

Great River Energy

GREAT RIVER ENERGY

2011 SECOND QUARTER REPORT

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

	June 30, 2011	June 30, 2010
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,415,959	\$ 3,364,840
Coal mine plant	328,431	321,724
Construction work-in-progress	480,167	404,619
Less accumulated depreciation and amortization	(1,652,422)	(1,599,225)
Utility plant-net	2,572,135	2,491,958
OTHER ASSETS AND INVESTMENTS:		
Funds reserved for debt service	-	11,629
Restricted investments-deferred compensation	10,298	8,453
Other investments-CFC term certificates	26,831	26,325
Equity Investment in Blue Flint Ethanol	23,154	18,511
Equity Investment in Great American Energy	-	11,290
Deferred charges	191,456	149,376
Other long-term assets	18,367	18,315
Other long-term receivables:		
Members	4,687	7,580
Others	8,988	8,026
Total other assets and investments	283,781	259,505
CURRENT ASSETS:		
Cash and cash equivalents	376,530	269,249
Accounts receivable from nonaffiliated parties	13,598	17,051
Accounts receivable from members	130,481	127,010
Fuel inventory	24,228	17,985
Materials and supplies inventory	63,277	61,768
Prepays and other	19,516	16,810
Deferred income tax benefit	14,476	13,675
Total current assets	642,106	523,548
TOTAL ASSETS	\$ 3,498,022	\$ 3,275,011
LIABILITIES AND CAPITAL		
CAPITAL:		
Members' patronage capital	\$ 362,011	\$ 326,394
Noncontrolling interest	95,565	-
Total Capital	457,576	326,394
OTHER NONCURRENT LIABILITIES	81,459	85,214
LONG-TERM OBLIGATIONS-Less current portion	2,662,981	2,526,980
DEFERRED COMPENSATION	10,298	8,453
DEFERRED INCOME TAXES	16,458	13,131
CURRENT LIABILITIES:		
Current portion of long-term obligations	98,663	96,195
Notes payable to members	22,030	26,529
Accounts payable	38,790	38,750
Property and other taxes	14,669	13,011
Other accrued expenses	22,592	19,292
Accrued interest payable	71,778	64,525
Derivative instruments	728	56,537
Total current liabilities	269,250	314,839
TOTAL LIABILITIES AND CAPITAL	\$ 3,498,022	\$ 3,275,011

GREAT RIVER ENERGY

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

(unaudited) (Thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
ELECTRIC REVENUE	\$ 188,283	\$ 185,417	\$ 391,144	\$ 384,914
OTHER OPERATING REVENUE	3,024	2,083	5,537	3,177
Total operating revenue	191,307	187,500	396,681	388,091
OPERATING EXPENSES:				
Purchased Power	48,189	45,306	96,135	102,384
Fuel	38,850	47,650	90,920	92,863
Generation operation and maintenance	26,451	27,941	49,258	50,022
Transmission operation and maintenance	8,526	7,809	17,237	16,220
Business support services	15,750	16,583	30,835	32,588
Depreciation and amortization	24,453	25,103	48,633	49,968
Property and other taxes	5,416	4,691	10,895	9,431
Total operating expenses	167,635	175,083	343,913	353,476
OPERATING MARGIN	23,672	12,417	52,768	34,615
OTHER INCOME (EXPENSE):				
Other income-net	236	155	820	721
Interest income	556	579	1,120	1,124
Interest expense-net of amounts capitalized	(31,638)	(28,001)	(63,253)	(55,660)
NET UTILITY LOSS	(7,174)	(14,850)	(8,545)	(19,200)
NON-UTILITY OPERATIONS:				
Net (loss) gain from joint ventures and variable interest entities	(3,332)	2,901	(2,337)	5,569
NET LOSS	(10,506)	(11,949)	(10,882)	(13,631)
Less: Net loss attributable to the noncontrolling interest	4,978	-	5,117	-
NET LOSS-GREAT RIVER ENERGY	\$ (5,528)	\$ (11,949)	\$ (5,765)	\$ (13,631)
NET LOSS	(10,506)	(11,949)	(10,882)	(13,631)
OTHER COMPREHENSIVE INCOME (LOSS)				
Interest rate swap valuation-joint venture	203	120	257	245
COMPREHENSIVE LOSS	(10,303)	(11,829)	(10,625)	(13,386)
Less: Comprehensive loss attributable to the noncontrolling interest	4,978	-	5,117	-
COMPREHENSIVE LOSS-GREAT RIVER ENERGY	\$ (5,325)	\$ (11,829)	\$ (5,508)	\$ (13,386)
CAPITAL-BEGINNING OF PERIOD	473,006	338,227	367,519	339,784
Comprehensive loss	(10,303)	(11,829)	(10,625)	(13,386)
Return of Members' Patronage Capital	-	(4)	-	(4)
Capital contributed by noncontrolling interest-net	(5,127)	-	100,682	-
CAPITAL-END OF PERIOD	\$ 457,576	\$ 326,394	\$ 457,576	\$ 326,394

GREAT RIVER ENERGY

Interim Consolidated Statements of Cash Flows

(unaudited) (Thousands)

For the six months ended June 30,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,882)	\$ (13,631)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Charged to operating expenses	48,633	49,968
Charged to fuel expense and other accounts	11,038	9,226
Income from equity-method investments	(2,795)	(5,569)
Noncurrent liabilities	(4,960)	3,892
Dividend from joint venture	-	910
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(5,957)	(11,244)
Inventory and other assets	(4,547)	(2,910)
Accounts payable, taxes and other accrued expenses	(25,038)	(51,383)
Accrued interest	4,724	4,529
Net cash provided by (used in) operating activities	10,216	(16,212)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(73,205)	(118,049)
Proceeds from the sale of plant	202	117
Investment in joint ventures	-	(865)
Purchases of investments	(295)	(12,298)
Proceeds from the maturity of investments	389	15,498
Net cash used in investing activities	(72,909)	(115,597)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	101,017	277,986
Costs of new debt issuance	(10,730)	(1,767)
Notes received (paid) from members	1,185	(1,039)
Capital contributed by noncontrolling interest	105,931	-
Capital distributed to noncontrolling interest	(4,924)	-
Dividends paid to noncontrolling interest	(325)	-
Net repayments under line of credit	(24,740)	(79,510)
Net cash provided by financing activities	167,414	195,670
NET INCREASE IN CASH AND CASH EQUIVALENTS	104,721	63,861
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	271,809	205,388
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 376,530	\$ 269,249

Financial Condition

Assets

Utility plant – net increased by \$80.2 million to \$2.6 billion as of June 30, 2011, primarily the result of investments in new generating stations, upgrades at existing generating stations and other transmission and general plant improvements.

Other assets and investments increased by \$24.3 million to \$283.8 million as of June 30, 2011. Equity investment in Blue Flint Ethanol increased by \$4.6 million primarily due to recording our share of net income from the facility. Equity investment in Great American Energy decreased by \$11.3 million due to GRE purchasing GAE's primary asset and capitalizing this asset as part of utility plant. Deferred charges increased by \$42.1 million due primarily to the increase in the regulatory assets related to interest rate hedges and deferred costs related to Spiritwood Station and lease transaction costs.

Current assets increased by \$118.6 million to \$642.1 million as of June 30, 2011. Cash and cash equivalents increased by \$107.3 million, primarily due to timing of expenditures and the receipt of cash of \$105.9 million related to the refined coal processing facility lease. Fuel inventory increased by \$6.2 million, primarily due to increased tons at the end of second quarter 2011 compared to 2010.

Liabilities and Equity

Total capital increased by \$131.2 million to \$457.6 million as of June 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 \$136.0 million to \$2.7 billion as of June 30, 2011, due primarily to new long-term borrowings for financing utility assets, offset by a decrease in the amounts outstanding under our syndicated facility and payments on long-term debt.

Current liabilities decreased by \$45.6 million to \$269.3 million as of June 30, 2011, with the most significant item being the decrease in derivative instruments due to the change in liability related to interest rate hedges. Current portion of long-term obligations and accrued interest payable increased due the increase in long-term obligations.

...

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 second 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 \$6.2 million for the six month period ended June 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 and non-member sales revenue.

Purchased power decreased by \$6.2 million for the six month period ended June 30, 2011 compared to the same period in 2010. The primary reason for the decrease was the expiration of a power supply contract with another regional utility.

Interest expense - net of amounts capitalized increased by \$7.6 million for the six month period ended June 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 \$7.9 million for the six month period ended June 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.

...

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



GREAT RIVER
ENERGY®

A Touchstone Energy® Cooperative 

greatriverenergy.com