



Metro

Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000 Tel
metro.net

MARCH 19, 2007

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER

SUBJECT: COMPRESSED NATURAL GAS (CNG) HEDGING PROGRAM

ISSUE

The Finance and Budget Committee requested additional information about the hedging program, Item 8, at the March 15, 2007 meeting.

DISCUSSION

1. *What would the result have been if Metro had hedged for its CNG cost for FY2007?*

We used historic pricing information to replicate hedge pricing for three fiscal years, FY04 through FY06, and for the first nine months of FY07. The hedged prices were compared to the Gas Company's historic monthly rates. The results from hedging, compared to not hedging, are indicated as "Difference Favorable/(Un-favorable)" in the chart below. A positive difference indicates a lower cost by hedging. Overall, through March 2007, hedging would have produced a favorable variance of \$11 million.

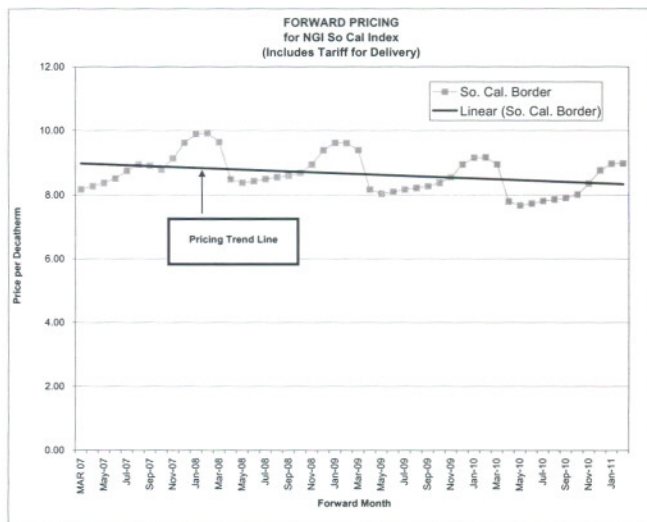
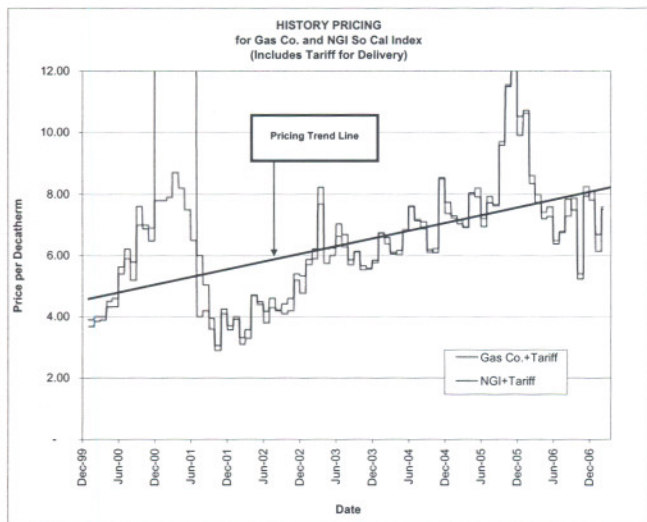
**Los Angeles County Metropolitan Transportation Authority
Multi-year Summary of Hedge Program Results**

	Hedged Price	Actual Gas Price	Price Difference	Number of Units (Decatherms)	Difference Favorable/ (Un-favorable)
FY04	\$3.83	\$4.92	\$1.10	4,054,785	\$4,441,522
FY05	\$4.79	\$5.95	\$1.16	4,631,130	\$5,368,302
FY06	\$6.19	\$7.67	\$1.48	4,955,443	\$7,320,676
FY07 through March	\$7.74	\$6.15	(\$1.59)	3,825,000	(\$6,087,849)
					<u>\$11,042,651</u>

Because only the cost of the gas commodity is relevant to the hedge, other costs including the transportation tariff, taxes and other charges are excluded from the analysis. Historically these other costs have added approximately \$1.00 per decatherm, \$0.10 per therm.

2. What information is available regarding pricing trends in the natural gas markets?

A trend of generally increasing gas prices began in about 2000, as shown in the chart “Pricing History” below. The Department of Energy’s (DOE) forecast currently indicates an expectation of slightly increasing prices, up one percent in the next year. However, pricing in the forward markets is currently indicating a slight downward trend, as seen in the chart below “Forward Prices for Natural Gas”



There are any numbers of sources such as the DOE, including economists, analysts, banks and brokers who attempt to forecast future gas prices. From a financial perspective, forward prices are the best indication of future pricing because they reflect all the information known to the market participants at the time.

For further information, please call Terry Matsumoto at 213.922.2473.

Prepared by: Michael J. Smith, Assistant Treasurer