



2009 ANNUAL REPORT

# Charting our course



**POWERSOUTH**<sup>®</sup>  
ENERGY COOPERATIVE



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## About PowerSouth:

Since 1941, PowerSouth Energy Cooperative has served the wholesale energy needs of 16 electric cooperatives and four municipal electric systems in 39 Alabama and 10 Florida counties.

Owned and governed by those we serve, PowerSouth is dedicated to providing reliable and economical energy to meet the needs of nearly one million consumers.

## Strategic generation fleet:

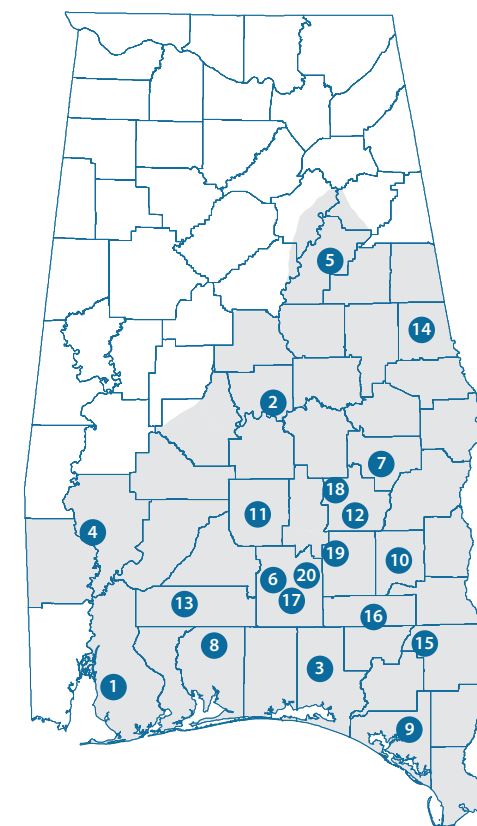
<b>Charles R. Lowman Power Plant</b> , Leroy, Ala.	556 MW
<b>James A. Vann, Jr. Combined Cycle Power Plant</b> , Gantt, Ala.	539 MW
<b>McIntosh Power Plant</b> , McIntosh, Ala.	350 MW
<b>Maury A. McWilliams Combined Cycle Power Plant</b> , Gantt, Ala.	159 MW
<b>James H. Miller, Jr. Electric Generating Plant</b> , Birmingham, Ala. (ownership interest)	114 MW
<b>Gantt and Point A Hydroelectric Plants</b> , Gantt, Ala.	8 MW

## Statistical highlights:

	2009	2008
Operating Revenue	\$ 649,987,094	\$ 750,390,274
Operating Expenses	\$ 568,242,996	\$ 668,981,569
Net Margin	\$ 23,134,489	\$ 28,364,188
Energy Sales (in megawatt-hours)	8,090,453	9,313,544
Total Assets	\$ 1,714,116,226	\$ 1,725,525,229
Issuer Credit Rating	A-	BBB+
Employees	623	624
Transmission Lines in Service (in miles)	2,235	2,233
Service Territory (in square miles)	33,156	33,156
Substations (PowerSouth and member-owned)	286	288

## PowerSouth's distribution members:

1. **Baldwin EMC**, Summerdale, Ala.
2. **Central Alabama EC**, Prattville, Ala.
3. **CHELCO**, DeFuniak Springs, Fla.
4. **Clarke-Washington EMC**, Jackson, Ala.
5. **Coosa Valley EC**, Talladega, Ala.
6. **Covington EC**, Andalusia, Ala.
7. **Dixie EC**, Union Springs, Ala.
8. **Escambia River EC**, Jay, Fla.
9. **Gulf Coast EC**, Wewahitchka, Fla.
10. **Pea River EC**, Ozark, Ala.
11. **Pioneer EC**, Greenville, Ala.
12. **South Alabama EC**, Troy, Ala.
13. **Southern Pine EC**, Brewton, Ala.
14. **Tallapoosa River EC**, LaFayette, Ala.
15. **West Florida EC**, Graceville, Fla.
16. **Wiregrass EC**, Hartford, Ala.
17. **The Utilities Board of the City of Andalusia, Ala.**
18. **The City of Brundidge, Ala.**
19. **Water Works & Electric Board of the City of Elba, Ala.**
20. **The Utilities Board of the City of Opp, Ala.**



*Gary Smith*  
 Gary Smith  
 PowerSouth President & CEO



*James T. Ramage III*  
 James T. Ramage III  
 PowerSouth Board Chairman

## Dear members:

PowerSouth Energy Cooperative was formed 68 years ago — as Alabama Electric Cooperative, Inc. — to supply the aggregated wholesale power requirements of its distribution members. Although the company's name has changed to better reflect our expanded service area, PowerSouth's primary mission remains unchanged.

As times have changed, so have PowerSouth's responsibilities. We coordinate future peak demand and energy usage forecasting with the distribution members; plan future generation resources; acquire fuels to run our generation units; plan and construct transmission and substation facilities to serve the distribution members' growth; provide telecommunication resources to operate our assets; and finance growth within the system.

We control inherent power supply risks by managing fuel acquisition and transportation and financially hedging generation fuels to minimize the distribution members' rate volatility. We also manage purchased power contracts, operate and maintain generation plants, and operate transmission facilities to meet our distribution members' moment-to-moment electric power supply needs.

These functions require advanced risk management techniques, and we approach each responsibility with the intent of effectively managing the risks and reducing the distribution members' wholesale power costs.

In 2009, we were successful in managing many risks for the distribution members.

Our power supply plan was completed through 2019. We completed an air quality upgrade

of our coal-fired Lowman units to further reduce sulfur dioxide and nitrous oxide emissions. We began construction of two additional simple cycle combustion turbines at our McIntosh site to meet the distribution members' future capacity needs. We also completed permanent financing for our capital additions and continued our decade-long effort to substantially improve transmission reliability.

However, we were not nearly as successful in managing our fuel risks and costs as a wave of fuel-related troubles that began in 2008 continued into 2009.

Natural gas markets, which have been unstable over the past decade, were particularly volatile in 2008 and 2009. The natural gas 12-month strip price ranged from a high of \$13.33 per mmBtu in July 2008 to a low of \$4.45 per mmBtu in April 2009.



Thorough planning and preparation of transmission lines and delivery points ensure the most feasible routes and resources are used to deliver reliable power to our members.



With 2,235 miles of transmission line, our crews boast transmission reliability metrics as good as or better than any utility in the Southeast.



During what would normally be a costly unplanned outage at our Lowman Plant in October 2009, we dispatched our Vann natural gas units at a cost less than the coal units.

Only 75 percent of our projected natural gas requirements were hedged when natural gas prices increased dramatically in the summer of 2008, forcing us to buy our additional natural gas needs at the very high market rates.

The elevated natural gas costs pushed our cost of service higher than budget. Additionally, as natural gas prices settled, we hedged aggressively in anticipation of a price rebound to protect our 2009 budget price of \$7.34 per mmBtu.

Because of those hedges, we were unable to take advantage of the continued decline in market-priced natural gas throughout much of 2009.

Also, two of our coal suppliers, American Coal and Twin Pines, suffered mining problems that limited production and reduced coal deliveries to Plant Lowman in 2008.

By July of that year — at the same time natural gas prices were spiking — our coal supplies at Plant Lowman were effectively depleted. Replacement coal was much more expensive than both our budget and the price we have historically paid for coal.

***We control inherent power supply risks by managing fuel acquisition and transportation and financially hedging generation fuels to minimize the distribution members' rate volatility.***

The high prices of natural gas and coal in the latter half of 2008 prevented us from fuel switching among our resources to achieve lower production costs. As a result, we were forced to pass on much higher wholesale power costs to the distribution members.

As 2009 began, we were faced with a deficit of \$39 million in under-recovered fuel and purchased power costs. By year-end, we fully recovered those costs, but our distribution members suffered the highest wholesale power costs in our history.

Although we fell short of our goals in managing fuel costs, we completed a number of initiatives in 2009 to prepare us and our distribution members for the future.

We completed a 20-year purchased power agreement with the Municipal Electric Authority of Georgia for



Construction begins on McIntosh Units 4 & 5, which will add an additional 360 megawatts of capacity when completed in 2010.



PowerSouth employees continue to set the standard for safety excellence in our industry. We boast an impressive safety record, with a Recordable Incident Rate (RIR) of 1.4 for 2009, compared to a national average of 3.6.



To ensure a reliable energy supply for our members, PowerSouth maintains nearly 300 substation delivery points throughout our service area, as well as four mobile substations.



Unit commitment software allows PowerSouth to weigh the costs of fuel against purchased power costs. We purchase energy when it proves to be less expensive than generating our own.



Throughout the PowerSouth service area, average annual rainfall in 2009 was up 150 percent, offering opportunity for increased hydro generation.



PowerSouth balances a diverse mix of fuel resources including coal, natural gas, hydro and renewables.

125 megawatts of nuclear power from the new Vogtle Units 3 & 4 to be built near Augusta, Ga. Half of the capacity is scheduled to come online in 2016, and the other half will be commercial in 2017. While we assumed the same risk as the owners of the project, the agreement enabled us to further diversify our energy portfolio to include nuclear power.

Our most important financial accomplishment was the upgraded credit ratings by Standard & Poor's and Fitch Ratings from BBB+ to A-. Credit upgrades have been rare during the economic recession of the past two years.

The ratings upgrade was the result of a sound financial plan and the distribution members' commitment to improve debt service coverage, increase margins and equity, and increase liquidity. The rating agencies were complimentary of the distribution members' commitment to PowerSouth's financial strength.

Economic growth is the lifeblood of the communities our distribution members serve. Our economic development programs again contributed to economic growth and worked to mitigate the negative effects of a declining economy.

In 2009, more than 4,000 new jobs were created in our distribution members' service areas. We believe our efforts, combined with the efforts of our economic development partners — the Alabama Development Office, the Economic Development Partnership of Alabama, Alabama Power Company, the North Alabama Industrial Development Alliance and Florida's Great Northwest — provided most of the momentum for these new jobs.

We also refined our demand response, green power and energy efficiency programs that will play a pivotal role in the future of power supply. We expanded our H2O Plus water heater demand management program

to reduce winter peak demands, continued our Green Power Choice program to enable our distribution members to market renewable energy, and continued our Conserve101 program and energy audits to assist retail consumers in reducing energy usage.

Unfortunately, we were not as successful with our safety program in 2009. We suffered two incidents during the year in which employees missed time from work because of injuries on the job. We are very thankful that neither of the employees suffered serious injuries. However, two lost-time accidents are unacceptable. We are committed to providing our employees a safe working environment, and our goal is for them to safely return home to their families every day. We will improve our safety record in 2010 and protect our most valuable asset — our employees.

As we look forward, the future is unsettled. The threat of continued

fuel volatility looms, along with ever-increasing environmental regulations and restrictions. The administration and factions in Congress appear determined to cap or tax carbon emissions, which will increase the cost of electricity generated with fossil fuels and increase the cost of service for our distribution members. However, we believe in our power supply plan, and we are prepared to manage power supply risks for the distribution members into the future.

We will carry out our mission in accordance with our corporate values, in order of priority: safety, member relationships, reliability, competitive cost of service, community development and employee development.

Finally, we thank you, the distribution members, for giving us the opportunity to work for you and meet your power supply needs. It is an honor to serve you.

## 2009 YEAR IN REVIEW:

# Charting our course

Knowing our way and function...with a keen eye on our destination.

While 2008 brought sweeping change on many levels, 2009 provided PowerSouth the opportunity to chart a course for the future centered on our core business principles — reliably and affordably fulfilling the energy needs of our distribution members now and in the future.

For centuries, mariners have used basic principles of navigation to guide them. Those principles begin with a starting point and end with a destination. Likewise, charting PowerSouth's course requires our board and staff to understand who we are and what our assets are. We must also have the determination and a willingness to adapt while moving toward our goal.

As PowerSouth navigates into the future, our corporate values are our guiding principles. Safety, building member relationships, reliability, competitive cost of service, community development and employee development are our guides.

We continue to strive to keep electricity a great value, as we work to

operate efficiently while holding fast to our mission of providing reliable and economical energy.

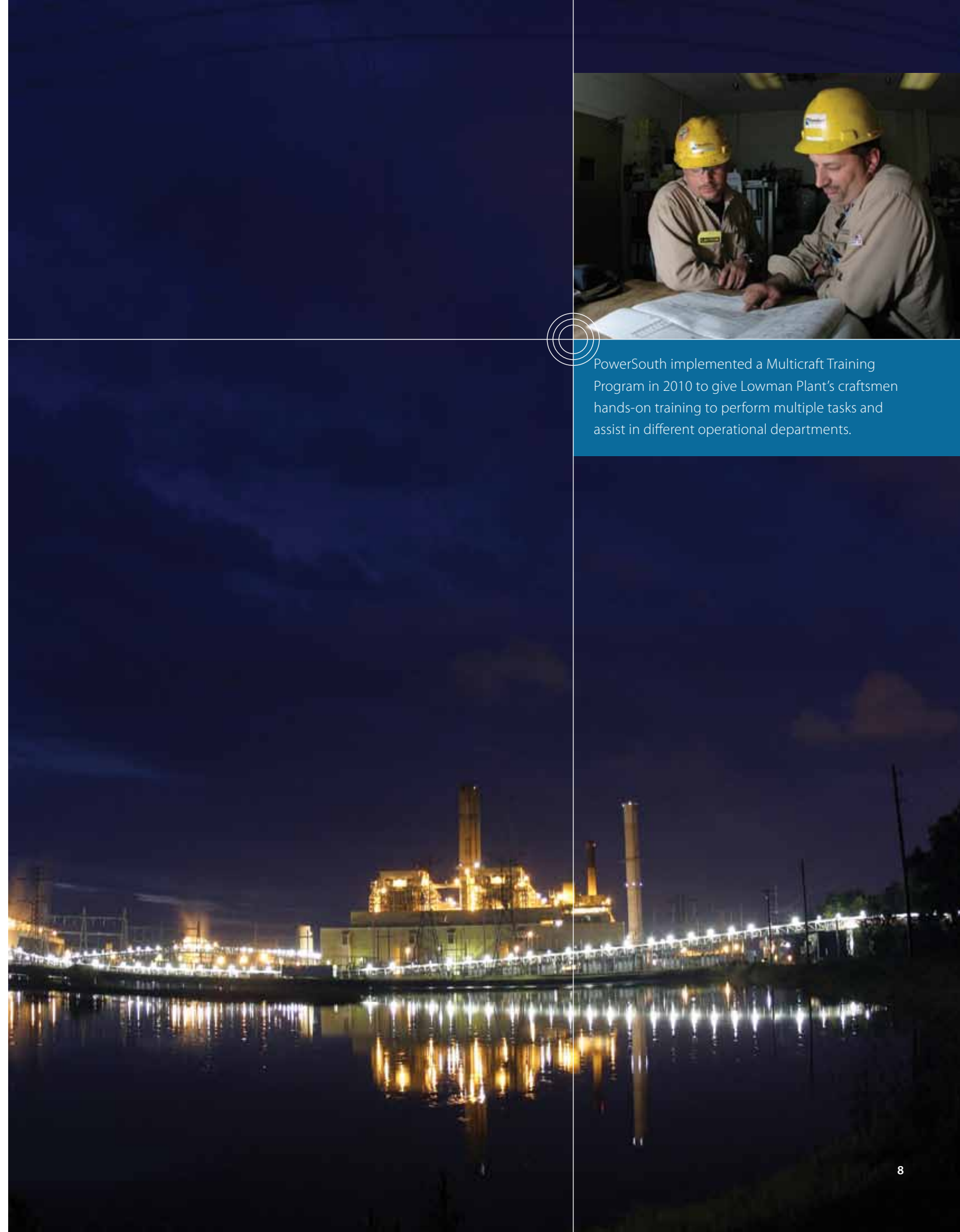
As we reflect on 2009, we look back on the navigational tools that have led to our success while preparing a path toward our future.

#### Our Most Important Asset

More than 600 men and women work for PowerSouth at nine locations in Alabama and Florida. PowerSouth employees continue to set the bar for safety excellence in our industry. We boast an impressive safety record, with a Recordable Incident Rate (RIR) of 1.4 for 2009, compared to a national average of 3.6. The company's Days Away, Restricted or Transferred (DART) rate is 0.0, compared to a national average of 1.8.



PowerSouth implemented a Multicraft Training Program in 2010 to give Lowman Plant's craftsmen hands-on training to perform multiple tasks and assist in different operational departments.



NAVIGATIONAL PRINCIPLE #1:

# Situational awareness

The firm things you know...the prediction of things that are to come.

The two biggest factors that impact energy sales are load growth and weather — thus a struggling economy and mild weather posed challenges for PowerSouth and the distribution members in 2009. We adapted our long-range power supply plan in response to slower load growth and decreases in energy sales.

Due in part to mild weather, 2009 energy sales declined by 13 percent. However, member accounts grew 0.42 percent to 418,456 meters within the PowerSouth system. Overall, we experienced an average load factor of about 45 percent.

Going forward, energy sales are expected to increase by an average of 1.4 percent per year from 2010-2014, 1.5 percent from 2014-2019 and 1.4 percent from 2019-2028.

Although energy sales have declined, peak demand continues to grow. While weather throughout 2009 was milder than usual, a winter peak of 2,102 megawatts was met on Feb. 5, setting a new all-time peak, followed by a summer peak of 1,855 megawatts on June 22.

Our 2009 peaks reinforced the need for cautious planning to meet member needs and mitigate the costs of surplus generation capacity. The economy and electric load growth are recovering, and whether energy sales rebound quickly or gradually, we are prepared to adapt our course.

Capital-intensive generation investments have taken on less importance with the uncertainty surrounding growth. Instead, PowerSouth's focus is on constructing peaking capacity to meet increasing demand, exchanging low, fixed-capital investments for higher variable costs, such as fuel.

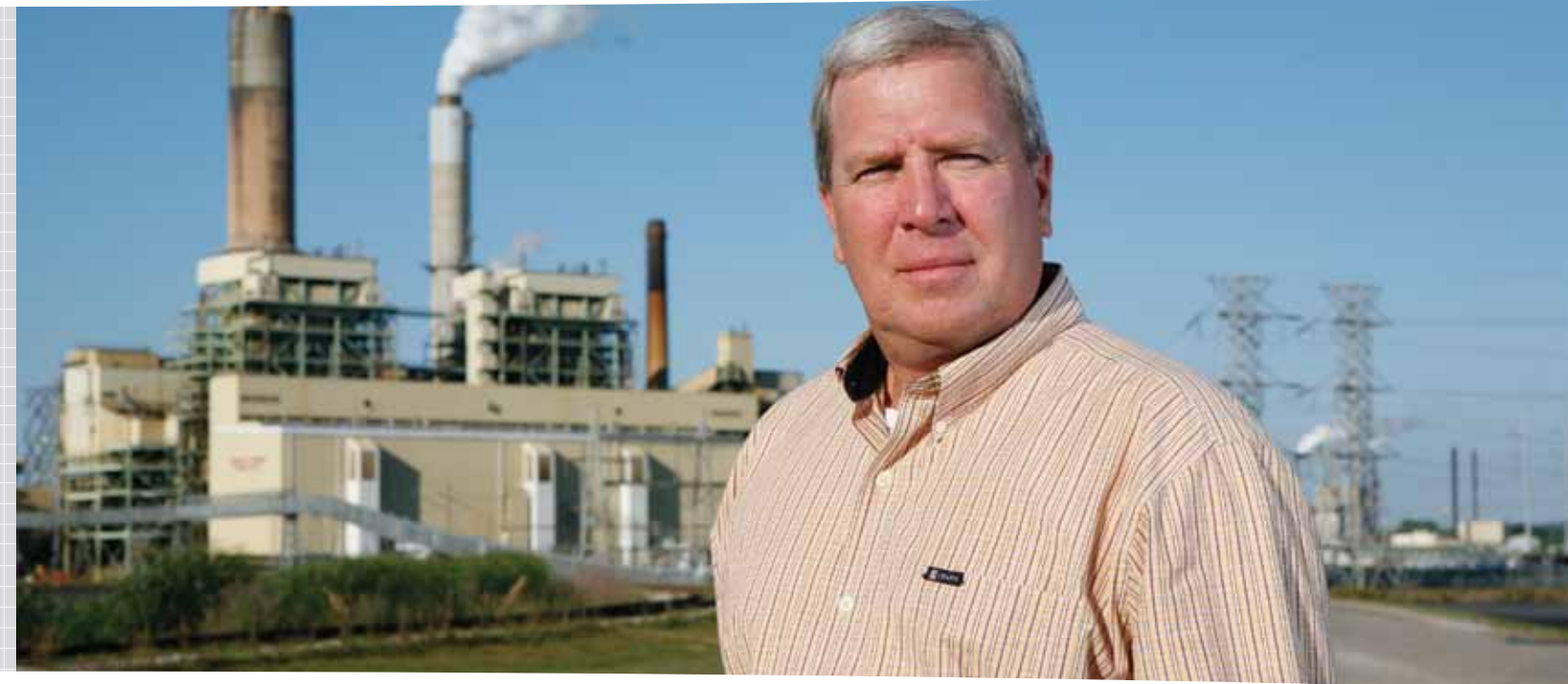
Controlling costs and efficiently utilizing available resources are important components for our future.



Electric utilities face challenges that could dramatically impact the future of our industry. PowerSouth's mission remains to provide reliable, competitively priced wholesale power.



*Preventive maintenance at our generating facilities helps PowerSouth deliver reliable electricity and avoid expensive, unscheduled outages. We examine our generation facilities and address issues based on a very precise schedule, maintaining our assets while avoiding higher costs associated with having to purchase unplanned replacement power during unscheduled outages.*



#### **Economic Progress**

Economic development is critical to our mission, as it strengthens the communities our distribution members serve by providing job opportunities and fiscal growth.

We assist communities with product development, workforce and leadership training, industry cluster analysis, project assistance and the generation of economic development prospects.

Although providing electric service to a new industry is an advantage, we are satisfied to provide new, higher-paying jobs and local infrastructure in the communities we serve.

PowerSouth's economic development team continues to take advantage of opportunities for growth. Our service area's competitive business climate helps attract new investment from a wide array of sectors, including automotive, aerospace/aviation, advanced manufacturing and information technology.

Despite a lagging economy, approximately 4,000 jobs were created in our service area in 2009, representing more than \$300 million in new capital investments. Working with state and local economic allies, PowerSouth's development efforts help recruit new industry, assist existing industry with expansion and provide growth opportunities for the communities we serve.

Among 2009's economic successes in Alabama, Chinese automotive startup Hybrid Kinetic Motors announced plans for an assembly plant in north Baldwin County, which at full operation is projected to employ 4,000 workers. New automotive supplier Inzi Controls announced 275 jobs in Elba. CGI, a global software development and service company, announced 300 new jobs in Troy.

Northwest Florida is also experiencing growth. Over the next six years, the arrival of the 7th Special Forces Group and F-35-related activities will spur a population surge, bringing approximately 4,000 personnel and

more than 6,000 dependents to Eglin Air Force Base in Valparaiso. Overall, military construction is expected to bring \$700 million to the area.

Southwest Airlines announced it will serve the new \$318 million Northwest Florida Beaches International Airport when it opens in May 2010. The commercial travel connectivity Southwest brings is expected to stimulate economic development and job growth throughout the Panama City area.

#### **Ensuring Reliability**

As the communities we serve grow, we need to expand our transmission and distribution systems to accommodate the growing load.

In 2009, the Rural Utilities Service (RUS) approved PowerSouth's \$144 million transmission and construction work plan, paving the way for bulk transmission system additions, new delivery points and major maintenance projects through 2011.

We added 40,000 kVA of transformer capacity; replaced or upgraded several mechanical relays to digital; installed dissolved gas analyzers on the Lowman step-up transformers; refurbished the Lowman 230/115 kV switchyard; and enabled a number of other projects. In addition, we added or upgraded 6.47 miles of one 115 kV transmission line system.

PowerSouth's transmission reliability metrics are as good as or better than any utility in the Southeast. The average outage length per integrated delivery point was 60.18 minutes in 2009, and the average service availability index was 99.999 across the transmission service area.

PowerSouth's performance measures are the results of sound maintenance and operation practices, the addition of remote-controlled sectionalizing devices and improved system protection systems.



As load continues to grow, we invest in new infrastructure and maintain existing equipment to ensure reliability and meet our members' needs.



Florida State Rep. Jimmy Patronis and PowerSouth Vice President of External Affairs Horace Horn stand near the new \$318 million Northwest Florida Beaches International Airport, which opens May 2010 near Panama City.



The Systems Protection Group engineered a high-speed protective relaying system for the McIntosh plant site that provides both reliability and security by allowing Energy Control to quickly respond to disturbances. The system complies with National Electric Reliability Council (NERC) standards and is the most complex relaying design that PowerSouth has engineered internally.



NAVIGATIONAL PRINCIPLE #2:

# Flexibility to adapt

The ability to adapt when changes occur...expected or unexpected.

During 2009, PowerSouth continued our focus on a diversified long-term power supply strategy that provides the flexibility to adapt to changes in global energy and financial markets, as well as potential emissions requirements and renewable mandates.

Construction of McIntosh Units 4 and 5 began in 2009, and at year-end was 61 percent complete. Construction remained on schedule despite a cold, wet winter. The plant's new substation was energized Dec. 28, 2009, as foundations for the turbines and generators were being installed. The natural gas-fired units, which are scheduled to be commercial by December 2010, will provide an additional 360 megawatts to the plant's existing 350 megawatt capacity.

Inter-departmental cooperation has been a common theme for the McIntosh project. The Power Supply Division efficiently coordinated the project management, engineering contracts, heavy equipment contracts, heavy equipment mobilization and construction labor.

To meet baseload power needs, PowerSouth's long-term power supply plan also includes a 20-year block nuclear power purchase of 125 megawatts from the Municipal Energy Authority of Georgia (MEAG) generated at Vogtle Nuclear Units 3 and 4, which are under construction near Augusta, Ga.

The contract represents PowerSouth's first nuclear power venture and begins when Vogtle Units 3 and 4 become commercial in 2016 and 2017, respectively.



To achieve a balance between environmental stewardship and competitive member rates, PowerSouth employees are working with national, regional and state leaders to educate the public about how a one-sided approach to environmental concerns will affect economic growth and adversely affect the rural communities we serve.



To further diversify PowerSouth's renewable energy portfolio, PowerSouth also secured contracts for 20 megawatts of renewable energy from a wind project in 2008 and is working toward a 30 megawatt biomass renewable energy project.

#### Environmental Change

Environmental policies in Washington cause uncertainty for the electric utility industry. The U.S. House of Representatives passed the American Clean Energy and Security Act in July by a narrow 219-212 margin.

The legislation, also known as the Waxman-Markey Climate and Energy Bill, if passed by the Senate, would reduce greenhouse gas emissions by 83 percent of 2005 levels by 2050 through a cap-and-trade system.

The Environmental Protection Agency (EPA) also independently announced plans to regulate carbon dioxide emissions, attacking fossil-fired electric generation through the Clean Air Act.

Staying abreast of regulatory developments, researching carbon capture programs and educating our state and national delegations about the implications of such initiatives is imperative.

PowerSouth supports environmental approaches that weigh solutions and considers both the environmental and economic factors of any carbon-limiting policy.

We support a cleaner, greener world that is safer for us and our families. We also support competitive and reasonable costs of service for our distribution members. To achieve that goal, we are working with national, regional and state leaders to educate the public about how a one-sided approach to environmental concerns will adversely affect economic growth and the poorest people in the communities we serve.

#### Energy Consciousness

Changes in societal values prompt changes in business plans and practices. Over the past two decades, energy conservation has become a

central component to more efficient energy usage and a means to control energy costs.

In 2009, PowerSouth and our distribution members increased awareness of energy conservation within our service area, offering programs that not only help end-use consumers control their energy costs, but also potentially defer generation improvements and additions to the PowerSouth system.

PowerSouth implemented a public relations campaign, Conserve101, developed on the mandated energy efficiency model. Conserve101 targets residential consumers with energy efficiency and conservation messages.

Consumers within our service territory also participated in H2O Plus, a demand-side management program that controls water heaters. The program is designed to reduce the need to build or purchase capacity by promoting efficient utilization of current systems and increasing off-peak kilowatt-hour sales.

Since the program's inception in 2008, more than 3,800 load-control devices have been installed on the PowerSouth system, representing 4.6 megawatts of controllable load.

Energy conservation and efficiency are not new concepts — President Carter asked Americans to turn down their thermostats and put on sweaters during his Fireside Chats of 1977.

These concepts have the potential to minimize demand during peak times while rewarding consumers for their efficiency with lower kilowatt usage, which translates to lower power bills.



Rising energy costs and environmental change were the catalysts that led to Conserve101, our public relations campaign that targets residential consumers with energy efficiency and conservation messages educating them on how to lower their monthly electric bills and optimize our generating capacity.



PowerSouth ranked 8th in *Business Alabama* magazine's list of the state's 100 largest privately-owned companies. Additionally, the National Consumer Cooperative Bank ranked PowerSouth 73 in its top 100 cooperatives in America for 2009.

NAVIGATIONAL PRINCIPLE #3:

# Anticipation of cycles

Advance planning offers benefits...adaptability and proactive solutions.

PowerSouth and the distribution members attempt to anticipate events and trends — including generation technology, environmental constraints and the effects of the economy — to better position us for the future.

Our planning has allowed us to be proactive rather than reactive to the changes in our economy, community and industry. These changes pose a challenge because our planning horizons very often span a number of economic business cycles.

As a result, our strategic plan equally addresses the long term and the short term.

PowerSouth began 2009 with a budgeted average wholesale cost of 84.73 mills per kilowatt-hour, an 18.5 percent wholesale rate increase from 2008 and a \$39 million deficit in the fuel and

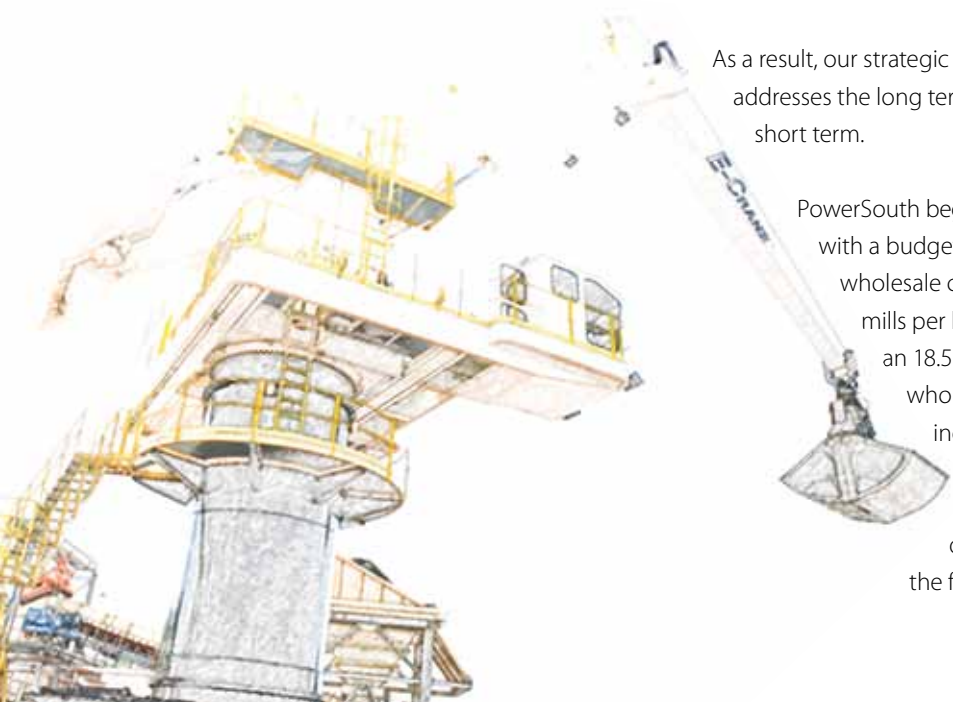
purchased power reserve. The deficit was a result of record natural gas prices in 2008, as well as market coal purchases necessary to replace coal from two suppliers with operations and production difficulties.

By the end of 2009, the fuel and purchased power reserve deficit was decreased by 95 percent. This improvement was the result of two factors. First, our members agreed to an increase in the Fuel & Purchased Power Adjustment, and second, we experienced a favorable swing in volatile fuels markets.

By year-end we were able to decrease the fuel and purchased power adjustment, and the deficit balance of \$39 million was reduced to under \$2 million.



As PowerSouth embraces our financial strengths, we maintain a delicate balance between searching for cost savings and investing in necessary infrastructure to keep the lights on.





*A diverse fuel mix is key to the success of PowerSouth's generation plan. During 2009, we burned more natural gas than we had projected and still beat our cost budget. Natural gas fuels our combined-cycle Vann and McWilliams Plants in Gantt, Ala., and our McIntosh (Ala.) Compressed Air Energy Storage (CAES) Plant.*

Fuel and purchased power accounted for approximately 60 percent of our 2009 budget. Securing firm physical fuel contracts and firming or hedging the final cost of the fuels in a global marketplace is a complex process.

The fuel and purchased power budget for 2009 was \$471.6 million, but with the cooling economy impacting both fuel costs and load growth, the fuels budget for 2010 decreased to \$356.6 million.

In 2009, PowerSouth hedged 93 percent of our natural gas, leaving the other 7 percent of natural gas purchases open to market fluctuations. Despite the unstable market during 2009, PowerSouth burned 1 million mmmBtus of natural gas beyond our projections and were able to beat our cost budget. We budgeted an annual cost of natural gas at \$8.468/mmBtu, and the actual cost was \$8.004/mmBtu.

#### **Solid financial footing**

Despite unstable global financial markets, we improved our credit rating with Standard & Poor's (S&P) and Fitch Ratings (Fitch) from BBB+ to A-.

Achieving an A- financial rating was made possible by improved system liquidity, increased margins, an equity development plan and continuing member commitment to PowerSouth's business plan.

According to S&P, PowerSouth's utility operations are strong, and our wholesale and retail rates to members are competitive with other power suppliers in the region. In addition, S&P complimented our competitive power supply and comprehensive risk management, self-supporting propane business and all-requirements contracts.

Fitch stated that our power resource plan exhibited a good mix of owned and purchased power, as well as a diversification of fuel sources.

For electric utilities, the cost and availability of capital is a priority. In a deteriorating economic environment, the credit rating upgrade is a very substantial move that will lower our future financing costs, resulting in lower costs and rates for our distribution members.

PowerSouth has improved financial flexibility by securing \$460 million in RUS financing, as well as a \$225 million unsecured bank syndicated revolving line of credit with The National Rural Utilities Cooperative Finance Corporation (CFC), a \$50 million unsecured line of credit with Regions Bank, and \$50 million secured lines of credit with CFC and Regions.

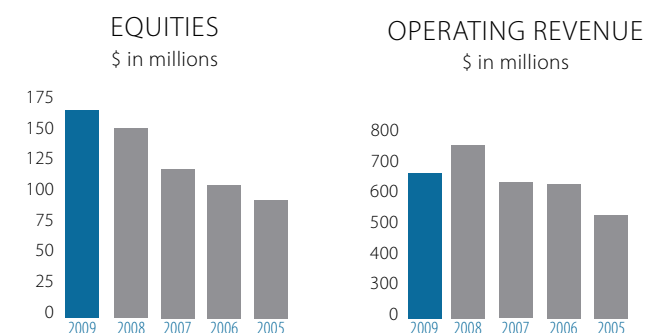
Financial liquidity is important in poor economic climates, and these lines of credit provide the short-term liquidity to bridge to long-term, permanent financing.



PowerSouth's generation planning team works in a forward-thinking environment, forecasting load up to 20 years in advance to ensure generation is available to meet member needs.



F. Ferrell Walton  
PowerSouth Vice President  
& Chief Financial Officer



**Executive Overview**

PowerSouth Energy Cooperative (PowerSouth) is a not-for-profit electric cooperative whose principal business is providing wholesale electric service to its 20 distribution members. The membership is made up of 12 Alabama and four Florida distribution cooperatives and four municipal electric systems located in south central Alabama and northwest Florida.

These members have all-requirements contracts that run through 2050. Under these contracts, PowerSouth's resources of generating facilities and power purchase contracts are the sole provider of 100 percent of the members' power supply needs.

PowerSouth's existing rate structure provides a fuel adjustment clause that gives PowerSouth the ability to fully recover all fuel-related cost increases from fuel cost fluctuations above the base rate. Also within the rate structure is a capacity rate made up of fixed costs including interest, depreciation, purchased capacity, taxes, insurance, production, operation and maintenance cost, as well as an operating margin.

The rate is reviewed monthly to ensure that adequate capacity-related revenues are produced to cover the costs and provide a margin.

As PowerSouth entered 2009, there was continued concern over the excessively high fuel costs experienced in 2008 and their continuing effects into 2009.

On February 5, 2009, PowerSouth set a new historical peak demand of 2,102 MWH due to a short cold snap. The previous peak was 2,098 MWH in January 2003. The new peak was to set PowerSouth's revenue stream and margin level for the year.

On March 31, 2009, Standard and Poor's (S&P) issued a credit rating upgrade from BBB+ to A- with a stable outlook and a "4" rating for a strong business profile, on a scale of one to ten, with one being the best.

In a declining national economy, this was indeed a surprise. S&P recognized PowerSouth's Board commitment to raise wholesale power rates to fund future capacity needs, provide adequate debt service protection, and improve its liquidity reserve strength.

On May 22, 2009, Fitch Ratings followed with a similar rating upgrade of A-, Stable.

In July 2009, Lowman Unit 2 experienced an unplanned outage that lasted until October 2009. Since PowerSouth's coal units are normally the lowest cost units in order of dispatch, this situation would normally be extremely costly.

However, as the cost of fuel had fallen significantly from the cost level of the previous year, the Vann Combined Cycle gas units 1, 2 and 3 were dispatched at a cost less than the coal units. In addition, the purchase of economy energy proved to be lower in cost due to the lower fuel costs and the effects of a poor national economy. Thus, a potentially costly situation to PowerSouth's members was avoided.

So beneficial were the lower fuel costs that a 4 mill fuel adder to the members' rate implemented in January 2009 was eliminated in September 1, 2009, and a 2.5 mill fuel credit was added to the rate. Consequently, whereas PowerSouth had entered 2009 with a record fuel under-recovered position of \$38,944,000, it ended 2009 with an under-recovered fuel reserve of only \$1,977,000.

PowerSouth improved its liquidity position in December 2009 through renewing a \$50 million unsecured

one-year Line of Credit (LOC) with Regions Bank and negotiated two new secured two-year LOC's at \$50 million each with Regions Bank and the National Rural Utilities Cooperative Finance Corporation (CFC), effective January 1, 2010.

**Operating Revenue:**

In 2009, PowerSouth experienced more normal temperatures during the winter months of January, February and March. Temperatures in the teens were recorded only four days during the months of January and February across PowerSouth's service territory; however, there were many days that experienced temperatures in the 20's and 30's.

A new historical record system peak of 2,102 megawatts was set in February 2009, which resulted from a short cold snap with a weighted temperature at the time of the peak of 21 degrees with no significant temperature build-up leading to that peak day. The actual summer peak occurred in June 2009. Mild temperatures during the latter part of the summer, as well as more normal rainfall, produced minimal temperature build-up to affect the peak.

Milder weather had also been experienced during the summer of 2008. Summer temperatures for 2008

averaged in the lower 90 degree range with no reported days above 100 degrees in PowerSouth's service area.

PowerSouth's total consolidated operating revenues were \$649,987,094 as compared to \$750,390,274 for 2008. This represents a 13.4 percent decrease in total revenue for the year, comprised of an 8.5 percent decrease in member revenue, an 89.7 percent decrease in non-member revenues, and a 10.0 percent decrease in propane and other electric revenues. The decrease in member revenue was the result of many factors, including the mild weather in 2009, the economic recession and energy conservation by the public, and also a decrease in fuel and purchased power cost, which was reflected in the rates the members paid in 2009.

In addition, one of PowerSouth's members' largest interruptible industrial customers, Alabama River Newsprint (ARN) ceased operations in December 2008 and filed for bankruptcy protection under Chapter 11 in April 2009. However, the closing had an insignificant effect on PowerSouth's 2009 margins.

The 89.7 percent decrease in 2009 for non-member revenues is due to the economic recession, which

contributed to the loss of industrial load, and little or no load growth due to energy conservation by the public, along with excess capacity in the market. The 10.0 percent decrease in propane and other electric sales is a result of the economic recession, as well as milder temperatures during 2009.

Coincident Peak demand billing units for PowerSouth's distribution members increased 2.2 percent to 20,263,207 kVA in 2009, as compared to 19,822,745 in 2008.

In line with the decrease in overall operating revenue, total energy sales decreased from 9,313,544 MWH in 2008 to 8,090,453 in 2009. Member energy sales decreased 8.4 percent or 728,996 MWH to 7,953,514 MWH in 2009, as compared to 2008 energy sales of 8,682,510. Non-member sales decreased from 631,034 in 2008 to 136,939 MWH in 2009, a 78.0 percent decrease.

**Operating Expenses:**

PowerSouth produced 6,253,801 MWH, 74.2 percent of its energy requirements in 2009, while purchasing 2,178,374 MWH or 25.8 percent of the total. Those percentages compare to 57.9 percent produced (5,641,676 MWH) and 42.1 percent purchased (4,095,357) in 2008. Production in PowerSouth's

generation plants increased by 612,125 MWH, while purchased energy decreased by 1,916,983 MWH.

The increase in PowerSouth's production was due to the low cost of natural gas in 2009, allowing PowerSouth to generate more economically with gas generation plants than purchasing on the market. The cost of power produced from PowerSouth's generating plants was 63.22 M/KWH in 2009, compared to 64.08 M/KWH in 2008.

Purchased power cost for 2009 was 54.01 M/KWH, while in 2008 it was 62.74 M/KWH.

The decrease in production cost is due to lower coal and natural gas costs in 2009 as compared to 2008. When the opportunity presents itself, PowerSouth's staff will purchase outside energy at rates lower than PowerSouth's incremental production costs, as well as purchasing outside to cover PowerSouth's members' load above its available capacity.

PowerSouth's total cost of service decreased 13.0 percent to \$632,174,752 in 2009 as compared to \$726,610,878 in 2008. Most of this decrease can be attributed to lower fuel and purchased power costs. Total fuel and purchased power costs decreased \$114,005,962 from 2008 to 2009.

PowerSouth's fuel cost increased 10.5 percent from \$240,728,598 in 2008 to \$266,003,786 in 2009 as a result of a 10.9 percent increase in

generation from PowerSouth's own generation plants. Purchased power cost decreased \$139,281,150 (54.2 percent) from \$256,928,601 in 2008 to \$117,647,451 in 2009.

The decrease in Purchased Power cost is a result of four factors: (1) Energy sales to Members was down 8.4 percent compared to 2008; (2) Sales of energy to non-members was down 78.0 percent; (3) PowerSouth paid an average of \$54.01 per MWH purchased for purchased energy during 2009 compared to \$62.74 per MWH purchased in 2008; and (4) lower natural gas costs in 2009 allowed PowerSouth to generate more electricity from its gas units at a lower cost than purchasing energy on the market.

Production operation and maintenance (O&M) expense increased from \$53,266,335 in 2008 to \$56,965,187 in 2009, an increase of \$3,698,852, a 6.9 percent increase.

The increase in production O&M costs is the result of running PowerSouth's production units at higher generating capacity levels.

Transmission operations and maintenance expense increased from \$35,000,695 in 2008 to \$38,697,551 in 2009, or a 10.6 percent increase. This increase in cost can be attributed to higher demands and higher wheeling rates during the comparable periods.

Distribution operations and maintenance expense increased \$447,969 (13.0 percent) from \$3,445,426 in 2008 to \$3,893,395 in 2009.

Administrative and General costs increased from \$22,576,412 in 2008 to \$24,014,017 in 2009 for an increase of \$1,437,605.

Depreciation and amortization expense increased \$5,730,166 or 11.9 percent due to the addition of \$363 million in expenditures in the Air Quality Control Project (AQC) at the Lowman Power Plant.

Interest expense increased from \$57,629,309 in 2008 to \$63,931,756 for an increase of \$6,302,447. The increase in interest cost is related to the funds borrowed to pay for the Lowman AQC project.

Overall, the cost of service decreased a net total of \$94,436,126 for 2009.

PowerSouth's natural gas hedging program generated a loss of \$62,625,893 in 2009 due to actual gas prices falling below hedged prices compared to a gain of \$20,593,922 during 2008.

The monthly loss or gain in the hedging program flows through fuel costs and are included in each month's operations.

#### Non-operating Margin:

Non-operating Margin increased \$711,073 from 2008 to 2009. The net increase in this section is due primarily to the investment of \$15 million in Member Capital Securities paying 7.5 percent per annum from CFC on May 4, 2009.

#### Operating Margin:

The consolidated net margin after taxes for 2009 was \$23,134,489 as compared to \$28,364,188 for 2008. The net margin for 2009 would have been \$8,311,034 higher; however the Board voted to return \$2,103,678 excess margin to the members during October and November, and \$4,103,678 in December.

The consolidated net margin also includes a \$129,816 loss in 2009 from PowerSouth's subsidiaries, mostly from the Cooperative Services subsidiary, Cooperative Propane.

In 2008, the Board voted to lower the Members' Average Demand Rate for November and December 2008 and transfer the decreased demand to the Fuel Reserve through a Miscellaneous Fuel Charge to help offset the higher fuel costs for the year. This transfer amounted to \$19,367,000.

Revenues in 2009 and 2008 were adequate to cover all costs and satisfy all debt service obligations and financial covenants, including PowerSouth's 2000 Indenture requirement of a Margins for Interest Ratio (MFIR) of at least 1.065. The MFIR was 1.359 and 1.422 for 2008.

#### SIGNIFICANT BALANCE SHEET CHANGES:

##### ASSETS:

##### Utility Plant:

Total utility plant increased from \$1,233,662,885 in 2008 to \$1,300,789,796 in 2009, a \$67,126,911 increase of 5.4 percent. The increase comes from \$49,332,822 in generation and \$17,794,089 in transmission and distribution assets and general plant assets. The largest portion of the generation asset increase is from the two combustion turbines under construction at the McIntosh Plant Site.

Cash and cash equivalents decreased \$10,349,944. Temporary investments increased from \$47,020,169 in 2008 to \$87,282,100 in 2009, a \$40,261,931 increase. The increase in temporary investments is the result of increases in the construction equity plan and member prepayments. The construction equity plan was approved by the Board August 27, 2007, to be effective January 1, 2008.

The plan is structured to raise \$170 million by December 31, 2016. These funds will be used to complement other loan funds for future construction projects.

In mid-2009, a prepayment option for PowerSouth's distribution members was implemented in which members can pre-pay up to three months of their anticipated future monthly billings. PowerSouth in turn will pay

interest on the prepayments until applied to the members' monthly billing.

Restricted cash-collateral on deposit decreased from \$43,143,040 in 2008 to \$17,819,188 in 2009, a decrease of \$25,323,852. This restricted cash is money deposited with a broker in a margin account that is used in conjunction with the gas futures and options contracts in the hedging of natural gas prices.

The decrease in this account is a result of lower natural gas market prices and a decrease in the number of futures contracts in 2009.

Restricted cash-bond funds decreased \$3,644,573 from 2008. These are the remaining funds from the 2008A Gulf Opportunity Zone Bond issue. The balance of these funds will be used to complete the new Lowman coal barge unloading system.

Members' receivables decreased \$11,753,171 at December 31, 2009, as compared to December 31, 2008. Accounts receivable collections were lower due to decreased energy sales in 2009 compared to 2008 and the return of \$8,311,034 in margins during the last quarter of 2009.

Current portion and non-current portion of Regulatory Asset — Gas Hedges and Fair Market Value of Gas Hedges decreased \$25,652,950 due to the significant decrease in the market prices of natural gas and the number of gas futures contracts held.

The current portion of Regulatory Asset — Interest rate swap of \$6,290,542 and the Regulatory Asset — Interest rate swap of \$11,880,583 is the market to market balance at December 31, 2009, that would be due if the Interest Rate Swap was liquidated. The Interest Rate Swap covers the Gulf Opportunity Zone Bonds, Series 2007A and 2007B, and the Pollution Control Bonds, Series 2007C, issued April 18, 2007, and May 1, 2007, respectively.

Materials and supplies increased \$5,545,975 primarily due to increased prices.

Deferred charges increased \$1,389,480. This net increase is comprised of a \$1,385,738 decrease in unamortized debt discount, a \$350,006 decrease in preliminary survey and investigation charges, and a \$3,125,224 increase in deferred charges for major maintenance projects.

#### EQUITIES:

Consolidated total equities at December 31, 2009, increased \$23,134,489 as the result of net margins for the year, which is a 15.2 percent increase. PowerSouth's equity-to-asset ratio increased to 10.2 percent in 2009 from 8.8 percent in 2008. PowerSouth (excluding its three subsidiaries) produced a MFIR of 1.359 in 2009 and 1.422 in 2008, which exceeds the 1.065 requirement of the January 1, 2000, Indenture.

#### LIABILITIES:

Total long-term debt increased from \$1,334,670,061 in 2008 to \$1,356,647,027 in 2009. The increase of \$21,976,966 is composed of \$122,063,489 in repayments, \$144,511,000 in advances, and a decrease of \$470,545 in PowerSouth's investment in the RUS Cushion of Credit Account.

Loan payments to RUS were \$2,257,868; repayments to the FFB were \$39,942,280; Pollution Control Financing (PCF) repayments were \$300,000; and CFC repayments were \$79,563,341.

Advances to PowerSouth were from FFB in the amount of \$69,511,000 and \$75,000,000 from the Syndicated Loan. Excluding all subsidiary debt, PowerSouth's blended interest rate was 4.3 percent at December 31, 2009, compared to 4.6 percent at December 31, 2008.

Notes payable decreased \$19,865,394.

This decrease is the result a \$20,000,000 payment made in November 2009 to the Regions revolving note LOC.

Accounts Payable also decreased \$6,185,978 from December 31, 2008.

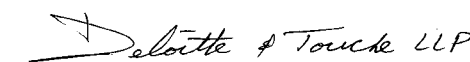
The financial statements and accompanying notes for the year ended December 31, 2009, are included in this annual report, along with other financial information.

To the Board of Trustees of  
PowerSouth Energy Cooperative and Subsidiaries  
Andalusia, Alabama

We have audited the accompanying consolidated balance sheets of PowerSouth Energy Cooperative and subsidiaries ("PowerSouth") as of December 31, 2009 and 2008, and the related consolidated statements of revenue and expenses and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of PowerSouth's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PowerSouth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PowerSouth as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



April 22, 2010

**PowerSouth Energy Cooperative and Subsidiaries**  
**Consolidated Balance Sheets**

As of December 31, 2009 and 2008

	2009	2008
<b>ASSETS</b>		
UTILITY PLANT (At cost):		
Electric plant in service	\$1,442,537,814	\$1,415,258,088
Construction work in progress	490,360,577	403,366,524
Total	1,932,898,391	1,818,624,612
Less accumulated depreciation	632,108,595	584,961,727
Utility plant — net	1,300,789,796	1,233,662,885
NONUTILITY PROPERTY — net	5,405,408	5,643,837
INVESTMENTS AND SUBSCRIPTIONS — At cost:		
Capital term certificates and subscriptions	46,034,735	31,062,810
Investments in associated organizations	3,447,883	3,273,024
Other investments	2,096,317	2,379,333
Total investments and subscriptions	51,578,935	36,715,167
RESTRICTED FUNDS — Cash	1,467,188	1,440,386
CURRENT ASSETS:		
Cash and cash equivalents	30,127,034	40,476,978
Temporary investments	87,282,100	47,020,169
Restricted cash and cash equivalents — collateral on deposit	17,819,188	43,143,040
Restricted cash and cash equivalents — bond proceeds	5,258,062	8,902,635
Accounts receivable:		
Members	56,599,050	68,352,221
Other (net of allowance of \$376,540 and \$301,243)	6,597,268	6,321,675
Current portion of regulatory asset — gas hedges	3,668,880	24,037,400
Current portion of regulatory asset — interest rate swaps	6,290,542	5,733,534
Regulatory asset — deferred loss on gas hedges	817,600	6,020,640
Fuel inventories (at average cost)	48,548,874	53,165,915
Materials and supplies (at average cost)	51,006,661	45,460,686
Deferred under-recovery of fuel and purchased power cost	1,977,084	38,943,553
Other	2,008,660	2,316,293
Total current assets	318,001,003	389,894,739
DEFERRED CHARGES	24,218,553	22,829,073
FAIR MARKET VALUE OF GAS HEDGES		856,150
REGULATORY ASSET — Gas hedges — net of current portion	774,760	
REGULATORY ASSET — Interest rate swaps — net of current portion	11,880,583	34,482,992
TOTAL	\$1,714,116,226	\$1,725,525,229

(Continued)

**PowerSouth Energy Cooperative and Subsidiaries**  
**Consolidated Balance Sheets**

As of December 31, 2009 and 2008

	2009	2008
<b>EQUITIES AND MARGINS AND LIABILITIES</b>		
EQUITIES AND MARGINS:		
Membership fees	\$ 110	\$ 110
Patronage capital	173,764,956	150,630,467
Other equities	1,159,696	1,159,696
Total equities and margins	174,924,762	151,790,273
LONG-TERM DEBT — Net of current portion:		
Rural utilities service	35,412,656	38,364,701
Federal financing bank	647,038,239	621,148,978
National rural utilities cooperative finance corporation	83,574,631	88,217,317
Pollution control bonds	59,985,000	66,210,000
Syndication Loan	225,000,000	225,000,000
Gulf opportunity zone bonds	247,605,000	250,000,000
Total long-term debt	1,298,615,526	1,288,940,996
CURRENT LIABILITIES:		
Long-term debt due within one year	58,031,501	45,729,065
Notes payable and line of credit borrowings	30,218,626	50,084,020
Accounts payable	52,334,400	58,520,378
Accrued liabilities:		
Taxes	193,230	260,124
Interest	2,973,300	3,798,253
Other	28,067,117	8,750,112
Current portion — fair market value of interest rate swaps	6,290,542	5,733,534
Current portion — fair market value of gas hedges	3,668,880	24,037,400
Current regulatory liability — major maintenance reserve	6,636,528	6,636,528
Current portion — accrued postretirement benefit cost	625,000	514,000
Current regulatory liability — other	473,412	
Total current liabilities	\$189,512,536	\$204,063,414

(Continued)

**PowerSouth Energy Cooperative and Subsidiaries**  
**Consolidated Balance Sheets**

As of December 31, 2009 and 2008

	2009	2008
COMMITMENTS AND CONTINGENCIES (Note 11)		
ASSET RETIREMENT OBLIGATIONS	\$ 1,058,931	\$ 1,013,663
REGULATORY LIABILITY — Accumulated provision for property and casualty insurance	4,147,340	4,893,781
REGULATORY LIABILITY — Gas hedges — net of current portion		856,150
FAIR MARKET VALUE OF GAS HEDGES — Net of current portion	774,760	
FAIR MARKET VALUE OF INTEREST RATE SWAPS — Net of current portion	11,880,583	34,482,992
REGULATORY LIABILITY — Major maintenance reserve — net of current portion	13,303,592	19,909,577
ACCRUED POSTRETIREMENT BENEFIT COST — Net of current portion	12,960,574	12,556,635
REGULATORY LIABILITY — Accrued postretirement benefit cost	6,937,622	7,017,748
<b>TOTAL</b>	<b>\$1,714,116,226</b>	<b>\$1,725,525,229</b>

See notes to consolidated financial statements.

(Concluded)

**PowerSouth Energy Cooperative and Subsidiaries**  
**Consolidated Statements of Revenue and Expenses and Patronage Capital**

For the years ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUE:		
Sales of electric energy to members:		
Cooperatives	\$592,481,492	\$648,500,157
Municipalities	38,378,434	40,847,993
Sales of electric energy to nonmembers	4,663,295	45,049,530
Other electric revenue	2,869,653	2,485,450
Propane and other revenue	11,594,220	13,507,144
<b>Total operating revenue</b>	<b>649,987,094</b>	<b>750,390,274</b>
OPERATING COSTS AND EXPENSES:		
Power production:		
Fuel	266,003,786	240,728,598
Operations	37,432,741	34,907,020
Maintenance	19,532,446	18,359,315
Purchased power	117,647,451	256,928,601
Transmission:		
Operations	33,783,583	30,607,272
Maintenance	4,913,968	4,393,423
Distribution:		
Operations	2,330,572	2,239,932
Maintenance	1,562,823	1,205,494
Propane cost of sales	7,313,834	9,057,893
Administrative and general	24,014,017	22,576,412
Depreciation and amortization	53,707,775	47,977,609
<b>Total operating costs and expenses</b>	<b>568,242,996</b>	<b>668,981,569</b>
<b>OPERATING MARGIN</b>	<b>81,744,098</b>	<b>81,408,705</b>
<b>INTEREST EXPENSE</b>	<b>63,931,756</b>	<b>57,629,309</b>
NONOPERATING MARGIN:		
Allowance for equity funds used during construction	1,076,697	1,111,606
Interest income	3,734,846	2,816,752
Capital credits	310,091	326,533
Other	206,249	361,919
<b>Total nonoperating margin</b>	<b>5,327,883</b>	<b>4,616,810</b>
<b>NET MARGIN BEFORE INCOME TAX EXPENSE</b>	<b>23,140,225</b>	<b>28,396,206</b>
<b>INCOME TAX EXPENSE</b>	<b>5,736</b>	<b>32,018</b>
<b>NET MARGIN</b>	<b>23,134,489</b>	<b>28,364,188</b>
PATRONAGE CAPITAL:		
Beginning of year	150,630,467	122,266,279
End of year	\$173,764,956	\$150,630,467

See notes to consolidated financial statements.

**PowerSouth Energy Cooperative and Subsidiaries**  
**Consolidated Statements of Cash Flows**

For the years ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	\$ 23,134,489	\$ 28,364,188
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation and amortization	53,707,775	47,977,609
Gain on sale of nonutility property	(50,746)	(60,865)
Allowance for equity funds used during construction	(1,076,697)	(1,111,606)
Changes in assets and liabilities:		
Accounts receivable	11,477,578	(13,255,676)
Inventories	(928,934)	(18,162,504)
Other assets	2,071,818	(17,287,267)
Accounts payable	(3,166,897)	(8,552,882)
Under-recovery of fuel and purchased power cost	36,966,469	(35,281,861)
Accrued postretirement benefit cost	434,813	411,600
Other accrued liabilities	11,591,412	(2,970,074)
Net cash provided by (used in) operating activities	<u>134,161,080</u>	<u>(19,929,338)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of utility plant	(120,197,566)	(167,819,218)
Purchases of nonutility property	(382,971)	(277,461)
Proceeds from sale of nonutility property	142,017	102,993
Increase in restricted cash	28,941,623	(34,809,864)
Investments in certificates and subscriptions	(15,000,000)	(17,862,500)
Redemptions of certificates and subscriptions	28,075	26,609
Investments in associated organizations	(343,467)	(996,840)
Redemption of investments in associated organizations	168,608	657,293
Additions to other investments	(97,792)	(649,189)
Redemptions of other investments	380,808	675,128
Additions to temporary investments	(269,850,671)	(592,517,169)
Redemptions of temporary investments	229,588,740	550,742,000
Net cash used in investing activities	<u>(146,622,596)</u>	<u>(262,728,218)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuances of long-term debt	144,511,000	368,898,500
Principal payments on long-term debt	(122,063,488)	(122,625,091)
Redemption proceeds of RUS advance payments unapplied account	63,106,413	15,000
Prepayments to RUS advance payments unapplied account	(63,576,959)	(15,000)
Proceeds from grant funds		300,000
Proceeds from issuances of short-term debt	50,179,340	130,000,000
Principal payments on short-term debt	(70,044,734)	(105,103,750)
Net cash provided by financing activities	<u>2,111,572</u>	<u>271,469,659</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(10,349,944)	(11,187,897)
CASH AND CASH EQUIVALENTS:		
Beginning of year	40,476,978	51,664,875
End of year	<u>\$ 30,127,034</u>	<u>\$ 40,476,978</u>
NONCASH TRANSACTION FROM INVESTING ACTIVITIES — Accrual for capital expenditures	<u>\$ 13,990,376</u>	<u>\$ 17,009,457</u>

See notes to consolidated financial statements.

**PowerSouth Energy Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

As of and for the Years Ended December 31, 2009 and 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

PowerSouth Energy Cooperative and subsidiaries (PowerSouth) is an electric generation and transmission cooperative whose principal customers are member cooperatives, municipalities, and industrial users located in Alabama and northwest Florida.

**Principles of Consolidation** — PowerSouth's wholly owned subsidiaries include Andalusia & Conecuh Railroad Company, Inc., PowerSouth Development Corporation (PDC), and Cooperative Services, Inc. (CSI) and its subsidiary. All intercompany balances have been eliminated in consolidation.

**Regulatory Accounting** — The accounting records of PowerSouth are maintained on an accrual basis in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles). The accounts are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS). PowerSouth also complies with policies and practices prescribed by its Board of Directors and to practices common in the utility industry. As the Board of Directors sets rates on a cost-of-service basis, PowerSouth follows generally accepted accounting principles related to the effects of certain types of regulation, which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. As such, regulatory assets are recorded to reflect probable future revenues associated with certain costs that are expected to be recovered from customers through the rate-making process. Regulatory liabilities are recorded to reflect probable future reductions in revenues associated with amounts that are expected to be credited to customers through the rate-making process.

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Utility Plant** — Utility plant is stated at original cost, which includes an allowance for funds used during construction and the cost of contracted work, direct labor and materials, and allocable overhead. When a retirement unit of property is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to accumulated depreciation. Maintenance and repairs are charged to expense as incurred; renewals and betterments are capitalized.

Depreciation of utility plant is computed using the straight-line method. Steam, transmission, distribution, and gas turbine plants are depreciated on an aggregate asset account balance basis, and hydraulic plant is depreciated on an individual account basis. General plant is depreciated on individual asset basis. The depreciation rates being utilized represent the rates recommended by the RUS in Rural Electric Authority Bulletin 183-1, *Depreciation Rates and Procedures*, which include an allowance for property retirement or removal.

**Nonutility Property** — Nonutility property is stated at its original cost. Gains or losses from retired or otherwise disposed of nonutility property are recognized in other nonoperating margin for the difference between cost and accumulated depreciation, less proceeds from disposition, if any. Nonutility depreciation is recognized on a straight-line basis over the estimated useful lives of various classes of property.

**Planned Major Maintenance Activities** — Effective January 1, 2008, PowerSouth's Board of Directors ordered management to change, for rate-making purposes, from the accrual method for accounting for planned major maintenance projects to a deferral method. At the time of the change, PowerSouth had an accrued liability for major maintenance projects totaling \$33,182,633. PowerSouth's Board of Directors ordered management to amortize this regulatory liability on a straight-line basis over the next five years as a credit to maintenance expense. The amount amortized in 2009 and 2008 was \$6,636,528. Beginning in 2008, under the deferral method, any costs incurred during a planned maintenance shutdown are capitalized as deferred charges. When the major maintenance is complete, the deferred amount is amortized over the period of time until the next planned major maintenance activity occurs. The amount of maintenance deferred and capitalized as of December 31, 2009 and 2008, was \$12,188,820 and \$9,063,596, respectively. The amount of deferred and capitalized maintenance amortized in 2009 and 2008 was \$1,187,468 and \$272,710, respectively.

**Deferred Charges** — Substantially all of deferred charges consist of capitalized planned major maintenance costs and debt issue and refinancing costs. Other deferred charges include costs of preliminary surveys and studies made for the purpose of determining the feasibility of contemplated utility projects. If a project is constructed, such costs are capitalized as part of the cost of the facility. If the plans for a project are abandoned, the costs are written off.

**Investments and Temporary Investments** — Investments and temporary investments are substantially designated as held to maturity and are carried at cost subject to impairment analysis.

**Cash Equivalents** — PowerSouth considers all highly liquid investments with a maturity of three months or less when issued to be cash equivalents.

**Restricted Cash** — During 2008, PowerSouth issued bonds to finance the air quality control project at Lowman Power Plant. The principal amount of the bonds is included in long-term debt, and the unexpended bond proceeds at December 31, 2009 and 2008, are reported as restricted cash. At December 31, 2009 and 2008, PowerSouth had additional restricted cash that consisted of money deposited with a broker in a margin account that is used to purchase natural gas futures and options contracts for the purpose of hedging natural gas purchases.

**Inventories and Materials and Supplies** — Fuel inventories consist primarily of coal, fuel oil, and gas in storage. Materials and supplies consist mostly of spare and replacement parts. Fuel inventories and materials and supplies are valued at average cost.

**Operating Revenue** — Revenue is recorded on the actual basis of meter readings for energy sold through the last day of the year. Propane revenue is recognized at the time of delivery to the customer. PowerSouth had two member cooperatives that accounted for 27% and 23% of its operating revenue for the years ended December 31, 2009 and 2008, respectively.

**Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized** — AFUDC represents estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. Interest incurred in connection with the construction of nonregulated facilities is capitalized.

**Income Taxes** — PowerSouth is exempt from federal and state income taxes. The provision for such taxes relates to the operations of the wholly owned subsidiaries, Andalusia & Conecuh Railroad Company, Inc., PDC, and CSI and subsidiary. For these companies, the provision for income taxes is based upon amounts reported in the statements of revenue and expenses and patronage capital and includes deferred taxes for temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates.

**Deferred Under-recovery of Fuel and Purchased Power Cost** — Under-recoveries of fuel and purchased power cost are deferred and collected on a levelized basis through future surcharges in billings to customers. Over-recoveries of fuel and purchased power cost are deferred and refunded on a levelized basis through future credits in billings to customers.

**Postretirement Benefits Other Than Pensions** — Estimated costs of medical insurance benefits provided for retirees are accrued over the years that the employees render service. Costs associated with benefits provided to employees on long-term disability are accrued based on the estimation of the probable benefits to be provided.

**Emission Allowances** — In accordance with the Federal Clean Air Act, PowerSouth maintains an allotment of sulfur dioxide (SO<sub>2</sub>) emission allowances. These allowances are carried at cost and are included in fuel inventories in the financial statements.

**Accumulated Provision for Property Insurance** — The reserves in this account are established to cover the deductibles in PowerSouth's property insurance policies. PowerSouth maintains relatively high deductibles on property insurance in order to balance premium rate inflation. These reserves are established in the rate-making process as a regulatory liability.

**Long-Lived Assets** — PowerSouth evaluates, on a regular basis, whether events and circumstances have occurred that indicate the carrying amounts of utility plant and deferred charges may warrant revision or may not be recoverable. PowerSouth evaluates impairment on these assets using estimated undiscounted future cash flows from operations. At December 31, 2009 and 2008, the net utility plant, net nonutility property, and net unamortized deferred charges were not considered to be impaired.

**Derivative Financial Instruments** — Generally accepted accounting principles related to derivatives and hedging require that all derivatives be recorded in the balance sheet as either an asset or liability measured at fair value and that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Any gains or losses related to natural gas costs, including gains or losses resulting from the fair value measurement of derivative instruments, are passed through to members using the mechanisms of the deferred under-recovery of fuel and purchased power cost. Therefore, these derivative instruments (gas hedges) are recorded at fair value in the accompanying balance sheets along with the corresponding offsetting regulatory asset or liability. See further discussion of derivative instruments in Note 9.

**Asset Retirement Obligations** — Generally accepted accounting principles related to asset retirement obligations require that the present value of legal obligations arising from an asset's future retirement be recognized in the period in which they are incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. See further discussion of asset retirement obligations in Note 12.

**New Accounting Pronouncements** — New guidance on fair value measurements defines fair value, expands disclosures about fair value measurements, establishes a framework for measuring fair value in generally accepted accounting principles, and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. Under the guidance, fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance also establishes a three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

*Level 1* — Quoted prices in active markets for identical assets or liabilities

*Level 2* — Observable inputs other than quoted prices in active markets for identical assets and liabilities

*Level 3* — No observable pricing inputs in the market

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

In December 2008, the FASB issued new guidance on employers' disclosures about postretirement benefit plan assets. The guidance amends and expands previous disclosure requirements for plan assets of a defined benefit pension or other postretirement plan to include investment policies and strategies, major categories of plan assets, and information regarding fair value measurements. This new guidance was effective for disclosures for fiscal years ended after December 15, 2009. PowerSouth implemented the guidance for the year ended 2009, and the implementation did not have a material impact on its consolidated financial statements.

In June 2009, the FASB issued the Accounting Standards Codification (the Codification), which is to be the single source of authoritative generally accepted accounting principles. All other accounting literature not included in the Codification is to be considered nonauthoritative. The Codification was effective for annual periods ending after September 15, 2009. PowerSouth implemented the guidance, recognizing the Codification as the single source of authoritative generally accepted accounting principles, for the year ended 2009. The implementation did not have a material impact on PowerSouth's consolidated financial statements.

In June 2009, the FASB issued new guidance on consolidation of variable interest entities. The guidance will significantly affect various elements of consolidation under existing accounting standards, including the determination of whether an entity is a variable interest entity and whether an enterprise is a variable interest entity's primary beneficiary. This new guidance is effective for annual periods beginning after November 15, 2009. PowerSouth has not completed its evaluation of the impact the implementation of this guidance will have on its consolidated financial statements.

In July 2009, the FASB issued authoritative accounting guidance which incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. PowerSouth has adopted this accounting pronouncement for the year ended 2009 and has considered subsequent events for recognition or disclosure through April 22, 2010, the date the consolidated financial statements were available for issuance.

In March 2008, the FASB issued new guidance on disclosures about derivative instruments and hedging activities that requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under the new guidance, and how derivative instruments and related hedged items affect the entity's financial position, results of operations, and cash flows. PowerSouth adopted this guidance on January 1, 2009. See further discussion of derivative instruments and hedging activities in Note 9.

## 2. ELECTRIC PLANT IN SERVICE

The major classes of electric plant in service and accumulated depreciation as of December 31, 2009 and 2008, are as follows:

	Cost		Annual Percentage Rate of Depreciation	Accumulated Depreciation	
	2009	2008		2009	2008
Steam plant	\$ 470,845,389	\$ 463,551,148	3.10 %	\$312,524,863	\$ 289,177,038
Transmission plant	338,263,258	330,712,409	2.75	121,836,887	114,214,897
Distribution plant	137,793,440	126,538,673	2.88	31,961,683	28,884,687
Hydraulic plant	13,813,317	13,209,381	2.00	5,832,658	5,566,857
Gas turbine plant	439,132,316	439,164,894	3.00	132,323,034	120,738,089
General plant	42,690,094	42,081,583	Various	27,629,470	26,380,159
Total	<u>\$1,442,537,814</u>	<u>\$1,415,258,088</u>		<u>\$632,108,595</u>	<u>\$584,961,727</u>

## 3. NONUTILITY PROPERTY

Nonutility assets are primarily assets of PowerSouth's subsidiaries. The major classes of nonutility property and accumulated depreciation as of December 31, 2009 and 2008, are as follows:

	Lives	2009	2008
Land and building	25 years	\$2,382,918	\$2,376,547
Machinery and equipment	10 years	6,613,618	6,743,813
Transportation equipment	7 years	2,276,215	1,999,699
Furniture and fixtures	7 years	94,445	94,769
		11,367,196	11,214,828
Accumulated depreciation		<u>(5,961,788)</u>	<u>(5,570,991)</u>
Total		<u>\$5,405,408</u>	<u>\$5,643,837</u>

## 4. INVESTMENTS AND SUBSCRIPTIONS

The majority of the capital term certificates bear interest at 5% to 7.5%. These investments are required under borrowing arrangements with the National Rural Utilities Cooperative Finance Corporation (National Rural). At December 31, 2009, PowerSouth had no commitments to purchase additional capital term certificates from National Rural.

Investments in associated organizations consist primarily of National Rural patronage capital certificates and loans provided through PowerSouth's Business Development Loan Program. The business development loan program was established by PowerSouth, in cooperation with its member systems, in an effort to attract and retain businesses and industry. Under this loan program, PowerSouth provides zero-interest loans to member systems, who, in turn, loan funds to applicants for the construction of local speculative buildings and related infrastructure.

## 5. PATRONAGE CAPITAL AND OTHER EQUITIES

Under provisions of a mortgage agreement, until PowerSouth's total equities and margins equal or exceed 40% of its total assets, the return of patronage capital to members is generally limited to 25% of the patronage capital and margins received from them during the previous calendar year. Such capital can be returned only if, after the distribution, total equities and margins equal or exceed 20% of total assets. At December 31, 2009 and 2008, substantially all patronage capital generated from wholesale energy sales has been assigned to members based upon their share of amounts paid for wholesale energy during prior years.

During 2008, PowerSouth received grant funds totaling \$300,000 from the U.S. Department of Agriculture (USDA) through its rural economic development loan and grant program. As of December 31, 2009, the cumulative amount of grant funds PowerSouth has received under this program was approximately \$1.2 million. As a participant in this program, PowerSouth is to use the grant funds to provide loans to various entities in an effort to promote rural economic development. The amounts received under these grants are included in restricted funds in the accompanying consolidated balance sheets. Management believes that the grant funds received by PowerSouth will not have to be repaid to the USDA.

## 6. DEBT

Long-term debt consists of mortgage notes and other borrowings payable to the United States of America and supplemental lenders acting through the RUS, the Federal Financing Bank (FFB), National Rural, and others. Substantially all of PowerSouth's assets are pledged as collateral for long-term debt. The indenture agreement, related to the mortgage notes, requires that a certain minimum debt service ratio be maintained. The terms of the notes as of December 31, 2009 and 2008, are as follows:

PowerSouth:	2009	2008
RUS mortgage notes payable:		
Fixed-rate notes of 2%, due in quarterly installments through 2009 and maturing at various dates through 2010	\$ 937	\$ 288,402
Fixed-rate notes of 5% to 5.5%, due in quarterly installments and maturing at various dates through 2028	37,560,235	39,386,194
Fixed-rate notes of 0%, due in monthly installments and maturing in 2016	874,999	1,019,444
FFB mortgage notes payable:		
Fixed-rate notes, weighted-average interest rate of 5.43% at December 31, 2009, due in quarterly installments and maturing at various dates through 2037	689,559,084	659,990,364
RUS advance payments unapplied*	(770,545)	(300,000)
RUS and FFB mortgage notes payable — net of advance payments unapplied	727,224,710	700,384,404
National Rural mortgage notes payable and other notes payable:		
Fixed-rate notes of 5.90% to 6.05%, due in quarterly installments and maturing at various dates through 2030	31,416,817	32,730,157
Fixed-rate notes of 8.61% to 9.07%, due in annual installments and maturing through 2022	23,750,000	25,000,000
Fixed-rate notes of 7.05% to 9.10%, due in annual installments beginning in 2024 and maturing in 2037	25,050,500	25,050,500
Fixed-rate notes of 4.70% to 5.25%, due in annual installments and maturing through 2013	8,000,000	10,000,000
Pollution Control Bonds and Gulf Opportunity Zone Bonds issued in conjunction with the Industrial Development Board of the Town of Chatom, Alabama:		
Variable rate serial bonds, 1.06% at December 31, 2009, maturing annually through 2014, backed by a repurchase agreement and guarantee	2,005,000	2,305,000
Variable rate bonds, 1.60% at December 31, 2009, due in annual installments beginning in 2020 and maturing in 2024, backed by a standby bond purchase agreement with a financial institution	19,200,000	19,200,000
Variable rate bonds, 3.21% at December 31, 2009, maturing in 2031, backed by a Letter of Credit	5,000,000	5,000,000
Variable rate bonds, 7.54% at December 31, 2009, due in annual installments beginning in 2016 and maturing in 2037, backed by a standby purchase agreement	50,000,000	50,000,000
Auction rate bonds, 4.19% at December 31, 2009, due in annual installments beginning in 2016 and maturing in 2037	75,000,000	75,000,000
Auction rate bonds, 4.06% at December 31, 2009, due in annual installments beginning in 2010 and maturing in 2016	40,000,000	40,000,000
Variable rate bonds, 1.60% at December 31, 2009, due in annual installments beginning in 2010 and maturing in 2038, backed by a standby purchase agreement	125,000,000	125,000,000
Syndication Loan agreement with National Rural and additional lenders:		
Tranche "A" Banks, variable rate loans of 0.80% to 0.81% at December 31, 2009, maturing in 2012	125,000,000	125,000,000
Tranche "B" National Rural, variable rate loans of 0.75% to 0.76% at December 31, 2009, maturing in 2012	100,000,000	100,000,000
Total long-term debt	1,356,647,027	1,334,670,061
Less long-term debt due within one year	(58,031,501)	(45,729,065)
Total	<u>\$1,298,615,526</u>	<u>\$1,288,940,996</u>

\*RUS advance payments unapplied are required to be applied to the debt service requirements of the RUS and FFB mortgage notes payable and are, therefore, reflected net in the related balances in the consolidated balance sheets.

Long-term debt maturities for 2010 through 2014 and thereafter are as follows:

<b>Years Ending</b>	
<b>December 31</b>	
2010	\$ 58,031,501
2011	56,316,071
2012	277,709,888
2013	53,741,694
2014	55,913,038
Thereafter	<u>854,934,835</u>
	<u>\$1,356,647,027</u>

In September 2008, PowerSouth issued Gulf Opportunity Zone Bonds Series 2008A in the semiannual mode in the aggregate principal amount of \$125,000,000. Proceeds of the bonds will be used to finance a portion of the costs associated with the air quality control project and the barge unloader project at Lowman Power Plant.

In January 2007, PowerSouth entered into an unsecured syndication credit agreement (Syndication Loan) with National Rural and five additional lenders that totaled \$225,000,000 in aggregate. Terms of the loan require quarterly interest payments at London InterBank Offered Rate (LIBOR), plus 0.50% to 0.65%. The loan agreement is in place for five years with a maturity date of January 2012. The purpose of the loan is to finance the air quality control project, the barge unloader project, and the slope stability project at Lowman Power Plant.

A feature of the Syndication Loan allowed PowerSouth to borrow short-term loans up to \$25,000,000 in aggregate. In July 2008, PowerSouth entered into a revolving line of credit agreement with National Rural that increased its credit limit to \$50,000,000. In December 2008, PowerSouth canceled the line of credit with National Rural and replaced it with a \$50,000,000 line of credit with Regions Bank. The purpose of the line of credit was to provide temporary financing until long-term funding could be secured through RUS. The outstanding balance on the line of credit at December 31, 2009 and 2008, was \$30,000,000 and \$50,000,000, respectively.

In April 2007, PowerSouth issued two series of Gulf Opportunity Zone Bonds (Series 2007A and Series 2007B) in the auction rate mode in the aggregate principal amount of \$125,000,000. In May 2007, PowerSouth also issued a series of Pollution Control Bonds in the auction mode in the aggregate principal amount of \$40,000,000 (Series 2007C). Proceeds from all three bond series were used to finance the air quality control project underway at Lowman Power Plant. In February 2008, PowerSouth was notified by its broker dealers of failed bond auctions related to these Series 2007A, Series 2007B, and Series 2007C auction mode bonds. This action resulted from adverse conditions arising from subprime credit defaults experienced in the market, including the downgrade of the underlying credit rating of PowerSouth's Series 2007B and Series 2007C bond insurer from AAA to AA. As a result of the failed bond auctions, the Series 2007B and Series 2007C bonds are being held by the bondholders, and PowerSouth is required to pay the maximum interest rate under the bond agreement, which is LIBOR plus 2%. Management elected to recall the 2007A auction mode bonds and, in May 2008, reissued them in semiannual mode with a standby purchase agreement with a financial institution as collateral.

In January 2008, the remarketing agent for the Southeast Alabama Gas District Pipeline Bonds, Merchant Capital, gave notice that one of the two bondholders was putting back \$3,700,000 in bonds. In February 2008, the second bondholder put back \$15,515,000 of the bonds. Rather than converting the bonds to a bank loan, PowerSouth chose to buy back the bonds. Merchant Capital has attempted to remarket the bonds on PowerSouth's behalf, but due to the very limited market for small taxable bond issues, the terms for such a reissue have not been favorable. However, PowerSouth plans to remarket the bonds once the bond market stabilizes.

The RUS Advance Payments Unapplied Account is an interest-bearing account and principal only is restricted for the debt service of RUS-guaranteed debt. During 2009 and 2008, PowerSouth made principal and interest payments to FFB and RUS with funds held in the RUS Advance Payment Unapplied account of \$63,106,413 and \$15,000, respectively. The balance in this account at December 31, 2009 and 2008, was \$770,546 and \$300,000, respectively.

At December 31, 2009 and 2008, PDC had \$218,626 and \$84,020, respectively, in grant/loan funds from the Alabama Department of Economic and Community Development outstanding. PDC serves as a conduit entity for these grant/loan funds, dispersing them in the form of low interest rate loans (0% to 5%) to local government energy-efficient projects.

Cash payments for interest, net of amounts capitalized (\$1,872,249 and \$9,327,067) for the years 2009 and 2008, were \$50,842,195 and \$53,807,151, respectively.

## 7. RELATED PARTIES

Under long-term wholesale power contracts with each of its members, PowerSouth is obligated to provide all of the power required by the member systems to the extent that PowerSouth has power available. In addition, PowerSouth performs certain construction and repair work at cost for its members.

## 8. RETIREMENT AND OTHER EMPLOYEE BENEFITS

PowerSouth participates in the National Rural Electric Cooperative Association's (NRECA) multiemployer retirement and security plan. The plan is a contributory defined benefit pension plan covering substantially all employees. Total expenses incurred for this plan by PowerSouth in 2009 and 2008 were \$6,077,993 and \$5,150,230, respectively.

PowerSouth also participates in NRECA's multiemployer SelectRE Pension Plan. The plan is a defined contribution pension plan in which employees are eligible to participate. PowerSouth's share of plan expense for the years 2009 and 2008 was \$1,643,943 and \$1,540,643, respectively.

In addition to these benefits, PowerSouth also sponsors a nonqualified deferred compensation plan that is available to certain employees. PowerSouth incurs no expenses associated with this plan.

PowerSouth also sponsors a defined benefit plan that provides self-insured medical coverage to retirees and their dependents. Participants must contribute one-half of the contributions paid by PowerSouth for their particular coverage. During 2009 and 2008, retirees made contributions of \$312,355 and \$321,054, respectively. During 2009 and 2008, PowerSouth made contributions of \$446,797 and \$444,616, respectively.

The self-insured medical plan's funded status and amounts recorded in the financial statements as of December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 13,070,635	\$ 12,865,661
Service cost	377,359	371,733
Interest cost	756,840	755,945
Plan amendments		
Employer-paid benefits	(317,069)	(258,121)
Actuarial gain	(302,191)	(664,583)
Benefit obligation at end of year	<u>\$ 13,585,574</u>	<u>\$ 13,070,635</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	\$ —
Actual return on plan assets		
Retiree contributions	312,355	321,054
Employer-paid benefits	227,067	258,121
Total benefits paid	(539,422)	(579,175)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>
Fund status of plan and amounts recognized in the consolidated balance sheets:		
Current liabilities	\$ 625,000	\$ 514,000
Noncurrent liabilities	12,960,574	12,556,635
Amount recognized at year-end	<u>\$ 13,585,574</u>	<u>\$ 13,070,635</u>
Amounts recognized as a regulatory liability:		
Unrecognized actuarial gain	\$ 6,937,622	\$ 6,994,748
Unrecognized prior service cost		23,000
Amount recognized at year-end	<u>\$ 6,937,622</u>	<u>\$ 7,017,748</u>
Estimated amounts amortized from regulatory liability into net periodic benefit cost in 2010:		
Amortization of actuarial gain	\$ 400,000	
Amortization of prior service cost	\$ —	

	2009	2008
Weighted-average assumptions as of the end of the year:		
Measurement date	December 31, 2009	December 31, 2008
Discount rate	6.00 %	6.25 %
Mortality table/Life expectancy	RP 2000	RP 2000
Health care cost trend rate:		
Initial	5.50 %	6.00 %
Ultimate	5.00 %	5.00 %
Year in which ultimate rate reached	2011	2011

	Increase	Decrease	Increase	Decrease
Net effect of a one-percentage point increase or decrease in assumed trend rates:				
Accrued postretirement benefit cost as of year-end	\$ 2,579,584	\$ (2,025,759)	\$ 2,434,194	\$ (1,914,622)
Interest and service cost for year	272,486	(208,392)	272,811	(208,373)

Net periodic postretirement benefit cost:				
Service cost	\$ 377,359		\$ 371,733	
Interest cost	756,840		755,945	
Expected return on plan assets				
Amortization of prior service cost	(23,000)		(32,000)	
Amortization of actuarial gain	(407,354)		(377,920)	
Net periodic postretirement benefit cost	\$ 703,845		\$ 717,758	

Weighted average assumptions used for expense — discount rate	6.25 %	6.25 %
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The expected postretirement medical benefit payments to be paid in the following years are as follows:

Years Ending December 31	Expected Gross Benefit Payments	Expected Medicare Part D Subsidy
2010	\$657,000	\$32,000
2011	618,000	33,000
2012	620,000	35,000
2013	625,000	35,000
2014	651,000	36,000
2015–2019	3,528,000	183,000

Under the above plans, PowerSouth also provides medical insurance coverage to employees on long-term disability and their dependents. The amount accrued for this benefit as of December 31, 2009 and 2008, was \$1,383,772 and \$1,447,888, respectively.

PowerSouth is generally self-insured for losses and liabilities primarily related to health and welfare claims. Losses are accrued based on estimates of the aggregate liability for claims incurred based on PowerSouth's experience. All losses are subject to certain limitations, the excess of which is the responsibility of the coinsurer. As of December 31, 2009 and 2008, the amount accrued for self-insured medical claims was \$1,186,093 and \$1,683,159, respectively.

## 9. FINANCIAL INSTRUMENTS

**Derivative Instruments** — PowerSouth is exposed to various market risks in the course of its business activities, including changes in interest rates and changes in certain energy-related commodity prices. Interest rate risk is associated with the changes in interest rates that impact PowerSouth's debt instruments. PowerSouth's energy-related commodity price risk involves changes in market price of power, natural gas, and coal and the impact of such changes on its ability to generate sufficient cash flows to cover its operational costs. To reduce exposure to adverse fluctuations in these areas, PowerSouth uses derivative financial instruments as part of its risk management strategy. PowerSouth's policy is that derivatives are to be used only for hedging purposes and will not engage in transactions unrelated to underlying physical or financial exposures. PowerSouth does not enter into derivative financial instruments for trading purposes.

PowerSouth is exposed to risks resulting from changes in interest rates as the result of use of variable rate debt as a source of financing. PowerSouth manages its interest rate exposure by limiting the total amount of its variable rate exposure and by actively monitoring the effects of market changes in interest rates. PowerSouth may also manage the risk of interest rate fluctuations through the use of derivative financial instruments. During 2007, in connection with the issuance of the Gulf Opportunity Zone Bonds and Pollution Control Bonds (see Note 6), PowerSouth entered into a cash flow hedge using interest rate swaps to lock the variable interest rates associated with the auction mode bonds. Under the interest rate swaps, on a quarterly basis, PowerSouth pays a fixed rate of interest to the swap counterparties. The counterparties, in turn, pay PowerSouth on a monthly basis based on a variable interest rate index. The term of the interest rate swaps extends over the term of the bonds, which mature in 2037. The interest rate swaps are recorded at fair value and are included in the accompanying consolidated balance sheets as the fair market value of interest rate swap liability. A regulatory asset is recognized to offset the liability, as such costs are included in rates. Their fair values were determined using Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities, as defined in fair value guidance. As the interest rate swaps are settled, the interest rate swap liability is reclassified into interest expense in the same period during which the underlying transaction affects margins.

The greatest impact to the wholesale energy costs PowerSouth collects from its Members in recent years has been due to increases in the prices for the fuels PowerSouth uses to generate electricity. The largest relative increase in recent years has been in natural gas prices, with the price of coal and the price of substitute power also increasing. As a result, PowerSouth adopted a Risk Management Policy to address the risks associated with natural gas price changes. This policy recognizes exposure associated with budgeted natural gas consumption and establishes the use of derivatives, hedging criteria, and timetables for execution of minimum volumes of hedge transactions. Accordingly, PowerSouth uses regulatory hedges, primarily in the form of exchange-traded option contracts and futures contracts, to reduce exposure to the risk of volatile natural gas prices associated with its purchases of natural gas. The natural gas derivative contracts are included as the fair market values of gas hedge assets or liabilities in the accompanying consolidated balance sheets. A regulatory asset is recognized to offset the liability, as such costs are included in rates. These fair values were determined using Level 1 quoted prices in active markets for identical assets or liabilities, as defined in fair value guidance. As the natural gas hedge contracts are settled, the gas hedge asset or liability is reclassified into fuel expense in the same period during which the underlying transaction affects margins.

At December 31, 2009 and 2008, the fair value of interest rate derivatives and natural gas derivatives was reflected in the balance sheets as follows:

Derivative Category	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		2009	2008		2009	2008
Interest rate derivatives:	Fair market value of interest rate swaps	\$ —	\$ —	Fair market value of interest rate swaps	\$ 18,171,125	\$ 40,216,526
Natural gas derivatives:	Fair market value of gas hedges		856,150	Fair market value of gas hedges	4,443,640	24,037,400
Total		\$ —	\$ 856,150		\$ 22,614,765	\$ 64,253,926

For the years ended December 31, 2009 and 2008, the effect of interest rate derivatives and natural gas derivatives designated as regulatory hedging instruments on the statements of revenue and expenses and patronage capital were as follows:

Derivates Designated as Regulatory Hedges	Location in Statements of Revenue and Expenses and Patronage Capital	Amount of Gain or (Loss) Recognized Into Margin	
		2009	2008
Interest rate derivatives	Interest expense	\$ (5,511,226)	\$ (2,940,217)
Natural gas derivatives	Fuel expense	(62,625,893)	20,593,922
Total		<u>\$ (68,137,119)</u>	<u>\$ 17,653,705</u>

**Other Financial Instruments** — Cash and cash equivalents, temporary investments, restricted cash and cash equivalents-bond proceeds, capital term certificates and subscriptions, notes payable, and long-term debt are considered financial instruments. The carrying values of cash and cash equivalents, temporary investments, restricted cash and cash equivalents-bond proceeds, and short-term notes payable approximate the fair market value due to the short maturity of these instruments. The fair value for temporary investments was determined using Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities, as defined in fair value guidance. The fair value of restricted cash and cash equivalents-bond proceeds was determined using Level 1 quoted prices in active markets for identical assets or liabilities, as defined in fair value guidance. The fair value of capital term certificates and subscriptions is not estimable, since these instruments must be held by PowerSouth and can only be returned to National Rural. As such, capital term certificates and subscriptions are recorded at cost in the accompanying consolidated balance sheets. National Rural requires PowerSouth to hold the certificates as a condition of National Rural's financing.

The market values of long-term debt instruments have been estimated based upon published terms of comparable issues by PowerSouth's lenders or rates and maturities of recent issues of comparable instruments. The carrying amounts and estimated fair values of these financial instruments as of December 31, 2009 and 2008, are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$1,356,647,027	\$1,393,077,077	\$1,334,670,061	\$1,393,265,089

## 10. INCOME TAXES

CSI and subsidiary, Andalusia & Conecuh Railroad Company, Inc., and PDC are not part of the tax-exempt operations of PowerSouth and, accordingly, are subject to state and federal income taxes. For the years ended December 31, 2009 and 2008, the components of the income tax expense are as follows:

	2009	2008
Federal:		
Current	\$ —	\$ 2,122
Deferred	(39,026)	(24,726)
	<u>(39,026)</u>	<u>(22,604)</u>
State:		
Current	5,736	29,896
Deferred	(7,434)	(4,710)
	<u>(1,698)</u>	<u>25,186</u>
Change in valuation allowance	<u>46,460</u>	<u>29,436</u>
Income tax expense	<u>\$ 5,736</u>	<u>\$ 32,018</u>

The sources and tax effect of temporary differences as of December 31, 2009 and 2008, are as follows:

	2009	2008
Allowance for doubtful accounts	\$ 146,851	\$ 117,485
Accrued expenses	44,037	40,152
Intangible assets	60,665	71,066
Net operating loss (NOL) carryforward	<u>4,877,874</u>	<u>4,908,141</u>
Total deferred tax assets	5,129,427	5,136,844
Less valuation allowance	<u>(4,400,730)</u>	<u>(4,354,270)</u>
Net deferred tax assets	<u>728,697</u>	<u>782,574</u>
Property, plant, and equipment	<u>(728,697)</u>	<u>(782,574)</u>
Total deferred tax liability	<u>(728,697)</u>	<u>(782,574)</u>
Net deferred tax liability	<u>\$ —</u>	<u>\$ —</u>

The primary reconciling items between CSI's effective tax rate and the federal statutory rate are state income taxes, net of federal benefit, and the change in the valuation allowance.

In assessing the need for a valuation allowance on deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon generation of taxable income during the periods in which those temporary differences become deductible. Management considers the schedule of reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections of future taxable income over the periods that the deferred tax assets are deductible, management does not anticipate future taxable income sufficient to realize the full benefit of the deferred tax assets at December 31, 2009. Accordingly, management has established a valuation allowance for the net deferred tax assets as reflected above.

At December 31, 2009, CSI had NOL carryforwards of approximately \$12.5 million. These NOL carryforwards will begin to expire in 2019.

On January 1, 2007, PowerSouth adopted the new provisions of generally accepted accounting principles related to accounting for uncertainty in income taxes. Upon adoption, there were no uncertain tax positions that were material to PowerSouth's results of operations or financial position, and we do not expect any change to these positions in the next twelve months.

In the ordinary course of business, there is inherent uncertainty in quantifying PowerSouth's income tax positions. PowerSouth assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, PowerSouth records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest and penalties will also be recognized.

PowerSouth has determined that its taxable years ended December 31, 1999 through December 31, 2009 are still subject to examination under federal tax statutes. Furthermore, PowerSouth tax years ended December 31, 1999 through December 31, 2009 are still subject to exam under state statutes.

## 11. COMMITMENTS AND CONTINGENCIES

Contract commitments for coal, coal transportation, natural gas, and purchases of energy and capacity for the next five years are as follows:

	2010	2011	2012	2013	2014	Total
Coal and coal transportation	\$ 103,003,560	\$ 73,324,000	\$ 42,610,000	\$ 18,786,000	\$ 18,786,000	\$ 256,509,560
Natural gas	43,627,239	17,303,572	2,014,200			62,945,011
Power purchases	77,284,403	76,109,761	78,233,334	81,063,504	112,070,406	424,761,408
Total	\$ 223,915,202	\$ 166,737,333	\$ 122,857,534	\$ 99,849,504	\$ 130,856,406	\$ 744,215,979

Minimum cost of coal and coal transportation is based on current prices and is subject to escalation clauses, which are generally based on cost increases incurred by the suppliers. The contracts are terminable by PowerSouth under certain conditions. The above costs for purchase of energy and capacity are based on average system cost and contractual prices, which are tied to inflation. As of December 31, 2009, PowerSouth was party to three supply contracts to purchase natural gas that extend through March 2012. These contracts require PowerSouth to receive and purchase the daily MMBtu quantity of natural gas stated in each contract. The cost of natural gas provided under these contracts is based on various quoted natural gas price indexes.

On March 1, 2005, PowerSouth entered into a gas supply contract with Southeast Alabama Gas District (the District) in an effort to secure long-term economical gas supplies. The gas received under this contract is supplied by Public Gas Partners (PGP), a gas supply agency consisting of seven public gas and electric utilities, of which the District is a member. The District, as a PGP member, has entered into two Natural Gas Production Sharing Agreements (PSA) with PGP, Gas Supply Pool 1 (Pool 1) and Pool 2. PowerSouth has contracted to participate with the District in Pool 1 PSA. Participation with the District in Pool 1 has committed PowerSouth to take up to 2,500 MMBtu/day of gas, 23.18% of the District's total share. Under this agreement, PowerSouth is also obligated to pay its share of costs incurred by Pool 1 PSA to the District, as well as an administrative fee of up to \$0.10 per MMBtu for gas delivered to PowerSouth under the contract. As of December 31, 2009, PowerSouth had received no physical deliveries of gas under this contract. During 2009 and 2008, all of the gas that was acquired by PGP in Pool 1 was sold into markets near the points of production. As such, in 2009 and 2008, PowerSouth received its share of deliveries in the form of cash payments totaling \$16,415 and \$76,901, respectively.

On December 4, 2008, PowerSouth received notice from its largest industrial customer that, beginning in December 2008, it would indefinitely idle its plant located in Monroe County, Alabama. Contract terms state that through November 2009, the customer is required to pay approximately 90% of the demand charge that it would have otherwise paid under normal operating circumstances. Through February 2009, the customer has fulfilled its obligations under the contract. In April 2009, the customer filed bankruptcy under Chapter 11.

On January 31, 2001, PowerSouth entered into a contractual commitment to purchase combustion turbine parts, shop repairs, and scheduled outage services for the two combustion turbines included in the Vann Power Plant. The contract terminates upon the earlier of the completion of the shop repairs following the second scheduled major outage of the applicable combustion turbine or 16 years. The estimated maintenance costs over the contract term are \$65 million. The estimated cost of the parts is approximately \$9 million.

PowerSouth is involved in litigation arising in the normal course of business, including claims and counterclaims related to a bankrupt former customer. Management believes that the ultimate resolution of such litigation will not have a material adverse effect on the consolidated financial statements of PowerSouth.

## 12. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2009 and 2008, the asset retirement obligations consisted of the following items:

	2009	2008
Asbestos removal and disposal	\$ 816,212	\$ 781,525
Landfill closure	112,273	107,310
Radioactive sensor removal and disposal	92,459	88,476
Coal pile removal and disposal	37,987	36,352
Total asset retirement obligations	\$ 1,058,931	\$ 1,013,663
Balance of asset retirement obligations — beginning of year	\$ 1,013,663	\$ 968,014
Liabilities incurred in the current period		2,430
Accretion expense	45,268	43,219
Balance of asset retirement obligations — end of year	\$ 1,058,931	\$ 1,013,663

## 13. SEGMENT REPORTING

PowerSouth is organized into two operating segments: Utility and nonutility. Utility consists of the electric generation, transmission, and distribution activities. Nonutility includes all operations of subsidiaries not related to the utility activities. Management evaluates segment performance on net margin. There were no material intersegment sales in fiscal 2009 and 2008.

	Operating Revenues	Administrative and General	Depreciation and Amortization	Interest Income	Interest Expense	Income Tax Expense	Net Margin	Total Assets	Capital Expenditures
<b>Fiscal 2009</b>									
Utility	\$638,392,874	\$19,886,738	\$53,177,646	\$ 3,727,495	\$63,931,756	\$ —	\$23,264,305	\$1,704,285,153	\$ 120,175,437
Nonutility	11,594,220	4,127,279	530,129	7,351		5,736	(129,816)	9,831,073	382,971
Total	\$649,987,094	\$24,014,017	\$53,707,775	\$3,734,846	\$63,931,756	\$ 5,736	\$23,134,489	\$1,714,116,226	\$120,558,408
<b>Fiscal 2008</b>									
Utility	\$736,883,130	\$18,361,858	\$47,447,165	\$ 2,807,396	\$57,629,309	\$ —	\$28,458,526	\$1,715,461,974	\$159,383,401
Nonutility	13,507,144	4,214,554	530,444	9,356		32,018	(94,338)	10,063,255	277,461
Total	\$750,390,274	\$22,576,412	\$47,977,609	\$2,816,752	\$57,629,309	\$ 32,018	\$28,364,188	\$1,725,525,229	\$159,660,862

## 14. PURCHASE POWER AGREEMENT

Municipal Electric Authority of Georgia (MEAG) is a participant in the proposed development of two additional nuclear generating units, Units 3 and 4, to be located at Alvin W. Vogtle Nuclear Plant in Burke County, Georgia (the Additional Units), each with a nominally generating capacity of 1,102 megawatts (MW). Currently, commercial operation for the two Additional Units is scheduled to commence in 2016 and 2017, respectively. MEAG's ownership interest in the Additional Units is 22.7%, representing approximately 500 MW of capacity. In connection with MEAG's interest in the Additional Units, PowerSouth has entered into a take-or-pay Power Purchase Agreement (PPA-2 Project) with MEAG which, for the initial twenty years of commercial operation of each Additional Unit, MEAG will provide, and PowerSouth will take, approximately 25% of MEAG's ownership interest in the Additional Units, representing approximately 125 MW of capacity.

In May 2009, to finance a portion of the PPA-2 Project, MEAG issued Series 2009A Bond Anticipation Notes of \$63,990,000 (2009A BANs) and Taxable Series 2009B Bond Anticipation Notes of \$64,995,000 (2009B BANs). The 2009A BANs bear interest at a fixed rate of 2% and the 2009B BANs bear interest at a fixed rate of 2.25%. Both series of BANs will mature in June 2010. Subject to certain limitations, for the initial twenty years of commercial operation of each Additional Unit, PowerSouth will be responsible for all of MEAG's costs relating to the PPA-2 Project, including debt service on the 2009A and 2009B BANs. Also, under certain circumstances relating to delay, cancellation, or termination of either or both of the Additional Units, PowerSouth's payment obligations will be adjusted to maintain its twenty year commitment. Furthermore, if either or both of the Additional Units is terminated prior to commercial operation, PowerSouth will be liable for 50% of any costs of acquisition and construction related to the PPA-2 Project. PowerSouth's obligation to pay its share of the PPA-2 Project costs is scheduled to begin on the first commercial operation date, which is expected to be in 2016.

During 2008, in an effort to secure long-term financing, MEAG applied to the U.S. Department of Energy (DOE) for a federal loan guarantee to fund an aggregate of up to 80% of specified project costs for its 22.7% interest in the Additional Units.

#### 15. SUBSEQUENT EVENTS

In order to obtain additional working capital, effective January 1, 2010, PowerSouth entered into revolving loan agreements with Regions Bank and National Rural in the amount of \$50,000,000 each. The credit agreement with Regions Bank bears interest at the greater of 2.35% or one-month LIBOR plus 1.95% and matures in December 2011. The loan agreement with National Rural bears interest at National Rural's Line of Credit Rate and matures in December 2011.

In March 2010, MEAG secured long-term financing on the PPA-2 Project when it issued Taxable Series 2010A Build America Bonds of \$383,405,000 (Series 2010A) and Series 2010B Tax-Exempt Bonds of \$7,090,000 (Series 2010B). The Series 2010A Bonds bear interest at a fixed rate of 7.055% and will be payable in annual installments beginning in 2018 and maturing in 2057. Provided it complies with the requirements of the American Recovery and Reinvestment Act of 2009, MEAG is entitled to receive a cash subsidy payment rebating a portion of the interest on the Series 2010A Bonds from the U.S. Treasury equal to 35% of the interest payable on such bonds. The Series 2010B Bonds bear interest at a fixed rate of 5% and will be payable in five installments beginning in 2017 and maturing in 2040. Proceeds of the Series 2010A&B Bonds will be used to fund a portion of the costs of construction of the PPA-2 Project, refinance a portion of the outstanding 2009A BANs, fund capitalized interest on the Series 2010A&B Bonds, provide money to fund a debt reserve account, and pay the costs of issuance of the Series 2010A&B Bonds. For the initial twenty years of commercial operation of each Additional Unit, PowerSouth will be responsible for all of MEAG's costs relating to the PPA-2 Project, including debt service on the Series 2010A&B Bonds issued to finance the PPA-2 Project. PowerSouth's payment obligation to pay its share of the Series 2010A&B Bonds is expected to begin in 2016.

In March 2010, the DOE selected MEAG to be considered for a conditional loan guarantee for financing its interest in Vogtle Units 3&4. MEAG expects to commence negotiation of the terms and conditions of the conditional loan guarantee during 2010. Once issued, DOE's guarantee will be irrevocable and unconditional and will pledge the full faith and credit of the United States of America to the payment of the guaranteed loans. The aggregate principal amount of the guaranteed loan for PPA-2 Project may not exceed the lesser of \$692,546,000 or 71.2% of the PPA-2 Project's eligible project costs.

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## PowerSouth Energy Cooperative and Subsidiaries Five-Year Financial Summary

	Year Ended December 31				
	2009	2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Total Operating Revenue	\$ 649,987,094	\$ 750,390,274	\$ 632,172,025	\$ 628,614,177	\$ 522,973,615
Operating Costs and Expenses:					
Power Production	322,968,973	293,994,933	259,494,717	255,726,503	197,931,275
Purchased Power	117,647,451	256,928,601	206,679,821	214,586,706	173,546,395
Transmission and Distribution	42,590,946	38,446,121	37,682,305	33,388,383	31,964,776
Propane Cost of Sales	7,313,834	9,057,893	8,181,938	7,017,274	6,524,778
Administrative and General	24,014,017	22,576,412	22,534,383	20,006,280	20,025,254
Depreciation and Amortization	53,707,775	47,977,609	41,664,009	40,683,446	39,776,221
Total Costs and Expenses	<u>568,242,996</u>	<u>668,981,569</u>	<u>576,237,173</u>	<u>571,408,592</u>	<u>469,768,699</u>
Operating Margin	81,744,098	81,408,705	55,934,852	57,205,585	53,204,916
Interest Expense	63,931,756	57,629,309	50,820,753	49,587,779	48,737,671
Nonoperating Margin	5,327,883	4,616,810	6,686,224	6,594,223	4,861,883
Income Tax Expense	5,736	32,018	796	6,714	2,812
Cumulative Effect of the Change in Accounting for Asset Retirement Obligations	—	—	—	—	660,689
Net Margin	<u>\$ 23,134,489</u>	<u>\$ 28,364,188</u>	<u>\$ 11,799,527</u>	<u>\$ 14,205,315</u>	<u>\$ 8,665,627</u>
GENERATION-KWH					
Steam	3,899,430,130	4,457,326,950	4,483,519,470	4,740,696,150	4,768,578,020
Hydraulic	31,477,130	22,678,430	13,475,440	18,143,360	29,018,360
Other	2,322,893,310	1,161,670,250	1,078,703,080	1,170,284,150	1,041,753,710
Total	<u>6,253,800,570</u>	<u>5,641,675,630</u>	<u>5,575,697,990</u>	<u>5,929,123,660</u>	<u>5,839,350,090</u>
ENERGY SALES-KWH					
Cooperatives	7,406,264,520	8,121,736,320	8,171,216,000	7,942,550,350	7,622,375,760
Municipalities	547,249,200	560,773,840	608,381,400	647,475,320	663,800,020
Other	136,939,180	631,033,630	225,364,300	908,385,490	615,101,120
Total	<u>8,090,452,900</u>	<u>9,313,543,790</u>	<u>9,004,961,700</u>	<u>9,498,411,160</u>	<u>8,901,276,900</u>
MAXIMUM SYSTEM DEMAND-KW	<u>2,102,000</u>	<u>2,059,000</u>	<u>1,991,000</u>	<u>1,937,000</u>	<u>1,869,000</u>
UTILITY PLANT					
Electric Plant In Service	\$ 1,442,537,814	\$ 1,415,258,088	\$ 1,366,107,675	\$ 1,332,363,511	\$ 1,308,380,056
Construction Work in Progress	490,360,577	403,366,524	302,756,393	120,522,235	35,902,843
Total	1,932,898,391	1,818,624,612	1,668,864,068	1,452,885,746	1,344,282,899
Less Accumulated Depreciation	632,108,595	584,961,727	547,479,990	519,096,236	487,612,064
Utility Plant-Net	<u>\$ 1,300,789,796</u>	<u>\$ 1,233,662,885</u>	<u>\$ 1,121,384,078</u>	<u>\$ 933,789,510</u>	<u>\$ 856,670,835</u>
TOTAL ASSETS	<u>\$ 1,714,116,226</u>	<u>\$ 1,725,525,229</u>	<u>\$ 1,421,246,134</u>	<u>\$ 1,216,849,424</u>	<u>\$ 1,126,759,728</u>
TOTAL EQUITIES AND MARGINS	<u>\$ 174,924,762</u>	<u>\$ 151,790,273</u>	<u>\$ 123,126,085</u>	<u>\$ 111,326,558</u>	<u>\$ 96,821,243</u>



## Power pooling data:

	Average Consumers Served	Miles of Line	Total Utility Plant
<b>Baldwin EMC</b> , Summerdale, Ala.	66,940	4,325	\$ 213,694,381
<b>Central Alabama EC</b> , Prattville, Ala.	40,719	5,733	168,674,940
<b>CHELCO</b> , DeFuniak Springs, Fla.	42,571	3,856	144,846,360
<b>Clarke-Washington EMC</b> , Jackson, Ala.	20,212	4,048	76,769,367
<b>Coosa Valley EC</b> , Talladega, Ala.	16,629	2,396	79,197,684
<b>Covington EC</b> , Andalusia, Ala.	22,634	2,697	102,610,948
<b>Dixie EC</b> , Union Springs, Ala.	21,123	2,605	83,976,024
<b>Escambia River EC</b> , Jay, Fla.	10,014	1,800	41,360,500
<b>Gulf Coast EC</b> , Wewahitchka, Fla.	20,389	2,568	93,661,852
<b>Pea River EC</b> , Ozark, Ala.	18,370	2,976	68,278,097
<b>Pioneer EC</b> , Greenville, Ala.	13,110	2,745	55,746,838
<b>South Alabama EC</b> , Troy, Ala.	16,274	2,604	64,917,208
<b>Southern Pine EC</b> , Brewton, Ala.	20,461	3,246	64,449,401
<b>Tallapoosa River EC</b> , LaFayette, Ala.	24,146	3,748	87,577,952
<b>West Florida EC</b> , Graceville, Fla.	28,104	4,669	97,020,597
<b>Wiregrass EC</b> , Hartford, Ala.	22,733	3,655	73,243,450
<b>Utilities Board of the City of Andalusia, Ala.</b>	4,700	166	23,600,000
<b>City of Brundidge, Ala.</b>	1,392	68	5,666,148
<b>Water Works &amp; Electric Board of the City of Elba, Ala.</b>	1,752	85	2,103,262
<b>Utilities Board of the City of Opp, Ala.</b>	3,866	81	10,146,354
<b>TOTAL</b>	<b>416,139</b>	<b>54,071</b>	<b>\$ 1,557,541,363</b>

## Management staff:



Seated (left to right):

**Ferrell Walton**, Vice President and Chief Financial Officer; **Gary Smith**, President and Chief Executive Officer

Standing (left to right):

**Beth Woodard**, Vice President of Legal and Corporate Affairs; **Seth Hammett**, Vice President of Business Development; **Damon Morgan**, Vice President of Power Supply; **Larry Avery**, Vice President of Power Delivery; **Rick Kyle**, Director of Financial Operations; **Horace Horn**, Vice President of External Affairs

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**Vernon Baggett**  
Southern Pine EC

**Tom Bradley**  
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**Tom Stackhouse**  
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**Ashton Wells**  
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**Irvin Wells**  
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- (2) Ronald C. Jones, Vice Chairman of the Board
- (1) Gary Harrison, Secretary-Treasurer
- (2) Roy Barnes
- (1) Randy Brannon
- (3) James E. Grimes
- (1) Ken Nichols

## Nominating Committee:

- (2) William S. Rimes\*
- (1) Vince Johnson
- (1) Ruby Neeley
- (3) Jerome Rogers
- (3) Britt Thomas
- (1) Jim Winn

## Corporate Planning & Power Supply Committee:

- (1) Gary Harrison\*
- (2) Roy Barnes
- (2) Clay R. Campbell
- (1) Max I. Davis
- (1) Steve Harmon
- (3) James A. Rogers
- (1) Mike McWaters
- (1) Charles E. Short
- (1) Tom Stackhouse

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- (1) Vernon Baggett
- (1) Leland Fuller
- (1) Braxton Green
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- (1) Charles E. Short
- (1) Louie Ward
- (2) James E. Hall

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- (2) J.E. Smith
- (3) Britt Thomas
- (3) Ashton Wells
- (1) Irvin Wells
- (1) Leo Williams
- (1) Stan Wilson
- (2) Gus Wise

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- (1) Ruby Neeley\*
- (1) Leland Fuller
- (1) Thomas Bradley
- (1) Davis Henson, Jr.
- (1) Vince Johnson
- (3) Mickey Murdock
- (3) Britt Thomas

## Member Relations & Strategic Planning Committee:

- (1) Vince Johnson\*
- (1) Thomas Duncan
- (1) E.A. Jakins, Jr.
- (3) Earl Johnson
- (1) Kip Justice
- (2) William S. Rimes
- (3) Jerome Rogers
- (1) Gerald Shirah
- (1) Jim Winn

## Code:

- (1) Alabama Cooperative
- (2) Florida Cooperative
- (3) Municipality

\*Designates Chairman

As of Dec. 31, 2009



**POWERSOUTH**<sup>®</sup>  
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