Portland Capped – Worked Example

Demolition Derby PLC is a plant and equipment operator using 50,000 litres of Gasoil (Red Diesel) in the summer months, when trade is at its busiest.

It is critical to Demolition Derby that they do not pay more than £0.50 in June and July, but they also want to take advantage of any falling fuel prices in those same months.

Therefore Demolition Derby buys a capped price of £0.50 in advance and pays Portland up-front a 1.50ppl (pence per litre) fee per month (1.50p x 50,000 = 75,000 pence = £750 in both June and July).

In June the average price actually drops to £0.48. Demolition Derby pay nothing because they chose the capped price which requires a one-off, up-front fee. Portland pay nothing as the £0.48 price is lower than the agreed £0.50 capped price.

However in July, the Gasoil price rockets and the average price for that month is £0.54, 4ppl higher than the capped price. Therefore Portland owes Demolition Derby 4ppl and pays them £2,000 accordingly (50,000 litres x 4p = 200,000 pence = £2,000).

Portland does not get involved in the physical purchase of your fuel. You continue to receive your fuel in the normal way and pay your fuel supplier in the normal way. Portland simply carries our a reconciliation on the agreed price at the end of each month.