

University of Illinois

Energy

Cost Management Policy

March 2009

University of Illinois

Energy Cost Management Policy

March 2009

1. Statement of Purpose

Fuel (primarily natural gas and coal) and electricity purchases are a large component of the University's utility budget. The purpose of this policy is to minimize the price risk of securing these resources 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 fuel and electricity. The secondary policy objective is to achieve cost levels that over time approximate market averages.

3. Strategy

The risk management strategy involves monitoring and analyzing University energy consumption and market pricing to determine the best method to manage price risk. Fuel consumption and electricity usage are projected on a near term and a longer term basis. Utilizing fundamental and technical analyses, with input from the University's third party market advisors, future requirements of energy commodities (natural gas, electricity and coal) may be acquired through the use of cash market forward purchases and/or the use of Board approved energy risk management instruments. All such transactions will be consistent with approved University policies and established limits.

4. Definition of Duties

Vice President/Chief Financial Officer and Comptroller

The Vice President/Chief Financial Officer and Comptroller will authorize all fuel market forward transactions and will ensure that the Energy Risk 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 Energy Cost Management Committee

The Energy Cost Management Committee will be chaired by the Vice President/Chief Financial Officer. The members of the Committee will include the following personnel:

- Associate Provost – Budget and Resource Planning (UIUC)
- Vice Provost for Resource Planning and Management (UIC)
- Director Utility Operations, Chicago Campus (UA)
- Director Utility Operations, Urbana Campus (UA)
- Director Utility Administration (UA)
- Assistant Vice President Utilities (UA)
- Executive Director Facilities & Services (UIUC)
- Vice Chancellor for Administrative Services (UIC)

- Senior Associate Vice President for Business and Finance (UA)

Participants may be added or replaced at the discretion of the University's Vice President/Chief Financial Officer. The responsibility of this committee is to follow the requirements of the Energy 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 trends/pricing to determine strategies and direct implementation activities. The Committee will also review the status/valuation/results of implementation transactions.

5. Scope

The Energy Cost Management Policy shall be used by the Energy Cost Management Committee and University utilities staff to guide their duty to execute, monitor, and manage the procurement of fuel and electricity for the University of Illinois.

6. Fiduciary Duty and Controls

In seeking to attain the goals of the Energy Cost Management Policy, the Energy 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.

The Vice President/Chief Financial Officer and Comptroller is authorized to contract for deliveries of fuel and electricity for the current fiscal year and to secure supply as deemed appropriate by the Energy Cost Management Committee and utilities staff for a rolling, forward-looking thirty-six month period. Future year purchase commitments cannot exceed the forecasted utility fuel or electricity budget for each future fiscal year.

A report detailing all fuel and electricity forward transactions will be provided to the Board of Trustees on a quarterly basis. Approval of purchases of coal or fuel oil will be requested via the Board's normal purchase agenda item.