

Great River Energy

GREAT RIVER ENERGY

2011 THIRD QUARTER REPORT

GREAT RIVER ENERGY
Consolidated Balance Sheets
(unaudited) (Thousands)

	September 30, 2011	September 30, 2010
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,420,133	\$ 3,384,166
Coal mine plant	327,857	326,256
Construction work-in-progress	517,870	444,942
Less accumulated depreciation and amortization	(1,676,391)	(1,625,829)
Utility plant-net	2,589,469	2,529,535
OTHER ASSETS AND INVESTMENTS:		
Funds reserved for debt service	-	11,635
Restricted investments-deferred compensation	9,232	9,136
Other investments-CFC term certificates	27,296	26,891
Equity Investment in Blue Flint Ethanol	23,111	18,722
Equity Investment in Great American Energy	-	603
Deferred charges	186,004	167,141
Other long-term assets	18,713	18,294
Other long-term receivables:		
Members	4,678	7,585
Others	9,395	8,671
Total other assets and investments	278,429	268,678
CURRENT ASSETS:		
Cash and cash equivalents	295,616	240,036
Accounts receivable from nonaffiliated parties	11,398	14,483
Accounts receivable from members	140,619	130,619
Fuel inventory	23,543	19,988
Materials and supplies inventory	61,931	63,235
Prepays and other	21,791	13,729
Deferred income tax benefit	14,699	13,897
Total current assets	569,597	495,987
TOTAL ASSETS	\$ 3,437,495	\$ 3,294,200
LIABILITIES AND CAPITAL		
CAPITAL:		
Members' patronage capital	\$ 408,536	\$ 373,734
Noncontrolling interest	93,805	-
Total capital	502,341	373,734
OTHER NONCURRENT LIABILITIES	80,844	78,476
LONG-TERM OBLIGATIONS-Less current portion	2,583,406	2,508,732
DEFERRED COMPENSATION	9,232	9,136
DEFERRED INCOME TAXES	17,028	13,700
CURRENT LIABILITIES:		
Current portion of long-term obligations	108,196	97,356
Notes payable to members	19,600	32,645
Accounts payable	37,210	34,135
Property and other taxes	19,540	18,251
Other accrued expenses	20,955	19,735
Accrued interest payable	37,112	37,368
Derivative instruments	2,031	70,932
Total current liabilities	244,644	310,422
TOTAL LIABILITIES AND CAPITAL	\$ 3,437,495	\$ 3,294,200

GREAT RIVER ENERGY

Interim Consolidated Statements of Operations, Comprehensive Income and Changes in Capital

(unaudited) (Thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
ELECTRIC REVENUE	\$ 252,233	\$ 239,374	\$ 643,377	\$ 624,289
OTHER OPERATING REVENUE	3,459	2,465	8,996	5,641
Total operating revenue	255,692	241,839	652,373	629,930
OPERATING EXPENSES:				
Purchased Power	48,713	45,091	144,847	147,475
Fuel	61,676	52,682	152,595	145,545
Generation operation and maintenance	15,871	16,130	65,129	66,152
Transmission operation and maintenance	6,573	7,049	23,810	23,269
Business support services	16,906	17,734	47,741	50,321
Depreciation and amortization	24,656	25,253	73,290	75,221
Property and other taxes	5,477	5,701	16,373	15,132
Total operating expenses	179,872	169,640	523,785	523,115
OPERATING MARGIN	75,820	72,199	128,588	106,815
OTHER INCOME (EXPENSE):				
Other income-net	716	950	1,535	1,669
Interest income	482	596	1,602	1,721
Interest expense-net of amounts capitalized	(30,783)	(27,999)	(94,036)	(83,659)
NET UTILITY MARGIN	46,235	45,746	37,689	26,546
NON-UTILITY OPERATIONS:				
Net (loss) gain from joint ventures and variable interest entities	(601)	1,496	(2,437)	7,066
NET MARGIN	45,634	47,242	35,252	33,612
Less: Net loss attributable to the noncontrolling interest	781	-	5,398	-
NET MARGIN-GREAT RIVER ENERGY	\$ 46,415	\$ 47,242	\$ 40,650	\$ 33,612
NET MARGIN	45,634	47,242	35,252	33,612
OTHER COMPREHENSIVE INCOME				
Interest rate swap valuation-joint venture	110	98	367	342
COMPREHENSIVE INCOME	45,744	47,340	35,619	33,954
Less: Comprehensive loss attributable to the noncontrolling interest	781	-	5,398	-
COMPREHENSIVE INCOME-GREAT RIVER ENERGY	\$ 46,525	\$ 47,340	\$ 41,017	\$ 33,954
CAPITAL-BEGINNING OF PERIOD	457,576	326,394	367,519	339,784
Comprehensive income	45,744	47,340	35,619	33,954
Return of members' patronage capital	-	-	-	(4)
Capital contributed by noncontrolling interest-net	(979)	-	99,203	-
CAPITAL-END OF PERIOD	\$ 502,341	\$ 373,734	\$ 502,341	\$ 373,734

GREAT RIVER ENERGY

Interim Consolidated Statements of Cash Flows

(unaudited) (Thousands)

For the nine months ended September 30,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	\$ 35,252	\$ 33,612
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	73,290	75,221
Charged to fuel expense and other accounts	16,647	14,007
Income from equity-method investments	(2,650)	(6,694)
Noncurrent liabilities	(5,799)	4,356
Dividend from joint venture	-	1,920
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(14,282)	(12,924)
Inventory and other assets	(4,579)	(3,383)
Accounts payable, taxes and other accrued expenses	(26,023)	(52,533)
Accrued interest	(30,060)	(25,597)
Net cash provided by operating activities	41,796	27,985
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(110,895)	(179,176)
Proceeds from the sale of plant	342	138
Investment in joint ventures	-	(360)
Purchases of investments	(1,219)	(13,355)
Proceeds from the maturity of investments	848	15,992
Net cash used in investing activities	(110,924)	(176,761)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	101,017	332,179
Repayments of long-term obligations	(95,293)	(90,280)
Costs of new debt issuance and leases	(10,747)	(2,843)
Notes (paid) received from members	(1,245)	5,077
Capital contributed by noncontrolling interest	105,931	-
Capital distributed to noncontrolling interest	(6,208)	-
Dividends paid to noncontrolling interest	(520)	-
Net repayments under line of credit	-	(60,709)
Net cash provided by financing activities	92,935	183,424
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,807	34,648
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	271,809	205,388
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 295,616	\$ 240,036

Financial Highlights

Financial Condition

Assets

Utility plant – net increased by \$60.0 million to \$2.6 billion as of September 30, 2011, primarily the result of investments in a new generating station and new transmission, as well as upgrades and improvements on existing generating stations, transmission and general plant.

Other assets and investments increased by \$9.8 million to \$278.4 million as of September 30, 2011. Equity investment in Blue Flint Ethanol increased by \$4.4 million primarily due to recording our share of net income from the facility. Deferred charges increased by \$18.9 million due primarily to deferred costs related to Spiritwood Station and lease transaction costs.

Current assets increased by \$73.6 million to \$569.6 million as of September 30, 2011. Cash and cash equivalents increased by \$55.6 million, primarily due to timing of expenditures and the receipt of cash of \$105.9 million related to the refined coal processing facility lease. Prepaids and other increased due to advance payments made related to CapX2020.

Liabilities and Capital

Total capital increased by \$128.6 million to \$502.3 million as of September 30, 2011, due to the addition of the noncontrolling interest related to North Dakota Refined Coal, LLC (NDRC) and results of operations during the period.

Long-term obligations increased by \$74.7 million to \$2.6 billion as of September 30, 2011, due primarily to new long-term borrowings for financing utility assets, offset by a decrease in the amounts outstanding under our syndicated credit facility and payments on long-term debt.

Current liabilities decreased by \$65.8 million to \$244.6 million as of September 30, 2011, with the most significant item being the decrease in derivative instruments due to the change in liability related to interest rate hedges.

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As required by Accounting Standards Codification 810-10, GRE is consolidating the financial statements of the Falkirk Mining Company and North Dakota Refined Coal, LLC. All transactions between the companies have been eliminated in consolidation.

The interim financial statements for third quarter 2011 are unaudited. In the opinion of Management, all adjustments (which are normal recurring adjustments) have been made for a fair and accurate presentation of the financial reports. The interim financial statements should be read in conjunction with the Notes to Financial Statements included in the 2010 Annual Report.

Financial Highlights

Results of Operations

Electric revenue increased by \$19.1 million for the nine month period ended September 30, 2011 compared to the same period in 2010. Revenues were higher in 2011 due to an increase in member energy and transmission sales revenue, and a higher power cost adjustment, offset by a decrease in member demand sales revenue and non-member sales revenue.

Other operating revenue increased by \$3.4 million for the nine month period ended September 30, 2011 compared to the same period in 2010 primarily due to increased revenues from tipping fees and ferrous and aluminum recoveries at Elk River Energy Recovery Station.

Fuel increased by \$7.1 million for the nine month period ended September 30, 2011 compared to the same period in 2010 due primarily to increased fuel cost on a cost per MWh basis at all the baseload plants.

Interest expense - net of amounts capitalized increased by \$10.4 million for the nine month period ended September 30, 2011 as compared to the same period in 2010, primarily the result of the increase in long-term obligations.

Net (loss) gain from joint ventures and variable interest entities decreased by \$9.5 million for the nine month period ended September 30, 2011 compared to the same period in 2010, due primarily to the net loss for the variable interest entity, NDRC, and decreased revenue from Blue Flint Ethanol.

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Great River Energy of Maple Grove, Minnesota, is the second largest electric utility in the state, based on generating capacity, and the fourth largest generation and transmission (G&T) cooperative in the U.S. in terms of assets. We provide wholesale power to 28 distribution cooperatives in Minnesota and Wisconsin. Those member cooperatives distribute electricity to approximately 645,000 homes, businesses and farms.

12300 Elm Creek Boulevard
Maple Grove, MN 55369-4718



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