FY 2013

ILLINOIS
POWER AGENCY

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Acting Director

Annual Report

Illinois Power Agency
Annual Report
FY 2013
(July 2012-June 2013)
Prepared in Accordance with 20 ILCS 3855/1-125

December 1, 2013

INTRODUCTION

The Illinois Power Agency ("IPA") was established 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. The Agency strives to employ best practices to meet the goals set out for it in those statutes. 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, the Illinois Power Agency is committed to:

- Ensuring that the process of power procurement is conducted in an ethical and transparent fashion, immune from improper influence; and
- Operating 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.

Fiscal Year 2013 contained several significant new chapters for the Agency:

- It was the first year in which the IPA did not conduct any procurement of energy or renewable energy resources for ComEd and Ameren (discussed in Section (2) below);
- Late in the fiscal year the Agency entered into contracts to buy Renewable Energy Credits ("RECs") from curtailed long-term contracts of ComEd. This marked the first time funds from the Renewable Energy Resources Fund were committed by the Agency (discussed in Section (11) below). The delivery of RECs will occur in Fiscal Year 2014;

- The IPA's 2013 Procurement Plan approved by the Illinois Commerce Commission ("ICC") included the first approval of a clean coal project; the clean coal retrofit project known as FutureGen; and

- That Plan also included the first approval of incremental energy efficiency projects pursuant to Section 16-111.5B of the Public Utilities Act. Those programs commenced in June, 2013.

The IPA welcomes your questions and hopes you will take advantage of the information offered herein and on the Agency's website: 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.

In Fiscal Year 2013 the IPA did not conduct any procurement of electricity for Ameren or ComEd. As a result there are no new contracts for electricity to describe in this Annual Report.

The IPA last conducted procurement events in May of 2012 for energy deliveries starting June of 2012. The Agency also conducted procurement events in February of 2012 for energy deliveries starting June of 2013 under what is known as the "rate stability purchases" mandated by Public Act 97-0616. For more information on these procurements, please consult the Agency's Fiscal Year 2012 Annual Report.

The 2013 Procurement Plan, which was approved by the Illinois Commerce Commission in Docket No. 12-0544, contained a hedging strategy of securing 75% of projected load under contract in the first delivery year (starting June 1, 2013), 50% for the following year (starting June 1, 2014), and 25% of the next year (starting June 1, 2015). The load forecasts provided by ComEd and Ameren—which the IPA uses to determine the purchase levels detailed in the Procurement Plan—indicated that due to customers leaving bundled service for the competitive retail market, those hedging levels were already met by existing contracts (and in fact exceeded in many months). This led the IPA to recommend, and the Illinois Commerce Commission to approve, no additional procurements in 2013. This is the first time this has occurred in the history of the IPA.

The rapid increase in retail competition, largely through municipal aggregation was the key contributing factor to this development. That increase in retail competition led to a decline in the load served by the utilities. This is an acceptable outcome for the IPA; the Agency's mission is to procure for default service consistent with the mandate of Section 1-20(a)(1) of the IPA Act,[2] rather than to maximize customers taking that default service. The amount of electricity under contract from previous procurements was sufficient (or in excess) to supply eligible retail customers and thus no additional procurement was required.

As contracts from the earlier procurements expire, the IPA expects that procurement of electricity will resume again in Fiscal Year 2014. The Procurement Plan for 2014 that is under consideration[3] by the ICC at the time of the release of this Annual Report recommends a procurement to take place in April of 2014 (and a supplemental procurement, if necessary, in September, 2014).

[2] See 20 ILCS 3855/1-20(a)(1) (list of IPA duties).
[3] See ICC Docket No. 13-0546.

(2)

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

In FY13 the IPA did not purchase any additional renewable resources for ComEd or Ameren. FY13 also represented the first year of delivery of renewable energy resources from the 2010 Long-Term Power Purchase Agreements ("LTPPAs") authorized by the Illinois Commerce Commission in Docket No. 09-0373.[4] FY13 thus represents the first year in which the rate impact of those purchases can be calculated. The following chart summarizes the quantity, price and rate impact of the renewable energy credits ("RECs," each of which represents one megawatt hour of renewable generation) from the delivery year June 2012 through May 2013. The short-term purchases were required as part of Public Act 97-0616.[5]

	Quantity (RECs)	Price per Delivered REC ($/REC)	Rate Impact[6]
Ameren	1,087,259	5.93	0.58%
Long-Term Purchases	*563,883*	*10.36*	*0.53%*
Short-Term Purchases	*523,376*	*1.15*	*0.05%*
ComEd	2,540,817	8.39	0.80%
Long-Term Purchases	*1,205,144*	*16.71*	*0.76%*
Short-Term Purchases	*1,335,673*	*0.88*	*0.04%*

While not part of the electricity procurement plans for the electric utilities; in Fiscal Year 2013 the IPA for the first time entered into contracts to use funds collected from Alternative Retail Electric Suppliers and deposited into the Renewable Energy Resources Fund.[7] These contracts were to purchase the Renewable Energy Credits associated with ComEd's curtailed long-term contracts that were not otherwise purchased by ComEd using the hourly ACP payments. (See Section (11) below for further discussion of this issue.)

These contracts are for the delivery year June 1, 2013 through May 31, 2014, and are for up to 121,640 RECs with a total value of $2.24 million, which corresponds to the number of RECs curtailed from the LTPPAs and the price of those RECs pursuant to the LTPPAs. There is no direct rate impact of these contracts because they utilize funds already collected from customers of Alternative Retail Electric Suppliers as part of those suppliers' compliance with the

[4] The long-term contracts were for both RECs and settled energy. In this section only the price and impact of the RECs is reported; for further information on the total impact of the contracts including energy, see Section (11).
[5] See 220 ILCS 5/16-111.5(k-5).
[6] Rate impact calculated against a retail rate of 10.26 cents/kWh for Ameren and 12.11 cents/kWh for ComEd. The retail rate is an "all-in" price that includes energy, distribution, customer charges, taxes, etc.
[7] See 20 ILCS 3855/1-56 (describing Renewable Energy Resources Fund).

Renewable Portfolio Standard. As of the time of this report, the Agency has not yet received any RECs from the suppliers or made any payments pursuant to the contracts.

The suppliers under contract are:

Blackstone Wind Farm, LLC. McLean, Illinois
FPL Energy Illinois, LLC. DeKalb, Illinois
Grand Ridge Energy IV, LLC. LaSalle, Illinois
Invenergy Illinois Solar, LLC. LaSalle, Illinois
Meadow Lake Wind Farm, LLC. White, Indiana
Meadow Lake Wind Farm II, LLC. White, Indiana
Shady Oaks Wind Farm, LLC. Lee, Illinois

The Fiscal Year 2014 Annual Report of the Illinois Power Agency will provide additional information about the balance of these contracts and the additional purchase of curtailed RECs by ComEd using Alternative Compliance Payments made by customers taking hourly energy pricing service.

For additional discussion of the rate impact of previous renewable energy purchases please consult the *2013 Annual Report: The Costs and Benefits of Renewable Resource Procurement in IllinoisUnder the Illinois Power Agency and Illinois Public Utilities Acts* available on the IPA's website. The 2014 edition this report will be available April 1, 2014.

(3)

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

The IPA did not purchase any energy efficiency or demand response measures for ComEd or Ameren in FY13. However, the 2013 Procurement Plan was the first plan to include incremental energy efficiency programs pursuant to Section 16-111.5B of the Public Utilities Act. Those programs began operation in June of 2013, the last month of this fiscal year. The programs do not have minimum energy savings to be procured; rather they are generally on a pay for performance basis with a target savings goal and maximum budget. The FY14 Annual Report will provide information on the actual quantity, price and rate impact of the first year of the Section 16-111.5B incremental energy efficiency programs.

(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 the Agency is authorized to create a Resource Development Bureau. The IPA had no Agency facilities during FY13, 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.*

[8] 20 ILCS 385/1-5.

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 systems, governmental aggregators, or rural electric cooperatives in Illinois. The electricity shall be supplied at cost. 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, the pool of potential buyers 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, and the apparent absence of need among the potential buyers, the financial feasibility of the investment is called into question.

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.

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.

This means that the Agency may not serve eligible retail load in Illinois with any facilities it develops, which serves as a protection of both customers and the market. However, as a consequence, the IPA has determined there is not sufficient demand at this time to develop a new facility.

(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.

The only long-term contracts for renewable resources that have been procured by the IPA were those entered into in December 2010 through a 20-year bundled REC and energy procurement. Most, if not all, of the winning bidders were projects that required build out, thus deliveries under these long-term contracts did not begin until June 1, 2012, which was the last month of FY12. Therefore FY13 is the first year in which these contracts had any rate impact.

The original contracts called for 600,000 RECs for Ameren and 1,261,725 for ComEd, in addition to the associated energy. The contracts require delivery within each annual June-May contract year, except that up to 10% of the annual contract quantity from each supplier may be carried over or carried back between consecutive contract years. Ameren reported that suppliers delivered 86,100 replacement RECs at no cost to Ameren to make up for shortfalls in the RECs and energy from the contracts. ComEd reported 56,465 replacement RECs supplied at no cost. The replacement RECs do not have associated energy deliveries. Deliveries were slightly below the contracted amount for several reasons including minor delays related to the start-up of new projects, and system-ordered curtailments of generation required to maintain grid reliability.

Section (2) reported the quantity, price and rate impact associated with the RECs from these contracts. In this Section the impact of the energy portion of these procurements is also reported. (as noted in Section (2), there is no energy component of the short-term REC purchases). The price reported is an imputed price that calculates the cost of the RECs as well as the net cost of the associated energy. The settlement of the associated delivered energy nets out the difference between the actual wholesale market prices of energy and a forward energy price developed as part of the 2010 procurement process. During the reporting period wholesale prices were lower than the forward energy price so there is a net cost of this energy.

	Ameren	ComEd
RECs	563,883	1,205,144
Cost of RECs	$5,843,242	$20,141,928
REC Price ($/REC)	$10.36	$ 16.71
REC Rate Impact	0.53%	0.76%
Delivered Energy (MWh)	477,783	1,148,679
Incremental Cost of Delivered Energy Relative to Market	$4,184,460	$8,741,638
Incremental Unit Cost of Delivered Energy ($/MWh)	$8.76	$ 7.61
Incremental Energy Cost Rate Impact	0.37%	0.33%
Total Cost of Delivered Long-Term Renewables (RECs + Incremental Cost of Delivered Energy)	$10,027,702	$28,883,566
Total Rate Impact of Long-Term Renewables	0.90%	1.09%

The long-term contracts contain a provision that allows for curtailment of deliveries if the utility's renewable resources budget is exceeded for the planning year. The calculation of the renewable resources budget uses only the cost of RECs.

The rate impact cap is designed 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. For Ameren that cap is 0.18054 cents/kilowatt hour, and for ComEd, 0.18917 cents/kilowatt hour.

Starting in June, 2013, due to the loss of eligible retail customer load, ComEd's renewable resources budget exceeded the cap described above and the curtailment provision contained in the long-term renewable energy resources contract was invoked. This provision will reduce deliveries in the June, 2013 through May, 2014 delivery year by 18.6%. Pursuant to the ICC Order in Docket No. 12-0544, ComEd will use funds already collected from customers on hourly energy pricing to purchase some of the Renewable Energy Credits from those curtailed deliveries. Funds available are approximately $1.8 million. There is no rate impact on customers taking hourly energy pricing because these funds were already collected, and future collection is driven by the calculation of the Alternative Compliance Rate that is also used to assess RPS compliance obligations on Alternative Retail Electric Suppliers, rather than the specific purchases. In a year where the budget is exceeded (and thus a curtailment takes place), the IPA has not recommended additional renewable energy purchases in its Procurement Plan, because such a procurement would likely further exacerbate the curtailment.

As discussed in Section (2), the IPA has entered into contracts with seven of the suppliers who had contracts curtailed to purchase the associated RECs.

The Fiscal Year 2014 Annual Report will provide more details about the actual deliveries from the long-term contracts and the purchase of curtailed RECs.

The Agency notes that for the next energy delivery year starting in June 2014 both Ameren and ComEd expect to curtail their long-term contracts, although the final determination will likely not occur until March, 2014. This will lead to the process started this year of purchasing curtailed RECs (but not energy) using both the hourly ACP funds held by the utilities and the RERF funds held by the IPA to apply to both utilities.

Appendix

Illinois Power Agency

Fiscal Year 2013

Financial Statement and Notes

State of Illinois

Illinois Power Agency

Statement of Net Position

June 30, 2013 (Expressed in Thousands)

		Governmental Activities
ASSETS		
Cash equity in State Treasury	$	21,332
Investments		28,243
Other receivables, net		39,095
Total assets		88,670
LIABILITIES		
Accounts payable and accrued liabilities		244
Long term obligations:		
Due subsequent to one year		11
Total liabilities		255
NET POSITION		
Nonspendable net position - endowments and similar funds		27,415
Restricted net position		52,824
Unrestricted net position		8,176
Total net position	$	88,415

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

Balance Sheet - Governmental Funds

June 30, 2013 (Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
ASSETS		
Cash equity in State Treasury	$ 21,332	$ 21,332
Investments	28,243	28,243
Other receivables, net	39,095	39,095
Due to other agency funds	828	828
Total assets	$ 89,498	$ 89,498
LIABILITIES		
Accounts payable and accrued liabilities	$ 244	$ 244
Due from other agency funds	828	828
Unavailable revenue	39,095	39,095
Total liabilities	40,167	40,167
FUND BALANCES		
Nonspendable - endowments and similar funds	27,415	27,415
Restricted		
Employment and economic development	14,814	14,814
Committed		
Employment and economic development	7,102	7,102
Total fund balances	49,331	49,331
Total liabilities and fund balances	$ 89,498	$ 89,498

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 Position
June 30, 2013
(Expressed in Thousands)

Total fund balances-governmental funds	$	49,331
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		39,095
Some liabilities reported in the Statement of Net Position 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		(11)
Net position of governmental activities	$	88,415

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, 2013 (Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
REVENUES		
Licenses and fees	$ 989	$ 989
Interest and other investment income	3,343	3,343
Other revenues	1,387	1,387
Total revenues	5,719	5,719
EXPENDITURES		
Employment and economic development	1,098	1,098
Total expenditures	1,098	1,098
Excess (deficiency) of revenues over (under) expenditures	4,621	4,621
Other sources and uses of financial resources		
Transfers in	828	828
Transfers out	(828)	(828)
Total other sources and uses of financial resources	-	-
Net change in fund balances	4,621	4,621
Fund balances, July 1, 2012	44,710	44,710
FUND BALANCES, JUNE 30, 2013	$ 49,331	$ 49,331

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, 2013
(Expressed in Thousands)

Net change in fund balances	$	4,621
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.		36,865
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		(5)
Change in net position of governmental activities	$	41,481

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, 2013 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental activities			
Employment and economic development	$ 1,103	$ 1,243	$ 140
Total governmental activities	1,103	1,243	140
General revenues			
Interest and investment income			3,343
Other revenue			37,998
Total general revenues			41,341
Change in net position			41,481
Net position, July 1, 2012			46,934
Net position, June 30, 2013			$ 88,415

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 and the possibility that the component unit will provide a financial benefit to or impose a financial burden 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, 2013, 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 Position 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. The financial activities of the Agency consist only of governmental activities, which are primarily supported by investment income, contract compliance, and procurement activity fees.

The Statement of Net Position presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net position. 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 employment and economic development 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, including all taxes, are presented as general revenues.

Fund Financial Statements**.** The fund financial statements provide information about the Agency's funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental 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.

Illinois Power Agency Operations Fund – **425** Created as a special fund in the State Treasury. Fund shall be administered by the Agency for Agency operations as specified in the Illinois Power Agency Act.

Illinois Power Agency Facilities Fund – 426 Created as a special fund in the State Treasury. Fund shall be administered by the Agency for costs incurred in connection with the development and construction of a power facility by the Agency as well as costs incurred in connection with the operation and maintenance of an Agency facility. There was no activity in this fund during fiscal year 2013.

Illinois Power Agency Debt Service Fund – 427 Created as a special fund in the State Treasury. Fund shall be administered by the Agency for retirement of revenue bonds issued for any Agency facility. There was no activity in this fund during fiscal year 2013.

Illinois Power Agency Renewable Energy Fund – 836 Created as a special fund in the State Treasury. Fund shall be administered by the Agency for procurement of renewable energy resources. This fund was created in fiscal year 2010.

Permanent Trust - These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

Illinois Power Agency Trust Fund – 424 Created as a special fund in the State Treasury. Fund may accept, receive, and administer any grants, loans or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the Fund.

(2) Summary of Significant Accounting Policies – Continued

(b Basis of Presentation - Continued

Illinois Power Agency Investment Fund – 1408 Created as a locally held fund. Fund may accept, receive, and administer any grants, loans or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the Fund. In addition, the General Assembly may appropriate up to 90% of the annual investment income to the Illinois Power Agency Operations Fund. Any investment income not appropriated shall not be considered income, but shall be added to the principal of the Fund. This fund has been collapsed into the Illinois Power Agency Trust Fund for financial reporting purposes.

(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.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting - Continued

During the fiscal year, the Agency adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB Statement No. 62 is to incorporate certain accounting and financial reporting guidance into GASB's authoritative literature. The guidance included the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

(d) Eliminations

Eliminations are made in the government-wide Statement of Net Position 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 Position. 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 Position as receivable from and payable to external parties, rather than as internal balances. During FY13, the Agency did not have receivables from or payables to fiduciary funds.

(e) Cash Equity in State Treasury

Cash equity in the State Treasury included deposits held in the State Treasury. It also includes cash received and deposited in the Agency's clearing account and in process of transfer to the State Treasurer.

(f) Investments

Investments are reported at fair value. The Illinois State Board of Investments holds investments for the Illinois Power Agency Trust Fund per statutory authorization, 30 ILCS 105/6z-75.

(g) 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.

(2) Summary of Significant Accounting Policies – Continued

(g) Interfund Transactions - Continued

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 2013.

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.

(h) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position 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.

(2) Summary of Significant Accounting Policies – Continued

(i) Fund Balances

In the fund financial statements, governmental funds report fund balances in the following categories:

– This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. The Illinois Power Agency Trust Fund (424) had nonspendable fund balance as of June 30, 2013.

***Restricted* –** This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. The Illinois Power Agency Renewable Energy Resources Fund (836) had restricted fund balance as of June 30, 2013.

***Committed* –** This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Agency removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Agency's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts", to commit their fund balances. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2013.

***Assigned* –** This consists of net amounts that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly. There were no assigned fund balances as of June 30, 2013.

***Unassigned* –** This consists of residual fund balance (deficit) that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds. There were no unassigned fund balances as of June 30, 2013.

(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) Future Adoption of GASB Statements

Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 66, *"Technical Correction – 2012" – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.
Effective for the year ending June 30, 2014, the Agency will adopt GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of Statement No. 25*, which is to improve financial reporting by state and local governmental pension plans. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27*, which is to improve financial reporting by state and local governmental pensions. The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which is to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:

- Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;
- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and

(2) Summary of Significant Accounting Policies – Continued

(k) Future Adoption of GASB Statements - Continued

- Reporting the disposal of government operations that have been transferred or sold.

The Agency has not yet determined the impact on the Agency's financial statements as a result of adopting this statement.

(3) Net Position Restricted by Enabling Legislation

The government-wide Statement of Net Position reports $80.239 million of restricted net position, all of which is restricted by enabling legislation.

(4) Deposits and Investments

(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 on hand and cash in transit, totaled $21.332 million at June 30, 2013. 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) Investments

The Illinois State Board of Investments holds investments for the Illinois Power Agency Investment Fund per statutory authorization, 30 ILCS 105/6z-75. These investments were transferred from the State Treasurer during FY13. At June 30, 2013, total investments were $28.243 million.

(5) Other Receivables

The balance of Other Receivables on the Statement of Net Position includes amounts owed to the Agency for 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, 2013 represent amounts due from other agency funds.

Fund	Due from Other Agency Funds	Description/Purpose
Nonmajor governmental	$ 828	Due from other agency funds for interest transfers
Total	$ 828	

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to other agency funds.

Fund	Due to Other Agency Funds	Description/Purpose
Nonmajor governmental	$ 828	Due to other agency funds for interest transfers
Total	$ 828	

(7) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated Absences	$ 11	$ -	$ -	$ 11	$ -
Total	$ 11	$ -	$ -	$ 11	$ -

(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 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. 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 2013, the employer contribution rate was 37.987%.

(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 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, 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. These costs will be assessed beginning July 1, 2013.

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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

(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 for self-insurance, unemployment insurance and workers' compensation 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, 2013

(11) Commitments and Contingencies

(a) Operating Leases

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $7 thousand for the year ended June 30, 2013.

(b) Renewable Energy Credits

During fiscal year 2013, the Agency entered into contracts with seven energy companies, committing to the purchase of Long-Term Renewable Energy Credits (REC) if the energy companies chose to exercise their rights to sell the credits to the Agency by July 10, 2014. Two energy companies have indicated their intent to exercise their rights to sell credits totaling $97 thousand as of June 30, 2013; therefore, the $97 thousand is included in Accounts Payable in the Statement of Net Position. As of June 30, 2013, outstanding commitments totaled $2.143 million.

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2013 (Expressed in Thousands)

	Special Revenue		Permanent Trust	
	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Illinois Power Agency Trust 0424	Total
ASSETS				
Cash equity in State Treasury	$ 6,421	$ 14,911	$ -	$ 21,332
Investments	-	-	28,243	28,243
Other receivables, net	1,085	38,010	-	39,095
Due from other agency funds	828	-	-	828
Total assets	$ 8,334	$ 52,921	$ 28,243	$ 89,498
LIABILITIES				
Accounts payable and accrued liabilities	$ 147	$ 97	$ -	$ 244
Due to other agency funds	-	-	828	828
Unavailable revenue	1,085	38,010	-	39,095
Total liabilities	1,232	38,107	828	40,167
FUND BALANCES				
Nonspendable - endowments and similar funds	-	-	27,415	27,415
Restricted				
Employment and economic development	-	14,814	-	14,814
Committed				
Employment and economic development	7,102	-	-	7,102
Total fund balances	7,102	14,814	27,415	49,331
Total liabilities and fund balances	$ 8,334	$ 52,921	$ 28,243	$ 89,498

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

For the Year Ended June 30, 2013 (Expressed in Thousands)

	Special Revenue		Permanent Trust		
	Illinois Power Agency Operations 0425	Illinois Power Agency Renewable Energy Resources 0836	Illinois Power Agency Trust 0424	Elimination	Total
REVENUES					
Licenses and fees	$ 989	$ -	$ -	$ -	$ 989
Interest and other investment income	-	-	3,343	-	3,343
Other revenues	-	1,387	-	-	1,387
Total revenues	989	1,387	3,343	-	5,719
EXPENDITURES					
Employment and economic development	1,006	97	(5)	-	1,098
Total expenditures	1,006	97	(5)	-	1,098
Excess (deficiency) of revenues over (under) expenditures	(17)	1,290	3,348	-	4,621
Other sources and uses of financial resources					
Transfers in	828	-	-	-	828
Transfers out	-	-	(828)	-	(828)
Total other sources and uses of financial resources	828	-	(828)	-	-
Net change in fund balances	811	1,290	2,520	-	4,621
Fund balances, July 1, 2012	6,291	13,524	24,895	-	44,710
FUND BALANCES, JUNE 30, 2013	$ 7,102	$ 14,814	$ 27,415	$ -	$ 49,331