



Metro

Los Angeles County
Metropolitan Transportation Authority

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APRIL 10, 2020

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON *PAW*
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER *Nalini Ahuja*

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 December 31, 2019.

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 has not entered into any hedges for fiscal year 2020, this report presents the actual cost of our CNG in comparison to what was budgeted for the quarter. 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

Staff recommends against hedging the CNG costs in fiscal year 2020. The explicit disclosure of surcharges associated with pipeline and storage facilities has created greater transparency when analyzing pricing components related to implementing hedge strategies. However, the recent market prices for wholesale base costs of gas have been below historical averages with less volatility than previously observed. This market environment does not immediately warrant entering into a hedge for purposes of price stabilization. We are actively monitoring the current market and will continue to evaluate opportunities for hedging should they arise.

For the quarter ending December 31, 2019, CNG costs were approximately \$285,000 under budget as a result of lower volume of approximately 970,000 therms compared to budget. The actual average gas price was greater than the budgeted amount at approximately \$0.526 vs. \$0.506 per therm respectively (see Attachment B). The lower usage was primarily due to operating fewer miles and at greater fuel efficiency than budgeted.

Since the end of the first quarter FY 2020, inventories decreased going from 0.50% less than the five year average to 1.20% less than the five year average inventory. The number of drilling rigs exploring for natural gas decreased from 146 to 125 and Metro's average gas price increased from the first quarter FY 2020 average price.

The recent market environment presents the potential to hedge the remainder of FY 2020 wholesale base cost of gas at an index gas cost around \$0.1365 per therm (plus the current additional cost of \$0.2197 per therm in Southern California Gas Company delivery charges) resulting in a total expected cost of \$0.3562 per therm compared to the FY20 budgeted cost of \$0.5065 per therm. Currently FY 2021 wholesale base cost of gas can be hedged at an index gas cost around \$0.2249 with a total expected cost of \$0.4446 per therm (assuming Southern California Gas Company delivery charges remain constant).

NEXT STEPS

- Enter into hedges for FY 2020 and FY 2021 as warranted
- Continue to monitor the increases of surcharge/tariffs with Southern California 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

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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 December 31, 2019 there are no hedges in place.

Hedge Ratio - Limited to 100% of planned volume –There were no hedges in place for FY19 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 December 31, 2019, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY 2020 QTR2

Summary Analysis:	Note	Price per Therm	Volume in Therms	Total Cost
Total Budget	(a)	\$ 0.5064	11,761,860	\$ 5,957,912
Total Actual	(a)	\$ 0.5255	10,791,862	\$ 5,672,977
Total variance to budget including hedge: Fav (Unfav)	(b)	\$ (0.0191)	969,998	\$ 284,935
<i>Actual cost as a percentage of budget</i>				95.2%
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Performance vs. Budget:		Price per Therm	Volume in Therms	Total Cost
Wholesale Base Cost of Gas				
Budget		\$ 0.2866	11,761,860	\$ 3,371,295
Actual		\$ 0.3057	10,791,862	\$ 3,299,497
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)		\$ (0.0191)	969,998	\$ 71,798
So Cal Gas Co. Infrastructure Costs				
Budget	(a)	\$ 0.2197	11,761,860	\$ 2,586,617
Actual	(a)	\$ 0.2197	10,791,862	\$ 2,373,480
Infrastructure Cost Variance to Budget: Fav (Unfav)		\$ -	969,998	\$ 213,138
Total Budget	(a)	\$ 0.5064	11,761,860	\$ 5,957,912
Total Actual excluding hedge	(a)(b)	\$ 0.5255	10,791,862	\$ 5,672,977
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)	\$ (0.0191)	969,998	\$ 284,935
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Variance Analysis:		Price per Therm	Volume in Therms	Total Cost
Wholesale Base Cost of Gas				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2866	969,998	\$ 278,030
Variance resulting from cost variance: Fav (Unfav)		\$ (0.0191)	10,791,862	\$ (206,232)
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)				\$ 71,798
So Cal Gas Co. Infrastructure Costs				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2197	969,998	\$ 213,138
Variance resulting from cost variance: Fav (Unfav)		\$ -	10,791,862	\$ -
Infrastructure Cost Variance to Budget: Fav (Unfav)				\$ 213,138
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)			\$ 284,935

(a) "Total Cost" includes a Fixed Customer Charge of \$2,184 for the quarter; a fixed fee of approximately \$728 per month across all 12 of Metro's locations for being a customer of SoCal Gas Company

(b) No hedges were in place for FY 2020 QTR2.