



First Quarter Report

As of and for the three months ended January 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 three months ended January 31, 2011 increased approximately \$3.0 million compared to the same period in 2010. The increase in operating revenue was primarily the result of an increase in demand revenue of \$4.8 million. In addition, the energy revenue increased \$2.4 million. There are two reasons for the increase in energy revenue; 1) a 2.7% increase in member megawatt hour consumption (\$2.7 million), and 2) a decrease in fuel and purchased power costs during the three months ended January 31, 2011 in the amount of \$0.3 million, which was passed on to members through the fuel adjustment clause. The demand and energy revenue increase was offset by a decrease in non-member sales in the amount of \$4.2 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" decreased by \$1.4 million compared to the three months ended January 31, 2010. The total cost of energy as a percentage of operating revenue was 67.4% for the three months ended January 31, 2011 compared to 69.7% for the three months ended January 31, 2010.

"Other losses" 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, 2011 for AECC's interest in these reserves was \$3.01/mcf compared to \$3.74/mcf during the same period in 2010.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the three months ended January 31, 2011, net cash and cash equivalents decreased \$24.7 million. The major components consisted of the following: AECC made capital expenditures of \$6.8 million along with a reduction of \$10.9 million in the amount of funds held under the member line of credit. AECC also made regular payments on long-term debt of \$8.7 million. These decreases were offset by cash from operations of \$1.6 million.

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 include \$1.1 million for environmental upgrades. The Environmental Protection Agency (EPA) has issued a letter questioning the 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 the 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 (NRUCFC) and a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2012. In addition, AECC has 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 (\$108.1 million as of January 31, 2011) 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, 2011, 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 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 to provide loan funds in the amount of \$621.0 million for certain generation projects and improvements.

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 with \$80 million Series 2011A Notes due December 31, 2030 at an annual rate of 4.71% and \$120 million Series 2011B Notes due December 31, 2041 at an annual rate of 5.62%. AECC intends to use 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 has 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.

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 private placement of the 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 January 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 January 31, 2011 (Unaudited) and October 31, 2010

	January 31, 2011 (Unaudited) (In Thousands)	October 31, 2010 (In Thousands)		January 31, 2011 (Unaudited) (In Thousands)	October 31, 2010 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,538,157	\$ 1,534,130	Membership fees	\$ 2	\$ 2
Construction work in progress	179,969	181,968	Patronage capital	313,220	313,220
	1,718,126	1,716,098	Accumulated margins	38,722	28,348
Less accumulated depreciation	861,984	857,241	Other equities	118,140	118,140
Net utility plant	856,142	858,857	Net unrealized loss on investments	-	-
			Total members' equities	470,084	459,710
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	10,000	Rural Utilities Service	710	848
Gas reserves	41,937	42,409	Federal Financing Bank	219,002	225,499
Deposit with RUS - restricted investment	29,938	29,566	CoBank	101,970	104,578
Other	26,697	26,659	Other long-term debt	47	47
Total long-term investments	108,572	108,634	Total long-term debt	321,729	330,972
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	48,901	73,597	Notes payable, members	146,728	157,645
Short-term marketable securities	2,000	2,000	Notes payable, related parties	30,000	30,000
Accounts receivable, members	54,467	41,451	Notes payable, others	159,937	159,897
Fuel inventories and prepaid fuel supply	33,174	30,331	Current maturities of long-term debt	36,743	36,246
Material and supply inventories	17,468	16,939	Accounts payable and other accrued liabilities	44,943	50,092
Deposit with RUS - restricted investment	543	537	Patronage capital payable	-	-
Other current assets	5,287	4,122	Accrued property taxes	8,279	6,369
Total current assets	161,840	168,977	Accrued interest	1,579	1,734
			Total current liabilities	428,209	441,983
DEFERRED CHARGES	102,736	105,500	DEFERRED CREDITS	9,268	9,303
Total assets	\$ 1,229,290	\$ 1,241,968	COMMITMENTS AND CONTINGENCIES		
			Total members' equities and liabilities	\$ 1,229,290	\$ 1,241,968

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
For the three months ended January 31, 2011 and 2010 (Unaudited)

	Three Months Ended 2011 (In Thousands)	Three Months Ended 2010 (In Thousands)
OPERATING REVENUES	\$ 152,060	\$ 149,082
OPERATING EXPENSES:		
Operation and maintenance, generation	73,504	70,735
Power purchased	28,980	33,192
Operation and maintenance, transmission	14,614	14,035
Administrative and general	5,568	4,620
Depreciation	11,371	10,927
Taxes, other than income taxes	43	36
Interest	8,426	8,603
Total operating expenses	142,506	142,148
MARGIN FROM OPERATIONS	9,554	6,934
INTEREST INCOME, NET	876	522
OTHER LOSS	(101)	(136)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	46	275
NET MARGIN	\$ 10,375	\$ 7,595

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
For the three months ended January 31, 2011 and 2010 (Unaudited)

	Three Months Ended 2011 (In Thousands)	Three Months Ended 2010 (In Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Margin		\$ 7,595
Adjustments to reconcile net margin to net cash provided by operating activities-	\$ 10,375	\$ 7,595
Depreciation	11,371	10,927
Amortization of gas reserves	472	594
Allowance for funds used during construction	(46)	(275)
Allocation of patronage from associated organizations	-	(11)
Deposit into Cushion of Credit	(378)	-
Changes in operating assets and liabilities-		
Accounts receivable, members	(13,016)	(23,495)
Fuel inventories and prepaid fuel supply	(2,843)	2,538
Material and supply inventories	(529)	(1)
Other current assets	(1,166)	(1,582)
Deferred charges	2,764	(2,782)
Accounts payable and accrued liabilities	(5,203)	5,452
Other deferred credits	(195)	(173)
Net cash provided by (used in) operating activities	1,606	(1,213)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales of marketable securities	-	2,914
Net sales of other investments	123	144
Capital expenditures	(6,802)	(8,486)
Net cash used in investing activities	(6,679)	(5,428)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on notes payable	(10,917)	(29,774)
Net payments on notes payable, other	40	49,977
Principal payments on long-term debt	(8,746)	(147,853)
Proceeds from long-term debt	-	122,000
Net cash used in financing activities	(19,623)	(5,650)
Net decrease in cash and cash equivalents	(24,696)	(12,291)
CASH AND CASH EQUIVALENTS, beginning of period	73,597	32,797
CASH AND CASH EQUIVALENTS, end of period	\$ 48,901	\$ 20,506

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
Harlin Hames
Mel Coleman

Petit Jean Electric
Clinton
Terry Kirkendoll
Bill Conine

Southwest Arkansas Electric
Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric
Hamburg
Dennis Holland
Rodney Chapman

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
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

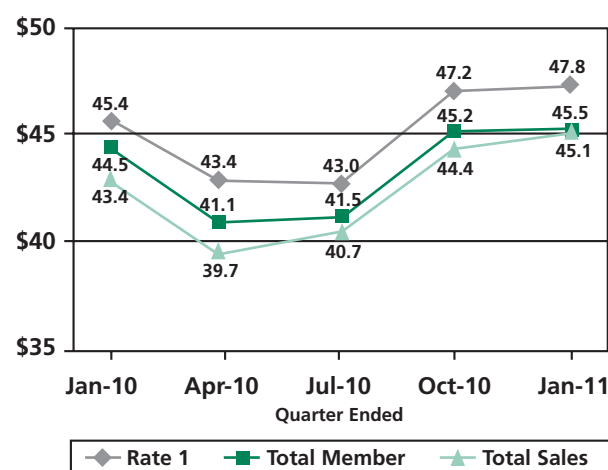
South Central Arkansas Electric
Arkadelphia
Hansel Hill
Kevin Brownlee

Selected Financial Highlights

As of January 31, 2011 and October 31, 2010

	January 31, 2011	October 31, 2010
Equity as a Percent of Assets	38.24%	37.01%
Debt/Equity Ratio	0.76	0.80
Current Ratio	0.38	0.38
Times Interest Earned Ratio	3.22	2.25
Margins for Interest Ratio	3.22	2.34
Debt Service Coverage Ratio	1.98	1.84
Average Cost of Long-term debt	5.173%	5.179%

Revenue Per MWH Sold



Management Team

President/CEO
Gary Voigt

Sr. VP and General Counsel
Robert M. Lyford

VP Planning, Rates and Dispatching
Ricky Bittle

VP Information Technology
Robert McClanahan

VP/CFO
Michael Henderson

VP Engineering, Construction and Operations
Jonathan Oliver

VP Systems Services
Doug White

VP Strategic Affairs
Sandra Byrd



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Cooperative Corporation

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