PRAIRIE STATE
Generating Company

YES.

WE **ARE** THE FUTURE OF ENERGY.

2012 Prairie State Generating Company Annual Report



YES. WE ARE PRAIRIE STATE GENERATING COMPANY.

The Prairie State Generating Company, LLC is a model for the future of energy. As one of the largest energy projects in the United States, it serves as an example of how legislators, regulators, public power agencies, corporations, and communities can work together to provide domestic, cost effective, and environmentally friendly energy to a region.

YES.
THE FUTURE OF ENERGY IS HERE.

Prairie State Generating Company, LLC, the operating company of the Prairie State Energy Campus (PSEC), was born from the decision of municipal public power companies, rural elective cooperatives and the leadership of Peabody Energy to build a better coal plant. Prairie State had its visionary start nearly 12 years ago, beginning with its request for an air permit from the U.S. Environmental Protection Agency (EPA). Six years of litigation later, the U.S. EPA awarded Prairie State its air permit, and construction began in 2007. The Lively Grove coal mine was constructed and built by 2009 and began producing coal in 2011. The 1,600-megawatt power plant began producing commercial power on behalf of its owners in June 2012 for Unit 1, and for Unit 2 in November of the same year.

Prairie State Generating Company's (PSGC) fundamental purpose is to supply our owners with a reliable, low-cost and stable source of electric power that is produced in a safe and environmentally responsible manner. Our more than 500-employee strong work force is focused on that purpose, while upholding the following Prairie State values: safety, integrity, stewardship, respect and innovation. While we focus on producing power, we are also building a new employee-focused company, preserving and enhancing the Owners' value, investing in our community and demonstrating our commitment to the environment.

The challenges we faced over the past five years in building the power plant have been well publicized and, unfortunately, misrepresented in some cases. While we are not happy with the construction cost increases we incurred on behalf of our Owners at the power plant, the actual cost increases incurred are actually much less, on a relative basis, than those experienced by similar vintage and scale projects. The power plant has tested out with an output capability almost 2 percent higher than its nameplate's capacity, and almost 2 percent more efficient as well. The power plant and mine were built and are being operated with industry leading safety and compliance statistics. The environmental controls are performing better than planned. When coupled with the more efficient mine plans earned by PSGC in 2012 and the realization of the Near Field project, these value enhancements represent cost improvements approaching $500 million over the life of the campus.

4,000 WORKERS EMPLOYED TO BUILD THE PLANT

Limestone is stored onsite in a dome-like facility. A limestone and water mixture is used as a cleaning agent to help reduce SO_2.

Inside the power plant control room, a PSGC employee monitors Unit 2.

Prairie State's fundamental purpose is to supply our owners with a reliable, low-cost and stable source of electric power that is produced in a safe and environmentally responsible manner.

While some cynics have tried to embellish and misrepresent some of the challenges we have faced over the past five years, the fact is the Prairie State Energy Campus is and will be a safe, reliable, cost effective, and environmentally responsible source of base loaded electrical energy for its Owners' consumer-members for decades to come.

Prairie State and its owners are at a precipice. Since the early 2000s, we have been talking about building a better way forward for coal and a fundamental new way of looking at power. We built it. Now the challenge is, as our 2013 theme states, to show it. It is my honor to present Prairie State Generating Company's first annual report.

Peter DeQuattro
President and Chief Executive Officer

Raj Rao
Chairman, Prairie State Generating Company Management Committee and President and CEO, Indiana Municipal Power Agency

Prairie State's power is owned by its nine member owners. The power plant's power is scheduled for transmission by the Midwest Independent System Operator, Inc. (MISO), a not-for-profit, member-based organization administering wholesale electricity markets. Power from the Prairie State Energy Campus is used by its nine owners to serve their consumer-members.

YES. WE ARE SETTING THE STANDARD FOR COAL-FIRED ENERGY.

Prairie State's power is 95 percent owned by public power organizations and rural electric cooperatives, entities generally known as public power. Public power is electricity owned by communities. Nationally, according to the American Public Power Association (APPA), these utilities serve more than 47 million Americans. Prairie State's power services 2.5 million Midwesterners.

Unlike private power companies, public power utilities are public service institutions and do not serve stockholders. Public power decision making puts customers first and ensures a stable supply of electricity while protecting the environment. Two-thirds of public power systems do not generate their own electricity, but that is beginning to change. Prairie State is an example of Midwestern public power entities investing in their own electricity generation and moving away from their past dependency on wholesale market purchasing.

Electric cooperatives are private, not-for-profit businesses governed by their consumers (known as "consumer-members"). Two federal requirements for all co-ops, including electric co-ops, are democratic governance and operation at cost. Specifically, every consumer-member can vote to choose local boards that oversee the co-op, and the co-op must, with few exceptions, return to consumer-members revenue above what is needed for operation. Under this structure, electric co-ops provide economic benefits to their local communities rather than distant stockholders.

The majority of co-ops distribute electricity to consumers through low-voltage residential lines that cover more than 75 percent of the nation's land mass. Many of these distribution co-ops, as they're called, have joined to create co-ops that provide them with generation and transmission services (G&T co-ops). Distribution co-ops also buy power from investor-owned utilities (IOUs), public power systems and federal hydropower power marketing administrations (PMAs).

Public power and electric cooperatives measure success by how much money stays in the community through low rates and contributions to the budget, not by how much money goes to stockholders. Public power and electric cooperative entities lower costs through partnerships with other local government departments and organizations. *From American Public Power Association and National Rural Electric Cooperative Association.*

of power from two 800-megawatt units

Prairie State's coal combustion residuals will now be transported via this conveyor system to its new coal combustion residual monofill, Near Field, extending the campus and further decreasing its CO_2 impact.

YES.
WE ARE DRIVEN BY
VISIONARY LEADERSHIP.

American Municipal Power (AMP)

American Municipal Power, Inc. is a nonprofit leader in wholesale power supply for municipal electric systems. AMP helps member communities control their destinies in the volatile world of power supply.

AMP serves 129 members – 128 member municipal electric communities in the states of Ohio, Pennsylvania, Michigan, Virginia, Kentucky and West Virginia, as well as the Delaware Municipal Electric Corporation, a joint action agency headquartered in Smyrna, Delaware. Combined, these publicly owned utilities serve approximately 625,000 customers. *www.amppartners.org*

Prairie State's state-of-the-art control room monitors all capacities and efficiencies of its 1,600-megawatt power plant.

Larry Reuss, Environmental Manager and Craig Bressan, Director, Environmental Health & Safety, discuss PSGC's dedication to environmental responsibility.

The Prairie State Energy Campus includes the largest coal-fueled power plant to be built in the U.S. since 1982.

Illinois Municipal Electric Agency (IMEA)

IMEA's primary function is to provide wholesale electricity to its participants, which they re-sell on the retail market. IMEA is made up of 33 electric systems served under a full-requirements wholesale purchasing contract. The IMEA's goal is to keep power costs low and to be insulated from the high prices that are increasingly common in the short-term power market. *www.imea.org*

Indiana Municipal Power Agency (IMPA)

The Indiana Municipal Power Agency was created by a group of municipally owned electric utilities, enabling them to share power resources and provide electricity more economically to their customers. As a nonprofit organization owned and governed by its members, IMPA focuses on providing its 58 members with a wholesale power supply that is low-cost, reliable and environmentally responsible. *www.impa.com*

VISIONARY LEADERSHIP [continued]

785 million

in economic activity contributed annually

Missouri Joint Municipal Electric Utility Commission (MJMEUC)

The Missouri Joint Municipal Electric Utility Commission is a state-wide Joint Action Agency specifically authorized by state law to operate as an electric utility for the benefit of the combined requirements of the members.

Established by six charter members, the commission has grown to a membership of 67 municipally owned retail electric systems ranging in size from approximately 230 to approximately 109,700 meters. These municipal and cooperative electric systems serve 347,000 retail customers and have a combined peak load of over 2,639 MW.

MJMEUC may construct, operate and maintain jointly owned generation and transmission facilities for the benefit of members. The commission has the authority to enter into contracts for power supply, transmission service, and other services necessary for the operation of an electric utility. Full membership in the Missouri Joint Municipal Electric Utility Commission by Missouri municipal utilities requires approval of a Joint Contract and acceptance by the board of directors.

Each member is represented on the board of directors by a director and alternate director that are appointed by the member at the time their joint contract is executed. *www.mpua.org*

Kentucky Municipal Power Agency (KMPA)

KMPA, headquartered in Paducah, Kentucky, was created in 2005 by a group of forward thinking municipally owned electric systems in Kentucky to deliver affordable and reliable electric power to customers while keeping in mind a responsibility to the environment.

KMPA is a "Joint Public Agency." This means that KMPA is a not-for-profit organization owned and governed by its members, who are all representatives of public power. These members work together to maximize the benefit to the communities they serve, and the communities that own the electric utility.

KMPA helps its members in the coordination of planning, construction and operation of new energy facilities, as well as joint purchases, sales, and exchanges of electric power. *www.kmpa.us*

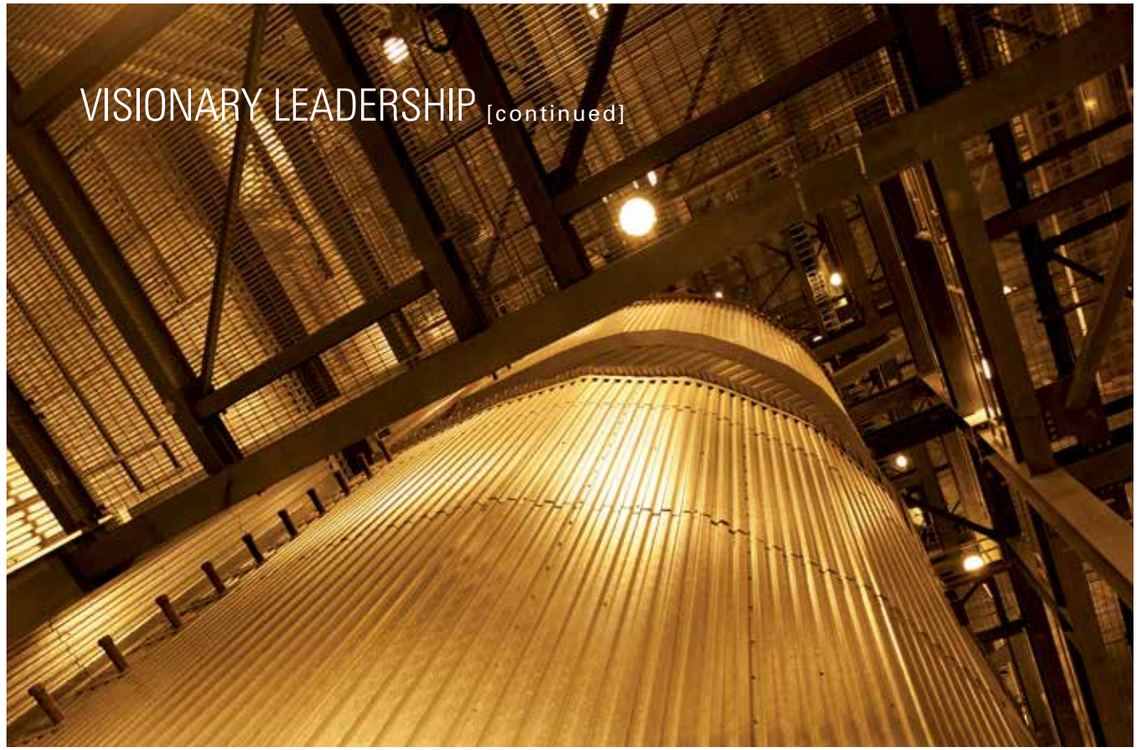
MPUA
Missouri Public Utility Alliance

KMPA
KENTUCKY MUNICIPAL POWER AGENCY

PSGC OWNERS SERVE OVER 180 COMMUNITIES ACROSS 8 STATES

Prairie State's power plant consists of two supercritical units with an output capacity of 800 MW each. Both units are monitored onsite in the power plant control room.

VISIONARY LEADERSHIP [continued]



Supercritical steam generating technology gives PSGC an efficiency advantage. Steam drives the turbine units, which in turn, drives an electrical generator, sending electricity throughout the grid to Midwest families and businesses.

ON-SITE COAL MINE PRODUCES NEARLY 7 MILLION TONS PER YEAR

Northern Illinois Municipal Power Agency (NIMPA)

NIMPA was officially certified by the Illinois Secretary of State designating it as an Illinois joint action agency on July 28, 2004. This agency consists of a combination of Illinois municipalities that own or operate an electric utility that furnishes retail electric service to the public.

NIMPA will jointly plan, finance, own and operate facilities relating to electrical energy and the acquisition of fuel for the generation of electrical energy in order to achieve economies and efficiencies not possible for municipalities acting alone. NIMPA municipality members are: City of Batavia; City of Rochelle; and City of Geneva. *www.nimpa.us*

Southern Illinois Power Cooperative (SIPC)

Southern Illinois Power Cooperative is a generation and transmission cooperative providing wholesale electric power to seven member distribution cooperatives and three wholesale customers in Illinois. Annual revenues are $200 million and assets are approaching $1 billion. SIPC owns coal-fired and natural-gas-fired generation plants, which are located in Williamson and Washington counties in Illinois. In addition, SIPC has long-term power contracts for hydro in the TVA region and wind located in Paxton, Illinois. With cooperatives and customers located throughout the southern portion of Illinois, it owns and operates over 900 miles of high-voltage transmission and multiple substations. *www.sipower.org*

Prairie Power, Inc.

Prairie Power, Inc., is a member-owned, not-for-profit electric generation and transmission cooperative, which produces and supplies wholesale electricity to 10 electric distribution cooperatives in central Illinois. PPI's distribution cooperatives provide retail electric service to approximately 78,000 consumers within their local service territories. PPI is one of more than 60 generation and transmission (G&T) cooperatives that supply wholesale electricity to rural utilities in the United States.

PPI owns and operates approximately 590 miles of transmission lines at 138 kV, 69 kV and 34.5 kV; 141 MW of oil and gas-fired peaking units; and 78 distribution and transmission substations to serve its members. *www.ppi.coop*

VISIONARY LEADERSHIP [continued]

Peabody Energy

Peabody Energy (NYSE: BTU) is the world's largest private-sector coal company and a global leader in sustainable mining and clean coal solutions. The company serves metallurgical and thermal coal customers in more than 25 countries on six continents.

Peabody's global platform creates a strategic advantage. The company has approximately 9 billion tons of proven and probable coal reserves and owns, through its subsidiaries, majority interests in 29 coal operations located throughout all major U.S. coal-producing regions and in Australia.

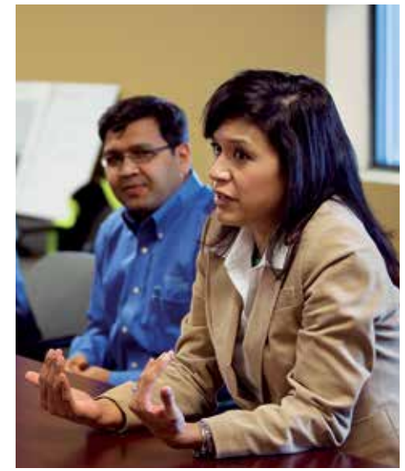
Peabody is uniquely positioned for success with the best access to the fastest growing global markets (and an expanding Australia platform), trading activities and Asia growth projects; as the largest producer in the fastest growing U.S. regions with excellent contracting position; and with an unmatched reserve base and liquidity to create shareholder value.

Peabody has trading and business offices in China, Australia, the United Kingdom, Singapore, Indonesia, Germany and the United States. Other energy-related commercial initiatives include the development of supercritical generation, the management of vast coal reserves, and Btu conversion technologies to transform coal to natural gas and transportation fuels.

Peabody Energy's mission is to be a leading worldwide producer and supplier of sustainable energy solutions that enable economic prosperity and a better quality of life.
www.peabodyenergy.com

Peabody ENERGY

PEABODY ENERGY NOW RETAINS A 5% INTEREST IN THE CAMPUS.

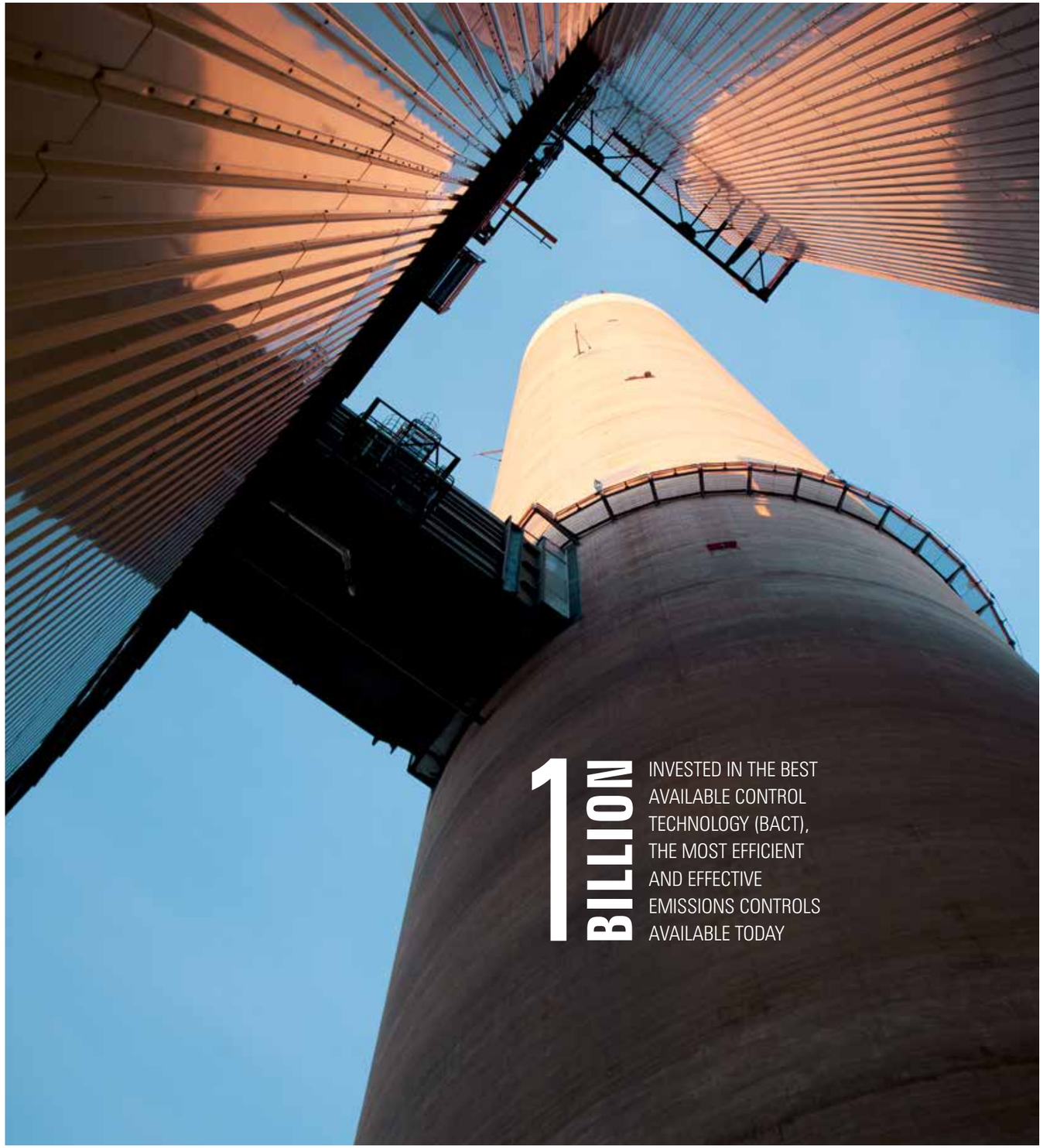


Our coal travels on conveyors from the coal field to the plant, cutting out the need to transport by rail or barge.

Kunal Singh, Mine Engineering Manager and Ashlie Kuehn, Director, Government Affairs and Public Relations, discuss PSGC's water management plan with local farm bureau representatives.

Matthew Geralds (left) and Patrick Wolters (right) operate a continuous miner at the Lively Grove mine.

Prairie State's Lively Grove mine holds daily safety briefings. A different miner is selected at each shift to share a safety lesson with his or her colleagues.



YES. WE ARE COMMITTED TO ENVIRONMENTAL RESPONSIBILITY.

Prairie State Energy Campus represents an important step in helping to create a sustainable and secure energy future for this country. It utilizes domestic coal resources and deploys clean generation technologies to produce electricity in a more efficient and environmentally friendly manner. Located in Washington County, Illinois, Prairie State Energy Campus includes a coal-fired generating plant and adjacent coal mine. The facility generates 1,600 MWs of power, with 95 percent of the output already dedicated to eight Midwestern-based public power utilities.

The Prairie State Energy Campus is a technologically advanced electric generation facility committed to providing clean, reliable and affordable base-load power to hundreds of local communities in the Midwest and Mid-Atlantic regions. Its combined design efficiencies mean Prairie State will significantly improve our industry's environmental profile by replacing existing, less-efficient power plants.

Reducing Emissions

Prairie State's power plant is built with Super Critical Technology, meaning that it uses coal at a higher temperature and pressure, producing more power with less coal. Using less coal while generating more power results in lower carbon emissions overall. In a further reduction, unlike coal plants that rail or truck in coal from far away, Prairie State mines its coal across the street from its power plant and transports it, via conveyor system, for its use.

In addition to being a supercritical power plant, per its U.S. EPA air permit requirement, the Prairie State power generating units are equipped with the Best Available Control Technology (BACT). Prairie State's BACT emissions equipment represents $1 billion of investment and the best emissions control available for a power plant today. The top four monitored air pollutants are nitrogen oxide (NO_X), sulfur dioxide (SO_2), particulate material (PM) and mercury. Prairie State's emissions equipment removes 98 percent of NO_X, more than 98 percent of SO_2, more than 99 percent of PM and more than 95 percent of mercury, making Prairie State one of the cleanest power plants in operation today.

Additional Carbon Reduction

Prairie State and its owners, by investing in a mine-mouth power plant campus, stood firm in their commitment to environmental responsibility. Further demonstrating their environmental commitment,

The power plant's stack is 700' tall that is 70' taller than the Gateway Arch in St. Louis, Missouri.

ENVIRONMENTAL RESPONSIBILITY [continued]

Prairie State's 1,600-megawatt power plant at full operation.

View of the power plant from Prairie State's raw water storage pond, which is located on the western side of campus.

Prairie State is studying additional offset options to carbon dioxide (CO_2) and other greenhouse gases (GHGs) reduction. Prairie State is working with industry partners to develop offset programs through possible native forestry establishment on its campus on currently underutilized land.

Managing Water

Prairie State's campus uses water to run its power plant and many functions at its coal mine. In order to turn Prairie State's power plant steam turbines, water is pumped into campus from the Kaskaskia River, a tributary of the Mississippi River on a daily basis. This water intake is permitted and monitored by the U.S. Army Corps of Engineers and the Illinois Environmental Protection Agency, with both agencies requiring significant reporting requirements.

In addition to the required permitting submissions, Prairie State has constructed its overall campus to capture as much stormwater and runoff water as possible. The water that Prairie State captures is then treated for use in the campus' operations, greatly reducing the withdrawal needs off of the Kaskaskia River.

Prairie State has also extensively invested in groundwater monitoring wells, which surround our newest construction project, a coal combustion residual monofill directly adjacent to our power plant. While Prairie State's new monofill is lined with the best available monofill technology — a three-foot clay liner and two additional layers of synthetic protection that will completely stop and prevent any seepage of the residuals — and the ground wells will provide additional data and evidence to prove that the liner is working effectively.

Reusing Residuals

One of the greatest beneficial reuse stories within the energy industry is the successful reuse and recycling of coal combustion residuals or CCRs. CCRs are the by-products of coal at the end of the power making process. Prairie State has begun studying the marketing of its own CCRs. Part of the process of marketing includes the studying of each facility's own CCR, understanding the chemical components and where it could best be used. Other coal campuses have successfully reused their CCRs in gypsum for construction, in cement and within reconstruction of roadways. The uses are wide and varied, and more uses are developing each day. Prairie State's beneficial reuse plan will be launched in 2014.

2012 MILESTONES

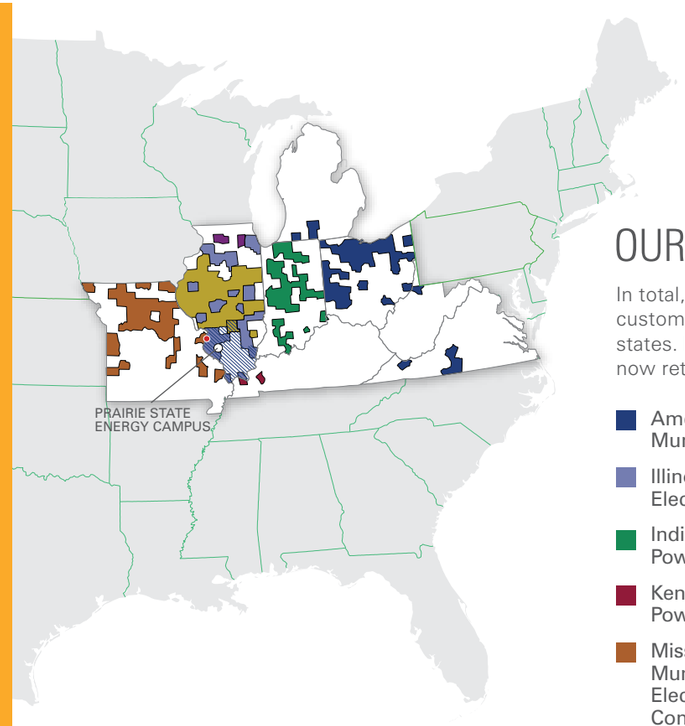
January 26	Unit 2 Syncs to the Grid
June 6	Unit 1 Provisional Completion
June 26	Near Field Approval from Washington County
June 27	MSHA Approves 40 Foot Cuts Underground
August 29	One Year Without a Lost Time Incident at the Mine
November 1	Unit 2 Provisional Completion

RESULTS

	Annual 2012 Results	Projected 2013 Plan
Cost per MMBTU	$1.46	$0.86
Coal Quality (Btu)	8,500	8,400
Cost per Ton	$24.87	$14.45

OPERATIONAL STATUS

	Unit 1	Unit 2	Total: Unit 1 and Unit 2
Net Generation (MWH)	2,537,710	845,237	3,382,947
Coal (Tons)	1,404,687	470,645	1,875,332



OUR FOOTPRINT

In total, our owners serve some 2.5 million customers from 180 communities across eight states. Peabody Energy, the original developer, now retains a 5% interest in the campus.

- American Municipal Power
- Illinois Municipal Electric Agency
- Indiana Municipal Power Agency
- Kentucky Municipal Power Agency
- Missouri Joint Municipal Electric Utility Commission
- Northern Illinois Municipal Power Agency
- Prairie Power, Inc.
- Southern Illinois Power Cooperative
- Peabody Energy

VALUE OF IMPROVEMENTS

	Units	$ / Mwh	30-Yr. NPV ($M)
40' Cuts	$0.51 / ton	($0.28)	$53.5
Net Mw Improvement	24 Mw[1]	($0.05)	$67.7 - $116.4[2]
Heat Rate	110 Btu / Kwh[1]	($0.11)	$22.2
CCR - Near Field	$17.5 M annual savings	($0.15)	$275 million[3]

Coal Reserve
Purchase Value = 1,750 acres x $3k/acre = $5.25M
Market Based Value = $0.77 / mmbtu savings or $181M[4]
Value of placing CCR at Near Field prior to 1/1/13 = $2,294,561
Value of using bottom ash for drainage layer = $1,023,650

[1]Assumes U2 performance is same as that achieved by U1. [2]Range based on estimated market forwards excluding and including CO_2 pricing. [3]For transportation cost savings over 30 years. [4]PSGC cost / MMBtu includes mine debt service cost.

2012 SAFETY RESULTS

MINE RESULTS

.29

With a Lost Work Day Injury Frequency rate of .29, Lively Grove Mine ranks significantly below the industry average of 4.22 for 2012.

4.34

2012 resulted in an All Injury Rate of 4.34, on par with the industry average for the year of 5.75.

691,127

Lively Grove miners recorded 691,127 man-hours in 2012. Since the inception of the PSGC, 1,597,811 man-hours have been recorded.

POWER PLANT

.56

With a Lost Work Day Injury Frequency rate of .56, the PSGC power plant ranks below the industry average of 1.0 for 2012.

1.67

2012 resulted in a Total Recordable Injury Frequency rate of 1.67, significantly below the industry average for the year of 3.5.

358,492

Power plant employees recorded 358,492 man-hours in 2012. Since the inception of the PSGC, 779,964 man-hours have been recorded.

CONSTRUCTION*

.16

With a Lost Work Day Injury Frequency rate of .16, from inception to date, PSGC power plant construction ranks below the industry average of 1.5.

1.45

With a Total Recordable Injury Frequency rate of 1.45, from inception to date during power plant construction, PSGC is significantly below the industry average of 3.9.

23,647,599

During the construction of the power plant from inception to date, 23,647,599 man-hours have been recorded.

*2007-2012

STAFFING

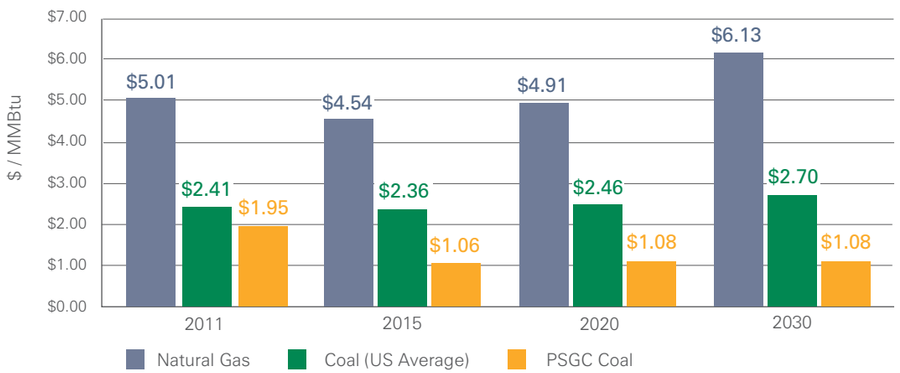
In 2012, Prairie State Generating Company employed 432 full-time staff members. The chart above represents the breakdown of mine, power plant, corporate and construction management positions that make up our staff.

Projections for 2012 targeted mine productivity at 2.65 tons per man-hour; Lively Grove Mine workers met this goal.

500

PSGC created more than 500 new jobs in Washington County by 2012. PSGC total and plant staffing remains below the industry average.

PRAIRIE STATE ADVANTAGE - FUELS



The chart above displays price per MMBtu of gas vs. coal for electricity generation. The U.S. Energy Information Administration (EIA) projects natural gas prices to increase by 31% between 2010 and 2030. Based on EIA's projections, coal is expected to cost a fraction of the price of natural gas for the foreseeable future. By owning its own coal reserve, PSGC is able to keep costs down.

PSGC cost / MMBtu includes mine debt service costs. Other data obtained from American Coalition for Clean Coal Electricity.

SO_2 / NO_X REPORTING

PSGC, as indicated by the comparison of two of the primary criteria compounds monitored in air permits, is environmentally responsible. PSGC's 2011-2012 SO_2 and NO_x findings already meet projected Cross State Air Pollution Rule (CSAPR) regulations set for 2014.

Measured in pounds per million Btu. Findings based on EPA's Clean Air Markets database, July 2011; Project Permits, FutureGen Environmental Impact Study, November 2007.

20%

The expected reduction in SO_2 and NO_x in the next three years. In the last 40 years, these numbers have decreased by 80%.

MANAGEMENT COMMITTEE

Jay Bartlett, President and CEO, Prairie Power, Inc.

Michael Buffington, Superintendent of Electric Services, Northern Illinois Municipal Power Agency

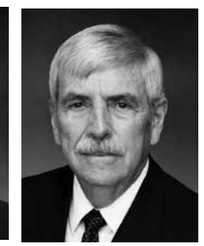
David Clark, General Manager, Kentucky Municipal Power Agency

Kevin Gaden, President and CEO, Illinois Municipal Electric Agency

Marc S. Gerken, President and CEO, American Municipal Power

Duncan Kincheloe, President and CEO, Missouri Public Utilities Alliance

Raj Rao, President and CEO, Indiana Municipal Power Agency



Tim Reeves, Interim President, Southern Illinois Power Cooperative

Jacob Williams, Vice President, Global Energy Analytics, Peabody Energy

Each of Prairie State's nine owners hold a seat on the Prairie State Generating Company's Management Committee. Mr. Rao serves as its chairman.

LEAD TEAM

Peter DeQuattro, President and CEO, Prairie State Generating Company

Paul Krivokuca, Senior Vice President, Mine Operations

Glen Porter, Vice President, Human Resources

Andy Sipka, Director, Finance and Accounting

Ashlie Keener Kuehn General Counsel and Vice President, Government Relations

Craig Bressan, Director, Environmental Health and Safety

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