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**Jerry C. Roberts**  
Director  
Nuclear Safety Assurance

May 14, 2001

U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Attention: Document Control Desk

Subject: Grand Gulf Nuclear Station  
Unit 1  
Docket No. 50-416  
License No. NPF-29  
2000 Annual Financial Report for South Mississippi Electric Power  
Association (SMEPA)

GNRO-2001/00036

Ladies and Gentlemen:

The 2000 Annual Financial Report for South Mississippi Electric Power Association (SMEPA), one of the licensees of Grand Gulf Nuclear Station, is herein submitted in response to the requirement of 10CFR50.71(b).

The 2000 Annual Financial Reports for System Energy Resources, Inc., Entergy Mississippi, Inc., and Entergy Operations, Inc., will be submitted as part of the Entergy Corporation Annual Report by our Corporate Staff.

This letter does not contain any commitments.

Should there be any questions concerning this submittal, please contact this office.

Yours truly,

A handwritten signature in black ink, appearing to read "JCR/AMT", with a long horizontal line extending to the right.

JCR/AMT  
attachment: 2000 Annual Report  
cc: (See Next Page)

Moo 4

May 14, 2001  
GNRO-2001/00036  
Page 2 of 2

cc:

Hoeg	T. L.	(GGNS Senior Resident)	(w/a)
Levanway	D. E.	(Wise Carter)	(w/a)
Reynolds	N. S.		(w/a)
Smith	L. J.	(Wise Carter)	(w/a)
Thomas	H. L.		(w/o)

Mr. E. W. Merschoff (w/o)  
Regional Administrator  
U.S. Nuclear Regulatory Commission  
Region IV  
611 Ryan Plaza Drive,  
Suite 400 Arlington, TX 76011

**ATTN: ADDRESSEE ONLY**

Mr. S. P. Sekerak, NRR/DLPM/PD IV-1 (w/2)  
U.S. Nuclear Regulatory Commission  
One White Flint North, Mail Stop O7-D1  
11555 Rockville Pike  
Rockville, MD 20852-2378

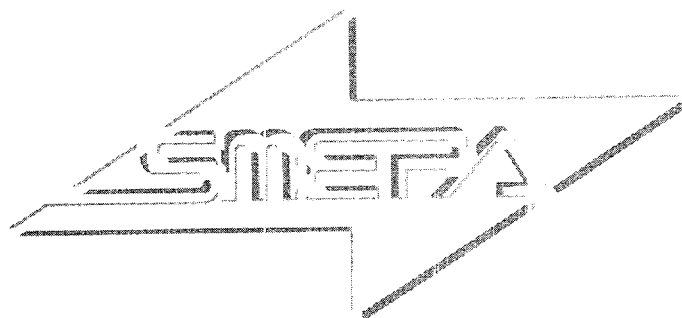
# 2000 ANNUAL REPORT



**South Mississippi  
Electric Power Association**

P. O. BOX 15849  
HATTIESBURG, MS 39404-5849  
7037 U.S. HIGHWAY 49  
HATTIESBURG, MS 39402  
PHONE (601) 268-2083  
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HENRY THOMAS  
General Manager



**SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION**

# SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

## 2000 PERFORMANCE HIGHLIGHTS

<b>Financial</b>				
(\$ In Thousands)	2000	1999	Increase (Decrease)	% Increase -Decrease
Total Revenue	\$366,444	\$329,274	\$37,170	11.3%
Current Net Margins	\$1,839	\$2,011	(\$172)	-8.6%
Total Assets	\$687,380	\$712,239	(\$24,859)	-3.5%
Total Equity	\$82,722	\$80,883	\$1,839	2.3%
Equity as % of Assets	12.0%	11.4%		
TIER	1.05	1.06		
DSC	1.06	1.02		
Average Cost of Debt	6.30%	6.23%		

<b>Operational</b>				
Wholesale Rate to Members — Mills/KWH	44.02	41.95	2.07	4.9%
Energy Sales (MWH)				
Members	8,259,185	7,836,023	423,162	5.4%
Non-Members	81,704	12,716	68,988	542.5%
Total	8,340,889	7,848,739	492,150	6.3%
Net Generation (MWH)	4,051,486	3,654,436	397,050	10.9%
Member Demand (MW)	2,030	1,892	138	7.3%

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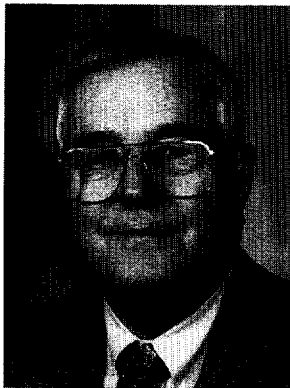
## EXECUTIVE MESSAGE

*The year 2000 brought many unexpected and unusual events that created unique operational and financial challenges for SMEPA employees. A summer weather pattern of prolonged drought and extremely high temperatures was followed by one of the coldest winters in history. These conditions required extra efforts from all employees as they worked to maintain adequate resources and reliable service to members.*

*Another unexpected occurrence was unprecedented high fuel prices which required innovative thinking, planning, measures in plant operation, fuel procurement/usage, and power purchases in order to minimize cost.*

*During the year, SMEPA issued a request for proposals for 400 megawatts of primarily peaking requirements. An evaluation of the responses indicated that SMEPA could self-build these resources more cost-effectively than by entering into long-term contracts. As a result, a letter of intent was formalized in order to achieve this option, and new generation is planned to meet projected growth needs through 2006.*

*The combined efforts of SMEPA's employees in meeting the challenges eliminated the need to defer any cost, thus allowing continued price stability. With their dedication and commitment, our employees continue to be the driving force of SMEPA's success; and that is evident throughout this report.*



A handwritten signature in cursive script that reads "Henry Thomas".

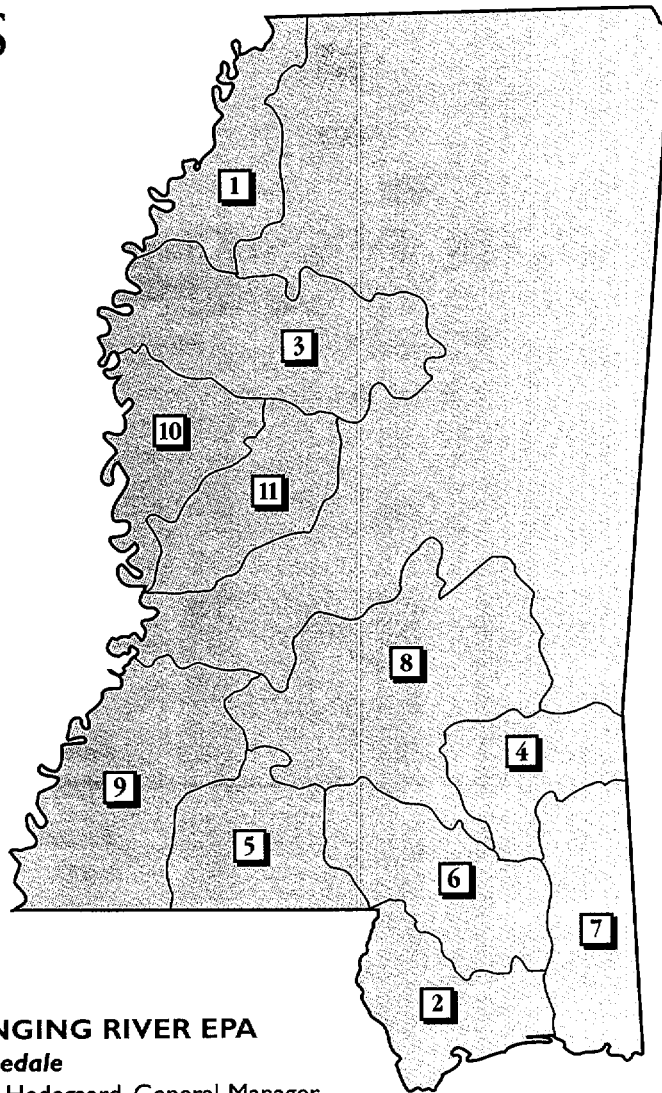
Henry Thomas  
General Manager



A handwritten signature in cursive script that reads "W.C. McKamy, Jr.".

W.C. McKamy, Jr.  
President

# MEMBER SYSTEMS



**1** **COAHOMA EPA**  
**Lyon**  
 Giles Bounds, Manager  
 Date energized 1/18/38  
 1,492 miles of line  
 7,020 meters

**2** **COAST EPA**  
**Bay St. Louis**  
 Robert Occhi, General Manager  
 Date energized 5/20/38  
 4,919 miles of line  
 62,854 meters

**3** **DELTA EPA**  
**Greenwood**  
 Harry H. Bonner, General Manager  
 Date energized 1/30/39  
 5,460 miles of line  
 23,383 meters

**4** **DIXIE EPA**  
**Laurel**  
 James T. Dudley, Jr.,  
 General Manager  
 Date energized 7/28/39  
 4,399 miles of line  
 33,158 meters

**5** **MAGNOLIA EPA**  
**McComb**  
 Sammy Williams, General Manager  
 Date energized 9/19/39  
 5,065 miles of line  
 26,107 meters

**6** **PEARL RIVER VALLEY EPA**  
**Columbia**  
 W.T. Shows, General Manager  
 Date energized 5/19/39  
 5,616 miles of line  
 36,621 meters

**7** **SINGING RIVER EPA**  
**Lucedale**  
 Lee Hedegaard, General Manager  
 Date energized 12/5/39  
 5,809 miles of line  
 59,062 meters

**8** **SOUTHERN PINE EPA**  
**Tylorsville**  
 Donald Jordan, General Manager  
 Date energized 5/13/39  
 9,374 miles of line  
 58,728 meters

**9** **SOUTHWEST MISSISSIPPI EPA**  
**Lorman**  
 Percy McCaa, Manager  
 Date energized 3/27/38  
 4,159 miles of line  
 23,830 meters

**10** **TWIN COUNTY EPA**  
**Hollandale**  
 Vesper Bagley, Manager  
 Date energized 12/24/38  
 2,298 miles of line  
 12,955 meters

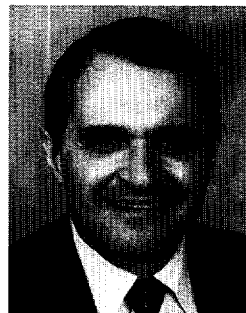
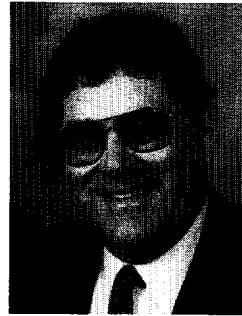
**11** **YAZOO VALLEY EPA**  
**Yazoo City**  
 Charles H. Shelton,  
 General Manager  
 Date energized 3/23/38  
 2,715 miles of line  
 9,749 meters

# BOARD OF DIRECTORS

## COAHOMA ELECTRIC POWER ASSOCIATION

**Billy Hardin**  
(left)

**Giles Bounds, Manager**  
(right)



## COAST ELECTRIC POWER ASSOCIATION

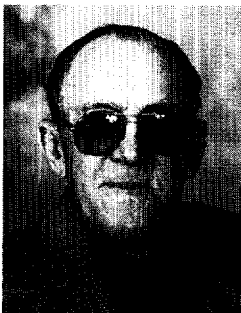
**Austin Rouse**  
(left)

**Robert J. Occhi, General Manager**  
(right)

## DELTA ELECTRIC POWER ASSOCIATION

**Henry Waterer, Jr.**  
(left)

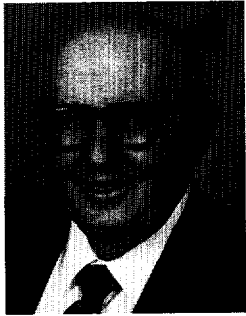
**Harry H. Bonner, General Manager**  
(right)



## DIXIE ELECTRIC POWER ASSOCIATION

**L.G. Pierce, Secretary-Treasurer**  
(left)

**James T. Dudley, Jr., General Manager**  
(right)



## MAGNOLIA ELECTRIC POWER ASSOCIATION

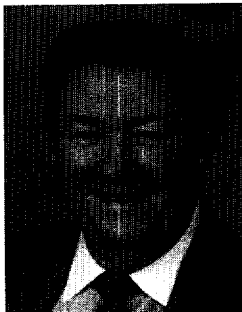
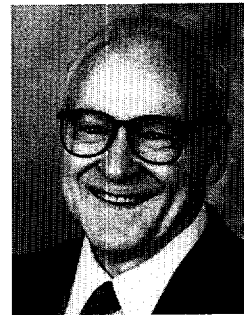
**Jewell Smith**  
(left)

**Sammy Williams, General Manager**  
(right)

## PEARL RIVER VALLEY ELECTRIC POWER ASSOCIATION

**W.A. Kendrick**  
(left)

**W.T. Shows, General Manager  
and Acting Secretary-Treasurer**  
(right)



## SINGING RIVER ELECTRIC POWER ASSOCIATION

**Ronald "Bo" Hall**  
(left)

**Lee Hedegaard, General Manager**  
(right)

## SOUTHERN PINE ELECTRIC POWER ASSOCIATION

**Harlan Rogers, Vice President**  
(left)

**Donald Jordan, General Manager**  
(right)

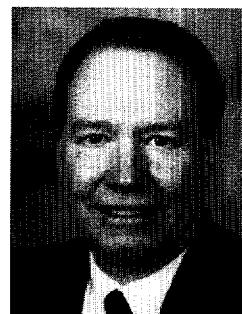


# BOARD OF DIRECTORS

## SOUTHWEST MISSISSIPPI ELECTRIC POWER ASSOCIATION

**Dykes James**  
(left)

**Percy McCaa, Manager**  
(right)



## TWIN COUNTY ELECTRIC POWER ASSOCIATION

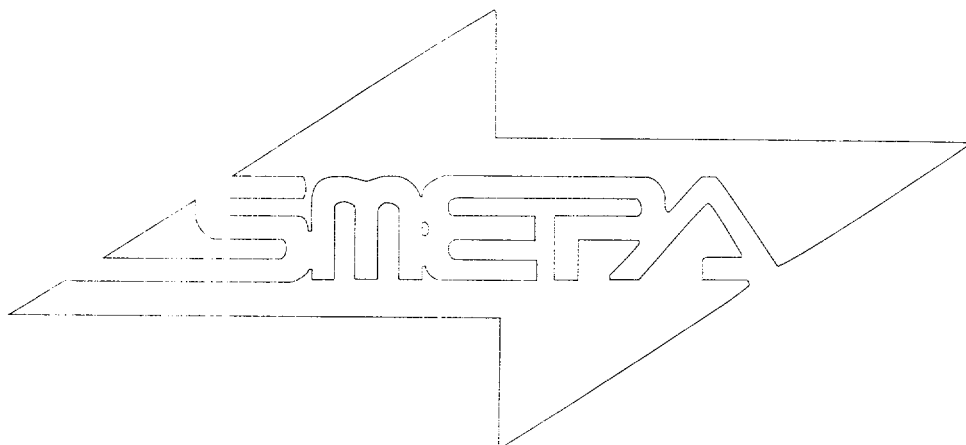
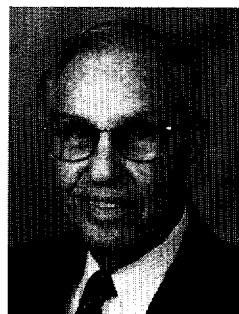
**W.C. McKamy, Jr., President**  
(left)

**Vesper Bagley, Manager**  
(right)

## YAZOO VALLEY ELECTRIC POWER ASSOCIATION

**R.D. Hines**  
(left)

**Charles H. Shelton, General Manager**  
(right)



# GENERAL INFORMATION

## SMEPA HEADQUARTERS

**Location:** Hattiesburg, Forrest County

**Employees:** 103



SMEPA is fortunate to have its Morrow and Moselle generating stations each located approximately fifteen miles from Headquarters. Energy from both stations is dispatched from SMEPA's Control Center in Hattiesburg.

## R.D. MORROW, SR., GENERATING STATION

**Commercial Operation:** 1978

**Location:** Lamar County

**Capacity:** 400 MW

**Fuel:** Bituminous Coal

**Employees:** 96



## MOSELLE GENERATING STATION

**Commercial Operation:** 1970

**Location:** Moselle, Jones County

**Capacity:** 260 MW

**Fuel:** Natural Gas/Fuel Oil

**Employees:** 30



## GRAND GULF NUCLEAR STATION

(10% Undivided Interest)

**Commercial Operation:** 1985

**Location:** Port Gibson, Claiborne County

**Capacity:** 1,250 MW

**Fuel:** Nuclear

**Employees:** 1



SMEPA counts one employee among Entergy's 800+ who work at the nuclear site. Joe Czaika is the Association's nuclear specialist. Grand Gulf Nuclear Station is located approximately 145 miles from SMEPA's headquarters.

## BENNDALE UNIT

**Commercial Operation:** 1969

**Location:** George County

**Capacity:** 16.2 MW

**Fuel:** Natural Gas

**2000 Production:** 1,922 MWH



## PAULDING UNIT

**Commercial Operation:** 1972

**Location:** Jasper County

**Capacity:** 20.6 MW

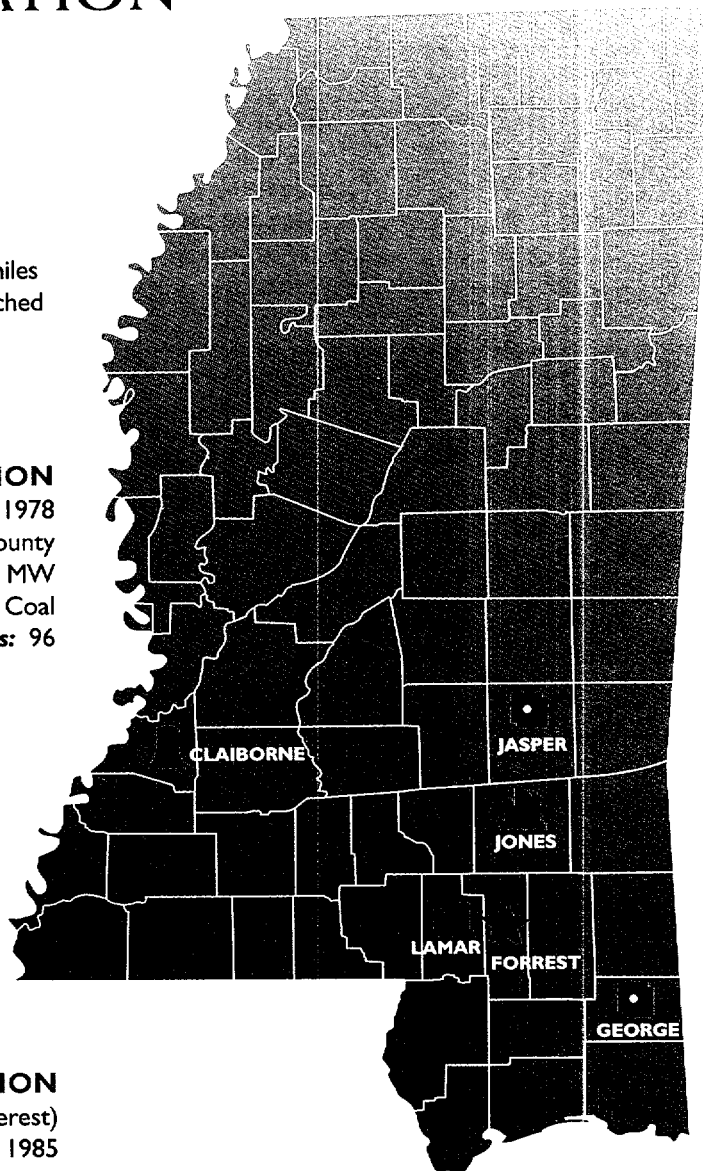
**Fuel:** Diesel Fuel

**2000 Production:** 740 MWH



SMEPA's two combustion turbines, Benndale and Paulding, are unmanned stations remotely operated from the Control Center located at SMEPA's headquarters facility. Personnel from Plant Moselle maintain the two units.

During 2000, the units were operated on occasion to support load demand. The units were also placed into service from time to time for test purposes to assure continued availability and reliability.



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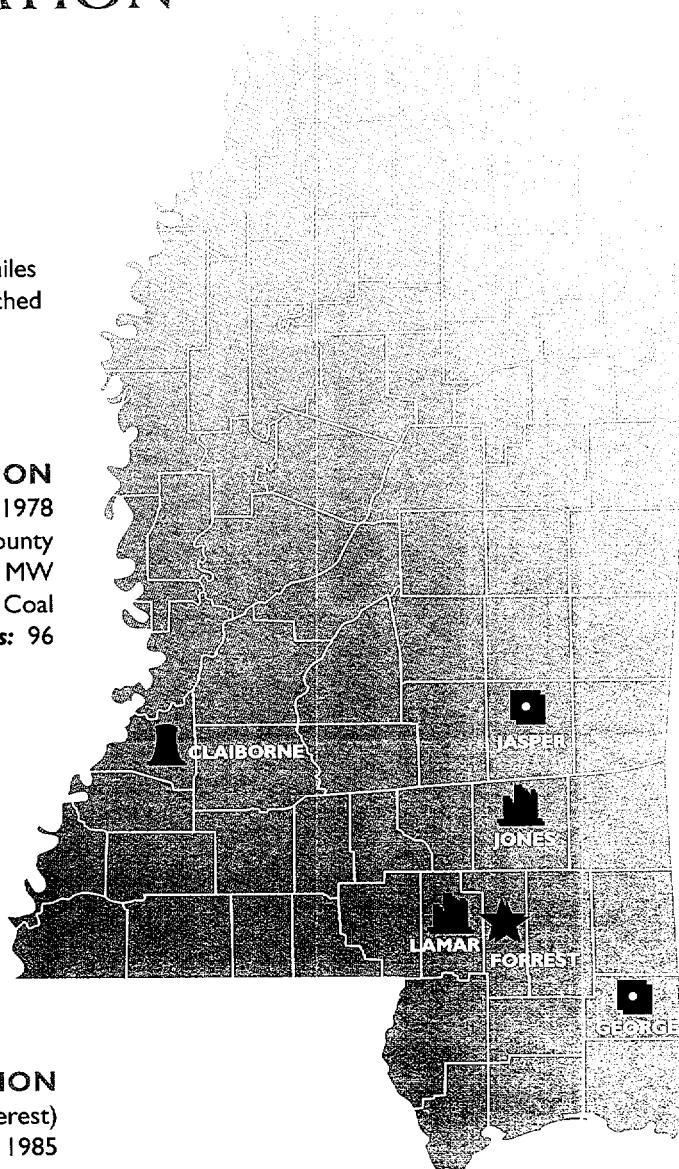
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**2000 Production:** 740 MWH



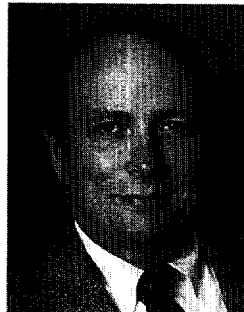
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# SMEPA DEPARTMENTS

**South Mississippi Electric Power Association** entered the twenty-first century with vision and foresight. A progressive management team defined by experience, expertise, and a commitment to excellence maintains this vision and continues to lead the growth of the Association.



## FINANCE DEPARTMENT

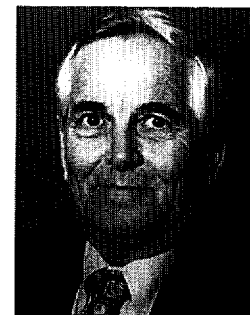
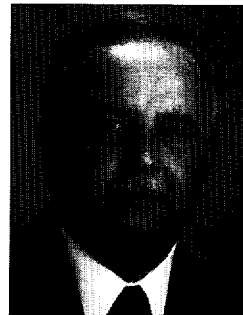
**Jack Harpole**  
(left)

## ENGINEERING DEPARTMENT

**Terry Lee**  
(right)

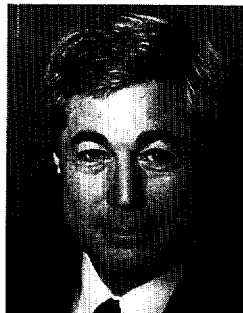
## HUMAN RESOURCES & DEVELOPMENT DEPARTMENT

**Benny Murray**  
(left)



## TRANSMISSION DEPARTMENT

**Jerry Pierce**  
(right)



## POWER SUPPLY DEPARTMENT

**Gary D. Tipps**  
(left)

## PRODUCTION DEPARTMENT

**Marcus Ware**  
(right)

# OPERATING REPORT

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## PLANT MOSELLE

**The Moselle Station was again operated** in an intermediate and peaking mode for the entire year. Availability of the Moselle units remained especially good for the year, however, operating efficiency declined by 0.5% due primarily to reductions in capacity factor at the facility. From one to three steam units were in operation at any one time, as the units were cycled into service as needed to meet system generation demand. During the peak demand period of June, July and August, all three of the steam units were in service and the 83.5 MW combustion turbine was operated extensively for load support.

Natural gas remained available in sufficient quantities to support operation throughout the year, however, cost proved to be a factor in limiting use. The price was higher than normal for the first half of the year and increased substantially in the last quarter. The unfavorable fuel costs adversely impacted the economics of operating the Moselle units. The usage of natural gas was the lowest for an annual period since 1997.

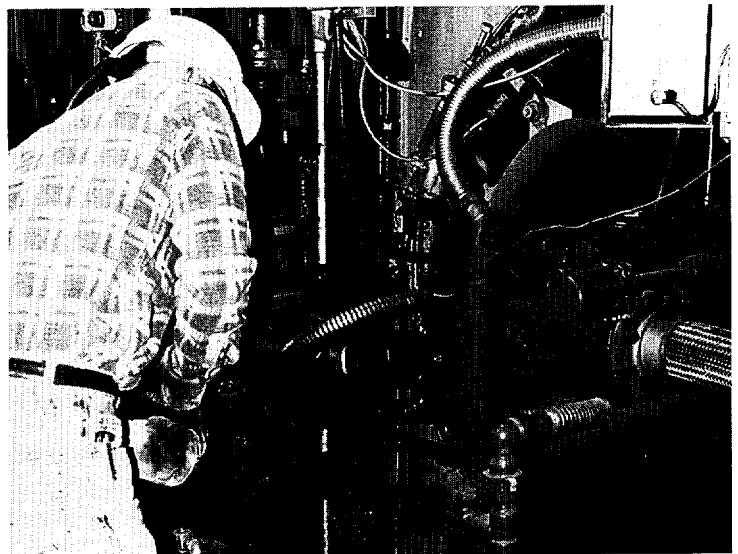
The net generation during 2000 amounted to 574,144 MWH. This includes 75,987 MWH of production from the Moselle combustion turbine. This is 25% less than the 1999 production. Output from the steam units actually decreased by 30% while production from the combustion turbine increased by more than 9%.

Since entering commercial operation in June 1997, the 83.5 MW simple cycle combustion turbine has been utilized in peaking service as needed. Unit operability, availability, and reliability have met the high expectations which were established for the unit.

The plant maintenance staff completed the 5-year inspection of the turbine-generator with technical assistance provided by General Electric. The most significant repair activity involved the welding of cracks in the lower half turbine shell and replacement of erosion shields on the 17th stage turbine blading. Numerous steam path components were also repaired or replaced as part of the routine inspection process. No significant findings associated with the generator were noted. The inspection was completed as scheduled and the required expenditures were within budgeted amounts.

Natural gas purchases were scheduled on a monthly basis to meet projected generation requirements. Usage amounted to 6,896,847 MMBtu for the year, which is about 20% less than the volume used during 1999. Relatively high natural gas prices throughout the year, especially in the last quarter, resulted in decreased utilization of natural gas. The greatest demand for natural gas was associated with the summer load season.

Fuel oil usage for 2000 amounted to 204,422 gallons. This quantity was used to supplement gas usage during December when the cost of spot gas exceeded the cost of the oil.



# OPERATING REPORT

## PLANT MORROW

**Plant Morrow was again primarily operated** in an intermediate and base load mode during the year. A new annual production record was established and the units approached record total operating time as major contributions were made by the Morrow facility in meeting system load demand requirements.

Simultaneous operation of the two Morrow units occurred as load demand permitted, primarily during the winter and summer load seasons. Coal consumption reached record levels and amounted to 1,052,060 tons, representing an increase of 15% over 1999 usage.

The annual net generation from the facility was 2,404,639 MWH, reflecting the greatest annual output in the life of the station. The production was almost 15% above 1999 levels, and 2.5% above the record which was set in 1998.

A new General Electric (GE) Mark V Digital Control System was installed on Unit #1 by plant technicians to replace the GE Mark II Analog Control System which was a part of the original equipment when the turbine was placed into service in 1978. The Mark V Control System includes control, protection, and monitoring for the Turbine Generator. The system greatly improves turbine availability. A similar retrofit was completed on Unit #2 in 1999.

Asea Brown Boveri (ABB) was awarded a contract to furnish two generator voltage regulator/excitation systems for the 204 MW generators. The digital control system will provide better reliability and improve generator voltage stability and regulation. The new system includes software with limiters and protection to ensure safe operation of the generator using state of the art technology.

Various preventive maintenance tasks and mechanical inspections were completed during the year, based upon service time, environmental conditions, and the results of annual electric testing history.

The combined volume of dry fly ash and landfill material marketed during the year totaled 83,000 tons. This reflects a 39% increase in volume and a substantial increase in income when compared to 1999 figures as a result of positive sales activity. Approximately 81% of the ash produced during the year was marketed, representing the highest sales volume in the life of the facility.

## GRAND GULF

**The operating statistics for Grand Gulf** during 2000 were greatly improved over last year even though operation was impacted by a planned power reduction at the first of the year for Y2K considerations; a forced outage in January; a forced power reduction in August; and, in September, the first automatic scram in five years. The plant capacity factor for 2000 was 100.6% based upon the net maximum dependable capacity rating of 1,210 MW. The average capacity factor for the last three years was 89.3%, which was reduced by the disappointing plant performance in 1999. The plant availability factor was 98.3% for 2000.

The net generation at the end of the year was 10,694,613 MWH, which is up 26.8% from 1999. The year 2000 was only the second year in the operating history of the plant during which total net production exceeded 10,000,000 MWH. The average

net thermal efficiency for the year was 10,423 BTU/KWH, which is the lowest ever for the plant and a 1% improvement over last year. The low net heat rate was achieved despite the exceptionally hot summer and a forced plant derating due to associated high hotwell temperatures. Efficient plant operation is attributed to long continuous high power runs, coupled with the first full year of operation with upgraded high and low pressure turbines. The main turbine upgrade has contributed approximately 84 MW in additional plant power output through an efficiency improvement while keeping licensed reactor power constant.

The plant set two new internal generation records in 2000. On February 5, the plant produced the greatest amount of energy ever in a 24 hour period at 30,999 MWH. The next day, February 6, the plant set the record for the highest, net hourly power output at 1,297 MWH. These records were due primarily to the completed main turbine upgrade and the cold weather at the time.

The plant staff reduced reactor power to 80% for about 3 days starting on December 30, 1999 and manned key emergency response organization positions as a precaution for the roll over to the new year 2000. Considerable work had been done by the staff in the previous years to prepare for the new year. All computers and software applications had been identified and evaluated for susceptibility to the Y2K "bug." All necessary hardware and software changes had been completed well in advance of January 1, 2000. No problems were encountered going into the new year.

The NRC instituted a new, more risk informed regulatory process in 2000. Part of the new process includes performance indicators. The indicators are designed to show how well the plant staff has done at operating the plant within regulations and to help forecast future performance. These indicators and other information will help guide the NRC to monitor real and future problems relating to plant nuclear safety, thereby improving the regulatory process. The 18 indicators cover potential initiating events, mitigating systems, barrier integrity, emergency preparedness, occupational and public radiation exposure, and plant physical protection. All the indicators for Grand Gulf were within the highest level of performance (green) band at the year's end.

SMEPA received a total of 1,070,041 MWH of energy from Grand Gulf during 2000, which is about 27% more than 1999 deliveries primarily as a result of not having a refueling outage. This represents the second highest annual delivery into SMEPA's system from the facility (only 1.1% below the 1997 record). The entire year was characterized by relatively high availability. Power was supplied from the unit on 362 of 366 days during the year; the unit was in continuous service for 233 days; and the unit was operated without disruption in 10 of the 12 months. The overall production and performance (heat rate) reflected the positive benefits which have been realized from recent high pressure and low-pressure turbine upgrades.



# OPERATING REPORT

## BENNDALE AND PAULDING

**The two remotely located combustion turbines** again were operated for peaking and test purposes during the year. Both units were needed to support load demand on several occasions during peak demand periods primarily during the summer load season. Otherwise, the units were placed in service for test purposes at approximately 90 day intervals in an effort to assure availability and reliability.

Prior to the summer load season, the original turbine controls at both Benndale and Paulding were upgraded with the installation of new Woodward control equipment. Operating reliability and availability were enhanced with the implementation of the new control devices. The installation was completed by Moselle personnel with the support of Woodward specialists.

As usual, Moselle maintenance personnel completed routine maintenance work at the remote sites; conducted periodic operating tests at each location; and responded on occasion when starting and operating problems were identified with the units.

## KENTUCKY COAL PROPERTY

**During the early part of 2000**, Ikerd-Bandy, a coal mining firm, continued to develop the coal reserves on SMEPA's property in eastern Kentucky under the provisions of a property lease arrangement. However, there was no coal production from SMEPA's reserves after the month of April due to market and other prevailing conditions. Clean coal production during 2000 amounted to only 93,016 tons from both surface and deep mine operations. The coal recovery reflects the lowest annual production from the property in the life of the lease arrangement. The decline in production was due in part to the depletion of reserves which could be economically mined at the depressed market conditions.

Under an Oil & Gas Lease Agreement, SMEPA received royalty payments as a result of oil and gas production from the property. A relatively small but steady volume of gas flowed from a total of twenty-six wells throughout year. Revenue was also provided from a limited amount of oil production each month. The lease arrangement was assigned from Miller Petroleum to Nami Resources on August 31, 2000. Nami plans to continue to develop the oil and gas reserves by proceeding with the drilling program, and has taken steps to enhance production.

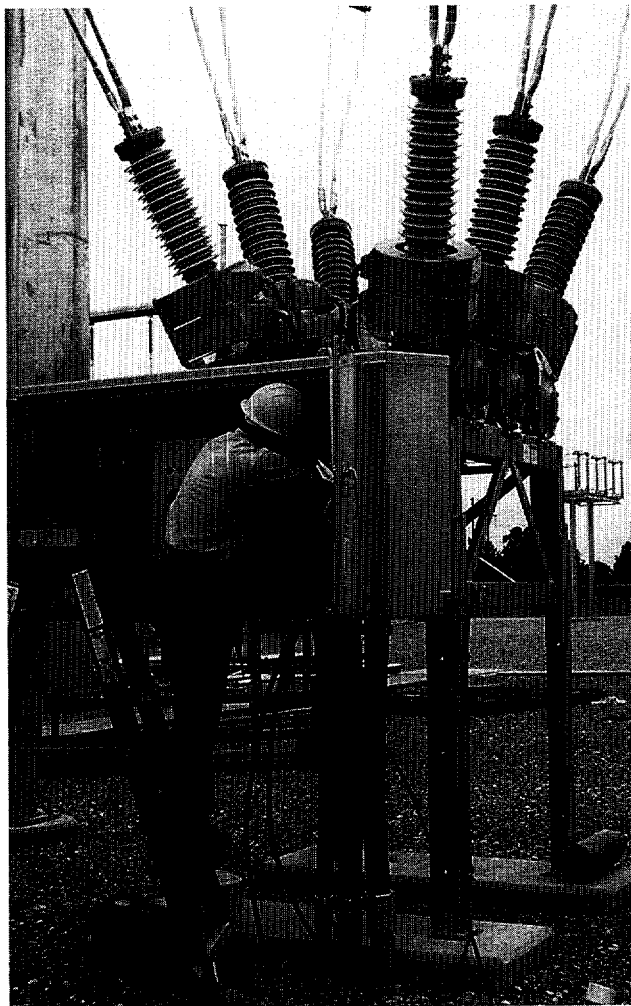
As part of SMEPA's effort to monitor and adequately manage developments on SMEPA's Kentucky property, an inspection was conducted quarterly of the mining and preparation plant operations. Meetings were scheduled with Ikerd-Bandy management personnel to review current and future development plans and to discuss areas of concern and other matters of interest. At the conclusion of the visits, Summit Engineering prepared and submitted a report to SMEPA detailing findings, recommendations, and other pertinent information relative to the mining operation. While on the property, attention was also directed to developments under the oil and gas lease agreement and to timber removal operations.

## ENVIRONMENTAL AFFAIRS

**Environmental efforts during 2000 focused on** continued compliance with existing regulations. 2000 marked the first year of SMEPA's R. D. Morrow, Sr. and Moselle Generating Plants' participation in Phase II of the Acid Rain Program. The limited actual emission rates of acid rain pollutants permitted the continued "banking" of emission credits for use in meeting future generation requirements. Continuous Emission Monitoring Systems (CEMS), used to quantify and account for unit emissions, were successfully recertified at all SMEPA generating plants.

Title V air permit renewal applications were prepared and submitted for the Paulding and Benndale units during the year. The Morrow NPDES permit to discharge wastewater was applied for and received during 2000. These permits have been or will be issued for a period of five years from the issuance date.

Environmental Reports (ER's) were submitted to and approved by RUS for approximately 29 miles of SMEPA transmission line, six member cooperative substations, and several categorically excluded SMEPA projects. As the year ended, environmental reports were in process for two (2) transmission-related projects.



## POWER SUPPLY PLANNING

**Using the RUS approved 1999 Power Requirements Study**, an analysis of SMEPA's long-term power supply needs was completed. Based on the analysis, SMEPA issued, via the Internet, a request for proposals (RFP) for intermediate and peaking power. After evaluation, a short list of bidders was chosen. In the final analysis, SMEPA entered into a formal agreement to construct seven new natural gas fired combustion turbines rated at a total of 481 MW on three different sites. Three General Electric LM6000 gas turbines rated at 47 MW each will be constructed at a new SMEPA plant site near Sylvarena, MS. Three General Electric 7EA gas turbines rated at 85 MW each will be constructed at a new SMEPA plant site near Silver Creek, MS. A fourth GE 7EA gas turbine will be constructed at SMEPA's plant Moselle.

## OPERATIONS CONTROL CENTER

**SMEPA Control Center personnel** faced the challenge of minimizing the cost of energy to serve SMEPA members. High costs for purchased power and generation fuel were mitigated through a combination of purchased power contracts and displacement of gas generation with coal generation.

As the year began, the Control Center focused on avoiding high summer purchase power prices. Short-term purchased

# OPERATING REPORT

power contracts were signed to supplement SMEPA's generation and long term purchased power contracts in order to satisfy predicted summer peak loading and reserve requirements. A mixture of pricing structures not only allowed SMEPA to cap purchased power costs should market prices for energy rise above the target, but also allowed SMEPA to purchase energy when prices were below the fixed prices agreed to for certain segments. Such short-term contracts produced the desired results of purchases with an overall cost very close to the budgeted amounts.

The cost of natural gas purchased for electric generation rose sharply during the year to unprecedented levels. With input from the Power Supply, Production, Engineering and Finance departments, SMEPA developed a plan for the fourth quarter that included minimizing the operation of units at SMEPA's Moselle gas fired plant and delaying fall maintenance outages at Plant Morrow. SMEPA then could maximize the use of Plant Morrow's coal fired units for load and sales to the market. Margins from market sales were to be used to mitigate the high cost of gas.

## MARKETING

**The Marketing Committee, comprised of six** Member marketers and representation from SMEPA, was established in 2000. The committee joined efforts with NRECA to complete an extensive marketing research project in which consumers of the eleven member systems were surveyed to provide direction for joint member marketing programs. The Marketing Committee also began planning a new energy efficient home program to be implemented in 2001 that will offer greater value to co-op customers.

Marketing supported Member interests nationally and statewide, including participation in the U.S. Department of Energy's 2000 National Workshop on State Building Energy Codes. The workshop was designed to strengthen communication between utilities and building code officials.

Marketing continued to work with members in the areas of planning, training, promotions, and residential/commercial energy management. Research hours were devoted to the building of a reference file for members on the subject of distributed generation.

## ELECTRONICS MAINTENANCE

**Electronics Maintenance personnel received training in** digital microwave installation and maintenance, replaced seven paths of analog microwave equipment with new digital microwave equipment, and installed one new microwave alarm system and ten microwave alarm units on the new digital microwave system. Interconnecting trunks were converted from copper trunks to a T1 interface to increase the capability of the telephone system, and personnel also assisted in installing fiber optic communications from the Station Creek to the North Collins substations.

## TRANSMISSION SYSTEM MAINTENANCE AND CONSTRUCTION

**An integral part of SMEPA's commitment** to providing reliable power is the maintenance of 1,549 miles of transmission line, right of way, and numerous switches.

SMEPA's line crews performed climbing inspections on 5,314 structures and completed 327 line maintenance work orders. Construction of four new transmission lines was completed and six line sections were uprated.

The annual reclearing of right of way was performed over 5,200 acres. Pole groundline inspections and treatments were performed on 2,634 poles and a number of danger trees were removed from critical lines. Lines at seven different locations were also adjusted for highway improvement projects.

Seasonal vegetation control was performed at 125 switch and station locations, and aerial patrol inspections were performed bi-monthly.

## TRANSMISSION SYSTEM PLANNING AND PROTECTION

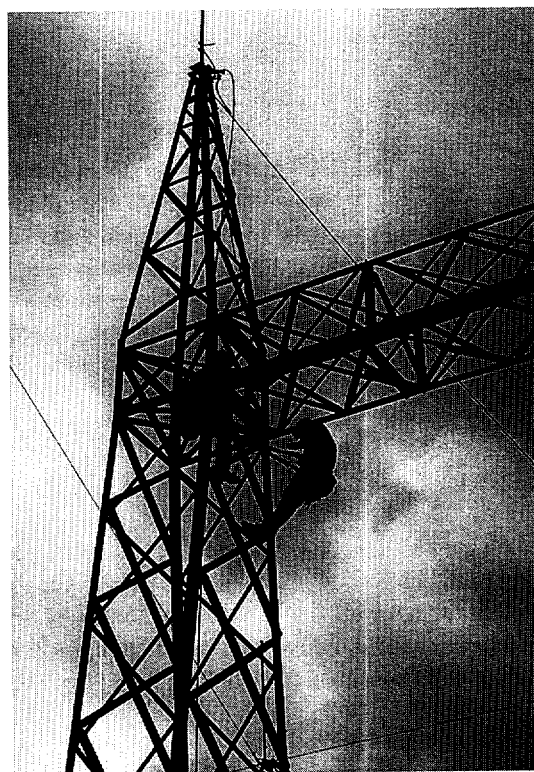
**SMEPA engineers contributed to** the site selection study for the next increment of SMEPA owned generation and developed the required transmission upgrade plans for each new site for the seven new natural gas fired combustion turbines.

Metering technicians checked calibration of all wholesale revenue meters in the SMEPA system and installed new meter packages at six new member delivery points. Relay technicians calibrated 1,513 relays at 16 different locations and installed new relay panels with 173 new relays at 4 new substations.

## ENGINEERING DESIGN AND SUBSTATION MAINTENANCE

**SMEPA's engineering department** completed the design of 29 miles of new transmission lines for seven (7) new member delivery points and 37 miles of 69kV line uprate projects which will allow higher capacity ratings for these lines. They also completed construction on and placed into service: the new Station Creek 161/69kV substation; three 69kV switching stations with a total of nine (9) circuit breakers; and SMEPA's first link of fiber optic cable on the transmission system.

Major substation maintenance activities include collecting Dissolved Gas Analysis (DGA) samples from 42 power transformers and 29 LTC's (Load Tap Changers), and completing annual infrared surveys for all SMEPA facilities and six SMEPA member systems. Annual preventative routine maintenance was performed on fifty-one (51) motor-operated switches.



# OPERATING REPORT

## COMPUTER INFORMATION SYSTEMS

**The Computer Information Systems Department entered** the year with a successful Y2K rollover and spent most of the year to follow implementing new purchased software applications to reduce software development and life-cycle costs.

Migration from the character based financial systems began in 2000. Two new Dell servers were installed to run the new Oracle 8 Database and Financial Applications using a multi-tier architecture running on Microsoft's Windows NT operating system. This architectural change provided significant cost savings over purchasing a new Hewlett Packard computer system.

Implementation of a Dell Personal Computer Lease Program began in 2000. This program will allow the Association to maintain a current computer system and standardize computer hardware, email, office and operating system software while reducing the cost to maintain software licenses and repair of faulty hardware.



## SAFETY

**SMEPA employees continued to build on** an outstanding safety record by adding another year worked without a lost time accident due to an on-the-job injury. This year marked the seventh consecutive year, and more than three and one half million man hours that employees have worked without a lost time accident due to an on-the-job injury. Congratulations are in order once again to employees for this most important achievement.

## ASSOCIATION RELATIONS

**SMEPA and its employees increased their** investment in the surrounding communities through participation in and support of such programs as; the United Way, Adopt-A-Family, the American Red Cross, the Boy Scouts of America, the EPA's Youth Leadership Tour, MathCounts, the Hattiesburg Area Education Foundation, the Area Development Partnership, Junior Achievement and the Adopt-A-School partnership.

Public relation efforts were substantially increased and publication, printing and resource support continued for the Association and its member systems.

# FINANCIAL REPORT

**The year 2000 brought new financial** challenges to SMEPA. The price of natural gas for next-month delivery moved from under \$3 per million BTU at the start of the year to more than \$6 per million by the end of the year. SMEPA modified its generation plans to use less gas in favor of more coal and other resources as the year progressed but still paid \$28 million for gas, causing a price variance of almost \$9 million. In the first month of 2001, the price of gas was at record highs – near \$10 per million BTU. In the prior year, 1999, SMEPA endured a similar major overrun involving an unexpected increase in the cost of purchased peaking power. SMEPA's wholesale power rate to the eleven member cooperatives averaged 44.0 mills per kilowatt hour during 2000, up about 5% over the 1999 wholesale rate of 42.0 mills. The budgeted wholesale rate for 2001 is 45 mills.

Revenues from members amounted to \$364 million for 2000, up 10.6% or \$35 million from the previous year. Energy sales to members were up 5.4% to 8.3 million megawatt hours – the highest ever. Demand billings to members were up 7.0%, with a monthly average of 1,617 megawatts, for an increase of 105 megawatts – also the highest ever. Most of the growth in sales continues to come from the coastal and southern areas served by SMEPA.

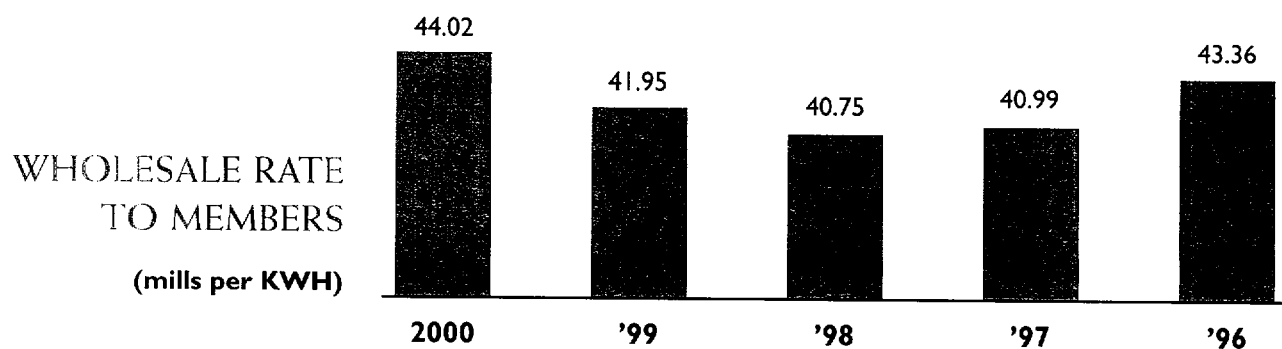
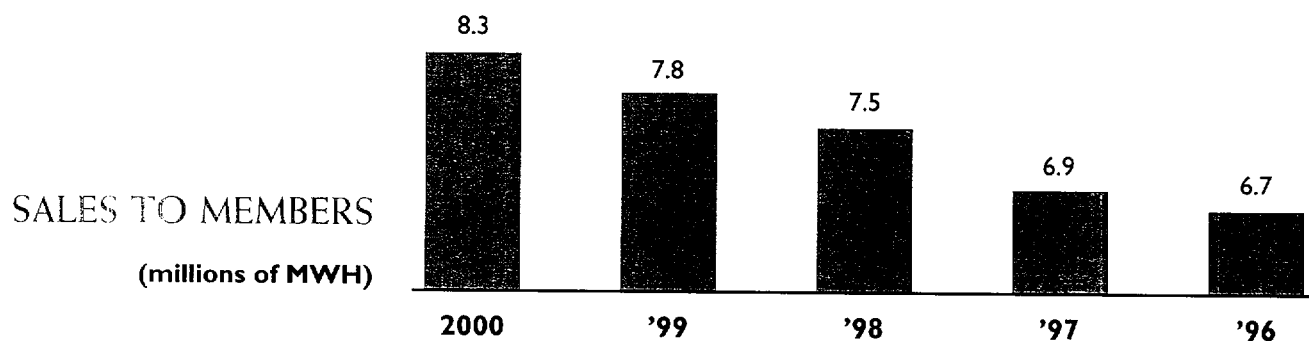
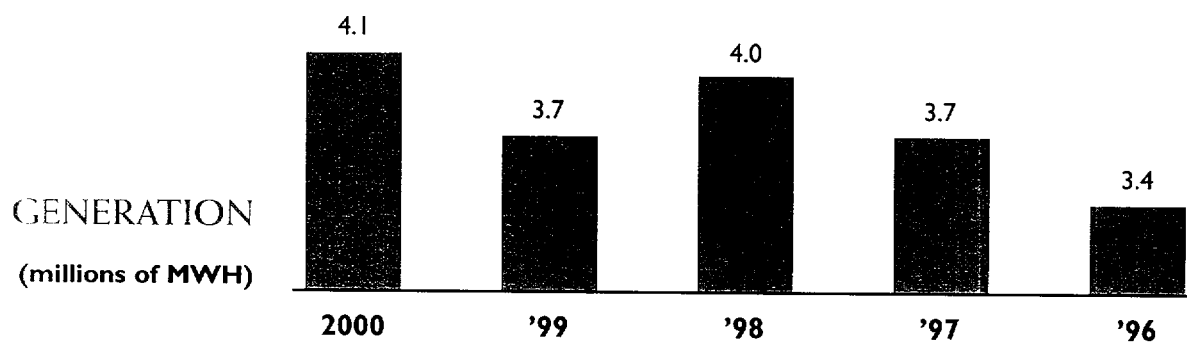
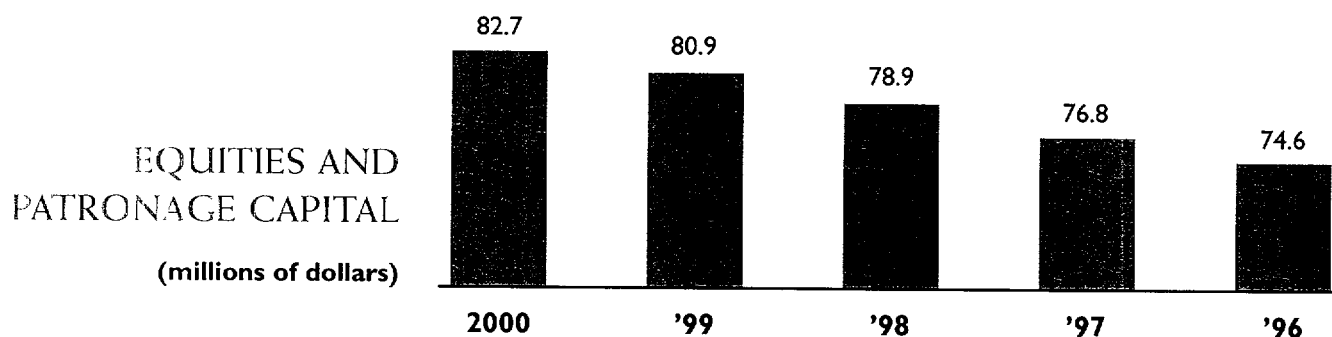
The \$1.8 million margin for 2000 was close to budget and about the same as the previous year. SMEPA's equity increased to \$82.7 million and is now 12% of total assets. Total assets at year end were \$687 million, while total debt outstanding was \$551 million, down \$39 million from the previous year and the lowest debt balance since 1981. The average cost of outstanding debt increased slightly to 6.3%. SMEPA's margin and cash flow for the year were sufficient to exceed all covenants related to outstanding debt.

During the year, SMEPA invested \$26 million of internal funds for capital improvements and additions, about \$14 million more than the prior year. \$6.9 million of the increase represented an initial investment in a major construction project to add 481 megawatts of peaking resources to SMEPA's generating mix over the next several years. Cash and discretionary investments were \$22 million at year-end 2000, down slightly from the prior year. No amounts were owed on the \$25 million line of credit at year-end, compared to \$18 million outstanding last year.

The reader may notice that the financial statements reflect a major decrease in the balance for coal inventory. Part of the decrease was related to increased coal generation as SMEPA attempted to avoid generating with natural gas to the extent possible. Starting March 1, 2000, SMEPA's contract price for coal was reduced in accordance with the terms of the contract. SMEPA began the year with 373,000 tons in inventory, with an average cost of about \$49 per ton, for an inventory value of \$18 million. At year-end, the inventory was down to 122,000 tons valued at \$4.6 million, with an average cost of \$38 per ton. SMEPA normally consumes about 950,000 tons of coal each year and targets a year-end inventory of 150,000 tons.

The logo for SMEPA is rendered in a large, stylized, outlined font. The letters are interconnected, with the 'S' and 'M' being particularly prominent. The logo is positioned at the bottom of the page, with a large, abstract, angular shape behind it that resembles a stylized 'A' or a series of connected lines.

# FINANCIAL REPORT



## Comparative Balance Sheets and Selected Financial Ratios (\$ in Thousands)

<b>ASSETS</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>ELECTRIC UTILITY PLANT</b>					
In Service - at cost	\$ 828,332	\$ 820,003	\$ 815,305	\$ 809,115	\$ 770,186
Construction work in process	42,277	24,620	20,861	17,326	37,525
	<u>870,609</u>	<u>844,623</u>	<u>836,166</u>	<u>826,441</u>	<u>807,711</u>
Less accumulated depreciation	373,874	350,183	330,062	308,328	284,463
<b>Net Utility Plant</b>	<b>\$ 496,735</b>	<b>\$ 494,440</b>	<b>\$ 506,104</b>	<b>\$ 518,113</b>	<b>\$ 523,248</b>
<b>INVESTMENTS</b>					
Investments in associated organizations	7,719	7,814	7,905	10,481	10,569
Debt service reserve investments	4,594	4,613	5,488	5,554	9,694
Decommissioning trust investments	10,407	10,220	9,666	7,981	6,087
Other investments	-	-	-	-	3,000
<b>Total Investments</b>	<b>22,720</b>	<b>22,647</b>	<b>23,059</b>	<b>24,016</b>	<b>29,350</b>
<b>CURRENT ASSETS</b>					
Cash - general funds and cash equivalent investments	22,119	23,122	17,124	14,275	3,793
Other invested funds	-	2,251	11,727	13,577	20,001
Accounts Receivable - Members	33,745	27,498	24,091	23,714	24,577
Accounts Receivable - Others	1,502	1,003	1,088	4,017	1,709
Coal and other fuel inventories	5,206	18,446	11,022	14,313	10,785
Materials and supplies inventories	14,712	15,467	15,836	15,735	15,272
Other	557	1,030	3,602	989	1,310
<b>Total Current Assets</b>	<b>77,841</b>	<b>88,817</b>	<b>84,490</b>	<b>86,620</b>	<b>77,447</b>
<b>DEFERRED CHARGES</b>	<b>90,084</b>	<b>106,335</b>	<b>99,455</b>	<b>104,013</b>	<b>110,812</b>
<b>TOTAL ASSETS</b>	<b>\$ 687,380</b>	<b>\$ 712,239</b>	<b>\$ 713,108</b>	<b>\$ 732,762</b>	<b>\$ 740,857</b>
<b>EQUITIES AND LIABILITIES</b>					
<b>EQUITIES</b>					
Patronage capital	\$ 82,187	\$ 80,348	\$ 78,337	\$ 76,299	\$ 74,069
Memberships and donated capital	535	535	535	535	535
	<u>82,722</u>	<u>80,883</u>	<u>78,872</u>	<u>76,834</u>	<u>74,604</u>
<b>Long-Term Debt (excluding current maturities)</b>	<b>516,265</b>	<b>549,557</b>	<b>571,672</b>	<b>594,152</b>	<b>606,840</b>
<b>Accrued Decommissioning Obligation</b>	<b>10,407</b>	<b>10,220</b>	<b>9,666</b>	<b>5,955</b>	<b>5,113</b>
<b>Deferred Credits and Other Long-Term Liabilities</b>	<b>4,075</b>	<b>4,096</b>	<b>3,962</b>	<b>3,991</b>	<b>3,879</b>
<b>CURRENT LIABILITIES</b>					
Accounts payable	29,243	24,666	20,326	22,969	24,610
Notes payable	-	18,000	-	-	-
Accrued interest	8,052	566	804	642	666
Other accrued expenses	2,339	2,127	2,166	1,795	1,568
Current maturities of long-term debt	34,277	22,124	25,640	24,398	22,603
	<u>73,911</u>	<u>67,483</u>	<u>48,936</u>	<u>49,804</u>	<u>49,447</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 687,380</b>	<b>\$ 712,239</b>	<b>\$ 713,108</b>	<b>\$ 730,736</b>	<b>\$ 739,883</b>
<b>RATIOS</b>					
TIER	1.05	1.06	1.05	1.06	1.17
DSC	1.06	1.02	1.06	1.11	1.19
Equity as % of Assets	12.0%	11.4%	11.1%	10.8%	10.2%
<b>DEBT</b>					
Long-Term Debt and Notes Payable	\$ 515,983	\$ 567,557	\$ 571,672	\$ 594,152	\$ 606,840
Current Maturities on Long-Term Debt	34,560	22,124	25,640	24,398	22,603
<b>TOTAL DEBT</b>	<b>\$ 550,543</b>	<b>\$ 589,681</b>	<b>\$ 597,312</b>	<b>\$ 618,550</b>	<b>\$ 629,443</b>
<b>Average Interest Rate</b>	<b>6.30%</b>	<b>6.23%</b>	<b>6.27%</b>	<b>6.23%</b>	<b>6.35%</b>

# FINANCIAL REPORT

## Comparative Operating Statements (\$ in Thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>OPERATING REVENUES</b>					
Electric energy revenue from members	\$ 363,535	\$ 328,716	\$ 305,751	\$ 281,472	\$ 291,060
Other electric energy revenue	3,216	547	7,301	19,632	13,667
Other - net	(307)	11	373	1,355	1,328
	<u>\$ 366,444</u>	<u>\$ 329,274</u>	<u>\$ 313,425</u>	<u>\$ 302,459</u>	<u>\$ 306,055</u>
<b>OPERATING EXPENSES</b>					
Fuel	78,217	66,641	74,885	64,940	62,809
Production	13,987	13,616	12,970	13,192	14,056
Purchased Power	183,174	157,532	132,977	132,714	131,697
Transmission	12,171	11,977	11,424	10,361	9,766
Administrative and General	4,030	3,661	3,424	3,467	5,123
Maintenance expenses:					
Production	8,508	8,871	9,789	7,508	5,404
Transmission	2,186	2,294	1,810	2,215	1,911
General Plant	736	692	609	656	601
Depreciation and amortization	26,461	25,736	25,776	27,720	27,188
Taxes	-	-	-	-	1,037
	<u>329,470</u>	<u>291,020</u>	<u>273,664</u>	<u>262,773</u>	<u>259,592</u>
<b>OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS</b>	<u>36,974</u>	<u>38,254</u>	<u>39,761</u>	<u>39,686</u>	<u>46,463</u>
<b>INTEREST AND OTHER DEDUCTIONS</b>					
Interest	37,344	38,444	40,594	41,705	44,215
Other Deductions	14	44	54	61	85
	<u>37,358</u>	<u>38,488</u>	<u>40,648</u>	<u>41,766</u>	<u>44,300</u>
<b>OPERATING MARGIN</b>	<u>(384)</u>	<u>(234)</u>	<u>(887)</u>	<u>(2,080)</u>	<u>2,163</u>
<b>NONOPERATING MARGIN:</b>					
Interest income	1,709	1,943	2,590	3,131	4,354
Allowance for funds used during construction	355	217	258	1,119	619
Other	159	85	77	60	65
	<u>2,223</u>	<u>2,245</u>	<u>2,925</u>	<u>4,310</u>	<u>5,038</u>
<b>Total Nonoperating Margin</b>	<u>2,223</u>	<u>2,245</u>	<u>2,925</u>	<u>4,310</u>	<u>5,038</u>
<b>NET MARGIN</b>	<u>\$ 1,839</u>	<u>\$ 2,011</u>	<u>\$ 2,038</u>	<u>\$ 2,230</u>	<u>\$ 7,201</u>

## Selected Financial Data

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>Mills per KWh</b>					
Wholesale Rate to Members	44.02	41.95	40.75	40.99	43.36
Wholesale Rate to Non-Members	39.36	42.95	26.05	29.15	30.41
Average Cost of Purchased Power	41.66	36.29	33.77	33.40	33.98
Average Cost of Fuel (per net generation)	19.31	18.24	18.72	17.54	18.38

## Comparative Summary / Energy Sources and Sales

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>ENERGY SOURCES - MWH</b>					
Generated	4,051,486	3,654,436	4,000,428	3,703,426	3,417,432
Purchased	<u>4,396,938</u>	<u>4,340,954</u>	<u>3,950,485</u>	<u>3,993,529</u>	<u>3,899,775</u>
<b>TOTAL ENERGY AVAILABLE FOR SALE - MWH</b>	<u><b>8,448,424</b></u>	<u><b>7,995,390</b></u>	<u><b>7,950,913</b></u>	<u><b>7,696,955</b></u>	<u><b>7,317,207</b></u>
<b>ENERGY SALES - MWH</b>					
Members					
Coahoma EPA	137,280	127,441	128,845	113,455	111,778
Coast EPA	1,497,819	1,345,675	1,186,129	1,082,399	1,045,075
Delta EPA	529,637	530,839	521,834	448,519	448,928
Dixie EPA	721,905	676,403	669,078	611,153	638,819
Magnolia EPA	559,367	522,275	514,763	488,867	463,651
Pearl River EPA	831,542	761,825	717,346	631,588	603,743
Singing River EPA	1,280,415	1,189,922	1,143,285	1,067,486	1,036,248
Southern Pine EPA	1,678,363	1,634,359	1,584,680	1,491,970	1,474,607
Southwest Mississippi EPA	437,638	443,512	445,689	412,882	403,979
Twin County EPA	302,357	296,437	294,815	267,243	252,552
Yazoo Valley EPA	<u>282,862</u>	<u>307,335</u>	<u>296,939</u>	<u>251,935</u>	<u>233,540</u>
<b>TOTAL SALES TO MEMBERS</b>	<b>8,259,185</b>	<b>7,836,023</b>	<b>7,503,403</b>	<b>6,867,497</b>	<b>6,712,920</b>
Non-Members	<u>81,704</u>	<u>12,716</u>	<u>291,913</u>	<u>702,509</u>	<u>484,900</u>
<b>TOTAL SALES</b>	<u><b>8,340,889</b></u>	<u><b>7,848,739</b></u>	<u><b>7,795,316</b></u>	<u><b>7,570,006</b></u>	<u><b>7,197,820</b></u>
<b>MEMBER DEMAND -- KW</b>	<u><b>2,030,075</b></u>	<u><b>1,892,133</b></u>	<u><b>1,762,216</b></u>	<u><b>1,646,802</b></u>	<u><b>1,695,672</b></u>
(Non-Concurrent Peak)					

# INDEPENDENT AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
South Mississippi Electric Power Association

We have audited the accompanying balance sheets of South Mississippi Electric Power Association ("SMEPA") as of December 31, 2000 and 1999, and the related statements of revenues, expenses and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of SMEPA'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 financial statements present fairly, in all material respects, the financial position of SMEPA as of December 31, 2000 and 1999, 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*

Jackson, Mississippi  
February 2, 2001

# FINANCIAL REPORT

## South Mississippi Electric Power Association

### Balance Sheets

(In Thousands)

	December 31	
	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
In service - at cost	\$ 828,332	\$ 820,003
Construction work in process	<u>42,277</u>	<u>24,620</u>
	870,609	844,623
Less accumulated depreciation	<u>373,874</u>	<u>350,183</u>
Net utility plant	<b>496,735</b>	<b>494,440</b>
<b>INVESTMENTS</b>		
Investments in associated organizations	7,719	7,814
Debt service reserve investments	4,594	4,613
Decommissioning trust investments	<u>10,407</u>	<u>10,220</u>
Total Investments	<b>22,720</b>	<b>22,647</b>
<b>CURRENT ASSETS</b>		
Cash - general funds and cash equivalent investments	22,119	23,122
Other invested funds	-	2,251
Accounts receivable:		
Members	33,745	27,498
Others	1,502	1,003
Inventories (at average cost):		
Coal and other fuel	5,206	18,446
Materials and supplies	14,712	15,467
Other	<u>557</u>	<u>1,030</u>
Total Current Assets	<b>77,841</b>	<b>88,817</b>
<b>DEFERRED CHARGES</b>	<u><b>90,084</b></u>	<u><b>106,335</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$ 687,380</b></u>	<u><b>\$ 712,239</b></u>

See "Notes to Financial Statements"

# FINANCIAL REPORT

## EQUITIES AND LIABILITIES

	December 31	
	<u>2000</u>	<u>1999</u>
<b>EQUITIES</b>		
Patronage capital	\$82,187	\$80,348
Memberships and donated capital	535	535
	<u>82,722</u>	<u>80,883</u>
<b>LONG-TERM DEBT</b> (excluding current maturities)	<b>516,265</b>	<b>549,557</b>
<b>ACCRUED DECOMMISSIONING OBLIGATION</b>	<b>10,407</b>	<b>10,220</b>
<b>DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES</b>	<b>4,075</b>	<b>4,096</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	29,243	24,666
Notes payable	-	18,000
Accrued interest	8,052	566
Other accrued expenses	2,339	2,127
Current maturities of long-term debt	<u>34,277</u>	<u>22,124</u>
	<b>73,911</b>	<b>67,483</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes 4 and 14)	-	-
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u><b>\$687,380</b></u>	<u><b>\$712,239</b></u>

**South Mississippi Electric Power Association**  
**Statements of Revenues, Expenses and Patronage Capital**  
(In Thousands)

	<b>Years Ended December 31</b>	
	<b><u>2000</u></b>	<b><u>1999</u></b>
<b>OPERATING REVENUES</b>		
Electric energy revenue from members	\$ 363,535	\$ 328,716
Other electric energy revenue	3,216	547
Other - net	(307)	11
	<b>366,444</b>	<b>329,274</b>
<b>OPERATING EXPENSES</b>		
Fuel	78,217	66,641
Production	13,987	13,616
Purchased Power	183,174	157,532
Transmission	12,171	11,977
Administrative and general	4,030	3,661
Maintenance expenses:		
Production	8,508	8,871
Transmission	2,186	2,294
General	736	692
Depreciation and amortization	26,461	25,736
	<b>329,470</b>	<b>291,020</b>
<b>OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS</b>	<b>36,974</b>	<b>38,254</b>
<b>INTEREST AND OTHER DEDUCTIONS</b>		
Interest	37,344	38,444
Other deductions	14	44
	<b>37,358</b>	<b>38,488</b>
<b>OPERATING MARGIN</b>	<b>(384)</b>	<b>(234)</b>
<b>NONOPERATING MARGIN:</b>		
Interest income	1,709	1,943
Allowance for funds used during construction	355	217
Other	159	85
<b>Total Nonoperating Margin</b>	<b>2,223</b>	<b>2,245</b>
<b>NET MARGIN</b>	<b>1,839</b>	<b>2,011</b>
<b>PATRONAGE CAPITAL AT BEGINNING OF YEAR</b>	<b>80,348</b>	<b>78,337</b>
<b>PATRONAGE CAPITAL AT END OF YEAR</b>	<b>\$ 82,187</b>	<b>\$ 80,348</b>

See "Notes to Financial Statements"

# FINANCIAL REPORT

## South Mississippi Electric Power Association Statements of Cash Flows

(In Thousands)

Years Ended December 31  
2000 1999

### CASH FLOWS FROM OPERATING ACTIVITIES

Net Margins	\$ 1,839	\$ 2,011
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation, amortization, and depletion	30,825	30,619
Allowance for funds used during construction	(355)	(217)
(Increase) in accounts receivable	(6,746)	(3,322)
Decrease (Increase) in inventories	13,995	(7,055)
Decrease in other assets	454	2,164
Increase in accounts payable and other liabilities	4,767	4,435
Increase (Decrease) in accrued interest payable	7,486	(238)
Nuclear outage maintenance costs	(258)	(2,154)
Unbilled fuel cost	9,629	(9,629)
Increase in accrued decommissioning payable	187	533
<b>Net Cash Provided by Operating Activities</b>	<b>61,823</b>	<b>17,147</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Construction and acquisitions of electric utility plant	(25,950)	(12,114)
Proceeds from retirements of electric utility plant	78	35
Purchase of available for sale securities	(4,392)	(755)
Sale of available for sale securities	4,206	222
Investment in associated organizations	94	91
Maturities of held to maturity securities	6,833	10,480
Purchase of held to maturity securities	(4,564)	(129)
<b>Net Cash Used in Investing Activities</b>	<b>(23,695)</b>	<b>(2,170)</b>

### CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	(21,131)	(27,879)
Payments on proceeds from short-term borrowings	(18,000)	18,000
Proceeds from long-term borrowings	-	2,255
Penalty associated with repricing of debt	-	(1,355)
<b>Net Cash Used in Financing Activities</b>	<b>(39,131)</b>	<b>(8,979)</b>

### NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS

(1,003) 5,998

### CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

23,122 17,124

### CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 22,119 \$ 23,122

See "Notes to Financial Statements"

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# South Mississippi Electric Power Association

## Notes to Financial Statements

### Years Ended December 31, 2000 and 1999

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

South Mississippi Electric Power Association ("SMEPA") is a member-owned, not-for-profit electric generation and transmission cooperative supplying wholesale electricity and other services to eleven member systems, which, in turn, provide retail electric service to approximately 350,000 consumers in certain areas of Mississippi. Under long-term wholesale power contracts with each of its members, SMEPA is obligated to provide all of the power required by the member systems to the extent that SMEPA has power available. Financing assistance is provided by the United States Department of Agriculture, Rural Utilities Service ("RUS"). In addition to being subject to regulation by its own governing board of directors, SMEPA is subject to certain rules and regulations promulgated for rural electric borrowers by RUS. SMEPA maintains its accounting records in accordance with the Federal Energy Regulatory Commission's ("FERC") Chart of Accounts as modified and adopted by RUS. 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 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. As a regulated utility, the methods of allocating costs and revenue to time periods may differ from those principles generally applied to nonregulated companies.

SMEPA owns a 10% undivided interest in a nuclear generating plant known as Grand Gulf Unit 1 ("Grand Gulf"). System Energy Resources, Inc. ("System Energy"), a subsidiary of Entergy Corporation ("Entergy"), owns the remaining 90% either outright or through leasehold interests. Entergy Operations, also a subsidiary of Entergy, operates the plant along with other nuclear plants owned by Entergy, subject to owner oversight. Grand Gulf commenced commercial operation on July 1, 1985.

The more significant accounting policies are generally described as follows:

a. **Electric Utility Plant and Depreciation**

Electric utility plant is stated at cost, which includes contract work, materials and direct labor, allowance for funds used during construction, and allocable overhead costs. The cost of electric generating stations and related facilities also includes costs of training and production incurred, less revenue earned, prior to the date of commercial operation.

Depreciation is provided by the straight-line method for utility plant at the following annual composite rates:

Nuclear generation plant	2.85%
Non-nuclear generation plant	3.00% to 3.10%
Transmission plant	2.75%
General plant and transportation equipment	2.00% to 25.00%

At the time units of electric utility plant are retired, their original cost and cost of removal, less salvage value, are charged to accumulated depreciation. Replacements of electric utility plant involving less than a designated unit of property are charged to maintenance expense. At each

# FINANCIAL REPORT

balance sheet date, SMEPA evaluates the recoverability of long-lived assets based upon expectations of nondiscounted cash flows and operating income.

b. **Cost of Decommissioning Nuclear Plant**

SMEPA's portion of the estimated decommissioning cost of Grand Gulf is charged to operating expenses over the estimated service life of the plant. The current operating license received from the Nuclear Regulatory Commission terminates in 2024.

c. **Allowance for Funds Used During Construction**

Allowance for funds used during construction represents an allowance based on the average cost of appropriate borrowings when general funds are used to fund construction. The allowance is capitalized as a component of the cost of electric plants and related facilities while they are under construction.

d. **Investment Securities**

Debt service investments, other investments, and other invested funds are categorized as held to maturity and are carried on the balance sheet at amortized cost. SMEPA has the intent and ability to hold these securities until their estimated maturities but may sell them under certain circumstances.

Decommissioning trust investments are categorized as available for sale and are carried at fair value. In accordance with the regulatory treatment for decommissioning trust funds, unrealized gains on investment securities are also included as a regulatory liability as part of the accrued decommissioning obligation.

Premiums and discounts are amortized and accreted to operations using the level yield method, adjusted for prepayments as applicable.

e. **Deferred Charges**

SMEPA was a 10% owner in a second unit at the Grand Gulf site when construction was terminated in 1989. With the approval of the RUS, SMEPA is amortizing its remaining investment over a 27-year period ending in 2016.

As a condition of repricing certain outstanding debt in recent years so as to significantly reduce annual interest expenses, SMEPA paid penalties of varying amounts that are accounted for as deferred charges to be amortized over the remaining life of the debt.

Bond issue costs are being amortized by the straight-line method, which does not differ materially from the interest method, over the term of the related debt. The amortization during the period of construction is capitalized.

Nuclear outage maintenance costs represent SMEPA's ten percent share of Grand Gulf's incremental maintenance costs associated with refueling outages. These costs are recorded as deferred charges when incurred and are amortized by the straight-line method over the eighteen months between outages.

From time to time, the Board will set a benchmark fuel cost adjustment rate to be collected from Members so as to match revenues with actual and forecasted fuel and purchased power costs consistent with the cooperative not-for-profit operation of SMEPA. Material variances between these revenues and costs may cause the recognition of deferred credits or deferred charges from one year to the next.

SMEPA's accounting policies include compliance with Statement of Financial Accounting Standards ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation." In accordance with SFAS 71, SMEPA has regulatory assets of approximately \$90 million, including

\$60.4 million relating to the unamortized cost of abandoned plant (Note 7). In the event that SMEPA is no longer able to comply with SFAS 71 as the result of a change in regulation or effects of competition, SMEPA would be required to recognize the effects of its regulatory assets and liabilities currently in its statements of revenue, expenses, and patronage capital.

f. Patronage Capital

The bylaws of SMEPA provide that any excess of revenue over expenses and accumulated prior-year deficits shall be treated as advances of capital by the member patrons and credited to them on the basis of their patronage.

g. Income Taxes

SMEPA is exempt from United States income taxes pursuant to Section 501(c)(12) of the Internal Revenue Code, which requires that at least 85% of SMEPA's gross income be derived from its members.

h. Cash and Cash Equivalents

For purposes of reporting cash flows, all temporary investments with original maturities of three months or less are deemed to be cash equivalents.

**NOTE 2 - ACCOUNTING STANDARD TO BE ADOPTED IN THE FUTURE**

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, as amended, will be adopted effective January 1, 2001, but is not expected to materially affect SMEPA's financial statements.

**NOTE 3 - ELECTRIC UTILITY PLANT**

Electric utility plant consisted of the following (in thousands):

	Cost		Accumulated Depreciation	
	2000	1999	2000	1999
Grand Gulf Nuclear	\$407,612	\$402,395	\$159,012	\$147,475
Morrow Steam	190,419	190,150	120,723	114,867
Moselle Steam	23,978	23,979	20,395	19,655
Moselle Gas Turbine	21,723	21,723	2,298	1,648
Benndale/Paulding Gas Turbines	<u>3,844</u>	<u>3,844</u>	<u>3,352</u>	<u>3,237</u>
Total Generating Plant	647,576	642,091	305,780	286,882
Transmission Plant	138,501	136,404	44,663	41,316
General Plant and Equipment	17,108	16,353	9,306	8,423
Electric Plant Leased to Others	<u>25,147</u>	<u>25,155</u>	<u>14,115</u>	<u>13,534</u>
Electric Plant in Service	828,332	820,003	373,864	350,155
Construction Work in Process	<u>42,277</u>	<u>24,620</u>	<u>10</u>	<u>28</u>
Total Utility Plant	<u>\$870,609</u>	<u>\$844,623</u>	<u>\$373,874</u>	<u>\$350,183</u>

**NOTE 4 - COMMITMENTS REGARDING GRAND GULF**

SMEPA and System Energy are parties to a joint ownership contract that sets forth the rights and obligations of the Grand Gulf owners, and SMEPA is generally obligated to pay 10% of all operating and capital costs and is entitled to receive 10% of the electricity generated by the plant. SMEPA paid \$19,894,000 and \$18,285,000 under the contract in 2000 and 1999, respectively. Ownership of nuclear capacity entails risks and uncertainties somewhat more complex than those for non-nuclear capacity, and these are discussed below.

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## Nuclear Insurance and Assessments

As the 90% majority co-owner of Grand Gulf, System Energy is responsible for arranging appropriate insurance and industry assessment programs for itself and SMEPA. SMEPA is obligated to pay 10% of all appropriate costs and assessments, if any. Under the program, SMEPA could be assessed up to approximately \$9 million for each nuclear incident involving licensed reactors, payable at a rate of \$1 million per reactor per incident per year.

The property insurance presently arranged by System Energy exceeds the NRC's minimum requirement for nuclear power plant licensees of \$1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors. Under a member assessment program, SMEPA could be assessed approximately \$1.3 million for property damage, decontamination, or premature decommissioning expense involving other members' nuclear generation plants.

## Nuclear Fuel

System Energy contracts with System Fuels Inc., another Entergy subsidiary company, for nuclear fuel for Grand Gulf, including maintaining inventories. System Energy has a nuclear fuel lease arrangement for up to \$100 million with respect to Grand Gulf. SMEPA pays for nuclear fuel as it is consumed; and such payments include appropriate charges for processing, fabrication, storage, inventory, shipment, and handling.

## Spent Nuclear Fuel

System Energy and SMEPA provide for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. System Energy entered into contracts with the Department of Energy ("DOE"), whereby the DOE will furnish disposal service at a cost of one mill per net KWh generated and sold. The fees payable to the DOE may be adjusted in the future to assure full recovery. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. The DOE has asserted that it does not have a legal obligation to accept spent nuclear fuel without an operational repository for which it has not yet arranged. Current on-site spent fuel storage capacity at Grand Gulf is estimated to be sufficient until 2005. During 2000, a contract was signed with a spent fuel storage vendor to develop onsite dry cask storage capacity for certain of Entergy's nuclear units, potentially including Grand Gulf.

## Decommissioning Costs

The total cost to decommission Grand Gulf has been estimated to be approximately \$601 million (based on a 1999 cost study using 1999 dollars). SMEPA is responsible for 10% of the estimated cost and has submitted a formal plan to the NRC that demonstrated assurance that sufficient financial resources would be available at the time it becomes necessary to decommission. In addition, SMEPA received approval from the Internal Revenue Service to establish a "tax-free" grantor trust as a vehicle to fund the estimated decommissioning costs. SMEPA estimates, based on a revised calculation, that the funding requirement will approximate \$600,000 annually through 2024. The estimated funding requirement will continue to be recalculated and adjusted periodically.

The Energy Policy Act of 1992 has a provision that assesses nuclear utilities with fees for the decontamination and decommissioning of the DOE's past uranium enrichment operations. The decontamination and decommissioning assessments will last for fifteen years and will be used to set up a fund into which contributions from utilities and the federal government will be placed.

SMEPA's aggregate liability is estimated at \$2,000,000 and is being paid over the fifteen-year term.

#### Depreciation Rate

The depreciation rate for Grand Gulf was tentatively increased to 3.33% for 1996 and 1997 pending action by regulators for the co-owners, System Energy and SMEPA. Prior to 1996 and after 1997, SMEPA recorded depreciation charges using a previously approved 2.85% straight-line rate. Because SMEPA is a minority co-owner in Grand Gulf, RUS regulations generally require it to use the same rate as that used by the majority co-owner unless RUS has approved a different rate. At this time, however, the proposed rate being used by System Energy has not received regulatory approval, and SMEPA is using the previously approved 2.85% rate that had been used by both co-owners since commercial operation of the plant in 1986, except for the changes noted herein. At December 31, 2000, the accumulated depreciation account includes \$3,966,000 in depreciation charges related to the higher rate. Management believes that the impact, if any, of final action by regulators on this matter will be accounted for prospectively and will not have a material effect on the financial statements.

#### NOTE 5 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investment in associated organizations are stated at cost and consisted of the following (in thousands):

	<u>2000</u>	<u>1999</u>
National Rural Utilities Cooperative Finance Corporation ("CFC") Certificates:		
Membership subscription	\$6,223	\$6,223
Loan and guarantee	1,114	1,267
Other	<u>382</u>	<u>324</u>
	<u>\$7,719</u>	<u>\$7,814</u>

CFC membership subscription certificates bear interest at a 5.0% rate and mature in 2070 through 2080. The loan and guarantee certificates bear interest at rates of 3.0% and 5.8% and mature in 2007.

#### NOTE 6 - INVESTMENT SECURITIES

The amortized cost and related approximate fair values of investment securities were as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2000				
Decommissioning Trust:				
Equity mutual funds	\$5,530	\$1,746	\$ 6	\$7,270
Fixed income mutual funds	<u>3,195</u>	<u>-</u>	<u>58</u>	<u>3,137</u>
	<u>\$8,725</u>	<u>\$1,746</u>	<u>\$64</u>	<u>\$10,407</u>
Securities to be Held to Maturity:				
Obligations of states and political subdivisions	<u>\$4,594</u>	<u>\$192</u>	<u>-</u>	<u>\$4,786</u>
December 31, 1999				
Decommissioning Trust:				
Equity mutual funds	\$2,174	\$3,169	-	\$5,343
Fixed income mutual funds	<u>5,129</u>	<u>-</u>	<u>\$252</u>	<u>4,877</u>
	<u>\$7,303</u>	<u>\$3,169</u>	<u>\$252</u>	<u>\$10,220</u>

# FINANCIAL REPORT

December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities to be Held to Maturity:				
CFC and CoBank obligations	\$2,251	-	\$3	\$2,248
Obligations of states and political subdivisions	4,484	\$180	-	4,664
Unapplied debt prepayments	<u>129</u>	<u>-</u>	<u>-</u>	<u>129</u>
	<u>\$6,864</u>	<u>\$180</u>	<u>\$3</u>	<u>\$7,041</u>

The amortized cost and approximate fair value of investment securities to be held to maturity at December 31, 2000, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Fair Value
Due after five years through ten years	<u>\$4,594</u>	<u>\$4,786</u>

Actual maturities may differ from contractual maturities because of the borrowers' right to call or prepay obligations.

Sales of decommissioning trust assets by the trustee aggregated \$4,208,000 in 2000 and \$222,000 in 1999, resulting in realized gains of \$2,600 in 2000 and \$108,000 in 1999 under the specific identification method.

## NOTE 7 - DEFERRED CHARGES (INCLUDING REGULATORY ASSETS)

The following is a summary of amounts recorded as deferred charges (in thousands):

	2000	1999
Unamortized cost of abandoned plant	\$60,357	\$63,367
Unamortized penalties on repriced debt	26,687	28,623
Unamortized debt discount and issuance cost	811	888
Nuclear outage maintenance cost	667	2,026
Unbilled fuel cost	-	9,629
Deferred decontamination and decommissioning of past uranium enrichment operations	1,173	1,324
Other	<u>389</u>	<u>478</u>
	<u>\$90,084</u>	<u>\$106,335</u>

Plans for constructing a second unit at the Grand Gulf site were terminated in 1989. SMEPA was to have been a 10% owner in the second unit and had invested approximately \$104 million, net of recoveries and transfers. With the written approval of the RUS, SMEPA is amortizing its remaining investment in the abandoned plant over a 27-year period ending in 2016, and amortization was \$3,009,500 and \$2,930,000 in 2000 and 1999, respectively.

SMEPA repriced or refinanced significant amounts of its outstanding debt in recent years, including \$14,130,000 of FFB mortgage notes in 1999. As a condition of the transactions, SMEPA paid various prepayment penalties, including \$1,355,000 in 1999, which are treated as deferred charges to be amortized over the remaining life of the debt. Amortization of all such penalties was \$1,936,000 in 2000 and 1999.

During 1999, SMEPA incurred excess purchased power costs that were not recovered through the benchmark revenue rate, the fuel cost adjustment charge, even after two adjustments set by the Board. Consistent with the cooperative not-for-profit operation of SMEPA, certain of these costs amounting to \$9,629,000 were deferred as of December 31, 1999 and were recovered through revenue rate adjustments in the year ended December 31, 2000.

**NOTE 8 - PATRONAGE CAPITAL**

Patronage capital consisted of the following (in thousands):

	<u>2000</u>	<u>1999</u>
Cumulative margins	\$88,041	\$86,202
Less: Retirements to date	<u>5,854</u>	<u>5,854</u>
	<u>\$82,187</u>	<u>\$80,348</u>

Under the provisions of debt covenants, until the patronage capital equals or exceeds forty percent of the total assets of SMEPA, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by SMEPA in the prior calendar year. The patronage capital of SMEPA represents 12.0% and 11.3% of the total assets at December 31, 2000 and 1999, respectively.

**NOTE 9 - SHORT-TERM BORROWINGS**

SMEPA has a \$25,000,000 short-term line of credit available with CFC that expires in September 2001 (see Note 14) and a \$5,000,000 short-term line of credit with a bank that expires in July 2001. At December 31, 2000, SMEPA had no borrowings against these lines of credit; at December 31, 1999, SMEPA had \$18,000,000 of borrowings against the CFC line of credit at an interest rate of 7.05%.

**NOTE 10 - LONG-TERM DEBT**

Long-term debt consisted of the following (in thousands):

	<u>2000</u>	<u>1999</u>
Mortgage notes payable to Federal Financing Bank ("FFB") at interest rates varying from 4.935% to 10.705%, due in quarterly installments through 2020	\$447,693	\$463,142
2% RUS mortgage notes payable, due in quarterly installments through 2009	9,138	11,237
5% RUS mortgage notes payable, due in quarterly installments through 2015	13,007	13,947
5%, 5.375%, 5.125% and 5.75% RUS mortgage notes payable, due in monthly installments through 2020	17,181	17,625
Mortgage notes payable to CoBank at 7.84% interest rate, due in quarterly installments through 2019	2,141	2,238
Mortgage notes payable to CFC bearing interest at variable rates (8.30% at December 31, 2000), due in quarterly installments through 2022	4,537	4,633
Lamar County, Mississippi, Pollution Control Bonds:		
1978 A Series, 6.125%, due semi-annually through 2008	1,230	1,355
1993 S Series, 4.25% to 4.95%, due annually through 2007	15,771	17,659
Claiborne County, Mississippi, Pollution Control Bonds:		
1985 G Series, variable interest rates (4.05% to 4.35% at December 31, 2000), due annually through 2015	<u>39,845</u>	<u>39,845</u>
	\$550,542	\$571,681
Less current maturities	<u>34,277</u>	<u>22,124</u>
	<u>\$516,265</u>	<u>\$549,557</u>

# FINANCIAL REPORT

Substantially all assets of SMEPA are pledged as collateral on long-term debt.

Approximate annual maturities (scheduled periodic principal payments) of long-term debt for the next five years are as follows (in thousands):

2001	\$34,277
2002	\$30,423
2003	\$31,884
2004	\$32,591
2005	\$33,735

SMEPA paid approximately \$27,562,000 and \$36,743,000 in 2000 and 1999, respectively, in interest on long-term debt.

SMEPA is required by mortgage covenants to maintain certain financial ratios of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 2000 and 1999.

## NOTE 11 - DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

The following is a summary of deferred credits and other long-term liabilities (in thousands):

	<u>2000</u>	<u>1999</u>
Postretirement benefit obligation (other than pensions)	\$3,081	\$2,972
Deferred decontamination and decommissioning of past uranium enrichment operations	<u>994</u>	<u>1,124</u>
	<u>\$4,075</u>	<u>\$4,096</u>

## NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by SMEPA in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value.

Other invested funds: The carrying amount reported in the balance sheets for other invested funds approximates fair value.

Investment securities: The fair values for debt and equity securities are based on quoted market prices when available and the present value of future cash flows discounted at a commensurate market rate. Medium-term CFC obligations have been estimated based upon published terms of recent issues of comparable instruments since quoted market prices are not available. See Note 6 for additional information.

Investments in associated organizations: The fair value of investments in associated organizations is not estimable since these instruments must be held by SMEPA and can only be returned to CFC. CFC requires SMEPA to hold these investments as a condition of CFC financing.

Notes payable: The carrying amount reported in the balance sheets for notes payable approximates fair value.

Long-term debt: The fair values of SMEPA's long-term debt are estimated using discounted cash flow analyses based on SMEPA's current incremental borrowing rates for similar types of borrowing arrangements and rates which would be charged by the applicable issuer where appropriate.

The carrying amounts and approximate fair values of long-term debt, including current maturities, are as follows (in thousands):

	2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FFB	\$447,693	\$480,912	\$463,142	\$457,045
RUS	39,326	37,739	42,809	41,106
Pollution Control Bonds	56,846	56,846	58,859	58,859
Other	6,677	6,677	6,871	6,871
	<u>\$550,542</u>	<u>\$582,174</u>	<u>\$571,681</u>	<u>\$563,881</u>

There was no material difference between the contract or notional amount and the estimated fair value of loan commitments.

The aggregate estimated fair value amounts presented do not represent the underlying value of SMEPA and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of these assets and liabilities.

#### NOTE 13 - EMPLOYEE BENEFITS

SMEPA sponsors a defined benefit plan that provides certain health insurance benefits to retired employees and their eligible dependents and also provides life insurance benefits to a closed group of seven employees who retired prior to January 1, 1990. The estimated costs of these benefits are accrued over the years that the employees render service. The approximate periodic expense for postretirement benefits, other than pensions, included the following components (in thousands):

	2000	1999
Service cost of benefits earned	\$ 87	\$ 81
Interest cost on accumulated benefit obligation	134	132
Amortization of actuarial gain	(36)	(36)
Total current year expense	<u>\$185</u>	<u>\$177</u>

Payments relating to postretirement benefits other than pensions were \$77,000 in 2000 and \$68,000 in 1999.

The Accumulated Postretirement Benefit Obligation ("APBO") is accrued as an unfunded long-term liability and is composed of the following (in thousands):

	2000	1999
Retirees and dependents	\$568	\$608
Fully eligible active plan participants	40	36
Active participants not yet eligible	1,768	1,587
Unrecognized gain	705	741
	<u>\$3,081</u>	<u>\$2,972</u>

The weighted average discount rate used in determining the APBO was 7.0 percent. The assumed health care cost trend rate of increase used in measuring the APBO was 8.0 and 8.5 percent in 2000 and 1999, respectively, declining to five percent by the year 2005. For measurement purposes, a 7.5 percent annual rate of increase in cost of covered health care benefits was assumed for 2001.

The health care cost trend rate of increase assumption has a significant effect on the APBO and periodic expense. A one percentage point increase in the trend rate for health care costs would have increased the APBO by approximately 9.3% and service and interest costs by approximately 10%.

Substantially all of SMEPA's employees participate in the National Rural Electric Cooperative Association ("NRECA") retirement programs, which include both a defined benefit pension plan and a defined contribution pension plan. Both plans are qualified under Section 401 and are tax-exempt

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under Section 501(a) of the Internal Revenue Code. The defined benefit pension plan is a multi-employer plan available to all member cooperatives of NRECA, but the accumulated benefits and plan assets are not determined or allocated separately by individual employer. SMEPA incurred \$968,000 in pension expense for the defined benefit pension plan in 2000 and \$740,000 in 1999. SMEPA makes monthly payments to NRECA for the benefit of those employees who voluntarily participate in the defined contribution pension plan. SMEPA expenses the payments as they are accrued, and such expense amounted to \$371,000 and \$356,000 for 2000 and 1999, respectively.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

In the normal course of doing business, SMEPA has entered into significant contractual commitments for coal, coal transportation, gas, and purchased power. The commitments require minimum annual purchases that extend through the year 2020. Such commitments are significantly less than anticipated purchases, and all such contractual costs will be recovered through normal operating revenue.

SMEPA has entered into a 20-year contract for rights to the output of a 276-megawatt gas-fired, combined-cycle combustion turbine-generator located near Batesville, Mississippi. SMEPA is obligated to make monthly capacity payments starting June 1, 2001, amounting to approximately \$20 million on an annual basis. SMEPA has the right to substantially direct how the generating unit is operated and also is obligated to pay for gas fuel consumed and certain operating and maintenance costs that will vary as the output for SMEPA's use increases or decreases.

SMEPA has entered into a letter of intent with a major developer for the purchase and installation of seven gas-fired combustion turbine-generators on three sites to be owned by SMEPA. The total cost of the project, including interest during construction, transmission system improvements, engineering consultants, and so forth, could be as much as \$275 million. The letter of intent is to be superseded by a turnkey construction contract calling for four of the turbines to be placed in service by May 1, 2003, with one turbine to be added in each of the three following years. SMEPA will need RUS-approved financing for the project; therefore, various contracts to be entered into with respect to the project will require RUS approval. The letter of intent obligates SMEPA to make payments amounting to \$14.7 million by May 10, 2001, of which \$6.9 million was paid prior to December 31, 2000. If the project proceeds as scheduled, SMEPA will have invested approximately \$60 million by the end of 2001. SMEPA has initiated discussions with the RUS and CFC regarding the necessary financing.

SMEPA uses natural gas as the fuel for several of its generating units and also purchases power from others that use natural gas as fuel. Substantially all natural gas purchases are subject to short-term changes in the market price for gas, and such market prices have greatly increased since early 2000 and remain quite volatile.

Competition: Prior to 2000, the Mississippi Public Service Commission ("MPSC") had conducted hearings on the possibility of restructuring the electric utility industry in Mississippi. On May 2, 2000, the MPSC indicated that starting retail competition at this time was "premature" and not in the public interest. The MPSC indicated that it would monitor national developments and review the issue at a future date if appropriate. Neither SMEPA nor its Members are currently subject to MPSC rate regulation but were participating in the hearings to protect the long-term interests of retail customers. Management is unable to determine what effect, if any, that changes related to retail competition in Mississippi will have on SMEPA's financial statements.