

FUEL PRICE RISK MANAGEMENT POLICY REPORT

"FUEL HEDGE"

September 2022

FUEL PRICE RISK MANAGEMENT POLICY REPORT

September 2022

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 trade partnerships with Bank of America Merrill Lynch, and 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. (Hedged at market rate only, excluding transportation, additive and taxes).

Authority mileage forecasts were received from the Operations Department, and the FY 2022 estimated usage was updated in September. As a result, METRO is 88% hedged for FY2022 with 9.072M gallons contracted through September at an average price of \$1.4486 per gallon.

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 \$15,684,367. A summary of FY2022 hedged gallons, actual usage and settlements are outlined in Attachment B1.

B. 5 Year Contract for Electricity

The Board authorized contract for electricity provider services concluded in June 2020. The replacement contract does not hedge electricity requirements. As a result, the quarterly Fuel Hedge Risk Management Report no longer reports electricity contract activity.

ATTACHMENT A

METRO
Fiscal Years 2020 - 2023 Fuel Hedge (Diesel) - Contracts through September 2023

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	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

ATTACHMENT B

METRO
FY2022 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-21	Financial Hedge	798,000	749,247	779,307	(18,693)	\$ 663,596
Nov-21	Financial Hedge	798,000	771,549	716,831	(81,169)	\$ 575,026
Dec-21	Financial Hedge	798,000	730,598	749,207	(48,793)	\$ 463,449
Jan-22	Financial Hedge	798,000	692,807	730,905	(67,095)	\$ 735,281
Feb-22	Financial Hedge	756,000	680,978	676,551	(79,449)	\$ 972,518
Mar-22	Financial Hedge	798,000	785,750	779,798	(18,202)	\$ 1,760,501
Apr-22	Financial Hedge	756,000	768,566	756,952	952	\$ 1,864,649
May-22	Financial Hedge	798,000	773,702	798,501	501	\$ 2,024,207
Jun-22	Financial Hedge	756,000	858,817	809,791	53,791	\$ 2,196,961
Jul-22	Financial Hedge	672,000	756,814	809,355	137,355	\$ 1,562,904
Aug-22	Financial Hedge	672,000	877,086	832,230	160,230	\$ 1,499,249
Sep-22	Financial Hedge	672,000	831,760	800,595	128,595	\$ 1,366,025
Total		9,072,000	9,277,674	9,240,024	168,024	\$ 15,684,367

NOTE

1. Gallons above financial hedge volumes are purchased at daily market prices.