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AR/00

PRESIDENT'S LETTER

The last twelve months were momentous for Western Fuels Association with surprises coming from unanticipated quarters. Fred Palmer announced plans to retire and pursue other interests. He reasoned that much of the challenge in our business was behind us. He wanted to focus more narrowly on specific areas of the energy business where his considerable energies could be applied – mainly in advocacy of coal-fired electricity. How wrong Fred was about the nature of our business.

The dramatic increases and spikes in natural gas prices are broad-reaching and still not completely understood. However, their effects on the coal industry and coal supply are profound. Coal and coal transportation services are coming to be understood as commodities. Concentration of market power in the Powder River Basin – the principal source of Western Fuels' coal – has demanded the development of new procurement skills and strategies.

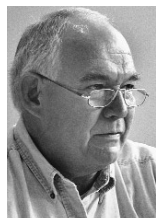
Western Fuels long foretold an energy crisis in California. As a result of our steadfast advocacy of sound science and cheap electricity, we had been a target of derision and scornful attacks by environmental groups. While we do not rejoice in California's woe, the situation presents a wake-up call for the energy sector. The science that Western Fuels has helped research and promote in the "global warming debate" has made important impacts on national energy policy. For this investment, the Association – indeed the entire energy sector – owes Fred a debt of gratitude.

Fortunately, we are equipped with the staff resources necessary to rise to the challenge of a change in management. Our Assistant General Manager, Bob Norrgard, smoothly stepped into his new role as General Manager. We closed our Virginia office and in so doing provided Patti Culhane with a welcome opportunity to retire and raise her family. Her tireless and cheerful contributions played a significant role in our success.

The Board of Directors salutes our capable staff in the Colorado, Wyoming, New Mexico, Illinois, and Washington, DC offices who are gearing up to meet the challenges of this new century. With several existing coal supply contracts maturing, and with the growing interest of several of our members in constructing new coal-fired power plants, our opportunities to more effectively serve consumer-owned electric utilities seem endless.



L. Christian Hauck
President



GENERAL MANAGER'S REPORT

Western Fuels carries on the mission enunciated upon our incorporation 28 years ago: to provide coal for the generation of electricity at our member-owners' power plants at the lowest possible cost consistent with sound business practices. While political, environmental, regulatory, and economic circumstances continue to transform the face of our business, the next few years dictate a return to the fundamentals.

A few weeks after my appointment as General Manager, Basin Electric Power Cooperative provided a list of potential power plant sites scattered across their service territory with an urgent request for a fuel supply analysis for each. We quickly applied our knowledge of the Powder River Basin coal market and transportation situation to forecast market prices and the delivered costs of coal. Days later, we were gratified to hear our analysis embraced by Basin's design-engineering firm during a conference with their headquarters staff in Bismarck.

At the same time, our staff and that of Western Fuels-Wyoming's Dry Fork Mine continued to refine and implement the mine plans that will ramp up the pace of coal production from just over two million to over five million tons per year – in the span of a year.

At the same time, Western Fuels-Illinois' Brushy Creek Mine shifts from a program of mine closing and final reclamation to one of re-opening to mine a different seam in the same location.

We are preliminarily involved in fuel supply arrangements for potential power plants to be operated by Sunflower Electric Power Corporation and by Tri-State Generation & Transmission Association.

We maintain a presence in Washington, DC, as concern for energy moves from far down in the hierarchy of consumer and political concerns to the very top, even as we broaden the scope of our climate change advocacy through management of the Greening Earth Society.

All of this takes place on top of our core business functions: the management of a 1400-railcar fleet delivering twenty million tons of coal to ten coal-fired power plants, geologic exploration critical to successful mining at our two surface and single underground coal operations, rail operations in New Mexico, and management of myriad coal supply and transportation agreements.

I know this staff. I know our professional capabilities. I am confident of Western Fuels' ability to make the necessary transformations and deliver fuel supply services to our member consumer-owned electric utilities.



Robert P. Norrgard
General Manager



4 PORTRAITS OF SERVICE

WESTERN FUELS ASSOCIATION'S RETURN TO ITS CORE BUSINESS FUNCTIONS PROVIDES AN OPPORTUNITY TO HIGHLIGHT STAFF CAPABILITIES WITH PROFILES OF GEORGE O'HARA, ROD WOLF, BRAD HANSON, AND LANCE WADE. WE WOULD ALSO LIKE TO RECOGNIZE ADDITIONAL CONTRIBUTIONS BY WESTERN FUELS STAFF MEMBERS:

NED LEONARD, ASSISTANT GENERAL MANAGER FOR COMMUNICATIONS & ADVOCACY PROGRAMS, REPRESENTS WESTERN FUELS IN OUR WASHINGTON, DC, ACTIVITIES INCLUDING CLIMATE CHANGE ADVOCACY THROUGH THE GREENING EARTH SOCIETY.

MURARI SHRESTHA, DIRECTOR OF ENGINEERING & CONTRACTS, MANAGES CONTRACTUAL RELATIONSHIPS WITH COAL PRODUCERS AND TRANSPORTATION PROVIDERS, AND PROVIDES MINE ENGINEERING SERVICES FOR THE ASSOCIATION AND AFFILIATED ORGANIZATIONS.

DAVE ANDERSON, PROJECT ENGINEER, SUPERVISES SPECIAL PROJECTS IN THE FIELD SUCH AS THE IRRIGATION DIVERSION PROJECT AT NEW HORIZON MINE. HE ALSO SUPERVISES DRILLING PROGRAMS AND ASSISTS IN OTHER GEOLOGICAL AND ENGINEERING ASSIGNMENTS.

PAUL SMOCK, GENERAL SUPERINTENDENT AT BRUSHY CREEK MINE, COORDINATED CLOSING AND RECLAMATION WHILE LAYING GROUNDWORK FOR A DIFFERENT SEAM TO BE MINED AT THE SAME LOCATION.

THIS STAFF EXPERTISE, COMBINED WITH GENERAL MANAGER BOB NORRGARD'S FINANCE AND ADMINISTRATIVE BACKGROUND, IS THE KEY TO WESTERN FUELS ASSOCIATION'S FUEL SUPPLY SERVICES TO CONSUMER-OWNED ELECTRIC UTILITIES.



1

WESTERN FUELS REDUCES COSTS FOR NEW HORIZON MINE

Western Fuels-Colorado's New Horizon Mine continues its progression into new coal reserves under Lance Wade's management. As coal supplier to Tri-State Generation & Transmission Association's Nucla Station, mine operations required construction of an irrigation ditch diversion critical to Colorado Cooperative Company irrigators' livestock feeding operations. Dave Anderson supervised relocation of a 4800-foot main lateral in 26-inch pipe and a secondary lateral in 12-inch pipe. Mine employees supervised relocation of a paved county road on the property.

The mine's high strip ratio (12.1:1) required nearly 4.5 million cubic yards of rock and soils be removed to expose 363,758 tons of coal for mining in 2000. As a consequence, blasting is a major expense. Last year, over 68 miles of blast holes were drilled to hold the necessary explosives. Mine engineers devised a blast-hole dewatering program that pumps and lines wet holes with a plastic membrane to keep the explosives dry, thereby significantly reducing the cost of mining.

2

BRAD HANSON HELPS DRY FORK RAMP UP PRODUCTION TO MEET GROWING DEMAND

Brad Hanson manages Western Fuels-Wyoming's Dry Fork Mine as it returns to full production. Last year, thirty-three employees produced just over two million tons. By this year's end, nearly seventy employees will produce coal at a record rate of over five million tons per year for the Missouri Basin Power Project's Laramie River Station, Kansas City Board of Public Utilities' Nearman Creek Station, and Basin Electric Power Cooperative's Leland Olds Station.

Changes in mine production include reliance upon an L1400 LeTourneau loader, transition of an aging 140-ton capacity haul truck fleet to use of Caterpillar 789B 190-ton trucks, and the addition of a Caterpillar 690 rubber-tired dozer. Finding capable employees to function in three to four separate crews proves to be a challenge as coal production expands throughout the Powder River Basin.

Western Fuels-Wyoming now is sole owner of Dry Fork Mine, having bought out North Gillette Coal Company's (Phillips Coal) interest when the corporate parent sought to sell off non-core assets.





3

ROD WOLF'S HANDS-ON LOGISTICAL SUPPORT KEEPS TRAINS RUNNING

From Western Fuels Association's office in Gillette, Wyoming, Rod Wolf supervises the fuel supply cooperative's extensive rail operations. Managing a fleet of nearly 1,400 railcars, Wolf is the point-of-contact for the Powder River Basin and New Mexico mines supplying coal to eight Western Fuels Association member power plants, and the Burlington Northern Santa Fe and Union Pacific railroads that provide the service.

As the Powder River Basin nears its capacity, arranging loading of trains at a variety of mines to assure on-time delivery of each train to "coal hungry" power plants scattered across America's heartland grows increasingly difficult.

Wolf's knowledge of the PRB transportation network – its real-time functioning and potential bottlenecks – contributes to Western Fuels' ongoing analysis of the coal market for members planning additional power plants and arrangements for delivery of supplemental tonnage throughout the year.

In another development this year, David Soros has been appointed General Foreman at the Escalante-Western Railway in Prewitt, New Mexico.

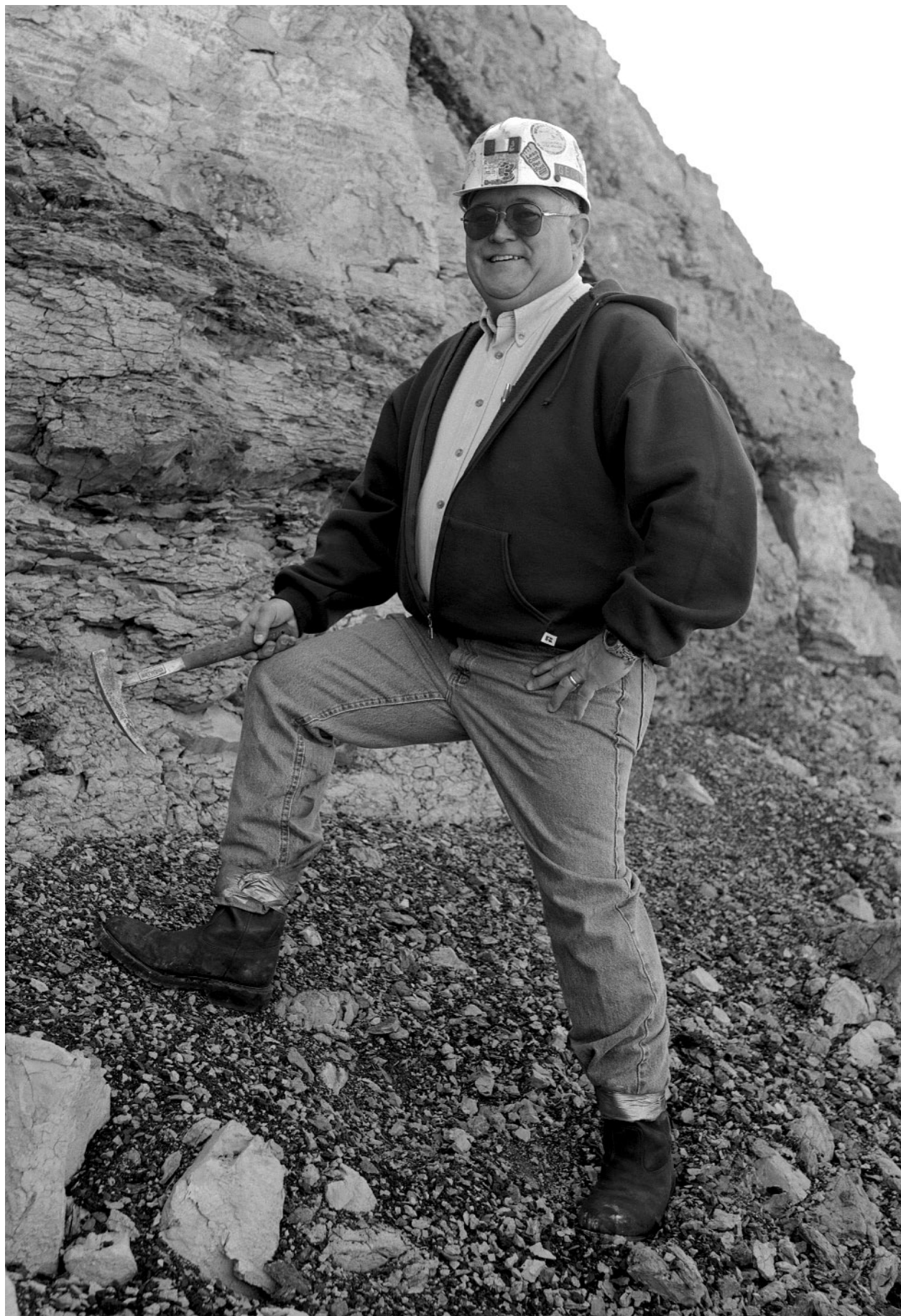
4

GEOLOGIST GEORGE O'HARA PROVIDES CRITICAL EXPERTISE FOR SUCCESSFUL MINE PLANNING

As Director of Technical Services, some of George O'Hara's responsibilities take him into the field to supervise drilling programs and help solve geologic problems upon which Western Fuels' coal mining operations depend.

Drilling programs at Dry Fork Mine provide detailed geologic information that enables mine engineers to design selective mining techniques that maximize coal quality for each customer. O'Hara supervises the exploration program at Brushy Creek Mine in southern Illinois where operations soon will re-open in the #5 seam.

The Denver-based headquarters staff, which includes Dave Anderson and Murari Shrestha, helped prepare a successful appeal of a Minerals Management Service effort to include Western Fuels' management fee in calculation of coal value for royalty purposes. They also provided, on short notice, a fuel source analysis for Basin Electric's power plant siting study and are reviewing potential coal prospects that could extend the life of the New Horizon Mine as a continued supplier to the Tri-State Generation & Transmission Association's Nucla Power Station.



CONSOLIDATED BALANCE SHEET

Combined financial statements of Western Fuels Association, Inc., Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc.

(in thousands of dollars)

| | 2000 | 1999 |
|--|------------------|------------------|
| ASSETS | | |
| Cash & Short-term Investments | \$ 11,655 | \$ 11,842 |
| Accounts Receivable | | |
| Member | 18,588 | 16,671 |
| Non-Member | 6,232 | 6,485 |
| Total Accounts Receivable | 24,820 | 23,156 |
| Inventory | 3,824 | 137 |
| Costs Recoverable Under Coal Purchase Agreements | 23,882 | 14,700 |
| Prepayments for Deferred Coal Shipments | 7,028 | 7,028 |
| Prepaid Expenses | 2,187 | 1,541 |
| Other Assets | 1,511 | — |
| Plant & Property | 169,545 | 121,846 |
| Less: Accumulated Depreciation | (107,752) | (89,877) |
| | 61,793 | 31,969 |
| Furniture & Equipment At Cost | 353 | 505 |
| Less: Accumulated Depreciation & Amortization | (256) | (318) |
| | 97 | 187 |
| Investments | 3,312 | 30,175 |
| TOTAL ASSETS | \$140,109 | \$120,735 |
| LIABILITIES | | |
| Accounts Payable | \$30,905 | \$24,303 |
| Accrued Interest Payments | 373 | 1,869 |
| Post Retirement Benefits Obligation | 15,750 | 9,522 |
| Advance Payments for Transportation & Coal Purchases | 18,536 | 14,660 |
| Notes Payable | 29,479 | 24,215 |
| Long Term Debt | 4,754 | 5,198 |
| Capital Lease Obligations | 34,143 | 35,906 |
| Deferred Income | 161 | 164 |
| | 134,101 | 115,837 |
| Members' Equity | | |
| Initial Member Fees | 45 | 45 |
| Patronage Capital Certificates | 3,776 | 3,340 |
| Per Unit Retain Certificates | 2,564 | 2,564 |
| Accumulated Margin | (377) | (1,051) |
| | 6,008 | 4,898 |
| TOTAL LIABILITIES & MEMBERS' EQUITY | \$140,109 | \$120,735 |

CONSOLIDATED STATEMENT OF OPERATIONS

Combined financial statements of Western Fuels Association, Inc., Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc.

(in thousands of dollars)

| | 2000 | 1999 |
|------------------------------------|-----------|-----------|
| Coal Sales To Members | \$173,903 | \$202,031 |
| Less: Cost of Coal Sold | | |
| Acquisition | 83,499 | 113,440 |
| Transportation & Delivery | 84,981 | 82,512 |
| | 168,480 | 195,952 |
| | 5,423 | 6,079 |
| Interest Income | 833 | 918 |
| Annual Membership Fees | 8 | 8 |
| Total Revenue Less Described Costs | \$6,264 | \$7,005 |
| General & Administrative Expenses | 3,942 | 3,408 |
| Interest Expense | 2,817 | 3,402 |
| Net Operating Margin | 495 | 195 |
| Non-Operating Margin | | |
| Gain On Membership Buyout | 2,622 | |
| Other | (909) | (591) |
| Income Taxes | (4) | 67 |
| NET MARGIN | \$1,214 | (\$329) |

DELIVERIES

AS OF DECEMBER 31, 2000

BASIN ELECTRIC POWER
COOPERATIVE
TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION
LARAMIE RIVER STATION
7,457,284 TONS

TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION
CRAIG STATION
1,567,211 TONS
PLAINS ESCALANTE GENERATING
STATION
1,104,912 TONS
NUCLA STATION
363,758 TONS

CAJUN ELECTRIC POWER
COOPERATIVE
BIG CAJUN NO. 2
1,980,235 TONS

BOARD OF PUBLIC UTILITIES OF
KANSAS CITY, KANSAS
NEARMAN CREEK STATION
1,147,465 TONS
QUINDARO STATION
533,251 TONS

SUNFLOWER ELECTRIC POWER
CORPORATION
HOLCOMB STATION
1,457,858 TONS

SOUTHERN MINNESOTA MUNICIPAL
POWER AGENCY
SHERCO III
1,377,146 TONS

SIKESTON, MISSOURI, BOARD OF
MUNICIPAL UTILITIES
SIKESTON POWER STATION
1,026,288 TONS

WESTERN FUELS-WYOMING
DRY FORK MINE
2,284,465 TONS*

MARION COAL SALES
BRUSHY CREEK MINE
4,580 TONS

* INCLUDES 1,288,852 TONS DELIVERED TO
WFA-MEMBER POWER PLANTS

TOTAL DELIVERIES
19,015,601 TONS

BOARD OF DIRECTORS

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PRESIDENT & CEO
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CORPORATION
HAYS, KS

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PRESIDENT
TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION, INC.
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TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION, INC.
WESTMINSTER, CO

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GENERAL MANAGER & CEO
BASIN ELECTRIC POWER COOPERATIVE
BISMARCK, ND

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POWER AGENCY
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HAYS, KS

C. JIM SOEHNER
DIRECTOR
TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION, INC.
WESTMINSTER, CO



Chris Hauck



Hub Thompson



Ed Throop



Bernie Cevera



Jay Cox



Bob Gillespie



Ron Harper



Ray Hayward



Bill Keller



Perry Rubart



Jim Soehner

MEMBER DIRECTORY

CLASS A MEMBERS

**BASIN ELECTRIC POWER
COOPERATIVE**
WWW.BASINELECTRIC.COM
BISMARCK, ND

**SUNFLOWER ELECTRIC POWER
CORPORATION**
WWW.SUNFLOWER.NET
HAYS, KS

**TRI-STATE GENERATION &
TRANSMISSION ASSOCIATION, INC.**
WWW.TRISTATEGT.ORG
WESTMINSTER, CO

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WWW.BPU.COM

BOARD OF MUNICIPAL UTILITIES
WWW.SIKESTONBMU.ORG
SIKESON, MO

**SOUTHERN MINNESOTA MUNICIPAL
POWER AGENCY**
WWW.SMMPA.COM
ROCHESTER, MN

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COOPERATIVE, INC.**
WWW.AEPNET.COM
BENSON, AZ

**ARKANSAS ELECTRIC COOPERATIVE
CORPORATION**
WWW.AECC.COM
LITTLE ROCK, AR

**ASSOCIATED ELECTRIC
COOPERATIVE, INC.**
WWW.AECI.ORG
SPRINGFIELD, MO

BLACK DIAMOND ENERGY, INC.
(A WHOLLY-OWNED SUBSIDIARY OF
OGLETHORPE POWER CORPORATION)
WWW.OPC.COM
TUCKER, GA

DEPARTMENT OF UTILITIES
FREMONT, NE

**HEARTLAND CONSUMERS POWER
DISTRICT**
WWW.HCPD.COM
MADISON, SD

MISSOURI RIVER ENERGY SERVICES
WWW.MRENERGY.COM
SIOUX FALLS, SD

NEBRASKA PUBLIC POWER DISTRICT
WWW.NPPD.COM
COLUMBUS, NE

SILICON VALLEY POWER
WWW.CI.SANTA-CLARA.CA.US
SANTA CLARA, CA

CITY UTILITIES
WWW.CITYUTIL.COM
SPRINGFIELD, MO

TURLOCK IRRIGATION DISTRICT
WWW.TID.ORG
TURLOCK, CA



**WESTERN
FUELS
ASSOCIATION
INC.**
*The National
Fuel Supply
Cooperative*