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SEPTEMBER 21, 2017

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

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, 2017.

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. As Metro did not enter into any hedges for fiscal year 2017, this report presents the actual cost of our CNG in comparison to what was budgeted for the quarter and for the fiscal year. Operations related variances are presented in order to provide an overall perspective for CNG costs.

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 fiscal year 2017, the hedging program took a slightly different approach based on performance during the prior fiscal year. The hedging agreements related to the wholesale base cost of natural gas do not include any surcharges or tariffs charged by SoCal Gas. In fiscal year 2016 the surcharges/tariffs increased significantly, reducing the cost savings expected to offset payments for the hedge. Pending resolution of those rising costs that cannot be hedged, we decided against hedging the CNG costs in fiscal year 2017.

The surcharges/tariffs applied to SoCal Gas Company charges, unrelated to the wholesale cost of natural gas (e.g. pipeline transportation, weather fluctuation, etc.) remained well above the original expectations and historical norms for the past several quarters. During discussions with our SoCal Gas Account Manager about the rise in transportation related fees, Metro staff determined that fees had risen in large part due to increased infrastructure costs associated with pipelines and storage facilities. The California Public Utilities Commission ("CPUC") approved a petition by SoCal Gas to reduce transportation fees specifically for fuel customers such as Metro. Metro staff has observed a decrease to these fees with the receipt of the January 2017 billing to a level consistent with charges from December of 2015. This realized decrease has remained unchanged through the end of fiscal year 2017.

For the quarter ending June 30, 2017, CNG costs were approximately $288,000 under budget as actual usage was approximately 633,000 therms below budget primarily due to operating fewer miles than budgeted. The actual average gas price was very close to budget per therm at $0.534 vs. the budgeted amount of $0.530 (see Attachment B).

For the fiscal year ending June 30, 2017, CNG costs were approximately $342,000 under budget as actual usage was approximately 3.7 million therms below budget primarily due to operating fewer miles than budgeted. The actual average gas price was slightly higher than budget per therm at $0.567 vs. the budgeted amount of $0.530 (see Attachment C).

Since the end of the 4th quarter, inventories have decreased with respect to the five year average, rig count has decreased slightly from 185 to 182 and prices are virtually unchanged. This current market environment presents the potential to hedge the balance of FY 2018 at an index gas cost of around $0.2908 per therm (plus the current additional cost of $0.2265 per therm in SoCal Gas Company charges), for a total expected cost of about $0.5173 per therm for the last ten months of fiscal year 2018, compared to the FY18 budgeted cost of $0.5100 per therm. For FY 2019, prices can currently be hedged at $0.5037 per therm given the assumptions for pricing FY 2018 above.

At the May 2017 Regular Board Meeting, Metro entered into a five year indefinite delivery/indefinite quantity contract with Clean Energy as a Biomethane Gas Provider. Under the terms of the contract, for the first year Clean Energy will provide CNG for a single bus division as a pilot program at a $0.005/therm discount to the SoCal Border Index beginning August 1, 2017. Pending the results of the pilot, the contract gives the option to extend the pilot to the remaining divisions for four additional years. This development and the possibility of extending this contract to the remaining divisions for an additional four years will have no material effect on the economic results of natural gas hedging in the future. However, under the new contract, the raw price of gas will be invoiced separately from SoCal Gas Company's transmission charges enabling a clearer view of the effects of hedging on cost.

NEXT STEPS

- Enter into hedges for FY 2018 as warranted
- Continue to monitor the lowering of surcharge/tariffs with SoCal Gas and the CPUC
- Continue to monitor the effects of the Contract with Clean Energy

ATTACHMENTS

A. Program Compliance
B. Quarterly Summary of CNG Costs and Variances
C. Annual 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. – As of June 30, 2017 there are no hedges in place.

Hedge Ratio - Limited to 100% of planned volume –There were no hedges in place for FY17 therefore we are 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; there are no hedges in place therefore we are 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, 2017, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY 2017 QTR4

Performance vs. Budget	Price per Therm		Volume in Therms	Total Cost	
Budget	$	0.5300	11,788,985	$	6,248,162
Actual therms consumed	$	0.5343	11,155,676	$	5,960,630
Variance to Budget excluding hedge: Fav (Unfav)	**$**	**(0.0043)**	**633,309**	**$**	**287,532**
Variance Analysis:					
Actual volume vs budget variance fav (unfav)	$	0.5300	633,309	$	335,654
Actual price vs budget variance fav (unfav)	$	(0.0043)	11,155,676	$	(48,122)
Variance to Budget excluding hedge: Fav (Unfav)				**$**	**287,532**
Therms Hedged and net receipts (payments) for hedge (a)			-	$	-
% of budgeted therms hedged			0.00%		
Total variance to budget (No hedges entered)				**$**	**287,532**
Total cost of gas including hedge (No hedges entered)	**$**	**0.534**		**$**	**5,960,630**
Actual cost as a percentage of budget					95.4%

(a) No hedges were in place for 4th quarter FY17.

ATTACHMENT C

Annual Summary of CNG Costs and Variances
FY 2017

Performance vs. Budget	Price per Therm	Volume in Therms	Total Cost
Budget	$ 0.5300	48,169,104	$ 25,529,625
Actual therms consumed	$ 0.5665	44,462,845	$ 25,187,166
Variance to Budget excluding hedge: Fav (Unfav)	**$ (0.0365)**	**3,706,259**	**$ 342,459**
Variance Analysis:			
Actual volume vs budget variance fav (unfav)	$ 0.5300	3,706,259	$ 1,964,317
Actual price vs budget variance fav (unfav)	$ (0.0365)	44,462,845	$ (1,621,858)
Variance to Budget excluding hedge: Fav (Unfav)			**$ 342,459**
Therms Hedged and net receipts (payments) for hedge (a)		-	$ -
% of budgeted therms hedged		0.00%	
Total variance to budget including hedge			**$ 342,459**
Total cost of gas including hedge	**$ 0.566**		**$ 25,187,166**
Actual cost as a percentage of budget			98.7%

(a) No hedges were in place for FY17.