SAIT

FN.15.1.1 ENERGY COMMODITY PRICE HEDGING	
Section:	Finance (FN)
Subject:	Energy Commodity Price Hedging
Legislation:	
Effective:	May 19, 2015
Revision:	September 1, 2016 (reformatted); May 25, 2020

APPROVED: ______________________________
President and CEO

POLICY

The policy of the Board of Governors is to provide a framework and guidelines for the use of hedging instruments to manage the price volatility of and to provide cost certainty for the energy commodities that SAIT consumes.

PROCEDURE

DEFINITIONS

Energy commodities	Electricity and natural gas that SAIT consumes, excluding non-fixed charges such as power transmission and distribution wires, and natural gas pipeline transportation and fuel costs.

GOVERNING PRINCIPLE

The primary purpose of this procedure is to minimize the price volatility of energy commodities procured for SAIT's consumption for budgeting and planning purposes.

PROCEDURE

The official controlled version of this document is held in the Board of Governors Office.

A. Hedging Parameters

1. Electricity

   SAIT may enter into a physical contract with a supplier to fix the future price of its electricity consumption requirements utilizing market based Block, Structured Block and Load Following products. The total of all fixed price transactions is subject to the terms and quantities set out in paragraph A.3 of this procedure.

2. Natural Gas

   SAIT may enter into a physical contract with a supplier to fix the future price of its natural gas consumption requirements. To provide SAIT with additional flexibility to achieve its hedging objective, SAIT is permitted to enter into:

   a) A financial derivative contract with a counterparty to fix the future price of its natural gas consumption requirements. The total of all fixed price transactions is subject to the terms and quantities set out in paragraph A.3 of this procedure.

   b) An agreement for the storage capacity that does not exceed 300,000 gigajoules and a term of one year.

3. Term and Volume Limits

   a) The term and volume of energy commodities hedged shall not exceed the following limits in relation to the forecasted consumption amounts (excluding electricity fixed price transactions executed under a Load Following agreement as noted in paragraph A.3.c) of this procedure):

      i) Maximum of 80% of forecasted volume over length of agreement.

   b) The forecasted consumption amounts shall be determined on a monthly basis. The term of any energy commodity physical supply agreement, related fixed price transaction and financial derivatives shall not exceed five years.

   c) For electricity Load Following agreements, the volume hedged may equal 100% of the forecasted consumption determined on a monthly basis. However, the minimum variance that may be contracted under this agreement must be at least 20%.

B. Counterparty Risks

1. Counterparty Credit Exposure

   SAIT shall mitigate counterparty credit risk by requiring counterparties to meet a minimum credit rating of BBB neutral by Standard & Poors. SAIT's CFO & vice president, corporate services, will perform a credit review of the counterparty prior to entering into a hedge transaction. If the counterparty credit rating is subsequently downgraded below the minimum, SAIT's CFO & vice president, corporate services, will develop an action plan to address SAIT's credit exposure.

2. Derivative Counterparty Termination and Default Exposure

   SAIT shall establish an International Swap and Derivative Association Master Agreement with all derivative counterparties to provide reasonable legal protection in the event of termination or default.

D. Competitive Market Pricing

1. SAIT shall obtain commodity market pricing from a minimum of two reputable sources to ensure competitive market rates are obtained.

E. Authorization

1. The Facilities Management department, in conjunction with the external consultant, shall determine commodity volumes to be hedged and the terms of the agreements. Facilities Management shall provide SAIT's CFO & vice president, corporate services, with the proposed hedging transaction along with the underlying assumptions. The vice president, finance and corporate services, shall review and approve all proposed hedging transactions prior to execution.

F. Policy Exceptions

1. Any proposed transaction or activity that is outside of this policy and procedure requires the pre-approval of the Audit Committee of the Board of Governors.

G. Compliance Monitoring

1. SAIT's CFO & vice president, corporate services, shall monitor energy commodity hedging activities to ensure compliance with hedging parameters.

2. Any breaches of this policy and procedure, and the reasons for such non-compliance, shall be reported to SAIT's president and CEO. Facilities Management shall provide an action plan to SAIT's CFO & vice president, corporate services, to address incidents of non-compliance, for review and approval.

H. Reporting

1. On a quarterly basis, Financial Services shall provide SAIT's CFO & vice president, corporate services, and the Board of Governors' Audit and Investment Committees with a report of energy commodity hedging activities. The report may include but is not limited to:

    a) Any exceptions to the hedging parameters along with an action plan.

    b) Details of all hedging transactions during the period.

    c) Energy commodity hedging strategy.

    d) Impact of hedging strategy.

2. SAIT's CFO & vice president, corporate services, shall annually provide the Board of Governors with a report of energy commodity hedging activities. The report may include but is not limited to:

    a) Any exceptions to the hedging parameters along with an action plan.

    b) Details of all hedging transactions during the year.

    c) Fair market values of any current derivative instruments.

POLICY/PROCEDURE REFERENCE

FN.15.1 Energy Commodity Price Hedging policy