



**The Netherlands National Petroleum Stockpiling Agency**



## **COVA and oil price volatility**

10<sup>th</sup> Oil Forum ENERGY COMMUNITY

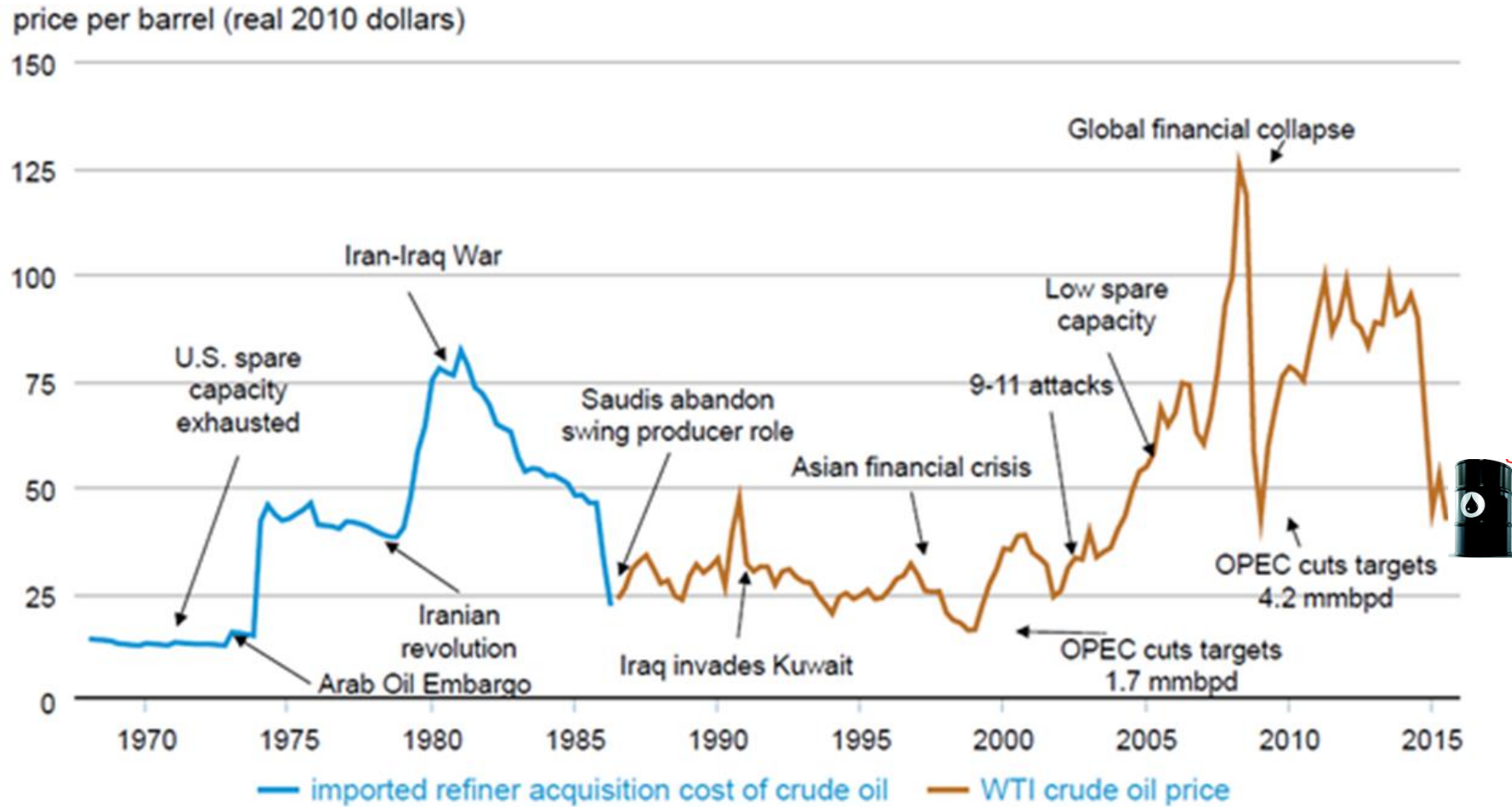
Belgrade, 25-09-2018

# Agenda

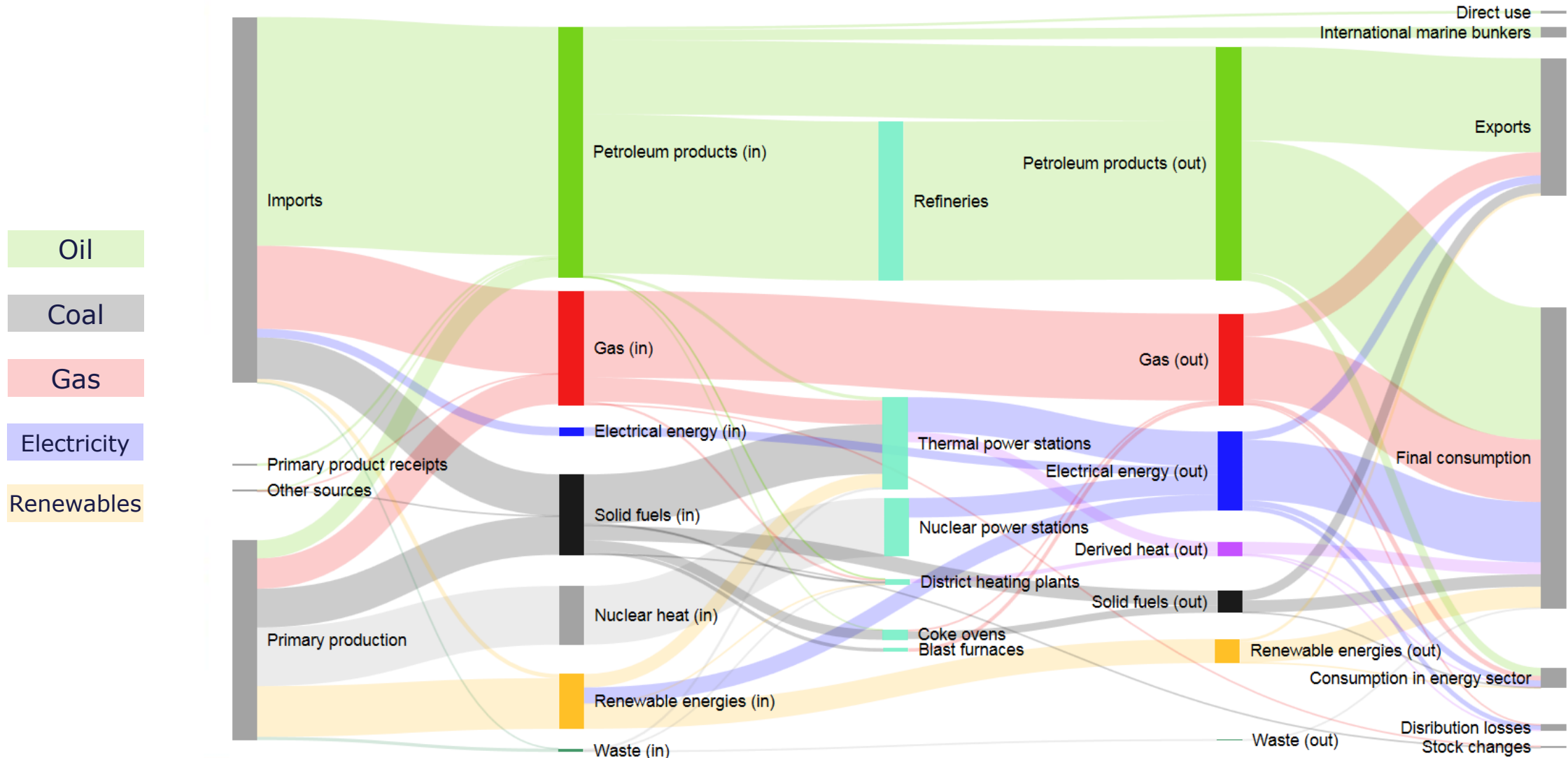


- Dutch oil sector in perspective
- Short overview of COVA
- General overview of impact of oil price on a Compulsory Stockholding Entity (CSE)
- Examples of handling oil price volatility

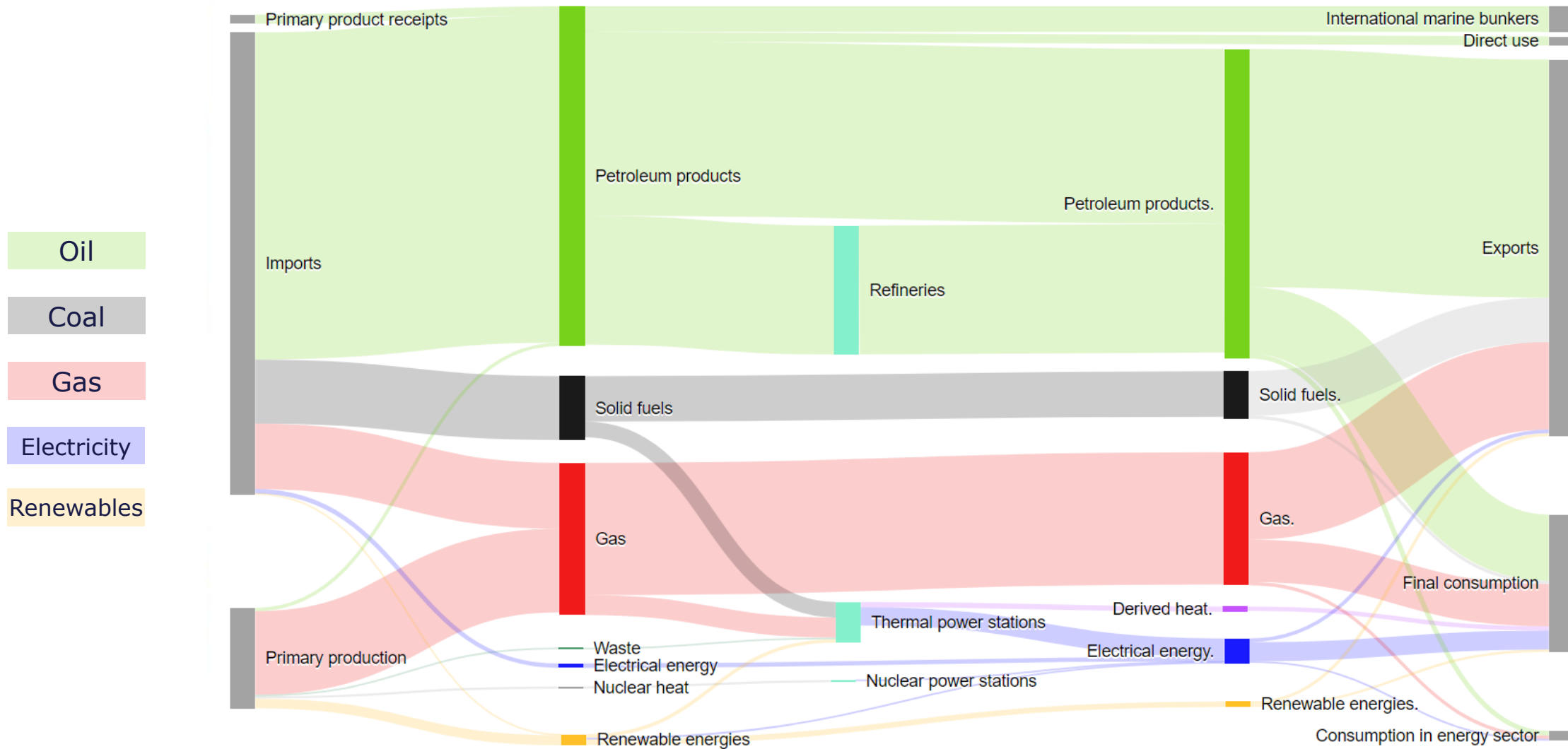
# Oil price history: never a dull moment



# A European context: oil important part of energy mix



# Dutch energy balance: an oil throughput country



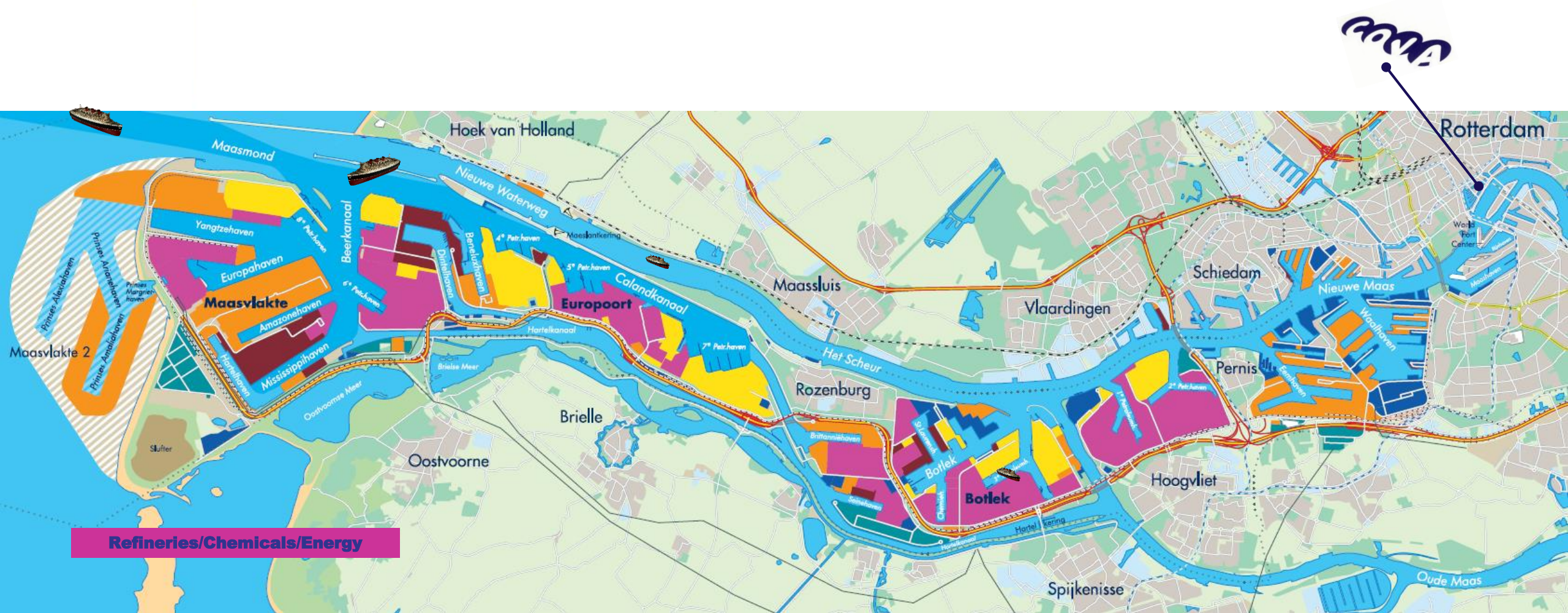
# Oil storage capacity continues to grow in and around NL



## Storage capacity Amsterdam, Rotterdam, Antwerp (ARA)



# Rotterdam: oil conversion and throughput centre



# COVA: Dutch Stockholding agency

- Oil crisis 1973 -> IEA 1974, 90 days of net import

- (I)COVA 1978, based in Rotterdam

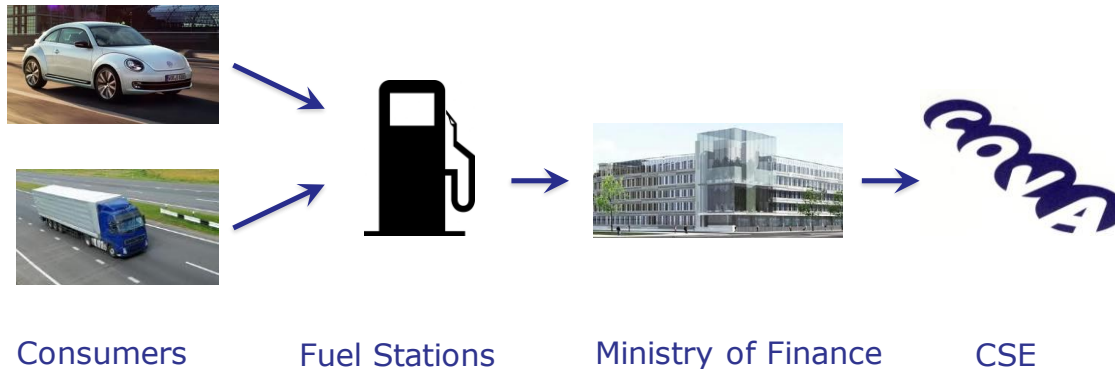
- Holding of oil stocks at lowest possible costs
- Institute with legal task, non-profit foundation
- (Law) Wva 2012, yearly obligation by Ministry Economic Affairs
- National obligation: 80% COVA, 20% oil sector
- Independent supervisory board appointed by Ministry
- Stocks management by managing director and staff (8)



1973 Oil crisis, empty roads on Sundays

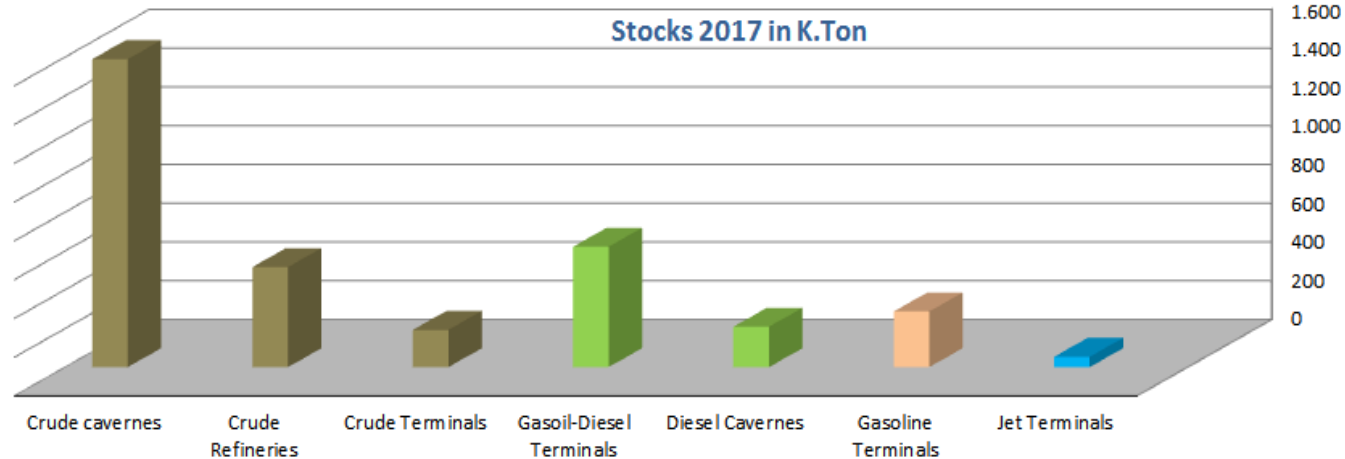
- Stock withdrawal; Gulf war (1991), Hurricane Katrina (2005), Libya (2011)

- Cost covered through excise duty fee





# COVA: stocks and obligation



## Business process

- Only selected suppliers
- Tender procedures for
  - Purchasing
  - Selling
  - Refreshment
- The oil price is based on Platt's monthly average
  - Oil is traded in dollars (\$)
  - COVA in Euro's (€)
  - Tickets are in both, dollars and Euro's

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total obligation (kt c.o.e.)	2.971	3.831	3.564	2.847	3.048	3.364
Obligation per product (kt)						
Gasoline	239	320	303	225	259	265
Gasoil	458	643	578	437	452	512
Kerosine	9	29	31	50	52	54

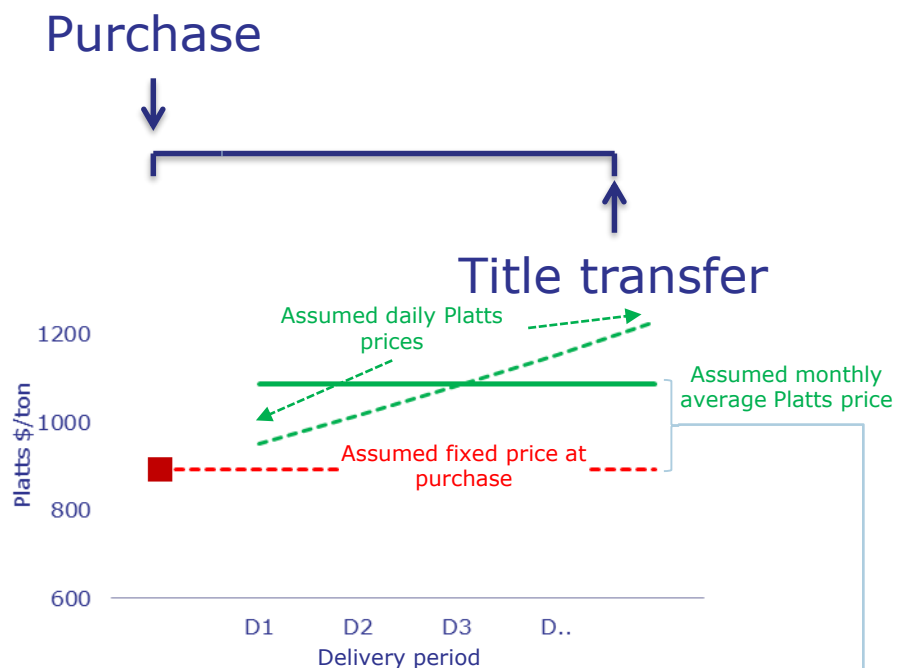
# Impact of oil price on stockholding agencies

- Oil price in general has a limited impact for a CSE
- However the following attention points:
  - Oil price volatility might require **hedging** of transactional price risks to minimize cash flow risks (see next slide)
  - Oil price volatility can impact market price structures; market price structures can be used to **optimize the timing of refreshments and/or storage contract renewals** (see next slide)
  - Financial **impact on costs is limited**; however some cost components typically vary with oil price (e.g. insurance fees)
  - Rapid oil price decline has an impact on **stock valuation**, assuming accounting rules require lowest of acquisition costs or market price
  - And stock build in a historical high oil price market can be a risk, especially when a CSE is **highly leveraged with debt** (increased leverage can lead to high priced debt, assuming financing comes from commercial markets)



# Using hedging to mitigate transactional cash flow risks

## Example transactional risk



### SWAP: from variable to fixed price

When fixed price at the moment of title transfer is lower than the average market price (Platts average month), the SWAP will lead to a payment

Purchase or sale transactions are typically set at average future Platts prices in USD.

An uncertain future price leads to 2-types of cash flow risks:

- Product price
- Currency

Risks can be mitigated through a hedge strategy (see table below)

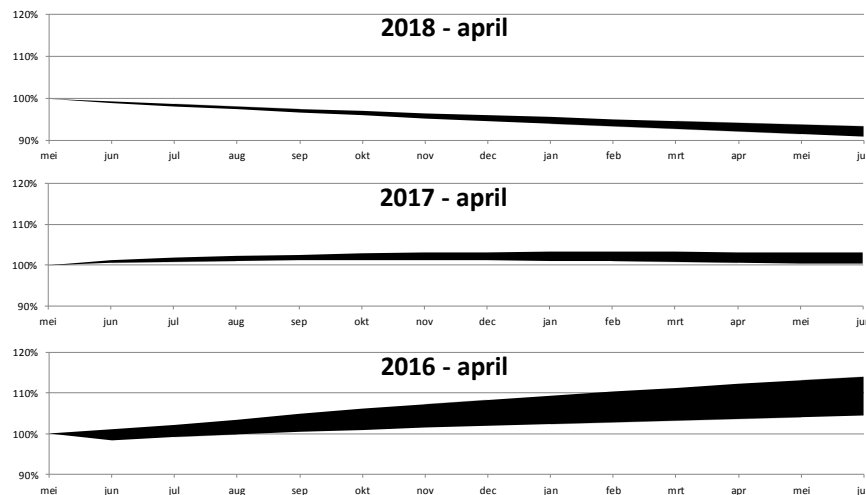
Risk	Mitigation
Product price	Swap of variable price to fixed price
Currency	Forward purchase or sale of USD

# Making use of market conditions in 2015-18

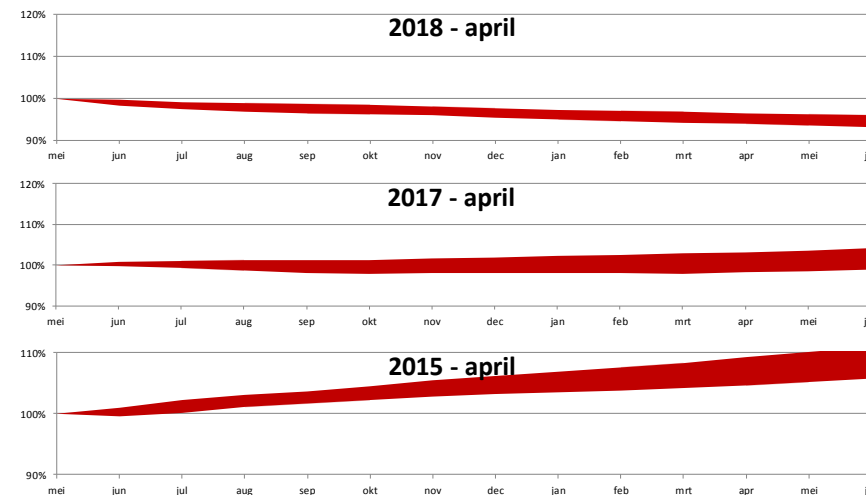
- Markets moved to backwardation since second half 2017
- Backwardated markets are a good moment for refreshments: sell high, buy low
- Moreover, market structure has an impact of storage and ticket prices

Market structure	Contango	Backwardated
Storage costs unit price	↑	↓
Ticket unit price	↓	↑

## Crude Brent



## Gasoil ULSD 10ppm FOB R'dam



Source: Reuters – Platts future price quotations



# Conclusions

- Oil price has a limited impact on compulsory stock entities (CSE's)
- However good to have a clear strategy on:
  - Hedging
  - Balance sheet structure and impacts on debt
- And follow the markets closely to plan your operational transactions!





**Thank you.**