



Metro

Los Angeles County
Metropolitan Transportation Authority

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OCTOBER 13, 2020

TO: BOARD OF DIRECTORS

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

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 and fiscal year ended June 30, 2020.

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 2020, this report presents the actual cost of CNG in comparison to what was budgeted for the quarter and 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. The Hedging Program expired June 30, 2020 and this will be the final report provided under those guidelines. If Metro wishes to enter into hedges in the future, renewed guidelines will be provided to the Board for approval.

PERFORMANCE

Staff recommends against hedging the CNG costs in fiscal year 2021. 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. Staff is actively monitoring the current market and will continue to evaluate opportunities for hedging should they arise.

For the quarter ending June 30, 2020, CNG costs were approximately \$2.3 million under budget as a result of lower volume of approximately 4.3 million therms compared to budget. The actual average gas price was lower than the budgeted amount at approximately \$0.489 vs. \$0.506 per therm respectively (see Attachment B). The lower usage was primarily due to operating fewer miles (including service reductions implemented during safer-at-home orders) and operating at greater fuel efficiency than budgeted.

For the fiscal year ending June 30, 2020, CNG costs were approximately \$3.6 million under budget. Higher actual gas price of \$0.508 vs. the budgeted amount of \$0.506 per therm offset lower volume of approximately 7.2 million therms compared to budget (see Attachment C). The lower usage was primarily due to operating fewer miles at higher fuel efficiency than budgeted.

NEXT STEPS

- Renew Hedging Program Guidelines as warranted
- Enter into hedges for FY 2021 and FY 2022 under renewed guidelines, 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
- C. Annual 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 June 30, 2020 there are no hedges in place.

Hedge Ratio - Limited to 100% of planned volume –There were no hedges in place for FY20 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, 2020, unless otherwise specified.

ATTACHMENT B

Quarterly Summary of CNG Costs and Variances
FY 2020 QTR4

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)	\$ 0.4891	7,480,812	\$ 3,661,107
Total variance to budget including hedge: Fav (Unfav)	(b)	\$ 0.0173	4,281,048	\$ 2,296,805

Actual cost as a percentage of budget

61.4%

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		\$ 0.1995	7,480,812	\$ 1,492,074
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)		\$ 0.0872	4,281,048	\$ 1,879,221
So Cal Gas Co. Infrastructure Costs				
Budget	(a)	\$ 0.2197	11,761,860	\$ 2,586,617
Actual	(a)	\$ 0.2897	7,480,812	\$ 2,169,033
Infrastructure Cost Variance to Budget: Fav (Unfav)		\$ (0.0699)	4,281,048	\$ 417,584
Total Budget	(a)	\$ 0.5064	11,761,860	\$ 5,957,912
Total Actual excluding hedge	(a) (b)	\$ 0.4891	7,480,812	\$ 3,661,107
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)	\$ 0.0173	4,281,048	\$ 2,296,805

Variance Analysis:		Price per Therm	Volume in Therms	Total Cost
Wholesale Base Cost of Gas				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2866	4,281,048	\$ 1,227,074
Variance resulting from cost variance: Fav (Unfav)		\$ 0.0872	7,480,812	\$ 652,147
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)				\$ 1,879,221
So Cal Gas Co. Infrastructure Costs				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2197	4,281,048	\$ 940,675
Variance resulting from cost variance: Fav (Unfav)		\$ (0.0699)	7,480,812	\$ (523,090)
Infrastructure Cost Variance to Budget: Fav (Unfav)				\$ 417,584
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)			\$ 2,296,805

(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 QTR4.

ATTACHMENT C

Annual Summary of CNG Costs and Variances
FY 2020

Summary Analysis:	Note	Price per Therm	Volume in Therms	Total Cost
Total Budget	(a)	\$ 0.5064	47,047,438	\$ 23,831,648
Total Actual	(a)	\$ 0.5079	39,842,849	\$ 20,245,820
Total variance to budget including hedge: Fav (Unfav)	(b)	\$ (0.0016)	7,204,589	\$ 3,585,828

Actual cost as a percentage of budget

85.0%

Performance vs. Budget:		Price per Therm	Volume in Therms	Total Cost
Wholesale Base Cost of Gas				
Budget		\$ 0.2866	47,047,438	\$ 13,485,178
Actual		\$ 0.2633	39,842,849	\$ 10,491,632
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)		\$ 0.0233	7,204,589	\$ 2,993,547
So Cal Gas Co. Infrastructure Costs				
Budget	(a)	\$ 0.2197	47,047,438	\$ 10,346,470
Actual	(a)	\$ 0.2446	39,842,849	\$ 9,754,188
Infrastructure Cost Variance to Budget: Fav (Unfav)		\$ (0.0249)	7,204,589	\$ 592,282
Total Budget	(a)	\$ 0.5064	47,047,438	\$ 23,831,648
Total Actual excluding hedge	(a) (b)	\$ 0.5079	39,842,849	\$ 20,245,820
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)	\$ (0.0016)	7,204,589	\$ 3,585,828

Variance Analysis:		Price per Therm	Volume in Therms	Total Cost
Wholesale Base Cost of Gas				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2866	7,204,589	\$ 2,065,047
Variance resulting from cost variance: Fav (Unfav)		\$ 0.0233	39,842,849	\$ 928,500
Wholesale Cost of Gas Variance to Budget: Fav (Unfav)				\$ 2,993,547
So Cal Gas Co. Infrastructure Costs				
Variance resulting from volume variance: Fav (Unfav)		\$ 0.2197	7,204,589	\$ 1,583,064
Variance resulting from cost variance: Fav (Unfav)		\$ (0.0249)	39,842,849	\$ (990,783)
Infrastructure Cost Variance to Budget: Fav (Unfav)				\$ 592,282
Total Variance to Budget excluding hedge: Fav (Unfav)	(b)			\$ 3,585,828

(a) "Total Cost" includes a Fixed Customer Charge of \$8,736 for the year; 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.