

# 2021

# Third Quarter Report

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**CONSOLIDATED BALANCE SHEETS (unaudited)**

(IN THOUSANDS)

	SEPTEMBER 30 2021	SEPTEMBER 30 2020
<b>ASSETS</b>		
UTILITY PLANT:		
Electric plant	\$ 3,111,650	\$ 3,037,311
Coal mine plant	411,306	269,194
Plant to be retired—net of accumulated depreciation	481,818	542,358
Construction work in progress	55,341	57,641
Less accumulated depreciation and amortization	(1,432,806)	(1,248,725)
Utility plant—net	2,627,309	2,657,779
NONUTILITY PLANT AND EQUIPMENT—NET	139,979	148,008
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	17,974	13,571
Other investments	33,827	33,336
Deferred charges:		
Financing related	122,799	143,044
Contract settlement	5,000	-
Plant retirements	172,912	92,176
Other	52,186	67,650
Other long-term assets	61,945	65,420
Total other assets and investments	466,643	415,197
CURRENT ASSETS:		
Cash and cash equivalents	227,790	212,043
Restricted cash	5,053	3,968
Accounts receivable:		
Members	162,703	150,193
Others	39,382	24,495
Inventories:		
Materials and supplies	62,580	65,366
Fuel	20,316	22,692
Other	5,702	18,874
Prepays and other current assets	6,724	10,625
Derivative instruments	15,896	3,873
Total current assets	546,146	512,129
<b>TOTAL ASSETS</b>	<b>\$ 3,780,077</b>	<b>\$ 3,733,113</b>

CONTINUED

**CONSOLIDATED BALANCE SHEETS (unaudited)**

(IN THOUSANDS)

	SEPTEMBER 30 2021	SEPTEMBER 30 2020
<b>CAPITAL AND LIABILITIES</b>		
CAPITAL:		
Members:		
Patronage capital	\$ 728,906	\$ 702,151
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	730,104	703,349
Noncontrolling interest:		
Subsidiary—MAG	25,016	23,362
Total capital	755,120	726,711
OTHER NONCURRENT LIABILITIES	327,803	208,829
REGULATORY LIABILITIES	47,980	40,784
LONG-TERM OBLIGATIONS—Less current portion	2,191,510	2,323,342
DEFERRED COMPENSATION	17,974	13,571
DEFERRED INCOME TAXES	14,176	4,502
CURRENT LIABILITIES:		
Current portion of long-term obligations	162,205	159,279
Notes payable to members	55,982	37,048
Accounts payable	48,777	47,220
Property and other taxes	26,052	26,675
Other accrued liabilities and notes payable	71,503	68,430
Accrued interest payable	35,192	35,977
Derivative instruments	25,803	40,745
Total current liabilities	425,514	415,374
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>\$ 3,780,077</b>	<b>\$ 3,733,113</b>

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2021	2020	2021	2020
<b>UTILITY OPERATIONS</b>				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 287,684	\$ 264,794	\$ 761,059	\$ 691,856
Other operating revenue	21,453	21,783	57,401	57,632
Total utility operating revenue	309,137	286,577	818,460	749,488
UTILITY OPERATING EXPENSES:				
Purchased power	46,961	36,348	138,860	113,180
Purchased Power—deferred charge write-off	-	-	-	56,092
Fuel	52,868	48,985	156,839	140,709
Fuel—Section 45 lease revenue	-	-	-	(149,957)
Fuel—deferred charge write-off	-	-	-	71,055
Operation and maintenance	71,868	71,836	217,028	214,540
Operation and maintenance—deferred charge write-off	-	-	-	9,017
Depreciation and amortization	43,305	41,288	127,620	124,616
Property and other taxes	5,545	7,769	21,006	23,357
Total utility operating expenses	220,547	206,226	661,353	602,609
UTILITY OPERATING MARGIN	88,590	80,351	157,107	146,879
OTHER INCOME (EXPENSE):				
Other income—net	1,137	1,379	4,266	4,438
Interest income	273	287	828	1,465
Interest expense—net of amounts capitalized	(29,092)	(32,209)	(90,697)	(96,446)
Other expense—net	(27,682)	(30,543)	(85,603)	(90,543)
Net utility margin	60,908	49,808	71,504	56,336
NONUTILITY OPERATIONS				
Operating revenue	125,578	58,483	326,923	166,410
Operating expense	117,432	59,746	316,252	173,102
Operating income (loss)	8,146	(1,263)	10,671	(6,692)
(Loss) income from equity method investments	(17)	3	81	112
Loss from variable interest entity—NDRC	-	-	-	(149,991)
Total nonutility operations	8,129	(1,260)	10,752	(156,571)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	69,037	48,548	82,256	(100,235)
NONCONTROLLING INTEREST:				
Subsidiary—MAG	(1,759)	270	(2,308)	1,437
Variable interest entity—NDRC	-	-	-	149,991
Total noncontrolling interest	(1,759)	270	(2,308)	151,428
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 67,278	\$ 48,818	\$ 79,948	\$ 51,193

## CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

FOR JANUARY 1, 2019 THROUGH SEPTEMBER 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)	79,948	-	-	2,308	-	82,256
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
BALANCE—September 30, 2021	\$ 728,906	\$ 3	\$ 1,195	\$ 25,016	\$ -	\$ 755,120

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

(IN THOUSANDS)

	<b>NINE MONTHS ENDED SEPTEMBER 30</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin (loss), including noncontrolling interest	\$ 82,256	\$ (100,235)
Adjustments to reconcile net margin (loss) to net cash provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	127,620	124,616
Included in fuel and interest	17,264	17,374
Included in operation and maintenance	14,153	12,039
Included in nonutility operating expense	7,588	7,663
Unrealized (gains) losses on commodity derivatives	(3,336)	3,001
Loss on disposal of nonutility plant and equipment	148	1,357
Income from equity method investments	(81)	(112)
Patronage credits earned from investments	(1,448)	(1,620)
Deferred charges	(9,772)	90,301
Regulatory liabilities	(3,359)	(9,954)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(28,890)	(7,804)
Inventory and other assets	24,659	(3,422)
Accounts payable, taxes, and other accrued expenses	(23,529)	(26,197)
Accrued interest	21,215	22,360
Noncurrent liabilities	(10,276)	(4,840)
Net cash provided by operating activities	214,212	124,527
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility plant additions	(55,324)	(71,140)
Nonutility plant and equipment additions	(2,127)	(744)
Proceeds from the sale of property	258	7,042
Redemption of patronage capital investments	889	889
Net cash used in investing activities	(56,304)	(63,953)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	213,500	428,185
Repayments of long-term obligations	(349,021)	(475,206)
Return of members' patronage capital	(25,000)	(10,200)
Costs of new debt issuances	(1,240)	(3,705)
Notes received from (paid to) members-net	5,171	(7,372)
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 financing activities	(156,590)	(85,300)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,318	(24,726)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	231,525	240,737
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 232,843	\$ 216,011

**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 nine months ended September 30, 2020.

## FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

### Assets

**Utility plant—net** decreased \$30.5 million to \$2,627.3 million as of September 30, 2021. The decrease 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 partially 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 in 2020 to sell or retire CCS, 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 at the end of 2020. This retirement asset is recognized as the offset to the increase in the retirement obligation liability.

**Other assets and investments** increased \$51.4 million to \$466.6 million as of September 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 \$80.7 million. On June 30, 2021, GRE signed an asset purchase agreement with a third party, for the purchase of CCS and the HVDC line. This transaction is subject to regulatory approvals and has not closed as of September 30, 2021. GRE has deferred and/or accrued certain costs associated with the transaction. These costs include human resource related costs, transaction related costs, and Falkirk Mine accelerated depreciation expenses. These increases were partially offset by a decrease in deferred charges—financing of \$20.2 million due to a decrease in the market value of GRE's interest rate swap derivatives as well as the amortization of the settled interest rate swaps. Deferred charges – other decreased \$15.5 million due to the amortization of \$17.9 million of the CCS outage deferral, the reversal of a \$5.0 million tax settlement accrual, and a \$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 \$34.0 million to \$546.1 million as of September 30, 2021. Accounts receivable—members increased \$12.5 million due to stronger sales in the third quarter of 2021 compared to 2020 due to the extended hot and dry weather occurring this year. Accounts receivable—others increased \$14.9 million due to higher invoiced work for others at GRE and higher ethanol sales at MAG due to a stronger market compared to the same period in 2020. Inventories – other decreased \$13.2 million primarily due to a transaction whereby MAG entered into a grain marketing agreement with a third party which resulted in MAG no longer holding corn inventory. Derivative instruments increased \$12.0 million due to an increase in the fair value of GRE's Financial Transmission Rights market position.

### Capital and liabilities

**Other noncurrent liabilities** increased \$119.0 million to \$327.8 million as of September 30, 2021, driven primarily by an increase in the Falkirk Mine ARO related to the final costs to close its surface mines and reclaim land and additional costs associated with the Stanton Station and CCS ash monitoring AROs.

**Long-term obligations—less current portion** decreased \$131.8 million to \$2,191.5 million as of September 30, 2021, primarily due to \$166.1 million in principal payments, offset partially by an increase of \$30.0 million outstanding on the unsecured revolving credit facility.

**Current liabilities** increased \$10.1 million to \$425.5 million as of September 30, 2021. Notes payable to members increased \$18.9 million due to increased member investments in the member investment program. Other accrued liabilities and notes payable increased \$3.1 million primarily related to accrued human resource costs related to the transaction to sell CCS and the HVDC line. Current portion of long-term obligations increased \$2.9 million primarily due to higher upcoming payments on the Series 2010D and 2015A debt issuances. These increases were partially offset by a decrease in derivative instruments by \$14.9 million due to a decrease in the fair value of GRE's interest rate swaps.

## FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

**Electric revenue** increased \$69.2 million or 10.0% for the nine-month period ended September 30, 2021, compared to the same period in 2020. The increase in sales was driven by member demand and energy revenue that was 6.3% and 2.5% higher largely due to hot and dry summer weather in 2021 as well as the polar vortex in February 2021. There was also a year-to-date PCA charge of \$26.0 million in 2021 compared to a \$1.4 million PCA credit in the same period in 2020.

**Purchased power** increased \$25.7 million or 22.7% for the nine-month period ended September 30, 2021, primarily due to net MISO market purchases made at average prices that were 115.3% higher when compared to the same period in 2020.

**Fuel** increased \$16.1 million or 11.5% for the nine-month period ended September 30, 2021, due to peaking station generation output that was significantly higher in 2021 compared to the same period in 2020 driven by the February 2021 polar vortex, the hot and dry summer weather in 2021, as well as higher natural gas prices.

**Operation and maintenance** increased \$2.5 million or 1.2% for the nine-month period ended September 30, 2021. The increase was due largely to higher CCS outage expense 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 higher sales and gross margin in 2021 compared to the same period in 2020 as well as a net gain recognized from the impact of MAG entering into a grain marketing agreement with a third party for corn origination services.

**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 September 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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