

2020

Second Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2020	JUNE 30 2019
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 2,988,610	\$ 4,671,665
Coal mine plant	264,212	245,160
Plant to be retired—net of accumulated depreciation	558,439	-
Construction work in progress	40,908	41,231
Less accumulated depreciation and amortization	(1,178,294)	(2,277,963)
Utility plant—net	2,673,875	2,680,093
NONUTILITY PLANT AND EQUIPMENT—NET	150,347	161,866
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	13,014	13,048
Other investments	33,120	32,181
Deferred charges:		
Financing related	148,068	118,747
Contract settlement	-	59,070
Plant retirements	94,683	98,627
Other	74,407	159,931
Other long-term assets	67,743	77,733
Total other assets and investments	431,035	559,337
CURRENT ASSETS:		
Cash and cash equivalents	213,807	220,849
Restricted cash	1,396	7,544
Accounts receivable:		
Members	147,050	135,350
Others	23,406	41,870
Inventories:		
Materials and supplies	65,056	64,272
Fuel	24,215	22,218
Other	14,208	12,766
Prepays and other current assets	10,597	11,824
Derivative instruments	3,715	10,205
Total current assets	503,450	526,898
TOTAL ASSETS	\$ 3,758,707	\$ 3,928,194

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2020	JUNE 30 2019
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 653,333	\$ 655,998
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	654,531	657,196
Noncontrolling interest:		
Subsidiary—MAG	23,632	23,937
Variable interest entity—NDRC	-	157,069
Total capital	678,163	838,202
OTHER NONCURRENT LIABILITIES	204,701	166,106
REGULATORY LIABILITIES	43,079	43,859
LONG-TERM OBLIGATIONS—Less current portion	2,408,982	2,493,885
DEFERRED COMPENSATION	13,014	13,048
DEFERRED INCOME TAXES	2,110	1,715
CURRENT LIABILITIES:		
Current portion of long-term obligations	152,589	151,486
Notes payable to members	42,170	27,886
Accounts payable	45,817	50,446
Property and other taxes	19,954	18,678
Other accrued liabilities and notes payable	92,615	74,383
Accrued interest payable	13,853	14,615
Derivative instruments	41,660	33,885
Total current liabilities	408,658	371,379
TOTAL CAPITAL AND LIABILITIES	\$ 3,758,707	\$ 3,928,194

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2020	2019	2020	2019
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 210,530	\$ 200,090	\$ 427,062	\$ 450,219
Other operating revenue	18,478	26,726	35,849	45,813
Total utility operating revenue	229,008	226,816	462,911	496,032
UTILITY OPERATING EXPENSES:				
Purchased power	37,733	44,229	76,831	94,215
Purchased Power—deferred charge write-off	-	-	56,092	-
Fuel	45,517	37,018	91,724	90,053
Fuel—Section 45 lease revenue	-	-	(149,957)	-
Fuel—deferred charge write-off	-	-	71,055	-
Operation and maintenance	68,596	66,823	142,704	138,083
Operation and maintenance—deferred charge write-off	-	-	9,017	-
Depreciation and amortization	41,686	44,038	83,327	84,403
Property and other taxes	7,742	6,722	15,589	13,960
Total utility operating expenses	201,274	198,830	396,382	420,714
UTILITY OPERATING MARGIN	27,734	27,986	66,529	75,318
OTHER INCOME (EXPENSE):				
Other income—net	990	602	3,058	8,059
Interest income	389	1,583	1,178	3,124
Interest expense—net of amounts capitalized	(32,136)	(33,182)	(64,237)	(65,091)
Other expense—net	(30,757)	(30,997)	(60,001)	(53,908)
NET UTILITY (LOSS) MARGIN	(3,023)	(3,011)	6,528	21,410
NONUTILITY OPERATIONS:				
Operating revenue	45,212	66,555	107,927	128,493
Operating expense	42,896	70,621	113,356	130,755
Operating income (loss)	2,316	(4,066)	(5,429)	(2,262)
Income from equity method investments	104	5	109	26
Loss from variable interest entity—NDRC	-	(7,161)	(149,991)	(9,470)
Total nonutility operations	2,420	(11,222)	(155,311)	(11,706)
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(603)	(14,233)	(148,783)	9,704
NONCONTROLLING INTEREST:				
Subsidiary—MAG	(501)	875	1,167	484
Variable interest entity—NDRC	-	7,161	149,991	9,470
Total noncontrolling interest	(501)	8,036	151,158	9,954
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ (1,104)	\$ (6,197)	\$ 2,375	\$ 19,658
CAPITAL—BEGINNING OF PERIOD				
Net (loss) margin and comprehensive (loss) income	(603)	(14,233)	(148,783)	9,704
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	-	12,604	13,614	26,500
Capital distributed to noncontrolling interest	-	(5,004)	(30,378)	(10,400)
Dividends distributed by noncontrolling interest	-	(254)	(86)	(509)
CAPITAL—END OF PERIOD	\$ 678,163	\$ 838,202	\$ 678,163	\$ 838,202

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) margin, including noncontrolling interest	\$ (148,783)	\$ 9,704
Adjustments to reconcile net (loss) margin to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	83,327	84,403
Included in fuel and interest	81,701	11,519
Included in operation and maintenance	15,159	3,836
Included in nonutility operating expenses	5,135	5,202
Loss on disposal of nonutility plant and equipment	1,357	-
(Income) loss from equity method investments	(109)	(26)
Patronage credits earned from investments	(1,223)	(1,015)
Deferred charges	36,482	(25,540)
Regulatory liabilities	(7,348)	(21,094)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(3,300)	(19,037)
Inventory and other assets	(1,849)	5,070
Accounts payable, taxes and other accrued expenses	(17,288)	(39,486)
Accrued interest	236	(42,598)
Noncurrent liabilities	(3,363)	(5,471)
Net cash provided by (used in) operating activities	40,134	(34,533)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(51,925)	(63,763)
Nonutility plant and equipment additions	(443)	(247)
Proceeds from the sale of property	6,996	2,837
Redemption of patronage capital investments	708	588
Net cash used in investing activities	(44,664)	(60,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	261,132	156,620
Repayments of long-term obligations	(224,801)	(106,210)
Costs of new debt issuance, leases, and interest rate hedging instruments	(27,883)	-
Return of members' patronage capital	(10,200)	(15,212)
Notes (paid to) received from members—net	(2,250)	(6,793)
Subsidiary—MAG:		
Capital distributed to noncontrolling interest	(152)	-
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	13,614	26,500
Capital distributed to noncontrolling interest	(30,378)	(10,400)
Dividends distributed by noncontrolling interest	(86)	(509)
Net cash (used in) provided by financing activities	(21,004)	43,996
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(25,534)	(51,122)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	240,737	279,515
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	\$ 215,203	\$ 228,393

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2018 THROUGH JUNE 30, 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)	2,375	-	-	(1,167)	(149,991)	(148,783)
Return of members' patronage capital	(10,200)	-	-	-	-	(10,200)
Capital contributed by noncontrolling interest	-	-	-	-	13,614	13,614
Capital distributed to noncontrolling interest	-	-	-	(152)	(30,378)	(30,530)
Dividends paid by noncontrolling interest	-	-	-	-	(86)	(86)
BALANCE—June 30, 2020	\$ 653,333	\$ 3	\$ 1,195	\$ 23,632	\$ -	\$ 678,163

Notes to consolidated financial statements – As required by Accounting Standards Codification (ASC) 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.

*Upon the closing and settlement of the Section 45 transaction on January 31, 2020, GRE ceased having a controlling financial interest in NDRC. As such, and per the guidance in ASC 810-10-40-4, GRE deconsolidated the financial statements of NDRC subsequent to January 31, 2020. The result of operations and related cash flows for NDRC for the month ended January 31, 2020, have been included in the interim consolidated statements of operations, comprehensive income, and changes in capital, and the interim consolidated statements of cash flows, respectively, for the six months ended June 30, 2020.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$6.2 million to \$2,674.0 million as of June 30, 2020. The decrease was driven primarily by the depreciation of existing utility and coal mine plant assets, offset partially by an increase due to the transfer of Coal Creek Station's negative salvage value of \$39.3 million to other noncurrent liabilities and an increase in coal mine plant assets due to land acquisitions and new finance leases in early 2020.

Other assets and investments decreased \$128.3 million to \$431.0 million as of June 30, 2020. Deferred charges—contract settlement decreased \$59.1 million due to the closing and settlement of the Section 45 transaction, discussed further within. Deferred charges—other decreased \$85.5 million, of which \$80.1 million is also due to the closing and settlement of the Section 45 transaction. Other longterm assets decreased \$10.0 million due to decreasing operating lease balances at GRE and MAG. These decreases were partially offset by an increase in deferred charges—financing of \$29.3 million due to an increase in the market value of GRE's interest rate swap derivative liabilities.

Current assets decreased \$23.4 million to \$503.5 million as of June 30, 2020. Accounts receivable—others decreased \$18.5 million due to decreased ethanol sales driven by decreased demand for ethanol and gasoline during the COVID-19 pandemic. Derivative instruments decreased \$6.5 million primarily due to the decrease in fair value of MAG's commodity contract derivatives. These decreases were partially offset by an increase in accounts receivable—members of \$11.7 million, due to an increase in electric revenue in the second quarter of 2020 compared to the same period in 2019.

Capital and Liabilities

Total capital decreased \$160.0 million to \$678.2 million as of June 30, 2020, primarily due to the deconsolidation of NDRC as a variable interest entity. Upon the closing and settlement of the Section 45 transaction, GRE no longer has a controlling financial interest in NDRC and is no longer required to consolidate their balance sheet.

Other noncurrent liabilities increased \$38.6 million to \$204.7 million as of June 30, 2020, primarily due to the transfer of Coal Creek Station's decommissioning accrual (negative salvage value) of \$39.3 million from accumulated depreciation.

Long-term obligations—less current portion decreased \$84.9 million to \$2,409.0 million as of June 30, 2020, driven by \$141.1 million in scheduled principal payments and a \$90.0 million decrease in the amount outstanding on the syndicated credit facility, partially offset by \$150.0 million in proceeds from the Series 2020A private placement issuance in June 2020.

Current liabilities increased \$37.3 million to \$408.7 million as of June 30, 2020. Derivative instruments increased \$7.8 million due to an increase in the market value of GRE's interest rate swaps. Notes payable to members increased \$14.3 million due to increased member investment in the member investment program. Other accrued liabilities and notes payable increased \$18.2 million due to the inclusion of a MISO Attachment O accrual, the establishment of a tax settlement accrual, and an increase in deferred non-member revenue. These increases were partially offset by a \$4.6 million decrease in accounts payable.

FINANCIAL HIGHLIGHTS — RESULTS OF OPERATIONS

Electric revenue decreased \$23.2 million or 5.1 percent for the six-month period ended June 30, 2020, compared to the same period in 2019. The decrease in sales was driven by milder winter weather in the first quarter of 2020 compared to the same period in 2019 and led to member energy and demand unit sales that were overall 1.3 percent and 2.5 percent lower.

Other operating revenue decreased \$10.0 million or 21.7 percent for the six-month period ended June 30, 2020. In the second quarter of 2019, GRE recognized a one-time gain of \$10.8 million from the settlement of a steam contract with a third party. There was no comparable one-time gain recognized in 2020.

Purchased power decreased \$17.4 million or 18.5 percent for the six-month period ended June 30, 2020, due to MISO market net MWh purchases that were 7.3 percent lower at an average LMP that was 37.2 percent lower when compared to the same period in 2019.

Fuel increased \$1.7 million or 1.9 percent for the six-month period ended June 30, 2020, due to higher fuel costs at Coal Creek Station brought on by the closing and settlement of the Section 45 transaction, offset partially by the peaking stations generating 78.0 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 \$4.6 million or 3.3 percent for the six-month period ended June 30, 2020. The increase was driven by a transmission increase of \$6.1 million due to higher transmission related to others expenses.

Depreciation and amortization decreased \$1.1 million or 1.3 percent for the six-month period ended June 30, 2020. In the second quarter of 2019, GRE wrote-off \$2.5 million of assets related to the steam contract settlement mentioned above. There was no comparable write-off in 2020.

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 due to decreased market demand for ethanol and gasoline brought on by the COVID-19 pandemic.

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 and for the period ended June 30, 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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