Clause No. 1 in Report No. 8 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on April 17, 2014.

1
FUEL PRICE HEDGING PROGRAM
2013 ANNUAL REPORT

Committee of the Whole recommends adoption of the following recommendation contained in the report dated March 5, 2014 from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that Council receive this report for information.

2. PURPOSE

This report summarizes the fuel price hedging activities that were undertaken during 2013 and the resulting outcomes, in accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001*.

3. BACKGROUND

The Region's hedging programs help achieve greater cost certainty with respect to the price of commodity purchases

In October 2007, Council adopted a *Commodity Price Hedging Policy* (the Policy) that allows for the hedging of commodity prices, including fuel. The goal of the Policy is not to speculate on the future price of a commodity, but rather to manage the Region's financial risk by locking in commodity prices at an agreed to rate for a specified volume.

The Policy was last updated by Council in April 2013. As part of that update, the amount of the commodity that could be hedged was increased from 75 per cent to 80 per cent of forecasted annual requirement. In addition, the updated policy extended the term of a hedging agreement from eighteen (18) months to thirty (30) months from the date of execution.

Fuel price contracts comprise the majority of the hedging agreements that the Region employs. These agreements are entered into with financial institutions that, for a specified amount of fuel, lock in a price over a stipulated timeframe. These contracts are purely financial transactions and do not involve the physical receipt of fuel, which continues to be sourced at the pump or through bulk delivery contracts.

Under a hedging agreement, the Region receives a payment when the average market price of the commodity during each month exceeds the stated price in the contract. This payment is used to offset the higher prices paid at the pump. Conversely, the Region is obliged to pay if and when the price falls below the contract price, but this cost would be offset through savings at the pump.

Heating oil, which was used as a proxy when hedging both diesel and gasoline fuel prices in the past, has now been replaced by the Ultra Low Sulfur Diesel (ULSD) futures index

Historically, there was no futures index in the market for either diesel or gasoline. Heating oil, with a 98 per cent price correlation, was used as a proxy when hedging fuel prices.

However, beginning in May 2013, New York Mercantile Exchange replaced the heating oil futures contract with a new specification called the Ultra-Low Sulfur Diesel (ULSD) futures index. This switch has made it easier for market participants to directly hedge their diesel fuel requirements. Approximately 80 per cent of the Region's fuel consumption is now ULSD or biodiesel, the majority of which is acquired through bulk purchases.

4. ANALYSIS AND OPTIONS

The Region locked in 75 per cent of its forecasted 2013 fuel volume requirements at a net price of $1.05 per litre and received payments of $708,311 from the hedging settlements

During 2012, the Region entered into three fuel hedging agreements that covered nearly 75 per cent of its expected fuel consumption for 2013, at an equivalent price of $1.05 per litre, net of tax rebates (see Table 1).

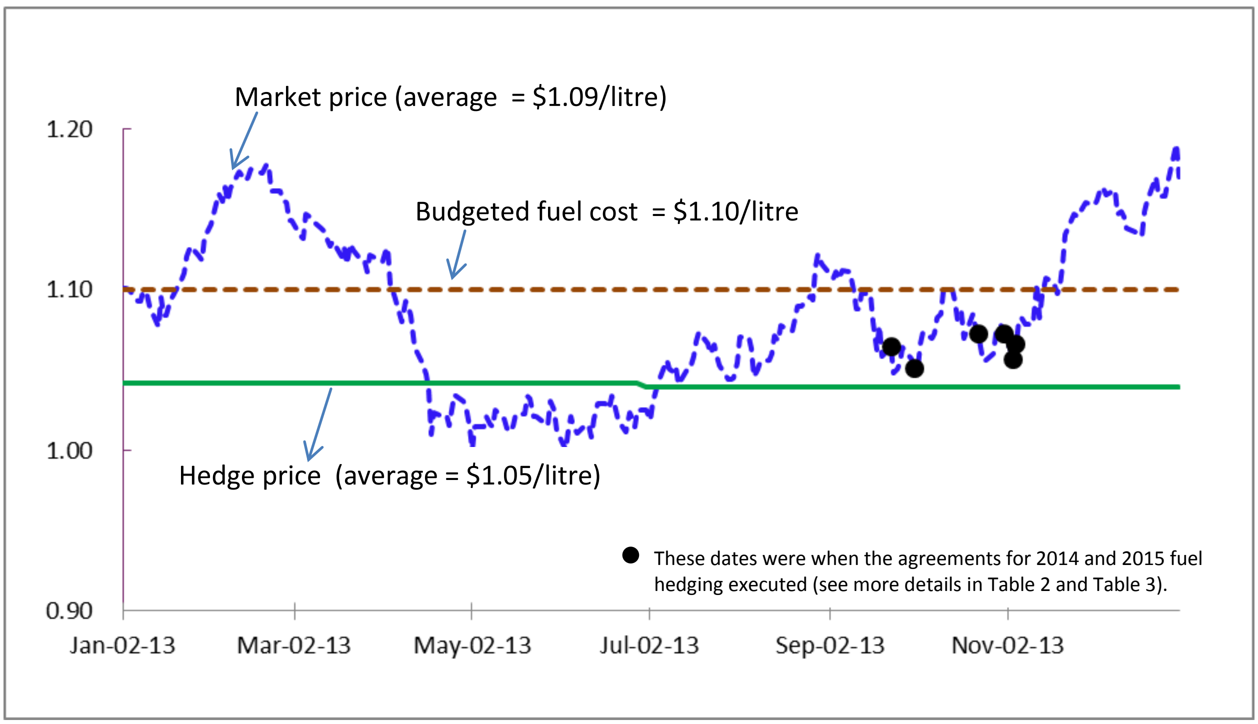
The Region's 2013 budget assumed a net fuel cost of $1.10 per litre (base of $1.00 per litre plus a $0.10 per litre contingency) with a forecasted total fuel volume of 23.2 million litres. The actual fuel consumption in 2013 was 22.5 million litres at an average price (net of tax rebates) of $1.09 per litre.

Table 1: Fuel Price Hedging Transactions for 2013

Hedging Agreement Execution Date	Counterparty	Effective Period	Hedged Volume (litres)	Hedge Price (CAD/Litre)	Tax-adjusted Equivalent Diesel Price (CAD/Litre)
May 17, 2012	CIBC	Jan - Jun 2013	4,500,000	0.7930	$1.07
Jun 4, 2012	TD	Jan - Jun 2013	4,200,000	0.7550	$1.03
Sep 19, 2012	CIBC	Jul - Dec 2013	8,700,000	0.7725	$1.05
Hedging Total/Average			**17,400,000**	**0.7736**	**$1.05**
Total Hedged Volume as % of Forecasted Demand			**75%**		

Because the 2013 market price for fuel averaged four cents per litre higher than the locked-in fuel price, the Region received payments of $708,311 through its hedging agreements. Graph 1 illustrates the price movements of diesel fuel in 2013.

Graph 1: Diesel Fuel Market Price vs Hedge Price in 2013



Note: Prices in this graph have been adjusted to reflect the Region's equivalent cost net of tax rebates.

The Region has also entered into hedging agreements for 2014 and 2015

The Region's 2014 budget assumes a net fuel cost of $1.15 per litre (base of $1.00 per litre plus a $0.15 per litre contingency). Fuel consumption volume for the Region has been forecasted at 22.4 million litres for 2014 and 22.9 million litres for 2015.

Opportunities in the market during late 2013 allowed the Region to enter into six agreements with CIBC and RBC to hedge approximately 80 per cent of our forecasted fuel consumption for 2014 and 2015 (see Tables 2 and 3) based on the new ULSD futures index. All hedging agreements were in accordance with the Region's *Commodity Price Hedging Policy*.

Net of tax rebates, the Region's hedged price for fuel has been fixed at $1.07 and $1.04 per litre for 2014 and 2015 respectively.

Table 2: Fuel Price Hedging Transactions for 2014

Hedging Agreement Execution Date	Counterparty	Effective Period	Hedged Volume (litres)	Hedge Price (CAD/Litre)	Tax-adjusted Equivalent Diesel Price (CAD/Litre)
Oct 23, 2013	RBC	Jan - Dec 2014	4,488,000	0.8075	$1.08
Nov 1, 2013	RBC	Jan - Dec 2014	4,488,000	0.8048	$1.07
Nov 4, 2013	CIBC	Jan - Dec 2014	4,488,000	0.7995	$1.07
Nov 5, 2013	RBC	Jan - Dec 2014	4,483,000	0.7960	$1.06
Hedging Total/Average			**17,947,000**	**0.8020**	**$1.07**
Total Hedged Volume as % of Forecasted Demand			**80%**		

Table 3: Fuel Price Hedging Transactions for 2015

Hedging Agreement Execution Date	Counterparty	Effective Period	Hedged Volume (litres)	Hedge Price (CAD/Litre)	Tax-adjusted Equivalent Diesel Price (CAD/Litre)
Sep 23, 2013	CIBC	Jan - Dec 2015	8,196,000	0.7745	$1.04
Oct 1, 2013	CIBC	Jan - Dec 2015	10,104,000	0.7768	$1.04
Hedging Total/Average			**18,300,000**	**0.7758**	**$1.04**
Total Hedged Volume as % of Forecasted Demand			**80%**		

Link to Key Council-approved Plans

Fuel price hedging enables the Region to manage its finances prudently, a strategic priority area identified in the 2011 to 2015 Strategic Plan. Specifically, it reduces price risk for fuel.

5. FINANCIAL IMPLICATIONS

The Region was able to lock in approximately 75 per cent of its 2013 forecasted fuel volume at a net price of $1.05 per litre and received payments of $708,311 from the hedging settlements.

The Region will continue to benefit from price certainty for 80 per cent of its expected fuel consumption at a tax-adjusted fuel price equivalent of $1.07 per litre for 2014 and $1.04 per litre for 2015.

6. LOCAL MUNICIPAL IMPACT

There is no impact to local municipalities arising from the fuel price hedging program.

7. CONCLUSION

The fuel price hedging program provides greater cost certainty for the Region. Through this program, the Region was able to lock in the fuel price for approximately 75 per cent of its estimated fuel volume for 2013 and 80 per cent for 2014 and 2015.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at Ext. 71644.

The Senior Management Group has reviewed this report.

Attachment ( )

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