Institute for Energy Economics and Financial Analysis
IEEFA.org

River's Edge
3430 Rocky River Drive
Cleveland, OH 44111
216-688-3433
staff@ieefa.org

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Kenneth M. Jacobs, Chairman and Chief Executive Officer
Lazard
30 Rockefeller Plaza
New York, NY 10112

Dear Mr. Jacobs:

We write in regard to Lazard's efforts to assist Peabody Energy in its campaign to keep the Kayenta mine in Arizona open by finding a new owner for its sole customer, the failing Navajo Generating Station (NGS). We urge you to reconsider your involvement with this project, given Peabody's track record of promoting coal deals that have proven to be detrimental to affected communities.

The Navajo Generating Station's four utility owners are closing the plant because it is not economical to operate. When the plant closes as scheduled at the end of 2019, Peabody will also have to close the Kayenta mine.

The tactics Peabody is using to keep the mine open— including the hiring of your firm to find a new owner for the plant— are unfortunately all too familiar. In the mid-2000s, Peabody came up with a plan to build a coal-fired plant in Southern Illinois, known as the Prairie State Energy Campus, in order to burn otherwise unmarketable coal from the company's adjacent Lively Grove mine. Peabody initially intended to own both the plant and mine, until market conditions changed and building coal plants became increasingly risky financially. Rather than cancel the project, Peabody persuaded 60 municipalities across the Midwest to take 95% ownership of the plant and the mine. Peabody Energy profited substantially off the deal.

Construction of Prairie State ended up running $1 billion over budget, and the plant had many operational problems, in part caused by the poor quality of coal from the Lively Grove mine. Today, the communities who signed contracts to purchase power from Prairie State are experiencing high electric rates and fiscal stress, and are stuck with this burden for decades to come. (The deals typically involved 40- or 50-year power purchase agreements.) This, however, is no longer Peabody Energy's problem, as the company sold its slight 5% ownership share as soon as possible.

Peabody's cynical approach in Illinois is now being repeated in its dealings with the Navajo Nation in Arizona, where the Navajo have had to fight Peabody's constant efforts to shortchange them on royalties. Navajo Nation President Russell Begaye was recently quoted on this topic in a newspaper article that said: "The tribal leader also flatly rejected another idea designed to make NGS power cheaper and thus more attractive to potential new owners: Lowering the royalties that Peabody pays to the Navajo and Hopi for their coal.

Begaye said his tribe has been asked too many times in the past to make concessions that allow outsiders to tap its rich natural resources."

Beyond reducing royalties for the Navajo and Hopi tribes, it is clear the only way NGS can become commercially viable would be for regional consumers to pay above-market electricity rates. The Arizona Public Service Commission would have to require use of the plant when other lower-cost sources of electricity abound. The U.S. Environmental Protection Agency and the Navajo and Hopi tribes would have to accept higher levels of pollution (to reduce capital expenditures at the plant), and the Navajo would have to accept the extension of unjust water rights agreements. It's clear that some form of federal subsidy or guarantee would be needed to keep the plant afloat (our organization estimates it would need a $1.4 to $2.4 billion subsidy over ten years). And of course, Peabody would continue to sell coal at prices that sustain the mine as one of its highest U.S. profit centers.

Neither financial gimmickry nor wasteful public subsidies will magically transform Navajo Generating Station into a competitive power generator. If your firm does help succeed in keeping the plant open beyond 2019, we think the plant will ultimately fail nonetheless. For a comparative case study, it is worth examining the history of the coal-fired power plant in Homer, Pennsylvania, which has now gone through two bankruptcies and is arguably on its way to a third.

Sound energy and financial planning tell us that time and resources would be better spent on a series of economic and energy transition investments on tribal lands. But Peabody has chosen instead to be hostile to transition and to show a complete absence of responsibility with regard to the future of its workforce in Arizona. Although the plant's utility owners have committed to finding new employment for their current workforce, Peabody Energy has made no such commitment to its mine workers. They have instead mounted a campaign designed to instill fear in the community. Even if Peabody's (and Lazard's) plan to keep Navajo Generating Station open past 2019 were to work, it would at best only produce unstable employment opportunities.

Peabody is using political tactics to transform a bad financial deal into a good deal for themselves by giving the public a raw deal. Lazard's tradition of sound stewardship of public resources tells us you should not be part of this effort.

We have researched and published our findings on this plant and dozens of others in the United States, and would be happy to discuss this matter with you further.

Sincerely,

Tom Sanzillo
Director of Finance