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Wholesale Fuel Toolkit: Pricing Tools & Hedging Strategies

SG Voices Webinar

July 17, 2025

Why Companies Hedge & How They Get Started

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Please see additional important information and qualifications at the end of this material.

POWERHOUSE
THE POWER OF PRICE PROTECTION

Hedging

- Risk management strategy used to limit the probability of loss from unknowable fluctuations in the price of a commodity
- The purpose of a hedge is to avoid the risk of adverse price movements impacting the bottom line
- The goal of hedging is to defend your profit margin against energy price volatility, and allow you to concentrate on growing your business

Hedging vs. Speculating with Futures

- Speculators:
  - Willingly take risk in exchange for the opportunity to profit
  - Transactions are unrelated to an underlying physical position
  - Profit or loss treated as investment income

- Hedgers:
  - Are trying to stabilize their revenues or cost
  - Have an offsetting physical position in their business; speculators do not
  - Attest in the account opening process that the account will be used for hedging.
  - Hedging gains or losses are part of cost of goods sold

Consult your tax and/or legal advisors before making any tax- or legal-related investment decisions

Why Do Companies Hedge

1. To help stabilize profit margins
2. To help protect the value of product in storage
3. To help protect the value of product in transit
   - Pipeline
   - Railcar
   - Barge
4. To help differentiate your business for the competition
   - Fixed price offerings to your customers
   - Capped price offerings your customers
5. To help keep company fuel costs within a budget
6. To take advantage of market opportunities
   - Carry markets (storage trade)
   - Regional differences in price (basis trade)

Location Matters in Fuel Pricing

You can buy at a better price HERE…

than you can HERE

The Short Futures Hedge

Used by:

1. Fuel wholesalers who have inventory stored in a tank

2. Fuel buyers who have locked in a fixed price with a physical fuel supplier

3. Fuel resellers who have bought fuel on an in-tank transfer deal from a supplier

4. Fuel buyers who have purchased fuel that is being shipped on a pipeline or railcar

5. Crude oil and natural gas producers

Futures Can Be Used To Fix a Sales Price and Offset Volatile Prices

Your Company buys diesel for storage (Short Hedge)

Aug 1st: Your Co. buys diesel for storage @ $2.35 per gallon
Your Co. sells ULSD futures @ $2.30 per gallon

Nov 1st: Slowing global economy – prices fall to $1.85
NYMEX prices at $1.80 per gallon – liquidate futures hedge

	Local Prices	Futures Position
Aug 1st	$2.35	-$2.30
Nov 1st	$1.85	+$1.80
Profit or Loss	-$0.50	+$0.50

Effective sales price (or value of inventory) $2.35 per gallon
$1.85 local rack + $0.50 futures profit (assumes zero basis change)

Futures Can Be Used To Fix a Sales Price and Offset Volatile Prices

Your Company buys diesel for storage (Short Hedge)

Aug 1st: Your Co. buys diesel for storage @ $2.35 per gallon
Your Co. sells ULSD futures @ $2.30 per gallon

Nov 1st: Bullish US economic growth – prices rise to $2.85
NYMEX prices at $2.80 per gallon – liquidate futures hedge

	Local Prices	Futures Position
Aug 1st	$2.35	-$2.30
Nov 1st	$2.85	+$2.80
Profit or Loss	+$0.50	-$0.50

Effective sales price (or value of inventory) $2.35 per gallon
$2.85 local rack - $0.50 futures loss (assumes zero basis change)

Example: Protecting In-Tank Transfer Barrels

STATEMENT DATE: APR 30, 2025

TRADE	SETTL	AT	BUY	SELL	CONTRACT DESCRIPTION	EX	TRADE PRICE	CC	DEBIT(DR)/CREDIT
3/28/5		F1		5	MAY 25 NYM NYHRBRULSD	07	224.45	US	
3/31/5		F1		2	MAY 25 NYM NYHRBRULSD	07	224.48	US	
3/31/5		F1		1	MAY 25 NYM NYHRBRULSD	07	227.36	US	
4/03/5		F1	1		MAY 25 NYM NYHRBRULSD	07	218.90	US	
4/08/5		F1	1		MAY 25 NYM NYHRBRULSD	07	205.70	US	
4/10/5		F1	1		MAY 25 NYM NYHRBRULSD	07	205.18	US	
4/14/5		F1	1		MAY 25 NYM NYHRBRULSD	07	209.17	US	
4/29/5		F1	2		MAY 25 NYM NYHRBRULSD	07	212.82	US	
4/29/5		F1	2		MAY 25 NYM NYHRBRULSD	07	215.50	US	
		F1	8*	8*	GROSS PROFIT/LOSS FROM TRADES			US	43,251.60

	US$-SEGREGATED(F1)	* CONVERTED TO USD *
BEGINNING BALANCE	138,722.80	138,722.80
GROSS PROFIT/LOSS FROM TRADES	43,251.60	43,251.60
NET PROFIT/LOSS FROM TRADES	43,251.60	43,251.60
ENDING BALANCE	181,974.40	181,974.40
TOTAL EQUITY	181,974.40	181,974.40
ACCOUNT VALUE AT MARKET	181,974.40	181,974.40
INITIAL MARGIN REQUIREMENT	.00	.00
MAINTENANCE MARGIN REQUIREMENT	.00	.00
EXCESS EQUITY	181,974.40	181,974.40

Example: Protecting Pipeline Barrels

STATEMENT DATE: MAY 30, 2025

* * * * * * * * * P U R C H A S E & S A L E * * * * * * * *

TRADE	SETTL	AT	BUY	SELL	CONTRACT DESCRIPTION	EX	TRADE PRICE	CC	DEBIT (DR)/CREDIT
5/15/5		F1		25	JUN 25 NYM NYHRBRULSD	07	216.60	US	
5/23/5		F1	2		JUN 25 NYM NYHRBRULSD	07	210.48	US	
5/27/5		F1	1		JUN 25 NYM NYHRBRULSD	07	207.94	US	
5/29/5		F1	22		JUN 25 NYM NYHRBRULSD	07	204.82	US	
		F1	25*	25*	GROSS PROFIT/LOSS FROM TRADES			US	117,625.20
4/21/5		F1		21	JUN 25 NYM RBOB GAS	07	205.56	US	
4/22/5		F1		14	JUN 25 NYM RBOB GAS	07	209.08	US	
4/23/5		F1		10	JUN 25 NYM RBOB GAS	07	207.43	US	
4/24/5		F1		9	JUN 25 NYM RBOB GAS	07	209.63	US	
4/25/5		F1	16		JUN 25 NYM RBOB GAS	07	210.72	US	
4/28/5		F1	7		JUN 25 NYM RBOB GAS	07	209.38	US	
4/29/5		F1		3	JUN 25 NYM RBOB GAS	07	205.70	US	
4/30/5		F1		18	JUN 25 NYM RBOB GAS	07	201.77	US	
5/01/5		F1		14	JUN 25 NYM RBOB GAS	07	204.92	US	
5/02/5		F1	7		JUN 25 NYM RBOB GAS	07	201.99	US	
5/05/5		F1		9	JUN 25 NYM RBOB GAS	07	202.28	US	
5/06/5		F1	15		JUN 25 NYM RBOB GAS	07	206.45	US	
5/07/5		F1		3	JUN 25 NYM RBOB GAS	07	202.78	US	
5/08/5		F1		5	JUN 25 NYM RBOB GAS	07	208.54	US	
5/09/5		F1		3	JUN 25 NYM RBOB GAS	07	210.84	US	
5/12/5		F1	12		JUN 25 NYM RBOB GAS	07	212.62	US	
5/12/5		F1		9	JUN 25 NYM RBOB GAS	07	213.31	US	
5/13/5		F1	10		JUN 25 NYM RBOB GAS	07	216.60	US	
5/14/5		F1	16		JUN 25 NYM RBOB GAS	07	217.00	US	
5/15/5		F1		8	JUN 25 NYM RBOB GAS	07	213.44	US	
5/16/5		F1	4		JUN 25 NYM RBOB GAS	07	214.18	US	
5/19/5		F1	1		JUN 25 NYM RBOB GAS	07	212.62	US	
5/19/5		F1	3		JUN 25 NYM RBOB GAS	07	212.64	US	
5/19/5		F1	1		JUN 25 NYM RBOB GAS	07	212.68	US	
5/19/5		F1	25		JUN 25 NYM RBOB GAS	07	212.70	US	
5/19/5		F1		14	JUN 25 NYM RBOB GAS	07	213.88	US	
5/20/5		F1	3		JUN 25 NYM RBOB GAS	07	215.21	US	
5/21/5		F1	20		JUN 25 NYM RBOB GAS	07	214.98	US	
		F1	140*	140*	GROSS PROFIT/LOSS FROM TRADES			US	282,059.40DR

How Does My Company Start a Hedging Program?

1. Company commits to principle of managing price risk regularly and routinely

   - be ahead of the market, not reacting to it

2. Establish a hedging policy

   – a hedging policy helps to ensure that top management and the company's board of directors are aware of the hedging activities used by the corporation's risk managers

   – the hedging policy establishes the risk management framework and defines procedures and controls for the effective management of hedging activities

What's Typically Included in a Hedging Policy

- Sources of Risk
- Risk Management Objectives
- Oversight
  - Risk Management Committee
- Risk Measurement and Limits
  - Hedging Instruments
  - Position Limits
  - Trading Authorizations
- Hedging Approach
  - Limits on Speculative Activities
  - Execution
- Documentation and Confirmation

How Does My Company Start a Hedging Program?

3. Identify a competent broker

4. Establish a futures account
   – board approval required
   – designate individual(s) responsible for hedging

5. Identify a price risk or opportunity to start
   – start with a pilot program
   – the best way to learn is to do it

6. Hedge committee meets routinely to review strategies

7. On-going education: Management must understand the instruments and objectives of hedging

Remember...

There are two sides to every hedged position:

1. Physical (Cash) position (short or long)
2. Hedge position (long or short)

The NET RESULT determines the outcome of the hedge

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