

RESOLUTION NO. 2008-110

AUTHORIZING THE GREATER CLEVELAND REGIONAL TRANSIT
AUTHORITY'S ENERGY PRICE RISK MANAGEMENT POLICY

WHEREAS, the Board of Trustees of the Greater Cleveland Regional Transit Authority will establish 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"); and

WHEREAS, the Program's mission will be to decrease the volatility of fuel cost, increase the likelihood that actual net fuel cost will remain below the budgeted cost, increase the certainty of future cost, attain a lower overall cost of fuel in the long-term, and manage year-over-year changes in fuel cost; and

WHEREAS, the GCRTA will engage an Advisor to determine financial strategies which will facilitate the Program; and

WHEREAS, the GCRTA, with the advice of the Advisor, will use instruments to acquire, hold, and dispose of positions in exchange-traded futures contracts according to the strategies; and

WHEREAS, the GCRTA may use other 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; and


WHEREAS, the Board of Trustees has determined that it is in the best interest of the Authority to establish an Energy Price Risk Management Policy.

NOW, THEREFORE BE IT RESOLVED by the Board of Trustees of the Greater Cleveland Regional Transit Authority, Cuyahoga County, Ohio:


Section 1. That the Energy Risk Management Policy, a copy of which is attached hereto and fully incorporated herein and made a part of this resolution, are hereby adopted as the policy of the Greater Cleveland Regional Transit Authority.

Section 2. That this resolution shall become effective immediately upon its adoption.

Adopted: July 15, 2008



President

Attest: 

CEO, General Manager/Secretary-Treasurer

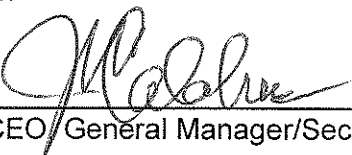


Greater Cleveland Regional Transit Authority
STAFF SUMMARY AND COMMENTS

TITLE/DESCRIPTION: A RESOLUTION ADOPTING THE POLICY FOR THE GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY'S ENERGY PRICE RISK MANAGEMENT PROGRAM	Resolution No.: 2008-110
	Date: July 10, 2008
	Initiator: OMB
ACTION REQUEST: <input checked="" type="checkbox"/> Approval <input type="checkbox"/> Review/Comment <input type="checkbox"/> Information Only <input type="checkbox"/> Other _____	

- 1.0 PURPOSE/SCOPE: This action will allow the Authority to implement an Energy Risk management program and strategy to stabilize and control budgeted diesel fuel cost.
- 2.0 DESCRIPTION/JUSTIFICATION: This action is taken to establish the policies and guidelines for execution of an Energy Price Risk Management Program.
- 3.0 PROCUREMENT BACKGROUND: Does not apply.
- 4.0 DBE/AFFIRMATIVE ACTION BACKGROUND: Does not apply.
- 5.0 POLICY IMPACT: Recent legislation adopted by the State of Ohio allows for the establishment of energy risk management programs. This policy establishes a Greater Cleveland Regional Transit Authority program.
- 6.0 ECONOMIC IMPACT: An Energy Risk Management program will allow the Authority to decrease the volatility of fuel cost, hold actual fuel cost below the budgeted amount, and seeks to attain a lower overall cost of fuel in the long term.
- 7.0 ALTERNATIVES: To continue the current daily pricing mechanisms to purchase fuel as currently executed with associated volatility and budget uncertainty.
- 8.0 RECOMMENDATION: It is recommended that the Energy Risk Management policy presented be approved to allow establishment of the program with the already approved administrator.
- 9.0 ATTACHMENTS: Energy Risk Management policy

Recommended and certified as appropriate to the availability of funds, legal form and conformance with the Procurement requirements.



CEO/General Manager/Secretary-Treasurer

**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** -- To allow the establishment of cost certainty in current and future budget periods, the maximum maturity of heating oil futures positions taken in conjunction with the Program is 24 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.