Audited Financial Statements

Cajun Electric Power Cooperative, Inc.

December 31, 1990

Ernst & Young

AUDITED FINANCIAL STATEMENTS

CAJUN ELECTRIC POWER COOPERATIVE, INC.

DECEMBER 31, 1990

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Cajun Electric Power Cooperative, Inc.

We have audited the accompanying balance sheets of Cajun Electric Power Cooperative, Inc. (the Cooperative) as of December 31, 1990 and 1989, and the related statements of revenue and expenses, changes in equity and margin (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative'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, the financial statements referred to above present fairly, in all material respects the financial position of Cajun Electric Power Cooperative, Inc. at December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note M to the financial statements, the Cooperative expects to continue as a going concern under the Debt Restructure Agreement (DRA), finalized in December 1990, notwithstanding the expectation of continuing significant operating deficits. Although by compliance with terms of the DRA the Cooperative will not be in default, the Cooperative's ability to fully recover the costs of its investment in its utility plant is uncertain as a result of those expected operating deficits, future rate regulation and the outcome of litigation involving Gulf States Utilities Company, described in Note K. Additionally, as discussed in Notes K and M, the ultimate resolution of proceedings with the Federal Energy Regulatory Commission involving certain transmission charges asserted by GSU, and certain class action litigation involving the Cooperative's members, cannot be presently determined.

Ernst & Young

March 8, 1991

BALANCE SHEETS
CAJUN ELECTRIC POWER COOPERATIVE, INC.
(IN THOUSANDS)

	December 31 1990	December 31 1989
ASSETS		
UTILITY PLANT		
Electric plant-in-service	$2,635,081	$2,624,925
Construction-in-progress	10,938	15,283
Nuclear fuel at amortized cost	60,310	65,994
	2,706,329	2,706,202
Less accumulated depreciation and amortization	481,523	410,647
	2,224,806	2,295,555
Electric plant held for future use	10,182	10,182
	2,234,988	2,305,737
OTHER PROPERTY AND INVESTMENTS		
Nonutility property	687	687
Restricted funds held by trustees	2,027	703
Investments in associated organizations	50,847	46,979
Decommissioning reserve funds	8,297	6,512
Other receivables		25,064
	61,858	79,945
CURRENT ASSETS		
Cash and short-term investments	31,997	69,360
Accounts receivable - electric customers:		
Members	31,309	34,170
Nonmembers	9,518	12,302
Accounts receivable - other	2,801	4,119
Fuel and supplies inventories	34,727	38,680
Prepayments	2,356	500
	112,708	159,131
DEFERRED CHARGES	2,861	9,603
	$2,412,415	$2,554,416

	December 31 1990	1989
EQUITY AND LIABILITIES		
EQUITY AND MARGIN (DEFICIT)		
Memberships	$ 1	$ 1
Patronage capital credits	36,533	36,533
Unallocated deficit	(952,738)	(709,210)
Donated capital	406	406
	(915,798)	(672,270)
LONG-TERM DEBT		
Less current portion	3,241,261	124,185
CURRENT LIABILITIES		
Debt classified as current prior to debt restructure		2,945,179
Accounts payable	482	905
Taxes other than income tax	240	242
Accrued interest and other expenses	23,490	89,486
Current portion of long-term debt	54,443	59,426
	78,655	3,095,238
DECOMMISSIONING RESERVES	8,297	6,512
DEFERRED CREDITS		751
	$2,412,415	$2,554,416

See notes to financial statements.

STATEMENTS OF REVENUE AND EXPENSES
CAJUN ELECTRIC POWER COOPERATIVE, INC.
(IN THOUSANDS)

	Year Ended December 31 1990	1989
OPERATING REVENUE		
Sales of electric energy:		
Members	$ 289,580	$ 278,299
Nonmembers	129,646	161,519
Other	1,147	1,014
	420,373	440,832
OPERATING EXPENSES		
Power production:		
Fuel	156,177	151,549
Operations and maintenance	65,400	69,794
Purchased power	6,321	4,785
Other power supply expenses	680	707
Transmission	45,125	32,720
Administrative and general	23,298	21,410
Depreciation and amortization	74,774	74,357
Taxes, other than income	3,273	3,104
	375,048	358,426
OPERATING MARGIN	45,325	82,406
OTHER INCOME AND EXPENSES		
Interest, rents and leases	7,838	11,164
Other income	190	963
Gains or losses on asset dispositions	(7,425)	
Litigation settlements	(10,378)	
	(9,775)	12,127
MARGIN BEFORE INTEREST AND OTHER DEBT EXPENSE	35,550	94,533
INTEREST AND OTHER DEBT EXPENSE	279,078	268,410
NET DEFICIT	$(243,528)	$(173,877)

See notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY AND MARGIN (DEFICIT)
CAJUN ELECTRIC POWER COOPERATIVE, INC.
(IN THOUSANDS)

Years Ended December 31, 1990 and 1989

	Memberships	Patronage Capital Credits	Unallocated Deficit	Donated Capital	Total
BALANCE JANUARY 1, 1989	$ 1	$36,533	$(535,333)	$406	$(498,393)
Net deficit for the year			(173,877)		(173,877)
BALANCE DECEMBER 31, 1989	1	36,533	(709,210)	406	(672,270)
Net deficit for the year			(243,528)		(243,528)
BALANCE DECEMBER 31, 1990	$ 1	$36,533	$(952,738)	$406	$(915,798)

See notes to financial statements.

STATEMENTS OF CASH FLOWS
CAJUN ELECTRIC POWER COOPERATIVE, INC.
(IN THOUSANDS)

	Year Ended December 31 1990	Year Ended December 31 1989
OPERATING ACTIVITIES		
Net deficit	$(243,528)	$(173,877)
Adjustments to reconcile net deficit to net cash used by operating activities:		
Depreciation	73,099	72,619
Amortization of nuclear fuel	15,446	13,149
Amortization and write off of deferred charges and credits - net	8,595	762
Interest expense accrued to long-term debt	157,250	54,691
Interest income on long-term receivable	(1,395)	
Patronage capital credits	(3,858)	(4,725)
Book value of asset dispositions	5,213	
Decrease (increase) in accounts receivable	6,963	(11,684)
Decrease in fuel and supplies inventories	5,221	4,081
(Increase) decrease in prepayments	(1,856)	286
Decrease in accounts payable	(424)	(115)
Decrease in ac[illegible]erest and other expens[illegible]	(65,996)	(21,259)
NET CASH USED	(45,270)	(66,072)
INVESTING ACTIVITIES		
Increase in utility plant	(24,358)	(20,537)
Proceeds from settlement of lawsuit		21,914
(Increase) decrease in investments and restricted funds held by trustee	(1,334)	33,561
Increase in deferred charges	(2,080)	(4,811)
Collection of other receivables	26,015	
NET CASH (USED) PROVIDED	(1,757)	30,127
FINANCING ACTIVITIES		
Proceeds from payments made by REA as guarantor	134,052	220,339
Repayment of long-term debt and debt classified as current prior to debt restructure	(124,388)	(203,150)
NET CASH PROVIDED	9,664	17,189
DECREASE IN CASH AND CASH EQUIVALENTS	(37,363)	(18,756)
Cash and cash equivalents at beginning of year	69,360	88,116
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 31,997	$ 69,360

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CAJUN ELECTRIC POWER COOPERATIVE, INC.

DECEMBER 31, 1990

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

General: Cajun Electric Power Cooperative, Inc., (the Cooperative) is a rural electric generation and transmission cooperative wholly-owned by 13 member distribution cooperatives (the Members) which provide electricity to approximately 310,000 metered customers representing over 1,000,000 people residing throughout 80% of the land area of Louisiana. The Cooperative and its 13 Members have entered into wholesale all requirements power contracts which require the Members to purchase all of their electric energy requirements from the Cooperative generally through 2026. The Cooperative is subject to certain rules and regulations promulgated for rural electric borrowers by the Rural Electrification Administration (REA) and is also subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) (see Note L).

System of Accounts: The Cooperative maintains its accounting records in accordance with the Federal Energy Regulatory Commission (FERC) chart of accounts as modified and adopted by the REA.

Electric Plant-in-Service: Electric plant-in-service is stated on the basis of cost. Depreciation is computed using the straight-line method over the expected useful lives of the related component assets. The net book value of units of property replaced or retired, including costs of removal net of any salvage value, is charged to operations.

Nuclear Fuel: The cost of nuclear fuel, including interest during construction, is amortized to fuel expense on the basis of the actual number of units of thermal energy produced, multiplied by a unit cost which reflects the total thermal units expected to be produced over the life of the fuel (see Note I).

Note A - Continued

Construction-in-Progress: Construction-in-progress is stated on the basis of cost, which may be net of the amounts applicable to a joint owner, and includes interest during construction on major projects.

Investments: The Cooperative has investments in The National Rural Utilities Cooperative Finance Corporation (CFC) and the National Bank for Cooperatives (CoBank) which are in the form of capital term certificates and Class "C" and "E" stock, respectively. In the accompanying financial statements, these investments are carried at cost and include undistributed patronage capital credits from these organizations. The Cooperative allocates patronage capital credits received from associated organizations to assets and expenses in the same ratio as the interest paid to these organizations is capitalized and expensed.

Fuel and Supplies Inventories: Fuel and supplies inventories are stated on the basis of cost utilizing the weighted average cost method of inventory valuation.

Decommissioning: Decommissioning reserves represent cumulative accruals for decommissioning expense. The annual charge for decommissioning expense is the required addition to the decommissioning trust funds such that the balance of the funds (contributions plus net earnings) will be sufficient to satisfy estimated decommissioning costs at the end of the expected useful lives of the Cooperative's facilities (see Note I).

Deferred Charges: Deferred charges at December 31, 1990 consisted primarily of capitalized software.

Income Taxes: Certain revenue and expense items are recognized in different periods for financial reporting and income tax purposes thus creating timing differences. Deferred income taxes are provided on these timing differences which are principally related to depreciation on electric plant-in-service and the sale of tax benefits. The Cooperative uses the flow-through method of recognizing investment tax credits.

Patronage Capital Credits: The Cooperative is organized and operates on a not-for-profit basis. Patronage capital credits represent that portion of the Cooperative's net margins which have been allocated to Member cooperatives. As provided in the Cooperative's bylaws, all amounts received from the furnishing of electric energy in

Note A - Continued

excess of the sum of operating costs and expenses and amounts required to offset any current year losses are assigned to Members' patronage capital credit accounts on a patronage basis or, at the discretion of the Board of Directors, may be offset against losses of any prior fiscal year. All other amounts received from operations in excess of costs and expenses may be used to offset losses incurred during the current or any prior fiscal year and, to the extent not needed therefor, are allocated to Members on a patronage basis. The Cooperative may also retire previously allocated patronage capital credits out of its Retained Share (see Notes D and N). In accordance with the Cooperative's bylaws, the net deficits have not been allocated to the Member cooperatives.

Cash Equivalents: The Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications: Certain reclassifications have been made to the 1989 financial statements to conform to the 1990 presentation.

NOTE B - UTILITY PLANT

Electric plant-in-service at December 31 consisted of the following (in thousands):

	1990	1989
Production:		
Nuclear	$1,475,098	$1,471,068
Coal	1,015,450	1,016,170
Gas	31,708	32,348
Transmission	96,672	91,254
General	16,153	14,085
	$2,635,081	$2,624,925

Generating Unit	Net Megawatt Rating	Fuel	Cooperative Ownership Percentage	Cooperative Ownership Megawatts
River Bend	936	Nuclear	30%	281
Big Cajun 2, Unit 1	540	Coal	100%	540
Big Cajun 2, Unit 2	540	Coal	100%	540
Big Cajun 2, Unit 3	540	Coal	58%	313
Big Cajun 1, Unit 1	105	Natural Gas	100%	105
Big Cajun 1, Unit 2	105	Natural Gas	100%	105

Note B - Continued

River Bend and Big Cajun 2, Unit 3 are jointly owned by the Cooperative and Gulf States Utilities (GSU) (see Note K). Construction-in-progress consisted of improvements and additions to existing plants. The estimated cost to complete these projects at December 31, 1990 was approximately $9.8 million.

Nuclear fuel represents the Cooperative's 30% share of River Bend fuel and as of December 31 consisted of the following (in thousands):

	1990	1989
Nuclear fuel in process	$ 14,243	$ 25,451
Nuclear fuel in stock	177	
Nuclear fuel in reactor	78,978	76,698
Spent nuclear fuel	40,948	22,435
	134,346	124,584
Less nuclear fuel amortization	(74,036)	(58,590)
Net nuclear fuel	$ 60,310	$ 65,994

Nuclear fuel in process represents the accumulated cost, including interest during construction, of fuel required for the fourth reload and a portion of the fifth reload. The fuel is in various stages of conversion, enrichment or fabrication. The third refueling of River Bend occurred in September 1990. Spent nuclear fuel consists of the original cost of nuclear fuel assemblies, in the process of cooling, removed from the reactor during each of the three previous reloads.

Land relating to an abandoned lignite project has been retained as a possible site for a future generating facility and its cost, $9.8 million, is included in electric plant held for future use (see Note M).

The net change in accumulated depreciation and amortization for the years ended December 31 was (in thousands):

	1990	1989
Charged to operating expenses	$73,099	$72,619
Charged to fuel inventories and other assets	1,268	1,332
	74,367	73,951
Less asset disposals	(3,491)	(1,971)
	$70,876	$71,980

NOTE C - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at December 31 consisted of the following (in thousands):

	1990	1989
CFC	$ 7,704	$ 8,016
CoBank	41,819	37,680
Other	1,324	1,283
	$50,847	$46,979

NOTE D - LONG-TERM DEBT

On December 21, 1990, the Cooperative consummated a Debt Restructure Agreement (DRA) effective May 31, 1990, with the United States of America acting through the REA. As a result, the Cooperative is no longer in default on any of its debt. Since December 31, 1987, the Cooperative had been in default on its debt service obligations and, as a result of cross default provisions of various debt agreements, essentially all of the Cooperative's debt was deemed in default and subject to acceleration and was classified as a current liability. During the period in which it was in default, the Cooperative was operating under payment restrictions set forth in Section 3713 of Title 31 of the U.S. Code. As of December 21, 1990, the Cooperative was no longer operating under such payment restrictions.

Under the terms of the DRA, the Cooperative executed and delivered to REA two notes on December 21, 1990 which restructured all of the Cooperative's debt to and guaranteed by the REA: Note A, in the original face amount of $2,147,994,670 which matures on December 31, 2026 and Note B, in the original face amount of $1,037,007,550 which has a final maturity date of December 31, 2036. Both Notes A and B bear interest on the unpaid principal balance at a nominal rate of 8.64% with an assumed effective annual rate of 8.99%. Any accrued but unpaid interest on Notes A or B is added to principal on a monthly basis. The DRA provides that Note A may not be prepaid without the express written consent of REA. Note B may be prepaid without premium or penalty.

The DRA requires that Note A be paid in stipulated annual installments contained in the Note A debt service schedule. Under the terms of the DRA, so long as the annual amount due under the Note A debt service schedule has not been paid in full, on the

Note D - Continued

fifteenth business day of each month (the cash sweep date) the Cooperative pays to REA all cash balances at the end of the preceding month in excess of $35,000,000 (the permitted general funds cap) and certain other allowable reserves. Upon the date that advances are available to the Cooperative under a working capital line of credit, which is currently being negotiated, the general funds cap will be reduced to $25,000,000.

Payments on Note B prior to 2026 are contingent upon several factors, including member and nonmember sales growth, extraordinary cash receipts and the existence of cash in excess of the general funds cap at any month-end after all annual Note A required payments have been made. The existence of such excess cash will also result in additions to the Cooperative's Retained Share, which represents the amount of cash which the Cooperative may utilize for any valid corporate purpose, including the payment of previously allocated capital credits. Note B payments required for 1990 were $2.4 million, of which $1.1 million was paid prior to December 31, 1990 after the annual Note A debt service requirement of $118 million was satisfied, and the remainder is to be paid by April 8, 1991, resulting in a reduction of the general funds cap equal to the amount of the payment. At December 31, 1990, the Cooperative's Retained Share was equal to $544,552 (see Note N).

The DRA provides that the unpaid principal amount of Note B as of December 31, 2026 will be restructured as follows: The Cooperative will have the fair market value of its assets appraised as of December 31, 2026. An amount equal to sixty percent of the appraised value shall be paid in equal annual installments over the next ten years ending December 31, 2036 at the same interest rate, accrued and compounded monthly in the same manner as the present Note A. The remaining forty percent balance of Note B as of December 31, 2026 will be repaid over the subsequent ten year period in a manner consistent with the terms and conditions associated with Note B of the DRA. Any amount unpaid at December 31, 2036 will be due and payable in full as of that date.

Under the terms of the DRA, the Cooperative's debt which was in default prior to the DRA, and was guaranteed by the REA (the REA related debt: notes payable to the Federal Financing Bank, the Cooperative Utility Trusts, and CoBank) which is included in the restructured Notes A and B, was not retired or defeased but remains outstanding. The obligation of the Cooperative to REA arising out of the Citibank

Note D - Continued

Agreement is also part of Note B (see Note M). The DRA requires REA to make all of its guaranteed payments on the REA related debt in a timely manner, and, so long as no event of default has occurred under the DRA, REA agrees not to exercise any remedy it may have under the REA related debt loan documents. Additionally, the REA related debt will not be deemed fully satisfied until the Cooperative satisfies in full the requirements of Notes A and B. Under the terms of the DRA, in the event of default, REA may proceed under either the terms of the DRA or the REA related debt loan documents.

A portion of the underlying restructured REA related debt, aggregating $533 million at December 31, 1990, bears interest at varying rates, for which the Cooperative has assumed the interest rate risk. If the actual interest cost of this debt in any year is less than the benchmark amount set forth in the DRA, the difference will be added to the Cooperative's Retained Share. If the actual interest cost is greater, the Cooperative must pay the difference to the REA.

Long-term debt at December 31 consisted of the following (in thousands):

	1990	1989
Note A to REA, due in varying annual installments through 2026, interest at 8.64% compounded monthly.	$2,149,284	
Note B to REA, varying annual payments, based upon several contingent factors, final maturity December 31, 2036, interest at 8.64% compounded monthly.	1,089,276	
Citibank agreement, due June 1991 (see Note M).	48,870	$101,610
Portion of the Citibank agreement assigned or assignable to REA (see Note M).		70,248

Note D - Continued

	1990	1989
Industrial Development Revenue Bonds, series 1982, interest at two-thirds of prime rate (6.7% at December 31, 1990), due in 7 annual installments from 1991 through 1997. As a result of cross default provisions of the bond indenture, the 1989 balance of $3,600,000 was classified as a current liability.	$ 3,150	
River Bend construction and operations commitment, interest at a variable rate (7% at December 31, 1990), due in monthly installments of $600,000 (including interest).	5,124	$ 11,753
Less current portion of long-term debt	(54,443)	(59,426)
	$3,241,261	$124,185

Scheduled maturities of long-term debt including Note A principal and interest payments and excluding Note B payments are (in thousands):

1991	$ 90,573
1992	120,450
1993	135,450
1994	170,450
1995	170,450
Thereafter	8,225,900
	$8,913,273

Interest and other debt expense incurred on long-term debt, and on debt classified as current prior to debt restructure for the years ended December 31 consisted of the following (in thousands):

Note D - Continued

	1990	1989
Interest charged to operating expense	$270,768	$268,907
Other debt expense	8,310	(497)
Total interest and other debt expense	279,078	268,410
Capitalized interest on nuclear fuel	848	1,469
	$279,926	$269,879

For the years ended December 31, 1990 and 1989, the Cooperative, and the REA on behalf of the Cooperative, paid interest of approximately $189.3 and $236.4 million respectively.

Substantially all of the Cooperative's assets are pledged to secure the Cooperative's debt by the Supplement to the Supplemental Mortgage and Security Agreement (the REA mortgage) executed November 28, 1990 between the Cooperative, REA and CoBank in order to facilitate the DRA. Both the REA mortgage and the DRA contain certain restrictive covenants including limitations on indebtedness, capital additions, distributions to members and an agreement not to lower the Cooperative's wholesale electric rate for the term of the DRA. At December 31, 1990, the Cooperative was in compliance with all such covenants. Certain office facilities in Baton Rouge are separately pledged to secure Industrial Development Revenue Bonds.

CoBank is also secured by the REA Mortgage for two letters of credit amounting to approximately $65.3 million supporting potential indemnity payments under sale-leaseback transactions completed in 1983. During 1988, CoBank renewed the letters of credit for an additional five-year period.

NOTE E - SHORT-TERM INVESTMENTS

At December 31, 1990, the Cooperative's cash was invested in U.S. Treasury securities, U.S. government agencies securities, commercial paper and short-term obligations issued by financial institutions. All investments conform with the guidelines established by the REA. Maturities are selected to correspond with cash flow requirements and are generally for periods of less than three months.

NOTE F - INCOME TAXES

During 1983, less than 85% of the income of the Cooperative was collected from Members for the sole purpose of meeting losses and expenses. As a result, pursuant to Section 501(c)(12)(A) of the Internal Revenue Code of 1986 (the Code), as amended, the Cooperative became a taxable entity. The Cooperative has made an election under the Code to remain taxable through the year 2003 in order to participate in certain equipment leases. As a consequence of completing the DRA in 1990, the Cooperative reduced its net operating loss carryforwards by approximately $1 billion. The Cooperative had no current or deferred income tax provisions for the years ended December 31, 1990 and 1989.

At December 31, 1990, the Cooperative had general business credit carryforwards of approximately $166 million, of which approximately $9 million expire in 1999; $27 million in 2000; $128 million in 2001; and $2 million in 2002.

In addition, the Cooperative has loss carryforwards of approximately $1.4 billion which may be used to offset future taxable income. The expiration dates and amounts of the net operating loss portion of the total loss carryforwards are as follows (in thousands):

2004	$ 15,837
2005	231,809
	$247,646

The remaining losses of approximately $1.2 billion are attributable to Member activities and may be carried forward indefinitely.

The Cooperative has available approximately $100 million in net operating loss carryforwards for alternative minimum tax purposes which expire in 2005.

Also, the Cooperative has approximately $1.2 billion of losses attributable to Member activities for alternative minimum tax purposes which may be carried forward indefinitely. Additionally, approximately $166 million of the general business credit carryforwards of the Cooperative may be used to offset future alternative minimum tax. These credits expire in the same years as the general business credit carryforwards for regular tax purposes.

Note F - Continued

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, Accounting for Income Taxes. SFAS No. 96 must be adopted before 1993 and the extent of its impact has not yet been determined. The FASB has indicated that it intends to issue a new exposure draft on accounting for income taxes in 1991. The extent of the impact of any final statement which may be forthcoming from the exposure draft is uncertain at this time.

NOTE G - EMPLOYEE BENEFIT PLAN

All of the Cooperative's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program once they have met minimum service requirements. The Cooperative makes annual contributions to the plan equal to the amounts accrued for pension expense. In this master multiple-employer defined benefit plan, which is available to all member cooperatives of the NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. As a result of a better than anticipated return from the plan's investments, the Cooperative was not required to make contributions to the plan in 1990 or 1989.

NOTE H - RELATED PARTY TRANSACTIONS

In December 1986, the Cooperative purchased certain substation equipment owned by eight Members in order to better define the operating responsibilities of the transmission system. The aggregate purchase price of $12.4 million was partially financed by the Cooperative assuming long-term notes payable to the REA in the amount of $8.4 million. In addition, the Cooperative agreed to make payments to certain of its Members. During 1990, the Cooperative made payments of $2.2 million under the terms of this agreement. Final REA action on certain of these transactions is still pending as of December 31, 1990.

NOTE I - SPENT NUCLEAR FUEL AND DECOMMISSIONING RESERVES

GSU has executed a contract with the Department of Energy (DOE) whereby the DOE will furnish disposal service for the spent nuclear fuel from River Bend. Currently, the cost amounts to one-tenth of one cent per kilowatt hour of net generation. The Cooperative, as a joint owner of River Bend, shares this cost with GSU. The DOE spent nuclear fuel fee is subject to change in accordance with the provisions of the Nuclear Waste Policy Act of 1982.

The Nuclear Regulatory Commission in 1988 issued final regulations setting forth the technical and financial criteria for decommissioning licensed nuclear facilities. The regulations require electric utilities either to certify that a minimum dollar amount will be available to decommission the facility or to submit a decommissioning funding plan. In addition, these regulations require that financial assurance be provided by either prepayment, an external sinking fund, or by a surety, insurance, or other form of guarantee. In response to these regulations, on December 2, 1988, the Cooperative established an external grantor trust, the River Bend Decommissioning Trust Fund, and intends to make annual contributions to accumulate an amount which will be sufficient to pay for its share of the cost of decommissioning at the end of the estimated useful life of River Bend. Annual contributions to the trust based on current estimates and assumptions are approximately $1.4 million. As of December 31, 1990, the balance in the River Bend Decommissioning Trust Fund was $7.1 million.

The Cooperative is required by the State of Louisiana Department of Environmental Quality (DEQ) to provide assurance that it has the ability to fund the actions which will be necessary to rehabilitate its Big Cajun 2 ash and wastewater impoundment areas which, as disposal sites, are subject to DEQ review and supervision. The total liability for funding the solid waste disposal site rehabilitation is currently estimated to be approximately $4 million, of which GSU is responsible for approximately $500,000. On July 1, 1989, the Cooperative created the Solid Waste Disposal Trust and deposited $1.06 million with the trustee in satisfaction of its DEQ funding requirements. The annual contributions to the trust are approximately $116,000. The actual payments for site rehabilitation are not scheduled to occur until the end of the estimated useful life of the Big Cajun 2 coal-fired facility. The balance in the Solid Waste Disposal Trust at December 31, 1990 was $1.2 million.

NOTE J - NUCLEAR INSURANCE

The ownership of an undivided interest in River Bend subjects the Cooperative to certain risks. The Cooperative is insured, as described below, for public liability and property damage.

The Price-Anderson Act (the Act) was renewed by Congress in 1988 and was extended through August 1, 2002. Public liability under the Act for any nuclear incident is currently limited to $7.8 billion. The Cooperative and GSU are insured for this exposure by private insurance as well as by a secondary financial program. Recent legislative changes to the Act related to the secondary financial program may require the Cooperative to become subject to a possible retroactive assessment of which the Cooperative's share would not exceed $19.8 million per incident with a maximum of $3 million per incident payable in any one year for losses at any licensed nuclear facility.

The Cooperative, together with GSU, maintains $500 million of property damage insurance and $700 million of excess insurance related to River Bend obtained from the private insurance market. Additionally, the Cooperative is a member-insured of the Nuclear Electric Insurance Limited (NEIL II) program which provides $1.1 billion of excess property insurance. As a member-insured of NEIL II, the Cooperative is subject to a maximum assessment of $2.1 million in any one policy year. Although the Cooperative and GSU continue to attempt to increase insurance coverage as it becomes available, the Cooperative can give no assurance as to the adequacy of its coverage in the event of a major accident. Total available property damage insurance is substantially less than the potential insurable value of River Bend. The Cooperative has joined GSU in establishing a Nuclear Workers' Liability policy which covers liability for the claims of workers employed at River Bend after January 1, 1988 for noncatastrophic nuclear related injury such as prolonged exposure to low-level radiation. Any claims by workers employed at River Bend prior to January 1, 1988 will continue to be covered under the Nuclear Workers' Liability policy if the claim is made by December 31, 1997. Under the Nuclear Workers' Liability policy, the Cooperative is subject to a maximum potential retrospective premium assessment of $1.2 million. It is possible that liabilities related to the

Note J - Continued

release or escape of a hazardous substance from River Bend may be greater than the coverage on policies currently carried and, consequently, sting insurance may not be sufficient to meet all possible liabilities or losses. The Cooperative cannot provide assurance that it will be able to maintain coverage at present levels. Any liability or loss in excess of that covered under existing policies could have a material adverse effect upon the Cooperative.

NOTE K - GULF STATES UTILITIES COMPANY

In August 1979, the Cooperative and GSU entered into a contractual agreement for the joint ownership of River Bend (see Note B). The unit was declared to be in commercial operation as of June 16, 1986. The Cooperative has a 30% undivided interest in River Bend and is responsible for 30% of River Bend's costs of construction, capital additions and operations. GSU is the operator of the facility. GSU paid the Cooperative approximately $66 million in 1990 and $94 million in 1989, and is expected to pay $27 million in 1991 over the remaining one-half year term of a five-year capacity and energy sellback agreement related to River Bend (see Note M).

In November 1980, the Cooperative and GSU entered into a contractual agreement for the joint ownership of Big Cajun 2, Unit 3, and certain common facilities at Big Cajun 2 (see Note B). The Cooperative retained a 58% undivided ownership interest in Unit 3 and an 86% undivided ownership interest in the common facilities. The Cooperative is the operator of the Big Cajun 2 facilities.

The Cooperative filed suit on June 20, 1989 against GSU in United States District Court in Baton Rouge alleging fraud in the inducement to enter into the River Bend Joint Ownership Participation and Operating Agreement (JOPOA) as well as misrepresentation, mismanagement, breach of fiduciary duty and breach of contract. The Cooperative seeks the annulment of the River Bend JOPOA and the recovery of its investment in River Bend (approximately $1.6 billion) as well as damages resulting from the Cooperative's participation in the River Bend project. The Cooperative is seeking further damages associated with excessive operating costs of the facility which arose due to GSU's alleged mismanagement. On November 7, 1990, GSU filed an amended counterclaim with the court requesting that the Big Cajun 2, Unit 3 JOPOA be rescinded and asked for an appropriate monetary judgment sufficient to place

Note K - Continued

the Cooperative and GSU in the same position as if the Big Cajun 2, Unit 3 JOPOA were never consummated. Additionally, GSU's counterclaim asserts that its present transmission arrangements with the Cooperative should be terminated by the court. Further, GSU asserts that in any event it is entitled to monetary damages resulting from an alleged breach of contract and fiduciary duty by the Cooperative. The timing or outcome of these matters is uncertain.

NOTE L - RATES AND REGULATION

In 1989, following two years of litigation, the Louisiana Supreme Court held that the LPSC has plenary authority over all rural electric cooperatives in the State. In October 1989, the Cooperative's rate schedules were filed with and accepted by the LPSC.

In May 1990, the LPSC ordered that the Cooperative reduce its base rates to its Members by 4 mills per KWh, and the Cooperative did so. This rate decrease essentially replaced a special fuel-related credit that the Cooperative had been flowing through to its Members, which was to expire in that month.

In July 1990, the LPSC approved the DRA with certain conditions. One of these conditions was that the Cooperative's average annual rate to its Members in 1990 and 1991 be no higher than 54.5 mills per KWh. To meet this requirement the Cooperative reduced its fuel cost adjustment by approximately $900,000 in 1990.

The Cooperative has no formal rate change application on file with the LPSC, but the LPSC has initiated an examination of the Cooperative's rates. Initial discovery in this matter took place in 1990. The timing of hearings before the LPSC on this matter is uncertain.

In addition to LPSC regulation of the Cooperative's rates, under the DRA, REA must approve any rate change prior to its being implemented. Additionally, the DRA requires the Cooperative to obtain REA approval prior to filing with the LPSC for a change in any rate or rate schedule.

NOTE M - COMMITMENTS AND CONTINGENCIES

Equity And Margin (Deficit): The Cooperative expects to incur continuing and substantial annual deficits for the foreseeable future and also expects that its Unallocated Deficit [a component of equity and margin (deficit)] will continue to increase because of interest expense that is accrued but not paid. The debt restructure completed in 1990 recognized that the Cooperative was unable and would continue to be unable to pay previously scheduled debt service (principal and interest) on all of its debt and therefore split substantially all of its future debt service obligations into Note A and B components in order to avoid forcing a restructure or reorganization under the bankruptcy code.

Under Generally Accepted Accounting Principles, the Cooperative must continue to accrue the interest expense on Note A and Note B, however, payments on Note A are based on a nontypical amortization schedule specifically set forth in the DRA while payments on Note B prior to 2027 are required only when certain contingent events occur (see Note D). The interest that is accrued but not paid is added to the balances of the notes each month thereby increasing the debt of the Cooperative even though a default has not occurred.

The interest expense that is accrued but not paid will continue to cause annual deficits and a deteriorating net worth, but neither is an event of default. Accordingly, the Cooperative expects to continue to operate as a going concern in the normal course of business notwithstanding the continuing and substantial annual deficits.

Citibank: On February 3, 1989, Citibank filed suit against the Cooperative in the United States District Court for the Southern District of New York alleging damages of approximately $209 million, including interest and other charges, as a result of drawings on its letters of credit which occurred in 1988 when the Cooperative's pollution control revenue bonds were called and redeemed. On April 21, 1989, the court returned a judgment against the Cooperative of $209,487,183 plus accrued interest at 9.51% from the date of the judgment. On June 19, 1989, the Cooperative,

Note M - Continued

REA and Citibank entered into an agreement whereby the Cooperative agreed to make the following payments to Citibank in full satisfaction of Citibank's rights under the judgment (in thousands):

June 20, 1989	[illegible] 000
June 1, 1990	[illegible] 740
June 3, 1991	48,870
	$146,610

As part of the agreement, Citibank agreed to forego its rights to enforce the judgment so long as the three payments are made when due. The agreement also provided that Citibank would transfer to REA a severed interest in the judgment of $86.9 million with accrued interest at 9.51% which was included in Note B (see Note D). In 1991, REA's severed interests in the judgment will be converted to a note to REA and the judgment will be deemed satisfied. The note to REA will be treated as part of Note B in accordance with the DRA (see Note D).

Gulf States Utilities Company: On July 17, 1987, the Cooperative filed a complaint with the FERC against GSU alleging overbilling and improper cost allocations for certain transmission service charges. On May 11, 1989, a FERC administrative law judge issued an initial opinion which could require the Cooperative to pay GSU approximately $19.3 million for transmission charges for the period 1981 through 1990. The FERC will make a final determination on the initial opinion which may increase, reduce or eliminate the Cooperative's potential liability to GSU. After final FERC action, either party may pursue further appeals through the federal court system. At December 31, 1990, GSU alleged that the Cooperative had underpaid these transmission charges in the amount of approximately $82.9 million. The final timing or outcome of this matter is uncertain.

Coal and Transportation Commitments: Purchases under the terms of contracts for the acquisition and related transportation of coal during 1990 and 1989 were approximately $121 million and $120 million, respectively. Certain purchases are subject to various price escalators and deflators, minimum quantity takes and periodic price reopeners at then current market prices. Management is of the opinion that these contracts will properly meet anticipated coal supply needs. The transportation contracts begin to expire in 1999 while the coal contracts are for

Note M - Continued

the useful life of the coal-fired generating facility provided the present supplier is willing to meet or better offers from other suppliers at scheduled periodic price reopeners.

Litigation: As explained more fully in Note K, the Cooperative filed suit on June 20, 1989 against GSU alleging fraud in the inducement to enter into the River Bend JOPOA as well as misrepresentation, mismanagement, breach of fiduciary duty and breach of contract. Also, on November 7, 1990, GSU filed an amended counterclaim against the Cooperative. The timing or outcome of these matters is uncertain.

On March 7, 1990, the Cooperative executed a settlement and compromise agreement with a coal company concerning litigation related to abandoned lignite projects. On March 9, 1990 the Cooperative paid a cash settlement of $9.2 million and agreed to transfer 120 acres of land in full settlement of all claims. The transfer of the land is expected to take place in 1991 after approval by the REA.

On September 20, 1989, a class action petition was filed in the Tenth Judicial District State Court in Natchitoches Parish, Louisiana naming the Cooperative's Members as defendants. The plaintiffs in this action seek a refund of all rate increases enacted by the Cooperative's Members from 1978 until the respective Member voted to be subject to the jurisdiction of the LPSC or was placed under the jurisdiction of the LPSC by action of the State Supreme Court (see Note L). On June 23, 1990, a motion was filed by the Cooperative's Members to name the Cooperative as a third party defendant in the case. The timing or outcome of this matter is uncertain.

On December 13, 1990, Sam Rayburn G&T Cooperative, Inc. (SRG&T) filed suit against the Cooperative in a Texas state court seeking specific performance by the Cooperative of a contract to provide for the sale of a 7% undivided ownership interest in Big Cajun 2, Unit 1. The contract had expired, according to its terms, on June 1, 1990. Further, SRG&T petitioned the court to rule, if specific performance is not granted, that a firm power sales contract between SRG&T and the Cooperative be declared null and void. Additionally, SRG&T filed a motion requesting that proceeds from the firm power sales contract be paid into

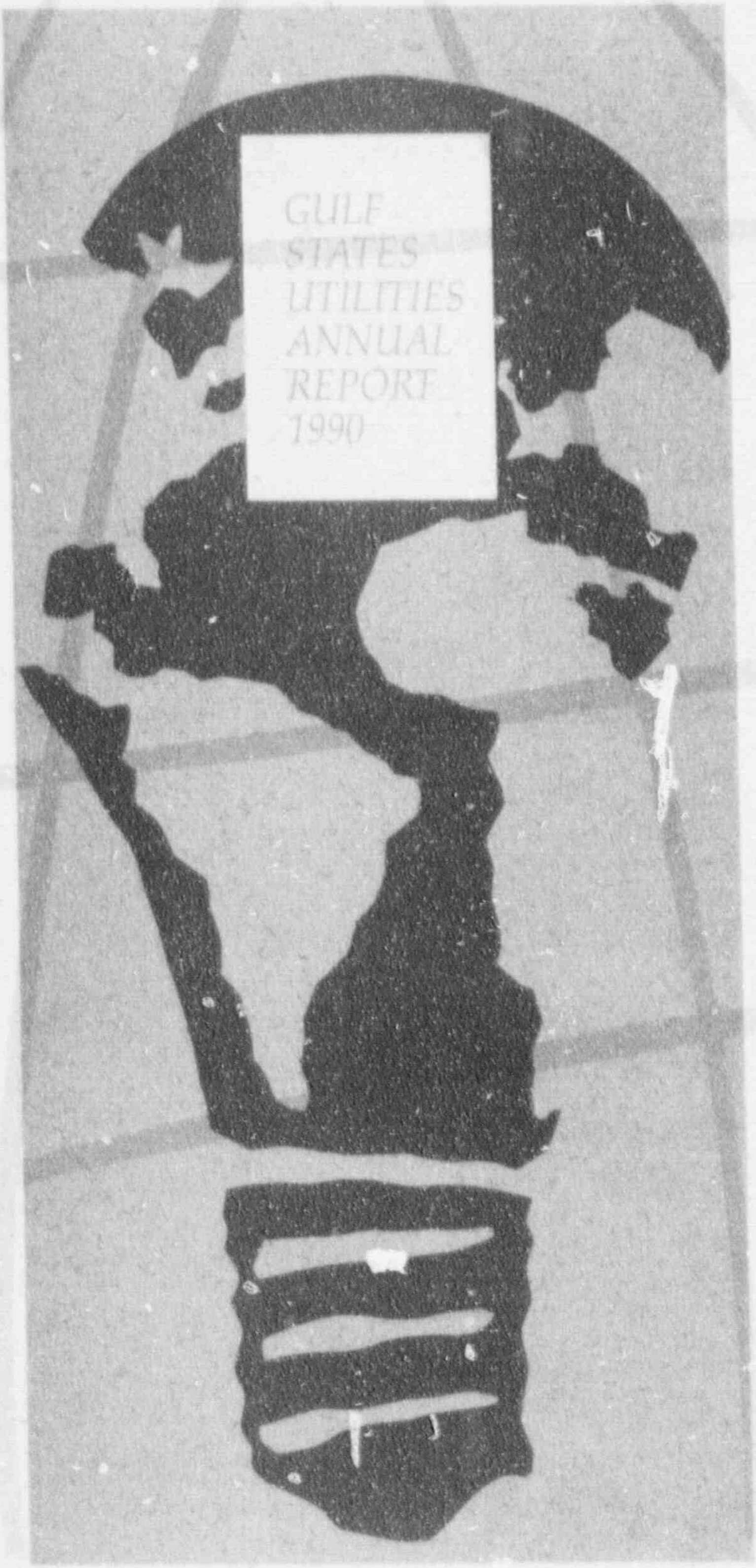
Note M - Continued

the registry of the court. The Cooperative successfully removed the suit to federal court and has filed a motion requesting transfer of the suit to Louisiana. The timing or ultimate outcome of this case is uncertain (see Note N).

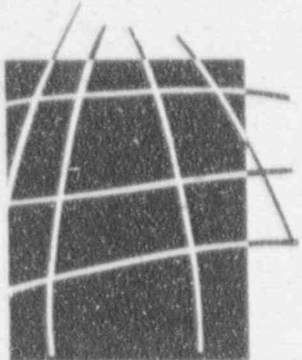
NOTE N - SUBSEQUENT EVENTS

Litigation: On February 19, 1991, The United States District Court for the Eastern District of Texas denied SRG&T's motion requesting that it be allowed to deposit the payments under its firm power sales contract with the Cooperative into the registry of the court.

Retained Share: On February 25, 1991, the Cooperative's Board of Directors approved a distribution to the Members of the balance of the Cooperative's Retained Share in the amount of $544,552 to pay previously allocated capital credits. The distribution was made on March 5, 1991.



Age of the Environment



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DESCRIPTION OF BUSINESS

Gulf States Utilities Co. generates, transmits and sells electricity to more than 570,000 customers in a 28-thousand square mile area that stretches 350 miles west from Baton Rouge, La., to a point about 50 miles east of Austin, Texas.

The territory served by Gulf States has a population of about 1.43 million and includes the northern suburbs of Houston and the major cities of Conroe, Huntsville, Beaumont and Port Arthur in Texas and Lake Charles and Baton Rouge in Louisiana.

At the end of 1990 the company was providing wholesale service to seven municipalities and three rural electrical cooperatives in both states. In addition, GSU supplies steam and electricity to a large industrial customer through a cogeneration facility in Baton Rouge and is a partner in a cogeneration project, Nelson Industrial Steam Co., near Lake Charles.

Gulf States owns and operates a natural gas retail distribution system serving more than 83,000 customers in the Baton Rouge area.

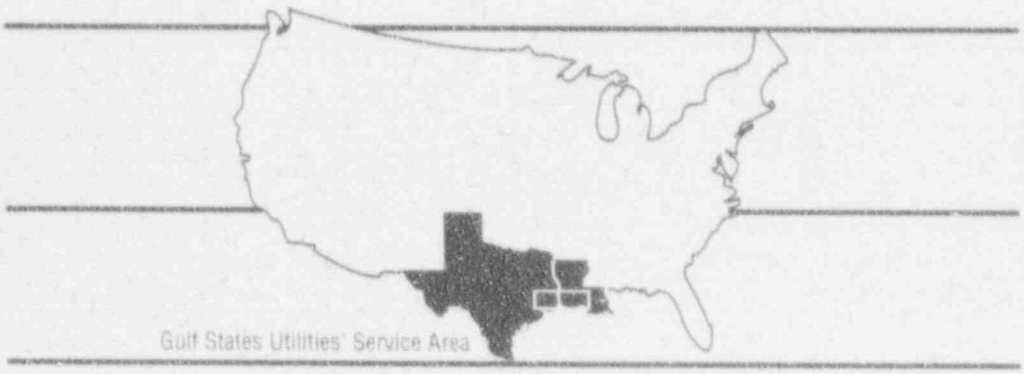
As a member of the Southwest Power Pool, the company has the ability to interchange electricity with 44 members (29 full members and 15 associated members) in eight states in the South and Southwest.

In 1990, Gulf States had a peak load of 5,388 megawatts. Installed capacity and firm purchased power agreements totaled 6,553 megawatts at the time of the peak.

GSU headquarters is located at 350 Pine St., Beaumont, Texas.

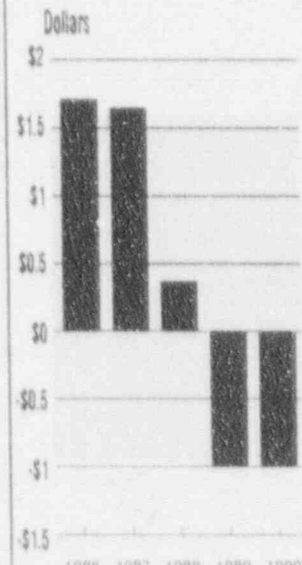
About the Cover:

The global nature of environmental matters — protection of our air, land and water resources — has expanded thinking beyond local boundaries and concerns. Gulf States Utilities' commitment to preserving our environment is a long-standing one.



Financial Highlights	1990	1989	% Change
Operating Revenue (000)	$1,690,685	$1,607,406	5.2
Operating Expenses and Taxes (000)	$1,357,452	$1,279,586	6.1
Net Loss (000)	$ (44,282)	$ (45,573)	2.8
Loss Applicable to Common Stock (000)	$ (107,024)	$ (108,412)	1.3
Loss per Average Share of Common Stock Outstanding	$(0.99)	$(1.00)	1.0
Dividends per Share of Common Stock	—	—	—
Average Common Shares Outstanding (000)	108,055	108,055	—
Number of Electric Customers (end of year)	570,738	563,277	1.3
Total Kilowatt-Hour Sales (000)	28,964,499	27,466,189	5.5
System Peak Load — Kilowatts	5,388,000	5,040,000	6.9

Earnings per Share of Common Stock



During 1990, the company recorded a $1.25 per share charge for the settlement of a long-standing purchase power contract dispute with the Southern Co.

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Report to Shareholders

E. Linn Draper Jr.

DEAR FELLOW SHAREHOLDERS:

It has been too many years since this letter has offered you very much hope for the future. Although I still cannot give you a precise date as to when dividends can be resumed, I am more optimistic about what lies ahead than I have been in some time. Challenges certainly remain, but progress has been made. The patience you have shown is deeply appreciated by the board of directors, management and employees of the company.

As you know, GSU's weakened financial condition in recent years has kept us from having access to traditional sources of funding at reasonable terms. Although lacking the cash to pay dividends, we have been able to handle our maturing debt as a result of modest rate increases, continued cost control, increased electric sales and other self-help measures.

It is our hope that, assuming there are no surprise setbacks in the near future, we will be able to refinance some of our remaining debt. There are no guarantees, but if those steps are taken, we then may be in a position to look at beginning to pay back the accumulated dividend arrearages that are owed our preferred and preference shareholders. As of March 15, 1991, that obligation will be nearly $267 million.

We have reported a loss of 99 cents per share of common stock for 1990. This compares with a $1 loss per share for 1989.

It is important to note that the earnings per share the past two years have been significantly impacted by write-offs and accounting charges. In the second quarter of 1990, the company booked a $135 million after-tax charge for the settlement with the Southern Co., which is discussed elsewhere in this report. This amounted to $1.25 per share, which means that without this charge, we would have shown earnings of 26 cents per share. In 1989 accounting charges amounted to 85 cents of the $1 per share loss.

What is clearly a positive sign is the 5 percent increase in our kilowatt-hour electric sales over the previous year. This is the largest advance since we started posting higher sales in 1988 following three years of declining sales.

One of the biggest clouds hanging over Gulf States for several years is hopefully about to dissipate. GSU and the Southern Co. announced in June 1990 that we had reached an agreement in principle to settle our lawsuits. The two companies signed the documents in December and we are now working on regulatory approvals of the settlement.

Our board of directors realized that it would take several more years and millions of dollars in legal expenses to resolve the lawsuit GSU filed in 1986, with no assurances as to the outcome. With this behind us, we can now spend our time and our resources looking to the future. We would not have taken this step had we not been convinced it was in the best interest of the company, its shareholders and its customers. Details about the agreement will be found elsewhere in this report.

Some of you may be aware that there have been numerous rumors that Gulf States was merging with another utility company or was being acquired. These rumors have been floating about for several years, intensifying at times, diminishing at others.

Our policy is not to comment on merger or acquisition rumors, market activity, possibilities or negotiations unless legally required to do so, as occurred in late November 1990. During a hearing in our just concluded rate case in Louisiana, both Joe Donnelly, our chief financial officer, and I were asked, under oath, about rumors regarding merger discussions. I said I had engaged in informal conversations recently with the chief executives of two neighboring utilities, during which they indicated some interest in possible mergers or acquisitions. I also told the commissioner who had asked the

question that similar conversations had occurred earlier with two other companies.

Gulf States has hired an investment banker and a law firm knowledgeable about acquisitions and mergers to "stand ready" should anything develop. In September 1990 a four-person committee comprised of outside directors was appointed to "study and report to the board with respect to the long-term business plans of the company and alternatives and courses of action which would be in the long-term best interest of the company and all of its shareholders." I will be working with the committee in its on-going process of considering our alternatives, which will include follow-up on the indications of possible interest I received. We expect to continue our "no comment" policy and do not intend to update the testimony in Louisiana or to comment further unless and until material developments occur which require us to do so.

The decade of the 1980s was a difficult one for our company. In many ways, the '90s are already looking better. We have ample generating capacity to help the area continue its economic rebound at a time when other regions are worried about power shortages. We have a diversified fuel mix that will help insulate our customers from the effects of fluctuations in the price of oil and other energy sources. We have a fuel mix that is kind to the environment, which means that, unlike some utilities, we will not have to spend hundreds of millions or even billions of dollars to comply with the new Clean Air Act. We also sponsor many programs dealing with wildlife conservation, land management and recycling.

This report, printed on recycled paper, has an environmental theme. As you read it, I believe you will be impressed by the outstanding job our employees have done in protecting nature's resources despite a shortage of financial resources.

It is with a great deal of regret that I tell you Ned Hiam is stepping down from our board of directors at the annual meeting in May. He has helped guide Gulf States for 32 years, longer than any other director in the history of the company. His dedicated attention to the business of the company, through good times and bad, and the able and conscientious manner in which he has given counsel and assistance to me and past chairmen over the years will be sorely missed. I wish we could have persuaded him to remain.

Our employees take pride in their company and, even though they've been through tough times too, somehow they still find the time to serve as a mentor to a Vietnamese child, collect discarded computer paper during coffee breaks, volunteer to help make a wetlands site a refuge for wintering migratory waterfowl and get involved in many other volunteer programs that help our communities and the nation be better places in which to live.

Then there is the one major piece of unfinished business that is of prime concern to each of you. It is constantly in my thoughts, too. I assure you once again that the dividend question will be addressed the moment we feel we are financially able to do so — and not one second later.

Sincerely,

E. Linn Draper Jr.

E. Linn Draper Jr.
Chairman of the Board,
President and Chief
Executive Officer

March 1, 1991

1990-Year in Review

Electric Sales in '90 Bright Spot for Year

Gulf States Utilities reported a 99 cent loss per share of common stock for 1990, compared with a $1 loss per share for 1989. One bright spot for 1990 was electric sales, which increased for the third year in a row.

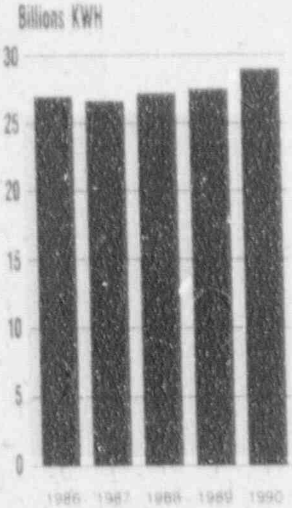
The results for the year include a $135 million after-tax charge, equivalent to $1.25 per share, booked during the second quarter to reflect settlement with the Southern Co. In 1989, non-cash accounting charges totaled $92 million, which penalized earnings by 85 cents per share.

Excluding the accounting charges for both years, earnings from operations improved slightly in 1990, compared with 1989. Increased kilowatt-hour sales and reduced interest charges, resulting from the retirement of $219 million of debt during the year, contributed to the improved performance.

Sales for 1990 totaled 29 billion kwh, 5 percent more than the 27.5 billion kwh sold during 1989. The increase in sales was primarily the result of more industrial activity, hotter than normal weather and a 1.3 percent increase in the number of customers.

It should be noted that about one-quarter of the megawatt-hour sales to industrial customers during 1990 were at rates that are currently discounted from full recovery rates.

Electric Sales



The increase in residential and commercial electric sales for 1990 came largely as a result of an extremely hot summer resulting in all-time high temperatures. Industrial sales remained firm.

The company provides these rates for two reasons: first, to attract new industries and, second, to keep existing large customers on the GSU system. A number of the large industrial customers have the ability to generate their own electricity if GSU rates do not remain attractive to them.

Texas Commission Could Rule March 20

At its March 7, 1991, meeting, the Public Utility Commission of Texas (PUCT) said it could rule March 20 on a proposed settlement of GSU's rate case. The current rate case addresses River Bend investment already in the rate base and routine operating and maintenance expenses.

The company, which had asked for a $65 million base rate increase, put that amount into effect under bond on Dec. 11, 1990, subject to a refund of any difference between that amount and the rate increase approved by the PUCT.

This rate case is the latest development in a regulatory saga that began in November 1986 with the filing of a rate case to allow GSU to begin recovering costs associated with building River Bend. That case ended before the PUCT in May 1988 when the commission declared about $1.6 billion of the systemwide costs of the nuclear plant as prudently incurred and recoverable, granted a $60 million one-time increase and set aside approximately $1.4 billion of the company's systemwide plant investment with no findings as to prudency. The PUCT, in its final order, anticipated addressing the prudency of this portion of the investment in a later proceeding.

Therefore, in March 1989, GSU filed another rate case, including evidence supporting the prudency of the set-aside River Bend costs. Intervenors obtained an injunction from

a state district court barring the company and the commission from proceeding on this portion of the rate case. Although the injunction was dissolved by the intermediate appellate court, the Texas Supreme Court on Sept. 12, 1990, upheld the lower court, saying the set-aside costs could not be relitigated in this rate proceeding.

The state Supreme Court denied motions for rehearing on Nov. 28, 1990, and the company appealed to the U.S. Supreme Court in February 1991.

The Texas Supreme Court ruling in September, which does not constitute a disallowance of the disputed River Bend costs, was accompanied by a strong dissent saying, in essence, Gulf States should not be punished for erroneous decisions made by the PUCT in its 1988 rate order.

The majority opinion did state that all issues pertaining to the original order including the prudence of all River Bend-related costs, remain to be addressed in the appeal of the 1988 rate order. This appeal was assigned to a district court in December 1990. Gulf States had asked the district judge for an immediate remand to the commission, but in early February 1991 he notified parties that "this case should proceed to a final resolution on all issues before the court. . . ."

Hearings in the rate case began in September 1989 and were temporarily suspended in late 1989 while the parties waited for the state Supreme Court ruling.

They resumed on Oct. 12, 1990, after the court had issued its ruling and concluded on Dec. 18, 1990. The company told the PUCT on Feb. 20, 1991 that "serious, fruitful negotiations" were continuing, although no settlement had been reached.

LPSC Renders Favorable Decision

The Louisiana Public Service Commission (LPSC) on Feb. 26, 1991, granted Gulf States a $16.8 million rate increase.

In approving the recommendation of its consultants and special counsel, the LPSC said this increase would be the last in a series of four related to the construction of the River Bend nuclear power plant. The company had requested a fourth-step increase of $29.9 million and had indicated the need for a fifth-step increase of $12.9 million.

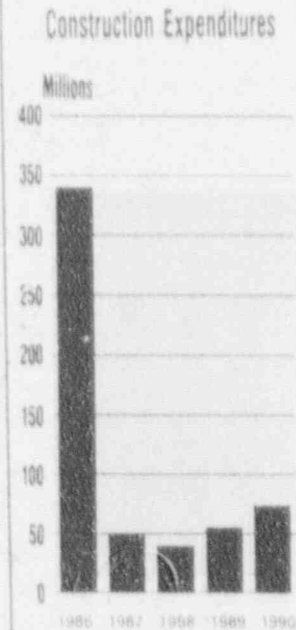
The company will evaluate the rate case decision before determining if certain aspects will be appealed.

The filing, made on Oct. 26, 1990, was in compliance with the court-ordered phase-in plan for River Bend construction costs and included updated cost allocation and expense information.

In December 1987, the commission permanently disallowed $1.4 billion of River Bend costs on a systemwide basis and ordered a $63 million rate increase to enable GSU to recover the $1.6 billion portion of the plant the commission deemed prudent. The company immediately filed suit in state district court.

In February 1988, a state court judge, acting on GSU's application for injunctive relief, ordered an additional $29 million rate increase, for a total of $92 million, and a phase-in plan to allow Gulf States to recover prudent River Bend construction costs.

In October 1989, a second district court judge affirmed the LPSC's finding that the company was imprudent to have restarted construction of River Bend in 1979 instead of building a lignite-fired



Construction expenditures (excluding nuclear fuel) declined dramatically following the completion of River Bend in June 1986. Stringent cash saving measures also contributed.

1990-Year in Review

plant, but did allow modified "inventory" or "deregulated asset" treatment for the disallowed portion. This allowed GSU to sell power from the deregulated part of the plant to customers or, with LPSC permission, off-system. In addition, the judge made permanent the series of rate increases in the phase-in plan.

Gulf States is waiting for a decision from the Louisiana Supreme Court in the consolidated appeal of the phase-in and deregulated asset plans ordered by the state district court, as well as the finding of imprudence by the LPSC in the court. The Supreme Court heard oral arguments in October and December 1990. A decision could be issued at any time.

Purchased Power Conflict Settled

Gulf States and the Southern Co. in December 1990 signed an agreement to settle a long-standing dispute involving purchased power contracts.

In June, the two companies announced they had reached an agreement in principle to terminate the contracts and end the litigation between the parties.

The settlement and the regulatory treatment of it must be approved by the boards of directors of the companies and the settlement itself by various regulatory agencies and the court that has jurisdiction over the lawsuits. It is the intent of Gulf States and the Southern Co. to obtain these approvals by April 30, 1991.

The GSU board approved the settlement on Feb. 7, 1991.

Under the terms of the agreement, GSU's initial cash outlay will be limited to about $7 million while the timing and, in part, the amount of future cash payments will depend on the pace of GSU's financial recovery. Between now and 1999, Gulf States' total cash payment could be as little as $167 million and 6 million shares of GSU's common stock. The Southern Co. claimed GSU owed about $1 billion.

Major elements of the agreement are:

- Gulf States will provide the Southern Co. with about $7 million in cash, plus the $68 million that has accumulated in an escrow account established by the federal court while the contract was in dispute.

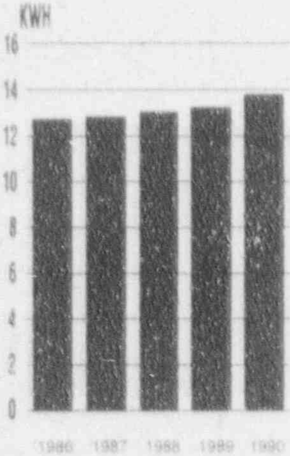
- GSU will issue 6 million shares of common stock to the Southern Co. which, under terms of the agreement, could exercise its voting rights as a stockholder only in very limited circumstances.

- On Jan. 1, 1993, GSU may be required to make a cash payment to the Southern Co. based on the performance of Gulf States' common stock. If GSU's common stock trades at an average high of at least $18.25 per share for five consecutive days between the time the settlement takes effect and Jan. 1, 1993, Gulf States would pay nothing. If the common stock price does not meet this criterion during that period, Gulf States would pay the Southern Co., based on its 6 million shares, the difference between $18.25 and the highest average price the stock attained for five consecutive days.

- Gulf States will provide the Southern Co. with a $160 million promissory note which is non-interest bearing prior to Jan. 1, 1993.

- Payments on the promissory note and on the stock differential, if any differential payments are due, will be deferred and will accrue interest after Jan. 1, 1993, if GSU has not been able to resume common stock dividend payments by that

Average Residential Electric Use (per customer)



The increase in residential use recorded since 1987 reflects greater customer demand for electricity in the form of larger homes being built in the area and more electric appliances in use.

time and does not have cash available above an agreed minimum balance. In any event, full payment would be due Jan. 1, 1999.

■ The Lewis Creek power plant and the stock of GSG&T, a GSU subsidiary that owns the 520-megawatt gas-fired station near Willis, Texas, will be provided as collateral for GSU's future payments.

The settlement resulted in an after-tax charge to net income of $135 million.

Discovery Continues in Cajun Lawsuit

In mid-1989, Cajun Electric Power Cooperative, Inc. filed suit against Gulf States charging GSU misrepresented the costs of building River Bend in order to lure the cooperative into becoming a partner in the project. No court date has been set and the parties are in the discovery phase of the litigation.

After Cajun filed suit, the federal district court turned down GSU's petition to have the Rural Electrification Administration included as a party. However, in October 1990 the U.S. Department of Agriculture, to which the REA reports, subpoenaed GSU to supply it with documents regarding River Bend cost estimates. The federal agency said it was investigating guaranties of loans made by the REA to Cajun to enable the cooperative to participate in River Bend.

A USDA official reviewed the records they requested on-site at River Bend and at GSU corporate headquarters, completing the review in late January 1991.

The Louisiana Public Service Commission applied to become a party in the lawsuit, but the court denied the motion to intervene in September 1990.

River Bend Continues Sound Operations

During 1990, the River Bend Nuclear Generating Plant completed its third refueling and maintenance outage in record time, posted a 68.2 percent capacity factor for the year and received a good "report card" from the Nuclear Regulatory Commission.

Gulf States owns 70 percent of the 936 megawatt unit near St. Francisville, La., and the Cajun Electric Power Cooperative owns the remaining portion.

River Bend was taken off line for refueling on Sept. 29, 1990, about two weeks later than originally scheduled because of excessively hot weather in the service area, and went back into service on Dec. 4, 1990. This 66-day outage represents River Bend's best refueling time by a margin of 19 days, or 22 percent faster than the previous best. Refueling is done approximately every 18 months. During this outage, about one-quarter of the uranium fuel was replaced and preventive maintenance tasks and surveillance test procedures were performed to ensure the continued reliable performance of the plant.

During its 4½ years of commercial operation, River Bend has demonstrated a capacity factor of 66.3 percent and equivalent availability of 68.7 percent. The capacity factor over the past three years, which included two refueling outages, has been about 72 percent. A capacity factor is the actual generation as a percentage of a unit's maximum capability, while equivalent availability means the percentage of time the unit was available for service.

For the year 1990, the plant recorded a 68.2 percent capacity factor and a 69.5 percent equivalent

GSU People Serve in Persian Gulf War

At least eight Gulf States employees were called to active duty with the National Guard or military reserves after Saddam Hussein marched into Kuwait on Aug. 2. Two of these employees were deployed to Saudia Arabia.

There are about 30 reservists or National Guard members employed by the company, a number of whom say others in their units had been activated.

For those GSU reservists or National Guard called up, Gulf States will make up the difference between their military pay and allowances and their normal GSU salary or wages for up to 12 months.

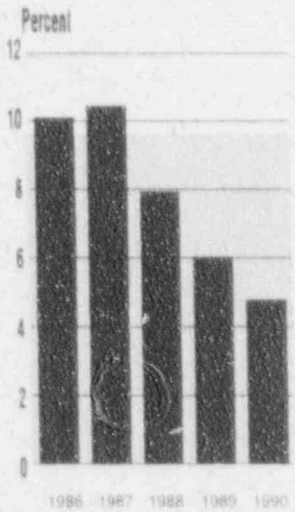
The company also agreed to allow employees called to active duty to continue their GSU health insurance coverage by paying their usual premiums.

For customers, Gulf States is making special bill payment arrangements for any family that requests it and presents a copy of the service man or woman's orders. Those helped so far have included families with a member directly involved in Operation Desert Storm, as well as some with relatives serving at other military posts.

Few GSU employees have not been touched by the situation in the Persian Gulf. If not a brother, son or daughter, almost everybody who works for Gulf States has a friend or neighbor either called to active duty or serving his or her country half way across the world.

1990-Year in Review

Return on Average Capitalization



Return on average capitalization has declined sharply since 1987 due to insufficient rate relief.

availability, an improvement on the previous performance of the plant.

The NRC conducted a comprehensive review of GSU's performance in managing River Bend for the period from Oct. 1, 1988, through Dec. 31, 1989, and issued its report in March 1990. The federal agency gave the plant the highest possible performance ratings, Category 1, in three key areas — plant operations, radiological controls and emergency preparedness. The plant received Category 2 ratings in four other areas.

The NRC officials who participated in this Systematic Assessment of Licensee Performance praised the plant, saying "strong management support for excellence continued to be evident."

During the year, the nuclear unit generated 5.6 million megawatt-hours of electricity, with GSU's share being 3.9 million mwh.

Since River Bend went into commercial operation on June 16, 1986, it has generated 24.7 million megawatt-hours.

GSU Shops For 'Power Bargains'

In mid-1990 Gulf States joined an experimental venture aimed at improving efficiency and helping the company get the best price for power being bought or sold to and by utilities in 22 states. The 40 electric utilities that make up the Western Systems Power Pool have now asked the Federal Energy Regulatory Commission to make the pool permanent, not experimental.

The arrangement enables the participating utility systems to tell each other through daily computer listings how much power they expect to have available and for what price.

While it has always been GSU's policy to shop around for "power bargains," communications have been by telephone which do not always provide a complete picture of what purchase or sales opportunities might be available.

The utilities making up the pool span the western half of the United States and the Canadian province of British Columbia. In the past, Gulf States primarily exchanged power with neighboring utility systems.

GSU Receives Award for Volunteer Action

Gulf States Utilities received the regional corporate award for volunteerism from the Texas Department of Human Services. Officials with the 15-county region praised GSU for offering several programs aimed at helping the disadvantaged.

The company's oldest program is Project CARE (Community Assistance Relating to Energy) which financially assists those 60 and older with energy bills when they have emergencies.

Project CARE was created in 1983 with the company providing seed money. The program is sustained by employee and customer contributions.

During 1990, more than 4,300 elderly households in the service area received assistance from Project CARE. The administering agencies — the Councils on Aging in Louisiana and the American Red Cross in Texas — authorized payments totaling more than $331,000 during the year. Contributions during 1990 reached $395,000.

In 1987, Gulf States became the first Texas utility to participate in the Gatekeepers Program where utility employees help "open the gates" between isolated people and sources of assistance. Employees who normally come in contact with the public are trained to identify potential needs. The Texas Area Agency

(Continued on page 12)

GSU Weighs Environmental Impacts

One of the major pieces of legislation coming out of Washington in 1990 affecting the electric utility industry was the Clean Air Act.

While Gulf States cannot put an actual price tag on what implementation of its provisions will cost the company, we do know that GSU will be impacted far less than those companies that burn oil and/or high sulfur coal as primary fuels.

The company does know : will be required to pay emission fees and to install emission monitoring systems on many power plants. New pollution control equipment may also be required at several plants.

GSU burns virtually no oil, although several of its power plants are capable of using oil if a shortage of natural gas were to occur. Its coal-fired plant and one operated by the Cajun Electric Power Cooperative in which GSU has an interest both use low sulfur Western coal. Coal-fired electricity accounted for about 13 percent of the power generated by GSU during 1990.

The backbone of Gulf States' generating system is natural gas, which accounted for 71 percent of the kilowatt-hours generated by GSU in 1990. The power plant with the cleanest burning fuel is the nuclear unit, River Bend, which provided 16 percent of the electricity generated by the company in 1990.

Compliance with the Clean Air Act is going to pinch not only utilities but many of Gulf States' industrial customers that are in the refining and petrochemical business. They, too, must comply with the act. However, since GSU will be emitting less pollutants, it may mean that some industries might find it beneficial to have GSU supply all or some of their electrical load, rather than cogenerate their own power.

During 1990, a program termed the "Investment Recovery Program" either made or allowed GSU to avoid spending $3.5 million. Today's philosophy is to sell or repair everything possible, rather than pay to have it hauled off.

For example, in 1990 the company made more than $400,000 by selling fly ash from coal-fired plants, rather than paying for and building more landfills to hold the waste product. The major use for fly ash is as an additive to cement.

Scrap wire, junk batteries, poles, crossarms, used vehicles and other commodities were turned into $1.3 million. By repairing transformers, poleline hardware and street lights, where able, the company avoided spending almost $950,000.

While not part of the Investment Recovery Program, employee volunteers are collecting computer paper in some locations and selling it for recycling. The funds that are collected are donated to various worthy causes.

The sale of scrap items, the reuse of materials and the repair of others all help reduce the amount of raw materials that must be taken from the natural environment to serve as replacements. This also significantly reduces the amount of waste material returned to the earth.

Gulf States is proud of these efforts because they help protect the environment, provide jobs in the service area, keep disposal costs down and benefit GSU shareholders and customers.

While making and selling electricity is GSU's main business, the company has entered, in a small way, into the business of raising redfish at one of its larger power plants.

Once the fish reach appropriate size they are transferred to "grow out" ponds in Southeast Texas and later harvested.

GSU's role in the project, other than providing the tanks at the plant and warm water, is one of economic development. Successful commercial redfish farming in the service area could bring in additional revenue.

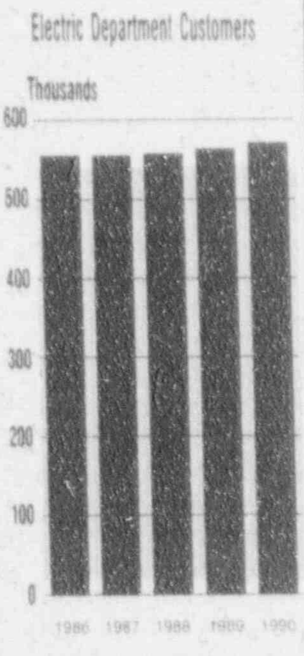
Gulf States acquired a 3,000-acre site in East Texas, known as Blue Hills, in the early 1970s to build a nuclear plant. The power plant never became reality, but a plan for using the site in an environmentally sound manner did.

The decision to develop the Blue Hills site for multiple uses, including wood products and recreation, came after a 1985 southern pine beetle infestation that affected about 500 acres of mature pine timber. The company stopped the spread of the insect and reforested the affected area.

One of the goals of the land management plan is to improve the site aesthetically and to encourage wildlife. Another major reason for improving the site is to decrease the risk of another pine beetle infestation.

In environmentally sensitive areas, along streams and where rare or endangered plants exist, the land management techniques encourage the plants and wildlife while impacting the surrounding environment as little as possible.

GSU employees are working with others in Southeast Texas to create a waterfowl refuge in a wetlands area near a power plant in Bridge City, Texas. The company has donated the use of this property to the North American Waterfowl Management plan and is committed to a course of action to preserve the waterfowl habitat areas to ensure continued survival of ducks, geese and swans.



The 7,461 new electric customers GSU gained during 1990 amounted to a 1.3 percent increase, continuing the growth trend begun in 1987.

on Aging actually makes the referrals to proper agencies.

Gulf States also has SeniorWise, formed in the spring of 1989 by combining several existing and new senior citizen services into a single free program. Some of the features available to those 60 and older are "Get Well First," which places the participants' accounts in special handling if they are hospitalized, a newsletter and security light rebates.

GSU Adopts Schools in Territory

In some of the larger communities, GSU employees have "adopted" a school where the volunteers' goal is to help make the learning experience more pleasant, therefore encouraging the children to learn. About 200 GSU employees volunteer their time to these schools.

This may mean building playground equipment, conducting coat drives or providing school supplies and clothes. It could be spending an hour a week reading to a group of second graders.

In communitywide activities, such as WalkAmerica or Earth Day fairs, some of the adopted school students participate with their GSU "special friends."

GSU volunteers also get involved with their school's field day activities, making themselves available for helping with the games, handing out ribbons and just cheering on their students.

Employees Involved in Scholarship

During 1990, GSU became a participant in the "I Have a Dream" scholarship program through Lamar University in Beaumont. Employees contributed the $2,000 necessary to get involved. Disadvantaged sixth grade students with good test scores are chosen and assigned a "mentor." When these students complete high school each is guaranteed a $2,000 scholarship to Lamar. Several GSU employees are acting as mentors.

The "I Have a Dream" concept began in 1981 when a New York philanthropist promised 61 sixth graders in East Harlem a free college education if he or she finished high school. In a school where the dropout rate was 75 percent, all of the 51 students who remained in New York graduated from high school and half are enrolled in various colleges.

Lamar University's goal is to create a permanent endowment of $1 million for additional scholarships.

Employment practices for the 4,747 Gulf States employees are guided by the principles of equal opportunity for all.

It is partially through the affirmative action programs that the company has been able to hire skilled personnel from all community sectors.

Fair employment policies assist GSU in developing its human resources to serve the service area more effectively.

GSU, Cities Become Partners

The economy of Gulf States' service area can best be described with two words: growth and diversification. Electric sales were up 5 percent from 1989, due primarily to an unusually hot summer, and the number of customers was up 1.3 percent over last year. All five divisions showed some level of customer growth during 1990.

All-time company record levels were achieved in each of the years 1988-90 for both residential and commercial sales. The 1990 sales level was achieved due to both an increase in customers in each category as well as all-time record average kilowatt-hour usage per customer.

Economic diversification, a primary goal of the region, is ongoing. In fact, substantial industrial electric usage increases during 1990 came from smaller industries, demonstrating diversification in progress. The refining and petrochemical industries, economic mainstays of the region, also showed an increase in electric usage.

The marketing team at Gulf States provides leadership to the communities in the service area — helping them continue the economic expansion of Southeast Texas and South Louisiana.

The Team Cities program works with communities throughout the region to help them market themselves — on local, national and international levels — to business and industry.

Sixty-five communities in Gulf States' service area have qualified as Team Cities, preparing themselves for the competitive business of bringing business and industry to their communities. Gulf States' economic development specialists work in concert with these communities to expand and retain the business and industry vital to the region. The diligence of this partnership means positive results for the economy. During 1990, 57 companies announced new locations or expansions in Gulf States' service area, creating 3,229 jobs. Also during the year, an estimated $3 billion was invested in major industrial projects in the region.

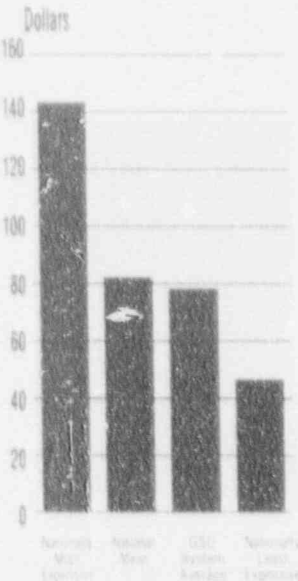
Gulf States is also teaming up with industry to help them do their jobs better. By fielding a team of process engineers who have a clearly stated goal — to help make industry more efficient in its energy usage and plant processes — Gulf States has made a commitment to the industries in our region. Why? The more efficient the industry, the more likely it is to thrive, grow and expand. That's good for the economy of the service area — and good for Gulf States.

Another major development during 1990 was the companywide dedication to marketing on the "grassroots" level. GSU employees have made quality service and direct sales an integral part of their work.

Through dedicated service to customers and pride in the efficient, safe and reliable nature of electricity, employees are helping the company's bottom line. In 1990, 20 percent of them became involved in the direct sales effort through Reddy Referrals, a program that enables employees to help the company by alerting the marketing team to sales opportunities. Included in this effort was 3,400 conversions from natural gas to more efficient electric water heating.

During 1990, Gulf States corporate-wide marketing team, through innovation and dedication, continued to play an important role in the expansion and diversification of Southeast Texas and South Louisiana. Into the 21st century, the partnerships Gulf States has formed through its leadership will prove valuable for the region, its individual communities and the company.

Residential Cost per 1,000 KWHs*



GSU's residential rates remain lower than the national average and are competitive with neighboring utilities in Texas and Louisiana.

(*As of July 1, 1990)

The foregoing portion of this report is intended to present information the company believes may be of interest to shareholders. For purposes of making investment decisions, the more complete information contained in the company's Annual Report on Form 10-K and other current reports filed with the Securities and Exchange Commission should be consulted.

Financial Information

FINANCIAL SECTION

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Management Responsibility for Consolidated Financial Statements

Management is responsible for the preparation, integrity, and objectivity of the consolidated financial statements of Gulf States Utilities Company. The statements have been prepared in conformity with generally accepted accounting principles and, in some cases, reflect amounts based on estimates and judgement of management, giving due consideration to materiality.

The Company maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that the consolidated financial statements are prepared in accordance with generally accepted accounting principles, and that the assets of the Company are properly safeguarded. The system of internal controls is documented, evaluated, and tested by the Company's internal auditors on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived.

Coopers & Lybrand, independent certified public accountants, is engaged to audit, in accordance with generally accepted auditing standards, the consolidated financial statements of the Company and issue their report thereon, which appears on page 47. Coopers & Lybrand conducts a review of internal accounting controls to the extent required by generally accepted auditing standards and performs such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the consolidated financial statements presented herein.

The Board of Directors, through its Audit Committee, has general oversight of management's preparation of the consolidated financial statements and is responsible for engaging, subject to shareholder approval, the independent accountants. The Audit Committee, comprised entirely of outside directors, reviews with the independent accountants the scope of their audits and the accounting principles applied in financial reporting. The Audit Committee meets regularly, both separately and jointly, with the independent accountants, representatives of management, and the internal auditors, to review activities in connection with financial reporting. The independent accountants have full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of their audit.

Common Stock Prices and Cash Dividends Per Share

For the years ended December 31

1990	High	Low	Cash Dividends Paid Per Share	1989	High	Low	Cash Dividends Paid Per Share
First Quarter	$12⅝	$11	$ —	First Quarter	$ 9	$ 7⅝	$ —
Second Quarter	12⅛	9⅞	—	Second Quarter	12	8	—
Third Quarter	12⅛	9¼	—	Third Quarter	13½	11	—
Fourth Quarter	11	8⅝	—	Fourth Quarter	14⅜	10⅜	—

The Common Stock of the Company is listed on the New York, Midwest and Pacific Stock Exchanges. The number of common shareholders on December 31, 1990, was 47,129.

Financial Information

Selected Consolidated Financial Data

(In thousands except per share amounts and ratios)

For the Years Ended December 31	1990	1989	1988	1987	1986
Operating Revenue	**$1,690,685**	$1,607,406	$1,520,477	$1,432,586	$1,478,388
Income (Loss) Before Extraordinary Item and the Cumulative Effect of Statement of Financial Accounting Standards (SFAS) No. 90 in 1988	**(44,282)**	13,251	117,512	241,101	271,872
Net Income (Loss)	**(44,282)**	(45,573)	103,143	241,101	244,981
Income (Loss) Applicable to Common Stock	**(107,024)**	(108,412)	40,079	178,091	181,854
Earnings (Loss) Per Average Share of Common Stock Outstanding Before Extraordinary Item and the Cumulative Effect of SFAS No. 90 in 1988	**(.99)**	(.46)	.50	1.65	1.97
Earnings (Loss) Per Average Share of Common Stock Outstanding	**(.99)**	(1.00)	.37	1.65	1.71
Dividends Per Share of Common Stock	—	—	—	—	.67
Return on Average Common Equity	**(5.44)%**	(5.29)%	1.[illegible]5%	9.29%	10.49%
As of December 31					
Total Assets*	**$6,863,269**	$6,807,894	$6,941,531	$6,907,453	$6,578,258
Long-Term Debt and Preferred Stock Subject to Mandatory Redemption	**2,512,743**	2,801,860	2,990,934	3,090,977	3,134,950
Capital Lease Obligations (Current and Non-current)	**161,065**	180,552	98,852	187,640	228,270
Book Value Per Share (reduced for all Preferred and Preference Stock Dividend Arrearages)	**16.81**	17.80	18.80	18.43	16.79
Capitalization Ratios:					
Common Shareholders' Equity	**41.2%**	39.8%	39.3%	37.8%	35.0%
Preferred and Preference Stock	**14.4**	12.9	11.7	11.1	10.8
Long-Term Debt	**44.4**	47.3	49.0	51.1	54.2
	100.0%	100.0%	100.0%	100.0%	100.0%

See Notes 1 and 3 to the Consolidated Financial Statements regarding contingencies, current rate matters involving possible disallowances and write-offs and accounting standards.

*Reclassified — See Note 2 to the Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Although the Company's financial position has been strained by the inability to obtain permanent rate relief on the Company's entire investment in River Bend Unit 1 (River Bend), the rate relief granted, together with improving sales, reductions in capital requirements, strict cost controls, some external financing arrangements, and the omission of dividends on the Company's common, preference, and preferred stock, has been sufficient to permit the Company to meet its ongoing cash requirements since 1986.

During 1990, the Company's cash flow provided by operations continued to improve. The Company's plans to meet its cash requirements in 1991 and 1992 include a combination of efforts. To increase revenues and cash flow, management plans to pursue the increase of rate levels and sales, and pursue appeals of rate orders. To reduce cash requirements, management intends to continue cost controls and undertake the refinancing of a part of the long-term debt maturing in 1991. Management also intends to extend or replace letters of credit which expire in 1991 and 1992, that secure certain pollution control bonds, or remarket such bonds, as was done with other pollution control bonds in 1990. If the Company is unsuccessful in these efforts to refinance maturing debt and to cause the pollution control bonds to remain outstanding, the Company believes that it has other means available to access external funds which may be needed. Management believes that these plans, combined with cash on hand, funds provided from operations, and funds available under its short-term bank credit arrangements will be adequate to meet its cash requirements through 1992. While the Company believes it can access external funds to the extent necessary to accomplish its plan, economic, financial market, or banking conditions or adverse developments with respect to contingencies to which the Company is subject could adversely affect such access. Should conditions prevent the Company's access to external funds, management believes it has internal resources to meet its cash needs in 1991, and the ability, by controlling certain operations and construction expenditures, to prevent short-term cash deficiencies which might otherwise occur in 1992.

While litigation with the Southern Company was settled during 1990, subject to the conditions discussed in Note 1 to the Consolidated Financial Statements, significant litigation and regulatory contingencies continue to exist. In reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the Company, attention should be given to the disclosure that certain litigation contingencies exist, which management does not presently believe will be finally resolved in 1991. See Note 1 to the Consolidated Financial Statements for the consequences if such contingencies were ultimately resolved adversely to the Company.

This report was based upon information available at the time it was released for printing. Litigation and retail rate proceedings continued in an active status at such time. Significant developments may occur during the printing and distribution period as well as thereafter. Readers are urged to investigate and consider such subsequent developments.

Results of Operations

The 1990 net loss and loss per average share of common stock outstanding resulted primarily from a $135,310,000 net of tax charge recorded during the second quarter of 1990, for the settlement with the Southern Company regarding a long-standing purchase power contract dispute. Excluding the cost of the Southern Company settlement, results of operations improved during 1990. Increased kilowatt-hour sales and reduced interest charges contributed to the improved performance.

As noted above, the Company's financial position has been strained by the inability to obtain permanent rate relief on its entire investment in River Bend. As of December 31, 1990, the Company has not recovered a significant amount of the investment or received any return associated with the portion of River Bend disallowed in the Louisiana rate order of December 15, 1987 and included in the deregulated asset plan which is currently under appeal, and the portion of River Bend placed in abeyance as part of the Texas rate order which went into effect July 23, 1988.

Future results of operations could be adversely affected by substantial additional write-offs or write-downs of the Company's investment in River Bend and deferred costs related to such unit, which may result from regulatory actions, judicial actions, or from pricing of energy below the full cost of service to meet competition and the associated application of accounting principles. See Note 3 to the Consolidated Financial Statements for potential exposures. Substantial write-offs or write-downs would adversely affect the Company's ability to reinstate dividends and obtain financing, which could in turn affect the Company's liquidity. See "Liquidity, Financings, and Capital Resources" below.

The Company's results in 1988, 1989, and to a significantly lesser extent in 1990, have been affected by amounts recorded in accordance with phase-in plans and amounts recorded in accordance with accounting orders issued in 1986 by regulators allowing the Company to defer, for financial reporting purposes, those expenses

incurred in connection with the operations of River Bend, the cost of buying back power from Cajun Electric Power Cooperative, Inc. (CEPCO), and to record a non-cash carrying charge on the Company's investment in River Bend not already reflected in rate base and the subsequent amortization of those costs. These items (net of the related tax effects) have reduced the 1990 and 1989 net losses and related losses per share and have increased the Company's 1988 net income and earnings per share as follows:

	1990		1989*		1988*	
	Effect on Net Loss	Effect on EPS	Effect on Net Loss	Effect on EPS	Effect on Net Income	Effect on EPS
	(In thousands except per share amounts)					
Deferred River Bend expenses	$ —	$ —	$ (11,048)	$ (.10)	$ 31,503	$ .29
Deferred revenue requirement	27,400	.25	75,717	.70	130,516	1.21
Amortization of accumulated deferred River Bend costs	(12,242)	(.11)	(20,991)	(.20)	(25,612)	(.24)
River Bend carrying charges	—	—	(519)	—	24,723	.23
Reduction of deferred River Bend costs	—	—	—	—	(30,576)	(.28)
	$ 15,158	$ .14	$ 43,159	$ .40	$130,554	$1.21

*Reclassified — See Note 2 to the Consolidated Financial Statements.

Without the inclusion of the above items in the Company's Consolidated Statement of Income, the Company would have reported net losses before extraordinary item and the cumulative effect of Statement of Financial Accounting Standards (SFAS) No. 90 in 1988, of $59,440,000, $29,908,000, and $13,042,000 for 1990, 1989, and 1988, respectively. The deferred items described above and in Note 3 to the Consolidated Financial Statements include substantial cash expenditures which have been only partially recovered, and there can be no assurance that all of such expenditures will ultimately be recovered.

Rate Matters

As of December 31, 1990, the Company's rate situation remained uncertain. See Notes 3 and 15 to the Consolidated Financial Statements for a more detailed description of rate matters.

Texas Retail Jurisdiction (Regulator — Public Utility Commission of Texas (PUCT))

In October 1990, hearings on a $65,000,000 base rate request filed in March 1989 were restarted before the PUCT. On December 11, 1990, the Company implemented an approximate $65,089,000 base rate increase subject to refund. Settlement negotiations began on February 13, 1991 and have continued with various intervening parties.

Previous rate orders have been appealed, and pending resolution of various appellate proceedings, the Company has made no write-offs for the previously abeyed $1.4 billion of River Bend investment (approximately $420,000,000, net of accumulated depreciation and related tax benefits, on a Texas retail jurisdiction basis, as of December 31, 1990) or the $63,468,000 of River Bend investment disallowed as imprudent (approximately $20,000,000, net of accumulated depreciation and related tax benefits, on a Texas retail jurisdiction basis, as of December 31, 1990). Additionally, no write-off has been made for the

approximate $187,000,000 of deferred River Bend costs not included in rate base at December 31, 1990.

Adverse decisions of the various outstanding appeals pending before the courts in Texas could have a material adverse effect on the Company.

Louisiana Retail Jurisdiction (Regulator — Louisiana Public Service Commission [LPSC])

On February 22, 1990, the LPSC granted the Company a $28,000,000 rate increase as the third step in the February 18, 1988 court-ordered phase-in plan. The LPSC order includes, among other things, the deregulated asset plan, which was previously proposed by the LPSC in November 1988 and ordered by the district court on October 11, 1989.

On October 26, 1990, the Company filed for the fourth step rate increase of the court-ordered phase-in plan.

On February 26, 1991, the LPSC granted the Company a $16,800,000 base rate increase, effective March 1, 1991, as the fourth and final step of the February 18, 1988 court-ordered phase-in plan. Preliminary analysis of the LPSC rate order indicates that approximately $26,000,000 of deferred River Bend costs, that the Company had previously been allowed to recover, were excluded from rate base. This may result in a net of tax write-off of approximately $19,300,000. The Company is in the process of evaluating all aspects of the order.

Previous rate orders have been appealed, and pending resolution of various appellate proceedings, the Company has made no write-off for the previously disallowed $1.4 billion of the Company's total River Bend plant investment (approximately $480,000,000, net of accumulated depreciation and related tax benefits, on a Louisiana retail jurisdiction basis, as of December 31, 1990). If the deregulated asset plan is not continued in effect and the disallowance is upheld, a write-off of the entire jurisdictional amount could be required.

As discussed in Note 3 to the Consolidated Financial Statements, current analysis of the deregulated asset plan, which was subsequently ordered by the LPSC with respect to the previously disallowed $1.4 billion of River Bend and which is currently under appeal, indicates no permanent impairment of the Louisiana retail deregulated portion of River Bend exists under such plan, if the plan is upheld upon appeal. Accordingly, the Company has made no write-down to the deregulated asset investment. However, future analysis will be required to determine if permanent impairment exists. Permanent impairment would result in a net of tax write-down which could range from zero to $230,000,000.

Adverse decisions of the various outstanding appeals pending before the courts in Louisiana could have a material adverse effect on the Company.

Liquidity, Financings, and Capital Resources

Cash provided by operations continues to be the Company's primary source of funds, while the retirement of long-term debt has been, and will continue as, a primary cash use. The following table shows selected cash flow items:

	1990	1989	1988
		(in thousands)	
Funds Provided By			
Net operating activities	$363,788	$220,071	$203,314
Sale of nuclear fuel — River Bend fuel lease	—	114,931	—
Existing cash and cash equivalents	930	—	65,672
Other	2,513	6,642	15,263
Total	$367,231	$341,644	$284,249
Funds Used For			
Capital expenditures	$ 73,020	$ 74,888	$114,184
Retirement of long-term debt and deferred River Bend construction and continuing services commitments	219,454	143,170	115,720
Payment of lease obligations	44,110	27,552	38,188
Investment in cash and cash equivalents	—	95,125	—
Other	30,647	909	16,157
Total	$367,231	$341,644	$284,249

Financial Information

As of December 31, 1990, the Company had available $100,000,000 under a bank credit agreement as described in Note 12 to the Consolidated Financial Statements. Such agreement was due to expire on March 1, 1991, however, effective March 1, 1991 the bank credit agreement was extended to February 28, 1992. The agreement contains restrictions upon additional borrowings, payment f dividends in excess of $75,000,000, and other actions of the Company, with certain exceptions.

As discussed in Note 11 to the Consolidated Financial Statements, the Company has $313,082,000 of debt maturing during 1991, including a $204,167,000 final payment of the revolving credit agreement on September 12, 1991. The Company also has $94,000,000 of pollution control bonds which are backed by letters of credit that expire in 1991. If the letters of credit are not renewed or replaced, the bonds must be redeemed unless remarketed. As discussed previously, the Company believes existing funds, funds available from the bank credit agreement discussed above, and funds to be provided from operations will be sufficient to satisfy its cash requirements during 1991.

The Company's ability to arrange external financing has been and continues to be materially affected by its weak financial position. The credit ratings assigned by credit rating agencies to the Company's long-term debt and preferred and preference stock were reduced to "speculative" grade in 1986. The failure to pay dividends on preferred and preference stock since 1986, and the omission of a common stock dividend since the second quarter of 1986, make it highly unlikely that additional equity securities could currently be marketed. The Company's Mortgage Indenture contains an interest coverage covenant which limits the amount of first mortgage bonds which the Company may issue. Based upon the results of operations for the year ended December 31, 1990, and existing circumstances, the Company believes it does not have sufficient coverage to issue additional first mortgage bonds. The Company believes it could issue approximately $33,000,000 of first mortgage bonds, as of December 31, 1990, to replace first mortgage bonds previously retired. External intermediate or long-term financing may only be available through the issuance of unsecured or subordinated lien debt securities if, and to the extent, they can be marketed.

Significant Litigation, Risks, and Environmental Issues

As discussed below and more fully in Note 1 to the Consolidated Financial Statements significant litigation and other risks exist. The risks which management believes to be the most significant are discussed below.

CEPCO Litigation. As discussed in Note 1 to the Consolidated Financial Statements, CEPCO has filed suit seeking recovery of its alleged $1.6 billion investment in River Bend as damages, plus attorneys' fees, interest, and cost. The Company believes the suit is without merit and intends to contest it vigorously. No assurance can be given as to the outcome of this litigation. If the Company were ultimately unsuccessful in this litigation and were required to make substantial payments, the Company would probably be unable to make such payments and would probably have to seek relief from its creditors under the Bankruptcy Code.

Southern Company. In 1990, the Company and Southern Company settled, subject to the conditions discussed in Note 1 to the Consolidated Financial Statements, disputes regarding purchase power contracts. Significant litigation risks would revive if the settlement is not consummated, see Note 1 to the Consolidated Financial Statements for those consequences. When the settlement is consummated, the issuance of 6,000,000 shares of common stock by the Company, provided for in the settlement, will have a dilutive effect upon earnings per share and book value per share of common stock.

Nuclear Risks. Ownership and operation of a nuclear generating unit subjects the Company to significant special risks. No assurance can be given that the amount of insurance carried as to various risks will be sufficient to meet potential liabilities and losses.

Environmental Issues. The Company has been notified by the U. S. Environmental Protection Agency (EPA) that it has been designated as a potentially responsible party for the cleanup of sites on which the Company and others have or have been alleged to have disposed of material designated as hazardous waste. The Company is currently negotiating with the EPA and state authorities regarding the cleanup of some of these sites.

Several class action and other suits have been filed in state and federal courts seeking relief from the Company and others for damages allegedly caused by the disposal of hazardous waste and for asbestos-related disease which allegedly occurred from exposure on Company premises. One hazardous waste related suit claims approximately $15 billion of damage from the defendants. While the amounts at issue in these cleanup efforts and suits may be very substantial sums, the Company presently believes that its financial condition will not be materially adversely affected by the outcome.

In 1990, amendments to the Clean Air Act became law. The immediate effects on the Company will be minor due to the Company's clean fuel mix. The long-term effects may have a more significant impact on the Company's operations, and such effects are currently being analyzed by the Company.

Operating Revenue

Operating revenue increased by 5 percent during 1990 when compared to 1989, by 6 percent during 1989 when compared to 1988, and by 6 percent during 1988 when compared to 1987. The components of the changes in operating revenue are detailed below:

	Increase (Decrease) From Prior Year		
	1990	1989	1988
	(In thousands)		
Change in base rates	$12,894	$38,289	$ 87,150
Fuel cost recovery	19,824	29,281	(25,710)
Sales volume and other	50,561	19,359	26,451
	$83,279	$86,929	$ 87,891

Rates. The changes in base rates shown above reflect rate orders, settlement agreements, and rate changes implemented during the period from 1987 through 1990. The Company implemented interim, emergency, or permanent rate increases in 1987, 1988, 1989, and 1990.

Kilowatt-Hour Sales. Total kilowatt-hour sales increased 5 percent during 1990, when compared to 1989. This increase follows a 1 percent increase in sales during 1989 when compared to 1988, and a 2 percent increase in sales for 1988 when compared with 1987. Changes in the three major kilowatt-hour sales categories are shown in the following table:

	Increase from Prior Year		
	1990	1989	1988
Residential	6%	2%	2%
Commercial	4	3	2
Industrial	8	2	2

See the Statistical Summary on Page 48 for additional information on kilowatt-hour sales and related revenues by customer class.

Industrial Sales. Cogeneration projects developed or considered by certain industrial customers over the last several years have resulted in the Company developing rates lower than the rates approved by the PUCT and LPSC for such industrial customers. Such rates are designed to retain such customers, and to compete for and develop new loads, and do not presently recover the Company's full cost of service. Sales to those customers qualifying for such rates have increased over the last several years. Kilowatt-hour sales, changes in kilowatt-hour sales and related revenue within the industrial class are detailed below:

Sales — Kilowatt-hours	1990	1989	1988
	(In thousands)		
Full cost of service based rates	10,265,998	10,210,280	10,880,715
Non-full cost of service based rates	3,065,774	2,111,625	1,191,363
Total Industrial	13,331,772	12,321,905	12,072,078

	Increase (Decrease) from Prior Year		
Changes in Kilowatt-hour Sales	1990	1989	1988
Full cost of service based rates	1%	(6)%	(5)%
Non-full cost of service based rates	45	77	263
Total Industrial	8	2	2

Revenue	1990	1989	1988
	(In thousands)		
Full cost of service based rates	$480,280	$470,401	$473,587
Non-full cost of service based rates	97,156	69,543	36,767
Total Industrial	$577,436	$539,944	$510,354

In 1991 the Company anticipates a 9 percent increase in non-full cost of service industrial sales, and a reduction of less than one percent in full cost of service industrial sales; however, the potential exists for loss of additional load in the future to other competitive sources of power, and further pricing below the full cost of service may be necessary to meet competition in order to prevent such loss.

Wholesale Sales. Competition for wholesale sales resulted in the Company and a majority of its wholesale customers reaching agreements during 1989 for rates that were lower than the then existing approved rates for the Company's wholesale electric service and, in some cases, lowered the energy and power requirements from those previously contracted for. The rates agreed to in contracts running until 1996-2000 do not recover the full cost of service. The city of College Station, Texas intends to cease purchasing its energy requirement from the Company when its contract expires at the end of December 1991. Non-fuel related revenues were approximately $9,200,000, $8,900,000, and $7,600,000 during 1990, 1989, and 1988, respectively, from sales to College Station.

Steam Department Electric Sales. The Company has for a number of years produced steam at its Louisiana Station No. 1 in Baton Rouge and sold such steam, along with the cogenerated electricity, to industrial customers located adjacent to Louisiana Station. Electric power requirements of these customers in excess of the by-product electricity have been met by the Company with power from the Company's system power grid.

In June 1990, the remaining steam customer replaced a substantial portion of power previously provided from the Company's grid with power

from additional cogenerated facilities. Non-fuel revenues from sales of electric power off the Company's system power grid to the steam department amounted to approximately $19,400,000, $22,800,000, and $23,200,000 during 1990, 1989, and 19[illegible], [illegible].

Operating Expenses and Taxes

Fuel and Purchased Power. Fuel expense increased 11 percent during 1990, when compared to 1989, due to increased use of Company-owned generating units. This increase was offset in part due to a decrease in the Company's average fuel cost.

Fuel expense decreased 1 percent during 1989, when compared to 1988, because of decreased generation from Company-owned generating units, due primarily to the refueling outage at River Bend during the first part of 1989.

Fuel expense increased 3 percent during 1988, when compared with 1987. The increase in fuel resulted from the increased utilization of Company-owned generating units, primarily River Bend, to meet its energy requirements. A slight decrease in the Company's average fuel cost, due to increased utilization of low cost nuclear fuel, helped offset in part the increase described above.

Purchased power expense decreased 12 percent during 1990, when compared to 1989, due to reduced capacity payments to CEPCO under the buyback agreement, as discussed in Note 13 to the Consolidated Financial Statements, and decreased purchases resulting from the availability of Company-owned generating units.

Purchased power expense decreased 1 percent during 198[illegible] when compared to 1988, due to reduced [illegible]ty payments to CEPCO under the buybac[illegible]ent, and adjustments reflecting the sett[illegible] with CEPCO, as discussed in Note 1 to the Consolidated Financial Statements. This decrease was offset in part by increased purchases required due to the River Bend refueling outage during the first part of 1989.

Purchased power expense decreased 29 percent during 1988, when compared to 1987, due primarily to reduced capacity payments to CEPCO under the buyback agreement, as well as increased utilization of Company-owned generating units.

The cost per kilowatt-hour of fuel consumed and purchased power and the breakdown of electric energy requirements are detailed below:

	1990	1989	1988
Cost of fuel consumed (per KWH)			
Natural gas	1.91¢	1.96.	1.87¢
Coal	2.11¢	2.12¢	2.09¢
Fuel oil	4.09¢	3.34¢	3.78¢
Nuclear	1.28¢	1.33¢	1.14¢
Combined	1.83¢	1.89¢	1.76¢
Cost of purchased power (per KWH)	4.70¢	4.24¢	6.51¢

	1990	1989	1988
	(kilowatt hours in thousands)		
Net generation (excluding steam department electric generation)	24,782,548	22,759,532	23,959,801
Purchased power	4,230,143	5,373,912	3,511,321
Total electric energy requirements	29,012,691	28,133,444	27,471,122

	1990	1989	1988
Net generation (excluding steam department electric generation)			
Nuclear	13%	12%	18%
Coal	11	11	11
Fuel oil	—	—	1
Natural gas	61	58	57
	85	81	87
Purchased power	15	19	13
Total electric energy requirements	100%	100%	100%

Other Operations and Maintenance Expense. Other operations and maintenance expenses decreased slightly during 1990, as expenses associated with the River Bend refueling outage were less in 1990 than in 1989. That decrease was somewhat offset due to severance pay and early retirement benefits associated with the workforce restructuring in January 1990.

Other operations and maintenance expenses increased during 1989, when compared to 1988, due primarily to increased payroll and benefit charges, expense of $2,738,000 associated with the cleanup of two hazardous waste disposal sites, and increased costs associated with the refueling outage for River Bend. In addition, operations expense also increased due to a tentative settlement reached with CEPCO regarding the overhead related to administrative and general expenses for River Bend, which resulted in the Company increasing operations expense by $8,310,000, as discussed in Note 1 to the Consolidated Financial Statements.

Other operations and maintenance expenses, including those associated with River Bend, decreased 4 percent during 1988, as a result of the Company's continued effort to reduce such expenses. During 1988, in accordance with the PUCT and LPSC rate orders, the Company recorded a deferred charge and reduction to operations and maintenance expenses associated with the retail portion of the early retirement plan.

Depreciation and Amortization. Amortization expense increased $5,544,000 in 1989, when compared to 1988. The Company began amortizing the Louisiana retail and steam jurisdiction's amounts of the previously cancelled River Bend Unit 2 over 10 years, as required by the February 28, 1989 rate order.

The reduction in depreciation and amortization expense from 1987 to 1988, of $10,034,000 was attributable to a reduction in the depreciation rates in the Louisiana and Texas retail jurisdictions in accordance with the LPSC and PUCT rate orders and an adjustment to decommissioning

expense which resulted from revised assumptions and a 38-year nuclear decommissioning funding period approved by the PUCT and LPSC.

Taxes. Deferred income taxes increased during 1990 when compared to 1989, due primarily to the utilization of tax net operating loss carryforwards, offset in part by a reduction in the River Bend costs deferred for financial reporting purposes.

Deferred income taxes decreased during 1989 when compared to 1988, due to a reduction in the River Bend costs deferred for financial reporting purposes. See Notes 3 and 4 to the Consolidated Financial Statements for the deferred River Bend costs and the components of federal income taxes.

Deferred income taxes increased almost 150 percent during 1988, despite a decrease in the statutory rate from 40 percent to 34 percent. The increase resulted primarily from lower tax losses and permanent differences related to River Bend.

Non-Operating Items

Southern Company Settlement and Related Income Taxes. See Note 1 to the Consolidated Financial Statements for a description of the dispute and settlement regarding purchased power contracts with the Southern Company.

Allowance for Funds Used During Construction (AFUDC). AFUDC decreased during 1989, due to the sale of Company-owned nuclear fuel in February 1989.

AFUDC increased slightly during 1988, due to the Company's increased ownership of nuclear fuel.

Reduction of Deferred River Bend Costs. As a result of the interim rate relief granted in the Texas retail jurisdiction in 1988, the Company reduced the amount of deferred River Bend costs being recorded in accordance with accounting orders issued in 1986 by the regulatory commissions. This amount reflects a reduction of $1.50 for each $1.00 of revenue received as a result of the interim rate increases in Texas. The reduction of deferred River Bend costs was terminated upon receipt of the permanent rate order.

Other — Net. Other — net increased during 1990, when compared to 1989, due to decreased income taxes on other income.

During 1989, other — net increased due to increased interest income.

Other — net increased during 1988, due to increased interest income and tax benefits related to the sale of Nelson Units 1 and 2 to a joint venture.

Application of SFAS No. 90 — Accounting for Abandonments and Disallowances of Plant Costs. See Note 3 to the Consolidated Financial Statements for the effect of the application of SFAS No. 90 to the Company's previously cancelled River Bend Unit 2.

Interest Charges. Interest charges on long-term debt decreased during 1990, due to the retirement of $219,454,000 of debt that matured during 1990. Interest charges on short-term debt and other increased during 1990, due to interest expenses associated with the Southern Company settlement estimate recorded in the second quarter of 1990. The Company will record interest expense on the present value of the estimated liability until January 1, 1993.

Interest charges on long-term debt decreased slightly during 1989, due to the retirement of maturing debt, offset in part by increased interest charges on the Company's variable rate debt caused by higher interest rates. Interest charges on short-term debt and other interest expense decreased during 1989, due to the elimination of the required payment by the Company of interest on inventoried nuclear fuel. Interest on the inventoried nuclear fuel is currently being capitalized as part of a nuclear fuel lease which was entered into in February 1989.

Interest charges decreased slightly during 1988, due primarily to the retirement of maturing debt.

Extraordinary Item — Discontinuation of Regulatory Accounting Principles (Net of Income Taxes). See Note 3 to the Consolidated Financial Statements for a description of the write-offs in 1989 resulting from the application of SFAS No. 101 to the Company's wholesale jurisdiction during the third quarter of 1989 and to the steam department in the fourth quarter of 1989.

New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued SFAS No. 96 which may affect the Company's results of operations and financial position when adopted. See Note 4 to the Consolidated Financial Statements for information regarding SFAS No. 96.

The FASB has issued SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, that will significantly change the accounting for such benefits. The Company estimates the annual expense for such benefits could range from $20,000,000 to $40,000,000. Amounts ultimately recorded in accordance with SFAS No. 106 will be influenced by the actuarial assumptions used and the regulatory treatment provided the Company. See Note 2 to the Consolidated Financial Statements for the postretirement benefit costs recorded during 1990, 1989, and 1988. The Company will be required to apply SFAS No. 106 beginning in 1993.

Financial Information

Consolidated Statement of Income

For the years ended December 31
(In thousands except per share amounts)

	1990	1989	1988
Operating Revenue			
Electric	$1,596,635	$1,501,874	$1,415,713
Steam	61,052	69,200	70,728
Gas	32,998	36,332	34,036
	1,690,685	1,607,406	1,520,477
Operating Expenses and Taxes			
Fuel	457,503	412,591	417,030
Purchased power	197,764	225,781	228,330
Other operations	256,951	274,150	234,320
Maintenance	131,775	120,570	100,270
Depreciation and amortization	186,451	187,985	179,567
Deferred River Bend expenses	—	16,739	(57,670)
Deferred revenue requirement — River Bend phase-in plans	(41,515)	(114,722)	(197,752)
Amortization of accumulated deferred River Bend costs	21,631	31,086	36,433
Income Taxes			
Federal	46,640	24,987	59,517
State	11,323	8,778	272
Other taxes	88,929	91,641	87,304
	1,357,452	1,279,586	1,087,621
Operating Income	333,233	327,820	432,856
Other Income and Deductions			
Allowance for equity funds used during construction	640	875	3,115
Southern Company settlement	(205,015)	—	—
Southern Company settlement related income taxes	80,834	—	—
River Bend carrying charges	—	(519)	24,723
Reduction of deferred River Bend costs	—	—	(46,266)
Abandonment of subsidiary lignite leases	—	(19,183)	—
Other — net	21,513	16,345	8,355
Income Before Interest Charges and the Application of SFAS No. 90	231,205	325,338	422,783
Application of SFAS No. 90 — Accounting for Abandonments and Disallowances of Plant Costs (Note 3)	—	(23,853)	(21,771)
Related income taxes	—	8,965	7,402
	—	(14,888)	(14,369)
Interest Charges			
Long-term debt	259,186	289,058	298,009
Short-term debt and other	16,811	10,403	14,302
Allowance for borrowed funds used during construction	(510)	(2,262)	(7,040)
	275,487	297,199	305,271
Income (Loss) Before Extraordinary Item	(44,282)	13,251	103,143
Extraordinary Item — Discontinuation of Regulatory Accounting Principles (net of income taxes) (Note 3)	—	(58,824)	—
Net Income (Loss)	(44,282)	(45,573)	103,143
Dividends on Preferred and Preference Stock (unpaid since 1986)	62,742	62,839	63,064
Income (Loss) Applicable to Common Stock	$ (107,024)	$ (108,412)	$ 40,079
Average Shares of Common Stock Outstanding	108,055	108,055	108,055
Earnings (loss) per average share of common stock outstanding before extraordinary item and the cumulative effect of SFAS No. 90 in 1988	$ (.99)	$ (.46)	$ .50
Earnings (loss) per average share of common stock outstanding	$ (.99)	$ (1.00)	$ .37
Dividends Per Share of Common Stock	$ —	$ —	$ —

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31
(in thousands)

	1990	1989	1988
Operating Activities			
Net income (loss)	$ (44,282)	$ (45,573)	$ 103,143
Items not requiring cash:			
Deferred fuel and purchased power expense — net	1,899	(18,103)	(5,084)
Amortization of nuclear fuel	35,454	30,102	44,393
Depreciation and amortization	188,885	191,254	182,089
Deferred River Bend expenses, revenue requirement, and carrying charges	(41,515)	(97,464)	(280,145)
Amortization of accumulated deferred River Bend costs	21,631	31,086	36,433
Reduction of deferred River Bend costs	—	—	46,266
Deferred income taxes — net	(16,169)	49,993	71,594
Investment tax credits — net	(4,286)	(4,424)	(4,118)
Allowance for funds used during construction	(1,150)	(3,137)	(10,155)
Southern Company settlement	213,885	—	—
Abandonment of subsidiary lignite leases	—	19,183	—
Application of SFAS No. 90 — accounting for abandonments and disallowances of plant costs (net of income taxes)	—	14,888	14,369
Extraordinary item — discontinuation of regulatory accounting principles (net of income taxes)	—	58,824	—
Disputed amount	—	(7,795)	3,62[illegible]
Other	16,439	26,995	(9,257)
Changes in:			
Receivables	(1,897)	(16,990)	(756)
Fuel inventories	(3,155)	3,113	1,920
Materials and supplies	(919)	(1,027)	237
Prepayments and other current assets	2,173	2,072	(7,496)
Accounts payable — trade	9,959	(7,828)	4,1[illegible]
Customer deposits	1,031	1,221	1,053
Taxes accrued	(1,601)	(12,419)	14,704
Interest accrued	(10,927)	(1,322)	(7,353)
Other current liabilities	(1,667)	7,422	3,636
Net cash flow provided by operating activities	363,788	220,071	203,314
Financing Activities			
Increase in deferred River Bend construction and continuing services commitments	1,363	2,826	4,428
Increase in other long-term debt	—	679	680
Payment of deferred River Bend construction and continuing services commitments	(16,800)	(31,517)	(8,400)
Payments of lease obligations	(44,110)	(27,552)	(38,188)
Retirement of long-term debt	(202,654)	(111,653)	(107,320)
Net cash flow used by financing activities	(262,201)	(167,217)	(148,800)
Investing Activities			
Construction expenditures	(73,020)	(54,679)	(38,654)
Nuclear fuel expenditures	—	(20,209)	(75,530)
Sale of nuclear fuel — River Bend fuel lease	—	114,931	—
Allowance for funds used during construction	1,150	3,137	10,155
Deposit to escrow account	(11,463)	—	(12,000)
Other property and investments	(19,184)	(909)	(4,157)
Net cash flow provided by (used by) investing activities	(102,517)	42,271	(120,186)
Net change in cash and cash equivalents	(930)	95,125	(65,672)
Cash and cash equivalents at January 1	197,518	102,393	168,065
Cash and cash equivalents at December 31	$ 196,588	$ 197,518	$ 102,393
Supplemental Cash Flow Disclosure			
Cash paid during the period for:			
Interest	$ 267,529	$ 286,211	$ 299,665
Income Taxes	6,359	812	2,406
Increase in nuclear fuel lease obligations	24,623	3,521	—

The accompanying notes are an integral part of the consolidated financial statements.

Financial Information

Consolidated Balance Sheet

December 31
(in thousands)

	1990	1989
Assets		
Utility and Other Plant, at original cost		
Plant in service	$ 6,741,601	$ 6,683,858
Less: Accumulated provision for depreciation	1,847,882	1,679,122
	4,893,719	5,004,736
Construction work in progress	24,576	15,600
Nuclear fuel, net of accumulated amortization	135,285	146,116
	5,053,580	5,166,452
Other Property and Investments	61,301	31,678
Current Assets		
Cash and cash equivalents	196,588	197,518
Receivables		
Customers	115,7[illegible]5	116,709
Other	18,764	15,883
Fuel inventories	27,423	24,274
Materials and supplies	7,951	7,032
Prepayments and other	35,458	37,631
	401,915	399,047
Deferred Charges and Other Assets		
Unamortized debt expense	19,442	20,571
Unamortized project cancellation costs	49,231	57,578
Accumulated deferred income taxes	169,355	56,462
Deferred River Bend costs	954,163	957,302
Long-term receivables	128,568	106,311
Other	25,714	12,493
	1,346,473	1,210,717
	$ 6,863,269	$ 6,807,894
Capitalization and Liabilities		
Capitalization (See Statement of Capitalization)		
Common shareholders' equity	$ 1,928,022	$ 2,007,350
Preference stock	100,000	100,000
Preferred stock		
Not subject to mandatory redemption	136,444	136,444
Subject to mandatory redemption	438,631	414,651
Long-term debt	2,074,112	2,387,209
	4,677,209	5,045,654
Current Liabilities		
Long-term debt due within one year	252,083	135,333
Preferred stock and long-term debt sinking fund requirements	76,963	84,647
Deferred River Bend construction commitments	12,429	15,241
Accounts payable — trade	109,596	99,637
Customer deposits	18,898	17,867
Taxes accrued	20,973	22,574
Interest accrued	74,078	85,005
Capital leases — current	38,952	45,003
Other	48,454	48,609
	652,426	553,916
Deferred Credits and Other Liabilities		
Investment tax credits	101,197	105,483
Accumulated deferred income taxes	667,518	570,794
Capital leases — non-current	122,113	135,549
Deferred River Bend financing costs	179,841	202,864
Southern Company settlement	235,283	—
Over-recovery of fuel costs	15,948	15,561
Disputed amounts	82,884	81,211
Deferred income from sale of utility plant	44,964	45,663
Other	83,886	51,199
	1,533,634	1,208,324
Commitments and Contingencies (Note 1)		
	$ 6,863,269	$ 6,807,894

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Capital Stock and Retained Earnings

For the years ended December 31
(in thousands)

	Preferred Stock Subject to Mandatory Redemption	Common Stock	Premium (Less Expense)	Other Paid-in Capital	Retained Earnings
Balance: January 1, 1988	$356,522	$1,195,148	$ (3,906)	$26,161	$802,905
Net income — 1988					103,143
Reacquired capital stock				2	
Preferred stock sinking fund requirements	(4,701)				
Dividends in arrears on preferred stock subject to mandatory redemption	35,368				(35,368)
Capital stock expense			(30)		
Balance: December 31, 1988	387,189	1,195,148	(3,936)	26,163	870,680
Net loss — 1989					(45,573)
Preferred stock sinking fund requirements	(7,680)				
Dividends in arrears on preferred stock subject to mandatory redemption	35,142				(35,142)
Capital stock expense				10	
Balance: December 31, 1989	414,651	1,195,148	(3,936)	26,173	789,965
Net loss — 1990					(44,282)
Preferred stock sinking fund requirements	(11,066)				
Dividends in arrears on preferred stock subject to mandatory redemption	35,046				(35,046)
Balance: December 31, 1990	$438,631	$1,195,148	$ (3,936)	$26,173	$710,637

The accompanying notes are an integral part of the consolidated financial statements.

Financial Information

Consolidated Statement of Capitalization

December 31
(in thousands)

	1990	1989
Common Shareholders' Equity		
Common stock		
Authorized 200,000,000 shares without par value		
Outstanding 108,055,065 shares	**$1,195,148**	$1,195,148
Premium and expense on capital stock	**(3,936)**	(3,936)
Other paid-in capital	**26,173**	26,173
Retained earnings	**710,637**	789,965
	1,928,022	2,007,350

Preference Stock
Authorized 20,000,000 shares without par value, cumulative
Outstanding 4,000,000 shares

Dividend Series	Cumulative Per Share Dividends in Arrears	Shares Outstanding	Redemption Price as of December 31, 1990	1990	1989
$ 4.40	$17.78	2,000,000	$ 30.45	**50,000**	50,000
3.85	15.56	2,000,000	30.15	**50,000**	50,000
				100,000	100,000

Preferred Stock
Authorized 6,000,000 shares, $100 par value, cumulative
Outstanding 4,617,568 shares

Dividend Series	Cumulative Per Share Dividends in Arrears	Shares Outstanding	Redemption Price as of December 31, 1990	1990	1989
Not subject to mandatory redemption					
$ 4.40	$17.78	51,173	$108.00	**5,117**	5,117
4.50	18.19	5,830	105.00	**583**	583
4.40-1949	17.78	1,655	103.00	**166**	166
4.20	16.98	9,745	102.818	**975**	975
4.44	17.95	14,804	103.75	**1,480**	1,480
5.00	20.21	10,993	104.25	**1,099**	1,099
5.08	20.53	26,845	104.63	**2,685**	2,685
4.52	18.27	10,564	103.57	**1,056**	1,056
6.08	24.57	32,879	103.34	**3,283**	3,283
7.56	30.56	350,000	101.80	**35,000**	35,000
8.52	34.44	500,000	104.43	**50,000**	50,000
9.96	40.26	350,000	104.64	**35,000**	35,000
				136,444	136,444
Subject to mandatory redemption					
8.80	35.57	301,029	103.00	**30,103**	30,103
9.75	39.41	29,636	103.00	**2,963**	2,963
8.64	34.92	302,465	103.00	**30,247**	30,247
11.48	46.40	480,000	103.00	**48,000**	48,000
13.64	55.13	40,000	103.00	**4,000**	4,000
12.92	52.22	600,000	105.00	**60,000**	60,000
11.50	46.48	750,000	111.50	**75,000**	75,000
Adjustable Rate	38.02	300,000	103.00	**30,000**	30,000
Adjustable Rate	38.23	450,000	103.00	**45,000**	45,000
Preferred dividends in arrears				**141,711**	106,665
				467,024	431,978
Preferred stock sinking fund requirements				**(28,393)**	(17,327)
				438,631	414,651

(Statement continued on following page.)

	1990	1989
Long-Term Debt		
First mortgage bonds		
Maturing 1991 through 1995 —		
14¾% due May 28, 1991	$ —	$ 37,500
17½% due January 13, 1992	**60,000**	100,000
4⅝% due May 1, 1992	**17,000**	17,000
16.8% due September 23, 1993	**25,720**	34,290
13¾% due March 1, 1994	**100,000**	100,000
Maturing 1996 through 2000 — 5% through 8½%	**230,000**	230,000
Maturing 2001 through 2005 — 7½% through 10.15%	**185,000**	185,000
Maturing 2006 through 2010 — 8⅝% through 12.3%	**345,000**	345,000
Maturing 2011 through 2015 — 12⅞% through 15%	**400,000**	400,000
Maturing 2016 — 11⅝% and 12⅛%	**200,000**	200,000
First mortgage bond sinking fund requirements	**(48,570)**	(67,320)
	1,514,150	1,581,470
Pollution control and industrial development bonds		
7% due 2006	**25,000**	25,000
5.9% due 2007	**23,000**	23,000
10⅝% due 2012	**48,285**	48,285
9½% due 2013	**17,450**	17,450
10⅝% due 2014	**50,000**	50,000
12% due 2014	**52,000**	52,000
Variable rate due 2014	**94,000**	94,000
Variable rate due 2015	**109,000**	154,000
9% due 2015	**45,000**	—
Variable rate due 2016	**20,000**	20,000
Debentures		
Euro-debentures — 13% due March 4, 1992	**75,000**	75,000
Convertible debentures — 7¼% due September 1, 1992	**2,003**	2,003
Revolving credit agreement	—	233,334
Deferred River Bend construction and continuing services commitments (variable rate)	—	12,625
Other long-term debt	**2,038**	2,038
	2,076,926	2,390,205
Unamortized premium and discount on debt — net	**(2,814)**	(2,996)
	2,074,112	2,387,209
	$4,677,209	$5,045,654

The accompanying notes are an integral part of the consolidated financial statements.

Gulf States Utilities Company Notes to the Consolidated Financial Statements

1. Commitments and Contingencies

Financial Condition. Although the Company has received partial rate relief relating to its River Bend Unit 1 (River Bend) nuclear unit, the Company's financial position continues to be strained by its inability to earn a return on and fully recover its investment and other costs associated with River Bend. The Company is still experiencing strong regulatory, political, and consumer resistance to rate increases which may affect its ultimate recoverability of River Bend and related costs. Issues to be finally resolved in the Louisiana Public Service Commission (LPSC) and the Public Utility Commission of Texas (PUCT) rate proceedings and appeals thereof, combined with the application of accounting standards, may result in substantial write-offs and charges that could result in substantial net losses being reported in 1991 and subsequent periods with resulting substantial adverse adjustments to common shareholders' equity. Substantial write-offs could adversely affect the Company's ability to purchase its stock in order to satisfy sinking fund requirements, reinstate dividends, and obtain financing in the future.

The Company's plans to meet its cash requirements in 1991 and 1992 include a combination of efforts. To increase revenues and cash flow, management plans to pursue the increase of rate levels and sales, and pursue appeals of rate orders. To reduce cash requirements, management intends to continue cost controls and undertake the refinancing of a part of the long-term debt maturing in 1991. Management also intends to extend or replace letters of credit which expire in 1991 and 1992, that secure certain pollution control bonds, or remarket such bonds, as was done with other pollution control bonds in 1990. If the Company is unsuccessful in these efforts to refinance maturing debt and to cause the pollution control bonds to remain outstanding, the Company believes that it has other means available to access external funds which may be needed. Management believes that these plans, combined with cash on hand, funds provided from operations, and funds available under its short-term bank credit arrangements will be adequate to meet its cash requirements through 1992. While the Company believes it can access external funds to the extent necessary to accomplish its plan, economic, financial market, or banking conditions or adverse developments with respect to contingencies to which the Company is subject could adversely affect such access. Should conditions prevent the Company's access to external funds, management believes it has internal resources to meet its cash needs in 1991, and the ability, by controlling certain operations and construction expenditures, to prevent short-term cash deficiencies which might otherwise occur in 1992.

While litigation with the Southern Company was settled during 1990, subject to the conditions discussed below, significant litigation and regulatory contingencies continue to exist. Attention should be given to the disclosure that certain litigation contingencies exist, which management does not presently believe will be finally resolved in 1991. See below for the consequences if such contingencies were ultimately resolved adversely to the Company.

The Nuclear Regulatory Commission (NRC), which regulates the operation of River Bend, expressed its concern in 1986 that the Company's financial condition could negatively impact activities associated with River Bend. The Company continues to keep the NRC informed of its financial condition. If the Company's financial condition deteriorates, what action the NRC may take and its financial impact upon the Company cannot be predicted, but such action could include suspension of operation of River Bend, which could have a substantial adverse effect on the financial condition of the Company.

Southern Company (Southern). Since 1986, the Company and Southern have been litigating disputes relating to certain purchase power contracts providing for purchases by the Company of capacity and energy from Southern.

As of June 24, 1990, the Company had not recorded as a liability and had not paid an estimated $677,000,000 of charges related to the Southern contracts. The Company estimated that, if owed, minimum payments for capacity which would be due under such contracts from June 25, 1990, through their termination in 1992, would aggregate approximately $357,000,000 and that payments for energy would be approximately $189,000,000.

SETTLEMENT. As of December 21, 1990, the Company and Southern executed a definitive settlement agreement (Settlement Agreement) setting forth the specific terms and principles of settlement of the litigation and claims between the companies. The Settlement Agreement contains the general terms and provisions previously outlined in the Memorandum of Understanding dated June 25, 1990. In 1990, the Company recorded a charge to earnings of $205,015,000 before the related income tax benefits of $80,834,000 (which includes $11,129,000 of state tax benefits) representing management's estimate of the settlement costs. Due to the state net operating loss

position the Company is in, an offsetting state tax expense of $11,129,000 is included in "Income Taxes — State." The Company will record interest on the present value of the estimated liability until January 1, 1993.

The Settlement Agreement provides that, subject to the conditions referred to below, Southern would receive:

(a) approximately $75,000,000 in cash, including all funds previously deposited by the Company in a court-controlled escrow account in lieu of certain payments under the purchase power contracts (the Company will pay approximately $6,404,000 in addition to the escrow funds);

(b) a $160,000,000 non-interest bearing promissory note due on January 1, 1993, subject to the Company having "adequate cash" at January 1, 1993, as described below; and

(c) 6,000,000 shares of the Company's common stock, which Southern would have the right to vote only in the event of bankruptcy of or default by the Company.

In addition, the Settlement Agreement provides that on January 1, 1993, the Company would pay Southern for each of the 6,000,000 shares of common stock, the amount by which (if any) $18.25 exceeds the highest average of the highest prices at which the Company's common stock trades for five consecutive days during the period between the date the shares are delivered to Southern and January 1, 1993. However, if the Company does not have "adequate cash" on January 1, 1993, all unpaid amounts pursuant to the preceding sentence and under the promissory note would begin to accrue interest at the prime rate plus 1 percent and would be payable on the earlier of the January 1st as of which the Company has "adequate cash" or January 1, 1999. Pursuant to the Settlement Agreement, the Company would be deemed to have "adequate cash" at the time it begins to pay cash dividends on its outstanding common stock or to the extent its projected available cash balance each year exceeds $35,000,000.

The Company's obligations under the settlement would be secured by a first mortgage lien on the Lewis Creek generating station, a 520-megawatt gas-fired facility owned by GSG&T, Inc. (GSG&T), a wholly-owned subsidiary of the Company, and a pledge of the common stock of GSG&T.

The settlement is subject to and will become effective upon the satisfaction of several conditions, including necessary approvals by the Boards of Directors of the companies, the Federal Energy Regulatory Commission (FERC), the Securities and Exchange Commission, the court controlling the escrow deposit, and certain creditors of the Company. On February 7, 1991, the Company's Board of Directors approved the settlement. The parties reserved certain rights to withdraw from the settlement under stated conditions and the Settlement Agreement provides that if the settlement is not effective by April 30, 1991, the parties would have no further obligation under the Settlement Agreement.

If the settlement is not consummated and if the Company were ultimately unsuccessful in the pending litigation and were required to make substantial payments to the Southern Company and not permitted to pass those costs through to customers in its rates, the Company would probably be unable to make such payments and would probably have to seek relief from its creditors under the Bankruptcy Code.

Cajun Electric Power Cooperative, Inc. (CEPCO). The Company has significant business relationships with CEPCO, including co-ownership of River Bend and Big Cajun 2 Unit 3. The Company and CEPCO own 70 percent and 30 percent of River Bend, respectively, while Big Cajun 2 Unit 3 is owned 42 percent and 58 percent by the Company and CEPCO, respectively.

On June 26, 1989, CEPCO filed a civil action against the Company in the U. S. District Court for the Middle District of Louisiana. CEPCO stated in its complaint that the object of the suit is to annul, rescind, terminate, and/or dissolve the Joint Ownership Participation and Operating Agreement entered into on August 28, 1979 (Operating Agreement) related to River Bend because of fraud and error by the Company, breach of its fiduciary duties owed to CEPCO, and/or the Company's repudiation, renunciation, abandonment, or dissolution of its core obligations under the Operating Agreement, as well as the lack or failure of cause and/or consideration for CEPCO's performance under the Operating Agreement. The suit seeks to recover at least CEPCO's alleged $1.6 billion investment in the unit as damages, plus attorneys' fees, interest, and cost.

The Company believes the suit is without merit and is contesting it vigorously. No assurance can be given as to the outcome of this litigation. If the Company were ultimately unsuccessful in this litigation and were required to make substantial payments, the Company would probably be unable to make such payments and would probably have to seek relief from its creditors under the Bankruptcy Code.

The Company has been informed that CEPCO has had serious financial problems but that the Rural Electrification Administration (REA) has refinanced CEPCO's outstanding debt. Additionally, one of CEPCO's member cooperatives has

filed bankruptcy. CEPCO's weak financial condition or its bankruptcy could have significant adverse effects on the Company, including, but not limited to, possible NRC action as described above and a need to bear additional costs associated with the co-owned facilities. During 1991, and for the next several years, it is expected that CEPCO's share of River Bend related costs will be in the range of $60,000,000 to $70,000,000 per year. If the Company were required to fund CEPCO's share of costs and to continue to meet its current obligations to CEPCO, there can be no assurance that the Company's resources would be adequate.

The Company and CEPCO are parties to FERC proceedings regarding certain long-standing disputes relating to transmission service charges. Hearings before the FERC were completed in December 1988. On May 11, 1989, an administrative law judge issued an initial decision, which is subject to a final FERC order. The Company claims CEPCO has underpaid transmission charges, which as of December 31, 1990, amount to $82,884,000. Such amount was recorded on the balance sheet as a long-term account receivable and an offsetting amount in dispute, with no effect on net income. No assurance can be given as to the timing or outcome of the final FERC order.

The Company and CEPCO were in dispute over certain billings related to the jointly-owned facilities, River Bend and Big Cajun 2 Unit 3. During the first quarter of 1989, the Company and CEPCO reached a tentative settlement regarding the amount of overhead related to administrative and general expenses to be paid by CEPCO for River Bend and the amount the Company will pay to CEPCO for Big Cajun 2 Unit 3, retroactive to June 1986. During the first quarter of 1989, the Company made adjustments to reflect the tentative settlement related to River Bend, which increased the net loss for 1989 by $4,346,000.

The Company and CEPCO have also reached a settlement regarding disputes under the River Bend buyback arrangement which was ratified by the REA on March 6, 1989. During the first quarter of 1989, the Company made adjustments to reflect the settlement of the River Bend buyback arrangement with no material effect on the net loss.

Nuclear Risks. Ownership and operation of a nuclear generating unit subjects the Company to significant special risks. The Company is insured to an extent as to its interest in River Bend for property damage and decontamination, liability to employees and third parties, and incremental replacement power costs, as described below. However, potential liabilities to which the Company may be subject, including but not limited to liabilities relating to the release or escape of hazardous substances into the environment, may not be insurable, and the amount of insurance carried as to the various risks may not be sufficient to meet potential liabilities and losses. There is also no assurance that the Company will be able to maintain insurance coverages at their present levels. Under those circumstances, such losses or liabilities would have a very substantial adverse effect on the financial condition of the Company.

Public liability in case of a nuclear incident at any licensed nuclear facility in the United States is currently limited to $7.8 billion under provisions of the Price-Anderson Act (Act) which was renewed and revised in 1988 and extends through August 1, 2002. The Company insures River Bend for this exposure through a combination of private insurance and the industry-wide secondary financial program. The changes to the Act necessitated modifications to the secondary financial protection, such that the Company will be subjected to a potential retrospective assessment of approximately $66,150,000 per incident with a maximum amount of $10,000,000 per incident payable in any one year for losses in the event of a nuclear incident at its facility or any other licensed nuclear reactor facility in the United States. Any retrospective assessments pertaining to this liability are subject to the 70/30 percent ownership interest in River Bend between the Company and CEPCO.

The Company maintains $500,000,000 primary property damage insurance and $700,000,000 of excess insurance for River Bend from the private insurance market. Additionally, the Company has acquired $1,125,000,000 of excess property insurance coverage on River Bend through participation in the Nuclear Electric Insurance Limited (NEIL) II program. Under NEIL II, the Company is subject to a maximum assessment of approximately $6,860,000 in any one policy year. Although the Company has continued to increase the limits of such insurance as capacity becomes available, no assurance can be given about the adequacy of such insurance limits in the event of a major accident. The property damage insurance policy limits are substantially less than the replacement cost of the River Bend facilities.

The Company maintains a Nuclear Workers' Liability policy which covers liability for tort claims by on-site workers first employed at a nuclear facility after January 1, 1988, for non-catastrophic nuclear-related injury such as the exposure to long-term, low-level radiation. Nuclear related claims by workers employed in a nuclear facility prior to January 1, 1988, will continue to be covered under the Nuclear Energy Liability policy

provided the claim is made by December 31, 1997. Under the Nuclear Workers' Liability policy, the Company is subject to a maximum retrospective premium assessment of approximately $2,700,000.

Some extra expense for River Bend replacement power is insured through the NEIL I program. Under the NEIL I program the Company is subject to a maximum annual retrospective assessment of approximately $1,310,000.

Disposal of Spent Nuclear Fuel and Nuclear Decommissioning. As provided in the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the United States Department of Energy (DOE) for disposal of spent nuclear fuel from River Bend. The Company pays a quarterly fee to the DOE equal to one mill per net kilowatt-hour generated by River Bend. The Company is currently recovering such costs in all jurisdictions.

The Company has received approval from the PUCT, LPSC, and FERC to collect in rates amounts necessary to decommission River Bend when it reaches the end of its service life. Decommissioning costs are subject to the 70/30 percent ownership interest in River Bend between the Company and CEPCO. In 1990 dollars the Company's share of decommissioning costs is estimated to be $188,000,000, which at the end of the life of the unit may be over $1 billion. To provide for future decommissioning costs, the amounts collected through rates from customers are placed in a master trust fund, where the contributions plus interest will provide amounts needed in the future. The Company has elected the provisions of section 468A of the Internal Revenue Code to qualify for an annual tax deduction for payments made to the nuclear decommissioning fund. At December 31, 1990, the balance in the decommissioning trust fund was $4,565,000. There can be no assurance that the amount being provided for will be adequate.

Dividend Suspension. The Board of Directors did not declare any dividends on the Company's common stock for the third quarter of 1986, and no dividend on common stock has been declared through December 31, 1990. The Board of Directors did not declare the dividends on the preferred and preference stock of the Company payable on March 15, 1987, and has continued not to declare them through December 31, 1990. Dividends on all series of the Company's preferred and preference stock are cumulative. Since the Company has failed to pay such dividends, the holders of preferred stock became eligible, as of March 15, 1988, to elect a majority of the Board of Directors and have done so since the annual meeting on May 5, 1988. The holders of preference stock became eligible, as of September 15, 1988, to elect two directors and have done so since the annual meeting on May 4, 1989. The Company may not pay any dividend or distribution on any of its common stock, or purchase or otherwise acquire common stock, unless all cumulative dividends and sinking fund obligations have been paid on preferred and preference stock. Under its Restated Articles of Incorporation (Articles), as amended, the Company may not pay any dividend or distribution on any of its preference stock, or otherwise acquire preference stock, unless all sinking fund obligations have been paid on preferred stock. As of December 31, 1990, the Company has not met sinking fund obligations totaling $17,327,000. Under the terms of a bank credit agreement discussed in Note 12, the Company is also restricted from paying dividends in excess, with certain exceptions, of $75,000,000 on any of its classes of stock while such credit agreement remains outstanding. The Company's ability to pay dividends and redeem and purchase outstanding stock (as is necessary to meet its preferred stock sinking fund obligations) will be adversely affected, and possibly foreclosed, for an indeterminate period of time if significant write-offs result from regulatory actions, judicial actions, or requirements of accounting standards.

Alternative financial arrangements to address part or all of the preferred and preference stock arrearages have been periodically reviewed by the Board of Directors, but the feasibility and timing of any such arrangements as yet remain uncertain. Payment of current dividends on all stock is at the discretion of the Board of Directors and depends upon its continuing evaluation of the financial condition of the Company.

The Company has accrued dividends on and increased the balance of mandatory redeemable preferred stock with an offsetting decrease to retained earnings. However, since dividends on all series of the Company's preferred and preference stock are cumulative (the aggregate amount of accumulated and unpaid preferred and preference stock dividends as of December 15, 1990 is $251,039,000), income (loss) applicable to common stock and earnings (loss) per average common share outstanding have been computed assuming that all such dividends through December 31, 1990 were accrued.

Other Contingencies. The Company has been notified by the U. S. Environmental Protection Agency (EPA) that it has been designated as a potentially responsible party for the cleanup of sites on which the Company and others have or have been alleged to have disposed of material designated as hazardous waste. The Company is currently negotiating with the EPA and state authorities regarding the cleanup of some of these sites. Several class action and other suits have been

filed in state and federal courts seeking relief from the Company and others for damages caused by the disposal of hazardous waste and for asbestos-related disease which allegedly occurred from exposure on Company premises. While the amounts at issue in the cleanup efforts and suits may be very substantial sums, management believes that its financial condition will not be materially affected by the outcome of the suits.

The Company is also involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management believes that the final outcome will not have a material adverse effect on its financial condition.

2. Summary of Significant Accounting Policies

System of Accounts. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the FERC and adopted by the LPSC and the PUCT.

Utility Plant and Depreciation. Utility and other plant is stated at original cost when first dedicated to public service. Costs of repairs and minor replacements are charged to expense as incurred. The original cost of depreciable utility plant retired and cost of removal, less salvage, are charged to accumulated provision for depreciation. The provision for depreciation is computed using the straight-line method at rates, approved by the regulatory commissions, which will amortize the unrecovered cost of depreciable plant over the estimated remaining service life.

Composite depreciation rates were as follows:

	1990	1989	1988
Electric	2.70%	2.68%	2.72%
Steam	4.23	4.16	4.05
Gas	3.53	3.53	3.52
Total Company	2.72	2.70	2.74

Decommissioning. The Company is accruing the decommissioning costs of River Bend in accordance with the regulatory commissions' orders over a 38 to 40-year period.

Allowance for Funds Used During Construction (AFUDC) and Capitalization of Interest. The accrual of AFUDC is a utility accounting practice calculated under guidelines prescribed by the FERC and capitalized as part of the cost of utility plant representing the cost of servicing the capital invested in construction work in progress (CWIP). Such AFUDC has been segregated into two component parts — borrowed and equity funds. That portion allocated to borrowed funds is reflected as an adjustment to interest charges, while that portion applicable to equity funds is shown as a source of other income. Both the equity and the borrowed portions of AFUDC are non-cash items which have the effect of increasing the Company's reported net income. When the related utility plant is placed in service, a return on and recovery of prudently incurred costs have been permitted by regulators in determining the rates charged for utility service (see Notes 3 and 15 for information regarding recent rate actions).

In 1987, due to the construction interest capitalization provisions of the Tax Reform Act of 1986, the Company began accruing AFUDC at pre-tax rates. These rates were as follows:

January 1, 1988 — March 31, 1988	12.50%
April 1, 1988 — March 31, 1989	12.25
April 1, 1989 — March 31, 1990	11.75
April 1, 1990 — December 31, 1990	11.50

Revenue, Fuel, and Purchased Power. The Company records revenue as billed to its customers on a cycle billing basis. Revenue is not recorded for energy delivered and unbilled at the end of each fiscal period. The Company's wholesale and Louisiana retail rate schedules provide for adjustments to substantially all rates for increases or decreases in the costs of fuel for generation, purchased power, and gas distributed. The Company's Texas retail rate schedules include a fixed fuel factor approved by the PUCT. Such factor remains the same until the Company files for a general rate increase or fuel reconciliation or until the PUCT orders a reconciliation for any over or under collections of fuel cost. Fuel and purchased power costs in excess of those included in base rates or recovered through fuel adjustment clauses are deferred (or accrued) until such costs are billed (or credited) to customers.

Inventories. The Company's fuel inventories are comprised of fuel oil, valued at weighted average cost, and coal, valued at last-in, first-out (LIFO) cost. Materials and supplies are valued at weighted average cost.

Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss and investment tax credits, subject to the limitations for recognition of net operating loss carryforwards and investment tax credits.

The Company follows a policy of comprehensive interperiod income tax allocation where such treatment is permitted for ratemaking purposes by regulatory bodies. Deferred income taxes result from timing differences in the recognition of revenue and expenses for tax and accounting purposes.

Investment tax credits have been deferred and are being amortized ratably over the useful lives of the related property.

Subsidiary Companies. The Company accounts for the operations and financial position of its wholly-owned subsidiary companies. Varibus Corporation (Varibus), Prudential Oil and Gas, Inc. (Prudential), GSG&T, and Gulf States Overseas Finance N.V. on a consolidated basis.

Retirement Plan and Other Post Employment Benefits. The Company has a noncontributory pension plan which covers all employees meeting certain age and service requirements. Benefits are based on years of service and the highest five consecutive years of employees' compensation during the last 10 years of service. All of the Company's eligible employees are entitled to retirement benefits upon completion of 10 years of service and after reaching age 50. The Company's policy is to fund the actuarially computed pension contribution annually. Past and prior service costs, which are due primarily to retirement plan amendments, are being funded by the Company over periods of up to 40 years.

In addition to the pension plan, the Company provides retired employees with life and health care insurance benefits. All of the Company's employees may become eligible for benefits upon retirement. The Company records the cost of such benefits as claims are actually paid. The cost of such benefits was $4,722,000, $4,051,000, and $3,736,000 for the years 1990, 1989, and 1988, respectively.

Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, requires the Company, beginning in 1993, to change the method of accounting for such benefits to the accrual method. The Company estimates the annual expense for such benefits could range from $20,000,000 to $40,000,000. Amounts ultimately recorded in accordance with SFAS No. 106 will be influenced by the actuarial assumptions used and the regulatory treatment provided the Company.

Consolidated Statement of Cash Flows. For the purposes of the Statement of Cash Flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Unamortized Project Cancellation Costs. During 1984, the Company began amortizing the cost of the River Bend Unit 2 cancellation applicable to its Texas retail operations over 15 years. In 1989, the Company began amortizing the cost of the River Bend Unit 2 cancellation applicable to the Louisiana retail jurisdiction over 10 years.

Reclassification of Financial Statements. In March 1990, the Company reclassified $81,303,000, which had been recorded as a reduction to "Utility and Other Plant, at original cost," to "Deferred Credits and Other Liabilities — Deferred River Bend financing costs." This reclassification was in accordance with the Company's interpretation of the LPSC rate order, effective March 1, 1990, regarding Louisiana retail jurisdictional amounts of carrying charges related to portions of River Bend previously included in rate base during the construction period of the unit. The Company changed the amortization period for such amounts from 40 years to an eight-year period, the remaining term of the River Bend phase-in plan, in accordance with the provisions of the rate order. Accordingly, amounts depreciated in 1988 and 1989 were reclassified from "Depreciation and amortization" to "Amortization of accumulated deferred River Bend costs." These reclassifications had no effect on net income (loss) or common shareholders' equity.

Prior year financial statements have been reclassified in order to be consistent with current year presentation with no effect on net income (loss) or common shareholders' equity.

3. Rates and Accounting

Rate Matters

Texas. On May 16, 1988, the PUCT granted the Company a one-time permanent rate increase of $59,900,000. The increase is based on including in rate base approximately $1.6 billion of the Company's system-wide River Bend plant investment and approximately $182,000,000 of related Texas retail jurisdiction deferred River Bend costs ruled prudent. Additionally, the PUCT affirmed its preliminary rulings made in February 1988 to disallow as imprudent $63,468,000 of the Company's system-wide River Bend plant costs (approximately $20,000,000, net of accumulated depreciation and related tax benefits, on a Texas retail jurisdiction basis, as of December 31, 1990) and placed in abeyance approximately $1.4 billion of the Company's system-wide River Bend plant investment (approximately $420,000,000, net of accumulated depreciation and related tax benefits, on a Texas retail jurisdiction basis, as of December 31, 1990) and approximately $157,000,000 of Texas retail jurisdiction deferred River Bend costs with no finding as to prudency. The PUCT affirmed that the ultimate rate treatment of such amounts would be subject to future demonstration by the Company of the prudency of such costs.

On July 29, 1988, the Company filed an appeal of the May 16, 1988 rate order in a state district court. Other parties have also appealed the order. The Company's appeal included, among other things, a request that the $1.4 billion of River Bend plant investment which was set aside with no finding as to prudency be included in rate base, as well as a request that approximately $27,000,000

in additional rate relief be granted. The Company's appeal also covers the imprudency disallowance related to River Bend. Pending resolution of this case, the Company has not recognized the alleged imp udency disallowance. No assurance can be given as to the timing or outcome of the court appeals.

On March 21, 1989, the Company filed with the PUCT and Texas municipalities a request (Docket No. 8702) for a first year rate increase of $67,500,000, net of fuel refunds. The request also provides for the Texas retail share of the $1.4 billion of River Bend investment previously placed in abeyance to be placed in inventory rather than rate base, or alternatively in rate base through a phase-in plan.

Various parties opposing the Company's rate increase request filed motions seeking to keep the PUCT from hearing the prudency issue of the previously abeyed River Bend construction costs.

On September 5, 1989, the PUCT began hearings on certain issues of the March 21, 1989 rate request.

On September 20, 1989, the Court of Civil Appeals of the Third Supreme Judicial District of the State of Texas reversed a decision of the 250th District Court of Travis County, Texas and dissolved a permanent injunction issued July 10, 1989, by that district court which would have prevented the PUCT from holding hearings on the prudency of the $1.4 billion of River Bend investment previously placed in abeyance.

Certain parties requested emergency relief from the Supreme Court of the State of Texas with respect to the consideration by the PUCT of the prudency of River Bend costs. On September 12, 1990, the Texas Supreme Court upheld the district court decision holding that the prudence of the costs purported to be held in abeyance by the PUCT in its May 16, 1988 order could not be relitigated in the Company's current rate case, Docket No. 8702.

The Texas Supreme Court's decision stated that all issues relating to the merits of the original order of the PUCT, including the prudence of all River Bend related costs, remain to be addressed in a pending district court appeal filed by the Company on July 29, 1988, and that the Company's burden in such appeal is to show that the PUCT's order was not supported by substantial evidence. The Texas Supreme Court's decision does not in and of itself constitute a disallowance of the costs in question. That issue remains before the district court. The Company filed a motion for rehearing with the Texas Supreme Court, which was rejected, and is pursuing an appeal to the U.S. Supreme Court.

On October 12, 1990, hearings on the rate request filed on March 21, 1989, were restarted before the PUCT. Portions of the rate request that deal with the River Bend items previously placed in abeyance were excluded from these hearings.

On December 11, 1990, the Company implemented an approximate $65,089,000 base rate increase subject to refund. During December 1990, the Company collected $152,000 of revenue, net of refund reserves, subject to refund. Settlement negotiations began on February 13, 1991 and have continued with various intervening parties.

Pending resolution of various appellate proceedings, the Company has made no write-off for the previously disallowed portion of River Bend plant costs or the previously abeyed River Bend plant costs and deferred River Bend costs discussed above.

On February 5, 1991, the state district court hearing the appeal of the PUCT's May 16, 1988 rate order denied the Company's request for an immediate remand and stated that the appealed PUCT order was a final determination on the issue of prudency of the $1.4 billion of River Bend that it did not allow in rate base. The court also stated that the appeal will proceed to a final resolution on all issues before the court.

Louisiana. Appeal of December 15, 1987 Rate Order. On October 11, 1989, the state district court ruling on the Company's appeal of the LPSC's December 15, 1987 rate order upheld the LPSC finding that the Company was imprudent to have restarted construction of River Bend and affirmed the LPSC disallowance from rate base of $1.4 billion of River Bend plant investment (approximately $460,000,000, net of accumulated depreciation and related tax benefits, on a Louisiana retail jurisdiction basis, as of December 31, 1990). The state district court ordered the LPSC to implement a deregulated asset plan previously proposed by the LPSC for the $1.4 billion of River Bend plant investment. The plan would allow the Company to sell power from the deregulated portion of River Bend to customers or, with LPSC approval, off-system. One element of the plan as proposed by the LPSC was a provision that settlements by the Company with other regulators more favorable to ratepayers with respect to River Bend costs would entitle the LPSC to revise the plan to obtain the incremental benefits. The state district court also affirmed the LPSC finding that the $1.6 billion of River Bend costs was prudent. Based upon such LPSC finding, the state district court confirmed the phase-in plan awarded the Company on February 18, 1988, by another court.

In December 1989, an appeal of the October 11, 1989 state district court order was filed by the Louisiana Attorney General with the Louisiana

Supreme Court. In January 1990, both the Company and the LPSC appealed various portions of the state district court order to the Louisiana Supreme Court. The Company has not recorded any effect of the October 11, 1989 state district court order pending resolution of the appeals. The Louisiana Supreme Court held hearings on the merits of the appeals of the various parties on October 23, 1990 and December 4, 1990.

No assurance can be given as to the timing or actions of the Louisiana Supreme Court. If the disallowance is upheld and the deregulated asset plan is not affirmed, a write-off of the disallowed investment allocable to the Louisiana retail jurisdiction could be required. Current analysis indicates that if the deregulated asset plan becomes final as issued, the Company would be required to discontinue application of SFAS No. 71 to the Louisiana retail deregulated portion of the River Bend investment. A write-down of the Louisiana deregulated portion of River Bend would be required if the deregulated asset plan becomes final as issued and if the deregulated portion of River Bend is determined to be permanently impaired. Management believes that any impairment currently existing in the deregulated asset plan in its current form is temporary. Accordingly, the Company has made no write-down to the deregulated asset investment. However, future analysis will be required to determine if any impairment exists and if such impairment is permanent and requires a write-down to the deregulated asset investment in the event the deregulated asset plan is issued in its current form. Permanent impairment would result in a net of tax write-down, for financial reporting purposes, which could range from zero to $250,000,000. However, no assurance can be given that a larger write-off could not be required. The factors affecting the possible write-down include projections of River Bend's future operating costs, the unit's efficiency and availability, and the future market for energy over the remaining life of the unit.

Louisiana. Phase-in Plan Second Step. On February 28, 1989, the LPSC authorized a $38,000,000 rate increase as the second step in the Company's court-ordered 10-year phase-in plan. The court-ordered phase-in plan provides for a total of four annual increases, subject to LPSC review, and level rates for six years thereafter. The LPSC order, among other things, modified certain aspects of earlier decisions by reversing the prior denial of recovery of the Company's investment in the cancelled River Bend Unit 2, reduced the appropriate level of return on common equity from the 14 percent ordered by the court to 13 percent, and made other adjustments.

On April 27, 1989, the Company filed an appeal of the LPSC's February 28, 1989 rate order which contained a disallowance of $30,563,000 from rate base of deferred revenue requirement that the Company recorded for the period December 16, 1987 through February 18, 1988. Such appeal did not address any other aspects of the rate order. Pending resolution of this case, the Company has not recognized the disallowance of the deferred revenue requirement. There can be no assurance as to the timing or outcome of this appeal.

Louisiana. Phase-in Plan Third Step. On November 20, 1989, the Company filed for the third step rate increase of the court-ordered phase-in plan. On February 22, 1990, the LPSC granted the Company a $28,000,000 base rate increase, effective March 1, 1990, as the third step in the February 18, 1988 court-ordered phase-in plan. The LPSC order includes, among other things, the deregulated asset plan which was previously proposed by the LPSC in November 1988, and ordered by a state district court on October 11, 1989. The Company and other parties have also appealed various aspects of this order to the Louisiana Supreme Court.

Louisiana. Phase-in Plan Fourth Step. On October 26, 1990, the Company filed for a fourth step rate increase of $29,988,000 with the LPSC. The fourth step increase request is part of the February 18, 1988 court-ordered phase-in plan. For recent developments in the Louisiana rate proceeding, see Note 15.

Wholesale Jurisdiction. During June through August 1989, the Company and a majority of its wholesale customers reached agreements which became effective at various times through April 1990, that provided for rates that were lower than the then existing approved rates for the Company's wholesale electric service and, in some cases, lowered the energy and power requirements from those previously contracted for.

Accounting Developments

SFAS No. 90. In December 1986, the Financial Accounting Standards Board (FASB) issued SFAS No. 90, Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs, which amends certain accounting standards for rate regulated enterprises. SFAS No. 90 specifies the accounting for the effect of disallowances of costs of newly completed plants and plant abandonments. Additionally, it requires the Company to reduce its investment in the abandoned River Bend Unit 2 to an amount equal to the present value of the probable future revenues expected to be provided over the amortization period authorized by regulators. In subsequent periods, the Company is recognizing interest income to the extent of the difference between

amortization allowed for regulatory purposes and the reduced amortization recorded for financial reporting purposes.

1989. During 1989, the Company reduced its investment in River Bend Unit 2 by $23,853,000 before related income tax benefits of $8,965,000 for the Louisiana retail jurisdiction and steam department. This write-down resulted from the February 28, 1989 LPSC rate order which allowed the Company to recover its investment in River Bend Unit 2 but did not allow a return on the investment. Accordingly, this write-down was computed in accordance with SFAS No. 90 and was not recorded as a cumulative effect of an accounting change.

1988. The following table illustrates SFAS No. 90's cumulative effect of the River Bend Unit 2 plant write-down for the Texas retail and wholesale jurisdictions recorded in 1988:

	1988 (in thousands except per share amounts)
Property Abandonment — River Bend Unit 2	
Texas retail jurisdiction	
Return disallowance — discounted	$19,277
Related income taxes	(6,554)
Wholesale jurisdiction	
Return disallowance — discounted	2,494
Related income taxes	(848)
Effect of River Bend Unit 2 plant write-down under SFAS No. 90	$14,369
Earnings per average share of common stock outstanding before the effects of SFAS No. 90	$ .50
Loss per average share of common stock effect of SFAS No. 90	(.13)
Earnings per average share of common stock outstanding	$ .37

SFAS No. 90 Pro Forma Effects. The following table details the pro forma effects had the Company retroactively restated the SFAS No. 90 effects for the Texas retail and wholesale jurisdiction back to 1984, the year River Bend Unit 2 was abandoned, as opposed to recording the effects cumulatively as detailed above:

	1988 (in thousands except per share amounts)
Income applicable to common stock, excluding the cumulative effects of SFAS No. 90	$54,448
Interest income (net of income taxes)	—
Pro forma income applicable to common stock	$54,448
Pro forma earnings per average share of common stock outstanding before extraordinary item	$ .50
Pro forma earnings per average share of common stock outstanding	$ .50

Pending resolution of the appeals of the December 15, 1987 LPSC rate order and the resolution of the appeals of the October 11, 1989 Louisiana state district court order, the Company has made no write-off for the previously disallowed portion of River Bend, which at December 31, 1990, would be approximately $480,000,000, net of related income taxes, assuming the application of SFAS No. 71 is not discontinued. Pending resolution of the appeals of the May 16, 1988 PUCT rate order, the Company has made no write-off for the disallowed portion of River Bend, which at December 31, 1990, would be approximately $20,000,000, net of related income taxes. See Texas — Rate Matters for additional possible write-offs of River Bend plant investment which were previously placed in abeyance.

SFAS No. 101. In December 1988, the FASB issued SFAS No. 101, Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No. 71.

SFAS No. 101 specifies how an enterprise that ceases to meet the criteria for application of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, to all or part of its operations should report that event in its general purpose external financial statements.

An enterprise's operations can cease to meet those criteria for various reasons, including deregulation, a change in the method of regulation or a change in the competitive environment for the enterprise's regulated services or products. Regardless of the reason, an enterprise whose operations cease to meet those criteria should discontinue application of SFAS No. 71 and report that discontinuation by eliminating from its balance sheet the effects of any actions of regulators that had been recognized as assets and liabilities pursuant to SFAS No. 71 but which would not have been recognized as assets and liabilities by enterprises in general.

Steam Department. The Company has for a number of years produced steam at its Louisiana Station No. 1 and sold such steam, along with the cogenerated electricity, to industrial customers located adjacent to Louisiana Station. Electric power requirements of these customers in excess of the by-product electricity have been met by the Company with power from the Company's system power grid. In the past, contractual arrangements with the steam customers called for that power provided from the grid to be billed at rates set in rate proceedings by the LPSC. As a result of this arrangement, the Company has previously accounted for the steam department in accordance with the provisions of SFAS No. 71.

The remaining steam customer replaced a substantial portion of power previously provided

from the Company's grid with power from an additional cogenerated facility which was completed and became operational in June 1990.

During the fourth quarter of 1989, the Company discontinued regulatory accounting principles for the steam department and wrote-off the deferred revenue requirement and accounting order deferrals and made other adjustments. The write-off was recorded as an extraordinary item and amounted to $34,431,000 before the related income tax benefits of $12,527,000.

WHOLESALE JURISDICTION. As discussed previously in Wholesale Jurisdiction — Rate Matters, the Company reached agreements with a majority of its wholesale customers which, among other things, lowered the contracted amount of power and the rates for such power. Upon approval by the FERC of these agreements in the third quarter of 1989, the Company discontinued regulatory accounting principles for the wholesale jurisdiction, wrote-off the deferred revenue requirement previously recorded by the Company with respect to the phase-in plan for its wholesale customers, and made other adjustments. The write-off was recorded as an extraordinary item and amounted to $65,502,000 before the related income tax benefits of $28,582,000.

Deferred Revenue Requirements — River Bend Phase-in Plan. In accordance with the terms of the phase-in plan authorized by the court in Louisiana, and adopted by the LPSC, the Company is recording a deferred revenue requirement representing those River Bend costs which have been deferred for future recovery.

River Bend Cost Deferrals. Pursuant to accounting orders received in 1986 from the LPSC and the PUCT, the Company deferred recognition, for financial reporting purposes, of the retail portion of the operating costs associated with River Bend and costs of purchasing capacity from CEPCO's portion of the unit incurred subsequent to the unit's commercial in-service date and accrued carrying charges upon the retail portion of both the cash portion of the deferrals and the investment in the unit not included in the Company's rate base. The deferral of costs and accrual of carrying charges associated with River Bend was terminated in the Louisiana retail jurisdiction on December 15, 1987, upon receipt of the permanent rate decision and terminated in the Texas retail jurisdiction on July 23, 1988, the effective date of rates authorized by the PUCT rate order of May 16, 1988.

Balances of amounts deferred and accrued under accounting orders issued by regulators, net of amortization of such amounts, and deferred revenue requirements related to a phase-in plan recorded for financial reporting purposes, net of deferred River Bend financing costs are as follows:

		Changes for the Year Ended December 31, 1990		
	Balance at December 31, 1989	Deferred Revenue Requirement	Amortization	Balance at December 31, 1990
		(in thousands)		
DEFERRED REVENUE REQUIREMENTS — PHASE-IN PLAN				
Louisiana retail jurisdiction	$277,940	$41,515	$ —	$319,455
ACCOUNTING ORDER DEFERRALS				
Texas retail jurisdiction				
Deferred River Bend expenses and carrying charges	368,953	—	—	368,953
Amortization of accumulated deferred River Bend costs	(6,570)	—	(4,560)	(11,130)
Louisiana retail jurisdiction				
Deferred River Bend expenses and carrying charges	400,375	—	—	400,375
Amortization of accumulated deferred River Bend costs	(83,396)	—	(40,094)	(123,490)
	679,362	—	(44,654)	634,708
DEFERRED RIVER BEND COSTS	957,302	41,515	(44,654)	954,163
DEFERRED RIVER BEND FINANCING COSTS, NET OF AMORTIZATION	202,864	—	(23,023)	179,841
	$754,438	$41,515	$(21,631)	$774,322

The deferred income taxes related to the amounts detailed above at December 31, 1990 and 1989 of $247,565,000 and $242,839,000, respectively, are included in "Deferred Credits and Other Liabilities — Accumulated deferred income taxes" on the Consolidated Balance Sheet.

Recovery of Costs — Amortization of Accumulated Deferred River Bend Costs. The Company was ordered by the LPSC, as part of the December 15, 1987 rate order, to amortize the deferred costs and accrued carrying charges related to the accounting order over a 10-year period. In July 1988, the Company began amortizing over a 40-year period approximately $182,000,000 of deferred costs and accrued carrying charges associated with the portion of River Bend ruled prudent by the PUCT in accordance with the May 16, 1988 rate order. The balance of Texas jurisdiction deferred River Bend costs which are not being amortized pending resolution of the appeal of the May 16, 1988 rate order is approximately $187,000,000.

4. Federal Income Taxes

The provisions for federal income taxes (benefits) were different from the amounts computed by applying the statutory federal income tax rate to net income (loss) before federal income taxes. The reasons for these differences are as follows:

	1990	1989	1988
	(In thousands except percents)		
Net income (loss) before federal income taxes	$(60,781)	$(51,144)	$164,052
Statutory tax rate	34%	34%	34%
Federal income taxes (benefits) at statutory tax rate	(20,666)	(17,389)	55,778
Additions (reductions) in federal income taxes resulting from:			
Exclusion of River Bend carrying charges from taxable income	8,139	8,653	(505)
Items capitalized for book purposes but expensed for tax purposes	(9,235)	(7,484)	(3,779)
Non-deferred depreciation differences	11,056	12,009	6,040
Adjustment for prior years taxes and other regulatory adjustments	(157)	(1,235)	(91)
Non-deferred differences of nonutility subsidiaries	(900)	6,026	(53)
Deferral of nuclear fuel savings	(1,575)	(1,625)	7,626
Amortization of investment tax credit	(4,286)	(4,424)	(4,118)
Other items	1,121	(102)	1,811
Total federal income taxes (benefits)	$(16,499)	$ (5,571)	$ 60,909
Effective federal income tax rate	27.1%	10.9%	37.1%

The components of federal income taxes are as follows:

	1990	1989	1988
	(In thousands)		
Charged to operating expenses:			
Current federal income tax provision (benefits)	$ (5,084)	$ —	$ —
Deferred federal income taxes — net:			
Tax depreciation	49,775	55,561	56,692
Capitalized construction costs	(206)	(113)	(472)
Nuclear unit cancellation costs net of amortization	(2,503)	(2,414)	(2,104)
Fuel and purchased power costs deferred (accrued)	(673)	6,974	5,704
Expenses deferred for tax purposes	(1,240)	(714)	(1,094)
Tax net operating loss carryforward	17,981	(59,605)	(56,581)
River Bend operating expenses deferred for financial reporting expensed for tax purposes	7,111	25,705	64,517
Unbilled revenues	(6,632)	(5,420)	(5,605)
State tax refund deferred for financial reporting	(696)	(5,741)	—
Other	(6,965)	(4,622)	3,638
Total deferred federal income taxes — net	56,010	29,411	63,635
Investment tax credits — net	(4,286)	(4,424)	(4,118)
Total federal income taxes charged to operating expenses	46,640	24,987	59,517
Southern Company settlement	(69,705)	—	—
Charged to other income — net	6,566	11,020	8,794
Application of SFAS No. 90 — Accounting for abandonments and disallowances of plant costs	—	(7,870)	(7,402)
Charged to extraordinary item	—	(34,508)	—
Total federal income taxes (benefits)	$(16,499)	$ (5,571)	$60,909

Timing differences exist for which deferred taxes have not been provided and, therefore, have not been recovered through rates. The cumulative amount of timing differences for which no deferred taxes have been provided was approximately $88,000,000 at December 31, 1990. The tax effects of the Company's federal tax loss carryforwards have been recorded as reductions of deferred taxes. Investment tax credit carryforwards have not been recorded for book purposes. At December 31, 1990, for tax purposes, the Company had federal tax loss carryforwards of approximately $970,000,000 and investment tax credit carryforwards of approximately $185,000,000. These will be used to reduce income tax payments in future years and, if not used, will expire through the year 2004.

In December 1987, the FASB issued SFAS No. 96, Accounting for Income Taxes, which significantly changes accounting for income taxes and supersedes almost all existing authoritative accounting literature on accounting for income taxes. While the statement retains the existing requirement to record deferred taxes for transactions that are reported in different years for financial reporting and tax purposes it revises the computation of deferred income taxes so that the amount of deferred income taxes on the balance sheet is adjusted whenever tax rates or other provisions of

the income tax law are changed. Required adoption of SFAS No. 96 has been repeatedly delayed by the FASB, as possible revisions to SFAS No. 96 are being considered. Adoption of SFAS No. 96 is currently required in 1992, and when adopted it is expected to have a significant impact on the Company's balance of deferred income taxes through reclassifications. Pending final modification of SFAS No. 96, the impact on the Company's Consolidated Statement of Income for future years cannot be determined at this time.

5. Retirement Plan

The Company's pension provision for the years ended December 31, 1990, 1989, and 1988 was $3,025,000, $2,357,000, and $691,000, respectively. Of such amounts, $2,693,000, $2,107,000, and $608,000, respectively, were charged to income with the balance of such costs for each period charged to construction and other accounts.

The components of the pension provision for 1990, 1989, and 1988, are summarized as follows:

	1990	1989	1988
	(In thousands)		
Service cost	$ 9,660	$ 7,835	$ 6,742
Interest cost on projected benefit obligation	14,224	12,876	11,933
Actual return on plan assets	6,875	(46,308)	(26,869)
Unrecognized net gain (loss)	(25,520)	29,991	11,812
Amortization of net gain	(1,212)	(745)	(1,270)
Amortization of prior service cost	1,385	1,095	730
Amortization of net transition asset	(2,387)	(2,387)	(2,387)
Net pension cost	$ 3,025	$ 2,357	$ 691

The obligations for plan benefits and the amount recognized in the Company's Consolidated Balance Sheet at December 31, 1990, 1989, and 1988, are reconciled as follows:

	1990	1989	1988
	(In thousands)		
Actuarial Present Value of Benefit Obligations:			
Accumulated benefit obligation, including vested benefits of $170,723, $125,958, and $123,125	$ 174,789	$ 146,625	$ 135,279
Projected benefit obligation	$(228,328)	$(190,770)	$(167,509)
Plan assets, at fair market value	235,671	255,810	217,559
Plan assets in excess of projected benefit obligation	7,343	65,040	50,050
Unrecognized net gain	(13,417)	(61,362)	(39,253)
Unrecognized net assets, being amortized over 15 years	(23,874)	(26,262)	(28,049)
Unrecognized prior service cost	25,717	25,379	19,003
Balance of accrued pension asset (liability)	$ (4,231)	$ (1,206)	$ 1,151

The accumulated benefit obligation is the present value of future pension benefit payments and is based on the plan's benefit formulas without considering expected future salary increases. Assumptions used to determine net pension cost are as follows:

	1990	1989	1988
Discount rate	7.25%	7.75%	8.25%
Expected long-term rate of return on assets	7.50	7.50	7.50
Average future salary level increase	6.10	6.10	6.10

At December 31, 1990, 64.1 percent of plan assets were invested in equity securities, 29.6 percent in bonds, and 6.3 percent in cash or cash equivalents.

In addition to the net pension cost detailed above, the Company recorded $864,000 of expense related to the 1986 early retirement plan for the year ended December 31, 1990, in accordance with regulatory treatment of this expense.

6. Abandonment of Subsidiary Lignite Leases

Varibus acquired the rights to lignite reserves in the mid 1970's as fuel reserves for the Company's proposed lignite generating units. Upon deferral of construction of the proposed lignite units, Varibus retained its investment in the lignite reserves in order to market them. In October 1989, Varibus determined all efforts to market the lignite reserves had failed and, therefore, abandoned the leases and wrote-off its $19,183,000 investment in lignite leases.

7. Jointly-Owned Facilities

As of December 31, 1990, the Company owned undivided interests in three jointly-owned electric generating facilities as detailed below (dollars in thousands):

	River Bend Unit 1	Roy S. Nelson Unit 6	Big Cajun 2 Unit 3
Company Share of Investments:			
Plant in service	$3,075,456	$405,461	$219,158
Accumulated depreciation	345,307	106,636	42,332
Total plant capability	936 MW	550 MW	540 MW
Fuel source	Nuclear	Coal	Coal
Ownership share	70%	70%	42%

The Company's share of operations and maintenance expense related to the jointly-owned units is included in operating expenses. See Note 13 for information relating to buyback agreements between the Company and the participants in River Bend and Nelson Unit 6.

8. Leases

The Company has existing agreements for the leasing of certain vehicles, coal rail cars and other equipment, buildings, and nuclear fuel. Lease charges were $65,984,000, $60,819,000, and $75,398,000 for the years ended December 31, 1990, 1989, and 1988, respectively. Of such amounts, $65,114,000, $60,256,000, and $74,431,000, respectively, were charged to income.

Future minimum lease payments under noncancellable capital and operating leases for each of the next five years and in the aggregate at December 31, 1990, are estimated to be (in thousands):

1991	$ 64,009
1992	58,295
1993	62,020
1994	52,158
1995	17,636
Remaining years	155,242
	$409,360

The Company is leasing the Lewis Creek generating station from its wholly-owned consolidated subsidiary, GSG&T.

9. Capital Stock and Retained Earnings

The Company offers its common, preference, and preferred shareholders the opportunity to reinvest their dividends and to make additional cash payments to acquire shares of the Company's common stock through its Dividend Reinvestment and Stock Purchase Plan (DRIP). (See Note 1 for information on the omission of common, preferred, and preference stock dividends since 1986.) The Company also offers all employees meeting designated service requirements the option to participate in benefit plans which provide an opportunity to obtain common shares of the Company. At December 31, 1990, the Company had reserved 5,562,503 shares of common stock to be issued in connection with its DRIP and employee benefit plans. Beginning in June 1987, the Company has acquired the DRIP and employee benefit plan shares of common stock in the open market rather than offering unissued shares, which would have a dilutive effect on earnings per share and book value.

At the Company's option, the Articles provide that all or part of its preferred and preference stock may be redeemed at stated prices. Certain issues are subject to restrictions in the Articles which prohibit redemption for a period of time, directly or indirectly out of the proceeds of or in anticipation of borrowings or issuance of additional stock of equal or prior rank having a lower interest cost or dividend rate. See additional restrictions under the bank credit agreement in Note 12.

At December 31, 1990, the Company had authorized 10,000,000 shares of preferred stock without par value (none issued) and authorized 6,000,000 shares of preferred stock $100 par value (4,617,568 issued). Limitations based on the ratio of after-tax earnings to fixed charges and preferred dividends are imposed by the Articles upon the issuance of additional preferred stock. Based upon the results of operations for the year ended December 31, 1990, and existing circumstances, the Company is unable to issue any additional preferred stock.

Certain limitations on the payment of cash dividends on common stock are contained in the Articles, indentures, loan agreements, and applicable state and federal law. Under existing limitations, as discussed in Notes 1 and 12, the Company may not pay dividends on such stock. If such restrictions did not exist, the most restrictive

limitation at December 31, 1990, as to the amount of such dividends which might be paid, was contained in the Trust Indenture related to the 7¼% Convertible Debentures due September 1, 1992. Based on such limitation, the retained earnings available for payment of dividends as of December 31, 1990, amounted to $524,000,000. The applicable limitation and the Company's ability to pay dividends would be adversely affected, and possibly foreclosed for an indeterminate period, by write-offs and write-downs relating to River Bend which may be required as described in Notes 1 and 3. Preferred and preference dividend requirements, as well as preferred stock sinking fund requirements, have priority over the payment of cash dividends on common stock.

Payment of dividends on preference stock is subordinate to payment of dividends on preferred stock and preferred stock sinking fund obligations. There are no limitations in the Articles on the issuance of preference stock.

10. Preferred Stock Subject to Mandatory Redemption

The series of preferred stock subject to mandatory redemption is entitled to sinking funds which provide for the annual redemption of shares (varying in amount from 3 percent to 5 percent of the number of shares originally issued) at $100 per share, plus any dividends in arrears on such stock (see Note 1).

As of December 31, 1990, the Company has failed to satisfy $17,327,000 of preferred stock sinking fund requirements (see Note 1 for the consequences of such failure).

During 1986, the Company purchased in the open market, shares of the applicable series of preferred stock in excess of the amount needed to satisfy the 1986 sinking fund requirement. At December 31, 1990, assuming that the additional shares purchased during 1986 are used to satisfy future sinking fund requirements, minimum redemption requirements amount to $11,066,700 for 1991, and $14,816,700 for each of the years from 1992 through 1995, respectively, exclusive of the $17,327,000 unsatisfied provision discussed above. See Notes 1 and 12 for limitations on payment of dividends on and purchases of preferred stock. Payment of dividends may also be limited by possible write-offs relating to River Bend and applicable law.

11. Long-Term Debt

The Company's Mortgage Indenture contains sinking fund provisions which require, generally, that the Company make annual cash deposits equal to 1.2 percent of the greatest aggregate principal amount of first mortgage bonds outstanding or, in lieu thereof, to apply property additions or reacquired first mortgage bonds for that purpose. The Company has satisfied the mortgage requirements in past years and plans to meet current and future requirements by certifying "available net additions" to the trustee.

Certain series of the Company's first mortgage bonds and pollution control and industrial development bonds require cash sinking funds. Sinking fund requirements, along with long-term debt maturities, for each of the next five years are detailed below (in thousands):

	Sinking Fund Requirements Satisfied by		Long-Term Debt Maturities		
	Cash	Property Additions	First Mortgage Bonds and Debentures	Revolving Credit Agreement	Deferred River Bend Construction Commitments
1991	$48,570	$17,724	$ 18,750	$233,333	$12,429
1992	8,995	17,520	114,003	—	—
1993	425	17,520	8,580	—	—
1994	425	16,320	100,000	—	—
1995	425	16,320	—	—	—

The Company's Mortgage Indenture contains an interest coverage covenant which limits the amount of first mortgage bonds which the Company may issue. Based upon the results of operations for the year ended December 31, 1990, and existing circumstances, the Company believes it does not have sufficient coverage to issue additional first mortgage bonds. The Company believes it could issue approximately $33,000,000 of first mortgage bonds as of December 31, 1990, to replace first mortgage bonds previously retired.

Revolving Credit Agreement. At December 31, 1990, the amount outstanding under the Company's revolving credit agreement consisted of $133,333,000 bearing an interest rate of 8⅝ percent and $100,000,000 at 8⅝ percent.

Deferred River Bend Construction Commitments. Certain post-completion costs relating to the construction of River Bend remain unpaid to the

general contractor. As of December 31, 1990, the Company's share of such costs amounted to $12,429,000. The Company and CEPCO began making monthly installments of $2,000,000 on July 1, 1988, and will continue until the principal amount due and related accrued interest is paid.

American Municipal Bond Assurance Corporation (AMBAC). The Company has agreements with AMBAC which guarantee the payment of principal and interest on $65,735,000 of pollution control revenue bonds.

In accordance with such agreements, at December 31, 1989, the Company had issued notes payable to AMBAC, which were due in April 1990.

On June 26, 1990, the Company and AMBAC finalized an amendment to the existing agreements which extend the maturity dates of the notes to April 30, 1993. The amendment also required the Company to place $12,000,000 previously deposited into escrow, plus accrued interest and an additional $8,000,000, into a Permanent Indemnity Reserve which will be released to the Company when the pollution control revenue bonds are fully retired. Additionally, the amendment requires that unless certain financial tests are met, the Company will deposit an additional $1,500,000 a year in an Indemnity Reserve to be released to the Company after such financial tests are met or when the pollution control revenue bonds are retired.

As of December 31, 1990, the Company had issued $82,627,000 of notes (representing 200 percent of the otherwise required cash payment) payable to AMBAC.

Letters of Credit. The Company has various outstanding series of pollution control revenue bonds (bonds) which are collateralized by irrevocable letters of credit. The letters of credit are scheduled to expire before the scheduled maturity of the bonds. Detailed below is a maturity schedule of the bonds and ated letters of credit.

	Principal Amount	Letter of Credit Expiration
	(In thousands)	
Variable rate due December 1, 2014	$94,000	December 28, 1991
Variable rate due May 1, 2015	41,600	May 28, 1992
Variable rate due November 1, 2015	39,000	November 27, 1992
Variable rate due December 1, 2015	28,400	December 28, 1992
Variable rate due April 1, 2016	20,000	April 27, 1993
10⅜% due May 1, 2014	50,000	May 15, 1994

Upon the expiration of the original letters of credit, the Company may, at its election, provide for an extension of the letters of credit or alternate letters of credit to collateralize the bonds. If the Company does not renew or replace the expiring letters of credit, the bonds must be redeemed unless remarketed. No assurance can be given that the Company could successfully negotiate an extension to or the replacement of the existing letters of credit or remarket such bonds.

12. Short-Term Lines of Credit

As of December 31, 1990, the Company had agreements with banks and banking institutions which provided for short-term lines of credit totaling $110,400,000 of which $100,000,000 is collateralized as described below. There can be no assurance that the remaining uncollateralized sources of short-term funds may be accessed at this time, or will remain available, or that new sources can be arranged. Interest rates associated with these lines are based on the prime rate. Commitment fees on the collateralized line of credit cost ½ of 1 percent of the amount of available credit. In lieu of commitment fees on the uncollateralized lines, certain banks require a nonrestricted cash balance be maintained equal to 10 percent of the commitment.

Included in the total short-term lines of credit is a $100,000,000 bank credit agreement which was due to expire on March 1, 1991, however, effective March 1, 1991 the bank credit agreement was extended to February 28, 1992. The short-term bank credit agreement contains negative covenants which, among other restrictions, with certain exceptions, restrict the incurrence of additional debt, creation of liens, prepayment of debt, payment of dividends in excess of $75,000,000, purchase of stock other than to satisfy mandatory sinking fund requirements, sale of assets, and acquisition of assets and require satisfaction of a minimum net worth test. The bank credit agreement is collateralized by the pledge of $100,000,000 principal amount of the Company's first mortgage bonds.

The Company had no short-term debt outstanding during the three-year period ended December 31, 1990.

13. Purchase Power Agreements

As of December 31, 1990, the Company has agreements with Sam Rayburn Municipal Power Agency and CEPCO to buy back declining amounts of their share of the capacity of Nelson Unit 6 and River Bend, respectively, through the end of May 1996 in the case of Nelson Unit 6 and through mid June 1991 in the case of River Bend. The variable costs associated with such buybacks are composed of fuel costs and operations and maintenance expenses, while the fixed costs are based upon gross plant investment and other factors.

Nelson Unit 6. For the years ended December 31, 1990, 1989, and 1988, variable costs applicable to the Nelson Unit 6 buybacks were $7,469,000, $10,?44,000, and $13,285,000, respectively, while the fixed costs associated with such buybacks were $9,568,000, $13,692,000, and $16,542,000, respectively. Based upon current information, the Company estimates that the annual fixed costs incurred in connection with the Nelson Unit 6 buybacks will range in declining amounts from $7,524,000 in 1991, to $3,357,000 in 1995. Fixed cost payments for 1996, the final year of the buyback of power of such unit, are estimated to be approximately $1,391,000.

River Bend. The Company and CEPCO have a five year agreement which began on June 16, 1986, whereby the Company will buy back declining amounts of power from CEPCO's share of River Bend. The fixed costs incurred in connection with the buybacks were $50,312,000, $55,830,000, and $100,688,000 for the years ended December 31, 1990, 1989, and 1988, respectively, and are estimated to be approximately $20,757,000 in 1991. For the years ended December 31, 1990, 1989, and 1988, variable costs applicable to the River Bend buyback were $14,940,000, $17,341,000, and $34,233,000, respectively.

Nelson Industrial Steam Company (NISCO). In 1988, the Company entered into a joint venture with a primary term of 20 years with Conoco, Inc., Citgo Petroleum Corporation, and Vista Chemical Company (the participants) whereby the Company's Nelson Units 1 and 2 (100 MW each) were sold to a partnership (NISCO) consisting of the participants and the Company.

The participants are supplying the fuel for the units, while the Company operates the units at the discretion of the participants and purchases the electricity produced by the units. The Company is continuing to sell electricity to the participants.

For the years ended December 31, 1990, 1989, and 1988, the purchases of electricity from the joint venture totaled $62,028,000, $62,583,000, and $13,541,000, respectively.

14. Financial Instruments

Temporary Cash Investments. At December 31, 1990, the Company had $195,345,000 of temporary cash investments invested in repurchase agreements or high grade short-term corporate investments, with nine banks and investment banks. The repurchase agreements are collateralized by U.S. Government securities or high grade short-term corporate investments. The Company has not experienced any losses on its temporary cash investments.

Accounts Receivable. The Company's service area of Southeast Texas and Southwest Louisiana is heavily dependent on the petrochemical and related industries. The Company maintains reserves for doubtful accounts, based on past experience.

15. Subsequent Events

Louisiana, Phase-in Plan Fourth Step. On February 26, 1991, the LPSC granted the Company a $16,800,000 base rate increase as the fourth and final step of the February 18, 1988 court-ordered phase-in plan, effective March 1, 1991. Preliminary analysis of the LPSC rate order indicates that approximately $26,000,000 of deferred River Bend costs, that the Company had previously been allowed to recover, were excluded from rate base. This may result in a net of tax write-off of approximately $19,300,000. The Company is in the process of evaluating all aspects of the order.

Financial Information

16. Quarterly Financial Information (Unaudited) (in thousands except per share amounts)

1990	Operating Revenue	Operating Income	Income (Loss) Before Extraordinary Item	Net Income (Loss)	Earnings (Loss) Per Average Share of Common Stock Outstanding Before Extraordinary Item	Earnings (Loss) Per Average Share of Common Stock Outstanding
First Quarter	**$380,012**	**$ 68,207**	**$ 2,455**	**$ 2,455**	**$ (.12)**	**$ (.12)**
Second Quarter	**416,212**	**80,320**	**(111,039)**	**(111,039)**	**(1.17)**	**(1.17)**
Third Quarter	**488,186**	**124,911**	**60,490**	**60,490**	**.41**	**.41**
Fourth Quarter	**406,275**	**59,795**	**3,812**	**3,812**	**(.11)**	**(.11)**
1989						
First Quarter	$365,688	$ 77,066	$ (10,675)	$ (10,675)	$ (.24)	$ (.24)
Second Quarter	392,525	75,663	3,137	3,137	(.12)	(.12)
Third Quarter	466,816	107,768	20,416	(16,625)	.04	(.30)
Fourth Quarter	382,377	67,323	373	(21,410)	(.14)	(.34)

See Note 1 for information regarding the Southern Company settlement recorded in the second quarter of 1990.

See Note 3 for information regarding the extraordinary item recorded in the third and fourth quarters of 1989, due to the write-off for the discontinuation of regulatory accounting principles to the Company's wholesale jurisdiction and steam department, respectively. See Note 6 for information regarding the abandonment of lignite leases in the third quarter of 1989 by Varibus.

Report of Independent Accountants

To the Shareholders of Gulf States Utilities Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Gulf States Utilities Company and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, cash flows, and changes in capital stock and retained earnings for each of the three years in the period ended December 31, 1990. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gulf States Utilities Company and subsidiaries as of December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As of December 31, 1990 and 1989 the consolidated balance sheets include capitalized costs (construction costs and deferred charges) related to the Company's River Bend Unit 1 Nuclear Generating Plant (River Bend) of approximately $3.8 billion (net of depreciation, amortization and write-offs). As discussed in Note 3 to the consolidated financial statements, the net amount of capitalized costs are substantially in excess of River Bend costs currently in rates. If current regulatory orders are not modified, a significant write-off of such costs may be required; however, the extent of such write-off, if any, will not be determinable until appropriate rate proceedings and court appeals have been concluded. Management can provide no assurance that the Company will ultimately earn a return on or fully recover all capitalized costs associated with River Bend. Additionally, without regulatory orders prescribing the capitalization and amortization of the deferred charges, the net loss for 1990 and 1989 would have been increased by $15 million ($.14 per share) and $43 million ($.40 per share), respectively, and net income for 1988 would have been reduced by $131 million ($1.21 per share).

As discussed in Note 1 to the consolidated financial statements, the co-owner of River Bend has initiated legal proceedings against the Company seeking, among other things, to recover its investment in River Bend and to annul the River Bend Joint Ownership Participation and Operating Agreement. The ultimate outcome of these proceedings cannot presently be determined. Accordingly, no provision for any liability that may result from their ultimate resolution has been made in the accompanying consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, during 1990, the Company entered into a settlement agreement relating to certain purchase power contracts. In connection with the agreement, the Company recorded a $135 million (net of taxes) charge to earnings representing management's estimated cost of the settlement.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 90 in 1988 and the provisions of SFAS No. 101 for its wholesale jurisdiction and steam department in 1989.

Coopers & Lybrand

Houston, Texas
February 28, 1991

Financial Information

Statistical Summary

For the years ended December 31

	1990	1989	1988	1987	1986
ELECTRIC DEPARTMENT					
Number of customers at year end:					
Residential	**498,672**	492,054	486,993	484,858	484,608
Commercial	**63,044**	62,469	61,958	61,861	62,059
Industrial	**4,581**	4,511	4,563	4,319	4,322
Temporary construction	**1,805**	1,638	1,477	1,442	1,656
Other	**2,636**	2,605	2,585	2,445	2,430
Total Customers	**570,738**	563,277	557,576	554,905	555,075
Sales — Kilowatt-hours (thousands):					
Residential	**6,833,920**	6,473,021	6,326,089	6,208,961	6,174,567
Commercial	**5,388,449**	5,197,356	5,023,755	4,911,378	4,920,882
Industrial	**13,331,772**	12,321,905	12,072,078	11,811,676	12,158,762*
Temporary construction	**15,399**	10,759	13,133	16,241	42,498
Other	**1,464,586**	1,191,720	1,482,652	1,485,242	1,508,245
Total Sales	**27,034,126**	25,194,761	24,917,707	24,433,498	24,804,954
Revenue — (thousands):					
Residential	**$ 523,911**	$ 487,972	$ 452,538	$ 436,392	$ 425,206
Commercial	**378,253**	357,568	331,178	312,544	309,440
Industrial	**577,436**	539,944	510,354	476,871	500,026*
Temporary construction	**1,492**	1,075	1,130	1,364	3,066
Other	**115,543**	115,315	120,513	108,935	120,690
Total Revenue	**$1,596,635**	$1,501,874	$1,415,713	$1,330,106	$1,358,428
Average Annual KWH Use Per Customer:					
Residential	**13,795**	13,228	13,029	12,818	12,731
Commercial	**85,761**	83,513	81,339	79,180	79,416
Industrial	**2,944,946**	2,703,951	2,717,101	2,744,986	2,781,053
Revenue Per KWH — (cents):					
Residential	**7.67**	7.34	7.15	6.93	6.89
Commercial	**7.02**	6.88	6.59	6.36	6.29
Industrial	**4.33**	4.38	4.23	4.04	4.11
Electric Energy Output — Thousands of KWH:					
Net Generated	**26,102,741**	23,955,660	25,146,780	23,421,700	23,009,283
Net Purchased and Interchanged	**4,277,621**	5,352,485	3,570,812	4,593,232	5,281,404
	30,380,362	29,308,145	28,717,592	28,014,932	28,290,687
System Peak Load — Including Interruptible Load — Megawatts	**5,388**	5,040	4,910	4,991	5,089
Total Capability, Including Contract Purchases at Time of System Peak Load (MW)	**6,853**	6,609	6,866	6,926	7,548
Load Factor	**64.4%**	66.4%	66.6%	64.1%	63.5%
STEAM PRODUCTS DEPARTMENT					
Steam Revenue (thousands)	**$ 61,052**	$ 69,200	$ 70,728	$ 69,056	$ 77,783
Electric Sales — KWH (thousands)	**1,930,373**	2,271,428	2,278,884	2,186,789	2,144,058
Steam Sales — millions of pounds	**13,204**	11,398	10,494	8,593	7,516
GAS DEPARTMENT					
Gas Revenue (thousands)	**$ 32,998**	$ 36,332	$ 34,036	$ 33,424	$ 33,125
Number of Customers at year end	**83,164**	82,681	82,510	83,003	83,994
Output — MM cu. ft. of natural gas purchased	**6,215**	7,826	7,320	7,305	7,086
Sales — MM cu. ft.	**6,652**	7,072	7,134	7,489	7,065
WEATHER DATA					
Cooling degree days (Normal 2,703)	**3,034****	2,816	2,742	2,660	2,935
Percentage change from normal	**12.2**	4.2	1.4	(1.6)	8.6
Heating degree days (Normal 1,841)	**1,649****	1,684	1,812	1,892	1,636
Percentage change from normal	**(10.4)**	(8.5)	(1.6)	2.8	(11.1)

* Excludes 182,580 MWH and $9,052 applicable to prior periods, related to capitalized River Bend construction energy.

** Estimated.

Information to Shareholders

Shareholder Questions

Shareholders having questions about their company or about their holdings may contact Shareholder Services personnel at the corporate offices in Beaumont during normal business hours. Shareholders' calls made within Texas are toll-free at 1(800)392-0132, while calls from shareholders outside Texas are toll-free at 1(800)231-9266.

Prospective shareholders may also use these numbers to request financial and other information.

Transfer of Stock

Whenever it becomes necessary to change the registration on a GSU stock certificate, a transfer of the stock is required. Changes in registration are necessary, for example, when a gift of stock is made, the stock is to be co-registered with another person, a name change is made or for a number of other reasons.

There is no single stock transfer procedure which will cover all possible circumstances. Some transfer situations require supporting documents be transferred, while others might require only the signature of the shareholder authorizing the transfer to be guaranteed by either an officer of a commercial bank or a stockbroker.

The company's Shareholder Services Department may be contacted to determine the correct procedure for each type of transfer.

Lost Certificates

If a GSU stock certificate is lost or stolen, written notification should be sent immediately to the company's Shareholder Service Department so that a "stop" can be placed against the missing certificate. Your notification should contain as much information as possible describing the certificate, including exact registration, certificate number and date of issue.

After a "stop" has been placed, which prevents the stock certificate from being traded, an affidavit may be requested from the transfer agent in order to obtain a replacement certificate. The affidavit must be completed, signed, notarized and returned before replacement will be made. An irrevocable indemnity bond is required in most cases. The cost is 3 percent of the market value of the missing shares.

The transfer agent should be notified promptly if a missing certificate is located.

Stockholder Information

Stock Listing
Gulf States Utilities Co.'s common stock is traded under the symbol GSU on the New York, Midwest and Pacific Stock Exchanges.

Stock Transfer Agents
Gulf States Utilities Co.
Beaumont, Texas

First Chicago Trust Co. of New York
New York, N.Y.

Registrars
First City Texas-Beaumont N.A.
Beaumont, Texas

First Chicago Trust Co. of New York
New York, N.Y.

Dividend Reinvestment Plan Agent
Gulf States Utilities Co.
P.O. Box 1671
Beaumont, Texas
77704

Form 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission and GSU's 1990 Financial and Statistical Report can be obtained without charge from Leslie D. Cobb, Vice President & Secretary, P.O. Box 2951, Beaumont, Texas 77704.

Notice of Annual Meeting

The 1991 Annual Meeting of shareholders will be held at 2 p.m. Thursday, May 2, 1991, in the company's headquarters, 350 Pine Street, Beaumont, Texas. Formal notices of the meeting, proxy statements and proxies will be mailed to all shareholders on or about March 15, 1991. Shareholders are invited to attend, but if they cannot, they are urged to fill out and return their proxies.

Officers

Chairman, President & CEO	E. Linn Draper Jr. (11) 48 *Chairman of the Board, President & Chief Executive Officer*	
Senior Executive Vice Presidents	Joseph L. Donnelly (11) 61 *Senior Executive Vice President & Chief Financial Officer*	Edward M. Loggins (32) 60 *Senior Executive Vice President-Operations*
Senior Vice Presidents	James C. Deddens (7) 62 *Senior Vice President-River Bend Nuclear Group*	Calvin J. Hebert (28) 56 *Senior Vice President-External Affairs*
Vice Presidents	William E. Barksdale (33) 59 *Vice President-Engineering and Technical Services*	Cecil L. Johnson (14) 48 *Vice President-Legal Services*
	Amery J. Champagne (17) 47 *Vice President-Energy Resources*	J. Lee Miller (8) 50 *Vice President-Human Resources*
	Leslie D. Cobb (30) 55 *Vice President & Secretary*	James E. Moss (32) 54 *Vice President-Marketing*
	Anthony F. Gabrielle (10) 63 *Vice President-Computer Applications*	Jack L. Schenck (9) 52 *Vice President & Treasurer*
	Charles D. Glass (41) 62 *Vice President-Operations*	Bobby J. Willis (28) 54 *Vice President & Controller*
	William J. Jefferson (10) 61 *Vice President-Rates & Regulatory Affairs*	Jasper F. Worthy (34) 62 *Vice President-General Services*
Division Vice Presidents	John W. Conley (32) 59 *Western Division*	Ronald M. McKenzie (24) 50 *Port Arthur Division*
	Arden D. Loughmiller (29) 52 *Beaumont Division*	J. Ted Meinscher (40) 58 *Lake Charles Division*
		James D. Watkins (32) 59 *Baton Rouge Division*
Other Officers	Clyde W. McBride (13) 38 *Assistant Treasurer*	Timothy L. Morris (11) 39 *Assistant Secretary*

( ) Years of service
Ages and years of service as of Dec. 31, 1990

Directors

*Robert H. Barrow
*General, Retired Commandant
United States Marine Corps
St. Francisville, La. (1984)*

**John W. Barton
*Vice President-Louisiana
Aircraft Inc. & Owner-
Barton Farms
Baton Rouge, La. (1970)*

Joseph L. Donnelly
*Senior Executive Vice President
& Chief Financial Officer
Beaumont, Texas (1986)*

*E. Linn Draper Jr.
*Chairman of the Board,
President & Chief Executive Officer
Beaumont, Texas (1985)*

Martin Goland
*President-Southwest
Research Institute
San Antonio, Texas (1983)*

Frank W. Harrison Jr.
*Consulting Geologist
Lafayette, La. (1990)*

(1)Edwin W. Hiam
*Investment Consultant
Boston, Mass. (1959)*

William H. LeBlanc Jr.
*Chairman of the Board
Baton Rouge Supply Co. Inc.
Baton Rouge, La. (1974)*

*Paul W. Murrill
*Retired Chairman of the Board
& Chief Executive Officer
Beaumont, Texas (1978)*

Eugene H. Owen
*Chairman of the Board &
Chief Executive Officer
Owen & White Inc.
Baton Rouge, La. (1989)*

Bookman Peters
*CPA and financial consultant
and former Chairman of the Board
& CEO First City Texas
Bryan, Texas (1990)*

Monroe J. Rathbone Jr.
*Medical doctor and partner-
The Surgical Clinic
Baton Rouge, La. (1975)*

Sam F. Segnar
*Chairman of the Board
Collecting Bank, N.A.
Houston, Texas (1988)*

*Bismark A. Steinhagen
*Chairman of the Board
Steinhagen Oil Co. Inc.
Beaumont, Texas (1974)*

James E. Taussig II
*President-Taussig Corp.
Lake Charles, La. (1975)*

*Executive Committee

**Chairman, Executive Committee

(1)Will not stand for
re-election May 2, 1991

Principal Offices

350 Pine Street
Beaumont, Texas
77701

Divisions

285 Liberty Avenue
Beaumont, Texas
77701

1540 Ninth Avenue
Port Arthur, Texas
77640

Highway 75 North
Conroe, Texas
77301

446 North Boulevard
Baton Rouge,
Louisiana
70802

314 Broad Street
Lake Charles,
Louisiana
70601

Gulf States Utilities Co.
P. O. Box 2951
Beaumont, Texas 77704

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Houston, Texas
Permit Number 427