

# LAZARD

February 1, 2018

Lisa Atkins  
CAWCD Board President  
PO Box 43020  
Phoenix, AZ 85080-3020

Dear Ms. Atkins:

**RE: Navajo Generating Station**

Lazard has been engaged by Peabody, with the support of several key stakeholders involved, to facilitate ownership transition alternatives for the Navajo Generating Station (“NGS”) that would enable the plant to remain in long-term operation.

NGS is a 2,250 MW coal-fueled power plant that provides affordable, reliable electricity and is an integral part of the economy and infrastructure in northern Arizona and the southwestern United States more broadly. The plant has historically operated with high utilization rates and at the lower end of regional dispatch curves. In addition, the plant meets all federal air quality standards and emissions limitations—more than one billion dollars has been spent on environmental compliance over the last decade.

Lazard believes that NGS is a critical resource in the region from a power generation and resource diversity perspective, and, more importantly, from a total regional economic impact perspective. Lazard has decided to take on this assignment because we believe that there will be an optimal path forward that solves the needs of the many stakeholders involved.

The current owners have indicated that they plan to operate NGS through 2019; however, the plant could continue to operate through the mid-2040s, within its expected useful life. Thus, the abovementioned process has been initiated to transfer ownership to new owners that would continue plant operation beyond 2019. Interest in NGS has primarily come from well-respected financial investors with strong track records in the power generation sector, all of which understand that NGS will need to be competitive with the current power price environment in order to operate post-2019. Lazard is encouraged by the number and quality of potential new owners that have submitted ownership proposals for NGS—over 15 private equity firms and power plant operators expressed initial interest.

There are a number of favorable factors influencing the sale of NGS. First, based on a provision in the EPA rule relating to NGS, a sale of the plant will allow the new owner to forego almost \$500 million worth of capital expenditures that current owners would be required to spend. Additionally,

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Salt River Project negotiated a very expensive lease extension for the plant that it ultimately did not sign—a new owner has the flexibility to negotiate a more favorable lease, resulting in considerable savings. Finally, with partnership from the Navajo Nation and Hopi Tribe, the Kayenta Mine can efficiently adjust its mine plan to reduce input costs, offering NGS a more competitive position with natural gas.

The ownership transition process remains on track with the transition timeframe outlined by operating agent Salt River Project, which has agreed to help facilitate an ownership transition subject to negotiation of definitive agreements. As we begin our next phase of the process, we will continue an intense focus to develop a new ownership structure, working toward a final selection of investors and negotiating definitive agreements as quickly as possible this year.

In order for a successful ownership transition to occur, it will be critical for CAWCD to continue to purchase similar quantities of power from NGS at market competitive prices. It is our understanding that CAWCD has a legal obligation to procure its power requirements from NGS. If CAWCD continues to take a narrow view on NGS, as it has over the past few months and most recently in its response to the January 18 report from Energy Ventures Analysis, the impact to the region, the local Native American tribes, employees of NGS and the Kayenta Mine, among others, will be catastrophic. We look forward to working with CAWCD in facilitating an ownership transition of NGS that would enable the plant to remain in long-term operations and provide reliable, affordable electricity to the southwestern United States.

In summary, it is our view that NGS will be sold and the plant will run well beyond 2019. Lazard has found significant interest in NGS from qualified buyers and any RFP process that assumes the plant will close in 2019 is premature and misguided. If you have any questions regarding this information, please contact me at 312-407-6673.

Sincerely,



George W. Bilicic  
Vice Chairman of Investment Banking  
Global Head of Power, Energy & Infrastructure  
Head of Midwest Investment Banking

**CC: Members of the CAWCD Board of Directors**

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**Distributed Electronically:**

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The Honorable Russell Begaye, President Navajo Nation  
The Honorable LoRenzo Bates, Speaker Navajo Nation  
The Honorable Timothy L. Nuvangyaoma, Chairman HOPI Tribal Council

## **OVERVIEW OF LAZARD**

Lazard, one of the world's preeminent financial advisory and asset management firms, operates from 43 cities across 27 countries in North America, Europe, Asia, Australia, Central and South America. With origins dating to 1848, the firm provides advice on mergers and acquisitions, strategic matters, restructuring and capital structure, capital raising and corporate finance, as well as asset management services to corporations, partnerships, institutions, governments and individuals.

Lazard's commitment to the Global Power, Energy & Infrastructure Industry is of the highest priority. In that regard, we believe that we have the greatest allocation of resources and effort among any investment bank. Further, we have an ongoing and intense focus on strategic issues that require long-term commitment and planning.

### *Selected Recent Transactions in the Power, Energy & Infrastructure Industry*

- Advisor to Sempra on its pending acquisition of EFH's 80% ownership interest in Oncor
- Advisor to Calpine on its pending sale to Energy Capital Partners
- Advisor to FirstEnergy Solutions on its ongoing strategic review
- Advisor to Great Plains on its pending merger with Westar
- Advisor to WGL on its pending sale to AltaGas
- Advisor to Invenergy on the capital raise for Lackawanna Energy Center
- Advisor to Dynegy on its restructuring of Illinois Power Generating Company (Genco)
- Advisor to BlackRock on its take private of Gas Natural
- Advisor to the Special Committee of the Board of Directors of SolarCity on its sale to Tesla
- Advisor to the Official Committee of Unsecured Creditors in the Chapter 11 cases of SunEdison
- Advisor to China Three Gorges on the acquisition of wind portfolios in Poland and Italy from EDP
- Advisor to Clean Line Energy Partners on a range of strategic advisory matters
- Advisor to Columbia Pipeline Group on its sale to TransCanada
- Advisor to Dynegy on its acquisition of Engie's U.S. fossil portfolio
- Advisor to SDIC Power on its acquisition of Repsol's UK wind assets
- Advisor to the Board of ITC Holdings on its sale to Fortis
- Advisor to Enel Green Power on its integration into Enel
- Advisor to Williams on its proposed combination with Energy Transfer Equity (terminated)
- Advisor to TerraForm Power on its proposed acquisition of the operating assets of Vivint Solar (terminated)
- Advisor to Iberdrola on the merger of Iberdrola USA and UIL and the formation of AVANGRID
- Advisor to TerraForm Power on its acquisition of the operating assets of First Wind
- Advisor to NiSource on the spin-off of Columbia Pipeline Group and formation of an MLP
- Advisor to Dynegy on its acquisition of the Duke Ohio and EquiPower generation portfolios
- Advisor to Integrys on its sale of Integrys Energy Services to Exelon
- Advisor to Acciona on its sale of one-third of its renewable generation business to KKR
- Advisor to Integrys on its sale to Wisconsin Energy
- Advisor to the Unsecured Creditors' Committee of Energy Future Holdings
- Advisor to Pepco on its sale to Exelon
- Much more significantly, Lazard continues to advise a large number of Industry participants on ongoing strategic and ordinary course matters on a strictly confidential basis