
Natural Gas Procurement Program

Status Report to the
Board of Trustees

October 20, 2008

Natural Gas Procurement Program

OVERVIEW

At the September 2008 meeting of the Board, Walter Knorr, Vice President/Chief Financial Officer and Comptroller, presented the Natural Gas Cost Management Policy. Among other things, the policy authorizes natural gas purchases for fiscal years 2010 and 2011, with certain restrictions. The policy stipulates that a detailed report will be made to the Board each month describing all natural gas purchases.

A strategy for procuring natural gas within the policy framework was developed with assistance from our external advisors, Nicor Enerchange and Larry Altenbaumer. The purpose of the strategy is to provide budget certainty and to reduce the cost of energy for the period 2009 through 2011.

The strategy has two primary components - (i) a rolling 36-month series of regularly timed purchases, and (ii) an opportunistic purchase program based on aggressive pricing targets.

- i. The rolling program is designed to even out over time the University's exposure to the spot market and the risk of price spikes; it functions similar to a "dollar-cost averaging" investment strategy. Initiation of this program likely will begin in November 2008.
- ii. The opportunistic purchases program is based on a strike price framework. Nicor Enerchange has approval to purchase up to 50% of requirement when gas prices are equal to or below the aggressive strike price targets. These targets were set with a goal of reducing gas costs by \$10 million in fiscal year 2010 and \$15 million in fiscal year 2011, compared to the expected \$61 million cost in fiscal year 2009.

PROGRESS TO DATE

Significant progress has been made in securing natural gas at a fixed price for fiscal years 2009-2011. All transactions have been reviewed by the *Natural Gas Cost Management*