



# **Metropolitan Government of Nashville and Davidson County - Finance Dept. Policy: Fuel Costs Management**

**Effective Date:** November 1, 2021

**Revision Date:** September 16, 2025

**Policy Number:** 3.9

**Sponsor:** Office of the Treasurer

## **Purpose**

The purpose of this Fuel Cost Management Policy (this “Policy”, or the “Policy”) is to establish responsibilities, objectives, and guidelines for the use of fuel cost management transactions (each a “Transaction” and collectively, the “Transactions”) necessary to manage price risk related to anticipated fuel consumption. This Policy, the Master Agreements and the Transactions shall collectively form a fuel cost management program (the “Program”) for the Metropolitan Government of Nashville and Davidson County (“Metro Government”).

## **Authority**

Each Master Agreement for fuel financial hedging between Metro Government and its counterparties will be approved by ordinance of the Metropolitan Council. The Director of Finance is authorized to execute agreements, contracts and transactions on behalf of the Metro Government. The Director of Finance and Treasurer shall operate the Program consistent with Metropolitan Council Ordinances and this Policy.

The following nonexclusive list of criteria is included to help ensure that each Transaction executed by the Metro Government follows this Policy:

### Guidelines

Each Ordinance shall set forth applicable Transaction parameters including, but not limited to, purpose, fuel type and reporting requirements.

Each Ordinance shall specify the appropriate Metro Government officials authorized to execute each Transaction contemplated by each Ordinance within the parameters established by each Ordinance.

In the event of a conflict between an Ordinance and this Policy, the terms and conditions of each Ordinance shall prevail.

### Program Advisor

The Director of Finance will select and hire a Commodity Trading Advisor (the “Program Advisor”) that is registered with the Commodity Futures Trading Commission and regulated by the National Futures Association. The Program Advisor will assist the Metro Government in the management of the Program, in the implementation of each Transaction, and in the additional roles discussed in this Policy.

## **Objective**

The Program can be an integral part of the Metro Government’s ability to establish budgetary certainty with respect to anticipated fuel usage. It is the design of the Program that any Transaction agreed to by the Metro Government shall result in, but is not limited to, fuel price stability for all, or a portion, of certain anticipated fuel usage over a designated period of time.

The Metro Government shall not enter into a Transaction:

- That is speculative or creates extraordinary leverage or risk based on a reasonably prudent investor



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- standard,
- for which the Metro Government lacks the adequate liquidity to terminate; or
- that, at the time of execution, does not have sufficient price transparency to allow for reasonable valuation.

### **Counterparty Approval Guidelines**

#### Eligibility for Over the Counter (“OTC”) Transactions

The Metro Government shall enter into each OTC Transaction only with qualified commodity hedge providers (each a “Counterparty”, or “Counterparties”). To qualify as a Counterparty under this Policy, at the time of entry into each OTC Transaction, the selected commodity hedge provider(s):

- Shall be rated at least A-/A3/A- by at least two of Standard & Poor’s Ratings Services (“S&P”), Moody’s Investors Service (“Moody’s”), and Fitch Ratings (“Fitch”), respectively, and shall have a minimum market capitalization of \$50 million; or
- if rated below A-/A3/A- by at least two of S&P, Moody’s, and Fitch, respectively, or if not rated, shall provide credit support that may require such party to deliver collateral for the benefit of the Metro Government (a) that is of a kind and in such amounts as are specified therein and which relate to various rating threshold levels of the Counterparty or its guarantor, beginning at A+/A1/A+ (S&P/Moody’s/Fitch) and (b) that, in the judgment of the Metro Government, is reasonable and customary for similar OTC transactions, taking into account all aspects of each OTC Transaction including without limitation the economic terms of each OTC Transaction and the creditworthiness of the Counterparty or, if applicable, its guarantor; or shall post suitable and adequate collateral (separate from any collateral requirements) at a third party for the benefit of the Metro Government; or
- if rated below A-/A3/A- by at least two of S&P, Moody’s, and Fitch respectively; or if not rated, shall obtain credit enhancement from a provider with respect to its obligations under each OTC Transaction that satisfies the requirements of the first bullet above, given the undertaking involved with the particular Transaction.

The Metro Government shall not enter into an OTC transaction with a firm that does not qualify as a Counterparty consistent with the foregoing guidelines.

Each Counterparty shall make available audited financial statements and rating reports of the Counterparty (and any guarantor or credit enhancer, as the case may be) at the time of entering into each OTC Transaction and annually thereafter for so long as each Transaction remains outstanding. If at any time the Counterparty or credit enhancer undergoes a credit or regulatory review, then audited financial statements and rating reports of the Counterparty (and any guarantor or credit enhancer, as the case may be) shall be made immediately available to the Metro Government by the Counterparty.

#### Collateral Requirements

Collateral posting requirements between the Metro Government and each Counterparty shall not be unilateral in favor of the Counterparty. As part of each OTC Transaction, the Metro Government or the Counterparty may require that collateralization to secure any or all payment obligations under each OTC Transaction be posted. Collateral requirements with new counterparties shall be subject to the following guidelines:

Collateral requirements imposed on the Metro Government shall not be accepted to the extent that they would impair the Metro Government’s existing operational flow of funds. Metro is aware that not posting collateral can cause an event of default and may require termination.

Each Counterparty shall be required to provide credit support documentation (“Supporting Documents”) that is acceptable to the Metro Government.

A list of acceptable securities that may be posted as collateral and the valuation of such collateral shall be determined and mutually agreed upon during negotiation of each OTC Transaction with each Counterparty.



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The market value of the collateral shall be determined on a daily basis by the counterparty unless an event of default has occurred with respect to the counterparty, then it will be Metro or its appointee, or as provided in the documentation for each OTC Transaction.

Failure to meet collateral requirements shall be a default pursuant to the terms of each OTC Transaction.

The Metro Government and each Counterparty may provide in the Supporting Documents to each OTC Transaction for reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.

Each OTC Transaction may provide for the right of assignment by one of the parties in the event of certain credit rating events affecting the other party. The Metro Government (or the Counterparty) shall first request that the Counterparty (or the Metro Government) post credit support or provide a credit support facility. If the Counterparty (or the Metro Government) does not provide the required credit support, then the Metro Government (or the Counterparty) shall have the right to assign the Transaction to a third party acceptable to both parties and based on terms mutually acceptable to both parties. The credit rating thresholds to trigger an assignment shall be included in the supporting documents.

### Eligibility for Exchange Traded Transactions

For a Transaction cleared through an exchange, the Metro Government's Counterparty will be the applicable exchange. No specific counterparty approval guidelines are necessary for an Exchange Traded Transaction.

### Eligibility for Producer Price Agreements

No specific counterparty approval guidelines are necessary for transaction executed directly with the commodity producer.

### **Transaction Descriptions**

The Director of Finance shall, in consultation with the Program Advisor, determine the type of Transaction best suited to meet the Metro Government's fuel management needs on a case-by-case basis. The Metro Government may utilize, but shall not be limited to, any of the following Transaction types:

#### Producer Price Agreements

Producer Price Agreements are contracts negotiated and executed directly between the Metro Government and a producer of a specific commodity in which the producer will agree to deliver the commodity to the Metro Government in specified amounts on specific future dates at a specified price. The contract terms can include, but are not limited to, contract tenor, type of commodity, price, delivery amounts, delivery dates and locations, and any other applicable terms.

Risks associated with Producer Price Contracts can include but are not limited to: Consumption Risk; Liquidity Risk; Delivery / Carry Risk.

#### Futures and Options Contracts

Futures Contracts are agreements, commonly executed on the floor of a commodity exchange (i.e., exchange traded), to sell or buy a specific amount of a commodity, such as diesel fuel, gasoline, or natural gas, at a specific price and for delivery at a specific future date. Unless the contract is sold to another party before the settlement date, participants in the contract must buy or sell the underlying commodity.

Futures Contracts differ from Options Contracts in that option buyers may choose whether or not to exercise the option on the exercise date. An option on a futures contract gives the holder the right, but not the obligation, to enter a specific futures contract when the option expires. Positions may be either "long" (i.e., the option to buy the underlying asset) or "short" (i.e., the option to sell the underlying asset).

Risks associated with Futures and Options Contracts can include, but are not limited to, Liquidity Risk and



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Delivery / Carry Risk.

### Commodity Swaps and Other Derivative Transactions

Commodity swaps and other derivative transactions are OTC Transactions in which the Metro Government will agree to exchange cash flows with a Counterparty. Commodity swaps and other derivative transactions are financial transactions, and as such the Metro Government is expected to make and/or receive payments which are designed to lock in or limit the cost of its respective commodity purchases. There will be no physical delivery of a commodity under the terms of a Commodity swap or other derivative transaction.

Each commodity swap or other derivative transaction shall contain terms and conditions as set forth in a long-form confirmation for each Transaction, or in an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement and such other terms and conditions included in any supporting documentation including, but not limited to, schedules, credit support annexes, and transaction confirmations as approved in accordance with each respective Resolution. For any commodity swap or other derivative transactions, the Metro Government shall follow all requirements of Dodd-Frank Compliance.

Risks associated with commodity swaps or other derivative transactions can include but are not limited to: Counterparty Risk; (ii) Termination Risk (Section 6.2); (iii) Consumption Risk (Section 6.3); (iv) Liquidity Risk (Section 6.4); and (v) Basis (Index) Risk (Section 6.5).

### **General Guidelines for Transactions**

Following is a list of certain guidelines that the Metro Government may follow in the evaluation and recommendation of each Transaction:

#### Legality

Each proposed Transaction shall fit within the legal constraints imposed by applicable federal and state statutes, Metro Government Ordinances, and existing Metro Government covenants and other contracts. Furthermore, the Metro Government shall determine that each proposed transaction is consistent with this Policy.

#### Goals

Each Ordinance shall clearly state the goals to be achieved through each proposed Transaction, and Transaction execution parameters shall be consistent with the Metro Government's stated goals.

#### Explanation of Risks & Benefits

Analysis necessary for the Metro Government staff, in consultation with its Program Advisor, to explain the costs, benefits, risks and other considerations regarding each proposed Transaction to the Director of Finance must be included as a part of the approval process for each related Transaction.

#### Credit Ratings

Each proposed Transaction shall not have an adverse impact on any existing credit rating of the Metro Government.

#### Tenor

The Metro Government shall determine the appropriate term for each proposed Transaction on a case-by-case basis. However, in no circumstance may the term of each Transaction entered into by the Metro Government, or as applicable between the Metro Government and a Counterparty, extend beyond twenty-four months.

#### Exit Strategy

The mechanics for determining termination values at various times and upon occurrences of various termination events shall be explicit in each Transaction. The Program Advisor and/or the Counterparty, if applicable, shall



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provide estimates under various economic scenarios of the potential costs, if any, of termination. Estimated termination costs and a plan for funding any such costs shall be considered during the approval process.

### Volume

If the Metro Government's projected commodity usage does not align with its actual commodity usage in any budgetary period, then the Metro Government may be under-hedged or over-hedged in that budgetary period. For this reason, the Metro Government will not hedge more than eighty percent of the total projected commodity usage in any budgetary period.

### Accounting Compliance

The Metro Government will account and report the impact of fuel cost hedging transactions in compliance with GASB 53 standards and/or other prevailing accounting standards and/or guidance.

### Transaction Parameters

The Director of Finance, Treasurer and user agencies, in consultation with the Program Advisor, shall set forth specific commodity price targets and corresponding hedging volumes. The resulting transaction parameters shall be used as a guideline for the execution of each Transaction under the Program.

The Metropolitan Treasurer shall be authorized to execute each Transaction as directed by the Director of Finance in accordance with the authorization of each Ordinance.

If the Metro Government chooses to hedge its commodity purchases for a given budgetary period, then by May 1st of the previous year, the coming fiscal year's appropriate budget category shall be hedged in such a way that the budget calculations can be performed and the maximum expenses for each appropriate budget category can be determined.

### Procurement

The Purchasing Agent shall determine the appropriate procurement method for each Transaction contemplated. The Purchasing Agent may select from, but is not limited to, the following procurement methods:

#### Competitive Bid

The solicitation of a Competitive Bid shall include not fewer than three Counterparties who are qualified under Section 3 of this Policy. If the Metro Government chooses to pursue a Competitive Bid for commodity swaps or other derivative products as part of the Program, then the Metro Government shall execute International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements with as many Counterparties as the Director of Finance deems necessary in order to assure through competition that the Metro Government transacts "at the market" and diversifies counterparty performance / credit risk.

#### Limited Bid

The solicitation of a Limited Bid shall include as many participants as deemed necessary by the Director of Finance to ensure a fair and competitive process. All participants in a Limited Bid shall be Counterparties qualified under Section 3 of this Policy.

#### Negotiated Transactions

In the case of a Negotiated Transaction, the Director of Finance: (i) shall set parameters for execution that are consistent with the related laws; (ii) may delegate to the Finance Department, in consultation with the Program Advisor, authority to negotiate the price; and (iii) shall arrange with the Program Advisor for delivery of a "fair market value" opinion. The Counterparty shall disclose to the Director of Finance any payments made to third parties in connection with the execution of each Transaction. A Negotiated Transaction will only be executed with a Counterparty qualified under Section 3 of this Policy.



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### **Transaction Risks**

Certain risks may be created as the Metro Government enters into any Transaction. At the request of the Metro Government, the Program Advisor shall provide a disclosure memorandum to the Metro Government that shall include an analysis of the risks and benefits of each Transaction. In order to manage potential risks associated with the implementation of Transactions pursuant to the Program, guidelines and parameters for certain risk categories are as follows:

#### Counterparty Risk

Where applicable, the impact to the Metro Government of Counterparty default can be reduced by using highly rated Counterparties and diversifying credit exposure across multiple Counterparties when possible. The Metro Government may further mitigate Counterparty Risk by requiring Counterparties to post collateral on a mark -to-market basis, in accordance with the guidelines described in the Collateral Requirements section of this Policy.

#### Termination Risk

Where applicable, the Metro Government may wish to mitigate termination risks associated with each Transaction.

A termination payment may be required in the event of termination of a Transaction due to a Counterparty default or following a decrease in the credit rating of the Metro Government or its Counterparty. It is the intent of the Metro Government to review all available options prior to effecting a termination or making any termination payment. All Transactions shall be designed to provide the Metro Government with sufficient time to determine whether it is financially advantageous to obtain a replacement Counterparty or to effect termination. The Metro Government may wish to retain the right to terminate each Transaction at any time over its term at its then-prevailing market value. Termination values shall be readily obtainable through a market quote methodology or as provided by the Program Advisor.

The Metro Government may, but is not required to, explore the economic viability of a unilateral termination provision that allows termination without the necessity of a termination payment (i.e., cancellation options).

#### Consumption Risk

If the Metro Government's projected commodity usage does not align with its actual commodity usage in any budgetary period, then the Metro Government may be under-hedged or over-hedged in that particular budget period. For this reason, the Metro Government will hedge less than 80% of total projected commodity usage in any budgetary period.

#### Liquidity Risk

Where applicable, the Metro Government shall consider whether or not the market in which each Transaction trades, is sufficiently liquid (i.e., if enough potential buyers and sellers participate actively in the market to assure fair pricing) for the type of Transaction being considered and the potential ramifications of an illiquid market for such type of Transaction. There may not be another appropriate party available to act as an offsetting Counterparty. The Metro Government may enter into liquidity or credit agreements with liquidity providers and/or credit enhancers to protect against this risk.

#### Basis (Index) Risk

Where applicable, any index chosen as part of a Transaction shall be a recognized market index. The Metro Government shall not enter into a Transaction that does not have a direct correlation with the movement of an index, without thoroughly analyzing the risk associated with such Transaction.

The Metro Government shall not enter into a leveraged Transaction without thoroughly analyzing the risks associated with such Transaction.

#### Delivery / Carry Risk



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Where applicable, the Metro Government shall be aware of its options with respect to physical delivery of commodities and, where applicable, shall make arrangements for the receipt and storage of any such physical delivery. The Metro Government shall confirm storage capacity (delivery) and the cost of such storage (carry) in advance of any such physical delivery of a commodity.

### **Regulatory Compliance**

Following is a list of regulatory requirements imposed at the federal level with which the Metro Government shall make every reasonable effort to comply:

#### Dodd-Frank Compliance

Pursuant to the authority of Section 731 of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), which includes amendments to the Commodity and Exchange Act (the "CEA") regarding over-the-counter derivative instruments, regulations were published by the Commodity Futures Trading Commission (the "CFTC") that define business conduct between swap dealers and their counterparties, including swap dealers engaged in swap transactions with state and local governmental counterparties such as the Metro Government (referred to in the regulations as "Special Entities"). The new business conduct rules are far ranging, and they can impact the Metro Government simultaneously on several fronts when entering into a Transaction in the form of a derivative, such as a commodity swap. The following sections are included in this Policy in order to help the Metro Government comply with the CEA as amended by Dodd-Frank:

#### Qualified Independent Representative

If the Metro Government elects to utilize Transactions in the form of a commodity swap or other derivative transaction as a part of the Program, then prior to the execution of any such transaction the Metro Government shall designate a qualified independent representative (the "QIR") that meets the following criteria with respect to any such transaction:

- Has sufficient knowledge to evaluate the transaction and risks,
- is not subject to a statutory disqualification,
- is independent of the swap dealer or major swap participant,
- undertakes a duty to act in the best interests of the Metro Government,
- makes appropriate and timely disclosures to the Metro Government,
- evaluates, consistent with any guidelines provided by the Metro Government, fair pricing and the appropriateness of the transaction; and
- is subject to restrictions on certain political contributions imposed by the CFTC, the Securities and Exchange Commission (the "SEC"), or a self-regulatory organization subject to the jurisdiction of the CFTC or the SEC.

(Collectively, the "Enumerated Criteria").

Prior to the execution of any subsequent Transaction in the form of a commodity swap or other derivative transaction, the Metro Government shall conduct a review of its QIR to ensure that it still meets the Enumerated Criteria. In the event that the QIR no longer meets the Enumerated Criteria, the Metro Government shall, in a timely manner, select a replacement QIR that meets the Enumerated Criteria.

#### Written Representations

To ensure that the Metro Government is in compliance with the new regulations imposed by Dodd-Frank, the Metro Government may, but is not required to, execute certain documentation, as provided under ISDA mandated protocols, with its QIR and each Counterparty prior to entering into any Transactions in the form of a commodity swap or other derivative transaction. If the Metro Government elects not to execute a Protocol Agreement with each Counterparty, then the Metro Government shall provide an alternate form of written representation to each Counterparty that meets all applicable disclosure requirements as required by Dodd-Frank.



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### Derivative Clearing Requirement

Section 2(h)(1) of the CEA requires that certain derivative transactions must be cleared through a derivative clearing organization unless otherwise exempt from clearing under the “End User Exception” in Section 2(h)(7) of the CEA. In order to qualify for the End User Exception to the clearing requirements of the CEA, the Special Entity must report to the CFTC on either an annual or a transaction-by-transaction basis that it (i) is not a financial entity, (ii) is using swaps to hedge or mitigate commercial risk, and (iii) will notify the CFTC, in a manner set forth by the CFTC, how it generally meets its financial obligations associated with entering into non-cleared swaps.

If the Metro Government chooses to enter into Transaction in the form of a commodity swap or other derivative transaction as a part of the Program, then the Metro Government, in consultation with the Program Advisor, shall make its best efforts to comply with the applicable derivative clearing requirements of the CEA.

### **Applicable Local, State or Federal Regulations**

Metro. Charter art. 8, § 8.103: The director of finance shall be responsible to the mayor for the administration of the financial affairs of the metropolitan government.

Metro. Charter art. 8, § 8.104: The budget officer, with the advice and assistance of the chief accountant, shall write, revise and maintain a proper standard procedure instruction manual to be followed by all officers, departments, boards and other agencies of the government to ensure uniform accounting and budgetary procedures.

Metro. Charter art. 8, § 8.105: The chief accountant shall maintain a general accounting system and such cost accounting records as shall be required by the director of finance.

Metro. Charter art. 8, § 8.106: The metropolitan treasurer shall supervise and be responsible for the custody and disbursement of all funds belonging to the metropolitan government and all funds handled by metropolitan government officers as agents or trustees except as otherwise provided in this Charter or by ordinance or general law not inconsistent with this Charter.

Tenn. Code Ann. § 7-51-911; Commodity and Exchange Act as amended by Dodd -Frank Wall Street Reform and Consumer Protection Act of 2010

### **Associated Policies**

None.

### **Effective Date**

This Policy Statement shall become effective upon issuance and shall be applied to all Metro departments and agencies.

### **Approvals**

#### **Approval of the Director of Finance**

I hereby approve this Policy Statement of the Department of Finance and as such agree with and authorize the actions necessary to implement its requirements.

Jenneen Reed

Director of Finance



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**Date:** September 16, 2025