2015 ANNUAL REPORT

MEMBER OWNED. TRUSTED. RESPONSIBLE. EFFICIENT. OPEN. INNOVATIVE. PROGRESSIVE. SAFE. DEPENDABLE. SUSTAINABLE. COLLABORATIVE. FLEXIBLE. STRONG. COMPETITIVE. DEDICATED. ACCOUNTABLE. HONEST. RELIABLE. POWERING WHAT'S POSSIBLE.

GREAT RIVER ENERGY™

CONTENTS

GREAT RIVER ENERGY IS A GENERATION AND TRANSMISSION COOPERATIVE THAT SUPPLIES WHOLESALE ELECTRICITY TO 28 MEMBER-OWNED DISTRIBUTION COOPERATIVES IN MINNESOTA AND PARTS OF WISCONSIN. WITH A DIVERSE PORTFOLIO OF GENERATION RESOURCES AND AN EXPANSIVE NETWORK OF TRANSMISSION INFRASTRUCTURE, GREAT RIVER ENERGY PROVIDES ITS MEMBERSHIP WITH A RELIABLE AND AFFORDABLE POWER SUPPLY IN HARMONY WITH A SUSTAINABLE ENVIRONMENT. **GREAT RIVER ENERGY IS GUIDED BY THE SEVEN COOPERATIVE PRINCIPLES, WHICH INCLUDE DEMOCRATIC MEMBER CONTROL AND CONCERN FOR COMMUNITY. TOGETHER WITH ITS MEMBERS, GREAT RIVER ENERGY'S EMPLOYEES ARE DEDICATED TO KEEPING COOPERATIVE ENERGY COMPETITIVE.**

TO OUR STAKEHOLDERS

MICHAEL THORSON

Great River Energy
Board Chair

DAVID SAGGAU

Great River Energy
President and CEO

Take a look around Great River Energy and you will see ideas taking root and becoming critical strategies that will ensure our long-term success. We remain focused on generating and transmitting reliable and affordable electricity in harmony with a sustainable environment while discovering ways to evolve with changes in our industry and among our membership.

The announcement of the Clean Power Plan presents a challenge to utilities in coal-rich regions of the country. Despite a stay of the rule, the Environmental Protection Agency is obligated to regulate carbon dioxide emissions. Great River Energy is well positioned to comply while remaining competitive with other Midwest utilities. It is no accident, either. We have been preparing for carbon dioxide limits for years.

In recent years, Great River Energy has reduced our exposure to carbon dioxide regulations by terminating an obligation to purchase energy and capacity from a Wisconsin coal-based power plant, commissioning a coal plant compliant with the Clean Power Plan's emission limits and accelerating the depreciation of our remaining coal assets. In addition, we completed 20 solar installations across Minnesota.

When research revealed that our membership was becoming increasingly interested in solar electricity, we devised programs that offered solar energy in ways that treated members fairly. Today, Great River Energy and our member cooperatives collectively own nearly 2 megawatts of solar capacity, and we have plans for more. By adding a solar component to our Wellspring program, we have enabled members to subscribe to greater proportions of solar electricity at a modest additional cost.

Feedback from a variety of stakeholders informed us there was growing momentum for the electrification of Minnesota's economy, particularly transportation. We are supporting the advancement of electric vehicles by embracing early adopters. Our research showed that electric vehicle drivers were motivated primarily by the cars' reduced environmental impact. That inspired Revolt™, a program that offers renewable energy credits for the expected life of an electric vehicle at no additional cost. It is the first program of its kind in the world.

We continue to work with our member cooperatives to attract and retain businesses in the communities we serve. Over the past year, we have identified the locations in our service area best suited for investment from the technology sector. By identifying properties with superior broadband and electrical capacity, we will be prepared when opportunities arise.

We are entering an era in which energy data is becoming essential to effectively serve members. Great River Energy is facilitating opportunities for partnerships, research and testing among our member cooperatives to identify platforms that will aid us in serving a new generation of consumers.

As we face new challenges, we find strength through collaboration. Great River Energy and our 28 member cooperatives are learning from one another new ways to achieve our vision: to keep cooperative energy competitive.

WE REMAIN FOCUSED ON GENERATING AND TRANSMITTING RELIABLE AND AFFORDABLE ELECTRICITY IN HARMONY WITH A SUSTAINABLE ENVIRONMENT WHILE DISCOVERING WAYS TO EVOLVE WITH CHANGES IN OUR INDUSTRY AND AMONG OUR MEMBERSHIP.

OUR MEMBER OWNERS

GREAT RIVER ENERGY PROVIDES WHOLESALE ELECTRIC SERVICE TO 28 DISTRIBUTION COOPERATIVES. **THOSE MEMBER COOPERATIVES DISTRIBUTE ELECTRICITY TO APPROXIMATELY 665,000 MEMBERS – OR ABOUT 1.7 MILLION PEOPLE.** GREAT RIVER ENERGY'S MEMBER COOPERATIVES RANGE FROM THOSE IN THE OUTER-RING SUBURBS OF THE TWIN CITIES TO THE ARROWHEAD REGION OF MINNESOTA TO THE FARMLAND OF SOUTHWESTERN MINNESOTA. GREAT RIVER ENERGY'S LARGEST DISTRIBUTION COOPERATIVE SERVES MORE THAN 125,000 MEMBER-CONSUMERS; THE SMALLEST SERVES ABOUT 2,500.

Great River Energy maintained its strong financial position in 2015. The cooperative consistently receives investment-grade credit ratings from three rating agencies. Over the past year, Great River Energy received $350 million in proceeds from a bond issuance executed in late 2014.

Great River Energy's wholesale rates remain below the weighted regional average. In fact, Great River Energy's rate to its member cooperatives declined in 2015, and rate projections show moderate increases in the years ahead.

With an equity position of 16.8 percent, Great River Energy is on pace to meet its goal of 20 percent equity by 2020. Upon achieving that milestone, Great River Energy will begin providing patronage refunds to its member cooperatives.

Great River Energy's 28 member-owner cooperatives

Number of member accounts
665,000

Sales to members
11,701,582 megawatt-hours

Total distribution line
88,700 miles

Average density
7.5 consumers/mile

Distribution substations
555

Combined annual revenue
$1.4 billion

Electric plant in service (net)
$1.9 billion

Distribution employees
1,570

Great River Energy financial highlights

Revenue
$983.0 million

Net margin attributable to Great River Energy
$15.2 million

Total assets
$4.0 billion

Utility plant investment (net)
$2.8 billion

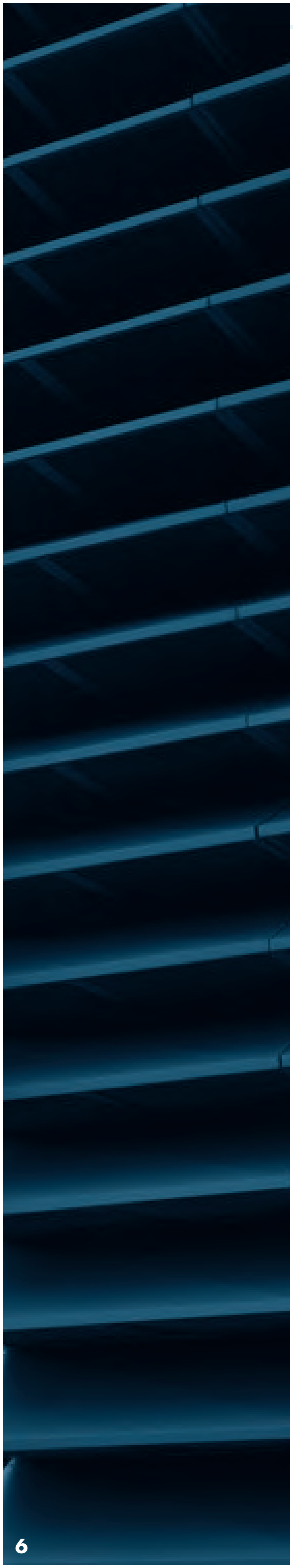
Systemwide load characteristics

Residential
57.1%

Seasonal
1.5%

Commercial, industrial and other
41.4%

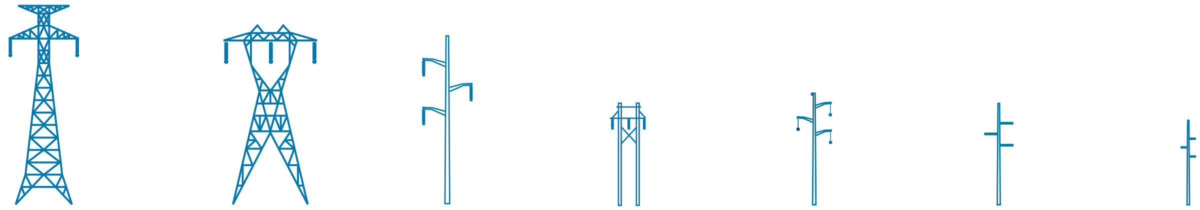
Based on energy sales



OUR RESOURCE PORTFOLIO

Great River Energy carefully designs and maintains a portfolio of power generation facilities and transmission resources in order to deliver reliable and affordable wholesale electricity to the regional electricity market and its member-owner cooperatives. Generation resources of varying sizes, locations and fuels each serve a specific purpose within Great River Energy's resource network. Transmission lines and substations are designed to deliver electricity precisely where and when it is needed with minimal interruption.

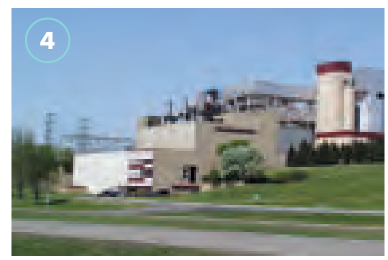
TRANSMISSION



±400 kilovolt (kV) DC	500 kV	345 kV	230 kV	161 kV	115 kV	69 kV or less
436 mi	70 mi	75 mi	524 mi	46 mi	528 mi	3,093 mi

Does not include lines partially owned by Great River Energy.

GENERATION



1: Coal Creek Station
Location: Underwood, N.D.
Generating capability: 1,146 MW
Fuel: Lignite coal and DryFine™ lignite coal

2: Stanton Station
Location: Stanton, N.D.
Generating capability: 189 MW
Fuel: Powder River Basin coal

3: Spiritwood Station
Location: Jamestown, N.D.
Generating capability: 99 MW*
Fuel: DryFine lignite coal

4: Elk River Energy Recovery Station
Location: Elk River, Minnesota
Generating capability: 29 MW
Fuel: Refuse-derived fuel

5: Elk River Peaking Station
Location: Elk River, Minnesota
Generating capability: 185 MW (summer)
Fuel: Natural gas; backup, fuel oil

6: Lakefield Junction Station
Location: Martin County, Minnesota
Generating capability: 513 MW (summer)
Fuel: Natural gas; backup, fuel oil

7: Cambridge Station
Location: Cambridge, Minnesota
Generating capability: 177 MW (summer)
Fuel: Fuel oil (Unit 1), and natural gas (Unit 2)

8: Pleasant Valley Station
Location: Mower County, Minnesota
Generating capability: 429 MW (summer)
Fuel: Natural gas; backup, fuel oil

9: St. Bonifacius Station
Location: St. Bonifacius, Minnesota
Generating capability: 57 MW (summer)
Fuel: Fuel oil

10: Rock Lake Station
Location: Pine City, Minnesota
Generating capability: 21 MW (summer)
Fuel: Fuel oil

11: Maple Lake Station
Location: Maple Lake, Minnesota
Generating capability: 20 MW (summer)
Fuel: Fuel oil

12: Arrowhead Emergency Generating Station
Location: Cook County, Minnesota
Generating capability: 18 MW*
Fuel: Fuel oil

13: Trimont Wind
Purchase: 100 MW*
Turbine: 67 General Electric 1.5-MW wind turbines

14: Elm Creek Wind
Purchase: 99 MW*
Turbine: 66 General Electric 1.5-MW wind turbines

15: Prairie Star Wind
Purchase: 101 MW*
Turbine: 61 Vestas 1.65-MW wind turbines

16: Ashtabula II Wind
Purchase: 51 MW*
Turbine: 34 General Electric 1.5-MW wind turbines

17: Endeavor I Wind
Purchase: 100 MW*
Turbine: 40 Clipper 2.5-MW wind turbines

Other wind energy purchases:
17 MW* from four Minnesota wind farms.
Location: Jackson, Dodge and Murray counties.

Solar installations
20 locations across Minnesota
(details on page 12)

Generating capability based on Summer Net Dependable Capacity per NERC Generating Availability Data System for the 2016-2017 planning year.

**Nameplate generating capacity*

MEETING THE NEEDS OF A CHANGING MEMBERSHIP

Revolt™ takes renewables on the road

Great River Energy and its participating member cooperatives launched a first-of-its-kind electric vehicle program with the June 2015 announcement of Revolt. The program allows cooperative members to fuel their vehicles with wind energy at no additional cost.

Renewable sources represent a growing portion of Great River Energy's power mix, and the Revolt program provides a more direct connection between wind energy and the electric vehicle driver.

To participate in Revolt, a cooperative member must own, purchase or lease a plug-in electric vehicle or plug-in hybrid electric vehicle and register with their cooperative.

By dedicating renewable energy credits, the Revolt program assures participating electric vehicles are fueled by wind energy.

Seeking growth through economic development

Great River Energy's ongoing business attraction and expansion efforts continue to produce returns for Minnesota's rural communities in the form of new local tax revenue, living-wage jobs and sustainable community growth. Great River Energy's economic development efforts focus on planning, partnerships and promotion to help drive economic success for communities served by Great River Energy's member cooperatives.

Great River Energy announced four sites in its service area that meet an extensive set of requirements for third-party certification as shovel-ready site options for the highly competitive data storage industry. This detailed, industry-specific approach, when combined with the depth of resources and partnerships Great River Energy maintains throughout its service area, positions cooperatives for meaningful economic development opportunities.

New subsidiary operating processing plant

When the Ramsey/Washington Recycling and Energy Board outlined plans to purchase a resource processing facility, they sought a partner with operating experience making energy from household waste. They found that partner in Great River Energy.

Under an agreement that began January 1, 2016, a new Great River Energy subsidiary, GRE Newport Services, LLC, will operate the Newport Resource Recovery Facility through December 31, 2017.

The plant processes municipal solid waste similar to Great River Energy's Elk River Resource Processing Plant, removing recyclable materials and creating a fuel for generating electricity.

Great River Energy Senior Marketing Specialist David Ranallo (left), Dakota Electric Association Marketing Manager Linda Landwehr (center) and Dakota Electric Association Member Services Manager Dave Reinke have inspired interest in electric vehicles through the Revolt program, which allows cooperative members to fuel their vehicles with wind energy at no additional cost.

RENEWABLE SOURCES REPRESENT A GROWING PORTION OF GREAT RIVER ENERGY'S POWER MIX, AND **THE REVOLT PROGRAM PROVIDES A MORE DIRECT CONNECTION BETWEEN WIND ENERGY AND THE ELECTRIC VEHICLE DRIVER.**

GREAT RIVER ENERGY IS EXAMINING ITS COAL-BASED POWER PLANTS TO UNCOVER **EFFICIENCY IMPROVEMENTS THAT COULD LEAD TO FURTHER REDUCTIONS OF CARBON DIOXIDE EMISSIONS.**

POWER SUPPLY CONTINUES TO EVOLVE

GREAT RIVER ENERGY HOLDS ENVIRONMENTAL STEWARDSHIP AS PART OF ITS MISSION. THE COOPERATIVE SEEKS TO MINIMIZE ITS ENVIRONMENTAL IMPACT AND COMPLY WITH ALL STATE AND FEDERAL REGULATIONS.

When the final Clean Power Plan was announced, Great River Energy put in place resources inside and outside the company to assure the cooperative adopts the proper strategies to comply with the rule with the least impact to cooperative members. A steering committee consisting of Great River Energy leaders is overseeing the vision and strategy for managing carbon dioxide emissions, with the support of external advisors and a dedicated project team. Despite the U.S. Supreme Court's decision to stay the Clean Power Plan, Great River Energy continues to work closely with state and federal regulators as well as other utilities as state implementation plans are considered.

Great River Energy launched a research effort to analyze numerous Clean Power Plan scenarios to assess impacts to its facilities and wholesale power costs. Engineers are also examining the cooperative's coal-based power plants to uncover efficiency improvements that could lead to further reductions of carbon dioxide emissions. Great River Energy continues to evolve as it reduces carbon dioxide emissions.

State accepts resource plan

In 2015, the Minnesota Public Utilities Commission accepted Great River Energy's Integrated Resource Plan by a vote of 5-0. The report detailed Great River Energy's plans to position the cooperative for a low-carbon future. It also highlighted Great River Energy and its member cooperatives' record of encouraging conservation and energy efficiency among their members.

The decision affirmed that Great River Energy's resource plan is in the best interest of the membership.

Great River Energy's 15-year outlook provides options and flexibility, adds new wind and hydro energy, and maintains energy efficiency and conservation programs.

Technology reduces mercury

Following years of research and testing, Great River Energy installed new, state-of-the-art mercury control technologies to comply with the Environmental Protection Agency's Mercury and Air Toxics Standards.

Coal Creek Station's unique system supplements the existing DryFining™ system, which reduces mercury emissions. The process allows mercury to be oxidized in the boiler, removed by the existing flue gas scrubber and sequestered.

At Stanton Station, advanced activated carbon is continuously injected into the flue gas leaving the boilers. Mercury is captured by the activated carbon and then removed with the fly ash. The process earned Great River Energy a Technology Transfer Award from the Electric Power Research Institute.

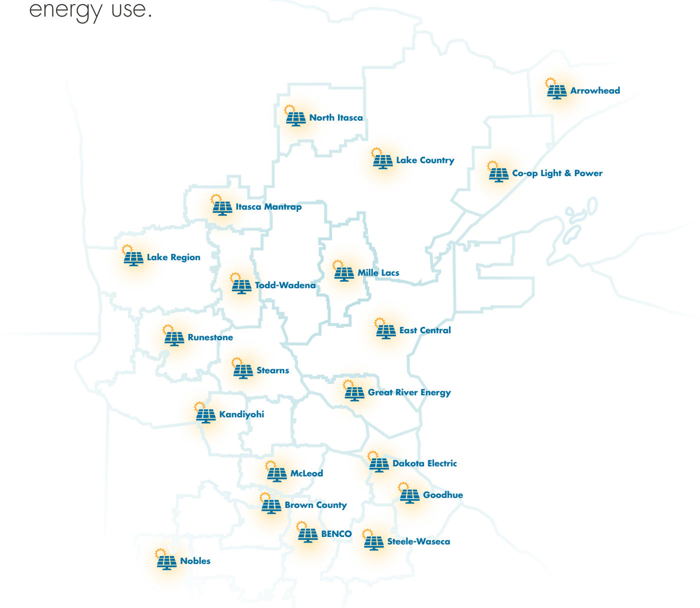
Great River Energy Vice President and Chief Market Officer Jon Brekke (left) and Vice President and Chief Generation Officer Rick Lancaster design the cooperative's generation portfolio to provide the greatest value to Great River Energy's member cooperatives.

POWER SUPPLY CONTINUES TO EVOLVE

Solar rising

In 2015, Great River Energy completed a statewide buildout of solar arrays, responding to member interest. The projects are helping Great River Energy and its member cooperatives develop institutional knowledge with solar technology. The cooperatives now possess the expertise and resources to build utility-scale solar projects in the future.

Great River Energy gave end-use members another way to invest in solar without installing anything on their property. Community solar projects allow members to subscribe to receive the output from one or several panels. The solar Wellspring program allows members to purchase blocks of solar energy to offset conventional energy use.



Solar installations located throughout the state are collecting data about the performance of solar in different parts of Minnesota.

Biorefinery begins operations

Dakota Spirit AgEnergy, a new, 65 million-gallon-per-year biorefinery, was commercialized next to Great River Energy's Spiritwood Station combined heat and power plant. The facility uses steam from Spiritwood Station and corn from local farmers to produce ethanol, distillers grains and fuel-grade corn oil. Dakota Spirit AgEnergy is owned by Midwest AgEnergy Group, LLC, a majority of which is owned by Great River Energy.

Employees and their family members participate in the Family Fun Day & 5k, which has become an annual tradition at Great River Energy.

RISING AMONG THE NATION'S HEALTHIEST

GREAT RIVER ENERGY WAS NAMED THE 14TH HEALTHIEST WORKPLACE IN THE NATION AT THE 2015 HEALTHIEST 100 WORKPLACES IN AMERICA AWARDS CEREMONY. GREAT RIVER ENERGY'S WELLNESS INITIATIVES, WHICH SUPPORT EMPLOYEES AND THEIR FAMILIES TO LIVE HEALTHIER LIVES, CONTINUE TO REAP BENEFITS AND RECOGNITION FOR THE ORGANIZATION. THIS IS THE SECOND YEAR GREAT RIVER ENERGY HAS MADE THE HEALTHIEST WORKPLACE LISTING, MOVING FROM 31ST PLACE IN 2014 TO THE 14TH SPOT IN 2015.

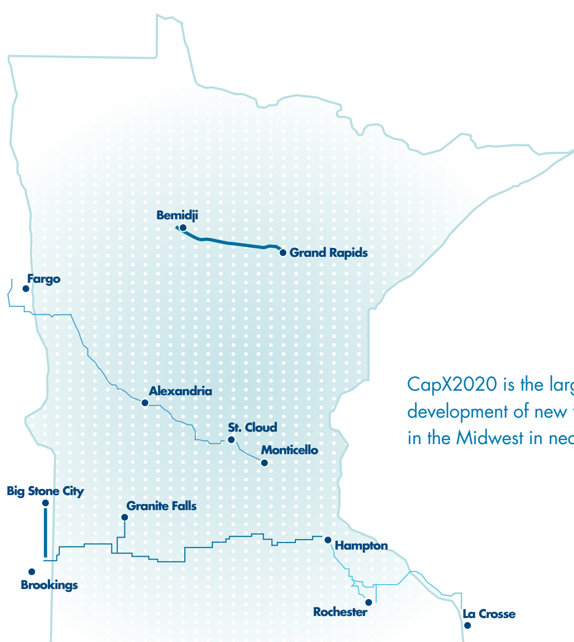
TRANSMISSION: SERVING MEMBERS AND THE REGIONAL GRID

CapX2020 fulfills promise

On March 26, 2015, the utilities involved in CapX2020 energized the Brookings County-Hampton project, a 250-mile, 345-kilovolt transmission line between Brookings County, South Dakota, and Hampton, Minnesota. Great River Energy served as project manager on the line, which establishes an important transmission link between generation resources and the Twin Cities.

CapX2020 is a joint initiative of 11 transmission-owning utilities in Minnesota and the surrounding region to expand the electric transmission grid to ensure continued reliable and affordable service. The projects have been in the works for more than 10 years. When the fifth and final project is completed in 2017, CapX2020 will have been responsible for 800 miles of new transmission line and a total investment of more than $2 billion.

Great River Energy has played a critical role in CapX2020. Great River Energy Vice President and Chief Transmission Officer Will Kaul serves as the organization's chairman. The cooperative has invested over $300 million in the projects. The direct investment helped offset the cost of new regional transmission projects and mitigate rate increases for members.



CapX2020 is the largest development of new transmission in the Midwest in nearly 40 years.

Planning the grid of the future

Senior leaders and key staff from Great River Energy and its member cooperatives have begun discussing the evolution of the electric industry and investments in grid technology that will be key to serving member-consumers in the future.

As part of that evolution, Great River Energy will deploy a new demand response management system in 2016. The system will introduce a new level of precision and control capability to Great River Energy's existing demand response resources. There is also an expectation that many – if not most – of Great River Energy's member cooperatives will be upgrading their metering systems in order to ensure the full value of demand response capabilities.

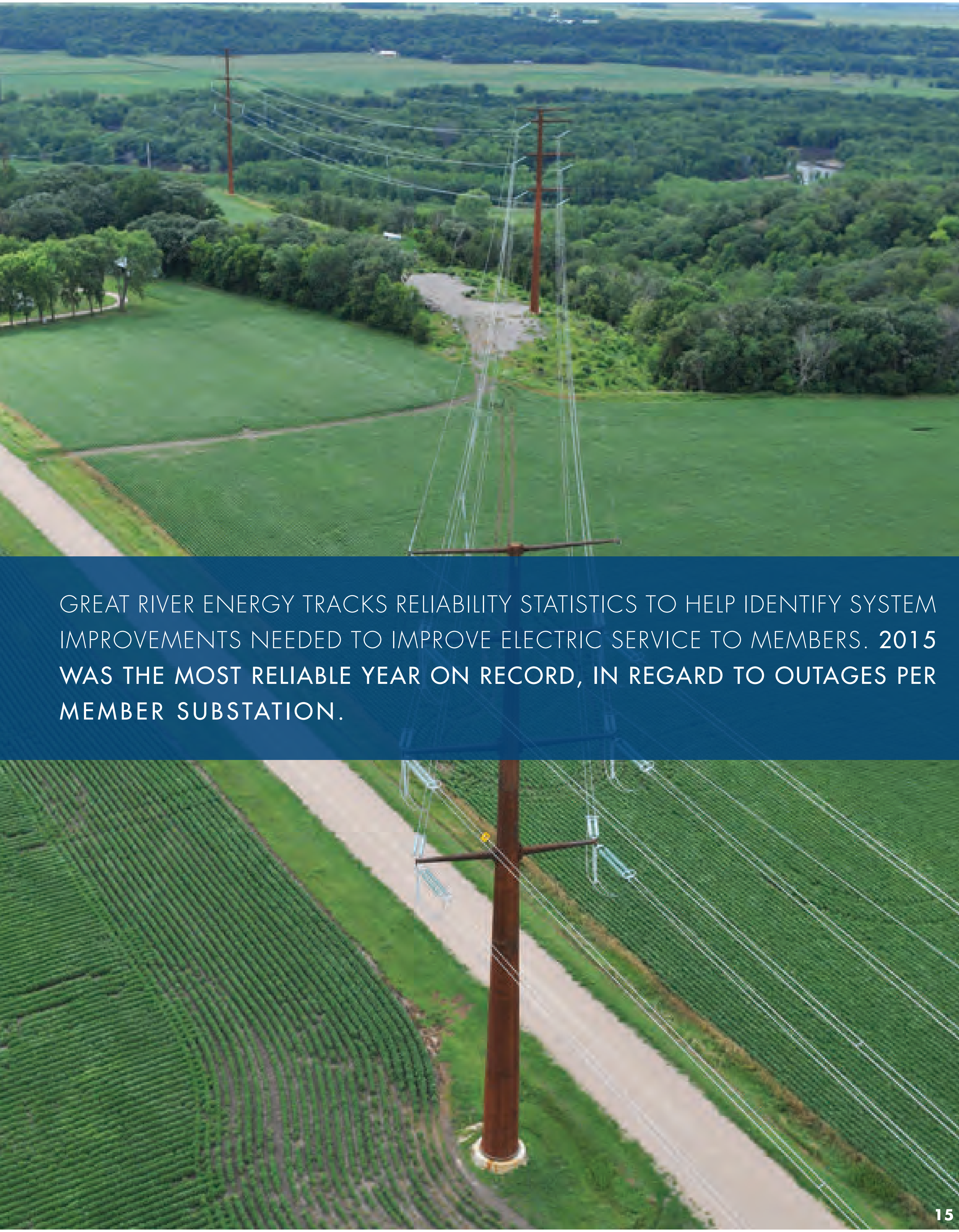
Investing in reliability of a vital resource

Great River Energy will soon undertake the largest transmission refurbishment project in the organization's history with the overhaul and upgrade of the converter stations at both ends of the 436-mile high-voltage, direct-current transmission line. The line delivers power to Minnesota from Great River Energy's Coal Creek Station power plant in central North Dakota.

Maintaining Great River Energy's high reliability standards for this system is not only critical for delivering power for its members now, but also because it will continue to provide a corridor for delivering energy from North Dakota for the foreseeable future.

Engineering, equipment manufacturing and system testing is underway, with construction beginning in 2019.

The CapX2020 Brookings County-Hampton project connects areas rich in generation resources, including wind energy, with the Twin Cities metro area.



GREAT RIVER ENERGY TRACKS RELIABILITY STATISTICS TO HELP IDENTIFY SYSTEM IMPROVEMENTS NEEDED TO IMPROVE ELECTRIC SERVICE TO MEMBERS. **2015 WAS THE MOST RELIABLE YEAR ON RECORD, IN REGARD TO OUTAGES PER MEMBER SUBSTATION.**

2015 FINANCIALS

FINANCIAL CONTENT

FINANCIAL HIGHLIGHTS

(DOLLARS IN MILLIONS)

	2015	2014	Change
OPERATIONS			
Revenues	$ 983.0	$ 1,020.2	$ (37.2)
Purchased Power	$ 142.6	$ 212.2	$ (69.6)
Fuel	$ 233.4	$ 223.5	$ 9.9
Other Operating Expenses	$ 340.1	$ 305.5	$ 34.6
Depreciation and Amortization	$ 146.3	$ 130.5	$ 15.8
Interest Expense	$ 138.8	$ 127.4	$ 11.4
Other Income	$ 34.2	$ 2.7	$ 31.5
Nonutility Operations, excluding noncontrolling interest	$ (0.8)	$ 28.2	$ (29.0)
Net Margin Attributable to GRE	$ 15.2	$ 52.0	$ (36.8)
FINANCIAL POSITION			
Electric Plant	$ 4,558.2	$ 4,292.5	$ 265.7
Utility Plant – net	$ 2,814.8	$ 2,798.7	$ 16.1
Deferred Charges	$ 368.4	$ 283.5	$ 84.9
Cash and Cash Equivalents	$ 268.3	$ 243.7	$ 24.6
Total Assets	$ 4,033.3	$ 3,885.5	$ 147.8
Long-term Obligations	$ 2,765.5	$ 2,660.0	$ 105.5
Members' Capital	$ 556.0	$ 540.8	$ 15.2
Equity to Capitalization Ratio	16.8%	16.7%	0.1%

GREAT RIVER ENERGY

FINANCIAL DISCUSSION AND ANALYSIS

Great River Energy's 2015 financial position remains strong despite challenges presented by decreased electric sales due to very unusual weather for the year. Decreased demand for electricity by Great River Energy's members and others in the region and low natural gas prices significantly reduced Midcontinent Independent System Operator (MISO) market prices, which positively impacted the power cost adjustment (PCA) resulting in an $18.6 million credit to Great River Energy's members for 2015. The billed 2015 member rate was lower than the 2014 member rate due to the PCA credit. Decreased sales did put significant pressure on Great River Energy's net margin. In spite of this, Great River Energy remained on track to meet its equity to capitalization target of 20.0 percent by 2020, maintained its investment grade credit ratings, and sustained its strong liquidity. Great River Energy also reduced its reliance on coal during 2015 with the termination of GRE's obligation to share equally in the costs and benefits of the Genoa 3 plant. Great River Energy's financial statements continue to be solid and positively position the cooperative for the future.

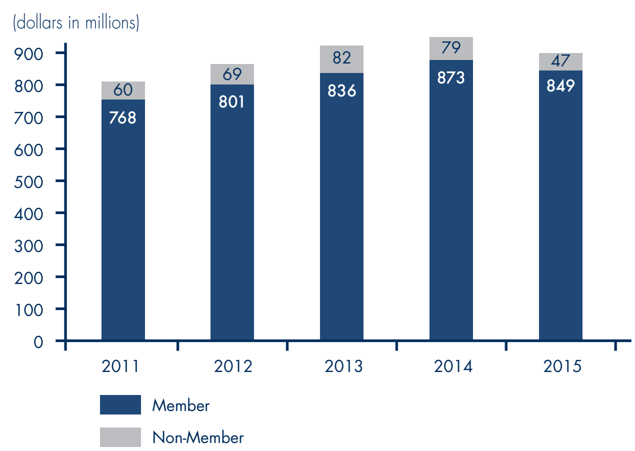
MARGINS

Net margin attributable to Great River Energy for the year ended December 31, 2015, was $15.2 million and includes the net loss from Midwest AgEnergy Group (MAG) of $0.8 million. This compares to a budget of $23.0 million for 2015. Great River Energy's indenture requires the maintenance of a margin-for-interest (MFI) ratio of 1.1x, excluding the operating results of subsidiaries. Great River Energy's net utility margin, which is used to calculate the MFI requirement, was $16.0 million for 2015, resulting in an MFI of 1.11x. Great River Energy's board of directors targeted a debt service coverage (DSC) ratio of 1.17x when setting member rates for 2015. Great River Energy's 2015 operations produced a DSC of 1.18x.

ELECTRIC REVENUE

Electric revenue decreased $55.9 million or 5.9 percent to $896.1 million in 2015 from $952.0 million in 2014. Electric revenue from member cooperatives was $849.5 million during 2015, a decrease of $23.5 million or 2.7 percent from $873.0 million in 2014. The member revenue decrease was due to decreased member energy and demand unit sales of 3.4 percent

ELECTRIC REVENUE BILLED



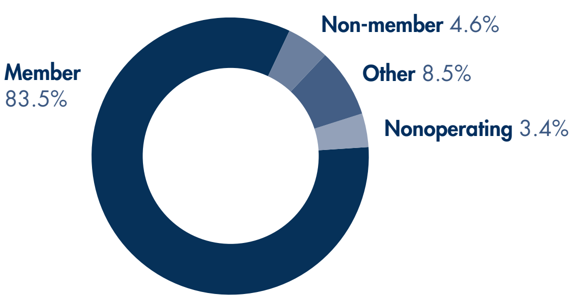
and 1.6 percent, respectively, compared to 2014 and a PCA credit of $18.6 million in 2015 compared to a PCA charge of $19.5 million in 2014. The PCA allows Great River Energy to bill or credit differences between actual and budgeted results in MISO market activity, purchased power, non-member revenue, and fuel. The 2015 PCA credit was primarily due to the net impact of favorable market prices compared to budget due to reduced megawatt hour (MWh) sales in the region as a result of unusually mild weather and due to the effect of low natural gas prices on MISO market pricing.

Electric revenue from non-members decreased $32.4 million or 41.0 percent to $46.6 million in 2015 from $79.0 million in 2014. This decrease in revenue was the result of a 25.9 percent decrease in MWh sales due to milder weather in 2015 compared to 2014 and a 32.4 percent decrease in average market energy pricing for these sales. Offsetting the decrease in energy sales was a $2.4 million increase in capacity sales in 2015 compared to 2014.

OTHER OPERATING REVENUE

Other operating revenue increased $18.7 million or 27.4 percent to $86.9 million in 2015 from $68.2 million in 2014 due primarily to increased transmission revenue from the MISO market and inter-utility transmission agreements of $12.8 million and steam sales at Spiritwood Station of $6.2 million.

2015 REVENUES



OPERATING EXPENSES

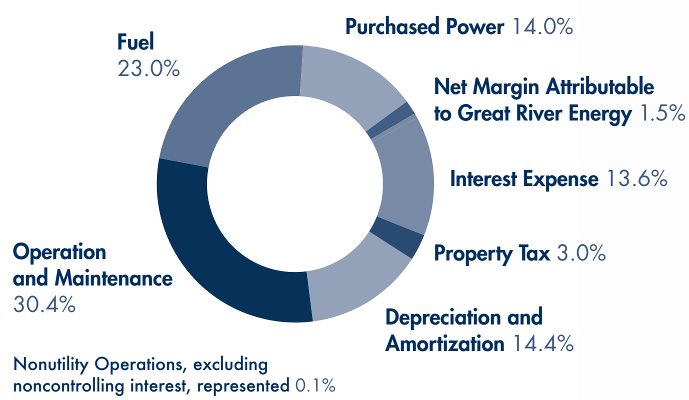
Total operating expenses for 2015 were $862.4 million, a decrease of $9.3 million or 1.1 percent from $871.7 million in 2014.

Purchased power decreased $69.6 million or 32.8 percent to $142.6 million in 2015 from $212.2 million in 2014. The decrease is due to 20.1 percent fewer MWhs purchased, the average energy price paid decreasing 19.2 percent to $30.30/MWh in 2015 compared to $37.50/MWh in 2014, and the termination of GRE's obligation to purchase energy and capacity from Genoa 3.

Fuel expense increased $9.9 million or 4.4 percent to $233.4 million in 2015 from $223.5 million in 2014. Fuel expense at Coal Creek Station (CCS) increased $6.8 million or 4.1 percent due to increased repairs and maintenance and inflationary increases at the coal mining facility. Additionally, more tons of coal were consumed per MWh generated in 2015 compared to 2014. Even though there was a scheduled major maintenance outage at CCS in 2014, the MWhs generated in 2015 were within 1.0 percent of the MWhs generated in 2014 due to the plant not always generating at full capacity during 2015 due to lower market prices. Fuel expense at Spiritwood Station increased $12.2 million due to the plant operating for the entire year in 2015. Fuel expense at the peaking plants decreased $6.5 million or 40.0 percent in 2015 compared to 2014 due to lower average natural gas prices ($2.75/MMBtu in 2015 compared to $6.55/MMBtu in 2014) and a decrease in fuel oil consumption. Increased fuel oil consumption and higher natural gas prices in 2014 were due to the unusually cold winter and natural gas delivery constraints in early 2014. Fuel expense at Stanton Station (Stanton) decreased $3.7 million or 15.1 percent in 2015 compared to 2014 due to Stanton generating 17.7 percent fewer MWhs as the plant was dispatched less often in 2015 in response to lower market prices.

Operation and maintenance expense increased $29.4 million or 10.5 percent to $309.5 million in 2015 from $280.1 million in 2014. Spiritwood Station operations and maintenance expense increased $11.3 million as the plant operated for the entire year, operational costs of meeting environmental regulations at CCS and Stanton increased $5.9 million, and Great River Energy's share of expenses associated with regional and area transmission projects owned by others within the MISO territory increased $3.8 million. Additional increases are due to increased costs associated with regulatory compliance, conservation programs, dues, professional fees, and labor and benefits. These increases were offset by a decrease in transmission expense to serve member load under inter-utility transmission agreements of $4.6 million in 2015 compared to 2014 due to a decrease in member sales.

2015 EXPENSES AND MARGIN



Depreciation and amortization increased $15.8 million or 12.1 percent to $146.3 million in 2015 from $130.5 million in 2014. Depreciation expense increased $9.7 million due to Spiritwood Station being in service for the entire year and $3.4 million due to CapX2020 projects being completed and placed in service.

FINANCIAL DISCUSSION AND ANALYSIS
CONTINUED

Property and other taxes increased $5.2 million or 20.4 percent to $30.7 million in 2015 from $25.5 million in 2014 due to the expiration of a state tax exemption for the DryFining plant investment at CCS.

OTHER INCOME (EXPENSE)

Other income – net includes income of $30.5 million recognized in 2015 from a regulatory liability that was established by the board of directors in 2013 related to the settlement of an interest rate hedge.

Interest expense – net of amounts capitalized increased $11.4 million or 9.0 percent to $138.8 million in 2015 from $127.4 million in 2014. Interest incurred on Great River Energy's long-term obligations increased $3.9 million in 2015 compared to 2014 due to a higher average outstanding long-term obligations balance during 2015 due to $350.0 million of additional debt proceeds received in 2015. Capitalized interest decreased $7.4 million in 2015 compared to 2014 due to the completion of the Spiritwood Station and CapX2020 capital projects.

NONUTILITY OPERATIONS

Nonutility operating revenue and expense represent the operations of MAG, a subsidiary of Great River Energy. MAG's operating income represents the operations of its two biorefinery plants, Blue Flint Ethanol (BFE) and Dakota Spirit AgEnergy (DSA), in 2015 and primarily BFE in 2014 as DSA was under construction during 2014. MAG's operating loss for 2015 was $1.0 million, of which $0.8 million was attributable to Great River Energy. BFE had a very good year operationally, while DSA's first year of operations produced a net operating loss due to first year start-up challenges.

In January 2011, Great River Energy entered into agreements with North Dakota Refined Coal LLC (NDRC) and its subsidiaries for the lease and operation of Great River Energy's DryFining facility. Although Great River Energy does not have any ownership interest in NDRC, it represents a variable interest entity of Great River Energy and is consolidated in the financial statements. NDRC recognized a net loss of $15.8 million and $15.1 million for the years ended December 31, 2015 and 2014, respectively.

NONCONTROLLING INTEREST

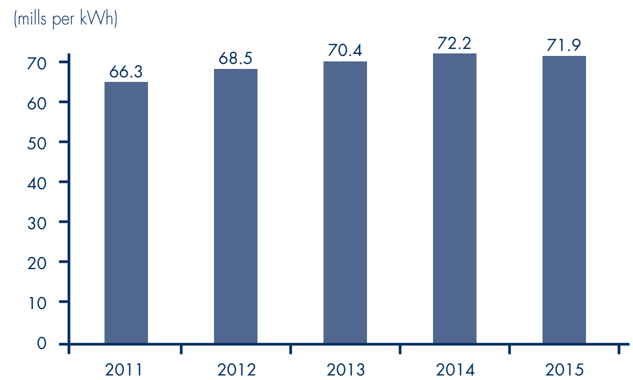
Great River Energy owns 78.43 percent of MAG and has reflected the third-party investors' 21.57 percent share of MAG's operating income as noncontrolling interest.

Because Great River Energy does not have any ownership interest, NDRC's entire net loss is reflected as noncontrolling interest.

MEMBER RATE

Great River Energy's 2015 member billed rate was 71.9 mills/kilowatt hour (kWh) compared to 72.2 mills/kWh in 2014. The 0.4 percent rate reduction was due in large part to an $18.6 million PCA credit in 2015 after a $19.5 million PCA charge in 2014.

MEMBER AVERAGE RATE PER kWh
EXCLUDING WAPA



BALANCE SHEET REVIEW

Great River Energy's total consolidated assets increased $147.8 million to $4.0 billion in 2015.

Utility plant – net increased $16.2 million to $2.8 billion in 2015. Utility plant increased due to additions related to Great River Energy's investment in transmission projects, including CapX2020, generation, asset retirement obligations, general plant, and Falkirk additions of $173.9 million. Additions were offset by depreciation of $157.7 million. Retirements for the year were $23.2 million.

Nonutility plant and equipment – net increased $24.9 million to $186.6 million in 2015 from $161.7 million in 2014 due to the continued construction of DSA during the first half of 2015. DSA commenced commercial operation in May 2015.

Other assets and investments increased $86.1 million to $446.9 million in 2015 from $360.8 million in 2014. Deferred charges-contract settlement increased $83.5 million due to the recording as a regulatory asset the cash payment made in 2015 to terminate GRE's obligation to purchase energy and capacity from Genoa 3.

Current assets increased $20.7 million to $585.0 million in 2015 from $564.3 million in 2014. Cash and cash equivalents increased $24.6 million to $268.3 million in 2015 due primarily to the receipt of debt proceeds in 2015. Materials and supplies inventory increased $3.8 million due to increased inventory at Spiritwood Station and for telecommunications. Other inventory increased $4.0 million due to increased corn and work-in-process inventory at DSA as the plant commenced operations during 2015. These increases were offset by a decrease in derivative instruments of $5.4 million to $4.1 million due to a reduction in the valuations of financial transmission rights held by Great River Energy and commodity derivatives held by MAG. Prepaids and other current assets decreased $2.9 million due to the elimination of certain prepaids associated with the Genoa 3 purchased power contract and CapX2020.

FINANCIAL DISCUSSION AND ANALYSIS

CONCLUDED

Members' capital increased $15.2 million to $554.8 million in 2015 as a result of the 2015 net margin attributable to Great River Energy. Great River Energy's equity to capitalization ratio was 16.8 percent at year end 2015.

Noncontrolling interest-subsidiary represents the capital attributable to MAG's third-party investors.

Noncontrolling interest – variable interest entity represents the capital attributable to NDRC.

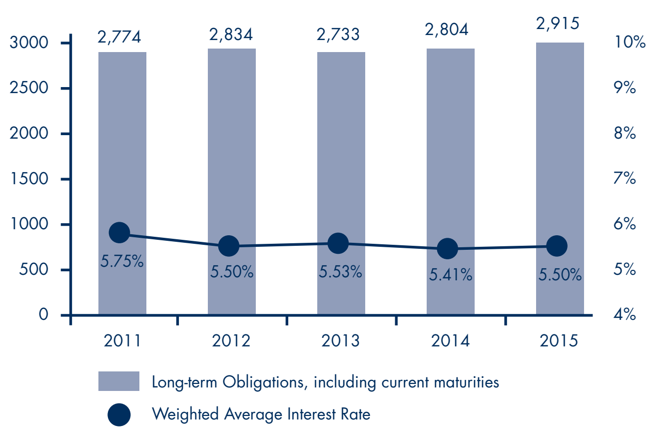
Other noncurrent liabilities increased $25.1 million to $111.6 million in 2015 from $86.5 million in 2014. This increase was due to the increase in the asset retirement obligations of $27.6 million due primarily to changes in the cost estimates and timing of final capping, reclamation, and monitoring of ash disposal sites. This increase was offset by a decrease in the defined benefit plan obligations for Great River Energy and Falkirk of $6.0 million, which is due to plan contributions and an increase in the discount rate in 2015 compared to 2014.

Regulatory liabilities decreased $43.1 million to $27.4 million in 2015 from $70.5 million in 2014. This decrease was due to the recognition of $30.5 million of income in 2015 from the interest rate hedge settlement gain and $11.8 million in deferred member electric revenue in 2015. These regulatory liabilities were originally established by the board of directors in 2013.

Long-term obligations increased $105.5 million to $2.8 billion in 2015 from $2.7 billion in 2014. The increase is due primarily to Great River Energy's draw in 2015 of the $350.0 million proceeds from the private placement debt issued in November 2014 with a delayed draw feature and additional debt issued by MAG of $51.7 million in 2015. These increases were offset by classifying to current the 2016 scheduled principal payments, reduced borrowings on the unsecured syndicated credit facility of $125.0 million, and the repayment of the $33.0 million First Mortgage Note, Series 2010C.

LONG-TERM DEBT

(dollars in millions)



Current liabilities increased $24.7 million to $413.9 million in 2015 from $389.2 million in 2014. Current portion of long-term obligations increased $5.6 million to $149.3 million in 2015 due to an increase in scheduled debt payments. Notes payable to members increased $6.7 million to $30.5 million in 2015 due to increased use of a program that allows members to deposit funds with Great River Energy in exchange for a return on investment. Other accrued liabilities and notes payable increased $12.4 million to $41.2 million in 2015 due primarily to increased accrued expenses at MAG of $9.1 million related to increased payroll and benefit related accruals and unsettled corn contracts. Derivative instruments increased $8.5 million to $36.4 million in 2015 due to an increase in the mark-to-market valuation of certain derivative instruments in a liability position at year end 2015. These increases were offset by a decrease in accounts payable of $10.0 million to $67.1 million in 2015 as MAG no longer has outstanding construction-related payables.

LIQUIDITY POSITION AND FINANCING

On a stand-alone basis, Great River Energy's year end 2015 unrestricted available liquidity of $738.5 million was comprised of cash and cash equivalents of $208.7 million and unused capacity on its existing unsecured credit facilities of $529.8 million. Great River Energy's unsecured credit facilities include a $600.0 million revolving credit agreement that expires in June 2017 and a $30.0 million line of credit with CoBank ACB (CoBank) that expires in October 2016. Great River Energy uses its unsecured credit facilities for general working capital and for financing its construction program. Great River Energy has the option to increase the revolving credit agreement to $775.0 million, subject to certain terms and conditions.

Construction borrowings on the unsecured credit facilities are repaid periodically with issuances of long-term secured debt under Great River Energy's Indenture of Mortgage, Security Agreement and Financing Statement. Since Great River Energy's 2007 prepayment of its debt under the RUS Mortgage with the issuance of the $1.3 billion Series 2007A bonds, Great River Energy has issued an additional $2.05 billion of secured debt.

Great River Energy plans to renew its revolving credit agreement in 2016 and the next planned long-term debt issuance is expected to be in 2017, which will be used to reduce its borrowings on the revolving credit facility. Utilizing existing available cash and cash equivalents, budgeted internally generated funds, and planned short-term borrowings under credit facilities, Great River Energy anticipates being able to fund planned additions and upgrades to existing generation, transmission, and other general plant facilities in 2016.

Great River Energy's financial position continues to be strong and on track to meet and exceed the financial and liquidity goals established by the board of directors. Great River Energy set a goal in 1999 to build capital to a target of 20.0 percent by 2020 under a methodical and measured plan. Great River Energy has not deviated from this goal, all while keeping rates competitive in the region. In management's view, Great River Energy is well positioned to continue making progress towards its financial and operational goals.

MANAGEMENT REPORT

TO THE BOARD OF DIRECTORS AND MEMBERS OF GREAT RIVER ENERGY:

Management is responsible for the fairness and accuracy of the financial information presented in this annual report. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgments where appropriate. Great River Energy maintains an internal accounting control system that provides reasonable assurance of the integrity and reliability of the financial statements and the protection of assets from loss or unauthorized use or disposition. Directors, who are not employees, make up the Finance and Audit Committee of the Board of Directors. The committee meets regularly with management and independent public accountants to review and discuss Great River Energy's internal accounting controls and financial reports. The independent public accountants have free access to the committee and the board of directors, without management present, to discuss the findings of their audits.

David Saggau
President and CEO
Great River Energy
Maple Grove, Minnesota
March 8, 2016

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF GREAT RIVER ENERGY

Maple Grove, Minnesota

We have audited the accompanying consolidated financial statements of Great River Energy (GRE), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in capital, and cash flows for each of the three years in the period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Midwest AgEnergy Group (MAG), a consolidated subsidiary, or The Falkirk Mining Company (Falkirk), a variable interest entity, which statements reflect total assets constituting 8% and 7% of consolidated total assets as of December 31, 2015 and 2014, respectively, and total revenues constituting 16%, 14%, and 16% of consolidated total revenues for each of the three years in the period ended December 31, 2015. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for MAG and Falkirk, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to GRE's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GRE's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GRE as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Minneapolis, Minnesota
March 8, 2016

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

ASSETS	2015	2014
UTILITY PLANT:		
Electric plant	$ 4,558,238	$ 4,292,428
Coal mine plant	345,122	345,680
Construction work in progress	58,774	173,287
Less accumulated depreciation and amortization	(2,147,318)	(2,012,729)
Utility plant—net	2,814,816	2,798,666
NONUTILITY PLANT AND EQUIPMENT—Net	186,574	161,690
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	12,140	12,526
Other investments	29,457	28,785
Deferred charges:		
Financing related	142,033	140,061
Contract settlement	83,543	
Other	142,789	143,476
Other long-term assets	34,261	32,868
Other long-term receivables—net of allowance for doubtful accounts of $0 and $100 for 2015 and 2014, respectively	2,702	3,072
Total other assets and investments	446,925	360,788
CURRENT ASSETS:		
Cash and cash equivalents	268,347	243,704
Accounts receivable:		
Members	134,116	142,487
Others—net of allowance for doubtful accounts of $0 and $1,190 for 2015 and 2014, respectively	18,984	12,704
Inventories:		
Materials and supplies	70,049	66,205
Fuel	30,633	28,900
Other	17,891	13,934
Prepaids and other current assets	15,639	18,554
Derivative instruments	4,055	9,425
Deferred income tax benefit	25,246	28,406
Total current assets	584,960	564,319
TOTAL	$ 4,033,275	$ 3,885,463

CONTINUED

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2015 AND 2014
(IN THOUSANDS)

CAPITAL AND LIABILITIES	2015	2014
CAPITAL:		
Members:		
Patronage capital	$ 554,848	$ 539,635
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	556,046	540,833
Noncontrolling interest:		
Subsidiary—MAG	19,598	22,763
Variable interest entity—NDRC	96,955	75,848
Total noncontrolling interest	116,553	98,611
Total capital	672,599	639,444
OTHER NONCURRENT LIABILITIES	111,634	86,476
REGULATORY LIABILITIES	27,395	70,496
LONG-TERM OBLIGATIONS—Less current portion	2,765,493	2,660,041
DEFERRED COMPENSATION	12,140	12,526
DEFERRED INCOME TAXES	30,161	27,246
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, and 10)		
CURRENT LIABILITIES:		
Current portion of long-term obligations	149,329	143,686
Notes payable to members	30,543	23,886
Accounts payable	67,110	77,129
Property and other taxes	26,014	25,206
Other accrued liabilities and notes payable	41,205	28,817
Accrued interest payable	63,278	62,646
Derivative instruments	36,374	27,864
Total current liabilities	413,853	389,234
TOTAL	$ 4,033,275	$ 3,885,463

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONCLUDED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(IN THOUSANDS)

UTILITY OPERATIONS	2015	2014	2013
UTILITY OPERATING REVENUE:			
Electric revenue	$ 896,112	$ 951,993	$ 917,998
Other operating revenue	86,937	68,183	62,444
Total utility operating revenue	983,049	1,020,176	980,442
UTILITY OPERATING EXPENSES:			
Purchased power	142,550	212,213	196,423
Fuel	233,361	223,523	225,680
Operation and maintenance	309,519	280,070	253,948
Depreciation and amortization	146,278	130,461	115,600
Property and other taxes	30,722	25,465	25,968
Total utility operating expenses	862,430	871,732	817,619
UTILITY OPERATING MARGIN	120,619	148,444	162,823
OTHER INCOME (EXPENSE):			
Other income—net	32,829	1,420	1,897
Interest income	1,319	1,316	1,580
Interest expense—net of amounts capitalized	(138,767)	(127,382)	(134,137)
Other expense—net	(104,619)	(124,646)	(130,660)
NET UTILITY MARGIN	16,000	23,798	32,163
NONUTILITY OPERATIONS:			
Operating revenue	188,622	165,255	190,603
Operating expense	189,646	129,882	180,576
Operating (loss) income	(1,024)	35,373	10,027
Income from equity method investments	38	215	646
Loss from variable interest entity—NDRC	(15,800)	(15,061)	(16,058)
Net nonutility operations	(16,786)	20,527	(5,385)
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(786)	44,325	26,778
NONCONTROLLING INTEREST:			
Subsidiary—MAG	199	(7,414)	
Variable interest entity—NDRC	15,800	15,061	16,058
Total noncontrolling interest	15,999	7,647	16,058
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 15,213	$ 51,972	$ 42,836

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(IN THOUSANDS)

	Patronage Capital	Memberships	Additional Paid-in Capital	Noncontrolling Interest		Total Capital
				Subsidiary—MAG	Variable Interest Entity—NDRC	
BALANCE—January 1, 2013	$ 444,827	$ 3	$ -	$ -	$ 41,883	$ 486,713
Net margin (loss) and comprehensive income (loss)	42,836				(16,058)	26,778
Capital contributed by noncontrolling interest					34,989	34,989
Dividends paid by noncontrolling interest					(771)	(771)
BALANCE—December 31, 2013	487,663	3	-	-	60,043	547,709
Net margin (loss) and comprehensive income (loss)	51,972			7,414	(15,061)	44,325
Capital contributed by noncontrolling interest—net of issuance costs			1,195	15,349	48,352	64,896
Capital distributed to noncontrolling interest					(16,704)	(16,704)
Dividends paid by noncontrolling interest					(782)	(782)
BALANCE—December 31, 2014	539,635	3	1,195	22,763	75,848	639,444
Net margin (loss) and comprehensive income (loss)	15,213			(199)	(15,800)	(786)
Capital contributed by noncontrolling interest					50,608	50,608
Capital distributed to noncontrolling interest				(2,966)	(12,915)	(15,881)
Dividends paid by noncontrolling interest					(786)	(786)
BALANCE—December 31, 2015	$ 554,848	$ 3	$ 1,195	$ 19,598	$ 96,955	$ 672,599

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(IN THOUSANDS)

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) margin, including noncontrolling interest	$ (786)	$ 44,325	$ 26,778
Adjustments to reconcile net (loss) margin to net cash provided by operating activities:			
Depreciation and amortization:			
Charged to operating expenses	146,278	130,461	115,600
Charged to fuel expense and other accounts	27,024	27,156	30,251
Income from equity method investments	(38)	(215)	(646)
Patronage credits earned from investments	(1,825)	(1,279)	(1,205)
Deferred charges	(79,219)	(11,180)	(39,075)
Regulatory liabilities	(42,234)	(2,038)	13,750
Changes in working capital (excluding cash, investments, and borrowings):			
Accounts and long-term receivables	3,422	10,046	(17,538)
Inventory and other assets	(6,676)	(15,029)	8,737
Accounts payable, taxes, and other accrued expenses	8,173	(1,895)	4,183
Accrued interest	632	(2,410)	(2,374)
Noncurrent liabilities	933	(1,793)	(6,275)
Net cash provided by operating activities	55,684	176,149	132,186
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility plant additions	(151,671)	(180,813)	(164,275)
Nonutility plant and equipment additions	(24,884)	(98,797)	
Proceeds from sale of property	219	339	348
Investment in equity method investments		(25)	
Redemption of patronage capital from investments	1,153	742	698
Net cash used in investing activities	(175,183)	(278,554)	(163,229)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term obligations	630,308	652,132	315,205
Repayments of long-term obligations	(526,451)	(585,555)	(416,726)
Proceeds from interest rate hedging instruments settlement			42,915
Cost of new debt issuances, leases, and interest rate hedging instruments	(313)	(28,405)	(474)
Borrowings on line of credit—net		(10,000)	
Notes received from (paid to) members—net	6,657	(1,083)	4,407
Capital contributed by noncontrolling interest—subsidiary—MAG		17,000	
Equity issuance costs—subsidiary—MAG		(456)	
Capital distributed to noncontrolling interest—subsidiary—MAG	(2,966)		
Variable interest entity—NDRC:			
Capital contributed by noncontrolling interest	50,608	48,352	34,989
Capital distributed to noncontrolling interest	(12,915)	(16,704)	
Dividends paid by noncontrolling interest	(786)	(782)	(771)
Net cash provided by (used in) financing activities	144,142	74,499	(20,455)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,643	(27,906)	(51,498)
CASH AND CASH EQUIVALENTS—Beginning of year	243,704	271,610	323,108
CASH AND CASH EQUIVALENTS—End of year	$ 268,347	$ 243,704	$ 271,610

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015 AND 2014, AND
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

1. ORGANIZATION

Organization—Great River Energy (GRE) is a Minnesota electric generation and transmission cooperative corporation providing wholesale electric service to member distribution cooperatives engaged in the retail sale of electricity to member consumers in Minnesota and a small section of Wisconsin. This service is provided in accordance with the terms of the power purchase and transmission service contracts between GRE and the members. These contracts have expiration dates of December 31, 2045, and December 31, 2050, respectively.

Basis of Accounting—The consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of GRE as well as the following entities:

Entity	Relationship
The Falkirk Mining Company (Falkirk)	Variable interest entity
North Dakota Refined Coal LLC (NDRC)	Variable interest entity
Midwest AgEnergy Group, LLC (MAG)	Subsidiary of GRE
Blue Flint Ethanol LLC (Blue Flint)	Subsidiary of MAG
Dakota Spirit AgEnergy Finance, LLC (DSAF)	Subsidiary of MAG
Dakota Spirit AgEnergy, LLC (DSA)	Subsidiary of DSAF

The consolidation of NDRC also includes NDRC's wholly owned subsidiaries, North Dakota Refined Coal Project Company A LLC and North Dakota Refined Coal Project Company B LLC.

All intercompany balances and transactions have been eliminated in consolidation, except for the steam sales between GRE and MAG discussed within Note 1.

Falkirk—GRE has an agreement with Falkirk for the development and operation of a lignite coal mine. Falkirk is the coal supplier for the Coal Creek Station (CCS), GRE's steam-generating facility located near Underwood, North Dakota. GRE is required to provide financing for all costs associated with the mine development and operation. Accounting principles generally accepted in the United States of America (GAAP) require GRE to consolidate Falkirk in its financial statements since Falkirk qualifies as a variable interest entity for which GRE is the primary beneficiary. The coal purchase price includes all costs incurred by Falkirk for development and operation of the mine, including Falkirk's interest expense of $2.4 million, $2.9 million, and $3.5 million in 2015, 2014, and 2013, respectively; income tax expense of $3.0 million, $3.1 million, and $2.7 million in 2015, 2014, and 2013, respectively; and net income of $12.6 million, $11.9 million, and $12.0 million in 2015, 2014, and 2013, respectively, all of which are part of the contract cost of coal purchased under the coal sales agreement. Accordingly, the net effect of consolidating the income statement of Falkirk had no impact on GRE's margin for the years ended December 31, 2015, 2014, and 2013.

Assets and liabilities of Falkirk included in the consolidated balance sheets as of December 31, 2015 and 2014, after intercompany eliminations, are as follows (in thousands):

	2015	2014
Coal mine plant	$ 296,817	$ 297,375
Construction work in progress	981	3,421
Accumulated depreciation and amortization	(165,649)	(165,035)
Deferred charges	21,921	18,768
Other long-term assets	6,547	6,662
Materials and supplies inventory	20,914	20,243
Fuel inventory	8,368	8,862
Deferred income tax benefit		1,160
Other current assets	1,774	347
Other noncurrent liabilities	38,385	35,968
Long-term obligations	43,164	50,237
Current liabilities	28,162	28,600

Falkirk is a wholly owned subsidiary of the North American Coal Corporation (NACC), which is a wholly owned subsidiary of NACCO Industries, Inc. Falkirk is principally engaged in lignite mining through the operation of a surface mine in North Dakota.

NDRC—Beginning on January 21, 2011, GRE has an agreement with NDRC, or its wholly owned subsidiaries, for the lease and operation of the DryFining facility at CCS. NDRC purchases coal from GRE under fixed pricing, refines the coal in the DryFining facility, and sells the refined coal to GRE under fixed pricing. GRE provides certain other services to NDRC under fee arrangements. The lease and related agreements have a 16-year term; however, included in the participation agreement is a purchase option to buy out the remaining term of the transaction on January 31, 2020. GAAP require GRE to consolidate its financial statements with NDRC, since NDRC qualifies as a variable interest entity for which GRE is the primary beneficiary. NDRC entered into an operating and maintenance agreement with NoDak Energy Services LLC (NoDak) to perform the day-to-day operation and maintenance of the DryFining facility. NoDak qualifies as a variable interest entity for which NDRC is the primary beneficiary. As a result, GRE is also consolidating NoDak as part of NDRC. The utility fuel operating expense in the consolidated statements of operations and comprehensive income includes a net benefit to GRE of $9.9 million, $10.2 million, and $11.4 million for the years ended December 31, 2015, 2014, and 2013, respectively, related to this agreement. This includes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

the revenue from the lease and other agreements partially offset by the costs incurred for the purchase of refined coal from NDRC. The net loss incurred by NDRC of $15.8 million, $15.1 million, and $16.1 million for the years ended December 31, 2015, 2014, and 2013, respectively, is reported as nonutility operations in the consolidated statements of operations and comprehensive income and is all attributed to the noncontrolling interest owners.

The agreements include various operational metrics, such as minimum requirements on the tons of refined coal purchased by GRE and the achievement of qualified emission reductions. In the event that the operational metrics are not met over the life of the transaction, GRE may be required to pay specified amounts to NDRC at transaction termination. No liability has been recorded by GRE in the consolidated financial statements related to these operational metrics as of December 31, 2015 and 2014.

Assets and liabilities of NDRC included in the consolidated balance sheets as of December 31, 2015 and 2014, after intercompany eliminations, are as follows (in thousands):

	2015	2014
Cash	$ 4,519	$ 4,436
Prepaids	72	71
Current liabilities	341	387

JPM Capital Corporation and WM Refined Coal, LLC hold a 55% and 45% membership interest, respectively, in NDRC. NoDak is a wholly owned subsidiary of TRU Global Energy Services LLC, a wholly owned subsidiary of NACC.

MAG — GRE is a 78.43% owner in MAG. During 2014, in exchange for a 21.57% ownership interest, GRE transferred 17,000 ownership units to third-party investors for $17.0 million.

MAG has two wholly owned subsidiaries, Blue Flint and DSAF.

Blue Flint operates an ethanol biorefinery facility located in Underwood, North Dakota. Blue Flint has a production capacity of approximately 65 million gallons of undenatured ethanol per year. Blue Flint is a dry-mill production facility that produces and sells ethanol, dry and modified distillers grain, and distillers oil.

DSAF's wholly owned subsidiary, DSA, completed construction in 2015 of a biorefinery facility located near Jamestown, North Dakota. DSA is a dry-mill production facility that produces and sells ethanol, dry and modified distillers grain, and distillers oil, and has a production capacity of approximately 65 million gallons of undenatured ethanol per year.

Blue Flint purchases steam and water under a long-term contract from CCS, and DSA purchases steam and water under a long-term contract from Spiritwood Station for use in the production of ethanol and related products. Steam and water purchases were $9.4 million, $5.5 million, and $5.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. The sale of steam and water by CCS and Spiritwood Station is recorded as utility other operating revenue, and the purchase by Blue Flint and DSA is recorded as nonutility operating expense. This transaction was not eliminated in consolidation for 2015, 2014, and 2013.

Utility net margin and nonutility operating (loss) income as of December 31, 2015, 2014, and 2013, would be as follows had this transaction been eliminated (in thousands):

	2015		2014		2013	
	As Presented	With Elimination	As Presented	With Elimination	As Presented	With Elimination
Net utility margin	$ 16,000	$ 6,650	$ 23,798	$ 18,256	$ 32,163	$ 26,564
Nonutility operating (loss) income	(1,024)	8,326	35,373	40,915	10,027	15,626
Total	$ 14,976	$ 14,976	$ 59,171	$ 59,171	$ 42,190	$ 42,190

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulatory Accounting — As the board of directors sets rates on a cost-of-service basis, GRE follows GAAP related to the effects of certain types of regulation, which provide for the reporting of assets and liabilities consistent with the economic effect of the rate structure. As such, regulatory assets are recorded to reflect probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities are recorded to reflect probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. For further information, see Note 11.

Public Business Entity — GRE believes it meets the definition of a public business entity due to the issuance of debt securities that are traded on an over-the-counter market.

Cash and Cash Equivalents — Cash equivalents include all highly liquid investments with original maturities of three months or less (e.g., money market funds). Certain cash and cash equivalents are classified as investments when they relate to trust funds held for long-term purposes.

Supplemental Cash Flow Information — Supplemental cash flow information for the years ended December 31, 2015, 2014, and 2013, is as follows (in thousands):

	2015	2014	2013
Supplemental disclosure of cash flow information:			
Cash paid for interest—net of amounts capitalized	$ 148,384	$ 139,011	$ 144,429
Cash paid for taxes—Falkirk	$ 3,825	$ 3,201	$ 1,759
Noncash investing and financing activities:			
Utility and nonutility plant acquisitions included in accounts payable	$ 8,576	$ 22,601	$ 8,375
Utility plant acquired under capital lease	$ 5,336	$ 3,397	$ 1,264

Interest on borrowed funds in the amount of $5.8 million, $14.2 million, and $8.4 million was capitalized in 2015, 2014, and 2013, respectively, and these amounts are excluded from the cash payments for interest noted above.

Inventories — Fuel inventory is carried at average cost and includes coal, lime, oil, and gas used for electric generation. Other inventory represents corn, chemicals, ethanol, and distillers grain inventory held at MAG. Corn and chemical inventory is stated at the lower of cost (on the first-in, first-out method) or market. Ethanol and distillers grain inventory is stated at the lower of cost (average monthly cost) or market. Materials and supplies inventory is stated at the lower of average cost or market.

Emission allowances are also accounted for as fuel inventory and recorded at the lower of cost or market. The U.S. Environmental Protection Agency (EPA) has requirements limiting the amount of sulfur dioxide (SO2) and nitrogen oxides (NOx) that can be emitted from GRE-owned power plants. Under the Acid Rain Program, GRE was allotted one emission allowance per ton of SO2 emissions based upon historic emission levels. Beginning in 2015, under the Cross-State Air Pollution Rule program, GRE is allotted SO2 and NOx emission allowances based upon historic emission levels. Renewable energy credits (RECs) are either purchased or acquired in the course of generation, or purchased as a result of meeting load obligations, and are recorded as fuel inventory at cost. GRE's allowances and RECs in inventory have a recorded cost of $0 at both December 31, 2015 and 2014.

Utility Plant — Utility plant is stated at original cost, which includes materials, contract and direct labor, overhead, and interest during construction. Interest charged to construction on borrowed funds are included as a component of utility plant cost and credited to interest expense. The rates applied reflect the actual rates for borrowed funds. Repairs and maintenance are charged to operations as incurred.

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When generation and transmission assets are retired, sold, or otherwise disposed of, the original cost, plus the cost of removal, less salvage, is charged to accumulated depreciation and the corresponding gain or loss is amortized over the remaining life of the plant. Included in accumulated depreciation are retired assets totaling $(42.0) million and $(44.0) million at December 31, 2015 and 2014, respectively, that will continue to be amortized. Also included in accumulated depreciation are nonlegal or noncontractual costs of removal components in the amount of $53.4 million and $50.7 million for 2015 and 2014, respectively. When other property assets are retired or sold, the cost and related accumulated depreciation are eliminated and any gain or loss is reflected in depreciation expense.

Depreciation and Amortization — Depreciation for financial reporting purposes is provided based upon the straight-line method at rates designed to amortize the original cost of properties over their estimated service lives. The effective depreciation rate was 3.1%, 3.0%, and 2.9% for 2015, 2014, and 2013, respectively. The range of useful lives for utility plant is three to 50 years. Coal mine equipment is amortized using a straight-line method over the estimated useful lives. Amortization of coal lands and leaseholds is calculated on the units-of-production method based upon estimated recoverable tonnages and is included in utility fuel expense in the consolidated statements of operations and comprehensive income. Amortization expense also includes the amortization of bond discounts, accretion expense related to asset retirement obligations, and the amortization of deferred charges, except as described in Note 11.

Nonutility Plant and Equipment — Net — Nonutility plant and equipment represents the plant and equipment assets of MAG. Depreciation for financial reporting purposes is provided based upon the straight-line method. The range of useful lives for nonutility plant and equipment is three to 40 years.

A summary of nonutility plant and equipment as of December 31, 2015 and 2014, is as follows (in thousands):

	2015	2014
Land improvements	$ 16,166	$ 7,621
Buildings and improvements	36,869	15,000
Plant equipment and other	150,583	41,311
Construction work in progress	1,179	108,570
Less accumulated depreciation	(18,223)	(10,812)
	$ 186,574	$ 161,690

Recoverability of Long-Lived Assets — GRE reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. GRE determines potential impairment by comparing the carrying value of the asset with the net cash flows expected to be provided by the operating activities of the business or related products. Should the sum of the expected cash flows be less than the carrying values, GRE would determine whether an impairment loss should be recognized. No impairment losses have been identified in the consolidated financial statements.

Income Taxes — GRE accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for temporary differences between the tax and financial reporting bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. GRE establishes a regulatory asset or liability to account for the difference between GRE's deferred tax assets or liabilities. A regulatory asset or liability associated with deferred income taxes generally represents the future increase or decrease in income taxes payable that will be received or settled through future rate increases.

Members' Patronage Capital — Revenues in excess of current-period costs (net margin attributable to GRE) in any year are designated as assignable margins. These assignable margins are considered capital furnished by the members and are credited to the members' individual accounts. Assignable margins are held by GRE until they are retired and returned, without interest, at the discretion of the board of directors and subject to long-term obligation agreement restrictions (see Note 5). Retained assignable margins are designated as patronage capital in the consolidated balance sheets.

Use of Estimates — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates in the consolidated financial statements relate to key inputs to actuarial calculations of defined benefit obligations, compensation and benefit accruals, asset retirement obligation liabilities, accrued property and other taxes, useful lives of utility and nonutility plant, recoverability of deferred tax assets, and contingencies and other reserves. Actual results could differ from those estimates.

Revenue Recognition — Electric revenue is recognized when energy is delivered to GRE's members or to other non-member organizations. The GRE rate schedule includes a power cost adjustment that allows for increases or decreases in member power billings based upon actual power costs compared to plan. For 2015 and 2013, the power cost adjustments were credits to GRE members of $18.6 million and $10.2 million, respectively. For 2014, the power cost adjustment was a charge of $19.5 million. Credits or charges are recorded as a decrease or increase, respectively, in electric revenue in the consolidated statements of operations and comprehensive income. In 2015 and 2014, GRE recognized deferred member electric revenue of $11.7 and $2.0 million, respectively, under regulatory accounting. The revenue was originally deferred as a liability under regulatory accounting in 2013 (see Note 11).

Other Operating Revenue — Other operating revenue includes: revenue related to the processing plant that transforms municipal solid waste into refuse-derived fuel; revenue received from other utilities related to providing transmission service under various integrated transmission agreements; and revenue from the sale of utility plant byproducts, such as steam and fly ash. Other operating revenue is recorded as services are provided.

Nonutility Operations — Nonutility operating revenue and expense represent MAG consolidated operations for the years ended December 31, 2015 and 2014, and solely Blue Flint operations for the year ended December 31, 2013. Except for interest expense, MAG's subsidiaries, DSAF and DSA, had minimal operations during 2014. Revenue from the production of ethanol and related products is recorded at the time the title of the goods and all risks of ownership transfer to customers and settlement price is realizable. Transfer of ownership generally occurs when the risk of loss is assumed by the customer.

Subsequent Events — GRE has considered subsequent events for recognition or disclosure through March 8, 2016, the date the consolidated financial statements were available to be issued.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. GRE is in the process of evaluating the guidance in this ASU and has not yet determined if the adoption of this guidance will have a material impact on GRE's consolidated financial statements. In August 2015, the FASB issued Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 is effective for GRE in 2018.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which amends the consolidation requirements in ASC 810, *Consolidations*, and significantly changes the consolidation analysis required under GAAP. GRE is still in the process of evaluating the guidance in this ASU, but does not believe that the adoption of this guidance will have a material impact on GRE's consolidated financial statements. These amendments are effective for GRE in 2016.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under this ASU, GRE will present debt issue costs in the consolidated balance sheet as a direct deduction from the related debt liability rather than as an asset and the amortization of these costs will be reported as interest expense. This standard is effective for GRE in 2016.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. This standard requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. GRE is still in the process of evaluating the guidance in this ASU, but does not believe that the adoption of this guidance will have a material impact on GRE's consolidated financial statements. This standard is effective for GRE in 2016.

In August 2015, the FASB issued ASU 2015-13, *Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)*. The ASU amends ASC 815 to clarify the application of the normal purchases and normal sales (NPNS) scope exception to purchases or sales of electricity on a forward basis that are transmitted through, or delivered to a location within, a nodal energy market. For a derivative contract to be classified as NPNS, the contract cannot settle net and must result in physical delivery. Under ASU 2015-13, a forward contract to purchase or sell — at a specified location — electricity that must be transmitted through or delivered to a grid operated by an independent system operator may qualify for the NPNS scope exception. This standard was effective for GRE in 2015 and its adoption did not have a material effect on the consolidated financial statements.

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In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. The standard requires GRE to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The adoption of this standard will result in GRE netting its current deferred tax assets with its noncurrent current liabilities for a net presentation as noncurrent. This standard is effective for GRE in 2017.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. GRE is still in the process of evaluating the impact this guidance will have on GRE. This standard is effective for GRE in 2019.

4. LEASING TRANSACTIONS

Operating Leases — GRE is the lessee on various operating leases for equipment used in its operations. These transactions are governed by the terms of various master lease agreements. The lease term of each leased item is determined at the time it is added to its respective master lease. Original lease terms ranged from 60 to 120 months. Falkirk is the lessee on various short-term operating leases for equipment. MAG is the lessee on operating leases for railroad cars, equipment, and land, with terms expiring at various times through 2025 for the railroad cars and equipment and 2045, with options to renew, for the land. Lease expense was $11.8 million, $5.6 million, and $4.0 million in 2015, 2014, and 2013, respectively.

The schedule of GRE and MAG's future minimum lease payments as of December 31, 2015, is as follows (in thousands):

YEARS ENDING DECEMBER 31	MAG	GRE
2016	$ 10,070	$ 953
2017	9,101	887
2018	8,873	859
2019	7,470	730
2020	5,743	469
Thereafter	37,776	1,169
	$ 79,033	$ 5,067

Capital Leases — GRE was the lessee of a dragline used in the Falkirk coal mining operations. The lease expired in 2015 and GRE purchased the asset for $1. The principal and interest payments were $0.8 million and $1.6 million for 2015 and 2014, respectively.

GRE entered into an agreement as the lessee of railroad cars to be used in the future operation of the Spiritwood Station generation facility. The lease expires in 2020. The gross amount of the lease was $7.6 million, with accumulated amortization of $4.1 million and $3.4 million at December 31, 2015 and 2014, respectively. The principal and interest payments were $1.1 million for both 2015 and 2014.

Falkirk has also leased certain equipment that is used in mining operations. The gross amount of these leases was $118.7 million and $129.5 million and the accumulated amortization was $56.9 million and $61.2 million as of December 31, 2015 and 2014, respectively. These amounts are recorded in coal mine plant and accumulated depreciation and amortization in the consolidated balance sheets.

The schedule of future minimum lease payments for GRE and Falkirk leases as of December 31, 2015, is as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2016	$ 18,385	$ 1,056
2017	14,772	1,056
2018	12,413	1,056
2019	11,782	1,056
2020	3,164	264
Thereafter	3,428	
Total minimum lease payments	63,944	4,488
Amounts representing interest	(4,172)	(606)
Present value of minimum lease payments	59,772	3,882
Current maturities	(16,608)	(814)
Long-term capital lease obligations—net	$ 43,164	$ 3,068

The current and long-term portions of the capital lease obligations are included in current portion of long-term obligations and long-term obligations in the consolidated balance sheets (see Note 5).

5. LONG-TERM OBLIGATIONS

The consolidated long-term obligations as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
First Mortgage Bonds, Series 2007A, 5.829%, due 2016–2017	$ 97,900	$ 148,600
First Mortgage Bonds, Series 2007A, 6.254%, due 2018–2038	739,100	739,100
First Mortgage Bonds, Series 2008A, 7.233%, due 2016–2038	351,770	358,698
First Mortgage Bonds, Series 2008B, 1.96%, due 2016–2023	13,333	15,000
First Mortgage Notes, Series 2009A, 5.0% to 7.15%, due 2016–2024	80,600	93,200
First Mortgage Bonds, Series 2009B, 5.81% to 6.94%, due 2016–2031	345,000	365,000
First Mortgage Note, Series 2010A, 4.875%, due 2026	23,000	23,000
First Mortgage Note, Series 2010B, 5.15%, due 2040	50,000	50,000
First Mortgage Note, Series 2010C, 3.5%, due 2038		33,000
First Mortgage Bonds, Series 2010D, 4.478%, due 2016–2030	364,500	372,000
First Mortgage Note, Series 2014A, 2.84%, due 2016–2021	85,000	100,000
First Mortgage Note, Series 2014B, LIBOR plus 1.15%, 1.57% at December 31, 2015, due 2033–2038	100,000	100,000
First Mortgage Note, Series 2015A, 3.76%, due 2021-2028	100,000	
First Mortgage Note, Series 2015B, 4.11%, due 2028-2035	100,000	
First Mortgage Note, Series 2015C, 4.62%, due 2036-2044	100,000	
First Mortgage Note, Series 2015D, 4.70%, due 2036-2044	50,000	
Syndicated Credit Facility, National Rural Utilities Cooperative Finance Corp,		
LIBOR plus 1.25%, 1.68% at December 31, 2015, due 2017	60,000	210,000
ABR plus 3.5%, 4.0% at December 31, 2015, due 2017	25,000	
Department of Energy, 0%, due 2016–2028, 5.2% to 6.1% imputed interest	5,525	5,993
Term Note, LIBOR plus 1.375%, 1.545% at December 31, 2015, due 2016–2019	5,000	7,000
Term Note, 2.35%, due 2016–2019	3,395	4,300
Term Note, 2.55%, due 2016–2019	2,906	3,681
Capitalized lease obligations, mining equipment, 6.3% imputed interest		1,527
Capitalized lease obligations, Spiritwood Station coal cars, 6.9% imputed interest	3,882	4,643
Capitalized lease obligations, Falkirk Mine, 1.2% to 5.9% imputed interest	59,772	67,768
Term Note, Blue Flint, 5.8%, due 2016–2021	11,077	12,923
Term Note, Blue Flint, LIBOR plus 3.75%, 3.92% at December 31, 2015, due 2016–2021	8,499	10,253
Term Note, DSAF, EB-5 Program, 7%, due 2019	75,000	75,000
Term Note, DSA, LIBOR plus 5.00%, 5.197% at December 31, 2015, due 2016–2023	45,000	10,225
Revolver Note, DSA, LIBOR plus 5.00%, 5.197% at December 31, 2015, due 2024	15,000	
Other—at various rates and maturities	6,495	6,194
Less unamortized bond discount	(11,932)	(13,378)
	2,914,822	2,803,727
Current maturities	(149,329)	(143,686)
Long-term obligations—net	$ 2,765,493	$ 2,660,041

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GRE issues secured debt under an Indenture of Mortgage, Security Agreement, and Financing Statement (Indenture). The Indenture requires GRE to establish and collect rates reasonably expected to yield a specified margins-for-interest level. Under the Indenture, GRE has limitations on the retirement of patronage capital if, after the distribution, an event of default would exist or GRE's members' capital would be less than 20% of total long-term debt and members' capital. Substantially all of the tangible assets of GRE and the power purchase and transmission service contracts with the members (see Note 1) are pledged as security under the Indenture.

The fixed interest rate on the First Mortgage Note, Series 2008B resets every five years and the First Mortgage Note, Series 2014B debt agreement has a feature that allows GRE to periodically change how the variable rate is determined or change to a fixed interest rate option, at its election, subject to the applicable provisions in the debt agreement.

GRE has a $600.0 million unsecured revolving credit facility for which National Rural Utilities Cooperative Finance Corporation (CFC) is the administrative agent. This facility expires in June 2017. This facility can be increased, at GRE's option, to $775.0 million subject to certain terms and conditions. At December 31, 2015 and 2014, the outstanding balance of this facility was $85.0 million and $210.0 million, respectively. These amounts are recorded in long-term obligations in the consolidated balance sheets. GRE also has an unsecured line of credit facility with CoBank, ACB (CoBank) for $30.0 million. This facility's terms and conditions are renewable annually, and the principal balance must be paid in full within one business day of expiration, unless unilaterally extended by CoBank. This facility expires in October 2016. There were no amounts outstanding on this facility at December 31, 2015 and 2014.

GRE is subject to a number of customary covenants under the Indenture, other debt agreements, and the revolving credit facility.

Blue Flint has a revolving line of credit with a limit of $14.0 million that expires on December 31, 2016, and a seasonal line of credit with a limit of $10.0 million that expires in July 2016. There were no amounts outstanding under both facilities at December 31, 2015 and 2014.

Substantially all of the assets of Blue Flint are pledged as security under the Blue Flint Term Notes. DSAF's and DSA's term notes are collateralized by substantially all of the assets of DSA. Blue Flint, DSAF, and DSA are subject to a number of restrictive covenants under the debt agreements. DSA was not in compliance with one financial covenant during 2015 and its lender waived the compliance requirement until the measurement period ending December 31, 2016.

Future maturities on long-term obligations as of December 31, 2015, are as follows (in thousands):

YEARS ENDING DECEMBER 31	
2016	$ 149,329
2017	233,945
2018	144,148
2019	227,312
2020	143,992
Thereafter	2,016,096
	$2,914,822

6. INVESTMENTS

GRE's investments as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	**2014**
Other investments:		
Capital term certificates—CFC	$ 19,644	$ 19,644
Cooperative investment patronage allocations	9,813	9,141
Total other investments	29,457	28,785
Restricted investments—investments for deferred compensation	12,140	12,526
	$ 41,597	$ 41,311

The capital term certificates bear interest ranging from 5% to 7.5% and a portion of them are required under borrowing arrangements with CFC. At December 31, 2015, GRE had no commitments to purchase additional capital term certificates from CFC. Capital term certificates are classified as held to maturity and reported at amortized cost using the specific identification method.

GRE's cooperative investment patronage allocations are reported at cost plus allocated equities.

GRE's investments held for deferred compensation are reported at fair value (see Note 7).

The investments reported at amortized cost at December 31, 2015 and 2014, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2015				
Long-term investments—held-to-maturity securities—capital term certificates	$ 19,644	$ -	$ -	$ 19,644
2014				
Long-term investments—held-to-maturity securities—capital term certificates	$ 19,644	$ -	$ -	$ 19,644

The capital term certificates have maturities greater than 10 years.

Interest income received on all investments was $1.3 million, $1.3 million, and $1.6 million in 2015, 2014, and 2013, respectively.

7. DERIVATIVE INSTRUMENTS

As part of its risk management program, GRE may periodically use interest rate swaps and swaptions to manage market exposures. Terms and tenor of the swap and swaption agreements are generally structured to match the terms of the risk being managed. Mark-to-market gains and losses related to the interest rate hedging agreements are deferred as regulatory assets or liabilities until the execution of the related debt transaction and the agreements are settled. The amount paid or received at settlement is then deferred as a regulatory asset or liability and amortized to the consolidated statements of operations and comprehensive income as a component of interest expense over the term of the related debt issuance.

During 2013, GRE terminated certain interest rate swaps and a swaption as these instruments were considered less effective hedges in the management of interest rate exposure due to delays in the anticipated timing of forecasted debt issuances. The proceeds from the termination of these instruments, less fees and the swaption premium, of $36.2 million are deferred as a regulatory liability. As the termination of these instruments did not coincide with a related debt issuance, the net proceeds will be amortized to the consolidated statements of operations and comprehensive income under regulatory accounting as determined by the board of directors. GRE recognized $30.5 million as other income in 2015.

GRE is exposed to credit risk as a result of entering into these interest rate hedging agreements. Interest rate hedging contracts entered into by GRE are governed by an International Swap Dealers Association Master Agreement. As of December 31, 2015, all of the counterparties with transaction amounts outstanding under GRE's hedging program are rated investment grade by the major rating agencies. The contractual agreements contain provisions that could require GRE or the counterparty to post collateral or credit support. No amounts have been posted by GRE or the counterparties as of December 31, 2015 and 2014.

See additional information regarding the fair value of these instruments in Note 8 and amounts recorded in deferred charges and regulatory liabilities in Note 11.

GRE enters into contracts for the purchase and sale of commodities for use in its business operations. GAAP require an evaluation of these contracts to determine whether the contracts are derivatives. Certain contracts that meet the definition of a derivative may be exempted from derivative accounting as normal purchases or normal sales. GRE evaluates all of its contracts at inception to determine if they are derivatives and if they meet the normal purchases and normal sales designation requirements. All of the contracts for the purchase and sale of commodities used in business operations, with a few limited exceptions, qualify for a normal purchases or normal sales designation. The commodity contracts that do not qualify for a normal purchases or normal sales designation are recorded at fair value, and the gains or losses are deferred as regulatory assets or liabilities. The realized gains and losses on settled commodity derivatives, which include exchange-traded futures contracts and financial transmission rights, are recognized as purchased power. See additional information regarding the fair value of these derivatives in Note 8.

MAG enters into derivative transactions to hedge its exposure to commodity price fluctuations. In connection with the execution of forward commodity contracts, MAG normally elects to create a hedging relationship by executing an exchange-traded futures contract as an offsetting position. In this situation, the forward commodity contract is valued at market price until delivery is made against the contract. MAG does not enter into derivative transactions for trading purposes.

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MAG's derivative gains (losses) included in the consolidated statements of operations and comprehensive income for the years ended December 31, 2015, 2014, and 2013, are as follows (in thousands):

	2015	2014	2013
Realized and unrealized gains (losses) recognized from undesignated hedges:			
Nonutility operating revenue	$ 1,552	$ (10,827)	$ (9,126)
Nonutility operating expenses	1,939	(30)	2,348

MAG is exposed to credit and market risk as a result of entering into these contracts. MAG manages the credit risk by entering into transactions with high-quality counterparties. Futures contracts entered into by MAG are governed by an International Swap Dealers Association Master Agreement. MAG manages market risk associated with commodity price contracts by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Actual results could materially differ based on the changes in commodity prices.

The location and fair value of GRE's and MAG's derivative instruments in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows (in thousands):

	Balance Sheet Location	2015	2014
Derivatives in an asset position, none of which are designated as hedging instruments:			
Interest rate contracts	Derivative instruments	$ 133	$ 147
Commodity contracts	Derivative instruments	3,922	9,278
Total derivative instrument assets		$ 4,055	$ 9,425
Derivatives in a liability position, none of which are designated as hedging instruments:			
Interest rate contracts	Derivative instruments	$ 33,782	$ 23,574
Commodity contracts	Derivative instruments	2,592	4,290
Total derivative instrument liabilities		$ 36,374	$ 27,864

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provide for required disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

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A description of the inputs used in the valuation of assets and liabilities is as follows:

Level 1—Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2—Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets, quoted prices for identical assets or liabilities exchanged in inactive markets, and other inputs that are considered in fair value determinations of the assets or liabilities.

Level 3—Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. GRE's policy is to recognize significant transfers between levels at December 31.

A summary of the assets and liabilities at fair value at December 31, 2015 and 2014, set forth by level within the fair value hierarchy, is as follows (in thousands):

	Assets at Fair Value as of December 31, 2015			
	Total	**Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash equivalents—money market funds	$ 152,834	$ 152,834	$ -	$ -
Restricted investments—deferred compensation:				
Money market funds	2,688	2,688		
Mutual funds:				
Domestic stock funds	4,954	4,954		
Balanced funds	1,768	1,768		
Fixed income funds	891	891		
International stock funds	1,839	1,839		
Interest rate contracts	133		133	
Commodity derivatives	3,922	3,567	355	
Total assets	$ 169,029	$ 168,541	$ 488	$ -
Liabilities:				
Interest rate contracts	$ 33,782	$ -	$ 33,782	$ -
Commodity derivatives	2,592	572	2,020	
Total liabilities	$ 36,374	$ 572	$ 35,802	$ -

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	Assets at Fair Value as of December 31, 2014			
	Total	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents—money market funds	$ 141,921	$ 141,921	$ -	$ -
Restricted investments—deferred compensation:				
Money market funds	2,442	2,442		
Mutual funds:				
Domestic stock funds	5,448	5,448		
Balanced funds	1,897	1,897		
Fixed income funds	1,222	1,222		
International stock funds	1,517	1,517		
Interest rate contracts	147		147	
Commodity derivatives	9,278	9,246	32	
Total assets	$ 163,872	$ 163,693	$ 179	$ -
Liabilities:				
Interest rate contracts	$ 23,574	$ -	$ 23,574	$ -
Commodity derivatives	4,290	1,549	2,741	
Total liabilities	$ 27,864	$ 1,549	$ 26,315	$ -

For the years ended December 31, 2015 and 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

Money Market Accounts — Fair value is determined using quoted prices in active markets for identical assets.

Mutual Funds — Shares of registered investment companies (mutual funds) are categorized as Level 1; they are valued at quoted market prices available on an active clearing exchange for identical assets.

Interest Rate Contracts — Fair value is determined by comparing the difference between the net present value of the cash flows for the swaps at their initial fixed rate and the current market fixed rate. The initial fixed rate is quoted in the swap agreement and the current market fixed rate is corroborated by observable market data and categorized as Level 2.

Commodity Derivatives — Exchange-traded futures contracts and financial transmission rights are valued at active quoted market prices and are categorized as Level 1. Fair value for forward contracts is determined by comparing the difference between the net present value of the cash flows at the initial price and the current market price. The initial price is quoted in the contract and the market price is corroborated by observable market data. These contracts are categorized as Level 2.

GRE continuously monitors the creditworthiness of the counterparties to its derivative contracts and assesses the counterparties' ability to perform on the transactions set forth in the contracts. Liability positions are generally not adjusted, as GRE has the ability and intent to perform under each of the contracts. In the instance of asset positions, GRE considers: general market conditions and the observable financial health and outlook of specific counterparties; forward-looking data, such as credit default swaps, when available; and historical default probabilities from credit rating agencies in evaluating the potential impact of nonperformance risk to derivative positions. Given this assessment, when determining the fair value of derivative assets, the impact of considering credit risk was immaterial to the fair value of derivative assets presented in the consolidated balance sheets.

The estimated fair values of financial instruments carried at cost, other than capital leases, at December 31, 2015 and 2014, are as follows and are provided for disclosure purposes only (in millions):

	2015		2014	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Long-term receivables	$ 2.7	$ 2.7	$ 3.1	$ 3.1
Long-term obligations	2,851.2	3,169.9	2,729.8	3,282.9

The estimated fair values of long-term receivables and long-term obligations, other than capital leases, were based on present value models using current rates available for similar issues with similar credit ratings. These fair value measurements would be characterized as Level 2.

The carrying amounts of remaining financial instruments included in current assets and current liabilities approximate their fair value. For other investments—capital term certificates, the carrying amount is assumed to approximate fair value as these instruments generally must be held as a condition of financing.

9. INCOME TAXES

GRE is a nonprofit taxable cooperative subject to federal and state income taxation and is allowed a deduction for margins allocated to members as patronage capital.

GRE had no regular federal income tax expense during 2015, 2014, or 2013 due to a net tax loss position. This net tax loss position was primarily the result of the allocation of margins to members, tax depreciation in excess of depreciation recorded for financial reporting purposes, and the deduction of certain costs for income tax reporting purposes, which were deferred for financial reporting purposes.

The consolidated deferred income taxes as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Current deferred income tax asset—net:		
GRE current deferred income tax assets—net	$ 25,769	$ 27,246
GRE valuation allowance	(523)	
Falkirk current deferred income tax assets—net		1,160
Total current deferred income tax asset—net	$ 25,246	$ 28,406
Noncurrent deferred income tax asset—net:		
Falkirk long-term deferred income tax assets	$ 16,682	$ 14,965
Falkirk long-term deferred income tax liabilities	(11,952)	(11,726)
Total noncurrent deferred income tax asset—net	$ 4,730	$ 3,239
Noncurrent deferred income tax liability—net:		
GRE long-term deferred income tax assets	$ 188,435	$ 184,300
GRE long-term deferred income tax liabilities	(215,285)	(211,060)
GRE valuation allowance	(3,311)	(486)
Total noncurrent deferred income tax liability—net	$ (30,161)	$ (27,246)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The noncurrent deferred income tax asset—net is recorded in deferred charges—other in the consolidated balance sheets.

These deferred income taxes result from differences in the recognition of accounting transactions for tax and financial reporting purposes. The primary temporary differences relate to depreciation, the sale and leaseback transaction that originated in 1996 and terminated in 2008, deferred charges, retirement benefits, and certain financial reserves not deductible for tax purposes until paid.

As of December 31, 2015, GRE had a federal net operating loss (NOL) of $415.7 million that can be used to offset taxable income in the carryforward period. These NOLs expire in varying amounts from 2022 through 2035. GRE also has a tax credit carryforward of $7.8 million and a prepaid alternative minimum tax (AMT) credit of $0.6 million. The tax credits expire in varying amounts from 2024 through 2035, while the AMT credit has no expiration.

There were no uncertain tax positions that were material to GRE's results of operations or financial position, and GRE does not expect any change to these positions in the next 12 months.

In the ordinary course of business, there is inherent uncertainty in quantifying GRE's income tax positions. GRE assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more likely than not that a tax benefit will be sustained, GRE records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the consolidated financial statements. Where applicable, associated interest and penalties will also be recognized.

GRE is currently under examination by the Internal Revenue Service for taxable year 2012. GRE does not anticipate any material adjustments as a result of the IRS audit, and based on the technical merits of positions taken on the 2012 tax return, believes it is more likely than not that the positions will be sustained.

GRE has determined that its taxable years ended December 31, 2011, 2013, 2014 and 2015, are still subject to examination under federal tax statutes. GRE has completed examinations by the Internal Revenue Service of taxable years ended December 31, 2009 and 2010. GRE's taxable years ended December 31, 2009 through 2015, are still subject to examination under state tax statutes.

Tangible Property Regulations — The U.S. Department of Treasury issued final regulations addressing the tax consequences associated with amounts paid to acquire, produce, or improve tangible property, which were effective for GRE for 2014. The adoption of the provisions of the final regulations had no material impact on the consolidated financial statements.

10. PENDING LITIGATION, CONTINGENCIES, AND COMMITMENTS

Midcontinent Independent System Operator (MISO) — GRE is a member of the MISO market, and due to the nature of the market, various disputes and resettlements have taken place and some are still in process. It is the opinion of management that the resolution of the various open MISO disputes and resettlements will not have a material effect on the consolidated financial position, results of operations, or cash flows.

Litigation — GRE is involved in various legal actions arising in the normal course of business. It is the opinion of management that the resolution of such actions will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Future Commitments — GRE is committed to the following estimated expenditures under the various contracts discussed below (in millions):

	2016	2017	2018	2019	2020	Thereafter	Total
Dairyland Power Cooperative	6.1	6.1	6.1	2.5			20.8
Wind energy purchases	67.4	67.4	67.7	67.4	67.4	1,125.2	1,462.5
Other purchased power	30.5	30.6	30.7	31.0	31.3	898.4	1,052.5
Construction contract	21.4	37.4	38.7	36.0			133.5
Fuel contracts	9.1	7.8	7.9	8.1			32.9
	$ 134.5	$ 149.3	$ 151.1	$ 145.0	$ 98.7	$ 2,023.6	$ 2,702.2

Dairyland Power Cooperative — GRE had a power agreement with Dairyland Power Cooperative (DPC) to share costs and benefits of a 379 megawatt generating unit (Genoa 3) located near Genoa, Wisconsin. This agreement was to remain in effect until the retirement of the unit from service or until the payment in full of all obligations arising from the construction and operation of the unit, whichever was later. Under the agreement, the capacity costs were shared equally by GRE and DPC, and GRE was required to pay additional amounts for actual energy purchased. In 2015, GRE amended the contract to terminate GRE's obligation to purchase energy and capacity from Genoa 3 for a cash payment of $83.5 million. As part of the amendment, GRE entered into a four-year capacity contract with DPC extending through May 2019 at an annual cost of $6.1 million. GRE's expenses for capacity, energy, and transmission charges under the agreement were $24.7 million, $44.3 million, and $41.3 million for 2015, 2014, and 2013, respectively.

Wind energy purchases — GRE has long-term agreements for the purchase of 468 megawatts of wind energy from various power suppliers. The agreements have varying terms, and some have extension options. The longest contract term extends to 2041. GRE is obligated to purchase the energy generated from these facilities at fixed prices for the term of the agreements. GRE's expenses for energy purchased under these agreements were $64.0 million, $64.8 million, and $60.5 million for 2015, 2014, and 2013, respectively.

Other purchased power — GRE has long-term agreements for the purchase of energy from various other power suppliers. Agreement terms vary with the longest extending to 2045. GRE is obligated to purchase energy at either fixed or variable prices for the term of the agreements. GRE also had a contract for transmission associated with some of these agreements that expired in 2015. GRE's expenses for energy and transmission purchased under these agreements were $9.2 million, $14.1 million, and $18.3 million for 2015, 2014, and 2013, respectively.

Construction contract — GRE has entered into a construction contract with one of the vendors for the direct current transmission line converter stations refurbishment project. The total budget for this project is approximately $200.0 million. The project will start in 2016 and extend through 2021.

Fuel Contracts — GRE has an agreement with Cloud Peak Energy to provide coal to Stanton Station (Stanton) in North Dakota. GRE also has an agreement with The Burlington Northern Santa Fe Railroad for the delivery of this coal. The coal and freight agreements run through the end of 2018; however, there are no minimum commitments under the coal agreement. GRE's expenses under these agreements were $18.7 million, $22.5 million, and $18.1 million in 2015, 2014, and 2013, respectively.

Reclamation Guarantee — Falkirk is required by the North Dakota Public Service Commission (PSC) to carry bonds to cover reclamation of mined lands in the event the surface mining and reclamation permit is revoked. These bonds are released by the PSC after a period of time, generally at least 10 years after final reclamation is complete, and it has been determined that the land has been returned to its approved postmining use. Under the PSC's self-bond program, GRE provides a guarantee for the majority of Falkirk's reclamation obligation. As of December 31, 2015, the aggregated value of this guarantee is $79.8 million. No liability has been recorded in the consolidated financial statements related to this guarantee as of December 31, 2015 and 2014. Falkirk has recorded an asset retirement obligation for the costs to cover final reclamation (see Note 14).

Letters of Credit — GRE has issued a letter of credit for $2.1 million to MISO in connection with its commodity derivatives. GRE has also issued three letters of credit totaling $13.0 million related to Spiritwood Station water and infrastructure agreements. No amount is outstanding as of December 31, 2015.

Member Guarantees — As of December 31, 2015 and 2014, GRE has guaranteed $0.8 million and $1.1 million, respectively, of rural development loans that various member distribution cooperatives have secured from the Rural Utilities Service. The guaranteed loans are collateralized in the form of land, buildings, or equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. DEFERRED CHARGES AND REGULATORY LIABILITIES

The amounts of deferred charges recorded by GRE and Falkirk as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Regulatory assets:		
Premiums on refinanced long-term debt	$ 8,901	$ 10,043
Postretirement benefit plans	44,399	46,307
Interest rate derivatives	33,782	23,574
Settled interest rate hedging instruments	79,237	83,725
Purchased power contract settlement	83,543	
Transaction costs related to NDRC	7,779	8,483
Refined coal purchase costs	54,000	42,000
Interest and plant costs	16,724	17,249
Scheduled major outage maintenance	9,931	26,255
Other	5,190	375
Total regulatory assets	343,486	258,011
Other deferred charges	24,879	25,526
Total deferred charges	$ 368,365	$ 283,537
Reported as:		
Deferred charges:		
Financing related	$ 142,033	$ 140,061
Contract termination	83,543	
Other	142,789	143,476
Total deferred charges	$ 368,365	$ 283,537

The amounts of regulatory liabilities recorded by GRE as of December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Regulatory liabilities:		
Settled interest rate hedging instruments	$ 5,690	$ 36,212
Deferred revenue		11,712
Incentive-based rate treatment	17,131	15,920
Other	4,574	6,652
Total regulatory liabilities	$ 27,395	$ 70,496

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Premiums on Refinanced Long-Term Debt — GRE has refinanced various issues of long-term debt, which resulted in the payment of premiums. This amount will be fully amortized by 2038, the maturity date of the 2007A bonds.

Postretirement Benefit Plans — GRE and Falkirk have defined benefit pension plans and postretirement medical plans for certain employees. GRE records regulatory assets related to items that are normally reported as accumulated other comprehensive income for these plans as amounts will be recovered in rates. A regulatory asset has been recorded for GRE's plans of $27.2 million and $30.3 million, and Falkirk's plans of $17.2 million and $16.0 million at December 31, 2015 and 2014, respectively. These amounts are adjusted each year as a result of the remeasurement of the obligations related to these plans.

Interest Rate Derivatives — GRE has interest rate swaps that have not been settled as of December 31, 2015 and 2014. Certain interest rate swaps are recorded at fair value as a liability, with an offsetting regulatory asset, of $33.8 million and $23.6 million as of December 31, 2015 and 2014, respectively. Once these interest rate derivatives are settled, any deferred regulatory asset or liability will be amortized over the life of the related debt, unless there is no related debt issuance, and then the amortization period will be determined by the board of directors under regulatory accounting.

Settled Interest Rate Hedging Instruments — GRE settled interest rate swaps related to the 2015A–D bonds, the 2010D bonds, and the 2008A bonds (see Note 5) resulting in payments to the swap counterparties. These settled swaps are amortized over the life of the related debt and the amortization is included in interest expense in the consolidated statements of operations and comprehensive income.

During 2013, GRE terminated certain interest rate swaps and a swaption without a related debt issuance for net proceeds of $36.2 million. The net proceeds from this termination were recorded as a regulatory liability and $30.5 million was recognized as other revenue in 2015. GRE plans to recognize the remainder as revenue in 2017.

Purchased Power Contract Settlement — GRE recognized as a regulatory asset the cash payment made in 2015 to DPC to terminate the obligation to purchase energy and capacity from Genoa 3. As determined by the board of directors under regulatory accounting, the amount will be amortized over a ten year period beginning in 2019.

Transaction Costs Related to NDRC — GRE incurred $11.3 million in external transaction costs in connection with executing agreements with NDRC, or its subsidiaries, for the sale and purchase of lignite and coal and for the lease of GRE's refined coal processing facility (see Note 1). This amount is being amortized over the life of the facility lease, which is through 2027. The amortization is included as fuel expense in the consolidated statements of operations and comprehensive income.

Refined Coal Purchase Costs — In connection with the facility lease with NDRC and the related refined coal purchase agreement, GRE is deferring certain refined coal purchase costs until January 31, 2020, which is the exercise date of the purchase option to buy out of the transaction. GRE plans to expense these costs at the time the purchase option is exercised or amortize over the last seven years of the lease agreement in the event the purchase option is not exercised.

Interest and Plant Costs — During 2010 and 2011, GRE deferred facility costs totaling $17.3 million for interest, maintenance, and other costs associated with Spiritwood Station. Beginning in 2014, this amount is being amortized over the useful life of the facility.

Scheduled Major Outage Maintenance — GRE defers scheduled major outage maintenance costs for CCS and Stanton and amortizes these costs over the maintenance cycle period, which is three years for CCS and four years for Stanton. The amortization is included in operation and maintenance expense in the consolidated statements of operations and comprehensive income.

Other Deferred Charges — Other deferred charges primarily relate to unamortized debt issuance costs, deferred lease costs, and deferred income taxes.

Deferred Revenue — GRE deferred the recognition of $13.8 million of member electric revenue during 2013 in accordance with regulatory accounting requirements. GRE recognized $11.8 million and $2.0 million of this amount in 2015 and 2014, respectively, as member electric revenue.

Incentive-Based Rate Treatment — GRE received approval from the Federal Energy Regulatory Commission for incentive-based rate treatment for the CapX2020 transmission projects and is collecting a return on investment from MISO while these projects are under construction. As a result, GRE has recorded amortization expense in an amount equal to the interest capitalized to the project in the current year and has recorded an offsetting regulatory liability. Once a project is complete and placed in service, the regulatory liability will be amortized over the useful life of the underlying assets and recorded as a reduction to depreciation expense.

The regulatory assets and regulatory liabilities are recorded as per regulatory accounting requirements and have all been approved by the board of directors.

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12. EMPLOYEE BENEFIT PLANS

GRE offers various benefit plans to its employees. Approximately 28% of total employees that receive benefits are represented by two local labor unions under three collective bargaining agreements. One agreement will be negotiated in 2016 and two agreements extend through the end of 2018.

Pension Plans — GRE has a defined benefit plan that covers certain employees who chose to remain in a defined benefit plan, a nonqualified supplemental defined benefit plan that is frozen, and a qualified defined contribution retirement plan for other employees. GRE also has a nonqualified defined contribution plan for certain employees. GRE terminated the qualified plan as of December 31, 2015, freezing all future benefits, and initiated the regulatory approval process to settle the plan. The estimated termination liability for the qualified plan, as actuarially determined, is approximately $60.0 million as compared to the recorded benefit obligation for the qualified plan of $54.3 million as of December 31, 2015. As a result of the plan freeze, the plan's liability was reduced by $0.6 million, which was applied to reduce the existing accumulated loss balance recorded as a regulatory asset. In addition, a curtailment loss of $0.1 million was recognized in 2015 expense as a result of the plan freeze.

Falkirk has a defined benefit plan that covers employees hired before January 1, 2000, a nonqualified supplemental defined benefit plan that is frozen, and a defined contribution plan for other employees. During 2015, Falkirk settled the nonqualified supplemental defined benefit plan and it is no longer an obligation of Falkirk. During 2013, Falkirk amended the defined benefit plan to freeze pension benefits effective January 1, 2014. As a result of this amendment, Falkirk remeasured the plan and recorded a curtailment loss of $0.4 million during 2013.

Changes in benefit obligations and plan assets for all defined benefit plans for the years ended December 31, 2015 and 2014, and the amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 70,687	$ 64,684	$ 59,914	$ 58,668
Service cost		128		139
Interest cost	2,734	2,085	2,783	2,263
Actuarial (gain) loss	(3,450)	(2,285)	10,569	8,238
Curtailment		(607)		
Settlement	(304)			
Benefits paid	(2,830)	(4,678)	(2,579)	(4,624)
Benefit obligation—end of year	66,837	59,327	70,687	64,684
Change in plan assets:				
Fair value of plan assets—beginning of year	61,233	55,904	59,200	53,456
Actual return on assets	(50)	282	4,594	2,559
Employer contributions	61	4,423	19	4,513
Benefits paid	(2,830)	(4,678)	(2,579)	(4,624)
Fair value of plan assets—end of year	58,414	55,931	61,234	55,904
Funded status—end of year	$ (8,423)	$ (3,396)	$ (9,453)	$ (8,780)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Other noncurrent liabilities	$ 8,423	$ 3,396	$ 9,453	$ 8,780

Amounts not yet recognized as components of net periodic cost as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Transition obligation	$ -	$ 143	$ -	$ 205
Prior service cost			155	76
Accumulated loss	14,833	25,709	14,371	28,413
	$ 14,833	$ 25,852	$ 14,526	$ 28,694

The accumulated benefit obligation for the GRE defined benefit pension plans reflected above was $59.3 million and $64.0 million as of December 31, 2015 and 2014, respectively. The accumulated benefit obligation for the Falkirk defined benefit pension plan was $66.8 million and $70.7 million as of December 31, 2015 and 2014, respectively.

Components of net periodic benefit cost for the GRE and Falkirk defined benefit pension plans as of December 31, 2015, 2014, and 2013, are as follows (in thousands):

	2015		2014		2013	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	$ -	$ 128	$ -	$ 139	$ 912	$ 165
Interest cost	2,734	2,085	2,783	2,263	2,793	1,887
Expected return on assets	(4,379)	(1,832)	(4,170)	(2,004)	(3,833)	(1,880)
Amortization of prior service cost	424	9	102	13	1,493	28
Recognized net actuarial loss	10	1,360	8	1,105	134	1,333
Curtailment		67			442	
Amortization of net transition obligation		63		63		63
Net periodic benefit cost	$ (1,211)	$ 1,880	$ (1,277)	$ 1,579	$ 1,941	$ 1,596

The estimated amounts to be amortized from deferred charges into net periodic benefit cost in 2015 are $1.2 million for the GRE plans and $0.3 million for the Falkirk plans.

Weighted-average assumptions used to determine benefit obligations for GRE and Falkirk defined benefit pension plans as of December 31, 2015, 2014, and 2013, are as follows:

	2015		2014		2013	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Discount rate	4.20%	3.90%	3.95%	3.55%	4.75%	4.25%
Rate of compensation increase	N/A	N/A	N/A	3.75	N/A	3.75

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GRE and Falkirk adopted updated mortality tables to determine benefit obligations as of December 31, 2014, and both GRE and Falkirk adopted an updated mortality improvement scale as of December 31, 2015.

Weighted-average assumptions used to determine periodic benefit cost for GRE and Falkirk defined benefit pension plans as of December 31, 2015, 2014, and 2013, are as follows:

	2015		2014		2013	
	Falkirk	**GRE**	**Falkirk**	**GRE**	**Falkirk**	**GRE**
Discount rate	3.95%	3.55%	4.75%	4.25%	3.90/4.70%	3.25%
Rate of compensation increase	N/A	3.75	N/A	3.75	3.75	3.75
Expected return on assets	7.75	3.50	7.75	4.00	7.75	4.00

Falkirk used a discount rate of 3.90% for the period from January 1, 2013, to July 31, 2013, and a rate of 4.70% for the period from August 1, 2013, to December 31, 2013.

GRE's strategy is to invest in 100% fixed income securities for near-term and longer-term benefit payments. The investment strategy is focused on matching the average duration of the fixed income securities to that of the average duration of the plan's benefit obligations.

GRE's defined benefit plan investments at December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Cash	$ 319	$ 313
Money market funds	1,107	3,815
Fixed income mutual funds	54,505	51,776
	$ 55,931	$ 55,904

The invested funds are stated at fair value using quoted market prices in active markets for identical assets as the fair value measurement (Level 1). For the years ended December 31, 2015 and 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

The Falkirk plan maintains an investment policy that, among other things, establishes a portfolio asset allocation methodology with percentage allocation bands for individual asset classes. This investment policy sets target allocations for the plan assets ranging from approximately 50% to 78% in equity securities, 30% to 40% in fixed-income securities, and 0% to 10% in money market funds. The investment policy further divides investments in equity securities among U.S. and non-U.S. companies. The investment policy provides that investments be reallocated between classes as balances exceed or fall below the appropriate allocation bands.

Falkirk's defined benefit plan investments at December 31, 2015 and 2014, are as follows (in thousands):

	2015	2014
Money market funds	$ 214	$ 289
Domestic equity securities	30,492	33,855
International equity securities	7,174	6,923
Fixed income securities	20,534	20,167
	$ 58,414	$ 61,234

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The invested funds are stated at fair value using quoted market prices in active markets for identical assets as the fair value measurement (Level 1). For the years ended December 31, 2015 and 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

To develop the expected long-term rate of return on asset assumptions, GRE and Falkirk considered the historical returns and the future expectations for returns on each asset class, as well as target allocation of the pension portfolio. This resulted in a long-term rate of return assumption of 3.50% and 4.00% for 2015 and 2014, respectively, for GRE and a long-term rate of return assumption of 7.75% for both 2015 and 2014 for Falkirk.

The expected future benefits to be paid as of December 31, 2015, are as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2016	$ 3,123	$ 5,441
2017	3,396	5,897
2018	3,681	4,645
2019	3,841	4,523
2020	3,973	4,488
2021–2025	21,245	18,440

GRE expected future benefits to be paid disclosed above were calculated on a continuing plan basis. As previously stated, GRE terminated its qualified pension plan as of December 31, 2015, and is in the process of seeking regulatory approval to settle the plan. Based on current estimates, GRE expects to make a contribution of approximately $5.0 million to fully fund the plan as part of the settlement.

GRE expects to make a contribution of approximately $0.4 million to the nonqualified benefit pension plan in 2016 and Falkirk does not expect to make any pension contributions in 2016.

GRE makes defined contributions to all employees not covered in the GRE defined benefit plan and matching contributions to all eligible employees under a defined contribution retirement plan. GRE made savings and matching contributions to its defined contribution retirement plan of $9.4 million, $8.9 million, and $8.7 million in 2015, 2014, and 2013, respectively. Falkirk's contributions to the defined contribution pension plan were $2.4 million, $2.2 million, and $1.3 million for 2015, 2014, and 2013, respectively. Falkirk's contributions to a defined contribution savings plan were $2.0 million, $1.9 million, and $1.7 million for 2015, 2014, and 2013, respectively.

Postretirement Medical Benefits — Employees retiring from GRE who elected to remain in the defined benefit pension plan, have attained age 55, and have at least 10 years of service are entitled to participate in the GRE medical insurance plan. Benefits to the former employees are in the form of monthly payments to cover a portion of the premium charged for participation in the program. Additionally, employees retiring under a previously offered early retirement program could elect to participate in a medical insurance plan until they reach age 65. Benefits to these retirees are in the form of monthly payments to cover a portion of the premium charged for participation in the program. Employees retiring from Falkirk also are eligible to participate in Falkirk's medical insurance plan with the benefit in the form of a supplement to the premium.

Costs for the unfunded postretirement medical plan are recognized in the year the employees render service.

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Changes in benefit obligations for the years ended December 31, 2015 and 2014, and amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 7,225	$ 2,782	$ 7,481	$ 3,228
Service cost	121	2	119	2
Interest cost	230	92	281	114
Actuarial loss (gain)	995	(179)	(107)	243
Benefits paid	(389)	(342)	(549)	(805)
Benefit obligations—end of year	$ 8,182	$ 2,355	$ 7,225	$ 2,782

Amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Current liabilities	$ 772	$ 314	$ 551	$ 447
Other noncurrent liabilities	7,410	2,041	6,674	2,335
	$ 8,182	$ 2,355	$ 7,225	$ 2,782

Amounts not yet recognized as components of net periodic cost as of December 31, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Falkirk	GRE	Falkirk	GRE
Prior service cost	$ -	$ -	$ 18	$ -
Accumulated loss	2,053	1,356	1,136	1,620
	$ 2,053	$ 1,356	$ 1,154	$ 1,620

Components of net periodic cost as of December 31, 2015, 2014, and 2013, are as follows (in thousands):

	2015		2014		2013	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	$ 121	$ 2	$ 119	$ 2	$ 139	$ 6
Interest cost	230	92	281	114	230	119
Amortization of prior service credit	18		(152)	(5)	(560)	(31)
Recognized net actuarial losses	77	85	104	61	123	71
Net periodic cost (benefit)	$ 446	$ 179	$ 352	$ 172	$ (68)	$ 165

The estimated amounts to be amortized from deferred charges into net periodic cost in 2015 are a net cost of less than $0.1 million for the GRE plan and a net cost of less than $0.1 million for the Falkirk plan.

The weighted-average assumptions used to determine postretirement obligations and net periodic postretirement benefit costs for the years 2015, 2014, and 2013 are the same applicable assumptions used for the defined benefit pension plans, except for Falkirk's discount rate. Falkirk used 3.40%, 3.25%, and 3.85% for the discount rate for 2015, 2014, and 2013, respectively.

The expected future benefit payments to be paid as of December 31, 2015, are as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2016	$ 772	$ 314
2017	881	239
2018	938	203
2019	1,025	193
2020	1,069	180
2021–2025	3,665	756

The effect of a one percentage point change in health care cost trend rates on service and interest costs is not material in relation to the consolidated financial statements taken as a whole.

13. MEMBER RELATED-PARTY TRANSACTIONS

GRE provides electric and other services to its members. GRE received revenue of $850.1 million, $873.4 million, and $836.4 million in 2015, 2014, and 2013, respectively, for these services. GRE received 39.8%, 39.2%, and 39.8% of total member revenue from two members for the years ended December 31, 2015, 2014, and 2013, respectively. GRE has accounts receivable from its members of $134.1 million and $142.5 million at December 31, 2015 and 2014, respectively.

GRE also received various services from the members and paid $11.8 million, $10.3 million, and $9.9 million for these services in 2015, 2014, and 2013, respectively. GRE has accounts payable to the members of $1.6 million and $2.7 million at December 31, 2015 and 2014, respectively.

GRE has other long-term receivables from the members of $0.4 million and $0.5 million as of December 31, 2015 and 2014, respectively. These notes were issued at face value and have an effective average interest rate of 5%.

GRE has notes payable to the members of $30.5 million and $23.9 million at December 31, 2015 and 2014, respectively. These notes relate to funds invested with GRE by the members under a member investment program. These funds are used by GRE to reduce short-term borrowings. The members receive investment earnings based on GRE's blended rate of return for specified investments, adjusted for administrative costs.

14. ASSET RETIREMENT OBLIGATIONS

GAAP require the recording of liabilities related to asset retirement obligations. An asset retirement obligation is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and/or the normal operation of a long-lived asset. GRE determines these obligations based on an estimated asset retirement cost adjusted for inflation and projected to the estimated settlement dates, and discounted using a credit-adjusted, risk-free interest rate. GRE allocates the amortization for the offsetting capitalized asset retirement cost to expense using the straight-line method over the remaining useful life of the related long-lived asset being retired.

GRE has recorded obligations related to capping and reclamation of ash disposal sites for certain base-load power plants, obligations related to future removal and disposal of asbestos, and obligations related to the disposal of equipment containing polychlorinated biphenyls.

In December 2014, the EPA released a prepublication version of the final rule for regulation of coal combustion residuals (CCRs) effective for 2015. The rule regulates CCRs under the Resource Conservation and Recovery Act Subtitle D, which determines them to be nonhazardous. It requires increased groundwater monitoring, reporting, recordkeeping, and posting related information to the Internet. The rule also established requirements related to CCR management, impoundments, landfills, and storage. The rule does allow GRE to continue its byproduct beneficial use program. GRE's estimated additional costs to comply with the necessary infrastructure and CCR management modifications for the final ash disposal site closures have been reflected as a change in estimated cash flows to the asset retirement obligation for 2015 of $25.5 million.

Falkirk has recorded an obligation related to the final costs to close its surface mines and reclaim the land disturbed as a result of normal mining operations. There are no assets legally restricted for purpose of settling these obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONCLUDED

GRE also has an obligation to retire its direct current transmission line upon abandonment. This line transmits the energy from CCS in North Dakota to the GRE service territory in Minnesota. GRE has not recorded a liability related to this obligation because the fair value cannot be reasonably estimated due to the retirement date being indefinite at this time.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2015 and 2014, is as follows (in thousands):

	2015	2014
Balance—beginning of year	$ 52,675	$ 50,255
New obligations incurred		623
Obligations recorded as a result of changes in estimated cash flows	25,450	
Accretion expense	2,970	2,928
Obligations settled	(807)	(1,131)
Balance—end of year	$ 80,288	$ 52,675

These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. The obligations settled are the only transactions recognized in the consolidated statements of cash flows.

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