

2021

First Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2021	MARCH 31 2020
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,076,831	\$ 4,644,208
Coal mine plant	410,854	262,579
Plant to be retired—net of accumulated depreciation	512,695	-
Construction work in progress	57,045	45,704
Less accumulated depreciation and amortization	(1,356,470)	(2,299,529)
Utility plant—net	2,700,955	2,652,962
NONUTILITY PLANT AND EQUIPMENT—NET	143,554	153,887
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	15,161	11,974
Other investments	33,639	33,039
Deferred charges:		
Financing related	119,188	150,324
Contract settlement	5,000	-
Plant retirements	186,491	93,484
Other	60,039	67,383
Other long-term assets	66,408	68,118
Total other assets and investments	485,926	424,322
CURRENT ASSETS:		
Cash and cash equivalents	220,863	216,467
Restricted cash	25,571	8,614
Accounts receivable:		
Members	148,724	126,779
Others	21,238	19,253
Inventories:		
Materials and supplies	63,225	64,608
Fuel	19,954	20,990
Other	31,045	11,715
Prepays and other current assets	10,870	11,769
Derivative instruments	20,578	6,921
Total current assets	562,068	487,116
TOTAL ASSETS	\$ 3,892,503	\$ 3,718,287

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2021	MARCH 31 2020
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 649,490	\$ 654,437
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	650,688	655,635
Noncontrolling interest:		
Subsidiary—MAG	21,724	23,131
Total capital	672,412	678,766
OTHER NONCURRENT LIABILITIES	386,909	163,921
REGULATORY LIABILITIES	36,473	46,434
LONG-TERM OBLIGATIONS—Less current portion	2,304,212	2,340,015
DEFERRED COMPENSATION	15,161	11,974
DEFERRED INCOME TAXES	14,176	2,110
CURRENT LIABILITIES:		
Current portion of long-term obligations	163,920	157,213
Notes payable to members	57,218	48,721
Accounts payable	44,168	51,457
Property and other taxes	31,656	28,630
Other accrued liabilities and notes payable	69,677	82,781
Accrued interest payable	36,992	36,954
Derivative instruments	59,529	69,311
Total current liabilities	463,160	475,067
TOTAL CAPITAL AND LIABILITIES	\$ 3,892,503	\$ 3,718,287

CONCLUDED

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME** (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31	
	2021	2020
UTILITY OPERATIONS		
UTILITY OPERATING REVENUE:		
Electric revenue	\$ 239,345	\$ 216,532
Other operating revenue	17,127	17,371
Total utility operating revenue	256,472	233,903
UTILITY OPERATING EXPENSES:		
Purchased power	49,790	39,099
Purchased Power—deferred charge write-off	-	56,092
Fuel	51,143	46,207
Fuel—Section 45 lease revenue	-	(149,957)
Fuel—deferred charge write-off	-	71,055
Operation and maintenance	72,762	74,107
Operation and maintenance—deferred charge write-off	-	9,017
Depreciation and amortization	42,352	41,641
Property and other taxes	7,798	7,847
Total utility operating expenses	223,845	195,108
UTILITY OPERATING MARGIN	32,627	38,795
OTHER INCOME (EXPENSE):		
Other income—net	2,070	2,067
Interest income	275	789
Interest expense—net of amounts capitalized	(30,885)	(32,100)
Other expense—net	(28,540)	(29,244)
Net utility margin	4,087	9,551
NONUTILITY OPERATIONS:		
Operating revenue	61,285	62,715
Operating expense	65,855	70,460
Operating loss	(4,570)	(7,745)
Income from equity method investments	31	5
Loss from variable interest entity—NDRC	-	(150,187)
Total nonutility operations	(4,539)	(157,927)
NET LOSS AND COMPREHENSIVE LOSS, INCLUDING NONCONTROLLING INTEREST	(452)	(148,376)
NONCONTROLLING INTEREST:		
Subsidiary—MAG	984	1,668
Variable interest entity—NDRC	-	150,187
Total noncontrolling interest	984	151,855
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 532	\$ 3,479

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2019 THROUGH MARCH 31, 2021 (IN THOUSANDS)

	Patronage Capital	Memberships	Additional Paid-in Capital	Noncontrolling Interest		Total Capital
				Subsidiary— MAG	Variable Interest Entity—NDRC	
BALANCE—January 1, 2019	\$ 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)	23,000	-	-	(2,091)	(149,991)	(129,082)
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—December 31, 2020	\$ 673,958	\$ 3	\$ 1,195	\$ 22,708	\$ -	\$ 697,864
Net margin (loss) and comprehensive income (loss)	532	-	-	(984)	-	(452)
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
Capital contributed by noncontrolling interest	-	-	-	-	-	-
Capital distributed to noncontrolling interest	-	-	-	-	-	-
Dividends paid by noncontrolling interest	-	-	-	-	-	-
BALANCE—March 31, 2021	\$ 649,490	\$ 3	\$ 1,195	\$ 21,724	\$ -	\$ 672,412

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss, including noncontrolling interest	\$ (452)	\$ (148,376)
Adjustments to reconcile net loss to net cash provided operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	42,352	41,641
Included in fuel and interest	5,744	4,829
Included in operation and maintenance	4,707	3,066
Included in nonutility operating expense	2,530	2,593
Unrealized losses (gains) on commodity derivatives	17,839	(1,874)
Income from equity method investments	(31)	(5)
Patronage credits earned from investments	(1,047)	(1,060)
Deferred charges	(2,470)	127,126
Regulatory liabilities	(1,111)	(3,294)
Changes in working capital (excluding cash, investments, and borrowings):		
Accounts and long-term receivables	3,233	20,987
Inventory and other assets	(8,695)	4,299
Accounts payable, taxes, and other accrued expenses	(10,365)	(13,822)
Accrued interest	23,015	23,337
Noncurrent liabilities	(2,494)	(2,738)
Net cash provided by operating activities	72,755	56,709
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(17,705)	(27,602)
Nonutility plant and equipment additions	(454)	(136)
Proceeds from the sale of property	25	-
Redemption of patronage capital investments	676	626
Net cash used in investing activities	(17,458)	(27,112)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	32,396	50,000
Repayments of long-term obligations	(54,191)	(72,700)
Return of members' patronage capital	(25,000)	(10,200)
Notes received from members—net	6,407	4,301
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	-	13,614
Capital distributed to noncontrolling interest	-	(30,086)
Dividends paid by noncontrolling interest	-	(182)
Net cash used in financing activities	(40,388)	(45,253)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	14,909	(15,656)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	231,525	240,737
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	\$ 246,434	\$ 225,081

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; 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.

Section 45 transaction – 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 three months ended March 31, 2020.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net increased \$48.0 million to \$2,701.0 million as of March 31, 2021. The increase primarily was driven by an increase in coal mine plant assets as well as a transfer of the negative salvage value related to Coal Creek Station (CCS) out of accumulated depreciation and amortization and into other noncurrent liabilities. As a result of GRE's announcement to sell or retire CCS in 2022, Falkirk Mine recorded an increase in the asset retirement obligation (ARO) related to the final costs to close its surface mines and reclaim the land. This retirement asset is recognized as the offset to the increase in the retirement obligation liability. These increases were offset partially by the depreciation and amortization of utility plant assets.

Other assets and investments increased \$61.6 million to \$485.9 million as of March 31, 2021. Deferred charges—contract settlement increased \$5.0 million for the accrual of Genoa 3 human resource related retirement costs. Deferred charges—plant retirements increased \$93.0 million. With the announcement to sell or retire CCS in 2022, GRE deferred costs associated with the plant retirement. These costs include human resource related retirement costs, plant decommissioning costs, and Falkirk Mine closure costs. These increases were partially offset by a decrease in deferred charges—financing of \$31.1 million due to a decrease in the market value of GRE's interest rate swap derivative liabilities which was driven by an increase in interest rates. Deferred charges – other decreased \$7.3 million due to the reversal of a \$5.0 million tax settlement accrual, the \$3.0 million write-off of a portion of the settled postretirement plan deferred asset, and amortization of the CCS outage deferral, offset partially by a \$12.2 million increase in the regulatory asset for deferred taxes.

Current assets increased \$75.0 million to \$562.1 million as of March 31, 2021. Restricted cash increased \$17.0 million primarily due to an increase in MAG's collateral deposits. Accounts receivable—members increased \$21.9 million due to stronger sales in the first quarter of 2021 compared to 2020 due to the February 2021 polar vortex as well as the impact of a year-to-date power cost adjustment (PCA) charge of \$11.4 million in the first quarter of 2021 compared to a credit in the same period in 2020. Inventories – other increased \$19.3 million due to an increase in the price and quantity of corn inventory held at MAG. Derivative instruments increased \$13.7 million due to an increase in the fair value and quantity of commodity futures contracts at MAG.

Capital and liabilities

Total capital decreased \$6.4 million to \$672.4 million as of March 31, 2021. Members' patronage capital decreased \$5.0 million primarily due to the retirement of \$25.0 million of patronage capital in March 2021.

Other noncurrent liabilities increased \$223.0 million to \$386.9 million as of March 31, 2021 driven primarily by an increase in the Falkirk Mine ARO related to the final costs to close its surface mines and reclaim land, the transfer of Coal Creek Station's negative salvage value from accumulated depreciation, and additional decommissioning accruals for Coal Creek Station.

Long-term obligations—less current portion decreased \$35.8 million to \$2,304.2 million as of March 31, 2021 due to principal payments and a decrease of \$35.0 million outstanding on the unsecured revolving credit facility. This was partially offset by an increase of \$200.0 million from the Series 2020A private placement issuance.

Current liabilities decreased \$11.9 million to \$463.2 million as of March 31, 2021. Accounts payable decreased \$7.3 million due to decreased operating and MISO payables at GRE. Other accrued liabilities and notes payable decreased \$13.4 million due to the reversal of the \$10.1 million MISO attachment O accrual and the reversal of a \$5.0 million income tax settlement accrual. Derivative instruments decreased \$9.8 million due to a decrease in the fair value of GRE's interest rate swaps, offset partially by an increase in the fair value of commodity corn futures contracts at MAG. These decreases were partially offset by notes payable to members increasing \$8.5 million due to increased member investments in the member investment program and an increase in the current portion of long-term obligations.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue increased \$22.8 million or 10.5 percent for the three-month period ended March 31, 2021 compared to the same period in 2020. The increase in sales was driven by member demand and energy revenue that was 4.6 percent and 0.6 percent higher in part due to the polar vortex that occurred in February 2021. There was also a year-to-date PCA charge of \$11.4 million in 2021 compared to a \$1.8 million PCA credit in the same period in 2020.

Purchased power increased \$10.7 million or 27.3 percent for the three-month period ended March 31, 2021 primarily due to net MISO market purchases made at average prices 81.9 percent higher when compared to the same period in 2020.

Fuel increased \$4.9 million or 10.7 percent for the three-month period ended March 31, 2021 due to increased peaking station generation and use of natural gas and fuel oil during the polar vortex in February 2021.

Operation and maintenance decreased \$1.3 million or 1.8 percent for the three-month period ended March 31, 2021. The decrease was due largely to lower costs to serve member load under inter-utility transmission agreements.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries. The increase in earnings for the period is due to continued strengthening of the ethanol market and ethanol sales in first quarter of 2021. In the first quarter of 2020, ethanol sales decreased significantly with the onset of the COVID-19 pandemic.

Loss from variable interest entity—NDRC represents the operations of NDRC. On January 31, 2020, GRE closed and settled the Section 45 transaction with NDRC. Upon completion of the transaction, GRE ceased having a controlling financial interest in NDRC and deconsolidated their financial statements subsequent to January 31, 2020. The result of the transaction was a net loss of \$150.0 million to NDRC in 2020.

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The interim financial statements as of March 31, 2021 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 2020 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 715,000 homes, businesses, and farms.

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