Response to People of the State of Illinois'
First Set of Data Requests to ICC Staff
Docket No. 08-0312
Response of Staff Witness Struck

ICC Person Responsible: Scott A. Struck
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Data Request AG (DJE) 2.2:

Referring to Staff Exhibit 1.0, Page 5, Lines 100-104, please provide examples of electric utilities in Illinois, other than ComEd, that made changes to their accounting practices in the years 1999 – 2006. The response should identify the companies and describe the changes to their accounting practices.

Response:

Mr. Struck has not performed a study to identify all of the changes Illinois electric utilities have made to their accounting practices in the years 1999 – 2006. However, Mr. Struck is aware that, for example, each year, utility companies generally disclose significant accounting changes in the notes to their financial statements. The Attachment to this response presents examples of this from the Notes to Financial Statements section of Illinois Power Company's FERC Form 1 for the years 2003 through 2006.

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principally from the reversal of allowance for funds used during construction, that is, equity and temporary differences related to property and plant acquired before 1976, that were unrecognized temporary differences prior to the adoption of SFAS No. 109.

Investment tax credits used on tax returns for prior years have been deferred for book purposes; they are being amortized over the useful lives of the related properties. Deferred income taxes were recorded on the temporary difference represented by the deferred investment tax credits and a corresponding regulatory liability. This recognizes the expected reduction in rate revenue for future lower income taxes associated with the amortization of the investment tax credits. See Note 12 – Income Taxes.

Minority Interest and Preferred Dividends of Subsidiaries

For the years ended December 31, 2006, 2005, and 2004, Ameren had minority interest expense related to EEI of $27 million, $3 million and $4 million, respectively, and preferred dividends of subsidiaries of $11 million, $13 million, and $11 million, respectively.

Earnings Per Share

There were no material differences between Ameren's basic and diluted earnings per share amounts in 2006, 2005, and 2004 due to an immaterial number of stock options, restricted stock shares, and performance share units outstanding. The assumed stock option conversions increased the number of shares outstanding in the diluted earnings per share calculation by 38,438 shares in 2006, 65,917 shares in 2005, and 196,709 shares in 2004.

Accounting Changes and Other Matters

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48)

FIN 48 establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective as of the beginning of our 2007 fiscal year. We are still in the process of determining the impact the adoption of FIN 48 will have on our results of operations, financial position, and liquidity; however, at this time, we do not expect the impact of the adoption to be material.

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 clarifies that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. This standard is effective as of the beginning of our 2008 fiscal year. We are still determining the impact the adoption of SFAS No. 157 will have on our results of operations, financial position, and liquidity, if any; however, at this time, we do not expect the impact to be material.

SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)

In September 2006, the FASB issued SFAS No. 158, which requires employers to recognize the overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, as an asset or liability in their balance sheets. Employers must recognize as a component of OCI, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to the financial statements. The recognition and disclosure provisions of SFAS No. 158 were effective for us as of December 31, 2006. To the extent we determined that it is probable that the liabilities associated with the adoption of SFAS No. 158 will be recoverable through rates charged by Ameren's rate-regulated businesses (UE, CIPS, CILCO and IP), a regulatory asset was recorded. See Note 10 – Retirement Benefits for additional information on the impact of the adoption of SFAS No. 158 at December 31, 2006.

Staff Accounting Bulletin No. 108, Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108)

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In September 2006, the SEC staff issued SAB 108, which provides interpretive guidance on how registrants should quantify misstatements when evaluating the materiality of financial statement errors. SAB 108 requires public companies to use a dual approach to assess the quantitative effects of financial misstatements. The dual approach includes both an income statement-focused assessment and a balance sheet-focused assessment. SAB 108 also provides transition accounting and disclosure guidance for situations in which a material error existed in prior-period financial statements, allowing companies to restate prior-period financial statements or recognize the cumulative effect of initially applying SAB 108 through an adjustment to beginning retained earnings in the year of adoption. SAB 108 was effective as of December 31, 2006.

Prior to 2000, we concluded that UE's unbilled revenue was understated and CIPS' unbilled revenue was overstated by a similar amount. We previously concluded that these differences were immaterial to the financial statements of UE and CIPS for all years subsequent to 2000. In connection with our application of SAB 108, we recorded a decrease to CIPS' unbilled revenue of $12 million as an adjustment to retained earnings. Additionally, we concluded the UE unbilled revenue difference was immaterial to its 2006 financial statements, and accordingly we recorded an increase to UE's unbilled revenue of $12 million in the fourth quarter of 2006 as an increase in operating revenues. The adoption of SAB 108 had no impact on Ameren's consolidated results of operations, financial position, or liquidity.

SFAS No. 143, Accounting for Asset Retirement Obligations and FIN 47, *Accounting for Conditional Asset Retirement Obligations*

SFAS No. 143 requires us to record the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets in the period in which the liabilities are incurred and to capitalize a corresponding amount as part of the book value of the related long-lived asset. In subsequent periods, we are required to make adjustments in AROs based on changes in estimated fair value. Corresponding increases in asset book values are depreciated over the remaining useful life of the related asset. Uncertainties as to the probability, timing or amount of cash flows associated with AROs affect our estimates of fair value. Upon adoption of SFAS No. 143, UE recorded AROs related to its Callaway nuclear plant decommissioning costs and retirement costs for a river structure. Additionally, Genco recorded an ARO for the retirement costs for a power plant ash pond. CILCORP and CILCO recorded AROs related to AERG power plant ash ponds.

FIN 47 clarified that an entity must recognize a liability for the fair value of a conditional ARO when it is incurred if the liability's fair value can be reasonably estimated. FIN 47 also specified the information an entity would need to reasonably estimate the fair value of an ARO. In 2005, Ameren, Genco, CILCORP, and CILCO recognized net aftertax losses of $22 million, $16 million, $2 million, and $2 million, respectively, for the cumulative effect of a change in accounting principle for FIN 47. Upon adoption of FIN 47, Ameren, UE, Genco, CILCORP, and CILCO recorded AROs for retirement costs associated with asbestos removal, ash ponds, and river structures. In addition, Ameren, UE, CIPS, and IP recorded AROs for the disposal of certain transformers.

Asset removal costs accrued by our rate-regulated operations, that do not constitute legal obligations are classified as a regulatory liability. See Note 3 -- Rate and Regulatory Matters.

The following table provides a reconciliation of the beginning and ending carrying amount of AROs for the years 2006 and 2005:

	Ameren (a)(b)	UE (b)	CIPS	Genco	CILCORP/ CILCO	IP
Balance at December 31, 2004	$ 443	$ 431	$ -	$ 4	$ 8	$ -
Accretion in 2005(c)	28	23	-	2	1	-
Change in estimates(d)	(42)	(42)	-	-	-	-
Adoption of FIN 47	94	54	2	28	4	2
Balance at December 31, 2005	523	466	2	34	13	2
Liabilities incurred	1	-	-	(e)	(e)	-
Liabilities settled	(2)	(e)	-	(2)	(e)	-
Accretion in 2006(c)	29	26	(e)	2	1	(e)
Change in estimates	2	(1)	-	1	3	-
Balance at December 31, 2006	$ 553	$ 491	$ 2	$ 35	$ 17	$ 2

(a) Ameren amounts do not equal total due to AROs at EEI.
(b) The nuclear decommissioning trust fund assets of $285 million and $250 million as of December 31, 2006 and 2005, respectively, are restricted for decommissioning of the Callaway nuclear plant.
(c) Substantially all accretion expense was recorded as an increase to regulatory assets.
(d) Revision of UE's Callaway nuclear plant ARO estimate.
(e) Less than $1 million.

If FIN 47 had been in effect as of December 31, 2004, the pro forma asset retirement obligations would have been $518 million, $462 million, $2

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million, $32 million, $12 million, $12 million and $2 million for Ameren, UE, CIPS, Genco, CILCORP, CILCO and IP, respectively. If FIN 47 had been applied for the years ended December 31, 2005 and 2004, Ameren's, Genco's, CILCORP's and CILCO's net income would have been lower by $2 million, $1 million, less than $1 million, and less than $1 million, respectively, in each year. The FIN 47 application would have reduced Ameren's basic and diluted earnings per share $0.01 per share in each of these two years. The adoption of FIN 47 did not have any income statement impact on UE, CIPS, or IP because a regulatory asset was recorded as an offset to the AROs and the related net capitalized asset retirement costs.

Variable-Interest Entities

According to FIN 46R, "Variable-Interest Entities," an entity is considered a variable-interest entity (VIE) if it does not have sufficient equity to finance its activities without assistance from variable interest holders, or if its equity investors lack any of the following characteristics of a controlling financial interest: control through voting rights, the obligation to absorb expected losses, or the right to receive expected residual returns. We have determined that the following significant VIEs were held by the Ameren Companies at December 31, 2006:

- *Tolling agreement.* CILCO has a variable interest in Medina Valley through a tolling agreement to purchase steam, chilled water, and electricity. We have concluded that CILCO is not the primary beneficiary of Medina Valley. Accordingly, CILCO does not consolidate Medina Valley. The maximum exposure to loss as a result of this variable interest in the tolling agreement is not material.
- *Leveraged lease and affordable housing partnership investments.* Ameren and UE have investments in leveraged lease and affordable housing partnership arrangements that are variable interests. We have concluded that Ameren and UE are not primary beneficiaries of any of the VIEs related to these investments. The maximum exposure to loss as a result of these variable interests is limited to the investments in these arrangements. At December 31, 2006, Ameren had a net investment in leveraged leases of $13 million. At December 31, 2006, Ameren and UE had investments in affordable housing partnerships of $21 million and $17 million, respectively.
- *IP SPT.* Ameren acquired a variable interest in IP SPT with the acquisition of IP on September 30, 2004. IP has a variable interest in IP SPT, which was established in 1998 to issue TFNs. IP has indemnified and is liable to IP SPT if IP does not bill the applicable charges to its customers on behalf of IP SPT or if it does not remit the collection to IP SPT; however, the note holders are considered the primary beneficiaries of this special-purpose trust. Accordingly, Ameren and IP do not consolidate IP SPT.

NOTE 2 – ACQUISITIONS

IP and EEI

On September 30, 2004, Ameren completed the acquisition of all the common stock and 662,924 shares of preferred stock of IP and an additional 20% ownership interest in EEI from subsidiaries of Dynegy. Ameren acquired IP to complement its existing Illinois gas and electric operations. With the acquisition, IP became an Ameren subsidiary operating as AmerenIP.

The total transaction value was $2.3 billion, including the assumption of $1.8 billion of IP debt and preferred stock. Cash consideration was $429 million, net of $51 million cash acquired, and included transaction costs. In addition, this transaction included a fixed-price capacity power supply agreement for IP's annual purchase in 2005 and 2006 of 2,800 megawatts of electricity from DYPM. This agreement met about 70% of IP's electric customer requirements during 2005 and 2006. The remaining 30% of IP's power was supplied by other companies through contracts and open-market purchases. The fair value of IP's power supply agreements, including the fixed-price capacity power supply agreement with DYPM recorded at the acquisition date, resulted in a net liability of $109 million, which was fully amortized by December 31, 2006. In addition, IP recorded a fair value adjustment, resulting in a net asset of $20 million, which was fully amortized by December 31, 2005, for IP's power supply agreement with EEI that expired at the end of 2005. Ameren funded this acquisition with the issuance of new Ameren common stock. Ameren issued an aggregate of 30 million common shares in February 2004 and July 2004, which generated net proceeds of $1.3 billion. Proceeds from these issuances were used to finance the cash portion of the purchase price, to reduce IP debt assumed in this transaction, and to pay related premiums.

Ameren acquired IP for $355 million, including transaction costs, plus the assumption of $1.8 billion of IP debt and preferred stock. The excess of the purchase price for IP's common stock and preferred stock over net assets acquired was allocated to goodwill in the amount of $326 million. The portion of the total transaction value attributable to Ameren's acquisition of Dynegy's 20% ownership interest in EEI now held by Development Company was $125 million. The excess of purchase price over fair value was allocated to goodwill in the amount of $65 million in addition to specifically identifiable intangible assets of $48 million comprising emission allowances, which are amortized as they are used.

CT Facilities Purchases

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(a) Excludes amounts for IP before the acquisition date of September 30, 2004; excludes amounts for CILCORP and CILCO before the acquisition date of January 31, 2003.
(b) The 2003 amount includes January 2003 predecessor information, which was $2 million.
(c) With the exception of taxes reflected on CILCO customer bills issued prior to October 27, 2003, excise taxes at CILCO are recorded as tax collections payable and are included on the Consolidated Balance Sheet as Other Current Liabilities.
(d) The 2003 amount represents predecessor information. The 2004 amount includes January through September 2004 predecessor information, which was $30 million.

Income Taxes

Ameren uses an asset and liability approach for its financial accounting and reporting of income taxes, in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for transactions that are treated differently for financial reporting and tax return purposes. These deferred tax assets and liabilities are determined by statutory tax rates.

We recognize that regulators will probably reduce future revenues for deferred tax liabilities initially recorded at rates in excess of the current statutory rate. Therefore, reductions in the deferred tax liability, which were recorded due to decreases in the statutory rate, were credited to a regulatory liability. A regulatory asset has been established to recognize the probable future recovery in rates of future income taxes resulting principally from the reversal of allowance for funds used during construction – equity and temporary differences related to property, plant and equipment acquired before 1976, which were unrecognized temporary differences prior to the adoption of SFAS No. 109.

Investment tax credits used on tax returns of prior years have been deferred for book purposes; they are being amortized over the useful lives of the related properties. Deferred income taxes were recorded on the temporary difference represented by the deferred investment tax credits and a corresponding regulatory liability. This recognizes the expected reduction in rate revenue for future lower income taxes associated with the amortization of the investment tax credits. See Note 13 – Income Taxes for the treatment of IP's unamortized investment tax credits and deferred tax liabilities upon the acquisition of IP by Ameren.

Minority Interest and Preferred Dividends of Subsidiaries

For the years ended December 31, 2005, 2004, and 2003, Ameren had minority interest expense related to EEI of $3 million, $4 million and $7 million, respectively, and preferred dividends of subsidiaries of $13 million, $11 million, and $11 million, respectively.

Earnings Per Share

There were no material differences between Ameren's basic and diluted earnings per share amounts in 2005, 2004, and 2003. The assumed stock option conversions increased the number of shares outstanding in the diluted earnings per share calculation by 65,917 shares in 2005, 196,709 shares in 2004, and 289,244 shares in 2003.

Accounting Changes and Other Matters

SFAS No.143 - "Accounting for Asset Retirement Obligations" and FIN 47 - *"Accounting for Conditional Asset Retirement Obligations"*

We adopted the provisions of SFAS No. 143 and FIN 47, effective January 1, 2003, and December 31, 2005, respectively. SFAS No. 143 provides the accounting requirements for AROs associated with tangible, long-lived assets. SFAS No. 143 requires us to record the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets in the period in which the liabilities are incurred and to capitalize a corresponding amount as part of the book value of the related long-lived asset. In subsequent periods, we are required to make adjustments in AROs based on changes in estimated fair value. Corresponding increases in asset book values are depreciated over the remaining useful life of the related asset. Uncertainties as to the probability, timing or amount of cash flows associated with AROs affect our estimates of fair value.

FIN 47 clarified that an entity must recognize a liability for the fair value of a conditional ARO when it is incurred if the liability's fair value can be reasonably estimated. FIN 47 also specified the information an entity would need to reasonably estimate the fair value of an ARO.

In 2005, Ameren, Genco, CILCORP, and CILCO recognized net aftertax losses of $22 million, $16 million, $2 million, and $2 million, respectively, for the cumulative effect of a change in accounting principle for FIN 47. Upon adoption of FIN 47, Ameren, UE, Genco, CILCORP, and CILCO recorded AROs for retirement costs associated with asbestos removal, ash ponds, and river structures. In addition, Ameren, UE, CIPS, and IP recorded AROs for the disposal of certain transformers.

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Upon adoption of SFAS No. 143, Ameren and Genco recognized a net aftertax gain of $18 million in 2003 for the cumulative effect of a change in accounting principle. Prior to Ameren's acquisition of CILCORP, predecessor CILCORP and CILCO recognized a net aftertax gain in 2003 of $4 million and $24 million, respectively, for the cumulative effect of a change in accounting principle. The gains recorded by Ameren, Genco, predecessor CILCORP, and CILCO were due to the elimination of costs of removal for non-rate-regulated assets previously accrued as a component of accumulated depreciation that were not a legal obligation. In addition, in accordance with SFAS No. 143, estimated net future removal costs associated with Ameren's, UE's, CIPS', CILCORP's and CILCO's rate-regulated operations that had previously been embedded in accumulated depreciation were reclassified as a regulatory liability. Upon adoption of SFAS No. 143, UE recorded AROs related to its Callaway nuclear plant decommissioning costs and retirement costs for a river structure. Additionally, Genco recorded an ARO for the retirement costs for a power plant ash pond. CILCORP and CILCO recorded AROs related to AERG power plant ash ponds.

Before Ameren's acquisition of IP, predecessor IP recognized a net aftertax loss upon adoption of SFAS No. 143 of $2 million for the cumulative effect of a change in accounting principle.

The following table provides a reconciliation of the beginning and ending carrying amount of AROs for the years 2005 and 2004:

	Ameren (a)(b)	UE (b)	CIPS	Genco	CILCORP/	IP
Balance at December 31, 2003	$ 418	$ 408	$ -	$ 4	$ 6	$ 1
Accretion in 2004 (c)	23	23	-	(d)	1	(d)
Settled in 2004	-	-	-	-	-	(1)
Change in estimate	2	-	-	-	2	-
Balance at December 31, 2004	443	431	-	4	8	-
Accretion in 2005 (c)	28	23	-	2	1	-
Change in estimate(e)	(42)	(42)	-	-	-	-
Adoption of FIN 47	94	54	2	28	4	2
Balance at December 31, 2005	$ 523	$ 466	$ 2	$ 34	$ 13	$ 2

(a) Ameren amounts may not equal total due to AROs at EEI.
(b) The nuclear decommissioning trust fund assets of $250 million and $235 million as of December 31, 2005 and 2004, respectively, are restricted for decommissioning of the Callaway nuclear plant.
(c) Substantially all accretion expense was recorded as an increase to regulatory assets.
(d) Less than $1 million.
(e) Revision of UE's Callaway nuclear plant ARO estimate.

The following table shows what our AROs would have been if FIN 47 had been in effect in 2003 and 2004:

	Pro Forma Asset Retirement Obligation					
	Ameren	UE	CIPS	Genco	CILCORP/ CILCO	IP
January 1, 2003	$ 508	$ 457	$ 2	$ 29	$ 11	$ 2
December 31, 2003	513	459	2	30	12	2
December 31, 2004	518	462	2	32	12	2

If FIN 47 had been applied for the years ended December 31, 2005, 2004, and 2003, Ameren's, Genco's, CILCORP's and CILCO's net income would have been lower by $2 million, $1 million, less than $1 million, and less than $1 million, respectively, in each year. The FIN 47 application would have reduced Ameren's basic and diluted EPS $0.01 per share in each of these three years. The adoption of FIN 47 did not have any income statement impact on UE, CIPS, or IP because a regulatory asset was recorded as an offset to the AROs and the related net capitalized asset retirement costs.

SFAS No. 153 - "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29"

In December 2004, the FASB issued SFAS No. 153, which amends APB Opinion No. 29 to require the accounting at fair value for nonmonetary exchanges with commercial substance. The Ameren Companies were required to apply the provisions of SFAS No. 153 prospectively to transactions occurring after July 1, 2005. During the third quarter of 2005, Ameren, UE and Genco had nonmonetary emission allowance swaps that were accounted for at fair value under SFAS No. 153. As a result, Genco recorded a gain equal to the difference between the fair value of allowances received less the book value of allowances exchanged. The gain was recorded as a $21 million (pretax) reduction to fuel expense and an increase to other assets. UE recorded an increase to other assets and regulatory liabilities of $63 million.

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FIN 46 – "Consolidation of Variable-interest Entities"

In January 2003, the FASB issued FIN 46, which changed the consolidation requirements for special-purpose entities (SPEs) and non-special-purpose entities (non-SPEs)

that meet the criteria for designation as variable-interest entities (VIEs). In December 2003, the FASB revised FIN 46 (FIN 46R) to clarify certain aspects of FIN 46 and to modify the effective dates of the new guidance. FIN 46R provides guidance on the accounting for entities that are controlled through means other than voting rights by another entity. FIN 46R requires a VIE to be consolidated by a company if that company is designated as the primary beneficiary.

The Ameren Companies do not have any interests in entities that are considered SPEs, other than IP's investment in IP LLC. FIN 46R was effective on March 31, 2004, for any interests the Ameren Companies held in non-SPEs. The adoption of FIN 46R did not have a material impact on the consolidated financial statements of the Ameren Companies. We have determined that the following significant variable-interest entities are held by the Ameren Companies:

- *EEI.* Ameren has an 80% ownership interest in EEI through UE's 40% interest and Development Company's 40% interest. Under the FIN 46R model, Ameren, UE, and Development Company have a variable interest in EEI, and Ameren is the primary beneficiary. Accordingly, Ameren continues to consolidate EEI, and UE continues to account for its investment in EEI under the equity method. The maximum exposure to loss as a result of these variable interests in EEI is limited to Ameren's, UE's, and Development Company's equity investments in EEI.
- *Tolling agreement.* CILCO has a variable interest in Medina Valley through a tolling agreement to purchase steam, chilled water, and electricity. We have concluded that CILCO is not the primary beneficiary of Medina Valley. Accordingly, CILCO does not consolidate Medina Valley. The maximum exposure to loss as a result of this variable interest in the tolling agreement is not material.
- *Leveraged lease and affordable housing partnership investments.* Ameren, UE, CILCORP and CILCO have investments in leveraged lease and affordable housing partnership arrangements that are variable interests. We have concluded that none of these companies is a primary beneficiary of any of the VIEs related to these investments. The maximum exposure to loss as a result of these variable interests is limited to the investments in these arrangements. At December 31, 2005, Ameren, CILCORP, and CILCO had net investments in leveraged leases of $50 million, $21 million, and $21 million, respectively. At December 31, 2005, Ameren and UE had investments in affordable housing partnerships of $16 million and $10 million, respectively, after CILCORP transferred its housing interests to Union Electric Development Corporation (a UE subsidiary) in 2005.
- *IP SPT.* Ameren acquired a variable interest in IP SPT with the acquisition of IP on September 30, 2004. IP has a variable interest in IP SPT, which was established in 1998 to issue TFNs. IP has indemnified and is liable to IP SPT if IP does not bill the applicable charges to its customers on behalf of IP SPT or if it does not remit the collection to IP SPT; however, the note holders are considered the primary beneficiaries of this special-purpose trust. Accordingly, Ameren and IP do not consolidate IP SPT.

FSP SFAS No. 106-1 and FSP SFAS No. 106-2 – "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Prescription Drug Act) became law. The Medicare Prescription Drug Act introduced a prescription drug benefit for retirees under Medicare as well as a federal subsidy for sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare prescription drug benefit. Through its postretirement benefit plans, Ameren provides retirees with prescription drug coverage that we believe is actuarially equivalent to the Medicare prescription drug benefit. In January 2004, the FASB issued FSP SFAS 106-1, which permitted a plan sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer the accounting for the effects of the Medicare Prescription Drug Act. We made this one-time election allowed by FSP SFAS 106-1.

In May 2004, the FASB issued FSP SFAS 106-2, which superseded FSP SFAS 106-1. FSP SFAS 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug Act for employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. Ameren elected to adopt FSP SFAS 106-2 during the second quarter ended June 30, 2004, retroactive to January 1, 2004. See Note 11 – Retirement Benefits for additional information on the impact of adoption of FSP SFAS 106-2.

Predecessor IP's adoption of FSP SFAS 106-2 on July 1, 2004, had no impact on IP's results of operations, financial position, or liquidity because its drug benefit was not actuarially equivalent to the drug benefit under Medicare

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presented for any of the other Ameren Companies.

Accounting Changes and Other Matters

SFAS No.143 – "Accounting for Asset Retirement Obligations"

We adopted the provisions of SFAS No. 143, effective January 1, 2003. SFAS No. 143 provides the accounting requirements for asset retirement obligations associated with tangible, long-lived assets. SFAS No. 143 requires us to record the estimated fair value of legal obligations associated with the retirement of tangible long-lived assets in the period in which the liabilities are incurred and to capitalize a corresponding amount as part of the book value of the related long-lived asset. In subsequent periods, we are required to make adjustments in asset retirement obligations based on changes in estimated fair value. Corresponding increases in asset book values are depreciated over the remaining useful life of the related asset. Uncertainties as to the probability, timing or amount of cash flows associated with an asset retirement obligation affect our estimates of fair value.

Upon adoption of the standard, Ameren and Genco recognized a net after-tax gain of $18 million in the first quarter of 2003 for the cumulative effect of change in accounting principle. Prior to Ameren's acquisition of CILCORP, predecessor CILCORP and CILCO recognized a net after-tax gain in 2003 of $4 million and $24 million, respectively, for the cumulative effect of change in accounting principle. In addition, in accordance with SFAS No. 143, estimated net future removal costs associated with Ameren's, UE's, CIPS', CILCORP's and CILCO's rate-regulated operations that had previously been embedded in accumulated depreciation were reclassified as a regulatory liability.

Prior to Ameren's acquisition of IP, predecessor IP recognized a net after-tax loss upon adoption of SFAS No. 143 of $2 million for the cumulative effect of change in accounting principle. At January 1, 2004, IP's asset retirement obligation liability totaled $1 million for obligations under an operating lease. This asset retirement obligation related to the dismantling of the generation plant and remediation of the plant site at Tilton, Illinois, which IP had leased to DMG. In July 2004, IP sold the Tilton assets to DMG and eliminated the related asset retirement obligation liability as part of the accounting for that transaction. Thus, IP had no asset retirement obligation liabilities recorded at December 31, 2004.

Upon adoption of SFAS No. 143, UE recorded asset retirement obligations related to UE's Callaway nuclear plant decommissioning costs and to retirement costs for a UE river structure. Additionally, Genco recorded an asset retirement obligation for the retirement costs for a Genco power plant ash pond. CILCORP and CILCO recorded asset retirement obligations related to CILCO's power plant ash ponds (now owned by AERG).

Asset retirement obligations at Ameren and UE increased by $21 million for the year ended December 31, 2004, to reflect the accretion of obligations to their present value. Increases to Genco's, CILCORP's and CILCO's asset retirement obligations due to accretion were immaterial during this period. Substantially all of this accretion was recorded as an increase to regulatory assets. Additionally, Ameren and CILCO's asset retirement obligations increased by approximately $2 million during the year ended December 31, 2004, due to revisions in estimated future cash flows to retire CILCO's ash ponds.

In addition to those obligations that have been identified and valued, we determined that certain other asset retirement obligations exist. However, we were unable to estimate the fair value of those obligations because the probability, timing, or cash flows associated with the obligations were indeterminable. We do not believe that these obligations, when incurred, will have a material adverse impact on our results of operations, financial position, or liquidity.

The fair value of the nuclear decommissioning trust fund for UE's Callaway nuclear plant is reported in Nuclear Decommissioning Trust Fund in Ameren's and UE's Consolidated Balance Sheets. This amount is legally restricted: It may be used only to fund the costs of nuclear decommissioning. Changes in the fair value of the trust fund are recorded as an increase or decrease to the regulatory asset recorded in connection with the adoption of SFAS No. 143.

In June 2004, the FASB issued an exposure draft on a proposed interpretation of SFAS No. 143. The FASB is expected to issue a final interpretation in the first quarter of 2005. Under the interpretation, a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of SFAS No. 143. Accordingly, an entity would be required to recognize a liability for the fair value of an asset retirement obligation that is conditional on a future event if the liability's fair value can be estimated reasonably. The exposure draft provides examples of conditional asset retirement obligations that may need to be recognized under the provisions of the interpretation, including asbestos

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removal. This proposed interpretation could require accrual of additional liabilities by Ameren and its subsidiaries and could result in increased expense, which, while not yet quantified, could be material. This proposed interpretation would be effective for us no later than December 31, 2005, if issued in its current form.

FIN No. 46 – "Consolidation of Variable-interest Entities"

In January 2003, the FASB issued FIN No. 46, which changed the consolidation requirements for special-purpose entities (SPEs) and non-special-purpose entities (non-SPEs) that meet the criteria for designation as variable-interest entities (VIEs). In December 2003, the FASB revised FIN No. 46 (FIN No. 46R) to clarify certain aspects of FIN No. 46 and to modify the effective dates of the new guidance. FIN No. 46R provides guidance on the accounting for entities that are controlled through means other than voting rights by another entity. FIN No. 46R requires a VIE to be consolidated by a company if that company is designated as the primary beneficiary.

The Ameren Companies do not have any interests in entities that are considered SPEs, other than IP's investment in IP LLC. FIN No. 46R was effective on March 31, 2004, for any interests the Ameren Companies held in non-SPEs. The adoption of FIN No. 46R did not have a material impact on the consolidated financial statements of the Ameren Companies. However, in connection with the adoption of FIN No. 46R, we have determined that the following significant variable-interests are held by the Ameren Companies:

- EEI. Ameren has an 80% ownership interest in EEI through UE's 40% interest and Resources Company's 40% interest. Under the FIN No. 46R model, Ameren, UE, and Resources Company have a variable-interest in EEI, and Ameren is the primary beneficiary. Accordingly, Ameren will continue to consolidate EEI, and UE will continue to account for its investment in EEI under the equity method of accounting. The maximum exposure to loss as a result of these variable-interests in EEI is limited to Ameren's, UE's, and Resources Company's equity investments in EEI.
- Tolling agreement. CILCO has a variable-interest in Medina Valley through a tolling agreement to purchase steam, chilled water, and electricity. We have concluded that CILCO is not the primary beneficiary of Medina Valley. Accordingly, CILCO does not consolidate Medina Valley. The maximum exposure to loss as a result of this variable-interest in the tolling agreement is not material.
- Leveraged lease and affordable housing partnership investments. Ameren, UE and CILCORP have investments in leveraged lease and affordable housing partnership arrangements that are variable-interests. We have concluded that none of these companies is a primary beneficiary of any of the VIEs related to these investments. The maximum exposure to loss as a result of these variable-interests is limited to the investments in these arrangements. At December 31, 2004, Ameren and CILCORP had net investments in leveraged leases of $140 million and $113 million, respectively. At December 31, 2004, Ameren, UE, and CILCORP had investments in affordable housing partnerships of $19 million, $6 million, and $7 million, respectively.
- IP SPT. Ameren acquired a variable-interest in IP SPT with the acquisition of IP on September 30, 2004. IP has a variable-interest in IP SPT, which was established in 1998 to issue TFNs. IP has indemnified and is liable to IP SPT if IP does not bill the applicable charges to its customers on behalf of IP SPT or if it does not remit the collection to IP SPT; however, the note holders are considered the primary beneficiaries of this special-purpose trust. Accordingly, Ameren and IP do not consolidate IP SPT.

FASB Staff Position SFAS No. 106-1 and FASB Staff Position SFAS No. 106-2 – "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Prescription Drug Act) became law. The Medicare Prescription Drug Act introduced a prescription drug benefit for retirees under Medicare as well as a federal subsidy for sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare prescription drug benefit. Through its postretirement benefit plans, Ameren provides retirees with prescription drug coverage that we believe is actuarially equivalent to the Medicare prescription drug benefit. In January 2004, the FASB issued FSP SFAS 106-1, which permitted a plan sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer the accounting for the effects of the Medicare Prescription Drug Act. We made this one-time election allowed by FSP SFAS 106-1.

In May 2004, the FASB issued FSP SFAS 106-2, which superseded FSP SFAS 106-1. FSP SFAS 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug Act for employers whose prescription drug

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benefits are actuarially equivalent to the drug benefit under Medicare Part D. Ameren elected to adopt FSP SFAS 106-2 during the second quarter ended June 30, 2004, retroactive to January 1, 2004. See Note 11 – Retirement Benefits for additional information on the impact of adoption of FSP SFAS 106-2.

Predecessor IP's adoption of FSP SFAS 106-2 on July 1, 2004, had no impact on IP's results of operations, financial position or liquidity because its drug benefit was not actuarially equivalent to the drug benefit under Medicare Part D.

EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

In March 2004, the EITF reached a consensus on EITF Issue No. 03-1, which provides guidance on evaluating whether an investment is other-than-temporarily impaired. The recognition and measurement provisions of EITF 03-1, which were to be effective for periods beginning after June 15, 2004, were delayed by the issuance of FSP EITF 03-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,' " in September 2004. During the period of delay, we will continue to evaluate our investments, which primarily constitute our Nuclear Decommissioning Trust Fund, as required by existing authoritative guidance.

NOTE 2 – ACQUISITIONS

IP and EEI

On September 30, 2004, Ameren completed the acquisition of all the common stock and 662,924 shares of preferred stock of IP (based in Decatur, Illinois) and an additional 20% ownership interest in EEI from Dynegy and its subsidiaries. Ameren acquired IP to complement its existing Illinois gas and electric operations. The purchase included IP's rate-regulated electric and natural gas transmission and distribution business serving 600,000 electric and 415,000 gas customers in areas contiguous to our existing Illinois utility service territories. With the acquisition, IP became an Ameren subsidiary operating as AmerenIP. For a discussion of the regulatory agency approvals granted in connection with this acquisition, see Note 3 – Rate and Regulatory Matters.

The total transaction value was $2.3 billion, including the assumption of $1.8 billion of IP debt and preferred stock and consideration, including transaction costs, of $443 million in cash, net of $51 million cash acquired. In February 2005, Ameren received $5 million from Dynegy representing the final working capital adjustment pursuant to the terms of the stock purchase agreement. Ameren placed $100 million of the cash portion of the purchase price in a six-year escrow account pending resolution of certain contingent environmental obligations of IP and other Dynegy affiliates for which Ameren has been provided indemnification by Dynegy. See Note 15 – Commitments and Contingencies for information on the IP environmental matter to which the indemnification and escrow applies. In addition, this transaction included a fixed-price capacity power supply agreement for IP's annual purchase in 2005 and 2006 of 2,800 megawatts of electricity from DYPM. The contract was marked to fair value at closing of the acquisition. This agreement is expected to supply about 70% of IP's electric customer requirements during those two years. The remaining 30% of IP's power needs in 2005 and 2006 will be supplied by other companies. In the event that any of these suppliers are unable to supply the electricity required by these agreements, IP would be forced to find alternative suppliers to meet its load requirements, thus exposing itself to market price risk, which could have a material impact on Ameren's and IP's results of operations, financial position, or liquidity.

Ameren's financing plan for funding this acquisition included the issuance of new Ameren common stock. Ameren issued an aggregate of 30 million common shares in February 2004 and July 2004, which generated net proceeds of $1.3 billion. Proceeds from these issuances were used to finance the cash portion of the purchase price and to reduce IP debt assumed as part of this transaction and to pay related premiums. See Note 6 – Long-term Debt and Equity Financings for information on redemptions and repurchases of certain IP indebtedness after the acquisition.

The following table presents the estimated fair values of the assets acquired and liabilities assumed at the date of Ameren's acquisition of IP and the additional 20% ownership interest in EEI. Ameren is completing its valuations of the net assets and liabilities of IP and EEI acquired, including third-party valuations of property and plant, intangible assets, pension and other postretirement benefit obligations, and contingent obligations. As a result, the allocation of the purchase price is preliminary and subject to further adjustment. We expect to finalize purchase accounting in 2005. The fair value of

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compensation in the first quarter 2003 and are using the prospective method of transition as described under SFAS No. 148. As a result, a charge of approximately $0.2 million is reflected in other operating expenses for the year ended December 31, 2003. In 2001, a charge of $0.6 million was incurred and recorded as compensation expense due to the extension of the exercise period and the acceleration of vesting for certain stock options due to the early retirement and severance components of our corporate reorganization as more fully discussed in Note 3 – "2001 Reorganization." Pursuant to the Dynegy-Illinova merger, all stock options granted to our employees prior to the merger were converted to options to purchase Dynegy Class A common stock on a one-for-one basis.

Under the prospective method of transition, all stock options granted after January 1, 2003 are accounted for on a fair value basis. Options granted prior to January 1, 2003 continue to be accounted for using the intrinsic value method. Accordingly, for options granted prior to January 1, 2003, compensation expense is not reflected for employee stock options unless they were granted at an exercise price lower than market value on the grant date. No in-the-money stock options have been granted to our employees since the merger.

Had compensation cost for all stock options granted prior to 2003 been determined on a fair value basis consistent with SFAS No. 123, our net income would have approximated the following pro forma amounts for the years ended December 31, 2003, 2002 and 2001, respectively (millions of dollars).

	2003	2002	2001
Reported net income	$ 117.0	$ 160.7	$ 166.2
Less: pro forma expense, net-of-tax	4.1	4.6	3.9
Pro forma net income	$ 112.9	$ 156.1	$ 162.3

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grant in 2003, 2002, and 2001: dividends per year of zero for 2003, $0.15 per share for 2002 and $0.30 per share for 2001; expected volatility of 89.6%, 74.3% and 46.4%, respectively; a risk-free interest rate of 3.9%, 4.2% and 4.3%, respectively; and an expected option life of 10 years for all periods.

See Note 11 - "Common Stock and Retained Earnings" for additional information.

Accounting Principles Adopted

SFAS No. 132 In December 2003, the FASB released revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised standard requires disclosures for pensions and other postretirement benefit plans and replaces existing pension disclosure requirements. We adopted the new disclosure requirements as of December 31, 2003. Please read Note 12 - "Pension and Other Benefits Costs" for additional information regarding our pension plans.

SFAS No. 143 In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, which was adopted January 1, 2003, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred with the associated asset retirement costs being capitalized as a part of the carrying amount of the long-lived asset. SFAS No. 143 also includes disclosure requirements that provide a description of asset retirement obligations and reconciliation of changes in the components of those obligations.

In order to ascertain whether a legal obligation exists associated with the retirement of our long-lived assets, we identified all facilities and their assets by functional classification. We reviewed those assets for obligations that may have resulted from enacted laws, state and federal regulation, ordinances, written and oral contracts and other applications of law. Two AROs were identified in connection with our operating lease agreement for four gas turbines and a separate land lease at the Tilton site. The turbine assets are subleased to DMG; however we remain the primary obligor. In that capacity we are liable for retiring the assets in place or dismantling them for sale and delivery to a third party if we do not exercise our option to purchase the assets or renegotiate the lease. At the expiration of the land lease, we may have the obligation to restore the property to its original condition. The AROs were calculated based on cash flows, through a process that included assessment of the timing of future retirements, the retirement method and estimated cost, the credit-adjusted risk-free rate and development of other significant assumptions. The credit-adjusted risk-free rate utilized was 12%, which represents the effective interest rate on our Mortgage bonds that were issued December 2002. Upon adoption, the cumulative effect, net of the associated income taxes, was approximately $2.4 million. The ARO liability for the asset

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operating lease and the land lease, recorded during the first quarter 2003, was $5.8 million. Amortization and accretion expense for 2003 was approximately $1 million.

In September 2003, an asset purchase option was exercised which effectively reclassified the Tilton operating lease relating to the turbines as a capital lease and relieved the most imminent dismantlement obligation. At that time, 100% weight was transferred to the likelihood that the outcome of the timing of the cash flows would be at the expiration of the extended land lease in September 2033. Prior to the exercise of the option, the ARO liability balance was $6.2 million and the net book value of the Asset Retirement Cost was $1.3 million.

The removal cost assumption remained the same but was extended to 2033 using the original inflation factor of 3%. The undiscounted cash flows of the dismantlement of the turbine assets in 2033 was calculated to be $18.4 million (compared to $8.2 million on an undiscounted basis at adoption for SFAS 143 which assumed a 2006 obligation under the operating lease). Using the current discount rate of 10.125% as prescribed by SFAS 143, paragraph 15, "Upward revisions in the amount of undiscounted estimated cash flows shall be discounted using the current credit-adjusted risk-free rate," the carrying amount of the ARO liability at September 30, 2003 was calculated to be $1 million.

The ARO liability related to the turbines was reduced to reflect the change, the remaining asset retirement cost net of accumulated amortization was removed, and the remaining net credit was recognized as a gain in the operating section of the income statement for December 31, 2003. This resulted in a zero value asset retirement cost, a $1 million ARO liability carrying amount in Deferred Credits on our Consolidated Balance Sheet, and a net credit to Other Income and Deductions – Net section of our Consolidated Statement of Income and Comprehensive Income of $3.9 million at December 31, 2003.

The following pro forma financial information has been prepared to give effect to the adoption of SFAS No. 143 as if it had been applied during all periods presented (millions of dollars):

For the Years Ended December 31,	**2002**	**2001**
Reported net income	$ 160.7	$ 166.2
Pro forma adjustments to reflect retroactive adoption of SFAS No. 143	(0.7)	(0.7)
Pro forma net income	$ 160.0	$ 165.5

The following table presents the AROs that would have been included in other deferred credits on our consolidated balance sheets if SFAS No. 143 had been applied during all periods presented (millions of dollars):

For the Years Ended December 31,	**2002**	**2001**
Balance, beginning of year	$ 5.2	$ 4.6
Accretion expense	0.6	0.6
Balance, end of year	$ 5.8	$ 5.2

In addition to this liability, we also have potential retirement obligations for the dismantlement of our electric and gas transmission and distribution facilities and natural gas storage facilities. It is our intent to maintain these facilities in a manner such that the facilities will be operational indefinitely. As such, we cannot estimate any potential retirement obligations associated with these assets. At the time we are able to estimate any new asset retirement obligations, liabilities will be recorded in accordance with SFAS No. 143.

SFAS No. 146 In July 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities," which addresses the recognition, measurement and reporting of costs associated with exit and disposal activities, including restructuring activities that were previously accounted for pursuant to the guidance in EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The application of SFAS No. 146 during 2003 did not have a material impact on our financial statements.

SFAS No. 148 In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." We transitioned to a fair value-based method of accounting for stock-based compensation in the first quarter of 2003 and

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are using the prospective method of transition as described under SFAS No. 148. For further discussion, please see "Employee Stock Options" above.

SFAS No. 149 In April 2003, the FASB issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities," which clarifies and amends various issues related to derivatives and financial instruments addressed in SFAS No. 133 and interpretations issued by the Derivatives Implementation Group. In particular, SFAS No. 149 (1) clarifies when a contract with an initial net investment meets the characteristics of a derivative; (2) clarifies when a derivative contains a financing component that should be recorded as a financing transaction on the balance sheet and the statement of cash flows; (3) amends the definition of an "underlying" in SFAS No. 133 to conform to the language used in FIN No. 45; and (4) clarifies other derivative concepts. SFAS No. 149 is applicable to all contracts entered into or modified after June 30, 2003 and to all hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have any effect on our financial statements.

SFAS No. 150 In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Instruments that have an unconditional obligation requiring the issuer to redeem the instrument by transferring an asset at a specified date are required to be classified as liabilities on the balance sheet. Instruments that require the issuance of a variable number of equity shares by the issuer generally do not have the risks associated with equity instruments and as such should also be classified as liabilities on the balance sheet. SFAS No. 150 was effective for contracts in existence or created or modified for the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any impact on our financial statements.

FIN No. 45 In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." As required by FIN No. 45, we adopted the disclosure requirements on December 31, 2002. On January 1, 2003, we adopted the initial recognition and measurement provisions for guarantees issued or modified after December 31, 2002. The adoption of the recognition and measurement provisions did not have any impact on our financial statements.

FIN No. 46 In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." In December 2003, the FASB issued the updated and final interpretation FIN No. 46R. FIN No. 46R requires that an equity investor in a variable interest entity have significant equity at risk (generally a minimum of 10%, which is an increase from 3% required under previous guidance) and hold a controlling interest, evidenced by voting rights, and absorb a majority of the entity's expected losses, receive a majority of the entity's expected returns, or both. If the equity investor is unable to evidence these characteristics, the entity that retains these ownership characteristics will be required to consolidate the variable interest entity as the primary beneficiary. FIN No. 46 was applicable immediately to variable interest entities created or obtained after January 31, 2003. While we have not entered into any arrangements in 2003 that would be subject to FIN 46R, entities previously formed are impacted. FIN No. 46R was effective on December 31, 2003 for interests in entities that were previously considered special purpose entities under then existing authoritative guidance.

In 1998, LLC, of which we are the sole owner, established IPSPT, of which it is the sole owner, to issue Transition Funding Notes ("TFN's") as allowed under Illinois' deregulation legislation ("P.A. 90-561"). The proceeds of the TFN's were used to repurchase debt and equity in order to lower our overall cost of capital. In accordance with P.A. 90-561, we must designate a percentage of the cash received from customer billings to fund payment of the TFN's. The amounts received are remitted to IPSPT and are restricted for the sole purpose of reducing the outstanding balance of the TFN's. Prior to FIN No. 46R, we consolidated IPSPT and reflected the obligation to the noteholders on our balance sheet.

IPSPT is a VIE pursuant to FIN No. 46R, as the equity investment is not sufficient to permit the entity to finance its activities without additional subordinated support. P.A. 90-561 states that the utility is liable for the IPSPT Transition Funding Notes in the event the utility does not receive the funds from the ratepayer or remit the funds to the trust, however, under FIN No. 46R the noteholders are considered the primary beneficiaries of the special purpose trust, and our obligation under the notes is to the IPSPT rather than the noteholders. As of December 31, 2003, LLC and IPSPT were no longer consolidated within our financial statements pursuant to the provisions of FIN No. 46R. This change in presentation had no significant impact on our results of operations or financial position as the previous obligation to the noteholders is now reflected as a separate obligation to IPSPT. In accordance with FIN No. 46R, prior periods have not been restated. Therefore, its effects are reflected only in the Consolidated Balance Sheet as of December 31, 2003,

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with no effect upon the Consolidated Statement of Income and Comprehensive Income or the Consolidated Statement of Cash Flows. See Note 9 – "Long-Term Debt" for additional discussion of the Transitional Funding Trust Notes.

FSP No. 106-1 FSP No. 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was issued January 12, 2004 and became effective for fiscal years ending after December 7, 2003. FSP No. 106-1 requires additional disclosures relating to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was signed into law on December 8, 2003. We have elected to defer accounting for the Act and the amounts included within the accumulated postretirement benefit obligation (APBO) and net periodic postretirement benefit cost in the financial statements and accompanying notes do no reflect the effects of the Act on our plan. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require us to change previously reported information.

Form 1 Financial Statements The financial statements in Form 1 are prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission, as set forth in the applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting principles generally accepted in the United States.

The principle differences between the financial statements in Form 1 and the Form 10-K relate to the classification of certain accounts. For purposes of Form 1, the Note Receivable from Affiliate is classified as a current asset, all debt is classified as long-term and current and non-current deferred taxes assets and liabilities are separately classified.

Note 2 - Agreed Sale to Ameren

In February 2004, Dynegy announced that it entered into a $2.3 billion sale agreement with Ameren pursuant to which Ameren will acquire all of our outstanding common and preferred stock owned by Illinova and Dynegy's 20 percent ownership in the Joppa power generation facility in Joppa, IL. Upon acquiring our company, Ameren will effectively assume our debt of approximately $1.8 billion at closing and Dynegy will receive approximately $400 million in cash, subject to working capital adjustments, with another $100 million being placed in escrow.

In a related agreement that is conditioned upon the closing of the transaction, a Dynegy affiliate has contracted to sell 2,800 megawatts of capacity and up to 11.5 million MWh of energy to us at fixed prices for two years beginning in January 2005. That Dynegy affiliate has also agreed to sell 300 MWs of capacity in 2005 and 150 MWs of capacity in 2006 to us at a fixed price with an option to purchase energy at market-based prices

In connection with Dynegy's agreement to sell our common and preferred stock to Ameren, the Note Receivable from Affiliate is required to be addressed. Please read Note 4 – "Related Parties" for additional information concerning our Note Receivable from Affiliate. Additionally, the sale is conditioned upon, among other things, the receipt of approvals from the ICC, the FERC, the SEC and other governmental and regulatory agencies. Pending these approvals, the transaction is expected to close before the end of 2004.

Note 3 - 2001 Reorganization

We implemented a corporate restructuring in November 2001 that affected departments throughout our organization. As part of the restructuring, severance and early retirement costs of $15.3 million ($9.2 million after-tax) were recorded in 2001. Severance charges represented approximately $5.3 million ($3.2 million after-tax) of the total costs incurred, of which $4.5 million had been paid by the end of 2002 as compared to $.2 million by the end of 2001. Adjustments made in 2002 relate to expenses accrued for the 2001 and 2000 severance plans that will not be paid out. These expenses were accrued using the best data available at the time, but upon review, such expenses were not incurred. As of December 31, 2002, 98 employees were either severed or elected early retirement as a result of the restructuring. The severance/retirement plan and related actions were substantially completed by December 31, 2002 and in 2003, the remaining balance of $0.6 million related to the 2001 severance was paid out.

The following table provides the summary of the activity for the liabilities associated with our severance programs (millions of