



JPB Finance Committee
Meeting of August 26, 2024

Supplemental Reading File

<u>#</u>	<u>Subject</u>
1	Acceptance of Quarterly Fuel Hedge Update

**Peninsula Corridor Joint Powers Board
Staff Report**

To: JPB Finance Committee
Through: Michelle Bouchard, Executive Director
From: Kate Jordan Steiner, Chief Financial Officer
Subject: **Acceptance of Quarterly Fuel Hedge Update**

Finance Committee
Recommendation

Work Program-
Legislative-Planning
Committee
Recommendation

Staff Coordinating
Council Reviewed

Staff Coordinating Council
Recommendation

Action

Staff proposes the Board to review, accept, and enter into the record the presentation providing an update on the implementation of a fuel hedging strategy for Caltrain.

Significance

The purpose of this presentation is to provide an update on the implementation and performance status of the Fuel Hedging Program (Program) established for Caltrain as the system prepares to go all electric in the fall of 2024. Attachment A includes information regarding the asset accumulated since the Program began.

Under this Program, the staff will continue to work with Linwood Capital, LLC and seek to work with the new Senior Energy Analyst in order to:

- Transition from hedging diesel fuel purchases to identify and hedge alternatives that might be a good fit for Caltrain going forward under electrification.
- Transition the existing fuel hedge asset to achieve short-term financial relief, implement a new electricity hedge program, or a combination of both of these. The primary goal of any future hedge program will continue to be to safeguard Caltrain’s financial stability from price fluctuations.

Budget Impact

There is no impact on the budget.

Background

Any Program considered for hedging electricity costs must be designed to minimize large budget variances resulting from changes in electricity rates. While less volatile, the volume and pricing for electricity under a fully electrified Caltrain remains to be fully seen, as the system is

seeking to maximize ridership post Covid and work from home realities. An effective hedging strategy can increase budget certainty and facilitate a more effective utilization of budgetary resources. The purpose of the Program is not to speculate on the price of electricity, but to manage risk, particularly as it relates to Caltrain's annual budget.

FY 2024 History

- As of June 30, 2024, the fuel hedging program had realized net gains of \$708,998.56 for the time period July 2023 through June 2024 – the entirety of FY 2024. This is approximately \$0.17 per gallon of realized gain for FY 2024. The approximate cost of fuel before taxes and fees and after the effect of the hedge is \$2.88 per gallon for FY 2024.
- Total dollar budget for fuel for FY24 is \$12,078,294 based on \$2.69 per gallon budget before tax and fees and budgeted consumption of 4,490,072 gallons.
- Estimated total cost before tax and fees and after hedging for FY24 is \$11,905,286 or \$2.88 per gallon on 4,127,754 gallons. This renders an approximate budget surplus for FY24 of \$173,008 driven by lower than anticipated fuel consumption in conjunction with the effects of the fuel hedging program.

FY 2025 Prospective

- For FY25, there is currently an unrealized gain of \$40,454 which is \$0.05/gallon on all projected gallons for July 2024 through June 2025. This assumes projected consumption of 797,930 gallons for FY25 the majority of which are in the first quarter of FY 2025.
- For FY25, approximately 21% (after tax) of the anticipated fuel usage is hedged. The projected cost for FY25 excluding taxes and fees and including the hedge is \$2.63/gallon (\$3.37/gallon with taxes, fees, and hedge) versus a currently planned budget estimate of \$2.69/gallon, excluding taxes and fees.
- Total dollar budget for fuel for FY25 is \$2,146,432 based on \$2.69 per gallon before tax and fees and estimated total consumption of 797,930 gallons. The estimated total cost before tax and fees and after hedging for FY25 as of 6/30/24 is \$2,099,496 or \$2.63 per gallon. This yields an estimated surplus for FY25 of \$46,935.

FY 2024 Year End Hedge Asset Information

- Total futures account value as of 6/30/23 was \$2,393,831.40
- Total futures account value as of 6/30/24 was \$4,295,564.94, a gain of \$1,901,773.54 during FY24.
- This current futures account value consists of:
 - o \$4,479,237.98 in realized net gains (decreased fuel cost) since inception in May 2020. Realized net gains increased by \$708,998.56 during FY24.

This realized net gain was applied to fuel cost resulting in a lower fuel cost for the fiscal year due to hedging.

- \$449,990 in net cash withdrawals from the account by JPB since inception. There were no additions or withdrawals to or from the futures account by JPB during FY24.
 - Net interest income since inception of \$225,862.56. Net interest income during FY24 was \$174,906.98 based on Treasury securities transactions during the year, fees, and securities market values as of 6/30/23 and 6/30/24.
 - \$40,454.40 in unrealized gain (contingent future decreased fuel cost). The unrealized gain at the end of FY23 was \$-977,373.60. Unrealized gain increased by \$1,017,828 during the year.
- Currently, \$4,025,860.89 of the value of the account is in the form of Treasury securities with maturities of 90 days or less. At the end of FY23, the value of the Treasury securities was \$1,615,553.47. Remaining account values are in cash.

Prepared By:	Adela Alicic	Senior Financial Analyst	650-508-7981
	Kevin Beltz	Manager, Debt and Investment	650-508-6405

Fuel Hedge Status At June 30, 2024

Attachment A

	FY 2024
Hedge Realized/Unrealized Gains	\$708,998.56
Supplier Actual/Expected Fuel Cost	\$15,853,122.94
Total Net Projected/Actual Cost Net of Hedge	\$15,144,124.38
OPIS Plus Diff Actual/Expected Cost	\$12,614,284.23
OPIS Plus Diff Actual/Expected Cost Net of Hedge	\$11,905,285.67
OPIS + Diff Budgeted Cost	\$12,078,293.00
OPIS plus Diff Actual vs. Budget (favorable budget variance)	\$173,007.33
Tax Adjusted Percent Hedged/Consumed	100.0
Budget/Actual Gallons	4,127,754
Budgeted Gallons	4,490,072
Hedge Realized/Unrealized Gains - Cents Per Gallon	17.18
OPIS Plus Diff Budgeted Price C/G	269.00
OPIS Plus Diff Actual/Projected Cost Net of Hedge C/G Total	288.42
With Tax & Fees Implied Budget Cost - Cents Per Gallon	293.80
Supplier Actual/Expected Fuel Cost - Cents Per Gallon	384.06
Total Supplier Invoice Projected/Actual Cost NOH C/G	366.89
Market to Budget	

Denotes referenced in staff report

Cumulative since inception for fiscal year ending	FY 2024
Cumulative Fuel Expense (including brokerage fees)	-\$4,479,237.98
Cumulative net cash from PCJPB to futures account	-\$449,990.00
Contingent future fuel expense	-\$40,454.40
Cumulative Interest Income	\$225,862.56
Account Value: cash asset after fuel expense - cont. fuel expense + interest earned	\$4,295,564.94
Cash asset after fuel expense	\$4,029,247.98
Annual Fuel Expense from futures	-\$708,998.56
Annual Cash from JPB to futures account	\$0.00
Annual Cash from JPB to futures account less fuel expense	\$708,998.56
Annual Interest Income	\$174,906.98