Minutes

RTA Organizational, Services and Performance Monitoring Committee Meeting

9:33 a.m., February 4, 2020

Committee: Lucas (Chair), Bibb, Byrne

Other Board members: Clough, Joyce, Moss, Pellot, Welo

Not present: McCall, Serrano

Also Present: Anderson, Astolfi, Benford, Beveridge, Birdsong, Bober, Brooks-Williams, Brown, Burney, Caver, Collier, Cottrell, Dangelo, Davidson, Davis, Fields, Garofoli, Gautam, Gibbons, Gibson, Jones, Kirkland, Leon, Lewis, Lincoln, Loh, Moss, O'Brien, Pinkney-Butts, Schipper, Sims, Snell, Stocking, Sutula, Tarka, Togher, Ulrich, Vukmanic, Wiehe, Winn, Young, Zeller

Rev. Lucas called the meeting to order at 9:33 a.m. The secretary called the roll and reported that three (3) committee members were present.

Energy Price Risk Management Program

Natalie Ulrich, energy manager, gave the presentation. This program is also called the fuel hedging program. The program started in 2009 after a sharp diesel fuel price increase in 2008. In six months, the price went up from $2.64 to $4.16 in July or a 58% increase. In 2007, this expense was $12.1 million. In 2008, it was $19.3 million. A 60% increase. The program secures contracts to set or establish future prices. RTA is not paying for the fuel in advance, but holding a position. They are strategically purchasing contracts at perceived low points in the market. The market is complex, global and volatile. They use a fuel consultant called Linwood Capital, which provides guidance. Ohio Revised Code (ORC) establishes the rules. ORC says that it is intended to mitigate the price for the term of the contract. RTA does not buy and sell the contracts. They hold them. They establish a price they want and they hold it until the contract is about to mature. It is a budgetary and financial tool and not a contract to procure the energy source. Energy is purchased outside of this program. The contract is not an investment.

RTA policy says that the program can only hedge a ratio 90% of the forecasted consumption. There is no interim trading. They only trade and sell contracts when there is an unanticipated change such as a service cut or accelerated displacement of diesel buses. For example, CNG buses are being brought into the fleet, moving out the diesel buses and the need for diesel fuel. We can only hedge three years in advance. The program it is not an investment. Its objective is not to make or lose money but to increase budget certainty, protect against sharp price increases and manage risk. The program narrows the gap of both price increases and decreases. The Authority can handle paying less, but it cannot quickly react to paying more. It reduces net increase in cost of price peaks and reduces net decrease in cost of price drops.

For 2020, we are 98% hedged with an average price of $1.95. For 2021, we are 88% hedged at $1.97. For, 2022, we are 83% hedged at $1.77. This is the baseline for establishing the budget. YTD 2019 diesel fuel budgeted cost was $4.5 million. The net cost was $3.7 million, which was $834K under budget. From 2015 to 2019, we've reduced total diesel fuel and CNG expenses from $12.5 million to $5 million. Diesel fuel expenses decreased as the CNG fleet increased. Even though

CNG expenses increased over the five year period, diesel fuel expenses dropped dramatic. Forty percentage of the fleet is CNG. Cost per gallon went from $2.59 to $1.31. The alternative fuel tax credit will extend to Dec. 2020. So the credit can be claimed on CNG and propane. Without this program and the budget certainty it creates, we'd incur more pain if prices go up than relief if prices go down.

Rev. Lucas adjourned the meeting at 9:43 a.m.

Floun'say R. Caver, Ph.D.
Interim Secretary/Treasurer

Theresa A. Burrage
Executive Secretary