



Finance, Administration and Oversight Committee

Action Item III-D

June 12, 2008

Diesel Swap Authorization

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

<input checked="" type="radio"/> Action <input type="radio"/> Information	MEAD Number: 99992	Resolution: <input checked="" type="radio"/> Yes <input type="radio"/> No
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TITLE:

Diesel Fuel Swap

PURPOSE:

To obtain Board approval to execute commodity swaps to limit the potential impact of further adverse price movements in the cost of diesel fuel.

DESCRIPTION:

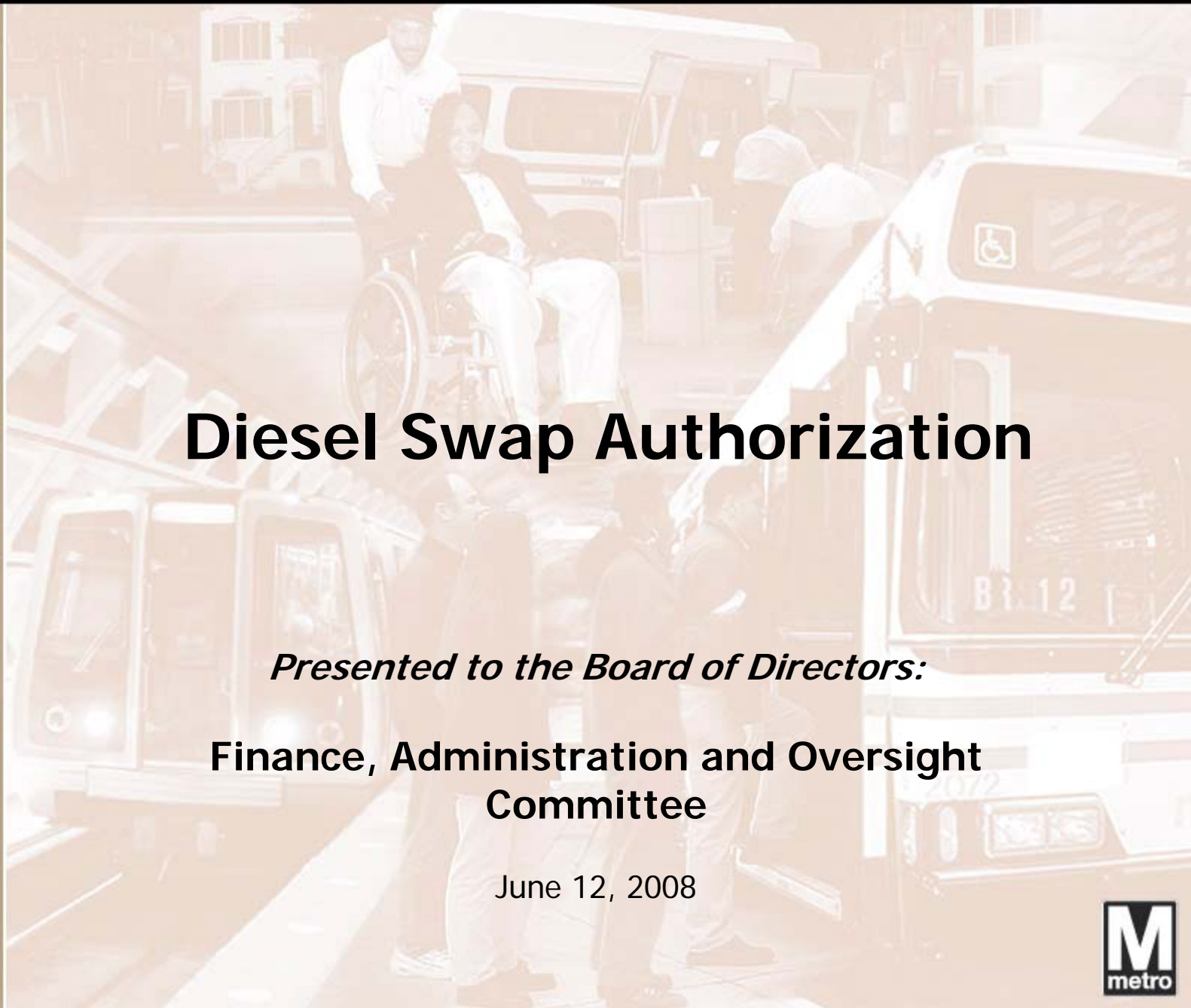
Currently crude oil is trading at new highs almost daily. The cost of this commodity subsequently translates to higher prices to consumers. The Authority consumes close to 12,000,000 gallons of diesel fuel each fiscal year. In December 2006 and January 2007, the Authority executed swap transactions to fix the price of a portion of the fuel it would consume in FY08. As a result, the cost of fuel for this fiscal year will be reduced by approximately \$5,000,000. In July 2008, the Authority will begin to bear the full cost impact of increases in diesel fuel. Execution of a swap today would only assure the payment of extraordinarily high prices currently being reflected in the market. Current market assessments by the Energy Information Administration and others suggest that price pressures will moderate in calendar 2009 as a result of slowing economic activity. The Authority would look to fix the price of a portion of its future fuel needs once the price of oil moves to a level which would guarantee the achievement of the budgeted price. In order to execute effective swaps, staff anticipates that the price of oil will need to fall to approximately \$90.00 a barrel.

FUNDING IMPACT:

No impact on funding.

RECOMMENDATION:

That the Board approve the attached resolution that authorizes the Authority to execute oil price swaps in order to minimize the impact of dramatically higher prices of diesel fuel in FY09 and FY10.



Diesel Swap Authorization

Presented to the Board of Directors:

**Finance, Administration and Oversight
Committee**

June 12, 2008





Background

- Since the early 1990's the Authority has executed a number of diesel fuel swap contracts that have resulted in savings of \$6.3 million
- Existing contracts for diesel fuel swap contracts will expire at the end of FY08
- Board authorization for staff to enter into new swap agreements will also end in June 2008



Existing Contracts

- As an insurance policy, the Authority executed a series of transactions in December 2006 and January 2007 for approximately 75% of the total estimated FY08 diesel fuel consumption to minimize a risk of exceeding the approved diesel fuel budget
- Average fixed price for the current transactions has been approximately \$2.10 per gallon, with anticipated savings at the end of FY08 of \$5 million
- The average delivered price through April of FY08 was \$2.70 per gallon, with the lowest being \$2.18 and the highest being \$3.75 per gallon



Recommendation

- Authorize staff to execute fuel swap contracts in FY09 & FY10
 - ✓ Forecasts of future prices suggest that prices may decline as a result of economic conditions
 - ✓ Staff would begin to lock in prices only when the New York Mercantile Exchange Index (NYMEX) used for the swap deal would allow contract execution without exceeding the approved diesel fuel budget

PRESENTED & ADOPTED:

SUBJECT: APPROVAL TO EXECUTE COMMODITY SWAPS TO LIMIT POTENTIAL IMPACT OF ADVERSE PRICE MOVEMENT ON DIESEL FUEL FOR FISCAL YEAR 2009 AND FISCAL YEAR 2010

PROPOSED
RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, The Board of Directors of the Washington Metropolitan Area Transit Authority has noted the volatile and often adverse price movements of the Authority's fuel supplies; and

WHEREAS, The Board of Directors has determined that it may be in the Authority's best interest to enter into Master Commodity Swap Agreements in order to stabilize the costs for fuel; and

WHEREAS, These transactions are extremely time and market sensitive and require staff to have flexibility to achieve timely execution; now, therefore be it

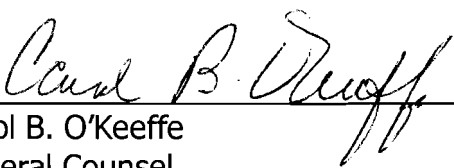
RESOLVED, That the General Manager or the Treasurer, is hereby authorized to enter into Master Commodity Swap Agreements and to execute transactions under those Agreements for Fiscal Year 2009 through Fiscal Year 2010 with responsible and responsive dealers, as may be in the Authority's best interest, based upon most favorable quotations; and be it further

RESOLVED, That such transactions executed under these Master Agreements will be for discrete fiscal years; and be it further

RESOLVED, That the indemnifications authorized in Resolution 2006-43 are authorized for transactions conducted pursuant to this Resolution, and be it finally

RESOLVED, That this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,



Carol B. O'Keeffe
General Counsel