2019
Second Quarter Report

GREAT RIVER ENERGY®

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2019	JUNE 30 2018
ASSETS		
UTILITY PLANT:		
Electric plant	$ 4,671,665	$ 4,594,970
Coal mine plant	245,160	326,988
Construction work in progress	41,231	127,790
Less accumulated depreciation and amortization	(2,277,963)	(2,300,655)
Utility plant—net	2,680,093	2,749,093
NONUTILITY PLANT AND EQUIPMENT—Net	161,866	172,195
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	13,048	13,404
Other investments	32,181	31,458
Deferred charges:		
Financing related	118,747	106,569
Contract settlement	59,070	85,406
Plant retirements	98,627	60,231
Other	159,931	141,017
Other long-term assets	77,733	35,296
Total other assets and investments	559,337	473,381
CURRENT ASSETS:		
Cash and cash equivalents	220,849	281,568
Restricted cash	7,544	1,851
Accounts receivable:		
Members	135,350	157,729
Others	41,870	31,780
Inventories:		
Materials and supplies	64,272	63,513
Fuel	22,218	19,476
Other	12,766	15,551
Prepaids and other current assets	11,824	28,537
Derivative instruments	10,205	5,818
Total current assets	526,898	605,823
TOTAL ASSETS	$ 3,928,194	$ 4,000,492

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2019	JUNE 30 2018
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 655,998	$ 638,811
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	657,196	640,009
Noncontrolling interest:		
Subsidiary—MAG	23,937	24,808
Variable interest entity—NDRC	157,069	145,315
Total capital	838,202	810,132
OTHER NONCURRENT LIABILITIES	166,106	143,904
REGULATORY LIABILITIES	43,859	54,594
LONG-TERM OBLIGATIONS—Less current portion	2,493,885	2,576,203
DEFERRED COMPENSATION	13,048	13,404
DEFERRED INCOME TAXES	1,715	4,008
CURRENT LIABILITIES:		
Current portion of long-term obligations	151,486	159,564
Notes payable to members	27,886	32,423
Accounts payable	50,446	54,413
Property and other taxes	18,678	20,860
Other accrued liabilities and notes payable	74,383	52,539
Accrued interest payable	14,615	60,048
Derivative instruments	33,885	18,400
Total current liabilities	371,379	398,247
TOTAL CAPITAL AND LIABILITIES	$ 3,928,194	$ 4,000,492

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30 2019	THREE MONTHS ENDED JUNE 30 2018	SIX MONTHS ENDED JUNE 30 2019	SIX MONTHS ENDED JUNE 30 2018
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 200,090	$ 230,879	$ 450,219	$ 462,550
Other operating revenue	26,726	26,422	45,813	48,425
Total utility operating revenue	226,816	257,301	496,032	510,975
UTILITY OPERATING EXPENSES:				
Purchased power	44,229	38,128	94,215	86,217
Fuel	37,018	52,364	90,053	104,884
Operation and maintenance	66,823	74,572	138,083	153,154
Depreciation and amortization	44,038	40,023	84,403	79,816
Property and other taxes	6,722	7,744	13,960	15,525
Total utility operating expenses	198,830	212,831	420,714	439,596
UTILITY OPERATING MARGIN	27,986	44,470	75,318	71,379
OTHER INCOME (EXPENSE):				
Other income—net	602	888	8,059	2,465
Interest income	1,583	1,443	3,124	2,517
Interest expense—net of amounts capitalized	(33,182)	(33,785)	(65,091)	(67,661)
Other expense—net	(30,997)	(31,454)	(53,908)	(62,679)
NET UTILITY (LOSS) MARGIN	(3,011)	13,016	21,410	8,700
NONUTILITY OPERATIONS:				
Operating revenue	66,555	68,790	128,493	131,456
Operating expense	70,621	64,423	130,755	128,156
Operating (loss) income	(4,066)	4,367	(2,262)	3,300
Income from equity method investments	5	104	26	117
Loss from variable interest entity—NDRC	(7,161)	(3,466)	(9,470)	(5,356)
Total nonutility operations	(11,222)	1,005	(11,706)	(1,939)
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(14,233)	14,021	9,704	6,761
NONCONTROLLING INTEREST:				
Subsidiary—MAG	875	(947)	484	(722)
Variable interest entity—NDRC	7,161	3,466	9,470	5,356
Total noncontrolling interest	8,036	2,519	9,954	4,634
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ (6,197)	$ 16,540	$ 19,658	$ 11,395
CAPITAL—BEGINNING OF PERIOD	$ 845,089	$ 789,360	$ 828,119	$ 783,967
Net (loss) margin and comprehensive (loss) income	(14,233)	14,021	9,704	6,761
Return of members' patronage capital	-	-	(15,212)	-
Variable interest entity—NDRC:				
Capital contributed by noncontrolling interest	12,604	13,242	26,500	26,133
Capital distributed to noncontrolling interest	(5,004)	(6,241)	(10,400)	(6,241)
Dividends distributed by noncontrolling interest	(254)	(250)	(509)	(488)
CAPITAL—END OF PERIOD	$ 838,202	$ 810,132	$ 838,202	$ 810,132

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018 (IN THOUSANDS)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	$ 9,704	$ 6,761
Adjustments to reconcile net margin to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	84,403	79,816
Included in fuel and interest	11,519	14,533
Included in operation and maintenance	3,836	6,691
Included in nonutility operating expenses	5,202	5,784
Income from equity method investments	(26)	(117)
Patronage credits earned from investments	(1,015)	(1,401)
Deferred charges	(25,540)	-
Regulatory liabilities	(21,094)	-
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(19,037)	(18,891)
Inventory and other assets	5,070	(15,005)
Accounts payable, taxes and other accrued expenses	(39,486)	(31,148)
Accrued interest	(42,598)	(1,418)
Noncurrent liabilities	(5,471)	1,599
Net cash (used in) provided by operating activities	(34,533)	47,204
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(63,763)	(54,986)
Nonutility plant and equipment additions	(247)	(716)
Proceeds from the sale of property	2,837	111
Redemption of patronage capital investments	588	939
Net cash used in investing activities	(60,585)	(54,652)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	156,620	5,000
Repayments of long-term obligations	(106,210)	(59,409)
Return of members' patronage capital	(15,212)	-
Notes (paid to) received from members—net	(6,793)	360
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	26,500	26,133
Capital distributed to noncontrolling interest	(10,400)	(6,241)
Dividends paid by noncontrolling interest	(509)	(488)
Net cash provided by (used in) financing activities	43,996	(34,645)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(51,122)	(42,093)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	279,515	325,512
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	$ 228,393	$ 283,419

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; 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.

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 June 30, 2019, is as follows: noncurrent operating lease liability—$31.0 million, recorded in other noncurrent liabilities; current operating lease liability—$13.5 million, recorded in other accrued liabilities and notes payable; ROU asset—$44.2 million, recorded in other long-term assets.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased $69.0 million to $2,680.1 million as of June 30, 2019, due primarily to depreciation and accretion for the period and a reduction in coal mine plant assets at Falkirk Mine. Construction work in progress decreased $86.6 million as a result of the HVDC project being placed into service.

Nonutility plant and equipment—net decreased $10.3 million to $161.9 million as of June 30, 2019, due to depreciation of MAG plant and equipment.

Other assets and investments increased $86.0 million to $559.3 million as of June 30, 2019. Other long-term assets increased $42.5 million primarily due to 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 $38.4 million due to the accrual of Elk River (ERRRP) decommissioning costs and the transfer of plant assets. Deferred charges—other increased $18.9 million due in part to the accrual of CCS outage expenses. These increases were offset by a decrease in deferred charges—contract settlement of $26.3 million due to the write-off of a portion of the Genoa 3 deferred asset in December 2018.

Current assets decreased $78.9 million to $526.9 million as of June 30, 2019. Cash and cash equivalents decreased $60.8 million due to the return of member patronage capital in March 2019, and 2018 having a higher cash beginning balance due to the 2017 debt issuance. Prepaids and other current assets decreased $16.7 million due to higher prepayments in 2018 for a major turbine outage at Pleasant Valley Station. Accounts receivable members decreased $22.4 million due to fewer electricity sales in 2019.

Capital and Liabilities

Other noncurrent liabilities increased $22.2 million to $166.1 million as of June 30, 2019, due to 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.

Regulatory liabilities decreased $10.7 million to $43.9 million as of June 30, 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 $82.3 million to $2,493.9 million as of June 30, 2019, due to scheduled and unscheduled principal payments and a reduction in finance (capital) leases at Falkirk Mine. This was partially offset by a draw on GRE's line of credit in the amount of $150.0 million in June 2019.

Current liabilities decreased $26.8 million to $371.4 million as of June 30, 2019. Accrued interest payable decreased $45.4 million and the current portion of long-term obligations decreased $8.1 million. These decreases were due to the timing of interest and principal payments, and were offset partially by a $21.9 million increase in other accrued liabilities and notes payable, which was due to GRE recording a liability for the current portion of its operating lease liability as well as ERRRP plant closure costs, and a $15.5 million increase in derivative instruments, reflecting the change in fair value of the underlying interest rate hedge instruments.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue decreased $12.3 million or 2.7 percent for the six-month period ended June 30, 2019, compared to the same period in 2018. The decrease is driven by member electric sales that were down 5.6 percent for energy and 10.2 percent for demand and transmission. This decrease is partially offset by a PCA credit that was $4.2 million less in 2019 compared to the same period in 2018.

Other operating revenue decreased $2.6 million or 5.4 percent for the six-month period ended June 30, 2019, compared to the same period in 2018. The decrease is driven by a $11.2 million decrease in refuse-derived fuel revenue as a result of the wind-down of operations at ERRRP and decreased transmission revenues from the MISO market and inter-utility transmission agreements. These decreases were partially offset by a $10.8 million gain recognized in 2019 related to the settlement of the steam contract with Cargill.

Purchased power increased $8.0 million or 9.3 percent for the six-month period ended June 30, 2019, compared to the same period in 2018. The decrease is driven by a 29.1 percent increase in the MISO market MWh purchases. This was partially offset by an average market price that was 6.6 percent lower in 2019 compared to the same period in 2018.

Fuel decreased $14.8 million or 14.1 percent for the period ended June 30, 2019, compared to the same period in 2018, due to 19.0 percent fewer MWhs generated at Coal Creek Station (CCS) as a result of the unit 2 outage (there was no major outage in 2018). Additionally, there were 37.9 percent fewer peaking station generation MWhs in 2019 compared to the same period in 2018.

Operation and maintenance decreased $15.1 million or 9.8 percent for the six-month period ended June 30, 2019, compared to the same period in 2018. Power supply operations and maintenance decreased by $12.5 million, primarily the result of less routine operation and maintenance due to the major outage.

Depreciation and amortization increased $4.6 million or 5.7 percent for the six-month period ended June 30, 2019, compared to the same period in 2018, due primarily to the assets supplying steam to the Cargill facility with remaining value being written off as a result of the contract settlement, as well as increased depreciation from the peaking plants and transmission facilities.

Other income—net increased $5.6 million for the six-month period ended June 30, 2019, compared to the same period in 2018, due to the recognition in 2019 of the interest rate hedge settlement gain that was deferred as a regulatory liability in 2013.

Interest expense—net of capitalized amounts decreased $2.6 million or 3.8 percent as a result of decreased principal outstanding.

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

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The interim financial statements as of June 30, 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.

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