

SCANNER

JANUARY 2009 - VOLUME TWO - ISSUE ONE

***MOSELLE REPOWER PROJECT APPROVED
ROW CLEARING PRODUCES BIOFUEL
BENEFITS FROM RECYCLING FLY ASH***



POWER ASSOCIATION

SCANNER

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Cover photo taken December 11, 2008 by Wesley Graham, right-of-way supervisor

LOOKING FORWARD TO 2009



Jim Compton, General Manager/CEO

The electric generation industry was under great stress in 2008. Our business requires long-term planning and large capital expenditures. As a result, we are not able to handle rapid change as well as some other industry sectors and, without doubt, 2008 was a year of rapid change.

Generation fuel costs increased from historically high pricing to even higher levels. Natural gas, crude

oil, and coal prices spiked upward due to strong international demand, covering our financial statements with red ink. Our Members agreed to a 4.5 mills per kWh mid-year fuel cost adjustment to stabilize the budget. Our planning for emissions allowances and control technology at Plant Morrow was disrupted by a court ruling which eliminated federal regulations that had been in place for three years. Control Center operations were placed under more reliability regulations by NERC. Overall, there was less and less certainty and clarity about what was required or expected of us by our regulators.

Later in the year, the faltering economy brought commodity prices down, giving us some financial relief. However, the regulatory and political outlook for 2009 continues to be uncertain, making it increasingly difficult to complete the planning which is required to meet future needs.

The November elections brought into political power President-elect Barack Obama, who believes that man-made CO₂ causes global warming. Since the election, as evidenced both by his selection of individuals to oversee the nation's energy sectors and through public statements, President-elect Obama is clearly on a course to try to move the American economy away from carbon-based energy sources. Obama and his advisors have consistently stated that this change must happen quickly, and the same agenda is held by the leadership in Congress, especially since Representative Henry Waxman from California became Chairman of the House Energy Committee, replacing a moderate chairman. Unfortunately, in my opinion, in all the press conferences and pronouncements about

energy policy, there does not appear to be sufficient understanding of or concern regarding the unanticipated cost impact upon electric rates or the reliability of the electric grid.

So what will we see from Congress in 2009? Expect a National Renewables Standard that will require that at least 15% of all electric power sold by 2020 be from renewable sources such as wind, solar, or biomass (hydropower does not qualify). There will be progressive stairsteps toward this target beginning as early as 2012. It is also anticipated that energy efficiency programs will be mandated, or at least strongly encouraged, by allowing an offset against the renewables mandate when reductions in energy efficiency are achieved.

Also, there is likely to be a carbon reduction bill by late 2009. Between the renewables standard and a carbon reduction bill, significant electric power cost increases can be expected, as well as resulting cost increases across all American industries. In addition, given that these legislative rules will discourage new base load generation, over time there will be increasing reliability issues. These carbon reduction measures will continue to provide a great challenge as far as reliability and rate affordability. We will need to be very flexible in our planning and be forward thinkers in order to address these requirements as economically and responsibly as possible.

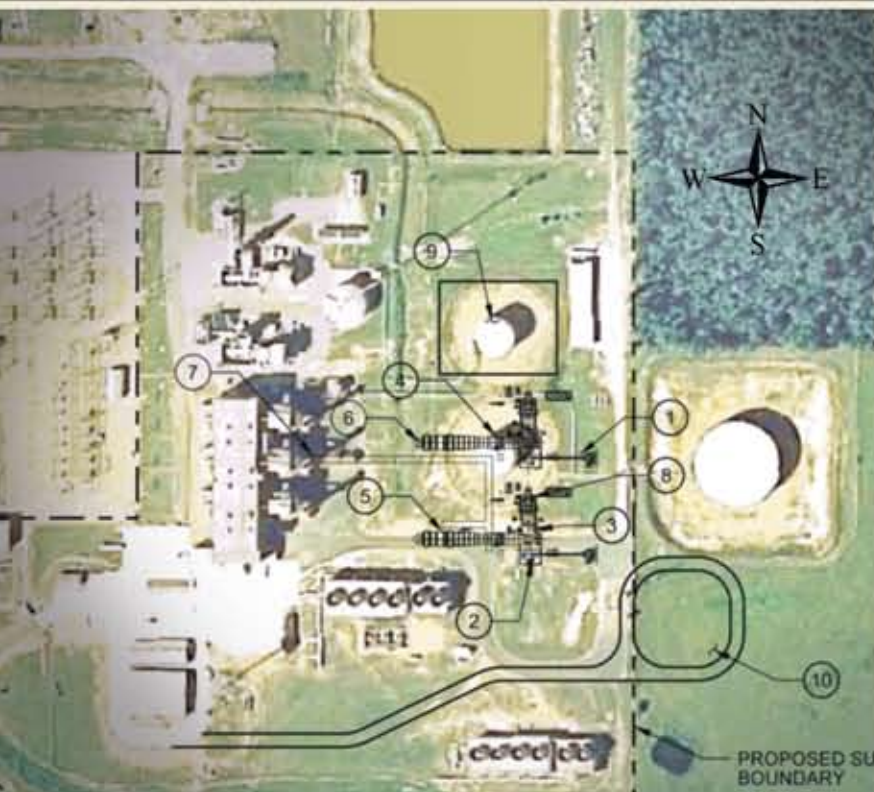
So while natural gas prices have dropped and coal prices are easing, we at South Mississippi Electric cannot afford to become complacent or overly comfortable. The next five years will likely be the most challenging in the history of the American electric industry. I do believe that we can meet any challenge, provided that we are given adequate time and clear, reasonable rules to follow. I hope that we will not be rushed to meet politically imposed deadlines that do not make common sense and do not give us time to plan appropriately.

We have faced and have met many challenges over the last few years. 2009 and beyond will bring even greater challenges. We need to put the past behind us, as what used to be business as usual will likely no longer be important or even relevant. All of our attention must be focused upon the changing future in the electric industry and how we can continue to be among the leaders in the cooperative electric industry.

I have the utmost confidence that we, the employees of South Mississippi Electric, will meet the challenges with the dedication, skill, perseverance and effort that our Members have come to rely on and expect.



MOSELLE REPOWERING PROJECT MOVING FORWARD



A major step toward meeting the additional power needs of South Mississippi Electric's Members has moved beyond the research and planning stage.

SME's board of directors has approved a \$236 million project that will add approximately 150 megawatts of new capacity at the Moselle Generating Station, while also making the plant's existing generating units much more efficient.

(left) Aerial view of Plant Moselle site

- 1 - Generator step-up transformer
- 2 - Generator
- 3 - Combustion turbine
- 4 - Bypass stack
- 5 - HRSG
- 6 - Exhaust stack
- 7 - Pipe rack
- 8 - Air Inlet
- 9 - Existing fuel tank
- 10 - Unloading area

"Trying to meet the ever-expanding supply needs of our Members is a challenge that requires careful thought and planning," said Nathan Brown, chief operating officer. "It also means looking at many possible solutions to find the best overall answer for our system."

After reviewing numerous responses to a request for proposals (RFP) for purchased power, as well as evaluating potential construction projects to provide new capacity, Brown and his team have determined that the best and most economical option is to add generation at Moselle and repower two of the existing units at the facility.

Two new GE Frame 7EA combustion turbines, similar to Moselle's Units 4 and 5, will be installed behind the boilers that currently provide steam for Units 1 and 2. The 7EAs are simple cycle units with a summer capacity of 75 megawatts each. Two Heat Recovery Steam Generators (HRSGs) will also be installed. The exhaust heat from the combustion turbines, which exceeds 1,000 degrees F, will be routed through the HRSGs to produce steam to drive the turbine-generators of Units 1 and 2.

Each of the existing steam units is rated at 59 MW. When coupled with a 75 MW combustion turbine, the result is a 134 MW combined cycle unit. "In addition to the extra generating capacity, the resulting combined cycle units will be 30 percent more efficient than Units 1 and 2 currently are, thus requiring less fuel to produce the same power output," said Chris Rhodes, plant manager.

"By themselves, the 7EAs operate at about 12,000 BTU/kWh, as do Units 1 and 2," said Rhodes. "Once the repower project is completed, the overall efficiency of the resulting combined cycle units is projected to be 8,100 BTU/kWh. This improvement in overall plant and system efficiency will result in a significant annual fuel cost savings."

"With the volatility we have seen over the past few years in fuel markets, it is especially important to improve our overall system efficiency," added Brown.

The combined cycle tandems provide more operating flexibility because each can be operated over a load range of 65 to 134 megawatts.

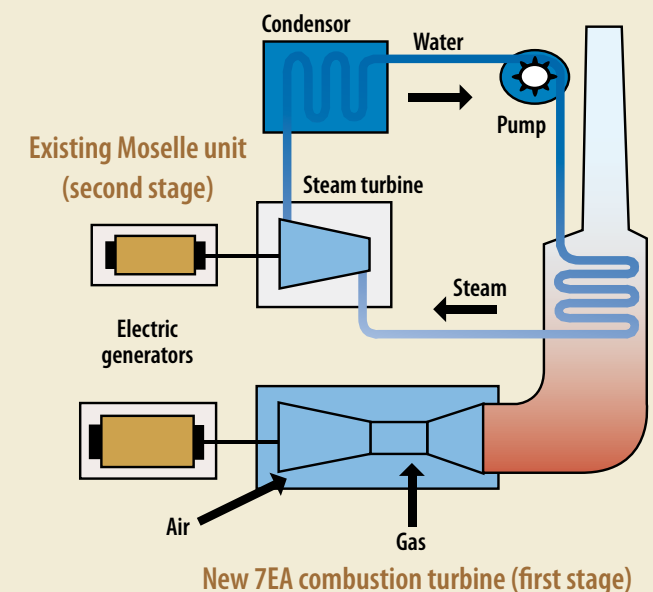
"We are excited about this project, as it fits SMEPA's needs very well," Brown said. "The combined cycle units will improve the overall efficiency of existing SMEPA generating resources and meet our control area needs, such as voltage support, spinning reserve, and system regulation. In addition, the project can be completed within the necessary time-frame."

The services of Burns and McDonnell have been secured to assist in the permitting process, as well as performing preliminary engineering, detailed design, and construction management. The project will also include the purchase and installation of miscellaneous plant equipment, generator step-up transformers, and modifications to the existing switchyard to accommodate the additional output.

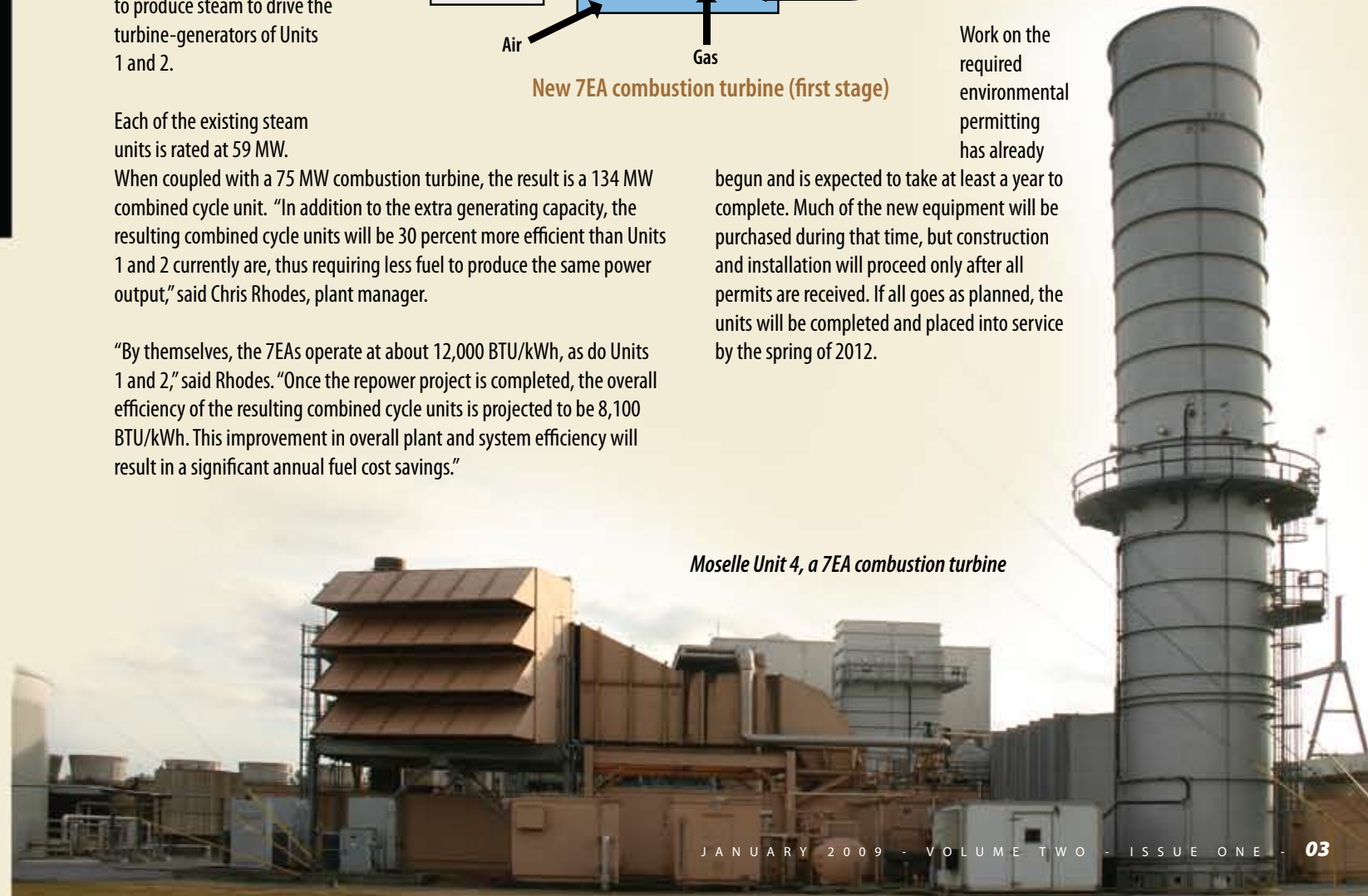
Work on the required environmental permitting has already

begun and is expected to take at least a year to complete. Much of the new equipment will be purchased during that time, but construction and installation will proceed only after all permits are received. If all goes as planned, the units will be completed and placed into service by the spring of 2012.

Combined Cycle System



Moselle Unit 4, a 7EA combustion turbine



Fly Ash Sales are a Win-Win-Win



For the past two years, South Mississippi Electric has produced a combination of revenues and savings from an unexpected source—the recycling of fly ash, which is a by-product of burning coal at Plant Morrow. Not only is the process profitable, but it also provides positive environmental benefits and is a boon to economic development in the state and region.

American coal deposits, depending on where they are located and how they were formed, have widely varying chemical properties. There are differing levels of carbon, sulfur, nitrogen, moisture, and other components that contribute to a coal's performance, as well as its post-combustion emissions. Boilers at electric generating plants are designed to use certain kinds of coal. Plant Morrow burns bituminous coal that originates from eastern Kentucky and Virginia. The coal is relatively low in sulfur and ash content and high in heat (BTU) content.

As part of the Clean Air Act and other federal and state environmental regulations, coal-fired generating facilities must limit emissions of sulfur- and nitrogen-based components, as well as particulate matter. Morrow typically burns approximately one million tons of coal each year. With an ash content of roughly 9½-11 percent, that means more than 100,000 tons each year must be extracted from the plant's exhaust gases and disposed of properly.

"Since the plant began operation in 1978, we have placed a large amount of fly ash in a landfill located on our property," said Plant Manager Charles Stuart. "The facility covers nearly 50 acres and is maintained according to strict regulations. The process requires a good deal of manpower and machinery, as well as constant oversight to ensure that we are in full compliance with all landfill regulations."

Fly ash, however, has a number of possible industrial uses, primarily as an ingredient in concrete products. Depending on where and how it is used, concrete requires varying specifications for its ingredients. Plant Morrow's ash has ideal characteristics, and for many years plant employees have searched for ways to market the ash.

"In previous years, we had only limited success," said Stuart. "We had a couple of contractors who were able to market the ash prior to 2003. Markets were limited, however, and revenue was minimal; but any sale reduced the amount placed in the landfill."

In the mid 1990s, Separation Technologies, Inc. (STI), a large regional company, perfected a process of conditioning fly ash to meet the quality and consistency required for use in the concrete product industry. At the time, the process was not economically feasible at Plant Morrow. In 2003, new



discussions began and an agreement was reached in 2004. STI received exclusive rights to Morrow's dry ash and began selling the product commercially in January 2005.

The fly ash is collected from Morrow's boiler exhaust gases by electrostatic precipitators, which use electric charges to attract the very light, very small ash particles. A vacuum system collects the ash and a pressure system transfers the ash to a storage silo. From there the material is transported to STI's patented processing facility, where positive and negative charges separate the ash into two streams, one high in carbon content and one low in carbon.

The high-carbon stream is returned to the plant to be burned with the coal, saving approximately \$80,000-\$100,000 monthly in fuel that would otherwise be lost—equivalent to a trainload of coal each year. The low-carbon fly ash stream goes to STI's product storage silo, where the material is kept until being shipped via tanker trucks to customers.

In 2007 and 2008, STI sold more than 85% of the fly ash produced by the plant, generating revenues for SME of more than \$300,000. Customers include numerous Mississippi Department of Transportation contractors who are rebuilding roads and bridges, including those destroyed by Hurricane Katrina. The price of the ash is adjusted annually according to contract specifications and market conditions.

Although the funds generated from the sales are a new source of revenue, an even greater benefit comes from the savings of not having to handle and landfill the ash. Current costs average about \$7 per ton to develop, fill and maintain the landfill. By avoiding landfill costs, reclaiming the unburned carbon and selling 85,000 tons of treated fly ash per year, the ash handling program creates a total annual savings of more than \$1 million. The recycling is also helping to reduce the amount of solid TRI (Toxic Release Inventory) elements—including mercury and compounds of lead, manganese, and antimony—going to the landfill.

"This is an excellent example of finding a way to do something better," said Stuart. "Many employees had a hand in getting us to this point, as did the STI employees. From the standpoint of daily operations, we continue to work very closely with STI personnel so that they can follow how the plant is operating, whether it is going 24/7 during the summer or much less than that during outage periods."

ANATOMY OF A LANDFILL

Roughly 75 acres of Plant Morrow's approximately 1,000-acre site are permitted by the Mississippi Department of Environmental Quality (MDEQ) as a disposal site for the by-products of burning coal. Roughly 49 acres on the south side of Okahola Road are currently developed and in operation, while another 26 acres on the western side of the plant are permitted for potential future needs.

To date, more than two million tons of fly ash have been transferred to the landfill, which is constructed and maintained according to regulations. The ash is transported by a conveyor system and bulldozed or moved around the site by heavy equipment. Solid waste landfills require a liner beneath the by-products to ensure that the stored material does not leach downward and impact the ground water below. The liner method used at Morrow consists of a two-foot-deep, low-permeability clay layer with an 18-inch-thick sand layer on top of the clay.

Numerous other protective actions are conducted regularly. Water that normally leaches down through the by-products must be pumped periodically to maintain the base liner's integrity. Monitoring wells around the edges of the landfill are sampled and analyzed twice each year by an independent third party to make sure that nothing from the landfill impacts ground water in the area. Rain runoff is channeled around the landfill to a pond filled with cattail vegetation, where the slow water velocity and the filtering effects of the cattails cause any ash particles to settle out before the water discharges into nearby Black Creek. The solid particles in the pond are excavated periodically and returned to the landfill.

The current permit allows for the landfill height to reach approximately 95 feet above the surrounding ground elevation. Presently, the elevation is close to 60 feet. Exposed material in the landfill area is kept damp to help minimize windblown particles and about once a year the exposed walls of ash are covered with a layer of clay, soil and grass.



Right-of-Way Clearing Method Creates Biofuel

Construction is set to begin around February on Line 114, a new 18-mile 69-kV insulated transmission line from the Macedonia switching station to the Ellisville Junction switching station, following completion of the right-of-way clearing process. The line will provide improvement to South Mississippi Electric's 69-kV transmission system and voltage support for the Member's substations.

Kermit Broome and Sons Wood Chipping, Inc. of Sumrall is working on the clearing project, its third for SME using the chipping method. Not only does the company clear the trees and grind the stumps, the specialized equipment which is used also chips and mulches everything on-site. When completed, the right-of-way is completely cleared of trees and brush and ready for construction to begin, while the salvaged wood is ready for recycling.

"It is a win every way you look at it," said Mitch Westberry, construction inspector. "Broome and Sons takes the woodchips from the site and sells them to various paper and pulp mills for use as fuel or pulp. The chips from this project will be sold to Center Point Energy in Wiggins, Masonite in Laurel, and Temple Inland in Bogalusa, Louisiana."

The method used to clear new rights-of-way depends on the volume of timber within the proposed route. Regardless of the method used, however, the tree roots must be left in place, and the soil must be left in a condition that prevents erosion.

Some landowners ultimately decide to sell the merchantable timber along the right-of-way. In such cases, after the logging operations are complete, the right-of-way is sheared, leaving the remaining timber scattered. After that, the vegetation must be pushed to the outside edges of the right-of-way, creating piles of debris that become a hindrance during construction and maintenance.

"The chipping process is competitive when it comes to clearing rights-of-way with timber that will not be sold," said Jerry Pierce, director of transmission construction. "Because chipping involves higher operating expenses due to the equipment involved, the contractor has to be able to generate revenue from the salvaged wood, as Broome and Sons is doing on this line."

"Having the rights-of-way completely cleared allows the construction to begin sooner," said Westberry. "Saving time on the front-end makes the entire construction process smoother and more efficient. We are always planning ahead for our transmission needs, and this allows us to build lines in less time."

The benefits of the chipping method also extend to future maintenance efforts. After Line 114 is completed this spring, it will be easily adapted to the Quality Vegetation Management program recently adopted by the Association.

"A new line cleared in this manner can receive its first herbicide spray immediately after being completed," said Wesley Graham, right-of-way supervisor. "Then the right-of-way will be placed on a 2- or 4-year maintenance rotation. The completed line will be treated as a whole unit since there are no debris piles to interfere with the maintenance. Having the lines cleared enhances our ability to properly treat the vegetation and capture any new growth or potential re-growth."

"Using Broome and Sons has made a positive difference," said Westberry. "They are good at what they do, which makes it easier for us to be better at what we do."

(top photo)

Workers begin the line-clearing process by using a feller buncher to cut down trees and all other large growth.

(middle photo)

A pair of skidders work together to gather the trees and carry them within reach of the on-site chipper, which moves along the right-of-way as the work progresses. The chipper can feed itself full trees and nearby underbrush. The chips are fed into large dump trucks that carry the material away.

(bottom photo)

After the right-of-way is cleared of trees and underbrush, two mulchers—one with a mobile arm and another like a huge mower—totally grind stumps and mulch low vegetation and any other remaining debris. The result is a corridor that is completely cleared and ready for construction.



PROJECTS REQUIRE COOPERATION, COORDINATION AND TEAMWORK

Upgrades, additions, projections, redesigns, analysis, planning—new projects involving growth and expansion are a constant for any electric utility. The Macedonia to Ellisville Junction transmission line construction is only one of more than 60 projects on SME's Engineering Department's project management chart. There are equal numbers of ongoing projects for every other work group at SME, and each one is an essential part of providing reliable, economical service to our Members.

The planning, design and construction of a new line or substation normally begins with a request for a new delivery point from a Member system or as a result of transmission planning studies.

Constructing a new distribution substation varies depending on the specific needs, and costs can typically be as much as \$1.5 million. Employees at each distribution co-op conduct system planning to prevent any potential overloaded areas or voltage issues which normally occur when there is continual customer growth or a new large industrial load is added. When a need for a new delivery point is identified, Members make a formal service request for the new facility, which must be approved by SME's board of directors.

Once approved, a project is added to SME's construction list and a facilities study begins. "The process from start to finish normally involves every member of the Engineering Department," said Richard Ashley, director of design engineering. "Each project requires expertise, skill and experience as it moves from planning to design to construction and final testing. Throughout the project, we work with numerous employees from other departments as well as with a variety of Member employees working on their side of the project."

Depending on the location of the Member's need, an exact site is selected based on land availability, how the new facility affects the overall transmission system, potential transmission line routing considerations, and the costs associated with all of the options.

"Fortunately, within our service area, we are still able to find options for a new substation that cause minimal controversy," said Ashley. "We review several alternative locations that will limit the impact on any adjacent property. Siting transmission lines is getting harder, though, and it is always a delicate process working with landowners to secure easements and rights-of-way. Our land section does an exceptional job of explaining the process to landowners and reaching agreements for the construction of lines and stations."

While the land section works to purchase the property, preliminary field surveys are conducted. At the same time, Ashley works with staff from the requesting Member and SME's attorneys to petition the Mississippi Public Service Commission for approval of the site and line route. In addition to compiling the technical aspects of the request, the process also includes providing local public notice of the project and a hearing before the Commission to present the case. If approved, a certificate of public convenience and necessity is awarded.

Environmental considerations are a key part of the preliminary planning stage, as any project must adhere to state and federal regulations, as well as Rural Utilities Service (RUS) policies and procedures if RUS funding is required for the project. For each environmental review, the general project description and location information is sent to as many as fourteen state and federal agencies, including the Mississippi Department of Environmental Quality, the U. S. Fish and Wildlife Service, the U. S. Army Corps of Engineers, and the area Planning and Development District. The agencies provide feedback regarding any necessary studies, surveys or areas of concern, and submit their approval and/or disapproval. SME follows the agencies' requests and recommendations and responds with any necessary justification for moving forward with the project.

Joey Ward, environmental affairs and fuels manager, and Hank Sossaman, environmental data coordinator, oversee the environmental reviews. Once all the required agencies have responded positively (or have been given ample time to respond), either an Environmental Report (ER) or an Environmental Analysis (EA) is conducted. (EAs for substations, which are more detailed and involve formal public input, are necessary for any project that requires RUS funding or will affect more than five acres.)

The ER consolidates all the agency correspondence, project site studies and surveys, project justifications, and any additional information required by RUS. General Manager/CEO Jim Compton personally reviews and approves each ER before the report is sent to RUS for review and approval.

"This process and document serve as our environmental due diligence," said Ward. "We work closely with the Members involved in the project, and they receive a copy of the final ER."

This is the first of a series.

Coming next issue: Land acquisition and design

Mobile Substations Reflect Cooperative Practices



Providing the Members of South Mississippi Electric with reliable electric power means many things, such as planning for future growth, managing fuel costs, maintaining generating facilities and designing transmission facilities as the system expands. Recently, two new mobile substations were purchased to increase the options for any of the Members needing backup capabilities for substations and transformers.

A mobile substation is exactly what the name implies—a complete, self-contained, trailer-mounted unit that can function as a substation. It is composed of a transformer, cooling equipment, high voltage and low voltage disconnects, power circuit protection, metering, relaying, AC and DC auxiliary power, surge protection, and optional cable reeling equipment. Mobile substations can be used by Members, when necessary, for planned maintenance, forced outage repairs, weather-related and other unplanned outages, temporary substation capacity increases, and sabotage.

“With the purchase of these two new mobile substations, SME now owns four mobile substations that are available to our Members,” said John Gilbertson, substation and communications manager. “We believe that it is important to have the resources not only to help meet the needs of our Members, but also to ensure the overall reliability of our system.”

The obvious advantage of a mobile substation is its rapid deployment capability. Depending on the distance required for travel, a mobile sub can be delivered, set up, and ready for operation in less than eight hours. In emergency situations, the timing may be reduced to four hours or less.

All transformers are rated in terms of volt-amperes, which determine the amount of capacity or power that the transformer is capable of delivering. The mobile substations owned by SME range from 20 MVA (Mega Volt Ampere) to 30 MVA. A Mega Volt Ampere is equivalent to one million volt-amperes. An average substation transformer is rated between 10 and 50 MVA. By comparison, distribution transformers mounted on poles are usually in the neighborhood of 25 kVA (or 25,000 VA).

The process of ordering and receiving the new substations took more than a year. The engineering department completed a study in April 2007 to assess the ability of SME’s mobile substation fleet to support Members’ needs. Each Member’s distribution system and the mobile substations that were available at the time were analyzed.

“The study concluded that although most of SME’s eleven members have their own mobile substation or transformer, not all are sized to provide adequate backup power for the Members’ larger transformers,” said Gilbertson. “In order to properly back up their transformer banks during forced outages or an emergency, several Members have been forced to transfer load to other substations in order to reduce the load of a substation being served by the mobile sub. The study uncovered various vulnerabilities for some of the Members, such as having no mobile, having a mobile that was undersized, or not having a mobile to cover all voltages.

“We also collected data for each Member to determine their specific mobile sub needs and their ability to store, transport, and inspect mobile subs. As expected, the results showed that it would be very useful and economical for us to add to our fleet of substations for the Members to share.”

Based on the needs found in the study, a 20 MVA capacity substation and a 30 MVA capacity substation were purchased from Delta Star, Inc. Both of the mobile subs are standardized with identical accessory equipment, protection systems, and voltage ratings. The units have dual voltage ratings on the high/transmission side (69 kV or 115 kV) and the low/distribution side (13.2 kV or 26.4 kV) with an option to raise or lower the voltage up to 5%, meaning that the voltage can be matched to a variety of situations.

An additional 30 MVA mobile sub was ordered in the second quarter of 2008 to meet additional needs requested by the Members and will be delivered in May 2009.

“A 30 MVA transformer is becoming a standard transformer size for our distribution members,” said Gilbertson. “Having options, though, when we take the mobile subs into the field is very important. The 20 MVA mobile substations are shorter in length and considerably lighter in weight for use in the confined spaces of smaller substations, while the 30 MVA units will be able to support the more heavily loaded substations.

“A centralized fleet of five mobile substations should meet our needs for many years to come,” Gilbertson added. “This also establishes a new system-wide philosophy so that as the Members’ mobiles age, SME can evaluate the fleet and purchase additional units as needed. This is a great example of how cooperative relationships are supposed to work.”

SME DEDICATED TO MANAGING COSTS FOR 2009

Costs throughout the electric industry continue to rise, but SME has remained competitive with the service and pricing which are provided to Members. The Association’s budget for 2009, approved by the Board of Directors in December, will require annual revenue of just over \$813 million. That translates to an average wholesale rate of just under 80 mills per kWh.

“This year’s budget is approximately \$75 million more than last year,” said Jim Compton, general manager/CEO. “The increase stems primarily from increasing costs for fuel and purchased power, as well as environmental compliance projects and capital costs associated with system improvements. All of our other overall operating expenses have remained very consistent.

“Fuel and purchased power are now close to 80% of our overall budget, and 80% of this year’s increases are directly related to those costs. The parts of our budget that we are better able to control, such as operations, construction and maintenance projects, and employee costs, have risen only slightly as we have had to broaden their scope.”

For 2009, increases for fuel and purchased power amount to approximately \$60 million. SME’s delivered coal costs will increase nearly \$10 per ton in 2009, a result of rising transportation costs and renewed supply contracts that are more expensive than in the past (but still well below spot market prices). Mississippi Power Company’s fuel costs associated with its purchased power contracts rose nearly \$31 million. Because natural gas costs have declined significantly from this summer, purchases for 2009 are expected to allow for a slight decrease in those fuel costs throughout the year.

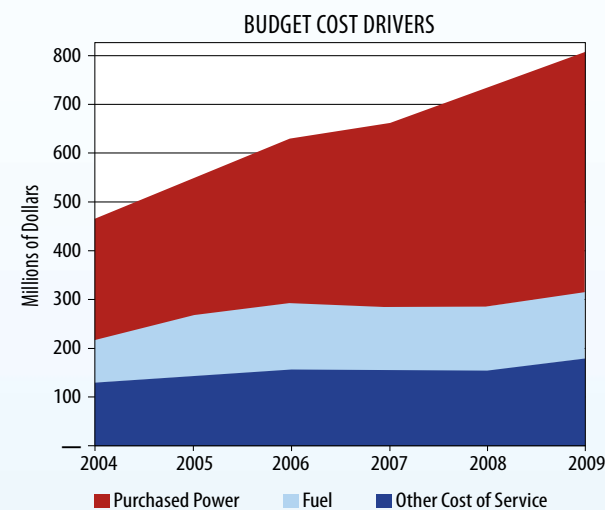
Since 2005, SME’s fuel and purchased power expenses have risen from \$306 million to \$626 million. The wholesale cost to Members in 2005 was approximately 60 mills per kWh.

“In spite of the increases we are seeing, we feel that we are doing a good job of lessening their effect upon our Members,” Compton said. “Across the nation and in our region, comparable-sized utilities and G&Ts are seeing higher increases and higher rates than ours. Our fuel purchasing strategy and timing have been as efficient as anyone’s.”

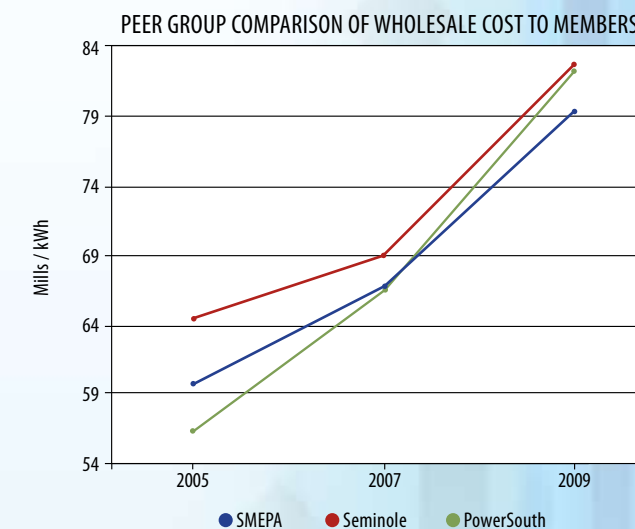
Another major budget driver over the next several years will be capital costs associated with adding new generation and transmission facilities, as well as complying with environmental regulations. The Moselle repowering project (see story elsewhere in this *Scanner*) has been approved and will require financing. Grand Gulf is being upgraded by approximately 180 megawatts, and SME will be contributing 10% of those costs. Upgraded transformers are being added to increase transmission capacity, and air quality control projects are underway at Plant Morrow.

“An important part of our strategy is to become more self-sufficient as we pursue ways to meet our Members’ growing demand,” Compton said. “The Moselle project is our best option, both economically and in terms of owning our own generating assets. The Grand Gulf project, of course, also adds to our own resources. There are still many hurdles to clear, though, as we move forward seeking additional sources of generation.”

Projections call for sales this year of more than 10.2 million megawatt hours (MWh), an increase of 3.5%. If the projections are accurate, it would be the first time SME’s annual sales exceed 10 million MWh. Approximately 60% of that total will be generated by resources owned by SME or controlled through long term contracts. The remainder will be met by market purchases and the Mississippi Power All-Requirements contract.



| | 2004 | 2005 | 2006 | 2007 | Forecast 2008 | Proposed Budget 2009 |
|--------------------------------|--------|--------|--------|--------|---------------|----------------------|
| Purchased Power | \$ 245 | \$ 279 | \$ 336 | \$ 375 | \$ 443 | \$ 489 |
| Fuel | 90 | 127 | 140 | 134 | 133 | 137 |
| Other Cost of Service | 126 | 139 | 152 | 150 | 152 | 177 |
| Total Cost of Electric Service | \$ 461 | \$ 545 | \$ 628 | \$ 659 | \$ 728 | \$ 803 |



| | 2005 | 2007 | 2009 |
|------------|-------|-------|-------|
| SMEPA | 59.75 | 67.07 | 79.62 |
| Seminole | 64.64 | 69.2 | 82.84 |
| PowerSouth | 56.49 | 66.7 | 82.43 |



2009 Resolutions

RESOLUTION... a firm decision to do something.



By **Don Ganas**,
Security & Safety Coordinator

The New Year is usually met with new enthusiasm and confidence. If true to the national average, 50% of you will make New Year's Resolutions. New Year's Resolutions frequently include decisions concerning eating habits, physical conditioning or the way we serve our families and friends. For 2009, please consider including a resolve to make your home safe from fire.

Each year, home fires take a terrible toll in personal injury, monetary loss and the loss of prized and irreplaceable possessions. Cooking fires are the primary cause of home fires, followed by fires caused by heating systems.

According to the National Fire Protection Agency, cooking fires are most frequently the result of inattention while food is being prepared. Properly installed appliances rarely fail, and cooking utensils which are used properly seldom cause a fire. It is our busy lifestyle and multi-tasking habits that cause the typical cooking fire.

Deep frying is the most serious cooking hazard. Make certain that the pot being used has enough capacity for the oil and food to prevent overflow as the oil expands during heating. Carefully monitor the pot and never leave it unattended. Any water in food placed in cooking oil will rapidly form steam, causing the liquid to expand and could result in a violent explosion. Many children have been burned when they pulled the cord of the popular Fry Daddy as it was draped over the edge of a counter. The turkey fryer has caused so many fires and serious burns that Underwriters Laboratories (UL) will no longer certify the product.

Although oil-fires are extremely dangerous, most can be quickly controlled. If one occurs, immediately turn off the heat, sound an alarm to everyone in your home and cover the pot with a suitably sized lid or a damp towel. Do not try to carry the pot from the house or to a sink or attempt to extinguish the fire with water. If you consider the fire too advanced for your abilities, call 911 and leave your home.

Food left to boil on an electric or gas burner is another frequent cause of fire and injury. If a metal pot boils dry, the food in the container can ignite. It can also melt the metal pan and cause a fire that is very difficult to extinguish.

Finally, keep all combustibles away from the stove. This is not the place to display children's crafts or seasonal decorations. Keep an oven mitt near the stove to handle hot utensils safely, and keep children and pets away from the stove when moving heated dishes.

Fireplaces and portable heating devices cause the majority of heating equipment fires. Both must be kept in good working condition and, like cooking equipment, should never be left unattended. Energy costs have caused many of us to look for alternate heating methods. Before you begin using a fireplace or wood heater, make certain that the device is working properly and that the flue and chimney are cleared of any combustible material. Deadly carbon monoxide gas is the product of combustion from a poorly ventilated heating device. If you use an open flame heating device, install a carbon monoxide detector and service it as you would your smoke alarm.

Every home should have at least one fire extinguisher, and if yours is more than 12 years old, it should be replaced. Home fire extinguishers should be the dry chemical type rated for trash, liquid and electrical fires (A, B, and C) with a charge of 4 pounds of chemical agent. Such single use extinguishers can easily be purchased at home improvement or discount stores such as Lowes, Wal-Mart and Target.

Smoke alarms will not prevent a fire, but they are effective in preventing nearly 100% of fire fatalities. Fire alarms may also allow the homeowner time to summon firefighters to reach the scene to prevent a small fire from becoming catastrophic. Install smoke alarms in the kitchen, in the hall outside sleeping areas and in each bedroom. Change the batteries twice a year and check the device monthly.

An off-the-job injury to an employee or family member is a tragedy to the entire South Mississippi Electric family. In our busy lives, we must juggle many tasks in order to meet all of our responsibilities. Fire is unforgiving. As we enter 2009, I encourage you to make a resolution to give your full attention to cooking practices and alternate heating sources in order to prevent tragedy.

New Employees



David Blackledge was hired as SME's wholesale services engineer on October 13. He is a graduate of Mississippi State University with a bachelor's degree in Electrical Engineering. Most recently, David served as the Physical Plant Director at East Central Community College in Decatur. Before that, he was the District Engineer in Newton for Southern Pine EPA. David grew up in Madison County and spent four years with the U.S. Navy. He is married to Rachel and has one daughter, Weslie Ann.



Laborer **Lewis Corley** began working at Plant Morrow on October 13. Before coming to work for SME, he was employed for 12 years as a planer operator and millwright at Georgia Pacific. He also worked as a heavy equipment operator at Camp Shelby and for Deviney Construction. He is a native of Perry County and enjoys hunting and fishing. Lewis and his wife, Jennifer, have three daughters, Ashley, Kourtney and Heather.



Laborer **Garrett Lyles** began working in vehicle maintenance on October 7. Garrett is a graduate of Petal High School and attended Pearl River Community College on a golf scholarship. He enjoys golf, hunting and saltwater fishing.

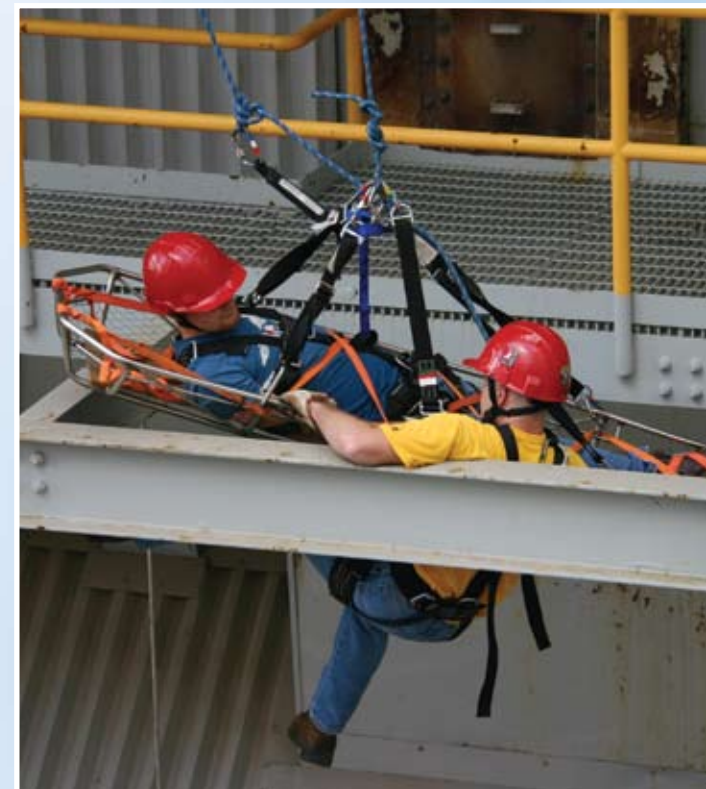


Joe Renot began work as a maintenance mechanic II at Plant Morrow on November 3. Joe previously worked as a maintenance mechanic and machinist at Coastal Paper in his hometown of Wiggins. He enjoys riding ATVs and spending time with his wife, Cassandra, and their four children.

Neal Sandifer Update

South Mississippi Electric employees came together on several projects to raise money for Neal Sandifer, a Plant Morrow operator who was injured in a tree-stand accident in October. More than \$20,000 was raised in a community-wide gun raffle, including more than \$5,000 from tickets sold by employees. More than \$2,000 was raised in a SME-sponsored fish fry, and employees also participated in a Mugshot's Burger Sale. Neal's family continues to be optimistic about his recovery and is grateful for all of the fundraising efforts and support they have received.

Rescue Teams Complete Annual Training



Members of SME's Emergency Response teams, made up of 22 employees from substation maintenance and both generating plants, conducted rescue training exercises in December. The groups practiced skills and techniques involving patient packaging, high-angle rope systems, and confined space rescue scenarios to meet OSHA requirements.



New Communications Efforts Launched to Reach Consumers

South Mississippi Electric continually tries to find new ways to help Members effectively provide useful information to their consumers, especially now in these difficult economic times. The most recent efforts include a new set of advertisements that focus on energy efficiency and an update of the association's website.

The new ads were originally produced by PowerSouth, Alabama's G&T, for its twenty members. Called Back to the Basics: Conserve 101, the campaign provides a variety of details and helpful suggestions related to how customers can use electricity wisely.

"That is not a new concept, obviously," said Kurt Brautigam, communication and member services director. "We have produced numerous energy efficiency ads over the past couple of years. What we thought was so good about this campaign was the specific information about usage that people can understand and use.

"For example, we all know that CFL bulbs use less electricity than conventional ones, but I did not realize it could be as much as 75% less. This is the kind of information that can really help consumers make informed decisions and hopefully make a difference on their monthly bills."

Other information addresses high energy users such as heating and cooling systems, water heaters, and large appliances. SME's wise-energy-use theme, "The Greenest Power is Power Not Used," was incorporated into the messages, and the ads were adapted to a variety of formats for Members to use.

"Our Members need a variety of communication options to best reach their audiences," Brautigam noted. "Some co-ops are not able to run newspaper ads because there are so many different media outlets in their service area—it would be too expensive. But those Members can run the same ad in their editions of *Today in Mississippi*, or use bill stuffers as a relatively inexpensive way to reach every consumer."

Countertop displays featuring the Conserve 101 information were also developed as a simple, yet effective, way to communicate ways for consumers to save.

SME's website was also updated at the end of the year, enhancing the site's overall look and expanding its content.



"People look to us for information—we are supposed to be energy experts, and we are," said Brautigam. "We need to be able to provide much more information on all of the issues facing our industry. We have actually produced a wide variety of publications and ads over the past few years that address numerous topics, but we needed to make them more accessible."

New "Consumer Information" and "Safety Information" sections were added to the site to include the ads and other pieces produced for Members, especially those with a focus on energy efficiency and renewables. A new "News and Publications" section features the series of power supply supplements inserted into *Today in Mississippi*, as well as the *Scanner* magazines. The "Links" section

was expanded to include more links to a variety of credible websites related to wise energy use.

"We also want to be better able to provide more information for the media," said Brautigam. "As we begin to become more proactive in discussing the issues affecting our Members and their consumers, we need to have a place where that information is available. We want visitors to the site to gain a better understanding of how complex our business actually is."



The Power of 12



G R O W I N G M I S S I S S I P P I

Our Mission:

Deliver the South's best value for safe and reliable electric energy and serve as a common resource for our Member-owners.

Our Competitive Strengths:

- An experienced, skilled work force
- A commitment to employee safety and system reliability
- A long-term contractual relationship with our Member systems
- Financial health, including that of our Members
- Sustained load growth in our Members' service territories
- Long range planning for cost-effective generation resources
- Fuel diversity in generation resources
- Environmental stewardship

Back to the Basics: Conserve 101

Breaking Old Habits

An average family spends 20% of their monthly power bill on lighting. Switch your standard incandescent bulbs to Compact Fluorescent Lamps (CFLs) and use 75% less energy to light your home. Conserving today means saving tomorrow.



Fact:
CFLs last an average of 10 times longer than standard bulbs.



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