



Policy

Title: Hedging		Number: 0159	
Reference: Administrative Committee April 13, 2016 February 7, 2018 May 6, 2026 Corporate Services Committee - May 14, 2026	Adopted by City Council: June 15, 2026		Supersedes: February 20, 2018
	City Clerk	City Manager	
Prepared by: Finance and Energy Marketing			

STATEMENT

The City of Medicine Hat (the City) is a municipality that provides municipal services and energy services, due to its ownership of energy production assets and utilities. Each business unit of the City may need to consider certain hedging activities to help manage risks tied to the operations of that business unit. The City has developed a set of guidelines that must be followed before any hedging activities may be contemplated by its business units.

Hedge policy guidelines provide a framework for establishing a risk management culture at the City. The hedge programs for respective business units will be developed to adhere to this policy and Procedure 0159. The hedge programs will specify: a set of rules to guide decisions to hedge the purchase or sale of investments or commodities associated in business operations in the forward markets, a clear statement of roles and responsibilities within the City and the given business unit, and a process for establishing and managing hedge programs.

1. AUTHORITY

- 1.1 Pursuant to Section 201 of the Municipal Government Act (Alberta), Council is responsible for developing and evaluating the policies of the City. Pursuant to Section 207 of the Municipal Government Act (Alberta), the City Manager is responsible for ensuring that the policies of the City are implemented.

2. PRINCIPLES

- 2.1 The respective business unit hedge programs will:
 - (a) Focus on stabilizing the cost of commodities and/or stabilizing revenues and/or gross margin where appropriate and applicable.

Policy 0159 – Hedging		
Approved by:	City Council – June 15, 2026	Page 2 of 3

- (b) Strive to maintain reliable supplies for operations/sales where applicable.
 - (c) Work to mitigate the financial risk exposure to the City.
 - (d) Establish hedge programs through a documented plan for the City to execute, control and report on the ongoing hedging operation.
 - (e) Provide specific controls (e.g., segregation of duties, oversight, reporting etc.) for the management of operational risks.
- 2.2 The City’s hedging programs will be designed for the specific requirements and constraints of Medicine Hat. Any business unit hedge program will specifically address the management of investment or commodity portfolio risk and provide a framework to maintain proper controls over portfolio activities as they change over time. The results of the hedge programs must be continually evaluated in relationship to the City’s objectives to ensure effective performance.

3. RESPONSIBILITIES

3.1 City Council

- (a) Receive, review and adopt this policy and any recommended amendments thereto.
- (b) Attend hedge education workshops on an as needed basis. The City Council members will keep informed on the status of hedge strategy and hedging programs through annual reporting or more frequently as deemed necessary and outlined in the hedge programs.

3.2 The Administrative Committee/Risk Oversight Committee

- (a) The City’s Administrative Committee will serve as the Risk Oversight Committee (ROC) to oversee hedge activity for any City business unit engaged in hedging. The City’s Administrative Organization Bylaw formalizes the structure and authority of the Administrative Committee.

3.3 Risk Oversight Committee

- (a) The ROC will have the responsibility for approving administrative procedures related to this policy and each business unit hedge program and related risk management efforts for Electric Generation and Finance. The ROC will provide approvals and oversight to any City business unit concerning commodity strategy, transacting, reporting, and related internal controls.
 - (i) Establish hedge programs that govern commodity hedging activities of the City and see that risk control processes are adequate to ensure compliance with such programs and plans.

Policy 0159 – Hedging		
Approved by:	City Council – June 15, 2026	Page 3 of 3

- (ii) Set an Operating Group for on-going hedge program implementation and compliance for each business unit engaged in hedging.
- (iii) Approve hedge methodology parameters and limits in terms of volume, tool type, price and time for any City business unit's hedging strategies.
- (iv) Approve hedging programs in duration not exceeding 2 years.
- (v) Approve any new commodity trading products not currently authorized as presented by the Operating Group.
- (vi) Set the required reporting framework within the existing tri-annual reporting review.
- (vii) Recommend amendments to this hedge policy for consideration by City Council as necessary.
- (viii) Approve amendments to hedge programs and controls as requested by the Operating Group.
- (ix) Ensure adequate credit authority and oversight is in place related to the administration of the hedge program.
- (x) Attend hedge education workshops on an as needed basis.
- (xi) Review as part of the tri-annual management reporting package that the completed transactions are within established City business unit hedge strategy parameters.
- (xii) Maintain minutes of meetings.
- (xiii) Provide as part of the annual year end reporting package to Council a summary of the hedging program accomplishments for the past year and setting of goals for the upcoming year.



Procedure

Title: Hedging	Number: 0159
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Approved by the Administrative Committee: May 6, 2026 Effective: June 15, 2026		Supersedes: January 10, 2024
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1. DEFINITIONS

- 1.01 **Assignment** - the process by which the seller of an option is notified of a buyer's intention to exercise the rights associated with the option.
- 1.02 **At-the-Money** - an option whose exercise, or strike, price is identical to the underlying fixed forward contract price.
- 1.03 **Basis** - the differential that exists at any time between the forward price for a given commodity and the comparable spot price for the commodity. Basis can reflect different time periods, product qualities, or locations.
- 1.04 **Basis Risk** - the uncertainty as to whether the settled and forward price for a position will converge at the time that hedge position expires.
- 1.05 **Bid/Ask** - a measure of market liquidity. The bid is the price level at which buyers are willing to buy and the ask (also known as an offer) is the price level at which sellers are willing to sell.
- 1.06 **Call Option** - an option that gives the buyer the right (but not the obligation) to buy a forward fixed contract at a predetermined strike price for a one-time premium payment, and obligates the seller to sell at that price, should the option be exercised.
- 1.07 **Cap** - a contract between a buyer and seller in which the buyer is assured he or she will not have to pay more than a maximum price. (This type of contract is analogous to a call option.)
- 1.08 **CME** - (Chicago Mercantile Exchange & Chicago Board of Trade) is an American financial market company operating the world's largest options and futures exchange. It owns and operates large derivatives and futures exchanges in Chicago, New York City, and exchange facilities in London, using online trading platforms.
- 1.09 **Collar** - an options strategy designed to minimize upfront costs of a cap or floor purchase through the sale of a cap or floor.
- 1.10 **Counterparty** - the person or institution standing on the opposite side of a transaction.