Los Angeles County
Metropolitan Transportation Authority
One Gateway Plaza
Los Angeles, CA 90012-2952
213.922.2000 Tel
metro.net

Metro

DECEMBER 14, 2015

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

PAW

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 ended September 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 first quarter of fiscal 2016, we had entered into three swaps for fiscal 2016.

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

Period Hedged	Provider	Credit Ratings (S&P, Moody's, Fitch)	Contract Fixed Rate per Therm	Market* Rate per Therm as of 9/30/15	Remaining Therms Hedged	Current Market Value
FY16	Citibank	A/A1/A+	$0.3872	$0.2719667	6,300,000	-$725,970
FY16	RBC	AA-/Aa3/AA	$0.3349	$0.2719667	6,300,000	-$396,480
FY16	RBC	AA-/Aa3/AA	$0.3055	$0.2719667	6,300,000	-$211,260
Total				-	18,900,000	-$1,333,709

*Market price derived by adding henry hub natural gas futures prices to SoCal Basis swap prices as reported by Bloomberg.

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 $461,000 over budget, including the $354,060 cost of the hedge, and the actual average gas price of $0.497 was slightly higher than the per therm budget price of $0.496. The actual usage was higher than budgeted by 193,124 therms. See Attachment B. Total cost of CNG was expected to be lower given the lower cost of raw natural gas. This has not been the case recently as other charges from the supplier not related to the wholesale cost of natural gas (pipeline transportation, etc.) have unexpectedly increased significantly, causing an under-estimation of total CNG cost.

The natural gas market continues to be very well supplied and benchmark prices have decreased accordingly. As of November 19, 2015, natural gas inventories in the US were 11.20% larger than one year ago and 5.50% larger than the five year average for this time of year. Inventories are at an all-time high of 4 trillion cubic feet and the market is at its lowest price level for November since 1998. Plentiful inventories cause prices to be low and less volatile which is the current market condition. An unseasonably warm fall and the forecast of a warmer than usual winter are weighing on price keeping inventories elevated. The forward pricing curve continues to be positively sloped where forward prices are higher than spot prices. The difference between spot and forward prices represents the cost of storage for the natural gas.

Currently, 53% of expected natural gas consumption for the remainder of FY 2016 has been hedged. Given current market conditions and because a portion of projected FY 2016 consumption has already been consumed, budget risk for FY 2016 has decreased. Thus, it is unlikely that additional hedging will be recommended for FY 2016. The current market environment presents an opportunity to begin hedging FY

2017 at relatively low prices under $0.50 per therm. FY 2017 can be hedged currently at a price that is lower than any average fiscal year price over the past 15 years.

NEXT STEPS

- Enter into hedges for fiscal 2017 as warranted.

ATTACHMENTS

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

Prepared by: Donna Mills, Treasurer (213) 922-4047
LuAnne Edwards Schurtz, Assistant Treasurer (213) 922-2554

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 September 30, 2015, unless otherwise specified.

Quarterly Summary of CNG Costs and Variances
FY 2016 QTR 1

Performance vs. Budget	Price per Therm	Volume in Therms	Total Cost
Budget	$ 0.4960	11,796,579	$ 5,851,103
Actual therms consumed	$ 0.4969	11,989,703	$ 5,958,035
Variance to Budget excluding hedge: Fav (Unfav)	**$ (0.0009)**	**(193,124)**	**$ (106,932)**
Variance Analysis:			
Actual volume vs budget variance fav (unfav)	$ 0.4960	(193,124)	$ (95,790)
Actual price vs budget variance fav (unfav)	$ (0.0009)	11,989,703	$ (11,142)
Variance to Budget excluding hedge: Fav (Unfav)			**$ (106,932)**
Therms Hedged and net receipts (payments) for hedge (a)		6,300,000	$ (354,060)
% of budgeted therms hedged		53.41%	
Total variance to budget including hedge			**$ (460,992)**
Total cost of gas including hedge	**$ 0.526**		**$ 6,312,095**
Actual cost as a percentage of budget			107.9%

(a) Three hedges were in place for 1st quarter FY16.