

FUEL PRICE RISK MANAGEMENT POLICY REPORT

"FUEL HEDGE"

September 2019

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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.

Per the METRO Fuel Price Risk Management Policy, "METRO will minimize operating budget variance attributable to fuel price variability through physical forward contracts and/or financial contracts. METRO will develop and implement a plan which will provide fuel and energy commodity price certainty for up to 24 months of expected consumption such that the operating budget expense is assured with some potential to realize savings if prices decline."

All hedges will be constructed to qualify for hedge accounting treatment under Financial Accounting Standards Board (FASB) guidelines. This means that any financial hedge instrument must settle against, or directly link to, the index used as the pricing reference in the applicable procurement contract. For example, if METRO has a contract for delivery of fuel based on Platt's Gulf Coast Low-Sulfur Diesel Index, the financial hedge must reconcile to Platt's Gulf Coast Low-Sulfur Diesel Index.

A. Diesel Fuel Hedges

Also per METRO's Fuel Price Risk Management Policy, the Authority's Diesel Fuel Hedge Strategy Team, referred to here as "Team", makes hedging decisions on METRO's behalf. The Team is lead from the Procurement department's perspective, and is comprised of Operations, Finance, Procurement, and Executive Office staff. The Team's objective is to strategically enter into agreements that cover 80% - 90% of projected fuel requirements. Actions and correspondence are typically conducted and documented via email, and the Team convenes as needed. Upon agreement by vote, the Office of Management and Budget, and Procurement department collaboratively initiate and execute Financial Hedge Swap Agreements.

Through February 9, 2018, five buys totaling 10.332M gallons averaging \$1.6582 per gallon were executed to complete FY2019 hedging. Five buys completed the FY2020 hedging for a total of 10.542M gallons at the average price of \$1.8696 per gallon. Through August 9, 2019, two buys were executed for FY 2021 totaling 3.360M gallons at the average price of \$1.7678 per gallon. (Hedge prices are market rate only, not including transportation, additive and taxes).

See Attachment A for hedge details. METRO currently has trade partnerships with Bank of America Merrill Lynch, and J. Aron & Company LLC/Goldman Sachs. A summary of FY2019 hedged gallons, actual usage and settlements are outlined in Attachment B. Fiscal year to date hedge receipts total \$2,617,125.

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
Fiscal Years 2018, 2019, 2020 and 2021 Fuel Hedge (Diesel) - Status September 2019

Financial Hedge (Oct-Sep Delivery)

	<u>Delivery</u> <u>Year</u>	<u>Gallons</u>	<u>Fuel Type</u>	<u>Vendor</u>	<u>Date of</u> <u>Purchase</u>	<u>Avg. Price</u> <u>per gallon</u>	<u>Cost</u>
1	FY2018	2,520,000	USLD	Merrill Lynch	1/20/2016	\$ 1.1290	\$ 2,844,954
2	FY2018	3,486,000	USLD	Merrill Lynch	5/9/2016	\$ 1.4585	\$ 5,084,331
3	FY2018	1,470,000	USLD	Goldman, Sachs & Co.	7/22/2016	\$ 1.5375	\$ 2,260,125
4	FY2018	1,554,000	USLD	Merrill Lynch	8/1/2016	\$ 1.4805	\$ 2,300,697
5	FY2018	252,000	USLD	Goldman, Sachs & Co.	8/31/2016	\$ 1.6105	\$ 405,846
6	FY2018	672,000	USLD	Goldman, Sachs & Co.	9/1/2016	\$ 1.5700	\$ 1,055,040
7	FY2018	378,000	USLD	Merrill Lynch	11/4/2016	\$ 1.5794	\$ 597,013
8	FY2018	168,000	USLD	Goldman, Sachs & Co.	3/10/2017	\$ 1.5440	\$ 259,392
		10,500,000				\$ 1.4102	\$ 14,807,398
1	FY2019	840,000	USLD	Merrill Lynch	11/4/2016	\$ 1.5934	\$ 1,338,414
2	FY2019	2,520,000	USLD	Goldman, Sachs & Co.	5/2/2017	\$ 1.5450	\$ 3,893,400
3	FY2019	1,344,000	USLD	Goldman, Sachs & Co.	6/13/2017	\$ 1.4940	\$ 2,007,936
4	FY2019	504,000	USLD	Merrill Lynch	6/23/2017	\$ 1.4875	\$ 749,700
5	FY2019	5,124,000	USLD	Goldman, Sachs & Co.	2/9/2018	\$ 1.7843	\$ 9,142,925
		10,332,000				\$ 1.6582	\$ 17,132,375
1	FY2020	1,260,000	USLD	Goldman, Sachs & Co.	2/12/2018	\$ 1.7774	\$ 2,239,524
2	FY2020	2,520,000	USLD	Goldman, Sachs & Co.	11/21/2018	\$ 1.9490	\$ 4,911,543
3	FY2020	2,520,000	USLD	Merrill Lynch	12/26/2018	\$ 1.6965	\$ 4,275,180
4	FY2020	1,344,000	USLD	Merrill Lynch	4/12/2019	\$ 2.0558	\$ 2,763,040
5	FY2020	2,898,000	USLD	Goldman, Sachs & Co.	5/24/2019	\$ 1.9048	\$ 5,519,982
		10,542,000				\$ 1.8696	\$ 19,709,269
1	FY 2021	1,512,000	USLD	Goldman, Sachs & Co.	6/6/2019	\$ 1.7830	\$ 2,695,930
2	FY 2021	1,848,000	USLD	Merrill Lynch	8/9/2019	\$ 1.7525	\$ 3,238,620
		3,360,000				\$ 1.7678	\$ 5,934,550

ATTACHMENT B

METRO
FY2019 Settlement Summary

Month	Fuel Source	Gallons in Financial Hedge	Gallons Purchased	Gallons Used	Gallons Used Variance ⁽¹⁾	Swap Receipts From/ (Payments To) Trader/s
Oct-18	Financial Hedge	882,000	1,025,741	951,083	69,083	\$ 557,021
Nov-18	Financial Hedge	840,000	898,666	888,613	48,613	\$ 283,710
Dec-18	Financial Hedge	882,000	854,323	880,774	(1,226)	\$ 87,028
Jan-19	Financial Hedge	880,222	880,640	909,287	29,065	\$ 147,584
Feb-19	Financial Hedge	798,000	875,944	859,193	61,193	\$ 242,159
Mar-19	Financial Hedge	882,000	927,054	959,655	77,655	\$ 284,168
Apr-19	Financial Hedge	840,000	925,050	956,686	116,686	\$ 336,739
May-19	Financial Hedge	882,000	1,058,833	1,007,755	125,755	\$ 325,017
Jun-19	Financial Hedge	840,000	942,793	971,863	131,863	\$ 169,848
Jul-19	Financial Hedge	882,000	1,106,171	1,034,293	152,293	\$ 85,642
Aug-19	Financial Hedge	882,000	1,016,991	1,050,011	168,011	\$ 5,557
Sep-19	Financial Hedge	840,000	882,048	963,176	123,176	\$ 92,652
Total		10,330,222	11,394,254	11,432,387	1,102,165	\$ 2,617,125

NOTE

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