

REVISED

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 (derivative transactions) 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. Metro will only complete the electricity commodity swaps when prices can be achieved at or below the budget.

FUNDING IMPACT:

Budget: Operating Budget, Fiscal 2010-11

Office: Training, Reliability and Technical Services

Account: Utilities - Propulsion and Electricity

	FY2010	FY2011
Budget:	\$66,450,100	\$69,125,700
This Action:	\$0	\$0
Remaining Budget:	\$66,450,100	\$69,125,700

Remarks: This action has no direct impact on funding. However, the swap will not exceed the above budgeted amount.

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.

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

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

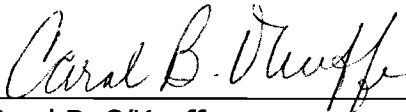
RESOLVED, That the General Manager or the Treasurer is hereby authorized to enter into Master Commodity Swap Agreements using standard International Swaps and Derivatives Association Agreements and Schedules to execute transactions under those Agreements for Fiscal Year 2010 and Fiscal Year 2011 with 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 within the budget for the current fiscal year; 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