



Third Quarter Report

As of and for the three and nine months ended July 31, 2011

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 2,861 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 and purchased power through a fuel adjustment clause.

"Operating revenues" for the nine months ended July 31, 2011 increased approximately \$47.0 million compared to the same period in 2010. The increase in operating revenue was primarily the result of an increase in energy revenue of \$45.2 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the nine months ended July 31, 2011 in the amount of \$34.5 million, which was passed on through the fuel adjustment clause, and 2) a 4.9% increase in member megawatt hour consumption (\$10.7 million). In addition, the demand revenue increased \$15.9 million, which is a result of a higher coincidental peak. The demand and energy revenue increase was offset by a decrease in non-member sales in the amount of \$14.1 million (primarily from sales of surplus energy to Entergy Arkansas, Inc.).

"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 \$35.3 million compared to the nine months ended July 31, 2010, primarily due to the \$34.5 million increase in fuel and purchased power costs mentioned above. The total cost of energy as a percentage of operating revenue was 70.0% for the nine months ended July 31, 2011 compared to 69.4% for the nine months ended July 31, 2010.

"Other losses" of \$691,000 consists primarily of transactions from AECC's investment in gas reserves which are sold on the

spot market to serve as a hedge for gas purchased on the spot market. The average price received during the nine months ended July 31, 2011 for AECC's interest in these reserves was \$3.36/mcf compared to \$3.96/mcf during the same period in 2010.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the nine months ended July 31, 2011, net cash and cash equivalents decreased \$20.3 million. The major components of the decrease consisted of the following: AECC repaid short term commercial paper debt of approximately \$160 million, along with capital expenditures of \$39.4 million. In addition, AECC incurred a reduction of \$37.5 million in the amount of funds held under its member line-of-credit program. AECC also made regular payments on long-term debt of \$27.0 million. These decreases were offset by cash received from operations of \$40.6 million along with proceeds received from a private placement debt issuance of \$200 million in First Mortgage Obligation Senior Notes.

For the calendar year 2011, AECC has budgeted \$71.3 million for capital expenditures. This amount includes \$61.9 million to be incurred for generation and \$9.4 million for transmission and other miscellaneous general capital expenditures. The budgeted capital expenditures for 2011 includes \$1.1 million for environmental upgrades based on certain permit limits. The Environmental Protection Agency (EPA) has issued a letter questioning such proposed Arkansas Department of Environmental Quality's (ADEQ) permit limits. As a result of the EPA letter, the upgrades have been suspended and will be addressed taking into consideration the revised standards once the EPA has completed its review of ADEQ's permit limits and the final permit limits are issued.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (CFC), a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2012, and a \$30.0 million committed line-of-credit with Wells Fargo Bank that terminates on September 30, 2011. AECC uses advances from the member line-of-credit program (\$79.9 million as of July 31, 2011) to support daily cash needs. AECC also has a \$185.5 million loan approved from CFC for construction of the John W. Turk, Jr. Power Plant, a 600 MW coal-fired ultra supercritical steam turbine generating unit, of which AECC owns 11.667% or 70 MW. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042. In addition, on December 8, 2010, AECC received a final clearance and approval letter from the Rural Utilities Service (RUS) to provide loan funds from the Federal Financing Bank (FFB) in the amount of \$621.0 million for certain generation projects and improve-

ments. AECC filed a FFB loan fund advance request with the RUS on August 19, 2011.

On February 22, 2011 AECC completed a private placement debt issuance by issuing \$200 million in First Mortgage Obligation Senior Notes (Notes). The debt issuance involved two tranches including \$80 million in Series 2011A Notes due December 30, 2030 at a coupon rate of 4.71% and a \$120 million in Series 2011B Notes due December 30, 2041 at a coupon rate of 5.62%. AECC used the proceeds of the Notes to fund past capital expenditures, including: 1) to repay the holders of outstanding short-term commercial paper; 2) to fund on a long-term basis, capital expenditures AECC incurred during the period 2006 through 2010 involving projects for the acquisition of property and/or the construction, extension, or improvement of AECC's generating, transmission, or general plant; and 3) for payment of the cost associated with issuing the Notes.

On April 28, 2011, AECC closed on a three year \$250 million senior unsecured revolving credit facility. This \$250 million credit facility will be used to support AECC's commercial paper program, for general purposes and for the issuance of letters of credit. This facility replaces a \$210.5 million unsecured facility which terminated on April 28, 2011.

AECC's secured facility lease bonds are rated Aa3 by Moody's Investors Service (Moody's) and Moody's has assigned an A1 senior secured rating to AECC's privately placed Notes. AECC has also been assigned issuer credit ratings of AA- by Standard and Poor's (S&P) and A+ by Fitch Ratings (Fitch). AECC's short-term debt ratings are Prime-1, A1+ and F-1 from Moody's, S&P and Fitch, respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for July 31, 2011 and 2010 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, 2010 Annual Report.

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

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of July 31, 2011 (Unaudited) and October 31, 2010

	July 31, 2011 (Unaudited) (In Thousands)	October 31, 2010 (In Thousands)		July 31, 2011 (Unaudited) (In Thousands)	October 31, 2010 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,539,177	\$ 1,534,130	Membership fees	\$ 2	\$ 2
Construction work in progress	214,265	181,968	Patronage capital	313,220	313,220
	<u>1,753,442</u>	<u>1,716,098</u>	Accumulated margins	55,104	28,348
Less accumulated depreciation	881,623	857,241	Other equities	118,140	118,140
Net utility plant	<u>871,819</u>	<u>858,857</u>	Net unrealized loss on investments	-	-
			Total members' equities	<u>486,466</u>	<u>459,710</u>
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	10,000	Rural Utilities Service	489	848
Gas reserves	40,740	42,409	Federal Financing Bank	207,797	225,499
Deposit with RUS - restricted investment	30,600	29,566	CoBank	96,661	104,578
Other	27,526	26,659	First Mortgage Obligation Series 2011 A & B	200,000	-
Total long-term investments	<u>108,866</u>	<u>108,634</u>	Other long-term debt	37	47
			Total long-term debt	<u>504,984</u>	<u>330,972</u>
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	53,332	73,597	Notes payable, members	120,175	157,645
Short-term marketable securities	-	2,000	Notes payable, related parties	30,000	30,000
Accounts receivable, members	71,486	41,451	Notes payable, others	-	159,897
Fuel inventories and prepaid fuel supply	34,980	30,331	Current maturities of long-term debt	35,204	36,246
Material and supply inventories	17,770	16,939	Accounts payable and other accrued liabilities	66,367	50,092
Deposit with RUS - restricted investment	495	537	Accrued property taxes	8,419	6,369
Other current assets	5,933	4,122	Accrued interest	2,475	1,734
Total current assets	<u>183,996</u>	<u>168,977</u>	Total current liabilities	<u>262,640</u>	<u>441,983</u>
			COMMITMENTS AND CONTINGENCIES		
DEFERRED CHARGES	98,999	105,500	DEFERRED CREDITS	9,590	9,303
Total assets	<u>\$ 1,263,680</u>	<u>\$ 1,241,968</u>	Total members' equities and liabilities	<u>\$ 1,263,680</u>	<u>\$ 1,241,968</u>

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS**

For the three and nine months ended July 31, 2011 and 2010 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 184,372	\$ 154,735	\$ 479,395	\$ 432,386
OPERATING EXPENSES:				
Operation and maintenance, generation	93,071	85,501	238,700	218,510
Power purchased	39,045	23,582	96,657	81,557
Operation and maintenance, transmission	14,118	15,447	43,152	41,966
Administrative and general	6,983	5,578	16,117	15,553
Depreciation	11,457	11,101	34,233	32,933
Taxes, other than income taxes	43	36	129	107
Interest	8,918	8,223	25,821	24,910
Total operating expenses	173,635	149,468	454,809	415,536
MARGIN FROM OPERATIONS	10,737	5,267	24,586	16,850
INTEREST INCOME	872	516	2,601	2,500
OTHER LOSS	(204)	(178)	(691)	(5)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	156	54	260	599
NET MARGIN	\$ 11,561	\$ 5,659	\$ 26,756	\$ 19,944

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS**

For the three and nine months ended July 31, 2011 and 2010 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin	\$ 11,561	\$ 5,659	\$ 26,756	\$ 19,944
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	11,457	11,101	34,233	32,933
Amortization of gas reserves	564	626	1,669	1,957
Allowance for funds used during construction	(156)	(54)	(260)	(599)
Allocation of patronage from associated organizations	(4)	(105)	(1,373)	(174)
Deposit into Cushion of Credit	(241)	-	(992)	-
Changes in operating assets and liabilities-				
Accounts receivable	(27,073)	(22,851)	(30,035)	(20,048)
Fuel inventories	3,383	(933)	(4,649)	(1,679)
Other current assets	(538)	2,379	(1,811)	(252)
Material and supply inventories	(1,191)	(186)	(831)	(509)
Deferred charges	2,817	2,620	6,501	2,546
Accounts payable and accrued liabilities	12,425	18,150	11,572	3,365
Other deferred credits	36	28	(171)	(157)
Net cash provided by operating activities	13,040	16,434	40,609	37,327
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales of marketable securities	-	-	2,000	2,914
Net sales purchases of other investments	-	8	963	184
Capital expenditures	(16,129)	(11,530)	(39,440)	(33,269)
Net cash used in investing activities	(16,129)	(11,522)	(36,477)	(30,171)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net on notes payable	(21,468)	(18,745)	(37,470)	(29,291)
Net (payments) borrowings on notes payable, other	-	(46)	(159,897)	49,936
Principal payments on long-term debt	(9,128)	(8,660)	(27,030)	(165,105)
Proceeds from long-term debt	-	-	200,000	122,000
Net cash provided by financing activities	(30,596)	(27,451)	(24,397)	(22,460)
Net decrease in cash and cash equivalents	(33,685)	(22,539)	(20,265)	(15,304)
CASH AND CASH EQUIVALENTS, beginning of period	87,017	40,032	73,597	32,797
CASH AND CASH EQUIVALENTS, end of period	\$ 53,332	\$ 17,493	\$ 53,332	\$ 17,493

MEMBER SYSTEMS AND BOARD OF DIRECTORS

Sam Davis, Chairman
Mitchell Johnson, Vice Chairman
John Dalton, Secretary-Treasurer

Arkansas Valley Electric

Ozark
Sam Davis
Bill Peters

Carroll Electric

Berryville
Alan Hunnicutt
Rob Boaz

Farmers Electric

Newport
James Pigg
Larry Bright

North Arkansas Electric

Salem
Larry Goodwin
Mel Coleman

Petit Jean Electric

Clinton
Terry Kirkendoll
Bill Conine

Southwest Arkansas Electric

Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric

Hamburg
Jerry Pahal
Rodney Chapman

Clay County Electric

Corning
John Dalton
David Smith

First Electric

Jacksonville
Robert Hill
Don Crabbe

Ouachita Electric

Camden
Danny Adams
Mark Cayce

Rich Mountain Electric

Mena
Donald Manning
Leon Philpot

Woodruff Electric

Forrest City
J. A. Wampler
Billy Martin

C & L Electric

Star City
Robert McBryde
W. H. Frizzell

Craighead Electric

Jonesboro
Tom Sloan
Brian Duncan

Mississippi County Electric

Blytheville
Robert E. Davis
Brad Harrison

Ozarks Electric

Fayetteville
Jerry Bolinger
Mitchell Johnson

South Central Arkansas Electric

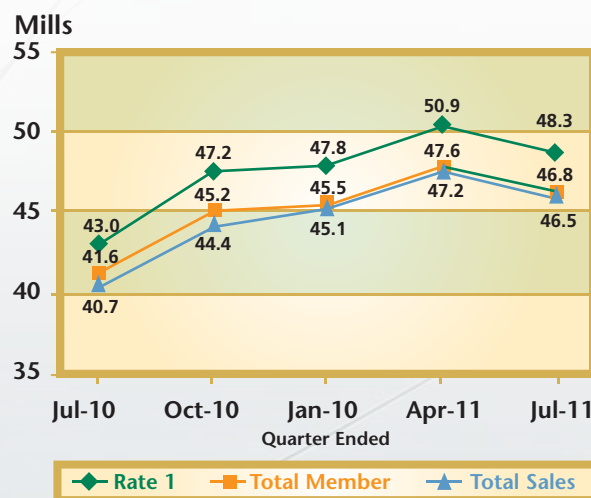
Arkadelphia
Ronnie Penney
Kevin Brownlee

Selected Financial Highlights

As of July 31, 2011 and October 31, 2010

	July 31, 2011	October 31, 2010
Equity as a Percent of Assets	38.50%	37.01%
Debt/Equity Ratio	1.11	0.80
Current Ratio	0.70	0.38
Times Interest Earned Ratio	2.47	2.25
Margins for Interest Ratio	2.47	2.34
Debt Service Coverage Ratio	1.75	1.84
Average Cost of Long-term debt	5.257%	5.179%

Revenue Per MWH Sold



Management Team

President/CEO
Gary Voigt

Sr. VP and General Counsel
Robert M. Lyford

VP/CFO
Michael Henderson

VP Planning, Rates and Dispatching
Ricky Bittle

VP Information Technology
Robert McClanahan

VP Engineering, Construction and Operations
Jonathan Oliver

VP Systems Services
Doug White

VP Strategic Affairs
Sandra Byrd



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Your Local Energy Partner

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