Washington State House of Representatives

BILL ANALYSIS

Transportation Committee

HB 2746

Brief Description: Concerning the purchasing of fuel by agencies performing the metropolitan transportation function.

Sponsors: Representatives Jarrett, Morris and McIntire.

Brief Summary of Bill

- Permits certain transit agencies to explore and implement strategies to reduce the overall cost of fuel and to mitigate the impact of market fluctuations on fuel costs.

Hearing Date: 1/21/08

Staff: Kathryn Leathers (786-7114).

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 a metro's biennial budget process, fuel quantities are estimated based on the miles of operation and efficiency of the fleets in each of the 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.

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.

Strategies to Reduce Fuel Costs
In 2005, the Legislature directed the Department of General Administration (Department) 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 Department was also directed to submit an annual report to the fiscal committees of the Legislature to include an update on its efforts to implement such strategies and recommendations for improving or continuing the fuel cost mitigation program. In its 2007 report, the Department 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.

"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 Bill:

Metropolitan municipal corporations (Metros) and counties that have assumed the rights and responsibilities of a Metro are authorized to explore and implement strategies designed to reduce the overall cost of fuel and to mitigate the impact of market fluctuations and pressure on fuel costs, including such strategies as hedging, futures contracts, and option contracts.

Appropriation: None.

Fiscal Note: Not requested.

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