

## **ENERGY PRICE RISK MANAGEMENT STATEMENT OF POLICY GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY**

### **1.0 Mission Statement:**

- 1.1 The Greater Cleveland Regional Transit Authority (GCRTA) will establish and maintain an energy price risk management program (as permitted by Ohio Revised Code sections 9.835 (A), (B) and section (C) which qualifies Ohio Revised Code section 135.14 (hereinafter "Program") that will:
- seek to decrease the volatility of fuel cost;
  - seek to increase the likelihood that actual net fuel cost will remain below the budgeted cost;
  - seek to increase the certainty of future fuel cost;
  - seek to attain a lower overall cost of fuel in the long-term;
  - seek to manage year-over-year changes in fuel cost.
- 1.2 The purpose of GCRTA's energy price risk management program is not to make or lose money but to manage risk. This program is not an investment and should not be construed as such. Cash flows produced or consumed by the Program will be considered as an element of fuel cost.

### **2.0 Program Infrastructure:**

- 2.1 **Instruments** -- The GCRTA will establish and maintain a Futures Account with a Futures Broker (Futures Commission Merchant). GCRTA will engage an Advisor to determine financial strategies which will facilitate the Program. Within this account, the GCRTA will, with the advice of the Advisor, acquire, hold, and dispose of positions in exchange-traded futures contracts according to the strategies in order to operate the Program. The GCRTA will consider various financial instruments (e.g. fixed price contract, price floor discount, maximum price contract, minimum/maximum price contract, fixed price value trigger, and trigger price contract or others deemed prudent) in concert with this policy. These instruments will enable the GCRTA to determine the range of price volatility and variability.
- 2.2 **Maximum Hedge Ratio** -- GCRTA's fuel consumption is highly predictable and without significant variability over time. Given this, the maximum hedge ratio will be 90% of forecasted consumption. This means that the Program will not hedge more than 90% of GCRTA's forecasted needs within any fiscal year and will not liquidate/offset futures contracts within a single calendar month that represent more than 90% of forecasted consumption in that month.
- 2.3 **Maximum Hedge Maturity** -- The maximum maturity of heating oil futures is 36 months.
- 2.4 **Exiting Market Positions** -- Market positions will be exited as fuel is consumed to make the end of the hedge and the pricing of fuel simultaneous. Futures contracts will otherwise be held to maturity and there will be no interim trading allowed. The only exception to this is if the forecasted fuel usage decreases in which case the hedge position will be adjusted to comply with Policy. Futures contracts will not be exited for the purpose of generating a profit.

### **3.0 Physical Supply:**

**3.1** The physical supply of fuel will continue according to the current process of GCRTA. The physical supply will be priced according to a daily floating price determined by the supply contract.

### **4.0 Strategy:**

**4.1** The Strategy is how the Program's objectives are achieved.

**4.2** The Strategy will utilize a process:

- That addresses market opportunities and market risks;
- That holds the risk of exceeding budget at or below an acceptable level;
- That uses historical pricing ranges as pricing parameters;
- That is continuous
- That will use dollar cost averaging a tool
- That mitigates transaction timing risk by making more numerous smaller volume transactions, i.e. 42,000 gallons per transaction.

**4.3** These things will be accomplished by the Advisor executing the appropriate transactions at the appropriate times to create the desired effect within the constraints of the Policy

### **5.0 Execution, Monitoring & Reporting:**

**5.1** The Advisor will be responsible for the day-to-day execution of the Program including the execution of transactions, generating reports on the Program's status and results, and monitoring the Program and the energy markets.

**5.2** The Advisor will generate a weekly update on the status and results of the Program.

**5.3** The Advisor will generate a monthly report regarding the status and results of the Program including an analysis of risk.

**5.4** The Advisor will generate a monthly report summarizing the activity in the futures account.

**5.5** GCRTA will receive daily and monthly statements from the futures broker.

**5.6** The reports will be received by the appropriate individuals at GCRTA.

**5.7** Oversight of the Program will be primarily the responsibility of the Oversight Panel at GCRTA.

**5.8** Reporting to the Board on the performance of the Program will occur periodically as the Board deems appropriate.