

# Fuel Contract Compliance

## Risk & Opportunity Analysis

Prepared September 2014





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FUELtrac**



## FUELtrac Business Capabilities

- Specialist consultants and analysts focused on all aspects of Liquid Hydrocarbon and including Supply Chain solutions,
- Our team has extensive combined experience in Operational, Executive, Consulting and Project Management roles with major Australian and Global organizations.
- Established in 1994, FUELtrac provides specific services to the growing number of companies requiring assistance with the management and cost control of their fuel and lubricant costs in mining, transportation, government & fleet and construction applications.

Category management expertise.



# FUELtrac Business Capabilities

## Operational

- KPI monitoring
- Card deck management
- Auditing
- Data matching and reporting
- Purchase to Pay support

Cost effective contract management.



# FUELtrac Business Capabilities

## Strategic

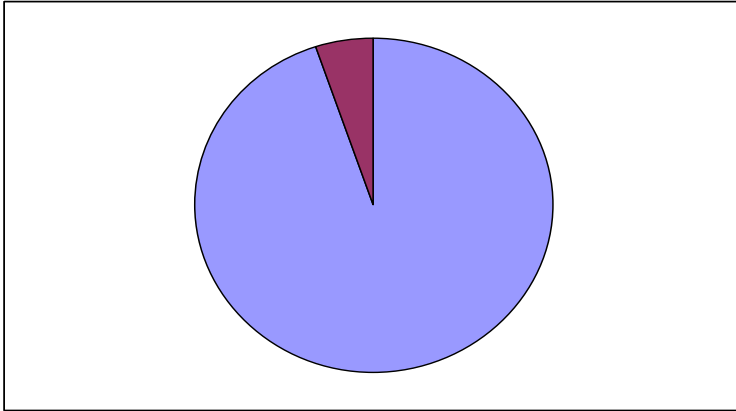
- All hydrocarbon product benchmarking
- Tenders – Bulk & Card Fuels Lubricants
- Procurement strategies & direct negotiation
- Supply contract documentation & review
- Price Monitoring – International & Domestic
- Risk Management

Support For Superior Hydrocarbon Procurement.



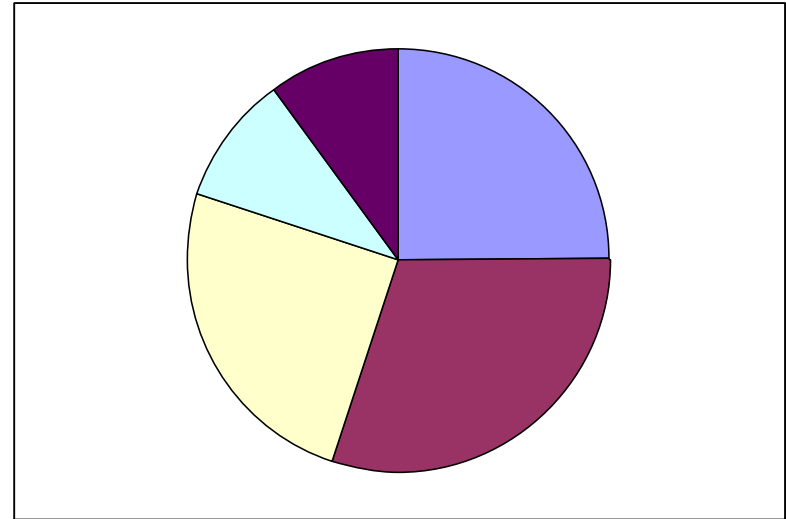
# ▶▶▶ Market Demand

Mogas 19BLN



|          |    |
|----------|----|
| Retail   | 18 |
| Industry | 1  |

Diesel 22BLN



|                 |    |
|-----------------|----|
| Retail          | 25 |
| Mining/Industry | 30 |
| Road transport  | 25 |
| Rail/Marine     | 10 |
| Agriculture     | 10 |

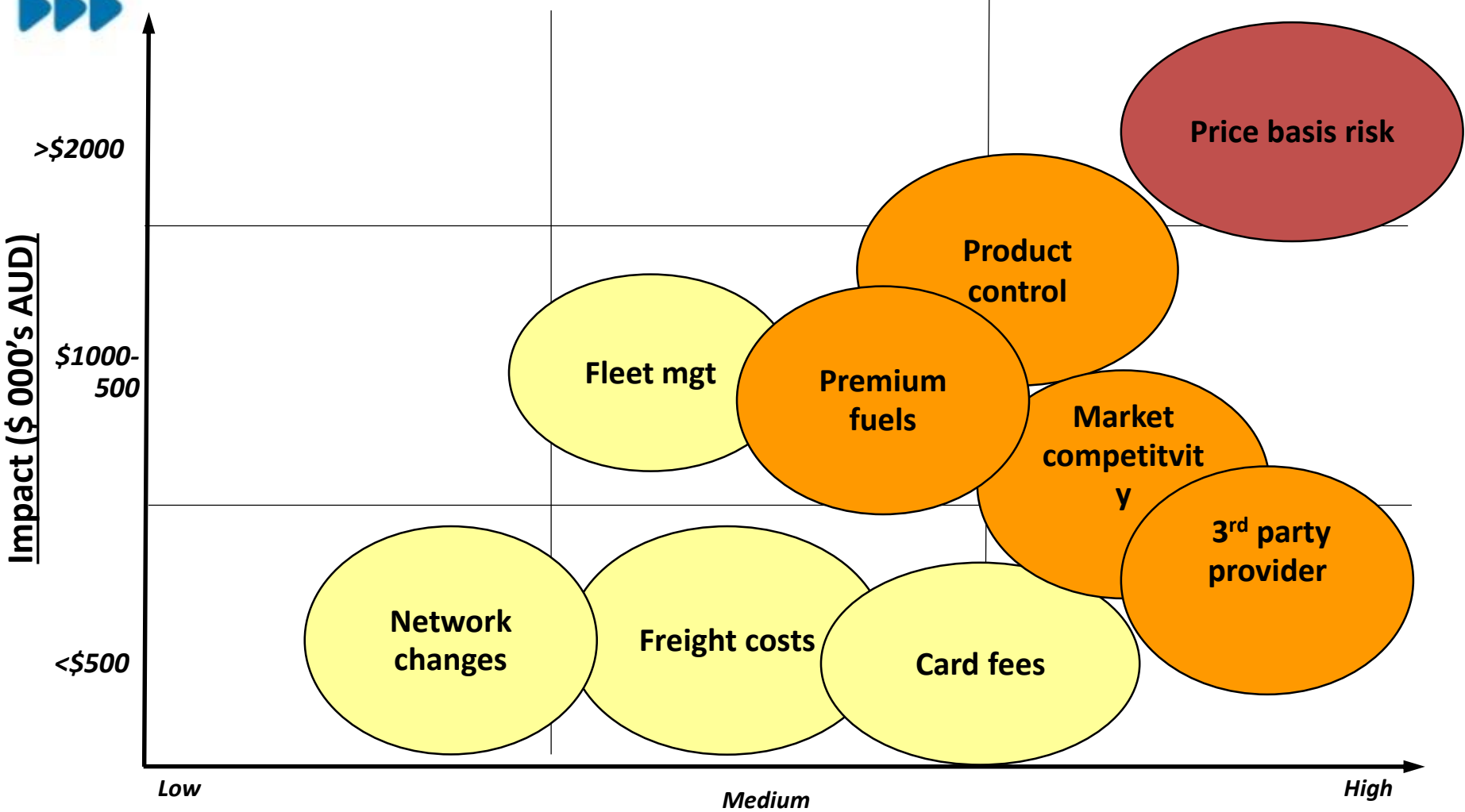
Market demand & supply channels combine to make effective procurement strategies of Mogas (ULP) & Diesel quite different.

# Market Supply Dynamics



The supply dynamics in Australia are shifting from a refinery supply (with recently announced closure/sale of three refineries) to over 50% imported fuel.

# Risks : Other Factors



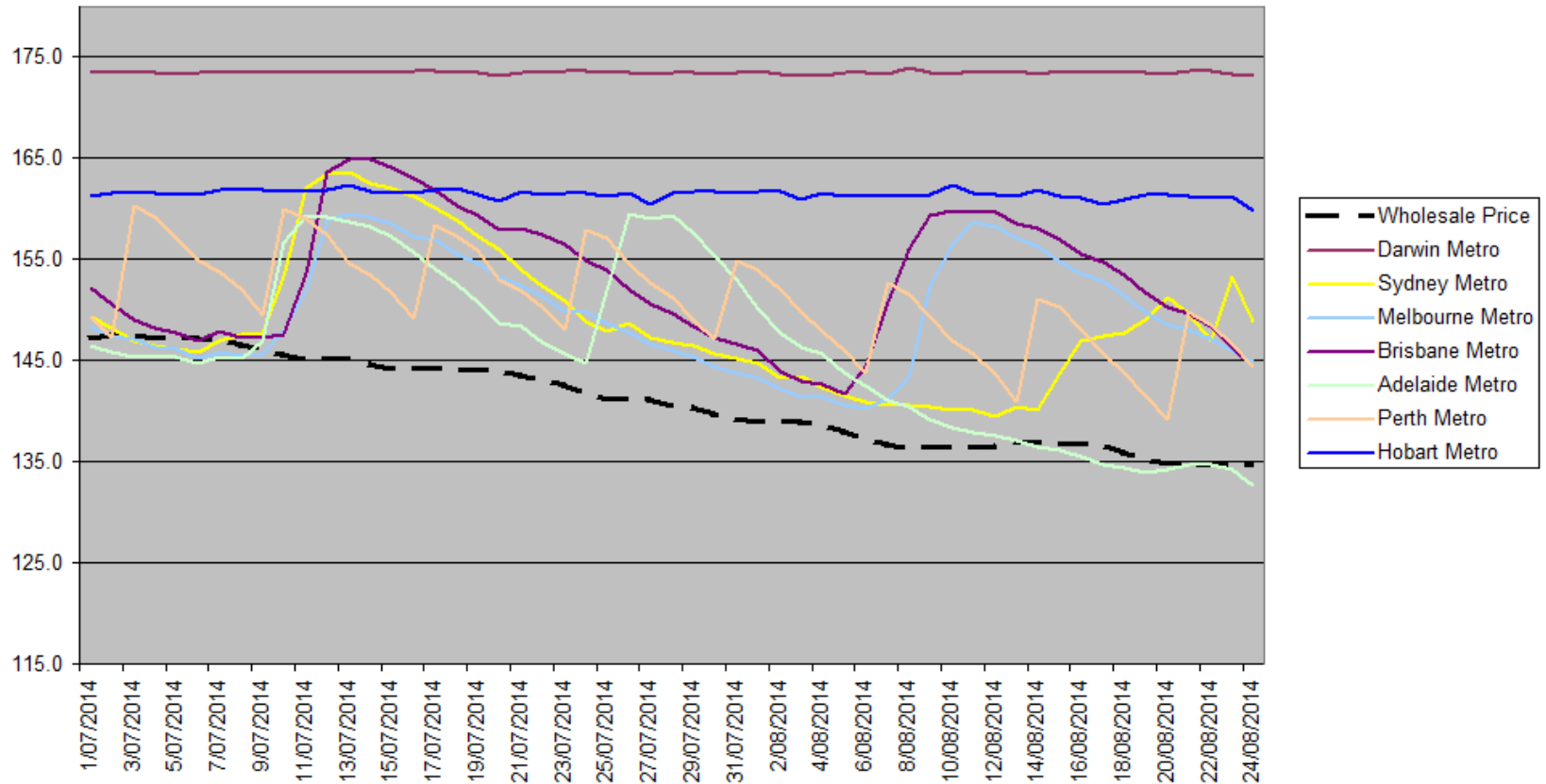
Likelihood of occurrence





# ▶▶▶ Risks : Price Basis Risk

Unleaded - Capital Cities - Wholesale v Retail  
July - August 2014.



Pump prices are increasingly de-linked from wholesale prices.



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## ▶▶▶ Risks : Product Control

### Diesel

- **Forecast Growth: 4.5% p.a. (2011 – 2016)**
- Passenger car fleet
- Resource sector growth
- Retail fleet penetration (now 1 in 4 new vehicles are diesel)

### Petrol

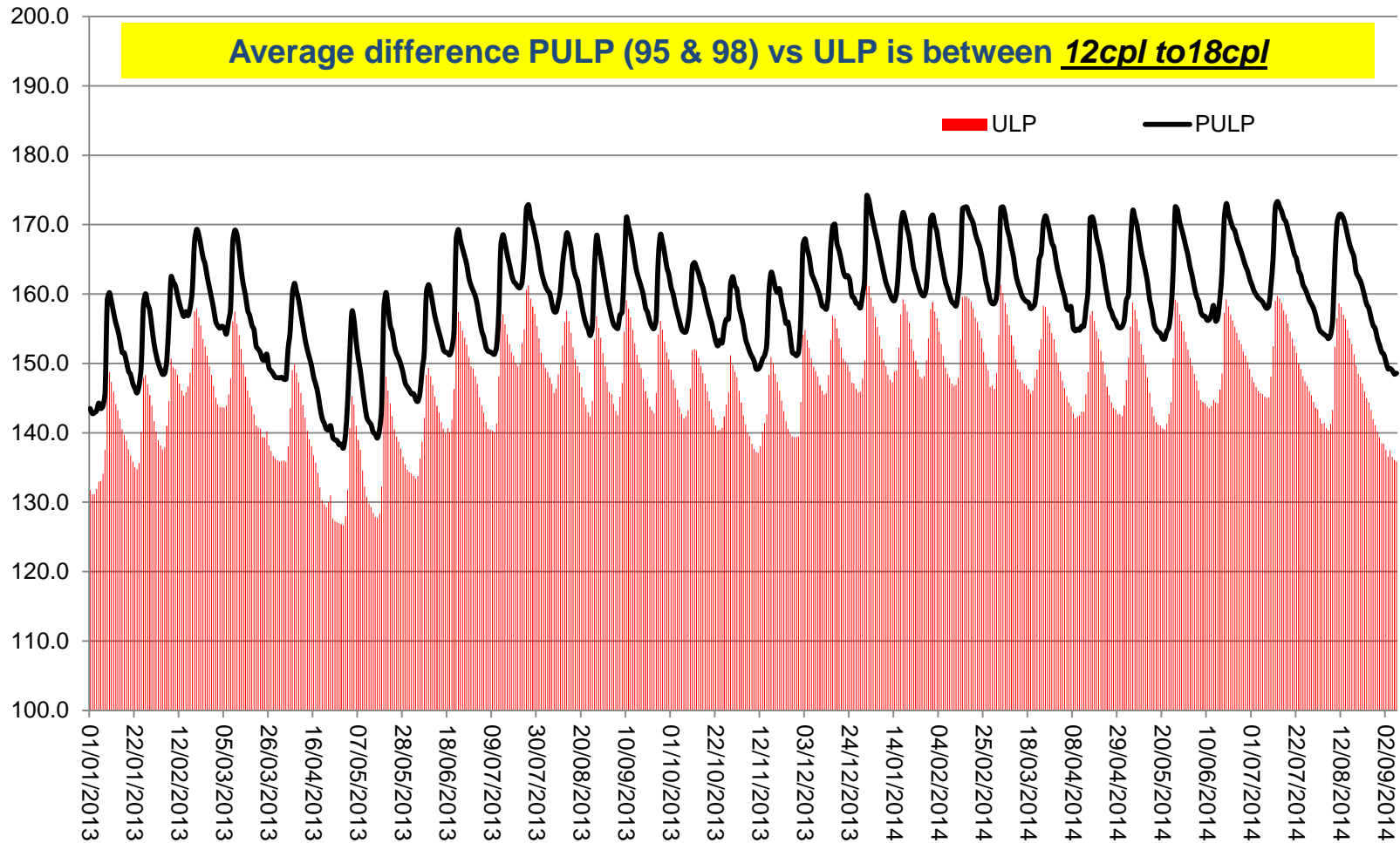
- **Forecast Growth: negative 1-2% p.a. (2011 – 2016)**
- More energy efficient cars, Substitution towards diesel
- Switch to premium, high octane fuels;
  - pull (consumer preference, manufacturer engine specification, fuel efficiency and maintenance factors)
  - & push (oil company margins)

Diesel is increasingly a “fleet” product.



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## ▶▶▶ Risks : Premium Fuel Replacement (Melbourne Metro)



Premium gasoline now accounts for 25% of total gasoline sales.



## Risks : Product Control

- Total diesel volumes up 5.8% on FY 2012
- Vortex retail diesel sales up 24% on 2012 in total (underlying retail diesel growth +7.8%) and now represents 23% of total diesel sales volumes

## Risks : Competitivity

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Pricing Summary August 2014

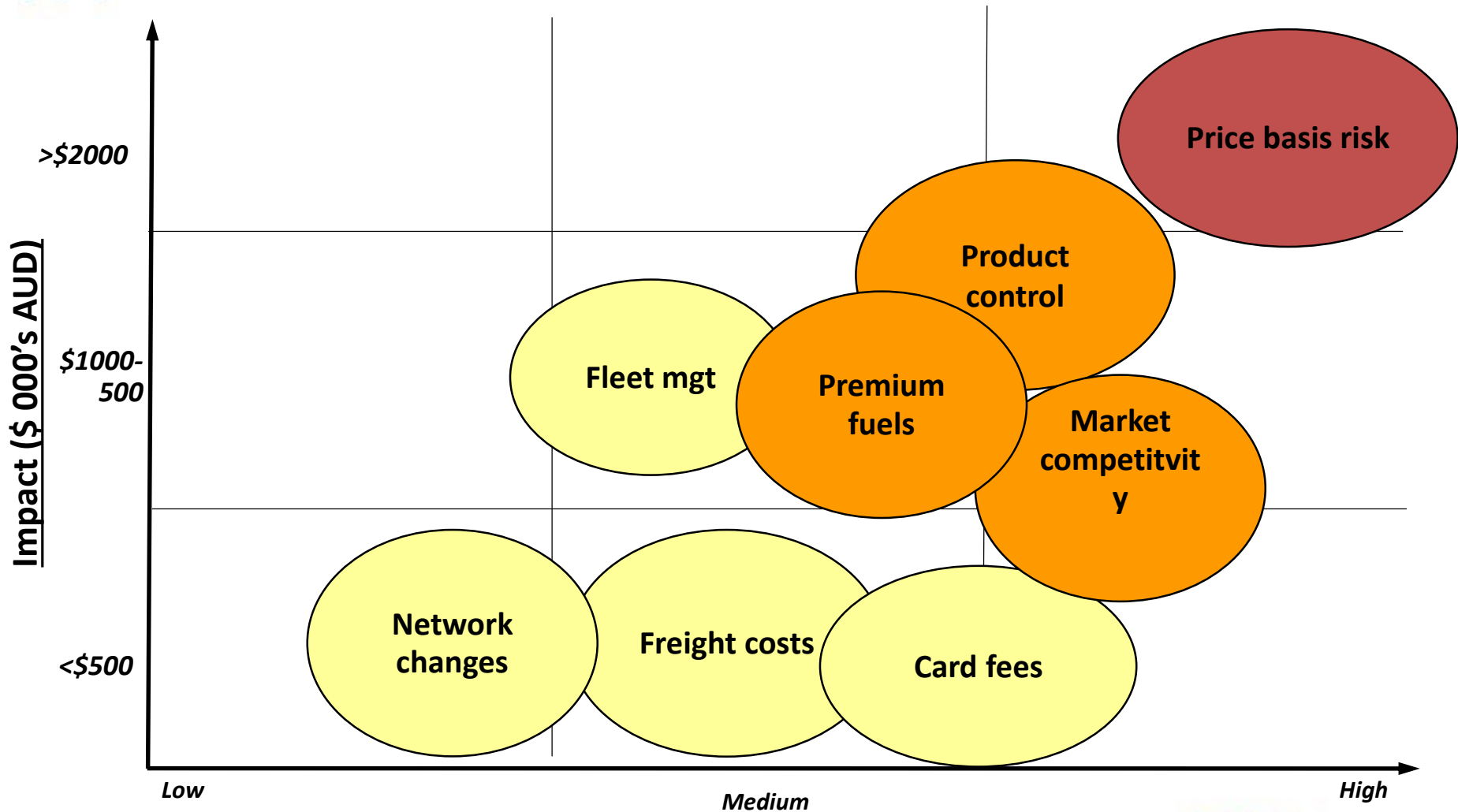
### Northern Territory

|   |                  |               |              |
|---|------------------|---------------|--------------|
| • | DARWIN METRO     | DIESEL        | 173.5        |
| • | <b>KATHERINE</b> | <b>DIESEL</b> | <b>166.9</b> |
| • | TENNANT CREEK    | DIESEL        | 183.7        |
| • | ALICE SPRINGS    | DIESEL        | 177.3        |

Local competition effects pricing.



## Risks : Other Factors



## Contract Compliance: are you being over-charged by oil companies?

### client snapshot

Contracts, once signed, are sometimes filed away and never looked at again unless a dispute arises. They trust oil companies to get the pricing right. There is a risk that the price will not be right.

Some customers don't have the resources, knowledge or expertise in the petroleum industry to ensure contract compliance. Oil companies use complicated rise and fall pricing mechanisms based on international prices. Without access to international prices it is almost impossible to verify oil company pricing.

### Overview

Oil companies can make mistakes. A small error over the lifetime of a contract, can magnify to a loss of hundreds of thousands of dollars. FUELtrac has access to international prices and other industry pricing benchmarks; rather than trust the oil companies to apply the price formulae correctly, FUELtrac re-calculates these formulae to compare them with what the customer has been charged. We eliminate the price risk.

Contract compliance is all about certainty in knowing that the invoices your supplier wants you to pay are correct, that any disputes within the contract are resolved, and refunds for incorrect charges are promptly received.

### services provided

FUELtrac re-calculates **every single transaction** to determine if you have been charged correctly. This means you can be confident you are not paying more than you have to. FUELtrac also ensures contract conditions such as price & freight variations are properly calculated and applied, as well as monitor compliance with other special conditions that have been negotiated between you and your supplier. FUELtrac goes further and will liaise with oil companies to ensure you get the refund you deserve.



### Outcomes

FUELtrac has a track record in finding examples where customers have been overcharged by suppliers. Recent activities that found previously undetected errors are:

- Bulk Fuel: \$6,600 per month & would have totalled \$237,000 over the 3 year term due to incorrect calculation & loading of the Freight Rate Variation formula.
- Bulk Fuel: \$26,560 for the first two months & would have totalled \$478,000 over the 3 year term due to incorrect Bulk delivery site freight rates loaded at contract commencement.
- Fuel Card: \$11,800 per month & potentially totalling \$424,800 over the 3 year term due to incorrect Card fees loaded at contract commencement.
- Lubricants: \$32,000 per month & potentially totalling \$1,152,000 over the 3 year term due to incorrect Lubricant prices loaded at contract commencement.
- Fuel Card: \$111,000 recovered for a 12 month period due to incorrect contract Fuel card pricing and rebates loaded.

**“Oil companies make it complicated. FUELtrac makes sure our suppliers meet their obligations. They also point out where there are opportunities to improve our price outcome.”**

Group Procurement Manager.

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