

# **FUEL PRICE RISK MANAGEMENT POLICY REPORT**

## **"FUEL HEDGE"**

**Sep-14**

# FUEL PRICE RISK MANAGEMENT POLICY REPORT

Sep-14

(Budget Services 10/08/14)

The Fuel Price Risk Management Policy approved by the Board on February 16, 2006 requires monthly reports to the Finance/Audit Committee. Per the Finance Chair in 2009, the report is to be presented quarterly to the F/A committee. The Board has approved resolutions authorizing implementation of the Fuel Hedge Policy for FY2008 (October 2006). In July 2008 the Board amended the Fuel Risk Management Policy by eliminating the July 15 deadline for hedging the next fiscal years fuel requirement.

## A. Diesel Fuel Hedges

For FY2014 eight hedges totaling 11.01M gallons have been executed at an average price of \$2.7973. As of 9/30/2014 a total of four hedges totaling 10.84M gallons at an average price of \$2.7428 have been executed for FY2015 and, five hedges totaling 9.66M gallons at an average price of \$ 2.6940 have been executed for FY2016.

Note that for FY2013 eleven hedges totaling 11.21M gallons were executed at an average price of \$2.8017 (Hedge prices are market price only, not including transportation, additive and taxes). See Attachment A for hedge details. METRO currently has chosen Koch Supply & Trading LP, Merrill Lynch Commodities Inc., BP Products North America Inc. and Goldman, Sachs & Co. to bid financial hedges. A comparison of the FY2014 hedged gallons, actual usage and hedge collections is outlined in Attachment B. Hedge collections fiscal year to date total \$0.99M.

## B. 3 Year Contract for Electricity

In March 2010 the Board Approved a 3 year contract with the Texas General Land Office (GLO) to supply electricity for April 1, 2010 to March 31, 2013. The contract rate of \$0.05866 per kilowatt hour was fixed for the term of the contract while the Transmission and Distribution (TDSP) floats. This contract was extended through June 30,2013 at a contract rate of \$0.05367 per kilowatt hour. A new contract has been finalized with GDF SUEZ Energy Resources NA, Inc ("Suez"). This contract span covers 2 years from July 1, 2013 through June 30, 2015 with a contract rate of \$0.05041 per kilowatt hour.

This contract hedges METRO's electricity requirements for 2 years, providing budget certainty on price in accord with the Board's Fuel Price Risk Management Policy adopted February 2006.

# **ATTACHMENT A**

**METRO**  
**FY2013, FY2014, FY2015 and FY2016 Fuel Hedge (Diesel) - Status 09/30/14**  
(Budget Services 10/08/14)

**Financial Hedge (Oct-Sep Delivery)**

|     | <u>Delivery</u> |                   |                  |                           | <u>Date of</u>  | <u>Avg. Price</u> |                      |
|-----|-----------------|-------------------|------------------|---------------------------|-----------------|-------------------|----------------------|
|     | <u>Year</u>     | <u>Gallons</u>    | <u>Fuel Type</u> | <u>Vendor</u>             | <u>Purchase</u> | <u>per gallon</u> | <u>Cost</u>          |
| a.  | FY2013          | 378,000           | USLD             | Koch Supply & Trading, LP | 12/27/10        | \$2.6310          | \$ 994,518           |
| b.  | FY2013          | 378,000           | USLD             | Goldman, Sachs & Co.      | 1/11/11         | \$2.6980          | \$ 1,019,844         |
| c.  | FY2013          | 378,000           | USLD             | Koch Supply & Trading, LP | 1/27/11         | \$2.8115          | \$ 1,062,747         |
| d.  | FY2013          | 378,000           | USLD             | Koch Supply & Trading, LP | 1/31/11         | \$2.8650          | \$ 1,082,970         |
| e.  | FY2013          | 504,000           | USLD             | Goldman, Sachs & Co.      | 2/22/11         | \$3.0060          | \$ 1,515,024         |
| f.  | FY2013          | 1,008,000         | USLD             | Koch Supply & Trading, LP | 9/12/11         | \$2.9275          | \$ 2,950,920         |
| g.  | FY2013          | 1,512,000         | USLD             | Koch Supply & Trading, LP | 9/21/11         | \$2.8830          | \$ 4,359,096         |
| h.  | FY2013          | 1,512,000         | USLD             | Goldman, Sachs & Co.      | 9/22/11         | \$2.8000          | \$ 4,233,600         |
| i.  | FY2013          | 2,268,000         | USLD             | Koch Supply & Trading, LP | 10/4/11         | \$2.6187          | \$ 5,939,262         |
| j.  | FY2013          | 1,134,000         | USLD             | Koch Supply & Trading, LP | 12/1/11         | \$2.8667          | \$ 3,250,863         |
| k.  | FY2013          | 1,764,000         | USLD             | Goldman, Sachs & Co.      | 5/24/12         | \$2.8400          | \$ 5,009,760         |
|     |                 | <u>11,214,000</u> |                  |                           |                 | <u>\$2.8017</u>   | <u>\$ 31,418,604</u> |
| l.  | FY2014          | 252,000           | USLD             | Koch Supply & Trading, LP | 12/1/11         | \$2.7555          | \$ 694,386           |
| m.  | FY2014          | 1,470,000         | USLD             | Koch Supply & Trading, LP | 5/17/12         | \$2.8355          | \$ 4,168,185         |
| n.  | FY2014          | 1,008,000         | USLD             | Goldman, Sachs & Co.      | 5/30/12         | \$2.7491          | \$ 2,771,055         |
| o.  | FY2014          | 1,344,000         | USLD             | Goldman, Sachs & Co.      | 6/21/12         | \$2.5925          | \$ 3,484,320         |
| p.  | FY2014          | 1,512,000         | USLD             | Goldman, Sachs & Co.      | 10/11/12        | \$2.9375          | \$ 4,441,500         |
| q.  | FY2014          | 1,512,000         | USLD             | Goldman, Sachs & Co.      | 3/20/13         | \$2.8800          | \$ 4,354,560         |
| r.  | FY2014          | 1,092,000         | USLD             | Goldman, Sachs & Co.      | 4/12/13         | \$2.8425          | \$ 3,104,010         |
| s.  | FY2014          | 2,898,000         | USLD             | Merrill Lynch             | 4/18/13         | \$2.7600          | \$ 7,998,480         |
|     |                 | <u>11,088,000</u> |                  |                           |                 | <u>\$2.7973</u>   | <u>\$ 31,016,496</u> |
| t.  | FY2015          | 1,512,000         | USLD             | Goldman, Sachs & Co.      | 12/18/12        | \$2.7960          | \$ 4,227,552         |
| u.  | FY2015          | 2,058,000         | USLD             | Goldman, Sachs & Co.      | 4/18/13         | \$2.7040          | \$ 5,564,832         |
| v.  | FY2015          | 3,990,000         | USLD             | Merrill Lynch             | 9/24/13         | \$2.7195          | \$ 10,850,700        |
| w.  | FY2015          | 3,276,000         | USLD             | Merrill Lynch             | 4/2/14          | \$2.7710          | \$ 9,077,943         |
|     |                 | <u>10,836,000</u> |                  |                           |                 | <u>\$2.7428</u>   | <u>\$ 29,721,027</u> |
| x.  | FY2016          | 1,512,000         | USLD             | Goldman, Sachs & Co.      | 1/3/14          | \$2.6900          | \$ 4,067,280         |
| y.  | FY2016          | 1,386,000         | USLD             | Merrill Lynch             | 1/15/14         | \$2.6830          | \$ 3,718,638         |
| z.  | FY2016          | 2,226,000         | USLD             | Goldman, Sachs & Co.      | 4/2/14          | \$2.7000          | \$ 6,010,200         |
| aa. | FY2016          | 3,024,000         | USLD             | Merrill Lynch             | 9/11/14         | \$2.7025          | \$ 8,172,310         |
| ab. | FY2016          | 1,512,000         | USLD             | Merrill Lynch             | 9/29/14         | \$2.6820          | \$ 4,055,184         |
|     |                 | <u>9,660,000</u>  |                  |                           |                 | <u>\$2.6940</u>   | <u>\$ 26,023,612</u> |

# **ATTACHMENT B**

**METRO**  
**FY2014 DIESEL FUEL**

(Budget Services 10/08/14)

| <b>Month</b> | <b>Fuel Source</b> | <b>Gallons in<br/>Financial<br/>Hedge</b> | <b>Gallons<br/>Purchased</b> | <b>Gallons<br/>Used</b> | <b>Gallons<br/>Used<br/>Variance</b> | <b>Swap Receipts</b> |
|--------------|--------------------|---|------------------------------|-------------------------|--------------------------------------|----------------------|
| Oct-13       | Financial Hedge    | 1,008,000                                 | 1,215,959                    | 1,140,667               | 132,667                              | \$ 117,104           |
| Nov-13       | Financial Hedge    | 882,000                                   | 935,130                      | 957,292                 | 75,292                               | \$ 38,762            |
| Dec-13       | Financial Hedge    | 840,000                                   | 987,307                      | 955,184                 | 115,184                              | \$ 120,872           |
| Jan-14       | Financial Hedge    | 882,000                                   | 959,394                      | 936,756                 | 54,756                               | \$ 83,412            |
| Feb-14       | Financial Hedge    | 798,000                                   | 914,450                      | 932,864                 | 134,864                              | \$ 143,951           |
| Mar-14       | Financial Hedge    | 924,000                                   | 990,948                      | 1,050,676               | 126,676                              | \$ 129,200           |
| Apr-14       | Financial Hedge    | 924,000                                   | 1,067,461                    | 1,064,551               | 140,551                              | \$ 135,433           |
| May-14       | Financial Hedge    | 966,000                                   | 1,075,257                    | 1,091,538               | 125,538                              | \$ 133,976           |
| Jun-14       | Financial Hedge    | 966,000                                   | 1,042,712                    | 1,084,976               | 118,976                              | \$ 110,267           |
| Jul-14       | Financial Hedge    | 1,008,000                                 | 1,077,488                    | 1,134,464               | 126,464                              | \$ 43,394            |
| Aug-14       | Financial Hedge    | 966,000                                   | 1,082,212                    | 1,112,169               | 146,169                              | \$ 20,924            |
| Sep-14       | Financial Hedge    | <u>924,000</u>                            | <u>1,054,727</u>             | <u>1,067,764</u>        | <u>143,764</u>                       | <u>\$ (84,462)</u>   |
| <b>Total</b> |                    | <b>11,088,000</b>                         | <b>12,403,045</b>            | <b>12,528,900</b>       | <b>1,440,900</b>                     | <b>\$ 992,834</b>    |

**NOTE**

1. The gallons above the financial hedge volumes, as shown in the variance, were bought at the prevailing market prices.