

Approved by the Board of Trustees
March 11, 2009

Board Meeting
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APPROVE ENERGY COST MANAGEMENT POLICY
(To Replace Natural Gas Cost Management Policy)

Action: Expand *Natural Gas Cost Management Policy* and rename it as *Energy Cost Management Policy*

Funding: No New Funding Required

The Board at its September 2008 meeting approved the *Natural Gas Cost Management Policy* (“Policy”). The Vice President/Chief Financial Officer and Comptroller, after internal review and in consultation with external energy experts, recommends modification of the Policy to incorporate additional provisions that will improve the overall energy procurement process, provide additional flexibility, and reduce the risk of uncertain energy costs. The recommended modifications are outlined below.

- Include Other Energy Commodities - The Policy provides a framework for procurement of natural gas only. Of the total annual cost of utility commodities, natural gas represents 62 percent, electricity represents 24 percent, and coal represents 7 percent (with the balance being water and chemicals). A more comprehensive energy procurement strategy that includes electricity and coal would create additional opportunities to reduce energy related risks and improve budget certainty.
- Expand Time Period - Under the authorizations provided within the Policy, the University has secured to date 90 percent of its expected natural gas requirements for delivery in fiscal year 2009, 80 percent of the requirements for delivery in fiscal year 2010, and 57 percent of the requirements for delivery in fiscal year 2011. Purchasing continues for fiscal years 2010 and 2011 under the authorities in the Policy. Under the rolling purchase framework contemplated in the Policy, the University should

begin to procure natural gas for delivery in fiscal year 2012; however, the Policy does not provide for natural gas procurement for delivery in fiscal years after 2011.

The Vice President/Chief Financial Officer and Comptroller recommends the existing Policy should be modified and renamed the *Energy Cost Management Policy*. The existing Policy provided for the establishment of the Natural Gas Cost Management Committee. That Committee would have expanded responsibilities with the proposed modifications incorporated in the *Energy Cost Management Policy*. The proposed new policy is attached.

Therefore, the following recommendations are submitted for Board approval:

1. Modify the Policy to include procurement of electricity and coal.
2. Modify the Policy to eliminate the 2011 end date and replace that limitation with a rolling three-year horizon. That is, for any given point in time, the Policy would provide authorization for fuel and electricity purchases for delivery up to 36 months into the future.
3. In order to implement the above modifications, approve the attached *Energy Cost Management Policy*.

The Board actions recommended in this item complies in all material respects with applicable State and Federal laws, University of Illinois *Statutes, The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

Accordingly, the Vice President/Chief Financial Officer and Comptroller recommends adoption of the proposed policy modification.

The President of the University concurs.