

# SECURING YOUR ENERGY FUTURE

<https://web.archive.org/web/20030919120940/http://www.westernfuels.org/pdf/westernan02.pdf> created 07/16/03 Seems mislabeled as 2002, should be 2003.

**p.3** 'Even that is not good enough for some in Congress who also insist on limits to carbon dioxide emissions. ...

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We also continue financial support of the climate change advocacy work of the Greening Earth Society.'

WESTERN FUELS  
ASSOCIATION  
ANNUAL REPORT  
2002



## LETTER FROM THE GENERAL MANAGER

The United States' energy infrastructure is vital to national security. The power plants, coal mines, and the railroads that connect them are key components in energy security. Because our economy relies on electricity, concern about threats to national security surely encompasses electricity supply.

Energy "security" also defines Western Fuels Association's role as a fuel supplier. We are in business to ensure that affordable coal supplies will be available to sustain our member-owners' operations.

Finally, securing use of coal as an abundant, affordable, and increasingly clean domestic energy resource has taken on an exciting new dimension within Bush Administration energy and environmental policies.

Western Fuels Association supplied 16,975,106 tons of coal in 2002 to our members. Members annual coal take reflects conditions in the electricity market and particular power plant circumstances. Our financial condition is strong, with revenue from coal sales to members of just over \$174 million.

Dry Fork Mine shipped 4.9 million tons of coal in 2002. This represents a substantially increased rate of production over 2001. The mine is competing for sales in a very competitive market. Its production ramp-up included "selective mining" to provide variable coal quality for different customers. A return to full-seam mining in 2003 simplifies operations and improves the mine's economics.

New Horizon Mine operations have been enhanced by investment in a Komatsu PC3000 shovel that speeds truck loading and cuts shovel time in the overburden, thereby improving productivity.

A continuous miner super-unit is now at work in the new Liberty Mine in a thin seam of high quality coal beneath Western Fuels-Illinois' former Brushy Creek facilities. Annual production quickly hit its stride at about a million tons per year.

Robert P. Norrgard  
General Manager



# CRITICAL INFRASTRUCTURE SECURITY

It is doubtful that facilities security is significantly more acute at coal mines in 2003 than it was before September 11, 2001. But events of that day transformed the way each of us thinks about personal and infrastructure security.

Rail transportation and electricity generation and distribution infrastructures are dispersed across the national landscape and have inherent vulnerabilities. A more fundamental concern for energy security is U.S. consumer reliance on reliable and affordable electricity at home and work.

The electricity infrastructure is interconnected, interdependent, and interruptible. But disruption from an event such as dramatic weather – tornado, hurricane, blizzard, or ice storm – is not a particular concern. Utilities recover from such events all the time, by design and through cooperation and mutual support. Rather, critical infrastructure security concerns the capital investment required for timely construction of coal mines, power plants, transmission and distribution systems, and energy transportation systems. “Insecurity” translates into abrupt shifts in regulatory policies or the inability of policies and public perceptions to shift at critical junctures along the political landscape.

Western Fuels Association proudly participates in organizations such as the National Mining Association, Center for Energy and Economic Development (CEED), and National Rural Electric Cooperative Association. These groups work with national, state and local governments to encourage rational energy and environmental policies. Along with Western Fuels they seek to promote public appreciation of the role of coal and electricity production in the infrastructure critical to U.S. economic and personal security.

Today there is increased public and policymaker awareness that coal is the source of over half of U.S. electricity – running as high as 80% in the rural electric service territories – and that coal is not an artifact of the 19th century, but important far into the 21st. There is heartening evidence that influential environmental organizations are beginning to recognize and share this appreciation.

# ENERGY ECONOMIC OUTLOOK

Natural gas has been touted during international debate on climate change as a bridge to an emissions-free, renewable energy future. Public misapprehension about continued reliance on coal swept many utilities toward natural gas to meet electricity demand. The dramatically higher demand for natural gas that resulted in the face of constrained supply triggered volatile gas pricing. This “sticker shock” manifests itself in traditional gas bills, inflates the cost of electricity, and threatens continued viability of the chemical industry that relies on gas as a feedstock.

Industry-wide consolidation among coal producers and lack of competition in rail transportation are putting pressure on coal pricing, though less than that experienced with gas. In response, Western Fuels is exploring the use of our portfolio of power plants with relatively similar specifications as a way to aggregate our members’ supplies at long-term, favorable prices from among our traditional suppliers. If we succeed, Western Fuels will become even more of a co-op than we already are.

Coal supply for the Southern Minnesota Municipal Power Agency’s share of generation at Sherco 3 involved Western Fuels in negotiations that were complicated by the absence of competition in Montana coal production and railroad intransigence in negotiating lower rates to improve Wyoming coal’s competitiveness. The good news/bad news result is perhaps best expressed by SMMPA:

At the end of 2002, [Western Fuels Association] renegotiated the price of our coal contract with Westmoreland Resources for the years 2003 through 2005. Compared to many of our peers, we succeeded in negotiating a significantly smaller increase.

The significantly smaller increase than experienced by other utilities is the kind of result that attracts membership in our fuel supply cooperative. We are pleased to welcome the Lower Colorado River Authority of Austin, Texas, as a Class C member. LCRA plays a variety of roles in central Texas. It delivers electricity, manages the water supply and environment of the lower Colorado River basin, develops water and wastewater facilities, provides public recreation areas, and supports community and economic development.

“I HAVE BEEN SHOT AT, KNIFED, AND TRAVELED ON TWO OCCASIONS HALFWAY AROUND THE WORLD TO CAPTURE TERRORISTS. BUT WHAT WE FACE NOW IS MUCH MORE DIFFICULT THAN THOSE EPISODES IN MY LIFE.”

Thomas J. Pickard  
Former Deputy Director  
Federal Bureau of Investigation

“TODAY’S TIGHT NATURAL GAS MARKETS HAVE BEEN A LONG TIME IN COMING, AND FUTURE PRICES SUGGEST THAT WE ARE NOT APT TO RETURN TO EARLIER PERIODS OF RELATIVE ABUNDANCE AND LOW PRICES ANYTIME SOON.”

Alan Greenspan  
Federal Reserve Chairman  
House Energy & Commerce  
Committee, June 10, 2003

# COAL MINING ENVIRONMENTAL COMPLIANCE

Back when there was a debate about whether or not coal-mining operations should be responsible for reclaiming the land even as the coal was being mined, Western Fuels Association and Basin Electric Power Cooperative were among the very few companies who could say not only should it be done, but we already are doing it. That commitment continues to this day.

Nowadays returning mined land to the way it was before mining is more than an interesting concept; it's the law. So is protecting the quality of air and water, minimizing disruptions to wildlife, and preserving our heritage. In Wyoming and Colorado, the state and local regulations set a standard higher than that required under federal law. Our commitment is to exceed such standards and conform to their spirit.

As operations at Brushy Creek Mine wound down, Western Fuels-Illinois began a process that would ensure that future generations might not ever be aware of our footprint. A visit to operations at Liberty Mine, on that same site, shows grass-covered hillsides where once there were ponds filled with slurry. Retreat of the mine regrettably resulted in subsidence on the surface and we are working with our insurance underwriters to assure affected landowners receive compensation for that consequence.

At New Horizon Mine where our operations literally are part of the community, we reroute highways and relocate irrigation ditches to minimize disruption of a unique rural community – one of the few places remaining where neighbors on horseback organize seasonal cattle drives.

At Dry Fork Mine, Beth Goodnough sees firsthand what the commitment to quality mined land reclamation already means on leased property and carries on that personal commitment on her watch. She marvels at the way her co-workers use massive and powerful machines to remove layers of rock and recover thick seams of coal. Then they use their expertise to gently meld the reclaimed land into the natural landscape of which it is a part.

This is another way Western Fuels chooses to secure your energy future.

“OUR MEMBER-OWNERS ARE UTILITIES OWNED BY THE CONSUMERS THEY SERVE. WESTERN FUELS’ COAL MINING OPERATIONS ARE LOCATED WHERE OUR MEMBERS’ CONSUMER-OWNERS LIVE. BEING A GOOD NEIGHBOR DOESN’T JUST MEAN GETTING ALONG AND GETTING BY. IT’S ABOUT PRESERVING AND ENHANCING OUR OWN QUALITY OF LIFE. THAT’S A TOUCHSTONE OF WHAT IT MEANS TO BE A COOPERATIVE.”

Bob Norrgard  
General Manager  
Western Fuels Association

Coal-fired electricity is challenged on multiple fronts. The electric utility industry has spent billions of dollars to dramatically improve national air quality, a feat recognized by the U.S. Environmental Protection Agency but judged “not good enough” by coal’s detractors.

The switch to low-sulfur coal under the Clean Air Act and its amendments drove its production westward. The latest generation of coal-fired power plants routinely installs scrubbers to minimize sulfur dioxide emissions further still. Low -NOx technologies dramatically reduce creation of oxides of nitrogen during coal combustion. Bag-houses and precipitators capture particulates. Greater progress is encouraged under President Bush’s Clear Skies Initiative which would, for the first time, restrict mercury emissions. Even that is not good enough for some in Congress who also insist on limits to carbon dioxide emissions.

At this early juncture, it appears indiscriminate imposition of available mercury control technologies will drive production back toward higher-sulfur coals and eviscerate 30 years of investment in Powder River Basin coal production and transportation. As a consequence, Western Fuels Association has committed \$180,000 toward testing an experimental mercury-removal technology at Sunflower Electric Power Corporation’s Holcomb Station. In fact, each of Western Fuels’ members is making additional, individual financial commitments toward that test.

As concerns carbon dioxide, we have loaned an executive to the Center for Energy and Economic Development to help CEED pursue a carbon sequestration initiative in behalf of the coal producers, utilities, and railroads that comprise its membership. The initiative encourages changes in agriculture practices and the management of forests and grasslands to sequester carbon. In addition, the initiative now seeks to embrace a recent strategy that has emerged from the U.S. Department of Energy that would develop zero-emissions power plants to gasify coal to generate electricity, manufacture hydrogen from coal for use in transportation, and geologically sequester the carbon dioxide. We also continue financial support of the climate change advocacy work of the Greening Earth Society.

## BUSINESS RISKS POSED BY MULTI-POLLUTANT REGULATION

“CLIMATE CHANGE CAN NO LONGER BE IGNORED AS A FUNDAMENTAL BUSINESS REALITY. ACTIONS ARE OCCURRING AT THE LOCAL, NATIONAL, AND INTERNATIONAL LEVELS, AND EVERY COMPANY NEEDS TO UNDERSTAND THE RISKS AND OPPORTUNITIES FACING THEIR BUSINESS. FORMULATING AN APPROPRIATE STRATEGIC RESPONSE CAN HAPPEN ONLY BY UNDERSTANDING HOW YOUR COMPANY’S COMPETITIVE LANDSCAPE WILL BE AFFECTED.”

Craig Ebert  
Executive Vice President  
ICF Consulting



# ADVANTAGES OF COAL-FIRED GENERATION

Significant obstacles confront sustained use of coal. Traditional lobbying in Washington, DC, through the work of the National Rural Electric Cooperative Association, American Public Power Association, and National Mining Association is one way Western Fuels and its members attempt to influence the debate of national energy and environmental policy.

State governors, legislatures, and regulatory agencies, plus a new layer of regional entities, increasingly involve themselves in energy and environment policies affecting coal. Western Fuels and many of our members have increased our commitment to the work of the Center for Energy and Economic Development and Americans for Balanced Energy Choices to impact these myriad activities.

When the Sierra Club identified the coal industry as a problem for the planet, "The Daily Show" with Jon Stewart on Comedy Central invited our response in a segment by correspondent Ed Helms. Our participation provided yet another, and in this case a novel avenue, for Western Fuels to make its case for coal.

The obstacle to Western Fuels' sustainability in coal production is one of available reserves. We are working to expand reserves available for New Horizon Mine in southwestern Colorado and Dry Fork Mine in Wyoming's Powder River basin. We already have managed construction of the Liberty Mine in southern Illinois to take advantage of surface facilities at the former Western Fuels-Illinois Brushy Creek Mine.

Western Fuels' coal supply activities involve us in mining our own coal while negotiating coal purchases for our members' power plants from traditional coal suppliers. Our management of such coal supply agreements took on a different dimension with negotiation of a Master Fuel Purchase and Sale Agreement between AEP Energy Services and Western Fuels on behalf of Sunflower Electric Power Corporation's Holcomb I.

"AMERICA'S GROWING ECONOMY  
REQUIRES MORE ELECTRICITY  
EVERY YEAR. HOWEVER, MANY  
OF THE LEADING FUEL SOURCES  
FOR POWER GENERATION –  
INCLUDING NUCLEAR, NATURAL  
GAS, AND HYDROELECTRIC –  
FACE SIGNIFICANT OBSTACLES  
TO FUTURE GROWTH.  
FORTUNATELY, AMERICA HAS  
VAST COAL RESERVES THAT  
CAN POWER THE U.S. ECONOMY  
IN FUTURE YEARS, WHILE AT THE  
SAME TIME ADVANCING THE  
NATION'S OBJECTIVES FOR  
ENERGY INDEPENDENCE, GLOBAL  
COMPETITIVENESS, AND  
ENVIRONMENTAL PROTECTION."

Steven F. Leer  
President & Chief Executive Officer  
Arch Coal, Inc.



# DELIVERIES

## DELIVERIES AS OF DECEMBER 31, 2002

Basin Electric Power Cooperative  
Tri-State Generation &  
Transmission Association  
Laramie River Station  
7,820,403 tons

Tri-State Generation &  
Transmission Association  
Craig Station  
1,581,724 tons

Escalante Station  
973,125 tons

Nucla Station  
386,593 tons

Board of Public Utilities of Kansas City, Kansas  
Nearman Creek Station  
1,058,871 tons

Quindaro Station  
622,662 tons

Sunflower Electric Power  
Corporation  
Holcomb Station  
1,427,303 tons

Southern Minnesota Municipal Power Agency  
Sherco 3  
1,296,196 tons

Sikeston, Missouri, Board of Municipal Utilities  
Sikeston Station  
1,107,207 tons

Basin Electric Power Cooperative  
Leland Olds Station  
701,022 tons

**TOTAL MEMBER DELIVERIES**  
**16,975,106 tons**

## WESTERN FUELS MANAGED PRODUCTION

Western Fuels-Wyoming  
Dry Fork Mine  
4,891,403 tons \*

Western Fuels-Colorado  
New Horizon Mine  
386,593 tons delivered to Nucla Station

Liberty Mine  
147,646 tons \*\*

\* This figure includes 4,575,521 tons of production delivered to WFA member power plants and 315,882 tons of non-member sales.

\*\* Sales are to other than WFA members.



**SPECIAL-PURPOSE REPORT OF ASSETS, LIABILITIES, AND EQUITY**  
Western Fuels Association, Inc., Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc.  
(in thousands of dollars)

	2002	2001
<b>ASSETS</b>		
Cash and Short-term Investments	\$ 8,752	\$ 14,016
Accounts Receivable		
Member	17,900	16,509
Non-member	663	2,543
Total Accounts Receivable	18,563	19,052
Inventory	7,709	4,941
Costs Recoverable Under Coal Purchase Agreements	22,509	20,847
Prepaid Expenses & Other Assets	2,997	3,271
Plant & Property	168,768	174,305
Less: Accumulated Depreciation	(109,354)	(111,403)
	59,414	62,902
Furniture & Equipment At Cost	377	372
Less: Accumulated Depreciation	(276)	(244)
	101	128
<b>TOTAL ASSETS</b>	<b>\$120,045</b>	<b>\$125,157</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 32,248	\$ 29,161
Accrued Interest Payments	319	349
Post Retirement Benefits Obligation	11,806	13,969
Advance Payments for Transportation & Coal Purchases	6,899	7,012
Notes Payable	29,108	30,878
Long Term Debt	1,797	3,418
Capital Lease Obligations	32,289	34,242
Deferred Income	90	96
	114,556	119,125
Members' Equity		
Initial Member Fees	45	45
Patronage Capital Certificates	3,604	3,803
Per Unit Retain Certificates	2,395	2,564
Accumulated Margin	(555)	(380)
	5,489	6,032
<b>TOTAL LIABILITIES &amp; MEMBERS' EQUITY</b>	<b>\$120,045</b>	<b>\$125,157</b>

**SPECIAL PURPOSE OPERATIONS REPORT**  
Western Fuels Association, Inc., Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc.  
(in thousands of dollars)

	2002	2001
Coal Sales to Members	\$174,129	\$176,585
Less: Cost of Coal Sold		
Acquisitions (78,934)	(78,119)	
Transportation & Delivery (90,958)	(93,051)	
	(169,892)	(171,170)
	4,237	5,415
Interest Income	126	419
Annual Membership Fees	7	7
Total Revenue Less Described Costs	4,370	5,841
General & Administrative Expenses	(2,316)	(2,533)
Interest Expense	(2,247)	(2,416)
Net Operating Margin	(193)	892
Non-Operating Margin		
Other	31	(894)
Income Taxes	(13)	(7)
<b>NET MARGIN</b>	<b>(\$175)</b>	<b>(\$9)</b>

These special-purpose reports reflect the revenues and expenses of the above listed entities with eliminations of revenues and expenses between entities. These reports are for management purposes only. These entities cannot be consolidated for financial reporting purposes under GAAP. Therefore, this report should not be used for that purpose.



# BOARD OF DIRECTORS

C. Jim Soehner, *President*  
Director  
Tri-State Generation & Transmission Association, Inc.  
Westminster, CO

Ed Throop, *Vice President*  
General Manager  
Board of Municipal Utilities  
Sikeston, MO

Raymond A. Hayward, *Secretary-Treasurer*  
Executive Director & CEO  
Southern Minnesota Municipal Power Agency  
Rochester, MN

J. William Keller, *Vice Secretary-Treasurer*  
Director  
Basin Electric Power Cooperative  
Bismarck, ND

Charles Ayers  
Chairman of the Board  
Sunflower Electric Power Corporation  
Hays, KS

Bernard A. Cevera  
Assistant General Manager – Electric  
Board of Public Utilities of Kansas City, KS

Jay Cox  
Director  
Tri-State Generation & Transmission Association, Inc.  
Westminster, CO

Robert Gillespie  
Director  
Tri-State Generation & Transmission Association, Inc.  
Westminster, CO

Ron Harper  
General Manager & CEO  
Basin Electric Power Cooperative  
Bismarck, ND

L. Christian Hauck  
President & CEO  
Sunflower Electric Power Corporation  
Hays, KS

Harold J. (Hub) Thompson  
President  
Tri-State Generation & Transmission Association, Inc.  
Westminster, CO

Rex Johnson  
Corporate Counsel  
Sherard Sherard & Johnson  
Wheatland, WY

Robert P. Norrgard  
General Manager  
Western Fuels Association, Inc.  
Westminster, CO

(left to right) Rex Johnson , Earl Watkins (Alternate), Jim Soehner, Charles Ayers, Bob Norrgard, Bob Gillespie

Ray Hayward, Ron Harper , Hub Thompson, Bill Keller, Bernie Cevera, Jay Cox

(Not Pictured) Chris Hauck and Ed Throop



## 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 Municipal Utilities  
www.sikestonbmu.org  
Sikeston, MO

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

Southern Minnesota Municipal  
Power Agency  
www.smma.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

City Utilities  
www.cityutil.com  
Springfield, MO

Department of Utilities  
Fremont, NE

Heartland Consumers Power District  
www.hcpd.com  
Madison, SD

Lincoln Electric System  
www.les.com  
Lincoln, NE

Lower Colorado River Authority  
www.lcra.org  
Austin, TX

Missouri River Energy Services  
www.mrenergy.com  
Sioux Falls, SD

Nebraska Public Power District  
www.nppd.com  
Columbus, NE

Silicon Valley Power  
www.siliconvalleypower.com  
Santa Clara, CA

Turlock Irrigation District  
www.tid.org  
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REX E. JOHNSON, ESQ.

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 Mountain, and Southwest. Western Fuels' member-owners are rural electric generation and transmission cooperatives, municipal utilities, and other public power entities.



WESTERN  
FUELS  
ASSOCIATION  
INC.

*The National  
Fuel Supply  
Cooperative*

