



Fuel for Thought

Transforming the debate over coal-fired electricity

Western Fuels Association

Annual Report 2000



Fredrick D. Palmer

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The last year was one of transition for Western Fuels Association. Cajun Electric Power Cooperative, Inc. disappeared as a result of resolving its bankruptcy in Louisiana. Our involvement with Cajun and its power plant, Big Cajun No. 2, is no more.

Currently, seven consumer-owned electric utilities own Western Fuels. As of July 1, 2000, that number will be reduced to six as Plains Electric Generation & Transmission Cooperative, Inc. merges with Tri-State Generation & Transmission Association, Inc. Tri-State will be the succeeding entity, but Plains Electric's representatives will continue to hold their seats on the Western Fuels Board of Directors as representatives of Tri-State.

Last year's coal delivery of 22,655,790 tons will drop to somewhere around 15 million tons depending on member burn rates and future activity at the Brushy Creek Mine in southern Illinois. We will continue to supply coal to nine of the power plants owned and operated by our member/owners—a critical mass by any definition of the term. In this context, we will continue in our responsibility for operation of the Dry Fork Mine at Gillette, Wyoming, and the New Horizon Mine in Nucla, Colorado. In addition, we will continue to explore business opportunities as they present themselves at the Brushy Creek Mine, utilizing our resources and the excellent staff that we have there.

Last year was excellent for us in many respects. Brad Hanson is our new Mine Manager at the Dry Fork Mine. Many know or will remember Brad. He has had important management responsibilities at Caballo Rojo Mine, first for Mobil Coal Producing, Inc., and then Drummond Company, Inc. Brad knows how to mine coal—and he particularly knows how to mine coal in Wyoming's Powder River Basin. We are glad to have him onboard.

While Brushy Creek Mine currently is not in production, there is the potential for further mining activity there and at other operations in the region. We continue to explore those activities under the able leadership of Paul Smock, Brushy Creek's general superintendent.

Meanwhile, New Horizon Mine continues efficient operation under the management of Lance Wade. New Horizon was installed to provide coal in closer proximity to Tri-State's Nucla Station than previously was available.

We purchased coal online for the first time, ever, during the past year. We utilized the services of FreeMarkets™ for the solicitation of two million tons of spot coal for deliveries to the Laramie River Station in 2001. The low bid undercut the lowest "paper" bid we previously had received. We anticipate utilizing FreeMarket's services for additional coal purchases in the future.

Successful negotiation of a market reopener with Westmoreland Resources, Inc. for coal supply to Southern Minnesota Municipal Power Agency's share of Sherco 3 secured an advantageous price, assuring that SMMPA will continue to enjoy a competitive advantage over its regional competitors, including Northern States Power (the other participant in Sherco 3). This result is a product of Western Fuels' market presence in the western coal fields and our advantageous rail transportation contract.

Railroad efficiencies have improved dramatically during the last year; our relationship with railroads never has been better. For the first time since Western Fuels was created, we have no outstanding disputes with any railroad under any circumstance.

We settled litigation with the Burlington Northern Santa Fe involving a trackage rights petition filed with the Surface Transportation Board by Western Fuels Service Corporation. As a part of the settlement package, rate relief was secured for the Holcomb Station. We also agreed to support the BNSF merger with the Canadian National Railroad. BNSF has agreed to support our advocacy activities at Greening Earth Society. This is a package that is in the best interests of all concerned and we are extremely pleased that we reached this compromise.

Because we no longer have any outstanding issues with rail companies, we have withdrawn from active participation in Consumers United for Rail Equity (CURE). Our relationship with CURE over the years has been excellent and important. We wish CURE well as

they go forward in their continuing work. It is our view, however, that there is much more that brings coal-fired electric utilities, coal companies, and railroads together than separates them in the new environment in which we all operate, one in which there is a continuing and common threat to our collective enterprise from government, particularly the US government.

During the last year, anti-coal activities by our federal Executive Branch substantially increased. The Environmental Protection Agency obviously is intent on eliminating coal-fired electricity from the generating mix here in the U.S. using various and misconceived regulatory initiatives, ranging from new source performance litigation against utilities in the East, to punitive regional haze proposals for coal-fired generators all over the country, but particularly those in the West.

This activity stands apart conceptually from the anti-carbon dioxide (CO₂) emissions campaign the Clinton/Gore Administration has undertaken, but it certainly is consistent with the threat to coal-fired electricity that stems from that same quarter. The Administration wants to regulate CO₂ in the United States, pursuant both to the Framework Convention on Climate Change (the Rio Treaty and its infamous Kyoto Protocol), and otherwise. As I explain elsewhere in this report, we have continued our steadfast opposition to this *jihad* against CO₂ and coal-fired electricity, and we will continue to do so.

Our financial performance during the past year reflects this effort. Once again, our advocacy work has left us with a deficit for the year. But the Association's net worth remains significantly above the level established under the Board of Directors' financial policies. Western Fuels remains in a position to continue vigorous pursuit of our advocacy activity. This is particularly true because we continue to receive more and more support (financial and otherwise) from other industry participants.

Given the fact Western Fuels' coal supply activity has lessened by the departure, first, of Deseret Generation & Transmission Cooperative and, now, Cajun from our membership, do we still have critical mass necessary to continue as a viable, stand-alone, coal

supply cooperative? The question recently was posed by and answered by the Board in a series of strategic planning sessions. It has been answered in the affirmative.

Even though our tonnage now is down substantially from our peak last year, it remains at very impressive levels. Remember, Western Fuels was created by Basin Electric and Tri-State, and Cajun Electric joined shortly thereafter. Over the years, membership expanded, and included increased power plant fuel supply responsibility throughout the late 1980s and early 1990s. So, while our membership is fewer today than four years ago, it nonetheless is substantially higher than it was when we began.

Remember, too, that the investment in the power plants with which we remain involved is in the billions of dollars. For the electric consumers who own the utilities that comprise Western Fuels, it is vitally important that they receive coal at the lowest possible cost consistent with sound business principles. This must be so in order that the billions of dollars in investment they have made are fully enjoyed by those who made the decision to install the power plants. We remain firmly of the view that a dedicated coal cooperative can perform this important mission in a more efficient and more valuable way than can separate fuel supply staffs at different utilities. The Board of Directors, representing our owners' and their consumers' interests, concur in this judgment and remain committed to Western Fuels as a stand-alone entity.

An important reason for this commitment is the value added by our advocacy work. Western Fuels' and our members' history is well known by now. In fact, it is notorious given the national media's widespread coverage of our work and given the incessant criticism we receive from the environmental community.

Our ten years' work in coming to fully understand the complicated science of climate change has paid off in spades. We understand the deception that has been practiced (by individuals within the government and outside) in an effort to convince all of us that a climate apocalypse is upon us when, in fact, no such thing is taking place. It is this level of expertise that has allowed us to

bring litigation in Federal District Court in Wyoming against various environmental groups for false and misleading commercial advertisements in *The New York Times* and on interactive Web sites. We do so drawing upon our ten years of experience with the true science of climate change.

Additionally, our early and effective advocacy work with respect to the benefits of cheap electricity through the work of Mark Mills, and now David Wojick, likewise has paid off. This is happening because of an “echo effect.” If you read what other industry participants in this policy debate have to say, you will find that over time much of our work has been adopted by them. We were ignored at first. We were criticized for a while. But now we are emulated. In that, we take a great deal of pride. We know that our work continues to be important and in the public interest. We also know that but for the unique position we hold as representatives of consumer interests through the structure of Western Fuels, we would not have the impact that we are having.

All this work requires resources—human and financial—and a commitment by both the Board of Directors and by management. We have the resources we require and we will continue to seek to supplement our resource base as we go forward and as we carry on the vitally important work of the Western Fuels Association, work that involves both coal supply and advocacy.

We have the commitment of the Board of Directors and that of management. We stand unique—but no longer alone—in our great struggle to preserve the coal-fired electricity generating base here in the United States. It is an asset of immeasurable importance and value to all Americans. It was brought into being by visionary leaders in the public power community who worked in partnership with government.

It is our goal to return to that kind of constructive partnership with government—to build new coal generating resources for future generations of Americans to enjoy as the American economy leads the way toward and creates the wired world.

Deliveries

as of December 31, 1999

Basin Electric Power Cooperative
Tri-State Generation &
Transmission Association
Laramie River Station
7,175,011 tons

Cajun Electric Power Cooperative
Big Cajun No. 2
6,467,897 tons

Tri-State Generation &
Transmission Association
Craig Station
1,560,627 tons
Nucla Station
359,410 tons

Sunflower Electric Power
Corporation
Holcomb Station
1,539,480 tons

Board of Public Utilities of
Kansas City, Kansas
Nearman Creek Station
789,533 tons
Quindaro Station
578,761 tons

Southern Minnesota Municipal
Power Agency
Sherco III
1,098,834 tons

Sikeston, Missouri, Board of
Municipal Utilities
Sikeston Power Station
1,021,478 tons

Plains Electric Generation &
Transmission Cooperative
Plains Escalante Generating
Station
925,925 tons

Marion Coal Sales
Brushy Creek Mine
708,777 tons

Western Fuels-Wyoming
Dry Fork Mine
1,219,590 tons*

* includes tonnage delivered to member power plants

TOTAL DELIVERIES
22,655,790 tons

Advocacy: Are Americans ready to be told the truth?



Since Earth Day 1998, Western Fuels Association's climate change advocacy has been rooted in Greening Earth Society. Greening Earth Society was created to mobilize broader opposition to the popular vision of apocalyptic climate change. There is solid climate science and thousands of real world observations that contradict—absolutely—the perspective espoused by the federal establishment and an international cadre of environmental professionals. They promote flawed visions of climate apocalypse as a way to force a “wrenching transformation of society.”

The Greening Earth Web site at www.greeningearthsociety.org spreads an optimistic and reality-based vision to Americans ready to be told the truth about fossil fuel emissions and their impact on climate. Traffic at the Web site grows geometrically, soaring from thirty thousand hits in February 1999 to nearly four hundred thousand per month in the spring of 2000. Impressive as that statistic is for an advocacy Web site, the true measure of our reach is its more than 8,000 monthly visitors. We are connected to the world.

“Yahoo” rates us as their second most popular climate change Web site. We were designated CNS Site of the Week. Townhall.com has twice promoted hour-long online chats and prominently features links to greeningearthsociety.org news. We hear and see echoes of our work everywhere.

Most visitors come to browse the bi-weekly *World Climate Report Online*, read our newly instituted *Virtual Climate Alerts*, a host of studies by the ASU Climate Data Task Force, and special reports from the Society's science advisors. But we're not yet a paperless society. Together with The Heartland Institute, we now publish *World Climate Report's* content in the monthly tabloid *Environment & Climate News*. Circulation is more than 40,000 nationwide. Pat Michaels, Bob Balling, Sallie Baliunas, and other scientists working under contract with New Hope Environmental Services increase their influence on public and political dialogue.

Even while our advocacy continues to move among the grassroots over the Internet, via radio talk shows, special newspaper features, and frequent speeches, in April 2000 we “went mainstream” when Public Broadcasting’s *NOVA/FRONTLINE* ran a two-hour special report called “What’s Up With the Weather.” Besides exposing millions of Americans to our positive vision concerning the known impact of rising atmospheric concentrations of carbon dioxide on the biosphere, the broadcast—for the first time in decades—exposed viewers to the realities of their energy use, and reliance upon coal-fired electricity. The program already has been aired several times, is being shown in schools, and its content is available in expanded form at their site on the Internet.

We have stressed the importance of coal-fired electricity to the US and world economies for more than a decade. Mark Mills has worked with us for many years and his latest assignment on the Internet’s impact on electricity use resulted in a new report, *The Internet Begins with Coal*. The report is online at fossilfuels.org, and it has captured attention from Wall Street to Silicon Valley. Mark’s work has been featured in *Forbes Magazine* and has attracted the attention of high-tech futurist George Gilder.

On that same Web site, we raised concern for a looming electricity capacity crisis as early as 1998. Online publication of David Wojick’s report detailing the origin and dimension of the crisis first was met with derision or dismissal. Two years later, the Clinton/Gore Administration—through Energy Secretary Bill Richardson—seems willing to blame Congress, electric utilities (maybe even The Man In the Moon) rather than accept responsibility for not only their lack of realistic energy policy during the last seven years, but for advocating climate change and other environmental policies that make energy less available and much more expensive.

Advocacy: Are Americans ready to be told the truth?

Where does our advocacy stand, today? Based on work by our newest science advisor John Daly concerning the fatal flaws of the ground-based temperature record and revelations concerning agreement among ground-based thermometers, instruments onboard satellites, and carried aloft by weather balloons, Western Fuels is now prepared to argue that no reliable record exists to show a warming globe, and second, to establish the lack of warming, apocalyptic or otherwise.

Several environmental groups working under the umbrella of something called The Turning Point Project have defamed us (and coal-fired electricity) for the commercial advantage of their corporate sponsors. We have sued them in Federal District Court in Wyoming under provisions of the Lanham Act. And if we prevail, Americans will hear the truth about climate change. It also will become less easy for fossil fuels' opponents to spread malicious lies.

Consolidated Balance Sheet

Combined 1999 financial statements of Western Fuels Association, Inc.,
Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc. (in thousands)

	1999	1998
ASSETS		
Cash & Short-Term Investments	\$11,842	\$16,143
Accounts Receivable		
Member	16,671	17,662
Non-Member	6,485	8,318
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Total Accounts Receivable	23,156	25,980
	<hr/>	<hr/>
Inventory	137	1,141
Costs Recoverable Under Coal Purchase		
Agreements	14,700	19,003
Prepayment for Deferred Coal Shipments	7,028	7,028
Prepaid Expenses	1,541	1,962
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Plant & Property	121,846	121,882
Less: Accumulated Depreciation	89,877	86,333
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	31,969	35,549
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Furniture & Equipment At Cost	505	464
Less: Accumulated Depreciation &		
Amortization	318	262
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	187	202
Investments	30,175	31,811
	<hr/>	<hr/>
TOTAL ASSETS	\$120,735	\$138,819

LIABILITIES		
Accounts Payable	\$24,303	\$30,344
Accrued Interest Payable	1,869	2,552
Post Retirement Benefits Obligation	9,522	10,490
Advance Payments for Transportation & Coal Purchases	14,660	15,057
Notes Payable	24,215	24,668
Long-Term Debt	5,198	11,258
Capital Lease Obligations	35,906	39,097
Deferred Income	164	137
	115,837	133,603
MEMBERS' EQUITY		
Initial Member Fees	45	45
Patronage Capital Certificates	3,340	2,625
Per Unit Retain Certificates	2,564	2,564
Accumulated Margin	(1,051)	(18)
	4,898	5,216
TOTAL LIABILITIES & MEMBERS' EQUITY	\$120,735	\$138,819

Consolidated Statement of Operations

Combined 1999 financial statements of Western Fuels Association, Inc., Western Fuels-Illinois, Inc., and Western Fuels-Wyoming, Inc. (in thousands)

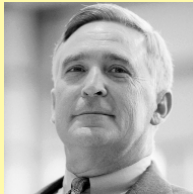
	1999	1998
Coal Sales to Members	\$202,031	\$233,308
Less: Costs of Coal Sold		
Acquisition	113,440	132,612
Transportation & Delivery	82,512	94,793
	195,952	227,405
	6,079	5,903
Interest Income	918	893
Annual Membership Fees	8	9
Total Revenue Less Described Costs	\$7,005	\$6,805
General & Administrative Expenses	3,408	3,381
Interest Expense	3,402	3,163
Net Operating Margin	195	261
Non-Operating Margin:		
Other	(591)	(428)
Income Taxes	67	6
Net Margin	(\$329)	(\$161)



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President
President & CEO
Sunflower Electric Power
Corporation
Hays, KS



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



Ed Throop
Secretary-Treasurer
General Manager
Board of Municipal Utilities
Sikeston (MO)
Light & Water



Larry M. Adair
Vice Secretary-Treasurer
Manager—Electric Supply
Board of Public Utilities of
Kansas City, KS



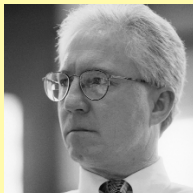
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Corporation
Hays, KS



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Director
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Westminster, CO

Class A Members

Basin Electric Power Cooperative

www.basinelectric.com
Bismarck, ND

Plains Electric Generation & Transmission Cooperative, Inc.

Albuquerque, NM

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

Southern Minnesota Municipal Power Agency

www.smma.com
Rochester, MN

Class C Members

Arizona Electric Power 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

Lincoln Electric System

www.les.lincoln.ne.us
Lincoln, NE

Missouri River Energy Services

www.mbmpa.org
Sioux Falls, SD

Nebraska Public Power District

www.nppd.com
Columbus, NE

Silicon Valley Power

www.alphais.com/santa_clara
Santa Clara, CA

City Utilities

www.cityutil.com
Springfield, MO

Turlock Irrigation District

www.tid.org
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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 throughout the Great Plains, Rocky Mountain, and Southwest states. Western Fuels' 19 member/owners are rural electric generation & transmission cooperatives, municipal utilities, and other public power bodies.