

District Code: New

ENERGY RISK MANAGEMENT POLICY

This Energy Risk Management Policy establishes guidelines for and authorizes the use of hedging agreements in the management of the District's cost of purchasing fuel, electricity, natural gas or other commodities used in the normal course of its business.

Pursuant to Section 108.170 of the Missouri Revised Statutes, as amended, the District may, in connection with managing the District's cost of purchasing fuel, electricity and natural gas, enter into agreements providing for fixing the cost of such energy commodities. This policy provides a framework for the use of financial contracts and agreements (commonly referred to as hedges) to manage the risks associated with the price volatility surrounding a portion of the District's operating and energy-related expenses, including but not limited to purchases of gasoline, diesel fuel, natural gas, heating oil and electricity.

As contemplated within this policy, appropriate hedges are considered to be financial tools designed to reduce the financial risks associated with the normal business activities of the District. Hedges that are not related to the District's normal business activities are assumed to be speculative in nature. Speculation does not reduce the risk associated with the District's normal business activities, and will not be utilized at any time.

The District recognizes that changes in the markets, District programs and other unforeseen circumstances may from time to time produce situations that are not covered by policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific prior authorization from the Board of Education is obtained.

The Superintendent of Schools and Chief Financial Officer are the designated administrators of the Energy Risk Management Policy. The policy will be reviewed periodically to ensure its consistency with the overall objectives of the District's energy risk management program as well as its relevance to current law, financial and economic trends. Any amendments to this policy shall be submitted to the Board for consideration and approval before implementation.

The Chief Financial Officer shall have the day-to-day responsibility and authority for implementing and managing the energy management program, including the execution of financial contracts and agreements in accordance with Board authorized parameters. The policy does not require that the Board specifically authorize each contract or agreement.

I. Budgeting and Hedging Process

A. Budgeting

1. As part of the District's annual budget planning process, the Chief Financial Officer shall determine the District's anticipated usage and cost of certain energy-related operating expenses. The costs considered may include both direct purchases as well as

District Code: New

vendor contracts that contain a variable price based upon changes in the vendor's cost for energy (i.e., busing services that contain a fuel surcharge clause).

2. The following factors may be considered when determining the District's anticipated energy needs and exposure to price fluctuation for the period under consideration:
 - a. consumption in prior years;
 - b. change in operations or facilities;
 - c. monthly or seasonal fluctuations in consumption;
 - d. historical and anticipated price fluctuation; and/or
 - e. potential budget impact and any applicable operating reserves
3. The District's energy needs and consideration of cost control measures may be presented to the Board of Education in the context of the Annual Budget. The Board's adoption of the Annual Budget shall be interpreted as authorization for the Chief Financial Officer to execute any energy hedging contracts or agreements consistent with Board policy.

B. Authorized Transactions

1. Use of Financial Contracts and Agreements: The District's intent under Board policy is that all transactions be appropriate given the circumstances under which they are executed.
 - a. Purpose for Financial Contracts and Agreements: Contracts or agreements executed pursuant to Board policy shall be consistent with the District's anticipated usage or consumption of the respective energy commodity and shall not be structured in a speculative manner.
 - b. Term and Volume Limits: Unless specifically authorized by the Board, transactions are limited in length and volume according to the limits established pursuant to Section III below.
 - c. Energy Procurement and Physical Delivery: The District's procurement and physical delivery procedures for purchasing fuel, electricity, natural gas or other commodities are not governed by Board policy. The contracting for these goods and services shall continue to be executed and administered per the District's applicable policies and established business procedures.
2. Financial Hedging Contracts or Agreement Types: Unless specifically authorized by the Board, transactions shall be limited to the following general categories:
 - a. Swap: The payment of a fixed price in return for receiving a variable price that approximates the District's actual cost of the respective energy or commodity. The variable price received may be tied to an index that is deemed to be highly correlated to the District's actual cost. A transaction is considered a swap if its structure is designed to convert the District's variable cost into a fixed cost.

District Code: New

- b. Forward Swap: Consistent with the description of “Swap” above except that the Effective Date under the agreement is more than two business days in the future.
 - c. Basis Swap: Consistent with the description of “Swap” above except that instead of a fixed price being exchanged for a variable price to variable price indices are exchanged.
 - d. Swap Option/Cancellation Options: Used in combination with a Swap, Forward Swap or Basis Swap to allow the contract to be terminated before the stated maturity date.
 - e. Cap: The payment of an upfront fee in return for receiving payments if the variable price or index exceeds a predetermined level. A transaction is considered a cap if its structure is designed to limit the District’s cost to a predetermined price level.
 - f. Collar: Concurrent agreements that provide the District the right to receive a payment if the variable price or index exceeds a predetermined “cap” level and obligates the District to make a payment if the variable price or index falls below a predetermined “floor” level. A transaction is considered a collar if its structure is designed to confine the District’s cost to a predetermined price range.
3. Coordinated or Program Transactions: Board policy expressly authorizes the District to execute transactions in conjunction with other school districts when deemed appropriate. Specifically, the District may enter into transactions or programs marketed, facilitated or administered through the Cooperating School Districts (“CSD”).
- a. Program Documents: The Superintendent of Schools and the Chief Financial Officer are duly authorized to execute the documents and agreements coincident with the CSD program, including the transfer of funds to and from the District under the program and the payment of any incidental program fees or charges.
 - b. Limitation on Program Liability: The District’s obligations and liability shall be limited to the District’s proportionate share of any transactions executed under such program.

II. Targets and Policy Limits

Target and policy maximum amounts are designed to acknowledge the District’s conservative approach to managing its risks and minimize the likelihood of draws on funds not intended to be used for payment of energy costs. Unless specifically authorized by the Board, transactions are limited to the greater of one year or the end of the District’s next fiscal year and the aggregate amount of transactions outstanding at any one time shall not be for more than 75% of the District’s anticipated usage or consumption of the respective energy commodity.

District Code: New

III. Counterparty Credit Criteria

The District shall only enter into contracts and financial agreements with creditworthy counterparties and may select such counterparty without a competitive bid process. Unless specifically authorized by the Board, the District's counterparty must possess published credit ratings in the "AA" rating category or higher from at least two of the following rating agencies; Moody's Investors Service, Standard and Poor's or Fitch Ratings.

IV. Collateral Requirements

Collateral posting requirements between the District and each counterparty should, absent special circumstances, not be unilateral in favor of the counterparty. As part of a transaction, the District or the counterparty may require that collateral to secure any or all swap payment obligations be posted. Collateral requirements should typically be subject to the following guidelines:

- Collateral requirements imposed on the District should not be accepted to the extent they would unduly impair the District's existing operational flow of funds.
- The District should consider requiring that each counterparty execute a form of a Credit Support Annex that requires collateral posting by the counterparty should the credit rating of the counterparty fall below the "A-/ A3/ A-" category by at least two of the nationally recognized agencies, or as otherwise mutually agreed to by the District or its representative
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral should be determined and mutually agreed upon during negotiation of the transaction with each counterparty.
- The District should obtain collateral verification relating to collateral type, amount, and market value at least monthly.
- Failure to meet collateral requirements should be a default pursuant to the terms of the transaction.
- The District and each counterparty may provide in the supporting documents to the transaction for reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.
- The transaction may provide for the right of assignment by one of the parties in the event of certain credit rating or collateral events affecting the other party. The documents may provide that the District (or the counterparty) should first request that the counterparty (or the District) post collateral, or provide a credit support facility. If the counterparty (or the District) does not provide the required credit support, then the District (or the counterparty) may have the right to assign the agreement to a third party acceptable to both parties and based on terms mutually acceptable to both parties. The credit rating thresholds to trigger an assignment should be included in the supporting documents.

District Code: New

V. Reporting and Monitoring

The District shall develop and maintain accounting procedures to document the District's energy risk management transactions, payments and receipts. Reports summarizing the District's energy risk management activity shall be prepared by the Chief Financial Officer and distributed to the Board on a quarterly basis.

VI. Managing Risk

Certain risks will be created as the District enters into transactions with counterparties. In order to manage the associated risks, guidelines and parameters for each risk category are as follows:

Counterparty Risk: The risk of counterparty default may be reduced by requiring the counterparty to post collateral on a mark-to-market basis, in accordance with the guidelines described in Collateral Requirements.

Termination Risk: The District should have the right to optionally terminate a transaction at any time over the term of the transaction (elective termination right) at the then-prevailing market value of the transaction, subject to any conditions deemed appropriate such as the absence of an actual or potential event of default or termination, or the ability of the District to pay any termination amount that might result from such termination. In general, exercise of the elective termination right should produce a benefit to the District, either through receipt of a payment from a termination, or if a termination payment is made by the District, in conjunction with a conversion to a more beneficial (desirable) financial arrangement for the District. Termination value should be readily determinable by one or more independent market participants. A counterparty should not have the elective right to terminate a transaction (other than for defaults or other termination events considered appropriate) unless an "economic" termination option has been priced into the terms of the transaction. The District may explore the viability of a unilateral termination provision without being exposed to a termination payment (i.e. "par calls").

Liquidity Risk: The District should consider whether the derivative market is sufficiently liquid (i.e., if enough potential counterparties participate actively in the market to assure fair pricing) for the type of transaction being considered and the potential ramifications of an illiquid market for such types of transactions or market indices. As an example, there may not be another appropriate dealer available to act as an offsetting counterparty given a specific index used in the transaction

Basis (Index) Risk: Any index chosen as part of a transaction should be, absent special considerations, based upon or calculated by reference to a recognized market index. The District should not enter into leveraged transactions without thoroughly analyzing the risks associated with the enhancement.

Bankruptcy Risk: The District should seek advice from its counsel with respect to the bankruptcy risks and issues associated with the type of counterparty and transaction chosen. Additionally, the District's counsel should disclose to the District the bankruptcy issues associated with the method proposed for the posting of collateral.

Adopted: May 27, 2008