JPB Finance Committee
Meeting of August 25, 2025

Supplemental Reading File

#	Subject
1.	Receive Quarterly Fuel Hedge Report Quarter 4 Fiscal Year 2025

Peninsula Corridor Joint Powers Board
Staff Report

To: JPB Finance Committee

Through: Michelle Bouchard, Executive Director

From: Kate Jordan Steiner, Chief Financial Officer

For: September 2025 JPB Board of Directors Meeting

Subject: **Receive Quarterly Fuel Hedge Report Quarter 4 Fiscal Year 2025**

☐ Finance Committee Recommendation ☐ Technology, Operations, Planning, and Safety Committee Recommendation ☐ Advocacy and Major Projects Committee Recommendation

Purpose and Recommended Action
Staff propose that 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 performance of the Diesel Fuel Hedging Program (Program) established for Caltrain, and to provide a recommendation for reinstating the Program. The Program, implemented in partnership with Linwood Capital, LLC was designed to reduce expense volatility caused by fluctuations in diesel fuel prices, thereby supporting financial stability in operations.

In September 2024 Caltrain launched fully electric service between San Francisco and San Jose; however, Caltrain still provides diesel service between San Jose and Gilroy.

Following electrification of Caltrain in October 2024, diesel fuel consumption declined significantly, leading to the wind-down of the diesel fuel hedge program. By the end of the fourth quarter (Q4) of Fiscal Year 2025 (FY25), the hedge account was fully liquidated, with a final disbursement of $4,369,988.20 issued to Caltrain. As a result, there is currently no active hedge in place.

Recommendation: Reinstate Fuel Hedge Program
Caltrain continues to consume an average of 32,329 gallons of diesel fuel per month[1] to support (a) revenue service between Tamien and Gilroy and various non-revenue operations in the yard. While the fuel hedge program is currently dormant, a cost-benefit analysis and sensitivity analysis provide a useful framework to evaluate whether a hedge should resume,

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[1] Based on actual delivery data from October 2024 to June 2025

particularly given the ongoing diesel use for limited operations and the potential exposure to unexpected price volatility due to market fluctuations.

1. **Ongoing Diesel Usage Is Material Enough to Hedge**

    a. Caltrain continues to consume an average of 32,329 gallons/month, primarily for service south of Tamien and yard operations. This results in an annual volume of ~387,948 gallons.

    b. Even modest fuel price increases materially affect the budget. For example, if diesel prices rise from $3.15 to $4.00, annual fuel costs would increase by over $300,000—a 27 percent variance.

2. **Cost-Benefit Analysis Favors Hedging**

    a. Annual hedge program fees are low at $12,600, representing approximately 1 percent of potential avoided fuel costs.

    b. Historical performance of the program has been strong: $4.4 million in realized gains since inception in 2020, versus $131,000 in total fees.

    c. The program reduces budget risk, improves forecasting accuracy, and protects against market volatility.

3. **Market Conditions Warrant Risk Management**

    a. Diesel futures show price uncertainty through 2026, with volatility influenced by global supply chains, geopolitics, and inflation expectations.

    b. A hedge would protect against upward price shocks, particularly during winter months or global energy market instability.

Overview of Diesel Fuel Hedge and Update on Hedging Electricity
Caltrain's diesel fuel hedging program, managed in partnership with Linwood Capital, LLC, was initiated in May 2020. The primary objective of this program has been to mitigate budget volatility stemming from fluctuations in diesel fuel prices, thereby enhancing financial stability and predictability for Caltrain's operations.

At present, there is no viable mechanism for Caltrain to hedge electricity costs as a retail customer. Effective hedging would require access to the wholesale energy market through long-term power purchase agreements (PPAs), which is not currently available to Caltrain. However, since retail electricity rates are already partially insulated from market volatility through utility-level PPAs and other instruments, they inherently function as a hedged cost.

Staff will continue to explore long-term strategies and opportunities to hedge electricity costs, with a note that access to the wholesale market is essential for any meaningful hedging program.

FY25 Performance

- As of June 30, 2025, the fuel hedging program had a realized a net loss of -$45,172.78 for FY25.

- In Q1FY25 there was a loss of -$59,748.02.

- There was no hedging activity in Q2 and Q3 of FY25. Projected fuel consumption volumes were low enough that staff determined that hedging was not warranted (estimated 6,300 gallons monthly volume at the time).

- In Q4FY25 due to the higher than anticipated actual diesel consumption, averaging 32,329 gallons per month post electrification (October 2024 to June 2025), hedging was briefly resumed in May and then discontinued shortly thereafter in June. This brief resumption of activities resulted in a realized gain of $14,575.24.

Prospective
Following the electrification of Caltrain services in October 2024, diesel fuel consumption has significantly decreased from an average of 325,923 gallons to 32,329 gallons per month. Staff is continuously monitoring the Program's cost-effectiveness and operational need. Staff is providing a formal recommendation to reinstate with the hedge program, based on items 1, 2, and 3 above in the recommendation section.

Fuel Hedge Asset Information as of June 30, 2025:
During Q4FY25, $4,369,988.20 was received by JPB from the hedging account. The current value of the hedging account is $0. A $250,000 deposit to the hedge account would give Caltrain the flexibility to enter into hedge contracts at a time when fuel prices are low and forecasts suggest potential increases. Additionally, the deposit allows Caltrain to adjust the hedge coverage percentage based on updated fuel forecasts and actual consumption.

Budget Impact
This is an informational item. There is no budget impact.

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