

2022

Third Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2022	SEPTEMBER 30 2021
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 2,796,321	\$ 3,111,650
Coal mine plant	-	411,306
Plant to be retired—net of accumulated depreciation	-	481,818
Construction work in progress	70,240	55,341
Less accumulated depreciation and amortization	(1,089,908)	(1,432,806)
Utility plant—net	1,776,653	2,627,309
NONUTILITY PLANT AND EQUIPMENT—NET	168,989	139,979
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	17,389	17,974
Other investments	34,386	33,827
Deferred charges:		
Financing related	96,943	122,799
Contract settlement	4,478	5,000
Plant retirements	789,029	172,912
Other	32,963	52,186
Other long-term assets	48,935	61,945
Derivative instruments—noncurrent	190,242	-
Total other assets and investments	1,214,365	466,643
CURRENT ASSETS:		
Cash and cash equivalents	312,002	227,790
Restricted cash	11,719	5,053
Accounts receivable:		
Members	167,261	162,703
Others	57,111	39,382
Inventories:		
Materials and supplies	36,553	62,580
Fuel	6,978	20,316
Other	8,635	5,702
Prepays and other current assets	13,354	6,724
Derivative instruments—current	135,967	15,896
Total current assets	749,580	546,146
TOTAL ASSETS	\$ 3,909,587	\$ 3,780,077

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2022	SEPTEMBER 30 2021
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 627,330	\$ 728,906
Temporary patronage capital	122,769	-
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	1,195	1,195
Total members' capital	751,297	730,104
Noncontrolling interest—subsidiary—MAG	47,582	25,016
Total capital	798,879	755,120
OTHER NONCURRENT LIABILITIES	62,450	327,803
REGULATORY LIABILITIES	224,859	32,751
LONG-TERM OBLIGATIONS—Less current portion	2,204,374	2,191,510
DEFERRED COMPENSATION	17,389	17,974
DEFERRED INCOME TAXES	14,224	14,176
CURRENT LIABILITIES:		
Long-term obligations—current	164,068	162,205
Deferred revenue—current	919	-
Regulatory liabilities—current	146,575	15,229
Notes payable to members	72,417	55,982
Accounts payable	75,857	48,777
Property and other taxes	22,511	26,052
Other accrued liabilities and notes payable	68,905	71,503
Accrued interest payable	36,160	35,192
Derivative instruments	-	25,803
Total current liabilities	587,412	440,743
TOTAL CAPITAL AND LIABILITIES	\$ 3,909,587	\$ 3,780,077

CONCLUDED

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2022	2021	2022	2021
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	\$ 315,489	\$ 287,684	\$ 821,298	\$ 761,059
Other operating revenue	20,252	21,453	56,842	57,401
Total utility operating revenue	335,741	309,137	878,140	818,460
UTILITY OPERATING EXPENSES:				
Purchased power	131,229	46,961	313,510	138,860
Fuel	16,555	52,868	85,136	156,839
Operation and maintenance	55,437	71,868	195,488	217,028
Depreciation and amortization	35,938	43,305	116,416	127,620
Property and other taxes	3,228	5,545	14,536	21,006
Total utility operating expenses	242,387	220,547	725,086	661,353
UTILITY OPERATING MARGIN	93,354	88,590	153,054	157,107
OTHER INCOME (EXPENSE):				
Other income—net	1,113	1,137	3,701	4,266
Interest income	1,608	273	2,446	828
Interest expense—net of amounts capitalized	(32,013)	(29,092)	(91,394)	(90,697)
Other expense—net	(29,292)	(27,682)	(85,247)	(85,603)
Net utility margin	64,062	60,908	67,807	71,504
NONUTILITY OPERATIONS				
Operating revenue	126,199	125,578	365,959	326,923
Operating expense	119,847	117,432	345,185	316,252
Operating income	6,352	8,146	20,774	10,671
Income (loss) from equity method investments	4	(17)	250	81
Total nonutility operations	6,356	8,129	21,024	10,752
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	70,418	69,037	88,831	82,256
NONCONTROLLING INTEREST—SUBSIDIARY—MAG	(5,172)	(1,759)	(9,576)	(2,308)
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 65,246	\$ 67,278	\$ 79,255	\$ 79,948

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

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

	Patronage Capital	Temporary 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	79,255	-	-	-	9,576	-	88,831
Return of members' patronage capital	(25,000)	-	-	-	-	-	(25,000)
Patronage capital reclassified as temporary patronage capital	(122,769)	122,769	-	-	-	-	-
Capital transferred to noncontrolling interest	-	-	-	-	11,087	-	11,087
Capital distributed to noncontrolling interest	-	-	-	-	(2,393)	-	(2,393)
BALANCE—September 30, 2022	\$ 627,330	\$ 122,769	\$ 3	\$ 1,195	\$ 47,582	\$ -	\$ 798,879

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	\$ 88,831	\$ 82,256
Adjustments to reconcile net margin to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	116,416	127,620
Included in fuel and interest	11,524	17,264
Included in operation and maintenance	7,938	14,153
Included in purchased power	320	-
Included in nonutility operating expense	7,326	7,588
Unrealized gains on commodity derivatives	(10,233)	(3,336)
Loss on disposal of nonutility plant and equipment	298	148
Income from equity method investments	(250)	(81)
Patronage credits earned from investments	(1,499)	(1,448)
Deferred charges	(30,815)	(9,772)
Regulatory liabilities	3,618	(3,359)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(33,824)	(28,890)
Inventory and other assets	(28,277)	24,659
Accounts payable, taxes, and other accrued expenses	(219,620)	(23,529)
Accrued interest	23,376	21,215
Noncurrent liabilities	4,591	(10,276)
Net cash (used in) provided by operating activities	(60,280)	214,212
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(64,613)	(55,324)
Nonutility plant and equipment additions	(33,032)	(2,127)
Proceeds from the sale of property	207,723	258
Redemption of patronage capital investments	919	889
Distribution from equity method investments	902	-
Purchases of investments	(99)	-
Net cash provided by (used in) investing activities	111,800	(56,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	388,000	213,500
Repayments of long-term obligations	(358,065)	(349,021)
Return of members' patronage capital	(25,000)	(25,000)
Costs of new debt issuances	(2,477)	(1,240)
Notes received from members-net	21,180	5,171
Capital distributed to noncontrolling interest—subsidiary—MAG	(2,393)	-
Net cash provided by (used in) financing activities	21,245	(156,590)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	72,765	1,318
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	250,956	231,525
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 323,721	\$ 232,843

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 steam, water, and electricity sales between GRE and MAG in the interim 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, comprehensive income, and changes in capital as fuel expense for the nine months ended September 30, 2022. The related cash flows for Falkirk have been included in the interim consolidated statement of cash flows for the nine months ended September 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 nine months ended September 30, 2022.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$850.7 million to \$1,776.7 million as of September 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 \$136.5 million. The remaining \$56.4 million net decrease was largely driven by the depreciation and amortization of assets.

Other assets and investments increased \$747.7 million to \$1,214.4 million as of September 30, 2022. Deferred charges—plant retirements increased \$616.1 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 \$190.2 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 \$25.9 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 \$19.2 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 \$203.4 million to \$749.6 million as of September 30, 2022. Cash and cash equivalents increased \$84.2 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. Derivative instruments—current increased \$120.1 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 \$36.4 million decrease in inventories primarily due to the deconsolidation of Falkirk on May 1, 2022.

Capital and liabilities

Total capital increased \$43.8 million to \$798.9 million as of September 30, 2022. On August 30, 2022, the GRE members approved the withdrawal and transition of Connexus Energy to a customer contract. As a result, GRE reclassified their patronage capital totaling \$122.8 million as temporary patronage capital. The new customer contract is effective on January 1, 2023. MAG's noncontrolling interest increased \$22.6 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 \$265.4 million to \$62.5 million as of September 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 \$192.1 million to \$224.9 million as of September 30, 2022, mainly due to the noncurrent portion of the FSC (discussed earlier).

Long-term obligations—less current portion increased \$12.9 million to \$2,204.4 million as of September 30, 2022, primarily due to an increase of \$250.0 million from the Series 2022 debt issuances offset partially by \$171.1 million in principal payments and a \$70.0 million decrease in unsecured revolving credit facilities.

Current liabilities increased \$146.7 million to \$587.4 million as of September 30, 2022. Regulatory liabilities—current increased \$131.3 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 \$27.1 million due to higher net MISO purchases and increased production costs at MAG. These increases were offset partially by a decrease in derivative instruments of \$25.8 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 \$60.2 million or 7.9% for the nine-month period ended September 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 15.4% and 1.7% higher, respectively.

Purchased power increased \$174.7 million or 125.8% for the nine-month period ended September 30, 2022, compared to the same period in 2021. MISO market purchased power was \$203.8 million higher primarily due to 214.9% or 3,470 GWh more net MISO market energy purchased at average prices that were 27.4% higher than in 2021. This was offset partially by a \$29.1 million decrease in other purchased power primarily due the favorable impact of the bilateral FSC.

Fuel decreased \$71.7 million or 45.7% for the nine-month period ended September 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 \$21.5 million or 9.9% for the nine-month period ended September 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 nine-month period ended September 30, 2022, is primarily due to favorable operations from MAG.

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The interim financial statements as of September 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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