

**Agency:** 405 Department of Transportation  
**Decision Package Code/Title:** 5W Fuel Costs – November Update  
**Budget Period:** 2016 Supplemental Budget  
**Budget Level:** ML – Maintenance Level

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**Program X – Ferries Maintenance & Operations**

**Recommendation Summary**

Washington State Ferries (WSF) is the largest consumer of biodiesel fuel in state government. The department requests a reduction to 2015-17 appropriation authority consistent with projected fuel prices from the November 2015 Five Percent Biodiesel (B5) Adjusted Forecast. The requested downward adjustment of \$4.4 million in spending authority replaces the earlier request for a \$5.0 million decrease, submitted with the agency's 2016 supplemental request budget in October 2015.

**Fiscal Detail**

	FY 2016	FY 2017	2015-17 Total	2017-19	2019-21
Washington State Department of Transportation (WSDOT) Total					
109-1 State	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Total	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Staffing FTEs	0.0	0.0	0.0	0.0	0.0
Program X - Operating					
109-1 State	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Total by Fund	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Staffing FTEs	0.0	0.0	0.0	0.0	0.0

**Package Description**

Ferries' fuel budget is based on the number of gallons consumed per-year at the forecasted biodiesel price per-gallon. The total projected need for the 2015-17 biennium budget is based on the adjusted B5 biodiesel price in the November 2015 Fuel Price Forecast. The November 2015 price is \$2.27 per-gallon for the biennium, including all applicable taxes and fees and the impact of fuel hedges. The November 2015 forecast anticipates a lower per-gallon price, compared to the 2015 enacted budget.

The department uses actual B5 biodiesel prices, including delivery fees, applicable taxes, and the markup costs WSF must pay as the baseline in forecasting. On July 1, 2013, WSF began receiving a sales-tax exemption on biodiesel fuel purchases. This exemption has been incorporated into the baseline B5 biodiesel price forecast. An adjustment to the baseline is then applied to the B5 biodiesel price.

To mitigate the volatility of using a single price point in its forecasting, the department compares the crude oil prices of five forecasting entities – WSDOT official forecast, Global Insight, New York Mercantile Exchange (NYMEX), Consensus Economics, and Economy.com – and determines the difference between the baseline forecast and the five forecasting entities' average price. This difference is used to adjust the retail gas, diesel, and B5 biodiesel prices from the baseline prices. Based on the November 2015 B5 Adjusted Forecast, the average non-hedged fuel price is projected to be \$2.17 per-gallon for the 2015-17 biennium, down from the \$2.26 per non-hedged gallon price from the March 2015 forecast, which was used for the base fuel appropriation.

In addition, the department is authorized to execute fuel hedges. To date, the department has hedged 26,754,000 gallons for the 2015-17 biennium at an average price of \$2.30 per gallon, down from the \$2.75 per hedged gallon reflected in the March 2015 forecast. Hedges are entered into for budget stability and have always been locked in below prices that are forecasted at the time of the hedge; subsequent further declines in forecasted prices account for hedged prices exceeding non-hedged prices.

## **Narrative Justification and Impact**

### **What specific performance outcomes does the agency expect?**

Approval of this request will align the WSF budget to expected costs, allowing WSF to continue to provide the legislatively approved level of ferry service.

Because the ferries are a marine highway, ferry operations support improved commute times and improved road conditions. When travelers are able to take more direct ferry routes, rather than lengthy road routes, their travel times are shorter and roadway wear is reduced. Approximately 24 million riders and 10.7 million cars are carried over Puget Sound each year. Because fuel is critical to ferry service, the package supports an efficient transportation system in the Puget Sound.

### **Performance Measure Detail**

N/A

### **Is this decision package essential to implement a strategy identified in the agency's strategic plan? If so, please describe.**

This request contributes to the department's strategic plan, Results WSDOT, Goal 2: Modal integration. The proposal aligns the WSF budget to expected costs of continuing to provide marine transportation in the Puget Sound area.

### **Does this decision package provide essential support to one or more of the Governor's Results Washington priorities? If so, please describe.**

Yes. This request supports the Governor's Results Washington priority, Goal 2: Prosperous economy, specifically contributing to a sustainable and efficient transportation infrastructure, aligning the budget to expected biodiesel fuel costs that are part of delivering ferry service.

### **Identify important connections or impacts related to this proposal.**

This is a technical adjustment to align the budget to most-recently forecasted fuel prices.

### **What alternatives were explored, and why was this alternative chosen?**

The alternative of not adjusting the WSF fuel budget would dedicate unneeded resources to this activity, unnecessarily committing account balance and precluding its use for other priorities.

### **What are the consequences of adopting this package?**

N/A

### **What is the relationship, if any, to the state capital budget?**

N/A

**What changes would be required to existing statutes, rules or contracts to implement the change?**

N/A

**Expenditure Calculations and Assumptions**

The forecast is based on the November 2015 Adjusted B5 Biodiesel Forecast for the 2015-17 biennium (please see attachment A). All fuel purchased at Harbor Island is based on a five percent biodiesel blend, with the price based on the department’s November 2015 official forecast for biodiesel.

For base fuel assumed in the 2015-17 fuel budget (36,467,404 gallons):

2015-17 Fuel Budget – Adjusted B5 Forecast price (November 2015) at \$2.27/gal:	\$ 82.6 M
<u>2015-17 Fuel Budget – Adjusted B5 Forecast price (March 2015) at \$2.39/gal:</u>	<u>87.0 M</u>
Difference in Dollars	(\$ 4.4 M)

**Which costs and functions are one-time versus ongoing? What are the budget impacts in future biennia?**

Costs are ongoing.

**Objects of Expenditure**

Object of Expenditure Detail					
Object of Expenditure	FY 2016	FY 2017	2015-17	2017-19	2019-21
E. Goods and Services	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Total	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Program X - Operating					
E. Goods and Services	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000
Total	-1,957,000	-2,452,000	-4,409,000	-4,409,000	-4,409,000

**Washington State Ferries Fuel Cost Estimates**  
**Estimates Based on November 2015 Motor Fuel Price Forecast**  
(as of November 19, 2015)

	FY 2016	FY 2017	2015-2017 Biennium (Projected)
Fuel Appropriation: Chapter 10, 2015 Laws PV, Section 221 (4).			\$87,036,000
<b>Total Gallons Required</b>	<b>18,233,702</b>	<b>18,233,702</b>	<b>36,467,404</b>
<i>Hedged</i>			
Total Gallons Hedged	14,658,000	12,096,000	26,754,000
<i>Average price per gallon hedged fuel, including fees</i>	\$2.46	\$2.10	\$2.30
<b>Subtotal Cost of Hedged Fuel, Including Fees</b> (rounded to \$ in 1,000s)	<b>\$36,030,000</b>	<b>\$25,427,000</b>	<b>\$61,457,000</b>
<i>Non-Hedged</i>			
Total Gallons Not Hedged	3,575,702	6,137,702	9,713,404
<i>Average price per gallon biodiesel (B5), including fees</i>	\$1.91	\$2.32	\$2.17
<b>Subtotal Cost of Non-Hedged Fuel, Including Fees</b> (rounded to \$ in 1,000s)	<b>\$6,830,000</b>	<b>\$14,239,000</b>	<b>\$21,069,000</b>
<b>TOTAL Fuel Costs Including Fees</b>	<b>\$42,860,000</b>	<b>\$39,667,000</b>	<b>\$82,527,000</b>
<i>Average Cost per Gallon, Including Fees</i>	\$2.35	\$2.18	\$2.26
Fuel Hedging Consultant Cost	\$50,000	\$50,000	\$100,000
<b>Total Cost of Fuel and Hedging Consultant</b>	<b>\$42,910,000</b>	<b>\$39,717,000</b>	<b>\$82,627,000</b>
<i>Average Cost per Gallon Including Fees and Hedging Consultant</i>	\$2.35	\$2.18	\$2.27
<b>Variance: Updated Cost Estimate versus Appropriation</b>			<b>(\$4,409,000)</b>

Note: Chapter 16, Laws of 2011 (2ESSB 5742) exempts WSF from having to pay sales tax on fuel purchased for ferries beginning in 2013-15.

Non-Hedged Price Per-Gallon from Figure 22, Near-and Long-term Annual Fuel Price, Page 21 of November 2015 Transportation Revenue Forecast Summary (Volume I).