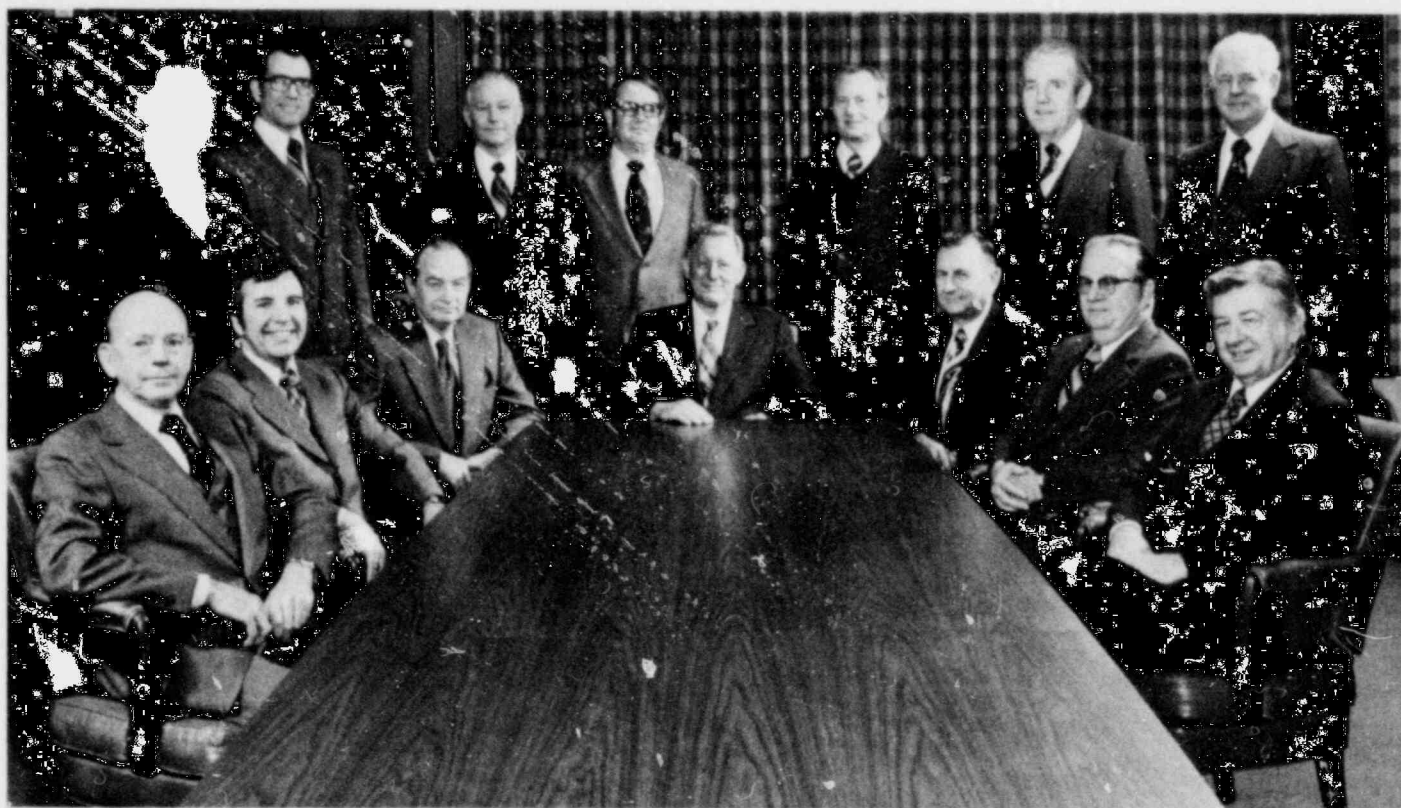




MISSISSIPPI POWER & LIGHT COMPANY 1977 ANNUAL REPORT

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Officers and department heads of MP&L at company headquarters in Jackson are shown above. They are, seated, from left, Frank S. York, Controller and Chief Financial Officer; Donald E. Meiners, Manager, Customer Services; W. Donald Colmer, Vice President, Public Affairs and Environmental Matters; Donald C. Lu'ken, President and Chief Executive Officer; Norris L. Stampley, Vice President, Production, System Operations and Construction, and Engineering; Alex McKeigney, Vice President, Informational Services; and John D. Holland, Vice President, Area Affairs; standing, from left: J. S. Frame, Director, Personnel; Allan H. Mapp, Assistant Treasurer and Assistant Secretary; George Ledlow, Director, Internal Auditing; James R. Martin, Treasurer; Marion Townsend, Chief Engineer; Thomas A. Dallas, Manager, Engineering, System Operations and Construction; and W. T. Woods, Jr., Manager, General Property and Services.

General Offices

Electric Building, Jackson, Mississippi 39205
 Registrar (for preferred stock)
 Deposit Guaranty National Bank, Jackson, Mississippi
 Transfer Agent
 First National Bank of Jackson, Jackson, Mississippi

This report is prepared for the information of security holders, employees and other interested persons. It is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

About Our Cover

In order to give an idea of the size of the giant Cooling Tower at the Grand Gulf Nuclear Station under construction near Port Gibson, our cover compares the structure with the headquarters building of MP&L, the Electric Building in Jackson. The Tower is approximately 520 feet tall with the Electric Building being some 130 feet in height. The Electric Building is a ten-story structure, while a building four times as high would not reach the top of the Tower. In fact, the diameter of the Tower is approximately 408 feet—big enough for a football field with a grandstand on each side and space left over at each end.

To Our Stockholders and Members of Our Organization

Despite the multi-faceted problems confronting every segment of the energy industry, MP&L experienced a relatively satisfactory year in 1977. This was a real accomplishment, when it is considered that energy problems weighed especially heavy on electric utilities.

As this report shows, progress was made in most every area of company operations. Our relative success was the result of a number of factors, with most of them being company-initiated. The overall performance by MP&L employees was excellent, the vast majority turning in a year of loyal, diligent and efficient work often under trying circumstances. They helped cut operating costs, and aided in keeping spending at a low level. They also turned in a good year in public relations, providing reliable service and at the same time helping keep customers and the public informed as to the many roadblocks being placed in front of investor-owned companies such as ours in the production, distribution and use of electricity.

As a part of continuing efforts to make operations as efficient and economical as possible, the Company on its own initiative has carried out—with the help of an outside management consulting firm—an in-depth study to insure the most efficient and productive work possible from company employees. It is estimated the results from this program and other company instituted efficiencies will save a million dollars a year.

Weather conditions for 1977, extremely cold at the beginning and hotter than normal in the summer, had a decided influence on the increased usage of electricity by customers. The average use of MP&L electricity by residential customers was 11,038 kilowatt-hours, the highest in the 54-year history of the company.

Outlook Cloudy

MP&L was able to maintain a sound financial position during the year, and therefore it was not necessary to seek a rate increase. The future financial picture is not clear since the same inflationary and other factors which made it necessary for MP&L to ask for a rate increase two years ago still exist. The problem areas include: inflation, the high cost of capital to provide adequate facilities, environmental restraints, equipment reliability, and the increasing costs of boiler fuel.

A very serious threat to the electric utility industry, and to customers also, is the still unsettled (at this writing) National Energy Act pending in Congress. As introduced and pushed by the Administration, the Act would be a disaster for the public and utilities. In short, the major thrust of the original bill was heavy taxes on energy with little or no incentive for new energy production. While MP&L, many other utilities, knowledgeable groups and individuals are seeking to eliminate the most dangerous parts of the Act, there are powerful pressure forces working to pass some of the original measure. As backed by the Administration, the Act would place all production, pricing, distribution and end use of energy, including electricity, in a vice-like grip, controlled at every turn by bureaucrats from the federal government.

MP&L employees have taken and are taking an active part in alerting customers and the public about dangers contained

in the original Act. It is interesting that one thing is agreed to by those on both sides of the issue: no matter what happens to the legislation, the cost of all energy will increase. It should be added the increase will be greater and consumer services reduced under complete domination by the federal government than under the free enterprise system. Another thing most agree on is that conservation of energy must continue, and that all sources of new energy need to be developed, with the development of coal and uranium resources vital to survival during the next few decades.

Question of Time

The continuing increase in operating and capital costs confronting the electric industry and MP&L make it obvious that the company will require periodic rate relief in order to remain financially sound and be able to continue to provide its customers the quantity and quality of service they expect. These increases will be held to a minimum by the vigorous measures used by the company to control such costs.

While the company does not have any definitive plans to request rate relief at this time, it is continuing to monitor its financial condition. MP&L has had only two general rate increases since its formation in 1923.

The only matter affecting rates of MP&L during the past year was the action of the Federal Power Commission on November 11, 1977, accepting new rates for wholesale service, effective December 1, 1976. The new rates provided an annual increase of \$1,200,000 based upon the test year ended December 31, 1976.

Operating Revenues Up

Company operating revenues, increased by fuel adjustment recovery of high costs incurred for boiler fuel and purchased power as well as increased electric usage, reached a record high of \$365,346,000, compared with \$308,776,000 for the year before. Some of the increase, of course, was due to customer growth and greater usage of electricity by customers. The higher revenues were more than offset by the increase in operating expenses for the year, \$322,338,000, compared with \$263,480,000 in 1976, primarily as a result of the increased cost of boiler fuel and purchased power.

Expense Breakdown

The \$322,338,000 in operating expenses was \$58,858,000 more than for 1976, an increase of 22 percent for the year. The largest part of expenses went for fuel and purchased power, \$223,639,000, compared with \$177,292,000 for the year before. This was a 26 percent increase, and the fuel cost adjustment collected did not fully recover the added costs. Company plants burned 13,330,777 barrels of fuel oil for generation in 1977, up 36 percent over 1976.

Power Usage Increases

Total energy sales by the company amounted to 11.59 billion kilowatt-hours in 1977, up 16 percent over 1976.

Sales to ultimate customers amounted to 6.8 billion KWH, up 8 percent. Residential usage was up 10%; and industrial and commercial, up 7% each. Peak demand on company lines was 1,784,000 kilowatts, up 51,000 kilowatts and occurred on August 9.

The increase in industrial demand reflected the continuing industrial development in the area. There were 71 new and expanded industries recorded in the area in 1977 and the total employment, investment, and payrolls from the new development exceeded the 1976 record.

Sources of Revenues

A percentage breakdown of the \$365,346,000 in operating revenue for 1977, shows the following: residential sales, 29 percent; industrial sales, 19 percent; commercial sales, 19 percent; sales to other electric utilities, 30 percent; and government and municipal sales, 3 percent.

Distribution of Revenue Dollars

	(In Thousands)	%
Fuel.....	\$181,168	49.59
Purchased Power.....	42,471	11.62
	223,639	61.21
Taxes.....	35,263	9.65
Payroll.....	17,904	4.90
Depreciation.....	19,728	5.40
Other Expenses and Deductions, including Material, Supplies, Rents, Etc. (net).....	23,289	6.37
Cost of Capital:		
Cost of Debt (interest).....	20,496	5.61
Net Income (cost of Preferred & Common Stock).....	25,027	6.85*
TOTAL REVENUE.....	\$365,346	100.00%

*.85% paid as preferred dividends, 4.67% paid as common dividends and 1.53% reinvested in facilities to serve customers.

Customer Growth

Customer growth continued in 1977, with the year-end number on company lines being 291,146, up 5,808 over 1976. Customers by classification were: residential, 249,889; commercial, 35,922; industrial, 3,301; government and municipal, 1,965; cooperatives and municipal, 67; and other public utilities, 2.

Electricity usage by residential customers led all other classifications. Such customers accounted for consumption of 2.7 billion KWH during the year. The 11,038 KWH average used by residential customers in 1977 was 801 KWH more than the average for 1976.

During the year the company continued its emphasis on conservation of energy, adding the successful "Zip Up" program to the Heat Pump and E3 campaigns. The "Zip Up" program is a plan whereby MP&L furnishes residential customers information to evaluate whether or not they should carry out certain practices to reduce heating and cooling costs of their homes. The program was offered at no cost to homeowners and over 21,000 returned questionnaires for computer evaluations.

Two municipalities, Gloster and Prentiss, signed contracts

during the year to sell their distribution systems to the company at the expiration of the lease agreements between the company and the two cities. The Gloster system will come under company ownership at the end of a five-year period beginning April 30, 1978, while the Prentiss system will become company property at the end of a five-year period beginning December, 1978.

Construction

Construction expenditures for 1977 were \$23,626,000, down \$16,458,000 as compared with the year before. Major work on converting the gas-fired plants to burn fuel oil was completed during the year, with the exception of miscellaneous construction underway at the Delta Steam Electric Station and the Natchez Steam Electric Station.

Major construction projects either completed or near complete at year's end included: a 230,000 volt circuit from the Ray Braswell EHV Substation to South Jackson and 230,000/115,000 volt substation at South Jackson; a 46-mile 500,000 EHV circuit from Grand Gulf Nuclear Station to the Franklin EHV substation and a 500,000 EHV switchyard at Grand Gulf; completion of five new 115,000 volt substations and additions and revisions at 14 other substations. Also, interconnections with Greenwood and Clarksdale started in 1976, were completed.

The company exercised its option to purchase a 2,500 acre future plant site in DeSoto and Tunica counties looking toward construction of its first coal-fired station. In July, MP&L engaged an environmental research firm to make the necessary feasibility study at the site.

The Grand Gulf Nuclear Station near Port Gibson is the most massive project underway by MP&L today. At year's end, the work on Unit No. 1 was approximately 58% complete, with some 3,500 employed at the \$2.2-billion project. Work on the second unit was nearly three percent complete. The first unit is to be commercial in early 1981, with the second unit to be completed in 1984. The facility is owned and financed by Middle South Energy, Inc., a subsidiary of Middle South Utilities. It is being built and will be operated and maintained by MP&L under contract to Middle South Energy, Inc.

New Board Member

Dr. Walter Washington, president of Alcorn State University, and recognized as one of the South's outstanding educators and civic leaders, was elected to the MP&L Board of Directors in May. This Hazlehurst native brings to the board a wealth of experience. He is a graduate of Tougaloo College, the University of Indiana, Peabody College, and earned his doctor of philosophy degree from the University of Southern Mississippi.

Also last year, for the first time in half a century, the company was without the services of R. Baxter Wilson. He served as company president from 1954 until 1970, and chairman of the Board from 1971 to 1976. He continues to make outstanding contributions to the company, his community and state.

Personnel Changes

The company lost two of its most outstanding, loyal and dedicated executives during the year through deaths. They were: Joseph (Joe) H. Box, senior vice-president of production, engineering and construction; and C. Lamar Stephenson, director of personnel. Norris L. Stampely, vice-president of production, was given the additional duties of engineering and construction, while J. S. Frame, former manager of the

(Continued On Page 13)

1977 Financial Review

Summary of Significant Accounting Policies

A. 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.

B. REVENUES

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period. The rates of the Company include fuel adjustment clauses under which fuel costs above or below the base levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers.

C. UTILITY PLANT AND DEPRECIATION

Utility plant is stated at original cost. The costs of additions to utility plant include contracted work, direct labor and materials, allocable overheads, and in 1977, an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant, and such costs plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than units of property are charged to operating expenses. Principally all of the utility plant is subject to the lien of the Company's first mortgage bond indenture.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided in 1977 and 1976 amounted to approximately 3.4% and 3.3%, respectively, on average depreciable property.

D. PENSION PLAN

The Company has a pension plan covering substantially all of its employees. Pension costs in 1977 and 1976 amounted to \$1,705,000 and \$1,572,000 respec-

tively, including amortization of unfunded prior service costs over a period of 20 years. The policy of the Company is to fund pension costs accrued.

E. INCOME TAXES

The Company joins its parent in filing a consolidated Federal income tax return. Income taxes are allocated to the Company generally in proportion to its contribution to the consolidated tax liability.

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for rate-making purposes.

Investment tax credits are deferred and amortized over the average useful life of the related property.

F. 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 costs of funds used to finance construction. Effective January 1, 1977, the Company adopted the FPC Order Number 561 as to rate determination and reporting requirements which provide for separation of the common equity component and the borrowed funds component of funds used during construction. The rate used for such allowance was 6.92% for 1977.

In 1976, the Company did not record an allowance for funds because amounts collected under rate schedules included construction work in progress in the rate base.

G. RESERVES

It is the policy of the Company to provide reserves for uninsured property risks and for claims for injuries and damages through charges to operating expense on an accrual basis. Accruals for these reserves have been allowed for rate-making purposes.

MISSISSIPPI POWER & LIGHT COMPANY

We have examined the balance sheets of Mississippi Power & Light Company as of December 31, 1977 and 1976 and the related statements of income, retained earnings, 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, the above-mentioned financial statements present fairly the financial position of Company 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.

February 17, 1978

Haskins & Sells

Mississippi Power & Light Company
Balance Sheet
December 31, 1977 and 1976

ASSETS	1977	1976
	In Thousands	
UTILITY PLANT:		
Electric plant	\$ 681,620	\$ 647,207
Construction work in progress	15,660	28,061
Electric plant acquisition adjustments	2,769	2,951
Total	700,049	678,219
Less accumulated depreciation	177,324	156,596
Utility plant—net	522,725	521,623
OTHER PROPERTY AND INVESTMENTS—At cost:		
Investment in associated company (Note 3)	11,339	8,744
Other	956	990
Total	12,295	9,734
CURRENT ASSETS:		
Cash (Note 2)	2,196	2,562
Special deposits	770	763
Temporary investments, at cost which approximates market	22,000	17,705
Accounts receivable:		
Customer and other—less allowance		
for doubtful accounts of \$154,000	15,083	14,077
Associated companies	3,410	115
Materials and supplies—at average cost:		
Fuel	4,365	3,939
Other	6,022	6,785
Other	2,473	2,850
Total	56,319	48,796
DEFERRED DEBITS:		
Advances for gas purchases	1,070	1,117
Unamortized debt expense	1,207	1,267
Other	1,369	1,485
Total	3,646	3,869
TOTAL	\$ 594,985	\$ 584,022

See Notes to Financial Statements.

LIABILITIES	1977	1976
	In Thousands	
CAPITALIZATION:		
Preferred stock (Page 10)	\$ 38,077	\$ 38,077
Common stock, no par value (stated value \$23 per share) authorized 5,000,000 shares; outstanding 4,540,000 shares	104,420	104,420
Paid-in surplus	5	5
Retained earnings (Note 4)	55,954	50,381
Total	193,456	192,883
Long-term debt (Page 10)	279,073	278,029
Total	477,529	470,912
CURRENT LIABILITIES:		
Long-term debt currently maturing	382	8,760
Accounts payable:		
Associated companies	7,269	5,625
Other	7,398	7,308
Customer deposits	7,284	6,285
Taxes accrued	21,821	19,740
Interest accrued	6,609	6,315
Dividends declared	596	596
Other	2,226	998
Total	53,585	55,627
DEFERRED CREDITS:		
Accumulated deferred income taxes	4,890	37,636
Accumulated deferred investment tax credits	19,794	17,180
Other	326	364
Total	62,010	55,180
RESERVES	1,861	2,303
TOTAL	<u>\$ 594,985</u>	<u>\$ 584,022</u>

See Notes to Financial Statements.

Mississippi Power & Light Company Statement of Income

For the years ended December 31, 1977 and 1976

	1977	1976
	In Thousands	
OPERATING REVENUES	\$ 365,346	\$ 308,776
OPERATING EXPENSES:		
Operation:		
Fuel	181,168	134,949
Power purchased	42,471	42,343
Other	28,262	26,093
Maintenance	15,446	12,223
Depreciation	19,728	18,151
Taxes other than income taxes	14,299	12,962
Income taxes (Note 1)	20,964	16,759
Total	322,338	263,480
OPERATING INCOME	43,008	45,296
OTHER INCOME AND DEDUCTIONS:		
Allowance for other funds used during construction	1,098	—
Miscellaneous—net	1,027	1,704
Income taxes (Note 1)	(113)	(913)
Total	2,012	791
INTEREST CHARGES:		
Interest on long-term debt	19,931	20,074
Other interest—net of debt premium	565	268
Allowance for borrowed funds used during construction	(503)	—
Total	19,993	20,342
NET INCOME	\$ 25,027	\$ 25,745

Statement of Retained Earnings

For the years ended December 31, 1977 and 1976

RETAINED EARNINGS, JANUARY 1	\$ 50,381	\$ 41,912
ADD—Net income	25,027	25,745
Total	75,408	67,657
DEDUCT:		
Dividends—cash:		
Preferred stock	2,384	2,384
Common stock	17,070	14,892
Total	19,454	17,276
RETAINED EARNINGS, DECEMBER 31, (Note 4)	\$ 55,954	\$ 50,381

See Notes to Financial Statements.

Mississippi Power & Light Company **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	\$ 25,027	\$ 25,745
Depreciation	19,728	18,151
Deferred income taxes and investment tax credit adjustments—net ..	6,868	7,702
Allowance for funds used during construction	(1,601)	—
Total	50,022	51,598
Less—dividends declared:		
Preferred stock	(2,384)	(2,384)
Common stock	(17,070)	(14,892)
Funds retained in business	30,568	34,322
From decrease in working capital (excluding short-term securities and current maturities of long-term debt)	3,109	5,881
Refund of advances for fuel oil purchases	—	12,752
Advances for fuel oil purchases	—	(6,855)
Investments in associated company	(2,595)	255
Miscellaneous—net	2,501	2,084
Total	33,583	48,439
Financing transactions:		
First mortgage bonds (retirements)	(8,498)	—
Other long-term debt	1,235	799
Short-term securities (net)	(4,295)	(9,705)
Total	(11,558)	(8,906)
UTILITY PLANT ADDITIONS (excludes allowance for funds used during construction)	\$ 22,025	\$ 39,533

See Notes to Financial Statements.

Mississippi Power & Light Company **Schedule of Preferred Stock and Long-Term Debt**

December 31, 1977 and 1976

December 31, 1977 and 1976		Shares		Current
		Authorized	Outstanding	Call Price
				Per Share
PREFERRED STOCK				
Cumulative, \$100 Par Value				
4.36% Series	.....	60,000	59,920	\$ 103.86
4.56% Series	.....	44,476	43,888	107.00
4.92% Series	.....	100,000	100,000	102.88
9.16% Series	.....	75,000	75,000	108.64
7.44% Series	.....	100,000	100,000	108.39
Other Series	.....	325,000	—	
Total	.....	704,476	378,808	
		In		
		Thousands		
Stated at \$100 a Share	.....	\$ 37,881		
Premium on Preferred Stock	.....	196		
Total	.....	\$ 38,077		
LONG-TERM DEBT				
		1977	1976	
First Mortgage Bonds:		In Thousands		
3½% Series due 1979	.....	\$ 7,500	\$ 7,500	
2¾% Series due 1980	.....	7,500	7,500	
3½% Series due 1983	.....	12,000	12,000	
4½% Series due 1988	.....	15,000	15,000	
4½% Series due 1995	.....	20,000	20,000	
5½% Series due 1996	.....	25,000	25,000	
6½% Series due 1996	.....	10,000	10,000	
9½% Series due 1999	.....	20,000	20,000	
9¼% Series due 2000	.....	17,500	17,500	
7¾% Series due 2002	.....	15,000	15,000	
7¾% Series due 2003	.....	30,000	30,000	
8¼% Series due 2003	.....	20,000	20,000	
9¾% Series due 2004	.....	25,000	25,000	
10¾% Series due 2005	.....	25,000	25,000	
		249,500	249,500	
Principal Amount of Capitalized Lease—				
8%, due serially through 1993	.....	8,282	8,564	
Pollution Control Bonds:				
7½% due 2004	.....	9,400	9,400	
8½% due 2004	.....	8,575	8,575	
6% to 8½% due 1978 to 1995 (net of \$275,753 cash held by Trustee in 1977)	.....	2,024	627	
Unamortized Premium on Debt	.....	1,292	1,363	
Total (Annual sinking fund requirements, which may be met by certification of property additions at the rate of 167% of such requirements, amount to \$2,655,000 for 1978.)	.....	\$ 279,073	\$ 278,029	

Notes to Financial Statements

1. INCOME TAXES

Income tax expense consists of the following:

	1977	1976
	In Thousands	
Current:		
Federal	\$ 12,572	\$ 7,782
State	1,524	1,275
Total	14,096	9,057
Deferred-net:		
Liberalized depreciation	5,300	5,036
Other	(1,046)	(1,148)
Total	4,254	3,888
Investment tax credit adjustments-net	2,614	3,814
Total charged to operations	20,964	16,759
Charged to other income and deductions	113	913
Total	\$ 21,077	\$ 17,672

The total income tax expense reflects reductions resulting primarily from:

- (a) the exclusion from taxable income in 1977 of the allowance for funds used during construction,
- (b) the effect of tax reductions attributable to the filing of a consolidated Federal income tax return.

The effective income tax rates for 1977 and 1976 were 46% and 41%, respectively.

Investment tax credits generated in 1977 including approximately \$2,400,000, in excess of the amount utilized, have been deferred. These credits are available to reduce income taxes to be paid in future years.

The Federal income tax returns for the years 1967 through 1972 have been examined and assessments, which have been protested, have been proposed by the Internal Revenue Service. The years subsequent to 1972 are subject to examination. Management is of the opinion that adequate provisions have been made for any taxes that may ultimately be assessed.

2. LINES OF CREDIT AND SHORT-TERM BORROWINGS

During 1977 the Company had regulatory authorization to make short-term borrowings of \$44,000,000 through bank loans (not to exceed \$16,000,000) and the sale of commercial paper. This authorization expired December 31, 1977, and, subsequent to that date, the Company has made arrangements with certain banks providing for short-term borrowings of up to \$21,500,000. Accounts are maintained with the lending banks and, although immaterial balances in some of these banks may be deemed to be compensating balances, most of these accounts are working accounts and fluctuations in their balances do not reflect or depend upon fluctuations in the amounts of bank loans outstanding. The amount of the unused lines of credit at December 31, 1977, was \$16,000,000.

The bank loans and commercial paper notes are unsecured short-term loans with various maturity dates not in excess of nine months. Interest rates on bank loans are the prime rates in effect from time to time of the lending banks. During the twelve months ended December 31, 1977, the maximum aggregate amount of short-term borrowings outstanding at the end of any month was \$8,700,000. The average amount of

short-term borrowings outstanding during the twelve months ended December 31, 1977, (based on the average of the sum of daily outstanding principal balances) approximated \$904,000 of commercial paper. The approximate average interest rate (determined by dividing the actual interest expense on short-term borrowings during the year by the average short-term borrowings) was 5.5% for commercial paper.

3. COMMITMENTS AND CONTINGENCIES

The Company's construction program contemplates expenditures of approximately \$31,000,000 in 1978.

The Company has a 19% interest in System Fuels, Inc. (SFI), a jointly-owned subsidiary of four of the principal operating subsidiaries of Middle South Utilities, Inc. (SFI stockholders). SFI operates on a non-profit basis in planning and implementing programs for the procurement of fuel supplies for the generating units of these operating companies; its costs are recovered through charges for fuel delivered.

The Company has made loans to SFI to further its fuel supply business under certain loan agreements which provide for SFI to borrow from its stockholders up to \$209,500,000 (\$40,000,000 of which is subject to receipt of further requisite order of the Securities and Exchange Commission). As of December 31, 1977 the Company had loaned \$11,335,250 to SFI pursuant to the loan agreements, and the Company's share of the unused loan commitment is approximately \$25,160,000. Loans mature in 10 and 25 years from the date of borrowing.

In connection with certain bank borrowings by SFI totaling \$41,887,000 at December 31, 1977, the Company and the other SFI stockholders have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge, its obligations to the lending banks. Also, SFI's stockholders, including the Company, have made similar covenants and agreements in connection with arrangements entered into by SFI covering the sale, for a consideration of \$20,827,104, and leaseback pursuant to a 25-year lease of certain oil storage and handling facilities located at a generating station of one of the operating companies.

During 1976, SFI entered into a contract with a joint venture for a supply of coal from a mine to be developed in Wyoming which is expected to provide 150 to 210 million tons over a period of 26 to 42 years.

4. RETAINED EARNINGS

The indenture provisions relating to the Company's long-term debt provide for restrictions on the payment of cash dividends on common stock. As of December 31, 1977, \$34,338,000 of retained earnings are free from such restrictions.

5. TRANSACTIONS WITH AFFILIATES

The Company buys from and sells electricity to the operating subsidiaries of Middle South Utilities, Inc., its parent, under rate schedules filed with the Federal Energy Regulatory Commission. In addition, the Company purchases fuel from System Fuels, Inc.

Operating revenues include revenues from sales to affiliates

amounting to \$74,186,000 in 1977 and \$56,117,000 in 1976. Operating expenses include fuel cost and purchased power charges from affiliates totaling \$157,093,000 in 1977 and \$126,127,000 in 1976.

6. QUARTERLY RESULTS (Unaudited)

Unaudited operating results by quarters follow (in thousands):

	Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
<u>1977</u>				
Operating revenues	\$84,325	\$83,455	\$106,601	\$90,965
Operating income	11,397	8,731	14,207	8,673
Net income	6,949	4,231	9,534	4,313
<u>1976</u>				
Operating revenues	\$66,536	\$68,040	\$90,747	\$83,459
Operating income	10,909	8,415	14,475	11,497
Net income	5,957	3,772	9,517	6,499

The business of the Company is subject to seasonal fluctua-

tions with peak periods occurring during the summer months. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results of operations for a full year.

7. REPLACEMENT COST (Unaudited)

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that is significantly greater than the historical cost of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Middle South Utilities, Inc. annual report to the Securities and Exchange Commission on Form 10K.

8. ACCOUNTING POLICIES

The summary of significant accounting policies on page 5 is an integral part of these notes to financial statements.



Directors



Donald C. Lutken
Jackson
President and
Chief Executive Officer



G. Lawrence Adams
Natchez
Attorney-at-Law



Norman B. Gibbs, Jr.
McComb
Attorney-at-Law



Robert M. Hearin
Jackson, Board
Chairman, Chief
Executive, First
National Bank



J. Herman Hines
Jackson, Board Chairman,
Chief Executive, Deposit
Guaranty National Bank



Russ M. Johnson*
Jackson, Retired
Chairman, Deposit
Guaranty National Bank



J. H. Johnston, Jr., M.D.
Jackson



Robert E. Kinnington, II
Grenada, Chairman,
Chief Executive
Grenada Banking System



Floyd W. Lewis
New Orleans
President, Middle
South Utilities, Inc.



Richard D. McRae
Jackson, President
McRae's, Inc.



LeRoy P. Percy
Greenville, Planter



Dr. Walter Washington
Alcorn, President
Alcorn State University



Robert M. (Bob) Williams, Jr.
Southaven, Partner
Reeves-Williams Builders

*Member of Advisory Board

TO OUR STOCKHOLDERS. . .

(Continued From Page 4)

Northwestern Division at Greenville, was named to head the personnel department.

Among other major changes were: John Craft, was named manager of the Northwestern Division at Greenville, to succeed Frame; Ray Tomlinson, was named manager of the Northern Division at Senatobia to succeed Craft; James R. Martin, was elected treasurer to succeed W. R. (Billy) Casper, retired; and Allan Mapp, was promoted to assistant treasurer in addition to duties as assistant secretary. The following were named to new manager positions: Robert H. Weatherly, at Marks; Everett S. Dunn, at Port Gibson; James S. Pilgrim, Brandon; Joe D. Dowe, at Tylertown; J. Truitt Hobby, at Drew; Billy R. Howell, Jr., at Rolling Fork; and Gerald B. Regel, at Clarksdale. Herman E. Cooper was promoted to District Manager at Clinton.

The Future

While obviously no human knows the future, MP&L continues to face the years ahead with confidence and determination. Unfortunately, a great many factors shaping the future are being removed from management's hands. These are evidenced

by the muddling and confusion, abetted by bureaucratic red tape and restrictions, from the federal government. Actually, the outcome of the National Energy Act pending, at this writing, in Congress will largely determine the destiny of investor-owned companies such as ours. All concerned can help bring more sanity to the energy field by working to restore the principles of the American free enterprise system in solving the problem.

Fortunately, most of our some 300,000 customers also believe in this system, and realize it has brought about more prosperity and a higher standard of living for more people than any system yet devised. Finally, we thank our good customers, investors, board and employees for making it possible for MP&L to keep a tight grip on its long-time motto of "Helping Build Mississippi."

Sincerely,

Donald C. Lutken
President and Chief Executive Officer

Mississippi Power & Light Company
Record of Progress 1967 - 1977

	1977	1976	1975
ELECTRIC OPERATING REVENUES (000s OMITTED)			
Residential	\$ 106,520	\$ 91,849	\$ 74,296
Commercial	69,114	60,855	47,484
Industrial	67,948	58,645	42,863
Government & Municipal	11,158	9,899	7,022
Cooperatives & Municipalities	34,073	25,622	21,399
Total From Energy Sales (Miss. Area)	288,813	246,870	193,064
Sales to Other Public Utilities	77,732	57,298	43,084
Total From Energy Sales	366,545	304,168	236,148
Miscellaneous Revenues	1,441	1,113	838
Deferred Fuel Adjustment Revenues*	(2,640)	3,495	3,071
Total Electric Operating Revenues	\$ 365,346	\$ 308,776	\$ 240,057
ELECTRIC ENERGY SALES (MKWH)			
Residential	2,727,718	2,491,067	2,440,460
Commercial	1,647,919	1,537,169	1,457,505
Industrial	2,071,093	1,935,573	1,751,042
Government & Municipal	344,634	326,275	302,319
Cooperatives & Municipalities	1,217,942	1,064,636	990,309
Total Energy Sales (Miss. Area)	8,008,496	7,354,720	6,941,635
Sales to Other Public Utilities	3,580,571	2,624,001	1,638,144
Total Electric Energy Sales	11,588,977	9,978,721	8,579,779
ELECTRIC CUSTOMERS (END OF PERIOD)			
Residential	249,889	245,384	241,739
Commercial	35,922	34,718	33,801
Industrial	3,301	3,247	3,247
Government & Municipal	1,965	1,920	1,879
Cooperatives & Municipalities	67	67	66
Total Customers (Miss. Area)	291,144	285,336	280,732
Other Public Utilities	2	2	1
Total Electric Customers	291,146	285,338	280,733
SYSTEM INPUT (MKWH)			
Mississippi Area	8,739,930	7,995,184	7,583,971
Other	7,422,162	6,275,856	5,362,242
Total System Input	16,162,092	14,271,040	12,953,213
PEAK LOAD (MISS. AREA)—KW	1,784,000	1,733,000	1,642,000
LOAD FACTOR (MISS. AREA)—PER CENT	56	53	52
NET PLANT CAPABILITY—KW	2,763,000	2,752,000	2,752,000
CIRCUIT MILES OF ELECTRIC LINES	18,109	17,859	17,713
TOTAL ELECTRIC UTILITY PLANT (000s OMITTED)			
Production	\$ 349,195	\$ 338,118	\$ 299,585
Transmission	132,966	118,137	118,450
Distribution	180,035	171,955	166,590
General & Other	16,154	15,727	15,366
Total Utility Plant Completed	678,350	643,937	599,989
Plant Held for Future Use	3,270	3,270	4,070
Construction Work in Progress	15,660	28,061	35,772
Electric Plant Acquisition Adjustments	2,766	2,951	3,113
Total Utility Plant	\$ 700,049	\$ 678,219	\$ 642,944

*See Item B to Summary of Significant Accounting Policies.

1974	1973	1972	1971	1970	1969	1968	1967
67,690	\$ 47,473	\$ 38,096	\$ 32,499	\$ 30,097	\$ 27,353	\$ 24,528	\$ 21,573
43,559	31,294	25,701	22,126	20,290	18,507	16,797	15,126
41,743	26,852	22,399	19,439	17,535	17,076	15,979	15,037
6,163	3,975	3,193	2,842	2,707	2,437	2,194	2,003
13,362	9,915	9,884	7,914	7,027	6,299	5,592	4,796
172,517	119,509	99,273	84,820	77,656	71,672	65,090	58,535
10,484	6,684	15,223	9,423	4,911	5,090	4,452	4,929
183,001	126,193	114,496	94,243	82,567	76,762	69,542	63,464
574	449	374	393	364	342	309	279
(5,134)	—	—	—	—	—	—	—
178,441	\$ 126,642	\$ 114,870	\$ 94,636	\$ 82,931	\$ 77,104	\$ 69,851	\$ 63,743
2,268,954	2,356,073	2,032,670	1,802,675	1,674,415	1,470,430	1,274,923	1,069,029
1,356,173	1,380,035	1,213,432	1,091,553	1,007,557	907,912	823,035	738,521
1,793,055	1,787,741	1,677,137	1,624,499	1,464,602	1,410,212	1,351,195	1,345,938
271,233	262,645	238,624	219,463	210,951	179,173	157,279	142,904
938,205	988,351	1,089,349	966,015	959,649	860,842	765,837	659,025
6,627,620	6,774,845	6,251,212	5,704,205	5,317,174	4,829,274	4,372,269	3,955,417
487,097	312,454	1,269,927	1,282,153	984,933	1,143,398	870,335	832,157
7,114,717	7,087,299	7,521,139	6,986,358	6,302,107	5,972,672	5,242,604	4,787,574
237,085	229,761	206,222	198,435	191,529	187,676	183,538	180,415
33,474	33,109	30,629	29,453	28,419	28,109	27,532	26,941
3,267	3,213	3,168	3,209	3,140	3,022	2,990	2,892
1,789	1,731	1,618	1,558	1,514	1,447	1,393	1,347
63	61	74	75	71	70	67	64
275,678	267,875	241,711	232,730	224,673	220,318	215,520	211,659
1	1	2	3	4	4	4	2
275,679	267,876	241,713	232,733	224,677	220,322	215,524	211,661
7,249,896	7,378,216	6,906,300	6,246,040	5,875,777	5,326,174	4,783,640	4,337,494
4,353,673	4,160,152	5,081,123	4,700,857	4,429,887	4,957,040	3,677,783	2,318,574
1,603,569	11,538,368	11,987,423	10,946,897	10,305,664	10,283,214	8,461,423	6,656,068
1,640,000	1,565,000	1,476,000	1,343,000	1,238,000	1,176,000	1,005,000	924,000
51	54	53	53	54	51	53	54
2,752,000	2,002,000	2,002,000	2,002,000	1,231,000	1,231,000	1,231,000	1,220,000
17,461	17,146	14,279	14,061	13,892	13,783	13,588	13,418
292,491	\$ 176,217	\$ 166,537	\$ 166,364	\$ 106,419	\$ 106,434	\$ 106,582	\$ 106,030
109,960	91,535	91,068	85,074	79,225	79,218	76,988	71,350
158,256	148,492	130,191	124,523	119,198	113,428	108,049	102,827
14,763	14,355	13,598	13,372	13,283	12,401	11,765	8,429
575,470	430,599	401,394	389,333	318,125	311,481	303,384	288,636
1,219	1,144	1,146	594	564	564	511	396
16,688	121,908	50,070	12,396	53,257	16,445	3,524	6,844
3,293	3,067	—	—	—	—	—	—
596,670	\$ 556,718	\$ 452,610	\$ 402,323	\$ 371,946	\$ 328,490	\$ 307,419	\$ 295,876



Prior to construction of the Grand Gulf Nuclear Station near Port Gibson there had not been a major landing off the Mississippi River in the area since General Grant and his forces arrived there in early May, 1863. This aerial photo shows the temporary "port" built to land heavy equipment for the plant shipped on the River. This barge contains part of the high pressure turbine for the generator, much too heavy and large to be shipped by rail. In the upper right corner is shown a building housing one of the deep wells serving as the plant service water system.

Mississippi Power & Light Company
Post Office Box 1640
Jackson, Mississippi 39205

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