus on 1Q2026.
- Hedge has been on target for reducing volatility in realized costs by 50%.



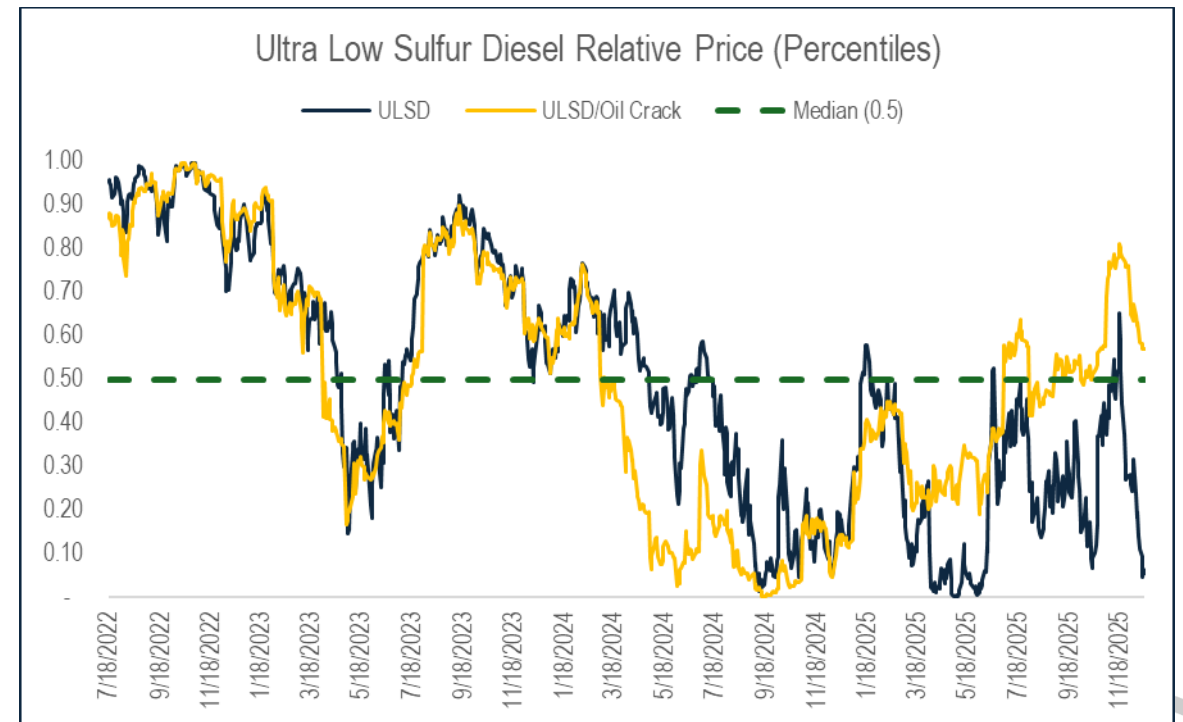
Historic and Forward Volatility

- Forward volatility is trading in the 25-35% range, depending on tenure, with shorter durations trading higher. Notably, realized volatility has regularly been higher than forward. In other words, markets have underpriced volatility.
- Likewise, diesel for immediate delivery is priced above that for delivery in a future month (backwardation).
- Taking both factors into account, we currently forecast **unhedged** diesel to trade within a +/- \$0.30 range during 1Q2026, and +/- \$0.45 over the next twelve months (a total potential swing of >\$0.90/gal from peak to trough. Our hedges will cut these ranges by 50%.



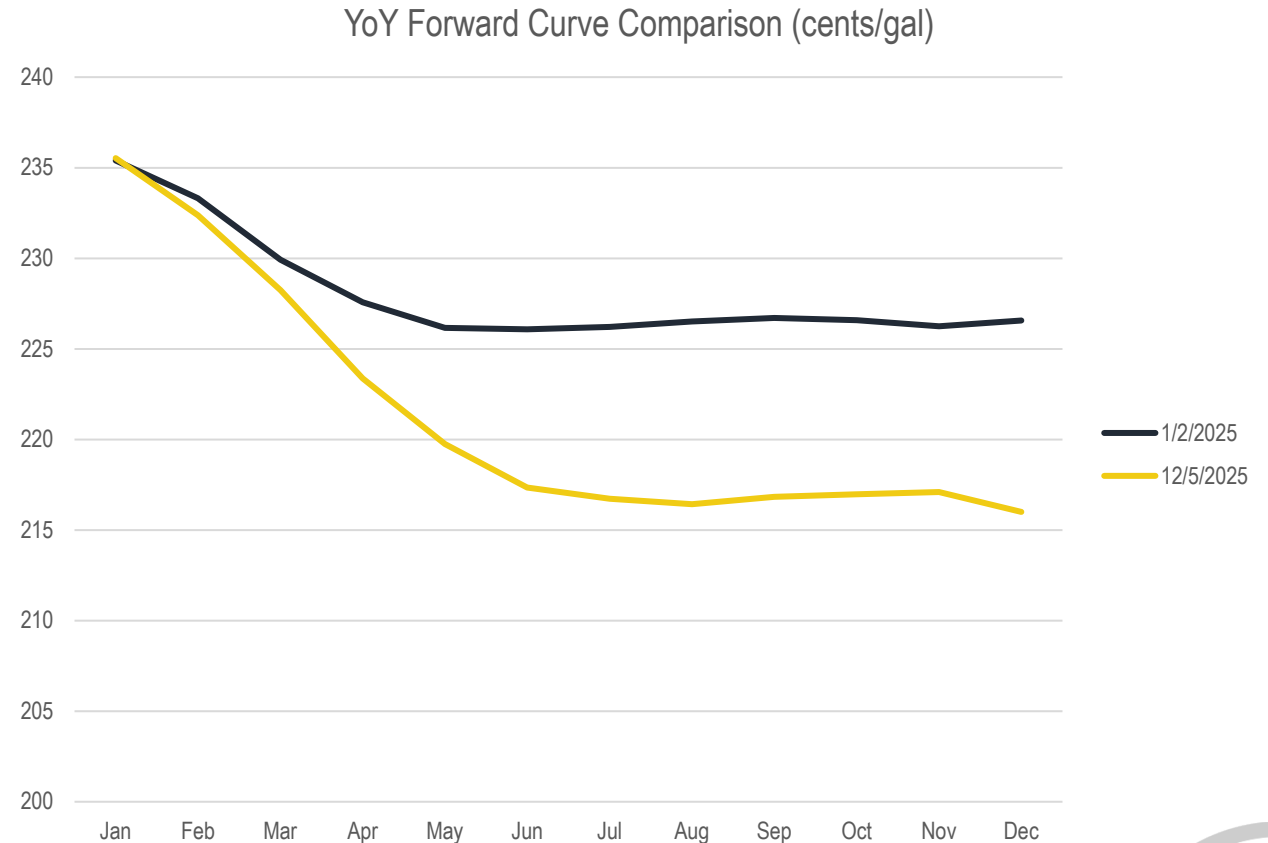
2026 Currently Priced Similar to 2025

- As expected, 2025 saw periodic spikes in volatility, with upside price bias.
- Supply chain disruptions caused physical tightness, keeping inventory from rising.
- Ongoing global conflict resulted in exaggerated reactions from financial players.
- Diesel, in particular, showed vulnerability because of limited alternatives to lost barrels (in contrast to crude, for which sanctions are easier to dodge).
- 2026 looks similar - diesel remains in focus.
- Diesel maintained its premium to oil, with heightened volatility in the relationship.
- Global conflicts unresolved, with political pressure rising creates competing risks (supply disruption in diesel v. supply return in crude).
- Supply chain realignment means fuel travels farther to premium destinations, limiting storage gains (higher volatility), and lifting prices.



ULSD Forward Curve – Steeper Downward Slope

- Diesel for January delivery is currently trading at \$2.35, nearly identical to the price at this time in 2025.
- Notably, forward prices are much more deeply discounted from those for immediate delivery this year, indicating participants interpret this as a tighter market.
- July trades at a >15-cents discount to January, compared to ~7 cents in December 2025.
- This encourages MBTA to exploit so-called “virtual storage.” In other words, hedging when forward prices are lower than current prices allows us to buy fuel on paper and lock in these lower values without acquiring the barrels and paying to store them.



Proposed FY27 Fuel Hedge

Recommendation

- Execute a forward-starting hedge so that the hedge and budgeted amount are determined at the same time.
- Based on historic usage and projected ridership, the MBTA is budgeting for approximately 21 million gallons in fuel purchases between its commuter rail and bus in FY27
- The MBTA is targeting a 50% hedge of its budgeted usage (10.5 million gallons). Unhedged the MBTA could be exposed to \$18.9 million in budgetary volatility based on expected volatility
- A 50% hedge would reduce potential budgetary volatility to \$9.45 million

Next Step

After MBTA receives board authorization, MBTA will enter into a competitive bid process run by Blue Lacy (MBTA's hedge advisor). The bank will be chosen based on price and the provider's credit rating.



Recommendation to Board

VOTED:

To recommend that the Board of Directors authorize either the Chief Financial Officer or Treasurer of the Massachusetts Bay Transportation Authority ("MBTA"):

- to enter into one or more hedges, with terms expiring no later than June 30, 2027, as determined to be necessary or appropriate, to hedge the MBTA's financial risks related to the price of diesel fuel, provided that such hedges shall be procured via competitive bid process; and
- to execute any and all documents, certificates and other instruments necessary or desirable to effectuate the transactions contemplated by the foregoing vote.

