

Commuter Rail Operations Revised Diesel Fuel Contract Award

Fiscal Management Control Board
Meeting

August 31, 2015

Gerard J. Polcari

Chief Procurement Officer

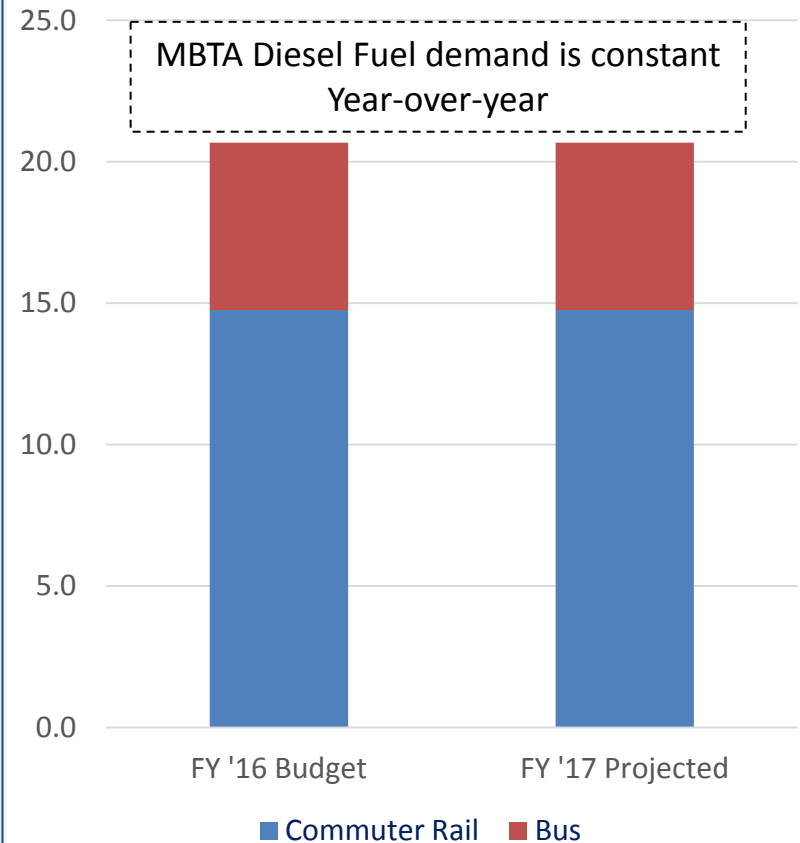


MBTA Diesel Fuel: Today's Issues

- FMCB Vote Request:**
 - Revised Diesel Fuel Contract Award to A.L. Prime, Inc. for Commuter Rail Operations
 - Effective September 1, 2015 – 2-Year Base Contract, plus Two 1-Year Options.

- FMCB Discussion & Direction on Diesel Fuel Hedging Strategy:**
 - Discussion on the current fuel hedging program and requesting direction on future hedging for FY'17 – Fraction of total purchases and length of term.

MBTA Diesel Fuel Projected Usage (million gallons)



Revised Commuter Rail Diesel Fuel Contract Award Recommendations



- Sprague Operating Resources was originally determined to be the lowest bidder due to clerical error**
 - After the Contract Award was announced, A.L. Prime filed a bid protest with the Chief Procurement Officer stating that Sprague's bid was based upon the index price for February 19th instead of February 20th, the date specified in the solicitation.
 - The Chief Procurement Officer verified that a clerical error was the cause of mispricing and A.L. Prime Corp Inc. is the lowest responsive and responsible bidder.
 - Protest resolved quickly within 24 hours
- Recommendation:**
 - The **FMCB authorize a contract with AL Prime Energy Inc.** to supply Diesel Fuel, subject to price in effect at the time of delivery
 - Total value not to exceed \$129,976,000, saving the MBTA \$360,500** over the Sprague revised bid of \$130,336,500.

Board vote required to award contract to A.L. Prime Energy



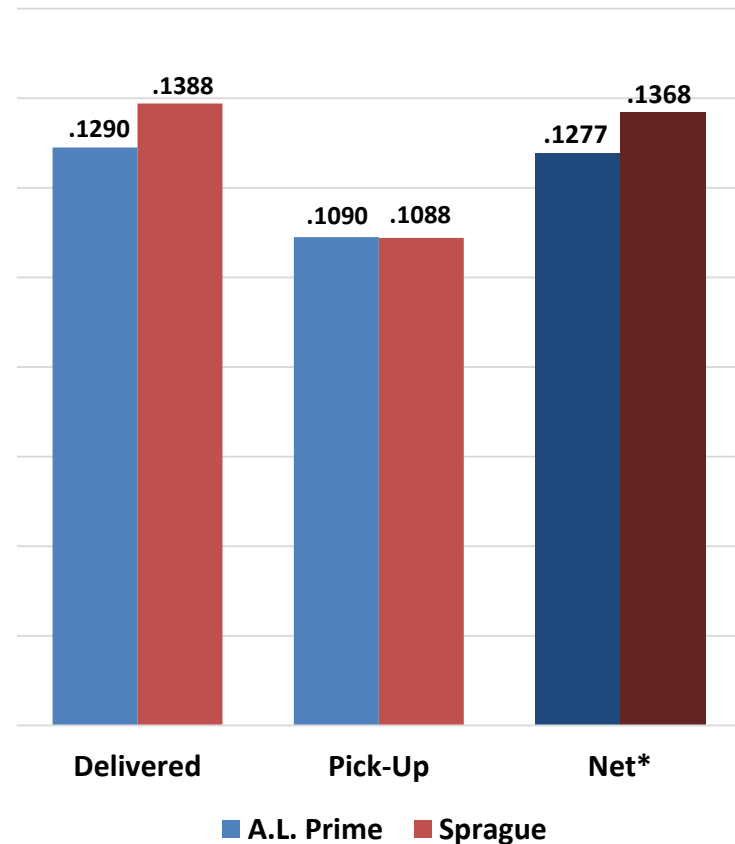
A.L. Prime Submitted the Low-Cost Bid

MBTA Diesel Fuel Contract Formula:

- Diesel Spot Price Plus Mark-Up Charged by Fuel Vendor drives price
- Daily spot price is fixed for all vendors
- Mark-ups vary depending on the bid and represent cost savings:
 - Delivered –14 million gallons
 - Pick-Up –1 million gallons

On a weighted basis, A.L. Prime is the lowest bidder representing a savings of \$360,500

Dollars Mark-Up Per Gallon



* Net Mark-Up assumes 14 million gallons Delivered (93.3%) and 1 million gallons Pick-Up (6.7%)



Board vote required

Fuel Hedging Discussion



Diesel Fuel Hedging Program Overview



- ❑ **Fuel Hedging** – Contractual tool the MBTA uses to reduce its exposure to volatile fuel costs. A fuel hedge contract established a fixed or capped cost, via a commodity swap or option.
- ❑ **Diesel Fuel Hedging** – In the FY’2016 Budget, we hedged 90% of the Diesel fuel that we anticipated to purchase (18.7M of 20.7M gallons), by competitively pricing out the fuel hedges to “counter-parties.”
- ❑ Diesel Fuel Hedging is anticipated **to save the MBTA \$3.59 million in FY’16** compared to the initial budget assumptions (\$2.80 per gallon).
- ❑ **FMCB Discussion:**
 - ❑ Should the MBTA increase the diesel fuel hedge based on the current “futures strip rate” of \$1.70/gallon for July ’16 – June ’17
 - ❑ **Current:** For FY’17 we are currently hedging 25% of our diesel fuel purchases (5.3M gallons @ \$2.09/gallon)
 - ❑ **Should we increase the fuel hedge percentage, which is projected to reduce our FY ’17 Diesel Fuel Budget?**
 - ❑ **For example, if we hedged 90% of diesel fuel purchases we could save \$14M (\$54M vs. \$40M in budget costs in FY’ 17)**



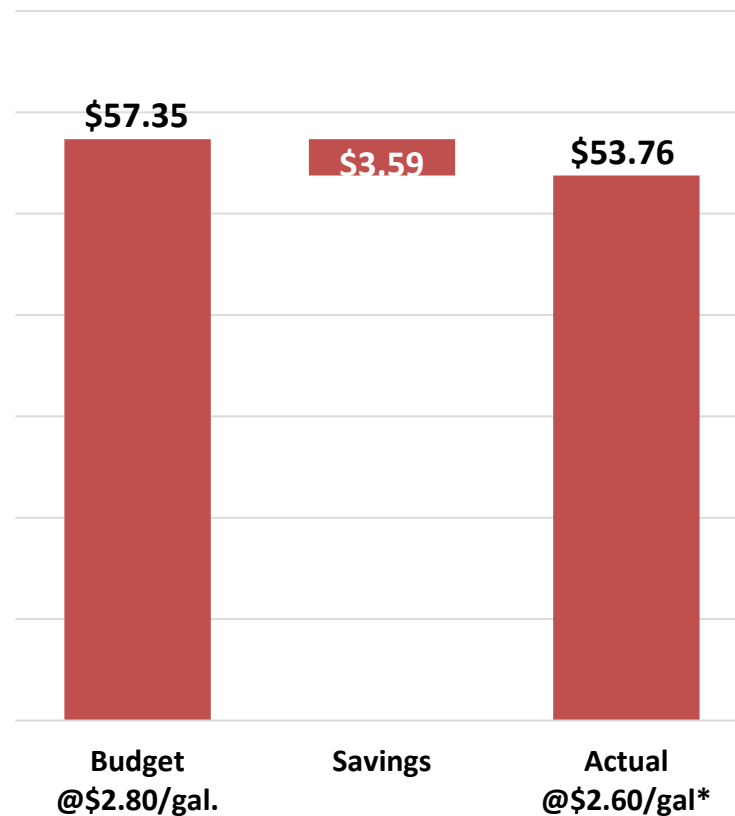
Diesel Fuel Costs for FY '16 Will Likely Be More Than 6% Below Budget.

MBTA Fuel Hedging Program:

- Objective: Obtain Stable Low Price for Diesel Fuel; Avoid Exposure to Price Increases.

- FY '16 Approach:**
 - Hedged Price: \$2.489/gallon (average).
 - Hedge 90% of Expected Volume
 - One-Year Hedging Term – Based on CFO and Board View of Medium-Term Price Volatility.
 - Hedge Divided between Four Underwriters 25/25/25/15.

FY '16 Diesel Cost (\$million)



**Actual price of \$2.60/gal. achieved by hedging 90% of diesel purchased at \$2.489 plus a mark-up approx. \$0.11/gal.*

Falling Diesel Prices Create Savings Opportunity and Risk

New York Harbor Ultra-Low Sulfur No 2 Diesel Spot Price

Dollars per Gallon



Hedged Commodities

Diesel Fuel

FY 2016 - 90% Hedged

FY 2017 - 25% Hedged

Compressed Natural Gas

FY2016 - 75% Hedged

FY2017 - 0% Hedged

Other Products

FY 2016 - 0% Hedged

FY2017 - 0% Hedged

Annual Requirements

Diesel Fuel	Gallons
Commuter Rail	14.8M
Bus	<u>5.9M</u>
Total	20.7M

Compressed Natural Gas	MBTUs
Bus	595.5K
Facilities	<u>196.3K</u>
Total	791.8K

	Gallons
Unleaded Gas - Bus	480.0K
#1/#2 Diesel - Bus	127.0K



Commodity Hedging - Swap Transactions



Massachusetts Bay Transportation Authority Outstanding Commodity Swap Transactions

	Provider	Total Notional Quantity	Effective Date	Termination Date	Fixed Price
Diesel Fuel	Bank of America – Merrill Lynch	5,240,678 Gallons	7/1/15	6/30/16	USD \$2.634 per Gallon
	Citi	5,240,678 Gallons	7/1/15	6/30/16	USD \$2.635 per Gallon
	Morgan Stanley	5,240,678 Gallons	7/1/15	6/30/16	USD \$2.485 per Gallon
	Citi	3,002,082 Gallons	7/1/15	6/30/16	USD \$1.990 per Gallon
	FY 2016 Total	18,724,082 Gallons	Average Fixed Price \$2.489		
	JP Morgan	5,251,523 Gallons	7/1/16	6/30/17	USD \$2.090 per Gallon
	FY 2017 Total	5,251,523 Gallons	Average Fixed Price \$2.090		
Gas	Citi	593,876 MMBTUs	7/1/15	6/30/16	USD \$3.475 per MMBTU
	FY2016 Total	593,876 MMBTUs	Average Fixed Price \$3.475		

