

2023

First Quarter Report



CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2023	MARCH 31 2022
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 2,832,831	\$ 2,726,113
Coal mine plant	-	413,905
Construction work in progress	56,116	36,716
Less accumulated depreciation and amortization	(1,121,038)	(1,307,170)
Utility plant—net	1,767,909	1,869,564
NONUTILITY PLANT AND EQUIPMENT—NET	-	146,854
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	19,989	19,970
Other investments	34,667	34,176
Deferred charges:		
Financing related	93,494	110,612
Contract settlement	4,142	5,900
Plant retirements	758,097	739,476
Other	60,561	37,090
Other long-term assets	20,985	67,628
Derivative instruments—noncurrent	303,975	-
Total other assets and investments	1,295,910	1,014,852
CURRENT ASSETS:		
Cash and cash equivalents	339,846	226,387
Restricted cash	-	33,993
Assets held for sale	-	214,455
Accounts receivable:		
Members	112,209	163,387
Others	44,669	27,989
Inventories:		
Materials and supplies	48,649	50,722
Fuel	7,683	16,457
Other	-	10,159
Prepays and other current assets	15,151	33,093
Deferred charges—current	23,623	-
Derivative instruments—current	29,149	9,541
Total current assets	620,979	786,183
TOTAL ASSETS	\$ 3,684,798	\$ 3,817,453

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	MARCH 31 2023	MARCH 31 2022
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	\$ 528,155	\$ 681,898
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	-	1,195
Total members' capital	528,158	683,096
Temporary patronage capital	114,597	-
Noncontrolling interest: Subsidiary—MAG	-	29,117
Total capital	642,755	712,213
OTHER NONCURRENT LIABILITIES	59,480	321,718
REGULATORY LIABILITIES	341,077	40,841
LONG-TERM OBLIGATIONS—Less current portion	2,134,117	2,218,374
DEFERRED COMPENSATION	19,989	19,970
DEFERRED INCOME TAXES	35,955	14,224
DERIVATIVE INSTRUMENTS—NONCURRENT	12,536	-
CURRENT LIABILITIES:		
Long-term obligations—current	166,517	166,443
Regulatory liabilities—current	29,149	-
Notes payable to members	73,636	74,192
Accounts payable	53,252	61,504
Property and other taxes	25,896	30,540
Other accrued liabilities and notes payable	28,883	109,481
Accrued interest payable	37,933	34,840
Derivative instruments—current	23,623	13,113
Total current liabilities	438,889	490,113
TOTAL CAPITAL AND LIABILITIES	\$ 3,684,798	\$ 3,817,453

CONCLUDED

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

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31	
	2023	2022
UTILITY OPERATIONS		
UTILITY OPERATING REVENUE:		
Electric revenue	\$ 252,656	\$ 264,375
Other operating revenue	22,583	17,911
Total utility operating revenue	275,239	282,286
UTILITY OPERATING EXPENSES:		
Purchased power	131,517	72,617
Fuel	5,330	46,852
Operation and maintenance	62,342	75,682
Depreciation and amortization	37,810	42,556
Property and other taxes	7,105	6,286
Total utility operating expenses	244,104	243,993
UTILITY OPERATING MARGIN	31,135	38,293
OTHER INCOME (EXPENSE):		
Other income—net	1,776	2,018
Interest income	4,339	280
Interest expense—net of amounts capitalized	(32,844)	(28,872)
Other expense—net	(26,729)	(26,574)
Net utility margin	4,406	11,719
NONUTILITY OPERATIONS:		
Operating revenue	-	99,153
Operating expense	-	100,066
Operating loss	-	(913)
Income from equity method investments	5,412	53
Total nonutility operations	5,412	(860)
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	9,818	10,859
NONCONTROLLING INTEREST: Subsidiary—MAG	-	195
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	\$ 9,818	\$ 11,054

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

FOR JANUARY 1, 2021 THROUGH MARCH 31, 2023 (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, 2021	\$ 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	19,814	-	-	(1,195)	4,183	-	22,802
Return of members' patronage capital	(25,000)	-	-	-	-	-	(25,000)
Capital distributed to noncontrolling interest	-	-	-	-	11,087	-	11,087
Capital distributed to noncontrolling interest	-	-	-	-	(44,582)	-	(44,582)
BALANCE—December 31, 2022	\$ 690,658	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 690,661
Net margin and comprehensive income	9,818	-	-	-	-	-	9,818
Transfer to temporary patronage capital	(127,330)	127,330	-	-	-	-	-
Return of members' patronage capital	(44,991)	-	-	-	-	-	(44,991)
Redemption of temporary patronage capital	-	(12,733)	-	-	-	-	(12,733)
BALANCE—March 31, 2023	\$ 528,155	\$ 114,597	\$ 3	\$ -	\$ -	\$ -	\$ 642,755

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	\$ 9,818	\$ 10,859
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	37,810	42,556
Included in fuel and interest	2,456	8,879
Included in operation and maintenance	620	5,212
Included in purchased power	168	-
Included in nonutility operating expenses	-	2,805
Unrealized gains on commodity derivatives	-	(9,846)
Income from equity method investments	(5,412)	(53)
Patronage credits earned from investments	(1,006)	(1,114)
Deferred charges	(901)	(10,517)
Regulatory liabilities	(6,364)	-
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	4,722	77
Inventory and other assets	(7,981)	(39,982)
Accounts payable, taxes and other accrued expenses	(49,381)	(28,369)
Accrued interest	23,950	22,057
Noncurrent liabilities	(487)	678
Net cash provided by operating activities	8,012	3,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(10,726)	(22,822)
Utility plant reimbursements—contributions in aid of construction	14,903	2,644
Nonutility plant and equipment additions	-	(6,356)
Proceeds from sale of property	7,199	100
Distribution from equity method investments	7,255	364
Redemption of patronage capital investments	700	727
Net cash provided by (used in) investing activities	19,331	(25,343)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	-	120,000
Repayments of long-term obligations	(498)	(86,403)
Costs of new debt issuances, leases, and interest rate hedging instruments	(37)	(27)
Return of members' patronage capital	(44,991)	(25,000)
Redemption of temporary patronage capital	(12,733)	-
Notes received from members—net	18,206	22,955
Net cash (used in) provided by financing activities	(40,053)	31,525
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(12,710)	9,424
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH— BEGINNING OF PERIOD	352,556	250,956
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—END OF PERIOD	\$ 339,846	\$ 260,380

Notes to consolidated financial statements – The interim financial statements as of March 31, 2023 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 2022 Annual Report.

As required by Accounting Standards Codification (ASC) 810 Consolidation, 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. 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 (prior to deconsolidation, see ** below).

* Upon the closing and settlement of the transaction to sell Coal Creek Station 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 Consolidation, GRE deconsolidated the financial statements of Falkirk as of May 1, 2022. The result of operations for Falkirk for the period ended March 31, 2022, have been included in these statements

** On December 1, 2022, GRE and the noncontrolling interest owners of MAG closed on a transaction to sell their ownership interest in MAG to a third party. Upon closing the transaction, per the guidance in ASC 810 Consolidation, GRE deconsolidated the financial statements of MAG as of December 1, 2022. The results of operations and related cash flows for MAG as of and for the period ended March 31, 2022, have been included in these statements.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net decreased \$101.7 million to \$1,767.9 million as of March 31, 2023. 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. As a result of the transaction, GRE ceased having a controlling financial interest in Falkirk Mine (Falkirk) and deconsolidated their financial statements. The Falkirk deconsolidated assets accounted for a net decrease of \$105.0 million.

Nonutility plant and equipment—net decreased \$146.9 million to \$0 as of March 31, 2023. On December 1, 2022, GRE and the noncontrolling interest owners of Midwest AgEnergy Group, LLC (MAG) closed on a transaction to sell their ownership interest in MAG to a third party. Upon closing the transaction, GRE deconsolidated the financial statements of MAG.

Other assets and investments increased \$281.0 million to \$1,295.9 million as of March 31, 2023. Derivative instruments—noncurrent increased \$304.0 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—plant retirements increased \$18.6 million due to additional deferred retirement costs as part of the CCS transaction, offset partially by amortization of all retired plant deferred charges. These increases are offset by a decrease in other long-term assets of \$46.4 million primarily as a result of the deconsolidation of MAG and Falkirk.

Current assets decreased \$165.2 million to \$621.0 million as of March 31, 2023. Assets held for sale decreased \$214.5 million due to the completion of the CCS transaction. Restricted cash decreased \$34.0 million due to GRE utilizing letters of credit for security in the 2023 MISO auction whereas in 2022, GRE utilized \$32.8 million of restricted cash for part of the security. Accounts receivable – members decreased \$51.2 million as a result of fewer member sales, the transition of a member to a customer contract (see below), and a PCA credit compared to a charge during the same period in 2022. Prepaid and other current assets decreased \$17.9 million and inventories decreased \$21.0 million primarily due to the deconsolidation of MAG and Falkirk. These decreases were partially offset by an increase in cash and cash equivalents of \$113.5 million primarily as a result of the issuance of \$250.0 million of new debt in June 2022 and an increase in accounts receivable – others of \$16.7 million due to the transition of a member to a customer contract (see below).

Capital and liabilities

Total capital decreased \$69.5 million to \$642.8 million as of March 31, 2023, as a result of higher member patronage capital retirements and the redemption of temporary patronage capital. On August 30, 2022, the GRE members approved the withdrawal and transition of a member to a customer contract, which was effective on January 1, 2023. As a result, GRE reclassified their patronage capital as temporary patronage capital. Additionally, noncontrolling interest – subsidiary decreased to \$29.1 million to \$0 as a result of the deconsolidation of MAG.

Other noncurrent liabilities decreased \$262.2 million to \$59.5 million as of March 31, 2023, driven primarily by the deconsolidation of Falkirk and a reduction in GRE's CCS asset retirement obligations as a result of the CCS transaction.

Regulatory liabilities increased \$300.2 million to \$341.1 million as of March 31, 2023, mainly due to the noncurrent portion of the FSC (discussed earlier).

Long-term obligations—less current portion decreased \$84.3 million to \$2,134.1 million as of March 31, 2023, primarily due to the deconsolidation of MAG and Falkirk, principal payments made during the year, and a \$120.0 million decrease in the outstanding balance of the syndicated credit facility (\$0 in 2023), offset partially by the issuance of \$250.0 million of new debt in June 2022.

Deferred income taxes increased \$21.7 million to \$36.0 million as a result of a significant taxable loss generated by the CCS transaction in 2022. GRE does not expect to be able to fully utilize the state net operating losses and therefore recorded a \$19.4 million valuation allowance.

Current liabilities decreased \$51.2 million to \$438.9 million as of March 31, 2023. Other accrued liabilities and notes payable decreased \$80.6 million mainly due to the settlement of several accruals related to the CCS transaction, as well as the deconsolidation of Falkirk and MAG. This was offset partially by an increase in regulatory liabilities—current of \$29.1 million due to an increase in the fair value of GRE's financial transmission rights and interest rate swap derivative positions.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue decreased \$11.7 million or 4.4% for the three-month period ended March 31, 2023, compared to the same period in 2022. The decrease in sales was driven by member demand and energy unit sales from all-requirements members that were 5.7% and 4.5% lower, respectively, as well as a PCA credit of \$3.5 million through March 31, 2023, versus a \$21.0 million charge compared to the same period last year.

Purchased power increased \$58.9 million or 81.1% for the three-month period ended March 31, 2023, compared to the same period in 2022. MISO market purchased power was \$23.2 million higher primarily due to more net MISO market energy purchased, the addition of the bilateral FSC in May 2022, and the addition of two new wind PPAs in January 2023.

Fuel decreased \$41.5 million or 88.6% for the three-month period ended March 31, 2023, primarily due to CCS being sold and GRE no longer purchasing and handling coal from Falkirk. Prices for natural gas were 28.2% lower compared to the same period last year.

Operation and maintenance decreased \$13.3 million or 17.6% for the three-month period ended March 31, 2023, primarily due to CCS being sold and GRE no longer operating and maintaining the plant.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries. GRE is no longer consolidating the MAG financial statements subsequent to December 1, 2022.

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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 27 distribution cooperatives in Minnesota. Those member cooperatives distribute electricity to approximately 707,000 homes, businesses, and farms.

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