

Board Meeting
September 11, 2014

AMEND ENERGY COST MANAGEMENT POLICY

Action: Amend Energy Cost Management Policy

Funding: No New Funding Required

The *Energy Cost Management Policy* (“Policy”) governs the cost management activities related to the purchase of natural gas, electricity, and coal. The Policy was originally approved by the Board at its September 2008 meeting, with subsequent modifications and clarifications approved at meetings in March 2009, September 2010, and December 2011. The Vice President/Chief Financial Officer and Comptroller recommends that the Policy be further amended to: (i) provide explicit authority to the Vice President/Chief Financial Officer and Comptroller to execute agreements between the University and Prairieland Energy, Inc., and guarantee agreements on behalf of Prairieland Energy, Inc.; (ii) modify membership requirements of the Energy Cost Management Committee; and (iii) allow for delegation of transactional authority by the Vice President/Chief Financial Officer and Comptroller.

The University procures energy commodity and related energy services from market sources through Prairieland Energy, Inc., a University-related organization. Prairieland was authorized by the Board in September 1996 to provide low-cost energy for the benefit of the University and others. It provides an efficient vehicle for flexible,

nimble, and real-time participation in wholesale energy markets, resulting in cost savings and other benefits to the University. Prairieland primarily uses forward purchase agreement to procure bulk energy commodity on behalf of the University and may use financial instruments to hedge energy price risk (as authorized by the Board in September 2010).

From time to time, new energy vendors are added to Prairieland's pool of available energy suppliers to procure commodity or other energy services. New energy vendors generally require that the University guarantee payment by Prairieland. Therefore, it is recommended that the Board authorize the Vice President/Chief Financial Officer and Comptroller to enter into guarantee agreements by the Board of Trustees of the University of Illinois in favor of energy vendors in consideration of those counterparties entering into contracts with the Prairieland Energy, Inc., for the procurement of energy commodities, related energy services, or energy risk management instruments. Each guarantee agreement with a vendor must have a guarantee limit appropriate for the transaction or transactions being contemplated with that vendor.

The Energy Cost Management Committee was established in March 2009 as part of the original Policy. The Policy specifically set out Committee membership by title. Over time specific titles have changed or been eliminated and the framework for overall energy governance has evolved. Thus, the specified list of titles in the Policy is no longer appropriate. It is therefore recommended that the Policy be modified to specify Committee membership as follows: the members of the Committee will include, but not

be limited to, the following personnel:

- Vice President/Chief Financial Officer (acts as Committee Chair)
- Senior Associate Vice President of Business and Financial Services and Deputy Comptroller (University Administration)
- Representatives of campus facilities/utilities operations and the Provost's office (Urbana campus)
- Representatives of campus facilities/utilities operations and the Provost's office (Chicago campus)
- Representatives of campus facilities/utilities operations and the Provost's office (Springfield campus)
- Representatives of Utilities Administration (University Administration)

Procurement of energy commodities in volatile energy markets is critical to reducing University energy costs. However, participation in these markets is often very time sensitive. Therefore, it is recommended the Policy be amended to clarify that the Vice President/Chief Financial Officer and Comptroller may delegate authority for transactional activities in order to effectively participate in the energy market.

Therefore, the following recommendations are submitted for Board approval:

1. Authorize the Vice President/Chief Financial Officer and Comptroller, acting on behalf of the Board of Trustees of the University of Illinois to enter in to guarantee agreements on behalf of Prairieland in favor of energy vendors, as required, with guarantee limits appropriate for the transaction or transactions contemplated with each vendor.
2. Approve a revision to membership of the Energy Management Committee to reflect current titles and governance structure.
3. Approve allowance for delegation of transactional authority by the Vice President/Chief Financial Officer and Comptroller.

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 modifications.

The President of the University concurs.