FY 2012

ILLINOIS
POWER AGENCY

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Acting Director

Annual Report

Illinois Power Agency
Annual Report
FY 2012

(July 2011-June 2012)
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December 1, 2012

INTRODUCTION

The Illinois Power Agency (IPA) exists to serve the people of Illinois by overseeing the electricity planning and procurement processes for residential and small commercial customers of Ameren and ComEd. It assists with achieving a diverse supply portfolio for the State that includes renewable resources, energy efficiency, demand response measures and advanced clean coal technologies. It also assists counties and municipalities with implementing aggregated retail choice.

The IPA's processes and mandates are described in the Illinois Power Agency Act and the Illinois Public Utilities Act. We strive to employ best practices to meet the goals set out for the Agency. Chief among these is to develop electricity procurement plans and processes to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability, for residential and small commercial customers of Ameren and ComEd. The procurement plan is updated on an annual basis and includes renewable energy resources sufficient to achieve the renewable portfolio standards specified in the Act.

As an independent agency subject to the oversight of the Executive Ethics Commission, we are committed to:

- Ensure that the process of power procurement is conducted in an ethical and transparent fashion, immune from improper influence; and
- Operate in a structurally insulated, independent and transparent fashion so that nothing impedes its mission to secure power at the best prices the market will bear, provided that it meets all applicable legal requirements.

Retail electricity consumers in Illinois are experiencing a robust marketplace transition. Even the smallest of customers are choosing to select competitive supply options in lieu of utility-provided default service. Illinois began its successful journey down the road of deregulated competitive markets for retail electricity supply in December 1997 with a competitive transition period that lasted through 2006. Since 2006, retail competitive markets have continued to flourish, with recent advances fostered by wide-spread municipal aggregation efforts. More recently, both ComEd and Ameren have experienced dramatic reductions in retail load serving obligations since the overwhelmingly successful March 2012 referenda authorizing opt-out aggregation of customers and the consequent opportunities for substantial savings on the supply portion of customers' bills. This has required the IPA to reassess the pre-existing supply portfolio to better calibrate it with significantly lower utility loads. The IPA remains committed to a cost-effective, affordable, environmentally sustainable and reliable transition to market-based retail supply.

The IPA welcomes your questions and hopes you will take advantage of the information offered herein and on our web site at www.illinois.gov/IPA.

REPORT ORGANIZATION

The requirements for this report are detailed in (20 ILCS 3855/1-125)[1], which requires that each December 1 the Agency shall report to the Governor and the General Assembly on the operations and transactions of the Agency. The annual report shall include, but not be limited to, each of the following:

(1) The quantity, price, and term of all contracts for electricity procured under the procurement plans for electric utilities.

(2) The quantity, price, and rate impact of all renewable resources purchased under the electricity procurement plans for electric utilities.

(3) The quantity, price, and rate impact of all energy efficiency and demand response measures purchased for electric utilities.

(4) The amount of power and energy produced by each Agency facility.

(5) The quantity of electricity supplied by each Agency facility to municipal electric systems, governmental aggregators, or rural electric cooperatives in Illinois.

(6) The revenues as allocated by the Agency to each facility.

(7) The costs as allocated by the Agency to each facility.

(8) The accumulated depreciation for each facility.

(9) The status of any projects under development.

(10) Basic financial and operating information specifically detailed for the reporting year and including, but not limited to, income and expense statements, balance sheets, and changes in financial position, all in accordance with generally accepted accounting principles, debt structure, and a summary of funds on a cash basis.

(11) The quantity, price, and rate impact of all renewable resources purchased pursuant to long-term contracts under the electricity procurement plans for electric utilities.

This Annual Report addresses each of the above requirements, in the order outlined in the Act.

[1] P.A. 97-0658, eff. 1-13-12

(1)

The quantity, price, and term of all contracts for electricity procured under the procurement plans for electric utilities.

During FY 2012, the IPA conducted two sets of procurement events on behalf of Ameren and ComEd. In February 2012 the “Rate Stability Procurements” for block energy were conducted in accordance with P.A. 97-0616. These were designed to provide price and rate stability to consumers for default generation supply service between June 2013 and December 2017, a period in which both utilities were granted formula based delivery service rates as part of the Energy Infrastructure Maintenance Act (the “Smart Grid Bill”). An additional procurement, for energy products for both utilities and for capacity for Ameren, in accordance with the Illinois Commerce Commission-approved 2012 Procurement Plan was conducted in April 2012. The results of those procurement events are summarized in the Illinois Commerce Commission public notices reproduced below.

Rate Stability Procurement
Ameren

Public Notice of Winning Bidders and Average Prices
Ameren Illinois Company February 10, 2012 Procurement of Standard Energy Products
February 16, 2012

On February 10, 2012, Levitan & Associates, as one of the Illinois Power Agency’s procurement administrators, received bids for the sale of electricity to Ameren Illinois Company, in a request for proposals held pursuant to Section 16-111.5(k-5) of the Public Utilities Act. This public notice reveals the names of the successful bidders and the load weighted average of the winning bid prices. The names of the successful bidders for the above-described procurement event are as follows:

Ameren Energy Marketing
BP Energy Company
Exelon Generation Company
Iberdrola Renewables

There were five energy products involved in this procurement, identical except for their delivery periods. Each product is a constant around-the-clock (24x7) supply of electric energy for each hour of the delivery period. The constant quantity sought under this procurement was 650 Megawatts (MWs), in 50 MW increments, in all five delivery periods. The total quantities of the bids selected and the average prices of those bids are shown in the following table:

Average Winning Prices and Quantities

. Period	Jun2013-May2014	Jun2014-May2015	Jun2015-May2016	Jun2016-May2017	Jun2017-Dec2017
MW	650	650	200	-	-
Hours	8,760	8,760	8,784	8,760	5,137
MWHs	5,694,000	5,694,000	1,756,800	-	-
Average Price	$29.51	$31.44	$33.62	n/a	n/a

Rate Stability Procurement
ComEd

Public Notice of Winning Bidders and Average Prices
ComEd February 10, 2012 Procurement of Standard Energy Products
February 16, 2012

On February 10, 2012, NERA Economic Consulting, as one of the Illinois Power Agency's procurement administrators, received bids for the sale of electricity to Commonwealth Edison Company ("ComEd"), in a request for proposals held pursuant to Section 16-111.5(k-5) of the Public Utilities Act. This public notice reveals the names of the successful bidders and the load weighted average of the winning bid prices.

The names of the successful bidders for the above-described procurement event are as follows:

J.P. Morgan Ventures Energy Corporation
Morgan Stanley Capital Group Inc.
Shell Energy North America (US), L.P.

The only contract sought through this procurement was a constant around-the-clock (24x7) supply of electric energy for each hour of the four-year, seven-month period from June 1, 2013 through December 31, 2017. The constant quantity sought under this procurement was 450 Megawatts (MWs), in 50 MW increments. The lowest nine bids (adding up to 450 MW) were selected. The average winning bid price was $32.57 per Megawatt-hour (MWH). However, the contract calls for an automatic price increase of 2.5% each June 1. As a result, the effective average price will vary as shown below:

Effective Average Winning Prices and Quantities

Period	**Jun2013-May2014**	**Jun2014-May2015**	**Jun2015-May2016**	**Jun2016-May2017**	**Jun2017-Dec2017**
MW	450	450	450	450	450
Hours	8,760	8,760	8,784	8,760	5,137
MWHs	3,942,000	3,942,000	3,952,800	3,942,000	2,311,650
Avg Price	$32.57	$33.39	$34.22	$35.07	$35.95

April Procurement
Ameren and ComEd Energy

Public Notice of Successful Bidders and Average Prices
Ameren Illinois Company & Commonwealth Edison Company April 26, 2012 Procurement of Standard Energy Products
May 2, 2012

On April 26, 2012, the Illinois Power Agency's procurement administrators, Levitan & Associates and NERA Economic Consulting, received bids for the sale of standard energy products to Ameren Illinois Company ("Ameren") and Commonwealth Edison Company ("ComEd"), respectively, in requests for proposals held pursuant to the procurement plan approved by the Illinois Commerce Commission ("Commission") in Docket No. 11-0660. The process was monitored for the Commission by Boston Pacific Company. On May 2, 2012, voting in open session, the Commission approved the procurement administrators' selection of winning bids.

In accordance with Section 16-111.5(h) of the Public Utilities Act, this public notice announces the names of the successful bidders and the average winning bid price for each contract type and for each contract term. 220 ILCS 5/16-111.5(h). In accordance with the RFP rules and previous Commission orders, quantity information is also provided where the number of successful bidders is greater than two. Prices are expressed in dollars per megawatthour ($/MWH) and quantities are expressed in megawatts (MW). Note that the data presented for some delivery months are the sum and average of quantities and prices from two separate products (e.g., the July delivery month is served through both a July product and a July/August multi-month product).

Successful Bidders

Ameren	**ComEd**
Dynegy Power Marketing, LLC	Cargill Power Markets, LLC
Macquarie Energy LLC	Exelon Generation Company, LLC
	Macquarie Energy LLC
	Shell Energy North America (US), L.P.

Weighted Average Winning Bid Prices and Quantities by Delivery Month

	Weighted Average Price (per MWH)				Total Quantity (MW)	
Delivery Month	**Ameren**		**ComEd**		**ComEd**	
	On-Peak	**Off-Peak**	**On-Peak**	**Off-Peak**	**On-Peak**	**Off-Peak**
Jun 2012	$30.44	$19.66	$34.55	$21.73	500	300
Jul 2012	$35.60	$20.89	$41.00	$24.91	200	150
Aug 2012	$35.00					
Sep 2012	$27.60					
Dec 2012	$29.83					
Jan 2013		$26.59				
Feb 2013		$26.66				
Jun 2014			$42.17		150	
Jul 2014			$48.45	$30.19	300	100
Aug 2014			$48.14	$29.60	200	50
Dec 2014			$39.44		100	
Jan 2015			$44.35		100	
Feb 2015			$44.00		50	

April Procurement
Ameren Capacity

Public Notice of Winning Bidders and Average Prices
Concerning the Illinois Power Agency's April 2012 Procurement of
Capacity Products for Ameren Illinois Company
Notice Issued: April 10, 2012

Pursuant to the Illinois Power Agency ("IPA") Procurement Plan approved by the Illinois Commerce Commission ("Commission") in Docket No. 11-0660, Levitan & Associates, Inc. -- the Procurement Administrator retained by the IPA for the 2012 procurements for Ameren Illinois Company ("AIC") -- conducted a solicitation to procure capacity products on behalf of AIC for the 36-month period June 1, 2012 through May 31, 2015. At an April 10, 2012 Emergency Special Open Meeting, the Commission approved the procurement administrator's recommendation to accept the winning bids that were received on April 5, 2012.

The capacity products procured for the first twelve months are called Planning Resource Credits ("PRCs"), as defined in the Midwest Independent Transmission System Operator's ("MISO's") Resource Adequacy Business Practice Manual. The capacity products sought for the second and third 12-month periods are called Zonal Resource Credits ("ZRCs"), in anticipation of the Federal Energy Regulatory Commission's approval of significant changes being proposed to MISO's resource adequacy construct. These changes include establishing seven local resource zones within MISO for which resource adequacy must be met, and moving to an annual forward construct instead of the current monthly construct. PRCs and ZRCs each represent one megawatt of capacity that qualifies to satisfy Ameren's Resource Adequacy Requirements under MISO's rules.[2]

[2] FERC Docket ER11-4081-000. In the event that FERC does not approve MISO's filing, the contracts have been set up so that annual ZRCs can be converted into monthly PRCs.

Winning Bidders

Allete Inc., dba Minnesota Power
Ameren Energy Marketing Company
Consumers Energy Company
DTE Energy Trading, Inc.
Dynegy Power Marketing, LLC
Exelon Generation Company, LLC
GenOn Energy Management, LLC
Union Electric Company d/b/a Ameren Missouri
Wisconsin Public Service Corporation

Average Prices and Quantities of Winning Bids

	PRCs			
	MW Sought	MW Bought	Total Spent	Avg Price ($/MW-Month)
Jun 2012	1,910	1,910	$21,671	$11.35
Jul 2012	1,980	1,630	$240,226	$147.38
Aug 2012	1,830	1,830	$177,279	$96.87
Sep 2012	1,480	1,480	$15,321	$10.35
Oct 2012	1,120	1,120	$4,005	$3.58
Nov 2012	970	970	$4,660	$4.80
Dec 2012	1,030	1,030	$11,118	$10.79
Jan 2013	1,180	1,180	$14,050	$11.91
Feb 2013	1,090	1,090	$12,951	$11.88
Mar 2013	850	850	$4,152	$4.88
Apr 2013	860	860	$3,879	$4.51
May 2013	1,170	1,170	$7,309	$6.25
	Total for Jun 2012 –May 2013		$516,622	

	ZRCs			
	MW Sought	MW Bought	Total Spent	Avg Price ($/MW-Year)
Jun 2013 - May 2014	1,660	1,660	$6,137,868	$3,697.51
Jun 2014 - May 2015	1,110	1,110	$8,483,024	$7,642.36

(2)

The quantity, price, and rate impact of all renewable resources purchased under the electricity procurement plans for electric utilities.

As with the Ameren and ComEd energy procurements during FY 2012, there were two Renewable Energy Resources procurements, in February (the Rate Stability procurement) and in May. In both procurements, short term RECs were purchased. The Ameren and ComEd renewable resource procurements were held simultaneously in each instance, ensuring that customers of each utility were not affected by timing differences in the market for the sought-after products. Furthermore, unlike energy which is deliverable into each utility's respective Regional Transmission Organization (MISO and PJM), there is no such RTO-based deliverability requirement for RECs, allowing for a combined procurement effort. Note, however, that allowable RECs must be registered and tracked through the PJM-GATS system, the MISO-based M-RETS system, or NARR (North American Renewables Registry).

Rate Stability REC Procurement
Ameren and ComEd

Public Notice of Winning Bidders and Average Prices
Ameren Illinois Company and Commonwealth Edison Company February 16, 2012 Procurement of Renewable Energy Credits
February 23, 2012
On February 16, 2012, the Illinois Power Agency's procurement administrators, Levitan & Associates and NERA Economic Consulting, received bids for the sale of renewable energy credits ("RECs") to Ameren Illinois Company ("Ameren") and Commonwealth Edison Company ("ComEd"), respectively, in coordinated requests for proposals held pursuant to Section 16-111.5(k-5) of the Public Utilities Act. The process was monitored for the Commission by Boston Pacific Company. This public notice reveals the names of the successful bidders, as well as a summary of the selected bids (which includes the quantity and weighted average price for each contract type and for each contract term).

The names of the successful bidders for the above-described procurement event are as follows:

DTE Energy Trading, Inc.
EDP Renewables North America, LLC
Element Markets, LLC
Exelon Generation Company, LLC
Hoosier Energy Rural Electric Cooperative Incorporated
Iberdrola Renewables, Inc.
Integrys Energy Services, Inc.
Invenergy
Nexamp, Inc.
Nexant, Inc.
Sky View Ventures, LLC
Sterling Planet, Inc.
Thilmany, LLC

The quantity and weighted average price of the winning bids, for each contract type and for each contract term, are shown in the following table.

	Contract Type		Average Winning Bid Price ($ per MWH)		Quantity Selected (MWHs of RECs)[3]	
Contract Term	Renewable Technology	Location[4]	Ameren	ComEd	Ameren	ComEd
June 2013 through May 2014	PV[5]	IA	$95.26	$74.49	8,065	8
		OS	99.54	65.00	5,100	1,500
	Wind	IA	1.13	1.27	415,655	1,060,901
		OS			0	0
	Other	IA	0.85	0.97	107,200	277,500
		OS			0	0
June 2014 through May 2015	PV	IA	88.36	69.49	2,765	7
		OS	85.94	60.00	2,500	1,500
	Wind	IA	1.33	1.53	353,101	575,162
		OS			0	0
	Other	IA	1.25	1.21	67,000	46,908
		OS			0	0
June 2015 through May 2016	PV	IA	98.42	74.49	2,965	8
		OS	85.94	65.00	2,500	1,500
	Wind	IA	2.10	1.95	383,345	200,000
		OS			0	0
	Other	IA	2.40	2.66	20,000	971
		OS			0	0
June 2016 through May 2017	PV	IA	100.06	74.49	4,965	8
		OS	81.83		4,000	0
	Wind	IA	4.18	3.38	380,280	106,178
		OS			0	0
	Other	IA	4.83		40,000	0
		OS		2.02	0	193,486
June 2017 through May 2017	PV	IA	94.84		432	0
		OS	80.06		2,197	0
	Wind	IA	4.92		251,767	0
		OS			0	0
	Other	IA			0	0
		OS		2.14	0	271,473

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[3] RECs are sold in megawatthours (MWHs). One REC corresponds to 1 MWH of electricity generated with a renewable energy technology.
[4] IA = Illinois or an Adjoining State (Wisconsin, Indiana, Iowa, Kentucky, Michigan and Missouri)
OS = Other State
[5] PV = Photovoltaic solar

May REC Procurement
Ameren and ComEd

Public Notice of Winning Bidders and Average Prices
Ameren Illinois Company and Commonwealth Edison Company Spring 2012 Procurement of Renewable Energy Credits
May 16, 2012
On May 10, 2012, the Illinois Power Agency's procurement administrators, Levitan & Associates and NERA Economic Consulting, received bids for the sale of renewable energy credits ("RECs") to Ameren Illinois Company ("Ameren") and Commonwealth Edison Company ("ComEd"), respectively, in coordinated requests for proposals ("RFPs") held pursuant to the procurement plan approved by the Illinois Commerce Commission ("Commission") in Docket No. 11-0660. The process was monitored for the Commission by Boston Pacific Company. On May 16, 2012, the Commission approved the procurement administrators' selection of winning bids. In accordance with Section 16-111.5(h) of the Public Utilities Act, this public notice announces the names of the successful bidders and the average winning bid price for each contract type and for each contract term. 220 ILCS 5/16-111.5(h). In accordance with the RFP rules and previous Commission orders, quantity information is also provided where the number of successful bidders is greater than two.

The names of the successful bidders are:	**Ameren**	**ComEd**
	Exelon Generation Company, LLC	Element Markets, LLC
	Iberdrola Renewables, LLC	Iberdrola Renewables, LLC
	Invenergy	MidAmerican Energy Company
	Nexant, Inc.	Sterling Planet, Inc.
	Realgy, LLC	Thilmany LLC
	Sky View Ventures, LLC	
	Sterling Planet, Inc.	

The quantity and weighted average price of the winning bids, for each contract type are:

	Ameren		**Comed**	
	MWHs of RECS	$/MWH	MWHs of RECs	$/MWH
Wind	300,000	$0.80	1,066,792	$0.88
Solar PV	2,188	$79.74		
Other	221,188	$0.84	268,881	$0.88

Notes: (1) All bids selected are for RECs that will be produced within Illinois or states adjoining Illinois during the 2012-2013 time frame. (2) The quantities and prices shown above do not account for pre-existing contracts for the 2012-2013 delivery period. Specifically, the table does not show quantities and prices associated with the 20-year contracts that were entered into immediately following a December 2010 RFP.

Rate Impacts of Renewable Energy Purchases

The Illinois Power Agency Act requires that the amount of renewable energy resources procured pursuant to the procurement plan for any single year shall be reduced by an amount necessary to limit the estimated average net increase due to the cost of these resources included in the amount paid by eligible retail customers in connection with electric service to no more than the greater of

2.015% of the amount paid per kilowatthour by those customers during the year ending May 31, 2007 or the incremental amount per kilowatthour paid for these resources in 2011. Each April 1, the Agency is required to file a report, available on its web site at www.illinois.gov/IPA, which discusses the rate impacts of the existing renewable resource portfolio. The report filed in 2012 on March 30 contains the specific rate impact analysis of the portfolio. To date, the portfolio costs have not exceeded the legislative limits. In addition, these impacts are discussed in the Agency's annual Procurement Plans, filed for approval with the ICC. The current filing before the ICC for the 2013 Procurement Plan discusses the high probability that the rate impact caps may be reached as early as June 2013 for both ComEd and Ameren due to high customer migration to alternate suppliers. Specific implications of the rate cap will not be known until the utilities update their load forecasts in March 2013.

(3)

The quantity, price, and rate impact of all energy efficiency and demand response measures purchased for electric utilities.

The IPA's Procurement Plan covering FY 2012 was filed for Illinois Commerce Commission approval in Docket 11-0660 on September 28, 2011. The portion of the Commission's December 21, 2011 Order in that Docket, cited below, accurately summarizes the demand response and energy efficiency measures undertaken by the utilities in fulfillment of legislative mandate. Certain information has been shown in bold-face type below to highlight the analytical conclusions of the Commission and the IPA. The IPA did not undertake any separate additional procurement of energy efficiency and demand response resources during FY 2012.

"C. Demand Response and Energy Efficiency
Section 8-103(c) of the PUA directs:

> Electric Utilities shall implement cost-effective demand-response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers, as defined in Sections 16-111.5 of this Act and for customers that elect hourly service from the utility pursuant to Section 16-107 of this Act, provided those customers have not been declared competitive. This requirement commences June 1, 2008 and continues for 10 years.

Additionally, the IPA notes that Section 16-111.5(b) of the PUA requires that the procurement plan shall include an analysis of the impact of demand side initiatives established by Section 8-103(b) and (c) of the PUA. The IPA says those demand side initiatives include the impact of demand response programs both current and projected) and the impact of energy efficiency programs (both current and projected).

According to the IPA, **ComEd's expected load model volumes are adjusted to account for energy efficiency program and demand response results.** Additionally, the IPA says contract volumes attributable to long-term PPAs entered into by ComEd in December 2010 are factored out of the projection.

For the purpose of projecting loads for this year's Plan, the IPA assumes that ComEd intends to implement demand response programs sufficient to achieve its targeted peak reductions. Based on ComEd's analysis, and as discussed under the load forecast discussion in this Order, the effective aggregated reduction in ComEd's maximum system load requirements for eligible retail customers due to demand response programs is projected to be for 2012 (10.7 MW), for 2013 (10.8 MW), for 2014 (7.0 MW), for 2015 (7.0 MW), and for 2016 (7.1 MW).

Also discussed above in the load forecast portion of this Order, for the purpose of projecting loads for this year's Plan, **the IPA assumes that AIC will not deliver the required demand response reductions to the portfolio as in the 2009, 2010, and 2011 plan years. The IPA has included the impacts of the AIC energy efficiency programs based on its analysis of the current and projected programs. The annual incremental reductions in AIC's supply requirements to be acquired through the RFP process (net of customer switching) is projected to be for 2012 (159,162 MWh), for 2013 (134,341 MWh), for 2014 (130,399 MWh) for 2015 (127,850 MWh), and for 2016 (124,204 MWh).**

As discussed above in the capacity resource section of this Order, MISO operates primarily on a bi-lateral contracting basis and does not have a working capacity market. The Plan discusses at length, activities at FERC and MISO intended to develop a working capacity market. In the IPA's view, if MISO does establish a working capacity market, the resulting financial incentives to invest in demand response resources should create new products and increasing amounts of demand response activities aimed at lowering peak demand. " [6]

The IPA notes that the MISO capacity markets which would better enable demand response in the Ameren service area are continuing to evolve, with its first capacity auction to be held in the spring of 2013. Assuming this auction is successful and that MISO develops a viable capacity market, this bodes well for future inclusion of explicit demand response resources in the Ameren service area.

The PJM capacity markets are well-developed, including demand response markets. Since ComEd purchases all its capacity through these independently-monitored PJM markets, including demand response, the Commission decided that there is no basis for it to conclude that pursuing additional demand response would be beneficial to eligible retail customers, reiterating its statement in Docket 09-0373 at page 153:

> "It would appear highly unlikely that the IPA could successfully reduce ComEd's capacity costs by procuring supplemental demand response measures, unless it were somehow tied to the PJM process. Any demand response measures outside of the PJM RPM process would be additive to ratepayer bills due to the RPM construct of obligating capacity resources 3 years in advance."[7]

The IPA will continue to consider demand response in future Procurement Plans and to monitor both the PJM and MISO capacity and demand response markets, for possible inclusion of any cost-effective incremental purchases by the IPA outside those processes. However, if the goal is to foster and facilitate competitive and well-functioning demand response markets, the IPA cautions against actions which could be well-intended but end up circumventing or confounding those markets to ratepayer detriment.

As noted above, energy efficiency programs were considered by the 2012 Procurement Plan as adjustments to the load forecasts of both Ameren and ComEd. These programs are overseen by the Illinois Commerce Commission in accordance with the Public Utilities Acts. The IPA notes that beginning in FY 2013, additional responsibilities with respect to energy efficiency were placed on the IPA. These will be considered in the FY 2013 Annual Report.

[6] ICC Order in Docket 11-0660 at page 29.
[7] *id* at page 184.

(4) The amount of power and energy produced by each Agency facility.

(5) The quantity of electricity supplied by each Agency facility to municipal electric systems, governmental aggregators, or rural electric cooperatives in Illinois.

(6) The revenues as allocated by the Agency to each facility.

(7) The costs as allocated by the Agency to each facility.

(8) The accumulated depreciation for each facility.

(9) The status of any projects under development.

Among the Agency's goals and objectives enumerated in the Illinois Power Agency Act are to:

> C) Develop electric generation and co-generation
> facilities that use indigenous coal or renewable resources, or both, financed with bonds
> issued by the Illinois Finance Authority.
> D) Supply electricity from the Agency's facilities
> at cost to one or more of the following: municipal electric systems, governmental
> aggregators, or rural electric cooperatives in Illinois.[8]

Towards that end it is authorized to create a Resource Development Bureau. The IPA had no Agency facilities during FY 2012, nor does it have any plans to develop such facilities at this time. The Act puts a number of restrictions on the Agency that severely limit its ability to develop the allowed facilities in the current marketplace. See, for example:

> At the Agency's discretion, it may conduct feasibility studies on the construction of any facility. Funding for a study shall be assessed to municipal electric systems, governmental aggregators, units of local government, or rural electric cooperatives requesting the feasibility study; or through an appropriation from the General Assembly.
>
> **No entities have requested such a study.**
>
> The Agency may enter into contractual arrangements with private and public entities, including but not limited to municipal electric systems, governmental aggregators, and rural electric cooperatives, to plan, site, construct, improve, rehabilitate, and operate those electric generation and co-generation facilities.
>
> **No entities have requested such arrangements.**
>
> The first facility that the Agency develops, finances, or constructs shall be a facility that uses coal produced in Illinois. The Agency may, however, also develop, finance, or construct renewable energy facilities after work on the first facility has commenced.
>
> The Agency may supply electricity produced by the Agency's facilities to municipal electric

[8] 20 ILCS 385/1-5.

systems, governmental aggregators, or rural electric cooperatives in Illinois. The electricity shall be supplied at cost.

The pool of eligible customers is extremely small and no such entity appears to be looking for new coal-fired resources currently and even priced at cost, such a facility is likely to be priced significantly above market. Financing of new generation requires that there be certainty regarding the contractual obligation to purchase the output of the facility. By severely restricting the pool of potential buyers, the financial feasibility of the investment is called into question.

Electric utilities shall not be required to purchase electricity directly or indirectly from facilities developed or sponsored by the Agency.

The IPA concurs that competitive markets function best when decisions by potential buyers can be made based on economics rather than fiat, on the other hand, this removes a significant portion of the marketplace as potential willing customers of any Agency facility.

The Agency may sell excess capacity and excess energy into the wholesale electric market at prevailing market rates; provided, however, the Agency may not sell excess capacity or excess energy through the procurement process described in Section 16-111.5 of the Public Utilities Act.

This means that the Agency may not serve eligible retail load in Illinois.

The Agency shall not directly sell electric power and energy to retail customers. Nothing in this paragraph shall be construed to prohibit sales to municipal electric systems, governmental aggregators, or rural electric cooperatives.
(Source: P.A. 95-481, eff. 8-28-07; 95-1027, eff. 6-1-09.)

(10)

Basic financial and operating information specifically detailed for the reporting year and including, but not limited to, income and expense statements, balance sheets, and changes in financial position, all in accordance with generally accepted accounting principles, debt structure, and a summary of funds on a cash basis.

The Agency's Fiscal Year Financial Statements and Notes are contained in the attached Appendix.

(11)

The quantity, price, and rate impact of all renewable resources purchased pursuant to long-term contracts under the electricity procurement plans for electric utilities.

In its March 30, 2012 public report to the General Assembly and the Illinois Commerce Commission regarding Utility Renewable Resource Costs and Benefits[9] and mandated by Public Act 97-0658, the Agency was required to include an analysis of:

> *(B) an analysis of the rate impacts associated with the Illinois Power Agency's procurement of renewable resources, including, but not limited to, any long-term contracts, on the eligible retail customers of electric utilities.*

> *The analysis shall include the Agency's estimate of the total dollar impact that the Agency's procurement of renewable resources has had on the annual electricity bills of the customer classes that comprise each eligible retail customer class taking service from an electric utility. The Agency's report shall also analyze how the operation of the alternative compliance payment mechanism, any long-term contracts, or other aspects of the applicable renewable portfolio standards impacts the rates of customers of alternative retail electric suppliers.*

The analysis included the impacts of the following renewable resource purchases facilitated by the IPA under procurements either mandated by the legislature or conducted in accordance with Illinois Commerce Commission (ICC) reviewed and approved IPA procurement plans:

Ameren Illinois Company (Ameren) Procurements

- 05/18/09 Renewable Energy Credit (REC) Procurement
- 05/18/10 REC Procurement
- 12/10/10 20-Year Bundled REC and Energy Procurement
- 05/18/11 REC Procurement
- 02/16/12 Rate Stability REC Procurement

Commonwealth Edison Company (ComEd) Procurements

- 05/11/09 REC Procurement
- 05/18/10 REC Procurement
- 12/10/10 20-Year Bundled REC and Energy Procurement
- 05/18/11 REC Procurement
- 02/16/12 Rate Stability REC Procurement

[9] Report available on the IPA's web site at www.illinois.gov/IPA.

The only long-term contracts for renewable resources listed above are those purchased in December 2010 through a 20-year bundled REC and energy procurement. Deliveries under these long-term contracts did not begin until June 1, 2012, which is the last month of FY 12. Therefore, these contracts had little to no rate impact for the reporting year. The Agency's FY 2013 Annual Report will contain an analysis of the first full-year rate impact of these purchases on Ameren and ComEd retail customers.

The quantity and price of renewable resources purchased under these long-term contracts are summarized as follows:

	Total Quantity (MWH)	Average Price ($/MWH)
Ameren	600,000	$50.44
ComEd	1,261,725	$55.18

There were 12 winning bidders overall, including one solar photovoltaic generator. Each winning bid was either a wind or a solar photovoltaic resource physically located in the state of Illinois, Wisconsin, Iowa, Missouri, Kentucky, Indiana, or Michigan. It is important to note that renewable resource purchases, overall, are subject to a rate impact cap, so that the incremental cost paid by eligible retail customers in connection with the entire portfolio of each utility's renewable resources, over the cost of the underlying energy, cannot exceed on average the greater of 2.015% of the amount paid per kilowatthour by those customers during the year ending May 31, 2007 or the incremental amount per kilowatthour paid for those resources in 2011.

This rate impact cap did not affect renewable resource purchases in FY 12. Due to the significant loss of utility load due to customer migration to alternate suppliers, it appears that the rate impact cap may affect deliveries by triggering a curtailment of deliveries from the long-term renewable resource suppliers as early as June 1, 2013. This topic is included among the issues before the Illinois Commerce Commission in Docket 12-0544, in which the Agency is seeking approval of its 2013 Procurement Plan. The Agency's FY 2013 Annual Report will discuss the outcome of this issue, which is highly dependent on updated utility load forecasts expected in March 2013.

Appendix

Illinois Power Agency

Fiscal Year 2012Financial Statement and Notes

State of Illinois
Illinois Power Agency

Statement of Net Assets

June 30, 2012 (Expressed in Thousands)

		Governmental Activities
ASSETS		
Cash equity in State Treasury	$	40,476
Securities lending collateral equity of State Treasurer		1,944
Other receivables, net		4,330
Due from other State funds		3,353
Total assets		50,103
LIABILITIES		
Accounts payable and accrued liabilities		1,176
Obligations under securities lending of State Treasurer		1,944
Long term obligations:		
Due within one year		-
Due subsequent to one year		6
Total liabilities		3,126
NET ASSETS		
Restricted net assets		39,818
Unrestricted net assets		7,159
Total net assets	$	46,977

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois

Illinois Power Agency

Statement of Activities

For the Year Ended June 30, 2012 (Expressed in Thousands)

		Program Revenues	Net (Expenses) Revenues and Changes in Net Assets
Functions/Programs	**Expenses**	**Charges for Services**	**Governmental Activities**
Governmental activities			
Employment and economic development	$ 1,781	$ 1,637	$ (144)
Total governmental activities	1,781	1,637	(144)
General revenues			
Interest and investment income			102
Other revenue			2,169
Total general revenues and transfers			2,271
Change in net assets			2,127
Net assets, July 1, 2011			44,850
Net assets, June 30, 2012			$ 46,977

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency

Balance Sheet - Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
ASSETS		
Cash equity in State Treasury	$ 40,476	$ 40,476
Securities lending collateral equity of State Treasurer	1,944	1,944
Other receivables, net	4,330	4,330
Due from other State funds	3,353	3,353
Total assets	$ 50,103	$ 50,103
LIABILITIES		
Accounts payable and accrued liabilities	$ 1,176	$ 1,176
Unavailable revenue	1,760	1,760
Obligations under securities lending of State Treasurer	1,944	1,944
Total liabilities	4,880	4,880
FUND BALANCES		
Restricted		
Employment and economic development	38,419	38,419
Committed		
Employment and economic development	6,804	6,804
Total fund balances	45,223	45,223
Total liabilities and fund balances	$ 50,103	$ 50,103

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2012
(Expressed in Thousands)

Total fund balances-governmental funds	$	45,223
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		1,760
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences		(6)
Net assets of governmental activities	$	46,977

The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2012 (Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
REVENUES		
Licenses and fees	$ 1,773	$ 1,773
Interest and other investment income	102	102
Other revenues	5,739	5,739
Total revenues	7,614	7,614
EXPENDITURES		
Employment and economic development	1,777	1,777
Total expenditures	1,777	1,777
Excess (deficiency) of revenues over (under) expenditures	5,837	5,837
Net change in fund balances	5,837	5,837
Fund balances, July 1, 2011	39,386	39,386
FUND BALANCES, JUNE 30, 2012	$ 45,223	$ 45,223

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2012
(Expressed in Thousands)

Net change in fund balances	$	5,837
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase (decrease) in unavailable revenue over the prior year.		(3,706)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.		
Increase in compensated absence		(4)
Change in net assets of governmental activities	$	2,127

The accompanying notes to financial statements are an integral part of this statement.

(1) Organization

The Illinois Power Agency (the Agency) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Agency operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Agency. The Agency is an independent agency subject to the oversight of the Executive Ethics Commission and its activities are subject to the authority of certain departments of the executive and legislative branches of government (such as the Agency of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Agency, created in 2008 pursuant to Public Act 095-0481, is dedicated to capturing the benefits of competitive energy markets and facilitating the development of alternative energy technologies for the benefit of Illinois consumers. The Agency meets these objectives by planning and managing competitive procurements and participating in the development of new power generation assets and approaches in Illinois.

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(2) Summary of Significant Accounting Policies - Continued

(b) Basis of Presentation

The financial statements of the State of Illinois, Illinois Power Agency, are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major governmental fund of the State of Illinois and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Government-wide Statements*.** The government-wide Statement of Net Assets and Statement of Activities report the overall financial activity of the Agency, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Agency. These statements distinguish between the *governmental* and *business-type* activities of the Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Assets presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The Statement of Activities presents a comparison between direct expenses and program revenues for the general government function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

***Fund Financial Statements*.** The fund financial statements provide information about the Agency's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation - Continued

The Agency administers the following fund type:

Governmental Fund Type:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, excise taxes, wealth taxes, grants, entitlements, and donations. On an accrual basis, revenues are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of formal debt issues and acquisitions under capital leases and installment purchases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(2) Summary of Significant Accounting Policies – Continued

(d) Eliminations

Eliminations are made in the government-wide Statement of Net Assets to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund receivables and payables are eliminated in the government-wide Statement of Net Assets. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds are included in the government-wide Statement of Net Assets as receivable from and payable to external parties, rather than as internal balances. No such eliminations were necessary for the fiscal year ended June 30, 2012.

(e) Cash and Cash Equivalents

Cash equivalents are defined at short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, and money market accounts for locally held funds.

(f) Interfund Transactions

The following types of interfund transactions between the Agency's funds and funds of other State agencies may occur:

Interfund Loans – amounts provided with a requirement for repayment, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet or the government-wide and proprietary fund statements of net assets.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. The Agency did not enter into this type of transaction during fiscal year 2012.

Transfers—flows of assets (such as cash or goods) between funds without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. The Agency did not enter into this type of transaction during fiscal year 2012.

(2) Summary of Significant Accounting Policies – Continued

(g) Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for Agency employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(h) Fund Balances

The difference between fund assets and liabilities is "Fund Balance" on governmental fund financial statements. In the fund financial statements, governmental funds report fund balances as a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. This hierarchy is made up of resources which are non-spendable, restricted, or unrestricted (committed, assigned and unassigned).

Non-spendable fund balance represents resources which relate to inventory or long-term receivables not expected to be converted to cash in the near term. There were no non-spendable fund balances as of June 30, 2012.

Restricted fund balance represents resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The following funds had restricted fund balances as of June 30, 2012: Illinois Power Agency Trust (424) and Illinois Power Agency Renewable Energy Resources (836).

Committed fund balance represents resources that are constrained on use for a specific purpose imposed generally by the Governor and the State legislature, the highest levels of decision-making authority, through enabling legislation. This constraint can only be removed or changed by the same action by which it was established. The action to constrain funds should occur prior to the end of the fiscal year. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2012.

(2) Summary of Significant Accounting Policies – Continued

(h) Fund Balances - Continued

Assigned fund balance represents resources that are intended for a specific purpose consisting of amounts where the intended use is established by the Governor and State legislature designated for that purpose. The intended use is established by an official designated for that purpose. The Director of the Agency has been designated for this purpose. In all governmental funds, other than the General Fund, residual amounts are classified as assigned. There were no assigned fund balances as of June 30, 2012.

Unassigned fund balance represents resources that are available for any purpose. This classification is only reported in the General Fund, except in cases of negative fund balance reported in other governmental funds which are reported as unassigned. There were no unassigned fund balances as of June 30, 2012.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources which are committed are generally used before assigned resource, and assigned resources are generally used before unassigned resources.

(i) Net Assets

In the government-wide Statement of Net Assets, the difference between assets and liabilities is "Net Assets" and is displayed in two components as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted".

When both unrestricted and restricted net assets are available for use, the State uses restricted net assets first.

(j) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies – Continued

(k) New Accounting Pronouncements

Effective for the year ending June 30, 2012, the State adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. There was no impact on the Agency's financial statements as a result of adopting this statement.

(l) Future Adoption of GASB Statements

Effective for the year ending June 30, 2013, the State will adopt GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as though they are a part of the primary government using the blending method. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2013, the State will adopt GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Agency has not yet determined the impact this statement will have on financial reporting.

In addition, effective for the ending June 30, 2013 the State will adopt GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will provide financial reporting guidance for deferred outflows and inflows of resources and rename the residual measure from "Net Assets" to "Net Position". The Agency has not yet determined the impact this statement will have on financial reporting.

(3) Net Assets Restricted by Enabling Legislation

The government-wide Statement of Net Assets reports $39.818 million of restricted net assets, all of which is restricted by enabling legislation.

(4) Deposits

(a) Deposits

The State Treasurer is the custodian of the Agency's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer, including cash

(4) Deposits - Continued

(a) Deposits - Continued

on hand and cash in transit, totaled $40.476 million at June 30, 2012. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Detail on the nature of these deposits is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2012, Deutsche Bank Group lent U.S. Agency Securities, U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Agency Discount Notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. Securities on loan are reported at fair value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2012 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency was $1.944 million at June 30,

(4) Deposits - Continued

(b) Securities Lending Transactions - Continued

2012. Securities on loan are reported at fair value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

(5) Other Receivables

The balance of Other Receivables on the Statement of Net Assets includes amounts owed to the Agency for bidders fees, contract award fees, alternative compliance payments and reimbursements from vendors.

(6) Interfund Balances and Activity

Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due from other State funds.

Fund	Due from Other State Funds	Description/Purpose
Nonmajor governmental funds	$ 3,353	Due from other State funds pursuant to statutory interfund borrowing.
	$ 3,353	

(7) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2012 were as follows:

(7) Long-Term Obligations - Continued

Changes in Long-Term Obligations - Continued

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 2	$ 5	$ 1	$ 6	$ -
Total	$ 2	$ 5	$ 1	$ 6	$ -

(8) Pension Plan

Substantially all of the Agency's full-time employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Agency pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 34.19%.

(9) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare,

(9) Post-employment Benefits - Continued

and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

However, Public Act 97-0695, effective, July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Agency's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2012.

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue			
	Illinois Power Agency Trust 0424	**Illinois Power Agency Operations 0425**	**Illinois Power Agency Renewable Energy Resources 0836**	**Total**
ASSETS				
Cash equity in State Treasury	$ 24,863	$ 2,858	$ 12,755	$ 40,476
Securities lending collateral equity of State Treasurer	1,944	-	-	1,944
Other receivables, net	1	2,161	2,168	4,330
Due from other State funds	31	3,322	-	3,353
Total assets	$ 26,839	$ 8,341	$ 14,923	$ 50,103
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 1,176	$ -	$ 1,176
Unavailable revenue	-	361	1,399	1,760
Obligations under securities lending of State Treasurer	1,944	-	-	1,944
Total liabilities	1,944	1,537	1,399	4,880
FUND BALANCES				
Restricted				
Employment and economic development	24,895	-	13,524	38,419
Committed				
Employment and economic development	-	6,804	-	6,804
Total fund balances	24,895	6,804	13,524	45,223
Total liabilities and fund balances	$ 26,839	$ 8,341	$ 14,923	$ 50,103

State of Illinois

Illinois Power Agency

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds

For the Year Ended June 30, 2012 (Expressed in Thousands)

	Special Revenue			
	Illinois Power Agency Trust 0424	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Total
REVENUES				
Licenses and fees	$ -	$ 1,773	$ -	$ 1,773
Interest and other investment income	102	-	-	102
Other revenues	-	-	5,739	5,739
Total revenues	102	1,773	5,739	7,614
EXPENDITURES				
Employment and economic development	46	1,731	-	1,777
Total expenditures	46	1,731	-	1,777
Excess (deficiency) of revenues over (under) expenditures	56	42	5,739	5,837
Net change in fund balances	56	42	5,739	5,837
Fund balances, July 1, 2011	24,839	6,762	7,785	39,386
FUND BALANCES, JUNE 30, 2012	$ 24,895	$ 6,804	$ 13,524	$ 45,223