



# News Flash

an e-newsletter from Michigan's commercial fuels + environmental services experts

## Fixed Price Contracts

Most businesses buy fuel on the "spot market." Just like consumers at the retail pump, they pay whatever the market price is at moment they fill their tanks.

Of course there is nothing wrong with "spot market" buying. But, volatility in today's petroleum markets has prompted some buyers to look for more control over their fuel prices. For these buyers, a fixed price contract is beneficial because it provides buyers with a set price for a specific amount of fuel in a given month.



### **How does it work?**

The foundation for a fixed price contract is the price of Heating Oil, also known as No. 2 fuel oil or diesel, sold on the New York Mercantile Exchange (NYMEX). Heating Oil is sold in contracts consisting of 42,000 gallons (1,000 barrels) of fuel. Sometimes called "fuel tenders" these 42,000 gallon contracts of diesel—as well as smaller, but more expensive contracts—can be purchased by anyone on the open market. Crystal Flash Energy will purchase these contracts and package them into smaller quantity (starting at 500 gal/month) fixed price contracts for customers.

### **Critical information on fixed price contracts...**

- ◆ Fixed price contracts are a tool for establishing a budget — they ARE NOT designed to beat the "spot market" price of fuel.
- ◆ No one can accurately predict what prices are going to be in the future! So, don't put all your eggs in one basket. In other words, only purchase 40-60% of your diesel fuel needs on a fixed price contract. The balance of your fuel needs should be purchased on the "spot market" as a way to safely diversify .
- ◆ Sometimes buyers of fixed price contracts save a lot of money and sometimes they don't. Irrespective of the market price, buyers must purchase all of their contracted gallons.



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