Institute for Energy Economics and Financial Analysis
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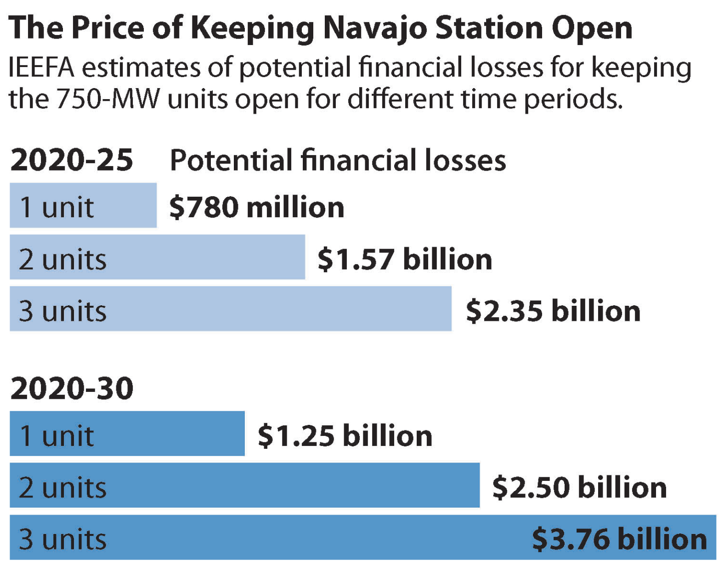
Why Navajo Generating Station Is No Longer Commercially Viable

The Institute for Energy Economics and Financial Analysis (IEEFA) has done extensive research into the difficult circumstances facing Navajo Generation Station.

Key findings:

- Declining energy market prices and rising production costs have made power produced by the plant more expensive than competing sources.
- Market trends are not likely to change, leaving the plant's financial viability in doubt regardless of who owns it.
- Any owner of NGS seeking to run the plant from 2020-2025 faces a potential financial loss of $780 million to $2.3 billion, depending on how many units continue to operate. Keeping the plant open from 2020-2030 could lead to a loss of $1.25 billion to $3.8 billion.
- Middle River Power ended its bid to purchase NGS due in part to having found no customers willing to commit to buying large amounts of power from the plant. Any other owner would face the same problem.



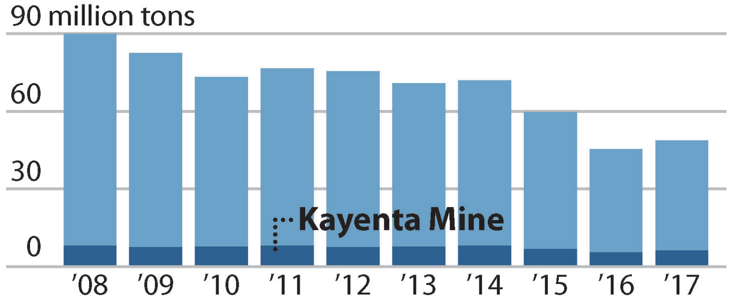
Kayenta Mine

IEEFA has concluded also that Kayenta mine in is not likely to find new customers or markets once its sole customer, Navajo Generating Station, closes. The same market conditions that are causing Navajo Generating Station to close have led to the announced retirements of at least 2,500 additional megawatts of coal-fired power in the Southwest.

Coal production at mines in the Southwest U.S. is declining. Production at coal mines in the four-state region of Arizona, Colorado, New Mexico and Utah decreased from 90 million tons in 2008 to 49 million tons in 2017, a 46 percent decline. Production at Peabody Energy's three mines in the region (Kayenta, El Segundo (in New Mexico) and Foidel Creek (in Colorado) dropped from 23 million tons in 2014 to 15 million in 2016, a 36 percent decrease.

Southwest U.S. Coal Production

At mines in Arizona, Colorado, New Mexico and Utah.



Sources: EIA; S&P Global

Prudent Transition Now

While some politicians have called for federal subsidies to keep the plant running, IEEFA sees funds far better spent on a forward-looking transition plan that would help the Navajo Nation and the State of Arizona turn the page on this aging coal plant and its supporting mine.

IEEFA, in partnership with Diné Innovative Network of Economies in Hózhó (DinéHózhó LEC) has proposed the following transition initiative:

- Adoption of a framework for long-term growth based on local entrepreneurial, labor and organizational assets and that addresses the immediate needs of existing businesses that will lose customers and revenue from the plant and mine and new large-scale projects in renewable energy and infrastructure.
- Guarantees of new jobs for the more than 600 workers who will be laid off from the plant and mine and for others working for supporting businesses who will lose their jobs.
- Fiscal support totaling $55 million in annual replacement revenues for the Navajo Nation and Hopi Tribes for at least five years.
- Professional administration of a transition initiative with an annual budget of $3.5 million overseen by a board that includes members of tribal governments, Arizona business leaders, federal government representatives, and employee leaders.

IEEFA's reports on the Navajo Generating Station can be found at
http://ieefa.org/category/subject/navajo-generating-station/

Contact: Karl Cates, IEEFA media relations, kcates@ieefa.org, (917) 439-8225