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April 23, 1993

Public Affairs Office
Nuclear Regulatory Commission
Washington, D. C. 20555

RE: Entergy Services, Inc. and
Gulf States Utilities Company
Docket Nos. EC92-21-000 and
ER92-806-000

Dear Sir or Madame:

Enclosed please find the original Comments with Exhibits attached and one copy of Comments sans Exhibits of Cities of Benton, Conway, North Little Rock, Osceola, Prescott, and West Memphis, Arkansas and the Farmers Electric Cooperative Corporation in the above captioned matter. I would appreciate your returning a file marked copy of the Comments only to me in the enclosed, self addressed, stamped envelope.

Cordially,

Brian C Donahue

Brian C. Donahue

BCD\my
Enclosures

cc: CECIL JOHNSON
CLIENTS

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

GULF STATES UTILITIES COMPANY

DOCKET NO. 50-458

COMMENTS OF CITIES OF BENTON, CONWAY, NORTH LITTLE ROCK, OSCEOLA, PRESCOTT, AND WEST MEMPHIS, ARKANSAS AND THE FARMERS ELECTRIC COOPERATIVE CORPORATION (Collectively Arkansas Cities and Cooperative) ON ANTI-TRUST ISSUES

TO:

William R. Reckley, Acting Director, Project Directorate IV-2, Division of Reactor Projects III/IV/V, Office of Nuclear Reactor Regulation.

I.

INTRODUCTION

These Comments are submitted in response to a Notice published March 25, 1993 (58 F.R. 16246-01), calling for expressions of views on anti-trust issues concerning acquisition of Gulf States Utilities (GSU), a partial owner, and the operator of the River Bend Station, by Entergy Corporation (Entergy).[1]

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[1] Entergy Corporation is a registered Public Utility Holding Company that was formerly known as Middle South Utilities, Inc. Entergy owns all of the outstanding shares of common stock of Arkansas Power and Light Company (AP&L), Louisiana Power & Light Company (LP&L), Mississippi Power & Light Company (MP&L), and New Orleans Public Service, Inc. (NOPSI).

II.

SUMMARY OF CONCLUSIONS

In summary, the Arkansas Cities and Cooperative believe that acquisition of GSU and its ownership interest in the River Bend Station by Entergy will create a "situation inconsistent with the anti-trust laws", and that such an event constitutes "changed circumstances" warranting modification of Gulf States' and Entergy's existing nuclear plant license under §105(c) of the Atomic Energy Act.

III.

DESCRIPTION OF COMMENTING SYSTEMS

Arkansas Cities and Cooperative are Arkansas municipal corporations of the first class, the Cities of Benton, North Little Rock, Osceola and Prescott, a political subdivision of the State of Arkansas, West Memphis Utilities Commission. an Arkansas not-for-profit corporation, the Conway Corporation, and an Arkansas not-for-profit rural electric cooperative corporation, the Farmers Electric Cooperative Corporation (FECC). Arkansas Cities and Cooperative

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Entergy also owns Systems Energy Resources, Inc. (SERI), Entergy Power, Inc. (EPI) and Entergy Operations, Inc. (EOI).

each own and/or operate electric generation and distribution systems or electric distribution systems within the State of Arkansas and are completely surrounded by the facilities of AP&L. Arkansas Cities and Cooperative are full or partial requirements wholesale customers of AP&L under various Service Agreements which are described in some detail below. These wholesale transactions are regulated by the Federal Energy Regulatory Commission (FERC).

A. SERVICE AGREEMENTS

1. Partial Requirements Formula Rate Customers/Third Party Purchase Rights. The Conway Corporation, West Memphis Arkansas Utility Commission, and City of Osceola (CWO) comprise one distinct wholesale group who own jointly with AP&L and others undivided ownership interests in two large coal-fired steam electric generating stations located within the State of Arkansas. CWO own or operate municipal electric generation and distribution utility systems under lease which receive partial requirements electric utility service under Service Agreements with AP&L. These agreements are various Power Coordination

Interchange and Transmission Agreements (PCITA)[2] and various Peaking Power Agreements (PPA).

The PCITAs and PPAs provide for two principal categories of power purchases. First, under the PCITA, CWO make purchases at "cost of service" formula rates for "supplemental" power and energy supplies. These PCITA purchases supplement the Cities' "owned" generation and the purchases under the PPA's. Within the PCITA, CWO are authorized to purchase peaking power from third parties. Rates under the PPA's are fixed for energy provided during the summer months of the year and for specific amounts of capacity yearly. The current PPA's are a Second Amendment to Peaking Power Agreement[3] for Conway and West Memphis and the Third Amendment to Peaking Power Agreement for Osceola.[4] At present, CWO's Service Agreements specifically allow purchases from third parties at any time for capacity and energy amounts in excess of specified "minimums" required to be purchased by CWO under the PPA's.

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[2] The PCITA's were accepted for filing in FERC Dockets Nos. ER80-373 and ER83-230 for the PCITA.

[3] The current Conway and West Memphis PPA's were accepted for filing in FERC Docket No. ER91-296-000 by Letter Order dated April 22, 1991.

[4] Osceola's current PPA was accepted for filing by the FERC in Docket ER92-420-000 by Letter Order dated May 6, 1992.

Finally under the Memorandum of Understanding (MOU) and Addenda described below, in any event, CWO may purchase from third parties from and after February 27, 1993.

2. Full and Partial Requirements Fixed Rate Customers/Third Party Purchase Rights. The Cities of Benton, North Little Rock and Prescott, Arkansas and the Farmers Electric Cooperative Corporation receive either full or partial requirements electric service from AP&L. Since 1985-86 for Benton, Prescott, and Farmers Electric Cooperative Corporation (BPF) service was provided pursuant to Service Agreements known as Agreement For Purchase Of Electric Service and for North Little Rock (NLR) a Power Agreement. These Service Agreements[5] provided for fixed power and energy charges from 1986-7 through mid 1991.

In March 1990 AP&L and NLR agreed to extend North Little Rock's Service Agreement until June 30, 1994 while BPF and AP&L recently have agreed to supersede their existing Service Agreements with new Service

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[5] The Cooperative's prior Agreement was accepted for filing on September 24, 1986 by FERC Letter Order in Docket ER86-639-000. The City of Benton's and Prescott's prior Agreements were accepted by FERC Letter Order dated January 21, 1987 in FERC Docket ER87-128-000, respectively. The City of North Little Rock's Power Agreement was accepted for filing the 24th day of December, 1986 in FERC Docket Number ER86-48-000.

Agreements named Agreement For Wholesale Electric Power Service. The NLR Extension Agreement was accepted for filing by FERC May 23, 1990 in Docket No. ER90-323-000. The new Service Agreements for BPF were filed by AP&L in Docket No.ER91-548-000 on July 22, 1991 and accepted for filing on September 3, 1991. Benton's and Prescott's version of the Agreement for Purchase of Electric Power with AP&L allows power purchases from third parties for quantities of power in excess of "minimum billing quantities" set forth in the agreements for Benton and Prescott. Farmer's agreement, on the other hand, is a full requirements contract. BPF, along with North Little Rock, like CWO, may buy power from third parties under the MOU and Addenda discussed below after February 27, 1993.

The current NLR/AP&L Service Agreement is a "Power Agreement" and is a partial requirements contract for electric requirements in excess of the city's owned hydro generation at a fixed rate of $.05 per KWH. Additionally, NLR and AP&L have a Transmission Services Agreement for the transportation of hydro electric power generated from NLR's Murray Hydro Electric

project.[6] The Power Agreement allows general access to the transmission system during its contract life; however, unlike Conway, West Memphis, Osceola, Benton, Prescott and Farmers Agreements the NLR Agreement expires in 1994.

3. Rights of Arkansas Cities and Cooperative to Transmission Service Within the MOU And Service Agreement Addenda. Election of Transmission Path to Gulf States Utilities Company. As discussed, Arkansas Cities and Cooperative are entitled to access to AP&L's transmission system for purchases from third parties under certain circumstances. CWO's Service Agreements grant those cities rights to transmission service for "peak power" and, along with Benton and Prescott, for power purchases in excess of contract "minimums" from third parties. The North Little Rock Power Agreement, during its term, grants that city certain transmission service rights.

AP&L and Arkansas Cities and Cooperatives are parties to a MOU dated November, 1989. The MOU

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[6] Murray Hydro Electric License No. 3449-001. Access to the bulk power supply market for long term coordination and reserve services for the Murray Hydro project is critical to the long term financial viability of the Murray Hydro Project. NLR now only has a KWH for KWH "credit" from AP&L in its agreements with AP&L. That credit presumably expires June 30, 1994.

provides a number of rights to Arkansas Cities and Cooperative (including virtual unlimited access to AP&L transmission system) in consideration of Arkansas Cities and Cooperative's support for the creation of Entergy Power, Inc. (EPI) and the transfer to EPI of AP&L's interest in the ISES 2 and Ritchie 2 plants.[7] ISES 2 and Ritchie 2 are coal and gas fired electric generating stations which were transferred by AP&L or "spun off" to EPI to be used for "off system" wholesale power transactions by EPI for the benefit of the Entergy system. The entire EPI transaction was accompanied by legal proceedings.[8]

The rights of Arkansas Cities and Cooperatives within the MOU include access to AP&L's transmission grid on terms that are substantially similar to any granted EPI or any non-affiliated entity by AP&L or any other Entergy Corporation operating company. The transmission access may be used by Arkansas Cities and Cooperative to purchase power from other wholesale electric suppliers after February 27, 1993,

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[7] See e.g. Entergy Services, Inc., FERC Docket No. ER90-38-000 (June 29, 1990); City of New Orleans, Louisiana v. Entergy Corporation, FERC Docket no. ER90-48-000 and Entergy Corporation, et.al. Release No. 35-25136, SEC Docket No. 70-7684 (August 27, 1990).

[8] See Arkansas Electric Energy Consumers v. FERC, et al, 969 F.2d 1663 (D.C. Cir. 1992).

notwithstanding any prohibition or limitation contained in pre-existing Service Agreements. Arkansas Cities and Cooperative are entitled by the MOU to initially designate two (2) transmission contract paths to assure availability of the transmission system after February 27, 1993. In 1991, shortly after the MOU's approval in March 1990, Arkansas Cities and Cooperative all designated transmission paths to Gulf States Utilities as their designated path for service after February 27, 1993. Thereafter, AP&L accepted the election of the transmission path to Gulf States as one assured path.

In reliance on the terms of the MOU and designation of transmission contract paths, Arkansas Cities and Cooperative have solicited or received proposals from several third party bulk power suppliers including AP&L. In fact, since the MOU was agreed upon in November, 1989, Arkansas Cities and Cooperative and AP&L have executed extended, modified and superseding Service Agreements.[9]

Arkansas Cities and Cooperative have executed Addenda to their various Service Agreements with AP&L

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[9] See e.g., for North Little Rock the 1990 Extension Agreement, FERC Docket No ER90-323-000, for Benton, Prescott and FECC, FERC Docket No. ER91-548-000, and for Conway, Osceola and West Memphis, FERC Docket No. ER91-296-000.

to formalize the rights granted Arkansas Cities and Cooperative by the MOU and to continue transmission rights. The Addenda were accepted for filing in FERC Docket No. ER91-549-000 October 24, 1991.

Copies of the MOU (Exhibit A), Benton Service Agreement (Exhibit B), Benton Addenda (Exhibit C), Benton Transmission Path Election and AP&L Acceptance (Exhibit D), Conway Service Agreement (Exhibit E), Conway Addenda (Exhibit F), Conway Transmission Path Election and AP&L Acceptance (Exhibit G), North Little Rock Service Agreement (Exhibit H), North Little Rock Addenda (Exhibit I), and North Little Rock Transmission Path Election and AP&L Acceptance (Exhibit J) are attached hereto. The Service Agreements, Addenda and Transmission Path Elections of Osceola and West Memphis are substantially similar to those of Conway, while the Service Agreements, Addenda and Transmission Path Elections for Prescott and FECC are substantially similar to those of Benton.

IV.

TRANSMISSION ACCESS APPROVED IN ENTERGY SERVICES, INC., FERC DOCKET ER91-569-000

On August 2, 1991, Entergy filed a request on behalf of its Operating Company Subsidiaries for the

FERC's permission to make negotiated market-based rate sales of power at wholesale in FERC Docket ER 91-569-0000. Market-based rates would apply to sales, both for the System's joint account and those by Entergy Power, Inc. (EPI), Entergy's recently established off-system sales power marketer. Entergy submitted transmission service tariffs for each of its Operating Company subsidiaries and a supporting Market Power Analysis in order to mitigate its market power to forestall objection to the market-based rates.

Generally, the filed transmission tariff allowed electric utilities access to the Entergy Operating Company transmission systems. The transmission tariffs contained a number of other terms including provisions governing or authorizing the following: (1) determination of need for construction of new transmission facilities by Entergy; (2) determination of available transmission capacity; (3) rates for access; (4) stranded investment recovery; (5) exemption from transmission access requirements for subsequently acquired transmission facilities.

Many utilities, state regulators, municipalities and others filed comments and Interventions in response to the Entergy filings. The Interventions generally objected to some part or all of

the Entergy filings and a number of parties requested evidentiary hearings on the matter.

FERC approved the Entergy plan with modifications in its 76-page Order on Rate Filing (plus appendices) issued March 3, 1992, 58 FERC ¶61324. In that Order, however the Commission rejected Entergy's market power analysis determining that the company defined "its markets too broadly". Order, 58 FERC, at page 61754. The overbroad definition would, in the Commission's view, result "in somewhat misleading data regarding Entergy's degree of dominance in the region." Id. FERC conducted its own market power analysis and ordered Entergy to file updated market analyses every three years, Id. at 61760. The Commission also stated:

> . . . The transmission tariff is supposed to mitigate Energy's (sic) market power over transmission, and any exclusion of facilities, even those acquired in the future, could defeat this purpose. Entergy cannot protect any part of its transmission network from the market mitigation measures under the transmission tariff. If special circumstances surrounding a merger warrant an exclusion, Entergy may ask to revise the transmission tariff at that time, subject to Commission approval.

Id., at page 61766-67 (footnote omitted).

The Commission denied rehearing requests in its August 7, 1992 Order on Rehearing. Although rehearing was denied, the Order on Rehearing clarified or expanded the Commission's initial Order On Rate Filing

in several significant particulars, including discussion of market analysis issues, transmission access for QF's and retail customers and finally refining stranded investment recovery policy applicable to Entergy's pre-existing contracts.

On April 5, 1993 FERC issued an additional Order Accepting Rate Schedules, Accepting Amendment to Power Agreement, Conditionally Accepting Transmission Tariff With Modifications, Conditionally Accepting Service Agreements, Granting Waiver of Notice and Denying Motion To Update Market Power Analysis (April 5 Order). The April 5 Order generally discounted concerns raised by various intervenors related to various compliance filings by Entergy and specifically denied requests that Entergy be required to conduct a market power analysis reflecting the proposed merger of Entergy and GSU and reviewing the merged company's market power and post merger competitive situation.

V.

ARKANSAS CITIES AND COOPERATIVE'S OBJECTION TO MERGER APPLICATION IN NUCLEAR REGULATORY COMMISSION DOCKET NO. 50-458

A. Entergy and GSU have failed to adequately analyze the proposed merger's effect on competition.

Arkansas Cities and Cooperative's primary objection to the acquisition of GSU by Entergy is that the merger will have a significant detrimental impact upon completion for wholesale load within the combined Entergy\GSU service territory. Entergy has not adequately explained the effect of the merger upon competition and no regulatory agency has reviewed the anticompetitive impact of the merger at this time.

In the Joint Application of Entergy Services, Inc. and Gulf States Utilities Company for Authorization to Combine Systems, at FERC Docket EC92-21-000 and ER92-806-000, there is included Joe D. Pace's Prepared Direct Testimony (Pace Testimony), which attempts to provide an analysis of competition in light of the merger. See Page 31 of the Pace Testimony, which is attached hereto as exhibit K, wherein the witness states that Benton, Prescott, Farmers, Conway, Osceola and West Memphis have "entered into contracts that satisfy their anticipated capacity requirements through the end of 2000". Therefore, Mr. Pace included only North Little Rock in his market power analysis. Mr. Pace apparently did not review the MOU, Service Agreements, Service Agreement Addenda, or Transmission Path Elections to Gulf States Utilities discussed supra, or, he has materially misinterpreted those

Agreements. By virtue of the MOU, Service Agreements, Service Agreement Addenda and Transmission Path Elections, Arkansas Cities and Cooperative each possess the right either to make off-system purchases notwithstanding any other pre-existing contract with AP&L from and after February 27, 1993, or to make purchases in excess of contractual "minimums".[10] Entergy has not, however analyzed the effect of the merger on Arkansas Cities and Cooperative's right to make such purchases. This pleading and the attached Affidavit of Economist Stephen M. Merchant make a prima facie case that the Entergy/GSU merger as filed will degrade competition for bulk power sales inside Entergy's service territory. The Affidavit of Mr. Stephen M. Merchant, Economist with the consulting firm of A. J. Rowe and Associates, is attached hereto as Exhibit L. The Affidavit contains Mr. Merchant's findings, inter alia, that to be considered a valid competitor in the relevant Entergy market: (a) suppliers must be competitively priced; and (b) suppliers must be willing and able to include Cities in

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[10] The Direct Testimony of Veronica V. Vansco of the FERC Staff in FERC Dockets EC92-21-000 and ER92-806-000, attached hereto as exhibit L, is directly supportive of Arkansas Cities and Cooperative's right to acquire power from third power suppliers after February 27, 1993.

their long-term generation planning. The Affidavit summarizes Arkansas Cities and Cooperative's attempt to find alternative power suppliers and its results and contains Mr. Merchant's conclusion on the reasonableness of Mr. Pace's market analysis.

The Entergy/Gulf States merger will clearly harm competition for wholesale power sales within the service area controlled by Entergy's Operating Company subsidiaries. Entergy certainly will not allow its Operating Company subsidiaries (including Gulf States) to compete with AP&L for power sales within AP&L's service territory once the acquisition is completed, and, thus, with the elimination of Gulf States, Entergy's only serious competitor will be eliminated.

Since the negotiation of the MOU, Arkansas Cities and Cooperative have attempted to arrange power and energy supplies from non-Entergy subsidiary power suppliers. The following list of power suppliers are those contacted and the approximate date of such contact: Oklahoma Municipal Power Authority (OMPA) May 1991, Arkansas Electric Cooperative Corporation (AECC) April 1991, Southwestern Electric Power Company (SWEPCO) April 1991, Grand River Dam Authority (GRDA) May 1991, Central Illinois Public Service Company (CIPSCO) April 1991, Gulf States Utilities Company

(Gulf States) December 1990, and the Southern Company February 1990.

Due to a conflict with Oklahoma state law, OMPA determined that it was unable to supply power to municipalities outside Oklahoma. The Southern Company refused to submit proposals for power sales across Entergy's transmission grid due to Entergy's policy of requiring wheeling utilities to grant Entergy "reciprocal" wheeling rights to their own systems.[11] Each of the other power suppliers contacted did not possess the capability to provide long-time firm service. Gulf States was the only investor-owned utility to respond with a competitively priced long-term power supply proposal in the face of Entergy's transmission grid control. Gulf States was, therefore, in the real world, AP&L's only real competitor for Arkansas Cities and Cooperative's load, and, as discussed supra, Arkansas Cities and Cooperative each named Gulf States for a guaranteed Transmission Path for purchases after February 27, 1993.

The FERC approved Entergy's reciprocity policy in Docket ER92-569-000 without apparent consideration of the provision's effect upon the market of a major

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[11] Reciprocity was approved in FERC Docket No. 91-569-000, at 58 FERC ¶61234, at page 61767.

market player, such as the Southern Company refusing to allow competition in its own area. Arkansas Cities and Cooperative assert that this policy has actually discouraged meaningful competition for wholesale power supplies and will effectively serve to discourage potential wholesale power suppliers from competing across Entergy-controlled transmission facilities in the future much as it did the Southern Companies. Based on the above, including the Affidavit of Stephen M. Merchant, Arkansas Cities and Cooperative request a full hearing and investigation on the effect of the merger and Entergy's post merger transmission access policy on competition for wholesale power sales, including a re-evaluation of the "chilling effect" of the "reciprocity" requirements approved in Docket No. ER91-569-000.

The MOU and Docket No. ER91-569-000 grants Arkansas Cities and Cooperative only "wheeling rights", i.e. rights to transmission grid access are substantially similar to those within a standard FERC Transmission Agreement. The MOU's provisions do not encompass the additional conditions that appear within a typical anti-trust conditioned license such as coordination services, rights to purchase interests in

nuclear plants, rights to purchase interests in other future generation, and reserve sharing.

B. Anticompetitive Activities By Entergy. Arkansas Cities and Cooperative also wish to raise the issue of inconsistent representations concerning the prepared direct testimony of Joe D. Pace made by Entergy's and GSU's representatives. On page 35 of the Answer of Entergy Services, Inc. and Gulf States Utilities Company to Motions to Intervene, at FERC Entergy and GSU stated:

> Dr. Pace never asserted that Arkansas Cities were contractually barred from purchasing additional capacity if their needs changed or if they wish to be capacity brokers. Moreover, if their anticipated needs do not fully materialize, they will become competing sellers of excess capacity.

See exhibit N.

On December 11, 1992, in a letter which is attached hereto as Exhibit O, an Entergy official wrote that : "You should know that in AP&L's view our contract does not permit your client to buy peaking power from AP&L and resell it to third parties." The letter shows AP&L's view that the PCITAs do not allow CWO to broker power and energy as represented by Dr. Pace's testimony in the Entergy/Gulf States Merger case. AP&L's December 11, 1992 letter references Article 1 of the CWO PCITAs, which state:

> During the term of this Agreement, the Company s shall provide, transmit and deliver all of the electric power and energy necessary to fulfill the total electric service requirement of [City] within its service area. . .

It would appear that AP&L's position is intended to forestall efforts by CWO to broker power to other third parties wholesale power users. Such brokering would be in direct competition with Entergy.

There are several problems with Entergy's analysis. These are: federal law does not mention or authorize establishment of exclusive wholesale electric service territories; Entergy appears to intend to attempt to enforce state retail service territory limitations against federally regulated wholesale transactions; and finally, territorial limitations in sales for resale agreements are anti-competitive and, therefore, violate anti-trust law.

Exclusive service territory limitations in the wholesale electric industry have never been approved and would clearly violate U. S. antitrust law. U.S. Supreme Court decisions base on anti-trust law clearly prohibited the imposition of territorial restrictions on sales for resale. The Supreme Court's position on territorial restrictions is clearly shown by its decision in U.S. v. Arnold Schwinn & Co., 388 U.S. 365, 87 S.Ct. 1856 (1967). There, the Court stated:

> where a manufacturer sells products to his distributors subject to territorial restrictions upon resale, a per se violation of the Sherman Act results. And, as we have held, the same principle applies to restrictions of outlets with which the distributors may deal and to restraints upon retailers to whom the goods are sold. Under the Sherman Act, it is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it.

Id., at 1865. [Emphasis in the original; citations omitted.]

The situation here is similar to that found in the Schwinn case. AP&L has a contract to sell CWO electric power for resale. AP&L now wants to control, i.e., limit the area in which that power is resold. This control over resale would eliminate any possible competition by CWO's systems against AP&L for wholesale transactions with other systems. Such control and elimination of competition violates the rule handed down in Schwinn. When Entergy and AP&L sell wholesale electricity, they may not properly preserve control over that wholesale power's final destination, the identity of the ultimate consumer, or the condition of its resale.

VI.

LEGAL ANALYSIS

Alabama Power Company v. Nuclear Regulatory Commission, 692 F.2d 1362 (11th Cir. 1982) is the latest word on the power given to the NRC to prevent and/or remedy possible anti-trust violations. Alabama established that the NRC had broad discretion to remedy possible anti-trust violations. Alabama's holding in that decision established three principal points:

1. The Commission is not prohibited from considering the anti-trust implication of an activity of a licensed applicant other than those directly arising from the activity sought to be licensed;
2. The Commission is not required to limit its concerns to activities which are mature violations of anti-trust laws but may take a forward look toward potential anti-competitive results;
3. The Commission did not exceed its authority by ordering ownership access to new plants.

The Alabama holding stated that the Commission had the authority in considering alleged anti-competitive actions which occurred many years, even decades, prior

to applications for operating licenses for nuclear plant power. Alabama also states that the NRC may rescind or refuse to issue a license if this result would follow a situation that was inconsistent with anti-trust law and the Commission may attach appropriate conditions to a license to rectify the anti-competitive consequences of the license activity. Id, at 1564. The Alabama holding is based on the Commission decision set out at 13 NRC 1027 (1981) under the same heading. The Licensing Board found five instances of anti-competitive actions by the applicant, and, invoking several public interest considerations, the Commission ordered the imposition of a number of conditions on the applicant. The principal conditions required for:

1. The applicant to provide AEEC with access to the Farley plant in the form of unit power;
2. To provide transmission services to enable AEEC to make effective use of power; and
3. To provide AEEC with back-up bulk power to cover those situations when Farley is down for maintenance or other cases.

Alabama also states that the adequacy of a

particular remedy in light of Section 105(c)6 of the Atomic Energy Act involves two basic factors which are:

1. On a case-by-case basis whether the remedy neutralizes the impact of the licensed facility upon a competitive situation in a particular market in light of the affirmative findings; and
2. Whether the remedy selected has access to the applicants' activities under the license.

In light of the facts and circumstances discussed in Part VI, the two criteria above have been established and, based on the broad discretion of authority given to the Commission, the licensing board should impose the appropriate licensing conditions on ANO II or extend the Grand Gulf license conditions to the entire geographic service area of Entergy Corporation subsidiaries.

South Carolina Electric and Gas Company and South Carolina Public Service Authority, 11 NRC 817 (1980); 13 NRC 862 (1982) established the need to show "significant changes" have taken place since the initial hearings. According to the South Carolina case which states that a significant change is one that has occurred subsequent to the previous review by the Attorney General and the Commission in connection with

the construction permit for the facility (citing Houston Lighting and Power Company, 5 NRC 1303 (1977), and Texas Utilities Generating Company, 7 NRC 950 (1978) as authority). According to the South Carolina case, to constitute "significant changes", the change:

1. Must have occurred since the previous statutory anti-trust review;
2. Must be fairly attributable to the licensee in a causation sense; and
3. Must have anti-trust implications likely to warrant Commission remedy.

South Carolina, 11 NRC 817, 829, also states that the Commission will look at Comments in making its decision, once again, the "significant changes" in regard to the Grand Gulf licensing have been discussed in Parts V and VI and appear to meet all standards required by the "significant change" doctrine.

Toledo Edison Company, (Davis-Besse Units 1, 2, and 3), 10 NRC 265 (1979), is a case that involved MELP, which is a municipal power system which both purchased power at wholesale from CEI and competed with it at retail. Cleveland alleged that the utility had exercised its control over generation and facilities anti-competitively to block MELP's attempt to obtain bulk power at lower costs from other sources. In

addition to other relief, the City asked for license conditions to help MELP have access to power generated by the nuclear plant, and were granted the conditions requested including the following:

1. Refrain from conditionary energy sales on anti-competitive terms;
2. To make reasonable interconnections;
3. To wheel power;
4. To offer CAPCO membership;
5. To sell maintenance, economy and emergency energy;
6. To share reserves;
7. To offer access to the nuclear plants;
8. Not to assert prior CAPCO arrangements to avoid compliance with remedial conditions;
9. To require applicants to sell wholesale power to certain systems' public power systems.

Once again, given the broad discretion afforded to the Commission under the Alabama case, supra, in formulation of remedies to possible anti-trust violations and the "significant changes" that have occurred discussed in South Carolina, supra, the Commission should impose the appropriate license conditions on ANO II and/or extend the Grand Gulf

license conditions to the entire service area of Entergy Corporation subsidiaries.

VII.

SERVICE LIST

In the event the Commission establishes a service list in this proceeding, the names and addresses of all persons whose names should be contained on the official service list for Arkansas Cities and Cooperative are:

Mayor Jim Presnall
City Hall
Post Office Box 607
Benton, AR 72015

Mr. John Walden
City Hall
Post Office Box 607
Benton, AR 72015

Mr. Bill Hegeman
Conway Corporation
Post Office Box 99
Conway, AR 72032

Mr. Gene Sweat
Farmers Electric Cooperative Corporation
Post Office Box 400
Newport, AR 72212

Mrs. Cathern Wilkins
General Manager
N.L.R. Electric Department
P.O. Box 159
No. Little Rock, AR 72119

Mayor Dickie Kennemore
City Hall

Post Office Box 443
Osceola, AR 72370

Mayor James Johnson
City Hall
Post Office Box 676
Prescott, AR 71857

Mr. Larry Stockton
City Hall
Post Office Box 676
Prescott, AR 71857

Mr. William H. Johnson
West Memphis Utilities
Post Office Box 38
West Memphis, AR 72301

Mr. David N. Carne
A. J. Rowe & Assoc., Inc.
4312-D Evergreen Lane
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Zachary D. Wilson, Esq.
Attorney At Law
321 Maple Street
Post Office Box 5578
North Little Rock, AR 72119

VIII.

SUGGESTED "SYSTEM-WIDE" IMPOSITION OF ANTI-TRUST CONDITIONS BASED ON ACQUISITION OF GSU BY ENTERGY

Based on the foregoing, Arkansas Cities and Cooperative recommend that the NRC and the Attorney General conduct a thorough anti-trust review and give consideration to the imposition of anti-trust license conditions which would grant comparable rights to the customers of all of Entergy's Operating Company

subsidiaries and would allow and require GSU and Entergy's other operating company subsidiaries to compete for wholesale load in the Entergy Company's service areas.

Respectfully submitted,

BY: Brian C Donahue

ZACHARY D. WILSON, P. A.
Brian C. Donahue
321 Maple Street
P.O. Box 5578
North Little Rock, AR 72219
Attorney for Arkansas Cities
and Cooperative

CERTIFICATE OF SERVICE

I, Brian C. Donahue, Attorney for Arkansas Cities and Cooperative do hereby certify that I have caused a copy of the foregoing Comments to be served upon Gulf States Utilities Company this 23rd day of April, 1993.

Brian C Donahue
Brian C. Donahue

MEMORANDUM OF UNDERSTANDING

AMONG

ARKANSAS POWER AND LIGHT COMPANY (AP&L)

AND

THE CITY OF CONWAY, ARKANSAS (Conway)

THE CITY OF WEST MEMPHIS, ARKANSAS (West Memphis)

THE CITY OF OSCEOLA, ARKANSAS (Osceola)

THE CITY OF BENTON, ARKANSAS (Benton)

THE CITY OF PRESCOTT, ARKANSAS (Prescott)

THE CITY OF NORTH LITTLE ROCK, ARKANSAS (North Little Rock)

FARMERS ELECTRIC COOPERATIVE CORPORATION (Farmers)

hereinafter sometimes referred to collectively as

"Wholesale Customers"

WHEREAS, AP&L has filed an application in Arkansas Public Service Commission (APSC) Docket No. 89-128-U requesting approval of a Stipulation and Settlement Agreement which provides, among other things, for the transfer and sale of certain AP&L generating facilities to Entergy Power, Inc. (EPI), a yet to be formed corporation which is proposed to be a wholly owned subsidiary of Entergy Corporation; and,

WHEREAS, Entergy Corporation and AP&L intend to file an application with the Securities and Exchange Commission (SEC) requesting SEC approval of the formation of Entergy Power, Inc. as a wholly owned subsidiary of Entergy Corporation and for approval of the transfer by AP&L to EPI of AP&L's interest in certain generating facilities known as Independence Steam

EXHIBIT

A

Electric Station Unit No. 2 (ISES 2) and Ritchie Steam Electric Station Unit No. 2 (Ritchie 2); and,

WHEREAS, AP&L and the Wholesale Customers propose to resolve any and all differences between and among themselves with respect to the approval of the formation of EPI and for the transfer to it of AP&L's interest in ISES 2 and Ritchie 2 as well as questions related to the Wholesale Customers' desire to have access to the transmission facilities owned in whole or in part by AP&L.

NOW, THEREFORE, AP&L and the Wholesale Customers enter into the following agreements and undertakings:

1. This Memorandum of Understanding (MOU) and all agreements and undertakings herein set out are expressly contingent upon receipt by AP&L and Entergy Corporation of regulatory authorizations of the APSC, the Public Service Commission of Missouri (MOPSC), and SEC necessary for them to carry out the implementation of the transactions associated with the formation of EPI as a wholly owned subsidiary of Entergy Corporation and sale of ISES 2 and Ritchie 2 by AP&L to EPI contained in the Stipulation and Settlement Agreement prior to January 1, 1991. In the event all such authorizations are not received prior to January 1, 1991, or in the event any of said agencies specifically disapprove the formation of EPI, or sale by AP&L of ISES 2 and Ritchie 2 to EPI at any earlier date (Agency Denial), then this MOU and all agreements and undertakings herein contained shall be null and void unless a Customer in its sole

discretion notifies AP&L, in writing, of its desire to continue performance under this MOU for one or more additional six (6) month periods after January 1, 1991, or one or more additional six (6) month periods after any Agency Denial prior to January 1, 1991, until necessary approvals are obtained. In the event a Customer elects not to continue performance under this MOU by not giving notice prior to January 1, 1991, or any succeeding six (6) month period, or after Agency Denial, prior to January 1, 1991 or by exercising its termination rights in Sections 11 and/or 12 hereof, any such Customer shall be free to exercise any legal right it has to obtain transmission grid access, and nothing in this MOU, nor such customers' execution of, and prior performance under this MOU, shall be deemed by any party to be a waiver, abandonment, relinquishment, or bar to the exercise of such rights by the Customer.

2. The Wholesale Customers agree that prior to the termination of this MOU they shall support all approvals which may be required by the APSC, the MOPSC, the Federal Energy Regulatory Commission (FERC) and the SEC for the formation of EPI and the transfer to it of all of AP&L's interest in ISES 2 and Ritchie 2 and all transactions related to such approvals. Such support shall constitute, but shall not necessarily be limited to, a written statement on behalf of the Wholesale Customers individually and collectively expressing support for the above-described transactions which AP&L may use with the APSC, MOPSC, the FERC and SEC evidencing the support of the Wholesale

Customers. Nothing in this MOU shall be a bar to, or basis for, objection to any Wholesale Customer's intervention or participation in APSC, SEC, or FERC proceedings associated with the transactions described in this MOU in order to support the approval and formation of EPI (including the sale by AP&L of ISES 2 and Ritchie 2 to EPI) and to protect its interests from positions of parties not signatories to this MOU which may be adverse to approval and formation of EPI (including the sale by AP&L of ISES 2 and Ritchie 2 to EPI) and, in addition, at the FERC to protect its interest with regard to formula rates contained in Exhibit B from claims by any party inconsistent with their justness and reasonableness, or to protect its interest from positions taken in such proceedings by signatories to this MOU inconsistent with this MOU or to contest the justness and reasonableness of transmission service rates before the FERC under §205 or §206 of the Federal Power Act if the formula rates in the initial filing with FERC differ from those contained in Exhibit "B".

3. AP&L agrees that, upon receipt of the approvals of the APSC, MOPSC and SEC necessary for the formation of EPI and for the transfer of ISES 2 and Ritchie 2 to EPI, AP&L will execute and cause to be filed with the FERC, an Addendum to the currently effective Power Coordination, Interchange and Transmission Agreement, Power Agreement, or Agreement for Electric Service ("existing Agreement(s)") between AP&L and each individual Wholesale Customer. Such Addendum to the existing Agreements

will provide for any changes to formula rates made necessary by operation of this MOU, and specifically incorporate all provisions of this MOU in addition to formula rate changes and provide for access, as described hereafter, by the Wholesale Customers to the interconnected transmission system of AP&L (System) at the earlier of: (1) As of the termination date presently specified in the existing Agreements;[1] or (2) As of 30 months from the date of the necessary approvals of the SEC for the formation of EPI and sale to EPI of ISES 2 and Ritchie 2. The method of providing access to the system within the Addendum shall be by individual contract between AP&L and each Wholesale Customer as set forth in the attached Exhibit A, Terms for Transmission Service, and shall contain such additional terms and provisions substantially similar to the terms and provisions within the Agreement between AP&L and EPI attached hereto as Exhibit B as may be consistent with the Wholesale Customers or its supplier's physical and operating characteristics and power and energy requirements, or such additional terms and provisions substantially similar to terms and provisions which may be contained in any other Transmission Service Agreement now or hereafter entered into between any Entergy Corporation operating

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[1] The North Little Rock Addendum (including this MOU) shall remain effective beyond the termination date of the North Little Rock/AP&L Power Agreement, if this MOU is not terminated by North Little Rock in accordance with its provisions, by operation of this MOU, or by any Agency Denial.

subsidiary and EPI or its successors. Where conflicts exist between this MOU, and Exhibits A and B, hereto, this MOU shall control, and where Exhibit B's terms are more favorable to the Wholesale Customer or its supplier than Exhibit A, Exhibit B shall control.

4. Transmission Grid Access rights granted to the Wholesale Customers as provided in this MOU shall be available to a Wholesale Customer after the time specified in Paragraph 3(1) and (2) irrespective of whether or not the Wholesale Customer elects to request such service at either of such times for so long as AP&L provides access to EPI or to its successors, and for so long as AP&L has no duty to plan generation facilities to serve such Customers' loads, as described below. To the extent a Wholesale Customer actually exercises its rights to take service and does acquire firm electric capacity and energy from a Supplier by access to the system, such receipt of service shall relieve AP&L of any obligation to continue to plan for and provide generation facilities necessary to meet such Wholesale Customers' loads thereafter served by a supplier other than AP&L. As to transmission and related distribution facilities described in the FERC System of Accounts 350-359 for Transmission and 360-373 for Distribution, 18 C.F.R. part 101, 16 U.S.C.A. §825 and as required by existing Agreements necessary to meet the Wholesale Customers' full requirements, AP&L's obligation to plan for and provide such transmission and distribution facilities shall be unchanged by this MOU. It is the specific intent of AP&L and

Wholesale Customers to provide to Wholesale Customers and/or their supplier to the extent necessary to supply power to the Wholesale Customer access to the System under terms and conditions substantially similar to those granted from time to time to EPI by AP&L, or any Entergy Corporation Company, or by AP&L to any non-affiliated party. To that extent, therefore, subject to paragraph 14 hereof, in the event terms or conditions of transmission service more favorable than those contained in Exhibit B are provided by AP&L (or any Entergy Corporation Company for similar transmission service over its facilities) to EPI or by AP&L to any non-affiliated party, such more favorable terms or conditions of transmission service on the system shall be offered to Wholesale Customers (and/or their supplier to the extent necessary to supply power to such Wholesale Customers), notwithstanding conflicts with Exhibit A, Exhibit B, or this MOU.

5. The Wholesale Customers to which formula rates apply are to be insulated from any increase in rates that might result from a partial implementation of the transfer of ISES 2 and Ritchie 2 to EPI as proposed in the Stipulation and Settlement Agreement. AP&L and the Wholesale Customers agree that full implementation of such transfer shall be deemed to have occurred when either A or B has occurred:

A.1. ISES 2 and Ritchie 2 have been transferred to EPI and AP&L retires approximately $140 million of first mortgage bonds bearing interest rates of at least 13 percent, and,

2. AP&L's Before Tax Cost of Capital, as defined in the currently effective formula rates, becomes equal to or less than the Before Tax Cost of Capital existing at the end of the month prior to the month in which the transfer of ISES 2 and Ritchie 2 occurs, adjusted to give effect to any change in the allowed cost of common equity.

B.1. ISES 2 and Ritchie 2 have been transferred to EPI and AP&L uses the funds received from such transfer in a manner other than the retirement of the approximately $140 million of first mortgage bonds as contemplated in A above, including but not limited to the retention of funds for general corporate purposes, the payment of dividends or the purchase of other assets, and,

2. AP&L's Before Tax Cost of Capital, as defined in the currently effective formula rate becomes equal to or less than the Before Tax Cost of Capital existing at the end of the month prior to the month in which the transfer of ISES 2 and Ritchie 2 occurs, adjusted to give effect to any change in the allowed cost of common equity.

In the event partial implementation of transfer of ISES 2 and Ritchie 2 occurs in any calendar year but full implementation is not completed in the same calendar year, the formula rate redetermination to be filed on or about March 1 of the following year and based on data for the year in which the partial implementation occurred shall be made as though no aspect of the

partial implementation of the transfer had been made during that calendar year.

In the event full implementation occurs, or is completed, in any calendar year, then the formula rate redetermination to be filed on or about March 1 of the following year and based on data for the year in which full implementation was completed shall be made in the normal, prescribed fashion except that all revenue and expense effects resulting from such implementation of the transfer shall be reflected at an annualized level.

6. In order to provide for and to assure Wholesale Customers transmission capacity availability for each Wholesale Customer at the time transmission access commences under this MOU and the associated effective dates of proposed Addendums to existing Agreements, each Wholesale Customer shall be entitled to designate, on or before February 1, 1990 (Commitment Date), no more than two proposed point-to-point transmission contract paths which are specific as to (1) the number of megawatts (which may be an amount which Transmission capacity will not exceed); (2) beginning date of transmission service, (which may be a continuous period of time not to exceed One Hundred Eighty (180) days) (Beginning Date); (3) duration in time (which may be a period of time that the access to the specified path will not exceed); and (4) point-to-point location (i.e., point of delivery into AP&L's system and point of delivery into the system of the Wholesale Customer as those terms are defined in Section 3 of Exhibit A). Such designated transmission transactions shall be

limited to the Wholesale Customers' purchased power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of 5 percent per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is greater, adjusted for known and measurable changes.

Within 30 days after receipt of a designation by a customer for a point-to-point transmission path, AP&L will notify such customer whether or not such transmission capacity is presently available. If the designated transmission capacity is not presently available, such customer shall have an additional 30 days to designate another point-to-point transmission contract path, and AP&L shall notify such customer within 30 days after receipt of such additional designation as to the availability of such transmission capacity.

It is recognized and acknowledged by the parties that AP&L's primary transmission responsibility is to its retail and firm Wholesale Customers and that additions to these loads may affect the availability of transmission capacity. Thus, during the period from the Commitment Date until the Beginning Date, AP&L will undertake to notify the Wholesale Customer of any AP&L proposed transmission transaction with a third party or parties which would, during the period designated by the customer, substantially impair AP&L's ability to complete the transmission transactions designated by the customer on or before the Commitment Date. A Wholesale Customer shall have 30 days from the date of such notification to either (a) reserve such

transmission capability by paying to AP&L each month an amount equal to the transmission charges associated with the transmission transaction designated and requested by the customer, or (b) provide a written release of AP&L from any obligation to provide to such Wholesale Customer the designated transmission service which would be impaired by the proposed transaction, and elect, within Ninety (90) days under the procedure outlined in this section a substitute transmission path, which shall thereafter be subject to all the provisions of this paragraph 6.

7. AP&L agrees that the Cities of Benton and Prescott, Arkansas and Farmers Electric Cooperative Corporation (Farmers) may, upon the receipt by AP&L and Entergy Corporation of the approvals described in Section 1 of this MOU, elect to enter into Peaking Power Agreements (PPA's) with AP&L to provide peaking power service to such customers. Such PPA's shall include provisions which are substantially similar to the terms and provisions contained in the PPA's between AP&L and the Cities of Conway and West Memphis, Arkansas to be effective on and after October 1, 1991.

Benton, Prescott and Farmers may elect to commence receipt of service under the PPA's either (a) when the one year, twenty percent (20%) discount in the production demand rate terminates

in their existing Agreements[2] in which event the PPA's shall be effective as follows: Benton, September 1, 1992; Prescott, August 12, 1992; Farmers, July 1, 1992; or alternatively, (b) in lieu of receipt of any discount in their existing Agreement in which event the PPA's shall be effective as follows: Benton, September 1, 1991; Prescott, August 12, 1991; Farmers, July 1, 1991. In the event of the election of either alternative (a) or (b), the PPA's for Benton, Prescott and Farmers shall terminate as of April 30, 1996, the date of termination of the Conway, Osceola and West Memphis PPA's. Provided that, in the event the PPA of Conway and/or Osceola and/or West Memphis is extended beyond April 30, 1996, then at the individual option of either Benton or Prescott or Farmers, such later date as the Conway and/or Osceola and/or West Memphis PPA may be extended (likewise, Conway and/or Osceola, and/or West Memphis shall have the option to extend their effective PPA's in the event that the PPA's of Benton and/or Prescott and/or Farmers are extended beyond April 30, 1996). Provided additionally, in any event, either Benton, or Prescott or Farmers shall have the individual right, upon no

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2 AP&L and Benton, Prescott, Farmers and North Little Rock agree that the formulas contained in the existing Agreements between AP&L and Benton, Prescott, Farmers and North Little Rock shall be revised so as to conform with the formulas contained in the existing Agreements with Conway, Osceola and West Memphis. In regard to North Little Rock, this change shall affect only the underlying transmission and distribution demand rate formula in the Agreement for Hydroelectric Power Transmission and Distribution Service. However, this rate shall continue to be expressed as an energy rate.

less than five (5) years notice, to cancel its existing Agreements as of the termination date of the PPA.

8. Notwithstanding Section 14 of Exhibit A, AP&L, in consideration of Wholesale Customer performance under this MOU, forever waives any and all rights it might have, or in the future may acquire by any means to request, demand or bring, in any forum, any Civil or Administrative action for the recovery of "stranded investment payments" related to existing Agreements with these Wholesale Customers under current law, or laws in the future, including acts of Congress, or orders of the SEC or FERC against these Wholesale Customers or their suppliers. Company acknowledges that inclusion of Section 14 in Exhibit A is designed to assist Company in its dealings with Wholesale Customers not party to this Agreement and that the Wholesale Customers (except North Little Rock) thirty (30) month continuation of purchase of production capacity in accordance with existing Agreements beyond the date of SEC approval of EPI, and North Little Rock's performance under this MOU until January 1, 1991, or any Agency Denial prior to January 1, 1991, the Wholesale Customers (including North Little Rock's) duty to support the formation of EPI, AP&L's rights in §4 hereof to cease planning for customer loads and other valuable consideration given by Wholesale Customers within this MOU is ample consideration to AP&L for its commitment to forever waive all rights or entitlement to any right to claims against these Wholesale Customers or their suppliers for "stranded investment

payments" related to existing Agreements with these Wholesale Customers as a result of access by such Wholesale Customers to AP&L's transmission facilities as provided in this MOU. Nothing herein contained shall be construed to be a waiver by AP&L of any claim or potential claim or any Civil or Administrative action for recovery of stranded investment occasioned by any breach by Wholesale Customers, or any of them, (a) of this MOU, or (b) any existing Agreement, (after termination of this MOU), or (c) any future Agreement for the sale by AP&L to any such customer of electric power and energy. Moreover, nothing herein contained shall be construed to be a waiver by AP&L or any Wholesale Customer of any right or claim pursuant to statute or other applicable law or regulation related to any acquisition by any Wholesale Customer of any facilities now or hereafter owned by AP&L or any annexation by any Wholesale Customer of customers now or hereafter served by AP&L.

9. The Wholesale Customers, and each of them, in consideration of AP&L's performance under this MOU, waive during the period of performance under this MOU, any and all rights they may have, or in the future may acquire by any means to request, demand or bring, in any forum, any civil or administrative action for access by them to the transmission facilities owned in whole or in part by AP&L. In the event of termination of this MOU by any means specified herein, the parties shall be restored to all rights they had prior to execution of this MOU.

10. Notwithstanding Section 1 of Exhibit A, AP&L agrees that points of delivery for purposes of this MOU between AP&L and other operating subsidiaries of Entergy Corporation, Arkansas Electric Cooperative Corporation, Southwestern Power Administration, Southwestern Electric Power Company, Oklahoma Gas and Electric Company, and the Tennessee Valley Authority either do not require "Reciprocal Agreements", or AP&L currently has effective "Reciprocal Agreements" within the meaning of Section 1 of Exhibit A. The intent of this Section is to allow Transmission Grid Access in favor of the Wholesale Customers from AP&L physical interconnections with the enumerated utilities without compliance with Section 1 of Exhibit A. AP&L represents that the interconnected transmission grid of Entergy Corporation subsidiaries and affiliates as outlined in the attached Exhibit C has transmission capacity adequate to accommodate the transmission of power and energy to be designated by Wholesale Customers on the Commitment Date as set out in paragraph 6 above currently available and reasonably anticipated to be available at the time of transmission access as described in paragraph 3 of this MOU at interconnections with the utilities identified in this Section, and the Wholesale Customers, without the need for major capital improvements.

11. In the event the FERC, at any time prior to termination of this MOU, issues a final non-appealable order approving any rule making, or a final non-appealable order in any contested proceeding to which AP&L is a party or is represented by any

affiliated company and which FERC declares to be a generic finding applicable to all similar circumstances, which would allow transmission grid access to the Wholesale Customers as if this Agreement were not then effective, any Wholesale Customer in its sole discretion may after sixty (60) days notice terminate this Agreement, in which event the parties will be returned to all rights they had prior to the execution of this MOU.

12. In the event the APSC, in its approval of the sale of ISES 2 and Ritchie 2 by AP&L to EPI, conditions such approvals upon AP&L and EPI agreeing to, in any manner, limit geographically EPI's wholesale sales and the SEC or FERC sets for hearing any SEC or FERC regulatory approval without allowing the immediate implementation of the transactions described in this MOU, subject to refund, or otherwise, where there is at issue such APSC conditions, or other issues and such issues are not resolved by the SEC or FERC prior to January 1, 1991, Wholesale Customers shall have the right on sixty (60) days notice to terminate this MOU.

13. This MOU shall inure to the benefit of and be specifically binding upon the successors or assigns of all parties.

14. All parties to this MOU acknowledge that AP&L is a separate corporation which is a wholly-owned subsidiary of Entergy Corporation and that Entergy Corporation owns other operating electric utility subsidiaries. The parties further acknowledge that AP&L cannot obligate such other Entergy Corporation subsidiaries, including Louisiana Power and Light Company,

Mississippi Power and Light Company, or New Orleans Public Service, Inc. to provide access to transmission grids owned by such other companies nor to the entire interconnected Entergy Corporation grid. However, AP&L represents to the Wholesale Customers that the transmission access policy set out in Exhibit A is applicable to such other companies. AP&L will notify Wholesale Customers of any significant modifications in Exhibit A.

15. Any notice required to be given under the terms of this MOU, or any other notice from AP&L to a Wholesale Customer, or to AP&L from a Wholesale Customer, may given by United States Mail, first class, postage prepaid as follows:

President, Arkansas Power and Light Company
Post Office Box 551
Little Rock, AR 72203

Mayor, City of Benton
City Hall
Post Office Box 607
Benton, AR 72015

General Manager, Conway Corporation
1319 Prairie
Post Office Box 99
Conway, AR 72032

Mayor, City of North Little Rock
City Hall
Post Office Box 5757
North Little Rock, AR 72119

Mayor, City of Osceola
City Hall
Box 443
Osceola, AR 72370

Mayor, City of Prescott
City Hall
Prescott, AR 71857

General Manager, West Memphis Utilities
Post Office Box 1868
604 East Cooper
West Memphis, AR 72301

General Manager, Farmers Electric
Cooperative Corporation
Post Office Box 400
Newport, AR 72112

ARKANSAS POWER AND LIGHT COMPANY:

President

Asst. Secretary

DATE: 12-27-89

CITY OF BENTON, ARKANSAS:

Mayor

City Clerk

DATE: 11-17-89

CONWAY CORPORATION:

General Manager

Secretary

DATE: 11-7-89

CITY OF NORTH LITTLE ROCK, ARKANSAS:

Mayor

City Clerk

DATE: 11-17-89

CITY OF OSCEOLA, ARKANSAS:

R. Truett
Mayor

Linda L. Tilles
City Clerk

DATE: 10-30-89

CITY OF PRESCOTT, ARKANSAS:

[illegible]
Mayor

[illegible]
City Clerk

DATE: 11-14-89

CITY OF WEST MEMPHIS, ARKANSAS:

Faith M. Ingram
Mayor

[illegible]
City Clerk

DATE: 10/31/89

FARMERS ELECTRIC COOPERATIVE CORPORATION:

[illegible]
Chairman

[illegible]
Secretary

DATE: 11-13-89

SCHEDULE A

EXHIBIT

A

ARKANSAS POWER & LIGHT COMPANY

STATEMENT OF TERMS FOR TRANSMISSION SERVICE

1. Arkansas Power & Light Company (AP&L) will negotiate in good faith with any electric utility to provide transmission service under the conditions contained herein subject to a reciprocal agreement to provide transmission service under the same conditions if requested by AP&L.

2. AP&L will provide firm and/or interruptible transmission service on a transaction specific basis subject to a point-to-point transmission service arrangement (described in item 3. below) and technical and functional availability of the AP&L transmission system (described in item 4. below). All transmission service approvals will be based on a specific transaction approval rather than any type of blanket transmission service.

3. Transmission service arrangements will be based on point-to-point service. That is, the transaction will be described from the point at which it enters the AP&L transmission system to the point at which it exits the AP&L transmission system. All physical interconnections with a single utility would be considered a point, e.g. all AP&L interconnections with Louisiana Power & Light would be considered a point. All such interconnections must be physically interconnected with the AP&L transmission system, and the amount of transmission capacity to be requested on a firm basis at each point shall be specified in advance.

4. Transmission service will be subject to technical and functional availability. AP&L will be the sole judge of transmission service availability for a specified transaction. Technical and functional availability will be determined by appropriate studies in accordance with the then current Middle South Electric System Planning Guidelines and the engineering and operating principles, guidelines and criteria in the then current Southwest Power Pool Handbook. Principal items in such determination will include reliability, line loading, system contingency performance, voltage levels, stability, and economic dispatch.

   In addition, the requested transmission service shall not impair the ability of AP&L to render adequate service to its other customers, impair or reduce the reliability of its electric service to other customers, or increase the cost of service to its other customers. Such service shall not endanger, impair or create unsafe conditions on the system or any of the facilities of AP&L or its customer or other parties with which it is interconnected.

5. With respect to the firm transmission service referred to in Paragraph 2 above;

   a. such service shall be firm, reliable, non-discriminatory service; and

b. in rendering such service, the Company shall not discriminate between the transmission service customer and AP&L's retail, firm wholesale, and other firm transmission customers; and

c. such service shall be subject to interruptions or curtailments necessary for installation, maintenance, or replacement of equipment or caused by a force majeure.

6. If studies reveal that new transmission facilities or modifications to existing facilities will be required to provide the requested transmission service, upon request. AP&L will build such transmission facilities as are determined by studies to best augment the AP&L system to meet the requested transmission requirements. The transmission service customer will pay costs associated with such construction. This agreement to build is contingent upon obtaining necessary rights-of-ways and any required legal and regulatory approvals to construct the transmission facilities. AP&L will continue to own any and all transmission facilities built by it in the area it serves and will not agree to any equity ownership by others of any portion of its transmission system. AP&L agrees in principle to provide appropriate credit for construction of transmission facilities where AP&L and the transmission service customer both benefit from such construction. Nothing contained herein shall require AP&L to install any additional facilities outside its service territory in order to provide the requested transmission service.

7. The price for such transmission service, including appropriate credits provided for in Paragraph 6 above, will be subject to FERC approval.

8. The transmission service shall not violate or be inconsistent with and shall not cause AP&L to violate directly or indirectly or become a party to violation of any applicable statute, order, ordinance, governmental or agency rule or regulation or other applicable Federal, State or Local law; must in all events be lawful, duly authorized, and approved or accepted for filing by all regulatory agencies, if any, which have jurisdiction over such transmission service.

9. The transmission service shall not require AP&L to depart from the economic operation of its electric system and if departure is necessary and requested by the transmission service customer, any costs thereof will be assessed to the transmission service customer.

10. The transmission service customer will be responsible for the cost of all electrical losses incurred on the AP&L system resulting from the requested transmission service.

11. The transmission service customers will bear the responsibility for all third-party impacts to other electric systems resulting from the transmission service.

12. The transmission service customer will not resell its transmission service on the AP&L system to third parties without express written consent of AP&L.

13. AP&L will not provide transmission access to its retail customers.

14. AP&L will require payment for stranded investment resulting from transmission access to one of its wholesale customers.

15. In the event of a loss or reduction of the supply of capacity and energy to be transmitted by AP&L, AP&L shall have no obligation to replace such deficient amounts of capacity and energy from its own resources.

October 11, 1989

POWER COORDINATION, INTERCHANGE

AND

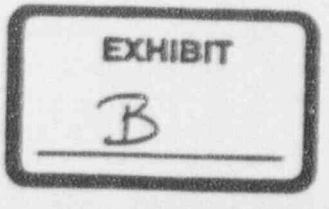
TRANSMISSION SERVICE AGREEMENT

BETWEEN

ENTERGY POWER, INC.

AND

ARKANSAS POWER & LIGHT COMPANY



ABLE OF CONTENTS

THIS AGREEMENT, dated as of _____, is between ARKANSAS POWER & LIGHT COMPANY ("AP&L"), a corporation organized and existing under the laws of the State of Arkansas, and Entergy Power, Inc. (Entergy Power), a corporation organized under the laws of the State of Delaware.

WITNESSETH:

ARTICLE I.

INTRODUCTION

AP&L is engaged in the business of generating, purchasing, transmitting and distributing electric power and energy in, among other places, various parts of the State of Arkansas.

Entergy Power is a corporation primarily engaged in the acquiring, producing, and selling of electric power and energy to other parties for resale.

ARTICLE II.

DEFINITIONS

2.1. AP&L Dispatcher. The term "AP&L Dispatcher" as used herein shall mean the personnel or agents of AP&L who perform the function of scheduling generation from resources within the AP&L Load Control area and the receipt and delivery of power and energy from and to other load control areas.

2.2. AP&L Load Control Area. The term "AP&L Load Control Area" shall mean the area served by the transmission facilities owned by AP&L which are under the control of the AP&L dispatcher.

2.3. Billing Month. The term "Billing Month" shall mean the period beginning on the first day and extending through the last day of each calendar month during the term of this Agreement.

2.4. Contract Year. The term "Contract Year" shall mean the twelve-month period beginning on January 1 of each calendar year and extending through December 31.

2.5. FERC. The term "FERC" shall mean the Federal Energy Regulatory Commission or any successor having comparable responsibilities.

2.6. Hourly Energy Delivery. The term "Hourly Energy Delivery" means the electric energy to be supplied in any hour by Entergy Power to AP&L for delivery at Points of Delivery and scheduled by Entergy Power for delivery to others, and it shall be determined by increasing the total energy delivered or scheduled by the Transmission Loss Factor as defined in Article V, Section 5.6.

2.7. Entergy Power Owned Resources. The term "Entergy Power Owned Resources" shall mean the electric generating facilities owned by Entergy Power (including Entergy Power's share of power and energy in any jointly owned facilities) located within the AP&L Load Control Area and which are available for dispatching by AP&L.

2.8. Entergy Power Other Resources. The term "Entergy Power Other Resources" shall mean the electric generating facilities owned by Entergy Power outside the AP&L Load Control Area or capability purchased by Entergy Power from others.

2.9. Entergy Power Resources. The term "Entergy Power Resources" shall mean the Entergy Power Owned Resources and Entergy Power Other Resources, collectively.

2.10. Plant Energy. The term "Plant Energy" shall mean the net kilowatt hour energy output of Entergy Power Owned Resources delivered to Points of Receipt for any calendar month.

2.11. Points of Delivery. The term "Points of Delivery" shall mean:

(a) Those AP&L interconnections with other utilities through which Entergy Power power and energy is delivered to other utilities; and

(b) The points at which the Transmission System of AP&L is connected to Entergy Power Owned Resources for auxiliary power and energy when Entergy Power Owned Resources are down for scheduled maintenance or any other reason.

2.12. Points of Receipt. The term "Points of Receipt" shall mean:

(a) Those points on the Transmission System of AP&L at which electric power and energy is delivered to AP&L by Entergy Power from Entergy Power Owned Resources under this Agreement.

Entergy Power power and energy delivered to AP&L at Points of Receipt shall be metered by Entergy Power. The power and energy delivered at the Independence Unit No. 2 to AP&L by Entergy Power will be Entergy Power's portion of the net power and energy of such plant.

(b) Those AP&L interconnections with other utilities where power and energy from Entergy Power Other Resources shall be received into the Transmission System of AP&L.

2.13. Point-to-Point. The term Point-to-Point refers to a transmission service arrangement in which a specific transaction is described from the point at which it enters the Transmission System of AP&L to the point at which it exits the Transmission System of AP&L. All physical interconnections with a single utility will be considered a point.

2.14. Transmission System of AP&L. The term "Transmission System of AP&L" shall mean the electric transmission system and related facilities of AP&L.

ARTICLE III.

SPECIAL OBLIGATIONS UNDERTAKEN RESPECTIVELY BY THE PARTIES

3.1. Obligation of Entergy Power to Provide and Furnish Electric Power and Energy. Entergy Power, from sources available to it, will furnish and provide all of the electric power and energy necessary to fulfill its contractual commitments at the Points of Delivery and will deliver all of said power and energy plus losses to AP&L at the Points of Receipt.

3.2. Obligation of AP&L to Deliver. AP&L will deliver the electric power and energy required by Entergy Power at the Points of Delivery, but in no event will AP&L be required to furnish capacity in excess of Entergy Power Resources.

3.3. Sales and Purchases of Surplus Energy. In the event energy is dispatched from Entergy Power's Owned Resources above Entergy Power's requirements, AP&L will purchase said energy at Entergy Power's incremental production cost. In the event energy is scheduled from Entergy Power's Other Resources above Entergy Power's requirements, AP&L may purchase said energy at Entergy Power's purchase price. Nothing herein shall require AP&L to purchase energy from Entergy Power's Other Resources at prices greater than AP&L's incremental production cost. AP&L will provide energy for the auxiliary requirements of Entergy Power's Owned Resources when such units are down for scheduled maintenance or any other reason, or Entergy Power may elected to schedule energy from its other resources to meet the auxiliary requirements of its Owned Resources. Energy provided by AP&L will be purchased by

Entergy Power at AP&L's incremental production cost. Incremental production cost, as used in this section, shall consist of incremental fuel cost and a variable operation and maintenance adder equivalent to the amount calculated under Service Schedule MSS-3, Section 30.08(f) of the Middle South System Agreement (AP&L Rate Schedule FERC No. 94).

3.4. Sales or Purchases by Entergy Power to or from Others. The delivery to, or receipt from, others of capacity and excess energy may be made by Entergy Power at any point of interconnection between the Transmission System of AP&L and the system of another provided that, in AP&L's sole judgment, sufficient capacity will exist in said transmission system for the delivery or receipt of said capacity and energy, for the time period of the proposed transmission service, and subject to the provisions of Article IV.

3.5. Voltage and Reactive Control. AP&L will establish a voltage schedule for its Transmission System which Entergy Power will follow. Entergy Power-operated generation within the AP&L control area will be capable of automatic voltage regulation to follow that schedule and respond to variations in interconnection voltage. Entergy Power-operated generation voltage limits and variability will be consistent with AP&L practices.

3.6. Long-Range Planning. Both parties hereto recognize that long-range planning is essential and necessary to render adequate, reliable and economical electric service to their customers and that such planning is mutually beneficial to the parties in performing their obligations under this Agreement. Therefore, on or about November 15 of each year, representatives of Entergy Power and AP&L will meet to review load and capability forecasts of each party, power supply of each party for the following year, and transmission requirements of each party, as they affect and relate to this Agree-

ment. The parties shall consider such pertinent information as may be useful and helpful in the most effective planning for future facilities which may be necessary.

ARTICLE IV.

DELIVERIES BY AP&L

4.1. Transmission Service. AP&L agrees to receive power and energy at a Point of Receipt and transmit and deliver such power and energy to a Point of Delivery through its Transmission System for Entergy Power's account. This agreement by AP&L is conditioned upon AP&L determining in its sole judgement that its Transmission System has adequate capability to accommodate the transaction, after meeting AP&L's own expected retail and firm wholesale power delivery obligations.

Capability to accommodate a specific transaction will be determined by AP&L from studies in accordance with the then current Middle South Electric System Planning Guidelines and the engineering and operating principles in the then current Southwest Power Pool Guidelines. Principal items in such determination will include reliability, line loading, system contingency performance, voltage level, stability and economic dispatch.

If studies reveal that new transmission facilities or modifications to existing facilities will be required to provide the requested transmission service, upon request, AP&L will build such transmission facilities as are determined by studies to best augment the Transmission System of AP&L to meet the requested transmission requirements. Entergy Power will pay the full construction costs of such facilities. AP&L will provide appropriate credit to such construction costs for construction of transmission faciltities where AP&L and Entergy Power both benefit from such construction. This agreement

to build is based on obtaining necessary rights-of-way and any required legal and regulatory approvals to construct the transmission facilities. AP&L will continue to own any and all transmission facilities built by it in the area it serves. Nothing contained herein shall require AP&L to install major additional facilities outside its service territory in order to provide the requested transmission service.

4.2. Specific Arrangements. Specific arrangements for each such transaction shall be determined by the Operating Committee, established pursuant to Article VII, and set out in a letter agreement between the parties. All such transactions shall be Point-to-Point. In addition to other conditions that may be specified, the letter agreement for each transaction shall set out the time period(s) for such transaction and the amount of the transaction that is to be Firm Transmission Service, the amount that is to be Interruptible Transmission Service, as defined below in Section 4.3 and Section 4.4, respectively, and whether AP&L or Entergy Power is to provide transmission energy losses. If AP&L is to provide transmission energy losses, the letter agreement shall also specify the expected load factor(s) for the transaction(s).

4.3 Firm Transmission Service. A transaction designated by the Operating Committee as Firm Transmission Service shall require AP&L to transmit and deliver the associated power and energy at all times and in the quantity set out in the corresponding letter agreement except that such service shall be subject to Force Majeure and the provisions of Section 4.1 and Section 6.4. Firm Transmission Service shall be subject to the Monthly Transmission Demand Rate as provided for in Article 5 below.

4.4 Interruptible Transmission Service. A transaction designated by the Operating Committee as Interruptible Transmission Service shall only require AP&L to transmit and deliver the associated power and energy on a

best efforts basis. AP&L may at its sole discretion interrupt such service at any time and for any length of time. Interruptible Transmission Service shall be subject to the Interruptible Transmission Energy Rate as provided for in Article 5 below.

ARTICLE V.

RATES AND BILLING

5.1. Rate Concept. AP&L and Entergy Power agree that the rates used to determine the amounts which Entergy Power shall pay to AP&L during the term of this Agreement for Firm Transmission Service, Interruptible Transmission Service, and supplying Energy Losses (hereafter referred to as Rates) will be determined by application of the rate formulas contained in Exhibit A, Exhibit B, and Exhibit C, respectively. These rates shall be applied each month to the corresponding billing determinants as defined in Section 5.5 below, to determine the amounts Entergy Power shall pay to AP&L for transmission service.

5.2. Initial Rates. The Rates which are to be initially effective upon the effective date of this Agreement shall be based upon the most currently available calendar year actual data. The initial Rates shall be submitted to Entergy Power as far as possible in advance of the first billing under this Agreement and shall be subject to refund as provided in Section 5.3 below.

5.3. Annual Redetermination of Rates. The Rates shall be redetermined each year based on immediately prior calendar year actual cost data. The redetermined Rates shall become effective for bills rendered on or after April 1 of that year for service in the preceding month and shall remain in effect for twelve months.

The redeterminations of the Rates shall be submitted to the FERC in an informational filing on or about March 1 of each year and shall consist of the following:

1) Comparison of the redetermined Rates with the previously effective Rates.

2) Calculation of the redetermined Rates.

3) Calculation of the redetermined Transmission Loss Factor as required in Section 5.6 below.

4) Workpapers showing the source of all data utilized.

A copy of each annual filing shall also be provided to Entergy Power. The FERC Staff, Entergy Power, and AP&L shall each have 30 days after AP&L files its FERC Form 1 for the preceding year to review the redetermination of the rates. The redetermined Rates shall be subject to refund or surcharge until the review period has passed and any required corrections have been made. Any errors in data or application of the rate formulas in Exhibits A and B that are detected by any party during the review period shall be corrected by AP&L as soon as possible after the end of the review period. A corrected Rate redetermination filing shall by submitted to the FERC with a copy to Entergy Power. After final approval by the FERC of the redetermined rates, AP&L shall make any required refund or charge Entergy Power for any required surcharge on the next normal billing.

5.4. Transmission Service Charges. Entergy Power shall pay AP&L a firm transmission service charge each month determined by multiplying the Transmission Billing Demand for that month, determined in accordance with Section 5.5(a) below, by the Monthly Transmission Demand Rate determined according to the rate formula in Exhibit A.

Entergy Power shall pay AP&L an interruptible transmission service charge each month determined by multiplying the Interruptible Transmission Billing

Energy for that month, determined in accordance with Section 5.5(b) below, by the Interruptible Transmission Energy Rate determined according to the rate formula in Exhibit B.

5.5. Transmission Billing Determinants.

(a) Transmission Billing Demand

The Transmission Billing Demand (KW) for any Billing Month shall be determined by first determining the maximum 60-minute simultaneous delivery of power to certain Points of Delivery at which Firm Transmission Service, as defined in Section 4.3 above, was being provided during the twelve month period ending with the Billing Month. This determination shall be made using metered data or scheduled power amounts as appropriate. The Transmission Billing Demand shall be the quantity determined above increased by the Transmission Loss Factor defined in Section 5.6 below.

(b) Interruptible Transmission Billing Energy

The Interruptible Transmission Billing Energy for any Billing Month shall be the quantity of energy designated as interruptible during the Billing Month, pursuant to the provisions of Section 4.3 above, that is scheduled by Entergy Power for transmission by AP&L to certain Points of Delivery as increased by the Transmission Loss Factor defined in Section 5.6 below.

(c) Transmission Energy Losses

The Transmission Energy Losses for any Billing Month shall be the quantity of energy (kWh) determined by first summing all energy deliveries under letter agreements which require AP&L to provide transmission energy losses and then multiplying that amount by the Transmission Loss Factor, as defined in Section 5.6 below, effective for the Billing Month.

5.6. Transmission Loss Factor. The Transmission Loss Factor to be used in conjunction with the determination of the Transmission Billing Demand, Interruptible Transmission Billing Energy, and Transmission Energy Losses, as described in Section 5.5 above, shall be redetermined annually on or about March 1 of each year by applying prior calendar year data to the Transmission Loss Factor formula contained in Exhibit D.

The initially effective Transmission Loss Factor shall be determined by applying the most recent calendar year data to the formula in Exhibit D. Subsequent annual redeterminations of the Transmission Loss Factor shall become effective for bills rendered on and after April 1 of each year for service in the preceding month and shall remain in effect for twelve months. The annual redetermination of the Transmission Loss Factor shall be included in the informational filing to be made with the FERC on or about March 1 of each year pursuant to Section 5.3 above.

5.7. Energy. It is the intent of both parties that all resources of both parties will be dispatched by AP&L's agent for maximum combined efficiency. For billing purposes Entergy Power Resources will be redispatched each month and AP&L's energy charges to Entergy Power shall be determined as follows:

(a) Entergy Power's Owned Resources.

(i) All energy generated in Entergy Power's Owned Resources and absorbed on redispatch into Entergy Power's sales to other systems will be priced at zero (0) cost.

(ii) All energy assigned to Entergy Power from Entergy Power's Owned Resources on redispatch; and not generated from Entergy Power's Owned Resources, will be priced based on the average cost of fuel for that month and the heat rate. The term heat rate as used herein shall mean the heat rate per net kWh generated

based [illegible] ficiency of the unit load [illegible] of the unit's rated full load capability, and shall be based on tests conducted jointly between AP&L and Entergy Power, at mutually agreed times, provided that either party may have the right to require a new heat rate test at any time not sooner than twelve months after the last previous test.

(iii) For energy assigned to Entergy Power except that provided for in Section 5.7(a)(i) and (ii) above, which is provided by AP&L, Entergy Power will pay to AP&L a cost per KWH determined as in Section 3.3.

(iv) All energy generated in Entergy Power's Owned Resources, and not absorbed into Entergy Power's sales to other systems on a redispatch basis, will be purchased by AP&L and priced at a cost per kWh determined according to the provisions of Section 3.3.

(v) For purposes of these calculations, and for dispatching purposes, each party will keep the other currently informed as to availability of each of its units as well as costs and availability of fuel at each of its units.

(vi) For redispatch purposes appropriate consideration will be given to other operating constraints which limit the availability of Entergy Power's Owned Resources to the AP&L dispatcher.

(vii) The parties hereto recognize that there are operating conditions where a jointly-owned generating unit, such as Independence Unit 2, must be operated without regard to economic dispatch in order to accommodate, or satisfy conditions imposed by the fuel contracts, fixed expenses or other maintenance or operating conditions. Under such must-run conditions energy

generated by a jointly-owned resource unit shall be received by each of the parties according to the percent of ownership.

(b) Entergy Power's Other Resources.

(i) All energy received by AP&L and absorbed on redispatch into Entergy Power's sales to other systems will be at zero (0) cost.

(ii) All energy received into AP&L's system, and not used on a redispatch basis to supply Entergy Power's sales may be purchased by AP&L at the cost per kWh paid by Entergy Power, excluding all demand charges, and subject to the provisions of Section 3.3.

5.8. Payment. Each party shall present to the other, promptly after the first of each month, a billing statement and invoice for the sales transactions and the respective amounts due under the terms of this Agreement for the preceding calendar month. The parties may use a net billing procedure if mutually agreed. All such invoices shall be due and payable within fifteen (15) days from the date of actual receipt. Invoices not paid within fifteen (15) days of actual receipt shall bear interest at the rate provided from time to time for refunds under the FERC Regulations at 18 CFR Part 35.19(a) or any successor thereto. All remittances for payment shall be made by immediately available funds, unless otherwise agreed.

5.9. Disputed Bill. In case any portion of any bill is in bona fide dispute, the undisputed amount shall be payable when due. Each party shall, with each such partial payment, provide the other with its grounds for disputing a bill. Upon determination of the correct amount, the remainder, if any, shall become due and payable in accordance with Section 5.8, with interest accruing only from a date fifteen (15) days after determination of the correct amount.

5.10. Cost Responsibility. Each of the parties will be responsible for all costs associated with the supply of power and energy from their own resources for its own use.

ARTICLE VI.

METERING AND OTHER GENERAL PROVISIONS

6.1. Metering. Entergy Power shall provide metering installations at each Point of Delivery adequate to register accurately both the power and energy passing through such point. AP&L may, at its option, install meters of its own at any of the Points of Delivery and shall use the readings of any such meters as a check on Entergy Power's meter. Entergy Power will provide suitable metering installations to register the net outputs of the Entergy Power Owned Resources and the total auxiliary power requirements for such Entergy Power Owned Resources.

6.2. Meter Reading. Each meter and check meter installed or used under this agreement shall be read by the owner on or about the first day of each month, and may be simultaneously read by a representative of the other party if the other party so elects. Complete metering information in the form mutually agreed upon shall be forwarded to AP&L as soon thereafter as possible.

6.3. Reliability and Adequacy of Service. Electric service rendered by AP&L and Entergy Power under this Agreement shall meet accepted standards of reliability and adequacy. If questions are raised concerning the quality of service, factual data shall be obtained with respect to the character of such service and appropriate corrective or remedial action shall be promptly taken by any party at fault.

6.4. Continuity of Deliveries. Electric power and energy delivered under this Agreement shall be furnished continuously and/or as scheduled except for interruptions or curtailments in service necessary for installation, maintenance, repair or replacement of equipment or caused by a Force Majeure. Each party shall give the other as much advance notice as practicable of interruptions or curtailments necessary for installation, maintenance, repair or replacement of equipment and shall notify the other at once of interruptions or curtailments caused by a Force Majeure. Interruptions or curtailments in service covered by the first sentence of this Article VI, Section 6.4, shall not constitute a breach of this Agreement, and neither party shall be liable to the other for damages resulting therefrom. Each party shall exercise reasonable diligence to remedy any such interruptions or curtailments except that, if the cause thereof is a labor dispute, settlement of any labor dispute shall be entirely within the discretion of the party involved in such dispute.

6.5. Facilities to be Furnished. AP&L and Entergy Power shall each furnish, install, maintain and operate, or cause to be furnished, installed, maintained and operated, such switching, protective and similar facilities and equipment as may be necessary to enable them to fulfill their respective obligations under this Agreement, and to assure reasonable protection to the facilities of the other party hereto. Plans for the installation of protective equipment and devices on or in connection with facilities used under this Agreement shall be submitted to the other party for approval before such equipment is installed, but such approval shall not be construed to constitute a guaranty of the adequacy of any such equipment or devices. Entergy Power and AP&L shall install, operate, and maintain, or cause to be installed, operated, and maintained, on their respective systems such equipment as may be required to afford a communication system between Entergy

Power Owned Resources dispatched by AP&L and the office dispatching power and energy for AP&L's system, such equipment as may be required to telemeter information and data necessary for operations under this Agreement, and equipment to provide automatic load control as specified by AP&L. Ownership of equipment or apportionment of lease rentals shall be determined by the Operating Committee.

6.6. Meter Tests.

(a) Each meter used under this Agreement shall be tested and calibrated by the owner at its own expense at regular intervals of not more than one year. If a meter shall be found incorrect or inaccurate, it shall be restored to an accurate condition or a new meter shall be substituted.

(b) Either party shall have the right to request that a special meter test be made of meters owned by the other party at any time and may be present at such test. If any special test discloses that the meter tested is registering correctly, or within 2% of normal, the party requesting the test shall bear the expense of such test. The expense of all other tests of meters shall be borne by the owner of the meters

(c) The results of all such tests and calibrations shall be open to examination by the other party and a report of every test shall be furnished immediately to the other party. Any meter tested and found to be not more than 2% above or below normal shall be considered to be correct and accurate insofar as correction of billing is concerned. If, as a result of any test, any meter is found to register in excess of 2% either above or below normal, then the reading of such meter previously used for billing purposes shall be corrected according to the percentage of inaccuracy so found; but

no such correction shall extend beyond 90 days previous to the day on which the inaccuracy is discovered by such test, nor in any event beyond the date when the meter was last calibrated and tested, and such correction when made shall constitute full adjustment of any claim between the parties hereto arising out of such inaccuracy of metering equipment.

(d) For any period that a meter is found to have failed to register, it shall be assumed that the demand established, or electric energy supplied, as the case may be, during said period is the same as that for a period of like operation, to be agreed upon by the parties hereto, during which such meter was in service and operating; provided, that if both AP&L and Entergy Power meters are installed at a location and the meter or meters normally used for billing should fail to register, the readings of the other party's meter shall be used for billing purposes hereunder.

6.7. Standards for Construction, Maintenance and Operation of Equipment.

(a) Each party agrees with the other party that it will construct and at all times operate and maintain its lines, equipment and other facilities in accordance with standards and specifications at least equal to those provided by the National Electrical Safety Code at the time of installation and will at all times operate same in such manner as not to interfere with service to the customers of the other party.

(b) If Entergy Power or other systems receiving power and energy from Entergy Power Resources should fail to maintain and operate its lines, equipment and other facilities as provided in paragraph (a) above, AP&L shall have the right to discontinue receipt of electric

power and energy from or delivery into the facilities in question, after giving notice of its intention to do so. If AP&L should be advised of, or have knowledge of, hazardous conditions existing on the lines, equipment or other facilities of Entergy Power or such other systems, it shall have the right to immediately discontinue receipt from or delivery to such facilities, until the hazardous conditions have been removed and the lines and other facilities shall have been placed in a safe operating condition; AP&L shall, however, notify Entergy Power or such other systems as soon thereafter as reasonably possible of the cause for such discontinuance and shall restore service immediately when such cause has been removed. In either of these events, Entergy Power shall hold AP&L free and unharmed against any and all claims, liabilities, loss or expense resulting from such discontinuance of receipt or delivery by AP&L, except such as results from the negligence of AP&L, its agents or employees.

6.8. Right of Installation and Access.

(a) Each party grants to the other permission to install, maintain and operate, or cause to be installed, maintained and operated, on its premises any and all equipment, apparatus and devices necessary in the performance of this Agreement, except as otherwise specifically provided herein.

(b) Each party hereto shall permit duly authorized representatives and employees of the other to enter upon its premises for the purpose of reading or checking meters, inspecting, testing, repairing, renewing or exchanging any or all of the equipment owned by the other party located on such premises, or for the purpose of performing any other work necessary in the performance of this

Agreement.

6.9. Right of Removal. Any and all equipment, apparatus, devices or facilities placed or installed or caused to be placed or installed, by either of the parties hereto on or in the premises of the other party shall be and remain the property of the party owning and installing such equipment, apparatus, devices or facilities, regardless of the mode or manner of annexation or attachment to real property of the other and, upon the termination of this Agreement, the owner thereof shall have the right to enter upon such premises and shall, within a reasonable time, remove such equipment, apparatus, devices or facilities.

ARTICLE VII.

OPERATING COMMITTEE

7.1. There shall be an Operating Committee composed of one representative of each party, and they shall be of equal authority. All decisions made or directions given by the Operating Committee must be unanimous. If the Operating Committee is unable to agree on any matter coming under its jurisdiction, that matter shall be referred to the chief executives of the parties or their designated representatives.

7.2. Each party will evidence its appointment to the Operating Committee by written notice to the other party, and, by similar notice, either party may at any time change its representative on the Operating Committee.

7.3. The Operating Committee shall meet on or before November 15 of each year at a time and place mutually agreeable to the representatives, and at such other times as the representatives may consider necessary.

7.4. It shall be the duty of the Operating Committee to act for the parties in matters pertaining to the interconnected operation of the respec-

tive electric systems, and to establish and maintain procedures for the administration of this Agreement. It shall also be the duty of the Operating Committee to coordinate the joint, long-range planning pursuant to Section 3.6 hereof.

7.5. The Operating Committee shall have no authority to alter, amend, or revise the express provisions of this Agreement.

ARTICLE VIII.

REMEDIES, WAIVERS, NOTICES AND SUCCESSORS

8.1. Changes in Rates and Charges. The rates and charges contained herein are subject to amendment and change and either party reserves the right to unilaterally seek amendments, changes and increases in the rates and charges set forth herein, in accordance with law, from any State or Federal regulatory body having jurisdiction thereof. Nothing contained herein shall be construed as affecting in any way the right of the party furnishing service under this rate schedule to unilaterally make application to the Federal Energy Regulatory Commission for a change in rates, charges, classification, or service, or any rule, regulation, or contract relating thereto, under Section 205 of the Federal Power Act and pursuant to the Commission's Rules and Regulations promulgated thereunder.

8.2. Remedies of Parties. Except as otherwise specifically provided, nothing contained in this Agreement shall be construed to abridge, limit, or deprive either of the parties hereto of any means of enforcing any remedy which it might otherwise have, either at law or in equity, including the right of termination of this Agreement and of injunction and specific performance for the breach of any of the provisions hereof.

8.3. Waivers. Waiver at any time of rights with respect to a default or any other matter arising in connection with this agreement shall not be deemed to be a waiver with respect to any subsequent default or matter.

8.4. Notices. Any written notice, demand or request required or authorized under this agreement shall be deemed properly given to or served on Entergy Power if mailed to:

_____
_____
_____
_____

Any such notice, demand or request shall be deemed properly given to or served on AP&L if mailed to:

President
Arkansas Power & Light Company
Post Office Box 551
Little Rock, Arkansas 72203.

The designation of the persons to be notified, or the addresses of such persons, may be changed at any time by any of the parties.

8.5. Successors and Assigns. This agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

ARTICLE IX

FORCE MAJEURE

9.1. Force Majeure. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Arkansas or of any of their departments, agencies or officials (other than the failure to receive therefrom a proposed rate increase), or of any civil or military authority; insurrections; riots; extraordinary delay in transportation; unforeseen soil

conditions; equipment, materials, supplies, labor or machinery shortages; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; drought; arrest; war; civil disturbances; explosions, breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; breach of contract by any supplier, contractor, subcontractor, laborer or materialman; sabotage; restraints by courts or other governmental authority; blight; famine; blockade; quarantine; or any other similar cause or event not reasonably within the control of the affected party. Each party agrees to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements. However, the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the affected party and such party shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the affected party, unfavorable to it.

ARTICLE X.

EFFECTIVE DATE, ADMINISTRATIVE APPROVALS, DATE OF COMMENCEMENT OF COMMERCIAL OPERATION, TERM OF AGREEMENT, AND CANCELLATION OF CONTRACTS

10.1. Effective Date and Administrative Approvals. The effective date of this Agreement shall be the date of its execution by the parties hereto, or the date it is permitted to become effective by the Federal Energy Regulatory Commission, whichever date is latest.

10.2. Commencement of Deliveries of Electric Power and Energy under this Agreement. The date of commencement of deliveries of electric power and energy hereunder shall be _____.

10.3. Term of Agreement. The term of this Agreement shall commence on the effective date hereof as defined in Section 1 of this Article IX and shall terminate upon not less than sixty (60) months written advance notice given by any party to the other. The first effective cancellation date shall be not earlier than December 31, ____, or on December 31 of any succeeding year.

IN WITNESS WHEREOF, the undersigned parties hereto have duly executed this Agreement on the date first above written.

ATTEST: ARKANSAS POWER & LIGHT COMPANY

_____ By _____
Secretary President

ATTEST: ENTERGY POWER, INC.

_____ By _____
Secretary President

RATE FORMULAS

GENERAL NOTES

1. THE TEST YEAR SHALL BE THE CALENDAR YEAR USED TO DETERMINE THE VALUE OF THE VARIOUS PARAMETERS IN THE FOLLOWING RATE FORMULAS.

2. ALL BALANCE SHEET ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ENDING BALANCES FOR THE TEST YEAR.

3. MATERIALS AND SUPPLIES, FUEL INVENTORY, AND PREPAID TAXES AND INSURANCE SHALL BE INCLUDED ON THE BASIS OF A 13 MONTH AVERAGE ENDING WITH DECEMBER OF THE TEST YEAR.

4. ALL EXPENSE ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ACTUAL AMOUNTS FOR THE TEST YEAR. HOWEVER, IF A NEW GENERATING UNIT IS ADDED DURING THE TEST YEAR, THE RELATED EXPENSE MAY BE INCLUDED ON AN ESTIMATED ANNUAL BASIS.

5. THE TERM "ANNUALIZED" SHALL MEAN THE RESULT OF MULTIPLYING EXPENSE AMOUNTS FOR DECEMBER OF THE TEST YEAR BY TWELVE (12).

6. ALL DEMAND AND ENERGY CONCEPTS REFLECT TEST YEAR ACTUAL AMOUNTS UNLESS OTHERWISE SPECIFIED.

7. IN THE EVENT EITHER THE STATUTORY STATE OR FEDERAL CORPORATE INCOME TAX RATES CHANGE AFTER THE ANNUAL RATE REDETERMINATION IS SUBMITTED IN ANY YEAR, THEN THE RATES SHALL BE REDETERMINED ON AN INTERIM BASIS TO REFLECT SUCH TAX RATE CHANGE. ALL OTHER PARAMETERS SHALL REMAIN UNCHANGED. THE REDETERMINED RATES SHALL BECOME EFFECTIVE COMMENCING

WITH THE BILLING MONTH IN WHICH THE TAX RATE(S) CHANGE. ANY SUCH REDETERMINATION SHALL BE SUBMITTED TO THE FERC AND THE CUSTOMER(S) AND SHALL CONSIST OF THE FOLLOWING:

(1) TRANSMITTAL LETTER SETTING OUT BASIS FOR THE CHANGE

(2) COPY OF DOCUMENTATION SUPPORTING THE CHANGE IN STATUTORY TAX RATE(S)

(3) RATE COMPARISON SHOWING EFFECT OF THE RATE CHANGE ON EFFECTED CUSTOMER

(4) REDETERMINATION OF THE RATES REFLECTING THE REVISED TAX RATE(S)

COMMON PARAMETERS

COST OF CAPITAL

CC = BEFORE TAX COST OF CAPITAL

$$CC = D * DR + \frac{PF * PR + CE * CR}{TX}$$

WHERE:

D = EMBEDDED COST RATE OF LONG-TERM DEBT CONSISTING OF FIRST MORTGAGE BONDS, POLLUTION CONTROL BONDS, AND AP&L'S LIABILITY TO THE DEPARTMENT OF ENERGY FOR SPENT NUCLEAR FUEL

DR = DEBT CAPITALIZATION RATIO

PF = EMBEDDED COST RATE OF PREFERRED STOCK

PR = PREFERRED STOCK CAPITALIZATION RATIO

CE = RATE OF RETURN ON COMMON EQUITY AS DETERMINED BY THE ARKANSAS PUBLIC SERVICE COMMISSION IN AP&L'S MOST RECENT RETAIL RATE PROCEEDING IN WHICH A FINAL NON-APPEALABLE ORDER, INCLUDING ANY ORDER APPROVING A SETTLEMENT AGREEMENT, HAS BEEN ISSUED WHICH ADDRESSES THAT ISSUE

CR = COMMON EQUITY CAPITALIZATION RATIO

TX = COMPOSITE CORPORATE AFTER TAX RATE

$$TX = (1 - S)(1 - F)$$

WHERE:

S = STATUTORY STATE CORPORATE INCOME TAX RATE

F = STATUTORY FEDERAL CORPORATE INCOME TAX RATE

ACCUMULATED DEFERRED INCOME TAXES

ADIT = ACCUMULATED DEFERRED INCOME TAXES

ADIT = ADTL + ITC

WHERE:

ADTL = THE BALANCE IN ACCOUNT 282 LESS ANY AMOUNTS ASSOCIATED WITH THE PHASE-IN OF GRAND GULF UNIT 1 AND ANY AMOUNT ASSOCIATED WITH AN EXCESS CAPACITY ADJUSTMENT.

ITC = ACCUMULATED DEFERRED INVESTMENT TAX CREDIT - 3% PORTION ONLY

COMMON PARAMETERS (Cont'd)

PLANT RATIOS

PPR = PRODUCTION PLANT RATIO

TPR = TRANSMISSION PLANT RATIO

DPR = DISTRIBUTION PLANT RATIO

$$PPR = \frac{PPLT}{PPLT + TPLT + DPLT}$$

$$TPR = \frac{TPLT}{PPLT + TPLT + DPLT}$$

$$DPR = \frac{DPLT}{PPLT + TPLT + DPLT}$$

WHERE:

PPLT = PRODUCTION PLANT IN SERVICE
TPLT = TRANSMISSION PLANT IN SERVICE
DPLT = DISTRIBUTION PLANT IN SERVICE

LABOR RATIOS

PLR = PRODUCTION LABOR RATIO

TLR = TRANSMISSION LABOR RATIO

DLR = DISTRIBUTION LABOR RATIO

$$PLR = \frac{PL}{PL + TL + DL}$$

$$TLR = \frac{TL}{PL + TL + DL}$$

$$DLR = \frac{DL}{PL + TL + DL}$$

WHERE:

PL = PRODUCTION LABOR
TL = TRANSMISSION LABOR
DL = DISTRIBUTION LABOR

COMMON PARAMETERS (Cont'd)

A&G EXPENSE

AG = A&G EXPENSE

AG = 0.8566 * AGXP

WHERE:

AGXP = TOTAL A&G EXPENSE CONSISTING OF ACCOUNTS (920 - 935)

OTHER TAX RATE

OTR = OTHER TAX RATE

$$OTR = \frac{CSFXP + RPTXP + FICA * (1 - CSLR)}{PLT}$$

WHERE:

CSFXP = ANNUALIZED CAPITAL STOCK FRANCHISE TAX EXPENSE

RPTXP = ANNUALIZED REAL AND PERSONAL PROPERTY TAX EXPENSE

FICA = ANNUALIZED FICA TAX EXPENSE

CSLR = RATIO OF CUSTOMER SERVICES/CUSTOMER ACCOUNTING PAYROLL TO TOTAL PAYROLL CHARGED TO O&M EXPENSE

PLT = SUM OF PRODUCTION, TRANSMISSION AND DISTRIBUTION PLANT

MONTHLY TRANSMISSION DEMAND RATE

MTDR = MONTHLY TRANSMISSION DEMAND RATE ($/KW/MONTH)

$$MTDR = \frac{TRB * CC - TFR + TXP - ITCWD * TPR/TX}{12 * TKW}$$

WHERE:

TRB = TRANSMISSION RATE BASE

TRB = TPLT - TDR + (GPLT - GDR) * TLR + (MS + PPT - ADIT) * TPR

WHERE:

TPLT = TOTAL TRANSMISSION PLANT

TDR = TRANSMISSION DEPRECIATION RESERVE

GPLT = TOTAL GENERAL PLANT - EXCLUDING COAL MINING EQUIPMENT

GDR = GENERAL PLANT DEPRECIATION RESERVES - EXCLUDING COAL MINING EQUIPMENT

TLR = TRANSMISSION LABOR RATIO

MS = MATERIALS & SUPPLIES

PPT = PREPAYMENTS EXCLUDING MISCELLANEOUS PREPAYMENTS

ADIT = ACCUMULATED DEFERRED INCOME TAXES

TPR = TRANSMISSION PLANT RATIO

CC = BEFORE TAX COST OF CAPITAL

MONTHLY TRANSMISSION DEMAND RATE (Cont'd)

TFR = TRANSMISSION RELATED REVENUE IN ACCOUNT 456

TFR = TEQ + TR

WHERE:

TEQ = TRANSMISSION EQUALIZATION REVENUE RECEIVED UNDER SCHEDULE MSS-2 OF THE MIDDLE SOUTH SYSTEM AGREEMENT

TR = OTHER TRANSMISSION RELATED REVENUE IN ACCOUNT 456

TXP = TOTAL TRANSMISSION EXPENSE

TXP = TOM + AG * TLR + TDX + GDX * TLR + TPLT * OTR

WHERE:

TOM = TRANSMISSION O&M EXPENSE

AG = A&G EXPENSE

TDX = ANNUALIZED TRANSMISSION DEPRECIATION EXPENSE

GDX = ANNUALIZED GENERAL PLANT DEPRECIATION EXPENSE - EXCLUDING COAL MINING EQUIPMENT

OTR = OTHER TAX RATE

ITCWO = INVESTMENT TAX CREDIT WRITE-OFF

TX = COMPOSITE CORPORATE AFTER TAX RATE

TKW = AP&L'S NET AREA SYSTEM PEAK DEMAND AS INCREASED BY SCHEDULED TRANSMISSION DELIVERIES AT THE TIME OF THE SYSTEM PEAK WHICH ARE NOT INCLUDED IN THE NET AREA PEAK DEMAND

RATE FORMULAS

GENERAL NOTES

1. THE TEST YEAR SHALL BE THE CALENDAR YEAR USED TO DETERMINE THE VALUE OF THE VARIOUS PARAMETERS IN THE FOLLOWING RATE FORMULAS.

2. ALL BALANCE SHEET ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ENDING BALANCES FOR THE TEST YEAR.

3. MATERIALS AND SUPPLIES, FUEL INVENTORY, AND PREPAID TAXES AND INSURANCE SHALL BE INCLUDED ON THE BASIS OF A 13 MONTH AVERAGE ENDING WITH DECEMBER OF THE TEST YEAR.

4. ALL EXPENSE ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ACTUAL AMOUNTS FOR THE TEST YEAR. HOWEVER, IF A NEW GENERATING UNIT IS ADDED DURING THE TEST YEAR, THE RELATED EXPENSE MAY BE INCLUDED ON AN ESTIMATED ANNUAL BASIS.

5. THE TERM "ANNUALIZED" SHALL MEAN THE RESULT OF MULTIPLYING EXPENSE AMOUNTS FOR DECEMBER OF THE TEST YEAR BY TWELVE (12).

6. ALL DEMAND AND ENERGY CONCEPTS REFLECT TEST YEAR ACTUAL AMOUNTS UNLESS OTHERWISE SPECIFIED.

7. IN THE EVENT EITHER THE STATUTORY STATE OR FEDERAL CORPORATE INCOME TAX RATES CHANGE AFTER THE ANNUAL RATE REDETERMINATION IS SUBMITTED IN ANY YEAR, THEN THE RATES SHALL BE REDETERMINED ON AN INTERIM BASIS TO REFLECT SUCH TAX RATE CHANGE. ALL OTHER PARAMETERS SHALL REMAIN UNCHANGED. THE REDETERMINED RATES SHALL BECOME EFFECTIVE COMMENCING WITH THE BILLING MONTH IN WHICH THE TAX RATE(S) CHANGE. ANY SUCH REDETERMINATION SHALL BE SUBMITTED TO THE FERC AND THE CUSTOMER(S) AND SHALL CONSIST OF THE FOLLOWING:

(1) TRANSMITTAL LETTER SETTING OUT BASIS FOR THE CHANGE

(2) COPY OF DOCUMENTATION SUPPORTING THE CHANGE IN STATUTORY TAX RATE(S)

(3) RATE COMPARISON SHOWING EFFECT OF THE RATE CHANGE ON EFFECTED CUSTOMERS

(4) REDETERMINATION OF THE RATES REFLECTING THE REVISED TAX RATE(S)

COMMON PARAMETERS

COST OF CAPITAL

CC = BEFORE TAX COST OF CAPITAL

$$CC = D * DR + \frac{PF * PR + CE * CR}{TX}$$

WHERE:

D = EMBEDDED COST RATE OF LONG-TERM DEBT CONSISTING OF FIRST MORTGAGE BONDS, POLLUTION CONTROL BONDS, AND AP&L'S LIABILITY TO THE DEPARTMENT OF ENERGY FOR SPENT NUCLEAR FUEL

DR = DEBT CAPITALIZATION RATIO

PF = EMBEDDED COST RATE OF PREFERRED STOCK

PR = PREFERRED STOCK CAPITALIZATION RATIO

CE = RATE OF RETURN ON COMMON EQUITY AS DETERMINED BY THE ARKANSAS PUBLIC SERVICE COMMISSION IN AP&L'S MOST RECENT RETAIL RATE PROCEEDING IN WHICH A FINAL NON-APPEALABLE ORDER, INCLUDING ANY ORDER APPROVING A SETTLEMENT AGREEMENT, HAS BEEN ISSUED WHICH ADDRESSES THAT ISSUE

CR = COMMON EQUITY CAPITALIZATION RATIO

TX = COMPOSITE CORPORATE AFTER TAX RATE

$$TX = (1 - S)(1 - F)$$

WHERE:

S = STATUTORY STATE CORPORATE INCOME TAX RATE

F = STATUTORY FEDERAL CORPORATE INCOME TAX RATE

ACCUMULATED DEFERRED INCOME TAXES

ADIT = ACCUMULATED DEFERRED INCOME TAXES

ADIT = ADTL + ITC

WHERE:

ADTL = THE BALANCE IN ACCOUNT 282 LESS ANY AMOUNTS ASSOCIATED WITH THE PHASE-IN OF GRAND GULF UNIT 1 AND ANY AMOUNT ASSOCIATED WITH AN EXCESS CAPACITY ADJUSTMENT.

ITC = ACCUMULATED DEFERRED INVESTMENT TAX CREDIT - 3% PORTION ONLY

COMMON PARAMETERS (Cont'd)

PLANT RATIOS

PPR = PRODUCTION PLANT RATIO

TPR = TRANSMISSION PLANT RATIO

DPR = DISTRIBUTION PLANT RATIO

$$PPR = \frac{PPLT}{PPLT + TPLT + DPLT}$$

$$TPR = \frac{TPLT}{PPLT + TPLT + DPLT}$$

$$DPR = \frac{DPLT}{PPLT + TPLT + DPLT}$$

WHERE:

PPLT = PRODUCTION PLANT IN SERVICE
TPLT = TRANSMISSION PLANT IN SERVICE
DPLT = DISTRIBUTION PLANT IN SERVICE

LABOR RATIOS

PLR = PRODUCTION LABOR RATIO

TLR = TRANSMISSION LABOR RATIO

DLR = DISTRIBUTION LABOR RATIO

$$PLR = \frac{PL}{PL + TL + DL}$$

$$TLR = \frac{TL}{PL + TL + DL}$$

$$DLR = \frac{DL}{PL + TL + DL}$$

WHERE:

PL = PRODUCTION LABOR
TL = TRANSMISSION LABOR
DL = DISTRIBUTION LABOR

COMMON PARAMETERS (Cont'd)

A&G EXPENSE

AG = A&G EXPENSE

AG = 0.8566 * AGXP

WHERE:

AGXP = TOTAL A&G EXPENSE CONSISTING OF ACCOUNTS (920 - 935)

OTHER TAX RATE

OTR = OTHER TAX RATE

$$OTR = \frac{CSFXP + RPTXP + FICA * (1 - CSLR)}{PLT}$$

WHERE:

CSFXP = ANNUALIZED CAPITAL STOCK FRANCHISE TAX EXPENSE

RPTXP = ANNUALIZED REAL AND PERSONAL PROPERTY TAX EXPENSE

FICA = ANNUALIZED FICA TAX EXPENSE

CSLR = RATIO OF CUSTOMER SERVICES/CUSTOMER ACCOUNTING PAYROLL TO TOTAL PAYROLL CHARGED TO O&M EXPENSE

PLT = SUM OF PRODUCTION, TRANSMISSION AND DISTRIBUTION PLANT

INTERRUPTIBLE TRANSMISSION ENERGY RATE

ITSER = INTERRUPTIBLE TRANSMISSION ENERGY RATE ($/KWH)

ITSER = 0.0014 *MTDR (1)

WHERE:

MTDR = MONTHLY TRANSMISSION DEMAND RATE ($/KW/MONTH)

$$MTDR = \frac{TRB * CC - TFR + TXP - ITCWD * TPR/TX}{12 * TKW}$$

WHERE:

TRB = TRANSMISSION RATE BASE

TRB = TPLT - TDR + (GPLT - GDR) * TLR + (MS + PPT - ADIT) * TPR

WHERE:

TPLT = TOTAL TRANSMISSION PLANT

TDR = TRANSMISSION DEPRECIATION RESERVE

GPLT = TOTAL GENERAL PLANT - EXCLUDING COAL MINING EQUIPMENT

GDR = GENERAL PLANT DEPRECIATION RESERVES - EXCLUDING COAL MINING EQUIPMENT

TLR = TRANSMISSION LABOR RATIO

MS = MATERIALS & SUPPLIES

PPT = PREPAYMENTS EXCLUDING MISCELLANEOUS PREPAYMENTS

ADIT = ACCUMULATED DEFERRED INCOME TAXES

TPR = TRANSMISSION PLANT RATIO

CC = BEFORE TAX COST OF CAPITAL

INTERRUPTIBLE TRANSMISSION ENERGY RATE (Cont'd)

TFR = TRANSMISSION RELATED REVENUE IN ACCOUNT 456

TFR = TEQ + TR

WHERE:

TEQ = TRANSMISSION EQUALIZATION REVENUE RECEIVED UNDER SCHEDULE MSS-2 OF THE MIDDLE SOUTH SYSTEM AGREEMENT

TR = OTHER TRANSMISSION RELATED REVENUE IN ACCOUNT 456

TXP = TOTAL TRANSMISSION EXPENSE

TXP = TOM + AG * TLR + TDX + GDX * TLR + TPLT * OTR

WHERE:

TOM = TRANSMISSION O&M EXPENSE

AG = A&G EXPENSE

TDX = ANNUALIZED TRANSMISSION DEPRECIATION EXPENSE

GDX = ANNUALIZED GENERAL PLANT DEPRECIATION EXPENSE - EXCLUDING COAL MINING EQUIPMENT

OTR = OTHER TAX RATE

ITCWO = INVESTMENT TAX CREDIT WRITE-OFF

TX = COMPOSITE CORPORATE AFTER TAX RATE

TKW = AP&L'S NET AREA SYSTEM PEAK DEMAND AS INCREASED BY SCHEDULED TRANSMISSION DELIVERIES AT THE TIME OF THE SYSTEM PEAK WHICH ARE NOT INCLUDED IN THE NET AREA PEAK DEMAND

NOTE:

1) THE DEMAND RATE (MTDR) IS CONVERTED TO AN ENERGY RATE BASED ON ASSUMPTIONS OF 100% LOAD FACTOR AND 8760 HOURS/YEAR (0.0014 = 12/8760)

RATE FORMULAS

GENERAL NOTES

1. THE TEST YEAR SHALL BE THE CALENDAR YEAR USED TO DETERMINE THE VALUE OF THE VARIOUS PARAMETERS IN THE FOLLOWING RATE FORMULAS.

2. ALL BALANCE SHEET ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ENDING BALANCES FOR THE TEST YEAR.

3. MATERIALS AND SUPPLIES, FUEL INVENTORY, AND PREPAID TAXES AND INSURANCE SHALL BE INCLUDED ON THE BASIS OF A 13 MONTH AVERAGE ENDING WITH DECEMBER OF THE TEST YEAR.

4. ALL EXPENSE ITEMS UNLESS OTHERWISE SPECIFIED REFLECT ACTUAL AMOUNTS FOR THE TEST YEAR. HOWEVER, IF A NEW GENERATING UNIT IS ADDED DURING THE TEST YEAR, THE RELATED EXPENSE MAY BE INCLUDED ON AN ESTIMATED ANNUAL BASIS.

5. THE TERM "ANNUALIZED" SHALL MEAN THE RESULT OF MULTIPLYING EXPENSE AMOUNTS FOR DECEMBER OF THE TEST YEAR BY TWELVE (12).

6. ALL DEMAND AND ENERGY CONCEPTS REFLECT TEST YEAR ACTUAL AMOUNTS UNLESS OTHERWISE SPECIFIED.

7. IN THE EVENT EITHER THE STATUTORY STATE OR FEDERAL CORPORATE INCOME TAX RATES CHANGE AFTER THE ANNUAL RATE REDETERMINATION IS SUBMITTED IN ANY YEAR, THEN THE RATES SHALL BE REDETERMINED ON AN INTERIM BASIS TO REFLECT SUCH TAX RATE CHANGE. ALL OTHER PARAMETERS SHALL REMAIN UNCHANGED. THE REDETERMINED RATES SHALL BECOME EFFECTIVE COMMENCING WITH THE BILLING MONTH IN WHICH THE TAX RATE(S) CHANGE. ANY SUCH REDETERMINATION SHALL BE SUBMITTED TO THE FERC AND THE CUSTOMER(S) AND SHALL CONSIST OF THE FOLLOWING:

(1) TRANSMITTAL LETTER SETTING OUT BASIS FOR THE CHANGE

(2) COPY OF DOCUMENTATION SUPPORTING THE CHANGE IN STATUTORY TAX RATE(S)

(3) RATE COMPARISON SHOWING EFFECT OF THE RATE CHANGE ON EFFECTED CUSTOMERS

(4) REDETERMINATION OF THE RATES REFLECTING THE REVISED TAX RATE(S)

8. THE NET ENERGY COST (NEC) INCLUDED IN THE ENERGY RATE (ER) SHALL BE ESTIMATED AT THE TIME OF BILLING FOR THE JUST COMPLETED SERVICE MONTH. EACH MONTH'S BILL SHALL INCLUDE A CORRECTING ADJUSTMENT TO REFLECT ANY ERROR IN THE ESTIMATED NET ENERGY COST FOR THE PRIOR MONTH.

COMMON PARAMETERS

COST OF CAPITAL

CC = BEFORE TAX COST OF CAPITAL

$$CC = D * DR + \frac{PF * PR + CE * CR}{TX}$$

WHERE:

D = EMBEDDED COST RATE OF LONG-TERM DEBT CONSISTING OF FIRST MORTGAGE BONDS, POLLUTION CONTROL BONDS, AND AP&L'S LIABILITY TO THE DEPARTMENT OF ENERGY FOR SPENT NUCLEAR FUEL

DR = DEBT CAPITALIZATION RATIO

PF = EMBEDDED COST RATE OF PREFERRED STOCK

PR = PREFERRED STOCK CAPITALIZATION RATIO

CE = RATE OF RETURN ON COMMON EQUITY AS DETERMINED BY THE ARKANSAS PUBLIC SERVICE COMMISSION IN AP&L'S MOST RECENT RETAIL RATE PROCEEDING IN WHICH A FINAL NON-APPEALABLE ORDER, INCLUDING ANY ORDER APPROVING A SETTLEMENT AGREEMENT, HAS BEEN ISSUED WHICH ADDRESSES THAT ISSUE

CR = COMMON EQUITY CAPITALIZATION RATIO

TX = COMPOSITE CORPORATE AFTER TAX RATE

$$TX = (1 - S)(1 - F)$$

WHERE:

S = STATUTORY STATE CORPORATE INCOME TAX RATE

F = STATUTORY FEDERAL CORPORATE INCOME TAX RATE

ACCUMULATED DEFERRED INCOME TAXES

ADIT = ACCUMULATED DEFERRED INCOME TAXES

ADIT = ADTL + ITC

WHERE:

ADTL = THE BALANCE IN ACCOUNT 282 LESS ANY AMOUNTS ASSOCIATED WITH THE PHASE-IN OF GRAND GULF UNIT 1 AND ANY AMOUNT ASSOCIATED WITH AN EXCESS CAPACITY ADJUSTMENT.

ITC = ACCUMULATED DEFERRED INVESTMENT TAX CREDIT - 3% PORTION ONLY

COMMON PARAMETERS (Cont'd)

PLANT RATIOS

PPR = PRODUCTION PLANT RATIO

TPR = TRANSMISSION PLANT RATIO

DPR = DISTRIBUTION PLANT RATIO

$$PPR = \frac{PPLT}{PPLT + TPLT + DPLT}$$

$$TPR = \frac{TPLT}{PPLT + TPLT + DPLT}$$

$$DPR = \frac{DPLT}{PPLT + TPLT + DPLT}$$

WHERE:

PPLT = PRODUCTION PLANT IN SERVICE
TPLT = TRANSMISSION PLANT IN SERVICE
DPLT = DISTRIBUTION PLANT IN SERVICE

LABOR RATIOS

PLR = PRODUCTION LABOR RATIO

TLR = TRANSMISSION LABOR RATIO

DLR = DISTRIBUTION LABOR RATIO

$$PLR = \frac{PL}{PL + TL + DL}$$

$$TLR = \frac{TL}{PL + TL + DL}$$

$$DLR = \frac{DL}{PL + TL + DL}$$

WHERE:

PL = PRODUCTION LABOR
TL = TRANSMISSION LABOR
DL = DISTRIBUTION LABOR

A&G EXPENSE

AG = A&G EXPENSE

AG = 0.8566 * AGXP

WHERE:

AGXP = TOTAL A&G EXPENSE CONSISTING OF ACCOUNTS (920 - 935)

OTHER TAX RATE

OTR = OTHER TAX RATE

$$OTR = \frac{CSFXP + RPTXP + FICA * (1 - CSLR)}{PLT}$$

WHERE:

CSFXP = ANNUALIZED CAPITAL STOCK FRANCHISE TAX EXPENSE

RPTXP = ANNUALIZED REAL AND PERSONAL PROPERTY TAX EXPENSE

FICA = ANNUALIZED FICA TAX EXPENSE

CSLR = RATIO OF CUSTOMER SERVICES/CUSTOMER ACCOUNTING PAYROLL T
TOTAL PAYROLL CHARGED TO O&M EXPENSE

PLT = SUM OF PRODUCTION, TRANSMISSION AND DISTRIBUTION PLANT

ENERGY LOSS RATE

ELR = ENERGY LOSS RATE ($/KWH)

$$ELR = 0.0014 * \frac{MPDR}{LF} + ER$$

WHERE:

MPDR = MONTHLY PRODUCTION DEMAND RATE ($/KW/MONTH)

LF = AVERAGE LOAD FACTOR FOR THE TRANSACTION

ER = ENERGY RATE ($/KWH)

GENERAL NOTE:

1) FORMULAS FOR MPDR AND ER ARE CONTAINED ON THE FOLLOWING PAGES.

MONTHLY PRODUCTION DEMAND RATE

MPDR = MONTHLY PRODUCTION DEMAND RATE ($/KW/MONTH)

$$MPDR = \frac{PRB * CC + PXP - ITCWO * PPR/TX}{12 * NCAP}$$

WHERE:

PRB = PRODUCTION RATE BASE

PRB = PPLT - PDR + (GPLT-GDR) * PLR + INPLT - INDR + (MS+PPT-ADIT) * PPR

WHERE:

PPLT = PRODUCTION PLANT IN SERVICE

PDR = PRODUCTION PLANT DEPRECIATION RESERVE EXCLUDING NUCLEAR DECOMMISSIONING RESERVE

GPLT = GENERAL PLANT EXCLUDING COAL MINING EQUIPMENT

GDR = GENERAL PLANT DEPRECIATION RESERVES EXCLUDING COAL MINING EQUIPMENT

PLR = PRODUCTION LABOR RATIO

INPLT = INTANGIBLE PLANT

INDR = ACCUMULATED AMORTIZATION OF INTANGIBLE PLANT

MS = MATERIALS & SUPPLIES

PPT = PREPAYMENTS EXCLUDING MISCELLANEOUS PREPAYMENTS

ADIT = ACCUMULATED DEFERRED INCOME TAXES

PPR = PRODUCTION PLANT RATIO

CC = BEFORE TAX COST OF CAPITAL

MONTHLY PRODUCTION DEMAND RATE (Cont'd)

PXP = PRODUCTION RELATED EXPENSES

PXP = POMD + CAPEQ + FPUR + AG * PLR + PDX + DEC + GDX * PLR + INDX + OTR * PPLT

WHERE:

POMD = DEMAND RELATED PRODUCTION O&M EXPENSE CONSISTING OF ACCOUNTS 500, 502-507, 511, 514, 517, 519-525, 529, 532, 535-543, 545, 546, 548-550, 552, 554 AND 556

CAPEQ = AP&L's GRAND GULF DEMAND CHARGES IN ACCOUNT 555 AS REDUCED BY AP&L'S GRAND GULF RETAINED SHARE PLUS THE NET TOTAL OF PRODUCTION CAPACITY PAYMENTS (+) AND RECEIPTS (-) UNDER THE MIDDLE SOUTH SYSTEM AGREEMENT AS REDUCED BY AP&L'S GRAND GULF RETAINED SHARE PORTION OF INCREMENTAL SCHEDULE MSS-1 EFFECTS ASSOCIATED WITH AP&L'S ALLOCATED SHARE OF GRAND GULF

FPUR = TOTAL CHARGES TO ACCOUNT 555 LESS AP&L'S GRAND GULF DEMAND CHARGES LESS ANY AMOUNTS DIRECTLY ASSIGNED TO SPECIFIC CUSTOMERS LESS ANY AMOUNTS INCLUDED IN THE ENERGY RATE

AG = A&G EXPENSE

PDX = ANNUALIZED PRODUCTION DEPRECIATION EXPENSE EXCLUDING NUCLEAR DECOMMISSIONING AMORTIZATION

DEC = AP&L'S TOTAL COMPANY NUCLEAR DECOMMISSIONING REVENUE REQUIREMENT MOST RECENTLY APPROVED BY THE ARKANSAS PUBLIC SERVICE COMMISSION FOR THE CALENDAR YEAR IN WHICH THE RATE REDETERMINATION IS SUBMITTED

GDX = ANNUALIZED GENERAL DEPRECIATION EXPENSE EXCLUDING COAL MINING EQUIPMENT

INDX = ANNUALIZED INTANGIBLE PLANT AMORTIZATION EXPENSE

OTR = OTHER TAX RATE

ITCWO = INVESTMENT TAX CREDIT WRITE-OFF

TX = COMPOSITE CORPORATE AFTER TAX RATE

NCAP = AP&L'S NET CAPABILITY (KW) IN DECEMBER OF THE TEST YEAR INCLUDING OWNED GENERATING CAPABILITY AND FIRM PURCHASED CAPABILITY AS REDUCED BY 1) CAPABILITY DEDICATED TO SPECIFIC CUSTOMERS, AND 2) BY AP&L'S GRAND GULF RETAINED SHARE, AND AS FURTHER ADJUSTED BY THE NET PURCHASE (+) OR SALE (-) OF CAPABILITY UNDER THE MIDDLE SOUTH UTILITIES SYSTEM AGREEMENT

ENERGY RATE

ER = ENERGY RATE ($/KWH)

$$EADD = \frac{NEC}{NKWH} + EADD$$

WHERE:

NEC = NET ENERGY COST DURING THE CURRENT BILLING MONTH

NEC = FE + PE + RDIF - MSER - SSER

WHERE:

FE = FUEL EXPENSE (ACCOUNTS 501, 518, AND 547)

PE = PURCHASED ENERGY EXPENSE CHARGED TO ACCOUNT 555

RDIF = AP&L'S GRAND GULF RETAINED SHARE ENERGY AS REDUCED BY ANY SALES OUTSIDE OF AP&L'S NET AREA MULTIPLIED BY THE DIFFERENTIAL ($/KWH) BETWEEN AP&L'S AVOIDED COST AND AP&L'S GRAND GULF FUEL CHARGE

DPE = ENERGY EXPENSE DIRECTLY ASSIGNED TO SPECIFIC CUSTOMERS

MSER = REVENUES FROM SALE OF ENERGY TO MIDDLE SOUTH POWER POOL

SSER = REVENUES FROM SALE OF ENERGY TO UTILITIES OUTSIDE THE MIDDLE SOUTH SYSTEM AS ADJUSTED TO ELIMINATE ANY RETAIL GRAND GULF PHASE-IN EFFECTS AND AS REDUCTED BY ANY MARGIN ON SALES FROM AP&L'S GRAND GULF RETAINED SHARE

NKWH = NET ENERGY ASSOCIATED WITH NET ENERGY COST (NEC)

NKWH = NAR + CG - (DE - COP) - 1.09 * CU

WHERE:

NAR = AP&L NET AREA ENERGY REQUIREMENT

CG = CO-GENERATION ENERGY NOT INCLUDED IN "NAR"

DE = ENERGY INCLUDED IN "NAR" THAT IS DIRECTLY ASSIGNED TO SPECIFIC CUSTOMERS INCLUDING ENERGY FROM CUSTOMER RESOURCES CO-OWNED WITH AP&L

COP = DEDICATED ENERGY INCLUDED IN "DE" THAT IS PURCHASED BY AP&L FROM CUSTOMERS

CU = COMPANY USE ENERGY

ENERGY RATE (Cont'd)

EADD = ENERGY ADDER RATE ($/KWH)

$$EADD = \frac{ERB * CC + POME}{KWHT}$$

WHERE:

ERB = ENERGY RATE BASE

ERB = CME - CMEDR + FINV

WHERE:

CME = GENERAL PLANT - AP&L'S OWNERSHIP SHARE OF COAL MINING EQUIPMENT

CMEDR = GENERAL PLANT - COAL MINING EQUIPMENT DEPRECIATION RESERVE (AP&L SHARE)

FINV = FUEL INVENTORY

CC = BEFORE TAX COST OF CAPITAL

POME = ENERGY RELATED PRODUCTION O&M EXPENSE CONSISTING OF ACCOUNTS 510, 512, 513, 528, 530, 531, 544, 551, AND 553

KWHT = NET ENERGY

KWHT = NAR + CG - (DE - COP) - 1.09 * CU

WHERE:

NAR = AP&L NET AREA ENERGY REQUIREMENT

CG = CO-GENERATION ENERGY NOT INCLUDED IN "NAR"

DE = ENERGY INCLUDED IN "NAR" THAT IS DIRECTLY ASSIGNED TO SPECIFIC CUSTOMERS INCLUDING ENERGY FROM CUSTOMER RESOURCES CO-OWNED WITH AP&L

COP = DEDICATED ENERGY INCLUDED IN "DE" THAT IS PURCHASED BY AP&L FROM CUSTOMERS

CU = COMPANY USE ENERGY

TRANSMISSION LOSS FACTOR REDETERMINATION METHODOLOGY

TLF = TRANSMISSION LOSS FACTOR (1)

$$TLF = \frac{TDLF + TELF}{2}$$

WHERE:

TDLF = TRANSMISSION DEMAND LOSS FACTOR (2)

$$TDLF = \frac{GEN + NI - TIL - 1.01*SIL}{TIL + 1.01*SIL + NPI + NFT + SPAS + ASO}$$

WHERE,

GEN = NET ENERGY PRODUCED BY ALL GENERATING UNITS IN AP&L'S LOAD CONTROL AREA

NI = NET ENERGY FLOWING INTO (+) OR OUT OF (-) AP&L'S LOAD CONTROL AREA AS METERED AT ALL POINTS OF INTERCONNECTION WITH OTHER SYSTEMS

TIL = TOTAL ENERGY DELIVERED TO AP&L'S CUSTOMER LOADS SERVED AND METERED AT TRANSMISSION VOLTAGE

SIL = TOTAL ENERGY DELIVERED TO AP&L CUSTOMER LOADS SERVED BELOW TRANSMISSION VOLTAGE AS METERED ON THE SECONDARY SIDE OF THE SUBSTATION TRANSFORMERS SUPPLYING SUCH LOADS

NPI = NET MIDDLE SOUTH UTILITIES (MSU) POOL ENERGY INTERCHANGE REPRESENTING THE NET ENERGY DELIVERED TO THE MSU POOL BY AP&L FROM ALL RESOURCES

NPI = MEO - MEI + APC (3)

WHERE,

MEO = TOTAL ENERGY DELIVERED BY AP&L TO THE MSU POOL INCLUDING ANY ENERGY FROM GENERATION UNITS OR OTHER RESOURCES THAT ARE ALLOCATED TO OR OWNED BY OTHER MSU OPERATING COMPANIES

MEI = TOTAL ENERGY DELIVERED TO AP&L FROM THE MSU POOL INCLUDING ANY ENERGY FROM GENERATING UNITS OR OTHER RESOURCES OUTSIDE OR AP&L'S LOAD CONTROL AREA WHICH ARE ALLOCATED TO OR OWNED BY AP&L

APC = TOTAL ENERGY FROM AP&L RESOURCES WHICH IS SOLD OUTSIDE THE MSU SYSTEM

MFT = GROSS ENERGY SCHEDULED INTO AP&L'S LOAD CONTROL AREA AS A RESULT OF MSU FLOW-THRU TRANSACTIONS (ENERGY WHICH MSU SIMULTANEOUSLY PURCHASES FROM ONE INTERCONNECTED UTILITY AND SELLS TO ANOTHER INTERCONNECTED UTILITY)

SWPAS = NET ENERGY SCHEDULED OUT OF (+) OR INTO (-) AP&L'S LOAD CONTROL AREA AS A RESULT OF ALL TRANSACTIONS BETWEEN AP&L AND THE SOUTHWESTERN POWER ADMINISTRATION (3)

ASO = GROSS ENERGY SCHEDULED OUT (NOT REDUCED BY ENERGY SCHEDULED IN) OF AP&L'S LOAD CONTROL AREA ASSOCIATED WITH ALL TRANSACTIONS INVOLVING THE ARKANSAS ELECTRIC COOPERATIVE CORPORATION (AECC) EXCEPT THOSE INVOLVING THE SPA

TELF = TRANSMISSION ENERGY LOSS FACTOR

$$TELF = \frac{\Sigma\ (GEN + NI - TIL - 1.01*SIL)}{\Sigma\ (TIL + 2.01*SIL + NPI + MFT + SPAS + ASO)} \quad (4)$$

NOTES:

1) TRANSMISSION LOSS FACTOR IS TO BE CALCULATED AS A DECIMAL FRACTION AND ROUNDED TO FOUR DECIMAL PLACES.

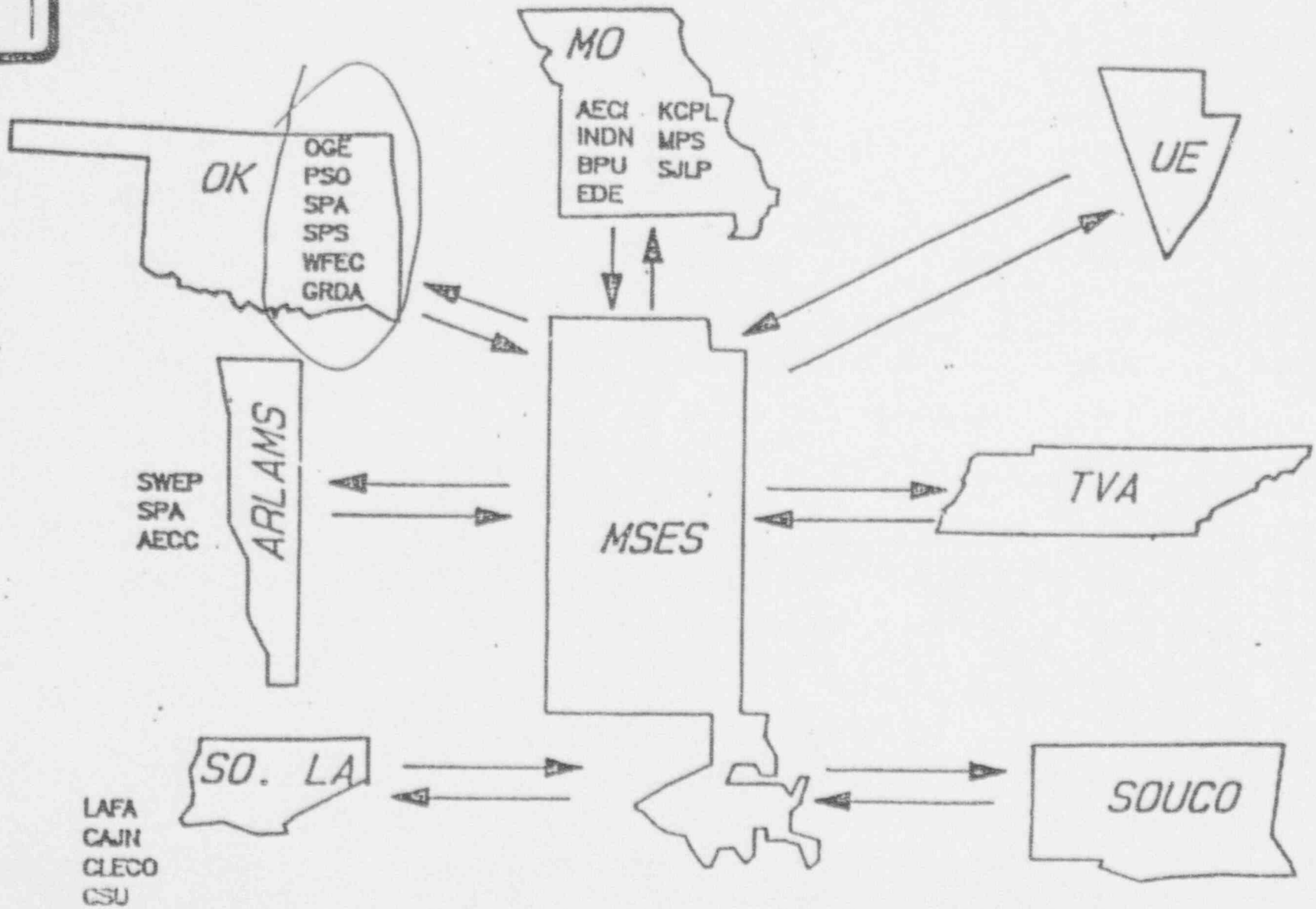
2) THE VALUE OF ALL VARIABLES UTILIZED IN CALCULATING TDLF SHALL BE THE VALUE FOR THE CLOCK HOUR DURING WHICH AP&L'S MAXIMUM NET AREA LOAD OCCURRED FOR THE CALENDAR YEAR FOR WHICH THE CALCULATIONS ARE BEING MADE.

3) THE VALUE OF THIS VARIABLE SHALL BE ZERO IF CALCULATED TO LESS THAN ZERO.

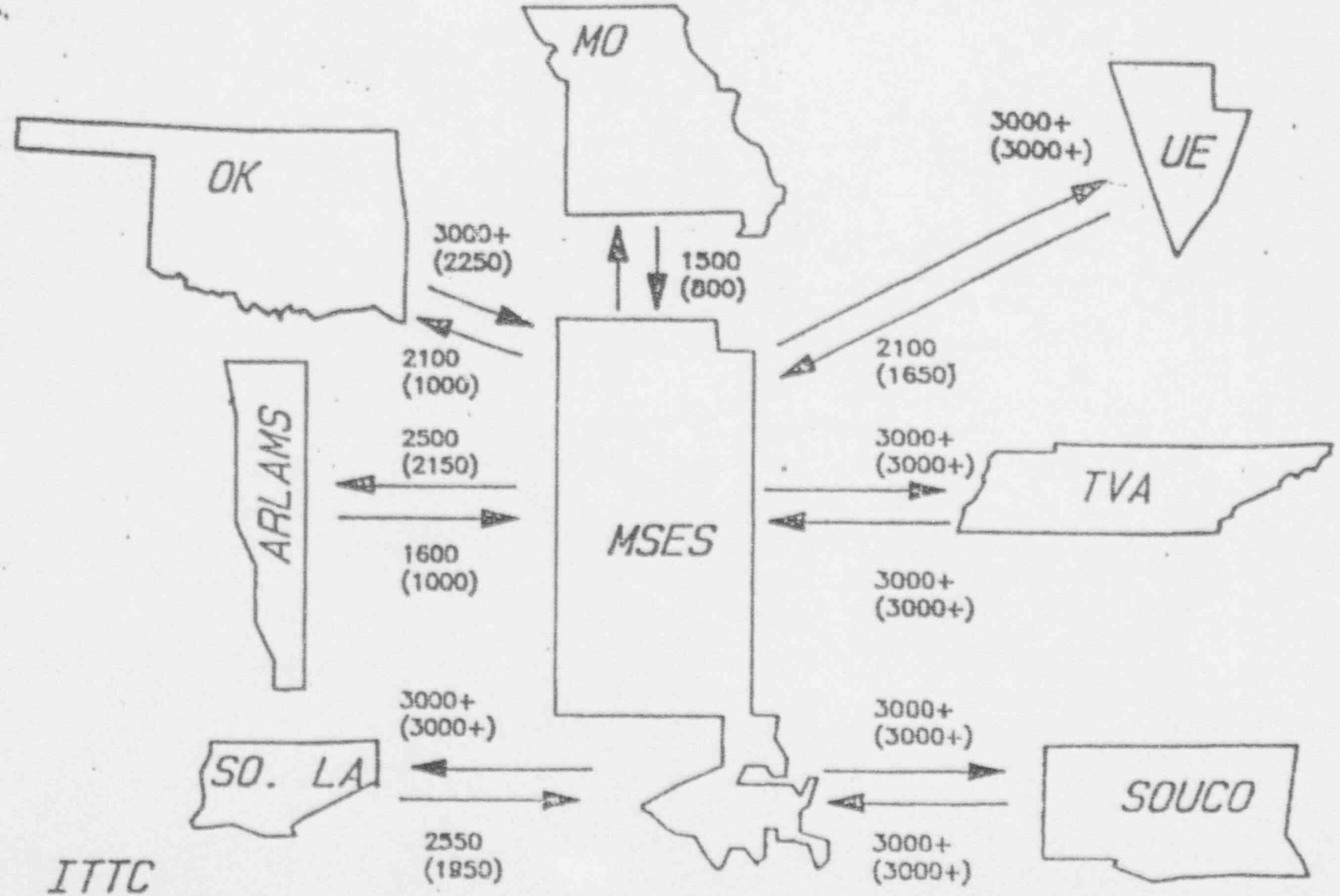
4) THE VALUES FOR EACH VARIABLE FOR EACH HOUR OF THE YEAR ARE TO BE SUMMED TO DETERMINE THE TOTAL YEAR VALUE. THE VALUE OF EACH VARIABLE FOR EACH HOUR SHALL BE DETERMINED INDEPENDENTLY USING THE ABOVE DEFINITIONS.

EXHIBIT C

STUDY AREAS AND COMPOSITION



TRANSFER CAPABILITIES



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AGREEMENT

FOR

WHOLESALE POWER SERVICE

BETWEEN

ARKANSAS POWER & LIGHT COMPANY

AND

THE CITY OF BENTON, ARKANSAS

EXHIBIT

B

AGREEMENT FOR WHOLESALE POWER SERVICE

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AGREEMENT FOR WHOLESALE ELECTRIC POWER SERVICE

THIS AGREEMENT FOR WHOLESALE ELECTRIC POWER SERVICE (hereinafter called "Agreement"), made and entered into this ___ day of _____, 1991 by and between the City of Benton, Arkansas (hereinafter called "CUSTOMER") and ARKANSAS POWER & LIGHT COMPANY, a corporation organized and existing under the laws of the State of Arkansas (hereinafter called "AP&L").

WITNESSETH THAT:

WHEREAS, AP&L is engaged in the business of generating, purchasing, transmitting and distributing electric capacity and energy in, among other places, various parts of the State of Arkansas; and

WHEREAS, CUSTOMER desires to purchase certain quantities of capacity and energy from AP&L at wholesale; and

WHEREAS, AP&L desires to sell CUSTOMER the required quantities of capacity and energy;

NOW, THEREFORE, CUSTOMER and AP&L, in consideration of the mutual promises and covenants herein contained, do hereby agree as follows:

ARTICLE 1 TERM OF AGREEMENT

1.0 The effective date of this Agreement shall be July 1, 1991. This Agreement shall terminate December 31, 2000.

ARTICLE 2 AP&L'S OBLIGATIONS

2.1 The term "power" as used in this Agreement shall mean electric capacity (KW) and energy (KWH).

2.2 AP&L shall make power available to CUSTOMER under this Agreement in the quantities set out in Article 4 subject to the limitations set forth herein, except in the case of Force Majeure as provided herein.

2.3 AP&L agrees that it will plan for and maintain facilities capable of delivering the capacity provided for in Article 4.

ARTICLE 3 CUSTOMER'S OBLIGATIONS

3.0 During the term hereof, and under the terms and conditions set forth herein, CUSTOMER will purchase power from AP&L in the quantities and under the terms set out in Articles 4 & 5 and will receive the power at the Point(s) of Delivery.

ARTICLE 4 PHYSICAL CHARACTERISTICS AND POINTS OF DELIVERY

4.0 The power to be supplied hereunder at each Point of Delivery shall be what is commonly known as alternating current of approximately 60 cycles per second at the voltage and other physical characteristics more fully described in Article 4.2 hereof. AP&L will maintain voltage at each Point of Delivery within the limits of good utility operation.

4.1 AP&L will provide at its expense adequate facilities including transmission lines, substations, and distribution lines and other equipment up to each Point of Delivery so that, subject to the provisions of this Agreement, adequate and dependable service will be rendered as specified in 4.2 below or any amendment hereto. All such facilities so provided by AP&L shall remain the property of AP&L.

4.2 AP&L agrees to deliver power as follows:

Point of Delivery	Maximum Capacity Provided	Phase	Wire	Voltage Meter	Voltage Delivered
Benton North	25,000	3	4	13.8 KV	13.8 KV
Benton South	25,000	3	4	13.8 KV	13.8 KV

The Point(s) of Delivery is the point where AP&L's facilities are connected to the CUSTOMER's facilities located as follows:

Benton North - 115/13.8 KV Substation - SE¼, NW¼, Section 35, Township 1 South, Range 15 West, Saline County, Arkansas

Benton South - 115/13.8 KV Substation - NW¼, SW¼, Section 14, Township 2 South, Range 15 West, Saline County, Arkansas

Service as metered shall be adjusted to the contract "Delivered Voltage" as above tabulated for the point of delivery. In the event there is a difference between Metered and Delivered voltage, any such applicable adjustment shall be made in accordance with accepted practices for electric utilities.

4.3 The CUSTOMER may at its option and upon 24 months written notice to AP&L abandon any Point of Delivery or reduce the amount of capacity at any of the Points of Delivery specified in Article 4.2 provided such abandonment or reduction does not violate any other provision of this Agreement.

4.4 Upon reasonable advance written request by CUSTOMER, subject to written acceptance of AP&L, AP&L agrees to increase or decrease the Maximum Capacity Provided at the existing Point(s) of Delivery specified in Article

4.2 and AP&L further agrees to make available to CUSTOMER adequate capacity at such other Point(s) of Delivery subject to the conditions in Article 4.5.

4.5 AP&L agrees to provide an ample supply of dependable power to the CUSTOMER at any existing or new delivery point, and the CUSTOMER agrees that in connection with new points of delivery or changes in voltage at existing points of delivery, the Maximum Capacity Provided as set forth in Article 4.2 hereof will be of such amount as to be consistent with sound engineering and business principles and such that the use of the facilities required is compatible with their cost. If AP&L declines to provide a requested additional Point of Delivery or requested additional capacity at an existing Point of Delivery on the ground that the requested facilities would not meet the standards of the first sentence of this Article 4.5, CUSTOMER may choose to provide such facilities at its expense, provided that such facilities are consistent with the technical requirements of the Transmission System of AP&L.

4.6 An Amendment to this Agreement shall be made and accepted in writing between the parties hereto when:

(a) The metered kilowatt demand at any Point of Delivery equals or exceeds the Maximum Capacity Provided as specified in Article 4.2 hereof.

(b) The CUSTOMER determines and supplies written notice to AP&L that the requirements of CUSTOMER through any Point of Delivery are permanently reduced by an amount of 500 kilowatts or more, the Maximum Capacity Provided for that Point of Delivery shall be reduced; provided that the minimum such reduction shall be 500 kilowatts.

(c) The electrical characteristics as described in Article 4.2 hereof are altered.

(d) An additional Point of Delivery is provided or the capacity made available at an existing Point(s) is increased.

ARTICLE 5 RATES AND BILLING

5.1 Rates

Demand Charge - $5.00 per KW of Billing Demand

Energy Charge - $0.037552 per KWH of Billing Energy

5.2 Energy Charge Adjustment - Beginning July 1, 1994, the Energy Change in Article 5.1 shall be adjusted by the Fuel and Purchased Energy rate calculated each month with the formula included in Appendix A of this Agreement.

5.3 Billing Demand - The Billing Demand for the current service month shall be the maximum coincident 60-minute demand (KW) as measured by or computed from AP&L's demand meters at the Point(s) of Delivery during the current service month, but not less than the Minimum Billing Demand.

5.4 Minimum Billing Demand - The Minimum Billing Demand each month shall be 15,000 KW or, beginning with the July 1992 billing month, such larger amount as may be necessary so that a total of 300,000 KW shall have been billed for the twelve month period ending with the current month. Upon written request including documentation by the CUSTOMER to AP&L, the Minimum Billing Demand amount above shall be reduced by the maximum demand of any retail commercial or industrial load(s) lost by the CUSTOMER, provided, and as long as, such lost load reduces CUSTOMER metered load below existing minimums. Such load loss(es) may include, but are not limited to, business closure, installation of generation, or any action which materially changes the usage pattern of such retail commercial or industrial account of the CUSTOMER. However, such reductions in the Minimum Billing Demand amounts

shall not be made if CUSTOMER has acquired additional generating capacity or purchased power from a supplier other than AP&L except that required to be purchased by CUSTOMER under state or federal law.

5.5 Billing Energy - The monthly Billing Energy shall be the total energy (KWH) delivered at the Point(s) of Delivery during the current service months.

5.6 The monthly billing to CUSTOMER shall include the following:

(1) All appropriate charges for power computed in accordance with this Article 5.

(2) All applicable sales taxes and other revenue-based taxes, fees, and charges in accordance with federal, state and local law.

5.7 The rates provided in Article 5.1 of this Agreement include a cost recovery for nuclear decommissioning and that such cost recovery each month is equal to the applicable rate contained in the annual AP&L decommissioning filing made before the Arkansas Public Service Commission. Nothing in this Article 5.7 shall be an agreement to pay any additional charges over and above the demand and energy charges within Article 5.1.

ARTICLE 6 SERVICE MONTH

6.0 The service month shall mean the period beginning on the first day and extending through the last day of each calendar month during the term of this Agreement.

ARTICLE 7 PAYMENT

7.0 CUSTOMER will pay to AP&L within 20 days of date of the invoice the net amount due. If any invoice, estimated or actual, is not paid by the due date as specified above, interest will be accrue at an interest rate

calculated in accordance with Subchapter B - Regulations Under the Federal Power Act, 18 CFR 35.19 (a) (2). If CUSTOMER in good faith disagrees with the statement rendered by AP&L, it shall so notify AP&L prior to the due date. If the parties are unable to resolve any such matter by agreement, it may be determined by any regulatory body or court having jurisdiction. Interest at said interest rate shall apply on any amount found owing by one party to another from due date until paid, or in the case of a refund due, from the date of the original payment until refunded.

ARTICLE 8 COMPETITIVE CHARACTER OF NEGOTIATIONS AND SIERRA-MOBILE AGREEMENT

8.0 AP&L and CUSTOMER agree that the fixed rates within Article 5 were developed in a competitive bulk power supply market, therefore, AP&L and CUSTOMER agree to forego any and all rights they may have under the Federal Power Act (49 Stat. 838, 16 U.S.C., 791a et seq., as amended), or any other applicable statutes as may now exist or hereafter become effective, to seek authority from the FERC or any successor agency or any other Federal or State body having jurisdiction thereof to amend the rates for service contained herein or any of the other terms and conditions contained herein.

8.1 Except as otherwise specifically provided, nothing contained in this Agreement shall be construed to abridge, limit or deprive either of the parties hereto of any means of enforcing any remedy which it might otherwise have, either by law or in equity, including the right of termination of this Agreement and of injunction and specified performance for the breach of any other provisions hereof.

8.2 Waiver at any time of rights with respect to default or any other matter arising in connection with this Agreement shall not be deemed to be a waiver with respect to any subsequent default or matter.

ARTICLE 9 METERING

9.0 Metering will be at 13,800 volts or at the voltage on the low side of the transformer supplying service. AP&L will furnish and maintain all meters required under this Agreement. Each meter used under this Agreement shall be tested and calibrated by AP&L at its own expense at regular intervals of not more than one year. If a meter shall be found incorrect or inaccurate, it shall be restored to an accurate condition or a new meter shall be substituted.

9.1 Either party shall have the right to request that a special meter test be made of meters owned by the other party at any time and may be present at such test. If any special test discloses that the meter tested is registering correctly, or within 2% of normal, the party requesting the test shall bear the expense of such test. The expense of all other tests of meters shall be borne by AP&L.

9.2 The results of all such tests and calibrations shall be open to examination by CUSTOMER and a report of every requested test shall be furnished immediately to the other party. Any meter tested and found to be not more than 2% above or below normal shall be considered to be correct and accurate insofar as correction of billing is concerned. If, as a result of any test, any meter is found to register in excess of 2% either above or below normal, then the reading of such meter previously used for billing purposes shall be corrected according to the percentage of inaccuracy so found, to the estimated date the inaccuracy began, but no such correction

shall extend beyond 90 days previous to the day on which the inaccuracy is discovered by such test, nor in any event beyond the date when the meter was last calibrated and tested; such correction when made shall constitute full adjustment of any claim between the parties hereto arising out of such inaccuracy of metering equipment.

9.3 For any period that a meter is found to have failed to register, it shall be assumed that the demand established, or electric energy supplied, as the case may be, during said period is the same as that for a period of like operation, to be agreed upon by the parties hereto, during which such meter was in service and operation; provided, that if both AP&L and CUSTOMER meters are installed at a location and the AP&L meter or meters should fail to register, the readings of the CUSTOMER meters shall be used for billing purposes hereunder.

ARTICLE 10 POWER FACTOR

10.0 It is recognized by both parties that it is desirable for electric systems to operate near unity power factor. Realizing the difficulty of installing and operating sufficient static capacitors to accomplish unity power factor on a distribution system, it is agreed that CUSTOMER will plan its system to operate at not less than 95% power factor during peak load conditions.

10.1 AP&L reserves the right to compute the power factor at each Point of Delivery served hereunder. In the event the power factor at the time of establishment of any one hour period of maximum coincidental demand during the month is less than 95%, the kilowatts of demand for the one hour maximum coincidental demand during the month may be determined by AP&L by dividing

the measured kilowatts of maximum demand by the power factor at the time of maximum coincidental demand and multiplying the result by 95%.

ARTICLE 11 CURTAILMENT OF POWER

11.0 Subject to CUSTOMER's right to purchase power from third parties under the Memorandum of Understanding and its Addenda, it is understood and agreed that if there were to be a shortage of capacity and/or electric energy requiring AP&L to curtail power deliveries to its own retail customers, then CUSTOMER agrees that upon being notified by AP&L of such requirement to curtail, CUSTOMER will institute procedures which will cause it to curtail use of power by its retail customers ratably as the curtailment to be imposed by AP&L. CUSTOMER further agrees that if, upon reasonable notification, it fails to take the action which it hereby agrees to take, AP&L shall be entitled to take such action to limit deliveries of power associated therewith, including right of total interruption of power deliveries during the period any shortage exists, and, in such event, AP&L shall not incur any liability to CUSTOMER in connection with the action so taken by AP&L in conformity with this section.

It is the intention of this paragraph that any curtailment of power shall fall equally on AP&L's retail customers and those of CUSTOMER.

ARTICLE 12 LONG RANGE PLANNING

12.0 The parties hereto recognize that long range planning is essential to render adequate and economical electric service to CUSTOMER and that such planning will be mutually beneficial to the parties in performing their obligations under this Agreement. CUSTOMER and AP&L will cooperate in joint planning in the preparation of load and capability forecasts and in the

planning of long range production requirements and developing such other information as may be useful in the planning of the most effective arrangement of future facilities.

12.1 At least twenty-four months prior to June 1 of each year, CUSTOMER shall notify AP&L in writing of the maximum amount of power which CUSTOMER estimates AP&L will be called upon to deliver to each Point of Delivery during the 12-month period following such June 1.

12.2 Operating Committee - There shall be an Operating Committee composed of one representative of each party, and they shall be of equal authority. All decisions made or directions given by the Operating Committee must be unanimous. If the Operating Committee is unable to agree on any matter coming under its jurisdiction, that matter shall be referred to the chief executives of the parties or their designated representatives.

12.2.1 Each party will evidence its appointment to the Operating Committee by written notice to the other party, and by similar notice either party may at any time change its representative on the Operating Committee.

12.2.2 The Operating Committee shall meet on or before November 15 of each year at a time and place mutually agreeable to the representatives, and at such other times as the representatives deem necessary.

12.2.3 It shall be the duty of the Operating Committee to act for the parties in matters pertaining to the interconnected operation of the respective electric systems, and to establish and maintain procedures for the administration of this agreement. It shall be the duty of the Operating Committee to coordinate the joint, long range planning pursuant to Article 12.0 hereof.

12.2.4 The Operating Committee shall have no authority to alter, amend, or revise the express provisions of this Agreement.

ARTICLE 13 FACILITIES

13.0 The CUSTOMER shall furnish, own, operate and maintain all equipment necessary to receive and utilize the electric power delivered as provided herein, including such switching and protective equipment at the point of delivery as may be required to reasonably protect the system of AP&L. AP&L shall furnish, own, operate and maintain the necessary substations, meters and metering equipment and shall make all final connections to its system at each point of delivery. CUSTOMER will make available such land as is necessary for AP&L to construct any required new substations. Location will be selected by the members of the Operating Committee.

13.1 Any and all equipment, apparatus, devices or facilities placed or installed or caused to be placed or installed, by either of the parties hereto on or in the premises of the other party shall be and remain the property of the party owning and installing such equipment, apparatus, devices or facilities, regardless of the mode or manner of annexation or attachment to real property of the other and, upon the termination of this Agreement, the owner thereof shall have the right to enter upon such premises to remove, within a reasonable time, such equipment, apparatus, devices or facilities.

13.2 The CUSTOMER agrees that it will not operate any part of its transmission and/or distribution system supplied with electric power from any point of delivery in parallel or in synchronism with any other part of its transmission and/or distribution system that is supplied with electric

power from any other point of delivery where it receives power except that, in cases of proper notification to AP&L, CUSTOMER may, during an emergency, parallel two points of delivery supplied by AP&L, for purposes of switching so that CUSTOMER may avoid interruption of service to its customers. During such emergency operation for convenience of CUSTOMER, AP&L will not be responsible for any damages which might result from such operation, and CUSTOMER agrees to hold AP&L harmless against any and all claims for damages which might result from said operations.

13.3 Right of Access - The duly authorized agents and employees of either party shall have free access at all reasonable hours to the premises of the other party for the purpose of installing, repairing, inspecting, testing, renewing or exchanging any or all of its equipment which may be located on the premises of the other party, for reading or testing meters, or for performing any other work incident to the performance of this Agreement.

13.3.1 Each party agrees to properly protect the property of the other party located on its premises, and to permit no one to inspect or tamper with the wiring and apparatus of the other party except such other party's agents and employees, or persons authorized by law.

13.3.2 It is agreed, however, that neither party assumes the duty of inspecting the wiring or apparatus of the other party and shall not be responsible therefor.

ARTICLE 14 MAINTENANCE OF EQUIPMENT

14.4.0 Each party agrees with the other party that it will at all times maintain its lines, equipment and other facilities in a safe operating condition in conformity with generally accepted standards for

electric utilities in the state of Arkansas, and will at all times operate same in such manner as not to interfere with service to the customers of the other party.

14.4.1 If the CUSTOMER should fail to maintain and operate its lines, equipment and other facilities as provided herein, AP&L shall have the right to discontinue delivery of power hereunder after giving notice of its intention to do so. If AP&L should be advised of, or have knowledge of hazardous conditions existing on the lines, equipment or other facilities of CUSTOMER, it shall have the right to discontinue delivery immediately, until the hazardous conditions have been removed and the lines and other facilities shall have been placed in a safe operating condition; AP&L shall, however, notify the CUSTOMER as soon thereafter as reasonably possible of the cause for such discontinuance and shall restore service immediately when such cause has been removed. In either of these events, CUSTOMER shall hold AP&L free and unharmed against any and all claims, liabilities, loss or expense resulting from discontinuance of delivery by AP&L, except such as results from the negligence of AP&L, its agents or employees.

ARTICLE 15 MUTUAL RESPONSIBILITIES

15.0 The power supplied under this Agreement is supplied upon the express condition that after it passes the metering equipment of AP&L, or other point of delivery, it becomes the property of the CUSTOMER and AP&L shall not be liable for loss or damage to any person or property whatsoever, resulting directly or indirectly from the use, misuse or presence of the said power on the CUSTOMER's premises, or elsewhere, after it passes the

Point of Delivery to the CUSTOMER, except where such loss or damage shall be shown to have been occasioned by negligence of AP&L, its agents or employees.

15.1 It is expressly understood and agreed that the power delivered hereunder is solely for the use of and consumption by CUSTOMER and its retail customers within the area served by the CUSTOMER.

15.2 AP&L does not guarantee that the supply of power hereunder will be free from interruption, and it is agreed that interruption of AP&L's service occasioned by any of the causes mentioned in Article 16 shall not constitute a breach of this contract on the part of AP&L, and AP&L shall not be liable to the CUSTOMER for damages resulting therefrom. In the event of interruption to service, AP&L will restore the service as soon as it can reasonably do so, and will at all times exert itself toward the end of supplying as nearly constant service as is reasonably practicable. In case of impaired or defective service, the CUSTOMER shall immediately give notice to the nearest office of AP&L by telephone, confirming such notice in writing on the same date as such notice is given. AP&L agrees to notify CUSTOMER whenever practicable of planned interruptions necessary for the maintenance or operation of its facilities.

15.3 Each party assumes all responsibility on its side of the Point(s) of Delivery for the power supplied or taken as well as for the electrical installation, appliances and apparatus used in connection therewith and shall indemnify and save harmless the other party from and against all claims for injury or damage to persons or property occasioned by, or in any way resulting from, such service or the use thereof on its respective side of the Point(s) of Delivery.

ARTICLE 16 FORCE MAJEURE

The provisions of this Article shall control over any other provision in this Agreement which may be construed as contradictory or inconsistent with the provisions of this Article. If AP&L is forced to suspend, reduce, or interrupt service because of any emergency conditions, reasonably beyond the control of AP&L including, without limitation, floods, fires, ice, wind, storms, lightning, equipment failure, strikes, lockouts, Acts of God or of the public enemy, or acts, orders or directives of the Federal or State Government or Court, then AP&L need not deliver any power that it is unable to deliver by reason of such conditions; nor shall CUSTOMER be required to pay any charges for power not used by reason of such conditions for the period of time and to the extent that such suspension, shutdown, interruption or interference makes it impractical to deliver such power. In the event AP&L suspends, reduces, or interrupts service under this Article during any month, then the Demand Charge to CUSTOMER for that month shall be reduced by the ratio of the number of hours such suspension, reduction or interruption was in effect to the number of hours in that month.

AP&L will use reasonable diligence to make service available and to supply steady and continuous service but does not guarantee the service against irregularities or interruptions due to causes beyond its reasonable control. CUSTOMER will use reasonable diligence to maintain its operations so that continuous service can be accepted but does not guarantee the receipt of service against irregularities or interruptions due to causes beyond its reasonable control.

Whenever possible, each party will promptly notify the other of any such suspension, shutdown, interruption or interference. For purposes of this Article, such emergency conditions shall not be deemed to extend beyond the

time required, by the exercise of reasonable diligence, to resume delivery or use of power in the quantity that would have been delivered and used b for such force majeure. However, the settlement of strikes or lockouts shall be entirely within the discretion of the party having difficulty and the above requirement that any force majeure shall be remedied with all reasonable diligence shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of AP&L or CUSTOMER.

ARTICLE 17 WAIVERS

Any waiver at any time by either of the parties hereto of its rights with respect to a default under this Agreement or with respect to any other matter arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or matter. Any delay short of the statutory period of limitation in exerting or enforcing any right shall not be deemed a waiver of such right. Nothing herein contained, however, nor any action taken by either of the parties as a remedy for breach of this Agreement by the other party shall impair any other remedy which such party may have at law or in equity for any breach of this Agreement.

ARTICLE 18 ASSIGNMENT

The provisions hereof shall be binding under and inure to the benefit of the parties hereto, their successors and assigns. Neither party may assign this Agreement except with the consent of the other party, and only to a person, firm or corporation acceptable to the other party, and at the time of such assignment capable of performing, and which shall assume performance of the assigning party's obligations hereunder. Neither party

shall use these requirements to unreasonably preclude assignment by the other party. Upon such assignment and assumption, the assigning party shall be discharged from its obligation hereunder and shall not be responsible for any failure of performance on the part of the assignee.

ARTICLE 19 NOTICES

Any notice or demands for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is deposited in the U.S. Mail, postage prepaid, certified or registered mail, addressed to:

Mayor
City of Benton
222 West South Street
Benton, Arkansas 72015

or to:

President
Arkansas Power & Light Company
P.O. Box 551
Little Rock, Arkansas 72203

as the case may be; or in such other form or to such other address as either party shall stipulate.

ARTICLE 20 REGULATORY APPROVAL

The effectiveness of this Agreement is subject only to its acceptance for filing by the FERC without modification. The parties to this Agreement will cooperate to promptly obtain such acceptance and AP&L shall make a filing with FERC as soon as possible after execution of this Agreement.

ARTICLE 21 ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between parties hereto with reference to the subject matter hereof and supersedes all previous understandings and agreements whether written or oral.

The Agreement for the Purchase of Electric Service by the City of Benton, Arkansas from Arkansas Power and Light Company dated December 1, 1986 (1986 Agreement) is cancelled. The Addendum to Agreement for Purchase of Electric Service by the City of Benton, Arkansas from Arkansas Power and Light Company (Addendum) executed simultaneously with this Agreement, which incorporates a Memorandum of Understanding dated November, 1989, concerning transmission grid access, shall survive the 1986 Agreement's cancellation and shall be deemed to amend this Agreement. Additionally, the Addendum shall survive the termination of this Agreement as provided in Article 1.0.

AP&L acknowledges its duty to continue to serve this wholesale load after December 31, 2000, and shall, at Benton's option, negotiate in good faith wi[illegible] tomer for cost based formula rates to be applicable beginning January 1, 2001.

IN WITNESS WHEREOF, the parties hereto have executed this AGREEMENT FOR WHOLESALE POWER SERVICE as of the day and year first above written.

ARKANSAS POWER & LIGHT COMPANY

By _____

Vice President, Customer Services
Title

ATTEST:

_____
Asst. Secretary

CITY OF BENTON, ARKANSAS

By _____

Mayor
Title

ATTEST:

_____
Secretary

FUEL AND PURCHASED ENERGY RATE [1]

FPER = Fuel and purchase energy rate ($/KWH)

$$FPER = \left(\frac{NEC}{NKWH} - .009556 \right) * LF$$

WHERE:

NEC = Net Energy Cost During the Current Billing Month

NEC = FE + PE + RDIF - DPE - MSER - SSER

WHERE:

- FE = Fuel Expense (Accounts 501, 518, and 547)
- PE = Purchased Energy Expense Charged to Account 555
- RDIF = AP&L's Grand Gulf Retained Share Energy as Reduced by Any Sales Outside of AP&L's Net Area Multiplied By the Differential ($/KWH) between AP&L's Avoided Cost and AP&L's Grand Gulf Fuel Charge
- DPE = Energy Expense Directly Assigned to Specific Customers
- MSER = Revenues from Sale of Energy to Middle South Power Pool
- SSER = Revenues from Sale of Energy to Utilities Outside the Middle South System as Adjusted to Eliminate Any Retail Grand Gulf Phase-In Effects and As Reduced By Any Margin on Sales From AP&L's Grand Gulf Retained Share

NKWH = Net Energy Associated with Net Energy Cost (NEC)

$$NKWH = NAR + CG - (DE - COP) - (1.09^{(2)} * CU)$$

WHERE:

- NAR = AP&L Net Area Energy Requirement
- CG = Co-Generation Energy not Included in "NAR"
- DE = Energy Included in "NAR" that is Directly Assigned to Specific Customers Including Energy from Customer Resources Co-Owned with AP&L
- COP = Dedicated Energy Included in "DE" that is Purchased by AP&L from Customers
- CU = Company use Energy

LF = Loss Factor

$$LF = (1+TLF) * (1.01)^{(3)}$$

WHERE:

TLF = Transmission Loss Factor as defined for the Company's other customers that are being billed on formula rates.

NOTE:

(1) The fuel and purchase energy rate shall be recalculated each month based on the actual costs and associated energy for that month.

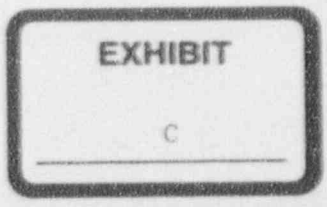
(2) Loss factor applicable to secondary service delivery

(3) Distribution loss factor applicable to delivery from primary transformer

ADDENDUM TO AGREEMENT FOR PURCHASE OF ELECTRIC SERVICE

BY CITY OF BENTON, ARKANSAS

FROM ARKANSAS POWER AND LIGHT COMPANY



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ADDENDUM TO AGREEMENT FOR PURCHASE OF ELECTRIC SERVICE
BY CITY OF BENTON, ARKANSAS
FROM ARKANSAS POWER AND LIGHT COMPANY

This Addendum to the Agreement for Purchase of Electric Service by City of Benton, Arkansas from Arkansas Power and Light Company which became effective December 1, 1986 is made as of this _____ day of June, 1991.

WHEREAS, Arkansas Power and Light Company (AP&L) and the City of Benton, Arkansas (Benton) entered into a Memorandum of Understanding (MOU) executed by AP&L on December 27, 1989, and executed by Benton on November 17, 1989; and

WHEREAS, the MOU and all agreements and undertakings therein set out were expressly contingent upon AP&L's receipt of regulatory approvals from the Arkansas Public Service Commission (APSC), Missouri Public Service Commission (MOPSC) and Securities and Exchange Commission (SEC) necessary for the creation of Entergy Power, Inc. (EPI) and the transfer to it of portions of the Independence Steam Electric Station and the Ritchie Steam Electric Station; and

WHEREAS, the regulatory approvals required by the MOU were granted on April 2, 1990, by the APSC in Docket No. 89-128-U, on May 1, 1990, by the MOPSC in Docket No. EM-90-12; and on August 27, 1990, by the SEC in its file No. 70-7684; and

WHEREAS, the MOU provides that AP&L will execute and cause to be filed with the Federal Energy Regulatory Commission (FERC) an Addendum to the currently effective Agreement for Purchase of Electric Service by AP&L and Benton;

NOW THEREFORE, AP&L and Benton, in consideration of the mutual promises set forth in the MOU, do hereby agree as follows:

Section 1. Amendment to Existing Agreement. AP&L and Benton hereby amend the Agreement for Purchase of Electric Service by City of Benton, Arkansas from Arkansas Power and Light Company which became effective December 1, 1986, by specifically incorporating all provisions of a certain MOU executed by AP&L on December 27, 1989, and executed by Benton on November 17, 1989, and all provisions of the Exhibits attached to the MOU, which are identified as Exhibit "A", Exhibit "B", and Exhibit "C".

Section 2. Attachments. Attached to and made a part of this Addendum are: The MOU, MOU Exhibit "A", MOU Exhibit "B" and MOU Exhibit "C".

Section 3. Intent of This Addendum. By this Addendum, AP&L and Benton agree to specifically define the terms and conditions by which Benton or its power suppliers will be allowed use of AP&L's transmission system as required by the MOU to supply Benton with portions or all of its power and energy requirements from or after February 27, 1993. Benton's access to the AP&L transmission grid for transmission service on or after February 27, 1993 shall be implemented solely within the terms and provisions of this Addendum and its Exhibits or a "Letter Agreement" authorized by the MOU's Exhibit "B" §4.2. No additional Agreements or understandings shall be necessary to vest with Benton or AP&L the rights granted to them by this Addendum, the MOU and its Exhibits. With the exception of "Letter Agreements" required by §4.2 of MOU Exhibit B, in no event shall this Agreement, the MOU, or its Exhibits be construed to be "an Agreement to make an Agreement". Such access to the transmission system of AP&L shall permit Benton to purchase portions or all of Benton's power and energy

requirements from and after February 27, 1993 from power suppliers other than AP&L without penalty for stranded investment and notwithstanding any other limitations or prohibitions against purchases from third party power suppliers within the Agreement for Purchase of Electric Service by City of Benton, Arkansas from Arkansas Power and Light Company which became effective December 1, 1986. In the event AP&L and Benton disagree as to the terms and conditions of transmission service, AP&L agrees to file a transmission service agreement with the FERC and to render service pursuant to such filing, subject to the FERC's determination as to the justness and reasonableness of such agreement.

Section 4. Satisfaction of MOU Requirements for Regulatory Approvals. AP&L and Benton agree that MOU regulatory approvals required by the MOU Section 2, the approval of the creation of EPI and the sale to EPI of the Independence Steam Electric Station, Unit II and Ritchie Steam Electric Station, Unit II, were granted on May 1, 1990 by MOPSC, MOPSC Docket No. EM-90-12, by APSC, APSC Docket No. 89-128-U, on April 2, 1990, and by the SEC on August 27, 1990 in its file No. 70-7684.

Section 5. Effective Date. AP&L and Benton agree that the effectiveness of this Addendum and all other provisions hereof are contingent only upon their acceptance for filing by the FERC. AP&L and Benton agree to cooperate and exert best efforts to gain the prompt acceptance of the filing of this Addendum and its Exhibits. AP&L agrees to make the filing required by this Section within fifteen (15) days of execution of this Addendum.

Section 6. Sierra-Mobile Agreement. Except for formula rates within Exhibits A - D to Exhibit B to the MOU, all other of the terms and provisions of this Addendum and its Exhibits, to the extent such other terms and provisions may be subject to the Federal Power Act (FPA) and the jurisdiction of the FERC under the FPA are not subject to amendment or change by the filing of any proceeding at FERC by AP&L or Benton under Section 205, Section 206 or other provisions of the FPA.

Section 7. Notice. Upon written notice by Benton no less than ninety (90) days prior to February 27, 1993, or at any time thereafter upon ninety (90) notice, AP&L shall execute a Letter Agreement with Benton as authorized by Article 4.2 of Exhibit B to the MOU to provide Benton with firm or interruptible transmission service for power and energy provided by a third party power supplier. The rates, terms, and conditions for such transmission service including, but not limited to, provisions relating to (i) the degree of firmness of the service and (ii) the circumstances under which AP&L will be obligated to provide service are set forth specifically in the number Articles of Exhibit B to the MOU, generally in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU and Exhibit A to the MOU, but shall, in any event, be at least equivalent to the rates, terms, and conditions provided for in any transmission service transaction made by AP&L to EPI or to any affiliated or non-affiliated party.

Section 8. Most Favored Nation Clause. It is the specific intent of AP&L and Benton to provide to Benton and/or Benton's supplier to the extent necessary to supply power to Benton access to the AP&L Transmission System under terms and conditions substantially

similar to those granted from time to time to EPI by AP&L, or to any Entergy Corporation Company, or by AP&L to any non-affiliated party. To that extent, therefore, in the event terms or conditions of transmission service more favorable than those in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A to the MOU or Exhibit B to the MOU are provided by AP&L (or any Entergy Corporation Company for similar transmission service over its facilities) to EPI or by AP&L to any non-affiliated party, such more favorable terms or conditions of transmission service on the system shall be offered to Benton (and/or Benton's supplier to the extent necessary to supply power to Benton), notwithstanding conflicts with paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A or the Articles of Exhibit B to the MOU.

IN WITNESS WHEREOF, this Addendum has been executed as of the date first mentioned above for and on behalf of Benton by the Mayor and his signature witnessed by the City Clerk and the seal of Benton attached hereto, and further this Addendum has been executed as of the date first mentioned above for and on behalf of AP&L by its President and Chief Operating Officer and his signature witnessed by the Assistant Secretary of AP&L and the seal of AP&L attached hereto.

CITY OF BENTON, ARKANSAS

By: _____
MAYOR

ATTEST:

_____
CITY CLERK

ARKANSAS POWER AND LIGHT COMPANY

By: _____
PRESIDENT & CHIEF OPERATING OFFICER

ATTEST:

_____
ASSISTANT SECRETARY

CITY OF BENTON
BENTON, ARKANSAS
CITY HALL • 222 WEST SOUTH STREET • BENTON, ARKANSAS 72015

RODNEY LARSEN
MAYOR

March 2, 1990

Mr. R. Drake Keith
President, Chief Operating Officer
Arkansas Power and Light Company
Post Office Box 551
Little Rock, Arkansas 72203

RE: Memorandum of Understanding dated November, 1989/Arkansas Power and Light Company Wholesale Customers Transmission Path Election

Dear Mr. Keith:

This letter shall be the notice of the two (2) Designated Transmission Paths (DTPs) authorized in Section 6 of the Memorandum of Understanding (MOU) dated November, 1989 by and among The City of Benton, Arkansas et al, and Arkansas Power and Light Company (AP&L).[1]

The City of Benton, Arkansas hereby designates (i) the interconnections between the City of Benton, Arkansas and AP&L and between AP&L and Louisiana Power and Light Company; and, (ii) the interconnections between the City of Benton, Arkansas and AP&L and between AP&L and Oklahoma Gas and Electric Company as its DTPs.

Such DTPs shall not initially exceed forty six (46) megawatts of transmission capacity, but shall increase during the period of time prior to transmission grid access, and for the period of years designated in the next sentence by an amount not to exceed the City of Benton, Arkansas purchases power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of five percent (5%) per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is greater, adjusted for known and measurable changes. The DTPs shall have a duration no greater than ten (10) years.

The estimated DTPs transmission capacity at the conclusion of the ten (10) year period identified in the prior paragraph is estimated as fifty six (56) mw. Transmission Service under the DTPs may commence as of thirty (30) months from final regulatory approval required by the MOU or within one hundred eighty (180) days thereafter.

1 In accordance with correspondence between counsel, § 6's deadline of February 1, 1990 for selection was extended to March 5, 1990.

EXHIBIT
D

I appreciate very much your consideration of this request and look forward to your response within thirty (30) days in accordance with the MOU.

Cordially,

Rodney Larsen

Rodney Larsen
Mayor
City of Benton

RL/brb

AP&L

Arkansas Power & Light Company
425 West Capitol
P. O. Box 551
Little Rock, Arkansas 72203
Tel 501 377 3528

Kenneth R. Breeden
Senior Vice President
Customer Services
and Marketing

April 2, 1990

The Honorable Rodney Larsen
Mayor
The City of Benton
City Hall
222 West South Street
Benton, Arkansas 72015

Dear Mayor Larsen:

This letter is in response to your letter of March 2, 1990, in which you gave notice of the two (2) Designated Transmission Paths (DTP's) described in Section 6 of the Memorandum of Understanding (MOU) among Arkansas Power & Light Company (AP&L) and the City of Benton, Arkansas (Benton) et al dated November, 1989.

Benton designated the following point-to-point transmission paths: (1) point of receipt into AP&L's system at the interconnections of AP&L and Louisiana Power & Light Company with point of delivery into Benton system at the interconnections of AP&L and Benton; and, (2) point of receipt into AP&L's system at the interconnection of AP&L and Oklahoma Gas and Electric Company with point of delivery into Benton's system at the interconnections of AP&L and Benton.

Transmission service under the DTP's may commence as of thirty (30) months from final regulatory approval required by the MOU or within one hundred eighty (180) days thereafter and have a duration no greater than ten (10) years.

For both DTP's, the designated transmission capacity shall not initially exceed forty six (46) megawatts, but shall increase during the period of time prior to the proposed transaction, and throughout the term of the proposed transaction, by an amount not to exceed Benton's purchased power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of five (5%) per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is greater, adjusted for known and measurable changes. The estimated transmission capacity at the conclusion of the ten (10) year period is estimated as fifty six (56) megawatts. AP&L has evaluated the tech-

nical and functional capability of its transmission system to provide the transmission service described above and has determined that transmission capacity is presently available for such transactions and that new transmission facilities or modifications to existing facilities will not be required to provide the proposed transmission services. While the above described transmission capacity is presently available in the AP&L system, we refer to paragraph 8 of Exhibit A of the MOU and make no representation that the requested transaction will not impact the electric systems of third-parties which could result in additional costs for which Benton would bear the responsibility.

Sincerely,

Ken Breeden

KRB:jj

cc: Mr. Zachary D. Wilson

SECOND AMENDMENT TO

AGREEMENT

FOR

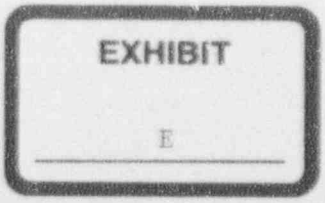
ELECTRIC PEAKING POWER SERVICE

BETWEEN

ARKANSAS POWER & LIGHT COMPANY

AND

THE CITY OF CONWAY, ARKANSAS



SECOND AMENDMENT TO PEAKING POWER AGREEMENT

This Second Amendment to Peaking Power Agreement made as of this 11 day of December, 1990, by and between the City of Conway, Arkansas ("City") and the Arkansas Power and Light Company ("AP&L" or "Company"),

WITNESSETH THAT:

WHEREAS, AP&L and City have entered into an Agreement for Peaking Power Service ("Peaking Power Agreement") dated as of August 28, 1985, as amended by the First Amendment to Peaking Power Agreement dated as of the _____ day of August, 1986; and

WHEREAS, AP&L and City desire to extend the term of the Agreement for Peaking Power Service; and

WHEREAS, AP&L and City desire to define the provisions of the Agreement for Peaking Power Service for service applicable to such extended period:

NOW, THEREFORE, City and AP&L, in consideration of the mutual promises and covenants herein contained, do hereby agree to amend the Agreement for Peaking Power Service as follows:

1. Section 2. Peaking Power shall be amended in its entirety to read:

"2. Peaking Power. AP&L agrees to furnish Peaking Power to City and City agrees to receive and pay for such Peaking Power. The Peaking Capacity to be furnished during the

period from the effective date of this Peaking Power Agreement through December 31, 2000, shall be calculated as follows:

Peaking Demand shall become effective October 1 of each year using the following formula:

$$PD = (PYL - A) \times 0.5 + B$$

Where: PD = Monthly Peaking Demand in KW

PYL = Previous year maximum simultaneous demand (KW) adjusted for losses calculated in accordance with PCITA.

A = 78,392 KW

B = 25,000 KW

When, and as long as, each of the following levels of PYL is exceeded, the value of A and B above shall be increased by the amount indicated below:

City	PYL	Increase to A & B
Conway	110,000 KW	5,000 KW
	126,500 KW	10,000 KW

Provided, however, that City agrees to Minimum Billing Quantities as shown below:

	Peaking Demand	Formula Demand[1]
Conway	33,657 KW	14,650 KW

[1] Formula Demand refers to Production Service Billing Demand defined in Section 8 of Appendix A to the Power Coordination, Interchange and Transmission Agreement.

The Minimum Billing Quantity for the remaining term of this agreement shall be changed on any October 1 when the value of A and B are changed pursuant to the Peaking Demand formula set out above to the value of Peaking Demand and Formula Demand purchased in that month.

Any firm capacity purchase by City from other supplier(s) and delivered by the AP&L system will be subtracted from metered demand plus losses (see PYL definition above) before calculating Peaking Demand. City may provide any portion of its requirements from other sources or suppliers.

The Peaking Energy to be furnished during the period from the effective date of this Peaking Power Agreement through December 31, 2000, shall be 240 KWh per KW of Peaking Demand per month for the months of May through September."

2. Section 5. Rates and Charges shall be amended in its entirety to read:

"5. Rates and Charges. In exchange for the Peaking Capacity furnished by AP&L during the period from the effective date of this Peaking Power Agreement through December 31, 2000, City agrees to pay AP&L each of the 12 months of the year an amount equal to the Demand Charge and Energy Charge set out in Table 1 below for the demand and energy calculated for such months in accordance with the provisions of Section 2. "Peaking Power".

TABLE 1

Peaking Power Rates

Effective Date	Demand Charge	Energy Charge
1/1/1991	$ 2.39	$.04776
10/1/1992	2.46	.04919
10/1/1993	2.53	.05067
10/1/1994	2.61	.05219
10/1/1995	2.69	.05375
10/1/1996	2.77	.05537
10/1/1997	2.85	.05703
10/1/1998	2.94	.05874
10/1/1999	3.02	.06050
10/1/2000	3.12	.06232"

3. Section 7. Term shall be amended in its entirety to read:

"7. Term. Once effective, this Agreement shall remain in effect until December 31, 2000. The parties retain the right to terminate the PCITA pursuant to its terms as set out in Section 3 thereof but hereby agree not to terminate such agreement prior to December 31, 2000.

AP&L and the City agree that rates for service specified herein shall remain in effect for the term specified in this Section 7 and shall not be subject to change through application to the Federal Energy Regulatory Commission pursuant to the provisions of Section 205 of the Federal Power Act or as it may be amended absent the Agreement of both parties hereto."

4. Regulatory Approvals. This Second Amendment to Peaking Power Agreement and the rates and charges herein are contingent upon approval without modification by any and all State or Federal regulatory bodies having jurisdiction thereof. AP&L and City agree to cooperate to gain timely approval of this Second Amendment to Peaking Power Agreement.

IN WITNESS WHEREOF, this Second Amendment to Peaking Power Agreement has been executed as of the date first mentioned above for and on behalf of the City of Conway, Arkansas by its Mayor and his signature witnessed by the City Clerk of Conway, Arkansas and the seal of said City attached hereto, and further this Second Amendment to Peaking Power Agreement has been executed as of the date first mentioned above for and on behalf of Arkansas Power and Light Company by its Senior Vice President and his signature witnessed by an Assistant Secretary of said Company and the seal of said Company attached hereto.

CITY OF CONWAY, ARKANSAS

By David A. Tinley
Mayor

ATTEST:

Martha Shiflett
City Clerk

ARKANSAS POWER & LIGHT COMPANY

By K R Breeden
Kenneth R. Breeden
Senior Vice President

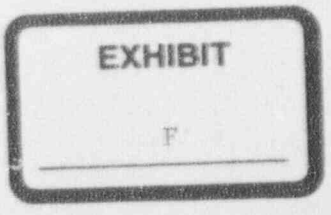
ATTEST:

Shirley A. Hunter
Assistant Secretary

ADDENDUM TO POWER COORDINATION, INTERCHANGE, AND TRANSMISSION AGREEMENT

BETWEEN THE CITY OF CONWAY, ARKANSAS

AND ARKANSAS POWER AND LIGHT COMPANY



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ADDENDUM TO POWER COORDINATION, INTERCHANGE, AND TRANSMISSION AGREEMENT
BETWEEN THE CITY OF CONWAY, ARKANSAS
AND ARKANSAS POWER AND LIGHT COMPANY

This Addendum to the Power Coordination, Interchange, and Transmission Agreement between the City of Conway, Arkansas and Arkansas Power and Light Company which became effective March 1, 1982 is made as of this _____ day of June, 1991.

WHEREAS, Arkansas Power and Light Company (AP&L) and the City of Conway, Arkansas (Conway) entered into a Memorandum of Understanding (MOU) executed by AP&L on December 27, 1989, and executed by Conway on October 27, 1989; and

WHEREAS, the MOU and all agreements and undertakings therein set out were expressly contingent upon AP&L's receipt of regulatory approvals from the Arkansas Public Service Commission (APSC), Missouri Public Service Commission (MOPSC) and Securities and Exchange Commission (SEC) necessary for the creation of Entergy Power, Inc. (EPI) and the transfer to it of portions of the Independence Steam Electric Station and the Ritchie Steam Electric Station; and

WHEREAS, the regulatory approvals required by the MOU were granted on April 2, 1990, by the APSC in Docket No. 89-128-U, on May 1, 1990, by the MOPSC in Docket No. EM-90-12; and on August 27, 1990, by the SEC in its file No. 70-7684; and

WHEREAS, the MOU provides that AP&L will execute and cause to be filed with the Federal Energy Regulatory Commission (FERC) an Addendum to the currently effective Power Coordination, Interchange, and Transmission Agreement between AP&L and Conway;

NOW THEREFORE, AP&L and Conway, in consideration of the mutual promises set forth in the MOU, do hereby agree as follows:

Section 1. Amendment to Existing Agreement. AP&L and Conway hereby amend the Power Coordination, Interchange, and Transmission Agreement between Conway and Arkansas Power and Light Company which became effective March 1, 1982, by specifically incorporating all provisions of a certain MOU executed by AP&L on December 27, 1989, and executed by Conway on October 27, 1989, and all provisions of the Exhibits attached to the MOU, which are identified as Exhibit "A", Exhibit "B", and Exhibit "C".

Section 2. Attachments. Attached to and made a part of this Addendum are: The MOU, MOU Exhibit "A", MOU Exhibit "B" and MOU Exhibit "C".

Section 3. Intent of This Addendum. By this Addendum, AP&L and Conway agree to specifically define the terms and conditions by which Conway or its power suppliers will be allowed use of AP&L's transmission system as required by the MOU to supply Conway with portions or all of its power and energy requirements from or after February 27, 1993. Conway's access to the AP&L transmission grid for transmission service on or after February 27, 1993 shall be implemented solely within the terms and provisions of this Addendum and its Exhibits or a "Letter Agreement" authorized by the MOU's Exhibit "B" §4.2. No additional Agreements or understandings shall be necessary to vest with Conway or AP&L the rights granted to them by this Addendum, the MOU and its Exhibits. With the exception of "Letter Agreements" required by §4.2 of MOU Exhibit B, in no event shall this Agreement, the MOU, or its Exhibits be construed to be "an Agreement to make an Agreement". Such access to the transmission system of AP&L shall permit Conway to purchase portions or all of Conway's power and energy

requirements from and after February 27, 1993 from power suppliers other than AP&L without penalty for stranded investment and notwithstanding any other limitations or prohibitions against purchases from third party power suppliers within the Power Coordination, Interchange, and Transmission Agreement between the City of Conway, Arkansas and Arkansas Power and Light Company which became effective March 1, 1982. In the event AP&L and Conway disagree as to the terms and conditions of transmission service, AP&L agrees to file a transmission service agreement with the FERC and to render service pursuant to such filing, subject to the FERC's determination as to the justness and reasonableness of such agreement.

Section 4. Satisfaction of MOU Requirements for Regulatory Approvals. AP&L and Conway agree that MOU regulatory approvals required by the MOU Section 2, the approval of the creation of EPI and the sale to EPI of the Independence Steam Electric Station, Unit II and Ritchie Steam Electric Station, Unit II, were granted on May 1, 1990 by MOPSC, MOPSC Docket No. EM-90-12, by APSC, APSC Docket No. 89-128-U, on April 2, 1990, and by the SEC on August 27, 1990 in its file No. 70-7684.

Section 5. Effective Date. AP&L and Conway agree that the effectiveness of this Addendum and all other provisions hereof are contingent only upon their acceptance for filing by the FERC. AP&L and Conway agree to cooperate and exert best efforts to gain the prompt acceptance of the filing of this Addendum and its Exhibits. AP&L agrees to make the filing required by this Section within fifteen (15) days of execution of this Addendum.

Section 6. Sierra-Mobile Agreement. Except for formula rates within Exhibits A - D to Exhibit B to the MOU, all other of the terms and provisions of this Addendum and its Exhibits, to the extent such other terms and provisions may be subject to the Federal Power Act (FPA) and the jurisdiction of the FERC under the FPA are not subject to amendment or change by the filing of any proceeding at FERC by AP&L or Conway under Section 205, Section 206 or other provisions of the FPA.

Section 7. Notice. Upon written notice by Conway no less than ninety (90) days prior to February 27, 1993, or at any time thereafter upon ninety (90) notice, AP&L shall execute a Letter Agreement with Conway as authorized by Article 4.2 of Exhibit B to the MOU to provide Conway with firm or interruptible transmission service for power and energy provided by a third party power supplier. The rates, terms, and conditions for such transmission service including, but not limited to, provisions relating to (i) the degree of firmness of the service and (ii) the circumstances under which AP&L will be obligated to provide service are set forth specifically in the number Articles of Exhibit B to the MOU, generally in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU and Exhibit A to the MOU, but shall, in any event, be at least equivalent to the rates, terms, and conditions provided for in any transmission service transaction made by AP&L to EPI or to any affiliated or non-affiliated party.

Section 8. Most Favored Nation Clause. It is the specific intent of AP&L and Conway to provide to Conway and/or Conway's supplier to the extent necessary to supply power to Conway's access to the AP&L Transmission System under terms and conditions substantially

similar to those granted from time to time to EPI by AP&L, or to any Entergy Corporation Company, or by AP&L to any non-affiliated party. To that extent, therefore, in the event terms or conditions of transmission service more favorable than those in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A to the MOU or Exhibit B to the MOU are provided by AP&L (or any Entergy Corporation Company for similar transmission service over its facilities) to EPI or by AP&L to any non-affiliated party, such more favorable terms or conditions of transmission service on the system shall be offered to Conway (and/or Conway's supplier to the extent necessary to supply power to Conway), notwithstanding conflicts with paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A or the Articles of Exhibit B to the MOU.

IN WITNESS WHEREOF, this Addendum has been executed as of the date first mentioned above for and on behalf of Conway by their duly authorized officials, and further this Addendum has been executed as of the date first mentioned above for and on behalf of AP&L by its President and Chief Operating Officer and his signature witnessed by the Assistant Secretary of AP&L and the seal of AP&L attached hereto.

CITY OF CONWAY, ARKANSAS

By: _____
GENERAL MANAGER
CONWAY CORPORATION

ATTEST:

_____
ADMINISTRATIVE ASSISTANT

ARKANSAS POWER AND LIGHT COMPANY

By: _____
PRESIDENT & CHIEF OPERATING OFFICER

ATTEST:

_____
ASSISTANT SECRETARY

CONWAY CORPORATION

OPERATORS OF THE CITY-OWNED
ELECTRIC, ELECTRONIC & WATER SYSTEMS

P.O. BOX 99 CONWAY, ARK. 72032 329-5641

JAMES H. BREWER
General Manager

March 1, 1990

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. R. Drake Keith
President, Chief Operating Officer
Arkansas Power and Light Company
Post Office Box 551
Little Rock, Arkansas 72203

RE: Memorandum of Understanding dated November, 1989/Arkansas Power and Light Company Wholesale Customers Transmission Path Election

Dear Mr. Keith:

This letter shall be the notice of the two (2) Designated Transmission Paths (DTPs) authorized in Section 6 of the Memorandum of Understanding (MOU) dated November, 1989 by and among the Conway Corporation et al, and Arkansas Power and Light Company.[1]

The Conway Corporation hereby names (i) the interconnections between the Conway Corporation and Arkansas Power and Light Company and between Arkansas Power and Light Company and Gulf States Utilities through Louisiana Power and Light Company; and, (ii) the interconnections between the Conway Corporation and Arkansas Power and Light Company and between Arkansas Power and Light and Oklahoma Gas and Electric as its Designated Transmission Paths (DTPs).

Such Designated Transmission Paths (DTPs) shall not initially exceed 37 megawatts[2] of transmission capacity, but shall increase during the period of time prior to transmission grid access, and for the period of years designated in the next sentence by an amount not to exceed the Conway Corporation's purchased power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of five percent (5%) per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is

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1 In accordance with correspondence between counsel, Section 6's deadline of February 1, 1990 for selection was extended to March 5, 1990.

2 These capacities do not include wheeling of Jointly Owned Resources or Reserves related thereto.

EXHIBIT

G

CONWAY CORPORATION

greater, adjusted for known and measurable changes. The Designated Transmission Paths (DTPs) shall have a duration no greater than ten (10) years, or as needed.

The estimated Designated Transmission Paths (DTPs) capacity at the conclusion of the ten (10) year period identified in the prior paragraph is estimated as 80 megawatts.[2] Transmission Service under the Designated Transmission Paths (DTPs) may commence as of thirty (30) months from final regulatory approvals required by the Memorandum of Understanding or within one hundred eighty (180) days thereafter.

I appreciate very much your consideration of this request and look forward to your response within thirty (30) days in accordance with the Memorandum of Understanding.

Cordially,

James H. Brewer
General Manager
CONWAY CORPORATION

JHB:mf

AP&L

Arkansas Power & Light Company
425 West Capitol
P. O. Box 551
Little Rock, Arkansas 72203
Tel 501 377 3528

Kenneth R. Breeden
Senior Vice President
Customer Services
and Marketing

April 2, 1990

Mr. James H. Brewer
General Manager
Conway Corporation
P. O. Box 99
Conway, Arkansas 72032

Dear Mr. Brewer:

This letter is in response to your letter of March 1, 1990, in which you gave notice of the two (2) Designated Transmission Paths (DTP's) described in Section 6 of the Memorandum of Understanding (MOU) among Arkansas Power & Light Company (AP&L) and the City of Conway, Arkansas (Conway) et al dated November, 1989.

Conway designated the following point-to-point transmission paths: (1) point of receipt into AP&L's system at the interconnections of AP&L and Louisiana Power & Light Company with point of delivery into Conway's system at the interconnections of AP&L and Conway; and, (2) point of receipt into AP&L's system at the interconnection of AP&L and Oklahoma Gas and Electric Company with point of delivery into Conway's system at the interconnections of AP&L and Conway.

Transmission service under the DTP's may commence as of thirty (30) months from final regulatory approval required by the MOU or within one hundred eighty (180) days thereafter and have a duration no greater than ten (10) years.

For both DTP's, the designated transmission capacity shall not initially exceed thirty-seven (37) megawatts, but shall increase during the period of time prior to the proposed transaction, and throughout the term of the proposed transaction, by an amount not to exceed Conway's purchased power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of five (5%) per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is greater, adjusted for known and measurable changes. The estimated transmission capacity at the conclusion of the ten (10) year period is estimated as eighty (80.0) megawatts. The transmission capacity amounts stated above do not include transmission service for Conway's ownership share of the White Bluff and Independence Steam Electric Stations or reserves related thereto.

AP&L has evaluated the technical and functional capability of its transmission system to provide the transmission service described above and has determined that transmission capacity is presently available for such transactions and that new transmission facilities or modifications to existing facilities will not be required to provide the proposed transmission services. While the above described transmission capacity is presently available in the AP&L system, we refer to paragraph 8 of Exhibit A of the MOU and make no representation that the requested transaction will not impact the electric systems of third-parties which could result in additional costs for which Conway would bear the responsibility.

Sincerely,

Ken Breeden

KRB:jj

cc: Mr. Zachary D. Wilson

K

2891
9-9-85

POWER AGREEMENT

THIS AGREEMENT made as of this 11 day of September, 1985, by and between the CITY OF NORTH LITTLE ROCK, ARKANSAS (hereinafter called "City") and the ARKANSAS POWER & LIGHT COMPANY, a corporation (hereinafter called "Company"),

W I T N E S S E T H:

WHEREAS, The City has for a number of years purchased all of its electric power and energy required for the operation of its electric distribution system located in the Cities of North Little Rock and Sherwood, Arkansas and in adjacent rural areas where City owns transmission and distribution facilities, from the Arkansas Power & Light Company pursuant to a Power Agreement dated as of March 1, 1966, and is now willing and desirous of entering into an agreement for an additional term ending June 30, 1991, for power supply from the Company; and

WHEREAS, the Company is willing to commit itself for the term of this agreement to provide the City with an adequate amount of power and energy to meet the requirements of City's distribution system other than that supplied by City's own generating capability;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements hereinafter set forth, the parties agree as follows:

1. Competitive Character of Negotiations. Company and City acknowledge that this Agreement is the product of vigorous arms-length bargaining between the parties in a highly competitive bulk power market. Consequently, Company agrees for the term of this Agreement, to forego any and all rights it may have under the Federal Power Act (49 Stat. 838, 16 U.S.C., 791a et seq., as subsequently amended), or any other applicable statutes as may now exist or hereinafter become effective, to seek to amend the rates for service contained herein or any of the other terms and conditions hereof before the Federal Energy Regulatory Commission or any successor agency or any other Federal or State body having jurisdiction thereof.

Company and City acknowledge that this Agreement is a private rate contract and that the primary and fundamental consideration for this Agreement is: the rates, charges and terms for the sale of energy and power as fixed herein; and Company agrees that if the rates, charges or terms hereof are modified by any state or federal regulatory body or by any state or federal court in any manner without the consent of City, then City shall have the option to terminate this Agreement upon not less than 30 days notice to Company. Company further agrees that City shall have

EXHIBIT
H

the option to terminate this Agreement upon not less than 30 days notice to Company in the event that Company or its parent, Middle South Utilities, Inc.: (1) shall be placed into voluntary or involuntary bankruptcy; (2) shall be the subject of reorganization proceedings or placed into receivership; or (3) shall make any assignment of its assets for the benefit of creditors. In the event of such termination, City shall have the right to obtain power and energy from any source.

2. Power Requirement of City. (a) During the term of this Agreement, City shall purchase and Company shall provide, transmit, and deliver all of the electric power and energy necessary to fulfill the total electric service requirement of City within its service area, except for the power and energy supplied by City's own generating capability. Provided, however, Company agrees to transmit power and energy generated by City pursuant to the provisions of paragraph 7 herein.

(b) City shall have complete freedom to acquire, install and operate generating capability connected to the City's distribution system on the load side of the Delivery Points and operate these facilities in the manner which in its judgment would be most advantageous to City, so long as City gives Company not less than 36 months notice of its intent to acquire, install, and operate such generating capability in excess of 10 megawatts.

(c) City may acquire other capacity pursuant to Paragraph 6 herein.

(d) Power required by City under this Agreement at the Points of Delivery listed in Paragraph 4(a) and (b) which is in excess of the capability of City's Resources shall be sold by Company and purchased by City at the rate as determined in Paragraphs 8, 9, and 10 herein.

(e) When City and Company forecast that City's maximum annual peak will exceed the combined capacity of the points of delivery specified in Paragraph 4(a) and (b), additional capacity shall be provided to serve the forecasted load; provided that City shall give at least 12 months advance notice of an increase of less than 10,000 kilowatts in the requirements at any point of delivery and at least twenty-four months advance notice of an increase of 10,000 kilowatts or more in the requirements at any point of delivery. Power and energy delivery by Company to City will be at approximately 13,000 volts unless specified otherwise, three phase, at a nominal frequency of 60 cycles per second. Maintenance by the Company of the voltage and frequency provided for herein at the herein described points of delivery will constitute the supplyng of service by the Company hereunder.

3. Definitions.

a. Transmission System and Facilities of Company. Any reference to the Transmission System and Facilities of the Company shall mean the transmission and distribution lines and related facilities used by the Company for the transmission of power and energy within its service territory.

b. City's Resources. The term "City's Resources" shall refer to resources on the supply side of the Delivery Points, as hereinafter defined, and shall mean: (1) the generating facilities owned and/or controlled by City, (2) generating capability owned by City by reason of participating with Company and/or other parties in an undivided interest in generating facilities and, (3) the installation of generating facilities by City at locations other than North Little Rock.

4. Delivery Points of Electric Power and Energy.

a. Existing Delivery Points. Power and energy under this Agreement shall be delivered to and received by the City at the following delivery points:

(1) Company's Westgate Substation No. 1 up to a maximum delivery of 30,000 KVA.

(2) Company's Westgate Substation No. 2 up to a maximum delivery of 30,000 KVA.

(3) Company's Dixie Substation up to a maximum of 50,000 KVA.

(4) Company's Levy Substation No. 1 up to a maximum of 25,000 KVA.

(5) Company's Levy Substation No. 2 up to a maximum of 50,000 KVA.

(6) Company's Sherwood Substation No. 1 up to a maximum delivery of 50,000 KVA.

(7) Company's Sherwood Substation No. 2 up to a maximum delivery of ~~60,000~~ 50,000 KVA.

(8) Company's McAlmont Substation up to a maximum delivery of 6,000 KVA.

b. Future Additional Points of Delivery. During the term of this Agreement, City and Company shall provide such additional points of delivery as may be mutually agreed upon and specified in an amendment to this Agreement. The cost of acquisition and installation shall be borne equally by City and

Company, and upon termination of this Agreement City shall have the option to purchase the facility at one-half the depreciated original cost of the facility. In the event City fails to exercise this option within six months of the expiration of this Agreement, then Company shall be entitled to purchase the facility from City under the same terms and conditions.

5. Scheduling. City's Resources shall be connected with the dispatching facilities of the Company to integrate the operation of said resources with the generating and transmission facilities of the Company. City shall schedule the power and energy available from its own resources, including the Murray Lock and Dam hydrogeneration project. Said scheduling shall be in accordance with mutually acceptable procedures developed with regard to the particular circumstances and in accordance with good utility practices.

6. Construction of Additional Generation by City. (a) It is not the intent of the parties to limit the right of City to install additional generating capacity at locations other than at North Little Rock, Arkansas, or to participate with Company and/or other parties in an undivided interest in generating facilities. It is also recognized that in the interest of joint planning, 36 months notice must be given, it being understood that Company has been given notice of City's plan to construct the hydrogeneration facility at Murray Lock and Dam, as noted in subparagraph (b) hereof. The parties also agree to negotiate necessary contract arrangements for the addition of such capacity, as may be necessary or appropriate under the circumstances. Arrangements for the delivery of power and energy provided for by this paragraph shall be in accordance with the provisions of Paragraph 7 herein.

(b) Company recognizes that City has acquired a Preliminary Permit to construct a hydroelectric generating facility, Federal Energy Regulatory Commission Project No. 3449-001. The project is to be located on the Arkansas River in Pulaski County, adjacent to the City of North Little Rock, Arkansas. The proposed hydroelectric generating structures will be located at the existing Murray Lock and Dam No. 7, a facility owned by the United States and operated by the U. S. Army Corps of Engineers for flood control and navigation. The project is designed to provide City with a rated capability of 39.5 megawatts.

(c) In the event that the Murray Lock and Dam hydrogeneration project is not connected to City's distribution system on the load side of the Delivery Points then Company agrees to transmit and deliver the power and energy from the project to City, and City agrees to pay Company a transmission charge for the transmission and delivery of such power and energy on the basis of the same formula as is now used by AP&L for calculating transmission service charges for tranmission of power and energy

by Company on behalf of Cajun Electric or (in the event said formula is changed) the same formula then in effect for calculating such transmission service charges by Company.

Company hereby grants to City the option to purchase undivided interests in generating units installed during the term of this contract to be wholly owned by Company, or jointly with another or others, said option to purchase to be evidenced by a written acceptance given by City to Company not less than six (6) months prior to the start of construction of any such unit. Company agrees to advise City in writing promptly upon the completion of final plans for the construction of any of such additional units. City shall receive a minimum of six (6) months notice of the date by which it must exercise any option granted under this Paragraph.

The amount of total power producing capability which may be purchased by City from each generating unit under the terms of the option granted by this section shall not be less than 20 Megawatts nor more than 25% of City's estimated peak load at the time the unit is scheduled to be in service.

City acknowledges that if it obtains City's Resources without reserves, it will be required to provide for generating reserves for such resources in an amount equivalent to the planning reserve requirement of the MSU system, but not more than 25% of the nameplate capability of the City's Resources.

7. Access to Company Transmission Systems and Facilities. Company agrees to accept into its transmission system, to be delivered for City's benefit, power and energy generated by City upon thirty-six months advance written notice from City. Company agrees that City may connect, by means of suitable transmission facilities to be approved by Company, the sources of generation of such power and energy to Company's transmission system at a point to be designated by Company, and Company will transmit and deliver the power and energy so acquired by City, less losses to be absorbed by City for the account of City, through the Points of Delivery hereinbefore described, power and energy so acquired by City, on the following conditions:

(a) City will connect the generating facilities at which such power and energy is produced to the transmission System of Company at its sole cost and expense at a suitable point of delivery with Company's system to be chosen by Company, and

(b) City will pay Company a transmission charge in accordance with paragraph 6(c) for the transmission and delivery of such power and energy purchased by City.

Designation of delivery points by Company shall be reasonable and in accordance with generally accepted utility practices under the circumstances involved.

8. Rates and Charges. The rate for service to City to be effective on the effective date of this Agreement and for the term of the Agreement is to be 5.00¢/KWH.

The monthly charge to be paid to Company by City shall consist of the following:

a. Energy charge equal to 5.00¢/KWH multiplied by the energy (KWH) generated by Company and delivered to Customer during the service month. It is understood that power wheeled by Company for City is expressly excluded from charges under this provision, as wheeling charges will be billed under a separate wheeling agreement. It is also expressly agreed that Company shall not be required to wheel power generated by City other than power from the Murray Lock and Dam hydrogeneration project, except upon 36 months advance notice to Company.

b. Any and all applicable sales tax, other revenue based taxes, occupational taxes and privilege taxes in accordance with federal, state and local law.

AP&L and the City agree that rates for service specified herein shall remain in effect for the term specified herein and shall not be subject to change through application to the Federal Energy Regulatory Commission pursuant to the provisions of Section 205 of the Federal Power Act absent the agreement of both parties hereto.

9. Rate Regulation. As recognized by the parties in Section 1 herein, this Agreement and the rates and charges herein are subject to approval by the Federal Energy Regulatory Commission. Company and City will cooperate in seeking and obtaining approval and acceptance of this Agreement by such Commission.

In furtherance of the parties' recognition that this contract was reached after protracted and competitive arms-length bargaining by non-affiliated entities and that time is of the essence in assuring an adequate long-term power and energy supply to City, both Company and City agree to file this Agreement for approval by the Federal Energy Regulatory Commission immediately upon its formal execution and approval by the parties. The parties agree to file forceful statements with the FERC, emphasizing that time is of the essence and that, in the absence of expeditious approval by the FERC, City may proceed to conclude a power supply contract with a third party supplier. The parties agree to present arguments to the FERC that good cause has been shown for advance filing and approval of the contract by FERC.

10. Service Regulations. Service under this Agreement is subject to the service regulations of the Company as they are now on file with the Federal Energy Regulatory Commission.

11. Term. The term of this Agreement shall begin March 1, 1986 and shall continue in full force and effect for a term ending on June 30, 1991.

12. Billing and Payment. The Company shall render a monthly billing to the City for service during the prior calendar month setting out all charges due under the provisions of paragraph 8. Customer will pay to Company within 20 days of date of the invoice the net amount due. If any invoice, estimated or actual, is not paid by the due date as specified above, interest will accrue at an interest rate calculated in accordance with Subchapter B - Regulations Under the Federal Power Act, 18 CFR 35.19 (a) (2). If Customer in good faith disagrees with the statement rendered by Company, it shall so notify Company prior to the due date. If the parties are unable to resolve any such matter by agreement, it may be determined by any regulatory body or court having jurisdiction. Interest at said interest rate shall apply on any amount found owing by one party to another from due date until paid, or in the case of a refund due, from the date of the original payment until refunded.

13. Metering. Company will furnish and maintain all meters required under this Agreement. Each meter used under this Agreement shall be tested and calibrated by Company at its own expense at regular intervals of not more than one year. If a meter shall be found incorrect or inaccurate, it shall be restored to an accurate condition or a new meter shall be substituted.

Either party shall have the right to request that a special meter test be made of meters owned by the other party at any time and may be present at such test. If any special test discloses that the meter tested is registering correctly, or within 2% of accurate registration, the party requesting the test shall bear the expense of such test. The expense of all other tests of merers shall be borne by the Company.

The results of all such tests and calibrations shall be open to examination by City and a report of every requested test shall be furnished immediately to the other party. Any meter tested and found to be not more than 2% above or below normal shall be considered to be correct and accurate insofar as correction of billing is concerned. If, as a result of any test, any meter is found to register in excess of 2% either above or below normal, then the reading of such meter previously used for billing purposes shall be corrected according to the percentage of inaccuracy so found, to the estimated date the inaccuracy began, but no such correction shall extend beyond 90 days previous to the

day on which the inaccuracy is discovered by such test, nor in any event beyond the date when the meter was last calibrated and tested; such correction when made shall constitute full adjustment of any claim between the parties hereto arising out of such inaccuracy of metering equipment.

For any period that a meter is found to have failed to register, it shall be assumed that the demand established, or electric energy supplied, as the case may be, during said period, is the same as that for a period of like operation, to be agreed upon by the parties hereto, during which such meter was in service and operation; provided, that if both Company and City meters are installed at a location and the Company meter or meters should fail to register, the readings of the City meters shall be used for billing purposes hereunder.

14. Force Majeure. If the delivery of power and energy from Company to City is suspended or interrupted by reason of "force majeure", as hereinafter defined, Company shall not be considered to have defaulted in performance hereunder or in breach of this agreement, and neither shall the Company incur any liability to the City, its customers or inhabitants on account of such suspension or interruption as a result of "force majeure".

Force Majeure means any cause or causes beyond the control of Company, including, but not limited to, acts of God or the public enemy, failure of the Company's facilities, flood, earthquake, storm, lightning, fire, epidemic, war, embargo, riot, civil disturbances, strikes, picketing, lockouts, or other labor disputes or disturbances, sabotage, or restraint or prevention of performance of this Agreement in accordance with its terms by action of any defense agency, which by the exercise of due diligence and foresight the Company could not reasonably have been expected to avoid.

If Company is unable to fulfill any obligation by reason of "force majeure", it shall exercise due diligence to remove such inability with all reasonable dispatch.

15. Public Utility Regulatory Policies Act. Company recognizes that City may be required to purchase energy or capacity and energy from a qualified Cogenerator or Small Power Production Facility in accordance with the provisions of the Public Utility Regulatory Policies Act, P.L. 95-617, November 9, 1978, as subsequently amended. Company agrees that compliance with the provisions of such Act by City will not constitute a violation of this Agreement nor create a necessity for revision of this Agreement.

16. Entirety of Contract. This Agreement constitutes the entire and only agreement between the parties hereto with reference to the subject matter hereof and specifically super-

sedes all previous understandings and agreements, whether written or oral.

17. Binding Effect of Contract. This Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective successors. The parties agree that this Agreement shall not be assigned by either party without the mutual agreement of the parties.

18. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given when deposited in the United States Mail, registered or certified postage prepaid and addressed to the other party at the addresses shown below. Notice of change of address, if any, shall be given in like manner.

Terry C. Hartwick, Mayor
City of North Little Rock
City Hall
North Little Rock, Arkansas 72114

Mr. Michael Bemis, Executive Vice President
Arkansas Power and Light Company
2900 First Commercial Building
Little Rock, Arkansas 72201

19. Paragraph Titles. Paragraph titles as to the subject matter of particular paragraphs herein are for convenience only and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular paragraph to which they refer.

20. Counterparts. This document may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

21. Severability. With the exception of Section 8, governing rates and charges for the sale of power and energy hereunder, if any provision of this Agreement or the application thereof to any person or circumstance is held invalid by any regulatory body or court, state or federal, such invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application and to this end the provisions of this Agreement are declared to be severable.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first mentioned in this Agreement for and on behalf of the City of North Little Rock by its Mayor and his signature witnessed by the City Clerk of North Little Rock and the seal of

said City attached hereto, and further this Agreement has been executed as of the date first mentioned in this Agreement for and on behalf of the Arkansas Power & Light Company by its Vice President and his signature witnessed by an Assistant Secretary of said Company and the seal of said Company attached hereto.

CITY OF NORTH LITTLE ROCK, ARKANSAS

By: _____
Mayor

ATTEST:

_____
City Clerk

ARKANSAS POWER & LIGHT COMPANY

By: _____
EXEC. Vice President

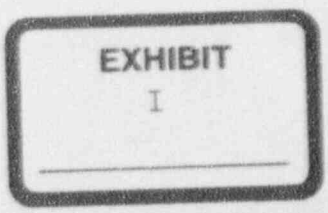
ATTEST:

_____
Assistant Secretary

ADDENDUM TO POWER AGREEMENT

BETWEEN THE CITY OF NORTH LITTLE ROCK, ARKANSAS

AND ARKANSAS POWER AND LIGHT COMPANY



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ADDENDUM TO POWER AGREEMENT
BETWEEN THE CITY OF NORTH LITTLE ROCK, ARKANSAS
AND ARKANSAS POWER AND LIGHT COMPANY

This Addendum to the Power Agreement between the City of North Little Rock, Arkansas and Arkansas Power and Light Company dated September 11, 1985 and as extended April 9, 1990, is made as of this _____ day of June, 1991.

WHEREAS, Arkansas Power and Light Company (AP&L) and the City of North Little Rock, Arkansas (NLR) entered into a Memorandum of Understanding (MOU) executed by AP&L on December 27, 1989, and executed by NLR on November 17, 1989; and

WHEREAS, the MOU and all agreements and undertakings therein set out were expressly contingent upon AP&L's receipt of regulatory approvals from the Arkansas Public Service Commission (APSC), Missouri Public Service Commission (MOPSC) and Securities and Exchange Commission (SEC) necessary for the creation of Entergy Power, Inc. (EPI) and the transfer to it of portions of the Independence Steam Electric Station and the Ritchie Steam Electric Station; and

WHEREAS, the regulatory approvals required by the MOU were granted on April 2, 1990, by the APSC in Docket No. 89-128-U, on May 1, 1990, by the MOPSC in Docket No. EM-90-12; and on August 27, 1990, by the SEC in its file No. 70-7684; and

WHEREAS, the MOU provides that AP&L will execute and cause to be filed with the Federal Energy Regulatory Commission (FERC) an Addendum to the currently effective Power Agreement between AP&L and NLR;

NOW THEREFORE, AP&L and NLR, in consideration of the mutual promises set forth in the MOU, do hereby agree as follows:

Section 1. Amendment to Existing Agreement. AP&L and NLR hereby amend the Power Agreement between the City of North Little Rock, Arkansas and Arkansas Power and Light Company dated September 11, 1985 and as extended April 9, 1990, by specifically incorporating all provisions of a certain MOU executed by AP&L on December 27, 1989, and executed by NLR on November 17, 1989, and all provisions of the Exhibits attached to the MOU, which are identified as Exhibit "A", Exhibit "B", and Exhibit "C".

Section 2. Attachments. Attached to and made a part of this Addendum are: The MOU, MOU Exhibit "A", MOU Exhibit "B" and MOU Exhibit "C".

Section 3. Intent of This Addendum. By this Addendum, AP&L and NLR agree to specifically define the terms and conditions by which NLR or its power suppliers will be allowed use of AP&L's transmission system as required by the MOU to supply NLR with portions or all of its power and energy requirements from or after February 27, 1993. NLR's access to the AP&L transmission grid for transmission service on or after February 27, 1993 shall be implemented solely within the terms and provisions of this Addendum and its Exhibits or a "Letter Agreement" authorized by the MOU's Exhibit "B" §4.2. No additional Agreements or understandings shall be necessary to vest with NLR or AP&L the rights granted to them by this Addendum, the MOU and its Exhibits. With the exception of "Letter Agreements" required by §4.2 of MOU Exhibit B, in no event shall this Agreement, the MOU, or its Exhibits be construed to be "an Agreement to make an Agreement". Such access to the transmission system of AP&L shall permit NLR to purchase portions or all of NLR's power and energy

requirements from and after February 27, 1993 from power suppliers other than AP&L without penalty for stranded investment and notwithstanding any other limitations or prohibitions against purchases from third party power suppliers within the Power Agreement between the City of North Little Rock, Arkansas and Arkansas Power and Light Company dated September 11, 1985 as extend April 9, 1990. In the event AP&L and NLR disagree as to the terms and conditions of transmission service, AP&L agrees to file a transmission service agreement with the FERC and to render service pursuant to such filing, subject to the FERC's determination as to the justness and reasonableness of such agreement.

Section 4. Satisfaction of MOU Requirements for Regulatory Approvals. AP&L and NLR agree that MOU regulatory approvals required by the MOU Section 2, the approval of the creation of EPI and the sale to EPI of the Independence Steam Electric Station, Unit 11 and Ritchie Steam Electric Station, Unit 11, were granted on May 1, 1990 by MOPSC, MOPSC Docket No. EM-90-12, by APSC, APSC Docket No. 89-128-U, on April 2, 1990, and by the SEC on August 27, 1990 in its file No. 70-7684.

Section 5. Effective Date. AP&L and NLR agree that the effectiveness of this Addendum and all other provisions hereof are contingent only upon their acceptance for filing by the FERC. AP&L and NLR agree to cooperate and exert best efforts to gain the prompt acceptance of the filing of this Addendum and its Exhibits. AP&L agrees to make the filing required by this Section within fifteen (15) days of execution of this Addendum.

Section 6. Sierra-Mobile Agreement. Except for formula rates within Exhibits A - D to Exhibit B to the MOU, all other of the terms and provisions of this Addendum and its Exhibits, to the

extent such other terms and provisions may be subject to the Federal Power Act (FPA)-and the jurisdiction of the FERC under the FPA are not subject to amendment or change by the filing of any proceeding at FERC by AP&L or NLR under Section 205, Section 206 or other provisions of the FPA.

Section 7. Notice. Upon written notice by NLR no less than ninety (90) days prior to February 27, 1993, or at any time thereafter upon ninety (90) notice, AP&L shall execute a Letter Agreement with NLR as authorized by Article 4.2 of Exhibit B to the MOU to provide NLR with firm or interruptible transmission service for power and energy provided by a third party power supplier. The rates, terms, and conditions for such transmission service including, but not limited to, provisions relating to (i) the degree of firmness of the service and (ii) the circumstances under which AP&L will be obligated to provide service are set forth specifically in the number Articles of Exhibit B to the MOU, generally in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU and Exhibit A to the MOU, but shall, in any event, be at least equivalent to the rates, terms, and conditions provided for in any transmission service transaction made by AP&L to EPI or to any affiliated or non-affiliated party.

Section 8. Most Favored Nation Clause. It is the specific intent of AP&L and NLR to provide to NLR and/or NLR's supplier to the extent necessary to supply power to NLR access to the AP&L Transmission System under terms and conditions substantially similar to those granted from time to time to EPI by AP&L, or to any Entergy Corporation Company, or by AP&L to any non-affiliated party. To that extent, therefore, in the event terms or conditions of transmission

service more favorable than those in paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A to the MOU or Exhibit B to the MOU are provided by AP&L (or any Entergy Corporation Company for similar transmission service over its facilities) to EPI or by AP&L to any non-affiliated party, such more favorable terms or conditions of transmission service on the system shall be offered to NLR (and/or NLR's supplier to the extent necessary to supply power to NLR), notwithstanding conflicts with paragraphs 2, 3, 4, 6, 8, 9, 10, 11, 13, and 14 inclusive of the MOU, Exhibit A or the Articles of Exhibit B to the MOU.

IN WITNESS WHEREOF, this Addendum has been executed as of the date first mentioned above for and on behalf of NLR by the Mayor and his signature witnessed by the City Clerk and the seal of NLR attached hereto, and further this Addendum has been executed as of the date first mentioned above for and on behalf of AP&L by its President and Chief Operating Officer and his signature witnessed by the Secretary of AP&L and the seal of AP&L attached hereto.

CITY OF NORTH LITTLE ROCK, ARKANSAS

By: _____
MAYOR

ATTEST:

_____
CITY CLERK

ARKANSAS POWER AND LIGHT COMPANY

By: _____
PRESIDENT & CHIEF OPERATING OFFICER

ATTEST:

_____
ASSISTANT SECRETARY

OFFICE OF THE MAYOR

PATRICK HENRY HAYS
MAYOR

PHONE (501) 374-2233
FAX PHONE (501) 374-4044

CITY HALL
P. O. BOX 5757
LITTLE ROCK, ARKANSAS 72119

March 2, 1990

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. R. Drake Keith
President, Chief Operating Officer
Arkansas Power and Light Company
Post Office Box 551
Little Rock, Arkansas 72203

RE: Memorandum of Understanding dated November, 1989/Arkansas Power and Light Company Wholesale Customers Transmission Path Election

Dear Mr. Keith:

This letter shall be the notice of the two (2) Designated Transmission Paths (DTPs) authorized in Section 6 of the Memorandum of Understanding (MOU) dated November, 1989 by and among the City of North Little Rock (NLR) et al, and Arkansas Power and Light Company.

The City of North Little Rock hereby names (i) the interconnections between the City of North Little Rock and AP&L and between AP&L and Oklahoma Gas & Electric; and, (ii) the interconnections between the City of North Little Rock and AP&L and between AP&L and Louisiana Power & Light as its DTPs.

Such DTPs shall not initially exceed 225 megawatts of transmission capacity. The DTPs shall have a duration no greater than eleven (11) years.

EXHIBIT
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The estimated DTPs transmission capacity at the conclusion of the eleven (11) year period identified in the prior paragraph is estimated as 275 MW. Transmission Service under the DTPs may commence as of July 1, 1991.

I appreciate very much your consideration of this request and look forward to your response within thirty (30) days in accordance with the MOU.

Sincerely,

Mayor Patrick H. Hays

PHH:wlm

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[1] In accordance with correspondence between counsel, Sec. 6's deadline of February 1, 1990 for selection was extended to March 5, 1990.

Acknowledgement of receipt of original of this letter, hand delivered by Mr. Todd Larson:

Lori Kirby 3-5-90

Signature of Recipient / Date

AP&L

Arkansas Power & Light Company
425 West Capitol
P. O. Box 551
Little Rock, Arkansas 72203
Tel 501 377 3528

Kenneth R. Breeden
Senior Vice President
Customer Services
and Marketing

April 2, 1990

The Honorable Patrick H. Hays, Mayor
The City of North Little Rock
P. O. Box 5757
North Little Rock, Arkansas 72119

Dear Mayor Hays:

This letter is in response to your letter of March 2, 1990, in which you gave notice of the two (2) Designated Transmission Paths (DTP's) described in Section 6 of the Memorandum of Understanding (MOU) among Arkansas Power & Light Company (AP&L) and the City of North Little Rock, Arkansas (North Little Rock) et al dated November, 1989.

North Little Rock designated the following point-to-point transmission paths: (1) point of receipt into AP&L's system at the interconnections of AP&L and Louisiana Power & Light Company with point of delivery into North Little Rock system at the interconnections of AP&L and North Little Rock; and, (2) point of receipt into AP&L's system at the interconnection of AP&L and Oklahoma Gas and Electric Company with point of delivery into North Little Rock's system at the interconnections of AP&L and North Little Rock.

Transmission service under the DTP's may commence as of thirty (30) months from final regulatory approval required by the MOU or within one hundred eighty (180) days thereafter and have a duration no greater than eleven (11) years.

For both DTP's, the designated transmission capacity shall not initially exceed two hundred twenty-five (225) megawatts, but shall increase during the period of time prior to the proposed transaction, and throughout the term of the proposed transaction, by an amount not to exceed North Little Rock's purchased power requirements in 1989 plus a reasonable rate of growth not to exceed the greater of five (5%) per year or the actual annual rate of growth in purchased power requirements from 1988 to 1989, whichever is greater, adjusted for known and measurable changes. The estimated transmission capacity at the conclusion of the eleven (11) year period is estimated as two hundred seventy-five (275) megawatts.

AP&L has evaluated the technical and functional capability of its transmission system to provide the transmission service described above and has determined that transmission capacity is presently available for such transactions and that new transmission facili-

ties or modifications to existing facilities will not be required to provide the proposed transmission services. While the above described transmission capacity is presently available in the AP&L system, we refer to paragraph 8 of Exhibit A of the MOU and make no representation that the requested transaction will not impact the electric systems of third-parties which could result in additional costs for which North Little Rock would bear the responsibility.

Sincerely,

Ken Breeden

KRB:jj

cc: Mr. Zachary D. Wilson

installed capacity, but firm sales and purchases, and desired capacity reserve margins as well. Exhibit No. _____ (JDP-5) presents capacity surplus and deficiency calculations for the relevant players in the short run capacity market recognizing these additional refinements.

Q. Does Exhibit No. ____ (JDP-5) cover all the utilities included in the previous exhibit?

A. No. The following entities are not included in the detailed analysis. First, the full requirements customers of GSU are not included here since they are not potential capacity purchasers during the relevant period. GSU's eight full requirements customers are each contractually bound to take their requirements from GSU through March 2000. The contracts can be terminated earlier only if GSU raises the base wholesale rate, which it has already committed not to do before the end of 1996 and does not plan to do before 2000.

Second, a number of the Entergy wholesale customers have entered into contracts that satisfy their anticipated capacity requirements through the end of 2000. These entities, which include Benton, Campbell, Conway, Farmers Electric Coop, Osceola, Prescott, Thayer and West Memphis, also are appropriately excluded from the excess capacity analysis for the 1994-97 period.

Third, Hope, Arkansas has committed to take its full requirements from the Southwestern Electric Power Company ("SWEPCO") through 2006 and thus is deleted from the analysis.

Fourth, while MEAM has an identified capacity need of 30 to 40 Mw during the 1996-98 period, it is expected to complete the negotiations to acquire this capacity in the next few months. Thus, it cannot be expected to be in the market for additional short-run capacity after the merger is consummated.

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primarily purchase production, transmission, and distribution services under formula rates.

The formula rates for production service contain energy and demand components. The energy component of the formula rate provides for automatic changes to reflect any savings or increases in fuel costs resulting from the merger in the monthly energy charges. The demand component of the formulas, however, will not produce immediate results since the demand charges are based upon the prior calendar year actual non-fuel costs.

The formula rates for AP&L's transmission and distribution services are based on prior calendar years' costs. The merger may have an impact on the transmission formula rates due to the equalization of pool transmission facilities under the System Agreement as testified to by staff witness Sammon. It is unclear whether the distribution formula rates would be affected by the merger.

Q. HOW DOES THE MERGER IMPACT AP&L'S CUSTOMERS WITH STATED RATES?

A. Currently, AP&L's requirements wholesale customers with stated rates do not have FACs except for Oklahoma Gas & Electric Company and Union Electric Company (Union). Therefore, any net merger-related benefits, including fuel savings will not be reflected in wholesale rates without an appropriate filing by AP&L.

Q. ARE THERE CUSTOMERS WHOSE SERVICE COULD CHANGE IN THE NEAR FUTURE?

A. Yes. There are a number of customers with AP&L who

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have the option to leave the AP&L system starting in 1993 under a Memorandum of Understanding. Under the Memorandum of Understanding, these customers will have access to other potential suppliers through AP&L's transmission system. These customers include:

City of Conway (Conway)
City of West Memphis (West Memphis)
City of Osceola (Osceola)
City of Benton (Benton)
City of Prescott (Prescott)
City of North Little Rock (NLR)
Farmers Electric Cooperative, Corp. (FECC)

As shown in Exhibit S-6A, Conway, West Memphis, Osceola, and North Little Rock currently have formula rates. The other three customers, Benton, Prescott, and FECC, currently have stated rates without FACs. These stated rates customers without FACs will have FACs in their rates beginning in July of 1994 if they stay on AP&L's system. These customers also have an option to go off system for power at any time after February 27, 1993 and to utilize AP&L's transmission service.

Additionally, Benton, Prescott, and FECC have the option to enter into Peaking Power Agreements (PPA's) with AP&L to provide peaking power service under stated rates. This option will terminate as of April 30, 1996. Also, Union has a similar PPA option containing stated rates with a termination date in 2001.

North Arkansas Electric Cooperative, Inc. (NAEC) is not a part of the Memorandum of Understanding and therefore does not have the option to leave AP&L's system. However, beginning in July 1994, its stated rates will include a FAC. Therefore, any

merger-related fuel savings will be reflected in the FAC after 1994.

Q. HAS ENTERGY IDENTIFIED ANY WHOLESALE CUSTOMERS OF THE OTHER OPERATING COMPANIES THAT MAY BE AFFECTED BY THE MERGER?

A. No. Mr. Gallaher in his testimony and in Entergy's response to Staff's Data Request No. FERC7-DOI-129 indicates that LP&L, MP&L and NOPSI serve no wholesale requirements customers.

Q. IN YOUR REVIEW, HAVE YOU FOUND ANY WHOLESALE CUSTOMERS SERVED BY THE OTHER ENTERGY OPERATING COMPANIES THAT MAY BE AFFECTED BY THE MERGER?

A. Yes. Based on my review of the rate schedules on file at the FERC as well as my review of Entergy's response to Cajun's Data Request No. 223, I have found that the other three operating companies have partial requirements and transmission customers with stated rates, some of which have FACs. I have identified these customers in my Exhibit S-6A.

Q. WHAT TYPE OF SERVICES ARE PROVIDED TO THE WHOLESALE CUSTOMERS BY THE OTHER OPERATING COMPANIES?

A. The wholesale customers of the other operating companies primarily receive transmission service under stated rates.

Additionally, from my review of the rate schedules of all the wholesale customers of the other operating companies, I found that there are provisions for requirements services which contain stated rates with FACs. However, from the information currently available, it appears that the requirement services are not being utilized.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ENTERGY SERVICES INC. AND GULF STATES UTILITIES COMPANY	)))	DOCKET NOS. EC 92-21-000, ER 92-806-000

AFFIDAVIT

STEPHEN M. MERCHANT, being duly sworn on his oath, deposes and says:

1. I am Vice President and Chief Economist of the public utility consulting firm of A. J. Rowe & Associates, Inc., 4312 D Evergreen Lane, Annandale, Virginia 22003.

2. I and other members of the professional staff of A. J. Rowe & Associates, Inc. have for many years provided rate-making and regulatory consulting services to the following not-for-profit electric distribution systems located within or adjacent to the franchise territory of the Arkansas Power & Light Company ("AP&L"): Cities of Benton, Conway, North Little Rock, Osceola, Prescott, and West Memphis, Arkansas and the Farmers Electric Cooperative Corporation (collectively, "Arkansas Cities and Cooperative").

3. I and other members of the professional staff of A. J. Rowe & Associates, Inc. have recently provided advice and assistance to several of these utilities in their search for and negotiations to purchase competitively on a long-term basis firm wholesale power and energy from numerous potential alternative sources, including their

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traditional wholesale supplier, AP&L.

4. The end result of these utilities' process of seeking competitive bids from prospective suppliers of firm long-term sources of power and energy other than AP&L was the negotiation of new contracts with AP&L at competitive rates.

5. In seeking to establish the price and other dimensions of the market for sources of firm wholesale power and energy available to the Arkansas Cities and Cooperative, many prospective suppliers were contacted and requested to bid to supply the various loads of the cities. Of a large number of utitlities solicited for bids, only seven, including AP&L and Gulf States Utilities ("GSU"), indicated an initial willingness and ability to participate in a competitive bidding process to supply firm, long-term wholesale power and energy to the cities.

6. One of these potential sources ultimately determined that a legal barrier prevented it from selling across a state line to Cities. Another potential supplier, as discussed later, declined as a policy matter to continue in the negotiations.

7. Of the several possible sources of long-term firm wholesale power and energy available to the Cities, only GSU and AP&L met two fundamental requirements of Cities: (a) suppliers must be competitively priced; (b) suppliers must be willing and able to include Cities in their long-term generation planning.

8. In the context of the Cities' experiences in soliciting and negotiating with potential suppliers of firm, long-term wholesale power and energy, I have reviewed the testimony and numerical analysis of Joe D. Pace [Exhibit Nos. ___ (JDP-1 through JDP-11)], filed on behalf of Entergy/GSU in the above-referenced dockets.

9. Dr. Pace's analysis leads him to conclude and state as follows: "I conclude that the merger will not impair competition, in fact, it will expand the competitive opportunitites available to utilities in the Entergy/GSU area." (Exhibit No. JDP-1, p. 4 at 8-9). Dr. Pace further states: "Moreover, in most cases, the merger actually will expand the options available to utilities needing capacity by creating a wider market accessible for a single wheeling charge." (Ibid, at 27-29)

10. Dr. Pace's conclusions do not follow from his numerical analysis for at least two reasons. First, the analysis appears to rest on the incorrect presumption that Entergy/GSU's "open access" tariff will permit many prospective purchasers and sellers of wholesale power and energy to economically "reach" each other over an enlarged geographic area at a single postage stamp rate. Second, the analysis appears to assume that utilities are not barred from buying capacity from entities other than their traditional supplier except by the current excess capacity situation and/or the cost and availability of transmission access.

11. In terms of opportunities allegedly made available by the proposed tariff, the Cities already have wheeling rights across the Entergy grid at least as good as those encompassed in the proposed transmission tariff, so no new opportunities are opened to them on this account. Further, the proposed "open access" wheeling tariff contains the same access-restricting provision [Section 2 (b)] as currently limits the Cities wheeling rights, i.e. the tariff requires reciprocity by utilities owning transmission facilities.

12. Dr. Pace includes "The Southern Company" in his numerical analysis of both first-tier and second-tier utilities' installed and excess capacities (in determining the Entergy/GSU market share). The analysis ignores the fact that "in-area" utilities such as Cities do not have transmission access to The Southern Companies, because by policy decision, The Southern Companies do not accede to the reciprocity provision of the proposed Entergy/GSU "open access" tariff, i.e., they do not want to face competition from Entergy as a potential supplier to their own "in-area" wholesale customers.

13. In these circumstances, inclusion of the capacity data on the Southern Companies in both his "first tier" and "second tier" analysis of market shares is seriously in error since inclusion of the Southern Companies in either of the levels of analysis is highly speculative. [See, Exhibit No. ____ (JDP-4)]

14. Dr. Pace's analysis of the potential future participation of Cities as purchasers in the market for wholesale power and energy is in error, since it is limited only to a discussion of the prospective requirements of North Little Rock. The analysis falls further into error since, by not recognizing the pre-merger difficulty faced by Cities of finding entities, such as GSU, who are both willing and able to bid to supply a municipal load in excess of 200 Mw, it cannot adequately address the consequences of the post-merger loss of GSU as an independent, competitive power supply source.

Dated at Annandale, Virginia this 25th day of September, 1992.

Stephen M. Merchant

County of Fairfax
State of Virginia

Sworn and subscribed to before me this 25th day of September, 1992.

E. Jess Erwin III

My commission expires: 10/31/94

sources of long-term bulk power supply, including owned generation, and purchases from QFs and Independent Power Producers ("IPPs") that are available to meet the needs of utilities that project capacity deficits in later years. [29]

SWEPCO's request for a hearing on capacity sales issues falls short for the same reasons, and others. SWEPCO states that its "preliminary analyses suggest" that the merged companies would control more than 20% of the excess capacity in a second tier market including SWEPCO that has CLECO as its "hub." SWEPCO at 8. SWEPCO cautions, however that it "does not contend" that this would justify a "determination that the proposed merger would give Entergy/GSU unacceptable market power." Id. The fact is that Entergy's own submittal on competition issues shows

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[29] Prepared Direct Testimony of Joe D. Pace, Exhibit No. ___(JDP-1) at 33-36. The Arkansas Cities challenge Dr. Pace's analysis because under their power supply and interconnection contracts, they assertedly possess the right to make "purchases in excess of contractual 'minimums'." Arkansas Cities at 14. The Arkansas Cities apparently misapprehend Dr. Pace's analysis. They do not dispute Dr. Pace's conclusion that they have "entered into contracts that satisfy their anticipated capacity requirements through the end of 2000." Id. Thus, under current forecasts they are not anticipated to be purchasers of capacity for delivery during those years, and this is properly reflected in Dr. Pace's analysis.

Dr. Pace never asserted that the Arkansas Cities were contractually barred from purchasing additional capacity if their needs changed or if they wish to be capacity brokers. Moreover, if their anticipated needs do not fully materialize, they will become competing sellers of excess capacity.

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ENTERGY

Entergy Services, Inc.
P.O. Box 551
Little Rock, AR 72203
Tel 501 377 5577

Alan C. Hardy
State Director
Bulk Power Marketing

Date 11, 1992

Zachary D. Wilson, Esquire
321 Maple Street
North Little Rock, AR 72114

Dear Mr. Wilson:

After I received your letter of November 2, 1992, it was apparent that I needed help from the people working for the GSU merger, Attorney Doug Green of the Newman & Holtzinger, P.C. firm has reviewed the power supply contracts for CWO and was involved with Dr. Pace in the GSU merger. This response to your letter of November 2, 1992, was developed with Mr. Green's assistance.

Your letter states that it is "undisputed" that under the Peaking Power Agreement between AP&L and your clients (Second Amendment) [1/], they may purchase power from AP&L in excess of their actual needs and re-sell that power to others. This is incorrect. The Peaking Power Agreement is by its terms a supplement to the Power Coordination, Interchange, and Transmission Agreement ("PCITA") between AP&L and your clients. Article I of that Agreement explicitly limits AP&L's sales to providing power "necessary to fulfill the total requirement of (each city utility) within its service area." (Emphasis added). Under the Peaking Power Agreement AP&L agrees to provide peaking power to facilitate your clients' ability to supply some of their baseload power needs from other sources. Thus, they can enter into various power purchases with others, secure in the knowledge that AP&L will meet their needs at the heaviest peak load times, provided only that the city purchases certain minimum billing quantities necessary for AP&L to keep capacity ready to meet the city's peak needs. The peaking sales, like the other AP&L sales contemplated under the PCITA, are made solely to enable the cities to serve their own loads in their service territory. Amendment Two to the Peaking Power Agreement (made over a year ago) did not change the contract in this regard in any way.

In your letter you cite to a footnote in a pleading filed in the Entergy/GSU merger proceedings at the FERC. Answer of Entergy Service, Inc. and Gulf States Utilities Company to Motions to Intervene at n. 29, FERC Docket No. EC92-21-000 and ER92-806-000. That footnote responded to an argument made in the intervention papers by various municipal utilities in Arkansas, including your clients. These municipal utilities argued that the competition analysis of applicants' competition witness Dr. Pace had "misinterpreted" their rights by not taking into account that they "each

1/ Third Amendment for the City of Osceola.

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possess the right to make off-system purchases, " and that therefore his market share numbers were inaccurate. Protest, Petition to Intervene and Request for An Evidentiary Hearing on behalf of various Arkansas municipal utilities, dated _____, at 14.

The pleading filed by Entergy Service does not even mention the Power Peaking Agreement between AP&L and your clients, and read in context, footnote 29 was intended to refute erroneous criticisms of Dr. Pace's analysis, not to address individual contract provisions. The text in which the footnote appears points out that, via the open access tariff, utilities can make power supply purchases from third parties to meet capacity needs not already satisfied by existing contracts. Answer at 34-35. Thus, contrary to the arguments of the intervenors, Entergy's witness Dr. Pace did take into account other utilities' ability to make off-system purchases.

The footnote explained that the arguments of the Arkansas municipalities were particularly without merit because Dr. Pace's testimony did not depend on any particular interpretation of their contract rights. He simply pointed out that, currently, those utilities do not have any anticipated need for new capacity supply until after the year 2000. At that time they can readily obtain new power supplies under the open access tariff. Thus, the merged company possesses no market power over future capacity sales to those utilities. The footnote also added: "Dr. Pace never asserted that the Arkansas Cities were contractually barred from purchasing additional capacity if their needs changed or if they wish to be capacity brokers. Moreover, if their anticipated needs do not fully materialize, they will become competing sellers of excess capacity." This statement reflects the fact that under the open access tariff the Arkansas cities may enter into additional capacity purchase arrangements beyond their existing contracts. Thus, to the extent that those cities wish to purchase "additional capacity," i.e. capacity in excess of their current anticipated needs, they can do so. As the footnote indicates, they can use such additional purchased power as they see fit, either to serve their native load, or, through the open access tariff, to sell to others. Finally, if the city ends up with excess baseload capacity purchased from parties other than AP&L, and wishes to sell some of this unanticipated excess capacity to others, then as the footnote indicates, it "can do so." But this in no way allows a city to alter the character of its Peaking Power Agreement with AP&L.

You should know that in AP&L's view our contract does not permit your client to buy peaking power from AP&L and re-sell it to third parties. Such a practice would be contrary to the requirements nature of the contract. Perhaps the footnote in Entergy's pleading could have been clearer. But it seems obvious that AP&L would hardly signal its intention to re-write the Power Peaking Agreement by means of a brief footnote addressing technical issues buried in a filing in an unrelated proceeding.

I turn now to the items enumerated in your letter. One of the central premises of the FERC's approach to open access transmission and fair competition is to ensure that existing contract rights are preserved, both Entergy's and CWO's. Contrary to this principle, the "hypothetical transactions" posed in items 1-5 of your letter assume that your clients will violate the express provisions of their power and interchange agreement with AP&L. This would constitute a breach of contract, and would obviously be improper.

Item 6 of your letter requests Entergy's "position on the effect of the final order in FERC Docket No. ER-91-569-000 on the Memorandum of Understanding dated November 1989 and associated Addenda." Again, based on the principle that current contractual agreements are not altered by that decision, it is our view that the Memorandum of Understanding remains in full effect, and we intend to live up to it. It is my understanding that this is also your clients' view.

Under Entergy's open access tariff, the municipalities in Arkansas can obtain cost-based transmission access to sell to third parties any power those municipalities obtain the right to market. To the extent your clients wish to discuss further any plans they have to utilize the tariff, or any legitimate issues they think may be beneficially raised, we remain willing to do so, and would hope to accommodate them.

Very truly yours,

ACH/bjm