

# **Associated Electric Cooperative Inc.**

A Touchstone Energy<sup>®</sup> Cooperative 

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## **Financial Statements**

**For the Quarterly Periods Ended**

**March 31, 2022 and 2021**

## **FINANCIAL HIGHLIGHTS**

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 March 31, 2022 and 2021. The discussion below is not meant to be comprehensive but rather to identify significant aspects in the current quarter performance of Associated.

### **Overview**

To continue with its mission of providing economical and reliable power to members, Associated focused on optimizing the performance of members' generating assets and controlling costs during the first quarter of 2022. In January, Associated set a winter peak of 4,925 MW which was the system's third highest winter peak, behind the all-time peak of 5,549 MW set in February 2021 during Winter Storm Uri. Although 2022 did not bring the unexpected costs of an extreme winter storm, it has brought the challenges of high member load and rising coal and natural gas prices. Associated remains well-positioned financially, with the use of an effective hedging program and other risk management strategies, to handle these continued challenges.

Net margin for the three-month period ended March 31, 2022, was \$23.4 million as compared to \$3.9 million in the same period of 2021. Total assets were \$3.0 billion at both March 31, 2022 and March 31, 2021. Significant factors contributing to Associated's financial performance for this period are discussed in detail in the paragraphs below.

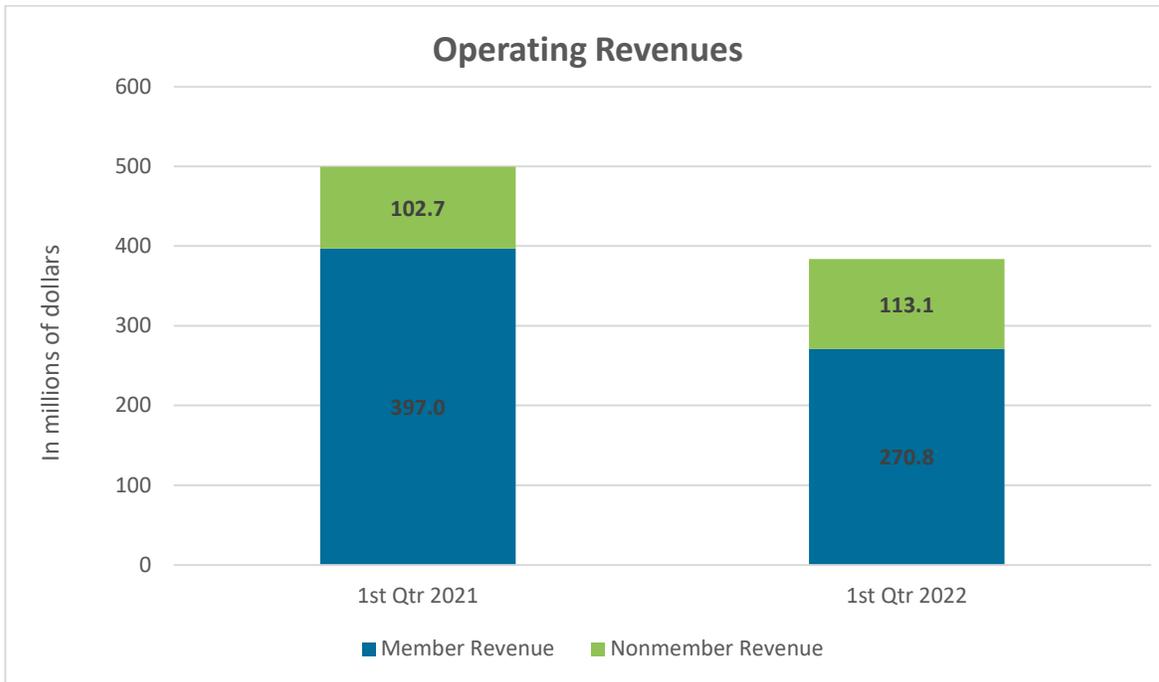
### **Operating Revenues**

#### **Member Revenue**

Revenue from members for the quarter ended March 31, 2022, decreased \$126.3 million compared to the same period of 2021 primarily due to \$130.0 million of deferred revenue that was recognized during the first quarter of 2021 to offset the costs of winter storm Uri. Additionally, member rate discounts for the first quarter of 2022 totaled \$16.9 million, compared to \$8.4 million for the same period of 2021. Rate discounts were in place during the first two months of 2021 but suspended in March in response to the winter storm. Partially offsetting the decreases was a 2.9% increase in member sales volume during the first quarter of 2022.

#### **Nonmember Revenue**

Revenue from nonmembers increased \$10.4 million for the first quarter of 2022 as compared to the same period of 2021. The increase was primarily due to increased sales into the MISO market from the Dell generating unit but was partially offset by a decrease in the weighted average sales price. Absent Winter Storm Uri, the weighted average sales price actually increased approximately 42.5% compared to the first quarter of 2021.



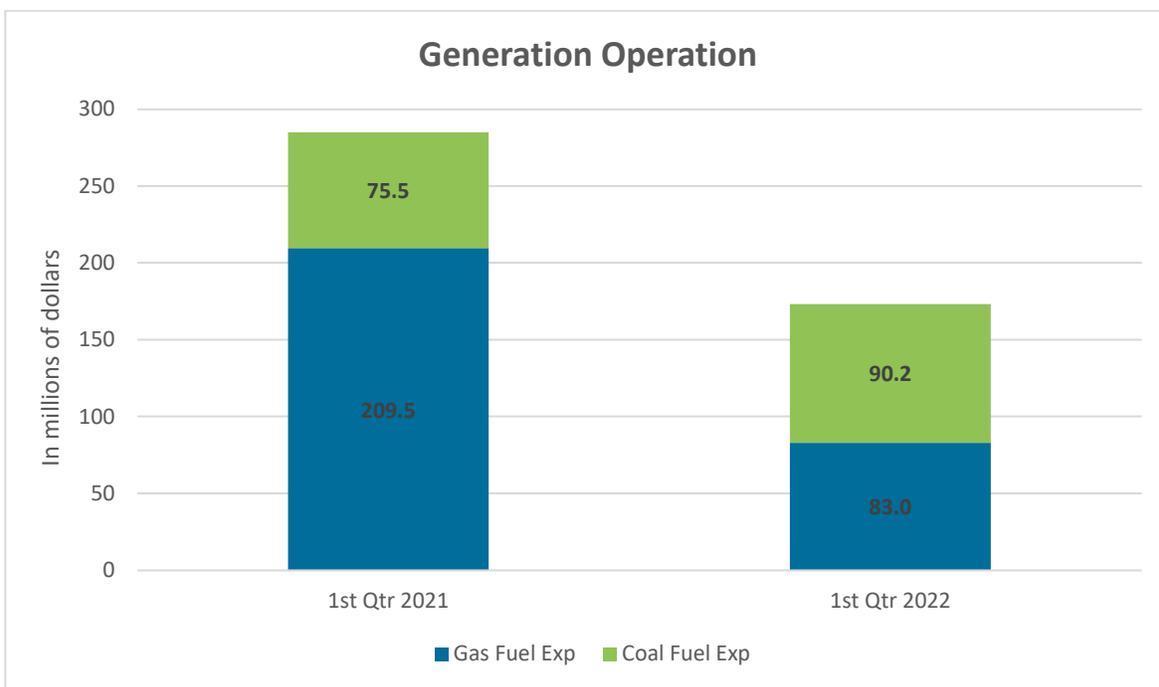
## Operating Expenses

### Generation Operation

Generation operations expense decreased \$111.9 million for the first quarter of 2022 due to substantially lower fuel prices compared to prices incurred during winter storm Uri in the first quarter of 2021.

Gas fuel expense decreased \$126.5 million compared to the first quarter of 2021. Gas generation increased but was more than offset by a 69.6% decrease in the average fuel cost/MWh for the gas fleet. Gas prices at Henry Hub averaged \$5.15 in February 2021 due to the winter storm and gas purchased at Associated’s plant locations was significantly above Henry Hub during the storm event. Absent the winter storm, the average gas price for the first quarter of 2021 was \$2.83 compared to an average of \$4.60 for the first quarter of 2022.

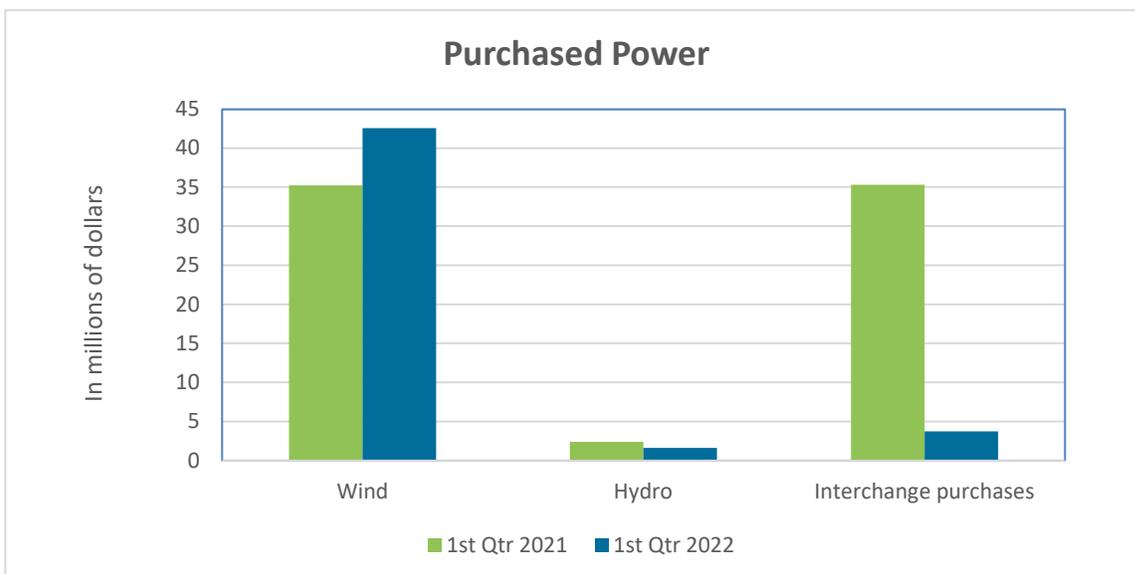
Coal fuel expense increased \$14.7 million. This was primarily driven by an increase in generation in response to rising natural gas prices. Additionally, the weighted average cost of coal burned increased 5.9% due to increased rail and commodity prices for the first quarter of 2022 as compared to the same period of 2021.



Purchased Power

Purchased power expense decreased \$28.0 million for the first quarter of 2022 as compared to the same period of 2021. Purchased power includes expenses related to purchases from interchange partners on the wholesale market, supplemental hydropower, and energy purchased from wind farms.

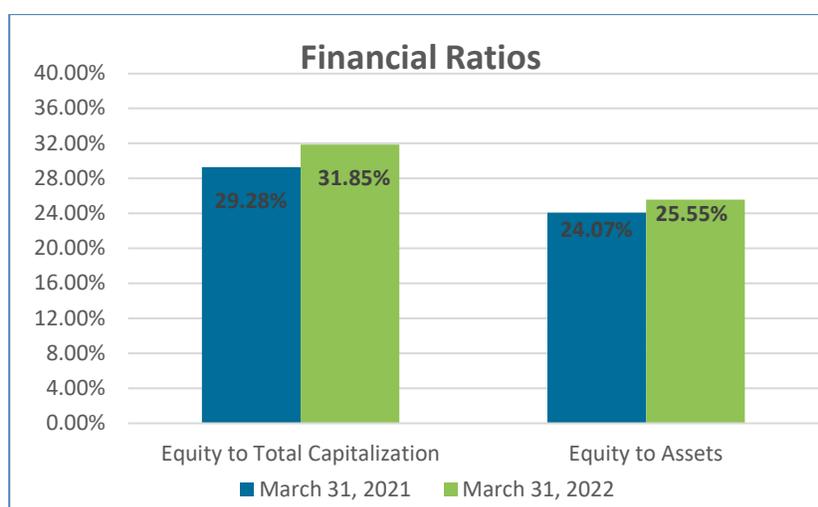
The decrease for the three-month period ended March 31, 2022 was largely due to the impacts of the winter storm that resulted in increased purchases during the first quarter of 2021. The decrease in interchange purchase cost for the first quarter was \$31.6 million and was a result of a decrease in purchase volume and interchange purchase price of 77.1% and 54.1%, respectively, as compared to the same period of 2021. Partially offsetting the decreases was an increase in wind purchases of \$7.3 million.



## Financial Position:

Significant changes in the balance sheet at March 31, 2022, as compared to the prior year include the following:

- Utility plant, including construction work in progress, increased \$115.1 million primarily due to boiler work, generator and environmental projects at the New Madrid power plant and transmission network upgrades.
- Right of use (ROU) asset-operating leases and operating lease liabilities increased \$3.1 million. The Financial Accounting Standards Board (FASB) issued ASC 842, *Leases*, effective for Associated beginning January 1, 2022, and required Associated to recognize operating leases on the balance sheet as a ROU asset with corresponding lease liabilities.
- Cash and cash equivalents decreased \$96.0 million primarily due to expenditures for plant additions, payment of long-term debt and retirement of patronage capital, partially offset by cash provided from operating activities.
- Other current assets increased \$55.1 million primarily due to an increase of \$53.2 million in the mark-to-market value of natural gas and diesel fuel swaps.
- Patronage capital increased \$47.0 million due to the net impact of the retirement of \$24.5 million in patronage capital in May of 2021 and margins.
- Long-term debt, including current maturities, decreased \$94.1 million. Associated received \$124.0 million in advances for construction work plan projects, cyclone and flight conveyor projects, but this increase was more than offset by paying down \$150.0 million in advances on lines of credit and \$68.1 million in principal payments.
- Deferred regulatory credits, including the current portion, increased by \$97.9 million mostly due to a \$94.2 million increase in deferred gains on diesel and natural gas swaps.



Current Ratio:			
March 31, 2021:	2.14	March 31, 2022:	2.12

Associated Electric Cooperative, Inc.  
Statement of Operations  
For the Three Months Ending 3/31/2022  
(In thousands of dollars)

	Three Months Ended March 31		Three Months Ended March 31	
	2022	2021	2022	2021
Operating revenues:				
Members	\$270,780	\$397,045	\$270,780	\$397,045
Nonmembers	113,078	102,665	113,078	102,665
	<u>383,858</u>	<u>499,710</u>	<u>383,858</u>	<u>499,710</u>
Operating expenses:				
Generation operation	193,920	305,823	193,920	305,823
Contracted generation	12,958	11,154	12,958	11,154
Power purchased	44,358	72,399	44,358	72,399
Depreciation and amortization	25,064	23,287	25,064	23,287
Transmission Expense	28,433	28,722	28,433	28,722
Generation maintenance	18,312	20,432	18,312	20,432
Administrative and general	22,049	20,806	22,049	20,806
Taxes	1,851	1,677	1,851	1,677
Accretion of asset retirement obligations	442	403	442	403
	<u>347,386</u>	<u>484,700</u>	<u>347,386</u>	<u>484,700</u>
Operating margin before interest expense	<u>36,472</u>	<u>15,010</u>	<u>36,472</u>	<u>15,010</u>
Interest Expense:				
Interest on long-term debt	15,693	15,551	15,693	15,551
Less: interest capitalized	(385)	(1,061)	(385)	(1,061)
	<u>15,308</u>	<u>14,489</u>	<u>15,308</u>	<u>14,489</u>
Operating margin	<u>21,164</u>	<u>521</u>	<u>21,164</u>	<u>521</u>
Nonoperating:				
Interest and dividend income	1,812	3,017	1,812	3,017
Other nonoperating income	500	379	500	379
Interest expense	(73)	(65)	(73)	(65)
Total nonoperating	<u>2,240</u>	<u>3,331</u>	<u>2,240</u>	<u>3,331</u>
Net margin (loss)	<u>23,404</u>	<u>3,852</u>	<u>23,404</u>	<u>3,852</u>

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 2021 Annual Report.

Associated Electric Cooperative, Inc.  
Balance Sheet  
For the Three Months Ending 3/31/2022  
(In thousands of dollars)

	<u>Current Month</u>	<u>Prior Year</u>
<b>Assets</b>		
Utility Plant:		
Electric plant in service	\$4,600,503	\$4,377,574
Construction work in progress	139,357	247,158
	4,739,860	4,624,732
Less accumulated depreciation	(2,496,055)	(2,403,767)
	2,243,805	2,220,964
Other property and investments:		
Nonutility property	31,379	31,663
Right of use asset-operating leases	3,091	0
Net investment in direct financing leases	2,500	2,864
Advanced construction funds	16,623	17,806
	53,593	52,334
Restricted assets:		
Investments in associated organizations	29,436	28,990
Other restricted assets and designated assets	26,137	23,937
	55,573	52,927
Current assets:		
Cash and cash equivalents	139,171	235,180
Designated cash and cash equivalents	130,482	125,482
Accounts receivable, net	100,889	118,670
Fuel inventories	46,289	46,015
Materials and supplies inventories	91,251	86,888
Other current assets	78,344	23,239
Current portion of deferred regulatory debits	9,814	3,337
	596,240	638,812
Deferred regulatory debits	35,243	35,442
Other deferred assets	65,944	27,208
	101,187	62,650
<b>Total Assets</b>	<b>3,050,398</b>	<b>3,027,687</b>

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Associated Electric Cooperative, Inc.  
Balance Sheet  
For the Three Months Ending 3/31/2022  
(In thousands of dollars)

	Current Month	Prior Year
<b>Capitalization and Liabilities</b>		
Patronage capital and other equities:		
Memberships	12	12
Patronage capital	738,916	691,904
Other equities	55,543	55,543
Accumulated other comprehensive inc. (exp)	(15,942)	(18,779)
	<u>778,528</u>	<u>728,679</u>
Long-term debt, excluding current maturities:		
Federal Financing Bank	921,654	829,145
CoBank	126,764	249,353
Other long-term debt	544,299	614,410
	<u>1,592,717</u>	<u>1,692,908</u>
Asset retirement obligation	49,712	49,756
Accumulated provision for postretirement benefits	35,626	39,749
Current Liabilities:		
Payable to member cooperatives	45,659	60,416
Accounts payable	83,557	124,267
Other current and accrued liabilities	61,107	37,680
Current maturities of long-term debt	73,003	66,954
Current portion of asset retirement obligation	14,762	7,450
Current portion of deferred regulatory credits	61,201	8,009
	<u>339,289</u>	<u>304,776</u>
Deferred regulatory credits	216,060	171,398
Other deferred liabilities	38,466	40,420
	<u>254,526</u>	<u>211,818</u>
<b>Total Capitalization and Liabilities</b>	<u><u>3,050,398</u></u>	<u><u>3,027,687</u></u>

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash flows from operating activities:		
Net margin(loss)	\$23,404	\$3,852
Adjustments to reconcile net margin to net		
Cash provided by operating activities:		
Provision for depreciation and amortization	27,771	26,083
Amortization of loan expenses and other costs	196	94
Decrease (increase) in deferred debits	(7,631)	296
Increase (decrease) in deferred credits	61,321	(129,265)
obligation	309	487
Change in assets and liabilities:		
Accounts receivable	(2,393)	(7,444)
Fuel inventories	5,110	11,684
Materials and supplies inventories	(2,855)	(209)
Accounts payable	(60,703)	(35,732)
Other current and accrued liabilities	10,935	323
Other operating activities, net	(59,713)	(1,588)
Net cash provided by operating activities	(4,250)	(131,419)
Cash flows from investing activities:		
Construction expenditures for utility plant	(15,204)	(69,126)
Sale (purchase) of investments	(842)	528
Investments in associated organizations	(84)	(699)
Direct financing lease proceeds	94	87
Other investments	682	620
Reimbursement of capital expenditures	(10)	(8)
Net cash (used) in investing activities	(15,363)	(68,598)
Cash flows from financing activities:		
member		
member cooperatives	(1,158)	21,895
Issuance (retirement) of long-term debt, including		
change in current maturity	(24,231)	145,714
Net cash (used) in financing activities	(25,389)	167,609
Net increase (decrease) in cash and cash		
equivalents and designated cash and cash	(45,002)	(32,408)
Cash and cash equivalents and designated cash		
and cash equivalents, beginning of period	314,654	393,070
Cash and cash equivalents and designated cash		
and cash equivalents, end of period	269,653	360,662
Cash and cash equivalents	139,171	235,180
Designated cash and cash equivalents	130,482	125,482
and cash equivalents	269,653	360,662
Change in plant expenditures included in accounts		
payable	(21,870)	(11,921)
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amount capitalized)	22,187	14,497

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