Large Ferry Service Grapples With Volatile Diesel Prices

Ferry services often have to set ticket prices for the season long before the first one is sold. Any item that unexpectedly increases costs will have immediate profit implications. This was the case for a large New England passenger ferry company.

Challenge

A large prominent passenger and vehicle ferry company serving islands off the New England coast faced a daunting challenge. Like many marine operators, they had to establish ticket prices long before the busy season. They were consuming diesel at the rate of nearly 3 million gallons per year and this expense was among the highest in their budget. Thus, fuel price spikes above anticipated levels had to either be absorbed or passed on through very unpopular surcharges to passengers. The solution to the problem was the enlistment of an advisor to educate them about the fuel market, hedging tools, and a more effective RFP bid process to ensure the most stable and competitive diesel price.

The ***Hedge*** Solution

The Hedge team consulted with the client regarding the use of derivatives as a strategy to “cap” fuel prices. Using these tools, the ferry service could protect themselves from higher prices while maintaining the flexibility to participate in any downside price movement. This option had previously been unavailable to the company employing existing purchasing models. The plan called for building customer awareness of available strategies, and font line trade execution; two areas of strength here at Hedge Solutions and Northland Energy. We then designed and managed their entire RFP bid process and contracted a vendor with superior prices and service. The results have been a recurring annual savings of nearly $250K, the benefits of budgetary compliance, and competitive ticket prices!