

SENATE BILL REPORT

SHB 2746

As Reported By Senate Committee On:
Transportation, March 03, 2008

Title: An act relating to the purchasing of fuel.

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

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

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

Committee Activity: Transportation: 2/25/08, 3/03/08 [DPA, w/oRec].

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: Do pass as amended.

Signed by Senators Haugen, Chair; Marr, Vice Chair; Swecker, Ranking Minority Member; Berkey, Delvin, Eide, Jacobsen, Kauffman, Kilmer, King, Sheldon and Spanel.

Minority Report: That it be referred without recommendation.

Signed by Senator Pflug.

Staff: David Ward (786-7341)

Background: In 2005 the Legislature directed the Department of General Administration (GA) to explore strategies 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. GA was also directed to submit an annual report to the fiscal committees of the Legislature. In its 2007 report, GA made several recommendations, including establishment of a fuel 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, future fuel costs by contracting for a fixed amount of product, at a fixed price, for future delivery. Fuel hedging assumes the risk that the market price may drop below the fixed, contract price, but does provide budget certainty. There are costs and fees associated with implementing a fuel hedging program, and entities that are high-volume purchasers of fuel are more likely to benefit from a hedging program than entities that are low-volume purchasers.

Summary of Bill (Recommended Amendments): Metropolitan municipal corporations (Metros), counties that have assumed the rights and responsibilities of Metros, and the

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Washington State Department of Transportation (Department), in performing its function of operating the state's ferry system, are all authorized to explore and implement fuel hedging strategies including futures and options contracts.

Metros, counties that have assumed the rights and responsibilities of Metros, and the Department must submit periodic reports to GA's Office of State Procurement (OSP) on the status of any fuel hedging strategies they have implemented. In turn, GA's OSP is directed to report annually to the transportation committees of the Legislature regarding any fuel hedging strategies that have been implemented. The report must include a description of each contract established, the amounts of fuel covered by the contracts, and cost mitigation results, if any.

Finally, 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 CHANGES MADE BY TRANSPORTATION COMMITTEE (Recommended Amendments): Duplicative reporting language is removed and the State Ferry system's participation in fuel hedging is subject to appropriation for the specific purpose.

Appropriation: None.

Fiscal Note: Requested February 18, 2008.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Substitute Bill: PRO: Fuel hedging strategies are used broadly in the private sector and becoming more common for large public transit agencies. Such strategies are not for the purpose of reducing the cost of fuel; rather they are used to provide stability in planning and budgeting.

Volatility in fuel prices has made it difficult to plan and budget fuel costs. 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 plan accordingly. Fuel hedging is about reducing future fuel cost risk.

Implementation of fuel hedging strategies was recommended by the Fuel Cost Mitigation Task Force, which included staff from the House, Senate, Office of Financial Management, the State Treasurer's Office, the State Investment Board, Washington State Ferries, cities, and the Department of General Administration.

Persons Testifying: PRO: Representative Jarrett, prime sponsor; Gary Prince, King County Metro.