

Western Fuels Association

2020-2021 Annual Report



Message from the CEO



Meri Sandlin

CEO & General Manager

Western Fuels Association employees have focused on providing the best possible service to our members for the past 47 years. The Association and related affiliates have had a long history of expanding and contracting according to the needs of its members.

In 2020, the Association closed its Escalante Western Railway operations as the result of the early retirement of the Escalante Generating Station. Other changes included “right-sizing” operations at Dry Fork Mine to accommodate a revised shipment forecast for the future and cost-cutting efforts at both the Association and Dry Fork Mine to offset lower planned future shipments. Finally, our Western Fuels Illinois affiliate continues to progress through the final bond release process on a 400+ acre mine reclamation project in southern Illinois.

The 2020-2021 fiscal year proved to be one of the most challenging to date. In 2020, the economic devastation caused by the COVID-19 pandemic resulted in the lowest coal generation since 1965, according to the U.S. Energy Information Administration. During the pandemic Western Fuels Association staff immediately transitioned to a remote work environment without missing a beat. Despite this challenging market, all contracted coal was delivered to member plants on-time and without impacting contractual obligations.

Railcar management operations were also impacted by the pandemic; travel and social distancing requirements restricted access to railcars for physical inspection. Western Fuels Association has now removed travel restrictions and currently has a fleet of nearly 2,000 railcars under management. In addition to managing maintenance activities, the Association manages property and casualty insurance on the railcar fleet and performs railcar property tax management in ten states for Association members. The railcar market has diminished over the past several years, along with lower coal shipments, resulting in record numbers of cars being scrapped. On a positive note, scrap values have increased in 2021 as a result of higher steel prices.

Message from the CEO — continued

In February 2021, the failure of the ERCOT system impacted WFA member service territories, however, WFA served coal plants were stocked with adequate inventory to sustain operations through the ERCOT crisis and were able to provide critical generation during what was literally a life and death situation. Once again, coal plants proved to be a necessary part of the generation mix to help prevent a total system failure across the entire Midwest.

The number of coal plant retirement announcements continue to accelerate as individual companies refine their future generation mix through the integrated resource planning process. Extrapolating this retirement data into the Powder River Basin production data from early 2021 shows that the planned retirements are consistent with the PRB announced production curtailment plans and planned mine closures. At this point, the Decker mine in Montana and the Coal Creek mine in Wyoming have been the first to announce closure plans. Several other mines have announced plans to curtail production targets in the coming years. The Black Thunder mine will decrease output over the next several years.

Mine reclamation is a concern for all stakeholders of the coal industry. Historically, mining companies have had the ability to provide self-bonding and include asset retirement obligations on balance sheets to show the planned mine closure and reclamation expenses. After several mining company bankruptcies materialized over the last several years, the State of Wyoming has modified requirements to the bonding program to include more surety bonding in lieu of self-bonding. This new program is already under review as the State continues to try to mitigate risk of another round of bankruptcies and the insurance industry's plan to reduce exposure to coal. Western Fuels Association has always taken a conservative approach and created a sinking fund at the inception of mining operations at the Dry Fork Mine to ensure that adequate cash is available to reclaim the property when the time comes.

As the current administration moves toward carbon free electric generation goals, carbon capture projects will be evaluated and compared to generating unit replacement costs, likely resulting in an uncertain future at best. At the present time CO2 capture guidelines and federal grants for eligible clean energy sources are still under review. Absent this information, utilities are forced to plan load requirements without a clear understanding of carbon capture costs or credit mechanisms to aid in financing required retrofits.

Message from the CEO continued



Coal royalty and production taxes, commonly referred to as governmental impositions, represent an unpredictable financial risk to coal fired electric generating units. Both Black Lung Excise Tax and the Abandon Mine Land fees are under review for renewal in 2021 and most certainly will be reauthorized or extended through congressional efforts. The combined cost of governmental impositions amounts to \$30-60,000 per trainload at the current market rates for Powder River Basin coal. Any increase in governmental impositions results in even more difficulty for coal fired electric generation units to compete with subsidized renewables. The subsidies for renewables are also under review and likely to be renewed in coming months.

Regardless of the political headwinds, coal fired generation is vital in providing a resilient source of power that is available when necessary. Western Fuels Association will always continue to strive to provide our members with critical fuel supply services. We look forward to assisting future members in coal supply services.

Meri Sandlin

Meri Sandlin



MEMBER BENEFITS

Coal Acquisitions and Contract Administration:

- Prepare requests for proposals, evaluate bids, and recommend coal suppliers
- Monitor the over-the-counter market for purchase opportunities
- Conduct coal market and transportation research
- Negotiate and administer coal contracts
- Attend scale tests and verify scale results
- Invoice reconciliations
- Compliance management

Coal Transportation:

- Bid solicitation
- Contract administration
- Train Scheduling
- Railcar ownership and leasing evaluations
- Fleet management
- Accounting for rail property taxes and insurance
- Railroad construction / build-out / cost analysis



MEMBER BENEFITS - Continued

Advocacy and Participation and Support of the Following Trade Associations:

- National Rural Electric Cooperative Association
- American Public Power Association
- America's Power
- National Mining Association
- Rocky Mountain Coal Mining Institute
- National Coal Transportation Association
- Western Coal Traffic League
- Mid-West Electric Consumers Association

Other Services:

- Geologic investigation (drilling, mapping, and reserve assessment)
- Land acquisition (leasing or purchasing from private parties; leasing of federal land)
- Permitting (liaison with federal, state, and local government agencies)
- Mine engineering services (mine planning, mining cost estimates, feasibility studies, reserve verification)
- Cost estimates for railroad build-out
- Site evaluation and location for new generation facilities
- Contact with local, state, and federal governments
- Contact with Surface Transportation Board
- Legal services

OUR MEMBERS

CLASS A MEMBERS

Basin Electric Power Cooperative
Bismarck, ND

Kansas City Board of Public Utilities
Kansas City, KS

Southern Minnesota Municipal Power Association
Rochester, MN

Sunflower Electric Power Corporation
Hays, KS

CLASS B MEMBERS

Sikeston Board of Municipal Utilities
Sikeston, MO

CLASS C MEMBERS

Arizona Electric Power Cooperative
Benson, AZ

Associated Electric Cooperative, Inc.
Springfield, MO

City of Grand Island
Grand Island, NE

Colorado Springs Utilities
Colorado Springs, CO

Grand River Dam Authority
Chouteau, OK

Hastings Utilities
Hastings, NE

Heartland Consumers Power District
Madison, SD

Hibbing Public Utilities Commission
Hibbing, MN

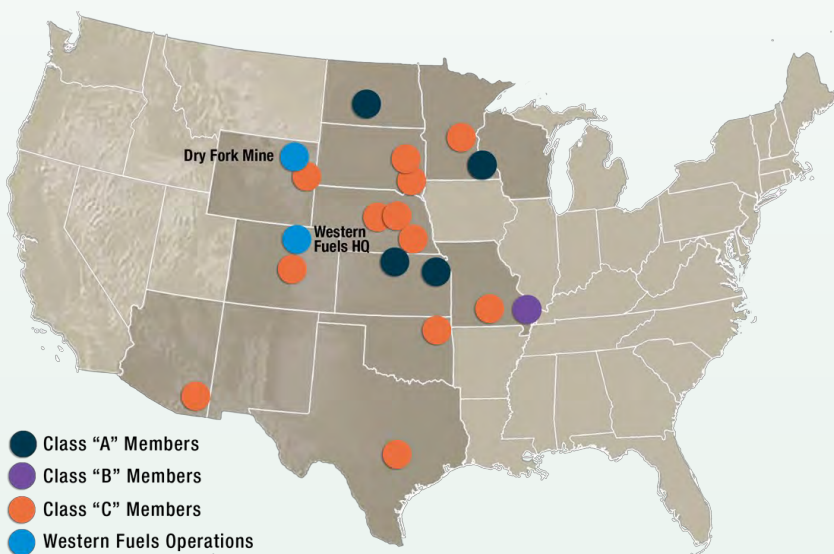
Lincoln Electric System
Lincoln, NE

Lower Colorado River Authority
Austin, TX

Missouri River Energy Services
Sioux Falls, SD

Nebraska Public Power District
Columbus, NE

Wyoming Municipal Power Agency
Lusk, WY



WESTERN FUELS ASSOCIATION OFFICERS



Stuart Lowry

President

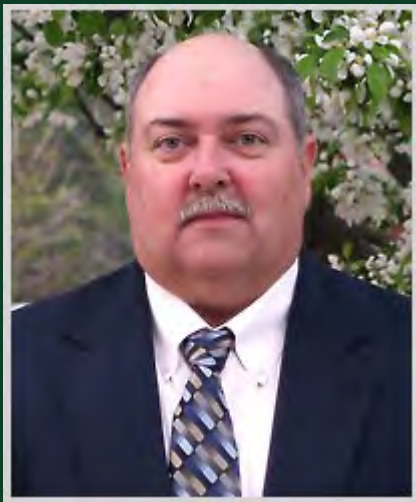
Sunflower Electric



Paul Baker

Vice President

Basin Electric Power Cooperative



Rick Landers

Secretary/Treasurer

Sikeston Board of Public Utilities



Dong Quach

Vice Secretary/Treasurer

Kansas City BPU

WESTERN FUELS ASSOCIATION DIRECTORS



Paul Sukut
Basin Electric



Paul Baker
Basin Electric



Troy Presser
Basin Electric



Mike McQuiston
Basin Electric



Stuart Lowry
Sunflower Electric



Jana Horsfall
Sunflower Electric



Dong Quach
Kansas City BPU



Bill Johnson
Kansas City BPU



Rick Landers
Sikeston BMU



Dave Geschwind
Southern Minnesota MPA



Mark Mitchell
Southern Minnesota MPA

WESTERN FUELS ASSOCIATION ALTERNATE DIRECTORS



Joe Leingang
Basin Electric



Jake Dow
Basin Electric



Tracy Davis
Sunflower Electric



Rex Johnson
General Counsel

WESTERN FUELS ASSOCIATION TEAM

Colorado Office



Kim Roach

Director, Commercial Operations



Sherry Gray

Executive Administrative Assistant -
Human Resources



Meri Sandlin

Chief Executive Officer
& General Manager



Laura Vick

Controller



Susie Boland

Accounting Specialist

WESTERN FUELS ASSOCIATION TEAM WYOMING OFFICE



Kenn Gray

Manager Fuel, Transportation &
Technical Services



Jerry Barnaby

Fleet Manager

DRY FORK MINE

WESTERN FUELS WYOMING



Dave Gauntner
General Manager

SAFETY AT DRY FORK MINE



Safety continues to be a source of pride at Dry Fork Mine (DFM). In February of 2020, DFM achieved four years without a Lost Time Injury (LTI). This milestone could only be achieved through the diligence and dedication of every employee at the mine. “Zero Harm At WORK and At Home” is more than a slogan. It is a conscientious choice DFM employees make daily to ensure they maintain a safe and productive life. Through daily safety meetings, employee generated safety goals and watching out for each other, DFM employees not only work safe at the mine but take the safety mindset home to share with their families.

After the LTI milestone was reached at the end of February, things began to change in the world. As everyone knows, 2020 became a very turbulent year for every one on this planet. Almost every industry was impacted by the pandemic and the coal industry was no exception. At DFM, a reduction in shipments lead to the need for a lot of changes to be made.

It would have been easy for DFM employees to get distracted with all the changes not only at the mine, but in everyday life as well. After the pandemic began, the DFM employees stepped up and performed their work very safely. It’s a testament to the quality of employees that work at DFM and the efforts that they have put forth to improve the safety culture at DFM to withstand the negative impact of the pandemic. The culture has improved and will continue to improve. Working safely at DFM is becoming a habit. However, DFM employees are committed to do even better to get to a higher level of safety excellence.

SAFETY AT DRY FORK MINE

Operationally, the transition from a two-pit operation to a single pit operation continued through 2020 with only a small amount of coal remaining to be mined from the second pit at the end of the year. This transition has benefitted many aspects of the mining operation. Reduced travel time for equipment, reduced number of overburden blasts and increased production efficiency are a few of the operational efficiencies recorded. DFM will continue to realize operational efficiencies and reduced operating costs for the foreseeable future.

Along with the knowledge and expertise of DFM employees, the investment in equipment in both the mine and plant in the past several years has positioned DFM very well to get through difficult years such as 2020. Mining equipment availabilities and plant efficiencies were much improved from previous years.

As difficult of a year as 2020 was for everyone, DFM employees rose to the challenge and made it as successful of a year as possible in terms of safety, productivity, and cost control. That's no surprise.



Drill 5105 angle drilling
overburden

DRY FORK MINE

Employee Spotlight

Will Rohan, Engineering Technician, talented coach of the undefeated Raiders junior football team, and proud papa of “Lil Coach” Theo, exemplifies the employee culture at Dry Fork Mine. Will, a former junior high history teacher, joined the mine in 2014 as a Utility Technician and later transferred to the Engineering Department, where he is instrumental in surveying and assisting with short-term mine planning activities. He also serves as the Team Leader of the mine’s Safety Steering Committee and facilitates the mine’s safety continuous improvement teams—eleven employee teams so far. Will is one of several dedicated mine employees who volunteer their time to assist with youth sports or participate in other community events in Gillette, Wyoming.



Coach Will and the Undefeated Raiders

Courtesy—WFA Stock Photo

DRY FORK MINE

WESTERN FUELS WYOMING



Rocky Feddersen
General Plant Supervisor



Dave Green
Project Engineer



Doreen Heuck
Business Manager



Wes Hartwigsen, Tammy McClure, Jamie Milliken

Production Technicians—visiting during lunch and while equipment is being serviced.

Zach Woodard—Maintenance Technician performing field maintenance.





Lora Dilley
Safety Coordinator



Kelly Peterson
Human Resources Manager



Kari Preston
HR Administrative Assistant



Amy Knapp
Senior Payroll Specialist



Courtni Sieler, Plant Technician and Jeremy Carnes, Electrician doing pump repairs.

Haul Truck 3405 and Loader 2306





Robbie Lang
Mine Supervisor



Toy Buell
Production Technician



Ron Rice
Production Technician



**Chris Roberts—Maintenance Planner
doing equipment downloads at lunch.**

**Curtis Jones
Production Tech**



**Kristine Kline
Production Technician**



Dave Doyle
Production Technician

Jolene Graham, Retired Production Technician helping out as a temporary employee, along with Curtis Jones and Craig Sanders—both Production Technicians.





Tom Worthington
Plant Technician



Matt Robidart
Warehouse Specialist



Brian Smith
Maintenance Technician

Will Rohan
Engineering Technician



Justin Hillius
Maintenance Technician



Tim Maliske
Maintenance Technician



Jerry Pflaumer
Production Technician



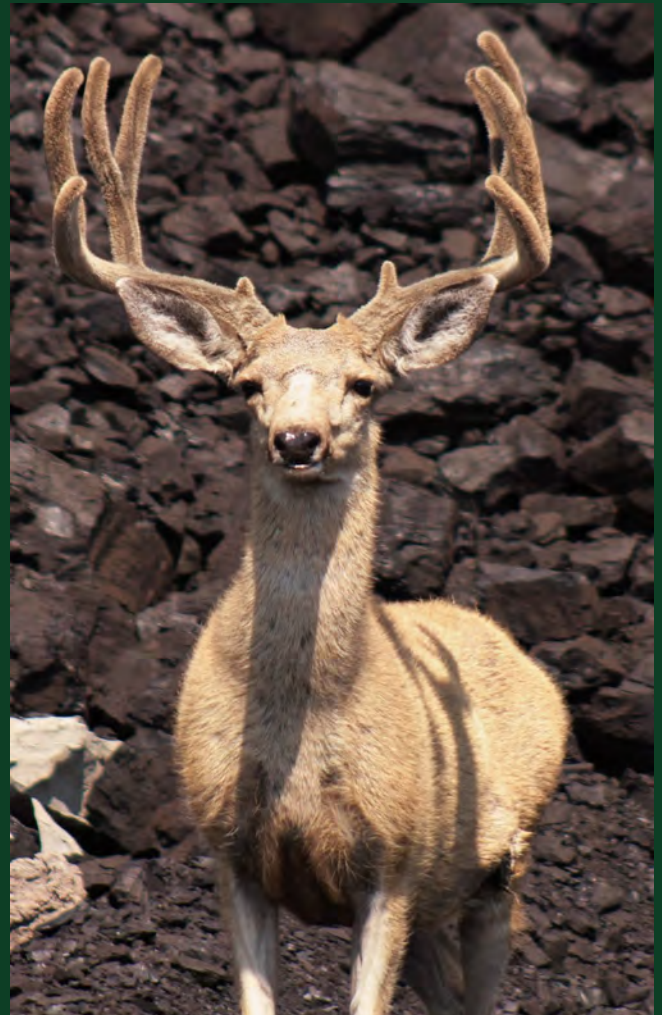
Dustin Schell
Mine Superintendent

Robin Pierce
Production Technician





Buckley Powder employee on coal blast pattern



Ralph, the mule deer in coal pit.

CONSOLIDATED BALANCE SHEET**Year ended December 31, 2020**

(in thousands)

Assets

Current assets:		
Cash and cash equivalents	\$	6,031
Accounts receivable:		
Members		9,321
Affiliated companies		90
Prepaid expenses and other assets		264
Total current assets		<u>15,706</u>
Marketable Securities-Certificates of Deposit		713
Investments in other organizations:		
Affiliated		1
Nonaffiliated		525
Investment in Western Fuels-Wyoming, Inc. - restricted		33,616
Equipment and railroad properties		1,958
Less: Accumulated depreciation and amortization		<u>(975)</u>
Equipment and railroad properties - net		<u>983</u>
Furniture, office equipment and leasehold improvements		637
Less: Accumulated depreciation and amortization		<u>(634)</u>
Furniture, office equipment and leasehold improvements - net		<u>3</u>
Total assets	\$	<u>51,547</u>

Liabilities and members' equity

Current liabilities:		
Accounts payable and accrued liabilities:		
Coal suppliers, transportation and delivery	\$	551
Members		8,763
Other		99
Advance collections for transportation costs		1,054
Advances from members		245
Total current liabilities		<u>10,712</u>
Other non-current liabilities:		
Advances from members		<u>525</u>
Total other liabilities		<u>525</u>
Commitments and contingencies (Note 6)		
Members' equity:		
Patronage capital certificates		5,541
Per-unit retain certificates		2,564
Capital contributed by member specifically for investment in		
Western Fuels-Wyoming, Inc.		34,034
Accumulated margin (deficit) from investment in		
Western Fuels-Wyoming, Inc. - designated		(418)
Accumulated margin (deficit)		<u>(1,411)</u>
Total members' equity		<u>40,310</u>
Total liabilities and members' equity	\$	<u>51,547</u>

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2020

(in thousands)

Operating revenues	
Coal sales to members	\$ 135,431
Transportation revenue from members	82,391
Lease payments received from members and affiliates	215
Management fees	1,661
Other income	1,287
Total operating revenues	<u>220,985</u>
Operating costs and expenses	
Purchases	135,431
Transportation and delivery	82,391
General and administrative expense	2,898
Depreciation and amortization	65
Other expense	127
Total operating costs and expenses	<u>220,912</u>
Other non-operating income, net	45
Net income from operations before equity method investment	118
Equity method investment gain from Western Fuels-Wyoming, Inc. - designated to specific members	668
Net Income	<u>\$ 786</u>

Total assets



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