

**Missouri Basin Municipal Power Agency d/b/a
Missouri River Energy Services
Western Minnesota Municipal Power Agency
Combined Statements of Assets & Liabilities (Unaudited)
March 31, 2009 and 2008**

| | <u>March 31</u> | | | <u>March 31</u> | |
|---|------------------------------|------------------------------|---|------------------------------|------------------------------|
| Assets: | 2009 | 2008 | Liabilities & Accumulated Net Revenues: | 2009 | 2008 |
| Utility Plant in Service: | | | | | |
| Missouri Basin Power Project | \$ 218,712,564 | \$ 216,481,211 | Accumulated Net Revenues | \$ <u>62,182,212</u> | \$ <u>55,993,705</u> |
| Exira Station | 79,323,722 | 78,807,370 | | | |
| Watertown Power Plant | 17,842,746 | 17,842,746 | | | |
| Transmission Services Agreement facilities | 27,485,959 | 27,037,397 | Revenue Bonds (net of unamortized debt discount / premium): | | |
| Other | <u>15,108,216</u> | <u>14,948,226</u> | Power supply | 189,542,210 | 204,065,154 |
| Total Utility Plant in Service | <u>358,473,207</u> | <u>355,116,950</u> | Transmission project | <u>11,899,840</u> | <u>13,570,372</u> |
| Less-Accumulated Depreciation | <u>196,917,165</u> | <u>180,779,407</u> | Total Revenue Bonds | <u>201,442,050</u> | <u>217,635,526</u> |
| Net Utility Plant In Service | <u>161,556,042</u> | <u>174,337,543</u> | Current Liabilities: | | |
| Current Assets: | | | Current maturity of revenue bonds | 15,640,000 | 14,850,000 |
| Cash and cash equivalents | 29,409,782 | 32,124,491 | Accounts payable | 10,730,102 | 14,017,832 |
| Accounts receivable | 12,483,082 | 9,592,090 | Accrued interest | 2,691,938 | 2,890,136 |
| Advances to Missouri Basin Power Project | 13,192,294 | 13,180,800 | Accrued taxes | <u>1,065,438</u> | <u>1,189,862</u> |
| Interest receivable | 553,581 | 783,183 | Total Current Liabilities | <u>30,127,478</u> | <u>32,947,830</u> |
| Fuel and other inventory | 1,700,238 | 1,441,725 | Operating Reserves | <u>35,456,885</u> | <u>35,456,885</u> |
| Other current assets | <u>1,890,085</u> | <u>1,436,055</u> | | | |
| Total Current Assets | <u>59,229,062</u> | <u>58,558,344</u> | | | |
| Special Funds: | | | | | |
| Power supply - cash & investments | 65,758,961 | 70,037,736 | | | |
| Transmission project - cash & investments | <u>1,797,787</u> | <u>2,282,160</u> | | | |
| Total Special Funds | <u>67,556,748</u> | <u>72,319,896</u> | | | |
| Advances for Mine Development | 3,550,974 | 4,118,651 | | | |
| Unamortized Debt Expense | 4,641,313 | 5,329,810 | | | |
| Costs to be Recovered from Future Revenues | 9,667,062 | 7,671,149 | | | |
| Deferred Charges and Other Non-Current Assets | <u>23,007,424</u> | <u>19,698,553</u> | | | |
| Total Assets | <u>\$ 329,208,625</u> | <u>\$ 342,033,946</u> | Total Liabilities & Accumulated Net Revenues | <u>\$ 329,208,625</u> | <u>\$ 342,033,946</u> |

Quarterly Financial Statements

Missouri River
Energy Services

Western Minnesota
Municipal Power Agency

March 31, 2009



Management Discussion

The Combined Balance Sheets and Statements of Revenues and Expenses for the periods ended March 31, 2009 and 2008, 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 2008 Annual Report.

LONG-TERM POWER SALES

Long-term sales revenue for the three months ended March 31, 2009, was 18.2 percent higher than for the same period in 2008, largely due to an 18.5 percent rate increase effective January 1, 2009. Several factors contributed to the necessity of the rate increase. Among those factors were:

- The projected cost of replacement power during a planned maintenance outage at Laramie River Station (LRS) Unit 1,
- Increased cost of energy-efficiency programs,
- Higher fixed operations and maintenance cost at generating facilities, and
- The need to begin replenishing reserves utilized during the past three years.

The average rate for long-term power sales was approximately 5.5 cents per kilowatt-hour for the three months ended March 31, 2009, compared to 4.5 cents for the three months ended March 31, 2008.

SHORT-TERM POWER SALES

Short-term power sales revenue for the three months ended March 31, 2009, was 32.4 percent less than the same period in 2008. The decrease in revenue was due to the decrease in the average price received for surplus sales offset by higher megawatt-hour sales. The average price for surplus sales for the three months ended March 31, 2009 was 54.6 percent lower and the energy sold was 48.8 percent higher than for the same period in 2008.

TRANSMISSION SERVICES

Transmission services revenue during the three months ended March 31, 2009, was significantly higher than for the same period in the prior year, largely due to dollars received for transmission facility credits.

OTHER OPERATING REVENUES

Other operating revenue consists primarily of providing distribution maintenance services to five Minnesota communities.

OPERATING EXPENSES

Purchased power expense during the three months ended March 31, 2009, was 44.0 percent less than for the same period in the prior year. Approximately 90 percent of the decrease in purchase power expense was due to lower megawatt-hour purchases, and the remainder was due to lower average cost for energy purchased. The lower energy purchases during the first three months of 2009 compared to 2008 were largely a result of higher energy production at LRS. Transmission operation and maintenance expense during the three months ended March 31, 2009, was 16.6 percent greater than the prior year, mainly because of higher rates for transmission service.

The other operating expenses are associated with distribution maintenance services.

NON-OPERATING REVENUES (EXPENSES)

Investment income for the three months ended March 31, 2009, was 57.5 percent less than for the same period in the prior year. Approximately 85 percent of the decrease resulted from lower yields while 15 percent was due to having fewer funds to invest.

Interest expense for the three months ended March 31, 2009, was 6.9 percent less than for the same period in the prior year, due to the January 2009 principal payments.

STB RAIL RATE RELIEF

A decision by the U.S. Surface Transportation Board (STB) could bring substantial cost savings to MRES/WMMPA and the five other owners of LRS. The STB ruled February 18, 2009, that BNSF Railway has overcharged the LRS owners for rail transportation since October 2004. The case began in October 2004 after the expiration of a contract with BNSF. BNSF more than doubled its rates for shipping coal from Wyoming's Powder River Basin to LRS, a haul of about 175 miles.

The STB said this is the largest award it has ever given to a captive shipper, which is an entity that must rely on service from a single railroad because the shipper has no access to a competitive carrier. In its press release of the decision, the STB indicated that BNSF must reimburse the LRS owners approximately \$100 million for overcharges since 2004 and, over the next 20 years, it must provide approximately \$245 million in rate relief (on a present value basis), or about a 60 percent reduction. The MRES share of payments from BNSF and future rate reductions will be 16.47 percent of the total. BNSF is appealing and the process is likely to continue for some time.

Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services Western Minnesota Municipal Power Agency Combined Statements of Revenues and Expenses (Unaudited) March 31, 2009 and 2008

| | Three Months Ended March 31 | |
|---|-----------------------------|-----------------------|
| | 2009 | 2008 |
| Operating Revenues: | | |
| Long-term power sales | \$ 32,403,689 | \$ 27,423,984 |
| Short-term power sales | 882,413 | 1,306,078 |
| Transmission services | 3,791,318 | 1,941,403 |
| Other | <u>513,684</u> | <u>462,511</u> |
| Total Operating Revenues | <u>37,591,104</u> | <u>31,133,976</u> |
| Operating Expenses: | | |
| Fuel | 7,008,919 | 7,073,602 |
| Purchased power | 4,337,424 | 7,748,797 |
| Other power supply operation and maintenance | 5,831,971 | 6,092,917 |
| Depreciation and amortization | 4,124,328 | 3,952,542 |
| Transmission operation and maintenance | 4,575,555 | 3,922,932 |
| Sales and marketing | 86,322 | 107,824 |
| Administrative and general | 1,716,810 | 1,685,894 |
| Property taxes | 350,670 | 302,101 |
| Other | <u>463,707</u> | <u>468,010</u> |
| Total Other Operating Expenses | <u>28,495,706</u> | <u>31,354,619</u> |
| Operating Income (Loss) | <u>9,095,398</u> | <u>(220,643)</u> |
| Non-operating Revenues (Expenses): | | |
| Investment income | 484,447 | 1,140,869 |
| Other income | 234,033 | 230,397 |
| Interest expense | (2,691,938) | (2,890,137) |
| Amortization of financing related costs, premium and discount | 153,244 | 153,244 |
| Allowance for funds used during construction | <u>160,518</u> | <u>160,518</u> |
| Total Non-Operating Revenues (Expenses) | <u>(1,659,696)</u> | <u>(1,205,109)</u> |
| Change in Net Assets | <u>\$ 7,435,702</u> | <u>(\$ 1,425,752)</u> |