



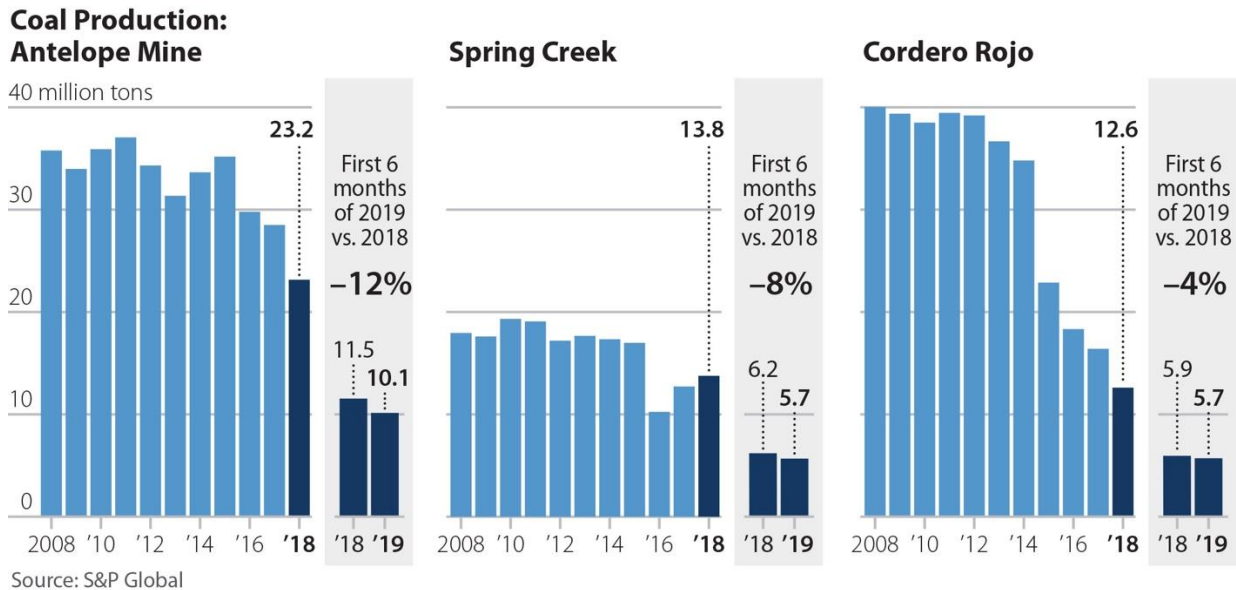
Navajo Nation Faces Financial, Sovereign Risk in NTEC's Proposed Acquisition of Cloud Peak Mines

A proposal by Navajo Transitional Energy Company (NTEC) to acquire the core coal-mining assets of bankrupt Cloud Peak Energy in Montana and Wyoming appears not to have been well thought out, putting Navajo Nation at considerable risk if the deal goes through.

The proposed acquisition raises numerous questions. Among them:

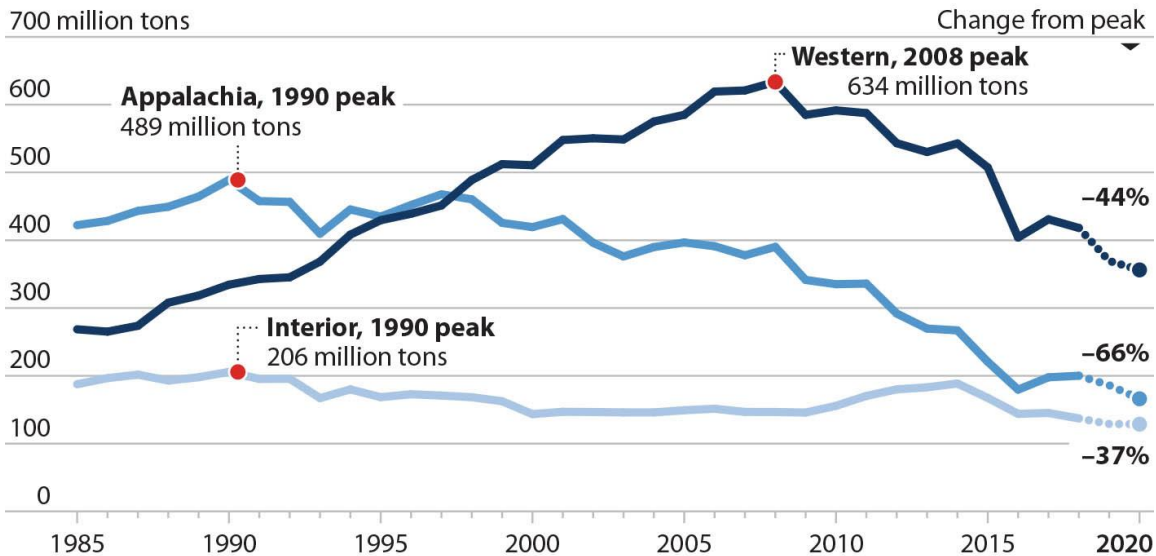
- *How will costs ultimately be covered?* NTEC would pay **\$170 million** at the outset of the deal to acquire three Cloud Peak Mines in Montana and Wyoming. Additionally, it would be accepting **\$400 million** in liabilities associated with cleaning up the three mines. Who would be responsible for these costs if the acquisition goes bad?
- *What happens if the deal drives NTEC into bankruptcy?* If NTEC's gamble on the Cloud Peak mines fails, it could bankrupt the company, putting its core local assets—Navajo Mine and its stake in the Four Corners Power Plant—at risk as well.
- *How will Navajo Nation benefit? Aren't there better ways to invest Navajo Nation dollars?* U.S. coal markets are in structural decline and are not likely to recover. Renewable energy is in ascendance, however, and ripe for new investment, which can be made on tribal lands and with relatively minimal risk.
- *Shouldn't NTEC be honoring the mandate it was given when it was chartered by Navajo Nation?* Navajo Transitional Energy Company is overseen by an executive team that seems preoccupied with coal, a waning industry.
- *Is NTEC depending on Navajo Nation as its financial backstop for the Cloud Peak reclamation obligations?* If so, the deal would essentially be underwritten by the Navajo government, which as a result would stand to be left responsible for cleanup of the mines.
- *Is NTEC potentially putting Navajo Nation's tribal sovereignty at risk too?* If NTEC's gamble on Cloud Peak fails and if it cannot meet its reclamation obligations in Montana and Wyoming, those obligations would accrue to Navajo Nation, potentially voiding traditional tribal-sovereignty protections.
- *Can Navajo Nation stop this deal?* Yes. **Navajo Nation is NTEC's sole shareholder. According to NTEC's charter, approval of the Navajo Council is required "before any act which would substantially change the business of the company or make it difficult, not economically feasible or impossible to carry on the business of the company."** This deal meets those criteria.

The charts below suggest why Cloud Peak is in such trouble:



U.S. Regional Coal Production, 1985-2018, With Estimates to 2020

Output has fallen sharply in all three major coal mining regions. From their peak years to 2020, production is expected to fall by 44 percent in the West, 37 percent in the Interior, and 66 percent in Appalachia.



Source: Energy Information Administration; 2019-2020 estimates from August 2019 Short-Term Energy Outlook

The data sheets on the following two pages highlight the customer-base problems for each of the mines—Antelope, Cordero Rojo and Spring Creek. All three mines are losing customer plants. The spreadsheets highlight recent retirement or planned retirements. Cloud Peak has added only one plant customer in recent times, and that plant will close this December. The spreadsheets also get at the company’s customer-diversification problem, where, for example, Cordero Rojo was dependent for 25.6 percent of its business from just one customer, the J.T. Deely Power plant in Texas, part of a coal fleet that is increasingly uncompetitive.

Last updated: Sept. 5, 2019

Source: S&P Global database

Coal plant sales
Antelope

Plant (unit, retirement date, MW)	2018		52 plants	
	Coal purchased	Share	Capacity	State
1 Joppa Steam	2157.4	8.8	1002	IL
2 Plum Point Energy	2124.5	8.7	670	AR
3 James H. Miller Jr.	1993.3	8.2	2766	AL
4 Coronado	1553.6	6.4	762	AZ
5 Shawnee	1507.4	6.2	1242	KY
6 Laramie River Station	1490.2	6.1	1710	WY
7 Rawhide	1027.1	4.2	280	CO
8 Monroe (2040, 3066 MW)	863.9	3.5	3086	MI
9 Clay Boswell (1, 2 closed 12/2018, 135MW)	769.0	3.2	1084	MN
10 Independence (2030, 1657MW)	714.2	2.9	1657	AR
11 Dan E Karn (1, 2, 2023, 515 MW)	636.7	2.6	1734	MI
12 Tolk (2037, 1067 MW)	574.9	2.4	1067	TX
13 J.H. Campbell (1, 2 2025, 608 MW; 3 2039, 838 MW)	557.8	2.3	1463	MI
14 Sioux (2033, 970 MW)	529.7	2.2	990	MO
15 Walter Scott, Jr. Energy Center	502.4	2.1	1522	IA
16 Comanche (1, 2022, 325 MW; 2, 2025, 335 MW)	453.0	1.9	1426	CO
17 White Bluff (2028, 1639 MW)	451.2	1.9	1639	AR
18 Labadie	413.7	1.7	2464	MO
19 Genoa	413.4	1.7	316	WI
20 Brame Energy Center (Rodemacher 2) (Rodemacher 1)	392.2	1.6	493	LA
21 Elm Road Generating Station (Oak Creek)	381.7	1.6	1268	WI
22 Newton	379.0	1.6	615	IL
23 La Cygne	328.5	1.3	1398	KS
24 Sibley (closed 12/2018)	316.0	1.3	448	MO
25 Springerville	301.4	1.2	1625	AZ
26 South Oak Creek	298.6	1.2	995	WI
27 Edgewater (4 closed 9/2018, 294 MW)	270.9	1.1	701	WI
28 Iatan	261.4	1.1	359	MO
29 Louisa	244.3	1.0	744	IA
30 George Neal South	242.5	1.0	644	IA
31 Rush Island	236.4	1.0	1218	MO
32 Asbury	230.3	0.9	198	MO
33 Presque Isle (closed 3/2019)	219.9	0.9	359	MI
34 Holcomb	193.8	0.8	359	KS
35 Silver Bay Power Company	178.5	0.7	105	MN
36 Ottumwa	152.4	0.6	724	IA
37 John P Madgett	148.6	0.6	395	WI
38 Meramec (3, 4 2022, 594 MW)	141.1	0.6	872	MO
39 W.A. Parish 5-8	90.7	0.4	2499	TX
40 Pleasant Prairie (closed 4/2018)	82.6	0.3	1188	WI
41 River Rouge (2022, 272MW)	78.1	0.3	280	MI
42 Trenton Channel (2022, 520 MW)	77.5	0.3	520	MI
43 Columbia Energy Center	68.6	0.3	1212	WI
44 Lake Road (zombie; has barely run since 2016)	60.9	0.2	139	MO
45 Kingston	59.4	0.2	1420	TN
46 Weston	51.6	0.2	966	WI
47 Coletto Creek	45.2	0.2	635	TX
48 Prairie Creek (1,3 2025, 41 MW)	44.0	0.2	162	IA
49 George Neal North	35.1	0.1	510	IA
50 Montrose (closed 12/2018)	31.3	0.1	334	MO
51 Rockport (1, 2028, 1300 MW)	0.6	0.0	2600	IN
52 Boardman (2020, 585 MW)	0.4	0.0	585	OR

24377.0

Plant (unit, retirement date, MW)	2019 (through June)			36 plants		Contract expiration
	Coal purchased	Share	Capacity	State		
1 Monroe (2040, 3066 MW)	1307.0	12.1	3086	MI	2021	
2 Joppa Steam	1252.1	7.3	1002	IL	2019	
3 James H. Miller Jr.	754.3	6.9	2766	AL	2020	
4 Laramie River Station	713.1	5.8	1710	WY	2020	
5 Shawnee	603.1	5.5	1242	KY	2020	
6 Plum Point Energy	573.9	5.3	670	AR	2019	
7 Rawhide	544.2	4.7	280	CO	2022	
8 J.H. Campbell (1, 2 2025, 608 MW; 3 2039, 838 MW)	491.5	4.6	1463	MI	no contract, all spot	
9 Sioux (2033, 970 MW)	479.0	4.5	990	MO	2020	
10 Coronado	463.3	3.3	762	AZ	2020	
11 Independence (2030, 1657MW)	338.6	2.7	1657	AR	2019	
12 White Bluff (2028, 1639 MW)	274.4	2.1	1639	AR	2019	
13 Weston	220.6	2.0	966	WI	2019	
14 Walter Scott, Jr. Energy Center	211.7	1.9	1522	IA	2019	
15 Dan E Karn (1, 2, 2023, 515 MW)	191.7	1.8	1734	MI	2020	
16 Trenton Channel (2022, 520 MW)	187.7	1.7	520	MI	2021	
17 Duck Creek (to close by 12/2019)	177.2	1.6	425	IL	2019 only new customer	
18 Clay Boswell (1, 2 closed 12/2018, 135MW)	161.5	1.5	949	MN	2019	
19 Prairie Creek (1,3 2025, 41 MW)	150.7	1.4	162	IA	2021	
20 Louisa	145.1	1.3	744	IA	2019	
21 Springerville	134.7	1.1	1625	AZ	2019	
22 George Neal South	112.8	1.0	644	IA	2019	
23 Elm Road Generating Station (Oak Creek)	105.7	1.0	1268	WI	2019	
24 Fayette Power Project	104.7	1.0	1636	TX	2019	
25 Kingston	102.1	1.0	1420	TN	2019	
26 South Oak Creek	99.7	1.0	995	WI	2019	
27 George Neal North	99.4	0.7	510	IA	2019	
28 Meramec (3, 4 2022, 594 MW)	77.6	0.7	872	MO	2020	
29 Silver Bay Power Company	68.1	0.6	105	MN	2019	
30 Rush Island	64.9	0.5	1218	MO	2020	
31 Lake Road (zombie; has barely run since 2016)	52.5	0.3	139	MO	2019	
32 River Rouge (2022, 272MW)	31.0	0.2	280	MI	2020	
33 Newton	16.2	0.1	615	IL	2019	
34 Labadie	15.3	0.1	2464	MO	2020	
35 John P Madgett	14.5	0.1	395	WI	spot	
36 Columbia Energy Center	13.5	0.0	1212	WI	2018	

10353.1

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Source: S&P Global database

Coal plant sales
Cordero Rojo

Plant (unit, retirement date, MW)	2018			21 plants	
	Coal purchased	Share	Capacity	State	
1 J.T. Deely (closed 12/2018)	3095.0	25.6	840	TX	
2 Independence (2030, 1657MW)	1237.6	10.3	1657	AR	
3 Dave Johnson	994.2	8.2	762	WY	
4 Gerald Gentleman	934.8	7.7	1365	NE	
5 J.K. Spruce	924.1	7.7	1345	TX	
6 White Bluff (2028, 1639 MW)	874.5	7.2	1639	AR	
7 Sandy Creek	675.7	5.6	940	TX	
8 Columbia Energy Center	562.7	4.7	1212	WI	
9 R.S. Nelson	522.7	4.3	1201	LA	
10 Ottumwa	439.5	3.6	724	IA	
11 Elm Road Generating Station (Oak Creek)	312.3	2.6	1268	WI	
12 Pleasant Prairie (closed 4/2018)	274.3	2.3	1188	WI	
13 Edgewater (4 closed 9/2018, 294 MW)	269.9	2.2	701	WI	
14 Iatan	260.8	2.2	700	MO	
15 Coletto Creek	252.1	2.1	635	TX	
16 South Oak Creek	181.4	1.5	995	WI	
17 La Cygne	111.7	0.9	1398	KS	
18 Weston	84.3	0.7	965	WI	
19 Havana 6 (to close by 12/2019)	36.3	0.3	434	IL	
20 Fayette Power Project	15.1	0.1	1636	TX	
21 Hennepin Power Station (to close by 12/2019)	9.7	0.1	294	IL	

12068.8

Plant (unit, retirement date, MW)	2019 (through June)			10 plants		Contract expiration
	Coal purchased	Share	Capacity	State		
1 J.K. Spruce	2086.1	39.3	1345.0	TX		2021
2 Iatan	776.4	14.6	700	MO		2019
3 Independence (2030, 1657MW)	548.9	10.4	1657	AR		2019
4 La Cygne	534.2	10.1	1398	KS		2019
5 Gerald Gentleman	408.2	7.7	1365	NE		2022
6 White Bluff (2028, 1639 MW)	400.6	7.6	1639	AR		2019
7 Columbia Energy Center	203.7	3.8	1212	WI		no contract, all spot
8 R.S. Nelson	164.8	3.1	1201	LA		2019
9 Sandy Creek	107.3	2.0	940	TX		no contract, all spot
10 Edgewater (4 closed 9/2018, 294 MW)	72.9	1.4	701	WI		no contract, all spot

5303.13

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Source: S&P Global database

Coal plant sales
Spring Creek

Plant (unit, retirement date, MW)	2018			4 plants	
	Coal purchased	Share**	Capacity	State	
1 Centralia (1 2020, 670 MW; 2 2025, 670 MW)	2361.2	17.2	1340	WA	
2 Clay Boswell (1, 2 closed 12/2018, 135MW)	659.9	4.8	1084	MN	
3 Coronado	563.2	4.1	762	AZ	
4 Presque Isle (closed 3/2019)	260.9	1.9	359	MI	

*domestic plant sales 3845.2
total mine production **13768.1

Plant (unit, retirement date, MW)	2019 (through June)			3 plants		Contract expiration
	Coal purchased	Share**	Capacity	State		
1 Centralia (1 2020, 670 MW; 2 2025, 670 MW)	1300.4	22.9	1340	WA		2019
2 Clay Boswell (1, 2 closed 12/2018, 135MW)	309.4	5.4	949	MN		2019
3 Coronado	89.6	1.6	762	AZ		2020

*domestic plant sales 1699.4
total mine production, Jan-June **5681.0