FY 2014

ILLINOIS
POWER AGENCY

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Annual Report

Illinois Power Agency
Annual Report
FY 2014
(July 2013-June 2014)
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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 Illinois 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 Illinois 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 2014 contained several significant milestones for the Agency:

- The Agency conducted an electricity procurement event in April 2014 for Ameren Illinois and ComEd after the one year break in procurement during calendar year 2013. (Section 1)
- Late in Fiscal Year 2013 the Agency entered into contracts to buy Renewable Energy Credits ("RECs") from curtailed long-term contracts of ComEd. Deliveries under those contracts took place during Fiscal Year 2014 and marked the first time funds from the Renewable Energy Resources Fund were spent by the Agency to purchase renewable energy resources. (Section 2)

- The energy efficiency programs included in the IPA's 2013 Procurement Plan pursuant to Section 16-111.5B of the IPA Act started operation in June 2013. (Section 3) The IPA also included additional energy efficiency programs in its 2014 Procurement Plan that was developed during Fiscal Year 2014. Those programs started in June, 2014 (and run through May, 2015).
- In May, 2014 the General Assembly passed HB 2427 which was signed by Governor Quinn (as Public Act 98-0672) with an effective date of the June 30, 2014. This legislation will allow the Agency to commit up to $30 million of the Renewable Energy Resources Fund towards the purchase of renewable energy credits from photovoltaic resources. The development of a supplemental Plan for this purpose will take place during Fiscal Year 2015.

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.

The IPA's 2014 Procurement Plan, approved by the Illinois Commerce Commission in Docket No. 13-0546, contained a hedging strategy of securing 100%[2] of projected load under contract in the first delivery year (starting June 1, 2014), 50% for the following year (starting June 1, 2015), and 25% of the next year (starting June 1, 2016). The load forecasts provided by ComEd and Ameren Illinois—which the IPA uses to determine the purchase levels detailed in the Procurement Plan—indicated that unlike the 2013 Procurement Plan where due to customers leaving bundled service for the competitive retail market and the previous hedging levels were already met by existing contracts (and in fact exceeded in many months), for 2014 there was a supply gap to be filled and procurements were necessary to be undertaken by the IPA.

Over the previous few years, there had been a rapid increase in retail competition, largely through municipal aggregation, and this was a key contributing factor to the lack of need of procurement in 2013. In contrast, the combination of previous procured contracts expiring and the leveling off (and even some reversal) of customer switching has now led to the need for electricity procurement in 2014. The IPA proposed several refinements to its previous procurement strategy including decreasing the size of the energy blocks procured from 50 megawatts ("MW") to 25 MW and also splitting the procurement for the first delivery year into two events, the first in April 2014 to bring the hedging level to the 106% target for the June through October time period and to 75% for the balance of the year; and a second procurement in September, 2014 to bring the remainder of the first delivery year to 100%. This change allowed the Agency to better manage uncertainties in the load forecast related to customer switching rates. The Agency also conducted a competitive solicitation for a Procurement Administrator as required by Section 1-75 of the IPA Act and consolidated from having one Procurement Administrator for each utility to having a single Procurement Administrator. This change lowers the cost of running procurement events by reducing duplicative work and harnessing economies of scale.

The following tables report on the quantity, price and term for contracts procured during the April, 2014 procurement event.[3] The specific months and quantities procured reflect the March, 2014 load forecasts supplied by Ameren Illinois and ComEd. Months and products not procured

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[2] 106% for June, 2014 through October, 2014.

[3] Under Section 16-111.5(h) of the Public Utilities Act, "the names of the successful bidders and the load weighted average of the winning bid prices for each contract type and for each contract term shall be made available to the public." This information is included in the tables that follow. However, as the IPA "shall maintain the confidentiality of all other supplier and bidding information," individual supplier contract quantities, prices, and terms may not be disclosed and have not been included in this report or in prior annual reports.

were due to existing contracts meeting the projected load and the IPA's hedging level for that month and product.

Ameren Illinois Procurement Event

Winning Suppliers.
BP Energy Company
Exelon Generation Company, LLC
Macquarie Energy LLC
NextEra Energy Power Marketing, LLC
Union Electric Company d/b/a Ameren Missouri

Average Prices ($/MWh) and MWs of Products and Combinations.

	On-Peak		Off-Peak	
Month(s)	Average Price	Quantity	Average Price	Quantity
June 2014	45.00	200	Not Procured	Not Procured
July 2014	56.88	75	32.84	50
August 2014	50.83	50	-	-
July and August 2014	54.26	225	29.76	100
September 2014	Not Procured	Not Procured	Not Procured	Not Procured
October 2014	Not Procured	Not Procured	Not Procured	Not Procured
November 2014	Not Procured	Not Procured	Not Procured	Not Procured
December 2014	Not Procured	Not Procured	Not Procured	Not Procured
October, November and December 2014	Not Procured	Not Procured	Not Procured	Not Procured
January 2015	Not Procured	Not Procured	Not Procured	Not Procured
February 2015	Not Procured	Not Procured	Not Procured	Not Procured
January and February 2015	Not Procured	Not Procured	Not Procured	Not Procured
March 2015	Not Procured	Not Procured	Not Procured	Not Procured
April 2015	Not Procured	Not Procured	Not Procured	Not Procured
March and April 2015	Not Procured	Not Procured	Not Procured	Not Procured
May 2015	Not Procured	Not Procured	Not Procured	Not Procured
June 2014 to May 2015	Not Procured	Not Procured	Not Procured	Not Procured
June 2015	41.09	125	24.97	50
July 2015	54.28	150	27.78	25
August 2015	48.03	125	-	-
July and August 2015	51.84	50	27.66	100
September 2015	36.40	50	24.49	25
October 2015	Not Procured	Not Procured	Not Procured	Not Procured
November 2015	Not Procured	Not Procured	Not Procured	Not Procured
December 2015	39.22	75	26.29	50

	On-Peak		Off-Peak	
Month(s)	Average Price	Quantity	Average Price	Quantity
October, November and December 2015	Not Procured	Not Procured	Not Procured	Not Procured
January 2016	-	-	36.89	50
February 2016	-	-	35.89	25
January and February 2016	53.03	75	37.08	25
March 2016	Not Procured	Not Procured	Not Procured	Not Procured
April 2016	Not Procured	Not Procured	Not Procured	Not Procured
March and April 2016	Not Procured	Not Procured	Not Procured	Not Procured
May 2016	Not Procured	Not Procured	Not Procured	Not Procured
June 2015 to May 2016	Not Procured	Not Procured	Not Procured	Not Procured
June 2016	40.30	75	26.60	75
July 2016	54.71	125	29.52	75
August 2016	51.39	125	29.18	50
July and August 2016	-	-	29.08	50
September 2016	36.40	75	26.23	50
October 2016	-	-	27.98	25
November 2016	35.04	25	27.83	25
December 2016	38.05	50	27.94	75
October, November and December 2016	-	-	-	-
January 2017	-	-	-	-
February 2017	-	-	-	-
January and February 2017	54.28	50	37.10	75
March 2017	-	-	-	-
April 2017	-	-	-	-
March and April 2017	-	-	-	-
May 2017	37.81	25	27.59	25
June 2016 to May 2017	42.91	50	28.74	25

Average Prices of Contracts.

	On-Peak		On-Peak	
Month	Average Price	Quantity	Average Price	Quantity
June 2014	45.00	200	Not Procured	Not Procured
July 2014	54.91	300	30.78	150
August 2014	53.63	275	29.76	100
September 2014	Not Procured	Not Procured	Not Procured	Not Procured
October 2014	Not Procured	Not Procured	Not Procured	Not Procured
November 2014	Not Procured	Not Procured	Not Procured	Not Procured
December 2014	Not Procured	Not Procured	Not Procured	Not Procured
January 2015	Not Procured	Not Procured	Not Procured	Not Procured

	On-Peak		On-Peak	
Month	**Average Price**	**Quantity**	**Average Price**	**Quantity**
February 2015	Not Procured	Not Procured	Not Procured	Not Procured
March 2015	Not Procured	Not Procured	Not Procured	Not Procured
April 2015	Not Procured	Not Procured	Not Procured	Not Procured
May 2015	Not Procured	Not Procured	Not Procured	Not Procured
June 2015	41.09	125	24.97	50
July 2015	53.67	200	27.68	125
August 2015	49.12	175	27.66	100
September 2015	36.40	50	24.49	25
October 2015	Not Procured	Not Procured	Not Procured	Not Procured
November 2015	Not Procured	Not Procured	Not Procured	Not Procured
December 2015	39.22	75	26.29	50
January 2016	53.03	75	36.95	75
February 2016	53.03	75	36.49	50
March 2016	Not Procured	Not Procured	Not Procured	Not Procured
April 2016	Not Procured	Not Procured	Not Procured	Not Procured
May 2016	Not Procured	Not Procured	Not Procured	Not Procured
June 2016	41.34	125	27.13	100
July 2016	51.34	175	29.25	150
August 2016	48.97	175	29.05	125
September 2016	39.00	125	27.07	75
October 2016	42.91	50	28.36	50
November 2016	40.28	75	28.29	50
December 2016	40.48	100	28.14	100
January 2017	48.59	100	35.01	100
February 2017	48.59	100	35.01	100
March 2017	42.91	50	28.74	25
April 2017	42.91	50	28.74	25
May 2017	41.21	75	28.17	50

ComEd Procurement Event

Winning Suppliers.
BP Energy Company
Exelon Generation Company, LLC
Macquarie Energy LLC
Morgan Stanley Capital Group Inc.
NRG Power Marketing LLC
Shell Energy North America (US), L.P.

Average Prices ($/MWh) and MWs of Products and Combinations.

	On-Peak		Off-Peak	
Month(s)	Average Price	Quantity	Average Price	Quantity
June 2014	44.75	1225	26.58	950
July 2014	57.13	1275	28.96	1100
August 2014	51.88	1250	26.91	1050
July and August 2014	54.57	150	-	-
September 2014	39.84	1100	25.00	725
October 2014	36.28	425	25.00	225
November 2014	40.14	50	-	-
December 2014	44.28	150	26.16	175
October, November and December 2014	40.17	450	25.05	325
January 2015	56.13	550	36.81	75
February 2015	50.93	525	-	-
January and February 2015	53.60	50	35.50	425
March 2015	46.41	400	30.32	100
April 2015	37.08	275	-	-
March and April 2015	41.93	100	28.40	175
May 2015	37.58	375	24.94	225
June 2014 to May 2015	-	-	-	-
June 2015	39.45	325	24.30	125
July 2015	52.78	50	25.17	50
August 2015	-	-	-	-
July and August 2015	50.92	450	25.16	200
September 2015	35.63	225	22.54	50
October 2015	-	-	Not Procured	Not Procured
November 2015	-	-	Not Procured	Not Procured
December 2015	40.34	175	24.93	125
October, November and December 2015	35.70	100	Not Procured	Not Procured
January 2016	55.33	50	37.76	25
February 2016	-	-	-	-
January and February 2016	55.01	200	37.70	75
March 2016	42.00	125	Not Procured	Not Procured
April 2016	38.03	25	Not Procured	Not Procured
March and April 2016	-	-	Not Procured	Not Procured
May 2016	34.83	25	Not Procured	Not Procured
June 2015 to May 2016	-	-	Not Procured	Not Procured

Average Prices of Contracts.

	On-Peak		On-Peak	
Month	Average Price	Quantity	Average Price	Quantity
June 2014	44.75	1225	26.58	950
July 2014	56.86	1425	28.96	1100
August 2014	52.17	1400	26.91	1050
September 2014	39.84	1100	25.00	725
October 2014	38.28	875	25.03	550
November 2014	40.17	500	25.05	325
December 2014	41.20	600	25.44	500
January 2015	55.92	600	35.70	500
February 2015	51.16	575	35.50	425
March 2015	45.51	500	29.10	275
April 2015	38.37	375	28.40	175
May 2015	37.58	375	24.94	225
June 2015	39.45	325	24.30	125
July 2015	51.10	500	25.16	250
August 2015	50.92	450	25.16	200
September 2015	35.63	225	22.54	50
October 2015	35.70	100	Not Procured	Not Procured
November 2015	35.70	100	Not Procured	Not Procured
December 2015	38.65	275	24.93	125
January 2016	55.08	250	37.72	100
February 2016	55.01	200	37.70	75
March 2016	42.00	125	Not Procured	Not Procured
April 2016	38.03	25	Not Procured	Not Procured
May 2016	34.83	25	Not Procured	Not Procured

(2)

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

In FY14 the IPA did not purchase any additional renewable resources for ComEd or Ameren Illinois. FY14 also represented the second 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. FY14 thus represents the second 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 resources previously procured for the delivery year June 2013 through May 2014.[4] The short-term purchases were required as part of Public Act 97-0616.[5]

	Quantity (MWHs)	Price per MWH	Rate Impact[6]
Ameren	1,169,789	$9.25	1.91%
Long-Term Purchases	*633,769*	*$14.23*	*1.65%*
Short-Term Purchases	*536,020*	*$3.36*	*0.26%*
ComEd	2,480,615	$7.89	1.26%
Long-Term Purchases	*1,140,706*	*$15.66*	*1.15%*
Short-Term Purchases	*1,339,909*	*$1.28*	*0.11%*

While not part of the electricity procurement plans and events for the electric utilities, late in FY 2014 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.

These contracts were for the delivery year June 1, 2013 through May 31, 2014, and were 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 not otherwise purchased by ComEd using their hourly ACP funds) and the price of those RECs pursuant to the LTPPAs. There is no direct rate impact of

[4] The short-term purchases were for Renewable Energy Credits ("RECs") only. One MWH of renewable energy is represented by one REC. The long-term purchases were for both RECs and energy and this section reflects the net price of both components of the long-term purchases. For more information on the breakout of REC and net energy prices for the long-term purchases, see Section (11) below.

[5] See 220 ILCS 5/16-111.5(k-5).

[6] Rate impact calculated against a retail rate of 8.59 cents/kWh for Ameren Illinois and 10.71 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).

these contracts because they utilize funds already collected from customers of Alternative Retail Electric Suppliers as part of those suppliers' compliance with the Renewable Portfolio Standard.

The suppliers under contract were:

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

Four of the seven suppliers delivered RECs totaling 74,402 RECs with a total contract value of $1,719,142.20. This was the equivalent of $23.11/REC. While the contracts began in late FY13, all REC deliveries occurred during FY14.

ComEd also purchased 79,674 RECs from the same suppliers using hourly ACP funds as approved in ICC Docket No. 12-0544, with a total value of $1,647,596. The cost and quantity of those RECs is reflected in the cost and quantity of long-term purchases listed above.

For additional discussion of the rate impact of previous renewable energy purchases, please consult the *2014 Annual Report: The Costs and Benefits of Renewable Resource Procurement in Illinois Under the Illinois Power Agency and Illinois Public Utilities Acts* available on the IPA's website. The 2015 edition of this report will be available April 1, 2015.

(3)

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

The IPA did not directly purchase any energy efficiency or demand response measures for ComEd or Ameren Illinois in FY14. However, the 2014 Procurement Plan was the second plan to include incremental energy efficiency programs pursuant to Section 16-111.5B of the Public Utilities Act. These programs include both expansion of energy efficiency programs administered by the utilities under Section 8-103 of the Public Utilities Act as well as new programs responsive to Requests for Proposals ("RFP") administered by the utilities. Section 16-111.5B outlines a process by which utilities propose additional cost effective energy efficiency programs to be included in the IPA's procurement plan. The programs are selected for inclusion as part of the IPA's procurement plan which must then be approved by the Illinois Commerce Commission for implementation by the utilities—so while the IPA plays a role in reviewing the proposed programs for cost effectiveness and other criteria and determining which programs are included in its filed Plan, the IPA does not have final say over which programs are ultimately authorized and implemented. Similarly, the IPA is not responsible for the actual procurement or purchase of the measures or a party to any resulting energy efficiency or demand response contracts.

The Section 16-111.5B programs approved as part of the IPA's 2013 Procurement Plan began operation in June of 2013, the last month of FY13, and operated through May of 2014. Starting in June, 2014 the additional programs approved in the 2014 Plan commenced.

ComEd reported that the preliminary (and currently unevaluated) results of the Section 16-111.5B programs for the energy delivery year June 2013 – May 2014 were 123,448 MWH of savings at a total cost of $29,469,183. This exceeded the planned goals of 118,515 MWH. The cost per kWh of first year savings was $0.24/kWh which represents a rate impact of 1.89%.

Ameren Illinois does not separately track or allocate the impacts of the expansion under Section 16-111.5B of programs that had previously been approved pursuant to Section 8-103 energy efficiency plans. Ameren Illinois reported that preliminary (and currently unevaluated) results of all of its Section 8-103 and 16-111.5B programs for the period of June 2013 through May 2013 were 344,290 MWH of savings at a total cost of $60,552,582. The four programs solely attributable to Section 16-111.5B (and thus included in the IPA's Procurement Plan) were programs selected via Ameren Illinois' RFP and had an estimated 37,179 MWH of savings at a cost of $11,775,798. The four programs that were expanded from the Section 8-103 programs had an estimated total savings of 119,970 MWH (inclusive of both programs) at a cost of $13,367,549 (While actual MWH savings were not tracked independently, the original planning goals for these combined programs indicated that 27% of the savings would come from the expansion). The total rate impact of all Ameren Illinois energy efficiency programs for the June 2013 through May 2014 delivery year was 4.05%. Because the Section 8-103 programs are subject to a rate impact cap of 2.015%, it can be inferred that the rate impact of the Section 16-111.5B programs is at least 2.035%, but the IPA has not been able to fully verify that amount.

For both utilities, it should be noted that the rate impact is based upon the cost of the programs for the energy delivery year as a percent of total revenue. The rate impact and MWH hour savings do not include future savings from energy efficiency measures that have a lifespan of more than one year and thus the true cost per kWh for the measures will be significantly lower. To be approved, all programs must first pass a “Total Resource Cost Test” under which the net present value of the expected benefits must exceed the expected costs.

(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 FY14, 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.**

[8] 20 ILCS 3855/1-5(C) and (D).

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 2014 unaudited Financial Statements and Notes are contained in the attached Appendix. The Appendix also contains 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.

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.

The original contracts called for the annual delivery of 600,000 RECs for Ameren Illinois 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 Illinois reported that suppliers delivered 97,093 replacement RECs at no cost to Ameren Illinois to make up for shortfalls in the RECs and energy from the contracts. ComEd reported 70,260 replacement RECs supplied at no cost. The replacement RECs do not have associated energy deliveries. For the June 2013 through May 2014 delivery year ComEd's contracts were curtailed by 18.6% pursuant to the Illinois Commerce Commission Order in Docket 12-0544. This curtailment took place to prevent ComEd's annual renewable resource budget from exceeding the statutorily mandated rate cap of 2.015%.

Section (2) above reported the quantity, price and rate impact associated with the long-term purchases. In this Section, the impact of the energy portion of these procurements is separately reported (as noted in Section (2), there is no energy component of the short-term REC purchases). The total cost and rate impact reported 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. Note that due to differences in energy markets, the impact of the energy portion of the contracts was positive for Ameren Illinois and negative for ComEd.

	Ameren Illinois	ComEd
RECs	633,769	1,140,706
Cost of RECs	$7,105,373.46	$19,728,358
REC Price ($/REC)	$11.21	$17.29
REC Rate Impact	1.30%	1.27%
Delivered Energy (MWh)	536,676	1,070,446
Incremental Cost of Delivered Energy Relative to Market	$1,915,984.59	$(1,862,451)
Incremental Unit Cost of Delivered Energy ($/MWh)	$3.57	$(1.74)
Incremental Energy Cost Rate Impact	0.35%	(0.12%)
Total Cost of Delivered Long-Term Renewables (RECs + Incremental Cost of Delivered Energy)	$9,021,358	$17,865,907
Total Rate Impact of Long-Term Renewables	1.65%	1.15%

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

The Agency notes that for the energy delivery year that started in June 2014, ComEd again had to curtail long-term contracts, although only at the level of 6.8% compared to 18.6% in the previous year. Current forecasts for the energy delivery year that starts in June 2015 indicate that there will not be the need for any curtailment, but this could change if customer switching rates change significantly.

Appendix

Illinois Power Agency

Fiscal Year 2014

Unaudited Financial Statement and Notes

Summary of Funds on a Cash Basis

Unaudited

State of Illinois
Illinois Power Agency
Statement of Net Position
June 30, 2014
(Expressed in Thousands)

		Governmental Activities
Assets		
Cash equity in State Treasury	$	60,016
Investments		32,622
Securities lending collateral equity of State Treasurer		44
Other receivables, net		77,095
Total assets		169,777
Liabilities		
Accounts payable and accrued liabilities		1,924
Due to other State funds		3
Obligations under securities lending of State Treasurer		44
Long term obligations:		
Due subsequent to one year		9
Total liabilities		1,980
Net Position		
Restricted net position		
Nonexpendable		32,622
Expendable		128,455
Unrestricted net position		6,720
Total net position	$	167,797

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

Unaudited

State of Illinois
Illinois Power Agency
Statement of Activities
For the Year Ended June 30, 2014
(Expressed in Thousands)

		Program Revenues	Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Governmental Activities**
Governmental activities			
Employment and economic development	$ 2,823	$ 520	$ (2,303)
General government	179	-	(179)
Total governmental activities	3,002	520	(2,482)
General revenues			
Interest and investment income			5,034
Other revenue			76,881
Total general revenues			81,915
Change in net position			79,433
Net position, July 1, 2013			88,364
Net position, June 30, 2014			$ 167,797

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

Unaudited

State of Illinois
Illinois Power Agency
Balance Sheet - Governmental Funds
June 30, 2014
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Assets		
Cash equity in State Treasury	$ 60,016	$ 60,016
Investments	32,622	32,622
Securities lending collateral equity of State Treasurer	44	44
Other receivables, net	77,095	77,095
Due from other agency funds	1,593	1,593
Total assets	$ 171,370	$ 171,370
Liabilities		
Accounts payable and accrued liabilities	$ 1,924	$ 1,924
Due to other agency funds	1,593	1,593
Due to other State funds	3	3
Obligations under securities lending of State Treasurer	44	44
Total liabilities	3,564	3,564
Deferred Inflows of Resources (DIR)		
Unavailable revenue	7,271	7,271
Total DIR	7,271	7,271
Fund Balances		
Nonspendable - endowments and similar funds	32,622	32,622
Restricted		
Employment and economic development	121,233	121,233
Committed		
Employment and economic development	6,680	6,680
Total fund balances	160,535	160,535
Total liabilities, DIR, and fund balances	$ 171,370	$ 171,370

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

Unaudited

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2014
(Expressed in Thousands)

Total fund balances-governmental funds	$	160,535
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.		7,271
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		(9)
Net position of governmental activities	$	167,797

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

Unaudited

State of Illinois
Illinois Power Agency
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Revenues		
Licenses and fees	$ 1,556	$ 1,556
Interest and other investment income	5,034	5,034
Other revenues	77,044	77,044
Total revenues	83,634	83,634
Expenditures		
Employment and economic development	2,825	2,825
General government	179	179
Total expenditures	3,004	3,004
Excess (deficiency) of revenues over (under) expenditures	80,630	80,630
Other sources (uses) of financial resources		
Transfers in	915	915
Transfers out	(915)	(915)
Net other sources (uses) of financial resources	-	-
Net change in fund balances	80,630	80,630
Fund balances, July 1, 2013	79,905	79,905
Fund Balances, June 30, 2014	$ 160,535	$ 160,535

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

Unaudited

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, 2014
(Expressed in Thousands)

Net change in fund balances	$	80,630
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.		(1,199)
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.		
Decrease in compensated absence		2
Change in net position of governmental activities	$	79,433

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

Unaudited

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to the Financial Statements

June 30, 2014

(1) Organization

The Illinois Power Agency (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 Illinois 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 Department 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, 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, or accessing its website at www.ioc.state.il.us.

Unaudited

(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 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, 2014, 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 interest and 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 charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes and other revenues consisting of Alternative Compliance Payments, 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.

The Agency does not administer any major governmental funds, or portions thereof in the case of shared funds, of the State of Illinois as described in the State of Illinois' Comprehensive Annual Financial Report.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation – Continued

The Agency administers the following fund types:

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

This fund was created as a special fund in the State Treasury. The fund is administered by the Agency for Agency operations as specified in the Illinois Power Agency Act. Funding sources include charges for services through fee reimbursements as provided by the Illinois Power Agency Act and transfers of interest and investment income from the Illinois Power Agency Trust Fund.

Illinois Power Agency Facilities Fund – 426

This fund was created as a special fund in the State Treasury. The 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 2014.

Illinois Power Agency Debt Service Fund – 427

This fund was created as a special fund in the State Treasury. The 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 2014.

Illinois Power Agency Renewable Energy Resources Fund – 836

This fund was created as a special fund in the State Treasury. This fund is administered by the Agency for the procurement of renewable energy resources. This fund's funding source is Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers to comply with the State's Renewable Portfolio Standard established by the Public Utilities Act.

Unaudited

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation – Continued

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

This fund was created as a special fund in the State Treasury. This fund has two distinct purposes:

1) This 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. These amounts shall be interfund cash transferred to the Illinois Power Agency Investment Fund to be held for investment by the Illinois State Board of Investment for the purpose of obtaining a total return on investments for the long term as described in the State Finance Act (30 ILCS 105/6z-75).

2) This fund may accept cash transfers of investment income from the Illinois Power Agency Investment Fund for interfund cash transfer, subject to appropriations from the Illinois General Assembly, to the Illinois Power Agency Operations Fund as described in the State Finance Act (30 ILCS 105/6z-75).

Illinois Power Agency Investment Fund – 1408

This fund was created as a locally held fund held by the Illinois State Board of Investment outside of the State Treasury. Any funds received by the Fund from the Illinois Power Agency Trust Fund shall not be considered income, but shall be added to the principal of the Fund. In addition, the Agency may interfund cash transfer, subject to the maximum appropriation for the Illinois Power Agency Trust Fund from the Illinois General Assembly, up to 90% of the annual investment income to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund. Any investment income not interfund cash transferred to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund 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.

Funding sources for both funds include interest accumulations deposited by the State Treasurer, investment income received through the Illinois State Board of Investment, and any grants, loans, or other funds made available to it by any source.

(2) Summary of Significant Accounting Policies – Continued

(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, Alternative Compliance Payments, 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 charges for services and interest and investment income. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

During Fiscal Year 2014, the Agency adopted 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 effect of adopting this accounting principle was to reclassify unavailable revenue from a liability to a deferred inflow of resources, which did not impact beginning net position.

During Fiscal Year 2014, the Agency adopted GASB Statement No. 66, *Technical Corrections – 2012 (an amendment of GASB Statements 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 adoption of this accounting principle did not impact beginning net position.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting – Continued

During Fiscal Year 2014, the Agency adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the objective of which is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, the statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The adoption of this accounting principle did not impact beginning net position.

(d) Eliminations

Eliminations have been 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 Fiscal Year 2014, 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 to the State Treasurer.

(f) Investments

Investments are reported at fair value. The Illinois State Board of Investment holds investments for the Illinois Power Agency Trust Fund within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75).

(2) Summary of Significant Accounting Policies – Continued

(g) Interfund Transactions

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

Interfund Loans are amounts provided with a requirement for repayment made in accordance with State law, 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 are 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 position.

Reimbursements are 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.

Transfers are 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 taxes).

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to the Financial Statements

June 30, 2014

(2) Summary of Significant Accounting Policies – Continued

(h) Compensated Absences – Continued

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

(i) Fund Balances

For the year ended June 30, 2014, the governmental funds reported fund balances in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The Illinois Power Agency Trust Fund (424) had nonspendable fund balance as of June 30, 2014.

Restricted – This consists of amounts that are restricted to specific purposes, which is when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Illinois Power Agency Renewable Energy Resources Fund (836) had a restricted fund balance as of June 30, 2014.

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 General Assembly and the Governor. The State passes "Public Acts" to commit its fund balances. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2014.

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, 2014.

(2) Summary of Significant Accounting Policies – Continued

(i) Fund Balances – Continued

Unassigned – This consists of residual fund balance (deficit) that has not been restricted, committed, or assigned within the Agency's governmental funds. There were no unassigned fund balances as of June 30, 2014.

The Agency has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the policy is to use committed resources first, then assigned. Unassigned amounts are only used after the other resources have been used.

(j) Net Position

For the year ended June 30, 2014, the governmental activities reported net position in the following categories:

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The nonexpendable restricted resources are subject to a requirement they be maintained intact by the Agency indefinitely. The expendable restricted resources represent amounts that can be spent by the Agency, but are restricted by legislation to procure renewable energy resources.

Unrestricted – This consists of net position that does not meet the definition of "restricted."

(k) 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

(l) Future Adoption of GASB Statements

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 GASB 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 establishes standards related to government combinations and disposals of government operations, including combinations in which no consideration is provided, such as government mergers and transfers of operations, and combinations in which consideration is provided, such as disposal of government operations. 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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

(3) 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 $60.016 million at June 30, 2014. 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.

(3) Deposits and Investments – Continued

(b) Investments

The Illinois State Board of Investment, an internal investment pool of the State of Illinois, holds the investments within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75). At June 30, 2014, total investments were $32.622 million.

The Illinois State Board of Investment manages all assets held by them within a single commingled fund. Disclosures pertaining to these investments are included in the financial statements of the Illinois State Board of Investment. A copy of the financial statements of the Illinois State Board of Investment may be obtained by writing to the Illinois State Board of Investment, 180 North LaSalle Street, Suite 2015, Chicago, Illinois, 60601.

(c) 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 2014, Deutsche Bank Group lent U.S. Treasury and U.S. Agency securities 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 Fiscal Year 2014 on the amount of the loans of available or the 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 Fiscal Year 2014, 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. The securities lending collateral invested in repurchase agreements and the securities on loan are reported at fair value.

Unaudited

(3) Deposits and Investments – Continued

(c) Securities Lending Transactions – Continued

In accordance with GASB Statement No. 28, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2014 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency was $44 thousand at June 30, 2014.

(4) Other Receivables

The balance of Other Receivables on the Statement of Net Position includes amounts owed to the Agency for Alternative Compliance Payments (ACP) and reimbursements from vendors.

There is a possibility there was an underpayment of approximately $132 thousand of ACPs remitted to the Illinois Commerce Commission (ICC) by two suppliers due to calculation errors. The ICC is working on resolving the calculations in question with the suppliers. It is currently unknown if any additional ACPs will be collected from these two suppliers. Thus, the $132 thousand of ACPs is not reflected in accounts receivable within the Agency's financial statements.

Further, two suppliers requested exemptions for payment of ACPs under various provisions of the Public Utilities Act totaling approximately $1.312 million. The ICC is reviewing those requested exceptions and will adjudicate them appropriately. In the opinion of the Agency's management, these exemptions are likely to be granted and thus no accounts receivable is required for them.

Unaudited

(5) Interfund Balances and Activity

Balances Due from/to Other Funds

The following presents the Agency's interfund balances and activities at June 30, 2014:

The following balances (amounts expressed in thousands) at June 30, 2014, represent amounts due from other Agency funds.

Fund	Due from Other Agency Funds	Description/Purpose
Nonmajor governmental	$ 1,593	Due from other Agency funds for investment income transfers
Total	$ 1,593	

The following balances (amounts expressed in thousands) at June 30, 2014, represent amounts due to other Agency funds.

Fund	Due to		Description/Purpose
	Other Agency Funds	Other State Funds	
Nonmajor governmental:	$ 1,593	$ -	Due from other Agency funds for investment income transfers
Nonmajor governmental:	$ -	$ 3	Due to other State funds for services
Total	$ 1,593	$ 3	

Eliminations have been 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 due to and due from amounts, totaling $1,593 thousand, were eliminated in the government-wide Statement of Net Position.

Unaudited

(6) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Compensated Absences	$ 11	$ 13	$ 15	$ 9	$ -
Total	$ 11	$ 13	$ 15	$ 9	$ -

(7) 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 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. 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 its payrolls. For Fiscal Year 2014, the employer contribution rate was 40.312%.

Unaudited

(8) 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 Employees' 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 State of 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 is 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, 62706.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY

Notes to the Financial Statements

June 30, 2014

(9) 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 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, 2014.

(10) 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 $17 thousand for the year ended June 30, 2014.

(b) Renewable Energy Credits

During Fiscal Year 2013, the Agency entered into contracts with a total value of $2.24 million 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. In Fiscal Year 2014, two energy companies indicated that they might exercise their rights to sell credits totaling $97 thousand from June, 2013; therefore, $97 thousand was included in Accounts Payable in the Fiscal Year 2013 Statement of Net Position. Those two companies that indicated their intent to sell credits from June, 2013 ultimately did not delivery any credits from June, 2013 to the Agency and the $97 thousand in Accounts Payable has been reversed. Ultimately the only credits delivered from the seven companies were delivered during Fiscal Year 2014. The total value of the credits delivered (and paid for by the Agency) in Fiscal Year 2014 was $1.72 million. The remaining balance on the contracts has expired.

(11) Subsequent Events

The Agency is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

Unaudited

State of Illinois
Illinois Power Agency
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2014
(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	$ 6,560	$ 52,803	$ 653	$ 60,016
Investments	-	-	32,622	32,622
Securities lending collateral equity of State Treasurer	-	-	44	44
Other receivables, net	214	76,881	-	77,095
Due from other agency funds	1,123	-	470	1,593
Total assets	$ 7,897	$ 129,684	$ 33,789	$ 171,370
Liabilities				
Accounts payable and accrued liabilities	$ 695	$ 1,229	$ -	$ 1,924
Due to other agency funds	470	-	1,123	1,593
Due to other State funds	3	-	-	3
Obligations under securities lending of State Treasurer	-	-	44	44
Total liabilities	1,168	1,229	1,167	3,564
Deferred Inflows of Resources (DIR)				
Unavailable revenue	49	7,222	-	7,271
Total DIR	49	7,222	-	7,271
Fund Balances				
Nonspendable - endowments and similar funds	-	-	32,622	32,622
Restricted				
Employment and economic development	-	121,233	-	121,233
Committed				
Employment and economic development	6,680	-	-	6,680
Total fund balances	6,680	121,233	32,622	160,535
Total liabilities, DIR, and fund balances	$ 7,897	$ 129,684	$ 33,789	$ 171,370

Unaudited

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, 2014
(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
Revenues				
Licenses and fees	$ 1,556	$ -	$ -	$ 1,556
Interest and other investment income	-	-	5,034	5,034
Other revenues	-	77,044	-	77,044
Total revenues	1,556	77,044	5,034	83,634
Expenditures				
Employment and economic development	1,201	1,622	2	2,825
General government	179	-	-	179
Total expenditures	1,380	1,622	2	3,004
Excess (deficiency) of revenues over (under) expenditures	176	75,422	5,032	80,630
Other sources (uses) of financial resources				
Transfers in	915	-	-	915
Transfers out	-	-	(915)	(915)
Net other sources (uses) of financial resources	915	-	(915)	-
Net change in fund balances	1,091	75,422	4,117	80,630
Fund balances, July 1, 2013	5,589	45,811	28,505	79,905
Fund Balances, June 30, 2014	$ 6,680	$ 121,233	$ 32,622	$ 160,535

Unaudited

State of Illinois
Illinois Power Agency
Summary of Funds on a Cash Basis
June 30, 2014 (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	$ 6,560	$ 52,803	$ 653	$ 60,016
Investments	-	-	32,622	32,622
Securities lending collateral equity of State Treasurer	-	-	44	44
Total assets	$ 6,560	$ 52,803	$ 33,319	$ 92,682
Liabilities				
Obligations under securities lending of State Treasurer	$ -	$ -	$ 44	$ 44
Total liabilities	-	-	44	44
Fund Balances				
Nonspendable - endowments and similar funds	-	-	33,275	33,275
Restricted				
Employment and economic development	-	52,803	-	52,803
Committed				
Employment and economic development	6,560	-	-	6,560
Total fund balances	6,560	52,803	33,275	92,638
Total liabilities and fund balances	$ 6,560	$ 52,803	$ 33,319	$ 92,682