OPIS
By IHS Markit

Fuel Buying 101

Your resource for navigating the gasoline & diesel fuel price influence chain

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Introduction

Buying fuel is confusing even for seasoned pros.

The petroleum market features a slew of specialized fuel blends and no one-size-fits all requirement for what you can use – or where or when you can use it.

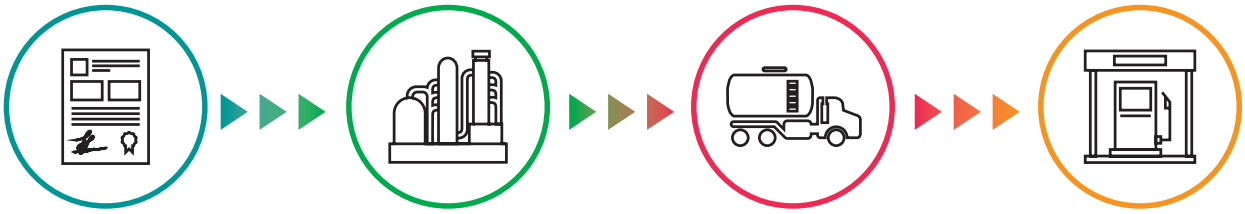
Whether you are new to the fuel industry or have been around for a while, the words "spot," "rack" and especially "basis" are terms that confuse even the most veteran buyer. There's a good chance you or someone on your team may not be 100% sure what these words mean.

Chances are you already have a fuel contract with a supplier in place. Maybe you are looking to set one up or modify one that already exists. Without a firm handle on the difference between futures, spot, rack and retail markets, there's a good possibility that you:

- Are unaware what the "cost basis" is in your fuel agreement
- Are not purchasing the right fuel for your area or are paying too much for the fuel you buy
- Don't understand what factors are making your fuel costs go up and down

Let's clear up some confusion with a basic guide to pricing gasoline and diesel. Much of what you will learn here also applies to jet fuel, LPG and renewables.

Fuel Price Influence Chain



NYMEX
Paper market, influenced by big-scale regional and international factors.

SPOT MARKET
Physical market, high volume, located at refinery hubs. Reacts to NYMEX and regional supply news.

RACK MARKET
Smaller volume market, often located off a pipeline. Follows spot market direction, changing at 6pm each day.

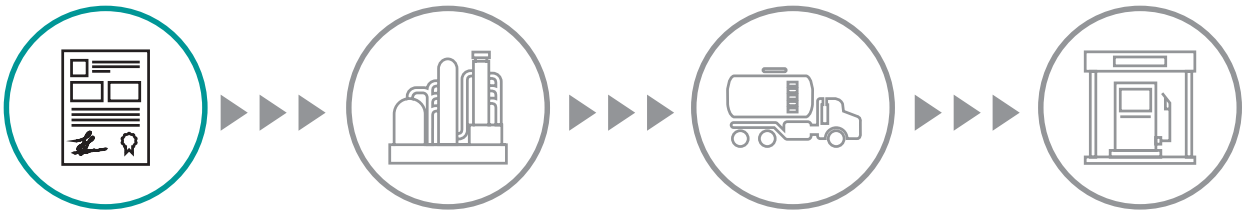
RETAIL MARKET
Street price for gasoline and diesel. Follows rack pricing, though reaction time is usually two/three days later.

The price of gasoline and diesel that a consumer pays at the street level is determined by moves a little further upstream in futures, spot and rack fuel markets. These markets influence each other to culminate in the price you pay at the pump. By the time you have finished reading this guide, you will understand each one of those markets.

Part 1: Futures & Spot Markets

Getting to Know the Futures Market

Before you can understand spot and rack prices, you need to understand the first piece in the downstream fuel puzzle: The New York Mercantile Exchange.



NYMEX
Paper market, influenced by big-scale regional and international factors.

The industry commonly refers to this as the NYMEX or the **"Merc."** Sometimes it is called **"the futures market"** or **"the print."**

It's a mostly electronic platform exchange, on which buyers and sellers can trade various fuel commodities – on paper – any time from a month from now to 18 months in the future. That's why it's called a **"futures"** market.

They call it a **"paper"** market because few, if any, physical barrels ever change hands. Trade volume is made up of contracts that transact among players.

From here on out, to reduce any further confusion, we'll refer to it as the NYMEX. The NYMEX is possibly the most influential factor in the upward/downward movement of wholesale rack markets. Oil futures affect spot markets, then rack markets, then ultimately retail markets.

The first energy contract was launched in 1978. Since then, NYMEX has launched contracts for:

- Crude oil (CL)
- Natural gas (NG)
- Ultra-low-sulfur diesel (HO)
- Reformulated blendstock for oxygenate blending, RBOB (RB, a blendstock that takes the place of a gasoline contract)

These abbreviations are what you'll see on the trading screen, so add them to your alphabet soup full of acronyms to memorize.

What Does This Mean for My Fuel Operation?

One Word: Transparency.

The NYMEX really took off as a major factor in the U.S. petroleum market back in the 1980s because it was the only place refiners, suppliers, traders, jobbers, retailers and procurement end-users had full access to see the value of a commodity at any given time.

The transparency was generally not for real barrels of crude oil that you could turn into gasoline. Remember, this is mostly a paper market – physical delivery only occurs for 2% to 3% of all contracts on the current NYMEX. But, at that time, unlike today, there was no downstream price discovery.

So, the futures market became a place where fuel buyers or sellers could go to find a cost basis for fuel supply agreements. This is why, when we talk about the NYMEX, we start to introduce the concept of "basis." More on that later…

Since the 80s, price transparency has extended to the spot market (the refinery level) and rack market (the wholesale level). We'll dive deeper into those markets in the sections that follow. But, that clear level of transparency has always remained on the NYMEX.

In addition, the exchange is regulated by the CFTC (Commodity Futures Trading Commission), adding a level of accountability to every 1,000-barrel, or 42,000-gallon, contract traded.

There are two other key elements about the futures market:

First, the trades are anonymous.

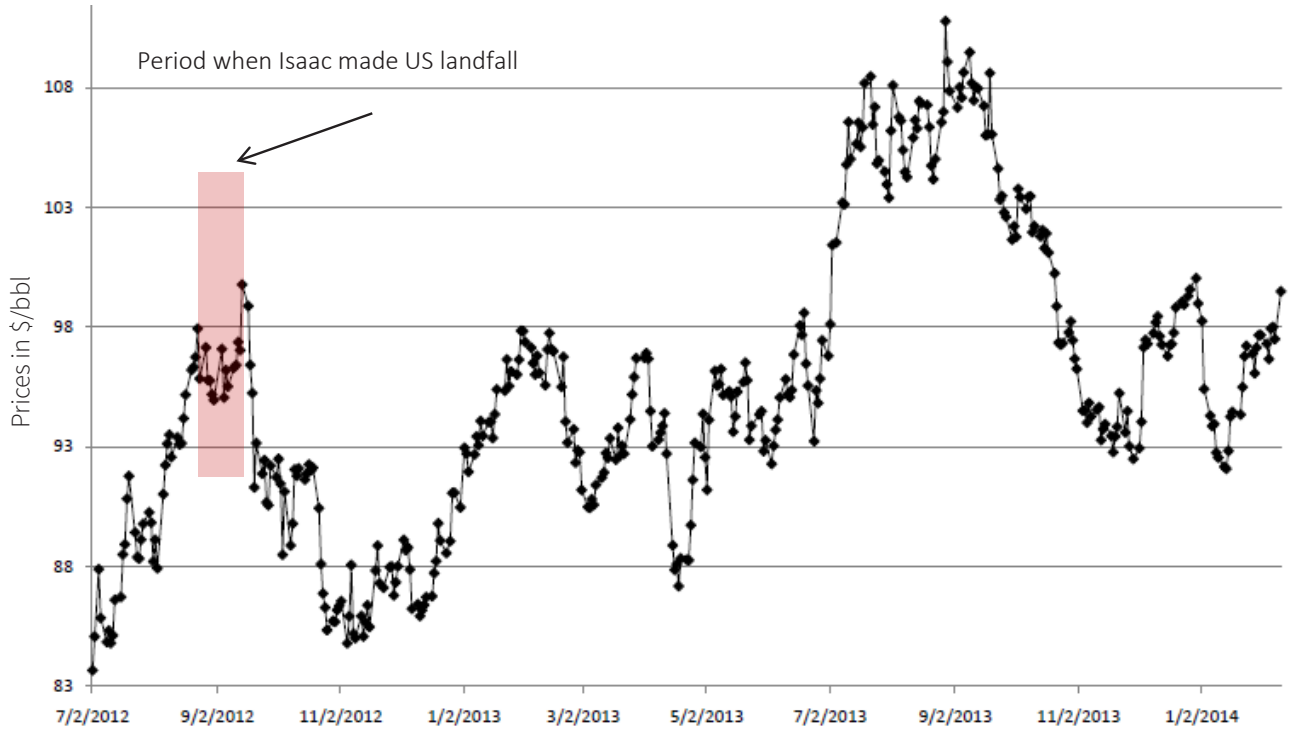
Second – and most importantly – the exchange guarantees counterparty performance. No chance of an Enron-like implosion here.

The paper market is used to hedge physical fuel purchases – kind of like insurance for prices rising or falling, to protect the companies holding contracts from losses related to their physical energy business. But, for our purposes right now, the critical point is that it is the primary building block of downstream gasoline and diesel pricing.

However, the Block Is Rarely Stable

Military conflicts, hurricanes, domestic refinery problems, fluctuations in domestic output abound. Often, the first trace of any breaking news is seen on the futures screen, because oil prices spike and dive.

Take a look at the chart below to see how Hurricane Issac sent futures flying and how the market volatility continued.



The NYMEX tends to react to big-ticket items, like:

- Currency market moves
- Geopolitical “saber rattling”
- OPEC decisions
- Supply reports, like the weekly U.S. inventory and production figures
- Refinery explosions
- Weather events

Sometimes the market **"prices in"** so-called fundamental factors. For example, if the U.S. government is expected to show crude stock supplies falling by a large amount, the market might slowly crawl higher in advance of the weekly inventory report as opposed to rallying sharply when expectations prove true. On the other hand, a quickly developing weather event can lead to immediate price swings.

And the market also responds to seasonal trends. For example, the RBOB market tends to peak ahead of summer driving season. The ULSD contract (a proxy for heating oil) will often spike on the first chilly fall day.

Some terminology you will hear when people talk about the market:

- **Bullish** – the market is rising
- **Bearish** – the market is weakening
- **Oversold** – the market is rising
- **Overbought** – the market is weakening

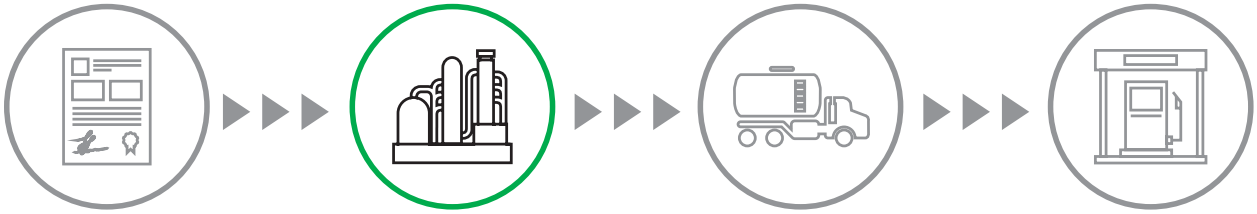
But, What Does This Mean in a Market That Trades ACTUAL Barrels?

The NYMEX is the first column in your price equation. If RBOB futures go higher, it will send gasoline prices up right through the fuel chain – unless the next link in the chain does something to counteract it.

Next, we'll look closer at how the spot market reacts to the NYMEX and go into spot basis in greater detail.

The Spot Fuel Market

Spot fuel markets are where gasoline, diesel, jet fuel and other commodities get a physical price tag.



SPOT MARKET

Physical market, high volume, located at refinery hubs. Reacts to NYMEX and regional supply news.

Spot purchases refer to fuel that is physically traded either on a pipeline or on the water (via barge or cargo). We call it **spot** because you negotiate for the fuel **"on the spot."**

Unlike the NYMEX, physical product literally changes hands in this market. Refiner X sells diesel to end-user Y to put into a tank at location Z.

Spot deals are always done in bulk. That's the essence of what makes it the spot market. No truck and trailer quantities here!

Here's an idea of scope:

Pipeline deals are a minimum of 5,000 barrels (210,000 gallons) up to 50,000 barrels (2.1 million gallons).

U.S. Spot Markets

These markets are in specific refinery hubs and it's important to know which one best corresponds to your particular local wholesale market. There are seven major U.S. spot markets. *See map on previous page.*

Who Buys and Sells?

- **Refiners** produce fuel and may need to buy because they don't have enough or sell because they have too much.
- **Traders** are speculators. They bet that the market is going up or down and take very large physical positions based on those bets.
- **Brokers** match a buyer to a seller and collect a commission. Brokers never touch the fuel.
- **End-Users** can be fleets, truckstops or jobbers who want to supplement their rack purchases with spot purchases. However, an end-user would have to be able to trade sufficient volume on the pipeline and have enough storage to take a spot-sized fuel shipment.

How Is It Priced?

Now, if you were to call up the trading desk of a Gulf Coast refiner (or more likely you would get them over instant message) and ask them what they were selling spot gasoline for, they won't say, **"I'll sell it to you for $1.50 per gallon."**

They will say instead, **"I'll sell it to you for 15 cents under."**

Wait. 15 cents under what??

Introducing Spot "Basis"

Spot basis is the relationship between the paper NYMEX market and the physical spot market.

Remember the number line your third-grade teacher taped to the top of your desk?

Imagine that the current-month, sometimes called spot-month, RBOB gasoline blendstock is trading on the NYMEX at $1.65/gal. Circle that on your number line.

Our Gulf Coast refiner said they were selling spot for 15 cents under. Traders are busy. They don't have time to say **"15 cents under NYMEX RBOB."** But that's what they mean.

That minus 15cts is what you are negotiating against the NYMEX price. We also call this a **"differential,"** or a **"diff."**

Spot basis is the relationship between a commodity on the NYMEX and the corresponding commodity in the physical, bulk market.

Sometimes it's a plus, sometimes a minus. Occasionally it's even **"flat"** to futures. The differentials go up, or down depending upon what's happening in the U.S. and all over the world.

So, count back 15 cents from your $1.65/gal circle on your number line and you get the spot price of mogas in the Gulf Coast: $1.50/gal.

Every major U.S. refined products market adheres back in some way to a product on the NYMEX, with basis forming the glue between them. Distillates, like diesels and jet fuel, tie back to ULSD while finished gasoline and blendstocks tie back to RBOB.

Pretty Easy, Right?

Not always...

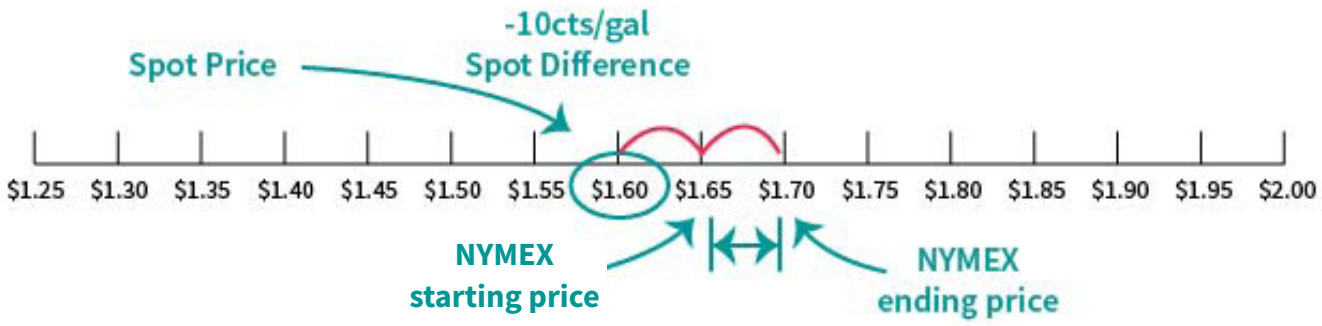
Remember that NYMEX futures don't just sit still. They react to various forces in the market, such as a labor strike in Venezuela. Those forces can swing that circled value on the number line up and down.

But the relationship between futures and physical fluctuates, too. A refinery turnaround in the Los Angeles market can widen CARBOB premiums to the NYMEX and send local spot prices flying in excess of what NYMEX is doing.

On the other hand, prolonged rain in, for example, the Chicago spot market, doesn't just dampen spirits – it dampens local driver demand. That can lead to differentials weakening in relationship to the NYMEX and skew the cash side of the eqation down.

So, sometimes the NYMEX can be up 10cts on the day, but a particularly bullish bulk given spot market volatility that is separate from futures, could outpace it – gaining by, say, 20cts.

Or, if the NYMEX is up by 5cts, but local differentials drop by 10cts, the NYMEX will show gains while spot posts a loss, as indicated in the number line below. This is often referred to as **"market dislocation."**



Bottom Line:

You can't rely on the futures market to tell you the whole story of what is going on with physical prices. You need to track the spot fuel markets.

On top of this, the NYMEX trades all day, settling at around 2:30 p.m. Eastern Time. The spot arena also sees deals all day long.

Price reporting agencies (PRAs) – OPIS being one of them – spend a lot of time and effort tracking spot markets to make sense of the constant push and pull between futures and physical trading. For example, a typical PRA takes the NYMEX 2:30 p.m. settlement price and applies the day's spot differentials to it to create a price **"range."** The middle price of that range is the spot average, which is used to set industry supply contracts.

Whichever PRA you look at, it's critical to find a price service that keeps tabs on the peculiarities of each market – things like spec requirements and seasonal fuel slate changes, as these factors become even more key the further downstream we look.

The Trend Is Your Friend

As we've learned, futures and spot prices are reactive creatures.

NYMEX crude oil, gasoline and distillate contracts rise and fall based on any number of factors, from geopolitics to seasonal fluctuations to shifting fundamentals.

The spot market generally reacts to what the NYMEX does. But, it also responds to its own set of forces, with weather events, refinery outages and infrastructure upsets factoring heavily.

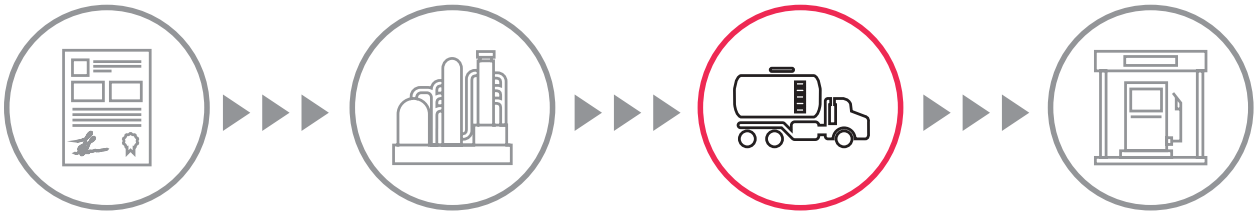
Keep an eye on futures pricing. Price spikes rarely occur in a vacuum. Arm yourself with the right tools that will provide visibility to the ups and downs of the NYMEX, so that local price changes don't surprise you. Use that foresight to make, and change, your fuel buying decisions and strategies. The trend is your friend.

That same insightfulness should be applied to your view of spot prices. As we will learn in the next section, the price influence chain extends from the refinery to the wholesale price level. The fuel buyer that can see what is going on at the NYMEX and then take the temperature of the spot market will be able to predict price increases or decreases that will impact his or her loads.

Keep in mind that markets can be unpredictable at times and may leave you scratching your head. But a general understanding of the markets, and the trends that drive them, can give you that extra edge over your competitors and set your fuel-buying operation on higher ground.

Part 2: Wholesale Rack Markets

Once fuel leaves the refinery gate, the next step in the price chain is the wholesale rack. Spot prices have direct impact on rack prices.



RACK MARKET

Smaller volume market, often located off a pipeline. Follows spot market direction, changing at 6pm each day.

A rack is a fuel distribution point – usually along a pipeline – where fuel is supplied.

We call it a "rack," because trucks pull up to an actual loading rack to receive fuel from their fuel suppliers. There are approximately 400 racks in the United States – 220 or so are on pipelines and the rest are not.

Unlike spot transactions, which, as we noted, are high volume, these are typically **"truck and trailer"** quantity, or approximately 8,000 gallons.

A typical rack

Who Pulls Fuel from a Rack?

- Jobbers *(or distributors, companies who resell fuel, for whom fuel is a revenue center)*
- Retailers
- End users

Some of these customers own their own trucks to transport the fuel or they may hire common carriers to do it for them. They either take the fuel to their own bulk storage facility or to their own retail outlets.

How Spot Prices Affect Rack Prices

Imagine you are a refiner. You produce gasoline at your facility and then put it into a pipeline to send **"downstream,"** where wholesalers, jobbers and end users buy it at a wholesale rack.

Now, imagine you have a fire at your refinery that causes you to make less gasoline. How do you make up the difference? Remember, you, as the refiner, have fuel contracts with your customers, who are retailers or large end users, that you must honor. So, you're in a real pickle – you need to make up lost production.

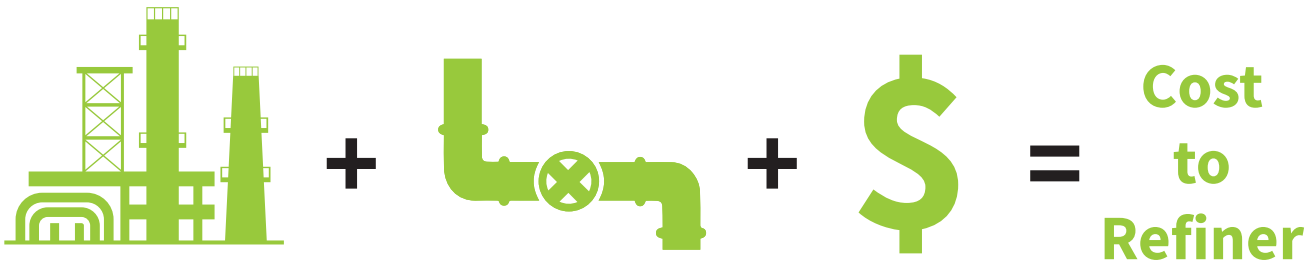
You must go out and replace those barrels through purchases in the spot market.

Refiners view spot barrels as **"replacement barrels."** They view spot prices (remember, NYMEX +/- differential = price) as **"spot replacement costs"** – what it would cost them on any given day if they had to go into the market to buy lost supply.

A refiner's calculated spot replacement cost changes every day based on the movement of the NYMEX and the corresponding movement in the spot market. They track that fluctuating cost throughout the day – every day.

Refiners increase or decrease their daily rack costs based on the average daily change in their spot replacement cost. That's why rack prices move up and down!

Spot-to-Rack Economics



Spot Price

Cost to send fuel from refinery to rack

Extra fees

A spot price increase or decrease day-to-day changes that equation AND impacts the refiner price at the rack.

An Example of Spot-to-Rack Pricing in Action

Atlanta is served by the Gulf Coast spot market.

Let's say today's average spot price (remember, NYMEX +/- differential = price) for Gulf Coast ultra-low-sulfur diesel is $1.58/gal ($1.58 + $.0325 + $.0125).

To get the diesel from the Gulf Coast to Atlanta costs a shipper approximately $.0325/gal. Various other charges amount to $.0125/gal. That means that the refiner's total cost to get the diesel from their refinery to the Atlanta rack is $1.625/gal.

Now, let's say a day later the cost at the Gulf Coast rises from $1.58/gal to $1.63/gal – a 5ct/gal jump. Using the same math as we did above, the "spot replacement" cost jumped from $1.625/gal yesterday to $1.675 today.

You can bet that refiners (who look at the spot market all day) are not going to **"eat"** those 5cts/gal. They are going to raise their rack prices by some, or all of it, to absorb the change in their market cost. That increase is going to take effect sometime around 6 p.m. local time at the corresponding rack.

So, Can I Do This Math for EVERY Rack in the United States?

No.

Approximately 220 racks link back directly to one of the seven U.S. spot markets.

Rack markets such as Salt Lake City, Boise, Cheyenne, as well as locations in Kentucky and Tennessee, do not tie cleanly to a spot market, because they don't sit directly on a pipeline.

These markets have their own unique economics that refiners consider when adjusting rack prices. Fuel must be moved via alternate methods (trucking, water) from one rack to another.

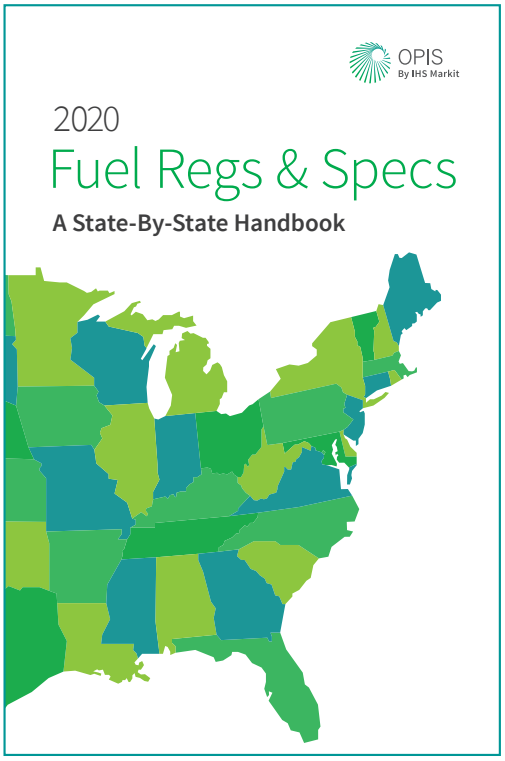
Some markets (like Baltimore) can even be tied to two different spot markets.

But refiners chart most racks back to one of the seven spot markets, using that simple **"spot + freight + other"** equation.

5 More Things to Remember About Racks

1. The only charges included in a rack price are the charges that are incurred transporting the fuel from the refinery to the distribution rack.
2. Rack prices do not include taxes or freight charges to carry the fuel from the rack to the retail station.
3. The products sold at the rack include most grades of gasoline, distillate, biodiesel, pure ethanol and, in some cases, jet fuel.
4. Propane is sold at racks that are different from refined products. And ...
5. Most importantly, there is no such thing as **“just gasoline”** or **“just diesel.”**

Let's Talk About Specs



Imagine walking into a Baskin Robbins and just asking for **"ice cream."** The server will look at you like you're nuts. What kind of ice cream?

It's the same deal with fuel – there are now **"31 Flavors"** of fuel sold at the rack. Fuels vary depending upon the rack and what fuels are mandated in that state or county.

For example, many parts of the United States have been deemed particularly high in pollutants – those areas are deemed **"non-attainment"** and are required by the EPA to have **"reformulated gasoline."** That's a special flavor.

Spot replacement costs vary depending on the fuel. So, to truly anticipate rack price changes accurately, it's critical to know which fuel is required in your market, so you know what spot market to keep an eye on.

Having a fuel spec book is critical, especially if you buy or sell fuel in multiple geographic areas. That's because fuel is not **"fungible,"** meaning there's little or no interchangeability in the market. For example, the **OPIS Fuel Regs & Specs Handbook** is updated every year and can give you the full picture of what's required in each region. That can help you stay compliant and make sure you are referencing the proper fuel in your contract.

Rack Market Wrap Up

There are about 400 racks in the United States, where jobbers, retailers and end users pull truck-sized fuel volume to take to storage facilities or retail outlets.

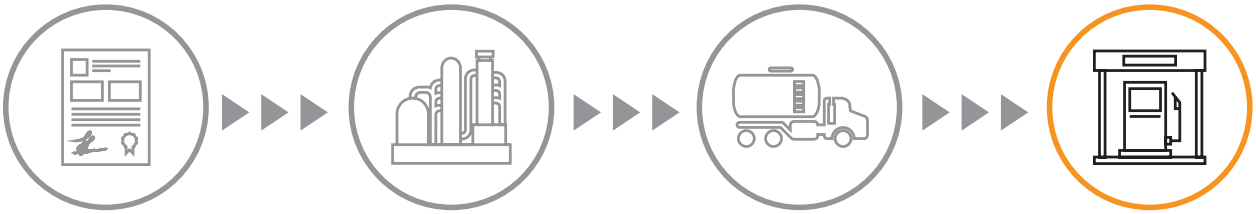
Price changes, which go into effect at 6 p.m. each day, are based on **"spot replacement costs,"** meaning spot + freight + other costs.

It's critical to know what type of fuel is required in your region, so you know what spot prices to track – not to mention making sure you are pulling the right fuel at the rack.

That means you need to stay on top of what's required in your area. Remember: not referring to the right fuel can cause nightmares for anyone trying to be compliant or trying to verify the prices they are being charged are correct.

But, it is also critical to have a consistent and reliable feed of rack pricing data and to remember the factors that influence price changes, from futures to spots to racks, so you are not caught off guard.

Part 3: Retail Markets



RETAIL MARKET

Street price for gasoline and diesel. Follows rack pricing, though reaction time is usually two/three days later.

The retail portion of the fuel chain is the most visible to the public and likely the most complex to navigate.

In the last section, we talked about wholesale racks, where fuel resellers, retailers and end users pick up fuel in **"truck and trailer"** quantities at one of roughly 400 terminals in the U.S.

Aside from some other ancillary shipping-related charges, there's no tax included in a rack price and, up until this point, we have not considered the cost to get the fuel from the rack to the station. That changes once we get to the retail price level.

Who Comes Up with Retail Gasoline Prices?

If you ask the average person who sets the price of gasoline at their local station, they might tell you that the station owner slaps the price tag on the pump – while shaking their head at how much their fuel bill eats into their monthly budget.

But that's not really the case.

The most common way retail fuel is priced is by tying the gasoline station to a rack.

You then take the rack price and add in all federal, state and local taxes PLUS the cost to transport the fuel from the rack to the actual retail site.

That final number is a laid-in retail cost. The goal of the retailer couldn't be simpler: price the fuel above the total laid-in cost.

On top of that, most retailers will, indeed, add in their own **"margin,"** which is what they estimate their own profit to be. That margin is their lifeblood. But, based on what we covered above, most of the price at the pump is not dictated by the station owner.

Competition on the Street

Remember how we said earlier that spot and rack prices often change daily? That's not the case with retail.

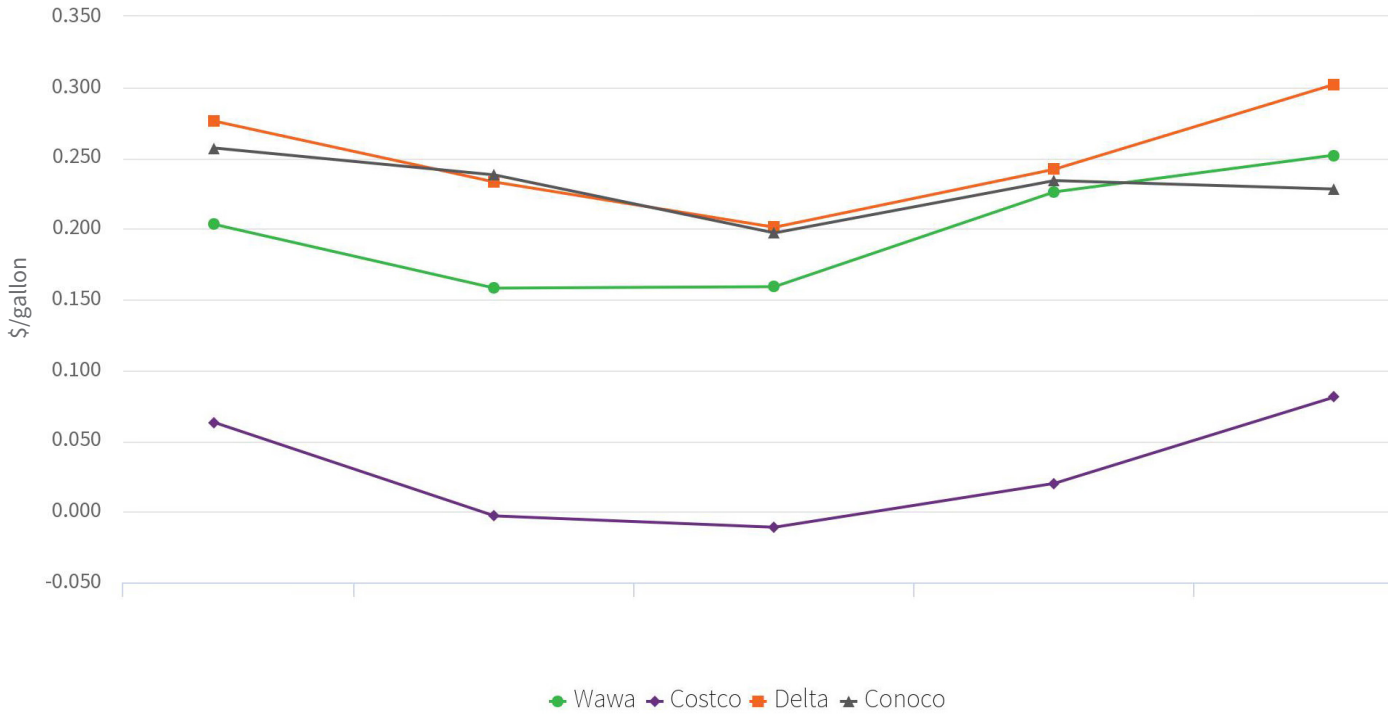
The retailer always must be mindful of what his competition is charging, especially if he or she is competing against a **"hypermarketer."**

What's that?

A hypermarketer is someone like a Wawa, or a Costco, who sells fuel to get the customer into the big-box store to buy items other than gasoline. Many times, those hypermarketers give up their margin for the sake of increased inside sales.

As you can see, competition is fierce and owners need to be aware of what their competitors are charging, so they can attract repeat business and sell more fuel.

Margin Snapshot Over One Month in the Philadelphia MSA (OPIS MarginPro)



Does Brand Matter Anymore?

Two decades ago, most U.S. gasoline stations were branded to a major flag – like Exxon, Mobil, Chevron, Shell or Texaco. Chances are, you probably even had a brand-specific gas card.

But, in just the past 15 years, the retail marketplace transformed. That gas card is probably long gone from your wallet, replaced by Visa, AMEX and debit cards. And that's just one of many changes…

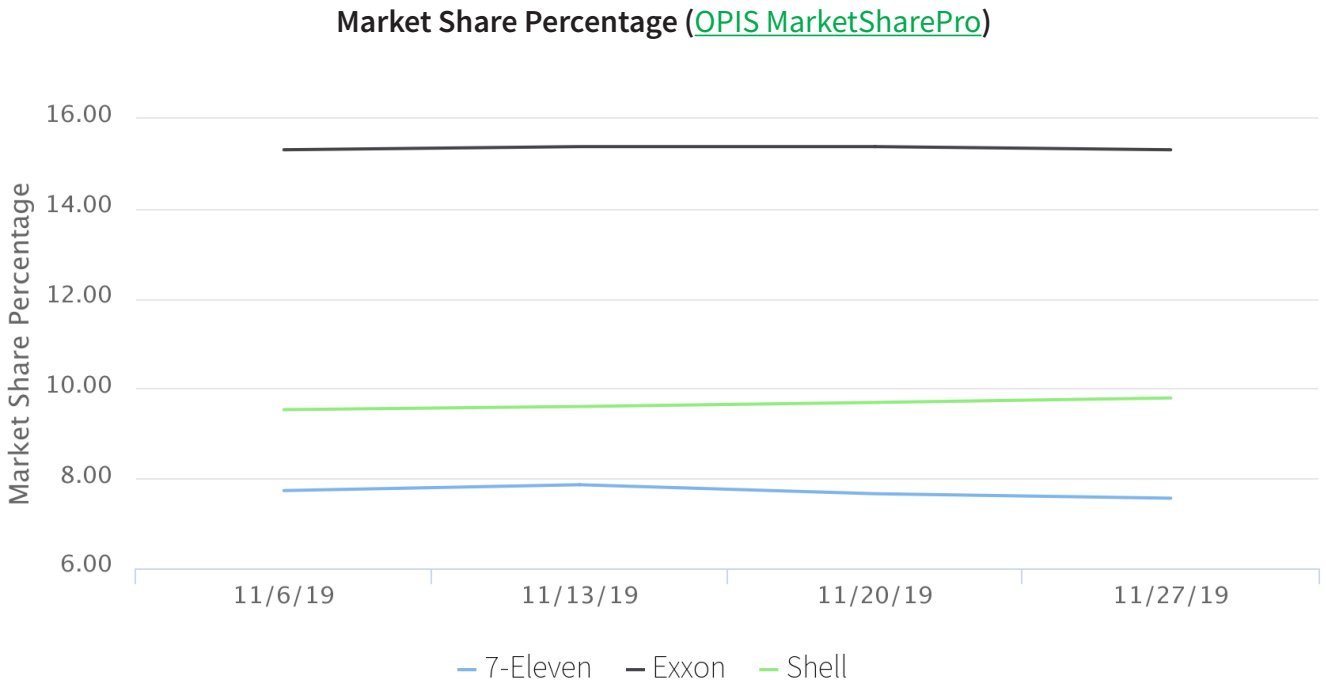
The majors consolidated among each other to create larger conglomerates, a.k.a. **"Super Oil Companies."**

A huge portion of the gasoline stations that used to be owned by popular fuel brands got sold off. The playing field got a lot smaller – and much more competitive.

Adding to the competitive landscape are those hypermarketers we just talked about. Wawa, Costco, WalMart, Sam's Club, Safeway and BJ's Wholesale started selling fuel.

Also, we can't forget that the majors have decided that they don't love owning the **"real estate."** They don't want the headache of operating service stations – staffing and maintaining them. They'd rather focus on supplying fuel through their branded distributors or focusing more time on oil exploration. As a result, huge chunks of the 140,000+ stations in the U.S. have been sold off in the last several years.

Here's a recent snapshot of what major brands had the most market share in the city of Baltimore:



So, who are retail sellers these days? Believe it or not, it's not as simple as you would think. Here is our breakdown of the retail fuel landscape:

The Company-Operated Station

Who Are They?

Owned and operated by a major refiner, there are just over 400 major-owned company-run stations left in the U.S. Like we said before, this is becoming a dying breed as majors focus on other areas of their business.

In the case of the "company-op," the refiner owns the land, pumps and any above-ground structures (such as a carwash or convenience stores). The oil company hires the staff to run the retail site.

How Do They Buy Their Fuel?

The refiner supplies the station directly via its own delivery network and the prices the station charges are set exclusively by the company. This is what is commonly known as a dealer tank wagon or DTW price. The price is usually tied back to a rack and includes delivery, since the major delivers the fuel itself.

The Lessee Dealer

Who Are They?

A lessee dealer does not actually own the real estate or the equipment. They lease or rent the space and absorb the costs of operating the station.

Usually – but not always – the lessee dealer gets into the brand relationship via a branded distributor, what is known in the business as a branded jobber. Essentially, the lessee dealer leases the real estate and, through the jobber, pays a fee back to use the brand name. They are usually locked into long-term contracts with the branded jobber and, by default, with the major oil company.

How Do They Buy Their Fuel?

The lessee dealer typically buys fuel directly from the major via the branded jobber. The price they pay is still the same basic formula: rack price + transportation to deliver into the station.

Here's a big advantage for these guys – the lessee dealers often receive benefits from their major in the form of rebates and incentives – especially in markets that feature tight margins and stiff competition. These benefits often come in the form of "temporary voluntary allowances" or TVAs, which incentivize the dealer to push the fuel in times of oversupply.

The Jobber/Dealer

Who Are They?

Remember the term "jobber" from the section about racks? They resell fuel – it's a revenue center for their business. Their customer base is varied. It's not just retailers. Jobbers also resell fuel to end users such as municipalities and government entities.

A jobber/dealer buys at the rack or on the spot market, if they have storage capacity to buy bulk volumes. They then own a variety of stations, many of which may carry their own brand (ex: "Sam the Jobber's Gas"). This is considered an "unbranded" outlet.

They may also purchase station real estate and station assets outright from a major and sign an agreement to fly that major's brand flag for a specific period.

Large resellers are among the most sophisticated of fuel buyers and are, in essence, oil companies without the "hardware," (i.e., the refinery) with supply, trading and marketing arms. They are frequently called "superjobbers."

How Do They Buy Their Fuel?

Jobber/dealers buy their fuel based on rack indices and buy fuel on the spot market level. That sets the basis for their retail price levels.

The Open Dealer

Who Are They?

This type of retailer, typically, is a private, independent station owner.

Sometimes, they become a jobber and redistribute fuel, but most of the time they are just retailers that own their own real estate. They own it all – the land, the pumps, everything.

Most times, they get supplied from local resellers and do not pull their own fuel at the rack. They usually have a contractual supply agreement with the local jobber, but unlike the jobber or the lessee dealer, their contract terms are usually shorter in length.

How Do They Buy Their Fuel?

The open dealer usually buys fuel from a jobber, who charges a "delivered" price to get it from the rack to the station. The open dealer will use that delivered cost as their basis and add in their own margin. A big challenge for these retailers is that they usually do not get help from their supplier in times of tight supply or when margins contract the way a retailer with a branded supply deal might. So, for them, competition is EVERYTHING!

Chain Retailers

Who Are They?

Chain retailers are companies such as Kroger, Walmart, Sam's Club, Wawa, Costco and Safeway These are the big box stores.

These retailers have become among the newest and most influential players in the U.S. retail fuel landscape.

Chain retailers construct the stations on their own sites, so they own the entire station. Their stations also usually fly their own brand flag.

How Do They Buy Their Fuel?

Chain retailers buy an enormous amount of fuel, usually on a rack basis, but also on a spot basis. Remember – they are HUGE fuel buyers and most often are aggressive negotiators with their suppliers. Their fuel-buying operations are among the most sophisticated in the industry. They leave nothing on the table!

On the street, they often feature the most competitive prices in the market, using fuel as a loss leader to get the customer into the store.

Looking Ahead

The trends that shaped the current retail landscape are here to stay and OPIS market watchers fully anticipate:

- More refiners are going to divest themselves of retail sites and focus resources on other areas, such as exploration and refining.
- More hypermarketers are going to enter the market and further shake up competition.
- Jobbers are going to buy more stations and probably other jobberships, thus creating more superjobbers.

Conclusion

And – above all – the price influence chain will continue to ripple volatility down from the NYMEX, to the spot market, to racks and to the retail level.

As we said at the beginning, buying fuel is confusing – it's not like stocking pencils or pens or paper cups. And with a market that moves in rapid-pace, it can be daunting to make the right decisions.

But, now that you understand how futures, spot and rack markets influence prices at the pump, you can start to anticipate and better prepare for market volatility. To learn more about how OPIS can help you navigate the complex gasoline and diesel markets, visit opisnet.com.

Glossary of Terms

Basis: The difference between the price of the actual commodity (e.g. heating oil) and the price of the futures contract. Basis can be calculated by subtracting the futures price from the cash price. Also called basis differential.

Bearish: A market in which prices are declining.

Brokers: Anyone who executes futures or options contracts in exchange for a commission fee. They match a buyer to a seller and collect a commission, but never touch the fuel.

Bullish: a market where prices are rising

Chain retailer: Big box stores, own the entire station. Among the most influential players in the U.S. retail fuel landscape.

Company operated station: Refiner owns the land, pumps and any above-ground structures.

Crude oil (CL): The primary feedstock used to make gasoline, diesel, jet, residual fuel and other finished petroleum products.

Downstream: Term applying to functions or facilities closer to the end user. Refining, marketing and transportation are generally downstream processes in the oil patch while exploration and production are upstream.

End-Users: The ultimate consumer of petroleum products.

Fungibility: Term which refers to the likeness or least interchangeability of a petroleum product. The less fungible the product, the less likely it is to succeed in the futures arena and the more problem it is likely to create in the distribution process.

Hypermarketer: A big box retailer who sells fuel to get the customer into the store to buy items other than gasoline, often sacrificing margin for the sake of inside sales.

Jobbers/Distributors: Someone who purchases refined products at the wholesale level and then transfers or resells the product at the retail level.

Lessee dealer: Lease or rent the retail station space and absorb the costs of operating the station.

Margin: The difference between the retail price and delivered cost.

Natural gas (NG): A naturally-occurring raw material often produced in conjunction with crude oil that is processed through a variety of facilities to yield NGLs.

NYMEX: The New York Mercantile Exchange. An exchange where a number of commodities, including WTI crude, heating oil and unleaded gasoline are traded on a future basis. Also called the Merc, the futures market, the print. Influenced by big-scale regional and international factors.

Open dealer: A class of retailer, typically an independent station owner who owns their own real estate.

Rack Market: Petroleum products sold at the wholesale level from primary storage. Smaller volume market, often located off a pipeline.

Reformulated blendstock for oxygenate blending, RBOB (RB): Specially produced reformulated gasoline blendstock intended for blending with oxygenates downstream of the refinery where it was produced. On the NYMEX, a blendstock that takes the place of a gasoline contract.

Retail Market: Street price for gasoline and diesel.

Spot Market: High volume (25,000 to 300,000 bbls) contractual agreements between oil companies dictating delivery of petroleum products or crude oil in the near future for an established sales price. Physical market, high volume, located at refinery hubs. Reacts to NYMEX and regional supply news.

Spot replacement cost: What it would cost a refiner on any given day if they had to go into the market ot buy lost supply, changes based on the movement of the NYMEX and corresponding movement in the spot market.

Traders: Buyers and sellers of large quantities of petroleum products. They use the spot markets as a basis for their deals. Traders differ from brokers in that they actually take title to the product.

Truck and trailer: Approximately 8,000 gallons, or one load of fuel.

About the Author: Scott Berhang

Scott is an oil industry veteran with nearly 40 years of experience covering wholesale gasoline and diesel fuel markets, spot markets and industry news. Scott developed the OPIS West Coast Spot Market Report, which has been the industry spot price benchmark for over 20 years. Scott has spoken at many industry events teaching fuel buyers the latest strategies on how to purchase rack and spot barrels more effectively.

About OPIS

Oil Price Information Service (OPIS) by IHS Markit provides price transparency across the global fuel supply chain so that all stakeholders can buy and sell oil products with confidence. We do this through accurate pricing, real-time news, powerful software tools and educational events and training. Our commitment to reliability is reinforced by worldclass, personalized customer service and constant innovation. OPIS listens to what customers need and responds with flexible and easy-to-use solutions. Navigating world oil markets is complex – OPIS makes it simpler. Learn more at opisnet.com.

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