

## Why GAO Did This Study

DOD purchases bulk fuel and sells it to customers, including the military services. Each fiscal year, DOD sets a standard price for budgeting purposes, endeavoring to closely approximate the price it will pay when it buys the fuel almost a year later. If this price is different than the standard price, DOD may need to take actions to manage its working capital funds—funds used to purchase fuel and other commodities that are reimbursed through sales.

Senate Report 113-44, accompanying a bill for the National Defense Authorization Act for FY 2014, mandated GAO to review DOD's approach for establishing its bulk fuel pricing. This report discusses, among other things, (1) how estimated bulk fuel costs have compared to actual costs since FY 2009 and the factors that have contributed to any differences; and (2) the extent to which DOD has considered options for adjusting its approach to estimating bulk fuel costs and managing working capital funds in light of any differences between estimated and actual fuel costs. GAO compared estimated and actual fuel costs for FY 2009 through 2013 and analyzed DOD actions to manage working capital funds.

## What GAO Recommends

GAO recommends that DOD reevaluate its approach for estimating the components of the standard price and document the rationale for its assumptions. DOD agreed with the first recommendation and partially agreed with the second stating there is a closely-monitored, formal process. GAO continues to believe the recommendation remains valid as discussed in the report.

View [GAO-14-595](#). For more information, contact Cary Russell at (202) 512-5431 or [russellc@gao.gov](mailto:russellc@gao.gov).

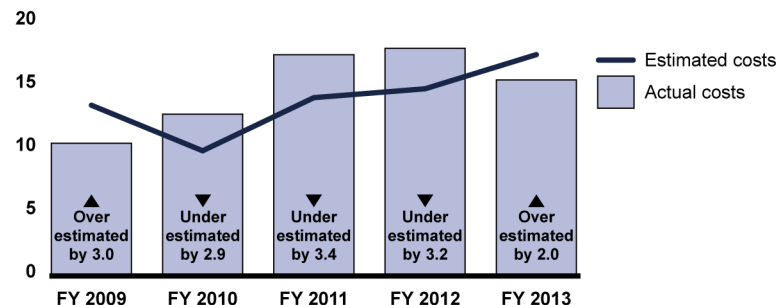
## BULK FUEL PRICING

### DOD Needs to Reevaluate Its Approach to Better Manage the Effect of Market Fluctuations

## What GAO Found

During fiscal years 2009 through 2013, the Department of Defense's (DOD) actual costs for bulk fuel differed considerably from its budget estimates, largely because of fluctuations in fuel price in the open market. During this period, DOD underestimated its costs for 3 years and overestimated them for 2 years as shown below. GAO identified two factors that contributed to the differences between estimated and actual costs—(1) fuel price fluctuations and (2) differences between the military services' estimated fuel requirements and their actual fuel consumption. GAO's analysis showed that the differences between the price DOD paid for fuel and the price it charged its fuel customers—the standard price—accounted for, on average, 74 percent of the difference between estimated and actual costs. Specifically, of the three components of the standard price that DOD sets each fiscal year—crude oil, refinement markup, and nonproduct costs, such as transportation and facilities maintenance costs—differences in the price of crude oil accounted for most of the difference between estimated and actual fuel costs in fiscal years 2009 and 2010. In fiscal years 2011 through 2013, the refinement markup accounted for most of the difference. Differences between the services' estimated fuel requirements and actual fuel consumption accounted for an average of 26 percent of the difference between estimated and actual fuel costs.

**Estimated vs. Actual Fuel Costs, Fiscal Years (FY) 2009 through 2013**  
Billions of dollars



Source: GAO analysis of DOD data. | GAO-14-595

Since 2004, DOD has conducted reviews of aspects of its bulk fuel program to determine whether adjustments should be made, including managing acquisition strategies, managing working capital funds, and budgeting for cost fluctuations. However, it has not updated its approach to reflect current market conditions or documented its rationale for the assumptions it uses in estimating the standard price. GAO's Cost Estimating and Assessment Guide and Office of Management and Budget guidance state that a cost estimate should be updated regularly to reflect changes to assumptions and actual costs, so that it always reflects current conditions. Furthermore, cost estimates should be supported by detailed documentation that describes how they were derived. Reevaluating its approach for estimating the standard price would allow DOD to develop more informed estimates and better position it to minimize risks and uncertainty resulting from changing market conditions. Further, documenting the rationale for its assumptions would provide greater transparency and clarify for fuel customers and decision makers the process DOD uses to set the standard price.