

# FAQ: USGC HSFO

## What changes is Platts making to its USGC 3%S fuel oil assessments?

Following a review and formal proposal, Platts announced October 6, 2015, it will update the specifications reflected in its benchmark US Gulf Coast 3%S physical residual fuel oil assessment to reflect RMG 380 3.5%S quality fuel oil, as per ISO 8217 specifications, with effect from January 3, 2017.

At the same time, Platts will also rename the assessment as “USGC HSFO” and standardize its name across all publications. These changes follow a review of the existing specifications announced May 27, 2015, and a formal proposal announced July 14, 2015. This assessment will continue to be published under the product code PUAZF00. A full subscriber note can be found at the following link:

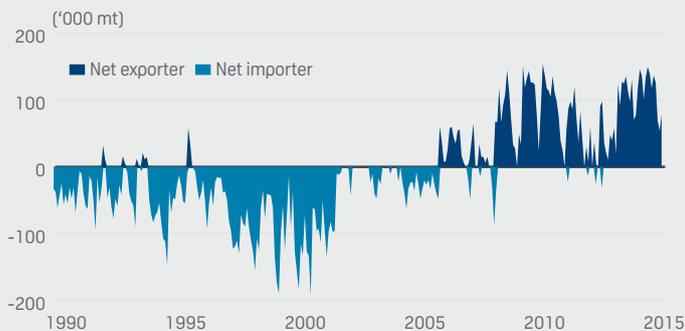
<http://www.platts.com/subscriber-notes-details/10312303>

## Why is Platts changing the specification for its USGC fuel oil benchmark?

The goal of the update is to ensure the assessment reflects the most fungible grade of fuel oil in the location, which is the bunker fuel grade used by the maritime sector.

Platts’ existing Gulf Coast HSFO specifications primarily reflect fuel to supply electric utility demand, particularly in the Mexican electricity sector. Like many other countries, Mexico has been reducing its consumption of fuel oil for power generation sharply, converting many of the plants to run on natural gas instead. As a result, the country is now a net exporter of fuel oil, having previously been an important net importer. In Mexico and elsewhere, utility demand for fuel oil has fallen significantly in general, meaning that this specification of fuel oil is no longer the most fungible grade.

## MEXICO FUEL OIL IMPORT-EXPORT BALANCE



Source: Platts

This move would also align the Platts US Gulf Coast HSFO assessment with similar assessments in other major fuel oil trading hubs, such as Amsterdam-Rotterdam-Antwerp and Singapore.

## Will Platts continue to publish a value for Gulf Coast 3%S fuel oil?

Platts will no longer publish a value for Gulf Coast 3%S utility grade fuel oil after the end of 2016. The new specification HSFO assessment will continue to be published under the existing code PUAZF00.

## How will Platts USGC HSFO be assessed?

The Platts US Gulf Coast HSFO price assessment will continue to employ the Market-on-Close (MOC) methodology used in physical oil and refined product markets. The MOC process encapsulates bids, offers and transaction data to create one value at the end of the trading day. The USGC HSFO market will be assessed daily and reflect Market-on-Close (MOC) values at 3:15 PM Eastern Time (ET), denominated in US dollars per barrel.

Platts USGC HSFO will be assessed on an FOB basis for loading 7-15 days forward from the date of transaction. The minimum parcel size is 45,000 barrels. Platts publishes the assessment as a fixed outright price in \$/b and \$/mt with a conversion factor of 6.35. Fixed and floating price information will be considered in the assessment process.

## What does the change mean in terms of physical specifications?

A comparison of the key parameters of the existing 3%S and the new RMG 380 specifications shows the following:

## DIFFERENCE IN SPECIFICATIONS

	USGC No. 6 3.0%	USGC HSFO
Sulfur Max	3%	3.50%
Gravity Min	10.2 API	11.2 API
Viscosity Max	150-250 SSF (326-543 CST)	380 CST at 50 C
Vanadium Max	450 ppm	300 ppm
Al+Si Max	80 ppm	80 ppm
Flash Point Min	150 F (65.5 C)	60 C
Pour Point Max	60 F (15.5 C)	30 C
Water Max	0.50%	0.50%
Ash Max	0.10%	0.10%

Source: Platts

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## How will the change in specifications affect related swaps and derivatives?

There is a significant amount of open interest on derivative instruments tied to the existing US Gulf Coast No. 6 Fuel Oil 3.0% assessment.

Platts published on October 6, 2015, a one-time recommended differential of \$1.45/b that may be used in amending US Gulf Coast 3%S fuel oil derivatives and other contracts that will settle against Platts physical 3%S fuel oil benchmark assessment from January 2017 onwards. A full subscriber note can be found at the following link:

<http://www.platts.com/subscriber-notes-details/10312310>

### USGC 3%S VS RMG 380 3.5%S

#### Sep 2010 – Sep 2015

- No 6. 3.0% Average = \$84.61/barrel
- RMG 380 Average = \$86.07/barrel
- Differential Average = -\$1.46/barrel

#### Sep 2012 – Sep 2015

- No 6. 3.0% Average = \$77.94/barrel
- RMG 380 Average = \$79.37/barrel
- Differential Average = -\$1.43/barrel

#### Sep 2014 – Sep 2015

- No 6. 3.0% Average = \$49.79/barrel
- RMG 380 Average = \$51.26/barrel
- Differential Average = -\$1.47/barrel

### Suggested differential

- -\$1.45/barrel
- Balances out one-year and three-year average and is close to five-year average
- In the month of Sep 2014, average = -\$2/barrel
- In the month of Sep 2015 to date, average = -\$1.35/barrel

Source: Platts

The differential is based on an extensive historical analysis of the difference between the existing US Gulf Coast 3%S fuel oil (PUAFZ00) and FO RMG 380 USGC Waterborne (Platts code PUBDM00) assessments from 2010 to 2015.

## Where will the USGC HSFO assessment be published?

Platts USGC HSFO assessment will be published through Platts Global Alert, a real-time oil price and news wire service as well as in Platts US Marketscan, Platts Oilgram Price Report and Platts North American Crude and Products Scan, daily market reports that provide detailed market information on global crude oil prices, trade updates, market commentary and analysis, futures settlement prices, and much more. The price will also be published in the Platts price database under the code PUAFZ00, the same code currently used for the existing USGC 3%S fuel oil assessment.

## Will Platts continue to publish a separate assessment for RMG 380?

Platts has not announced any plans to discontinue the existing assessment for USGC RMG 380, currently published under code PUBDM00.

## Where can I find more information about Platts US fuel oil assessments?

More information about Platts' US fuel oil methodology and specifications can be found at the following location:

<http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/Americas-refined-oil-products-methodology.pdf>

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