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SEPTEMBER 14, 2015

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON PAW
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
EXECUTIVE DIRECTOR, FINANCE AND BUDGET

SUBJECT: NATURAL GAS HEDGING PROGRAM

ISSUE

The Natural Gas Hedging Program (the "Hedging Program") requires that we report compliance with the Hedging Program Guidelines and program performance to the Board on a quarterly basis. This report is provided for the quarter and fiscal year ended June 30, 2015.

DISCUSSION

The purpose of this report is to present the status of compliance and performance for the hedged portion of our compressed natural gas ("CNG") budget. Operations related variances are presented in order to provide an overall perspective for CNG costs.

The objective of the Hedging Program is to improve budget certainty for fuel costs and to help determine the CNG budget for the upcoming year by establishing a portion of the cost in advance or otherwise reducing the effects of price volatility on the budget. The Hedging Program allows us to use commodity swaps, commodity options and cost stabilization reserves.

Currently, the natural gas hedging program uses financial swaps where the index price used to value the swaps is based on the wholesale price of natural gas at the California-Arizona border on a monthly basis. Swaps effectively "lock-in" our cost for a volume of natural gas that is equivalent to the volume of the swap. When prices end up being higher than the swap price, we pay more to the natural gas supplier and receive a payment from the swap to offset the higher cost of natural gas. When prices end up being lower than the swap price, we pay less to the natural gas supplier and make a payment to the swap to offset the lower cost of gas. In the fourth quarter of fiscal 2015, we had one swap in place that expired as of June 30, 2015 and had entered into three swaps for fiscal 2016.

Quarterly Summary of Outstanding Hedge Transactions
Valuation as of June 30, 2015

Period Hedged	Provider	Credit Ratings (S&P, Moody's, Fitch)	Contract Fixed Rate per Therm	Market* Rate per Therm as of 6/30/15	Remaining Therms	Current Market Value
FY16	Citibank	A/A1/A+	$0.3872	$0.3043	8,400,000	-$696,360
FY16	RBC	AA-/Aa3/AA	$0.3349	$0.3043	8,400,000	-$257,040
FY16	RBC	AA-/Aa3/AA	$0.3055	$0.3043	8,400,000	-$10,080
Total				-	25,200,000	-$963,480

*Market price derived by adding henry hub natural gas futures prices to SoCal Basis swap prices as reported by Bloomberg.
* Market rate rounded to the nearest 1/100th of a cent per therm.

Compliance

As of the date of this report the Hedging Program is in compliance with all the specified limitations and requirements. The individual compliance items are listed on Attachment A.

Performance

For the quarter, CNG costs were approximately $1.3 million under budget, including the $241,850 cost of the hedge, and the actual average gas price of $0.488 was lower than the per therm budget price of $0.60. The actual usage was lower than budgeted by 16,729 therms. See Attachment B.

For all of fiscal 2015, CNG costs were approximately $2.1 million under budget, including the $400,400 cost of the hedge, and the actual average gas price of $0.5499 was lower than the per therm budget price of $0.60. The actual usage was higher than budgeted by approximately 440,000 therms. See Attachment C.

Natural gas market prices continue to be relatively stable due to the lack of any unexpected demand caused by an unusually cold winter as we saw in 2013-2014 where prices spiked or unusually hot summer where there is a higher than expected demand for electricity for cooling – electricity that is typically generated using natural gas. Natural gas inventories are 22.5% larger than a year ago and 2.2% larger than the five year average. Plentiful inventories cause prices to be relatively low and less volatile which is the current market condition. The forward pricing curve continues to be positively sloped where forward prices are higher than spot prices. Currently, FY 2017 forward prices are $0.014 per therm higher than FY 2016 forward prices, which reflects the cost of storage.

Currently, 53% of expected natural gas consumption for FY 2016 has been hedged at an expected price below the budgeted $0.50 per therm. As we move further into FY 2016, additional hedges may be placed for the balance of FY 2016 depending on market pricing and the level of FY 2016 budget risk. As price opportunities present themselves, hedging for FY 2017 will begin in order to establish a degree of cost certainty with respect to the budgeting process.

NEXT STEPS

- Enter into additional hedges for fiscal 2016 and fiscal 2017 as warranted.

ATTACHMENTS

A. Program Compliance
B. Quarterly Summary of CNG Costs and Variances
C. Fiscal Year Summary of CNG Costs and Variances

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ATTACHMENT A

Program Compliance

Maximum Trade Maturity – The guidelines specify that the maximum trade maturity for hedges is 30 months forward to coincide with the last business day of the fiscal year being hedged. – Hedges are less than 30 months forward.

Hedge Ratio - Limited to 100% of planned volume –FY16 hedges are less than 100%, in compliance with the Hedging Program Guidelines.

Counterparty Credit Criteria – Requirements to post collateral are based on credit ratings of the counterparties and volume of hedges; in compliance.

- Aa3/AA- or better — No collateral required
- A3/A- or better — $25 million limit without collateral
- Baa1/BBB+ — $15 million limit without collateral
- Baa2/BBB — $10 million limit without collateral
- Baa3/BBB- — $ 2.5 million limit without collateral

Re-Confirm Assumptions –Before entering into new hedges we will reconfirm assumptions with our hedging advisor.

Re-Confirmation of Therms - The amount of therms will be reconfirmed with Operations prior to entering into new hedges.

All information is as of June 30, 2015, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY 2015 QTR 4

Performance vs. Budget	Price per Therm		Volume in Therms	Total Cost	
Budget	$	0.6000	11,597,707	$	6,958,624
Actual therms consumed	$	0.4676	11,580,978	$	5,414,892
Variance to Budget excluding hedge: Fav (Unfav)	**$**	**0.1324**	**16,729**	**$**	**1,543,732**
Variance Analysis:					
Actual volume vs budget variance fav (unfav)	$	0.6000	16,729	$	10,037
Actual price vs budget variance fav (unfav)	$	0.1324	11,580,978	$	1,533,695
Variance to Budget excluding hedge: Fav (Unfav)				**$**	**1,543,732**
Therms Hedged and net receipts (payments) for hedge (a)			2,100,000	$	(241,850)
% of budgeted therms hedged			18.11%		
Total variance to budget including hedge				**$**	**1,301,882**
Total cost of gas including hedge	**$**	**0.488**		**$**	**5,656,742**
Actual cost as a percentage of budget					81.3%

(a) One hedge was in place for 4th quarter FY15.

ATTACHMENT C

Annual Summary of CNG Costs and Variances
FY 2015

Performance vs. Budget	Price per Therm		Volume in Therms	Total Cost	
Budget	$	0.6000	46,022,105	$	27,613,263
Actual therms consumed	$	0.5413	46,462,498	$	25,148,861
Variance to Budget excluding hedge: Fav (Unfav)	**$**	**0.0587**	**(440,393)**	**$**	**2,464,402**
Variance Analysis:					
Actual volume vs budget variance fav (unfav)	$	0.6000	(440,393)	$	(264,236)
Actual price vs budget variance fav (unfav)	$	0.0587	46,462,498	$	2,728,638
Variance to Budget excluding hedge: Fav (Unfav)				**$**	**2,464,402**
Therms Hedged and net receipts (payments) for hedge (a)			4,200,000	$	(400,400)
% of budgeted therms hedged			9.13%		
Total variance to budget including hedge				**$**	**2,064,002**
Total cost of gas including hedge	**$**	**0.550**		**$**	**25,549,261**
Actual cost as a percentage of budget					92.5%

(a) One hedge was in place for FY15.