



MISSISSIPPI POWER & LIGHT COMPANY

Helping Build Mississippi

P. O. BOX 1640, JACKSON, MISSISSIPPI 39205

July 9, 1981

NUCLEAR PRODUCTION DEPARTMENT

U.S. Nuclear Regulatory Commission
Office of Nuclear Reactor Regulation
Washington, D.C. 20555

Attention: Mr. Harold R. Denton, Director

Dear Mr. Denton:



SUBJECT: Grand Gulf Nuclear Station
Units 1 and 2
Docket Nos. 50-416 and 50-417
File 0260/16551
Financial Reports
AECM-81/239

Annual financial reports of Middle South Energy, Inc. and Mississippi Power & Light Company for the years 1974 through 1980 are herein submitted in response to the requirement of 10 CFR 50.71(b).

South Mississippi Electric Power Association, SMEPA, has recently become a ten percent owner of Grand Gulf Nuclear Station. SMEPA's latest financial report is hereby also submitted.

Yours truly,

L. F. Dale
Manager of Nuclear Services

PJR/JDR:lm
Attachments

cc: Mr. N. L. Stampley
Mr. G. B. Taylor
Mr. R. B. McGehee
Mr. T. B. Conner

Mr. Victor Stello, Jr., Director
Office of Inspection & Enforcement
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

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MIDDLE SOUTH ENERGY, INC.

FINANCIAL STATEMENTS FOR THE
PERIOD ENDED DECEMBER 31, 1974
AND
ACCOUNTANTS' OPINION

HASKINS & SELLS

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

ELEVENTH FLOOR SOUTH
INTERNATIONAL TRADE MART
NEW ORLEANS, LOUISIANA 70130

ACCOUNTANTS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheet of Middle South Energy, Inc. as of December 31, 1974 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1974, and the results of its operations and source of funds for utility plant additions for the period then ended, in conformity with generally accepted accounting principles consistently applied.

Haskins & Sells

February 14, 1975

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEET, DECEMBER 31, 1974

A S S E T S

UTILITY PLANT - At cost:

Construction work in progress.....	\$74,788,173
Nuclear fuel.....	<u>3,044,541</u>
Total.....	<u>77,832,714</u>

CURRENT ASSETS:

Cash (Note 2).....	3,572,090
Working funds advanced for construction.....	784,915
Recoverable Federal income taxes (Note 1).....	898,997
Accounts receivable - associated company.....	<u>2,074</u>
Total.....	<u>5,258,076</u>

TOTAL..... \$83,090,790

L I A B I L I T I E S

CAPITALIZATION:

Common stock - no par value; authorized, 1,000,000 shares; issued and outstanding, 40,000 shares.....	\$40,000,000
Retained earnings (Note 3).....	<u>2,389,219</u>
Total.....	<u>42,389,219</u>
Long-term notes payable - banks (Note 2).....	<u>39,500,000</u>
Total.....	<u>81,889,219</u>

CURRENT LIABILITIES - Contractor's retentions..... 1,201,571

TOTAL..... \$83,090,790

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF INCOME
FOR THE PERIOD ENDED DECEMBER 31, 1974

OPERATING REVENUE.....	None
RECOVERABLE INCOME TAXES (Note 1).....	\$ 898,997
INTEREST EXPENSE.....	<u>1,872,909</u>
Loss before allowance for funds used during construction.....	973,912
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Note 1).....	<u>3,363,131</u>
NET INCOME.....	<u>\$2,389,219</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE PERIOD ENDED DECEMBER 31, 1974

COMMON STOCK:

Balance - beginning of period.....	- 0 -
Sale of 40,000 shares of common stock at \$1,000 a share on June 25, 1974.....	<u>\$40,000,000</u>
Balance - end of period.....	<u>40,000,000</u>

RETAINED EARNINGS:

Balance - beginning of period.....	- 0 -
Add - net income.....	<u>2,389,219</u>
Balance - end of period.....	<u>2,389,219</u>

TOTAL STOCKHOLDER'S EQUITY.....	<u>\$42,389,219</u>
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See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE PERIOD ENDED DECEMBER 31, 1974

SOURCE:

From operations:	
Net income.....	\$ 2,389,219
Less transactions not providing working funds:	
Allowance for funds used during construction (Note 1).....	<u>3,363,131</u>
Total.....	<u>(973,912)</u>
From issuance of securities:	
Common stock.....	40,000,000
Long-term notes payable.....	39,500,000
From changes in working capital (a).....	<u>(4,056,505)</u>
TOTAL.....	<u>\$74,469,583</u>

UTILITY PLANT ADDITIONS (Excludes allowance for funds
used during construction):

Construction expenditures.....	\$71,569,264
Nuclear fuel expenditures.....	<u>2,900,319</u>
TOTAL.....	<u>\$74,469,583</u>

(a) Decrease (increase) in working capital:

Cash.....	\$(3,572,090)
Working funds advanced for construction..	(784,915)
Recoverable Federal income taxes.....	(898,997)
Accounts receivable - associated companies.....	(2,074)
Contractor's retentions.....	<u>1,201,571</u>
Total.....	<u>\$(4,056,505)</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

By order of the Securities and Exchange Commission dated June 4, 1974, the Company was authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future baseload electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Power Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

For purposes of determining consolidated taxable income, the Company's interest expense is deducted currently and its allowance for funds used during construction is excluded. The estimated reduction of consolidated income tax liability attributable to the Company's interest expense has been reflected in the accompanying financial statements as an amount to be recovered from other companies included in the Federal income tax return to be filed by Middle South Utilities, Inc. and Subsidiaries consolidated.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes an allowance for funds used during the period of construction, representing the net cost of funds (interest on borrowed funds and a reasonable rate on other funds) used to finance construction with a corresponding credit to non-operating income. This practice recognizes these amounts as an appropriate cost of utility plant which, in accordance with established regulatory practices, are recovered through future

billings to customers. The Company determines its accrual rate for allowance for funds used during construction based on an 11.6% return on average common equity, excluding the accumulated amount of such allowance, plus actual interest costs, net of related income taxes.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$178,000,000 in 1975.

In June 1974, the Company entered into an agreement with several banks to borrow up to \$308,500,000 through December 31, 1979. Notes issued under this agreement mature December 31, 1982 and bear interest: (i) through March 31, 1977 at a rate per annum equal to 110% of the sum of 1/2 of 1% plus the prime rate of a specified New York bank, (ii) from March 31, 1977 through March 31, 1980 at a rate per annum equal to 110% of the sum of 3/4 of 1% plus the prime rate of said bank, and (iii) thereafter, at a rate per annum equal to 110% of the sum of 1% plus said bank's prime rate. At December 31, 1974 the Company had issued \$39,500,000 of its promissory notes under this agreement.

The Company pays a commitment fee for the period from June 21, 1974 through December 31, 1979 computed at a rate of 1/2 of 1% per annum on the average daily unused portion of the commitments. The Company has demand deposit accounts with the banks participating in this agreement. In support of the agreement, the Company maintains compensating balances of 5% of the average amount outstanding (\$1,975,000 at December 31, 1974) which are not restricted as to withdrawal.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement (see Note 2) restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1974 none of the retained earnings were available for cash dividends.

MIDDLE SOUTH ENERGY, INC.

FINANCIAL STATEMENTS FOR THE
TWO YEARS ENDED DECEMBER 31, 1975 AND 1974
AND
ACCOUNTANTS' OPINION

HASKINS & SELLS

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

ELEVENTH FLOOR SOUTH
INTERNATIONAL TRADE MART
NEW ORLEANS, LOUISIANA 70130

ACCOUNTANTS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheet of Middle South Energy, Inc. as of December 31, 1975 and 1974 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1975 and 1974, and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 12, 1976

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEET
DECEMBER 31, 1975 AND 1974

-- A S S E T S --	1975	1974	-- L I A B I L I T I E S --	1975	1974
UTILITY PLANT - At cost:			CAPITALIZATION:		
Construction work in progress.....	\$213,092,421	\$74,788,173	Common stock - no par value; authorized, 1,000,000 shares; issued and outstanding 75,500 shares in 1975 and 40,000 shares in 1974.....	\$ 75,500,000	\$40,000,000
Nuclear fuel.....	6,312,465	3,044,541	Retained earnings (Note 3).....	8,422,809	2,385,219
Total.....	219,404,886	77,832,714	Total.....	83,922,809	42,389,219
CURRENT ASSETS:			Long-term notes payable - banks (Note 2).....	145,500,000	39,500,000
Cash (Note 2).....	9,446,212	3,572,090	Total.....	229,422,809	81,683,218
Working funds advanced for construction.....	234,594	784,915	CURRENT LIABILITIES:		
Temporary cash investments.....	5,000,000	-	Accounts payable:		
Recoverable Federal income taxes (Note 1).....	1,864,914	898,997	Contractors.....	2,223,463	-
Accounts receivable - associated company.....	-	2,074	Contractor's retentions.....	1,629,929	1,201,571
Total.....	16,545,720	5,258,076	Associated company.....	6,796	-
			Taxes accrued.....	146,594	-
			Total.....	4,006,782	1,201,571
			DEFERRED CREDITS:		
			Accumulated deferred investment tax credits (Note 1).....	2,400,000	-
			Accumulated deferred income taxes (Note 1).....	121,015	-
			Total.....	2,521,015	-
TOTAL.....	\$235,950,606	\$83,090,790	TOTAL.....	\$235,950,606	\$83,090,790

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
INCOME:		
Operating revenues.....	None	None
Recoverable income taxes (Note 1).....	\$ 7,013,263	\$ 898,997
Interest income.....	69,058	-
Total.....	<u>7,082,321</u>	<u>898,997</u>
EXPENSES:		
Taxes:		
Deferred income taxes (Note 1).....	121,015	-
Investment tax credit adjustments (Note 1).....	2,400,000	-
Interest expense.....	<u>9,427,906</u>	<u>1,872,909</u>
Total.....	<u>11,948,921</u>	<u>1,872,909</u>
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	4,866,600	973,912
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Note 1).....	<u>10,900,190</u>	<u>3,363,131</u>
NET INCOME.....	<u>\$ 6,033,590</u>	<u>\$2,389,219</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
COMMON STOCK:		
Balance - beginning of period.....	\$40,000,000	\$ -0-
Sale of 35,500 shares in 1975 and 40,000 shares in 1974 of common stock at \$1,000 a share.....	35,500,000	40,000,000
Balance - end of period.....	75,500,000	40,000,000
RETAINED EARNINGS:		
Balance - beginning of period.....	2,389,219	-0-
Add - net income.....	6,033,590	2,389,219
Balance - end of period.....	8,422,809	2,389,219
TOTAL STOCKHOLDER'S EQUITY.....	<u>\$83,922,809</u>	<u>\$42,389,219</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE YEARS ENDED DECEMBER 31, 1975 AND 1974

	1975	1974
SOURCE:		
From operations:		
Net income.....	\$ 6,033,590	\$ 2,389,219
Add (deduct) non-cash items (Note 1):		
Deferred income taxes.....	121,015	
Investment tax credit adjustments....	2,400,000	
Allowance for funds used during construction.....	(10,900,190)	(3,363,131)
Total.....	(2,345,585)	(973,912)
From changes in working capital (a).....	(8,482,433)	(4,056,505)
From issuance of securities:		
Common stock.....	35,500,000	40,000,000
Long-term notes payable.....	106,000,000	39,500,000
TOTAL.....	<u>\$130,671,982</u>	<u>\$74,469,583</u>
UTILITY PLANT ADDITIONS (Excludes allowance for funds used during construction):		
Construction expenditures.....	\$127,778,690	\$71,569,264
Nuclear fuel expenditures.....	2,893,292	2,900,319
TOTAL.....	<u>\$130,671,982</u>	<u>\$74,469,583</u>

(a) Decrease (increase) in working capital:		
Cash.....	\$(5,874,122)	\$(3,572,090)
Temporary cash investments.....	(5,000,000)	-
Working funds advanced for construction.....	550,321	(784,915)
Recoverable Federal income taxes....	(965,917)	(898,997)
Contractor's retentions.....	428,358	1,201,571
Accounts payable - contractors.....	2,223,463	
Other - net.....	155,464	(2,074)
Total.....	<u>\$(8,482,433)</u>	<u>\$(4,056,505)</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

By order of the Securities and Exchange Commission dated June 4, 1974, the Company was authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future baseload electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Power Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

The Company's interest expense and capitalized taxes are deducted currently; allowance for funds used during construction is excluded. In addition, the Company utilizes Federal investment tax credits applicable to qualified progress expenditures during the period of construction. The reductions attributable to the Company are recorded as amounts to be recovered from the other companies included in the consolidated tax return.

Deferred income taxes are provided for the income tax effect of taxes capitalized for book purposes, which for income tax purposes are deducted currently.

Investment tax credits utilized are deferred and will be amortized over the average useful life of the related property once it has been placed in service.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes an allowance for funds used during the period of construction, representing the net cost of funds (interest on borrowed funds and a reasonable rate on other funds) used to finance construction with a corresponding credit to non-operating income. This practice recognizes these amounts as an appropriate cost of utility plant which, in accordance with established regulatory practices, are recovered through future billings to customers. The Company determines its accrual rate for allowance for funds used during construction based on an 11.6% return on average common equity, excluding the accumulated amount of such allowance, plus actual interest costs less interest income, net of related income taxes.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$212,000,000 in 1976.

At December 31, 1975, the Company had issued \$145,500,000 of promissory notes under an agreement with several banks to borrow up to \$353,500,000 through December 31, 1979. Such notes will mature December 31, 1982 and bear interest at varying rates based on the prime rate of a specified New York bank. During 1975 the average interest rate, excluding compensating balances, was 9.0%. In addition, the Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance (\$7,275,000 at December 31, 1975) on the amount outstanding, which is not restricted as to withdrawal.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1975 none of the retained earnings were available for cash dividends.

MIDDLE SOUTH ENERGY, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 1976 AND 1975
AND
ACCOUNTANTS' OPINION

HASKINS & SELLS

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

ELEVENTH FLOOR SOUTH
INTERNATIONAL TRADE MART
NEW ORLEANS, LOUISIANA 70130

ACCOUNTANTS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheet of Middle South Energy, Inc. as of December 31, 1976 and 1975 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1976 and 1975, and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 11, 1977

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEET
DECEMBER 31, 1976 AND 1975

-- A S S E T S --		1976	1975	-- L I A B I L I T I E S --		1976	1975
UTILITY PLANT - At cost:				CAPITALIZATION:			
Construction work in progress.....	\$448,249,764	\$213,092,421		Common stock - no par value; authorized, 1,000,000 shares; issued and outstanding 149,500 shares in 1976 and 75,500 shares in 1975.....	\$149,500,000	\$ 75,500,000	
Nuclear fuel.....	9,851,885	6,312,465		Retained earnings (Note 3).....	21,661,746	8,422,809	
Total.....	458,101,649	219,404,886		Total.....	171,161,746	83,922,809	
CURRENT ASSETS:				Long-term notes payable - banks (Note 2).....	309,500,000	145,500,000	
Cash (Note 2).....	16,841,493	9,446,212		Total.....	480,661,746	229,422,809	
Working funds advanced for construction.....	615,586	234,594		CURRENT LIABILITIES:			
Temporary cash investments.....	6,994,031	5,000,000		Accounts payable:			
Recoverable Federal income taxes.....	17,277,186	1,864,914		Contractors.....	317,181	2,223,463	
Total.....	41,728,296	16,545,720		Contractor's retentions.....	3,173,733	1,629,929	
				Associated company.....	11,715	6,796	
				Taxes accrued.....	1,106,292	146,594	
				Total.....	4,608,921	4,006,782	
				DEFERRED CREDITS:			
				Accumulated deferred investment tax credits....	13,398,128	2,400,000	
				Accumulated deferred income taxes.....	1,161,150	121,015	
				Total.....	14,559,278	2,521,015	
TOTAL.....	\$499,829,945	\$235,950,606		TOTAL.....	\$499,829,945	\$235,950,606	

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
INCOME:		
Operating revenues.....	None	None
Interest income.....	\$ 415,630	\$ 69,058
Total.....	<u>415,630</u>	<u>69,058</u>
EXPENSES:		
Interest expense.....	18,610,786	9,427,906
Taxes:		
Federal income taxes.....	(20,771,937)	(7,013,263)
Investment tax credit adjustments.....	10,998,127	2,400,000
Deferred income taxes.....	<u>1,040,135</u>	<u>121,015</u>
Total.....	<u>9,877,111</u>	<u>4,935,658</u>
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	9,461,481	4,866,600
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	<u>22,700,418</u>	<u>10,900,190</u>
NET INCOME.....	<u>\$13,238,937</u>	<u>\$ 6,033,590</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
COMMON STOCK:		
Balance - beginning of year.....	\$ 75,500,000	\$40,000,000
Sale of 74,000 shares in 1976 and 35,500 shares in 1975 of common stock at \$1,000 a share.....	<u>74,000,000</u>	<u>35,500,000</u>
Balance - end of year.....	<u>149,500,000</u>	<u>75,500,000</u>
RETAINED EARNINGS:		
Balance - beginning of year.....	8,422,809	2,389,219
Add - net income.....	<u>13,238,937</u>	<u>6,033,590</u>
Balance - end of year.....	<u>21,661,746</u>	<u>8,422,809</u>
TOTAL STOCKHOLDER'S EQUITY.....	<u>\$171,161,746</u>	<u>\$83,922,809</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
SOURCE:		
From operations:		
Net income.....	\$ 13,238,937	\$ 6,033,590
Add (deduct) non-cash items:		
Investment tax credit adjustments..	10,998,127	2,400,000
Deferred income taxes.....	1,040,135	121,015
Allowance for funds used during construction.....	(22,700,418)	(10,900,190)
Total.....	2,576,781	(2,345,585)
From issuance of securities:		
Common stock.....	74,000,000	35,500,000
Long-term notes payable.....	164,000,000	106,000,000
Total funds provided.....	240,576,781	139,154,415
Less increase in working capital (a)...	24,580,437	8,482,433
TOTAL.....	<u>\$215,996,344</u>	<u>\$130,671,982</u>
UTILITY PLANT ADDITIONS (Excludes allowance for funds used during construction):		
Construction expenditures.....	\$213,019,901	\$127,778,690
Nuclear fuel expenditures.....	2,976,443	2,893,292
TOTAL.....	<u>\$215,996,344</u>	<u>\$130,671,982</u>
(a) Increase (decrease) in working capital:		
Cash.....	\$ 7,395,281	\$ 5,874,122
Temporary cash investments.....	1,994,031	5,000,000
Working funds advances for construction.....	380,992	(550,321)
Recoverable Federal income taxes..	15,412,272	965,917
Accounts payable.....	357,559	(2,660,691)
Taxes accrued.....	(959,698)	(146,594)
Total.....	<u>\$ 24,580,437</u>	<u>\$ 8,482,433</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future baseload electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Power Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

The Company's interest expense and capitalized taxes are deducted currently; allowance for funds used during construction is excluded. In addition, the Company utilizes Federal investment tax credits applicable to qualified progress expenditures during the period of construction. The Company records as currently recoverable the amounts attributable to its current deductions and investment credits utilized in the consolidated tax return.

Deferred income taxes are provided for the income tax effect of taxes capitalized for book purposes, which for income tax purposes are deducted currently.

Investment tax credits utilized are deferred and will be amortized over the average useful life of the related property once it has been placed in service.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes as an appropriate cost of utility plant an allowance for funds used during the period of construction. This allowance represents the net cost of funds (interest on borrowed funds and a reasonable rate on other funds) used to finance construction with a corresponding credit to non-operating income. The Company determines its accrual rate for allowance for funds used during construction based on actual net interest costs plus an 11.6% return on average common equity, excluding the accumulated amount of such allowance.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$383,900,000 in 1977.

At December 31, 1976, the Company had issued \$309,500,000 of promissory notes under an agreement with a group of banks to borrow up to \$465,000,000 through December 31, 1979. Such notes will mature December 31, 1982 and bear interest at varying rates based on the prime rate of a specified New York bank. During 1976 the average interest rate, excluding compensating balances, was 8%. In addition, the Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance (\$15,475,000 at December 31, 1976) on the amount outstanding, which is not restricted as to withdrawal.

The Company is planning to place up to \$400,000,000 of debt securities with a limited number of institutional investors in 1977.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1976 none of the retained earnings were available for cash dividends.

MIDDLE SOUTH ENERGY, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 1977 AND 1976
AND
ACCOUNTANTS' OPINION

HASKINS & SELLS

HASKINS & SELLS

INTERNATIONALLY
DELOITTE, HASKINS & SELLS

39TH FLOOR

ONE SHELL SQUARE
NEW ORLEANS, LOUISIANA 70139

ACCOUNTANTS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1977 and 1976 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1977 and 1976, and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 17, 1978

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEET

DECEMBER 31, 1977 AND 1976

	1977 (In Thousands)	-- A S S E T S --	-- L I A B I L I T I E S --	1977 (In Thousands)	1976 (In Thousands)
UTILITY PLANT - At cost:					
Construction work in progress.....	\$714,271				
Nuclear fuel.....	10,759				
Total.....	725,030			\$219,000	\$149,500
CURRENT ASSETS:					
Cash (Note 2).....	3,665			46,121	21,662
Working funds advanced for construction.....	4,538			265,121	171,162
Temporary cash investments - at cost which					
approximates market.....	23,900			63,000	309,500
Recoverable Federal income taxes.....	34,210			400,000	
Total.....	66,313			728,121	480,662
CURRENT LIABILITIES:					
Accounts payable:					
Contractor's retentions.....				3,738	3,174
Associated companies.....				15	12
Other.....				119	317
Taxes accrued.....				2,413	1,106
Interest accrued.....				18,626	
Total.....				24,911	4,608
DEFERRED CREDITS:					
Accumulated deferred investment tax credits.....				33,045	13,398
Accumulated deferred income taxes.....				5,266	1,161
Total.....				38,311	14,559
TOTAL.....	\$791,343			\$791,343	\$499,830

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
	(In Thousands)	
INCOME:		
Operating revenues.....	None	None
Interest income.....	\$ 1,105	\$ 416
Total.....	<u>1,105</u>	<u>416</u>
EXPENSES:		
Interest expense.....	34,020	18,611
Taxes:		
Federal income taxes.....	(39,551)	(20,772)
Investment tax credit adjustments.....	19,647	10,998
Deferred income taxes.....	<u>4,105</u>	<u>1,040</u>
Total.....	<u>18,221</u>	<u>9,877</u>
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	<u>(17,116)</u>	<u>(9,461)</u>
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:		
Other funds.....	24,459	13,239
Borrowed funds.....	<u>17,116</u>	<u>9,461</u>
Total.....	<u>41,575</u>	<u>22,700</u>
NET INCOME.....	<u>\$24,459</u>	<u>\$13,239</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
	(In Thousands)	
COMMON STOCK:		
Balance - beginning of year.....	\$149,500	\$ 75,500
Sale of 69,500 shares in 1977 and 74,000 shares in 1976 of common stock at \$1,000 a share.....	<u>69,500</u>	<u>74,000</u>
Balance - end of year.....	<u>219,000</u>	<u>149,500</u>
RETAINED EARNINGS:		
Balance - beginning of year.....	21,662	8,423
Add - net income.....	<u>24,459</u>	<u>13,239</u>
Balance - end of year.....	<u>46,121</u>	<u>21,662</u>
TOTAL STOCKHOLDER'S EQUITY.....	<u>\$265,121</u>	<u>\$171,162</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
	(In Thousands)	
SOURCE OF FUNDS:		
From operations:		
Net income.....	\$ 24,459	\$ 13,239
Investment tax credit adjustments.....	19,647	10,998
Deferred income taxes.....	4,105	1,040
Allowance for funds used during construction.....	(41,575)	(22,700)
Funds retained in business.....	<u>6,636</u>	<u>2,577</u>
From financing transactions:		
Common stock.....	69,500	74,000
First mortgage bonds.....	400,000	
Long-term notes payable - banks:		
Issues.....	147,000	164,000
Retirements.....	(393,500)	
Total.....	<u>223,000</u>	<u>238,000</u>
Less increase in working capital (a).....	<u>4,283</u>	<u>24,581</u>
TOTAL.....	<u>\$225,353</u>	<u>\$215,996</u>
UTILITY PLANT ADDITIONS (excludes allowance for funds used during construction):		
Construction expenditures.....	\$225,235	\$213,020
Fabrication costs of nuclear core.....	<u>118</u>	<u>2,976</u>
TOTAL.....	<u>\$225,353</u>	<u>\$215,996</u>

(a) Increase (decrease) in Working Capital:		
Cash.....	\$(13,176)	\$ 7,395
Working funds advanced for construction...	3,922	381
Temporary cash investments.....	16,906	1,994
Recoverable Federal income taxes.....	16,933	15,412
Accounts payable.....	(369)	359
Taxes accrued.....	(1,307)	(960)
Interest accrued.....	<u>(18,626)</u>	
Total.....	<u>\$ 4,283</u>	<u>\$ 24,581</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future base-load electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Energy Regulatory Commission, formerly the Federal Power Commission (FPC).

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

The Company's interest expense and capitalized taxes are deducted currently; allowance for funds used during construction is excluded. In addition, the Company utilizes Federal investment tax credits applicable to qualified progress expenditures during the period of construction. The Company records as currently recoverable the amounts attributable to its current deductions and investment credits generated. <Investment tax credits generated in 1977, including approximately \$13.9 million in excess of the amount utilized, have been deferred.>

Deferred income taxes are provided for the income tax effect of taxes capitalized for book purposes, which for income tax purposes are deducted currently.

Investment tax credits^{utilized} are deferred and will be amortized over the average useful life of the related property once it has been placed in service.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction. This allowance (a non-cash item) represents the net cost of funds used to finance construction. <Effective January 1, 1977, the Company began complying with reporting requirements of FPC Order No. 561 which provides for separation of the common equity component and borrowed funds component of funds used during construction.> The Company determines its accrual rate for allowance for funds used during construction based on actual interest cost, net of related income taxes, plus an 11.6% return on average common equity.

The Company has reclassified the allowance for funds into its debt and equity components for the calendar year 1976 for purposes of comparison.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$360,500,000 in 1978.

At December 31, 1977, the Company had issued \$63,000,000 of promissory notes under an agreement with a number of banks to borrow up to \$565,000,000 through December 31, 1982. Such notes will mature on December 31, 1982 and bear interest at varying rates based on the prime rate of a specified New York bank. During 1977, the average interest rate, excluding compensating balances, was 7.79%. In addition, the Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance (\$3,150,000 at December 31, 1977) on the amount outstanding, which is not restricted as to withdrawal.

The Company placed \$400,000,000 of First Mortgage Bonds with a limited number of institutional investors in 1977. The bonds mature July 1, 1989 and are redeemable through mandatory sinking fund payments, totaling \$328,000,000, beginning in 1982 of from \$32 million to \$56 million annually, from 1982 through 1988.

^{Substantially}
Principally all of the Company's utility plant is subject to the lien of its first mortgage bond indenture.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement and first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1977, none of the retained earnings were available for cash dividends.

MIDDLE SOUTH ENERGY, INC.

Financial Statements for the
Years Ended December 31, 1978 and 1977
and Accountants' Opinion

39th Floor
One Shell Square
New Orleans, Louisiana 70139
(504) 581-2727
Cable DEHANDS

ACCOUNTANTS' OPINION

February 16, 1979

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1978 and 1977 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1978 and 1977, and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEET

DECEMBER 31, 1978 AND 1977

	1978 (In Thousands)	1977 (In Thousands)	1978 (In Thousands)	1977 (In Thousands)
-- A S S E T S --			-- L I A B I L I T I E S --	
UTILITY PLANT - At cost:				
Construction work in progress.....	\$1,029,214	\$714,271	Common stock - no par value; authorized 1,000,000 shares; issued and outstanding 277,000 shares in 1978 and 219,000 shares in 1977.....	\$ 272,000
Nuclear fuel.....	435	10,759	Retained earnings (3).....	81,732
Total.....	1,029,649	725,030	Total.....	353,732
CURRENT ASSETS:			Long-term debt (Note 2):	
Cash (Note 2).....	14,362	3,665	Promissory notes - banks.....	237,000
Working funds advanced for construction.....	6,252	4,538	First mortgage bonds.....	400,000
Temporary cash investments - at cost which approximate market.....	672	23,900	Total.....	990,732
Recoverable Federal income taxes.....		17,572	CURRENT LIABILITIES:	
Total.....	21,286	49,675	Notes payable.....	7,400
			Accounts payable.....	4,187
			Contractor's retentions.....	25
			Associated companies.....	1,511
			Other.....	3,602
			Taxes accrued.....	16,601
			Interest accrued.....	35,026
			Total.....	78,478
			DEFERRED CREDITS:	
			Accumulated deferred investment tax credits.....	5,892
			Accumulated deferred income taxes.....	807
			Other.....	25,177
			Total.....	31,050,935
TOTAL.....	\$1,050,935	\$774,705	TOTAL.....	\$1,050,935

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
	(In Thousands)	
INCOME:		
Operating revenues.....	None	None
Interest income.....	\$ 612	\$ 1,105
Total.....	612	1,105
EXPENSES:		
Interest expense.....	58,264	34,020
Taxes:		
Federal income taxes.....	(30,371)	(22,913)
Investment tax credit adjustments.....		5,080
Deferred income taxes.....	2,698	2,034
Total.....	30,591	18,221
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....		
	(29,979)	(17,116)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:		
Equity funds.....	35,611	24,459
Borrowed funds.....	29,979	17,116
Total.....	65,590	41,575
NET INCOME.....	\$35,611	\$24,459

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
	(In Thousands)	
COMMON STOCK:		
Balance - beginning of year.....	\$219,000	\$149,700
Sale of 53,000 shares in 1978 and 69,500 shares in 1977 of common stock at \$1,000 a share....	<u>53,000</u>	<u>69,500</u>
Balance - end of year.....	<u>272,000</u>	<u>219,000</u>
RETAINED EARNINGS (Note 3):		
Balance - beginning of year.....	46,121	21,662
Add - net income.....	<u>35,311</u>	<u>24,459</u>
Balance - end of year.....	<u>81,732</u>	<u>46,121</u>
TOTAL STOCKHOLDER'S EQUITY...	\$353,732	\$265,121

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
	(In Thousands)	
SOURCE OF FUNDS:		
From operations:		
Net income.....	\$ 35,611	\$ 24,459
Investment tax credit adjustments.....		5,080
Deferred income taxes.....	2,698	2,034
Allowance for funds used during construction.	(65,590)	(41,575)
Other.....	807	
Funds used in business.....	<u>(26,474)</u>	<u>(10,002)</u>
From decrease in working capital (excluding short-term securities) (a).....	<u>7,504</u>	<u>29,261</u>
From financing transactions:		
Common stock.....	53,000	69,500
First mortgage bonds.....		400,000
Long-term notes payable - banks:		
Issues.....	174,000	147,000
Retirements.....		(393,500)
Sale of nuclear fuel.....	16,309	
Short-term securities - net.....	<u>31,000</u>	<u>(16,906)</u>
Total.....	<u>274,309</u>	<u>206,094</u>
TOTAL.....	<u>\$255,339</u>	<u>\$225,353</u>
UTILITY PLANT ADDITIONS (excludes allowance for funds used during construction):		
Construction expenditures.....	\$250,269	\$225,235
Fabrication costs of nuclear core.....	<u>5,070</u>	<u>118</u>
TOTAL.....	<u>\$255,339</u>	<u>\$225,353</u>

(a) Decrease (increase) in working capital (excluding short-term securities):		
Cash.....	\$(10,697)	\$ 13,176
Working funds advanced for construction...	(1,714)	(3,922)
Recoverable Federal income taxes.....	16,900	(295)
Accounts payable.....	1,851	369
Taxes accrued.....	1,189	1,307
Interest accrued.....	<u>(25)</u>	<u>18,626</u>
TOTAL.....	<u>\$ 7,504</u>	<u>\$ 29,261</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future base-load electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Energy Regulatory Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

The Company's interest expense and capitalized taxes are deducted currently for tax return purposes. Allowance for funds used during construction is excluded for purposes of determining consolidated taxable income. In addition, the Company utilizes Federal investment tax credits applicable to qualified progress expenditures during the period of construction. The Company records as currently recoverable the amounts attributable to its current deductions and investment credits utilized.

Deferred income taxes are provided for the income tax effect of taxes capitalized for book purposes, which for income tax purposes are deducted currently.

Investment tax credits utilized are deferred and will be amortized over the average useful life of the related property once it has been placed in service. Unused investment tax credits at December 31, 1978 amounted to \$48,001,804 of which \$17,455,027 may be carried forward through 1984 and \$30,546,777 through 1985. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction. This allowance (a non-cash item) represents the net cost of funds used to finance construction. The Company determines its accrual rate for allowance for funds used during construction based on actual interest cost, net of related income taxes, plus an 11.6% return on average common equity.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$354,600,000 in 1979.

At December 31, 1978, the Company had issued \$237,000,000 of promissory notes under an agreement with a number of banks to borrow up to \$565,000,000 through December 31, 1982. Such notes will mature on December 31, 1982 and bear interest at varying rates based on the prime rate of a specified New York bank. During 1978, the average interest rate, excluding compensating balances, was 11.10%. In addition, the Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance (\$11,850,000 at December 31, 1978) on the amount outstanding, which is not restricted as to withdrawal.

In 1978 the Company established a line of credit for short-term borrowings with a bank whereby the Company may borrow up to \$45,000,000. A 3% compensating balance (\$1,350,000 at December 31, 1978), which is not restricted as to withdrawal, is maintained on the amount of the loan commitment. The amount of unused short-term borrowings as of December 31, 1978 was \$37,900,000. The promissory notes have 90-day maturity dates and bear interest based on the prime rate of the lending bank. The interest rate, excluding the compensating balance, on the borrowing in 1978 was 12.57%.

The Company placed \$400,000,000 of 9.25% First Mortgage Bonds with a limited number of institutional investors in 1977. The bonds mature July 1, 1989 and are redeemable through mandatory sinking fund payments totaling \$328,000,000. Annual sinking fund requirements range from \$32 million to \$56 million beginning in 1982 through 1988.

Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indenture.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement and first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1978, none of the retained earnings were available for cash dividends.

Deloitte Haskins+Sells

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ACCOUNTANTS' OPINION

February 15, 1980

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1979 and 1978 and the related statements of income, stockholder's equity, and source of funds for utility plant additions for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Middle South Energy, Inc. at December 31, 1979 and 1978, and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEETS
DECEMBER 31, 1979 AND 1978

	1979 (In thousands)	1978 (In thousands)	1979 (In thousands)	1978 (In thousands)
-- A S S E T S --				
UTILITY PLANT - At cost:				
Construction work in progress.....	\$1,419,429	\$1,029,214		
Nuclear fuel (Note 2).....		435		
Total.....	<u>1,419,429</u>	<u>1,029,649</u>	\$ 385,700	\$ 272,000
CURRENT ASSETS:				
Cash and special deposits (Note 2).....	31,820	14,362	129,249	81,732
Working funds advanced for construction.....	6,007	6,252	514,949	353,732
Temporary cash investments - at cost which				
approximates market.....	4,100		547,000	237,000
Other.....	178	672	400,000	400,000
Total.....	<u>42,105</u>	<u>21,286</u>	<u>947,000</u>	<u>990,732</u>
DEFERRED INCOME TAXES - Recoverable Federal income				
taxes (Note 1).....	69,414			7,100
			5,236	4,187
			1,290	23
			1,639	1,511
			13,767	3,602
			18,764	18,601
			<u>40,696</u>	<u>35,626</u>
			18,797	18,478
			9,413	5,892
			93	607
			<u>28,303</u>	<u>25,177</u>
TOTAL.....	<u>\$1,530,943</u>	<u>\$1,050,935</u>	<u>\$1,530,948</u>	<u>\$1,050,935</u>
-- L I A B I L I T I E S --				
CAPITALIZATION:				
Common stock - no par value; authorized				
1,000,000 shares; issued and outstanding				
385,700 shares in 1979 and 272,000 shares				
in 1978.....				
Retained earnings (Note 3).....				
Total.....				
Long-term debt (Note 2):				
Promissory notes - banks.....				
First mortgage bonds.....				
Total.....				
CURRENT LIABILITIES:				
Notes payable (Note 2).....				
Accounts payable:				
Contractor's retentions.....				
Associated companies.....				
Other.....				
Taxes accrued.....				
Interest accrued.....				
Total.....				
DEFERRED CREDITS:				
Accumulated deferred investment tax credits.....				
Accumulated deferred income taxes.....				
Other.....				
Total.....				
TOTAL.....				

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
	(In Thousands)	
INCOME:		
Operating revenues.....	None	None
Interest income.....	\$ 242	\$ 612
Total.....	<u>242</u>	<u>612</u>
EXPENSES:		
Interest expense.....	97,879	58,264
Taxes:		
Federal income taxes.....	(48,753)	(30,371)
Deferred income taxes and investment tax credit adjustments - net.....	<u>3,840</u>	<u>2,698</u>
Total.....	<u>52,966</u>	<u>30,591</u>
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	<u>(52,724)</u>	<u>(29,979)</u>
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:		
Equity funds.....	47,517	35,611
Borrowed funds.....	<u>52,724</u>	<u>29,979</u>
Total.....	<u>100,241</u>	<u>65,590</u>
NET INCOME.....	<u>\$ 47,517</u>	<u>\$35,611</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
	(In Thousands)	
<hr/>		
COMMON STOCK:		
Balance - beginning of year.....	\$272,000	\$219,000
Sale of 113,700 shares in 1979 and 53,000 shares in 1978 of common stock at \$1,000 a share.....	<u>113,700</u>	<u>53,000</u>
Balance - end of year.....	<u>385,700</u>	<u>272,000</u>
RETAINED EARNINGS (Note 3):		
Balance - beginning of year.....	81,732	46,121
Add - net income.....	<u>47,517</u>	<u>35,611</u>
Balance - end of year.....	<u>129,249</u>	<u>81,732</u>
TOTAL STOCKHOLDER'S EQUITY.....	<u>\$517,949</u>	<u>\$353,732</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978

	1979	1978
	(In Thousands)	
SOURCE OF FUNDS:		
From operations:		
Net income.....	\$ 47,517	\$ 35,611
Deferred income taxes and investment tax credit adjustments - net.....	3,340	2,698
Allowance for funds used during construction.....	(100,241)	(65,590)
Funds used in business.....	(48,884)	(27,281)
From decrease (increase) in working capital (excluding short-term securities) (a).....	(3,949)	7,504
Deferral of recoverable Federal income taxes.....	(69,414)	
Other.....	(714)	807
Total.....	(122,961)	(18,970)
From financing transactions:		
Common stock.....	113,700	53,000
Long-term notes payable - banks.....	310,000	174,000
Sale and leaseback of nuclear fuel.....	44,943	16,309
Short-term securities - net.....	(11,200)	31,000
Total.....	457,443	274,309
TOTAL.....	<u>\$334,482</u>	<u>\$255,339</u>
UTILITY PLANT ADDITIONS (excludes allowance for funds used during construction):		
Construction expenditures.....	\$291,041	\$250,269
Fabrication and acquisition costs of nuclear core.....	43,441	5,070
TOTAL.....	<u>\$334,482</u>	<u>\$255,339</u>
(a) Decrease (increase) in working capital (excluding short-term securities):		
Cash and special deposits.....	\$(17,458)	\$(10,697)
Working funds advanced for construction...	245	(1,714)
Recoverable Federal income taxes.....		16,900
Accounts payable.....	2,442	1,851
Taxes accrued.....	10,165	1,189
Other - net.....	657	(25)
TOTAL.....	<u>\$ (3,949)</u>	<u>\$ 7,504</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary company of Middle South Utilities, Inc. to provide financing and ownership of certain future base-load electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Energy Regulatory Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return.

The Company's interest expense and capitalized taxes are deducted currently for tax return purposes. Allowance for funds used during construction is excluded for purposes of determining taxable income.

Deferred income taxes are provided for the income tax effect of taxes capitalized for book purposes, which for income tax purposes are deducted currently.

Recoverable Federal income taxes of \$69,414,000 represents the tax benefit of the Company's portion of the consolidated tax losses.

Investment tax credits utilized are deferred and will be amortized over the average useful life of the related property once it has been placed in service. Unused investment tax credits at December 31, 1979 amounted to \$89,303,000, of which \$14,533,000 may be carried forward through 1984, \$30,556,000 through 1985 and \$44,214,000 through 1986.

Prior to 1979 the investment tax credit utilized in the consolidated tax return was allocated to each System company on the basis of such credit contributed. Effective in 1979 the method of allocating investment tax credit was changed so that it is allocated on the basis of each company's portion of the consolidated tax liability; any additional credit utilized is allocated on the basis of the remaining tax credits.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction. This allowance (a non-cash item) represents the net cost of funds used to finance construction. The Company determines its accrual rate for allowance for funds used during construction based on actual interest cost, net of related income taxes, plus an 11.6% return on average common equity.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures of approximately \$273,000,000 in 1980. Negotiations are currently being conducted for the acquisition, by a third party, of a 10% undivided interest in the generating units being constructed. The effect of this transaction has been reflected in the Company's construction estimates.

At December 31, 1979, the Company had issued \$547,000,000 of promissory notes under a revolving credit agreement of \$565,000,000 with a number of banks expiring December 31, 1982, at which time all notes issued thereunder were to be due and payable. Subsequent to year-end, this agreement was increased to \$808,000,000 and the term of borrowings thereunder were extended to December 31, 1985. During 1979 the average interest rate, based on the prime rate of a specified New York bank, was 15.3%. In addition, the Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance on the amount outstanding, which is not restricted as to withdrawal.

The Company placed \$400,000,000 of 9.25% First Mortgage Bonds with a limited number of institutional investors in 1977. The bonds mature July 1, 1989 and are redeemable through mandatory sinking fund payments totaling \$328,000,000. Annual sinking fund requirements range from \$32 million to \$56 million beginning in 1982 through 1988. Subsequent to year-end, the Company entered into an agreement under which it has issued and sold \$15,000,000 and will issue and sell on or prior to July 1, 1980, an additional \$83,500,000 of its First Mortgage Bonds, 12.5% Series due 2000. Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indenture.

The Company has covenanted with the bondholders and the banks that it will complete the first unit of the generating plant no later than December 31, 1982. The Company has also covenanted with the bondholders that the second unit will be completed no later than December 31, 1986. In the event either of these covenants is not fulfilled in respect of either the bonds or the bank borrowings, the bonds and bank borrowings will become due and payable unless extensions of time can be arranged. In these cases, Middle South Utilities, Inc. would be required to provide the Company with sufficient funds, to the extent not obtained from other sources, to meet these obligations. As a result of anticipated delays in licensing and other factors, in December 1979, the scheduled commercial operation dates for the two units were changed from 1981 and 1984 to 1982 and 1985, respectively. Middle South System Operating Companies are obligated under agreements with the Company to make payments adequate to cover all the operating expenses and capital costs of the Company in return for receiving the power available from the plant. Under certain circumstances, payments may be required to be made commencing December 31, 1982, if the first unit of the plant has not been completed by that date.

In 1979, the Company established a line of credit for short-term borrowings with a bank whereby the Company may borrow up to \$60,000,000. A 3% compensating balance, which is not restricted as to withdrawal, is maintained on the amount of the loan commitment. The promissory notes issued under this credit line have 90-day maturity dates and bear interest based upon the prime rate of the lending bank. During 1979, the average interest rate was 13.9%.

In October 1979, the Company sold and leased back \$44,943,000 of nuclear fuel under an \$80,000,000 nuclear fuel lease. Lease payments, based upon nuclear fuel use, will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through October 15, 2029. The unrecovered cost base of the lease at December 31, 1979 was \$46,524,000.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement and first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1979, none of the retained earnings were available for cash dividends.

MIDDLE SOUTH ENERGY, INC.

Financial Statements for the
Years Ended December 31, 1980 and 1979
and Auditors' Opinion

39th Floor
One Shell Square
New Orleans, Louisiana 70139
(504) 581-2727
Cable DEHANDS

AUDITORS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1980 and 1979 and the related statements of income, stockholder's equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1980 and 1979 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

February 13, 1981

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEETS, DECEMBER 31, 1980 AND 1979

-- A S S E T S --	1980 (in thousands)	1979 (in thousands)	-- L I A B I L I T I E S --	1980 (in thousands)	1979 (in thousands)
UTILITY PLANT - Construction work in progress, at cost (Notes 1-D and 4).....	\$1,784,351	\$1,419,429	CAPITALIZATION:		
CURRENT ASSETS:			Common stock - no par value; authorized 1,000,000 shares; issued and outstanding 443,600 shares in 1980 and 385,700 shares in 1979.....	\$ 443,600	\$ 385,700
Cash and special deposits (Note 2).....	35,400	31,820	Retained earnings (Note 3).....	196,240	129,249
Working funds advanced for construction.....		6,007	Total stockholder's equity.....	639,840	514,949
Temporary cash investments - at cost, which approximates market.....		4,100	Long-term debt (Note 2):		
Recoverable income taxes.....	8,437		Promissory notes - banks.....	671,000	547,000
Other.....	8	178	First mortgage bonds.....	498,500	400,000
Total.....	43,845	42,105	Total long-term debt.....	1,169,500	947,000
DEFERRED DEBITS:			Total.....	1,809,340	1,461,949
Recoverable Federal income taxes (Note 1-C)..	125,220	69,414	CURRENT LIABILITIES:		
Other.....	3,666		Notes payable (Note 2).....	78,151	
Total.....	128,886	69,414	Accounts payable:		
			Contractors' retentions.....	2,877	5,236
			Associated companies.....	147	1,290
			Other.....	441	1,639
			Taxes accrued.....	7,021	13,767
			Interest accrued.....	26,424	18,764
			Total.....	115,061	40,696
			DEFERRED CREDITS:		
			Accumulated deferred investment tax credits (Note 1-C).....	18,797	18,797
			Accumulated deferred income taxes (Note 1-C)..	13,884	9,413
			Other.....		93
			Total.....	32,681	28,303
			COMMITMENTS AND CONTINGENCIES (Note 2)		
TOTAL.....	\$1,957,082	\$1,530,948	TOTAL.....	\$1,957,082	\$1,530,948

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980 (in thousands)	1979
INCOME:		
Operating revenues.....	None	None
Interest income.....	\$ 17	\$ 242
Total.....	<u>17</u>	<u>242</u>
EXPENSES:		
Interest expense.....	161,928	97,879
Taxes (Note 1-C):		
Federal income taxes.....	(79,138)	(48,753)
State income taxes.....	(2,993)	
Deferred income taxes and investment tax credit adjustments - net.....	<u>4,471</u>	<u>3,840</u>
Total.....	<u>84,268</u>	<u>52,966</u>
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION.....	<u>(84,251)</u>	<u>(52,724)</u>
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Note 1-D):		
Equity funds.....	66,991	47,517
Borrowed funds.....	<u>84,251</u>	<u>52,724</u>
Total.....	<u>151,242</u>	<u>100,241</u>
NET INCOME.....	<u>\$ 66,991</u>	<u>\$ 47,517</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
	(in thousands)	
COMMON STOCK:		
Balance - beginning of year.....	\$385,700	\$272,000
Sale of 57,900 shares in 1980 and 113,700 shares in 1979 of common stock at \$1,000 a share.....	<u>57,900</u>	<u>113,700</u>
Balance - end of year.....	<u>443,600</u>	<u>385,700</u>
RETAINED EARNINGS (Note 3):		
Balance - beginning of year.....	129,249	81,732
Add - net income.....	<u>66,991</u>	<u>47,517</u>
Balance - end of year.....	<u>196,240</u>	<u>129,249</u>
TOTAL STOCKHOLDER'S EQUITY.....	<u>\$639,840</u>	<u>\$514,949</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
	(in thousands)	
<hr/>		
FUNDS PROVIDED BY:		
Operations:		
Net income.....	\$ 66,991	\$ 47,517
Deferred income taxes and investment tax credit adjustments - net.....	4,471	3,840
Allowance for funds used during construction.....	(151,242)	(100,241)
Total funds provided from operations...	(79,780)	(48,884)
Other:		
Allowance for funds used during construction.....	151,242	100,241
Miscellaneous - net.....		788
Total funds provided from operations and other.....	71,462	52,145
Financing transactions:		
Common stock.....	57,900	113,700
Mortgage bonds.....	98,500	
Long-term notes payable - banks.....	124,000	310,000
Short-term securities - net.....	82,251	
Total funds provided from financing....	362,651	423,700
TOTAL FUNDS PROVIDED.....	<u>\$434,113</u>	<u>\$475,845</u>
FUNDS APPLIED TO:		
Utility plant additions:		
Construction expenditures (includes allowance for funds used during construction of \$151,242 in 1980 and \$100,241 in 1979).....	\$364,922	\$391,282
Deferral of recoverable Federal income taxes...	55,806	69,414
Increase in working capital (excluding short-term securities)*.....	9,626	3,949
Short-term securities - net.....		11,200
Miscellaneous - net.....	3,759	
TOTAL FUNDS APPLIED.....	<u>\$434,113</u>	<u>\$475,845</u>
<hr/>		
*Decrease (increase) in working capital (excluding short-term securities):		
Cash and special deposits.....	\$ (3,580)	\$(17,458)
Working funds advanced for construction.....	6,007	245
Recoverable income taxes.....	(8,437)	
Accounts payable.....	(4,700)	2,442
Taxes accrued.....	(6,746)	10,165
Other - net.....	7,830	657
TOTAL.....	<u>\$ (9,626)</u>	<u>\$ (3,949)</u>

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary of Middle South Utilities, Inc. to provide financing and ownership of certain future base-load electric generating units within the Middle South Utilities System.

It is anticipated that power produced by the Company's electric generating units will be sold to certain of the operating companies of the Middle South Utilities System at rates sufficient to cover operating and debt expenses and provide a fair rate of return on the Company's investment.

B. System of Accounts

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Energy Regulatory Commission.

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return. In addition, the Company files a consolidated Mississippi state income tax return with certain other Middle South Utilities System companies.

The Company's interest expense and capitalized taxes are deducted currently for tax return purposes. Deferred Federal income taxes are provided for the income tax effect of such taxes capitalized for book purposes. Allowance for funds used during construction is excluded for purposes of determining taxable income.

Non-current recoverable Federal income taxes represent the tax benefit of the Company's portion of the consolidated Federal tax losses which is expected to be realized during the loss carryforward period.

Investment tax credits allocated to the Company are deferred and will be amortized, based upon the average useful life of the related property, beginning with the year allowed in the consolidated tax return. Unused investment tax credits at December 31, 1980 amounted to \$110,663,000 of which \$14,530,000 may be carried forward through 1984, \$30,555,000 through 1985, \$44,210,000 through 1986, and \$21,368,000 through 1987.

Prior to 1979 the investment tax credit utilized in the consolidated tax return was allocated to each Middle South System company on the basis of such credit contributed by each company. Effective with 1979 the method of allocating investment tax credit was changed whereby each company is allocated the credit allowable based on its portion of the consolidated tax liability. Any additional consolidated credit utilized is allocated on the basis of the remaining tax credits.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC). Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction program and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. The Company determines its accrual rate for AFDC based on actual interest cost, net of related income taxes, plus a stated rate of return on average common equity as allowed by regulatory authorities. The Company accrued the equity component of AFDC at a 11.6% rate through October 31, 1980. Beginning November 1, 1980, the rate of return used was increased to 13.75%, subject to final regulatory approval. The resultant increase in the AFDC accrued in 1980 was approximately \$2,200,000. The Company will continue to use an 11.6% rate of return in calculating the required equity ratio in issuing long-term debt until final regulatory approval is granted.

2. COMMITMENTS AND FINANCING

The Company's construction program contemplates construction expenditures (including AFDC) for the Grand Gulf Generating Station (nuclear) of approximately \$207,000,000, \$234,000,000, and \$228,000,000 in 1981, 1982, and 1983, respectively. The Company's current estimate of its portion of the total cost of the Grand Gulf Plant, excluding nuclear fuel, is approximately \$2,846,000,000. The effect of the transactions discussed in Note 4 have been reflected in the Company's construction estimates. In order for the Company to satisfy the financing requirements of its construction program through 1983, it will be necessary to negotiate additional borrowing arrangements.

At December 31, 1980, the Company had issued \$671,000,000 of promissory notes under a revolving credit agreement of \$808,000,000 with a number of banks. The maximum commitment under this agreement will be reduced to \$658,000,000 as of December 31, 1983 and to \$508,000,000 as of December 31, 1984. At each reduction date, notes issued in excess of the maximum commitment will be due and payable. This agreement expires December 31, 1985, at which time all notes then issued are to be due and payable. During 1980 the average interest rate, based on the prime rate of a specified New York bank, was 17.8%. The Company pays a fee on the unused portion of the commitment and maintains a 5% compensating balance on the amount outstanding, which is not restricted as to withdrawal.

The Company placed \$400,000,000 of 9.25% First Mortgage Bonds due July 1, 1989 and \$98,500,000 of 12.50% First Mortgage Bonds due January 1, 2000 with a limited number of institutional investors in 1977 and 1980, respectively. Bonds of the 9.25% Series are redeemable through mandatory sinking fund payments totaling \$328,000,000, with annual requirements ranging from \$32 million to \$56 million beginning in 1982 through 1988. Bonds of the 12.50% Series are redeemable through mandatory sinking fund payments totaling \$93,525,750, with an annual requirement of \$6,235,050 beginning in 1985 through 1999. Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indentures.

The Company has covenanted with the bondholders and the banks that it will complete the first unit of the generating plant no later than December 31, 1982. The Company has also covenanted with the bondholders that the second unit will be completed no later than December 31, 1986. In the event either of these covenants is not fulfilled or the Company defaults with respect to either the bonds or the bank borrowings, the bonds and bank borrowings will become due and payable unless extensions of time can be arranged. In these cases, Middle South Utilities, Inc. would be required to provide the Company with sufficient funds, to the extent not obtained from other sources, to meet these obligations.

In order to obtain additional funds required by the Company to complete Unit No. 1 of the Grand Gulf Plant, the Company is negotiating for an increase in the amount of borrowings available under the revolving loan agreement to \$1.3 billion. In addition, the Company is negotiating for changes in the covenants to extend the dates by which Unit Nos. 1 and 2 of the Grand Gulf Plant must be completed by not later than December 31, 1984 and not later than December 31, 1988, respectively. Necessary regulatory approvals will need to be obtained prior to effecting any changes.

The Company and the Middle South System operating companies have entered into a series of agreements whereby the operating companies are obligated to make payments or subordinated advances adequate to cover all of the operating expenses and capital costs of the Company and, in return, are entitled to receive the power available to the Company from the plant. Under certain circumstances, payments may be required to be made commencing December 31, 1982 if the first unit of the plant has not been completed by the date.

During 1980 the operating companies agreed in principal to a permanent allocation of the capability of the portion of Grand Gulf Plant owned by the Company. Under this arrangement Louisiana Power & Light Company, New Orleans Public Service Inc., and Mississippi Power & Light Company will be allocated a fixed percentage of the capability, subject to change by mutual agreement of such companies, and have agreed to assume, in proportion to such allocations, all responsibilities and obligations related to the plant. Arkansas Power & Light Company and Arkansas-Missouri Power Company, the remaining operating companies of the Middle South System, will relinquish their rights in the plant. This proposed agreement is subject to the receipt of the approval of regulatory agencies having jurisdiction over the matter and of all other necessary approvals.

In 1979, the Company established a line of credit for short-term borrowings with a bank whereby the Company may borrow up to \$60,000,000. A 3% compensating balance, which is not restricted as to withdrawal, is maintained on the amount of the loan commitment. The promissory notes issued under this credit line have 90-day maturity dates and bear interest based upon the prime rate of the lending bank. During 1980, the average interest rate was 16.075%. Outstanding borrowings under the line of credit totaled \$38,151,000 at December 31, 1980. At December 31, 1980 the Company also had outstanding unsecured short-term borrowings totaling \$40,000,000 with several additional banks bearing interest based on the Federal funds rate with a New York bank prime rate as a ceiling.

In October 1979, the Company sold and leased back \$44,943,000 of nuclear fuel under an \$80,000,000 nuclear fuel lease. Lease payments, based upon nuclear fuel use, will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through October 15, 2029. The unrecovered cost base of the lease at December 31, 1980 was \$55,211,000.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement and first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1980, none of the retained earnings were available for cash dividends.

4. ACQUISITION OF UNDIVIDED INTEREST

During 1980, the Company entered into a "Joint Construction, Acquisition and Ownership Agreement" with South Mississippi Electric Power Association (SMEPA) which provides for the acquisition by SMEPA of a 10% undivided interest in the generating units being constructed.

Under this Agreement, SMEPA is to advance 100% of the cost of construction until such time as their advances aggregate 10% of the total cost of construction after giving consideration to the allowances for funds used during construction accrued by SMEPA and by the Company. Thereafter, the Company and SMEPA will fund the cost of construction in their respective ownership percentages.

Negotiations are also currently being conducted for the acquisition, by a third party, of an additional 2.48% undivided interest in the generating units being constructed.
