

# **Western Fuels Association**

**2018 | 2019 Annual Report**

## From Board President *Mark Mitchell* and CEO *Meri Sandlin*

2018 proved to be yet another challenging year for the coal industry. On a positive note, several coal producers emerged from bankruptcy in 2017 and streamlined operations, which allowed the operators to maintain competitive pricing stability. Other producers continued to struggle. One of our primary suppliers filed bankruptcy in late 2018, and another retained an advisor to guide it through a future reorganization or merger.

There seems to be a continuing march toward retirement of coal-fired generation. Whether that is driven by economics or environmental concerns, it is important to not lose sight of the role that coal-fired generation continues to play in the reliability and resilience of the electric grid.

Each fuel source used for electricity generation has its own unique set of challenges; fossil fuels emit CO<sub>2</sub> into the atmosphere, renewables are intermittent, and nuclear is expensive and disposal of spent fuel is a concern. With this in mind, the responsible approach is an all-of-the-above mix of fuels to supply demand for electricity while maintaining optimum electric grid reliability and resiliency.

The ability to stockpile coal to cover emergencies is a



## **Report from the Board President & CEO** *(continued)*

key attribute of coal-fired generation and a reason to keep it in the mix. A 30-day stockpile will cover generation needs in the event of extreme weather or other disruptions in gas pipelines.

In addition, cooperatives and municipal utilities have spent billions on capital expenditures for assets that are capable of providing reliable power for 60 years or more. In many cases, early retirement would increase the cost of electricity for their customers.

Coal provides peace of mind that there is “insurance” coverage in place to prevent disasters associated with loss of power for an extended period of time.

There may be a time when technology will allow other resources to provide the level of reliability we enjoy with coal generation, but that time has not yet come.

It is important to chart a steady and well-thought-out transition in our resource mix. At this time, coal remains an important part of our resource mix and Western Fuels is doing its part to keep coal resources as economical as possible through the services it provides its Members.

Western Fuels is proud of the work we do for our Members. We have a diverse staff with expertise in coal procurement, contract administration, transportation logistics, rail-car fleet management, engineering, accounting, and advocacy.

**Do not underestimate the persistence and adaptability of old resources... and established prime movers, particularly those that have been around for more than a century, including steam turbines and internal combustion engines.**

**Vaclav Smil, 2010**



## ***Report from the Board President & CEO*** *(continued)*

We support various trade associations that seek to protect the continued viability of the coal fleet and mining.

To date, we have delivered nearly 600 million tons of coal to our Members who supply reliable and affordable electricity to nearly 4 million households. In addition to supplying coal to our Members, we also provide railcar fleet management services to several WFA Members.

In 2018, we added over 900 railcars to our fleet management program. Our commitment to our Members is reflected in our ability to provide exceptional value in coal supply chain management.

Thank you for taking the time to review this annual report. We value our relationships with stakeholders and look forward to providing coal-related services for our Members for many years to come.



**Mark Mitchell**  
President



**Meri Sandlin**  
CEO

# Environmental

Western Fuels recognizes that the long-term success of our organization goes beyond income statements and balance sheets. Our approach is focused on a host of factors including responsible and safe mining and shipping, land restoration, advocacy for advanced coal technologies, and support for practical regulatory and taxation policies. Our board of directors has ultimate oversight of these activities and works to ensure that our practices and policies promote the best interests of both the Members and the public.

## Environmental Laws and Regulations

Western Fuels is impacted, directly and indirectly, by numerous regulatory and legal requirements, evolving energy and environmental policies and political developments. The coal and utility industries are among the most heavily regulated and taxed industries in the United States. In addition to complex leasing and permitting, air, land and water quality, wildlife habitat restoration and mine safety rules and regulations, we pay substantial federal, state and local royalties, severance taxes and other taxes. As a coal provider as well as a purchaser, Western Fuels is affected by changes to federal and state environmental laws and regulations.

## Wyoming Reclamation Bonding

Reclamation bonding must be secured for the calculated cost to reclaim the mine if it ceases to operate in the current period. The cost calculation must be completed according to the requirements of the state regulatory authority. There are three categories of reclamation performance bonds: surety bonds, collateral bonds, and self-bonds. A collateral bond can take several forms, including cash, letters of credit, first lien security interest in property or other qualifying investment securities. A self-bond is an indemnity agreement executed by the permittee or by the permittee and any corporate guarantor made payable to the regulatory authority.

During 2018, Wyoming proposed changes to the state's self-bonding rules. The proposal will require that the



## Environmental *(continued)*

self-bonding guarantor be the ultimate parent company and that the maximum amount of bonding be limited to 75% of the company's calculated bond amount. Additionally, the proposal required the self-bonding party to be of investment grade quality using ratings issued by nationally recognized credit rating services. During February 2019 the rules were approved and are currently pending Governor's signature to go into effect.

### **Coal Valuation Rule**

On July 1, 2016, the Office of Natural Resources Revenue (ONRR), finalized the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform (Valuation Rule). The Valuation Rule governs the payment of royalties on oil, gas, and coal extracted from leases of federal and Indian lands. The ONRR, the agency responsible for royalty collections, specified

an effective date of January 1, 2017. During April 2017, the ONRR repealed the Valuation Rule and reinstated the regulations that had been in effect for decades prior to the promulgation. Also during 2017, the ONRR reestablished the Royalty Policy Committee, tasking it, in part, with review of the

**Based in part on market forces and in part on environmental pressures, co-op reliance on coal-based generation declined from 54 percent to 41 percent between 2014 and 2016.**

**During that same period, co-ops increased their use of renewable energy sources from 14 percent to 17 percent.!**

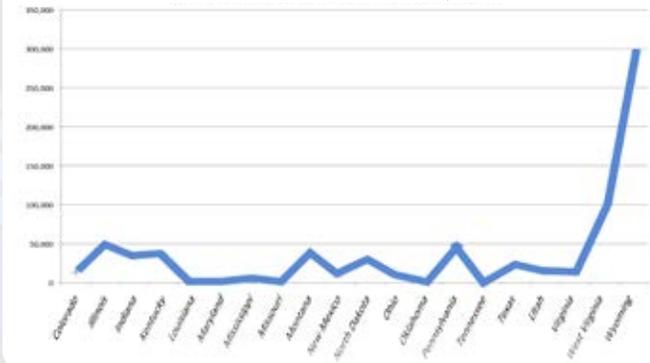
Valuation Rules. The repeal of the 2016 Valuation Rule was challenged, and on March 29, 2019, the U.S. District Court for the Northern District of California vacated the repeal, reinstating the 2016 rule.

## Environmental *(continued)*

### Federal Coal Leasing Moratorium

During 2017, an Executive Order lifted the federal coal leasing moratorium and rescinded guidance on the inclusion of social cost of carbon in federal rulemaking. Environmental groups took the issue to court and in September 2018, Wyoming and Montana opposed the suits in court and defended against the freeze possibly being reinstated. This litigation is ongoing.

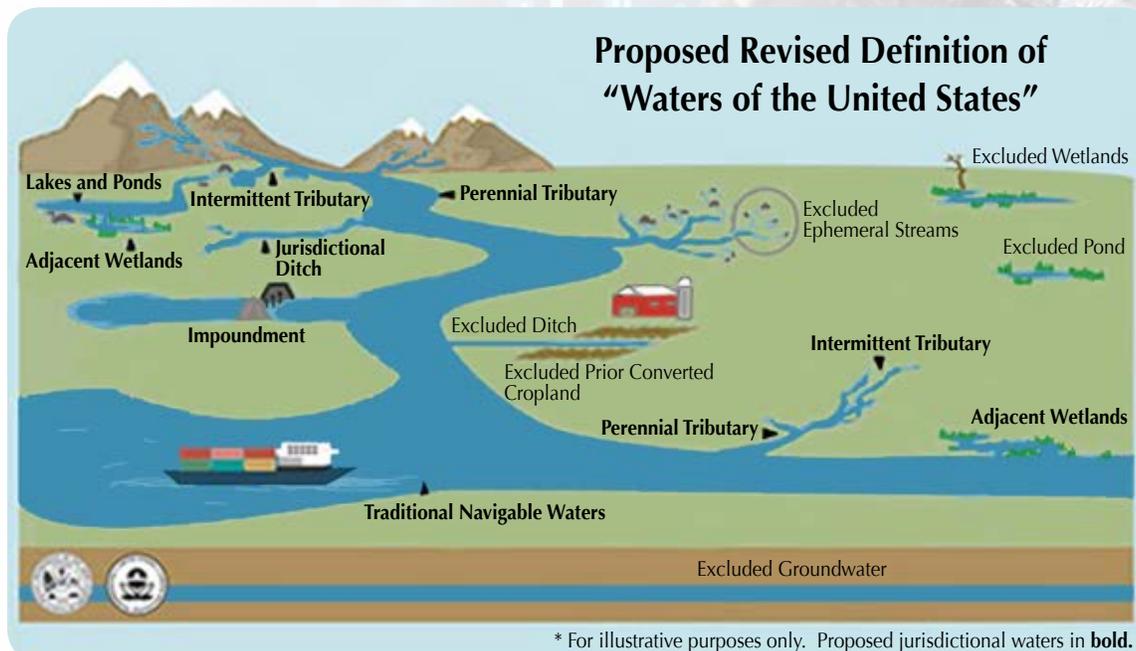
U.S. Coal Production for 52 weeks, ended 5/18/19



\*Source - Energy Information Administration, released May 23, 2019

### Waters of the United States Rule

The Environmental Protection Agency (EPA), through the Clean Water Act (CWA), sets effluent limitations and treatment standards for wastewater discharges. The U.S. Army Corps of Engineers (Corps) regulates certain activities affecting navigable waters and waters of the U.S., including wetlands. Section 404 of the CWA requires mining companies to obtain Corps permits to place material in streams for the purpose of creating slurry ponds, water impoundments, refuse areas, valley fills or other mining activities.



\* For illustrative purposes only. Proposed jurisdictional waters in **bold**.

Source: Michigan Farm Bureau

## Environmental *(continued)*

U.S. Supreme Court decisions in 2001 and 2006 created confusion regarding jurisdictional waters that were subject to permitting under either nationwide or individual permitting requirements. The Waters of the United States (WOTUS) Rule was finalized by the EPA and the Corps in May 2015. The 2015 WOTUS Rule was stayed nationwide until early 2018. The EPA and the Corps finalized the “Delay Rule” in 2018 that amended the 2015 WOTUS Rule by specifying that the 2015 rule does not apply until February 6, 2020, with the pre-2015 definitions of WOTUS remaining in effect nationwide. On January 22, 2018, the U.S. Supreme Court issued its decision related to the jurisdictional challenges to the rule. In August 2018, the U.S. District Court in South Carolina overturned the Delay Rule. That put the 2015 rule into effect in some (currently 22) states, but not in the other (currently 28) states where federal court injunctions are still in place. During 2018, the EPA and the Corps proposed a revised definition of “waters of the United States” that is intended to further clarify jurisdictional questions, eliminate case-by-case determinations, and narrow Clean Water Act jurisdiction to align with Justice Scalia’s 2006 opinion in *Rapanos v. United States*. The public comment period closed April 15, 2019. The final rule is expected in 2019.

### ***The National Environmental Policy Act***

The National Environmental Policy Act (NEPA) requires federal agencies to review the environmental impacts of their decisions and issue either an environmental assessment or an environmental impact statement. Mining companies must provide information to agencies when proposing actions

Per Capita Consumption of Minerals - 2018 (Pounds Per Person)	
Coal	4,206
Natural Gas <sup>1/</sup>	9,807
Petroleum Products	6,845
Sand, Gravel, Stone	17,269
SOURCES: US Geological Survey; Energy Information Adm.; and U.S. Census Bureau. <sup>1/</sup> Lbs. coal equivalent. 2018 data are preliminary. Totals may not add due to rounding. Updated: April 2019	

\*Source - National Mining Association

## Environmental *(continued)*

that will be under the authority of the federal government. The NEPA process involves public participation and can involve lengthy timeframes. During 2018, the White House Council on Environmental Quality issued an Advance Notice of Proposed Rulemaking seeking comment on a number of ways to streamline and improve the NEPA process. It is unclear how far-reaching the changes will be and if they will be able to withstand expected court challenges.

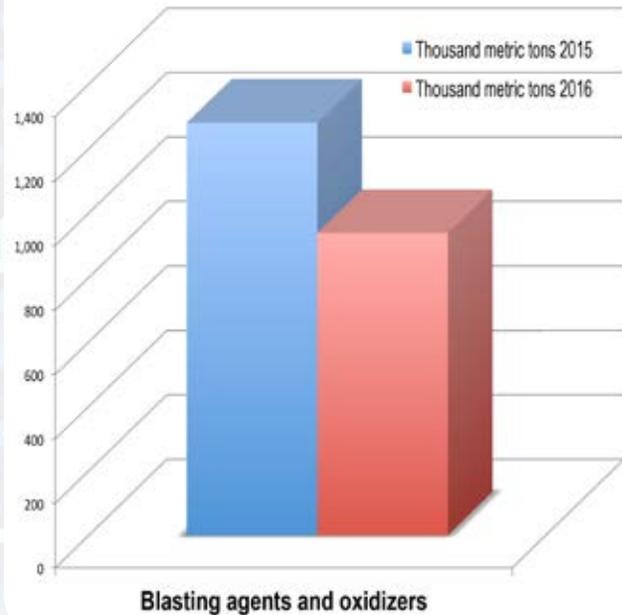
### **Explosive Rules**

Surface mining operations are subject to numerous regulations by several agencies relating to blasting activities. Pursuant to these regulations, storage, design, blast scheduling, pre-blast surveying, and blast monitoring are required. During 2015, the Office of Surface Mining Reclamation and Enforcement granted a petition requesting initiation of rulemaking to address nitrous clouds that may be produced during blasting. No rules have been forthcoming from the agency. During 2019, the Department of Homeland Security is expected to propose an ammonium nitrate security program rule.

### **Clean Power Plan and Affordable Clean Energy Rules**

On October 23, 2015, the EPA finalized the rule commonly known as the Clean Power Plan (CPP). The CPP establishes guidelines for states to develop plans to reduce CO<sub>2</sub> emissions from existing fossil fuel-fired electric generating units. Some states must reduce carbon emissions by as much as 45% in 2030 (compared to 2005). The CPP was never implemented

**Estimated Industrial Explosives and Blasting Agents Sold for Coal Mining Consumption in the U.S.**



\*Source - USGS 2016 Minerals Yearbook - Explosives

## Environmental *(continued)*

due to a Supreme Court stay of the regulation sought by electric cooperatives and others. Oral arguments were held on September 27, 2016. The D.C. Circuit has yet to rule on the merits of the appeal of the Rule.

During 2018, the EPA proposed a rule to repeal the CPP and replace it with the Affordable Clean Energy Rule (ACE). The proposed ACE rule would provide states with a definition of the Best System of Emission Reduction (BSER) and give them three years to devise implementation plans that apply these criteria to individual generation plants. BSER guidelines would be focused on “inside the fence line” improvements, such as heat-rate enhancements to improve the efficiency of coal-based plants.

The ACE rule also proposes to modify the EPA’s New Source Review program to make it easier for plants to make efficiency improvements without having to go through a prolonged and costly permitting process. EPA plans to finalize the ACE rule in early 2019.

### *CO<sub>2</sub> Standards for New EGUs*

New Source Performance Standards (NSPS) for coal-fired electric generating units (EGUs) were finalized in 2015. Newly constructed EGUs must achieve an emission standard of 1,400 lb CO<sub>2</sub>/MWh-gross output. Modified and reconstructed units must emit less than 1,800 to 2,000 lb CO<sub>2</sub>/MWh-gross output. Numerous legal challenges to the final rule are held in abeyance. Thus, the NSPS remains in effect. On December 6, 2018, the EPA proposed to revise the 2015 NSPS to modify the minimum require-

ments for newly constructed coal-fired units from partial carbon capture and storage to efficiency-based standards. The proposal defines the BSER as the most efficient demonstrated steam cycle in combination with the

**In 2005 coal accounted for 50% of the US’ power supply, but this had fallen to 27% in the first half of 2018.<sup>2</sup>**

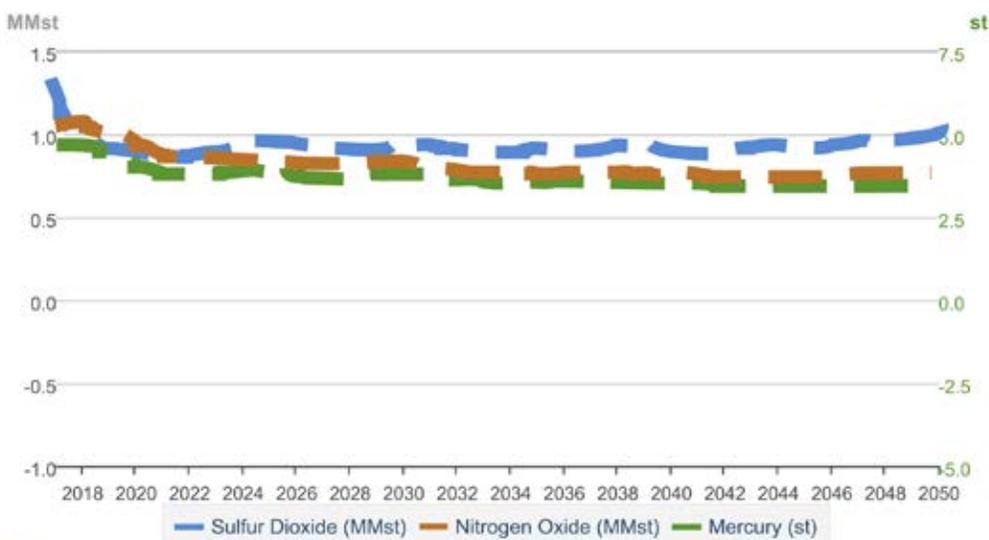
## Environmental *(continued)*

best operating practices. The EPA has noted that the primary reason for this proposed revision is the high costs and limited geographic availability of carbon capture and storage technology. The comment period on the proposed rule concluded on February 19, 2019. A final decision is expected to be issued during 2019.

### ***Mercury and Air Toxic Standards***

The EPA published the final Mercury and Air Toxic Standards (MATS) rule in 2012, revising the NSPS for nitrogen oxides, SO<sub>2</sub> and PM for new and modified coal-fueled electricity generating plants, and imposed Maximum Achievable Control Technology (MACT) emission limits on hazardous air pollutants (HAPs) from new and existing coal-fueled EGUs. MACT standards limit emissions of mercury, acid gas HAPs, non-mercury HAP metals and organic HAPs. Following issuance of the final rule, numerous petitions for review were filed, with the D.C. Circuit upholding the NSPS portion of the rulemaking as well as the limits on HAPs. In 2015, the U.S. Supreme Court held that the EPA interpreted the Clean Air Act (CAA) unreasonably when it deemed cost irrelevant to the decision to regulate HAPs from

**Electricity: Electric Power Sector Emissions**

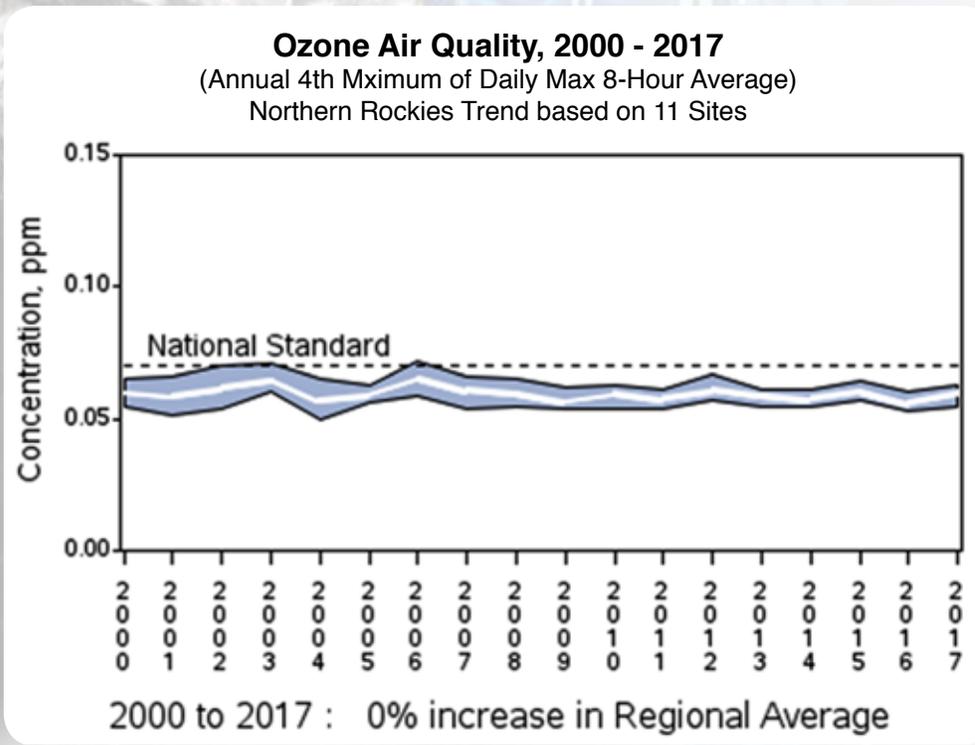


 Source: U.S. Energy Information Administration

## Environmental *(continued)*

power plants, remanding the case for further proceedings. On April 14, 2016, the EPA published a supplemental finding that consideration of costs does not alter the EPA's previous determination regarding the control of HAPs in the MATS rule. Challenges and litigation ensued. Although briefing in this litigation has concluded, the case remains in abeyance. On December 27, 2018, the EPA issued a proposed revised supplemental cost finding for the MATS, as well as the required risk and technology review under Clean Air Act Section 112. EPA proposes to determine that it is not appropriate and necessary to regulate hazardous air pollutant emissions from power plants under Section 112; however, EPA proposes to retain the emission standards and other requirements of the MATS rule. Hence, EPA is not proposing to remove coal- and oil-fired power plants from the list of sources regulated under Section 112. The public comment period on the proposal closed April 8, 2019.

While the litigation was ongoing, existing sources were required to comply with the new standards by April 16, 2016. To comply, many utilities invested the capital needed to complete emission reduction projects. In some cases, units were simply closed to avoid the cost of the required environmental upgrades.



Source: U.S. Environmental Protection Agency

## **Environmental** *(continued)*

### ***Ozone Air Quality Standard***

In 2015, the EPA issued a final rule setting the ozone National Ambient Air Quality Standard (NAAQS) at 70 parts per billion (ppb). This final rule has been challenged, with the case held in abeyance pending the EPA's review of the final rule. In August 2018, the EPA said it would continue with the rule, meaning the lawsuit was revived and oral arguments were heard in the D.C. Circuit in December 2018.

### ***Coal Combustion Residuals Rule***

After enactment in 1976, the Resource Conservation and Recovery Act established "cradle to grave" requirements for the treatment, storage, and disposal of hazardous wastes. During 2015, the EPA finalized the coal combustion residuals (CCR) rule, continuing the exemption of CCR from regulation as a hazardous waste, but imposing new requirements at existing and new CCR surface impoundments and landfills.

On August 21, 2018, in *USWAG v. EPA*, the D.C. Circuit vacated the closure section of the rule, remanded the unlined ponds issued to EPA for reconsideration, and disapproved of EPA's decision to not regulate legacy ponds. While the D.C. Circuit's decision was pending, the EPA, on March 15, 2018, issued a proposal to address provisions of the final coal combustion rule that were remanded back to the agency on June 14, 2016, by the D.C. Circuit.

The EPA approved several amendments to the CCR regulations adjusting certain performance and closure provisions. The proposal included provisions that establish alternative performance standards for owners and operators of coal combustion residuals units located in states that have approved permit programs or are otherwise subject to oversight through a permit program administered by the EPA.

The EPA published the first phase of the coal combustion rule amendments on July 30, 2018, with an effective date of August 28, 2018 (the "Phase 1, Part 1 rule"). In addition to adopting alternative performance standards and revising groundwater



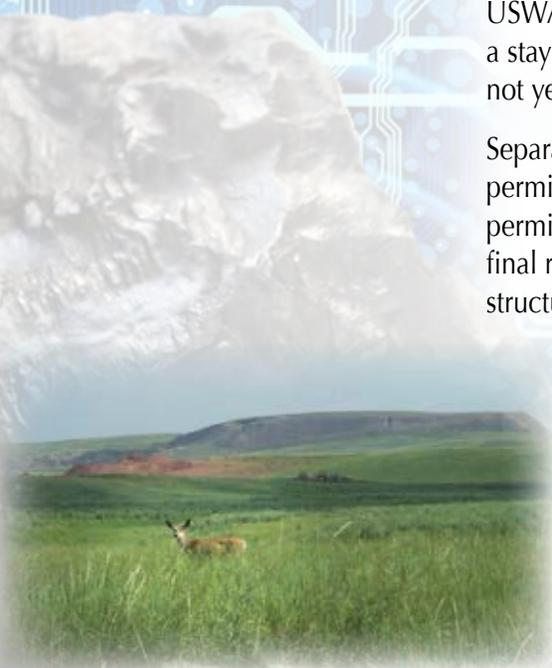
## Environmental *(continued)*

performance standards for certain constituents, EPA extended the deadline by which facilities must initiate closure of unlined ash ponds exceeding a groundwater protection standard and impoundments that do not meet the rule's aquifer location restrictions to October 31, 2020. On October 22, 2018, a coalition of environmental groups filed a petition in the D.C. Circuit challenging the Phase 1, Part 1 rule and subsequently filed a request with EPA to stay the October 31, 2020, deadline extension. In light of the D.C. Circuit's opinion in *USWAG v. EPA*, the EPA filed a motion December 17, 2018, seeking voluntary remand without vacatur of the Phase 1, Part 1 rule in order to undertake new rulemaking to establish revised timeframes for unlined impoundments to initiate closure consistent with *USWAG*. Environmental petitioners filed a motion requesting a stay of the October 31, 2020, deadline. The D.C. Circuit has not yet acted on these motions.

Separately, on August 10, 2017, the EPA issued proposed permitting guidance on how states' coal combustion residuals permit programs should comply with the requirements of the final rule as authorized under the December 2016 Water Infrastructure Improvements for the Nation Act.

In addition to the uncertain legal status of the coal combustion residuals rule, citizens' suits have been filed against regulated entities seeking judicial relief for contamination alleged to have been caused by releases of coal combustion byproducts. Some of these cases have been successful in imposing liability upon companies if coal combustion byproducts contaminate groundwater that is ultimately released or connected to surface water. In addition, actions have been filed against regulated entities seeking to require that surface impoundments containing coal combustion residuals be subject to closure by removal rather than being allowed to effectuate closure in place as provided under the final rule.

At this time, the CCR rule does not apply to coal ash disposed in Surface Mining Control and Reclamation Act (SMCRA) permitted areas.



# Environmental *(continued)*

## Environmental Stewardship

### 2018 Key Achievements

- We continually strive to minimize our footprint and impact on the environment. Our mining operation minimizes post-mining reclamation liabilities by focusing on continually filling in the mining pit voids as the operation progresses. Land restoration is an essential part of the mining process, and over the last few years the Dry Fork Mine has been reclaiming an average of 1.45 acres for each acre disturbed. Habitat diversity is an important part of reclamation. The Dry Fork Mine is striving to reestablish more sagebrush habitat than the minimum required 20% standard.
- Our Dry Fork Mine receives regular federal and state regulatory inspections and reviews and received no environmental violations.
- Emphasis on the quality and progress of reclamation continues to be a priority with strong management support and aggressive reclamation targets. Reclamation progress is closely monitored, and, in recent years, additional emphasis has been placed on seeking bond release for previously reclaimed lands.

### 2019 Goals

- Restore the land to benefit future generations
- Commit to safety
- Best serve the communities in which we operate
- Continue to advocate for sound regulatory policies, including commercialization opportunities for carbon capture technologies.

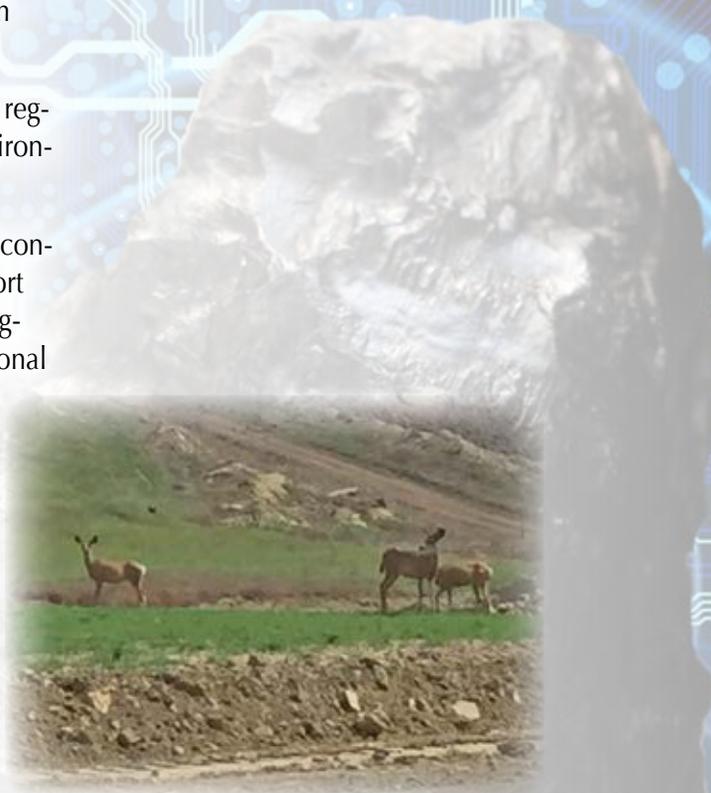


Photo Courtesy Brent Helms

1 Cash, Cathy, NRECA Article, "Clean Power Plan Replacement: How It Affects Co-ops", August 21, 2018, available at <https://www.electric.coop/on-the-issues/environmental/>

2 The Economist, "US coal plant retirements to continue, September 7, 2018, available at: <http://www.eiu.com/industry/article/1277120111/us-coal-plant-retirements-to-continue/2018-09-07>

# Dry Fork Mine

## *Safety and Production*

For Western Fuels – Wyoming’s Dry Fork Mine (DFM), 2018 was a successful year in the area of safety. There were no lost-time incidents or medical treatment cases. In other words, DFM employees and contractors working on-site completed the year without anyone getting hurt.

That is impressive; however, what is more impressive is that 2018 marked the first year a team of employees met to set the safety goals for the operation. Obviously, the employees set the goals around no one getting hurt, but more importantly they set goals on how people were not going to get hurt. This was a game changer. Instead of management setting the goals, the employees who do the work to produce the coal set the goals.

DFM has always had a very good reputation of being a safe operation. However, in 2016, employees agreed that they wanted DFM to have an excellent reputation in safety. The journey for safety excellence began that year with the adoption of a process that promoted employee engagement.

Employees setting safety goals is just one example of employee



**2019 Safety Goals Team**

## Dry Fork Mine *(continued)*

engagement and what is being done to get DFM to a higher level of safety excellence. It can take a while to get there, but the process helps keep everyone's awareness heightened. Safety excellence doesn't happen by accident. It must be earned. There is still much "earning" to do in safety at DFM.

On top of 2018 being a safe year, it was also the second highest year for coal shipments in DFM's history. Approximately 6.3 million tons were shipped during the year. It was the fourth year in a row that coal shipments exceeded six million tons.

The year also saw DFM as the second most productive coal mine of the 12 coal mines in the PRB when measured on a "tons per man-hour" basis.

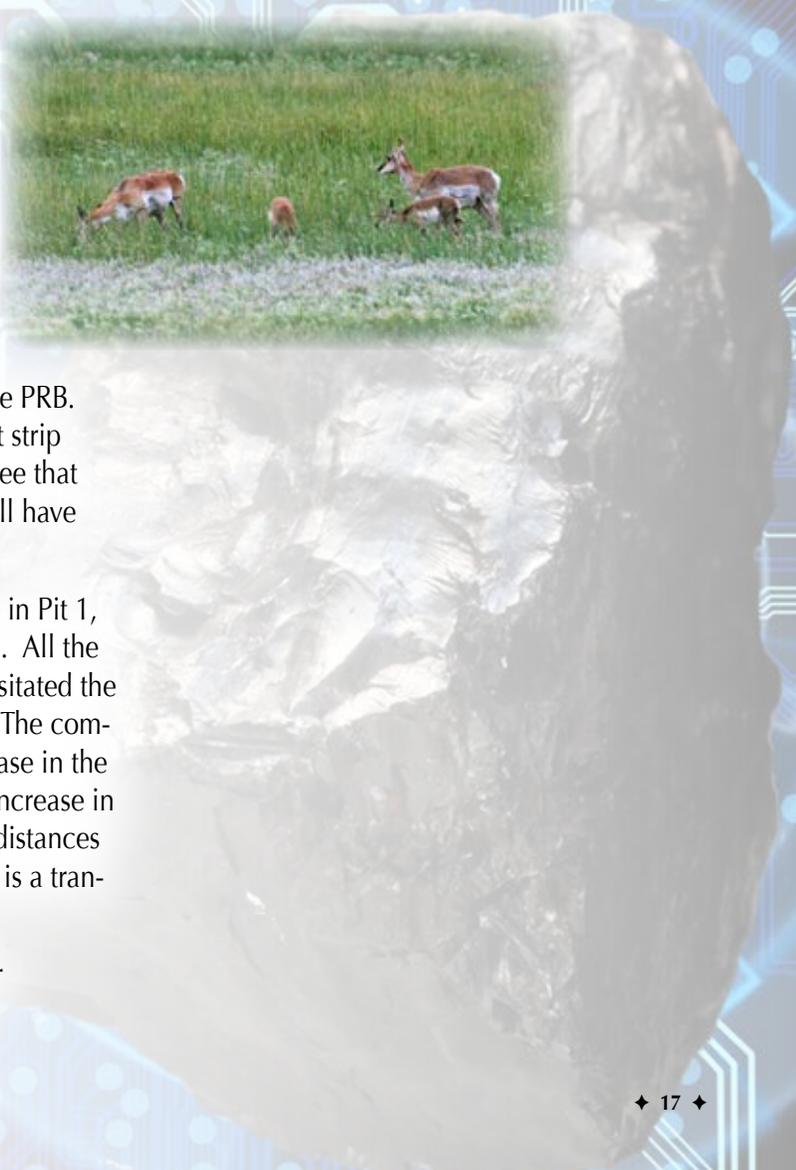
### ***Challenging Times***

For DFM, 2018 presented a challenge other coal mines in the Powder River Basin (PRB) have experienced for several years — an increase in the strip ratio. A rough definition of strip ratio is the amount of overburden in cubic yards removed for every ton of coal sold.

Since the mine began shipping coal in 1990, DFM has enjoyed having one of the lowest strip ratios in the PRB. Even though DFM still probably has one of the lowest strip ratios, 2018 marked the first year the mine began to see that number increase. By the year 2023, the strip ratio will have increased by over 40%.

The strip ratio increased during 2018 because mining in Pit 1, which had a relatively low strip ratio, came to an end. All the coal in Pit 1 was mined out by mid-2018. This necessitated the transition to Pit 3, a new pit with a higher strip ratio. The combination of Pit 3 and Pit 2 resulted in an overall increase in the strip ratio of slightly more than 7%. Along with this increase in strip ratio, the mine also saw an increase in the haul distances for coal and overburden, which is typical when there is a transition to a new pit.

Unfortunately, all these increases translate into higher



## Dry Fork Mine *(continued)*

operating costs. Adding to this dilemma, third-party coal prices were depressed during 2018 for DFM, and are projected to be depressed in the coming years.

The combination of higher operating costs, lower third-party coal prices, and possible lower third-party sales volumes creates another dilemma. These factors saw increased prices to the Basin Electric member power plants—Laramie River Station and Dry Fork Station—the primary users of DFM coal.

Fortunately, DFM is positioned to weather the leaner times that lie ahead. By approving major capital investments in the past five years, the Western Fuels – Wyoming Board of Directors has authorized the mine to ensure mining equipment, the preparation plant, and operations are as safe, efficient, reliable, and cost effective as possible. Barring any catastrophic events, there shouldn't be any major capital needs in the upcoming years.

### ***New Loader***

The last major capital expenditure made for DFM, a front-end loader, occurred in the early part of 2019. Front-end loaders are the only loading piece of equipment utilized at DFM and are critical to the operation. Other PRB operations use large electric shovels as their primary loading piece of equipment.

In 2015, a new front-end loader was purchased to replace an older front-end loader — the oldest operating loader of its type in the world at that time. Four years later, it became necessary to replace the other old loader, which became the oldest loader of its type in the world after the retirement of the one in 2015.

Toward the end of 2018, a used front-end loader with low hours was offered to DFM for purchase by the manufacturer, Komatsu. It was the “sister” machine to the one DFM purchased in 2015, but at a cost of 25% less. The serial number of the machine is one higher than the one purchased in 2015. Everything pointed to this being too good of a deal to pass up.



## Dry Fork Mine *(continued)*



Front-End Loaders — “Sisters”

The purchase of the two front-end loaders within a four-year period were major capital purchases that will help DFM in the near future. They are examples of how DFM is set for several years to come.

### ***Operational Improvement through Employee Engagement***

Even though DFM is in a good position with mining equipment and the preparation plant for the next several years, DFM employees will not just sit back. They will continue to search for ways to make the operation more efficient and cost effective. During 2018, a group of employees identified and implemented several items that improved efficiency in different parts of operations by utilizing the same process that improved the safety culture.

As an example, one area of focus for the team was to develop an efficient process for fueling equipment at shift change. This seems like an easy item to tackle, but as it turned out, there were many different opinions on how to do it. In the end, a team made up of members from different departments impacted by this particular process came to agreement on how it should be done. They not only developed the process but rolled it out to the rest of the employees. To say it was perfect would be misleading because there have been some adjustments and reports of non-compliance. But it has been perfect

## **Dry Fork Mine** *(continued)*

in the sense that the employees have worked together to make those adjustments and address the non-compliance issues when they arise. They don't feel the need to rely on management. The employees are empowered to ensure the process they developed is successful. This has been true for all of the processes employee teams have developed.

### **Conclusion**

Although there are challenging times ahead for DFM, the employees are committed to continue making improvements in safety and operational efficiency. They have proven they are willing to step up and take charge of the internal factors they can control in order to make DFM as successful as possible.



# Rail Operations

Total shipments from the Southern Powder River Basin (SPRB) declined slightly in 2018 after seeing a small recovery in 2017. Year-over-year SPRB shipments decreased by 3.8% to 293.5 million tons and continued to be well below the high of 446.5 million tons set in 2008.

Member utilities' year-over-year shipments were essentially unchanged (-1.8%) from 2017 to 2018.

In 2018, Western Fuels Association managed nearly 1500 cars organized in twelve unit-train sets. One set was returned to the lessor in June and replaced with another set due to much more favorable lease rates and return condition stipulations. Overall utilization of the railcar fleet in 2018 was 73%.

WFA also looks to leverage our expertise in railcar management to other areas. In 2013, WFA assumed fleet management responsibility for Class C member Arizona Electric Power Cooperative's (AEPCO's) railcar fleet.

One of AEPCO's major maintenance items was railcars being removed from trains for defective wheels and the railroad's lack of response in dealing with the issue. This led to short train charges and additional maintenance expenses.

To solve this issue, WFA's fleet manager visited the Apache station to instruct AEPCO personnel on how to safely inspect and change railcar wheels and brake shoes and perform other light railcar maintenance, resulting in lower overall maintenance costs and increased car availability.

Hoping to build on this success, in 2018 WFA came to an agreement with another Class C member—Associated Electric Cooperative, Inc (AECI) based in Springfield, Missouri—for fleet management services beginning in 2019. AECI's fleet of 975 cars (seven unit-trains) will increase the total managed railcars by 65%.

WFA continues to operate the Escalante Western Railway (EWR) hauling coal approximately 35 miles from the



## Rail Operations *(continued)*

El Segundo and Lee Ranch mines to Tri-State's Escalante Generating Station in New Mexico.

Safety is the primary goal. The employees completed 2018 without a lost time accident. The EWR also passed Federal Railroad Association inspections with no exceptions.

Over 624,000 tons were delivered in 2018 by four WFA employees using three locomotives and 52 railcars, thus providing a significantly lower delivery cost compared to the major railroads.

WFA was presented with an opportunity to upgrade the EWR railcars from 1979/1984 built steel cars to 1998 built aluminum rotary gondola cars at no cost. These new cars are higher capacity and they will have fourteen years of additional life.

Changing wheels at AEPCO's Apache Station



## MEMBER BENEFITS

### Coal Acquisitions and Contract Administration

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- 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

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

### Advocacy and Participation and Support of the Following Trade Associations:

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- National Rural Electric Cooperative Association
- American Coalition for Clean Coal Electricity
- National Mining Association
- National Coal Transportation Association
- Mid-West Electric Consumers Association
- American Public Power Association
- Wyoming Mining Association
- Rocky Mountain Coal Mining Institute
- Western Coal Traffic League
- Freight Rail Customer Alliance

### Other Services

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- 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

## MEMBERSHIP LOCATIONS

### 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

**Tri-State Generation &  
Transmission Association, Inc.**  
Denver, CO

### Class B Member

**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

**City Utilities**  
Springfield, MO

**Colorado Springs Utilities**  
Colorado Springs, CO

**Dairyland Power Cooperative**  
LaCrosse, WI

**Grand River Dam Authority**  
Chouteau, OK

**Hastings Utilities**  
Hastings, NE

**Heartland Consumers Power District**  
Madison, SD

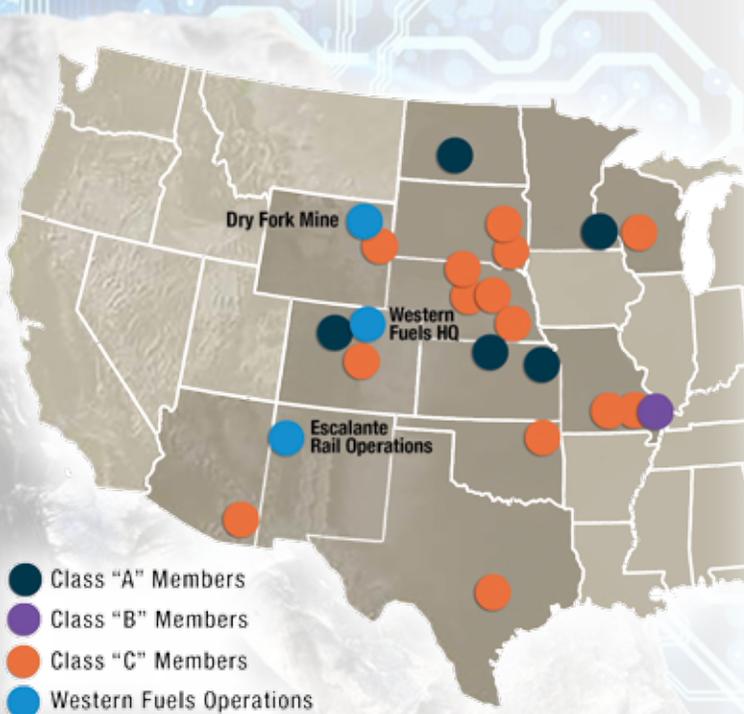
**Lincoln Electric System**  
Lincoln, NE

**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



Mark Mitchell  
President



Paul Baker  
Vice President



Stuart Lowery  
Secretary / Treasurer



Rick Landers  
Vice Secretary / Treasurer

## WESTERN FUELS ASSOCIATION DIRECTORS



Paul Baker  
Basin Electric



Dave Geschwind  
Southern Minn. MPA



Rick Gordon  
TriState G&T



Jana Horsfall  
Sunflower Electric



Rick Landers  
Sikeston BMU



Stuart Lowery  
Sunflower Electric



Mike McQuiston  
Basin Electric



Mark Mitchell  
Southern Minn. MPA



Troy Presser  
Basin Electric



Dong Quack  
Kansas City BPU



Paul Sukut  
Basin Electric

## WESTERN FUELS ASSOCIATION ALTERNATES



Dean Bray  
Basin Electric



Barry Ingold  
Tri-State G&T



Joe Liengang  
Basin Electric



Mike Sorenson  
Tri-State G&T

## DRY FORK MINE WESTERN FUELS - WY



Rex Johnson  
Western Fuels Assn. Legal Counsel  
Sherard, Sherard, Artery & Johnson



Dave Gauntner  
General Manager



## WESTERN FUELS ASSOCIATION TEAM



**Meri Sandlin**  
Chief Executive Officer



**Jerry Barnaby**  
Railcar Fleet Manager, Supervisor  
Escalante Western Railway



**Susie Boland**  
Accounting / Admin Asst.



**Beth Goodnough**  
Manager, Regulatory  
Affairs & Lands



**Kenn Gray**  
Manager: Fuel, Transportation  
& Technical Services



**Sherry Gray**  
Executive Assistant



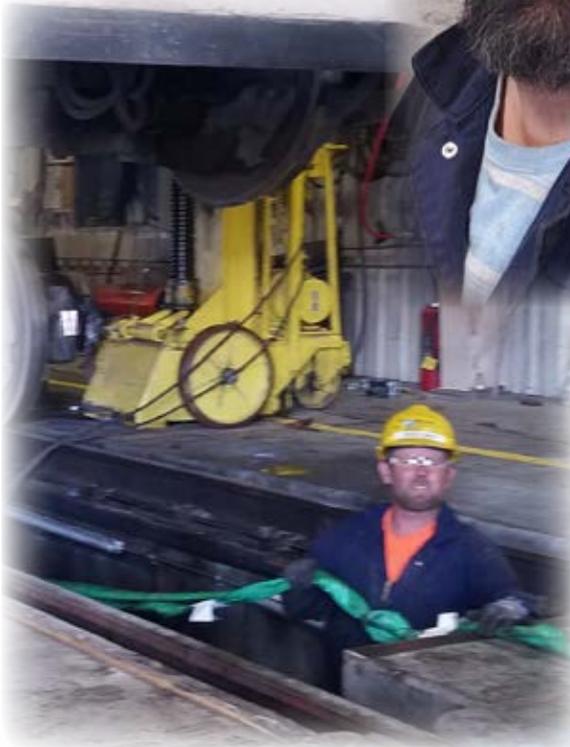
**Kim Roach**  
Manager, Fuel Resources



**Laura Vick**  
Senior Accountant

## ESCALANTE RAIL OPERATIONS

From top right:  
Micah Carolus, Escalante  
Western Railway General Foreman;  
Jeremy Malett, Engineer /  
Conductor / Signal Maintenance;  
Daniel Urioste, Engineer /  
Conductor / Maintenance Specialist



Wayne Meador,  
Engineer / Conductor /  
Maintenance Specialist

## Consolidated balance sheet

As of December 31, 2018

(In thousands)

### Assets

Current assets:	
Cash and cash equivalents	\$ 7,628
Investments available for sale	\$ 1
Accounts receivable:	
Members	\$11,613
Affiliated companies	\$ 41
Prepaid expenses and other assets	\$ 274
Total current assets	<u>\$19,557</u>

### Investments in other organizations:

Affiliated	\$ 3
Nonaffiliated	\$ 525
Investment in Western Fuels-Wyoming, Inc. - restricted	\$34,240

Equipment and railroad properties	\$ 2,995
Less accumulated depreciation and amortization	<u>\$(1,843)</u>
Equipment and railroad properties - net	<u>\$ 1,152</u>
Furniture, office equipment and leasehold improvements	\$ 701
Less accumulated depreciation and amortization	<u>\$(684)</u>
Furniture, office equipment and leasehold improvements - net	<u>\$ 17</u>

Total assets \$55,494

### Liabilities and members' equity

Current liabilities:	
Accounts payable and accrued liabilities:	
Coal suppliers, transportation and delivery	\$ 910
Members	\$10,504
Other	\$ 276
Advance collections for transportation costs	\$ 1,923
Advances from members	\$ 127
Total current liabilities	<u>\$13,740</u>
Other non-current liabilities:	
Advances from members	\$ 616
Total other liabilities	<u>\$ 616</u>
Commitments and contingencies (Note 6)	

Members' equity:	
Patronage capital certificates	\$ 5,607
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	\$ 206
Accumulated margin (deficit)	<u>\$(1,273)</u>
Total members' equity	<u>\$41,138</u>
Total liabilities and members' equity	<u><u>\$55,494</u></u>

## Consolidated statement of operations

Year ended December 31, 2018

(In thousands)

Operating revenues:	
Coal sales to members	\$ 158,044
Transportation revenue from members	\$ 95,254
Lease payments received from members and affiliates	\$ 230
Management fees	\$ 1,950
Other income	<u>\$ 1,656</u>
Total operating revenues	<u>\$ 257,134</u>
Operating costs and expenses:	
Purchases	\$ 158,044
Transportation and delivery	\$ 95,254
General and administrative expense	\$ 3,116
Depreciation and amortization	\$ 74
Other expense	<u>\$ 457</u>
Total operating costs and expenses	<u>\$ 256,945</u>
Other non-operating income (expenses) net	<u>\$ 31</u>
Net income from operations before equity method investment	\$ 220
Equity method investment gain from Western Fuels-Wyoming, Inc - designated to specific members	<u>\$ 416</u>
Net Income	<u>\$ 636</u>





**CORPORATE HEADQUARTERS**

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Westminster, CO 80234  
Phone (720) 697-6956  
Fax (720) 697-6957  
[www.westernfuels.org](http://www.westernfuels.org)

**WYOMING OPERATIONS**

1901 Energy Court, Suite 328  
Gillette, WY 82718  
Phone (307) 682-8051

**ESCALANTE WESTERN RAILWAY**

P.O. Box 552  
Prewitt, NM 87045  
Phone (505) 972-2270  
Fax (505) 972-2279

**DRY FORK MINE**

3629 N. Garner Lake Rd.  
Gillette, WY 82716  
Phone (307) 682-2839  
Fax (307) 682-6468

**CORPORATE COUNSEL**

Sherard, Sherard, Artery, & Johnson  
P.O. Box 69  
Wheatland, WY 82201  
Phone (307) 322-5555