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2014 – Another Year of Unmet Promises for the Prairie State Energy Campus

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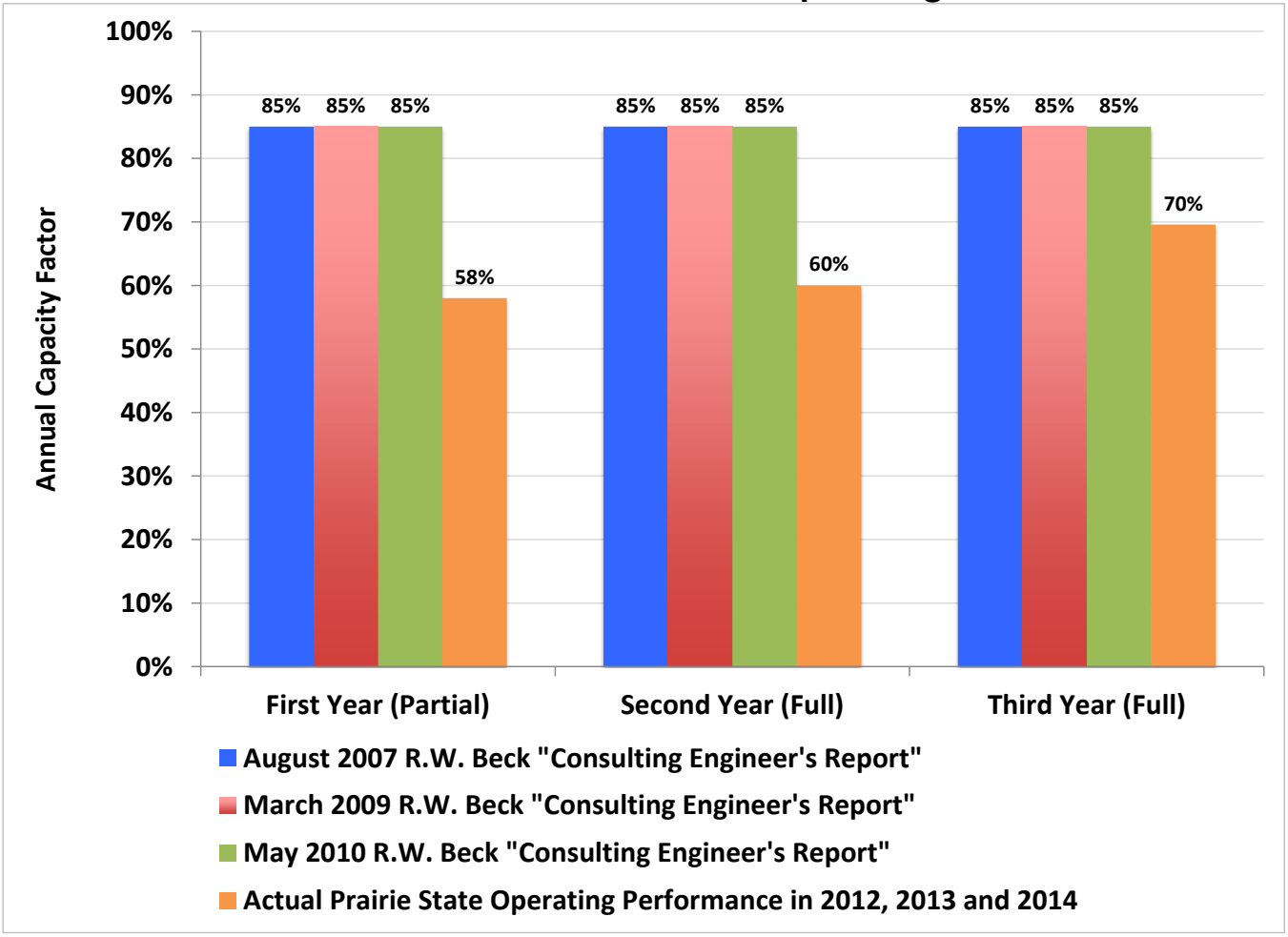
The Prairie State Energy Campus failed in 2014 -- as it failed in 2012 and 2013 -- to provide the reliable, low cost power that American Municipal Power (AMP), Peabody Energy, and the other plant owners promised when they convinced more than 200 communities around the Midwest to sign long-term contracts to buy power from the plant.

1. Failure to operate at promised capacity factor

When it was promoting Prairie State to communities in 2007, AMP used a study by R.W. Beck, its consultant, showing that Prairie State would immediately operate at an average 85% annual capacity factor right after the plant began commercial operations, and would achieve this same excellent level of operating performance every year thereafter. (Capacity factor compares how much power a plant actually produces with how much it would have produced if it had run at full power all the time during the specific time period (for example, a month or a year) being considered. The higher the capacity factor, the better the plant is operating and the more power it is producing.)

The plant's owners made this same claim about its expected operating performance in the documents they used to sell bonds to investors to raise money to build Prairie State. However, the plant's actual performance in 2012, 2013 and 2014 has been far below this promised level.

Chart 1: Prairie State's Promised vs. Actual Operating Performance



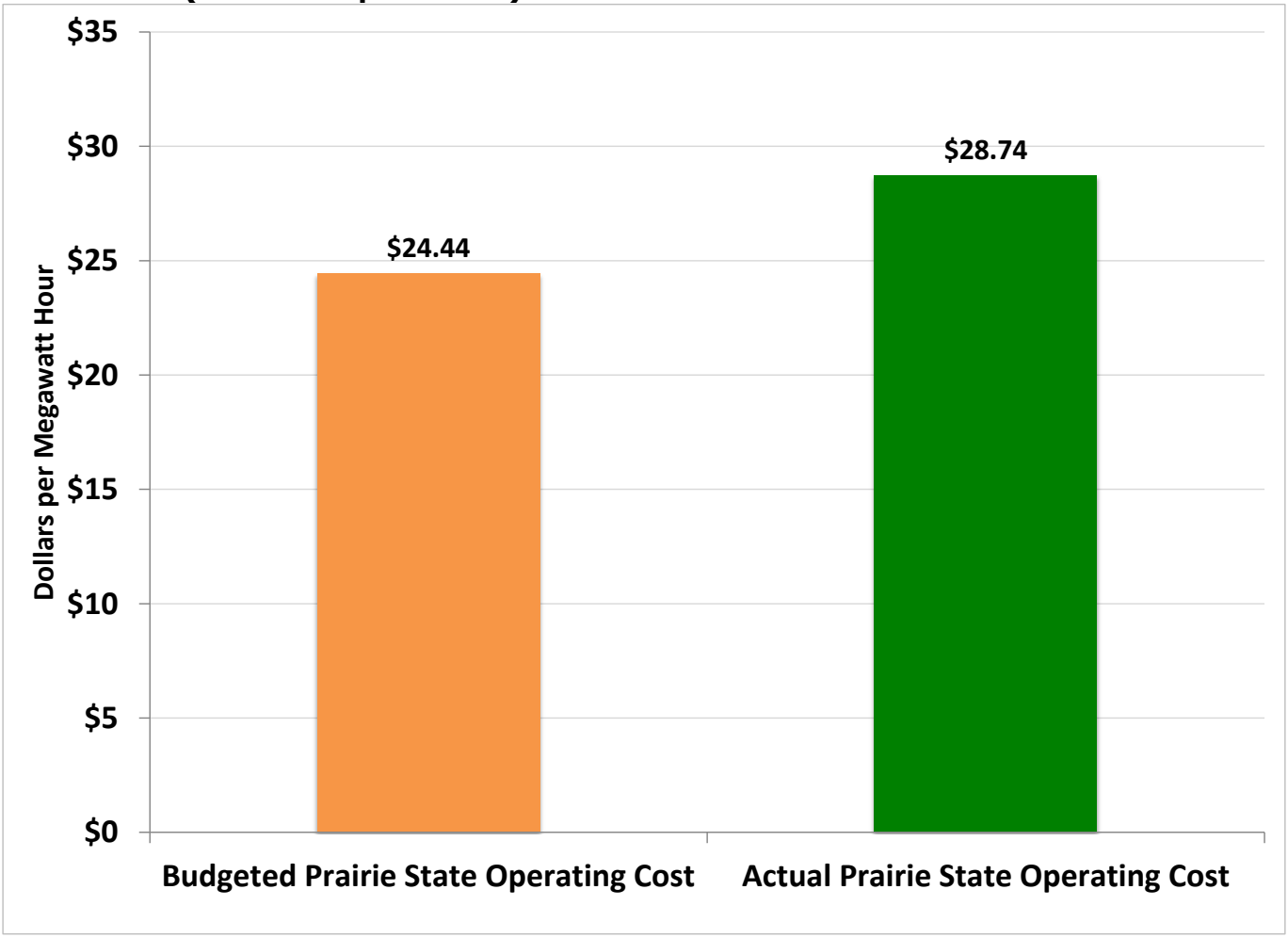
Thus, the plant has actually operated at less than 64% capacity since it began operations in June 2012, far below the 85% capacity promised by the owners. It also operated at less than the 78% capacity factor the owners had included in their budgets for 2014.

2. Failure to provide low cost power

Prairie State's 2014 operating costs were more than $13 million higher than the owners had budgeted.

This bad-for-ratepayer combination of higher costs and lower generation than budgeted meant that the plant's actual operating cost in 2014 was $28.74 per megawatt hour (MWh), or 18% higher than the owners had forecast.

Chart 2: Prairie State's Actual vs. Budgeted Plant Operating Costs for 2014 (in dollars per MWh).

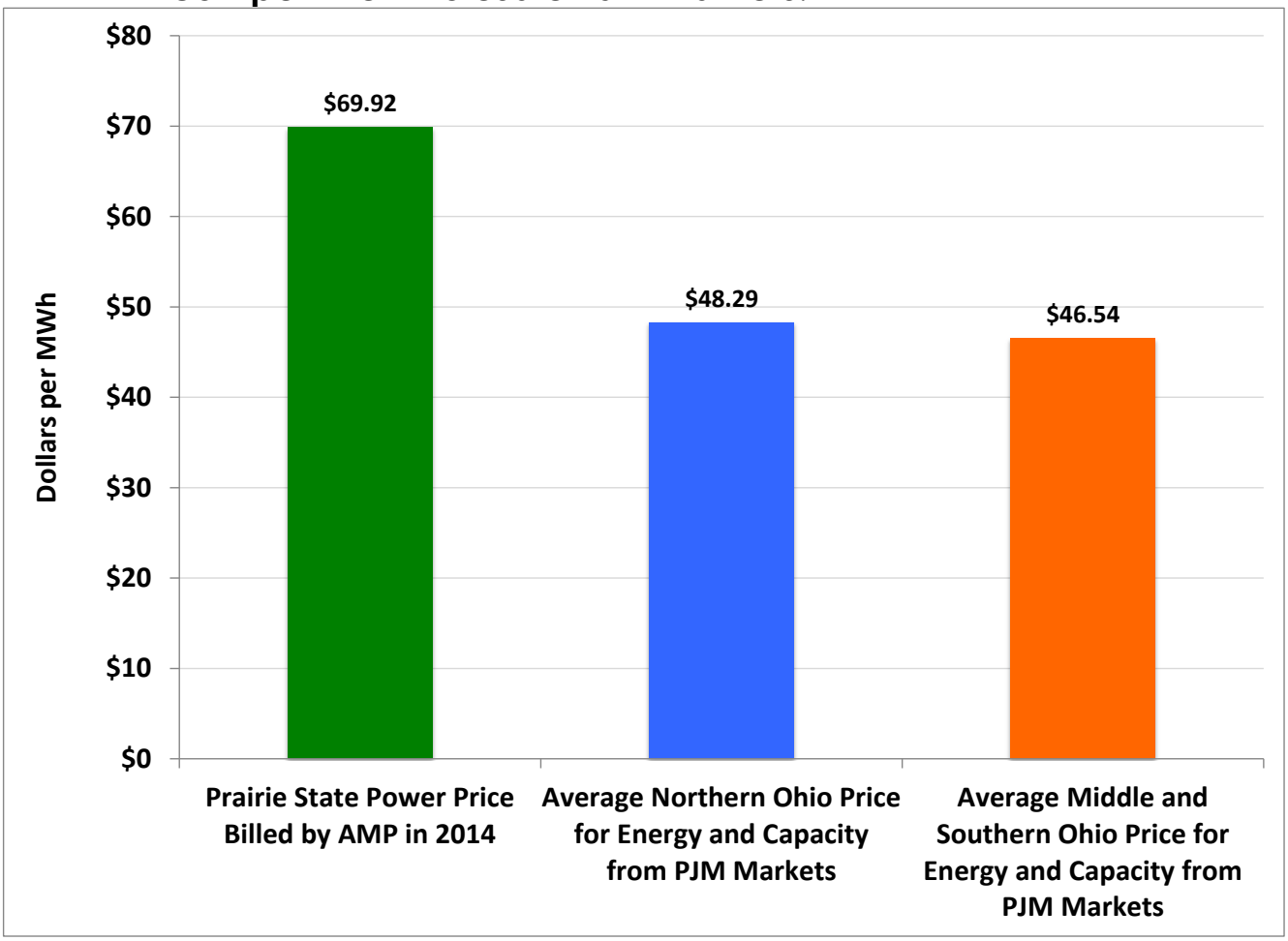


AMP has kept the total cost of Prairie State power that it bills to its members lower than it would otherwise be through the use of accounting practices that it calls Rate Stabilization and Levelization. These practices defer some of the current true cost of the power from Prairie State to future years. AMP decides in advance how much it will bill its members for Prairie State power (an average of $70 per MWh in 2014) and then defers the difference between that billing and the true cost. The ratepayers in the communities will still have to pay most, if not all, of these deferred costs in the future.

AMP hides the true cost of Prairie State power in its bills in another way, as well: by blending the high cost of Prairie State power with the cost of less expensive "replacement power." AMP purchases replacement power on the market when the plant is not operating as well as its managers thought it would.

Nevertheless, even if the predetermined $70 per MWh billing price were a reasonable representation of the true cost of Prairie State power – which it certainly is not – that price was much higher than the price of buying the same amounts of capacity and power from the competitive wholesale PJM markets, as shown in the chart below.

Chart 3: Price for Prairie State power billed by AMP in 2014 versus price of buying an equivalent amount of capacity and energy from the competitive wholesale PJM markets.



Despite their failure to accurately predict the costs and performance of Prairie State so far, AMP and the other plant owners continue to make optimistic claims about how the plant will operate and how low its cost of power will be in coming years. For example, even after the plant has operated at only a 64% capacity factor since it began operations in June 2012, the owners are now predicting that it will operate at an 80.5% capacity factor in 2015 and an 82.2% capacity factor for the entire period 2015-2024. Given these recent unmet promises, any predictions from Prairie State or its owners must be viewed with much more than a grain of salt.

But even if Prairie State does finally begin to operate as the owners have been advertising since 2007, if not earlier, it will remain a financial albatross around the necks of participating communities. Communities will never get back the tens of millions of dollars they have paid unnecessarily since 2012 for the high cost of power from Prairie State. And for decades to come, if they continue their current relationship with Prairie State, they pay higher prices than necessary. The light at the end of this tunnel does not come from Prairie State.

3. Sources

The data presented in this report has been taken from the following Prairie State sources:

*AMP 'Actual Through December 2014' Pro Forma information provided to member communities;
*Prairie State Generating Company's October 2013 Prairie State Update;
*Prairie State Generating Company's September 2014 Prairie State Update;
*Monthly power bills provided by Bowling Green & Galion, OH; Paducah Power System, KY; and the Northern Illinois Municipal Power Agency.