2019
Third Quarter Report

GREAT RIVER ENERGY®

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2019	SEPTEMBER 30 2018
ASSETS		
UTILITY PLANT:		
Electric plant	$ 4,681,476	$ 4,475,240
Coal mine plant	245,860	315,460
Plant to be retired—net of accumulated depreciation	-	37,032
Construction work in progress	54,627	177,595
Less accumulated depreciation and amortization	(2,315,906)	(2,241,521)
Utility plant—net	2,666,057	2,763,806
NONUTILITY PLANT AND EQUIPMENT—Net	159,440	169,664
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	13,214	13,852
Other investments	32,496	31,792
Deferred charges:		
Financing related	129,400	100,916
Contract settlement	57,581	85,406
Plant retirements	97,060	58,794
Other	152,864	137,590
Other long-term assets	74,231	35,653
Total other assets and investments	556,846	464,003
CURRENT ASSETS:		
Cash and cash equivalents	225,012	247,188
Restricted cash	906	1,857
Accounts receivable:		
Members	148,068	163,799
Others	24,381	30,100
Inventories:		
Materials and supplies	62,090	63,308
Fuel	20,977	20,052
Other	21,737	13,838
Prepaids and other current assets	11,431	10,249
Derivative instruments	13,501	6,271
Total current assets	528,103	556,662
TOTAL ASSETS	$ 3,910,446	$ 3,954,135

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2019	SEPTEMBER 30 2018
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 697,415	$ 706,831
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	698,613	708,029
Noncontrolling interest:		
Subsidiary—MAG	24,329	25,133
Variable interest entity—NDRC	161,357	151,039
Total capital	884,299	884,201
OTHER NONCURRENT LIABILITIES	163,352	145,260
REGULATORY LIABILITIES	43,789	54,207
LONG-TERM OBLIGATIONS—Less current portion	2,378,217	2,465,720
DEFERRED COMPENSATION	13,214	13,852
DEFERRED INCOME TAXES	1,715	4,008
CURRENT LIABILITIES:		
Current portion of long-term obligations	155,834	170,049
Notes payable to members	33,915	34,119
Accounts payable	46,839	55,406
Property and other taxes	23,359	26,665
Other accrued liabilities and notes payable	84,987	47,864
Accrued interest payable	37,181	39,107
Derivative instruments	43,745	13,677
Total current liabilities	425,860	386,887
TOTAL CAPITAL AND LIABILITIES	$ 3,910,446	$ 3,954,135

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2019	2018	2019	2018
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 257,610	$ 284,190	$ 707,829	$ 746,741
Other operating revenue	19,402	27,748	65,214	76,172
Total utility operating revenue	277,012	311,938	773,043	822,913
UTILITY OPERATING EXPENSES:				
Purchased power	32,042	38,769	126,257	124,985
Fuel	52,714	60,224	142,766	165,108
Operation and maintenance	73,518	70,072	211,599	223,226
Depreciation and amortization	42,085	39,864	126,488	119,679
Property and other taxes	6,752	6,728	20,712	22,253
Total utility operating expenses	207,111	215,657	627,822	655,251
UTILITY OPERATING MARGIN	69,901	96,281	145,221	167,662
OTHER INCOME (EXPENSE):				
Other income—net	1,273	1,362	9,330	3,825
Interest income	1,068	1,029	4,193	3,546
Interest expense—net of amounts capitalized	(32,239)	(31,805)	(97,330)	(99,466)
Other expense—net	(29,898)	(29,414)	(83,807)	(92,095)
NET UTILITY MARGIN	40,003	66,867	61,414	75,567
NONUTILITY OPERATIONS:				
Operating revenue	64,252	63,226	192,745	194,682
Operating expense	62,445	61,742	193,200	189,898
Operating (loss) income	1,807	1,484	(455)	4,784
(Loss) income from equity method investments	(1)	(5)	25	112
Loss from variable interest entity—NDRC	(2,915)	(2,123)	(12,385)	(7,480)
Total nonutility operations	(1,109)	(644)	(12,815)	(2,584)
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	38,894	66,223	48,598	72,983
NONCONTROLLING INTEREST:				
Subsidiary—MAG	(392)	(325)	92	(1,047)
Variable interest entity—NDRC	2,915	2,123	12,385	7,480
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 41,417	$ 68,021	$ 61,075	$ 79,416
CAPITAL—BEGINNING OF PERIOD	$ 838,202	$ 810,132	$ 828,119	$ 783,967
Net margin and comprehensive income	38,894	66,223	48,598	72,983
Return of members' patronage capital	-	-	(15,212)	-
Variable interest entity—NDRC:				
Capital contributed by noncontrolling interest	7,717	11,637	34,217	37,770
Capital distributed to noncontrolling interest	(256)	(3,537)	(10,657)	(9,778)
Dividends paid by noncontrolling interest	(258)	(254)	(766)	(741)
CAPITAL—END OF PERIOD	$ 884,299	$ 884,201	$ 884,299	$ 884,201

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	$ 48,598	$ 72,983
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	126,488	119,679
Included in fuel and interest	16,955	21,598
Included in operation and maintenance	10,867	10,036
Included in nonutility operating expense	7,765	8,511
Income from equity method investments	(25)	(112)
Patronage credits earned from investments	(1,581)	(2,195)
Deferred charges	(26,350)	-
Regulatory liabilities	(21,094)	-
Changes in working capital (excluding cash, investments, and borrowings):		
Accounts and long-term receivables	(13,253)	(23,276)
Inventory and other assets	(3,310)	2,796
Accounts payable, taxes, and other accrued expenses	(20,830)	(30,259)
Accrued interest	(20,032)	(22,359)
Noncurrent liabilities	(9,881)	2,332
Net cash provided by operating activities	94,317	159,734
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(96,070)	(108,414)
Nonutility plant and equipment additions	(386)	(755)
Proceeds from the sale of property	2,915	175
Redemption of patronage capital investments	839	1,399
Net cash used in investing activities	(92,702)	(107,595)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	235,622	5,000
Repayments of long-term obligations	(297,652)	(162,440)
Return of members' patronage capital	(15,212)	-
Costs of new debt issuance, leases, and interest rate hedging instruments	-	(473)
Notes received from members—net	(764)	2,056
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	34,217	37,770
Capital distributed to noncontrolling interest	(10,657)	(9,778)
Dividends distributed by noncontrolling interest	(766)	(741)
Net cash used in financing activities	(55,212)	(128,606)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(53,597)	(76,467)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	279,515	325,512
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	$ 225,918	$ 249,045

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, 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 September 30, 2019, is as follows: noncurrent operating lease liability—$27.8 million, recorded in other noncurrent liabilities; current operating lease liability—$13.4 million, recorded in other accrued liabilities and notes payable; right-of-use asset—$40.7 million, recorded in other long-term assets.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased $97.7 million to $2,666.1 million as of September 30, 2019. The decrease was driven primarily by depreciation and amortization for the period, the transfer of $37.0 million related to the Elk River Resource Recovery Project (ERRRP) from plant to be retired—net of accumulated depreciation to deferred charges-plant retirements, as well as a $17.8 million net decrease in coal mine plant assets at Falkirk Mine due to reclassification of certain capital leases as operating leases due to the adoption of ASU 2016-02, *Leases (Topic 842)*. These decreases were offset by the net addition of electric plant assets of $83.3 million.

Other assets and investments increased $92.8 million to $556.8 million as of September 30, 2019. Other long-term assets increased $38.6 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 $38.3 million due to the accrual of ERRRP decommissioning costs and the transfer from plant to be retired—net of accumulated depreciation. Deferred charges—other increased $15.3 million primarily for the deferral of Coal Creek Station (CCS) outage expenses. These increases were offset by a decrease in deferred charges—contract settlement of $27.8 million due to the write-off of a portion of the Genoa 3 deferred asset in December 2018.

Current assets decreased $28.6 million to $528.1 million as of September 30, 2019. Cash and cash equivalents decreased $22.2 million due to the return of member patronage capital in March 2019, and scheduled principal payments made, offset partially by the borrowings on the syndicated line of credit. Accounts receivable members decreased $15.7 million due to lower electric revenue in 2019.

Capital and Liabilities

Other noncurrent liabilities increased $18.1 million to $163.4 million as of September 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 $10.4 million to $43.8 million as of September 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 an increase for the deferral of member electric revenue of $10.0 million in December 2018.

Long-term obligations—less current portion decreased $87.5 million to $2,378.2 million as of September 30, 2019, due to scheduled principal payments. This was partially offset by net borrowings of $75.0 million on GRE's syndicated line of credit as of September 30, 2019.

Current liabilities increased $39.0 million to $425.9 million as of September 30, 2019. The increase was driven by a $37.1 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 and the accrual for ERRRP plant closure costs, as well as a $30.1 million increase in derivative instruments, which reflects the change in fair value of the underlying interest rate hedge instruments held for the projected debt issuances. These increases were partially offset by decreases in the current portion of long-term obligations and accounts payable.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue decreased $38.9 million or 5.2 percent for the nine-month period ended September 30, 2019, compared to the same period in 2018. The decrease is driven by member energy revenue that was down 5.4 percent and member demand revenue that was down 8.4 percent. This decrease is partially offset by a PCA credit that was $5.4 million less in 2019 compared to the same period in 2018.

Other operating revenue decreased $11.0 million or 14.4 percent for the nine-month period ended September 30, 2019, due to a $18.3 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 a steam contract with a third-party.

Purchased power increased $1.3 million or 1.0 percent for the nine-month period ended September 30, 2019, due to a 24.7 percent increase in the MISO market MWh purchases. This was partially offset by an average market price that was 10.1 percent lower in 2019 compared to the same period in 2018, as well as 11.9 percent fewer MWh of wind purchases.

Fuel decreased $22.3 million or 13.5 percent for the period ended September 30, 2019, due to 13.3 percent fewer MWhs generated at CCS compared to the same period in 2018 as a result of the unit 2 major outage (there was no major outage in 2018). Additionally, there were 45.9 percent fewer peaking station generation MWhs in 2019 compared to the same period in 2018.

Operation and maintenance decreased $11.6 million or 5.2 percent for the nine-month period ended September 30, 2019. Power supply operations and maintenance decreased by $10.9 million, primarily the result of less routine operation and maintenance due to the unit 2 major outage at CCS.

Depreciation and amortization increased $6.8 million or 5.7 percent for the nine-month period ended September 30, 2019, due primarily to a major transmission project being placed into service in 2019 as well as the amortization of the ERRRP deferred charge beginning in 2019. The refuse processing plant depreciation had been reported in fuel expense in 2018.

Other income—net increased $5.5 million for the nine-month period ended September 30, 2019, 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 amounts capitalized decreased $2.1 million or 2.1 percent as a result of decreased principal outstanding in 2019.

Nonutility operating revenue and expense represents the operations of Midwest AgEnergy (MAG) and its subsidiaries.

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The interim financial statements as of September 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 one of the largest generation and transmission (G&T) cooperatives 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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