New Orleans Public Service Inc./1990 Annual Report

NOPSI

RECENT DEVELOPMENTS

NOPSI Prudence Disallowance

In the midst of production of this Annual Report, the Louisiana Fourth Circuit Court of Appeal rendered a decision in connection with appeals from the February 4, 1988 resolution of the New Orleans City Council regarding retail rates of New Orleans Public Service Inc. The February 4 Resolution required NOPSI to write off, and not recover from its retail electric customers, $135 million of its previously deferred costs related to Grand Gulf 1. This write-off, which was recorded in 1987, was in addition to $51 million of Grand Gulf 1-related costs originally absorbed and not recovered by NOPSI. In late 1989, a state Civil District Court affirmed the February 4 Resolution, denying petitions of NOPSI (which claimed the February 4 Resolution should be overturned) and of the Alliance for Affordable Energy, Inc. (which asserted that the February 4 Resolution should be amended to order a significantly greater disallowance).

On appeal, the Fourth Circuit issued a decision on April 4, 1991, that rejected NOPSI's federal preemption claims and affirmed the findings of the Council, embodied in the February 4 Resolution, that NOPSI had imprudently incurred approximately $477 million of Grand Gulf 1-related costs. However, the Fourth Circuit concluded that the Council acted contrary to law and public policy when, in weighing the effect of its ruling upon NOPSI's financial condition, it decided to disallow only a portion of the Grand Gulf 1-related costs found imprudent. The Fourth Circuit purported to amend the February 4 Resolution to disallow the recovery by NOPSI from its retail electric customers of any costs found to have been imprudently incurred, including an additional $290 million not previously disallowed.

NOPSI intends to vigorously contest the Fourth Circuit's decision. The ruling is subject to further discretionary review in the Louisiana courts. In related proceedings before federal courts, NOPSI has petitioned the United States Supreme Court for a writ of certiorari seeking a review of lower federal court rulings that rejected NOPSI's facial preemption claims and stayed the remaining portions of the federal proceedings. A ruling from the United States Supreme Court on whether to review the decisions staying federal court proceedings is expected as early as the middle of April 1991.

The ultimate outcome of these various federal and state court proceedings cannot be predicted. Entergy Corporation and NOPSI are in the process of assessing the potential impact of the Fourth Circuit decision upon NOPSI and the Entergy System as a whole. However, if the Fourth Circuit decision were ultimately sustained, NOPSI's earnings, liquidity, and financial condition would be materially adversely affected and NOPSI could be rendered insolvent.

NOPSI has been advised by its independent auditors, Deloitte & Touche, that their report on NOPSI's financial statements, included herein and in NOPSI's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, would, if issued as of the date hereof, include an explanatory paragraph making reference to this uncertainty.

Supplementary Information

The recent developments described above and the information in the Annual Report should be considered together with information included in reports filed by NOPSI with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 1990. Filings updating information herein for material developments will be made from time to time. Copies of any such reports filed with the SEC may be obtained without charge by calling System Investor Relations at 1-800-292-9960.

April 8, 1991

NEW ORLEANS PUBLIC SERVICE INC.

New Orleans Public Service Inc. (NOPSI) serves the City of New Orleans (City), a land area of approximately 200 square miles. Natural gas is provided for the entire City, while electricity is supplied to all areas of the City except Algiers, the 15th Ward of the City.

NOPSI is a wholly owned subsidiary of Entergy Corporation, the public 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 System's vast 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 Corporation includes four retail operating companies: NOPSI, Arkansas Power & Light, Louisiana Power & Light, and Mississippi Power & Light. System Energy Resources, Inc., a nuclear generating subsidiary of Entergy, has a 90% interest in the Grand Gulf Nuclear Station. Another subsidiary, Entergy Services, Inc., provides various technical, administrative, and corporate services to Entergy Corporation and the System companies. A new subsidiary, Entergy Operations, was formed on June 6, 1990, and is responsible for operating the System's four nuclear units. Entergy Power, a wholesale generator that purchased Arkansas Power & Light's interest in the Independence 2 and Ritchie 2 generating units and will sell the capacity and energy from these units outside the Entergy System, was formed as a subsidiary of Entergy Corporation on August 28, 1990.

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NEW ORLEANS PUBLIC SERVICE INC.

DEFINITIONS

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

1986 Settlement Agreement	Agreement, effective March 25, 1986, between NOPSI and the Council regarding NOPSI's Grand Gulf 1-related rate issues
1989 Settlement Agreement	An agreement between the Council and NOPSI, effective July 21, 1989, that settled certain local retail rate issues regarding Grand Gulf 1
AFUDC	Allowance for Funds Used During Construction
Algiers	15th Ward of the City of New Orleans, Louisiana
AP&L	Arkansas Power & Light Company
City of New Orleans or City	New Orleans, Louisiana
Council	Council of the City of New Orleans, Louisiana
D. C. Circuit	United States Court of Appeals for the District of Columbia Circuit
District Court	United States District Court for the Eastern District of Louisiana
Entergy	Entergy Corporation, the public utility holding company for the Entergy System
Entergy System or System	Entergy Corporation and its various direct and indirect subsidiaries
FASB	Financial Accounting Standards Board
February 4 Resolution or Resolution	The Council's February 4, 1988 resolution disallowing $135 million of previously deferred Grand Gulf 1-related costs
FERC	Federal Energy Regulatory Commission
FERC Settlement	Settlement offer filed with the FERC on June 9, 1989 by AP&L, LP&L, MP&L, System Energy and NOPSI and approved by the FERC on July 21, 1989, to settle, among other things, certain then-pending Grand Gulf Station-related issues, litigation and rate matters
Fifth Circuit	United States Court of Appeals for the Fifth Circuit
Fourth Circuit	Fourth Circuit Court of Appeal for the State of Louisiana
G&R Bonds	General and Refunding Mortgage Bonds issued and issuable under NOPSI's G&R Mortgage
G&R Mortgage	NOPSI's Mortgage and Deed of Trust, dated as of May 1, 1987, as supplemented
Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
Grand Gulf Station	Grand Gulf Steam Electric Generating Station (nuclear)
June 13 Decision	The FERC's June 13, 1985 decision allocating Grand Gulf 1 costs among the System operating companies
KWH	Kilowatt-Hour(s)
LP&L	Louisiana Power & Light Company
MP&L	Mississippi Power & Light Company
NOPSI	New Orleans Public Service Inc.

NEW ORLEANS PUBLIC SERVICE INC.

DEFINITIONS — (Concluded)

Project Olive Branch	The System's 1989 effort to settle certain outstanding issues and litigation involving System Energy, the System operating companies, and the Grand Gulf Station, and to stabilize retail rates in the System's service area, which culminated in the FERC Settlement and related state and local settlements
Resolution or February 4 Resolution	The Council's February 4, 1988 resolution disallowing $135 million of previously deferred Grand Gulf 1-related costs
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards promulgated by the FASB
State Court	Civil District Court for the Parish of Orleans, Louisiana
System Energy	System Energy Resources, Inc.
System operating companies	AP&L, LP&L, MP&L, and NOPSI, collectively
System or Entergy System	Entergy Corporation and its various direct and indirect subsidiaries
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.

NEW ORLEANS PUBLIC SERVICE INC.

REPORT OF MANAGEMENT

The management of New Orleans Public Service Inc. has prepared and is responsible for the financial statements and related financial information included in this Annual Report. The financial statements are based on 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 appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program.

The independent 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 NOPSI's operations are carried out with a high standard of business conduct.

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

Donald E. Meiners
President and
Chief Operating Officer

M. H. McLetchie
Senior Vice President—
Accounting & Finance

NEW ORLEANS PUBLIC SERVICE INC.

AUDIT COMMITTEE CHAIRMAN'S LETTER

The New Orleans Public Service Inc. Audit Committee of the Board of Directors is comprised of three directors who are not officers of NOPSI: Charles C. Teamer, Sr. (Chairman), Brooke H. Duncan, and John B. Smallpage. The committee held four meetings during 1990.

The Audit Committee oversees NOPSI'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 Chairman of the committee meets with NOPSI management and NOPSI's independent public accountants on a quarterly basis for the review and oversight of the quarterly financial reporting process.

The Audit Committee discussed with NOPSI's internal auditor and the independent public accountants (Deloitte & Touche) the overall scope and specific plans for their respective audits, as well as NOPSI's financial statements and the adequacy of NOPSI's internal controls. The committee met separately with NOPSI's internal auditor and independent public accountants, without management present, to discuss the results of the audits, the evaluations of NOPSI's internal controls and the overall quality of NOPSI's financial reporting. The meetings were designed to facilitate and encourage any private communication between the committee and the internal auditor or independent public accountants.

Charles C. Teamer, Sr.
Chairman, Audit Committee

NEW ORLEANS PUBLIC SERVICE INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Listed in the table below are certain significant factors affecting results of operations for which changes have occurred between the years 1990 and 1989, and 1989 and 1988. The principal reasons for the significant changes from period to period are discussed following the table.

Description	1990	1989	1988	1990 vs 1989 Increase/(Decrease)	%	1989 vs 1988 Increase/(Decrease)	%
				(Dollars In Millions)			
Net income	$ 27.5	$ 14.5	$ 18.8	$ 13.0	90	$ (4.3)	(23)
Electric operating revenues	$397.3	$380.5	$361.5	$ 16.8	4	$ 19.0	5
Fuel and fuel-related expenses	$ 44.0	$ 38.6	$ 50.9	$ 5.4	14	$(12.3)	(24)
Purchased power	$176.3	$220.6	$206.6	$(44.3)	(20)	$ 14.0	7
Other operation expense	$ 72.4	$ 54.9	$ 83.5	$ 17.5	32	$(28.6)	(34)
Taxes other than income taxes	$ 25.7	$ 26.7	$ 23.0	$ (1.0)	(4)	$ 3.7	16
Grand Gulf 1 expenses recovered/(deferred) — net	$ 6.7	$(18.2)	$(60.5)	$ 24.9	137	$ 42.3	70
Income taxes	$ 17.4	$ 10.6	$ 9.4	$ 6.8	64	$ 1.2	13
Miscellaneous income — net	$ 5.6	$ 2.5	—	$ 3.1	124	$ 2.5	*
Electric revenues:							
Residential	$141.9	$134.0	$125.4	$ 7.9	6	$ 8.6	7
Commercial	162.6	158.0	150.4	4.6	3	7.6	5
Industrial	27.0	25.2	22.9	1.8	7	2.3	10
Governmental	53.5	51.5	48.9	2.0	4	2.6	5
Total retail	385.0	368.7	347.6	16.3	4	21.1	6
Sales for resale	8.4	8.0	8.2	0.4	5	(0.2)	2
Other	3.9	3.8	5.6	0.1	3	(1.8)	(32)
Total	$397.3	$380.5	$361.5	$ 16.8	4	$ 19.0	5
Electric energy sales: (Millions of KWH)							
Residential	1,903	1,830	1,815	73	4	15	1
Commercial	2,054	2,035	2,051	19	1	(16)	(1)
Industrial	530	490	446	40	8	44	10
Governmental	846	837	[illegible]	9	1	(5)	(1)
Total retail	5,333	5,192	5,154	141	3	38	1
Sales for resale	294	284	301	10	4	(17)	(6)
Total	5,627	5,476	5,455	151	3	21	—

* Over 1,000%

Net Income

Net income increased in 1990 primarily as a result of recording in 1989 the $15.5 million effect of the 1989 Settlement Agreement, partially offset by the gain in 1989 of $8.4 million recorded in connection with the 1989 settlement of NOPSI's pension plan. Absent the effects on 1989 net income of the two nonrecurring items mentioned above, 1990 net income increased by $5.9 million as

compared to 1989, due primarily to increased operating revenues and miscellaneous income — net. The decrease in 1989 net income was also attributable to the two nonrecurring items mentioned above. These and other factors affecting the changes in net income are discussed below.

Electric Operating Revenues

Electric operating revenues increased during 1990 primarily as a result of increases in base rates due to implementation of the fifth year of NOPSI's phase-in plan, and increased energy sales, partially offset by a decrease in the amount of recovery of fuel and fuel-related purchased power costs through the fuel adjustment clause. In 1989, the increase in electric operating revenues was due to increased rates resulting from implementation of the fourth year of NOPSI's phase-in plan, slightly increased energy sales, and an increase in the amount of recovery of fuel and fuel-related purchased power costs through the fuel adjustment clause.

Fuel and Fuel-related Expenses

Fuel and fuel-related expenses increased in 1990 primarily due to an increase in the volume of NOPSI's gas-fired generation as a result of increased energy sales in 1990 as compared to 1989. The decrease in fuel and fuel-related expenses for 1989 was primarily caused by a decrease in the volume of electric generation as a result of scheduled and unscheduled outages at certain of NOPSI's generating units in 1989.

Purchased Power

The changes in purchased power expenses in 1990 and 1989, as compared to the prior years, were primarily attributable to the recording in December 1989 of $19.7 million of future estimated losses in connection with the 1989 Settlement Agreement, partially offset by a reduction of 1989 costs due to the application of the $8.5 million credit by System Energy to NOPSI's Grand Gulf 1 bill pursuant to the FERC Settlement. Also contributing to the change in purchased power in 1990 as compared to 1989 was the amortization of the liability recorded in 1990 in connection with the 1989 Settlement Agreement which totaled $15.1 million (this amortization was offset by a like amount of deferred Grand Gulf 1-related costs, as discussed below), lower System Energy revenue requirements, and a decrease in the volume of energy purchased from certain System operating companies.

Other Operation Expense

Other operation expense increased in 1990, and decreased in 1989 primarily as a result of recording in January 1989 approximately $15.5 million as a reduction to pension expense to reflect the before-tax gain in connection with the settlement of NOPSI's pension plan. Additionally, the 1989 decrease is a result of costs incurred in 1988 in connection with a one-time voluntary early retirement program effective June 30, 1988.

Taxes Other Than Income Taxes

Taxes other than income taxes increased in 1989 primarily due to $1.8 million of excise taxes incurred in connection with the settlement of NOPSI's pension plan, as well as a $1.2 million increase in real and personal property taxes due to property tax rate increases.

Grand Gulf 1 Expenses Recovered/Deferred — Net

In 1990, NOPSI recorded a net recovery of $6.7 million of previously deferred Grand Gulf 1-related expenses, which recovery represents a $24.9 million change from 1989 when NOPSI recorded

a net deferral of $18.2 million. The change from deferral to recovery was due primarily to implementation in April 1990 of the fifth year of NOPSI's phase-in plan. The rate increase associated with the phase-in plan allowed NOPSI to recover a larger portion of its Grand Gulf 1-related costs through base rates and thus to defer a lesser amount of such costs. Also contributing to this change was the amortization in 1989 of $15.1 million (an increase of $8.9 million over the prior year) to record the effect of temporarily absorbing 18% of NOPSI's FERC-allocated share of Grand Gulf 1-related costs in accordance with the 1989 Settlement Agreement. Although such amortization was offset by a like reduction in purchased power in 1990, the amortization recorded in 1989 was not fully offset by a similar decrease in purchased power and had a negative impact of $15.5 million on net income in 1989.

Grand Gulf 1 expenses deferred decreased in 1989 primarily due to the recording of the 1989 Settlement Agreement, which (1) provided for an $8.5 million credit applied by System Energy to NOPSI's Grand Gulf 1 bill pursuant to the terms of the FERC Settlement, which reduced by $8.5 million the amount of future Grand Gulf 1-related costs that would otherwise have been deferred by NOPSI under the presently effective phase-in plan and (2) resulted in a $6.2 million reduction in the amount of the deferral relating to the 18% absorbed portion of NOPSI's FERC-allocated share of Grand Gulf 1-related costs. Additionally, the decrease was the result of the implementation in April 1989 of the fourth annual rate increase in accordance with the phase-in provisions of the 1986 Settlement Agreement as reduced by the Resolution. This rate increase allowed NOPSI to recover a larger portion of its Grand Gulf 1-related costs through base rates and thus to defer a lesser amount of such costs.

Income Taxes

Total income taxes increased in 1990 primarily as a result of a similar increase in pre-tax book income resulting from various factors as discussed above. The increase in total income taxes for 1989 was due principally to the reinstatement of $2.6 million of state accumulated deferred income taxes, partially offset by a decrease due to a reduction in pre-tax income.

Miscellaneous Income — Net

Miscellaneous income — net increased in 1990 due primarily to increased interest income from higher temporary cash investment balances. In 1989, miscellaneous income — net increased primarily as a result of a decrease in expenses related to the Council's consideration of the involuntary municipalization of NOPSI's electric and gas utility properties and operations.

Retail Energy Sales

The increase in electric energy sales in 1990 resulted primarily from increased residential sales due to warmer than normal weather conditions and to a general upward trend in average usage, as well as increased industrial sales to chemical manufacturers. Retail electric energy sales increased in 1989 primarily due to an increase in industrial sales to chemical manufacturers.

FINANCIAL CONDITION

General

NOPSI's financial condition improved significantly in 1990 as compared to 1989 as evidenced by an increase in net income of $13.0 million, and an increase in cash equivalents of $38.3 million from 1989. NOPSI's liquidity has improved significantly due, in part, to the increasing level of cash recovery under the rate phase-in plan for Grand Gulf 1 costs. Additionally, NOPSI's ratio of common equity to total capitalization has increased from 22.0% as of December 31, 1989, to 27.2% as of December 31, 1990.

Liquidity

NOPSI's primary cash requirements for 1990 included, among other things, payments to System Energy for Grand Gulf 1 capacity and energy, and construction expenditures. NOPSI's cash needs for 1990 were satisfied with the use of internally generated funds, reflecting in part increased rates resulting from the implementation in April 1990 of the fifth year of NOPSI's phase-in plan and the positive effects of cash conservation measures maintained in effect by NOPSI.

At December 31, 1990, NOPSI's cash equivalents totaled $73.7 million, an increase of $38.3 million from December 31, 1989. Net cash flow provided by operating activities totaled $58.4 million for 1990. 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 and nonrecurring nature were not significant. In 1990, investing activities resulted in a net cash outflow of $16.1 million, primarily due to construction expenditures. Financing activities for 1990 resulted in a net cash outflow of $4.0 million due to preferred stock sinking fund redemptions of $1.5 million and regularly scheduled preferred stock dividends of $2.5 million.

Capital and Refinancing Requirements

Construction expenditures for NOPSI are estimated to be $24.3, $26.3, and $27.4 million for the years 1991, 1992, and 1993, respectively. Pursuant to its phase-in plan, during 1991-1993, NOPSI will be collecting in rates a portion of the Grand Gulf 1-related costs incurred but not collected in previous years. These collections constitute cash available to satisfy, among other things, construction expenditure requirements. In addition to the above capital requirements, NOPSI will require $71.1 million during the period 1991-1993 to meet long-term debt maturities and to satisfy sinking fund requirements. It is anticipated that the foregoing estimates will not be materially impacted by the ultimate outcome of litigation of the February 4 Resolution. It is expected that the above capital and refinancing requirements during the period 1991-1993 will be satisfied from internally generated funds and cash on hand. The ability of NOPSI to effect any external financing at this time is constrained, as discussed below under Capital Resources.

Capital Resources

NOPSI's G&R Mortgage and Restatement of Articles of Incorporation, as amended, provide for the issuance of G&R Bonds and preferred stock, respectively. NOPSI's minimum earnings coverage requirements for issuing G&R Bonds and preferred stock are 2.0 times annual bond interest requirements (with respect to bonds outstanding under both the G&R Mortgage and NOPSI's 1944 Mortgage and Deed of Trust) and 1.5 times annual interest and preferred dividend requirements, respectively, on a pro forma basis. However, NOPSI's G&R Mortgage further restricts the amount of G&R Bonds issuable thereunder by application of certain property and/or accounting tests, depending upon the type of bonds to be issued. Based upon bond and preferred stock earnings coverages of 2.89 and 1.88 for the twelve months ended December 31, 1990, and available fundable property additions of

$69.7 million, at December 31, 1990, NOPSI would have been able to issue approximately $48 million of additional G&R Bonds, or $73 million of additional preferred stock. The issuance by NOPSI of senior securities (whether G&R Bonds or preferred stock), however, would require certain regulatory approvals, including approval from the SEC. The SEC has historically required that the issuer of such securities have a ratio of common equity (including retained earnings) to total capitalization plus short-term indebtedness of at least approximately 30% on a pro forma basis. In light of NOPSI's low common equity ratio, 27.2% of total capitalization at December 31, 1990, it is unlikely that NOPSI could obtain the requisite regulatory approvals for such financing at this time. Similarly, pursuant to an order issued by the SEC in December, 1990, NOPSI is precluded from effecting any short-term borrowings at this time (see Note 4 of NOPSI's Notes to Financial Statements, "Lines of Credit and Related Borrowings," for further discussion of NOPSI short-term borrowings).

ACCOUNTING ISSUES

SFAS No. 96

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes," which was scheduled to be effective for years beginning after December 15, 1988. The FASB subsequently issued statement numbers 100 and 103, which delay 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 on a preliminary study, NOPSI 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 NOPSI would be significantly impacted by the adoption of SFAS No. 96 in its present form (see Note 3 of NOPSI's Notes to 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 significantly 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. NOPSI plans to adopt this statement in 1993.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of
New Orleans Public Service Inc.:

We have audited the accompanying balance sheets of New Orleans Public Service Inc. (NOPSI) as of December 31, 1990 and 1989, and the related statements of income, common shareholder's equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of NOPSI'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 NOPSI 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
New Orleans, Louisiana
February 15, 1991

NEW ORLEANS PUBLIC SERVICE INC.

BALANCE SHEETS

ASSETS

	December 31, 1990	December 31, 1989
	(In Thousands)	
Utility Plant (Note 1):		
Electric	$432,160	$427,147
Property under capital leases — electric	1,865	2,101
Natural gas	100,356	97,875
Property under capital leases — natural gas	799	900
Construction work in progress	12,552	6,153
Total	547,732	534,176
Less — accumulated depreciation	287,990	274,401
Utility plant — net	259,742	259,775
Other Investment:		
Investment in subsidiary company — at equity (Note 7)	3,259	3,259
Current Assets:		
Cash equivalents (Note 9):		
Temporary investments — at cost, which approximates market:		
Associated companies (Note 4)	2,027	1,830
Other	71,699	33,550
Total cash equivalents	73,726	35,380
Special deposits	29	23
Accounts and notes receivable:		
Customer and other (less allowance for doubtful accounts of (in thousands) $1,350 in 1990 and 1989)	40,436	40,686
Associated companies (Note 10)	959	2,059
Accumulated deferred income taxes (Note 3)	4,744	17,023
Materials and supplies — at average cost	9,324	8,261
Deferred Grand Gulf 1 expenses (Notes 1 and 2)	21,028	1,975
Prepayments and other	1,649	7,251
Total	151,895	1[illegible]2,658
Deferred Debits:		
Deferred Grand Gulf 1 expenses (Notes 1 and 2)	159,123	184,835
Other	3,264	3,724
Total	162,387	188,559
TOTAL	$577,283	$564,251

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1990	December 31, 1989
	(In Thousands)	
Capitalization:		
Common stock, $4 par value, authorized 10,000,000 shares; issued and outstanding 8,435,900 shares (Note 5)	$ 67,735	$ 67,735
Paid in capital (Note 5)	2,078	2,078
Retained earnings subsequent to the elimination of the accumulated deficit of $13,852,000 on November 30, 1988 (Note 5)	33,918	8,883
Total common shareholder's equity	103,731	78,696
Preferred stock, net of premium without sinking fund (Note 5)	20,117	20,117
Preferred stock, net of expense with sinking fund (Note 5)	9,050	10,505
Long-term debt (Note 6)	231,964	248,376
Total	364,862	357,694
Other Noncurrent Liabilities:		
Accumulated provision for property insurance	13,755	12,922
Accumulated provision for injuries and damages	2,395	2,436
Obligations under capital leases	1,825	2,169
Total	17,975	17,527
Current Liabilities:		
Currently maturing long-term debt (Note 6)	16,400	—
Accounts payable:		
Associated companies (Note 10)	19,608	25,223
Other	22,967	21,957
Customer deposits	13,171	13,151
Taxes accrued	1,299	1,491
Interest accrued	8,646	8,620
Dividends declared (Note 5)	5,059	5,117
1989 Settlement Agreement — liability to customers (Note 2)	4,637	14,988
Deferred electric fuel and resale gas costs	3,159	1,179
Obligations under capital leases	839	833
Other	1,406	2,979
Total	97,191	95,538
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	63,994	58,903
Accumulated deferred investment tax credits (Note 3)	13,630	13,843
1989 Settlement Agreement — liability to customers (Note 2)	—	4,761
Pension obligation — associated company (Notes 1 and 8)	16,013	13,031
Other	3,618	2,954
Total	97,255	93,492
Commitments and Contingencies (Notes 2 and 7)		
TOTAL	$577,283	$564,251

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1990	1989	1988
		(In Thousands)	
Operating Revenues (Note 1):			
Electric	$397,303	$380,542	$361,544
Natural gas	87,943	90,367	91,853
Total	485,246	470,909	453,397
Operating Expenses:			
Operation (Note 10):			
Fuel and fuel-related expenses (Note 1)	44,028	38,583	50,942
Purchased power (Note 7)	176,276	220,605	206,617
Gas purchased for resale (Note 1)	61,718	62,887	62,661
Other operation expenses (Note 8)	72,373	54,900	83,513
Maintenance	17,565	19,897	17,796
Depreciation	15,824	15,546	15,385
Taxes other than income taxes	25,659	26,673	23,004
Income tax expense (benefit) (Note 3)	17,421	2,595	(11,181)
Rate deferrals (Notes 1, and 2):			
Grand Gulf 1 expenses deferred	(10,337)	(34,041)	(60,523)
Grand Gulf 1 expenses recovered	16,997	15,883	—
Income tax expense (benefit) (Note 3)	(2,629)	7,133	20,578
Total	434,895	430,661	408,792
Operating Income	50,351	40,248	44,605
Other Income:			
Allowance for equity funds used during construction (Note 1)	59	28	116
Miscellaneous — net	5,621	2,477	16
Income tax expense (Note 3)	(2,637)	(860)	(6)
Total	3,043	1,645	126
Interest Charges:			
Interest on long-term debt	24,472	24,472	24,290
Other interest — net	1,410	3,001	1,887
Allowance for borrowed funds used during construction (Note 1)	(30)	(44)	(218)
Total	25,852	27,429	25,959
Net Income	27,542	14,464	18,772
Preferred Stock Dividend Requirements	2,462	2,675	2,772
Earnings Applicable to Common Stock	$ 25,080	$ 11,789	$ 16,000

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF COMMON SHAREHOLDER'S EQUITY

	Common Stock	Paid In Capital	Retained Earnings (Deficit)	Total
		(In Thousands)		
BALANCE DECEMBER 31, 1987	$ 84,359	$	$(33,678)	$ 50,681
Net income for January through November 1988	—	—	21,656	21,656
Dividends declared:				
Preferred stock	—	—	(2,078)	(2,078)
Capital stock expense	—	—	248	248
BALANCE NOVEMBER 30, 1988 BEFORE QUASI-REORGANIZATION	84,359	—	(13,852)	70,507
QUASI-REORGANIZATION (Note 5)	(16,624)	2,772	13,852	—
BALANCE NOVEMBER 30, 1988 AFTER QUASI-REORGANIZATION	67,735	2,772	—	70,507
Net loss for December 1988	—	—	(2,884)	(2,884)
Dividends declared:				
Preferred stock	—	(694)	—	(694)
BALANCE DECEMBER 31, 1988	67,735	2,078	(2,884)	66,929
Net income for 1989	—	—	14,464	14,464
Dividends declared:				
Preferred stock	—	—	(2,675)	(2,675)
Capital stock expense	—	—	(22)	(22)
BALANCE DECEMBER 31, 1989	67,735	2,078	8,883	78,696
Net income for 1990	—	—	27,542	27,542
Dividends declared:				
Preferred stock	—	—	(2,462)	(2,462)
Capital stock expense	—	—	(45)	(45)
BALANCE DECEMBER 31, 1990 (Note 5)	$ 67,735	$2,078	$ 33,918	$103,731

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 1990	1989 (In Thousands)	1988
Operating Activities:			
Net income	$ 27,542	$ 14,464	$ 18,772
Noncash items included in net income:			
Depreciation	15,824	15,546	15,385
Deferred income taxes and investment tax credits — net	17,157	9,740	17,168
Rate deferrals — net	6,660	(18,158)	(60,523)
Allowance for equity funds used during construction	(59)	(28)	(116)
Provision for estimated losses	3,161	3,242	2,239
Net pension expense	2,982	2,372	2,764
Changes in working capital:			
Receivables	(1,018)	(7,582)	(13,768)
Accounts payable	(4,605)	2,941	2,394
Deferred electric fuel and resale gas costs	1,980	(1,112)	(127)
Taxes and interest accrued	(166)	1,784	(4,150)
Other current assets and liabilities	2,986	(213)	(3,655)
1989 Settlement Agreement	(15,112)	19,749	—
Other	1,117	1,063	5,744
Net cash provided (used) by operating activities	58,449	43,808	(17,873)
Investing Activities:			
Reduction of investment in subsidiary	—	—	8,119
Construction expenditures	(16,142)	(15,160)	(17,209)
Allowance for equity funds used during construction	59	28	116
Net cash used in investing activities	(16,083)	(15,132)	(8,974)
Financing Activities:			
Issuance of general and refunding mortgage bonds	—	—	40,000
Redemption of preferred stock	(1,500)	(750)	—
Dividends paid on common stock	—	—	(1,544)
Dividends paid on preferred stock	(2,520)	(4,782)	(693)
Net cash provided (used) by financing activities	(4,020)	(5,532)	37,763
Net increase in cash and cash equivalents	38,346	23,144	10,916
Cash and cash equivalents at beginning of year	35,380	12,236	1,320
Cash and cash equivalents at end of year (Note 9)	$ 73,726	$ 35,380	$ 12,236

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulation

NOPSI is subject to regulation by the Council and the FERC and maintains its accounts in accordance with the Uniform System of Accounts prescribed by them.

Revenues and Deferred Fuel Costs

NOPSI recognizes electric and gas revenues as billed to its customers on a cycle billing basis. Revenue for energy and gas delivered but not billed at the end of the fiscal period is not accrued.

The rate schedules of NOPSI include electric fuel adjustment and city gate gas cost adjustment clauses under which fuel costs are billed to customers. NOPSI defers under/over recoveries of electric fuel and purchased gas costs through operation of the electric fuel adjustment and city gate gas cost adjustment clauses until these costs/credits are reflected in billings to customers.

Utility Plant and Depreciation

Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor, materials, allocable overheads, and AFUDC. The costs of units of property retired are removed from utility plant, and such costs plus removal costs less salvage are charged to accumulated depreciation. Maintenance and repairs of property and replacement of items determined to be less than units of property are charged to operating expenses. Principally all of the utility plant is subject to the liens of NOPSI's two separate mortgages and deeds of trust.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided on average depreciable property was 3.17% in 1990, 3.16% in 1989 and 3.06% in 1988.

Postretirement Benefits

NOPSI provides postretirement benefit plans covering substantially all employees. NOPSI is a participating employer in a defined benefit pension plan sponsored by an associated company. NOPSI has adopted a pension expense allocation policy such that pension expense recorded on NOPSI's books is substantially the same as the expense that would have been recorded if NOPSI had maintained a separate defined benefit pension plan. Pension costs are funded in accordance with guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The costs of postretirement health care and life insurance benefit plans are recorded on a cash basis. (See NOPSI's Note 8, "Postretirement Benefits," for additional information with respect to postretirement benefits.)

Income Taxes

NOPSI joins its parent and affiliates in the filing of a consolidated federal income tax return. Pursuant to an intra-System income tax allocation agreement, income taxes are allocated to NOPSI 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 it would have paid had a separate income tax return been filed by it.

Deferred income taxes are recorded based on differences between book and taxable income to the extent permitted by the regulatory bodies for ratemaking purposes. Investment tax credits allocated to NOPSI are deferred and amortized based upon the average useful life of the related property in a

manner consistent with ratemaking treatment. In addition, NOPSI files a separate state income tax return.

Allowance for Funds Used During Construction

To the extent that NOPSI is not permitted by its regulatory body to recover in current rates the carrying costs of funds used for construction, NOPSI capitalizes, as an appropriate cost of utility plant, AFUDC, which is calculated and recorded as provided by the regulatory 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 net composite interest cost of borrowed funds and 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 effectively results in treating the AFUDC charges in the same manner as construction labor and material costs in that each is capitalized rather than expensed. As noncash items, these credits to the income statement have no effect on current cash flows. 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 composite AFUDC rates for NOPSI were 11.0% for 1990 and 1989, and 10.3% for 1988.

Rate Deferrals

The Council approved a rate phase-in plan for NOPSI in order to reduce the immediate effect on ratepayers of the inclusion in rates of the costs of capacity and energy from Grand Gulf 1. Under this plan, certain costs are deferred in the early years of commercial operation and collected in later years from customers. By deferring these costs to the future when they will be collected through increased rates billed to customers, the impact of the costs associated with the phase-in plan on the income statement has been largely removed. Because the actual collection of revenues to recover the deferred amount will not occur until the future, NOPSI records a deferred asset representing the amount of the deferrals and, at the same time, incurs additional capital requirements to finance this deferral. 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. Recovery of previously deferred amounts does not increase net income because the related deferred costs are concurrently amortized as a component of expense. The carrying charges associated with financing the deferral are recovered currently (see NOPSI's Note 2, "Rate and Regulatory Matters" for a discussion of the Council's Resolution disallowing the recovery of $135 million of previously deferred Grand Gulf 1-related costs and a revised phase-in plan).

Other Noncurrent Liabilities

It is the policy of NOPSI to provide for uninsured property risks and for claims for injuries and damages through charges to operating expenses on an accrual basis. Such expenses have been allowed for ratemaking purposes.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to current classifications.

NOTE 2. RATE AND REGULATORY MATTERS

On March 20, 1986, the Council offered NOPSI permanent rate relief of approximately $26 million on an annual basis for bills rendered on and during the first year after April 9, 1986 with further

scheduled increases annually until Grand Gulf 1-related costs are being fully recovered on a current basis and previously deferred amounts have been fully recovered, subject to NOPSI's acceptance of a proposed 1986 Settlement Agreement with respect to NOPSI's May 17, 1985 application for an electric rate increase. On March 25, 1986, NOPSI accepted in writing the March 20, 1986 settlement offer from the Council. The 1986 Settlement Agreement permitted NOPSI to recover currently from its retail electric customers a portion of its Grand Gulf 1-related costs and to defer for future recovery through a phase-in plan a portion of these costs.

On April 2, 1987, on the application of NOPSI and in accordance with the terms of the 1986 Settlement Agreement, the Council adopted a resolution further implementing the 1986 Settlement Agreement by approving tariffs filed by NOPSI providing a scheduled increase in base rates for electric service of $29.4 million annually for bills rendered on and after April 9, 1987. Further, in accordance with the 1986 Settlement Agreement, the resolution also provided that carrying charges on the deferred costs be accrued at a 14.7% rate beginning April 9, 1987.

Under the terms of the 1986 Settlement Agreement, the parties thereto agreed that the legal rights of the City, the Council, and NOPSI, as the case may be, regarding (1) potential municipalization of NOPSI (see NOPSI's Note 7, "Commitments and Contingencies — Potential Municipalization"), and (2) investigation into the prudence of NOPSI's involvement in Grand Gulf 1 (discussed below) were not affected.

On February 4, 1988, the Council, in concluding its prudence inquiry, which was vigorously contested by NOPSI, adopted the Resolution that required NOPSI to write off and not recover from its retail electric customers $135 million of its previously deferred Grand Gulf 1-related costs in addition to the $51.2 million of such costs that NOPSI absorbed in connection with the 1986 Settlement Agreement. The Resolution also required a reduction in the rate increases scheduled to be implemented on April 9, 1988 and each subsequent year as provided in the 1986 Settlement Agreement. The following is a comparison of the rate increases provided for in the 1986 Settlement Agreement to the rate increases provided for in the Resolution, commencing in 1988:

Effective April 9	Rate Increases Per 1986 Settlement Agreement	Rate Increases Per Resolution
	(Dollars in Millions)	
1988	$22.1	$16.6
1989	$23.4	$17.3
1990	$24.8	$18.1
1991 and thereafter	6% of $439 compounded annually*	4.5% of $420.7 compounded annually*

* In each case until Grand Gulf 1-related costs are being fully recovered on a current basis and the amounts previously deferred (under the Resolution, less the additional $135 million of disallowance) have been fully recovered, projected to be approximately August of 1994.

In compliance with the Resolution and pending resolution of NOPSI's judicial appeals (see discussions below under the captions "Federal Court Proceedings" and "State Court Proceedings"), NOPSI implemented revised rate tariffs, effective April 9, 1988, April 9, 1989, and April 9, 1990, reflecting the lower level of annual increases as reflected in the table above.

NOPSI believes that the Resolution is contrary to the evidence presented to the Council. However, NOPSI cannot predict the outcome of the federal and state court proceedings or whether the Resolution will ultimately be overturned by the courts.

In view of the fact that NOPSI was not able to obtain a court injunction staying enforcement of the Resolution, NOPSI was required by the terms of the Resolution and applicable generally accepted accounting principles to write off $135 million of its previously deferred Grand Gulf 1-related costs and to reflect that write-off, net of income taxes, as a loss in 1987. Such write-off results in the further loss of the accumulated carrying charges that would have been recoverable on the deferred amount so written off, which could amount to an additional $240 million over the period of the 1986 Settlement Agreement (of this amount, approximately $72 million is attributable to the period from the imposition of the disallowance through December 31, 1990).

The February 4 Resolution continues to constrain NOPSI's ability, over the near term, to raise funds from external sources. However, even if there were no judicial reversal of the Resolution and assuming no catastrophic or other extraordinary event, NOPSI now estimates that its available cash resources should be sufficient to permit it to meet its projected cash requirements for the foreseeable future.

Federal Court Proceedings

NOPSI filed a complaint in the District Court on February 9, 1988 asking that the Council be prohibited from enforcing the Resolution and imposing the $135 million disallowance. On March 10, 1988, the District Court invoked the doctrine of abstention, declined to rule on NOPSI's request, and ordered that NOPSI's complaint be dismissed without prejudice. On March 22, 1988 NOPSI filed with the Fifth Circuit motions for injunction pending appeal and for expedited appeal. On April 6, 1988, the Fifth Circuit denied NOPSI's request for an injunction pending appeal, but granted NOPSI's motion to expedite the appeal. On July 28, 1988, the Fifth Circuit affirmed the judgment of the District Court. On August 26, 1988, NOPSI filed a petition for writ of certiorari with the United States Supreme Court asserting that abstention is not appropriate in this case. The United States Supreme Court granted NOPSI's petition for writ of certiorari and on June 19, 1989, rendered a unanimous decision that the District Court erred in abstaining from exercising jurisdiction, reversed the judgment of the Fifth Circuit and remanded the case for further proceedings consistent with the opinion of the United States Supreme Court. On August 21, 1989, the Fifth Circuit remanded the case to the District Court. The District Court, on its own motion, issued an order dated January 3, 1990, staying the District Court proceeding due in part to the progress of concurrent proceedings in state court (see "State Court Proceedings" discussed below). On January 19, 1990, NOPSI filed with the District Court a Notice of Appeal appealing the District Court's stay order to the Fifth Circuit. On August 29, 1990, the Fifth Circuit affirmed the District Court's January 3, 1990 order. In affirming the District Court's order, the Fifth Circuit held that (1) contrary to NOPSI's argument, the District Court properly determined that the Resolution was not "facially preempted" by the FERC-ordered allocation of 17% of the capacity and energy from Grand Gulf 1 to NOPSI, and (2) the District Court did not abuse its discretion in staying the proceeding, because (a) there was no substantial federal issue remaining in the case (the Fifth Circuit stating that federal courts may not invalidate the Council's action on a suspicion that the Council members' motives were improper), (b) the state court proceeding had progressed further than the federal court proceeding, (c) the state courts are adequate to protect NOPSI's rights and (d) the stay of the District Court proceeding is appropriate to avoid piecemeal litigation.

On September 26, 1990, NOPSI filed a petition for rehearing with the Fifth Circuit with respect to the Fifth Circuit's August 29, 1990 decision. The Fifth Circuit denied such petition for rehearing on October 17, 1990. On January 15, 1991, NOPSI filed a petition for writ of certiorari seeking review by

the United States Supreme Court. On February 11, 1991, the United States and the FERC, represented by the Solicitor General, filed an *amici curiae* brief supporting NOPSI's petition. The matter is pending.

State Court Proceedings

On February 4, 1988, the Council and other parties filed in the State Court a petition for declaratory and injunctive relief seeking a judgment, among other things, declaring that the Resolution is valid and enforceable. Furthermore, a suit was filed in the State Court against the Council by the Alliance for Affordable Energy, Inc. and others on February 4, 1988 asking that the Resolution be amended to order a greater disallowance of Grand Gulf 1-related costs from NOPSI's electric rates, and by a subsequent pleading NOPSI was named as a party to this suit. On March 7, 1988, NOPSI also filed a petition in the State Court seeking review of the Resolution. These three suits were consolidated in the State Court and a hearing on the merits of the case was held in the State Court on November 30, 1988. On July 21, 1989, NOPSI filed a motion to stay all further State Court proceedings pending a determination of the matter in District Court. On August 30, 1989, the State Court denied NOPSI's motion to stay the State Court proceedings and on November 15, 1989, the State Court rendered a judgment in the consolidated cases described above in favor of the Council, affirming the Resolution, and against the petitions of NOPSI and the Alliance for Affordable Energy, Inc.

On November 27, 1989, NOPSI filed a motion for a new trial in the State Court, which was denied on January 10, 1990. On December 8, 1989, the Alliance for Affordable Energy, Inc., jointly with others, filed a petition for appeal to the Fourth Circuit with respect to the State Court's November 15, 1989 judgment. On January 19, 1990, NOPSI filed with the State Court its Petition for Appeal to the Fourth Circuit of the State Court's November 15, 1989 judgment. Oral argument before the Fourth Circuit was held on November 7, 1990. The matter is pending.

Project Olive Branch

In connection with an effort, referred to by the Entergy System as "Project Olive Branch," to settle outstanding issues and litigation involving System Energy and the Grand Gulf Station and to stabilize retail rates in the area served by the Entergy System, System Energy and the System operating companies filed with the FERC on June 9, 1989 an offer of settlement to resolve certain FERC-related issues in a way that would be beneficial to the System, its investors and its customers. The offer of 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.

The implementation of the FERC Settlement in the third quarter of 1989 resulted in, among other things, a \$900 million pre-tax write-off by System Energy of its 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 NOPSI. Additionally, System Energy 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 allocations of Grand Gulf 1 capacity and energy. NOPSI's share of this credit totaled \$8.5 million.

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, among other things, does not prejudice any party's right to seek disallowance of such costs recorded after that date or the right of the parties to seek future changes to the Unit Power Sales Agreement which are not inconsistent with the FERC Settlement. Additionally, the FERC Settlement does not prejudice further prosecution of litigation with respect to the Resolution.

In addition to settlement of FERC-related issues embodied in the FERC Settlement, on June 19, 1989, NOPSI and the Council entered into a separate settlement agreement, the 1989 Settlement Agreement, addressing certain local retail rate issues involving Grand Gulf 1. Under the terms of the 1989 Settlement Agreement, NOPSI agreed to (1) temporarily absorb, and not recover from its retail ratepayers, 18% of its FERC-allocated share of Grand Gulf 1-related costs, net of any sales of energy from the 18% absorbed portion to NOPSI's ratepayers at 4.6 cents per KWH, until such time as the present value savings to NOPSI's retail ratepayers shall total $23.5 million, projected to be approximately May of 1991 (NOPSI would, however, be permitted to sell the energy from such portion to other parties at more than 4.6 cents per KWH) and (2) utilize an $8.5 million credit, applied by System Energy to NOPSI's Grand Gulf 1 bill pursuant to the terms of the FERC Settlement, to reduce by $8.5 million the amount of future Grand Gulf 1-related costs that would have otherwise been deferred by NOPSI under the presently effective phase-in plan for Grand Gulf 1-related costs (such credit was reflected in System Energy's July 1989 bill to NOPSI which was rendered in August 1989). The 1989 Settlement Agreement became effective on July 21, 1989. The 1989 Settlement Agreement resulted in a reduction in 1989 net income of $15.5 million, of which $12.0 million was recorded in December of 1989, representing the remaining future years' impact of the temporary absorption of 18% of NOPSI's FERC-allocated share of Grand Gulf 1-related costs as described in (1) above. NOPSI does not believe that this agreement has had or will have a material adverse effect on projected cash flow or on NOPSI's ability to pay regularly scheduled debt service obligations and to meet continuing preferred stock dividend and sinking fund requirements.

NOPSI is a party to certain agreements concerning System Energy and the Grand Gulf Station. (See NOPSI's Note 7, "Commitments and Contingencies.")

FERC's June 13 Decision

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 United States 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.

Proposed Negotiated Buy-out and Other Considerations

On March 29, 1988, the Council proposed to Entergy Corporation to discuss a negotiated buy-out of NOPSI (and of LP&L's electric distribution facilities in Algiers) by the City. Entergy Corporation responded by indicating a willingness to consider any alternatives that the Council might propose if they are in the best interests of Entergy's stockholders, customers, and employees. In early March 1990, discussions by the City and Entergy culminated in a conceptual proposal setting forth terms and conditions of the negotiated buy-out proposal. This proposal was the subject of public hearings by the Council in April 1990, and at a Council public meeting held on May 17, 1990, the Council voted against the adoption of a resolution to proceed with the buy-out proposal.

In July 1990, the Council adopted a resolution that provided a framework for further discussions and research concerning several issues of interest to the Council, NOPSI, and LP&L. Each of the three members of the Utility Committee of the Council was assigned specific areas of study: rate matters, including rate disparity, deferral collection and consolidation of LP&L and NOPSI; capacity matters, including least cost planning, and NOPSI's gas distribution properties; and socio-economic development, including industrial development. Each working group is meeting with NOPSI and LP&L and discussions are continuing with regard to all three areas of study.

NOTE 3. INCOME TAXES

Income tax expense (benefit) consists of the following:

	For the Years Ended December 31, 1990	1989	1988
		(In Thousands)	
Current:			
Federal	$ 134	$ (64)	$(6,568)
State	—	913	(1,198)
Total	134	849	(7,766)
Deferred — net:			
Rate deferrals	(2,745)	7,133	20,580
1989 Settlement Agreement	5,936	(7,757)	—
Loss carryforward utilization (provision)	16,920	15,100	(6,750)
Unbilled revenue	(255)	(4,384)	(1,352)
Pension expense	(1,396)	(2,411)	(940)
Adjustment of prior years' tax provisions	—	512	559
Alternative minimum tax	(457)	325	663
Liberalized depreciation	(113)	(142)	761
Customer deposits	(23)	(717)	4,964
RTA benefit expense accrual	173	1,210	(1,197)
Deferred fuel or gas costs	(832)	490	180
Other	162	(64)	(62)
Total	17,370	9,295	17,406
Investment tax credit adjustments — net	(75)	444	(237)
Total income tax expense	$17,429	$10,588	$ 9,403
Charged to operations	$14,792	$ 9,728	$ 9,397
Charged to other income	2,637	860	6
Total income tax expense	$17,429	$10,588	$ 9,403

Total income tax expense differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for the differences are as follows (dollars in thousands):

	For the Years Ended December 31, 1990 Amount	1990 % of Pre-Tax Income	1989 Amount	1989 % of Pre-Tax Income	1988 Amount	1988 % of Pre-Tax Income
Computed at statutory rate	$15,290	34.0	$ 8,518	34.0	$9,580	34.0
Increases (reductions) in tax resulting from:						
State income taxes net of federal income tax effect	2,282	5.1	2,677	10.7	(791)	(2.8)
Depreciation	(377)	(0.8)	(551)	(2.2)	60	0.2
Nondeductible excise tax on pension termination	—	—	628	2.5	—	—
Investment tax credit amortization	(827)	(1.8)	(489)	(2.0)	(237)	(0.8)
Adjustment of prior years' tax provisions	—	—	(817)	(3.3)	183	0.6
Amortization of excess deferred income tax	376	0.8	376	1.5	441	1.6
Other — net	685	1.5	246	1.0	167	0.6
Total income tax expense	$17,429	38.8	$10,588	42.2	$9,403	33.4

The tax effect of the portion of the 1987 and 1988 federal net operating losses that is carried forward has been recorded as a reduction of deferred income taxes. These loss carryforwards totaling $40.1 million at December 31, 1990 are available to offset taxable income in future years and, if not utilized, will expire in the years 2002 and 2003. Unused investment tax credits at December 31, 1990 amounted to $1.1 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 the years 1993 through 2002.

Cumulative income tax timing differences for which deferred income taxes have not been provided are $22.7 million, $23.5 million and $24.3 million as of the end of 1990, 1989 and 1988, respectively. The alternative minimum tax credit at December 31, 1990 is $0.6 million. This credit can be carried forward indefinitely and will reduce NOPSI's income tax liability in the future.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes," which was scheduled to be effective for years beginning after December 15, 1988. The FASB subsequently issued statement numbers 100 and 103, which delay 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 draft may further delay the effective date and simplify the implementation of SFAS No. 96. SFAS No. 96 expands the requirement to record deferred income taxes for all temporary differences that are reported in one year for financial reporting purposes and in 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.

It is expected that reductions in deferred taxes resulting from the lower corporate federal tax rates will be reflected as liabilities to customers since NOPSI's regulators may require any such savings to be passed on to ratepayers. However, based on a preliminary study, NOPSI 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 NOPSI would be significantly impacted by the adoption of SFAS No. 96 in its present form.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

Pursuant to an SEC order issued in December, 1990, NOPSI is currently authorized, through November 30, 1992, to effect short-term borrowings of up to an aggregate principal amount outstanding at any one time of $30 million, subject to increase to a maximum of $35 million with further SEC approval. However, unless specifically authorized by the SEC by supplemental order, NOPSI is prohibited from effecting any short-term borrowings if its common stock equity ratio (including retained earnings) is, or would thereby become, less than 30% of total capitalization plus short-term indebtedness. The 30% common equity constraint is in effect through April 30, 1991, and may be eliminated, modified or extended through the period ending November 30, 1992. A December 1988 order of the SEC had imposed a similar restriction on NOPSI's short-term borrowings through December 31, 1990. As a result of the write-off of $135 million of previously deferred Grand Gulf 1-related costs, NOPSI's ratio of common stock equity to total capitalization at December 31, 1990, 1989, and 1988 was 27.2%, 22.0%, and 19.3%, respectively. Under these circumstances, NOPSI has been precluded from effecting any short-term borrowings, and will continue to be so restricted unless the 30% common equity constraint is eliminated or modified, or until NOPSI's common equity ratio exceeds 30%.

NOPSI has participated with certain other companies of the Entergy System in a money pool arrangement (Money Pool) whereby those companies with available funds make short-term loans to

other participating companies in the System (other than Entergy Corporation) having short-term borrowing requirements, thereby reducing the System's dependence upon external borrowings. During the twelve months ended December 31, 1990, 1989, and 1988, due to the short-term borrowing limitations mentioned above, NOPSI had no short-term borrowings.

NOTE 5. PREFERRED STOCK AND COMMON SHAREHOLDER'S EQUITY

Preferred stock at December 31, 1990 and 1989 consisted of the following:

	Shares Authorized and Outstanding at December 31,		Amounts at December 31,		Call Price Per Share at December 31,
	1990	1989	1990	1989	1990
			(In Thousands)		
Cumulative, $100 Par Value					
Without sinking fund:					
4¾% Preferred Stock	77,798	77,798	$ 7,780	$ 7,780	$105.00
4.36% Series	60,000	60,000	6,000	6,000	$104.58
5.56% Series	60,000	60,000	6,000	6,000	$102.59
Premium	—	—	337	337	
Total	197,798	197,798	$20,117	$20,117	
With sinking fund:					
15.44% Series	94,495	109,495	$ 9,450	$10,950	$107.72
Issuance expense	—	—	(400)	(445)	
Total	94,495	109,495	$ 9,050	$10,505	

Cash sinking fund requirements for NOPSI's 15.44% Series Preferred Stock are $750,000 for each of the years 1991 through 1995. In addition, each year NOPSI has the non-cumulative option to redeem additional amounts of its outstanding 15.44% Series Preferred Stock in accordance with its articles of incorporation, and in 1990, NOPSI redeemed an additional $750,000 of this Series. NOPSI is precluded however, from redeeming such additional amounts of its outstanding 15.44% Preferred Stock if the total amount of outstanding Rate Recovery Mortgage Bonds issued on the basis of the uncollected balance of deferred Grand Gulf 1-related costs exceeds 66⅔% of the balance of such deferred costs.

As of December 31, 1987, due to the write-off of $135 million of previously deferred Grand Gulf 1-related costs in accordance with the Resolution, NOPSI's retained earnings were eliminated and NOPSI had an accumulated deficit of $33.7 million. As a result, NOPSI was precluded from declaring or paying any dividends on preferred or common stock. Accordingly, prior to the elimination of the accumulated deficit in November 1988 (as discussed below), NOPSI's Board of Directors did not declare quarterly dividends on preferred stock ordinarily payable on April 1, July 1, and October 1, 1988 totaling approximately $2.1 million.

In order to facilitate the elimination of past arrearages and the declaration of preferred stock dividends, NOPSI, in November 1988 after receiving regulatory and other requisite approvals, effected a recapitalization program pursuant to which NOPSI restructured its common stock accounts and eliminated the deficit as of November 30, 1988. NOPSI's Restatement of Articles of Incorporation was amended to reduce the par value of its common stock from $10 per share to $4 per share. This enabled NOPSI to transfer approximately $16.6 million from common stock to paid in capital, a portion of which was then applied to eliminate the accumulated deficit (approximately $13.9 million as of

November 30, 1988 prior to the recapitalization). Also, in November 1988, NOPSI's Board of Directors declared for payment on January 1, 1989, the aforementioned preferred stock dividends in arrears and the regular quarterly preferred dividend payable on January 1, 1989. These dividends aggregating $2.8 million were paid as of January 1, 1989. NOPSI remains current with respect to payment of preferred stock dividends and preferred stock sinking fund requirements.

The indentures relating to NOPSI's long-term debt and provisions of the Restatement of Articles of Incorporation, as amended, relating to NOPSI's preferred stock provide for restrictions on the declaration or payment of cash dividends on common stock. Under one of these restrictions, only retained earnings in excess of $24.2 million would be available for declaration of cash dividends on common stock. Various other restrictions in NOPSI's governing instruments may also limit from time to time NOPSI's ability to declare or pay such cash dividends. Due to NOPSI's ongoing cash conservation program and low common equity, NOPSI has not made any plans with respect to the declaration or payment of cash dividends on common stock. At December 31, 1990, NOPSI had unpaid to Entergy Corporation $4.5 million of dividends on common stock related to 1985 declarations.

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:		
5.000% Series due 1991	$ 15,000	$ 15,000
4.500% Series due 1992	8,000	8,000
5.625% Series due 1996	23,250	23,250
11.000% Series due 1996	25,000	25,000
5.875% Series due 1997	12,000	12,000
10.000% Series due 2004	35,000	35,000
9.500% Series due 2008	15,000	15,000
Total First Mortgage Bonds	133,250	133,250
General and Refunding Mortgage Bonds:		
13.200% Series due 1991	1,400	1,400
13.600% Series due 1993	29,400	29,400
13.900% Series due 1995	9,200	9,200
10.950% Series due 1997	75,000	75,000
Total General and Refunding Mortgage Bonds	115,000	115,000
Unamortized premium and discount on long-term debt — net	114	126
Total Long-Term Debt	248,364	248,376
Less — Amount due within one year	16,400	—
Long-Term Debt Excluding Amount Due Within One Year	$231,964	$248,376

Under NOPSI's G&R Mortgage, G&R Bonds are issuable based upon 70% of bondable property additions or based upon 50% of accumulated deferred Grand Gulf 1-related costs. Further, the G&R Mortgage precludes the issuance of any additional G&R Bonds if the total amount of outstanding Rate Recovery Mortgage Bonds issued on the basis of the uncollected balance of deferred Grand Gulf 1-related costs exceeds 66⅔% of the balance of such deferred costs. At December 31, 1990, the total amount of Rate Recovery Mortgage Bonds outstanding aggregated $115 million, or approximately 63.8% of NOPSI's accumulated deferred Grand Gulf 1-related costs.

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

Year	Maturities	Sinking Fund Requirements Cash*	Sinking Fund Requirements Other**
	(In Thousands)		
1991	$16,400	—	$933
1992	$ 8,000	—	$853
1993	$29,400	$15,000	$853
1994	—	$15,000	$853
1995	$ 9,200	$15,000	$853

* General and Refunding Mortgage Bonds, 10.950% Series due May 1, 1997.

** These sinking fund requirements may be satisfied by cash or by certification of property additions at the rate of 167% of such requirements.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

NOPSI's construction program contemplates expenditures (including AFUDC) of approximately $78.0 million during the period 1991-1993. Pursuant to its phase-in plan, during 1991-1993, NOPSI will be collecting in rates a portion of the Grand Gulf 1 costs incurred but not collected in previous years. These collections constitute cash available to satisfy, among other things, construction expenditure requirements. In addition to the above capital requirements, NOPSI will require $71.1 million during the period 1991-1993 to meet long-term debt maturities and to satisfy sinking fund requirements. The foregoing estimates will not be materially affected by the ultimate outcome of litigation of the prudence disallowance. NOPSI plans to meet its capital and refinancing requirements during the period 1991-1993 with internally generated funds and cash on hand.

Prudence Disallowance

The February 4 Resolution continues to constrain NOPSI's ability, over the near term, to raise funds from external sources. However, even if there were no judicial reversal of the February 4 Resolution and assuming no catastrophic or other extraordinary event, NOPSI now estimates that its available cash resources should be sufficient to permit it to meet its projected cash requirements for the foreseeable future.

NOPSI believes that the February 4 Resolution is contrary to the evidence presented to the Council. However, NOPSI cannot predict the outcome of the federal and state court proceedings or whether the February 4 Resolution will ultimately be overturned by the courts (see NOPSI's Note 2, "Rate and Regulatory Matters" for further information related to legal proceedings with respect to the February 4 Resolution).

Potential Municipalization

NOPSI provides electric and gas service in the City of New Orleans pursuant to city ordinances, which state, among other things, that the City has a continuing option to purchase NOPSI's electric and gas utility properties.

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 (NOPSI, 17%; AP&L, 36%; LP&L, 14%; and MP&L, 33%). Charges under the Unit Power Sales Agreement, which are billed monthly, are based on System Energy's total cost of service, including System Energy's operating expenses, depreciation, and capital costs (including a return on common equity). NOPSI's monthly obligation for payments to System Energy for Grand Gulf 1 capacity and energy is approximately $11.5 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.

Availability and Reallocation Agreements

The System operating companies are severally obligated, under the Availability Agreement in accordance with stated percentages (NOPSI, 24.7%; AP&L, 17.1%; LP&L, 26.9%; and MP&L, 31.3%), 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. System Energy has, with the consent of the System operating companies, assigned its rights to payments and advances from the System operating companies 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 approved by the FERC (of which NOPSI's share is 17%), 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 (discussed in NOPSI's Note 2, "Rate and Regulatory Matters") 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. 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.

If a System operating company other than NOPSI becomes unable in whole or in part to continue making payments to System Energy under the Unit Power Sales Agreement and if System Energy were unable to procure funds from other sources sufficient to cover any potential shortfall between the amount owing under the Availability Agreement and the amount of continuing payments under the Unit Power Sales Agreement plus other funds then available to System Energy, NOPSI could become subject to claims or demands by System Energy or its creditors for payments or advances under the Availability Agreement or the assignments thereof. The amount, if any, that NOPSI would become liable to pay or advance over and above amounts it currently pays under the Unit Power Sales Agreement for capacity and energy from Grand Gulf 1 would depend on a variety of factors (especially the degree of any such shortfall and System Energy's access to other funds). NOPSI cannot predict whether any such claims or demands, if made and upheld, could be satisfied. If any such claims or demands were upheld, the holders of outstanding G&R Bonds could, subject to certain conditions, require redemption of their bonds at par.

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 NOPSI, LP&L, and MP&L. 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 the capacity and energy of 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 supercedes the Reallocation Agreement insofar as it relates to Grand Gulf 1.

Responsibility for the Grand Gulf 2 amortization amounts described above has been allocated to NOPSI, LP&L, and MP&L under the terms of the Reallocation Agreement. NOPSI's share of such amounts is 29.8%. AP&L is liable for its share of such amounts only if the other System operating companies are 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.

Shareholder Litigation

Entergy and certain other System companies (including NOPSI) and individuals were defendants in a consolidated purported class action suit filed in 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 30, 1991, the District Court entered an order and final judgment approving the settlement agreement and on January 31, 1991, the suit was dismissed with prejudice. The time for filing appeals of this order expired with no such appeals being filed.

System Fuels

NOPSI has a 13% interest in System Fuels, Inc. (System Fuels), a jointly owned subsidiary of the System operating companies. System Fuels operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for all of the System operating companies and System Energy. Its costs are recovered primarily through charges for fuel delivered.

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

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 tied to the highest annual interest rate on outstanding short-term bank borrowings by NOPSI or to the prime commercial rate if NOPSI has no such short-term borrowings outstanding. At this time, no further loans may be made to System Fuels by the parent companies. At December 31, 1990 and 1989, NOPSI had remaining loans outstanding to System Fuels of $3.3 million. The loans mature in 2008.

System Fuels's parent companies (including NOPSI) have covenanted and agreed, severally in accordance with their respective shares of ownership of System Fuels's 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 under various long-term leases by System Fuels of oil storage and handling facilities and coal hopper cars. At December 31, 1990, the aggregate discounted value of these lease arrangements was $63 million.

Other Commitments and Contingencies

Reference is made to NOPSI's Note 2, "Rate and Regulatory Matters," for information with respect to the proposed negotiated buy-out, the June 13 Decision, and other commitments and/or contingencies.

NOTE 8. POSTRETIREMENT BENEFITS

Effective October 1, 1988, NOPSI terminated its defined benefit pension plan and as of that same date adopted, as a participating employer, a defined benefit pension plan sponsored by an associated company. This successor plan provides NOPSI employees with substantially the same benefit program with no loss of accrued benefits as provided under the terminated plan. The pension plan, covering substantially all employees, is noncontributory and provides pension benefits that are based on the employees' credited service and average compensation, generally during the last five years before retirement. Pension costs are funded in accordance with guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

In January 1989, the accumulated benefit obligation of the terminated plan was settled by purchasing annuity contracts. As a result, NOPSI recorded a nonrecurring settlement gain (reflected as a $15.5 million decrease to other operation expense), net of applicable taxes and adjustments, of approximately $8.4 million in the first quarter of 1989. In addition, on January 31, 1989, NOPSI was refunded approximately $16.7 million (net of a 10% excise tax) from the terminated plan representing the funds in excess of amounts required to purchase the annuity contracts, pay certain plan participants a pro-rata portion (approximately $1.3 million) of excess plan assets as required by law, and satisfy other related costs and expenses connected with the settlement.

At December 31, 1990, the projected benefit obligation and plan assets of the successor plan totaled $167.3 million (including approximately $16.9 million related to NOPSI employees) and $178.1 million, respectively. At December 31, 1989, the projected benefit obligation and plan assets of the successor plan totaled $162.6 million (including approximately $14.1 million related to NOPSI employees) and $190.2 million, respectively. The significant actuarial assumptions used included a weighted average discount rate of 8.75% for 1990 and 8.5% for 1989 and a rate of increase in future compensation levels of 5.6% for valuing the projected benefit obligation for 1990 and 1989. An assumed, expected long-term rate of return on plan assets of 8.5% was used for 1990, 1989 and 1988.

NOPSI's total 1990, 1989, and 1988 pension expense was comprised of the following components:

	1990*	1989*	1988
		(In Thousands)	
Service cost — benefits earned during the period	$1,769	$1,498	$ 1,510
Interest cost on projected benefit obligation	1,255	931	7,795
Actual return on plan assets	—	—	(9,277)
Net amortization and deferral	(43)	(57)	(3,415)
Early retirement program	—	—	5,512
Pension expense allocation from associated company	—	—	639
Net pension expense	$2,981	$2,372	$ 2,764

* Pension expense for 1990 and 1989 represents NOPSI's allocated portion of the total pension expense (as calculated by an independent actuary) for the defined benefit pension plan sponsored by an associated company.

NOPSI 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 NOPSI. Any employee who retires after January 1, 1991 will receive the same rates for benefits as active employees. Current retirees and any employees who retired prior to January 1, 1991 will pay a reduced rate for their benefits. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for active employees. The total cost of providing these benefits and the number of active employees and retirees for the last three fiscal years were as follows:

	1990	1989	1988
Total cost of health care and life insurance (in thousands)	$4,625	$5,114	$7,482
Number of active employees	1,073	1,128	1,200
Number of retirees	952	970	937

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 significantly 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. NOPSI plans to adopt this statement in 1993.

NOTE 9. CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, NOPSI considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The supplemental disclosures required by SFAS No. 95, "Statements 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 $158, $224, and $293 in 1990, 1989, and 1988, respectively)	$25,263	$25,428	$ 23,709
Income taxes	$ 100	$ 615	$ (1,046)
Noncash Investing and Financing:			
Capital lease obligations incurred	$ 489	$ 628	$ 1,573

NOTE 10. TRANSACTIONS WITH AFFILIATES

NOPSI buys electricity from and/or sells electricity to the other operating subsidiaries of Entergy Corporation, including System Energy, under rate schedules filed with the FERC. In addition, NOPSI purchases fuel from System Fuels and receives technical and advisory services from Entergy Services, Inc.

Operating revenues include revenues from sales to affiliates amounting to $0.6 million in 1990, $2.0 million in 1989, and $2.5 million in 1988. Operating expenses include charges from affiliates for fuel costs, purchased power and related charges and technical and advisory services totaling $203.3 million in 1990, $208.8 million in 1989, and $220.6 million in 1988.

NOTE 11. BUSINESS SEGMENT INFORMATION

As an operating public utility, NOPSI supplies electric and natural gas services in the City. Segment information about NOPSI's operations is as follows (in thousands):

	1990		1989		1988	
	Electric	Gas	Electric	Gas	Electric	Gas
Operating revenues	$397,303	$87,943	$380,542	$90,367	$361,544	$91,853
Revenue from sales to unaffiliated customers	$396,723	$87,943	$378,566	$90,367	$359,001	$91,853
Operating income (loss) before income taxes	$ 68,460	$(3,317)	$ 48,267*	$ 1,709	$ 57,309	$(3,307)
Operating income (loss)	$ 50,652	$ (301)	$ 37,438*	$ 2,810	$ 45,643	$(1,038)
Net utility plant	$201,436	$58,307	$202,805	$56,970	$205,630	$54,493
Depreciation expense	$ 13,206	$ 2,618	$ 12,694	$ 2,852	$ 12,556	$ 2,829
Construction expenditures	$ 12,086	$ 4,056	$ 10,103	$ 5,057	$ 12,911	$ 4,345

* Operating income (loss) before income taxes and operating income (loss) reflect a nonrecurring decrease of $25.7 million and $15.5 million, respectively, in connection with the 1989 Settlement Agreement.

NEW ORLEANS PUBLIC SERVICE INC.

NOTES TO FINANCIAL STATEMENTS — (Concluded)

12. QUARTERLY RESULTS (UNAUDITED)

Unaudited operating results for the four quarters of 1990 and 1989 follow:

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)
		(In Thousands)	
1990:			
March	$112,720	$11,453	$ 5,768
June	$113,342	$11,704	$ 5,754
September	$141,762	$16,713	$ 10,963
December	$117,422	$10,481	$ 5,057
1989:			
March (1)	$106,681	$21,354	$ 15,426
June	$113,025	$10,278	$ 3,441
September	$139,348	$13,115	$ 6,036
December (2)	$111,855	$(4,499)	$(10,439)

(1) The first quarter of 1989 includes an increase in operating income and net income of $8.4 million, net of tax, due to the nonrecurring gain recorded in January 1989 in connection with the settlement of NOPSI's pension plan (see NOPSI's Note 8, "Postretirement Benefits").

(2) The fourth quarter of 1989 reflects a decrease in operating income and net income of $12 million, net of tax, in connection with the recognition of the nonrecurring effect of the 1989 Settlement Agreement (see NOPSI's Note 2, "Rate and Regulatory Matters — Project Olive Branch"). Additionally, operating loss and net loss for the quarter ended December 31, 1989 reflect the recognition of $2.6 million due to reinstatement of state accumulated deferred income taxes in November 1989.

The business of NOPSI is subject to seasonal fluctuations with peak periods occurring during the summer months for electric and during the winter months for gas. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

NEW ORLEANS PUBLIC SERVICE INC.
RECORD OF PROGRESS 1980 — 1990

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
	(Dollars in Thousands)										
Selected Financial Data:											
Operating revenues	$485,200	$470,900	$453,400	$416,000	$428,800	$420,600	$448,100	$423,400	$457,700	$438,900	$348,500
Net income (loss) (1)	$ 27,500	$ 14,500	$ 18,800	$(49,000)	$ 42,000	$(18,800)	$ 18,400	$ 8,400	$ 9,000	$ 10,500	$ 6,700
Long-term obligations (2)	$242,800	$261,100	$262,000	$221,800	$146,700	$127,700	$127,700	$129,100	$135,100	$141,100	$141,100
Total assets	$577,300	$564,300	$506,900	$424,600	$460,500	$346,900	$359,800	$345,200	$348,000	$345,300	$331,000
Capitalization:											
Preferred stock (including premium and issuance expense):											
Without sinking fund	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100	$ 20,100
With sinking fund	9,100	10,500	11,200	11,500	13,300	13,300	13,300	14,600	14,600	14,600	14,600
Long-term debt (excluding currently maturing debt)	232,000	248,400	248,400	208,400	133,400	114,400	114,400	114,500	120,500	126,500	126,500
Common stock and paid in capital	69,800	69,800	69,800	84,400	84,400	84,400	59,400	59,400	59,400	59,400	59,400
Retained earnings	33,900	8,900	(2,900)	(33,700)	21,200	(17,000)	10,100	10,000	7,800	10,300	13,100
Total capitalization	$364,900	$357,700	$346,600	$290,700	$272,400	$215,200	$217,300	$218,600	$222,400	$230,900	$233,700
Utility plant	$547,700	$534,200	$521,300	$507,600	$488,300	$476,600	$463,900	$450,500	$450,800	$436,600	$424,000
Less — accumulated depreciation	288,000	274,400	260,800	249,500	237,800	227,000	214,500	199,800	196,100	183,400	171,300
Net utility plant	$259,700	$259,800	$260,500	$258,100	$248,500	$249,600	$249,400	$250,700	$254,700	$253,200	$252,700
Electric Revenues:											
Residential	$141,900	$134,000	$125,500	$116,900	$118,100	$107,900	$109,200	$ 97,800	$107,100	$106,800	$ 84,300
Commercial	162,600	158,000	150,400	134,200	131,900	120,500	123,000	104,300	109,100	105,000	82,800
Industrial	27,000	25,200	22,900	20,100	22,900	25,130	35,400	36,400	40,800	41,100	34,800
Governmental	53,500	51,500	48,800	43,900	43,400	42,500	44,600	41,100	43,300	39,600	29,500
Total retail	385,000	368,700	347,600	315,100	316,300	296,000	312,200	279,600	300,300	292,500	231,400
Sales for resale	8,400	8,000	8,200	7,800	5,100	14,200	5,600	4,500	34,500	45,800	36,200
Other	3,900	3,800	5,700	5,100	4,700	4,800	4,300	3,200	2,300	2,200	2,000
Total	$397,300	$380,500	$361,500	$328,000	$326,100	$315,000	$322,100	$287,300	$337,100	$340,500	$269,600
Electric Energy Sales (Millions of KWH):											
Residential	1,903	1,830	1,815	1,840	1,904	1,833	1,722	1,643	1,700	1,706	1,685
Commercial	2,054	2,635	2,051	1,983	1,990	1,939	1,855	1,654	1,631	1,622	1,571
Industrial	530	490	446	414	448	496	670	728	756	823	881
Governmental	846	837	842	816	804	809	786	762	756	723	673
Total retail	5,333	5,192	5,154	5,053	5,146	5,077	5,033	4,787	4,843	4,874	4,810
Sales for resale	294	284	301	309	198	333	118	91	688	891	909
Total	5,627	5,476	5,455	5,362	5,344	5,410	5,151	4,878	5,531	5,765	5,719
Number of Electric Customers — (At December 31):											
Residential	170,755	170,148	172,390	174,201	176,014	177,968	179,887	178,085	177,720	176,192	174,791
Commercial	17,839	17,490	17,796	17,946	18,217	18,339	18,454	18,296	18,099	17,936	17,797
Industrial	846	850	880	899	948	1,007	1,096	1,223	1,049	1,095	1,132
Governmental	1,781	1,703	1,680	1,639	1,642	1,638	1,602	1,594	1,554	1,548	1,552
Total retail customers	191,221	190,191	192,746	194,685	196,821	198,952	201,039	199,198	198,422	196,771	195,272
Sales for resale	1	1	1	1	1	1	1	1	1	1	[illegible]
Total customers	191,222	190,192	192,747	194,686	196,822	198,953	201,040	199,199	198,423	196,772	195,273
Gas Revenues:											
Residential	$ 47,600	$ 49,500	$ 50,700	$ 48,800	$ 54,700	$ 53,200	$ 67,000	$ 68,400	$ 58,700	$ 44,800	$ 37,200
Commercial	16,500	16,800	17,400	16,400	19,100	18,600	21,600	25,100	22,800	17,500	13,200
Industrial	8,400	7,800	7,800	7,200	7,400	9,000	12,200	13,900	14,500	15,400	14,700
Governmental	14,200	15,100	14,800	14,200	20,100	23,300	23,400	27,200	23,500	18,800	12,100
Total retail	86,700	89,200	90,700	86,600	101,300	104,100	124,200	134,600	119,500	96,500	77,200
Other	1,200	1,200	1,200	1,300	1,400	1,500	2,200	1,500	1,200	1,900	1,700
Total	$ 87,900	$ 90,400	$ 91,900	$ 87,900	$102,700	$105,600	$126,400	$136,100	$120,700	$ 98,400	$ 78,900
Gas Energy Sales (Millions of Cubic Feet):											
Residential	8,500	8,900	9,600	10,000	9,500	9,500	11,300	10,900	10,600	11,300	11,600
Commercial	3,300	3,300	3,500	3,700	3,600	3,600	4,000	4,200	4,400	4,600	4,700
Industrial	2,600	2,500	2,500	2,300	1,900	1,900	2,800	2,700	2,900	4,200	6,300
Governmental	2,900	3,200	3,300	3,500	4,100	4,700	4,800	4,700	4,700	5,100	5,000
Total	17,300	17,900	18,900	19,500	19,100	19,700	22,700	22,500	22,600	25,200	27,600
Number of Gas Customers — (At December 31):											
Residential	146,300	146,000	148,800	151,100	153,700	156,500	159,500	160,800	162,400	163,300	163,900
Commercial	9,400	9,400	9,900	10,200	10,500	10,800	11,100	11,300	11,600	11,600	11,600
Industrial	300	300	300	300	400	400	400	400	400	500	500
Governmental	500	500	500	500	500	500	500	500	500	500	500
Total	156,500	156,200	159,500	162,100	165,100	168,200	171,500	173,000	174,900	175,900	176,500

(See notes on following page)

(1) 1989 reflects the recording of the $15.[illegible] million, after tax effect of the 1989 Settlement Agreement. 1987 reflects the write-off of $72.9 million, after tax, of previously deferred Grand Gulf 1-related costs. 1986 includes $15.9 million of deferred Grand Gulf 1-related costs, after tax, applicable to 1985.

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

NEW ORLEANS PUBLIC SERVICE INC.
DIRECTORS AND OFFICERS

DIRECTORS

James M. Cain
Vice Chairman,
Entergy Corporation

Brooke H. Duncan (A)
President,
The Foster Company, Inc.

Jack L. King
Executive Vice President —
Operations,
Entergy Services, Inc.

Joseph J. Krebs, Jr.
Chairman and Chief Executive Officer,
J. J. Krebs & Sons, Inc.

Edwin Lupberger
Chairman and Chief Executive Officer,
Entergy Corporation

Jerry L. Maulden (B)
Chairman and Chief Executive Officer,
New Orleans Public Service Inc.,
Arkansas Power & Light Company,
Louisiana Power & Light Company, and
Mississippi Power & Light Company
Group President,
Entergy Corporation, and
Entergy Services, Inc.
System Executive — Distribution and
Customer Service,
Entergy Corporation

Donald E. Meiners
President and Chief Operating Officer,
New Orleans Public Service Inc., and
Louisiana Power & Light Company

John B. Smallpage (A)
Chairman and Secretary,
Donovan Marine, Inc.

Charles C. Teamer, Sr. (A)
Vice President for Fiscal Affairs,
Dillard University

(A) Member of Audit Committee
(B) Elected Effective 2/1/91

OFFICERS

Jerry L. Maulden (B)
Chairman of the Board and
Chief Executive Officer

Donald E. Meiners
President and
Chief Operating Officer

John J. Cordaro
Group Vice President —
External Affairs

S. G. Cunningham, Jr.
Senior Vice President —
Rates & Regulatory Affairs

Donald Hunter
Senior Vice President —
Fossil Operations

M. H. McLetchie
Senior Vice President —
Accounting & Finance

Thomas J. Wright
Senior Vice President —
Customer Service

J. D. Bruno
Vice President —
Division Manager

John D. Ervin
Vice President —
Marketing

Richard C. Guthrie
Vice President —
Public Affairs

Dorothy J. W. Klyce
Vice President —
Public Relations

T. O. Lind
Vice President —
Regulatory Counsel,
Secretary and Assistant
Treasurer

Jerry J. Saacks
Vice President —
Transmission

Donald R. Wells
Vice President —
Human Resources & Administration

M. A. Caruso
Treasurer

N. J. Briley
Assistant Secretary and
Assistant Treasurer

Cary J. Dudenhefer
Assistant Secretary

Transfer Agent and Registrar
for Preferred Stock
Bank of Montreal Trust Company
77 Water Street
New York, New York 10005
(212) 701-7667

Corporate Trustee
for First Mortgage Bonds
The Bank of New York
101 Barclay Street
21st Floor
New York, New York 10286
1-800-524-4458

Trustee
For General and Refunding Bonds
Bank of Montreal Trust Company
77 Water Street
New York, New York 10005
(212) 701-7673

Corporate Address
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New Orleans, Louisiana 70112

NOPSI's 1990 Annual Report to the Securities and Exchange Commission on Form 10-K (including financial statement schedules) is available to any stockholder without charge. Stockholders can obtain a copy by calling collect or writing to:

Investor Relations Department
New Orleans Public Service Inc.
P.O. Box 60340
Mail Unit C-0760
New Orleans, LA 70160
Telephone: 0-504-587-5439

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

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