

2022

Second Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2022	JUNE 30 2021
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 2,785,269	\$ 3,102,223
Coal mine plant	-	410,911
Plant to be retired—net of accumulated depreciation	-	492,860
Construction work in progress	45,390	52,991
Less accumulated depreciation and amortization	(1,069,689)	(1,394,818)
Utility plant—net	1,760,970	2,664,167
NONUTILITY PLANT AND EQUIPMENT—NET	154,004	141,431
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	17,460	17,468
Other investments	34,296	33,710
Deferred charges:		
Financing related	98,667	125,782
Contract settlement	5,762	5,000
Plant retirements	804,006	205,904
Other	28,056	56,390
Other long-term assets	49,992	64,414
Derivative instruments—noncurrent	239,523	-
Total other assets and investments	1,277,762	508,668
CURRENT ASSETS:		
Cash and cash equivalents	272,157	214,791
Restricted cash	11,720	4,788
Accounts receivable:		
Members	158,762	171,856
Others	44,907	71,232
Inventories:		
Materials and supplies	32,262	63,474
Fuel	6,730	19,120
Other	6,850	5,906
Prepays and other current assets	28,819	9,053
Derivative instruments—current	222,071	19,673
Total current assets	784,278	579,893
TOTAL ASSETS	\$ 3,977,014	\$ 3,894,159

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2022	JUNE 30 2021
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 684,853	\$ 661,628
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	686,051	662,826
Noncontrolling interest—subsidiary—MAG	42,410	23,257
Total capital	728,461	686,083
OTHER NONCURRENT LIABILITIES	59,364	388,543
REGULATORY LIABILITIES	274,303	34,139
LONG-TERM OBLIGATIONS—Less current portion	2,243,100	2,315,882
DEFERRED COMPENSATION	17,460	17,468
DEFERRED INCOME TAXES	14,224	14,176
CURRENT LIABILITIES:		
Long-term obligations—current	164,053	162,078
Deferred revenue—current	1,266	-
Regulatory liabilities—current	222,071	12,364
Notes payable to members	71,417	55,961
Accounts payable	66,474	56,333
Property and other taxes	19,634	21,785
Other accrued liabilities and notes payable	82,125	66,025
Accrued interest payable	13,062	13,970
Derivative instruments	-	49,352
Total current liabilities	640,102	437,868
TOTAL CAPITAL AND LIABILITIES	\$ 3,977,014	\$ 3,894,159

CONCLUDED

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2022	2021	2022	2021
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 241,433	\$ 234,029	\$ 505,808	\$ 473,375
Other operating revenue	18,679	18,821	36,590	35,948
Total utility operating revenue	260,112	252,850	542,398	509,323
UTILITY OPERATING EXPENSES:				
Purchased power	109,664	42,108	182,281	91,898
Fuel	21,729	52,827	68,581	103,971
Operation and maintenance	64,369	72,397	140,051	145,159
Depreciation and amortization	37,922	41,963	80,478	84,315
Property and other taxes	5,022	7,663	11,308	15,461
Total utility operating expenses	238,706	216,958	482,699	440,804
UTILITY OPERATING MARGIN	21,406	35,892	59,699	68,519
OTHER INCOME (EXPENSE):				
Other income—net	571	1,058	2,589	3,128
Interest income	558	279	838	554
Interest expense—net of amounts capitalized	(30,509)	(30,720)	(59,381)	(61,605)
Other expense—net	(29,380)	(29,383)	(55,954)	(57,923)
NET UTILITY (LOSS) MARGIN	(7,974)	6,509	3,745	10,596
NONUTILITY OPERATIONS:				
Operating revenue	140,607	140,060	239,760	201,345
Operating expense	125,272	132,965	225,338	198,820
Operating income	15,335	7,095	14,422	2,525
Income from equity method investments	193	67	246	98
Total nonutility operations	15,528	7,162	14,668	2,623
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	7,554	13,671	18,413	13,219
NONCONTROLLING INTEREST: Subsidiary—MAG	(4,599)	(1,533)	(4,404)	(549)
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 2,955	\$ 12,138	\$ 14,009	\$ 12,670

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

FOR JANUARY 1, 2020 THROUGH JUNE 30, 2022 (IN THOUSANDS)

	Patronage Capital	Memberships	Additional Paid-in Capital	Noncontrolling Interest		Total Capital
				Subsidiary— MAG	Variable Interest Entity—NDRC	
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 and comprehensive income	14,009	-	-	4,404	-	18,413
Return of members' patronage capital	(25,000)	-	-	-	-	(25,000)
Capital transferred to noncontrolling interest	-	-	-	11,087	-	11,087
Capital distributed by noncontrolling interest	-	-	-	(2,393)	-	(2,393)
BALANCE—June 30, 2022	\$ 684,853	\$ 3	\$ 1,195	\$ 42,410	\$ -	\$ 728,461

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	\$ 18,413	\$ 13,219
Adjustments to reconcile net margin to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	80,478	84,315
Included in fuel and interest	9,117	11,383
Included in operation and maintenance	7,352	9,435
Included in purchased power	138	-
Included in nonutility operating expenses	4,942	5,058
Unrealized (gains) losses on commodity derivatives	(10,233)	11,449
Loss on disposal of nonutility plant and equipment	298	-
Income from equity method investments	(246)	(98)
Patronage credits earned from investments	(1,296)	(1,186)
Deferred charges	(25,347)	(5,331)
Regulatory liabilities	3,606	(2,096)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(13,121)	(69,893)
Inventory and other assets	(37,352)	20,403
Accounts payable, taxes and other accrued expenses	(230,045)	(16,758)
Accrued interest	279	(7)
Noncurrent liabilities	5,996	(4,740)
Net cash (used in) provided by operating activities	(187,021)	55,153
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(31,858)	(36,012)
Nonutility plant and equipment additions	(15,819)	(785)
Proceeds from the sale of property	206,677	635
Redemption of patronage capital investments	789	744
Distribution from equity method investments	799	-
Purchases of investments	(99)	-
Net cash provided by (used in) investing activities	160,489	(35,418)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	388,000	160,396
Repayments of long-term obligations	(319,111)	(171,012)
Return of members' patronage capital	(25,000)	(25,000)
Costs of new debt issuances	(2,223)	(1,215)
Notes received from members—net	20,180	5,150
Capital distributed to noncontrolling interest—subsidiary—MAG	(2,393)	-
Net cash provided by (used in) financing activities	59,453	(31,681)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	32,921	(11,946)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	250,956	231,525
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 283,877	\$ 219,579

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). All transactions between the companies have been eliminated in consolidation, except for the steam and water sales between GRE and MAG, and electricity sales between GRE and DSA on the consolidated statements of operations.

* Upon the closing and settlement of the transaction to sell CCS and the HVDC system on May 1, 2022, GRE ceased having a controlling financial interest in Falkirk. As such, and per the guidance in ASC 810-10-40-4, GRE deconsolidated the financial statements of Falkirk as of May 1, 2022. The result of operations for Falkirk for the period ended April 30, 2022, has been included in the interim consolidated statements of operations and comprehensive income as fuel expense for the six months ended June 30, 2022. The related cash flows for Falkirk have been included in the interim consolidated statement of cash flows for the six months ended June 30, 2022.

** Upon the closing and settlement of the transaction to sell CCS and the HVDC system on May 1, 2022, GRE transferred \$11.1 million worth of shares in MAG to the noncontrolling interest. As a result of the transfer, GRE's ownership in MAG was reduced from 78.43 percent to 69.52 percent. This transfer of capital is included in the statements of changes in capital as capital transferred to noncontrolling interest for the three months ended and six months ended June 30, 2022.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$903.2 million to \$1,761.0 million as of June 30, 2022. On May 1, 2022, GRE completed a transaction to sell Coal Creek Station (CCS) and the high voltage direct current transmission system (the HVDC system) to a third party (the transaction). As a result of the transaction, GRE ceased having a controlling financial interest in Falkirk Mine (Falkirk) and deconsolidated their financial statements on May 1, 2022. The GRE assets included in the sale accounted for a net decrease of \$657.8 million while the Falkirk deconsolidated assets accounted for a net decrease of \$153.1 million. The remaining \$92.3 million net decrease was largely driven by the depreciation and amortization of assets.

Other assets and investments increased \$769.1 million to \$1,277.8 million as of June 30, 2022. Deferred charges—plant retirements increased \$598.1 million due to the deferral of a \$369.8 million loss on disposal of CCS and the HVDC system assets, the deferral of \$189.0 million of transaction settlement payments, as well as the deferral of other costs associated with the transaction. These other costs include human resource related costs, transaction related costs, Falkirk accelerated depreciation expenses, and the transfer by GRE of shares in Midwest AgEnergy, LLC (MAG) to the noncontrolling interest. This increase is offset partially by amortization of the plant retirement balances. Derivative instruments—noncurrent increased \$239.5 million as a result of the mark-to-market valuation of the noncurrent portion of a bilateral financial settlement contract (FSC). As part of the transaction, GRE entered into a bilateral FSC with the purchaser based on the energy output of CCS as a hedge to MISO load costs. GRE pays a fixed price for the energy output and the floating price is based on the MISO LMP. This financial settlement is accounted for as a derivative instrument. Deferred charges—financing related decreased \$27.1 million due to a decrease in the fair value of GRE's interest rate swap liabilities (driven by rising interest rates) as well as continued amortization of settled interest rate swap regulatory assets. Deferred charges—other decreased \$28.3 million primarily due to the amortization of CCS deferred outage costs and the removal of Falkirk related deferred charges due to the deconsolidation of Falkirk on May 1, 2022.

Current assets increased \$204.4 million to \$784.3 million as of June 30, 2022. Cash and cash equivalents increased \$57.4 million primarily as a result of net cash received from the transaction and gross cash proceeds received from the Series 2022 debt issuances more than offsetting other operating, investing, and financing cash flows. Prepaids and other current assets increased \$19.8 million due to an increase in prepaid outage expenses for a peaking plant outage in the fall of 2022. Derivative instruments—current increased \$202.4 million as a result of the mark-to-market valuation of the current portion of the FSC (discussed earlier) as well as an increase in the fair value of GRE's financial transmission rights and interest rate swap derivative positions. These increases were offset by a \$42.7 million decrease in inventories due to the deconsolidation of Falkirk on May 1, 2022.

Capital and liabilities

Total capital increased \$42.4 million to \$728.5 million as of June 30, 2022. Members' patronage capital increased \$23.2 million due to results of operations for the period less patronage distributions. MAG's noncontrolling interest increased \$19.2 million due to favorable operating results of MAG as well as the transfer of \$11.1 million worth of shares from GRE to the noncontrolling interest.

Other noncurrent liabilities decreased \$329.2 million to \$59.4 million as of June 30, 2022, driven primarily by the deconsolidation of Falkirk, the reversal of CCS's decommissioning accrual, and reduction in GRE's CCS asset retirement obligations as a result of the transaction.

Regulatory liabilities increased \$240.2 million to \$274.3 million as of June 30, 2022, mainly due to the noncurrent portion of the FSC (discussed earlier).

Long-term obligations—less current portion decreased \$72.8 million to \$2,243.1 million as of June 30, 2022, primarily due to \$171.8 million in principal payments and a \$140.0 million decrease in unsecured revolving credit facilities, offset partially by an increase of \$250.0 million from the Series 2022 debt issuances.

Current liabilities increased \$202.2 million to \$640.1 million as of June 30, 2022. Regulatory liabilities—current increased \$209.7 million due to the current portion of the mark-to-market valuation of the FSC (discussed earlier) as well as an increase in the fair value of GRE's financial transmission rights and interest rate swap derivative positions. Accounts payable increased \$10.1 million due to higher net MISO purchases and increased production costs at MAG. Other accrued liabilities and notes payable increased \$16.1 million mainly due to accruals related to the Blue Flint Ethanol steam termination agreement. These increases were offset partially by a decrease in derivative instruments of \$49.4 million due to a decrease in the fair value of GRE's interest rate swap liabilities, the settlement of certain interest rate swaps related to Series 2022 debt issuances, and the settlement of MAG's commodity contracts.

FINANCIAL HIGHLIGHTS — RESULTS OF OPERATIONS

Electric revenue increased \$32.4 million or 6.9% for the six-month period ended June 30, 2022, compared to the same period in 2021. The increase in sales was driven by member demand and energy unit sales from all-requirements members that were 3.3% and 5.0% higher, respectively.

Purchased power increased \$90.4 million or 98.4% for the six-month period ended June 30, 2022, primarily due to 158.7% or 1,660 GWh more net MISO market energy purchased at average prices that were 24.8% higher than in 2021.

Fuel decreased \$35.4 million or 34.0% for the six-month period ended June 30, 2022, primarily due to CCS being sold in the transaction on May 1, 2022, and GRE no longer purchasing and handling coal from Falkirk.

Operation and maintenance decreased \$5.1 million or 3.5% for the six-month period ended June 30, 2022, primarily due to CCS being sold in the transaction on May 1, 2022, and GRE no longer operating and maintaining the plant.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries. The increase in earnings for the six-month period ended June 30, 2022, is primarily due to favorable operations from MAG.

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The interim financial statements as of June 30, 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 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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