2023
Second Quarter Report

GREAT RIVER ENERGY®

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2023	JUNE 30 2022
ASSETS		
UTILITY PLANT:		
Electric plant	$ 2,844,129	$ 2,785,269
Construction work in progress	76,049	45,390
Less accumulated depreciation and amortization	(1,142,463)	(1,069,689)
Utility plant—net	1,777,715	1,760,970
NONUTILITY PLANT AND EQUIPMENT—NET	-	154,004
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	21,036	17,460
Other investments	34,710	34,296
Deferred charges:		
Financing related	91,770	98,667
Plant retirements	744,615	809,768
Other	47,657	28,056
Other long-term assets	19,594	49,992
Derivative instruments—noncurrent	230,065	239,523
Total other assets and investments	1,189,447	1,277,762
CURRENT ASSETS:		
Cash and cash equivalents	209,335	272,157
Restricted cash	-	11,720
Accounts receivable:		
Members	116,109	158,762
Others	43,133	44,907
Inventories:		
Materials and supplies	49,695	32,262
Fuel	7,808	6,730
Other	-	6,850
Prepaids and other current assets	18,235	28,819
Deferred charges—current	627	-
Derivative instruments—current	40,435	222,071
Total current assets	485,377	784,278
TOTAL ASSETS	$ 3,452,539	$ 3,977,014

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	JUNE 30 2023	JUNE 30 2022
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 539,520	$ 684,853
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	-	1,195
Total members' capital	539,523	686,051
Temporary patronage capital	114,597	-
Noncontrolling interest—subsidiary—MAG	-	42,410
Total capital	654,120	728,461
OTHER NONCURRENT LIABILITIES	58,791	59,364
REGULATORY LIABILITIES	261,116	274,303
LONG-TERM OBLIGATIONS—Less current portion	2,031,188	2,243,100
DEFERRED COMPENSATION	21,036	17,460
DEFERRED INCOME TAXES	35,955	14,224
CURRENT LIABILITIES:		
Long-term obligations—current	176,510	164,053
Regulatory liabilities—current	40,435	222,071
Notes payable to members	49,973	71,417
Accounts payable	64,675	66,474
Property and other taxes	19,948	19,634
Other accrued liabilities and notes payable	24,242	83,391
Accrued interest payable	13,923	13,062
Derivative instruments	627	-
Total current liabilities	390,333	640,102
TOTAL CAPITAL AND LIABILITIES	$ 3,452,539	$ 3,977,014

CONCLUDED

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2023	2022	2023	2022
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 234,162	$ 241,433	$ 486,819	$ 505,808
Other operating revenue	24,551	18,679	47,134	36,590
Total utility operating revenue	258,713	260,112	533,953	542,398
UTILITY OPERATING EXPENSES:				
Purchased power	99,554	109,664	231,072	182,281
Fuel	6,280	21,729	11,610	68,581
Operation and maintenance	66,454	64,369	128,796	140,051
Depreciation and amortization	40,078	37,922	77,888	80,478
Property and other taxes	7,112	5,022	14,217	11,308
Total utility operating expenses	219,478	238,706	463,583	482,699
UTILITY OPERATING MARGIN	39,235	21,406	70,370	59,699
OTHER INCOME (EXPENSE):				
Other income—net	835	571	2,611	2,589
Interest income	4,417	558	8,756	838
Interest expense—net of amounts capitalized	(33,139)	(30,509)	(65,983)	(59,381)
Other expense—net	(27,887)	(29,380)	(54,616)	(55,954)
Net utility margin (loss)	11,348	(7,974)	15,754	3,745
NONUTILITY OPERATIONS:				
Operating revenue	-	140,607	-	239,760
Operating expense	-	125,272	-	225,338
Operating income	-	15,335	-	14,422
Income from equity method investments	17	193	5,430	246
Total nonutility operations	17	15,528	5,430	14,668
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	11,365	7,554	21,184	18,413
NONCONTROLLING INTEREST: Subsidiary—MAG	-	(4,599)	-	(4,404)
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 11,365	$ 2,955	$ 21,184	$ 14,009

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

FOR JANUARY 1, 2021 THROUGH JUNE 30, 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	21,184	-	-	-	-	-	21,184
Transfer to temporary patronage capital	(127,330)	127,330	-	-	-	-	-
Return of members' patronage capital	(44,992)	-	-	-	-	-	(44,992)
Redemption of temporary patronage capital	-	(12,733)	-	-	-	-	(12,733)
BALANCE—June 30, 2023	$ 539,520	$ 114,597	$ 3	$ -	$ -	$ -	$ 654,120

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	$ 21,184	$ 18,413
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	77,888	80,478
Included in fuel and interest	4,912	9,117
Included in operation and maintenance	1,223	7,352
Included in purchased power	335	138
Included in nonutility operating expenses	-	4,942
Unrealized gains on commodity derivatives	-	(10,233)
Loss on disposal of nonutility plant and equipment	-	298
Income from equity method investments	(5,430)	(246)
Patronage credits earned from investments	(1,091)	(1,296)
Deferred charges	(1,677)	(25,347)
Regulatory liabilities	(12,253)	3,606
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	2,428	(13,121)
Inventory and other assets	(11,132)	(37,352)
Accounts payable, taxes and other accrued expenses	(59,611)	(230,045)
Accrued interest	(60)	279
Noncurrent liabilities	(1,629)	5,996
Net cash provided by (used in) operating activities	15,087	(187,021)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(31,284)	(34,624)
Utility plant reimbursements—contributions in aid of construction	14,919	2,766
Nonutility plant and equipment additions	-	(15,819)
Proceeds from the sale of property	7,199	206,677
Equity method investments	7,256	799
Redemption of patronage capital investments	742	789
Purchases of investments	-	(99)
Net cash (used in) provided by investing activities	(1,168)	160,489
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	-	388,000
Repayments of long-term obligations	(93,893)	(319,111)
Return of members' patronage capital	(44,993)	(25,000)
Redemption of temporary patronage capital	(12,733)	-
Costs of new debt issuances	(64)	(2,223)
Notes (paid to) received from members—net	(5,457)	20,180
Capital distributed to noncontrolling interest—subsidiary—MAG	-	(2,393)
Net cash (used in) provided by financing activities	(157,140)	59,453
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(143,221)	32,921
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	352,556	250,956
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	$ 209,335	$ 283,877

Notes to consolidated financial statements – The interim financial statements as of June 30, 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 results of operations for Falkirk as of and for the period ended April 30, 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 for MAG as of and for the period ended June 30, 2022, have been included in these statements.

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net increased $16.7 million to $1,777.7 million as of June 30, 2023, largely due to capital additions and capital spending on transmission and power supply projects outpacing the depreciation of existing utility plant assets.

Nonutility plant and equipment—net decreased $154.0 million to $0 as of June 30, 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 decreased $88.3 million to $1,189.4 million as of June 30, 2023. Deferred charges—plant retirements decreased $65.2 million due to the amortization of retired plant deferred charges. Deferred charges—financing related decreased $6.9 million due to continued amortization of settled interest rate swaps. Other long-term assets decreased $30.4 million primarily as a result of the deconsolidation of MAG. Derivative instruments—noncurrent decreased $9.5 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 to sell Coal Creek Station (CCS) and the HVDC system, 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. These decreases are offset by an increase in deferred charges—other of $19.6 million due to an increase in deferred taxes which was driven by the impact of significant taxable losses related to the CCS transaction.

Current assets decreased $298.9 million to $485.4 million as of June 30, 2023. Derivative instruments—current decreased $181.6 million due to a decrease in the mark-to-market valuation of the current portion of the FSC discussed earlier. Cash and cash equivalents decreased $62.8 million primarily driven by higher uses of cash for financing activities related to the retirement and redemption of patronage capital and repayments of long-term obligations. Accounts receivable—members decreased $42.7 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. Accounts receivable—others decreased $1.8 million due to the deconsolidation of MAG offset partially by an increase due to the transition of a member to a customer contract (see below). Other inventories decreased $6.9 million due to the deconsolidation of MAG. These decreases were partially offset by an increase of $17.4 million in materials and supplies inventories due to the purchase of spare parts inventory related to upcoming peaking station capital projects.

Capital and liabilities

Total capital decreased $74.3 million to $654.1 million as of June 30, 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 long-term customer contract, which was effective on January 1, 2023 and extends through 2045. As a result, GRE reclassified their patronage capital as temporary patronage capital. Additionally, noncontrolling interest—subsidiary decreased from $42.4 million to $0 as a result of the deconsolidation of MAG.

Regulatory liabilities decreased $13.2 million to $261.1 million as of June 30, 2023, mainly due to the noncurrent portion of the FSC (discussed earlier).

Long-term obligations—less current portion decreased $211.9 million to $2,031.2 million as of June 30, 2023, primarily due to the deconsolidation of $36.9 million of MAG debt obligations and $175.0 million in GRE principal payments made during the year.

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 $249.8 million to $390.3 million as of June 30, 2023. Regulatory liabilities—current decreased $181.6 million due to a decrease in the mark-to-market valuation of the current portion of the FSC (discussed earlier). Notes payable to members decreased $21.4 million due to member usage of invested funds to pay power bills outpacing additional investments by members into the investment program. Other accrued liabilities and notes payable decreased $57.9 million mainly due to the deconsolidation of MAG. This was offset partially by a $12.5 million increase in long-term obligations—current.

FINANCIAL HIGHLIGHTS – RESULTS OF OPERATIONS

Electric revenue decreased $19.0 million or 3.8% for the six-month period ended June 30, 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 2.8% and 1.3% lower, respectively, as well as a PCA credit of $14.3 million through June 30, 2023, versus a $33.2 million charge last year.

Other operating revenue increased $10.5 million or 28.8% for the six-month period ended June 30, 2023, driven by higher net transmission revenue from the MISO market and inter-utility transmission agreements, offset partially by a decrease in revenue related to the sale of steam and fly-ash due to the CCS transaction.

Purchased power increased $48.9 million or 26.8% for the six-month period ended June 30, 2023, compared to the same period in 2022. The increase is largely due to a $54.0 million dollar increase in purchases related to the bilateral FSC discussed earlier, as well as an $11.5 million increase related to the addition of two new wind PPAs in January 2023, offset partially by a $14.8 million decrease in net MISO market energy purchases due to lower overall LMPs.

Fuel decreased $57.0 million or 83.1% for the six-month period ended June 30, 2023, primarily due to CCS being sold and GRE no longer purchasing and handling coal from Falkirk. Additionally, prices paid by GRE for natural gas were 54.0% lower compared to the same period last year.

Operation and maintenance decreased $11.3 million or 8.0% for the six-month period ended June 30, 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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