Energy Price Risk Management Program Update

Presented to: Organizational, Services & Performance Monitoring Committee

March 1, 2022
History of Price Risk Management Program

Program started in 2009 after sharp Diesel Fuel price increases in 2008

<table>
<thead>
<tr>
<th></th>
<th>Jan 2008</th>
<th>July 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pump Price</td>
<td>$2.64</td>
<td>$4.16</td>
</tr>
<tr>
<td>Fuel Cost</td>
<td>$12.1MM</td>
<td>$19.3MM</td>
</tr>
</tbody>
</table>

2007 2008

Greater Cleveland Regional Transit Authority
What is the Program?

- Establishing pricing in advance through purchase of futures contracts
- Strategically purchasing contracts at perceived low points in market
- Guidance on market provided by Fuel Consultant – Linwood Capital
Program Rules – Ohio Revised Code

• Intended to mitigate, for the TERM of the contract

• A budgetary and financial tool ONLY and not a contract for the procurement of the energy source

• Energy price risk management contract is NOT an investment
GCRTA Policy

• Maximum hedge ratio 90% of forecasted consumption
• No interim trading – only if forecasted usage decreases
• Maximum hedge maturity 36 months
Energy Price Risk Management Program

The Program

- It is not an investment
- Its objective is not to make or lose money
- Increases Budget Certainty
- Protects against sharp price increases
- Manages Risk
Example – Diesel Price Increases

Current Price – Price at pump $2.60

Bought contract for Dec 2022 @ $1.74
Sell contract for Dec 2022 @ $2.75

Dec 2022 – Price at pump $2.80
Dec 2022 – Gain on sale ($2.75-$1.74) $(1.01)
Net Dec 2022 Cost ($2.80-$1.01) $1.79
Example – Diesel Price Decreases

Current Price – Price at pump $2.60

Bought contract for Dec 2022@ $1.74
Sell contract for Dec 2022 @ $1.45

Dec 2022 – Price at pump $1.50
Dec 2022 – Loss on sale ($1.45-$1.74) $0.29
Net Dec 2022 Cost ($1.50+$0.29) $1.79
Energy Price Risk Management Program

Program Risk Management

- Narrows gap of both price increases and decreases
  - Authority can handle paying less
  - Cannot quickly react to paying more

- Price Peaks – reduces net increase in cost
- Price Drops – reduces net decrease in cost
## Fuel Hedge Contract Status

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
<th>Avg Monthly Price</th>
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</thead>
<tbody>
<tr>
<td>2022</td>
<td>Fully Hedged</td>
<td>$1.77</td>
</tr>
<tr>
<td>2023</td>
<td>Fully Hedged</td>
<td>$1.56</td>
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</tbody>
</table>
YTD 2021 Diesel Fuel

Budgeted Cost $3,065,000
Net Cost 3,422,000
(Over)/Under $(357,000)

Total % over budget 11.6%
Gallons % over budget 8.4%
Price % over budget 2.9%
## Total Diesel & CNG Fueling (in millions)

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</thead>
<tbody>
<tr>
<td>Diesel Gallons</td>
<td>4.4</td>
<td>3.4</td>
<td>3.0</td>
<td>2.5</td>
<td>2.1</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>CNG Diesel Gal Equiv</td>
<td>0.4</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>1.7</td>
<td>1.6</td>
<td>1.8</td>
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<tr>
<td>Cost - Diesel+CNG</td>
<td>$12.5</td>
<td>$9.9</td>
<td>$7.8</td>
<td>$5.6</td>
<td>$5.0</td>
<td>$4.8</td>
<td>$4.8</td>
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<tr>
<td>Cost/Gal</td>
<td>$2.59</td>
<td>$2.16</td>
<td>$1.79</td>
<td>$1.43</td>
<td>$1.30</td>
<td>$1.44</td>
<td>$1.38</td>
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<tr>
<td>Cost/Gal Net of Tax Cr</td>
<td>$2.54</td>
<td>$2.01</td>
<td>$1.61</td>
<td>$1.22</td>
<td>$1.05</td>
<td>$1.17</td>
<td>$1.09</td>
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*Greater Cleveland Regional Transit Authority*