

# G R E A T R I V E R E N E R G Y

2014 | F I R S T Q U A R T E R R E P O R T



G R E A T R I V E R E N E R G Y

Consolidated Balance Sheets (unaudited)  
(In Thousands)

	March 31, 2014	March 31, 2013
<b>ASSETS</b>		
<b>UTILITY PLANT:</b>		
Electric plant	\$ 3,674,774	\$ 3,578,476
Plant held for future use	426,068	425,482
Coal mine plant	345,284	352,016
Construction work in progress	226,566	159,017
Less accumulated depreciation and amortization	(1,925,411)	(1,823,041)
Utility plant-net	2,747,281	2,691,950
<b>NONUTILITY PLANT AND EQUIPMENT--NET</b>	84,432	57,905
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Restricted investments-deferred compensation	12,290	11,201
Other investments	28,395	27,846
Deferred charges-financing related	99,871	110,858
Deferred charges-other	119,658	113,458
Other long-term assets	29,065	27,197
Other long-term receivables:		
Members	566	2,151
Others	3,007	2,971
Total other assets and investments	292,852	295,682
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	313,583	214,543
Accounts receivable:		
Members	152,587	128,925
Others	23,506	20,111
Inventories:		
Materials and supplies	70,128	72,542
Fuel	18,601	17,152
Other	15,446	23,199
Prepays and other current assets	39,737	27,833
Derivative Instruments	4,126	19,812
Deferred income tax benefit	27,460	23,992
Total current assets	665,174	548,109
<b>TOTAL ASSETS</b>	<b>\$ 3,789,739</b>	<b>\$ 3,593,646</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>CAPITAL:</b>		
<b>Members:</b>		
Patronage capital	\$ 491,086	\$ 448,230
Memberships	3	3
Additional paid-in capital - subsidiary	1,427	-
Total members' capital	492,516	448,233
Noncontrolling interest - subsidiary	14,276	-
Noncontrolling interest - variable interest entity	68,309	51,055
Total capital	575,101	499,288
<b>OTHER NONCURRENT LIABILITIES</b>	73,316	95,540
<b>REGULATORY LIABILITIES</b>	58,693	26,572
<b>LONG-TERM OBLIGATIONS--Less current portion</b>	2,695,590	2,625,466
<b>DEFERRED COMPENSATION</b>	12,290	11,201
<b>DEFERRED INCOME TAXES</b>	26,636	23,220
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	124,345	121,171
Notes payable to members	32,563	20,811
Obligations under line of credit	-	10,000
Accounts payable	74,128	64,891
Property and other taxes	32,358	28,909
Other accrued liabilities and notes payable	27,544	23,214
Accrued interest payable	34,346	35,692
Derivative instruments	22,829	7,671
Total current liabilities	348,113	312,359
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 3,789,739</b>	<b>\$ 3,593,646</b>

G R E A T R I V E R E N E R G Y

Interim Consolidated Statements of Operations, Comprehensive Income and Changes in Capital (unaudited)  
(In Thousands)

Three months ended March 31,

	2014	2013
<b>UTILITY OPERATIONS</b>		
<b>UTILITY OPERATING REVENUE:</b>		
Electric revenue	\$ 273,416	\$ 220,796
Other operating revenue	15,135	13,694
<b>Total utility operating revenue</b>	<b>288,551</b>	<b>234,490</b>
<b>UTILITY OPERATING EXPENSES:</b>		
Purchased power	80,001	46,602
Fuel	66,023	61,174
Operation and maintenance	67,537	58,845
Depreciation and amortization	31,924	25,449
Property and other taxes	7,470	6,361
<b>Total utility operating expenses</b>	<b>252,955</b>	<b>198,431</b>
<b>UTILITY OPERATING MARGIN</b>	<b>35,596</b>	<b>36,059</b>
<b>OTHER INCOME (EXPENSE):</b>		
Other income-net	542	522
Interest income	311	416
Interest expense-net of amounts capitalized	(32,247)	(34,771)
<b>Net utility margin</b>	<b>4,202</b>	<b>2,226</b>
<b>NONUTILITY OPERATIONS:</b>		
Operating revenue	29,429	48,260
Operating expense	30,983	47,143
Operating (loss) income	(1,554)	1,117
Income from equity method investments	224	60
Loss from variable interest entity	(228)	(1,228)
<b>Net nonutility operations</b>	<b>(1,558)</b>	<b>(51)</b>
<b>NET MARGIN AND COMPREHENSIVE INCOME INCLUDING NONCONTROLLING INTEREST</b>		
NONCONTROLLING INTEREST NET LOSS - SUBSIDIARY	2,644	2,175
NONCONTROLLING INTEREST NET LOSS - VARIABLE INTEREST ENTITY	551	-
	228	1,228
<b>NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY</b>	<b>\$ 3,423</b>	<b>\$ 3,403</b>
<b>CAPITAL-BEGINNING OF PERIOD</b>		
	\$ 547,709	\$ 486,713
Net margin and comprehensive income	2,644	2,175
Capital contributed by noncontrolling interest - subsidiary - net	16,254	-
Variable interest entity:		
Capital contributed by noncontrolling interest	8,688	10,591
Dividends distributed by noncontrolling interest	(194)	(191)
<b>CAPITAL-END OF PERIOD</b>	<b>\$ 575,101</b>	<b>\$ 499,288</b>

G R E A T R I V E R E N E R G Y

Interim Consolidated Statements of Cash Flows (unaudited)  
(In Thousands)

	Three months ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin including noncontrolling interest	\$ 2,644	\$ 2,175
Adjustments to reconcile net margin to net cash used in operating activities:		
Depreciation and amortization:		
Charged to operating expenses	31,924	25,449
Charged to fuel expense and other accounts	7,000	6,874
Income from equity method investments	(224)	(60)
Patronage credits earned from investments	(520)	(424)
Deferred charges	(1,635)	(7,035)
Regulatory liabilities	(10,503)	1,078
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(11,989)	(4,786)
Inventory and other assets	(14,374)	(654)
Accounts payable, taxes and other accrued expenses	16,354	2,314
Accrued interest	(30,710)	(31,740)
Noncurrent liabilities	11	(629)
<b>Net cash provided by (used in) operating activities</b>	<b>(12,022)</b>	<b>(7,438)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility plant additions	(33,811)	(24,610)
Nonutility plant and equipment additions	(21,539)	-
Proceeds from sale of property	24	84
Equity method Investments	(25)	-
Redemption of patronage capital from investments	373	294
<b>Net cash used in investing activities</b>	<b>(54,978)</b>	<b>(24,232)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	115,000	-
Repayments of long-term obligations	(27,809)	(87,544)
Costs of new debt issuance, new leases, and interest rate hedging instruments	(560)	-
Payments under line of credit-net	(10,000)	-
Notes received from members-net	7,594	249
Capital contributed by noncontrolling interest - subsidiary	16,400	-
Equity issuance costs	(146)	-
Variable interest entity:		
Capital contributed by noncontrolling interest	8,688	10,591
Dividends paid by noncontrolling interest	(194)	(191)
<b>Net cash provided by (used in) financing activities</b>	<b>108,973</b>	<b>(76,895)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>41,973</b>	<b>(108,565)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>271,610</b>	<b>323,108</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 313,583</b>	<b>\$ 214,543</b>

**Note to consolidated financial statements** - As required by Accounting Standards Codification 810-10, GRE is consolidating the financial statements of the Falkirk Mining Company (Falkirk), a variable interest entity; North Dakota Refined Coal, LLC (NDRC), a variable interest entity; and beginning in 2014, Midwest AgEnergy Group, LLC (MAG), a subsidiary of GRE. MAG includes its subsidiaries Dakota Spirit AgEnergy Finance, LLC (DSAF), Dakota Spirit AgEnergy, LLC (DSA), and Blue Flint Ethanol LLC (Blue Flint). Blue Flint was a wholly owned subsidiary of GRE in 2013. All transactions between the companies have been eliminated in consolidation, except for the steam sales between GRE and Blue Flint.

## Financial Highlights - Financial Condition

### Assets

**Utility plant – net** increased by \$55.3 million to \$2.7 billion as of March 31, 2014, due to additions of \$203.1 million for the period from April 1, 2013 to March 31, 2014 for CapX2020, other transmission, utility plant projects, and Falkirk; offset by net retirements and depreciation of \$147.8 million for the period.

**Nonutility plant and equipment – net** increased by \$26.5 million to \$84.4 million as of March 31, 2014 due to construction of the DSA biorefinery facility. Construction will occur throughout 2014.

**Other assets and investments** decreased by \$2.8 million to \$292.9 million as of March 31, 2014. Deferred charges-financing related decreased \$11.0 million due to amortization and a decrease in bond issue costs. Deferred charges-other increased \$6.2 million due to the deferral of refined coal fuel purchase costs and the deferral of 2013 planned major outage costs that are being amortized over the maintenance cycle; these increases were offset by decreases in the regulatory assets related to the defined benefit pension plans for GRE and Falkirk.

**Current assets** increased by \$117.1 million to \$665.2 million as of March 31, 2014. Cash and cash equivalents increased \$99.0 million. Accounts receivable-members increased \$23.7 million due to increased member sales for February and March, 2014 compared to the same period in 2013. Prepaids and other current assets increased \$11.9 million due to a 2014 prepayment on an outage related maintenance contract. Derivative instruments decreased \$15.7 million due to a decrease in the marked to market valuation of the unsettled interest rate hedge contracts.

### Liabilities and Capital

**Total capital** increased by \$75.8 million to \$575.1 million as of March 31, 2014 due primarily to GRE's results from operations during the period from April 1, 2013 to March 31, 2014 of \$42.9 million. The noncontrolling interest capital increased due to capital contributions by third party investors in MAG and capital contributions by NDRC.

**Other noncurrent liabilities** decreased \$22.2 million as of March 31, 2014 due primarily to the remeasurement of the GRE and Falkirk defined benefit pension obligations.

**Regulatory liabilities** increased by \$32.1 million due primarily to the recording of a regulatory liability for the net gain of \$36.2 million on the July 2013 cash settlement of several interest rate hedges.

**Long-term obligations – less current portion** increased \$70.1 million due to an increase in the syndicated credit facility amount outstanding of \$110.0 million, additional debt of \$13.5 million, and additional debt of \$75.0 million issued by MAG during the period; offset by the payment of principal and amortization.

**Current liabilities** increased \$35.8 million due primarily to timing and an increase in the marked to market valuation of commodity derivatives in a liability position at Blue Flint.

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## Financial Highlights - Results of Operations

**Utility operating revenue** increased by \$54.1 million or 23.1 percent for the three month period ended March 31, 2014 compared to the same period in 2013. Electric revenue increased due to increased member demand and energy unit sales of 6.7 percent and 6.1 percent over the same period in 2013, the recognition of deferred revenue of \$10.5 million in January 2014, and an increase in the power cost adjustment (PCA) in 2014 over the same period in 2013 due to variances in market prices largely caused by transmission congestion. Other operating revenue increased due to increased transmission revenue from the MISO market.

**Purchased power** increased by \$33.4 million or 71.7 percent for the three month period ended March 31, 2014 due to increased power purchases from the market because of higher member load and higher market prices.

**Fuel** increased by \$4.8 million or 7.9 percent for the three month period ended March 31, 2014 due to 1.7% more generation or 47,000 MWH compared to 2013 and significantly increased natural gas and fuel oil prices.

**Operation and maintenance** increased by \$8.7 million or 14.8 percent for the three month period ended March 31, 2014 due to increased transmission expenses for member load, increased expenses for GRE's share of local and regional transmission owned by others within MISO, and the amortization of the 2013 scheduled major maintenance outage costs over the maintenance cycle period of \$2.8 million.

**Depreciation and amortization** increased by \$6.5 million or 25.4 percent for the three month period ended March 31, 2014 due primarily to the board of directors' approved change in depreciable lives to 2028 for Coal Creek Station and Stanton Station beginning in July of 2013.

**Nonutility operating revenue and expense** represents the operations of MAG and its subsidiaries beginning in 2014 and solely Blue Flint in 2013.

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*The interim financial statements as of March 31, 2014 are unaudited. In the opinion of Management, all adjustments (which are normal recurring adjustments) have been made for a fair and accurate presentation of the financial reports. The interim financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2013 Annual Report.*

Great River Energy of Maple Grove, Minnesota, is the second largest electric utility in the state, based on generating capacity, and the fourth largest generation and transmission (G&T) cooperative in the U.S. in terms of assets. We provide wholesale power to 28 distribution cooperatives in Minnesota. Those member cooperatives distribute electricity to approximately 650,000 homes, businesses, and farms.

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