



JPB Finance Committee
Meeting of February 24, 2025

Supplemental Reading File

Subject

1. Receive Quarterly Fuel Hedge Update

**Peninsula Corridor Joint Powers Board
Staff Report**

To: JPB Board of Directors
Through: Michelle Bouchard, Executive Director
From: Kate Jordan Steiner, Chief Financial Officer
For: March 2025 Board of Directors Meeting
Subject: **Receive Quarterly Fuel Hedge Update**



Finance Committee
Recommendation



Technology, Operations, Planning,
and Safety Committee
Recommendation



Advocacy and Major Projects
Committee Recommendation

Purpose and Recommended Action

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

Discussion

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. Caltrain launched fully electric service between San Francisco and San Jose in September 2024. Caltrain still provides diesel service between San Jose and Gilroy.

Under this Program, the staff will continue to work with Linwood Capital, LLC and seek to work with Caltrain's Energy Manager 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. The primary goal of any future hedge program will continue to be to safeguard Caltrain's financial stability from price fluctuations.

Background on Diesel Fuel Hedge

Any Program considered for hedging electricity costs must be designed to minimize large budget variances resulting from changes in electricity rates. While traction power and electricity costs are expected to be less volatile than diesel, volume and pricing for electricity under a fully electrified Caltrain are still being collected and analyzed. 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 2025 History

- As of December 31, 2024, the fuel hedging program had realized net loss of -\$59,748 for the time period July 2024 through December 2024 – the first half of Fiscal Year (FY) 2025. No hedging activity occurred during the second quarter of FY 2025. This is approximately \$0.06 per gallon of realized loss for the first half of FY 2025. The approximate cost of fuel before taxes and fees and after the effect of the hedge is \$2.60 per gallon for the second half of FY 2025.
- Total dollar budget for fuel for FY 2025 is \$2,146,432 based on \$2.69 per gallon budget before tax and fees and budgeted consumption of 797,930 gallons.
- Estimated total cost before tax and fees and after hedging for all of FY 2025 is \$2,516,998 or \$2.59 per gallon on 970,503 gallons. This renders an approximate projected budget deficit for FY 2025 of -\$370,566. Higher than budgeted consumption is the cause of the anticipated budget overage.

FY 2025 Prospective

- For the remainder of FY 2025, there is no hedging in place as Caltrain has minimal diesel usage now that the railroad is electrified. The anticipated diesel fuel cost for the remainder of FY 2025 is \$90,538 before fees and taxes or approximately \$2.37 per gallon on 38,142 gallons of consumption.
- For FY 2025, the focus will be on electricity hedging. Per Caltrain's latest projections, electricity will represent 93 percent and diesel only 7 percent. Staff are working with Linwood Capital, LLC to adjust the fuel hedge based on the latest forecast for electricity usage.

Hedge Asset Information as of 12/31/2024:

- Total futures account value as of 12/31/24 was \$4,295,819.
- Total futures account value as of 9/30/24 was \$4,248,270.
- Total futures account value increased by \$47,549 during the second quarter of FY 2025.
- This current futures account value consists of:
 - \$4,419,490 in realized net gains (decreased fuel cost) since inception in May 2020. Realized net gains were unchanged during the second quarter of FY 2025 due to the lack of hedging activity.
 - \$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 the second quarter of FY 2025.
 - Net interest income since inception of \$326,319. Net interest income during the second quarter of FY 2025 was \$47,549 based on Treasury securities transactions during the quarter, fees, and securities market values as of 9/30/24 and 12/31/24.

- \$0 in unrealized gain (contingent future decreased fuel cost). Due to the lack of hedging activity during the second quarter of FY 2025, unrealized gains remained at \$0 from 9/30/24 through 12/31/24.
- Currently, \$4,246,022 of the value of the account is in the form of Treasury securities with maturities of 90 days or less with the remaining account value of \$49,797 in cash.
- At the end of first quarter FY 2025, the value of the Treasury securities was \$4,029,228 with the remaining account value of \$219,043 in cash.

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