STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Power Company	:	
	:	
Proposed general increase in natural gas rates (Tariffs filed June 25, 2004)	:	**ICC Docket No. 04-0476**

BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission's ("Commission"), respectfully submits its Brief on Exceptions to the March 22, 2005, Proposed Order ("Proposed Order" or "PO") issued in this proceeding by the Administrative Law Judge.

I. INTRODUCTION

As explained in detail below, the Proposed Order errs in rejecting Staff's recommendations with respect to the Hillsboro Storage Field Gas Inventory Adjustment and the Hillsboro Storage Field Used and Useful Adjustment. These are difficult and complex issues for which the Company must bear the burden of proof. Staff has presented credible and reasonable arguments and positions, and the final order entered by the Commission should accept Staff's recommendations as set forth below.

Staff has attached Appendix A, which shows the revenue impact of accepting Staff's position on the contested revenue issues. In response to the Proposed Order, Staff has also presented in this Brief on Exceptions an alternative used and useful

calculation. Staff has attached Appendix B, which shows the revenue impact of accepting Staff's position on the contested revenue issue using Staff's alternative used and useful calculation (as shown in section III. E. and F.) versus its initial position.

II. HILLSBORO STORAGE FIELD GAS INVENTORY ADJUSTMENT

The Proposed Order ("PO") erred in reaching the determination to accept the Company's proposed revision to its Hillsboro storage base gas inventory value. The record shows that Staff noted two main problems with the Company's proposed inventory adjustment request. First, Staff noted that the Company's requested inventory adjustment is not accurate enough to use in order to determine base rate treatment. Second, Staff noted that the events that caused the need to correct the base gas inventory indicated imprudent activity on the Company's part. As a result, Staff recommended that the Company's request to adjust the value of the base gas associated with the Hillsboro storage field be rejected and instead the Commission should use the base gas value from IP last gas rate case as the amount IP is allowed to recover through base rates in this proceeding. Further, Staff indicated that IP would be allowed to recover the additional gas costs through the PGA once the field was retired and the gas in question was delivered to ratepayers.

A. IP's Inventory Adjustment Amount is an Estimate

The Proposed Order provides a thorough summary of Staff's position regarding its concerns regarding the accuracy of the inventory adjustment amount (PO, pp. 12-15, and pp. 16-21) so Staff will primarily summarize its arguments rather than engage in unnecessary repetition.

Staff noted that information provided by IP indicated that the Hillsboro storage field had experienced various metering errors that impacted the storage field's gas inventory during the period November 1993 through May 2000. (IP Ex. 14.2, p. 2) However, even though IP observed at the end of the 1995-1996 heating season that there was a potential problem with the field (IP Ex. 14.1R, p. 5) and IP had been investigating these problems since that time, it was not until IP conducted a reservoir engineering study in 2004 that IP realized the true extent of the problems it had at the field. At that time, IP estimated the Hillsboro storage field had an inventory shortfall of 5.8 Bcf. (Staff Ex. 7.0R, p. 7) However, IP admitted this amount was an estimate. (IP Ex. 17.1, p. 5)

Staff noted that the Company's inventory adjustment estimate was based on its review of three different inventory evaluation methods – a volumetric analysis, a metering study, and a reservoir simulation study. The volumetric analysis showed an inventory shortfall of 8.4 Bcf, the metering study showed an adjustment in the range of 7% to 22.1% was necessary, while the reservoir simulation study showed a shortfall of 5.8 Bcf, which also corresponds to a 22.1% inventory correction. IP indicated it provided the primary weighting to the reservoir simulation study.

Staff's review indicated that the methods used by IP to calculate its estimate of the Hillsboro storage field measurement errors, the resulting actual gas inventory, the recoverable base gas withdrawal, and the injection amounts are simply too speculative and not sufficiently accurate to provide a reasonable basis for an adjustment to and recalculation of the value of recoverable base gas amounts. Therefore, the PO conclusion should be rejected and Staff's recommendation should be adopted.

B. Prudence of IP's Actions

Further, Staff believes the PO erred in determining the Company's actions regarding its Hillsboro storage field were prudent. In particular, the record establishes that there were several instances where the Company failed to fully avail itself of the information it had available to determine the potential causes of the deliverability problems (both peak day and seasonal) IP was experiencing with its Hillsboro storage field.

1. Peterson Study Review

In particular, the Company commissioned the Peterson Study in 1999 in order to determine whether or not a metering error existed at the Hillsboro storage field. (IP Ex. 14.1R, pp. 7-8.) The Peterson Study found metering error problems with both the Company's injection and withdrawal metering. However, IP at that time hypothesized that the measurement error associated with the turbine meters and orifice meters offset. Subsequently, IP determined that the injection metering error was much more significant than the withdrawal metering error[1], and in 2004, IP renewed its review of the metering error at Hillsboro. (Staff Ex. 7.0R, pp. 11-12)

IP's subsequent review of the Hillsboro metering error included reviewing gas measurement estimates obtained from the well charts[2] that were attached to each of the injection wells at Hillsboro. IP's 2004 estimate for the inventory error at Hillsboro

[1] The Company originally estimated a 937,000 Mcf overstatement for withdrawals and an overstatement of 997,000 Mcf on injections, which, when combined, resulted in a net difference of 60,000 Mcf. In 2004, the Company determined the net difference was 5,800,000 Mcf (total working gas inventory volume at Hillsboro is 7,600,000 Mcf). (Staff Ex. 7.0R, p. 50)

[2] A well chart refers to the chart used to record the output from the orifice meters located at each individual well at Hillsboro. These charts show the various pressure and temperature information that is necessary to calculate the volume of gas being measured by the meter. (Staff Ex. 7.0R, p. 12.)

(22.1%) was identical to the metering error it calculated from reviewing its 1994 well chart data. Staff noted that at the time IP originally determined the injection and withdrawal errors offset (in 2000), IP was already in possession of the 1994 well chart data that it later used (in 2004) as support for selecting its 22.1% inventory correction factor. In short, Staff noted that had IP conducted a thorough investigation in 2000 of the information it had available to it, IP should have discovered the Hillsboro storage field's inventory problems much sooner. Had IP discovered the metering error in 2000 and used the same 4-year injection schedule used by the Company, then the Hillsboro storage field should have been fully functional by the time the instant proceeding was filed and a more accurate assessment of the ultimate inventory correction value would be known. Thus, even accepting the Proposed Order's conclusions regarding the reliability of IP's estimation of the measurement error and current volumes (and Staff respectfully disagrees with the Proposed Order's conclusions in this regard), the Proposed Order clearly errs by disregarding this evidence and finding IP's actions to be prudent.

2. Orifice Metering

Staff also presented information that indicated the Company failed to properly maintain the orifice metering, used to measure the withdrawal volumes from the Hillsboro storage field. In particular, Staff criticisms were founded on references to various sources addressing the testing of orifice meters.

Staff noted that the Peterson Study found that the Company had not thoroughly inspected its orifice meters, used to measure its withdrawals from the Hillsboro storage

field, for over 6 years, from 1993 through 1999. This practice was inconsistent with the Commission's requirements for those types of meters. (Staff Ex. 7.0R, pp. 46-47)

Staff noted that 83 Illinois Administrative Code Part 500, "Standards of Service for Gas Utilities" ("Part 500")[3] contains the Commission's requirements for meter testing. Section 500.180 (c) contains the rules that apply to orifice meters. These rules indicate the following:

> Each utility furnishing metered gas service through orifice type meters (flow meters) shall provide and have available an instrument for checking the diameter of the orifice, a water column for testing the pressure differential recorder, and a mercury column or an approved dead weight gauge tester for testing the static pressure recorded so that the utility will be capable of determining the accuracy of these orifices and recorders to within one-half of one percent. The orifices of these meters in service shall be inspected and calibrated at least annually, and the pressure instruments shall be calibrated at least monthly, which tests shall be in lieu of the requirements set forth in Section 500.210.

Staff testified that had the Company conducted an annual inspection of its orifice meters in a manner consistent with the Part 500 requirements, the Company would have physically removed, inspected, and measured (verification of plate diameter) the orifice plate. Through that process, the Company would have found the primary problem with its metering used to measure its gas withdrawals from the Hillsboro storage field. Therefore, if the Company's maintenance standards for storage field orifice meters were consistent with the minimum requirements under Part 500 for customer load orifice meters, the problem with the incorrectly stamped orifice plate would have been found within one year, or in 1994, of the meter being set. Specifically, this problem would have been identified in 1994 (one year after installation) rather than

[3] Code Part 500 standards do not apply to utility storage fields.

1999 (six years after installation), and the Company would have found the error rather than an outside entity. (*Id.*, p. 48)

Next, the Peterson Study, in reference to the orifice plates, noted that the American Gas Association ("AGA") Report #3[4] states that "the plate shall be clean at all times and free from accumulations of dirt, ice, and other extraneous material", "the upstream edge of the orifice plate bore shall be square and sharp", and "upstream and downstream edges of the orifice plate bore shall be free from defects visible to the naked eye, such as flat spots, feathered texture, roughness, burrs, bumps, nicks, and notches." (*Id.*, p. 49) However, the Peterson Study also indicated that when the orifice plates were pulled and cleaned during the plant visit, the plant personnel reported that the South Field Primary Orifice Meter was very dirty and that the other plates were dirty to a lesser degree. The Peterson Study had also noted that dirty plates can introduce significant metering errors, which can have a negative or a positive bias. The Peterson Study recommended that the orifice plates be pulled, inspected, cleaned, and replaced, as necessary, at least annually and after process upsets and changes to ensure metering accuracy. (*Id*.) While the ultimate correction of these issues is laudable, IP's original actions (or lack thereof) were not.

Finally, Staff noted that the AGA also provides some basic guidance for orifice meter maintenance. Specifically, AGA Gas Measurement Manual, Orifice Meters, Part No. Three, contains under "Inspection Schedules" the following information:

> The continued accuracy of an orifice meter state depends on keeping all of the station in proper operating condition. This depends on establishing and maintaining a fixed routine of inspection. Obviously, some items in a station should be inspected more often then others. Moreover, the inspection schedule

[4] AGA Report #3 contains the guidelines for the installation of orifice meters.

> for any station will depend upon many factors such as the importance of the station, the size in terms of gas flow, the location, the several types of equipment, company policies, etc. Therefore, the following is offered only as a guide to a minimum inspection schedule.
>
> Primary Element
>
> Orifice meter tubes should be removed annually for internal inspection and cleaning. This need may be satisfied by inspection caps where these are installed. **Orifice plates should be removed and examined at least every three months.** Emphasis added (Staff Ex. 17.0 2nd Rev, p. 46)

Given the large volume of gas that would potentially pass through the orifice meters at Hillsboro[5], Staff finds it reasonable to expect that the Company would have operated under more stringent inspection and testing guidelines prior to the Peterson Study discovering the orifice meter error. (*Id.*, pp. 46-47) The record clearly indicates that IP had the responsibility to review its orifice metering, including orifice plate inspections prior to 1999. However, IP, instead of following any of the guidelines or recommendations available to it, ignored the orifice meter plates from the time of the field's 1993 expansion (when the orifice plate in question was installed) until the 1999 Peterson Study.

Had IP followed any form of the AGA minimum inspection schedule or any other orifice plate inspection procedure at the Hillsboro storage field, IP would have discovered the measurement problems with its orifice metering soon after the incorrectly marked orifice meter plate was installed. Had IP found and corrected its orifice metering and made corrections to its assumed withdrawal volumes from Hillsboro in a timely fashion (likely within one year of the plate being installed), IP could not have simply concluded in 2000 that its injection and withdrawal metering errors offset.

[5] The post-expansion volume of gas that the Company wanted to cycle from the Hillsboro storage field was 7.6 Bcf.

Instead, IP would have had to conduct a more thorough review of its injection measurement error, which would have allowed IP to determine the drastic reduction in storage field inventory at a much earlier date. Staff submits that the Proposed Order errs and is contrary to evidence in finding IP's actions to be prudent.

3. Volume of Gas Withdrawn

The Company indicated that its personnel had reviewed observation well water level and water production data over time and that this review indicated the volume of gas in the reservoir was decreasing. The Company indicated a significant observation associated with that review was that the working gas volumes in the field reservoir had declined below 3.6 Bcf. The Company indicated that the 3.6 Bcf volume was significant because it indicated the source of the deliverability problems was not structural because the working gas capacity of the field should have at least stabilized at 3.6 Bcf, since this was the pre-expansion level of working gas at the field. (IP Ex. 14.1R, p. 15)

Staff notes the record clearly indicates the Company's failure to exceed 3.6 Bcf in seasonal withdrawal volume from Hillsboro occurred long before its 2004 rate case filing[6]. In fact, Table 1, below, indicates that the Hillsboro storage field withdrawals for the 1999/2000 and 2000/2001 winter seasons were approximately 3.0 Bcf and 2.9 Bcf respectively. This again demonstrates that IP had information available to it prior to its 2004 deliverability study and 2004 rate case filing that demonstrated that it had an inventory problem at Hillsboro. However the Company failed to once again act upon this information.

[6] In fact, the Hillsboro storage field ability to withdraw at least 3.6 Bcf of its working inventory was known to IP shortly after the Peterson Study was issued (December 1999) and corresponds to the time period when IP concluded its injection and withdrawal metering errors offset.

Table 1

Winter Season	Peak Day Rating 93-0183	Peak Day Rating Actual	Percentage of 93-0183 Rating	Volume to Cycle 93-0183	Actual Volume Cycled	Percentage of 93-0183 Rating
1993-1994	125,000	125,000	100.00	7,600,000	7,583,611	99.78
1994-1995	125,000	125,000	100.00	7,600,000	5,951,065	78.30
1995-1996	125,000	125,000	100.00	7,600,000	4,937,930	64.97
1996-1997	125,000	125,000	100.00	7,600,000	4,291,916	56.47
1997-1998	125,000	125,000	100.00	7,600,000	4,230,985	55.67
1998-1999	125,000	125,000	100.00	7,600,000	4,099,140	53.94
1999-2000	125,000	100,000	80.00	7,600,000	3,050,370	40.14
2000-2001	125,000	100,000	80.00	7,600,000	2,916,351	38.37
2001-2002	125,000	100,000	80.00	7,600,000	2,759,938	36.31
2002-2003	125,000	100,000	80.00	7,600,000	2,576,839	33.91
2003-2004	125,000	125,000	100.00	7,600,000	2,616,540	34.43

Staff Ex. 7.0R, p. 25 (shading added for emphasis)

C. Overall Storage Concerns

In addition to Staff's concerns regarding the Company's actions, or lack thereof, to various information that was available to it regarding the Hillsboro storage field, Staff also discussed its overall storage concerns in this proceeding. Since these items are thoroughly discussed in the PO, Staff will simply provide a summary of the four areas of general concern regarding the Company's overall storage operations.

First, Staff noted that it is uncommon for a utility to reduce the peak day capacity of its storage fields and that Company's past reduction of the peak day capacity of both of its largest storage fields is indicative of storage operation problems. Second, the Company has reduced the manpower levels associated with the oversight of its storage fields, which impacted its ability to conduct thorough reviews of the problems facing its storage fields. Third, the Company reduced its capital spending at the storage fields below historical levels. Finally, Staff provides several examples where the Company's

ability to properly identify the root cause of storage problems and, therefore, its ability to correct those problems, was inadequate.

D. PGA vs. Rate Base Recovery

Recoverable base gas is not a depreciable asset that is recovered through base rates. (See Staff Reply Brief, p. 8) Only the *non-recoverable* base gas, which is depreciable, is recovered through base rates. (Id.)

Section 525.40(c) of the Commission's Rules (83 Ill. Adm. Code 525.40(c)) states as follows: "The cost of gas estimated to be withdrawn from storage during the base period shall be included in the Gas Charge(s)." (IP IB, p. 28) Only at such time as the Company decides to close the storage field, will the recoverable base storage gas be delivered to customers so that the cost of that gas, subject to normal prudency standards, will be passed through the PGA. This is the identical treatment as that which will be given to the $20,676,363 base gas inventory value that is not at issue in this proceeding.

The effect on the Company if it is not allowed to increase the value of its recoverable base gas in the instant proceeding by $10,367,838 is forfeiture of the rate of return on that dollar amount.[7] Rate of return is a component of the revenue requirement on which base rates are set. Staff believes it would be unfair to set rates that transfer the responsibility for management errors at the Hillsboro storage field to the ratepayers (i.e., allow the Company to increase the inventory value of its recoverable base gas and compel ratepayers to give shareholders a return on that increase).

[7] This treatment is different from that given the $20,676,363 base gas inventory value that is not at issue in this proceeding.

Therefore, Staff recommends that the Commission reject the Company's request to increase the value of its recoverable base gas.

E. Prudency Finding

The current language of the proposed order includes certain phrasing that concludes the Company's actions in connection with its investigation and resolution of the declines in the deliverability of the Hillsboro storage field that resulted from the depletion of the storage field inventory were prudent. The use of this specific language could prohibit or severely restrict the Commission's ability to review the Company's actions regarding the Hillsboro storage field in its on-going purchased gas adjustment clause reconciliations ("PGA")[8] as well as future PGA proceedings.

Staff notes that the issue in this proceeding involved the proper accounting treatment for the inventory adjustments associated with the Hillsboro metering errors that primarily occurred during the 1993-1999 period. The PO conclusion could prohibit Commission review of IP's actions regarding the Hillsboro storage field post-2000. Since IP did not issue its final 2004 deliverability report until September 16, 2004 (IP Ex. 14.2, p. 1), this information has not been reviewed by the Commission in any other relevant proceedings prior to that date.

Further, as was noted in the PO, the Hillsboro storage field's peak day deliverability was returned to full capacity prior to the 2003-2004 winter season (PO, p. 42), however, it is also undisputed that the inventory at the field is not been returned to its previously certified levels. However, as the PO currently stands, both the inventory adjustment issue and methodology used for the used and useful conclusion (PO, pp.

[8] In Docket No. 03-0699, Staff has issued testimony finding the Company imprudent over its operation of the Hillsboro storage field during its 2003 reconciliation year. (Staff IB, p. 19)

41-42.) places no reliance on the impact upon ratepayers for the lost seasonal operation of the Hillsboro storage field.

In short, the current PO language, may be interpreted to limit the prudence review of IP's actions regarding its Hillsboro storage field. If so, it would eliminate the possibility of review of IP's actions and the potential for ratepayers to indemnified for costs incurred due to the reduced operating levels of the Hillsboro storage field during various reconciliation years. The costs to rate payers would be the difference in value between the volume of gas that should have been available to ratepayers from the Hillsboro storage field versus the price of replacement gas during the winter withdrawal season. Staff does not believe that the order entered by the Commission in this rate case should limit Commission review of prudency in current or future PGA proceedings. As such, Staff recommends the making changes to the PO language to clearly indicate the purpose of its conclusion on this subject is to not limit the Commission's ability to question of the prudence of the Company's actions for areas other than the appropriate value of the base gas inventory amounts.

F. Proposed Replacement Language

Based on the above arguments, Staff recommends the Commission Conclusion (PO, pp. 26-28) be revised in the following fashion.

Based on its review of the record and the arguments of Staff and Illinois Power, the Commission concludes that Illinois Power's base gas inventory value for Hillsboro should be rejected ~~accepted and included in rate base~~, and that Staff's recommendation to reject IP's base gas inventory value for Hillsboro, and use instead the Hillsboro base gas inventory value that was included in rate base in IP's last gas rate case, Docket 93-0183, ~~should not~~ be accepted. ~~The Commission finds that the amount by which the Hillsboro recoverable base gas inventory was depleted due to the turbine injection metering error, 1.8 bcf, as determined by IP, was developed in a reasonable and comprehensive manner using multiple analyses that included state-of-the-art techniques, particularly the reservoir modeling technique, which are accepted in the gas~~

~~and oil industry as appropriate and reliable for determining the amount of gas or oil in place in an underground reservoir. Because there is no dispute that IP errantly withdrew some significant amount of recoverable base gas from storage, the Commission must reject Staff's proposal to utilize the rate base value from Docket No. 93-0183, which would essentially ignore this fact.~~

The Commission agrees with Staff's position that the cost of the replacement base gas is not recoverable through base rates. Instead, the cost will ultimately be recovered through the Purchased Gas Adjustment Clause when the gas is withdrawn and delivered to PGA customers. What is at issue in this proceeding is not how the cost of the replacement base gas will be recovered, but whether or not IP's shareholders should receive a return on the $10,367,838 increase in their investment in the recoverable base gas that was replaced.

~~Furthermore, the record shows that the reservoir simulation that IP developed for the Hillsboro Storage Field, with the assistance of outside consultants, was constructed using a broad and reasonable database of known information about the history and performance of the Hillsboro Field. The Commission finds that the Hillsboro recoverable base gas inventory value as determined by Illinois Power is sufficiently reliable to be utilized for ratemaking purposes. The Commission recognizes, as argued by Staff, that the 1.8 bcf value and the total inventory shortfall value of 5.8 bcf are ultimately estimates. However, the fact that the 1.8 bcf base gas inventory depletion amount is an estimate does not disqualify it from being used as an input in setting regulated rates. The Commission utilizes estimated values in numerous aspects of the ratemaking process. The real issue is whether an estimate is developed in such a manner as to lead the Commission to have confidence in the resulting product as a sufficiently reliable measure of the value to be included in calculating the revenue requirement. Based on its consideration of the record, the Commission concludes that the Hillsboro recoverable base gas inventory depletion amount determined by IP, 1.8 bcf, is sufficiently reliable to be used in setting IP's gas rates this proceeding. The Commission notes that if there is any subsequent change in this value as a result of further analysis or experience by IP, any necessary adjustment can be addressed in a future rate case.~~

~~The Commission has thoroughly considered the various concerns expressed by Staff with respect to IP's proposed 1.8 bcf Hillsboro base gas inventory depletion value and the manner in which Illinois Power determined that value, as well as IP's responses to Staff's concerns. The Commission concludes that Staff's concerns do not sufficiently diminish confidence in the overall reliability of the value developed by Illinois Power to render it unacceptable for use in setting the revenue requirement and for inclusion in gas rate base.~~

~~The Commission also does not adopt Staff's recommendation that Illinois Power should be required to seek recovery of the additional cost of the replacement base gas through its Purchased Gas Adjustment clause. The Commission agrees with IP that under the Commission's PGA rule, particularly 83 Illinois Administrative Code 525.40(c),~~

~~and the circumstances of this case, it would be inappropriate to recover through the PGA the cost associated with gas that has been injected into the storage field as base gas with no intention to withdraw as a supply to customers.~~ ~~Similarly, t~~The Commission ~~does not~~ agree<u>s</u> that IP should be allowed to include only the original base gas inventory value in rate base ~~on the theory that base gas after being injected into a storage field is not withdrawn until the storage field is retired~~. ~~The Commission notes that the original base gas injected into the Hillsboro Storage Field has in fact been withdrawn and supplied to customers~~.

~~F~~inally, the Commission concludes that the record establishes the prudence of Illinois Power's actions in connection with the investigation and resolution of the declines in the deliverability of the Hillsboro Storage Field that resulted from the depletion of the storage field inventory, which in turn was caused by the turbine injection metering error. The record demonstrates that IP acted aggressively and expended considerable resources in attempting to identify and resolve the causes of the Hillsboro Storage Field deliverability decline. Based on the record, the Commission concludes that IP's actions and decisions met the standard of prudence that the Commission has adopted. The Commission also notes that it would have made for a better record for Staff to have articulated its prudence argument specifically in its testimony in this case rather than articulating it for the first time in its briefs in this case. Nevertheless, the Commission has carefully considered all of Staff's arguments relating to prudence in arriving at its conclusions on this issue but concludes that the record does not establish that Illinois Power acted imprudently or that the increased base gas inventory value determined by IP should be excluded from rate base on grounds of any imprudence.

~~F~~inally, the Commission concludes that the record establishes the prudence of Illinois Power's actions in connection with the investigation and resolution of the declines in the deliverability of the Hillsboro Storage Field that resulted from the depletion of the storage field inventory, which in turn was caused by the turbine injection metering error. The record demonstrates that IP acted aggressively and expended considerable resources in attempting to identify and resolve the causes of the Hillsboro Storage Field deliverability decline. Based on the record, the Commission concludes that IP's actions and decisions met the standard of prudence that the Commission has adopted. The Commission also notes that it would have made for a better record for Staff to have articulated its prudence argument specifically in its testimony in this case rather than articulating it for the first time in its briefs in this case. Nevertheless, the Commission has carefully considered all of Staff's arguments relating to prudence in arriving at its conclusions on this issue but concludes that the record does not establish that Illinois Power acted imprudently or that the increased base gas inventory value determined by IP should be excluded from rate base on grounds of any imprudence.

G. Alternative Proposed Replacement Language

To the extent the Commission determines the Proposed Order's conclusion to allow IP to earn a full return on its revised base gas inventory value is correct, Staff nevertheless recommends certain changes to the PO conclusion language. Specifically, Staff would note that the current language of the proposed order includes certain phrasing that needs clarification. As written, one might conclude that it is inappropriate to ever recover the cost of recoverable base gas through the PGA instead of concluding that it is inappropriate to recover the cost of recoverable base gas through the PGA until it is withdrawn and supplied to PGA customers.

The Commission agrees with Staff's position that the cost of the replacement base gas is not recoverable through base rates. Instead, the cost will ultimately be recovered through the Purchased Adjustment Clause when the gas is withdrawn and delivered to PGA customers. What is at issue in this proceeding is not how the cost of the replacement base gas will be recovered, but whether or not IP's shareholders should receive a return on the $10,367,838 increase in their investment in the recoverable base gas that was replaced.

In addition, as discussed above the final paragraph of the Commission Conclusion in the Hillsboro Storage Field Gas Inventory Adjustments, as written, would preclude Commission's ability to review the Company's actions regarding the Hillsboro storage field in its on-going purchased gas adjustment clause reconciliations ("PGA")[9] as well as future PGA proceedings. In order to avoid this result, Staff proposes the following:

~~Finally, the Commission concludes that the record establishes the prudence of Illinois Power's actions in connection with the investigation and resolution of the declines in the deliverability of the Hillsboro Storage Field that resulted from the~~

[9] In Docket No. 03-0699, Staff has issued testimony finding the Company imprudent over its operation of the Hillsboro storage field during its 2003 reconciliation year. (Staff IB, p. 19)

~~depletion of the storage field inventory, which in turn was caused by the turbine injection metering error. The record demonstrates that IP acted aggressively and expended considerable resources in attempting to identify and resolve the causes of the Hillsboro Storage Field deliverability decline. Based on the record, the Commission concludes that IP's actions and decisions met the standard of prudence that the Commission has adopted. The Commission also notes that it would have made for a better record for Staff to have articulated its prudence argument specifically in its testimony in this case rather than articulating it for the first time in its briefs in this case.~~ Nevertheless, the Commission has carefully considered all of Staff's arguments relating to prudence in arriving at its conclusions on this issue but concludes that the record does not establish that ~~Illinois Power acted imprudently or that~~ the increased base gas inventory value determined by IP should be excluded from rate base on grounds of any imprudence.

III. Hillsboro Used and Useful Adjustment

The Proposed Order erred in concluding that the Hillsboro storage field was 100% used and useful. The record clearly indicates that regardless of which three-year period suggested by the parties is used in the review of the used and usefulness of the Hillsboro storage field, the Hillsboro storage field can not be found 100% used and useful. Staff's analysis clearly indicated that the Hillsboro storage field should be found 53.44% used and useful. Staff's analysis is based upon the previously certified levels of operation for the Hillsboro storage field and the loss of benefits to ratepayers associated with any facility capacity reductions.

A. Prior Commission Orders

The Company received a certificate of public convenience and necessity for its expansion of the Hillsboro storage field. The Commission's Order in that proceeding noted the following:

> Mr. Brodsky testified that the Project will increase the total working gas inventory of the Hillsboro Storage Field from 3.1 billion cubic feet ("BCF") to 7.6 BCF, the injection rate to the Storage Field from 13,000 thousand cubic feet ("MCF")/day to 40,000 MCF/day, and the withdrawal or delivery rate from 50,000 MCF/day to 125,000 MCF/day. The Project is intended to increase Illinois Power's total storage capability by 42 percent, and to increase its total peak day

> storage withdrawal capability by 14 percent. Estimated gas-in-place after the Hillsboro Storage Field expansion will be 21.7 BCF, consisting of 7.6 BCF of inventory gas and 14.1 BCF of base gas. (Order, Ill. C.C. Docket No. 91-0499, p. 3 (October 21, 1992))

The Company also received Commission authority to expand the Hillsboro storage field and to recover the cost of that expansion through its rates. In particular, the Commission stated as follows in its Order in Docket No. 93-0183:

> IP is expanding the capacity of its Hillsboro storage field in Montgomery County by 4.5 BCF and the daily withdrawal rate at the field by 75,000 million cubic feet ("MCF"). IP is also constructing a 62-mile pipeline from Hillsboro to Decatur and additional transmission facilities from Hillsboro to the Metro-East Area. The IP witnesses indicated in their rebuttal testimony that the Hillsboro Project was placed in service on August 31, 1993, with the exception of two new delivery/control stations being constructed near Arthur, Illinois, to enhance interconnections with major pipeline suppliers in the area. (Order, Ill. C.C. Docket No. 93-0183, p. 8 (April 6, 1994))

The same Order also stated:

> …Finally, the Commission concludes that the Hillsboro Project will provide substantial net economic and other benefits to IP's customers; that the project is necessary in order for IP to provide adequate, efficient and reliable service to its customers at lowest cost, and that it should be considered used and useful upon being placed into operation. (*Id.*, pp. 11-12)

As a result of these orders the Company, with Commission approval, conducted an extensive expansion of the Hillsboro storage field to increase its peak day capability (now rated at 125,000 Mcf/day), and the volume of inventory maintained in the field, (7.6 Bcf of inventory gas and 14.1 Bcf of base gas). Further, the Commission had found the field to be 100 percent used and useful based upon those values in the Company's last rate case. (Staff Ex. 7.0R, p. 24)

Staff made a comparison of the current operation of the storage field to post-expansion levels at the Hillsboro storage field. Staff demonstrated, as reflected on

Table 2 below, that the Hillsboro storage field has not operated near the levels discussed in Docket Nos. 91-0499 and 93-0183 since it was placed into service for the winter season of 1993-1994. Further, using the Company's measurement error estimate of 5.8 Bcf, the gas volumes that IP maintains in Hillsboro working gas (7.6 Bcf – 5.8 Bcf = 1.8 Bcf) is less then the 3.1 Bcf that IP maintained at Hillsboro prior to the expansion of the field. (Staff Ex. 7.0R, p. 25)

Table 2

Winter Season	Peak Day Rating 93-0183	Peak Day Rating Actual	Percentage Of 93-0183 Rating	Volume to Cycle 93-0183	Actual Volume Cycled	Percentage of 93-0183 Rating
1993-1994	125,000	125,000	100.00	7,600,000	7,583,611	99.78
1994-1995	125,000	125,000	100.00	7,600,000	5,951,065	78.30
1995-1996	125,000	125,000	100.00	7,600,000	4,937,930	64.97
1996-1997	125,000	125,000	100.00	7,600,000	4,291,916	56.47
1997-1998	125,000	125,000	100.00	7,600,000	4,230,985	55.67
1998-1999	125,000	125,000	100.00	7,600,000	4,099,140	53.94
1999-2000	125,000	100,000	80.00	7,600,000	3,050,370	40.14
2000-2001	125,000	100,000	80.00	7,600,000	2,916,351	38.37
2001-2002	125,000	100,000	80.00	7,600,000	2,759,938	36.31
2002-2003	125,000	100,000	80.00	7,600,000	2,576,839	33.91
2003-2004	125,000	125,000	100.00	7,600,000	2,616,540	34.43

(*Id.*)

It is undisputed that the Hillsboro storage field, for the time period indicated in Table 1, has not operated in a manner consistent with the claims the Company made and the Commission relied upon in previous Commission Orders. Further, it is undisputed that the certificate for the expansion for the Hillsboro storage field involved the increase in both the field's peak day and seasonal withdrawal capacity. Staff's used and useful analysis considered the manner the Hillsboro storage field is operating, from both a peak day and seasonal standpoint and found the field less than 100% used and

useful. The PO erred in relying solely upon the peak day capacity for its finding that the storage field is 100% used and useful.

The record contains no evidence to support ignoring the seasonal capacity of the Hillsboro storage field in a used and useful analysis. The impact to ratepayers from a reduction in either the peak day capacity or seasonal capacity of the Hillsboro storage field is an increase in the PGA rates. Staff is not aware of, nor does the record indicate, any basis for treating the loss of seasonal capacity differently than the loss of peak day capacity of the Hillsboro storage field.

The Commission's 91-0499 and 93-0183 Orders clearly refer to both the peak day and seasonal capacity of the Hillsboro storage field. Therefore, Staff believes it is appropriate that the used and useful calculation rely on both the peak day capacity and seasonal availability of the Hillsboro storage field.

B. Three Year Period

The Proposed Order concludes that the "focus of the used and useful analysis should be on the current operating status of Hillsboro and its operating status during the period in which new rates to be established in the proceeding are in effect." The PO later notes it used the winter seasons of 2003-2004, 2004-2005, and 2005-2006 to evaluate the used and usefulness of Hillsboro. Staff disagrees with the use of this three year period.

Staff notes the Commission's used and useful calculation has not always followed the pattern advocated by the Company. In particular, Staff indicated the Commission in its February 24, 1993, Revised Order on Remand from Docket Nos. 87-0427/87-0169/88-0219/88-0253/90-0169 Consolidated made use of a three-year

average that centered on the test year. Obviously, the Commission can use its discretion to select the appropriate used and useful period to review based upon the circumstances surrounding the calculation. (Staff Ex. 17.0 2nd Rev, pp. 27-28.)

Further, Staff notes that unlike past cases involving used and useful analyses that were attempting to place a new fully operational facility into base rates, the Hillsboro storage field was previously found fully used and useful, but based upon its operation, it is no longer 100% used and useful. (Staff IB, p. 24) Staff is not aware of any other instance where the Commission has faced the situation where a utility's inability to maintain a previously certified facility at its certified levels was brought to its attention in a ratemaking proceeding. Therefore, the Commission has the discretion to select the most appropriate time periods to base any used and useful calculation it deems appropriate.

Staff recommends the Commission rely upon a used and useful calculation that uses a three-year period to review the Hillsboro storage field's peak day and seasonal activity. Staff selected the three-year average for the peak day capacity and the working gas inventory because the Commission has historically used a three-year average of a facility's capacity in reaching its used and useful determinations. (Staff Ex. 7.0R, p. 29) Staff's analysis used the three-year average for the amount of peak day capacity and working gas inventory that was available to ratepayers for the winter seasons 2001-2002, 2002-2003, and 2003-2004. (Staff Ex. 17.0 2nd Rev, p. 28) Staff noted these three periods are the most recent periods in the record where actual operating results are available from the Hillsboro storage field. (Staff Ex. 7.0R, p. 30)

C. Used and Useful Calculation

Staff's used and useful calculation (shown below in Table 3) uses the combined value of the peak day savings and seasonal gas costs savings associated with the Hillsboro storage field, to determine what percentage value each component provided to ratepayers. This comparison resulted in a determination that 35.83% of the value was derived from peak day benefits and 64.17% of the value was derived from a seasonal gas cost benefit. (Staff Ex. 17.0 2nd Rev, Schedule 17.01 2nd Rev; Staff Ex. 17.0 2nd Rev, Schedule 17.03 2nd Rev) Staff's calculation used these values as allocation percentages to determine the appropriate weighting to provide the lost peak day capacity and lost seasonal inventory delivery within the used and useful calculation. The use of these values results in a recommended used and useful percentage of 53.44%. Staff recommends that Commission make use of this value instead of the 100% value put forth by the Proposed Order.

Table 3

	Peak Day	Peak Day	Percent of
	Capacity	Capacity	Maximum
	93-0183	Actual	
2002	125,000	100,000	80.00
2003	125,000	100,000	80.00
2004	125,000	125,000	100.00
Average			86.67
	Inventory to	Volume Cycled	Percent of
	Cycle	Actual	Maximum
	93-0183		
2002	7,600,000	2,759,938	36.31
2003	7,600,000	2,576,839	33.91
2004	7,600,000	2,616,540	34.43

Average	34.88
Peak Day Allocation	35.83
Seasonal Inventory Allocation	64.17
Used and Useful Percentage	53.44

(Staff Ex. 17.0 2nd Revised, Schedule 17.0 2nd Revised)

D. Proposed Replacement Language

Therefore, Staff recommends the following adjustments to the Proposed Order.

Based on its review of the record and of the arguments of Illinois Power and Staff, the Commission concludes that the Hillsboro Storage Field should be found to be 53.44% fully used and useful for purposes of this case, and that Staff's proposed used and useful adjustment should ~~not~~ be adopted. ~~In terms of a framework for this determination, the Commission notes that under Sections 9-211 and 9-212 of Act, the Hillsboro Storage Field is used and useful if it is "necessary" to meet customer demand or "economically beneficial" in meeting customer demand. The Commission also notes that the purpose of this proceeding is to establish base gas rates that will go into effect on or about May 20, 2005, and be in effect thereafter. Therefore the focus of the used and useful analysis should be on the current operating status of Hillsboro and its operating status during the period in which the new rates to be established in this proceeding are in effect.~~ The Commission finds that the economic benefits Staff assigned to the Hillsboro storage field's peak day and seasonal capacity are reasonable and appropriate for use in determining the used and usefulness of the Field. Whereas the Commission does note the Company indicated the Field is fully used and useful because it is needed and provides economic benefits, the Company's review fails to account for the prior Commission Orders regarding the certified operating levels of the field and ignores the loss of benefits to ratepayers from operating the Field below its certified levels. As such, Staff's used and useful analysis properly accounts for both the economic loss associated with the Field and the reduction in operating levels.

The Commission agrees with Staff that it has the discretion to select the most appropriate period to form the basis of the used and useful analysis. Given the unique nature (i.e. a previously certified facility no longer operating at the Commission certified levels) of the events surrounding the Hillsboro storage field's loss of capacity, the Commission is persuaded by Staff's arguments that only known information should be used to review the used and usefulness of the Hillsboro storage field. Therefore, the winter seasons of 2001-2002, 2002-2003, and 2003-2004 are the appropriate periods to review for the used and usefulness of the Hillsboro storage field.

~~With this in mind, the Commission finds that Hillsboro was restored to its design peak day deliverability value of 125,000 mcf/day prior to the 2003-2004 winter season, has operated at that rating for the 2003-2004 and 2004-2005 winter seasons, and is expected to continue to operate at that level into the future. This has not been disputed~~

by Staff. Therefore, in the Commission's view, no used and useful adjustment should be premised, in whole or in part, on an assumption that Hillsboro is not operating at a peak deliverability of 125,000 mcf/day. To the extent that a three-year analysis is appropriate for purposes of this case, our most recent and most definitive decision on the applicable three-year period, *Commonwealth Edison Company*, Docket 94-0065 (Jan. 9, 1995), identified earlier in this Order, establishes that the three-year period should center on the year that the new rates established in the rate order go into effect. For purposes of this case, such three-year period is the period 2003-2004, 2004-2005 and 2005-2006. The record shows that during each of these three winter seasons, Hillsboro operated at or is projected to operate at its full peak day deliverability rating of 125,000 mcf/day. Therefore, use of the three-year period 2003-2004, 2004-2005 and 2005-2006 is consistent with our determination that the used and useful analysis must reflect that Hillsboro is operating at a peak rating of 125,000 mcf/day.

The Commission finds that the record establishes that in its current operating condition, the Hillsboro Storage Field is used and useful because it is necessary to meet customer demand. The record indicates that there is a very real possibility that the 125,000 mcf/day of peak deliverability of the Hillsboro Field could not be replaced by purchases of incremental pipeline firm transportation ("FT") capacity given the constrained pipeline market conditions into Illinois.

The Commission also finds that the record establishes that the Hillsboro Storage Field is used and useful because it is economically beneficial in meeting customer demand. The record shows that the seasonal gas cost savings provided by Hillsboro exceed its annual revenue requirement whether the various pricing and other assumptions used by IP or the pricing and other assumptions used by Staff are employed. The Commission's recent decision in the AmerenUE and AmerenCIPS gas rate cases, Dockets 02-0798, 03-0008 & 03-0009 (Cons.) (Oct. 22, 2003), establishes that such a showing provides an appropriate basis for concluding that an existing storage field asset is fully used and useful.

Finally, the Commission has considered the items identified by Staff as "overall storage concerns" and Illinois Power's responses to these concerns. The Commission does not find these overall storage concerns, either individually or collectively, to warrant a used and useful adjustment in this case.

E. Alternative Used and Useful Calculation

To the extent that the Commission concurs with the use of the three year period advocated by the Proposed Order for the used and useful calculation for the Hillsboro storage field, but also recognizes the need to also account for the loss seasonal capacity associated with the Hillsboro storage field, Staff offers an alternative used and

useful calculation that is consistent with Staff's testimony. This calculation is shown in Table 4 below. This analysis determined a used and useful percentage for the Hillsboro storage field of 72.18% instead of the 53.44% value that Staff initially calculated.

The Table 4 calculation is consistent with the approach Staff relied upon in the instant proceeding. The only variance between the Table 3 calculation (Staff's preferred version) and the Table 4 calculation is found under the volume cycled. The 2004 value, which represents the 2003-2004 winter season, was used in Staff's original calculation. The 2005 and 2006 value come from the Company's own testimony. Staff notes that IP Exhibit 14.2, page 1, provides IP's intended replacement injection volumes to return the Hillsboro storage field to its full 7.6 Bcf certified working gas inventory level. IP Exhibit 14.2 noted that the replacement injection volume in 2005 is 1.7 Bcf and in 2006 is 1.6 Bcf. From those values the actual working inventory in place at Hillsboro can be calculated for prior years. For the 2006-2007 winter season the full 7.6 Bcf is available, less the additional 1.6 injection in 2006 provides 6.0 Bcf of inventory available to ratepayers for the 2005-2006 winter season, less the 1.7 Bcf injection in 2005 provides 4.3 Bcf inventory available to ratepayers for the 2004-2005 winter season. The 6.0 Bcf and 4.3 Bcf values represent the maximum working inventory volume available from Hillsboro during the period in question where actual information is not available. If the Commission determines that the three year period used by the Proposed Order is appropriate, then Table 4 provides the Staff's analysis using that constraint.

Table 4

	Peak Day Capacity 93-0183	Peak Day Capacity Actual	Percent of Maximum
2004	125,000	125,000	100.00
2005	125,000	125,000	100.00
2006	125,000	125,000	100.00
Average			100.00
	Inventory to Cycle 93-0183	Volume Cycled	Percent of Maximum
2004	7,600,000	2,616,540	34.43
2005	7,600,000	4,300,000	56.58
2006	7,600,000	6,000,000	78.95
Average			56.65
Peak Day Allocation			35.83
Seasonal Inventory Allocation			64.17
Used and Useful Percentage			72.18

F. Alternative Proposed Replacement Language

Should the Commission determine the Staff's alternative used and useful calculation is appropriate, then Staff recommends the following adjustments to the Proposed Order.

Based on its review of the record and of the arguments of Illinois Power and Staff, the Commission concludes that the Hillsboro Storage Field should be found to be 72.18% fully used and useful for purposes of this case, and that Staff's proposed used and useful adjustment should ~~not~~ be adopted.~~ In terms of a framework for this determination, the Commission notes that under Sections 9-211 and 9-212 of Act, the Hillsboro Storage Field is used and useful if it is "necessary" to meet customer demand or "economically beneficial" in meeting customer demand. The Commission also notes that the purpose of this proceeding is to establish base gas rates that will go into effect on or about May 20, 2005, and be in effect thereafter. Therefore the focus of the used~~

~~and useful analysis should be on the current operating status of Hillsboro and its operating status during the period in which the new rates to be established in this proceeding are in effect.~~ The Commission finds that the economic benefits Staff assigned to the Hillsboro storage field's peak day and seasonal capacity are reasonable and appropriate for use in determining the used and usefulness of the Field. Whereas the Commission does note the Company indicated the Field is fully used and useful because it is needed and provides economic benefits, the Company's review fails to account for the prior Commission Orders regarding the certified operating levels of the field and ignores the loss of benefits to ratepayers from operating the Field below its certified levels. As such, Staff's used and useful analysis properly accounts for both the economic loss associated with the Field and the reduction in operating levels.

~~With this in mind, the Commission finds that Hillsboro was restored to its design peak day deliverability value of 125,000 mcf/day prior to the 2003-2004 winter season, has operated at that rating for the 2003-2004 and 2004-2005 winter seasons, and is expected to continue to operate at that level into the future. This has not been disputed by Staff. Therefore, in the Commission's view, no used and useful adjustment should be premised, in whole or in part, on an assumption that Hillsboro is not operating at a peak deliverability of 125,000 mcf/day.~~ The Commission concludes ~~To the extent~~ that a three-year analysis is appropriate for purposes of this case. ~~, o~~Our most recent and most definitive decision on the applicable three-year period, *Commonwealth Edison Company*, Docket 94-0065 (Jan. 9, 1995), identified earlier in this Order, establishes that the three-year period should center on the year that the new rates established in the rate order go into effect. For purposes of this case, such three-year period is the period 2003-2004, 2004-2005 and 2005-2006. ~~The record shows that during each of these three winter seasons, Hillsboro operated at or is projected to operate at its full peak day deliverability rating of 125,000 mcf/day. Therefore, use of the three-year period 2003-2004, 2004-2005 and 2005-2006 is consistent with our determination that the used and useful analysis must reflect that Hillsboro is operating at a peak rating of 125,000 mcf/day.~~

~~The Commission finds that the record establishes that in its current operating condition, the Hillsboro Storage Field is used and useful because it is necessary to meet customer demand. The record indicates that there is a very real possibility that the 125,000 mcf/day of peak deliverability of the Hillsboro Field could not be replaced by purchases of incremental pipeline firm transportation ("FT") capacity given the constrained pipeline market conditions into Illinois.~~

~~The Commission also finds that the record establishes that the Hillsboro Storage Field is used and useful because it is economically beneficial in meeting customer demand. The record shows that the seasonal gas cost savings provided by Hillsboro exceed its annual revenue requirement whether the various pricing and other assumptions used by IP or the pricing and other assumptions used by Staff are employed. The Commission's recent decision in the AmerenUE and AmerenCIPS gas~~

~~rate cases, Dockets 02-0798, 03-0008 & 03-0009 (Cons.) (Oct. 22, 2003), establishes that such a showing provides an appropriate basis for concluding that an existing storage field asset is fully used and useful.~~

~~Finally, the Commission has considered the items identified by Staff as "overall storage concerns" and Illinois Power's responses to these concerns. The Commission does not find these overall storage concerns, either individually or collectively, to warrant a used and useful adjustment in this case.~~

IV. CONCLUSION

WHEREFORE, for all the reasons set forth herein, the Staff of the Illinois Commerce Commission respectfully requests that its recommendations be adopted in this proceeding.

Respectfully submitted,

_____

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Counsel for the Staff of the
Illinois Commerce Commission

April 7, 2005

Illinois Power Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Company Rebuttal Pro Forma Present (IP Revised Sch A-1 and C-1, Dated 12/1/04)	Adjustments (Schedule 2)	Adjusted Pro Forma Present (Cols. b+c)	Company Proposed Increase (IP Sch A-2, Rev. 11/30/04)	Proposed Rates With Adjustments (Cols. d+e)	Adjustment To Proposed Increase	Adjusted Pro Forma (Cols. f+g)	Used & Useful Allowance	Pro Forma After Used & Useful Allowance (Cols. h+i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Operating Revenues	$ 127,230	$ -	$ 127,230	$ 24,778	$ 152,008	$ (14,340)	$ 137,668	898	$ 138,566
2	PGA Revenues	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	127,230	-	127,230	24,778	152,008	(14,340)	137,668	898	138,566
4	Uncollectibles Expense	4,085	-	4,085	-	4,085	(138)	3,947	9	3,956
5	Operation & Maintenance	23,288	(3,179)	20,109	-	20,109	-	20,109		20,109
6	Cost of Gas	-	-	-	-	-	-	-		-
7	Sales Expense	-	-	-	-	-	-	-		-
8	Customer Accounts Expenses	8,758	(1,376)	7,382	-	7,382	-	7,382		7,382
9	Customer Service and Info. Expenses	984	(50)	934	-	934	-	934		934
10	Pension Expense	-	-	-	-	-	-	-		-
11	Administrative and General Expenses	27,166	(6,340)	20,826	-	20,826	-	20,826		20,826
12	Depreciaton and Amortization	23,797	(54)	23,743	-	23,743	-	23,743		23,743
13	Taxes Other Than Income	6,126	(137)	5,989	-	5,989	-	5,989		5,989
14	Rounding	1	-	1	-	1	-	1	-	1
15	Total Operating Expense									
16	Before Income Taxes	94,205	(11,136)	83,069	-	83,069	(138)	82,931	9	82,940
17	State Income Tax	1,524	715	2,239	1,809	4,048	(1,037)	3,011	65	3,076
18	Federal Income Tax	6,771	3,172	9,943	8,039	17,982	(4,608)	13,374	288	13,662
19	Deferred Taxes and ITCs Net	(662)	662	-	-	-	-	-	-	-
20	Total Operating Expenses	101,838	(6,587)	95,251	9,848	105,099	(5,783)	99,316	362	99,678
21	NET OPERATING INCOME	$ 25,392	$ 6,587	$ 31,979	$ 14,930	$ 46,909	$ (8,557)	$ 38,352	536	$ 38,888
22	Rate Base (Schedule 3, Column (d)).							$ 468,845		
23	Overall Rate of Return (Schedule 8).							8.18%		
24	Non-used and Useful Investment (Schedule 7, page 1, column (f), line 5.)									18,670
25	Rate of Return Excluding Common Equity Return (Schedule 8).									2.87%
26	Revenue Change (Col. (j) Line 3 minus Col. (d), Line 3).									11,336
27	Percentage Revenue Change (Col. (j), Line 26 divided by Col. (d), Line 3)									8.91%

Illinois Power Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Company Rebuttal Pro Forma Present (IP Revised Sch A-1 and C-1, Dated 12/1/04)	Adjustments (Schedule 2)	Adjusted Pro Forma Present (Cols. b+c)	Company Proposed Increase (IP Sch A-2, Rev. 11/30/04)	Proposed Rates With Adjustments (Cols. d+e)	Adjustment To Proposed Increase	Adjusted Pro Forma (Cols. f+g)	Used & Useful Allowance	Pro Forma After Used & Useful Allowance (Cols. h+i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Operating Revenues	$ 127,230	$ -	$ 127,230	$ 24,778	$ 152,008	$ (14,340)	$ 137,668	898	$ 138,566
2	PGA Revenues	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	127,230	-	127,230	24,778	152,008	(14,340)	137,668	898	138,566
4	Uncollectibles Expense	4,085	-	4,085	-	4,085	(138)	3,947	9	3,956
5	Operation & Maintenance	23,288	(3,179)	20,109	-	20,109	-	20,109		20,109
6	Cost of Gas	-	-	-	-	-	-	-		-
7	Sales Expense	-	-	-	-	-	-	-		-
8	Customer Accounts Expenses	8,758	(1,376)	7,382	-	7,382	-	7,382		7,382
9	Customer Service and Info. Expenses	984	(50)	934	-	934	-	934		934
10	Pension Expense	-	-	-	-	-	-	-		-
11	Administrative and General Expenses	27,166	(6,340)	20,826	-	20,826	-	20,826		20,826
12	Depreciaton and Amortization	23,797	(54)	23,743	-	23,743	-	23,743		23,743
13	Taxes Other Than Income	6,126	(137)	5,989	-	5,989	-	5,989		5,989
14	Rounding	1	-	1	-	1	-	1	-	1
15	Total Operating Expense									
16	Before Income Taxes	94,205	(11,136)	83,069	-	83,069	(138)	82,931	9	82,940
17	State Income Tax	1,524	715	2,239	1,809	4,048	(1,037)	3,011	65	3,076
18	Federal Income Tax	6,771	3,172	9,943	8,039	17,982	(4,608)	13,374	288	13,662
19	Deferred Taxes and ITCs Net	(662)	662	-	-	-	-	-	-	-
20	Total Operating Expenses	101,838	(6,587)	95,251	9,848	105,099	(5,783)	99,316	362	99,678
21	NET OPERATING INCOME	$ 25,392	$ 6,587	$ 31,979	$ 14,930	$ 46,909	$ (8,557)	$ 38,352	536	$ 38,888
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25	Rate of Return Excluding Common Equity Return (Schedule 8).									2.87%
26	Revenue Change (Col. (j) Line 3 minus Col. (d), Line 3).									11,336
27	Percentage Revenue Change (Col. (j), Line 26 divided by Col. (d), Line 3)									8.91%

Illinois Power Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Interest Synchronization (Schedule 5)	Relocation Reimbursements (IP Ex 2.67)	Pension Expenses (Sch. 12.01)	Incentive Compensation (Sch 12.02)	Employee Stock Options (Settlement Sch 3)	Payroll Tax on Incentive Compensation (Sch. 12.04)	Advertising Expense (Sch. 12.05)	Subtotal Operating Statement Adjustments
	(a)	(b)	(d)	(e)	(f)	(g)	(h)	(k)	(i)
1	Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectibles Expense	-	-	-	-	-	-	-	-
5	Operation & Maintenance	-	-	-	-	-	-	-	-
6	Cost of Gas	-	-	-	-	-	-	-	-
7	Sales Expense	-	-	-	-	-	-	-	-
8	Customer Accounts Expenses	-	-	-	-	-	-	-	-
9	Customer Service and Info. Expenses	-	-	-	-	-	-	(50)	(50)
10	Pension Expense	-	-	-	-	-	-	-	-
11	Administrative and General Expenses	-	-	(367)	(1,795)	(34)	-	-	(2,196)
12	Depreciaton and Amortization	-	(62)	8	-	-	-	-	(54)
13	Taxes Other Than Income	-	-	-	-	-	(137)	-	(137)
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(62)	(359)	(1,795)	(34)	(137)	(50)	(2,437)
17	State Income Tax	(99)	5	26	131	2	10	4	79
18	Federal Income Tax	(439)	20	116	582	11	44	16	350
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(538)	(37)	(217)	(1,082)	(21)	(83)	(30)	(2,008)
21	NET OPERATING INCOME	$ 538	$ 37	$ 217	$ 1,082	$ 21	$ 83	$ 30	$ 2,008

Illinois Power Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	Industry Association Dues (Sch. 12.06)	Lobbying Expense (Sch. 12.07)	Rate Case Fees (Sch. 12.08)	Eliminate ADIT and ITC (Rev. IP Ex. 2.55)	Acquisition Savings (IP Ex. 19.2)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(l)	(m)	(n)	(n)	(o)	(p)	(q)
1	Operating Revenues	$ -	$ -					$ -	$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectibles Expense	-	-	-	-	-	-	-	-
5	Operation & Maintenance	-	-	-	-	-	(3,179)	-	(3,179)
6	Cost of Gas	-	-	-	-	-	-	-	-
7	Sales Expense	-	-	-	-	-	-	-	-
8	Customer Accounts Expenses	-	-	-	-	-	(1,376)	-	(1,376)
9	Customer Service and Info. Expenses	(50)	-	-	-	-	-	-	(50)
10	Pension Expense	-	-	-	-	-	-	-	-
11	Administrative and General Expenses	(2,196)	(65)	(77)	(13)	-	(3,989)	-	(6,340)
12	Depreciaton and Amortization	(54)	-	-	-	-	-	-	(54)
13	Taxes Other Than Income	(137)	-	-	-	-	-	-	(137)
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(2,437)	(65)	(77)	(13)	-	(8,544)	-	(11,136)
17	State Income Tax	79	5	6	1	-	624	-	715
18	Federal Income Tax	350	21	25	4	-	2,772	-	3,172
19	Deferred Taxes and ITCs Ne	-	-	-	-	662	-	-	662
20	Total Operating Expenses	(2,008)	(39)	(46)	(8)	662	(5,148)	-	(6,587)
21	NET OPERATING INCOME	$ 2,008	$ 39	$ 46	$ 8	$ (662)	$ 5,148	$ -	$ 6,587

Illinois Power Company

Rate Base

For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Company Pro Forma Rate Base (IP Revised Schs A-1 and C-1, Dated 12/1/04)	Adjustments (Schedule 4)	Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 869,155	$ (25,379)	$ 843,776
2	Less Accum. Deprec. and Amort.	(426,669)	11,556	(415,113)
3	Rounding	-	-	-
4	Net Plant	442,486	(13,823)	428,663
5	Additions to Rate Base			
6	Cash Working Capital Allowance	(1,412)	339	(1,073)
7	Gas Stored Underground-Noncurrent	27,135	(15,295)	11,840
8	Depr. Res.-Contrib. Electric Distribution	1,164	-	1,164
9	Materials & Supplies and Working Gas Inv.	41,430	-	41,430
10		-	-	-
11		-	-	-
12		-		
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base	-	-	-
17	Accum. Deferred Income Taxes	(68,211)	68,211	-
18	Customer Advances for Construction	(6,703)	-	(6,703)
19	Customer Deposits	(6,476)	-	(6,476)
20	Pre-1971 ITC's	(3)	3	-
21		-	-	-
22	Rounding	-	-	-
23	Rate Base	$ 429,410	$ 39,435	$ 468,845

Illinois Power Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Hillsboro Storage Field Used & Useful (Schedule 7)	Relocation Reimbursements (IP Ex. 2.67)	Accumulated Depreciation (Sch. 11.02)	Accumulated Deferred Income Taxes (Sch. 11.03)	Pension Expenses (Sch. 12.01)	Incentive Compensation (Sch 12.02)	Hillsboro Storage Field Base Gas Value (Sch. 17.03)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(e)	(f)	(h)	(i)
1	Gross Utility Plant in Service	$ (20,417)	$ (4,757)	$ -	$ -	$ 367	$ (518)	$ -	$ (25,325)
2	Less Accum. Deprec. and Amort.	6,674	4,874	0	-	(8)	16	-	11,556
3	Rounding	-	-	-	-	-	-	-	-
4	Net Plant	(13,743)	117	-	-	359	(502)	-	(13,769)
	-								
5	Additions to Rate Base								
6	Cash Working Capital Allowance	-	-	-	-	-	-	-	-
7	Gas Stored Underground-Noncurrent	(4,927)	-	-	-	-	-	(10,368)	(15,295)
8	Depr. Res.-Contrib. Electric Distribution	-	-	-	-	-	-	-	-
9	Materials & Supplies and Working Gas Inv.	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Accum. Deferred Income Taxes	0	-	-	0	-	0	-	-
18	Customer Advances for Construction	-	-	-	-	-	-	-	-
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Pre-1971 ITC's	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	Rounding	-	-	-	-	-	-	-	-
23	Rate Base	$ (18,670)	$ 117	$ -	$ -	$ 359	$ (502)	$ (10,368)	$ (29,064)

Illinois Power Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Subtotal Rate Base Adjustments	Eliminate ADIT and ITC (Rev. IP Ex. 2.55)	Remove ADIT and ITC From CWC (IP Ex. 10.11)	(Source)	Employee Stock Options (Settlement Sch 3)	Payroll Taxes On Incentive Compensation (Settlement Sch 4)	(Source)	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Utility Plant in Service	$ (25,325)	$ -	$ -	$ -	$ (14)	$ (40)	$ -	$ (25,379)
2	Less Accum. Deprec. and Amort.	11,556	-	-	-	-	-	-	11,556
3	Rounding	-	-	-	-	-	-	-	-
4	Net Plant	(13,769)	-	-	-	(14)	(40)	-	(13,823)
	-								
5	Additions to Rate Base								-
6	Cash Working Capital Allowance	-	-	339	-	-	-	-	339
7	Gas Stored Underground-Noncurrent	(15,295)	-	-	-	-	-	-	(15,295)
8	Depr. Res.-Contrib. Electric Distribution	-	-	-	-	-	-	-	-
9	Materials & Supplies and Working Gas Inv.	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Accum. Deferred Income Taxes	-	68,211	-	-	-	-	-	68,211
18	Customer Advances for Construction	-	-	-	-	-	-	-	-
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Pre-1971 ITC's	-	3	-	-	-	-	-	3
21	-	-	-	-	-	-	-	-	-
22	Rounding	-	-	-	-	-	-	-	-
23	Rate Base	$ (29,064)	$ 68,214	$ 339	$ -	$ (14)	$ (40)	$ -	$ 39,435

Illinois Power Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 468,845	(1)
2	Net Non-used and Useful Investment - Hillsboro Storage Field	$ 18,670	
3		$ 487,515	
4	Weighted Cost of Debt	2.77%	(2)
5	Synchronized Interest Per Staff (Line 1 x Line 2)	13,504	
6	Company Interest Expense	12,152	(3)
7	Increase (Decrease) in Interest Expense	1,352	
8	Increase (Decrease) in State Income Tax Expens		
9	at 7.300%	$ (99)	
10	Increase (Decrease) in Federal Income Tax Expens		
11	at 35.000%	$ (439)	

(1) Source: Schedule 3, column (d), Line 23.
(2) Source: Schedule 8.
(3) Source: IP Exhibit 2.52, p. 2, line 3.

Illinois Power Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.9640%	0.009640	
3	State Taxable Income		0.990360	
4	State Income Tax	7.3000%	0.072296	0.073000
5	Federal Taxable Income		0.918064	0.927000
6	Federal Income Tax	35.0000%	0.321322	0.324450
7	Operating Income		0.596742	0.602550
8	Gross Revenue Conversion Factor (Line 1 / Line 7		1.675766	1.659613

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Total Hillsboro Storage Field Amount		Used & Useful Portion (ICC Staff Ex. 17.0, Schedule 17.01)	Amount Per Staff (b*c)	Amount Per Company (From Col. b)	Staff Proposed Adjustment (d-e)
	(a)	(b)		(c)	(d)	(e)	(f)
1	Gas Underground Storage Plant	$ 43,850	(1)	53.44%	$ 23,433	$ 43,850	$ (20,417)
2	Accumulated Depreciation	(14,335)	(2)	53.44%	(7,661)	(14,335)	6,674
3	Gas Stored Underground - Noncurrent (After Base Gas Value Adjustment)	10,582	(3)	53.44%	5,655	10,582	(4,927)
4	Accumulated Deferred Income Taxes	-	(4)	53.44%	-	-	-
5	Net Amount	$ 40,097			$ 21,427	$ 40,097	$ (18,670)

Notes:

(1) Source: Company response to Staff Data Request ENG 1.22.

(2) Source: Schedule 7, page 2, column (b), line 5.

(3) Source: Schedule 7, page 3, column (b), line 3.

(4) Source: Company response to Staff Data Request SAS 1.01, Attachment SAS 1.01.1, page 1.

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Amount	
	(a)	(b)	
1	Gas Underground Storage Plant Allocated to the Hillsboro Storage Field	$ 43,850	(1)
2	Total Underground Storage Plant	$ 72,496	(2)
3	Hillsboro Field Percentage (Line 1 / Line 2)	60.49%	
4	Accumulated Depreciation - Total Underground Storage Plant	$ (23,698)	(3)
5	Accumulated Depreciation - Hillsboro Storage Field (Line 3 * Line 4)	$ (14,335)	

Notes:

(1) Source: Company response to Staff Data Request ENG 1.22.
(2) Source: Company Schedule B-1, page 1, column (E), line 24.
(3) Source: Illinois Power Company Form 21 ILCC, Page 219, column (c), line 23.

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Amount	
	(a)	(b)	
1	Gas Stored Underground - Noncurrent - Per Company	$ 20,950	(1)
2	Staff-proposed Adjustment For Base Gas Value	(10,368)	(2)
3	Gas Stored Underground - Noncurrent - After Inventory Value Adjustment	$ 10,582	

Notes:
(1) Source: Company response to Staff Data Request ENG 1.23.
(2) Source: ICC Staff Exhibit 7.0, Schedule 7.03.

Illinois Power Company

Weighted Average Cost of Capital
November 30, 2004

	Amount	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	$684,908,607	29.70%	6.27%	1.86%
TFTN	$350,934,973	15.22%	5.95%	0.91%
Preferred Stock	$45,786,945	1.99%	5.01%	0.10%
Common Equity	$1,224,252,958	53.09%	10.00%	5.31%
Total Capital	$2,305,883,483	100.00%		
Weighted Average Cost of Capital				**8.18%**

Illinois Power Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Company Rebuttal Pro Forma Present (IP Revised Sch A-1 and C-1, Dated 12/1/04)	Adjustments (Schedule 2)	Adjusted Pro Forma Present (Cols. b+c)	Company Proposed Increase (IP Sch A-2, Rev. 11/30/04)	Proposed Rates With Adjustments (Cols. d+e)	Adjustment To Proposed Increase	Adjusted Pro Forma (Cols. f+g)	Used & Useful Allowance	Pro Forma After Used & Useful Allowance (Cols. h+i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Operating Revenues	$ 127,230	$ -	$ 127,230	$ 24,778	$ 152,008	$ (13,310)	$ 138,698	536	$ 139,234
2	PGA Revenues	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	127,230	-	127,230	24,778	152,008	(13,310)	138,698	536	139,234
4	Uncollectibles Expense	4,085	-	4,085	-	4,085	(128)	3,957	5	3,962
5	Operation & Maintenance	23,288	(3,179)	20,109	-	20,109	-	20,109		20,109
6	Cost of Gas	-	-	-	-	-	-	-		-
7	Sales Expense	-	-	-	-	-	-	-		-
8	Customer Accounts Expenses	8,758	(1,376)	7,382	-	7,382	-	7,382		7,382
9	Customer Service and Info. Expenses	984	(50)	934	-	934	-	934		934
10	Pension Expense	-	-	-	-	-	-	-		-
11	Administrative and General Expenses	27,166	(6,340)	20,826	-	20,826	-	20,826		20,826
12	Depreciaton and Amortization	23,797	(54)	23,743	-	23,743	-	23,743		23,743
13	Taxes Other Than Income	6,126	(137)	5,989	-	5,989	-	5,989		5,989
14	Rounding	1	-	1	-	1	-	1	-	1
15	Total Operating Expense									
16	Before Income Taxes	94,205	(11,136)	83,069	-	83,069	(128)	82,941	5	82,946
17	State Income Tax	1,524	715	2,239	1,809	4,048	(962)	3,086	39	3,125
18	Federal Income Tax	6,771	3,172	9,943	8,039	17,982	(4,277)	13,705	172	13,877
19	Deferred Taxes and ITCs Net	(662)	662	-	-	-	-	-	-	-
20	Total Operating Expenses	101,838	(6,587)	95,251	9,848	105,099	(5,367)	99,732	216	99,948
21	NET OPERATING INCOME	$ 25,392	$ 6,587	$ 31,979	$ 14,930	$ 46,909	$ (7,943)	$ 38,966	320	$ 39,286
22	Rate Base (Schedule 3, Column (d)).							$ 476,360		
23	Overall Rate of Return (Schedule 8).							8.18%		
24	Non-used and Useful Investment (Schedule 7, page 1, column (f), line 5.)									11,155
25	Rate of Return Excluding Common Equity Return (Schedule 8).									2.87%
26	Revenue Change (Col. (j) Line 3 minus Col. (d), Line 3).									12,004
27	Percentage Revenue Change (Col. (j), Line 26 divided by Col. (d), Line 3)									9.43%

Illinois Power Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Interest Synchronization (Schedule 5)	Relocation Reimbursements (IP Ex 2.67)	Pension Expenses (Sch. 12.01)	Incentive Compensation (Sch 12.02)	Employee Stock Options (Settlement Sch 3)	Payroll Tax on Incentive Compensation (Sch. 12.04)	Advertising Expense (Sch. 12.05)	Subtotal Operating Statement Adjustments
	(a)	(b)	(d)	(e)	(f)	(g)	(h)	(k)	(i)
1	Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectibles Expense	-	-	-	-	-	-	-	-
5	Operation & Maintenance	-	-	-	-	-	-	-	-
6	Cost of Gas	-	-	-	-	-	-	-	-
7	Sales Expense	-	-	-	-	-	-	-	-
8	Customer Accounts Expenses	-	-	-	-	-	-	-	-
9	Customer Service and Info. Expenses	-	-	-	-	-	-	(50)	(50)
10	Pension Expense	-	-	-	-	-	-	-	-
11	Administrative and General Expenses	-	-	(367)	(1,795)	(34)	-	-	(2,196)
12	Depreciaton and Amortization	-	(62)	8	-	-	-	-	(54)
13	Taxes Other Than Income	-	-	-	-	-	(137)	-	(137)
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(62)	(359)	(1,795)	(34)	(137)	(50)	(2,437)
17	State Income Tax	(99)	5	26	131	2	10	4	79
18	Federal Income Tax	(439)	20	116	582	11	44	16	350
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(538)	(37)	(217)	(1,082)	(21)	(83)	(30)	(2,008)
21	NET OPERATING INCOME	$ 538	$ 37	$ 217	$ 1,082	$ 21	$ 83	$ 30	$ 2,008

Illinois Power Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	Industry Association Dues (Sch. 12.06)	Lobbying Expense (Sch. 12.07)	Rate Case Fees (Sch. 12.08)	Eliminate ADIT and ITC (Rev. IP Ex. 2.55)	Acquisition Savings (IP Ex. 19.2)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(l)	(m)	(n)	(n)	(o)	(p)	(q)
1	Operating Revenues	$ -	$ -					$ -	$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectibles Expense	-	-	-	-	-	-	-	-
5	Operation & Maintenance	-	-	-	-	-	(3,179)	-	(3,179)
6	Cost of Gas	-	-	-	-	-	-	-	-
7	Sales Expense	-	-	-	-	-	-	-	-
8	Customer Accounts Expenses	-	-	-	-	-	(1,376)	-	(1,376)
9	Customer Service and Info. Expenses	(50)	-	-	-	-	-	-	(50)
10	Pension Expense	-	-	-	-	-	-	-	-
11	Administrative and General Expenses	(2,196)	(65)	(77)	(13)	-	(3,989)	-	(6,340)
12	Depreciaton and Amortization	(54)	-	-	-	-	-	-	(54)
13	Taxes Other Than Income	(137)	-	-	-	-	-	-	(137)
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(2,437)	(65)	(77)	(13)	-	(8,544)	-	(11,136)
17	State Income Tax	79	5	6	1	-	624	-	715
18	Federal Income Tax	350	21	25	4	-	2,772	-	3,172
19	Deferred Taxes and ITCs Ne	-	-	-	-	662	-	-	662
20	Total Operating Expenses	(2,008)	(39)	(46)	(8)	662	(5,148)	-	(6,587)
21	NET OPERATING INCOME	$ 2,008	$ 39	$ 46	$ 8	$ (662)	$ 5,148	$ -	$ 6,587

Illinois Power Company

Rate Base

For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Company Pro Forma Rate Base (IP Revised Schs A-1 and C-1, Dated 12/1/04)	Adjustments (Schedule 4)	Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 869,155	$ (17,161)	$ 851,994
2	Less Accum. Deprec. and Amort.	(426,669)	8,870	(417,799)
3	Rounding	-	-	-
4	Net Plant	442,486	(8,291)	434,195
5	Additions to Rate Base			
6	Cash Working Capital Allowance	(1,412)	339	(1,073)
7	Gas Stored Underground-Noncurrent	27,135	(13,312)	13,823
8	Depr. Res.-Contrib. Electric Distribution	1,164	-	1,164
9	Materials & Supplies and Working Gas Inv.	41,430	-	41,430
10		-	-	-
11		-	-	-
12		-		
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base	-	-	-
17	Accum. Deferred Income Taxes	(68,211)	68,211	-
18	Customer Advances for Construction	(6,703)	-	(6,703)
19	Customer Deposits	(6,476)	-	(6,476)
20	Pre-1971 ITC's	(3)	3	-
21		-	-	-
22	Rounding	-	-	-
23	Rate Base	$ 429,410	$ 46,950	$ 476,360

Illinois Power Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Hillsboro Storage Field Used & Useful (Schedule 7)	Relocation Reimbursements (IP Ex. 2.67)	Accumulated Depreciation (Sch. 11.02)	Accumulated Deferred Income Taxes (Sch. 11.03)	Pension Expenses (Sch. 12.01)	Incentive Compensation (Sch 12.02)	Hillsboro Storage Field Base Gas Value (Sch. 17.03)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(e)	(f)	(h)	(i)
1	Gross Utility Plant in Service	$ (12,199)	$ (4,757)	$ -	$ -	$ 367	$ (518)	$ -	$ (17,107)
2	Less Accum. Deprec. and Amort.	3,988	4,874	0	-	(8)	16	-	8,870
3	Rounding	-	-	-	-	-	-	-	-
4	Net Plant	(8,211)	117	-	-	359	(502)	-	(8,237)
	-								
5	Additions to Rate Base								
6	Cash Working Capital Allowance	-	-	-	-	-	-	-	-
7	Gas Stored Underground-Noncurrent	(2,944)	-	-	-	-	-	(10,368)	(13,312)
8	Depr. Res.-Contrib. Electric Distribution	-	-	-	-	-	-	-	-
9	Materials & Supplies and Working Gas Inv.	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Accum. Deferred Income Taxes	0	-	-	0	-	0	-	-
18	Customer Advances for Construction	-	-	-	-	-	-	-	-
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Pre-1971 ITC's	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	Rounding	-	-	-	-	-	-	-	-
23	Rate Base	$ (11,155)	$ 117	$ -	$ -	$ 359	$ (502)	$ (10,368)	$ (21,549)

Illinois Power Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Subtotal Rate Base Adjustments	Eliminate ADIT and ITC (Rev. IP Ex. 2.55)	Remove ADIT and ITC From CWC (IP Ex. 10.11)	(Source)	Employee Stock Options (Settlement Sch 3)	Payroll Taxes On Incentive Compensation (Settlement Sch 4)	(Source)	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Utility Plant in Service	$ (17,107)	$ -	$ -	$ -	$ (14)	$ (40)	$ -	$ (17,161)
2	Less Accum. Deprec. and Amort.	8,870	-	-	-	-	-	-	8,870
3	Rounding	-	-	-	-	-	-	-	-
4	Net Plant	(8,237)	-	-	-	(14)	(40)	-	(8,291)
	-								
5	Additions to Rate Base								-
6	Cash Working Capital Allowance	-	-	339	-	-	-	-	339
7	Gas Stored Underground-Noncurrent	(13,312)	-	-	-	-	-	-	(13,312)
8	Depr. Res.-Contrib. Electric Distribution	-	-	-	-	-	-	-	-
9	Materials & Supplies and Working Gas Inv.	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Accum. Deferred Income Taxes	-	68,211	-	-	-	-	-	68,211
18	Customer Advances for Construction	-	-	-	-	-	-	-	-
19	Customer Deposits	-	-	-	-	-	-	-	-
20	Pre-1971 ITC's	-	3	-	-	-	-	-	3
21	-	-	-	-	-	-	-	-	-
22	Rounding	-	-	-	-	-	-	-	-
23	Rate Base	$ (21,549)	$ 68,214	$ 339	$ -	$ (14)	$ (40)	$ -	$ 46,950

Illinois Power Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 476,360	(1)
2	Net Non-used and Useful Investment - Hillsboro Storage Field	$ 11,155	
3		$ 487,515	
4	Weighted Cost of Debt	2.77%	(2)
5	Synchronized Interest Per Staff (Line 1 x Line 2)	13,504	
6	Company Interest Expense	12,152	(3)
7	Increase (Decrease) in Interest Expense	1,352	
8	Increase (Decrease) in State Income Tax Expens		
9	at 7.300%	$ (99)	
10	Increase (Decrease) in Federal Income Tax Expens		
11	at 35.000%	$ (439)	

(1) Source: Schedule 3, column (d), Line 23.
(2) Source: Schedule 8.
(3) Source: IP Exhibit 2.52, p. 2, line 3.

Illinois Power Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2003
(In Thousands)

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.9640%	0.009640	
3	State Taxable Income		0.990360	
4	State Income Tax	7.3000%	0.072296	0.073000
5	Federal Taxable Income		0.918064	0.927000
6	Federal Income Tax	35.0000%	0.321322	0.324450
7	Operating Income		0.596742	0.602550
8	Gross Revenue Conversion Factor (Line 1 / Line 7		1.675766	1.659613

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Total Hillsboro Storage Field Amount		Used & Useful Portion	Amount Per Staff (b*c)	Amount Per Company (From Col. b)	Staff Proposed Adjustment (d-e)
	(a)	(b)		(c)	(d)	(e)	(f)
1	Gas Underground Storage Plant	$ 43,850	(1)	72.18%	$ 31,651	$ 43,850	$ (12,199)
2	Accumulated Depreciation	(14,335)	(2)	72.18%	(10,347)	(14,335)	3,988
3	Gas Stored Underground - Noncurrent (After Base Gas Value Adjustment)	10,582	(3)	72.18%	7,638	10,582	(2,944)
4	Accumulated Deferred Income Taxes	-	(4)	72.18%	-	-	-
5	Net Amount	$ 40,097			$ 28,942	$ 40,097	$ (11,155)

Notes:

(1) Source: Company response to Staff Data Request ENG 1.22.

(2) Source: Schedule 7, page 2, column (b), line 5.

(3) Source: Schedule 7, page 3, column (b), line 3.

(4) Source: Company response to Staff Data Request SAS 1.01, Attachment SAS 1.01.1, page 1.

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Amount	
	(a)	(b)	
1	Gas Underground Storage Plant Allocated to the Hillsboro Storage Field	$ 43,850	(1)
2	Total Underground Storage Plant	$ 72,496	(2)
3	Hillsboro Field Percentage (Line 1 / Line 2)	60.49%	
4	Accumulated Depreciation - Total Underground Storage Plant	$ (23,698)	(3)
5	Accumulated Depreciation - Hillsboro Storage Field (Line 3 * Line 4)	$ (14,335)	

Notes:

(1) Source: Company response to Staff Data Request ENG 1.22.
(2) Source: Company Schedule B-1, page 1, column (E), line 24.
(3) Source: Illinois Power Company Form 21 ILCC, Page 219, column (c), line 23.

Illinois Power Company

Hillsboro Storage Field Used and Useful Adjustment

For the Test Year Ending December 31, 2003

(In Thousands)

Line No	Description	Amount	
	(a)	(b)	
1	Gas Stored Underground - Noncurrent - Per Company	$ 20,950	(1)
2	Staff-proposed Adjustment For Base Gas Value	(10,368)	(2)
3	Gas Stored Underground - Noncurrent - After Inventory Value Adjustment	$ 10,582	

Notes:

(1) Source: Company response to Staff Data Request ENG 1.23.

(2) Source: ICC Staff Exhibit 7.0, Schedule 7.03.

Illinois Power Company

Weighted Average Cost of Capital
November 30, 2004

	Amount	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	$684,908,607	29.70%	6.27%	1.86%
TFTN	$350,934,973	15.22%	5.95%	0.91%
Preferred Stock	$45,786,945	1.99%	5.01%	0.10%
Common Equity	$1,224,252,958	53.09%	10.00%	5.31%
Total Capital	$2,305,883,483	100.00%		
Weighted Average Cost of Capital				**8.18%**