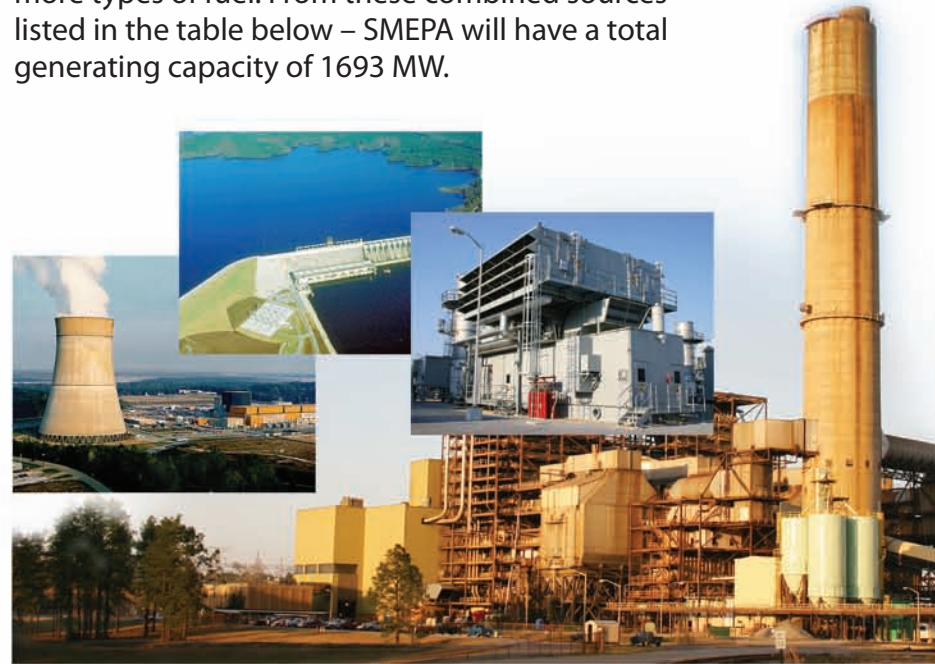


Moving electricity from a generating plant to your home

THE ELECTRIC INDUSTRY REQUIRES EXTENSIVE INVESTMENT IN FACILITIES AND EQUIPMENT. In order to accomplish its mission of providing affordable and reliable electric energy to its member cooperatives, South Mississippi Electric's 290 employees focus on generating or purchasing huge amounts of wholesale power and delivering it safely and economically to more than 260 delivery points, or substations, spread throughout the retail distribution service areas.

Fuel Sources

SMEPA ENJOYS A BROAD-BASED MIX OF FUEL SOURCES which is highly advantageous should there be a scarcity of one or more types of fuel. From these combined sources – listed in the table below – SMEPA will have a total generating capacity of 1693 MW.



Producing Electricity- Multiple Sources are the Key

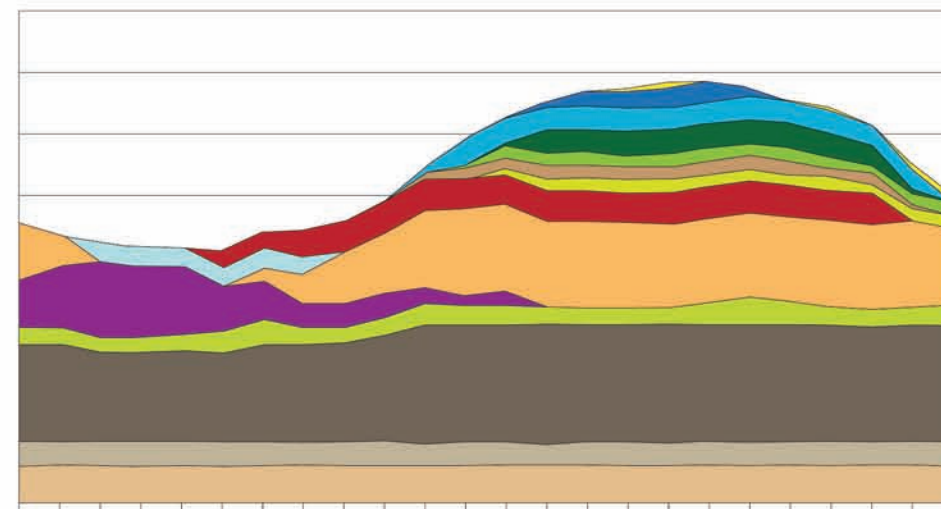
THE GENERATING PROCESS ITSELF IS INCREDIBLY RESPONSIVE—literally, whenever a light is turned on or some other need for electricity is called for, that demand is immediately met by a generator somewhere in the system. South Mississippi Electric owns and operates a generating fleet that includes Plant Morrow, a coal-fired facility located near Purvis, and 10 percent of the output of the Grand Gulf Nuclear Station in Port Gibson. Those primary generating units provide much of the constant electricity required by consumers around the clock (called base load).

When the demand for electricity throughout the system goes up and down, which it does continually during different parts of a day or during times when seasonal weather creates more usage (think about all the heating and air conditioning units operating at one time), then additional smaller generating units are called on to supplement the base load. Those instances of increased usage are called peaks, and South Mississippi Electric uses eight remotely-controlled generating units located at Moselle, Sylvarena and Silver Creek to meet the additional needs.

Combined System Peak

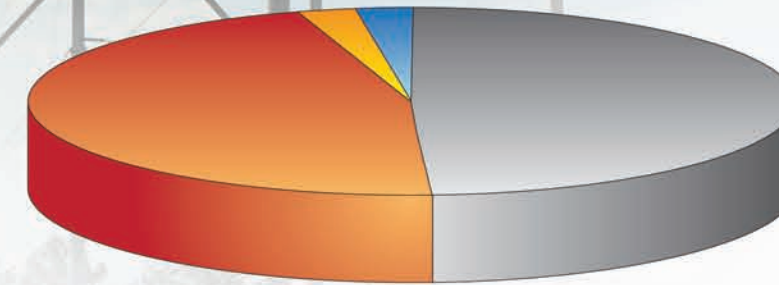
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(chart artwork in progress. Details to be filled in)



Combined System Fuel Cost

(chart artwork in progress. Details to be filled in)



Transmitting Electricity along Power Highways

ALL OF THAT POWER IS DELIVERED VIA MORE THAN 1,600 MILES OF TRANSMISSION LINES AND 54,500 MILES OF DISTRIBUTION LINES. In Mississippi, that means lines must be built through long stretches of forests and woodlands, as well as across swamps, rivers and bayous. Power lines are normally built on private property and companies are permitted to have easements in order to maintain and upgrade the lines and other facilities. Because consumer demand is ever-increasing, the entire system is constantly being evaluated and plans made for timely expansion.

Transmission lines are operated at high voltage (normally between 69,000 and 230,000 volts), which allows the power to flow faster and more economically. When high voltage electricity reaches its intended destination, a substation, the flow is reduced to a distribution voltage (normally about 13,800 volts) and sent along lines to homes and businesses. When it reaches a residential customer, the transformer on a pole (or perhaps an underground transformer in front of a house) reduces the voltage again for use in household appliances and other electric powered equipment (either 110 or 220 volts).

Safety is always the highest priority when working around electricity. Electric company employees are continually trained in safe work practices, and it's the reason your electric co-op constantly reminds members to exercise caution whenever electric lines are near. When used safely, electricity is undoubtedly one of mankind's greatest tools.

Diverse and Flexible Fuel Options

THE GENERATING PROCESS TAKES A FUEL or another source of energy and converts it to electricity. South Mississippi Electric has a diverse generating mix that includes natural gas, coal, nuclear, and water (hydro). Fuel is our second most costly expenditure, so having a broad mix of options allows for flexibility in order to minimize the impact of any significant increases in the cost of a single fuel source. Currently, nuclear and coal are the most economical fuels, especially for base load generation. Natural gas pricing has been extremely volatile in cost over the past four years.

South Mississippi Electric also supplements its own generating capacity by buying power from other utilities, primarily from Mississippi Power Company and other regional G&Ts. Purchased power is the highest cost involved in providing bulk power to cooperative members, so South Mississippi Electric works to ensure an economic and reliable power supply by negotiating long-term purchased power agreements.



Facility	Generation Capacity	Fuel	COD*
Benndale**	16 MW	Gas	1969
Moselle	177 MW	Gas/Fuel Oil	1970
Paulding**	20 MW	#2 Fuel Oil	1972
Morrow	400 MW	Coal	1978
Grand Gulf***	125 MW	Nuclear	1985
Moselle CT	83 MW	Gas/Fuel Oil	1997
Sylvarena CT**	141 MW	Gas	2003
Silver Creek CT**	249 MW	Gas	2005
Moselle CT	83 MW	Gas	2006*
SEPA Purchase****	119 MW	Hydro	1975
Aquila Purchase	280 MW	Gas	2001

* Commercial Operation Date - Some of the dates are expected dates of completion.
 ** Unmanned units remotely operated from SMEPA's Control Center located at the Headquarters facility. Personnel from Plant Moselle perform the necessary maintenance on these units.
 *** This represents SMEPA's 10% undivided interest in Unit 1's total output of 1,250 MW
 **** Southeastern Power Administration

Energy costs on the rise

Demand for electricity is also steadily increasing

WE'VE ALL SEEN NOTICEABLY HIGHER COSTS FOR ALL OF OUR ENERGY NEEDS. Certainly, prices have been rising at the gasoline pumps. Throughout the world, greater demand for energy in developing nations has been putting pressures on the availability and cost of all natural resources.

Those pressures are reflected in our electricity costs because of rising prices for the fuels used to generate it, as well as transportation costs for delivering fuel. South Mississippi Electric and its member cooperatives work hard every day to keep costs down by improving efficiency and planning for the future. That's especially important these days because we must find new ways to meet the growing demand of our consumers.

As our economy and population grow over the next two decades, South Mississippi Electric and its suppliers, as well as every other American electric utility, will be investing in new generation and transmission lines. The U.S. Department of Energy predicts the demand for electricity nationwide will increase by 40 percent by 2030.

The North American Electric Reliability Council (NERC), an independent non-profit organization charged with overseeing the growth and reliability of the industry, monitors the balance between the country's electric supply and demand. Because not all generating units operate all the time (that's not possible because of maintenance outages, fuel supply issues, low water levels for hydro-powered facilities, etc), the industry maintains an extra 15 percent margin of supply above the highest (peak) customer demand. New power plants will be required to keep up with that increasing demand, as will the need for transmission facilities to move large amounts of power to the areas where it is being used.

The good news for those of us living in the Southeast is that our region's electric system is in better shape than other parts of the country. Areas such as the New England, Florida, California, Texas and the Midwest may face reliability issues sooner rather than later. But new plants and lines will have to be built everywhere and many existing generating facilities will have to be replaced, which could cause prices to continue to increase.

The consequences for not keeping up with demand could be serious, including more instances of major failures in the some parts of the country, or rolling blackouts. In our next issue (scheduled for July) we'll tell you more about what we are doing to plan for the future.

SMEPA at a Glance

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, talented work force
- A commitment to employee safety and system reliability
- A long-term contractual relationship with our Member Systems
- Financial health, including 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

SMEPA Statistics

Overall Assets:	\$1,210,410,774
Miles of transmission lines:	1,600+
2007 Sales to members:	\$665,591,680
.....	9,818,174 MWh
Employees:	290

Costs and Expenses (does not equal 100%):

Purchased Power:	62%
Fuel:	16%
Interest:	6%
Depreciation and Amortization:	4.8%
Maintenance:	3.4%
Production (excluding fuel):	3%
Transmission and Distribution:	2.6%
Administrative and General:	1.4%