APPROVE NATURAL GAS COST MANAGEMENT POLICY

**Action:** Approve Policy Statement for Natural Gas Cost Management

**Funding:** No New Funding Required

The Vice President/Chief Financial Officer and Comptroller has been reviewing utility operations and recommends the adoption of the policy to govern cost management activities related to the purchase of natural gas. The action establishes new University practices as Board approved policy.

The Board action 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.

The President of the University concurs.
1. **Statement of Purpose**

   Fuel (primarily natural gas) is a large component of the University’s utility budget. The purpose of this policy is to minimize the price risk of natural gas consumed by the University in order to facilitate reliable budget planning.

2. **Objectives**

   The primary policy objective is to improve energy-related budget predictability by reducing the price volatility of natural gas. The secondary policy objective is to procure the best pricing for the commodity and for the transportation of the commodity.

3. **Strategy**

   The risk management strategy involves monitoring and analyzing natural gas consumption and pricing to determine the best method to manage price risk. Gas usage is projected on a near-term, and a longer term basis. Utilizing fundamental and technical analyses, with input from the University’s third party market interface, gas consumption requirements may be managed via cash market forward purchases, and/or the use of Board approved energy risk management instruments within legal limits.

4. **Definition of Duties**

   **Vice President/Chief Financial Officer and Comptroller**
   The Vice President/Chief Financial Officer and Comptroller (VP/CFO) will authorize all gas forward transactions and will ensure that the Natural Gas Cost Management Policy is appropriate and effectively implemented. The VP/CFO is responsible for generating recommendations to improve/maintain the policy and shall review the policy on an annual basis or more often if needed.

   **The Natural Gas Cost Management Committee**
   The Natural Gas Cost Management Committee will be chaired by the VP/CFO. The members of the Pricing Committee will include the following personnel:
   
   - Associate Provost -- Budget and Resource Planning (UIUC)
Participants may be added or replaced at the discretion of the University’s VP/CFO. The responsibility of this committee is to follow the requirements of the Natural Gas Cost Management Policy, and to implement the policy utilizing utility industry best practices.

The Committee will meet at least quarterly to consider University consumption trends/needs and energy market pricing to determine strategies and direct implementation activities. The Committee will also review the status/valuation/results of implementation transactions.

5. **Scope**

The Natural Gas Cost Management Policy shall be used by the Natural Gas Cost Management Committee and University utilities staff to guide their duty to execute, monitor, and manage the hedging and procurement of natural gas at the University of Illinois.

6. **Fiduciary Duty and Controls**

In seeking to attain the goals of the Natural Gas Cost Management Policy, the Natural Gas Cost Management Committee and its members must act with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims. All actions and decisions by the Committee and its members must be based solely in the interest of the University.

To initiate this policy and to address near-term considerations, the VP/CFO is authorized to contract for future deliveries of natural gas for Fiscal Years 2010 and 2011 through the University’s existing contract with Nicor. Future gas purchases cannot exceed $60.0 million in total for any fiscal year ($60.0 million approximates 90 percent of the budget for natural gas purchases included within the University-wide Fiscal Year 2009 utility budget of approximately $120.0 million). Use of derivative instruments to hedge natural gas requirements is prohibited pending further
analysis. A report detailing all natural gas forward transactions will be provided to the Board of Trustees at the end of each month.