

Complete Policy Title:
Energy Procurement Policy

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Board of Governors

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Responsible Executive:
Vice-President (Administration)

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Foreword

McMaster University is required to purchase energy commodities for its ongoing operations and Facility Services needs. These energy commodities include electricity, natural gas and other fossil fuels needed to operate equipment, provide lighting and heating, for both McMaster and the Health Sciences Centre when required. In 2010, the University will spend in excess of C\$14 million on these commodities that are externally influenced by world markets and are variably priced, in some instances as discretely as every hour. Such externalities are beyond the control of McMaster and represent a significant risk to the University's ability to control and effectively manage its costs.

As part of its mandate to prudently manage such risks, the Facility Services Department, "the Department", actively engages Commodity Price Hedging Agreements.

Risk Management

The Department has and will continue to adopt a clear and structured approach to managing unit price risks, by strictly adhering to the following practices:

- Identifying and assessing the key market price and operational risks,
- Engaging hedging agreements, in accordance with its commodity price hedging principles, practice and goals
- Maintaining a level of residual risk to market-based pricing, as acceptable to Department management
- Consulting as appropriate with other stakeholders and departments (e.g. Finance).
- Adhering to the Department's protocols for signing of any hedging transactions

Commodity price hedging will only be undertaken to protect McMaster against operating price risk. Under no circumstances will speculative hedging be undertaken.

Commodity Price Hedging Principles

In making its assessment of the degree and extent to which the Department will engage in Commodity Price Hedging Agreements, the following governance principles are assumed:

- (1) If McMaster has entered, or plans to enter, an agreement for the supply of a commodity required for the University's consumption then McMaster may enter into one or more financial agreements to minimize the cost or financial risk associated with purchasing the commodity.
- (2) The financial agreement must fix, directly or indirectly, or enable McMaster to fix the price or range of prices to be paid by the University for the future delivery of some or all of the commodity or the future cost to McMaster of an equivalent quantity of the commodity. At no point in time will McMaster acquire more of the commodity than it is forecasted to need over the period of the agreement.

Commodity Price Hedging Practices & Goals

Before McMaster engages a specific commodity price hedging agreement, the following principles shall be considered:

1. The Amount and Term of Hedging. In consultation with its advisors, the University will assess its requirements in relation to the unregulated proportion of the market.
 - After seasonal requirements have been established through linear regressions or similarly logical mathematical or past practice evaluations, the Department may hedge between 50 and 75% of the unregulated proportion of its expected consumption amounts for the current fiscal year.
 - For the second and third years the Department should consider a maximum of 50% and 25%, respectively, as market conditions allow.
 - For the fourth and fifth years, the Department may contemplate a maximum hedge volume of 25% of the unregulated proportion of the known forecasted requirements.
 - The percent of total hedged will vary from time to time as operating requirements or as price risk exposure warrants.
2. Diversification of Suppliers
 - The Department will engage no fewer than three Master Supply Agreements, or Commodity Price Hedge Agreements with reputable, credit-worthy and financially stable supply organizations
 - Multiple agreements will ensure competitive pricing, enhanced market intelligence gathering and access to additional service offerings
 - When reasonable and competitively priced, the Department will ensure that more than one supplier is providing physical supply to the portfolio during the same period, in order to diversify the risk of supplier default or failure

3. Market Monitoring and On-Going Consultation With External Independent Consultants

- The Department will remain current with energy market conditions and where financially reasonable, will engage the services of external market monitoring services and expert consultants to assist with its energy purchasing decisions.
- The Department will ensure that any such consultants are independently and financially separate from all supply, utility or transportation suppliers to avoid any conflict of interest

4. Utilize Price Disparities that may exist between Fuel Types, including Optimizing Cogeneration Capabilities

- Attention will be paid to the current and future price of both electricity and natural gas, particularly as afforded by McMaster's cogeneration facilities and as evidenced by the unique blend of fuel-types used to create the externally generated electricity.
- When the relative pricing of electricity and natural gas is such that an economic benefit can be realized by utilizing less of one energy type, the Department will consider it a viable alternative to consume more of the other and to include such considerations in its hedging agreements.
- Similarly, where possible the Department will utilize the Health Sciences Cogeneration Plant as a method of negating/optimizing unit price disparities for McMaster, in accordance with all inter-institutional policies.
- Except in the event of an emergency, the Department will not specifically utilize its dual-fuel operating capability to burn oil from campus reserves rather than natural gas, and as such will not include such considerations in its hedging agreements.

Sale of Commodity Price Hedging Contracts

1. McMaster shall not sell or otherwise dispose (including by way of an off-setting contract) of the financial agreement or any interest of the University in the agreement.
2. McMaster may sell or otherwise dispose of the financial agreement or an interest in the University's agreement if, in the opinion of the Department, the sale or disposition is in the best interests of McMaster and if any of the following conditions is satisfied:
 1. The sale or disposition is part of a transaction for the sale of real property by McMaster relating to a change in the use of the property by McMaster.
 2. McMaster has ceased to carry on any activity relating to McMaster consumption for which the commodity was being acquired.
 3. McMaster is forced to undertake such a transaction to ensure its compliance with another legally binding, third party agreement (for example, to comply with the contractual requirement of other parties responsible for the physical delivery of the energy commodities).
 4. The sale or disposition of a part, or all, of a transaction is not deliberately made to either profit McMaster, or to lower a fiscal year's expenses.

Report on Commodity Price Hedging Agreements

- (1) As soon as McMaster enters into a commodity price hedging agreement, the Department shall notify the finance department immediately of the full details of those agreements.
- (2) Annually a report outlining all details of all contracts shall be provided to the Finance Department together with a statement by the Department indicating whether all of the agreements entered into during the period of the report are consistent with McMaster's statement of policies and goals relating to the use of financial agreements to address commodity pricing and costs.

Contract Signing Authority

Signing authority shall adhere to **The Board of Governors Resolution Respecting The Execution of Instruments By McMaster University For Contracts Related to Purchase or Lease by the University of Goods and Services (excluding Contracts Related to Construction and Maintenance Projects)**