2023
Third Quarter Report

GREAT RIVER ENERGY®

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2023	SEPTEMBER 30 2022
ASSETS		
UTILITY PLANT:		
Electric plant	$ 2,871,100	$ 2,796,321
Construction work in progress	84,295	70,240
Less accumulated depreciation and amortization	(1,164,171)	(1,089,908)
Utility plant—net	1,791,224	1,776,653
NONUTILITY PLANT AND EQUIPMENT—NET	-	168,989
OTHER ASSETS AND INVESTMENTS:		
Restricted investments—deferred compensation	20,070	17,389
Other investments	34,879	34,386
Deferred charges:		
Financing related	90,071	96,943
Plant retirements	726,703	793,507
Other	47,879	32,963
Other long-term assets	18,718	48,935
Derivative instruments—noncurrent	198,737	190,242
Total other assets and investments	1,137,057	1,214,365
CURRENT ASSETS:		
Cash and cash equivalents	236,008	312,002
Restricted cash	-	11,719
Accounts receivable:		
Members	124,988	167,261
Others	34,122	57,111
Inventories:		
Materials and supplies	49,799	36,553
Fuel	8,126	6,978
Other	-	8,635
Prepaids and other current assets	14,607	13,354
Deferred charges—current	347	-
Derivative instruments—current	74,667	135,967
Total current assets	542,664	749,580
TOTAL ASSETS	$ 3,470,945	$ 3,909,587

CONTINUED

CONSOLIDATED BALANCE SHEETS (unaudited)

(IN THOUSANDS)

	SEPTEMBER 30 2023	SEPTEMBER 30 2022
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 584,962	$ 750,099
Memberships	3	3
Additional paid-in capital—subsidiary—MAG	-	1,195
Total members' capital	584,965	751,297
Temporary patronage capital	114,597	-
Noncontrolling interest—subsidiary—MAG	-	47,582
Total capital	699,562	798,879
OTHER NONCURRENT LIABILITIES	55,114	62,450
REGULATORY LIABILITIES	222,554	224,859
LONG-TERM OBLIGATIONS—Less current portion	1,994,553	2,204,374
DEFERRED COMPENSATION	20,070	17,389
DEFERRED INCOME TAXES	35,955	14,224
CURRENT LIABILITIES:		
Long-term obligations—current	176,521	164,068
Regulatory liabilities—current	74,667	146,575
Notes payable to members	47,937	72,417
Accounts payable	60,416	75,857
Property and other taxes	22,014	22,511
Other accrued liabilities and notes payable	25,204	69,824
Accrued interest payable	36,031	36,160
Derivative instruments	347	-
Total current liabilities	443,137	587,412
TOTAL CAPITAL AND LIABILITIES	$ 3,470,945	$ 3,909,587

CONCLUDED

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPETEMBER 30	
	2023	2022	2023	2022
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 277,370	$ 315,489	$ 764,189	$ 821,298
Other operating revenue	29,965	20,252	77,099	56,842
Total utility operating revenue	307,335	335,741	841,288	878,140
UTILITY OPERATING EXPENSES:				
Purchased power	116,662	131,229	347,734	313,510
Fuel	7,393	16,555	19,003	85,136
Operation and maintenance	67,326	55,437	196,122	195,488
Depreciation and amortization	40,208	35,938	118,096	116,416
Property and other taxes	3,007	3,228	17,224	14,536
Total utility operating expenses	234,596	242,387	698,179	725,086
UTILITY OPERATING MARGIN	72,739	93,354	143,109	153,054
OTHER INCOME (EXPENSE):				
Other income—net	934	1,113	3,545	3,701
Interest income	2,897	1,608	11,653	2,446
Interest expense—net of amounts capitalized	(31,098)	(32,013)	(97,081)	(91,394)
Other expense—net	(27,267)	(29,292)	(81,883)	(85,247)
Net utility margin	45,472	64,062	61,226	67,807
NONUTILITY OPERATIONS				
Operating revenue	-	126,199	-	365,959
Operating expense	-	119,847	-	345,185
Operating income	-	6,352	-	20,774
(Loss) income from equity method investments	(30)	4	5,400	250
Total nonutility operations	(30)	6,356	5,400	21,024
NET MARGIN AND COMPREHENSIVE INCOME, INCLUDING NONCONTROLLING INTEREST	45,442	70,418	66,626	88,831
NONCONTROLLING INTEREST—SUBSIDIARY—MAG	-	(5,172)	-	(9,576)
NET MARGIN AND COMPREHENSIVE INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	$ 45,442	$ 65,246	$ 66,626	$ 79,255

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL (unaudited)

FOR JANUARY 1, 2021 THROUGH SEPTEMBER 30, 2023
(IN THOUSANDS)

	Patronage Capital	Temporary Patronage Capital	Memberships	Additional Paid-in Capital	Noncontrolling Interest Subsidiary—MAG	Total Capital
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 transferred 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	66,626	-	-	-	-	66,626
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—September 30, 2023	$ 584,962	$ 114,597	$ 3	$ -	$ -	$ 699,562

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin, including noncontrolling interest	$ 66,626	$ 88,831
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	118,096	116,416
Included in fuel and interest	7,341	11,524
Included in operation and maintenance	1,883	7,938
Included in purchased power	503	320
Included in nonutility operating expense	-	7,326
Unrealized gains on commodity derivatives	-	(10,233)
Loss on disposal of nonutility plant and equipment	-	298
Income from equity method investments	(5,400)	(250)
Patronage credits earned from investments	(1,452)	(1,499)
Deferred charges	(2,745)	(30,815)
Regulatory liabilities	(19,325)	3,618
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	2,607	(33,824)
Inventory and other assets	(7,556)	(28,277)
Accounts payable, taxes, and other accrued expenses	(58,468)	(219,620)
Accrued interest	22,048	23,376
Noncurrent liabilities	(3,098)	4,591
Net cash provided by (used in) operating activities	121,060	(60,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(71,679)	(92,525)
Utility plant reimbursements—contributions in aid of construction	14,965	27,912
Nonutility plant and equipment additions	-	(33,032)
Proceeds from the sale of property	7,199	207,723
Equity method investments	7,256	919
Redemption of patronage capital from investments	934	902
Purchases of investments	-	(99)
Net cash (used in) provided by investing activities	(41,325)	111,800
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	-	388,000
Repayments of long-term obligations	(130,976)	(358,065)
Return of members' patronage capital	(44,992)	(25,000)
Redemption of temporary patronage capital	(12,733)	-
Costs of new debt issuances	(89)	(2,477)
Notes (paid to) received from members—net	(7,493)	21,180
Capital distributed to noncontrolling interest—subsidiary—MAG	-	(2,393)
Net cash (used in) provided by financing activities	(196,283)	21,245
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(116,548)	72,765
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—BEGINNING OF PERIOD	352,556	250,956
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	$ 236,008	$ 323,721

Notes to consolidated financial statements – The interim financial statements as of September 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 September 30, 2022, have been included in these statements..

FINANCIAL HIGHLIGHTS – FINANCIAL CONDITION

Assets

Utility plant—net increased $14.6 million to $1,791.2 million as of September 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 $169.0 million to $0 as of September 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 $77.3 million to $1,137.1 million as of September 30, 2023. Deferred charges—plant retirements decreased $66.8 million due to the amortization of retired plant costs. Deferred charges—financing related decreased $6.9 million due to continued amortization of settled interest rate swaps. Other long-term assets decreased $30.2 million primarily as a result of the deconsolidation of MAG. These decreases were offset by an increase in deferred charges-other of $14.9 million due to an increase in deferred taxes which was driven by the impact of significant taxable losses related to the CCS transaction, and an increase in derivative instruments—noncurrent of $8.5 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.

Current assets decreased $206.9 million to $542.7 million as of September 30, 2023. Cash and cash equivalents decreased $76.0 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. Derivative instruments – current decreased $61.3 million due to a decrease in the mark-to-market valuation of the current portion of the FSC discussed earlier. Accounts receivable – members decreased $42.3 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 $23.0 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 $8.6 million due to the deconsolidation of MAG. These decreases were partially offset by an increase of $13.2 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 $99.3 million to $699.6 million as of September 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 $47.6 million to $0 as a result of the deconsolidation of MAG.

Long-term obligations—less current portion decreased $209.8 million to $1,994.6 million as of September 30, 2023, primarily due to the deconsolidation of $35.1 million of MAG debt obligations and $175.0 million in GRE principal payments made during the year.

Other noncurrent liabilities decreased $7.3 million driven primarily by the deconsolidation of MAG offset partially by an increase in customer construction advances related to several transmission interconnection projects GRE is constructing for others.

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 $144.3 million to $443.1 million as of September 30, 2023. Regulatory liabilities – current decreased $71.9 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 $24.5 million due to member usage of invested funds to pay power bills outpacing additional investments by members into the investment program. Accounts payable and other accrued liabilities and notes payable decreased 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 $57.1 million or 7.0% for the nine-month period ended September 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 0.1% higher and 0.1% lower, respectively, as well as a PCA credit of $28.2 million through September 30, 2023, versus a $28.2 million charge last year.

Other operating revenue increased $20.3 million or 35.6% for the nine-month period ended September 30, 2023, driven by higher net transmission revenue from the MISO market and inter-utility transmission agreements, offset partially by a decrease in revenue from the sale of steam and fly-ash due to the CCS transaction.

Purchased power increased $34.2 million or 10.9% for the nine-month period ended September 30, 2023, compared to the same period in 2022. The increase is largely due to a $101.7 million dollar increase in purchases related to the bilateral FSC discussed earlier, as well as an $16.6 million increase related to the addition of two new wind PPAs in January 2023, offset partially by a $74.9 million decrease in net MISO market energy purchases due to lower overall LMPs.

Fuel decreased $66.1 million or 77.7% for the nine-month period ended September 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 59.5% lower compared to the same period last year.

Interest income increased $9.2 million or 376.4% for the nine-month period ended September 30, 2023, due to higher interest rates and higher average cash balances in 2023 compared to the same period last year.

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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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