



# First Quarter Report

As of and for the three months ended January 31, 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 three months ended January 31, 2013 increased approximately \$18.1 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 \$2.9 million in additional revenue. Operating revenue also experienced an increase in energy revenue of \$8.9 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, 2013 in the amount of \$8.1 million, which was passed on to members through the fuel adjustment clause, and 2) a slight increase in member megawatt hour consumption (\$.8 million). Member megawatt billing demand, which is set over the four summer months, declined by 4.7% or \$3.4 million during the three months ended January 31, 2013 compared to 2012. Due to the addition of two additional generating sources, AECC's non-member sales increased in the amount of \$9.7 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 \$23.4 million compared to the three months ended January 31, 2012. The total cost of energy as a percentage of operating revenue was 72.4% for the three months ended January 31, 2013 compared to 66.0% for the three months ended January 31, 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 three months ended January 31, 2013, net cash and cash equivalents decreased \$55.1 million. The major components consisted of the following: 1) a reduction of \$35.2 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, and 3) \$7.2 million of capital expenditures.

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 capital expenditures for 2013 includes \$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 (\$77.8 million as of January 31, 2013) to support daily cash needs. AECC entered into a long-term loan agreement with Rural Utilities Service by executing the Series 2012 (Federal Financing Bank T8) 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 January 31, 2013, AECC had \$250.0 million of outstanding commercial paper.

On September 10, 2012, AECC closed on the acquisition of the Magnet Cover Power Plant, a 746 MW nameplate, (660 MW net dependable for summer conditions) 2x1 natural gas-fired combined cycle 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 Magnet Cove.

Moody's Investors Service (Moody's) has assigned an A1 senior secured rating to AECC's private placement. 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, 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 January 31, 2013 (Unaudited) and October 31, 2012

	January 31, 2013 (Unaudited) (In Thousands)	October 31, 2012 (In Thousands)		January 31, 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	\$ 2,103,433	\$ 1,868,728	Membership fees	\$ 2	\$ 2
Construction work in progress	66,873	284,667	Patronage capital	379,570	389,477
	2,170,306	2,153,395	Accumulated margins	10,169	4,461
Less accumulated depreciation	1,022,308	1,009,591	Other equities	118,140	118,140
Net utility plant	1,147,998	1,143,804	Total members' equities	507,881	512,080
<b>LONG-TERM INVESTMENTS:</b>			<b>LONG-TERM DEBT:</b>		
Marketable securities	10,000	10,000	Rural Utilities Service	129	150
Gas reserves	16,327	16,436	Federal Financing Bank	242,529	246,198
Deposit with RUS - restricted investment	48,872	57,477	CoBank	79,960	82,826
Other	19,650	19,702	First Mortgage Obligation Series 2011 A & B	195,500	198,000
Total long-term investments	94,849	103,615	Other long-term debt	26	26
<b>CURRENT ASSETS:</b>			Total long-term debt	518,144	527,200
Cash and cash equivalents	35,321	90,461	<b>CURRENT LIABILITIES:</b>		
Accounts receivable, members	60,998	51,180	Notes payable, members	123,118	158,291
Fuel inventories and prepaid fuel supply	47,559	46,583	Notes payable, related parties	30,000	30,000
Material and supply inventories	21,275	19,574	Notes payable, others	249,954	249,873
Prepaid warranty agreement	21,141	19,132	Current maturities of long-term debt	28,452	30,344
Deposit with RUS - restricted investment	200	260	Accounts payable and other accrued liabilities	61,581	58,403
Other current assets	6,679	7,206	Accrued property taxes	8,290	6,377
Total current assets	193,173	234,396	Accrued interest	2,385	5,113
			Total current liabilities	503,780	538,401
<b>DEFERRED CHARGES</b>			<b>COMMITMENTS AND CONTINGENCIES</b>		
	108,396	110,975	<b>DEFERRED CREDITS</b>		
Total assets	\$ 1,544,416	\$ 1,592,790		14,611	15,109
			Total members' equities and liabilities	\$ 1,544,416	\$ 1,592,790

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF OPERATIONS**  
 For the three months ended January 31, 2013 and 2012 (Unaudited)

	Three Months Ended	
	2013	2012
	(In Thousands)	
<b>OPERATING REVENUES</b>	\$ 178,183	160,116
<b>OPERATING EXPENSES:</b>		
Operation and maintenance, generation	103,741	70,951
Power purchased	25,345	34,768
Operation and maintenance, transmission	15,956	16,963
Administrative and general	5,853	5,834
Depreciation	13,117	11,191
Taxes, other than income taxes	41	42
Interest	9,413	8,767
Total operating expenses	173,466	148,516
<b>MARGIN FROM OPERATIONS</b>	4,717	11,600
<b>INTEREST INCOME, NET</b>	771	1,273
<b>OTHER INCOME (LOSS)</b>	27	(603)
<b>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</b>	194	185
<b>NET MARGIN</b>	\$ 5,709	\$ 12,455

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF CASH FLOWS**  
 For the three months ended January 31, 2013 and 2012 (Unaudited)

	Three Months Ended	
	2013	2012
	(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Margin	\$ 5,709	\$ 12,455
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation	13,117	11,191
Amortization of gas reserves	109	837
Allowance for funds used during construction	(194)	(185)
Allocation of patronage from associated organizations	(18)	-
Interest on deposit with RUS - Cushion of credit	(686)	(831)
Changes in operating assets and liabilities-		
Accounts receivable, members	(9,818)	(921)
Fuel inventories and prepaid fuel supply	(976)	(5,238)
Material and supply inventories	(1,701)	(658)
Other current assets	527	(6,114)
Deferred charges	570	2,498
Accounts payable and accrued liabilities	(7,590)	(9,521)
Other deferred credits	(555)	5,444
Net cash provided by (used in) operating activities	(1,506)	8,957
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales (purchase) of other investments	127	(1,130)
Deposit with RUS - restricted investment	-	(10,000)
Repurchase of Ellis residual	-	(25,571)
Capital expenditures	(7,164)	(9,148)
Net cash used in investing activities	(7,037)	(45,849)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net payments on notes payable	(35,173)	(14,489)
Borrowings on notes payable, other	81	9,994
Principal payments on long-term debt	(1,597)	(9,243)
Redemption of patronage capital	(9,908)	(4,597)
Net cash used in financing activities	(46,597)	(18,335)
Net decrease in cash and cash equivalents	(55,140)	(55,227)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	90,461	106,676
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 35,321	\$ 51,449

**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**

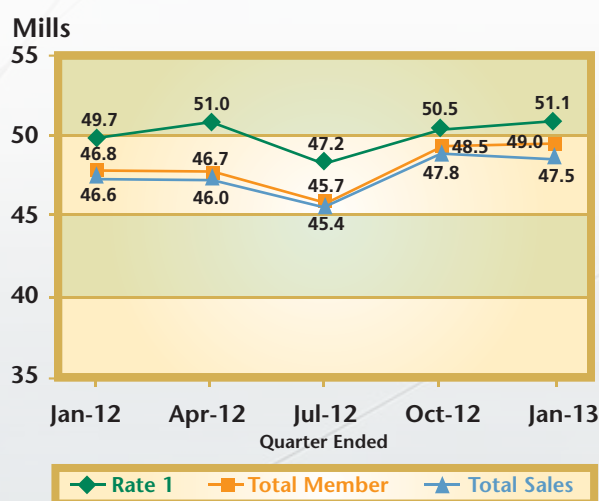
Arkadelphia  
 Karen Kirkpatrick  
 Kevin Brownlee

**Selected Financial Highlights**

As of January 31, 2013 and October 31, 2012

	January 31, 2013	October 31, 2012
Equity as a Percent of Assets	32.88%	32.15%
Debt/Equity Ratio	1.08	1.09
Current Ratio	0.38	0.44
Margins for Interest Ratio	1.82	1.74
Debt Service Coverage Ratio	1.44	1.49
Average Cost of Long-term Debt	4.999%	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 Information Technology  
**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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