Natural Gas Financial Hedging

04/21/2025

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

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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

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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

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Current Forecast

Natural gas prices are currently very low

- Prices have been between $3.00-$4.00/dth ($0.30-$0.40/therm)

Prices are projected to rise for a few reasons:

- More LNG is coming online
- No new gas pipeline infrastructure; cuts & bottlenecks
- An above average summer and/or a "*real*" winter will also drive prices up; and may impact storage

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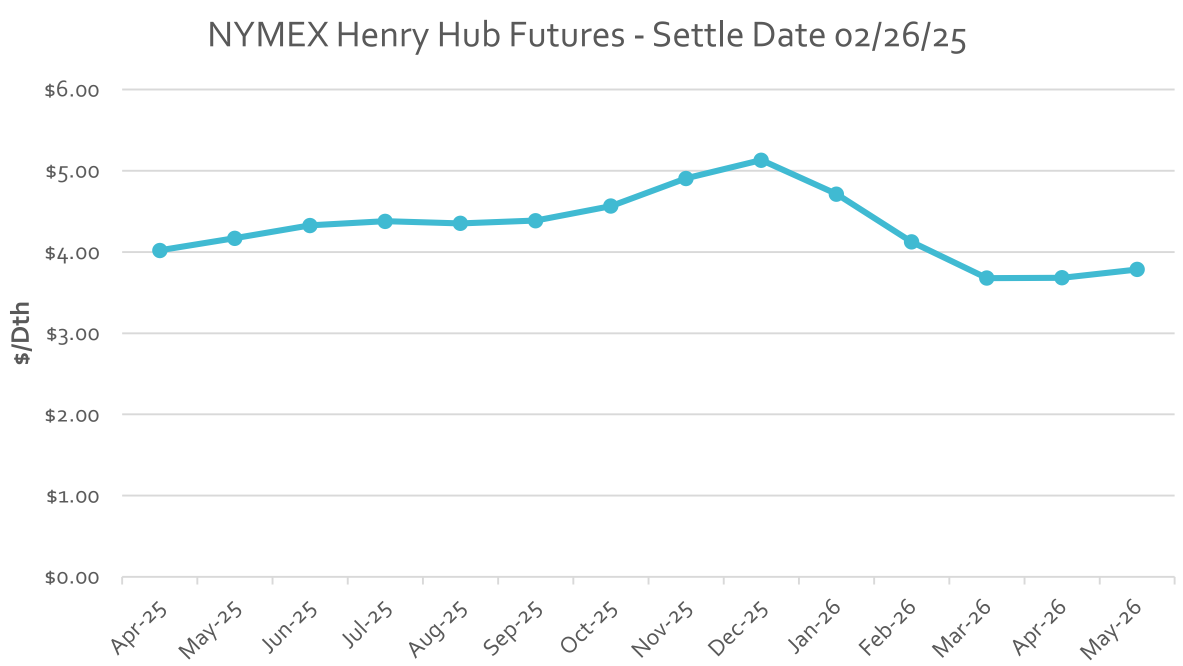
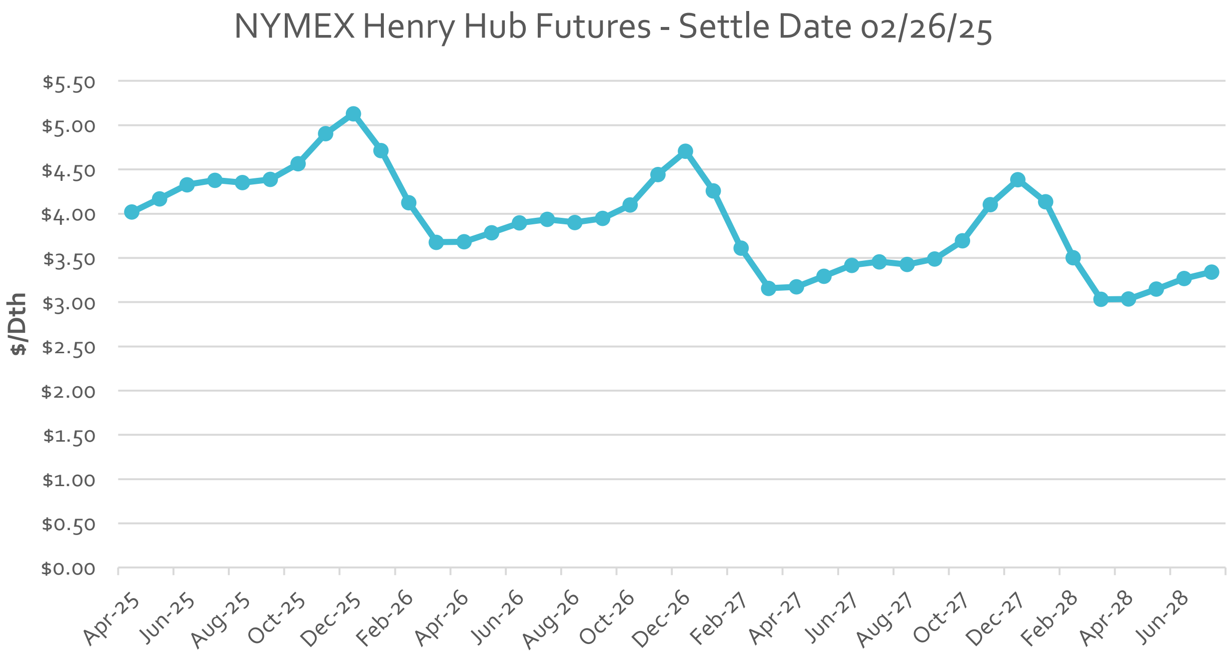
1-year curve:

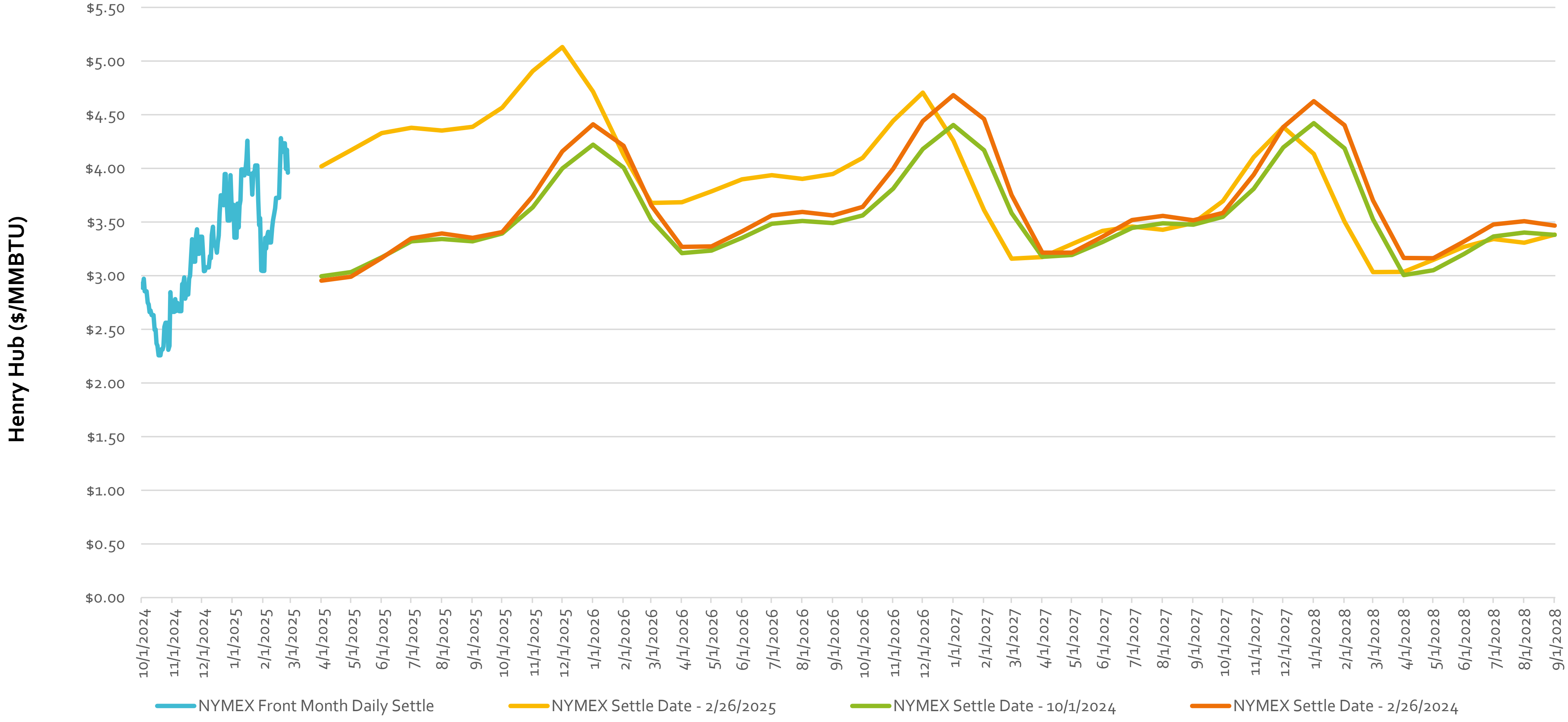


3-year curve:



Current Forecast Charts

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

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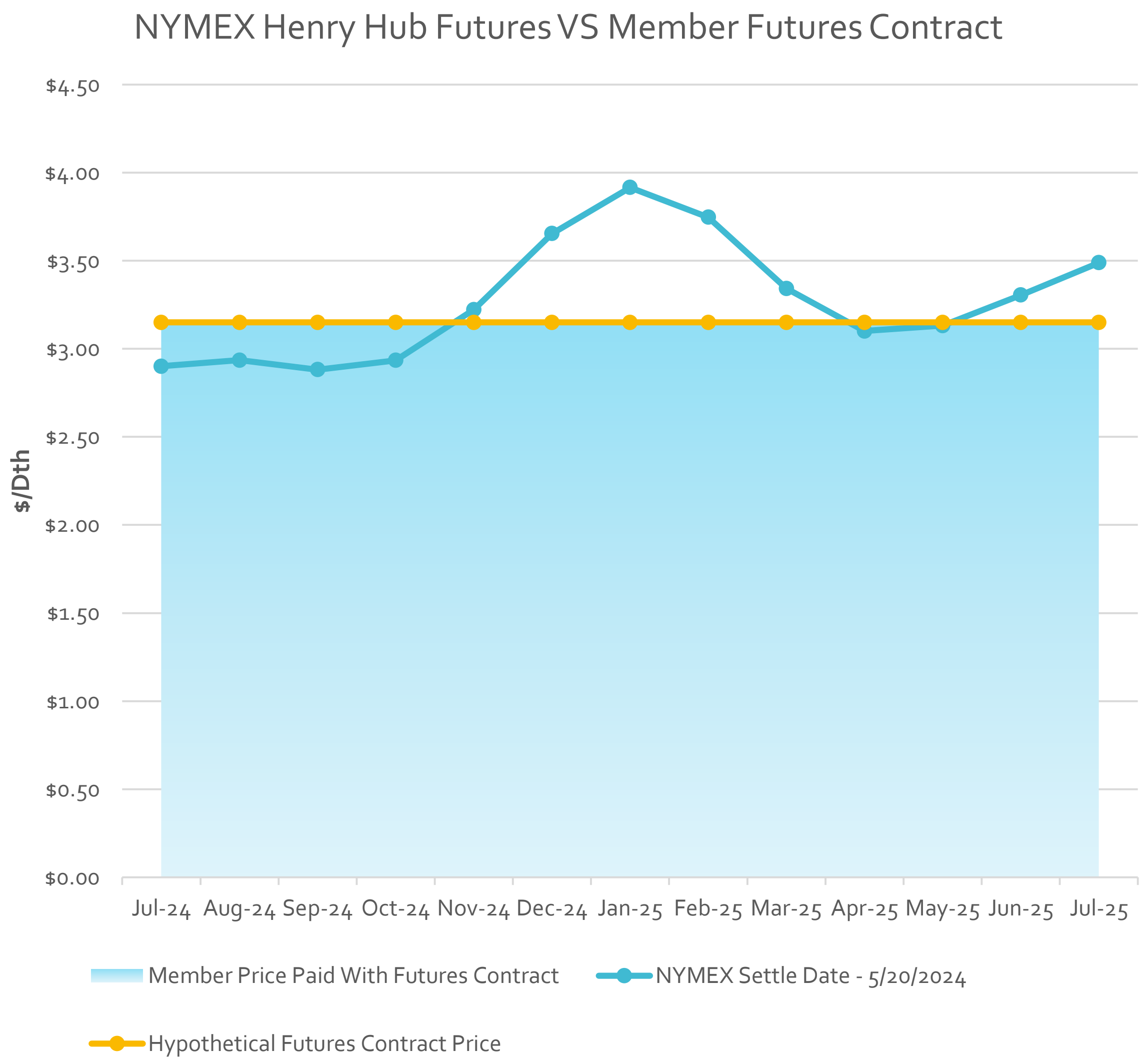
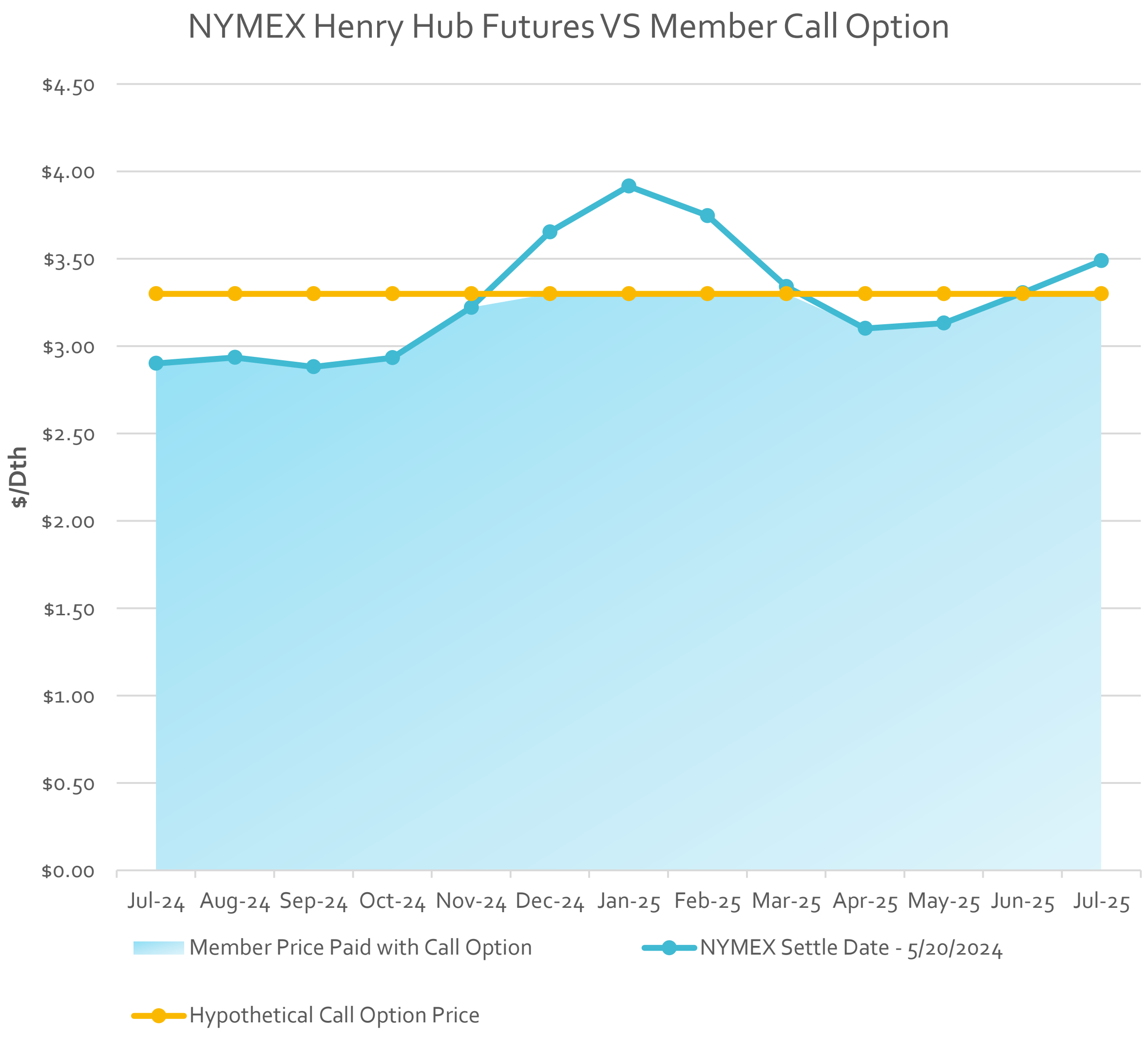
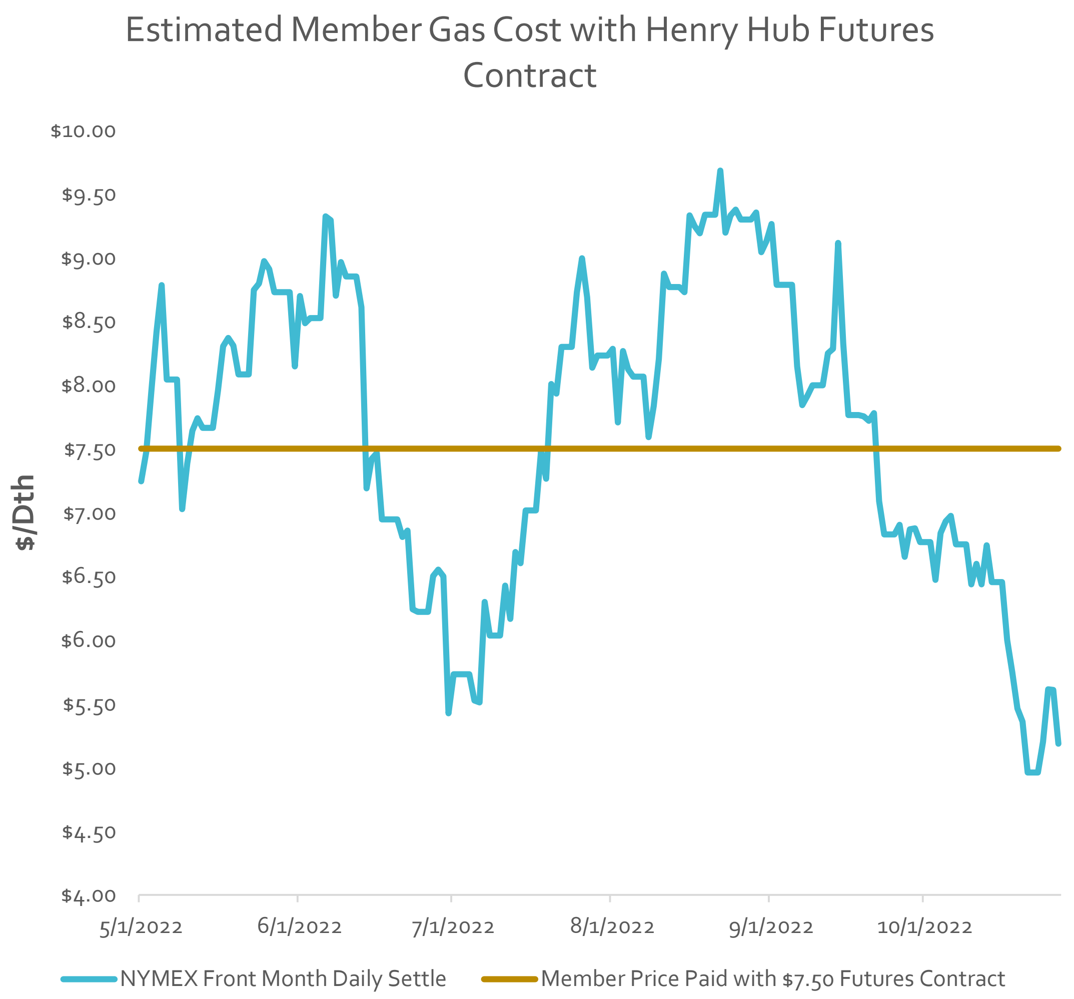
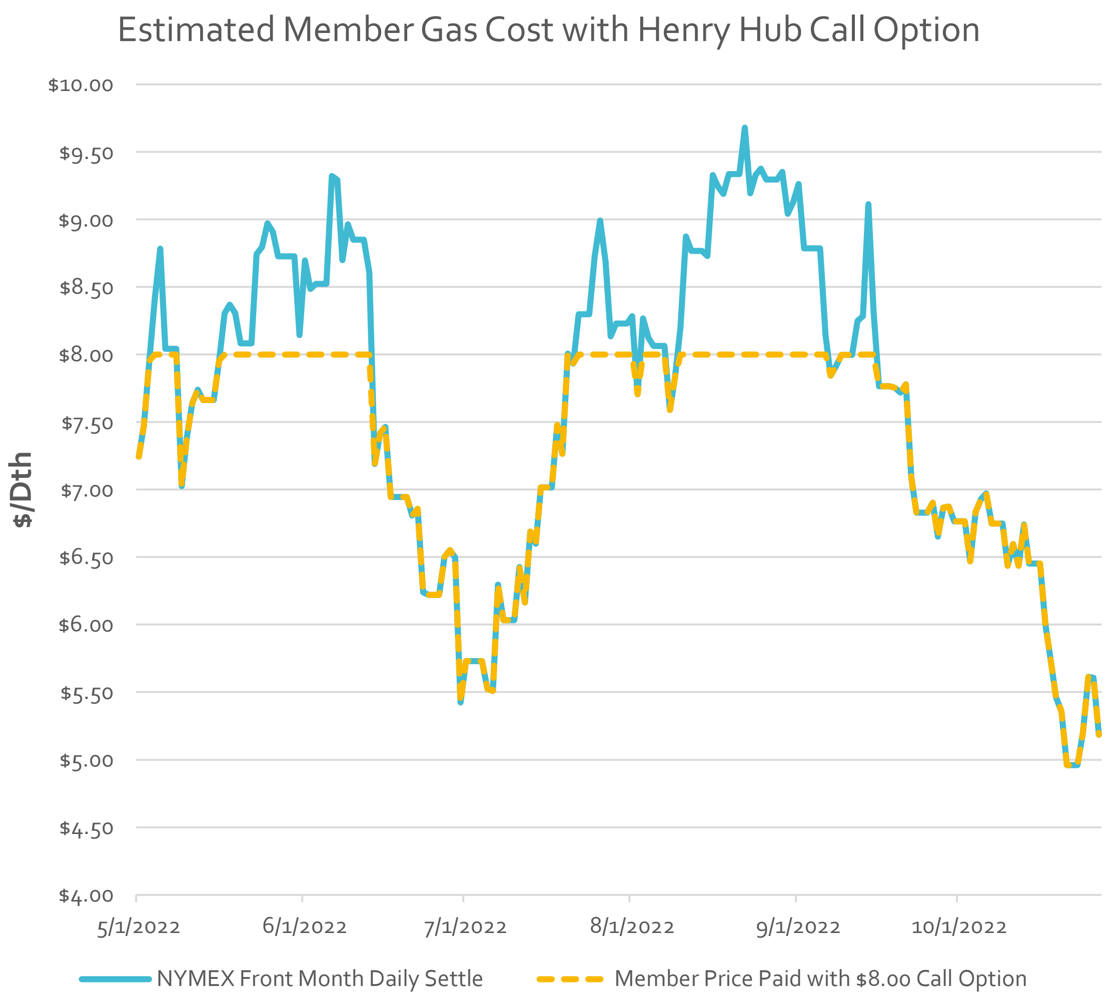
Products - Examples





Products – Examples
2022 Basis Blowout





Call Option – Example

	Strike Price (dth)	Premium/Therm	% of Strike Price
April 25 – March 26	$4.50	$0.0320	7.1%
April 25 – March 26	$5.00	$0.0205	4.1%
April 25 – March 26	$5.50	$0.0166	3.0%

- Current price for a 1 year strip is $4.33 (futures price)
- Each contract is 10,000 dth/month

Quantity

- Proposing a rolling program. Hedge up to:

- of the City's usage up to **12** months out
- of the City's usage up to **24** months out
- of the City's usage up to **36** months out

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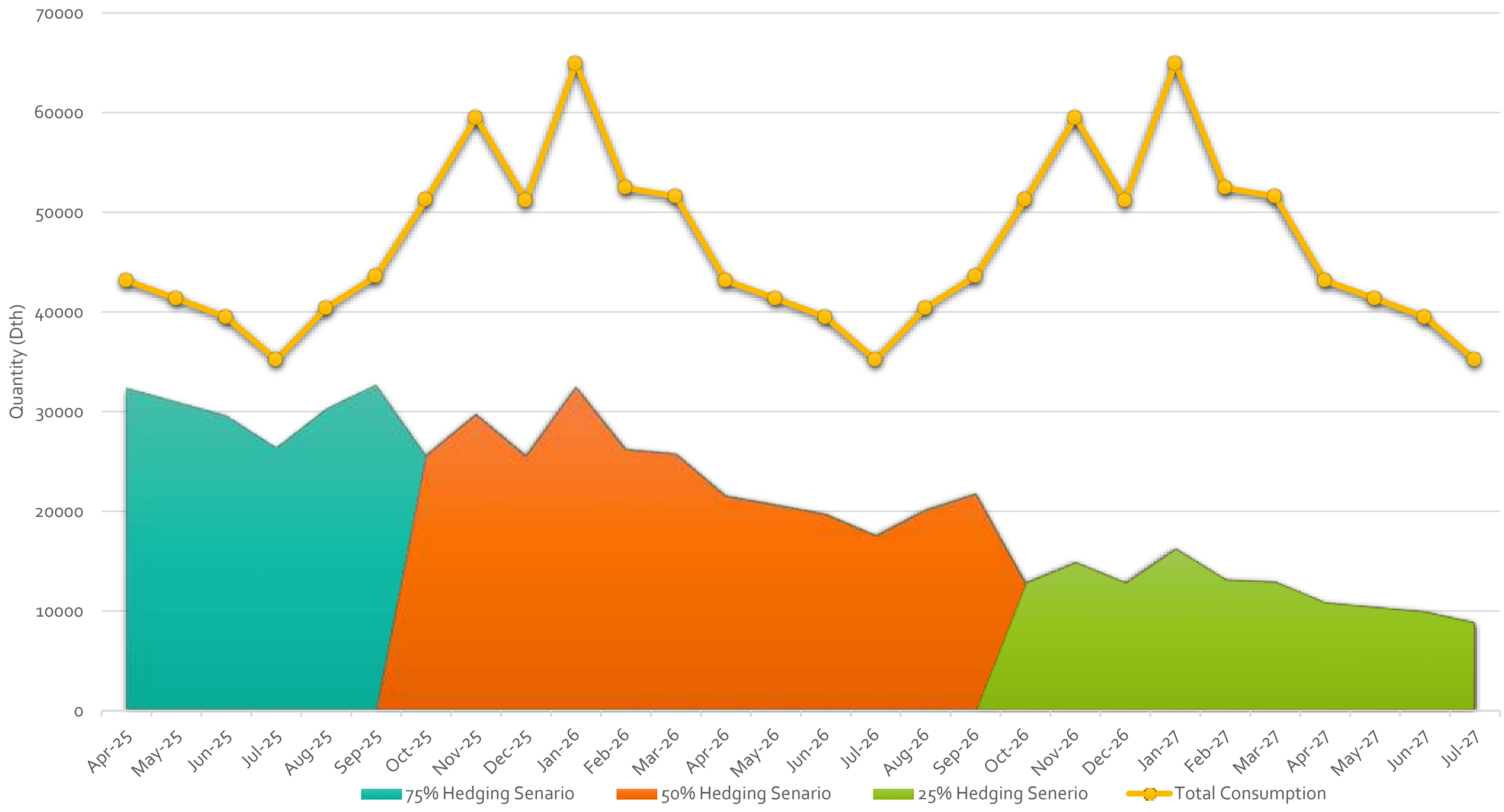
Quantity - Illustration



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

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Additional Information

Parameters provide flexibility to take advantage of favorable market opportunities

Can terminate directive at any time on a forward going basis

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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

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