

# 2019

# First Quarter Report

---



# GREAT RIVER ENERGY

## 2019 FIRST QUARTER REPORT

### CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2019	MARCH 31 2018
<b>ASSETS</b>		
UTILITY PLANT:		
Electric plant	\$ 4,539,817	\$ 4,575,620
Coal mine plant	254,527	331,821
Plant to be retired—net of accumulated depreciation	34,321	-
Construction work in progress	170,049	113,742
Less accumulated depreciation and amortization	(2,270,804)	(2,266,181)
Utility plant—net	2,727,910	2,755,002
NONUTILITY PLANT AND EQUIPMENT—NET	164,379	174,213
OTHER ASSETS AND INVESTMENTS:		
Restricted investments-deferred compensation	13,251	13,882
Other investments	32,093	31,389
Deferred charges:		
Financing related	111,376	110,209
Contract settlement	59,567	85,406
Plant retirements	66,209	61,669
Other	145,566	144,522
Other long-term assets	80,911	32,815
Total other assets and investments	508,973	479,892
CURRENT ASSETS:		
Cash and cash equivalents	245,258	284,757
Restricted cash	1,543	1,846
Accounts receivable:		
Members	135,156	135,012
Others	27,741	18,478
Inventories:		
Materials and supplies	65,827	62,130
Fuel	17,697	18,282
Other	18,952	21,741
Prepays and other current assets	16,073	42,182
Derivative instruments	6,385	2,450
Total current assets	534,632	586,878
<b>TOTAL ASSETS</b>	<b>\$ 3,935,894</b>	<b>\$ 3,995,985</b>

CONTINUED

# GREAT RIVER ENERGY

## 2019 FIRST QUARTER REPORT

### CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2019	MARCH 31 2018
<b>CAPITAL AND LIABILITIES</b>		
CAPITAL:		
Members:		
Patronage capital	\$ 662,195	\$ 622,270
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	663,393	623,468
Noncontrolling interest:		
Subsidiary—MAG	24,812	23,861
Variable interest entity—NDRC	156,884	142,031
Total capital	845,089	789,360
OTHER NONCURRENT LIABILITIES	176,864	141,664
REGULATORY LIABILITIES	42,082	53,736
LONG-TERM OBLIGATIONS—Less current portion	2,443,535	2,611,385
DEFERRED COMPENSATION	13,251	13,882
DEFERRED INCOME TAXES	1,715	4,008
CURRENT LIABILITIES:		
Current portion of long-term obligations	150,401	159,886
Notes payable to members	40,424	32,940
Accounts payable	57,082	42,987
Property and other taxes	27,763	33,443
Other accrued liabilities and notes payable	75,070	49,068
Accrued interest payable	38,906	42,173
Derivative instruments	23,712	21,453
Total current liabilities	413,358	381,950
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>\$ 3,935,894</b>	<b>\$ 3,995,985</b>

CONCLUDED

# GREAT RIVER ENERGY

## 2019 FIRST QUARTER REPORT

### INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND CHANGES IN CAPITAL (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31	
	2019	2018
<b>UTILITY OPERATIONS</b>		
UTILITY OPERATING REVENUE:		
Electric revenue	\$ 250,129	\$ 231,671
Other operating revenue	18,987	22,003
Total utility operating revenue	269,116	253,674
UTILITY OPERATING EXPENSES:		
Purchased power	49,986	48,089
Fuel	53,034	52,519
Operation and maintenance	71,162	78,583
Depreciation and amortization	40,365	39,793
Property and other taxes	7,237	7,781
Total utility operating expenses	221,784	226,765
UTILITY OPERATING MARGIN	47,332	26,909
OTHER INCOME (EXPENSE):		
Other income—net	7,457	1,576
Interest income	1,541	1,074
Interest expense—net of amounts capitalized	(31,909)	(33,875)
Other expense—net	(22,911)	(31,225)
Net utility margin (loss)	24,421	(4,316)
NONUTILITY OPERATIONS:		
Operating revenue	61,938	62,666
Operating expense	60,134	63,733
Operating income (loss)	1,804	(1,067)
Income from equity method investments	21	13
Loss from variable interest entity—NDRC	(2,309)	(1,891)
Total nonutility operations	(484)	(2,945)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	23,937	(7,261)
NONCONTROLLING INTEREST:		
Subsidiary—MAG	(391)	225
Variable interest entity—NDRC	2,309	1,891
Total noncontrolling interest	1,918	2,116
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 25,855	\$ (5,145)
CAPITAL—BEGINNING OF PERIOD		
Net margin (loss) and comprehensive income (loss)	\$ 828,119	\$ 783,967
Return of members' patronage capital	23,937	(7,261)
Variable interest entity—NDRC:	(15,212)	
Capital contributed by noncontrolling interest	13,896	12,892
Capital distributed to noncontrolling interest	(5,396)	-
Dividends distributed by noncontrolling interest	(255)	(238)
<b>CAPITAL - END OF PERIOD</b>	<b>\$ 845,089</b>	<b>\$ 789,360</b>

**GREAT RIVER ENERGY**  
2019 FIRST QUARTER REPORT

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS** (unaudited)

(IN THOUSANDS)

	<b>THREE MONTHS ENDED MARCH 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin (loss), including noncontrolling interest	\$ 23,937	\$ (7,261)
Adjustments to reconcile net margin (loss) to net cash used in operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	40,365	39,793
Included in fuel and interest	6,011	7,349
Included in operation and maintenance	1,918	3,346
Included in nonutility operating expenses	2,605	2,992
Income from equity method investments	(21)	(13)
Patronage credits earned from investments	(893)	(1,299)
Deferred charges	(11,709)	-
Regulatory liabilities	(21,094)	-
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(4,745)	17,207
Inventory and other assets	(2,884)	(26,940)
Accounts payable, taxes and other accrued expenses	(22,476)	(33,499)
Accrued interest	(18,307)	(19,293)
Noncurrent liabilities	(152)	107
Net cash used in operating activities	(7,445)	(17,511)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility plant additions	(24,958)	(18,006)
Nonutility plant and equipment additions	(191)	(135)
Proceeds from sale of property	577	48
Redemption of patronage capital investments	554	906
Net cash used in investing activities	(24,018)	(17,187)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	4,571	5,000
Repayments of long-term obligations	(4,600)	(22,742)
Return of members' patronage capital	(15,212)	-
Notes received from members—net	5,745	877
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	13,896	12,892
Capital distributed to noncontrolling interest	(5,396)	-
Dividends paid by noncontrolling interest	(255)	(238)
Net cash used in financing activities	(1,251)	(4,211)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(32,714)	(38,909)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH— BEGINNING OF PERIOD	279,515	325,512
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – END OF PERIOD	\$ 246,801	\$ 286,603

**Notes 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; Midwest AgEnergy Group, LLC (MAG), a subsidiary of GRE; and GRE HERC Services, LLC, a subsidiary of GRE. MAG includes its subsidiaries 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.

GRE adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, in 2019. The adoption of this ASU required GRE to record an operating lease liability and concurrent right of use (ROU) asset for all operating leases. The impact to the consolidated balance sheets as of March 31, 2019, is as follows: noncurrent operating lease liability – \$34.3 million, recorded in other noncurrent liabilities; current operating lease liability – \$13.5 million, recorded in other accrued liabilities and notes payable; ROU asset – \$48.8 million, recorded in other long-term assets.

## FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

### *Assets*

**Utility plant—net** decreased \$27.1 million to \$2,727.9 million as of March 31, 2019, due primarily to depreciation and accretion for the period, as well as reduction in coal mine plant assets at Falkirk Mine.

**Nonutility plant and equipment—net** decreased \$9.8 million to \$164.4 million as of March 31, 2019 due to depreciation on MAG plant assets.

**Other assets and investments** increased \$29.1 million to \$509.0 million as of March 31, 2019. Other long-term assets increased \$48.1 million primarily as a result of the adoption of ASU 2016-02, *Leases (Topic 842)*, which required GRE to record a right-of-use asset for its operating leases. Deferred charges—plant retirements increased \$4.5 million due to the accrual of Elk River (ERRRP) decommissioning costs. These increases were offset by a decrease in deferred charges—contract settlement of \$25.8 million due to the write-off of a portion of the Genoa 3 deferred asset in December 2018.

**Current assets** decreased \$52.2 million to \$534.6 million as of March 31, 2019. Cash and cash equivalents decreased \$39.5 million due to the return of member patronage capital of \$15.2 million in March 2019, and 2018 having a higher cash beginning balance due to the 2017 bond issuance. Prepaids and other current assets decreased \$26.1 million due to higher prepayments in 2018 for a major turbine outage at Pleasant Valley Station. These decreases were partially offset by an increase in materials and supplies inventory of \$3.7 million.

### *Capital and Liabilities*

**Other noncurrent liabilities** increased \$35.2 million to \$176.9 million as of March 31, 2019 primarily as a result of the adoption of ASU 2016-02, *Leases (Topic 842)*, which required GRE to record a liability for the noncurrent portion of its operating lease liability, as well as an increase in accretion for GRE's ash disposal asset retirement obligations (ARO).

**Regulatory liabilities** decreased \$11.7 million to \$42.1 million as of March 31, 2019 due to the recognition of \$15.4 million of deferred member electric revenue in 2019 and the recognition of a \$5.7 million deferred hedge settlement gain. This was partially offset by the deferral of member electric revenue of \$10.0 million in December 2018.

**Long-term obligations—less current portion** decreased \$167.9 million to \$2,443.5 million as of March 31, 2019 due to scheduled and unscheduled principal payments and a reduction in finance (capital) leases at Falkirk Mine.

**Current liabilities** increased \$31.4 million to \$413.4 million as of March 31, 2019. Other accrued liabilities and notes payable increased \$26.0 million primarily as a result of the adoption of ASU 2016-02, *Leases (Topic 842)*, which required GRE to record a liability for the current portion of its operating lease liability. Accounts payable increased \$14.1 million due to timing and an increase in payables related to the ongoing HVDC refurbishment project. Notes payable to members increased \$7.5 million due to several members reinvesting patronage capital returned from GRE into the member investment program. These increases were partially offset by a decrease in the current portion of long-term obligations, a decrease in property tax accruals, and a decrease in accrued interest payable.

## FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

**Electric revenue** increased \$18.5 million or 8.0 percent for the three-month period ended March 31, 2019 compared to the same period in 2018. The increase is driven by strong demand and transmission sales that were 3.2 percent and 3.4 percent higher, respectively, than during the same period in 2018. Nonmember electric revenue is also up in 2019 compared with 2018 due to higher demand and energy sales under bilateral agreements, as well as a 54.1 percent higher rate for MISO market MWh sales.

**Other operating revenue** decreased \$3.0 million or 13.7 percent for the three-month period ended March 31, 2019 due to a \$4.0 million decrease in refuse-derived fuel revenue as a result of the wind-down of operations at ERRRP, offset partially by increased transmission revenue from the MISO market and inter-utility transmission agreements.

**Purchased power** increased \$1.9 million or 3.9 percent for the three-month period ended March 31, 2019 due to a 28.1 percent increase in the MISO market MWh purchases, partially offset by a 16.7 percent MWh decrease in bilateral purchases, primarily from wind contracts.

**Fuel** increased \$0.5 million or 1.0 percent for the three-month period ended March 31, 2019 due to higher natural gas costs during the January polar vortex.

**Operation and maintenance** decreased \$7.4 million or 9.4 percent for the three-month period ended March 31, 2019. Generation operations and maintenance decreased by \$6.7 million, primarily as a result of the deferral of Coal Creek Station (CCS) major outage expenses in 2019 (there was no major outage in 2018). Additionally, transmission expenses from the MISO market and inter-utility transmission agreements decreased \$1.8 million compared to the same period in 2018.

**Depreciation and amortization** increased \$0.6 million or 1.4 percent for the three-month period ended March 31, 2019 due primarily to increased depreciation from the peaking plants, as well as increased accretion expense for the CCS ash disposal ARO.

**Interest expense—net of capitalized amounts** decreased \$2.0 million or 5.8 percent as a result of decreased principal outstanding and no outstanding borrowings on the syndicated credit facility.

**Nonutility operating revenue and expense** represents the operations of MAG and its subsidiaries. The increase in earnings for the period is due to recording realized and unrealized gains on forward contracts in 2019 compared to unrealized losses in 2018.

...

*The interim financial statements as of March 31, 2019 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 2018 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 700,000 homes, businesses, and farms.

12300 Elm Creek Boulevard  
Maple Grove, MN 55369  
[greatriverenergy.com](http://greatriverenergy.com)

