

Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services Western Minnesota Municipal Power Agency Combined Statements of Net Position (Unaudited)

March 31

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<u>Assets:</u>	<u>2019</u>	<u>2018</u>	<u>Liabilities and Net Position:</u>	<u>2019</u>	<u>2018</u>
Current Assets:			Current Liabilities:		
Cash and cash equivalents:					
Restricted	\$ 27,232,947	\$ 36,318,510	Accounts Payable	\$ 46,928,068	\$ 33,074,683
Unrestricted	<u>30,334,734</u>	<u>22,818,708</u>	Accrued taxes	4,381,365	4,513,746
Total cash and cash equivalents	<u>57,567,681</u>	<u>59,137,218</u>			
Short-term investments:			Current liabilities payable from restricted assets:		
Restricted	59,998,106	52,869,372	Current maturity of revenue bonds	10,240,000	9,850,000
Unrestricted	<u>84,606,381</u>	<u>91,841,095</u>	Accrued interest	<u>7,856,411</u>	<u>6,924,599</u>
Total short-term investments	<u>144,604,487</u>	<u>144,710,467</u>	Total Current Liabilities	<u>69,405,844</u>	<u>54,363,028</u>
Accounts receivable	30,952,364	18,062,306			
Advances to Missouri Basin Power Project	46,143,508	37,066,233	Non-Current Liabilities:		
Fuel stock	611,827	1,033,813	Revenue bonds, net of unamortized debt discount and premium and excluding current maturities	640,042,481	559,017,247
Materials and supplies	179,111	173,911	Revenues collected for future costs	45,578,083	40,064,022
Other current assets	<u>2,442,874</u>	<u>1,532,430</u>	Other non-current liabilities	4,202,892	380,637
Total Current Assets	<u>282,501,852</u>	<u>261,716,378</u>	Unearned revenue	<u>—</u>	<u>3,651,452</u>
Non-Current Assets:			Total Non-Current Liabilities	<u>689,823,456</u>	<u>603,113,358</u>
Long-term investments:			Total Liabilities	<u>759,229,300</u>	<u>657,476,386</u>
Restricted	56,663,878	29,118,409	Net Position	<u>306,467,412</u>	<u>261,184,824</u>
Unrestricted	<u>98,089,815</u>	<u>50,942,269</u>	Total Liabilities and Net Position	<u>\$1,065,696,712</u>	<u>\$ 918,661,210</u>
Total long-term investments	<u>154,753,693</u>	<u>80,060,678</u>			
Capital assets:					
Utility plant in service	521,935,834	506,838,637			
Less-accumulated depreciation	<u>255,073,939</u>	<u>247,967,049</u>			
Net utility plant in service	<u>266,861,895</u>	<u>258,871,588</u>			
Construction work in progress	<u>351,334,874</u>	<u>307,171,116</u>			
Net capital assets	<u>618,196,769</u>	<u>566,042,704</u>			
Advances for mine development	1,788,739	1,967,777			
Unamortized debt expense	3,770,422	3,311,378			
Other non-current assets	<u>4,685,237</u>	<u>5562,295</u>			
Total Assets	<u>\$1,065,696,712</u>	<u>\$ 918,661,210</u>			



Missouri River Energy Services

Western Minnesota Municipal Power Agency

Quarterly Financial Statements

As of March 31, 2019



Management Discussion

The Combined Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position for the periods ended March 31, 2019 and 2018, are included for those interested in the operations of the Missouri Basin Municipal Power Agency d.b.a. Missouri River Energy Services (MRES) and the Western Minnesota Municipal Power Agency (WMMPA). These statements should be read in conjunction with the 2018 Annual Report.

LONG-TERM POWER SALES

Long-term power sales revenue for the three months ended March 31, 2019, totaled \$48 million, which is comparable to the \$47 million during the same period in 2018. The 3.2 percent 2019 power supply rate decrease was offset by higher demand and energy sales during the first quarter of 2019. The average rate for long-term power sales was approximately 5.7 cents per Kilowatt-hour (kWh) for the three months ended March 31, 2019.

SHORT-TERM POWER SALES

Short-term power sales revenue for the three months ended March 31, 2019, totaled \$4.1 million, compared to \$4.2 million during the same period in 2018.

OPERATING EXPENSES

Fuel expense for the three months ended March 31, 2019, was 32 percent lower than the same period in 2018. This was primarily due to lower generation at Laramie River Station (LRS), partially offset by an increase in generation at the Exira Station. The reduced generation at LRS was largely due to the scheduled installation of Selective Catalytic Reduction equipment (SCR). The SCR is being installed pursuant to a settlement agreement with the Environmental Protection Agency (EPA). The LRS owners also installed Selective Non-Catalytic Reduction equipment on Units 2 and 3. The reduction is also due to reducing generation when market prices are low.

Other power supply operations and maintenance expenses of \$34 million were 19 percent higher during the three months ended March 31, 2019, than the prior year, primarily due to higher purchased power expenses. The higher purchased power expenses were largely due to higher Megawatt-hour purchases in the Southwest Power Pool (SPP) related to the SCR-related outage for LRS Unit 1.

NON-OPERATING REVENUES (EXPENSES)

Investment income for the three months ended March 31, 2019, was 130 percent higher than the same period in 2018 due to an increase in investment yields and increased funds available to invest. The increased funds available to invest reflect the change in net position of MRES and WMMPA and higher unspent bond proceeds.

Interest expense for the three months ended March 31, 2019, increased 13 percent compared to the same period in 2018 due to an \$82.4 million bond issuance in July 2018 offset by interest savings from the January 1, 2019, principal payment of \$9.9 million.

CHANGE IN NET POSITION

The change in net position for the three months ended March 31, 2019, was \$7.2 million compared to \$12.7 million for the same period in 2018. The 2019 year-to-date change in net position is \$1.8 million higher than budget. The favorable variance in the year-to-date March 31, 2019, change in net position compared to budget is primarily due to higher long-term and short-term power sales and higher investment income, offset by higher purchased power expense. The lower change in net position for the three months ended March 31, 2019, compared to the same period in 2018 is largely due to higher purchased power expense offset by lower fuel expense.

COMBINED STATEMENTS OF NET POSITION

Total assets at March 31, 2019, totaled \$1.1 billion, an increase of \$147 million compared to March 31, 2018. The increase in total assets is largely related to a \$44 million increase in construction work in progress, primarily related to the Red Rock Hydroelectric Project, a \$47 million increase in unrestricted cash and investments, and a \$26 million increase in restricted cash and investments related to unspent bond proceeds. The \$213 million of unrestricted cash and investments represents approximately one year of projected 2019 operating expenses.

Significant changes in liabilities and net position between March 31, 2019, and March 31, 2018, included an \$82 million increase in revenue bonds and a \$45 million increase in net position.

2019 POWER SUPPLY RATE REDUCTION

The MRES and WMMPA Boards of Directors (Board) approved a 2019 power supply rate reduction in excess of 3 percent compared to 2018. The rate reduction was possible due to a combination of factors, including continued low market prices and losses in SPP and Midcontinent Independent System Operator, Inc., energy hedges executed to reduce exposure to the market, and the addition of Willmar, Minnesota, as an S-1 Member in 2019. The recently completed long-term cost forecast indicates that no rate increase will be required in 2020 or 2021.

Even with the rate reduction, MRES projects debt service coverage of approximately 160 percent in 2019, well above the Board minimum target of 140 percent.

In addition to the MRES rate reduction, the Western Area Power Administration, which supplied approximately 40 percent of the power and energy requirements of the MRES members, did not change its power supply rates for 2019.

Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services Western Minnesota Municipal Power Agency

Combined Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

For the Periods Ending March 31, 2019 and 2018

	Three Months Ended March 31	
	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Long-term power sales	\$ 47,557,960	\$ 46,987,813
Short-term power sales	4,058,634	4,189,793
Transmission services	14,193,768	14,385,234
Other operating income	<u>24,567</u>	<u>1,251,195</u>
Total Operating Revenues	<u>65,834,929</u>	<u>66,814,035</u>
Operating Expenses:		
Fuel	2,769,666	4,094,298
Other power supply operation and maintenance	34,052,389	28,563,879
Depreciation and amortization	2,275,212	2,229,319
Transmission operation and maintenance	9,765,088	9,774,268
Customer information and collections	44,346	61,903
Administrative and general	3,079,753	2,605,856
Property taxes	<u>991,010</u>	<u>1,060,599</u>
Total Other Operating Expenses	<u>52,977,464</u>	<u>48,390,122</u>
Operating Income	<u>12,857,465</u>	<u>18,423,913</u>
Non-Operating Revenues (Expenses):		
Investment income	1,960,164	852,211
Other income	1,443,085	1,629,642
Other expense	(852,723)	(935,601)
Interest expense	(7,856,411)	(6,924,599)
Amortization of financing related costs, premium and discount	1,043,458	884,821
Net Costs recoverable in (for) future years:		
Principal in excess of depreciation and amortization	(1,437,480)	(1,223,310)
Amortization of reserves previously collected	<u>—</u>	<u>—</u>
Total Non-Operating Expenses	<u>(5,699,907)</u>	<u>(5,716,836)</u>
Change in Net Position	<u>\$ 7,157,588</u>	<u>\$ 12,707,077</u>