



Third Quarter Report

As of and for the three and nine months ended July 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 2,861 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, 2010 increased approximately \$61.6 million compared to the same period in 2009 (of which \$18.8 million is the result of a rate increase). Effective November 1, 2009, AECC was granted a 4% wholesale rate increase under Arkansas Act 676 of 2009 (the 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 primarily the result of an increase in energy revenue of \$58.8 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, 2010 in the amount of \$16.6 million, which was passed on to members through the fuel adjustment clause, and 2) an 18.0% increase in member megawatt hour consumption (\$42.2 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 own plants based on the most economical source. "Operation and maintenance, generation" and "power

purchased" increased by \$36.7 million compared to the nine months ended July 31, 2009. The \$36.7 million increase in "Operation and maintenance, generation" and "power purchased" included \$16.6 million increase in total fuel costs for the nine months ended July 31, 2010 compared to the same period ended July 31, 2009. The total cost of energy as a percentage of operating revenue was 69.4% for the nine months ended July 31, 2010 compared to 71.0% for the nine months ended July 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 nine months ended July 31, 2010 for AECC's interest in these reserves was \$3.96/mcf compared to \$2.99/mcf during the same period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the nine months ended July 31, 2010, net cash and cash equivalents decreased \$15.3 million. The major components consisted of the following: AECC made payments on long-term debt of \$165.1 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 \$33.3 million along with a reduction of \$29.3 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 along with cash from operations of \$37.3 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 budgeted capital expenditures for 2010 includes \$37.6 million for environmental upgrades. However, the Environmental Protection Agency (EPA) 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. Beginning September 1, 2010, AECC will have a \$30.0 million committed line-of-credit with Wells Fargo Bank that terminates on September 30, 2011. In addition, AECC uses advances from the member line-of-credit program (\$88.1 million as of July 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 July 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. In addition, on July 12, 2010, AECC received a commitment letter from the Rural Utilities Service to provide loan funds in the amount of \$621.0 million for certain generation projects and improvements.

AECC has a rating of AA-/Aa3/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 July 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 July 31, 2010 (Unaudited) and October 31, 2009

	July 31, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)		July 31, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,498,779	\$ 1,471,386	Membership fees	\$ 2	\$ 2
Construction work in progress	206,886	200,608	Patronage capital	290,160	290,160
	1,705,665	1,671,994	Accumulated margins	45,735	25,791
Less accumulated depreciation	858,551	831,782	Other equities	118,140	118,140
Net utility plant	847,114	840,212	Net unrealized loss on investments	-	(2)
			Total members' equities	454,037	434,091
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	13,906	Rural Utilities Service	985	1,385
Gas reserves	43,018	44,975	Federal Financing Bank	232,000	251,067
Other	26,234	26,059	CoBank	107,156	-
Total long-term investments	79,252	84,940	Independence Steam Electric Station finance obligation	-	105,472
			Ellis finance obligation	-	18,066
CURRENT ASSETS:			Other long-term debt	47	56
Cash and cash equivalents	17,493	32,797	Total long-term debt	340,188	376,046
Short-term marketable securities	2,000	1,005	CURRENT LIABILITIES:		
Accounts receivable, members	54,729	34,681	Notes payable	96,136	125,427
Fuel inventories and prepaid fuel supply	24,167	22,488	Notes payable, others	159,886	109,950
Material and supply inventories	17,366	16,857	Current maturities of long-term debt	35,767	43,014
Other current assets	4,362	4,110	Accounts payable and other accrued liabilities	52,133	42,162
Total current assets	120,117	111,938	Patronage capital payable	-	-
			Accrued property taxes	7,799	6,095
DEFERRED CHARGES			Accrued interest	1,717	4,060
	109,692	112,238	Total current liabilities	353,438	330,708
			DEFERRED CREDITS		
				8,512	8,483
			COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 1,156,175	\$ 1,149,328	Total members' equities and liabilities	\$ 1,156,175	\$ 1,149,328

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

	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 154,735	\$ 126,429	\$ 432,386	\$ 370,790
OPERATING EXPENSES:				
Operation and maintenance, generation	85,501	74,588	218,510	199,770
Power purchased	23,582	14,848	81,557	63,637
Operation and maintenance, transmission	15,447	13,744	41,966	37,610
Administrative and general	5,578	5,561	15,553	14,686
Depreciation	11,101	10,906	32,933	32,558
Taxes, other than income taxes	36	36	107	107
Interest	8,223	8,717	24,910	26,654
Total operating expenses	149,468	128,400	415,536	375,022
MARGIN (LOSS) FROM OPERATIONS	5,267	(1,971)	16,850	(4,232)
INTEREST INCOME	516	619	2,500	1,676
OTHER LOSS	(178)	(347)	(5)	(1,163)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	54	282	599	828
NET MARGIN (LOSS)	\$ 5,659	\$ (1,417)	\$ 19,944	\$ (2,891)

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

	Three Months Ended		Nine Months Ended	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin (Loss)	\$ 5,659	\$ (1,417)	\$ 19,944	\$ (2,891)
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	11,101	10,906	32,933	32,558
Amortization of gas reserves	626	570	1,957	1,786
Allowance for funds used during construction	(54)	(282)	(599)	(828)
Allocation of patronage from associated organizations	(105)	(160)	(174)	(243)
Changes in operating assets and liabilities-				
Accounts receivable	(22,851)	(9,031)	(20,048)	(4,127)
Fuel inventories	(933)	5,721	(1,679)	2,816
Other current assets	2,379	(975)	(252)	827
Material and supply inventories	(186)	(441)	(509)	(965)
Deferred charges	2,620	2,105	2,546	6,299
Accounts payable and accrued liabilities	18,150	(1,270)	3,365	(68)
Other deferred credits	28	28	(157)	(682)
Net cash provided by operating activities	16,434	5,754	37,327	34,482
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales (purchases) of marketable securities	-	5	2,914	(8,798)
Net sales of other investments	8	5	184	158
Capital expenditures	(11,530)	(17,772)	(33,269)	(110,745)
Net cash used in investing activities	(11,522)	(17,762)	(30,171)	(119,385)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net (payments) borrowings on notes payable	(18,745)	32,254	(29,291)	95,669
Net (payments) borrowings on notes payable, other	(46)	-	49,936	-
Principal payments on long-term debt	(8,660)	(18,963)	(165,105)	(34,525)
Proceeds from long-term debt	-	-	122,000	-
Net cash (used in) provided by financing activities	(27,451)	13,291	(22,460)	61,144
Net (decrease) increase in cash and cash equivalents	(22,539)	1,283	(15,304)	(23,759)
CASH AND CASH EQUIVALENTS, beginning of period	40,032	20,221	32,797	45,263
CASH AND CASH EQUIVALENTS, end of period	\$ 17,493	\$ 21,504	\$ 17,493	\$ 21,504

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
Harlin Hames
Mel Coleman

Petit Jean Electric
Clinton
Terry Kirkendoll
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
Robert McBryde
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

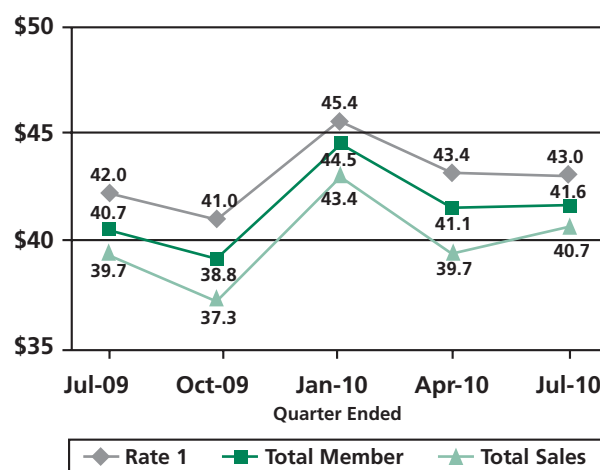
South Central Arkansas Electric
Arkadelphia
Elton Buck
Kevin Brownlee

Selected Financial Highlights

As of July 31, 2010 and October 31, 2009

	July 31, 2010	October 31, 2009
Equity as a Percent of Assets	39.27%	37.77%
Debt/Equity Ratio	0.83	0.97
Current Ratio	0.34	0.34
Times Interest Earned Ratio	2.29	0.87
Margins for Interest Ratio	2.40	0.80
Debt Service Coverage Ratio	1.94	1.00
Average Cost of Long-term debt	5.185%	5.511%

Revenue Per MWH Sold



Management Team

President/CEO
Gary Voigt

Sr. VP & 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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