



# Second Quarter Report

As of and for the three and six months ended April 30, 2013

## 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 3,896 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 six months ended April 30, 2013 increased approximately \$51.3 million compared to the same period in 2012. Effective January 1, 2013, AECC was granted a 5% wholesale rate increase by the Arkansas Public Service Commission under Arkansas Act 676 of 2009. This rate increase resulted in \$10.7 million in additional revenue. Operating revenue also experienced an increase in energy revenue of \$35.1 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the six months ended April 30, 2013 in the amount of \$29.2 million, which was passed on to members through the fuel adjustment clause, and 2) a 3.9% increase in member megawatt hour consumption (\$5.9 million). Member megawatt billing demand, which is set over the four summer months, declined by 4.9% or \$6.9 million during the six months ended April 30, 2013 as compared to 2012. Due to the addition of two additional generating sources, AECC's non-member sales increased in the amount of \$12.4 million.

"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 plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" increased by \$59.6 million compared to the six months ended April 30, 2012. The total cost of energy as a percentage of operating revenue was 72.5% for the six months ended April 30, 2013 compared to 65.0% for the six months ended April 30, 2012. The increase resulted from a rise in the costs of fuel and purchased power which is passed on to members through the fuel adjustment clause.

## LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2013, net cash and cash equivalents increased \$111.2 million. The primary reason for the increase is related to the proceeds from the Federal Financing Bank T8 (FFB) note in the amount of \$240 million related to the purchase of Magnet Cove Power Plant. This increase was offset by the following major components: 1) a reduction of \$37.2 million in the amount of funds held under the member line of credit, 2) a patronage capital retirement in the amount of \$9.9 million, 3) \$28.7 million of capital expenditures and 4) net payments on commercial paper program of \$79.9 million.

For the calendar year 2013, AECC has budgeted \$126.9 million for capital expenditures. This amount includes \$102.7 million to be incurred for generation and \$24.2 million for transmission and other miscellaneous general capital expenditures. The budgeted generation capital expenditures for 2013 include \$35.0 million for the completion of the John W. Turk, Jr. Power Plant which went into commercial operation on December 20, 2012.

AECC has a \$75.0 million perpetual line of credit with the National Rural Utilities Cooperative Finance Corporation and a \$10.0 million committed line of credit with Regions Bank that terminates on August 15, 2014. AECC uses advances from the member line of credit program to support daily cash needs. AECC entered into a long-term loan agreement with Rural Utilities Service by executing the Series 2012 FFB note, dated November 30, 2012, in the amount of \$245

million. This loan is being used to finance AECC's acquisition of the Magnet Cove Power Plant. AECC received \$240 million in loan funds on February 5, 2013.

On April 28, 2011, AECC entered into 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. On April 30, 2013, AECC had \$170.0 million of outstanding commercial paper.

On September 10, 2012, AECC closed on the acquisition of the Magnet Cove Power Plant, a 746 MW nameplate, (660 MW net dependable for summer conditions) combined cycle gas-fired power plant located near Malvern, Arkansas. AECC purchased the leasehold interest in certain assets owned by Hot Spring County and assumed certain liabilities associated with the Magnet Cove Power Plant.

Moody's Investors Service (Moody's) has assigned an A1 senior secured rating to AECC's private placement. AECC has also been assigned an 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 April 30, 2013 and 2012 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, 2012 Annual Report.

*Duane Highley, President/CEO*

*Michael Henderson, Senior Vice President/CFO*  
Arkansas Electric Cooperative Corporation

## Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of April 30, 2013 (Unaudited) and October 31, 2012

	April 30, 2013 (Unaudited) (In Thousands)	October 31, 2012 (In Thousands)		April 30, 2013 (Unaudited) (In Thousands)	October 31, 2012 (In Thousands)
<b>ASSETS</b>			<b>EQUITIES AND LIABILITIES</b>		
<b>UTILITY PLANT:</b>			<b>MEMBERS' EQUITIES:</b>		
Electric plant in service, at cost	\$ 2,107,367	\$ 1,868,728	Membership fees	\$ 2	\$ 2
Construction work in progress	81,657	284,667	Patronage capital	379,570	389,477
	2,189,024	2,153,395	Accumulated margins	10,355	4,461
Less accumulated depreciation	1,035,483	1,009,591	Other equities	118,140	118,140
Net utility plant	1,153,541	1,143,804	Total members' equities	508,067	512,080
<b>LONG-TERM INVESTMENTS:</b>			<b>LONG-TERM DEBT:</b>		
Marketable securities	10,000	10,000	Rural Utilities Service	109	150
Gas reserves	16,079	16,436	Federal Financing Bank	479,747	246,198
Deposit with RUS - restricted investment	41,805	57,477	CoBank	77,061	82,826
Other	20,462	19,702	CoBank - Unsecured	13,337	-
Total long-term investments	88,346	103,615	First Mortgage Obligation Series 2011 A & B	195,500	198,000
<b>CURRENT ASSETS:</b>			Other long-term debt	13	26
Cash and cash equivalents	201,679	90,461	Total long-term debt	765,767	527,200
Accounts receivable, members	52,891	51,180	<b>CURRENT LIABILITIES:</b>		
Fuel inventories and prepaid fuel supply	43,901	46,583	Notes payable, members	121,058	158,291
Material and supply inventories	21,288	19,574	Notes payable, related parties	30,000	30,000
Prepaid warranty agreement	23,828	19,132	Notes payable, others	169,984	249,873
Deposit with RUS - restricted investment	140	260	Current maturities of long-term debt	29,167	30,344
Other current assets	4,059	7,206	Accounts payable and other accrued liabilities	57,127	58,403
Total current assets	347,786	234,396	Accrued property taxes	8,392	6,377
			Accrued interest	5,422	5,113
			Total current liabilities	421,150	538,401
<b>DEFERRED CHARGES</b>			<b>COMMITMENTS AND CONTINGENCIES</b>		
	120,022	110,975	<b>DEFERRED CREDITS</b>		
				14,711	15,109
Total assets	\$ 1,709,695	\$ 1,592,790	Total members' equities and liabilities	\$ 1,709,695	\$ 1,592,790



**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF OPERATIONS**  
 For the three and six months ended April, 2013 and 2012 (Unaudited)

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
<b>OPERATING REVENUES</b>	\$ 174,603	\$ 141,409	\$ 352,786	\$ 301,525
<b>OPERATING EXPENSES:</b>				
Operation and maintenance, generation	92,431	62,432	196,172	133,383
Power purchased	34,129	27,878	59,474	62,646
Operation and maintenance, transmission	17,162	15,807	33,118	32,770
Administrative and general	5,627	4,664	11,480	10,498
Depreciation	14,126	10,773	27,243	21,964
Taxes, other than income taxes	41	42	82	84
Interest	11,497	8,683	20,910	17,450
Total operating expenses	175,013	130,279	348,479	278,795
<b>MARGIN (LOSS) FROM OPERATIONS</b>	(410)	11,130	4,307	22,730
<b>INTEREST INCOME</b>	653	1,060	1,424	2,333
<b>OTHER LOSS</b>	(98)	(508)	(71)	(1,111)
<b>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</b>	41	353	235	538
<b>NET MARGIN</b>	\$ 186	\$ 12,035	\$ 5,895	\$ 24,490

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF CASH FLOWS**  
 For the three and six months ended April 30, 2013 and 2012 (Unaudited)

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Margin	\$ 186	\$ 12,035	\$ 5,895	\$ 24,490
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	14,126	10,773	27,243	21,964
Amortization of gas reserves	248	614	357	1,451
Allowance for funds used during construction	(41)	(353)	(235)	(538)
Allocation of patronage from associated organizations	(1,246)	(52)	(1,264)	(1,302)
Interest earned on deposit into cushion of credit	(567)	(978)	(1,253)	(1,957)
Interest expense on LTD paid through cushion of credit	4,060	3,346	7,197	3,356
Changes in operating assets and liabilities-				
Accounts receivable	8,107	8,319	(1,711)	7,398
Fuel inventories and prepaid fuel supply	3,658	(5,044)	2,682	(10,282)
Other current assets	2,620	3,750	3,147	(2,364)
Material and supply inventories	(13)	523	(1,714)	(135)
Deferred charges	(14,313)	2,730	(13,743)	5,228
Accounts payable and accrued liabilities	599	(1,784)	(6,991)	(11,305)
Other deferred credits	(391)	(376)	(946)	5,068
Net cash provided by operating activities	17,033	33,503	18,664	41,072
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net sales (purchases) of other investments	925	(365)	1,052	(245)
Deposit with RUS - restricted investment	-	-	-	(10,000)
Repurchase of Ellis residual	-	-	-	(25,571)
Capital expenditures	(21,543)	(13,630)	(28,707)	(22,778)
Net cash used in investing activities	(20,618)	(13,995)	(27,655)	(58,594)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Net payments on notes payable	(2,060)	(14,185)	(37,233)	(28,674)
(Payments) borrowings on notes payable, other	(79,970)	-	(79,889)	9,994
Principal payments on long-term debt	(2,778)	(2,649)	(7,512)	(11,754)
Redemption of patronage capital	-	-	(9,908)	(4,597)
Proceeds from long-term debt	254,751	-	254,751	-
Net cash provided by (used in) financing activities	169,943	(16,834)	120,209	(35,031)
Net increase (decrease) in cash and cash equivalents	166,358	2,674	111,218	(52,553)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	35,321	51,449	90,461	106,676
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 201,679	\$ 54,123	\$ 201,679	\$ 54,123
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS:</b>				
Decrease in long-term debt related to payments from cushion of credit	\$ (3,635)	\$ (5,719)	\$ (9,849)	\$ (5,857)

**MEMBER SYSTEMS AND BOARD OF DIRECTORS**

John Dalton, Chairman  
 Mel Coleman, Vice-Chairman  
 Jerry Pahal, Secretary-Treasurer

**Arkansas Valley Electric**  
 Ozark  
 John Pendergrass  
 Bill Peters

**Carroll Electric**  
 Berryville  
 Alan Hunnicutt  
 Rob Boaz

**Farmers Electric**  
 Newport  
 Bill Fortune  
 Larry Bright

**North Arkansas Electric**  
 Salem  
 Dennis Wiles  
 Mel Coleman

**Petit Jean Electric**  
 Clinton  
 Jerel Brown  
 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  
 Mark Robbins  
 Leon Philpot

**Woodruff Electric**  
 Forrest City  
 J. A. Wampler  
 Billy Martin

**C & L Electric**  
 Star City  
 Joe R. Thompson  
 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

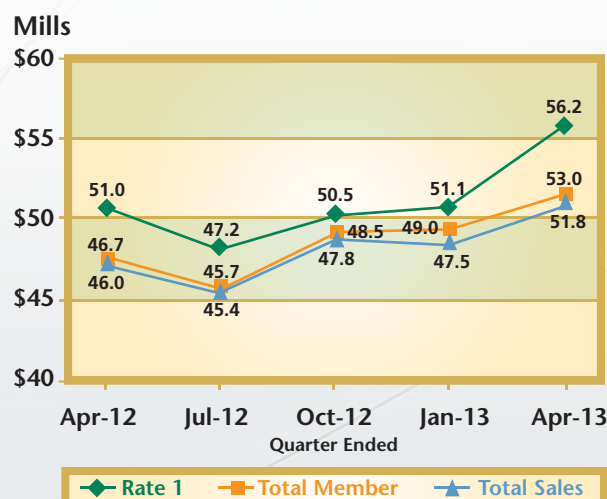
**South Central Arkansas Electric**  
 Arkadelphia  
 Karen Kirkpatrick  
 Kevin Brownlee

**Selected Financial Highlights**

As of April 30, 2013 and October 31, 2012

	April 30, 2013	October 31, 2012
Equity as a Percent of Assets	29.72%	32.15%
Debt/Equity Ratio	1.56	1.09
Current Ratio	0.83	0.44
Margins for Interest Ratio	1.39	1.74
Debt Service Coverage Ratio	1.48	1.49
Average Cost of Long-term Debt	4.279%	5.011%

**Revenue Per MWH Sold**



**Management Team**

President/CEO  
**Duane Highley**

Sr. VP and General Counsel  
**Robert M. Lyford**

Sr. VP/CFO  
**Michael Henderson**

VP Planning, Rates and Dispatching  
**Ricky Bittle**

VP/CIO  
**Robert McClanahan**

VP Power Production and Delivery  
**Jonathan Oliver**

VP Member and Public Relations  
**Sandra Byrd**

VP Human Resources  
**Maria Smedley**



**Arkansas Electric Cooperative Corporation**  
 Your Local Energy Partner

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