

Peabody Announces Development of El Segundo Mine and New 19-year Coal-Supply Agreement With Arizona Public Service

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Peabody Energy today announced plans to develop the El Segundo Mine in Northwest New Mexico to serve a 19-year, 65-million-ton coal supply agreement with Arizona Public Service Company (APS). The contract is expected to generate revenue well in excess of \$1 billion.

The El Segundo Mine will serve the Cholla Generating Station near Joseph City, Ariz., in addition to other customers. The operation will be developed adjacent to Peabody's Lee Ranch Mine near Grants, N.M., which shipped more than 5 million tons of coal in 2005. Lee Ranch was among the safest surface mines in the United States last year, achieving zero injuries.

All major permits associated with the mine have been obtained from the state and development will begin during the fourth quarter of 2006. El Segundo is expected to be the most productive mine in the Southwest when it is in full production. Capital investments are expected to total approximately \$90 million during the development period.

El Segundo is expected to begin coal production in 2008 and will have the capacity to produce 6 million tons of coal annually. When in full production, El Segundo will supply the Cholla Generating Station with more than 4 million tons of coal annually. Peabody is continuing discussions with other potential customers.

"El Segundo is the first greenfield coal mine developed in New Mexico in more than two decades and will provide long-term coal supplies to meet growing Southwest market needs," said Peabody's Group Vice President of U.S. Western Operations Kemal Williamson. "Peabody's vast resource base allows us to enter into a long-term partnership with Arizona Public Service to create a reliable, low-cost supply of fuel in an increasingly volatile natural gas environment."

El Segundo will create up to 100 new high-paying jobs. The Lee Ranch Mine currently employs nearly 250 workers and injects more than \$70 million into the economy each year in wages and benefits, taxes and vendor contracts.

Arizona Public Service is Arizona's largest and longest-serving electricity utility, with nearly 1 million customers in 11 of the state's 15 counties. With headquarters in Phoenix, APS is the largest subsidiary of Pinnacle West Capital Corp. . The Cholla Generating Station is operated by APS, which owns three generating units capable of producing 615 megawatts of electricity. PacifiCorp owns the fourth generating unit, which produces 380 megawatts.

Peabody Energy is the world's largest private-sector coal company, with 2004 sales of 227 million tons and \$3.6 billion in revenues. Its coal products fuel more than 10 percent of all U.S. electricity and 3 percent of worldwide electricity.

The use of the words "Peabody," "the company" and "our" relate to Peabody, our subsidiaries and our majority owned affiliates. Certain statements in this press release are forward looking as defined in the Private Securities Litigation Reform Act of 1995. These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this release. For detailed risk factors, please refer to the company's filings with the U.S. Securities and Exchange Commission. These factors are difficult to accurately predict and may be beyond the control of the company.

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