Entergy
Operations

Entergy Operations, Inc.
Route 3 Box 137G
Russellville, AR 72801
Tel 501-964-3100

April 17, 1991

ØCANØ49111

U. S. Nuclear Regulatory Commission
Document Control Desk
Mail Station P1-137
Washington, DC 20555

SUBJECT: Arkansas Nuclear One - Units 1 and 2
Docket Nos. 50-313/50-368
License Nos. DPR-51 and NPF-6
1990 Annual Financial Report

Gentlemen:

In accordance with 10CFR50.71(b) and 10CFR140.15(b)1, attached is the 1990 Annual Financial Report for Arkansas Power & Light Company. This report contains certified financial statements for the fiscal years 1988, 1989 and 1990, together with an independent auditor's report. The financial statements include balance sheets, operating statements, plus supporting schedules which may be needed for interpretation of the balance sheets and operating statements.

If there are any questions concerning this submittal, please contact me.

Very truly yours,

James J. Fisicaro

James J. Fisicaro
Director, Licensing

JJF/SAB/sgw
Attachment

cc: Mr. Robert Martin
U. S. Nuclear Regulatory Commission
Region IV
611 Ryan Plaza Drive, Suite 1000
Arlington, TX 76011

M004
1/1

NRC Resident Inspector
Arkansas Nuclear One - ANO-1 & 2
Number 1, Nuclear Plant Road
Russellville, AR 72801

Thomas W. Alexion
NRR Project Manager, Region IV/ANO-1
U. S. Nuclear Regulatory Commission
NRR Mail Stop 11-D-23
One White Flint North
11555 Rockville Pike
Rockville, Maryland 20852

Ms. Sheri Peterson
NRR Project Manager, Region IV/ANO-2
U. S. Nuclear Regulatory Commission
NRR Mail Stop 11-D-23
One White Flint North
11555 Rockville Pike
Rockville, Maryland 20852

Arkansas Power & Light Company/1990 Annual Report

AP&L

ARKANSAS POWER & LIGHT COMPANY

At December 31, 1990 Arkansas Power & Light Company (AP&L) owned electric facilities in 65 of Arkansas' 75 counties and in 13 of Missouri's 114 counties, and furnished retail electric service in 328 Arkansas and Missouri incorporated municipalities. AP&L also provided power at wholesale to seven Arkansas and two Missouri municipalities and in Arkansas to two rural electric cooperatives and one association of rural electric cooperatives.

AP&L is a wholly owned subsidiary of Entergy, the electric utility holding company for the Entergy System. For the past 42 years, the Entergy System has been the leading electric energy supplier to a 91,000-square-mile region along the lower reaches of the Mississippi River.

The Entergy System's network of interconnected transmission and distribution lines and diversified grid of fossil fuel and nuclear generating plants provides electricity to more than 1.7 million retail customers in Arkansas, Louisiana, Mississippi, and Missouri.

Headquartered in New Orleans, Louisiana, Entergy includes four retail operating companies: AP&L, LP&L, MP&L, and NOPSI. System Energy is a nuclear generating subsidiary that sells the capacity and energy from its 90% interest in Grand Gulf 1, at wholesale, to the four retail operating companies. Another subsidiary, Entergy Services, provides various technical, administrative, and corporate services to Entergy and the System companies. A new subsidiary, Entergy Operations was formed on June 6, 1990, and is responsible for operating and managing the Entergy System's four nuclear units. Entergy Power, a wholesale generator that purchased AP&L's interest in the Independence 2 and Ritchie 2 generating units, to sell the capacity and energy from these units outside the Entergy System, was formed as a subsidiary of Entergy on August 27, 1990.

TABLE OF CONTENTS

ARKANSAS POWER & LIGHT COMPANY

DEFINITIONS

Certain abbreviations or acronyms used in AP&L's Financial Statements, Notes and Management's Financial Discussion and Analysis include the following:

AECC	Arkansas Electric Cooperative Corporation
AEEC	Arkansas Electric Energy Consumers
AFUDC	Allowance for Funds Used During Construction
ANG	Associated Natural Gas Company
ANO	Arkansas Nuclear One Steam Electric Generating Station (nuclear)
ANO 1	Unit No. 1 of ANO
ANO 2	Unit No. 2 of ANO
AP&L	Arkansas Power & Light Company
APSC	Arkansas Public Service Commission
Arkansas Settlement Agreement	Agreement effective September 9, 1985, adopted by the APSC, settling AP&L's Grand Gulf 1-related and other rate issues for the state of Arkansas
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
Entergy	Entergy Corporation
Entergy Operations	Entergy Operations, Inc.
Entergy Power	Entergy Power, Inc.
Entergy Services	Entergy Services, Inc.
Entergy System or System	Entergy and its various direct and indirect subsidiaries
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FERC Settlement	Settlement offer filed with the FERC on June 9, 1989 by AP&L, LP&L, MP&L, NOPSI and System Energy and approved by the FERC on July 21, 1989 to settle, among other things, certain then pending Grand Gulf Station related issues, litigation and other rate matters
Grand Gulf Station	Grand Gulf Steam Electric Generating Station (nuclear)
Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
Independence Station	Independence Steam Electric Generating Station (coal)
Independence 2	Unit No. 2 of the Independence Station
June 13 Decision	An order issued by the FERC on June 13, 1985, (Opinion No. 234) relating to the Unit Power Sales Agreement and the System Agreement
KWH	Kilowatt-Hour(s)
LP&L	Louisiana Power & Light Company
LPSC	Louisiana Public Service Commission
Money Pool	Entergy System Money Pool which allows certain System companies to borrow from, or lend to, certain other System companies
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
MWH	Megawatt-Hour(s)

NOPSI	New Orleans Public Service Inc.
NRC	Nuclear Regulatory Commission
PSCM	Public Service Commission of Missouri
Revised Arkansas Settlement Agreement	Arkansas Settlement Agreement, as modified by the APSC order issued October 6, 1988, to bring the Grand Gulf 1-related phase-in plan into compliance with the requirements of SFAS No. 92
Ritchie Station	Ritchie Steam Electric Generating Station (gas/oil)
Ritchie 2	Unit No. 2 of the Ritchie Station
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards promulgated by the FASB
System or Entergy System	Entergy and its various direct and indirect subsidiaries
System Agreement	Agreement, effective January 1, 1983, as modified by the June 13 Decision, among the System operating companies relating to the sharing of generating capacity and other power resources
System Energy	System Energy Resources, Inc.
System Fuels	System Fuels, Inc.
System operating companies	AP&L, LP&L, MP&L and NOPSI, collectively
Union Electric	Union Electric Company of St. Louis, Missouri
Unit Power Purchase Agreement	Agreement, terminated in December 1989, between AP&L and MP&L, related to MP&L's purchase of capacity and energy from AP&L's share of Independence 2
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended, among the System operating companies and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf 1
White Bluff Station	White Bluff Steam Electric Generating Station (coal)

ARKANSAS POWER & LIGHT COMPANY

REPORT OF MANAGEMENT

The management of Arkansas Power & Light Company has prepared and is responsible for the financial statements and related financial information included in this annual report. The financial statements are prepared using generally accepted accounting principles. Financial information included elsewhere in this report is consistent with the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls, that is designed to provide reasonable assurance on a cost effective basis, as to the integrity, objectivity and reliability of the financial records and as to the protection of assets. This system includes communication through written policies and procedures, an employee Code of Conduct, and an organizational structure that provides for an appropriate division of responsibility and the training of personnel. The system is also tested by a comprehensive internal audit program.

The independent certified public accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

Management believes that these policies and procedures provide reasonable assurance that AP&L's operations are carried out with a high standard of business conduct.

Jerry L. Maulden

Jerry L. Maulden
Chairman of the Board & Chief Executive Officer

Lee W. Randall

Lee W. Randall
Senior Vice President & Chief Financial Officer
(Resigned effective April 1, 1991)

ARKANSAS POWER & LIGHT COMPANY

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Arkansas Power & Light Company Audit Committee of the Board of Directors is comprised of five Directors who are not officers of AP&L: Dr. Raymond P. Miller, Sr., Chairman; Hal E. Hunter, Jr.; John J. Flake; Kaneaster Hodges, Jr.; and Michael E. Wilson. The committee held four meetings during 1990.

The Audit Committee oversees AP&L's financial reporting process on behalf of the Board of Directors and provides reasonable assurance to the Board that sufficient operating, accounting, and financial controls are in existence and are adequately reviewed by programs of internal and external audits.

The Audit Committee discussed with AP&L's internal auditors and the independent certified public accountants (Deloitte & Touche) the overall scope and specific plans for their respective audits. The committee also discussed AP&L's financial statements and the adequacy of AP&L's internal controls. The committee met, together and separately, with AP&L's internal auditors and independent certified public accountants, without management present, to discuss the results of their audits, their evaluation of AP&L's internal controls, and the overall quality of AP&L's financial reporting. The meetings also were designed to facilitate and encourage private communication between the committee and the internal auditors and/or independent certified public accountants.

Raymond P. Miller, Sr.

Dr. Raymond P. Miller, Sr.
Chairman, Audit Committee

ARKANSAS POWER & LIGHT COMPANY

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Changes between 1990 and 1989 and between 1989 and 1988 in selected factors affecting results of operations are detailed in the table below. However, reference is made to both the table below and the Statements of Income for purposes of the following discussion.

Description	Twelve Months Ended 1990	1989	1988	1990 to 1989 Increase/ (Decrease)	1990 to 1989 Percent Change	1989 to 1988 Increase/ (Decrease)	1989 to 1988 Percent Change
			($ In Millions)				
Net income	$ 129.8	$ 132.0	$ 131.1	$ (2.2)	(2)	$ 0.9	1
Operating revenue	$1,481.4	$1,381.9	$1,356.8	$ 99.5	7	$ 25.1	2
Fuel and fuel related expenses	$ 295.9	$ 297.8	$ 282.1	$ (1.9)	(1)	$ 15.7	6
Purchased power expense	377.2	379.1	435.8	(1.9)	(1)	(56.7)	(13)
Deferred purchased power	(37.3)	(81.1)	(128.9)	43.8	54	47.8	37
Net cost of energy	635.8	595.8	589.0	40.0	7	6.8	1
Other operation and maintenance expenses	455.4	395.5	395.9	59.9	15	(0.4)	—
Total operation and maintenance expenses	$1,091.2	$ 991.3	$ 984.9	$ 99.9	10	$ 6.4	1
Retail revenues:							
Residential	$ 484.4	$ 425.6	$ 416.6	$ 58.8	14	$ 9.0	2
Commercial	284.0	254.6	239.7	29.4	12	14.9	6
Industrial	331.9	307.9	287.6	24.0	8	20.3	7
Governmental	19.6	21.0	19.6	(1.4)	(7)	1.4	7
Total retail	1,119.9	1,009.1	963.5	110.8	11	45.6	5
Sales for resale	339.3	345.3	365.5	(6.0)	(2)	(20.2)	(6)
Other	22.2	27.5	27.8	(5.3)	(19)	(0.3)	(1)
Total operating revenue	$1,481.4	$1,381.9	$1,356.8	$ 99.5	7	$ 25.1	2
Retail energy sales (MWH):							
Residential	5,401	5,098	5,149	303	6	(51)	(1)
Commercial	3,821	3,644	3,566	177	5	78	2
Industrial	5,532	5,513	5,325	19	—	188	4
Governmental	285	320	305	(35)	(11)	15	5
Total retail	15,039	14,575	14,345	464	3	230	2
Sales for resale	13,618	12,128	13,144	1,490	12	(1,016)	(8)
Total energy sales (MWH)	28,657	26,703	27,489	1,954	7	(786)	(3)

Net Income

AP&L's net income has been relatively stable during the three-year period 1988-1990. Net income in 1990 as compared to 1989 decreased less than 2 percent. While details of factors impacting results of operation are discussed below, the most significant factors impacting 1990 results of operations as compared to 1989 were increased revenues due in part to increased KWH sales to retail customers, decreased revenue due to the termination in December 1989 of the Unit Power Purchase Agreement providing for the sale to MP&L of AP&L's 31.5 percent share of capacity and energy from Independence 2, increased earnings as a result of the sale in 1990 of Independence 2 and Ritchie 2 to Entergy Power (see Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Arkansas — Stipulation and Settlement Agreement"), and significant increases in 1990 operation and maintenance expenses resulting from a comprehensive action plan to improve operations and safety at ANO. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — NRC Actions.")

AP&L's 1989 results were basically unchanged from 1988 as evidenced by an increase in net income of less than 1 percent. Factors impacting 1989 results of operations as compared to 1988 are as follows: the expiration on July 1, 1988, of APSC authorization to record a return on investment in alleged excess capacity to be subsequently recovered reduced 1989 results by approximately $7.9 million; a $5.4 million after-tax gain in 1988 from the sale of ANG; and a one-time after-tax credit in 1989 of $2.2 million from System Energy pursuant to the FERC Settlement. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Project Olive Branch.")

Operating Revenue and Energy Sales

Operating revenue increased in 1990 as compared to 1989 due to increased current collection from retail customers of purchased power costs associated with AP&L's allocated share of Grand Gulf 1 pursuant to the Revised Arkansas Settlement Agreement and increased retail KWH sales. Revenue relating to sales for resale decreased $6.0 million or 1.7 percent in 1990 as compared to 1989, primarily due to the elimination in 1990 of sales to MP&L from Independence 2 under the Unit Power Purchase Agreement partially offset by increased sales to the City of North Little Rock, AECC, and other nonaffiliates. Energy sales (KWH) increased 7.3 percent in 1990 as compared to 1989 due primarily to increases in sales for resale.

Revenue from retail customers increased in 1989 as compared to 1988 due in part to increased energy sales and to increased current recovery of Grand Gulf 1-related costs. Reductions in sales for resale of $20.2 million or 5.5 percent in 1989 as compared to 1988 partially offset increased retail revenues resulting in a net increase in 1989 operating revenue. Sales for resale decreased primarily due to decreased System sales and to decreased sales to the City of North Little Rock due to the installation by that city of new hydroelectric generating capacity.

Net Cost of Energy

The net cost of energy in 1990 as compared to 1989 increased 6.7 percent primarily due to decreased deferred purchased power costs from increased current collection of purchased power costs associated with AP&L's allocated share of Grand Gulf 1 pursuant to the Revised Arkansas Settlement Agreement. While total generation increased 7.8 percent, fuel expense decreased $3.9 million in 1990 primarily due to increased nuclear generation. Purchased power expense decreased $1.9 million in 1990 as compared to 1989 due to lower fuel and capacity costs for Grand Gulf 1 of approximately $13.0 million and to the termination in May 1989 of a purchase power contract of $6.8 million with the City of New Madrid offset by the effect of the 1989 $18.0 million credit received from System Energy pursuant to the FERC Settlement.

The net cost of energy in 1989 as compared to 1988 increased primarily due to a $17.0 million increase in the fuel-related nuclear reserve which was impacted by the scheduled refueling outage at ANO 2 in 1989 and at both ANO units in 1988. Accruals to the nuclear reserve increase fuel expense when the units are in operation and are used to offset replacement fuel and purchased power costs during refueling maintenance outages. (See Note 1 to AP&L's Financial Statements — "Summary of Significant Accounting Policies — Revenues and Fuel Costs.") A reduction in MWH purchases of 7.5 percent in 1989 as compared to 1988 contributed to decreased purchased power expense. However, significantly contributing to the reduction in purchased power expense was the $18 million credit received from System Energy pursuant to the FERC Settlement and the reduction in System Energy's return on its investment in Grand Gulf 1. Approximately $14.5 million of the $18 million credit was refunded to customers. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Project Olive Branch.")

Reductions in deferred purchased power in 1990 and 1989 compared to respective prior years were due primarily to the increased current collection of purchased power costs associated with AP&L's allocated share of Grand Gulf 1 costs pursuant to the Revised Arkansas Settlement Agreement.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased in 1990 as compared to 1989 primarily due to increased nuclear operation and maintenance expenses of approximately $31.4 million and $7.7 million, respectively, and an $8.5 million increase in expenses recorded to remove the impact from the income statement of collection in 1990 of projected Grand Gulf 1 costs in excess of actual 1990 Grand Gulf 1 costs incurred. A comprehensive action plan to improve operations and safety at ANO contributed approximately $27.5 million to the increase in nuclear operation and maintenance expenses. Comparable expenditures for the comprehensive action plan are expected to continue through the period 1991-1993. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — NRC Actions.")

Other Income

As compared to 1989, other income and deductions increased $19.6 million in 1990. $13.9 million was due primarily to the one-time amortization of investment tax credit associated with Independence 2 and Ritchie 2, which were sold at AP&L's depreciated book value on an after-tax basis (exclusive of a small expertise fee), and to increased interest income of $2.5 million.

As compared to 1988, other income and deductions decreased $14.9 million in 1989 due in part to a $3.6 million reduction in AFUDC resulting from nuclear fuel being leased in 1989 rather than financed by AP&L, a reduction of $8.4 million associated primarily with the discontinuance in July 1988 of deferring a return on investment in alleged excess capacity and the $5.4 million net after-tax gain associated with the disposition of ANG in June 1988.

Interest Charges

Interest charges increased $19.6 million in 1990 as compared to 1989 primarily due to an increase in interest on first mortgage bonds of $12.4 million in 1990 and to a reduction of $8.8 million in 1989 in interest accrued on potential income tax liability.

FINANCIAL CONDITION

Liquidity

Cash and cash equivalents increased $111.3 million in 1990 as compared to 1989 and decreased $28.1 million in 1989 as compared to 1988. Reference is made to the Statements of Cash Flows for purposes of the following discussion.

Net cash from operating activities was $201.3 million in 1990, $185.6 million in 1989, and $73.7 million in 1988. Reductions in deferred purchased power/excess capacity associated with increased recovery of Grand Gulf 1-related costs under the Revised Arkansas Settlement Agreement increased net cash from operating activities $44.5 million in 1990, $64.6 million in 1989 and $57.5 million in 1988. Reduced deferrals (increased current recoveries) had a positive impact on net cash from operating activities. In 1991-1993 AP&L will be collecting Grand Gulf 1 costs paid but not collected in previous years pursuant to the Revised Arkansas Settlement Agreement. During periods when deferred costs are recovered, revenue collections will exceed, to the extent of such current collections, current cash requirements for Grand Gulf 1 costs. However, the turnaround of previous deferrals of Grand Gulf 1-related costs removes the impact of the revenue collections from the Income Statement. (See Notes 1 and 2 to AP&L's Financial Statements — "Summary of Significant Accounting Policies — Rate Deferrals" and "Rate and Regulatory Matters — Arkansas — Retail, Revised Arkansas Settlement Agreement," respectively.) Had AP&L currently collected such deferred purchased power costs/excess capacity of $29.0 million, $73.5 million and $138.1 million in 1990, 1989 and 1988, respectively, net cash from operating activities would have been $230.4 million, $259.2 million and $211.8 million for those respective periods. As detailed in the Statements of Cash Flows, cash flow from operating activities was affected by a number of factors representative of normal operations. Factors of an unusual nonrecurring nature were not significant.

Net cash provided by investing activities increased $130.8 million or 98.0 percent in 1990 as compared to 1989 due to the August 28, 1990 sale of AP&L's interest in Independence 2 and Ritchie 2 to Entergy Power which resulted in cash proceeds of $173.4 million offset in part by additional investments in utility plant. AP&L's investment in utility plant, exclusive of proceeds from the sale of property, of $176.2 million, $134.8 million and $103.9 million was 87.5 percent, 72.6 percent and 141.0 percent of net cash from operating activities in 1990, 1989 and 1988, respectively. Nuclear fuel expenditures decreased $26.0 million in 1989 as compared to 1988 due to financing under a new nuclear fuel lease of nuclear fuel previously purchased by AP&L. (See Note 9 to AP&L's Financial Statements — "Leases.") Proceeds of $27.1 million received from the sale of ANG and repayment of $27.7 million to AP&L of notes receivable from System Fuels increased 1988's net cash from investing activities as compared to 1989.

Net cash used by financing activities was $87.4 million, $80.3 million and $83.4 million in 1990, 1989 and 1988, respectively, increasing $7.1 million between 1989 and 1990, and decreasing $3.1 million between 1988 and 1989. Principal financing activities affecting cash in 1990 as compared to 1989 include the sale of $150 million and $175 million of first mortgage bonds in February and October 1990, respectively, the sale of $20 million of solid waste disposal revenue bonds in November 1990, the retirement of $150 million of first mortgage bonds in October 1990, and the repurchase of $100 million of AP&L's common stock from Entergy in January 1990. The principal financing activities affecting cash flow in 1989 as compared to 1988 include the sale of $75 million of first mortgage bonds in July 1989, the retirement of $50 million of first mortgage bonds and an increase in payment of common stock dividends of $49.5 million.

Capital and Refinancing Requirements

AP&L's construction program contemplates expenditures (including AFUDC and excluding nuclear fuel) of approximately $157.7 million in 1991, $178.8 million in 1992, and $162.3 million in 1993. In addition to these capital requirements, $63.1 million will be required during the period 1991-1993 to meet long-term debt maturities and to satisfy sinking fund requirements.

AP&L has received regulatory approval to purchase or otherwise acquire up to $350 million aggregate principal amount of its first mortgage bonds, up to $150 million aggregate par value of its preferred stock and up to $175 million aggregate principal amount of pollution control revenue bonds and/or solid waste disposal revenue bonds issued for its benefit.

Certain management, organizational and technical problems at ANO are being addressed as part of a comprehensive action plan designed to significantly improve the operations and safety of ANO (see Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — NRC Actions"). This action plan has resulted in an increase in estimated capital expenditures averaging approximately $16 million per annum for the period 1991-1993 and contemplates an approximate $33 million per annum average increase in operation and maintenance expenditures for that period. These increases in operation and maintenance expenditures, along with increased interest expense and preferred stock dividend requirements associated with external financing planned for the period 1991-1993, are expected to have a negative effect on AP&L's results of operations and on earnings coverages required for the issuance of additional first mortgage bonds and preferred stock. AP&L estimates that its earnings coverages are likely to fall below the levels necessary to permit the issuance of additional bonds or preferred stock (except for refunding purposes) by late 1991 and may remain below such levels through 1992 in respect to bonds and through 1993 in respect to preferred stock. AP&L essentially satisfied its full estimated requirements for external financing for the period 1991-1993 during January 1991. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — Capital Requirements and Financing.")

AP&L anticipates that its capital and refinancing requirements for 1991-1993 will be principally met from cash on hand at December 31, 1990, and internally generated funds. Any external financing during the period, exclusive of funds derived from the issuance in January 1991 of $27 million of solid waste disposal revenue bonds, would be primarily for optional redemption of currently outstanding securities. As discussed above, AP&L has received regulatory approval to purchase or otherwise acquire certain outstanding securities. External financing for this purpose would be achieved through the issuance of additional first mortgage bonds and/or preferred stock in 1991. AP&L may also obtain additional funds during the period 1991-1993 from the possible sale of AP&L's retail properties in Missouri. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Missouri Retail Operations," for information with respect to the possible sale of AP&L's Missouri retail properties and possible uses of sale proceeds.)

Capital Resources

AP&L derived $20 million and $27 million from the issuance of solid waste disposal revenue bonds in November 1990 and January 1991, respectively. Also, AP&L issued $150 million and $175 million of first mortgage bonds in February 1990 and October 1990, respectively. After such sales, AP&L has regulatory authorization for the issuance and sale of up to $75 million of additional first mortgage bonds and up to $100 million of additional preferred stock through August 31, 1992. The possible optional retirement of high cost securities could require additional sales of first mortgage bonds and/or preferred stock during the period ending August 31, 1992.

In 1991-1993 AP&L will be collecting Grand Gulf 1 costs paid but not collected in previous years pursuant to the Revised Arkansas Settlement Agreement. During periods when deferred costs are recovered, revenue collections will exceed, to the extent of such current recovery, current cash requirements for these costs. However, the turnaround of previous deferrals of Grand Gulf 1-related costs removes the impact of the revenue collections from the Income Statement.

On August 28, 1990 AP&L sold its interests in Independence 2 and Ritchie 2 to Entergy Power for approximately $173.4 million. Proceeds from the sale were applied to the redemption on October 1, 1990, of $50 million 13⅜ percent series first mortgage bonds and $100 million 14⅛ percent series first mortgage bonds.

Union Electric and AP&L have signed a contract for the sale of AP&L's retail properties in Missouri, subject to certain conditions including timely receipt of regulatory approvals. The sales price of such properties, AP&L's Missouri accounts receivable, and material and supplies inventories is approximately $76 million, which is greater than AP&L's book value of such properties, and is subject to certain adjustments as of the date the sale is closed. The proceeds from this transaction, when and if consummated, could be used to meet construction expenditures or for other corporate purposes. Alternatively, approximately $70 million of the proceeds could be used to redeem all or a portion of certain series of AP&L's outstanding first mortgage bonds at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of AP&L's mortgage and deed of trust. (See Note 2 to AP&L's Financial Statements, "Rate and Regulatory Matters — Missouri Retail Operations.")

The minimum earnings coverage requirements for issuance of additional first mortgage bonds and preferred stock are 2.0 times the annual mortgage interest requirements and 1.5 times the annual interest charges and preferred stock dividend requirements, respectively. The amount of additional first mortgage bonds AP&L may issue is limited by the lesser of amounts based on mortgage coverage ratios or unfunded bondable property. In addition, AP&L has the ability, subject to meeting certain conditions, to issue bonds against the retirement of bonds without meeting an earnings test. The earnings coverages for AP&L's first mortgage bonds at December 31, 1990 and 1989 were 2.51 and 2.86, respectively. The earnings coverages for preferred stock were 1.69 and 1.71 at December 31, 1990 and 1989, respectively. Based upon the most restrictive test and an assumed interest/dividend rate of 10 percent, at December 31, 1990, AP&L would have been permitted to issue $261 million in additional first mortgage bonds and $202 million in additional preferred stock, respectively. As discussed in "Capital and Refinancing Requirements" above, increases during the period 1991-1993 in AP&L's estimated capital expenditures averaging approximately $16 million per annum and in its operations and maintenance expenditures of approximately $33 million per annum related to a comprehensive action plan to significantly improve operations and safety at ANO are expected to have a negative effect on AP&L's results of operations and on earnings coverages required for the issuance of additional first mortgage bonds and preferred stock. AP&L estimates that its earnings coverages are likely to fall below the levels necessary to permit the issuance of additional bonds or preferred stock (except for refunding purposes) by late 1991 and may remain below such levels through 1992 in respect to bonds and through 1993 in respect to preferred stock.

Short-term borrowings of $125 million have been authorized by the SEC through November 1992, subject to the availability of credit resources. Short-term borrowings can be effected through the Money Pool subject to the availability of funds which at any particular time may be limited, and through available territorial bank lines of credit. At December 31, 1990, AP&L had no short-term borrowings outstanding from the Money Pool and had available bank lines of credit of $76.2 million all of which were unutilized. Additionally, at December 31, 1990, AP&L had $100 million of temporary investments in the Money Pool. (See Note 4 to AP&L's Financial Statements — "Lines of Credit and Related Borrowings.")

ACCOUNTING ISSUES

SFAS No. 96

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes," which was effective for fiscal years beginning after December 15, 1988. The FASB subsequently issued statements numbers 100 and 103, which delayed the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. The FASB is expected to issue a new exposure draft in the second quarter of 1991. This exposure draft may further delay the effective date and simplify the implementation of SFAS No. 96. Based upon a preliminary study, AP&L expects that the adoption of SFAS No. 96, in its present form, would result in a net increase in accumulated deferred income taxes with a corresponding increase in assets. It is not expected that results of operations for AP&L would be significantly impacted by the adoption of SFAS No. 96 in its present form. (See Note 3 to AP&L's Financial Statements — "Income Taxes.")

SFAS No. 106

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires a change in accounting requirements for postretirement benefits other than pensions from a cash method to an accrual method. The impact of this new standard has not been fully determined, but the change likely will result in greater expense being recognized for provision of these benefits. The effect of the increased benefit expense on net income could be reduced to the extent such increased costs are recovered through rates or through the recording of a regulatory asset to be recovered in the future. AP&L plans to adopt this statement in 1993.

ENVIRONMENTAL MATTERS

Clean Air Legislation

On November 15, 1990, the President signed into law the Clean Air Act Amendments of 1990 (Act) that, among other things, place limits on emissions of sulfur dioxide and nitrogen oxide from fossil-fueled generating plants. The Act may require installation of low nitrogen oxide burner technology on AP&L's generating units, depending on the emissions levels that are set by the Environmental Protection Agency (EPA). There are several other areas, such as air toxicity and visibility, that will require regulatory study and rule promulgation to determine whether pollution control equipment is necessary. AP&L has evaluated the Act to determine the impact on AP&L of overall costs of nitrogen oxide emissions control and monitoring equipment.

Based on such evaluation in connection with existing generating facilities, AP&L has determined that no additional equipment will be required to control sulfur dioxide emissions in order to comply with the Act. However, AP&L will be required to install nitrogen oxide emissions controls on four jointly-owned coal units by the year 2000. (See Note 1 to AP&L's Financial Statements — "Summary of Significant Accounting Policies — Jointly-Owned Generating Stations.") Based on estimates from the designers of the units, AP&L's total capital cost required to control nitrogen oxide emissions is estimated to be approximately $7.3 million, although the cost could be somewhat higher if the EPA imposes more stringent nitrogen oxide emissions limitations by regulation.

In addition, AP&L will be required to install continuous emission monitoring systems at other fossil-fueled units at a capital cost of approximately \$2.0 million and will incur an additional operating cost of approximately \$1.7 million annually in permit fees, depending on the fees imposed by the state regulatory authorities.

The Act provides additional "allowances", with respect to sulfur dioxide emissions, starting in the year 2000, to the "clean" utilities (i.e., utilities with emissions levels below specified amounts) in recognition of their earlier emissions reductions. Each unit of allowance is an entitlement to emit one ton of sulfur dioxide per year. Under the Act, utilities will be required to achieve specified emission rates or possess allowances for any excess emissions. AP&L believes that it will be able to operate its units efficiently without installing scrubbers or purchasing allowances from outside sources. Ultimately, if AP&L continues its recent operational and fuel consumption trends, it may become entitled to excess allowances that could be sold in the new allowance trading market created by the Act.

LITIGATION MATTERS

Law suits have been filed against AP&L, among other parties, in connection with the operation by AP&L of two dams. One suit seeks, among other things, approximately \$16 million in property losses and other compensatory damages and \$500 million in punitive damages. Although an adverse outcome could affect liquidity or results of operation, AP&L believes that it has meritorious defenses which it intends to assert aggressively and that the outcome will have no material adverse financial impact. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — Flood Litigation" for a discussion of this litigation.)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Arkansas Power & Light Company:

We have audited the accompanying balance sheets of Arkansas Power & Light Company (AP&L) as of December 31, 1990 and 1989, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of AP&L's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of AP&L at December 31, 1990 and 1989, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Little Rock, Arkansas
February 15, 1991

[THIS PAGE LEFT INTENTIONALLY BLANK]

ARKANSAS POWER & LIGHT COMPANY

BALANCE SHEETS

ASSETS

	December 31, 1990	December 31, 1989
	(In Thousands)	
Utility Plant (Notes 1 and 8):		
Electric	$3,796,461	$3,909,526
Property under capital leases (Note 9)	95,940	97,373
Construction work in progress	138,185	90,125
Nuclear fuel	158	55
Nuclear fuel under capital leases (Notes 8 and 9)	151,635	168,060
Total	4,182,379	4,265,139
Less — accumulated depreciation and amortization	1,245,702	1,218,703
Utility plant — net	2,936,677	3,046,436
Other Property and Investments:		
Investments in associated companies, at equity (Note 8)	11,226	11,219
Other, at cost (less accumulated depreciation)	1,695	213
Total	12,921	11,432
Current Assets:		
Cash and cash equivalents:		
Cash	12,301	1,190
Temporary investments, at cost which approximates market:		
Associated companies (Note 4)	100,000	—
Other	144	—
Total	112,445	1,190
Notes receivable — net	17,579	8,336
Accounts receivable:		
Associated companies	27,886	25,585
Customer (less allowance for doubtful accounts — $3,430,000 in 1990 and $4,290,000 in 1989)	63,597	58,707
Other	9,573	5,913
Deferred purchased power costs (Notes 1, 2 and 8)	6,798	—
Deferred excess capacity (Note 2)	8,514	8,514
Fuel inventory, at average cost	31,991	35,874
Materials and supplies, at average cost	75,426	58,901
Prepayments and other	19,075	17,426
Total	372,884	220,446
Deferred Debits:		
Deferred purchased power costs (Notes 1, 2 and 8)	697,017	666,256
Deferred excess capacity (Note 2)	55,222	63,736
Other	63,217	51,290
Total	815,456	781,282
TOTAL	$4,137,938	$4,059,596

See Notes to AP&L's Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1990	December 31, 1989
	(In Thousands)	
Capitalization:		
Common stock, $0.01 par value: authorized 325,000,000 shares; issued and outstanding — 46,980,196 shares in 1990 and 54,980,196 shares in 1989 (Note 5)	$ 470	$ 550
Paid-in capital	595,457	695,301
Retained earnings (Note 7)	307,683	314,602
Total	903,610	1,010,453
Preferred stock, net of premium and expense (Note 5):		
Without sinking fund	126,890	126,890
With sinking fund	116,361	127,554
Long-term debt (Note 6)	1,443,200	1,264,049
Total	2,590,061	2,528,946
Other Noncurrent Liabilities:		
Obligations under capital leases (Note 9)	170,485	192,012
Other (Note 1)	29,904	28,054
Total	200,389	220,066
Current Liabilities:		
Currently maturing long-term debt (Note 6)	14,690	3,080
Notes payable (Note 4):		
Associated companies	—	27,000
Other	667	667
Accounts payable:		
Associated companies	34,474	26,635
Other	125,715	105,737
Customer deposits	11,115	8,344
Taxes accrued	66,222	79,853
Interest accrued	39,404	33,395
Preferred dividends declared (Note 7)	5,263	5,584
Nuclear refueling reserve (Note 1)	8,550	7,136
Co-owner advances (Note 1)	30,177	27,543
Deferred fuel cost (Note 1)	8,553	6,989
Obligations under capital leases (Note 9)	77,090	73,421
Other	14,151	11,164
Total	436,081	416,548
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 3)	621,103	604,834
Accumulated deferred investment tax credits (Note 3)	175,130	187,152
Other	115,174	102,050
Total	911,407	894,036
Commitments and Contingencies (Notes 2, 8 and 9)		
TOTAL	$4,137,938	$4,059,596

See Notes to AP&L's Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

STATEMENTS OF INCOME AND RETAINED EARNINGS

STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Operating Revenues (Notes 1, 2 and 10):	$1,481,408	$1,381,871	$1,356,789
Operating Expenses:			
Operation (Note 10):			
Fuel and fuel related	295,862	297,795	282,051
Purchased power	377,166	379,095	435,811
Other	355,375	300,502	296,835
Maintenance	100,045	95,002	99,096
Depreciation	129,114	123,493	120,030
Taxes other than income taxes	28,901	34,858	36,400
Income taxes (Note 3)	16,813	(1,903)	(23,390)
Rate deferral:			
Deferred purchased power (Notes 2 and 8)	(37,246)	(81,122)	(128,897)
Income taxes (Note 3)	14,142	30,769	48,891
Total	1,280,172	1,178,489	1,166,827
Operating Income	201,236	203,382	189,962
Other Income and Deductions:			
Allowance for equity funds used during construction	3,278	2,657	6,303
Miscellaneous — net (Notes 1 and 2)	84,723	60,274	72,626
Income taxes (Note 3)	(25,887)	(20,384)	(21,514)
Total	62,114	42,547	57,415
Interest Charges:			
Interest on long-term debt	132,607	120,164	117,873
Other interest — net of debt premium	4,385	(3,910)	3,114
Allowance for borrowed funds used during construction	(3,407)	(2,304)	(4,759)
Total	133,585	113,950	116,228
Net Income (Note 12)	129,765	131,979	131,149
Preferred stock dividend requirements	21,454	22,790	23,858
Earnings applicable to common stock	$ 108,311	$ 109,189	$ 107,291

STATEMENTS OF RETAINED EARNINGS

	1990	1989	1988
Retained Earnings — January 1	$ 314,602	$ 303,105	$ 244,025
Add — Net Income (Note 12)	129,765	131,979	131,149
Total	444,367	435,084	375,174
Deduct — Cash Dividends:			
Preferred stock	21,454	22,790	23,858
Common stock (Note 7)	115,230	97,692	48,211
Total	136,684	120,482	72,069
Retained Earnings — December 31 (Note 7)	$ 307,683	$ 314,602	$ 303,105

See Notes to AP&L's Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Operating Activities:			
Net income	$ 129,765	$ 131,979	$ 131,149
Noncash items included in net income:			
Depreciation	129,114	123,493	120,030
Deferred taxes & investment tax credits	23,272	40,811	37,481
Allowance for equity funds used during construction (Note 1)	(3,278)	(2,657)	(6,303)
Provisions for estimated losses	4,694	(1,673)	(6,628)
Deferred purchased power cost/excess capacity (Note 2)	(29,044)	(73,517)	(138,077)
Net gain on sale of ANG (Note 1)	—	—	(5,350)
Changes in working capital:			
Receivables	(9,992)	(13,706)	11,645
Accounts payable	30,944	9,480	(10,731)
Fuel inventory	3,883	(13,569)	6,820
Deferred fuel costs	1,564	(2,308)	570
Other working capital accounts	(20,347)	(10,733)	(39,131)
Taxes accrued	(43,747)	12,496	826
Decommissioning trust contributions	(14,433)	(9,837)	(25,385)
Other	(1,080)	(4,614)	(3,216)
Net cash flow provided by operating activities	201,315	185,645	73,700
Investing Activities:			
Utility plant:			
Construction expenditures (net of accruals)	(179,342)	(137,568)	(136,395)
Proceeds received from sale of property (Note 2)	173,406	—	—
Nuclear fuel expenditures — net	(104)	143	26,182
Allowance for equity funds used during construction (Note 1)	3,278	2,657	6,303
Other property — net	107	1,320	1,724
Proceeds received from sale of ANG (Note 1)	—	—	27,095
Reduction of investments in associated companies	—	—	27,674
Net cash flow used by investing activities	(2,655)	(133,448)	(47,417)
Financing Activities:			
Proceeds from sale of:			
First mortgage bonds	51[illegible]	73,282	—
Installment purchase contracts	19,107	—	—
Repayment of installment purchase contracts	(1,025)	(925)	(865)
Long term obligations — DOE	6,661	6,659	4,628
Retirement of first mortgage bonds	(151,322)	(55,700)	(1,603)
Dividends paid:			
Common stock	(115,230)	(97,692)	(48,211)
Preferred stock	(21,775)	(23,070)	(24,255)
Retirement of common stock	(100,005)	—	—
Redemption of preferred stock	(11,086)	(9,766)	(13,147)
Changes in short-term borrowings	(27,000)	27,000	—
Other	(250)	(74)	99
Net cash flow used by financing activities	(87,405)	(80,286)	(83,354)
Net increase (decrease) in cash and cash equivalents	111,255	(28,089)	(57,071)
Cash and cash equivalents at beginning of year	1,190	29,279	86,350
Cash and cash equivalents at end of year (Note 4)	$ 112,445	$ 1,190	$ 29,279

See Notes to AP&L's Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Prior to 1988, the financial statements included the accounts of AP&L and its wholly owned subsidiary, ANG. On June 1, 1988, AP&L, as required by the SEC, disposed of its interest in ANG by means of a cash merger of ANG with and into Arkansas Western Gas Company (Arkansas Western), a subsidiary of Southwestern Energy Company. The cash merger consideration was approximately $27.1 million with Arkansas Western assuming all liabilities including approximately $3.8 million of outstanding long-term debt of ANG. (See Note 11 to AP&L's Financial Statements — "Postretirement Benefits.") AP&L recorded an $8.2 million gain on the merger, with a tax effect of $2.8 million, resulting in a net after-tax gain of $5.4 million. The net gain on the sale of ANG, including the results of 1988 operations prior to the sale, are included in miscellaneous other income and deductions.

System of Accounts

The accounts of AP&L are maintained in accordance with the uniform system of accounts prescribed by the FERC.

Revenues and Fuel Costs

AP&L records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for "energy delivered but not billed" at the end of the fiscal period.

Substantially all of the rate schedules of AP&L include adjustment clauses under which fuel and purchased power costs above or below the levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers. AP&L has adopted a deferral method of accounting for those fuel and purchased power costs recoverable under fuel adjustment clauses. Under this method, such costs are deferred to the month in which the related revenues are billed.

The fuel adjustment factor contains an amount for a nuclear reserve, estimated to cover the cost of replacement energy when either ANO 1 or ANO 2 is down for scheduled maintenance and refueling. The reserve bears interest and is used to reduce fuel expense for fuel adjustment purposes during the maintenance and refueling period. In addition, the fuel adjustment clause provides, as an incentive with respect to ANO, for over- or under-recovery of cost of replacement energy in excess of the cost of equal amounts of nuclear energy when the units are not down for refueling. The recovery of fuel cost and purchased power cost for Missouri retail customers is presently limited to the amount of such costs included in each service rate schedule.

Utility Plant and Depreciation

The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads and an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant and such costs, plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repair of property and replacement of items determined to be less than units of property are charged primarily to operating expenses.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation on average depreciable property was approximately 3.4 percent in 1990 and 3.3 percent in 1989 and 1988. Substantially all of AP&L's utility plant is subject to the lien of its mortgage and deed of trust.

Jointly-Owned Generating Stations

AP&L is a co-owner in two coal-fueled, two-unit generating stations, the White Bluff Station and the Independence Station. (See Notes 2 and 8 to AP&L's Financial Statements — "Rate and Regulatory Matters — Arkansas — Stipulation and Settlement Agreement" and "Commitments and Contingencies — Unit Power Purchase Agreement" with respect to the sale of AP&L'S interests in Independence 2 and Ritchie 2 to Entergy Power on August 28, 1990.) AP&L is the agent for the respective co-owners and operates the stations.

AP&L records its investment and expenses associated with these generating stations to the extent of its ownership interests. At December 31, 1990, AP&L's investment and accumulated depreciation in these generating stations were as follows:

Generating Stations		Percent Ownership	Investment	Accumulated Depreciation
White Bluff:	Unit 1*	57.00%	$217,396,542	$ 66,321,692
	Unit 2*	57.00	179,595,000	49,737,931
Independence:	Unit 1	31.50	116,370,676	27,785,986
	Common Facilities	15.75	29,219,264	6,719,289

* Including common facilities

Postretirement Benefits

AP&L has postretirement benefit plans covering substantially all of its employees. The policy of AP&L is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, and to fund other postretirement plan costs as incurred. The costs of postretirement healthcare and life insurance benefit plans are accounted for on a cash basis. (See Note 11 to AP&L's Financial Statements — "Postretirement Benefits", for additional information with respect to postretirement benefits other than pensions.)

Income Taxes

AP&L joins its parent in filing a consolidated Federal income tax return. Pursuant to an intra-system income tax allocation agreement, income taxes are allocated to AP&L in proportion to its contribution to the consolidated taxable income. In accordance with SEC regulations no System company is required to pay more income taxes than would have been paid had a separate income tax return been filed. Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for ratemaking purposes. Investment tax credits allocated to AP&L are deferred and amortized over the average useful life of the related property. In April 1990, AP&L began amortizing all deferred investment tax credits. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Arkansas — Stipulation and Settlement Agreement.")

Allowance for Funds Used During Construction

To the extent that AP&L is not permitted by its regulatory bodies to recover in current rates the carrying cost of funds used for construction, AP&L capitalizes, as an appropriate cost of utility plant, AFUDC which is calculated and recorded as provided by the regulatory uniform system of accounts. Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate 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 AFUDC charges in the same manner as construction, labor and material costs. As noncash items, credits to the income statement for the return on equity funds have no effect on cash flows from operating activities. After the property is placed in service, the AFUDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. The effective composite AFUDC rate for AP&L was 8.6 percent, 9.0 percent, and 9.2 percent for 1990 1989 and 1988, respectively.

Rate Deferrals

Under the terms of the Revised Arkansas Settlement Agreement (see Note 2 to AP&L's Financial Statements —"Rate and Regulatory Matters — Arkansas — Retail, Revised Arkansas Settlement Agreement"), AP&L will variously retain, defer and recover differing portions of the purchased power costs associated with its 36 percent allocated share of the capacity and energy from Grand Gulf 1. By deferring Grand Gulf 1 purchased power costs incurred but not concurrently recovered through rates, the impact of Grand Gulf 1-related costs is removed from the income statement, excluding the Retained Share. Only those costs permanently retained and not recovered through rates or through sales to third parties result in a reduction of net income. Because the actual collection of revenues to recover the deferred amounts will not occur until the future, AP&L incurred cash requirements and recorded a deferred asset in the amount of the deferral. The carrying charges associated with the financing of the deferrals are recovered currently from customers. In 1991, AP&L will begin to recover deferred costs and revenue collections will exceed, to the extent of such recovery, current cash requirements for these costs. Recovery of previously deferred amounts does not increase net income because the related deferred costs are concurrently amortized into operating expenses.

Other Non-Current Liabilities

It is the policy of AP&L to record provisions for uninsured property risks, and claims for injuries and damages through charges to operating expense on an accrual basis. Accruals for these provisions have been allowed for ratemaking purposes.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications. These reclassifications had no effect on net income.

NOTE 2. RATE AND REGULATORY MATTERS

Grand Gulf Nuclear Station

AP&L is a party to certain agreements and proceedings concerning System Energy and the Grand Gulf Station, of which 90 percent is owned or leased by System Energy. (See "Unit Power Sales Agreement" below and Note 8 to AP&L's Financial Statements —"Commitments and Contingencies — Availability Agreement and Reallocation Agreement", with respect to these matters.)

Unit Power Sales Agreement

Pursuant to the allocation specified in the Unit Power Sales Agreement among System Energy and the System operating companies as ordered by the FERC in its June 13 Decision, System Energy sells to the System operating companies all of its 90% share of the capacity and energy from Grand Gulf 1 in accordance with specified percentages (AP&L, 36%; LP&L, 14%; MP&L, 33%; and NOPSI, 17%). Charges under the Unit Power Sales Agreement, which are billed monthly, are based on System Energy's full cost of service, including System Energy's operating expenses, depreciation, and capital costs. AP&L's monthly obligation for payments to System Energy for Grand Gulf 1 capacity and

energy is approximately $24 million. The Unit Power Sales Agreement will remain in effect until terminated by the parties and approved by the FERC, which most likely would occur after Grand Gulf 1 is retired from service.

The June 13 Decision allocating the capacity and energy from System Energy's share of Grand Gulf 1 and the costs associated therewith among the System operating companies was reaffirmed by the FERC in its November 30, 1987 order. The challenges to this decision terminated on April 16, 1990, when the U.S. Supreme Court denied a petition for writ of certiorari seeking review of the D.C. Circuit's affirmance of the November 30, 1987 order, thereby ending the appeals process with respect to the June 13 Decision. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — Availability Agreement and Reallocation Agreement," with respect to certain contractual arrangements among the System operating companies relating to Grand Gulf 1.)

Arkansas — Retail, Settlement Agreement

On September 9, 1985, the APSC approved the terms of the Arkansas Settlement Agreement which, among other things, resolved all issues (except allocation and rate design, which were dealt with in a subsequent order) relating to recovery by AP&L of the portion, attributable to Arkansas retail customers, of its costs associated with its allocated share of capacity and energy from Grand Gulf 1 (Arkansas Costs). Under the terms of the Arkansas Settlement Agreement, AP&L would retain, defer and recover varying portions of such costs over the life of the unit.

The APSC order approving the Arkansas Settlement Agreement was contested by pleadings filed in separate dockets with the APSC in November 1985. AP&L and the APSC staff have answered and moved to dismiss these complaints. There has been no significant activity in these matters since late 1985.

Arkansas — Retail, Revised Arkansas Settlement Agreement

The deferral provisions of AP&L's Arkansas Settlement Agreement relating to recovery by AP&L of the Arkansas Costs did not comply with the requirements of SFAS No. 92, an accounting standard issued in August 1987 by the FASB relating to recording of deferred amounts as assets for accounting purposes. Therefore, the parties, pursuant to the terms of the Arkansas Settlement Agreement, negotiated an amendment thereof which brought such provisions into compliance. The Revised Arkansas Settlement Agreement was approved by the APSC on October 6, 1988, and became effective January 1, 1989. AP&L believes, and has been advised by its independent auditors, that the Revised Arkansas Settlement Agreement satisfies the requirements of SFAS No. 92.

Like the Arkansas Settlement Agreement, the Revised Arkansas Settlement Agreement provides that AP&L permanently retain and not recover (except through other sales as described below) a portion of its Arkansas Costs (Retained Share). The Retained Share (stated as a percentage of System Energy's share of Grand Gulf 1) ranges from 5.67 percent in 1989 to 7.92 percent in 1994 and all succeeding years of commercial operation of the unit.

Under the terms of the Revised Arkansas Settlement Agreement, AP&L is permitted to recover on a current basis a portion of its Arkansas Costs (Current Recovery Share). (See "Arkansas — Rate Riders" below.) The Arkansas Settlement Agreement had provided that prior to January 1, 1989, a portion of the Current Recovery Share would be phased in, with AP&L deferring for future recovery certain costs in the first three years. Under the Revised Arkansas Settlement Agreement, these previously deferred amounts are now included in the Deferred Balance described below, and there is no further deferral of any part of the Current Recovery Share. The Current Recovery Share (stated as a percentage of System Energy's 90% interest in Grand Gulf 1) ranges from 17.86 percent in 1989 to 28.08 percent in 1994 and thereafter.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Under the provisions of the Arkansas Settlement Agreement, through December 31, 1988, AP&L had deferred approximately $578 million of its Arkansas Costs for future recovery, through both the phasing-in of part of the Current Recovery Share (as described above) and the inventorying of an additional portion of Arkansas Costs. The Revised Arkansas Settlement Agreement provided for an additional 12.47 percent and 6.95 percent of such costs (stated as a percentage of System Energy's share of Grand Gulf 1) to be deferred in 1989 and 1990, respectively, for future collection (Deferral Share). The Deferral Share, plus the $578 million of previously deferred costs (collectively, Deferred Balance) will be recovered by AP&L in increasing percentages from 1991 through 1998, at which time the Deferred Balance will have been fully collected. The Deferred Balance at December 31, 1990 was $702.9 million. AP&L is permitted to recover on a current basis the incremental cost of financing the unrecovered portion of the Deferred Balance.

AP&L's agreement to defer the recovery of Arkansas Costs is contingent upon and conditioned by (a) its ability to finance such deferral on reasonable terms and (b) its ability to record on its books, on a current basis, deferral of any Arkansas Costs under applicable accounting standards. In the event AP&L is not able to finance all or any portion of its deferred Grand Gulf 1-related costs on reasonable terms, then, provided AP&L gives proper notice and subject to possible proceedings before the APSC contesting AP&L's assertion of inability to finance, the Deferral Share will be reduced during the period of such inability to finance, and the Current Recovery Share will be increased to the extent necessary to recover, on a current basis, the costs which would otherwise have been allocated to the Deferral Share. In the event AP&L is not able to record on its books, on a current basis, the deferral of any Arkansas Costs, the parties to the Revised Arkansas Settlement Agreement have agreed to attempt to negotiate a mutually acceptable amendment, failing which the Revised Arkansas Settlement Agreement will thereafter be terminated. The Revised Arkansas Settlement Agreement also specifies that in the event accounting standards are changed such that AP&L would be permitted to defer Grand Gulf 1-related costs without having to satisfy the criteria established in SFAS No. 92, then any party to the Revised Arkansas Settlement Agreement may propose a revision to AP&L's phase-in plan, and all parties agree to negotiate in good faith with respect to such proposal.

AP&L has the right under the Revised Arkansas Settlement Agreement to sell capacity and energy available from its Retained Share to third parties, which shall not include AP&L's wholesale customers. In the event AP&L is not able to sell such capacity and energy to such third parties, it has the right to sell the energy available from such capacity, and to date a significant portion has been sold, to its retail customers at a price equal to AP&L's avoided energy cost, which is currently less than AP&L's cost of such energy. Proceeds from sales of capacity and/or energy from AP&L's Retained Share shall accrue to the sole benefit of AP&L's stockholders and shall not be used to reduce the determination of the appropriate revenues to be recovered from AP&L's customers. However, any such sales of capacity and energy from the Arkansas Costs to third parties during the period between January 1, 1989, and December 31, 1995, will be allocated in the following manner: (1) fifty percent of the capacity and/or energy sold (not to exceed the amount of capacity allocated to the Retained Share) will be considered to be a sale of capacity and/or energy from the Retained Share; and (2) the remainder of the capacity and/or energy sold will, unless the APSC determines otherwise, be considered to be a sale proportionately from the Deferral Share and the Current Recovery Share and the proceeds of such sale shall be applied to reduce the Deferred Balance.

The Revised Arkansas Settlement Agreement provides that, should any other System operating company enter into an agreement to absorb a greater portion of Grand Gulf 1-related costs than AP&L, or should System Energy enter into a settlement agreement to reduce its charges to AP&L under the June 13 Decision, the Retained Share will be correspondingly increased or decreased, respectively. (See "Unit Power Sales Agreement" above for a discussion of the June 13 Decision.)

ARKANSAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Arkansas — Rate Riders

In conjunction with the Revised Arkansas Settlement Agreement, AP&L was permitted to implement annual updates to the Grand Gulf rate rider (Rider M33), increasing Arkansas retail rates by approximately 2.6 percent, 4.0 percent, and 2.7 percent, for the years 1991, 1990, and 1989, respectively. These increases reflect scheduled phase-in plan increases adjusted for any prior year over or under collection.

Effective in September 1986 the APSC approved an AP&L-proposed tax adjustment rider (Rider M38). Rider M38, as modified, was designed to reduce Arkansas retail rates by approximately $31 million annually to reflect the reduction in the corporate income tax rate included in the Tax Reform Act of 1986. Rider M38 also included a corresponding credit of approximately $88.6 million over a three-year period, which concluded in 1989, to reflect reductions in certain accumulated deferred income tax accounts.

In 1985, the Arkansas Settlement Agreement denied AP&L a current return on alleged excess capacity of 969 megawatts, but allowed AP&L to earn a full deferred return on the investment in such capacity through June 30, 1988. Deferrals ceased June 30, 1988, and pursuant to Rider M39, which was designed to recover such deferred amounts over a 10-year recovery period, AP&L began recovering such deferred amounts July 1, 1988.

On March 9, 1988, the APSC approved an AP&L-proposed revision to the existing Nuclear Decommissioning Cost Rider M26 and a new Depreciation Rate Reduction Rider M41. The riders were simultaneously implemented March 23, 1988, and were designed to reduce AP&L's rates by approximately $1.7 million annually, composed of a $7.6 million increase in decommissioning cost and a $9.3 million decrease in depreciation cost. This order also approved the funding of decommissioning costs with external trusts due to tax incentives provided by the Tax Reform Act of 1984 and provided for an annual update of the Decommissioning Cost Rider. The APSC approved annual adjustments to Rider M26 which resulted in increased Arkansas retail rates of approximately 0.4% in 1990, and will decrease Arkansas retail rates by approximately 0.1%, in 1991. (See Note 8 to AP&L's Financial Statements — "Commitments and Contingencies — Spent Nuclear Fuel and Decommissioning Cost.")

Missouri — 1985 Rate Request

On June 7, 1985, AP&L filed an application with the PSCM for an annual increase in Missouri retail rates of approximately $5.0 million and an additional rate rider to provide approximately $12.2 million for Grand Gulf 1-related costs associated with Missouri retail customers (Missouri Costs). On April 24, 1986, the PSCM entered an order allowing AP&L to recover the Missouri Costs of $9.0 million, offset by a reduction of approximately $3 million in other costs, phased in over five years. On March 11, 1988, the PSCM issued an order approving a Stipulation and Agreement and Tariff Sheets disposing of all issues in this rate case. The phase-in concluded on March 21, 1991, after recovery of all Missouri Costs deferrals under the phase-in. At that time an 11.59 percent reduction in rates took effect.

AP&L and Union Electric have signed a contract for the sale by AP&L to Union Electric of AP&L's retail properties in Missouri. In the event that the proposed sale is consummated, AP&L will no longer be subject to the general jurisdiction of the PSCM with respect to retail rate matters. (See "Missouri Retail Operations" below.)

Project Olive Branch

In connection with an effort, referred to by the System as "Project Olive Branch", to settle outstanding issues and litigation surrounding System Energy and the Grand Gulf Station and to

stabilize retail rates in the System service area, on June 9, 1989, AP&L, the other System operating companies, and System Energy filed the FERC Settlement with FERC to resolve various FERC-related issues in a way that would be beneficial to the System, its investors and its customers. The FERC Settlement was subsequently supported by the FERC staff, state and local regulators and officials, and other interested parties and was approved by the FERC on July 21, 1989.

Implementation of the terms of the FERC Settlement in 1989 resulted in, among other things, the following: (1) System Energy canceled and wrote off in September 1989 approximately $900 million of its $926 million investment in Grand Gulf 2 (construction on which had been suspended since September 1985) without seeking rate recovery from its customers, the System operating companies, including AP&L; and (2) System Energy also made a one-time credit to the System operating companies' bills in an aggregate amount of $50 million which was allocated among the System operating companies in accordance with their respective percentage allocations of Grand Gulf 1 capacity and energy. AP&L's share of this credit totaled $18.0 million of which $14.5 million was refunded to customers in 1989.

While all parties to the FERC Settlement agreed not to pursue any prudence disallowance of Grand Gulf 1 construction costs and operating and maintenance expenses recorded through June 9, 1989, the FERC Settlement will not prejudice any party's right to seek disallowance of such costs recorded after that date or the right of parties to seek future changes to the Unit Power Sales Agreement which are not inconsistent with the FERC Settlement.

Arkansas — Stipulation and Settlement Agreement

In addition to settlement of FERC-related issues embodied in the FERC Settlement, in 1989 AP&L, the Staff of the APSC and the Arkansas Attorney General entered into a Stipulation and Settlement Agreement requesting, among other things, that (1) the APSC permit AP&L to recover in 1998 certain deferrals, amounting to $4.4 million, (2) in order to avoid an immediate application by AP&L for increased retail rates in Arkansas, the APSC approve the sale and transfer of AP&L's interests in Independence 2 and Ritchie 2 to Entergy Power (see "Entergy Power" below), (3) the APSC approve consolidation within the System of operating responsibility for the System's nuclear generating units, including ANO (see "Nuclear Management Consolidation" below), (4) the APSC permit amortization by AP&L of certain investment tax credits, without changing AP&L's retail rates to reflect such amortization and (5) the APSC approve a rate change moratorium whereby AP&L would not seek changes in retail rates until December 31, 1991, except under specific circumstances. By order dated April 2, 1990, the APSC approved the Stipulation and Settlement Agreement, subject to certain conditions. With respect to the Entergy Power transactions, the APSC required, among other things, (a) that AP&L have a right of first refusal to repurchase from Entergy Power its interests in Independence 2 and Ritchie 2 at Entergy Power's book value should Entergy Power ever wish to sell the facilities, (b) that AP&L agree to a "rate cap" which would limit AP&L's rates for new capacity for the next 15 years to a level that reflects the cost to ratepayers if the units had not been sold and (c) that without a waiver from the APSC, Entergy Power not serve retail or wholesale loads in Arkansas or enter into capacity sales with any Entergy affiliate. Such conditions were accepted by AP&L. The APSC order is also subject to certain conditions, which were accepted by AP&L, with respect to the consolidation of nuclear management in Entergy Operations.

On May 1, 1990, the AEEC, an intervenor in the proceeding, filed with the APSC an Application for Rehearing and Request for Stay of the APSC's April 2, 1990 order on the grounds, among others, that the proposed transactions were allegedly detrimental to Arkansas ratepayers. On May 31, 1990, the APSC denied the AEEC's Application for Rehearing and Request for Stay. On June 28, 1990, the AEEC filed with the Arkansas Court of Appeals a Notice of Appeal and an Application for Stay Pending

Appeal of those portions of the APSC's April 2, 1990 and May 31, 1990 orders pertaining to the transfer of Independence 2 and Ritchie 2 to Entergy Power and the transfer of management and operating responsibility for ANO to Entergy Operations. On July 3, 1990, the Arkansas Court of Appeals ordered the AEEC's Application for Stay Pending Appeal be denied. Also, on July 3, 1990, the AEEC filed with the Arkansas Court of Appeals a Motion for Reconsideration of Denial of Stay of the Arkansas Court of Appeals' July 3, 1990 order, which motion was denied by the Arkansas Court of Appeals on August 1, 1990. On July 20, 1990, the AEEC filed a Petition for Review of the denial of stay with the Arkansas Supreme Court, which was denied on September 10, 1990. As to the AEEC's pending Notice of Appeal, AEEC, AP&L and the APSC have filed briefs with the Arkansas Court of Appeals and oral argument before the court has been scheduled for April 24, 1991. The matter will thereafter be decided by the Court of Appeals. AP&L believes this matter will be resolved without a material adverse impact on its financial condition.

Entergy Power

AP&L filed applications in 1989 with the APSC, the PSCM, the FERC and the SEC in connection with the approval of the formation of Entergy Power, a then proposed subsidiary of Entergy to be formed to own generating capacity and to sell such capacity and energy in the wholesale market outside Arkansas and Missouri and in markets not otherwise served presently by the System.

By order dated April 2, 1990, the APSC approved, subject to certain conditions, the Stipulation and Settlement Agreement that, among other things, provided for the sale and transfer of AP&L's interests in Independence 2 and Ritchie 2 to Entergy Power. An appeal by the AEEC of the APSC's order is pending before the Arkansas Court of Appeals (see "Arkansas — Stipulation and Settlement Agreement" above).

On May 1, 1990, the PSCM issued an order approving the Entergy Power transactions.

On June 29, 1990, the FERC approved the related transmission service agreement. On July 30, 1990, the LPSC, the AEEC and the City of New Orleans filed requests for rehearing by the FERC of its June 29, 1990 order. The FERC denied such requests on September 21, 1990. On October 2, 1990 and October 19, 1990, the AEEC and the City of New Orleans, respectively, filed petitions with the D.C. Circuit for review of the FERC's June 29, 1990 and September 21, 1990 orders. Motions to intervene were granted with respect to numerous parties, including Entergy Services, as agent for Entergy Power and AP&L. On November 19, 1990, the FERC filed a motion to consolidate the proceedings on petitions for review of its orders filed by the AEEC and the City of New Orleans. On November 28, 1990, the AEEC stated that it does not oppose the requested consolidation so long as it is permitted to submit separate opening and reply briefs and to have separate oral argument on the issues it intends to raise, and on December 7, 1990 the City of New Orleans stated that it opposes the FERC motion to consolidate those appeals. On December 11, 1990, the FERC requested dismissal of the AEEC's and the City of New Orleans' petitions for review. On December 18, 1990, January 4, 1991 and January 11, 1991, the AEEC, the City of New Orleans and the LPSC, respectively, requested that the FERC's motion to dismiss be denied. The matter is pending.

On August 27, 1990, the SEC issued an order approving the Entergy Power transactions. On October 19, 1990, October 23, 1990 and October 26, 1990, the City of New Orleans, the LPSC and the State of Mississippi, respectively, filed a petition with the D.C. Circuit for review of the SEC's August 27, 1990 order. Motions to intervene were granted with respect to numerous parties, including Entergy, Entergy Power, Entergy Services, AP&L and System Fuels ("Entergy, *et al.*"). On November 26, 1990 and November 30, 1990, the City of New Orleans and the LPSC, respectively, filed motions with the D.C. Circuit requesting that the D.C. Circuit consolidate the proceedings with respect to the appeal of the SEC's order with the proceeding brought by the City of New Orleans in its October 19,

1990 petition for review of the FERC's orders. On December 6, 1990 and December 11, 1990 Entergy, *et al.* and the FERC, respectively, each filed replies requesting that the motions to consolidate of the City of New Orleans and the LPSC be denied. The matter is pending.

Upon receipt of the SEC order, the board of directors of Entergy Power held an organizational meeting to form Entergy Power as a new subsidiary of Entergy. On August 28, 1990, AP&L sold its interests in Independence 2 and Ritchie 2 to Entergy Power for an aggregate purchase price of approximately $173.4 million. AP&L used a portion of such proceeds to redeem on October 1, 1990, the balance of the 13⅜% series first mortgage bonds due December 1, 2012 ($50 million) and the 14⅛% series first mortgage bonds due December 1, 2014 ($100 million).

On August 20, 1990 the City of New Orleans filed a complaint at the FERC against Entergy, the System operating companies and System Energy requesting the FERC to investigate certain issues related to the transfer of Independence 2 and Ritchie 2 to Entergy Power and its effect upon the System operating companies and their ratepayers. On September 21, 1990, Entergy, the System operating companies and System Energy filed with the FERC an answer to the City of New Orleans' complaint asking that the complaint be dismissed. Numerous parties have intervened in this proceeding. In the first quarter of 1991, the FERC issued an order (1) denying motions to dismiss the complaint, (2) dismissing the complaint, in part, without prejudice, (3) setting for investigation the question of whether overall billings under the System Agreement will increase as a result of the transfer of the two units to Entergy Power and, if so, whether those higher charges reflect prudently incurred costs that may be reasonably passed through the System Agreement and (4) providing that rates charged under the System Agreement after the transfer of the two units be subject to refund, effective October 19, 1990. The matter is pending.

Nuclear Management Consolidation

In June 1989, plans were announced whereby a nuclear management service company, Entergy Operations, would assume operating responsibility for ANO, LP&L's nuclear Waterford Steam Electric Generating Station Unit No. 3 (Waterford 3) and Grand Gulf 1 subject, respectively, to AP&L's, LP&L's and System Energy's oversight. Under the proposal, AP&L, LP&L, System Energy and the other Grand Gulf 1 and Waterford 3 co-owners would retain ownership of their respective nuclear generating units. Further, AP&L, LP&L, and System Energy would retain their associated capacity and energy entitlements and would pay directly or reimburse Entergy Operations at cost for service associated with the operation and management of these units. Applications for approval of or non-opposition to, as applicable, the proposed arrangements were filed with the NRC, the LPSC, the APSC, the Council of the City of New Orleans, Louisiana and the SEC and all such approvals were received by June 5, 1990. The APSC order provides for certain conditions, which were accepted by AP&L, including, that the APSC has the right to reexamine its approval and withdraw such approval at any time, and that AP&L flow through to ratepayers, through its fuel adjustment clause, 50 percent of the net savings projected from the nuclear consolidation until December 31, 1991. However, the APSC's order is being appealed (see "Arkansas — Stipulation and Settlement Agreement" above). On June 6, 1990, an organizational meeting of the board of directors of Entergy Operations was held to form Entergy Operations as a new subsidiary of Entergy, and Entergy Operations assumed responsibility for the operation of ANO, Waterford 3 and Grand Gulf 1. (See Note 10 to AP&L's Financial Statements — "Transactions With Associated Companies.")

Missouri Retail Operations

Union Electric and AP&L have signed a contract for the sale of AP&L's retail properties in Missouri. AP&L's retail properties in Missouri constitute less than 2% of AP&L's total property. The

sale price of such property, Missouri accounts receivable, and material and supplies inventories is approximately $76 million, which is greater than AP&L's book value of such properties, subject to certain adjustments as of the date the sale is closed. The properties, located in southeastern and southcentral Missouri, are generally contiguous to Union Electric's present service area. Under the terms of the contract, AP&L's 28,000 Missouri retail customers will become Union Electric customers and AP&L's employees in Missouri will become Union Electric employees. In addition, the terms of the contract call for AP&L to sell to Union Electric 120 megawatts of capacity and associated energy for an initial period of 10 years. Beginning on January 1, 1995, Union Electric shall also purchase 40 megawatts of peaking capacity.

The closing of the sale is currently required by the contract to occur by April 30, 1991, but may be delayed by regulatory proceedings.

On August 2, 1990, AP&L and Union Electric filed a joint application with the PSCM seeking approval of the sale and AP&L filed an application with the APSC seeking a declaration that the APSC does not have jurisdiction over the sale or, alternatively, an order approving the sale. In August 1990, interventions were filed at the PSCM by various parties. Hearings before the PSCM commenced in late March 1991. No action is expected by the APSC until the PSCM order is received.

On August 27, 1990, AP&L filed the power contract and related transmission or interconnection agreements with the FERC. In September 1990, interventions were filed at the FERC by various parties. On January 7, 1991, the FERC rejected the filing because the power contract did not contain certain provisions required by the FERC, but objected to by Union Electric. The power contract was refiled in the first quarter of 1991 after revision to avoid the FERC's objections. On November 8, 1990, AP&L filed with the SEC for requisite approval of the transaction under the Public Utility Holding Company Act of 1935.

The consummation of this transaction is dependent upon obtaining required regulatory approvals. The proceeds from this transaction, when and if consummated, could be used to meet construction expenditures or for other corporate purposes. Alternatively, approximately $70 million of the proceeds could be used to redeem all or a portion of certain series of AP&L's outstanding first mortgage bonds at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of its mortgage and deed of trust.

NOTE 3. INCOME TAXES

The components of income tax expense (credit) are as follows:

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Current:			
Federal	$ 45,689	$ 9,227	$ 2,222
State	5,232	(788)	4,505
Total	50,921	8,439	6,727
Deferred — net:			
Liberalized depreciation	827	28,697	30,960
Alternative minimum tax	(14,755)	(16,126)	5,850
Coal freight settlement	1,419	4,987	(6,406)
Net operating loss carryforward	21,028	10,025	(31,053)
Interest on tax deficiency	73	4,369	3,237
Amortization of excess deferred tax	1,880	(13,287)	(21,385)
Nuclear maintenance expenses	(2,480)	(1,920)	8,459
Nuclear reserve and related interest	(539)	(1,165)	5,683
Provision for estimated losses	(1,722)	864	5,542
Deferred purchased power costs	13,097	32,614	45,492
Deferred excess capacity costs	(3,233)	(3,114)	1,348
Unbilled revenue	(1,760)	(9,620)	(798)
Other	4,108	944	(4,869)
Total	17,943	37,268	42,260
Investment tax credit adjustments — net	(12,022)	3,543	(1,972)
Recorded income tax expense	$ 56,842	$ 49,250	$ 47,015
Charged to operations	$ 30,955	$ 28,866	$ 25,501
Charged to other income	25,887	20,384	21,514
Recorded income tax expense	56,842	49,250	47,015
Income taxes applied against the debt component of AFUDC	134	77	72
Total income taxes	$ 56,976	$ 49,327	$ 47,087

ARKANSAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Total income taxes differ from the amounts computed by applying the statutory federal income tax rate to income before taxes as shown below:

	For the Years Ended December 31,					
	1990		1989		1988	
	Amount (000)	% of Pre-Tax Income	Amount (000)	% of Pre-Tax Income	Amount (000)	% of Pre-Tax Income
Computed at statutory rate	$63,447	34.0%	$61,618	34.0%	$60,576	34.0%
Increases (reductions) in tax resulting from:						
Amortization of excess deferred tax	1,880	1.0	(13,287)	(7.3)	(21,385)	(12.0)
State income taxes net of federal income tax effect	8,143	4.4	6,514	3.6	6,831	3.8
Amortization of investment tax credit	(20,428)	(11.0)	(1,767)	(1.0)	(1,387)	(0.8)
Basis difference of assets involved in the sale of Independence 2 and Ritchie 2	7,011	3.8	—	—	—	—
Depreciation	(4,579)	(2.5)	(3,800)	(2.1)	(3,688)	(2.1)
Other — net	1,368	0.7	(28)	—	6,068	3.5
Recorded income tax expense	56,842	30.4	49,250	27.2	47,015	26.4
Income taxes applied against debt component of AFUDC	134	0.1	77	—	72	—
Total income taxes	$56,976	30.5%	$49,327	27.2%	$47,087	26.4%

Unused investment tax credits at December 31, 1990, amounted to $13.7 million after the 35% reduction required by the Tax Reform Act of 1986. These credits may be applied against federal income tax liabilities in future years. If not used, they will expire in 1993 through 2004.

The alternative minimum tax (AMT) credit at December 31, 1990 is $44.7 million. This AMT credit can be carried forward indefinitely and used against regular income tax.

Pursuant to an order of the APSC dated March 1, 1982, AP&L ceased providing deferred taxes on certain timing differences which were previously normalized. However, the order requires AP&L to continue providing deferred taxes on applicable decommissioning costs of nuclear plant and provides for continued normalization of timing differences which are required by the Internal Revenue Code or state law. In addition, the APSC approved normalization for deferred purchased power costs in accordance with the Revised Arkansas Settlement Agreement.

Cumulative income tax timing differences for which deferred income taxes have not been provided are $271.9 million, $279.7 million and $272.2 million at December 31, 1990, 1989 and 1988, respectively.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes," which was scheduled to be effective for fiscal years beginning after December 15, 1988. The FASB subsequently issued statements numbers 100 and 103, which delayed the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. The FASB is expected to issue a new exposure draft in the second quarter of 1991. This exposure draft may further delay the effective date and simplify the implementation of SFAS No. 96. SFAS No. 96 expands the requirements to record deferred income taxes for all

temporary differences that are reported in one year for financial reporting purposes and a different year for tax purposes. This will require the recognition of deferred tax balances for certain items not previously reflected in the financial statements, such as a deferred tax liability relating to AFUDC. Under the liability method adopted by SFAS No. 96, deferred tax balances will be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse.

Based on a preliminary study, AP&L expects that the adoption of SFAS No. 96, in its present form, would result in a net increase in accumulated deferred income taxes with a corresponding increase in assets. It is not expected that results of operations for AP&L would be significantly impacted by the adoption of SFAS No. 96 in its present form.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

Under the Public Utility Holding Company Act of 1935, AP&L has authorization from the SEC to have outstanding short-term borrowings aggregating $125.0 million at any one time through November 1992, subject to increase to a maximum of $240 million with further SEC approval. Short-term borrowings and the applicable interest rates (determined by dividing applicable interest expense by the average amount borrowed) follow:

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Maximum month-end borrowing	$121,132	$30,968	$51,172
Year-end borrowing	$ 667	$27,667	$ 667
Average borrowing:			
Bank loans	$ 7,107	$ 6,023	$21,001
Associated companies	3,795	1,881	—
Other	667	667	667
Average interest rate:			
During the period —			
Bank loans	10.00%	11.05%	9.15%
Associated companies	8.34	8.62	—
Other	10.01	11.00	9.35
At end of period —			
Bank loans	—	—	—
Associated companies	—	7.97%	—
Other	10.00%	10.50	10.50%

AP&L had $76.2 million and $62.5 million in lines of credit with Arkansas banks at December 31, 1990 and 1989, respectively. AP&L had no outstanding borrowings under these lines of credit at year-end 1990 or 1989. In addition, AP&L had approximately $667,000 in other short-term borrowings at December 31, 1990 and 1989.

AP&L participates with certain other System operating companies in the Money Pool whereby those System companies with available funds make short-term loans to other System companies (other than Entergy) having short-term borrowing requirements. AP&L may borrow from these sources

subject only to its maximum authorized level of short-term borrowings. At December 31, 1990, AP&L had $100 million of short-term investments and no outstanding borrowings in the Money Pool.

NOTE 5. PREFERRED AND COMMON STOCK

On January 22, 1990, AP&L repurchased from Entergy 8 million shares of AP&L's common stock, $0.01 par value, at a purchase price of $12.50 per share for an aggregate purchase price of $100 million.

AP&L has received SEC approval to purchase or otherwise acquire up to $150 million aggregate par value of its outstanding preferred stock.

Changes in Shares Outstanding

	During the Year,		
	1990	1989	1988
Common stock shares sold (repurchased)	(8,000,000)	—	—
Preferred stock shares sold (retired):			
$100 par value	(45,000)	(48,000)	(53,337)
$25 par value	(266,433)	(199,086)	(337,218)

Preferred Stock Outstanding

	At December 31,	
	1990	1989
	(In Thousands)	
Without sinking fund:		
Stated at $100 per share	$101,350	$101,350
Stated at $25 per share	25,000	25,000
Premium and expense — net	540	540
Total preferred stock without sinking fund	$126,890	$126,890
With sinking fund:		
Stated at $100 per share	$ 68,500	$ 73,000
Stated at $25 per share	49,027	55,688
Premium and expense — net	(1,166)	(1,134)
Total preferred stock with sinking fund	$116,361	$127,554

Preferred Stock Issues Outstanding

	Shares Authorized	Shares Outstanding At December 31, 1990	1989	Current Call Price Per Share
Cumulative, $100 Par Value:				
Without sinking fund:				
4.32% series	70,000	70,000	70,000	$103.647
4.72% series	93,500	93,500	93,500	107.000
4.56% series	75,000	75,000	75,000	102.830
4.56% 1965 series	75,000	75,000	75,000	102.500
6.08% series	100,000	100,000	100,000	102.830
7.32% series	100,000	100,000	100,000	103.170
7.80% series	150,000	150,000	150,000	103.250
7.40% series	200,000	200,000	200,000	102.800
7.88% series	150,000	150,000	150,000	103.000
Total	1,013,500	1,013,500	1,013,500	
With sinking fund *:				
10.60% series	80,000	80,000	90,000	104.090
11.04% series	120,000	120,000	140,000	104.260
8.52% series	485,000	485,000	500,000	108.520
Total	685,000	685,000	730,000	
Unissued	2,031,500	—	—	
Total, $100 Par Value	3,730,000	1,698,500	1,743,500	
Cumulative, $25 Par Value:				
Without sinking fund:				
8.84% series	400,000	400,000	400,000	27.110
10.40% series	600,000	600,000	600,000	27.300
Total	1,000,000	1,000,000	1,000,000	
With sinking fund *:				
9.92% series	961,085	961,085	1,027,518	26.940
13.28% series	1,000,000	1,000,000	1,200,000	28.220
Total	1,961,085	1,961,085	2,227,518	
Unissued	6,038,915	—	—	
Total, $25 Par Value	9,000,000	2,961,085	3,227,518	
Cumulative, $0.01 Par Value:				
Unissued	15,000,000	—	—	
Total, $0.01 Par Value	15,000,000			

* These series are to be retired in full through the operation of sinking funds. The 9.92% series, 10.60% series, 11.04% series and 13.28% series are being redeemed each year at the rate of 80,000, 10,000, 20,000 and 100,000 shares, respectively. Beginning November 1, 1991, the 8.52% series is to be redeemed at the rate of 25,000 shares each year. In addition, AP&L has the non-cumulative option to redeem an additional like amount of said shares each year.

NOTE 6. LONG-TERM DEBT

Long-term debt at December 31, 1990 and 1989 consisted of the following:

	1990	1989
	(In Thousands)	
First Mortgage Bonds:		
5⅝% series due 1990	$ —	$ 500
4⅞% series due 1991	12,000	12,000
4⅜% series due 1993	15,000	15,000
4⅝% series due 1995	25,000	25,000
5¾% series due 1996	25,000	25,000
6¼% series due 1996	1,560	1,760
5⅞% series due 1997	30,000	30,000
8¾% series due 1998	5,800	6,200
7⅜% series due 1998	15,000	15,000
9¼% series due 1999	25,000	25,000
9⅝% series due 2000	25,000	25,000
9¾% series due 2000	2,600	2,800
7⅝% series due 2001	30,000	30,000
8 % series due 2001	30,000	30,000
7¾% series due 2002	35,000	35,000
7½% series due 2002	15,000	15,000
8 % series due 2003	40,000	40,000
8⅛% series due 2003	40,000	40,000
10½% series due 2004	40,000	40,000
10⅛% series due 2005	40,000	40,000
9⅛% series due 2007	75,000	75,000
9⅞% series due 2008	75,000	75,000
10¼% series due 2009	60,000	60,000
13⅜% series due 2012	—	50,000
14⅛% series due 2014	—	100,000
10¼% series due 2016	50,000	50,000
9¾% series due 2019	75,000	75,000
10 % series due 2020	150,000	—
10⅜% series due 2020	175,000	—
Total First Mortgage Bonds	1,111,960	938,260
Installment Purchase Contracts:		
Pope County, Arkansas; due 1990 to 2020 at rates ranging from 7¼% to 11% *	160,275	140,505
Jefferson County, Arkansas; due 1990 to 2008 at rates ranging from 6⅛% to 10%	66,575	67,525
Independence County, Arkansas; due 2013 at rate of 11⅛%	45,000	45,000
Total Installment Purchase Contracts	271,850	253,030
Long-Term Obligation — Department of Energy (Note 8)	89,053	82,393
Unamortized Premium and Discount on Debt — Net	(14,973)	(6,554)
Total Long-Term Debt	1,457,890	1,267,129
Less — Amount Due Within One Year	14,690	3,080
Long-Term Debt Excluding Amount Due Within One Year	$1,443,200	$1,264,049

* $20 million, 8% Pope County, Arkansas Solid Waste Disposal Revenue Bonds due November 2020, issued November 1990, are secured by $21.1 million, 0.0% First Mortgage Bonds and $120 million, 11% Pope County, Arkansas Pollution Control Revenue Bonds due December 2015, issued December 1985, are secured by $128.8 million, 0.0% First Mortgage Bonds.

At December 31, 1990, the sinking fund requirements and maturities for long-term debt for the years 1991 through 1995 are as follows:

Year	Cash Sinking Fund	Sinking Fund*	Maturities**
		(In Thousands)	
1991	$800	$5,768	$13,135
1992	800	5,768	1,225
1993	800	5,618	16,350
1994	800	5,618	1,470
1995	800	5,368	26,625

* These annual sinking fund requirements may be met by certification of property additions at a rate of 167% of such requirements.

** These maturities do not reflect $755,000 of pollution control revenue bonds which are subject to redemption at the option of the holders of such bonds at a redemption price of 100%.

AP&L issued $150 million of 10% first mortgage bonds on February 1, 1990. Subsequently, in 1990, AP&L received regulatory approval allowing the sale of up to $250 million of additional first mortgage bonds and $100 million of preferred stock through August 31, 1992. Pursuant to this authorization, AP&L issued $175 million of 10⅜% first mortgage bonds in October 1990.

AP&L derived $20 million and $27 million from the issuance of solid waste disposal revenue bonds in November 1990 and January 1991, respectively.

On August 28, 1990, AP&L sold its interests in Independence 2 and Ritchie 2 to Entergy Power for approximately $173.4 million. Proceeds from the sale were applied to the redemption on October 1, 1990 of $50 million 13⅜% first mortgage bonds and $100 million 14⅛% first mortgage bonds. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Entergy Power" for information regarding the sale of Independence 2 and Ritchie 2 to Entergy Power, and "Missouri Retail Operations" for information on the possible redemption of first mortgage bonds at special redemption prices at or near par with a portion of the proceeds from the proposed sale of AP&L's Missouri retail properties).

AP&L has received SEC approval to purchase or otherwise acquire up to $350 million principal amount of its outstanding first mortgage bonds and $175 million principal amount of pollution control revenue bonds and/or solid waste disposal revenue bonds issued for the benefit of AP&L.

NOTE 7. RETAINED EARNINGS

The indentures relating to AP&L's long-term debt and provisions of the amended and restated articles of incorporation relating to AP&L's preferred stock provide for restrictions on the payment of cash dividends on common stock and acquisition of outstanding shares of AP&L's common stock. As of December 31, 1990, $16.4 million of retained earnings were free from such restrictions.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

AP&L's construction program contemplates expenditures (including AFUDC and excluding nuclear fuel) of approximately $157.7 million in 1991, $178.8 million in 1992, and $162.3 million in 1993. In addition, AP&L will require $63.1 million during the period 1991-1993 to meet long-term debt maturities and to satisfy sinking fund requirements.

AP&L anticipates that its capital and refinancing requirements for 1991-1993 will be met principally from cash on hand at December 31, 1990, and internally generated funds. Any external financing during the period, exclusive of funds derived from the issuance in January 1991 of $27 million of solid waste disposal revenue bonds, would be primarily for optional redemption of currently outstanding securities. AP&L has received regulatory approval to purchase or otherwise acquire up to $350 million of first mortgage bonds, $150 million of preferred stock and $175 million of pollution control revenue bonds and/or solid waste disposal revenue bonds, issued for the benefit of AP&L. External financing requirements for this purpose would be achieved through the issuance of up to $75 million of additional first mortgage bonds and up to $100 million of additional preferred stock, for which AP&L has regulatory approvals. AP&L may also obtain additional funds during the period 1991-1993 from the possible sale of AP&L's retail properties in Missouri. Approximately $70 million of the proceeds from this transaction, when and if consummated, could be used to redeem all or a portion of certain series of AP&L's outstanding first mortgage bonds at special redemption prices, at or near par, pursuant to and in compliance with AP&L's mortgage and deed of trust. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Missouri Retail Operations," for information with respect to the possible sale of AP&L's Missouri retail properties and possible uses of sale proceeds.)

During the period 1991-1993 AP&L will be collecting Grand Gulf 1 costs incurred but not collected in previous years pursuant to the Revised Arkansas Settlement Agreement. During periods when deferred costs are recovered, revenue collections will exceed, to the extent of such current recovery, current cash requirements for Grand Gulf 1 costs.

As discussed in "NRC Actions" below, a comprehensive action plan to improve performance at ANO has resulted in an increase in estimated capital expenditures and operation and maintenance expenditures for 1991-1993, which is expected to have a negative effect on AP&L's results of operations and on earnings coverages required for the issuance of additional first mortgage bonds and preferred stock. This action plan has resulted in an increase in estimated capital expenditures averaging approximately $16 million per annum for the period 1991-1993 and contemplates an approximate $33 million per annum average increase in operation and maintenance expenditures for that period. These increases in operation and maintenance expenditures, along with increased interest expense and preferred stock dividend requirements associated with external financing planned for the period 1991-1993, are expected to have a negative effect on AP&L's results of operations and on earnings coverages required for the issuance of additional first mortgage bonds and preferred stock. AP&L estimates that its earnings coverages are likely to fall below the levels necessary to permit the issuance of additional bonds or preferred stock (except for refunding purposes) by late 1991 and may remain below such levels through 1992 in respect to bonds and through 1993 in respect to preferred stock.

Availability Agreement and Reallocation Agreement

The System operating companies are severally obligated, under the Availability Agreement in accordance with stated percentages (AP&L, 17.1%; LP&L, 26.9%; MP&L, 31.3%; and NOPSI, 24.7%), to make payments or subordinated advances in amounts that, when added to any amounts received by System Energy under the Unit Power Sales Agreement or otherwise, are adequate to cover all of the operating expenses, including depreciation and interest charges, of System Energy. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Unit Power Sales Agreement.") System Energy has, with the consent of the System operating companies, assigned its rights to payments and advances from the System operating companies under the Availability Agreement to certain creditors as security for certain of its indebtedness for borrowed money. Payments or advances under the Availability Agreement are only required to be made to the extent System Energy's receipts

from all sources, including the Unit Power Sales Agreement as approved by the FERC, are less than the amount required under the Availability Agreement.

In June 1989, System Energy and the System operating companies, with the prior consent of such creditors, amended the Availability Agreement so that the Grand Gulf 2 write-off would be amortized for Availability Agreement purposes over 27 years rather than in the month the write-off was recognized on System Energy's books (see Note 2 to AP&L's Financial Statements, "Rate and Regulatory Matters — Project Olive Branch"). This amendment was made so that the write-off of Grand Gulf 2 in September 1989 would not cause a payment by the System operating companies to be required under the Availability Agreement. Since commercial operation of Grand Gulf 1, payments under the Unit Power Sales Agreement (which include a return on equity) have exceeded the amounts payable under the Availability Agreement (which does not provide for a return on equity). Accordingly, no payments have ever been required under the Availability Agreement.

In November 1981, the System operating companies entered into a Reallocation Agreement, which would have allocated the capacity and energy available to System Energy from the Grand Gulf Station and the related costs to LP&L, MP&L, and NOPSI. These companies thus agreed to assume all the responsibilities and obligations of AP&L with respect to the Grand Gulf Station under the Availability Agreement, with AP&L relinquishing its rights to capacity and energy from the Grand Gulf Station. Each of the System operating companies, including AP&L, would have remained primarily liable to System Energy and its assignees for payments or advances under the Availability Agreement and assignments thereof. AP&L was obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations. However, the FERC's June 13 Decision allocating a portion of Grand Gulf 1 capacity and energy to AP&L supersedes the Reallocation Agreement insofar as it relates to Grand Gulf 1.

Responsibility for any Grand Gulf 2 amortization amounts has been allocated to LP&L (26.23%), MP&L (43.97%), and NOPSI (29.80%) under the terms of the Reallocation Agreement entered into in 1981. AP&L would be liable for its share of such amounts only if the other System operating companies were unable to meet their contractual obligations. No payments of any amortization amounts will be required as long as amounts paid to System Energy under the Unit Power Sales Agreement, together with other funds available to System Energy, exceed amounts required under the Availability Agreement, which is expected to be the case for the foreseeable future.

Unit Power Purchase Agreement

AP&L and MP&L were parties to a Unit Power Purchase Agreement, which terminated in December 1989, for the sale to MP&L of AP&L's 31.5 percent share of capacity and energy from Independence 2. AP&L's revenue associated with the sale of such capacity to MP&L was approximately $27 million in 1989. This adverse earnings impact associated with the termination of the Unit Power Purchase Agreement was partially offset in 1990 by the effects of the sale of AP&L's interest in Independence 2 to Entergy Power on August 28, 1990. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Entergy Power" with respect to AP&L's sale of its interest in Independence 2 and Ritchie 2 to Entergy Power.)

System Fuels

AP&L has a 35 percent interest in System Fuels, a jointly owned subsidiary of the System operating companies. System Fuels operates on a non-profit basis for the purpose of implementing or maintaining programs for the procurement, delivery and storage of fuel supplies for the System operating companies. Its costs are primarily recovered through charges for fuel delivered.

The parent companies of System Fuels agreed to make loans to System Fuels to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended through December 31, 1983. The rate of interest that is charged pursuant to this loan agreement is adjustable and is correlated to the highest annual interest rate on outstanding short-term bank borrowings by AP&L or to the prime commercial rate if AP&L has no such short-term bank borrowings outstanding. At this time no future loans may be made to System Fuels by the parent companies. As of December 31, 1990, AP&L had $11 million of loans outstanding to System Fuels which mature December 31, 2008.

System Fuels' parent companies, including AP&L, have covenanted and agreed, severally in accordance with their respective shares of ownership of System Fuels' common stock, that they will take any and all action necessary to keep System Fuels in a sound financial condition and to place System Fuels in a position to discharge, and to cause System Fuels to discharge, its obligations in connection with long-term leases of oil storage and handling facilities and coal cars having, at December 31, 1990, an aggregate discounted value of approximately $63 million.

Fuel exploration and development activities of System Fuels have declined over recent years and some fuel programs have been or are being phased out or transferred to other parties. In this connection, certain charges and credits relating to System Fuels' investment in the fuel programs may be allocated to the System operating companies, including AP&L. Any such charges or credits allocated to AP&L are not expected to significantly affect AP&L's future results of operations.

On October 3, 1989, System Fuels entered into a revolving credit agreement with banks that provides for up to $45 million of borrowings to finance System Fuels' nuclear materials and services inventory. In connection with these arrangements, AP&L, LP&L, and System Energy, as purchasers from System Fuels of the nuclear materials and services, agreed to purchase from System Fuels the nuclear materials and services financed under the agreement if System Fuels should default in its obligations thereunder. The purchases under these circumstances would be of percentages agreed upon between the parties but, in the absence of such agreement, AP&L, LP&L, and System Energy would each be obligated to purchase one-third of System Fuels' nuclear materials and services inventory.

Coal

AP&L is a party to a contract with a joint venture for a supply of coal from a mine in Wyoming which, based on estimated reserves, is presently expected to provide the projected requirements of the Independence Station through at least 2014. Under the contract with the joint venture, investment in the mine for leases, plant and equipment is the responsibility of the joint venture. In order to limit the joint venture's investment and, hence, the amount to be paid to it as a component of the price of coal, the contract provides that investment of all funds for plant and equipment in excess of a specified amount be made by AP&L, MP&L, AECC and the City of Jonesboro, Arkansas, as co-owners, in part, of the Independence Station (owning 96.5% collectively). On August 28, 1990, AP&L sold its interest in Independence 2 to Entergy Power and in connection therewith transferred an allocable portion (15.75%) of its interest in these investments to Entergy Power and Entergy Power agreed to make its proportionate share of such required investments after August 28, 1990. At December 31, 1990, AP&L had a net investment of $8.2 million in mine facilities and related capitalized assets. AP&L has made the required investments on behalf of the other co-owners of the Independence Station (owning 3.5% collectively) and is billing them monthly for the depreciation and carrying cost of these investments.

AP&L has agreed to purchase, over an approximate 20-year period, which began in 1980, 100 million tons of coal for use at the White Bluff Station.

Nuclear Fuel

AP&L has agreements with Babcock & Wilcox Company and the Combustion Engineering Company for the fabrication of fuel assemblies used at ANO.

Spent Nuclear Fuel and Decommissioning Cost

Under the Nuclear Waste Policy Act of 1982 (NWPA), the DOE is required for a specific fee to construct storage facilities for and dispose of all spent nuclear fuel and other high level radioactive waste generated by domestic nuclear power reactors. The NRC, pursuant to the NWPA, also requires operators of nuclear power reactors to enter into spent fuel disposal contracts with the DOE. Under the terms of AP&L's nuclear fuel lease, AP&L is responsible for the disposal of spent nuclear fuel. AP&L has entered into contracts with the DOE, whereby the DOE will furnish disposal service for AP&L's spent nuclear fuel at a cost of one mill per KWH of net generation after April 7, 1983, plus a one-time fee for generation prior to that date. AP&L has selected an option made available by the DOE to pay the one-time fee, plus interest accrued, no earlier than 1998. The fees payable to the DOE may be adjusted in the future to assure full cost recovery. AP&L has recorded a liability of approximately $89.1 million including accrued interest at December 31, 1990, for payment to the DOE for the disposal of all spent nuclear fuel on hand at April 6, 1983. A 1989 federal court ruling effectively changed the basis for the fee to 1 mill per net KWH sold, rather than generated, which could reduce AP&L's payments. AP&L considers all costs incurred or to be incurred in connection with disposal of spent nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory authorities.

By law the DOE was to begin accepting spent fuel in 1998 and to continue accepting spent fuel until the disposal of all fuel from reactor sites is accomplished. However, the DOE's repository program has been delayed. Based on the DOE's current schedule for acceptance of spent nuclear fuel, AP&L's initial shipment of spent fuel from ANO to the DOE's storage facilities will occur in 2011. In the meantime, AP&L will be responsible for storage of spent fuel. Current on-site spent fuel storage capacity at ANO is estimated to be sufficient to store fuel from normal operations until 1995. It is expected that any additional storage capacity required due to, among other things, delay of the DOE's repository program will be provided by AP&L. The cost of providing the additional on-site spent fuel storage capability required at ANO by 1995 is estimated to approximate $10 to $15 million (in 1990 dollars). In addition, approximately $5 to $10 million (in 1990 dollars) will be required every two to three years subsequent to 1995 until the DOE's repository begins accepting ANO spent fuel. Currently, these expenditures qualify for funding by the issuance of solid waste disposal revenue bonds, subject to certain restrictions on the issuance of such bonds.

In addition to the recovery of costs associated with the disposal of spent nuclear fuel, AP&L is also recovering decommissioning costs for its two nuclear units. These amounts are deposited in external trust funds that can only be used for future decommissioning costs. The after-tax market value of these funds at December 31, 1990, is approximately $56.8 million. AP&L regularly reviews and updates estimated decommissioning costs to reflect inflation and changes in regulatory requirements and technology. Decommissioning costs for ANO are estimated to be approximately $399.4 million (in 1986 dollars). AP&L has been authorized to recover through rates, amounts which, when added to estimated trust investment income during the collection period, should be sufficient to meet currently estimated decommissioning costs. These rates are reviewed and adjusted annually and are subject to regulatory approval. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Arkansas — Rate Riders.")

Nuclear Insurance

The Price-Anderson Act provides for a limit of public liability for a single nuclear incident. As of December 31, 1990 the limit of public liability for such type of incident was approximately $7.807 billion. AP&L has protection with respect to this liability through a combination of private insurance (currently $200 million) and an industry assessment program. Under the assessment program, the maximum amount AP&L would be required to pay, with respect to each nuclear incident at a licensed nuclear facility, would be $66.15 million per reactor (such amount to be indexed every five years for inflation and includes a 5 percent surcharge in the event total public liability claims and legal costs approach or exceed the limit of protection otherwise established), payable at a rate of $10 million per licensed reactor per incident per year. AP&L has two licensed reactors.

AP&L is a member of certain insurance programs that provide coverage for property damage, including decontamination expense, to members' nuclear generating plants. At December 31, 1990 AP&L was insured against such losses up to $2.185 billion with a $200 million sublimit for premature decommissioning coverage. In addition, AP&L is a member of an insurance program that provides insurance coverage for certain costs of replacement power incurred due to certain prolonged outages of nuclear units. Under the property damage and replacement power insurance programs, AP&L could be subject to assessments if losses exceed the accumulated funds available to the insurers. At December 31, 1990, the maximum amount of such possible assessments for AP&L was $11.77 million.

The amount of property insurance presently carried by AP&L exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per site. Effective April 2, 1990, NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete required decontamination operations. Only after proceeds are used or dedicated for such use and appropriate regulatory approval obtained would the balance of these proceeds, if any, be available for plant owners, or their creditors, benefit.

NRC Actions

On January 24, 1986, the NRC Executive Director for Operations issued a letter to the chairman of the Babcock & Wilcox ("B&W") Owners Group Executive Committee identifying the need for a broad reassessment of the B&W reactor design with respect to the perceived level of safety. The B&W reactor owners, including AP&L, were invited to take the lead in the reassessment effort and are working with the NRC to address the NRC's concerns. AP&L is continuing its participation in these reassessment efforts and is making the modification found to be necessary. AP&L believes that any modifications required by the reassessment will not have a material adverse effect on its financial condition.

During 1989, as a result of certain incidents, including incidents leading to the assessment of civil penalties by the NRC, AP&L reviewed its management controls and policies at ANO. This review resulted in significant organizational, procedural and management changes at ANO in 1989.

In addition, an NRC special Diagnostic Evaluation ("DE") conducted in 1989 reported that ANO had several substantial management, organizational and technical problems that needed increased management attention. These included: (1) identification and resolution of equipment problems with the highest safety significance and potential impact on plant operation and on operator performance, (2) resolution of the plant design basis and as-built configuration problems, (3) establishment of resource commitments and priorities to more expeditiously resolve long-standing maintenance, engineering, and materials control problems, (4) implementation of better performance monitoring, self-assessment, and root cause analysis efforts, and (5) increased emphasis on teamwork, communications, and accountability among the ANO organizations. In addition, the NRC determined in a

Systematic Assessment of Licensee Performance ("SALP") evaluation of ANO for the period July 1, 1988 through September 30, 1989, that lower ratings, relative to the prior period, were warranted in four of seven functional areas. The four areas receiving lower ratings were: plant operations, radiological controls, maintenance/surveillance and safety assessment/quality verification. In two of the seven functional areas, maintenance/surveillance and safety assessment/quality verification, ANO received ratings of "3", indicating performance not significantly exceeding that needed to meet minimal regulatory requirements.

In responding to concerns with the operations of a nuclear generating station, the NRC has available a variety of options, including, among others, increased surveillance, fines or even plant shutdown. ANO has experienced some degree of increased surveillance by the NRC stemming from the concerns reflected in the DE and SALP reports. A comprehensive action plan designed to significantly improve the operations and safety of ANO was implemented. This plan is an integrated program to specifically address each of the concerns raised in the DE and SALP reports as well as other areas of potential improvement identified by management. For each project in the action plan, work schedules were assigned, goals and objectives were identified and priorities established. Approximately 1,000 individual action items are included in the action plan. More than one-half of these work items were completed in 1990, and most of the work is scheduled for completion by the end of 1993.

The actions to be completed are primarily (1) complex, resource-intensive projects that take several years to complete, of which the more important include (a) the design configuration documentation program (a comprehensive effort to improve the quality, completeness and retrievability of the documentation describing the significant aspects of the design of ANO), (b) the electrical drawing upgrade program (a program designed to upgrade ANO switchgear, Motor Control Center and major control electrical drawings, and to enhance presentation of drawing information to provide complete "as constructed" configuration to facilitate management and operations), (c) the piping drawing update program (which will involve the preparation of new piping isometric and support drawings based on field-verified information, a review of new drawings against qualifying analyses and a reconciliation of discrepancies between the two, the goal of which is to develop improved and legible drawings and to upgrade the adequacy of qualifying analyses and design basis information), and (d) the engineering work backlog elimination project (which is designed to reduce the significant backlog of engineering work at ANO to a manageable level by dispositioning items systematically, commensurate with safety significance), and (2) lower priority items which have little or no safety impact but which will provide long-term benefits to programs that are acceptable now but could use improvement. The NRC has approved the prioritization and scheduling of the remaining work and meets periodically with management to discuss the status of work under and any changes to the action plan. At the end of 1990, implementation of the action plan was ahead of schedule.

Implementation of this plan has produced improvements in the problem areas cited by the NRC. On January 29, 1991, the NRC issued an initial SALP report for ANO covering the period from October 1, 1989 through November 30, 1990. In this report, the NRC recognized management's commitment to higher quality operations at ANO and stated that overall performance at the facility had improved during the assessment period. In the seven functional areas evaluated by the NRC, ANO improved its SALP category rating in three of these areas and maintained its prior rating in the other four areas. ANO did not receive a "3" rating in any of the categories. AP&L and Entergy Operations are committed to taking the actions necessary to achieve the highest standards of operation and safety at ANO and will continue to work with the NRC to achieve that goal. (See "Capital Requirements and Financing," above for information on the effect of increased operating and maintenance expenditures at ANO on AP&L's results of operation and financial position.)

In May 1989, the NRC issued a license amendment, based upon AP&L's identification of a previously unanalyzed small break in the High Pressure Injection System piping, limiting the maximum power level of ANO 1 to 80%. AP&L corrected this problem during a refueling outage at ANO 1 in late 1990, and the NRC issued a license amendment on December 5, 1990 permitting ANO 1 to return to 100% power.

On January 16, 1991, Entergy Operations paid a $50,000 civil penalty to the NRC for violations at ANO relating to an inaccurate statement that had been made in a March 1989 submittal to the NRC and the failure to adequately test certain valves in the control room ventilation system as required by the NRC. Actions have been taken to correct the cause of the problems that resulted in the violation.

Shareholder Litigation

Entergy and certain other System companies, including AP&L, and individuals were defendants in a consolidated purported class action suit filed in the United States District Court for the Eastern District of Louisiana ("District Court") in 1985 by Entergy shareholders (purporting to represent classes that purchased Entergy common stock). On October 5, 1990, the parties to the suit entered into a settlement agreement, subject to the approval of the District Court, providing for, among other things, payment to the members of the asserted plaintiff classes from an interest-bearing $15.3 million settlement fund established by Entergy. On January 31, 1991, the District Court entered an Order and Final Judgment approving the settlement agreement and dismissing the suit with prejudice. The time for filing appeals of this order expired with no such appeals being filed.

Flood Litigation

On May 19 and 20, 1990, exceptional amounts of rainfall caused flooding in the area around the City of Hot Springs, which is located in central Arkansas. As a result of the flooding, lawsuits were filed in state and federal courts in Arkansas naming AP&L as defendant. The amount of damages sought was not specified. By agreement among AP&L and the plaintiffs in the state court lawsuit, that proceeding was dismissed on October 16, 1990, and on October 25, 1990, those persons were permitted to intervene in the federal court lawsuit. In the federal court lawsuit, which was filed in the United States District Court for the Western District of Arkansas, Hot Springs Division ("Arkansas District Court") on June 22, 1990, the asserted liability of AP&L is based upon allegations of violations of the Federal Power Act in connection with its operation of two dams licensed by the FERC, common law negligence and trespass. AP&L has responded denying substantially all of the allegations against it and asserting as affirmative defenses, among other things, that the events complained of resulted from an Act of God for which AP&L could not be held responsible, that AP&L owns and maintains flowage easements giving it the permanent right to inundate the lands owned or occupied by the plaintiffs in connection with the construction, maintenance and operation of the dams and that the plaintiffs were guilty of contributory negligence and assumed the risk of damage to their property due to flooding. AP&L also filed pleadings in opposition to the plaintiffs' request to be certified as representatives of a class of similarly situated persons and, on February 7, 1991, the federal judge assigned to the case denied the plaintiffs' motion for class certification. This lawsuit was consolidated in February 1991, with the litigation described in the following paragraph.

On November 30, 1990, an additional lawsuit relating to such flooding was filed in the Arkansas District Court naming, among others, AP&L and Entergy as defendants. The asserted liability of AP&L and Entergy is based upon allegations of violations of the Federal Power Act in connection with AP&L's operation of two dams licensed by the FERC, negligence and public nuisance, and, with respect to AP&L only, trespass and intentional infliction of emotional distress. The suit seeks, among other things, approximately $16 million in property losses and other compensatory damages and

$500 million in punitive damages. Entergy filed a motion, which was denied, to be dismissed from the lawsuit, asserting that there is no basis for the allegations made against it. AP&L responded to the complaint denying the substantive allegations upon which the claims against it are based and asserting the affirmative defenses it asserted in connection with the federal court litigation discussed in the preceding paragraph, among other things. AP&L further maintains that the dams' operators followed proper procedures in the operation of floodgates, did not violate any provisions of the Federal Power Act and were not negligent in the performance of their duties. This lawsuit was consolidated in February 1991, with the federal court litigation described in the preceding paragraph. The matters are pending.

While the outcome of these matters and their impact, if any, on AP&L's financial condition cannot be predicted with certainty at this time, AP&L believes it has meritorious defenses which it intends to assert aggressively and that the outcome will have no material adverse financial impact.

NOTE 9. LEASES

At December 31, 1990, AP&L had obligations under capitalized leases of approximately $247.6 million. Included in this amount is approximately $151.6 million associated with its nuclear fuel lease which permits the lease of up to $195 million of nuclear fuel. The lessor finances its acquisition and ownership of nuclear fuel under a credit agreement and through the issuance of intermediate term notes. The credit agreement has a term of five years and the intermediate term notes have varying maturities of up to 10 years. It is contemplated that these arrangements will be extended or alternative financing will be secured by the lessor upon the maturity of the current arrangements based on AP&L's nuclear fuel requirements. If the lessor cannot arrange for alternative financing upon the regularly scheduled maturity of its borrowings, AP&L must purchase nuclear fuel in an amount equal to the amount required by the lessor to retire such borrowings.

Rental expense for capital and operating leases (excluding the nuclear fuel lease expense) amounted to approximately $26.2 million, $24.3 million and $23.6 million in 1990, 1989 and 1988, respectively. Nuclear fuel expense, exclusive of negative salvage, of $69.7 million in 1990, $60.2 million in 1989 and $61.1 million in 1988 was charged to operations.

Excluding nuclear fuel lease obligations which are reduced based upon nuclear fuel usage at December 31, 1990, noncancellable leases with minimum rental commitments are as follows:

Year	Capital Leases	Operating Leases
	(In Thousands)	
1991	$ 18,590	$ 7,396
1992	18,590	6,525
1993	18,567	6,330
1994	18,287	6,206
1995	15,875	6,324
For years thereafter	85,795	6,165
Total	175,704	$38,946
Less: Amount Representing Interest	(79,764)	
Present Value of Minimum Lease Payments	$ 95,940	

NOTE 10. TRANSACTIONS WITH ASSOCIATED COMPANIES

AP&L buys from and sells electricity to the operating companies of Entergy, under rate schedules filed with the FERC. AP&L also purchases capacity and energy from System Energy's Grand Gulf 1. In addition, AP&L purchases fuel from System Fuels, receives technical and advisory services from Entergy Services, and receives management and operating services from Entergy Operations.

AP&L and MP&L were parties to the Unit Power Purchase Agreement which terminated in December, 1989 for the sale to MP&L of AP&L's 31.5 percent share of capacity and energy from Independence 2. (See Note 8 to AP&L's Financial Statements "Commitments and Contingencies — Unit Power Purchase Agreement.") AP&L's before-tax income associated with the sale of such capacity to MP&L was approximately $27 million in 1989. On August 28, 1990, AP&L sold its interest in Independence 2 and Ritchie 2 to Entergy Power. While Independence 2 and Ritchie 2 were sold to Entergy Power at AP&L's book value, net income increased $13.9 million in 1990 primarily due to the one-time amortization of investment tax credits associated with these assets. (See Note 2 to AP&L's Financial Statements — "Rate and Regulatory Matters — Arkansas — Stipulation and Settlement Agreement" with respect to the sale of Independence 2 and Ritchie 2 to Entergy Power.)

Operating revenues include revenues from sales to associated companies amounting to $192.7 million in 1990, $218.1 million in 1989 and $223.2 million in 1988. Operating expenses include charges from affiliates for fuel cost, purchased power, and technical and advisory services totaling $449.9 million in 1990, $322.1 million in 1989 and $387.8 million in 1988. The 1990 operating expenses include approximately $115.8 million of costs associated with operating ANO subject to an operating agreement with Entergy Operations. Effective June 6, 1990, Entergy Operations became a general agent for AP&L and assumed management and operating responsibility for, but not ownership of, ANO. The 1990 operating expenses also include $12.5 million of power purchased from Entergy Power.

NOTE 11. POSTRETIREMENT BENEFITS

In conjunction with the sale of ANG (see Note 1 to AP&L's Financial Statements — "Summary of Significant Accounting Policies — Principles of Consolidation"), in 1988 the assets and benefit obligations of AP&L's pension plans were merged, effective January 1, 1987, through an amendment and restatement of AP&L's primary pension plan. The provisions of the plans were substantially the same but covered employees in different divisions of AP&L and ANG. On June 1, 1988, under the terms of the sale agreement between AP&L, ANG and Arkansas Western Gas Company ("Arkansas Western"), Arkansas Western assumed the assets and benefit obligations, effective January 1, 1987, which were related to active ANG participants at June 1, 1988. AP&L's plan, as amended, retained the net assets and benefit obligations associated with all ANG retirees as of June 1, 1988.

Effective June 6, 1990, AP&L nuclear operations related employees became employees of Entergy Operations. However, these employees still remain under AP&L's plan and no transfers of related pension liabilities and assets have been made.

AP&L's pension plan, as amended, covers substantially all employees of AP&L. Benefits are based on years of service and the employee's compensation during the last ten years of employment. AP&L's funding policy is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

The plan is administered by a trustee who is responsible for pension payments to retired employees. Various investment managers have responsibility for management of the plan's assets. In addition, an independent actuary performs the necessary actuarial valuations for AP&L's plan. The components of AP&L's 1990, 1989 and 1988 pension cost, as determined by the actuary, are as follows:

	At December 31,		
	1990	1989	1988
		(In Thousands)	
Service cost — benefits earned during the period	$ 7,223	$ 5,968	$ 5,649
Interest cost on projected benefit obligation	16,907	15,196	14,212
Actual return on plan assets	1,593	(42,495)	(23,737)
Net amortization and deferral	(20,994)	23,672	4,286
Net pension cost	$ 4,729	$ 2,341	$ 410

The assets of the plan consist primarily of common and preferred stocks, fixed income securities and insurance contracts.

The weighted average discount rates used in determining the actuarial present values of the projected benefit obligations were 8.75 percent for 1990, 8.5 percent for 1989 and 9.0 percent for 1988. The weighted average rate of increase in future compensation used in determining the actuarial present values of the projected benefit obligations was 5.6 percent for 1990, 1989 and 1988. The expected long-term rate of return on plan assets was 8.5 percent in 1990, 1989 and 1988. Transition assets are being amortized over 15 years. The funded status of the plan at December 31, 1990 and 1989 was as follows:

	At December 31,	
	1990	1989
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$ 160,946	$ 147,005
Nonvested	7,613	8,298
Accumulated benefit obligation	$ 168,559	$ 155,303
Projected benefit obligation	$(212,826)	$(197,371)
Plan assets at fair value	216,031	229,759
Plan assets in excess of projected benefit obligation	3,205	32,388
Unrecognized prior service costs	3,306	296
Unrecognized transition assets	(25,693)	(28,029)
Unrecognized net (gain) loss	(8,868)	(27,976)
Accrued pension asset (liability)	$ (28,050)	$ (23,321)

AP&L also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for AP&L and have vested benefits in AP&L's pension plan. These benefits and similar benefits for active employees are provided through various means including payments of premiums to an insurance company and/or accruals for self insurance policies managed by an insurance company. The cost of providing these benefits for retired employees is not separable from the cost of providing benefits for the active employees. The total cost of providing these benefits to AP&L employees was $11.1 million, $12.9 million, and $8.4 million in 1990, 1989 and 1988, respectively. The average number of AP&L active and retired employees for the last three years was as follows:

	At December 31,		
	1990	1989	1988
Average number of active employees	4,093*	4,711	4,658
Average number of retired employees	1,381	1,319	1,213

* The decrease in the number of active employees for 1990 was primarily due to the transfer of all ANO nuclear employees from AP&L to Entergy Operations on June 6, 1990.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires a change in accounting requirements for postretirement benefits other than pensions from a cash method to an accrual method. The impact of this new standard has not been fully determined, but the change likely will result in greater expense being recognized for provision of these benefits. The effect of the increased benefit expense on net income could be reduced to the extent such increased costs are recovered through rates or through the recording of a regulatory asset to be recovered in the future. AP&L plans to adopt this statement in 1993.

NOTE 12. CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, AP&L considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The supplemental disclosures required by SFAS No. 95 "Statement of Cash Flows" are shown in the table below:

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Cash Paid (Received) During the Period for:			
Interest (net of amount capitalized of (in thousands) $3,407, $2,304 and $4,759 in 1990, 1989 and 1988, respectively	$ 118,395	$ 111,172	$ 111,076
Interest on capital leases	11,310	11,772	11,659
Daily lease charges — nuclear fuel	11,382	13,099	14,683
Income taxes (refund)	61,030	(3,667)	4,030
Noncash Investing and Financing Activities:			
Capital lease obligations incurred (Note 9)	$ 48,245	$ 56,902	$ 70,778
First mortgage bonds assumed by purchaser in the sale of ANC	—	—	(3,780)

NOTE 13. QUARTERLY RESULTS (UNAUDITED)

Operating results for the four quarters of 1990 and 1989 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income
		(In Thousands)	
1990:			
March	$330,062	$41,434	$20,306
June	357,795	42,380	19,183
September	475,554	86,937	78,717
December	317,997	30,485	11,559
1989:			
March	$317,943	$47,665	$28,872
June	319,735	38,110	20,817
September	427,153	80,262	63,514
December	317,040	37,345	18,776

AP&L's business is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results for a full year.

ARKANSAS POWER & LIGHT COMPANY

RECORD OF PROGRESS 1980 — 1990

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Selected Financial Data(1)											
(thousands of dollars):											
Operating revenues	$1,481,408	$1,381,871	$1,356,789	$1,404,856	$1,389,494	$1,364,786	$1,307,683	$1,206,145	$1,046,143	$1,015,561	$ 750,497
Net income	129,765	131,979	131,149	141,160	124,821	110,068	143,367	126,896	107,372	96,140	65,230
Total assets(2)	4,137,938	4,059,596	3,928,082	3,889,453	3,737,693	3,307,882	3,060,817	2,859,517	2,669,417	2,474,249	2,147,983
Long-term obligations(6)	1,730,046	1,583,615	1,565,870	1,525,901	1,613,117	1,455,806	1,410,677	1,329,669	1,268,678	1,137,283	995,732
Capitalization											
Preferred stock (including premium and issuance expense):											
Without sinking fund	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890	$ 126,890
With sinking fund	116,361	127,554	137,379	151,255	165,009	120,812	124,170	133,931	141,138	144,120	147,065
Long-term debt (excluding currently maturing debt)	1,443,200	1,264,049	1,235,440	1,236,223	1,313,604	1,334,994	1,286,507	1,195,738	1,127,540	993,163	848,667
Common stock and paid-in capital	595,927	695,851	695,804	695,108	694,848	694,764	694,305	693,297	627,709	547,185	458,569
Retained earnings	307,683	314,602	303,105	244,025	151,063	49,417	26,101	28,158	33,365	43,134	54,700
Total capitalization	$2,590,061	$2,528,946	$2,498,618	$2,453,501	$2,451,414	$2,326,877	$2,257,973	$2,178,014	$2,056,642	$1,854,492	$1,635,891
Utility plant	$4,182,379	$4,265,139	$4,133,846	$4,076,844	$3,948,869	$3,606,520	$3,440,991	$3,241,847	$3,004,440	$2,811,728	$2,423,231
Less — accumulated depreciation	1,245,702	1,218,703	1,115,595	1,068,407	961,615	860,226	766,537	679,232	605,404	532,261	417,435
Net utility plant	$2,936,677	$3,046,436	$3,018,251	$3,008,437	$2,987,254	$2,746,294	$2,674,454	$2,562,615	$2,399,036	$2,279,467	$2,005,796
Electric Operating Revenues(5)											
(thousands of dollars):											
Residential	$ 484,359	$ 425,568	$ 416,646	$ 406,130	$ 391,044	$ 356,492	$ 334,693	$ 315,960	$ 282,204	$ 257,801	$ 212,833
Commercial	283,971	254,636	239,740	230,842	223,597	202,856	187,595	169,367	153,393	148,938	128,477
Industrial — aluminum processing(3)	—	—	—	—	25,226	56,930	94,067	56,629	50,175	69,527	69,171
Industrial	331,929	307,853	287,558	270,575	250,401	242,247	224,392	200,296	183,975	179,331	140,422
Governmental	19,599	20,990	19,563	17,904	17,403	19,213	23,288	20,989	19,081	14,787	12,824
Total from retail customers	1,119,858	1,009,047	963,507	925,451	907,671	877,738	864,035	763,241	688,828	670,384	563,727
Sales for resale(4)	339,366	345,377	365,560	409,347	405,882	405,767	364,581	379,598	299,724	298,781	181,650
Other	22,184	27,447	27,722	30,282	31,862	33,292	18,981	6,052	5,572	5,569	5,120
Total electric operating revenues	$1,481,408	$1,381,871	$1,356,789	$1,365,080	$1,345,415	$1,316,797	$1,247,597	$1,148,891	$ 994,124	$ 974,734	$ 750,497
Electric Energy Sales (millions of KWH):											
Residential	5,401	5,098	5,149	5,091	4,903	4,742	4,664	4,612	4,514	4,418	4,480
Commercial	3,821	3,644	3,566	3,500	3,363	3,269	3,079	2,927	2,870	2,819	2,682
Industrial — aluminum processing(3)	—	—	—	—	101	1,676	3,060	2,571	2,081	3,964	3,411
Industrial	5,532	5,513	5,325	5,017	4,560	4,548	4,511	4,251	4,246	4,311	3,675
Governmental	285	320	305	284	281	328	405	394	410	312	292
Total to retail customers	15,039	14,575	14,345	13,892	13,208	14,563	15,719	14,755	14,121	14,924	14,540
Sales for resale(4)	13,618	12,128	13,144	15,509	14,398	11,999	8,918	8,965	7,388	8,358	5,445
Total energy sold	28,657	26,703	27,489	29,401	27,606	26,562	24,637	23,720	21,509	23,282	19,985
Number of Customers (at December 31):											
Residential	514,503	512,826	508,151	497,878	493,569	487,275	480,133	471,508	462,753	458,941	405,717
Commercial	64,756	63,849	62,918	61,125	60,224	59,546	58,080	57,141	56,709	57,133	49,444
Industrial — aluminum processing(3)	—	—	—	—	1	1	1	1	1	1	1
Industrial	18,796	18,165	17,550	16,945	16,623	16,465	14,811	14,161	13,528	13,529	12,284
Governmental	475	853	1,287	1,212	1,142	1,137	2,652	2,481	2,372	2,332	1,548
Total retail customers	598,530	595,693	589,906	577,160	571,559	564,424	555,677	545,292	535,363	531,936	468,994
Sales for resale(4)	16	15	15	15	17	17	17	17	18	23	19
Total customers	598,546	595,708	589,921	577,175	571,576	564,441	555,694	545,309	535,381	531,959	469,013

ARKANSAS POWER & LIGHT COMPANY

NOTES TO RECORD OF PROGRESS 1980-1999

1. On January 1, 1981, Arkansas-Missouri Power Company, including its wholly-owned subsidiary ANG, consolidated with AP&L. On June 1, 1988, AP&L, as required by the SEC, disposed of ANG. The financial data in this report for the years 1981 thru 1987 are consolidated and have not been restated since neither the effect of acquisition nor disposition is material.

2. In January 1987, AP&L capitalized its leases and restated 1986, therefore, years after 1985 include utility plant under capital leases.

3. Reynolds Metals Company began phasing out its aluminum smelting operations in Arkansas in 1985. Once its contract expired (December 31, 1986), its account reverted to a standard industrial rate and was reclassified as an industrial customer.

4. Includes sales to associated companies.

5. Electric Operating Revenues relates to AP&L's electric operations and does not include data related to ANG for the period 1981 through 1988. See Note 1 to AP&L's Financial Statements — "Summary of Significant Accounting Policies — Principles of Consolidation" for information on the disposition of ANG.

6. Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund and noncurrent capital lease obligations. Prior to 1986, capital lease obligations were not required to be recorded as assets and liabilities on the balance sheet.

ARKANSAS POWER & LIGHT COMPANY

BOARD OF DIRECTORS

William Cavanaugh III
President and Chief Executive Officer of System Energy and Entergy Operations; Senior Vice President, System Executive — Nuclear of Entergy and Entergy Services; Executive Vice President and Chief Nuclear Officer of AP&L and LP&L

Cathy Cunningham
Real estate and industrial developer, planner and historic preservationist

John J. Flake
Chairman of the Board of Flake, Tabor, Tucker, Wells, & Kelley

Richard P. Herget, Jr.
Managing Director of Marsh & McLennan, Inc.

Tommy H. Hillman
President of Winrock Farms, Inc.; Vice Chairman of Riceland Foods, Inc.

Kaneaster Hodges, Jr.
Attorney-at-Law, Sole Practitioner; Methodist lay minister

Hal E. Hunter, Jr.
Attorney-at-Law, Hunter & Hunter

R. Drake Keith
President and Chief Operating Officer of AP&L

Jack L. King
Senior Vice President, System Executive — Operations of Entergy; Executive Vice President — Operations of Entergy Services; President and Chief Executive Officer of Entergy Power

Edwin Lupberger
Chairman of the Board and Chief Executive Officer of Entergy

Jerry L. Maulden
Group President, System Executive — Distribution and Customer Service of Entergy and Entergy Services; Chairman of the Board and Chief Executive Officer of AP&L, LP&L, MP&L, and NOPSI

Raymond P. Miller, Sr., M.D.
Physician — Partner in the Little Rock Internal Medicine Clinic; Assistant Clinical Professor at University of Arkansas School of Medicine

Roy L. Murphy
Chairman and President of Mid-South Engineering Co.

William C. Nolan, Jr.
Attorney-at-Law, Nolan & Alderson

Robert D. Pugh
Chairman of the Board of Portland Gin Co.

Woodson D. Walker
Attorney-at-Law, Walker, Roaf, Campbell, Ivory and Dunklin, P.A.

Gus B. Walton, Jr.
Partner in Frederick Poe, Inc. (Travel Service)

Michael E. Wilson
Chairman and Chief Executive Officer of Lee Wilson & Co.

ADVISORY DIRECTORS

(All past directors of AP&L)

Richard C. Butler, past chairman of the board, Commercial National Bank and Peoples Savings & Loan
L. C. Carter, retired past president of Riceland Foods, Inc.
George K. Reeves, retired partner in the law firm of Ward & Reeves
Reeves E. Ritchie, retired past president and chairman of the board of AP&L

ARKANSAS POWER & LIGHT COMPANY

OFFICERS

JERRY L. MAULDEN
Chairman of the Board and
Chief Executive Officer

R. DRAKE KEITH
President and
Chief Operating Officer

WILLIAM CAVANAUGH III
Executive Vice President
and Chief Nuclear Officer

KENNETH R. BREEDEN
Senior Vice President —
Customer Services & Marketing
Resigned effective April 1, 1991

DONALD C. HINTZ
Senior Vice President — Nuclear

DONALD HUNTER
Senior Vice President —
Fossil Operations
Effective October 1, 1990

LEE W. RANDALL
Senior Vice President —
Finance & Administration
Chief Financial Officer,
Secretary and Assistant Treasurer
Resigned effective April 1, 1991

CECIL L. ALEXANDER
Vice President —
Public Affairs

KAY K. ARNOLD
Vice President — Communications
Effective April 1, 1991

T. GENE CAMPBELL
Vice President — Nuclear
Resigned effective February 28, 1990

N. S. (BUZZ) CARNS
Vice President — Nuclear
Effective March 1, 1990
Resigned effective June 6, 1990

JOHN J. HARTON
Vice President — Financial
Services, Treasurer
and Assistant Secretary

CHARLES L. KELLY
Vice President —
Corporate Communications
Resigned effective March 1, 1991

JOHN R. MARSHALL
Vice President —
Customer Services

MARSHALL L. PENDERGRASS
Vice President — Fossil
Production & Transmission
Resigned effective December 31, 1990

M. W. (PETE) RICE
Vice President — System Planning
Retired effective December 31, 1990

JERRY J. SAACKS
Vice President — Transmission
Effective November 1, 1990

HENRY L. WARREN
Vice President —
Planning & Control

GARY J. DUDENHEFER
Assistant Secretary

SHIRLEY A. HUNTER
Assistant Secretary

ARKANSAS POWER & LIGHT COMPANY

STOCKHOLDER INFORMATION

Transfer Agents for Preferred Stock
Union National Bank of Little Rock
1 Union National Plaza
Little Rock, Arkansas 72201

First Commercial Bank
Post Office Box 1471
Little Rock, Arkansas 72203

Registrar of Preferred Stock
First Commercial Bank
Post Office Box 1471
Little Rock, Arkansas 72203

Certified Public Accountants
Deloitte & Touche
111 Center Street
Little Rock, Arkansas 72201

Executive Offices
Arkansas Power & Light Company
425 W. Capitol
Little Rock, Arkansas 72201
(501) 377-4000

Annual Meeting
Third Wednesday of May

Form 10-K
The 1990 annual report to the SEC on Form 10-K is available to any stockholder upon request, without charge by writing:

Shirley A. Hunter, Assistant Secretary
Arkansas Power & Light Company
Post Office Box 551
Little Rock, AR 72203

Entergy Corporation Annual Report
To request a copy of the 1990 Entergy Corporation Annual Report, call or write:

Entergy Corporation
System Investor Relations
P.O. Box 61005
New Orleans, LA 70161
(800) 292-9960