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April 2, 2015

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.

In fiscal 2014, we used a "costless collar" strategy where there is no upfront cash outlay. In the current market with lower rates, swaps are recommended over collars. As of December 31, 2014, we had entered into one swap for the second half of fiscal 2015 and one swap for fiscal 2016.

	Provider	Credit Ratings (S&P, Moody's, Fitch)	Contract Fixed Rate per Therm	Therms Hedged
FY15	RBC	AA-/A2/NR	$0.3695	420,000
FY16	Citibank	A/A2/A+	$0.3872	840,000
Total				1,260,000

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 $263,000 under budget as the actual average gas price of $0.569 was lower than the per therm budget price of $0.60, although the actual usage was slightly higher than budgeted by approximately 168,000 therms. See Attachment B.

Natural gas inventory levels have returned to normal as increased natural gas production has refilled the inventories that were depleted during the winter of 2013-2014. Weather for winter 2014-2015 has been especially snowy in parts of the Midwest and northeast but not particularly cold so consumption for the winter heating season has been relatively normal. Current inventory levels are near the five year average levels for this time of year. While spot prices have been decreasing, forward prices have been decreasing as well, due to the replenishment of inventory and the 4.8% year over year growth in natural gas production. This increased level of production decreases the need for inventory storage to meet demand. This mitigates up-side price risk for natural gas and causes future price expectations to be lower than they would be otherwise and keeps downward pressure on price.

Given the budget of $0.60 per therm in fiscal 2015, the hedge for the second half of fiscal 2015 for approximately 18% of the projected consumption, at under $0.50 per therm, provides budget protection while allowing participation in lower prices if and when they occur. Hedging for FY 2016 will continue as market conditions warrant in order to establish the degree of cost certainty necessary with respect to the budgeting process.

NEXT STEPS

- Enter into additional hedges for fiscal 2016 as warranted.

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. – Hedges are less than 30 months forward.

Hedge Ratio - Limited to 100% of planned volume –FY15 and FY16 hedges are less than 100%, in compliance with the Hedging Program Guidelines.

Counterparty Credit Ratings – In compliance.

Collateral Requirements – Requirements to post collateral are based on credit ratings of the counterparties. Providers are not required to post 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 the report date for the end of the quarter, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY15 Q2

Performance vs. Budget	Price per Therm	Volume in Therms	Total Cost
Budget	$ 0.60	11,443,955	$ 6,866,373
Therms hedged and net payments for hedge {a} (Receipts)		-	
Actual therms consumed	$ 0.569	11,611,846	$ 6,603,826
Total cost of gas including hedge	$ 0.569		**$ 6,603,826**
% of therms hedged		0.0%	
Actual volume vs budget variance fav (unfav)		(167,891)	$ (100,735)
Actual price vs budget variance fav (unfav)	$ 0.031		$ 363,282
Total variance to budget fav(unfav)			$ 262,547
Actual cost as a percentage of budget			96.2%

(a) No hedges were in place during the second quarter of FY 2015.