Fuel Cost Stabilization
What is Fuel Hedging?

- Managed program to limit the volatility of fuel pricing
- Purchase a series of diesel future contracts that create greater price certainty
- Differs from prior hedging program which paid for insurance against outsized price moves (cap)
Un-Hedged vs. Hedged

- No Hedging
- Wide Range of Possible Cost
  - Green and Red Lines
- Maximum Risk Exposure
- High Budget Risk

- Hedging 90%
- Narrower Range of Expected Cost
  - Green and Red Lines
- Managed Risk Exposure
- More Certain Future Costs
Existing Fuel Purchase Agreement

- OPIS price: 5 day average rack rate for No. 2 CARB Red-dye ULSD fuel
- Price differentials to the OPIS index are based on location and delivery method

<table>
<thead>
<tr>
<th>Fuel Supplier</th>
<th>OPIS</th>
<th>Caltrain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-$0.025</td>
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Adding a Fuel Hedge

Net cost of fuel = Hedge Price + (OPIS – 2.5 cents) – Spot Price
Hedge Mechanics/Pricing

### Key Assumptions
- **Budget Price**: $1.50
- **Fuel Demand**: 350,000 gal/month
- **Hedge Ratio**: 80%

<table>
<thead>
<tr>
<th></th>
<th>Price Increase</th>
<th>Price Decrease</th>
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</thead>
<tbody>
<tr>
<td><strong>Actual Supplier Cost ($/gal)</strong></td>
<td>$2.00</td>
<td>$1.00</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>$700,000</td>
<td>$350,000</td>
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<tr>
<td><strong>Forward Pricing (280,000 gal)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hedge Price</strong></td>
<td>$1.50/gal</td>
<td>$1.50/gal</td>
</tr>
<tr>
<td><strong>Spot Price</strong></td>
<td>$2.00/gal</td>
<td>$1.00/gal</td>
</tr>
<tr>
<td><strong>Realized Gain</strong></td>
<td>$0.50/gal</td>
<td>($0.50)/gal</td>
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<tr>
<td><strong>Realized Gain (Loss)</strong></td>
<td>$140,000</td>
<td>($140,000)</td>
</tr>
<tr>
<td><strong>Net Fuel Cost</strong></td>
<td>$560,000</td>
<td>$490,000</td>
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<tr>
<td></td>
<td>$1.60/gal</td>
<td>$1.40/gal</td>
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Potential Risks

- Basis risk – mismatch between OPIS index and spot diesel prices
- Over-hedging – hedging more fuel than is needed
Why Now?

10 Year Diesel History 3/26/20

Caltrain
Next Steps

▪ Staff is recommending the board approve:
  – Adopting a new Diesel Fuel Hedging Policy allowing the Agency to buy, sell, and trade Diesel Fuel Futures Contracts.
  – Authorizing the General Manager/CEO to open a commodities futures account on behalf of the Agency to buy, sell, and trade Diesel Fuel Futures Contracts.