

MATERIAL SUPPORTING THE AGENDA

VOLUME XLVIIIb

This volume contains the Material Supporting the Agenda furnished to each member of the Board of Regents prior to the meetings held on:

March 9, 2001
April 30, 2001
May 9-10, 2001
June 27, 2001
July 10, 2001
August 8-9, 2001

The material is divided according to the standing committees and the meetings that were held and is color coded as follows:

White paper - for documentation of all items that were presented before the deadline date.

Blue paper - Executive Session

Yellow paper – for documentation of items submitted after the deadline date for inclusion in the Agenda (late items) and distributed to members of the Board of Regents prior to the meeting.

Material distributed at the meeting as additional documentation is not included in the bound volume, because sometimes there is an unusual amount and other times some people get copies and some do not get copies. If the Counsel and Secretary to the Board was furnished a copy, then that material goes into the appropriate subject file.

Special Telephone Meeting
Board of Regents
The University of Texas System
Ninth Floor, Ashbel Smith Hall, 201 W. 7th Street
Austin, Texas
June 27, 2001 – 9:00 a.m. (CST) approximately

AGENDA

- A. CALL TO ORDER IN OPEN SESSION
- B. CONSIDER ACTION ON RECOMMENDATIONS
1. U. T. Austin: Request for Authorization to Negotiate a Contract Amendment with Coral Energy Resources, L.P., and Authorization to Execute All Documents Related Thereto
 2. U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center: Request for Authorization to Apply for Public Assistance Grants with the Federal Emergency Management Agency (FEMA) and Authorization to Execute All Documents Related Thereto
 3. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter VII, Section 4 (Insurance for U. T. System)
- C. ADJOURNMENT

OFFICE OF THE BOARD OF REGENTS
THE UNIVERSITY OF TEXAS SYSTEM
Austin, Texas

June 27, 2001

SPECIAL MEETING NO. 941 (Revised)

TO: Members of the Board of Regents

Chairman Charles Miller
Vice-Chairman Rita C. Clements
Vice-Chairman A. W. "Dub" Riter, Jr.
Vice-Chairman Raul R. Romero
Regent Judith L. Craven, M.D.
Regent Woody L. Hunt
Regent Cyndi Taylor Krier
Regent Patrick C. Oxford
Regent A. R. (Tony) Sanchez, Jr.

1. U. T. Austin: Request for Authorization to Negotiate a Contract Amendment with Coral Energy Resources, L.P., and to Execute all Documents Related Thereto

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and President Faulkner that the U. T. Board of Regents authorize an amendment to the current gas sale contract with Coral Energy Resources, L.P., a Delaware limited partnership, Houston, Texas, for the remaining term of August 1, 2001, to August 31, 2002, which allows the pricing method for 70% of the natural gas purchased to shift from a variable monthly price to a price that fluctuates within a minimum and maximum price range with the maximum estimated to be no more than \$5.25 per million British thermal units (MMBtu) and the minimum to be the lowest negotiated price possible.

It is further recommended that the Senior Vice President and Chief Financial Officer of U. T. Austin be authorized to execute the contract amendment, as approved by

the Office of General Counsel, and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

U. T. Austin has experienced a substantial increase in both the cost of natural gas and the variability of price over the past year. For example, the monthly cost of natural gas has ranged from \$3.92 per MMBtu in August 2000 to \$9.90 per MMBtu in January 2001. All indications from a variety of sources suggest that cost and price variability will remain much higher than U. T. Austin has experienced historically.

This new purchasing environment has been discussed and analyzed with several internal U. T. System personnel and external sources and organizations. Based on the information gathered, there is a need to implement a strategy that will protect U. T. Austin from continued large increases in natural gas pricing. In reviewing the potential tools to establish this protection, U. T. Austin has determined that stabilizing the price within a fixed range is the best option available.

U. T. Austin and the Office of General Counsel are negotiating an amendment to the existing contract with Coral Energy Resources, L.P., which was effective September 1, 1997, and was extended in 2000 for a term expiring on August 31, 2002. The amendment will provide maximum and minimum monthly prices for an estimated 70% of U. T. Austin's volume of natural gas. The cost will vary within the range established based on the Houston Ship Channel Index, as determined immediately upon Board authorization of the Amendment, but will not exceed the maximum or drop below the minimum. The remaining 30% of U. T. Austin's estimated natural gas volume will be priced according to the Houston Ship Channel Index price, the pricing mechanism under the current contract.

An essential element of the fixed price amendment is the establishment of a fixed volume of natural gas that will be purchased. U. T. Austin has established a minimum purchase amount set at 70% of total estimated volume. This level is based on an analysis of historical consumption and will ensure that minimum contract requirements can be met, thus avoiding financial penalties.

The proposed amendment concerns only the current term of the existing contract with Coral Energy. In the near future, U. T. Austin will issue a Request for Proposals seeking competitive bids for natural gas under contract to be effective September 1, 2002.

2. U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center: Request for Authorization to Apply for Public Assistance Grants with the Federal Emergency Management Agency (FEMA) and Authorization to Execute All Documents Related Thereto

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, and Presidents Willerson and Mendelsohn, that John Porretto, Executive Vice President and Chief Operating Officer at U. T. Health Science Center – Houston, and Leon Leach, Executive Vice President and Chief Financial Officer at U. T. M. D. Anderson Cancer Center, be authorized to execute Federal Emergency Management Agency (FEMA) documents relating to flood damage sustained in June 2001 as a result of Tropical Storm Allison. The persons authorized above shall take all necessary steps related thereto, including filing the application for public assistance grants from FEMA and providing such additional information as may be required by FEMA.

BACKGROUND INFORMATION

Four days of record rainfall in June 2001 from Tropical Storm Allison resulted in extensive flood damage to U. T. Health Science Center – Houston and U. T. M. D. Anderson Cancer Center. The presidents of both component institutions support the filing of applications for public assistance grants from FEMA and have identified John Porretto and Leon Leach, respectively, as the individuals to be authorized to file and execute all FEMA documents. FEMA requires that the governing body of the applicant adopt a motion or resolution authorizing the filing of the application and directing and authorizing the person identified as the official representative of the applicant to act in connection with the application and to provide such additional information as FEMA may require. Neither the Regents' Rules and Regulations nor Regental policies currently address the delegation of authority to file for federal disaster relief.

3. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter VII, Section 4 (Insurance for U. T. System)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter VII, Section 4, relating to insurance for U. T. System, be amended as set forth below in congressional style to add a new Subsection 4.4 and renumber the remaining Subsection:

Sec. 4. Insurance for U. T. System.

...

4.4 In the case of a catastrophic occurrence where the loss is so extensive that partial settlements in excess of \$1 million are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of \$500,000. Final settlement of claims in excess of \$1 million will require approval from the Board.

4.5 The Director of Business and Administrative Services will provide a summary report of insurance purchases and claim settlements to the Executive Vice Chancellor for Business Affairs on a semiannual basis.

BACKGROUND INFORMATION

Section 4, Chapter VII, Part Two of Regents' Rules and Regulations, requires Board ratification for all insurance loss settlements in excess of \$500,000 and Board approval for settlements in excess of \$1 million.

All U. T. System institutions are provided all-risk property coverage for all U. T. System buildings and their contents under a Comprehensive Property Protection Program (CPPP) authorized in November of 1995. The CPPP is a combination of self-insurance and traditional commercial insurance.

When a loss occurs, the CPPP applies in three distinct layers. The first layer is the component deductible which applies per occurrence and ranges between \$100,000 and \$250,000 per component institution depending on the institution's total insured values. The second layer of the program is the CPPP Fund. If a loss exceeds the component deductible, the Fund pays the remainder of the loss until it reaches the insurance policy's annual aggregate deductible of \$5 million. A commercial property insurance policy, which carries a \$1 billion blanket limit, represents the third layer of the program.

The commercial insurance policy contains many terms and conditions, including sublimits. The Flood sublimit is most relevant to the current loss. For insurance purposes, flood is defined as an overflow of inland or tidal waters or unusual and rapid runoff of surface waters from any source. The policy contains an annual aggregate sublimit for Flood of \$50 million. This represents the maximum amount that the insurer will pay for losses occurring in a single policy year caused by the peril of flood.

In the case of a catastrophic loss, the commercial carrier may agree to issue a partial settlement check in order to assist the U. T. System and affected component institution(s) in paying expenses associated with the loss. There may be several partial insurance settlements in excess of \$1 million made prior to the final conclusion and settlement of the claim.

Partial insurance settlements will be made in the case of the Houston, Texas, flood loss affecting the U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center. Significant cleanup expenses have been incurred, and the component institutions have expressed an interest in receiving advance payments from the insurance company. The insurance company is willing to issue partial settlement checks as appropriate loss documentation is received. Additional partial settlements may be received in the future as additional expenses are documented. Approval of partial insurance settlements is not addressed the Regents' Rules and Regulations.

Currently the Executive Vice Chancellor for Business Affairs may approve insurance settlements up to \$1,000,000. The requested changes to Subsection 4.4 will result in a more efficient process for approving partial settlements while still providing sufficient oversight of the final settlement. The proposed revisions are intended to accomplish the following:

- a. Delegate authority to approve partial settlements in excess of \$1,000,000 to the Chancellor
- b. Require that the Chancellor notify the Board of Regents of partial settlements in excess of \$500,000.

xc: Chancellor Burck
Executive Vice Chancellor Mullins
Executive Vice Chancellor Kennedy
Executive Vice Chancellor Sharpe
Vice Chancellor Godfrey
Vice Chancellor Guckian
Vice Chancellor Perry
President Faulkner
President Mendelsohn
President Willerson
Executive Vice President Leach
Executive Vice President Porretto