

FUEL PRICE RISK MANAGEMENT POLICY REPORT

"FUEL HEDGE"

Mar-16

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(Office of Management and Budget 04/07/2016)

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 FY2016 seven hedges totaling 10.58M gallons were executed at an average price of \$2.6797. As of March 31, 2016 a total of nine hedges totaling 9.99M gallons at an average price of \$1.8780 have been executed for FY2017. One hedge totaling 2.84M gallons at an average price of \$1.1290 has been executed for FY2018.

(Hedge prices are market price only, not including transportation, additive and taxes). See Attachment A for hedge details. METRO currently has chosen, Merrill Lynch Commodities Inc., and Goldman, Sachs & Co. to bid financial hedges. A comparison of the FY2016 hedged gallons, actual usage and hedge collections is outlined in Attachment B. Hedge payments fiscal year to date total \$7.69M.

B. 5 Year Contract for Electricity

In May 2015 the Board authorized the President and CEO to execute and deliver a contract for electricity provider services for an amount not-to-exceed \$26,491,835, with a 25% energy component and an option to participate in demand response services. The contract was awarded in June 2015 to GDF SUEZ Energy Resources NA Inc. (Suez) to supply electricity for 5 years beginning June 2015 to June 2020. The contract rate of \$.03841 per kilowatt hour was fixed for the term of contract while the Transmission and Distribution (TDSP) charges may vary depending on the Texas Utilities Commission policies.

This contract hedges METRO's electricity requirements for 5 years, providing budget certainty on price in accord with the Board's Fuel Price Risk Management Policy adopted February 2006.

ATTACHMENT A

METRO
FY2016, FY2017 and FY2018 Fuel Hedge (Diesel) - Status 03/31/16
(Office of Management and Budget 04/07/2016)

Financial Hedge (Oct-Sep Delivery)

| | <u>Delivery Year</u> | <u>Gallons</u> | <u>Fuel Type</u> | <u>Vendor</u> | <u>Date of Purchase</u> | <u>Avg. Price per gallon</u> | <u>Cost</u> |
|----|----------------------|----------------|------------------|----------------------|-------------------------|------------------------------|---------------|
| a. | FY2016 | 1,512,000 | USLD | Goldman, Sachs & Co. | 1/3/14 | \$2.6900 | \$ 4,067,280 |
| b. | FY2016 | 1,386,000 | USLD | Merrill Lynch | 1/15/14 | \$2.6830 | \$ 3,718,638 |
| c. | FY2016 | 2,226,000 | USLD | Goldman, Sachs & Co. | 4/2/14 | \$2.7000 | \$ 6,010,200 |
| d. | FY2016 | 3,024,000 | USLD | Merrill Lynch | 9/11/14 | \$2.7025 | \$ 8,172,310 |
| e. | FY2016 | 1,512,000 | USLD | Merrill Lynch | 9/29/14 | \$2.6820 | \$ 4,055,184 |
| f. | FY2016 | 420,000 | USLD | Merrill Lynch | 10/7/14 | \$2.6035 | \$ 1,093,478 |
| g. | FY2016 | 504,000 | USLD | Merrill Lynch | 10/16/14 | \$2.4693 | \$ 1,244,536 |
| | | 10,584,000 | | | | \$2.6797 | \$ 28,361,626 |
| g. | FY2017 | 420,000 | USLD | Merrill Lynch | 10/7/14 | \$2.6005 | \$ 1,092,202 |
| h. | FY2017 | 210,000 | USLD | Merrill Lynch | 10/16/14 | \$2.4871 | \$ 522,291 |
| i. | FY2017 | 840,000 | USLD | Goldman, Sachs & Co. | 12/19/14 | \$2.0275 | \$ 1,703,100 |
| j. | FY2017 | 420,000 | USLD | Goldman, Sachs & Co. | 1/22/15 | \$1.8225 | \$ 765,450 |
| k. | FY2017 | 2,100,000 | USLD | Merrill Lynch | 6/8/15 | \$1.9820 | \$ 4,162,200 |
| l. | FY2017 | 1,932,000 | USLD | Merrill Lynch | 7/2/15 | \$1.9640 | \$ 3,794,494 |
| m. | FY2017 | 2,016,000 | USLD | Merrill Lynch | 7/17/15 | \$1.8225 | \$ 3,674,215 |
| n. | FY2017 | 1,218,000 | USLD | Goldman, Sachs & Co. | 8/11/15 | \$1.7320 | \$ 2,109,530 |
| o. | FY2017 | 840,000 | USLD | Merrill Lynch | 1/20/16 | \$1.1292 | \$ 948,528 |
| | | 9,996,000 | | | | \$1.8780 | \$ 18,772,009 |
| p. | FY2018 | 2,520,000 | USLD | Merrill Lynch | 1/20/16 | \$1.1290 | \$ 2,844,954 |
| | | 2,520,000 | | | | \$1.1290 | \$ 2,844,954 |

ATTACHMENT B

METRO
FY2016 DIESEL FUEL

(Office of Management and Budget 04/07/2016)

| Month | Fuel Source | Gallons in Financial Hedge | Gallons Purchased | Gallons Used | Gallons Used Variance | Swap Receipts From/ (Payments To) Trader/s |
|--------------|--------------------|---|------------------------------|-------------------------|--------------------------------------|---|
| Oct-15 | Financial Hedge | 966,000 | 1,066,902 | 1,074,554 | 108,554 | \$ (1,260,395) |
| Nov-15 | Financial Hedge | 798,000 | 918,965 | 1,065,957 | 267,957 | \$ (1,061,626) |
| Dec-15 | Financial Hedge | 840,000 | 979,257 | 941,661 | 101,661 | \$ (1,328,794) |
| Jan-16 | Financial Hedge | 798,000 | 847,803 | 890,895 | 92,895 | \$ (1,237,641) |
| Feb-16 | Financial Hedge | 798,000 | 886,381 | 892,203 | 94,203 | \$ (1,357,877) |
| Mar-16 | Financial Hedge | 924,000 | 1,024,726 | 1,009,910 | 85,910 | \$ (1,444,582) |
| Apr-16 | Financial Hedge | 882,000 | | | | |
| May-16 | Financial Hedge | 882,000 | | | | |
| Jun-16 | Financial Hedge | 924,000 | | | | |
| Jul-16 | Financial Hedge | 924,000 | | | | |
| Aug-16 | Financial Hedge | 966,000 | | | | |
| Sep-16 | Financial Hedge | 882,000 | | | | |
| Total | | 10,584,000 | 5,724,034 | 5,875,179 | 751,179 | \$ (7,690,913) |

NOTE

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