



**2015** THIRD QUARTER REPORT

	September 30, 2015	September 30, 2014
<b>ASSETS</b>		
<b>UTILITY PLANT:</b>		
Electric plant	\$ 4,548,453	\$ 3,808,665
Coal mine plant	302,613	346,977
Construction work in progress	62,031	607,125
Less accumulated depreciation and amortization	(2,121,628)	(1,986,424)
Utility plant-net	2,791,469	2,776,343
<b>NONUTILITY PLANT AND EQUIPMENT--NET</b>	<b>188,010</b>	<b>131,409</b>
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Restricted investments-deferred compensation	11,734	12,206
Other investments	29,556	28,784
Deferred charges:		
Financing related	146,031	122,175
Contract termination	83,543	-
Other	140,461	130,482
Other long-term assets	30,733	29,678
Other long-term receivables	2,690	3,164
Total other assets and investments	444,748	326,489
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	274,610	294,303
Accounts receivable:		
Members	150,997	144,618
Others	20,618	22,570
Inventories:		
Materials and supplies	67,426	65,774
Fuel	31,340	28,655
Other	16,950	7,145
Prepays and other current assets	15,260	25,705
Derivative instruments	6,009	10,686
Deferred income tax benefit	28,406	27,460
Total current assets	611,616	626,916
<b>TOTAL ASSETS</b>	<b>\$ 4,035,843</b>	<b>\$ 3,861,157</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>CAPITAL:</b>		
Members:		
Patronage capital	\$ 549,739	\$ 544,036
Memberships	3	3
Additional paid-in capital - subsidiary - MAG	1,195	1,505
Total members' capital	550,937	545,544
Noncontrolling interest:		
Subsidiary - MAG	19,987	21,149
Variable interest entity - NDRC	96,899	75,692
Total capital	667,823	642,385
<b>OTHER NONCURRENT LIABILITIES</b>	<b>91,666</b>	<b>69,051</b>
<b>REGULATORY LIABILITIES</b>	<b>58,981</b>	<b>64,226</b>
<b>LONG-TERM OBLIGATIONS-Less current portion</b>	<b>2,793,774</b>	<b>2,708,612</b>
<b>DEFERRED COMPENSATION</b>	<b>11,734</b>	<b>12,206</b>
<b>DEFERRED INCOME TAXES</b>	<b>27,246</b>	<b>26,636</b>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	149,692	141,101
Notes payable to members	31,784	25,322
Accounts payable	63,891	46,546
Property and other taxes	27,815	23,320
Other accrued liabilities and notes payable	32,116	30,953
Accrued interest payable	40,920	33,659
Derivative instruments	38,401	37,140
Total current liabilities	384,619	338,041
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 4,035,843</b>	<b>\$ 3,861,157</b>

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

(In Thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<b>UTILITY OPERATIONS:</b>				
<b>UTILITY OPERATING REVENUE:</b>				
Electric revenue	\$ 260,270	\$ 255,100	\$ 683,142	\$ 741,772
Other operating revenue	26,849	19,175	67,662	51,042
<b>Total utility operating revenue</b>	<b>287,119</b>	<b>274,275</b>	<b>750,804</b>	<b>792,814</b>
<b>UTILITY OPERATING EXPENSES:</b>				
Purchased power	30,608	41,958	109,112	171,798
Fuel	65,672	56,897	178,840	173,311
Operation and maintenance	73,470	69,200	230,796	202,784
Depreciation and amortization	37,249	31,862	109,483	95,332
Property and other taxes	8,134	6,438	25,298	21,032
<b>Total utility operating expenses</b>	<b>215,133</b>	<b>206,355</b>	<b>653,529</b>	<b>664,257</b>
<b>UTILITY OPERATING MARGIN</b>	<b>71,986</b>	<b>67,920</b>	<b>97,275</b>	<b>128,557</b>
<b>OTHER INCOME (EXPENSE):</b>				
Other income - net	5,453	829	15,826	1,332
Interest income	312	310	978	928
Interest expense-net of amounts capitalized	(34,460)	(31,257)	(104,616)	(96,750)
<b>Net utility income</b>	<b>43,291</b>	<b>37,802</b>	<b>9,463</b>	<b>34,067</b>
<b>NONUTILITY OPERATIONS:</b>				
Operating revenue	52,950	43,309	125,263	128,805
Operating expense	54,464	33,093	124,461	100,915
Operating (loss) income	(1,514)	10,216	802	27,890
(Loss) income from equity method investments	(74)	(2)	29	216
Loss from variable interest entity - NDRC	(1,396)	(2,186)	(6,410)	(5,908)
<b>Net nonutility operations</b>	<b>(2,984)</b>	<b>8,028</b>	<b>(5,579)</b>	<b>22,198</b>
<b>NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST</b>	<b>40,307</b>	<b>45,830</b>	<b>3,884</b>	<b>56,265</b>
<b>NONCONTROLLING INTEREST:</b>				
Subsidiary - MAG	322	(2,204)	(190)	(5,800)
Variable interest entity - NDRC	1,396	2,186	6,410	5,908
<b>NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY</b>	<b>\$ 42,025</b>	<b>\$ 45,812</b>	<b>\$ 10,104</b>	<b>\$ 56,373</b>
<b>CAPITAL-BEGINNING OF PERIOD</b>				
	\$ 619,355	\$ 591,174	\$ 639,444	\$ 547,709
Net margin and comprehensive income	40,307	45,830	3,884	56,265
Capital contributed by noncontrolling interest - MAG - net	-	-	-	16,854
Capital distributed to noncontrolling interest - MAG	-	-	(2,966)	-
Variable interest entity - NDRC:				
Capital contributed by noncontrolling interest	11,775	5,579	37,597	22,143
Capital distributed to noncontrolling interest	(3,418)	-	(9,548)	-
Dividends paid by noncontrolling interest	(196)	(198)	(588)	(586)
<b>CAPITAL-END OF PERIOD</b>	<b>\$ 667,823</b>	<b>\$ 642,385</b>	<b>\$ 667,823</b>	<b>\$ 642,385</b>

Nine months ended September 30,

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin, including noncontrolling interest	\$ 3,884	\$ 56,265
Adjustments to reconcile net margin to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	109,483	95,332
Charged to fuel expense and other accounts	19,178	19,932
Income from equity method investments	(29)	(216)
Patronage credits earned from investments	(1,851)	(1,242)
Deferred charges	(81,443)	(13,558)
Regulatory liabilities	(13,580)	(6,685)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(15,602)	(2,173)
Inventory and other assets	(5,328)	(13,295)
Accounts payable, taxes and other accrued expenses	(2,376)	(13,288)
Accrued interest	(21,726)	(31,397)
Noncurrent liabilities	3,059	(1,244)
<b>Net cash (used in) provided by operating activities</b>	<b>(6,331)</b>	<b>88,431</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(105,935)	(137,604)
Nonutility property additions	(24,204)	(68,516)
Proceeds from the sale of plant	95	269
Investment in equity method investments	-	(25)
Redemption of patronage capital investments	1,080	706
<b>Net cash used in investing activities</b>	<b>(128,964)</b>	<b>(205,170)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	539,853	572,250
Repayments of long-term obligations	(405,732)	(459,988)
Costs of new debt issuance, leases, and interest rate hedging instruments	(313)	(1,594)
Borrowings on line of credit-net	-	(10,000)
Notes received from (paid to) members-net	7,898	353
Capital contributed by noncontrolling interest - subsidiary - MAG		17,000
Equity issuance costs - subsidiary - MAG		(146)
Capital distributed to noncontrolling interest - subsidiary - MAG	(2,966)	
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	37,597	22,143
Capital distributed to noncontrolling interest	(9,548)	
Dividends distributed by noncontrolling interest	(588)	(586)
<b>Net cash provided by financing activities</b>	<b>166,201</b>	<b>139,432</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>30,906</b>	<b>22,693</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>243,704</b>	<b>271,610</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 274,610</b>	<b>\$ 294,303</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 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). GRE is a 78.43 percent owner in MAG. All transactions between the companies have been eliminated in consolidation, except for the steam sales between GRE and MAG on the consolidated statements of operations.

## Financial Highlights - Financial Condition

### Assets

**Utility plant – net** increased \$15.1 million to \$2.8 billion as of September 30, 2015, due to additions for CapX2020, Spiritwood Station, other transmission and utility plant projects, and Falkirk; offset by net retirements and depreciation for the period.

**Nonutility plant and equipment – net** increased \$56.6 million to \$188.0 million as of September 30, 2015 due to the construction of the DSA biorefinery facility (DSA). The facility began commercial operation in June 2015.

**Other assets and investments** increased \$118.3 million to \$444.7 million as of September 30, 2015. Deferred charges-financing related increased due to the cash settlement of interest rate hedges of \$24.6 million in November 2014 and an increase in the regulatory asset associated with the unsettled interest rate hedge mark-to-market; offset by amortization. Deferred charges-contract termination increased due to the Genoa 3 contract termination settlement payment. Deferred charges-other increased due to the deferral of refined coal fuel purchase costs and an increase in the regulatory assets related to the defined benefit pension plans for GRE and Falkirk; offset by amortization.

**Current assets** decreased \$15.3 million to \$611.6 million as of September 30, 2015. Cash and cash equivalents held by MAG decreased \$16.3 million due to DSA construction expenditures. Prepaids and other current assets decreased due to a 2014 outage related prepayment and CapX2020 prepaids. Offsetting these decreases, inventories-other increased due to the addition of corn and biorefinery related inventory at DSA.

### Liabilities and Capital

**Total capital** increased \$25.4 million to \$667.8 million as of September 30, 2015 due to results from operations and capital contributions by NDRC.

**Other noncurrent liabilities** increased \$22.6 million as of September 30, 2015 due primarily to the remeasurement of the GRE and Falkirk defined benefit pension obligations at year end 2014, asset retirement liability accretion, and additional MAG liabilities.

**Long-term obligations – less current portion** increased \$85.2 million as of September 30, 2015 due to the issuance of \$350.0 million of debt in October 2014, which was drawn in 2015 under a delayed draw feature, and additional debt issued by MAG of \$48.3 million; offset by the reduction in the amount outstanding on the syndicated credit facility of \$145.0 million, compared to September 30, 2014, the early retirement of a \$33.0 million note, and the payment of principal and amortization.

**Current liabilities** increased \$46.6 million to \$384.6 million as of September 30, 2015. Current portion of long term debt and accrued interest increased due to the new debt issuances. Notes payable to members increased due to increased participation in the member investment program. Accounts payable increased due to timing and additional payables at MAG.

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*The interim financial statements as of September 30, 2015 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 2014 Annual Report.*

## Financial Highlights - Results of Operations

**Utility operating revenue** decreased by \$42.0 million or 5.3 percent for the nine month period ended September 30, 2015 compared to the same period in 2014. Electric revenue decreased \$58.6 million due to decreased member MWh energy sales of 2.4 percent over the same period in 2014, largely the result of milder weather in 2015 compared to 2014, and due to the impact of a power cost adjustment (PCA) credit of \$17.1 million in 2015 compared to a PCA charge of \$20.3 million in 2014. Other operating revenue increased due to increased transmission revenue from the MISO market and Spiritwood Station steam sales.

**Purchased power** decreased by \$62.7 million or 36.5 percent for the nine month period ended September 30, 2015 due to 24.2 percent fewer MWhs purchased because of decreased member load compared to the prior year, no planned maintenance outages in 2015, the operation of Spiritwood Station, and decreased energy and demand purchases from Genoa 3 as a result of terminating the contract in 2015. Additionally, the average MISO market price paid decreased 62.5 percent compared to 2014.

**Fuel** increased by \$5.5 million or 3.2 percent for the nine month period ended September 30, 2015 due to increased baseload and peaking generation compared to 2014; offset by lower natural gas and fuel oil prices for peaking generation.

**Operation and maintenance** increased by \$28.0 million or 13.8 percent for the nine month period ended September 30, 2015 due to increased operating expense at Spiritwood Station of \$9.6 million; increased maintenance for short outages occurring in 2015; increased costs for scrubber lime usage of \$5.4 million; increased expenses for GRE's share of local and regional transmission owned by others within MISO of \$3.2 million; and inflationary increases in operating costs.

**Depreciation and amortization** increased by \$14.2 million for the nine month period ended September 30, 2015 due primarily to Spiritwood Station and CapX2020 depreciation.

**Other income – net** increased \$14.5 million for the nine month period ended September 30, 2015 due to the amortization of a portion of the interest rate hedge settlement gain that was deferred as a regulatory liability in 2013.

**Nonutility operating revenue and expense** represents the operations of MAG and its subsidiaries.

**Net Margin** is \$10.1 million for the nine month period ended September 30, 2015. The budgeted net margin for the nine month period ended September 30, 2015 is \$23.0 million, for a difference of \$12.9 million. This variance is due to lower demand, transmission, and energy sales compared to budget.

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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 660,000 homes, businesses, and farms.

12300 Elm Creek Boulevard

Maple Grove, MN 55369

[greatriverenergy.com](http://greatriverenergy.com)

