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Title:	AN ORDINANCE adopting an energy price risk program.			
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Date	Ver.	Action By	Action	Result
9/14/2009	1	Metropolitan King County Council	Introduced and Referred	

Clerk 09/10/2009

AN ORDINANCE adopting an energy price risk program.

STATEMENT OF FACTS:

1. King County's transit financial policies call for stability in funding the operating program of the department of transportation, transit division.

2. The cost of energy, including diesel, biodiesel and gasoline fuel, is the single largest uncontrollable expenditure for the transit division and energy prices have experienced unprecedented volatility during the past two years.

3. The Washington state Legislature passed Chapter 126, Laws of Washington 2008, Section 2, codified at RCW 35.58.262, which gave the county, through its assumption of the powers of the metropolitan King County municipal corporation, authority to implement strategies to reduce energy price volatility, including futures contracts, hedging, swap transactions, options contracts, costless collars and storage.

4. The markets for energy futures at the New York Mercantile Exchange ("NYMEX") are

transparent and liquid, and all contracts have been honored in the NYMEX's one-hundred-thirty-five-year history of trading commodities and over thirty years of trading energy futures.

5. The transit division has already partially mitigated price fluctuation impacts on its energy budget by utilizing long-term fuel purchase contracts. However, these pre-purchased energy contracts result in higher costs than could be relized by the use of NYMEX futures and options because the pricing includes premiums for the risk assumed by the distributor and the refiner that are passed along to King County.

6. The prices of NYMEX energy futures contracts are highly correlated with King County's energy purchase price and therefore meet the test of an acceptable hedging instrument according to the Government Accounting Standards Board Statement 53, Accounting and Financial Reporting for Derivative Instruments.

7. Purchasing futures and options reduces the energy price risk facing the transit division and increases budget certainty. As noted in the Government Accounting Standards Board summary of Statement 53, energy futures convert an uncertain price to a known price. Purchasing futures and options would not be intended to decrease energy costs but reduce risk similar to an insurance policy.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. For the purpose of reducing energy price risk, the Energy Price Risk Management Policy ("Policy"), Attachment A to this ordinance, is hereby approved.

SECTION 2. The transit division may be assisted by the finance and business operations division in the implementation of the policy.

SECTION 3. For the purpose of implementing the policy, the transit division or the finance and business operations division may enter into multi-year contracts with futures commodity merchants, as defined in Attachment A to this ordinance. The contracts may be for a term of up to three years.

SECTION 4. For the purpose of implementing the policy, the transit division or the finance and business operations division may enter into futures and options contracts via a regulated commodities exchange.

SECTION 5. The transit division or the finance and business operations division,

or both, may enter into contract for the prepurchase of energy through a fuel distributor. The contract is limited to the same term as the contract with the fuel distributor.