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President - Americas

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Dear Navajo Generating Station Stakeholders:

Navajo Generating Station (NGS) and Peabody have a long-standing, mutually beneficial partnership dating back to the 1960's that has delivered affordable and reliable power to the Southwest and has served as an economic engine for the region. For example, in 2016 mine employee wages and benefits totaled nearly \$50 million, coal royalties, bonus payments and scholarships paid to the tribes approached \$40 million and there were approximately \$10 million of water and utility fees paid by the mine. In addition, the plant itself provides substantial economic benefits.

Peabody strongly believes that it is in all parties' best interest to see NGS economically continue operations. Given power market volatility, we understand the need for visibility and certainty surrounding near term fuel pricing. Accordingly, Peabody proposes to reduce and fix the Kayenta FOB mine price under the coal supply agreement on a go forward basis through 2021 at costs lower than any of the previous five years.

	Coal Price \$/Ton		Tons in Millions		El Paso - San Juan Natural Gas \$/mmbtu	
2012	\$42.60		7.5		\$2.66	
2013	\$43.75		7.9		\$3.64	
2014	\$42.31		8.2		\$4.34	
2015	\$42.02		6.6		\$2.48	
2016	\$42.34		5.8		\$2.31	
2017	\$39.00	} Proposed	6.7	} Estimated	\$3.03	} Forward Prices as of 1/10/2017
2018	\$39.50		6.7		\$2.77	
2019	\$40.00		6.7		\$2.61	
2020	\$40.50		5.0		\$2.63	
2021	\$41.00		5.0		\$2.64	

We believe our fixed price proposal represents a competitive cost of fuel versus alternate generation sources and this view is supported by third party industry analysis. Peabody is committed to start working immediately to enable NGS to continue beyond December 2019, including engaging with the Navajo Nation on an extension of the plant site lease. We believe extending NGS' life through 2021, and beyond, brings significant value to all stakeholders, including the tribes.

In the spirit of expediency and advancing our partnership, Peabody proposes we jointly engage an independent and nationally recognized consulting firm to review and assist in the economics of Kayenta, NGS, the power market and all relevant regulatory and environmental

considerations, with costs to be shared between the NGS owners and Peabody. We believe doing so will clarify the economic picture surrounding NGS.

Further given Peabody's strong belief in the viability of NGS, we would like to help facilitate the transfer of NGS ownership interests by any group(s) wishing to divest or exit.

At the request of the NGS ownership group, new final mine reclamation studies are currently underway. It is clear that final reclamation cost estimates will increase substantially versus the last study done in 2005. A premature shutdown of NGS would further increase and accelerate substantial plant and mine closure costs (including reclamation) and forgo the benefits to all stakeholders of seeing NGS continue to economically run.

We cannot overemphasize the importance of NGS to Peabody Energy, the Navajo Nation, the Hopi Tribe and the region as a whole. Recent volatility in natural gas markets serves as a reminder to the benefits of fuel diversity. Additionally, the new Trump administration is highly supportive of coal fueled generation and protecting the associated jobs and benefits.

Peabody looks forward to working with the NGS stakeholders to ensure the continued success of the plant. Please don't hesitate to contact us if you have any questions.

Sincerely,



Kemal Williamson  
President – Americas  
Peabody Energy



Bryan Galli  
Group Executive of Marketing and Trading  
Peabody Energy

Distribution List:

Arizona Public Service  
Bureau of Reclamation  
Los Angeles Department of Water and Power  
NV Energy  
Salt River Project  
Tucson Electric Company  
The Navajo Nation  
The Hopi Tribe