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**DEMAND**

## ***LETTER FROM THE PRESIDENT AND THE GENERAL MANAGER***

*Last May, Western Fuels Association's Board of Directors was invited to convene our monthly meeting in conjunction with the season-opening race of the Kansas Speedway, sponsored by the Kansas City, Kansas, Board of Public Utilities (KCBPU). Hundreds of thousands of fans are attracted to the combination of powerful machinery, pit crew agility and expertise, driver endurance and dexterity, and racing team strategy that makes stock car racing so popular today.*

*With its brightly-colored flags and silhouette piercing the rural skyline, the Kansas Speedway is an anchor for economic development in KCBPU's service territory in Wyandotte County. We are encouraged by survey results that show growing awareness that less-evident coal-fired power plants similarly anchor the U.S. economy. Somewhere below the horizon of public awareness, Western Fuels Association mining operations within the last year combined powerful machinery, "pit" crew adaptability, expertise and endurance, and evolving business strategy to support our member-owners' electricity generation fuel supply needs.*

*A year ago, Western Fuels-Illinois' Brushy Creek Mine was mined-out and closed-out; site reclamation was underway. Western Fuels' first underground mining venture was among the last in southern Illinois to cease*

*operation. Now, Liberty Coal Mine, developed using former Brushy Creek assets, begins operations near the same site and heralds a comeback for Illinois coal.*

*A year ago, Western Fuels-Wyoming's Dry Fork Mine produced coal at an annual rate of 2.3 million tons. Even though geology at that point constrained pit operations, Western Fuels' member-owners resolved to meet increased demand for coal by dramatically increasing mine production. Today, Dry Fork produces coal at an annual rate of five million tons.*

*Such fundamental changes in our mine operations are testimony to our members' sound investment and confidence in what amounts to their "in house" fuel supply expertise through participation in Western Fuels. Day in and day out, Western Fuels staff delivers on the promise of fuel supply at the lowest possible cost consistent with sound business practices. We negotiate new coal and transportation supply agreements. We manage a fleet of rail cars and unit trains connecting mines to power plants, as well as operations at the New Horizon, Dry Fork, and Liberty Mines. We provide crucial support through public awareness and advocacy. From operations to communications, we are helping to ensure the continued success of coal as the abundant, affordable, and increasingly clean domestic energy resource upon which our nation relies.*

*C. Jim Soehner, President*

*Robert P. Norrgard, General Manager*

*Western Fuels Association's coal deliveries in 2001 declined approximately 1.4 million tons from 2000. This decline was due to the Cajun Electric Power Cooperative bankruptcy, which removed last year's tonnage from the total, and the cessation of Brushy Creek Mine operations.*

*A slightly negative 2001 net margin largely reflects a one-time gain on a membership buy-out in 2000 (Cajun Electric) and Western Fuels Association's continued investment in climate change advocacy in 2001.*

*Rail operations at the Escalante-Western Railway in New Mexico and mining operations at the New Horizon Mine in southwestern Colorado largely were routine in 2001. A near-doubling of production at Dry Fork Mine near Gillette, Wyoming, and new mining operations at Liberty Mine near Marion, Illinois, represent dramatic changes reported in the following pages.*

*Liberty Coal Mine leads the pack at the start of a new generation of coal mining in southern Illinois. Developed with a financial assist from Illinois Governor George Ryan's administration, Liberty Coal Company begins mining coal reserves near the site of the "mined-out" Western Fuels-Illinois Brushy Creek Mine this year. The State of Illinois provided Liberty \$1.95 million in grants, \$1.25 million in low-interest loans, and a guarantee for 80 percent of a \$3.3 million loan necessary to reinvigorate coal mining in southern Illinois.*

*Liberty Coal hired Nubay Mining to develop mine operations a hundred feet deeper than those of Brushy Creek, some 500 feet below the surface in the 48- to 51-inch thick Illinois #5 seam. Nubay employees will use a single "super unit" of two continuous miners, four battery-driven ram cars, and two double-boom roof bolters to produce 1.2 million tons of raw coal per year.*

*The mine's prep plant is expected to produce 825,000 tons of clean coal for truck delivery to nearby Tarex Construction, Inc., while the Canadian National Railroad delivers coal to the Tennessee Valley Authority.*

*THE NEWLY OPENED  
LIBERTY COAL MINE WILL  
PRODUCE 1.2 MILLION TONS  
OF RAW COAL PER YEAR.*

# **RAW POWER**

**GEARED**

**UP**

*DRY FORK MINE  
RACED TO EXPAND ITS  
ANNUAL PRODUCTION  
RATE FROM 2.3  
TO 5 MILLION TONS.*

*With major changes in mining operations, Western Fuels-Wyoming's Dry Fork Mine increased production from an annual rate of 2.3 million tons to 5.0 million tons—all within a matter of months. In the race to expand Powder River Basin production, Dry Fork is competing to attract the workers who can operate new equipment to expand the mine through a revised "bench" structure.*

*Dry Fork's main operating pit has emerged from constraining geologic conditions caused by scoria (clay baked in prehistoric coal fires) to lengthen pit benches and increase their girth so that "shot" coal has greater time to dry in the pit and increase its heat value.*

*Three CAT 789 haul trucks using "combo beds" that increase coal-carrying capacity to 200 tons now work alongside three smaller Euclid trucks. A CAT D11 dozer moves increased overburden and coal recovered along the mine floor. To better protect local air quality and increase dust control Dry Fork added a new well and larger capacity water tank. One of its Euclids is being converted into a water truck.*

*In addition to managing routine rail operations, Western Fuels' Gillette operations office helped screen and arrange interviews for mine applicants. The headquarters staff supports Dry Fork's operations with permitting, geological, and planning expertise, and supervises exploratory drilling programs.*



*Western Fuels Association, Inc., provides its member-owners with coal from a variety of sources. About 20% of the coal supplied in 2001 came from Western Fuels-affiliated resources. The balance was supplied under a variety of contracts with other producers.*

*Dry Fork Mine is owned by Western Fuels-Wyoming. Dry Fork supplies coal for member and non-member power plants. New Horizon Mine is owned by Western Fuels-Colorado and supplies coal to a single member-owner power plant. Western Fuels provides management services for the new Liberty Mine.*

*Western Fuels contracts coal transportation services with the Burlington Northern Santa Fe and Union Pacific railroads. Western Fuels operates the Escalante-Western Railway connecting another producer's mine and a member-owned power plant.*

*Western Fuels Association offers and provides its member-owners a variety of other fuel supply services.*

# DELIVERIES

*Deliveries as of December 31, 2001*

*Basin Electric Power Cooperative  
Tri-State Generation & Transmission Association  
Laramie River Station  
7,745,395 tons*

*Tri-State Generation & Transmission Association  
Craig Station  
1,553,008 tons  
Escalante Station  
906,861 tons  
Nucla Station  
370,724 tons*

*Board of Public Utilities of Kansas City, Kansas  
Nearman Creek Station  
1,069,088 tons  
Quindaro Station  
504,977 tons*

*Southern Minnesota Municipal Power Agency  
Sherco III  
1,530,122 tons*

*Sunflower Electric Power Corporation  
Holcomb Station  
1,523,298 tons*

*Sikeston, Missouri, Board of Municipal Utilities  
Sikeston Station  
1,098,599 tons*

*Basin Electric Power Cooperative  
Leland Olds Station  
613,209 tons*

*Western Fuels-Wyoming  
Dry Fork Mine  
4,031,963 tons \**

*\* Includes 3,339,189 tons delivered to WFA member  
power plants and 692,774 tons non-member sales*

**TOTAL DELIVERIES  
17,608,055 TONS**

*CONFRONTING  
THE ISSUES  
THAT CHALLENGE  
COAL'S FUTURE.*

# **OUT IN FRONT**

*President Bush had declared no interest in ratification of the Kyoto Protocol. There is now bi-partisan opposition to designating carbon dioxide as a pollutant, and there is growing awareness of coal as an abundant, reliable, and increasingly clean energy resource. Despite these positive developments, challenges remain to coal's leadership as a resource for electricity generation.*

*The U.S. House of Representatives, U.S. Senate, and Bush/Cheney Administration diverge in their approaches to energy policy in part because of disagreement about potential for climate change. Even with consensus about additional regulation of sulfur dioxide and nitrogen oxides, and the need for mercury control, efforts to add carbon dioxide to the list stymie clean air legislation.*

*Western Fuels and the Center for Energy and Economic Development appealed a U.S. Environmental Protection Agency effort to control regional haze. We argued there would be no demonstrable benefit from installing expensive new power plant equipment and the U.S. District Court of Appeals agreed.*

*Western Fuels sustains its financial commitment to the Greening Earth Society and challenges the popular belief that carbon dioxide emissions will lead to catastrophic changes in earth's climate. At the same time we are staying in front of the issues by exploring with others in the coal-chain industry voluntary programs to sequester additional carbon in forests, croplands, and grazing lands.*

## **CONSOLIDATED BALANCE SHEET**

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

(in thousands of dollars)

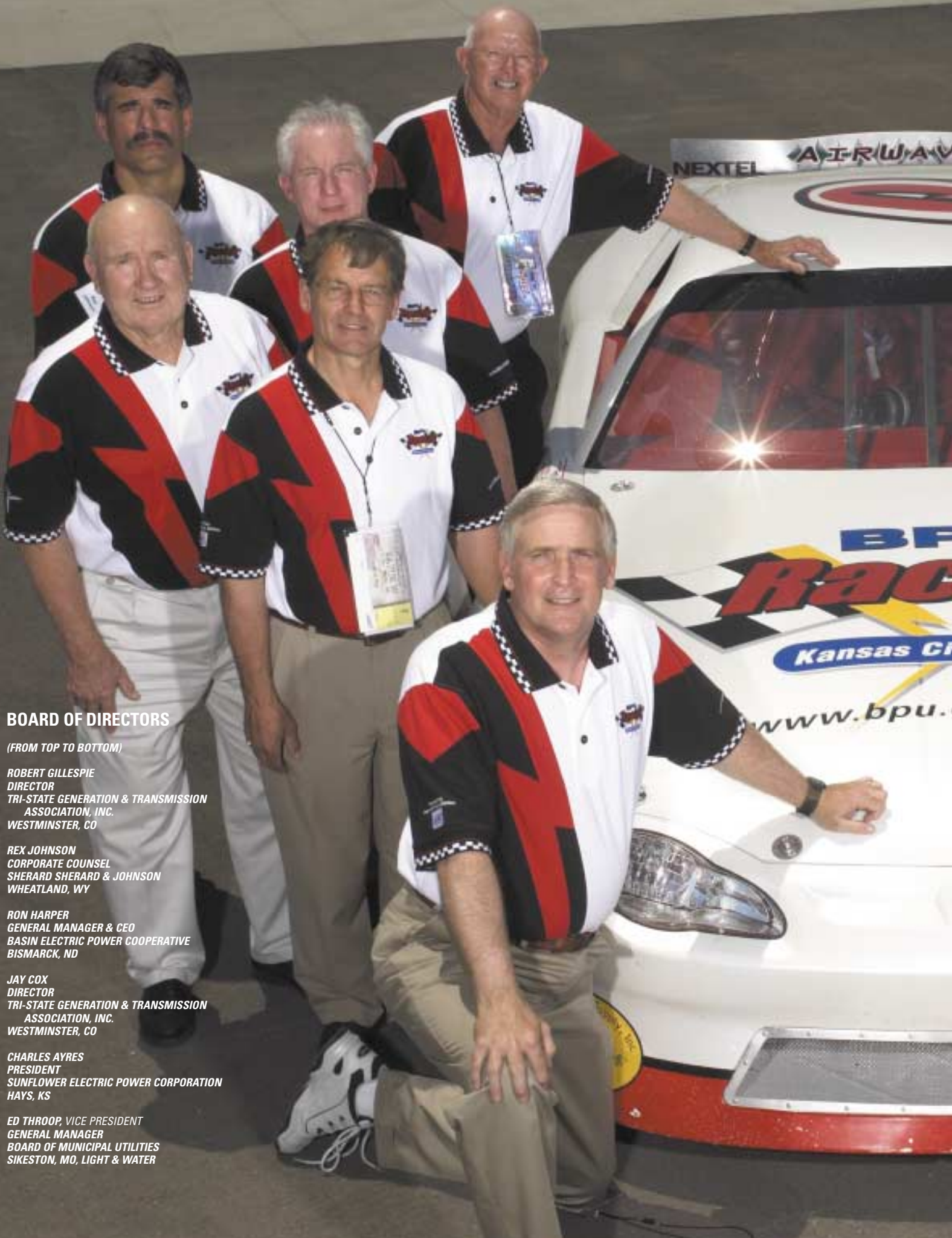
	2001	2000
<b>ASSETS</b>		
Cash & Short-term Investments	\$14,016	\$ 14,967
Accounts Receivable		
Member	16,509	18,588
Non-Member	2,543	6,232
<b>Total Accounts Receivable</b>	<b>19,052</b>	<b>24,820</b>
Inventory	4,941	3,824
Costs Recoverable Under Coal Purchase Agreements	20,847	23,882
Prepayments for Deferred Coal Shipments	—	7,028
Prepaid Expenses & Other Assets	3,271	3,698
Plant & Property	174,305	169,545
Less: Accumulated Depreciation	(111,403)	(107,752)
	<b>62,902</b>	<b>61,793</b>
Furniture & Equipment At Cost	372	353
Less: Accumulated Depreciation	(244)	(256)
	<b>128</b>	<b>97</b>
<b>TOTAL ASSETS</b>	<b>\$125,157</b>	<b>\$140,109</b>
<b>LIABILITIES</b>		
Accounts Payable	\$29,161	\$ 30,905
Accrued Interest Payments	349	373
Post Retirement Benefits Obligation	13,969	15,750
Advance Payments for Transportation & Coal Purchases	7,012	18,536
Notes Payable	30,878	29,479
Long Term Debt	3,418	4,754
Capital Lease Obligations	34,242	34,143
Deferred Income	96	161
	<b>119,125</b>	<b>134,101</b>
Members' Equity		
Initial Member Fees	45	45
Patronage Capital Certificates	3,803	3,776
Per Unit Retain Certificates	2,564	2,564
Accumulated Margin	(380)	(377)
	<b>6,032</b>	<b>6,008</b>
<b>TOTAL LIABILITIES &amp; MEMBERS' EQUITY</b>	<b>\$125,157</b>	<b>\$140,109</b>

## **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)

	2001	2000
Coal Sales To Members	\$176,585	\$173,903
Less: Cost of Coal Sold		
Acquisition	(78,119)	(83,499)
Transportation & Delivery	(93,051)	(84,981)
	(171,170)	(168,480)
	5,415	5,423
Interest Income	419	833
Annual Membership Fees	7	8
Total Revenue Less Described Costs	\$5,841	\$6,264
General & Administrative Expenses	(2,533)	(3,942)
Interest Expense	(2,416)	(2,817)
Net Operating Margin	892	(495)
Non-Operating Margin		
Gain On Membership Buyout	—	2,622
Other	(894)	(909)
Income Taxes	(7)	(4)
NET MARGIN	(\$9)	\$1,214



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*(FROM TOP TO BOTTOM)*

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# 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

## CLASS B MEMBERS

**Board of Public Utilities of Kansas City, KS**  
www.bpu.com

**Board of Municipal Utilities**  
www.sikestonbmu.org  
Sikeston, MO

**aSouthern Minnesota Municipal Power Agency**  
www.smmpa.com  
Rochester, MN

## CLASS C MEMBERS

**Arizona Electric Power Cooperative, Inc.**  
www.aepco.org  
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

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Managing Director

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General Foreman

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Western Fuels Association, Inc. is a cooperative enterprise operating on a not-for-profit basis to provide coal for the generation of electricity by consumer-owned utilities in the Great Plains, Rocky Mountains, and Southwest. Western Fuels' member-owners are rural electric generation and transmission cooperatives, municipal utilities, and other public power entities.