

HOUSE BILL REPORT

SHB 2746

As Amended by the Senate

Title: An act relating to the purchasing of fuel.

Brief Description: Concerning the purchasing of fuel by certain state and local agencies.

Sponsors: By House Committee on Transportation (originally sponsored by Representatives Jarrett, Morris and McIntire).

Brief History:

Committee Activity:

Transportation: 1/21/08, 2/6/08 [DPS].

Floor Activity:

Passed House: 2/18/08, 94-0.

Senate Amended.

Passed Senate: 3/6/08, 45-3.

Brief Summary of Substitute Bill

- Permits certain transit agencies and the Washington State Ferries to explore and implement strategies to reduce the overall cost of fuel and to mitigate the impact of market fluctuations on fuel costs.
- Requires the Office of State Procurement to report annually to the Legislature on any implemented fuel strategies.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Clibborn, Chair; Flannigan, Vice Chair; Ericksen, Ranking Minority Member; Schindler, Assistant Ranking Minority Member; Appleton, Armstrong, Campbell, Dickerson, Eddy, Herrera, Hudgins, Jarrett, Kristiansen, Loomis, Rodne, Rolfes, Sells, Simpson, Smith, Springer, Takko, Upthegrove, Wallace, Warnick, Williams and Wood.

Staff: Kathryn Leathers (786-7114).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

Metropolitan Municipal Corporations

Metropolitan municipal corporations (Metros) are special purpose districts authorized to provide public transportation services as well as other essential public services, including water supply, sewage treatment, and garbage disposal. Metros may be formed in any area of the state containing two or more cities, one of which must have a population of at least 10,000. In addition, any county with a population of 210,000 or more in which a Metro has been established may, by ordinance or resolution, assume the rights, powers, and obligations of the existing Metro. Currently, the only established Metro is King County Metro Transit (King County Metro).

King County Metro provides three services that use large amounts of fuel: bus, paratransit, and vanpool. King County Metro typically purchases diesel and gasoline at market price on a daily basis. Metros do not have specific authority to buy into the futures market. In King County Metro's biennial budget process, fuel quantities are estimated based on the miles of operation and efficiency of the fleets in each of its services, and service levels are projected several years in the future. On average, King County Metro purchases 11 million gallons of fuel per year. The cost per gallon is based primarily on estimates using the futures market for diesel and gasoline, and is adjusted based on multiple factors, including for variance in the local market and delivery and other local costs.

Washington State Ferries

The Washington State Department of Transportation (Department) operates the Washington State Ferries. The Department estimates its fuel use on a biennial basis. In general, the Office of State Procurement purchases fuel on behalf of the Department for use in operating the state's ferry system. Neither the Office of State Procurement nor the Department are specifically authorized to implement fuel hedging strategies.

Strategies to Reduce Fuel Costs

In 2005 the Legislature directed the Department of General Administration, through the Office of State Procurement, to explore and implement strategies designed to reduce the overall cost of fuel and to mitigate the impact of market fluctuations and pressure on both short-term and long-term fuel costs. The Office of State Procurement was also directed to submit an annual report to the fiscal committees of the Legislature, including an update on its efforts to implement such strategies as well as recommendations for improving or continuing the fuel cost mitigation program. In its 2007 report, the Office of State Procurement made several recommendations, including the recommendations that the Governor and Legislature establish a long-term hedging program and that the state and King County Metro conduct a fuel hedging pilot project for biodiesel.

"Fuel hedging" is the practice of eliminating the range of probable energy costs over a future time period by locking in the price today for future needs. Hedging assumes the risk that the market price may drop below the locked-in price, but provides the benefit of budget certainty. There are costs and fees associated with implementing a fuel hedging program, and agencies

that are high-volume purchasers of fuel are more likely to benefit from a hedging program than agencies that are not high-volume purchasers.

Summary of Substitute Bill:

Metropolitan municipal corporations (Metros), counties that have assumed the rights and responsibilities of Metros, and the Washington State Department of Transportation (Department), in performing its function of operating the state's ferry system and after consultation with the Office of State Procurement, are all authorized to explore and implement strategies designed to reduce the overall cost of fuel and to mitigate the impact of market fluctuations on fuel costs. Such strategies include fuel hedging, futures contracts, and option contracts.

Metros, counties that have assumed the rights and responsibilities of Metros, and the Department must submit periodic reports to the Office of State Procurement on the status of any implemented fuel hedging strategies.

Beginning January 15, 2009, the Office of State Procurement is directed to report annually to the transportation committees of the Legislature regarding any implemented fuel hedging strategies. The report must, at a minimum, include a description of each contract established to mitigate fuel costs, the amounts of fuel covered by the contracts, the cost mitigation results, and any related recommendations.

It is established that the state is not liable for any financial losses incurred by Metros, or by counties that have assumed the rights and responsibilities of a Metro, that choose to implement fuel hedging strategies.

EFFECT OF SENATE AMENDMENT(S):

- Requires metropolitan municipal corporations that implement fuel hedging strategies to submit periodic reports on those strategies directly to the Legislature, instead of to the Office of State Procurement.
- Makes the Department of Transportation's (Department) use of fuel hedging strategies in operating the state's ferry system contingent on appropriation of funds to the Department for that specific purpose.
- Requires that the Department submit periodic reports on any implemented fuel hedging strategies to both the Legislature and the Office of State Procurement, instead of only to the Office of State Procurement.
- Removes the Office of State Procurement's duty to report to the Legislature on fuel hedging strategies implemented by metropolitan municipal corporations and the Department.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) Fuel hedging strategies are used fairly broadly in the private sector, such as the airline industry. Such strategies are not as likely to reduce the costs of fuel as they are to provide stability in planning and budgeting.

Volatility in fuel prices has had negative impacts on some agencies' operations by making it difficult to plan and budget carefully. Market prices may be higher or lower, but fuel hedging buys a level of certainty because an entity knows what it is going to pay and can set business plans accordingly. Fuel hedging is about reducing risk in the future, and being able to plan on a consistent basis. Implementing fuel hedging strategies was recommended by the Fuel Cost Mitigation Task Force, which included members from the House of Representatives, Senate, Office of Financial Management, the State Treasurer's Office, the State Investment Board, Washington State Ferries, cities, and the Department of General Administration.

The bill currently applies only to metropolitan municipal corporations, and the authority to use hedging strategies should be extended to other transit agencies like public transportation benefit areas.

(Opposed) None.

Persons Testifying: Representative Jarrett, prime sponsor; Gary Prince, King County Metro; and Peter Thein, Washington State Transit Association.

Persons Signed In To Testify But Not Testifying: None.