PowerSouth®
ENERGY COOPERATIVE

2010 ANNUAL REPORT

POSITIVE | *energy*

CONTENTS

James A. Vann Power Plant, Gantt, Ala.

CORPORATE OVERVIEW

PowerSouth Energy Cooperative is a generation and transmission cooperative owned and governed by 16 distribution cooperatives and four municipal electric systems. PowerSouth safely provides reliable, economical and environmentally sound energy to meet the needs of nearly a million consumers in 39 Alabama and 10 Florida counties.

Strategic Generation Fleet

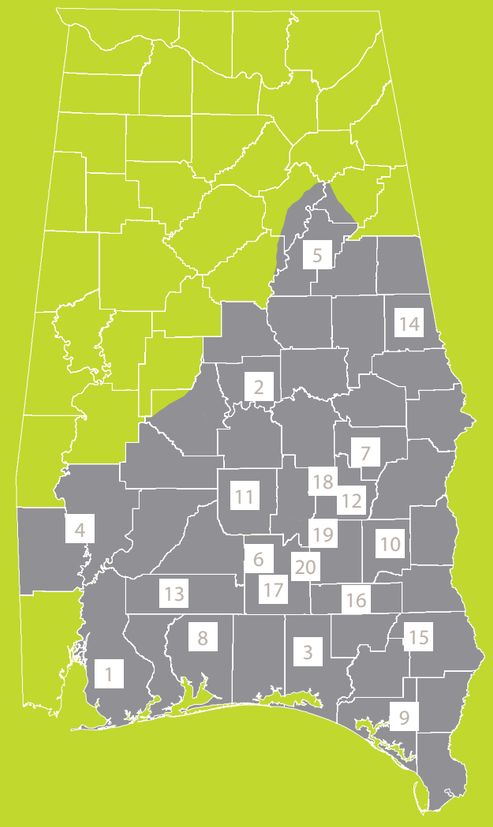
McIntosh Power Plant, McIntosh, Ala.	710 MW
Charles R. Lowman Power Plant, Leroy, Ala.	556 MW
James A. Vann, Jr. Combined Cycle Power Plant, Gantt, Ala.	539 MW
Maury A. McWilliams Combined Cycle Power Plant, Gantt, Ala.	159 MW
James H. Miller, Jr. Electric Generating Plant, Birmingham, Ala. (ownership interest)	114 MW
Gantt and Point A Hydroelectric Plants, Gantt, Ala.	8 MW

Statistical Highlights

	2010	2009
Operating Revenue	$ 673,711,461	$ 649,987,094
Operating Expense	$ 597,128,271	$ 568,242,996
Net Margin	$ 26,290,611	$ 23,134,489
Total Assets	$ 1,753,878,212	$ 1,714,116,226
Energy Sales (in megawatt-hours)	8,855,188	8,090,453
Issuer Credit Rating	A-	A-
Employees (full-time, including Cooperative Propane)	635	623
Transmission Lines in Service (in miles)	2,234	2,235
Service Territory (in square miles)	33,156	33,156
Substations (PowerSouth and member-owned)	286	286

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.**



TO OUR MEMBERS

Dear Members:

PowerSouth Energy Cooperative was formed as Alabama Electric Cooperative, Inc., in 1941 for the single purpose of providing reliable and affordable wholesale power for the aggregated needs of our members. Today, PowerSouth's mission remains the same, and our decisions are singularly focused on meeting our members' needs even though the legal and regulatory hurdles to meeting those needs have dramatically increased since 1941.

Development of a successful business plan is a difficult task for any business. That difficulty is magnified when the business involves millions of dollars in capital outlays, variable financing sources, diverse fuel supplies, strict operating parameters, shrinking emissions limits, increasing costs and stagnant household incomes.

PowerSouth and our members dealt with all those factors and more in 2010. Yet we had a successful year as we continued to provide wholesale power for our members at a competitive cost and further developed our business plan to meet our members' needs into the future.

Many factors are important for electric cooperatives — especially member relations and reliability — but cost of electric service is also a very important factor in fulfilling our members' needs and expectations. If our cost of service is competitive, all other factors look better.

PowerSouth's average wholesale cost to members increased from a 17-year low of 40 mills per kilowatt-hour in 1998 to an all-time high of 83.97 mills per kilowatt-hour in 2009. We know the burdens that high electric rates place on retail consumers, and we do all we can to minimize the rate increases and hold wholesale costs as low as possible. However, it is impossible to hold the line on wholesale costs when coal prices double or triple, natural gas prices increase from $2 per mmBtu to $9 per mmBtu, environmental regulation requires millions of dollars in new air quality control investments, and the members' load growth requires additional and more expensive generation capacity to be added to the system.

However, our wholesale cost of service in 2010 was much better than 2009. With natural gas costs retreating to the $4 per mmBtu range and coal prices settling to lower levels, we were able to decrease the cost of wholesale service to our members by 11.13 percent to 74.62 mills per kilowatt-hour. We are pleased we could reduce the wholesale cost of service in 2010, especially with the recession affecting so many households in our members' service area.

Our first corporate value is employee safety. Our employees are our most valuable asset, and our success is a direct result of our employees' accomplishments. To provide a safe workplace and promote a culture of safety for our employees, we hold regular safety meetings to review safety standards, provide incentives for safety achievements, enforce safety rules and discuss safety in every employee meeting. We have accepted an obligation to our employees and their families to keep the employees as safe as possible in the dangerous work environments associated with generating and transmitting electricity. Our mission is to have them return home from work safely every day.

In regard to workplace safety, we fell short of our goals in 2010. As a group, our employees experienced five lost-time accidents in 2010. Our safety shortcomings are not a result of a failure to train, educate or incentivize the workforce. Instead, our failures appear to be the result of inattention, over-confidence or a failure to anticipate the consequences and risks of an action.

Ronald Jones
Chairman, PowerSouth Board of Trustees

Gary Smith
PowerSouth President and CEO

Our 2010 safety record is unacceptable, and our management team accepts the responsibility to improve safety performance in the future. Our safety goals are very high — no lost-time accidents during a calendar year — especially considering the industrial setting, high voltage, high pressure and high temperature environments our employees encounter every day. But our goal is achievable. We had no lost time accidents in 2006. We will place more emphasis on safety in 2011 and try different approaches to improve our safety record for the good of employees and their families.

To ensure a more stable future for PowerSouth and our unionized employees, we reached a five-year agreement with the two local chapters of the International Brotherhood of Electrical Workers. The agreement provides for continued employment of our workforce and provides moderate annual compensation increases in recessionary periods. We are pleased to have an agreement that will provide contract stability for the next five years.

Our plants have traditionally been well above industry standards for reliability — most often in the mid-90 percent availability ranges. However, in 2010 Lowman Unit 2 tripped off-line and came down without lubricating oil on the turbine and generator bearings. Short of an explosive event, a unit coming off without lubricating oil is one of the most damaging events in power plant operations. Lowman Unit 2's turbine and generator bearings had to be replaced, and other segments of the unit required extensive repair. Lowman Unit 2 was also out of service for an extended period in 2009 with damage to an expansion section of the turbine. Neither

outage resulted in higher operating costs because natural gas prices were low; however, such events in times of high natural gas prices would be devastating to our members.

Transmission reliability was very good in 2010. We continued to add service delivery points for our members. The addition of delivery substations generally relieves stress on the distribution systems and enhances their reliability. Our on-system transmission reliability reached the six sigma level of 99.9999 percent reliability for 2010, and the average outage length declined. Our on-system reliability has been better than the off-system reliability provided by other transmission providers for a number of years and was even better in 2010. We continue to work with the off-system transmission providers to improve off-system transmission service.

A long-term, well-designed power supply plan is the foundation upon which we provide a reliable, affordable wholesale power supply for our members. We filled the capacity gap in our power supply plan in 2010 with the addition of 360 megawatts in McIntosh Units 4 and 5.

The new McIntosh units were completed ahead of schedule and $58 million under budget. The units were constructed for simple cycle operation to meet our current need for peaking capacity and also designed for conversion to combined cycle operation in the future as a hedge for baseload generation. With natural gas at $4 per MMBTU, the new McIntosh units are a strategic generation addition for today and the future.

Generation diversity is an important factor in a successful power supply plan. We must have generation resources to meet the peak loads like the 2,385 megawatt peak in January 2010 and also have resources that provide economical energy through our long, hot summers.

The 20-year purchase power agreement with the Municipal Electric Authority of Georgia (MEAG) for 125 megawatts of capacity in Vogtle Units 3 and 4, which are scheduled for commercial operation in 2016, will further diversify PowerSouth's generation resources. The agreement requires us to pay all the costs of an owner for the first 20 years of operation, and the capacity then reverts to MEAG for the remaining life of the units. The capacity cost is high, but the very cheap energy will help us meet future baseload requirements. We are excited about the opportunity to diversify our generation portfolio with nuclear capacity.

With advancing technology, there are opportunities to delay future generation additions with the use of demand-side programs that promote efficiency, reduce peak demands or reduce overall electric usage. We have deployed three demand-side programs and are investigating others to help control peak demands and lower average retail electric cost. A growing number of our members are using our water heater control program to reduce winter peaks; our geothermal heat pump program uses the natural ambient temperature of the earth instead of air-to-air transfers of a heat pump; and our dual fuel heat pump program uses natural gas or propane in place of heat strips when the temperature is very low. We are also looking for other means to better control our members' peak demands and increase energy efficiency.

As the electric utility industry evolves, there will be issues and obstacles that must be managed differently than in the past. Historically, most of our generation and transmission projects were financed with U.S. Department of Agriculture Rural Utilities Service (RUS) guarantees that have kept our interest costs low. The current Presidential Administration has now eliminated RUS financing for fossil-fired generation additions or upgrades and dramatically increased the RUS regulatory burden for transmission projects. With the much more restrictive RUS environment, it is apparent we will have to be more aggressive in exploring public financing for projects.

Maintaining our A-, Stable credit rating is critical for PowerSouth to access competitively priced public financing. Thus far, the public investment markets have embraced our company, our credit rating and our projects, and we have had access to sufficient capital at competitive rates, even in recessionary times.

Federal regulation has become an extremely significant and destabilizing factor in the planning and operation of our assets in the future. The U.S. Environmental Protection Agency (EPA) apparently intends to greatly reduce the number of coal-fired generation plants operating in the country. We have installed scrubbers on all three of the Lowman units to reduce sulfur dioxide (SO2) emissions, added Selective Catalytic Reduction (SCRs) to reduce nitrogen oxide (NOx) emissions, reduced our mercury emissions and installed gypsum production to beneficially utilize our scrubber sludge and sell fly ash to cement manufacturers. However, it is still not clear whether all of our coal-fired units will comply with the EPA's mandate of Utility Maximum Available Control Technology (Utility MACT) that will be finalized in 2011 with compliance required in 2014.

EPA is also attempting to regulate carbon dioxide under the Clean Air Act. If EPA succeeds in utilizing the Clean Air Act to restrict carbon emissions, it is likely that no new coal-fired generation plants will be built in the U.S. and a large number of the country's existing coal-fired plants will be shut down. EPA has also proposed implementing more restrictive regulations in other areas, such as water usage and coal ash handling, that have the potential to cripple much of the country's coal-fired generation fleet. Our plant and environmental personnel are working to comply with EPA's evermore burdensome regulations while extracting the greatest possible economic value from our coal-fired generation assets.

A strong environmental faction and a business lobby intent on profiting from the sale of renewable energy technologies continue to pressure Washington for a renewable energy standard that would require a minimum portion of all the electricity consumed in the U.S. to come from renewable resources. While we are supportive of resources that reduce dependence on fossil fuels, we are concerned about the current higher cost of renewable resources and the stress their intermittency puts on the electric grid. We continue to assess opportunities to economically incorporate renewable resources into our generation portfolio, but will continue to resist a renewable energy standard that places higher costs for less reliable electric service on our members.

In addition to providing reliable, competitively priced power, PowerSouth is committed to helping develop the communities our members serve and providing better employment opportunities in those communities. Our Governmental Affairs and Business Development team has become an integral part of the economic development efforts in Alabama and the Florida panhandle. We have been in the midst of a number of projects that added 2,500 new jobs and more than $315 million in new capital in the region in 2010. We believe a more aggressive effort will be needed to help the region emerge from the recession and grow better jobs in our members' service territories.

Finally, we thank our members for believing in and supporting each other, for trusting us to manage your wholesale power needs, and for believing that our group is stronger than any individual system. We appreciate our members' support and accept the responsibility of providing them reliable and affordable wholesale power. We have not forgotten our mission.

2010 IN REVIEW

Positive energy starts with a vision.

In 1941, a common vision brought 11 cooperatives together to form Alabama Electric Cooperative, Inc. Nearly 70 years later, PowerSouth continues to fulfill that vision to provide safe, reliable and economical wholesale energy to its 20 distribution members.

Future challenges are manifold, but, together with the distribution members, PowerSouth is well-prepared to tackle the issues that threaten the electric industry.

An integral element of PowerSouth's long-term vision is a strategic plan that addresses the activities most critical to PowerSouth, beyond operations and maintenance activities performed as part of the ongoing business. In August, the board approved a comprehensive strategic plan that focuses on key issues impacting PowerSouth and the distribution members.

The strategic plan addresses such issues as alternative energy resources, federated services, rate structure, marketing, equity development, power pooling arrangements, electric service for large loads, and legislative and regulatory challenges.

PowerSouth's power supply plan accommodates demand and regulatory uncertainty. The fuel plan addresses coal and natural gas demand, supply and costs. PowerSouth has resources and contracts in place for the next five years to cover peak demand requirements.

PowerSouth's management staff and board will continue to keep a watchful eye on the issues affecting the industry by controlling what they can control, aggressively managing costs and preparing for the future.

At the core of PowerSouth's success are the employees who dedicate their time and talents to making PowerSouth successful. Their energy is PowerSouth's true source of power.

The power is in the planning.

Weather has historically been the primary driver of PowerSouth's energy sales. The year 2010 was no exception.

PowerSouth experienced weather-driven demand in 2010, with an all-time system peak for the second consecutive year. The 2,385-megawatt peak on Jan. 11 exceeded the previous

The power behind our progress.

PowerSouth has developed a strong workforce of individuals who are experts in their fields, like McIntosh Operating Technician George Mangus.

Achieving generation goals.

PowerSouth embraces innovative solutions to meet today's energy challenges. The McIntosh Power Plant is not only the site of America's only Compressed Air Energy Storage (CAES) Unit, it is also the location for PowerSouth's newest generating units. Through generation diversity and technological advancements, PowerSouth ensures an affordable, reliable energy supply for our members. Plant Manager Lee Davis knows that combining state-of-the art generating technologies with good, old-fashioned work ethics is the formula for success.

record by 176 megawatts and surpassed PowerSouth's projected winter demand of 2,098 megawatts.

Due in large part to a colder-than-normal winter, PowerSouth's total energy sales increased by 9.45 percent from 2009 to 2010 — far exceeding the projected growth rate of 1.4 percent. Based on the 2010 Load Forecast, PowerSouth expects energy sales to increase 1.42 percent per year from 2011 through 2029.

In addition to an all-time demand peak, PowerSouth's generating units also set an all-time energy production record in 2010, generating 7 million megawatt-hours during the year.

Wholesale power costs are largely driven by fuel and purchased power costs. Relatively steady natural gas and coal market prices allowed member costs to remain stable during 2010.

One of PowerSouth's strengths is its diverse generation fleet that allows adjustments to the generation dispatch, taking advantage of economic shifts in fuel prices and supplying the most economical energy to its members.

The volatility of the natural gas market swung in PowerSouth's favor during 2010. Natural gas prices on the forward 12-month NYMEX strip reached a low of $3.93 per mmBtu in October 2010, dipping from $13.334 per mmBtu in July 2008.

U.S. natural gas production is at a 37-year high, resulting in lower projected natural gas costs. Coupled with this, the impacts of the recession have kept industrial and commercial demand for natural gas low. These factors have combined to drive the price of natural gas down to the current levels.

Although natural gas prices were favorable in 2010, the Lowman Power Plant continued generating on a forced burn status, honoring commitments for deliveries under term coal contracts and allowing storage space for the contracted deliveries. Plant Lowman employees managed the increasingly large stockpile throughout the year, and Grand Rivers Terminal provided additional storage of PowerSouth's coal that was unable to be stored at the Lowman Power Plant.

Overall, fuel and purchased power costs (mills/MWH) decreased by 7 percent in 2010, and the average cost of service to members (mills/MWH) decreased by 11.13 percent from 2009.

As part of the long-range power supply plan, PowerSouth added peaking capacity in 2010 to meet peak demand in the short term, is exploring nuclear options for baseload needs in the long term, and is ensuring the viability of its existing generation fleet.

One of PowerSouth's greatest successes of 2010 was the completion of McIntosh Power Plant Units 4 and 5. These natural gas-fired combustion turbines are key elements of PowerSouth's power supply plan, providing an additional 360 megawatts of peaking capacity. The construction project that began in 2009 was completed ahead of schedule and $58 million under budget. More importantly, the project was completed safely — with no lost-time accidents during construction.

Costs for construction materials and contract labor were lower than anticipated due to the recession, and McIntosh Units 4 and 5's total invested cost is in line with other peaking facilities built years earlier.

To meet baseload power needs and further diversify PowerSouth's energy portfolio, the power supply plan includes a purchased power agreement for 125 megawatts of nuclear power from the Municipal Electric Authority of Georgia (MEAG). The 20-year block purchase is for energy generated at the Vogtle Nuclear Power Plant Units 3 and 4 under construction near Augusta, Ga. Expected to go online in 2016 and 2017, respectively, MEAG completed important steps in financing PowerSouth's Vogtle participation during 2010.

PowerSouth's goals of generation diversity are attainable. The power supply plan accommodates uncertainties about fuel price volatility, environmental policy, and global competition for fuel, commodities and construction materials.

A skilled workforce is the lifeblood of successful operations. PowerSouth continues to invest in training, development and advancement for its workforce. A new five-year labor contract was negotiated with the union workforce during 2010. Additionally, a new multi-skill training agreement at PowerSouth's Lowman Power Plant allows workers to cross-train, learning new skills that can be used more broadly. The training process was revamped, allowing employees to further advance their skillsets.

Dedicated delivery.

In 2010, PowerSouth continued to implement the transmission and construction work plan approved by the Rural Utilities Service (RUS) in 2009. The work plan involves $144 million in expenditures to expand, update, improve and enhance the capabilities of PowerSouth's transmission and distribution system over a four-year period.

PowerSouth added 196,626 KVA of transformer capacity during 2010, and three new 115kV delivery points were completed and energized. Engineering design began on another eight delivery/switching stations, and the Transmission Engineering Design and Construction Department constructed and/or uprated some 43 miles of 115kV transmission line.

Crews completed a rebuild/upgrade of the CAES Switching Station to accommodate the addition of McIntosh 4 and 5.

Transmission and distribution reliability metrics continue to match or surpass other Southeast utilities, boasting a 99.9999 percent average service availability in 2010. The average outage length per integrated delivery point was 43.92 minutes in 2010, compared with 60.18 minutes in 2009.

PowerSouth's performance measures are the result of sound maintenance and operational practices and intelligent control devices. The positive energy that keeps the system running is people who take pride in providing reliable, efficient, cost-effective transmission services.

Financing the future.

By administrative order and the Obama Administration's budget direction, RUS has announced that it will no longer finance new fossil-fired generation or upgrades to existing facilities — including environmental upgrades. Capital to finance new fossil fuel-fired generation or upgrades must be secured from non-governmental sources, as RUS financing appears likely to be limited to transmission, distribution and renewable generation for the foreseeable future.

Financing new generation will require strong financial metrics. In 2010, PowerSouth demonstrated financial strength by maintaining an A- financial rating from two rating

A firm financial footing.

Strong financial standing is more important than ever for PowerSouth to be a leader in the economies we serve. Senior Accountant David Grimes works to ensure PowerSouth's strong financial standing in our rebounding economy.

The bottom line.

Benny Jo Sasser, Buyer in PowerSouth's Procurement Services Department, understands that smart purchasing decisions help keep costs down for PowerSouth's members. She and her peers oversee the purchase of everything from toothpicks to transmission poles — and everything in between.

agencies and a Baa1 from a third rating agency, despite a difficult economic period. System liquidity, increased margins, a comprehensive equity development plan and member commitment attributed to the solid financial footing.

As the recession ends, demand for capital to finance new construction will be strong, but capital will remain tight. Because PowerSouth must compete on the open market for funding, a strong financial rating and financial stability are more important than ever.

The power of politics.

The electric industry is in a period of significant shifts in public policy toward heightened environmental protection and energy security. An onslaught of environmental regulations, not only for carbon emissions, but also for other air emissions, ash ponds, coal mining and water discharge, makes long-term generation planning difficult.

With Congress' failure to enact a cap-and-trade bill for greenhouse gas emissions, the Environmental Protection Agency has threatened aggressive enforcement of the Clean Air Act to limit carbon emissions.

Momentum also continues to build toward a national Clean Energy Standard, with proposed 25 percent by 2025 mandates touted as a means to reduce domestic carbon emissions.

It is imperative that electric utilities stay abreast of environmental policy — both legislative and regulatory in nature — to ensure an affordable, reliable and environmentally sound energy supply for the future.

PowerSouth supports a realistic approach to energy policy — with consideration for the impact on reliability and cost for consumers.

By engaging in a constructive dialogue with legislators and regulatory bodies, PowerSouth works to protect the interests of the distribution members and their member-consumers.

Empowering energy efficiency.

As residential end-users look for ways to save energy for economic and environmental reasons, PowerSouth is working to provide new and innovative ways for them to do so. In conjunction with heated environmental debate, there is also a strong push for energy efficiency and demand response mandates.

The H2O Plus water heater demand-side management program continued to gain momentum during 2010, with eight participating distribution members and 5,000 load control switches installed system-wide. Since the program's launch in 2007, there have been 41 control events, accounting for 82 hours of use. There were five control periods in 2010, for a total of 10 hours.

In 2010, PowerSouth issued rebates for 98 dual fuel units and 16 geothermal units through its rebate programs. Since the dual fuel program's inception in 2004, 1,370 units have been rebated; and 289 geothermal units have been rebated since 2000.

Together, the three demand-side management programs have had a cumulative winter peak demand reduction potential of 25,565 kilowatts since their inceptions.

The Board of Trustees approved in June a modification of the summer peak period in PowerSouth's wholesale power rate. The new peak period provides better pricing signals for the distribution members to offer peak pricing to commercial and industrial customers and provides additional opportunities to develop time-of-use pricing for residential customers.

Cultivating communities.

The economy showed signs of recovery in 2010, as unemployment rates in Alabama and Florida dipped slightly toward the end of the year. Throughout the year, PowerSouth's economic development team continued to bolster communities, helping to create approximately 2,500 new jobs and over $315 million in new capital investment in Alabama and northwest Florida.

The new $318 million Northwest Florida Beaches International Airport opened in 2010, reporting three times as many passengers as handled by the old airport. Southwest Airlines indicates passenger traffic is 77 percent ahead of projections. The airport, its surrounding 1,400 acres of industrial land, and the surrounding 70,000-acre St. Joe development of West Bay, are anticipated to stimulate job growth throughout northwest Florida.

Also in northwest Florida, Clearwire Corporation announced plans this year to expand its Santa Rosa County customer care call center by 500 employees. Population growth in northwest Florida will be spurred by the arrival of the 7th Special Forces Group and F-35-related activities at Eglin Air Force Base. Overall, military construction is expected to bring $735 million to the area, along with 3,700 personnel and 5,800 dependents over the next six years.

New job growth in Alabama includes Hyundai Heavy Industries' announcement of a $90 million manufacturing and assembling facility in the Montgomery area, employing 500 workers at full production. General Electric also announced in 2010 that it would employ 400 workers at its new coatings facility in Auburn.

To facilitate growth and gather information about Alabama's existing industry, PowerSouth and its distribution members conducted 20 visits with industries across the service territory. The team also hosted a series of community development workshops for economic developers, elected officials and community leaders.

Seth Hammett, PowerSouth Vice President of Business Development was tapped by Gov. Bob Riley to serve on the Coastal Recovery Commission's Executive Committee. The committee developed a "Roadmap to Resiliency" for Mobile and Baldwin Counties in the wake of the BP oil spill, focusing on the recovery of impacted industries and long-term economic development.

PowerSouth is committed to building a solid economic base for future business and industry within its service territory, creating positive energy for the communities it serves.

Stressing safety.

From neighborhood driveways to transmission rights-of-ways, PowerSouth employees embrace the value of working safely. Line Technician Shannon Wilkerson, like all other employees, tackle every task with safety in the forefront.

FINANCIAL REVIEW

F. Ferrell Walton
PowerSouth Vice President
& Chief Financial Officer

Executive overview

PowerSouth Energy Cooperative (PowerSouth) is a not-for-profit electric generation and transmission cooperative whose principal business is providing wholesale electric service to its 20 member-owners.

The membership is made up of 12 Alabama and four Florida distribution cooperatives and four municipal electric systems, all located in south central Alabama and northwest Florida.

These members have all-requirements contracts that run through 2050. Under these contracts, PowerSouth is the sole provider of 100 percent of all 20 members' power supply needs through PowerSouth's generating facilities and power purchase contracts.

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 basic rate. Also within the rate structure is a capacity rate that is 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 carefully reviewed monthly to ensure that adequate capacity-related revenues are produced to cover the costs, provide a margin and meet debt covenants.

Revenues in 2010 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.

On February 18, 2010, Moody's Investors Service affirmed a Baa1 issue rating with a Stable outlook for PowerSouth.

On April 13, 2010, Standard and Poor's affirmed its A- issuer credit rating on PowerSouth along with a Stable outlook. Standard & Poor's also rated PowerSouth with a business profile of 4 (strong) out of a scale of 1 to 10, 1 being excellent.

On May 10, 2010, Fitch Ratings affirmed its issuer rating of PowerSouth as A- with a Stable outlook.

Operating Revenue:
PowerSouth experienced extreme temperatures in 2010, especially during the month of January. Temperature build-up played an important factor in reaching an all-time system peak with approximately 15 consecutive days of 32 degree temperatures. Temperatures in the teens were recorded seven days during the month of January across PowerSouth's service territory; however, there were many days that experienced temperatures in the 20's and 30's during the months of January and February. The actual summer peak occurred in August 2010. Above normal temperatures were experienced during the latter part of the summer. Approximately 12 days of 100 degrees or above were recorded during July and August.

PowerSouth realizes it has the potential to reach high peaks under extreme temperatures and weather conditions. On January 11, 2010, PowerSouth established an all-time high peak of 2,385 MW with a weighted temperature of 17 degrees. PowerSouth had previously reached a system peak in January 2003 of 2,098 MW with a weighted temperature of 15.6 degrees. For PowerSouth's service territory of 39 counties in Alabama and 10 counties in northwest Florida, a weighted temperature of 15.6 degrees is considered extreme. Typically, a normal weighted temperature for PowerSouth's service area is approximately 21 degrees. In January 2009, PowerSouth reached a winter system peak of 2,102 MW with a weighted temperature of 21.1 degrees.

PowerSouth's total consolidated operating revenues were $673,711,461 as compared to $649,987,094 for 2009. This represents a 3.65 percent increase in total revenue for the year, comprised of a 3.3 percent increase in member revenue, a 29.03 percent increase in non-member revenues, and a 11.6 percent increase in propane and other electric revenues. The increase in Member revenue was the result of the extreme weather conditions that caused a 9.39 percent increase in energy sales in 2010.

The 29.03 percent increase in 2010 for non-member revenues is due to demand for energy caused by extreme weather conditions. The 11.6 percent increase in propane and other electric sales was also weather driven.

Coincident Peak demand billing units for PowerSouth's member systems increased 9.41 percent to 22,170,451 KVA in 2010 as compared to 20,263,207 in 2009.

Total energy sales increased from 8,090,452 MWH in 2009 to 8,855,188 in 2010. Member energy sales increased 9.39 percent or 747,116 MWH to 8,700,629 MWH in 2010 as compared to 2009 energy sales of 7,953,514. This increase in member energy sales is the result of extreme weather in 2010. Non-member sales increased from 136,939 MWH in 2009 to 154,559 MWH in 2010, a 13 percent increase.

Operating Expenses:
PowerSouth produced 7,006,855 MWH, 76.1 percent of its energy requirements, while purchasing 2,205,645 MWH or 23.9 percent of the total. Those percentages compare to 74.2 percent produced (6,253,801 MWH) and 25.8 percent purchased (2,178,374 MWH) in 2009. Production in PowerSouth's generation plants increased by 753,054 MWH, while purchased energy increased by 27,271 MWH.

The increase in PowerSouth's production was due to the low cost of natural gas in 2010. The low natural gas cost allowed PowerSouth to generate more economically with its generation plants than purchasing on the market. The cost of power produced from PowerSouth's generating plants was 57.52 M/KWH in 2010, compared to 63.22 M/KWH in 2009. The decrease in production cost is due to the lower natural gas costs in 2010 of $5.71 per MMBTU burned as compared to $8.29 per MMBTU in 2009.

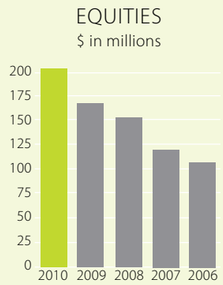
Purchased power cost for 2010 was 61.51 M/KWH, while in 2009 it was 54.01 M/KWH. PowerSouth's Power Supply staff responsible for the purchase of outside energy monitor the energy markets hourly. When the opportunity presents itself, PowerSouth's Power Supply staff will purchase outside energy

at rates lower than PowerSouth's incremental production costs as well as purchasing outside to cover PowerSouth's members' load above its capacity.

PowerSouth's total cost of service increased 3.46 percent to $654,076,054 in 2010, as compared to $632,174,752 in 2009. Most of this increase can be attributed to the increase of 9.39 percent in energy sales that were weather driven.

Fuel and purchased power costs increased $5,864,663 from 2009 to 2010. PowerSouth's fuel cost decreased 4.57 percent from $266,003,786 in 2009 to $253,855,654 in 2010 as a result of lower natural gas prices.

Purchased power cost increased $18,012,795 (15.3 percent) from $117,647,451 in 2009 to $135,660,246 in 2010. The increase in purchased power cost is from increased purchases to meet the weather demands. Production operation and maintenance expense increased from $56,965,187 in 2009 to $69,488,730 in 2010, an increase of $12,523,543 or 22.0 percent. The majority of this cost increase is due to an increase in maintenance expense on PowerSouth's generating plants due to operating the gas plants more hours. Transmission operations and maintenance expense increased from $38,697,551 in 2009 to $42,512,416 in 2010, an increase of $3,814,865, or 9.9 percent. This increase is due mainly to an increase in transmission of electricity by others (wheeling cost), which was caused by higher rates paid in 2010.



Distribution operations and maintenance expense increased $507,519 (13.04 percent) from $3,893,395 in 2009 to $4,400,914 in 2010. Administrative and General Costs increased from $24,014,017 in 2009 to $25,422,601 in 2010, for an increase of $1,408,584.

Depreciation and amortization expense increased $3,759,627 or 7 percent, mainly due to the write-off of a coal plant study and a smart meter study during the year.

Interest Expense decreased from $63,931,756 in 2009 to $56,947,783 in 2010, for a decrease of $6,983,973. Decrease in interest cost is due to PowerSouth experiencing lower interest rates on variable rate loans in 2010 than in 2009.

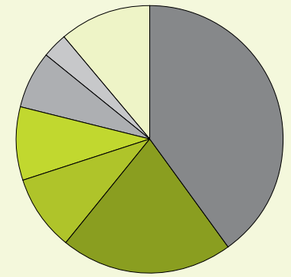
Overall, the cost of service increased a net total of $21,901,302 for 2010.

PowerSouth's natural gas hedging program generated a loss of $23,072,667 in 2010 due to actual gas prices falling below hedged prices, compared to a loss of $62,625,893 during 2009. The monthly loss or gain in the hedging program flows through fuel costs and are included in each month's operations with the over or under collection for fuel by the energy rate residing in the Fuel and Purchase Power Reserve.

Non-operating Margin:
Non-operating Margin increased $1,331,737 from 2009 to 2010. The net increase in this section is due primarily to more funds available for investment and the increase in interest earned on investments of cash and cash equivalents.

2010 Costs and Expenses:

- Fuel: **40%**
- Purchased Power: **21%**
- Depreciation: **9%**
- Interest: **9%**
- Transmission & Distribution: **7%**
- Administrative & General: **3%**
- Other Production Cost: **11%**



Net Margin:
The consolidated net margin after taxes for 2010 was $26,290,611 as compared to $23,134,489 for 2009. The net margin for 2010 would have been $17,000,000 higher; however the Board approved to return to the Members the $17,000,000 excess margin that was generated due to the all-time system peak that was set on January 11, 2010. The excess margin was returned to members over February – December as a credit on their monthly billing. The consolidated net margin also includes a $375,358 gain in 2010 from PowerSouth's subsidiaries, mostly from the Cooperative Services subsidiary, Cooperative Propane.

SIGNIFICANT BALANCE SHEET CHANGES:

ASSETS:

Utility Plant:
Total utility plant increased from $1,300,789,796 in 2009 to $1,322,585,964 in 2010, a $21,796,168 increase of 1.7 percent. The largest portion of the generation asset increase is from the addition of two combustion turbines that became commercial in January 2011 at the McIntosh Plant site.

Cash and cash equivalents decreased $17,171,123. Temporary investments increased from $87,282,100 in 2009 to $95,216,449 in 2010, a $7,934,349 increase. The increase in temporary investments is the result of the continuing growth of 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 has a structured goal to raise $170 million. These funds will be used to complement other loan funds for future construction projects. The prepayment option for PowerSouth's members was implemented in 2009. Members are allowed to prepay up to six months billing.

Restricted cash-collateral on deposit increased from $17,819,188 in 2009 to $22,608,549 in 2010, an increase of $4,789,361. This restricted cash are funds deposited with a broker in a margin account that is used to purchase gas futures and options contracts for the purpose of hedging natural gas prices. Restricted cash-bond proceeds of $4,505,758 were moved from the current asset section of the balance sheet to the Restricted Funds – Cash section of the balance sheet because the funds can only be used to finance long-term assets. These are remaining unspent funds from the Series 2008A Go Zone Bonds for the air quality control project at the Lowman Power Plant.

Members' Receivables increased $6,483,059 at December 31, 2010, as compared to December 31, 2009. Accounts receivable collections were higher due to increased energy sales in 2010 compared to 2009.

Current portion and non-current portion of Regulatory Asset – Gas Hedges and Fair Market Value of Gas Hedges increased $6,016,570 due to the significant decrease in the market prices of natural gas. The current portion of Regulatory Asset – Interest Rate Swap of $6,273,223 and the Regulatory Asset – Interest Rate Swap of $16,496,234 is the market to market balance at December 31, 2010, that would be due if the Interest Rate Swap was liquidated. Materials and supplies increased $13,824,490 primarily due to increased prices.

Deferred charges decreased $5,379,914. This net decrease is comprised of a $2,282,542 decrease in preliminary survey and investigation charges and a $3,630,048 decrease in deferred charges for major maintenance projects.

EQUITIES:
Consolidated total equities at December 31, 2010, increased $26,290,611 as the result of net margins for the year, which is a 15 percent increase. PowerSouth's equity-to-asset ratio increased to 11.5 percent in 2010 from 10.2 percent in 2009. PowerSouth (excluding its three subsidiaries) produced a MFIR of 1.428, which exceeds the 1.065 requirement of the January 1, 2000, Indenture.

LIABILITIES:
Total long-term debt increased from $1,356,647,027 in 2009 to $1,367,010,675 in 2010. The increase of $10,363,648 is composed of $316,492,275 in repayments, $237,962,000 in advances, $129,185,487 in LTD refinancing, an increase in LTD Premium of $4,296,162 and a decrease of $44,587,726 in PowerSouth's investment in the Cushion of Credit Account.

Loan payments to RUS were $25,405,798; of this amount, $22,200,487 was refinanced with National Rural Utilities Cooperative Finance Corporation (National Rural) at an interest rate of 4.039% compared to 5.00% at RUS. Repayments to the FFB were $42,474,275; Pollution Control Financing (PCF) repayments were $335,000, and Series 2007C (PCF) Bonds repayments were $40,000,000. These bonds were refinanced as the Series 2010B PCF Bonds in the amount of $32,340,000.

Repayments of $75,000,000 were made to the Series 2007B Go Zone Bonds, which were refinanced as the Series 2010A Go Zone Refunding Bonds in the amount of $74,645,000. The $5,000,000 Series 2001 PCF Bonds for the Gypsum Plant were retired in full. Repayments for $2,395,000 were made to the Series 2008A Go Zone Bonds and National Rural Utilities Cooperative Finance Corporation (National Rural) repayments were $125,882,202. There were advances to PowerSouth from FFB in the amount of $117,462,000 and $120,500,000 from the National Rural Syndicated Loan.

Excluding all subsidiary debt, PowerSouth's blended interest rate was 4.340 percent at December 31, 2010, compared to 4.303 percent at December 31, 2009.

Notes payable decreased $29,588,490. This decrease is the result of paying of a short-term line of credit note in May 2010. Accounts Payable increased $1,490,366 from December 31, 2009.

The financial statements and accompanying notes for the year ended December 31, 2010 are included in this annual report, along with other financial information.

PowerSouth Energy Cooperative and Subsidiaries

Independent Auditors' Report

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, 2010 and 2009, 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, 2010 and 2009, 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.

Deloitte & Touche LLP

April 19, 2011

PowerSouth Energy Cooperative and Subsidiaries
Consolidated Balance Sheets

As of December 31, 2010 and 2009

	2010	2009
ASSETS		
UTILITY PLANT (At cost):		
Electric plant in service	$1,489,010,747	$1,442,537,814
Construction work in progress	509,749,111	490,360,577
Total	1,998,759,858	1,932,898,391
Less accumulated depreciation	676,173,894	632,108,595
Utility plant — net	1,322,585,964	1,300,789,796
NONUTILITY PROPERTY — Net	5,216,318	5,405,408
INVESTMENTS AND SUBSCRIPTIONS — At cost:		
Capital term certificates and subscriptions	46,006,179	46,034,735
Investments in associated organizations	3,254,261	3,447,883
Other investments	1,712,095	2,096,317
Total investments and subscriptions	50,972,535	51,578,935
RESTRICTED FUNDS — Cash	6,305,631	1,467,188
CURRENT ASSETS:		
Cash and cash equivalents	12,955,911	30,127,034
Temporary investments	95,216,449	87,282,100
Restricted cash and cash equivalents — collateral on deposit	22,608,549	17,819,188
Restricted cash and cash equivalents — bond proceeds	0	5,258,062
Accounts receivable:		
Members	63,082,109	56,599,050
Other (net of allowance of $481,960 and $376,540)	6,105,091	6,597,268
Current portion of regulatory asset — gas hedges	6,447,312	3,668,880
Current portion of regulatory asset — interest rate swaps	6,273,223	6,290,542
Regulatory asset — deferred loss on gas hedges	767,980	817,600
Fuel inventories (at average cost)	44,114,822	48,548,874
Materials and supplies (at average cost)	64,831,151	51,006,661
Deferred under-recovery of fuel and purchased power cost	5,366,585	1,977,084
Other	1,631,191	2,008,660
Total current assets	329,400,373	318,001,003
DEFERRED CHARGES	18,838,639	24,218,553
REGULATORY ASSET — Gas hedges — net of current portion	4,062,518	774,760
REGULATORY ASSET — Interest rate swaps — net of current portion	16,496,234	11,880,583
TOTAL	$1,753,878,212	$1,714,116,226

(Continued)

PowerSouth Energy Cooperative and Subsidiaries
Consolidated Balance Sheets

As of December 31, 2010 and 2009

	2010	2009
EQUITIES AND MARGINS AND LIABILITIES		
EQUITIES AND MARGINS:		
Membership fees	$ 110	$ 110
Patronage capital	200,055,567	173,764,956
Other equities	1,159,696	1,159,696
Total equities and margins	201,215,373	174,924,762
LONG-TERM DEBT — Net of current portion:		
Rural utilities service	0	35,412,656
Federal financing bank	685,714,052	647,038,239
National rural utilities cooperative finance corporation	98,564,505	83,574,631
Pollution control bonds	48,309,269	59,985,000
Syndication loan	225,000,000	225,000,000
Gulf opportunity zone bonds	247,346,072	247,605,000
Total long-term debt	1,304,933,898	1,298,615,526
CURRENT LIABILITIES:		
Long-term debt due within one year	62,076,777	58,031,501
Notes payable and line of credit borrowings	630,136	30,218,626
Accounts payable	53,824,766	52,334,400
Accrued liabilities:		
Taxes	134,578	193,230
Interest	13,131,642	2,973,300
Other	43,338,885	28,067,117
Current portion — fair market value of interest rate swaps	6,273,223	6,290,542
Current portion — fair market value of gas hedges	6,447,312	3,668,880
Current regulatory liability — major maintenance reserve	8,533,272	6,636,528
Current portion — accrued postretirement benefit cost	675,000	625,000
Current regulatory liability — other	0	473,412
Total current liabilities	$ 195,065,591	$ 189,512,536

(Continued)

PowerSouth Energy Cooperative and Subsidiaries
Consolidated Balance Sheets

As of December 31, 2010 and 2009

	2010	2009
COMMITMENTS AND CONTINGENCIES (Note 11)		
ASSET RETIREMENT OBLIGATIONS	$ 1,104,501	$ 1,058,931
REGULATORY LIABILITY — Accumulated provision for property and casualty insurance	4,707,339	4,147,340
FAIR MARKET VALUE OF GAS HEDGES — Net of current portion	4,062,518	774,760
FAIR MARKET VALUE OF INTEREST RATE SWAPS — Net of current portion	16,496,234	11,880,583
REGULATORY LIABILITY — Major maintenance reserve — net of current portion	6,004,250	13,303,592
ACCRUED POSTRETIREMENT BENEFIT COST — Net of current portion	13,415,870	12,960,574
REGULATORY LIABILITY — Accrued postretirement benefit cost	6,872,638	6,937,622
TOTAL	$1,753,878,212	$1,714,116,226

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, 2010 and 2009

	2010	2009
OPERATING REVENUE:		
Sales of electric energy to members:		
Cooperatives	$ 612,256,798	$ 592,481,492
Municipalities	39,293,912	38,378,434
Sales of electric energy to nonmembers	6,016,953	4,663,295
Other electric revenue	2,681,063	2,869,653
Propane and other revenue	13,462,735	11,594,220
Total operating revenue	673,711,461	649,987,094
OPERATING COSTS AND EXPENSES:		
Power production:		
Fuel	253,855,654	266,003,786
Operations	41,360,497	37,432,741
Maintenance	28,128,233	19,532,446
Purchased power	135,660,246	117,647,451
Transmission:		
Operations	37,244,316	33,783,583
Maintenance	5,268,100	4,913,968
Distribution:		
Operations	2,610,127	2,330,572
Maintenance	1,790,787	1,562,823
Propane cost of sales	8,320,308	7,313,834
Administrative and general	25,422,601	24,014,017
Depreciation and amortization	57,467,402	53,707,775
Total operating costs and expenses	597,128,271	568,242,996
OPERATING MARGIN	76,583,190	81,744,098
INTEREST EXPENSE	56,947,783	63,931,756
NONOPERATING MARGIN:		
Allowance for equity funds used during construction	1,064,755	1,076,697
Interest income	4,857,180	3,734,846
Capital credits	357,021	310,091
Other	380,664	206,249
Total nonoperating margin	6,659,620	5,327,883
NET MARGIN BEFORE INCOME TAX EXPENSE	26,295,027	23,140,225
INCOME TAX EXPENSE	4,416	5,736
NET MARGIN	26,290,611	23,134,489
PATRONAGE CAPITAL:		
Beginning of year	173,764,956	150,630,467
End of year	$ 200,055,567	$ 173,764,956

See notes to consolidated financial statements.

PowerSouth Energy Cooperative and Subsidiaries
Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 26,290,611	$ 23,134,489
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation and amortization	57,467,402	53,707,775
Gain on sale of nonutility property	(8,989)	(50,746)
Allowance for equity funds used during construction	(1,064,755)	(1,076,697)
Changes in assets and liabilities:		
Accounts receivable	(5,990,882)	11,477,578
Inventories	(10,446,169)	(928,934)
Other assets	1,432,563	2,071,818
Accounts payable	2,402,758	(3,166,897)
(Under-recovery) over-recovery of fuel and purchased power cost	(2,333,770)	36,966,469
Accrued postretirement benefit cost	440,312	434,813
Other accrued liabilities	20,026,399	11,591,412
Net cash provided by (used in) operating activities	88,215,480	134,161,080
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of utility plant	(74,182,507)	(120,197,566)
Purchases of nonutility property	(432,743)	(382,971)
Proceeds from sale of nonutility property	76,562	142,017
(Increase) decrease in restricted cash	(4,369,742)	28,941,623
Investments in certificates and subscriptions	0	(15,000,000)
Redemptions of certificates and subscriptions	28,556	28,075
Investments in associated organizations	(363,774)	(343,467)
Redemption of investments in associated organizations	557,396	168,608
Additions to other investments	(60,461)	(97,792)
Redemptions of other investments	444,683	380,808
Additions to temporary investments	(561,581,268)	(269,850,671)
Redemptions of temporary investments	553,646,919	229,588,740
Net cash used in investing activities	(86,236,379)	(146,622,596)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuances of long-term debt	371,518,267	144,511,000
Principal payments on long-term debt	(316,492,276)	(122,063,488)
Redemption proceeds of RUS advance payments unapplied account	61,304,579	63,106,413
Prepayments to RUS advance payments unapplied account	(105,892,304)	(63,576,959)
Proceeds from issuances of short-term debt	20,464,246	50,179,340
Principal payments on short-term debt	(50,052,736)	(70,044,734)
Net cash (used in) provided by financing activities	(19,150,224)	2,111,572
DECREASE IN CASH AND CASH EQUIVALENTS	(17,171,123)	(10,349,944)
CASH AND CASH EQUIVALENTS:		
Beginning of year	30,127,034	40,476,978
End of year	$ 12,955,911	$ 30,127,034
NONCASH TRANSACTION FROM INVESTING ACTIVITIES — Accrual for capital expenditures	$ 13,077,984	$ 13,990,376

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, 2010 and 2009

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 Trustees and to practices common in the utility industry. As the Board of Trustees 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 and gas turbine plants, transmission and distribution assets 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 Trustees ordered management to change from the accrual method for accounting for planned major maintenance projects to a defer and amortize method. At the time of the change, PowerSouth had an accrued liability for major maintenance projects totaling $33,182,633. PowerSouth's Board of Trustees 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 2010 and 2009 was $5,136,366 and $6,636,528, respectively. Beginning in 2008, under the deferral method, any costs incurred during a planned major 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, 2010 and 2009, was $8,558,772 and $12,188,820, respectively. The amount of deferred and capitalized maintenance amortized in 2010 and 2009 was $2,198,218 and $1,187,468, 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, 2010 and 2009, are reported as restricted cash. At December 31, 2010 and 2009, 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 natural 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 26% and 27% of its operating revenue for the years ended December 31, 2010 and 2009, 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 (SO2) 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, 2010 and 2009, 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.

Subsequent Events — PowerSouth considered subsequent events for recognition or disclosure through April 19, 2011, the date the consolidated financial statements were issued.

New Accounting Pronouncements — In January 2010, the FASB issued a revision to accounting standards for fair value measurements, which requires new disclosures about transfers in and out of Level 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The revision also provides clarification about the required level of disaggregation for fair value measurement disclosures of each class of assets and liabilities and disclosures about inputs and valuation techniques. The revision was effective for PowerSouth beginning January 1, 2010, except for disclosure about purchases, sales, issuances, and settlements in the rollforward activity of Level 3 fair value measurements, which are effective for PowerSouth beginning January 1, 2011.

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 was effective for annual periods beginning after November 15, 2009. PowerSouth implemented the guidance for the year ended 2010, and the implementation did not have a material impact on its consolidated financial statements.

2. ELECTRIC PLANT IN SERVICE

The major classes of electric plant in service and accumulated depreciation as of December 31, 2010 and 2009, are as follows:

	Cost		Annual Percentage Rate of Depreciation	Accumulated Depreciation	
	2010	2009		2010	2009
Steam plant	$ 493,361,096	$ 470,845,389	3.10 %	$335,681,172	$312,524,863
Transmission plant	351,297,435	338,263,258	2.75	127,451,898	121,836,887
Distribution plant	146,250,097	137,793,440	2.88	33,028,217	31,961,683
Hydraulic plant	14,153,147	13,813,317	2.00	6,160,999	5,832,658
Gas turbine plant	440,213,273	439,132,316	3.00	145,250,486	132,323,034
General plant	43,735,699	42,690,094	Various	28,601,122	27,629,470
Total	$1,489,010,747	$1,442,537,814		$676,173,894	$632,108,595

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, 2010 and 2009, are as follows:

	Lives	2010	2009
Land and building	25 years	$ 2,401,524	$ 2,382,918
Machinery and equipment	10 years	6,624,727	6,613,618
Transportation equipment	7 years	2,319,111	2,276,215
Furniture and fixtures	7 years	96,198	94,445
		11,441,560	11,367,196
Accumulated depreciation		(6,225,242)	(5,961,788)
Total		$ 5,216,318	$ 5,405,408

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, 2010, 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, 2010 and 2009, 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, 2010, 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 Department of Agriculture, Rural Utilities Services as servicing agent for debt owed to 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, 2010 and 2009, are as follows:

PowerSouth:	**2010**	**2009**
RUS mortgage notes payable:		
Fixed-rate notes of 2%, due in quarterly installments through 2009 and maturing at various dates through 2010	$ 0	$ 937
Fixed-rate notes of 5% to 5.5%, due in quarterly installments and maturing at various dates through 2028	12,522,040	37,560,235
Fixed-rate notes of 0%, due in monthly installments and maturing in 2016	508,333	874,999
FFB mortgage notes payable — fixed-rate notes, weighted-average interest rate of 5.22% at December 31, 2010, due in quarterly installments and maturing at various dates through 2037	764,546,809	689,559,084
RUS advance payments unapplied*	(45,358,271)	(770,545)
RUS and FFB mortgage notes payable — net of advance payments unapplied	732,218,911	727,224,710
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	51,827,348	31,416,817
Fixed-rate notes of 8.61% to 9.07%, due in annual installments and maturing through 2022	22,500,000	23,750,000
Fixed-rate notes of 7.05% to 9.10%, due in annual installments beginning in 2024 and maturing in 2037	24,708,254	25,050,500
Fixed-rate notes of 4.70% to 5.25%, due in annual installments and maturing through 2013	6,000,000	8,000,000
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, 0.91% at December 31, 2010, maturing annually through 2014, backed by a repurchase agreement and guarantee	1,670,000	2,005,000
Variable rate bonds, 0.83% at December 31, 2010, 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	0	5,000,000
Variable rate bonds, 1.20% at December 31, 2010, 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	0	75,000,000
Auction rate bonds, 4.06% at December 31, 2009, due in annual installments beginning in 2010 and maturing in 2016	0	40,000,000
Variable rate bonds, 0.83% at December 31, 2010, due in annual installments beginning in 2010 and maturing in 2038, backed by a standby purchase agreement	122,605,000	125,000,000
Fixed rate bonds of 2.25% to 5.00%, due in annual installments beginning in 2016 and maturing in 2037	74,645,000	0
Series 2010A bond premium	2,586,072	0
Fixed rate bonds of 2.00% to 4.00%, due in annual installments beginning in 2011 and maturing in 2016	32,340,000	0
Series 2010B bond premium	1,710,090	0
Syndication Loan agreement with National Rural and additional lenders:		
Tranche "A" Banks, variable rate loans of 0.83% at December 31, 2010, maturing in 2012	125,000,000	125,000,000
Tranche "B" National Rural, variable rate loans of 0.78% at December 31, 2010, maturing in 2012	100,000,000	100,000,000
Total long-term debt	1,367,010,675	1,356,647,027
Less long-term debt due within one year	(62,076,777)	(58,031,501)
Total	$1,304,933,898	$1,298,615,526

*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 2011 through 2015 and thereafter are as follows:

Years Ending December 31	
2011	$ 62,076,777
2012	280,850,573
2013	56,972,224
2014	55,240,510
2015	55,244,665
Thereafter	852,329,764
	$1,362,714,513

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 were 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 0.55%. 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, 2010 and 2009, was $0 and $30,000,000, respectively.

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 2012. The outstanding balance on the Regions Bank line of credit at December 31, 2010 was $0. The loan agreement with National Rural bears interest at National Rural's Line of Credit Rate and matures in December 2011. The outstanding balance on the National Rural line of credit at December 31, 2010 was $0.

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 were held by the bondholders, and PowerSouth was required to pay the maximum interest rate under the bond agreement, which was LIBOR plus 2.75%. 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 September 2010, PowerSouth issued Gulf Opportunity Zone Refunding Bonds (Series 2010 A) in the aggregate principal amount of $74,645,000. The Series 2010A bonds were issued at a premium of $2,610,393 resulting in total bond proceeds of $77,255,393. Proceeds of the bonds were used to refund the 2007B bonds and to pay for the issuance costs of the Series 2010A bonds.

In November 2010, PowerSouth issued Solid Waste Disposal Facilities Refunding Bonds (Series 2010 B) in the aggregate principal amount of $32,340,000. The Series 2010B bonds were issued at a premium of $1,760,387 resulting in total bond proceeds of $34,100,387. Proceeds of the bonds were used to refund the 2007C bonds and to pay for the issuance costs of the Series 2010B bonds.

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 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 were not favorable. As a result, in April 2010, rather than continue to remarket the bonds, PowerSouth retired the bonds.

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 2010 and 2009, PowerSouth made principal and interest payments to FFB and RUS with funds held in the RUS Advance Payment Unapplied account of $61,304,579 and $63,106,413, respectively. The balance in this account at December 31, 2010 and 2009, was $45,358,271 and $770,546, respectively.

At December 31, 2010 and 2009, PDC had $630,136 and $218,626, 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-efficiency projects.

Cash payments for interest, net of amounts capitalized ($4,901,569 and $1,872,249) for the years 2010 and 2009, were $43,821,363 and $50,842,195, 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 2010 and 2009 were $8,584,376 and $6,077,993, 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 2010 and 2009 was $1,678,400 and $1,643,943, 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 2010 and 2009, retirees made contributions of $328,820 and $312,355, respectively. During 2010 and 2009, PowerSouth made contributions of $421,330 and $446,797, respectively.

The self-insured medical plan's funded status and amounts recorded in the financial statements as of December 31, 2010 and 2009, are as follows:

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 13,585,574	$ 13,070,635
Service cost	372,409	377,359
Interest cost	719,801	756,840
Plan amendments	0	0
Employer-paid benefits	(247,461)	(317,069)
Actuarial gain	(339,453)	(302,191)
Benefit obligation at end of year	$ 14,090,870	$ 13,585,574
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 0	$ 0
Actual return on plan assets	0	0
Retiree contributions	328,820	312,355
Employer-paid benefits	247,461	227,067
Total benefits paid	(576,281)	(539,422)
Fair value of plan assets at end of year	$ 0	$ 0
Fund status of plan and amounts recognized in the consolidated balance sheets:		
Current liabilities	$ 675,000	$ 625,000
Noncurrent liabilities	13,415,870	12,960,574
Amount recognized at year-end	$ 14,090,870	$ 13,585,574
Amounts recognized as a regulatory liability:		
Unrecognized actuarial gain	$ 6,872,638	$ 6,937,622
Unrecognized prior service cost	0	0
Amount recognized at year-end	$ 6,872,638	$ 6,937,622
Estimated amounts amortized from regulatory liability into net periodic benefit cost in 2011:		
Amortization of actuarial gain	$ 425,000	
Amortization of prior service cost	$ 0	

	2010	2009
Weighted-average assumptions as of the end of the year:		
Measurement date	December 31, 2010	December 31, 2009
Discount rate	5.50 %	6.00 %
Mortality table/life expectancy	RP 2000	RP 2000
Health care cost trend rate:		
Initial	7.00 %	5.50 %
Ultimate	5.00 %	5.00 %
Year in which ultimate rate reached	2014	2011

Net effect of a one-percentage point increase or decrease in assumed trend rates:	Increase	Decrease	Increase	Decrease
Accrued postretirement benefit cost as of year-end	$ 2,861,815	$(2,235,141)	$ 2,579,584	$(2,025,759)
Interest and service cost for year	265,896	(202,931)	272,486	(208,392)

	2010	2009
Net periodic postretirement benefit cost:		
Service cost	$ 372,409	$ 377,359
Interest cost	719,801	756,840
Expected return on plan assets		
Amortization of prior service cost	0	(23,000)
Amortization of actuarial gain	(449,570)	(407,354)
Net periodic postretirement benefit cost	$ 642,640	$ 703,845
Weighted average assumptions used for expense — discount rate	6.00 %	6.25 %

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
2011	$ 707,000	$ 32,000
2012	657,000	32,000
2013	613,000	33,000
2014	608,000	33,000
2015	624,000	34,000
2016–2020	3,345,000	170,000

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, 2010 and 2009, was $1,518,483 and $1,383,772, 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, 2010 and 2009, the amount accrued for self-insured medical claims was $242,459 and $1,186,093, 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. Inputs for interest rate derivatives include LIBOR interest rates and interest rate futures contracts. Interest rate derivatives are standard over-the-counter financial products valued using the market approach. 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. To coincide with increases in the price of coal and the price of substitute power, PowerSouth has also experienced significant volatility in natural gas prices in recent years. 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, 2010 and 2009, the fair value of interest rate derivatives and natural gas derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
Derivative Category	Balance Sheet Location	2010	2009	Balance Sheet Location	2010	2009
Interest rate derivatives	Fair market value of interest rate swaps	$ 0	$ 0	Fair market value of interest rate swaps	$22,769,457	$18,171,125
Natural gas derivatives	Fair market value of gas hedges	0	0	Fair market value of gas hedges	10,509,830	4,443,640
Total		$ 0	$ 0		$33,279,287	$22,614,765

For the years ended December 31, 2010 and 2009, 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	
		2010	2009
Interest rate derivatives	Interest expense	$ (5,634,069)	$ (5,511,226)
Natural gas derivatives	Fuel expense	(23,072,667)	(62,625,893)
Total		$ (28,706,736)	$ (68,137,119)

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, 2010 and 2009, are as follows:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$1,367,010,675	$1,403,329,786	$1,356,647,027	$1,393,077,077

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, 2010 and 2009, the components of the income tax expense are as follows:

	2010	2009
Federal:		
Current	$ 0	$ 0
Deferred	122,968	(39,026)
	122,968	(39,026)
State:		
Current	4,416	5,736
Deferred	23,422	(7,434)
	27,838	(1,698)
Change in valuation allowance	(146,390)	46,460
Income tax expense	$ 4,416	$ 5,736

The sources and tax effect of temporary differences as of December 31, 2010 and 2009, are as follows:

	2010	2009
Allowance for doubtful accounts	$ 187,965	$ 146,851
Accrued expenses	46,325	44,037
Intangible assets	50,265	60,665
Net operating loss (NOL) carryforward	4,617,566	4,877,874
Total deferred tax assets	4,902,121	5,129,427
Less valuation allowance	(4,254,340)	(4,400,730)
Net deferred tax assets	647,781	728,697
Property, plant, and equipment	(647,781)	(728,697)
Total deferred tax liability	(647,781)	(728,697)
Net deferred tax liability	$ 0	$ 0

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, 2010. Accordingly, management has established a valuation allowance for the net deferred tax assets as reflected above.

At December 31, 2010, CSI had NOL carryforwards of approximately $11.8 million. These NOL carryforwards will begin to expire in 2020.

On January 1, 2007, PowerSouth adopted the new provisions of generally accepted accounting principles related to accounting for uncertainty in income taxes. As of December 31, 2010, 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, 2010, are still subject to examination under federal tax statutes. Furthermore, PowerSouth tax years ended December 31, 1999 through December 31, 2010, 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:

	2011	2012	2013	2014	2015	Total
Coal and coal transportation	$ 76,984,000	$ 43,286,000	$19,098,000	$14,580,000	$14,580,000	$168,528,000
Natural gas	80,014,784	20,033,565	0	0	0	100,048,349
Power purchases	76,236,444	78,903,688	80,859,254	68,947,353	62,218,176	367,164,915
Total	$233,235,228	$142,223,253	$99,957,254	$83,527,353	$76,798,176	$635,741,264

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, 2010, PowerSouth was party to six supply contracts to purchase natural gas that extend through April 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 quoted prices from the NYMEX index.

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, 2010, PowerSouth had received no physical deliveries of gas under this contract. During 2010 and 2009, all of the gas that was acquired by PGP in Pool 1 was sold into markets near the points of production. As such, in 2010 and 2009, PowerSouth received its share of deliveries in the form of cash payments totaling $10,918 and $16,415, 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 stated that through November 2009, the customer was required to pay approximately 90% of the demand charge that it would have otherwise paid under normal operating circumstances. Through February 2009, the customer fulfilled its obligations under the contract. In April 2009, the customer filed for 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, 2010 and 2009, the asset retirement obligations consisted of the following items:

	2010	2009
Asbestos removal and disposal	$ 850,718	$ 816,212
Landfill closure	117,466	112,273
Radioactive sensor removal and disposal	96,620	92,459
Coal pile removal and disposal	39,697	37,987
Total asset retirement obligations	$ 1,104,501	$ 1,058,931
Balance of asset retirement obligations — beginning of year	$ 1,058,931	$ 1,013,663
Liabilities incurred in the current period	0	0
Accretion expense	45,570	45,268
Balance of asset retirement obligations — end of year	$ 1,104,501	$ 1,058,931

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 2010 and 2009.

	Operating Revenues	Administrative and General	Depreciation and Amortization	Interest Income	Interest Expense	Income Tax Expense	Net Margin	Total Assets	Capital Expenditures
Fiscal 2010									
Utility	$660,248,726	$21,073,872	$56,913,142	$4,849,213	$56,947,593	$ 0	$25,915,253	$1,743,647,941	$ 77,109,094
Nonutility	13,462,735	4,348,729	554,260	7,967	190	4,416	375,358	10,230,271	432,743
Total	$673,711,461	$25,422,601	$57,467,402	$4,857,180	$56,947,783	$4,416	$26,290,611	$1,753,878,212	$ 77,541,837
Fiscal 2009									
Utility	$638,392,874	$19,886,738	$53,177,646	$3,727,495	$63,931,756	$ 0	$23,264,305	$1,704,285,153	$ 120,175,437
Nonutility	11,594,220	4,127,279	530,129	7,351	0	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

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.

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 the Additional Units. MEAG expects to continue negotiation of the terms and conditions of the conditional loan guarantee during 2011. 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.

15. COOPERATIVE PROPANE, INC.

Effective December 21, 2010, PowerSouth signed a Letter of Intent to sell substantially all of the assets of its subsidiary Cooperative Propane, Inc. The Letter of Intent proposes that the buyer will pay Powersouth a specified sum at closing plus an amount equal to substantially all of Cooperative Propane's cost of inventory, in addition to the net realizable value of its receivables at the time of sale. Closing of the sale is expected to occur in 2011. The sale will not have a material impact on PowerSouth's consolidated financial statements.

******

PowerSouth Energy Cooperative and Subsidiaries
Five-Year Financial Summary

	Year Ended December 31				
	2010	**2009**	**2008**	**2007**	**2006**
SUMMARY OF OPERATIONS					
Total Operating Revenue	$ 673,711,461	$ 649,987,094	$ 750,390,274	$ 632,172,025	$ 628,614,177
Operating Costs and Expenses:					
Power Production	323,344,384	322,968,973	293,994,933	259,494,717	255,726,503
Purchased Power	135,660,246	117,647,451	256,928,601	206,679,821	214,586,706
Transmission and Distribution	46,913,330	42,590,946	38,446,121	37,682,305	33,388,383
Propane Cost of Sales	8,320,308	7,313,834	9,057,893	8,181,938	7,017,274
Administrative and General	25,422,601	24,014,017	22,576,412	22,534,383	20,006,280
Depreciation and Amortization	57,467,402	53,707,775	47,977,609	41,664,009	40,683,446
Total Costs and Expenses	597,128,271	568,242,996	668,981,569	576,237,173	571,408,592
Operating Margin	76,583,190	81,744,098	81,408,705	55,934,852	57,205,585
Interest Expense	56,947,783	63,931,756	57,629,309	50,820,753	49,587,779
Nonoperating Margin	6,659,620	5,327,883	4,616,810	6,686,224	6,594,223
Income Tax Expense	4,416	5,736	32,018	796	6,714
Net Margin	$ 26,290,611	$ 23,134,489	$ 28,364,188	$ 11,799,527	$ 14,205,315
GENERATION-KWH					
Steam	4,069,514,730	3,899,430,130	4,457,326,950	4,483,519,470	4,740,696,150
Hydraulic	21,530,990	31,477,130	22,678,430	13,475,440	18,143,360
Other	2,915,809,230	2,322,893,310	1,161,670,250	1,078,703,080	1,170,284,150
Total	7,006,854,950	6,253,800,570	5,641,675,630	5,575,697,990	5,929,123,660
ENERGY SALES-KWH					
Cooperatives	8,094,180,240	7,406,264,520	8,121,736,320	8,171,216,000	7,942,550,350
Municipalities	606,449,140	547,249,200	560,773,840	608,381,400	647,475,320
Other	154,558,680	136,939,180	631,033,630	225,364,300	908,385,490
Total	8,855,188,060	8,090,452,900	9,313,543,790	9,004,961,700	9,498,411,160
MAXIMUM SYSTEM DEMAND-KW	2,385,000	2,102,000	2,059,000	1,991,000	1,937,000
UTILITY PLANT					
Electric Plant In Service	$1,489,010,747	$ 1,442,537,814	$ 1,415,258,088	$ 1,366,107,675	$ 1,332,363,511
Construction Work in Progress	509,749,111	490,360,577	403,366,524	302,756,393	120,522,235
Total	1,998,759,858	1,932,898,391	1,818,624,612	1,668,864,068	1,452,885,746
Less Accumulated Depreciation	676,173,894	632,108,595	584,961,727	547,479,990	519,096,236
Utility Plant-Net	$1,322,585,964	$ 1,300,789,796	$ 1,233,662,885	$ 1,121,384,078	$ 933,789,510
TOTAL ASSETS	$ 1,753,878,212	$ 1,714,116,226	$ 1,725,525,229	$ 1,421,246,134	$ 1,216,849,424
TOTAL EQUITIES AND MARGINS	$ 201,215,373	$ 174,924,762	$ 151,790,273	$ 123,126,085	$ 111,326,558

POWER POOLING DATA

	Average Consumers Served	Miles of Line	Total Utility Plant
Baldwin EMC, Summerdale, Ala.	67,212	4,338	$ 221,035,701
Central Alabama EC, Prattville, Ala.	41,171	5,762	176,839,327
CHELCO, DeFuniak Springs, Fla.	42,713	3,873	150,165,280
Clarke-Washington EMC, Jackson, Ala.	20,203	4,067	79,387,605
Coosa Valley EC, Talladega, Ala.	16,630	2,404	84,395,027
Covington EC, Andalusia, Ala.	22,464	2,704	108,167,323
Dixie EC, Union Springs, Ala.	21,388	2,605	88,577,748
Escambia River EC, Jay, Fla.	9,971	1,812	42,357,707
Gulf Coast EC, Wewahitchka, Fla.	20,413	2,572	95,985,304
Pea River EC, Ozark, Ala.	18,541	2,985	72,142,823
Pioneer EC, Greenville, Ala.	13,042	2,741	58,496,860
South Alabama EC, Troy, Ala.	16,219	2,623	68,560,785
Southern Pine EC, Brewton, Ala.	20,529	3,241	67,101,275
Tallapoosa River EC, LaFayette, Ala.	24,495	3,766	91,829,942
West Florida EC, Graceville, Fla.	27,956	4,690	101,178,242
Wiregrass EC, Hartford, Ala.	22,762	3,668	75,924,693
Utilities Board of the City of Andalusia, Ala.	4,700	166	24,318,000
City of Brundidge, Ala.	1,351	68	5,665,922
Water Works & Electric Board of the City of Elba, Ala.	1,767	85	2,116,394
Utilities Board of the City of Opp, Ala.	3,690	81	10,220,047
TOTAL	**417,217**	**54,251**	**$ 1,624,466,005**

BOARD OF TRUSTEES

Vernon Baggett
Southern Pine EC

Tom Bradley, Jr.
Baldwin EMC

Randy Brannon
Pea River EC

Clay Campbell
Escambia River EC

Max I. Davis
South Alabama EC

Thomas Duncan
Pioneer EC

Leland Fuller
Coosa Valley EC

Leigh Grantham
CHELCO

James E. Grimes
Water Works & Electric Board, Elba, Ala.

James E. Hall
Escambia River EC

Steve Harmon
Pioneer EC

Gary Harrison
Dixie EC

Davis Henson, Jr.
Clarke-Washington EMC

E.A. Jakins, Jr.
Baldwin EMC

Earl Johnson
Utilities Board of the City of Andalusia, Ala.

Vince Johnson
Southern Pine EC

Ed Jones
Pea River EC

Ronald C. Jones
CHELCO

Kip Justice
Wiregrass EC

Mike McWaters
Wiregrass EC

Mickey Murdock
Water Works & Electric Board, Elba, Ala.

Ruby Neeley
Central Alabama EC

Ellis Nichols
West Florida EC

Ken Nichols
Covington EC

James T. Ramage, III
City of Brundidge, Ala.

William S. Rimes
West Florida EC

James A. Rogers
Utilities Board of the City of Opp, Ala.

Jerome Rogers
Utilities Board of the City of Opp, Ala.

Gerald Shirah
Tallapoosa River EC

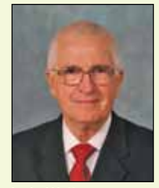
Charles E. Short
Covington EC

Tom Stackhouse
Central Alabama EC

Britt Thomas
City of Brundidge, Ala.

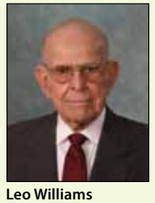
Louie Ward
Tallapoosa River EC

Ashton Wells
Utilities Board of the City of Andalusia, Ala.



Irvin Wells
Dixie EC

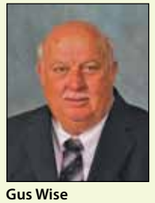
Michael White
Gulf Coast EC



Leo Williams
South Alabama EC

Stan Wilson
Clarke-Washington EMC

Jim Winn
Coosa Valley EC



Gus Wise
Gulf Coast EC

BOARD COMMITTEES

Executive Committee:
(2) Ronald C. Jones, Chairman of the Board*
(1) Gary Harrison, Vice Chairman of the Board
(2) William S. Rimes, Secretary-Treasurer
(1) Thomas Duncan
(3) James E. Grimes
(1) Mike McWaters
(1) Stan Wilson

Nominating Committee:
(2) Clay Campbell*
(1) E.A. Jakins, Jr.
(1) Kip Justice
(1) Ruby Neeley
(3) Jerome Rogers
(1) Jim Winn

Corporate Planning & Power Supply Committee:
(1) Randy Brannon
(2) Clay Campbell
(1) Max I. Davis
(1) Steve Harmon
(1) Gary Harrison*
(1) E.A. Jakins, Jr.
(3) James A. Rogers
(1) Charles E. Short
(1) Mike McWaters

Marketing & Economic Development Committee:
(1) Vernon Baggett
(1) Max I. Davis
(1) Leland Fuller
(3) James E. Grimes
(2) James E. Hall
(1) E.A. Jakins, Jr.*
(1) Ed Jones
(1) Charles E. Short
(1) Tom Stackhouse

Engineering & Operations Committee:
(2) Leigh Grantham
(2) Ellis Nichols
(1) Ken Nichols
(1) Louie Ward
(3) Ashton Wells
(1) Irvin Wells
(1) Leo Williams
(1) Stan Wilson*
(2) Gus Wise

Finance & Audit Committee:
(1) Vince Johnson
(3) Mickey Murdock*
(1) Ruby Neeley
(3) Britt Thomas
(1) Steve Harmon
(1) Gerald Shirah
(1) Tom Bradley, Jr.

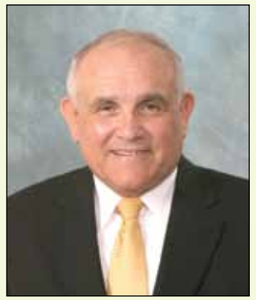
Member Relations & Strategic Planning Committee:
(1) Vernon Baggett
(1) Thomas Duncan
(1) Davis Henson, Jr.
(3) Earl Johnson
(1) Kip Justice
(2) William S. Rimes
(3) Jerome Rogers
(2) Michael White*
(1) Jim Winn

Code:
(1) Alabama Cooperative
(2) Florida Cooperative
(3) Municipality

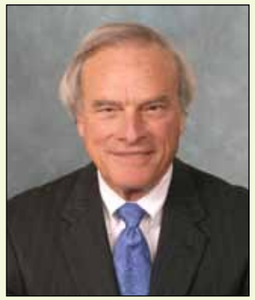
*Designates Chairman

As of Dec. 31, 2010

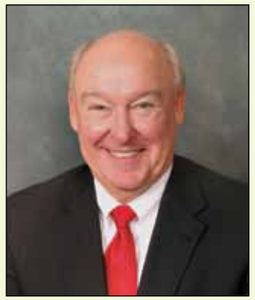
MANAGEMENT STAFF



Larry Avery
Vice President of Power Delivery



Seth Hammett
Vice President of
Business Development



Horace Horn
Vice President of External Affairs

Rick Kyle
Director of Financial Operations

Damon Morgan
Vice President of Power Supply

Gary Smith
President and Chief Executive Officer

Ferrell Walton
Vice President and
Chief Financial Officer

Beth Woodard
Vice President of Legal and
Corporate Affairs

2027 East Three Notch Street (36421-2427)
P.O. Box 550 (36420-1299)
Andalusia, Alabama

Phone: (334) 427-3000 | Fax: (334) 427-3781

www.powersouth.com