RESOLUTION NO. 2009-40

AMENDING RESOLUTION NO. 2008-110, THE ENERGY PRICE RISK MANAGEMENT POLICY, TO LENGTHEN THE MAXIMUM HEDGE MATURITY FROM TWENTY-FOUR MONTHS TO THIRTY-SIX MONTHS

WHEREAS, the Board of Trustees of the Greater Cleveland Regional Transit Authority (GCRTA) approved the Energy Price Risk Management Policy pursuant to Resolution No. 2008-110, adopted on July 15, 2008; and

WHEREAS, Resolution No. 2008-110 was amended by Resolution No. 2008-170 to authorize use of swaps, derivatives and fuel futures contracts and to designate eligible financial institutions for the Energy Price Risk Management program adopted on January 13, 2009; and

WHEREAS, the GCRTA has hedged 86.6% of its 2010 fuel requirement at a considerable reduction in budgeted fuel cost; and

WHEREAS, the GCRTA, would like to hedge 2011 fuel at present low prices and hereby seek to increase the certainty of future fuel costs and to attain a lower annual cost of fuel in the long term while these low prices remain available.

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

Section 1. That Resolution No 2008-110 is hereby amended as follows:

> 2.3 Maximum Hedge Maturity -- The maximum maturity of heating oil futures is 36 months.

Section 2. That all other provisions of Resolution 2008-110 remain the same.

Section 3. That this resolution shall become effective immediately upon its adoption.

Attachment: Energy Price Risk Management Statement of Policy.

Adopted: May 19, 2009

President

Attest:

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** -- 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.

Form 100-
326
07-03-97

Greater Cleveland Regional Transit Authority
STAFF SUMMARY AND COMMENTS

TITLE/DESCRIPTION:	
AMENDING THE ENERGY PRICE RISK MANAGEMENT POLICY	Resolution No.: 2009-40
	Date: May 14, 2009
	Initiator: OMB

ACTION REQUEST:
☒ Approval ☐ Review/Comment ☐ Information Only ☐ Other ____________________

1.0 PURPOSE/SCOPE: This action will allow fuel hedging for all of 2011. The GCRTA would be able to take advantage of current low prices and to stabilize and control diesel fuel cost for an extended period.

2.0 DESCRIPTION/JUSTIFICATION: This action will allow the Energy Price Risk Management program currently in place to be used for 2011 diesel fuel while costs are at historic lows. Section 2.3 - Maximum Hedge Maturity is being amended to extend the maximum period from 24 to 36 months.

2.3 Maximum Hedge Maturity -- T~~o allow the establishment of cost certainty in current and future budget periods, t~~he maximum maturity of heating oil futures ~~positions taken in conjunction with the Program~~ is 36~~24~~ months.

3.0 PROCUREMENT BACKGROUND: Does not apply.

4.0 DBE/AFFIRMATIVE ACTION BACKGROUND: Does not apply.

5.0 POLICY IMPACT: To extend the maximum hedge maturity of 24 months, which is currently in place, to 36 months.

6.0 ECONOMIC IMPACT: This action will allow fuel hedge contracts to be purchased at current low prices for 2011. This could result in savings of $1.0 to $1.5 million.

7.0 ALTERNATIVES: Continue the current 24-month maximum hedge maturity. Purchase contracts each month and achieve the best outcome possible for 2011.

8.0 RECOMMENDATION: It is recommended that the maximum hedge maturity be extended. The additional flexibility will allow added savings.

9.0 ATTACHMENTS: None.

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

CEO, General Manager/Secretary-Treasurer