

# 2020

# First Quarter Report

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**CONSOLIDATED BALANCE SHEETS (unaudited)**

(IN THOUSANDS)

	<b>MARCH 31 2020</b>	<b>MARCH 31 2019</b>
<b>ASSETS</b>		
UTILITY PLANT:		
Electric plant	\$ 4,644,208	\$ 4,539,817
Coal mine plant	262,579	254,527
Plant to be retired—net of accumulated depreciation	-	34,321
Construction work in progress	45,704	170,049
Less accumulated depreciation and amortization	(2,299,529)	(2,270,804)
Utility plant—net	2,652,962	2,727,910
NONUTILITY PLANT AND EQUIPMENT—Net	153,887	164,379
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	11,974	13,251
Other investments	33,039	32,093
Deferred charges:		
Financing related	150,324	111,376
Contract settlement	-	59,567
Plant retirements	93,484	66,209
Other	67,383	145,566
Other long-term assets	68,118	80,911
Total other assets and investments	424,322	508,973
CURRENT ASSETS:		
Cash and cash equivalents	236,454	245,258
Restricted cash	8,614	1,543
Accounts receivable:		
Members	126,779	135,156
Others	19,259	27,741
Inventories:		
Materials and supplies	64,608	65,827
Fuel	20,990	17,697
Other	11,715	18,952
Prepays and other current assets	11,770	16,073
Derivative instruments	6,921	6,385
Total current assets	507,110	534,632
<b>TOTAL ASSETS</b>	<b>\$ 3,738,281</b>	<b>\$ 3,935,894</b>

CONTINUED

**CONSOLIDATED BALANCE SHEETS (unaudited)**

(IN THOUSANDS)

	<b>MARCH 31 2020</b>	<b>MARCH 31 2019</b>
<b>CAPITAL AND LIABILITIES</b>		
<b>CAPITAL:</b>		
Members:		
Patronage capital	\$ 654,437	\$ 662,195
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	655,635	663,393
Noncontrolling interest:		
Subsidiary—MAG	23,131	24,812
Variable interest entity—NDRC	19,972	156,884
Total capital	698,738	845,089
OTHER NONCURRENT LIABILITIES	163,921	176,864
REGULATORY LIABILITIES	46,434	42,082
LONG-TERM OBLIGATIONS—Less current portion	2,340,015	2,443,535
DEFERRED COMPENSATION	11,974	13,251
DEFERRED INCOME TAXES	2,110	1,715
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	157,213	150,401
Notes payable to members	48,721	40,424
Accounts payable	51,458	57,082
Property and other taxes	28,651	27,763
Other accrued liabilities and notes payable	82,781	75,070
Accrued interest payable	36,954	38,906
Derivative instruments	69,311	23,712
Total current liabilities	475,089	413,358
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>\$ 3,738,281</b>	<b>\$ 3,935,894</b>

CONCLUDED

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,  
COMPREHENSIVE INCOME AND CHANGES IN CAPITAL (unaudited)**

(IN THOUSANDS)

	<b>THREE MONTHS ENDED MARCH 31</b>	
	<b>2020</b>	<b>2019</b>
<b>UTILITY OPERATIONS</b>		
UTILITY OPERATING REVENUE:		
Electric revenue	\$ 216,532	\$ 250,129
Other operating revenue	17,371	18,987
Total utility operating revenue	233,903	269,116
UTILITY OPERATING EXPENSES:		
Purchased power	39,099	49,986
Purchased Power—deferred charge write-off	56,092	-
Fuel	46,207	53,034
Fuel—Section 45 lease revenue	(149,957)	-
Fuel—deferred charge write-off	71,055	-
Operation and maintenance	74,107	71,162
Operation and maintenance—deferred charge write-off	9,017	-
Depreciation and amortization	41,641	40,365
Property and other taxes	7,847	7,237
Total utility operating expenses	195,108	221,784
UTILITY OPERATING MARGIN	38,795	47,332
OTHER INCOME (EXPENSE):		
Other income—net	2,067	7,457
Interest income	789	1,541
Interest expense—net of amounts capitalized	(32,100)	(31,909)
Other expense—net	(29,244)	(22,911)
Net utility margin	9,551	24,421
NONUTILITY OPERATIONS:		
Operating revenue	62,715	61,938
Operating expense	70,460	60,134
Operating (loss) income	(7,745)	1,804
Income from equity method investments	5	21
Loss from variable interest entity—NDRC	(150,187)	(2,309)
Total nonutility operations	(157,927)	(484)
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(148,376)	23,937
NONCONTROLLING INTEREST:		
Subsidiary—MAG	1,668	(391)
Variable interest entity—NDRC	150,187	2,309
Total noncontrolling interest	151,855	1,918
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 3,479	\$ 25,855
CAPITAL—BEGINNING OF PERIOD	\$ 854,148	\$ 828,119
Net (loss) margin and comprehensive (loss) income	(148,376)	23,937
Return of members' patronage capital	(10,200)	(15,212)
Subsidiary—MAG:		
Capital distributed to noncontrolling interest	(152)	-
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	13,614	13,896
Capital distributed to noncontrolling interest	(10,114)	(5,396)
Dividends distributed by noncontrolling interest	(182)	(255)
<b>CAPITAL – END OF PERIOD</b>	<b>\$ 698,738</b>	<b>\$ 845,089</b>

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(IN THOUSANDS)

	<b>THREE MONTHS ENDED MARCH 31</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) margin, including noncontrolling interest	\$ (148,376)	\$ 23,937
Adjustments to reconcile net (loss) margin to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	41,641	40,365
Included in fuel and interest	75,884	6,011
Included in operation and maintenance	12,083	1,918
Included in nonutility operating expenses	2,593	2,605
Income from equity method investments	(5)	(21)
Patronage credits earned from investments	(1,060)	(893)
Deferred charges	47,054	(11,709)
Regulatory liabilities	(3,294)	(21,094)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	20,981	(4,745)
Inventory and other assets	311	(2,884)
Accounts payable, taxes and other accrued expenses	(11,687)	(22,476)
Accrued interest	23,337	(18,307)
Noncurrent liabilities	(2,738)	(152)
Net cash provided by (used in) operating activities	56,724	(7,445)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility plant additions	(27,602)	(24,958)
Nonutility plant and equipment additions	(136)	(191)
Proceeds from sale of property	-	577
Redemption of patronage capital investments	626	554
Net cash used in investing activities	(27,112)	(24,018)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	50,000	4,571
Repayments of long-term obligations	(72,700)	(4,600)
Return of members' patronage capital	(10,200)	(15,212)
Notes received from members—net	4,301	5,745
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	13,614	13,896
Capital distributed to noncontrolling interest	(10,114)	(5,396)
Dividends paid by noncontrolling interest	(182)	(255)
Net cash used in financing activities	(25,281)	(1,251)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	4,331	(32,714)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH— BEGINNING OF PERIOD	240,737	279,515
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – END OF PERIOD	\$ 245,068	\$ 246,801

## CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2018 THROUGH MARCH 31, 2020 (IN THOUSANDS)

	Patronage Capital	Memberships	Additional Paid-in Capital	Noncontrolling Interest		Total Capital
				Subsidiary— MAG	Variable Interest Entity—NDRC	
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)	3,479	-	-	(1,668)	(150,187)	(148,376)
Return of members' patronage capital	(10,200)	-	-	-	-	(10,200)
Capital contributed by noncontrolling interest	-	-	-	-	13,614	13,614
Capital distributed to noncontrolling interest	-	-	-	(152)	(10,114)	(10,266)
Dividends paid by noncontrolling interest	-	-	-	-	(182)	(182)
BALANCE—March 31, 2020	\$ 654,437	\$ 3	\$ 1,195	\$ 23,131	\$ 19,972	\$ 698,738

**Notes to consolidated financial statements** – As required by Accounting Standards Codification 810-10, GRE is consolidating the financial statements of the Falkirk Mining Company (Falkirk), a variable interest entity; North Dakota Refined Coal, LLC (NDRC), a variable interest entity; Midwest AgEnergy Group, LLC (MAG), a subsidiary of GRE; and GRE HERC Services, LLC, a subsidiary of GRE. MAG includes its subsidiaries Dakota Spirit AgEnergy, LLC (DSA), and Blue Flint Ethanol LLC (Blue Flint). GRE is a 78.43 percent owner in MAG. All transactions between the companies have been eliminated in consolidation, except for the steam sales between GRE and MAG on the consolidated statements of operations.

## FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

### *Assets*

**Utility plant—net** decreased \$74.9 million to \$2,653.0 million as of March 31, 2020. The decrease was driven primarily by the depreciation of existing utility and coal mine plant assets, as well as the retirement and transfer of the net book value of the Elk River Resource Recovery Project (Elk River) from plant to be retired-net of accumulated depreciation to deferred charges-plant retirements in April 2019.

**Other assets and investments** decreased \$84.7 million to \$424.3 million as of March 31, 2020. Deferred charges—contract settlement decreased \$59.6 million and deferred charges—other decreased \$78.2 million. These decreases were related to the closing and settlement of the Section 45 transaction, discussed further below. These decreases were partially offset by an increase in deferred charges—financing of \$38.9 million due to an increase in the market value of GRE’s interest rate swap derivative liabilities, and an increase in deferred charges—plant retirements of \$27.3 million due to the retirement of Elk River in 2019.

**Current assets** decreased \$27.5 million to \$507.1 million as of March 31, 2020. Accounts receivable—members decreased \$8.4 million and accounts receivable—others decreased \$8.5 million due to decreased demand and energy sales and decreased ethanol sales, respectively, when comparing to the same period in 2019. Prepaids and other current assets decreased \$4.3 million due to the expiration of a prepaid capacity contract in 2019 and inventories—other decreased \$7.2 million due to decreased corn inventory valuation at MAG. These decreases were partially offset by an increase in fuel inventory of \$3.3 million due to an increase in coal inventory at Falkirk.

### *Capital and liabilities*

**Total capital** decreased \$146.4 million to \$698.7 million as of March 31, 2020. Members’ patronage capital decreased \$7.8 million primarily due to the retirement of \$10.2 million of patronage capital in March 2020. Noncontrolling interest capital decreased \$138.6 million due to NDRC’s recognition of a \$150.2 million loss as a result of the closing and settlement of the Section 45 contract in 2020.

**Regulatory liabilities** increased \$4.4 million to \$46.4 million as of March 31, 2020 due to the deferral of member electric revenue of \$8.2 million in December 2019. This was partially offset by the recognition of \$3.3 million deferred revenue in 2020.

**Long-term obligations—less current portion** decreased \$103.5 million to \$2,340.0 million as of March 31, 2020 due to scheduled principal payments partially offset by a \$50.0 million draw on the syndicated credit facility in March 2020.

**Current liabilities** increased \$61.7 million to \$475.1 million as of March 31, 2020. Derivative instruments increased \$45.6 million due to a decrease in market interest rates which increased the market value of GRE’s interest rate swaps. Notes payable to members increased \$8.3 million due to increased member investments in the member investment program. Other accrued liabilities and notes payable increased \$7.7 million due to the inclusion of a MISO Attachment O accrual and the establishment of a tax settlement accrual. These increases were partially offset by decreases in accounts payable and accrued interest payable.

## FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

**Electric revenue** decreased \$33.6 million or 13.4 percent for the three-month period ended March 31, 2020 compared to the same period in 2019. The decrease in sales was driven by milder weather in 2020 compared to the same period in 2019 and led to member energy and demand revenue that was 4.4 percent and 9.5 percent lower.

**Other operating revenue** decreased \$1.6 million or 8.5 percent for the three-month period ended March 31, 2020 due to reduced plant byproduct revenue and loss of refuse-derived fuel revenue from Elk River.

**Purchased power** decreased \$10.9 million or 21.8 percent for the three-month period ended March 31, 2020 due to a 12.0 percent decrease in MISO market net MWh purchases when compared to the same period in 2019.

**Fuel** decreased \$6.8 million or 12.9 percent for the three-month period ended March 31, 2020 due to the ceasing of operations of Elk River in January 2019 and the peaking stations generating 92.8 percent fewer MWh when compared to the same period in 2019.

**Section 45 transaction**—GRE and NDRC closed a transaction on January 31, 2020 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 the remaining \$56.1 million 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.

**Operation and maintenance** increased \$2.9 million or 4.1 percent for the three-month period ended March 31, 2020. The increase was driven by transmission increase of \$2.9 million due to higher transmission related to others expenses.

**Depreciation and amortization** increased \$1.3 million or 3.2 percent for the three-month period ended March 31, 2020 due to the amortization of Elk River retirement deferred costs and depreciation on the HVDC refurbishment project.

**Nonutility operating revenue and expense** represents the operations of MAG and its subsidiaries. The decrease in earnings for the period is driven by decreased ethanol sales and a decline in the valuation of corn inventory due to decreased market demand brought on by the COVID-19 pandemic, as well as an overall decrease in crude oil market prices.

**Loss from variable interest entity—NDRC** represents the operations of NDRC. The net loss was driven by the closing and settlement of the Section 45 transaction, which resulted in a \$150.0 million loss to NDRC.

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The interim financial statements as of March 31, 2020 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 Consolidated Financial Statements included in the 2019 Annual Report.

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. Those member cooperatives distribute electricity to approximately 700,000 homes, businesses, and farms.

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