2016 ANNUAL REPORT

HERE FOR OUR MEMBERS

GREAT RIVER ENERGY™

28
MEMBER COOPERATIVES

685,000
MEMBER ACCOUNTS

16th
HEALTHIEST WORKPLACE IN THE NATION

ACCORDING TO THE HEALTHIEST 100 WORKPLACES IN AMERICA PROGRAM

CERTIFIED
BY GREAT PLACE TO WORK®

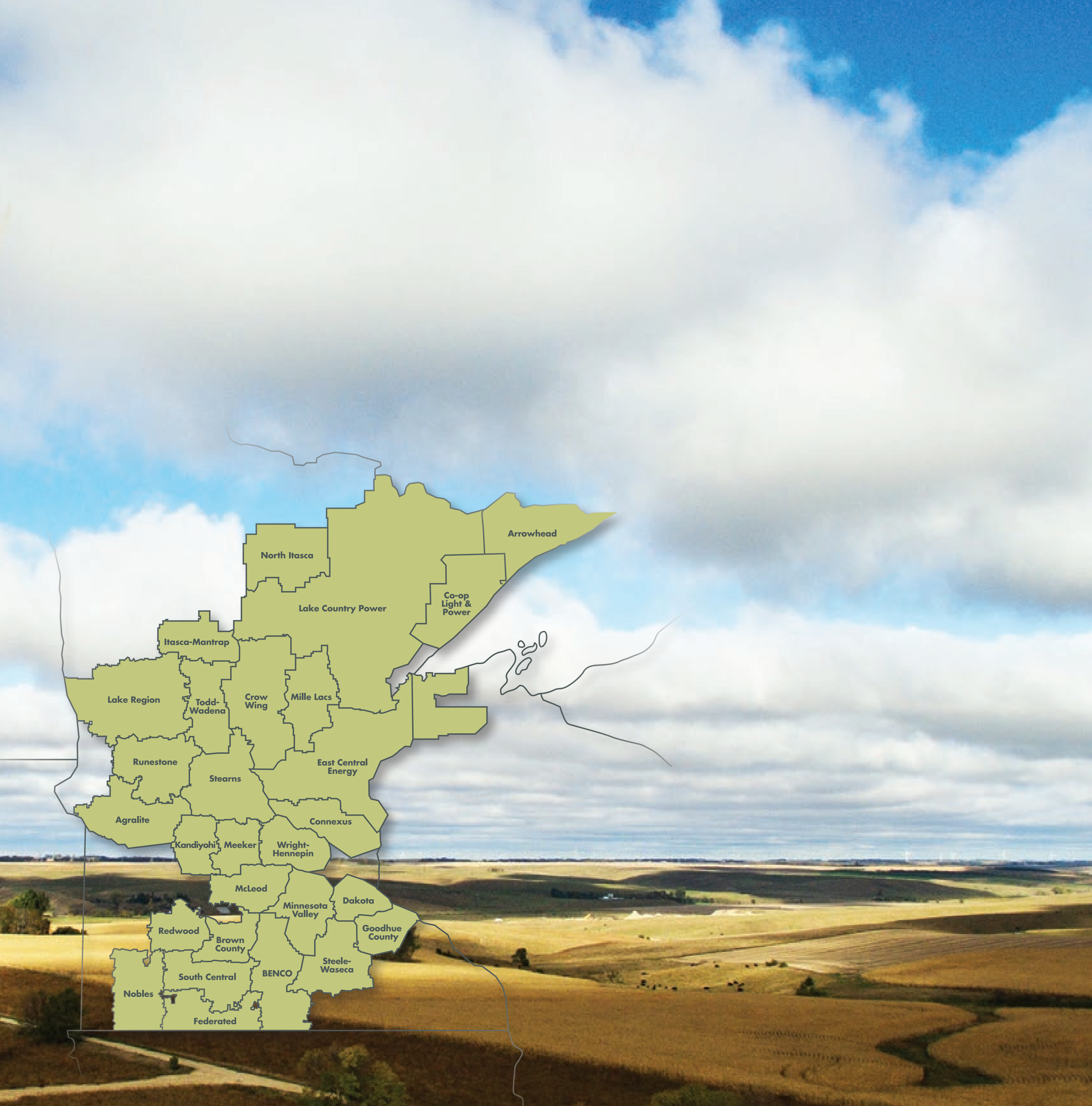
468
MEGAWATTS OF
WIND ENERGY

11
POWER PLANTS

INVESTMENT-GRADE
CREDIT RATINGS

A-	A-	Baa1
S&P	FITCH	MOODY'S

4,750
MILES OF
TRANSMISSION LINES



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TO OUR STAKEHOLDERS

Mike Thorson
Great River Energy Board Chair

David Saggau
Great River Energy President and Chief Executive Officer

OUR VISION: INNOVATE, COLLABORATE AND LEAD TO COMPETITIVELY POWER THE FUTURE

We are proud to share with you the story behind one of the strongest financial years in our history and detail our plans to remain on the leading edge of a rapidly changing industry.

Great River Energy was created because our owners – the 28 cooperatives we serve – needed reliable, affordable wholesale power in harmony with a sustainable environment. While our objective has not changed, the way we serve our members is evolving.

Electricity is being produced in new, cleaner ways, and is consumed more efficiently than ever. We are enabling enhanced capabilities on the electric grid that allow us to offer members additional services and improve their power supply.

Great River Energy also serves our members with sound finances. We recorded a very strong margin in 2016 while returning revenue to our member-owner cooperatives through our power cost adjustment. Our wholesale rates are competitive and stable. Our 10-year rate forecast projects modest increases, below the projected rate of inflation.

In 2013, we detailed the steps toward a lower carbon future. Today, we have a firm footing on that path. Together with our member-owner cooperatives, we are crafting an electric system that will serve homes, farms and businesses today as well as 30 years from now. We will test new ideas. We will discover new ways to serve our members. We will get there together.

Market forces driving change

Ten years ago, the Midwest energy market included 1,000 megawatts of wind generation. Today, there are 15,000 megawatts. Wind energy has become the new "baseload" source of electricity, supplanting coal as the resource to which all others must adapt.

The rise of wind has presented opportunities for Great River Energy. We have announced plans for an additional 300 megawatts of favorably priced wind energy, which will bring our total renewable energy capacity to more than 1,000 megawatts by 2021.

Variable resources in the energy market have driven innovation. Our engineers and operators have modified our largest power plant, Coal Creek Station, to adjust its output in response to market signals – a valuable trait for a coal-based plant.

Market forces have also prompted difficult decisions. Great River Energy will retire our Stanton Station power plant because it is no longer economical to operate in today's energy market. In its 50 years of operation, Stanton Station was immensely valuable for our membership. It also hosted some of the most important research on coal-based electric generation, spurring advancements that have made power plants safer, cleaner and more efficient around the world.

Electrifying the economy

As the electric system has become more efficient, there is growing support to use electricity in new ways. Encouraging the smart use of electricity, which we and others have termed environmentally beneficial electrification, will improve the way cooperatives serve members.

We continue to offer our Revolt[SM] program, which allows electric vehicle drivers to charge their cars entirely with wind energy at no added cost. Revolt has advanced our knowledge of electric transportation and spurred research into new and exciting opportunities, such as electric school buses and forklifts.

We are working with our members to attract economic development through financial support and unique energy solutions. We are leading the charge on community energy storage, which employs common household appliances to provide critical services the electric grid needs.

Electrification provides cooperatives with relief from financial pressure due to declining electricity sales. It also builds member engagement by helping home- and business-owners save money and improve efficiency. When combined with an improving power supply, electrification positions cooperatives as drivers of the solutions to the challenges of the next century.

The future is bright for Great River Energy and the member-owner cooperatives we serve.

2016 AT A GLANCE

Great River Energy served its members well in 2016, driven primarily by cost reductions and the strong performance of the cooperative's power supply portfolio in the Midwest energy market.

Great River Energy recorded a margin of $38.4 million in 2016 and deferred $12 million of revenue for future use. Without the deferral, Great River Energy's margin would have been $50.4 million. Great River Energy credited its members $7.5 million through its power cost adjustment, a mechanism that reflects the fluctuating cost of wholesale power and fuel.

These positive results come despite energy sales that were 2.8 percent below budget and just 0.1 percent over 2015.

GREAT RIVER ENERGY'S 28 MEMBER-OWNER COOPERATIVES

Number of member accounts
685,000

Sales to members
11,716,895 megawatt hours

Total distribution line
92,000 miles

Average density
7.6 consumers/mile

Distribution substations
558

Combined annual revenue
$1.4 billion

Electric plant in service (net)
$2.0 billion

Distribution employees
1,600

GREAT RIVER ENERGY FINANCIAL HIGHLIGHTS

Revenue
$1.0 billion

Net margin attributable to Great River Energy
$38.4 million

Total assets
$4.0 billion

Utility plant investment (net)
$2.8 billion

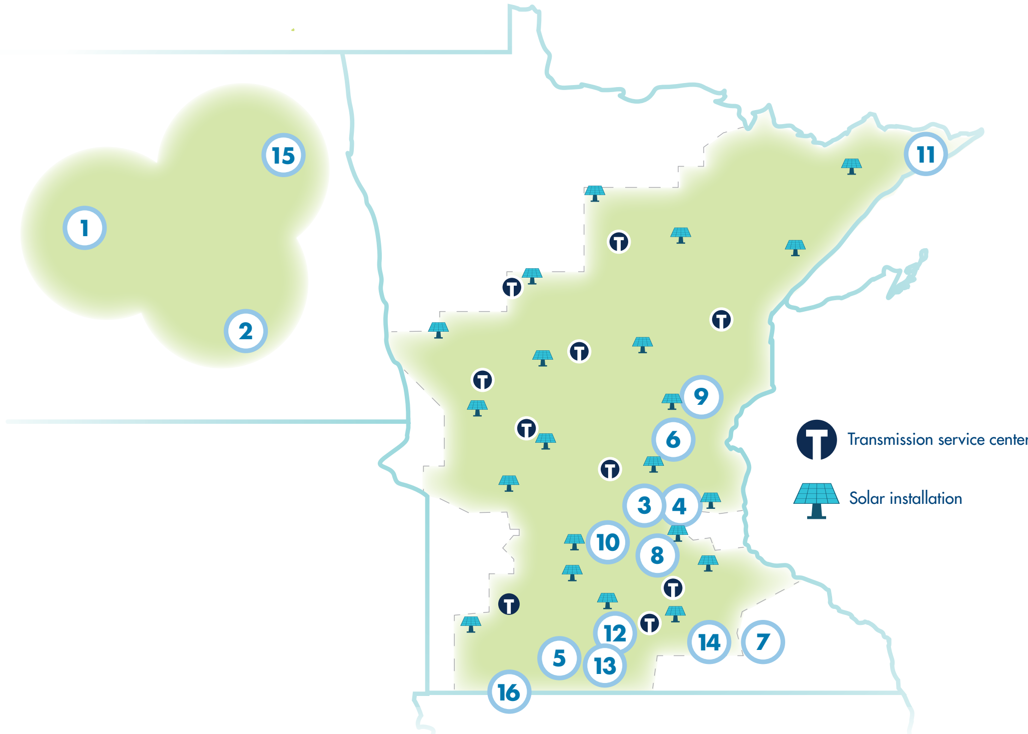
GREAT RIVER ENERGY SYSTEMWIDE LOAD CHARACTERISTICS

Residential
56%

Seasonal
1.5%

Commercial, industrial and other
42.5%

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.

GENERATION







1: Coal Creek Station
Generating capability: 1,145 MW
Fuel: Lignite coal and DryFine™ lignite coal

2: Spiritwood Station
Generating capability: 99 MW*
Fuel: DryFine lignite coal and natural gas

3: Elk River Energy Recovery Station
Generating capability: 30 MW
Fuel: Refuse-derived fuel

4: Elk River Peaking Station
Generating capability: 179 MW (summer)
Fuel: Natural gas; backup, fuel oil

5: Lakefield Junction Station
Generating capability: 495 MW (summer)
Fuel: Natural gas; backup, fuel oil

6: Cambridge Station
Generating capability: 175 MW (summer)
Fuel: Fuel oil (Unit 1), and natural gas (Unit 2)

7: Pleasant Valley Station
Generating capability: 430 MW (summer)
Fuel: Natural gas; backup, fuel oil

8: St. Bonifacius Station
Generating capability: 59 MW (summer)
Fuel: Fuel oil

9: Rock Lake Station
Generating capability: 23 MW (summer)
Fuel: Fuel oil

10: Maple Lake Station
Generating capability: 20 MW (summer)
Fuel: Fuel oil

11: Arrowhead Emergency Generating Station
Generating capability: 18 MW*
Fuel: Fuel oil

12: Trimont Wind
Purchase: 100 MW*

13: Elm Creek Wind
Purchase: 99 MW*

14: Prairie Star Wind
Purchase: 101 MW*

15: Ashtabula II Wind
Purchase: 51 MW*

16: Endeavor I Wind
Purchase: 100 MW*

Other renewable energy purchases:
17 MW* from four wind farms.

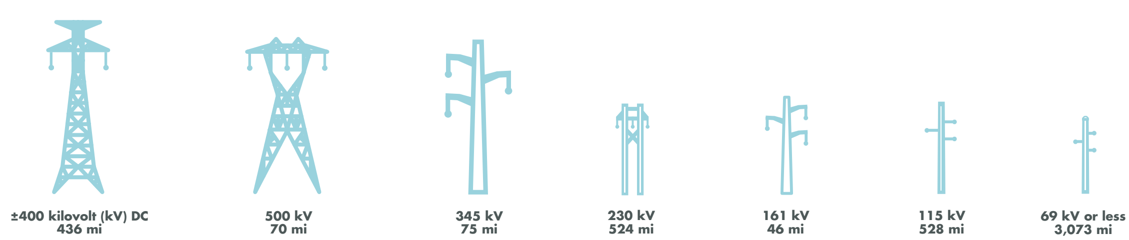
Approximately 3 MW from 21 solar installations.*

Stanton Station to be retired May 1, 2017.

Generating capability based on summer generating capability for 2017-2018 planning year.

**Nameplate generating capacity*

TRANSMISSION



Does not include lines partially owned by Great River Energy

As renewables grow, flexibility essential

A rise of dispersed and variable renewable generation resources – primarily wind energy – and low-cost natural gas have had major market effects that are shaking up the economics of conventional power plants.

Because more wind energy is available, market prices have fallen. And, since the output of this renewable resource varies depending on the wind, there is a growing need for other generation resources that can adjust their output to match load requirements.

Operational changes and minor modifications will enable the 1,145-megawatt Coal Creek Station power plant to incrementally ramp down to as little as 300 megawatts. Reducing production at the right times not only reduces costs, it also limits carbon dioxide emissions.

Plants like Coal Creek Station will be essential for electricity reliability by ramping up production when they are needed.

More wind on the way

Great River Energy is taking advantage of favorable pricing of renewable resources and market trends to strategically expand its renewable portfolio.

Great River Energy announced an agreement for the largest wind energy purchase in the cooperative's history. The 300-megawatt Emmons-Logan project, located in south-central North Dakota, is scheduled to begin providing power to Great River Energy's members in 2020.

The project will bring Great River Energy's renewable energy capacity to more than 1,000 megawatts, including 200 megawatts of hydropower.

Coal plant to be decommissioned

After serving Great River Energy's members for more than 50 years, the Stanton Station power plant will be retired in 2017. The Mercer County, North Dakota, plant was no longer economic to operate with low prices in the regional energy market.

After careful consideration of several alternatives, it became clear that retiring the plant was in the best interest of Great River Energy's member-owner cooperatives. The plant's closure will reduce Great River Energy's costs, while also reducing the cooperative's carbon dioxide emissions and reliance on coal.

Stanton Station is being decommissioned in a responsible manner that will safeguard employees, the environment and assure the safety and security of the local community.

Expertise presents opportunities

Waste-to-energy power plants are a critical component of Minnesota's waste management plans, and Great River Energy has emerged as a leader in the field.

In April, Great River Energy's Elk River Resource Processing Plant processed its 10 millionth ton of garbage, nearly all of which has been used to generate renewable energy.

A Great River Energy subsidiary successfully operated the Newport Resource Recovery Facility in 2016, and the cooperative will assume operations of the Hennepin Energy Recovery Center in Minneapolis in 2018.

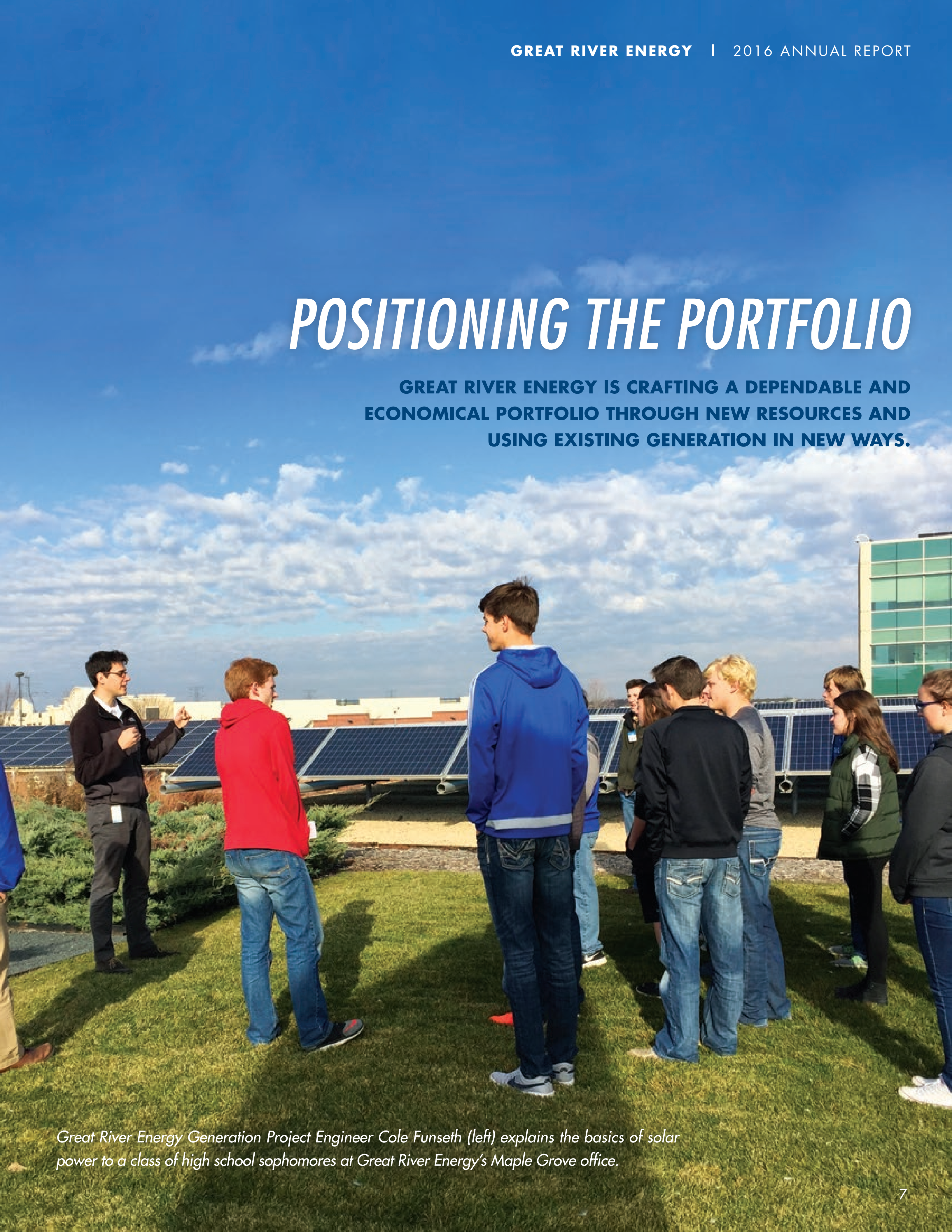
State's largest cooperative solar project

The largest solar array in Minnesota owned by electric cooperatives is now generating electricity for members of Wright-Hennepin Cooperative Electric Association. The Dickinson Solar Project was a collaborative effort between Wright-Hennepin and Great River Energy.

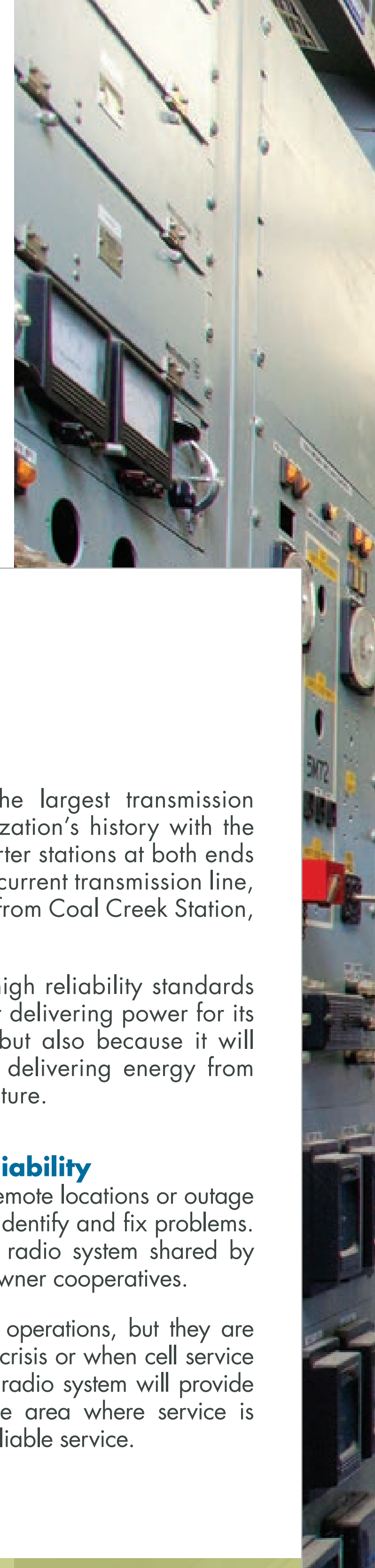
The 2.25-megawatt project consists of 8,352 panels built on a 13-acre site in Buffalo, Minnesota, already owned by Great River Energy.

POSITIONING THE PORTFOLIO

GREAT RIVER ENERGY IS CRAFTING A DEPENDABLE AND ECONOMICAL PORTFOLIO THROUGH NEW RESOURCES AND USING EXISTING GENERATION IN NEW WAYS.



Great River Energy Generation Project Engineer Cole Funseth (left) explains the basics of solar power to a class of high school sophomores at Great River Energy's Maple Grove office.



SHAPING THE FUTURE

THE ELECTRIC GRID IS MORE VALUABLE THAN EVER DUE TO INFRASTRUCTURE DEVELOPMENT AND ADDED CAPABILITIES THAT EXTEND BEYOND ENERGY DELIVERY.

A vision realized

Utilities invested 12 years and $1.85 billion to fortify the Midwest electric grid and enable renewable development with the CapX2020 grid expansion.

With the late-September completion of a 345-kilovolt transmission line between Hampton, Minnesota, and La Crosse, Wisconsin, the original vision for the massive effort was completed.

Great River Energy was one of 11 utility partners involved with CapX2020, the largest electricity transmission project in Minnesota since the 1970s. The value delivered by the projects in terms of reduced congestion, market access, improved reliability and system resiliency are expected to far exceed the investment in the projects.

CapX2020 also has opened new outlets for renewable energy to be delivered to the market.

'A new era'

A report from the University of Minnesota's Humphrey School of Public Affairs described CapX2020 as "an example that other utilities can and should emulate as they cooperate on regional projects." According to the report, the collaborative approach employed in CapX2020 ushered in a new era of multi-state transmission planning and development that is reshaping the electric power industry.

Major grid artery improves

Great River Energy has begun 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, which delivers power to Minnesota from Coal Creek Station, located in central North Dakota.

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

Communication promotes reliability

When line crews are dispatched to remote locations or outage areas, communication is essential to identify and fix problems. To do that, they rely on a two-way radio system shared by Great River Energy and its member-owner cooperatives.

Crews use the radios for day-to-day operations, but they are particularly important during times of crisis or when cell service is out. A recent upgrade to a digital radio system will provide better sound quality and expand the area where service is available, ultimately helping ensure reliable service.

Telecommunications Technician/Electrician Cullen Schmitt (left) and Relaying Technician/Electrican Scott Overbye maintain the systems that safely and reliably deliver electricity from high-voltage lines to serve cooperative members.

DEVELOPING THE GRID OF TOMORROW

More consumers are generating their own electricity. There is growing demand for detailed energy data. Renewed interest in energy is leading cooperatives to provide data and tools to empower their membership.

Great River Energy and its member-owner cooperatives have spent years laying the technological groundwork to offer members more options and further customize their service. These improvements are aimed at making service more economical and reliable.

Upgrading infrastructure

It all begins with maintaining, updating and replacing critical telecommunications infrastructure to build a foundation for smarter energy and deliver new solutions and services. Advances in this "smarter" grid technology will continue to provide more options for members and enable greater reliability, flexibility and security.

Automating meters

Electric meters were once used for a single purpose: to measure electricity over a period of time. That's no longer the case. Modern meters empower members to make more informed energy decisions by providing actionable energy data. Advanced metering capabilities will allow Great River Energy and its member-owner cooperatives to better manage the evolving electric grid and integrate renewables and distributed generation.

Doing more with data

Advances in technology combined with timely data delivery and analysis can help cooperatives better serve their members through the development of customized load control programs and energy efficiency initiatives.

GROWING THE BUSINESS

AS GREAT RIVER ENERGY REDUCES THE CARBON INTENSITY OF ITS ELECTRIC SYSTEM, ELECTRICITY IS BECOMING A FAVORABLE CHOICE FOR HOME AND INDUSTRIAL USES PREVIOUSLY DOMINATED BY OTHER FUELS.

Great River Energy and member-owner cooperative Connexus Energy took part in an event that brought dozens of electric vehicles to Ramsey, Minnesota, so interested drivers could learn more about electric transportation.

revolt[SM]
EMBRACE ELECTRIC VEHICLES

A Revolt[SM] on the roadways

Almost everyone leasing or purchasing an electric vehicle is doing so for the first time. Electric cooperatives are helping their members make educated decisions whether they are selecting or charging an electric vehicle.

Cooperatives have hosted and participated in events where members can ask questions, learn about – and even drive – electric vehicles. Great River Energy and its participating member-owner cooperatives are continuing their Revolt program, which charges vehicles with wind energy at no additional cost over the regular electric rate.

A battery in every basement

Water heaters have one job to do in a home. When aggregated by the thousands, they also can provide important services to the electric grid.

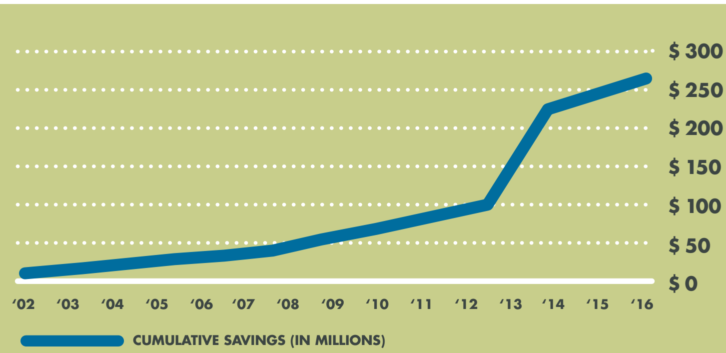
Great River Energy is leading a group of more than 40 organizations – including utilities, manufacturers and technology suppliers – as part of the Community Storage Initiative. The group plans to pursue energy storage through the coordination and aggregation of water heaters.

Great River Energy has gained attention and important allies by thinking differently about energy storage, including an invitation to the White House to discuss scaling renewable energy and storage.

A culture of savings and improvement

Great River Energy's business improvement program was created in 2002 to encourage employees to question the status quo and find new and better ways to work. Since that time, employees have made changes that have saved the company – and its membership – more than $260 million.

The program goes beyond cost savings by recognizing revenue enhancement as well as environmental and safety improvements.



2016 FINANCIALS

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FINANCIAL HIGHLIGHTS

(DOLLARS IN MILLIONS)

	2016	2015	Change
OPERATIONS			
Revenues	$ 1,022.1	$ 983.0	$ 39.1
Purchased Power	$ 144.8	$ 142.6	$ 2.2
Fuel	$ 219.9	$ 233.4	$ (13.5)
Other Operating Expenses	$ 346.8	$ 340.2	$ 6.6
Depreciation and Amortization	$ 144.6	$ 141.0	$ 3.6
Interest Expense	$ 137.8	$ 144.0	$ (6.2)
Other Income	$ 5.4	$ 34.2	$ (28.8)
Nonutility Operations, excluding noncontrolling interest	$ 4.8	$ (0.8)	$ 5.6
Net Margin Attributable to GRE	$ 38.4	$ 15.2	$ 23.2
FINANCIAL POSITION			
Electric Plant	$ 4,460.1	$ 4,558.2	$ (98.1)
Utility Plant – net	$ 2,818.5	$ 2,814.8	$ 3.7
Deferred Charges	$ 362.2	$ 348.3	$ 13.9
Cash and Cash Equivalents	$ 275.0	$ 268.3	$ 6.7
Total Assets	$ 4,019.5	$ 3,983.5	$ 36.0
Long-term Obligations	$ 2,679.0	$ 2,743.0	$ (64.0)
Members' Capital	$ 594.4	$ 556.0	$ 38.4
Equity to Capitalization Ratio	18.2%	16.8%	1.4%

GREAT RIVER ENERGY

FINANCIAL DISCUSSION AND ANALYSIS

Great River Energy's (GRE) financial position benefited from the strong financial performance of 2016. Utility operating revenues once again exceeded $1.0 billion due to strong member sales and increased other operating revenues. Although Midcontinent Independent System Operator (MISO) market prices remained low, GRE responded by reducing its plant generation during the periods of lowest pricing and purchasing energy from the market for its member load instead. The low prices positively impacted the power cost adjustment (PCA) resulting in a $7.5 million credit to GRE's members for 2016. Improved demand sales during the summer months and reduced operation and maintenance expense compared to budget favorably impacted GRE's net margin. In fact, the net margin was so favorable heading into the end of 2016 that the board of directors approved the deferral of $12.0 million of member electric revenue as a regulatory liability. Without this deferral, GRE's 2016 margin would have been $50.4 million. With the strong financial performance of 2016, GRE's equity to capitalization ratio is 18.2 percent, putting it ahead of its plan to target 20.0 percent by 2020. GRE's financial statements are solid and positively position the cooperative for the future.

MARGINS

Net margin attributable to GRE for the year ended December 31, 2016, was $38.4 million and includes the net income from Midwest AgEnergy Group (MAG) of $4.8 million. This compares to a budget of $23.0 million for 2016. GRE's indenture requires the maintenance of a margin-for-interest (MFI) ratio of 1.1x, excluding the operating results of subsidiaries. GRE's net utility margin, which is used to calculate the MFI requirement, was $33.5 million for 2016, resulting in an MFI of 1.24x. GRE's board of directors targeted a debt service coverage (DSC) ratio of 1.17x when setting member rates for 2016. GRE's 2016 operations produced a DSC of 1.30x.

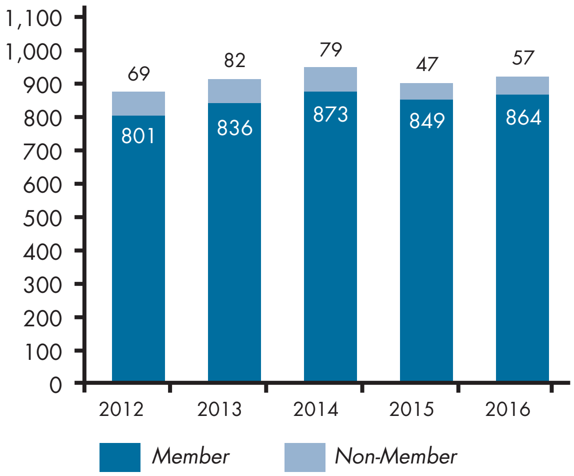
ELECTRIC REVENUE

Electric revenue increased $24.5 million or 2.7 percent to $920.6 million in 2016 from $896.1 million in 2015. Electric revenue from member cooperatives was $863.7 million during 2016, an increase of $14.2 million or 1.7 percent from $849.5 million in 2015. Member energy megawatt hour (MWh) sales increased 0.1 percent and demand megawatt (MW) sales decreased 0.2 percent compared to 2015. However, the summer MW sales, when the seasonal billing rates are the highest, increased 3.6 percent compared to 2015, resulting in $23.1 million of additional revenue. GRE issued PCA credits of $7.5 million and $18.6 million in 2016 and 2015, respectively, and a PCA charge of $19.5 million in 2014. The PCA allows GRE to credit or collect differences between actual and budgeted results in MISO market activity, purchased power, non-member revenue, and fuel. The 2016 PCA credit was primarily due to a favorable budget variance in MISO load purchases expense as market pricing was lower than budgeted. This more than offset an unfavorable budget variance in the MISO market revenue received for generation. GRE deferred member electric revenue of $12.0 million, which was collected from members in 2016, under regulatory accounting.

Electric revenue from non-members increased $10.4 million or 22.3 percent to $57.0 million in 2016 from $46.6 million in 2015. Energy

FINANCIAL DISCUSSION AND ANALYSIS
CONTINUED

ELECTRIC REVENUE BILLED
(dollars in millions)



MWh sales decreased 3.0 percent compared to 2015; however, the average market price for energy increased to $23.25/MWh in 2016 compared to $18.68/MWh in 2015, an increase of 24.5 percent.

OTHER OPERATING REVENUE

Other operating revenue increased $14.5 million or 16.7 percent to $101.4 million in 2016 from $86.9 million in 2015. The increase was due primarily to increased transmission revenue from the MISO market and inter-utility transmission agreements of $11.7 million and an increase in steam sales at Spiritwood Station of $3.0 million.

OPERATING EXPENSES

Total operating expenses for 2016 were $856.1 million, a decrease of $1.1 million or 0.1 percent from $857.2 million in 2015.

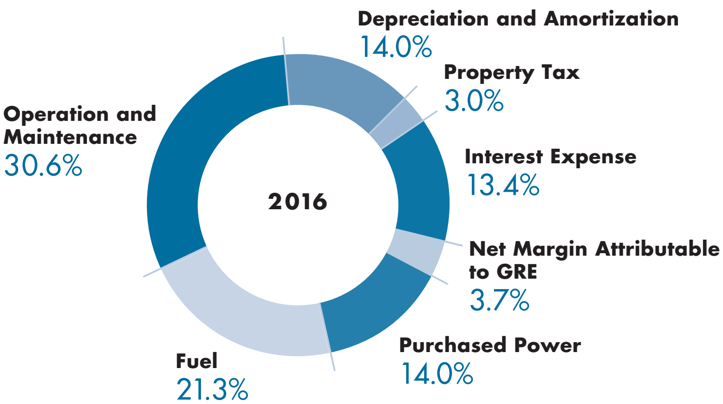
Purchased power increased $2.2 million or 1.6 percent to $144.8 million in 2016 from $142.6 million in 2015. GRE purchased 9.4 percent more MWhs during 2016 compared to 2015 because of a scheduled major maintenance outage at Coal Creek Station (CCS) and a planned strategy to purchase more energy from the market during periods of low market prices. The increase in MWhs purchased is offset by a 3.7 percent decrease in the average market price for these purchases and a decrease in demand purchases from Genoa 3 of $5.5 million.

Fuel expense decreased $13.5 million or 5.8 percent to $219.9 million in 2016 from $233.4 million in 2015. Fuel expense at CCS decreased $19.1 million or 11.2 percent due to the scheduled outage and because the plant did not operate at full capacity at times during the spring and fall months due to low market prices. CCS generated 8.3 percent fewer MWhs in 2016 compared to 2015. Additionally, fuel handling and DryFining expenses were lower in 2016 compared to 2015 due to fewer tons burned. Offsetting this decrease was an increase in fuel expense at the peaking plants of $5.1 million or 52.4 percent in 2016 compared to 2015. Peaking generation was 97.7 percent higher in 2016 compared to 2015 (429,000 MWhs in 2016 compared to 217,000 MWhs in 2015); however, this was offset by lower average natural gas prices ($2.40/MMBtu in 2016 compared to $2.75/MMBtu in 2015).

Operation and maintenance expense increased $6.7 million or 2.2 percent to $316.2 million in 2016 from $309.5 million in 2015. Transmission operation and maintenance increased $9.7 million due largely to GRE's share of expenses associated with regional and area transmission projects owned by others within the MISO territory increasing $6.9 million and transmission expense to serve member load under inter-utility transmission agreements increasing $1.0 million in 2016 compared to 2015. This increase was offset by a decrease in generation operation and maintenance of $2.9 million, due primarily to decreased expenditures at Stanton Station (Stanton). General and administrative expenses were flat in 2016 compared to 2015.

Depreciation and amortization increased $3.6 million or 2.6 percent to $144.6 million in 2016 from $141.0 million in 2015. The increase is due primarily to the impact of shortened useful lives for CCS plant additions as new additions are being amortized through 2028 and increased accretion of the additional asset retirement obligations (ARO) recorded as a result of the coal combustion residual regulations effective in 2015.

EXPENSES AND MARGIN



OTHER INCOME (EXPENSE)

Other income – net decreased $29.1 million due to the recognition of income of $30.5 million 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 decreased $6.2 million or 4.3 percent to $137.8 million in 2016 from $144.0 million in 2015. Interest incurred on GRE's long-term obligations decreased due to repayment of higher rate debt, partially offset by additional borrowings on the syndicated credit facility, which carries a lower interest rate. Capitalized interest remained consistent in 2016 compared to 2015, at $3.7 million.

FINANCIAL DISCUSSION AND ANALYSIS

CONTINUED

NONUTILITY OPERATIONS

Nonutility operating revenue and expense represent the operations of MAG, a subsidiary of GRE. MAG's operating income represents the operations of its two biorefinery plants, Blue Flint Ethanol and Dakota Spirit AgEnergy. MAG's operating income for 2016 was $6.2 million, of which $4.8 million was attributable to GRE.

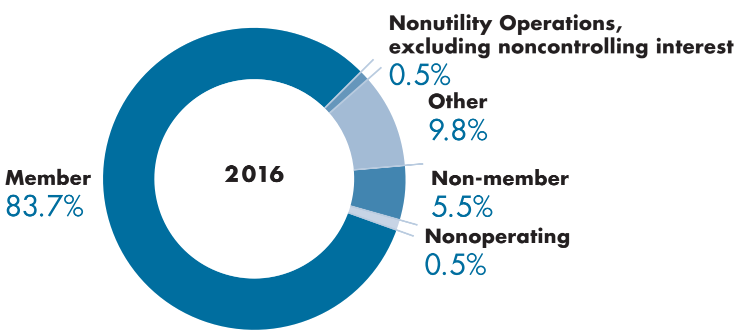
In January 2011, GRE entered into agreements with North Dakota Refined Coal LLC (NDRC) and its subsidiaries for the lease and operation of GRE's DryFining facility. Although GRE does not have any ownership interest in NDRC, it represents a variable interest entity of GRE and is consolidated in the financial statements. NDRC recognized a net loss of $18.2 million and $15.8 million for the years ended December 31, 2016 and 2015, respectively.

NONCONTROLLING INTEREST

GRE 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 GRE does not have any ownership interest, NDRC's entire net loss is reflected as noncontrolling interest.

REVENUES

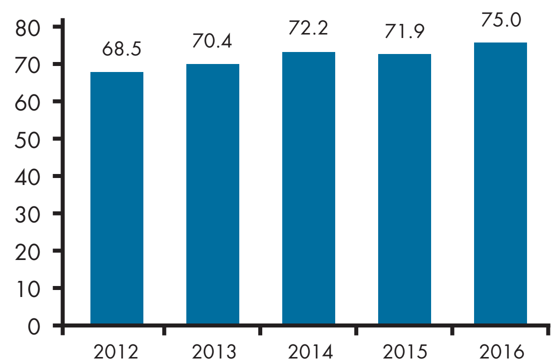


MEMBER RATE

GRE's 2016 member billed rate was 75.0 mills/kilowatt hour (kWh) compared to 71.9 mills/kWh in 2015. The budgeted average member rates were 74.53 mills/kWh and 73.41 mills/kWh for 2016 and 2015, respectively. The increase in the 2016 actual member rate was due to the 2016 average rate increase of 1.5 percent, the impact of a $7.5 million PCA credit in 2016 compared to a $18.6 million PCA credit in 2015, and the impact of increased summer demand sales in 2016 compared to 2015 when the seasonal demand rate is the highest.

MEMBER AVERAGE RATE PER kWh

excluding WAPA | mills per kWh



BALANCE SHEET REVIEW

GRE's total consolidated assets were $4.0 billion in 2016, an increase of $35.9 million.

Utility plant—net increased $3.6 million to $2.8 billion in 2016. Utility plant increased due to additions of $163.2 million related to GRE's investment in transmission and generation projects, general plant, and Falkirk additions. Additions were offset by depreciation and accretion of $159.6 million.

Nonutility plant and equipment—net decreased $6.9 million to $179.7 million in 2016 from $186.6 million in 2015 due primarily to the depreciation of MAG's plant assets.

Other assets and investments increased $11.5 million to $433.9 million in 2016 from $422.4 million in 2015. Deferred charges—other increased $15.7 million due to the deferral of refined coal purchase costs of $12.0 million and Stanton plant retirement costs of $6.2 million as of December 31, 2016. This increase was offset by a decrease in other long-term assets of $3.8 million due to a decrease in a CapX2020 related deposit.

Current assets increased $27.7 million to $587.4 million in 2016 from $559.7 million in 2015. Cash and cash equivalents increased $6.6 million due to cash from operations exceeding investing and financing activities in 2016. Accounts receivable—members, which represents member electric bills for the months of November and December, increased $10.1 million or 7.5 percent due to increased MWh sales of 3.2 percent and MW sales of 6.1 percent during these two months compared to 2015 and due to the 2016 rate increase. Accounts receivable—others increased $14.8 million due to the settlement of a transmission agreement with a third party, billings related GRE's management of a third party's garbage processing plant, and an increase in MAG's receivables in 2016. Prepaids and other current assets increased $5.4 million due primarily to an increase in MAG's restricted cash and margin deposits. These increases were offset by a decrease in materials and supplies inventory of $4.3 million due primarily to inventory held for a large

FINANCIAL DISCUSSION AND ANALYSIS
CONCLUDED

telecommunications project at year end 2015. Fuel inventory decreased $7.3 million due to the reduction in coal inventory at Stanton as the plant prepares for retirement in the spring of 2017.

Members' capital increased $38.4 million to $594.4 million in 2016 as a result of the 2016 net margin attributable to GRE. GRE's equity to capitalization ratio (excluding MAG and NDRC) was 18.2 percent at year end 2016.

Noncontrolling interest—subsidiary represents the capital attributable to MAG's third-party investors, which own 21.57 percent of MAG.

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

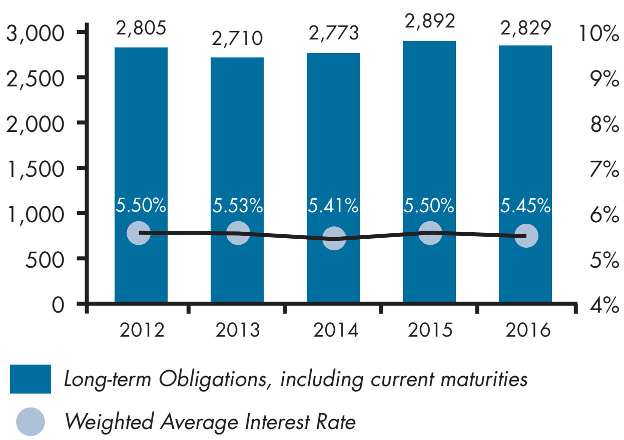
Other noncurrent liabilities decreased $8.7 million to $100.9 million in 2016 from $109.6 million in 2015. This decrease was due to the Stanton ARO being reflected as a current liability in 2016 and the Falkirk defined benefit and postretirement medical plan obligations decreasing $8.9 million due to a plan contribution, investment earnings on trust assets, and improvements in actuarial experience in 2016. These decreases were offset by an increase in the remaining AROs of $3.2 million due to accretion.

Regulatory liabilities increased $14.6 million to $42.0 million in 2016 from $27.4 million in 2015. This increase was due to the deferral of $12.0 million of member electric revenue in 2016 and an increase of $4.6 million in the regulatory liability associated with the fair value of interest rate swaps in an asset position.

Long-term obligations decreased $64.0 million to $2.7 billion in 2016. The decrease is due to scheduled principal payments of $150.1 million, which are offset by increased borrowings on the unsecured syndicated credit facility of $75.0 million, additional debt at Falkirk of $7.5 million, and the amortization of debt issue costs of $3.6 million.

Current liabilities increased $36.1 million to $450.0 million in 2016 from $413.9 million in 2015. Accounts payable increased $18.8 million due to increased payables related to the retirement of Stanton of $5.1 million, the direct-current transmission line converter station refurbishment project of $3.9 million, purchased power and transmission payables of $3.0 million, and MAG related payables of $1.9 million. Other accrued liabilities and notes payable increased $16.9 million due primarily to the reclassification to current of the Stanton ash pond ARO of $5.7 million, the recording of Stanton closure accruals of $8.0 million, and an increase in accrued expenses at MAG of $1.8 million related to unsettled corn contracts. Derivative instruments increased $5.8 million due to an increase in the mark-to-market valuation of certain derivative instruments in a liability position at year end 2016. These increases were offset by a decrease in notes payable to members of $3.4 million due to decreased use of a program that allows members to deposit funds with GRE in exchange for a return on investment.

LONG-TERM DEBT
(dollars in millions)



LIQUIDITY POSITION AND FINANCING

On a stand-alone basis, GRE's year end 2016 unrestricted available liquidity of $465.2 million was comprised of cash and cash equivalents of $207.8 million and unused capacity on its existing unsecured credit facilities of $257.4 million. GRE's unsecured credit facilities include a $400.0 million revolving credit agreement that expires in May 2021 and a $30.0 million line of credit with CoBank ACB (CoBank) that expires in October 2017. GRE uses its unsecured credit facilities for general working capital and for financing its construction program. GRE has the option to increase the aggregate amount of credit extended to $525.0 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 GRE's Indenture of Mortgage, Security Agreement and Financing Statement. Since GRE's 2007 prepayment of its debt under the RUS Mortgage with the issuance of the $1.3 billion Series 2007A bonds, GRE has issued an additional $2.05 billion of secured debt.

GRE renewed its revolving credit agreement in 2016 for an additional five years. 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, GRE anticipates being able to fund planned additions and upgrades to existing generation, transmission, and other general plant facilities until the 2017 debit issuance and beyond.

GRE's financial position is strong. GRE has kept member rates competitive with the region, maintained its investment grade credit ratings, sustained its strong liquidity, and is ahead of its target to achieve an equity to capitalization ratio of 20.0 percent by 2020. In management's view, GRE is well positioned to continue to achieve 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, 2017

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, 2016 and 2015, 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, 2016, 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 (MAG), a consolidated subsidiary, or The Falkirk Mining Company (Falkirk), a variable interest entity, which statements reflect total assets constituting 7% and 8% of consolidated total assets as of December 31, 2016 and 2015, respectively, and total revenues constituting 24%, 20%, and 16% of consolidated total revenues for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Minneapolis, Minnesota
March 8, 2017

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

ASSETS	2016	2015
UTILITY PLANT:		
Electric plant	$ 4,460,054	$ 4,558,238
Coal mine plant	335,480	345,122
Plant to be retired—net of accumulated depreciation	53,489	
Construction work in progress	100,570	58,774
Less accumulated depreciation and amortization	(2,131,129)	(2,147,318)
Utility plant—net	2,818,464	2,814,816
NONUTILITY PLANT AND EQUIPMENT—Net	179,741	186,574
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	12,693	12,140
Other investments	30,249	29,457
Deferred charges:		
Financing related	120,102	121,919
Contract settlement	83,543	83,543
Other	158,517	142,789
Other long-term assets	28,785	32,593
Total other assets and investments	433,889	422,441
CURRENT ASSETS:		
Cash and cash equivalents	274,980	268,347
Accounts receivable:		
Members	144,166	134,116
Others	33,793	18,984
Inventories:		
Materials and supplies	65,733	70,049
Fuel	23,346	30,633
Other	18,092	17,891
Prepaids and other current assets	21,020	15,639
Derivative instruments	6,247	4,055
Total current assets	587,377	559,714
TOTAL	$ 4,019,471	$ 3,983,545

CONTINUED

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

CAPITAL AND LIABILITIES	2016	2015
CAPITAL:		
Members:		
Patronage capital	$ 593,230	$ 554,848
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	594,428	556,046
Noncontrolling interest:		
Subsidiary—MAG	20,959	19,598
Variable interest entity—NDRC	113,646	96,955
Total noncontrolling interest	134,605	116,553
Total capital	729,033	672,599
OTHER NONCURRENT LIABILITIES	100,929	109,602
REGULATORY LIABILITIES	42,015	27,395
LONG-TERM OBLIGATIONS—Less current portion	2,679,048	2,743,041
DEFERRED COMPENSATION	12,693	12,140
DEFERRED INCOME TAXES	5,726	4,915
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, and 10)		
CURRENT LIABILITIES:		
Current portion of long-term obligations	150,124	149,329
Notes payable to members	27,187	30,543
Accounts payable	85,896	67,110
Property and other taxes	25,901	26,014
Other accrued liabilities and notes payable	58,099	41,205
Accrued interest payable	60,691	63,278
Derivative instruments	42,129	36,374
Total current liabilities	450,027	413,853
TOTAL	$ 4,019,471	$ 3,983,545

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONCLUDED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014 (IN THOUSANDS)

UTILITY OPERATIONS	2016	2015	2014
UTILITY OPERATING REVENUE:			
Electric revenue	$ 920,625	$ 896,112	$ 951,993
Other operating revenue	101,447	86,937	68,183
Total utility operating revenue	1,022,072	983,049	1,020,176
UTILITY OPERATING EXPENSES:			
Purchased power	144,753	142,550	212,213
Fuel	219,859	233,361	223,523
Operation and maintenance	316,174	309,519	280,070
Depreciation and amortization	144,586	141,030	126,302
Property and other taxes	30,730	30,722	25,465
Total utility operating expenses	856,102	857,182	867,573
UTILITY OPERATING MARGIN	165,970	125,867	152,603
OTHER INCOME (EXPENSE):			
Other income—net	3,777	32,829	1,420
Interest income	1,643	1,319	1,316
Interest expense—net of amounts capitalized	(137,845)	(144,015)	(131,541)
Other expense—net	(132,425)	(109,867)	(128,805)
NET UTILITY MARGIN	33,545	16,000	23,798
NONUTILITY OPERATIONS:			
Operating revenue	246,120	188,622	165,255
Operating expense	239,900	189,646	129,882
Operating income (loss)	6,220	(1,024)	35,373
(Loss) income from equity method investments	(22)	38	215
Loss from variable interest entity—NDRC	(18,215)	(15,800)	(15,061)
Net nonutility operations	(12,017)	(16,786)	20,527
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	21,528	(786)	44,325
NONCONTROLLING INTEREST:			
Subsidiary—MAG	(1,361)	199	(7,414)
Variable interest entity—NDRC	18,215	15,800	15,061
Total noncontrolling interest	16,854	15,999	7,647
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 38,382	$ 15,213	$ 51,972

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014 (IN THOUSANDS)

				Noncontrolling Interest		
	Patronage Capital	Memberships	Additional Paid-in Capital	Subsidiary—MAG	Variable Interest Entity—NDRC	Total Capital
BALANCE—January 1, 2014	$ 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
Net margin (loss) and comprehensive income (loss)	38,382			1,361	(18,215)	21,528
Capital contributed by noncontrolling interest					46,263	46,263
Capital distributed to noncontrolling interest					(10,565)	(10,565)
Dividends paid by noncontrolling interest					(792)	(792)
BALANCE—December 31, 2016	$ 593,230	$ 3	$ 1,195	$ 20,959	$ 113,646	$ 729,033

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014 (IN THOUSANDS)

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin (loss), including noncontrolling interest	$ 21,528	$ (786)	$ 44,325
Adjustments to reconcile net margin (loss) to net cash provided by operating activities:			
Depreciation and amortization:			
Included in depreciation and amortization	144,586	141,030	126,302
Included in fuel and interest	29,761	32,272	31,315
Included in operation and maintenance	15,748		
Included in nonutility operating expense	11,168		
Loss (income) from equity method investments	21	(38)	(215)
Patronage credits earned from investments	(2,127)	(1,825)	(1,279)
Deferred charges	(29,152)	(79,219)	(11,180)
Regulatory liabilities	12,000	(42,234)	(2,038)
Changes in working capital (excluding cash, investments, and borrowings):			
Accounts and long-term receivables	(23,413)	3,422	10,046
Inventory and other assets	7,043	(6,676)	(15,029)
Accounts payable, taxes, and other accrued expenses	10,966	8,173	(1,895)
Accrued interest	(2,587)	632	(2,410)
Noncurrent liabilities	1,877	933	(1,793)
Net cash provided by operating activities	197,419	55,684	176,149
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility plant additions	(150,403)	(151,671)	(180,813)
Nonutility plant and equipment additions	(3,266)	(24,884)	(98,797)
Proceeds from sale of property	638	219	339
Investment in equity method investments			(25)
Redemption of patronage capital from investments	1,335	1,153	742
Net cash used in investing activities	(151,696)	(175,183)	(278,554)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term obligations	375,000	630,308	652,132
Repayments of long-term obligations	(444,440)	(526,451)	(585,555)
Cost of new debt issuances, leases, and interest rate hedging instruments	(1,200)	(313)	(28,405)
Borrowings on line of credit—net			(10,000)
Notes (paid to) received from members—net	(3,356)	6,657	(1,083)
Subsidiary—MAG:			
Capital contributed by noncontrolling interest			17,000
Equity issuance costs			(456)
Capital distributed to noncontrolling interest		(2,966)	
Variable interest entity—NDRC:			
Capital contributed by noncontrolling interest	46,263	50,608	48,352
Capital distributed to noncontrolling interest	(10,565)	(12,915)	(16,704)
Dividends paid by noncontrolling interest	(792)	(786)	(782)
Net cash (used in) provided by financing activities	(39,090)	144,142	74,499
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,633	24,643	(27,906)
CASH AND CASH EQUIVALENTS—Beginning of year	268,347	243,704	271,610
CASH AND CASH EQUIVALENTS—End of year	$ 274,980	$ 268,347	$ 243,704

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND 2015, AND FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

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 facility located near Underwood, North Dakota, and Spiritwood Station, GRE's facility located near Jamestown, North Dakota. 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.

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 $1.8 million, $2.4 million, and $2.9 million in 2016, 2015, and 2014, respectively; income tax expense of $2.7 million, $3.0 million, and $3.1 million in 2016, 2015, and 2014, respectively; and net income of $12.2 million, $12.6 million, and $11.9 million in 2016, 2015, and 2014, respectively, all of which are part of the contract cost of coal purchased under the coal sales agreement and included in fuel expense on the consolidated statements of operations and comprehensive income. Accordingly, the net effect of consolidating the income statement of Falkirk had no impact on GRE's margin for the years ended December 31, 2016, 2015, and 2014.

Assets and liabilities of Falkirk included in the consolidated balance sheets as of December 31, 2016 and 2015, after intercompany eliminations, are as follows (in thousands):

	2016	2015
Coal mine plant	$ 287,175	$ 296,817
Construction work in progress	464	981
Accumulated depreciation and amortization	(165,680)	(165,649)
Deferred charges	18,596	21,921
Other long-term assets	6,589	6,547
Materials and supplies inventory	21,259	20,914
Fuel inventory	8,788	8,368
Other current assets	1,654	1,774
Other noncurrent liabilities	29,097	38,385
Long-term obligations	37,871	43,164
Current liabilities	26,583	28,162

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 requires GRE to consolidate NDRC in its financial statements 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 $13.4 million, $9.9 million, and $10.2 million for the years ended December 31, 2016, 2015,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

and 2014, respectively, related to this agreement. This includes 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 $18.2 million, $15.8 million, and $15.1 million for the years ended December 31, 2016, 2015, and 2014, 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, 2016 and 2015.

Assets and liabilities of NDRC included in the consolidated balance sheets as of December 31, 2016 and 2015, after intercompany eliminations, are as follows (in thousands):

	2016	2015
Cash	$ 5,871	$ 4,519
Prepaids	67	72
Current liabilities	176	341

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 $12.6 million, $9.4 million, and $5.5 million for the years ended December 31, 2016, 2015, and 2014, 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 2016, 2015, and 2014.

Utility net margin and nonutility operating income (loss) as of December 31, 2016, 2015, and 2014, would be as follows had this transaction been eliminated (in thousands):

	2016		2015		2014	
	As Presented	With Elimination	As Presented	With Elimination	As Presented	With Elimination
Net utility margin	$ 33,545	$ 20,946	$ 16,000	$ 6,650	$ 23,798	$ 18,256
Nonutility operating income (loss)	6,220	18,819	(1,024)	8,326	35,373	40,915
Total	$ 39,765	$ 39,765	$ 14,976	$ 14,976	$ 59,171	$ 59,171

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, 2016, 2015, and 2014, is as follows (in thousands):

	2016	2015	2014
Supplemental disclosure of cash flow information:			
Cash paid for interest—net of amounts capitalized	$ 152,578	$ 148,384	$ 139,011
Cash paid for taxes—Falkirk	$ 2,243	$ 3,825	$ 3,201
Noncash investing and financing activities:			
Utility and nonutility plant acquisitions included in accounts payable	$ 10,140	$ 8,576	$ 22,601
Utility plant acquired under capital lease—Falkirk	$ 3,794	$ 5,336	$ 3,397

Interest on borrowed funds in the amount of $3.7 million, $5.8 million, and $14.2 million was capitalized in 2016, 2015, and 2014, 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 net realizable value. Ethanol and distillers grain inventory is stated at the lower of cost (average monthly cost) or net realizable value. Materials and supplies inventory is stated at lower of average cost or net realizable value.

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 and nitrogen oxides that can be emitted from GRE owned power plants. GRE is allotted allowances under the Acid Rain and the Cross-State Air Pollution Rule Programs for its use. 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, 2016 and 2015.

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. 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 $(42.6) million and $(42.0) million at December 31, 2016 and 2015, respectively, that will continue to be amortized. Also included in accumulated depreciation are nonlegal or noncontractual costs of removal components in the amount of $49.0 million and $53.4 million for 2016 and 2015, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Plant To Be Retired — Net of Accumulated Depreciation — Plant to be retired represents the undepreciated book value of Stanton Station (Stanton). Stanton is expected to discontinue operating May 1, 2017.

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%, 3.1%, and 3.0% for 2016, 2015, and 2014, respectively. The range of useful lives for utility plant is three to 50 years. Coal mine equipment is depreciated or 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 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, 2016 and 2015, is as follows (in thousands):

	2016	2015
Land improvements	$ 16,166	$ 16,166
Buildings and improvements	36,956	36,869
Plant equipment and other	154,329	150,583
Construction work in progress	763	1,179
Less accumulated depreciation	(28,473)	(18,223)
	$ 179,741	$ 186,574

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 2016 and 2015, the power cost adjustments were credits to GRE members of $7.5 million and $18.6 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 2016, GRE deferred the recognition of $12.0 million of member electric revenue under regulatory accounting. In 2015 and 2014, GRE recognized deferred member electric revenue of $11.7 million and $2.0 million, respectively, under regulatory accounting (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. 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. Except for interest expense, MAG's subsidiaries, DSAF and DSA, had minimal operations during 2014.

Subsequent Events — GRE has considered subsequent events for recognition or disclosure through March 8, 2017, the date the consolidated financial statements were available to be issued. All material subsequent events have been disclosed in these consolidated financial statements.

3. ACCOUNTING PRONOUNCEMENTS

Recently Adopted

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 implemented the new guidance as required in 2016 and its adoption did not have a material impact on GRE's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. GRE implemented the new guidance in 2016. As a result, $24.5 million of debt issuance costs previously reported as other long-term assets and $2.0 million of deferred lease costs previously reported as other noncurrent liabilities were retrospectively reclassified to long-term obligations on the consolidated balance sheet as of December 31, 2015. Additionally, $5.2 million and $4.2 million of debt issuance costs amortization were retrospectively reclassified from depreciation and amortization to interest expense on the consolidated statements of operations and comprehensive income as of December 31, 2015 and 2014, respectively.

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 implemented the new guidance in 2016 and its adoption did not have a material impact on GRE's consolidated financial statements.

In November 2015, the FASB issued ASU 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. Early adoption was permitted and GRE implemented the guidance in 2016. Current deferred income tax benefit of $25.2 million was retrospectively reclassified to long-term deferred income taxes liability on the consolidated balance sheet as of December 31, 2015.

Recently Issued

In May 2014, the FASB issued ASU 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. This ASU is effective for GRE in 2018.

In February 2016, the FASB issued ASU 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 ASU is effective for GRE in 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. GRE does not believe the adoption of this ASU will have a material effect on the consolidated statements of cash flows. This ASU is effective for GRE in 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 320)*. The ASU will require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will require that GRE include MAG's restricted cash of $3.9 million as of December 31, 2016, as a cash equivalent on the statement of cash flows. This ASU is effective for GRE in 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 $12.5 million, $11.8 million, and $5.6 million in 2016, 2015, and 2014, respectively.

The schedule of future minimum lease payments as of December 31, 2016, is as follows (in thousands):

YEARS ENDING DECEMBER 31	MAG	GRE
2017	$ 9,064	$ 1,193
2018	8,224	1,165
2019	8,173	1,031
2020	8,016	766
2021	5,862	617
Thereafter	32,072	765
	$ 71,411	$ 5,537

Capital Leases — GRE entered into a lease agreement for railroad cars used in the operation of Spiritwood Station. The lease expires in 2020. The gross amount of the lease was $7.6 million, with accumulated amortization of $4.8 million and $4.1 million at December 31, 2016 and 2015, respectively. The principal and interest payments were $1.1 million for years 2016, 2015, and 2014.

Falkirk has also leased certain equipment that is used in mining operations. The gross amount of these leases was $104.6 million and $118.7 million and the accumulated amortization was $53.2 million and $56.9 million as of December 31, 2016 and 2015, 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 as of December 31, 2016, is as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2017	$ 15,286	$ 1,056
2018	13,594	1,056
2019	12,348	1,056
2020	3,679	264
2021	3,241	
Thereafter	1,222	
Total minimum lease payments	49,370	3,432
Amounts representing interest	(2,585)	(364)
Present value of minimum lease payments	46,785	3,068
Current maturities	(13,962)	(872)
Long-term capital lease obligations—net	$ 32,823	$ 2,196

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

5. LONG-TERM OBLIGATIONS

The consolidated long-term obligations as of December 31, 2016 and 2015, are as follows (in thousands):

	2016	2015
First Mortgage Bonds, Series 2007A, 5.829%, due 2017	$ 48,500	$ 97,900
First Mortgage Bonds, Series 2007A, 6.254%, due 2018–2038	739,100	739,100
First Mortgage Bonds, Series 2008A, 7.233%, due 2017–2038	345,635	351,770
First Mortgage Bonds, Series 2008B, 1.96%, due 2017–2023	11,667	13,333
First Mortgage Notes, Series 2009A, 5.0% to 7.15%, due 2017–2024	68,400	80,600
First Mortgage Bonds, Series 2009B, 5.81% to 6.94%, due 2017–2031	325,000	345,000
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 Bonds, Series 2010D, 4.478%, due 2017–2030	349,500	364,500
First Mortgage Note, Series 2014A, 2.84%, due 2017–2021	70,000	85,000
First Mortgage Note, Series 2014B, LIBOR plus 1.15%, 1.92% at December 31, 2016, due 2033–2038	100,000	100,000
First Mortgage Note, Series 2015A, 3.76%, due 2021-2028	100,000	100,000
First Mortgage Note, Series 2015B, 4.11%, due 2028-2035	100,000	100,000
First Mortgage Note, Series 2015C, 4.62%, due 2036-2044	100,000	100,000
First Mortgage Note, Series 2015D, 4.70%, due 2036-2044	50,000	50,000
Syndicated Credit Facility, National Rural Utilities Cooperative Finance Corp,		
LIBOR plus 1.25%, 2.02% at December 31, 2016, due 2021	140,000	60,000
Variable, 4.0% at December 31, 2016, due 2021	20,000	25,000
Department of Energy, 0%, due 2017–2028, 5.2% to 6.1% imputed interest	5,055	5,525
Term Note, LIBOR plus 1.375%, 2.15% at December 31, 2016, due 2017–2019	3,000	5,000
Term Note, 2.35%, due 2017–2019	2,490	3,395
Term Note, 2.55%, due 2017–2019	2,131	2,906
Capitalized lease obligations, Spiritwood Station coal cars, 6.9% imputed interest	3,068	3,882
Capitalized lease obligations, Falkirk Mine, 1.2% to 5.9% imputed interest	46,785	59,772
Term Note, Blue Flint, 5.8%, due 2017–2021	9,231	11,077
Term Note, Blue Flint, LIBOR plus 3.75%, 4.52% at December 31, 2016, due 2017–2021	6,745	8,499
Term Note, DSAF, EB-5 Program, 7%, due 2019	75,000	75,000
Term Note, DSA, LIBOR plus 5.00%, 5.54% at December 31, 2016, due 2017–2023	40,781	45,000
Revolver Note, DSA, LIBOR plus 5.00%, 5.54% at December 31, 2016, due 2025	15,000	15,000
Other—at various rates and maturities	7,231	6,495
Subtotal	2,857,319	2,926,754
Less unamortized bond issuance costs	(22,013)	(24,484)
Plus deferred lease costs, Falkirk Mine	4,622	2,032
Less unamortized bond discount	(10,756)	(11,932)
	2,829,172	2,892,370
Current maturities	(150,124)	(149,329)
Long-term obligations—net	$ 2,679,048	$ 2,743,041

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 $400.0 million unsecured revolving credit facility for which National Rural Utilities Cooperative Finance Corporation (CFC) is the administrative agent. This facility expires in May 2021. This facility can be increased, at GRE's option, to $525.0 million subject to certain terms and conditions. At December 31, 2016 and 2015, the outstanding balance was $160.0 million and $85.0 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 2017. There were no amounts outstanding on this facility at December 31, 2016 and 2015.

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

Subsequent to year end, Blue Flint renewed its revolving line of credit and increased the limit to $25.0 million. The line of credit expires on May 1, 2022. There were no amounts outstanding at December 31, 2016 and 2015.

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. As of December 31, 2016, DSA was not in compliance with one financial covenant and its lender waived the compliance requirement until the measurement period ending December 31, 2017.

Future maturities on long-term obligations as of December 31, 2016, are as follows (in thousands):

YEARS ENDING DECEMBER 31	
2017	$ 150,124
2018	145,313
2019	227,831
2020	144,481
2021	306,800
Thereafter	1,882,770
	$ 2,857,319

6. INVESTMENTS

GRE's investments as of December 31, 2016 and 2015, are as follows (in thousands):

	2016	2015
Other investments:		
Capital certificate investments—CFC	$ 19,644	$ 19,644
Cooperative investment patronage allocations	10,605	9,813
Total other investments	30,249	29,457
Restricted investments—investments for deferred compensation	12,693	12,140
	$ 42,942	$ 41,597

The capital certificate investments bear interest at a rate of 5% and a portion of them are required under borrowing arrangements with CFC. At December 31, 2016, GRE had no commitments to purchase additional capital certificate investments from CFC. Capital certificate investments 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 8).

The investments reported at amortized cost at December 31, 2016 and 2015, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
Long-term investments—held-to-maturity securities—capital certificate investments	$ 19,644	$ -	$ -	$ 19,644
2015				
Long-term investments—held-to-maturity securities—capital certificate investments	$ 19,644	$ -	$ -	$ 19,644

Capital certificate investments have maturities greater than 10 years.

Interest income received on all investments was $1.6 million, $1.3 million, and $1.3 million in 2016, 2015, and 2014, 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.

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, 2016, 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, 2016 and 2015.

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 requires 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, 2016, 2015, and 2014, are as follows (in thousands):

	2016	2015	2014
Realized and unrealized gains (losses) recognized from undesignated hedges:			
Nonutility operating revenue	$ (5,425)	$ 1,552	$ (10,827)
Nonutility operating expenses	7,242	1,939	(30)

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 derivative instruments in the consolidated balance sheets as of December 31, 2016 and 2015, are as follows (in thousands):

	Balance Sheet Location	2016	2015
Derivatives in an asset position, none of which are designated as hedging instruments:			
Interest rate contracts	Derivative instruments	$ 4,786	$ 133
Commodity contracts	Derivative instruments	1,461	3,922
Total derivative instrument assets		$ 6,247	$ 4,055
Derivatives in a liability position, none of which are designated as hedging instruments:			
Interest rate contracts	Derivative instruments	$ 37,665	$ 33,782
Commodity contracts	Derivative instruments	4,464	2,592
Total derivative instrument liabilities		$ 42,129	$ 36,374

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP establishes 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 direct or indirect 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, 2016 and 2015, set forth by level within the fair value hierarchy, is as follows (in thousands):

	Assets at Fair Value as of December 31, 2016			
	Total	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents—money market funds	$ 177,278	$ 177,278	$ -	$ -
Restricted investments—deferred compensation:				
Money market funds	2,438	2,438		
Mutual funds:				
Domestic stock funds	3,318	3,318		
Balanced funds	3,976	3,976		
Fixed income funds	1,344	1,344		
International stock funds	1,617	1,617		
Interest rate contracts	4,786		4,786	
Commodity derivatives	1,461	1,282	179	
Total assets	$ 196,218	$ 191,253	$ 4,965	$ -
Liabilities:				
Interest rate contracts	$ 37,665	$ -	$ 37,665	$ -
Commodity derivatives	4,464	2,720	1,744	
Total liabilities	$ 42,129	$ 2,720	$ 39,409	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	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	$ -

For the years ended December 31, 2016 and 2015, 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, 2016 and 2015, are as follows and are provided for disclosure purposes only (in millions):

	2016		2015	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Long-term receivables	$ 2.6	$ 2.5	$ 2.7	$ 2.7
Long-term obligations	2,796.7	3,299.0	2,851.2	3,169.9

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 certificate investments, 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 2016, 2015, or 2014 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, 2016 and 2015, are as follows (in thousands):

	2016	2015
GRE		
Deferred tax assets:		
Net operating loss carryforwards	$ 171,648	$ 172,166
Tax and AMT credit carryforwards	8,547	8,487
Other	41,608	33,551
Total deferred tax assets	221,803	214,204
Deferred tax liabilities:		
Property related	(161,896)	(158,784)
Deferred regulatory assets	(26,807)	(18,885)
Other	(34,640)	(37,616)
Total deferred tax liabilities	(223,343)	(215,285)
Valuation allowance	(4,186)	(3,834)
Net deferred tax liability	$ (5,726)	$ (4,915)
Falkirk		
Deferred tax assets	$ 16,839	$ 16,682
Deferred tax liabilities	(11,654)	(11,952)
Net deferred tax asset, reported as deferred charges-other	$ 5,185	$ 4,730

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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.

GRE uses regulatory accounting to account for the difference between the accrual based method of accounting for income taxes and the cash based method of accounting for recognizing income tax expense in the consolidated statements of operations and comprehensive income as member rates include actual income taxes paid (see Note 11).

As of December 31, 2016, GRE had a federal net operating loss (NOL) of $417.8 million that can be used to offset taxable income in the carryforward period. These NOLs expire in varying amounts from 2022 through 2035. GRE has recorded a valuation allowance for the NOLs that GRE believes will not be utilized using the more likely than not threshold. GRE also has a tax credit carryforward of $8.1 million and a prepaid alternative minimum tax (AMT) credit of $0.4 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 (IRS) for taxable years 2012, 2013, and 2014. 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, 2013, and 2014 tax returns, believes it is more likely than not that the positions will be sustained.

GRE has determined that its taxable years ended December 31, 2011, 2015, and 2016 are still subject to examination under federal tax statutes. GRE has completed examinations by the IRS of taxable year ended December 31, 2010. GRE's taxable years ended December 31, 2010 through 2016, are still subject to examination under state tax statutes.

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.

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

	2017	2018	2019	2020	2021	Thereafter	Total
Wind energy purchases	69.8	70.1	69.7	98.4	89.9	1,507.8	1,905.7
Other purchased power	26.7	22.6	22.5	22.6	23.4	191.2	309.0
Dairyland Power Cooperative	6.1	6.1	2.5				14.7
Construction contract	33.8	41.5	33.3				108.6
Fuel contracts	1.9	1.9	2.0				5.8
	$ 138.3	$ 142.2	$ 130.0	$ 121.0	$ 113.3	$ 1,699.0	$ 2,343.8

Wind energy purchases — GRE has long-term agreements for the purchase of wind energy from various power suppliers. The agreements have varying terms, and some have extension options. The longest contract term extends to 2044. 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 $64.7 million, $64.0 million, and $64.8 million for 2016, 2015, and 2014, 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 2030. 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 $19.5 million, $9.2 million, and $14.1 million for 2016, 2015, and 2014, respectively.

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 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 $6.1 million, $24.7 million, and $44.3 million for 2016, 2015, and 2014, 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 commenced in 2016 and extends through 2021. GRE's expenditures under this agreement were $25.8 million for 2016.

Fuel Contract — GRE has agreements for the supply and delivery of coal to Stanton in North Dakota. The coal and freight agreements run through the end of 2018. There are no minimum commitments under the coal agreement; however, the freight agreement does require GRE to pay for the delivery of a minimum amount of tons of coal. As part of the closure costs associated with Stanton, GRE has recorded $5.1 million in accounts payable as of December 31, 2016, for the estimated amount to be paid under this provision.

GRE has a number of long-term agreements that extend through 2019 for the rail delivery of coal for Spiritwood Station. One agreement requires GRE to pay for the delivery of a minimum amount of tons of coal. GRE's rail expense under this agreement was $1.6 million, $1.5 million, and $0.5 million for 2016, 2015, and 2014, respectively, and the minimum annual requirements are included as a fuel contract commitments.

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, 2016, 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, 2016 and 2015. 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 $1.2 million to MISO in connection with its commodity derivatives. GRE has also issued two letters of credit totaling $11.0 million related to Spiritwood Station water and infrastructure agreements. No amounts are outstanding as of December 31, 2016 and 2015.

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11. DEFERRED CHARGES AND REGULATORY LIABILITIES

Deferred charges as of December 31, 2016 and 2015, are as follows (in thousands):

	2016	2015
Regulatory assets:		
Premiums on refinanced long-term debt	$ 7,758	$ 8,901
Interest rate derivatives	37,665	33,782
Settled interest rate hedging instruments	74,679	79,237
Purchased power contract settlement	83,543	83,543
Postretirement benefit plans	17,719	44,399
Settled postretirement benefit plan	22,574	
Transaction costs related to NDRC	7,076	7,779
Refined coal purchase costs	66,000	54,000
Interest and plant costs	16,198	16,724
Scheduled major outage maintenance	11,419	9,931
Plant retirement	6,232	
Deferred income taxes	5,726	4,915
Other	293	275
Total regulatory assets	356,882	343,486
Other deferred charges	5,280	4,765
Total deferred charges	$ 362,162	$ 348,251
Reported as:		
Deferred charges:		
Financing related	$ 120,102	$ 121,919
Contract termination	83,543	83,543
Other	158,517	142,789
Total deferred charges	$ 362,162	$ 348,251

Regulatory liabilities as of December 31, 2016 and 2015, are as follows (in thousands):

	2016	2015
Regulatory liabilities:		
Settled interest rate hedging instruments	$ 5,690	$ 5,690
Incentive-based rate treatment	16,653	17,131
Deferred revenue	12,000	
Interest rate derivatives	4,786	133
Other	2,886	4,441
Total regulatory liabilities	$ 42,015	$ 27,395

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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.

Interest Rate Derivatives — GRE has interest rate swaps that have not been settled as of December 31, 2016 and 2015. A regulatory asset or liability is recorded offsetting the fair value liability or asset, 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 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 a future year.

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.

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 $4.3 million and $27.2 million, and Falkirk's plans of $13.4 million and $17.2 million at December 31, 2016 and 2015, respectively. These amounts are adjusted each year as a result of the remeasurement of the obligations related to these plans.

Settled Postretirement Benefit Plans — During 2016, GRE settled its qualified defined benefit plan, which would have required the recognition of the amount previously reported as accumulated other comprehensive income as pension expense. This amount was $22.7 million as of December 31, 2015. GRE is continuing to record this as a regulatory asset as of December 31, 2016, and it is now being amortized over 15 years.

Transaction Costs Related to NDRC — GRE incurred 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 for interest, maintenance, and other costs associated with Spiritwood Station. 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. Stanton related maintenance costs have been fully amortized as of December 31, 2016.

Plant Retirement — During 2016, GRE approved the closure of Stanton for spring of 2017. Regulatory accounting was approved for the remaining undepreciated net plant value, which is reported as plant to be retired within utility plant until actual plant closure, and closure costs. As of December 31, 2016, the regulatory asset represents the estimated additional costs to be incurred as a result of plant closure. At the time of plant closure in 2017, the remaining balance in utility plant will be reclassed to the regulatory asset and it will be amortized through 2028.

Deferred Income Taxes — GRE records income tax expense as income taxes are paid; a regulatory asset is recorded for the difference between deferred tax assets and liabilities. The regulatory asset is adjusted each year for changes in income tax timing differences.

Other Deferred Charges — Other deferred charges primarily relate to unamortized patent costs and Falkirk's deferred tax asset.

Incentive-Based Rate Treatment — GRE received approval from the Federal Energy Regulatory Commission for incentive-based rate treatment for the CapX2020 transmission projects and collected a return on investment from MISO while

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these projects were under construction. GRE recorded amortization expense in an amount equal to the interest capitalized to the project and recorded an offsetting regulatory liability. Now that the project is complete, the regulatory liability is being amortized over the useful life of the underlying assets and recorded as a reduction to depreciation expense.

Deferred Revenue — GRE deferred the recognition of $12.0 million of member electric revenue during 2016 in accordance with regulatory accounting requirements. This deferred revenue will be recognized in member electric revenue in the future as determined by the board of directors.

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

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 expired at the end of 2016 and is currently being renegotiated. Two agreements extend through the end of 2018.

Defined Benefit Plans — GRE has a qualified 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 had a nonqualified defined contribution plan for certain employees. GRE terminated the qualified defined benefit plan as of December 31, 2015, freezing all future benefits, and settled the plan in 2016. As a result of the plan freeze in 2015, 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. In 2016, GRE would have recognized net periodic pension benefit cost of $23.1 million related to the settlement of the plan; however GRE adopted regulatory accounting and established a deferred regulatory asset for $22.7 million (see Note 11). The nonqualified supplemental defined benefit plan remains an obligation of GRE.

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.

Changes in benefit obligations and plan assets for the years ended December 31, 2016 and 2015, and the amounts recognized in the consolidated balance sheets as of December 31, 2016 and 2015, are as follows (in thousands):

	2016		2015	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 66,837	$ 59,327	$ 70,687	$ 64,684
Service cost				128
Interest cost	2,742	1,783	2,734	2,085
Actuarial (gain) loss	(1,183)	3,804	(3,450)	(2,285)
Curtailment				(607)
Settlement		(55,811)	(304)	
Benefits paid	(2,932)	(4,249)	(2,830)	(4,678)
Benefit obligation—end of year	65,464	4,854	66,837	59,327
Change in plan assets:				
Fair value of plan assets—beginning of year	58,414	55,931	61,233	55,904
Actual return on assets	4,637	3,676	(50)	282
Employer contributions	3,508	453	61	4,423
Settlement		(55,811)		
Benefits paid	(2,932)	(4,249)	(2,830)	(4,678)
Fair value of plan assets—end of year	63,627	-	58,414	55,931
Funded status—end of year and amount recognized in other noncurrent liabilities	$ (1,837)	$ (4,854)	$ (8,423)	$ (3,396)

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Amounts not yet recognized as components of net periodic cost as of December 31, 2016 and 2015, are as follows (in thousands):

	2016		2015	
	Falkirk	GRE	Falkirk	GRE
Transition obligation	$ -	$ 80	$ -	$ 143
Accumulated loss	9,684	2,932	14,833	25,709
	$ 9,684	$ 3,012	$ 14,833	$ 25,852

The accumulated benefit obligation for the GRE defined benefit pension plans reflected above was $4.9 million and $59.3 million as of December 31, 2016 and 2015, respectively. The accumulated benefit obligation for the Falkirk defined benefit pension plan was $65.5 million and $66.8 million as of December 31, 2016 and 2015, respectively.

Components of net periodic benefit cost as of December 31, 2016, 2015, and 2014, are as follows (in thousands):

	2016		2015		2014	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	$ -	$ -	$ -	$ 128	$ -	$ 139
Interest cost	2,742	1,783	2,734	2,085	2,783	2,263
Expected return on assets	(4,434)	(1,468)	(4,379)	(1,832)	(4,170)	(2,004)
Amortization of prior service cost	255		424	9	102	13
Recognized net actuarial loss		1,240	10	1,360	8	1,105
Curtailment				67		
Amortization of net transition obligation		63		63		63
Settlement		23,133				
Net periodic benefit cost	$ (1,437)	$ 24,751	$ (1,211)	$ 1,880	$ (1,277)	$ 1,579

GRE recorded a regulatory asset for $22.7 million as of December 31, 2016 related to the settlement, resulting in a net period benefit cost of $2.1 million recognized in 2016.

The estimated amounts to be amortized from deferred charges into net periodic benefit cost in 2017 are $0.3 million for GRE and $0.2 million for Falkirk.

Weighted-average assumptions used to determine benefit obligations as of December 31, 2016, 2015, and 2014, are as follows:

	2016		2015		2014	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Discount rate	4.00 %	3.70 %	4.20 %	3.90 %	3.95 %	3.55 %
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	3.75

GRE and Falkirk adopted updated mortality tables to determine benefit obligations as of December 31, 2016, 2015, and 2014.

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Weighted-average assumptions used to determine periodic benefit cost as of December 31, 2016, 2015, and 2014, are as follows:

	2016		2015		2014	
	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
Expected return on assets	7.50	3.50	7.75	3.50	7.75	4.00

GRE's strategy was to invest in 100% fixed income securities for near-term and longer-term benefit payments; 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, were as follows (in thousands):

	2015
Cash	$ 319
Money market funds	1,107
Fixed income mutual funds	54,505
	$ 55,931

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 year ended 2015, 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 36% to 52% in domestic equity securities, 16% to 24% in international 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, 2016 and 2015, are as follows (in thousands):

	2016	2015
Money market funds	$ 244	$ 214
Domestic equity securities	29,479	30,492
International equity securities	12,478	7,174
Fixed income securities	21,426	20,534
	$ 63,627	$ 58,414

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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, 2016 and 2015, 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% for both 2016 and 2015 for GRE and a long-term rate of return assumption of 7.50% for 2016 and 7.75% for 2015 for Falkirk.

The expected future benefits to be paid as of December 31, 2016, are as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2017	$ 3,111	$ 435
2018	3,324	422
2019	3,510	409
2020	3,687	394
2021	3,865	380
2022–2025	20,780	1,661

GRE expects to make a contribution of approximately $0.4 million to the nonqualified supplemental defined benefit plan in 2017 and Falkirk does not expect to make any pension contributions in 2017.

Defined Contribution Plans — 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 $10.1 million, $9.4 million, and $8.9 million in 2016, 2015, and 2014, respectively. Falkirk's contributions to the defined contribution pension plan were $2.5 million, $2.4 million, and $2.2 million for 2016, 2015, and 2014, respectively. Falkirk's contributions to a defined contribution savings plan were $2.1 million, $2.0 million, and $1.9 million for 2016, 2015, and 2014, respectively.

Postretirement Medical Benefits — Under a previously offered postretirement benefit plan, certain employees are entitled to participate in the GRE medical insurance plan until they reach age 65. Benefits to the 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, 2016 and 2015, are as follows (in thousands):

	2016		2015	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 8,182	$ 2,355	$ 7,225	$ 2,782
Service cost	108	2	121	2
Interest cost	269	86	230	92
Actuarial (gain) loss	(2,312)	13	995	(179)
Benefits paid	(453)	(325)	(389)	(342)
Benefit obligations—end of year	$ 5,794	$ 2,131	$ 8,182	$ 2,355

Amounts recognized in the consolidated balance sheets as of December 31, 2016 and 2015, are as follows (in thousands):

	2016		2015	
	Falkirk	GRE	Falkirk	GRE
Current liabilities	$ 728	$ 235	$ 772	$ 314
Other noncurrent liabilities	5,066	1,896	7,410	2,041
	$ 5,794	$ 2,131	$ 8,182	$ 2,355

Amounts not yet recognized as components of net periodic cost as of December 31, 2016 and 2015, are as follows (in thousands):

	2016		2015	
	Falkirk	GRE	Falkirk	GRE
Accumulated (gain) loss	$ (513)	$ 1,296	$ 2,053	$ 1,356

Components of net periodic cost as of December 31, 2016, 2015, and 2014, are as follows (in thousands):

	2016		2015		2014	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	$ 108	$ 2	$ 121	$ 2	$ 119	$ 2
Interest cost	269	86	230	92	281	114
Amortization of prior service credit			18		(152)	(5)
Recognized net actuarial losses	253	74	77	85	104	61
Net periodic cost	$ 630	$ 162	$ 446	$ 179	$ 352	$ 172

The estimated amounts to be amortized from deferred charges into net periodic cost in 2017 are a net cost of less than $0.1 million for GRE and $0 for Falkirk.

The discount rates used to determine benefit obligations as of December 31, 2016, 2015, and 2014, are as follows:

	2016		2015		2014	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Discount rate	3.25 %	3.65 %	3.40 %	3.90 %	3.25 %	3.55 %

The expected future benefit payments to be paid as of December 31, 2016, are as follows (in thousands):

YEARS ENDING DECEMBER 31	Falkirk	GRE
2017	$ 881	$ 235
2018	938	199
2019	1,025	190
2020	1,069	178
2021	1,069	170
2022–2026	3,665	709

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 $864.3 million, $850.1 million, and $873.4 million in 2016, 2015, and 2014, respectively, for these services. GRE received 39.9%, 39.8%, and 39.2% of total member revenue from two members for the years ended December 31, 2016, 2015, and 2014, respectively. GRE has accounts receivable from its members of $144.2 million and $134.1 million at December 31, 2016 and 2015, respectively.

GRE also received various services from the members and paid $10.7 million, $11.8 million, and $10.3 million for these services in 2016, 2015, and 2014, respectively. GRE has accounts payable to the members of $2.8 million and $1.6 million at December 31, 2016 and 2015, respectively.

GRE has notes payable to the members of $27.2 million and $30.5 million at December 31, 2016 and 2015, 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 requires 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 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Balance—beginning of year	$ 80,288	$ 52,675
Obligations recorded as a result of changes in estimated cash flows	989	25,450
Accretion expense	4,211	2,970
Obligations settled	(13)	(807)
Balance—end of year	$ 85,475	$ 80,288

With the exception of the obligation related to Stanton of $5.6 million, which is reported as current other accrued liabilities as of December 31, 2016, these obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. The obligations settled are the only transactions recognized as a use of cash in the consolidated statements of cash flows.

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