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May 27, 2014

TO: BOARD OF DIRECTORS

THROUGH: ARTHUR T. LEAHY
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.

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 establish the CNG budget for the upcoming year by capping the cost in advance or otherwise reducing the effects of price increases on the budget. The Hedging Program allows us to use commodity swaps, commodity options and cost stabilization reserves.

Under the current "costless collar" strategy there is no upfront cash outlay. A "ceiling" or upper limit and "floor" or the lower limit are measured against an Index price. If the Index price stays within the collar no payments are made by us or the hedge counterparty. If the index rises above the ceiling, the hedge counterparty pays us and if the index drops below the floor, we pay the hedge counterparty. The Index, based on the wholesale price to Southern California Gas Company, is closely correlated to the monthly cost Metro pays before transportation and distribution fees of approximately $0.11 per therm.

As of March 31, 2014, we had one hedge transaction outstanding for the remainder of FY14. The current hedge offers price protection on approximately 12% of projected consumption for the remainder of the fiscal year. Currently we do not have any hedges in place for FY15. The table below provides a summary of the outstanding hedge transaction. Positive/(negative) market value indicates the amount we would receive/(pay) on an early termination at the specified valuation date. The Contract Rates, Ceiling and Floor, reported in the table below do not include the transportation and delivery fees Metro pays.

Quarterly Summary of Outstanding Hedge Transactions
Valuation as of March 31, 2014

Period Hedged	Provider	Credit Ratings (S&P, Moody's, Fitch)	Index Rate per Therm	Remaining Therms	Current Market Value*
FY 14	Bank of America	A-/Baa2/A	Ceiling / Floor $0.450/ $0.298	1,456,000	$21,143.74

*Monthly LIBOR rate used.

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 $1,528,146 over budget as the actual average gas price of $0.633 per therm was marginally higher than the $0.50 per therm budget price, even though the actual usage was lower than budget.

For the quarter, 1.44 million therms were hedged compared to 11.47 million therms actually consumed, for a realized hedge ratio of 12.6%. During the third quarter of fiscal 2014, a total payment amount of $74,512 was made to us by the counterparty as the Index was above the collar. See Attachment B.

The updated Hedging Program was approved by the Board in April 2014. The revisions made to the program to incorporate changes mandated by the Dodd-Frank Act for all swap and hedging participants are currently being implemented. Once we have entered into the agreements required under the Dodd-Frank Act, we will be able to enter into new hedges.

The extremely cold winter in the Northeast and Midwest caused prices to increase. As inventories are replenished over the summer, prices should become more attractive creating opportunity to hedge FY 2015 at more attractive prices. The current plan is to build the hedge over the next several months to 50% of projected consumption for FY 2015 at an average price of $0.50 to $0.55 per therm. Given the budget of $0.60 per therm, the current plan will provide adequate budget protection while allowing participation in lower prices if and when they occur.

NEXT STEPS

- Complete execution of Dodd-Frank documents.
- Review program with hedge consultant and execute additional hedges as determined in consultation with OMB and Operations.

ATTACHMENTS

A. Program Compliance
B. Quarterly 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. – All trade maturities are in compliance.

Hedge Ratio - Limited to 100% of planned volume - All trade amounts have been in compliance with the Hedging Program Guidelines.

Counterparty Credit Ratings – No changes in ratings this quarter.

Summary of Credit Ratings-March 31, 2014

Provider	Credit Ratings (S&P/ Moody's / Fitch)
Bank of America	A-/Baa2/A

Collateral Requirements – Requirements to post collateral are based on credit ratings of the counterparties. The threshold is $25 million for counterparties rated "A-/A3" or better. The current market value of our existing trade is significantly below the $25 million threshold, so no collateral is required.

Re-Confirm Assumptions – Assumptions have been reconfirmed for factors that would affect the Gas Company's cost of gas and reduce the correlation between the Gas Company's cost and the pricing index the hedges are tied to. Before entering into new hedges we will confirm assumptions with our hedging consultant.

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

All information is as of the report date for the end of the quarter, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY14 Q3

Performance vs. Budget	Price per Therm	Volume in Therms	Total Cost
Budget	$ 0.50	12,522,615	$ 6,261,308
Therms hedged and net payments for hedge {a} (Receipts)		1,440,000	$ (74,512)
Actual therms consumed	$ 0.640	11,473,342	$ 7,339,329
Total cost of gas including hedge	$ 0.633		**$ 7,264,817**
% of therms hedged		12.6%	
Actual volume vs budget variance fav (unfav)		1,049,273	$ 524,637
Actual price vs budget variance fav (unfav)	$ (0.133)		$ (1,528,146)
Total variance to budget fav(unfav)			$ (1,078,022)
Actual cost as a percentage of budget			116.0%

(a) Gain on hedged therms as index was above the hedge collar.

Collar (Ceiling $0.450/Floor $0.298)	Actual Index
Jan-14	$0.46
Feb-14	$0.52
Mar-14	$0.53