2022
First Quarter Report

GREAT RIVER ENERGY®

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2022	MARCH 31 2021
ASSETS		
UTILITY PLANT:		
Electric plant	$ 2,726,113	$ 3,076,831
Coal mine plant	413,905	410,854
Plant to be retired—net of accumulated depreciation	-	512,695
Construction work in progress	36,716	57,045
Less accumulated depreciation and amortization	(1,307,170)	(1,356,470)
Utility plant—net	1,869,564	2,700,955
NONUTILITY PLANT AND EQUIPMENT—NET	146,854	143,554
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	19,970	15,161
Other investments	34,176	33,639
Deferred charges:		
Financing related	110,612	119,188
Contract settlement	5,900	5,000
Plant retirements	739,476	186,491
Other	37,090	60,039
Other long-term assets	67,628	66,408
Total other assets and investments	1,014,852	485,926
CURRENT ASSETS:		
Cash and cash equivalents	226,387	220,863
Restricted cash	33,993	25,571
Assets held for sale	214,455	-
Accounts receivable:		
Members	163,387	148,724
Others	27,989	21,238
Inventories:		
Materials and supplies	50,722	63,225
Fuel	16,457	19,954
Other	10,159	31,045
Prepaids and other current assets	33,093	10,870
Derivative instruments	9,541	20,578
Total current assets	786,183	562,068
TOTAL ASSETS	$ 3,817,453	$ 3,892,503

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2022	MARCH 31 2021
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 681,898	$ 649,490
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	683,096	650,688
Noncontrolling interest: Subsidiary—MAG	29,117	21,724
Total capital	712,213	672,412
OTHER NONCURRENT LIABILITIES	321,718	386,909
REGULATORY LIABILITIES	40,841	36,473
LONG-TERM OBLIGATIONS—Less current portion	2,218,374	2,304,212
DEFERRED COMPENSATION	19,970	15,161
DEFERRED INCOME TAXES	14,224	14,176
CURRENT LIABILITIES:		
Current portion of long-term obligations	166,443	163,920
Notes payable to members	74,192	57,218
Accounts payable	61,504	44,168
Property and other taxes	30,540	31,656
Other accrued liabilities and notes payable	109,481	69,677
Accrued interest payable	34,840	36,992
Derivative instruments	13,113	59,529
Total current liabilities	490,113	463,160
TOTAL CAPITAL AND LIABILITIES	$ 3,817,453	$ 3,892,503

CONCLUDED

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31 2022	2021
UTILITY OPERATIONS		
UTILITY OPERATING REVENUE:		
Electric revenue	$ 264,375	$ 239,345
Other operating revenue	17,911	17,127
Total utility operating revenue	282,286	256,472
UTILITY OPERATING EXPENSES:		
Purchased power	72,617	49,790
Fuel	46,852	51,143
Operation and maintenance	75,682	72,762
Depreciation and amortization	42,556	42,352
Property and other taxes	6,286	7,798
Total utility operating expenses	243,993	223,845
UTILITY OPERATING MARGIN	38,293	32,627
OTHER INCOME (EXPENSE):		
Other income—net	2,018	2,070
Interest income	280	275
Interest expense—net of amounts capitalized	(28,872)	(30,885)
Other expense—net	(26,574)	(28,540)
Net utility margin	11,719	4,087
NONUTILITY OPERATIONS:		
Operating revenue	99,153	61,285
Operating expense	100,066	65,855
Operating loss	(913)	(4,570)
Income from equity method investments	53	31
Total nonutility operations	(860)	(4,539)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	10,859	(452)
NONCONTROLLING INTEREST: Subsidiary—MAG	195	984
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 11,054	$ 532

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

FOR JANUARY 1, 2020 THROUGH MARCH 31, 2022 (IN THOUSANDS)

				Noncontrolling Interest		
	Patronage Capital	Memberships	Additional Paid-in Capital	Subsidiary—MAG	Variable Interest Entity—NDRC	Total Capital
BALANCE—January 1, 2020	$ 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 and comprehensive income	46,886	-	-	6,604	-	53,490
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
BALANCE—December 31, 2021	$ 695,844	$ 3	$ 1,195	$ 29,312	$ -	$ 726,354
Net margin (loss) and comprehensive income (loss)	11,054	-	-	(195)	-	10,859
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
BALANCE—March 31, 2022	$ 681,898	$ 3	$ 1,195	$ 29,117	$ -	$ 712,213

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin (loss), including noncontrolling interest	$ 10,859	$ (452)
Adjustments to reconcile net margin (loss) to net cash provided operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	42,556	42,352
Included in fuel and interest	8,879	5,744
Included in operation and maintenance	5,212	4,707
Included in nonutility operating expense	2,507	2,530
Unrealized (gains) losses on commodity derivatives	(9,846)	17,839
Loss on disposal of nonutility plant and equipment	298	-
Income from equity method investments	(53)	(31)
Patronage credits earned from investments	(1,114)	(1,047)
Deferred charges	(10,517)	(2,470)
Regulatory liabilities	-	(1,111)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	77	3,233
Inventory and other assets	(39,982)	(8,695)
Accounts payable, taxes, and other accrued expenses	(28,369)	(10,365)
Accrued interest	22,057	23,015
Noncurrent liabilities	678	(2,494)
Net cash provided by operating activities	3,242	72,755
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(20,178)	(17,705)
Nonutility plant and equipment additions	(6,356)	(454)
Proceeds from the sale of property	100	25
Redemption of patronage capital investments	727	676
Distribution from equity method investments	364	-
Net cash used in investing activities	(25,343)	(17,458)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	120,000	32,396
Repayments of long-term obligations	(86,403)	(54,164)
Costs of new debt issuances	(27)	(27)
Return of members' patronage capital	(25,000)	(25,000)
Notes received from members—net	22,955	6,407
Net cash provided by (used in) financing activities	31,525	(40,388)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	9,424	14,909
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	250,956	231,525
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	$ 260,380	$ 246,434

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.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased $831.4 million to $1,869.6 million as of March 31, 2022. During 2021, GRE announced it had negotiated a transaction to sell Coal Creek Station (CCS) and the high voltage direct current transmission system (the HVDC system) and expects to close the transaction in May 2022. In accounting for the transaction as of March 31, 2022, the assets included in the transaction (collectively referred to as the disposal group) were written down to fair value and classified within assets held for sale in the consolidated balance sheet. The difference between the carrying value and the fair value of the disposal group was characterized as a loss on disposal and was deferred under regulatory accounting approved by the board of directors. Of the utility plant—net decrease of $831.4 million, the classification of the disposal group as held for sale accounted for $663.9 million of the decrease while the remaining $167.5 million decrease was largely driven by the depreciation and amortization of plant assets.

Other assets and investments increased $528.9 million to $1,014.9 million as of March 31, 2022. Deferred charges—plant retirements increased $553.0 million, due to the deferral of $478.3 million loss on disposal of the CCS and HVDC system assets as well as the deferral and accrual of costs associated with the transaction. These costs include human resource related costs, transaction related costs, and Falkirk Mine accelerated depreciation expenses. This increase is offset partially by decreases in the Stanton Station and Elk River Resource Recovery Project (Elk River) plant retirement balances due to amortization and changes in decommissioning and reclamation estimates. Deferred charges—other decreased $22.9 million primarily due to the amortization of CCS deferred outage costs. Deferred charges—financing related decreased $8.6 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.

Current assets increased $224.1 million to $786.2 million as of March 31, 2022. As discussed previously, GRE classified the fair value of the CCS and HVDC system assets as held for sale. This resulted in a $214.5 million increase to current assets. Accounts receivable increased $21.4 million as a result of stronger member electric sales, higher PCA charges, and increased ethanol sales at MAG. Prepaids and other current assets increased $22.2 million largely due to an increase in prepaid outage expenses for an upcoming peaking plant outage in the fall of 2022. These increases were offset by a $36.9 million decrease in inventories. Included in the disposal group of the CCS and HVDC system assets classified as held for sale (discussed previously) are materials and supplies inventories of $18.2 million and fuel inventories of $9.9 million. Inventories—other decreased $20.9 million mainly due to an agreement for corn origination services entered into by MAG with a third party during 2021. MAG's corn inventory was sold and its forward contracts were transferred to the third party as part of the transaction. Derivative instruments also decreased $11.0 million due to a $19.4 million decrease in MAG's commodity contracts due to the transfer of forward contracts to a third party in 2021, offset partially by an $8.3 million increase in the fair value of GRE's Financial Transmission Rights and interest rate swap derivative positions.

Capital and liabilities

Total capital increased $39.8 million to $712.2 million as of March 31, 2022. Members' patronage capital increased $32.4 million primarily due higher net margin attributable to GRE.

Other noncurrent liabilities decreased $65.2 million to $321.7 million as of March 31, 2022, driven primarily by the reversal of CCS's decommissioning accrual. With the announcement of the sale of CCS, GRE no longer needs to recognize the obligation to decommission the plant.

Long-term obligations—less current portion decreased $85.8 million to $2,218.4 million as of March 31, 2022, primarily due to $166.8 million in principal payments, offset partially by a net increase of $89.5 million outstanding on GRE's and MAG's unsecured revolving credit facilities.

Current liabilities increased $27.0 million to $490.1 million as of March 31, 2022. Accounts payable increased $17.3 million due to higher net MISO purchases and increased production costs at MAG due to an unexpected outage. Other accrued liabilities and notes payable increased $39.8 million mainly due to accruals related to the CCS and HVDC system sale transaction. These increases were offset partially by a decrease in derivative instruments of $46.4 million primarily due to a decrease in the fair value of GRE's interest rate swaps and a decrease in MAG's liability for commodity contracts.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue increased $25.0 million or 10.5% for the three-month period ended March 31, 2022, compared to the same period in 2021. The increase in sales was driven by member demand and energy revenue that were 4.5% and 8.0% higher, respectively. There was also a year-to-date PCA charge of $21.0 million in 2022 compared to a $11.4 million PCA charge in the same period in 2021.

Purchased power increased $22.8 million or 45.8% for the three-month period ended March 31, 2022, primarily due to 52.9% or 312 GWh more net MISO market energy purchased at average prices that were 23.2% higher when compared to the same period in 2021.

Fuel decreased $4.3 million or 8.4% for the three-month period ended March 31, 2022, due to substantially less natural gas and fuel oil used by the peaking plants in the first quarter of 2022 compared to usage during the polar vortex in the first quarter of 2021.

Operation and maintenance increased $2.9 million or 4.0% for the three-month period ended March 31, 2022. The increase was due largely to salary and inflationary increases in 2022 compared to the same period in 2021.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries. The increase in earnings for the three-month period ended March 31, 2022, is primarily due to higher unrealized losses on commodity contracts during the first quarter of 2021 compared to unrealized gains during 2022.

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The interim financial statements as of March 31, 2022, 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 the consolidated financial statements included in the 2021 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 725,000 homes, businesses, and farms.

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