Energy Procurement

Statement: Cornell University's administration is authorized to procure energy, energy related financial instruments (both physical and financial) and power purchase agreements with the intent of reducing volatility and controlling costs. This requires the procurement of certain energy hedges, some of which will extend across multiple fiscal years. The Utilities and Energy Management sections (of Facilities Services' Energy and Sustainability Department) cost of energy procurement will be applied to all central Utilities and Energy Management customers through the appropriate utility rate.

Purpose: Allow forward purchases in energy (physical or financial) and power purchase agreements to control and stabilize energy costs.

Goals of this policy include:

- Limit transaction risk and size
- Give guidance on diversification of the energy portfolio
- Define the approval processes

Entities Affected by This Policy

- All Ithaca campus units that receive energy services via Cornell Utilities and Energy Management
- Division of Financial Affairs
- Office of Budget and Planning
- Office of the Treasurer

Authorization: The aggregate of energy-related contracted cash flows shall not exceed $36 Million in any fiscal year. The aggregate present value of the energy portfolio shall not exceed five (5) times the projected annual value of the energy spend of approximately $180 Million.

Authorized Instruments

The following instruments are authorized and may be used independently or in combination:

1. Purchasing contracts for physical delivery or financial settlement over multiple year windows.
2. Establishing energy reserves in the Utility budget to cover variability in annual energy expense. These reserves will be funded by utility rates.
3. Purchasing of futures (either over-the-counter or exchange backed) from an energy broker. Such instruments may be taken to physical delivery, if necessary, with a pre-specified delivery point.
4. Purchasing derivatives (swaps, collars and options) in the over the counter markets.
5. Purchasing weather derivatives, based on an over the counter swap contract using degree days or other weather based statistics.
6. Entering into long term (not to exceed 50 years) power purchase agreements (or equivalent financial instruments) for energy.

Use of Consultants

When buying in the forward energy markets, an independent third party consultant may be retained to give advice on pricing, counterparty credit, portfolio management, and to develop portfolio performance reports. A portfolio manager may be retained to establish recommendations to meet the policy guidelines, manage the layering, prepare any solicitations and execute the rollover of the instruments.

Oversight Requests for approval shall be presented with an analysis of the following:

A. An explanation of the proposed purchase
B. The aggregate present value of contracted cash flows and pro forma projections
C. Project risks and benefits
D. Demonstrate compliance with buying manual or request for exception

Requests for approval (and exception) will be made by the Vice President of Facilities Services to the Vice President for Finance and CFO.

Advisory The Energy Risk Oversight Committee (EROC), with representatives from Utilities and Energy Management, Procurement Services, Treasury, Budget, the Investment Office and major customers. The committee chair shall be the Associate Vice President of Energy and Sustainability or another designate from Energy and Sustainability. This committee will perform the following:

- Evaluate the performance of the energy portfolio on an annual basis and report to the CFO.
- Meet with representatives of Utilities and Energy Management to discuss strategy and manage the implementation process.
- Recommend all hedge requests and annual budgets for fuel and electric rates.

Strategy The strategy to guide the Energy Risk Oversight Committee (EROC) includes:

- Fuel instruments shall not have terms longer than 5 years.
- Renewable energy power purchase agreements shall not have terms longer than 50 years.
- Energy portfolios shall be layered over time in order to diversify the portfolio and minimize the financial impact on annual budget cycles.
- The goal of natural gas hedging is to provide relative price certainty for budget purposes.

Other rules related to Portfolio Management

- The University may hedge energy using futures purchased in its name or purchased on account by a third party.
- Instruments for physical delivery will be competitively procured when possible.
- No more than 15% of the value of any instrument shall be paid in advance of delivery or the equivalent closings.
- To the extent possible, positions shall be capable of being unwound if conditions change. This specifically allows the reselling of instruments and the resale of an energy commodity or its transportation basis on the secondary market.
- Derivative based instruments (swaps, collars, options) will be written, to the maximum extent possible, in accordance with the International Swaps and Derivatives Association’s (ISDA) or the Edison Electric Institute’s master documents.
- All transactions will be accounted for and audited in accordance with existing and appropriate accounting procedures.

Deviations to this policy within the limits of transaction authority may be approved by the Vice President for Finance and CFO.

Requirements for Counterparties

Counterparties for energy instruments where payment is made at or after physical delivery will have a minimum credit rating determined by the Senior Director of Procurement Services.

For instruments where the commodity is not to be taken to physical delivery, or significant payment (>5%) is to be made prior to physical delivery, the counterparty must have a credit rating of "A3" as defined by Moody's Investor Service or "A-" as defined by Standard & Poor's. For counterparties with a split rating, each rating must be at least at the minimum of A3 or A-. Exceptions to these requirements are permitted with approval from the Vice President for Finance and CFO.

Transaction Authority

The Vice President for Finance and CFO has transaction authority for the purchase of energy or energy instruments as defined in this policy.