|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Policy CP Requirements** |  |  | **Hedging Position Summary**  **(In Millions)** | **Notional** | **NTE** |  | **Collateral Summary** |  |
| Reporting Requirements Met | Yes (1) (2) |  | Interest Rate Swaps | $ 0.00 | $ 0.00 |  | **CP Collateral Held by PEI:** |  |
| CP Rating Qualifications Met | Yes (2) (3) (4) (7) |  | Futures Contracts, Financial | 14.53 | 3.72 |  | Rail Splitter Wind (HSBC Bank LOC) | $2,500,000 |
| Within CP NTE Limits | Yes (3) (6) (7) |  | Forward Purchase, Physical (5) | 27.39 | 4.11 |  | TransAlta Bank (Bank Nova Scotia LOC) | $25,000 |
| Under CP Concentration Limits | Yes |  | Solar PPA (2) (4) | 16.97 | (17.25) |  | Northern Cardinal (Commonwealth Bank LOC) | $1,000,000 |
|  |  |  |  |  |  |  | Direct Energy/NRG (Deutsche Bank LOC) | $200,000 |
|  |  |  |  |  |  |  | Mansfield Power (JPMorgan Chase Bank LOC) | $500,000 |
|  |  |  | **Total All Derivative Agreements** | **$58.89** | **($9.42)** |  | **PEI’s Collateral Held by CP:** |  |
|  |  |  |  |  |  |  | Margin Exposure on Futures | $734,309 |

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| --- | --- | --- |
| Material Events Since Last Report | CP Qualification Risk Management (3) (4) (7) | Counterparty (CP) NTE Risk Management (3) (6) (7) |
| \*\*The U of I redeemed both the HSFS 1997B and 2008 VRDO on 5/1/2024. Both LOCs were terminated after the redemption. The HSFS 2008 interest rate swap was terminated on 4/29/24 with a settlement of the termination payment from the UI to Deutsche Bank on 5/1/24 of $21,900. The UI's bond portfolio is now 100% fixed rate. There is no interest rate exposure from the 2008 swap agreement.  \*\*On 5/6/24, Mansfield increased the LOC from $.25M to $.5M to cover NTE and meet PEI policy requirements.  \*\* Moody's upgraded Commonwealth Bank of Australia from Aa2 to Aa1 on 5/27/24, outlook stable. | The energy industry necessitated action by the PEI Board of Directors to approve a policy accepting a lower credit rating than the System policy to qualify CPs for physical hedges (forward purchases). This exception has been approved by the U of I System CFO in accordance with the University Policy.(3) Neither Rail Splitter nor Mansfield is rated but has provided a $2.5 million LOC from HSBC Bank and $0.25 million LOC from JPMorgan respectively. TransAlta's rating declined below acceptable limits, so they have provided a $25,000 LOC from the Bank of Nova Scotia to meet policy qualifications. Direct Energy, through parent NRG, provided LOC from Deutsche Bank AG for $0.2 million. Northern Cardinal is not rated but has PCG, LOC, and approved qualification exception.(4) Counterparty credit rating exception was approved by the PEI Treasurer 11/2/23 to qualify IGS as a supply counterparty for natural gas to 36 UIC Peoples accounts and removed NTE collateral requirement.(7) System and PEI policies require regular due diligence reviews of the financial strength of CPs by the hedging transaction originator ensuring compliance. | Exposure to a CP is determined by NTE value net of collateral and is limited based on CP credit rating. The PEI policy accepts a higher exposure limit on the BBB/Baa category than the university Policy; an approved policy exception.(3) (6)  BP, DTE, Constellation, and AEP provide recourse through Credit or Adequate Assurances provisions if reasonable grounds exist regarding unsatisfactory creditworthiness or performance. Others provided an LOC as collateral, noted in above Collateral Summary. IGS has an approved exception from a NTE collateral requirement.(7) It is incumbent upon PEI to monitor and request Performance Assurance if a rating change triggers the policy collateral requirements. |

| **Responsible Unit/Dept.** | **Counterparty** | **CSPRated Entity/Exchange** | **Bond RatingS&P / Moody's** | **Expires / FY Range** | **Underlying Asset / Liability** | **Orig Contract** | **Current Notional / ContractIn Millions** | **Market ValueIn Millions** | **\*MTM or NTE (5) In Millions** | **System Guarantee (Credit Limit)In Millions** | **PCG - LOC (Credit Limit)** | **Counterparty Threshold (Collateral Requirements)** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **FINANCIAL HEDGES** |  |  | **Qualifying Rating A- / A3** |  |  |  |  |  |  |  |  |  |
| **System Interest Rate Swaps** |  |  |  |  |  |  |  |  |  |  |  |  |
| SO Capital Financing | Deutsche Bank AG | Deutsche Bank AG (CSP) | A / A1 | 10/1/2026 | HSFS 2008 | $40.88 | 0.00 |  | (0.00) |  |  | Rating Triggers Predate Policy |
| **PEI Energy Futures Contracts** |  |  |  |  | **SUBTOTAL** | **40.88** | **0.00** |  | **(0.00)** |  |  |  |
| SO Utilities Admin | StoneX Financial Inc. | InterContinental Exchange (ICE) | A- / A3 | 2024-2028 | Natural Gas | **15.66** | 14.53 | 18.25 | 3.72 |  |  | None Exchange Traded |
|  |  |  |  |  | **SUBTOTAL** | **56.54** | **14.53** |  | **3.72** |  |  |  |
| **PHYSICAL HEDGES** |  | **Qualifying Rating (3)** | **BBB-/Baa3 or BB+/Ba1 with LOC or PCG** |  |  |  |  |  |  |  |  |  |
| **PEI Energy Forward Purchases** |  |  |  |  |  |  |  |  |  |  |  |  |
| SO Utilities Admin | BP Canada Energy Marketing Corp | BP Corporation North America, Inc. (PCG) | A- / A2 | 2024-2025 | Natural Gas | **10.70** | 1.53 | 1.55 | 0.02 | **10.00** | **1.00** | Adequate Assurance |
| SO Utilities Admin | Direct Energy Business Marketing | Deutsche Bank AG, NY Branch (LOC) | A / A1 | 2024 | Natural Gas | **0.21** | 0.01 | 0.01 | 0.00 | **2.50** | **0.20** | LOC |
| SO Utilities Admin | DTE Energy Trading, Inc. | DTE Energy Company (PCG) | BBB+ / Baa2 |  | Natural Gas | **0.59** | 0.15 | 0.12 | (0.03) | **5.00** | **5.00** | Adequate Assurance |
| SO Utilities Admin | Interstate Gas Supply, LLC | (7) | NR NR | 2024-2025 | Natural Gas | **0.08** | 0.01 | 0.01 | 0.00 |  |  | (7) |
| SO Utilities Admin | Mansfield Powers & Gas, LLC | JPMorgan Chase Bank, NA (LOC) | A+ / Aa1 | 2025 | Natural Gas | **5.57** | 5.57 | 6.04 | 0.47 | **5.00** | **0.50** | LOC |
| SO Utilities Admin | Morgan Stanley Capital Group, Inc. | Morgan Stanley (PCG) | A- / A1 | 2024-2027 | Natural Gas | **18.44** | 14.18 | 17.61 | 3.43 | **5.00** | **Unlimited** | Rating Triggers |
| SO Utilities Admin | Shell Energy North America (US), L.P. | Shell Energy North America (US), L.P. | A / A2 |  | Natural Gas | **0.00** | 0.00 | 0.00 | 0.00 | **5.00** |  | Rating Triggers |
| SO Utilities Admin | AEP Energy Partners Inc. | American Electric Power Co, Inc. | BBB+ / Baa2 | 2024 | Electricity | **0.83** | 0.72 | 0.73 | 0.01 | **0.50** | 0.10 | Credit Assurance |
| SO Utilities Admin | Constellation Energy Generation, LLC | Constellation Energy Generation, LLC | BBB+ / Baa1 | 2025 | Electricity | **2.13** | 2.13 | 2.05 | (0.08) | **5.00** | Unlimited | Credit Assurance |
| SO Utilities Admin | Morgan Stanley Capital Group, Inc. | Morgan Stanley (PCG) | A- / A1 |  | Electricity | **0.00** | 0.00 | 0.00 | 0.00 | **5.00** | **Unlimited** | Rating Triggers |
| SO Utilities Admin | TransAlta Energy Marketing (US) | The Bank of Nova Scotia (LOC) | A+ / Aa2 | 2024 | Electricity | **1.45** | 0.10 | 0.10 | 0.00 | **2.50** | **0.025** | LOC |
| SO Utilities Admin | Shell Energy North America (US), L.P. | Shell Energy North America (US), L.P. | A / A2 | 2024-2025 | Electricity | **1.62** | 0.81 | 0.81 | 0.00 | **5.00** |  | Rating Triggers |
| SO Utilities Admin | Rail Splitter Wind Farm LLC | HSBC Bank USA, (LOC) | A+ / Aa3 | 2024-2027 | Electricity Renewable | **3.08** | 2.18 | 2.47 | 0.29 | **2.50** | **2.50** | LOC |
|  |  |  |  |  | **SUBTOTAL** | **44.70** | **27.39** | **31.50** | **4.11** |  |  |  |
| **Solar PPAs** |  |  |  |  |  |  |  |  |  |  |  |  |
| UIUC Energy Services - SF1 | Phoenix Solar South Farms (2) |  |  | 12/20/2025 | Electricity Renewable | **13.76** | 2.30 |  | (3.53) |  |  |  |
| SO Utilities Admin - SF2 | Northern Cardinal Solar SCS IL 1, LLC (4) | Commonwealth Bank of Australia (LOC) CD Clean Energy and Infrastructure (PCG) | AA- / Aa1  NR NR | 2/2021 - 2/2041 | Electricity Renewable | **14.99** | 14.67 |  | (13.72) | 13.80 | **4.00** | LOC, $1M |
|  |  |  |  |  | **SUBTOTAL** | **$28.75** | **16.97** |  | **(17.25)** |  |  |  |
| **Grand Total** |  |  |  |  | **GRAND TOTAL** | **$129.99** | **58.89** |  | **(9.42)** |  |  |  |

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| If negative termination value, the System | CP - Counterparty | NTE - Net Termination Exposure | PPA - Power Purchase Agreement |
| or PEI is obligated to the CP. | CSP - Credit Support Provider | PCG - Parental Company Guarantee | SO - System Offices |
| (transaction is "underwater"). | DUP - Derivatives Use Policy | PEI - Prairieland Energy Inc. | WR - Withdrawn Rating |
|  | LOC - Letter of Credit |  |  |

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| **Footnotes:** |
| (1) Policy exceptions approved by the CFO for Agriculture Property Services (APS) forward grain sales include release from counterparty credit rating, contract form, and monthly reporting requirements. APS reported $0.00 in outstanding forward sales contracts as of 05/31/2024. |
| (2) In Dec 2015, UIUC issued a Power Purchase Agreement (PPA) in conjunction with their Solar Farm I. ERM learned of the PPA in July 2019 and began reporting the derivative Oct 2019. Since there is no CP risk, a policy exception was approved by the CFO for (a) minimum CP credit rating requirement, (b) required parental guarantee or LOC, and (c) minimum market capitalization requirement. |
| (3) Policy exceptions approved by the CFO for PEI include less restrictive CP credit rating for forward purchases and corresponding collateral requirements. For physical transactions, allows for unrated CP to qualify with LOC. |
| (4) On 10/3/19, a CP Exception for Urbana Solar Farm 2.0 was approved by the PEI Treasurer qualifying Northern Cardinal Solar SCSI IL 1, LLC (NCS) as a counterparty to be assigned the Power Purchase Agreement (PPA) for Solar Farm 2.0 from Sol Systems, LLC. This exception also qualified Capital Dynamics Clean Energy and Infrastructure VII JV, LLC as the guarantor for NCS. This exception also approved the PPA requirement for any unrated successor guarantor to qualify with $100 million in tangible net worth. Contract term to 2/2/2041. CD Clean Energy and Infrastructure VII JV (InvestCo), LLC changed their name to “Arevon Energy InvestCo VII, LLC” and, notwithstanding such name change, all obligations of Guarantor under the Guaranty remain unchanged and in full force and effect. |
| (5) Contracted hedge prices on gas and electricity remain favorable to market prices overall. The natural gas storage balances were 110 Bcf higher than last year at this time and 142 Bcf above the 5-year average, combined with a milder 2023-2024 winter, resulting in lower near-term natural gas prices. Natural Gas prices remain elevated in outer years due to global impacts and forecasted demand. Due to the correlation of electricity prices to natural gas prices, electricity prices have also decreased in the near term, but remain higher in the outer years due to the expected cost of electric generation from natural gas and the forecasted increase in demand. |
| (6) Exposure to a CP is determined by the NTE value net of collateral and limited based on CP credit rating. The PEI policy accepts $10M exposure on BBB/Baa category versus the University policy limit of $0 on the same rating category. The PEI exposure limit difference to the university policy is an approved policy exception. DTE and Constellation, in the BBB/Baa category, currently have negative NTE, meaning the University would pay the NTE to the CP if the contract ended. Those CPs in the BBB/Baa category that exceed the University policy exposure limit but are still within the PEI limit include AEP $0.01. |
| (7) Since counterparty risk es expected to be low, a Counterparty Exception was approved by the PEI Treasurer on 11/2/23 to qualify Interstate Gas Supply, LLC (IGS) as a supply counterparty for natural gas to thirty-six (36) Peoples gas accounts at UIC. Also approved a "no collateral requirement" to offset the University's NTE. |

Reported to the Board of Trustees

July 11, 2024