Associated Electric Cooperative Inc.

A Touchstone Energy® Cooperative

Financial Statements

For the Quarterly Periods Ended

September 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 September 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 nine-month period ended September 30, 2021, was $18.9 and $42.6 million, respectively, compared to $20.4 and $87.9 million in the same periods of 2020. Total assets at September 30, 2021, were $3.1 billion, an increase of $89.4 million over the balance at September 30, 2020. Significant factors contributing to Associated's financial performance for these periods are discussed in detail in the paragraphs below.

The past year has brought the unique challenges of the COVID-19 pandemic and the significant winter weather event in February 2021. Throughout this challenging time, Associated has 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 county. During the first nine months of 2021, Associated incurred $1.3 million in pandemic related expenses, compared to $2.8 million for the same period of 2020.

In February 2021, the extremely cold temperatures of Winter Storm Uri spiked power demand and impacted natural gas supply across much of the central United Stated, resulting in 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.

Associated's top priority during the extreme weather even was preserving reliability, however this resulted in increased costs of approximately $175.0 million during the first quarter of 2021. By utilizing financial tools such as recognizing $130.0 million of deferred revenue and a two-month suspension of member rate discounts, Associated's board was able to limit the impact of Winter Storm Uri on 2021 margins.

Operating Revenues

Member Revenue

Member revenue consists of an energy and a demand component. Revenue from members for the three and nine-month period ended September 30, 2021, increased $23.6 and $183.2 million, or 10.4% and 26.7%, respectively, as compared to the same periods of 2020. The increase for the nine-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 change in member revenue for the third quarter and nine-month period was the result of several factors:

- Energy sales volume to members increased by 6.3% and 6.7%, respectively, resulting in a $4.9 million and $18.9 million increase, net of energy discount, in energy revenue. Above-average temperatures were a driver of the increased sales for the third quarter. The increased sales for the nine-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 $4.5 million and $13.1 million decrease in demand revenue, respectively, for the three and nine-month periods of 2021 as compared to the same periods of 2020.

- Member rate discounts were suspended in March and April in response to the winter storm but reinstated in May. Overall, rate discounts totaled $11.2 million and $26.4 million, respectively, for the three and nine-month periods ending September 30, 2021, compared to $29.9 million and $59.2 million, for the same periods of 2020.

Nonmember Revenue

Revenue from nonmembers increased $23.1 and $82.5 million, or 34.6% and 41.9%, respectively, for the third quarter and the nine-month period ended September 30, 2021, as compared to the same periods of 2020. The increase for both periods was primarily due to an increase in nonmember energy revenue. Interchange sales volume decreased 16.2% and 15.0%, respectively, but was more than offset by a 64.6% and 68.7% increase in the weighted average sales price, for the three and nine-month periods as compared to the same periods of 2020. For the three and nine-month periods, interchange sales volume decreased due to lower sales volume into the MISO market from the Dell generating unit and a significant planned outage at the New Madrid Unit 1 that resulted in Associated having less excess generation to sell into the market. Much of the increase in the weighted average sales price was due to the spike in market prices as a result of Uri and higher natural gas prices as compared to the same periods of 2020. Absent the winter storm, the weighted average sales price for the nine months ended September 30, 2021, would have increased around 50.1%, driven by an increase in natural gas prices, as compared to the same period of 2020.

Operating Expenses

Generation Operation

Generation operations expense increased $31.1 and $222.4 million, or 23.0% and 59.3%, respectively, for the three and nine-month periods ended September 30, 2021, as compared to the same periods of 2020.

Gas fuel expense increased $20.8 million and $192.1 million, or 45.2% and 146.5%, respectively, for the three and nine-month periods. Gas generation decreased 17.7% and 26.3%, for the three and nine-month periods, respectively, but this was more than offset by a 76.5% and 234.6% increase in the average fuel cost/MWh for the gas fleet. The average Henry Hub gas price for the third quarter was $4.28/MMBtu compared to $1.94/MMBtu for the same period of 2020. Absent winter storm Uri that skyrocketed natural gas prices in February, the average Henry Hub gas price for the first nine months of 2021 averaged $3.33/MMBtu compared to $1.83/MMBtu during the first nine months of 2020.

Coal fuel expense increased $11.4 million and $31.9 million, or 16.9% and 17.9%, respectively. This was primarily driven by an increase in generation of 4.3% and 12.6%, respectively, for the three and nine-month periods. The coal plants increased generation as a response to the requirement 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 8.3% higher for the first nine months of 2021 as compared to the same period of 2020 due to increased costs of rail delivery.

Purchased Power

Purchased power expense increased $10.2 million and $57.3 million, or 41.1% and 63.8%, respectively, for the three and nine-month periods ended September 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.

Wind purchases increased $6.2 million and $15.4 million, or 28.7% and 19.2%, respectively, for the three and nine-month periods ending September 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.

Interchange purchase volume increased 39.7% and 167.1%, respectively, for the three and nine-month periods ending September 30, 2021. Interchange purchase price increased 249.8% and 238.6%, respectively. The increase for the third quarter was largely due to the New Madrid 1 planned outage that made it necessary for Associated to purchase larger volumes during the higher load summer months and at higher prices due to increased natural gas prices, as compared to the same period 2020. Additionally, the increase for the nine-month period was largely impacted by 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, and higher natural gas prices that continued into the third quarter, as compared to the same period of 2020.

Generation Maintenance

Generation maintenance expense increased $2.0 million and $10.4 million, or 9.4% and 16.5%, respectively for the three and nine-month periods ended September 30, 2021, as compared to the same periods of 2020. The increase in maintenance expense is primarily due to the 167-day planned outage of New Madrid Unit 1 that was completed in August 2021.

Financial Position:

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

- Utility plant, including construction work in progress, increased $241.6 million, or 5.4%, primarily due to capital projects on the transmission system, New Madrid Unit 1 outage projects and various projects across Associated's generating fleet. Accumulated depreciation increased $103.0 million, resulting in an increase in utility plant, net of accumulated depreciation, of $138.6 million, or 6.6%.

- Designated cash and cash equivalents increased $125.5 due to the reclassification of $233.5 million of funds segregated for the Generation, Environmental and Insurance Fund and member revenue subject to refund that were previously in restricted and designated short-term investments and a $27.0 million deferral of member revenue in December 2020, partially offset by the recognition of $130.0 million of deferred revenue to offset the extraordinary costs of Winter Storm Uri and an additional $5.0 million to support the 2021 rate discounts.

- Restricted and designated short-term investments decreased $233.5 million, or 100.0%, due to the reclassification of funds to designated cash and cash equivalents.

- Accounts receivable increased $37.2 million, or 42.4%, primarily due to higher member sales resulting from higher sales volume, increased interchange sales and increased receivables related to coal.

- Fuel inventories decreased $18.4 million, or 32.1%, primarily due to a 55.5% decrease in tons of coal on the ground as compared to September 30, 2020.

- Deferred regulatory debits, including the current portion, decreased by $20.8 million, or 30.6%, primarily due to a $13.6 million decrease in deferred mark-to market losses on diesel, natural gas and interest rate hedging activity and a $7.2 million decrease in the deferral of asset retirement obligation costs as a result of Associated's Board of Directors decision in 2020 to accelerate the recovery of previously deferred expenses.

- Other deferred assets increased $19.3 million, or 65.1%, primarily due to a $23.0 million increase in derivative assets related to natural gas and diesel fuel hedges, partially offset by $3.7 million in amortization of the pension prepayment.

- Patronage capital decreased $18.4 million, or 2.5%, due to the net impact of negative margins of $36.5 million for the last three months of 2020, which included the impact of $62.1 million of year-end 2020 rate actions, margins of $42.6 million for the first nine months of 2021 and the retirement of $24.5 million in patronage capital in May of 2021.

- Long-term debt, including current maturities, increased $120.5 million or 7.6%. This increase was due to $185.4 million in FFB construction loan advances consisting of $138.3 million in advances for New Madrid projects and $47.1 million for construction work plan projects, partially offset by $64.9 million in scheduled principal payments.

- Deferred regulatory credits, including the current portion, decreased $48.9 million, or 17.0%, 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 $60.5 million increase in deferred gains on diesel and natural gas swaps.

- Other deferred liabilities decreased $10.8 million, or 21.3%, primarily due to an $7.9 million decrease in the derivative liability related to the interest rate swap and a $4.3 million decrease in the derivative 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 Nine Months Ending 9/30/2021
(In thousands of dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Operating revenues:				
Members	$250,262	$226,684	$868,695	$685,455
Nonmembers	89,842	66,770	279,782	197,236
	340,104	293,454	1,148,477	882,691
Operating expenses:				
Generation operation	166,095	135,042	597,321	374,941
Contracted generation	11,155	10,867	33,116	33,091
Power purchased	35,039	24,831	147,167	89,841
Depreciation and amortization	24,208	23,052	70,791	68,265
Transmission Expense	25,671	24,966	80,480	70,630
Generation maintenance	23,654	21,621	72,988	62,628
Administrative and general	18,893	17,308	58,541	53,590
Taxes	1,457	1,473	4,360	4,445
Accretion of asset retirement obligations	421	413	1,236	1,209
	306,593	259,573	1,066,000	758,639
Operating margin before interest expense	33,511	33,881	82,477	124,052
Interest Expense:				
Interest on long-term debt	15,650	17,268	46,987	51,110
Less: interest capitalized	(373)	(737)	(2,785)	(2,012)
	15,277	16,531	44,202	49,098
Operating margin	18,234	17,350	38,275	74,954
Nonoperating:				
Interest and dividend income	258	2,391	3,401	11,729
Other nonoperating income	456	746	1,164	1,703
Interest expense	(59)	(62)	(193)	(504)
Total nonoperating	655	3,075	4,372	12,928
Net margin (loss)	18,889	20,425	42,647	87,882

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 Nine Months Ending 9/30/2021
(In thousands of dollars)

Assets	Current Month	Prior Year
Utility Plant:		
Electric plant in service	$4,595,272	$4,297,775
Construction work in progress	104,717	160,605
	4,699,989	4,458,380
Less accumulated depreciation	(2,456,237)	(2,353,217)
	2,243,752	2,105,163
Other property and investments:		
Nonutility property	31,663	31,663
Net investment in direct financing leases	2,686	3,036
Advanced construction funds	17,215	18,399
	51,564	53,098
Restricted assets:		
Investments in associated organizations	29,066	29,205
Other restricted assets and designated assets	23,985	22,649
	53,051	51,854
Current assets:		
Cash and cash equivalents	174,243	170,350
Designated cash and cash equivalents	125,482	0
Restricted and designated short-term investments	0	233,482
Accounts receivable, net	124,908	87,724
Fuel inventories	38,935	57,308
Materials and supplies inventories	86,778	86,634
Other current assets	59,818	22,092
Current portion of deferred regulatory debits	8,681	9,880
	618,845	667,470
Deferred regulatory debits	38,552	58,133
Other deferred assets	48,970	29,659
	87,522	87,792
Total Assets	3,054,734	2,965,377

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Associated Electric Cooperative, Inc.
Balance Sheet
For the Nine Months Ending 9/30/2021
(In thousands of dollars)

	Current Month	Prior Year
Capitalization and Liabilities		
Patronage capital and other equities:		
Memberships	12	12
Patronage capital	706,209	724,571
Other equities	55,543	55,543
Accumulated other comprehensive inc. (exp)	(18,094)	(18,860)
	743,670	761,266
Long-term debt, excluding current maturities:		
Federal Financing Bank	937,149	781,838
CoBank	138,209	160,208
Other long-term debt	552,759	572,588
	1,628,116	1,514,634
Asset retirement obligation	51,130	49,039
Accumulated provision for postretirement benefits	40,209	40,718
Current Liabilities:		
Payable to member cooperatives	44,161	48,200
Accounts payable	129,727	84,605
Other current and accrued liabilities	61,253	53,750
Current maturities of long-term debt	71,298	64,327
Current portion of asset retirement obligation	6,257	10,223
Current portion of deferred regulatory credits	44,825	7,350
	357,521	268,455
Deferred regulatory credits	194,103	280,436
Other deferred liabilities	39,986	50,831
	234,089	331,267
Total Capitalization and Liabilities	3,054,734	2,965,377

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

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash flows from operating activities:		
Net margin(loss)	$42,647	$87,882
Adjustments to reconcile net margin to net		
Cash provided by operating activities:		
Provision for depreciation and amortization	79,347	68,918
Amortization of loan expenses and other costs	253	28
Decrease (increase) in deferred debits	(28,993)	(2,221)
Increase (decrease) in deferred credits	(71,088)	5,340
Increase (decrease) in asset retirement obligation	668	(5,385)
Change in assets and liabilities:		
Accounts receivable	(13,822)	38,857
Fuel inventories	18,763	(12,920)
Materials and supplies inventories	(98)	1,803
Accounts payable	(30,115)	(38,148)
Other current and accrued liabilities	24,927	18,759
Other operating activities, net	(38,229)	(5,524)
Net cash provided by operating activities	(15,740)	157,389
Cash flows from investing activities:		
Construction expenditures for utility plant	(145,177)	(100,175)
Sale (purchase) of investments	604	21,461
Investments in associated organizations	(194)	(141)
Direct financing lease proceeds	265	245
Other investments	506	502
Reimbursement of capital expenditures	(26)	(26)
Net cash (used) in investing activities	(144,022)	(78,134)
Cash flows from financing activities:		
Increase (decrease) in net borrowings from member cooperatives	5,640	1,501
Issuance (retirement) of long-term debt, including change in current maturity	85,265	(19,492)
Retirement of patronage capital	(24,490)	(23,926)
Net cash (used) in financing activities	66,415	(41,917)
Net increase (decrease) in cash and cash equivalents and designated cash and cash equivalents	(93,347)	37,338
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	299,725	170,350
Cash and cash equivalents	174,243	170,350
Designated cash and cash equivalents	125,482	0
Cash and cash equivalents and designated cash and cash equivalents	299,725	170,350
Change in plant expenditures included in accounts payable	(29,205)	(7,361)
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amount capitalized)	44,592	48,485

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