



Natural Gas Financial Hedging

July 9, 2024

What is Hedging?



Hedging is a type of investment that is intended to **reduce the risk of adverse price movements** in an asset



All commodities can be hedged – corn, apples, gasoline, natural gas



There are several hedging products available

Recommend starting with Futures Contracts or Call Options

Why Do We Hedge?

- Hedging is NOT an attempt to “beat the market”
- It reduces risk of price volatility
- Helps achieve budget goals & rate stability
- Should be viewed as an insurance policy

When Should We Hedge?

- A good hedging policy is ongoing
- However, many don't hedge until prices increase
- Utilities tend to become complacent once prices drop and stabilize

Current Forecast

Natural gas prices are currently very low

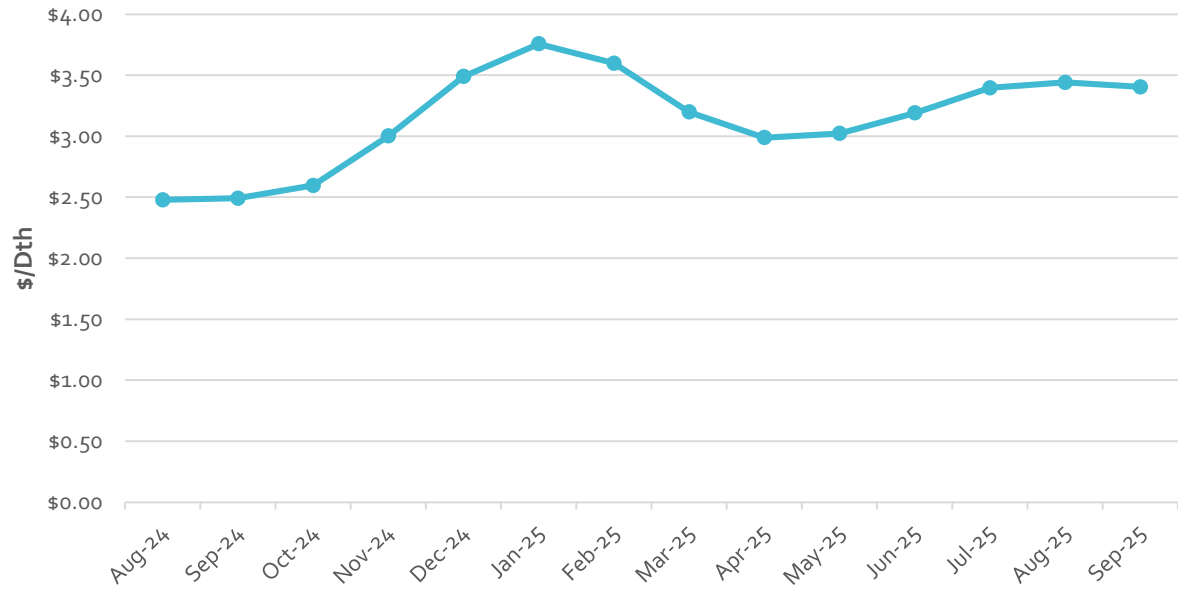
- Prices have been less than \$2.00/dth (\$0.20/therm)

Prices are projected to rise for a few reasons:

- More LNG is coming online
- Producer contracts will be ending, and with the current low prices, many producers will shut down
- An above average summer and/or a “*real*” winter will also drive prices up; and may impact storage

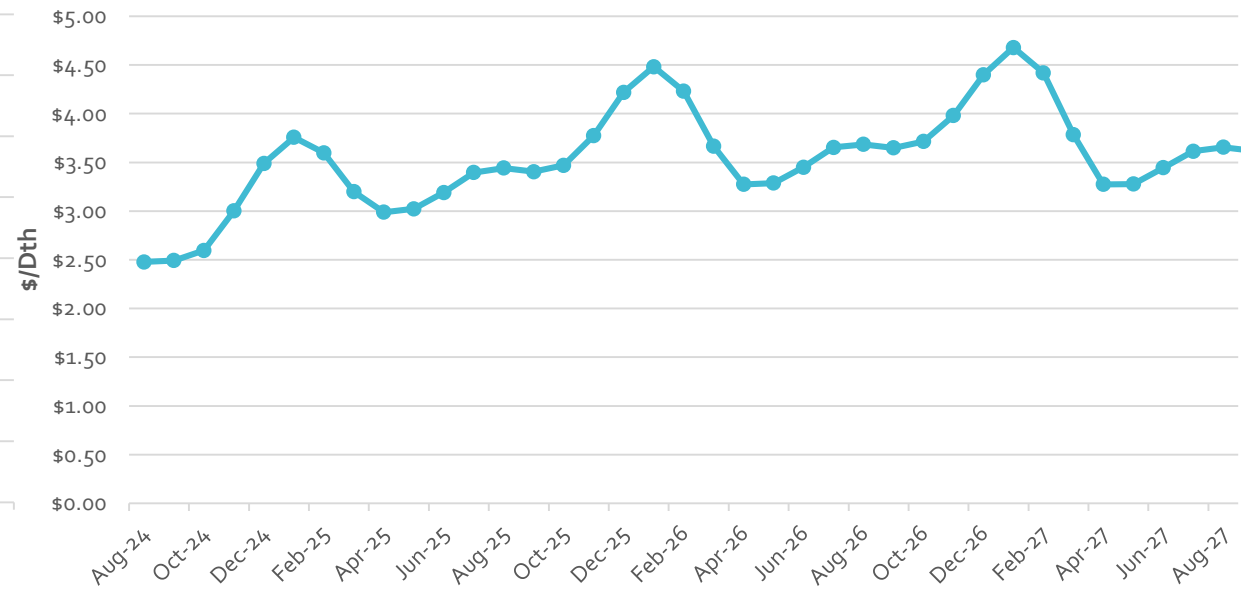
1-year curve:

NYMEX Henry Hub Futures - Settle Date 07/01/24



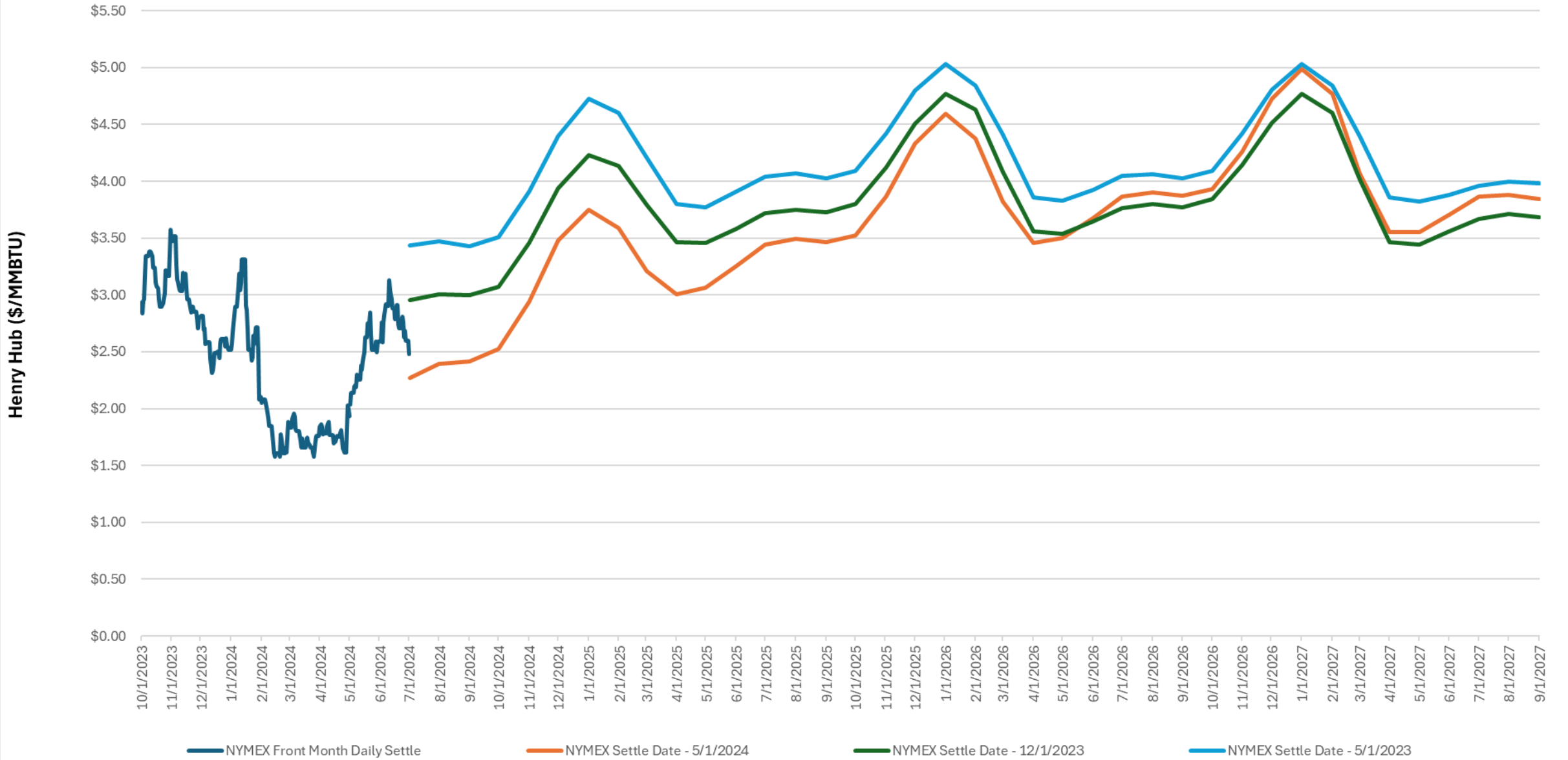
3-year curve:

NYMEX Henry Hub Futures - Settle Date 07/01/24



Current Forecast

Henry Hub Price Formation

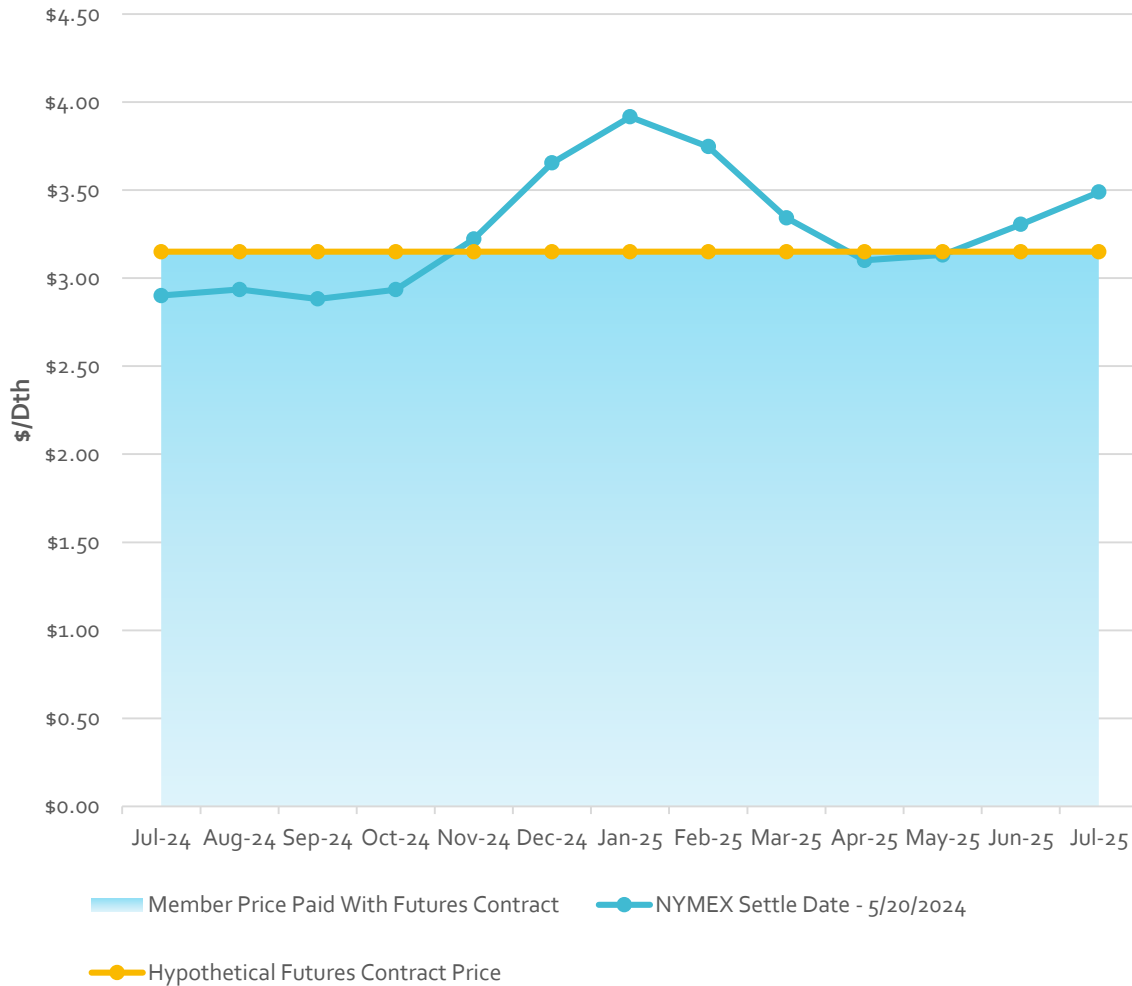


Products

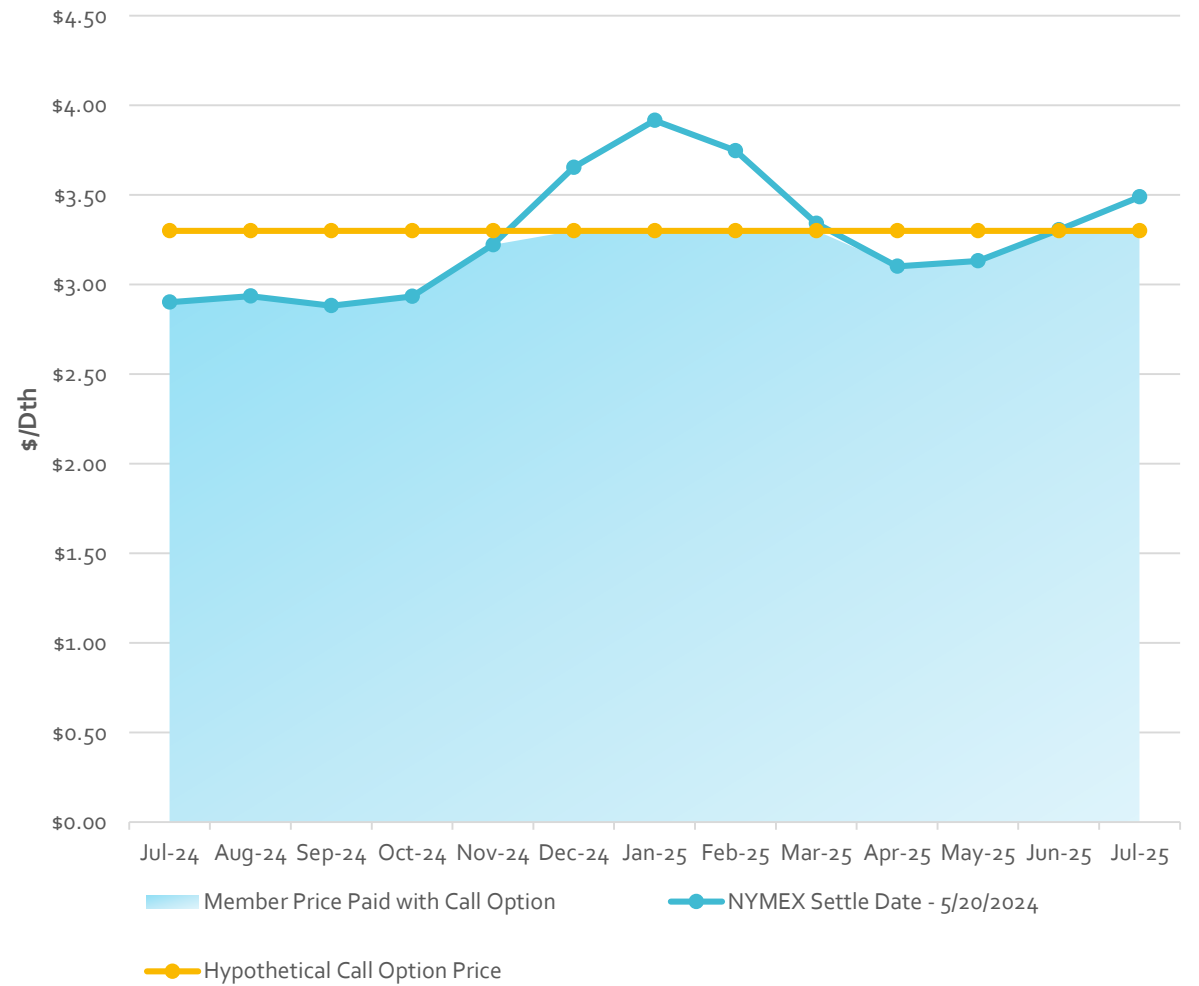
- There are several hedging products available
- Recommended:
 - Futures Contracts – set price (what you pay)
 - Call Options – set ceiling price (the most you will pay)
 - Has an additional premium

Products - Examples

NYMEX Henry Hub Futures VS Member Futures Contract



NYMEX Henry Hub Futures VS Member Call Option



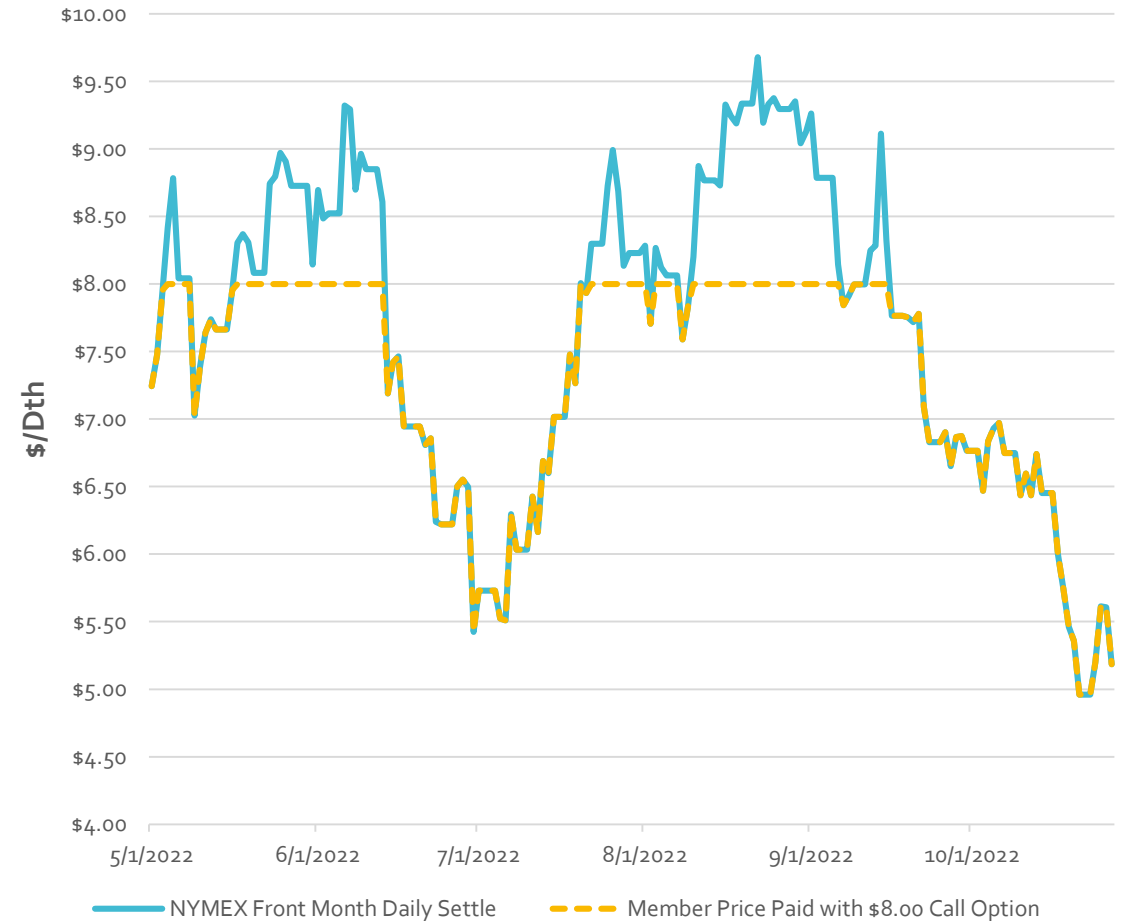
Products – Examples

2022 Basis Blowout

Estimated Member Gas Cost with Henry Hub Futures Contract



Estimated Member Gas Cost with Henry Hub Call Option



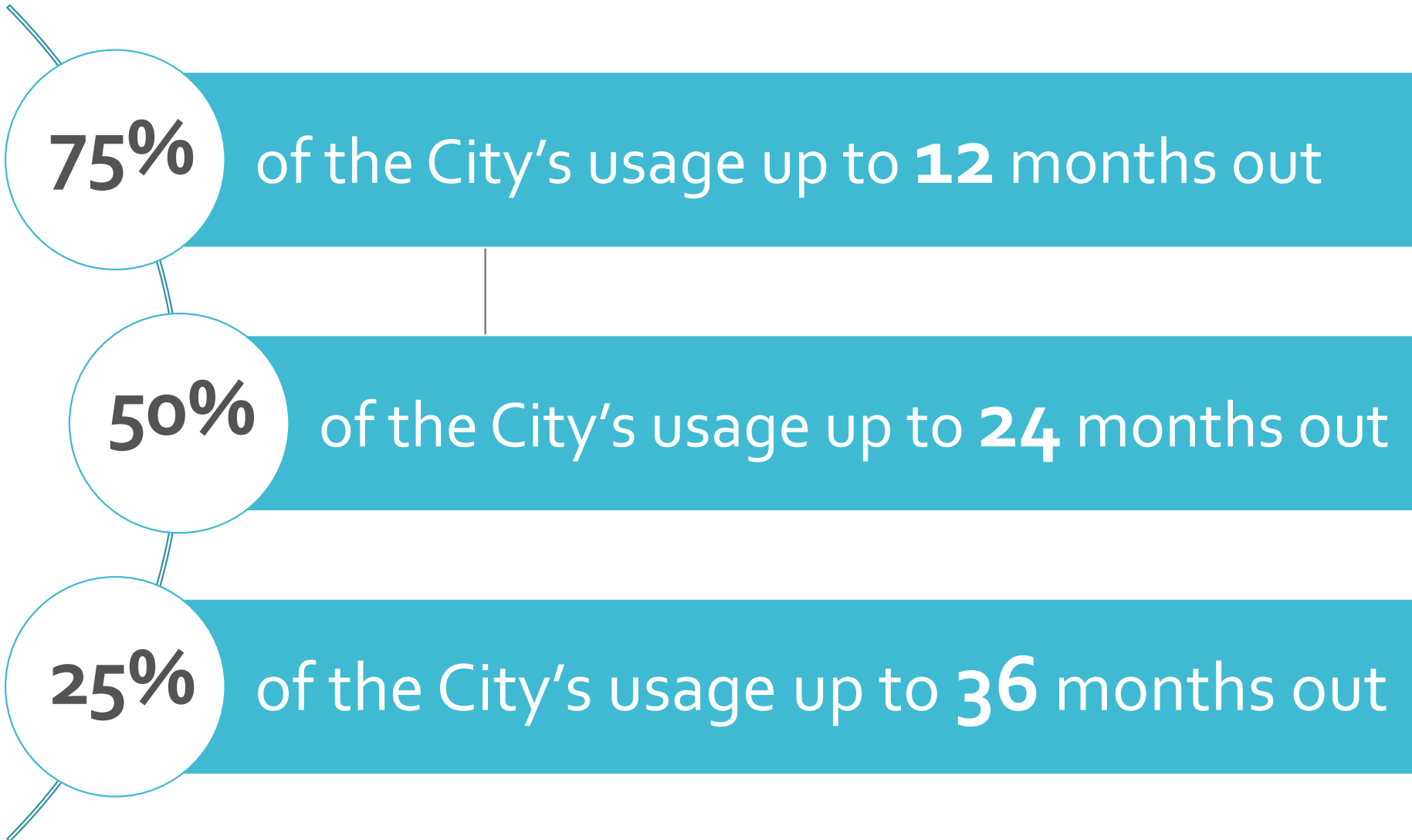
Call Option – Example

	Strike Price (dth)	Premium/Therm	% of Strike Price
July 24 – June 25	\$3.50	\$0.043	12.3%
July 24 – June 25	\$4.00	\$0.0294	7.4%
July 24 – June 25	\$4.50	\$0.0207	4.6%

- Current price for a 1 year strip is \$3.39 (futures price)
- Each contract is 10,000 dth/month

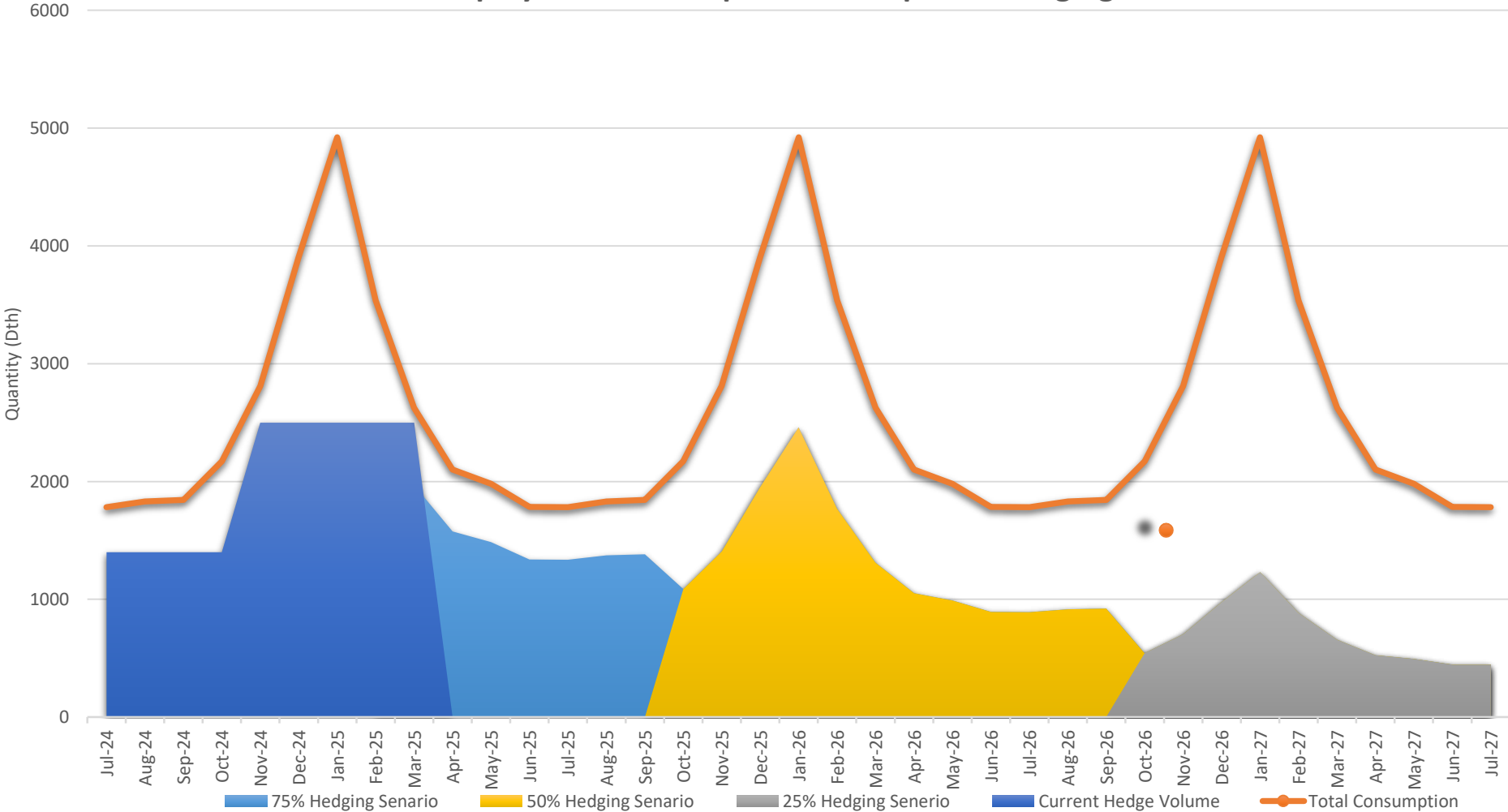
Quantity

- Proposing a rolling program. Hedge up to:



Quantity - Illustration

Chipley LDC Consumption vs. Proposed Hedging Senarios



Strike Price

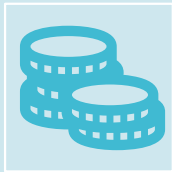


Based on \$/therm in City's budget



Budgeted amount includes transportation & basis differential

Estimated to be approximately \$0.10/therm



Strike price should account for this

Additional Information

Parameters provide flexibility to take advantage of favorable market opportunities

Can terminate directive at any time on a forward going basis

Recommendation

- Approve “rolling” hedging directive
 - Product – Futures Contracts and/or Call Options (and associated premium)
 - Quantity – Up to 75% for year 1, 50% for year 2, and 25% for year 3
 - Strike price – budgeted \$/therm minus transportation/basis differential