Associated Electric Cooperative Inc.

A Touchstone Energy® Cooperative

Financial Statements

For the Quarterly Periods Ended

June 30, 2021 and 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Associated Electric Cooperative, Inc. (Associated) is pleased to present the enclosed interim financial statements, which include balance sheets, statements of revenues and expenses, and statements of cash flows as of, or for the periods ended June 30, 2021 and 2020. The discussion below is not meant to be comprehensive but rather to identify significant aspects in the current quarter and year-to-date performance of Associated.

Overview

Net margin for the three and six-month period ended June 30, 2021, was $19.9 and $23.8 million, respectively, compared to $21.2 and $67.5 million for the same periods of 2020. Total assets were $2.9 billion at June 30, 2021, and $3.2 billion at June 30, 2020. Significant factors contributing to Associated's financial performance for these periods are discussed in the paragraphs below.

During the past year Associated has faced the unique challenges of the COVID-19 pandemic and a significant winter weather event in February 2021. Through these challenges, Associated remained focused on the mission to provide an economical and reliable power supply and support services to members and has taken measures to implement health and safety policies for employees, members and contractors.

To date, the COVID-19 pandemic has not significantly impacted Associated's business operations or financial performance. However, the extent of the impact of the COVID-19 pandemic will depend on future developments which are uncertain at this time and cannot be predicted as cases continue to occur across the country. During the first six months of 2021, Associated incurred $1.0 million in pandemic related expenses, compared to $1.9 million for the same period of 2020.

In February 2021, Winter Storm Uri, a prolonged period of extremely cold temperatures across much of the central United States spiked power demand and impacted natural gas supply driving significant increases in fuel and power prices. During this storm, natural gas prices in the region skyrocketed, increasing the cost to generate at Associated's gas resources and buy power in the market.

Preserving reliability was Associated's top priority during the extreme weather event, however this resulted in increased costs of approximately $175.0 million during the first quarter of 2021. Associated's board was able to limit the impact of the February winter storm on 2021 margins through the use of financial tools such as recognizing $130.0 million of deferred revenue and a two-month suspension of member rate discounts.

Operating Revenues

Member Revenue

Member revenue consists of an energy and a demand component. Revenue from members increased $6.4 million and $159.7 million, or 3.0% and 34.8%, respectively, for the second quarter and the six-month period ended June 30, 2021, as compared to the same periods of 2020. The increase for the six-month period was primarily due to $130.0 million in deferred revenue that was recognized to offset the extraordinary costs of Uri that occurred in the first quarter of 2021. Additionally, as planned in Associated's Cost of Service for 2021, $5.0 million of deferred revenue was recognized in March to support the 2021 rate discounts. The remaining increase in member revenue for the second quarter and six-month period was the result of several factors:

- Energy sales volume to members increased by 2.4% and 6.9%, respectively, resulting in a $1.1 million and $14.0 million increase in energy revenue. The increased sales for the six-month period were primarily driven by the extreme winter weather of February 2021.

- Billing demand decreased for 2021 as compared to 2020, resulting in a $4.7 million and $9.3 million decrease in demand revenue, respectively, as compared to 2020.

- Member rate discounts were suspended in March and April in response to the winter storm but reinstated in May. Overall, rate discounts totaled $6.8 million and $15.2 million, respectively, compared to $14.4 million and $29.3 million, as compared to the same periods of 2020.

Nonmember Revenue
Revenue from nonmembers increased $26.9 million and $59.5 million, or 47.1% and 45.6%, respectively, for the second quarter and the six-month period ended June 30, 2021, as compared to the same periods of 2020. The increase for both periods was primarily due to an increase in nonmember energy sales. Interchange sales volume and the weighted average sales price increased 4.8% and 39.5%, respectively, for the second quarter. For the six-month period, interchange sales volume decreased 14.4% mostly due to decreased sales into the MISO market from the Dell generating unit but was more than offset by a 70.8% increase in the weighted average sales price, as compared to the first six months of 2020. Much of the increase in the weighted average sales price was due to the spike in market prices as a result of Uri. Absent the winter storm, the weighted average sales price for the six months ended June 30, 2021 would have increased around 39.5%, driven by an increase in natural gas prices, as compared to the same period of 2020.

Operating Expenses

Generation Operation
Generation operations expense increased $18.1 million and $191.3 million, or 16.8% and 79.8%, respectively, for the three and six-month periods ended June 30, 2021, as compared to the same periods of 2020.

Gas fuel expense increased $9.1 million and $171.3 million, or 24.1% and 201.3%, respectively, for the three and six-month periods. Gas generation decreased 570,627 MWh and 1,836,490 MWh, or 20.7%, and 30.5%, for the three and six-month periods, respectively, but this was more than offset by a 56.5% and 333.4% increase in the average fuel cost/MWh for the gas fleet. During Uri, natural gas prices skyrocketed, driving up Associated's gas fuel expense significantly in February. Absent the winter storm, the average Henry Hub gas price for the first six months of 2021 averaged $2.80/MMBtu compared to $1.76/MMBtu during the first six months of 2020.

Coal fuel expense increased $9.8 million and $20.5 million, or 21.0% and 18.5%, respectively. This was primarily driven by an increase in generation of 543,384 MWh and 1,020,521 MWh, or 23.6% and 17.8%, respectively, for the three and six-month periods. The coal plants increased generation as a response to the requirements of the winter storm in February and increased natural gas prices that made the coal plants the lowest cost generation assets. Additionally, the weighted average cost of coal burned was 7.4% higher for the first six months of 2021 as compared to the same period of 2020.

Purchased Power
Purchased power expense increased $4.0 million and $47.1 million, or 12.2% and 72.5%, respectively, for the three and six-month periods ended June 30, 2021, as compared to the same periods of 2020. Purchased power includes expenses related to purchases from interchange partners on the wholesale market, supplemental hydropower, and energy purchased from wind farms.

Purchase volume increased 57.0% and 259.7%, respectively, for the three and six-month periods ending June 30, 2021. Interchange purchase price decreased 62.9% for the second quarter but increased 216.2% overall for the first six months of 2021. The increase for the six-month period was largely due to the impacts of the winter storm which resulted in a 595.8% increase in purchase volume and a 230.3% increase in interchange purchase price, during the first quarter of 2021, as compared to the same period of 2020.

Additionally, wind purchases increased $3.2 million and $9.2 million, for the three and six-month periods ending June 30, 2021, as a result of the addition of 471 MW of new wind farms that became commercial in 2020 with Clear Creek Wind Farm in May and White Cloud Wind Farm in December.

Transmission Expense
Transmission expense increased $3.6 million and $9.1 million, or 16.0% and 20.0%, respectively, for the three and six-month periods ended June 30, 2021, as compared to the same periods of 2020. The increase was primarily due to increased purchases of firm and non-firm transmission capacity due to increased purchased power volume for the six-month period, as well as increased congestion and losses, that occurred in the first quarter of 2021 as a result of the winter storm.

Generation Maintenance
Generation maintenance expense increased $5.9 million and $8.3 million, or 25.6% and 20.3%, respectively, for the three and six-month periods ended June 30, 2021, as compared to the same periods of 2020. The increase in maintenance expense is primarily due to the New Madrid Unit 1 planned outage that began on February 26, 2021 and is expected to be completed in August 2021.

Financial Position:

Significant changes in the balance sheet at June 30, 2021, as compared to the prior year include the following:

- Utility plant, including construction work in progress, increased $244.3 million, or 5.5%, primarily due to capital projects on the transmission system and across Associated's generating fleet. Accumulated depreciation increased $96.2 million, resulting in an increase in utility plant, net of accumulated depreciation, of $148.1 million, or 7.1%.

- Other restricted assets and designated assets decreased $184.3 million, or 88.5%, due to the depletion of the RUS cushion of credit in 2020 and the subsequent reclassification of funds segregated for the Generation, Environmental and Insurance Fund and the deferred revenue to designated cash and cash equivalents.

- Cash and cash equivalents decreased $287.2 million, or 71.1%, primarily due to the large June 30, 2020 balance that included loan funds received to prepare for the prepayment of FFB debt that occurred in August 2020.

- Designated cash and cash equivalents increased $125.5 million due to the reclassification of funds segregated for the Generation, Environmental and Insurance Fund and member revenue subject to refund that were previously in other restricted and designated assets and cash and cash equivalents.

- Restricted and designated short-term investments decreased $75.3 million, or 100.0%, due to the depletion of the RUS cushion of credit in August 2020.

- Fuel inventories decreased $12.9 million, or 21.9%, primarily due to a 36.1% decrease in tons of coal on the ground as compared to June 30, 2020.

- Deferred regulatory debits, including the current portion, decreased by $32.5 million, or 43.9%, primarily due to a $25.5 million decrease in deferred mark-to market losses on diesel, natural gas and interest rate hedging activity and a $7.0 million decrease in the deferral of asset retirement obligation cost as a result of Associated's Board of Directors decision in 2020 to accelerate the recovery of previously deferred expenses.

- Patronage capital decreased $16.8 million, or 2.4%, due to the net impact of negative margins of $16.1 million for the last six months of 2020, which included the impact of

$62.1 million of year-end 2020 rate actions, margins of $23.8 million for the first six months of 2021 and the retirement of $24.5 million in patronage capital in May of 2021.

- Long-term debt, including current maturities, decreased $187.8 million or 10.1%. Associated prepaid $261.2 million of FFB debt through use of the Cushion of Credit investment in August of 2020 and also made scheduled principal payments of $63.5 million. These decreases were partially offset by FFB construction loan advances of $122.0 million and a line of credit advance of $15.0 million.

- Deferred regulatory credits, including the current portion, decreased by $79.9 million, or 28.5%, primarily due to the recognition of $135.0 million of deferred revenue funds in the first quarter of 2021 and a $1.4 million recognition of previously deferred revenue related to the New Madrid Unit 1 purchase. Partially offsetting the decrease was a $27.0 million deferral of member revenue in December 2020 and a $29.4 million increase in deferred gains on diesel and natural gas swaps.

- Other deferred liabilities decreased $13.8 million, or 25.0%, primarily due to an $8.1 million decrease in the derivative liability related to the interest rate swap and a $7.2 million decrease in the derivate liabilities related to diesel and natural gas hedging activity, partially offset by a $1.4 million increase in deferred compensation liabilities.

Associated Electric Cooperative, Inc.
Statement of Operations
For the Six Months Ending 6/30/2021
(In thousands of dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	2021	2020
Operating revenues:				
Members	$221,387	$215,028	$618,432	$458,771
Nonmembers	84,086	57,170	189,940	130,466
	305,473	272,198	808,372	589,237
Operating expenses:				
Generation operation	125,403	107,345	431,226	239,898
Contracted generation	10,808	10,661	21,961	22,223
Power purchased	36,540	32,576	112,128	65,010
Depreciation and amortization	23,295	22,685	46,583	45,212
Transmission Expense	26,088	22,491	54,809	45,664
Generation maintenance	28,902	23,019	49,333	41,007
Administrative and general	18,843	17,435	39,648	36,281
Taxes	1,226	1,343	2,903	2,972
Accretion of asset retirement obligations	412	403	815	796
	271,517	237,958	759,406	499,063
Operating margin before interest expense	33,956	34,240	48,966	90,174
Interest Expense:				
Interest on long-term debt	15,787	17,438	31,337	33,843
Less: interest capitalized	(1,351)	(633)	(2,412)	(1,274)
	14,435	16,805	28,925	32,569
Operating margin	19,521	17,435	20,041	57,605
Nonoperating:				
Interest and dividend income	126	3,438	3,143	9,338
Other nonoperating income	329	412	708	957
Interest expense	(69)	(133)	(134)	(441)
Total nonoperating	386	3,717	3,718	9,854
Net margin (loss)	19,907	21,151	23,759	67,458

These interim financial statements are unaudited. In the opinion of management all adjustments, which are normal recurring accruals, necessary for a fair presentation of results for interim periods have been included. The interim financial statements should be read in conjunction with the Notes to the Financial Statements included in the 2020 Annual Report.

Associated Electric Cooperative, Inc.
Balance Sheet
For the Six Months Ending 6/30/2021
(In thousands of dollars)

Assets	Current Month	Prior Year
Utility Plant:		
Electric plant in service	$4,389,545	$4,290,538
Construction work in progress	282,790	137,483
	4,672,334	4,428,021
Less accumulated depreciation	(2,429,880)	(2,333,704)
	2,242,454	2,094,317
Other property and investments:		
Nonutility property	31,663	31,663
Net investment in direct financing leases	2,776	3,119
Advanced construction funds	17,510	18,695
	51,949	53,477
Restricted assets:		
Investments in associated organizations	29,055	29,036
Other restricted assets and designated assets	23,923	208,225
	52,978	237,261
Current assets:		
Cash and cash equivalents	116,837	404,059
Designated cash and cash equivalents	125,482	0
Restricted and designated short-term investments	0	75,256
Accounts receivable, net	113,511	107,657
Fuel inventories	46,062	58,953
Materials and supplies inventories	86,458	88,019
Other current assets	34,096	14,267
Current portion of deferred regulatory debits	3,224	12,460
	525,670	760,671
Deferred regulatory debits	38,233	61,489
Other deferred assets	33,493	28,123
	71,726	89,612
Total Assets	2,944,779	3,235,338

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Associated Electric Cooperative, Inc.
Balance Sheet
For the Six Months Ending 6/30/2021
(In thousands of dollars)

Capitalization and Liabilities	Current Month	Prior Year
Patronage capital and other equities:		
Memberships	12	12
Patronage capital	687,321	704,129
Other equities	55,543	55,561
Accumulated other comprehensive inc. (exp)	(18,437)	(19,198)
	724,439	740,504
Long-term debt, excluding current maturities:		
Federal Financing Bank	882,127	1,030,918
CoBank	158,818	165,529
Other long-term debt	556,935	576,625
	1,597,880	1,773,072
Asset retirement obligation	50,438	48,346
Accumulated provision for postretirement benefits	39,979	40,399
Current Liabilities:		
Payable to member cooperatives	51,383	70,949
Accounts payable	124,361	81,115
Other current and accrued liabilities	38,083	48,231
Current maturities of long-term debt	68,816	81,387
Current portion of asset retirement obligation	7,068	15,226
Current portion of deferred regulatory credits	22,885	2,535
	312,595	299,443
Deferred regulatory credits	177,983	278,280
Other deferred liabilities	41,466	55,294
	219,448	333,574
Total Capitalization and Liabilities	2,944,779	3,235,338

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Associated Electric Cooperative, Inc.
Statement of Cash Flows
(in thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net margin(loss)	$23,759	$67,458
Adjustments to reconcile net margin to net		
Cash provided by operating activities:		
Provision for depreciation and amortization	52,227	49,402
Amortization of loan expenses and other costs	166	(50)
Decrease (increase) in deferred debits	(6,558)	(4,436)
Increase (decrease) in deferred credits	(108,740)	766
Increase (decrease) in asset retirement obligation	787	(1,073)
Change in assets and liabilities:		
Accounts receivable	(2,359)	18,916
Fuel inventories	11,637	(14,566)
Materials and supplies inventories	222	417
Accounts payable	(35,556)	(41,638)
Other current and accrued liabilities	1,264	12,699
Other operating activities, net	(12,611)	2,146
Net cash provided by operating activities	(75,762)	90,041
Cash flows from investing activities:		
Construction expenditures for utility plant	(116,759)	(69,813)
Sale (purchase) of investments	605	(5,935)
Investments in associated organizations	(478)	(268)
Direct financing lease proceeds	175	162
Other investments	567	548
Reimbursement of capital expenditures	(17)	(18)
Net cash (used) in investing activities	(115,907)	(75,324)
Cash flows from financing activities:		
Increase (decrease) in net borrowings from member cooperatives	12,861	24,250
Issuance (retirement) of long-term debt, including change in current maturity	52,547	256,007
Retirement of patronage capital	(24,490)	(23,926)
Net cash (used) in financing activities	40,918	256,331
Net increase (decrease) in cash and cash equivalents and designated cash and cash equivalents	(150,751)	271,048
Cash and cash equivalents and designated cash and cash equivalents, beginning of period	393,070	133,011
Cash and cash equivalents and designated cash and cash equivalents, end of period	242,319	404,059
Cash and cash equivalents	116,837	404,059
Designated cash and cash equivalents	125,482	
Cash and cash equivalents and designated cash and cash equivalents	242,319	404,059
Change in plant expenditures included in accounts payable	(26,470)	(11,245)
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amount capitalized)	29,214	32,242

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