

2021

Second Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2021	JUNE 30 2020
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,102,223	\$ 2,988,610
Coal mine plant	410,911	264,212
Plant to be retired—net of accumulated depreciation	492,860	558,439
Construction work in progress	52,991	40,908
Less accumulated depreciation and amortization	(1,394,818)	(1,178,294)
Utility plant—net	2,664,167	2,673,875
NONUTILITY PLANT AND EQUIPMENT—NET	141,431	150,347
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	17,468	13,014
Other investments	33,710	33,120
Deferred charges:		
Financing related	125,782	148,068
Contract settlement	5,000	-
Plant retirements	205,904	94,683
Other	56,390	74,407
Other long-term assets	64,414	67,743
Total other assets and investments	508,668	431,035
CURRENT ASSETS:		
Cash and cash equivalents	214,791	213,807
Restricted cash	4,788	1,396
Accounts receivable:		
Members	171,856	147,050
Others	71,232	23,406
Inventories:		
Materials and supplies	63,474	65,056
Fuel	19,120	24,215
Other	5,906	14,208
Prepays and other current assets	9,053	10,597
Derivative instruments	19,673	3,715
Total current assets	579,893	503,450
TOTAL ASSETS	\$ 3,894,159	\$ 3,758,707

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2021	JUNE 30 2020
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 661,628	\$ 653,333
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	662,826	654,531
Noncontrolling interest:		
Subsidiary—MAG	23,257	23,632
Total capital	686,083	678,163
OTHER NONCURRENT LIABILITIES	388,543	204,701
REGULATORY LIABILITIES	46,503	43,079
LONG-TERM OBLIGATIONS—Less current portion	2,315,882	2,408,982
DEFERRED COMPENSATION	17,468	13,014
DEFERRED INCOME TAXES	14,176	2,110
CURRENT LIABILITIES:		
Current portion of long-term obligations	162,078	152,589
Notes payable to members	55,961	42,170
Accounts payable	56,333	45,817
Property and other taxes	21,785	19,954
Other accrued liabilities and notes payable	66,025	92,615
Accrued interest payable	13,970	13,853
Derivative instruments	49,352	41,660
Total current liabilities	425,504	408,658
TOTAL CAPITAL AND LIABILITIES	\$ 3,894,159	\$ 3,758,707

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2021	2020	2021	2020
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 234,029	\$ 210,530	\$ 473,375	\$ 427,062
Other operating revenue	18,821	18,478	35,948	35,849
Total utility operating revenue	252,850	229,008	509,323	462,911
UTILITY OPERATING EXPENSES:				
Purchased power	42,108	37,733	91,898	76,831
Purchased Power—deferred charge write-off	-	-	-	56,092
Fuel	52,827	45,517	103,971	91,724
Fuel—Section 45 lease revenue	-	-	-	(149,957)
Fuel—deferred charge write-off	-	-	-	71,055
Operation and maintenance	72,397	68,596	145,159	142,704
Operation and maintenance—deferred charge write-off	-	-	-	9,017
Depreciation and amortization	41,963	41,686	84,315	83,327
Property and other taxes	7,663	7,742	15,461	15,589
Total utility operating expenses	216,958	201,274	440,804	396,382
UTILITY OPERATING MARGIN	35,892	27,734	68,519	66,529
OTHER INCOME (EXPENSE):				
Other income—net	1,058	990	3,128	3,058
Interest income	279	389	554	1,178
Interest expense—net of amounts capitalized	(30,720)	(32,136)	(61,605)	(64,237)
Other expense—net	(29,383)	(30,757)	(57,923)	(60,001)
Net utility margin (loss)	6,509	(3,023)	10,596	6,528
NONUTILITY OPERATIONS:				
Operating revenue	140,060	45,212	201,345	107,927
Operating expense	132,965	42,896	198,820	113,356
Operating income (loss)	7,095	2,316	2,525	(5,429)
Income from equity method investments	67	104	98	109
Loss from variable interest entity—NDRC	-	-	-	(149,991)
Total nonutility operations	7,162	2,420	2,623	(155,311)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	13,671	(603)	13,219	(148,783)
NONCONTROLLING INTEREST:				
Subsidiary—MAG	(1,533)	(501)	(549)	1,167
Variable interest entity—NDRC	-	-	-	149,991
Total noncontrolling interest	(1,533)	(501)	(549)	151,158
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 12,138	\$ (1,104)	\$ 12,670	\$ 2,375

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2019 THROUGH JUNE 30, 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)	12,670	-	-	549	-	13,219
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
BALANCE—June 30, 2021	\$ 661,628	\$ 3	\$ 1,195	\$ 23,257	\$ -	\$ 686,083

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin (loss), including noncontrolling interest	\$ 13,219	\$ (148,783)
Adjustments to reconcile net margin (loss) to net cash provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	84,315	83,327
Included in fuel and interest	11,383	10,646
Included in operation and maintenance	9,435	6,142
Included in nonutility operating expenses	5,058	5,135
Unrealized losses on commodity derivatives	11,449	204
Loss on disposal of nonutility plant and equipment	-	1,357
Income from equity method investments	(98)	(109)
Patronage credits earned from investments	(1,186)	(1,223)
Deferred charges	(5,331)	91,632
Regulatory liabilities	(2,096)	(7,348)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(69,893)	(3,300)
Inventory and other assets	20,403	(1,891)
Accounts payable, taxes and other accrued expenses	(16,758)	(17,450)
Accrued interest	(7)	236
Noncurrent liabilities	(4,740)	(3,363)
Net cash provided by operating activities	55,153	15,212
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(36,012)	(51,925)
Nonutility plant and equipment additions	(785)	(443)
Proceeds from the sale of property	635	6,996
Redemption of patronage capital investments	744	708
Net cash used in investing activities	(35,418)	(44,664)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	160,396	261,132
Repayments of long-term obligations	(171,012)	(224,801)
Return of members' patronage capital	(25,000)	(10,200)
Costs of new debt issuances	(1,215)	(2,961)
Notes received from (paid to) members—net	5,150	(2,250)
Subsidiary—MAG:		
Capital distributed to noncontrolling interest	-	(152)
Variable interest entity—NDRC:		
Capital contributed by noncontrolling interest	-	13,614
Capital distributed to noncontrolling interest	-	(30,378)
Dividends distributed by noncontrolling interest	-	(86)
Net cash (used in) provided by financing activities	(31,681)	3,918
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(11,946)	(25,534)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	231,525	240,737
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 219,579	\$ 215,203

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% 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 six months ended June 30, 2020.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$9.7 million to \$2,664.2 million as of June 30, 2021. The decrease primarily was driven by depreciation and amortization of existing plant assets as well as continuing the accelerated depreciation of Coal Creek Station (CCS) as a result of the GRE's announcement to sell or retire the plant. This was offset by an increase in electric plant assets placed into service as well as an increase in coal mine plant assets. 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.

Other assets and investments increased \$77.6 million to \$508.7 million as of June 30, 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 \$111.2 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 \$22.3 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 \$18.0 million due to amortization of \$19.4 million of the CCS outage deferral, the reversal of a \$5.0 million tax settlement accrual, and the \$3.0 million write-off of a portion of the settled postretirement plan deferred asset, offset partially by a \$12.2 million increase in the regulatory asset for deferred taxes.

Current assets increased \$76.4 million to \$579.9 million as of June 30, 2021. Accounts receivable—members increased \$24.8 million due to stronger sales in the second quarter of 2021 compared to 2020 due to the extended hot and dry weather occurring this year as well as the impact of a year-to-date power cost adjustment (PCA) charge of \$21.4 million in the second quarter of 2021 compared to a credit in the same period in 2020. Accounts receivable—others increased \$47.8 million primarily due to the sale of MAG's corn inventory for \$42.7 million as part of an agreement signed with a third party for corn origination services. Inventories – other decreased \$8.3 million due in part to the sale of MAG's corn inventory as part of the aforementioned agreement. Derivative instruments increased \$16.0 million due to an increase in the fair value of GRE's Financial Transmission Rights market position and an increase in the fair value commodity futures contracts at MAG.

Capital and liabilities

Other noncurrent liabilities increased \$183.8 million to \$388.5 million as of June 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, additional decommissioning accruals for CCS, and additional costs associated with the Stanton Station ash monitoring ARO.

Long-term obligations—less current portion decreased \$93.1 million to \$2,315.9 million as of June 30, 2021, due to \$141.1 million in principal payments and the \$73.0 million payoff of the Series 2010A-B-C issuance, offset by an increase of \$65.0 million outstanding on the unsecured revolving credit facility and an increase of \$50.0 million from the Series 2020A private placement issuance.

Current liabilities increased \$16.8 million to \$425.5 million as of June 30, 2021. Notes payable to members increased \$13.8 million due to increased member investments in the member investment program. Accounts payable increased \$10.5 million partially due to increased purchases of natural gas. Derivative instruments increased \$7.7 million due to an increase in the fair value of commodity corn futures contracts at MAG, offset partially by a decrease in the fair value of GRE's interest rate swaps. These increases were partially offset by other accrued liabilities and notes payable decreasing \$26.6 million due to the reversal of the MISO attachment O accrual, the reversal of a \$5.0 million income tax settlement accrual, and a decrease in the Elk River Station demolition accrual.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue increased \$46.3 million or 10.8% for the six-month period ended June 30, 2021, compared to the same period in 2020. The increase in sales was driven by member demand and energy revenue that was 5.7% and 2.7% higher largely due to the extended hot and dry weather during May and June 2021 and the polar vortex that occurred in February 2021. There was also a year-to-date PCA charge of \$21.4 million in 2021 compared to a \$2.0 million PCA credit in the same period in 2020.

Purchased power increased \$15.1 million or 19.6% for the six-month period ended June 30, 2021, primarily due to net MISO market purchases made at average prices that were 113.2% higher when compared to the same period in 2020.

Fuel increased \$12.2 million or 13.4% for the six-month period ended June 30, 2021, due to increased peaking station generation and use of natural gas and fuel oil driven by the February 2021 polar vortex and the recent hot and dry summer weather.

Operation and maintenance increased \$2.5 million or 1.7% for the six-month period ended June 30, 2021. The increase was due largely to higher CCS outage amortization in 2021 compared to the same period in 2020.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries. The increase in earnings for the period is due to MAG entering into an agreement with a third party for corn origination services, which entailed MAG selling its corn inventory to the third party and resulted in a net gain of \$7.2 million.

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 June 30, 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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