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REPORT: WITH COST OF ELECTRICITY UP TO DOUBLE PROMISED LEVEL, PRAIRIE STATE COAL-FIRED POWER PLANT TO MEAN HIGHER UTILITY BILLS FOR MILLIONS IN 8 STATES


Photograph by Kathy Andria

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217 Towns and 17 Coops in IL, IN, KY, MI, MO, OH, VA, and WV to Bear Steep Cost of "Broken Promises" and Risks in Peabody Energy Project; Communities to Face Fiscal Pressure From Tax-Exempt Bond Financing.

WASHINGTON, D.C. – August 29, 2012 – Higher utility bills for 2.5 million ratepayers in eight states and billions of dollars in fiscal fallout for elected officials in hundreds of communities are expected now that the cost of electricity from the Prairie State Energy Campus (PSEC) coal-fired power plant will be 40 to 100 percent higher than promised by Peabody Energy, according to a major new report from the Institute for Energy Economics and Financial Analysis (IEEFA).

The IEEFA report is available online at http://www.ieefa.org.

Sold by Peabody as a cheap source of power to public power entities representing 217 municipalities and 17 electric membership cooperatives in Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio, Virginia, and West Virginia, the PSEC project is now behind schedule, well over budget (with construction costs estimated as high as $4.9 billion versus the original $1.8 billion projection), and not yet producing power as promised, according to the new IEEFA report, *"The Prairie State Coal Plant: The Reality vs. the Promise."*

Based on a detailed review of documents for the communities in Ohio and Missouri, the IEEFA report estimates annual losses per community through 2025 will range from $3 million to $56 million, reflecting the "significant fiscal problems and stresses for the participating communities" in the troubled PSEC project. Since 2007, Peabody Energy has shifted 95 percent of its exposure in the PSEC onto the backs of local communities and coops.

The Prairie State Energy Campus is a 1,600-megawatt, coal-fired electrical power station and coal mine under construction near Marissa, Illinois, less than 50 miles from St. Louis.

Report co-author Tom Sanzillo, director of finance, Institute for Energy Economics and Financial Analysis, said: **"Elected officials, ratepayers, investors and market regulators should ask this question: Did Peabody Energy disclose everything it could have in terms of the risks, the likely costs, and what would happen to the communities and coops when the coal company offloaded more than nine tenths of its exposure in the project? Our report suggests that the risks were sometimes known and almost always possible to estimate, but that communities, coops and ratepayers were left in the dark. Far from being a low-cost source of energy, the first year cost of power from Prairie State is 40 to 100 percent higher than the current cost of power in the Midwest wholesale markets and is expected to remain higher than market prices for the next 10 to 13 years, if not longer."**
"The Prairie State plant is, unfortunately, turning out to be the economic and environmental nightmare that many of us had feared," said Sandy Buchanan, executive director, Ohio Citizen Action. **"Electric ratepayers and municipal officials in the**

communities buying power from this plant should investigate what can be done to protect their communities and insist that Prairie State and Peabody open the books."

Kerwin Olson, executive director, Citizens Action Coalition of Indiana, said: **"Hoosier ratepayers are significantly disadvantaged by a lack of information and transparency. The Indiana Utility Regulatory Commission is completely disengaged and disinterested, this despite the fact they authorized putting captive Hoosier ratepayers on the hook for over $740 million in debt. Additionally, IMPA has been less than forthcoming with the public masking the project in the fallacy that is clean coal while not disclosing the risk and enormous expenses their member communities are saddled with as a result of this fiasco. The time has long since passed for Hoosier ratepayers to know the truth about Prairie State and for Indiana to end our love affair with coal and shift investments to energy efficiency and truly renewable resources, like wind and solar, which are cleaner, less risky, and far cheaper."**

The PSEC was originally conceived and developed by Peabody Energy, the nation's largest coal producer. Until 2007, Peabody Energy was 100-percent owner of the project.

Peabody Energy sold 95 percent of its interest in the plant in 2007 to public power entities in five states, with the largest partner being American Municipal Power (AMP) in Ohio. With state participation came local communities getting the option to buy in and sign contracts to support billions in tax-exempt bonds. More than 200 communities throughout the region agreed to take electricity from the plant upon its completion.

<u>THE BROKEN PROMISES</u>

As the IEEFA report explains, the PSEC project developers, first Peabody Energy and then state public power entities, made three significant promises:

- Prairie State would provide affordable, low cost electricity - from Day One of plant operations -- to participating communities for 30-50 years.

- If communities owned the plant, the cost of electricity would be controlled and affordable for decades.

- Local municipalities could sell any surplus cheap electricity on the market and make money for local budgets.

The IEEFA report outlines how none of these promises are being kept by the PSEC project:

- Broken Promise #1: The price of electricity from Prairie State is neither cheap nor affordable. The price is far above that promised by Prairie State's sponsors and it is far above the market price of electricity. Project sponsors in 2007 promised a cost of electricity of $41 MWh from the plant. By 2010 AMP revised those estimates upward to $57.25 MWh, or 40 percent higher than originally promised. (In the current market the price of electricity is $40 MWh. However, PSEC communities will have to pay at least $57.00 MWh from Prairie State. The IEEFA study forecasts real electricity prices for the local communities in excess of $80 per MWh in 2012 - or more than 100 percent of the originally promised cost of electricity.

- Broken Promise #2 - Over the next decade the plant will not produce electricity that is either affordable or low cost. The market outlook for the Prairie State plant shows that the cost of electricity from the plant is consistently above the price of power on the private market for at least the next decade. The cost of power paid by the communities from Prairie State is not competitive with the private market.

- Broken Promise # 3 - Communities will lose money on Prairie State. The IEEFA analysis shows that the project loses money for each participating community the study authors reviewed through at least 2025. The report contains a review of thirteen communities in Ohio and Missouri served by American Municipal Power in Ohio. We estimate annual losses per community through 2025 will range from $3 million to $56 million.

Additional financial risks for the municipalities and tax-exempt bond investors remain:

- The final construction cost of PSEC and its implication for the cost of electricity from the plant has not been finalized. The most significant reason for the rise in the cost of electricity from the plant is the skyrocketing cost of the power plant. The report shows that Peabody and specifically AMP should have known that construction costs were rising. Both canceled plants in other communities during this same period precisely because of rising construction prices. The report shows how dozens more plants were canceled during the initial planning stages of the PSEC project.

- Peabody Energy sold the related Lively Grove coal mine to PSEC with a promised 30-year supply of coal for the plant. Federal regulators have called into question the safety of the proposed mine plan. If the plan is changed, the mining reserve make shrink to a 22 year supply and PSEC will have to go elsewhere to buy presumably even more expensive coal.

- Third, Peabody Energy sold the Jordan Grove Ashfill (also part of the overall "Campus") to Prairie PSEC with an expected life of 23 years. However, once PSEC officials took title and investigated actual ashfill conditions, it discovered the capacity was only 12 years. PSEC then purchased another ashfill site, but plant officials have not yet disclosed the costs of doing so or how much it will add to the already ballooning overall price tag for the project.

ABOUT IEEFA

IEEFA conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's Mission is to accelerate the United States' transition to a diverse, sustainable and profitable energy economy and to reduce the nation's dependence on coal and other non-renewable energy resources. For more information, go to http://ieefa.org on the Web.

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EDITOR'S NOTE: A streaming audio replay of this news event will be available as of 3 p.m. CDT/4 p.m. EDT on August 29, 2012 at http://www.ieefa.org.