



Arkansas Electric Cooperative Corporation

Your Local Energy Partner

First Quarter Report

As of and for the three months ended January 31, 2010

ORGANIZATION

Arkansas Electric Cooperative Corporation (AECC) is a generation and transmission cooperative incorporated under the laws of the state of Arkansas, headquartered in Little Rock. AECC is the wholesale power supplier for 17 electric distribution cooperatives in Arkansas. Generation resources immediately available to AECC provide 2,827 MW of capacity. The mission of AECC is to assist each of its member cooperatives in improving the quality of life in the areas they serve through the delivery of electric power and other related services which address essential consumer needs. This is to be done at the lowest possible cost consistent with sound business practices.

RESULTS OF OPERATIONS

AECC has two components of revenue: 1) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers fixed costs; and 2) an energy charge, based on total members' usage, which recovers variable costs. AECC is also able to recover the actual cost of fuel through a fuel adjustment clause.

"Operating revenues" for the three months ended January 31, 2010 increased approximately \$19.3 million compared to the same period in 2009 (of which \$6.2 million is a result of a rate increase). Effective November 1, 2009, AECC was granted a 4% wholesale rate increase under Arkansas Act 676 of 2009 (Act). Based on 2009 demand levels, this rate increase is expected to generate approximately \$23.1 million annually. The Act also provided AECC member cooperatives with a means of incorporating any wholesale rate relief granted under the Act into their retail rates. The increase in operating revenue was a result of an increase in energy revenue of \$20.7 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the three months ended January 31, 2010 in the amount of \$11.0 million, which was passed on through the fuel adjustment clause, and 2) a 10.5% increase in member megawatt hour consumption (\$9.7 million). Member revenue was offset somewhat by a decrease in non member economy energy sales.

"Operation and maintenance, generation" and "power purchased" are categories that should be considered together for comparative purposes. On an hour-to-hour basis, AECC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economical source. "Operation and maintenance,

generation" and "power purchased" increased by \$14.1 million compared to the three months ended January 31, 2009. The \$14.1 million increase in "Operation and maintenance, generation" and "power purchased" included an \$11.0 million increase in total fuel costs for the three months ended January 31, 2010 compared to the same period ending January 31, 2009. The total cost of energy as a percentage of operating revenue was 69.7% for the three months ended January 31, 2010, compared to 69.2% for the three months ended January 31, 2009.

"Other income/loss" consists primarily of proceeds from AECC's investment in gas reserves which are sold on the spot market. The average price received during the three months ended January 31, 2010 for AECC's interest in these reserves was \$3.74/mcf compared to \$3.62/mcf during the same period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the three months ended January 31, 2010, net cash and cash equivalents decreased \$12.3 million. The major components consisted of the following: AECC made payments on long-term debt of \$147.9 million (which includes a reduction of \$118.9 million associated with the Independence Steam Electric Station (ISES) Unit 2 lease buyout and a reduction of \$26.5 million related to the defeasance of the Clyde T. Ellis Hydroelectric Station capital lease). AECC also made capital expenditures of \$8.5 million along with a reduction of \$29.8 million in the amount of funds held under the member line of credit. These decreases were offset by proceeds from CoBank in the amount of \$122.0 million related to the ISES Unit 2 lease buyout and issuance of additional commercial paper notes of \$50.0 million.

For the calendar year 2010, AECC has budgeted \$128.4 million for capital expenditures. This amount includes \$119.0 million to be incurred for generation and \$9.4 million for transmission and other miscellaneous general capital expenditures. The capital expenditures for 2010 include \$37.6 million for environmental upgrades. However, the Environmental Protection Agency (EPA) issued a letter questioning the proposed Arkansas Department of Environmental Quality's permit limits. As a result of the EPA letter, it is uncertain when the emission control equipment upgrades will continue.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (NRUCFC), a \$30.0 million committed line-of-credit with CoBank that terminates on July 14, 2010, and a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2010. In addition, AECC uses advances from the member line of credit program (\$83.8 million as of January 31, 2010) to support daily cash needs. On July 3, 2008, AECC entered into a \$210.5 million credit agreement with a syndication of financial institutions to provide a committed line of credit for three years as support for a commercial paper program of an equal amount. As of January 31, 2010, AECC had \$159.9 million outstanding in commercial paper notes. AECC also has a \$185.5 million loan approved from NRUCFC for construction of the John W. Turk, Jr. Power Plant, a 600 MW coal-fired ultra supercritical steam turbine generating unit, of which AECC will own 11.667% or 70 MW. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042.

AECC has a rating of AA-/A2/A+ for its secured facility bonds/issuer rating and a commercial paper rating of A-1, Prime-1, and F-1 from Standard and Poor's, Moody's Investors Service and Fitch Ratings respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for January 31, 2010 and 2009 are unaudited. In the opinion of AECC management, the accompanying unaudited financial information furnished herewith reflects all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of its financial position and its results of operations for the interim periods presented; however, the business of AECC is subject to rate changes, seasonal fluctuations in sales and other factors. Accordingly, the results for the interim periods presented should not be used as a basis for estimating results of operations for a full year.

It is suggested that these interim financial statements be read in conjunction with financial statements and notes thereto included in AECC's October 31, 2009 Annual Report.

Gary Voigt, President/CEO
Michael Henderson, Vice President/CFO
Arkansas Electric Cooperative Corporation

ARKANSAS ELECTRIC COOPERATIVE CORPORATION BALANCE SHEETS

As of January 31, 2010 (Unaudited) and October 31, 2009

	January 31, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)		January 31, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,471,666	\$ 1,471,386	Membership fees	\$ 2	\$ 2
Construction work in progress	215,753	200,608	Patronage capital	290,160	290,160
	1,687,419	1,671,994	Accumulated margins	33,386	25,791
Less accumulated depreciation	842,154	831,782	Other equities	118,140	118,140
Net utility plant	845,265	840,212	Net unrealized loss on investments	-	(2)
			Total members' equities	441,688	434,091
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	12,000	13,906	Rural Utilities Service	1,253	1,385
Gas reserves	44,381	44,975	Federal Financing Bank	244,942	251,067
Other	26,027	26,059	CoBank	112,221	-
Total long-term investments	82,408	84,940	Independence Steam Electric Station finance obligation	-	105,472
			Ellis finance obligation	-	18,066
CURRENT ASSETS:			Other long-term debt	57	56
Cash and cash equivalents	20,506	32,797	Total long-term debt	358,473	376,046
Short-term marketable securities	-	1,005			
Accounts receivable, members	58,176	34,681	CURRENT LIABILITIES:		
Fuel inventories and prepaid fuel supply	19,950	22,488	Notes payable, members	95,653	125,427
Material and supply inventories	16,858	16,857	Notes payable, others	159,927	109,950
Other current assets	5,692	4,110	Current maturities of long-term debt	34,734	43,014
Total current assets	121,182	111,938	Accounts payable and other accrued liabilities	55,387	42,162
			Patronage capital payable	-	-
DEFERRED CHARGES			Accrued property taxes	7,845	6,095
	115,020	112,238	Accrued interest	1,756	4,060
			Total current liabilities	355,302	330,708
			DEFERRED CREDITS		
				8,412	8,483
			COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 1,163,875	\$ 1,149,328	Total members' equities and liabilities	\$ 1,163,875	\$ 1,149,328

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
For the three months ended January 31, 2010 and 2009 (Unaudited)

	Three Months Ended 2010 (In Thousands)	Three Months Ended 2009 (In Thousands)
OPERATING REVENUES	\$ 149,082	\$ 129,822
OPERATING EXPENSES:		
Operation and maintenance, generation	70,735	68,082
Power purchased	33,192	21,770
Operation and maintenance, transmission	14,035	13,644
Administrative and general	4,620	4,334
Depreciation	10,927	10,798
Taxes, other than income taxes	36	36
Interest	8,603	9,097
Total operating expenses	142,148	127,761
MARGIN FROM OPERATIONS	6,934	2,061
INTEREST INCOME, NET	522	527
OTHER LOSSES	(136)	(346)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	275	253
NET MARGIN	\$ 7,595	\$ 2,495

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
For the three months ended January 31, 2010 and 2009 (Unaudited)

	Three Months Ended 2010 (In Thousands)	Three Months Ended 2009 (In Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Margin	\$ 7,595	\$ 2,495
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation	10,927	10,798
Amortization of gas reserves	594	573
Allowance for funds used during construction	(275)	(253)
Allocation of patronage from associated organizations	(11)	(24)
Changes in operating assets and liabilities-		
Accounts receivable, members	(23,495)	(8,546)
Fuel inventories and prepaid fuel supply	2,538	2,201
Material and supply inventories	(1)	(360)
Other current assets	(1,582)	24
Deferred charges	(2,782)	(842)
Accounts payable and accrued liabilities	5,452	4,913
Other deferred credits	(173)	(746)
Net cash provided by operating activities	(1,213)	10,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of marketable securities	2,914	(10,410)
Sales of other investments	144	121
Capital expenditures	(8,486)	(6,788)
Net cash used in investing activities	(5,428)	(17,077)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) borrowings on notes payable	(29,774)	7,916
Borrowings on notes payable, other	49,977	-
Principal payments on long-term debt	(147,853)	(9,620)
Proceeds from long-term debt	122,000	-
Net cash used by financing activities	(5,650)	(1,704)
Net decrease in cash and cash equivalents	(12,291)	(8,548)
CASH AND CASH EQUIVALENTS, beginning of period	32,797	45,263
CASH AND CASH EQUIVALENTS, end of period	\$ 20,506	\$ 36,715

Member Systems and Board of Directors

Ron Moore, Chairman
Sam Davis, Vice Chairman
Mitchell Johnson, Secretary-Treasurer

Arkansas Valley Electric
Ozark
Sam Davis
Bill Peters

Carroll Electric
Berryville
Alan Hunnicutt
Rob Boaz

Farmers Electric
Newport
James Pigg
Gene Sweat

North Arkansas Electric
Salem
Mike Dover
Mel Coleman

Petit Jean Electric
Clinton
Donnie Collins
Bill Conine

Southwest Arkansas Electric
Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric
Hamburg
Jerry Pahal
Ron Moore

Clay County Electric
Corning
John Dalton
David Smith

First Electric
Jacksonville
Robert Hill
Don Crabbe

Ouachita Electric
Camden
Walt Piggott
Mark Cayce

Rich Mountain Electric
Mena
Donald Manning
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Billy Martin

C & L Electric
Star City
Ray Morrison
W. H. Frizzell

Craighead Electric
Jonesboro
Tom Sloan
Brian Duncan

Mississippi County Electric
Blytheville
Robert E. Davis
Larry Hellums

Ozarks Electric
Fayetteville
Jerry Bolinger
Mitchell Johnson

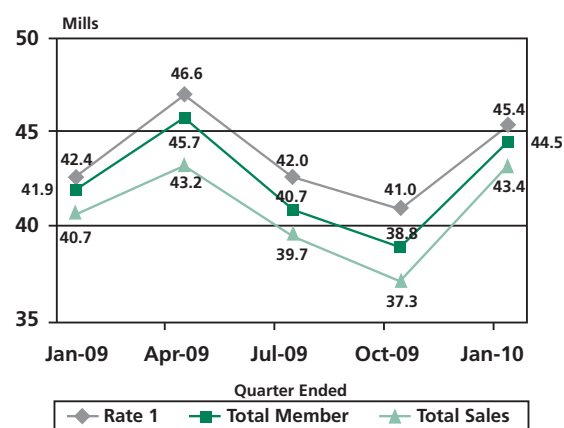
South Central Arkansas Electric
Arkadelphia
Elton Buck
Kevin Brownlee

Selected Financial Highlights

As of January 31, 2010 and October 31, 2009

	January 31, 2010	October 31, 2009
Equity as a Percent of Assets	37.95%	37.77%
Debt/Equity Ratio	0.89	0.97
Current Ratio	0.34	0.34
Times Interest Earned Ratio	2.37	0.87
Margins for Interest Ratio	2.78	0.80
Debt Service Coverage Ratio	2.98	1.00
Average Cost of Long-term debt	5.195%	5.511%

Revenue Per MWH Sold



Management Team

President/CEO	Gary Voigt
Sr. VP & General Counsel	Robert M. Lyford
VP Planning, Rates & Dispatching	Ricky Bittle
VP Information Technology	Robert McClanahan
VP/CFO	Michael Henderson
VP Engineering, Construction & Operations	Jonathan Oliver
VP Systems Services	Doug White
VP Strategic Affairs	Sandra Hochstetter



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