



Arkansas Electric Cooperative Corporation

Your Local Energy Partner

Third Quarter Report

As of and for the three and nine months ended July 31, 2009

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 2,827 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 through a fuel adjustment clause.

"Operating revenues" for the nine months ended July 31, 2009 decreased approximately \$154.6 million compared to the same period in 2008. Member energy revenue decreased \$152.0 million, while member demand revenue remained relatively stable. There are two reasons for the decrease in energy revenue; 1) a decrease in fuel and purchased power costs during the nine months ended July 31, 2009 in the amount of \$123.8 million, which is passed on through the fuel adjustment clause, and 2) a 13.9% decrease in member megawatt hour consumption (\$28.2 million). This decrease occurred primarily at two steel manufacturing plants.

"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 \$145.5 million compared to the nine months ended July 31, 2008. The \$145.5 million decrease in "Operation and maintenance, generation" and "power purchased" included a \$123.8 million decrease in total fuel costs for the nine months ended July 31, 2009 compared to the same period ending July 31, 2008. The total cost of energy as a percentage

of operating revenue was 71.0% for the nine months ended July 31, 2009, compared to 77.8% for the nine months ended July 31, 2008.

"Operation and maintenance, transmission" increased \$2.4 million from the nine months ended July 31, 2008. AECC's transmission expense related to the Southwest Power Pool increased \$1.6 million.

"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, 2009 for AECC's interest in these reserves was \$2.99/mcf compared to \$7.56/mcf during the same period in 2008. In addition, several gas wells were plugged and abandoned during 2009, which caused expenses to be higher than normal.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the nine months ended July 31, 2009, net cash and cash equivalents decreased \$23.8 million. The major components consisted of the following: AECC made payments on long-term debt of \$34.5 million and had capital expenditures of \$110.7 million. These decreases were offset to some extent by cash flows from operations (\$34.5 million) and net proceeds from notes payable (\$95.7 million).

For the calendar year 2009, AECC has budgeted \$210.2 million for capital expenditures. This amount includes \$192.7 million to be incurred for generation and \$17.5 million for transmission and other miscellaneous general capital expenditures.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (NRUCFC), a \$30.0 million committed line-of-credit with CoBank that terminates on July 14, 2010, and a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2010. In addition, AECC uses advances from the member line-of-credit program (\$92.6 million as of July 31, 2009) 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, 2009, AECC had \$110.0 million outstanding in commercial paper notes.

AECC also has a \$185.5 million loan approved from NRUCFC for construction. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042.

On July 14, 2009, AECC's Board of Directors unanimously approved the filing of a request for rate relief with the Arkansas Public Service Commission (APSC) under Arkansas Act 676 of 2009 (Act). On July 16, 2009, AECC filed a request for approximately \$25.9 million in rate relief or approximately 4% of AECC's 2008 gross revenues. Within certain limits, the Act allows a generation and transmission cooperative to receive modified and expedited rate treatment from the APSC. The Act also provides member cooperatives with a means of incorporating any wholesale rate relief granted under the Act into their retail rates. A public hearing in this matter is scheduled for October 1, 2009, and a rate order should be issued on or before October 14, 2009. AECC anticipates that any wholesale rate relief granted will be placed into effect for wholesale usage beginning November 1, 2009.

AECC has a rating of AA-/A2/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, 2009 and 2008 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, 2008 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, 2009 (Unaudited) and October 31, 2008

	July 31, 2009 (Unaudited) (In Thousands)	October 31, 2008 (In Thousands)		July 31, 2009 (Unaudited) (In Thousands)	October 31, 2008 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,471,166	\$ 1,462,931	Membership fees	\$ 2	\$ 2
Construction work in progress	176,298	83,527	Patronage capital	290,160	290,160
	1,647,464	1,546,458	Accumulated margins	26,060	28,951
Less accumulated depreciation	821,541	799,550	Other equities	118,140	118,140
Net utility plant	825,923	746,908	Net unrealized loss on investments	(26)	(48)
			Total members' equities	434,336	437,205
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	13,874	5,072	Rural Utilities Service	1,516	1,899
Gas reserves	45,895	47,681	Federal Financing Bank	257,214	275,263
Other	25,541	25,333	Independence Steam Electric Station		
Total long-term investments	85,310	78,086	finance obligation	105,472	115,366
			Ellis finance obligation	18,092	26,467
CURRENT ASSETS:			Other long-term debt	57	65
Cash and cash equivalents	21,504	45,263	Total long-term debt	382,351	419,060
Short-term marketable securities	1,019	1,000	CURRENT LIABILITIES:		
Accounts receivable, members	40,759	36,632	Notes payable, members	219,295	123,626
Fuel inventories and prepaid fuel supply	25,747	28,563	Current maturities of long-term debt	42,715	40,531
Material and supply inventories	16,409	15,444	Accounts payable and other accrued liabilities	39,922	39,311
Other current assets	5,213	6,040	Patronage capital payable	-	-
Total current assets	110,651	132,942	Accrued property taxes	7,676	5,898
			Accrued interest	2,014	4,471
DEFERRED CHARGES	114,192	120,491	Total current liabilities	311,622	213,837
			DEFERRED CREDITS	7,767	8,325
Total assets	\$ 1,136,076	\$ 1,078,427	COMMITMENTS AND CONTINGENCIES		
			Total members' equities and liabilities	\$ 1,136,076	\$ 1,078,427

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS

For the three and nine months ended July 31, 2009 and 2008 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 126,429	\$ 199,678	\$ 370,790	\$ 525,364
OPERATING EXPENSES:				
Operation and maintenance, generation	74,588	102,883	199,770	235,982
Power purchased	14,848	59,414	63,637	172,926
Operation and maintenance, transmission	13,744	13,010	37,610	35,260
Administrative and general	5,561	5,211	14,686	14,058
Depreciation	10,906	10,714	32,558	32,077
Taxes, other than income taxes	36	34	107	101
Interest	8,717	8,959	26,654	27,174
Total operating expenses	128,400	200,225	375,022	517,578
MARGIN (LOSS) FROM OPERATIONS	(1,971)	(547)	(4,232)	7,786
INTEREST INCOME	619	425	1,676	1,574
OTHER INCOME (LOSS)	(347)	2,134	(1,163)	3,305
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	282	241	828	895
NET MARGIN (LOSS)	\$ (1,417)	\$ 2,253	\$ (2,891)	\$ 13,560

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS

For the three and nine months ended July 31, 2009 and 2008 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin/(Loss)	\$ (1,417)	\$ 2,253	\$ (2,891)	\$ 13,560
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,906	10,714	32,558	32,077
Amortization of gas reserves	570	753	1,786	2,119
Allowance for funds used during construction	(282)	(241)	(828)	(895)
Allocation of patronage from associated organizations	(160)	(197)	(243)	(269)
Changes in operating assets and liabilities-				
Accounts receivable	(9,031)	(16,378)	(4,127)	(17,235)
Fuel inventories and prepaid fuel supply	5,721	3,464	2,816	15
Other current assets	(975)	429	827	(1,219)
Material and supply inventories	(441)	(198)	(965)	(1,082)
Deferred charges	2,105	1,304	6,299	4,603
Accounts payable and accrued liabilities	(1,270)	4,030	(68)	4,505
Other deferred credits	28	26	(682)	85
Net cash provided by operating activities	5,754	5,959	34,482	36,264
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales (purchases) of marketable securities	5	(2,620)	(8,798)	3,005
Net sales of other investments	5	50	158	294
Capital expenditures	(17,772)	(8,327)	(110,745)	(25,434)
Net cash used in investing activities	(17,762)	(10,897)	(119,385)	(22,135)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds (payments) on notes payable	32,254	14,562	95,669	(9,221)
Net payments on long-term debt	(18,963)	(21,667)	(34,525)	(37,856)
Proceeds from long-term debt	-	-	-	-
Redemption of patronage capital	-	-	-	-
Net cash used by (used in) in financing activities	13,291	(7,105)	61,144	(47,077)
Net increase (decrease) in cash and cash equivalents	1,283	(12,043)	(23,759)	(32,948)
CASH AND CASH EQUIVALENTS, beginning of period	20,221	25,469	45,263	46,374
CASH AND CASH EQUIVALENTS, end of period	\$ 21,504	\$ 13,426	\$ 21,504	\$ 13,426

Member Systems and Board of Directors

Charles Burdine, Chairman
Ron Moore, Vice Chairman
Sam Davis, Secretary-Treasurer

Arkansas Valley Electric
Ozark
Sam Davis
Bill Peters

Carroll Electric
Berryville
Charles Burdine
Rob Boaz

Farmers Electric
Newport
Bryan Runsick
Gene Sweat

North Arkansas Electric
Salem
Mike Dover
Mel Coleman

Petit Jean Electric
Clinton
Donnie Collins
David Fugitt

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
Ray Morrison
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

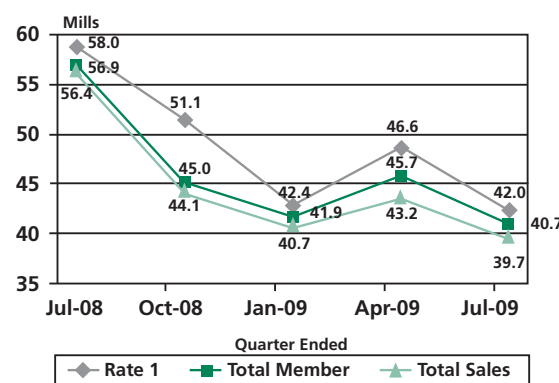
South Central Arkansas Electric
Arkadelphia
Elton Buck
Bill Conine

Selected Financial Highlights

As of July 31, 2009 and October 31, 2008

	July 31, 2009	October 31, 2008
Equity as a Percentage of Assets	38.23%	40.54%
Debt/Equity Ratio	0.98	1.05
Current Ratio	0.36	0.62
Times Interest Earned Ratio	0.86	1.57
Debt Service Coverage Ratio	0.91	1.21
Average Cost of Long-term debt	5.515%	5.511%

Revenue Per MWH Sold



Management Team

President/CEO	Gary Voigt
Sr. VP & General Counsel	Robert M. Lyford
VP Planning, Rates & Dispatching	Ricky Bittle
VP Information Technology	Robert McClanahan
VP/CFO	Michael Henderson
VP Engineering, Construction & Operations	Jonathan Oliver
VP Systems Services	Doug White
VP Strategic Affairs	Sandra Byrd



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