



Finance, Administration and Oversight Committee

Action Item III-A

May 14, 2009

Approve Electricity Swap Agreements

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

<input checked="" type="radio"/> Action <input type="radio"/> Information	MEAD Number: 100299	Resolution: <input checked="" type="radio"/> Yes <input type="radio"/> No
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TITLE:

Electricity Swap

PURPOSE:

To obtain Board approval to execute commodity swaps to limit the potential impact of adverse price movements in the cost of electricity supply and provide the required indemnifications.

DESCRIPTION:

Metro currently has an electricity supply contract (CQ9007) with Constellation NewEnergy which expires in January 2010 for all facilities in the District of Columbia (DC) and Maryland (MD). The current contract is valued at approximately \$67.8 million.

The current Constellation NewEnergy contract was awarded through a competitive two-step Invitation-For-Bid which included all potential retail suppliers licensed in DC and MD. Because of dramatic increases last year in electricity supply prices, the supply component accounts for 85% of Metro's total electricity expenses. The remaining 15% is for distribution charges and various surcharges dictated by the Public Service Commissions in DC and MD.

In an effort to reduce electricity costs, Metro has awarded a contract with a Load Serving Entity (LSE) to purchase electricity in the wholesale market. The LSE contract was awarded in December 2008 to American PowerNet. American PowerNet will be the conduit for Metro to access the wholesale electricity market. Through two independent Consultant estimates, Metro can expect that purchasing electricity in the wholesale market will reduce expenses by 5-15% compared with the current retail purchasing strategy.

The current electricity market is at its lowest level in four years and executing electricity swaps at this time would ensure that Metro will fix prices for a portion of future needs and achieve budget estimates. Metro has been using commodity swap arrangements similar to what is proposed here to fix the cost of diesel fuel since 1992.

FUNDING IMPACT:

Budget: **Operating Budget, Fiscal 2010-2011**

Office: **Training, Reliability and Technical Services**

Account: **Utilities - Propulsion and Electricity**

This Action: **\$192,994,900**

Remarks: **Current American PowerNet consulting contract of \$275,000 for the base year will be paid through operating funds in FY2010 as a line item on electricity bills.**

	FY2010	FY2011
Budget:	\$110,769,100	\$116,310,000
This Action:	\$94,554,700	\$98,440,200
Remaining Budget:	\$16,214,400	\$17,869,800

RECOMMENDATION:

Authorize Chief Financial Officer to execute electricity supply swaps in order to minimize the impact of adverse price movements of electricity in FY2010 and FY2011 and to provide the required indemnifications related to these transactions, subject to approval of budgets and availability of funds.

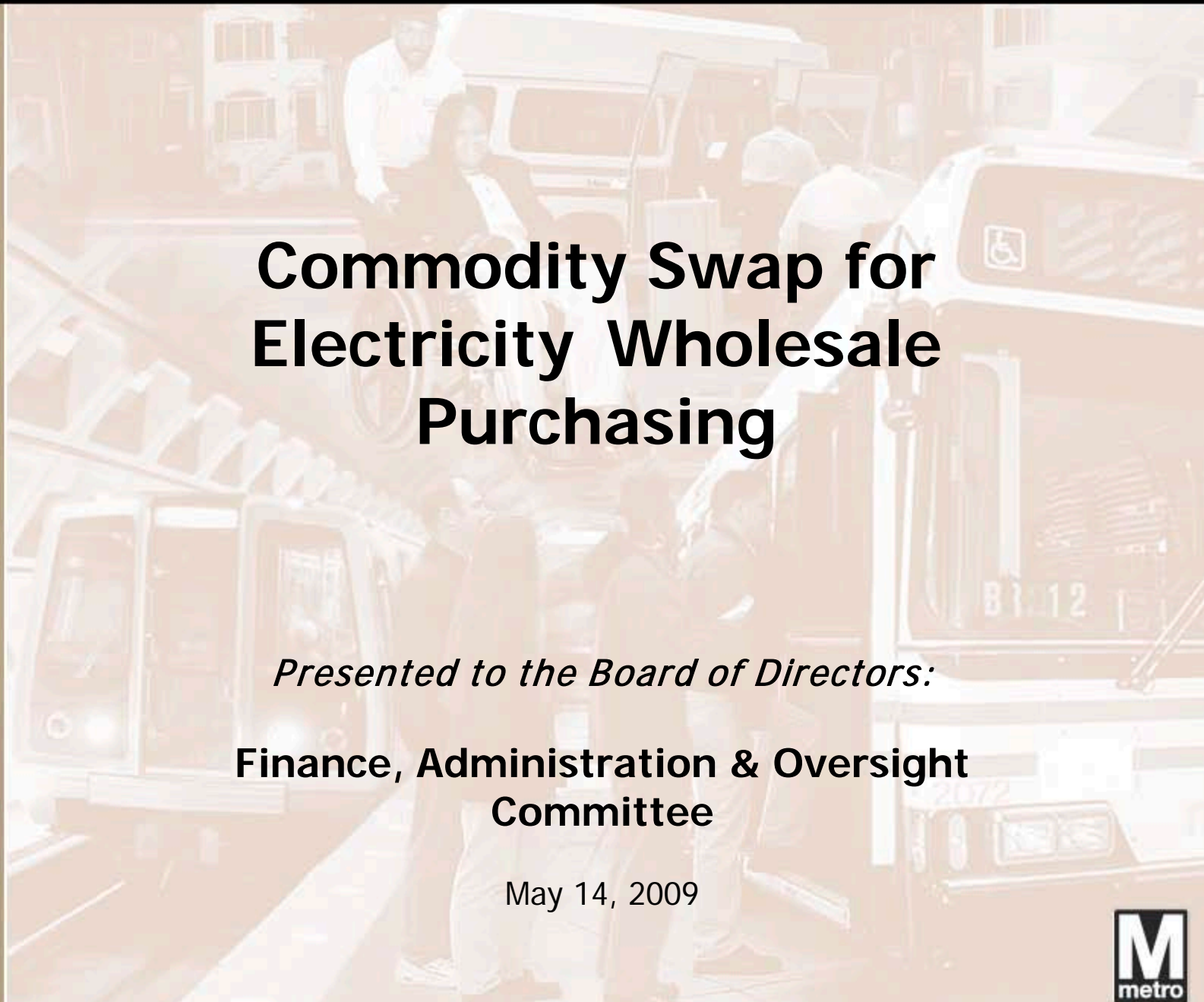


Commodity Swap for Electricity Wholesale Purchasing

Presented to the Board of Directors:

**Finance, Administration & Oversight
Committee**

May 14, 2009



Purpose

Execute electricity commodity swaps and provide the required indemnifications, similar to diesel fuel, in order to optimize pricing, reduce electricity expenses and limit potential impact of adverse market price movements.

Summary of Commodity Swap Initiative

FY 2010 Budget

Propulsion and Other
Electricity

\$110,769,100
886,152,800 Kwh

Current

Purchasing

Retail – Deregulated market – DC and MD
Utility Tariff Rate – Regulated market – VA

Purchasing Process

Contractual commitments – 6 months to one year

Proposed

Purchasing

Wholesale Market – Regional market index to set price for electricity

Purchasing Process

Utilize Load Serving Entity – American PowerNet
Electricity commodity swaps similar to existing diesel fuel – First venture in process for electricity

Cost Savings

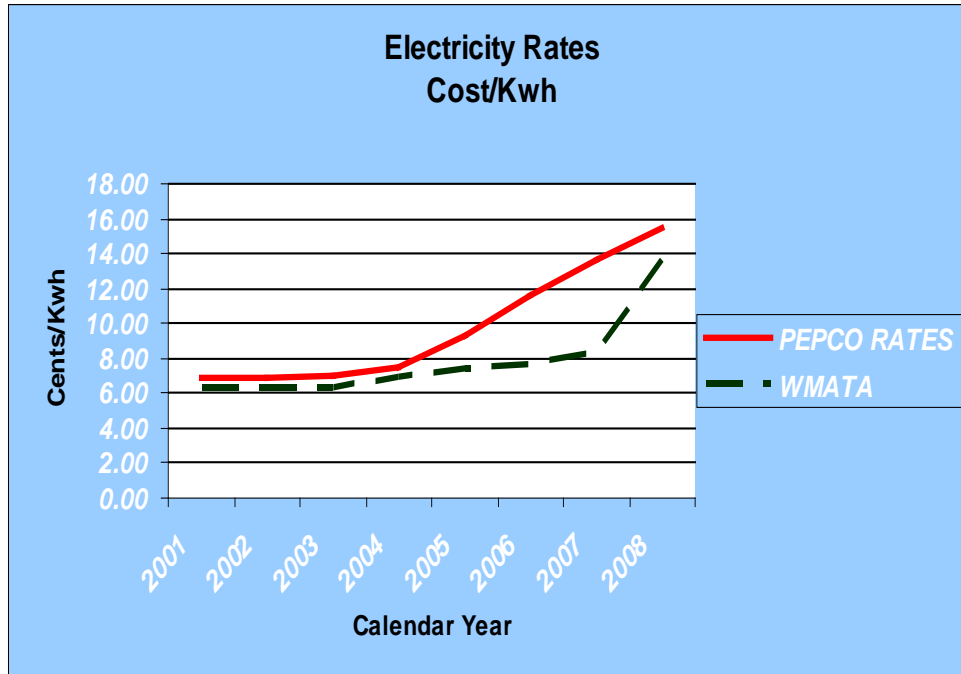
Electricity commodity swaps will ensure budget attainment by fixing prices below budget
Potential savings 5-15% compared with retail (\$3-\$9 Million)

Current Retail Electricity Supply Purchasing

- Deregulated Market (DC and MD Jurisdictions)
 - In the PEPCO and BGE service territories, Metro competitively bids contracts with technically qualified licensed retail suppliers.
 - Contract price determined by Pennsylvania, Jersey, Maryland (PJM) market on bid day for full term of contract.
 - Bid method for retail contracting is on-line reverse auction or Best-and-Final Offer.
 - Current electricity supply with Constellation NewEnergy.
- Regulated Market (VA Jurisdiction)
 - Metro remains on Dominion-Virginia Power tariff rates.
 - Dominion-Virginia Power base rates are below market price resulting in no competition.



Metro Past Electricity Purchasing Performance



<u>Calendar Year</u>	<u>Metro Savings Versus PEPCO Tariff Rates</u>
2001	-\$3,089,758
2002	-\$2,862,487
2003	-\$4,129,530
2004	-\$3,359,746
2005	-\$11,044,706
2006	-\$24,751,806
2007	-\$34,571,868
2008	-\$11,132,045

Proposed Wholesale Electricity Supply Purchasing

- Deregulated Market (DC and MD Jurisdictions)
 - Metro purchase electricity in Pennsylvania, Jersey, Maryland (PJM) wholesale market.
 - First transit agency to purchase electricity in wholesale market.
 - Contract with American PowerNet a Load Serving Entity enables Metro to purchase power in PJM wholesale market.
 - Metro cannot fix price in wholesale market until Board approves commodity swap.
- Regulated Market (VA Jurisdiction)
 - Metro remain on Dominion-Virginia Power tariff rates.

Next Steps

- Finalize International Swap Dealers Association (ISDA) agreements from acceptable counterparties.
- Reverse auctions to be held with counterparties to fix prices for blocks of electricity when market price levels are below budgeted figures.
- Complete financial deal with successful counterparties.

Recommendation

- Authorize Chief Financial Officer to execute electricity commodity swaps and provide the required counterparty indemnification of these transactions.

SUBJECT: APPROVAL TO EXECUTE COMMODITY SWAPS TO LIMIT POTENTIAL IMPACT OF ADVERSE PRICE MOVEMENT ON ELECTRICITY FOR FISCAL YEAR 2010 AND FISCAL YEAR 2011

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 (Metro) has noted the volatile and often adverse price movements of Metro's electricity supply; and

WHEREAS, The Board of Directors has determined that it may be in Metro's best interest to enter into Master Commodity Swap Agreements similar to those used for diesel fuel in order to stabilize costs for electricity; and

WHEREAS, The financial institutions who are the other parties to the commodity swap transactions ("the Counterparties") now require the execution of International Swaps and Derivatives Association Agreements (both Single Jurisdiction and Cross Border) along with Schedules; and

WHEREAS, These International Swaps and Derivatives Association Agreements include a requirement to indemnify the Counterparties for expenses and legal fees which can only be granted by the Board of Directors; 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 using standard International Swaps and Derivatives Association Agreements and Schedules to execute transactions under those Agreements for Fiscal Year 2010 and Fiscal Year 2011 with responsible and responsive dealers, as may be in Metro's best interest, based upon the most favorable quotation, provided that the approved electricity is not exceeded; and be it further

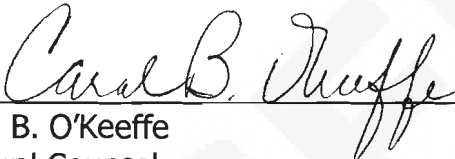
RESOLVED, That such transactions executed under these Master Agreements will be for discrete fiscal years; and be it further

RESOLVED, That the Board of Directors approves the indemnification of swap counterparties for expenses and legal fees in the event of default by Metro or for

taxes imposed on counterparties solely because of the performance of the Agreement within the taxing jurisdiction and any loss or damage or fees including legal fees occurring after the Delivery Point (as defined in the confirmation) for transactions involving the physical delivery of power; 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