MISSISSIPPI POWER & LIGHT COMPANY
Helping Build Mississippi
P. O. BOX 1640, JACKSON, MISSISSIPPI 39205

NUCLEAR PRODUCTION DEPARTMENT

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

Attention: Mr. Harold R. Denton, Director

Dear Mr. Denton:

SUBJECT: Grand Gulf Nuclear Station
Units 1 and 2
Docket Nos. 50-416 and 50-417
File: 0260/16551
Financial Reports
AECM-83/0382

The 1982 annual reports and certified financial statements of Middle South Energy, Inc. and South Mississippi Electric Power Association, owners of the Grand Gulf Nuclear Station, and Mississippi Power & Light, who will operate the plant, are submitted to you in compliance with the requirements of 10 CFR 50.71(b).

Yours truly,

L F Dale

L. F. Dale
Manager of Nuclear Services
06/30/83

LFD:ssl
Attachments
cc: Mr. J. B. Richard (w/o)
Mr. R. B. McGehee (w/o)
Mr. T. B. Conner (w/o)
Mr. G. B. Taylor (w/o)

Mr. Richard C. DeYoung, Director (1 copy)
Office of Inspection & Enforcement
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Mr. J. P. O'Reilly, Regional Administrator (1 copy)
Office of Inspection and Enforcement
U. S. Nuclear Regulatory Commission
Region II
101 Marietta St., N. W., Suite 3100
Atlanta, Georgia 30303

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Deloitte
Haskins+Sells

MIDDLE SOUTH ENERGY, INC.

Financial Statements for the
Years Ended December 31, 1982 and 1981
and Auditors' Opinion

Deloitte
Haskins+Sells

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

AUDITORS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1982 and 1981 and the related statements of income, stockholder's equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1982 and 1981 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

February 11, 1983

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEETS, DECEMBER 31, 1982 AND 1981

-- A S S E T S --	1982	1981
	(in thousands)	
UTILITY PLANT - Construction work in progress, at cost (Notes 1-D, 2 and 4).......	$2,736,130	$2,184,343
CURRENT ASSETS:		
Cash and special deposits (Note 2)...........	1,079	1,735
Working funds advanced for construction......	1,087	2,370
Recoverable income taxes.....................	2,681	7,992
Other..	542	871
Total...........................	5,389	12,968
DEFERRED DEBITS:		
Recoverable Federal income taxes (Note 1-C)..	303,709	189,759
Other..	38	26
Total...........................	303,747	189,785
TOTAL................	$3,045,266	$2,387,096

-- L I A B I L I T I E S --	1982	1981
	(in thousands)	
CAPITALIZATION:		
Common stock - no par value; authorized 1,000,000 shares; issued and outstanding 590,900 shares in 1982 and 491,900 shares in 1981..................................	$ 590,900	$ 491,900
Retained earnings (Note 3)...................	413,896	292,039
Total stockholder's equity...........	1,004,796	783,939
Long-term debt (Note 2):		
Promissory notes - banks..................	1,379,000	941,000
First mortgage bonds......................	466,500	498,500
Total long-term debt.....	1,845,500	1,439,500
Total...........................	2,850,296	2,223,439
CURRENT LIABILITIES:		
Notes payable (Note 2).......................	114,815	92,375
Accounts payable:		
Contractors' retentions...................	1,588	1,653
Associated companies......................	380	148
Other.....................................	4,070	5,062
Taxes accrued................................	10,857	8,680
Interest accrued.............................	26,570	25,670
Total...........................	158,280	133,588
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1-C)........................	12,469	12,469
Accumulated deferred income taxes (Note 1-C).	24,221	17,600
Total...........................	36,690	30,069
COMMITMENTS AND CONTINGENCIES (Note 2)		
TOTAL................	$3,045,266	$2,387,096

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	1982	1981
	(in thousands)	
INCOME:		
Operating revenues	None	None
Interest income	$ 216	$ 34
Total	216	34
EXPENSES:		
Interest expense	259,536	237,496
Taxes (Note 1-C):		
Federal income taxes	(124,657)	(103,877)
State income taxes	(2,308)	(2,563)
Deferred income taxes and investment tax credit adjustments - net	6,620	(2,612)
Total	139,191	128,444
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	(138,975)	(128,410)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Note 1-D):		
Equity funds	121,857	95,799
Borrowed funds	138,975	128,410
Total	260,832	224,209
NET INCOME	$121,857	$ 95,799

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	1982	1981
	(in thousands)	
COMMON STOCK:		
Balance - beginning of year................	$ 491,900	$443,600
Sale of 99,000 shares in 1982 and 48,300 in 1981 of common stock at $1,000 a share	99,000	48,300
Balance - end of year.....................	590,900	491,900
RETAINED EARNINGS (Note 3):		
Balance - beginning of year................	292,039	196,240
Add - net income..........................	121,857	95,799
Balance - end of year.....................	413,896	292,039
TOTAL STOCKHOLDER'S EQUITY..................	$1,004,796	$783,939

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

	1982	1981
	(in thousands)	
FUNDS PROVIDED BY:		
Operations:		
Net income	$ 121,857	$ 95,799
Deferred income taxes and investment tax credits adjustments - net	6,620	(2,612)
Allowance for funds used during construction	(260,832)	(224,209)
Total funds used in operations	(132,355)	(131,022)
Other:		
Allowance for funds used during construction	260,832	224,209
Decrease in working capital*	9,831	35,180
Miscellaneous - net		3,640
Total funds provided excluding financing	138,308	132,007
Financing transactions:		
Common stock	99,000	48,300
Long-term notes payable - banks	738,000	270,000
Short-term securities - net	22,440	14,224
Total funds provided from financing	859,440	332,524
TOTAL FUNDS PROVIDED	$ 997,748	$ 464,531
FUNDS APPLIED TO:		
Utility plant additions:		
Construction expenditures (includes allowance for funds used during construction)	$ 551,786	$ 399,992
Financing transactions:		
Retirement of mortgage bonds	32,000	
Retirement of long-term notes payable - banks	300,000	
Other:		
Deferral of recoverable Federal income taxes	113,962	64,539
TOTAL FUNDS APPLIED	$ 997,748	$ 464,531

*Decrease (increase) in working capital (excluding short-term securities):		
Cash and special deposits	$ 656	$ 33,665
Working funds advanced for construction	1,283	(2,370)
Recoverable income taxes	5,311	445
Accounts payable	(825)	3,398
Taxes accrued	2,177	1,659
Other - net	1,229	(1,617)
TOTAL	$ 9,831	$ 35,180

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1982 AND 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

B. System of Accounts

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

C. Income Taxes

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

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

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

Investment tax credits allocated to the Company are deferred and will be amortized, based upon the average useful life of the related property, beginning with the year allowed in the consolidated tax return. Unused investment tax credits at December 31, 1982 amounted to $161,750,000, of which $909,000 may be carried forward through 1991, $19,952,000 through 1992, $30,556,000 through 1993, $44,210,000 through 1994, $20,563,000 through 1995, $16,465,000 through 1996, and $29,095,000 through 1997.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC). Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction program and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service, the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. The Company determines its accrual rate for AFDC based on actual interest cost, net of related income taxes, plus a stated rate of return on average common equity as allowed by regulatory authorities. A rate of return of 14% was approved by regulatory authorities and used during 1982 and 1981.

2. COMMITMENTS AND FINANCING

Construction Program

The Company's construction program contemplates construction expenditures (including AFDC) for the Grand Gulf Nuclear Station (Grand Gulf) of approximately $496.2 million, $260.4 million, and $339.2 million in 1983, 1984, and 1985, respectively. Based upon its 90% interest in Grand Gulf, as discussed in Note 4, and a fourth quarter 1983 commercial operation date, the Company presently projects total cost (excluding nuclear fuel) for Unit No. 1 to be approximately $2.5 billion. A limited amount of construction on Unit 2 was performed in 1982. Full resumption of construction on Unit No. 2 and the cost to complete Unit No. 2 will be dependent upon, among other things, completion and commercial operation of Unit No. 1. Through December 31, 1982, the Company had invested $2.736 billion in the Grand Gulf Plant. The Company estimates, pending final review of the cost allocation between the two units upon completion of Unit No. 1, that of this total, $2.177 billion was invested in Unit No. 1 and $559 million in Unit No. 2.

Revolving Credit Agreements

At December 31, 1982 and 1981, the Company had issued $1,064 million and $941 million, respectively, of promissory notes under a revolving credit agreement of $1.311 billion with a number of domestic banks. This agreement terminates on the earlier of the date the first unit of Grand Gulf is placed in commercial operation or December 31, 1983 at which time the outstanding principal can be converted to term loans with the banks. Such term loans would mature December 31, 1986 subject to mandatory prepayments of $100 million per year plus interest commencing with the year following the termination date. The promissory notes bear interest at 110% of the sum of the prime rate of a specified New York bank and 1.3%. The Company pays a fee on the unused portion of the commitment. No compensating balances are required. During 1982 and 1981, the average interest rate on borrowings under this agreement was 18% and 22%, respectively.

In the first quarter of 1982, the Company negotiated a $315 million revolving loan agreement with a group of foreign banks to supplement its existing loan facilities. At December 31, 1982, the Company had issued $315 million of promissory notes under this agreement. In February 1983 the Company increased the loan amount under this agreement to $378 million. This agreement terminates on the earlier of the date the first unit of Grand Gulf is placed in commercial operation or December 31, 1983 at which time the outstanding principal can be converted to term loans with the banks. Such term loans would mature February 5, 1989 subject to mandatory prepayments of nine equal semiannual instalments of principal plus interest commencing February 5, 1985. The promissory notes bear interest at the sum of 1% and the average of the rates at which deposits in U. S. dollars are offered by prime banks in the London Interbank Market. No compensating balances are required. During 1982, the average interest rate on borrowings under this agreement was 13%.

First Mortgage Bonds

The Company placed $400 million of 9.25% First Mortgage Bonds due July 1, 1989 and $98.5 million of 12.50% First Mortgage Bonds due January 1, 2000 with a limited number of institutional investors in 1977 and 1980, respectively. Bonds of the 9.25% Series are redeemable through mandatory sinking fund payments totaling $296 million, with annual requirements ranging from $40 million to $56 million from 1983 through 1988. In 1982, $32 million of the 9.25% bonds were redeemed and the obligation was refinanced on a long-term basis through existing credit facilities. Bonds of the 12.50% Series are redeemable through mandatory sinking fund payments totaling $93.5 million, with an annual requirement of $6.2 million beginning in 1985 through 1999. Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indentures. The $40 million sinking fund payment due in 1983 has not been classified with current liabilities as the Company intends to refinance this obligation on a long-term basis through existing credit facilities.

The Company has covenanted with the bondholders that it will complete the first unit of the generating plant no later than December 31, 1984 and the second unit no later than December 31, 1988. In the event either of these covenants is not fulfilled or the Company defaults with respect to either the bonds or the bank borrowings, the bonds and the bank borrowings will become due and payable unless extensions of time can be arranged. In this event, Middle South Utilities, Inc. would be required to provide the Company with sufficient funds, to the extent not obtained from other sources, to meet these obligations.

Agreements with Middle South System Operating Companies

The Company and the System operating companies have entered into a series of agreements (collectively, Availability Agreement) whereby (i) the Company has agreed to sell the power available to it from the Grand Gulf Plant to the operating companies and (ii) the operating companies have agreed to make payments or subordinated advances adequate to cover (to the extent not covered by amounts paid for power purchases) all of the operating expenses and certain of the capital costs of the Company. Under certain circumstances, payments under (ii) above may be required to be made commencing December 31, 1984 if the Unit No. 1 of the plant is not in commercial operation by that date. The Company has assigned its rights to payments from the System operating companies under the Availability Agreement to secure the first mortgage bonds and the borrowings under the revolving credit agreements described above.

In addition, the Company and the System operating companies entered into an agreement, in June 1981, whereby the operating companies are obligated, if the first unit of the plant is not in commercial operation by December 31, 1983, to make advance payments for power purchases to the Company which in the aggregate total $12.5 million per month, such payments commencing January 2, 1984 and continuing until commercial operation of the first unit or December 31, 1984, whichever occurs earlier.

Short-Term Borrowings

The Company has obtained short-term borrowings both through lines of credit established with various banks and through the issuance of unsecured short-term notes with several additional banks. Borrowings under the lines of credit mature on September 30, 1983 and bear interest based on the prime rate of a New York bank. Interest rates on the unsecured notes are based primarily on the Federal funds rate.

Borrowings under these arrangements were as follows:

	December 31, 1982	December 31, 1981
	(in thousands)	
Lines of credit	$ 74,150	$72,600
Outstanding borrowings:		
Lines of credit	$ 54,815	$62,375
Unsecured short-term notes	60,000	30,000
Total outstanding borrowings	$114,815	$92,375
Average borrowing:		
Lines of credit	$ 48,924	$37,099
Unsecured short-term notes	43,229	40,740
Total average borrowing	$ 92,153	$77,839
Average interest rate:		
Lines of credit	14.9%	19.3%
Unsecured short-term notes	12.2%	17.6%
Combined	13.5%	18.4%

At December 31, 1981, $1.7 million in compensating balances were maintained and were restricted as to withdrawal. During 1982 compensating balances (approximately 2% of the commitment amounts) were required by certain of the lending banks.

Nuclear Fuel Lease

As of December 31, 1982 the Company has a nuclear fuel lease permitting a maximum of $110 million in nuclear fuel. Lease payments, based upon nuclear fuel use, will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through October 15, 2029. The unrecovered cost base of the lease at December 31, 1982 and 1981 was $107,358,000 and $92,173,000, respectively.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreements and first mortgage bond indentures restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1982, none of the retained earnings were available for cash dividends.

4. ACQUISITION OF UNDIVIDED INTEREST

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

Under this Agreement, SMEPA advanced, from November 1980 through June 1981, 100% of the cost of construction until such time as their advances aggregated 10% of the total cost of construction after giving consideration to the allowances for funds used during construction accrued by SMEPA and by the Company. Thereafter, the Company and SMEPA fund the cost of construction in their respective ownership percentages.

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

5. RATE MATTERS

In June 1982 the Company tendered for filing with the FERC as an initial rate schedule a Unit Power Sales Agreement under which the Company would sell all of the power available from its share of the Grand Gulf Plant to the System operating companies. The rates and charges after commercial operation commences are based on the cost of service of each unit. On August 25, 1982, the FERC accepted the Agreement for filing and ordered that it become effective subject to refund upon the initiation of service at the Grand Gulf Plant. In addition, the FERC ordered that a hearing be held concerning the justness and reasonableness of MSE's rates.