

FUEL PRICE RISK MANAGEMENT POLICY REPORT

"FUEL HEDGE"

September 2023

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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.

METRO currently has a trade partnership with J. Aron & Company LLC, Goldman Sachs.

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. Eight buys completed FY 2022 hedges totaling 9.072M gallons averaging \$1.4486 per gallon. (Hedged at market rate only, excluding transportation, additive and taxes).

FY 2023 estimated usage was updated on June 17, 2022, and a hedge was executed on June 30, for 7.014M gallons, at an average price of \$3.2376 per gallon. This results in an 83% hedged position for October 2022 through September 2023. See Attachment A1 for details.

Fiscal settlements through September total (\$2,202,031). A summary of FY2023 hedged gallons, actual usage and settlements are outlined in Attachment B1.

FY 2024 estimated usage was updated on June 14, 2023, and a hedge was executed on June 29, for 9.534M gallons, at an average price of \$2.2870 per gallon. This results in an 87.56% hedged position for October 2023 through September 2024. See Attachment A1 for details.

ATTACHMENT A

METRO
Fiscal Years 2020 - 2024 Fuel Hedge (Diesel) - Contracts through September 2024

Financial Hedge (Oct-Sep Delivery)

	Delivery Year	Gallons	Fuel Type	Vendor	Date of Purchase	Avg. Price per Gallon	Cost
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	FY 2022	504,000	ULSD	J. Aron	10/30/2020	\$ 1.2252	\$ 617,484
		9,072,000				\$ 1.4486	\$ 13,141,729
1	FY 2023	7,014,000	ULSD	J. Aron	6/30/2022	\$ 3.2376	\$ 22,708,430
		7,014,000				\$ 3.2376	\$ 22,708,430
1	FY 2024	9,534,000	ULSD	J. Aron	6/29/2023	\$ 2.2870	\$ 21,804,556
		9,534,000				\$ 2.2870	\$ 21,804,556

ATTACHMENT B

METRO
Diesel Fuel Settlement Summary

Trade Month	Hedged Gallons	Purchased Gallons	Used Gallons	Useage Variance	Receipts (Payments)	Hedged PPG	Settlement PPG
Oct-22	630,000	782,576	794,178	164,178	\$ 85,995	\$ 3.6584	\$ 3.7949
Nov-22	630,000	801,283	713,688	83,688	\$ (130,347)	\$ 3.5614	\$ 3.3545
Dec-22	630,000	692,639	745,942	115,942	\$ (320,040)	\$ 3.4714	\$ 2.9634
Jan-23	630,000	769,327	771,858	141,858	\$ (145,467)	\$ 3.4092	\$ 3.1783
Feb-23	462,000	759,794	726,664	264,664	\$ (254,978)	\$ 3.3170	\$ 2.7651
Mar-23	504,000	915,904	855,298	351,298	\$ (274,075)	\$ 3.2187	\$ 2.6749
Apr-23	504,000	824,493	813,502	309,502	\$ (314,395)	\$ 3.1403	\$ 2.5165
May-23	504,000	890,548	879,425	375,425	\$ (390,146)	\$ 3.0742	\$ 2.3001
Jun-23	630,000	928,975	934,446	304,446	\$ (436,905)	\$ 3.0415	\$ 2.3480
Jul-23	630,000	897,280	937,594	307,594	\$ (253,764)	\$ 3.0101	\$ 2.6073
Aug-23	630,000	987,039	1,009,947	379,947	\$ 44,667	\$ 2.9760	\$ 3.0469
Sep-23	630,000	928,295	932,789	302,789	\$ 187,425	\$ 2.9381	\$ 3.2356
Total	7,014,000	10,178,153	10,115,331	3,101,331	\$ (2,202,031)	\$ 3.2347	\$ 2.8988

Trade Settlement History						
Fiscal Year	Hedged Gallons	Purchased Gallons	Used Gallons	Useage Variance	Receipts (Payments)	
2019	10,330,222	11,394,254	11,432,387	1,102,165	\$ 2,617,125	
2020	10,458,000	10,063,325	10,190,075	(267,925)	\$ (5,512,343)	
2021	10,836,000	8,687,048	8,913,746	(1,922,254)	\$ 80,787	
2022	9,072,000	9,277,674	9,240,024	168,024	\$ 15,684,367	
2023	7,014,000	10,178,153	10,115,331	3,101,331	\$ (2,202,031)	