Associated Electric Cooperative Inc.

A Touchstone Energy® Cooperative

Financial Statements

For the Quarterly Periods Ended

March 31, 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 March 31, 2021 and 2020. The discussion below is not meant to be comprehensive but rather to identify significant aspects in the current quarter performance of Associated.

Overview

In February 2021, 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. As a result of this event, officially named Winter Storm Uri, Associated set an all-time system hourly peak of 5,549 MW before returning to normal operations, surpassing the previous all-time peak of 5,104 MW that was set in January 2018. During the winter 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 generating fleet, transmission system and workforce performed very well during this event, enabling the cooperative to reliably serve member load without interruption throughout the extreme weather event. This was accomplished utilizing a combination of coal and natural gas baseload generation, peaking plants, renewable energy and power purchased from the energy market.

Preserving reliability was Associated's top priority during this extreme weather event, however this did result in increased costs of approximately \$170.0 million. To address these unexpected, extraordinary costs, Associated's board of directors took immediate rate actions on February 18th, approving a three-part plan to recognize \$130.0 million in deferred revenue, suspend member rate discounts effective March 1st, and defer storm costs of up to \$50.0 million, if needed. These quarterly financial statements reflect the recognition of this deferred revenue and rate discount suspension for March, but do not include any expense deferral. The expense deferral was determined to be unnecessary as the cost of the event was not as high as originally estimated and financial performance outside of the storm event was well above budget. Overall, the net impact of this event for the first quarter of 2021 is a decrease in net margin of \$39.0 million, considering the increased costs and offsetting deferred revenue and rate action.

Net margin for the three-month period ended March 31, 2021, was \$3.9 million as compared to \$46.3 million in the same period of 2020. Total assets were \$3.0 billion at both March 31, 2021 and March 31, 2020. 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, 2021, increased \$153.3 million, or 62.9%, as compared to the same period of 2020. Member revenue consists of an energy and a demand component. The primary driver of this revenue increase was the \$130.0 million in deferred revenue recognized to offset the extraordinary costs of Winter Storm Uri. Additionally, as planned in Associated's Cost of Service for 2021, $5.0 million of deferred revenue was recognized to support the 2021 rate discounts. The remaining increase in member revenue was the result of several factors:

- Energy sales volume to members increased by 10.3% in the first quarter of 2021 compared to 2020, resulting in a $15.0 million increase in energy revenue. These increased sales were primarily driven by weather, particularly the extreme winter weather of February 2021.

- Billing demand decreased for 2021 as compared to 2020, resulting in a $4.0 million decrease in demand revenue for the first quarter of 2021 as compared to 2020.

- Member rate discounts were in place during the first two months of 2021 but suspended in March in response to the winter storm. Overall, rate discounts for the first quarter of 2021 totaled $8.4 million, compared to $14.9 million of rate discounts in the first quarter of 2020.

Nonmember Revenue
Revenue from nonmembers increased $29.4 million, or 40.1%, for the first quarter of 2021 as compared to the same period of 2020. The increase was primarily due to a $30.4 million increase in nonmember energy sales. Interchange sales volume decreased 29.0% mostly due to decreased sales into the MISO market from the Dell generating unit, but was more than offset by a 108.6% increase in the weighted average sales price for the period ended March 31, 2021, as compared to the same period of 2020. Absent the winter storm, the weighted average sales price for the period ended March 31, 2021 would have increased around 33.6%, as compared to the same period 2020.

Operating Expenses

Generation Operation
Generation operations expense increased $173.3 million, or 130.7%, for the first quarter of 2021 as compared to the same period of 2020. The increase was primarily due to the impacts of the winter storm.

Gas fuel expense increased $162.2 million, or 342.7%, as compared to the first quarter of 2020. Gas generation decreased 1,265,863 MWh, or 38.7%, but this was more than offset by a 622.8% increase in the average fuel cost/MWh for the gas fleet. Outside of the winter storm in February, gas fuel expense in January and March was $4.2 million and $4.8 million less, respectively, than the same months of 2020. Gas prices at Henry Hub were normal in January and March at $2.61 and $2.56, respectively, but averaged $5.15 in February due to the winter storm. Gas purchased at Associated's plant locations was significantly above Henry Hub during the storm event. Absent the winter storm, the average gas price in February was $3.31.

Coal fuel expense increased $10.8 million, or 16.6%. This was primarily driven by an increase in generation of 477,137 MWh, or 13.9%, as the coal plants contributed very well to the generation required by the winter storm. Additionally, the weighted average cost of coal burned increased by 7.0% for the first quarter of 2021 as compared to the same period of 2020.

Purchased Power

Purchased power expense increased $40.0 million, or 123.2%, for the first quarter of 2021 as compared to the same period of 2020. Purchased power includes expenses related to purchases from interchange partners on the wholesale market, supplemental hydropower, and energy purchased from wind farms.

The increase for the three-month period ended March 31, 2021 was largely due to the impacts of the winter storm. The increase in interchange purchase cost for the first quarter was $33.8 million, or 2,198.2%, as a result of a 595.8% increase in purchase volume and a 230.3% increase in interchange purchase price, as compared to the same period of 2020.

Additionally, wind purchases increased by $5.9 million 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 $5.5 million, or 23.9%, for the first quarter of 2021 as compared to the same period of 2020. The increase was primarily due to increased purchases of firm and non-firm transmission capacity and increased congestion and losses, both a result of the winter storm.

Financial Position:

Significant changes in the balance sheet at March 31, 2021, as compared to the prior year include the following:

- Utility plant, including construction work in progress, increased $236.7 million, or 5.4%, primarily due to transmission network upgrades, boiler component, generator and environmental projects at the New Madrid power plant, a compressor project at the Chouteau power plant and various ongoing projects at the Thomas Hill power plant. Accumulated depreciation increased $95.3 million, resulting in an increase in utility plant, net of accumulated depreciation, of $141.4 million, or 6.8%.

- Other restricted and designated assets and restricted short-term investments decreased $256.3 million, or 91.5%, 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 increased $30.4 million, or 14.9%, primarily due to funds provided by operating and financing activities, partially offset by expenditures for plant additions.

- 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.

- Deferred regulatory debits, including the current portion, decreased by $41.7 million, or 51.8%, due to a $35.1 million decrease in deferred mark-to market losses on diesel, natural gas and interest rate hedging activity and a $6.6 million decrease in the deferral of asset retirement obligation costs.

- Patronage capital decreased $15.3 million, or 2.2%, due to the net impact of the retirement of $23.9 million in patronage capital in May of 2020 and margins.

- Long-term debt, including current maturities, increased $136.9 million, or 8.4%. Associated prepaid $261.2 million of FFB debt through use of the Cushion of Credit investment and also made principal payments of $63.2 million, but these decreases were more than offset by $250.0 million in private placement notes to refinance the prepayment of FFB debt; $150.0 million in advances on lines of credit drawn to provide for increased costs of the winter storm, and $61.3 million in construction loan advances. Both the prepayment of FFB debt and the subsequent refinancing of FFB debt occurred in 2020.

- Payable to member cooperatives decreased $26.7 million, or 30.7%, due to less funds being invested by member G&Ts and distribution cooperatives as compared to March 31, 2020.

- Accounts payable increased $49.0 million, or 65.1%, primarily due to a $46.8 million increase in construction related accruals and normal vendor account fluctuations, a $4.5 million increase in coal accruals and a $2.3 million decrease in gas accruals.

- Other current and accrued liabilities decreased $12.1 million, or 24.3%, primarily due to a $15.4 million decrease in derivative liabilities. The decrease was partially offset by an increase of $2.7 million in accrued interest.

- Deferred regulatory credits, including the current portion, decreased by $99.9 million, or 35.8%, primarily due to the recognition of $55.0 million from the Generation, Environmental and Insurance Fund and $80.0 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 deferral in December of 2020 of $27.0 million of member revenue and a $9.4 million increase in deferred gains on diesel and natural gas swaps.

- Other deferred liabilities decreased $18.0 million, or 30.8%, primarily due to a $19.7 million decrease in the derivative liabilities related to an interest rate swap and diesel and natural gas hedging activity, partially offset by a $1.6 million increase in deferred compensation liabilities.

Associated Electric Cooperative, Inc.
Statement of Operations
For the Three Months Ending 3/31/2021
(In thousands of dollars)

	Three Months Ended March 31		Three Months Ended March 31	
	2021	2020	2021	2020
Operating revenues:				
Members	$397,045	$243,743	$397,045	$243,743
Nonmembers	102,665	73,296	102,665	73,296
	499,710	317,039	499,710	317,039
Operating expenses:				
Generation operation	305,823	132,553	305,823	132,553
Contracted generation	11,154	11,563	11,154	11,563
Power purchased	72,399	32,434	72,399	32,434
Depreciation and amortization	23,287	22,527	23,287	22,527
Transmission Expense	28,722	23,173	28,722	23,173
Generation maintenance	20,432	17,988	20,432	17,988
Administrative and general	20,806	18,846	20,806	18,846
Taxes	1,677	1,629	1,677	1,629
Accretion of asset retirement obligations	403	393	403	393
	484,700	261,106	484,700	261,106
Operating margin before interest expense	15,010	55,933	15,010	55,933
Interest Expense:				
Interest on long-term debt	15,551	16,404	15,551	16,404
Less: interest capitalized	(1,061)	(641)	(1,061)	(641)
	14,489	15,763	14,489	15,763
Operating margin	521	40,170	521	40,170
Nonoperating:				
Interest and dividend income	3,017	5,900	3,017	5,900
Other nonoperating income	379	545	379	545
Interest expense	(65)	(308)	(65)	(308)
Total nonoperating	3,331	6,137	3,331	6,137
Net margin (loss)	3,852	46,307	3,852	46,307

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 Three Months Ending 3/31/2021
(In thousands of dollars)

	Current Month	Prior Year
Assets		
Utility Plant:		
Electric plant in service	$4,377,574	$4,255,299
Construction work in progress	247,158	132,687
	4,624,732	4,387,986
Less accumulated depreciation	(2,403,767)	(2,308,467)
	2,220,964	2,079,519
Other property and investments:		
Nonutility property	31,663	31,663
Net investment in direct financing leases	2,864	3,201
Advanced construction funds	17,806	18,991
	52,334	53,855
Restricted assets:		
Investments in associated organizations	28,990	28,976
Other restricted assets and designated assets	23,937	205,229
	52,927	234,205
Current assets:		
Cash and cash equivalents	235,180	204,732
Designated cash and cash equivalents	125,482	0
Restricted and designated short-term investments	0	74,969
Accounts receivable, net	118,670	105,995
Fuel inventories	46,015	52,648
Materials and supplies inventories	86,888	88,517
Other current assets	23,239	17,295
Current portion of deferred regulatory debits	3,337	17,785
	638,812	561,941
Deferred regulatory debits	35,442	62,700
Other deferred assets	27,208	27,860
	62,650	90,560
Total Assets	3,027,687	3,020,080

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Associated Electric Cooperative, Inc.
Balance Sheet
For the Three Months Ending 3/31/2021
(In thousands of dollars)

	Current Month	Prior Year
Capitalization and Liabilities		
Patronage capital and other equities:		
Memberships	12	12
Patronage capital	691,904	707,237
Other equities	55,543	55,227
Accumulated other comprehensive inc. (exp)	(18,779)	(19,535)
	728,679	742,942
Long-term debt, excluding current maturities:		
Federal Financing Bank	829,145	1,041,620
CoBank	249,353	170,781
Other long-term debt	614,410	337,215
	1,692,908	1,549,616
Asset retirement obligation	49,756	47,663
Accumulated provision for postretirement benefits	39,749	40,080
Current Liabilities:		
Payable to member cooperatives	60,416	87,124
Accounts payable	124,267	75,276
Other current and accrued liabilities	37,680	49,803
Current maturities of long-term debt	66,954	73,371
Current portion of asset retirement obligation	7,450	16,483
Current portion of deferred regulatory credits	8,009	1,513
	304,777	303,570
Deferred regulatory credits	171,398	277,794
Other deferred liabilities	40,420	58,415
	211,818	336,209
Total Capitalization and Liabilities	3,027,687	3,020,080

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows from operating activities:		
Net margin(loss)	$3,852	$46,307
Adjustments to reconcile net margin to net		
Cash provided by operating activities:		
Provision for depreciation and amortization	26,083	24,138
Amortization of loan expenses and other costs	94	94
Decrease (increase) in deferred debits	296	(9,102)
Increase (decrease) in deferred credits	(129,265)	812
Increase (decrease) in asset retirement obligation	487	(499)
Change in assets and liabilities:		
Accounts receivable	(7,444)	20,570
Fuel inventories	11,684	(8,260)
Materials and supplies inventories	(209)	(81)
Accounts payable	(35,732)	(47,477)
Other current and accrued liabilities	323	13,760
Other operating activities, net	(1,588)	(1,211)
Net cash provided by operating activities	(131,419)	39,051
Cash flows from investing activities:		
Construction expenditures for utility plant	(69,126)	(29,750)
Sale (purchase) of investments	528	(2,691)
Investments in associated organizations	(699)	(505)
Direct financing lease proceeds	87	80
Other investments	620	587
Reimbursement of capital expenditures	(8)	(10)
Net cash (used) in investing activities	(68,598)	(32,289)
Cash flows from financing activities:		
Increase (decrease) in net borrowings from member cooperatives	21,895	40,425
Issuance (retirement) of long-term debt, including change in current maturity	145,714	24,535
Net cash (used) in financing activities	167,609	64,960
Net increase (decrease) in cash and cash equivalents and designated cash and cash equivalents	(32,408)	71,722
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	360,662	204,732
Cash and cash equivalents	235,180	204,732
Designated cash and cash equivalents	125,482	0
Cash and cash equivalents and designated cash and cash equivalents	360,662	204,732
Change in plant expenditures included in accounts payable	(11,921)	(16,289)
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amount capitalized)	14,497	17,405

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