2020 ANNUAL REPORT

Powering what's possible

GREAT RIVER ENERGY®

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Great River Energy is a cooperative owned by cooperatives, created by its member-owners to supply reliable, affordable and environmentally responsible energy. Our member-owner cooperatives are not-for-profit organizations owned by the people they serve and focused on providing the best possible service. Great River Energy and its member-owners are dedicated to powering what's possible for cooperative communities.

member-owner cooperatives	28
member-consumers	715K
coverage in Minnesota	60%
miles of transmission lines	4,800
total assets	$3.9B

" Great River Energy not only endured during a difficult year – our **business excelled.** "

Letter to stakeholders

In a year when many retreated into their homes for work, school and safety, we gained a clear understanding of the importance of dependable energy. The electric service provided by our member-owners proved essential during the COVID-19 pandemic, powering health care facilities, keeping essential businesses operating and enabling remote learning.

Early in the pandemic, Great River Energy adopted safe work practices and social distancing, while quickly understanding new energy usage patterns as member-consumers spent more time at home. Our goal was to minimize disruptions within the company and continue to safely and reliably operate the electric grid. That early action paid off, as Great River Energy not only endured during a difficult year – our business excelled.

By the summer of 2020, we were ahead of our financial targets to such a degree that we began issuing refunds to our member-owner cooperatives to assist with pandemic-related financial challenges. We returned $8.5 million to our members to offset lost sales, provide late fee holidays or use in any other way they deemed appropriate.

Employees found ways to boost efficiency and control spending throughout the year, identifying more than $30 million in avoided costs. Year after year, Great River Energy's culture of business improvement produces new ways to serve our member-owners better, safer and more efficiently. Great River Energy ended the year with excess margins, which we used to issue bill credits to members and pay down some financial commitments. We also retired patronage capital for the second consecutive year, returning more than $10 million to our membership.

While our employees tackled new challenges and implemented health and safety measures, Great River Energy set a course that will fundamentally change the way we serve our member-owners. In May, we initiated a three-year power supply transition that will eliminate coal from our portfolio and dramatically increase renewable energy. Recent wind agreements will more than double the renewable energy in our portfolio.

We project these changes will reduce wholesale electric rates while cutting direct carbon dioxide emissions by 95%. The decision was welcomed by our membership and the financial community. Great River Energy's credit rating was upgraded by Moody's due in large part to the reduced risk associated with our power supply plans.

We will look back at 2020 as one of the most challenging, memorable and impactful years in Great River Energy's history. Thanks to a supportive board of directors and membership and talented employee team, we entered 2021 stronger than ever and with a foothold firmly on the path to realizing our vision to competitively power the future.

Bob Bruckbauer
Board Chair

David Saggau
President and Chief Executive Officer

> “We make decisions based on the best interests of the 28 member-owner cooperatives we serve.”
>
> *Mark Fagan, Vice President and Chief Corporate Services Officer*

A lasting alliance

Electric cooperatives were formed when neighbors banded together approximately 80 years ago with a shared goal to bring electricity to their community. That same spirit of partnership exists today.

Cooperatives routinely team up to face shared challenges and lend a hand when a fellow co-op is in crisis. Great River Energy was created to address a common need for all co-ops: dependable, affordable wholesale electricity.

Every member-owner cooperative uses wholesale electricity from Great River Energy to meet the unique needs of its membership, bringing comfort and productivity to every corner of Minnesota.

$10 million
of patronage capital was returned to members through cash payments in 2020.

99.99% reliability
on Great River Energy's transmission system

CABIN COUNTRY

Cooperatives serve the area around many of Minnesota's famous lakes.

FOREST PRODUCTS

Minnesota boasts 15,654,278 acres of timberland.

MINING

Nine mines produce more than 40 million tons of iron ore taconite annually.

ADVANCED MANUFACTURING

Manufacturing is the largest private-sector contributor to the state's gross domestic product.

TECHNOLOGY

Minnesota is uniquely suited to serve a growing technology sector.

AGRICULTURE

Over 50% of Minnesota's total area is dedicated to farmland.

RESOURCE PORTFOLIO

Coal

1 **Coal Creek Station**
Generating capability: 1,130 MW
Fuel: DryFine™ lignite coal

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

Natural Gas

3 **Elk River Peaking Station**
Generating capability: 174 MW (summer)
Fuel: Natural gas; backup: fuel oil

4 **Lakefield Junction Peaking Station**
Generating capability: 462 MW (summer)
Fuel: Natural gas; backup: fuel oil

5 **Cambridge Peaking Station**
Generating capability: 169 MW (summer)
Fuel: Fuel oil (unit 1), and natural gas (unit 2)

6 **Pleasant Valley Peaking Station**
Generating capability: 406 MW (summer)
Fuel: Natural gas; backup: fuel oil

Fuel Oil

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

8 **Rock Lake Station**
Generating capability: 20 MW (summer)
Fuel: Fuel oil

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

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

Wind

11 **Trimont Wind**
Purchase: 100 MW*

12 **Elm Creek Wind**
Purchase: 99 MW*

13 **Prairie Star Wind**
Purchase: 101 MW*

14 **Ashtabula II Wind**
Purchase: 51 MW*

15 **Endeavor I Wind**
Purchase: 100 MW*

16 **Emmons-Logan Wind**
Purchase: 200 MW*

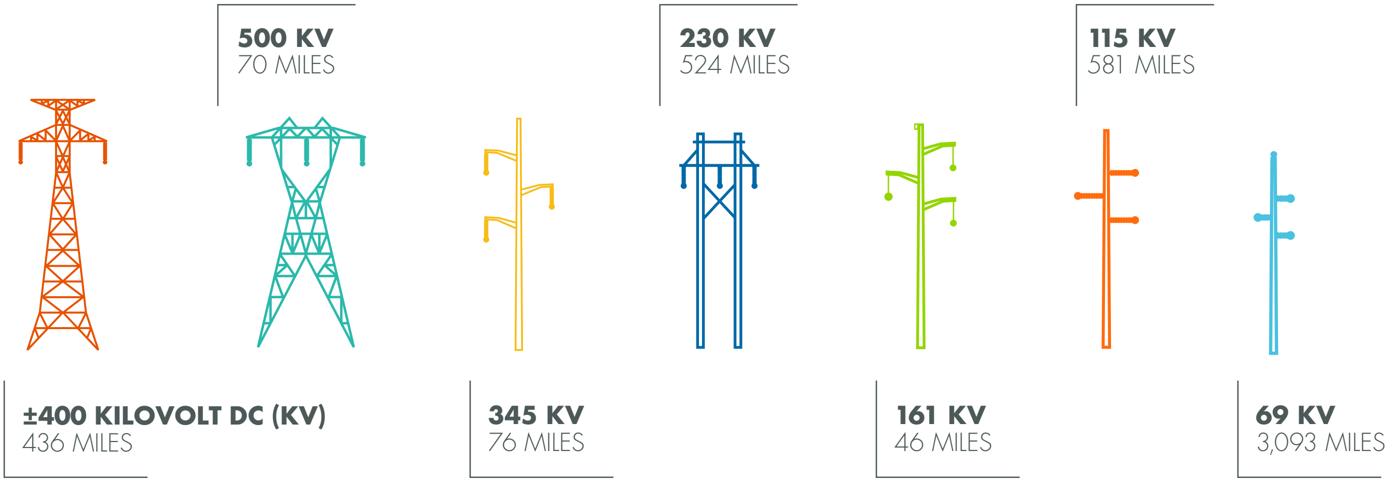
Other renewable energy
200 MW* (summer) from Manitoba Hydro.
12 MW* from two wind farms.
Approx. 3 MW* from 20 solar installations.

Generating capability based on summer generating capability for 2021-2022 planning year.

Solar installation

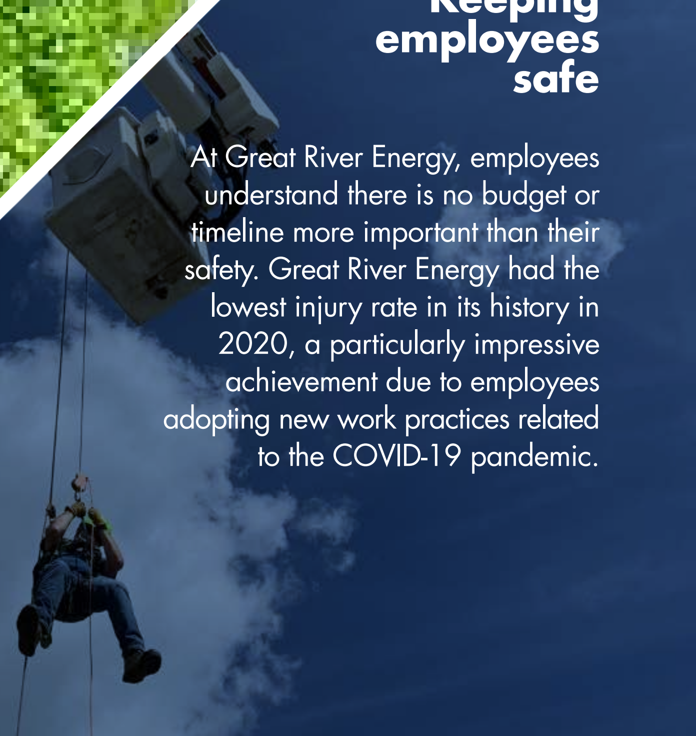
* Nameplate generating capability

Great River Energy carefully plans a power supply portfolio and builds and maintains transmission resources in order to deliver reliable and affordable wholesale electricity to the regional electricity market and 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.



Respectful and responsible closures. Great River Energy has retired two power supply resources in recent years. Restoration was completed at the site of the Stanton Station power plant in 2020, while we continued demolition of the Elk River Energy Recovery Station. The Elk River property will be completely restored in 2021, when it is graded to match the existing landscape and seeded with native plantings.

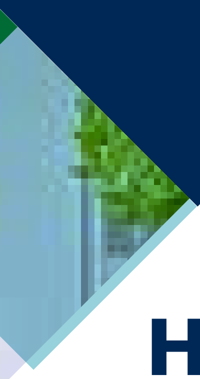
'Sota Grown



Keeping employees safe

At Great River Energy, employees understand there is no budget or timeline more important than their safety. Great River Energy had the lowest injury rate in its history in 2020, a particularly impressive achievement due to employees adopting new work practices related to the COVID-19 pandemic.

> “ It is exciting to play a part in learning more about this emerging market and studying the most effective ways to grow fresh produce in Minnesota year-round.”
>
> *Daniel Carlisle,*
> *Todd-Wadena Electric Cooperative*
> *President and Chief Executive Officer*



Helping co-ops grow

Great River Energy and its member-owner cooperatives encourage consumer-members to pursue electric uses that meet at least one of three criteria, without adversely affecting the others: save consumers money, reduce emissions and improve overall efficiency of the electric grid.

Cooperatives call this “beneficial electrification,” and we work together to encourage the smart use of electricity.

Insulated shipping containers outfitted with hydroponic growing systems are taking root at co-ops throughout Minnesota. Great River Energy, Todd-Wadena Electric Cooperative, Central Lakes College, Lakewood Health System and the Electric Power Research Institute partnered on a pilot project that is growing leafy greens year-round with the help of college students.

Electric indoor “farms” can create ideal conditions for plant growth, yield, quality and consistency, while improving access to fresh produce in greater Minnesota’s food deserts. Leafy greens generally travel an average of 2,000 miles before reaching a store.

The results of the demonstration project are already being shared among cooperatives, and new growing containers are being developed throughout Minnesota.

Cooperatives aid in renewable goal

A Minnesota data center is now powered entirely by renewable energy. Data center developer DataBank entered into an agreement with utility provider Dakota Electric Association, a Great River Energy member-owner cooperative, to purchase 100% renewable energy for a local data center. The renewable power is provided through Dakota Electric’s Wellspring program, which sources the power from clean wind resources provided by Great River Energy.

Powering the future

Great River Energy announced plans to transform its portfolio of power supply resources in the coming years. The cooperative will phase out remaining coal resources, add significant renewable energy and explore critical grid-scale battery technology. Great River Energy will focus on the reliability aspects of its power supply – resource adequacy and energy sufficiency – through this transition.

Great River Energy plans to take the following actions:

- Retire or sell the 1,151-MW Coal Creek Station power plant
- Add up to 1,100 MW of wind energy by 2023
- Modify Spiritwood Station to be fueled primarily by natural gas
- Install a 1-MW, long-duration battery demonstration system

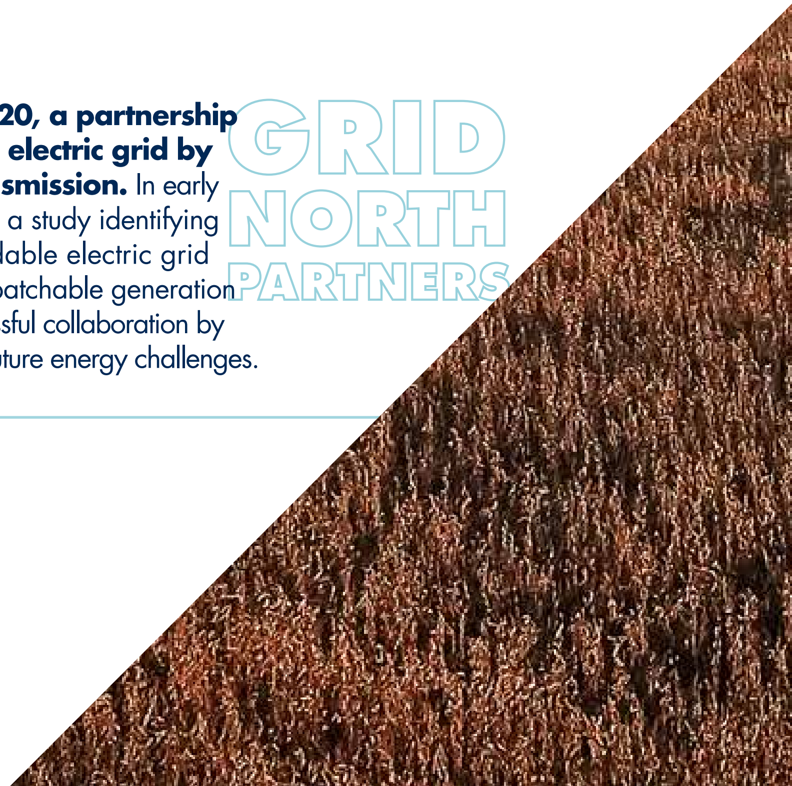
Renewable transition underway

With long-term agreements to purchase the output from four large wind energy projects, Great River Energy has secured energy resources to transition to a largely renewable power supply portfolio by 2023. Great River Energy has signed agreements to receive more than 900 MW of energy from five Midwest wind farms. And Great River Energy's existing peaking generation power plants will ensure reliability and allow the cooperative to meet capacity requirements.

Creating the grid of the future

Great River Energy is a founding member of CapX2020, a partnership of utilities that upgraded and expanded the Midwest electric grid by developing more than 800 miles of high-voltage transmission. In early 2020, they released the CapX2050 Transmission Vision Report, a study identifying the elements necessary for continued safe, reliable and affordable electric grid operation as the region transitions to a future with more non-dispatchable generation resources such as wind and solar. These utilities built on their successful collaboration by evolving to Grid North Partners so that together they can address future energy challenges.

GRID NORTH PARTNERS



“ We are all responsible for making sure we are providing our members with **reliable, safe and affordable energy.** ”

Priti Patel,
Vice President and Chief Transmission Officer

Local economic benefits

A University of Minnesota Extension economic impact study found that the four new Minnesota wind projects, for which Great River Energy recently signed agreements, represent an $882 million investment and will contribute nearly $440 million of additional economic activity within the state, including $173.2 million in labor income. They will also support 2,590 jobs across all industries, including direct jobs at the construction sites and ripple effects.

2020 FINANCIALS

FINANCIAL HIGHLIGHTS
(DOLLARS IN MILLIONS)

	2020	2019	CHANGE
OPERATIONS			
Revenues	$ 980.9	$ 990.6	$ (9.7)
Purchased power	$ 155.1	$ 163.1	$ (8.0)
Fuel	$ 192.2	$ 192.1	$ 0.1
Other operating expenses	$ 330.7	$ 320.3	$ 10.4
Depreciation and amortization	$ 166.6	$ 178.9	$ (12.3)
Interest expense	$ 127.2	$ 128.9	$ (1.7)
Other income	$ 7.7	$ 15.7	$ (8.0)
Nonutility operations, excluding noncontrolling interest	$ (7.6)	$ 1.8	$ (9.4)
Net Section 45 transaction gain	$ 13.8	$ -	$ 13.8
Net margin attributable to GRE	$ 23.0	$ 24.8	$ (1.8)
FINANCIAL POSITION			
Electric plant	$ 3,071.3	$ 4,704.6	$ (1,633.3)
Utility plant – net	$ 2,745.1	$ 2,664.2	$ 80.9
Deferred charges	$ 374.0	$ 411.0	$ (37.0)
Cash and cash equivalents	$ 216.9	$ 238.4	$ (21.5)
Total assets	$ 3,913.3	$ 3,872.2	$ 41.1
Long-term obligations	$ 2,325.0	$ 2,361.2	$ (36.2)
Members' capital	$ 675.2	$ 662.4	$ 12.8
Equity to capitalization ratio	21.8%	21.2%	0.6%

GREAT RIVER ENERGY
FINANCIAL DISCUSSION AND ANALYSIS

Great River Energy (GRE) adapted well to changing operating and economic conditions due to the COVID-19 pandemic and maintained its strong financial performance in 2020. In response to the economic uncertainty surrounding the pandemic for our members, GRE returned $6.0 million to them throughout the year, and an additional $2.5 million in December. GRE returned $10.2 million of patronage capital to its members in 2020 and plans to return another $25.0 million in 2021. Utility operating revenues ended the year at $980.9 million, which was down $9.7 million from 2019. While member sales remained strong, low energy market prices reduced non-member revenue in the MISO market and drove an overall revenue decrease in 2020. Despite the decrease in revenue, operating expenses were favorable in 2020 due to lower purchase power expenses and the settlement of the Section 45 transaction with North Dakota Refined Coal, LLC (NDRC). The transaction closed on January 31, 2020, when GRE exercised its option to buy out of the remaining term of its lease with NDRC for $17.0 million, resulting in a net gain of $78.9 million (see further discussion below). In accordance with regulatory accounting, the board of directors approved the utilization of a portion of the net gain to write off $65.1 million of deferred charges on the balance sheet. The remaining net gain from the transaction of $13.8 million was recognized in net margin as planned.

Favorable ownership, station, and transmission operating expenses compared to budget resulted in a very favorable margin heading into the end of 2020 and as a result, the board of directors approved writing off an additional $3.0 million of deferred charges on the balance sheet and returning an additional $2.5 million in December as a member bill credit. GRE's reported margin is $23.0 million but without the bill credit, additional COVID-19 relief, and regulatory asset write-off in December, GRE's 2020 margin would have been $31.0 million. Negative actual variances versus budget from net MISO market activity and member unit sales resulted in a power cost adjustment (PCA) charge of $8.3 million to GRE's members for 2020. With the strong financial performance of 2020, GRE's equity to capitalization ratio ended the year at 21.8%. GRE's financial statements remain solid and positively position the cooperative for the future.

MARGINS

Net margin attributable to GRE for the year ended December 31, 2020, was $23.0 million and includes the net loss from Midwest AgEnergy Group (MAG) and other equity method investments of $7.6 million. This compares to a budget of $23.0 million for 2020. GRE's indenture requires the maintenance of a margin-for-interest (MFI) ratio of 1.1x, excluding the operating results of subsidiaries and equity method investments. GRE's net utility margin, which is used to calculate the MFI ratio, was $30.6 million for 2020, resulting in an MFI ratio of 1.25x. GRE's board of directors targeted a debt service coverage (DSC) ratio of 1.17x when setting member rates for 2020. GRE's 2020 operations produced a DSC ratio of 1.26x.

ELECTRIC REVENUE

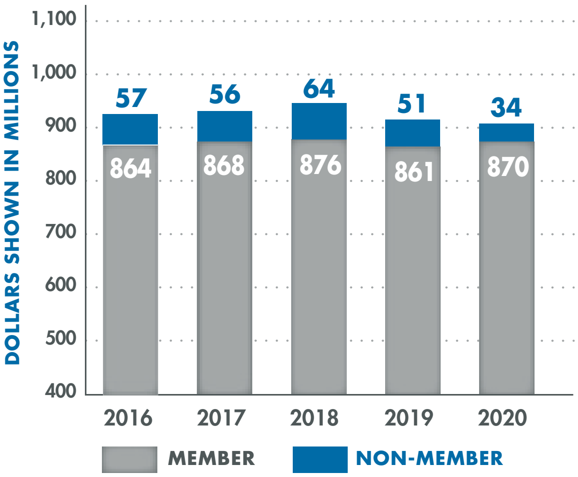
Electric revenue decreased $7.9 million or 0.9% to $904.6 million in 2020 from $912.5 million in 2019. While total electric revenue decreased, electric revenue from member cooperatives increased $9.0 million to $870.3 million in 2020 from $861.3 million in 2019. This increase was primarily the result of the $8.3 million PCA charge in 2020. By comparison, GRE issued PCA credits of $4.0 million and $17.9 million in 2019 and 2018, respectively. 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 2020 PCA charge was primarily due to unfavorable budget variances in MISO market activity and member unit sales, offset partially by favorable budget variances in purchased power and fuel.

Electric revenue from non-members decreased $16.9 million or 33.0% to $34.3 million in 2020 from $51.2 million in 2019. This decrease was driven primarily by lower MISO market energy revenue, due to average market prices that were 66.4% lower in 2020 compared to 2019, and lower demand revenue from short-term bi-lateral contracts with non-members.

OTHER OPERATING REVENUE

Other operating revenue decreased $1.8 million or 2.3% to $76.3 million in 2020 from $78.1 million in 2019. The decrease was primarily due to a $10.8 million gain recognized in 2019 related to the settlement of a steam contract with a third party for which there was no such recognition in 2020. This was offset partially by increased transmission revenue from the MISO market and inter-utility transmission agreements of $9.3 million due to favorable results in the GRE-owned zone and favorable settlement true-ups with other transmission owners.

Electric Revenue Billed



OPERATING EXPENSES

Total operating expenses for 2020 were $830.8 million, a decrease of $23.6 million or 2.8% from $854.4 million in 2019.

Section 45 transaction—In 2020, GRE and NDRC closed a transaction in which GRE bought out of the remaining term of the lease and related agreements for $17.0 million. The result of the transaction was a net gain to GRE of $78.9 million, recorded in the interim consolidated statements of operations as fuel—Section 45 lease revenue of $150.0 million and offsetting charge of fuel—deferred charge write-off of $71.1 million. In accordance with regulatory accounting, GRE utilized the net gain on transaction to write off $56.1 million of the original purchase power contract settlement regulatory asset as a charge to purchased power—deferred charge write-off and to expense $9.0 million of the settled postretirement benefit plans regulatory asset as a charge to operation and maintenance—deferred charge write-off.

Purchased power decreased $8.0 million or 4.9% to $155.1 million in 2020 from $163.1 million in 2019. This was driven by decreased MISO market purchases and decreased other contractual purchases for energy (MWh) and demand (MW) in 2020 compared to 2019. This was offset partially by increased wind contract purchases due to the addition of the Emmons-Logan wind contract in 2020.

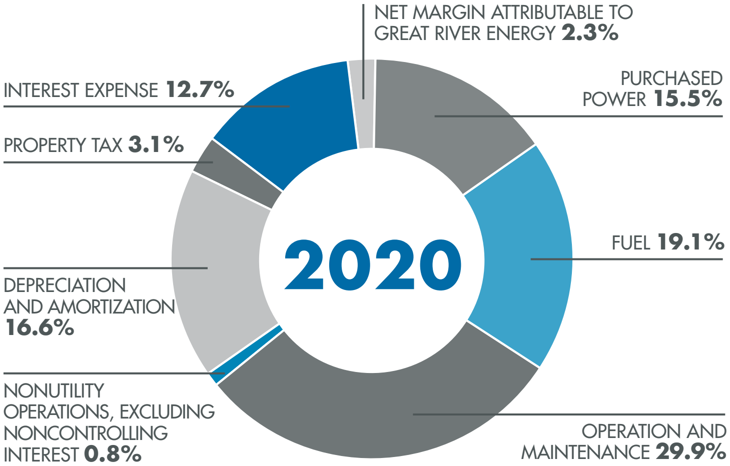
Fuel expense increased $0.1 million or 0.1% to $192.2 million in 2020 from $192.1 million in 2019. The increase in fuel expense is due to increased coal drying costs incurred at Coal Creek Station subsequent to the settlement of the Section 45 transaction. GRE no longer receives lease revenue from NDRC, which was reported as a reduction of fuel expense. This was offset by reduced coal costs from Falkirk Mine and fuel savings at peaking facilities in 2020 compared 2019. Fuel expense at the baseload facilities increased $4.4 million or 2.4% in 2020 compared to 2019. These factors also drove a 0.2% increase in baseload generation. Baseload output was higher (8,399 gigawatt-hours [GWhs] in 2020 compared to 8,380 GWhs in 2019), as was the average cost per GWh (2.2% higher in 2020 compared to 2019) due to increased coal drying costs. Fuel expense at the peaking plants decreased $4.3 million or 47.9% in 2020 compared to 2019 due to market conditions that drove fewer dispatches. Overall, peaking generation was 34.1% lower in 2020 compared to 2019 (106 GWhs in 2020 compared to 161 GWhs in 2019) and average natural gas prices were 25.5% lower ($1.96/MMBtu in 2020 compared to $2.63/MMBtu in 2019).

Operation and maintenance expense increased $3.9 million or 1.3% to $296.8 million in 2020 from $292.9 million in 2019. Transmission operation and maintenance expense increased $9.2 million in 2020 compared to 2019 due largely to higher costs to serve member load under inter-utility transmission agreements. General and administrative expenses increased $4.1 million in 2020 compared to 2019 due to increases in legal and consulting services and information and technology hardware and software maintenance expenses. These increases were offset partially by a decrease in power supply operation and maintenance expense of $9.4 million due to reduced labor and maintenance costs at Coal Creek Station. With the announcement of GRE's plan to sell or retire Coal Creek Station in the second half of 2022, certain maintenance and labor costs were avoided during 2020.

In 2020, GRE wrote off $12.0 million of the settled postretirement benefit deferred asset as a charge to operation and maintenance expense in accordance with regulatory accounting requirements. The $12.0 million write-off consisted of $9.0 million written off as a result of the Section 45 transaction discussed above and $3.0 million written off in December as a result of strong year end net margins.

Depreciation and amortization decreased $12.3 million or 6.9% to $166.6 million in 2020 from $178.9 million in 2019. The majority of the decrease is due to the one-time write-off of $8.3 million of the interest and plant costs regulatory asset associated with Spiritwood Station and the $2.5 million write down of plant assets at Spiritwood Station related to a terminated steam contract in 2019. There were no similar write-offs in 2020.

Expenses and Margin



OTHER INCOME (EXPENSE)

Other income—net decreased $4.5 million to $6.0 million in 2020 from $10.5 million in 2019. The decrease was due to the recognition of a deferred interest rate hedge settlement gain of $5.7 million in 2019, offset partially by an increase in income from work performed for others in 2020. Interest income decreased $3.5 million to $1.7 million in 2020 from $5.2 million in 2019, driven by lower interest rates and a lower average cash and cash equivalents balance in 2020. Interest expense—net of amounts capitalized decreased $1.7 million or 1.3% to $127.2 million in 2020 from $128.9 million in 2019. Interest incurred on GRE's long-term obligations decreased in line with the decrease in principal outstanding during 2020 as certain higher-rate debt issuances were refunded and new lower-rate debt was issued during 2020. Capitalized interest decreased $1.7 million to $1.7 million in 2020 from $3.4 million in 2019 due to fewer construction projects in 2020 compared to 2019.

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 had an operating loss of $9.7 million in 2020, and operating income of $2.4 million in 2019, of which $7.6 million of the loss and $1.9 million of the income, respectively, was attributable to GRE. The loss at MAG in 2020 was driven largely by unrealized losses on commodity derivatives due to the impact of rising market prices for corn at the end of the year.

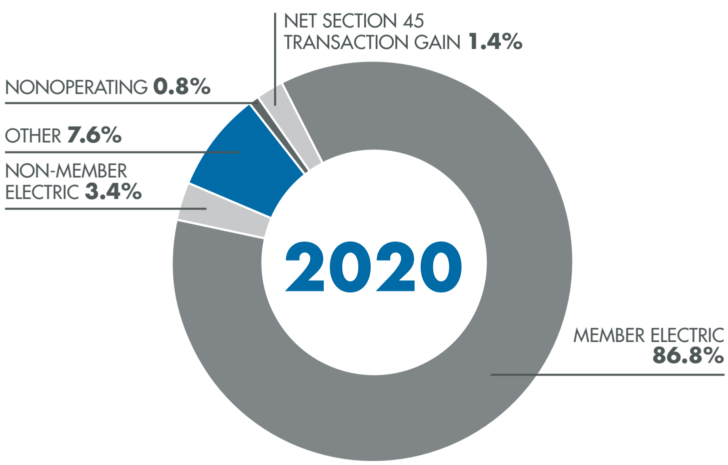
In January 2011, GRE entered into agreements with NDRC and its subsidiaries for the lease and operation of GRE's DryFining™ facility. Although GRE does not have any ownership interest in NDRC, it represents a variable interest entity of GRE and is consolidated in the financial statements. As discussed above, GRE exercised the purchase option of the agreement with NDRC and bought out the remaining term of the transaction. Upon completion of the transaction, GRE ceased having a controlling financial interest in NDRC and deconsolidated their financial statements subsequent to January 31, 2020. The result of the transaction was a net loss of $150.0 million to NDRC in 2020. A $20.0 million net loss was recognized in 2019.

NONCONTROLLING INTEREST

GRE owns 78.43% of MAG and has reflected the third-party investors' 21.57% 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

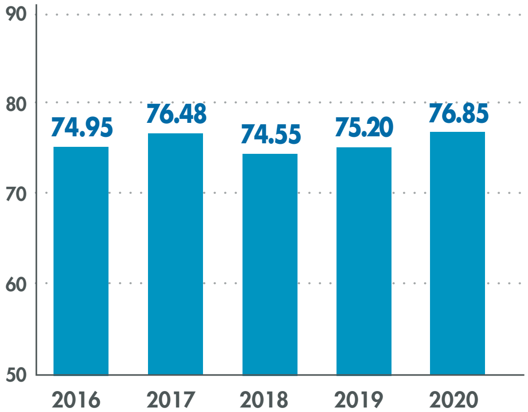


MEMBER RATE

GRE's 2020 member billed rate was 76.85 mills/kilowatt-hour (kWh) compared to 75.20 mills/kWh in 2019. The budgeted average member rates were 76.06 mills/kWh for both 2020 and 2019. The increase in the 2020 actual average member rate compared to 2019 was due to an increase in the 2020 blended average rate collected of 2.2% and the impact of a $8.3 million PCA charge in 2020 compared to a $4.0 million PCA credit in 2019. The 2020 and 2019 member billed rates reflect the refunds issued to members of $11.0 million and $5.0 million in 2020 and 2019, respectively. The 2020 member refund comprised $6.0 million provided for COVID-19 relief throughout the year, an additional $2.5 million of COVID-19 relief provided in December, and a $2.5 million bill credit provided in December under regulatory accounting due to the strong financial results for the year.

Member Average Rate Per kWh

EXCLUDING WAPA | MILLS PER KWH



BALANCE SHEET REVIEW

GRE's total consolidated assets were $3,913.3 million in 2020, an increase of $41.1 million year-over-year from 2019.

Utility plant—net increased $80.9 million to $2,745.1 million in 2020 from $2,664.2 million in 2019. Utility plant increased primarily as a result of a $162.5 million increase in coal mine plant assets as well as a $39.3 million transfer of negative salvage value related to Coal Creek Station out of accumulated depreciation and amortization and into other noncurrent liabilities. As a result of GRE's announcement to sell or retire Coal Creek Station in 2022, Falkirk Mine recorded an increase in the asset retirement obligation (ARO) related to the final costs to close its surface mines and reclaim the land disturbed as a result of mining operations. Under generally accepted accounting principles, a retirement asset is recognized as the offset to the increase in the retirement obligation liability, increasing coal mine plant. These increases were offset partially by the depreciation and amortization of utility plant assets.

Nonutility plant and equipment—net decreased $10.7 million to $145.7 million in 2020 from $156.4 million in 2019 due to the depreciation of MAG's plant assets.

Other assets and investments decreased $39.4 million to $489.7 million in 2020 from $529.1 million in 2019. Deferred charges—contract settlement decreased $51.1 million due to the board approved write-off of $56.1 million of the Genoa 3 regulatory asset with a portion of the net gain resulting from the Section 45 transaction discussed above, partially offset by a $5.0 million increase for the accrual of GRE's share of the estimated Genoa 3 human resource related retirement costs. Deferred charges—other decreased $76.2 million due to the expensing of $71.0 million of deferred transaction and coal purchase costs as part of the Section 45 transaction, the write-off of $12.0 million of the settled postretirement benefit deferred asset, and the reversal of a $5.0 million tax settlement accrual. These decreases were partially offset by a $12.1 million increase in deferred income taxes. Deferred charges—financing related increased $17.3 million due to the change in the fair value of open interest rate hedges, offset partially by the amortization of settled interest rate hedges. Deferred charges—plant retirements increased $73.0 million. With the announced plans to sell Coal Creek Station or retire it in the second half of 2022, GRE deferred $82.1 million of costs associated with the plant retirement in 2020. These costs include human resource related retirement costs, plant decommissioning costs, and Falkirk Mine closure costs. This increase is offset partially by decreases in the Stanton Station and Elk River Resource Recovery Project plant retirement balances due to amortization and changes in decommissioning and reclamation estimates. Additionally, other long-term assets decreased $4.2 million primarily due to a decrease in operating lease right-of-use assets.

Current assets increased $10.1 million to $532.7 million in 2020 from $522.6 million in 2019. Accounts receivable—others increased $4.9 million as a result of the timing of MAG's year end collections and grant receivables in 2020. Inventories—other increased $6.9 million due to an increase in the price and quantity of corn inventory held at MAG. Derivative instruments increased $7.1 million due an increase in the fair value of commodity futures contracts at MAG. These increases were offset partially by a decrease in cash, cash equivalents, and restricted cash of $9.2 million. The decrease was due to cash used for plant additions, repayment of long-term obligations, and the retirement of patronage capital exceeded cash provided by operating activities.

Members' capital increased $12.8 million to $675.2 million in 2020 as a result of $23.0 million of net margin attributable to GRE added in 2020, offset partially by the retirement of $10.2 million of patronage capital returned to members. GRE's equity to capitalization ratio (excluding MAG and NDRC) was 21.8% at the end of 2020.

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

Noncontrolling interest—variable interest entity represents the capital attributable to NDRC. Upon the closing and settlement of the Section 45 transaction, GRE ceased having a controlling financial interest in NDRC. As required by Accounting Standards Codification (ASC) 810 Consolidation, GRE deconsolidated the financial statements of NDRC subsequent to January 31, 2020.

Other noncurrent liabilities increased $221.3 million to $386.1 million in 2020 from $164.8 million in 2019. This increase was primarily driven by a $147.0 million increase in the Falkirk Mine ARO related to the final costs to close its surface mines and reclaim the land disturbed as a result of mining operations, a $39.3 million transfer of Coal Creek Station's negative salvage value from accumulated depreciation to other noncurrent liabilities, an additional $17.8 million decommissioning accrual for Coal Creek Station, and an increase in construction advances.

Regulatory liabilities decreased $14.6 million to $37.4 million in 2020 from $52.0 million in 2019. The decrease was due to the recognition of $12.1 million of deferred member revenue and the amortization of other regulatory liabilities.

Long-term obligations decreased $36.2 million to $2,325.0 million in 2020 from $2,361.2 million in 2019. The decrease is due to principal payments made during the year of $220.8 million from GRE and a decrease of $20.0 million outstanding on the unsecured revolving credit facility. This was offset partially by an increase of $200.0 million from the Series 2020A issuance and increases at Falkirk Mine and MAG for term notes of $6.3 million and $9.7 million, respectively.

Deferred income taxes increased $12.1 million to $14.2 million in 2020 and was driven by the favorable Section 45 transaction gain and the corresponding deferred charge write-offs.

Current liabilities increased $13.6 million to $438.0 million in 2020 from $424.4 million in 2019. Current portion of long-term obligations increased $6.8 million due to an upcoming payment on the Series 2015A in 2021. Notes payable increased $6.4 million, driven by increased member investments in December 2020. Accounts payable increased $9.2 million due to higher net MISO purchases at the end of 2020, an increase in purchased power payables due to adding the Emmons-Logan wind contract in 2020, and an increase at MAG due to higher deferred payments for corn purchases. Property and other taxes increased $2.0 million as a result of the deferral of FICA tax remittance in 2020 allowed under the COVID-19 pandemic CARES Act. Derivative instruments increased $15.5 million primarily due to an increase in the fair value of commodity corn futures contracts at MAG. These increases were offset partially by a decrease in other accrued liabilities and notes payable of $26.5 million due to the reversal of the $13.5 million MISO attachment O accrual, the reversal of a $5.0 million income tax settlement accrual, a $4.0 million decrease in the Stanton Station reclamation accrual, and a $8.3 million decrease in accrued corn expense at MAG as there were fewer unpriced bushels at the end of 2020 compared to 2019.

LIQUIDITY POSITION AND FINANCING

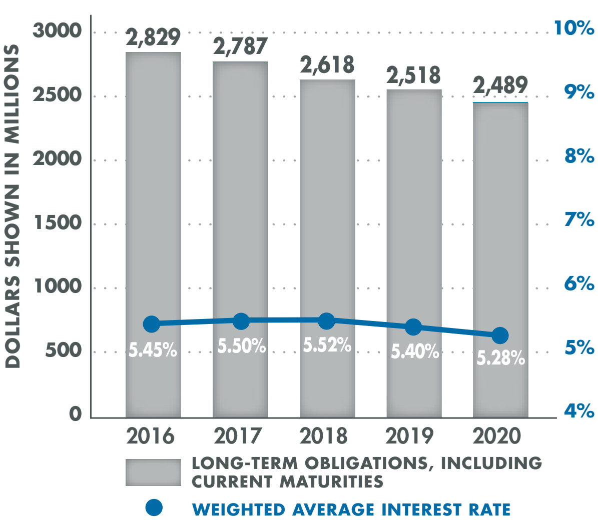
Excluding subsidiaries, GRE's year end 2020 unrestricted available liquidity of $578.4 million was comprised of cash and cash equivalents of $214.5 million and unused capacity on its existing unsecured credit facilities of $363.9 million. GRE's unsecured credit facilities include a $400.0 million revolving credit agreement that was amended in May 2020, with $130.0 million of the lending commitments expiring May 31, 2021, and $270.0 million of the lending commitments expiring on May 31, 2022. GRE also has a $30.0 million line of credit with CoBank ACB (CoBank) that expires in January 2023. 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 under the revolving credit agreement, 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 $2.55 billion of secured debt.

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 next forecasted debt issuance.

GRE's financial position continues to strengthen. GRE returned $10.2 million and $15.2 million of patronage capital to its members in 2020 and 2019, respectively, and based on the financial position at December 31, 2020, has plans to return an additional $25.0 million in March 2021. In addition to this, GRE has maintained its competitive member rates position compared to others within the region, investment grade credit ratings, and strong liquidity position. GRE is pleased with its strong 2020 financial results despite a global pandemic and believes it is well positioned to continue achieving its future financial and operational goals.

Long-Term Debt



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 11, 2021

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 and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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, 2020, 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 6% and 5% of consolidated total assets as of December 31, 2020 and 2019, respectively, and total operating revenues constituting 19%, 21%, and 20% of consolidated total operating revenues for each of the three years in the period ended December 31, 2020. 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 the Company'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 the Company'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 audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great River Energy and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 11, 2021

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2020 AND 2019 (IN THOUSANDS)

ASSETS	2020	2019
UTILITY PLANT:		
Electric plant	$ 3,071,286	$ 4,704,572
Coal mine plant	410,727	248,183
Plant to be retired—net of accumulated depreciation	529,334	-
Construction work in progress	50,397	46,492
Less accumulated depreciation and amortization	(1,316,597)	(2,334,998)
Utility plant—net	2,745,147	2,664,249
NONUTILITY PLANT AND EQUIPMENT—Net	145,669	156,361
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	14,780	13,591
Other investments	33,268	32,605
Deferred charges:		
Financing related	136,214	118,927
Contract settlement	5,000	56,092
Plant retirements	168,243	95,252
Other	64,541	140,701
Other long-term assets	67,683	71,910
Total other assets and investments	489,729	529,078
CURRENT ASSETS:		
Cash and cash equivalents	216,930	238,444
Restricted cash	14,595	2,293
Accounts receivable:		
Members	144,566	143,119
Others	28,713	23,855
Inventories:		
Materials and supplies	63,147	63,576
Fuel	21,616	20,189
Other	24,798	17,849
Prepaids and other current assets	6,140	8,133
Derivative instruments	12,220	5,099
Total current assets	532,725	522,557
TOTAL	$ 3,913,270	$ 3,872,245

CONTINUED

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2020 AND 2019 (IN THOUSANDS)

CAPITAL AND LIABILITIES	2020	2019
CAPITAL:		
Members:		
Patronage capital	$ 673,958	$ 661,158
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	675,156	662,356
Noncontrolling interest:		
Subsidiary—MAG	22,708	24,951
Variable interest entity—NDRC	-	166,841
Total noncontrolling interest	22,708	191,792
Total capital	697,864	854,148
OTHER NONCURRENT LIABILITIES	386,080	164,842
REGULATORY LIABILITIES	37,385	52,017
LONG-TERM OBLIGATIONS—Less current portion	2,324,950	2,361,160
DEFERRED COMPENSATION	14,780	13,591
DEFERRED INCOME TAXES	14,176	2,110
COMMITMENTS AND CONTINGENCIES		
CURRENT LIABILITIES:		
Current portion of long-term obligations	163,852	157,099
Notes payable to members	50,811	44,420
Accounts payable	69,692	60,477
Property and other taxes	26,229	24,271
Other accrued liabilities and notes payable	63,658	90,131
Accrued interest payable	13,977	13,617
Derivative instruments	49,816	34,362
Total current liabilities	438,035	424,377
TOTAL	$ 3,913,270	$ 3,872,245

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. *CONCLUDED*

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018 (IN THOUSANDS)

UTILITY OPERATIONS	2020	2019	2018
UTILITY OPERATING REVENUE:			
Electric revenue	$ 904,608	$ 912,514	$ 940,054
Other operating revenue	76,311	78,099	99,735
Total utility operating revenue	980,919	990,613	1,039,789
UTILITY OPERATING EXPENSES:			
Purchased power	155,078	163,107	162,996
Purchased power—deferred charge write-off	56,092	-	25,840
Fuel	192,212	192,068	215,096
Fuel—Section 45 lease revenue	(149,957)	-	-
Fuel—deferred charge write-off	71,055	-	-
Operation and maintenance	296,761	292,922	304,892
Operation and maintenance—deferred charge write-off	11,983	-	-
Depreciation and amortization	166,569	178,938	160,033
Property and other taxes	30,987	27,381	26,635
Total utility operating expenses	830,780	854,416	895,492
UTILITY OPERATING MARGIN	150,139	136,197	144,297
OTHER INCOME (EXPENSE):			
Other income—net	6,004	10,520	4,707
Interest income	1,744	5,203	5,215
Interest expense—net of amounts capitalized	(127,244)	(128,920)	(131,219)
Other expense—net	(119,496)	(113,197)	(121,297)
NET UTILITY MARGIN	30,643	23,000	23,000
NONUTILITY OPERATIONS:			
Operating revenue	234,234	263,996	256,104
Operating expense	243,969	261,577	253,494
Loss on debt extinguishment	-	-	1,372
Operating (loss) income	(9,735)	2,419	1,238
Income (loss) from equity method investments	1	(72)	234
Loss from variable interest entity—NDRC	(149,991)	(20,036)	(16,022)
Total nonutility operations	(159,725)	(17,689)	(14,550)
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(129,082)	5,311	8,450
NONCONTROLLING INTEREST:			
Subsidiary—MAG	2,091	(530)	(335)
Variable interest entity—NDRC	149,991	20,036	16,022
Total noncontrolling interest	152,082	19,506	15,687
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 23,000	$ 24,817	$ 24,137

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018 (IN THOUSANDS)

				Noncontrolling Interest		
	Patronage Capital	Memberships	Additional Paid-in Capital	Subsidiary—MAG	Variable Interest Entity—NDRC	Total Capital
BALANCE—January 1, 2018	$ 627,415	$ 3	$ 1,195	$ 24,086	$ 131,268	$ 783,967
Net margin (loss) and comprehensive income (loss)	24,137	-	-	335	(16,022)	8,450
Capital contributed by noncontrolling interest	-	-	-	-	50,753	50,753
Capital distributed to noncontrolling interest	-	-	-	-	(14,061)	(14,061)
Dividends paid by noncontrolling interest	-	-	-	-	(990)	(990)
BALANCE—December 31, 2018	$ 651,552	$ 3	$ 1,195	$ 24,421	$ 150,948	$ 828,119
Net margin (loss) and comprehensive income (loss)	24,817	-	-	530	(20,036)	5,311
Return of members' patronage capital	(15,211)	-	-	-	-	(15,211)
Capital contributed by noncontrolling interest	-	-	-	-	47,611	47,611
Capital distributed to noncontrolling interest	-	-	-	-	(10,656)	(10,656)
Dividends paid by noncontrolling interest	-	-	-	-	(1,026)	(1,026)
BALANCE—December 31, 2019	$ 661,158	$ 3	$ 1,195	$ 24,951	$ 166,841	$ 854,148
Net margin (loss) and comprehensive income (loss)	23,000	-	-	(2,091)	(149,991)	(129,082)
Return of members' patronage capital	(10,200)	-	-	-	-	(10,200)
Capital contributed by noncontrolling interest	-	-	-	-	13,614	13,614
Capital distributed to noncontrolling interest	-	-	-	(152)	(30,378)	(30,530)
Dividends paid by noncontrolling interest	-	-	-	-	(86)	(86)
BALANCE—December 31, 2020	$ 673,958	$ 3	$ 1,195	$ 22,708	$ -	$ 697,864

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018 (IN THOUSANDS)

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) margin, including noncontrolling interest	$ (129,082)	$ 5,311	$ 8,450
Adjustments to reconcile net (loss) margin to net cash provided by operating activities:			
Depreciation and amortization:			
Included in depreciation and amortization	166,569	178,938	160,033
Included in fuel and interest	24,018	21,890	30,091
Included in operation and maintenance	18,896	19,288	13,382
Included in nonutility operating expense	10,199	10,475	11,583
Loss on disposal of nonutility plant and equipment	1,357	-	-
(Income) loss from equity method investments	(1)	72	(234)
Patronage credits earned from investments	(1,586)	(1,773)	(2,207)
Deferred charges	91,870	(27,747)	22,840
Regulatory liabilities	(12,074)	(12,875)	10,000
Changes in working capital (excluding cash, investments, and borrowings):			
Accounts and long-term receivables	(6,305)	(7,763)	12,477
Inventory and other assets	(17,223)	16,223	694
Accounts payable, taxes, and other accrued expenses	(1,760)	(6,121)	(19,640)
Accrued interest	360	(43,596)	(4,253)
Noncurrent liabilities	(5,507)	(10,596)	(7,386)
Net cash provided by operating activities	139,731	141,726	235,830
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility plant additions	(91,275)	(127,221)	(149,770)
Nonutility plant and equipment additions	(953)	(415)	(1,353)
Proceeds from sale of property	9,778	876	219
Investment in equity method investments	-	-	(1,000)
Redemption of patronage capital from investments	923	922	1,449
Net cash used in investing activities	(81,527)	(125,838)	(150,455)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term obligations	484,485	304,900	78,570
Repayments of long-term obligations	(527,359)	(390,025)	(247,978)
Return of members' patronage capital	(10,200)	(15,211)	-
Cost of new debt issuances	(3,731)	-	(957)
Notes received from members—net	6,391	9,741	2,616
Subsidiary—MAG:			
Capital distributed to noncontrolling interest	(152)	-	-
Variable interest entity—NDRC:			
Capital contributed by noncontrolling interest	13,614	47,611	50,753
Capital distributed to noncontrolling interest	(30,378)	(10,656)	(14,061)
Dividends paid by noncontrolling interest	(86)	(1,026)	(990)
Net cash used in financing activities	(67,416)	(54,666)	(132,047)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(9,212)	(38,778)	(46,672)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	240,737	279,515	326,187
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	$ 231,525	$ 240,737	$ 279,515

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020 AND 2019, AND FOR
THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

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, LLC (DSA)	Subsidiary of MAG

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. NDRC is no longer consolidated as of January 31, 2020. See discussion within Note 1 for further information on the consolidation of NDRC and subsidiaries.

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, 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 the following (in thousands):

	2020	2019	2018
Interest expense	$ 349	$ 414	$ 956
Income tax expense	2,452	2,305	2,462
Net income	13,613	13,557	13,879

These costs 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, 2020, 2019, and 2018.

Assets and liabilities of Falkirk included in the consolidated balance sheets as of December 31, 2020 and 2019, after intercompany eliminations, are as follows (in thousands):

	2020	2019
Coal mine plant	$ 362,422	$ 199,878
Construction work in progress	-	6,895
Accumulated depreciation and amortization	(174,996)	(122,597)
Deferred charges	12,629	13,653
Other long-term assets	17,765	19,161
Materials and supplies inventory	22,422	22,091
Fuel inventory	7,745	6,179
Other current assets	747	1,335
Other noncurrent liabilities	182,218	32,740
Long-term obligations	14,360	9,986
Current liabilities	18,825	16,214

With GRE's announcement of its intention to close or sell Coal Creek Station, the above Falkirk assets and liabilities reflect adjustments related to the change in estimated service lives for assets and the timing of obligations. See further discussion in Notes 2, 11, and 14.

NDRC—In 2011, GRE entered into an agreement with NDRC, or its wholly owned subsidiaries, for the lease and operation of the DryFining facility at Coal Creek Station. 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. During 2019, GRE exercised the purchase option and agreed to buy out the remaining term for $17.0 million.

The result of the transaction, which closed on January 31, 2020, is summarized below (in thousands):

(Revenue) Expense	**2020**
Deferred lease revenue recognized	$ (166,957)
Purchase option price	17,000
Refined coal purchase costs regulatory asset	66,000
Transaction costs related to NDRC regulatory asset	5,055
Net gain recognized on transaction	$ (78,902)

In accordance with regulatory accounting, GRE utilized the net gain on transaction to write off $56.1 million of the purchase power contract settlement regulatory asset as a charge to purchased power expense and to write off $9.0 million of the settled postretirement benefit plans regulatory asset as a charge to operation and maintenance expense (see Note 11). The remaining net gain of $13.8 million was recognized in net margin in 2020.

For NDRC, the transaction resulted in the recognition of a net loss of $150.0 million, which represents the expensing of net prepaid lease payments, reducing its equity to $0. All operational metrics included in the lease and related agreements were met over the life of the transaction. As a result, no amounts related to these metrics were paid to NDRC at transaction closing.

Additionally, upon the closing and settlement of the transaction, GRE ceased having a controlling financial interest in NDRC. As such, and per the guidance set forth in Accounting Standards Codification (ASC) 810 *Consolidation* (paragraph 10-40-4), GRE deconsolidated the financial statements of NDRC subsequent to January 31, 2020. The result of operations and related cash flows for NDRC for the month ended January 31, 2020, have been included in the consolidated statements of operations and comprehensive income, changes in capital, and cash flows, respectively, for the year ended December 31, 2020.

Prior the closing and settlement of the transaction, GRE was required per ASC 810 *Consolidation* to consolidate NDRC in its financial statements since NDRC qualified as a variable interest entity for which GRE is the primary beneficiary. NDRC had 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 was the primary beneficiary. As a result, GRE had also consolidated 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 $0.4 million for the period ended January 31, 2020, and $14.7 million and $10.5 million for the years ended December 31, 2019 and 2018, 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 $150.0 million, $20.0 million, and $16.0 million for the years ended December 31, 2020, 2019, and 2018, respectively, is reported as nonutility operations in the consolidated statements of operations and comprehensive income and is all attributed to the noncontrolling interest owners.

Assets and liabilities of NDRC included in the consolidated balance sheets as of December 31, 2019, after intercompany eliminations, are as follows (in thousands):

	2019
Cash	$ 7,386
Prepaids and other current assets	1
Current liabilities	889

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. MAG has two wholly owned subsidiaries, Blue Flint and DSA. Blue Flint operates an ethanol biorefinery facility located in Underwood, North Dakota. DSA operates a biorefinery located near Jamestown, North Dakota. Blue Flint and DSA each have a production capacity of approximately 75-80 million gallons of undenatured ethanol per year. Both facilities are dry-mill production facilities that produce and sell ethanol, dry and modified distillers grain, and distillers oil.

Blue Flint purchases steam and water under a long-term contract from Coal Creek Station, 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 $12.4 million, $12.5 million, and $12.9 million for the years ended December 31, 2020, 2019, and 2018, respectively. The sale of steam and water by Coal Creek Station 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 2020, 2019, and 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Utility net margin and nonutility operating income as of December 31, 2020, 2019, and 2018, would be as follows had this transaction been eliminated (in thousands):

	2020		2019		2018	
	As Presented	With Elimination	As Presented	With Elimination	As Presented	With Elimination
Net utility margin	$ 30,643	$ 18,262	$ 23,000	$ 10,512	$ 23,000	$ 10,084
Nonutility operating (loss) income	(7,643)	4,738	1,817	14,305	1,137	14,053
Total	$ 23,000	$ 23,000	$ 24,817	$ 24,817	$ 24,137	$ 24,137

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, Cash Equivalents, and Restricted Cash—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.

Restricted cash represents GRE cash deposits held in trust which are restricted for allowable purposes under GRE's Indenture of Mortgage, Security Agreement, and Financing Statement. Restricted cash also includes MAG cash deposits with commodity investment brokers held as collateral to cover settlements of futures and options contracts.

Supplemental Cash Flow Information—Supplemental cash flow information for the years ended December 31, 2020, 2019, and 2018, is as follows (in thousands):

	2020	2019	2018
Supplemental disclosure of cash flow information:			
Cash paid for interest—net of amounts capitalized	$ 127,578	$ 178,440	$ 143,799
Cash paid for taxes—Falkirk	$ 118	$ 945	$ 2,359
Noncash investing and financing activities:			
Utility and nonutility plant acquisitions included in accounts payable	$ 5,435	$ 6,199	$ 6,613

Interest on borrowed funds in the amount of $1.7 million, $3.4 million, and $6.2 million was capitalized in 2020, 2019, and 2018, respectively, and these amounts are excluded from the cash payments for interest noted above.

Inventories—Materials and supplies inventories are stated at lower of average cost or net realizable value. Fuel inventories are carried at average cost and include coal, lime, oil, and gas used for electric generation. Other inventories represent corn, work in process, chemicals, ethanol, distillers grains, and corn oil inventories held at MAG. Corn, work in process, and chemical inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Ethanol, distillers grains, and corn oil inventories are stated at the lower of cost (average monthly cost) or net realizable value.

Emission allowances are also accounted for as fuel inventory and recorded at the lower of cost or net realizable value. 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 $0.3 million and $0.4 million at December 31, 2020 and 2019, respectively.

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 $35.1 million and $36.5 million at December 31, 2020 and 2019, respectively, that will continue to be amortized. Also included in accumulated depreciation are nonlegal or noncontractual costs of removal components in the amount of $17.9 million and $55.4 million for 2020 and 2019, 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.

Plant To Be Retired—Net of Accumulated Depreciation—Plant to be retired represents the undepreciated net book value of Coal Creek Station as of December 31, 2020. During 2020, GRE announced plans to sell the plant or retire it in the second half of 2022.

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 3.3%, 3.3%, and 3.2% for 2020, 2019, and 2018, respectively. The range of useful lives for utility plant is three to 50 years. Coal mine plant and equipment is depreciated or amortized over the estimated useful lives using either the straight-line method or the units-of-production method based on estimated recoverable tonnage and is included in utility fuel expense in the consolidated statements of operations and comprehensive income. Amortization of coal lands and leaseholds is calculated on the units-of-production method based upon estimated recoverable tonnage and is included in utility fuel expense in the consolidated statements of operations and comprehensive income. In 2020, coal mine plant useful lives were revised by Falkirk to coincide with the announced plans to sell Coal Creek Station or retire it in the second half of 2022. The additional depreciation and amortization expense that resulted from the revision was deferred by GRE in 2020 in accordance with regulatory accounting (see Note 11). 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—net as of December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Land improvements	$ 16,166	$ 16,166
Buildings and improvements	36,993	36,993
Plant equipment and other	160,286	161,703
Construction work in progress	338	6
Less accumulated depreciation	(68,114)	(58,507)
	$ 145,669	$ 156,361

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 asset/liability method prescribed under ASC 740, *Income Taxes*. 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 and comprehensive income attributable to GRE in the consolidated statements of operations and comprehensive income) 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). The board of directors has adopted a policy of retiring and returning assignable margins (patronage capital) on a first-in, first-out basis. Upon approval by the board of directors, GRE retired and returned patronage capital of $10.2 million and $15.2 million in 2020 and 2019, respectively. 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—GRE recognizes revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which GRE expects to be entitled in exchange for those good or services. The related disclosures below provide further understanding about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Revenues from Contracts with Customers

The revenues of GRE are primarily derived from providing wholesale electric service to members. Revenues from contracts with customers represent over 99% of all GRE revenues. Below is a disaggregated view of GRE's revenues from contracts with customers as well as other revenues, including their location on the statement of operations and comprehensive income (in thousands):

YEAR ENDED DECEMBER 31, 2020

Revenue streams	Electric Revenue	Other Operating Revenue	Other Income-Net	Nonutility Operating Revenue
Member revenue	$ 870,332	$ -	$ -	$ -
Non-member revenue – MISO	17,573	-	-	-
Non-member revenue	16,703	-	-	-
Transmission revenue – related to others	-	56,056	-	-
Utility plant byproduct revenue	-	18,759	-	-
Other income – net	-	-	6,004	-
Ethanol sales	-	-	-	169,136
Ethanol byproduct revenue	-	-	-	59,316
Other revenue	-		-	5,610
Total revenue from contracts with customers	904,608	74,815	6,004	234,062
Interest income	-	-	1,744	-
Lease income	-	1,496	-	-
Realized and unrealized gains on commodity contracts	-	-	-	172
Total revenue	$ 904,608	$ 76,311	$ 7,748	$ 234,234
Timing of revenue recognition				
Services transferred over time	$ 904,608	$ 68,437	$ -	$ -
Goods transferred at a point in time	-	6,378	6,004	234,062
Total revenue from contracts with customers	$ 904,608	$ 74,815	$ 6,004	$ 234,062

YEAR ENDED DECEMBER 31, 2019

Revenue streams	Electric Revenue	Other Operating Revenue	Other Income-Net	Nonutility Operating Revenue
Member revenue	$ 861,300	$ -	$ -	$ -
Non-member revenue – MISO	29,403	-	-	-
Non-member revenue	21,811	-	-	-
Transmission revenue – related to others	-	46,817	-	-
Utility plant byproduct revenue	-	18,397	-	-
Other income – net	-	-	10,520	-
Ethanol sales	-	-	-	196,805
Ethanol byproduct revenue	-	-	-	61,164
Other revenue	-	11,745	-	9,167
Total revenue from contracts with customers	912,514	76,959	10,520	267,136
Interest income	-	-	5,203	-
Lease income	-	1,140	-	-
Realized and unrealized losses on commodity contracts	-	-	-	(3,140)
Total revenue	$ 912,514	$ 78,099	$ 15,723	$ 263,996
Timing of revenue recognition				
Services transferred over time	$ 912,514	$ 59,718	$ -	$ -
Goods transferred at a point in time	-	17,241	10,520	267,136
Total revenue from contracts with customers	$ 912,514	$ 76,959	$ 10,520	$ 267,136

YEAR ENDED DECEMBER 31, 2018

Revenue streams	Electric Revenue	Other Operating Revenue	Other Income-Net	Nonutility Operating Revenue
Member revenue	$ 875,623	$ -	$ -	$ -
Non-member revenue – MISO	41,446	-	-	-
Non-member revenue	22,985	-	-	-
Transmission revenue – related to others	-	53,806	-	-
Refuse-derived fuel revenue	-	24,799	-	-
Utility plant byproduct revenue	-	19,466	-	-
Other income – net	-	-	4,707	-
Ethanol sales	-	-	-	185,190
Ethanol byproduct revenue	-	-	-	56,802
Other revenue	-	-	-	8,538
Total revenue from contracts with customers	940,054	98,071	4,707	250,530
Interest income	-	-	5,215	-
Lease income	-	1,664	-	-
Realized and unrealized gains on commodity contracts	-	-	-	5,574
Total revenue	$ 940,054	$ 99,735	$ 9,922	$ 256,104
Timing of revenue recognition				
Services transferred over time	$ 940,054	$ 67,723	$ -	$ -
Goods transferred at a point in time	-	30,348	4,707	250,530
Total revenue from contracts with customers	$ 940,054	$ 98,071	$ 4,707	$ 250,530

Electric revenue

Electric revenues consist of wholesale electric power sales to members through the member power purchase and transmission service contracts, to non-members through bilateral contracts, and from participation in the Midcontinent Independent System Operator (MISO) market. All the electric revenues meet the criteria to be classified as revenue from contracts with customers and are recognized over time as energy is delivered or transmitted. Revenue is recognized based on the metered quantity of electricity delivered or transmitted at the applicable contractual or market rates.

The rate schedules within the member contracts include a power cost adjustment, which allows for increases or decreases in member power billings based upon actual power costs compared to plan for certain categories of revenues and expenses. The power cost adjustment was a charge to GRE members of $8.3 million for 2020 and a credit of $4.0 million and $17.9 million for 2019 and 2018, respectively. Credits or charges are recorded as a decrease or increase, respectively, in member revenues and are recorded in electric revenue in the consolidated statements of operations and comprehensive income.

GRE deferred the recognition of $0, $8.2 million, and $10.0 million of member electric revenue under regulatory accounting in 2020, 2019, and 2018, respectively (see Note 11). GRE recognized deferred member electric revenues of $12.1 million, $15.4 million, and $0 in 2020, 2019, and 2018, respectively, under regulatory accounting (see Note 11). Deferred member electric revenues are recorded in electric revenue in the consolidated statements of operations and comprehensive income.

Other operating revenue

Other operating revenue primarily includes: revenue received from the transmission of electricity for others under MISO rate tariffs or under various integrated transmission agreements; revenue from the sale of utility plant byproducts, such as steam and fly ash; revenue related to the processing plant that transforms municipal solid waste into refuse-derived fuel; and other revenue. All of these revenue streams meet the criteria to be classified as revenue from contracts with customers. Transmission revenue for others is recognized over time as GRE stands ready to serve the load with its transmission assets per the agreements. Steam revenue is derived from supplying steam to Blue Flint and DSA located adjacent to Coal Creek Station and Spiritwood Station, respectively, and is recognized over time as the steam is transferred through and measured at the interconnection point. Fly ash is marketed and sold to external customers by a third party with whom GRE has a marketing agreement. Fly ash revenue is recognized as of the point in time when the third party completes the resale to the external customer. Refuse-derived fuel revenue consists of the fees charged to municipal waste haulers for receiving waste at our processing plant. Revenue is recognized as of a point in time based on the rate per ton of waste received. With the closure of the Elk River Resource Recovery Project (Elk River) in 2019, GRE no longer receives refuse-derived fuel revenue. In 2019, other revenue primarily consisted of a gain recognized upon the settlement of a steam contract.

Other income – net

Other income – net primarily includes income from miscellaneous work performed for others and the operation of an energy recovery plant. The work for others relates to services provided by GRE to its members (or third parties) that is not included in the rate charged for electricity under the member power purchase and transmission service contracts. In 2019, GRE recognized a gain of $5.7 million in accordance with regulatory accounting.

Nonutility operating revenue

Nonutility operating revenue represents revenues from MAG consolidated operations. Revenue from the production of ethanol and related byproducts is recognized when obligations under the terms of the respective contracts with customers are satisfied. This occurs with the transfer of control of products and risk of loss is assumed by customers, generally when the product is shipped from the facility. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods. This recognition represents a point in time satisfaction of the performance obligation. Revenue is also recognized on certain ethanol contracts that utilize future price indexes at the time of title transfer, when the price is estimable using a methodology which reflects future commodity price averages for the settlement month. This recognition represents a point in time satisfaction of the performance obligation.

Subsequent Events—GRE has considered subsequent events for recognition or disclosure through March 11, 2021, the date the consolidated financial statements were available to be issued. All material subsequent events have been disclosed in these consolidated financial statements (see Note 15).

3. ACCOUNTING PRONOUNCEMENTS

Recently Adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this ASU. Upon adoption of the amendments in this ASU on January 1, 2020, there was no impact to GRE's consolidated financial statements; however, GRE has begun capitalizing implementation costs incurred in cloud computing arrangements post-adoption.

Recently Issued

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which changes how entities account for credit losses on receivables and certain other assets. The guidance requires use of a current expected loss model, which may result in earlier recognition of credit losses than under previous accounting standards. ASU 2016-13 is effective for reporting periods beginning on or after December 15, 2020. GRE does not expect adoption of the new standard to have a material impact on its consolidated financial statements.

4. LEASING TRANSACTIONS

GRE evaluates contracts that may contain leases, including PPAs and arrangements for the use of equipment, railroad cars, and vehicles. Under the current leasing guidance adopted on January 1, 2019, a contract contains a lease if it conveys the exclusive right to control the use of a specific asset. A contract determined to contain a lease is evaluated further to determine if the arrangement is a finance lease. GRE recognizes right-of-use assets and a corresponding lease liability at the lease commencement date.

GRE has elected the practical expedient under which non-lease components, such as asset maintenance costs included in payments, are not deducted from minimum lease payments for the purposes of lease accounting and disclosure. In addition, leases with an initial term of 12 months or less are classified as short-term leases and are not recognized on the consolidated balance sheet. If a lease contains an option to extend and there is reasonable certainty the option will be exercised, the option is considered in the lease term at inception. If a lease contains an option for early buy-out and there is reasonable certainty the option will be exercised, the option is considered in the lease term and cash flows from inception. GRE has also elected a practical expedient at the time of adoption to continue with the historical treatment for land easement arrangements in effect at the adoption date. As such, GRE has not recognized any lease assets or liabilities for such arrangements. Our lease agreements do not contain any material residual value guarantees, material bargain purchase options or material restrictive covenants.

Operating Leases—GRE enters various leases for equipment used in its operations under varying terms and conditions, expiring at various times through 2027. Falkirk enters various leases for land and equipment with terms expiring at various times through 2024. MAG enters various leases for railroad cars, grain storage, equipment, and land with terms expiring at various times through 2045. The right-of-use assets for operating leases in place at the time of adoption were capitalized on the basis of their remaining payment obligation balances, discounted to present value based on the rate implicit in the lease or on the incremental borrowing rates appropriate for the entity, the leased asset, and the lease terms. The remaining payments for operating lease right-of-use assets are being charged to expense on a straight-line basis over the life of the lease.

Finance Leases— GRE entered into various lease agreements which were classified as financing leases. The leases were for railroad cars used in the operation of Spiritwood Station and equipment used in transmission operations and have terms expiring at various times through 2026. Falkirk has also leased certain equipment that is used in mining operations and have terms expiring at various times through 2024. MAG does not have any material finance leases.

Components of lease expense for the years ended December 31, 2020 and 2019, include the following (in thousands):

	2020	**2019**
Operating lease expense:		
Included in operation and maintenance	$ 1,749	$ 1,982
Included in fuel	4,222	5,279
Included in nonutility operating expense	9,802	9,324
	$15,773	$16,585
Finance lease expense:		
Amortization of right-of-use assets	$ 2,445	$ 2,264
Interest on lease liabilities	544	572
	$ 2,989	$ 2,836

Costs associated with short-term leases, variable rent, and subleases were immaterial for the years ended December 31, 2020 and 2019.

Prior to adopting the current lease accounting guidance on January1, 2019, GRE accounted for operating leases by recognizing lease costs on a straight-line basis over the lease term. Operating lease expense for the year ended December 31, 2018 was $10.7 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Supplemental balance sheet information related to operating and finance leases is as follows (in thousands):

	Classification	December 31, 2020	December 31, 2019
Assets:			
Operating leases	Other long-term assets	$ 30,956	$ 37,490
Finance leases	Utility plant—net	15,954	14,745
Finance leases	Nonutility plant and equipment—net	51	36
Liabilities:			
Current			
Operating leases	Other accrued liabilities and notes payable	$ 11,675	$ 11,932
Finance leases	Current portion of long-term obligations	3,231	2,555
Noncurrent			
Operating leases	Other noncurrent liabilities	$ 20,234	$ 26,261
Finance leases	Long-term obligations—less current portion	11,935	11,685

The weighted average remaining lease terms and weighted average discount rates are as follows:

	December 31, 2020		
	MAG	**FALKIRK**	**GRE**
Weighted average remaining lease term (in years)			
Operating leases	6.3	1.5	4.1
Finance leases	2.8	3.0	4.3
Weighted average discount rate			
Operating leases	5.70%	2.48%	2.98%
Finance leases	5.00%	3.75%	2.71%

As of December 31, 2020, maturities of lease liabilities were as follows (in thousands):

YEARS ENDING DECEMBER 31	Operating Leases	Financing Leases
2021	$ 12,912	$ 3,721
2022	7,893	3,713
2023	4,329	4,706
2024	4,024	3,351
2025	3,067	765
Thereafter	3,772	-
Total minimum lease payments	35,997	16,256
Amounts representing interest	(4,088)	(1,090)
Present value of minimum lease payments	31,909	15,166
Current maturities	(11,675)	(3,231)
Noncurrent lease liabilities	$ 20,234	$ 11,935

As of December 31, 2020, there were no material additional operating or financing leases that have not yet commenced.

Supplemental cash flow information related to leases is as follows (in thousands):

YEAR ENDING DECEMBER 31	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ (6,607)	$ (12,648)
Operating cash flows from financing leases	(544)	(571)
Financing cash flows from financing leases	(3,119)	(6,360)

5. LONG-TERM OBLIGATIONS

The consolidated long-term obligations as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
First Mortgage Bonds, Series 2007A, 6.254%, due 2021–2038	$ 579,700	$ 630,300
First Mortgage Bonds, Series 2008A, 7.233%, due 2021–2038	330,861	334,499
First Mortgage Bonds, Series 2008B, 3.107%, due 2021–2023	5,000	6,667
First Mortgage Notes, Series 2009A, 5.0% to 7.15%, due 2021–2024	31,100	39,000
First Mortgage Bonds, Series 2009B, 5.81% to 6.94%, due 2021–2031	220,000	250,000
First Mortgage Note, Series 2010A, 4.875%, due 2026	-	23,000
First Mortgage Note, Series 2010B, 5.15%, due 2040	-	50,000
First Mortgage Bonds, Series 2010D, 4.478%, due 2021–2030	282,500	304,500
First Mortgage Note, Series 2014A, 2.84%, due 2021	10,000	25,000
First Mortgage Note, Series 2014B, LIBOR plus 1.15%, 1.275% at December 31, 2020, 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
First Mortgage Note, Series 2017A, 3.59%, due 2021-2045	260,000	275,000
First Mortgage Note, Series 2020A, 3.25%, due 2026-2045	200,000	-
Syndicated Credit Facility, National Rural Utilities Cooperative Finance Corp,		
ABR plus 0.50%, 3.75% at December 31, 2020	33,750	-
ABR plus 0.00%, 3.25% at December 31, 2020	16,250	70,000
Department of Energy, 0%, due 2021–2028, 5.2% to 6.1% imputed interest	3,179	3,648
Finance lease obligation, Spiritwood Station railroad cars, 2.75% imputed interest	4,153	5,081
Finance lease obligation, 1.12% to 4.81% imputed interest	1,815	605
Finance lease obligations, Falkirk Mine, 0.84% to 5.09% imputed interest	9,162	8,517
Term Note, Falkirk, 0.36%, due 2021-2026	6,300	-
Term Note, MAG, 5.92%, due 2021-2028	55,116	61,195
Term Note, MAG, 3.75%, due 2021-2025	9,686	-
Other—at various rates and maturities	6,401	7,762
Subtotal	2,514,973	2,544,774
Less unamortized bond issuance costs	(18,650)	(18,066)
Less unamortized bond discount	(7,521)	(8,449)
	2,488,802	2,518,259
Current maturities	(163,852)	(157,099)
Long-term obligations—net	$ 2,324,950	$ 2,361,160

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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 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. Following an amendment to the facility agreement in May 2020, $130.0 million of the lending commitments under the facility will expire on May 31, 2021, and $270.0 million will expire on May 31, 2022. This facility can be increased, at GRE's option, to $525.0 million subject to certain terms and conditions. At December 31, 2020 and 2019, the outstanding balance was $50.0 million and $70.0 million, respectively. GRE also has an unsecured line of credit facility with CoBank, ACB (CoBank) for $30.0 million. This facility expires in January 2023. There were no amounts outstanding on this facility at December 31, 2020 and 2019.

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

Substantially all of the assets of MAG are pledged as security for the Term Notes. The loan documents contain restrictive covenants on financial ratios, capital expenditures, and net worth. For the year ended December 31, 2020, MAG was not in compliance but did receive a waiver for the covenant infringement. MAG was in compliance with its covenants for the year ended December 31, 2019.

MAG has a secured revolving line of credit in the amount of $25.0 million that expires on November 30, 2023. There were no amounts outstanding on this facility at December 31, 2020 and 2019.

Future maturities on long-term obligations as of December 31, 2020, are as follows (in thousands):

YEARS ENDING DECEMBER 31	
2021	$ 163,852
2022	167,071
2023	174,135
2024	182,990
2025	179,941
Thereafter	1,646,984
	$2,514,973

6. INVESTMENTS

GRE's investments as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	**2019**
Other investments:		
Capital certificate investments—CFC	$ 19,644	$ 19,644
Cooperative investment patronage allocations	13,624	12,961
Total other investments	33,268	32,605
Restricted investments—investments for deferred compensation	14,780	13,591
	$ 48,048	$ 46,196

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, 2020, 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, 2020 and 2019, are as follows (in thousands):

	Amortized Cost	GROSS Unrealized Gains	GROSS Unrealized Losses	Fair Value
2020				
Long-term investments—held-to-maturity securities—capital certificate investments	$ 19,644	$ -	$ -	$ 19,644
2019				
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, including cash and cash equivalents, was $1.7 million, $5.2 million, and $5.2 million in 2020, 2019, and 2018, 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, 2020, 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, 2020 and 2019.

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 or 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.

MAG's derivative gains and losses are included in the consolidated statements of operations and comprehensive income for the years ended December 31, 2020, 2019, and 2018, are as follows (in thousands):

	2020	2019	2018
Realized and unrealized gains (losses) recognized from undesignated hedges:			
Nonutility operating revenue	$ 172	$ (3,141)	$ 5,574
Nonutility operating expenses	(6,183)	6,219	5,509

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, 2020 and 2019, are as follows (in thousands):

	Location	2020	2019
Derivatives in an asset position, none of which are designated as hedging instruments:			
Commodity contracts	Derivative instruments	$ 12,220	$ 5,099
Derivatives in a liability position, none of which are designated as hedging instruments:			
Interest rate contracts	Derivative instruments	$ 32,420	$ 33,884
Commodity contracts	Derivative instruments	17,396	478
Total derivative instrument liabilities		$ 49,816	$ 34,362

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.

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, 2020 and 2019, set forth by level within the fair value hierarchy, is as follows (in thousands):

	Assets at Fair Value as of December 31, 2020			
	Total	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents—money market funds	$ 172,032	$ 172,032	$ -	$ -
Restricted investments—deferred compensation:				
Money market funds	1,302	1,302	-	-
Mutual funds:				
Domestic stock funds	4,400	4,400	-	-
Balanced funds	4,928	4,928	-	-
Fixed income funds	2,689	2,689	-	-
International stock funds	1,461	1,461	-	-
Commodity derivatives	12,220	4,548	7,672	-
Total assets	$ 199,032	$ 191,360	$ 7,672	$ -
Liabilities:				
Interest rate contracts	$ 32,420	$ -	$ 32,420	$ -
Commodity derivatives	17,396	14,950	2,446	-
Total liabilities	$ 49,816	$ 14,950	$ 34,866	$ -

	Assets at Fair Value as of December 31, 2019			
	Total	Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents—money market funds	$ 172,904	$ 172,904	$ -	$ -
Restricted investments—deferred compensation:				
Money market funds	1,318	1,318	-	-
Mutual funds:				
Domestic stock funds	3,908	3,908	-	-
Balanced funds	5,250	5,250	-	-
Fixed income funds	2,115	2,115	-	-
International stock funds	1,000	1,000	-	-
Commodity derivatives	5,099	3,712	1,387	-
Total assets	$ 191,594	$ 190,207	$ 1,387	$ -
Liabilities:				
Interest rate contracts	$ 33,884	$ -	$ 33,884	$ -
Commodity derivatives	478	366	112	-
Total liabilities	$ 34,362	$ 366	$ 33,996	$ -

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For the years ended December 31, 2020 and 2019, 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 finance leases, at December 31, 2020 and 2019, are as follows and are provided for disclosure purposes only (in thousands):

	2020		2019	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Long-term receivables	$ 2,608	$ 2,714	$ 2,667	$ 2,731
Long-term obligations	2,492,323	2,862,127	2,522,121	2,715,437

The estimated fair values of long-term receivables and long-term obligations, other than finance 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 federal income tax expense in 2020, 2019, or 2018 due to the utilization of net operating losses in 2020 and 2018 and a net tax loss position in 2019. In 2020, GRE had $2.1 million of state tax expense due to state tax laws limiting the utilization of net operating loss (NOL) carryforwards to fully offset income. The net tax loss position in 2019 was primarily the result of the allocation of margins to members, the retirement of utility plant, 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, 2020 and 2019, are as follows (in thousands):

	2020	2019
GRE		
Deferred tax assets:		
Net operating loss carryforwards	$ 73,008	$ 107,734
Tax credit carryforwards	13,074	12,366
Other	37,862	39,151
Total deferred tax assets	123,944	159,251
Deferred tax liabilities:		
Property related	(108,603)	(114,959)
Deferred regulatory assets	(7,993)	(23,522)
Other	(21,524)	(22,880)
Total deferred tax liabilities	(138,120)	(161,361)
Valuation allowance	-	-
Net deferred tax liability	$ (14,176)	$ (2,110)
Falkirk		
Deferred tax assets	$ 19,249	$ 8,786
Deferred tax liabilities	(19,115)	(8,268)
Net deferred tax asset, reported as deferred charges-other	$ 134	$ 518

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, retirement benefits, the sale and leaseback transaction that originated in 1996 and terminated in 2008, deferred charges, 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, 2020, GRE had a federal and state NOL of $256.3 million and $298.3 million, respectively, that will be utilized to offset projected taxable income in the carryforward periods. The federal NOLs expire in varying amounts from 2026 through 2037 and the state NOLs expire in varying amounts from 2024 through 2039. GRE also has a federal tax credit carryforward of $13.1 million. The tax credits expire in varying amounts from 2024 through 2040.

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 as income tax expense.

During 2020, GRE reached a successful resolution of its examination and appeals case with the Internal Revenue Service (IRS) for taxable years 2012, 2013, and 2014. As a result, GRE reversed the previously recorded settlement contingency of $5.0 million (see Note 11). There are no uncertain tax positions that were material to GRE's results of operations or financial position.

GRE has determined that its taxable years ended December 31, 2017 through 2019, are still subject to examination under federal tax statutes. In addition, NOL carryforwards dating back to 2006 are subject to review and possible adjustment by taxing authorities. GRE's taxable years ended December 31, 2015 through 2019, 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.

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

	2021	2022	2023	2024	2025	THEREAFTER	TOTAL
Wind energy purchases	$ 73.3	$ 81.4	$ 114.9	$ 157.1	$ 155.8	$ 3,034.2	$ 3,616.7
Other purchased power	8.3	10.9	12.5	12.2	9.1	41.0	94.0
	$ 81.6	$ 92.3	$ 127.4	$ 169.3	$ 164.9	$ 3,075.2	$ 3,710.7

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 through 2053. 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 $81.4 million, $55.4 million, and $57.6 million for 2020, 2019, and 2018, respectively.

Other purchased power—GRE has long-term agreements for the purchase of energy from various other power suppliers. The agreements have varying terms, with the longest extending to 2045. GRE is obligated to purchase energy at either fixed or variable prices for the term of the agreements. GRE's expenses for energy and transmission purchased under these agreements were $6.4 million, $12.1 million, and $11.2 million for 2020, 2019, and 2018, respectively.

Reclamation Guarantee—Falkirk is required by the North Dakota Public Service Commission (PSC) to carry bonds to cover reclamation of mined lands in the event the surface mining and reclamation permit is revoked. These bonds are released by the PSC after a period of time, generally at least 10 years after final reclamation is complete, and it has been determined that the land has been returned to its approved postmining use. Under the PSC's self-bond program, GRE provides a guarantee for the majority of Falkirk's reclamation obligation. As of December 31, 2020, 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, 2020 and 2019. Falkirk has recorded an asset retirement obligation for the costs to cover final reclamation (see Note 14).

Letters of Credit—GRE has issued a letter of credit for $2.5 million to MISO in connection with its commodity derivatives, two letters of credit totaling $11.0 million related to Spiritwood Station water and infrastructure agreements, and letters of credit totaling $2.6 million for transmission construction projects. No amounts are outstanding as of December 31, 2020 and 2019.

11. DEFERRED CHARGES AND REGULATORY LIABILITIES

Deferred charges as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Regulatory assets:		
Premiums on refinanced long-term debt	$ 5,988	$ 6,331
Interest rate derivatives	32,494	33,884
Settled interest rate hedging instruments	97,732	78,712
Purchased power contract settlement	5,000	56,092
Plant retirements	168,243	95,252
Postretirement benefit plans	15,901	16,786
Settled postretirement benefit plan	5,295	18,034
Transaction costs related to NDRC	-	5,055
Refined coal purchase costs	-	66,000
Interest and plant costs	5,965	6,204
Scheduled major outage maintenance	22,491	20,498
Deferred income taxes	14,176	2,110
Other	579	5,496
Total regulatory assets	373,864	410,454
Other deferred charges	134	518
Total deferred charges	$ 373,998	$ 410,972
Reported as:		
Deferred charges:		
Financing related	$ 136,214	$ 118,927
Contract settlement	5,000	56,092
Plant retirements	168,243	95,252
Other	64,541	140,701
Total deferred charges	$ 373,998	$ 410,972

Regulatory liabilities as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Regulatory liabilities:		
Incentive-based rate treatment	$ 14,827	$ 15,315
Deferred revenue	20,684	32,758
Other	1,874	3,944
Total regulatory liabilities	$ 37,385	$ 52,017

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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, 2020 and 2019. 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 bond issuances, 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.

Purchased Power Contract Settlement—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. GRE's obligation to purchase energy and capacity through this agreement was terminated through an amendment in 2015 for a cash payment of $83.5 million. GRE recognized this payment as a regulatory asset of which a portion related to the termination of GRE's obligation to purchase energy and capacity, and another portion related to the settlement of GRE's share of the estimated future costs for the plant decommissioning and demolition. GRE remains obligated for its share of the plant decommissioning and demolition costs and has recorded an estimate of its share of the final costs as a current liability in other accrued liabilities and notes payable in the consolidated balance sheets.

In 2020, in accordance with regulatory accounting requirements, GRE utilized a portion of the net gain from the exercise of the purchase option in the Section 45 Participation Agreement to write off $56.1 million of this regulatory asset as a charge to purchased power in the consolidated statements of operations and comprehensive income.

Also in 2020, DPC announced plans to retire Genoa 3 by mid-2021. In accordance with the termination amendment, GRE is obligated for its share of human resource related retirement costs. As of December 31, 2020, GRE has recorded an estimate of $5.0 million as a current liability in other accrued liabilities and notes payable in the consolidated balance sheets for its share of those costs. Amortization of the regulatory asset will commence upon the retirement of the plant and will continue through 2029.

Plant Retirements—GRE retired Stanton Station in 2017. Regulatory accounting was approved for the remaining undepreciated net plant value and plant closure costs. During 2020, asset retirement obligations were reevaluated and reduced by $1.8 million (see Note 14). Decommissioning and demolition activities were completed in 2020. The regulatory asset is being amortized through 2028.

During 2018, the board of directors approved regulatory accounting for the closure and decommissioning of Elk River. During 2019, Elk River discontinued operations and regulatory accounting commenced for the remaining undepreciated net plant value. During 2020, asset retirement obligations were reevaluated and increased by $1.5 million (see Note 14). Decommissioning and demolition activities are occurring through 2021. The regulatory asset is being amortized through 2038.

During 2020, GRE announced plans to sell Coal Creek Station or retire it in the second half of 2022. As of December 31, 2020, there were no committed or approved plans to sell the plant. GRE began deferring costs associated with the upcoming retirement and decommissioning in 2020 under board of directors' approved regulatory accounting. These costs include human resource related retirement costs, plant decommissioning costs, and Falkirk closure costs. At the time of plant closure or sale, the remaining balance in plant to be retired—net of accumulated depreciation will be reclassified to the regulatory asset and amortization will commence.

Postretirement Benefit Plans—GRE and Falkirk have defined benefit pension plans and postretirement medical plans for certain employees. GRE records regulatory assets for the amounts that are normally reported as accumulated other comprehensive income as these amounts will be recovered in future rates. A regulatory asset has been recorded for GRE's plans of $3.4 million and $3.7 million, and Falkirk's plans of $12.5 million and $13.1 million at December 31, 2020 and 2019, respectively. These amounts are adjusted each year as a result of the actuarial 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 unamortized actuarial loss as pension expense (see Note 12). GRE recorded $22.7 million related to the settlement as a regulatory asset and it is being amortized over 15 years and included in operation and maintenance expense in the consolidated statements of operations and comprehensive income. In accordance with regulatory accounting requirements, GRE utilized a portion of the net gain from the exercise of the purchase option in the Section 45 Participation Agreement to write off $9.0 million of this regulatory asset as a charge to operation and maintenance expense in the consolidated statements of operations and comprehensive income in 2020. An additional $3.0 million was written off at the end of 2020 in accordance with regulatory requirements.

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. As discussed in Note 1, GRE and NDRC closed a transaction in 2020 in which GRE bought out of the remaining term of the lease and related agreement. As part of transaction, GRE wrote off the remaining obligation as a charge to 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 deferred certain refined coal purchase costs. As discussed in Note 1, GRE and NDRC closed a transaction in 2020 in which GRE bought out of the remaining term of the lease and related agreement. As part of transaction, GRE wrote off the remaining obligation as a charge to fuel expense in the consolidated statements of operations and comprehensive income.

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. In 2019, GRE wrote off $8.3 million of the regulatory asset in accordance with regulatory accounting requirements as a charge to depreciation and amortization expense in the consolidated statements of operations and comprehensive income.

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

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 Regulatory Assets—Other regulatory assets primarily include the unamortized discount on notes receivable. In 2020, GRE reversed the previously recorded settlement contingency of $5.0 million as a result of the successful resolution of its examination and appeals case with the IRS (see Note 9).

Other Deferred Charges—Other deferred charges represent 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 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 and amortization expense in the consolidated statements of operations and comprehensive income.

Deferred Revenue—GRE recognized $12.1 million and $15.4 million as member electric revenue in 2020 and 2019, respectively, in accordance with regulatory accounting requirements. GRE deferred the recognition of $8.2 million of member electric revenue in 2019 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.

Other Regulatory Liabilities—Other regulatory liabilities include the unamortized bond discount on certain borrowings as well as the liability offset to the fair value determination of certain commodity contracts recorded as derivative instruments.

The regulatory assets and regulatory liabilities are recorded in accordance with 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, including health/welfare and retirement plans. Approximately 18% of total employees eligible for these benefit plans are represented by two labor unions under two collective bargaining agreements. One agreement expires at the end of 2022 and the second expires at the end of 2023.

Defined Benefit Plans—GRE has a nonqualified supplemental defined benefit plan covering certain former employees and retirees that is frozen, a qualified defined contribution retirement plan for all employees, and a nonqualified defined contribution plan for certain employees.

Falkirk has a defined benefit plan that covers employees hired before January 1, 2000, and a defined contribution plan for other employees. With GRE's announcement to sell or retire Coal Creek Station in the second half of 2022, Falkirk remeasured its pension obligation and recorded a $0.9 million curtailment loss in 2020.

Changes in benefit obligations and plan assets for the years ended December 31, 2020 and 2019, and the amounts recognized in the consolidated balance sheets as of December 31, 2020 and 2019, are as follows (in thousands):

	Falkirk		GRE	
	2020	2019	2020	2019
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 68,409	$ 62,000	$ 4,143	$ 4,407
Interest cost	2,008	2,533	157	167
Actuarial loss	6,148	7,582	-	-
Curtailment loss	856	-	-	-
Benefits paid	(3,803)	(3,706)	(416)	(431)
Benefit obligation—end of year	73,618	68,409	3,884	4,143
Change in plan assets:				
Fair value of plan assets—beginning of year	73,297	64,045	-	-
Actual return on assets	11,148	12,958	-	-
Benefits paid	(3,803)	(3,706)	-	-
Fair value of plan assets—end of year	80,642	73,297	-	-
Funded status—end of year and amount recognized in other long-term assets (other noncurrent liabilities)	$ 7,024	$ 4,888	$ (3,884)	$ (4,143)

Amounts not yet recognized as components of net periodic cost as of December 31, 2020 and 2019, are as follows (in thousands):

	Falkirk		GRE	
	2020	2019	2020	2019
Accumulated loss	$ 8,769	$ 9,408	$ 2,370	$ 2,546

The accumulated benefit obligation for the GRE defined benefit pension plans reflected above was $3.9 million and $4.1 million as of December 31, 2020 and 2019, respectively. The accumulated benefit obligation for the Falkirk defined benefit pension plan was $73.6 million and $68.4 million as of December 31, 2020 and 2019, respectively.

Components of net periodic benefit or cost as of December 31, 2020, 2019, and 2018, are as follows (in thousands):

	Falkirk			GRE		
	2020	2019	2018	2020	2019	2018
Interest cost	$ 2,008	$ 2,533	$ 2,337	$ 157	$ 167	$ 157
Expected return on assets	(4,784)	(4,875)	(4,819)	-	-	-
Recognized net actuarial loss	425	32	225	176	181	203
Amortization of net transition obligation	-	-	-	-	-	18
Curtailment loss	856	-	-	-	-	-
Net periodic (benefit) cost	$ (1,495)	$ (2,310)	$ (2,257)	$ 333	$ 348	$ 378

The estimated amounts to be amortized from deferred charges related to the benefit obligation into net periodic benefit cost in 2021 are $0.2 million for GRE and $0.5 million for Falkirk.

Weighted-average assumptions used to determine benefit obligations as of December 31, 2020 and 2019 are as follows:

	Falkirk		GRE	
	2020	2019	2020	2019
Discount rate	2.35%	3.20%	4.00%	4.00%

Weighted-average assumptions used to determine periodic benefit or cost as of December 31, 2020, 2019, and 2018, are as follows:

	Falkirk			GRE		
	2020	2019	2018	2020	2019	2018
Discount rate	3.20% / 2.77%	4.20%	3.55%	4.00%	4.00%	3.35%
Expected return on assets	7.00%	7.50%	7.50%	N/A	N/A	N/A

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 54%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, 2020 and 2019, are as follows (in thousands):

	2020	2019
Domestic equity securities	$ 36,594	$ 33,592
International equity securities	16,367	14,917
Fixed income securities	27,361	24,475
Money market funds	319	313
	$ 80,641	$ 73,297

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, 2020 and 2019, 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, Falkirk considered the historical returns and the future expectations for returns on each asset class, as well as target allocation of the pension portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

The expected future benefits to be paid as of December 31, 2020, are as follows (in thousands):

DECEMBER 31	Falkirk	GRE
2021	$ 3,920	$ 400
2022	4,225	383
2023	4,444	365
2024	4,394	348
2025	4,371	330
2026-2030	20,773	1,394

GRE expects to make a contribution of approximately $0.4 million to the nonqualified supplemental defined benefit plan in 2021 and Falkirk does not expect to make any pension contributions in 2021.

Defined Contribution Plans—GRE makes defined contributions to all employees 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 $11.9 million, $11.3 million, and $11.4 million in 2020, 2019, and 2018, respectively. Falkirk's contributions to its defined contribution pension and defined contribution savings plans were $5.5 million, $5.4 million, and $5.3 million for 2020, 2019, and 2018, 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. With GRE's announcement to sell or retire Coal Creek Station in the second half of 2022, Falkirk remeasured its postretirement medical obligation and recorded a $0.2 million curtailment gain in 2020.

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

Changes in benefit obligations for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	Falkirk		GRE	
	2020	2019	2020	2019
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 2,269	$ 2,528	$ 1,702	$ 1,826
Service cost	20	20	1	-
Interest cost	52	89	64	70
Actuarial gain	(594)	(244)	-	-
Curtailment loss	402	-	-	-
Benefits paid	(92)	(124)	(178)	(194)
Benefit obligations—end of year	$ 2,057	$ 2,269	$ 1,589	$ 1,702

Amounts recognized in the consolidated balance sheets as of December 31, 2020 and 2019, are as follows (in thousands):

	Falkirk		GRE	
	2020	2019	2020	2019
Current liabilities	$ 304	$ 410	$ 171	$ 178
Other noncurrent liabilities	1,753	1,859	1,418	1,524
	$ 2,057	$ 2,269	$ 1,589	$ 1,702

Amounts not yet recognized as components of net periodic cost as of December 31, 2020 and 2019, are as follows (in thousands):

	Falkirk		GRE	
	2020	2019	2020	2019
Accumulated (gain) loss	$ (2,065)	$ (2,697)	$ 1,036	$ 1,105
Prior service credit	(103)	(387)	-	-
	$ (2,168)	$ (3,084)	$ 1,036	$ 1,105

Components of net periodic benefit or cost as of December 31, 2020, 2019, and 2018, are as follows (in thousands):

	Falkirk			GRE		
	2020	2019	2018	2020	2019	2018
Service cost	$ 20	$ 20	$ 59	$ 1	$ 1	$ -
Interest cost	52	89	158	64	69	66
Amortization of credit	(67)	(114)	-	-	-	-
Curtailment gain	(222)	-	-	-	-	-
Recognized net actuarial (gain) loss	(865)	(608)	(71)	69	71	75
Net periodic (benefit) cost	$ (1,082)	$ (613)	$ 146	$ 134	$ 141	$ 141

The estimated amounts to be amortized from deferred charges into net periodic benefit or cost in 2021 are a net cost of less than $0.1 million for GRE and a net benefit of $1.4 million for Falkirk.

The discount rates used as of December 31, 2020, 2019, and 2018, are as follows:

	Falkirk			GRE		
	2020	2019	2018	2020	2019	2018
Discount rate used to determine benefit obligations	1.37%	2.65%	3.80%	4.00%	4.00%	4.00%
Discount rate used to determine net periodic benefit cost	2.65% / 2.09%	3.80%	3.10%	4.00%	4.00%	3.35%

The expected future benefit payments to be paid as of December 31, 2020, are as follows (in thousands):

DECEMBER 31	Falkirk	GRE
2021	$ 306	$ 171
2022	323	164
2023	358	151
2024	310	138
2025	249	132
2026-2030	591	567

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 $871.8 million, $861.8 million, and $876.1 million in 2020, 2019, and 2018, respectively, for these services. GRE received 37.8%, 37.5%, and 39.6% of total member revenue from two members for the years ended December 31, 2020, 2019, and 2018, respectively. GRE had accounts receivable from itsmembers of $144.6 million and $143.1 million at December 31, 2020 and 2019, respectively.

GRE also received various services from the members and paid $10.8 million, $7.3 million, and $11.7 million for these services in 2020, 2019, and 2018, respectively. GRE had accounts payable to the members of $2.0 million and $2.2 million at December 31, 2020 and 2019, respectively.

GRE has notes payable to the members of $50.8 million and $44.4 million at December 31, 2020 and 2019, 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.

The EPA regulation of coal combustion residuals (CCRs) 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. During 2020, GRE decreased its estimated costs to comply with the necessary infrastructure and CCR management modifications for the final ash disposal site closures and increased its estimated costs to comply with the necessary infrastructure and CCR management modifications for final ash disposal site monitoring. The net impact of these changes in estimate was less than $0.1 million and has been reflected as a change in estimated cash flows to the asset retirement obligation for 2020.

During 2019, GRE decreased its estimated costs to comply with the necessary infrastructure and CCR management modifications for the final ash disposal site closures. The $6.3 million decrease resulted from approval obtained by GRE to transfer land previously used for final ash disposal to Falkirk for incorporation in their mining plan.

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. In 2020, as a result of GRE's announcement to sell or retire Coal Creek Station (see Note 1), Falkirk recorded an increase to the obligation of $147.0 million as a change in the timing and amount of estimated cash flows. 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 Coal Creek Station in North Dakota to the GRE service territory in Minnesota. GRE has not recorded a liability related to this obligation because the fair value cannot be reasonably estimated due to the retirement date being indefinite at this time.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Balance—beginning of year	$ 125,506	$ 128,140
Obligations recorded as a result of changes in estimated cash flows	147,064	(6,340)
Accretion expense	9,068	5,419
Obligations settled	(2,736)	(1,713)
Balance—end of year	$ 278,902	$ 125,506

These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets with the exception of retired plant obligations expected to be incurred in the upcoming year. Closure of the Stanton Station ash disposal site was completed during 2020. The obligations settled are the only transactions recognized as a use of cash in the consolidated statements of cash flows.

15. SUBSEQUENT EVENTS

On January 27, 2021, GRE entered into an agreement (the Termination Agreement) with MAG for the early termination of the Blue Flint site lease and the steam and water supply agreement. The Termination Agreement calls for GRE to pay MAG $65.0 million (the Termination Payment). On January 28, 2021, MAG provided written notice to GRE of its irrevocable election to repower Blue Flint, which triggered GRE's obligation to make advances on the Termination Payment as MAG incurs costs on its repowering project. MAG is currently working with vendors to construct and commission its repowering project, which is expected to be completed and commissioned by the end of the third quarter of 2022. The Termination Agreement also provides that GRE does not have to pay any of the remaining portion of the Termination Payment in the event GRE sells Coal Creek Station, the buyer assumes the Blue Flint steam and water supply agreement, MAG consents to the assumption, and certain other conditions are met. The Termination Payment will be deferred under board of directors' approved regulatory accounting.

* * *

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president and CEO

Jon Brekke
vice president and chief power supply officer

Mark Fagan
vice president and chief corporate services officer

Jim Jones
vice president and chief information officer

Priti Patel
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Stearns Electric Association

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Steele-Waseca Cooperative Electric

Michael Thorson
Todd-Wadena Electric Cooperative

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Benson
Kory Johnson, *general manager*

Arrowhead Cooperative, Inc.
Lutsen
John Twiest, *general manager and CEO*

BENCO Electric
Mankato
Dave Sunderman, *CEO*

Brown County Rural Electrical Association
Sleepy Eye
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Connexus Energy
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Greg Ridderbusch, *president and CEO*

Cooperative Light & Power
Two Harbors
Hal Halpern, *general manager and CEO*

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East Central Energy
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Kelly Hovel, *general manager*

Itasca-Mantrap Cooperative Electrical Association
Park Rapids
Christine Fox, *president and CEO*

Kandiyohi Power Cooperative
Spicer
Mark Fagan, *acting CEO*

Lake Country Power
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Lake Region Electric Cooperative
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Tim Thompson, *CEO*

McLeod Cooperative Power Association
Glencoe
Ron Meier, *general manager*

Meeker Cooperative Light and Power Association
Litchfield
Tim Mergen, *general manager and CEO*

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Aitkin
Sarah Cron, *general manager*

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