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Quarterly Newsletter
Fall 2005

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Dear Members:

As we enter the winter heating season, we must be aware of the effects of Hurricane Katrina and Rita and the extreme volatility of the natural gas market due to their effect of the refineries and pipelines. Because of my involvement with the IEC, I am relieved to know that we have already locked in savings on some of the anticipated natural gas needed to heat our schools this winter. Because of the IEC's disciplined approach to purchasing for our schools, we anticipate saving record amounts for schools this winter. Our success is your success. However, with the record prices for natural gas, I must caution you to anticipate significantly higher gas costs this winter. Prices for districts that have not locked in, prices will be double what was paid last year. Even with the savings we have locked in, we will still anticipate higher costs this year. Fortunately, we will not see the worst prices that the market is now exhibiting.

On the electric supply side, we continue to supply electricity at significant savings to school districts in the state. Our supply costs significantly beat the utility rates and are one of the only competitive

options open to organizations in Illinois. Last year, we supplied almost 500,000,000 kilowatt hours. We are continuing to plan for and prepare for the post transition period that begins January 1, 2007.

As we continue to grow and to save schools money, we need to always look to the future and the changing environment in which we live and operate. Energy costs seem to continue to rise and we need to be able to find competitive prices for meeting our energy needs. If you do not use the IEC currently, you need to look very closely at your costs relative to those paid by the IEC supplied schools to see how much you are losing.

Dr. David F. Grace
President
IEC Board of Directors

and

Superintendent
Lincoln Elem. SD 156
Calumet City, IL



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Update from the Statewide Marketing Director

By Ronald C. Steigerwald, Statewide Marketing Director, Illinois Energy Consortium, Buffalo Grove, IL

Electric Deregulation

Are you aware that total electric deregulation is scheduled to begin on January 1, 2007? Do you have any idea what this means to your school district? If you keep up with what is going on in the energy industry, you know that prices continue to climb and so does your energy bill.

The Illinois Energy Consortium (IEC) continues to monitor, on a daily basis, what is going on in the energy industry whether it be electricity or natural gas. With electric deregulation nearly upon us, the IEC plans to inform school districts whenever there is any reliable news about what might take place on January 1, 2007.

At this moment, the only proposal out there from the power companies is for a reverse auction. This reverse auction process is currently being utilized in the State of New Jersey and supposedly has worked well for the past two years.

However, on the other side of the coin, Illinois' Speaker of the House, Michael Madigan, Governor Blagojevich and Martin Cohen, the newly proposed chairperson of the Illinois Commerce Commission, are against the reverse auction. They contend it will raise current pricing 20%.

Stay tuned for further information on this and any other breaking energy news from the IEC.

Illinois Clean Energy Community Foundation K-12 School Lighting Upgrades Program

The Illinois Clean Energy Community Foundation has awarded more than 320 grants over the past four years to K-12 schools to assist them in upgrading their lighting systems.

This program is scheduled to run for only two more years, ending in 2007. The Foundation will be sending out brochures and applications this month. If you do not receive one, you can reach the foundation at 312.372.5191 and their fax number is 312.372.5190 or view their website: www.IllinoisCleanEnergy.org.

Many school districts have taken advantage of this program. It works. If you wait too long, you will not be eligible. Do not delay. Contact them today.

Natural Gas Is \$1.50 A Therm?

As I write this newsletter article, natural gas is approaching the \$1.50 a therm price. Who would have thought this possible, especially when several school districts a few years back were purchasing natural gas for .25 cents a therm? Those were the "good old days."

Reality is here. I know from experience that when I left home one morning to drive to Springfield, Illinois, I filled my gas tank for \$2.69 a gallon. Three and a half hours later when I pulled off the expressway in Springfield, gasoline had gone up .50 cents a gallon to \$3.19 a gallon. Go figure. Remember when we paid \$1.89 a gallon a few months ago?

Don't let this same thing happen to your school district when it comes to purchasing natural gas for your schools. You have a tremendously great opportunity to join the Illinois Energy Consortium, enabling you to take advantage of our low prices, well below the market place. You will not pay \$1.50 a therm for our natural gas.

Fax Ronald C. Steigerwald a copy of last month's bill for each natural gas meter in your school district. Ron will have Peoples Energy, the IEC's program administrator, send you an analysis of savings, free of charge. Ron's fax number is 847.634.8254. If you do not do this now, you will regret it shortly when prices continue to rise. Be safe, send Ron those bills now!

Legislation Update

The Illinois Energy Consortium continues to pursue having legislation passed that would help its members.

Recently, Ron Steigerwald and Louie Ervin of Latham & Associates, consultants to the Illinois Energy Consortium, met with the Alliance Lobbyists to determine how to approach having our legislation passed during the fall session.

We sincerely hope that our State legislators will take this opportunity to give back to schools via the legislation that is being proposed. We will keep you updated on our progress.

Current Events in the Electric Marketplace

By Kristi Fitzanko, Electric Program Administrator, Ameren Energy Marketing, Peoria, IL

Many of you may be reading about the pending legislative activities concerning electric rate increases by AmerenCIPS, AmerenIP, AmerenCILCO, and ComEd. There have also been many news articles discussing the replacement of the Illinois Commerce Commission's head commissioner, Ed Hurley, with CUB Executive Director, Marty Cohen. The utilities have published their concerns and consumer advocates have countered with their opinions. Below is a re-print of a news piece that appeared in the Peoria Journal Star (PJStar.com) that captures the issues facing both Ameren Corp., Exelon Corp., and all consumers. This piece is being brought to you as information only. It is our intent to keep you informed of the issues and provide you with insight as we move through the transition from partial to full deregulation. If you have any questions, please feel free to contact me at 309.677.5246.

Ameren's future is cloudy - utility officials raise possibility of corporate bankruptcy.

Thursday, October 13, 2005

By Adriana Colindres
of Copley News Service

SPRINGFIELD - Uncertainty about what will happen after Illinois' electric rate freeze expires at the end of 2006 has led Standard and Poor's Rating Service to lower the corporate credit ratings of Ameren Corp. and Exelon Corp.

That uncertainty, fueled in part by recent moves by Gov. Rod Blagojevich, also has prompted Ameren and Exelon officials to raise the possibility of corporate bankruptcy.

Warner Baxter, Ameren's Executive Vice President and Chief Financial Officer, mentioned that scenario when he spoke at the Merrill Lynch Global Power and Gas Leaders Conference Sept. 28. Exelon CEO John Rowe made similar comments at the conference, according to a Reuters news service report.

If Ameren's Illinois utilities are not allowed to recover their costs through the rates charged to consumers, a variety of "adverse consequences" could develop, Baxter said, according to a transcript. Those consequences could include "the extreme, which could be a sort of bankruptcy situation, and we certainly have no hope and trying to go down that path because really no one wins," he said.

Consumers, meanwhile, are expected to pay higher electric rates if the Illinois Commerce Commission approves separate plans for Ameren and Exelon to conduct a "reverse auction" that would be used to set rates starting in 2007. For example, Ameren recently said that rates for its Illinois subsidiaries, including AmerenCIPS, AmerenIP and AmerenCILCO, could go up as much as 35 percent in 2007.

Blagojevich and Attorney General Lisa Madigan oppose the power auction idea and say it would harm consumers. The auction

would be the next phase of the 1997 electric deregulation law, which included the soon-to-expire rate freeze.

Ameren's Illinois subsidiaries provide electricity for much of downstate Illinois, including the Peoria and Springfield area. Exelon is the parent company of Commonwealth Edison, which provides electricity to more than 3 million customers in northern Illinois.

Last week, S & P lowered its long-term corporate credit ratings on Ameren from "A-minus" to "BBB-plus" and placed the ratings on its CreditWatch. Likewise, S & P downgraded Exelon's ratings from "A-minus" to "BBB-plus."

Also, Moody's Investors Service on Sept. 30 put Ameren's long-term debt ratings under review for possible downgrade.

Downgrades can increase a company's cost of borrowing.

"A' is just a very strong investment grade," said Richard Cortright, a utility rating analyst for S & P. "No company that's strong investment grade should see itself considering bankruptcy."

"We have always been concerned about what the regulators in Illinois are going to do regarding structuring the post-2006 power-procurement world," he added. "There's uncertainty there, and uncertainty and rating agencies don't go together."

S & P also explained its rationale in a written statement that in part says: "The rating action follows further review of the recent

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Electric Program Statistics

Service Area	Savings 1/05 - 6/05	# of Districts	# of Accounts	Meters (Avg. 2.5 meters/ acct.)
AmerenCIPS	\$ 200,006.30	81	233	254
ComEd	\$2,433,069.92	153	547	1,106
IP	\$ 226,479.08	48	134	151
Totals	\$2,859,555.30	282	914	1,511

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Update on Natural Gas

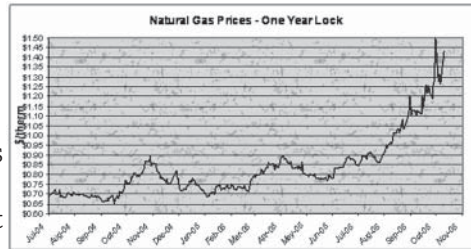
By John Nania, Peoples Energy Services, Program Supplier and Administrator, Naperville, IL

What an incredible series of events the past three months have seen. We got the equivalent of baseballs triple play. First, record heat covered much of the nation. In the Chicago area we had 35 days with temperatures reaching over 90 degrees. By comparison, last year, we had one day. This meant that the nations natural gas fired-peak power plants designed to operate during extreme conditions were running all out. They were using gas that otherwise would have gone into storage reserves. Second, Katrina hit right in the heart of the energy patch taking out many processing plants and eastern gulf rigs along the way. Third, Rita hit the gas rigs that Katrina missed, hitting the western gulf. The net result was that energy prices went up about 50% in seven weeks. Worse, before these problems erupted, supply concerns had already raised prices up to historically high-levels.

The IEC has bought gas in advance of this summer as a hedge against what we knew would be a volatile winter, but no one could have foreseen what occurred. As a result, the prices that members are paying have been well below market and will continue to do so, at least through this winter. Unfortunately, for that portion of the portfolio that is not hedged, the price rise is unavoidable. We have been meeting and reviewing strategy on a very regular basis and will continue to do so. We would like to be more fully hedged but market conditions just don't warrant (at least as I

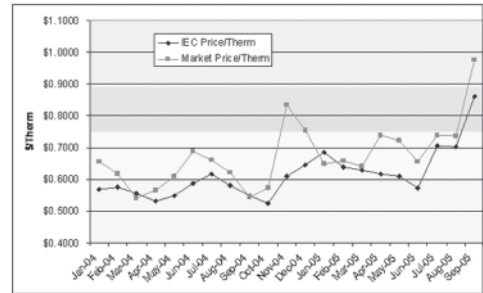
type this) doing so. The volatility we witnessed has never been observed before, fortunately, we know in commodities that as fast as they go up, they can come down. When they do, we will be poised to take advantage of them as in the past.

To give you a feel for what is happening in the market, I have provided the following chart that shows what market rates for a one year locked rate have looked like.



This winter's rates for the schools will likely be about 80% higher than what they have been in past years, even with all the gas already purchased. Suffice; the rest of the market will be paying yet even higher prices. Please adjust your budgets accordingly. If you were working hard on conservation before, as most schools have, now is the time to redouble your efforts. With prices this high, even small changes to your operations can have a huge effect on your budgets.

We have a few ways to judge our relative success. Maybe the best one is how we performed vs. the market. I believe the chart below, which acts as our report card, would get an above average grade in most venues.



There are two factors that should impact natural gas prices this time of year. The first is the fear of winter supply shortages. Our production problems from the hurricane damage remain a big unknown. The concern is how long the rigs and plants are out of commission. There is an acute shortage of materials and manpower that are exasperating the rebuilding. The second factor is alternate fuel prices, primarily oil. Although they are not used in exactly the same manner, the price of oil and gas correlate closely. Due to continued fear of oil supply disruptions via unrest in the Middle East and surging demand from China, oil prices have reached all time record high levels.

As your natural gas supplier, we thank you for your continued business. We appreciate your faith in our ability to deliver a competitively priced product with superior service.

Welcome our newest members:

- Sparta CUSD 140
- Carlyle CUSD 1
- DuPue SD 103
- Spring Valley CCSD 99
- Midlothian SD 143
- Kankakee SD 111
- Calumet City SD 155
- Twp. High Sch. Dist. 214
- Marengo CHSD 154

Planning for the Illinois School Electric Market

By Robert J. Latham, IEC Energy Consultant, Latham & Associates Inc., Cedar Rapids, IA

Under the current schedule, the transition period for electric choice of power suppliers ends at the end of 2006. Commencing January 1, 2007, under the existing legislation, there will be a more open and, hopefully, more vigorous competitive power supply market as many of the limitations of the transition process are removed.

Through this transition period, the IEC has been very successful in providing millions of dollars of net savings to schools. As we are all aware, because of the regulatory process and the changing markets for electricity, net savings were greater in some utility territories from time to time. These areas of greatest net savings rotated among ComEd, Ameren-CIPS and Ameren-Illinois Power depending on the regulatory and market conditions at the time.

With the end of the transition period and the removal of many of the regulatory conditions at the start of 2007, the IEC expects to offer competitive electric power supplies to considerably more schools than are currently participating in the IEC. This expected expansion of the IEC program will be the result of expanding into other utility service territories, such as Ameren CILCO, and providing a wider array of electric power supply options in the territories where IEC has provided net savings for years.

As you are also aware, there will be considerable debate in the legislature and in the press regarding the actual end of the transition to competitive power supplies in 2007. There will be numerous suggestions of changes in legislation for the post-transition period. However, we anticipate that the resulting post-transition power supply environment for schools will, under nearly all proposals, be based on market-based prices for electricity. We believe that for schools there will be power supplies available on competitive market terms through the IEC.

In the meantime, between now and the end of 2006, we will be planning for the benefit of your schools' electric future. We will be monitoring the debate on the post-transition period, preparing pricing options to attract more participants, penetrating other service territories, and positioning the IEC to take advantage of emerging market opportunities for independent power supplies. These plans are all designed for the benefit of the IEC's participating schools. When the post-transition period begins, the IEC will be ready for you.

Current Events in the Electric Marketplace

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lows further review of the recent unfavorable actions by the Illinois governor designed to prevent Ameren's Illinois utilities from raising electric rates in 2007. The governor stated his adamant opposition to the heavily negotiated power-procurement process by which the utilities, which have virtually no generating capacity of their own, will acquire power after 2006."

The S & P statement noted that Blagojevich last month named Martin Cohen, the former head of a consumer advocacy group, the Citizens Utility Board, as the new ICC chairman. His appointment still requires Illinois Senate confirmation.

Even though Ameren "believes that a constructive settlement can ultimately be achieved, the regulatory climate in Illinois has suddenly become exceptionally politicized and uncertain," S & P said.

Paul Patterson, an analyst with Glenrock Associates in New York, noted that no one has yet come up with a substitute proposal that would replace the power auction plan in Illinois.

"If they don't want the auction, what's your alternative?" he asked.