STR 028 AR final 1b 4/18/02 3:19 PM Page 1

we

shine

as

one

alabama electric cooperative, inc.

p.o. box 550

andalusia, alabama 36420

t: 334.427.3000

f: 334.222.3778

e: aec@powersouth.com

w: www.powersouth.com

ALABAMA ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative

The power of human connections

we shine as one

aec

2001

annual

report

ALABAMA ELECTRIC COOPERATIVE, INC.
A Touchstone Energy® Cooperative

STR 028 AR final 1b 4/18/02 3:19 PM Page 3

Every day we need light in this world
For every one man, women, boy and girl
our eyes through our minds

Employees of South Alabama Electric Cooperative display their commitment to community by helping raise funds for the American Cancer Society at Relay For Life event in Pike County, Ala.

CORPORATE PROFILE 2001

For more than 60 years, Alabama Electric Cooperative (AEC) and its distribution members have played a vital role in the lifeblood of its consumers. AEC was founded during hard times when friendship, cooperation and being dependent upon each other was essential to the survival of rural America. Today, AEC continues to be a the friend of our consumers by maintaining and building upon the trust in which the organization was founded. Research proves that rural electric customers value the relationship they have established with their consumer-owned electric system – a relationship unmatched by competitors.

As we approach a new dimension in the electric utility industry, AEC and its member owners pride themselves on being your local, dependable power supplier. We look forward to the many opportunities awaiting us as we forge ahead in a new direction while keeping our focus on the important things – providing available energy services at the lowest possible cost.

AEC, headquartered in Andalusia, Ala., is a $1 billion generation and transmission cooperative providing wholesale electricity to member owners throughout south and central Alabama and northwest Florida. AEC provides wholesale electric service to 21 member owners in 39 counties in Alabama and 10 counties in Florida. These 21 member owners distribute energy to residential, commercial and industrial customers, which includes more than 350,000 consumer accounts.

AEC's generating facilities include the new James A. Vann, Jr. Combined Cycle Power Plant in Gantt, Ala.; the Charles R. Lowman Plant in Leroy, Ala.; the Maury A. McWilliams Steam Power Plant in Gantt, Ala.; the McIntosh Plant in McIntosh, Ala.; the Gantt and Point A hydroelectric plant located in Gantt, Ala., on the Conecuh River; the Portland Gas Turbine in Walton County, Fla.; and ownership interest in the James H. Miller, Jr. Electric Generating Plant in Birmingham, Ala.

The long-range strategy of AEC is primarily directed to providing an economical and reliable power supply for our members through the purchase, generation and transmission of electric energy. However, increasing emphasis shall be placed on preparation for potential electric industry deregulation, protecting our environment and developing and providing competitive energy-related services to support member system strategies. In the end, our efforts are put toward strengthening our member systems and assisting them in providing superior service to the consumers they serve.

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

Year Ended December 31	2001	2000
Operating Revenues	$ 332,594,541	$ 333,646,630
Operating Expenses	299,693,139	297,809,138
Interest Expense	41,524,262	42,772,495
Net Margins	857,876	5,123,872
Total Utility Plant In Service	911,646,818	899,391,180
Net Utility Plant	851,071,776	780,703,164
Total Assets	999,878,506	932,101,556

AEC is an equal oportunity employer.

TO OUR MEMBERS

The events of Sept. 11, 2001, will always be a part of our lives. The horrible terrorist attacks changed our nation forever. We now live in a new world, with different perspectives on current events and different societal rules.

After the attacks we find ourselves more united as neighbors, as communities and as a nation. In his address to Congress and the American people following the Sept. 11 attacks, President Bush said, "…strong nations are made up of strong communities." We believe that statement is true. And, we believe AEC and its distribution members are leaders in building strong communities in south Alabama and northwest Florida.

As we review 2001, a number of events come to mind that will have a profound impact on the electric utility industry for years to come. Problems with the California power markets resulted in blackouts of retail consumers in California and cast doubt about the merits of electric retail competition. Failure of the California retail power markets also caused tremendous increases in the cost of electric power and drove Pacific Gas and Electric into bankruptcy. Energy giant Enron, began its descent into scandal, oblivion and bankruptcy. The Enron collapse cast further doubt on the projected benefits of competition in electric markets and the future viability of retail competition. Wholesale competition in regional markets showed promise in providing platforms for more active trading, but also created pressure to restructure the nation's transmission grid to provide greater opportunities for bulk power transactions. And finally, extreme volatility in the natural gas market changed the perspective of generation planning for the future.

AEC Board Chairman Charles Short and Chief Executive Officer Gary Smith at the recently constructed James A. Vann, Jr. Power Plant.

Despite these industry influences, AEC and its distribution members remain true to our mission. We put additional emphasis on member involvement in AEC's decision-making processes. We implemented a natural gas hedging program to bring a more disciplined approach to natural gas purchases and to provide price stability for our generation units.

We also we took significant strides to meet our long-term obligations to provide a reliable power supply for the distribution members. The 500 megawatt combined cycle James A. Vann, Jr. Power Plant at Gantt, Ala., was provisionally accepted on Jan. 1, 2002, increasing AEC's owned-generation resources to 1,650 MW. Although not yet fully completed, the Vann Plant became available for AEC's energy control center to dispatch and provides lower-cost energy compared to our other natural gas-fired plants. Additionally, we signed a 250 MW purchase of capacity and energy from the Southern Company which extends from 2006 until 2016. This purchase provides an additional coal-based generation resource and mitigates our increasing reliance on natural gas for energy supply into the future.

Not all of the events of 2001 were positive. The volatile natural gas prices experienced early in the year, combined with an increased cost of wholesale power, and extremely mild weather throughout the year resulted in a 9.13 percent increase in the cost of wholesale power for AEC's distribution members. A coincidental rate was implemented to provide increased flexibility and allow all distribution members to benefit from the diversity among their loads. However, benefits of the new rate were obscured by the affects of the abnormally mild weather and extremely high natural gas prices. Questions concerning the rate must be answered as we move into the future.

TO OUR MEMBERS (cont'd)

Integration of Cooperative Propane, which was purchased in November 1999, into AEC's operations remains difficult. Mild weather, combined with continuing efforts to restructure the Cooperative Propane organization, resulted in losses of $4 million.

In 2001, the distribution members unanimously confirmed their long-term commitment to AEC by extending their wholesale power contracts with AEC 10 years until Dec. 31, 2035. That commitment, given the current environment of changes in wholesale power suppliers, is very important to AEC's future and demonstrates the distribution members' willingness to continue to work together for their mutual benefit.

AEC's financial condition remains strong with assets totaling $1 billion at year end, an increase of $68 million compared to 2000. Total utility plant increased to $1.2 billion and member equity increased to more than $68 million. AEC is in a sound position with valuable generation and transmission assets and significant cash flow to provide a stable cost of power for the distribution members in the future.

As we look toward the future, we recognize and acknowledge our responsibilities. We are committed to providing reliable electric power to the distribution members at stable prices. We understand the distribution members need stable wholesale power costs and we must take affirmative action to meet those needs. We are committed to improving the lifestyle in the areas we serve, whether by developing new jobs, or providing basic infrastructure for rural communities. We are committed to the environment in our service area by preserving natural resources for future generations, reducing air emissions, recycling solid industrial waste and reducing the impact of our generation and transmission facilities on local communities.

The keys for success in the future lie in the continuing commitment of the distribution systems to AEC and the commitment of AEC's employees. Those commitments entail the unity of a single vision and a simple business model for growth of the entire system. Those commitments also include an increased focus on leadership and communication and a commitment to true member services. The distribution members and AEC's employees are prepared for that challenge.

We recognize the future will bring new challenges and opportunities that must be evaluated and addressed. The AEC organization is strong. AEC's distribution members are strong. The communities we serve are stronger and more united.

In the year of its 60th anniversary, AEC is prepared for the future. We are well positioned with generation resources, we have a sound transmission plan, the members have strong distribution systems to serve rural areas, we are developing risk management strategies to ensure financial stability, and more importantly, we are committed to meeting the needs of the rural consumers– for they are our most valuable asset. With the continuing commitment of the distribution members, the trustees, and our employees, there is no doubt about AEC's future success.

Respectfully submitted,

Charles E. Short
Chairman, Board of Trustees

Gary L. Smith
President & Chief Executive Officer

STR 028 AR final 1b 4/18/02 3:19 PM Page 7

Every day we need light in this world
For every one man, women, boy and girl
in our hearts
our eyes through our minds
all of mankind
as one
so strong
as one

and through it all,
showing the way
a bright future day

Education is important to us all. It enhances employment opportunities, helps attract industrial development and gives our young people a future here at home.

Vann Plant adds to AEC's generation capacity

Reliable and competitive generation resources are essential in today's energy market. AEC completed construction of the James A. Vann, Jr. Combined Cycle Power Plant in December 2001. Commercialization of the plant adds 500 megawatts of generation capacity, bringing AEC's owned generation to 1,650 megawatts.

Recent studies by AEC's Bulk Power Services Department indicate steady growth in central and south Alabama and northwest Florida. In order to fulfill both current and future power needs, construction of the Vann Plant began in July 1999.

The Vann Power Plant is built on one of the most economical generation technologies available, providing rate stability now and in the future. As a combined cycle facility, the Vann Power Plant has two gas-fired combustion turbines. Heat displaced from two combustion turbines is used to boil water for steam, and the steam is used to generate additional electricity via a steam turbine. This efficient use of waste heat saves money for AEC member system consumers.

The Vann Power Plant is an important part of AEC's future, and provides an additional base load generation resource to help meet increasing energy needs of the distribution members. Located in Gantt, Ala., the Vann Power Plant will provide power for the more than 800,000 end-consumers within AEC's member service area.

AEC took another important step for securing future power supply by consummating a 10-year steam block purchase of 250 megawatts of capacity and associated energy from the Southern Company beginning in 2006. This purchase provides long-term rate stability, offers an additional coal-based generation resource and mitigates AEC's increasing reliance on natural gas.

Realizing a strong generation system is dependent upon on a reliable transmission system, AEC took the necessary steps to ensure its transmission facilities are structurally sound through preventive maintenance and an aggressive construction plan. In 2001, AEC added 50 miles of transmission line (30 miles of 115 kV and 20 miles of 230 kV) and maintained 200 substations.

Rate structure offers pricing flexibility

AEC continued in the development of market-based strategies with implementation of a rate structure that provides more flexibility for the distribution members. After several years of extensive study and member consideration, the rate structure became effective Jan. 1.

The rate structure includes two demand charges, one rate for excess, or peaking demand, and another rate for average or base demand. It also provides price signals, that result in better revenue stability during abnormal weather conditions.

AEC abandoned the practice of billing for the maximum demand by delivery point during the month (the non-coincident, or NCP concept), and began billing for the demand at the time of, or coincident with, AEC's monthly peak demands (the coincident, or CP concept).

Hedging generates savings for AEC & member owners

Many events occurred in 2001 that will change our industry for decades to come. However, AEC's economic viability was protected by the development of a fuel hedging program that did what it was designed to do – minimize the potential earnings impact of volatile commodity prices by bringing a disciplined approach to natural gas purchases.

Additional gas generation capacity continues to increase our dependence on natural gas to meet member energy requirements. In early 2001, AEC experienced unprecedented volatility in natural gas prices which increased from $2.50/MMBtu up to $10.00/MMBtu. As a result, AEC instituted a Risk Management Plan, allowing AEC to hedge natural gas prices to achieve better stability in this cost, which is expected to total approximately $60 million in 2002.

Long-term power contracts extend through 2035

One of the most significant steps taken by AEC in its 60 year history was implementation in the early 1970s of a power pooling program among its distribution members. Former AEC general manager Charles R. Lowman documented in his book *Power Pioneers* the following regarding the importance of power pooling agreements:

STR 028 AR final 1b 4/18/02 3:19 PM Page 9

Scott Wright, McWilliams Plant engineer, puts a lot of energy in making sure the McWilliams Plant is environmentally safe. He helps AEC maintain the industry's strictest environmental guidelines.

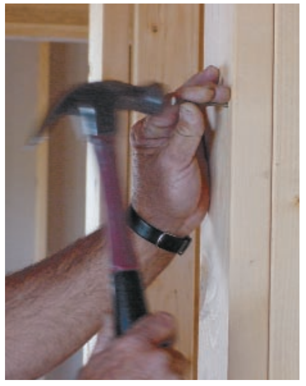
From the beginning, AEC employees have worked tirelessly to provide electricity to customers in south and central Alabama and northwest Florida.

2001 IN REVIEW (cont'd)

"On occasion I have been asked about the most important happenings during my association with AEC. First, I think without argument from anyone, would be the decision of the members to unite behind AEC, signing contracts with the cooperative under which they agreed to pay uniform rates to AEC in the pooling of all their power supply expenses."

In 2001, the distribution members unanimously confirmed their mutual long-term commitment through AEC by extending their wholesale power until Dec. 31, 2035. That commitment, given the current environment of changes in wholesale power suppliers, is important to AEC's future and demonstrates the distribution members' willingness to work together for their collective benefit.

Area development boosts economic growth



Through community development, AEC and the member owners display their strength and ability to change the economic landscape of their communities. Since 1992, economic development funding has assisted the AEC member distributors in securing more than $12.8 million in Rural Economic Development Loan/Grant (REDLG) funds, which leveraged $92,265,000 and created nearly 3,000 jobs. Member applications submitted in 2001 included Elberta Farmers Cooperative for Baldwin EMC, Summerdale, Ala., Pro Sports Boats for Coosa Valley EC, Talladega, Ala., and Carter Bros. Manufacturing for South Alabama EC, Troy, Ala.

AEC's member owners continue to realize the economic benefits of major industrial consumers who seek to expand their operations. In 2001, AEC's board of trustees authorized loans for nine speculative buildings totaling more than 373,000 square feet. Seven buildings were completed and two others should be constructed in 2002. Recently, a 60,000-square-foot spec building for Coosa Valley EC, Talladega, Ala., the first building financed through the Business Development Loan program in 2001, was sold to Assurance of Alabama, an automotive supplier.

Touchstone Energy® Home adds value, comfort

While the power industry is focused on more efficient methods of operations, AEC also continues to enhance programs and strategies that appeal to the end customer. With high priority on energy efficiency, AEC and its distribution members seek to meet the changing needs and expectations of customers striving to make their homes more energy efficient. The newly-developed Touchstone Energy® Home program is an upgrade from previous energy-efficiency building programs. Features of the Touchstone Energy® Home ensure optimal performance and energy savings, while promoting Touchstone Energy systems .

The Touchstone Energy® Home program is a tangible product that allows consumers to see one of the values of being part of the Touchstone Energy® marketing family. The program offers four major benefits to homeowners including lower utility bills, increased comfort, higher resale value and energy-efficiency mortgages.

After months of planning, Touchstone Energy® Cooperatives throughout our region adopted requirements and specifications for the Touchstone Energy® Home program. In 2001, the member owners certified more than 6,650 Touchstone Energy® Homes.

The Touchstone Energy® Home program in Alabama and Florida has generated interest from cooperatives nationwide, serving as a model and program standard.

RTO structure must protect

AEC and the distribution systems continue to support the development of a truly independent regional transmission organization (RTO) of a large size and scope. In 1999, the Federal Energy Regulatory Commission (FERC) called for the development of regional transmission organizations to manage the growth and operation of electric transmission on a regional basis.

Workable competition is the cornerstone of an effective transition from regulation to retail competition. Any RTO structure must protect incumbent electric power providers – whether they are investor-owned utilities, municipalities, electric cooperatives or government-operated agencies– against replacing current regulated monopolies with unregulated ones.

STR 028 AR final 1b 4/18/02 3:19 PM Page 11

Every day we need light in this world
For every man, women, boy and girl
our eyes through our minds
all of mankind
as one
so strong
generation
through it all,
showing the way
bright future day

The AEC Youth Tour competition educates students about rural electrification and how it affects their lives. Wanda Woods (center) works with local high school students to enhance their knowledge regarding electric cooperatives.

Early tours of AEC's substations educated children about transmitting electricity.

2001 IN REVIEW (cont'd)

According to FERC, RTOs will benefit consumers through lower electricity rates resulting from better utilization of the electric assets in the region. In 2000, FERC reported, "In order to successfully encompass the natural market for bulk power in the Southeast, it is necessary that southeastern transmission owners combine to form a single RTO."

AEC will pursue every course of action necessary to ensure its member owners in Alabama and Florida receive the lowest cost of electric power available.

Content managment becomes critical communications tool

Immedia, a content management program developed by Knova.com, has become a critical tool in the successful execution of AEC's communication strategy. AEC and its distribution members were among the first electric utilities to deploy immedia, which consists of easy-to-use tools that are incorporated into an interface, or common browser like Netscape Navigator or Microsoft Internet Explorer, allowing employees to fully manage content and creativity of a Web site.

Implementation of the Web site content management system allows non-technical personnel to manage Web site content by instantly adding, revising, deleting and targeting information. Utilization of immedia converts a static Web site to a dynamic interactive site with powerful content management and syndication capabilities.

Other Web-based technology deployment includes the member marketing rebate system, which allows the distribution members to process Touchstone Energy® Home rebates more efficiently by allowing information to be entered directly into the Web-based application.

Catching the spirit of Relay For Life

Touchstone Energy® cooperative employees and representatives from the media converged at AEC headquarters on Jan. 29 to team with the American Cancer Society at a press conference announcing the Relay For Life title sponsorship agreement between Touchstone Energy® and the American Cancer Society's MidSouth and Florida Divisions.

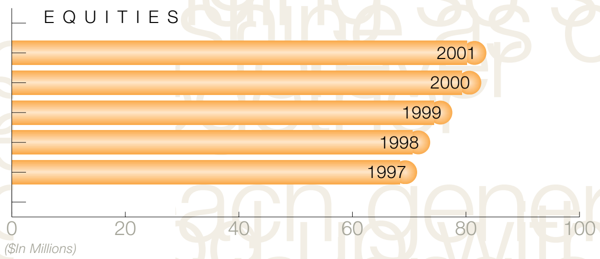
AEC and its Touchstone Energy® member owners were presented with the American Cancer Society's Lifetime Excalibur Award, an award given to corporate sponsors who contribute more than $100,000 to the American Cancer Society.

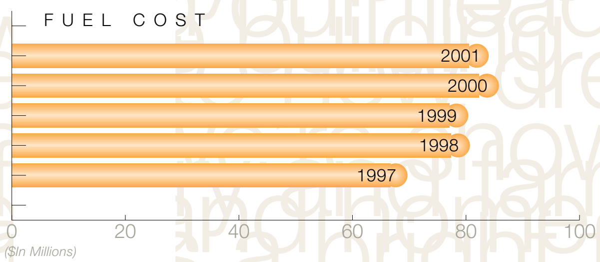
The 2001 partnership between AEC, its Touchstone Energy® distribution members and the American Cancer Society was a tremendous success. More than 2,800 communities across the United States conducted Relay For Life events.

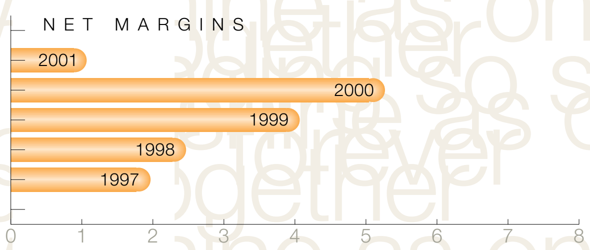
Touchstone Energy®
cooperatives sponsored 55 relay events in Alabama and Florida.The $240,000 sponsorship commitment, combined with co-op fund-raising and other team totals, equated to a $3 million donation to the American Cancer Society's MidSouth and Florida divisions.

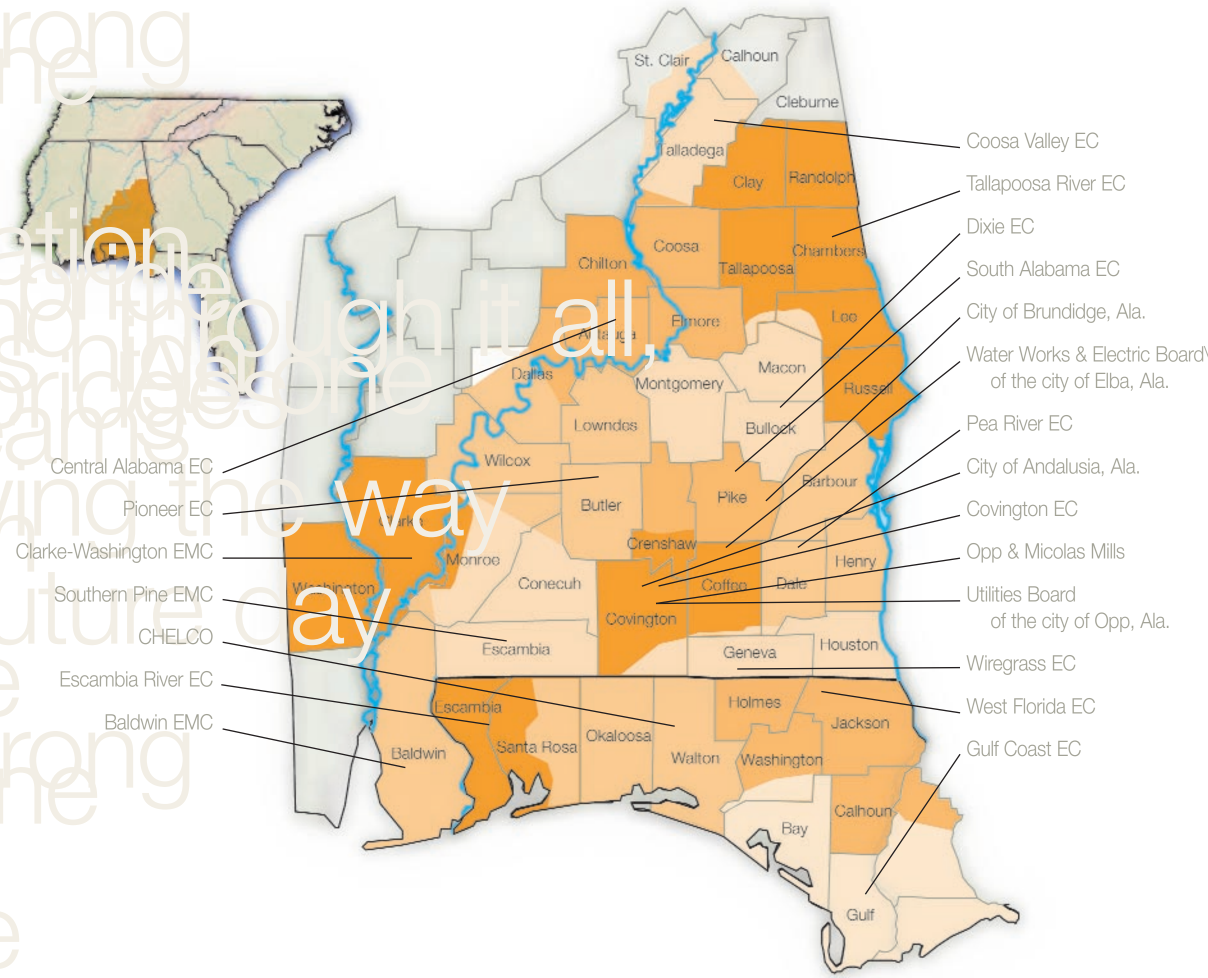
Touchstone Energy® cooperatives in Florida sponsored several Relay For Life events in 2001. CHELCO, located in Defuniak Springs, Fla., is among the Florida Touchstone Energy cooperative who raise thousands of dollars for the American Cancer Society.

AEC MEMBER OWNER MAP









FINANCIAL REVIEW

The year 2001 proved to be a year of relatively level growth for revenue due to the mild weather pattern for the year; however, growth in AEC's assets continued. Operating revenue was $332,594,541, less than 1 percent lower than the previous year. Non-operating revenue declined 22.1 percent to $8,407,927 due to less capitalized interest on fewer internal funds used in construction projects.

The consolidated net margin of $857,876 reflected the adverse affect of the year-long mild weather on non-utility subsidiary operations. Assets for the year increased to $999,878,506, a 7.3 percent increase.

The James A. Vann, Jr. Combined-Cycle Power Plant uses the most cost-efficient forms of electric generation capacity available.

The slight decrease in AEC's revenue was created by fewer billing units for energy and capacity by AEC offset by increased revenue from Cooperative Services' propane operations. Energy sales to member systems were 7,186,736 MWH, while outside sales increased to 166,923 MWH. AEC purchased 41 percent of total energy sold. The average cost of purchased power was 35.54 M/KWH compared to 34.29 M/KWH in 2000. Power produced by AEC's generating plants decreased from 4,807,492 MWH in 2000 to 4,702,492 MWH in 2001, with the average cost decreasing from 34.63 M/KWH in 2000 to 34.47 M/KWH in 2001. Average cost to members for 2001 excluding interruptible loads, was 46.99 M/KWH, compared to 43.41 M/KWH for 2000, which is primarily attributable to decreased billing units.

AEC's generating facilities are built with state-of-the-art generating equipment.

AEC's total utility plant increased from $1,128,337,954 to $1,217,423,575, an 8 percent increase. The increase is attributable primarily to the construction of the James A. Vann, Jr. combined cycle plant and related facilities, which were placed in service Jan. 1, 2002. Total long-term debt increased $137,567,321, primarily the result of additional borrowings of $184,401,127, reduced by principal payments of $46,833,806. AEC's average interest rate decreased from 6.376 percent to 5.951 percent at Dec. 31, 2001.

Consolidated equities and margins at Dec. 31, 2001, were $82,034,966, giving AEC an 8.2 percent equity to asset ratio. AEC, excluding subsidiaries' margins, generated a margin for interest ratio of 1.103, which exceeds the 1.065 ratio required under the new indenture, that was effective Jan. 1, 2000.

The financial statements and accompanying notes for the year ended Dec. 31, 2001, are included in this annual report along with other financial information.

The Maury A. McWilliams Power Plant, constructed in the 1950's was AEC's first self-built generating facility.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
UTILITY PLANT (at cost) (Note 2):		
Electric plant in service	$ 911,646,818	$ 899,391,180
Construction work-in-progress	305,776,757	228,946,774
Total	1,217,423,575	1,128,337,954
Less accumulated depreciation and amortization	366,351,799	347,634,790
Utility plant - net	851,071,776	780,703,164
NON-UTILITY PROPERTY - NET (Note 3)	9,187,686	8,356,714
INVESTMENTS AND SUBSCRIPTIONS (at cost):		
Capital term certifcates and subscriptions (Note 4)	8,867,090	8,883,885
Investments in associated organizations	1,712,150	1,405,694
Other investments	1,146,128	1,108,355
Total investments and subscriptions	11,725,368	11,397,934
CURRENT ASSETS:		
Cash and cash equivalents	16,560,975	23,078,704
Temporary investments	238,000	-
Special deposits	1,110,935	7,513,655
Accounts receivable:		
Members	35,904,326	45,601,074
Other (net of allowance of $126,241 and $200,061)	3,230,115	4,201,449
Current portion of deferred recovery of gas hedge cost (Note 9)	9,323,471	-
Fuel inventories (at average cost)	15,068,275	10,620,467
Materials and supplies (at average cost)	25,730,673	18,081,597
Deferred under-recovery of fuel and purchased power cost	-	3,686,684
Other	1,632,308	360,998
Total current assets	108,799,078	113,144,628
DEFERRED CHARGES	13,599,124	14,800,639
DEFERRED RECOVERY OF GAS HEDGE COST (Note 9)	2,038,263	-
INTANGIBLE ASSETS (net of accumulated amortization of $982,213 and $510,285) (Note 10)	3,457,211	3,548,477
OTHER ASSETS	-	150,000
TOTAL	$ 999,878,506	$ 932,101,556

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

	2001	2000
EQUITIES AND MARGINS AND LIABILITIES		
EQUITIES AND MARGINS:		
Membership fees	$ 110	$ 110
Patronage capital (Note 5)	81,475,160	80,617,284
Other equities (Note 5)	559,696	559,696
Total equities and margins	82,034,966	81,177,090
LONG-TERM DEBT (Note 6):		
Rural Utilities Service	76,985,486	79,174,549
Federal Financing Bank	578,105,130	430,462,489
National Rural Utilities Cooperative Finance Corporation	85,287,176	81,045,995
Pollution control revenue bonds	27,800,000	22,950,000
Notes payable	7,104,594	7,384,257
Total long-term debt	775,282,386	621,017,290
CURRENT LIABILITIES:		
Long-term debt due within one year	25,267,709	41,965,484
Notes payable and line of credit borrowings (Note 6)	2,192,012	80,971,750
Accounts payable	36,826,358	32,232,584
Accrued liabilities:		
Taxes	81,798	3,095,876
Interest	503,817	7,726,587
Other	16,979,501	22,037,250
Deferred gas hedge cost (Note 9)	9,323,471	-
Deferred over-recovery of fuel and purchased power cost	7,030,225	-
Total current liabilities	98,204,891	188,029,531
ACCUMULATED PROVISION FOR PROPERTY INSURANCE	4,800,000	4,800,000
DEFERRED TAX LIABILITY (Note 11)	-	1,073,645
DEFERRED GAS HEDGE COST (Note 9)	2,038,263	-
GAS PIPELINE OBLIGATION (Note 13)	22,420,000	22,420,000
ACCRUED POSTRETIREMENT BENEFIT COST (Note 8)	15,098,000	13,584,000
TOTAL	$ 999,878,506	$ 932,101,556

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF REVENUE AND PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
OPERATING REVENUE:		
Sales of electric energy to members:		
Cooperatives	$ 291,377,446	$ 292,671,103
Municipalities	22,400,985	22,881,561
Industries	4,204,784	3,990,066
Sales of electric energy to nonmembers	4,888,253	5,120,086
Other electric revenue	1,720,615	1,739,437
Propane and other revenue	8,002,458	7,244,377
Total operating revenue	332,594,541	333,646,630
OPERATING COSTS AND EXPENSES:		
Power production:		
Fuel	81,860,838	83,709,653
Operations	17,654,683	16,437,798
Maintenance	15,118,092	18,320,129
Purchased power	107,339,815	107,254,900
Transmission:		
Operations	17,964,982	16,958,483
Maintenance	2,983,406	2,780,199
Distribution:		
Operations	1,536,741	1,455,641
Maintenance	593,751	709,063
Propane cost of sales	5,925,607	5,036,102
Administrative and general	19,561,937	16,467,316
Depreciation and amortization	29,153,287	28,679,854
Total operating costs and expenses	299,693,139	297,809,138
OPERATING MARGIN	32,901,402	35,837,492
INTEREST EXPENSE	41,524,262	42,772,495
NONOPERATING MARGIN:		
Allowance for funds used during construction	5,941,562	8,148,199
Interest income	1,604,426	1,971,093
Capital credits	585,035	264,042
Other	276,904	410,122
Total nonoperating margin	8,407,927	10,793,456
NET MARGIN BEFORE PROVISION FOR INCOME TAXES	(214,933)	3,858,453
INCOME TAX BENEFIT (Note 11)	(1,072,809)	(1,265,419)
NET MARGIN	857,876	5,123,872
PATRONAGE CAPITAL		
Beginning of year	80,617,284	75,493,412
End of year	$ 81,475,160	$ 80,617,284

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 857,876	$ 5,123,872
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	29,153,287	28,679,854
Allowance for funds used during construction	(5,941,562)	(8,148,199)
Changes in assets and liabilities, net of business acquired:		
Accounts receivable	10,668,082	(17,445,953)
Inventories	(12,096,884)	(4,475,725)
Other assets	16,181,233	(6,903,851)
Accounts payable	4,593,774	2,247,711
Deferred over (under)-recovery of fuel and purchased power cost	10,716,909	(5,681,376)
Accrued postretirement benefit cost	1,514,000	1,402,000
Deferred tax liability	(1,073,645)	(1,312,415)
Other accrued liabilities	(26,656,330)	14,742,255
Net cash provided by operating activities	27,916,740	8,228,173
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of utility plant	(91,158,673)	(172,275,519)
Purchases of non-utility property	(1,647,945)	(1,444,742)
Redemptions of/(investments in) certificates and subscriptions	16,795	(1,522,165)
Investments in associated organizations	(194,229)	(218,076)
Redemptions of/(additions to) temporary investments	(238,000)	19,230,000
Net cash used in investing activities	(93,222,052)	(156,230,502)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (repayments) from short term borrowings	(78,452,818)	77,907,862
Proceeds from issuances of long-term debt	184,074,207	28,983,000
Principal payments on long-term debt	(46,833,806)	(20,397,154)
Proceeds from gas pipeline obligation	-	22,420,000
Net cash provided by financing activities	58,787,583	108,913,708
DECREASE IN CASH AND CASH EQUIVALENTS	(6,517,729)	(39,088,621)
CASH AND CASH EQUIVALENTS:		
Beginning of year	23,078,704	62,167,325
End of year	$ 16,560,975	$ 23,078,704

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alabama Electric Cooperative, Inc. ("AEC") 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 – AEC's wholly owned subsidiaries in 2001 include Cooperative Services, Inc. and its subsidiary, Andalusia & Conecuh Railroad Company, Inc., and Powersouth Development Corporation. AEC dissolved three non-operating wholly owned subsidiaries in 2000. All significant intercompany balances have been eliminated in consolidation.

System of Accounts – AEC maintains its accounting records in accordance with the uniform system of accounts prescribed by the Rural Utilities Service ("RUS"), formerly the Rural Electrification Administration.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 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 on the straight-line method. Steam, transmission, distribution and gas turbine plants are depreciated on an aggregate account balance basis, and hydraulic plant is depreciated on an individual account basis. General plant is depreciated on a unit basis.

Non-utility Property – Non-utility property is stated at its original cost. Gains or losses from retired or otherwise disposed of non-utility property are recognized for the difference between cost and accumulated depreciation, less proceeds from disposition, if any. Non-utility depreciation is recognized on a straight-line basis over the lives of various classes of property.

Planned Major Maintenance Activities – Estimated costs expected to be incurred with the next planned periodic maintenance shutdown are accrued as a liability over the period of time until the next planned major maintenance activity occurs. Any difference between costs actually incurred and the accrued liability is charged or credited to expense at the time the activity occurs.

Investments – Investments are substantially designated as held to maturity and, accordingly, are carried at cost. Such investments are transferable, but quoted market prices are not available.

Cash Equivalents – AEC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Deferred Charges and Other Assets – Substantially all of deferred charges and other assets consist of debt issue and refinancing costs, which are amortized over the term of the related debt. 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.

Operating Revenue – Revenue is recorded on the accrual basis for energy sold through the end of the year.

Allowance for Funds Used During Construction – Estimated interest cost associated with utility plant under construction is capitalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes – AEC is exempt from federal and state income taxes. The provision for such taxes relates to the wholly owned subsidiary Cooperative Services, Inc. For Cooperative Services, Inc., provisions for income taxes are based upon amounts reported in the statements of income and include deferred taxes for temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates.

Deferred Over-/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 estimated benefit to be provided.

Emission Allowances – In accordance with the Federal Clean Air Act, AEC maintains an allotment of sulfur dioxide (SO_2) emission allowances. These allowances are carried at cost and are included in Fuel Inventories in the financial statements. AEC carries sufficient SO_2 emission allowances to meet its operating needs.

Accumulated Provision for Property Insurance – The reserves in this account are established to cover the deductibles in AEC's property insurance policies. AEC maintains relatively high deductibles on property insurance in order to balance premium rate inflation. These reserves are established in the rate-making process and are designated by operating unit at each property location.

Intangible Assets – Intangible assets include the excess of the purchase price over the estimated fair value of the net assets acquired in the acquisition of Cooperative Propane, Inc., formerly Bullock Propane Gas Company, Inc. ("Goodwill"). Goodwill was amortized on a straight-line basis over 10 years. AEC evaluates the carrying value of intangible assets, including Goodwill, on a periodic basis, including evaluating the performance of the underlying businesses, which gave rise to such amount to determine whether impairment exists. In performing the review of recoverability, AEC estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount, an impairment is recognized based on the difference between the estimated fair value and the carrying value. Management believes no impairment existed at December 31, 2001.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets ("FAS 142"). SFAS No. 142 became effective January 1, 2002, for AEC eliminating the current requirement to amortize goodwill and indefinite-lived intangible assets. SFAS No. 142 also addresses the amortization of intangible assets with a defined life, and addresses the impairment testing and recognition for goodwill and intangible assets. In 2002, goodwill will be tested for impairment by comparing the fair value of each reporting unit with its carrying value. Management has not completed its impairment testing required by the transition provisions of SFAS No. 142, and therefore it is not practical, at this time, to estimate the impact of adoption of this statement.

Long-Lived Assets – AEC 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. AEC evaluates impairment on these assets using estimated undiscounted future cash flows from operations. At December 31, 2001, the net utility plant and net unamortized deferred charges were not considered to be impaired.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which superceded SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and resolves several implementation issues arising from SFAS No. 121. SFAS No. 144 became effective for AEC on January 1, 2002, and the effects of adoption are not expected to materially impact the results of operations or financial condition of AEC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Financial Instruments – *AEC adopted SFAS No. 133 (subsequently amended by SFAS Nos. 137 and 138), Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. This statement requires 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 on 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 over-/under-recovery of fuel and purchased power cost. Any gains or losses on propane costs, including gains or losses resulting from the fair value measurement of derivative instruments, are reflected in propane cost of sales in the consolidated statement of revenue and patronage capital.

On January 1, 2001, AEC recorded a favorable transition adjustment totaling $6,368,768 related to its natural gas swap contracts. The transition adjustment resulted in a derivative asset and a corresponding liability in the deferred over-under-recovery of fuel and purchased power cost account, with no impact on net margin. See further discussion of the gas swap contracts in Note 9.

2. ELECTRIC PLANT IN SERVICE

The major classes of electric plant in service and accumulated depreciation and amortization as of December 31, 2001 and 2000 are as follows:

	Cost		Annual Percentage Rate of	Accumulated Depreciation and Amortization	
	2001	2000	Depreciation	2001	2000
Steam Plant	$ 394,248,927	$ 394,169,615	3.10	$ 211,082,675	$ 205,439,401
Transmission Plant	220,115,154	214,726,460	2.75	80,376,135	75,319,907
Distribution Plant	79,223,534	74,839,033	2.88	18,736,607	17,294,479
Hydraulic Plant	13,421,264	13,421,264	2.00	4,308,426	4,046,872
Gas Turbine Plant	174,453,059	173,941,813	3.00	34,378,188	29,392,693
General Plant	30,184,880	28,292,995	Various	17,469,768	16,141,438
Total	$ 911,646,818	$ 899,391,180		$ 366,351,799	$ 347,634,790

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. NON-UTILITY PROPERTY

Non-utility assets are primarily assets of AEC's subsidiaries. The major classes of non-utility property and accumulated depreciation as of December 31, 2001 and 2000 are as follows:

	Lives	2001	2000
Land and building	25 years	$ 2,050,881	$ 1,769,439
Machinery and equipment	10 years	7,328,792	5,884,746
Transportation equipment	7 years	1,443,866	1,625,116
Furniture and fixtures	7 years	32,326	18,191
		10,855,865	9,297,492
Accumulated depreciation		(1,668,179)	(940,778)
Total		$ 9,187,686	$ 8,356,714

4. INVESTMENTS AND SUBSCRIPTIONS

The majority of the capital term certificates bear interest at 5% to 7.235%. These investments are required under borrowing arrangements with the National Rural Utilities Cooperative Finance Corporation ("CFC"). At December 31, 2001, AEC had no commitments to purchase additional capital term certificates from CFC.

5. PATRONAGE CAPITAL AND OTHER EQUITIES

Under provisions of a mortgage agreement, until AEC's total equities and margins equal or exceed 40 percent of its total assets, the return of patronage capital to members is generally limited to 25 percent 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 percent of total assets. At December 31, 2001 and 2000, 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 1999, AEC received a grant of funds from a Rural Economic Development Loan and Grant program administered by the U.S. Department of Agriculture ("USDA"). Under this program, AEC received approximately $560,000 to be loaned by AEC to entities to promote rural economic development. This amount is included in other investments in the accompanying consolidated balance sheets. Management believes that the grant funds received by AEC will not have to be repaid to the USDA.

6. DEBT

Long-term debt consists of mortgage notes and other borrowings payable to the United States of America and supplemental lenders acting through the RUS, the Federal Financing Bank ("FFB"), CFC, and others. Substantially all of AEC's assets are pledged as collateral to 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, 2001 and 2000, are as follows:

	2001	2000
RUS mortgage notes payable:		
2 % notes, due in quarterly installments through 2009	$ 7,353,240	$ 8,919,993
5 % to 5.5% notes, due in quarterly installments and maturing at various dates through 2028	73,836,273	74,332,457
FFB mortgage notes payable:		
5.418% to 8.998% notes, due in quarterly installments and maturing at various dates through 2024	596,278,318	446,403,788
CFC mortgage notes payable:		
Variable rate notes, 4.70% at December 31, 2001, due in quarterly installments and maturing at various dates through 2030	40,963,880	38,295,192
Fixed rate notes of 8.61% to 9.07%, due in annual installments and maturing through 2022	33,750,000	35,000,000
Fixed rate notes of 9.10%, due in annual installments beginning in 2020 and maturing in 2024	2,688,000	2,688,000
Pollution control revenue bonds issued in conjunction with CFC and the Industrial Development Board of the Town of Chatom, Alabama:		
Variable rate bonds, matured in 2001	-	19,200,000
Variable rate serial bonds, 1.87% at December 31, 2001, maturing annually through 2014	3,745,000	3,880,000
Variable rate bonds, 1.52% at December 31, 2001, due in annual installments beginning in 2020 and maturing in 2024	19,200,000	19,200,000
Variable rate bonds, 1.63% at December 31, 2001, maturing in 2031	5,000,000	-
National Cooperative Services Corporation $10,000,000 line of credit:		
Variable rate unsecured line of credit, 5.35% at December 31, 2001, maturing in 2005	10,000,000	7,095,000
Notes payable to seller in conjunction with purchase of Cooperative Propane, bearing interest at 7.25% and payable in equal annual installments through 2015	7,408,464	7,968,344
Notes payable to Covington County Bank:		
Variable rate note, 3.58% at December 31, 2001, due in annual installments through 2008	326,920	-
Total long-term debt	800,550,095	662,982,774
Less long-term debt due within one year	(25,267,709)	(41,965,484)
Total	$ 775,282,386	$ 621,017,290

(Continued)

Long-term debt maturities for the years 2002 through 2006 are as follows:

2002	$ 25,267,709
2003	29,419,792
2004	30,555,068
2005	42,034,626
2006	32,414,836

At December 31, 2001 and 2000, AEC had revolving lines of credit for short-term borrowings with CFC totaling $50,000,000 and $100,000,000, respectively. The outstanding balance on the lines at December 31, 2001 and 2000, was $0 and $80,667,000, respectively. The term of the 2001 unsecured variable rate line of credit is 12 months and is renewable at the discretion of CFC and AEC. The term of the $50,000,000 unsecured, variable rate line of credit in 2000 was 12 months and was renewable at the discretion of CFC and AEC. The additional $50,000,000 line of credit in 2000 was payable upon completion of a new financing agreement. In January 2001, proceeds from an advance from the FFB were used to payoff the outstanding balance at December 31, 2000.

At December 31, 2001 and 2000, Powersouth Development Corporation had $900,000 and $300,000 in grant/loan funds from the Alabama Department of Economic and Community Development outstanding. Powersouth serves as a conduit entity for these grant/loan funds, dispersing them in the form of low-interest rate loans (0 to 5%) to local government energy-efficient projects.

Cash payments of interest for the years 2001 and 2000 were $55,686,110 and $43,631,838, respectively.

7. RELATED PARTIES

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

At December 31, 2001, Cooperative Services, Inc. had two loan agreements with AEC totaling $4,000,000. The outstanding balance on the notes at December 31, 2001, was $2,000,000 and $340,000. The interest rates on the notes are fixed at 6.10% and 5.35%. The purpose of the agreements was to provide Cooperative Services, Inc. with additional working capital. Both notes are to be repaid in 2002. These notes are eliminated in consolidation.

8. RETIREMENT AND OTHER EMPLOYEE BENEFITS

AEC participates in the National Rural Electric Cooperative Association's ("NRECA") multi-employer Retirement and Security Plan. The plan is a contributory defined benefit pension plan covering substantially all employees. Total expenses incurred for this plan by AEC in 2001 and 2000 were $2,352,906 and $2,029,659, respectively.

AEC also participates in NRECA's multi-employer SelectRE Pension Plan. The plan is a defined contribution pension plan in which employees are eligible to participate. Plan expense for the years 2001 and 2000 was $1,054,766 and $907,596, respectively.

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

AEC also sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participants must contribute one-half of the premiums paid by AEC for their particular coverage. During 2001 and 2000, employees made contributions of $126,192 and $132,220, respectively. During 2001 and 2000, AEC made contributions of $143,187 and $108,932, respectively. The following sets forth the plan's funded status and amounts recorded in the financial statements as of December 31, 2001 and 2000:

	2001	2000
Accumulated postretirement benefit obligation, as of January 1	$ 15,098,000	$ 13,584,000
Plan assets at fair value, as of January 1	-	-
Obligation in excess of plan asset value, as of January 1	$ 15,098,000	$ 13,584,000
Net periodic postretirement benefit cost for the years ended December 31	$ 1,514,000	$ 1,402,000

The assumed medical cost trend rate for 2002 is expected to be approximately 9.8%, which declines gradually to 6.0% in the year 2021 and thereafter. The discount rates used in calculating the year-end APBO for the years 2001 and 2000 was 8.0%. Benefits paid under the plan were $370,818 and $247,332 for the years 2001 and 2000, respectively.

Under the above plans, AEC also provides medical insurance coverage to employees on long-term disability and their dependents. The amount accrued for this benefit at December 31, 2001 and 2000, was $618,800 and $148,000, respectively.

9. FINANCIAL INSTRUMENTS

Derivative Instruments

To hedge the price risk associated with purchases of natural gas, AEC is party to a gas swap contract in which AEC pays fixed prices of $4.745 and receives spot prices based on a notional daily volume of 5,000 MMBTU. The contract expires in September 2003. At December 31, 2001, the estimated fair value of the agreement was recorded as a liability of $5,604,854. AEC also hedges purchases of natural gas with option contracts and futures contracts that extend through February 2002 and December 2002. At December 31, 2001, the estimated fair values of the option contracts and futures contracts were recorded as liabilities of $48,150 and $5,708,730. All such amounts are included in the deferred gas hedge cost asset and liability accounts in the accompanying consolidated balance sheets.

In 2001, Cooperative Propane, Inc. entered into two propane gas option contracts to hedge the price risk associated with purchases of propane gas. The premiums paid for the contracts, which expire in February 2002 and March 2002, were $127,781 and $309,453. The effect of marking the propane gas options to market in 2001 resulted in a charge to propane cost of sales in the amount of $429,650.

Other Financial Instruments

Cash and cash equivalents, temporary investments, capital term certificates and subscriptions, notes payable and long-term debt are considered financial instruments. The carrying value of cash and cash equivalents and short-term notes payable approximate the fair market value due to the short maturity of these instruments. The carrying value of capital term certificates and subscriptions is not estimable since these instruments must be held by AEC and can only be returned to CFC. CFC requires AEC to hold the certificates as a condition of CFC financing.

The market values of long-term debt instruments and temporary investments have been estimated based upon published terms of comparable issues by AEC's lenders or rates and maturities of recent issues of comparable instruments. The carrying amounts and estimated fair values of these financial instruments at December 31, 2001, and 2000 are as follows:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Temporary investments	$ 238,000	$ 238,310	$ -	$ -
Long-term debt	800,550,095	822,689,254	662,982,774	716,065,463

10. COOPERATIVE SERVICES, INC.

During 1999, AEC formed a wholly owned subsidiary, Cooperative Services, Inc., a holding company incorporated in Alabama. Effective November 1, 1999, Cooperative Services acquired all of the voting common stock of Cooperative Propane, Inc. ("Cooperative Propane"), a distributor of propane and related products located in Union Springs, Alabama. The Cooperative Propane stock was acquired through a cash payment of $1,000,000 and the issuance of a note payable to the former shareholder of $8,761,306. The acquisition was accounted for using the purchase method of accounting. The excess of the purchase price over the fair value of the identifiable net assets acquired in the amount of $4,202,646 has been classified as goodwill and was assigned a useful life of 10 years. Effective with the adoption of SFAS No. 142 on January 1, 2002, amortization of goodwill ceased.

Effective March 1, 2001, Cooperative Propane acquired the assets of Price Brothers Gas Company, Inc. ("Price Brothers"), a propane distributor located in Louisville, Alabama. The purchase price of the Price Brothers assets was $1,292,012.

11. INCOME TAXES

Cooperative Services, Inc., Andalusia & Concecuh Railroad Company, Inc., and Powersouth Development Corporation are not part of the tax-exempt operations of AEC, and accordingly are subject to state and federal income taxes. The following represents the components of the income tax benefit:

	Year Ended December 31, 2001	Year Ended December 31, 2000
Federal:		
Current	$ 1,682	$ 46,170
Deferred	(935,381)	(1,142,166)
	(933,699)	(1,095,996)
State:		
Current	660	826
Deferred	(139,770)	(170,249)
	(139,110)	(169,423)
Income tax benefit	$ (1,072,809)	$ (1,265,419)

The sources and tax effect of temporary differences at December 31, 2001, and 2000 are as follows:

	December 31, 2001	December 31, 2000
Allowance for doubtful accounts	$ 49,234	$ 78,024
Accrued cost	150,968	31,964
Net operating loss (NOL) carryforward	2,602,389	992,447
Total deferred tax assets	2,802,591	1,102,435
Less: Valuation Allowance	(753,290)	-
Net deferred tax assets	2,049,301	1,102,435
Property, plant and equipment	(2,049,301)	(2,176,080)
Total deferred tax liability	(2,049,301)	(2,176,080)
Net deferred tax liability	$ -	$ (1,073,645)

The primary reconciling items between the Company's effective tax rate and the federal statutory rate are state income taxes, net of federal benefit, nondeductible goodwill amortization and different asset bases between financial and tax reporting that create differences in allowable depreciation amounts.

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, 2001. Accordingly, management has established a valuation allowance for the deferred tax assets as reflected above.

At December 31, 2001, Cooperative Services, Inc. had net operating loss (NOL) carryforwards of approximately $6.7 million. These NOL carryforwards will begin to expire in 2019.

12. COMMITMENTS AND CONTINGENCIES

Contract commitments for coal, coal transportation and purchases of energy and capacity, which expire in 2006, are as follows:

2002	$ 82,981,300
2003	53,082,800
2004	52,160,800
2005	40,909,800
2006	9,089,800
Total	$ 238,224,500

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 AEC 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.

AEC has contractual commitments to purchase natural gas that extend through 2005. These contracts require AEC to purchase specific quantities of natural gas at a cost based on First of the Month spot prices of natural gas as quoted in Inside FERC's Gas Market Report. Given that the spot price of natural gas is subject to change considerably through the terms of the contracts, the cost of the natural gas commitments cannot be determined. The contract quantity of natural gas commitments through 2005 are as follows:

	Quantity (in MMBtu)
2002	15,360,000
2003	4,550,000
2004	3,660,000
2005	3,650,000
Total	27,220,000

On January 31, 2001, AEC 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.

AEC 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 the Company's experience. All losses are subject to certain limitations, the excess of which is the responsibility of the coinsurer.

AEC is involved in litigation arising in the normal course of business. Management believes that the ultimate resolution of such litigation will not have a material adverse effect on the consolidated financial statements of AEC.

13. LEASES AND GAS PIPELINE OBLIGATION

AEC constructed the Vann Plant, a new combined cycle electric generating plant in Gantt, Alabama, that was completed and placed in commercial service on January 1, 2002. In connection with the construction of the plant, AEC has entered into a Natural Gas Facilities Agreement (the "Agreement") with Southeast Alabama Gas District (the "District") for a pipeline to provide natural gas capacity and transportation to the plant. The District issued Bonds of $22,420,000 to finance a portion of the costs of constructing the pipeline. The Bonds are limited obligations of the District secured by the Agreement. Under the terms of the Agreement, the District has agreed to allocate 83% of the capacity of the pipeline to AEC. In consideration, AEC has agreed to make payments to the District sufficient to pay principal redemptions and interest related to the Bonds. The interest rate on the Bonds is variable, and was 1.95% at December 31, 2001.

AEC's future minimum principal payments under the Agreement for the next five years are as follows:

2002	$ -
2003	460,000
2004	485,000
2005	520,000
2006	550,000
Thereafter	20,405,000
Total minimum lease payments	$ 22,420,000

Cooperative Propane, Inc. leases equipment under three operating leases that extend through 2006. Terms of the leases require monthly rental payments of $3,538, $7,064 and $11,767, respectively. Rental expense related to operating leases for 2001 and 2000 was $155,350 and $45,154, respectively.

Future minimum operating lease obligations are as follows:

2002	$ 268,437
2003	268,437
2004	268,437
2005	327,575
2006	141,208
Total	$ 1,274,094

14. SEGMENT REPORTING

AEC is organized into two operating segments: Utility and Non-utility. Utility consists of the electric generation, transmission and distribution activities. Non-utility 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 2001 and 2000.

	Operating Revenues	Administrative & General	Depreciation & Amortization	Interest Income	Interest Expense	Income Tax Benefit	Net Margin	Total Assets
Fiscal 2001								
Utility	$ 324,592,083	$ 14,662,992	$ 27,864,384	$ 1,587,903	$ 40,234,234	$ -	$ 4,916,297	$ 982,686,803
Non-utility	8,002,458	4,898,945	1,288,903	16,523	1,290,028	(1,072,809)	(4,058,421)	17,191,703
Total	$ 332,594,541	$ 19,561,937	$ 29,153,287	$ 1,604,426	$ 41,524,262	$ (1,072,809)	$ 857,876	$ 999,878,506
Fiscal 2000								
Utility	$ 326,402,253	$ 12,625,946	$ 27,381,030	$ 1,944,809	$ 41,801,841	$ -	$ 7,626,497	$ 916,810,221
Non-utility	7,244,377	3,841,370	1,298,824	26,284	970,654	(1,265,419)	(2,502,625)	15,291,335
Total	$ 333,646,630	$ 16,467,316	$ 28,679,854	$ 1,971,093	$ 42,772,495	$ (1,265,419)	$ 5,123,872	$ 932,101,556

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Alabama Electric Cooperative, Inc.:

We have audited the accompanying consolidated balance sheets of Alabama Electric Cooperative, Inc. and its subsidiaries ("AEC") as of December 31, 2001 and 2000, and the related consolidated statements of revenue and patronage capital and of cash flows for the years then ended. These financial statements are the responsibility of AEC's management. Our responsibility is to express an opinion on these 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of AEC as of December 31, 2001 and 2000, 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

Atlanta, Georgia
March 8, 2002

Every day we need light in this world
For every one man, women, boy and girl
in our hearts
our eyes through our minds
all of mankind
And we shine as one
so strong
as one
forever
together
As one
Through each generation
and through it all
showing the way
a bright future day
And we shine as one
so strong
as one
forever
together
And we shine as one
so strong
as one
forever

FIVE-YEAR FINANCIAL SUMMARY

Year Ended December 31	2001	2000	1999	1998	1997
SUMMARY OF OPERATIONS					
Total Operating Revenue	$ 332,594,541	$ 333,646,630	$ 281,372,973	$ 267,932,408	$ 253,392,450
Operating Costs and Expenses					
Power Production	114,633,613	118,467,580	113,219,282	109,340,509	96,742,931
Purchased Power	107,339,815	107,254,900	72,364,048	69,957,550	69,973,185
Transmission and Distribution	23,078,880	21,903,386	20,502,627	21,264,639	21,231,535
Propane Cost of Sales	5,925,607	5,036,102	677,093		
Administrative and General	19,561,937	16,467,316	13,894,976	9,661,235	10,571,533
Depreciation and Amortization	29,153,287	28,679,854	26,186,225	24,233,294	23,063,998
Total Costs and Expenses	299,693,139	297,809,138	246,844,251	234,457,227	221,583,182
Operating Margin (Deficit)	32,901,402	35,837,492	34,528,722	33,475,181	31,809,268
Interest Expense	41,524,262	42,772,495	37,016,594	37,540,651	35,059,833
Nonoperating Margin and Capital Credits	8,407,927	10,793,456	6,399,473	6,350,950	5,100,390
Provision for Income Taxes (Benefit)	(1,072,809)	(1,265,419)	11,554		
Net Margin	$ 857,876	$ 5,123,872	$ 3,900,047	$ 2,285,480	$ 1,849,825
GENERATION-KWH					
Steam	4,301,360,140	4,277,123,290	4,262,312,190	4,304,273,570	4,115,110,520
Hydraulic	24,561,790	11,082,900	23,588,560	24,139,250	29,331,590
Other	376,569,670	519,285,550	616,684,600	582,075,650	142,363,340
Total	4,702,491,600	4,807,491,740	4,902,585,350	4,910,488,470	4,286,805,450
ENERGY SALES-KWH					
Cooperatives	6,527,373,530	6,796,655,910	6,226,689,120	6,137,798,715	5,698,518,136
Municipalities	543,127,600	574,433,200	546,115,200	547,500,000	515,940,800
Industries	116,235,000	117,400,000	107,220,000	113,865,000	119,060,000
Other	166,923,290	114,348,730	108,583,610	191,694,050	84,476,380
Total	7,353,659,420	7,602,837,840	6,988,607,930	6,990,857,765	6,417,995,316
MAXIMUM SYSTEM DEMAND-KW	1,707,000	1,799,000	1,652,000	1,487,200	1,397,100
UTILITY PLANT					
In Service	$ 911,646,818	$ 899,391,180	$ 864,799,781	$ 844,519,499	$ 782,105,259
Construction Work in Progress	305,776,757	228,946,774	95,645,411	19,389,532	58,449,253
Total	1,217,423,575	1,128,337,954	960,445,192	863,909,031	840,554,512
Less Accumulated Depreciation and Amortization	366,351,799	347,634,790	333,917,026	315,295,871	292,428,552
Utility Plant-Net	$ 851,071,776	$ 780,703,164	$ 626,528,166	$ 548,613,160	$ 548,125,960
TOTAL ASSETS	$ 999,878,506	$ 932,101,556	$ 802,979,117	$ 690,204,330	$ 705,390,750
TOTAL EQUITIES AND MARGINS	$ 82,034,966	$ 81,177,090	$ 76,053,218	$ 71,593,475	$ 69,307,995

STR 028 AR final 1b 4/18/02 3:21 PM Page 33

BOARD OF TRUSTEES

As of Dec. 31, 2001

BOARD OF TRUSTEES

AEC COMMITTEES

EXECUTIVE COMMITTEE:
- (1) Charles E. Short, Chairman of the Board
- (2) Clay Campbell, Vice Chairman of the Board
- (3) James T. Ramage, III – Secretary/Treasurer
- (1) Hugh Strickland
- (1) Terry Pitchford
- (1) Tom Stackhouse
- (2) J. E. Smith
- (1) Max Davis

NOMINATING COMMITTEE:
- (1) B. B. Spratling, Jr. *
- (4) Charles F. Eichelberger, Sr.
- (1) Randy Brannon
- (2) John Worthington
- (3) James Grimes
- (1) Cleve Roberson

CORPORATE PLANNING & POWER SUPPLY COMMITTEE:
- (1) Malloy Chandler *
- (1) Stan Wilson
- (1) Gary Harrison
- (3) James T. Ramage, III
- (1) Max Davis
- (2) J. E. Smith
- (1) James Williams
- (1) Jim Byrd
- (2) Clay Campbell

As of Dec. 31, 2001

MARKETING & INDUSTRIAL DEVELOPMENT COMMITTEE:
- (1) Tom Stackhouse *
- (2) Bill Rimes
- (2) Ed Fuqua
- (4) Tommy F. Cooper, Jr.
- (1) Ken Nichols
- (3) Charles McGowan
- (1) George W. Crouch, Jr.
- (1) Steve Brill
- (1) Jerry Moseley

ENGINEERING & OPERATIONS COMMITTEE:
- (1) Stan Wilson *
- (3) Earl V. Johnson, Jr.
- (2) Roy Barnes
- (1) Ruby Neeley
- (2) Ronald Jones
- (1) Frank Kujawski
- (1) Bucky Jakins, Jr.
- (1) Jerry Moseley
- (1) Davis Henson, Jr.

FINANCE & AUDIT COMMITTEE:
- (2) Bill Rimes *
- (3) James Grimes
- (2) James Earl Hall
- (1) Ronnie Jackson
- (3) Jack Taylor
- (1) Robert Barbaree
- (3) Jimmy Rogers

MEMBER RELATIONS & EXTERNAL AFFAIRS COMMITTEE:
- (1) Randy Brannon *
- (3) Tim Johnson
- (3) Charles McGowan
- (1) Lowell Fannin
- (3) Harry Hinson
- (1) B.B. Spratling, Jr.
- (1) Cleve Roberson

AREA DIRECTOR:
- Gary L. Smith
- (1) B.B. Spratling, Jr.

FECA DIRECTOR:
- Gary L. Smith
- (2) Roy Barnes
- (2) Ronald Jones

ASSISTANT SECRETARY-TREASURER
- Ferrell Walton

CODE:
- (1) Alabama Cooperative
- (2) Florida Cooperative
- (3) Municipality
- (4) Industrial

*Designates Chairman

AEC MANAGEMENT STAFF

Gary Smith
President &
Chief Executive Officer

Larry Avery
Vice President
Engineering & Operations

James A. Brook
Vice President
Marketing & Communications

Jimmy Lee
Vice President
Human Resources

Damon Morgan
Vice President
Corporate Affairs

Jeff Parish
Vice President
Bulk Power & Delivery

Ferrell Walton
Vice President &
Chief Financial Officer

Herman Williams
Vice President
Power Production

Horace Horn
Director
Government & Economic Affairs

Beth Woodard
Director
Legal Affairs