U-601295
L47-88(11-02)-LP
1A.120

ILLINOIS POWER COMPANY

CLINTON POWER STATION, P.O. BOX 678, CLINTON, ILLINOIS 61727

DPH-0931-88
November 2, 1988

10CFR50.90

Docket No. 50-461

Document Control Desk
U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

Subject: Clinton Power Station
Request for Amendment to Facility
Operating License NPF-62

Dear Sir:

Pursuant to 10CFR50.90 Illinois Power Company (IP) hereby applies for an amendment to Facility Operating License NPF-62 Clinton Power Station (CPS). IP requests a change to the Operating License to reflect an adjustment to the ownership interests in CPS which will occur when Soyland Power Cooperative (Soyland) merges with Western Illinois Power Cooperative (WIPCO) and WIPCO ceases to exist as a separate entity. Attachment 1 to this letter contains an affidavit supporting the facts set forth in this letter.

Description of Proposed Change

Two pages of the CPS Operating License will require revision to reflect the merger of Soyland and WIPCO. This revision will consist of removing the references to WIPCO indicated in Attachment 2.

Justification for Proposed Change

Soyland and WIPCO are minority owners of CPS with a combined ownership share of less than 15%. Along with IP, WIPCO and Soyland are currently licensees for CPS; as a result, the merger of WIPCO and Soyland will not result in the transfer of the license to any entity not currently a licensee for CPS. Soyland will assume full responsibility for all CPS obligations currently being discharged by WIPCO. The proposed license amendment will not change the share of ownership that IP has in CPS, will not change IP's commitments related to capital and operating and maintenance costs, and will not affect IP's role as project manager.

A001 1/1 w/check $150 #161034

Due to the administrative nature of this change, IP, Soyland and WIPCO believe that there are no common defense and security, public health and safety, environmental or antitrust considerations standing in its way and therefore request that the Commission approve the amendment and make it effective upon completion of Soyland's merger with WIPCO scheduled to occur on January 1, 1989. Because of the timing of the merger, the CPS licensees respectfully request that the Commission give expedited consideration to this request and grant the amendment prior to December 31, 1988.

In support of this request, copies of the most recent financial statements from Soyland and WIPCO are provided in Attachment 3. A copy of the agreement under which Soyland's merger with WIPCO will take place and a description of the financial structure of Soyland following its merger with WIPCO are also provided in Attachment 3. In addition, copies of IP's most recent Securities and Exchange Commission 8-K, 10-Q, and 10-K forms and a copy of IP's most recent Annual Report are provided in Attachment 4.

Basis for No Significant Hazards Consideration

According to 10CFR50.92, a proposed change to the Operating License involves no significant hazards consideration if operation of the facility in accordance with the proposed change would not (1) involve a significant increase in the probability or consequences of an accident previously evaluated, (2) create the possibility of a new or different kind of accident from any accident previously evaluated, or (3) involve a significant reduction in a margin of safety.

The amendment requested herein is administrative in nature and involves only the merger of two minority owners that are already licensees. The merger will in no way affect the provisions of the CPS Ownership Participation Agreement with respect to operation and control of CPS, nor will it in any way affect the design or construction of the facility.

1) The proposed amendment does not involve a significant increase in the probability or consequences of an accident previously evaluated because it revises the Operating License to indicate the merger of two minority owners that are already licensees. This revision represents an administrative change, and therefore has no impact on accidents previously evaluated.

2) The proposed amendment does not create the possibility of a new or different kind of accident from any accident previously evaluated because IP will continue to act as the project manager for CPS, therefore, no change to the plant's physical configuration, or the plant operating philosophy will result from this proposed amendment.

3) The proposed amendment does not involve a significant reduction in the margin of safety because this is an administrative change and it will have no impact on any margin of safety.

The proposed amendment therefore does not involve a significant hazards consideration.

General

IP has reviewed the proposed amendment to the Operating License against the criteria of 10CFR51.22 for environmental considerations. The proposed changes do not involve a significant hazards consideration, do not significantly increase the types and amounts or change the types of effluents that may be released offsite, nor do they significantly increase individual or cumulative occupational radiation exposures. Based on the foregoing, IP concludes that the proposed Operating License amendment meets the criteria given in 10CFR51.22(c)(9) for categorical exclusion from the requirement for an Environmental Impact Statement.

In accordance with 10CFR50.30 and 10CFR170.12, one signed original of this application is enclosed along with a $150 filing fee. In addition, pursuant to 10CFR50.91(b)(1), a copy of this request for amendment has been sent to the Illinois Department of Nuclear Safety.

Sincerely yours,

D. P. Hall
Vice President

GSL/pgc

Enclosures

cc: Regional Administrator, Region III, USNRC
NRC Clinton Licensing Project Manager
NRC Resident Office
Illinois Department of Nuclear Safety

Attachment 1
to U-601295

STATE OF ILLINOIS

COUNTY OF DEWITT

DONALD P. HALL, Being first duly sworn, deposes and says: That he is Vice President of Illinois Power Company; that the provided information has been prepared under his supervision and direction; that he knows the contents thereof; and that to the best of his knowledge and belief said request and the facts contained therein are true and correct.

DATED: This 2nd day of November 1988

Signed: D P Hall
Donald P. Hall

Subscribed and sworn to before me this 2nd day of November 1988.

Linda S. French
Notary Public

"OFFICIAL SEAL"
Linda S. French
Notary Public, State of Illinois
My Commission Expires 9/1/92

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D. C. 20555

ILLINOIS POWER COMPANY
SOYLAND POWER COOPERATIVE, INC.
~~WESTERN ILLINOIS POWER COOPERATIVE, INC.~~
DOCKET NO. 50-461
CLINTON POWER STATION, UNIT NO. 1
FACILITY OPERATING LICENSE

License No. NPF-62

1. The Nuclear Regulatory Commission (the Commission or the NRC) has found that:

   A. The application for license filed by Illinois Power Company* (IP), acting on behalf of itself and as agent for Soyland Power Cooperative, Inc. ~~and Western Illinois Power Cooperative, Inc.~~ (licensees) complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;

   B. Construction of the Clinton Power Station, Unit No. 1 (the facility) has been substantially completed in conformity with Construction Permit No. CPPR-137 and the application, as amended, the provisions of the Act and the regulations of the Commission;

   C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Section 2.D. below);

   D. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public; and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I (except as exempted from compliance in Section 2.D. below);

   E. Illinois Power Company is technically qualified to engage in the activities authorized by this operating license in accordance with the Commission's regulations set forth in 10 CFR Chapter I;

   F. The licensees have satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements," of the Commission's regulations;

*Illinois Power Company is authorized to act as agent for Soyland Power Cooperative, Inc. ~~and Western Illinois Power Cooperative, Inc.~~ and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility.

G. The issuance of this license will not be inimical to the common defense and security or to the health and safety of the public;

H. After weighing the environmental, economic, technical, and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of Facility Operating License No. NPF-62, subject to the conditions for protection of the environment set forth in the Environmental Protection Plan attached as Appendix B, is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied; and

I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40, and 70.

2. Based on the foregoing findings regarding this facility, and pursuant to approval by the Nuclear Regulatory Commission at a meeting on April 10, 1987, Facility Operating License No. NPF-62, which supersedes the license for fuel loading and low power testing, License No. NPF-55, issued on September 29, 1986, is hereby issued to Illinois Power Company~~,~~ and Soyland Power Cooperative, Inc. ~~and Western Illinois Power Cooperative, Inc.~~ (the licensees), to read as follows:

A. This license applies to the Clinton Power Station, Unit No. 1, a boiling water nuclear reactor and associated equipment (the facility), owned by Illinois Power Company~~,~~ and Soyland Power Cooperative, Inc. ~~and Western Illinois Power Cooperative, Inc.~~ The facility is located in Harp Township, DeWitt County, approximately six miles east of the city of Clinton in east-central Illinois and is described in the licensees' Final Safety Analysis Report, as supplemented and amended, and in the licensees' Environmental Report-Operating License Stage, as supplemented and amended.

B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:

(1) Illinois Power Company (IP), pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use and operate the facility at the designated location in Harp Township, DeWitt County, Illinois, in accordance with the procedures and limitations set forth in this license;

(2) Soyland Power Cooperative, Inc. ~~and Western Illinois Power Cooperative, Inc.~~, pursuant to Section 103 of the Act and 10 CFR Part 50, to possess the facility at the above designated location in accordance with the procedures and limitations set forth in this license;

(3) IP, pursuant to the Act and 10 CFR Part 70, to receive, possess and to use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;

Attachment 5

Documents attached:

1. Soyland Power Cooperative, Inc. 1987 Annual Report

2. Western Illinois Power Cooperative, Inc. 1987 Annual Report

3. Approved Plan of Merger of Western Illinois Power Cooperative, Inc. and Soyland Power Cooperative, Inc.

4. Soyland Power Cooperative, Inc. and Related Subsidiary Western Illinois Power Cooperative, Inc.; Consolidated Income Statements through August 31, 1988.

5. Soyland Power Cooperative, Inc. and Related Subsidiary Western Illinois Power Cooperative, Inc.; Consolidated Balance Sheet through August 31, 1988.

6. Soyland Power Cooperative, Inc. and Related Subsidiary Western Illinois Power Cooperative, Inc. Consolidated Balance Sheet (Projected) December 31,, 1989

APPROVED
PLAN OF MERGER
OF
WESTERN ILLINOIS POWER COOPERATIVE, INC.
AND
SOYLAND POWER COOPERATIVE, INC.

Pursuant to the provisions of the Illinois General Not For Profit Corporation Act of 1986, as amended, (Illinois Revised Statutes, Chapter 32, Section 101.10, et seq.), Western Illinois Power Cooperative, Inc., and Soyland Power Cooperative, Inc. (hereinafter referred to as "WIPCO" and "SOYLAND," respectively) being Illinois Not For Profit corporations organized under the Illinois General Not For Profit Corporation Act, as amended, hereby adopt the following Plan of Merger:

1. The names of the corporations proposing to merge are Western Illinois Power Cooperative, Inc., and Soyland Power Cooperative, Inc. The name of the corporation into which they propose to merge is Soyland Power Cooperative, Inc., which will be the surviving corporation.

2. The terms and conditions of the proposed merger are as follows:

a. Special Meetings of the Members of WIPCO and SOYLAND shall be held on such other dates as may be determined by the individual Boards of Directors of WIPCO and SOYLAND, for the purpose of submitting this Plan of Merger to a vote of the voting members pursuant to Section 111.20 of the Illinois General Not For Profit Corporation Act of 1986, as amended.

b. If this Plan of Merger is approved by the members of WIPCO and SOYLAND, the effective date of the merger shall be January 1, 1989.

c. The affairs of the surviving corporation shall be managed by a Board of Directors consisting of the existing Directors of WIPCO and SOYLAND. Each of the existing members of WIPCO and of SOYLAND shall automatically become members of the surviving corporation. Unless and until modified by the members of the surviving corporation, each of the members of the surviving corporation shall be represented on the Board of Directors of the surviving corporation by two (2) directors and one (1) alternate director elected by the members of the surviving corporation. The directors of the surviving corporation shall be directors of the members, except that one of the directors or alternate directors may be an employee of the member. The persons who shall serve as the initial Directors of the surviving corporation shall comprise the Board of Directors until the first Annual Meeting of the surviving corporation or until their successors shall have been elected and qualified. Directors shall be elected pursuant to the provisions of the Bylaws of the merged corporation.

The first annual meeting of members of the surviving corporation will be held in 1989. Each of the corporate members of the surviving corporation shall be entitled to one vote at the first annual meeting of members. The directors of each corporate member shall be the delegates of such corporate member and shall represent it at the first and subsequent meeting of members of the surviving corporation, until their successors shall be elected by the corporate member or until bylaws of the surviving corporation shall modify this designation of delegates.

d. The general office and principal place of business of the surviving corporation shall be in Decatur, Illinois. Existing operational facilities of WIPCO and SOYLAND will be maintained in the present locations, unless and until it is determined by the Board of Directors that such facilities may be eliminated or moved.

e. The operations of the corporation will be directed by an Executive Vice President and General Manager designated by the Board of Directors. The Executive Vice President and General Manager shall be an officer of the corporation, but shall not serve on the Board of Directors. The Executive Vice President and General Manager shall be responsible for the management and direction of the surviving corporation's operations and of its work force.

f. Upon the effective date of merger, the following changes and events shall take place, and in accord with Chapter 32, Section 111.50, Illinois Revised Statutes: (1) WIPCO and SOYLAND shall become merged into the surviving corporation; (2) the separate existence of WIPCO and SOYLAND shall cease; (3) the surviving corporation shall have all of the rights, privileges, immunities and powers and shall be subject to all of the duties and liabilities of a corporation organized under the Illinois General Not For Profit Corporation Act, as amended, (Chapter 32 Section 101.01 et seq., Illinois Revised Statutes.

g. The surviving corporation shall possess all of the rights, privileges, immunities and franchises of WIPCO and SOYLAND; and all debts due on whatever account, and all other choses in action, and all and every other interest, of or belonging to or due to WIPCO and SOYLAND shall be taken to and invested in the surviving corporation without further act or deed; and the title to all real estate, and any interests therein, vested in WIPCO and SOYLAND, shall not revert or be in anyway impaired by reason of the merger.

h. The surviving corporation shall assume all of the liabilities of WIPCO and SOYLAND, and any claim existing or action or proceeding pending by or against either WIPCO or SOYLAND may be prosecuted to judgment as if merger had not taken place, or the surviving corporation may be substituted in its place.

i. The Articles of Incorporation of WIPCO and SOYLAND shall be deemed to be amended consistent with the Articles of Merger to be filed pursuant to this Plan.

3. The rates charged to each member under the existing Wholesale Power Contracts between WIPCO and SOYLAND and their respective members following the merger shall be based upon a common rate schedule for all members determined in accordance with the Wholesale Power Contracts, between the respective members and the surviving corporation.

4. The provisions of Article IX, Section 7 of the Coordination and Operation Agreement between the parties dated July 24, 1984 will continue in full force and effect after the effective date of the merger, except that the return of the funds shall be set by the Board of Directors of the surviving corporation rather than those sums shown in Exhibit 4 to the Coordination and Operation Agreement.

5. The manner in which the surviving corporation shall conduct its affairs shall be as set forth in the Bylaws to be adopted by the Board of Directors of the surviving corporation to be effective until amended or modified by the members.

6. This merger shall be conditioned upon the satisfactory completion of restructuring the debt of WIPCO with the Rural Electrification Adminstration on terms acceptable to the Boards of Directors of both WIPCO and SOYLAND.

The above and foregoing Plan of Merger was duly adopted and approved by the Board of Directors of Western Illinois Power Cooperative, Inc. on the 17th day of May, 1988, and by the Board of Directors of Soyland Power Cooperative, Inc. on the 8th day of June, 1988.

Soyland Power Cooperative, Inc. & Related Subsidiary
Western Illinois Power Cooperative, Inc.

Consolidated Income Statements

Through August 31, 1988

Revenues	
Fixed Cost Revenue	$ 71,373,836
Deferred Revenue Prior Years	8,804,000
Energy Sales	33,423,065
Economic Development	238,443
Deferred Revenue 1988	(11,520,000)
Sales of Ground Source Heat Pumps	571,782
Other Electric Revenue	24,458
Total Revenues	$102,915,584
Expenses	
Purchased Capacity	$ 12,138,110
Generation Operation & Maintenance	13,564,868
Energy Cost	25,500,562
Transmission Expense	3,573,[illegible]04
Distribution Expense	106,254
Refueling Expense	803,000
Cost of Ground Source Heat Pumps	439,962
A & G Expense	2,186,324
Depreciation	20,781,850
Taxes	6,446,011
Interest	30,837,850
Total Costs	$116,378,295
Operating Margins	(13,462,711)
Interest & Other Income	2,351,468
Phase In Deferral	11,354,0[illegible]
Net Margins	$242,757

Soyland Power Cooperative, Inc. & Related Subsidiary
Western Illinois Power Cooperative, Inc.
Consolidated Balance Sheet
August 31, 1988

Assets And Other Debits

Total Utility Plant In Service	$941,394,286	
Nuclear Fuel	24,657,602	
Construction Work In Progress	1,470,884	
Total Plant		$967,522,772
Accum. Provision For Depr. & Amort.		(42,028,467)
Net Plant		$925,494,305
Investment In Associated Organizations-		
Patronage Capital From CFC		3,042,637
Capital Term Certificates		5,047,654
CFC Membership		2,000
Other		11,618
Notes Receivable-		
Illinois Power		24,752,168
Cedar Rapids Property		64,238
Cash-General		135,116
Cash-Construction		187,821
Temporary Cash Investments		35,017,967
Accounts Receivable		19,891,685
Recoverable Energy Charge		1,653,448
Prepayments & Inventories		7,402,810
Phase-In Deferral		11,354,000
Deferred Charges		8,937,224
Total Assets And Other Debits		$1,042,994,691

Liabilities And Other Credits

Memberships		1,675
Mortgage Notes Payable-FFB		317,228,039
Mortgage Notes Payable-REA		22,379,893
Mortgage Notes Payable-Trust	562,996,556	
Less: Repurchased Debt	(15,500,000)	
Net Trust Debt		547,496,556
CFC Intermediate Term Loan		58,707,660
Margins Prior Periods		(49,548,926)
Patronage Capital		2,779,263
Non-Operating Margins		2,351,468
Operating Margins		(2,108,711)
Member Equity Contributions		80,000,000
Deferred Revenue		26,835,244
Notes Payable		7,981,705
Accounts Payable		11,857,323
Interest Accrued-FFB		2,638,633
Interest Accrued-Trust		12,164,611
Interest Accrued-Other		215,482
Other Accrued Liabilities		2,014,776
Total Liabilities And Other Credits		$1,042,994,691

Soyland Power Cooperative, Inc. & Related Subsidiary
Western Illinois Power Cooperative, Inc.
Consolidated Balance Sheet
December 31, 1989

Assets And Other Debits

Total Utility Plant In Service	$941,394,286	
Nuclear Fuel	29,657,602	
Construction Work In Progress	1,470,884	
Total Plant		$972,522,772
Accum. Provision For Depr. & Amort.		(78,511,467)
Net Plant		$894,011,305
Investment In Associated Organizations-		
Patronage Capital From CFC		3,042,637
Capital Term Certificates		5,047,654
CFC Membership		2,000
Other		11,618
Notes Receivable-		
Illinois Power		24,752,168
Cash-General		135,116
Cash-Construction		187,821
Temporary Cash Investments		35,017,967
Accounts Receivable		19,891,685
Recoverable Energy Charge		1,653,448
Prepayments & Inventories		7,402,810
Phase-In Deferral		30,504,000
Deferred Charges		8,937,224
Total Assets And Other Debits		$1,030,597,453

Liabilities And Other Credits

Memberships		1,675
Mortgage Notes Payable-FFB		312,978,039
Mortgage Notes Payable-REA		22,129,893
Mortgage Notes Payable-Trust	560,496,556	
Less: Repurchased Debt	(15,500,000)	
Net Trust Debt		544,996,556
CFC Intermediate Term Loan		53,767,312
Margins Prior Periods		(43,548,926)
Patronage Capital		2,779,263
Member Equity Contributions		71,272,000
Deferred Revenue		31,987,744
Notes Payable		7,981,705
Accounts Payable		11,857,323
Interest Accrued-Trust		12,164,611
Interest Accrued-Other		215,482
Other Accrued Liabilities		2,014,776
Total Liabilities And Other Credits		$1,030,597,453

Attachment 4

Documents attached:

1. Illinois Power Company Securities and Exchange Commission Form 8-K

2. Illinois Power Company Securities and Exchange Commission Form 10-K (including the Annual Report)

3. Illinois Power Company Securities and Exchange Commission Form 10-Q for the Quarter Ended March 31, 1988

4. Illinois Power Company Securities and Exchange Commission Form 10-Q for the Quarter Ended June 30, 1988

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest reported event) June 15, 1988

ILLINOIS POWER COMPANY
(Exact name of registrant as specified in its charter)

State of Illinois	1-3004	37-0344645
(State or jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

500 South 27th Street, Decatur, Illinois	62525
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 217-424-6600

Total number of sequentially numbered pages is 1229.

Item 5. Other Events

On June 15, 1988, the Registrant concluded its filing with the Illinois Commerce Commission ("ICC") of rebuttal evidence in connection with its proposed retail electric rate increase request filed on November 19, 1987. The rebuttal evidence responds to and takes issue with proposals of the ICC Staff and intervening parties to deny or limit rate recovery of costs associated with the Clinton Power Station ("Clinton"). It includes an analysis of the financial impact on the Registrant of the ICC Staff's proposed rate treatment of costs associated with Clinton. Registrant's rebuttal evidence states that, were the Staff's proposal to be adopted by the ICC, Registrant (1) would be required to record as a loss approximately $1.6 billion ($1.1 billion net of income tax) resulting from the recommended disallowance of Clinton construction costs ($0.6 billion) and the present value of annual revenue requirements ($1.0 billion) which are not to be recovered in rates through 1993 because of the contention that Clinton is not used and useful until that time; (2) would be required to suspend payment of its common dividend; (3) would be precluded from issuing first mortgage bonds; (4) would be limited as to the amount of unsecured debt it could issue; (5) would expect its securities to be rated below investment grade; and (6) would have limited access to capital markets and could be required to resort to extreme measures, such as a sale of assets, to meet any large unanticipated cash requirement. Acceptance by the ICC of the positions of certain intervenors would have an even more severe impact on the Registrant's financial condition. In its rebuttal evidence, the Registrant accepts certain adjustments to its original filing proposed by other parties, and makes other adjustments to reflect more current information, with the result that the Registrant is now requesting a first year increase in electric rates of $109.5 million or 12.5% ($92 million, or approximately 10.5%, net of anticipated fuel cost savings and the proposed senior citizen discount). The rebuttal testimony and exhibits filed by Registrant with the ICC are filed herewith as Exhibit 28.

On June 15, 1988, the Registrant also filed with the ICC, in the pending proceeding in which Registrant is seeking a general increase in its electric rates, a motion requesting that the ICC enter an order (1) establishing a mechanism by which entry of the decision on Registrant's pending rate increase request can be deferred from October 18, 1988 to December 30, 1988 and (2) consolidating the rate proceedings with the proceedings relating to an audit of the reasonableness of the costs of constructing Clinton. Although there would be a delay in implementing any rate relief allowed, Registrant agreed to an extension of time for issuance of the rate order in order to provide a reasonable amount of time to complete hearings in the audit docket. For additional information on the financial consequences of a delay in obtaining a rate order reference is made to Clinton Power Station, "In-Service Criteria and Related Accounting and Rate Treatments", and "Accounting Developments", in Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1987 and Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources" in Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1988.

Item 7. Financial Statements and Exhibits

(c) Exhibits

Exhibit	Page No. Within Sequential Numbering System
28. Rebuttal Testimony and Exhibits filed with the Illinois Commerce Commission.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ILLINOIS POWER COMPANY
(Registrant)

June 17, 1988
(Date)

By /s/ Arthur E. Gray
Arthur E. Gray
Vice President & Secretary
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit	Description	Page Number
28	Rebuttal Testimony and Exhibits filed with the Illinois Commerce Commission	5

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 1988 Commission file number 1-3004

ILLINOIS POWER COMPANY
(Exact name of registrant as specified in its charter)

State of Illinois (State or other jurisdiction of incorporation or organization)	37-0344645 (I.R.S. Employer Identification No.)
500 South 27th Street, Decatur, Illinois (Address of principal executive offices)	62525 (Zip Code)

Registrant's telephone number, including area code 217-424-6600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Common Stock, without par value, 69,481,078 shares outstanding at April 30, 1988.

Total number of sequentially numbered pages is 13.

ILLINOIS POWER COMPANY

INDEX

ILLINOIS POWER COMPANY
BALANCE SHEETS
(See accompanying Notes to Financial Statements)

ASSETS	March 31, 1988 (Unaudited)	December 31, 1987
	(Thousands of Dollars)	
Utility Plant, at original cost		
Electric (includes construction work in progress of $44,111,000 and $45,753,000, respectively)	$5,716,438	$5,700,684
Gas (includes construction work in progress of $4,300,000 and $5,591,000, respectively)	426,188	423,892
	6,142,626	6,124,576
Less - Accumulated depreciation	1,121,232	1,078,809
	5,021,394	5,045,767
Nuclear fuel under capital lease	180,607	200,034
Nuclear fuel in process	8,084	-
Acquisition adjustment - net of amortization	471	533
Total utility plant	5,210,556	5,246,334
Investments and Other Assets	9,980	9,697
Current Assets		
Cash and temporary cash investments	35,652	73,114
Accounts receivable		
Service	95,392	75,480
Other	34,346	41,161
Accrued unbilled revenue	45,864	-
Materials and supplies, at average cost	96,909	117,727
Prepayments and others	88,831	79,729
Total current assets	396,994	387,211
Deferred Charges		
Deferred Clinton costs	251,125	207,431
Unamortized deferred abandonment cost	14,986	16,581
Other	55,086	55,480
	321,197	279,492
	$5,938,727	$5,922,734

CAPITAL AND LIABILITIES	March 31, 1988	December 31, 1987
Capitalization		
Common stock -		
No par value, 80,000,000 shares authorized; 69,411,554 and 68,588,901 shares outstanding, respectively, stated at	$1,317,154	$1,298,207
Retained earnings	561,871	554,815
Less - Capital stock expense	11,702	11,634
Preferred and preference stock	315,171	315,171
Redeemable preferred stock	160,000	160,000
Long-term debt	2,263,961	2,279,219
Total capitalization	4,606,455	4,595,778
Current Liabilities		
Accounts payable	98,071	109,778
Notes payable	104,900	103,170
Current maturities of long-term debt	76,707	81,174
Provision for rate reduction	23,129	23,129
Other	199,385	218,934
Total current liabilities	502,192	536,185
Other		
Accumulated deferred income taxes	484,367	443,494
Accumulated deferred investment tax credit	345,713	347,277
Total deferred credits	830,080	790,771
	$5,938,727	$5,922,734

ILLINOIS POWER COMPANY
STATEMENTS OF INCOME
(See accompanying Notes to Financial Statements)

	Three Months Ended March 31, 1988	Three Months Ended March 31, 1987
	(Unaudited) (Thousands of Dollars)	
Operating Revenues:		
Electric	$198,629	$184,053
Gas	135,028	141,648
Total	333,657	325,701
Operating Expenses and Taxes:		
Fuel for electric plants	77,779	66,069
Power purchased and interchanged-net	(26,877)	(10,908)
Gas purchased for resale	92,733	96,874
Other operating expenses	53,010	32,587
Maintenance	18,239	14,018
Depreciation	45,738	18,227
Amortization of abandoned plant	1,595	1,595
General taxes	34,690	30,200
Deferred Clinton costs	(28,904)	-
Income taxes	14,494	25,655
Total	282,497	274,317
Operating Income	51,160	51,384
Other Income:		
Allowance for equity funds used during construction	278	40,752
Miscellaneous - net	16,444	12,758
Total	16,722	53,510
Income Before Interest Charges	67,882	104,894
Interest Charges:		
Interest on long-term debt	47,777	46,519
Other interest charges	6,877	3,451
Allowance for borrowed funds - Construction	(249)	(16,818)
Deferred Clinton financing costs	(14,789)	-
Total	39,616	33,152
Income Before Cumulative Effect of Accounting Change	28,266	71,742
Cumulative effect as of January 1, 1988 of accruing unbilled revenues	34,012	-
Net Income	62,278	71,742
Preferred dividend requirements	9,432	9,634
Net Income applicable to Common Stock	$ 52,846	$ 62,108
Earnings per common share before cumulative effect of accounting change	$ .27	$ .94
Cumulative effect as of January 1, 1988 of accruing unbilled revenues	.49	-
Earnings per common share	$ .76	$ .94
Cash dividends declared per common share	$ .66	$ .66
Weighted average number of common shares outstanding during period	69,172,235	66,136,255

( ) Denotes credit.

ILLINOIS POWER COMPANY
STATEMENTS OF SOURCES OF FUNDS PROVIDED FOR GROSS PROPERTY ADDITIONS
(See accompanying Notes to Financial Statements)

	Three Months Ended March 31, 1988	1987
	(Unaudited) (Thousands of Dollars)	
Funds Generated from Operations Before Cumulative Effect of Accounting Change	$ 85,666	$ 32,174
Funds Obtained from External Sources		
Sale of first mortgage bonds	-	150,000
Sales of common stock	18,947	23,384
Net increase (decrease) in notes payable	1,730	(20,348)
Retirement of long-term debt	-	(150,000)
Redemption of preferred stock	-	(36,000)
	20,677	(32,964)
Other Funds Provided (Used)		
Working capital and other changes	(41,168)	168,664
Dividends declared	(55,222)	(53,143)
Increase (decrease) in obligations under capital leases	(19,830)	3,438
Cumulative effect of accounting change	34,012	-
	(82,208)	118,959
Gross Property Additions	$ 24,135	$118,169

NOTES TO FINANCIAL STATEMENTS

Financial Statement note disclosures, normally included in financial statements prepared in conformity with generally accepted accounting principles, have been omitted in this Form 10-Q pursuant to the Rules and Regulations of the Securities and Exchange Commission. However, in the opinion of the Company, the disclosures contained in this Form 10-Q are adequate to make the information presented not misleading. See Notes to Financial Statements as incorporated by reference in the Company's Form 10-K for the year ended December 31, 1987 for information relevant to the financial statements contained herein, including information as to significant accounting policies followed by the Company.

In the opinion of the Company, the accompanying unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments and including the change in the method of accounting for revenue as described further in this note) necessary to present fairly the Balance Sheet as of March 31, 1988, the Statements of Income for the three months ended March 31, 1988 and 1987, and the Statements of Sources of Funds Provided for Gross Property Additions for the three months ended March 31, 1988 and 1987. Due to seasonal and other factors which are characteristic of electric and gas utility operations, interim period results are not necessarily indicative of results to be expected for the year.

Regulatory Matters

On April 18 the Illinois Commerce Commission (ICC) staff filed testimony in the Company's electric rate case making a recommendation that electric rates be reduced by 9.1 percent (about $79 million annually). This recommendation is neither a final opinion of the ICC staff, nor a decision by the ICC. In support of their recommendation, the staff concluded that Clinton power station (Clinton) generating capacity is not used and useful at this time. As a result, the staff recommended that the Company not be allowed to currently recover any Clinton costs except for depreciation and debt and preferred stock financing costs on only $2.9 billion of total Clinton-related costs of about $3.8 billion. Other key elements in the staff presentation included disallowing $577 million of construction costs related to Phase I findings of the construction audit, and a further disallowance of about $247 million related to additional capacity the Company obtained at the time its ownership share in Clinton increased from 80 percent to 86.6 percent. Other intervenors have recommended greater rate reductions, as much as $377 million. If these recommendations were to be accepted by the ICC, the Company's financial position would be weakened to the point that it would not have sufficient earnings to maintain its common stock dividend at its present level, and its financial condition would be materially adversely affected.

It is the Company's understanding that the staff recommendations were derived without any consideration of financial implications. Illinois law requires that such financial implications of any decision must be considered by the ICC. The staff has acknowledged that the subject of financial integrity will be addressed in subsequent staff testimony.

The Company intends to submit rebuttal testimony in June rigorously responding to the above issues.

Touche Ross & Co. and The Nielsen-Wurster Group filed the Phase II Report of their management audit on construction costs of Clinton with the ICC on April 7, 1988. In the report, Touche Ross/Nielsen-Wurster recommends a $456 million disallowance of plant costs. This recommended disallowance is related to total project costs of $4.22 billion, of which the Company's share is $3.77 billion. The portion of the disallowance which would be related to the Company is estimated to be $419 million.

Three nationally known firms were separately retained on behalf of the Company to evaluate management of the Clinton project through independent audits. The results of their Phase II reports were announced April 7. In their reports, they conclude that the Company's management of Clinton was generally reasonable. However, they concluded that the Company's management gave "inadequate attention" to planning and scheduling final work activities, and that completion of plant systems for fuel load could have been completed 32 days earlier. However, the Company believes that authorization to load fuel could not have been received prior to September 29, 1986, when it did occur, because of various Nuclear Regulatory Commission requirements.

The ICC also directed Touche Ross/Nielsen-Wurster to identify any cost attributable to the design changes associated with the General Electric Mark III Reactor Containment. The auditors have identified that cost as about $441 million. They emphasize that these costs were outside the direct control of Illinois Power and that, in fact, the Company prudently managed that aspect of the project.

The Company strongly disagrees with the auditors' disallowance recommendation and the ICC staff position, and further believes that Clinton project activities were handled well and that there were no management actions which resulted in unreasonable costs. The ICC is expected to make a final decision on these matters in late 1988 following a review of the audit reports and consideration of evidence presented by the Company, ICC staff, and intervening parties. If the ICC ultimately orders a disallowance, under current generally accepted accounting principles such disallowance would be immediately written off as a loss, less the related income taxes. If the disallowance cited in the Touche Ross/Nielsen-Wurster audit report were to be accepted by the ICC, the Company's financial condition would be weakened, and the effect on dividends would be uncertain.

Change in Method of Accounting for Revenue

In the first quarter of 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. Previously, the Company recognized revenues when services were billed.

The $34.0 million cumulative effect of the accounting change on prior years (net of income taxes of $26.5 million) is included in net income for the three months ended March 31, 1988. Changes in unbilled revenue since December 31, 1987 decreased net income about $2 million or 3¢ per share. Implementation of this accounting change does not affect cash flow. Had this change been in effect in prior years, the Company's pro-forma earnings compared to reported earnings would have been as follows:

	Three Months Ended March 31,			
	1988		1987	
	As Reported	Pro-Forma	As Reported	Pro-Forma
Net Income (000)	$62,278	$28,266	$71,742	$69,925
Earnings for Common Stock (000)	$52,846	$18,834	$62,108	$60,291
Earnings Per Share	$ .76	$ .27	$ .94	$ .91

Accounting Matters

The Company has adopted the Statement of Financial Accounting Standards No. 90, "Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs" and Statement of Financial Accounting Standards No. 92, "Regulated Enterprises-Accounting for Phase-in Plans." No loss provision for a disallowance was recorded in the current period financial statements because no reasonable estimate of the loss, if any, can be made.

Legal Proceedings

There has been no significant change in the status of the lawsuit filed by members of 22 Illinois rural electric power cooperatives against the Company concerning the Company's construction management of Clinton as reported in the Company's annual report on Form 10-K for 1987.

ILLINOIS POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations presented in the Company's 1987 Annual Report. Important factors affecting financial condition and results of operations during the first quarter of 1988 are as follows:

Liquidity and Capital Resources

On November 19, 1987, the Company filed an electric rate moderation plan with the Illinois Commerce Commission (ICC). The plan would increase revenue approximately $97.8 million, net of anticipated fuel savings and a senior citizen discount, in the first year, followed by a series of up to nine annual increases indexed to inflation. Cash flow associated with the deferrals in the rate moderation plan would be delayed until the deferred costs are recovered in rates. The plan is subject to approval or modification by the ICC.

See Notes to Financial Statements on page 6 regarding the April 18, 1988 ICC staff filing of testimony in the Company's electric rate case. Also see Notes to Financial Statements on page 7 regarding the Phase II Report of the management audit on construction costs of Clinton power station (Clinton) filed by Touche Ross & Co. and The Nielsen-Wurster Group with the ICC on April 7, 1988, and results of independent audits performed on behalf of the Company. These matters could materially adversely affect the Company's liquidity and financial condition.

A November 1987 ICC order approved the provisions of a negotiated settlement reached by the Company and several intervenors. The order provided for the deferral of Clinton-related depreciation, taxes other than income taxes, and financing costs until a rate order, expected in late 1988, reflecting the inclusion of Clinton in rate base becomes effective. The order specifies that such deferred costs and the related return will be recovered, to the extent that total Clinton costs are allowed in rate base, over the remaining life of Clinton. During the first quarter of 1988, the Company recorded post-construction cost deferrals of $43.7 million ($34.1 million, net of income taxes). Under this agreement, Clinton operation and maintenance costs are being expensed currently. However, the ICC has allowed the Company to reflect in income the electric revenues resulting from the lower federal income taxes under the Tax Reform Act of 1986 during the deferral period. Earnings will be decreased by about $2 million per month until the next electric rate order is effective.

Amendments to generally accepted accounting principles (GAAP) which became effective in January 1988, no longer permit an allowance for return on shareholders' investment in post-construction cost deferrals for financial statement purposes. Such allowance for earnings on shareholders' investment would have been approximately $10 million per month during 1988. However, pursuant to the November 1987 ICC order, such allowance may be recovered over the life of the plant to the extent that Clinton costs are allowed in rate base.

Capital requirements for construction were approximately $24 million and $118 million during the first quarter of 1988 and 1987, respectively. Cash flow from operations during the current quarter provided sufficient working capital to meet ongoing operating requirements.

Results of Operations

Three Months Ended March 31, 1988 and 1987

Electric Operations - The current quarter increase of $14.6 million in electric revenues reflects the combined effect of the 9% April 1987 rate increase, a 1.0% increase in kilowatt-hour sales, and the retention of federal income tax savings in accordance with the negotiated settlement previously described. The savings were deferred in the 1987 period.

The current quarter cost of fuel for electric plants increased $11.7 million reflecting a 27% increase in electric generation. The credit for power purchased and interchanged-net increased $16.0 million, primarily due to greater availability of our lower cost generating units and market demand for electricity, partially offset by decreased sales under a power coordination agreement. The current period reflects the operation of Clinton as a base load unit.

Gas Operations - The $6.6 million decrease in gas revenues in the current quarter resulted from decreased recoveries of gas costs under the Uniform Gas Adjustment Clause, partially offset by a 23.4% increase in therm sales. The increase in therm sales reflects a number of our customers receiving gas from the Company rather than under gas transportation arrangements. The combination of therms sold and transported represents an increase in gas consumption of 2.3%.

The cost of gas purchased for resale decreased about $4.1 million during the current quarter due to decreased gas costs, partially offset by increased sales to our customers.

Other Expenses and Taxes - The current quarter increase in other operation and maintenance expenses, depreciation and amortization, and general taxes is primarily the result of beginning Clinton operations on April 24, 1987.

Other Income - Total allowance for funds used during construction and deferred Clinton financing costs decreased $42.2 million during the quarter due primarily to completion of construction of Clinton in 1987 and amendments to GAAP which prohibit the capitalization of an allowance for return on shareholders' investment in post-construction cost deferrals.

In accordance with the negotiated settlement, $14.8 million of Clinton deferred debt costs was capitalized on Clinton deferred costs and plant costs not in rate base subject to ICC jurisdiction for the quarter. Clinton deferred financing costs were calculated using a 2.75% net of income tax rate applicable to the debt component of our financing costs.

Change in Method of Accounting for Revenue - In the first quarter of 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. See Notes to Financial Statements on page 7 for further information.

Earnings per Common Share - The decrease in earnings per common share during the current quarter resulted from the interaction of all the factors discussed herein, dividend requirements applicable to preferred stock retired, and common stock issued since the 1987 quarter.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 18 Letter re: Change in Accounting Principles (Incorporated by Reference into Part I)

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated April 7, 1988, was filed reporting under Item 5, Other Events.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ILLINOIS POWER COMPANY
(Registrant)

ORIGINAL SIGNED BY A. E. G.
By
Arthur E. Gray
Vice President and Secretary
(Principal Accounting Officer)

Date: May 11, 1988

EXHIBIT INDEX

One Centerre Plaza
St. Louis, MO 63101
Telephone 314 425 0500

Price Waterhouse

May 11, 1988

To the Board of Directors
of Illinois Power Company

Dear Sirs:

We have been furnished with a copy of the Company's Form 10-Q for the quarter ended March 31, 1988. The Notes thereto describe a change in the Company's method of accounting for unbilled revenues from a cycle billing basis to full recognition of unbilled revenues. It should be understood that the preferability of one acceptable method of revenue recognition in a regulatory environment over another has not been addressed in any authoritative accounting literature and in arriving at our opinion expressed below, we have relied on management's business planning and judgment. Based upon our discussions with management and the stated reasons for the change, we believe that such change represents, in your circumstances, the adoption of a preferable alternative accounting principle for unbilled revenues in conformity with Accounting Principles Board Opinion No. 20.

We have not made an examination in accordance with generally accepted auditing standards of the financial statements of Illinois Power Company for the three-month periods ended March 31, 1988 or March 31, 1987 and, accordingly, we express no opinion thereon or on the financial information filed as a part of the Form 10-Q of which this letter is to be an exhibit.

Price Waterhouse

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended June 30, 1988 Commission file number 1-3004

ILLINOIS POWER COMPANY
(Exact name of registrant as specified in its charter)

State of Illinois (State or other jurisdiction of incorporation or organization)	37-0344645 (I.R.S. Employer Identification No.)
500 South 27th Street, Decatur, Illinois (Address of principal executive offices)	62525 (Zip Code)

Registrant's telephone number, including area code 217-424-6600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Common Stock, without par value, 70,619,886 shares outstanding at July 31, 1988.

Total number of sequentially numbered pages is 13.

ILLINOIS POWER COMPANY

INDEX

ILLINOIS POWER COMPANY
BALANCE SHEETS
(See accompanying Notes to Financial Statements)

ASSETS	June 30, 1988 (Unaudited)	December 31, 1987
	(Thousands of Dollars)	
Utility Plant, at original cost		
Electric (includes construction work in progress of $54,733,000 and $45,753,000, respectively)	$5,734,561	$5,700,684
Gas (includes construction work in progress of $5,359,000 and $5,591,000, respectively)	430,566	423,892
	6,165,127	6,124,576
Less - Accumulated depreciation	1,164,375	1,078,809
	5,000,752	5,045,767
Nuclear fuel under capital lease	173,687	200,034
Nuclear fuel in process	9,900	-
Acquisition adjustment - net of amortization	409	533
Total utility plant	5,184,748	5,246,334
Investments and Other Assets	10,458	9,697
Current Assets		
Cash and temporary cash investments	25,389	73,114
Accounts receivable		
Service	76,804	75,480
Other	30,560	41,161
Accrued unbilled revenue	57,443	-
Materials and supplies, at average cost	105,647	117,727
Prepayments and other	100,089	79,729
Total current assets	395,932	387,211
Deferred Charges		
Deferred Clinton costs	294,597	207,431
Unamortized deferred abandonment cost	13,392	16,581
Other	76,133	55,480
	384,122	279,492
	$5,975,260	$5,922,734
CAPITAL AND LIABILITIES		
Capitalization		
Common stock -		
No par value, 80,000,000 shares authorized; 70,337,124 and 68,588,901 shares outstanding, respectively, stated at	$1,332,845	$1,298,207
Retained earnings	531,280	554,815
Less - Capital stock expense	11,883	11,634
Preferred and preference stock	315,171	315,171
Redeemable preferred stock	160,000	160,000
Long-term debt	2,319,006	2,279,219
Total capitalization	4,646,419	4,595,778
Current Liabilities		
Accounts payable	97,673	109,778
Notes payable	64,500	103,170
Current maturities of long-term debt	64,014	81,174
Provision for rate reduction	20,665	23,129
Other	204,950	218,934
Total current liabilities	451,902	536,185
Other		
Accumulated deferred income taxes	532,492	443,494
Accumulated deferred investment tax credit	344,447	347,277
Total deferred credits	876,939	790,771
	$5,975,260	$5,922,734

ILLINOIS POWER COMPANY
STATEMENTS OF INCOME
(See accompanying Notes to Financial Statements)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1988	1987	1988	1987
	(Unaudited) (Thousands of Dollars)			
Operating Revenues:				
Electric...........................	$211,504	$195,231	$410,133	$379,284
Gas................................	59,375	58,496	194,403	200,144
Total..........................	270,879	253,727	604,536	579,428
Operating Expenses and Taxes:				
Fuel for electric plants..........	64,967	49,584	142,746	115,653
Power purchased and interchanged - net...............	(16,415)	(2,325)	(43,292)	(13,233)
Gas purchased for resale..........	30,859	32,258	123,592	129,132
Other operating expenses..........	53,649	37,668	106,659	70,255
Maintenance.......................	25,214	18,695	43,453	32,713
Depreciation......................	45,852	18,329	91,590	36,556
Amortization of abandoned plant..	1,594	1,595	3,189	3,190
General taxes.....................	26,559	25,224	63,249	55,424
Deferred Clinton costs............	(28,920)	-	(57,824)	-
Income taxes......................	19,028	22,427	33,522	48,082
Total..........................	224,387	203,455	506,884	477,772
Operating Income..................	46,492	50,272	97,652	101,656
Other Income:				
Allowance for equity funds used during construction.............	426	36,686	704	77,438
Miscellaneous - net...............	14,855	12,340	31,299	25,098
Total..........................	15,281	49,026	32,003	102,536
Income Before Interest Charges.....	61,773	99,298	129,655	204,192
Interest Charges:				
Interest on long-term debt........	47,493	47,321	95,270	93,840
Other interest charges...........	3,884	3,774	10,761	7,225
Allowance for borrowed funds - Construction....................	(414)	(15,224)	(663)	(32,042)
Deferred Clinton financing costs	(14,553)	-	(29,342)	-
Total..........................	36,410	35,871	76,026	69,023
Income Before Cumulative Effect of Accounting Change.................	25,363	63,427	53,629	135,169
Cumulative effect as of January 1, 1988 of accruing unbilled revenues	-	-	34,012	-
Net Income.........................	25,363	63,427	87,641	135,169
Preferred dividend requirements....	9,352	9,283	18,784	18,917
Net Income applicable to Common Stock............................	$ 16,011	$ 54,144	$ 68,857	$116,252
Earnings per common share before cumulative effect of unbilled revenues..........................	$ .23	$ .81	$ .50	$ 1.75
Cumulative effect as of January 1, 1988 of accruing unbilled revenues	-	-	.49	-
Earnings per common share..........	$ .23	$ .81	$ .99	$ 1.75
Cash dividends declared per common share......................	$ .66	$ .66	$ 1.32	$ 1.32
Weighted average number of common shares outstanding during period..	70,016,806	66,824,276	69,594,521	66,482,166

( ) Denotes credit.

ILLINOIS POWER COMPANY

STATEMENTS OF SOURCES OF FUNDS PROVIDED FOR GROSS PROPERTY ADDITIONS

(See accompanying Notes to Financial Statements)

	Six Months Ended June 30, 1988	Six Months Ended June 30, 1987
	(Unaudited) (Thousands of Dollars)	
Funds Generated from Operations Before Cumulative Effect of Accounting Change	$167,136	$120,521
Funds Obtained from External Sources		
Sale of first mortgage bonds	75,000	150,000
Sales of common stock	34,638	39,261
Issuance of long-term notes	-	80,000
Net increase (decrease) in notes payable	(38,570)	(21,263)
Retirement of long-term debt	(25,000)	(150,000)
Redemption of preferred stock	-	(36,000)
Repayment of bank notes	-	(44,000)
	46,068	17,998
Other Funds Provided (Used)		
Working capital and other changes	(54,757)	204,297
Dividends declared	(111,176)	(106,793)
Increase (decrease) in obligations under capital leases	(27,165)	18,668
Cumulative effect of accounting change	34,012	-
	(159,086)	116,172
Gross Property Additions	$ 54,118	$254,691

ILLINOIS POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

Financial Statement note disclosures, normally included in financial statements prepared in conformity with generally accepted accounting principles, have been omitted in this Form 10-Q pursuant to the Rules and Regulations of the Securities and Exchange Commission. However, in the opinion of the Company, the disclosures contained in this Form 10-Q are adequate to make the information presented not misleading. See Notes to Financial Statements as incorporated by reference in the Company's Form 10-K for the year ended December 31, 1987 for information relevant to the financial statements contained herein, including information as to significant accounting policies followed by the Company.

In the opinion of the Company, the accompanying unaudited financial statements reflect all adjustments (consisting of only normal recurring adjustments and including the change in the method of accounting for revenue as described further in this note) necessary to present fairly the Balance Sheet as of June 30, 1988, the Statements of Income for the three months and six months ended June 30, 1988 and 1987, and the Statements of Sources of Funds Provided for Gross Property Additions for the six months ended June 30, 1988 and 1987. Due to seasonal and other factors which are characteristic of electric and gas utility operations, interim period results are not necessarily indicative of results to be expected for the year.

Regulatory Matters

On June 15 the Company concluded its filing with the Illinois Commerce Commission (ICC) of its rebuttal testimony which states that were the ICC staff's (staff) initial proposal filed on April 18 to be adopted by the ICC, the Company (1) would be required to record as a loss approximately $1.1 billion, net of income taxes resulting from the recommended disallowance of Clinton power station (Clinton) construction costs and the present value of annual revenue requirements which are not to be recovered in rates through 1993 because of the contention that Clinton is not used and useful until that time; (2) would be required to suspend payment of its common dividend; (3) would be precluded from issuing first mortgage bonds; (4) would be limited as to the amount of unsecured debt it could issue; (5) would expect its securities to be rated below investment grade; and (6) would have limited access to capital markets and could be required to resort to extreme measures, such as a sale of assets, to meet any large unanticipated cash requirement.

Rebuttal testimony filed by the staff on July 15 slightly moderated their initial position by recommending an electric rate decrease of 7.4 percent (about $65 million annually). However, the rebuttal testimony, which is neither a final opinion of the staff, nor a decision by the ICC, reflects little change from the staff's initial testimony. In support of their recommendation, the staff continues to conclude that Clinton generating capacity is not used and useful at this time. As a result, the staff recommends that the Company not be allowed to currently recover any Clinton costs except for depreciation and debt and preferred stock financing costs on only $2.9 billion of total Clinton-related costs of about $3.8 billion. Other key elements in the staff's rebuttal testimony continue to include recommended disallowances of $577 million of construction costs related to Phase I findings of the construction audit, and about $240 million of costs related to additional capacity the Company obtained at the time its ownership share in Clinton increased from 80 percent to 86.6 percent.

Staff's rebuttal testimony included an evaluation of the Company's financial integrity. Staff's conclusion was that a rate increase of approximately $89 million over present electric rates would be necessary for the Company to maintain minimum financial integrity. Staff did not make a determination on financial integrity at this time, but indicated that an additional review of the issue will be made.

Touche Ross & Co. and The Nielsen-Wurster Group filed a report at the conclusion of Phase II of their management audit on construction costs of Clinton with the ICC on April 7, 1988 which recommends a $456 million disallowance of plant costs. This recommended disallowance is related to total project costs of $4.22 billion, of which the Company's share is $3.77 billion. The portion of the disallowance which would be related to the Company is estimated to be $419 million. If the disallowance cited in the Touche Ross/Nielsen-Wurster audit report were to be accepted by the ICC, the Company's financial condition would be weakened, and the effect on dividends would be uncertain.

The Company strongly disagrees with the staff position and the auditors' disallowance recommendation, and further believes that Clinton project activities were handled well and that there were no management actions which resulted in unreasonable costs. The proceedings relating to the pending rate increase and the audit of the reasonableness of the costs of Clinton have been combined under the July 20, 1988 ICC order and a decision covering both matters will be issued by December 30, 1988. If the ICC ultimately orders a disallowance, under current generally accepted accounting principles, such disallowance would be immediately written off as a loss, less the related income taxes.

Change in Method of Accounting for Revenue

On January 1, 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. Previously, the Company recognized revenues when services were billed.

The $34.0 million cumulative effect of the accounting change on prior years (net of income taxes of $26.5 million) is included in net income for the six months ended June 30, 1988. Changes in unbilled revenue during the current quarter increased net income $10.5 million or 15¢ per share. Changes in unbilled revenue since December 31, 1987 increased net income $8.5 million or 12¢ per share. Implementation of this accounting change does not affect cash flow. Had this change been in effect in prior years, the Company's pro-forma earnings compared to reported earnings would have been as follows:

	Three Months Ended June 30			
	1988		1987	
	As Reported	Pro-Forma	As Reported	Pro-Forma
Net Income (000)	$25,363	$25,363	$63,427	$71,852
Earnings for Common Stock (000)	$16,011	$16,011	$54,144	$62,569
Earnings Per Share	$ .23	$ .23	$ .81	$ .94

	Six Months Ended June 30			
	1988		1987	
	As Reported	Pro-Forma	As Reported	Pro-Forma
Net Income (000)	$87,641	$53,629	$135,169	$141,784
Earnings for Common Stock (000)	$68,857	$34,845	$116,252	$122,867
Earnings Per Share	$ .99	$ .50	$ 1.75	$ 1.85

Accounting Matters

The Company has adopted the Statement of Financial Accounting Standards No. 90, "Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs" and the Statement of Financial Accounting Standards No. 92, "Regulated Enterprises-Accounting for Phase-in Plans." No loss provision for a disallowance was recorded in the current period financial statements because no reasonable estimate of the loss, if any, can be made.

Legal Proceedings

On July 25, 1988, the Circuit Court for Sangamon County, Illinois denied the Company's motion to dismiss the only remaining count of a complaint filed by members of 22 Illinois rural electric power distribution cooperatives. Under this count, plaintiffs seek to proceed on behalf of a class of all customers of cooperatives that obtain electrical power from the Company's Clinton Power Station to recover unspecified compensatory damages for alleged injuries due to "increased energy supply costs." On August 8, 1988, the Company filed a motion requesting the Court to reconsider its July 25, 1988 order, or in the alternative, to permit an interlocutory appeal of such order. For further information relating to this proceeding, see Item 1 of the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1987.

ILLINOIS POWER COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations presented in the Company's 1987 Annual Report and Interim Report to Stockholders dated April 26, 1988. Important factors affecting financial condition and results of operations between the periods indicated are as follows:

Liquidity and Capital Resources

On November 19, 1987, the Company filed an electric rate moderation plan with the Illinois Commerce Commission (ICC). The plan, as adjusted in the Company's rebuttal testimony, would increase revenue approximately $92 million, net of anticipated fuel savings and a senior citizen discount, in the first year, followed by a series of up to nine annual increases indexed to inflation. Cash flow associated with the deferrals in the rate moderation plan would be delayed until the deferred costs are recovered in rates. The plan is subject to approval or modification by the ICC.

See Notes to Financial Statements on pages 6 and 7 regarding current developments in the Company's electric rate case. Also see Notes to Financial Statements on page 7 regarding the Phase II Report of the management audit on construction costs of Clinton power station (Clinton) filed by Touche Ross & Co. and The Nielsen-Wurster Group with the ICC on April 7, 1988. These matters could materially adversely affect the Company's liquidity and financial condition.

A November 1987 ICC order approved the provisions of a negotiated settlement reached by the Company and several intervenors. The order provided for the deferral of Clinton-related depreciation, taxes other than income taxes, and financing costs until a rate order reflecting the inclusion of Clinton in rate base becomes effective. The order specifies that such deferred costs and the related return will be recovered, to the extent that total Clinton costs are allowed in rate base, over the remaining life of Clinton. During the second quarter of 1988, the Company recorded post-construction cost deferrals of $43.5 million ($32.0 million, net of income taxes). During the six months ended June 30, 1988, the Company recorded post-construction cost deferrals of $87.2 million ($66.1 million, net of income taxes). Under this agreement, Clinton operation and maintenance costs are being expensed currently. However, the ICC has allowed the Company to reflect in income the electric revenues resulting from the lower federal income taxes under the Tax Reform Act of 1986 during the deferral period. As a result of this negotiated settlement, earnings will continue to be decreased by about $2 million per month until the electric rate order is effective.

Amendments to generally accepted accounting principles (GAAP) which became effective in January 1988, no longer permit an allowance for return on shareholders' investment to be recorded for financial statement purposes as a component of post-construction cost deferrals. Such allowance for earnings on shareholders' investment would have been approximately $10 million per month during 1988. However, pursuant to the November 1987 ICC order, such allowance may be recovered over the life of the plant to the extent that Clinton costs are allowed in rate base.

Capital requirements for construction were approximately $54 million and $255 million during the six month periods ended June 30 1988 and 1987, respectively. Cash flow from operations during the second quarter as well as for the six months ended June 30, 1988 provided sufficient working capital to meet ongoing operating requirements.

During the current quarter the Company issued $75 million of 10% First Mortgage Bonds due 1998. Proceeds from this issuance were used to pay off short term loans and for the Company's continuing construction program.

Results of Operations

Three Months Ended June 30, 1988 and 1987

Electric Operations - The current quarter increase of $16.3 million in electric revenues reflects higher recoveries of fuel costs under the Uniform Fuel Adjustment Clause and the retention of federal income tax savings in accordance with the negotiated settlement previously described (the savings were deferred in the 1987 period), partially offset by decreased sales. Kilowatt-hour sales (including unbilled sales of 139 million kilowatt-hours in 1988) decreased 26 million kilowatt-hours or .7% primarily due to more moderate weather in 1988.

The current quarter cost of fuel for electric plants increased $15.4 million reflecting a 10% increase in electric generation and decreased deferrals of fuel costs under the Uniform Fuel Adjustment Clause corresponding to the recording of unbilled revenue. The credit for power purchased and interchanged-net increased $14.1 million, primarily due to greater availability of our lower cost generating units and market demand for electricity. The current period reflects the operation of Clinton as a base load unit.

Gas Operations -- The current quarter increase of $.9 million in gas revenues reflects the effect of recording unbilled revenue in 1988.

The cost of gas purchased for resale decreased about $1.4 million during the current quarter due to decreased gas costs partially offset by increased deliveries to our customers.

Other Expenses and Taxes -- The current quarter increase in other operations and maintenance expenses, depreciation and amortization, and general taxes is primarily the result of beginning Clinton operations on April 24, 1987. Operation and maintenance expenses, depreciation and amortization, and general taxes applicable to Clinton were capitalized during the second quarter of 1987 pending approval by the ICC of the negotiated settlement agreement previously described. Upon ICC approval of this agreement in November 1987, such amounts were expensed; however, due to the deferral and other provisions of this agreement the recording thereof would have had no material effect on the 1987 quarter. Clinton costs of $28.9 million were deferred under this agreement during the current quarter.

Other Income -- Total allowance for funds used during construction (AFUDC) and deferred Clinton financing costs decreased $36.5 million during the quarter due primarily to completion of construction of Clinton in 1987 and amendments to GAAP which prohibit the capitalization of an allowance for return on shareholders' investment in post-construction cost deferrals. AFUDC on Clinton after April 24, 1987, was reversed in the fourth quarter of 1987 and replaced with deferred Clinton financing costs in accordance with the negotiated settlement previously described.

Also in accordance with the negotiated settlement, $14.6 million of Clinton deferred debt costs was capitalized during the quarter on Clinton deferred costs and plant costs not in rate base subject to ICC jurisdiction. Clinton deferred financing costs were calculated using a 2.75% net of income tax rate applicable to the debt component of our financing cost.

Change in Method of Accounting for Revenue - On January 1, 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. See Notes to Financial Statements on page 7 for further information.

Earnings per Common Share - The decrease in earnings per common share during the current quarter resulted from the interaction of all the factors discussed herein, dividend requirements applicable to preferred stock, and common stock issued since the 1987 quarter.

Six Months Ended June 30, 1988 and 1987

Electric Operations - The current period increase of $30.8 million in electric revenues reflects higher recoveries of fuel costs under the Uniform Fuel Adjustment Clause, the nine percent April 1987 rate increase, and the retention of federal income tax savings in accordance with the negotiated settlement previously described (the savings were deferred in the 1987 period). Kilowatt-hour sales (including unbilled sales of 60 million kilowatt-hours in 1988) increased 11 million kilowatt-hours or .1% reflecting the effect of more moderate weather in 1988.

The cost of fuel for electric plants increased $27.1 million, reflecting a 19% increase in electric generation and decreased deferrals of fuel costs under the Uniform Fuel Adjustment Clause corresponding to the recording of unbilled revenue. The credit for power purchased and interchanged-net increased $30.1 million primarily due to greater availability of our lower cost generating units and market demand for electricity. The current period reflects the operation of Clinton as a base load unit.

Gas Operations - The current period decrease of $5.7 million in gas revenues is primarily due to effects of recording unbilled revenue in 1988.

The cost of gas purchased for resale decreased $5.5 million, reflecting decreased gas costs partially offset by increased deliveries to our customers.

Other Expenses and Taxes - The current period increase in other operation and maintenance expenses, depreciation and amortization, and general taxes is primarily the result of beginning Clinton operations on April 24, 1987. Operation and maintenance expenses, depreciation and amortization, and general taxes applicable to Clinton were capitalized during the first six months of 1987 pending approval by the ICC of the negotiated settlement agreement previously described. Upon ICC approval of this agreement in November, 1987 such amounts incurred subsequent to April 24 were expensed; however, due to the deferral and other provisions of this agreement the recording thereof would have had no material effect on the first six months of 1987. Clinton costs of $57.8 million were deferred under this agreement during the current period.

Other Income - Total allowance for funds used during construction (AFUDC) and deferred Clinton financing costs decreased $78.8 million during the period due primarily to completion of construction of Clinton in 1987 and amendments to GAAP which prohibit the capitalization of an allowance for return on shareholders' investment in post-construction cost deferrals. AFUDC on Clinton after April 24, 1987, was reversed in the fourth quarter of 1987 and replaced with deferred Clinton financing costs in accordance with the negotiated settlement previously described.

Also in accordance with the negotiated settlement, $29.3 million of Clinton deferred debt costs was capitalized during the period on Clinton deferred costs and plant costs not in rate base subject to ICC jurisdiction. Clinton deferred financing costs were calculated using a 2.75% net of income tax rate applicable to the debt component of our financing costs.

Change in Method of Accounting for Revenue - On January 1, 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. See Notes to Financial Statements on page 7 for further information.

Earnings per Common Share - The decrease in earnings per common share during the current period resulted from the interaction of all factors discussed herein, dividend requirements applicable to preferred stock, and common stock issued since 1987.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated April 7, 1988, was filed reporting under Item 5, Other Events.

A Current Report on Form 8-K, dated May 31, 1988, was filed reporting under Item 5, Other Events.

A Current Report on Form 8-K dated June 15, 1988, was filed reporting under Item 5, Other Events.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ILLINOIS POWER COMPANY
(Registrant)

By /s/ Arthur E. Gray
Arthur E. Gray
Vice President and Secretary
(Principal Accounting Officer)

Date: August 11, 1988

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1987 Commission File Number 1-3004

ILLINOIS POWER COMPANY
(Exact name of registrant as specified in its charter)

State or other jurisdiction of incorporation or organization	State of Illinois
I.R.S. Employer Identification No.	37-0344645
Address of principal executive offices	500 South 27th Street, Decatur, Illinois
Zip Code	62525
Registrant's telephone number, including area code	217-424-6600

Securities registered pursuant to Section 12(b) of the Act:

Cumulative Preferred Stock, $50 par value	Cumulative Preferred Stock, no par value	First Mortgage Bonds
(Registered on the New York Stock Exchange)		
4.08%	Adjustable Rate Series A	7.60 % Series due 2001
4.26%	11.75%	7 5/8% Series due 2003
4.70%	Adjustable Rate Series B	10 1/2% Series due 2004
4.42%	8.52%	8 5/8% Series due 2006
4.20%	8.00%	8 1/4% Series due 2007
8.24%		8 7/8% Series due 2008
7.56%		10 1/8% Series due 2016
8.94%		9 7/8% Series due 2016
8.00%		9 3/8% Series due 2016

Common Stock, without par value
(Registered on the New York and Midwest Stock Exchanges)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes X No ____

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of the close of business on February 29, 1988 was $1,993,123,246.

The number of shares of the Registrant's Common Stock, without par value, outstanding on February 29, 1988 was 69,353,239.

Documents Incorporated by Reference

1. Portions of Illinois Power Company 1987 Annual Report. (Parts I, II, and IV of Form 10-K.)
2. Portions of Illinois Power Company's Proxy Statement for its 1988 Annual Meeting of Stockholders. (Part III of Form 10-K.)

Exhibit Index located on pages 28 through 32.
Total number of pages sequentially numbered - 100.

PART I

Item 1. Business

Illinois Power Company is herein referred to as the "Company". The Company was incorporated under the laws of the State of Illinois on May 25, 1923. It is engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in the State of Illinois.

The territory served by the Company comprises substantial areas in northern, central and southern Illinois, including the following larger communities (1980 Federal Census data):

City	Population	Class of Service Furnished
Decatur.............	94,081	Electric and Gas
Champaign...........	58,133	Electric and Gas
East St. Louis......	55,200	Gas
Bloomington.........	44,189	Electric
Belleville..........	42,150	Electric and Gas
Danville............	38,985	Electric and Gas
Granite City........	36,815	Electric and Gas
Urbana..............	35,978	Electric and Gas
Normal..............	35,672	Electric
Galesburg...........	35,305	Electric and Gas

The Company holds franchises in 309 of the 315 incorporated municipalities in which it furnishes retail electric service and in all of the 257 incorporated municipalities in which it furnishes retail gas service.

Total operating revenues of the Company for the past three years by classes of service were as follows:

	1985	1986	1987
Electric	$766,466,944	$814,144,086	$910,844,187
Gas	$400,897,441	$369,720,990	$308,678,373

Operating income before income taxes for the past three years by classes of service was as follows:

	1985	1986	1987
Electric	$279,515,557	$295,585,854	$321,589,214
Gas	$ 56,085,956	$ 46,525,548	$ 34,488,641

At December 31, 1987, the Company had a total of 4,616 employees.

Item 1. Business (Continued)

The identifiable assets of the electric business were $4,312,502,000, $4,952,694,000, and $5,285,930,000 at December 31, 1985, 1986, and 1987, respectively. The identifiable assets of the gas business were $313,847,000, $300,144,000, and $300,265,000 at December 31, 1985, 1986, and 1987, respectively. The identifiable assets of the electric business have been restated for the effect of the capitalization in 1987 of a nuclear fuel lease.

Electric Business

Electric service at retail is supplied to an estimated aggregate population of 1,420,000 in 315 incorporated municipalities, adjacent suburban and rural areas, and numerous unincorporated communities. Electric service at wholesale is supplied for resale to one municipality, two electric utilities, and the Illinois Municipal Electric Agency (IMEA) as agent for 10 municipalities. The Company also has a power coordination agreement with Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc. (the Cooperatives) under which they began receiving power January 1, 1985. See the sub-caption "Joint Resources Agreement" hereunder for additional information about the power coordination agreement with the Cooperatives.

The Company's highest system peak hourly demand in 1987 of 3,308,000 kilowatts occurred on July 20, 1987. This includes the requirements of a power coordination agreement with two electric cooperatives. The Company's historic system peak hourly demand reached on July 18, 1986 was 3,396,400 kilowatts, including the requirements for the two electric cooperatives. The 1987 peak was 2.6% below the 1986 historic peak.

The Company owns and operates electric generating facilities having a net summer capability of about 4,298,000 kilowatts. The major stations are Clinton (930,000, of which 124,000 kilowatts is owned by the Cooperatives), Baldwin (1,680,000 kilowatts), Havana (645,000 kilowatts), Wood River (570,000 kilowatts), Hennepin (280,000 kilowatts), and Vermilion (165,000 kilowatts). The other generating facilities owned by the Company have an aggregate capability of 152,000 kilowatts, including one hydro station regularly in service and internal-combustion units at four locations which provide peaking service.

The Company also has up to 203,000 kilowatts of capacity available under contract from Electric Energy, Inc. (EEI). The Company owns 20% of the capital stock of EEI, an Illinois corporation, which was organized to own and operate a steam electric generating station and related transmission facilities near Joppa, Illinois to supply electric energy to the Department of Energy for its project near Paducah, Kentucky. As one of the sponsors of EEI, the Company is a party to an agreement with EEI which provides for the supply of capacity and energy to EEI.

Union Electric Company, Central Illinois Public Service Company and the Company are the participants in the Illinois-Missouri Power Pool which was formed in 1952. The Pool operates under a revised Interconnection Agreement which became effective April 1, 1972. This Agreement provides for the interconnection of transmission lines and contains provisions for the coordination of generating equipment maintenance schedules, inter-company sales of firm and non-firm power, and the maintaining of minimum capacity reserves by each participant equal to 15% of its peak demand or one-half of its largest unit, whichever is greater.

The Company is also a member of the Mid-America Interconnected Network (MAIN), which is one of nine regional reliability councils established to coordinate plans and operations of member companies regionally and nationally.

The Company, Central Illinois Public Service Company and Union Electric Company have a contract with Tennessee Valley Authority (TVA) providing for the interconnection of the TVA system with those of the three companies to exchange economy and emergency power and for other working arrangements.

The Company also has interconnections with Indiana Michigan Power Company, Commonwealth Edison Company, Central Illinois Light Company, Iowa-Illinois Gas & Electric Company, Kentucky Utilities Company, Southern Illinois Power Cooperative, Soyland Power Cooperative, Inc., Western Illinois Power Cooperative, Inc., and the City of Springfield, Illinois for various interchanges, emergency services, and other working arrangements.

Joint Resources Agreement

Under a power coordination agreement between the Company, Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc., the Company will provide the Cooperatives with 10.7% (374 megawatts) of electrical capacity from its fossil-fueled generating plants through 1992, 8% in 1993 and 1994, and 4% in 1995 through 2004 and will transmit energy for the Cooperatives through the Company's transmission and subtransmission system. This is in addition to the capacity the Cooperatives receive as part owners of the Clinton power station (Clinton). The Cooperatives supply electricity to 22 distribution cooperative members who serve approximately 150,000 rural customers in 69 Illinois counties. The power supplied to the Cooperatives under the agreement is classified as power interchanged.

Electric Cooperatives

Twenty-three rural electric cooperative associations are serving rural customers in localities within or adjacent to areas served with electricity by the Company. Electric cooperatives in Illinois are regulated with respect to the areas they may serve by the ICC under the Electric Supplier Act.

Wholesale Electric Service

Electric service at wholesale is supplied for resale to one municipality, two electric utilities, and the Illinois Municipal Electric Agency (IMEA) as agent for 10 municipalities; a power coordination agreement with the IMEA, effective July 1, 1986, replaces wholesale contracts under which the Company previously provided part or all of the power requirements for the cities of Princeton, Peru, Waterloo, Mascoutah, Freeburg, Breese, Carlyle, Farmer City, Ladd and Oglesby.

On March 20, 1987 the FERC approved a five-year contract for wholesale service with the City of Highland.

Item 1. Business (Continued)

Fuel Supply

Coal was used to generate 90.9% of the electricity produced during the year ended December 31, 1987, with nuclear, oil, and gas contributing 8.9%, .1% and .1%, respectively. The respective average costs of these fuels per million Btu during such period were: Coal $1.46, Nuclear $1.09, Gas $1.86, and Oil $3.09 for a weighted average cost of $1.43. The average costs of coal per million Btu during the years 1985 and 1986 were $1.63 and $1.49, respectively. Relatively high-sulfur coal mined in Illinois and Indiana provided 76.9% and 3.3%, respectively, of the coal delivered to the Company's electric generating stations in 1987. In addition, the Company received low-sulfur coal from Kentucky, West Virginia, and Illinois.

The Company's rate schedules contain provisions for passing along to its electric customers increases or decreases in the cost of fuels used in its generating stations which are based on the average fuel costs during the first two of the immediately preceding three calendar months, resulting in an average period of approximately 75 days between the incurrence of changes in fuel costs and the changes being reflected in operating revenues. The clause also provides for the recovery of changes in fossil and nuclear fuel costs and the energy portion of purchased power costs, an adjustment for the cost of fuel consumed to generate sales for resale, and a continuous reconciliation to compensate for under or over collections through the fuel adjustment clause in prior months. See the information under the caption "Revenue and Energy Cost" of Note 1 - Summary of Significant Accounting Policies on page 26 of the Illinois Power Company 1987 Annual Report which is incorporated herein by reference. Coal transportation costs are not recoverable through the fuel adjustment clause, but must be recovered as a portion of rates in a general rate case.

Reference is made to the sub-caption "Environmental Matters" hereunder for information regarding pollution control matters relating to the Company's fuel supply.

The average cost of primary fuel consumed at the Company's generating stations during the periods indicated was as follows:

Station	Primary Fuel	Average Cost of Primary Fuel (cents per million Btu) 1985	1986	1987
Baldwin	Coal	143.95	147.28	147.04
Havana	Coal	245.90	159.82	141.77
Hennepin	Coal	151.75	142.62	145.37
Vermilion	Coal	134.62	126.47	125.26
Wood River	Coal	270.59	168.29	161.39
Clinton	Uranium	-	-	109.43

Coal - The Company presently has long-term contracts which, with extension options, will provide about 94 million tons of coal. Based upon 1987 usage of approximately 7.4 million tons, this is equivalent to about 13 years consumption.

Item 1. Business (Continued)

The contracts provide for price renegotiations or cost escalation features related to the cost of coal production or to current market prices. These contracts will provide approximately 5.9 million tons of coal in 1988. The sources and quantities of coal supplies, contract expiration dates, weighted average cost of coal purchases, and anticipated sulfur contents are summarized in the table following:

Supplier	Annual Contract Quantities (Tons)	Station	Weighted Delivered Cost per Million Btu for the Year Ended 12/31/87	Expir. Date of Primary Contract	Anticipated Sulfur Content (Percent)
Peabody Coal Co.	2,500,000(a)	Baldwin	$1.4316	2004	3.0
Arch of Illinois	1,895,000(b)	Baldwin	1.4875	1998	3.0
Arch of Illinois	400,000(b)	Hennepin	1.4875	1998	3.0
Zeigler Coal Company	- (c)	Vermilion	1.2883	1991	3.0
Consolidation Coal Co.	- (d)	Wood River	1.5887	1990	0.9
Miller Mining Company	- (e)	Vermilion	-	1990	3.0
Golden Oak Mining Co.	- (f)	Havana	-	1990	0.6

(a) By amendment to this contract, the Company has agreed to purchase and Peabody Coal Co. has agreed to supply all coal needs above contract quantities at the Baldwin and Hennepin power stations, with a minimum purchase of 200,000 tons per year through 1991.

(b) The agreements provide for delivery to either Baldwin or Hennepin power stations at the Company's option. The agreements also provide for delivery at the Company's option of plus or minus 10% of contract quantities.

(c) This agreement provides for delivery at the Company's option of 250,000 (plus or minus 20%) tons in 1988, 1989, and 1990 and 350,000 (plus or minus 20%) tons in 1991.

(d) The agreement provides for delivery at the Company's option of 390,000 (plus or minus 30%) tons in 1988 and 1989 and 500,000 (plus or minus 50%) tons in 1990.

(e) This agreement, effective January 1, 1988, provides 132,000 tons to 200,000 tons in 1988 and 150,000 (plus or minus 30%) tons in 1989 and 1990 at the Company's option.

(f) This agreement, effective January 1, 1988, will provide 250,000 tons to 400,000 tons in 1988 and 1989 and 200,000 tons to 400,000 tons in 1990 at the Company's option.

See the sub-caption "Environmental Matters" hereunder for additional information regarding the supply of coal at the Baldwin power station.

When the Company's needs exceed contracted quantities, coal is purchased on a spot basis. These spot purchases include the purchase of low-sulfur coal since not all coal under long-term contracts meets the air emission standards at all stations. Spot purchases represented about 16.3% of the Company's total coal receipts in 1987. The delivered cost of coal purchased on a spot basis during the year varied between $22.97 per ton, or $1.12 per million Btu and $23.34 per ton, or $1.15 per million Btu, for high-sulfur coal; and between $29.75 per ton, or $1.29 per million Btu, and $40.90 per ton, or $1.79 per million Btu, for low-sulfur coal. It is anticipated that favorable market conditions for spot purchases will continue.

In the past, the Company maintained approximately a 50 day supply of coal at each of its coal fired generating stations. In 1987, an optimal fuel inventory strategy was implemented and as a result inventory levels will be lowered during the next few years to approximately a 20 day supply. The Company's inventory at December 31, 1987 was greater than the optimal inventory level due to the anticipated work stoppage of the United Mine Workers. Under the new strategy, monthly least cost coal inventory targets for each station are determined based on monthly electric load forecasts, planned outages and coal supply and transportation factors.

Oil - No. 6 oil for the Havana power station (five units totaling 235,000 kilowatts), the Company's only station which currently utilizes oil for the generation of electric energy, is supplied by Allied Oil Company under a contract which, based upon current usage, will provide an adequate oil supply for this station until mid-1989.

Gas - Three generating units (totaling 138,000 kilowatts) at the Wood River power station and two combustion peaking plants are fueled with natural gas. These units have the capability of burning either natural gas or No. 2 distillate fuel oil. In addition, one of the units at the Wood River power station has the capability of burning synthetic gas. Natural gas is also used in start-up and emergencies for two generating units (totaling 280,000 kilowatts) at the Hennepin power station. The Company anticipates that adequate supplies of gas for these uses will be available for the foreseeable future. See the sub-caption "Gas Business" hereunder.

Nuclear - The Company leases nuclear fuel from Illinois Power Fuel Company (Fuel Company). Lease payments began when Clinton commenced initial criticality (sustaining a nuclear reaction) on February 27, 1987. In accordance with Financial Accounting Standard No. 71, such lease was capitalized on a retroactive basis in 1987. The Fuel Company, which is 50% owned by the Company, was formed in January, 1981, for the purpose of financing a portion of the nuclear fuel requirements of Clinton. As of December 31, 1987 the Fuel Company had an investment in nuclear fuel of approximately $200 million. The Fuel Company's total investment in nuclear fuel is limited to 5% of the Company's total capitalization, and it borrows money to finance this investment. The Company is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company which are due and payable exceed the funds available to the Fuel Company. The Company has accounted for the investment in the Fuel Company under the equity method of accounting.

Quivira Mining Company has provided the necessary uranium concentrates and conversion services to satisfy fuel requirements for Clinton through 1991. A second contract with Quivira Mining Company for additional uranium concentrate and conversion services has been terminated at no cost in order to bring the inventory levels in line with known requirements by 1990. Conversion services for the period 1991-1997 are contracted from Sequoyah Fuels on a schedule consistent with the anticipated requirements of Clinton. At December 31, 1987, the Company's share of the inventory of unenriched uranium was 605,999 kilograms at a cost of $96.9 million. The Company's share of the inventory of enriched uranium (excluding the enriched uranium which comprises Clinton's initial core) was 1,619 kilograms at a cost of $342,000. By the end of 1990 the Company's share of the inventory is expected to decrease to 116,431 kilograms of unenriched uranium at an estimated cost of $23.4 million. Beyond 1990, nuclear fuel supplies are anticipated to meet requirements.

Effective October 1, 1984, the Company converted its contracts for uranium enrichment requirements with the Department of Energy (DOE) from two Adjustable Fixed Commitment (AFC) contracts to a new Utility Services (US) contract. The US contract will provide 70% of the enrichment requirements of Clinton through September, 2014. The remaining 30% has been contracted with DOE through their incentive pricing plan through 1995, except for Reload #1. The 30% for Reload #1 has been contracted with Cogema, Inc., a French company. The US contract provides greater flexibility and lower cost than the AFC contracts. The Cogema contract and the DOE incentive pricing plan are lower-cost than the US contract. A contract with General Electric Company provides fuel fabrication requirements for the initial core and 12 fuel reloads (approximately 15 to 17 years).

Beyond the stated commitments, additional contracts for uranium concentrates, conversion to uranium hexafluoride, enrichment and fabrication will have to be procured.

Currently no plants for commercial reprocessing of spent nuclear fuel are in operation, and reprocessing cannot commence until appropriate licenses are issued by the Nuclear Regulatory Commission (NRC). Clinton is designed to have an on-site high density storage capability which will provide spent nuclear fuel storage capacity to meet requirements until the year 2000. Various governmental agencies are currently reviewing the environmental impact of nuclear fuel reprocessing and waste management. The Nuclear Waste Policy Act of 1982 was enacted to establish a government policy with respect to disposal of spent nuclear fuel and high-level radioactive waste. The Company signed a contract for disposal of spent nuclear fuel and/or high-level radioactive waste (required to obtain an operating license) on July 6, 1984 with the DOE. Under the contract, the Company is required to pay the DOE 0.001 cent per net kilowatt-hour of electricity generated. The government is required to have a repository in place to accept spent nuclear fuel by January 31, 1998.

Construction Program

Construction of Clinton was completed in 1987. The Company owns 86.62% of Clinton and two cooperatives own the remainder. The Company's investment in the plant is $3.8 billion. The NRC issued a full-power operating license for Clinton on April 17, 1987. A November 1987 Illinois Commerce Commission (ICC) order established an in-service date of April 24, 1987.

The cost, including allowance for funds used during construction (AFUDC), of the Company's construction program during the period January 1, 1988 to December 31, 1992 is estimated as follows:

	1988	Five-Year Period 1988-1992
	(in thousands)	
Electric generating facilities	$ 28,000	$ 166,000
Nuclear fuel	12,000	69,000
Electric transmission and distribution facilities	74,000	296,000
Gas facilities	23,000	113,000
	$137,000	$ 644,000

Item 1. Business (Continued)

The estimated construction expenditures during the period January 1, 1988 to December 31, 1992, together with the repayment at maturity of currently outstanding long-term debt (including lease payments under capital leases) and redeemable preferred stock aggregating approximately $587 million and sinking fund requirements of approximately $26 million is expected to require expenditures by the Company of approximately $1.257 billion. External financing requirements, other than of a short-term nature, during the five-year period are estimated to be $267 million. The types, amounts, and timing of future external financings during this period cannot be determined at this time. The issuance of additional securities will depend upon market conditions and the ability of the Company to meet the interest and preferred stock dividend coverage requirements and other covenants contained in the Company's Mortgage and Restated Articles of Incorporation.

Clinton Power Station

General

The Company received a full-power operating license for Clinton from the NRC on April 17, 1987, and based on an order of the ICC approving a negotiated settlement, an in-service date of April 24, 1987 was established. Clinton is fully operational as a base load generating unit supplying electric service to the Company's customers.

The Company shares the ownership of Clinton with Soyland Power Cooperative, Inc. (Soyland) and Western Illinois Power Cooperative, Inc. (WIPCO) (the Cooperatives). The terms of sharing the construction, ownership and operation of Clinton are set forth in several related agreements between the Company and the Cooperatives. Under these agreements, the Company is appointed the agent of the Cooperatives for purposes of various matters relating to the construction and operation of Clinton, and the Company, as the major owner, has final authority as to various matters relating to the design, construction, operation, maintenance, and decommissioning of Clinton.

On October 5, 1984, the Company and the Cooperatives signed a series of agreements to coordinate resources to meet their long-range electrical energy objectives. One agreement contains a $450,000,000 limit on the Cooperatives' investment in the direct costs (i.e., costs exclusive of financing costs) of placing Clinton in commercial operation, with proportionate adjustment downward of their ownership share to the extent that $450,000,000 is less than 20% of the total direct costs actually incurred. This limit results in an ownership in Clinton of 7.02% for Soyland, 6.36% for WIPCO, and 86.62% for the Company, subject to a final adjustment of ownership shares. See the sub-caption "Soyland/WIPCO (Power Coordination Agreements)" under Item 3, "Legal Proceedings", for additional information relating to the October 5, 1984 agreements between the Company and the Cooperatives.

Ownership of an operating nuclear generating unit exposes the Company to significant risks including increased regulatory, safety, and environmental requirements. The Company expects to be allowed to continue to operate Clinton; however, if any unforeseen or unexpected developments would prevent the Company from doing so, the Company could be materially adversely affected.

Economic Reasonableness and Construction Audits

In Illinois the cost of a new electric generating plant may not be recovered in a utility's rates unless it is reasonable, and the ICC is required to conduct an independent audit of each new generating plant to determine if such cost is reasonable. Therefore, an audit of Clinton costs is being conducted by Touche Ross & Co. and The Nielsen-Wurster Group under contract with the ICC.

A Phase I audit report filed on January 9, 1986 covered the time frame from the beginning of the project through March 31, 1985 (at which time the Company's investment in Clinton was $2.4 billion). In this audit report, Touche Ross and Nielsen-Wurster contend that a portion of Clinton costs associated with the stop work orders issued in early 1982 is unreasonable. The report estimates that these costs are between $294 million and $464 million. Nielsen-Wurster has stated in written testimony to the ICC that $294 million is the appropriate point in this range to represent the avoidable cost incurred. Other parties to the proceeding have recommended that greater amounts be disallowed from rate base.

Three nationally known firms, Theodore Barry & Associates, Ebasco Services Incorporated, and Burns and Roe Company, were retained on behalf of the Company to evaluate management of the Clinton project through independent audits. The independent audits are separate from the one being conducted by the two firms hired by the ICC, and these Phase I audits conclude that construction of Clinton generally has been managed reasonably by the Company. The conclusions of these audit reports and the Touche Ross/Nielsen-Wurster Phase I audit report generally agree but differ on one point; Touche Ross/Nielsen-Wurster contend that a portion of the cost of Clinton associated with the stop work actions issued in early 1982 was unreasonable. The ICC has completed hearings on Phase I of the audit, but is deferring the issuance of an order until the audit and hearings on Phase II, which covers the period from April 1, 1985 through completion of the project, have been completed.

The Phase II audit report, which is expected to be submitted to the ICC by early April 1988, could allege additional unreasonable costs. An order is expected from the ICC in late 1988. As in Phase I, independent audits to evaluate mangement of Clinton during this period are being performed on behalf of the Company.

In an interim order regarding the completion of Clinton, the ICC ruled that any Clinton costs expended above the amount of $2,698,361,000 for which the Company fails to present affirmative evidence of reasonableness shall not be included in rate base, even if no other party has presented any evidence challenging these costs as being unreasonable. The Company believes that the burden of proof under this order is no greater than that currently required under the Public Utilities Act generally.

In-Service Criteria and Related Accounting and Rate Treatments

On November 24, 1987, the ICC entered an order approving a negotiated settlement agreement between the Company and several intervenors with respect to two ICC proceedings relating to Clinton. The order established April 24, 1987 as the in-service date. It also provided for the deferral of depreciation, taxes other than income taxes, and financing costs until a rate order, expected in October 1988, reflecting the inclusion of Clinton in rate base becomes effective. Such deferred costs and the related return will be recovered, to the extent that total Clinton costs are allowed in rate base, over the remaining life of Clinton. Under this agreement, Clinton operation and maintenance costs will be expensed currently. However, the electric revenues previously deferred as ordered by the

ICC to reflect the lower federal income tax rates under the Tax Reform Act of 1986 were included in income and future deferrals were discontinued. Earnings were decreased $19 million (28¢ per share) in 1987 due to this settlement, and future earnings will be decreased by an estimated $2 million to $3 million per month until the next electric rate order is effective.

Electric Rate Request

On November 19, 1987, the Company filed with the ICC a request for an electric rate-moderation plan to incorporate Clinton into rates. The rate of return requested in the plan reflects current capital cost and is 10.25% compared to the 11.95% currently allowed. The rate-moderation plan incorporates a mirror CWIP plan, and a deferred return phase-in plan. The request is expected to produce a first-year electric revenue increase of 11.2% effective November 1988, producing approximately $97.8 million of revenue annually net of anticipated fuel savings and a senior citizen discount. This first-year increase would be followed by annual increases beginning in 1989, for six to nine years. These annual increases would be tied to the rate of inflation and would range from a minimum of about 4% to a maximum of 5.9%. Although the rate request provides the needed future rate increases to recover the Company's investment in Clinton and related operating costs, it is subject to approval or modification by the ICC. An order from the ICC is expected in October 1988.

Under the electric rate-moderation plan, there would be a cash flow delay of approximately $450 million over the first seven years of the plan due to its mirror CWIP provisions (representing amounts collected in rates prior to the in-service date of Clinton as a result of having CWIP in rate base). This amount would be capitalized as a part of Clinton costs for recovery over the life of the plant. In addition, under the deferred return provisions of the plan, cash flow of approximately $250 million would be delayed during the first five years for recovery during the remaining years of the plan.

Decommissioning and Nuclear Fuel Disposal Costs

The Company is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. On July 15, 1987 the ICC ordered the establishment of an external trust fund to invest funds for the future dismantlement and decommissioning costs of Clinton (estimated to be $87.6 million in 1987 dollars). Decommissioning costs are currently being deferred ($1.4 million during 1987) and will begin to be collected through rates upon approval of the electric rate request before the ICC.

Under the Nuclear Waste Policy Act of 1982, the DOE is responsible for the permanent storage and disposal of spent nuclear fuel. DOE currently charges one mill per kilowatt-hour generated for future disposal of spent fuel. The Company is recovering this amount through its rates.

Accounting Developments

In December 1986, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs, an amendment of FASB Statement No. 71" (FAS 90), which is applicable to partial disallowances of plant costs and plant abandonments. The statement is effective for the Company in 1988 and the Company has adopted it on a prospective basis. This statement requires that a partial disallowance of plant costs by a regulatory commission be recorded as a loss when such a disallowance becomes probable and a reasonable estimate can be made of the amount of the disallowance. Under generally accepted accounting principles, as effective through 1987, a disallowance would not have required an immediate charge to income unless it resulted in a negative rate of return on the Company's investment in Clinton, but it would have been reflected as a reduction in the Company's earnings over the life of the plant. In addition, once adopted, the statement requires that Allowance for Funds Used During Construction (AFUDC) be capitalized only if its subsequent inclusion in allowable costs for ratemaking purposes is probable.

The Company did not adopt the provisions of FAS 90 prior to 1988. If the Company had adopted the new standard, the Company believes that no loss provision for a disallowance would have been required in 1987 or prior financial statements because no reasonable estimate of loss can be made and the low end of the range of possible disallowance is zero.

In August 1987, the FASB issued Statement of Financial Accounting Standards No. 92, "Regulated Enterprises - Accounting for Phase-in Plans, an amendment to FAS 71" (FAS 92), which established the criteria for financial statement purposes that must be met in order for costs to be deferred for recovery in the future. The statement is effective for the Company in 1988 and the Company intends to adopt it on a prospective basis.

The Company's proposed deferred return phase-in plan meets the criteria of FAS 92.

FAS 92 also states that an allowance for earnings on shareholders' investment may only be capitalized during construction, as AFUDC, or as part of a qualified phase-in plan. The Company's deferral of certain Clinton post construction costs in the period between the in-service date for Clinton and the date of an electric rate order reflecting Clinton costs in rates does not meet the criteria of a phase-in plan as established by this statement. Accordingly, beginning in 1988 for financial statement purposes, the Company may not capitalize an allowance for earnings on shareholders' investment as part of post-construction cost deferrals. Such allowance for earnings on shareholders' investment would have been approximately $11 million per month during 1988. However, pursuant to the ICC order, such amounts may be recovered over the life of the plant to the extent that Clinton costs are allowed in rate base.

Litigation

On September 22, 1986 members of 22 Illinois rural electric power distribution cooperatives filed a lawsuit against the Company concerning the Company's construction management of Clinton. The action purported to be brought derivatively on behalf of the member cooperatives of WIPCO and Soyland and, in turn, on behalf of WIPCO and Soyland, and as a class action on behalf of the individual members of the distribution cooperatives. On January 7, 1988, on the motion of WIPCO and Soyland, the Circuit Court for Sangamon County, Illinois, ruling orally from the bench, dismissed the plaintiffs' derivative claims but granted leave to WIPCO and Soyland to be realigned as plaintiffs and to file their five-count complaint against the Company (Soyland complaint). In the Soyland complaint, WIPCO and Soyland alleged that the Company breached fiduciary duties to them and was negligent in connection with the planning, construction, and licensing of Clinton. The Soyland complaint seeks recovery of an unspecified amount of compensatory damages from the Company. The Company has moved for an extension of time to respond to the Soyland complaint until after a written order detailing the Court's January 7 ruling has been entered.

Item 1. Business (Continued)

In the one remaining count of the original complaint filed by the members of the distribution cooperatives, those plaintiffs seek to proceed on behalf of a class of all customers of cooperatives that obtain electrical power from Clinton. This count alleges that such customers have been and will be "injured due to drastically increased energy supply costs". The plaintiffs seek unspecified compensatory damages from the Company. On January 14, 1987, the Circuit Court for Sangamon County, Illinois denied the Company's motion to dismiss the class action count of the original complaint for lack of standing. The Court has not yet addressed other grounds asserted by the Company in support of its motion to dismiss that count. Soyland and WIPCO have moved the court to sever its complaint from the remaining count of the original plaintiffs' complaint.

The Company believes that it has managed the construction of Clinton prudently and efficiently and that it should be allowed to recover the full cost of that unit through its rates. Almost all recent cases of which the Company is aware in which regulatory commissions have conducted prudence audits in connection with placing new generating units in rates have resulted in some investment being disallowed or proposed to be disallowed. In many such cases, the amounts involved were significant.

Management is unable to predict the ultimate outcome of the uncertainties discussed in this Clinton power station section which could have a material adverse effect on the Company's earnings and/or financial position.

Gas Business

The Company supplies natural gas service at retail in 257 incorporated municipalities, adjacent suburban areas and numerous unincorporated communities, having an estimated aggregate population of 1,090,000. It does not sell gas for resale.

During the twelve months ended December 31, 1987, the Company purchased 61,141,000 dekatherms (dth) of natural gas from Panhandle Eastern Pipe Line Company (Panhandle), Natural Gas Pipeline Company of America (Natural), Mississippi River Transmission Corporation (Mississippi), Trunkline Gas Company (Trunkline), ANR Pipeline Company (ANR), and the spot market at a cost of $179.6 million. The average cost of natural gas purchased by the Company from all suppliers for each of the years 1985 through 1987 was $3.68, $3.17, and $2.93 per dth, respectively.

During 1987, the costs of natural gas delivered to the Company's system declined approximately 3.1% from prices paid in 1986. The purchase of low-priced gas on the spot market during 1987 was primarily responsible for this decline; approximately 39% of total gas purchased was from this source. Gas therm sales, which exclude therms transported, decreased 21.1% in 1987. When transported gas for industrial and commercial customers is included, the total gas delivered (therms sold plus therms transported) to the Company's customers decreased 8.0% from 1986.

The Company's rate schedules contain provisions for passing along to its gas customers increases or decreases in the cost of purchased gas. See the information under the caption "Revenue and Energy Cost" of Note 1 - Summary of Significant Accounting Policies on page 26 of the Illinois Power Company 1987 Annual Report which is incorporated herein by reference.

The volume of customer-owned gas transported during 1987 increased 29.0% over that in 1986. During 1987 as many as 80 industrial and large commercial customers purchased gas directly from gas producers. These customers are charged for the transportation of gas through the Company's system to their plant facilities. The Company's charge for transporting gas provides the Company with earnings that are approximately equal to that obtained from making direct gas sales.

The Company has eight underground gas storage fields having a total capacity of approximately 13 million mcf and total deliverability on a peak day of about 253,000 mcf. In addition to the capacity of the eight underground storage fields, the Company has contracts with Panhandle for one million mcf of underground storage capacity and a total deliverability on a peak day of approximately 20,000 mcf, and with Natural for 2.9 million mcf of storage capacity and a total deliverability on a peak day of 47,000 mcf. Operation of underground storage permits the Company to increase deliverability to its customers during peak load periods by taking gas into storage during the off-peak months.

The Company owns five liquefied petroleum gas plants having an aggregate peak-day deliverability of about 86,000 mcf of 1,000 Btu gas for peak-shaving purposes. Gas properties include approximately 7,300 miles of mains.

The Company experienced its 1987 peak-day send out of 625,050 mcf of natural gas on January 23, 1987. The Company's highest peak-day send out was 857,324 mcf of natural gas on January 10, 1982.

Gas Supply

The Company has firm contracts with each of its pipeline suppliers for the following maximum amounts: 230,000 mcf per day from Panhandle for November through March and lesser amounts during the other months, 117,483 dth per day from Natural, 100,000 mcf per day from Mississippi, 3,600 mcf per day from Trunkline, and 13,964 dth per day from ANR. The Company's storage and interconnected gas systems enable it to maximize purchases, within the limits allowed by the pipeline suppliers' tariffs and certain physical constraints, from the least costly of its five pipeline suppliers.

Historic gas purchases are shown in the following table. The source labeled "Other" below represents purchases from small natural gas fields in Illinois.

Source	Contract Expiration Date	Purchases Years Ended December 31, 1985	1986	1987
		(Millions of dth)		
Panhandle..........	10/31/88	10.6(a)	12.0	9.6
Natural............	12/01/90	36.5	15.1	9.0
Mississippi........	10/31/91	12.8	15.9	17.6
Trunkline..........	11/01/89	1.2(a)	0.1	0.1
ANR................	10/31/92	0.9	1.1	0.8
Spot Market........	-	11.8	28.4	24.1
Other..............	-	0.2	0.3	0.2
Total.........		74.0	72.9	61.4

(a) Includes 3.7 million dth of gas purchased under the Panmark program for 1985. Panmark is a subsidiary of Panhandle and Trunkline. The gas purchased from Panmark was applied towards the contracted amounts of gas to be supplied from Panhandle and Trunkline. FERC authorization for the Panmark program expired October 31, 1985.

The Company's present estimated supplies of gas from pipelines and its own storage are more than sufficient to serve all of its existing firm loads, and to provide reliable service to interruptible loads. Service to interruptible customers was not interrupted during the year ended December 31, 1987. Gas service continues to be available to all applicants on a current basis.

Environmental Matters

The Company is subject to regulation by certain federal and Illinois authorities with respect to environmental matters and may in the future become subject to additional regulation by such authorities or by other federal, state, and local governmental bodies. Existing regulations affecting the Company are principally related to air and water quality, hazardous wastes, and toxic substances.

Air Quality

Pursuant to the Federal Clean Air Act (Act), the United States Environmental Protection Agency (USEPA) has established ambient air quality standards for air pollutants which in its judgment have an adverse effect on public health or welfare. The Act requires each state to adopt laws and regulations, subject to USEPA approval, designed to achieve such standards. Pursuant to the Illinois Environmental Protection Act, the Illinois Pollution Control Board (Board) adopted and, along with the Illinois Environmental Protection Agency (IEPA), is enforcing a comprehensive set of air pollution control regulations which include emission limitations and permitting, monitoring, and reporting requirements. These regulations have, with some modifications, received USEPA approval and are enforceable by both the Illinois and federal agencies.

The air pollution regulations of the Board impose limitations on emissions of particulates, sulfur dioxide, nitrogen oxides, and various other pollutants. Enforcement of emission limitations is accomplished in part through the regulatory permitting process. To construct a facility which will produce regulated emissions, a construction permit must be obtained, usually on the basis of the design being sufficient to permit operation within applicable emission limitations. Upon completion of construction, an operating permit for the facility must be obtained. Operating permits are granted for various periods, usually within a range of from two to five years. The initial granting or subsequent renewal of operating permits is based upon a demonstration that the facility operates within prescribed limitations on emissions. The Company's practice is to obtain an operating permit for each source of regulated emissions. Presently, it has a total of approximately 100 permits for emission sources at its power stations and other facilities, expiring at various times.

In addition to having the requisite operating permits, each source of regulated emissions must be operated within the regulatory limitations on emissions. Verification of such compliance is usually accomplished by reports to regulatory authorities and inspections by such authorities. On June 10, 1986, USEPA issued a notice of violation (NOV) alleging that Units 1 and 2 at the Company's Vermilion power station had violated Illinois Rule 204 as approved by USEPA as part of the State Implementation Plan (SIP). USEPA contends that this Rule in the SIP limits sulfur dioxide emissions from each such Unit to 6.0 pounds per million BTU of heat input on a one-hour average, while the Company contends that this interpretation of the SIP is erroneous and that the Units did not exceed any valid limit contained in the SIP. The Company believes that even if USEPA's interpretation is correct and a violation occurred, it was corrected within the time permitted by law. Related to this NOV, on June 19, 1986 and on April 14, 1987, USEPA issued to the Company requests for information pursuant to Section 114 of the Act. The Company objected in writing to both requests and met with USEPA concerning those requests and the NOV on July 9, 1986 and again on May 11, 1987. At the May 11, 1987 meeting USEPA indicated it would accept quarterly reports of coal quality analyses to resolve these matters. The Company agreed to submit such reports through the first quarter of 1988 and confirmed the agreement by letter to USEPA The Company believes the final report will conclude all of these matters.

Under current USEPA-approved regulations, the present local coal supply at the Baldwin power station could be used to operate the station at 80% of station capacity, or in order to operate the Baldwin power station at full capacity, part of the capacity of the station would have to be operated on low-sulfur coal. Jointly, the Company and IEPA petitioned the Board to adopt, and in 1979 the Board adopted, a regulatory amendment providing for a site-specific sulfur dioxide limitation applicable to the Baldwin power station. At the Company's request the Board amended its order on September 8, 1983 to satisfy certain concerns raised by USEPA. In October 1983, the amendment, with supporting information, was submitted to USEPA for approval as part of the SIP. On March 26, 1987 USEPA published in the Federal Register its proposal to approve the limitation and requesting comments thereon within 30 days. The Company and others submitted comments in support and, to the knowledge of the Company, no comments in opposition were submitted. The matter is now awaiting final USEPA action. The limitation, as amended, would allow the use of local coal in the Baldwin power station up to full capacity.

In addition to the sulfur dioxide emission limitations for existing facilities, both the USEPA and the State of Illinois adopted New Source Performance Standards (NSPS) applicable to coal-fired generating units limiting emissions to 1.2 pounds of sulfur dioxide per million Btu of heat input. This standard is applicable to the Company's Unit 6 at the Havana power station. The federal NSPS also limits opacity and particulate emissions and impose certain monitoring requirements. On June 26, 1986, USEPA issued a finding of violation alleging that Unit 6 had violated the federal NSPS. USEPA contended that a required monitor was out of operation an excessive amount of time and that the Unit either violated the applicable opacity standard or was not operated to minimize excessive opacity emissions as required by the regulations. At a conference with USEPA held on July 24, 1986, the Company explained the reasons the monitor had been out of operation and the corrective actions taken which, the Company believes, USEPA will accept. The Company also contended that under the regulations, the data relied upon by USEPA was not proper for establishing an opacity violation and, even if it did, the occurrences were excused under the regulations. Further the Company contended that it complied with the operating requirements of the regulations. USEPA indicated it would request, and on September 10, 1986, did request additional information for its consideration of the matter. On September 25, 1986 the Company responded, submitting the requested information and agreeing to report certain information quarterly through the second quarter of 1988. In December, 1986 USEPA submitted a proposed Consent Order to the Company but, on December 31, 1986, the Company informed USEPA that the Consent Order was unacceptable for several reasons and unnecessary. Since then no further action of any kind has been taken by USEPA, the Company has continued to submit the quarterly reports and believes the final report will conclude all of these matters.

In 1977 the Act was amended and, as a result, USEPA has adopted more stringent emission standards for most pollutants. These include requirements for removing sulfur dioxide from the stack gas, with specified removal efficiencies applicable to all new fossil fuel fired steam electric generating stations. These standards would apply to any new plant constructed by the Company.

Item 1. Business (Continued)

Water Quality

The Federal Water Pollution Control Act Amendments of 1972 (FWPCA) require that National Pollutant Discharge Elimination System (NPDES) permits be obtained from USEPA (or, when delegated, from individual state pollution control agencies) for any discharge into navigable waters. Such discharges are required to conform with the standards, including thermal, established by USEPA and also with applicable state standards.

Enforcement of discharge limitations is accomplished in part through the regulatory permitting process similar to that described above under "Air Quality". Presently, the Company has approximately two dozen permits for discharges at its power stations and other facilities, which must be periodically renewed. In addition to obtaining such permits, each source of regulated discharges must be operated within the limitations prescribed by applicable regulations. Verification of such compliance is usually accomplished by monitoring results reported to regulatory authorities and inspections by such authorities.

The Company received renewed NPDES permits for its Clinton, Baldwin, Havana, Hennepin, Vermilion, and Wood River power stations. NPDES renewal permits issued in 1985 and 1986 for the Havana, Hennepin, Vermilion, and Wood River power stations each contained certain conditions which the Company found unacceptable and were issued by IEPA without complying with applicable procedural requirements. As a result the Company sought review by filing appeals with the Board of those conditions in each of the permits and challenging the permits because of the procedural errors. All of these appeals and subsequent, related proceedings have now been concluded. As a result of these proceedings, final NPDES permits acceptable to the Company have been issued for the Hennepin and Wood River power stations. In addition, public notice and a revised draft NPDES permit have been issued by IEPA for the Vermilion power station. The draft permit satisfactorily corrected all of the provisions to which the Company had previously objected but did add one new provision on which the Company has commented and the Company believes that will be satisfactorily resolved in the final permit. On December 17, 1987, the Board remanded the Havana permit to IEPA and, in light of the resolution of the other permits, the Company anticipates a revised and acceptable permit for Havana will be issued by IEPA.

The Baldwin and Clinton NPDES permits were not involved in any of these proceedings. The Company expects the Baldwin permit to be acceptably reissued during the second quarter of 1988. The Clinton permit does not expire until October 1, 1989, prior to which renewal will be sought.

Other Areas

Major portions of the regulatory programs for the handling, treatment, storage, and disposal of solid and hazardous wastes under the Resource Conservation and Recovery Act (RCRA) and for the handling of toxic substances under the Toxic Substances Control Act (TSCA) have been promulgated by USEPA and are being implemented by USEPA and, where delegated by USEPA, the various states. The Company timely applied for the permits required by the RCRA programs and has constructed and is utilizing the facilities for the storage of toxic substances required by TSCA. These programs also impose certain additional monitoring, recordkeeping, reporting, and operational requirements which the Company has implemented or is implementing. The Company, however, does not anticipate that compliance with these programs will have a material adverse effect on its financial condition.

Item 1. Business (Continued)

Between June, 1983 and January, 1985, the Company shipped various materials containing polychlorinated biphenyls (PCB) to the Martha C. Rose Chemicals, Inc. (Rose) facility in Holden, Missouri for proper treatment and disposal. Rose, pursuant to permits issued by USEPA, had undertaken to dispose of PCB materials for the Company and others but failed in part to do so. As a result of such failure, PCB materials are currently being stored at the facility and the Company and other generators of such PCB materials may have an obligation under the environmental laws of the United States to pay for any necessary disposal and cleanup activities. The Company has joined with a numb of other generators to monitor the situation and provide a mechanism for the efficient and economical cleanup of the facility. In October, 1986, the Company and 14 other entities signed an administrative order on consent (AO-I) with USEPA requiring them to perform certain work to prepare the Rose site for future cleanup and those entities, including the Company, have expended funds to fulfill the commitments in AO-I. A second administrative order on consent (AO-II) was negotiated with USEPA by the Company and 15 other entities and became effective in November, 1987. AO-II primarily requires the removal and proper disposal of the PCB materials at the Rose facility and the preparation of a study, usally referred to as a remedial investigation and feasibility study or RI/FS, to analyze the condition of the Rose site and the options for any further cleanup. At the present time, the Company is unable to estimate its ratable share of potential liability related to the cost of future disposal and cleanup work at the Rose site. However, the Company does not anticipate that its ratable share of such costs will have a material adverse effect on its financial position. USEPA has identified approximately an additional 700 potentially liable entities for cleanup costs at Rose and the Company expects to share any liability with these other entities.

The Company and some of its predecessor entities in the past had operated facilities for manufacturing gas used primarily for lighting. The last such operating facility of the Company was closed in about 1954. In the process of manufacturing gas, various by-products or waste materials were produced, some of which may have been disposed of on the sites of the manufacturing facilities. Under current statutory and regulatory requirements, the Company may be required to undertake remedial action with respect to some of these materials at some of the sites. The Company, with the assistance of an outside consulting engineering firm, has implemented a program to investigate each of these sites to determine what, if any, remedial action is necessary and to implement any such necessary action. The first phase of the gas manufacturing site investigations showed that residues from past activities remain at 24 sites. Late in 1987, the Company began the first intensive underground investigation of the sites and this investigation will be completed in late 1988. Initial findings confirmed the presence of residues. To estimate the costs for such investigations and any remedial actions that may be necessary would be premature at this time. However, the Company does not anticipate that such costs will have a material adverse effect on its financial position.

The Company is also subject to environmental regulation by the Nuclear Regulatory Commission with respect to Clinton. See the sub-caption "Regulation" herein.

Environmental Expenditures

Operation expenses for environmentally-related activities in 1987 were approximately \$41.5 million (including the incremental costs of alternative fuels to meet environmental requirements). The Company's accumulated capital expenditures (including AFUDC) for environmental protection programs since 1969 have reached approximately \$607.9 million.

Item 1. Business (Continued)

Research and Development

The Company's research and development expenditures during 1985, 1986, and 1987 were approximately $4,609,000, $3,571,000, and $2,287,000 respectively. A number of professional employees of the Company participated in these projects on a part-time basis.

Regulation

Under the Illinois Public Utilities Act, the ICC has broad powers of supervision and regulation with respect to the rates and charges of the Company, its services and facilities, extensions or abandonment of service, classification of accounts, valuation and depreciation of property, issuance of securities, and various other matters. The Illinois Public Utilities Act was amended effective January 1, 1986 to include certain provisions specifying criteria for the inclusion of utility plant investment in rate base. These provisions state in substance that the ICC shall include in a utility's rate base only the value of its investment which is both prudently incurred and used and useful in providing service to customers; that no new electric generating plant or significant addition to existing facilities shall be included in rate base unless the ICC determines that such plant or facility is both prudent and used and useful in providing utility service to customers; and that the ICC is empowered to determine whether a utility's generating capacity is in excess of that reasonably necessary to provide adequate and reliable service and to make appropriate and equitable adjustments to rates upon a finding of excess capacity. Terms underlined in the preceding sentence are specifically defined in these provisions.

The Company is exempt from all the provisions of the Public Utility Holding Company Act of 1935 except Section 9(a)(2) thereof. That section requires approval of the Securities and Exchange Commission prior to certain acquisitions by the Company of securities of other public utility companies.

The Company is subject to regulation under the Federal Power Act by the FERC as to rates and charges in connection with the transmission of electric energy in interstate commerce and the sale of such energy at wholesale in interstate commerce, the issuance of debt securities maturing in not more than 12 months, accounting and depreciation policies, and certain other matters.

The FERC has declared the Company exempt from the Natural Gas Act and the orders, rules, and regulations of the Commission thereunder.

The Company is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) with respect to Clinton. NRC regulations control the granting of permits and licenses for the construction and operation of nuclear power stations and subject such stations to continuing review and regulation. The NRC review and regulatory process covers environmental as well as radiological aspects of such stations.

Executive Officers of the Registrant

Position	Name of Officer	Age	Effective Date of Election to Present Position
Chairman and President	Wendell J. Kelley	61	03-25-76
Executive Vice President	William C. Gerstner	63	03-25-76
Executive Vice President	Larry D. Haab	50	08-04-86

Item 1. Business (Continued)

Executive Officers of the Registrant

Position	Name of Officer	Age	Effective Date of Election to Present Position
Executive Vice President	Charles W. Wells	53	03-25-76
Senior Vice President	William E. Warren	60	06-08-83
Vice President	Larry S. Brodsky	39	11-01-87
Vice President	Wilfred Connell	50	11-01-87
Vice President & Secretary	Arthur E. Gray	57	
Vice President			03-29-79
Secretary			06-01-81
Vice President	Donald P. Hall	60	09-07-82
Vice President	Larry L. Idleman	49	04-17-86
Vice President	Paul L. Lang	4?	07-21-86
Vice President	James O. McHood	64	03-27-75
Vice President	Rodney A. Smith	40	02-01-88
Vice President	Porter J. Womeldorff	55	0?-29-79
Treasurer	Larry F. Altenbaumer	40	06-08-83

The present term of office of each of the above executive officers extends to the first meeting of the Company's Board of Directors after the Annual Election of Directors. There are no family relationships among the executive officers and directors of the Company.

Each of the above executive officers, except for Mr. Smith and Mr. Lang, has been employed by the Company for more than five years in executive or management positions. Prior to election to the positions shown above, the following executive officers held other positions with the Company since January 1, 1983. Prior to being elected Executive Vice President on August 4, 1986, Mr. Haab was Senior Vice President. Prior to being elected Senior Vice President on June 8, 1983, Mr. Haab was Vice President and Treasurer and Mr. Warren was Vice President. Prior to being elected Vice President on April 17, 1986, Mr. Idleman was Manager of Employee Relations and Manager of Energy Supply. Prior to being elected Treasurer on June 8, 1983, Mr. Altenbaumer was Manager of Finance and Assistant Treasurer. Mr. Lang, prior to joining the Company, was General Manager of Energy at Inland Steel Company. Prior to being elected Vice President on November 1, 1987, Mr. Brodsky was Manager of Energy Supply and Director of Nuclear Programs at Clinton and Mr. Connell was Manager of Nuclear Planning and Support, Manager of Quality Assurance, and Manager of Nuclear Station Engineering Department at Clinton. Prior to joining the Company, on February 1, 1988, Mr. Smith was Manager of Corporate Communications for Virginia Power.

Operating Statistics

The information under the captions "Electric Statistics" and "Gas Statistics" on page 36 of the Illinois Power Company 1987 Annual Report is incorporated herein by reference.

Item 2. Properties

The Company owns electric generating stations at Havana, Wood River, Hennepin, Baldwin, and near Danville, Illinois (designated as the Vermilion station), totaling 3,340,000 kilowatts of net summer capability. During 1987 the Company placed into commercial operation the Clinton power station (Clinton). The Company has an ownership in Clinton of 86.62% and Soyland Power Cooperative, Inc.

and Western Illinois Power Cooperative, Inc. own the remaining 13.38%. The Company's portion of net summer output capabilities of Clinton is 806,000 kilowatts. It also owns other generating facilities, including one hydro station and internal combustion units at four locations, with an aggregate capability of 152,000 kilowatts.

The Company owns an interconnected electric transmission system of approximately 2,800 circuit miles, operating at from 69,000 to 345,000 volts and a distribution system which includes about 35,300 circuit miles of overhead and underground lines.

Gas properties include approximately 7,300 miles of mains. The Company owns five liquefied petroleum gas plants having an aggregate daily deliverability of 86,000 mcf of 1,000 Btu gas for peak-shaving purposes and has eight underground gas storage fields in Illinois having a total deliverability on a peak day of about 253,000 mcf.

All outstanding first mortgage bonds issued under the Mortgage and Deed of Trust dated November 1, 1943 are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds.

Certain indebtedness of Illinois Power Fuel Company is secured by a security interest in the nuclear fuel held by it and the related contract rights.

Item 3. Legal Proceedings

Retail Rate Order

On April 22, 1987, a 9% electric rate increase became effective. An earlier 9% electric rate increase became effective in October 1986. Both increases were authorized by an August 1985 ICC rate order and increased amount of construction work in progress (CWIP) in rate base by $[illegible] million and $352 million, respectively. At December 31, 1987, the Company has $1.54 billion of Clinton costs in rate base. These rate increases represented additional annualized revenue of approximately $12[illegible] million.

Summer/Winter Rate Differential

On October 20, 1987 the Company filed with the ICC a request to reduce residential electric customers' bills during the summer season of 1988 by an amount equivalent to the reduction in calender year 1987 revenues that would have occurred if the rates previously filed by the Company, to address a summer/winter rate differential, had been allowed to become effective as proposed (approximately $23 million). This request was approved by the ICC and such amount was recorded as a reduction to electric revenues in 1987. The issue of summer/winter rate differential for future years is addressed in the Company's electric rate case filed November 19, 1987.

Federal Income Tax Expense

In early 1987, the Company filed a petition with the ICC seeking approval to utilize any reduction in tax expense for its electric operations resulting from the reduction in the statutory federal income tax rate to offset certain Clinton post-construction operating expenses which will be deferred for future recovery from the in-service date of the station to the date on which new electric rates reflecting the inclusion of Clinton become effective.

The case was later consolidated with the case concerning Clinton in-service criteria and on November 24, 1987 the ICC approved an agreement which had been negotiated between the Company, the ICC staff and intervenor groups. The negotiated settlement provided that the electric revenues previously deferred, as ordered by the ICC to reflect the lower federal income tax rates under the Tax Reform Act of 1986, be included in income and all future deferrals be discontinued.

Pursuant to an ICC order, the Company has recorded the benefit of the lower federal income tax rates collected from gas utility customers as a liability subject to refund ($1.0 million at December 31, 1987). Ultimate disposition of this liability will not be determined until the ICC completes a review of the overall impact of the new tax act and the financial condition of gas operations. The Company made a filing with the ICC on February 5, 1988 requesting that this amount be included in income.

In December, 1987 the ICC ordered all utilities to file riders to continue to accrue such revenues in 1988 subject to refund to the ratepayers. On December 22, the Company filed Rider Y to accrue 1.7% of gas revenues in "revenue accounts subject to refund" to reflect the difference in revenue for gas rates currently in effect and revenue that would have been collected had the gas rates reflected the new federal tax rate.

The ICC has undertaken an investigation of the effect of the Tax Reform Act of 1986 on the rates of all Illinois utilities. On February 5, 1988, Illinois Power filed answers to both the electric and gas portions of that investigation.

Soyland/WIPCO (Power Coordination Agreement)

On December 18, 1984, the ICC issued an order granting a motion filed by the Illinois Governor's Office of Consumer Services, representing the Village of Buffalo, Illinois, and instituted a proceeding to investigate the Power Coordination Agreement between the Company and the Cooperatives (discussed above under the subcaption "Joint Resources Agreement" in Item 1) and the other agreements in the series of October 5, 1984 agreements with the Cooperatives as well as a March 4, 1984 letter of intent between the Company and the Cooperatives relating to this series of agreements. After a series of evidentiary hearings, briefs were filed and oral argument before the Commission was held on January 6, 1988. The hearing examiner issued a proposed order on March 2, 1988 recommending that the Village of Buffalo's petition be dismissed on the grounds that the ICC has jurisdiction only over the loan agreement which has previously been approved. Exceptions to the hearing examiner's proposed order are due on April 6 and replies to exceptions are due on April 13.

Fuel and Purchased Gas Adjustment Clauses

The ICC holds annual public hearings to determine whether each utility's fuel adjustment clause and purchased gas adjustment clause reflect actual costs of fuel and gas prudently purchased and to reconcile amounts collected with actual costs, with the possibility of surcharges or refunds to reflect amounts under-collected or over-collected. On May 13, 1987 the ICC entered an order approving the electric and gas reconciliations submitted by the Company for the year ended December 31, 1984. Hearings have concluded for the 1985 and 1986 reconciliation years and the Company is awaiting an order from the ICC regarding those reconciliations.

Clinton Power Station

See "Clinton Power Station" reported under "Electric Business" in Item 1 for information regarding certain legal proceedings relating to Clinton and the electric rate request.

Environmental

The NRC has initiated a rulemaking proceeding in which rules relating to the environmental effects of the reprocessing and ultimate waste disposal segments of the nuclear fuel cycle are being considered. While the operation of Clinton is subject to the final outcome of these proceedings, the Company cannot now predict what additional information or action on its part will be required or what will be the cost of compliance with the NRC's final determinations or the effects NRC or judicial determinations will have on the ultimate operation of Clinton.

See "Environmental Matters" reported under Item 1 for information regarding legal proceedings concerning environmental matters.

Energy Assistance

On March 5, 1986, the Illinois Commerce Commission issued a permanent order which allows low income customers to pay only 12% of their income to the utility providing the customer's primary source of heat and secondary utility service. As of December 31, 1987, approximately 6,500 of the Company's customers had enrolled in the program.

On April 15, 1987 the Commission issued an Order in Dockets 83-0034 through 83-0043 which reopened the dockets for all Illinois utilities to investigate the propriety and appropriateness of the development and implementation of utility sponsored energy conservation programs. All electric and gas utilities were directed to analyze the results of the pilot energy conservation programs, and further hearings will be held in 1988 regarding the results of these evaluations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The information under the caption "Two-Year Dividends and Stock Prices by Quarters" on page 35 of the Illinois Power Company 1987 Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The information under the caption "Selected Financial Data" on page 35 of the Illinois Power Company 1987 Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17 through 20 of the Illinois Power Company 1987 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements on pages 21 through 34 and Report of Independent Accountants on page 20 of the Illinois Power Company 1987 Annual Report are incorporated herein by reference. See also Financial Statement Schedules on pages F-1 through F-11 of this Form 10-K.

Prior to January 1, 1988, the Company recorded revenues as billed to its customers on a monthly cycle billing basis. The unbilled revenue for utility service rendered after meter reading dates became a part of operating revenues in the following month. In order to better match revenues with expenses, effective January 1, 1988, the Company changed its method of accounting to accrue the amount of revenue for sales unbilled at the end of each reporting period. Customer bills will continue to be rendered on the basis of monthly cycle meter readings.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information under the caption "Nominees for Directors" on pages 4 through 8 of Illinois Power Company's Proxy Statement for its 1988 Annual Meeting of Stockholders is incorporated herein by reference. The information relating to executive officers is set forth in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information under the caption "Compensation of Directors and Executive Officers" on pages 8 through 11 of Illinois Power Company's Proxy Statement for its 1988 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the caption "Security Ownership of Certain Beneficial Owners" on page 2 and the information regarding securities owned by officers and directors under the caption "Nominees for Directors" on pages 4 through 8 of Illinois Power Company's Proxy Statement for its 1988 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of this report.
(1) Financial Statements:

	Page in Annual Report to Stockholders*
Report of Independent Accountants	20
Statements of Income for the three years ended December 31, 1987	21
Balance Sheets at December 31, 1987 and 1986	22
Statements of Sources of Funds Provided for Gross Property Additions for the three years ended December 31, 1987	25
Statements of Retained Earnings for the three years ended December 31, 1987	21
Notes to Financial Statements	26 - 34

* Incorporated by reference from the indicated pages of the 1987 Annual Report.

(2) Financial Statement Schedules:

		Page in Form 10-K
	Report of Independent Accountants on Financial Statement Schedules	F-1
V	Utility Plant	F2-F4
VI	Accumulated Depreciation	F5-F7
VIII	Valuation and Qualifying Accounts	F8-F10
X	Supplementary Income Statement Information	F-11

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

The Company owns 100% of the capital stock of IPF (Illinois Power Finance) Company N.V., a Netherlands Antilles corporation. The subsidiary was established for the purpose of borrowing funds outside of the United States. The accounts of the subsidiary are consolidated with the accounts of the Company, and all intercompany balances and transactions have been eliminated.

The Company owns 100% of the capital stock of IP Gas Supply Company. The investment in IP Gas Supply Company is for the purpose of acquiring interests in gas and oil leases. In accordance with an order from the Illinois Commerce Commission, the accounts of the subsidiary are not consolidated with the accounts of the Company but are accounted for as an investment on the equity accounting method. Financial statements of this unconsolidated subsidiary are omitted because it does not constitute a significant subsidiary.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The financial statements of a 50%-owned company and a one-third owned company have been omitted because the Registrant's share of such companys' earnings before income taxes and total assets is less than 20% of the Registrant's earnings before income taxes and total assets, respectively. Further, the Registrant's investment in such companies is less than 20% of the Registrant's total assets.

(3) Exhibits

The exhibits filed with this Form 10-K are listed in the Exhibit Index located elsewhere herein.

(b) Reports on Form 8-K since October 1, 1987:

A Current Report on Form 8-K, dated November 19, 1987, was filed reporting under Item 5, Other Events.

A Current Report on Form 8-K, dated November 24, 1987, was filed reporting under Item 5, Other Events.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ILLINOIS POWER COMPANY
(REGISTRANT)

By Wendell J. Kelley
Wendell J. Kelley, Chairman and President

Date: March 28, 1988

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated.

Signature	Title	Date
Wendell J. Kelley Wendell J. Kelley (Principal Executive Officer)	Chairman, President and Director	
Larry D. Haab Larry D. Haab (Principal Financial Officer)	Executive Vice President and Director	
Arthur E. Gray Arthur E. Gray (Principal Accounting Officer)	Vice President and Secretary	
Richard R. Berry Richard R. Berry		
William C. Gerstner William C. Gerstner		
Grover J. Hansen Grover J. Hansen		
Donald E. Lasater Donald E. Lasater		March 28, 1988
Eva Jane Milligan Eva Jane Milligan		
Keith R. Potter Keith R. Potter	Director	
Robert M. Powers Robert M. Powers		
Boyd F. Schenk Boyd F. Schenk		
Charles W. Wells Charles W. Wells		
Gordon R. Worley Gordon R. Worley		
Vernon K. Zimmerman Vernon K. Zimmerman		

Report of Independent Accountants on
Financial Statement Schedules

To the Board of Directors of
Illinois Power Company

Our examinations of the financial statements referred to in our report dated February 11, 1988 appearing on page 20 of the 1987 Annual Report to Stockholders of Illinois Power Company, (which report and financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an examination of the Financial Statement Schedules listed in Item 14(a)(2) of this Form 10-K. Such report is qualified subject to the outcome of the uncertainties with respect to various matters related to the Clinton power station as described in Note 13 to the financial statements. In our opinion, subject to the effects on these Financial Statement Schedules of such adjustment, if any, as might have been required had the outcome of the uncertainties referred to above been known, these Financial Statement Schedules present fairly the information set forth therein when read in conjunction with the related financial statements.

Price Waterhouse

One Centerre Plaza
St. Louis, Missouri

February 11, 1988

ILLINOIS POWER COMPANY

SCHEDULE V - UTILITY PLANT

Col. A Classification	Col. B Balance at beginning of period January 1, 1985	Col. C Additions at cost	Col. D Retirements	Col. E Other changes - add (deduct) - describe	Col. F Balance at end of period December 31, 1985
	(Thousands of Dollars)				
Electric -					
Intangible	$ 623	$ -	$ -	-	$ 623
Steam production	776,228	4,137	1,249	-	779,116
Hydraulic production	682	-	-	-	682
Internal combustion engine	21,398	-	489	(176)(1)	20,733
Transmission	244,469	4,553	363	-	248,659
Distribution	588,914	28,948	6,738	67 (2)	611,191
General	78,817	16,014	591	670 (3)	94,910
Plant held for future use	20,344	(29)	-	-	20,315
Construction work in progress	2,243,204	799,928	-	-	3,043,132
Total electric plant	3,974,679	853,551	9,430	561	4,819,361
Gas -					
Intangible	9	-	-	-	9
Production	6,106	-	-	-	6,106
Underground storage	20,910	77	8	-	20,979
Local storage	-	-	-	-	-
Transmission	46,603	113	11	-	46,705
Distribution	284,208	14,087	4,012	-	294,283
General	10,957	326	132	-	11,151
Plant held for future use	32	(4)	-	-	28
Construction work in progress	4,304	1,426	-	-	5,730
Gas stored underground (noncurrent)	3,929	(15)	-	-	3,914
Total gas plant	377,058	16,010	4,163	-	388,905
TOTAL	$4,351,737	$869,561	$13,593	$ 561	$5,208,266

( ) Credit

(1) Transfer of Bloomington Diesel Plant structures & land to Nonutility Property - Account 121.

(2) Acquisition of Cedar Point facilities from the village of Cedar Point.

(3) Approximately $8,000 represents acquisition of Cedar Point facilities. Remainder represents acquisition of capital lease property-computers & computer equipment, & their subsequent amortization.

ILLINOIS POWER COMPANY

SCHEDULE V - UTILITY PLANT

Col. A Classification	Col. B Balance at beginning of period January 1, 1986	Col. C Additions at cost	Col. D Retirements	Col. E Other changes - add (deduct) - describe	Col. F Balance at end of period December 31, 1986
		(Thousands of Dollars)			
Electric -					
Intangible	$ 623	$ -	$ -	$ -	$ 623
Steam production	779,116	2,153	1,169	-	780,100
Hydraulic production	682	-	-	-	682
Internal combustion engine	20,733	26	22	-	20,737
Transmission	248,659	6,477	731	-	254,405
Distribution	611,191	31,401	5,828	-	636,764
General	94,910	4,627	838	3,165 (1)	101,864
Plant held for future use	20,315	(722)	71	-	19,522
Construction work in progress	3,043,132	636,827	-	-	3,679,959
Total electric plant	4,819,361	680,789	8,659	3,165	5,494,656
Gas -					
Intangible	9	-	-	-	9
Production	6,106	9	-	-	6,115
Underground storage	20,979	2,279	1	-	23,257
Local storage	-	-	-	-	-
Transmission	46,705	505	41	-	47,169
Distribution	294,283	16,419	4,197	-	306,505
General	11,151	1,479	214	-	12,416
Plant held for future use	28	-	-	-	28
Construction work in progress	5,730	(1,029)	-	-	4,701
Gas stored underground (noncurrent)	3,914	5,068	-	-	8,982
Total gas plant	388,905	24,730	4,453	-	409,182
TOTAL	$5,208,266	$705,519	$13,112	$ 3,165	$5,903,838

( ) Credit

(1) Includes acquisition of capital lease property - computers and computer equipment and their subsequent amortization.

ILLINOIS POWER COMPANY

SCHEDULE V - UTILITY PLANT

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at beginning of period January 1, 1987	Additions at cost	Retirements	Other changes - add (deduct) - describe	Balance at end of period December 31, 1987
		(Thousands of Dollars)			
Electric -					
Intangible	$ 623	$ -	$ -	$ -	$ 623
Steam production	780,100	5,542	705	-	784,937
Nuclear	-	3,790,858	-	-	3,790,858
Hydraulic production	682	-	-	-	682
Internal combustion engine	20,737	1	-	-	20,738
Transmission	254,405	15,581	780	-	269,206
Distribution	636,764	40,484	5,863	-	671,385
General	101,864	9,260	1,046	(3,487)(1)	106,591
Plant held for future use	19,522	(9,598)	13	-	9,911
Construction work in progress	3,679,959	(3,634,206)	-	-	45,753
Total electric plant	5,494,656	217,922	8,407	(3,487)	5,700,684
Gas -					
Intangible	9	-	-	-	9
Production	6,115	55	1	-	6,169
Underground storage	23,257	457	282	-	23,432
Local storage	-	-	-	-	-
Transmission	47,169	329	81	-	47,417
Distribution	306,505	16,842	4,354	-	318,993
General	12,416	1,120	264	-	13,272
Plant held for future use	28	(1)	-	-	27
Construction work in progress	4,701	890	-	-	5,591
Gas stored underground (noncurrent)	8,982	-	-	-	8,982
Total gas plant	409,182	19,692	4,982	-	423,892
TOTAL	$5,903,838	237,614	$13,389	$(3,487)	$6,124,576

( ) Credit

(1) Includes acquisition of capital lease property - computers and computer equipment and their subsequent amortization.

ILLINOIS POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Balance at beginning of period January 1, 1985	Additions charged to cost and expenses	Retirements	Other changes - add (deduct) - describe	Balance at end of period December 31, 1985
			(Thousands of Dollars)		
Electric	$708,241	$57,166	$ 7,668	$ 41 (2)	$757,780
Gas	116,292	14,655	4,782	(12)(3)	126,153
	$824,533	$71,821(1)	$12,450	$ 29	$883,933

( ) Credit

F-5

(1) Includes -
Provision of approximately $1,724,000 for transportation equipment charged to clearing accounts.

(2) Represents approximately $46,700 for purchase of Cedar Point Distribution Facilities, ($4,500) gain on sale of right of way, at Sparta Service Unit, ($200) gain on sale of St. Clair County easements, ($700) gain on sale of part of East Decatur Substation site and ($400) gain on sale of part of Dupo Substation site.

(3) Represents approximately ($10,700) gain on sale of fee-owned parcel in Decatur at Monroe & McKinley and ($1,900) gain on sale of Brookside Regulator Station in Centralia.

ILLINOIS POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Balance at beginning of period January 1, 1986	Additions charged to cost and expenses	Retirements	Other changes - add (deduct) - describe	Balance at end of period December 31, 1986
			(Thousands of Dollars)		
Electric	$757,780	$ 58,404	$ 7,700	$ -	$808,484
Gas	126,153	15,182	4,966	-	136,369
	$883,933	$ 73,586(1)	$12,666	$ - (2)	$944,853

( ) Credit

(1) Includes -
Provision of approximately $1,855,000 for transportation equipment charged to clearing accounts.

(2) Represents approximately ($300) gain on sale of Mira Substatio[illegible]e, ($1,200) gain on sale of part of Greenville Storage Site, $100 loss on sale of part of the 42nd Street Substation in Mt. Vernon, ($400) gain on sale of part of the ROW to the Peabody Short Line, $43,000 loss on sale of part of Wood River Power Plant property, and approximately a ($41,200) gain on sale of part of Washington St. Substation in Bloomington.

ILLINOIS POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Balance at beginning of period January 1, 1987	Additions charged to cost and expenses	Retirements (Thousands of Dollars)	Other changes - add (deduct) - describe	Balance at end of period December [illegible], 1987
Electric	$808,484	$132,207	$ 7,743	$(446)	$ 932,502
Gas	136,369	15,794	5,856	-	146,307
	$944,853	$148,001(1)	$13,599	$(446)(2)	$1,078,809

( ) Credit

(1) Includes -
Provision of approximately $2,005,035 for transportation equipment charged to clearing accounts.

(2) Represents approximately $1,800 loss on sale of St. Joseph Substation site, approximately a $1,500 loss on sale of part of Bement Franklin Street Capacitor Station and a transfer of approximately ($449,000) in accumulated depreciation due to the transfer of the Clinton marina to the non-utility account.

ILLINOIS POWER COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at beginning of period January 1, 1985	Charged to cost and expenses	Charged to other accounts-describe	Deductions-describe	Balance at end of period December 31, 1985
		(Thousands of Dollars)			
Reserve deducted in the balance sheet from the asset to which it applies -					
Nonutility property-Depreciation	$ 49	$ 1	$ -	$(156) (1)	$ 206
Uncollectible accounts	$6,000	$4,157	$ -	$4,157 (2)	$6,000

(1) Transfer of Depreciation of Bloomington Diesel Plant Building from Electric Plant to Non-utility.
(2) Represents accounts charged off, less recoveries on accounts previously charged off.

ILLINOIS POWER COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at beginning of period January 1, 1986	Charged to cost and expenses	Charged to other accounts-describe	Deductions-describe	Balance at end of period December 31, 1986
		(Thousands of Dollars)			
Reserve deducted in the balance sheet from the asset to which it applies -					
Nonutility property-Depreciation	$ 206	$ 6(1)	$ -	$ 44 (2)	$ 168
Uncollectible accounts	$6,000	$5,166	$ -	$5,166 (3)	$6,000

(1) Includes property sold of $2,000 at the former Kewanee West End Substation site in Henry County.

(2) Represents property retired of ($15,600) at the White Heath Substation in Piatt County, ($3,800) at the Park St. Substation in Morgan County, ($2,000) at the Mulberry Grove Pump Station in Bond County, ($1,500) for the ROW Havana to Jacksonville, ($300) at the Johnson St. Substation in Morgan County, ($200) for the ROW Line 6636 in Perry County, ($18,200) at the Danville Power House in Vermilion County, and ($2,000) for the Kewanee West End Substation which was sold.

(3) Represents accounts charged off, less recoveries on accounts previously charged off.

ILLINOIS POWER COMPANY

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at beginning of period January 1, 1987	Charged to cost and expenses	Charged to other accounts-describe	Deductions-describe	Balance at end of period December 31, 1987
			(Thousands of Dollars)		
Reserve deducted in the balanced sheet from the asset to which it applies -					
Nonutility property-Depreciation	$ 168	$ 61(1)	$ 449(2)	$ 17(3)	$ 661
Uncollectible accounts	$6,000	$5,516	$ -	$5,016(4)	$6,500

(1) Includes property sold for $17,500 at the former Kerrick Substation site in McLean County and for $100 at the Ridgefarm Gas Regulator site in Vermilion County.

(2) Represents the transfer of the Clinton Marina from Account 101.10 to the Non-Utility account.

(3) Represents property retired of $(6,900) at the Kerrick Substation in McLean County and $(200) at the Ridgefarm Gas Regulator site in Vermilion County which were both sold; and gain of $(10,200) on sale of Kerrick Substation and loss of $100 on sale of the gas regulator site at Ridgefarm in Vermilion County.

(4) Represents accounts charged off, less recoveries on accounts previously charged off.

ILLINOIS POWER COMPANY

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Supplementary Income Statement Information

Following is a tabulation of taxes, other than income taxes charged to expense for the three year period ended 1987:

	December 31, 1987	1986	1985
	(Thousands of Dollars)		
Taxes, Other Than Income Taxes (General Taxes), Charged to Operating Expenses:			
Real Estate	$ 17,622	$ 18,036	$ 18,396
Illinois Public Utility	49,215	50,106	54,037
Tax on Invested Capital	34,493	31,931	27,608
Payroll	12,759	12,231	11,599
Other	12,567	6,715	10,539
	126,656	119,019	122,179
Less-charged to other income & balance sheet accounts	10,667	13,709	18,119
Total per Statement of Income	$115,989	$105,310	$104,060

Exhibit Index

Exhibit	Description	Page Number
1	Underwriting Agreement dated December 18, 1986, in connection with the sale of 600,000 shares of 8.00% Cumulative Preferred Stock - Registration No. 33-10683. Filed as Exhibit 1 to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1986.	*
3(a)	Restated Articles of Incorporation, as amended through April 19, 1984. Filed as Exhibit 19 to the Quarterly Report on Form 10-Q under the Securities Exchange Act of 1934 for the quarter ended June 30, 1984. (File No. 1-3004)	*
3(b)	Statement of Resolution Establishing Series of 11.75% Cumulative Preferred Stock, dated November 7, 1984. Filed as Exhibit 4 to the Current Report on Form 8-K dated November 7, 1984. Registration No. 2-90809.	*
3(c)	Statement of Resolution Establishing Series of Cumulative Preferred Stock, Adjustable Rate Series B, dated April 29, 1985. Filed as Exhibit 4(b) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 1985. Registration No. 2-90809.	*
3(d)	Statement of Resolution Establishing Series of 8.52% Cumulative Preferred Stock, dated February 20, 1986. Filed as Exhibit 4(b) to the Current Report on Form 8-K dated February 18, 1986. Registration No. 33-2867.	*
3(e)	By-laws of the Company, as amended through February 18, 1988.	33
3(f)	Statement of Resolution Establishing Series of 8.00% Cumulative Preferred Stock, dated December 18, 1986. Registration No. 33-10683. Filed as Exhibit 3(f) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1986.	*
4(a)	Mortgage and Deed of Trust dated November 1, 1943. Filed as Exhibit 2(b) Registration No. 2-14066.	*
4(b)	Supplemental Indenture dated March 1, 1946. Filed as Exhibit 2(d) Registration No. 2-14066.	*
4(c)	Supplemental Indenture dated July 1, 1949. Filed as Exhibit 7(a)7 Registration No. 2-8130.	*

Exhibit Index (Continued)

Exhibit	Description	Page Number
4(d)	Supplemental Indenture dated March 1, 1952. Filed as Exhibit 4(i) Registration No. 2-10007.	*
4(e)	Supplemental Indenture dated November 1, 1953. Filed as Exhibit 4(j) Registration No. 2-11105.	*
4(f)	Supplemental Indenture dated July 1, 1956. Filed as Exhibit 4(k) Registration No. 2-12968.	*
4(g)	Supplemental Indenture dated May 1, 1958. Filed as Exhibit 2(j) Registration No. 2-14066.	*
4(h)	Supplemental Indenture dated January 1, 1963. Filed as Exhibit 2(k) Registration No. 2-25533.	*
4(i)	Supplemental Indenture dated October 1, 1966. Filed as Exhibit 2(i) Registration No. 2-27783.	*
4(j)	Supplemental Indenture dated January 1, 1968. Filed as Exhibit 2(m) Registration No. 2-30155.	*
4(k)	Supplemental Indenture dated October 1, 1968. Filed as Exhibit 2(p) Registration No. 2-31131.	*
4(l)	Supplemental Indenture dated October 1, 1969. Filed as Exhibit 2(q) Registration No. 2-35926.	*
4(m)	Supplemental Indenture dated November 1, 1970. Filed as Exhibit 2(q) Registration No. 2-59465.	*
4(n)	Supplemental Indenture dated October 1, 1971. Filed as Exhibit 2(r) Registration No. 2-59465.	*
4(o)	Supplemental Indenture dated June 1, 1973. Filed as Exhibit 2(o) Registration No. 2-63750.	*
4(p)	Supplemental Indenture dated May 1, 1974. Filed as Exhibit 2(v) Registration No. 2-51674.	*
4(q)	Supplemental Indenture dated September 1, 1974. Filed as Exhibit 2(q) Registration No. 2-66682.	*
4(r)	Supplemental Indenture dated July 1, 1976. Filed as Exhibit 2(r) Registration No. 2-66682.	*
4(s)	Supplemental Indenture dated May 1, 1977. Filed as Exhibit 2(w) Registration No. 2-59465.	*
4(t)	Supplemental Indenture dated November 1, 1977. Filed as Exhibit 2(y) to Post-Effective Amendment No. 3, Registration No. 2-55097.	*

Exhibit Index (Continued)

Exhibit	Description	Page Number
4(u)	Supplemental Indenture dated August 1, 1978. Filed as Exhibit 2(u) to the First Amendment to Registration No. 2-62364.	*
4(v)	Supplemental Indenture dated July 1, 1979. Filed as Exhibit 2 to the Quarterly Report on Form 10-Q under the Securities Exchange Act of 1934 for the quarter ended June 30, 1979.	*
4(w)	Supplemental Indenture dated July 31, 1980. Filed as Exhibit 2(y) Registration No. 2-68628.	*
4(x)	Supplemental Indenture dated August 1, 1980. Filed as Exhibit 2(z) Registration No. 2-68628.	*
4(y)	Supplemental Indenture dated July 1, 1982. Filed as Exhibit 2 to the Current Report on Form 8-K dated July 23, 1982 (File No. 1-3004).	*
4(z)	Supplemental Indenture dated November 1, 1982. Filed as Exhibit 4 to the Current Report on Form 8-K dated November 18, 1982 (File No. 1-3004).	*
4(aa)	Supplemental Indenture dated December 15, 1983. Filed as Exhibit 4 to the Current Report on Form 8-K dated February 2, 1984 (File No. 1-3004).	*
4(bb)	Supplemental Indenture dated May 15, 1984. Filed as Exhibit 4 to the Quarterly Report on Form 10-Q under the Securities Exchange Act of 1934 for the quarter ended June 30, 1984 (File No. 1-3004).	*
4(cc)	Indenture dated as of June 1, 1982 from IPF (Illinois Power Finance) Company N.V. and Illinois Power Company to Bankers Trust Company, trustee, relating to $50 million principal amount [illegible] 1/2% Guaranteed Debentures due 1989. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, this indenture is not being filed herewith. Registrant agrees to furnish a copy of such indenture to the Securities and Exchange Commission upon request.	
4(dd)	Indenture dated as of April 1, 1984 from IPF (Illinois Power Finance) Company N.V. and Illinois Power Company to Bankers Trust Company, trustee, relating to $100 million principal amount 12 1/2% Guaranteed Debentures due 1992. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, this indenture is not being filed herewith. Registrant agrees to furnish a copy of such indenture to the Securities and Exchange Commission upon request.	

Exhibit Index (Continued)

Exhibit	Description	Page Number
4(ee)	Supplemental Indenture dated March 1, 1985. Filed as exhibit 4(a) to the Quarterly Report on Form 10-Q under the Securities Exchange Act of 1934 for the quarter ended March 31, 1985 (File No. 1-3004).	*
4(ff)	Supplemental Indenture dated February 1, 1986. Filed as exhibit 4(a) to the Current Report on Form 8-K dated February 18, 1986 (File No. 1-3004).	*
4(gg)	Supplemental Indenture dated July 1, 1986. Filed as Exhibit 4(a) to the Current Report on Form 8-K dated June 25, 1986 (File No. 1-3004).	*
4(hh)	Supplemental Indenture dated September 1, 1986. Filed as Exhibit 4(a) to the Current Report on Form 8-K dated August 25, 1986 (File No. 1-3004).	*
4(ii)	Supplemental Indenture No. 1 dated February 1, 1987, providing for $25,000,000 principal amount of 7 5/8% First Mortgage Bonds, Pollution Control Series F, due December 1, 2016. Filed as Exhibit 4(ii) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1986.	*
4(jj)	Supplemental Indenture No. 2 dated February 1, 1987, providing for $50,000,000 principal amount of 7 5/8% First Mortgage Bonds, Pollution Control Series G, due December 1, 2016. Filed as Exhibit 4(jj) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1986.	*
4(kk)	Supplemental Indenture No. 3 dated February 1, 1987, providing for $75,000,000 principal amount of 7 5/8% First Mortgage Bonds, Pollution Control Series H, due December 1, 2016. Filed as Exhibit 4(kk) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1986.	*
4(ll)	Supplemental Indenture dated July 1, 1987, providing for $33,755,000 principal amount of 8.30% First Mortgage Bonds, Pollution Control Series I, due April 1, 2017.	39

Exhibit Index (Continued)

Exhibit	Description	Page Number
10(a)	Group Insurance Benefits for Managerial Employees of Illinois Power Company as amended January 1, 1983. Sup. edes the Group Insurance Benefits for Managerial Employees of Illinois Power Company as amended April 1, 1980 and filed as Exhibit 10(a) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1983.	*
10(b)	Managerial Group Disability Plan of Illinois Power Company as amended March 27, 1980. Filed as Exhibit 10(b) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1980.	*
10(c)	Illinois Power Company Deferred Compensation Plan for Certain Directors. Filed as Exhibit 10(c) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1981.	*
10(d)	Illinois Power Company Incentive Savings Trust and Illinois Power Company Incentive Savings Plan and Amendment I thereto. Filed as Exhibit 10(d) to the Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 1984.	*
10(e)	Illinois Power Company Director Emeritus Plan for Outside Directors.	55
12	Computation of ratio of earnings to fixed charges.	58
13	Illinois Power Company 1987 Annual Report.	59
22	Subsidiaries of Illinois Power Company	99
24	Consent of Independent Accountants.	100

---

* Incorporated herein by reference.

ILLINOIS POWER COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
	1983	1984	1985	1986	1987
Earnings Available for Fixed Charges:					
Net Income per "Statement of Income"	$207,735,810	$235,478,302	$239,999,636	$292,721,340	$289,555,823
Add:					
Income Taxes:					
Current	91,907,350	100,254,723	39,938,842	38,211,164	42,223,653
Deferred	44,428,282	23,850,242	26,438,897	34,851,670	79,249,411
Allocated income taxes	(24,173,880)	(30,719,305)	(46,146,996)	(59,279,639)	(54,513,114)
Investment credit - Deferred	16,860,490	29,974,069	64,943,970	61,590,399	1,282,424
Interest on long-term debt	110,260,144	141,008,227	168,072,708	186,780,939	188,761,791
Amortization of debt expense and premium-net, and other interest charges	6,035,893	6,369,360	8,306,692	13,930,307	17,037,310
One-third of all rentals (Estimated to be representative of the interest component)	2,296,550	2,389,953	2,560,571	3,443,656	3,441,300
Interest on In-Core Fuel	-	-	-	-	8,231,174
Earnings available for fixed charges	$455,350,649	$508,605,571	$504,114,320	$572,249,836	$575,269,722
Fixed Charges:					
Interest on long-term debt	$110,260,144	$141,008,227	$168,072,708	$186,780,939	$188,761,791
Amortization of debt expense and premium-net, and other interest charges	15,337,814	18,140,560	19,082,927	32,275,077	36,578,297
One-third of all rentals (Estimated to be representative of the interest component)	2,296,560	2,389,953	2,560,571	3,443,656	3,441,300
Total fixed charges	$127,894,518	$161,538,740	$189,716,206	$222,499,672	$228,781,388
Ratio of earnings to fixed charges	3.56	3.15	2.66	2.57	2.51

EXHIBIT 12

Illinois Power Company

1987 Annual Report

9406160217 +pp.

Illinois Power Company
1987 Annual Report

Illinois Power Company

Illinois Power Company is a public utility engaged principally in the generation, transmission, distribution, and sale of electric energy and the distribution and sale of natural gas solely in the State of Illinois. The Company's territory is approximately 15,000 square miles, or one-quarter of the state. The Company serves approximately 543,000 customers.

Principal Office

Monticello, Illinois 61856

Executive Office

500 South 27th Street, Decatur, Illinois 62525
Phone (217) 424-6600

Transfer Agent and Registrar

Continental Illinois National Bank and Trust Company of Chicago
231 South LaSalle Street, Chicago, Illinois 60693

Stockholder Records and Dividend Disbursing Office

Patricia E. Perkins
Supervisor, Shareholder Services
Illinois Power Company
500 South 27th Street
Decatur, Illinois 62525
(217) 424-6609

Investor Relations

Michael R. Heneghan
Director of Investor Relations
(217) 424-8715

Annual Stockholders' Meeting

The annual stockholders' meeting will be held April 21, 1988, at the executive office of the Company at 10 a.m. A proxy statement will be mailed to stockholders about March 14, 1988.

This report and the financial statements contained herein are submitted for the general information of the stockholders of the Company as such and are not intended to induce, or to be used in connection with, any sale or purchase of securities.

Illinois Power Company

1987 Annual Report

Table of Contents

1987 Financial Highlights

	1987	1986	% Increase (Decrease)
	(Millions of Dollars except per share amounts)		
Operating revenues	**$1,220**	$1,184	3.0
Electric	**$ 911**	$ 814	11.9
Gas	**$ 309**	$ 370	(16.5)
Operating expenses and taxes	**$ 986**	$ 976	1.0
Net income	**$ 290**	$ 293	(1.0)
Average number of common shares outstanding (millions)	**67**	65	3.1
Earnings per common share	**$ 3.75**	$ 3.98	(5.8)
Dividends declared per common share	**$ 2.64**	$ 2.64	—

1987 Operations Highlights

January 23
Gas sales and deliveries peaked for the year at 625,050,000 cubic feet

February 27
Clinton power station achieved its first, self-sustaining nuclear chain reaction

April 1
Company purchased downtown Decatur building primarily for new computer center

April 10
NRC authorized full-power license for Clinton

April 24
Clinton in-service date

July 15
ICC issued order on depreciation rate and funding for decommissioning of Clinton

July 20
Peak electric demand for the year reached 3,308,000 kilowatts

August 3
Peak day energy use for the year reached 65,355,000 kilowatt-hours

August 14
Hearings concluded on the first phase of Clinton audit

September 1
New district office in Columbia opened

October 7
Gatekeeper program to keep an eye on the elderly introduced by company

November 1
Larry Brodsky and Wilfred Connell became vice presidents

November 19
Company filed a request for rate-moderation plan

November 24
ICC approved negotiated settlement on several Clinton-related ratemaking issues

November 30
NRC issued acceptable review of Clinton's performance

Wendell J. Kelley
Chairman and President

I am confident that our plan balances the interests of our customers, our stockholders, and the economic welfare of the territory we serve.

To Our Stockholders:

In reporting to you the significant accomplishments, developments, and events of 1987, I must begin with the most important—completing construction of our nuclear generating station at Clinton and bringing it up to full-power operation. For several months now, Clinton has been fully operational, supplying about one-quarter of the electricity needs of our customers.

Next in importance, I believe, was the proposal we filed in November to recover through electric rates the owning and operating costs of the Clinton power station. I am confident that our plan balances the interests of our customers, our stockholders, and the economic welfare of the territory we serve.

Before getting into more detail about Clinton and our rate proposal, I should report to you that 1987 earnings per share decreased 5.8 percent compared to those of 1986 due to a number of factors.

Earnings per common share fell to $3.75 from $3.98 in 1986. The cash portion of our earnings increased 16¢ while the non-cash portion (allowance for funds used during construction and deferred Clinton financing costs) declined 39¢. This increase in cash earnings reflects our electric rate increase, partially offset by our plan to reduce residential electric rates during the summer of 1988 and by the resolution of various ratemaking issues associated with Clinton. The reduction in non-cash earnings reflects the inclusion of additional construction work in progress in rate base.

Clinton achieved its first, self-sustained nuclear chain reaction on February 27, 1987 following fuel loading in late 1986. A unanimous vote by the five commissioners of the Nuclear Regulatory Commission (NRC) on April 10 gave us a license to operate Clinton up to full-power.

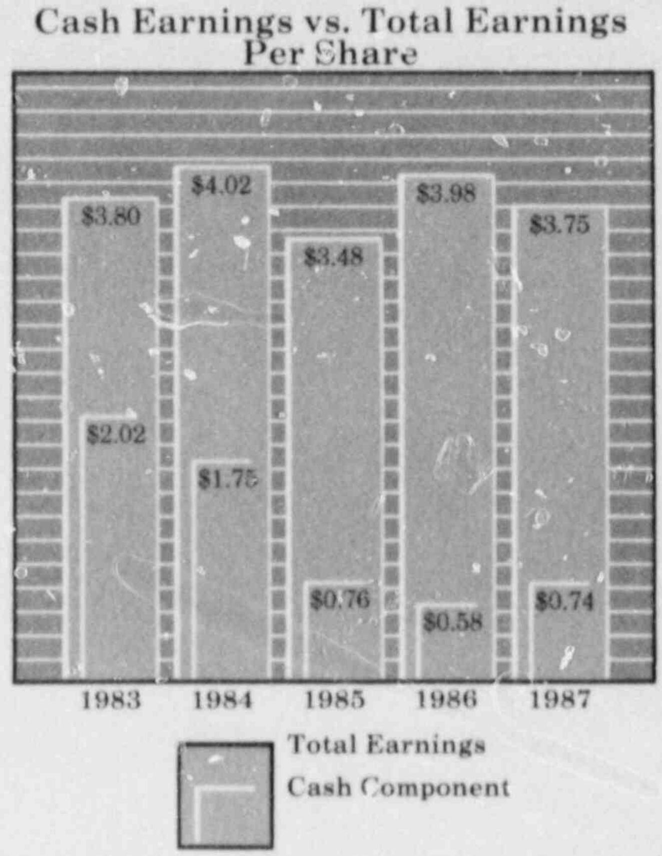
On April 24, the station went into commercial operation. By mid-summer, Clinton was supplying about 15 percent of our customers' monthly need for electricity.

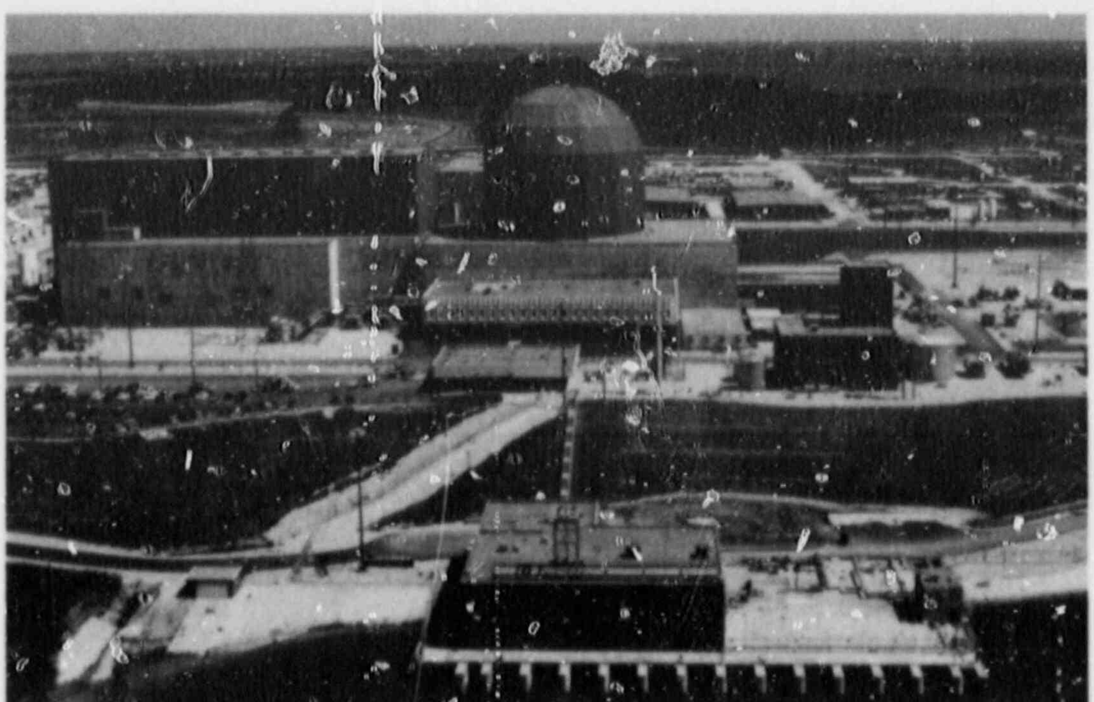
The Federal Emergency Management Agency in August approved Illinois' emergency response plan for the area surrounding the Clinton power station. The emergency response plan for the plant site was approved by the NRC in 1985.

In the NRC's annual review of Clinton's performance, we received the highest achievable grade in licensing activities and in preoperational and startup testing. We received acceptable ratings in nine other areas. The NRC indicated that there were "many favorable trends" at the plant and that three areas had improved since our previous report card.

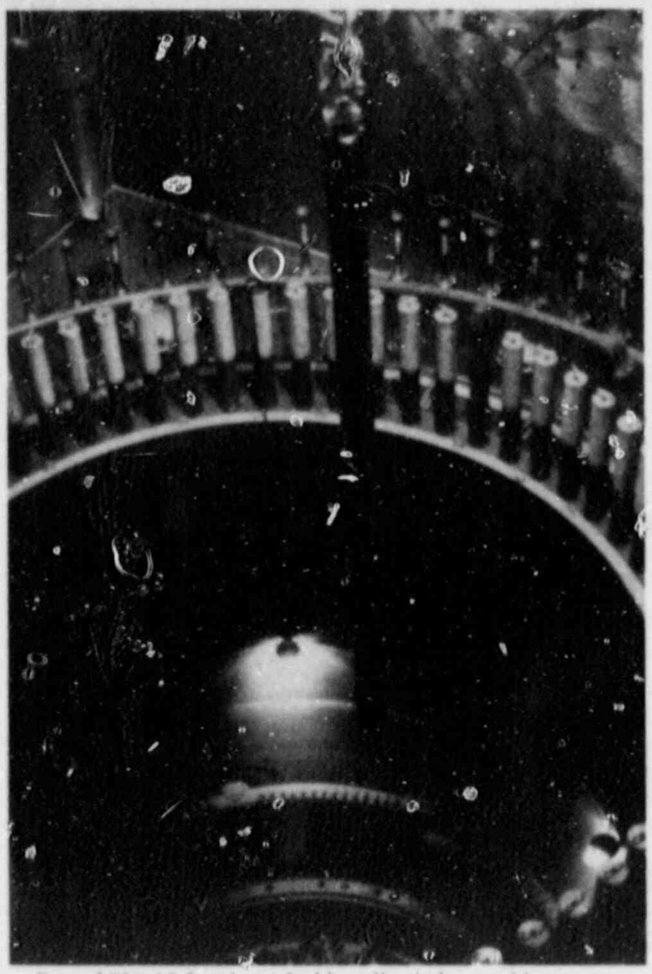
As we progressed with operation of Clinton, we also moved forward on a number of significant regulatory matters related to rates.

In July, the Illinois Commerce Commission (ICC) issued an order specifying the





The Clinton power station went into service April 24. The lakefront building is the screenhouse that takes in cooling water and filters it for use in the plant. The buildings to the left of the reactor dome house the turbine-generator and radwaste facilities. The 5,000-acre cooling lake and surrounding land provided recreation for more than 860,000 people during the year. In addition, about 8,000 people from 20 countries toured or used the Clinton visitors center.



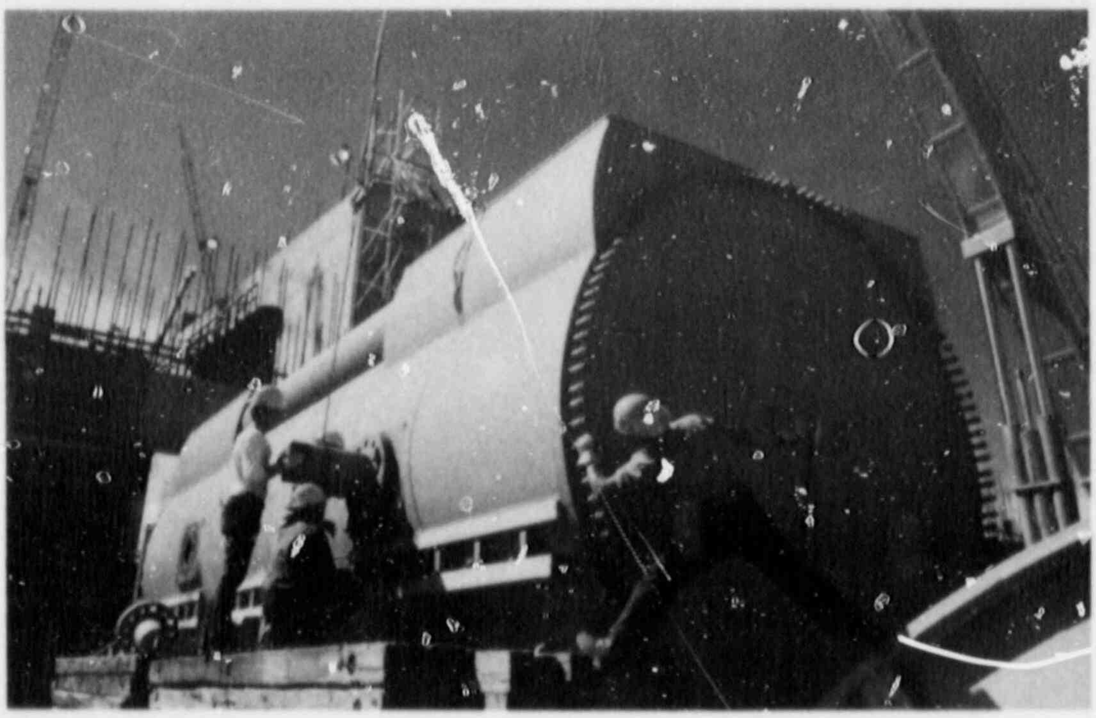
One of 624, 15-foot-long fuel bundles is lowered by crane into the reactor core at Clinton. Fuel loading began in September 1986 and was completed 22 days later.

depreciation rate for Clinton and how the decommissioning costs of the Clinton power station will be funded.

In November, the ICC approved a settlement that we had negotiated with several consumer groups and jointly proposed to the ICC. The agreement established April 24, 1987 as the in-service date of the Clinton power station and settled other related accounting issues. Our completed investment in Clinton was $3.8 billion.

The audit of the Clinton power station is nearing completion. In [illegible], the ICC concluded hearings on the first phase of the audit to evaluate the reasonableness of the cost of the station, but the ICC did not issue an interim order. The audit firms selected by the ICC are expected to file the second phase of their report in early 1988. We expect the final order covering both phases from the ICC in late 1988.

With the successful transition from construction to operation of Clinton, it became appropriate to propose a plan for including Clinton in our electric rates. Currently $1.5 billion of Clinton's costs are included in rate base and earning a return. However, there remains the uncertainty of when and how



In 1978, workers prepared the generator to be lifted into place at Clinton.

Summer Rates

The two-part rate increase approved in 1985 officially became effective in October 1986 and April 1987. However, the approved, redesigned rates had the effect of compacting the entire 19 percent rate increase into the four summer months of 1987 and creating a dramatic difference between summer and winter rates.

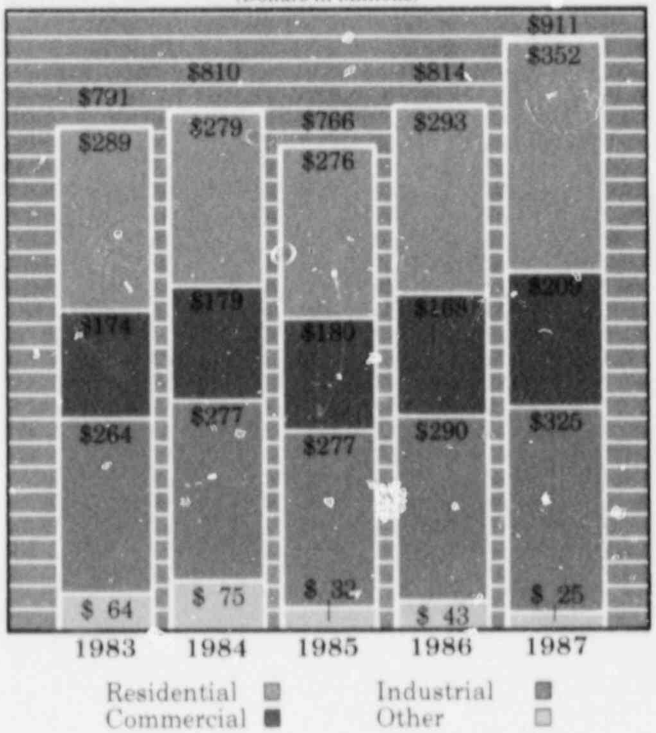
Understandably, some of our customers were angry with the electric bills they received during the summer. We had anticipated the high bill problems reflecting the electric rate increase and made extensive efforts to inform and assist customers. However, we could not have anticipated the extremely hot weather in early summer, and our efforts did not mollify some of our customers.

To help ease the burden that the dramatic difference between summer and winter rates placed on our residential customers, we asked the ICC to adjust electric rates retroactively and let us credit customers' 1987 summer bills. The ICC rejected this proposal, but approved a proposal in November that will reduce residential electric bills by $23 million in the summer of 1988. Our rate phase-in plan of November proposes a permanent solution to the dramatic difference between summer and winter rates.

Champaign-Urbana customer service representative Maxine Wrisk assisted a customer with his bill concern. During 1987, the Company's customer service representatives went the extra mile explaining the rate increase and energy conservation, and resolving bill concerns.

Electric Revenue by Customer Class

(Dollars in Millions)



much of our investment in Clinton will be recovered through electric rates. This brings me to the rate-moderation proposal I mentioned earlier.

On November 19, we asked the ICC to increase electric revenue by an average 11 percent in November 1988 and to increase rates annually by a smaller amount for six to nine years thereafter. A rate decrease would follow. Our requested increase reflects the remaining cost of constructing Clinton plus operating costs for the plant, the effect of the Tax Reform Act of 1986, and changes in other operating costs.

The annual increases after 1988 would be based on the rate of inflation for the previous year. A dollar-amount floor would assure minimum annual rate increases averaging about four percent, and a ceiling of 5.9 percent annually would shield customers from unusually high increases.

Our proposal includes a discount for senior citizens, a special rate for certain apartment dwellers, and three billing options for our residential customers. The ICC has 11 months to decide on our proposal.

We believe our proposal balances the interests of all the parties concerned. It fulfills our commitment to keep our rates competitive with those of other utilities and with the price of alternate energy sources. It minimizes the

Rate department employees, including (from left) Betty Stewart, Alan Rankin, Bob Hansen, Cheryl Miller, Todd Young, and Barb Patton, assembled the 280 copies of rate case testimony and exhibits introducing the Company's rate-moderation plan.

impact of a dramatic rate increase on our customers. And it recoups our investment in Clinton and earns for you, our shareholders, a fair return on your investment, although it somewhat delays recovery of costs compared to traditional ratemaking.

Total operating revenues were $1.22 billion, up three percent from 1986. Electric revenues increased 11.9 percent reflecting the two-part electric rate increase, partially offset by the provision to reduce electric rates during the summer of 1988. Gas revenues decreased 16.5 percent primarily because of mild winter weather and an increase in gas transported for customers.

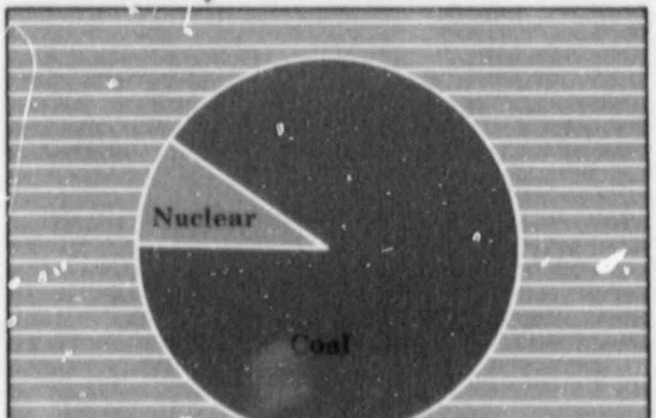
Our electricity demand in 1987 reached an hourly peak of 3,308,000 kilowatts on July 20. This includes the requirements of a power coordination agreement with two electric cooperatives. The peak was 2.6 percent lower than our all-time high peak demand set in 1986. Our 1987 peak day energy use of 65,855,000 kilowatt-hours occurred on August 3 and was 1.9 percent lower than our historic peak day energy use, also set in 1986.

Because of greater availability of our lower cost generating units and greater market demand, we sold more electricity to other utilities in 1987 than in 1986. Sales to two electric cooperatives under a power coordination agreement were $58 million. The result for the year was sales to other utilities in excess of purchases by $51 million, compared to 1986 sales in excess of purchases by $38 million.

We used 7.4 million tons of coal in our power plants in 1987, generating more than 16 billion kilowatt-hours, almost 91 percent of the total electricity we produced. We bought 85 percent of our coal from Illinois mines, reflecting our commitment to the economy of the coal industry in our state. We used nuclear fuel to generate 1.6 billion kilowatt-hours, almost nine percent of the total.

Over the next five years, we expect to generate approximately 76 percent of our electricity from coal and 23 percent from nuclear fuel.

Electricity Fuel Sources for 1987



Gas sales and deliveries in 1987 peaked at 625,050,000 cubic feet on January 23. This is 27 percent below our record peak day set in 1982.

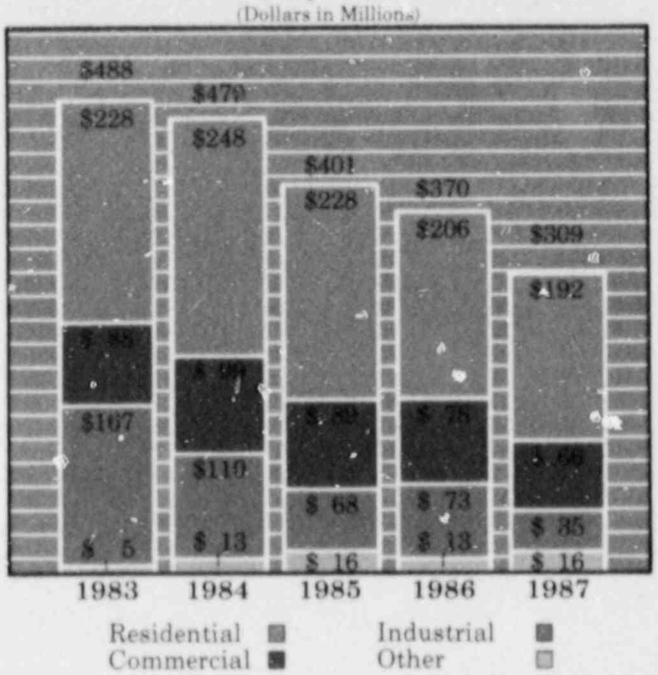
Our natural gas business has two segments—direct sales to customers and gas transported for customers. During 1987, direct sales decreased 21.1 percent, and gas transported rose 29 percent. When we transport gas, we earn about the same profit as we do when we sell gas directly. Gas consumption—gas sold directly and gas transported—decreased eight percent in 1987 compared to 1986. This reduction in gas consumption reflects mild winter weather and the impact of several industrial customers using alternate energy sources.

We drilled a new well at the Hillsboro gas storage field to increase the field's volume and to reduce gas costs. Running a new natural gas line under the Kaskaskia River to an existing subdivision of Carlyle enabled us to expand our natural gas sales into an area that was previously served by propane. We also constructed a new gas delivery station near Carlyle. This station will allow us to buy more natural gas from one of our lowest cost suppliers, Mississippi River Transmission Corporation.

Prices of natural gas to our customers have been declining since 1983, driven down

Gas Revenue by Customer Class

(Dollars in Millions)



Main and service labor foreman Ralph Ohl helped dig a trench across the Kaskaskia river bed and through adjacent woods so the Company could begin supplying natural gas to a subdivision near Carlyle.

primarily by competition among gas producers and, for a time, by lower oil prices. In the near future, gas prices may be pushed upward because of producers temporarily removing gas from spot market supplies in response to new transportation regulations.

Financing activities in 1987 were not as heavy as in 1986 because we completed constructing the Clinton power station and because we refinanced significant amounts of debt in 1986. We expect total construction expenditures to drop to $137 million in 1988, down from $264 million in 1987.

We issued $75 million of pollution control bonds in December. We refinanced $34 million of 10¾% pollution control bonds with 8.30% pollution control bonds. We also called for redemption the remaining $9.7 million of 14⅜% bonds and $6.8 million of 12% bonds. Our 1986 and 1987 refinancings together will reduce

Herb Downey and other senior citizens throughout our territory know they can count on Company employees such as Mt. Vernon meter changer Clarence Mays to keep their eyes open for senior citizens who may be having problems. Through the Gatekeeper program, trained Company employees refer customers who appear to need help to local social service agencies that assist the elderly.

Quality Customer Services

In 1987, we conducted many activities to maintain our high quality electric and gas service:

- In September, we completed a 9,000-square-foot building in Columbia. We established this new southern Illinois district to provide better service to this rapidly developing area.
- We began construction of a comparable building in August in Aledo to replace an older district office building.
- To add much needed work space for an expanded computer center and to demonstrate our commitment to revitalizing our communities, we purchased the vacant building of a former department store in downtown Decatur. We expect to move into the building in 1988.
- We implemented a new training program for apprentice linemen that boosts efficiency in work practices and cuts training hours and costs.
- More than 2,000 of our employees were trained to participate in the Gatekeeper and Fleetwatch programs. Respectively, these encourage employees to watch for elderly people who may be having problems and refer them to a local social service agency; and to recognize and report suspicious activities to police.
- We began performing certain electric line repairs from a helicopter to maintain hard-to-reach lines more efficiently. Repair costs were reduced by about 50 percent.

Nearly as important as sending electricity and gas to our customers is educating our customers. Approximately 40,000 schoolchildren in our service territory learned about electric energy and safety through our entertaining Starship Energy program. Another 7,800 children and adults learned about electric safety in everyday circumstances through our mechanical Safety City model. We conducted energy workshops for 130 schoolteachers. More than 1,100 students toured our fossil-fired power plants. We presented 940 programs on conservation, rates, safety, and nuclear energy to civic, church, and school groups. And we restructured our speakers' bureau, training about 150 speakers, to inform even more customers through programs in 1988.

interest and preferred stock dividend costs by approximately $15 million annually.

At year end, we had approximately $300 million of bank loans and $55 million of commercial paper outstanding with various maturities during the next six years. We also received $76 million from the automatic reinvestment and stock purchase plan during the year. At year end, we had available unused lines of bank credit of $260 million.

As we enter 1988, we see the prospect of change on the horizon particularly in regulation of our electric business. A significant amount of change already has occurred in gas regulation, especially at the federal level. We are less certain of what the changes in electric regulation will be. Some have advocated forms of deregulation, while others have suggested new forms of regulation. We believe we have developed a good strategy for facing regulatory changes, regardless of the shape they may take. Our strategy is focused on improving efficiency and service to customers while reorganizing our approach to marketing.

Efficiency in service to our customers is one of our strengths, and we plan to build on that strength. Among Illinois utilities in 1986, we had the lowest or second lowest expense per customer or megawatt-hour for meter reading, production, transmission, and distribution of electricity, and for total operating and maintenance for gas and electricity.

Keeping a tight lid on operating costs has always been a priority for us, and it is the essence of a new formal program. In February 1987, we launched a major campaign to improve the quality and productivity of service to our customers, based on suggestions solicited from employees. We expect to report some concrete results of the program next year.

At the end of the year, 6,548 customers were participating in the Illinois Residential Affordable Payment Plan. Participants must have incomes of 125 percent or less of the poverty level. They are allowed to pay only 12 percent of their income for utility service, regardless of the bill amount. During the first two years of the three-year program, we have incurred a $1.7 million shortfall between the amount billed and amount paid. The state has set aside temporary funds that we expect to be used to reimburse utilities for such shortfalls.

We favor weatherization of low-income housing to provide long-term energy assistance, and we have been a leader in this area for several years. The Energy Assistance

Jeff Morgan, left and Craig Scroggins from the Bethalto Jaycees caulked windows at the home of a widow. This was funded with part of a $23,000 grant from the Energy Assistance Foundation. The Jaycees completed their three-year project in September 1987, weatherizing 34 homes.

In the Brake Parts Company plant of Echlin Inc. in Litchfield, manufacturing manager John Hartson, left, and Illinois Power Company industrial applications engineer Lowell Griffith discussed operations and products of the plant during a factory modernization audit. The Battelle Manufacturing Group performed the audit for three industrial customers at the request of Illinois Power Company.

Foundation, which the Company founded in 1982, issued 10 grants totaling $68,800 during the year to church and service groups. These groups, in turn, purchased materials and provided labor to weatherize homes in their communities. Our customers and other organizations donated $68,535, and we matched that amount during the year to help fund the Foundation.

In 1988, we plan to phase in a new customer assistance program that will provide a customer assistance advisor in each service area to work more actively as a liaison between customers having difficulty paying their utility bills and local social service agencies.

Our electric and gas marketing efforts to industrial and commercial customers are focused on providing better service and increasing sales to our customers. Our services for both electric and gas customers include customer seminars on energy supplies, price, conservation, audits of buildings' energy use, and technical information.

We also worked with a number of customers to objectively demonstrate that their proposed plans for considering generating their own electricity or switching from natural gas were uneconomic.

Electricity sales were significantly higher than expected and slightly higher than 1986 sales. On the other hand, total gas consumption fell below our expectations and was eight percent below 1986 sales.

Sales greater than those in 1987 look promising. One indication is that by the end of the year, 72 prospective industrial customers were considering locating in our territory, in part reflecting our efforts and customers' confidence in our territory. Our economic development efforts include contacting more international prospects, particularly in Canada, Japan, and Korea; soliciting potential aluminum casting industries; and continuing to take advantage of such trends as automotive parts plants locating in our territory.

In the fall, a manufacturer of auto air conditioners and heaters moved into a vacant facility in Decatur. Another manufacturer of automobile accessories intends to locate in Nashville near an auto supply plant announced in 1986. The first Nashville plant and two other auto supply firms in Ottawa and Bloomington have nearly completed their facilities and expect to begin production in 1988.

The Diamond-Star Motors Corporation auto assembly plant in Bloomington-Normal is essentially complete and also will begin production in 1988. Full production with about 2,900 employees is expected in 1990. It will be one of our 10 largest industrial customers.

Separately during 1987, manufacturers of home appliances, typewriters, model toys, electronics equipment, military explosives, and cardboard containers also added or planned to add more than 1,200 employees in our service territory.

Altogether, 69 new and existing customers built or expanded facilities, creating 4,299 new jobs in 1987 in our territory. An additional 223 jobs in jeopardy were retained in our territory through state and local economic development incentive programs.

Commercial development also looks promising, especially in certain areas. The University of Illinois in Champaign-Urbana has planned about 40 high-technology or supercomputer projects. This includes a $50 million research center being constructed.

Retail and hotel businesses are booming in southwestern Illinois, and a commercial passenger and air cargo facility serving both military and civilian needs in the greater St. Louis area is being studied. Insurance, health care, and hotel businesses are expanding in the Bloomington-Normal area. These and

Bement Grain Company operations manager Steve Mechling, left, and Illinois Power Company agri-energy specialist Paul Mariman tour one of Bement Grain's elevators. Our marketing employees advised managers such as Mr. Mechling to take advantage of a new Company rate that shifted grain-drying to lower winter rates. In their year-end newsletter, Bement Grain thanked the Company for a $7,500 savings, due to the rate change, at their LaPlace and Milmine elevators during the harvest period.

other developments are due in part to our extensive work with many community and regional economic development groups.

For our agricultural customers, we introduced three options that will help them operate more competitively. Residential and commercial grain-drying customers received a shift in their billing period so that grain may be dried at the time the lower winter rates are in effect. Commercial customers' demand charges now stand alone each month, rather than being determined for the year by the highest monthly charge. Residential customers who installed a combination natural air and electric grain-drying system received rebates.

Environmental activities consumed a significant portion of our energies in 1987. A number of bills to amend the Clean Air Act are being considered in Congress but have not been passed. Those aspects affecting us the most are acid rain and toxic air pollution and national air quality standards.

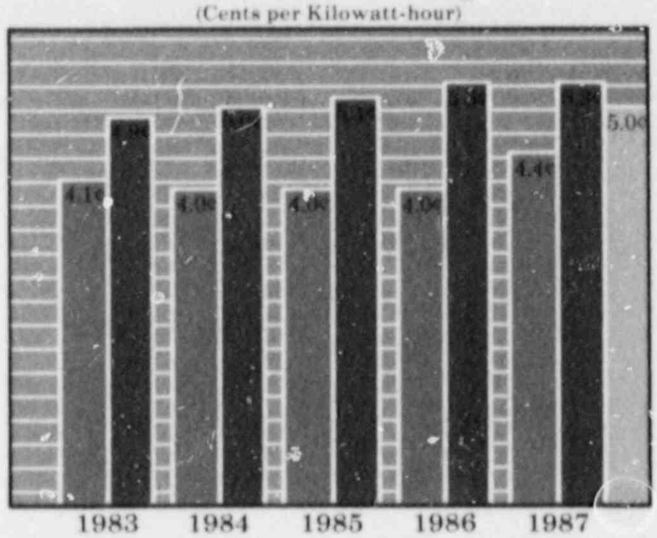
We are concerned about the environmental effects of all our operations. But we want Congress to thoroughly assess the need, cost, and benefits of any additional regulations before they are imposed. We gave testimony to a congressional committee showing that one proposed tax on sulfur dioxide and nitrogen oxide emissions would cost the Company $8 billion to $11 billion over the next 40 years.

We also are concerned with keeping the Illinois coal industry a significant contributor to the economy of our territory. Along with the federal government and the state of Illinois, we are actively researching methods to develop more uses for Illinois coal. Planning began in 1987 on a clean-coal technology project at our Hennepin power station. We are one of three host utilities in this project intended to reduce sulfur dioxide and nitrogen oxide emissions that come from burning high-sulfur coal.

We are active supporters of and participants in several other research programs, including

Comparison of IP Industrial Average Electric Price to Midwest Industrial Average

(Cents per Kilowatt-hour)



IP Industrial ■ Midwest Industrial ■
IP First-Year Rate-Moderation Plan ■

the Electric Power Research Institute and the Gas Research Institute. We also belong to several nuclear research groups that focus on enhancing the safety and reliability of nuclear power plant operations and maintenance.

In March 1987, the U.S. Environmental Protection Agency proposed to approve a rule change that we had pursued since 1979. The change will allow us to continue burning Illinois coal at the Baldwin power station, our largest fossil-fired generating station.

Along with 650 other organizations, we had used Martha C. Rose Chemical Company in Missouri to dispose of polychlorinated biphenyls (PCBs). In 1986, Rose abandoned its storage facilities due to lack of funds. Under federal statutes, we and other groups are responsible for cleaning up and restoring the storage site. In 1987, inventory was taken of all material at the site, and a preliminary groundwater study was conducted. We are actively involved with resolving the problem, which probably will take another two to three years.

Committees of the Board of Directors

The current board of directors' committees, which present recommendations to the full board, and their members are as follows:

Finance Committee — This committee reviews the Company's financial forecast, financing plans, and pension fund investments; and makes recommendations to the board concerning such matters. Members of the committee are Gordon R. Worley, chairman, Richard R. Berry, William C. Gerstner, Larry D. Haab, Wendell J. Kelley, Donald E. L[illegible] [illegible]ith R. Potter, Charles W. Wells, and Vernon K. Zimmerman.

Audit Committee — This committee, which consists entirely of non-management directors, recommends the appointment of the Company's independent accountants; confers with the independent accountants; and reviews the scope of audits, the results of auditors' examinations, and the activities of the Company's internal auditors. The members are Vernon K. Zimmerman, chairman, Richard R. Berry, Grover J. Hansen, Donald E. Lasater, and Eva Jane Milligan.

Compensation and Organization Committee — This committee reviews and recommends compensation of elected Company officers; reviews benefit plans; and recommends nominees to fill vacancies on the board of directors. The members are Boyd F. Schenk, chairman, Grover J. Hansen, Wendell J. Kelley, Eva Jane Milligan, and Robert M. Powers.

Corporate Activities Committee — This committee reviews corporate objectives and long-term Company plans; reviews the corporate structure appropriate to meet these objectives; and advises management and the board on such matters. The members are Keith R. Potter, chairman, Wendell J. Kelley, Robert M. Powers, Boyd F. Schenk, and Gordon R. Worley.

The first phase of a study of former gas manufacturing sites of our predecessor companies showed that residues from past activities remain at 24 sites and are not present at two other sites. Late in 1987 in Cairo, we began the first intensive, underground investigation of the sites. It will be completed in 1988. Initial findings confirmed the presence of residues. We have informed the Illinois Environmental Protection Agency about the 24 sites and about our approach to assess the potential risk to human health and welfare.

Organizational changes made this year will help strategically position us for the transitional period ahead.

First, the changes on the board of directors. On February 18, 1988, the board of directors increased the number of directors from 12 to 13 and elected Richard R. Berry to fill this vacancy. However, as of April 21, the number will be reduced, and Mr. Berry will replace Keith R. Potter, who will not stand for reelection.

Mr. Potter, of Easton, Maryland, is a consultant and retired vice chairman of International Harvester Company, a manufacturer of trucks and diesel engines. He has served on our board of directors since 1973. Although he has reached the board's mandatory retirement age of 70, Mr. Potter will continue to provide counsel as a director emeritus.

Mr. Berry is a director and executive vice president of Olin Corporation in Stamford, Connecticut. Olin Corporation is a diversified manufacturer concentrating on chemicals, metals, and aerospace/defense products.

Our management changes include the creation in May of a new investor relations section to improve communication between our Company and members of the financial community who are interested in our financial position and outlook. Michael R. Heneghan, director of investor relations, is responsible for this area.

Also in May, assistant vice president Carl

E. Mathias retired. He had served the Company nearly 45 years. Mr. Mathias' responsibilities included economic development in southwestern Illinois. He continues to be active in this area.

Vice president James O. McHood will retire later this year after 40 years of service to the Company. He has had responsibilities in many areas, including in service area operations, planning, power production, engineering, construction, the Clinton project, and energy supply.

The board of directors elected Larry S. Brodsky and Wilfred Connell vice presidents of the Company, effective November 1. Mr. Brodsky is responsible for gas resources, electric dispatch, and electric interconnection agreements. He formerly was manager of energy supply. Mr. Connell is responsible for fossil power production. He formerly was manager of nuclear planning and support.

Along with electing the new vice presidents, we consolidated gas activities into the new gas resources department in November. This change will put us in a better position to maintain competitive gas prices.

The board of directors also elected Rodney A. Smith vice president effective February 1, 1988. Mr. Smith is responsible for public affairs. He formerly was manager of corporate communications at Virginia Power, a subsidiary of Dominion Resources, Inc. based in Richmond, Virginia.

These organizational changes and other activities are all part of our strategy to move forward through a period of potential political and regulatory change. From a year of progress in 1987, I am confident that we are well-positioned and well-prepared to create new opportunities for growth out of the challenges of change still to come. We are committed to earn a fair return on your investments while continuing to provide safe, reliable, and competitively priced services to all of our customers.

Sincerely yours,

Wendell J. Kelley

Wendell J. Kelley
Chairman and President
February 18, 1988

Responsibility for Information

The financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied. In the opinion of management, the financial statements fairly reflect our financial position, results of operations, and sources of funds provided for gross property additions.

We maintain accounting and internal control systems that we believe are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and we believe that the financial records are reliable for preparing financial statements.

The financial statements have been audited by our independent accountants, Price Waterhouse, in accordance with generally accepted auditing standards. Such standards include the evaluation of internal controls to establish a basis for developing the scope of the examination of the financial statements. In addition to the use of independent accountants, we maintain a professional staff of internal auditors who conduct financial, procedural, and special audits. To assure their independence, both Price Waterhouse and the internal auditors have direct access to the audit committee of the board of directors.

Board of Directors

Richard R. Berry
Executive Vice President of Olin Corporation (diversified manufacturer concentrated in chemicals, metals, and areospace/defense products)
Stamford, Connecticut

William C. Gerstner
Executive Vice President of the Company
Decatur, Illinois

Larry D. Haab
Executive Vice President of the Company
Decatur, Illinois

Grover J. Hansen
Consultant and Retired President and Chief Operating Officer of First Federal Savings & Loan Association of Chicago
Ocean Springs, Mississippi

Wendell J. Kelley
Chairman and President of the Company
Decatur, Illinois

Donald E. Lasater
Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation, Inc. (a bank holding company)
St. Louis, Missouri

Eva Jane Milligan
Retired Senior Vice President, General Personnel Manager of Marshall Field's (a retailer); President of Pro Lines, Inc. (a merchandise service organization)
Hilton Head Island, South Carolina

Keith R. Potter
Consultant and Retired Vice Chairman of International Harvester Company (a manufacturer of trucks and diesel engines)
Easton, Maryland

Robert M. Powers
President and Chief Operating Officer of A.E. Staley Manufacturing Company, a division of Staley Continental, Inc. (a processor of grain and oil seeds) and Executive Vice President of Staley Continental, Inc. (a diversified food company)
Rolling Meadows, Illinois

Boyd F. Schenk
Vice Chairman of IC Industries, Inc. (a diversified manufacturer and marketer of consumer and commercial products) and Chairman of Pet Incorporated (a processor and marketer of food products and other consumer goods)
Chicago, Illinois

Charles W. Wells
Executive Vice President of the Company
Decatur, Illinois

Gordon R. Worley
Retired Executive Vice President—Chief Financial Officer of Montgomery Ward & Co., Incorporated (a retailer)
Chicago, Illinois

Vernon K. Zimmerman
Director of the Center for International Education Research and Accounting, and Professor of Accountancy at the University of Illinois
Urbana, Illinois

Officers

Wendell J. Kelley
Chairman and President

William C. Gerstner
Executive Vice President

Larry D. Haab
Executive Vice President

Charles W. Wells
Executive Vice President

William E. Warren
Senior Vice President

Larry S. Brodsky
Vice President

Wilfred Connell
Vice President

Arthur E. Gray
Vice President and Secretary

Donald P. Hall
Vice President

Larry L. Idleman
Vice President

Paul L. Lang
Vice President

James O. McHood
Vice President

Rodney A. Smith
Vice President

Porter J. Womeldorff
Vice President

Larry F. Altenbaumer
Treasurer

Ann H. McEvoy
Assistant Secretary

Gary L. Secor
Assistant Treasurer

Note: The principal occupation of each director and officer of Illinois Power Company is that listed.

Financial Report

Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the Financial Statements and Electric and Gas Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition, changes in financial condition, and results of operations since January 1, 1985 are as follows:

Liquidity and Capital Resources

Gross Property Additions — Gross property additions for the years 1985 through 1987 were $1.9 billion, including approximately $454 million of allowance for funds used during construction (AFUDC).

Construction of the Clinton power station (Clinton) was completed in 1987. The Company owns 86.6% of Clinton and two cooperatives own the remainder. The Company's investment in the plant is $3.8 billion. The Nuclear Regulatory Commission issued a full-power operating license for Clinton on April 17, 1987. A November 1987 Illinois Commerce Commission (ICC) order established an in-service date of April 24, 1987.

We estimate that $644 million will be required for construction during the 1988-1992 period, including about $69 million for nuclear fuel. The retirement at maturity of currently outstanding long-term debt and redeemable preferred stock, and sinking fund payments on first mortgage bonds will require approximately $613 million during this five-year period.

Regulatory Matters — The audit commissioned by the ICC to evaluate the reasonableness of Clinton construction costs continues. On September 16, the ICC decided that an order would not be issued until completion of Phase II of the audit. The Company expects the audit report for Phase II to be submitted to the ICC by the end of the first quarter of 1988, and an order issued late in 1988. Should the ICC ultimately determine that a portion of Clinton construction costs not be allowed for ratemaking purposes, the disallowance would have to be recorded as a loss. Such a loss may be material in relation to earnings and financial position. Cash flow, however, would not be reduced immediately as a result of such a loss, but would be reduced over the life of the plant.

On April 22, 1987, a 9% electric rate increase became effective. An earlier 9% electric rate increase became effective in October 1986. Both increases were authorized by an August 1985 ICC rate order and increased the amount of construction work in progress (CWIP) in rate base by $384 million and $352 million, respectively. At December 31, 1987, the Company has $1.54 billion of Clinton costs in rate base. These rate increases represented additional annualized revenue of approximately $125 million.

On November 19, 1987, the Company filed an electric rate-moderation plan with the ICC. The plan would increase revenue approximately $92.7 million, net of anticipated fuel savings and a senior citizen discount, in the first year, followed by a series of up to nine annual increases indexed to inflation. Under the electric rate-moderation plan, there would be a cash flow delay of approximately $450 million over the first seven years of the plan due to its mirror CWIP provisions (representing amounts collected in rates prior to the in-service date of Clinton as a result of having CWIP in rate base). This amount would be capitalized as a part of Clinton costs for recovery over the life of the plant. In addition, under the deferred return provisions of the plan, cash flow of approximately $250 million would be delayed during the first five years for recovery during the remaining years of the plan. The plan is subject to approval or modification by the ICC. The Company expects an order in October 1988.

A November 1987 ICC order approved the provisions of a negotiated settlement reached by the Company and several intervenors. The order established April 24, 1987 as the in-service date. It also provided for the deferral of depreciation, taxes other than income taxes, and financing costs until a rate order, expected in October 1988, reflecting the inclusion of Clinton in rate base becomes effective. Such deferred costs and the related return will be recovered, to the extent that total Clinton costs are allowed in rate base, over the remaining life of Clinton. Under this agreement, Clinton operation and maintenance costs will be expensed currently. However, the electric revenues previously deferred as ordered by the ICC to reflect the lower federal income tax rates under the Tax Reform Act of 1986 were included in income and future deferrals discontinued. Earnings were decreased $19 million (28¢ per share) in 1987 due to this settlement, and future earnings will be decreased by an estimated $2 million to $3 million per month until the next electric rate order is effective. Earnings were also reduced by $11 million (16¢ per share) in 1987 to reflect the effect of excluding from the Clinton cost deferrals the portion not under jurisdiction of the ICC, because the November 1987 electric rate-moderation plan excluded that portion of the Company's operations. Amendments to generally accepted accounting principles effective in 1988, will not permit an allowance for return on shareholders' investment in post-construction cost deferrals to be capitalized for financial statement purposes. Such allowance for earnings on shareholders' investment is estimated to be approximately $11 million per month during 1988.

The cash flow associated with the deferrals under the electric rate-moderation plan and the deferrals under the negotiated settlement will be delayed until the deferred costs are recovered in rates.

Financings — Funds provided from operations amounting to $171 million for the years 1985 through 1987 supplied working capital to meet operating requirements and a portion of the construction program. In addition, funds obtained from external sources during this three-year period totaled $1.3 billion. Funds totaling $615 million were used for debt retirements during this three-year period.

During the three-year period, temporary cash requirements were provided by short-term borrowings. At December 31, 1987, the unused portion of our total bank line of credit was $260 million.

In February 1987, the Company redeemed its $36 million, 11.66% serial preferred stock. The Company also refunded $34 million of long-term debt in July 1987 to reduce the interest rate from 10.75% to 8.3%.

The Company has had a strong capital structure, adequate short and intermediate term bank borrowing capability and flexible access to the permanent capital markets. Our future financial strength depends on a number of factors including the ultimate outcome of the pending rate request, construction audit proceedings and litigation. At December 31, 1987, based upon the most restrictive earnings test contained in our Mortgage and Deed of Trust, approximately $378 million of additional first mortgage bonds could be issued at an assumed interest rate of 9¾%.

Tax and Accounting Developments — Many aspects of the Tax Reform Act of 1986 (Act) have affected our Company in 1987. These include the corporate income tax rate reduction, repeal of the investment tax credit, a new depreciation system for tax purposes, and a corporate alternative minimum tax. Although the statutory federal corporate income tax rate decreased from 46% to 40% for 1987, and the Company's total book tax provision correspondingly decreased, the Company's current federal income tax liability is about $33 million greater than it would have been under prior law. This results primarily from the Alternative Minimum Tax (AMT) provisions of the Act. The $33 million paid in AMT will be used as credits to offset regular income tax liabilities in future years. Although the statutory federal income tax rate decreases to 34% in 1988, the Company expects to again be affected by the AMT provisions of the Act. In accordance with Internal Revenue Service requirements, depreciation-related deferred tax balances will continue to be normalized at the weighted average tax rates at which they were provided.

Pursuant to an ICC order, the Company has recorded the benefit of the lower federal income tax rates collected from our gas utility customers as a liability subject to refund ($1.0 million at December 31, 1987). Ultimate disposition of this liability will not be determined until the ICC completes a review of the overall impact of the new tax act and the financial condition of gas operations. The Company made a filing with the ICC on February 5, 1988 requesting that this amount be included in income.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS 96), dated December 1987. This new standard adopts a "liability method" of tax allocation relating to transactions that affect book and tax income in different reporting periods. The Company has not completed its evaluation of the impact that adopting this standard will have on its earnings and financial position. The impact depends in part on actions taken by the regulators. Although adopting this standard may result in a significant increase in assets and liabilities, the Company does not expect a material effect on earnings. The Statement must be adopted no later than 1989. However, depending upon the ICC's actions in the pending electric rate-moderation plan, the Company may adopt FAS 96 in 1988.

The Company faces many issues related to Clinton as well as changes in generally accepted accounting principles. See Note 13 in "Notes to Financial Statements" for information regarding these matters, which could materially affect financial liquidity, results of operations, and financial position.

Results of Operations

Electric Operations — For the three-year period 1985 through 1987, electric revenues increased 12.4%, the components of which are summarized as follows:

	1987	1986	1985
	(Millions of Dollars)		
Rate increases	$102	$ —	$ —
Volume & other	6	47	(41)
Loss on sale of nuclear fuel commitments	—	—	(8)
Fuel cost recoveries	(11)	1	5
Revenue increase (decrease)	$ 97	$ 48	$ (44)

During the above periods, kilowatt-hour sales have been affected by weather, economic conditions within our service territory, and by ongoing conservation efforts. In 1985, kilowatt-hour sales declined 6.7%, primarily due to a power coordination agreement with two cooperatives under which sales to the cooperatives were classified as power interchanged-net ($47.5 million in 1985) rather than as electric revenues ($34.6 million in 1984). See Note 3 in "Notes to Financial Statements". In 1986, we experienced a 5.6% increase in kilowatt-hour sales, primarily due to warmer summer weather. Due to the seasonal rate design, the revenue effect of the October 1986 rate increase was minimal in 1986. In 1987, we experienced an 11.9% increase in revenue primarily due to the increase in rates in October 1986 and April 1987, partially offset by a provision for rate reduction of approximately $23 million. This amount reduced electric revenues during 1987 and will be credited to residential electric customers'

1988 summer bills. This rate reduction, as approved by the ICC, provides a temporary solution to the residential electric summer/winter rate differential issue. A permanent solution has been proposed in the Company's electric rate-moderation plan.

The cost of meeting our system requirements is reflected in the cost of fuel for electric plants and power purchased and interchanged-net. Changes in these costs are summarized as follows:

	1987	1986	1985
	(Millions of Dollars)		
Fuel for electric plants	$ (2.2)	$ (8.9)	$ 20.1
Power purchased and interchanged-net	(13.4)	11.4	(65.2)
Total increase (decrease)	$ (15.6)	$ 2.5	$ (45.1)

Changes in the above costs are caused by system load requirements, availability of generating units to meet those requirements (including Clinton generation in 1987), fuel prices, purchased power prices and volumes, power interchange market conditions, a power coordination agreement with two cooperatives, and recovery of fuel costs through the fuel adjustment clause.

Kilowatt-hour generation increased 6.4%, 1.4%, and 5.1% in 1985, 1986, and 1987, respectively. During 1985 and 1986, coal-fired generation averaged more than 99% of our total generation. During 1987, coal-fired generation averaged 91% and nuclear generation 9% of our total generation. The weighted average cost per million BTU's of coal burned increased 3.2% in 1985, decreased 8.6% in 1986, and decreased 1.5% in 1987.

During 1985, fuel for electric plants increased $20.1 million. Power purchased and interchanged-net switched from a net purchase of $16.2 million in 1984 to a net sales credit of $49.0 million. These changes reflect reduced sales to our customers, increased interchange sales to other utilities, greater availability of lower cost generating units, and the power coordination agreement discussed above.

During 1986, fuel for electric plants decreased $8.9 million. The credit for power purchased and interchanged-net decreased $11.4 million. Lower fuel prices in 1986 resulted from coal contract renegotiations and a favorable spot market for coal purchases. Reduced availability of our lower cost generating units in 1986 contributed to decreased interchange sales. Increased customer requirements and increased sales under the power coordination agreement, coupled with greater availability of low-cost generation from other utilities in the interchange market, caused increased interchange purchases.

During 1987, fuel for electric plants decreased $2.2 million. The credit for power purchased and interchanged-net increased $13.4 million. Lower fuel prices in 1987 resulted from coal contract renegotiations and a favorable spot market for coal purchases. The increase in interchange sales is primarily due to greater availability of our lower cost generating units and market demand for electricity.

Gas Operations — Effective October 31, 1985, the Federal Energy Regulatory Commission (FERC) issued an order that established new rules for transportation of natural gas by interstate pipelines. One effect of the order was that pipeline companies cancelled agreements with certain of our customers to transport gas owned by such customers. As a result of this order and because of decreased gas costs for customers on our system, certain customers resumed purchasing gas directly from us, as reflected in 1986 gas sales statistics. In 1987, more liberalized interim transportation rules used by the major pipelines caused transported therms to increase again.

Gas revenues decreased 34.4% during the three-year period 1985 through 1987, the components of which are summarized as follows:

	1987	1986	1985
	(Millions of Dollars)		
Rate increase (decrease)	$ —	$ —	$ (14)
Volume & other	(60)	20	(67)
Transported gas fees	4	(3)	3
Gas cost recoveries	(5)	(48)	9
Revenue increase (decrease)	$ (61)	$ (31)	$ (69)

In 1984, the ICC approved our request to reduce gas rates and thus promote both the retention of existing customers and further industrial expansion within our service territory. This rate reduction left residential rates essentially unchanged but resulted in lower rates to industrial customers and decreased annual gas revenues of approximately $14 million in 1985.

Therm sales, which exclude therms transported, decreased 17.9% in 1985, increased 7.3% in 1986, and decreased 21.1% in 1987. The major factors affecting therm sales for the three-year period were changes in economic and weather conditions, customer conservation, and gas transportation arrangements as discussed above. In 1985, the combined therms sold and transported decreased 3.6% reflecting the milder weather experienced during the heating season. In 1986, the combination of therms sold and transported represented an increase in gas consumption of 0.5%. In 1987, the combination of therms sold and transported represented a decrease in gas consumption of 8.0%, reflecting mild winter weather and the impact of several industrial customers using alternate energy sources. Therms of gas transported for customers were 297 million in 1985, 253 million in 1986, and 327 million in 1987.

The cost of gas purchased for resale, which reflects volumes of gas delivered to customers, decreased $49.1 million, $25.0 million, and $50.2 million in 1985, 1986, and 1987, respectively. The average cost per therm delivered to customers decreased 2.0% in 1985, 12.6% in 1986, and 3.1% in 1987, reflecting declining prices and advantageous use of spot market purchases of gas.

Other Expenses and Taxes — A comparison of increases in other expenses and the credit for deferred Clinton costs for the last three years is presented in the following table:

	1987	1986	1985
	(Millions of Dollars)		
Other operating expenses	$58	$18	$15
Maintenance	22	8	3
Depreciation	76	2	1
General taxes	11	1	1
Deferred Clinton costs	(78)	—	—

The changes in other operating expenses reflect the impact of inflation, increased employee wages and benefits, greater use in 1985 of professional services relating to nuclear issues, and increased insurance costs in 1986. The increase in 1986 maintenance expenses primarily reflects power plant maintenance requirements. The main reason for the 1987 increase in other operating expenses, maintenance, depreciation, and general taxes is the beginning of Clinton operations on April 24, 1987. In addition, the Company recorded a $78.3 million reduction to expenses in 1987 to reflect the portion of Clinton depreciation and real estate taxes deferred for future recovery in accordance with the negotiated settlement.

During 1987, pension expense decreased approximately $3.9 million resulting from the adoption of Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions".

For a detailed analysis of income tax components, see Note 4 in "Notes to Financial Statements".

Other Income — Total AFUDC increased $43 million in 1985 and $57.2 million in 1986, and decreased $146.1 million in 1987. Changes in AFUDC relate to the amounts of CWIP not included in rate base. The amount of Clinton plant cost included in rate base, as approved by the ICC, was $733 million January through July 1985, $804 million August 1985 through September 1986, $1.156 billion October through April 1987, and $1.54 billion May through December 1987. The AFUDC effective after-tax rate was 9.25% in 1985 and 1986. In 1987, the AFUDC effective rate was 9.25% after-tax for Clinton and 11% before-tax for all other construction. AFUDC on Clinton was discontinued effective with the April 24, 1987 in-service date.

In accordance with the negotiated settlement, $129.2 million was recorded as Clinton deferred financing costs for the period April 24, 1987 through December 31, 1987. Such financing costs are calculated on Clinton deferred costs and plant costs not in rate base subject to ICC jurisdiction. Clinton deferred financing costs were calculated using a 9.25% after-tax rate through October 1987 and 8.5% thereafter.

Interest Charges — Interest charges increased $28.8 million, $24.0 million, and $4.5 million in 1985, 1986, and 1987, respectively. These increases primarily reflect the $1.253 billion of long-term debt issued during the three-year period at a weighted average interest rate of 8.5%. During this period, we retired $608 million of long-term debt with a weighted average interest rate of 10.1%.

Earnings per Common Share — The changes in net income applicable to common stock in 1985 through 1987 resulted from the interaction of all the factors discussed herein, including the issuance and retirement of preferred stock. Changes in earnings per common share also reflect the increased number of common shares outstanding in each year. See Notes 8 and 9 in "Notes to Financial Statements"; and Statements of Preferred and Preference Stock.

Inflation — Inflation, as measured by the Consumer Price Index, was 3.6%, 1.9%, and 3.7% in 1985, 1986, and 1987, respectively. The primary effect of inflation on the Company is that historical plant costs are recovered in the Company's rates rather than current costs.

Report of Independent Accountants

Price Waterhouse St. Louis, Missouri

To the Board of Directors of Illinois Power Company

We have examined the financial statements of Illinois Power Company appearing on pages 21 through 34 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 13, the Financial Accounting Standards Board issued a statement which provides, among other things, that the costs of a plant disallowed by a regulator be recognized as a loss. This statement will be adopted, as permitted, in 1988.

As described more fully in Note 13, there are uncertainties with respect to various matters related to the Clinton power station. Management is unable to determine the effects, if any, that the resolution of these uncertainties may have on the Company's 1987 financial statements.

In our opinion, subject to the effects on the 1987 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements examined by us present fairly the financial position of Illinois Power Company at December 31, 1987 and 1986, and the results of its operations and the sources of funds provided for gross property additions for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles consistently applied.

February 11, 1988

Price Waterhouse

Statements of Income

	For the Years Ended December 31, 1987	1986	1985
	(Thousands of Dollars)		
Operating Revenues*			
Electric	$ 910,844	$ 814,144	$ 766,467
Gas	308,679	369,721	400,897
Total	1,219,523	1,183,865	1,167,364
Operating Expenses and Taxes			
Fuel for electric plants	262,592	264,807	273,687
Power purchased and interchanged—net	(50,975)	(37,553)	(48,975)
Gas purchased for resale	188,994	239,214	264,221
Other operating expenses	190,990	133,275	115,410
Maintenance	80,332	58,590	50,706
Depreciation	147,408	71,732	70,097
Amortization of abandoned plant costs	6,379	6,380	2,556
General taxes	115,989	105,310	104,060
Deferred Clinton costs	(78,264)	—	—
Income taxes	122,756	134,652	131,322
Total	986,201	976,407	963,084
Operating income	233,322	207,458	204,280
Other Income			
Allowance for equity funds—			
Construction	51,523	158,238	117,622
Deferred Clinton financing costs	91,726	—	—
Miscellaneous—net	57,083	64,679	48,367
Total	200,332	222,917	165,989
Income before interest charges	433,654	430,375	370,269
Interest Charges			
Interest on long-term debt	188,762	186,781	168,073
Other interest charges	14,309	11,786	6,540
Allowance for borrowed funds—			
Construction	(21,532)	(60,913)	(44,343)
Deferred Clinton financing costs	(37,441)	—	—
Total	144,098	137,654	130,270
Net income	289,556	292,721	239,999
Preferred dividend requirements	37,697	36,242	32,759
Net income applicable to common stock	$ 251,859	$ 256,479	$ 207,240
Weighted average number of common shares outstanding during the period	67,250,913	64,502,690	59,618,728
Earnings per common share	$3.75	$3.98	$3.48
Cash dividends declared per common share	$2.64	$2.64	$2.64

**Includes revenue-related taxes added to customer billings in each of the years 1987, 1986, and 1985 in the amount of $59,201,000, $58,997,000, and $61,885,000, respectively.*

Retained Earnings

	For the Years Ended December 31, 1987	1986	1985
	(Thousands of Dollars)		
Balance at Beginning of Year	$ 481,192	$ 398,755	$ 350,552
Net Income	289,556	292,721	239,999
	770,748	691,476	590,551
Less—			
Cash dividends—			
Preferred stock	37,440	36,845	33,070
Common stock	178,493	171,111	158,726
Reacquisition costs of preferred stock	—	2,328	—
	215,933	210,284	191,796
Balance at End of Year	$ 554,815	$ 481,192	$ 398,755

See notes to financial statements which are an integral part of these statements.

Balance Sheets

December 31,	1987	1986*
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $45,753,000 and $3,679,959,000, respectively)	$ 5,700,684	$ 5,494,656
Gas (includes construction work in progress of $5,591,000 and $4,701,000, respectively)	423,892	409,182
	6,124,576	5,903,838
Less-Accumulated depreciation	1,078,809	944,853
	5,045,767	4,958,985
Nuclear fuel under capital lease	200,034	191,276
Acquisition adjustment (less amortization of $3,399,000 and $3,154,000, respectively)	533	778
	5,246,334	5,151,039
Investments and Other Assets	9,697	14,934
Current Assets		
Cash and temporary cash investments	73,114	129,862
Accounts receivable (less allowance for doubtful accounts of $6,500,000 and $6,000,000, respectively)		
Service	75,480	77,077
Other	41,161	6,356
Materials and supplies, at average cost		
Fossil fuel	39,012	32,276
Gas in underground storage	17,972	21,253
Operating materials	60,743	49,357
Prepaid and refundable income taxes	72,075	60,471
Prepayments and other	7,654	10,572
	387,211	387,224
Deferred Charges		
Deferred Clinton costs	207,431	—
Unamortized deferred abandonment cost	16,581	22,960
Unamortized debt expense	52,233	43,354
Other	3,247	3,531
	279,492	69,845
	$ 5,922,734	$ 5,623,042

	1987	1986*
CAPITAL AND LIABILITIES		
Capitalization		
Common stock— No par value, 80,000,000 shares authorized; 68,588,901 and 65,608,876 shares outstanding, respectively, stated at	$ 1,298,207	$ 1,221,838
Retained earnings	554,815	481,192
Less—Capital stock expense	11,634	11,152
Total common stock equity	1,841,388	1,691,878
Preferred and preference stock	315,171	315,171
Redeemable preferred stock	160,000	196,000
Long-term debt	2,279,219	2,246,367
Total capitalization	4,595,778	4,449,416
Current Liabilities		
Accounts payable	109,778	122,829
Notes payable	103,170	128,863
Long-term debt and lease obligations maturing within one year	81,174	43,728
Dividends payable	54,963	52,988
General taxes accrued	34,878	35,676
Interest accrued	69,138	64,270
Provision for rate reduction	23,129	—
Other	59,955	22,514
	536,185	470,868
Other		
Accumulated deferred income taxes	443,494	356,764
Accumulated deferred investment tax credits	347,277	345,994
	790,771	702,758
Commitments and Contingencies (Notes 12 and 13)		
	$ 5,922,734	$ 5,623,042

**Restated for the effect of capitalized nuclear fuel lease (Note 1).*

See notes to financial statements which are an integral part of these statements.

Statements of Long-Term Debt

December 31,	1987	1986*
	(Thousands of Dollars)	
First mortgage bonds—		
4 % series due 1988	$ 25,000	$ 25,000
14½% series due 1990	—	9,653
4⅝% series due 1993	35,000	35,000
5.85% series due 1996	40,000	40,000
6⅜% series due 1998	25,000	25,000
6¾% series due 1998	45,000	45,000
8.35% series due 1999	35,000	35,000
9 % series due 2000	35,000	35,000
7.60% series due 2001	35,000	35,000
7⅜% series due 2003	60,000	60,000
6.60% series due 2004 (Pollution Control Series A)	8,050	8,050
9⅝% series due 2004	85,000	90,000
10¼% series due 2004	50,000	50,000
8⅜% series due 2006	100,000	100,000
6 % series due 2007 (Pollution Control Series B)	18,700	18,700
8¼% series due 2007	100,000	100,000
8⅜% series due 2008	100,000	100,000
12 % series due 2012	—	6,827
10⅜% series due 2013 (Pollution Control Series C)	125,000	125,000
11⅜% series due 2014 (Pollution Control Series D)	75,000	75,000
10⅝% series due 2015 (Pollution Control Series E)	116,245	150,000
10⅜% series due 2016	125,000	125,000
9¾% series due 2016	75,000	75,000
9⅝% series due 2016	125,000	125,000
7⅜% series due 2016 (Pollution Control Series F, G, and H) *(1)*	150,000	—
8.30% series due 2017 (Pollution Control Series I)	33,755	—
Total first mortgage bonds	1,621,750	1,493,230
12¼% debentures due 1992 *(2)*	100,000	100,000
Long-term bank notes due 1987	—	17,000
Long-term bank notes due 1992	—	34,000
Revolving loan agreements *(3)*	200,000	200,000
10.75% loan agreement due 1992	8,930	8,930
Long-term loan agreement due 1992 *(4)*	60,000	—
8½% debt securities due 1994	100,000	100,000
Variable rate long-term debt due 2016 *(1)*	—	150,000
Variable rate long-term debt due 2017 *(5)*	75,000	—
Total long-term debt	2,165,680	2,103,160
Unamortized premium and discount on debt	(9,584)	(10,097)
Long-term debt maturing within one year	(33,333)	(17,000)
	2,122,763	2,076,063
Obligation under capital leases-noncurrent	156,456	170,304
	$ 2,279,219	$ 2,246,367

(1) Interest rate was adjustable daily. This debt was issued on December 31, 1986 and had an interest rate of 4.5%. This debt was replaced on February 10, 1987 with 7⅜% First Mortgage Bonds (Pollution Control Series F, G, and H) due 2016 totaling $150,000,000.

(2) The debentures, issued by IPF, are guaranteed as to payment of principal and interest by the Company.

(3) Repayment of the first $100,000,000 loan is required to begin January 31, 1991 with 10 subsequent quarterly payments. Repayment of the second $100,000,000 loan is required to begin December 10, 1988 with 11 subsequent quarterly payments. However, the first loan is subject to extension options and may also be repaid in advance at the Company's option. The interest rate is currently based on Reference Bank Certificate of Deposit Rate plus 0.5%, and at December 31, 1987 was 8.04% and 8.64%, respectively.

(4) Interest rate is adjusted semiannually and ranged from 7.687% to 8.5% at December 31, 1987.

(5) Interest rate is adjusted weekly and was 6.75% at December 31, 1987.

**Restated for the effect of capitalized nuclear fuel lease (Note 1).*

See notes to financial statements which are an integral part of these statements.

Statements of Preferred and Preference Stock

Serial Preferred Stock, cumulative, $50 par value *(1)*—Authorized 5,000,000 shares; 4,280,000 shares and 5,000,000 shares outstanding, respectively (including 720,000 shares of redeemable preferred stock at December 31, 1986)

Series	Shares	Redemption prices	December 31, 1987	1986
			(Thousands of Dollars)	
4.08%	300,000	$51.50	**$ 15,000**	$ 15,000
4.26%	150,000	51.50	**7,500**	7,500
4.70%	200,000	51.50	**10,000**	10,000
4.42%	150,000	51.50	**7,500**	7,500
4.20%	180,000	52.00	**9,000**	9,000
8.24%	600,000	51.90	**30,000**	30,000
7.56%	700,000	51.685	**35,000**	35,000
8.94%	1,000,000	52.90 prior to March 1, 1991 51.60 thereafter	**50,000**	50,000
8.00%	1,000,000	53.29 prior to August 1, 1992 52.29 thereafter	**50,000**	50,000
Premium on preferred stock			**1,171**	1,171
Total Preferred Stock, $50 par value			**215,171**	215,171

Serial Preferred Stock, cumulative, without par value—Authorized 5,000,000 shares; 4,600,000 shares outstanding (including 2,600,000 shares of redeemable preferred stock)

Series	Shares	Redemption prices	1987	1986
A *(2)*	1,000,000	$51.50 after February 1, 1988 and prior to February 1, 1993 50.00 thereafter	**50,000**	50,000
B *(3)*	1,000,000	51.50 after May 1, 1990 and prior to May 1, 1995 50.00 thereafter	**50,000**	50,000
Total Preferred Stock, without par value			**100,000**	100,000
Preference Stock, cumulative, without par value—Authorized 5,000,000 shares; none outstanding			**—**	—
Total Preferred and Preference Stock			**$ 315,171**	$ 315,171

Redeemable Serial Preferred Stock, cumulative—

Series	Shares	Par Value	1987	1986
11.75% *(4)*	1,000,000	none	**$ 50,000**	$ 50,000
8.52% *(5)*	1,000,000	none	**50,000**	50,000
8.00% *(6)*	600,000	none	**60,000**	60,000
11.66% *(7)*	720,000	$50.00	**—**	36,000
Total Redeemable Preferred Stock			**$ 160,000**	$ 196,000

(1) Redeemable at the option of the Company in whole or in part at any time upon not less than thirty days and not more than sixty days notice by publication.

(2) Adjustable Rate Series A issued on March 3, 1983. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. See "Two-Year Dividends and Stock Prices by Quarters" on page 35 for the 1987 quarterly dividend rates. The dividend rate for any dividend period will not be less than 6% per annum nor greater than 12% per annum applied to the liquidation preference value of $50 per share.

(3) Adjustable Rate Series B issued on May 15, 1985. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. See "Two-Year Dividends and Stock Prices by Quarters" on page 35 for the 1987 quarterly dividend rates. The dividend rate for any dividend period will not be less than 7% per annum nor greater than 14½% per annum applied to the liquidation preference value of $50 per share.

(4) Subject to mandatory redemption in an amount sufficient to retire on each November 1, beginning in 1990, 200,000 shares at $50 per share plus accrued dividends. Beginning November 1, 1990, the Company may redeem up to 200,000 additional shares each year at $50 per share.

(5) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1992, 200,000 shares at $50 per share plus accrued dividends. Beginning February 1, 1992, the Company may redeem up to 200,000 additional shares each year at $50 per share.

(6) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1993, 120,000 shares at $100 per share plus accrued dividends. Beginning February 1, 1993, the Company may redeem up to 120,000 additional shares each year at $100 per share.

(7) All outstanding shares were redeemed on February 1, 1987 for $52.50 per share.

See notes to financial statements which are an integral part of these statements.

Statements of Sources of Funds Provided For Gross Property Additions

	For the Years Ended December 31, 1987	1986*	1985*
	(Thousands of Dollars)		
Funds Provided from Operations			
Net income	**$ 289,556**	$ 292,721	$ 239,999
Items not requiring working capital—			
Depreciation and amortization	**176,063**	83,758	79,745
Deferred income taxes—net	**86,730**	46,313	25,932
Deferred investment tax credit—net	**1,283**	61,590	64,944
Deferred Clinton costs	**(78,264)**	—	—
Deferred Clinton financing costs	**(129,167)**	—	—
Allowance for funds used during construction	**(73,055)**	(219,151)	(161,965)
Total funds provided from operations	**273,146**	265,231	248,655
Dividends on—Preferred stock	**(37,440)**	(36,845)	(33,070)
Common stock	**(178,493)**	(171,111)	(158,726)
Net funds provided from operations	**57,213**	57,275	56,859
Funds Obtained from External Sources			
Proceeds from sales of—Common stock	**76,369**	71,216	155,753
Preferred stock	**—**	110,000	50,000
Capital stock expense	**(482)**	(1,061)	(1,745)
Proceeds from sales of long-term debt	**338,755**	575,000	358,930
Proceeds from sale of nuclear fuel	**—**	—	54,576
Pollution control construction funds held by trustee	**—**	—	16,891
Net increase (decrease) in notes payable	**(25,693)**	128,863	(1,000)
Retirement of long-term debt	**(276,235)**	(333,870)	(5,000)
Redemption of preferred stock	**(36,000)**	—	—
Total funds obtained from external sources	**76,714**	550,148	628,405
Other Funds Provided (Used)			
Net decrease (increase) in working capital**	**53,577**	(98,462)	13,543
Sale of investment in long-term bank notes	**7,000**	14,000	18,000
Miscellaneous—net	**(11,281)**	(35,203)	(8,764)
Increase in obligations under capital lease	**7,265**	18,688	57,259
Total other funds provided (used)	**56,561**	(100,977)	80,038
Total Funds from Above Sources	**190,488**	506,446	765,302
Allowance for funds used during construction	**73,055**	219,151	161,965
Gross Property Additions	**$ 263,543**	$ 725,597	$ 927,267
Decrease (Increase) in Components of Working Capital**			
Cash and temporary investments	**$ 56,748**	$ (80,940)	$ (12,760)
Accounts receivable	**(33,208)**	8,291	(6,187)
Materials and supplies	**(14,841)**	2,610	21,193
Accounts payable	**(13,051)**	(23,231)	43,533
Dividends payable	**1,975**	2,880	5,407
Accrued taxes	**(798)**	450	(8,336)
Interest accrued	**4,868**	2,320	8,883
Other—net	**51,884**	(10,842)	(38,190)
	$ 53,577	$ (98,462)	$ 13,543

Gross Property Additions and Retirements

		For the Years Ended December 31, 1987	1986*	1985*
		(Thousands of Dollars)		
Additions	—Electric	**$ 243,850**	$ 700,867	$ 911,256
	Gas	**19,693**	24,730	16,011
		$ 263,543	$ 725,597	$ 927,267
Retirements	—Electric	**$ 27,071**	$ 10,048	$ 9,875
	Gas	**4,982**	4,453	4,163
		$ 32,053	$ 14,501	$ 14,038

*Restated for the effect of capitalized nuclear fuel lease (Note 1).

**Excluding notes payable, long-term debt, and lease obligations maturing within one year.

See notes to financial statements which are an integral part of these statements.

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies:

The Company is subject to regulations of the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC). Because of the ratemaking process, certain differences arise in the application of generally accepted accounting principles between regulated and nonregulated businesses. Such differences concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. The Company's principal accounting policies are described below.

Principles Applied in Consolidation — The Financial Statements include the accounts of IPF (Illinois Power Finance) Company N.V., a wholly-owned subsidiary. All significant intercompany transactions have been eliminated.

Utility Plant — The cost of additions to utility plant and replacements for retired property units is capitalized. Cost includes labor, material, and an allocation of general and administrative costs plus an allowance for funds used during construction (AFUDC) as described later in this note. Maintenance and repairs, including replacement of minor items of property, are charged to maintenance expense as incurred. When units of depreciable property are retired, the original cost and dismantling charges, less salvage, are charged to accumulated depreciation.

Depreciation — For financial statement purposes, the Company depreciates the various classes of depreciable property over their estimated lives by applying composite rates on a straightline basis. Provisions for depreciation of electric utility plant in 1986 and 1985 were equal to 3.4% of the average depreciable cost. In 1987, provisions for depreciation were 2.786% of the average depreciable cost for the Clinton power station (Clinton) and 3.4% of the average depreciable cost for all other electric utility plants. Provisions for depreciation of gas utility plant, as a percentage of the average depreciable cost, were equivalent to 4.0% in 1987, 1986, and 1985.

Revenue and Energy Cost — The Company records revenues as billed to its customers on a monthly cycle billing basis. At the end of each month, there is an amount of unbilled electric and gas service that has been rendered from the latest date of each cycle billing to the month end.

The electric fuel adjustment and purchased gas adjustment clauses provide that changes in allowable energy costs from the Company's filed tariffs are passed on to customers. Accordingly, allowable energy costs that are to be passed on to customers in a subsequent billing period are deferred.

Allowance for Funds Used During Construction — The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFUDC is capitalized at a rate that is related to the approximate weighted average cost of capital. In 1986 and 1985, the rate was reduced by the income tax effect of the interest portion thereof. In 1987, AFUDC on Clinton continued to be capitalized at a net-of-tax rate, but AFUDC on all other construction was capitalized at a pre-tax rate, and the associated tax effects were deferred. The rate used in computing AFUDC was 9¼% throughout 1986 and 1985. In 1987, the rate used was 9¼% for Clinton construction and 11% for all other construction projects. While cash is not realized currently from such allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from a higher rate base and higher depreciation expenses.

In accordance with ICC rate orders, the Company excluded $733 million effective January 1, 1985 and $804 million effective August 7, 1985 of electric plant construction work in progress (CWIP) from the base on which AFUDC was computed for Clinton during 1985. The amount of Clinton costs in rate base was increased to $1.156 billion effective October 4, 1986, after receiving permission from the Nuclear Regulatory Commission (NRC) to begin fuel loading. Clinton costs in rate base increased to $1.54 billion effective April 22, 1987, after receiving a full power license from the NRC for Clinton. Both of these increases were authorized in the August 1985 ICC rate order. Because these orders authorized that Clinton costs be included in the rate base upon which the Company realized revenues, there was no material effect on net income. On April 24, 1987, Clinton was placed in service and AFUDC thereon ceased.

Deferred Clinton Costs — A November 1987 ICC order specifies the deferral of certain Clinton post-construction operating costs, until rates to reflect such costs are effective. During this period a deferred financing cost is computed on Clinton plant not in rate base and the deferred costs. The deferred financing cost is capitalized at a rate that is similar to AFUDC. In 1987, the rate used to compute deferred Clinton financing costs was 9¼% through October and 8½% thereafter. These deferred costs will be recovered over the remaining life of the plant to the extent that Clinton construction costs are included in rate base.

Clinton Power Station Decommissioning — Decommissioning of Clinton will be funded by contributions to an external trust fund in accordance with an ICC order issued July 15, 1987. An annual contribution of $2.1 million over 39½ years is estimated to be required to decommission the Company's share of Clinton.

Amortization of Nuclear Fuel — The Company leases nuclear fuel from Illinois Power Fuel Company (Fuel Company). In accordance with the provisions of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation", the Company retroactively capitalized its nuclear fuel lease with the Fuel Company. This change did not affect earnings. Amortization of nuclear fuel is determined on a unit of production basis. A provision for spent fuel disposal costs is charged to fuel expense based on kilowatt-hours generated.

Unamortized Deferred Abandonment Cost — The ICC order of August 7, 1985 authorized the Company to amortize and recover through rates $31.9 million of its investment in Clinton Unit 2 over a five-year period. No return was allowed on the unamortized investment balance. Additional costs of $2.9 million were written off to Miscellaneous-net in the third quarter of 1985.

Unamortized Debt Expense — Debt issuance costs are amortized over the lives of the related issues. Costs related to refunded debt are amortized over the lives of the related new debt issues.

Income Taxes — The Company normalizes the income tax effects of transactions causing timing differences between inclusion in financial statement and taxable income. The Company computes deferred income taxes based on the statutory income tax rates in effect during the period that the timing differences originate. Deferred income taxes are amortized to income as the underlying timing differences reverse.

Principal sources of timing differences causing deferred taxes are as follows:

- Use of the most liberalized depreciable lives and methods allowed by the Internal Revenue Code,
- Capitalization of certain construction overheads, dismantling, and other costs for book purposes that are claimed as current deductions for income tax purposes,
- Revenues and energy costs recognized in different periods for financial statement purposes than for income tax purposes, and
- Alternative minimum tax payable in the current year that can be used to offset future tax liabilities.

For income tax return purposes, net depreciable utility plant does not include the allowance for funds used during construction that is capitalized for financial statement purposes.

Investment tax credits, which reduce federal income taxes, have been deferred and are being amortized to income over the life of the property which gave rise to the investment tax credits.

Federal and state income taxes are allocated between operating and non-operating income and expenses. The tax effects relating to non-operating activities are included in Other Income—Miscellaneous-net.

Note 2—Short-Term Loans and Lines of Credit:

The Company had total lines of credit represented by bank commitments amounting to $568 million of which $260 million was unused at December 31, 1987. These bank commitments support the amount of commercial paper outstanding at any time and are available to support other Company activities.

The Company has a $50 million revolving loan commitment through November 13, 1992. No borrowings were made under this agreement during 1987. The agreement is on a fee basis of .15% for the unused line of credit. In addition, the interest rate under this agreement on funds borrowed is based upon the borrowing rate of key banks in the London interbank market.

In June 1987, the Company obtained a $100 million, five-year revolving loan commitment through June 4, 1992. There was an $80 million revolving loan made under this agreement with $60 million still outstanding at year end. For the unused portion of the commitment, the Company pays a fee of 3/16% per annum on the amount of available credit. The interest rate on borrowings under this agreement is, at the Company's option, based upon the lending banks' reference rate, their Certificate of Deposit rate, the borrowing rate of key banks in the London interbank market, or a bid option.

In addition, the Company has a credit agreement entered into in 1985 that provides for a revolving loan agreement of $175 million with the provision for conversion to a three-year term loan. Fees for this agreement are primarily based on 0.3% of the unused portion of the commitment. Interest rates on borrowings are, at the Company's option, based upon the banks' prime rate, their 90-day Certificate of Deposit rate, or the borrowing rate at key banks in the London interbank market. There was a $100 million revolving loan outstanding under this agreement during 1987 (see "Statements of Long-Term Debt").

In 1984, the Company entered into a $180 million, three-year revolving loan agreement that has a provision for conversion to a three-year term loan. There was a $100 million revolving loan outstanding under this agreement during 1987 (see "Statements of Long-Term Debt"). For the unused portion of the commitment, the Company pays an annual fee of 1/4%, partially offset by a credit related to average balances maintained at the banks. The interest rate on borrowings under this agreement is, at the Company's option, based upon the lending banks' prime rate, their 90-day Certificate of Deposit rate, or the borrowing rate of key banks in the London interbank market.

The Company also has lines of credit totaling approximately $63 million with commercial banks for short-term bank borrowings. Bank borrowings under such commitments have a maximum 360-day maturity from the time of issuance and at the Company's option carry an interest rate less than or equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter. Borrowings were made under these agreements in 1987 for about $48 million. The borrowings had a weighted average interest rate of 7.9% during 1987 and were still outstanding at year end.

In December 1987, the Company obtained letter of credit agreements in the total amount of $80,547,948 from the Mitsubishi Bank in support of the issuance of $75 million Pollution Control Variable Rate Debt. The Company pays a fee of .30% per annum on the unused amount of the credit. Interest rates on unreimbursed drawings under the letters of credit are at the Federal Funds rate as defined by the bank plus .5% per annum for up to 30 days, at the bank's prime rate for 31 days through one year and at the bank's prime rate plus 1% per annum for over one year.

Notes payable at December 31, 1987 consisted of about $48 million of commercial bank borrowings as noted above and $55 million in commercial paper bearing interest at a weighted average rate of 7.8% and maturing between January 5, 1988 and January 29, 1988. At December 31, 1986, notes payable consisted of about $52 million of commercial bank borrowings and about $77 million in commercial paper, bearing interest at a weighted average interest rate of 6.0%, which matured between January 15 and January 29, 1987. There were no outstanding notes payable at December 31, 1985.

The maximum total amount of short-term borrowings at any month end during 1987, 1986, and 1985 was $124.9 million, $230.6 million, and $60.0 million, respectively. The average daily short-term borrowings during these periods approximated $104.3 million, $111.2 million, and $14.3 million, respectively with a weighted average interest rate of 7.3%, 7.3%, and 8.4%, respectively. The Company calculated the borrowings as an average of the daily borrowings outstanding. The Company calculated the interest rates by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above.

Note 3—Facilities Agreements:

Pursuant to agreements as amended, Soyland Power Cooperative, Inc. (Soyland) and Western Illinois Power Cooperative, Inc. (WIPCO) have an investment of $450 million in the direct costs of placing Clinton in commercial operation. The Cooperatives have paid their portion of construction expenditures. This results in an ownership in Clinton of 7.02% for Soyland and 6.36% for WIPCO. The Company's ownership percentage of 86.62% is reflected in utility plant, at original cost; and accumulated depreciation on the balance sheet. Each respective participant is responsible for their share of nuclear fuel. The Company's share of Clinton operating expenses is included in the corresponding operating expenses on its income statement. See "Note 13—Clinton Power Station" for information relating to a lawsuit filed September 22, 1986 against the Company.

Each party is responsible for its portion of financing, construction, and operating expenditures. The Company's investment in Clinton including AFUDC and land at December 31, 1987 is $3.8 billion. The agreements include the provisions that the Company has control over construction and operation of the generating station, that the parties share electricity generated in proportion to their interests, and that the Company will have certain obligations to provide replacement power to the Cooperatives when the unit is out of service.

In a related agreement, the Cooperatives and the Company signed a Power Coordination Agreement in October 1984. Under the agreement, which was effective January 1, 1985, the Company will provide the Cooperatives with 10.7% (400 megawatts) of electrical capacity from its fossil-fueled generating plants through 1992, 8% in 1993 and 1994, and 4% in 1995 through 2004 and will transmit energy for the Cooperatives through the Company's transmission and subtransmission system. This will be in addition to the capacity the Cooperatives receive as part owners of Clinton. The Company is compensated with capacity charges and for energy costs and variable operating expenses.

Note 4—Income Taxes:

Income taxes included in the Statements of Income consist of the following components:

	Years Ended December 31,		
	1987	1986	1985
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	$ 42,224	$ 38,211	$ 39,939
Included in Other Income—Miscellaneous—net	(54,513)	(59,279)	(46,147)
Total current taxes	(12,289)	(21,068)	(6,208)
Deferred taxes—			
Book-tax depreciation differences—net	85,702	12,376	9,096
Certain overhead, dismantling and other costs capitalized—net	10,015	26,479	16,618
Deferred Clinton costs	24,978	—	—
Alternative minimum tax	(32,699)	—	—
Book-tax revenue and energy cost recognition differences	(5,582)	(835)	2,008
Clinton Unit 2 abandonment	(3,165)	(3,169)	(1,283)
Total deferred taxes	79,249	34,851	26,439
Deferred investment tax credit—net	1,282	61,590	64,944
	$ 68,242	$ 75,373	$ 85,175

Income taxes are less than the amount which would be computed by applying the statutory federal and state income tax rates to pre-tax income

(43.8% in 1987 and 49.5% in 1986 and 1985); the principal differences are as follows:

	Years Ended December 31,		
	1987	1986	1985
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	$156,691	$ 182,045	$ 160,818
Reductions (increases) in income taxes resulting from—			
Allowance for funds used during construction	31,993	108,383	80,101
Deferred Clinton financing costs	56,567	—	—
Other—net	(111)	(1,711)	(4,458)
Total income taxes	$ 68,242	$ 75,373	$ 85,175

Combined federal and state effective income tax rates were 19.1%, 20.5%, and 26.2% for the years 1987, 1986, and 1985, respectively.

Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" adopts a liability method of tax allocation relating to transactions that affect book and tax income in different reporting periods. The statement must be adopted no later than 1989. See discussion of this item in Management's Discussion and Analysis on page 18.

Note 5—Segments of Business:

The Company is a public utility engaged in the generation, transmission, distribution, and sale of electric energy and the distribution and sale of natural gas.

	1987			1986**			1985**		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operation information—									
Operating revenues	$ 910,844	$ 308,679	$1,219,523	$ 814,144	$ 369,721	$ 1,183,865	$ 766,467	$ 400,897	$ 1,167,364
Operating expenses, excluding provision for income taxes and deferred Clinton costs	667,519	274,190	941,709	518,559	323,196	841,755	486,951	344,811	331,762
Deferred Clinton costs	(78,264)	—	(78,264)	—	—	—	—	—	—
Pre-tax operating income	321,589	34,489	356,078	295,585	46,525	342,110	279,516	56,086	335,602
Allowance for funds used during construction (AFUDC)	72,871	184	73,055	218,977	174	219,151	161,819	146	161,965
Deferred Clinton financing costs	129,167	—	129,167	—	—	—	—	—	—
Pre-tax operating income, including AFUDC and deferred Clinton financing costs	$ 523,627	$ 34,673	558,300	$ 514,562	$ 46,699	561,261	$ 441,335	$ 56,232	497,567
Other (income) and deductions			(57,083)			(64,679)			(48,367)
Interest charges			203,071			198,567			174,613
Provision for income taxes			122,756			134,652			131,322
Net income			$ 289,556			$ 292,721			$ 239,999
Other information—									
Depreciation	$ 131,596	$ 15,812	$ 147,408	$ 56,507	$ 15,225	$ 71,732	$ 55,329	$ 14,76[illegible]	$ 70,097
Capital expenditures	$ 243,850	$ 19,693	$ 263,543	$ 700,867	$ 24,730	$ 725,597	$ 911,256	$ 16,011	$ 927,267
Investment information—									
Identifiable assets*	$5,285,930	$ 300,265	$5,586,195	$ 4,952,694	$ 300,144	$ 5,252,838	$ 4,312,502	$ 313,847	$ 4,626,349
Nonutility plant and other investments			9,697			14,934			27,584
Assets utilized for overall Company operations			326,842			355,270			240,455
Total assets			$5,922,734			$ 5,623,042			$ 4,894,388

**Utility plant, nuclear fuel and acquisition adjustment (less accumulated depreciation and amortization), materials and supplies, unamortized deferred abandonment cost, deferred Clinton costs, prepaid gas, deferred energy costs, and deposit with pollution control authorities.*

***Restated for the effect of capitalized nuclear fuel lease (Note 1).*

Note 6—Pension and Other Post-Employment Benefit Costs:

The Company has defined benefit pension plans covering all officers and employees. Benefits are based on years of service and the employee's earnings. The Company's funding policy is to contribute annually at least the minimum amount required by government funding standards, but not more than can be deducted for federal income tax purposes. In 1987, the Company adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" (FAS 87). Adoption of FAS 87 decreased annual pension costs by approximately $5.6 million, a portion of which was capitalized.

Pension cost for 1987 included the following components:

	(Thousands of Dollars)
Service cost on benefits earned during the year	$ 8,911
Interest cost on projected benefit obligation	11,222
Return on plan assets	(42,713)
Net amortization and deferral	20,110
Total pension cost (benefit)	$ (2,470)

The estimated funded status of the plans at December 31, 1987, using a measurement date of September 30, 1987, a discount rate of 8¼% and a rate of increase of future compensation levels of 6%, was as follows:

	(Thousands of Dollars)
Actuarial present value of:	
Vested benefit obligation	$ 95,471
Accumulated benefit obligation	$ 108,828
Projected benefit obligation	$(140,460)
Plan assets at fair value	244,336
Excess of assets over projected benefit obligation	103,876
Unamortized net gain	(40,472)
Unrecognized net asset at transition	(68,406)
Accrued pension cost included in Accounts Payable	$ (5,002)

The plan assets consisted primarily of common stocks, fixed income securities, and real estate. The actuarial present value of accumulated plan benefits at January 1, 1987 was $107,189,000 (including vested benefits of $93,825,000). Activity in the capital markets subsequent to September 30, 1987 has caused plan assets to decline by approximately 15% as of December 31, 1987.

The pension cost for 1987 was calculated using a measurement date of January 1, 1987, a discount rate of 8%, rate of increase of future compensation levels of 6%, and return on assets of 9%. The Company's pension costs prior to 1987 were accounted for in accordance with previous accounting principles. These costs were $3,136,000 and $2,059,000 in 1986 and 1985, respectively. The Company did not make any cash contributions during 1987, 1986, and 1985 for the pension plan due to its overfunded status.

In addition, the Company provides certain health care and life insurance benefits for substantially all active and retired employees. These benefits are provided through an insurance company, and premiums are based on actual claims experience. The Company recognizes the cost of these benefits as premiums are paid. Costs for 1987, 1986, and 1985, net of contributions by both active and retired employees, were $8,469,000, $8,341,000, and $7,788,000, respectively. The cost of providing those benefits for about 1,030 retirees is not separable from the cost of providing benefits for about 4,530 active employees.

Note 7—Debt Retirement Provisions:

During the five years from December 31, 1987, the amounts of debt maturing annually are $33,333,000 in 1988, 1989, and 1990, $61,364,000 in 1991, and $205,294,000 in 1992. These amounts exclude capital lease requirements. See "Note 11—Capital Leases".

In addition, certain supplemental indentures to the Mortgage and Deed of Trust require that the Company make annual deposits in cash as a sinking fund. For the 9¾% series due 2004, an annual deposit of $5,000,000 is required. For the 6.60% series due 2004 (Pollution Control Series A), an annual deposit of $125,000 in 1988, increasing $25,000 in 1989 and every two years thereafter is required. These amounts are not subject to reduction.

Certain other supplemental indentures require annual deposits, as a sinking and property fund, in amounts not to exceed $5,600,000 in 1988, $6,600,000 in 1989 and 1990, and $7,100,000 in 1991 and 1992. These amounts are subject to reduction in accordance with the mortgage, and historically have been met by pledging property additions.

The above bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises, and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds. The remaining balance of net bondable additions at December 31, 1987 was approximately $2,099,000,000.

Note 8—Redeemable Preferred Stock:

The Company issued $50 million of 8.52% redeemable serial preferred stock and $60 million of 8.00% redeemable serial preferred stock in 1986. In 1987, the Company redeemed $36 million of 11.66% redeemable serial preferred stock.

During the five years from December 31, 1987, the amounts of redeemable preferred stock outstanding at such date, required to be redeemed at stated value are $10 million in 1990, $10 million in 1991, and $20 million in 1992. No shares are required to be redeemed in 1988 and 1989.

Note 9—Common Stock and Retained Earnings:

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan (ESOP) for which at December 31, 1987, 1,820,535 and 20,761 shares, respectively, of common stock were designated for issuance.

The Company also has a Tax Reduction Act Stock Ownership Plan (TRASOP) pursuant to federal income tax laws, under which Company contributions of common stock are based on a percentage of payroll costs. Because the tax benefit for contributions to the plan was repealed under the 1986 Tax Reform Act, 1987 was the last year for contributions. Under this Plan, 216,331 shares of common stock were designated for issuance at December 31, 1987.

The Company also has an Incentive Savings Plan (Plan) for salaried employees. Under the Plan, the Company matches a portion of the employee contributions. The Company's matching contribution is used to purchase common stock. Under this Plan, 43,472 shares of common stock were designated for issuance at December 31, 1987.

Changes in common stock during 1987, 1986, and 1985 were as follows:

	1987		1986		1985	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	65,608,876	$1,221,838	62,800,583	$ 1,150,622	56,381,448	$ 994,869
Public offerings	—	—	—	—	3,000,000	78,480
Automatic Reinvestment and Stock Purchase Plan	2,723,349	69,457	2,273,622	64,854	3,160,678	71,136
ESOP	33,388	858	28,673	759	34,810	757
TRASOP	199,659	5,397	194,218	5,279	210,243	5,012
Incentive Savings Plan	23,629	657	11,778	324	15,404	368
Balance end of year	68,588,901	$1,298,207	65,608,876	$ 1,221,838	62,800,583	$ 1,150,622

Thousands of dollars

None of the Company's retained earnings at December 31, 1987 was restricted with respect to the declaration or payment of dividends.

Note 10—Quarterly Financial Information (Unaudited):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1987	1986	1987	1986	1987	1986	1987	1986
	(Thousands of Dollars Except Earnings Per Common Share)							
Operating revenues	$325,701	$355,900	$253,727	$245,259	$347,735	$303,818	$292,360	$276,588
Operating income	51,[illegible]34	50,747	50,272	41,829	98,775	6[illegible],456	32,891	47,426
Net income	71,742	69,850	63,427	62,396	113,764	[illegible],416	40,623	68,[illegible]9
Net income applicable to common stock	62,108	61,110	54,144	53,203	104,464	83,283	31,143	58,883
Earnings per common share	$ .94	$ .96	$ .81	$ .83	$ 1.54	$ 1.28	$ .46	$ .90

Quarterly earnings per common share are based on weighted average number of shares outstanding during the quarter and the sum of the quarters may not equal annual earnings per common share.

The 1987 fourth quarter net income was reduced by $19 million (28¢ per share) due to the provisions of the negotiated settlement. See "Note 13—Clinton Power Station". Additionally, the 1987 fourth quarter net income was reduced by $11 million (16¢ per share) due to the effect of excluding from the Clinton cost deferrals the portion of the Company's electric utility business not under the jurisdiction of the ICC, because the November 1987 retail rate filing excluded that portion of the Company's operations.

Note 11—Capital Leases:

Illinois Power Fuel Company (Fuel Company), which is 50% owned by the Company, was formed in January 1981 for the purpose of financing a portion of the nuclear fuel requirements of Clinton. The Company entered into a lease agreement with the Fuel Company under which the Company leases nuclear fuel. Lease payments, which are equal to the Fuel Company's cost of fuel as consumed (including related financing costs), began in 1987 when Clinton began pre-commercial operation. Billings under the lease agreement during 1987 were $26.5 million, including $9.2 million of financing costs. The Company is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company that are due and payable exceed the funds available to the Fuel Company. The Company has an obligation for spent nuclear fuel disposal costs of leased nuclear fuel.

At December 31, 1987 and 1986 current obligations under capital lease for nuclear fuel are $46,150,000 and $25,235,000, respectively. At

December 31, 1987 and 1986 current obligations for other property under capital leases are $1,691,000 and $1,493,000, respectively.

Over the next five years projected lease payments under capital leases are as follows:

	(Thousands of Dollars)
1988	$ 48,000
1989	33,000
1990	30,000
1991	29,000
1992	40,000
Total	$180,000

Note 12—Commitments and Contingencies:

Construction Program — The 1988 construction budget is $137 million, which includes $102 million for electric facilities, $23 million for gas facilities and $12 million for nuclear fuel. The five-year construction program for 1988 through 1992 is estimated to be $644 million.

Insurance — The Company has insurance coverage for loss due to physical damage, including contamination, to Clinton. This insurance is structured through a level of primary coverage provided by nuclear insurance pools and excess coverage from a combination of nuclear insurance pools and an industry-owned mutual insurance company. The primary coverage provides limits of $500 million and the excess coverage currently provides limits of $1.025 billion, for a total available coverage of $1.525 billion. In addition, the Company has replacement power insurance coverage for the extra cost to purchase replacement power in case of a temporary accidental shutdown of the plant.

A major loss involving Clinton or other stations insured by the industry-owned mutual insurance company could result in additional annual premium assessments to the Company of up to approximately $10.2 million. In addition, while the Company has no reason to anticipate a serious nuclear incident at Clinton, if such an incident should occur, the claims for property damage, replacement power costs, and/or other costs and expenses could materially exceed the limits of insurance coverage available.

All nuclear power station operators are subject to the Price-Anderson Act (Act). Although the Act expired on August 1, 1987, all commercial reactors with construction permits or operating permits issued before August 1, 1987 remain covered under the old law. Under the Act public liability for a nuclear incident is currently limited to $720 million. Coverage of the first $160 million is provided by private insurance, with the excess coverage provided by retrospective premium assessments against each licensed nuclear reactor in the United States. The Company's maximum assessment would be $5 million per incident, but not more than $10 million per year. One of the proposals to amend the Act, under consideration in Congress, would increase the maximum retrospective assessment against each operating reactor to $63 million, limited to assessments of $10 million per year. The Company cannot predict the final outcome of the legislative proposals.

Effective January 1, 1988, a new Master Worker Policy will cover workers who claim bodily injury, sickness, or disease as a result of initial radiation exposure occurring on or after January 1, 1988. The policy will have an aggregate limit of $160 million applying to the nuclear utility industry as a whole. As claims are paid under the policy there is a provision for automatic reinstatement of policy limits up to an additional $160 million. There is also a provision for assessment of additional premium if claims exceed funds available in the insurance company reserve accounts to pay claims. The Company's maximum share of additional premium in future years for this contingency could be up to approximately $2.7 million.

Other — The Company is involved in legal or administrative proceedings before various courts and agencies with respect to matters occurring in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will not have a material adverse effect on the financial position of the Company.

Note 13—Clinton Power Station:

The Company received a full-power operating license for Clinton from the Nuclear Regulatory Commission (NRC) on April 17, 1987, and based on an order of the ICC approving a negotiated settlement, an in-service date of April 24, 1987 was established. Clinton is fully operational as a base load generating unit supplying electric service to our customers.

The Company's portion of the cost of Clinton is $3.8 billion. At December 31, 1987, $1.5 billion of Clinton costs are included in rate base and are earning a return.

Ownership of an operating nuclear generating unit exposes the Company to significant risks including increased regulat[illegible]fety, and environmental requirements. The [illegible] expects to be allowed to continue to ope[illegible]n; however, if any unforeseen or unexpec[illegible]elopments would prevent the Company from doing so, the Company could be materially adversely affected.

Rate & Regulatory Matters

Clinton Construction Audit — In Illinois the cost of a new electric generating plant may not be recovered in a utility's rates unless it is reasonable. Therefore, an audit is being conducted by Touche Ross & Co. and The Nielsen-Wurster Group under contract with the ICC.

A Phase I audit report filed on January 9, 1986 covered the time frame from the beginning of the project through March 31, 1985 (at which time the Company's investment in Clinton was $2.4 billion). In this audit report, Touche Ross/Nielsen-Wurster contend that a portion of Clinton costs associated with the stop work orders issued in early 1982 is unreasonable. The report estimates that these costs are between $294 million and $464 million. Nielsen-Wurster has stated in written testimony to the ICC that $294 million is the appropriate point in this range.

Three nationally known firms, Theodore Barry & Associates, Ebasco Services Incorporated, and Burns and Roe Company, were retained on behalf of the Company to evaluate management of the Clinton project through independent audits. The independent audits are separate from the one being conducted by the two firms hired by the ICC, and Phase I audits show that construction of Clinton generally has been managed reasonably by the Company. The conclusions of these audit reports and the Touche Ross/Nielsen-Wurster Phase I audit report generally agree but differ on one point. Touche Ross/Nielsen-Wurster contend that a portion of the cost of Clinton associated with the stop work actions issued in early 1982 was unreasonable. The ICC has completed hearings on Phase I of the audit, but is deferring the issuance of an order until the audit and hearings on Phase II, which covers the period from April 1, 1985 through completion of the project, have been completed.

The Phase II audit report, which is expected to be submitted to the ICC by the end of the first quarter of 1988, could allege additional unreasonable costs. An order is expected from the ICC in late 1988. As in Phase I, independent audits to evaluate management of Clinton during this period are being performed on behalf of the Company.

In an interim order regarding the completion of Clinton, the ICC ruled that any Clinton costs expended above the amount of $2,698,361,000 for which the Company fails to present affirmative evidence of reasonableness shall not be included in rate base, even if no other party has presented any evidence challenging these costs as being unreasonable. The Company believes that the burden of proof under this order is no greater than that currently required under the Public Utilities Act generally.

Rate Request — On November 19, 1987, the Company filed with the ICC a request for an electric rate-moderation plan to incorporate Clinton into rates. The rate of return requested in the plan reflects current capital cost and is 10.25% compared to the 11.95% currently allowed. The rate plan incorporates a mirror CWIP plan, and a deferred return phase-in plan. The request includes a first-year electric revenue increase of 11.1% effective November 1988, producing approximately $92.7 million of revenue annually net of anticipated fuel savings and a senior citizen discount. This first-year increase would be followed by annual increases beginning in 1989, for six to nine years. These annual increases would be tied to the rate of inflation and would range from a minimum of about 4% to a maximum of 5.9%. Although the rate request provides the needed future rate increases to recover the Company's investment in Clinton and related operating costs, it is subject to approval or modification by the ICC. An order from the ICC is expected in October 1988.

Under the electric rate-moderation plan, there would be a cash flow delay of approximately $450 million over the first seven years of the plan due to its mirror CWIP provisions (representing amounts collected in rates prior to the in-service date of Clinton as a result of having CWIP in rate base). This amount would be capitalized as a part of Clinton costs for recovery over the life of the plant. In addition, under the deferred return provisions of the plan, cash flow of approximately $250 million would be delayed during the first five years for recovery during the remaining years of the plan.

Deferred Costs — The Company is deferring certain post-construction costs of Clinton, based on the ICC order approving the negotiated settlement, including depreciation, taxes other than income taxes, and financing costs on both the amount of plant costs not in rate base and these deferred costs from the in-service date until a rate order reflecting the inclusion of Clinton in rate base becomes effective (the regulatory lag period). As a result of the negotiated settlement, all Clinton operation and maintenance costs are being expensed. However, as a partial offset, the negotiated settlement also provided that the electric revenues previously deferred, as ordered by the ICC to reflect the lower federal income tax rates under the Tax Reform Act of 1986, be included in income and all future deferrals be discontinued. The negotiated settlement caused a net reduction in 1987 earnings of $19 million (net of income taxes) or 28¢ per share, and future earnings will be decreased by an estimated $2 million to $3 million per month until the electric rate order requested on November 19, 1987 is effective.

During 1987, the Company recorded post-construction cost deferrals of $207 million ($177 million, net of income taxes). Such deferred costs will be included in rates to the extent that Clinton costs are allowed in rates and recovered over the remaining life of the plant. Cash flow associated with these deferrals will be delayed until those costs are recovered in rates.

Decommissioning and Nuclear Fuel Disposal Costs —The Company is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. The establishment of an external trust fund was authorized by the ICC to invest funds for the future dismantlement and decommissioning costs of Clinton (estimated to be $87.6 million in 1987 dollars). Decommissioning costs are currently being deferred ($1.4 million during 1987) and will begin to be collected through rates upon approval of the electric rate request before the ICC.

Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel. DOE currently charges one mill per kilowatt-hour generated for future disposal of spent fuel. The Company is recovering this amount through its rates.

Accounting Developments

In December 1986, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 90, "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs, an amendment of FASB Statement No. 71" (FAS 90), which is applicable to partial disallowances of plant costs and plant abandonments. The statement is effective for the Company in 1988 and the Company intends to adopt it on a prospective basis. This statement requires that a partial disallowance of plant costs by a regulatory commission be recorded as a loss when such a disallowance becomes probable and a reasonable estimate can be made. Under generally accepted accounting principles, as effective through 1987, a disallowance would not have required an immediate charge to income unless it resulted in a negative rate of return on the Company's investment in Clinton, but it would have been reflected as a reduction in the Company's earnings over the life of the plant. In addition, once adopted, the statement requires that AFUDC be capitalized only if its subsequent inclusion in allowable costs for rate-making purposes is probable.

The Company did not adopt the provisions of FAS 90 prior to 1988. If the Company had adopted the new standard, the Company believes that no loss provision for a disallowance would have been required in 1987 or prior financial statements because no reasonable estimate of loss can be made and the low end of the range of possible disallowance is zero.

In August 1987, the FASB issued Statement of Financial Accounting Standards No. 92, "Regulated Enterprises — Accounting for Phase-in Plans, an amendment to FAS 71" (FAS 92), which established the criteria for financial statement purposes that must be met in order for costs to be deferred for recovery in the future. The statement is effective for the Company in 1988 and the Company intends to adopt it on a prospective basis.

The Company's proposed deferred return phase-in plan meets the criteria of FAS 92.

FAS 92 also states that an allowance for earnings on shareholders' investment may only be capitalized during construction, as AFUDC, or as part of a qualified phase-in plan. The Company's deferral of certain post-construction costs in the regulatory lag period does not meet the criteria of a phase-in plan as established by this statement. Accordingly, beginning in 1988 for financial statement purposes, the Company may not capitalize an allowance for earnings on shareholders' investment as part of post-construction cost deferrals. Such allowance for earnings on shareholders' investment would have been approximately $11 million per month during 1988. However, pursuant to the ICC order, such amounts may be recovered over the life of the plant to the extent that Clinton costs are allowed in rate base.

Legal Proceedings

On September 22, 1986, members of 22 Illinois rural electric power distribution cooperatives filed a lawsuit against the Company concerning the Company's construction management of Clinton. The action purported to be brought derivatively on behalf of the member cooperatives of WIPCO and Soyland and, in turn, on behalf of WIPCO and Soyland, and as a class action on behalf of the individual members of the distribution cooperatives. On January 7, 1988, on the motion of WIPCO and Soyland, the Circuit Court for Sangamon County, Illinois, ruling orally from the bench, dismissed the derivative claims but granted leave to WIPCO and Soyland to be realigned as plaintiffs and to file their five-count complaint against the Company (Soyland complaint). In the Soyland complaint, WIPCO and Soyland alleged that the Company breached fiduciary duties to them and was negligent in connection with the planning, construction, and licensing of Clinton. The Soyland complaint seeks recovery of an unspecified amount of compensatory damages from the Company. The Company has moved for an extension of time to respond to the Soyland complaint until after a written order detailing the Court's January 7 ruling has been entered.

In the one remaining count of the original complaint filed by the members of the distribution cooperatives, those plaintiffs seek to proceed on behalf of a class of all customers of cooperatives that obtain electrical power from Clinton. This count alleges that such customers have been and will be "injured due to drastically increased energy supply costs". The plaintiffs seek unspecified compensatory damages from the Company. On January 14, 1987, the Circuit Court for Sangamon County, Illinois denied the Company's motion to dismiss the class action count of the original complaint for lack of standing. The Court has not yet addressed other grounds asserted by the Company in support of its motion to dismiss that count.

The Company believes that it has managed the construction of Clinton prudently and efficiently and that it should be allowed to recover the full cost of that unit through its rates. Almost all recent cases of which the Company is aware in which regulatory commissions have conducted prudence audits in connection with placing new generating units in rates have resulted in some investment being disallowed or proposed to be disallowed. In many such cases, the amounts involved were significant.

Management is unable to predict the ultimate outcome of the uncertainties discussed in this note which could have a material adverse effect on the Company's earnings and/or financial position.

Two-Year Dividends and Stock Prices by Quarters

The common stock is listed on the New York Stock Exchange and the Midwest Stock Exchange. The prices below are the prices reported on the Composite Tape. The preferred stocks are listed on the New York Stock Exchange and the prices below are the prices on that Exchange.

		1987 Stock Prices							
		1		2		3		4	
	Dividends(1)	High	Low	High	Low	High	Low	High	Low
Common	$ .66	31½	27⅜	28⅜	25⅛	27	24⅜	27	21⅛
4.08% Pfd.	.51	25¼	23	24⅛	21	22½	19⅝	20¼	18¾
4.26% Pfd.	.53¼	25⅜	24	24⅜	22⅝	23¼	21	22⅜	20
4.70% Pfd.	.58¾	28	26½	26⅜	23	25⅜	22½	24⅛	21
4.42% Pfd.	.55¼	26¼	24	25⅜	21⅛	23¼	21¼	22⅛	19⅝
4.20% Pfd.	.52½	26	24½	25⅜	21½	24	21⅜	23⅜	19
8.24% Pfd.	1.03	49¾	45¼	47½	42	44	39	41½	36
7.56% Pfd.	.94½	45¼	41¼	44¼	36⅛	40¼	35½	41	30
8.94% Pfd.	1.11⅛	51½	47⅜	48⅜	41½	46½	41⅛	42⅜	37
8.00% Pfd.	1.00	47⅜	44⅜	47	39⅜	41½	37⅜	38⅜	33
11.66% Pfd. (4)	1.45⅜	54¼	52½	—	—	—	—	—	—
Adj. Rate Pfd. A	(2)	43	38⅜	41	37⅜	41⅛	38⅜	42	38¼
Adj. Rate Pfd. B	(3)	51¼	47	50⅜	46	51	49⅛	51	48
11.75% Pfd.	1.46⅞	62	56½	58¼	55	58⅜	54½	57½	55
8.52% Pfd.	1.065	54	54	53	50	—	—	50	47
8.00% Pfd.	2.00	—	—	102⅜	97⅞	99⅛	96¼	96⅜	96⅜

	1986 Stock Prices							
	1		2		3		4	
	High	Low	High	Low	High	Low	High	Low
Common	29	23⅛	29¾	23⅜	32	25½	31⅛	28½
4.08% Pfd.	23	18¼	23¾	20	23⅜	20⅛	25	22
4.26% Pfd.	24	18⅜	24⅜	20½	25	21½	26⅜	24
4.70% Pfd.	25	20¾	26⅜	22½	28⅜	23	28⅜	25⅜
4.42% Pfd.	24	19	25⅜	21	25¼	22½	27⅛	23⅜
4.20% Pfd.	23½	19	25	20⅜	25⅜	22	26½	23½
8.24% Pfd.	46½	38	47	41½	48½	41⅛	49¾	44⅜
7.56% Pfd.	42¼	33	43	37	44¼	37¾	45½	40½
8.94% Pfd.	49⅜	39	50	44⅜	50¼	44⅜	51½	47
8.00% Pfd.	44½	35½	46	39⅜	45⅜	39	48	44⅜
11.66% Pfd. (4)	56	52¾	57	52⅜	58½	55½	58¼	55
Adj. Rate Pfd. A	46⅜	37	45½	41	44⅜	40	44⅜	37
Adj. Rate Pfd. B	52	49½	52¼	49½	50¼	46	51⅜	47
11.75% Pfd.	58	52⅜	58	56⅜	58	55	59½	57
8.52% Pfd.	—	—	50¼	50	51⅜	50¼	52	52
8.00% Pfd.	—	—	—	—	—	—	—	—

(1) The amount declared in each quarter during 1987 and 1986.

(2) Dividend rate changes. Rates for dividends declared in 1987 were $0.75, $0.75, $0.75, and $0.8375 in the first, second, third, and fourth quarters, respectively. Rates for dividends declared in 1986 were $0.7875, $0.75, $0.75, and $0.75 in the first, second, third, and fourth quarters, respectively.

(3) Dividend rate changes quarterly. Rates for dividends declared in 1987 were $0.875, $0.875, $0.900, and $1.0688 in the first, second, third, and fourth quarters, respectively. Rates for dividends declared in 1986 were $1.0188, $0.875, $0.875, and $0.875, in the first, second, third, and fourth quarters, respectively.

(4) Shares were redeemed on February 1, 1987 at $52.50 per share.

There were 90,655 registered holders of common stock at January 11, 1988.

*Selected Financial Data**

	1987	1986	1985	1984	1983
Total operating revenues	**$1,219,523**	$1,183,865	$1,167,364	$1,280,537	$1,278,259
Net income	**$ 289,556**	$ [illegible]92,721	$ 239,999	$ 235,478	$ 207,736
Net income applicable to common stock	**$ 251,858**	$ 256,479	$ 207,240	$ 210,221	$ 184,096
Earnings per common share	**$ 3.75**	$ 3.98	$ 3.48	$ 4.02	$ 3.80
Cash dividends declared per common share	**$ 2.64**	$ 2.64	$ 2.64	$ 2.64	$ 2.52
Total assets**	**$5,922,734**	$5,62[illegible],042	$4,894,388	$4,083,670	$3,543,900
Long-term debt**	**$2,279,219**	$2,246,367	$2,012,6[illegible]2	$1,621,201	$1,398,518
Redeemable preferred stock	**$ 160,000**	$ 196,000	$ 86,000	$ 86,000	$ 36,000
Ratio of earnings to fixed charges***	**2.51**	2.57	2.66	3.15	3.56

**Thousands of dollars except earnings per common share, cash dividends declared per common share, and ratio of earnings to fixed charges.*

***Restated for the effect of capitalized nuclear fuel lease.*

****The ratio of earnings to fixed charges represents the number of times that earnings before income taxes and fixed charges cover the fixed charges. Earnings used in the calculation of the above ratios include allowance for funds used during construction and deferred Clinton financing costs and are before the deduction of income taxes and fixed charges that include interest on long-term debt, related amortization of debt discount, premium and expense, other interest, and that portion of rent expense that is estimated to be representative of the interest component.*

Electric Statistics

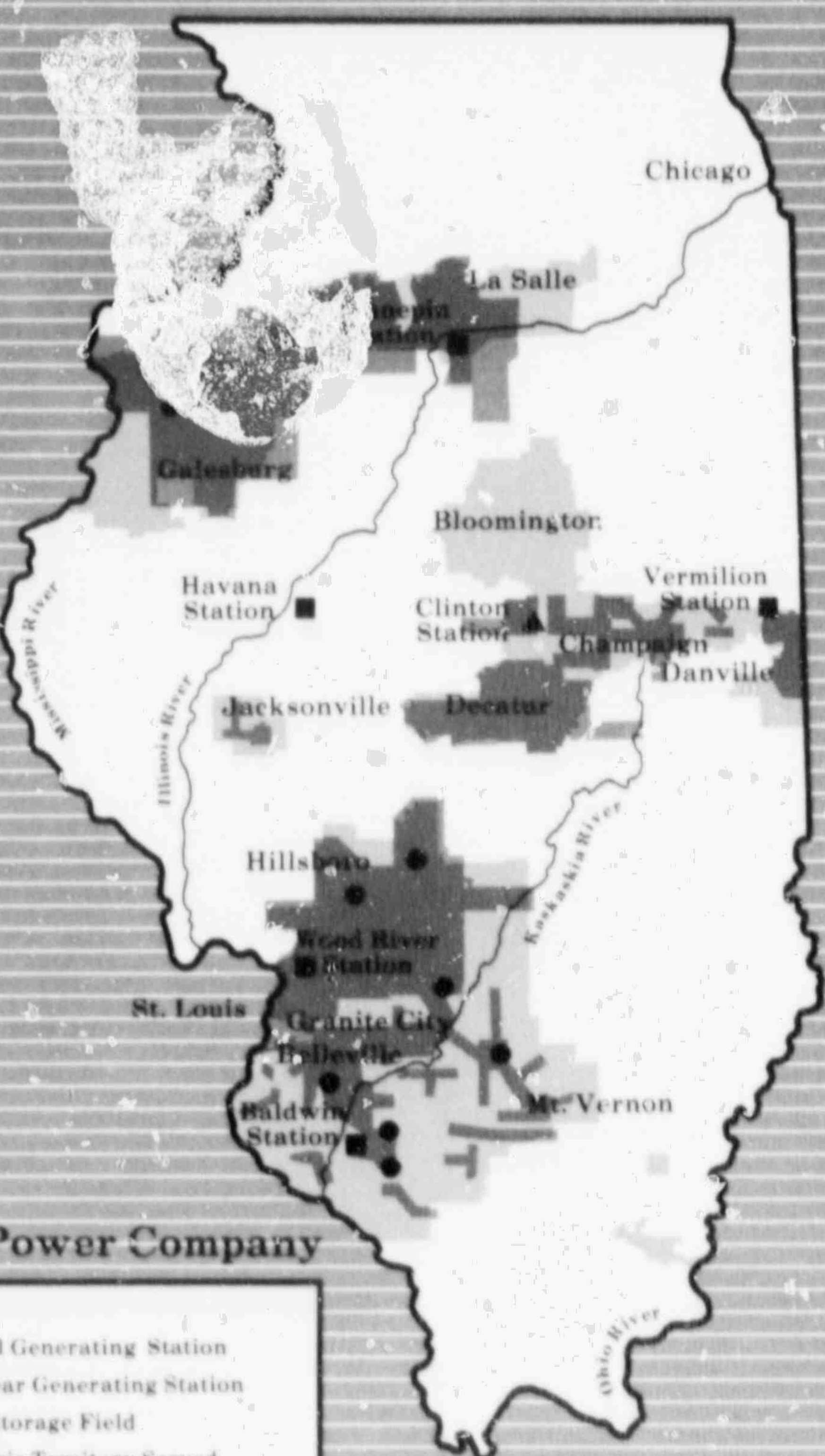
	1987	1986	1985
Revenues (Thousands of Dollars)			
Residential	$ 351,910	$ 253,041	$ 276,210
Commercial	208,527	187,592	179,665
Industrial	325,484	29[illegible],321	276,903
Other	19,895	16,601	16,057
Revenues—ultimate consumers	905,816	787,555	748,835
Rural cooperatives, municipal and other utilities	23,541	21,611	21,036
Miscellaneous	(18,513)	4,978	(3,404)
	$ 910,844	$ 814,144	$ 766,467
Customers at End of Year			
Residential	484,809	482,802	479,675
Commercial	56,958	56,734	56,315
Industrial	354	339	340
Other	715	720	717
	542,836	540,595	537,047
Sales in KWH (Thousands)			
Residential	4,240,938	4,197,687	3,926,997
Commercial	2,861,725	2,821,336	2,706,217
Industrial	7,323,167	7,341,567	6,932,903
Other	321,697	320,121	314,455
Sales—ultimate consumers	14,747,527	14,680,711	13,880,572
Rural cooperatives, municipal and other utilities	588,179	554,746	546,328
	15,335,706	15,235,457	14,426,900

Gas Statistics

	1987	1986	1985
Revenues (Thousands of Dollars)			
Residential	$ 191,555	$ 205,814	$ 228,299
Commercial	66,225	77,832	88,683
Industrial	34,506	73,163	68,100
Revenues—ultimate consumers	292,286	356,809	385,082
Interdepartmental revenues	1,272	355	316
Miscellaneous	15,121	12,557	15,499
	$ 308,679	$ 369,721	$ 400,897
Customers at End of Year			
Residential	350,334	349,691	348,994
Commercial	33,271	33,027	32,963
Industrial	486	483	485
	384,091	383,201	382,442
Sales in Therms (Thousands)			
Residential	331,640	356,965	365,082
Commercial	137,232	161,011	165,689
Industrial	95,690	197,815	136,392
Sales—ultimate consumers*	564,562	715,791	667,163
Interdepartmental sales	5,122	1,232	827
	569,684	717,023	667,990

**Excludes therms transported for others amounting to 326,801,000 in 1987, 253,280,000 in 1986, and 297,070,000 in 1985.*

Our Territory and Facilities



Illinois Power Company

Legend

- ■ Fossil Generating Station
- ▲ Nuclear Generating Station
- ● Gas Storage Field
- Electric Territory Served
- Gas Territory Served
- Gas & Electric Territory

Illinois Power Company
500 South 27th Street
Decatur, Illinois 62525

Exhibit 24

Consent of Independent Accountants

We hereby consent to the incorporation by reference in each of the Prospectuses constituting part of the Registration Statement on Form S-3 (No. 33-13149), the Registration Statement on Form S-3 (No. 33-14947), the Registration Statement on Form S-8 (No. 33-14948) and the Registration Statement on Form S-3 (No. 33-7743) of Illinois Power Company of our report dated February 11, 1988 appearing on page 20 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears on page F-1 of this Form 10-K.

Price Waterhouse
March 25, 1988

19[illegible] ANNUAL REPORT

Dairyland Power Cooperative, Inc.

Slowly, but steadily . . . rural Illinois is coming out of the economic slump of recent years. There are all kinds of hopeful signs.

Farm commodity prices are still painfully low, yet the grain and livestock prices are increasing. We've seen a growth in rural business . . . and rural home sales and construction is on the upswing. Rural electric rates have stabilized for thousands of families served by electric cooperatives.

Soyland Power Cooperative is working for its 14 member systems and the 105,000 consumers they serve to ensure that rural Illinois continues to grow. Soyland is working hard to develop new electric loads — commercial, residential and industrial — for its member cooperatives. We're also working to bring economic development to the rural areas we serve . . . adding new jobs for hard-working people, while bringing new revenue to rural communities.

Soyland is Pursuing Opportunity for the more than 105,000 consumer-members of its 14 member-systems. We intend to make certain that rural Illinois gets its share of the economic recovery, new jobs and increased tax revenues through our economic development efforts.

Through the newly-formed subsidiary Applied Energy Systems of Illinois Inc., we will pursue new technology that will promote the use of electric energy in the rural areas. Through the subsidiary, Soyland will help provide efficient and economical systems for heating and cooling the homes and businesses of consumer-members.

We will continue to work with our elected representatives in Springfield and Washington, D.C. to be certain that electric cooperative members get a fair shake.

And we'll strive to add to the spirit and tradition of cooperation that has been the trademark of the rural electric program in Illinois for more than 50 years.

Member-Cooperatives

Clay Electric Co-operative, Inc.
Flora, Illinois • **James E. Campbell,** *Manager*

Clinton County Electric Cooperative, Inc.
Breese, Illinois • **Robert W. Vander Pluym,** *Manager*

Coles-Moultrie Electric Cooperative
Mattoon, Illinois • **C. E. Ferguson,** *Manager*

Corn Belt Electric Cooperative Inc.
Bloomington, Illinois • **Jeffrey D. Reeves,** *Manager*

Eastern Illini Electric Cooperative
Paxton, Illinois • **Wm. David Champion, Jr.,** *Manager*

Edgar Electric Co-operative Association
Paris, Illinois • **Thomas J. Hentz,** *Manager*

Farmers Mutual Electric Company
Geneseo, Illinois • **Robert L. Delp,** *Manager*

Illinois Valley Electric Cooperative, Inc.
Princeton, Illinois • **Timothy L. Christensen,** *Manager*

McDonough Power Cooperative
Macomb, Illinois • **William C. Lemons,** *Manager*

Monroe County Electric Co-Operative, Inc.
Waterloo, Illinois • **Joseph J. Fellin,** *Manager*

Shelby Electric Cooperative
Shelbyville, Illinois • **William E. LeCrone,** *Manager*

Southwestern Electric Cooperative, Inc.
Greenville, Illinois • **Robert H. Neece,** *Manager*

Tri-County Electric Cooperative, Inc.
Mt. Vernon, Illinois • **James E. Hinman,** *Manager*

Wayne-White Counties Electric Cooperative
Fairfield, Illinois • **Bill Endicott,** *Manager*

Pursuing Opportunity

Soyland Power Cooperative is a member-owned, not-for-profit electric generation and transmission cooperative which supplies wholesale electricity to 14 member distribution cooperatives. These distribution cooperatives distribute and sell the electricity to over 100,000 farms, homes, businesses, and industries within their local service areas. Soyland is one of more than 60 generation and transmission (G&T) cooperatives that supply wholesale electric power to rural utilities in the United States.

Soyland was organized in September 1963, under the General Not-For-Profit Corporation Act of the State of Illinois by six distribution cooperatives. Leaders of those cooperatives saw Soyland as a way to gain energy independence and control over electric power costs. In 1975, nine additional cooperatives joined the original six, and plans were launched to develop a reliable and economical power supply system.

During the past year, two of Soyland's member cooperatives, Eastern Illinois Power Cooperative headquartered in Paxton and Illini Electric Cooperative headquartered in Champaign consolidated their two systems.

The combined cooperative, Eastern Illini Electric Cooperative serves more than 12,000 members and is headquartered in Paxton.

Soyland and Western Illinois Power Cooperative, a seven-member G&T, continue to efficiently operate under a joint power pooling agreement which went into effect on Jan. 1, 1985. The power pool consists of:

- 56 megawatts of cooperative-owned fossil generation;
- 130 megawatts of nuclear generation;
- 400 megawatts of fossil-fueled generation from 10.7% of each of Illinois Power Company's fossil generation plants, and;
- 145.8 megawatts of fossil-fueled generation from 5.2% of each of Central Illinois Public Service Company's generating plants.

Together, Soyland and WIPCO provide electric power to member cooperatives which have service areas spread across nearly two-thirds of the land mass of the State of Illinois.

Soyland and its 14 member distribution cooperatives will continue to pursue opportunities to make rural Illinois a better place to live. We remain committed to enhancing economic development opportunities to attract businesses to rural service areas to, in turn, provide jobs for rural consumers.

Since its inception in 1963, Soyland's goal has been to provide a dependable source of wholesale electric power to its members at the lowest possible cost. Today, through its unique blend of fuels and generating plants, Soyland has built a stable base looking toward the future.

Board of Directors

Officers of the board of directors: Seated from left, Kenneth Heinzmann, vice president, Clinton; Joseph J. Fellin, president, Monroe. Standing from left, Lyndall Pigg, assistant secretary, McDonough, Jeffrey D. Reeves, secretary-treasurer, Corn Belt.

E. H. Williams
Executive Vice President and General Manager

French L. Fraker
Attorney

L. Eugene Boldt
Shelby

H. Clifford Cammon
Clay

James E. Campbell
Clay

Wm. David Champion, Jr.
Eastern Illini

Timothy L. Christensen
Illinois Valley

Joe Danielson
Illinois Valley

Robert L. Delp
Farmers Mutual

Bill Endicott
Wayne-White

C.E. Ferguson
Coles-Moultrie

Tom J. Hentz
Edgar

Jim E. Hinman
Tri-County

Larry L. Hosselton
Wayne-White

William E. LeCrone
Shelby

William C. Lemons
McDonough

Alan G. Libbra
Southwestern

Darwin J. Mann
Farmers Mutual

Robert H. Neece
Southwestern

Thomas W. Rosenberg
Monroe

Irvin Stanford
Tri-County

John W. H. Tompkins
Corn Belt

Robert W. Vander Pluym
Clinton

Gene P. Warmbir
Eastern Illini

Joe Welsh
Edgar

Randall L. White
Coles-Moultrie

President's Report

Joseph J. Fellin
President

Achieving rate stability now and well into the future has been a significant accomplishment this past year. I am also very pleased to report that the Clinton Power Station is operating efficiently, providing a reliable source of base load capacity to our system. After the lengthy construction schedule at Clinton, we look forward to many years of successful operation.

Soyland's ability to stabilize electric rates during the past year was enhanced through efforts made in Washington, D.C. The Illinois Congressional delegation representing our electric cooperatives was instrumental in helping to pass legislation which allowed Soyland to refinance high interest rate debt, without paying prohibitively high prepayment penalties.

Soyland Power Cooperative was the first generation and transmission cooperative in the country to utilize this legislation. As a result of refinancing $282 million, Soyland saved its members over $4 million per year over the life of our loans.

This was made possible because of the support we received from Congressmen Bob Michel, Ed Madigan and Dick Durbin, and others who agreed that it was only fair that rural people be allowed to share in the savings brought about by today's lower interest rates.

During 1987, extremely hot weather drove the demand for electricity up to a record high for the Soyland/WIPCO power pool. Our system is historically a winter peaking system, but on August 2, 1987, at 6 p.m. a new peak demand of 506 megawatts occurred.

Although the extremely hot and dry summer did nothing to help crop production, the rural economy does seem to be gradually improving. Our rural members can be assured that we are doing everything within our power to keep electric power rates as low as possible. The member cooperatives and Soyland remain dedicated to improving economic conditions in rural Illinois.

One major step we took last year was the creation of a new wholly-owned marketing subsidiary, Applied Energy Systems of Illinois, Inc., (AESI). AESI, doing business as WaterFurnace of Illinois, has far surpassed initial sales projections, selling 320 ground-source heat pumps to dealers throughout our service area in the first 12 months of operation. Selling the heat pump is yet another way to assist member-consumers in making wise decisions regarding their heating and cooling needs.

During the past year Soyland has been involved in two major lawsuits.

Soyland was sued by one of its member distribution cooperatives, Southwestern Electric Cooperative, in an attempt to break the all-requirements wholesale power contract with Soyland. The United States District Court, located in East St. Louis, rendered a decision on Dec. 28, 1987, upholding the validity of the contract. Southwestern has appealed the district court decision to the Seventh Circuit Court of Appeals in Chicago.

A lawsuit was filed in Sangamon County Circuit Court in Springfield by Lewis Powell, et. al., representing 22 consumer-members of the 22 member distribution cooperatives. The lawsuit was originally filed against Illinois Power Company and each of the Soyland and Western Illinois Power Cooperative members. The suit alleged mismanagement in the construction of the Clinton Power Station. Soyland and WIPCO intervened to gain control of the lawsuit to pursue litigation against Illinois Power Company directly. In January, the Court ruled in favor of Soyland and WIPCO proceeding with litigation against Illinois Power. We expect this litigation against Illinois Power to continue during the next year or more.

During the past year, two of Soyland's member cooperatives, Eastern Illinois Power Cooperative headquartered in Paxton and Illini Electric Cooperative headquartered in Champaign consolidated. The combined cooperative, Eastern Illini Electric Cooperative, serves more than 12,000 members and is headquartered in Paxton. The management and board of directors of these two cooperatives should be commended for their determination and foresight in achieving economies of scale which will result in savings to their members for many years to come.

Soyland and Western Illinois Power Cooperative have continued to successfully work together over the past year to provide reliable power at the lowest possible cost to the 21 member distribution cooperatives. This year we began to see the fruits of our labor over the past three years pay off. Working together on refinancing and debt restructuring, combined with other cost saving measures which have been implemented, have stabilized electric power rates. This is a significant accomplishment.

Through comprehensive planning over the past four years, we were able to avoid the rate shock that many utilities experience with new plants going into commercial operation. The Clinton Power Station performance has been exceptional during its first three months of operation, with no plant shutdowns and an availability factor of 100%.

Soyland is our power supply organization. We organized Soyland nearly 25 years ago to do for us what each of us could not do individually. Together, we are a powerful force.

In looking toward the future let us always keep the spirit of cooperation foremost in our minds. During the next few months we will be considering the merger between Soyland and WIPCO. As we approach the time for that decision it is important to remember that for the past three years Soyland and WIPCO have operated as one. According to the Webster's dictionary definition, cooperation is an association of persons for a common benefit. As all of you know, Soyland and WIPCO are committed to achieving a common goal . . . providing a reliable source of electric power at the lowest possible cost. That is our mission.

The board of directors, management and staff will continue to pursue opportunities, driven by a commitment to deliver quality service at the lowest possible price.

Joseph J. Fellin

Joseph J. Fellin
President

Members of the Illinois Congressional delegation played key roles in helping Soyland Power Cooperative to refinance its' Clinton-related debt. Congressmen Dick Durbin, Ed Madigan and Bob Michel received resolutions of appreciation from the Soyland board during the annual legislation conference in Washington, D.C. last spring. Left: David Fricke, assistant manager of Eastern Illini Electric Cooperative, presents Congressman Madigan with a framed certificate. Top: Joseph Fellin, manager of Monroe County Electric Co-Operative and president of the Soyland board, presents Congressman Durbin with his certificate during a luncheon. With Fellin and Durbin is Roger Mohrman, Adams Electrical Co-Operative manager. Above: Congressman Michel played an integral role in the refinancing project. With Michel (speaking at the podium) are, from left: Richard Lyng, Agriculture Secretary; Congressman Madigan, Fellin, and Ed Williams, Soyland general manager.

Manager's Report

E.H. Williams
Manager

A very major event occurred this past year at the Clinton Power Station. After a lengthy construction schedule, the plant reached 100% full power commercial operation in November 1987. Nuclear energy from the Clinton Power Station will now supply just over 25% of our total energy needs.

Careful planning over the past four years has paid off. I am very proud to say that even with Clinton fully operational, our electric power rates will remain stable through the remainder of this decade and beyond.

Over four years ago we recognized that rate shock associated with a new plant like Clinton going commercial would occur if careful planning was not implemented. Since then, the Soyland leadership has taken many steps to minimize the affect of Clinton on our rates.

The first major step we took was implementing a plan we refer to "Equity Funding." Over a three year period Soyland collected \$42,000,000 from the members to be used for Clinton related costs. We realized then, as we do now, that increasing electric rates is never easy. The Equity Funding Plan was the cornerstone of our entire rate phase-in plan.

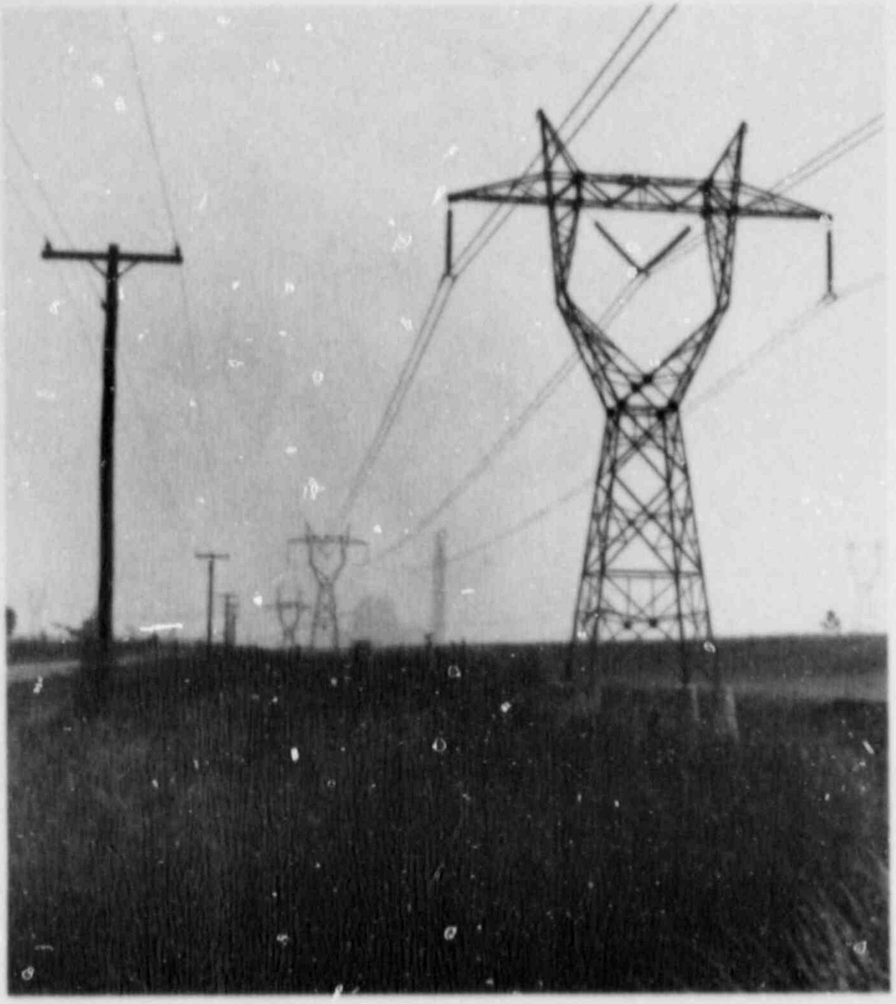
Another major step saw Soyland, together with Western Illinois Power Cooperative, successfully negotiate a \$450 million cap on the cooperative's direct cost of placing Clinton into commercial operation. Soyland and WIPCO have paid their portion of direct construction costs. This has resulted in an ownership in Clinton of 7.02% for Soyland and 6.36% for WIPCO. Illinois Power Company owns the remaining 86.62% of the plant and is responsible for plant operation.

The cap was a critical component of Soyland and WIPCO's plan to stabilize rates. Without the cap, Soyland/WIPCO would have incurred an estimated additional \$225 million in direct construction costs and \$27 million in additional interest costs during construction. This additional investment in Clinton would have cost us approximately \$25 million more per year over the life of the Clinton loans. As a result of the decreased ownership share, we are also able to reduce our share of operations and maintenance costs and future capital expenditures over the life of the plant. However, through joint economic dispatch with Illinois Power Company, we are able to retain the benefit of the low cost energy from Clinton.

Equally important to the cap was our success in blending lower cost fossil fueled generating capacity with the high cost nuclear capacity. In October 1984, Soyland/WIPCO signed an ownership participation agreement with Illinois Power Company to purchase 400 megawatts of fossil fueled generating capacity. A similar agreement was signed with Central Illinois Public Service Company in November 1985, for approximately 145 megawatts of fossil fueled capacity. In both agreements, we are billed as if we owned the facilities. Like the owner, Soyland/WIPCO pay a fixed percentage of the actual costs rather than a fixed rate for the purchase of power.

An agreement was reached with Central Illinois Light Company (CILCO) in November 1987, which provides wheeling services to transfer energy from the cooperative system to Soyland's load in the CILCO control area. Soyland had previously purchased wholesale power from CILCO to serve that load. The agreement with CILCO will save Soyland/WIPCO over one-half million dollars per year.

These contracts for fossil capacity, combined with our share of nuclear capacity, have provided Soyland/WIPCO with a broad mix of generating capacity. Rather than owning just one large coal-fired power plant, we have access to 10.7% of each of Illinois Power Companies 23 fossil units through 1992, 8% in 1993 and 1994, and 4% in 1995 through 2004. In addition, the contract with CIPS provides Soyland/WIPCO with 5.2% of each of CIPS 13 fossil fueled units through 1988, 5.6% in 1989, 7.6% from 1990 through 1994, and 3.6% from 1995



Soyland/WIPCO utilize the CIPS and Illinois Power Company high voltage transmission systems to serve native load and to interconnect with neighboring utility companies.

through 1999. We have 56 megawatts of cooperative-owned fossil generation and 130 megawatts of cooperative-owned nuclear generation. We have generating capacity to meet our projected energy requirements until the mid 1990s. Soyland/WIPCO also transmit energy through the IP and CIPS transmission and subtransmission systems.

In addition to these agreements, Soyland has been able to further reduce costs by refinancing high interest rate debt. In March 1987, Soyland successfully refinanced approximately $282 million of Federal Financing Bank debt utilizing private, non-government banking sources. Soyland was the first G&T in the country to utilize legislation passed by Congress in the Omnibus Budget Reconciliation Act of 1986 which allowed G&T cooperatives to refinance debt without paying prohibitively high prepayment penalties. This, too, has been an important step in our plan to stabilize electric power rates to our members.

Soyland/WIPCO Power Pool

1987 marked the completion of three years of successful operation under the power pooling contract between Soyland and WIPCO. Since 1985, we have successfully operated as one entity, having combined personnel, electric power loads and power supplies. During these three years we have continued to work toward rate stability for members of both G&T cooperatives.

During these past few years Soyland has actively worked with

Manager's Report

WIPCO to restructure WIPCO's Clinton Power Station debt. Negotiations have been ongoing with the Rural Electrification Administration and we hope to soon reach a restructuring agreement for the benefit of all cooperative members.

As a result of provisions contained in the Omnibus Budget Reconciliation Act of 1987, WIPCO successfully refinanced $282 million of high interest Federal Financing Bank debt on February 22, 1988. WIPCO, utilizing the National Rural Utilities Cooperative Financing Corporation as its banker, reduced interest costs from approximately 11% to a current level of 7.5%. The savings from refinancing will be utilized by Soyland and WIPCO to maintain the lowest possible electric power costs.

Clinton Power Station

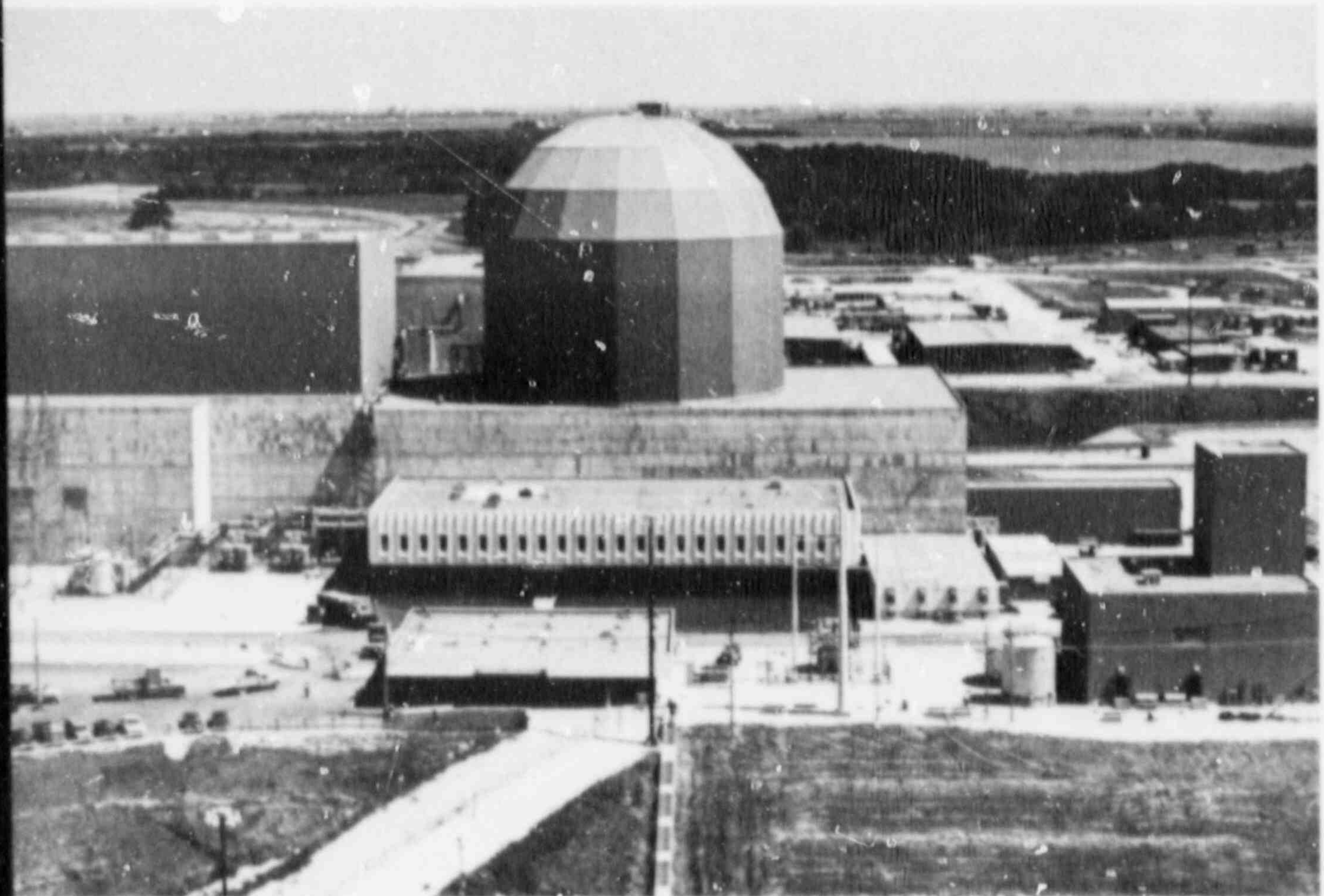
The Clinton Power Station became an operating nuclear power plant in 1987. The Clinton station was synchronized to the electric power grid and began 100% full power operation on Nov. 24, 1987.

Full power operation occurred after the 100-hour warranty run was successfully completed and a scheduled 35-day surveillance testing and maintenance outage was concluded. The warranty run was the final test event of the power ascension program. The Clinton Power Station successfully reached the 950 megawatt net production level that it was designed for.

The Clinton Power Station has run continuously since it began operation in November. The plant has had a very high capacity factor, operating in excess of 87% from Nov. 24, 1987, through March 19, 1988. Over the next several years, we expect Clinton to provide just over 25% of our total energy requirements.

In the Nuclear Regulatory Commission's annual review of Clinton's performance, called the Systematic Appraisal of License Performance (SALP) report, the Clinton Power Station received the highest achievable

The 298-megawatt Hennepin power plant (top) provides base load power to the Soyland/WIPCO/Illinois Power Company Power Pool. Soyland/WIPCO have a broad mix of power plants, including 5.2% of Central Illinois Public Service Company's Hutsonville station (bottom).



grade in licensing activities and in preoperational and startup testing. Clinton also received acceptable ratings in nine other areas and had no unacceptable ratings. The NRC indicated that the plant had improved in three areas since the last annual review.

In addition to the NRC, the Institute of Nuclear Power Operations (INPO), completed a comprehensive review of the plant. INPO was organized by the nuclear power industry shortly after the Three Mile Island incident occurred. The goal of INPO is to impose standards of excellence and self-regulation on its member utilities.

INPO's review of the plant was completed in February 1988. INPO selected seven "good practices" which were in use at the plant to share with other nuclear utilities across the country.

The first refueling outage for the Clinton Power Station is scheduled for early 1989.

Operations and Engineering

The engineering and operations department provided engineering and technical support to the member distribution cooperatives for the construction and maintenance of transmission facilities.

We also assisted the distribution cooperatives, in the development of work plans for distribution and transmission facilities. We completed ongoing technical studies for our member systems throughout the year.

Soyland entered into an interconnection agreement with another Illinois generation and transmission cooperative, Southern Illinois Power

The 950-megawatt Clinton Power Station began full power operation in November 1987. The base-load unit provides approximately 25% of Soyland/WIPCO energy requirements.

Manager's Report

Cooperative in Marion. This agreement provides for the interchange of emergency, short-term and maintenance power and economy energy between the two interconnected G&T's.

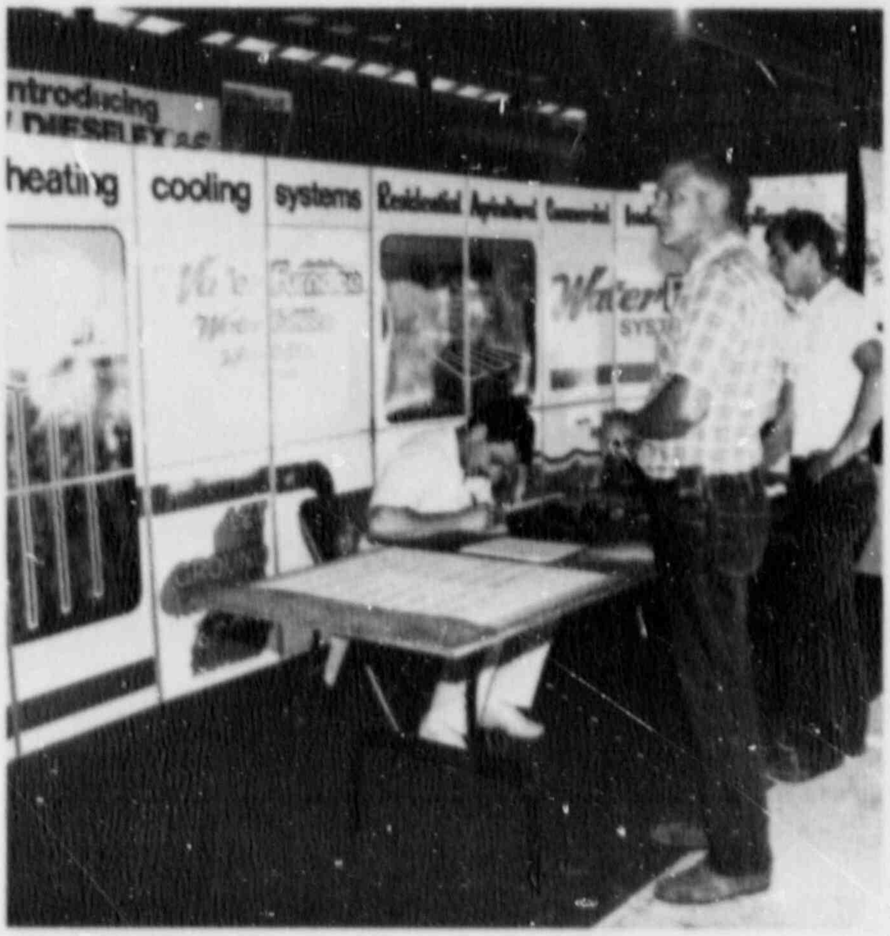
Communications and Government Relations

Communication with our member systems continues to be a priority at Soyland. We have held regional meetings to discuss issues regarding power supply with the directors and employees of our member distribution cooperatives. Staff members remain available to make presentations about power supply and economic development issues to both civic and educational groups and cooperative member advisory committees.

We continue to make our views on legislative issues known in Washington, both to members of Congress and their staffs, and to our own national lobbying organization, the National Rural Electric Cooperative Association (NRECA). G&T refinancing has once again been of primary concern to Soyland. As we have in the past, we will continue to work with NRECA to achieve legislative victories for the cooperatives.

Acid rain legislation will once again be discussed by Congress this year. Since Soyland/WIPCO have an interest in over 600 megawatts of fossil fueled generating capacity, this issue will continue to be very important to us. We will make our position known regarding any potential legislation that would affect the cooperatives in Illinois.

We continue to believe that one-on-one communication is the best kind. As the power supply industry continues to change, it is paramount that we continue to effectively communicate.



WaterFurnace of Illinois attracts increasing interest in ground-source heat pump technology. Manager Steve Smith, seated, discusses energy savings with members of Edgar Electric Co-operative at their annual membership meeting.

Subsidiary Operations

During the past year Soyland took the initiative to help bring to the marketplace the ground-source heat pump, a product unmatched in energy efficiency for central heating and cooling and water heating. When Soyland's Marketing Committee examined the state of the ground-source heat pump industry, it found a technically advanced and proven energy system with little market penetration or consumer acceptance. Much of this was directly attributed to the lack of distributors for the product.

On March 7, 1987, Soyland seized the opportunity to fill this distributor void and became an active participant in the ground-source heat pump industry by forming Applied Energy Systems of Illinois, Inc. (AESI). AESI, doing business as WaterFurnace of Illinois, is now a successful statewide stocking distributor of ground-source heat pumps manufactured by WaterFurnace International of Fort Wayne, Indiana. In just one year of operation WaterFurnace of Illinois has developed a broad network of trained and certified dealers, improved installation techniques, lowered overall system costs and dramatically increased sales. To our end consumers this initiative has made available a state of the art heating and cooling system at a competitive cost. To Soyland and its member distribution cooperatives it has meant increased sales of energy and the ability to once again market an all-electric energy system which is affordable and efficient.

First-year sales for WaterFurnace of Illinois tripled initial projections with the subsidiary's dealer network increasing from an original number of 19 to more than 40. Volume dictated the employment of two additional full-time employees for the subsidiary in early 1988 to assist with dealer technical support and sales promotion. At the recent annual distributor's meeting of WaterFurnace International in Fort Wayne, Indiana, WaterFurnace of Illinois was twice honored: once for the third

Pictured above is the installation of a horizontal loop for a ground-source heat pump. Piping is installed in trenches at depths of three and five feet.

Manager's Report

highest sales volume among all distributors in one year and again for setting the WaterFurnace record in first-year sales for a new distributor. All expectations are for even greater sales in the coming year.

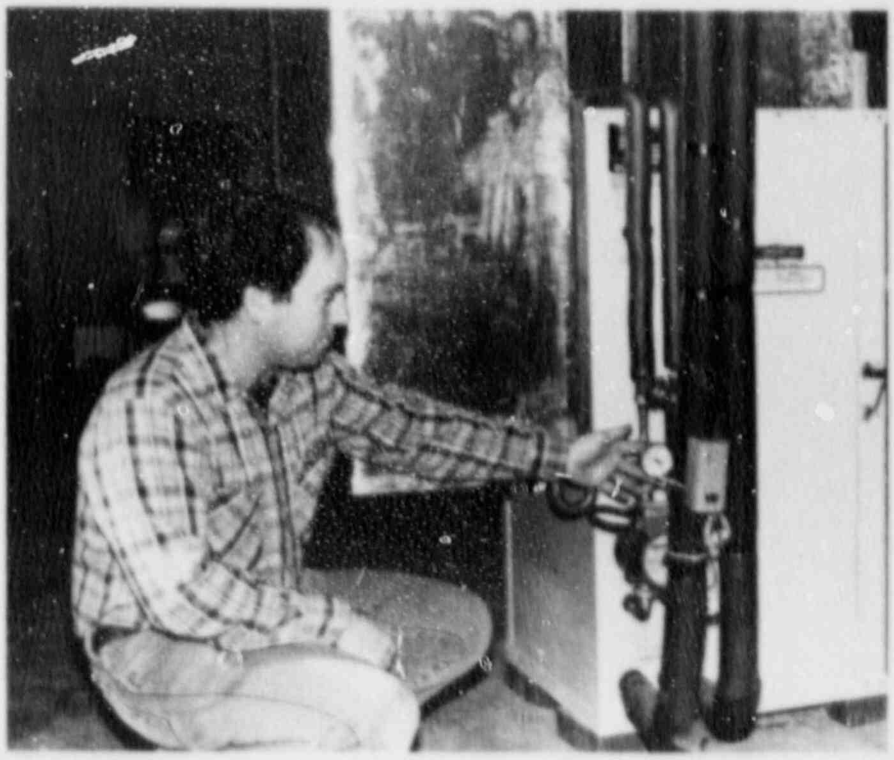
With its first subsidiary venture solidly under way, Soyland's board and management are continuing to study other opportunities that may yield similar benefits to Soyland's members and their consumers. Technological advancements in the energy and telecommunications fields are showing increasing promise as business endeavors. Whatever the options, we are confident that thorough cost/benefit analyses and sound judgment will allow us to pursue opportunities which will benefit all of our members.

Economic Development

Soyland's subsidiary operation came about as an outgrowth of our commitment to marketing and economic development. Likewise, this commitment has led us into aggressive participation in the movement to revitalize the rural Illinois economy. The economic profile of rural America is changing dramatically, and the cooperatives in Illinois are dedicated to improving the economic condition of their rural service areas.

New emphasis is being placed on the promotion of Soyland as a qualified source of affordable energy for commercial and industrial consumers. "Discover the Power of Central Illinois" is the theme of Soyland's newest promotional publication. It will carry Soyland's message to business leaders and developers throughout the country who are seeking information on potential business locations. Further exposure has been gained through the publication of site brochures and mailers aimed at enticing businesses into cooperative areas, and through personal contact by Soyland's economic development staff with state and private organizations working to improve the downstate economy.

Continued involvement in the State of Illinois' regional development efforts has been a mainstay of Soyland's economic development



A member-homeowner from Southwestern Electric Cooperative inspects his new heating and cooling system. Ground-source heat pump owners can save up to 60% on heating, 30% on cooling, and 50% on water heating costs.

Advancements in ground-source heat pump technology have made this product an affordable and efficient energy alternative for consumers.

program. Through these state-assisted regional development groups, Soyland has contributed financially and with staff support to advertising campaigns, industrial prospect trips, trade shows, target industry studies and economic assessments and audio-visual promotions. For much of this support we work closely with our statewide Association of Illinois Electric Cooperatives, and their information, printing, graphics and audio-visual staffs.

We are proud that two new businesses have become cooperative consumers under Soyland's economic development rate in the past several months, and prospects for additional commercial/industrial consumers in the near future are bright. Through Applied Energy Systems of Illinois, the potential exists for participation in the develop-

Manager's Report

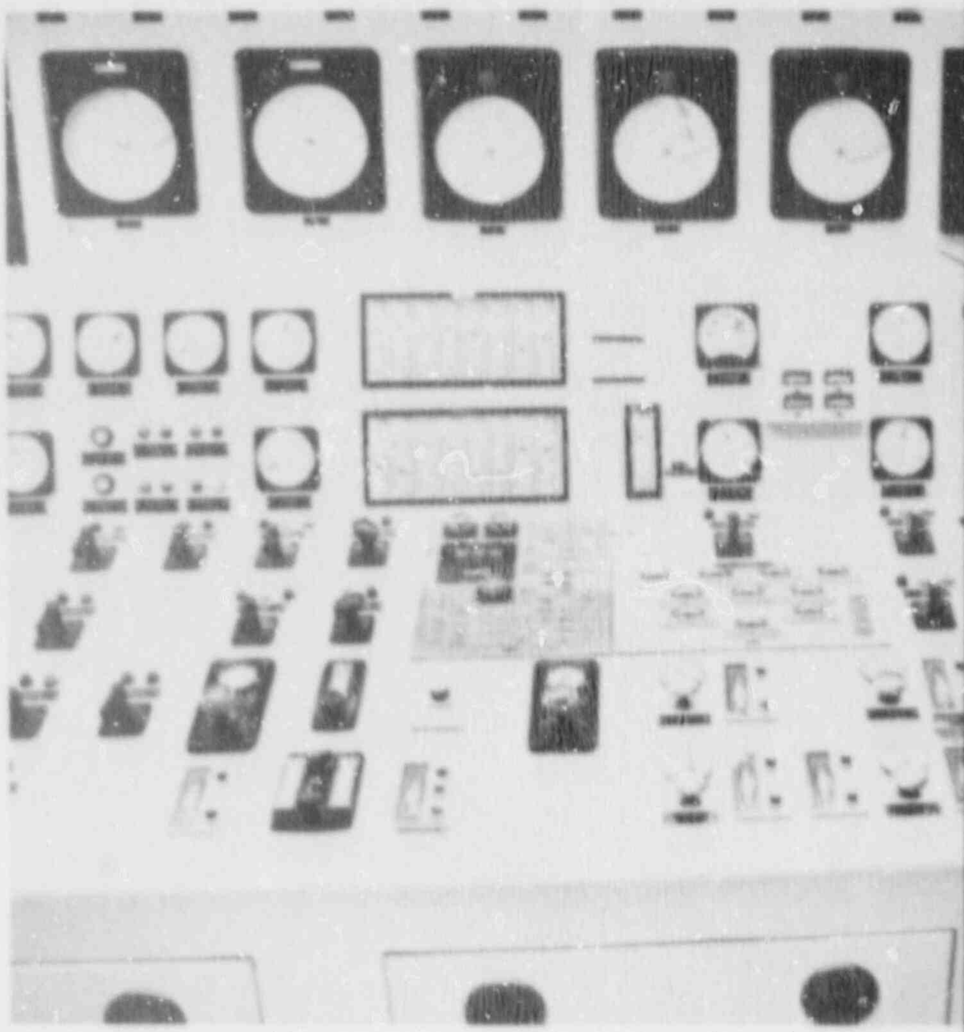
ment of industrial parks and/or construction of speculative commercial and industrial buildings within our service area, as a further incentive to attract new business.

For electric cooperatives, the future is full of exciting opportunities to serve their members better — better than yesterday, better than today. By increasing sales, broadening the member base and working to improve the economic vitality of our service areas, Soyland is seizing the opportunity to better serve its members in rural Illinois.

The Future: Pursuing Opportunity

As we look back upon 1987, we see the results of past efforts. We see the nuclear Clinton Power Station operating in excellent fashion, power costs stabilizing, and increasing economic stability in the rural areas, all of which are welcome signs. But, yesterday is past and tomorrow is yet to come. In looking towards tomorrow, we must have a course of action that provides for change. There are many unknowns ahead — the economy, energy requirements, sources of energy generation, ownership of generating plants, etc. There are many questions to be addressed in planning for the future.

However, there are some things we do know. We must not put all of our financial resources into one basket. We must spread our risks. Utilities must utilize available capacity that exists today before proceeding with plans to build new power plants. We must reconsider "plant ownership." Should plants continue to be owned by utility companies or



The Pearl Station control room operator stays in contact with the Soyland/WIPCO/Illinois Power pool dispatch center to ensure the most economical utilization of available generation.

should they be owned by other organizations that sell their energy to existing utilities? History tells us that Illinois utilities, regardless of their size, cannot stand the financial risk associated with individual plant ownership.

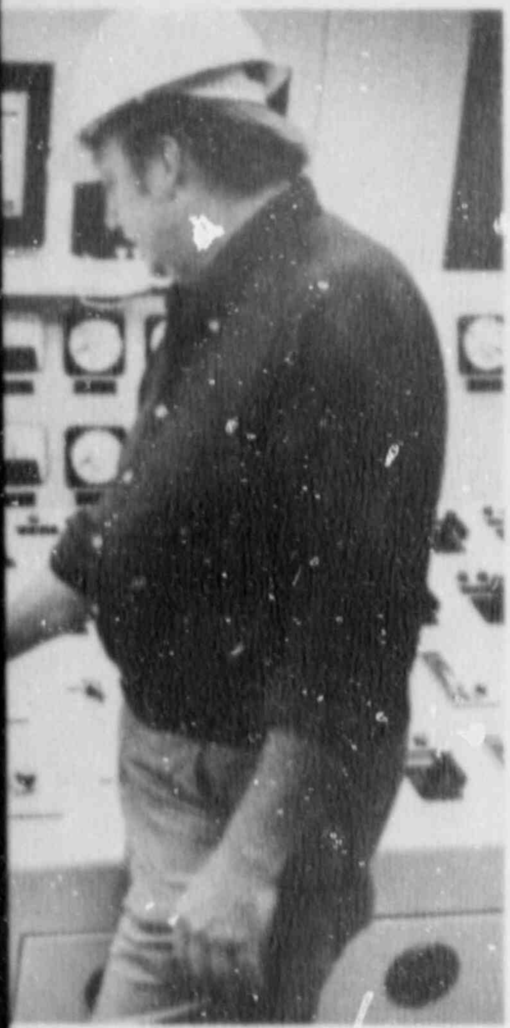
We must continue to utilize natural resources within our state boundaries and reduce our dependence on imported resources from other states and nations. This will require continued development in the utilization of higher sulfur coals. In Illinois, we have vast resources of coal, much of which is high in sulphur. We must continue to work on developing technology for the utilization of this coal.

We must work with both existing and new industry, so that we continue to make Illinois a profitable place to be. We cannot afford to overlook the value of industry with regard to cogeneration and its application to our utility operations.

There are many things to be considered when planning for the future. While an investor-owned utility has a responsibility to its stockholders, our stockholders are the members served by each of our cooperatives. We are not in the business to make a profit. We are in business to provide reliable electric power at the lowest possible cost. The future is bright and we at Soyland look forward to the challenges ahead.

E.H. Williams

E.H. Williams
Manager



KPMG Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
1000 Davenport Bank Building
220 Main Street
Davenport, IA 52801

The Board of Directors
Soyland Power Cooperative, Inc.
and Subsidiary:

We have examined the consolidated balance sheets of Soyland Power Cooperative, Inc. and subsidiary as of December 31, 1987 and 1986 and the related consolidated statements of revenues and expenses and deficit, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Soyland Power Cooperative, Inc. and subsidiary at December 31, 1987 and 1986 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat Marwick Main & Co.

February 5, 1988

Consolidated Balance Sheets

December 31, 1987 and 1986

ASSETS (note 3)	**1987**	**1986**
Electric utility plant, at cost (note 2):		
In service	$490,067,612	$ 9,514,709
Less accumulated depreciation	1,857,345	1,115,270
	488,210,267	8,399,439
Construction work in progress	5,522	488,713,236
Nuclear fuel, at cost less accumulated amortization of $956,735	11,807,726	—
Plant site held for future use	7,260,346	7,260,346
Net electric utility plant	507,283,861	504,373,021
Investments:		
Investment in associated organization, at cost	6,404,520	5,503,780
Notes receivable (note 2)	12,986,078	8,995,058
Other investments	24,205	27,701
Total investments	19,414,803	14,526,539
Current assets:		
Cash and invested cash	4,883,906	5,123,429
Temporary investments, at cost, which approximates market	3,500,000	16,186,990
Accounts receivable, members	10,617,561	10,611,617
Other receivables, primarily from related cooperative	7,678,967	1,490,066
Inventories	2,614,625	—
Prepayments and other	982	30,637
Deferred charges	165,478	214,550
Total current assets	29,461,519	33,659,289
Deferred charges	409,528	430,724
	$556,569,711	$552,989,573

CAPITALIZATION AND LIABILITIES

Capitalization:		
Members' deficit:		
Membership fees	1,500	1,500
Deficit	(48,076,215)	(49,855,209)
Total members' deficit	(48,074,715)	(49,853,709)
Long-term debt, excluding current installments (note 3)	512,840,786	536,319,697
Total capitalization	464,766,071	486,465,988
Current liabilities:		
Current installments of long-term debt (note 3)	4,169,000	1,114,111
Accounts payable	11,481,617	14,645,502
Advances from members	8,164,165	7,401,855
Accrued interest	7,813,187	1,225,894
Accrued expenses	343,651	136,223
Total current liabilities	31,971,640	24,523,585
Deferred credits (notes 1 and 2):		
Equity funding payments	42,000,000	42,000,000
Deferred revenue	17,832,000	—
Total deferred credits	59,832,000	42,000,000
Commitments and contingencies (notes 2, 6 and 7)		
	$556,569,711	$552,989,573

See accompanying notes to consolidated financial statements.

Consolidated Statements of Revenues and Expenses and Deficit

Years ended December 31, 1987 and 1986

	1987	1986
Operating revenues:		
Electric energy sales	$95,891,781	$91,337,001
Sales of ground source heat pumps, net	723,767	—
Distribution revenue	101,415	281,843
Rent of electric property	24,881	17,115
Other	8,657	13,065
Total operating revenues	96,750,501	91,649,024
Operating expenses:		
Operation:		
Purchased capacity (note 6)	30,298,815	47,445,967
Energy costs (note 6)	30,934,946	32,361,713
Transmission	1,306,377	1,199,955
Distribution	10,919	66,250
Cost of ground source heat pumps sold	562,658	—
Maintenance	336,004	20,752
Administrative and general	2,448,160	2,560,900
Depreciation	1,264,968	291,787
Refinancing expense (note 3)	3,015,484	—
Property and other taxes	146,000	94,777
Other operating expenses	24,280	141,572
Total operating expenses	70,348,611	84,183,673
Net operating margin	26,401,890	7,465,351
Other revenue, principally interest income	498,727	178,837
Net margin before interest charges	26,900,617	7,644,188
Interest charges:		
Interest on long-term debt	44,424,368	51,320,550
Other	594,192	656,121
Allowance for borrowed funds used during construction	(19,896,937)	(45,954,336)
Net interest charges	25,121,623	6,022,335
Net margin	1,778,994	1,621,853
Deficit at beginning of year	(49,855,209)	(51,477,062)
Deficit at end of year	$(48,076,215)	$(49,855,209)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1987 and 1986

	1987	1986
Sources of working capital:		
Net margin	$ 1,778,994	$ 1,621,853
Items that did not use (provide) working capital:		
Depreciation	1,264,968	296,489
Amortization of nuclear fuel	956,735	—
Other amortization	3,496	—
Patronage capital allocations not received in cash	(934,373)	(441,037)
Amortization of deferred credits	—	(625,192)
Working capital provided by operations	3,069,820	852,113
Proceeds from long-term borrowings	281,795,433	49,386,000
Equity funding contributions from members	—	15,982,341
Increase in deferred revenues	17,832,000	—
Settlement and other transfers of prior year construction costs	10,874,923	—
Current portion and repayment of notes receivable	3,900,600	—
Receipt of prior years' patronage capital allocations	33,633	24,512
Decrease in notes receivable	—	431
Decrease in working capital	11,645,825	—
	$329,152,234	$66,245,397
Uses of working capital:		
Additions to electric utility plant, net	20,078,614	45,427,929
Transfer of transmission and substation facilities to Illinois Valley Electric Cooperative consisting of:		
Property and equipment, net of accumulated depreciation of $515,433	(4,071,148)	—
Deferred charges	(117,116)	
Long-term debt	4,198,215	—
Purchase of Grantor Trust certificates	14,986,250	—
Increase in notes receivable	7,891,620	—
Increase in deferred charges	95,920	430,724
Current installments and repayment of long-term debt	286,089,879	1,279,553
Increase in working capital	—	19,107,191
	$329,152,234	$66,245,397
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and invested cash	(241,523)	(2,275,358)
Temporary investments	(12,686,990)	16,186,990
Accounts and other receivables	6,194,845	(4,146,026)
Inventories	2,614,625	—
Prepayments and other	(22,655)	3,770
Deferred charges	(56,072)	214,550
	(4,197,770)	9,983,926
Increase (decrease) in current liabilities:		
Current installments of long-term debt	3,054,889	587,597
Accounts payable	(3,163,885)	639,090
Advances from members	762,330	2,940,429
Notes payable, other	—	(1,590,000)
Accrued interest	6,587,293	(11,727,080)
Accrued expenses	207,428	26,699
	7,448,055	(9,123,265)
Increase (decrease) in working capital	$(11,645,825)	$19,107,191

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1987 and 1986

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The consolidated financial statements reflect the accounts of Soyland Power Cooperative, Inc. (the Cooperative) and its wholly owned subsidiary. The subsidiary was created in 1987 for the purpose of selling ground source heat pumps to rural consumers. All significant intercompany transactions have been eliminated in consolidation.

(b) Basis of Accounting

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Electrification Administration. The Cooperative is a generation and transmission cooperative providing wholesale electric service to its fourteen members.

The Cooperative's rates are established by the Board of Directors and are subject to approval by the Rural Electrification Administration. The Cooperative is not subject as to rates, accounting and other matters relating to the regulatory authority of the Illinois Commerce Commission.

The Cooperative has entered into wholesale power agreements with each of its members which require the members to buy and receive from the Cooperative all their power and energy requirements and require the Cooperative to sell and deliver power and energy in satisfaction of such requirements. The wholesale power agreements with the members extend to the year 2015.

(c) Electric Utility Plant

Depreciation of equipment is provided over the estimated useful lives of the respective assets on the straight-line basis at rates ranging from 2.5% to 20%.

Maintenance and repair of property and replacements and renewals of items determined to be less than units of property are charged to expense. Replacement and renewals of items considered to be units of property are charged to the property accounts. At the time properties are disposed of, the original cost, plus cost of removal less salvage of such property, is charged to accumulated depreciation.

(d) Allowance for Borrowed Funds Used During Construction

The allowance for borrowed funds used during the period of construction represents the estimated interest cost of borrowed funds used for construction purposes. The composite rate used to calculate the allowance approximated 8.4% for 1987 and 9.9% for 1986.

The Cooperative capitalized interest on borrowed funds relating to its investment in the Clinton nuclear generating facility through June 30, 1987. Beginning July 1, 1987, interest on borrowed funds relating to the Clinton facility are being expensed and collected from members through rates.

(e) Nuclear Fuel

The cost of nuclear fuel, including capitalized interest and overheads, is being amortized to fuel expense on the basis of the number of units of thermal energy produced in relationship to the total thermal units expected to be produced over the life of the fuel. Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal cost which is being collected currently from members.

(f) Inventories

Inventories are stated at moving average cost.

(g) Pension Plan

The Cooperative makes annual contributions to the plan equal to the amount accrued for pension expense.

(h) Power Supply Payments

Payments made under power supply agreements (see note 5) are classified as purchased capacity, energy costs and transmission expense in the statement of revenues and expenses.

(i) Deferred Items

Deferred credits consist of equity funding payments and other deferred revenues. The equity funding payments were collected from members and were used to reduce borrowings related to the Clinton generating facility. These payments will be amortized to revenue over a period not exceeding ten years. The deferred revenues represent payments collected from members during 1987 for estimated operating expenses of the Clinton generating facility that were not incurred due to Clinton not being placed into commercial operation until December 1987. These payments will be amortized to revenue over a period not to exceed three years beginning in 1988. Deferred charges consist principally of recoverable energy costs which will be recovered through rates in future years.

(j) Reclassification

Certain accounts for 1986 have been reclassified to conform with the presentation for 1987.

(2) Electric Utility Plant in Service

The major classes of electric utility plant in service at December 31, 1987 and 1986, are as follows:

	1987	1986
Nuclear Plant and related facilities	$487,306,444	$ 2,302,697
Transmission Plant	610,713	5,112,613
Distribution Plant	–	77,292
General Plant	2,150,455	2,022,107
Electric utility plant in service	$490,067,612	$ 9,514,709

The Cooperative had a 10.5% interest (adjusted to 7.02% in 1987 as described below) in the 950 megawatt Clinton nuclear generating facility located in Clinton, Illinois. Construction and testing of this unit was completed during 1987 and the Cooperative placed the unit in service in December 1987 at an aggregate cost of $500,070,905 (including nuclear fuel, capitalized interest, plant site and substation) or 90% of total assets at December 31, 1987. The aggregate cost of the unit placed in service is subject to adjustment based upon a determination of the final ownership percentage discussed below.

In October 1984 the Cooperative entered into an agreement with Illinois Power Company (80% owner and project manager of the Clinton facility) which limits the Cooperative's investment in Clinton (excluding nuclear fuel, capitalized interest, plant site and substation) to $236,250,000 of the direct costs of placing the plant in commercial operation. This limit was reached in February 1985. With the completion of the Clinton facility, the Cooperative's 10.5% ownership interest was adjusted in 1987 based upon Illinois Power's estimate of the total direct cost of the Clinton facility. This percentage is subject to further adjustment based upon a determination of the final direct costs of the facility.

In connection with the completion of the Clinton facility during 1987, the Cooperative and Illinois Power negotiated a preliminary settlement on nuclear fuel, inventory and other costs not subject to the cost limits described above. The settlement is to reimburse or charge the Cooperative for its proportionate share of these costs based upon the estimated lower ownership percentage. The settlement will result in an estimated reimbursement of $10,197,619 of nuclear fuel and other costs and an estimated charge of $2,306,000 relating to inventories. The estimated net reimbursement amount of $7,891,619 will be paid to the Cooperative by Illinois Power over five years beginning in 1988 plus interest on the unpaid balance.

During 1987, the ooperative collected $17,832,000 in revenues from members for estimated operating expenses of the Clinton facility. As a result of Clinton not being placed into commercial operation until December 1987, these estimated operating expenses were not incurred. Accordingly, the $17,832,000 in revenues collected from members has been reflected as a deferred credit in the consolidated balance sheet at December 31, 1987.

Although the estimated cost of Clinton to the Cooperative is significantly higher than original estimates, the Cooperative estimates that its rates (after considering the interest reduction related to the debt refinancing discussed in note 3) will be sufficient to fully recover its investment in Clinton over the life of the facility. Management is currently developing a rate modification plan to be implemented in 1988 which is designed to obtain full recovery of all Clinton costs. The plan will be developed to comply with Statement of Financial Accounting Standards No. 92 and will include the deferral of certain costs for future recovery and the amortization of equity funding payments. The plan will be designed to provide the Cooperative a level of cash rates that will be adequate to meet the Cooperative's operating needs. The Cooperative estimates that its rates under such a plan will increase by approximately 4% during the first full year of commercial operation of the Clinton facility in 1988 with yearly increases thereafter averaging 2.5% through 1997.

(3) Long-Term Debt

Long-term debt at December 31, 1987 and 1986, consists of the following:	**1987**	**1986**
Federal Financing Bank (FFB)—7.337%–10.0% mortgage notes payable, guaranteed by the Rural Electrification Administration (REA), due in quarterly installments through 2018	$192,138,376	$474,323,789
Rural Electric Cooperative Grantor Trust Certificates -7.3% to 9.7% notes payable, guaranteed by the Rural Electrification Administration (REA), maturing from 1992 through 2017	281,000,000	–
National Rural Utilities Cooperative Finance Corporation (CFC) - variable rate (currently 7.83%) mortgage notes payable, due in quarterly installments beginning in 1988 through 1998	58,707,660	58,707,660
Rural Electrification Administration (REA)—5.00% mortgage notes payable, due in quarterly installments approximating $48,000, including interest, through 2018: transferred to Illinois Valley Electric Cooperative in 1987	–	2,957,310
National Rural Utilities Cooperative Finance Corporation (CFC) - 10.00% notes payable, due in quarterly installments approximating $34,000, including interest, through 2015; transferred to Illinois Valley Electric Cooperative in 1987	–	1,265,049
Notes payable—7.375% due in various installments through 1992	150,000	180,000
Total long-term debt	$531,996,036	$537,433,808
Less:		
Current installments	4,169,000	1,114,111
Reacquired Grantor Trust Certificates, net of discount	14,986,250	–
Long-term debt, excluding current installments and reacquired debt	$512,840,786	$536,319,697

(3) Long-Term Debt *(continued)*

On March 19, 1987, the Cooperative, with REA approval, refinanced approximately $282,000,000 of outstanding FFB debt. The refinancing was completed by issuing notes to the private sector through the Rural Electric Grantor Trusts. The Cooperative used the proceeds from the issuance of these notes to repay existing FFB debt without prepayment penalty. The costs associated with the refinancing were expensed and recovered from members through rates in 1987.

Annual maturities of long-term debt for the five years ending December 31, 1992 are as follows: 1988, $4,169,000; 1989, $7,218,000; 1990, $8,180,000; 1991, $9,379,000 and 1992, $10,287,000.

At December 31, 1987, the Cooperative had $7,416,000 of unadvanced funds available from long-term loans approved by FFB and $24,000,000 of unadvanced funds available from short-term loans approved by CFC.

All assets of the Cooperative are pledged to secure the long-term debt to FFB and CFC.

(4) Pension Plan

The Cooperative participates in a multi-employer defined contribution pension plan which covers substantially all employees. Pension expense amounted to $78,130 in 1987 and $80,635 in 1986.

(5) Income Tax Status

The Cooperative is a nonprofit corporation under the laws of Illinois and is exempt from Federal and state income taxes under applicable tax laws.

(6) Commitments

In October 1984 the Cooperative entered into agreement with Western Illinois Power Cooperative, Inc. (WIPCO) to pool operations effective January 1, 1985, and to merge into one cooperative at an unspecified future date. Under the pool agreement, the Cooperative and WIPCO combine their power supply facilities and related costs in order to provide power to their members at the lowest possible rate. WIPCO is a generation and transmission cooperative that provides wholesale electric service to its s[illegible] members. WIPCO also had a 9.5% interest in the Clinton nuclear generating facility. WIPCO's investment in the Clinton generating station has also been limited and their ownership percentage has been adjusted to 6.36% in 1987 in a manner consistent with that used to adjust the Cooperative's ownership percentage. As of December 31, 1987, summarized unaudited financial information of WIPCO is as follows:

Total assets	$482,622,836
Total capitalization (including long-term debt of $431,430,936)	$432,078,862
Total liabilities and deferred credits	$50,543,974

In 1987, the Cooperative received $1,250,000 from WIPCO as an adjustment of fixed costs. This amount has been netted against purchased capacity costs in the consolidated statements of revenues and expenses.

WIPCO has been unable to satisfy the debt service requirements during 1986 and 1987 on certain debt owed to FFB (which is guaranteed by REA). Management of the Cooperative has indicated that a proposed restructuring agreement between REA and WIPCO is currently being negotiated whereby WIPCO's debt would be restructured to allow for attainable debt service. However, if an acceptable debt restructuring plan can not be obtained, WIPCO would be unable to meet its continuing obligations which could impact the terms of the pooling and merger agreement referred to above.

The Cooperative anticipates that the Clinton generating station will furnish approximately 30% of the Soyland/WIPCO energy requirements. The current and additional long-term Soyland/WIPCO energy requirements will be furnished through power supply agreements with Illinois Power Company (IP) and Central Illinois Public Service Company (CIPS) as discussed below.

The Cooperative and WIPCO have contracted to purchase capacity from IP's fossil-fueled generating plants through 2004 as follows:

1988-1992	—	400MW
1993-1994	—	300MW
1995-2004	—	150MW

The Cooperative and WIPCO have also contracted to purchase capacity from CIPS's coal-fueled units through 1999 as follows:

1988	—	146MW
1989	—	157MW
1990-1994	—	213MW
1995-1999	—	101MW

The contract payments to IP and CIPS are determined on an "as if owned" basis and include capacity charges (consisting of production, operation and maintenance costs) and energy charges. Total contract payments made to IP and CIPS amounted to approximately $40,700,000 and $17,800,000, for 1987, and $40,300,000 and $35,100,000 for 1986, respectively.

(7) Contingencies

Under the Price-Anderson Act, all nuclear power station operators are subject to public liability for a nuclear incident which is currently limited to $695 million per incident. Coverage of the first $160 million is provided by private insurance with the balance provided by retrospective premium assessments against each licensed nuclear unit in the United States. As a joint owner of the Clinton nuclear facility, the Cooperative is a party to the insurance policies which are maintained by Illinois Power Company (80% owner and operator of Clinton) and is charged for its proportionate share of such insurance costs. In the event of an incident at any nuclear plant in the United States in excess of $160 million, the Cooperative could be assessed a maximum of $525,000 per incident, with a maximum assessment of $1,0[illegible]0,000 per year.

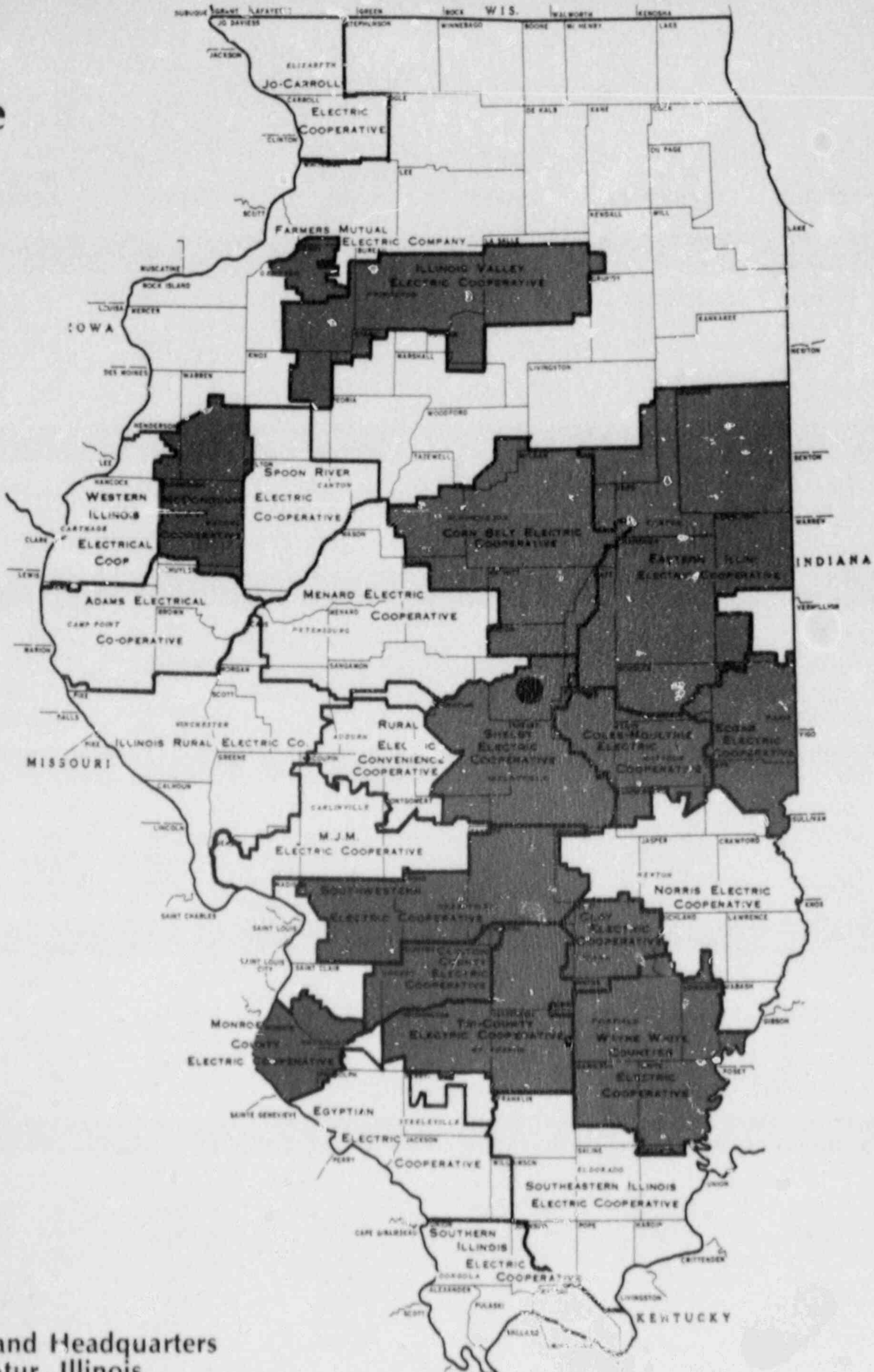
The Cooperative is a defendant in various claims and lawsuits. In the opinion of management, these actions are not expected to have a material adverse effect on results of operations or financial position.

N O T E S

1987 Operating Statistics

STATEMENT OF OPERATIONS: (In $1,000)	Clay	Clinton County	Coles-Moultrie
Operating Revenue	$3,809	$8,175	$10,825
Purchased Power	$2,544	$6,449	$ 7,501
Operating Expenses	740	1,102	1,778
Depreciation Expenses	217	259	383
Tax Expense	51	62	134
Interest	170	248	302
Total Cost — Electric Service	$3,722	$8,120	$10,098
Operating Margins	$ 87	$ 55	$ 727
Non-Operating Margins & Capital Credits	24	69	210
Total Patronage Capital or Margins	$ 111	$ 124	$ 937
ASSETS & OTHER DEBITS			
Total Utility Plant	$8,084	$9,608	$14,583
Accumulated Provision for Depreciation & Amortization	2,063	2,680	4,348
Net Utility Plant	$6,021	$6,928	$10,235
Total Other Property & Investments	$ 760	$ 510	$ 722
Current & Accrued Assets	722	1,926	3,652
Deferred Debits	67	41	38
Total Assets	$7,570	$9,405	$14,647
LIABILITIES & OTHER CREDITS			
Margins & Equities	$3,031	$3,541	$ 8,339
Long-Term Debt	3,654	5,617	5,775
Current & Accrued Liabilities	443	112	322
Deferred Credits	442	135	211
Total Liabilities	$7,560	$9,405	$14,647
OTHER STATISTICS			
Miles of Line	909	955	1,760
Consumers Served	2,958	4,499	7,590
Consumers Per Mile	3.25	4.71	4.31
KWH Sold Per Consumer	13,435	19,242	13,987
Total MWH Sales	39,741	86,572	106,159
Annual Revenue Per Consumer	1,288	1,817	1,426
Plant Investment Per Consumer	2,733	2,136	1,921

Service Area



Soyland Headquarters
Decatur, Illinois

Executive Staff

E.H. Williams, *Executive Vice President and General Manager*

William V. Cheesman, *Manager of Engineering and Operations*

Douglas A. Dougherty, *Director of Economic Development*

James Greenwood, *Manager of Power Supply*

Kenneth W. Kammeier, *Manager of Finance and Administration*

Patricia S. Reynolds, *Director of Public Relations*

Corn-Belt	Eastern/ Illini	Edgar	Farmers	Illinois Valley	McDonough	Monroe
$15,888	$17,478	$ 5,693	$ 1,594	$ 6,821	$ 5,966	$ 5,942
$10,993	$11,479	$ 3,954	$ 1,116	$ 4,242	$ 4,598	$ 4,383
2,490	3,691	1,045	226	1,457	896	747
829	1,009	202	86	483	212	275
266	175	94	24	104	73	56
1,408	960	149	86	1,285	128	301
$15,986	$17,314	$ 5,444	$ 1,538	$ [illegible],571	$ 5,907	$ 5,762
(98)	164	254	56	(750)	59	180
440	245	119	13	155	137	42
$ 342	$ 409	$ 373	$ 69	$ (595)	$ 196	$ 222
$33,357	$37,552	$ 9,188	$ 3,259	$29,778	$ 7,582	$10,722
7,200	9,874	3,064	953	2,927	3,459	2,925
$26,157	$27,6[illegible]	$ 6,124	$ 2,306	$26,851	$ 4,123	$ 7,797
$ 1,494	$$ 1,971	$ 1,452	$ 178	$ 1,000	421	$ 431
7,149	3,606	1,408	155	3,323	2,386	364
20	85	1	4	267	17	30
$34,820	$33,340	$ 8,985	$ 2,643	$31,441	$ 6,947	$ 8,622
$10,860	$13,140	$5,145	$ 966	$ 3,880	$ 4,214	$ 2,426
22,084	18,081	3,526	1,565	24,501	2,514	5,986
1,595	1,887	262	112	3,032	99	106
281	232	52	0	28	120	104
$34,820	$33,340	$ 8,985	$ 2,643	$31,441	$ 6,947	$ 8,622
2,793	4,529	1,473	339	1,738	1,379	970
11,344	12,499	4,892	1,248	5,414	4,617	4,465
4.06	2.76	3.32	3.68	3.12	3.35	4.60
14,062	13,198	11,174	11,842	10,860	14,124	12,295
159,522	164,965	54,661	14,779	58,795	65,210	54,897
1,401	1,398	1,165	1,277	1,260	1,292	1,331
2,941	3,004	1,878	2,611	5,500	1,642	2,401

Shelby	South-western	Tri-County	Wayne-White	Total	Average
$ 12,343	$ 20,587	$ 18,679	$ 20,147	$153,952	$ 10,997
$ 9,455	$ 15,614	$ 14,043	$ 15,972	$112,343	$ 8,025
1,619	2,630	2,405	2,211	23,037	1,646
424	995	799	794	6,967	498
588	258	195	193	2,273	162
3	1,345	878	642	7,905	565
$ 12,089	$ 20,842	$ 18,320	$ 19,812	$152,525	$ 10,895
254	(255)	359	335	1,427	102
209	68	130	347	2,208	158
$ 463	$ (187)	$ 489	$ 682	$ 3,635	$ 260
$ 13,679	$ 41,694	$ 28,723	$ 27,697	$275,506	$ 19,679
6,673	10,187	6,710	9,448	72,511	5,179
$ 7,006	$ 31,507	$ 22,013	$ 18,249	$202,995	$ 14,500
$ 2,710	$ 1,553	$ 1,252	$ 1,333	$ 15,787	$ 1,128
421	4,592	1,394	3,490	34,588	2,471
1	43	114	59	787	56
$ 10,138	$ 37,695	$ 24,773	$ 23,131	254,157	$ 18,154
$ 9,859	$ 10,703	$ 7,173	$ 12,916	$ 96,193	$ 6,871
0	24,464	17,109	9,341	144,217	10,301
90	2,408	491	400	11,359	811
189	120	0	474	2,388	171
$ 10,138	$ 37,695	$ 24,773	$23,131	$254,147	$ 18,153
2,056	3,027	2,640	3,224	27,792	1,985
8,443	13,511	12,768	13,318	107,566	7,683
4.11	4.46	4.84	4.13	—	3.91
16,340	14,123	16,059	18,428	—	14,226
137,955	190,818	205,037	245,422	1,584,533	113,181
1,462	1,524	1,463	1,513	—	1,401
1,620	3,086	2,250	2,080	—	2,557

Soyland Power Cooperative, Inc.
P.O. Box A1606 — Decatur, Illinois 62525
217/[illegible]

WIPCO

Western Illinois Power Cooperative, Inc.

1987 Annual Report

WIPCO

Board of Directors

Robert E. Gant
President
Manager, Illinois Rural Electric Co.

Wayne Bollinger
Vice President
Director, Spoon River Electric Co-operative, Inc.

Roger C. Mohrman
Secretary-Treasurer
Manager, Adams Electrical Co-Operative

Eldon E. Moore
Asst. Secretary-Treasurer
Director, M.J.M Electric Cooperative, Inc.

Gregory A. Campbell
Manager, Spoon River Electric Co-operative, Inc.

William Griswold
Director, Illinois Rural Electric Co.

Dennis A. Keiser
Manager, M.J.M. Electric Cooperative, Inc.

Dale R. Lepper
Director, Menard Electric Cooperative

Sharon Roberts
Director, Western Illinois Electrical Coop.

Gary Skaggs
Director, Rural Electric Convenience Cooperative

Dorland W. Smith
Manager, Menard Electric Cooperative

Robert D. Smith
Director, Adams Electrical Co-Operative

Haven D. Vaughn
Director, Western Illinois Electrical Coop.

Gregory D. Wilson
Director, Rural Electric Convenience Cooperative

Facts

Miles of 34.5 KV line	103	Transmission Substations	7
Miles of 69 KV line	466	Full-time Employees	52
Miles of 138 KV line	20	Generation, MW	32
Distribution Substations	82	Member Cooperatives	7

WIPCO

Alternate Directors:

Gary Bowman
Director, Spoon River
Electric Co-operative, Inc.

Carroll F. Cline
Director, Menard
Electric Cooperative

Robert Folles
Director, M.J.M.
Electric Cooperative, Inc.

James T. Brannan
Director, Illinois Rural
Electric Co.

Roy D. Goode
Manager, Rural Electric
Convenience Cooperative

Arthur Tenhouse
Director, Adams
Electrical Co-Operative

Ross Wear
Director, Western Illinois
Electrical Coop.

WIPCO

President's Report

Welcome to all member delegates to the 28th annual meeting of Western Illinois Power Cooperative, Inc. The operation of the cooperative in 1987 continued under the direction of our interim manager, Dean Searls

WIPCO continued to operate under the pooling agreement with Soyland Power Cooperative, Inc. and Illinois Power Company. This enables WIPCO and Soyland to use Illinois Power's generation on an "as-if-owned" basis. By utilizing these pooled resources, our power costs have remained relatively stable for the year.

The Clinton plant construction progressed to a conclusion in 1987 — a milestone we have looked forward to for some ten years. At our annual meeting last year it was reported that the plant had been approved for a low power operating license. On Feb. 27, 1987 at about 4 a.m., the first self-sustaining nuclear chain reaction was achieved. This marked the beginning of a series of tests that would conclude with a fully operating plant.

By April 10, 1987 the Nuclear Regulatory Commission voted unanimously to issue a full power operating license for the Clinton Power Station. This full power license meant that the reactor could now operate at a level that would generate enough steam to turn the turbine generator fast enough to generate electricity and synchronize with the power grid. On April 24, 1987 this synchronization occurred and power began to flow from the Clinton plant to farms, homes, and businesses.

The Clinton plant continued to operate through the summer months as testing continued and the plant limbered up to perform the 100-hour warranty run. This critical test was completed with flying colors on Oct. 12, 1987. During the full power 100-hour test, this plant was providing full load capacity into the Soyland-WIPCO Illinois Power pool as it was designed to do. After the successful run of this critical test, the plant was down for 35 days for routine maintenance. On Nov. 22, 1987, the plant came back to full power and will continue until it is scheduled to come off line in late March 1988. Even though the plant is in production, the financing of this project is still being negotiated.

During 1987 a good deal of effort has been spent on the restructuring of the WIPCO debt as well as the refinancing of that debt. As we continue to negotiate with the Rural Electrification Administration on the restructuring of the overall debt, it became apparent that there could be some savings to the WIPCO-Soyland pool and the REA Revolving Fund to also refinance part of the WIPCO debt. But because of REA's interpretation of the regulation of refinancing and the rise in interest rates, there were no longer any savings for the pool or for the revolving fund by the end of the fiscal year. Restructuring negotiations continue and at this time looks very favorable, providing we can get a good ruling on the treatment of our tax liability from Internal Revenue Service. This is one of the last hurdles that must be jumped prior to putting this package together.

I know that for all the people who have been involved in this workout, it must seem very long and involved. I wish to express my appreciation to my fellow board members and to Dean Searls and his staff of employees for their dedication to WIPCO and its member-cooperatives. It takes all of us working as a team to meet these challenges.

Cooperatively yours,

Robert E. Gant

Robert E. Gant, President

WIPCO

Secretary-Treasurer's Report

The 27th annual meeting of Western Illinois Power Cooperative, Inc. was held on March 11, 1987. The following officers were elected: Robert E. Gant, president; Robert F. Zook, vice president; Roger C. Mohrman, secretary-treasurer; and Wayne Bollinger, assistant secretary-treasurer. Robert Zook retired from the board of directors in July 1987. To replace him, Wayne Bollinger was elected vice president and Eldon E. Moore was elected assistant secretary-treasurer.

Twelve regular board meetings, three special board meetings and the annual meeting of members were held during 1987. Attendance at our regular and special board meetings was very good, averaging 93 percent.

During the course of the year, the WIPCO board was extensively involved with negotiations concerning both refinancing and restructuring of the Clinton debt. Due to its importance, considerable time was devoted to debt restructuring at nearly every regular meeting and several special meetings were held on this matter.

The major agreements approved during the course of the year were the interim agreement between Illinois Power Co., Soyland and WIPCO, and the Indemnity B-91 Agreement. Other business included action on various budgets, financial forecasts, work order approvals and fuel contracts. The board also authorized the hiring of an independent engineering company to examine our present agreements and advise us on the feasibility of a merger with Soyland Power Cooperative and any other viable options that might be considered. This study will be completed in early 1988.

The board established a negotiating team with President Gant, Attorney Forrest Keaton and Interim Manager Dean Searls being appointed for the federation with REA. The law firm of Bryan, Cave, McPheeters and McRoberts was appointed to represent the federation in legal proceedings involving the Illinois Power Co. construction of the Clinton plant.

The firm of Deloitte, Haskins and Sells of Springfield, Illinois, was selected as our financial auditor and they are presently completing the 1987 audit. Financial records for the cooperative are maintained in accordance with the uniform system of accounts as prescribed by the Rural Electrification Administration, which is basically the same as that prescribed by the Federal Energy Regulatory Commission (FERC). Assets, liabilities, statement of operations, load data, statement of changes in financial position, and margins allocated to patrons of the cooperative and, in many cases, previous years are shown on the following tables.

Respectfully submitted,

Roger C. Mohrman

Roger C. Mohrman
Secretary-treasurer

WIPCO

Assets

	1987	1986
Total Utility Plant in Service	$447,167,091	$ 39,035,158
Nuclear Fuel	11,307,714	0
Construction Work in Progress	490,741	443,392,654
Total Utility Plant	$458,965,546	$482,427,812
Accumulated Provision for Depreciation	19,717,095	16,727,436
Net Utility Plant	$439,248,451	$465,700,376
Investments in Associated Organizations	1,868,464	1,878,203
Illinois Power Company-Notes Receivable	9,546,902	2,321,800
Cash — General Fund	10,535	17,394
Cash — REA Loan Fund	1,615	722
Commercial Paper-General & Construction	16,642,000	3,615,802
Accounts Receivable	4,284,284	4,299,224
Accounts Receivable — Equity Funding	6,511,342	6,287,163
Material and Supplies	3,382,032	1,287,958
Fuel Inventory	574,505	622,185
Prepayments	171,927	76,928
Other Current and Accrued Assets	380,779	15,543
Total Assets	**$482,622,836**	**$486,123,298**

Liabilities

	1987	1986
Long Term Debt — FFB, Clinton Nuclear Plant	$406,324,595	$406,324,595
Long Term Debt — REA, 2% and 5% Loans	23,029,612	23,880,341
Long Term Debt — FFB, Transmission	1,226,000	1,226,000
Accounts Payable	6,061,748	1,758,452
Accrued Interest Payable	213,692	14,184,654
Other Current Liabilities	483,757	351,840
Soyland — IP Loan, Working Capital	0	2,321,800
Memberships	175	175
Patronage Capital	2,779,263	2,779,263
Operating Margins — Current Year	(439,356)	607,947
Nonoperating Margins	610,188	116,241
Operating Margins — Prior Year	(1,643,543)	(2,367,731)
Equity Funding — Collected	31,488,658	28,460,630
Equity Funding — Uncollected	6,511,342	6,287,163
Other Margins and Equities	191,928	191,928
Deferred Revenue	5,784,777	0
Total Liabilities	**$482,622,836**	**$486,123,298**

WIPCO

Statement of Operations

	1987	1986	1985	1984	1983
Total Electric Revenue	$33,097,759	$30,813,747	$32,894,550	$29,656,288	$27,963,660
EXPENSES:					
Purchased Power	0	0	0	21,516,093	21,220,924
Generation, Operation & Maintenance & Capacity	6,766,671	10,347,273	14,175,153	3,588,395	3,482,095
Energy Cost	9,798,860	8,326,556	11,243,807	0	0
Transmission Expense	1,542,157	1,583,369	2,575,108	475,810	499,445
Distribution Expense	240,427	228,115	188,420	366,698	200,581
Administration & General Expenses	1,648,996	1,042,622	477,637	534,101	510,849
Depreciation	2,583,743	2,673,574	506,635	1,242,643	965,574
Taxes	2,604,657	3,979,846	148,225	253,440	275,635
Interest	6,337,382	1,973,940	2,441,950	1,865,668	824,879
WIPCO Adder	1,250,000	0	0	0	0
Total Cost of Service	$32,772,893	$30,155,285	$31,756,935	$29,842,848	$27,979,982
Operating Margins	324,866	658,462	1,137,615	(186,560)	(16,322)
Other Income	283,268	65,726	59,652	53,229	54,787
Writeoff	(437,301)(3)	0	0	(38,415)(2)	3,431,718(1)
Total Margins	$ 170,833	$ 724,188	$1,197,267	$(171,746)	$(3,393,253)

Note: WIPCO and Soyland began operations as the Soyland/WIPCO Power Pool January 1, 1985

(1) Clinton -2
(2) 345 KV line study and ash pond
(3) Separate work orders - Nuclear fuel

WIPCO

Load Data

	1987	1986	1985	1984	1983
Electricity generated and Purchased (1,000 kwh)					
Energy Purchased from Soyland/WIPCO Power Pool*		583,597	590,260	603,510	104,712
Electric sales to Member-cooperatives (1,000 kwh)					
Adams Electrical Co-Operative	**85,290**	86,950	90,095	90,556	91,616
Illinois Rural Electric Co.	**100,913**	102,226	104,600	106,522	108,599
M.J.M. Electric Cooperative, Inc.	**87,005**	86,294	88,337	91,017	93,515
Menard Electric Cooperative	**130,058**	126,427	128,784	131,518	125,597
Rural Electric Convenience Cooperative Co.	**71,614**	72,636	74,615	76,943	75,880
Spoon River Electric Co-operative, Inc.	**40,982**	41,953	44,712	46,596	48,957
Western Illinois Electrical Coop.	**35,914**	36,569	39,403	40,481	40,480
Total electric sales to members	**551,776**	553,055	570,546	583,633	584,644
Peak demand maximum month, Kw by members		Coincident Peaks		Non-Coincident	
Adams Electrical Co-Operative	**19,209**	19,088	22,047	23,005	23,432
Illinois Rural Electric Co.	**23,394**	20,180	21,379	23,906	25,946
M.J.M. Electric Cooperative, Inc.	**22,000**	20,700	18,402	21,258	23,259
Menard Electric Cooperative	**33,420**	30,965	31,021	37,679	41,587
Rural Electric Convenience Cooperative Co.	**16,987**	15,996	16,606	18,115	18,927
Spoon River Electric Co-operative, Inc.	**9,304**	8,475	9,773	11,054	12,554
Western Illinois Electrical Coop.	**7,977**	7,995	9,103	10,119	9,228
System maximum month kw demand	**124,318**	115,736	123,938	135,749	150,485
Annual load factor % – Member-cooperatives	**50.7**	54.6	52.6	48.8	44.4

*WIPCO and Soyland began operations as the Soyland/WIPCO Power Pool Jan. 1, 1985.
**Energy generated by WIPCO generating units is assigned to Soyland/WIPCO Power Pool.

WIPCO

Production Report

Generation of the Pearl steam unit and the diesel units totaled 121,560.8 mwh for the year. Of this total, 121,467 mwh were generated by the steam unit.

The steam unit was in service 66 percent of the year, off line for economic reasons 21 percent, off line for scheduled maintenance 9 percent, and off line due to unscheduled maintenance 4 percent. The majority of the off line economic hours, 1,619 or 89 percent, occurred from September through December, correlating to the start-up of the Clinton Power Station. When the unit was on line, it was generating near capacity, averaging 21.1 mw per hour.

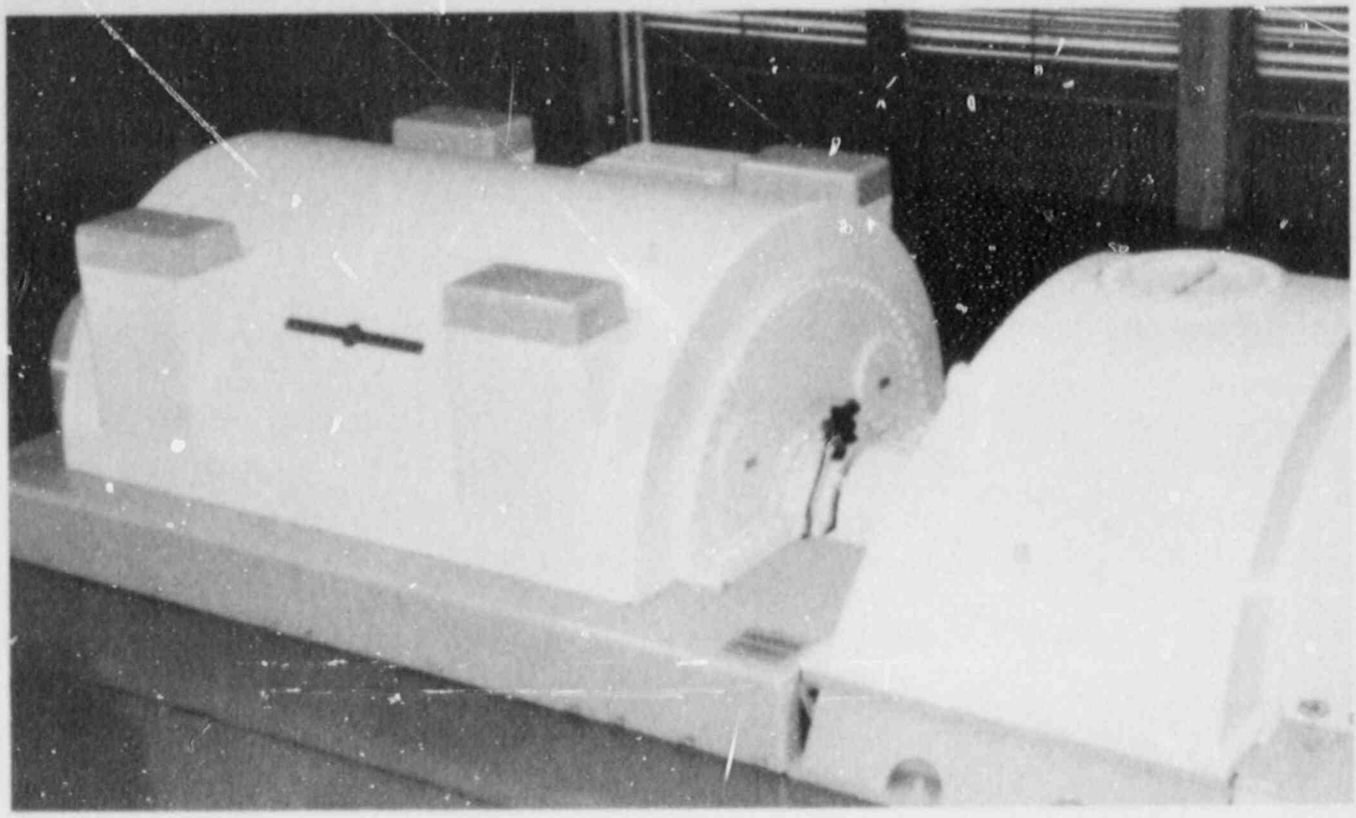
During the year, 12,000 tons of bottom ash were removed from the plant, a plant efficiency test was performed under the direction of Stanley Engineering, the coal pile storm run-off levee project was completed and the conveyors, old stack and water tower were painted. At the Pittsfield plant, a new roof was installed and a fire protection system was installed as requested by the insurance company.

Routine maintenance at Pearl included: the overhauling of the pulverizers, the rebuilding of the bottom hopper and clinker grinder and continual repair of the wet scrubber.

The gas turbine has been placed into a long-term storage condition with the intention of bringing it back to a standby mode in the future.

Projects started or to be started include: studying methods of improving the ash pond effluent pH to meet new Illinois Environmental Protection Agency (EPA) permit restrictions, drilling a new well at Pearl, replacing the insulation and lagging on a portion of the wet scrubber duct and monitoring the condenser tubes to determine replacement feasibility.

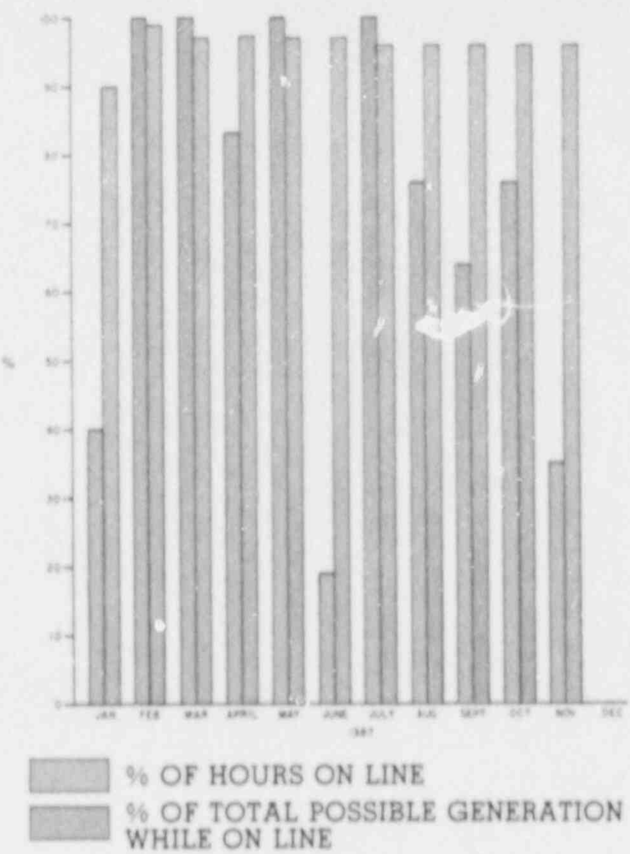
WIPCO crews constructed a levee around the coal pile at Pearl during 1987. The levee brings WIPCO into compliance with new federal Environmental Protection Agency (EPA) regulations on coal runoff.



The Pearl generator.

The coming year will prove to be unique for Pearl. The information supplied to us from Illinois Power's dispatch is that with Clinton on line, Pearl will be off line a considerable amount of time. Instead of a base-loaded unit, Pearl will be a peaking unit, on standby at all times. The maintaining of idle equipment in a standby mode, we have learned, takes a considerable amount of time and rethinking by all involved. We look for the steam unit to have a very high availability rate in 1988. Unfortunately, generation output will be low.

PEARL STEAM UNIT



NOTE: When unit was on line it was generating an average of 96% capacity. Hours on line decreased August through December as Clinton started producing. During the month of December the steam unit was shut down due to economic reasons.

WIPCO

Transmission Report

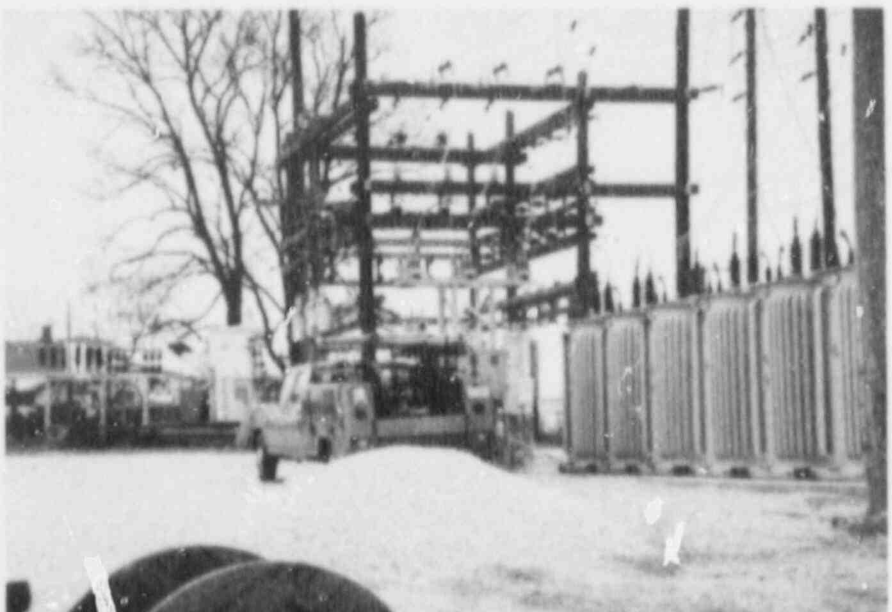
The majority of transmission line and substation construction this year was caused by new highway construction. The requirement for more right-of-way to build additional lanes on highway 104 east of Quincy mandated the extension of our existing transmission line, constructing a new distribution substation and the dismantling of our existing Burton substation. The structure has been stored at Jacksonville and will be used in the future.

The Pittsfield distribution station, a wood-pole structured arrangement, required extensive work. Old poles and crossarms had to be replaced. New poles and crossarms added to expand the structure to accommodate a new 15 kv circuit, switchgear and metering, and a larger transformer bank was installed to support new load.

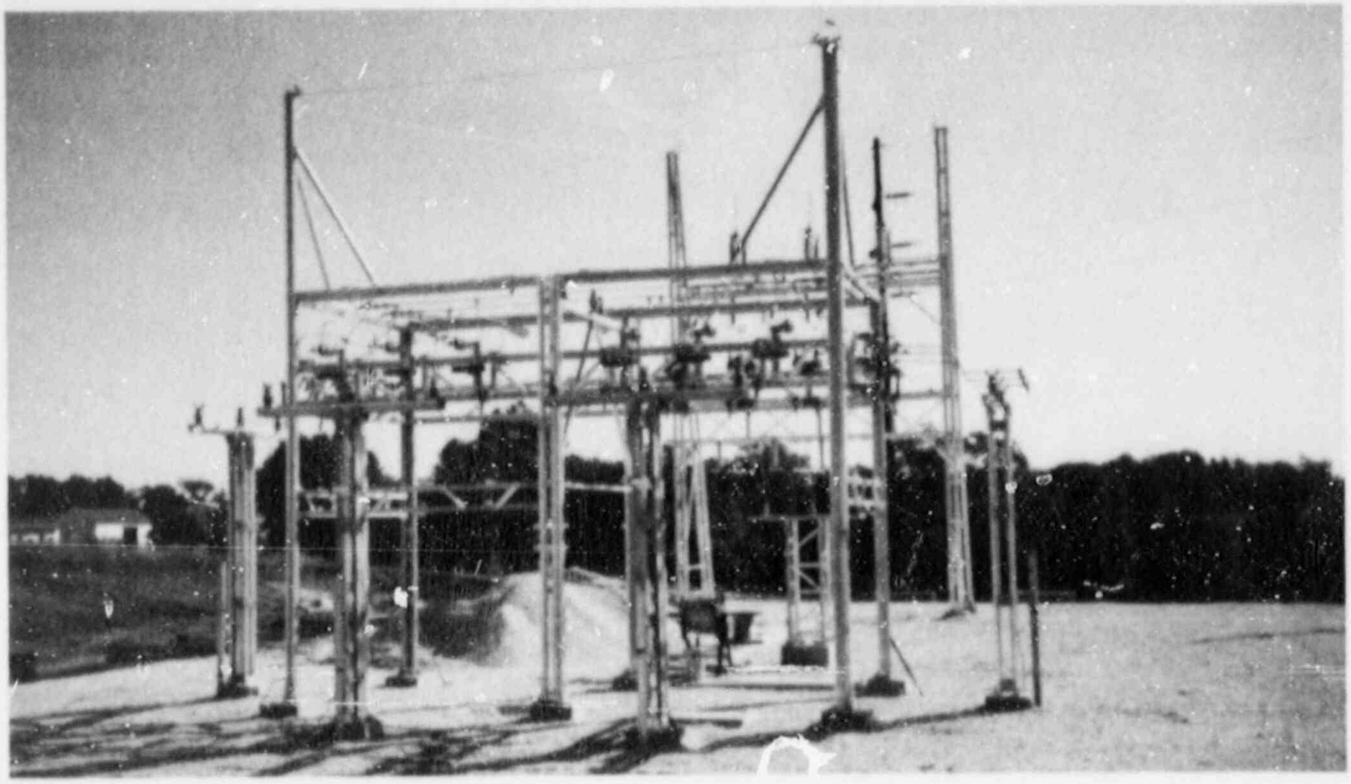
About 3½ miles of transmission line was built and nearly the same amount retired in rerouting our integrated system to permit construction of the Central Illinois Expressway. One mile of 69 kv line was built for McDonough Power Cooperative at Macomb, giving them an alternate feed for most of their system.

Retrofilling of transformers and disposal of the contaminated PCB-oil was initiated last year. This program has been expanded this year to include oil circuit breakers, primary meter tanks and distribution substation regulators. We disposed of approximately 12,000 gallons of contaminated oil this year. We still have substation equipment with PCB-contaminated oil, but these units are classified as below 500 PPM.

This year we tested all meters on the integrated system. We also installed new low voltage 15 kv metering in four stations



The distribution substation at Pittsfield, serving Illinois Rural Electric Co. members, required extensive upgrading during the year.



Crews constructed a new distribution substation to serve the Burton area of Adams Electrical Co-Operative's service territory. The old Burton substation was dismantled and stored at Jacksonville for future use. This replacement was necessary because of new construction on highway 104 east of Quincy.

allowing the removal of three primary meter tanks that contained PCB-contaminated oil.

Preventative maintenance consisted of replacing 63 poles, 72 crossarms, 246 insulators, and installing hardware cloth on 168 poles. All five of our 138 kv circuit switches were refilled with SF6 gas and test-tripped. Ten oil circuit breakers were untanked, cleaned and test-tripped. We had 325 oil circuit breaker operations for the year.

Two major transformer failures: A 5,000 kva, three-phase transformer at the Athens substation failed June 14. This unit was still under partial warranty. General Electric repaired the transformer and was put back in service Jan. 27, 1988. The other failure was a much larger transformer — 138/69 kv, 20 mva unit located in our East Lanesville substation and used for interchange with Illinois Power Co. This transformer supported WIPCO's 69 kv integrated system on our east boundary. The transformer failed in the tertiary winding or tertiary bushing arcing started an external fire. The fire was fed from oil flowing from the main tank. It burned out of control for about 30 minutes. Extensive damage was done to the transformer and foundation. This unit failed on April 30, 1987 and is being repaired at McGraw-Edison's repair shop. It is scheduled to be returned by Feb. 26, 1988. The transformer's total weight is over 88 tons.

We have purchased storage racks for material at the warehouse, a 5,000 pound forklift, and a large pole trailer, all of which have been very useful.

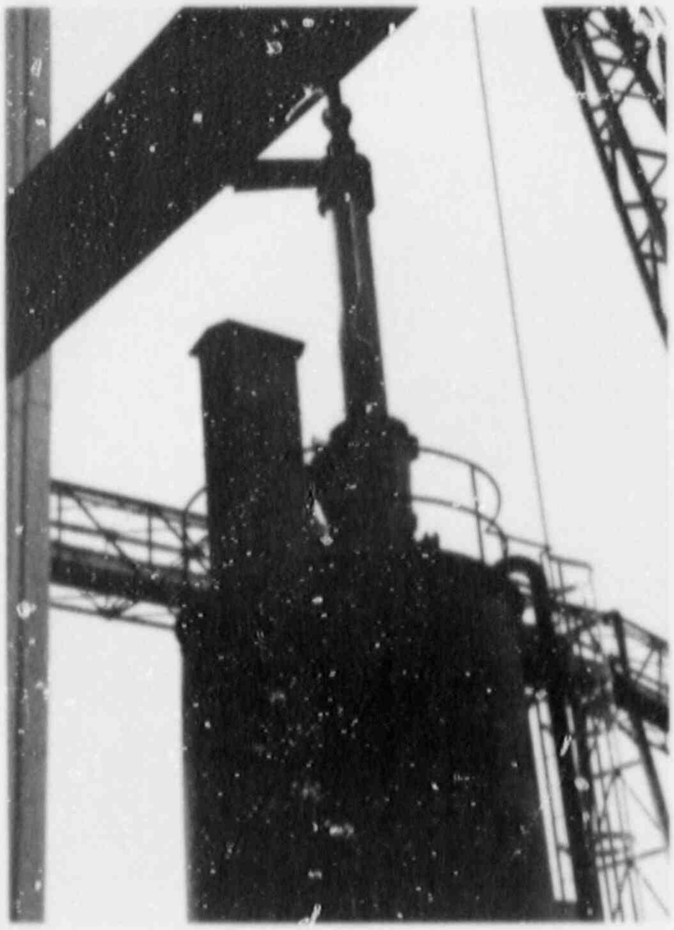
WIPCO vehicles traveled approximately 170,000 miles and used 24,000 gallons of fuel maintaining and constructing our transmission system.

WIPCO

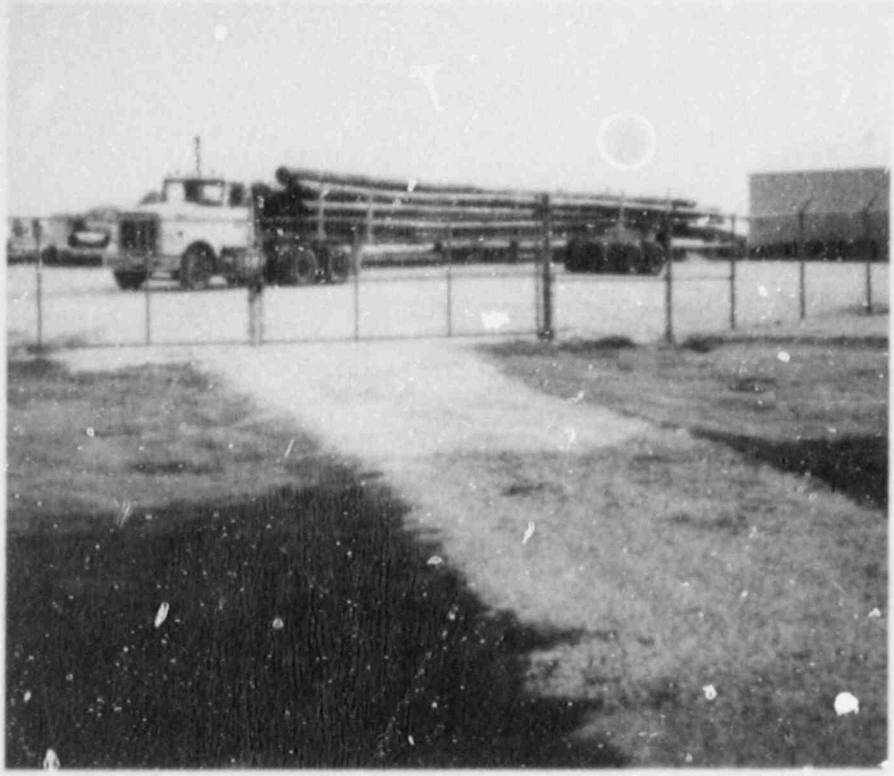
Interim Manager's Report

To properly describe WIPCO's operations for the past 12 months would require the use of a wide selection of adjectives. These would range from "disappointment" to "successful achievement." The disappointment stems from our inability to complete merger plans with Soyland Power Cooperative. Much effort has been made by both WIPCO and Soyland by holding numerous meetings with The Rural Electrification Administration (REA), The National Rural Utilities Cooperative Finance Corporation (CFC), the justice department and The Office of Management and Budget (OMB). Term sheet conditions for restructuring the Clinton debt have been reviewed and are nearing the final stages for acceptance. Restructuring may bring about a tax liability from the Internal Revenue Service. This must be resolved before restructuring can be comfortably accepted.

Late in 1987, Congress enacted legislation to allow G&Ts to refinance up to $2 billion of Federal Financing Bank (FFB) loans. I'm pleased to announce that on Feb. 22, 1988, WIPCO was able to refinance nearly $282 million of high-interest FFB loans. This is but one of the steps WIPCO is pursuing to provide stable wholesale power assessments to its seven member-cooperatives now and in the future. While the road to a merger has seemed long and difficult, most of the bumps and detours have been overcome and it's expected that the combining of WIPCO and Soyland into one



A new dry fly ash collection system was installed during 1987. The new collector catches the dry fly ash, keeping it from going into the fly ash pond. When the Pearl plant is at full operation, about 11 tons of ash is created per day. This ash is taken to a landfill near Pittsfield. The new system is working very well, collecting about 60 percent of the fly ash produced at Pearl.



WIPCO purchased a new pole trailer during the year. The trailer, which links to a fifth wheel, will allow crews to haul 10-12 transmission poles per trip, compared to just three or four with WIPCO's old equipment.

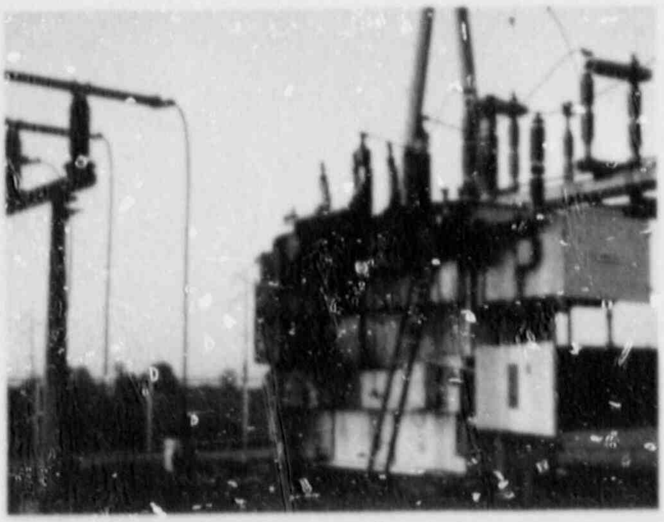
entity can be accomplished within the next six months. During 1987 we were able to accomplish needed maintenance on our generating facilities. In our quest to save money and hold costs to a minimum, we nearly defeated this time-honored objective. Roof maintenance at the Pearl and Pittsfield plants was delayed to the extent that required extensive replacement, including insulation.

One of the long-range primary objectives of WIPCO directors has been to develop and establish stable assessments. This is being accomplished largely through long-range planning. The directors are to be complimented for pursuing and achieving this goal. Power cost studies developed in the early 1980s predicted a sharp upward adjustment in power costs when the Clinton Power Station came on line. To prevent this "shock" the power costs were adjusted to gradually absorb this increase. As a result, we have established reasonably stable assessments for our distribution members. A gradual incline to reach the summit is more acceptable than an abrupt climb — whether it be power costs or attempting to negotiate a mountain range.

On the brighter side of WIPCO's operations, where we might properly use the adjective "successful achievement," is the promotion of groundwater heat pumps. While 1987 power consumption did not show an increase over 1986 — the members' acceptance of heat pumps should show substantial increase in the years ahead. While sales of WaterFurnace heat pumps exceeded by three times the number predicted — this sales effort has only scratched the surface. With added personnel and a year's experience to help guide the future, our marketing efforts to build load will brighten

WIPCO crews and several contractors completed a major project at Pearl, retubing the Number 2 feedwater heater. The plant experienced some failures with tube leaks prior to the retubing.

The coal conveyor system at Pearl has been repainted.



The East Lanesville substation was damaged by fire on April 30, 1987 — after the transformer failed in the tertiary winding or bushing. A fire started after that failure and burned out of control for about 30 minutes before it was brought under control. The transformer, a 138/69 kv, 20 mva unit, is used for power interchange with Illinois Power Co.

WIPCO and Soyland's future. To those cooperatives who are actively pursuing this activity — congratulations. To the others, I recommend an intensive load building program to improve your economic health.

While our primary focus has been on achieving stable power costs, some attention has been given to both short-term and long-term planning that will enable WIPCO to render more reliable service to its members in the future. This planning comes about through suggestions from management, employees and members. A case in point is a possible tie to the Central Illinois Public Service Co. (CIPS) transmission line at WIPCO's Hadley substation. This tie would provide a second source of energy to five of WIPCO's substations. The object of our existence is to provide the best service possible at the least cost. This tie, as would others, would be compatible with our objectives.

As we investigate and achieve new financing methods, we'll also be looking for ways to make our plants last longer. New generation that is now at our disposal will enable us to reduce "full throttle" operation — thus extending the useful life of these plants. Greater emphasis will be given to marketing the product we produce. There is little economy in

WIPCO crews had to move a pole on the East Hannibal transmission line to accommodate construction of the Central Illinois Expressway near East Hannibal.

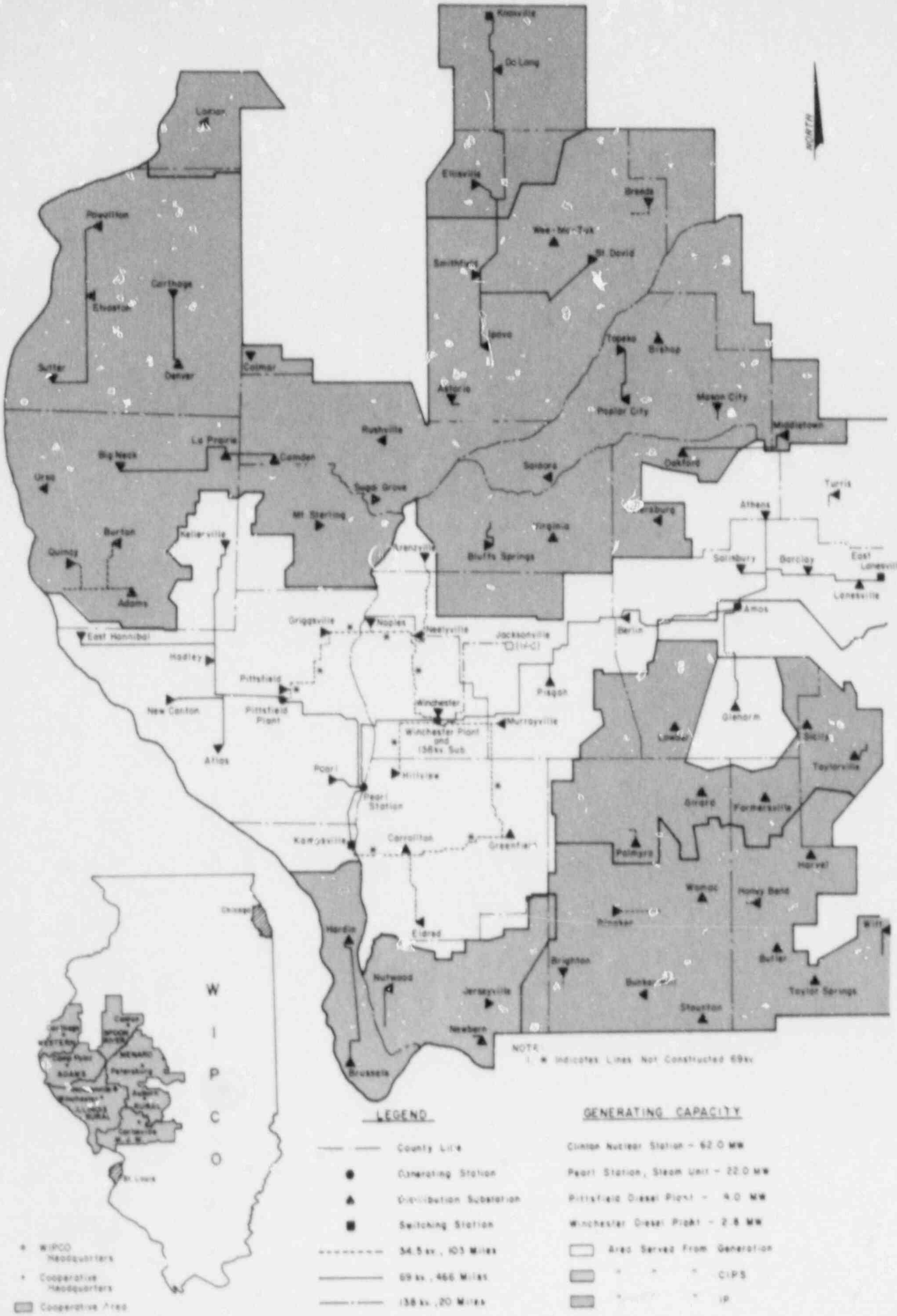
existing transmission lines, substations, generation and other associated equipment unless used near its potential capacity. We face a very challenging future — a period that requires the best efforts of directors, management, employees and members. Through my close association with WIPCO for many years I believe we are well equipped to meet those challenges that lie ahead.

Respectfully submitted,

Dean Searls

Dean Searls
Interim Manager

Pearl's ash pond was pumped and excavated in 1987. Under normal operating procedures in the past, the pond has had to be excavated about every four years.


Knoxville
Oc Long
NORTH
Lomax
Elmsville
Brenda
Powellton
Wee-Ma-Tuk
St David
Smithfield
Carthage
Elvaston
Ipava
Topeka
Bishop
Sutter
Denver
Colmar
Astoria
Mason City
Poplar City
Rushville
Middletown
La Prairie
Big Neck
Camden
Oakford
Sugar Grove
Ursa
Turris
Athens
Mt Sterling
Virginia
Burton
Kellerville
Arenzville
Bluffs Springs
Quincy
Salisbury
Barclay
East Loneville
Loneville
Adams
Amos
Griggsville
Naples
Neelyville
Jacksonville
Berlin
East Hannibal
Hadley
Pittsfield
Pisgah
New Canton
Pittsfield Plant
Winchester
Murrayville
Glenarm
Winchester Plant and 138kv Sub
Atlas
Sicily
Taylorville
Pearl
Hillview
Pearl Station
Girard
Farmersville
Kampsville
Carrollton
Greenfield
Palmyra
Harvel
Womac
Honey Bend
Chicago
Hardin
Eldred
Brighton
Butler
Nutwood
Jerseyville
Bunker Hill
Staunton
Taylor Springs
W I P C O
Newbern
NOTE:
1. * Indicates Lines Not Constructed 69kv
Brussels
Adams
Menard
Petersburg
St Louis
LEGEND
County Line
Generating Station
Distribution Substation
Switching Station
34.5 kv., 103 Miles
69 kv., 466 Miles
138 kv., 20 Miles
WIPCO Headquarters
Cooperative Headquarters
Cooperative Area
GENERATING CAPACITY
Clinton Nuclear Station – 62.0 MW
Pearl Station, Steam Unit – 22.0 MW
Pittsfield Diesel Plant – 4.0 MW
Winchester Diesel Plant – 2.8 MW
Area Served From Generation
CIPS
IP

Western Illinois Power Cooperative, Inc.
P.O. Box 609 • Jacksonville, IL. 62651 • (217) 245-6161