

WHAT ARE THE REAL COSTS OF PRAIRIE STATE?

Prepared by the Institute for Energy Economics and
Financial Analysis (IEEFA)

January 24, 2013

WHAT IS THE PRAIRIE STATE ENERGY CAMPUS ?

About the Facility

- **Plant Facts**

- 1600 MW Coal Fired Power Plant, 40 miles Southeast of St. Louis near Lively Grove, Illinois
- Mine Mouth – Illinois Basin Coal
- Service in 7 States (OH, MO, IND, ILL, KY, VA, WV)
- Owner: Prairie State Generating Company (PSGC)
- Developer: Peabody Energy
- Partners: Municipal Power, Generation and Transmission Agencies
- Participants: Municipal Systems and Coops – Residences and Businesses

The largest coal fired power plant currently under construction in the country.



WHO DEVELOPED THE PROJECT?

- **Peabody Energy**, the largest coal producer in the world with \$6.97 billion market capitalization
 - Original Developer – 100% interest, now 5.06 % interest.
 - Secured permits for the site
 - Sold land to PSGC Owners for ashfill.
 - Sold Coal Reserves. Positioned to Sell more.
 - Developed the Mine Plan
 - Operations Manager for Mine (5 years).
 - Receives fees for its Advisory Role in the Supervision of Plant Operations under a Management Agreement

WHO OWNS IT?

- Peabody sold all but 5.06% interest in the project to eight municipal power, generation and transmission entities
- Municipal Power Generation and Transmission Entities own 94.94% of the project including 217 municipalities and 17 electric cooperatives

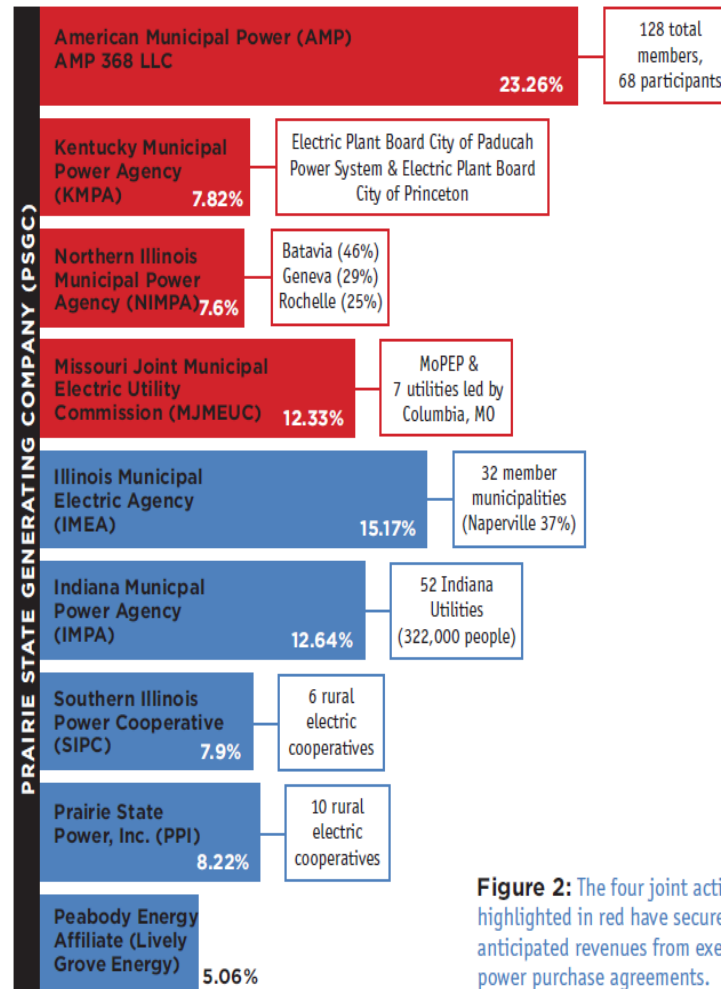


Figure 2: The four joint action agencies highlighted in red have secured the bonds with anticipated revenues from executed take-or-pay power purchase agreements.

IS THE PLANT RUNNING?

What has contributed to current delays?

- On March 27, 2012 during testing, Unit 2 experienced a failure of one of the unit's large induced fans. Because the design of Units 1 and 2 are the same, Unit 1 was removed from service preemptively on March 28, 2012 to prevent similar damage.
- On June 6, 2012 Unit 1 went into operation
- On November 2, 2012 Prairie State Generating Company announces Unit 2 comes on line and the Company claims that the Campus will exceed its rated capacity of 1600 MW and be more efficient and operate at a lower cost.
- During the entire month of November, Unit 1 was idle because of a turbine valve problem and some failed fiberglass piping
- Numerous operational difficulties will decrease the revenue from the plant and in turn create greater losses to the communities contracted to purchase power.
- As recently as January 2013, comments from AMP CEO Marc Gerken suggest that an 85% Capacity Factor remains a goal and not a reality for the plant.

**OVERALL THE PLANT
HAS RUN FAR BELOW
PROJECTED LEVELS
FOR 2012, EVEN
THOUGH THOSE
LEVELS WERE
REDUCED ALREADY
FOR NORMAL STARTUP
LOSSES.**

HOW MUCH WILL THE TOTAL PROJECT COST?

- **The Prairie State Project ran behind schedule and total plant and project costs are over budget**

- **Plant Costs:**

- 2008 Estimate: \$2.9 Billion
- 2010 “Fixed Price”: \$ 4.0 Billion

- **Total Project Costs**

- 2008 Estimate: \$ 4.0 Billion
- 2012 Estimate: \$ 4.9 Billion

- **And rising.....**

- Millions of dollars of new costs could be incurred for:
- additional coal ash storage
- additional mine assets
- environmental regulatory compliance

HOW MUCH WILL I BE PAYING FOR POWER?

...Well above wholesale market prices

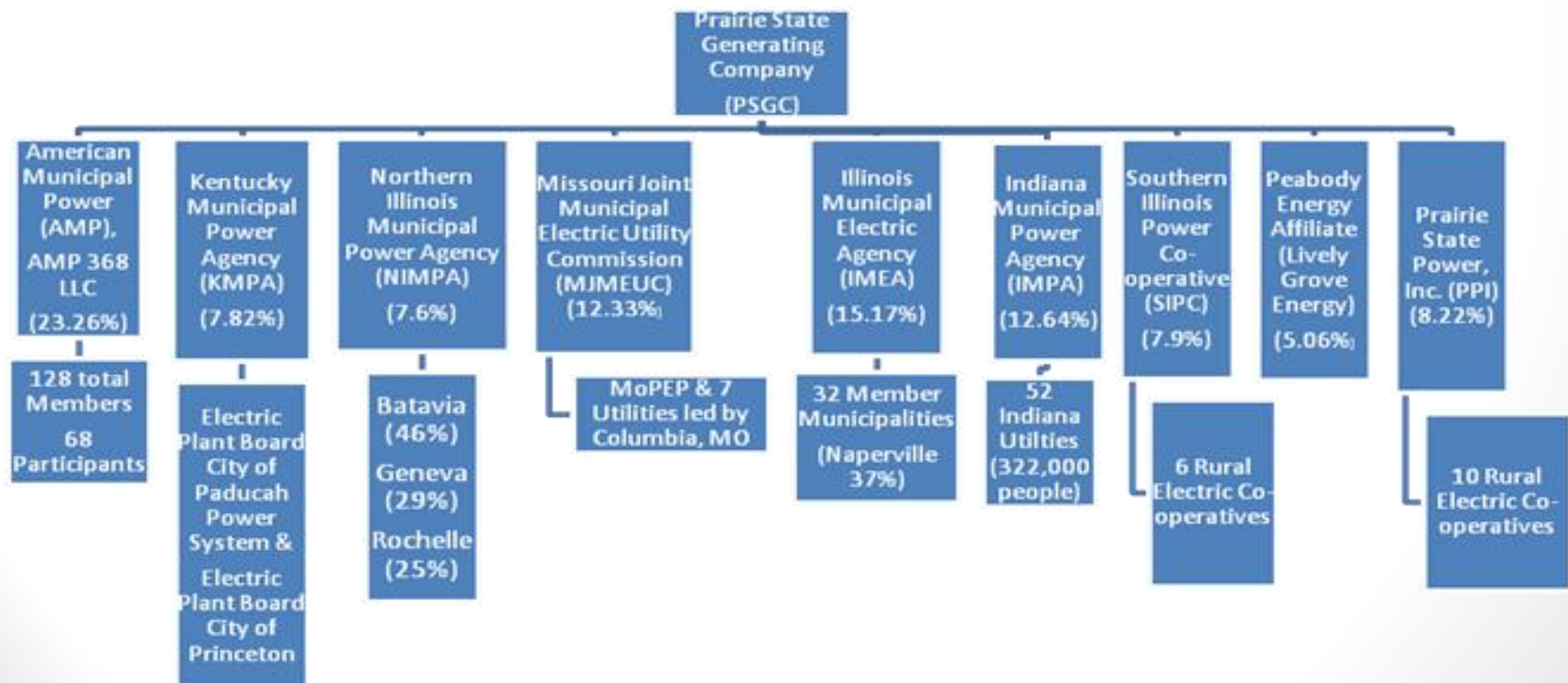
- While the price of power will vary across communities, it is unlikely that Prairie State project will produce power below wholesale market rates as projected by Peabody.
- This means local communities are paying more for the power than they were promised. It also means the price is higher than the current market price of power.
- Some communities are paying for the electricity, but not using it. They sell it on the open market and are losing money.
- Collectively, communities are now paying millions of dollars per month on the delayed project and many are purchasing replacement power to meet power supply needs.
- The IEEFA study shows that communities will pay anywhere from 30% to 100% more than originally promised for the electricity.
- Prairie State is among the highest price electricity a community may receive. Many receive electricity from more than one place. Currently natural gas plants are producing electricity far cheaper than Prairie State.
- This will continue for the foreseeable future.

“...We’re still losing money, “ Bob Stevens, BPW’s general manager. “We are getting revenue from the sale of energy off of our piece of that plant. The revenue we’re receiving does not cover our whole expense yet and it won’t for a long time.” (Missouri)

- ‘Hannibal Still Losing Money On Illinois Plant, “ *Hannibal Courier Post*, January 12, 2013

HOW DOES THIS IMPACT MY COMMUNITY?

- If you receive power or services from any one of these entities, then Prairie State affects you.



Where can I learn more?

- The Institute for Energy Economics and Financial Analysis (IEEFA) released “The Prairie State Coal Plant: The Reality v. The Promise”

August 2012

- Available at <http://216.30.191.148/IEEFA/Prairie%20State%20Coal%20Plant%20report%2008-12.pdf>

- FINDINGS INCLUDE:
- Communities throughout the Midwest will pay millions in excess power costs through 2025
- These costs will be even higher if Prairie State fails to produce power at the level of performance (85% capacity factor) promised.
- These and other factors will likely create fiscal problems for participating communities.

What can I do?

- Residential and commercial ratepayers should ask their city officials for answers about how these costs impact their rates.
- City and town governments should gather information and consult their attorneys and finance officers about the status of the plant and the prices being paid for electricity.
- Ask your state government to review the deal. State governments should be asked to assist local governments secure sound, independently verified information. Governors, Legislators, State Attorney Generals and state financial officers (Treasurers and Comptrollers) should review the transactions.

Resources and Links

- For more information about the Prairie State Coal Plant go to www.prairiestatecoalplant.org