

Prairie State Energy Campus

On December 20, 2006 the City of Batavia signed a Power Sales Agreement with the Northern Illinois Municipal Power Agency (NIMPA) to purchase a fixed 3.5 percentage of electric capacity and energy generated by the to-be-built Prairie State Energy Campus (PSEC) in Southern Illinois . Unlike many Power Sales Agreements, this one is different in four material aspects:

1. **There is no set price.** NIMPA bills the City of Batavia its pro rata costs of NIMPA's investment in PSEC. PSEC costs, by 3.5% prorata share, flow from PSEC through NIMPA through the City of Batavia to Batavia ratepayers. These costs, in addition to Batavia's portion of NIMPA debt payments, are part of the electric bill.
2. **There is no guaranteed amount of energy from PSEC.** Batavia ratepayers are charged for the costs of PSEC and debt service whether PSEC produces power or not. Roughly from January 2012 to June 2012, PSEC produced little to no power. Batavia rate payers still were charged for our portion PSEC cost and related debt. (When there is no power production, PSEC costs will be lower than normal as there will be no coal costs, etc. but there are overhead costs and the debt payments remain constant.) By contract, NIMPA will provide energy from another source but we must pay for it in addition to the PSEC costs.
3. **There is no specified end date.** Batavia ratepayers, through their electric rates, will continue to be billed for the costs of PSEC after the debt has been repaid, the coal has been mined and the plant is no longer operating. If there is environmental clean-up associated with a spent mine or coal combustion waste site, ratepayers will be charged until bills for "windup events" are paid.
4. **It is contractually confidential.** The financial details of the original agreement and ongoing PSEC operations are confidential. Most city council conversations about the investment are held in executive session. Complete financial statements are not publicly available.

(per Power Sales Agreement)

In 2006, the Batavia City Council voted unanimously in favor of NIMPA's investment in PSEC and the signing of the Power Sales Agreement. The initial cost of the PSEC project was projected to be \$3.999 billion. After cost increases from 2007-2009, the project cost rose to \$4.933 billion.

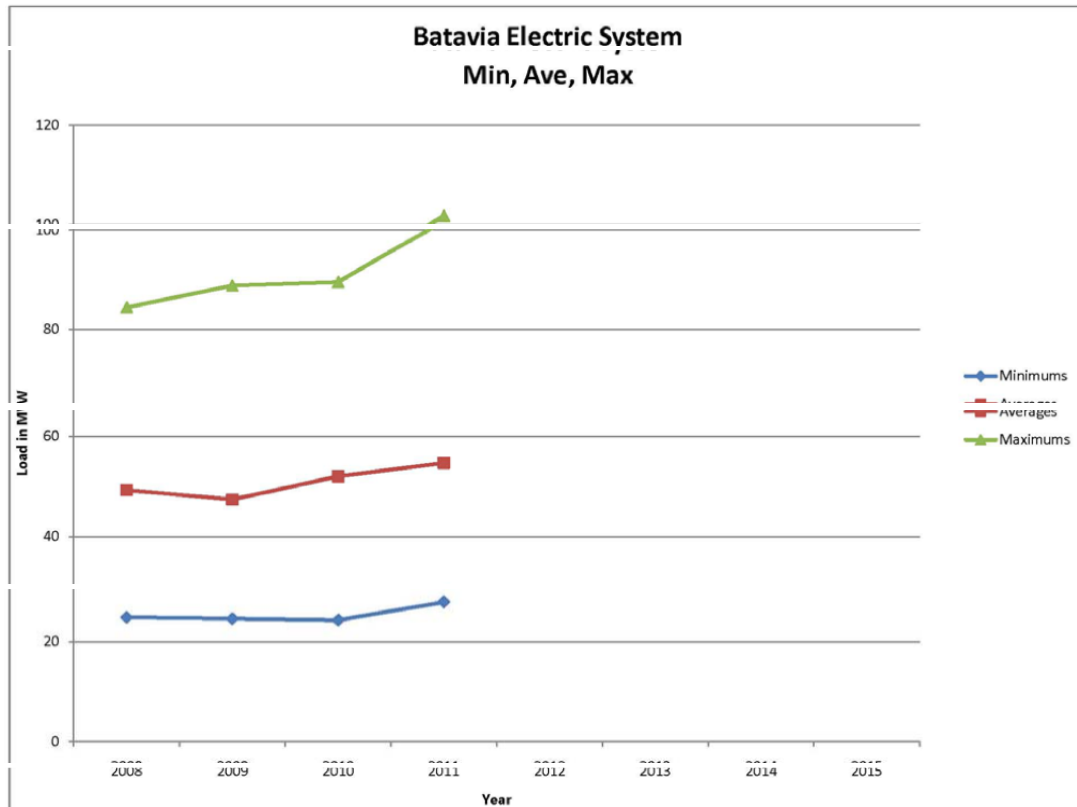
PSEC has 9 owners representing about 220 communities:

- 6 municipal power agencies including NIMPA,
 - American Municipal Power (23.26%) - 68 members
 - Illinois Municipal Electric Agency (15.17%) - 32 members
 - Indiana Municipal Power Agency (12.64%) - 52 members
 - Kentucky Municipal Power Agency (7.82%) - 2 members
 - Missouri Joint Municipal Electric Utility (12.33%) - 60 mbrs
 - Northern Illinois Municipal Power Agency (7.6%) - 3 members (Batavia, Geneva, Rochelle)
- 2 electric cooperatives
 - Prairie Power Inc (8.22%)
 - Southern Illinois Power Cooperative (7.90%)
- Peabody Energy (5.06%)
 - Peabody is a publicly traded coal company that was the developer of the project. They are the only owner with a contractual option to leave the project after 5 years.

NIMPA issued \$537,000,000 of bonds to pay for their investment. Batavia rate payers are responsible for 45.83% of it or \$246,000,000. It will be paid off in approximately 30 years.

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Batavia's contract is for 55MW of 7x24 power = 481,800 MWh. This is more than Batavia often uses. Chart below is for 2011. <http://www.cityofbatavia.net/content/articlefiles/9385-Batavia%20Municipal%20Electric%20Utility.pdf>



Batavia needs to sell excess power on the market probably daily when our demand is lowest and the prices on the market are the lowest. We need to buy additional power on peak days when prices are at their highest. The City is in the process of selling 5MW portions of this power permanently.

The Costs of PSEC Power

(Electricity prices are highly volatile changing from hour to hour, day to day, season to season. In the spring at 2am, the price can go below zero as the market is trying to dump electricity. In August at 2 pm on a work day, the price can go extremely high. The price also varies according to demand at different locations. The comparative prices below reflect bulk purchases (over 50 MW) 7x24 power for at least one month. The price of bulk purchases covering a month are less volatile. While it is difficult to make perfect apple-to-apple comparisons on electric rates, Batavia's cost of energy and power from PSEC currently exceeds market rates and will continue to for the short term future.)

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2007, projected PSEC costs were \$44/MWh.

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- Construction lasted until 2012 and some is still underway for a coal combustion waste storage site. Operations began for unit 1 in June 2012 and for unit 2 in November 2012. The plant is now in a “shake down” period when production may be below normal.

2012, NIMPA charged 57.682/MWh

- 2012 Market rates published by the Illinois Commerce Commission range from \$19.66/MWh off-peak to \$40.76 on-peak.

2013, NIMPA projects to charge \$55.692/MWh.

- 2013 market monthly rates published by the Illinois Commerce Commission range from \$22.41/MWh for off-peak to \$42.44 on-peak.

2014-2017, NIMPA projects rates between \$54-57/MWh

- The Capital Commodity Service, Inc shows future prices for electricity below that threshold through December 2017 as of January 7, 2013.

Future Risks that may increase costs further

- Current rates are based on a federal tax subsidy to NIMPA of \$4-5 million dollars. This is about \$4.50/MWh. The Build America Bond tax subsidies are voted on annually by congress as part of the budget and are not guaranteed.
- The plant burns unwashed coal. This is atypical. Washing coal before burning reduces the amount of rock that is burned with the coal. Burning rock creates wear and tear on the plant. A pro-coal professor at Southern Illinois University predicts that significant additional investment will be necessary. It will take 5-7 years to know if this is the case, just when Peabody may no longer be involved.
- The plants are still running into trouble operationally. PSEC reports this is part of normal start-up processes.
 - Valve break on unit 2 caused 6 month delay in operations for both units.
 - Units continue to be shut down as part of the start-up. In December, Unit 1 had a prolonged forced outage related to a turbine valve problem and failed fiberglass piping.
 - This winter, steam is engulfing the corporate offices although they report this is not a design problem.

Those Who Represent Batavia Ratepayers in this investment

While the Batavia City Council voted to approve the power sales agreement with NIMPA, *as a whole*, they have no role in the decisions of Prairie State Energy Campus.

Batavia has one representative on the NIMPA board. The board is made of three men, one each from Batavia, Geneva and Rochelle. One board member sits on the PSEC Management Committee. NIMPA has no employees. As the board members have no experience in coal mining, coal electric generation or coal ash storage, NIMPA hired an outside consultant to advise them and act as staff.

NIMPA hired IMPA, Indiana Municipal Power Agency. They serve as staff for NIMPA doing most of the daily work. (The only exception is an attorney from Madison, WI.) IMPA is also invested in PSEC. IMPA's president is Raj Rao. Mr. Rao also is and has been the chairman of the board of PSEC since its inception.

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NIMPA's advisors for the investment of PSEC is run by the chairman of the board of PSEC. The recommendations, reports and correspondence about PSEC provided by NIMPA to the City of Batavia are produced by those who work for the chairman of the board of PSEC.

Lack of disclosure

- There are no publicly released reports about PSEC available without FOIA requests.
- There is no uniformity of reporting to the various municipalities that have invested in PSEC. Information is released at the discretion of PSEC first and the Participants second. These are excerpts from the Participation Agreement. "Participant" refers to NIMPA, not the City of Batavia. Batavia city staff and aldermen do receive some reporting that is subject to confidentiality agreements.

Section 1.84 Confidentiality: Except as may be permitted by the Management Committee, no Participant shall disclose or otherwise make available to any other Person (other than such Participant's Affiliates, employees, officers, directors, legal advisors, financial and technical advisors and accountants ... provided each such Person agrees to maintain the confidentiality of such information) any information of a technical, commercial or business nature regarding the Project or this Agreement without prior written consent of the other Participants, except to the extent that disclosure of such confidential Information is required by a court order ... or law

Section 18.14 Public Announcements: No Participant shall, except as required by Applicable Law or the rules of any recognized national stock exchange, cause any public announcement to be made regarding this Agreement, the Project or the Project Agreements without the consent of the Management Committee." (per Participation Agreement)

- There is no contractual requirement for NIMPA to release PSEC financial information to participating cities with the exception on an annual budget and NIMPA's semiannual reconciliation. In practice, some financial information is provided under confidentiality agreements. However, Batavia is contractually obligated to provide information about the city's electric utility system's financial statements and other system information, including but not limited to total energy sales, system demand, sales by customer type, and large non-retail customer sales by customer, and any audited financial reports.

Financial Statements

- From 2007-2011, the financial statement for PSEC have not followed GAAP.
- The year end audits prepared by Deloitte read: "The special purpose financial statements were prepared for the purpose of complying with the Participation Agreement ... and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States".
- Since June 2012, PSEC has improved their accounting system and the statements are now beginning to be GAAP compliant.
- The total period of construction, with the \$1 billion cost overrun, was done without standardized financial reporting according to generally accepted accounting principals.