

FUEL PRICE RISK MANAGEMENT POLICY REPORT

"FUEL HEDGE"

September 2020

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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.

Five buys completed FY2020 hedging for a total of 10.542M gallons at the average price of \$1.8679 per gallon. Eight buys completed FY 2021 hedges totaling 10.836M gallons averaging \$1.7344 per gallon. METRO is about 74% hedged for FY2022 with 8.568M gallons contracted through September at an average price of \$1.4617 per gallon. (Hedged at market rate only, excluding transportation, additive and taxes).

See Attachment B for details. METRO currently has trade partnerships with Bank of America Merrill Lynch, and J. Aron & Company LLC/Goldman Sachs. A summary of FY2020 hedged gallons, actual usage and settlements are outlined in Attachment B. Fiscal year to date net settlements total (\$5,512,343).

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 2019 - 2022 Fuel Hedge (Diesel) - Status through September 2020

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>
1	FY2019	840,000	ULSD	Merrill Lynch	11/4/2016	\$ 1.5934	\$ 1,338,414
2	FY2019	2,520,000	ULSD	J. Aron	5/2/2017	\$ 1.5450	\$ 3,893,400
3	FY2019	1,344,000	ULSD	J. Aron	6/13/2017	\$ 1.4940	\$ 2,007,936
4	FY2019	504,000	ULSD	Merrill Lynch	6/23/2017	\$ 1.4875	\$ 749,700
5	FY2019	5,124,000	ULSD	J. Aron	2/9/2018	\$ 1.7843	\$ 9,142,925
		10,332,000				\$ 1.6582	\$ 17,132,375
1	FY2020	1,260,000	ULSD	J. Aron	2/9/2018	\$ 1.7774	\$ 2,239,498
2	FY2020	2,520,000	ULSD	J. Aron	11/21/2018	\$ 1.9490	\$ 4,911,543
3	FY2020	2,520,000	ULSD	Merrill Lynch	12/26/2018	\$ 1.6965	\$ 4,275,180
4	FY2020	1,344,000	ULSD	Merrill Lynch	4/12/2019	\$ 2.0558	\$ 2,761,920
5	FY2020	2,898,000	ULSD	J. Aron	5/24/2019	\$ 1.9048	\$ 5,503,168
		10,542,000				\$ 1.8679	\$ 19,691,309
1	FY 2021	1,512,000	USLD	J. Aron	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	FY 2021	2,016,000	ULSD	Merrill Lynch	10/2/2019	\$ 1.7350	\$ 3,497,760
4	FY 2021	2,940,000	ULSD	J. Aron	10/3/2019	\$ 1.7250	\$ 5,071,609
5	FY 2021	546,000	ULSD	J. Aron	1/14/2020	\$ 1.7935	\$ 979,272
6	FY 2021	1,176,000	ULSD	Merrill Lynch	1/23/2020	\$ 1.7090	\$ 2,009,784
7	FY 2021	504,000	ULSD	J. Aron	1/30/2020	\$ 1.6450	\$ 829,080
8	FY2021	294,000	ULSD	J. Aron	2/3/2020	\$ 1.6068	\$ 472,399
		10,836,000				\$ 1.7344	\$ 18,794,454
1	FY 2022	1,008,000	ULSD	Merrill Lynch	1/23/2020	\$ 1.6960	\$ 1,709,568
2	FY 2022	1,008,000	ULSD	J. Aron	2/3/2020	\$ 1.6084	\$ 1,621,217
3	FY 2022	672,000	ULSD	Merrill Lynch	2/6/2020	\$ 1.6690	\$ 1,121,568
4	FY 2022	1,092,000	ULSD	J. Aron	3/6/2020	\$ 1.5690	\$ 1,713,306
5	FY 2022	966,000	ULSD	Merrill Lynch	3/18/2020	\$ 1.2850	\$ 1,241,310
6	FY 2022	1,512,000	ULSD	Merrill Lynch	6/10/2020	\$ 1.3830	\$ 2,091,096
7	FY 2022	2,310,000	ULSD	J. Aron	9/14/2020	\$ 1.3100	\$ 3,026,180
		8,568,000				\$ 1.4617	\$ 12,524,245

ATTACHMENT B

METRO
FY2020 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-19	Financial Hedge	882,000	1,024,497	1,008,556	126,556	\$ 5,674
Nov-19	Financial Hedge	840,000	928,649	883,305	43,305	\$ (16,435)
Dec-19	Financial Hedge	882,000	869,577	900,411	18,411	\$ 48,145
Jan-20	Financial Hedge	840,000	911,938	918,689	78,689	\$ (84,899)
Feb-20	Financial Hedge	840,000	808,487	868,829	28,829	\$ (246,649)
Mar-20	Financial Hedge	882,000	821,987	896,804	14,804	\$ (793,937)
Apr-20	Financial Hedge	882,000	650,357	616,031	(265,969)	\$ (945,416)
May-20	Financial Hedge	882,000	583,229	722,308	(159,693)	\$ (901,841)
Jun-20	Financial Hedge	882,000	802,313	827,721	(54,279)	\$ (686,532)
Jul-20	Financial Hedge	882,000	996,162	903,525	21,525	\$ (596,610)
Aug-20	Financial Hedge	882,000	869,591	857,018	(24,982)	\$ (599,042)
Sep-20	Financial Hedge	882,000	796,538	786,879	(95,121)	\$ (694,802)
Total		10,458,000	10,063,325	10,190,075	(267,925)	\$ (5,512,343)

NOTE

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