

2020

Third Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2020	SEPTEMBER 30 2019
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,037,311	\$ 4,681,476
Coal mine plant	269,194	245,860
Plant to be retired—net of accumulated depreciation	542,358	-
Construction work in progress	57,641	54,627
Less accumulated depreciation and amortization	(1,248,725)	(2,315,906)
Utility plant—net	2,657,779	2,666,057
NONUTILITY PLANT AND EQUIPMENT—NET	148,008	159,440
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	13,571	13,214
Other investments	33,336	32,496
Deferred charges:		
Financing related	143,044	129,400
Contract settlement	-	57,581
Plant retirements	92,176	97,060
Other	67,650	152,864
Other long-term assets	65,420	74,231
Total other assets and investments	415,197	556,846
CURRENT ASSETS:		
Cash and cash equivalents	212,043	225,012
Restricted cash	3,968	906
Accounts receivable:		
Members	150,193	148,068
Others	24,495	24,381
Inventories:		
Materials and supplies	65,366	62,090
Fuel	22,692	20,977
Other	18,874	21,737
Prepays and other current assets	10,625	11,431
Derivative instruments	3,873	13,501
Total current assets	512,129	528,103
TOTAL ASSETS	\$ 3,733,113	\$ 3,910,446

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2020	SEPTEMBER 30 2019
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 702,151	\$ 697,415
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	703,349	698,613
Noncontrolling interest:		
Subsidiary—MAG	23,362	24,329
Variable interest entity—NDRC	-	161,357
Total capital	726,711	884,299
OTHER NONCURRENT LIABILITIES	208,829	163,352
REGULATORY LIABILITIES	40,784	43,789
LONG-TERM OBLIGATIONS—Less current portion	2,323,342	2,378,217
DEFERRED COMPENSATION	13,571	13,214
DEFERRED INCOME TAXES	4,502	1,715
CURRENT LIABILITIES:		
Current portion of long-term obligations	159,279	155,834
Notes payable to members	37,048	33,915
Accounts payable	47,220	46,839
Property and other taxes	26,675	23,359
Other accrued liabilities and notes payable	68,430	84,987
Accrued interest payable	35,977	37,181
Derivative instruments	40,745	43,745
Total current liabilities	415,374	425,860
TOTAL CAPITAL AND LIABILITIES	\$ 3,733,113	\$ 3,910,446

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2020	2019	2020	2019
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 264,794	\$ 257,610	\$ 691,856	\$ 707,829
Other operating revenue	21,783	19,402	57,632	65,214
Total utility operating revenue	286,577	277,012	749,488	773,043
UTILITY OPERATING EXPENSES:				
Purchased power	36,348	32,042	113,180	126,257
Purchased Power—deferred charge write-off	-	-	56,092	-
Fuel	48,985	52,714	140,709	142,766
Fuel—Section 45 lease revenue	-	-	(149,957)	-
Fuel—deferred charge write-off	-	-	71,055	-
Operation and maintenance	71,836	73,518	214,540	211,599
Operation and maintenance—deferred charge write-off	-	-	9,017	-
Depreciation and amortization	41,288	42,085	124,616	126,488
Property and other taxes	7,769	6,752	23,357	20,712
Total utility operating expenses	206,226	207,111	602,609	627,822
UTILITY OPERATING MARGIN	80,351	69,901	146,879	145,221
OTHER INCOME (EXPENSE):				
Other income—net	1,379	1,273	4,438	9,329
Interest income	287	1,068	1,465	4,193
Interest expense—net of amounts capitalized	(32,209)	(32,239)	(96,446)	(97,330)
Other expense—net	(30,543)	(29,898)	(90,543)	(83,808)
NET UTILITY MARGIN	49,808	40,003	56,336	61,413
NONUTILITY OPERATIONS:				
Operating revenue	58,483	64,252	166,410	192,745
Operating expense	59,746	62,445	173,102	193,200
Operating (loss) income	(1,263)	1,807	(6,692)	(455)
Income (loss) from equity method investments	3	(1)	112	25
Loss from variable interest entity—NDRC	-	(2,915)	(149,991)	(12,385)
Total nonutility operations	(1,260)	(1,109)	(156,571)	(12,815)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	48,548	38,894	(100,235)	48,598
NONCONTROLLING INTEREST:				
Subsidiary—MAG	270	(392)	1,437	92
Variable interest entity—NDRC	-	2,915	149,991	12,385
Total noncontrolling interest	270	2,523	151,428	12,477
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 48,818	\$ 41,417	\$ 51,193	\$ 61,075
CAPITAL—BEGINNING OF PERIOD				
Net margin (loss) and comprehensive income (loss)	48,548	38,894	(100,235)	48,598
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	-	7,717	13,614	34,217
Capital distributed to noncontrolling interest	-	(256)	(30,378)	(10,657)
Dividends paid by noncontrolling interest	-	(258)	(86)	(766)
CAPITAL—END OF PERIOD	\$ 726,711	\$ 884,299	\$ 726,711	\$ 884,299

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) margin, including noncontrolling interest	\$ (100,235)	\$ 48,598
Adjustments to reconcile net (loss) margin to net cash provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	124,616	126,488
Included in fuel and interest	17,374	16,955
Included in operation and maintenance	12,039	10,867
Included in nonutility operating expense	7,663	7,765
Loss on disposal of nonutility plant and equipment	1,357	-
Income from equity method investments	(112)	(25)
Patronage credits earned from investments	(1,620)	(1,581)
Deferred charges	115,222	(26,350)
Regulatory liabilities	(9,954)	(21,094)
Changes in working capital (excluding cash, investments, and borrowings):		
Accounts and long-term receivables	(7,804)	(13,253)
Inventory and other assets	(3,102)	(3,310)
Accounts payable, taxes, and other accrued expenses	(23,516)	(20,830)
Accrued interest	22,360	(20,032)
Noncurrent liabilities	(4,840)	(9,881)
Net cash provided by operating activities	149,448	94,317
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(71,140)	(96,070)
Nonutility plant and equipment additions	(744)	(386)
Proceeds from the sale of property	7,042	2,915
Redemption of patronage capital investments	889	839
Net cash used in investing activities	(63,953)	(92,702)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	428,185	235,622
Repayments of long-term obligations	(475,206)	(297,652)
Return of members' patronage capital	(10,200)	(15,212)
Costs of new debt issuance, leases, and interest rate hedging instruments	(28,626)	-
Notes paid to members—net	(7,372)	(764)
Subsidiary—MAG:		
Capital distributed to noncontrolling interest	(152)	-
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	13,614	34,217
Capital distributed to noncontrolling interest	(30,378)	(10,657)
Dividends distributed by noncontrolling interest	(86)	(766)
Net cash used in financing activities	(110,221)	(55,212)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(24,726)	(53,597)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	240,737	279,515
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	\$ 216,011	\$ 225,918

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2018 THROUGH SEPTEMBER 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)	51,193	-	-	(1,437)	(149,991)	(100,235)
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—September 30, 2020	\$ 702,151	\$ 3	\$ 1,195	\$ 23,362	\$ -	\$ 726,711

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 statement of cash flows, respectively, for the nine months ended September 30, 2020.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$8.3 million to \$2,657.8 million as of September 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 assets due to land acquisitions and new finance leases in early 2020.

Other assets and investments decreased \$141.6 million to \$415.2 million as of September 30, 2020. Deferred charges—contract settlement decreased \$57.6 million due to the closing and settlement of the Section 45 transaction, discussed further within. Deferred charges—other decreased \$85.2 million, of which \$80.1 million is also due to the closing and settlement of the Section 45 transaction. Deferred charges—plant retirements decreased \$4.9 million driven by amortization and the write-down of the Stanton Station demolition accrual and ash disposal asset retirement obligation (ARO). These decreases were partially offset by an increase in deferred charges—financing of \$13.6 million due to an increase in the market value of GRE's interest rate swap derivative liabilities.

Current assets decreased \$16.0 million to \$512.1 million as of September 30, 2020. Cash and cash equivalents decreased \$13.0 million due to cash used in financing activities. Derivative instruments decreased \$9.6 million primarily due to a decrease in the fair value of MAG's commodity contract derivative positions. These decreases were partially offset by an increase in restricted cash, accounts receivable—members, and inventories.

Capital and liabilities

Total capital decreased \$157.6 million to \$726.7 million as of September 30, 2020, primarily due to the Section 45 transaction discussed further within and 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 \$45.5 million to \$208.8 million as of September 30, 2020, primarily due to the transfer of Coal Creek Station's decommissioning accrual (negative salvage value) of \$39.3 million from accumulated depreciation as well as accretion of the AROs and an increase in the Stanton Station ash monitoring ARO due to a change in estimate.

Long-term obligations—less current portion decreased \$54.9 million to \$2,323.3 million as of September 30, 2020, driven by \$214.5 million in scheduled principal payments and a \$50.0 million decrease in the amount outstanding on the syndicated credit facility, partially offset by \$200.0 million in proceeds from the Series 2020A private placement issuance.

Current liabilities decreased \$10.5 million to \$415.4 million as of September 30, 2020. Other accrued liabilities and notes payable decreased \$16.8 million driven by the reversal of a MISO Attachment O accrual and a decrease of the Stanton Station demolition accrual and ash disposal ARO due to the payment of final reclamation expenses and a write-down of the remaining accrual. These decreases were partially offset by a \$3.1 million increase in notes payable to members and a \$3.3 million increase in property and other taxes.

FINANCIAL HIGHLIGHTS — RESULTS OF OPERATIONS

Electric revenue decreased \$16.0 million or 2.3 percent for the nine-month period ended September 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.

Other operating revenue decreased \$7.6 million or 11.6 percent for the nine-month period ended September 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 \$13.1 million or 10.4 percent for the nine-month period ended September 30, 2020. The decrease was primarily due to a \$22.4 million decrease in net market purchases offset partially by an overall increase in wind purchases due to the Emmons-Logan wind contract beginning in 2020.

Fuel decreased \$2.1 million or 1.4 percent for the nine-month period ended September 30, 2020, due to Coal Creek Station savings and peaking station related fuel expenses. Peaking stations generated 43.8 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 1.4 percent for the nine-month period ended September 30, 2020. The increase was driven primarily by higher transmission expenses to serve member load under inter-utility transmission agreements, offset partially by a reduction in power supply expenses.

Depreciation and amortization decreased \$1.9 million or 1.5 percent for the nine-month period ended September 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 nine month period ended September 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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