

## Petroleum Fuel Hedging Policy City of Gainesville

April 2020

### 1. **Mission Statement:**

The City of Gainesville will establish and maintain a petroleum fuel hedging program that will:

- seek to decrease the volatility of petroleum fuel cost;
- seek to increase the likelihood that actual net petroleum fuel cost will remain below the budgeted cost;
- seek to increase the certainty of future petroleum fuel cost;
- seek to attain a lower overall cost of petroleum fuel in the long-term;
- seek to manage year-over-year changes in petroleum fuel cost.

The purpose of this fuel hedging 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. Realized gains or losses will be considered as an element of fuel cost.

### 2. **Program Infrastructure:**

- a. **Instruments** – The City will maintain a futures account with a Futures Commission Merchant (broker). The City, through the management and direction of the advisor, acquire, hold, and dispose of petroleum fuel futures contracts in the operation of its program. The high correlation between the movement of the price that the City pays for its petroleum fuel and the movement of the value of the petroleum futures contracts produces the program's effectiveness as a hedge. The volume of each futures contract is 42,000 gallons.
- b. **Maximum Hedge Ratio** – The City's volume of fuel consumption is highly predictable and without significant variability over time. Given this, the maximum hedge ratio will be limited to 100% of forecasted consumption.
- c. **Maximum Hedge Maturity** -- To allow the establishment of cost certainty in current and future budget periods, the maximum maturity of the futures contracts taken in conjunction with the program is 24 months forward from the acquisition date.
- d. **Exiting Market Positions** – The advisor will exit the futures contracts evenly though time to coincide with the fuel supply contract pricing mechanism. This even liquidation of futures hedges through time and the even purchase of fuel via the City's fuel supply process assures the effectiveness of the hedging process. Based on the difference between the hedge price (entry price) and the settlement price (exit price), there will be a realized gain/loss associated with the hedge that will appear in the futures account. Futures contracts will be held to maturity (exited when the corresponding fuel is purchased) and, in the normal operation of the program, there will be no interim trading or early exit allowed. Exceptions to this include situations where the volume of

forecasted fuel consumption decreases in which case the hedge position may be adjusted to comply with policy.

3. **Physical Supply:**

The physical supply of fuel will continue according to the current process of the City. The physical supply will be priced according to a floating price determined by the fuel supply contract.

4. **Strategy:**

The Strategy is how the program's objectives are achieved. The strategy will utilize a process:

- That addresses market opportunities and market risks;
- That examines fundamental and technical market factors in the hedge decision-making process;
- That holds the risk of exceeding budget at or below an acceptable level;
- That uses historical pricing ranges as pricing parameters;
- That is continuously applied through time;
- That will take advantage of the inherent "dollar cost averaging" properties of a continuous hedging program;
- That mitigates transaction timing risk by making more numerous smaller volume transactions;

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. **Execution, Monitoring & Reporting:**

- a. 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.
- b. The advisor will generate periodic updates on the status and results of the program.
- c. Oversight of the program will be primarily the responsibility of the Risk Oversight Committee the City, comprised of the City Manager, Finance Director, Pension and Investment Manager and Fleet Director.
- d. Reporting to/communicating with the City's committee/panel on the performance and status of the program will occur on a quarterly basis. This reporting and communication may include weekly and monthly reporting and periodic conference calls/meetings according to the City's needs.