

Prairie State Energy Campus:



Overview of Financial Structure and Municipal Commitments January 11, 2012



Outline

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- **Overview of Project**
- **Financing Structure and Participants**
- **Chronology & Benchmarks of the Project**
- **RED FLAGS**
- **Potential Regulatory Forums**
- **Closing Remarks**

Prairie State Energy Campus

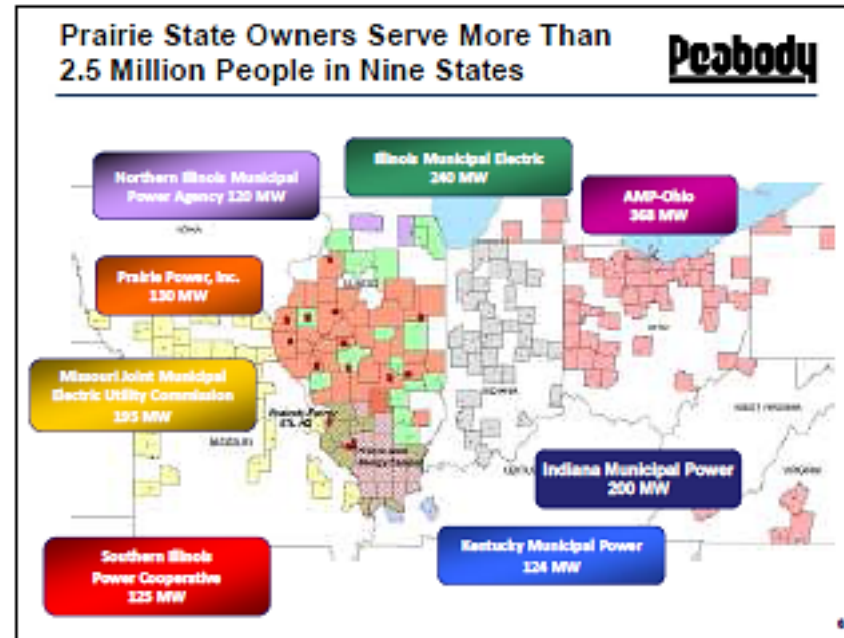
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- In 2001, Peabody Energy announces plans to embark on the Prairie State Energy Campus (the “PSEC project”) is a 1,582 MW coal-fired power plant planned near a six million ton per year coal mine in Southwestern Illinois.
- In 2004, Peabody Energy markets the Prairie State Energy Campus to Public Power Entities to the Midwest.
- Anticipated utilization of 6 million tons of coal annually.
- When proposed, it was slated to provide below wholesale market power to the Midwest at \$44 MWh.
- Total Projected Cost of \$2.9 billion dollars



Prairie State Energy Campus: Electricity Plan

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Prairie State Energy Campus Participants : Ownership Interests

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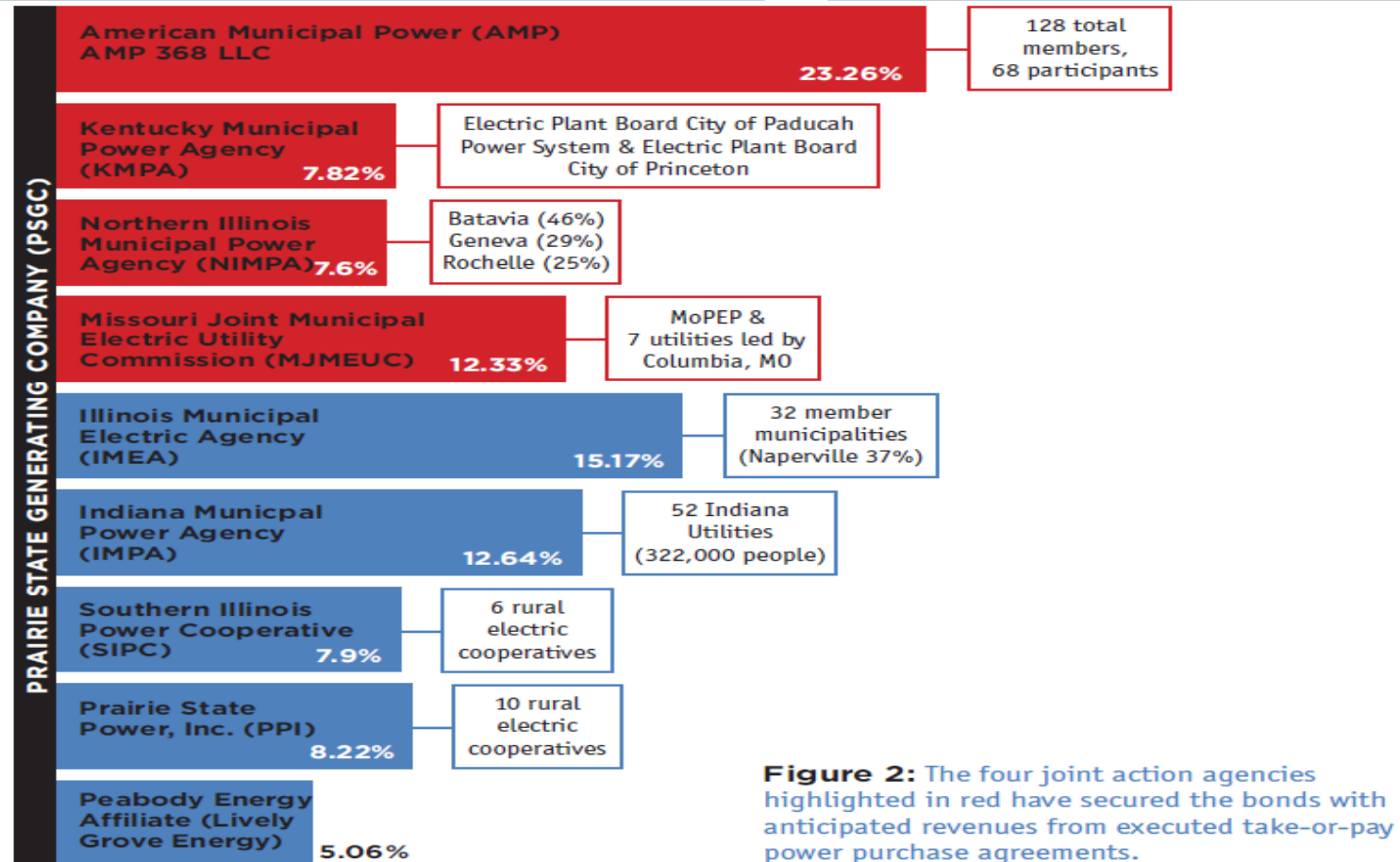


Figure 2: The four joint action agencies highlighted in red have secured the bonds with anticipated revenues from executed take-or-pay power purchase agreements.

Prairie State Energy Campus Participants : Bonds Issuances

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Issuer	Total Issuances
American Municipal Power (AMP)	\$1,816,800,000
Missouri Joint Municipal Electric Utility Commission (MJMEUC)	\$835,730,000
Indiana Municipal Power Agency (IMPA)	\$143,875,000
Kentucky Municipal Power Authority (KMPA)	\$511,725,000
Total	\$3,308,130,000

Take-Or –Pay Contracts

- Agreements between the public power entity and its member communities to purchase power.
- Member communities must make payments regardless of whether power is needed or delivered.

Chronology and Benchmarks

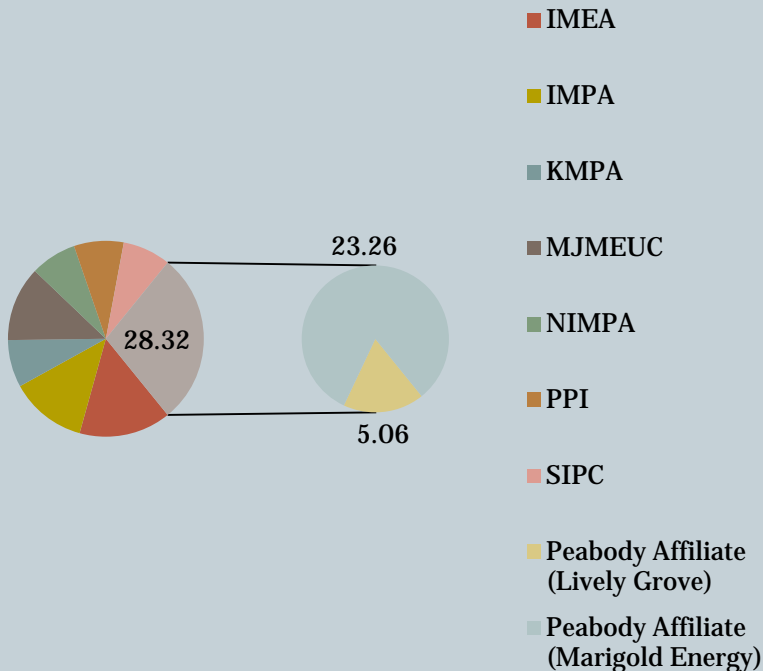
Project continues to proceed despite cancellations of proposed coal fired power plants, even by those sponsored by the Project Participants

- **May 28, 2006: Gregory Boyce, Peabody Executive is quoted as saying “coal is a bargain” to justify two new coal plant initiatives.**
- **August 2007, Peabody withdraws plans for developing the Thoroughbred Generating Station in Kentucky (sister project of PSEC)**
- **February 2008, Rural Utility Service (RUS) suspends lending to new-coal fired power plants.**
- **November 2009, AMP announces cancellation of the Meigs County Project.**

Prairie State Energy Campus: Peabody Divests all but 5.06% of Interests

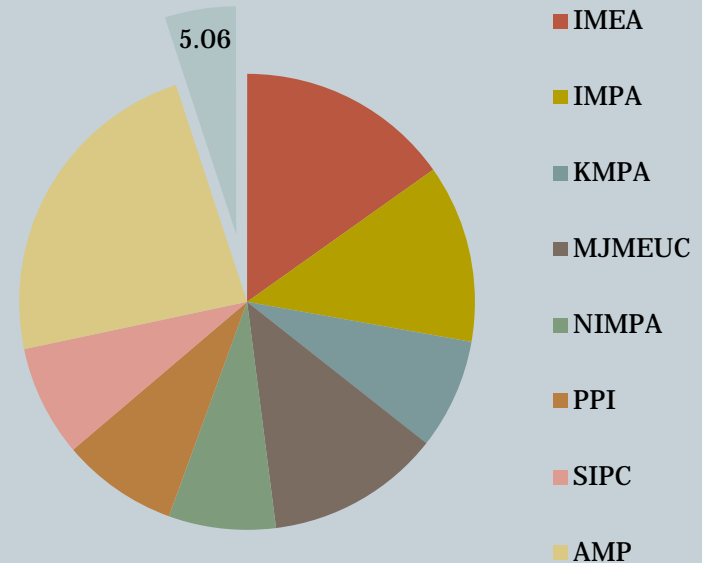
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Prairie State Generating Company, LLC June 2007



Prairie State Generating Company, LLC

Ownership Interests December 2007



Prairie State Energy Campus

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Source: Contracting for the 21st Century: A Partnership Model (January 2002)
Wendell C. Lawther, IBM Endowment for the Business of Government

- **Complexity and Uncertainty**
- **Risk**
- **Cost Sharing**
- **Trust**
- **Commitment**
- **Coordination**
- **Dimensions of Public-Private Partnerships**

Prairie State Energy Campus Cost Sharing: Peabody's Profits

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- In 2007, Peabody takes \$26.4 million in the sale of 172 million coal reserves and \$114.3 million in cash proceeds in the transaction.
- In 2008, Peabody takes another \$29.5 million in fees for the entrance of AMP as a partner
- Mine Assets
- Coal Combustion Waste Storage

- Available at Peabody's 2008 10k <http://www.sec.gov/Archives/edgar/data/1064728/000095013708002952/c24071e10vk.htm>;
- Peabody's 2009 10K <http://www.sec.gov/Archives/edgar/data/1064728/000095013709001381/c48947e10vk.htm>

Prairie State Energy Campus Financing Plan: Red Flags

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- 6 Public Power Entities Have Issued **\$5 billion dollars** of municipal bond debt in a combination of tax exempt, taxable and federally subsidized Build America Bonds.
- 51% Of the Project will rely on Revenue from Take-Or-Pay Contract Obligations whereby Participants are required to make Payments regardless of unit operation.
- Step-up provisions are intended to mitigate risk of default but may be insufficient.
- Questionable accounting and limited disclosure of risks raises red flags for potential violations under securities law.

Prairie State Energy Campus Cost Overruns & Overvalued Assets.

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- PSEC's 30 year coal reserve acquisition; overvalued.
- Ashfill's 23 year permit overstates actual capacity.
- New Fixed Construction Contract riddled with exceptions to allow additional costs that further exceeds the \$1 billion in overruns the project has incurred.

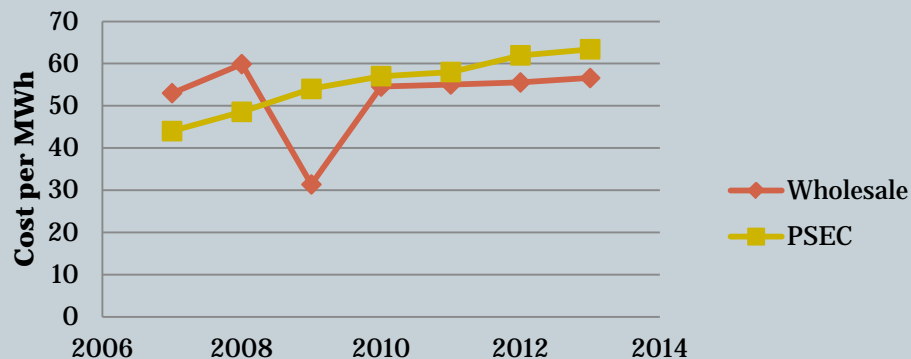


Prairie State Energy Campus: Rapidly Escalating Cost of Power

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- **Estimated Costs of Electricity for the Prairie State Campus have escalated by 30%. Costs of Electricity Generated by PSEC estimated \$58 - \$63.40 MWh vs. \$35-40 per MWh for Natural Gas.**

Forecasted Busbar Electricity Costs



Prairie State Energy Campus Lessons & Red Flags

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- **Liquidity Risks**

- ✦ Contractual Terms and Untenable Arrangements to Guarantee Revenue Flow;
- ✦ Prohibitive Levels of Debt Impacting System Wide Operations and Maintenance;

- **Credit Risks**

- ✦ Debt Factors
- ✦ Economic Factors
- ✦ Administrative/ Governmental Factors
- ✦ Fiscal/ Financial Performance Factors

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Red Flags: Communication

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- **Inconsistencies in Material Disclosure May Signal Irregularities;**

Are the disclosures in offering documents and continuing disclosure documents consistent among participants? Among press releases?

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Red Flags: Points of Engagement

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- **Political Terms and Arrangements:**
 - Campaign Contributions
- **Conflicts of Interest**

Do certain decision makers have financial interests on both sides of the transaction?

Integrity Forums: Financing Coal-Fired Power Plants

Potential Regulatory Engagement

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Project Risks

- ✦ Mine Health Safety Administration (MHSA)
- ✦ Federal Energy Regulatory Commission (FERC)
- ✦ Commodities Futures Trading Commission (CFTC)

Bond Risks

- ✦ New York State Attorney General (NYSAG)
- ✦ Securities and Exchange Commission (SEC)
- ✦ Municipal Securities Rulemaking Board (MSRB)
- ✦ Treasury Department, Internal Revenue Service (IRS)

Prairie State Energy Campus

“...The City Council has approved a combination of a 10 percent electric rate increase and a nearly \$7 increase to the monthly fixed customer fee, from \$3.59 to \$10.

City officials said they expect power costs to be higher due to the higher costs associated with Prairie State.”

(Batavia, Geneva and
Naperville IL:
(NIMPA)

Electric bills going up for Batavians

By Linda Girardi For The Beacon-News December 12, 2011 2:56PM

[Reprints 1](#)

Updated: December 16, 2011 4:52PM

BATAVIA — Residents will pay more for electric power next year, as the municipal utility begins for the first time to receive power through the Prairie State power plant project in southwestern Illinois.

- The City Council has approved a combination of a 10 percent electric rate increase and a nearly \$7 increase to the monthly fixed customer fee, from \$3.59 to \$10.
- Aldermen also decided to replace the four-month summer-winter rate system with a “levelized” electric rate for all 12 months of the year.
- The combined hikes will mean an additional \$8 to \$21 per month for the average household, city officials said. City officials said residents will see a slight decrease in their usage fees in the summer months by having the same rate throughout the year.
- The last electric rate hike was in 2008.
- In 2012, the municipal utility will begin to receive power through ownership in the Prairie State project via the Northern Illinois Municipal Power Agency — an intergovernmental group of three cities: Batavia, Geneva and Rochelle.
- City officials said they expect power costs to be higher due to the higher costs associated with Prairie State. The first of two units from the coal-fired generating plant is about to deliver power.
- “On Jan. 1 we will begin to get some of the higher energy bills — that is why we are implementing the rate increase throughout the fiscal year of 2012,” said Gary Holm, Public Works director.
- “The first unit at Prairie State should be delivering power in January,” Holm said.
- The cities began looking into the project about a decade ago and construction began in 2007.
- City officials said they anticipate the higher power costs will be for the short-term and will level out with the market. They said the long-term ownership will benefit customers.
- Holm said the city expects to spend \$31.9 million for power in 2012, compared to \$25.8 million in 2011.
- “In the short-run, with it being a new plant and cost over-runs in the construction, it is a little more expensive, but we feel over the life the plant it will help,” Holm said.
- “We need to make sure the utility has sufficient revenues in order to properly maintain the system and retain its electric reliability,” Holm said.

Prairie State Energy Campus

Helpful References

- New Insights into Proposed AMP Generating Station, October 2009 available at <http://www.sierraclub.org/coal/oh/downloads/New-Insights-Into-Proposed-AMPGS.pdf>
- “Don’t Get Burned” The Risks of Investing in New Coal-Fired Generating Facilities, Synapse Energy Economics, Inc. Report prepared for the Interfaith Center on Corporate Responsibility. Available at <http://www.narucmeetings.org/Presentations/David%20Schlissel%20Don't%20Get%20Burned%20-%20NARUC%20Summer%20Meetings%20-%20R1,%2007.21.08.pdf>
- Clean Coal Dream Costly Nightmare, Michael Hawthorne, Chicago Tribune, July 12, 2010 available at http://articles.chicagotribune.com/2010-07-12/news/ct-met-coal-plant-20100710_1_new-coal-fired-power-plant-clean-coal-electricity
- Prairie State Coal Fired Plant to Cap Costs, Michael Hawthorne, Chicago Tribune, July 24, 2010 available at <http://www.chicagotribune.com/news/local/ct-met-coal-plant-costs-20100723,0,2614642.story>
- Phasing Out Federal Subsidies for Coal, Synapse, Sierra Club Report available at <http://www.sierraclub.org/coal/downloads/2010-04-13-FedCoalReport.pdf>
- Aubrey Sutton, “APPA Refutes N.Y.C. Official’s Claims on Coal Fired Plants,” the Bond Buyer, June 26, 2008 referencing letter from William C. Thompson, Jr., Comptroller of the City of New York to Eric Solomon, Assistant Secretary for Tax Policy, Department of the Treasury, June 6, 2008.
- For access to the Official statements and Continuing Disclosure Documents : www.emma.msrb.org EMMA Website of the Municipal Securities Rulemaking Board (MSRB)

Photo Credits

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- Cover shot: Aerial image and Slide 2 image of the Prairie State Energy Campus taken November 2010 by John Whitney of Aerials by Whitney available at <http://www.prairiestateenergycampus.com/pages.asp?pagemainlevel=6&pageid=135>
- Slide 3: Taken from the Power Point Presentation of Peabody Energy's Director of Government Relations, Fred Palmer for the Annual Coal Trans Meeting February 2-4, 2011
- Image 7; Coal Mined from the Lively Grove Mine intended for the Generating Station available at <http://insidestcharles.com/2010/09/10/city-representatives-monitor-progress-on-prairie-state-energy-campus/>

For Additional Information

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**Prepared for the Institute of Energy Economics and
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