



# Energy Price Risk Management Program Update

Presented to: Organizational, Services &  
Performance Monitoring Committee

February 4, 2020



# History of Price Risk Management Program

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

	<u>Jan 2008</u>	<u>July 2008</u>
Pump Price	\$2.64	\$4.16
	<u>2007</u>	<u>2008</u>
Fuel Cost	\$12.1MM	\$19.3MM

# 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	\$2.00
Buy Nov 2022 Contract @	\$2.10
Sell Nov 2022 Contract in Oct 2022 @	\$2.95
Nov 2022 – Price at pump	\$3.00
Nov 2022 – Gain on sale (\$2.95-\$2.10)	<u>(0.85)</u>
<u>Net Nov 2022 Cost</u> (\$3.00-\$0.85)	<u>\$2.15</u>

## Example – Diesel Price Decreases

Current Price – Price at pump	\$2.00
Buy Nov 2022 Contract @	\$2.10
Sell Nov 2022 Contract in Oct 2022 @	\$1.45
Nov 2022 – Price at pump	\$1.50
Nov 2022 – Loss on sale (\$1.45-\$2.10)	<u>0.65</u>
<u>Net Nov 2022 Cost</u> (\$1.50-\$0.65)	<u>\$2.15</u>



# 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 Status – 01/31/2020

<u>Year</u>	<u>Status</u>	<u>Avg Monthly Price</u>
2020	98% of max hedge	\$1.95
2021	88% of max hedge	\$1.97
2022	83% of max hedge	\$1.77

## YTD 2019 Diesel Fuel

Budgeted Cost	\$4,550,000
Net Cost	<u>3,716,000</u>
(Over)/Under	<u>\$ 834,000</u>
Total % under budget	18.3%
Gallons	3.3%
Price	15.0%

## Total Diesel & CNG Fueling (in millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Diesel Gallons	4.4	3.4	3.0	2.5	2.1
<u>CNG Diesel Gal Equiv</u>	<u>0.4</u>	<u>1.2</u>	<u>1.4</u>	<u>1.5</u>	<u>1.7</u>
Total Cost - Diesel+CNG	\$12.5	\$9.9	\$7.8	\$5.6	\$5.0
Cost/Gal	\$2.59	\$2.16	\$1.79	\$1.43	\$1.31
Cost/Gal Net of Tax Credit	\$2.54	\$2.01	\$1.61	\$1.22	\$1.06

Questions?

