METROPOLITAN TRANSIT AUTHORITY

Fuel Price Risk Management Policy

Amended: July 24, 2008

Preface

The Metropolitan Transit Authority (METRO) recognizes that the purchase of fuels and energy necessary to provide mass transit to the public exposes its operating budget to the volatility inherent in the energy markets. METRO wishes to reduce, as much as practical, budgetary exposure to fuel price volatility by hedging with physical and/or financial contracts.

Goal

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.

Philosophy

METRO's Fuel Price Risk Management Policy (the "Policy") is an executable hedge plan which both allows and directs specific actions given certain market conditions. The tactics discussed in the Policy allow METRO alternatives to achieving the goal. The policy applies to all contracts for the purchase of fuel subsequent to the date hereof.

METRO will define the total amount of fuel and energy, which is eligible to be hedged for each budgetary cycle. These quantities will be set as the result of collaboration between the appropriate departments including operations, finance, procurement and the executive office. The volume of any physical or financial contract(s) will never exceed the eligible volume for any period. With a goal of July 15 of each year, the following fiscal year's budget cycle is targeted to be hedged to be within the guidelines of the Policy. Not having the next fiscal year's budget cycle hedged by such date is not a violation of the Policy.

All hedges will be constructed so as to be qualified for hedge accounting treatment under FASB guidelines. (This means that any financial hedge instrument must settle against or be directly linked 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, then the financial hedge must also be based on Platt's Gulf Coast Low-Sulfur Diesel Index.) Therefore, all physical procurement contracts must be priced by an index for which there exists a liquid forward market. In other words, each hedging instrument must match the commodity that is ultimately being used by METRO.

METRO intends to enter into both physical and financial purchase contracts. METRO will use a broad-based competitive process to ensure the lowest possible price. METRO recognizes that

both physical and financial alternatives must be examined to achieve the best results in varying markets. No tactics involving financial leverage or even modest basis risk will be utilized. All tactics will be reviewed in the context of how a prudent man would react to learning of an adverse move in that instrument.

Appropriate procedures will regulate the amount of counterparty credit/performance risk taken by METRO. These procedures will address minimum counterparty credit ratings and collateralization requirements.

Proper reporting practices will insure that both METRO's management and Board will be kept appropriately informed of the relevant metrics of the program. Separation of execution and reporting responsibilities will insure that timely and accurate information is being reported. The Procurement Department will be responsible for competitively bidding and awarding the contracts and executing transaction confirmations. The Treasury Department will be responsible for verifying all orders based on duplicate confirmations from the suppliers and the transaction clerk's daily log. All reports, internal and to the Board, will be produced by the Office of Management and Budget. Monthly reports will be made to the Finance/Audit Committee of the Board.

Procedures and Guidelines

1. Management shall set specific commodity price targets with corresponding authorized quantities to be hedged. The resulting table of price and quantity for each commodity will serve as the "executable hedge plan" which will dictate the course of action for the authorized transaction clerk.

2. Select (and train if necessary) two persons from the Procurement Department who shall be authorized to execute transactions when and as directed with authorized counterparties. The designated fuel transaction clerks shall complete a *transaction record* the day a transaction is executed to ensure a timely record of each and every transaction. Copies will be distributed to Operations, Finance–Treasury & OMB and Procurement management daily.

3. Select and set up master swap agreements (International Swaps and Derivatives Association, Inc.; ISDA agreements; "Guaranteed Price Contract") with as many pre-qualified financial counterparties as possible in order to assure through competition that METRO transacts "at the market" and diversifies counterparty performance/credit risk. All agreements shall require that Counterpartys shall either have a minimum long-term rating of "A3" or "A-" by at least two of the three nationally recognized rating agencies or have collateral posting requirements for entities with ratings below this level.

4. Structure an information system to capture and report physical and financial positions so that each can be reviewed separately and in total so that net price risk and collateralization requirements can be accurately assessed and managed in real time. This system will also serve as a central check and balance tool; therefore, it should allow for reconciliation of physical and financial confirmations with transactional input. The confirmations are generated by the designated fuel transaction clerk. The information system will be maintained by the Finance Department which reports separately to the President & CEO.

All reports, internal and to the Board, will be produced by the Office of Management and Budget.

5. Financial transactions will match the physical risk they are intended to hedge in duration, quantity, and price (basis) risk. At no time shall the quantity of executed financial contracts exceed the quantity of fuel METRO has budgeted for delivery in a given period.

6. By July 15th of each year, the coming fiscal year's fuel/energy budget shall be hedged in such a way that the budget calculations can determine a maximum expense for each budget category.

Tactics

1. Fixed Price Future Delivery Contracts (Fiscal Year 2006 Cost Price Averaging Technique):

   a. Discuss purchasing opportunities with multiple major suppliers;
   b. Negotiations with a selected contractor on the component parts of the total price of Number 2 Diesel (base, Txled, transportation);
   c. Guaranteed delivery within a specified future period;
   d. METRO pays after delivery. No deposits or collateralization required.

   Note: This is the tactic that METRO used to procure diesel fuel for December 2005 through May 2006.

2. Guaranteed Price Contracts (Swaps):

   a. Pre-qualify fuel vendors and financial companies to enter into guaranteed price contracts with METRO;
   b. Enter into master agreements with qualified companies; (ISDA Master swap agreements)
   c. Procure a fuel supplier using a competitive process;
   d. Procure a fuel deliverer using a competitive process;
   e. Procure a guaranteed price contract as per guidelines and procedures as described in the policy.

Example:

METRO separates fuel purchasing into two procurements, 1) physical and 2) financial. The physical contract combines the fuel supplier (refinery) and fuel deliverer (trucking company) into one contract. In the physical contract METRO bids out the right to deliver set quantities of diesel to METRO's tanks in December 2006. This is the same procurement method that METRO used prior to January 2005. The low bid specifies that METRO will pay in December 2006 the Platt's Gulf Coast Low Sulfur Diesel Index plus $0.02 per gallon (transportation). METRO conducts a separate bid process for a contract whereby METRO will sell the same quantity of fuel at the December 2006 index price for Platt's Gulf Coast Low Sulfur Diesel and METRO will simultaneously purchase such amount of fuel at a fixed price. The low bid for the guaranteed price contract is $1.90 per gallon. Hence, METRO's net cost will be $1.90 + 0.02 = $1.92.

Financial		Physical	
BUY	SELL	BUY	SELL
$1.90	Platt's	Platt's + .02	

Then in December 2006, the fuel is delivered and the Platt's Index is $2.50 per gallon. METRO pays the physical contract supplier $2.52 per gallon (Platt's Index and transportation). METRO receives $0.60 per gallon from the guaranteed price contract creating a net cost of $1.92 per gallon.

Financial		Physical	
BUY	SELL	BUY	SELL
$1.90	~~Platt's~~	~~Platt's~~ + .02	

Supplier $2.52
Swap (.60)
METRO $1.92

Platt's = $2.50

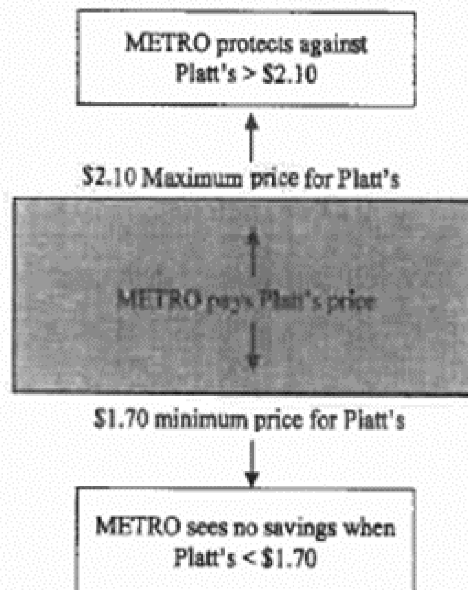
3. Maximum/Minimum Price Contracts (Collars):

   a. Pre-qualify fuel vendors and financial companies to enter into maximum/minimum price contracts with METRO;
   b. Enter into master agreements with qualified companies;
   c. Procure a fuel supplier using a competitive process;
   d. Procure a fuel deliverer using a competitive process;
   e. Procure a maximum/minimum price contract as per guidelines and procedures as described above. This tactic sets a maximum fuel price above which METRO will incur no cost, as well as a minimum price below which METRO will not participate in cost savings. In between the maximum and minimum prices, METRO will pay market price (such as a Platt's Index).

Example:

METRO enters into a competitive procurement for physical delivery of diesel in December 2006. The low bidder agrees to provide to METRO's tanks the diesel fuel for Platt's Index plus $0.02 per gallon (transportation). A second procurement requests bids for the minimum price in a contract that specifies that METRO will purchase an amount of fuel at Platt's Index with a maximum price of $2.10 per gallon and that METRO will not make any upfront payment for this contract. The variable in the bid process is the minimum price that METRO will pay. In addition to this purchase the contract specifies that METRO will sell a like amount of diesel at the Platt's Index. The low bidder agrees to enter into a contract with a minimum price of $1.70 per gallon. Hence METRO pays a net price of Platt's Index within a collar of $2.10 and $1.70 plus the $0.02 transportation from the physical contract.

Assuming that Platt's Index is at $2.50 in December 2006, METRO will pay the physical supplier $2.52 per gallon. The collar contract will have METRO buying at $2.10 and selling at $2.50 for a net benefit of $0.40 per gallon. Hence METRO's net cost of fuel is $2.12 per gallon.



Supplier	$2.52
Collars	<.40>
METRO	$2.12

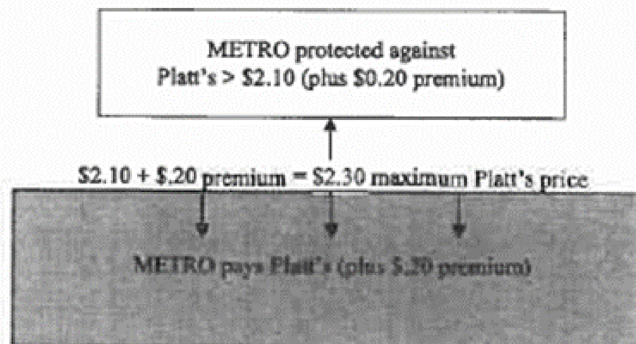
4. Maximum Price Contracts (Cap):

   a. Pre-qualify fuel vendors and financial companies to enter into maximum price contracts with METRO;
   b. Enter into master agreements with qualified companies;
   c. Procure a fuel supplier using a competitive process;
   d. Procure a fuel deliverer using a competitive process;
   e. Procure a maximum price contract as per guidelines and procedures as described above. This tactic sets a maximum fuel price above which METRO will incur no cost. Beneath the maximum, METRO will pay the market price (such as a Platt's Index) plus the contract premium price.

Example:

METRO enters into a competitive procurement for physical delivery of diesel in December 2006. The low bidder agrees to provide to METRO's tanks the diesel fuel for Platt's Index plus $0.02 per gallon transportation. A second procurement requests bids for a contract in which METRO will purchase fuel at Platt's Index with a specified maximum price of $2.10 per gallon. The variable in the bid process is the price premium that METRO will pay on the contracted volume. In addition to this purchase the contract specifies that METRO will sell a like amount of diesel at the Platt's Index. The low bidder agrees to enter into a contract with a premium of $0.20 per gallon. Hence METRO pays a net price of Platt's Index with a maximum price of $2.10, plus $0.20 premium and plus the $0.02 from the physical contract.

Assuming that Platt's Index is at $2.50 in December 2006, METRO will pay the physical supplier $2.52 per gallon. The cap contract will have METRO buying at $2.10 and selling at $2.50 plus paying a premium of $0.20 for a net benefit of $0.20 per gallon. Hence METRO's net cost of fuel is $2.32 per gallon.



Note: Maximum price tactic is analogous to purchasing $2.10 fuel price insurance for $.20/gallon.