BUILDING ON STRENGTHS

BUILDING ON TEAMWORK
BUILDING ON RELIABLE ENERGY SOURCES
BUILDING ON CHALLENGES
BUILDING ON CORPORATE PERFORMANCE
BUILDING ON EFFECTIVE MANAGEMENT
BUILDING ON THE FUTURE

ANNUAL REPORT 1984
MISSISSIPPI POWER & LIGHT COMPANY

BUILDING ON STRENGTHS

This company is more than electric meters, line trucks, computer terminals, and control room dials.

This company is composed of people, residents of western Mississippi, who read the meters on foot, often wrestling with over zealous watch dogs and angry wasps; people who drive cumbersome trucks, sometimes in the most dangerous, icy conditions; people who feed in tedious computer programs, one keystroke at a time; people who analyze fuel quality, searching for the right fuel-air mix, neither too lean nor too rich.

This company is comprised of energy professionals who tally the cost of their commodity for each customer; professionals who repair downed lines while the sleet is still pelting their coats; professionals who provide the human touch of critical analysis and judgment to a computer printout; professionals who keep the machinery working and the power flowing 24 hours a day, seven days a week.

This company is built on people. People who in turn build on their own strengths to get the job done. No matter what it takes. No matter how long it takes.

This company is Mississippi Power & Light.

BUILDING ON STRENGTHS

DEAR STOCKHOLDERS:

The year 1984 has been a year of maximizing financial performance by building on strengths to plan for the future. While very real challenges lie ahead for Mississippi Power & Light Company in 1985, we feel we can approach the future with confidence, that we are up to the job of providing reliable energy service at a reasonable price for our customers, while delivering a profit for you, our investors.

BUILDING ON TEAMWORK

In April, the MP&L Board of Directors elected Donald C. Lutken as Chairman of the Board and Chief Executive Officer and William Cavanaugh III as President and Chief Operating Officer. Bill has brought a successful track record to the Company in the management of nuclear and fossil plant design, construction and operation.

His respected expertise with nuclear power, dating back to his Navy days in command positions relating to nuclear-powered submarines, and nurtured 15 years at sister company Arkansas Power & Light, further enhanced the Company's operations and achievement of goals.

He has, in nine months, proved himself to be a savvy and competent manager, adding depth and effectiveness to the total MP&L management team.

BUILDING ON RELIABLE ENERGY SOURCES

In August, the Nuclear Regulatory Commission (NRC) authorized the full power license to operate Grand Gulf Nuclear Station Unit 1, and a power ascension program was under way, working toward that ever approaching goal of commercial operation.

The license has brought us through one phase of challenge and uncertainty and into another, as we now face bringing Grand Gulf Unit 1 into commercial operation and placing our portion of the plant into the Company's base rates after all testing phases are complete.

For more than fourteen years, MP&L has been working toward its goal of fuel diversification, or shifting from natural gas and oil to coal and nuclear power.

For the next few years, Grand Gulf Unit 1 will provide the nuclear capacity, and both units of the Independence Steam Electric Station in Newark, Arkansas, will provide the coal capacity.

MP&L celebrated along with sister company AP&L, the passing of a milestone--commercial operation of Independence Steam Electric Station Unit 2. This unit was completed ahead of schedule and under the authorized budget. MP&L customers received an early Christmas present in the form of fuel adjustment credits passed along after the plant began churning out economical power December 6.

Electricity from coal and nuclear will help stabilize electric energy supplies for many years, and will result in long-range savings to customers when compared to the projected cost of oil- and gas-powered generation in the years ahead.

BUILDING ON CHALLENGES

Historically the Company has been built by men and women who took on awesome challenges; people who built a utility system when others thought it could not be done.

In order to recover costs associated with new power plants built to meet MP&L's fuel diversification mission, a rate case was filed with the Mississippi Public Service Commission in November to recover the Company's cost of power from Grand Gulf Unit 1, and from the Company's portion of Independence Unit 2.

This rate case was filed for customers, for MP&L employees and for you, our stockholders. Without coal and nuclear, there would be no stable rates. Without the ability to recruit and retain a competent work force, there would be no dependable supply of energy for MP&L customers. And without you, there would be no one willing to take the risk, and put up the capital, required to provide the service. For these reasons, the rate case is in our state's best interest.

Evidence of this fact came in January, 1985. The Mississippi Public Service Commission unanimously approved interim rate relief to MP&L for costs associated with the coal-fired Independence Unit 2. The PSC order said the increase in base rates is expected to be more than offset by fuel savings to retail customers, resulting in a net effect on bills of a 2.5 to 3.5 percent decrease. The order will remain in effect until the PSC reaches a final decision in the full rate case. The Commission, due to the Mississippi Legislature amending the Public Utility Act to allow for a 90-day extension, has until mid-June to reach a final decision in the rate case.

BUILDING ON CORPORATE PERFORMANCE

In my opinion, MP&L's corporate performance over the past few years enables us to approach the future with confidence.

There are a lot of ways to measure a company's performance, but the one way MP&L customers look at first and last is price—plain and simple, price.

Some general statistics about the price of MP&L electricity are as follows:

—MP&L's total commercial, industrial and residential sales have been growing faster than the industry, and faster than the national economy in general. The Company's total sales in these three categories for the past decade are up by 34.9 percent. Total U.S. sales for all commercial, industrial and residential electricity is up 33.6 percent. The real Gross National Product is up 31.4 percent in the same decade, so MP&L is growing faster than the electric utility industry in general, and it is growing faster than the country as a whole.

—The average residential price of MP&L electricity has grown only about 122 percent since 1960. The U.S. Consumer Price Index, the average of everything we buy, is up 251 percent. MP&L rates have gone up less than half of the overall rate of inflation during this time period.

—Residential prices for our electricity for the past decade are up 105 percent, slightly less than the average increase in the price of gasoline. In the same time, natural gas prices have increased 328 percent and home heating oil prices are up about 200 percent.

So it is clear that we have been good stewards of our responsibility of providing reliable energy at reasonable prices. While MP&L sales have outpaced the nation, our prices of electricity have increased less than the Consumer Price Index, and substantially less than other energy costs.

BUILDING ON EFFECTIVE MANAGEMENT

Besides corporate performance, there are other ways to measure the effectiveness of a company. We also like to measure how we, as an electric utility, are doing compared to other utilities, particularly in neighboring states and in Texas.

These comparisons tell us much about ourselves. For instance:

—For three of the last five years, 100 percent of our cash requirements for operations and construction have been generated internally, much better than average.

—Our total operating and maintenance expenses per kilowatt hour sold have been at or below average in most categories, including power production, transmission, distribution and customer services; and this has happened despite the fact that we have lost major wholesale customers such as the rural cooperatives and wholesale municipalities.

—Our forced outage rate for power plants has been below the industry average for the past several years.

—And our number of customers per employee has been over 200 to one, compared to an industry average of just over 150 to one.

These are just some of the basic measurements of MP&L's overall performance.

BUILDING ON STRENGTHS FOR TOMORROW

Times are changing for the Company and for the entire electric industry. They are changing rapidly.

Perhaps our greatest challenge is to see to it that we are able to adapt to these changing times, so that we can prevail and continue to take a leadership role in providing reliable energy service to the people of western Mississippi.

This task won't be easy, because none of us are entirely certain just where all of these challenges facing the Company will lead us.

"MP&L's success will require more than an attempt to respond to the times. We must be the innovators, the initiators, in order to help shape and create tomorrow's environment."

Donald C. Lutken
Chairman of the Board and
Chief Executive Officer

As we move into 1985 and beyond, MP&L, as I see it, is facing four crucial tests in the immediate future. They are:

1. Getting Grand Gulf into commercial operation and a portion of its output into our rates. This will include a final settlement in the Middle South Utilities system agreement and Grand Gulf allocation cases now before the Federal Energy Regulatory Commission.

2. Completing the Mississippi Public Service Commission ordered management and construction audits by the end of spring, 1985.

3. Maintaining a positive public perception of the Company, and building greater confidence in the Company during the current rate case.

4. Obtaining a decision on Grand Gulf Unit 2 from the Public Service Commission.

No one knows exactly how these four challenges will be resolved.

The one thing I can say for certain, however, is that those who do not prepare for the future, do not have much of a future.

Your continued support in the coming months will have a lot to do in creating the kind of environment in which we must work for the years to come.

MP&L's success will require more than an attempt to respond to the times. We must be the innovators, the initiators, in order to help shape and create tomorrow's environment.

For over six decades the Company has remained strong because we have been building on strengths to create a clear vision of the future at Mississippi Power & Light Company.

In order to protect the opportunity to give you a reasonable rate of return on your investment, MP&L management will always question what we are doing, why we are doing it, and how we are doing it, and if it should be done at all.

Innovation is a characteristic that management must emphasize if we are to be successful in our next 60 years of operation.

Sincerely,

Donald C. Lutken
Chairman of the Board and
Chief Executive Officer

BUILDING ON STRENGTHS

FINANCES

RATE MATTERS

On November 16, MP&L filed its largest and most complex rate case ever with the Mississippi Public Service Commission (MPSC). The timing of this filing was vital in order for the Company to begin collecting revenues to pay purchased power costs of Grand Gulf Unit 1 at the time the plant is expected to go into commercial operation.

The rate filing also included a request for revenues in connection with MP&L's 25 percent share of Independence Steam Electric Station Unit 2, and the five-year purchase from Arkansas Power & Light Company (AP&L) of 31.5 percent capacity of that plant.

The amount of the rate increase will depend upon the amount of power from Grand Gulf Unit 1 that the Federal Energy Regulatory Commission decides MP&L is entitled to receive. Basically, the retail rate increase could range between $82.1 million with a 19% allocation and $126.8 million with a 33% percent allocation. No costs for Grand Gulf Unit 2 were included in this filing. The Company is proposing a rate moderation plan to reduce the initial impact of Grand Gulf Unit 1 on customer bills.

Energy Secretary Donald Hodel testified on the importance of nuclear power in Mississippi Public Service Commission's hearings on Grand Gulf Unit 2.

Under this "phase-in" plan, the retail rate increase will be phased in over a ten-year period.

And for the first time, the Company offered a senior citizens' discount, giving a discount of 1-cent per kilowatt hour up to 500 hours to customers over 65.

An alternate residential rate for low-use customers also was submitted, giving maximum benefit to customers who use less than 250 kilowatt hours per month.

In this rate filing, the Company also asked for interim rate relief totaling $56.9 million for the owned and leased portions of the coal-fired Independence Unit 2.

In January, 1985, the MPSC approved the interim rate relief allowing approximately $44.7 million on an annual basis. The order will remain in effect until the MPSC reaches a final decision in the full rate case.

The increase in customer rates, which will result from the interim order, is projected to be offset by $60.9 million in fuel savings over the period, resulting in a net savings to MP&L customers of approximately $16.2 million on an annual basis.

MP&L has a communications center which is used during emergency conditions.

OPERATING REVENUES

Total operating revenues were $531,927,000 in 1984, compared with $520,103,000 in 1983. This was mainly due to an increase in sales to the sister companies in the Middle South System.

A distribution of the Company's 1984 revenue dollars was as follows:

	Amount in Thousands	% of Revenue
Fuel	$194,636	36.59
Purchased Power	86,032	16.17
Total Fuel and Purchased Power	280,668	52.76
Taxes	54,867	10.31
Payroll	36,508	6.86
Depreciation	30,939	5.82
Other Income, Expenses and Deductions	43,848	8.24
Cost of Capital:		
Cost of Debt	36,764	6.91
Net Income	48,333	9.10*
Total Revenue	$531,927	100.00

*1.70 percent paid as preferred dividends; 6.97 percent paid as common dividends; and .43 percent reinvested in facilities to serve customers.

FINANCING

The Company works to maintain financial integrity by earning a rate of return on all capital invested in the Company sufficient to protect the values of its security holders and to insure that the Company has access to capital markets upon reasonable terms and conditions.

There were two financings in 1984:

In October, MP&L sold $35,000,000 First Mortgage Bonds, 14½ percent series, due October 1, 2014.

In November, the Company sold $15,000,000 of $100 par value preferred stock, at a competitively determined dividend rate of 16.16 percent.

EXPENSES

During the year, operating expenses were $457,357,000, an increase of less than 1 percent over 1983. MP&L management is committed to running a trim, efficient organization in order to maintain earnings, stabilize prices and meet competition from other energy sources.

AUDIT AND LEGAL RESULTS

Since an audit was begun by MP&L in September 1982, the Company has received approximately $15 million in refunds from United Gas Pipeline Company for gas purchase overcharges. This money has been refunded to MP&L customers through credits on fuel adjustments during 1983 and 1984.

In April 1984, in a lawsuit against United Gas Pipeline Company, MP&L obtained a preliminary injunction prohibiting United from continuing certain overcharges for gas purchases. MP&L has estimated that this ruling reduces MP&L's fuel costs approximately $2 million each month. United has appealed the injunction to the Fifth Circuit Court of Appeals in New Orleans, where the matter is pending. MP&L is also claiming past overcharges against United totaling more than $50 million with interest.

"Grand Gulf Unit will soon be commercial operation and its costs must be included in our base rates. This is critical to the future of the our service area."

Frank S.
Senior Vice

MP&L crews crossed the Mississippi to help restore service to Arkansas customers locked in the grip of an ice storm

BUILDING ON STRENGTHS

FACILITIES

CONSTRUCTION

Expenditures for construction during the year were $50,776,000 with $23,855,000 of this amount having been spent for construction on the Independence Steam Electric Station and related facilities.

Major substation projects during the year included the completion of the Northside Drive 230/13.8 KV substation, the Livingston Road 115/13.8 KV substation, and the Elliott 115/13.8 KV substation.

Transformer capacity additions were made at the Forest Hill, Durant, Ridgeland, Senatobia, South Grenada, and Moorhead substations, and capacitor additions were made at the Delta SES substation.

Work on the Brookhaven to South Brookhaven line was continued with completion scheduled in February 1985. Construction was started on the Rankin 230/115 KV substation which is scheduled to be in service by May 1986.

On the Franklin to Bogalusa 500 KV line, 96 percent of the right-of-way had been purchased by the end of 1984, clearing was 89 percent complete, foundations for the towers were 84 percent complete, and tower erection was 22 percent complete. An adverse ruling by the Mississippi Supreme Court, which stated that MP&L did not have the right of eminent domain for the acquisition of right-of-way for this 500 KV line, has delayed its construction. An alternate right-of-way route is being secured. The line is now scheduled for completion by December 1985.

During 1984, $809,000 of expenditures were made on 500 KV facilities as a result of storm damages. This damage was sustained during two separate cases of tornadic-like winds which resulted in damage to eight 500 KV towers in one case and three towers in the other.

Independence Unit 2 was placed into commercial operation in December.

INDEPENDENCE

The second unit of the Independence Steam Electric Station near Newark, Arkansas, was placed into commercial operation December 6, 1984. MP&L owns 25 percent of each of the two units at Independence for a total of 420 MW of coal generating capacity.

In addition to the capacity owned by MP&L at Independence, MP&L has entered into an agreement with AP&L to purchase the energy produced by AP&L's 31.5 percent of Unit 2 for a period of five years. Thus, for the next five years, MP&L is assured of 685 MW of power from the Independence Plant, one of the most efficient coal-fueled power plants in the nation and world.

During 1984 these two units produced 16.4 percent of the energy needed for the MP&L system, and in December when both units were producing commercial power, 52 percent of MP&L energy requirements were furnished by the Independence Plant.

During 1984 the two units at Independence generated for MP&L 1,294,953 MWH at an average fuel cost of 2.17 cents/KWH. This amounted to a $11,700,000 savings to MP&L customers in fuel costs compared to the average oil and gas fuel cost for the same period.

Serving Madison County, MP&L opened its newest office in October.

GRAND GULF

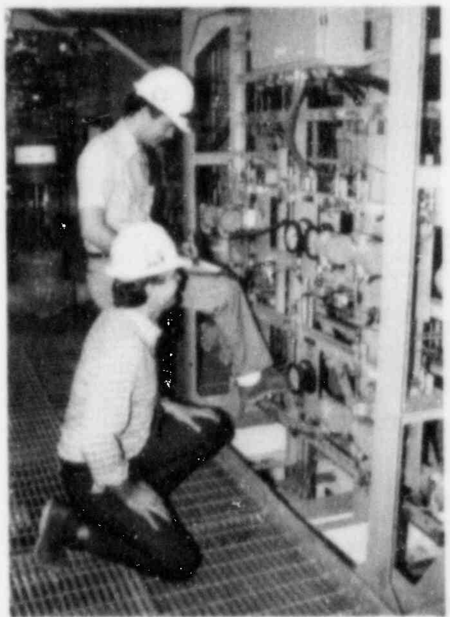
In August 1984, Grand Gulf Unit 1 received its full power operating license and began generating electricity.

Power ascension testing of Grand Gulf Unit 1 has progressed satisfactorily since approval for a full-power operating license was obtained for the unit. During the power ascension program, test energy from the unit is being sold to the operating companies in the Middle South System.

The first generation of electricity occurred at the plant on October 20, 1984, and the unit has operated at reactor power levels over 55 percent in 1984 as the plant is readying for commercial operation.

Grand Gulf Unit 2 is approximately one-third complete but construction activity has been limited in order that financial resources can be concentrated on Grand Gulf Unit 1.

Grand Gulf Unit 1 and Unit 2 are owned 90% by Middle South Energy, Inc., and 10% by South Mississippi Electric Power Association. The Company operates the station on their behalf.



Engineers closely monitor all systems at Grand Gulf Nuclear Station.

Training at Grand Gulf is an on-going process throughout the life of the plant.

"Nuclear energy promises to be an important part of the world's future development. The Grand Gulf plant is part of that future."

Jackson B. Richard
Senior Vice President, Nuclear

BUILDING ON STRENGTHS

CUSTOMERS

PEAK DEMAND AND ENERGY SALES

The 1984 peak demand of 1,758,000 kilowatts was reached on July 11. It was down from last year's peak of 1,894,000 kilowatts, due to the milder summer temperatures and loss of the five wholesale municipalities and one large industrial customer. The peak represents the maximum requirement for electricity by customers for any one-hour period in a given year. System peak demand occurs in MP&L's service area during the summer months when electricity demand is pushed higher by heavy air conditioning usage.

There were 5,413 more customers served in 1984 than there were in 1983. In December 1984, the number of customers rose to 322,713, with most of the growth in the residential area.

Customers by classification were: residential, 276,586; commercial, 40,290; industrial, 3,387; government and municipal, 2,448; and other public utilities, 2.

Total energy sales for the year amounted to 9.33 billion kilowatt hours, an increase of .82 billion or a 9.64 percent increase when compared to 1983. This increase was due primarily to an increase in sales to the other Operating Companies in the Middle South System. An increase in sales to retail customers was also an indicator of continued economic recovery in western Mississippi.

While sales were up, MP&L in many instances could purchase power from other utilities at a cost less than it could produce its own power, so MP&L took advantage of this opportunity, and the resulting savings were passed on to customers.

In 1984 sales to retail customers amounted to 7.63 billion kilowatt hours, a slight increase above the year before. Also, the average residential customer used 11,127 kilowatt hours in 1984, an increase of 2.5 percent over the previous year. Other positive signs of economic recovery were evidenced by the rise in both commercial and industrial usage for the year. Commercial energy sales were up by 7.2 percent and industrial energy sales were up 2.05 percent compared to 1983.

From left, Robin and Dave Davis of Jackson receive the 1000th E3 (Energy, Efficient, Electric) emblem from MP&L Marketing Representative Charlie Shelton.

ECONOMIC DEVELOPMENT

Both the quality and the quantity of new investments in western Mississippi indicate the MP&L service area claimed a greater share of the national economic recovery in 1984 than in recent years.

There was a significant increase in the number of new manufacturing firms locating in western Mississippi, in the number of new jobs being created by these locations, and in the total investment required. In summary, 45 new industrial locations were announced for the area in 1984, and 39 existing industries reported plans for expansions. These announcements represent a total investment of $142 million, and will provide 5,311 new manufacturing jobs with an annual payroll of approximately $76 million.

Additionally, the region—particularly the Jackson Metropolitan Statistical Area (MSA) and the DeSoto County portion of the Memphis MSA—saw major new investments in commercial and office space and related service industries.

The impact of these new developments on Mississippi's economy is notable. Unemployment for the year averaged about 10.6 percent, down from 12 percent a year earlier.

MP&L also increased its own commitment to the economic development of western Mississippi by expanding its area development staff and budget to increase and improve its industrial recruitment effort. Personnel also were added to establish full-time, in-state programs which will encourage the growth of existing industry and the preparation of local communities for future economic growth as well. These investments further bolster MP&L's economic development program, which was first initiated in 1928, making it the oldest full-time economic development program in the state of Mississippi.

MARKETING

MP&L's marketing and information programs emphasized the efficient use of energy while guiding electric growth rates and growth patterns into a preferable range.

A preferable range is achieved by influencing the long-term demand patterns of the Company's customers to match MP&L's supply capability. When marketing efforts positively influence load shape, both the Company and its customers benefit.

The Company's strategic marketing objective is to "establish a customer-oriented philosophy of business which focuses corporate resources on the profitable production of customer satisfaction."

The strategy to achieve this is based on: Increasing total energy sales through marketing and economic development; selling energy services that are profitable for the Company and MP&L customers; promoting efficient end use of electricity; and managing growth in energy sales at times of high use.

The year 1984 was a year when significant progress was made toward meeting the marketing objective, compared with 1983.

Results in four key market segments produced the following percent increases: outdoor security lighting KW—51 percent; industrial process heating KW—81 percent; tons of residential heat pumps—75 percent; and commercial/industrial heat pump tons—170 percent.

"Our service area is poised for economic growth, and our number one objective is to see that it happens."

Donald E. Meiners
Senior Vice President, Customer and Informational Services

A computerized meter reading system went into effect in the summer.

MP&L'S CONCERN PROGRAM

There are many individuals in the MP&L service area whose energy needs are critical, and MP&L has established CONCERN—a 13-point program—to meet these special needs. In two years of operation, CONCERN has raised almost $375,000 for distribution to needy citizens. The two major divisions of CONCERN are Energy CONCERN, which helps elderly and handicapped customers pay electric energy bills, and Helping Hands, which provides weatherization and conservation assistance for homes of needy customers.

In 1984, some 8,800 customers and 1,100 MP&L employees donated more than $117,000 for Energy CONCERN. Over 1,500 grants totaling $65,000 were distributed to needy families. To date, $275,000 has been contributed and $178,000 has been distributed to 4,584 families and individuals.

Another $16,000 was spent in 1984 on weatherization projects for 145 qualified homes through Helping Hands. In two years of operation, 210 homes have been weatherized at a total cost of almost $30,000 in materials. All labor is contributed through other service organizations.

Energy CONCERN is administered by The Salvation Army, which operates through about 180 social service agencies in western Mississippi to certify applicants.

Other CONCERN operations last year served some 64,000 MP&L customers with programs such as Timely Due Date, Time Pay, Protected Customer, Medical Emergency, and Emergency Pay Plan.

James Covington, manager of consumer relations, coordinates the CONCERN program.

Bonnie Howard, a veteran service application clerk in Jackson, has established a reputation for solving customer problems.

A friendly smile for customers is the first phase of good customer service.

BUILDING ON STRENGTHS

EMPLOYEES

MANAGEMENT CHANGES

Donald C. Lutken was elected by the board of directors to the position of chairman of the board and chief executive officer. This promotion became effective April 2. Formerly, he served as president and chief executive officer.

William Cavanaugh III, was elected to the position of president and chief operating officer at the same time. He was senior vice president of Arkansas Power & Light Company prior to this promotion.

Frank S. York, Jr., vice president and secretary was advanced to senior vice president and secretary and continues to be the Company's chief financial officer.

Donald E. Meiners, vice president, customer services, was promoted to senior vice president, customer and informational services.

C. Hiram Walters, director of division operations, was promoted to vice president, customer services.

James L. Moore, director of informational services, was promoted to assistant vice president, informational services.

Frank F. Gallaher, formerly the director of engineering, became assistant vice president, engineering and fossil production.

Frank M. Buchanan, who was district manager in Grenada, was promoted to director of engineering in Jackson.

John E. Sherrod, central division manager, was advanced to the position of director of division operations.

Larry F. Dale was promoted to director of nuclear licensing and safety. Prior to this promotion, he served as manager of nuclear services.

Thomas E. Reaves, Jr. became director, nuclear support, in the nuclear production department in Jackson. Formerly, he served as director, quality assurance.

Stephen M. Feith has been promoted to director, quality assurance. Prior to this advancement, he served as manager, nuclear site quality assurance.

Ted H. Cloninger was promoted to director of nuclear engineering and construction. His former title was project manager of Grand Gulf Unit 2.

Bob L. Marsh, who was the Rankin district manager, became the central division manager in Jackson.

Joseph L. Blount, attorney, was employed by the Company as the director of the legal and claims department.

William G. Kuh was named the director of personnel. Formerly, he was the director of employee relations at Gulf Power Company.

Peter G. Wood, attorney and former director of public affairs in five southern states for a national insurance company, was employed as assistant to the vice president for regulatory affairs.

NEW BOARD MEMBERS

Three new people were elected to the MP&L Board of Directors during the year.

These were: David C. Bramlette, attorney in Natchez; E. B. Robinson, Jr., bank executive in Jackson; and William Cavanaugh III, MP&L president;

G. Lawrence Adams, attorney in Natchez; and John P. Maloney, bank executive in Jackson, retired from the MP&L board.

FINANCIAL SECTION

The management of the Company has prepared and is responsible for the financial statements and related financial information included in this annual report. The financial statements are based on generally accepted accounting principles, consistently applied. Financial information included elsewhere in this report is consistent with the financial statements.

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

The board of directors pursues its responsibility for reported financial information through its audit committee, composed of outside directors. The audit committee meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal control, and financial reporting matters. The independent public accountants and the internal auditors have free access to the audit committee at any time.

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

Management believes that these policies and procedures provide reasonable assurance that our operations are carried out with a high standard of business conduct.

Mississippi Power & Light Company:

We have examined the balance sheets of Mississippi Power & Light Company as of December 31, 1984 and 1983 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 18, 1985
New Orleans, Louisiana

I. FINANCIAL CONDITION

The financial condition of MP&L improved during 1984 and net income increased to $48.3 million or 11% above the prior year. Investment in plant increased to $1.1 billion or 4% above the prior year. Net income for the years 1983 and 1982 was $43.5 million and $35 million, respectively. The Company's pre-tax earnings coverage ratio of bond interest requirements was 3.81 for 1984, after including a new $35 million issue of 14½% First Mortgage Bonds, compared to 4.12 for 1983 and 3.46 for 1982. The coverage ratio of interest charges and preferred stock dividend requirements was 1.60 for 1984, after including a new $15 million issue of 16.16% preferred stock, compared to 1.77 for 1983 and 1.65 for 1982. Since the Company would be legally precluded from issuing additional bonds (other than for refunding purposes) should the related coverage ratio be less than 2.0 and from issuing additional preferred stock should the related coverage ratio be less than 1.5, maintenance of satisfactory earnings and coverage ratios is essential to enable the Company to sell additional amounts of securities on satisfactory terms to meet future capital requirements. In November, MP&L filed a rate increase request with the Mississippi Public Service Commission (MPSC), including a request for interim rate relief which was granted in part in January, 1985, for the amount of fixed costs associated with Independence Steam Electric Station - Unit 2 (Independence Unit 2), and a request to include in rates the Company's portion of the capacity of Grand Gulf Nuclear Station Unit 1 (Grand Gulf Unit 1). The filing includes a rate moderation plan proposed by the Company that will phase in the retail rate increase over a ten-year period, and which will, depending on the allocated percentage of Grand Gulf 1 at 19% or 33%, (see Note 5 to the Financial Statements), produce a deferred amount of approximately $355 million or $615 million respectively (see Note 6 to the Financial Statements for a further discussion of rate matters). This rate relief is critical and necessary to maintain the financial integrity of the Company.

II. LIQUIDITY AND CAPITAL RESOURCES

The Company's construction program for 1984 resulted in expenditures of approximately $51 million, including approximately $23 million for the Company's 25% interest in the Independence Steam Electric Station and the related coal handling equipment. In addition, under the Power Purchase Advance Payment Agreement with Middle South Energy, Inc. (MSE), MP&L made payments to MSE of approximately $4 million per month or a total of $47.4 million during 1984 (see Note 5 to the Financial Statements). Total funds supplied from external sources in 1984 were approximately $54 million and included: $15 million from the sale of preferred stock; $35 million from the sale of first mortgage bonds; and $4 million from the draw-down of pollution control equipment financing. The Company made use of short-term borrowing in 1984 with $46 million being the maximum amount utilized. The amount of short-term borrowings authorized by the Securities and Exchange Commission effective December 30, 1983 is the lesser of $73 million or 10% of capitalization. There were no short-term borrowings outstanding as of December 31, 1984.

Construction expenditures for the years 1985, 1986 and 1987 are projected to be $42 million, $51 million and $69 million, respectively. In addition, the Company will continue to make monthly payments to MSE during 1985 under the above-mentioned Power Purchase Advance Payment Agreement until commercial operation of Grand Gulf Unit 1, expected to occur during the second quarter of 1985. During the period 1985-1987, the Company will require substantial additional capital if certain costs associated with the purchase of power from Grand Gulf Unit 1 are deferred in accordance with the Company's proposed rate moderation plan filed with the MPSC. Based on a 19% allocation of the capacity and energy of Grand Gulf Unit 1, the deferred amounts for 1985, 1986 and 1987 are presently expected to be $65 million, $117 million and $95 million, respectively. To meet the capital requirements discussed above based on this 19% allocation, and assuming timely and adequate rate relief, the Company presently expects to secure new permanent financing of approximately $20 million in 1985, $25 million in 1986 and $21 million in 1987. The Company also expects to use short-term borrowing on an interim basis. Based on 1984 earnings coverages and an assumed interest rate and preferred dividend rate of 15%, the Company could have issued as of December 31, 1984, approximately $193 million of additional first mortgage bonds (plus any first mortgage bonds for refunding purposes), subject to the availability of bondable property, or approximately $24 million of additional preferred stock. However, the Company had sufficient unfunded bondable property available at December 31, 1984 to issue only approximately $132 million of additional first mortgage bonds.

III. RESULTS OF OPERATIONS

Results for the year 1984 produced a $4.8 million or 11% increase in net income when compared to the prior year. A major factor contributing to the increase in net income was increased usage by retail customers. Increased sales to associated companies was also a contributing factor to the increase in net income. Fuel and purchased power costs continue to be the Company's major expense, equalling approximately 53% of its total revenue. Unit cost of fuel for generation in 1984, however, was 11.4% less than in 1983, primarily as a result of the utilization of coal generation and the decreased costs of gas.

Sales to retail customers in 1984 increased approximately 3.8% above the prior year. This increase in sales was due in part to improved economic conditions in MP&L's service area and colder than normal temperatures in the early part of the year. Operation and maintenance expenses, other than fuel and purchased power, increased $7.6 million or 9.2%. The major factor contributing to the increase was recognition of expenses of a preliminary study developing the design of and construction plans for standard coal plants. Expenses relating to Independence Unit 2, which began commercial operation in December, 1984, also contributed to the increase, as did the cost of the MPSC ordered management audit. Allowance for funds used during construction (AFDC) increased in 1984 by approximately $1.2 million over the prior year, primarily because of Independence Unit 2. AFDC as a percent of net income in 1984, 1983 and 1982 was 16%, 15% and 41%, respectively. It is expected that AFDC will decrease in 1985 both in amount and as a percent of net income because of the completion and placing into commercial operation of Independence Unit 2. Expected increases in the cost of generation, the effects of inflation on operating expenses, the additional investment in facilities and the anticipated costs in connection with the purchase of energy from Grand Gulf Unit 1 have caused the Company to seek rate relief from the MPSC.

IV. EFFECT OF INFLATION

Despite the reduced level of inflation during 1984, its impact on the Company's operation in recent years has been significant (see Note 12 to the Financial Statements).

V. SUMMARY

The ability of the Company to secure adequate and timely rate relief to cover its portion of the capacity of Grand Gulf Unit 1, Independence Unit 2 and other cost increases (see Notes 5 and 6 to the Financial Statements) will have a material effect on the ability of the Company to remain financially sound in the future, and thus be able to provide the generating capacity and other resources necessary to serve the present and future energy requirements of its customers.

MISSISSIPPI POWER & LIGHT COMPANY
BALANCE SHEETS

DECEMBER 31, 1984 and 1983

ASSETS	**1984**	1983
	In Thousands	
UTILITY PLANT (Note 5):		
Electric Plant	**$1,091,639**	$ 980,716
Construction work in progress	**16,643**	83,590
Electric plant acquisition adjustments	**1,498**	1,680
Total	**1,109,780**	1,065,986
Less accumulated depreciation	**318,818**	293,134
Utility plant—net	**790,962**	772,852
OTHER PROPERTY AND INVESTMENTS:		
Investment in subsidiary company, at equity (Note 5)	**19,909**	18,274
Other	**767**	792
Total	**20,676**	19,066
CURRENT ASSETS:		
Cash and special deposits (Note 7)	**4,055**	643
Temporary investments - associated companies (at cost which approximates market) (Note 7)	**12,000**	23,500
Accounts receivable:		
Customer and other - less allowance for doubtful accounts—$679,000	**21,761**	25,313
Associated companies	**1,190**	369
Materials and supplies—at average cost:		
Fuel	**2,582**	2,935
Other	**8,473**	8,444
Power purchase advance payments (Note 5)	**10,231**	—
Other	**12,541**	6,771
Total	**72,833**	67,975
DEFERRED DEBITS:		
Power purchase advance payments (Note 5)	**40,922**	—
Unamortized debt expense	**1,789**	1,964
Other	**219**	392
Total	**42,930**	2,356
TOTAL	**$ 927,401**	$ 862,249

See Notes to Financial Statements.

LIABILITIES	1984	1983
	In Thousands	
CAPITALIZATION:		
Common stock, no par value (stated value $23 per share) authorized 15,000,000 shares; issued and outstanding 5,840,000 shares (Note 3)	**$ 134,320**	$ 134,320
Retained earnings (Note 8)	**85,788**	83,604
Total common shareholder's equity	**220,108**	217,924
Preferred stock without sinking fund (Note 3)	**38,077**	38,077
Preferred stock with sinking fund (Note 3)	**55,000**	40,000
Long-term debt (Note 4)	**379,200**	340,506
Total	**692,385**	636,507
OTHER NON-CURRENT LIABILITIES:		
Accumulated provision for property insurance	**7,998**	7,928
Accumulated provision for injuries and damages	**2,122**	2,346
Total	**10,120**	10,274
CURRENT LIABILITIES:		
Currently maturing long-term debt	**513**	482
Accounts payable:		
Associated companies	**7,909**	12,501
Other	**16,405**	24,036
Customer deposits	**13,747**	12,814
Taxes accrued	**18,910**	18,478
Interest accrued	**14,513**	9,551
Dividends declared	**12,097**	8,554
Other	**3,069**	1,904
Total	**87,163**	88,320
DEFERRED CREDITS:		
Accumulated deferred income taxes (Note 2)	**85,439**	77,084
Accumulated deferred investment tax credits (Note 2)	**45,996**	43,443
Other	**6,298**	6,621
Total	**137,733**	127,148
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)		
TOTAL	**$ 927,401**	$ 862,249

See Notes to Financial Statements.

	1984	1983 In Thousands	1982
OPERATING REVENUES (Note 6)	**$531,927**	$520,103	$526,483
OPERATING EXPENSES:			
Operation:			
Fuel	**194,636**	177,938	247,116
Purchased power	**86,032**	103,605	93,621
Other	**66,963**	57,011	52,855
Maintenance	**23,920**	26,236	20,951
Depreciation	**30,939**	30,013	24,255
Taxes other than income taxes	**21,208**	22,088	20,768
Income taxes (Note 2)	**33,659**	36,766	21,037
Total	457,357	453,657	480,603
OPERATING INCOME	**74,570**	66,446	45,880
OTHER INCOME AND DEDUCTIONS:			
Allowance for equity funds used during construction	**5,303**	4,664	8,609
Miscellaneous—net	**6,099**	1,319	2,842
Income taxes (Note 2)	**(875)**	401	2,562
Total	**10,527**	6,384	14,013
INTEREST CHARGES:			
Interest on long-term debt	**31,626**	28,003	24,959
Other interest—net	**7,512**	3,169	5,573
Allowance for borrowed funds used during construction	**(2,374)**	(1,837)	(5,759)
Total	**36,764**	29,335	24,773
NET INCOME (Note 6)	**$ 48,333**	$ 43,495	$ 35,120

STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 and 1982

	1984	1983	1982
RETAINED EARNINGS, JANUARY 1	**$ 83,604**	$ 80,783	$ 81,596
ADD—Net income	**48,333**	43,495	35,120
Total	**131,937**	124,278	116,716
DEDUCT:			
Dividends—cash:			
Preferred stock	**9,065**	8,359	7,099
Common stock	**37,084**	32,315	28,834
Total	**46,149**	40,674	35,933
RETAINED EARNINGS, DECEMBER 31 (Note 8)	**$ 85,788**	$ 83,604	$ 80,783

See Notes to Financial Statements.

	1984	1983 In Thousands	1982
FUNDS PROVIDED BY:			
Operations:			
Net income	**$ 48,333**	$ 43,495	$35,120
Depreciation	**30,939**	30,013	24,255
Deferred income taxes and investment tax credit adjustments—net	**10,908**	41,844	8,127
Allowance for equity funds used during construction	**(5,303)**	(4,664)	(8,609)
Total funds provided by operations	**84,877**	110,688	58,893
Other:			
Allowance for equity funds used during construction	**5,303**	4,664	8,609
Decrease in working capital*	—	2,850	31,936
Investment in subsidiary company	—	2,259	—
Miscellaneous—net	**1,440**	2,215	—
Total funds provided excluding financing transactions	**91,620**	122,676	99,438
Financing transactions:			
Common stock	—	29,900	—
Preferred stock	**15,000**	10,000	10,000
First mortgage bonds	**35,000**	45,000	30,000
Other long-term debt	**4,390**	7,275	17,212
Book value of utility plant sold	—	—	14,705
Short-term securities—net	**11,500**	—	—
Total funds provided by financing transactions	**65,890**	92,175	71,917
Total funds provided	**$157,510**	$214,851	$171,355
FUNDS APPLIED TO:			
Utility plant additions:			
Construction expenditures (includes allowance for funds used during construction)	**$ 50,776**	$ 63,623	$100,847
Other:			
Dividends declared on preferred stock	**9,065**	8,359	7,099
Dividends declared on common stock	**37,084**	32,315	28,834
Power purchase advance payments (Note 5)	**51,153**	—	—
Increase in working capital*	**7,315**	—	—
Investment in subsidiary company	**1,635**	—	1,649
Refund to retail customers	—	74,600	—
Miscellaneous—net	—	—	446
Total other funds applied	**106,252**	115,274	38,028
Financing transactions:			
Retirement of first mortgage bonds	—	12,000	—
Retirement of other long-term debt	**482**	454	29,480
Short-term securities—net	—	23,500	3,000
Total funds applied to financing transactions	**482**	35,954	32,480
Total funds applied	**$157,510**	$214,851	$171,355

*DETAIL OF INCREASE (DECREASE) IN SELECTED WORKING CAPITAL ITEMS:			
Cash and special deposits	**$ 3,412**	$ (3,212)	$ 2,972
Accounts receivable	**(2,731)**	387	(641)
Materials and supplies and other current assets	**5,446**	(702)	356
Accounts payable and customer deposits	**11,290**	(12,859)	(16,432)
Taxes and interest accrued	**(5,394)**	9,955	(9,914)
Dividends declared	**(3,543)**	(851)	(1,116)
Other current liabilities	**(1,165)**	4,432	(7,161)
Net	**$ 7,315**	$ (2,850)	$(31,936)

*Working capital excludes short-term securities, current maturities of long-term debt, and the current portion of power purchase advance payments.

See Notes to Financial Statements.

1. Summary of Significant Accounting Policies

A. SYSTEM OF ACCOUNTS

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

B. REVENUES

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period. The rates of the Company include fuel adjustment clauses under which fuel costs above or below the base levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers.

C. UTILITY PLANT AND DEPRECIATION

Utility plant is stated at original cost. The costs of additions to utility plant include contracted work, direct labor and materials, allocable overheads and an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant, and such costs plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than units of property are charged to operating expenses. Substantially all of the utility plant is subject to the lien of the Company's first mortgage bond indenture.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided in 1984, 1983, and 1982 amounted to approximately 3.3% on average depreciable property.

D. JOINTLY OWNED GENERATING STATION

The Company jointly owns 25% of the Independence Steam Electric Station, a two-unit coal-fired generating station. Arkansas Power & Light Company, a sister company, owns 31.5% of the station and operates the facility. The Company records its investment and expenses associated with this station to the extent to which the Company owns and participates in the generating station. The Company's investment in the generating station at December 31, 1984 was $237.9 million.

E. POSTRETIREMENT BENEFITS

The Company has postretirement plans covering substantially all of its employees. The policy of the Company is to fund pension costs as accrued and other postretirement costs as incurred.

F. INCOME TAXES

The Company joins its parent in filing a consolidated Federal income tax return. Income taxes are allocated to the Company in proportion to its contribution to the consolidated taxable income.

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for rate-making purposes. Investment tax credits allocated to the Company are deferred and amortized based upon the average useful life of the related property beginning with the year allowed in the consolidated tax return.

G. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC). Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the appropriate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction programs and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. The effective composite AFDC rates were 8.7%, 9.2%, and 8.7% for 1984, 1983, and 1982, respectively.

The Company continues to capitalize allowance for funds used during construction on projects during periods of interrupted construction when such interruption is temporary and the continuation can be justified as being reasonable under the circumstances.

H. OTHER NON-CURRENT LIABILITIES

It is the policy of the Company to make provisions for uninsured property risks and for claims for injuries and damages through charges to operating expense on an accrual basis. Accruals for these risks have been allowed for rate-making purposes.

2. Income Taxes

Income tax expense (credit) consists of the following:

	1984	1983	1982
		In Thousands	
Current			
Federal	**$20,659**	$(5,303)	$ 8,429
State	**2,966**	(175)	1,919
Total	**23,625**	(5,478)	10,348
Deferred—Net			
Revenue subject to refund	**—**	25,997	(10,978)
Liberalized depreciation	**7,001**	12,973	7,575
Other	**1,355**	(462)	338
Total	**8,356**	38,508	(3,065)
Investment tax credit adjustments—Net	**2,553**	3,335	11,192
Recorded income tax expense	**$34,534**	$36,365	$18,475
Charged to operations	**$33,659**	$36,766	$21,037
Charged (credited) to other income	**875**	(401)	(2,562)
Recorded income tax expense	**34,534**	36,365	18,475
Income taxes applied against the debt component of AFDC	**2,184**	1,690	2,931
Total incomes taxes	**$36,718**	$38,055	$21,406

Total income taxes differ from the amounts computed by applying the statutory Federal income tax rate to income before taxes. The reasons for the differences are as follows:

	1984		1983		1982	
			In Thousands			
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed at statutory rate	**$38,119**	**46.0**	$36,736	46.0	$24,654	46.0
Increases (reductions) in tax resulting from:						
Allowance for funds used during construction	**(3,531)**	**(4.3)**	(2,990)	(3.7)	(5,426)	(10.1)
Tax savings due to filing consolidated return	**(292)**	**(.4)**	—	—	(1,300)	(2.4)
State income taxes—Net	**2,076**	**2.5**	1,786	2.2	901	1.7
Other—Net	**(1,838)**	**(2.2)**	833	1.0	(354)	(.7)
Recorded income tax expense	**34,534**	**41.6**	36,365	45.5	18,475	34.5
Income taxes applied against the debt component of AFDC	**2,184**	**1.6**	1,690	1.2	2,931	3.4
Total income taxes	**$36,718**	**43.2**	$38,055	46.7	$21,406	37.9

Unused investment-tax credits at December 31, 1984, amounted to $4.7 million. These credits may be applied against Federal income tax liabilities in future years. If not used, they will expire in 1992 and 1993.

Cumulative income tax timing differences for which deferred income tax expenses have not been provided are $47.0 million, $47.4 million, and $36.5 million in 1984, 1983, and 1982, respectively.

3. Preferred and Common Stock

Preferred stock at December 31, 1984, and 1983 consisted of the following:

	Shares Authorized	Shares Outstanding 1984	Shares Outstanding 1983	Current Call Price Per Share
Without sinking fund:				
4.36% Series	60,000	**59,920**	59,920	$103.86
4.56% Series	44,476	**43,888**	43,888	107.00
4.92% Series	100,000	**100,000**	100,000	102.88
9.16% Series	75,000	**75,000**	75,000	106.35
7.44% Series	100,000	**100,000**	100,000	104.67
Total	379,476	**378,808**	378,808	
With sinking fund:*				
17.00% Series	200,000	**200,000**	200,000	117.00
14.75% Series	100,000	**100,000**	100,000	111.47
12.00% Series	100,000	**100,000**	100,000	112.00
16.16% Series	150,000	**150,000**	—	116.16
Total	550,000	**550,000**	400,000	
Unissued	1,075,000			
Total	2,004,476			

	1984	1983
	In Thousands	
Without sinking fund:		
Stated at $100 a share	**$37,881**	$37,881
Premium	**196**	196
Total	**$38,077**	$38,077
With sinking fund:		
Stated at $100 a share	**$55,000**	$40,000

*These series are to be retired in full through the operation of sinking funds. Beginning September 1, 1986, and on each September 1 thereafter, the 17% series is to be redeemed at the rate of 10,000 shares each year. The 14.75% series is to be redeemed at the rate of 33,333 shares per year on March 1, 1990, 1991 and 1992. Beginning March 1, 1988 and on each March 1 thereafter, the 12% series is to be redeemed at the rate of 5,000 shares each year. Beginning November 1, 1989 and on each November 1 thereafter, the 16.16% series is to be redeemed at the rate of 7,500 shares each year. In addition, the Company has the non-cumulative option for the 17%, the 12% and the 16.16% series to redeem an additional like amount of said shares each year commencing in the first year of redemption in each respective series.

	Number of Shares 1984	1983	1982
Common stock shares sold	—	1,300,000	—
$100 Preferred stock shares sold	**150,000**	100,000	100,000

4. Long-Term Debt

Long-term debt at December 31, 1984, and 1983 consisted of the following:

	1984	1983
	In Thousands	
First Mortgage Bonds:		
4 1/8% Series due 1988	**$ 15,000**	$ 15,000
4 5/8% Series due 1995	**20,000**	20,000
5 1/8% Series due 1996	**25,000**	25,000
6 3/8% Series due 1996	**10,000**	10,000
9 5/8% Series due 1999	**20,000**	20,000
9 1/4% Series due 2000	**17,500**	17,500
7 3/4% Series due 2002	**15,000**	15,000
7 3/4% Series due 2003	**30,000**	30,000
8 1/4% Series due 2003	**20,000**	20,000
9 7/8% Series due 2004	**25,000**	25,000
10 7/8% Series due 2005	**25,000**	25,000
15 1/8% Series due 1990	**30,000**	30,000
11 1/4% Series due 1988	**45,000**	45,000
14 1/2% Series due 2014	**35,000**	—
Total First Mortgage Bonds	**332,500**	297,500
Pollution Control Bonds:		
7 1/2% due 2004	**9,400**	9,400
8 1/2% due 2004	**8,575**	8,575
6 3/4% to 8 1/2% due 1984 to 1995	**1,700**	1,800
9 3/4% to 11 1/2% due 2012 to 2014	**30,000**	30,000
Less—Amount held by Trustee	**(7,123)**	(11,513)
Total Pollution Control Bonds	**42,552**	38,262
Principal Amount of Capitalized Lease—8%, due serially through 1993	**5,154**	5,536
Unamortized Premium on Debt	**847**	909
Unamortized Discount on Debt	**(1,340)**	(1,219)
Total Long-Term Debt	**379,713**	340,988
Less—Amount due within one year	**513**	482
Long-term debt excluding amount due within one year	**$379,200**	$340,506

At December 31, 1984, the sinking fund requirements and maturities for long-term debt for years 1985 through 1989 are as follows:

Year	Sinking Fund*	Maturities
	In Thousands	
1985	**$2,898**	$ 513
1986	**3,248**	546
1987	**3,248**	582
1988	**2,637**	60,670
1989	**2,637**	712

*Sinking fund requirements may be satisfied by certification of property additions at the rate of 167% of such requirements.

5. Commitments and Contingencies

Capital Requirements

The Company's construction program contemplates expenditures of approximately $42 million in 1985, $51 million in 1986, and $69 million in 1987.

Substantial additional capital requirements would result in the period 1985-1987 if the Company defers certain costs associated with the purchase of power and energy from Grand Gulf 1 in accordance with the Company's proposed rate "phase-in" plan filed with the Mississippi Public Service Commission (MPSC) (See Note 6).

Availability Agreement and Power Purchase Advance Payment Agreement

The Company, together with the other Middle South System operating companies, is obligated under the Availability Agreement to Middle South Energy, Inc. (MSE) in accordance with stated percentages (the Company 31.3%, Arkansas Power & Light Company (AP&L) 17.1%, Louisiana Power & Light Company (LP&L) 26.9%, and New Orleans Public Service, Inc. (NOPSI) 24.7%) to make payments or subordinated advances adequate to cover all of the operating expenses and certain of the capital costs of MSE. In addition, under the Power Purchase Advance Payment Agreement the Company, together with the other Middle South System operating companies, agreed, if Grand Gulf 1 were not placed in commercial operation by December 31, 1983, to make advance payments to MSE for power purchases which in the aggregate total $12.5 million per month. Such payments, adjusted to exclude AP&L as contemplated by the Reallocation Agreement discussed in the next paragraph, commenced January 2, 1984 and will continue until commercial operation of Grand Gulf 1 or December 1, 1985, whichever occurs earlier. The Company's share of these monthly payments is approximately $4.0 million. Through 1984 $3.89 billion had been expended by MSE on the Grand Gulf Plant's two units, the first unit of which is scheduled for commercial operation in the second quarter of 1985.

Reallocation Agreement

Effective November, 1981, the System operating companies entered into a Reallocation Agreement allocating the capacity and energy available to MSE from Unit Nos. 1 and 2 of Grand Gulf as follows: the Company, 31.63% and 43.97%, LP&L, 38.57% and 26.23%, and NOPSI, 29.80% and 29.80% respectively. This allocation was consistent with a prior allocation of capacity and energy for the Units made among the Company, LP&L and NOPSI pursuant to a memorandum of understanding executed by the System operating companies on July 21, 1980. Under the Reallocation Agreement, the Company, LP&L and NOPSI in proportion to such allocations, have assumed all of the responsibilities and obligations of AP&L with respect to these units under the Availability Agreement and the Power Purchase Advance Payment Agreement and, in consideration thereof, AP&L has relinquished its rights in the Grand Gulf Station. However, each of the System operating companies, including AP&L, remains primarily liable to MSE and its assignees for payments or advances under the Availability Agreement and the Power Purchase Advance Payment Agreement in accordance with the respective original percentages set forth in the immediately preceding paragraph. AP&L would be obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations. The percentage allocations to the System operating companies of capacity and energy available to MSE from Grand Gulf 1 and 2, as set forth in the agreements referred to above, are subject to the approval of the Federal Energy Regulatory Commission (FERC), which has jurisdiction in the matter.

Unit Power Sales Agreement and New System Agreement

The System operating companies, including the Company, have requested from their respective state public utility commissions rate adjustments adequate to permit them to meet their obligations to MSE to purchase power under the Unit Power Sales Agreement (See Note 6). Under the Unit Power Sales Agreement, as filed with the FERC, the capacity and energy available to MSE from the Grand Gulf Station would be sold to the Company, LP&L, and NOPSI in accordance with the percentages set forth in the Reallocation Agreement discussed above. An Administrative Law Judge (ALJ) of the FERC has rendered his initial decision regarding such Agreement. The ALJ has deferred any decision on Grand Gulf 2 and has recommended that capacity and energy from Grand Gulf 1 be allocated to AP&L as well as the other System operating companies. The ALJ's decision allocates MSE's share of the capacity and energy from Grand Gulf 1, as follows: 33% to the Company, 36% to AP&L, 14% to LP&L, and 17% to NOPSI, compared to MSE's request that such costs be allocated 31.6% to the Company, 38.6% to LP&L and 29.8% to NOPSI. This decision, which AP&L is opposing, is subject to review of the FERC. In addition to AP&L, the Company, LP&L and NOPSI also have intervened in the proceeding.

On April 30, 1982, Middle South Services, Inc. (MSS) on behalf of the Company and the other Middle South System operating companies, filed for approval a New System Agreement with the FERC that provides for the coordinated planning, construction and operation of its generation and transmission facilities. Rates under the new agreement became effective on January 1, 1983, subject to refund. Various parties have intervened in these proceedings. Some parties are contesting the method by which the agreement equalizes capacity and energy among the System operating companies and certain proposals, if adopted, could cause significant changes in the allocation of costs among the companies. Hearings concluded in December 1983. On February 4, 1985, the ALJ hearing the New System Agreement proceeding issued his initial decision recommending that the New System Agreement be adopted, as filed with the FERC, with certain modifications. Principally, the decision recommended that a 15.75% return on common equity be granted; that no periodic review conditions be attached to approval of the New System Agreement; that production cost equalization of all System generating units, as proposed by various intervening parties, not be granted; and that the reserve equalization provisions in the New System Agreement, as filed, be adopted. However, the ALJ went on to recommend that the Grand Gulf Station be integrated into the New System Agreement by having each of the System operating companies pay for the capacity and energy costs of Grand Gulf based on the ratio that each System operating company's annual demand bears to the annual demand of the entire System and that each System

operating company's share of Grand Gulf be included in calculating such Company's capability and, consequently, its reserve equalization payments. This decision is subject to review of the FERC.

In an effort to resolve the difficult and complex issues involved in the Unit Power Sales Agreement and the New System Agreement proceedings, the System operating companies, MSE, and MSS, as agent for the System operating companies, submitted an Offer of Settlement to the FERC on January 4, 1985. Under the terms of the Settlement Offer, the New System Agreement, as currently in effect would remain in effect unchanged. The Unit Power Sales Agreement, as proposed to be amended, allocates MSE's share of the capacity and energy from Grand Gulf Unit 1, from the date of commercial operation through December 31, 1990, as follows: 19% to the Company, 17.1% to AP&L, 14% to LP&L, 17% to NOPSI and 32.9% as inventoried capacity. Effective January 1, 1991, the allocation changes as follows: 24.42% to the Company, 27.87% to AP&L, 27.48% to LP&L, and 20.23% to NOPSI. Accordingly, beginning January 1, 1991, the Company would commence paying its respective share of the full cost of service of Unit 1, including amortization of the deferred carrying charges on inventoried capacity over the remaining life of Unit 1, plus a return on the deferred carrying charges. This proposed Offer of Settlement is subject to review of the FERC.

On February 22, 1985, the FERC issued an order convening a settlement conference for the purpose of addressing the proposed Settlement Offer and of resolving the issues in the Unit Power Sales Agreement and New System Agreement proceedings. The initial settlement conference is scheduled to convene on March 12, 1985.

It is not possible to predict what decision or decisions the FERC will ultimately render in the New System Agreement and Unit Power Sales Agreement proceedings or with respect to the Offer of Settlement. If timely recovery of any cost allocated to the Company as a result of any FERC decision in these cases is not permitted by the MPSC, the Company's financial positon could be adversely impacted.

United Law Suit

On April 22, 1983, the Company filed suit against United Gas Pipeline Company (United) in the United States District Court, Southern District of Mississippi. In the suit, the Company alleges that United breached the terms of a Gas Sales Agreement by billing and collecting from the Company, during the period September 1976 through January 1983, rates for gas deliveries greatly in excess of the contract rates and by billing and collecting from the Company, during the same period, for larger volumes of gas than United actually delivered to the Company. In the complaint, the Company seeks (1) a judgment against United for $31,000,000, including interest; (2) a preliminary injunction against United from continuing its present practices of overcharging the Company for gas delivered to it; and (3) an order declaring the proper method of calculating the price for gas sold to the Company under the Gas Sales Agreement and permanently enjoining United from improper practices and overcharges in the future. In September, 1983, the MPSC intervened in the suit against United on behalf of the Company's customers. On March 21, 1984, the District Court granted the Company and the MPSC a preliminary injunction enjoining United from including in the rates billable to the Company under the Gas Sales Agreement certain specified costs of gas and associated transportation charges to which the Company and the MPSC had objected. The decision of the District Court granting the preliminary injunction has been appealed by United to the United States Courts of Appeals for the Fifth Circuit. Of the damages sought by the Company, United has refunded to the Company approximately $15 million. The matter is pending.

SFI

The Company has a 19% interest in System Fuels, Inc. (SFI), a jointly owned subsidiary of the four principal operating subsidiaries of Middle South Utilities, Inc. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for all of the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 1, 1984, as amended January 1, 1985, which provides for SFI to borrow up to $120,000,000 from its parent companies through December 31, 1985. As of December 31, 1984, the Company had loaned $2,115,000 to SFI pursuant to this loan agreement and the Company's share of the unused loan commitment was $15,885,000. Notes under this agreement mature December 31, 2010. In addition, the Company had loaned SFI $17,790,000 under previous loan agreements. Notes mature in 2002 and 2008 under the provisions of the previous loan agreements.

In connection with certain of SFI's borrowing arrangements, SFI's parent companies, including the Company, have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge its obligations under these arrangements. At December 31, 1984, the total loan commitment under these arrangements amounted to $225,000,000 of which $203,625,000 was outstanding at that date. Also, SFI's parent companies, including the Company, have made similar covenants and agreements in connection with long-term leases by SFI of oil storage and handling facilities and coal hopper cars. At December 31, 1984, the aggregate discounted value of these lease arrangements were $80,769,000.

SFI has contracted with a joint venture for a supply of coal from a mine in Wyoming, which based on estimated reserves is presently expected to provide for at least thirty years of the projected requirements of the Independence Station. SFI's parent companies, including the Company, each acting in accordance with their share of the ownership of SFI's common stock, joined in, ratified, confirmed and adopted the contract and the obligations of SFI thereunder. Under the contract, investment in the mine for leases, plant and equipment is the responsibility of the joint venture. In order to limit the joint venture's investment rights and, hence, the amount to be paid to it as a component of the price of coal, the contract provided that SFI invest any funds for plant and equipment in excess of a specified amount. The Company, AP&L and Arkansas Electric Cooperative Corporation, as co-owners in part of the Independence Station, have agreed to make the investments rather than SFI and, accordingly, have reimbursed SFI for investments previously made by it. Through December 31, 1984, the Company had invested $15.5 million in mine facilities and related capitalized assets.

During 1985, it is presently estimated that an additional $1.5 million will be invested under this agreement. The Company's share of the additional investment would be $375,000.

Purchase Power Agreements

The electric power supply facilities of the Company are interconnected with the facilities of Mississippi Power Company, a neighboring utility which is part of the Southern Company System. In May, 1980, the Company entered into a long-term agreement which provided for the Company to purchase 200 megawatts of capacity from Southern Company Services, Inc. (SCSI) when available during the period July 1, 1980 through December 31, 1986. The energy cost, which includes a capacity charge, is based upon a formula which adjusts for hourly incremental cost of SCSI coal-fueled steam generation. If the energy is to be supplied from higher cost sources, the Company may, at its option, refuse the purchase and a credit adjustment to the capacity charge will be made.

The Company has entered into an agreement with AP&L whereby the Company will purchase that quantity of generating capacity and associated energy from Independence Unit 2 equivalent to AP&L's 31.5 percent ownership of such unit. This agreement became effective on December 6, 1984, with the commencement of commercial operation of Independence Unit 2 and will continue for an initial term of five years. In the event that a Joint Settlement Proposal with AP&L is approved by the FERC, the Company shall have an option to extend the terms of the agreement for an additional twenty years following the initial term.

MPSC Mandated Audits

In September 1984, the MPSC appointed special consultants to conduct a management audit of the Company and a construction audit of the Grand Gulf Station. These audits are in progress and the final report on the management audit of the Company is expected to be submitted to the MPSC on or before March 15, 1985, and the final report on the construction audit of the Grand Gulf Station is expected to be submitted to the MPSC on or before May 1, 1985.

Federal Income Tax Issues - IRS

The Federal income tax returns for the years 1971 through 1978 have been examined by the IRS. For the years 1971 through 1976, all issues, other than an issue involving the taxability of customer deposits, have been settled and a tax assessment of $1.5 million, plus interest of $1.8 million, has been paid. Payment of the tax assessment and interest did not have a material effect on net income. For the years 1977 and 1978, the IRS has proposed certain adjustments that, except for the customer deposits issue, are not material. A written protest has been filed with the IRS. Any additional tax liability that may result from resolution of the customer deposits issue would not have a material effect on net income because income taxes on customer deposits would be normalized.

6. Rate Matters

The Company is a party to certain agreements and proceedings concerning MSE and the Grand Gulf Nuclear Station owned by MSE. See Note 5 with respect to these matters.

On November 16, 1984, the Company filed a Notice of Intent with the Mississippi Public Service Commission to increase its retail rates to meet its purchased power expenses associated with capacity and energy from Grand Gulf 1 and from Independence 2 and to support the fixed costs related to its ownership share of Independence 2. The rate filing is based on a projected test year ending February 28, 1986. The Notice of Intent provides for an annual increase in revenues to the Company in the projected test year, net of fuel and deferred amounts, of approximately $126.8 million, if the Company is allocated a 33% share of MSE's share of capacity and energy for Grand Gulf 1, as determined in the ALJ's initial decision in the proceedings before the FERC, or approximately $82.1 million if the Company is allocated a 19% share, as proposed by the Company and AP&L on August 7, 1984, in a motion for a settlement conference before the FERC. The Notice of Intent further provides for deferral of the billing of certain revenues over a ten-year period. If the Company is allocated either a 33% share of MSE's share of capacity and energy from Grand Gulf 1 or a 19% share, such deferred amounts would be in the aggregate approximately $615 million or $355 million, respectively, during the first five years of commercial operation of the unit, and such deferred amounts would be recovered during the following five years.

On January 4, 1985, various parties, including the Attorney General of the State of Mississippi, intervened in the proceeding. On January 15, 1985, the MPSC held a hearing to consider the request of the Company that it should be allowed to implement interim rates in connection with Independence Unit 2 until a final decision in the case was made by the MPSC. The basis for the request for interim rates was that Independence Unit 2, of which 25% is owned by the Company and an additional 31.5% of the power from which the Company has agreed to buy for a period, from AP&L, went into commercial operation in December 1984 and the Company's existing base rates and charges did not provide for recovery of the Company's costs or a return on the investment in connection with both its ownership interest and its purchase power portion of the unit, although the Company's existing fuel adjustment clause was currently reflecting the substantial fuel savings to the Company's retail customers (estimated at $60.9 million annually) from the unit. The Company proposed to implement interim rates projected to produce annual gross revenues of $56,890,000. On January 17, 1985,

the MPSC issued an Interim Order allowing the Company interim rates, effective January 17, 1985, designed to produce additional operating revenues on an annual basis of approximately $44,671,554, based on the test year ending February 28, 1986. The interim rates will be in effect pending a final determination in this case. On January 14, 1985, the Governor of the State of Mississippi signed into law an amendment to the Public Utility Act of 1983, which allows the MPSC to extend the one hundred twenty (120) day period for the consideration of the Company's rate case in this docket for an additional ninety (90) days. The amendment to the Public Utility Act of 1983 applies only to the Company's rate case in this docket and will allow the MPSC until mid-June 1985 to enter an order in the case. This rate case is pending.

7. Lines of Credit and Short-Term Borrowings

At December 31, 1984, the Company had $22 million in lines of credit with Mississippi banks and participated with the other Middle South System operating companies in $180 million of consolidated lines of credit with banks outside the Middle South System service area. In February 1985, these non-territorial bank lines of credit were reduced to $140 million. Compensating balances (approximately 5% of the commitment amount) or equivalent fees are required by certain of the lending banks. Additionally, the Company participates with certain other companies of the Middle South System in a money pool arrangement whereby those companies with available funds make short-term loans to other companies in the System having short-term borrowing requirements. The Company also has arrangements with a commercial paper dealer for the sale of its commercial paper. The Company may borrow from these sources subject only to its maximum authorized level of short-term borrowings. The Company has received authorization from the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 to have outstanding at any one time short-term borrowings aggregating not more than the lesser of $73 million or 10% of the Company's capitalization. At the end of 1984 and 1983, the aggregate amounts of unused lines of credit with Mississippi banks were $22 million. The operating companies had available at the end of 1984 and 1983, $180 million and $122.1 million, respectively, under the consolidated lines of credit.

The short term borrowings and applicable interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company were as follows:

	1984	1983	1982
	(In Thousands)		
Maximum borrowing	**$46,000**	$31,000	$36,500
Average borrowings:			
Bank loans	**$ 4,003**	—	—
Commercial paper	—	—	$ 9,045
Associated companies	**$ 7,918**	$ 2,853	$ 100
Average interest rate during the period:			
Bank loans	**12.26%**	—	—
Commercial paper	—	—	14.99%
Associated companies	**10.89%**	8.98%	10.86%

8. Retained Earnings

The indenture provisions relating to the Company's long-term debt provide for restrictions on the payment of cash dividends on common stock. As of December 31, 1984, $44,190,000 of retained earnings were free from such restrictions.

9. Transactions with Affiliates

The Company buys from and sells electricity to the other subsidiaries of Middle South Utilities, Inc., its parent, under rate schedules filed with the Federal Energy Regulatory Commission. In addition, the Company purchases fuel from SFI and receives technical and advisory services from Middle South Services, Inc.

Operating revenues include revenues from sales to affiliates amounting to $72,179,000 in 1984, $50,157,000 in 1983, and $93,521,000 in 1982. Operating expenses include charges from affiliates for fuel cost, purchased power, and technical and advisory services totaling $64,994,000 in 1984, $57,718,000 in 1983, and $103,651,000 in 1982.

When MSE acquired the Grand Gulf Station from the Company, the Company agreed under a Service Agreement to continue to design, construct, maintain, and operate the Grand Gulf Station on behalf of MSE. In return, MSE agreed to pay to the Company the actual cost to the Company of rendering these services and granted the Company the power and authority to act on MSE's behalf as agent. Total payroll costs provided to MSE by the Company for 1984, 1983, and 1982 were $25,158,000, $21,452,000, and $18,367,000, respectively.

10. Postretirement Benefits

The companies of the Middle South System have various postretirement benefit plans covering substantially all of their employees.

Pension plans are administered by a trustee who is responsible for pension payments to retirees. Various investment managers have responsibility for management of the plans' assets. In addition, an independent actuary performs the necessary actuarial valuations for the individual company plans.

Effective January 1, 1982, the Company modified the method of amortizing prior service costs by changing from fixed amortization periods of from ten to thirty years to varying amortization periods not to exceed thirty years. The effect of this change on 1982 pension expense was not significant. Total pension expense of the Company for 1984, 1983, and 1982 was $4,875,000, $4,647,000, and $4,269,000, respectively.

The comparison of the actuarial present values of accumulated pension plan benefits and plan net assets for the defined benefit plan is presented below. This comparison was determined in accordance with the provisions of Statement of Financial Accounting Standards No. 36 which requires the use of certain assumptions which are different from those used by the Company's actuary in determining an appropriate level of funding for the Company.

	January 1, 1984	1983
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	**$33,929**	$30,702
Nonvested	**2,642**	2,066
Total	**$36,571**	$32,768
Net assests available for pension benefits	**$63,579**	$53,499

The assumed rate of return used in determining the actuarial present value of accumulated pension plan benefits was 9%.

The Company also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for the Company. These benefits and similar benefits for active employees are provided through payments of premiums to insurance companies. The Company recognizes the cost of providing these benefits by expensing the payments as they are incurred. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for active employees. The total cost of providing these benefits and the number of active employees and retirees for the last three fiscal years were as follows:

	1984	1983	1982
Total cost of health care and life insurance (in thousands)	**$1,635**	$1,702	$1,733
Number of active employees	**2,153**	2,075	1,952
Number of retirees	**296**	275	256

11. Quarterly Results (Unaudited)

Unaudited operating results by quarters follow (in thousands):

	Quarter Ended March	June	September	December
1984				
Operating revenues	**$120,101**	**$126,204**	**$165,335**	**$120,287**
Operating income	**18,090**	**18,208**	**27,682**	**10,590***
Net income	**12,831**	**8,423**	**22,299**	**4,780***
1983				
Operating revenues	$110,442	$120,989	$169,231	$119,441
Operating income	13,287	15,933	25,631	11,595
Net income	8,034	9,379	19,891	6,191

The business of the Company is subject to seasonal fluctuations with peak periods occurring during the summer months. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results of operations for a full year.

*Operating income and net income decreased approximately $3.2 million in this quarter due to the recognition of expenses of a preliminary study developing the design of and construction plans for standard coal plants.

12. Effect Of Inflation On Operations (Unaudited)

The following supplementary information about the effect of changing prices on the Company is provided in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices", as amended by Statement of Financial Accounting Standards No. 82. It should be viewed as an estimate of the effect of changing prices rather than as a precise measure.

Statement of Income from Operations and Other Financial Data
Adjusted for Effects of Changing Prices for the Year Ended
December 31, 1984
(In Thousands)

	As Reported in the Financial Statements	Adjusted for Changes in Specific Prices (Current Costs)
Revenues*	$531,927	$531,927
Operating expenses (excluding depreciation)*	426,418	426,418
Depreciation	30,939	68,797
Total operating expenses	457,357	495,215
Operating income	74,570	36,712
Other income*	10,527	10,527
Interest and other charges*	36,764	36,764
Income from operations (excluding adjustment to net recoverable cost)	$ 48,333	$ 10,475
Increase in specific prices (current costs) of property, plant, and equipment held during the year**		$ 54,503
Adjustment to net recoverable cost		18,140
Effect of increase in general price level		(65,169)
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level		7,474
Gain from decline in purchasing power of net amounts owed		21,857
Net		$ 29,331

*Assumed to be in "average for the year" dollars and thus are not restated.

**At December 31, 1984, current cost of property, plant, and equipment, net of accumulated depreciation, was $1,693,872,000 while historical cost or net cost recoverable through depreciation was $790,962,000.

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Changing Prices
(In Thousands of Average 1984 Dollars)

	1984	1983	1982	1981	1980
OPERATING REVENUES	**$531,927**	$542,239	$566,547	$607,402	$671,850
CURRENT COST INFORMATION:					
Income from operations (excluding adjustment to net recoverable cost)	**$ 10,475**	$ 2,139	$ (977)	$ 5,132	$ 9,924
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level	**$ 7,474**	$ 34,214	$ 14,414	$(18,894)	$(45,020)
Net assets at year-end at net recoverable cost	**$217,038**	$223,381	$197,048	$205,576	$215,993
GENERAL INFORMATION:					
Gain from decline in purchasing power of net amounts owed	**$ 21,857**	$ 21,224	$ 20,321	$ 39,830	$ 54,011
Average consumer price index	**311.1**	298.4	289.1	272.4	246.8

Current cost amounts reflect the changes in specific prices of property, plant, and equipment from the year of acquisition to the present. The current costs of property, plant, and equipment, which represent the estimated costs of replacing existing plant assets, are determined by applying the Handy-Whitman Index of Public Utility Construction Costs (HWI) to the cost of the surviving plant by year of acquisition. Land and certain other plant assets that are not included in the HWI were converted using the Consumer Price Index for all Urban Consumers (CPI-U).

The current year's depreciation expense on the current cost amounts of property, plant, and equipment was determined by applying the Company's depreciation rates to the indexed amounts.

Fuel inventories and the cost of fuel used in generation, have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel costs to actual costs incurred through the operation of adjustment clauses or adjustments in basic rate schedules. For this reason, fuel inventories are effectively monetary assets.

As prescribed in Statement of Financial Accounting Standards No. 33, income taxes were not adjusted.

The regulatory commissions to which the Company is subject allow only the historical cost of plant to be recovered in revenues as depreciation. Therefore, the excess cost of plant stated in terms of current cost over the historical cost of plant is not presently recoverable in rates. This excess (deficiency) is reflected as an adjustment to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing property, plant, and equipment, the Company believes, based on past experience, that it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations presented above, the adjustment of net property, plant, and equipment to net recoverable cost is adjusted by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

SELECTED FINANCIAL DATA (000's OMITTED)	1984	1983	1982
ELECTRIC OPERATING REVENUES:			
Residential	**$ 186,296**	$ 185,917	$ 173,349
Commercial	**134,276**	129,863	121,164
Industrial	**106,924**	108,365	105,164
Government & municipal	**17,694**	19,593	19,261
Cooperatives & municipalities	**4,189**	7,996	9,559
Total from energy sales (Miss. area)	**449,379**	451,734	428,497
Sales to other public utilities	**73,218**	51,171	94,563
Total from energy sales	**522,597**	502,905	523,060
Miscellaneous revenues	**10,422**	9,788	10,560
Deferred fuel adjustment revenues[1]	**(1,092)**	7,410	(7,137)
Total electric operating revenue	**$ 531,927**	$ 520,103	$ 526,483
NET INCOME	**$ 48,333**	$ 43,495	$ 35,120
TOTAL ELECTRIC UTILITY PLANT:			
Production	**$ 572,938**	$ 482,177	$ 356,298
Transmission	**218,383**	215,575	210,926
Distribution	**256,146**	242,433	235,114
General & other	**40,233**	36,592	22,293
Total utility plant completed	**1,087,700**	976,777	824,631
Plant held for future use	**3,939**	3,939	3,939
Construction work in progress	**16,643**	83,590	174,744
Electric plant acquisition adjustments	**1,498**	1,680	1,861
Total utility plant	**$1,109,780**	$1,065,986	$1,005,175
TOTAL ASSETS	**$ 927,401**	$ 862,249	$ 794,288
LONG-TERM DEBT	**$ 379,200**	$ 340,506	$ 288,835
PREFERRED STOCK, WITH SINKING FUND	**$ 55,000**	$ 40,000	$ 30,000
OTHER DATA			
ELECTRIC ENERGY SALES (MKWH):			
Residential	**3,051,947**	2,935,883	2,953,836
Commercial	**2,172,115**	2,026,136	1,988,978
Industrial	**2,085,639**	2,043,737	2,011,579
Government & municipal	**315,885**	343,789	362,072
Cooperatives & municipalities	**94,295**	178,081	210,368
Total energy sales (Miss. area)	**7,719,881**	7,527,626	7,526,833
Sales to other public utilities	**1,605,347**	980,031	2,314,418
Total electric energy sales	**9,325,228**	8,507,657	9,841,251
ELECTRIC CUSTOMERS (END OF PERIOD):			
Residential	**276,586**	272,281	268,556
Commerical	**40,290**	39,403	38,651
Industrial	**3,387**	3,246	3,194
Government & municipal	**2,448**	2,363	2,309
Cooperatives & municipalities	**—**	5	5
Total customers (Miss. area)	**322,711**	317,298	312,715
Other public utilities	**2**	2	2
Total electric customers	**322,713**	317,300	312,717
ENERGY SOURCE AND DISPOSITION:			
Total generation	**6,724,724**	5,445,661	7,071,398
Purchased and net interchange	**3,294,151**	3,914,796	3,497,887
Total	**10,018,875**	9,360,457	10,569,285
Less: Company use, losses and unaccounted for	**693,647**	852,800	728,034
Total energy sold	**9,325,228**	8,507,657	9,841,251
NET INPUT (MISS. AREA)—MKWH	**8,413,528**	8,380,426	8,254,866
PEAK LOAD (MISS. AREA)—KW	**1,758,000**	1,894,000	1,765,000
LOAD FACTOR (MISS. AREA)—PERCENT	**54**	50	53
NET PLANT CAPABILITY—KW	**3,183,000**	2,972,000	2,763,000
CIRCUIT MILES OF ELECTRIC LINES	**19,578**	19,387	19,262

[1]See Item B to Note 1—Summary of significant accounting policies.

1981	1980	1979	1978	1977	1976	1975	1974
$ 168,387	$ 147,525	$ 120,246	$ 110,705	$ 106,520	$ 91,849	$ 74,296	$ 67,690
115,147	96,724	83,562	73,542	69,114	60,855	47,484	43,559
110,138	91,814	83,491	70,306	67,948	58,645	42,863	41,743
19,838	15,919	13,433	11,804	11,158	9,899	7,022	6,163
16,975	34,377	39,423	36,591	34,073	25,622	21,399	13,362
430,485	386,359	340,155	302,948	288,813	246,870	193,064	172,517
93,237	139,076	93,347	93,701	77,732	57,298	43,084	10,484
523,722	525,435	433,502	396,649	366,545	304,168	236,148	183,001
7,826	6,444	4,568	3,187	1,441	1,113	838	574
295	1,109	(1,546)	440	(2,640)	3,495	3,071	(5,134)
$ 531,843	$ 532,988	$ 436,524	$ 400,276	$ 365,346	$ 308,776	$ 240,057	$ 178,441
$ 36,031	$ 33,954	$ 22,581	$ 28,845	$ 25,027	$ 25,745	$ 20,803	$ 20,454
$ 355,771	$ 355,084	$ 352,658	$ 351,646	$ 349,195	$ 338,118	$ 299,583	$ 292,491
179,778	171,810	149,887	146,227	132,966	118,137	118,450	109,960
225,152	212,035	201,361	190,820	180,035	171,955	166,590	158,256
20,646	18,641	17,128	16,254	16,154	15,727	15,366	14,763
781,347	757,570	721,034	704,947	678,350	643,937	599,989	575,470
3,316	3,316	3,270	3,270	3,270	3,270	4,070	1,219
135,605	17,702	25,913	10,820	15,660	28,061	35,772	16,688
2,043	2,224	2,406	2,588	2,769	2,951	3,113	3,293
$ 922,311	$ 780,812	$ 752,623	$ 721,625	$ 700,049	$ 678,219	$ 642,944	$ 596,670
$ 728,477	$ 649,101	$ 607,643	$ 603,812	$ 594,985	$ 584,022	$ 559,009	$ 516,437
$ 284,349	$ 262,860	$ 263,380	$ 271,374	$ 279,073	$ 278,029	$ 286,060	$ 258,082
$ 20,000	—	—	—	—	—	—	—
2,943,959	3,069,404	2,787,432	2,856,736	2,727,718	2,491,067	2,440,460	2,268,954
1,938,341	1,918,334	1,832,462	1,781,881	1,647,919	1,537,169	1,457,505	1,356,173
2,196,968	2,217,846	2,285,120	2,187,020	2,071,093	1,935,573	1,751,042	1,793,055
387,503	385,133	369,441	371,811	344,634	326,275	302,319	271,233
418,447	986,063	1,270,584	1,280,949	1,217,042	1,064,636	990,309	938,205
7,885,218	8,576,780	8,545,039	8,478,397	8,008,406	7,354,720	6,941,635	6,627,620
2,419,177	4,343,224	3,681,898	4,354,425	3,580,571	2,624,001	1,638,144	487,097
10,304,395	12,920,004	12,226,937	12,832,822	11,588,977	9,978,721	8,579,779	7,114,717
266,975	263,850	260,421	255,174	249,889	245,384	241,739	237,085
38,427	38,115	37,919	37,405	35,922	34,718	33,801	33,474
3,351	3,276	3,230	3,245	3,301	3,247	3,247	3,267
2,221	2,132	2,087	2,049	1,965	1,920	1,879	1,789
12	39	64	66	67	67	66	63
310,986	307,412	303,721	297,939	291,144	285,336	280,732	275,678
2	2	2	2	2	2	1	1
310,988	307,414	303,723	297,941	291,146	285,338	280,733	275,679
7,483,624	10,327,561	9,909,942	11,881,340	10,297,826	8,020,408	5,923,584	4,822,711
3,513,268	3,423,648	3,081,406	1,772,740	2,022,658	2,598,778	3,298,528	2,914,281
10,996,892	13,751,209	12,991,348	13,654,080	12,320,484	10,619,186	9,222,112	7,736,992
692,497	831,205	764,411	821,258	731,507	640,465	642,333	622,275
10,304,395	12,920,004	12,226,937	12,832,822	11,588,977	9,978,721	8,579,779	7,114,717
8,577,858	9,407,985	9,309,449	9,299,653	8,739,930	7,995,184	7,583,971	7,249,896
1,912,000	2,078,000	1,913,000	1,899,000	1,784,000	1,733,000	1,642,000	1,640,000
51	52	56	56	56	53	52	51
2,763,000	2,763,000	2,763,000	2,763,000	2,763,000	2,752,000	2,752,000	2,752,000
19,120	18,855	18,504	18,334	18,109	17,859	17,713	17,461

BOARD OF DIRECTORS AND OFFICERS

BOARD OF DIRECTORS:

David C. Bramlette, III, Partner, Adams, Forman, Truly, Ward, Smith and Bramlette, Natchez
William Cavanaugh, III, President & Chief Operating Officer, Mississippi Power & Light Company, Jackson
Frank R. Day, Chairman of the Board and Chief Executive Officer, First National Bank, Jackson
Norman B. Gillis, Jr., Attorney-at-Law, McComb
Dr. J. Harvey Johnston, Jr., Physician, Jackson
Robert E. Kennington, II, Chairman of the Board and Chief Executive Officer, Grenada Bank, Grenada
Floyd W. Lewis, Chairman of the Board and President, Middle South Utilities, Inc., New Orleans
Donald C. Lutken, Chairman of the Board and Chief Executive Officer, Mississippi Power & Light Company, Jackson
Richard D. McRae, Sr., Chairman of the Board and Chief Executive Officer, McRae's, Inc., Jackson
LeRoy P. Percy, Planter, Greenville
E. B. Robinson, Jr., Chairman of the Board & Chief Executive Officer, Deposit Guaranty National Bank, Jackson
Dr. Walter Washington, President, Alcorn State University, Lorman
Robert M. Williams, Jr., Partner, Reeves-Williams Builders, Southaven

OFFICERS:

Donald C. Lutken, Chairman of the Board and Chief Executive Officer
William Cavanaugh, III, President and Chief Operating Officer
Donald E. Meiners, Senior Vice President, Customer and Informational Services
Jackson B. Richard, Senior Vice President, Nuclear
Frank S. York, Jr., Senior Vice President, Finance and Secretary
Thomas A. Dallas, Vice President and Chief Engineer
J. Stewart Frame, Vice President, Personnel and Administration
John D. Holland, Vice President, Governmental Affairs
C. Hiram Walters, Vice President, Customer Services
Frank F. Gallaher, Assistant Vice President, Engineering and Fossil Production
James L. Moore, Assistant Vice President, Informational Services
James R. Martin, Treasurer and Assistant Secretary
Allan H. Mapp, Assistant Treasurer and Assistant Secretary

DIVISION MANAGERS:

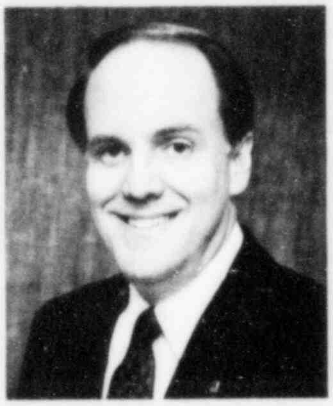
David I. Bridgers, Western, Vicksburg
John R. Craft, North Central, Greenville
Bob L. Marsh, Central, Jackson
Graham H. Tempel, Southern, Brookhaven
T. Ray Tomlinson, Northern, Senatobia

PLANT MANAGERS:

Malcolm Allred, Baxter Wilson, Vicksburg
James E. Cross, Grand Gulf Nuclear Station, Port Gibson
Richard Denman, Natchez, Natchez
A. T. Johnson, Rex Brown, Jackson
Alan Sebren, Gerald Andrus, Greenville
Rex Shannon, Delta, Cleveland

BOARD OF DIRECTORS

David C. Bramlette, III



William Cavanaugh, III

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Donald C. Lutken

Richard D. McRae

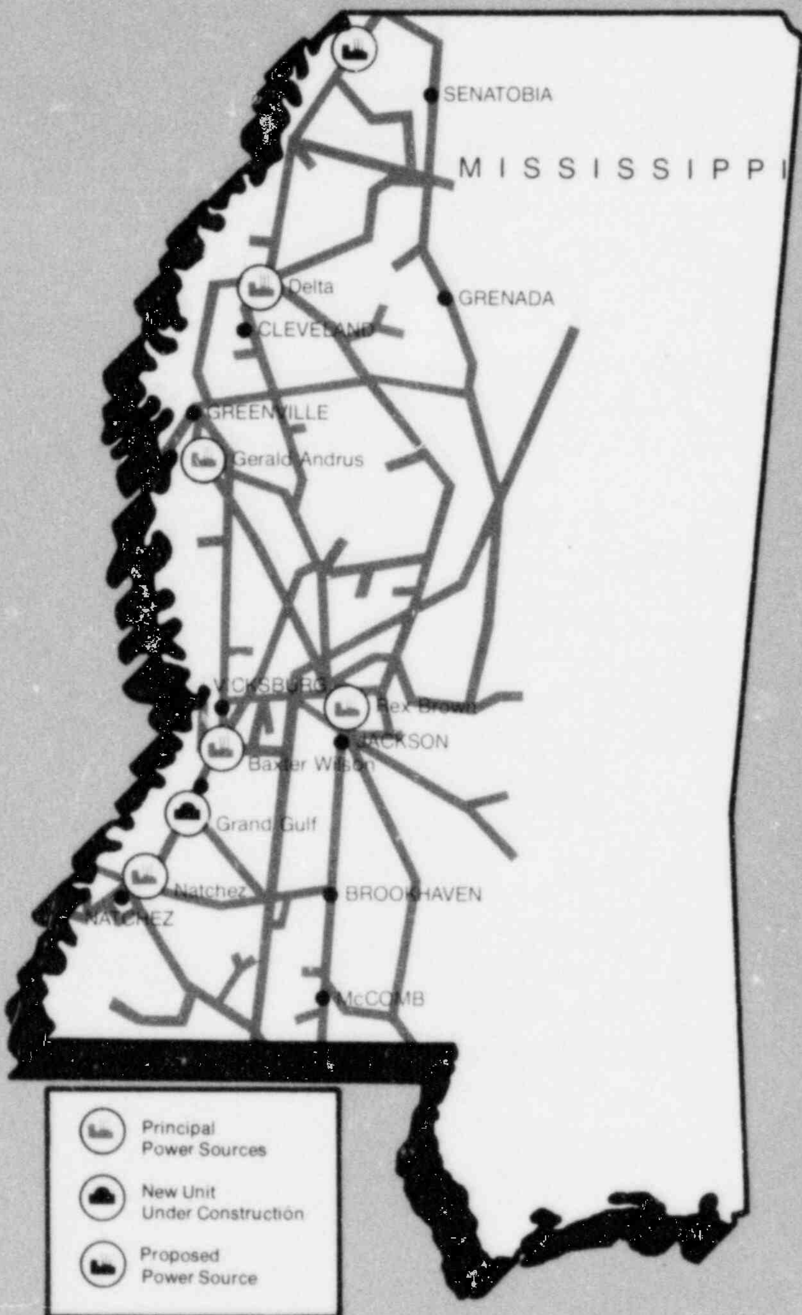
LeRoy P. Percy

E.B. Robinson, Jr.

Dr. Walter Washington

Robert M. Williams, Jr.

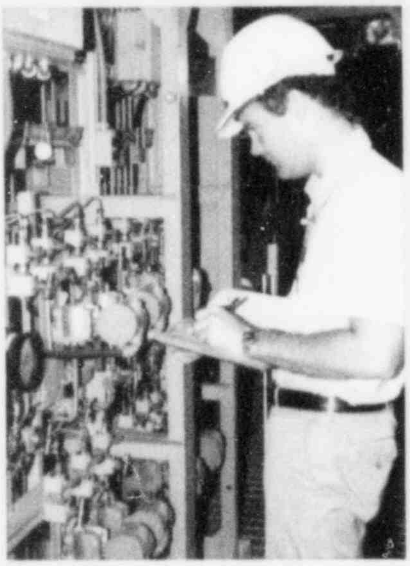
SYSTEM MAP



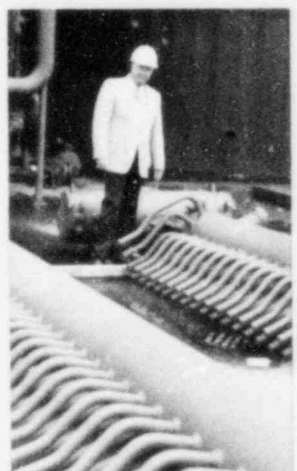
SENATOBIA
MISSISSIPPI
Delta
GRENADA
CLEVELAND
GREENVILLE
Gerald Andrus
VICKSBURG
Rex Brown
JACKSON
Baxter Wilson
Grand Gulf
Natchez
BROOKHAVEN
NATCHEZ
McCOMB
Principal Power Sources
New Unit Under Construction
Proposed Power Source




ANN





THE COMPANY

MISSISSIPPI POWER & LIGHT COMPANY is a regulated electric utility operating in 45 counties of Western Mississippi.

MP&L serves about 322,713 customers in an area comprising 25,900 square miles with an estimated population of 1.3 million. As of December 31, 1984, the Company provided electric service in 140 municipalities. MP&L also provided transmission service to South Mississippi Electric Power Association (SMEPA), an association of rural electric cooperatives; and Municipal Energy Agency of Mississippi (MEAM), eight municipally owned utilities.

The Company is one of the principal operating subsidiaries of Middle South Utilities, Inc. and its system is interconnected with and operated as a part of the Middle South Utilities System, which supplies the electric energy requirements of more than 1.6 million customers in a 92,000-square mile area of Arkansas, Louisiana, Mississippi and Missouri.

THE COMPANY'S 1984 ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K (INCLUDING FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES) IS AVAILABLE TO ANY STOCKHOLDER UPON REQUEST WITHOUT CHARGE. Persons interested in obtaining a copy should write to Frank S. York, Jr., Senior Vice President and Secretary, at the address below:

MISSISSIPPI POWER & LIGHT COMPANY
P. O. Box 1640
Jackson, Mississippi 39215-1640
(601)969-2311

REGISTRAR (for preferred stock):
Deposit Guaranty National Bank
Jackson, Mississippi

TRANSFER AGENT (for preferred stock)
First National Bank of Jackson
Jackson, Mississippi

BUILDING ON STRENGTHS

MISSISSIPPI POWER & LIGHT COMPANY
POST OFFICE BOX 1640
JACKSON, MISSISSIPPI 39215-1640

MIDDLE SOUTH ENERGY, INC.
1984 ANNUAL REPORT

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Deloitte
Haskins+Sells

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

AUDITORS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1984 and 1983 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 25, 1985

REPORT OF MANAGEMENT

The management of Middle South Energy, Inc. has prepared and is responsible for the financial statements and related financial information included in this annual report. The financial statements are based on generally accepted accounting principles, consistently applied. Financial information included elsewhere in this report is consistent with the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls which is designed to provide reasonable assurance, on a cost effective basis, as to the integrity, objectivity and reliability of the financial records and as to the protection of assets. This system includes communication through written policies and procedures and testing by a comprehensive internal audit program.

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

Management believes that these policies and procedures provide reasonable assurance that its operations are carried out with a high standard of business conduct.

MIDDLE SOUTH ENERGY, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Financial Condition

The future financial condition of Middle South Energy, Inc. (the Company) remains dependent upon placing into commercial operation Unit 1 of the Grand Gulf Nuclear Station (Grand Gulf Unit 1), the resolution of a number of complex issues pending before the Federal Energy Regulatory Commission (FERC), and the concurrent receipt of adequate rate relief by both the Company and the Middle South System operating companies sufficient to recover the Company's investment in Grand Gulf Unit 1 and to earn a return on that investment. The Company will continue to have no operating revenues until Grand Gulf Unit 1 achieves commercial operation, presently scheduled for the second quarter of 1985. Once the unit is placed in commercial operation, allowance for funds used during construction (AFDC), the only component of the Company's earnings thus far, will cease accruing on Grand Gulf Unit 1 and earnings will be adversely affected by the costs of operation and the recording of depreciation expense unless adequate and timely rate relief is obtained. It is critical, therefore, that the Company receive through rates, recovery of the costs of operating Grand Gulf Unit 1 and a reasonable return on that investment.

On August 31, 1984, the Nuclear Regulatory Commission (NRC) issued a full power operating license for Grand Gulf Unit 1 after completion of low-power testing in November 1983 and successful resolution of certain issues raised by the NRC. The unit, which had been operated above 70 percent power during its power ascension testing program, was shut down in February 1985 and is now undergoing certain repairs of non-nuclear components, expected to be completed by the end of March 1985. Upon completion of this work the unit will continue with its comprehensive power ascension program expected to take several months thereafter to complete. Commercial operation is now projected to occur by the end of the second quarter of 1985 at a total cost of $3.2 billion for the Company's 90 percent share of the unit (excluding nuclear fuel). If commercial operation is delayed beyond the second quarter, the estimated total cost for the unit will increase. In this connection, ongoing financing charges alone will add an estimated $29 million per month to the estimated total cost.

Under traditional utility regulatory principles, wholesale rates approved by the FERC for the sale of capacity and energy from Grand Gulf Unit 1 by the Company to the System operating companies would be charged to retail ratepayers. All of such capacity and energy had been intended to be allocated to certain of the System operating companies commencing with commercial operation of the unit. However, in connection with controversies surrounding the cost of power from Grand Gulf Unit 1 and in an attempt to resolve the difficult and complex issues in proceedings before the FERC involving, among other things, the allocation among the System operating companies and their retail customers of the costs of System generating facilities, the System operating companies, the Company, and Middle South Services, Inc., as agent for the System operating companies, have

submitted an Offer of Settlement to the FERC that, if accepted, would allocate a total of 67.1 percent of the capacity and energy from the Company's share of Grand Gulf Unit 1 to the System operating companies from the date of commercial operation of Grand Gulf Unit 1 through December 31, 1990. The remaining 32.9 percent of Grand Gulf Unit 1 would represent inventoried capacity that the Company would attempt to sell to non-affiliated parties. To the extent the Company does not make such sales, the System operating companies would buy the energy at a cost equal to the System's displaced energy cost. (See Note 7 to the Financial Statements - "Commitments and Contingencies - Unit Power Sales Agreement and New System Agreement.")

At December 31, 1984, construction on Grand Gulf Unit 2 was approximately 34 percent complete based on the estimated man-hours needed to complete the unit. Since late 1983 construction activities at Grand Gulf Unit 2 have been reduced by the Company in order to further concentrate its financial resources on Grand Gulf Unit 1. The Company presently intends to complete Grand Gulf Unit 2 which would provide the capacity needed by the Middle South System to meet projected System loads in the early 1990's. The Company will continue with limited construction leading toward resumption of full construction unless various subsequent factors cause reconsideration of the present intention to complete Grand Gulf Unit 2. (See Note 7 to the Financial Statements - "Commitments and Contingencies - Grand Gulf Unit 2.") The Company presently accrues and capitalizes AFDC on its investment in Grand Gulf Unit 2 at the rate of approximately $8 million per month. If progress toward completion of Grand Gulf Unit 2 is not proceeding to a sufficient degree, under applicable regulatory principles, this accrual may be required to cease. The cessation of AFDC would result in a like decrease in the Company's earnings.

Liquidity and Capital Resources

During the period 1982-1984 the Company had construction expenditures totaling $1,705 million, including AFDC of $924 million. Funding for this construction activity was primarily from sales of the Company's common stock to MSU, intermediate-term borrowings under the Company's domestic and foreign bank loan agreements, sales of first mortgage bonds and pollution control revenue bonds, payments received from certain of the System operating companies for advance power purchases, and tax benefits received in connection with the Middle South System's consolidated income tax return. The approaching commercial operation of Grand Gulf Unit 1, expected to occur in the second quarter of 1985, will lessen the heavy financial burden experienced by the Company in recent years resulting from construction of the unit. The Company's total construction expenditures for 1985, 1986, and 1987 are expected to be approximately $338 million, $192 million, and $207 million, respectively (including AFDC of approximately $231 million, $111 million, and $126 million, respectively), for its 90 percent ownership in the two-unit Grand Gulf Nuclear Station. These estimated expenditures assume that Grand Gulf Unit 1 will be placed in commercial operation in the second quarter of 1985 and that only a limited amount of construction on Grand Gulf Unit 2 will be performed during the 1985-1987 period.

In connection with Grand Gulf, MSU has undertaken to provide or cause to be provided to the Company sufficient capital (i) to maintain the Company's equity capital at an amount at least equal to 35 percent of total capitalization, (ii) to construct and place in operation the two units of the Grand Gulf Station, (iii) to provide for pre-operating expenses and interest charges of the Company, (iv) to permit the continuation of commercial operation after commencement thereof, and (v) to pay in full all indebtedness for borrowed money of the Company when due.

The Company currently estimates that it will require approximately $158.1 million to meet its capital requirements (including debt service) for the period from March 1, 1985 until commercial operation of Grand Gulf Unit 1, assuming that Grand Gulf Unit 1 achieves commercial operation in the second quarter of 1985. The Company plans to meet these requirements through various sources, including the planned sale of $100 million of first mortgage bonds during the second quarter of 1985. (See Note 7 to the Financial Statements - "Commitments and Contingencies - Capital Requirements and Financing.")

For the period following commencement of commercial operation of Grand Gulf Unit 1 through the end of 1987 the Company will require approximately $2,314 million to refinance maturing indebtedness, including the December 31, 1986 maturity of its $1,711 million domestic bank loan agreement, to meet sinking fund obligations, to finance continuation of construction of Grand Gulf Unit 2 on a limited basis, and to finance additional capital requirements which could result if the Offer of Settlement is accepted (see below). (See Note 7 to the Financial Statements - "Commitments and Contingencies - Capital Requirements and Financing.") Prior to December 31, 1986, the Company expects to retire a significant portion of the indebtedness under its domestic bank loan agreement with funds generated from the commercial operation of Grand Gulf Unit 1 and from additional external financings. In addition, the Company expects, after necessary consents, to be able to apply the proceeds from a December 1984 sale of pollution control revenue bonds to a reduction in amounts outstanding under its domestic bank loan agreement within 90 days after the commercial operation of Grand Gulf Unit 1. The Company will be required to seek an extension past 1986 of the balance of the borrowings under its domestic bank loan agreement which are then outstanding and not retired through the foregoing measures.

If the Offer of Settlement submitted to the FERC is ultimately approved as filed, the Company could be required to finance the costs associated with the inventoried capacity through December 31, 1990. For the years 1985, 1986, and 1987 these amounts are estimated to be $45.5 million, $90.8 million, and $90.8 million, respectively, assuming commercial operation of Grand Gulf Unit 1 in the second quarter of 1985. These estimates are based on the anticipated revenues available to the Company under the Settlement Offer if the Company is unable to market Grand Gulf Unit 1 inventoried capacity to non-affiliated parties. If the FERC were to adopt a position different from that proposed in the Settlement Offer resulting in either higher or lower revenues to the Company, the Company would, in the first instance, decrease the level of its outstanding borrowings and/or increase expenditures for Grand Gulf Unit 2 or, in the opposite case, require additional funds from external sources.

The Company's liquidity is affected by the large amount of floating rate debt which it has outstanding. At December 31, 1984, the Company had approximately $1,895 million in such floating rate debt. An increase of one percentage point in the rate at which interest was computed at such date would result in additional annual interest requirements of approximately $20 million.

The Company is currently authorized by the SEC to make short-term borrowings in an aggregate amount outstanding at any one time of up to the lesser of $225 million or 5 percent of capitalization. At December 31, 1984, the Company had no short-term borrowings outstanding under its bank lines of credit but had other unsecured short-term borrowings with other banks totaling $10 million. In comparison, at December 31, 1983 and 1982 outstanding borrowings under bank lines of credit amounted to $4.2 million and $54.8 million, respectively, while unsecured short-term borrowings amounted to $32.5 million and $60 million, respectively. Unused short-term bank lines of credit amounted to $14.7 million, $65.6 million, and $19.3 million at December 31, 1984, 1983, and 1982, respectively.

Results of Transactions

The Company will begin to report results of operations when Grand Gulf Unit 1 goes into commercial operation. Until that time, the Company's income statement will continue to reflect only non-operating items.

As a generating company presently involved in the construction phase, all of the Company's net income has been the equity component of AFDC, which consists of non-cash credits to the income statement that represent a reasonable return on equity funds used for construction. Total AFDC for 1984 was $376.5 million, an increase of $83.3 million, or 28.4 percent, over 1983. In 1983 total AFDC was $293.2 million, an increase of $32.3 million, or 12.4 percent, over 1982. The increasing amounts of AFDC reflect the increasing amount of construction work in progress, all attributable to the Grand Gulf Nuclear Station, on the Company's balance sheet.

The increasing amounts of income taxes and credits in lieu of income taxes on the Company's income statement during the years 1982-1984 represent the tax benefit that has been realized or is expected to be realized during the carryforward periods resulting from the Company's Federal tax losses included in the MSU consolidated income tax return.

Interest on long-term debt increased by $82.7 million, or 33.0 percent, in 1984 compared to 1983. This increase was due to a greater amount of long-term debt outstanding and to higher prevailing interest rates. By comparison, interest on long-term debt for 1983 increased only 1.6 percent due to an increase in long-term debt outstanding being offset by a decrease in the prevailing interest rates on borrowings. Interest on the power purchase advance payments, which certain of the System operating companies began making to the Company in January 1984, amounted to $11.7 million in 1984. Other interest-net decreased by 51.7 percent in 1984 and 2.9 percent in 1983. The 1984 decrease was due to a substantial reduction in short-term borrowings while the 1983 decrease was due to lower interest rates on borrowings.

Effects of Inflation

Despite the reduced level of inflation in the period 1982-1984, its impact on the construction costs for the Grand Gulf Nuclear Station has been significant. (See Note 11 to the Financial Statements - "Effect of Inflation (Unaudited)".)

Summary

The Company's ability to meet its extensive debt service requirements and to attain and maintain a financial condition strong enough to provide a reasonable return to MSU is dependent, among other things, upon (1) the placing into commercial operation of Grand Gulf Unit 1, (2) the resolution of a number of complex regulatory issues currently before the FERC so as to provide the Company adequate rate relief, (3) the concurrent receipt of adequate rate relief by the System operating companies to allow them to meet their obligations to purchase power from Grand Gulf Unit 1 under the Unit Power Sales Agreement, and (4) the successful financing or refinancing, on reasonable terms, of the Company's capital requirements. If, as a result of any FERC decision, the Company and the System operating companies do not receive adequate and timely rate relief to cover the costs associated with Grand Gulf Unit 1, the Company's financial condition, as well as that of the Middle South System, could be materially and adversely affected.

SELECTED FINANCIAL DATA - FIVE YEAR COMPARISON
(In Thousands)

	Years Ended December 31,				
	1984	1983	1982	1981	1980
Net Operating Revenues......	-	-	-	-	-
Net Income..................	$ 188,425	$ 151,581	$ 121,857	$ 95,799	$ 66,991
Total Assets................	$4,780,456	$3,747,945	$3,045,266	$2,387,096	$1,957,082
Long-Term Debt (excluding current maturities).......	$2,623,301	$2,306,171	$1,845,500	$1,439,500	$1,169,500

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEETS
December 31, 1984 and 1983

ASSETS	1984	1983
	(In Thousands)	
Utility Plant (Notes 7 and 8):		
Construction work in progress	$3,889,762	$3,308,578
Nuclear fuel	48,492	21,984
Total	3,938,254	3,330,562
Current Assets:		
Cash (Note 3)	456	1,715
Working funds	1,546	516
Temporary investments - at cost, which approximates market	293,048	-
Accounts receivable	1,452	438
Prepaid interest (Note 7)	17,877	-
Other prepayments	2,054	1,177
Recoverable income taxes (Notes 1 and 2)	16,169	-
Other	574	27
Total	333,176	3,873
Deferred Debits:		
Future benefits related to AFDC (Notes 1 and 2)	508,773	413,463
Other	253	47
Total	509,026	413,510
TOTAL	$4,780,456	$3,747,945
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, no par value; authorized 1,000,000 shares; issued and outstanding 789,350 shares in 1984 and 689,900 shares in 1983 (Note 4)	$ 789,350	$ 689,900
Retained earnings (Note 6)	753,902	565,477
Total common shareholder's equity	1,543,252	1,255,377
Long-term debt (Notes 3, 5, and 7)	2,623,301	2,306,171
Total	4,166,553	3,561,548
Current Liabilities:		
Notes payable (Note 3)	10,000	36,673
Currently maturing long-term debt (Notes 5 and 7)	196,235	-
Accounts payable:		
Associated companies	2,015	30
Other	16,164	6,962
Taxes accrued	10,633	12,841
Interest accrued	103,489	71,449
Power purchase advance payments (Note 7)	32,345	-
Total	370,881	127,955
Deferred Credits:		
Accumulated deferred income taxes (Notes 1 and 2)	87,038	31,836
Accumulated deferred investment tax credits (Notes 1 and 2)	12,469	12,469
Power purchase advance payments (Note 7)	129,378	-
Other (Note 2)	14,137	14,137
Total	243,022	58,442
Commitments and Contingencies (Note 7)		
TOTAL	$4,780,456	$3,747,945

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF INCOME
For the Years Ended December 31, 1984, 1983, and 1982

	1984	1983 (In Thousands)	1982
Operating Revenues	-	-	-
Operating Expenses	-	-	-
Operating Income (Note 1)	-	-	-
Other Income:			
Allowance for equity funds used during construction (Note 1)	$188,425	$ 151,581	$ 121,857
Interest income	91	9	216
Income taxes and credits in lieu of income taxes (Notes 1 and 2)	163,067	121,568	120,345
Total	351,583	273,158	242,418
Interest Charges:			
Long-term debt	333,531	250,835	246,821
Power purchase advances (Note 7)	11,724	-	-
Other - net	5,955	12,340	12,715
Allowance for borrowed funds used during construction (Note 1)	(188,052)	(141,598)	(138,975)
Total	163,158	121,577	120,561
Net Income	$188,425	$ 151,581	$ 121,857

STATEMENTS OF RETAINED EARNINGS
For the Years Ended December 31, 1984, 1983, and 1982

	1984	1983 (In Thousands)	1982
Retained Earnings, January 1	$565,477	$413,896	$292,039
Add - Net Income	188,425	151,581	121,857
Retained Earnings, December 31 (Note 6)	$753,902	$565,477	$413,896

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Years Ended December 31, 1984, 1983, and 1982

	1984	1983	1982
		(In Thousands)	
Funds Provided By:			
Allowance for equity funds used during construction (net income) (Note 1)........	$ 188,425	$151,581	$121,857
Deferred income taxes........................	55,202	7,615	6,620
Power purchase advance payments (Note 7)....	129,378	-	-
Decrease in working capital*................	37,109	49,342	9,822
Miscellaneous - net..........................	-	13,290	9
Total funds provided excluding financing transactions..............	410,114	221,828	138,308
Financing transactions:			
Common stock................................	99,450	99,000	99,000
First mortgage bonds........................	300,000	-	-
Long-term notes payable - banks...........	404,000	452,000	438,000
Pollution control revenue bonds...........	27,100	49,500	-
Short-term securities - net...............	-	-	22,440
Total funds provided by financing transactions........................	830,550	600,500	559,440
Total Funds Provided.........................	$1,240,664	$822,328	$697,748
Funds Applied To:			
Utility plant additions:			
Construction expenditures for utility plant (Note 7)...........................	$ 581,184	$572,448	$551,786
Nuclear fuel................................	26,508	21,984	-
Total gross additions (includes allowance for funds used during construction of $376,477, $293,179, and $260,832 in 1984, 1983, and 1982, respectively)......................	607,692	594,432	551,786
Other:			
Future benefits related to AFDC...........	95,310	109,754	113,962
Miscellaneous - net........................	8,941	-	-
Total other funds applied............	104,251	109,754	113,962
Financing transactions:			
Retirement of first mortgage bonds........	48,000	40,000	32,000
Retirement of long-term notes payable - banks..................	161,000	-	-
Short-term securities - net..............	319,721	78,142	-
Total funds applied to financing transactions......................	528,721	118,142	32,000
Total Funds Applied.........................	$1,240,664	$822,328	$697,748

	1984	1983	1982
Increase (Decrease) in Working Capital:*			
Cash and working funds......................	$ (229)	$ 65	$ (1,939)
Accounts receivable.........................	1,014	(81)	(3[illegible])
Recoverable income taxes....................	16,169	(2,681)	(5,311)
Prepayments and other current assets........	19,301	1,172	32
Accounts payable............................	(11,187)	(954)	825
Interest and taxes accrued..................	(29,832)	(46,863)	(3,077)
Power purchase advance payments (Note 7)....	(32,345)	-	-
Total...............................	$ (37,109)	$(49,342)	$ (9,822)

*Working capital excludes short-term securities-net and currently maturing long-term debt.

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 1984, 1983, and 1982

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

The Company and South Mississippi Electric Power Association (SMEPA) own undivided ownership interests of 90% and 10%, respectively, in the Grand Gulf Station. The Company records its investment associated with the Grand Gulf Station to the extent to which the Company owns and participates in the generating station.

The Company's only significant activity to date has been the construction of, and the financing of its 90% ownership interest in, the Grand Gulf Station. The Grand Gulf Station consists of two 1250 MW nuclear generating units, the Company's share of which is to be 1125 MW in each unit.

There were no operating revenues or expenses for the three years ended December 31, 1984. The Nuclear Regulatory Commission (NRC) issued a full power operating license for Grand Gulf Unit 1 on August 31, 1984. This unit is undergoing a testing program pending commercial operation anticipated for the second quarter of 1985.

B. System of Accounts

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

C. Postretirement Benefits

The Company does not have a postretirement plan at the present time because it does not directly employ any personnel. The Company utilizes, at cost, the services of personnel from other Middle South System companies, primarily those of Mississippi Power & Light Company. Such persons are covered by their respective employers' postretirement plans.

D. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return. Income taxes are allocated to the Company in proportion to its contribution to the consolidated taxable income. In addition, the Company files a consolidated Mississippi state income tax return with certain other System companies.

E. Allowance for Funds Used During Construction

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

The Company would continue to capitalize AFDC on projects during periods of interrupted construction if such interruption was temporary and the continuation could be justified as being reasonable under the circumstances.

NOTE 2. INCOME TAXES AND CREDITS IN LIEU OF INCOME TAXES

Income tax expense (credit) consists of the following:

	1984	1983	1982
		(In Thousands)	
Current:			
Federal	$(215,394)	$(128,585)	$(124,657)
State	(2,875)	(598)	(2,308)
Total	(218,269)	(129,183)	(126,965)
Deferred -- net:			
Taxes capitalized in the financial statements	8,994	7,615	6,620
Liberalized depreciation	45,490	-	-
Test energy	718	-	-
Total	55,202	7,615	6,620
Recorded income taxes and credits in lieu of income taxes (all credited to other income)	(163,067)	(121,568)	(120,345)
Income taxes applied against the debt component of AFDC	160,192	120,622	120,633
Total income taxes and credits in lieu of income taxes (all credited to other income)	$ (2,875)	$ (946)	$ 288

Total income taxes and credits in lieu of income taxes differ from the amounts computed by applying the statutory Federal income tax rate to income before taxes. The reasons for the differences are as follows:

	1984	1983	1982
		(In Thousands)	
Computed at statutory rate	$ 11,665	$ 13,806	$ 696
Reductions in tax resulting from:			
Allowance for funds used during construction	(173,179)	(135,051)	(119,795)
State income taxes net of Federal income tax expense	(1,553)	(323)	(1,246)
Recorded income taxes and credits in lieu of income taxes	(163,067)	$(121,568)	$(120,345)
Income taxes applied against the debt component of AFDC	160,192	120,622	120,633
Total income taxes and credits in lieu of income taxes	$ (2,875)	$ (946)	$ 288

Grand Gulf Unit 1 was placed into service for tax purposes in 1984. The Company's interest expense and capitalized taxes are deducted currently for tax return purposes. The income tax effects of taxes capitalized for book purposes, and of timing differences between tax and book accounting for depreciation and nuclear fuel expense, are normalized. The allowance for funds used during construction is excluded for purposes of determining taxable income.

Future benefits related to AFDC represent the tax benefit of the Company's portion of the consolidated Federal tax losses that is expected to be realized during the loss carryforward period. Such benefits are paid to the Company when realized in the consolidated return of MSU. Income tax benefits for the years 1982, 1983 and 1984 that were realized amounted to $20.6 million, $8.0 million and $101.5 million, respectively. If not utilized to offset consolidated Federal taxable income, future benefits related to AFDC will expire in 1993 through 1999. In 1983, SMEPA's portion of future benefits related to AFDC of $14.1 million was recorded as an other deferred credit.

Investment tax credits allocated to the Company are deferred and will be amortized based upon the average useful life of the related property. Unused investment tax credits at December 31, 1984 amounted to $196.2 million. These credits may be applied against Federal income tax liabilities in future years. If not used, they will expire in 1991 through 1999.

NOTE 3. LINES OF CREDIT AND RELATED BORROWINGS

The Company has two revolving credit agreements with various banks providing for borrowings totaling $2,089 million. One agreement, for $1,711 million, is with a group of domestic banks; the other agreement, with a group of foreign banks, is for $378 million. Under both agreements, the Company pays a fee on the unused commitment. All borrowings under these agreements are scheduled, subject to the Company's fulfilling certain conditions and obtaining waivers of certain

other conditions, to convert to term loans on the earlier of commercial operation of Grand Gulf Unit 1 or June 30, 1985. There can be no assurance that such waivers can be obtained. If waivers cannot be obtained and the remaining conditions cannot be fulfilled, the bank loans will then be due and payable. The term loans with domestic banks have a maturity date of December 31, 1986, subject to a mandatory prepayment requirement of $100 million at the end of 1985. The maturity date for the term loans with foreign banks is February 5, 1989, subject to mandatory semi-annual prepayments commencing August 5, 1985, equal to one ninth of the amount outstanding on the date these borrowings convert to a term loan.

The Company has entered into an "interest rate swap" agreement with a bank through February 1989 for $189 million of the $378 million outstanding under its revolving credit agreement with foreign banks. The Company has agreed to make semiannual interest payments based upon an 11.5% fixed rate in exchange for semiannual interest payments by the bank based upon the London Interbank Offered Rate (LIBOR). This agreement serves to offset fluctuations in variable rates to be paid under the Company's revolving credit agreement with foreign banks. It does not change the Company's obligations to the foreign banks for interest payments of LIBOR plus 1%.

The Company also has lines of credit with various banks in the System service area for short-term borrowings of $14.7 million expiring on or about June 30, 1985 that require compensating balances, totaling approximately 2% of the commitment, which are not restricted as to withdrawal. At December 31, 1984, the Company had no borrowings outstanding under these agreements but had other unsecured short-term borrowings totaling $10 million with additional banks outside the System service area. Interest rates under the lines of credit are based on the prime rate of a New York bank and, on the unsecured notes, are based primarily on the Federal funds rate. The Company may borrow from these sources subject only to its maximum authorized level of short-term borrowings. The Company has received authorization from the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 to have outstanding at any one time short-term borrowings aggregating not more than the lesser of 5% of the Company's total capitalization or $225 million.

The short-term borrowings and the interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company were as follows:

	Year Ended December 31,		
	1984	1983	1982
	(In Thousands)		
Lines of credit	$14,680	$69,765	$74,150
Average borrowing:			
Lines of credit	$32,076	$51,653	$48,924
Unsecured short-term notes	$18,228	$65,823	$43,229
Maximum borrowing:			
Lines of credit	$70,361	$66,404	$67,305
Unsecured short-term notes	$29,000	$70,000	$60,000
Year-end borrowing:			
Lines of credit	-	$ 4,173	$54,815
Unsecured short-term notes	$10,000	$32,500	$60,000
Average interest rate:			
During period -			
Lines of credit	11.8%	10.8%	14.9%
Unsecured short-term notes	10.9%	10.0%	12.2%
At end of period -			
Lines of credit	-	11.0%	11.5%
Unsecured short-term notes	9.6%	10.7%	11.2%

NOTE 4. COMMON STOCK

The changes in the number of shares of the Company's common stock were as follows (all sold to MSU at $1,000 per share):

	Year Ended December 31,		
	1984	1983	1982
Number of shares	99,450	99,000	99,000

NOTE 5. LONG-TERM DEBT

The long-term debt of the Company as of December 31, 1984 and 1983 was as follows:

	December 31, 1984	December 31, 1983
	(In Thousands)	
First Mortgage Bonds:		
Due 1989, 9.25% Series	$ 280,000	$ 328,000
Due 2000, 12.50% Series	98,500	98,500
Due 2000, 16% Series	300,000	-
Total	678,500	426,500
Bank Notes:		
Domestic bank line -		
Due 1986, at 110% of the sum of prime and 1.3%	1,696,000	1,453,000
Foreign bank line-		
Due 1989, at LIBOR plus 1%	189,000	189,000
Due 1989, at 11.5% plus 1% (Note 3)	189,000	189,000
Total	2,074,000	1,831,000
Pollution Control Revenue Bonds:		
Claiborne County, Mississippi -		
Due 2013, at 8% adjustable/fixed rate	49,500	49,500
Due 2014, at 8.75% adjustable/fixed rate	27,100	-
Due 2014, at 8.5% adjustable/fixed rate	206,000	-
Less-Funds on deposit with trustees	(201,447)	-
Total	81,153	49,500
Unamortized discount on debt	(14,117)	(829)
Total Long-Term Debt	2,819,536	2,306,171
Less-Amount due within one year	196,235	-
Long-Term Debt Excluding Amount Due Within One Year	$2,623,301	$2,306,171

The $201.4 million of proceeds from the sale of Pollution Control Revenue Bonds can be drawn down upon the Company's satisfaction of certain conditions relating to, among other things, the commercial operation of Grand Gulf Unit 1.

Sinking fund requirements and maturities for the ensuing five years for the Company's long-term debt at December 31, 1984 were as follows:

	Cash Sinking Fund	Maturities
	(In Thousands of Dollars)	
1985	54,235	142,000
1986	54,235	1,680,000
1987	62,235	84,000
1988	62,235	84,000
1989	51,235	156,000

Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indenture.

NOTE 6. RETAINED EARNINGS

The provisions of the Company's bank loan agreements and first mortgage bond indentures restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1984 and December 31, 1983, none of the retained earnings were available for cash dividends.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

The Company's construction program contemplates expenditures for the Grand Gulf Station of approximately \$337.9 million in 1985, \$191.9 million in 1986, and \$207.1 million in 1987 (including AFDC of \$231.4 million in 1985, \$111.2 million in 1986, and \$126.1 million in 1987). The Company currently estimates, and the above construction expenditures and AFDC estimates assume, that the commercial operation date of Grand Gulf Unit 1 will be in the second quarter of 1985 at a total cost (excluding nuclear fuel) of approximately \$3.2 billion for the Company's 90% ownership interest and that only limited amounts will be expended on Grand Gulf Unit 2 through 1987. A limited amount of construction on Grand Gulf Unit 2 was performed during 1984. Through December 31, 1984, the Company had invested \$3,890 million (excluding nuclear fuel) in the Grand Gulf Station. The Company estimates, pending a final review of the cost allocation between the two units upon the completion of Grand Gulf Unit 1, that of this total, \$3,061 million was invested in Grand Gulf Unit 1 and \$829 million in Grand Gulf Unit 2.

In connection with the Grand Gulf Station, MSU has undertaken, to the extent not obtained by the Company from other sources, to furnish or cause to be furnished to the Company sufficient capital for construction and operation of the station and related purposes. Through December 31, 1984, MSU had invested \$789.4 million in the common stock of the Company.

The Company has covenanted with its first mortgage bondholders that it will complete Grand Gulf Unit 1 no later than December 31, 1985 and that Grand Gulf Unit 2 will be completed no later than December 31, 1988. Either unit would be considered complete under the covenant if, among other things, it were licensed and ready for commercial operation. In the event either of these covenants is not fulfilled or the Company defaults in respect of either its bonds or its bank borrowings, the bonds and the bank borrowings will become due and payable unless extensions of time can be arranged. In this event, MSU would be required to provide the Company with sufficient funds, to the extent not obtained by the Company from other sources, to meet the payment obligations of the Company with respect to any of its bonds and bank borrowings then outstanding. (See Notes 3 and 5).

The Company estimates that it will require approximately \$158.1 million to meet its capital (including debt service) requirements for the period from March 1, 1985 until commercial operation of Grand Gulf Unit 1, assuming that Grand Gulf Unit 1 achieves commercial operation in the second quarter of 1985. The Company plans to meet these requirements through the sale of additional first mortgage bonds, payments from the System operating companies with respect to power purchase advance payments and net test energy charges and from borrowings under its bank loan agreements. Funds not obtained from these sources will be raised through the sale of common stock to MSU.

Following commencement of commercial operation of Grand Gulf Unit 1, presently scheduled for the second quarter of 1985, the Company will require substantial funds to refinance or retire current indebtedness, to meet sinking fund obligations, and to finance continuation of construction of Grand Gulf Unit 2. The Company expects to obtain a significant portion of such funds through its receipt of payments from the sale of power to the System operating companies under a Unit Power Sales Agreement, approval of the terms of which is currently pending in a proceeding before the FERC. The balance of amounts required by the Company will be obtained from external sources. The Company will be required to seek extensions of the maturity of borrowings not refinanced or retired. The Company's ability, generally, to obtain new funds externally will depend on a number of factors, including the results of retail rate proceedings filed by the System operating companies for recovery of Grand Gulf Unit 1 costs, contractual restrictions contained in the Company's first mortgage bond indenture and credit agreements, market conditions, and the credit ratings of the Company's securities.

Availability, Power Purchase Advance Payment, and Reallocation Agreements

The System operating companies are obligated under an Availability Agreement to make payments or subordinated advances, in accordance with stated percentages, adequate to cover all of the operating expenses and certain of the capital costs of the Company. In addition, under a Power Purchase Advance Payment Agreement the System operating companies, excluding Arkansas Power & Light Company (AP&L) as contemplated by the Reallocation agreement discussed below, began making advance payments to the Company in January 1984 for power purchases which in the aggregate total $12.5 million per month. Louisiana Power & Light Company (LP&L), Mississippi Power & Light Company (MP&L) and New Orleans Public Service, Inc. (NOPSI) will receive a credit for such power purchased at an initial 4% per month on the aggregate amount of such payments plus interest after commercial operation of Grand Gulf Unit 1 begins. The System operating companies in November 1981 entered into a Reallocation Agreement allocating the capacity and energy available to the Company from the Grand Gulf Station to LP&L, MP&L and NOPSI. These companies thus assumed all the responsibilities and obligations of AP&L with respect to the Grand Gulf Station under the Availability Agreement and Power Purchase Advance Payment Agreement with AP&L relinquishing its rights to the Grand Gulf Station. Each of the System operating companies including AP&L individually remains primarily liable to the Company and its assignees for payments or advances under these agreements. AP&L would be obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations.

Unit Power Sales Agreement and New System Agreement

The System operating companies have requested from their respective state public utility commissions rate adjustments adequate to permit them to meet their obligations to the Company to purchase power under a Unit Power Sales Agreement. Under the Unit Power Sales Agreement, as filed with the FERC, the capacity and energy available to the Company from the Grand Gulf Station would be sold to LP&L, MP&L and NOPSI. An Administrative Law Judge (ALJ) of the FERC rendered his initial decision regarding such Agreement. The ALJ deferred any decision on Grand Gulf Unit 2 and recommended that capacity and energy from Grand Gulf Unit 1 be allocated to AP&L as well as the other System operating companies. The ALJ's decision allocates the Company's share of the capacity and energy from

Grand Gulf Unit 1 as follows: 36% to AP&L, 14% to LP&L, 33% to MP&L, and 17% to NOPSI, compared to the Company's request that such costs be allocated 38.6% to LP&L, 31.6% to MP&L, and 29.8% to NOPSI. This decision is subject to review of the FERC.

On April 30, 1982, Middle South Services, Inc. (MSS), on behalf of the Middle South System operating companies, filed for approval with the FERC a New System Agreement providing for the coordinated planning, construction, and operation of its generation and transmission facilities. Rates under the new agreement became effective on January 1, 1983, subject to refund. Various parties have intervened in these proceedings. Some parties are contesting the method by which the agreement equalizes capacity and energy among the System operating companies and certain proposals, if adopted, could cause material changes in the allocation of costs among the companies. Hearings concluded in December 1983. On February 4, 1985, the ALJ hearing the New System Agreement proceeding issued his initial decision recommending that the New System Agreement be adopted, as filed with the FERC, with certain modifications. Principally, the decision recommended that a 15.75% return on common equity be granted; that no periodic review conditions be attached to approval of the New System Agreement; that production cost equalization of all System generating units, as proposed by various intervening parties, not be granted; and that the reserve equalization provisions in the New System Agreement, as filed, be adopted. However, the ALJ went on to recommend that the Grand Gulf Station be integrated into the New System Agreement by having each of the System operating companies pay for the capacity and energy costs of Grand Gulf based on the ratio that each System operating company's annual demand bears to the annual demand of the entire System and that each System operating company's share of Grand Gulf be included in calculating such Company's capability and, consequently, its reserve equalization payments. This decision is subject to review of the FERC.

In an effort to resolve the difficult and complex issues involved in the Unit Power Sales Agreement and the New System Agreement proceedings, the System operating companies, the Company, and MSS, as agent for the System operating companies, submitted an Offer of Settlement to the FERC on January 4, 1985. Various parties have submitted comments in opposition to the Settlement Offer. Under the terms of the Settlement Offer, the New System Agreement, as currently in effect would remain in effect unchanged. The Unit Power Sales Agreement, as proposed to be amended, allocates the Company's share of the capacity and energy from Grand Gulf Unit 1, from the date of commercial operation through December 31, 1990, as follows: 17.1% to AP&L, 14% to LP&L, 19% to MP&L, 17% to NOPSI, and 32.9% as inventoried capacity. Effective January 1, 1991, the allocation would change as follows: 27.87% to AP&L, 27.48% to LP&L, 24.42% to MP&L, and 20.23% to NOPSI. Accordingly, beginning January 1, 1991, the System operating companies would commence paying their respective share of the full cost of service of Unit 1, including amortization of the deferred carrying charges on inventoried capacity over the remaining life of Unit 1, plus a return on the deferred carrying charges. This proposed Offer of Settlement is subject to review of the FERC. The effect of inventorying a portion of Grand Gulf Unit 1 through 1990 could be to reduce the total payments by the System operating companies to the Company thereby requiring the Company to finance costs associated with the inventoried capacity. If the Settlement Offer is accepted as filed, it is estimated that additional financing by the Company of $227 million for the period 1985-1987 will be required. This estimate of the Company's additional financing requirements is based on the anticipated revenues available to the Company under the Settlement Offer if the Company is unable to market the inventoried capacity to non-affiliated parties.

On February 22, 1985, the FERC issued an order convening a settlement conference for the purpose of addressing the proposed Settlement Offer and of resolving the issues in the Unit Power Sales Agreement and New System Agreement proceedings. The initial settlement conference is scheduled to convene on March 12, 1985.

It is not possible to predict what decision or decisions the FERC will ultimately render in the New System Agreement and Unit Power Sales Agreement proceedings or with respect to the Offer of Settlement.

Grand Gulf Unit 2

The Company presently intends to complete Grand Gulf Unit 2 which would provide the capacity needed by the Middle South System to meet the projected Middle South System loads in the early 1990's. At December 31, 1984, construction on Grand Gulf 2 was approximately 34% complete based on the estimated man-hours needed to complete the unit. To conserve financial resources, only a limited amount of construction is currently being performed on Grand Gulf Unit 2. The Company will continue with limited construction leading toward resumption of full construction unless various subsequent factors cause reconsideration of the present intention to complete Grand Gulf Unit 2. At the present time these factors include the outcome of a hearing ordered by the MPSC on the Certificate of Public Convenience and Necessity for Grand Gulf Unit 2 in which the Company and MP&L were ordered to show cause as to the need for continued construction of Grand Gulf Unit 2, the outcome of pending FERC proceedings and the Settlement Offer therein with respect to rates for Grand Gulf Unit 1, the availability of necessary financing on reasonable terms and any substantial change, from prior assessments, in the projected cost of power from Grand Gulf Unit 2 relative to other power sources. If the Settlement Offer under which the Company does not recover currently the full cost of Grand Gulf Unit 1 is adopted, it would require the continued delay in resumption of full construction of Grand Gulf Unit 2.

The Company has covenanted with certain of its first mortgage bondholders that it will complete Grand Gulf Unit 2 no later than December 31, 1988. The Company will seek from its bondholders whatever waivers or amendments are necessary to change the stipulated completion date of Grand Gulf Unit 2, but no assurance can be given that such waivers or amendments can be obtained.

If it is ultimately decided that Grand Gulf Unit 2 should be cancelled, the Company believes that its investment in the unit will be determined to have been prudent and the Company will take all actions necessary before the FERC and the courts to recover its investment through rate relief. Such actions would likely involve a filing with the FERC requesting recovery of its full investment, over a period of years, through charges to the System operating companies. As in the case of rate relief necessary to recover Grand Gulf Unit 1 costs, such proceedings could be protracted and strongly contested. If adequate and timely rate relief is not obtained to recover the investment in Grand Gulf Unit 2, the financial condition of the Company could be adversely affected.

Nuclear Liability Insurance

As of December 31, 1984, the Price-Anderson Act limited the public liability of a licensee of a nuclear power plant to $620 million for a single nuclear incident. This limit will increase by $5 million for each additional

operating license issued by the NRC. Insurance for this exposure is provided by private insurance and an indemnity agreement with the NRC. Every licensee of a nuclear power plant is obligated, in the event of a nuclear incident involving any commercial nuclear facility in the United States that results in damages in excess of the private insurance, to pay retrospective assessments of up to $5 million per incident for each licensed reactor it operates or up to a maximum per reactor owned of $10 million in any calendar year. At December 31, 1984, the Company had one licensed reactor.

The Company is a member-insured of Nuclear Electric Insurance Limited, a mutual insurer that provides its members with insurance coverage of $500 million at December 31, 1984 for property damage sustained by the insured in excess of $500 million caused by radioactive contamination or other specified damage. The Company is also a member-insured under a primary property damage insurance program provided by Nuclear Mutual Limited, another mutual insurer. As a member-insured with these mutuals, the Company is subject to assessments if losses exceed the accumulated funds available to the insurer. The Company's present maximum assessment for incidents occurring during a policy year is approximately $40 million at December 31, 1984.

Spent Nuclear Fuel

Under the terms of its nuclear fuel lease, the Company is responsible for the disposal of spent nuclear fuel. The Company considers all costs incurred or to be incurred in the use and disposal of nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory commissions. The Company has executed a contract with the Department of Energy (DOE) whereby the DOE will furnish disposal service for the Company's spent nuclear fuel at a cost of one mill per kilowatt-hour of gross generation.

Mississippi Public Service Commission Mandated Audit

In September 1984, the Mississippi Public Service Commission (MPSC) appointed special consultants to conduct a construction audit of the Grand Gulf Station. This audit is in progress and the final report is expected to be submitted to the MPSC on or before May 1, 1985.

Regulation and Litigation

The Arkansas Public Service Commission (APSC) has asserted that the obligations imposed upon AP&L by the agreements entered into in connection with the financing and construction of the Grand Gulf Station constitute prima facie violations of Arkansas statutes requiring APSC authorization for acquisition or lease of certain assets and issuances of certain securities and evidences of indebtedness. On August 31, 1984, the Company filed suit against the APSC in the United States District Court for the Eastern District of Arkansas seeking preliminary and permanent injunctions against further actions by the APSC in this matter and a declaratory judgment that the APSC has no jurisdiction over the validity and enforceability of the subject agreements. On September 10, 1984, the Court issued a Temporary Restraining Order enjoining the APSC from taking any further action in this matter. The Court subsequently permanently enjoined the APSC from further proceedings in this matter. On September 24, 1984, the APSC filed certain motions reasserting certain of its defenses and producing additional evidence in the matter. The Court denied these motions and the Arkansas Attorney

General, the APSC and others have appealed that decision. AP&L believes that it has complied with all applicable federal and state laws and that such agreements are valid.

Similarly, on March 23, 1984 the City of New Orleans filed suit against NOPSI, MSU and the Company in the Civil District Court of the Parish of Orleans, State of Louisiana, alleging that the various agreements entered into by NOPSI in connection with the Grand Gulf Station are in violation of certain Louisiana statutes. NOPSI, MSU and the Company intend to take all necessary and appropriate defensive actions.

NOTE 8. NUCLEAR FUEL LEASE

At December 31, 1984, the Company had a nuclear fuel lease permitting a maximum of $175 million in nuclear fuel. Lease payments, based upon nuclear fuel use, will be treated as a cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through 2029. The unrecovered cost base of the lease at December 31, 1984, 1983, and 1982 was $168 million, $172 million, and $107 million, respectively.

NOTE 9. TRANSACTIONS WITH AFFILIATES

When the Company acquired the Grand Gulf Station from MP&L, MP&L agreed under a Service Agreement to continue to design, construct, maintain and operate the Grand Gulf Station on behalf of the Company. In return, the Company agreed to pay MP&L the actual cost to MP&L of rendering these services and granted to MP&L the power and authority to act on the Company's behalf as agent. Total payroll costs provided to the Company by MP&L for 1984, 1983, and 1982 were $25.2 million, $21.5 million, and $18.4 million, respectively.

The Company also receives technical and advisory services from Middle South Services, Inc. (MSS). Charges from MSS for these technical and advisory services for 1984, 1983 and 1982 were $9.8 million, $4.4 million and $3.3 million, respectively.

NOTE 10. QUARTERLY RESULTS (UNAUDITED)

Results for the four quarters of 1984 and 1983 were as follows:

Quarter Ended	Net Income (In Thousands)
1984:	
March	$43,861
June	43,935
September	49,986
December	50,643
1983:	
March	$35,177
June	36,534
September	39,630
December	40,240

The Company's net income consists of the equity component of AFDC. There were no operating revenues or expenses for the two years ended December 31, 1984.

NOTE 11. EFFECT OF INFLATION (UNAUDITED)

The following supplementary information about the effect of changing prices on the Company is provided in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices", as amended by Statement of Financial Accounting Standards No. 82. It should be viewed as an estimate of the effect of changing prices rather than as a precise measure.

Statement of Income and Other Financial Data
Adjusted For Effects of Changing Prices
For the Year Ended December 31, 1984

	As Reported In The Financial Statements	Adjusted For Changes In Specific Prices (Current Costs)
	(In Thousands)	
Operating revenues	-	-
Operating expenses (excluding depreciation)	-	-
Depreciation	-	-
Total operating expenses	-	-
Operating income	-	-
Other income*	$ 351,583	$ 351,583
Interest charges*	163,158	163,158
Income (excluding adjustment to net recoverable cost)	$ 188,425	$ 188,425
Increase in specific prices (current costs) of property, plant and equipment held during the year**		$ 62,786
Adjustment to net recoverable cost		(27,949)
Effect of increase in general price level		(173,161)
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level		(138,324)
Gain from decline in purchasing power of net amounts owed		85,366
Net		$ (52,958)

*Assumed to be in "average for the year" dollars and thus are not restated.

**At December 31, 1984, current cost of property, plant and equipment was $4,872,099,000 while historical cost or net cost recoverable through depreciation was $3,938,254,000.

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted For Effects of Changing Prices
(In Thousands of Average 1984 Dollars)

	Years Ended December 31,				
	1984	1983	1982	1981	1980
OPERATING REVENUES..................	-	-	-	-	-
CURRENT COST INFORMATION:					
Income (excluding adjustment to net recoverable cost)...........	$ 188,425	$ 158,032	$ 131,130	$ 109,409	$ 84,444
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level.	$ (138,324)	$ (116,884)	$ (96,691)	$(191,055)	$(232,499)
Net assets at year-end at net recoverable cost...............	$1,521,730	$1,286,813	$1,069,056	$ 866,371	$ 770,334
GENERAL INFORMATION:					
Gain from decline in purchasing power of net amounts owed......	$ 85,366	$ 73,395	$ 61,712	$ 50,361	$ 148,577
Average consumer price index......	311.1	298.4	289.1	272.4	246.8

Current cost amounts reflect the changes in specific prices of property, plant, and equipment from the year of acquisition to the present. The current costs of property, plant, and equipment, which represent the estimated costs of replacing existing plant assets, are determined by applying the Handy-Whitman Index of Public Utility Construction Costs (HWI) to the cost of the surviving plant by year of acquisition. Land and certain other plant assets that are not included in the HWI were converted using the Consumer Price Index for all Urban Consumers (CPI-U).

Nuclear fuel has not been restated from its historical cost in nominal dollars because regulation limits the recovery of fuel costs to actual costs incurred through the operation of adjustment clauses or adjustments in basic rate schedules. For this reason, nuclear fuel is effectively a monetary asset.

As prescribed in Statement of Financial Accounting Standards No. 33, income taxes were not adjusted.

The regulatory commissions to which the Company and the System operating companies are subject allow only the historical cost of plant to be recovered in revenues as depreciation. Therefore, the excess cost of plant stated in terms of current cost over the historical cost of plant is not presently recoverable in rates. This excess (deficiency) is reflected as an adjustment to net recoverable cost. While the ratemaking process gives no recognition to

the current cost of replacing property, plant, and equipment, the Company believes that it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income presented above, the adjustment of net property, plant, and equipment to net recoverable cost is adjusted by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

DIRECTORS AND EXECUTIVE OFFICERS

MSE Directors

FLOYD W. LEWIS
President of the Company,
Chairman of the Board
and President of Middle
South Utilities, Inc.

JAMES M. CAIN
President and Chief Executive
Officer of Louisiana Power &
Light Company, President
and Chief Executive Officer of
New Orleans Public Service Inc.

DONALD C. LUTKEN
Vice President of the Company,
Chairman of the Board and
Chief Executive Officer of
Mississippi Power & Light Company

JERRY L. MAULDEN
President and Chief Executive
Officer of Arkansas Power &
Light Company

FRANK G. SMITH, JR.
President and Chief Executive
Officer of Middle South Services,
Inc.

MSE Officers

FLOYD W. LEWIS
President

DONALD C. LUTKEN
Vice President

EDWIN A. LUPBERGER
Senior Vice President
Chief Financial Officer

DAN E. STAPP
Secretary

R. DRAKE KEITH
Treasurer

The Company's 1984 Annual Report to the Securities and Exchange Commission on Form 10-K (including financial statement schedules) is available to any interested parties without charge. Interested parties can obtain a copy by writing to:

Dan E. Stapp
Secretary
Middle South Energy, Inc.
225 Baronne Street
New Orleans, Louisiana 70112
Telephone: (504) 529-5262

Audited Financial Statements

South Mississippi Electric Power Association

December 31, 1984

Ernst & Whinney

Audited Financial Statements

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

December 31, 1984

Audited Financial Statements

Ernst & Whinney

1301 Deposit Guaranty Plaza
Jackson, Mississippi 39201

601/948-6374

Board of Directors
South Mississippi Electric Power Association
Hattiesburg, Mississippi

We have examined the balance sheets of South Mississippi Electric Power Association as of December 31, 1984 and 1983 and the related statements of operations and patronage capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note H to the financial statements, the Association has deferred margins of $8,853,996 in 1984. In our opinion, generally accepted accounting principles require that such margins be included in the statement of operations.

In our opinion, except for the effects of the deferred margins on the 1984 financial statements, as discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of South Mississippi Electric Power Association at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Jackson, Mississippi
February 7, 1985

BALANCE SHEETS

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

	December 31 1984	1983
ASSETS--Note F		
ELECTRIC UTILITY PLANT--Note B		
In service	$298,111,754	$293,934,598
Construction work in process--Note C	478,529,918	409,497,161
	776,641,672	703,431,759
Less allowances for depreciation	64,969,345	55,872,208
	711,672,327	647,559,551
OTHER ASSETS AND INVESTMENTS		
Investments in associated organizations--Note D	8,458,853	7,495,855
Other noncurrent assets	12,600	12,600
	8,471,453	7,508,455
CURRENT ASSETS		
General fund cash and temporary cash equivalent investments	41,052	8,604
Construction fund cash	1,657	53,327
Short-term investments		17,188,000
Accounts receivable from members	15,396,668	15,961,999
Inventories:		
Coal	7,474,749	12,037,800
Other fuel (principally fuel oil)	1,628,539	1,418,834
Materials and supplies	4,826,357	4,326,107
	13,929,645	17,782,741
Other	269,494	353,226
	29,638,516	51,347,897
DEFERRED CHARGES	3,509,410	3,904,535
	$753,291,706	$710,320,438

	December 31 1984	1983
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	$ 55	$ 55
Donated capital	535,436	535,436
Patronage capital	11,202,031	7,609,372
	11,737,522	8,144,863
LONG-TERM DEBT, excluding current maturities--Note F	660,216,830	660,557,094
CURRENT LIABILITIES		
Notes payable--Note E	21,953,680	
Accounts payable	12,872,686	8,148,846
Accrued interest	960,180	16,240,414
Other accrued expenses	519,352	451,434
Current maturities of long-term debt	5,716,425	5,009,253
	42,022,323	29,849,947
DEFERRED REVENUE--Note G	30,461,035	11,768,534
DEFERRED MARGINS--Note H	8,853,996	
COMMITMENTS--Note C		
	$753,291,706	$710,320,438

See notes to financial statements.

STATEMENTS OF OPERATIONS AND PATRONAGE CAPITAL

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

	Year Ended December 31 1984	1983
Operating revenue and patronage capital:		
Electric energy revenues--Note H	$156,606,556	$156,462,892
Other income	1,636,127	960,113
	158,242,683	157,423,005
Operating expenses:		
Operation expenses:		
Fuel	53,932,527	49,745,001
Production	2,211,866	2,379,564
Purchased power	59,082,453	56,760,906
Transmission	5,540,686	5,013,509
Administrative and general	2,456,560	2,165,334
	123,224,092	116,064,314
Maintenance expenses:		
Production	1,672,461	1,762,051
Transmission	1,128,478	1,025,266
General	294,279	232,330
	3,095,218	3,019,647
Depreciation	7,921,214	7,734,269
Taxes	380,939	324,269
	134,621,463	127,142,499
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS	23,621,220	30,280,506
Interest and other deductions:		
Interest, net of interest income on unexpended bond funds	67,646,937	68,054,668
Allowance for borrowed funds used during construction	(47,128,493)	(42,753,356)
Other deductions--net	53,984	56,995
	20,572,428	25,358,307
OPERATING MARGIN	3,048,792	4,922,199
Non-operating margin--principally interest income	543,867	1,446,654
NET MARGIN--Note H	3,592,659	6,368,853
Patronage capital at beginning of year	7,609,372	1,240,519
PATRONAGE CAPITAL AT END OF YEAR	$ 11,202,031	$ 7,609,372

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

	Year Ended December 31 1984	1983
SOURCE OF FUNDS		
Net margin	$ 3,592,659	$ 6,368,853
Add items not affecting working capital:		
Provision for depreciation and depletion	9,010,979	8,809,081
TOTAL PROVIDED BY OPERATIONS	12,603,638	15,177,934
Additional long-term borrowings	5,693,776	63,224,116
Increase in deferred revenue	18,692,501	11,768,534
Increase in deferred margins	8,853,996	
Other--net	395,124	
	46,239,035	90,170,584
APPLICATION OF FUNDS		
Additions to electric utility plant less carrying amount of retirements	73,123,754	74,285,425
Reduction of long-term debt	6,034,040	5,133,893
Increase in investment in associated organizations	962,998	956,406
Other--net		268,816
	80,120,792	80,644,540
INCREASE (DECREASE) IN WORKING CAPITAL	$(33,881,757)	$ 9,526,044
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
General fund cash and temporary cash equivalent investments	$ 32,448	$ (46,307)
Construction fund cash	(51,670)	(68,353)
Short-term investments	(17,188,000)	7,523,587
Accounts receivable from members	(562,263)	3,439,848
Inventories	(3,853,096)	3,189,191
Other	(86,800)	(109,213)
Decrease (increase) in current liabilities:		
Notes payable	(21,953,680)	
Accounts payable	(4,723,840)	2,946,354
Accrued expenses	15,212,316	(6,042,828)
Current maturities of long-term debt	(707,172)	(1,306,235)
INCREASE (DECREASE) IN WORKING CAPITAL	$(33,881,757)	$ 9,526,044

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

December 31, 1984

NOTE A--THE ASSOCIATION AND ITS ACCOUNTING POLICIES

South Mississippi Electric Power Association (SMEPA) is a rural electric cooperative utility established under the laws of the State of Mississippi. Financing assistance is provided by the U. S. Department of Agriculture, Rural Electrification Administration (REA) and, therefore, SMEPA is subject to certain rules and regulations promulgated for rural electric borrowers by REA. SMEPA is a generation and transmission cooperative, providing power supply to eleven owner/members who are rural electric distribution cooperative utilities which provide electric power to customers in certain areas of Mississippi.

SMEPA maintains its accounting records in accordance with the Federal Energy Regulatory Commission's chart of accounts as modified and adopted by REA. The more significant accounting policies are described below.

Electric Utility Plant and Depreciation: Electric utility plant is stated at cost, which includes contract work, materials and direct labor, allowance for funds used during construction and allocable overhead costs. The cost of electric generating stations and related facilities also includes costs of training and production incurred, less revenues earned, prior to the date of commercial operation.

The provision for depreciation of electric utility plant begins when additions are placed in service or, in the case of electric generating stations, at the date of commercial operation. The provisions are computed on the straight-line method at the following annual composite rates:

Production plant	3.00% to 3.10%
Transmission plant	2.75%
General plant and transportation equipment	2.00% to 25.00%

At the time units of electric utility plant are retired, their original cost and cost of removal, less net salvage value, is charged to the allowance for depreciation. Replacements of electric utility plant involving less than a designated unit of property are charged to maintenance expense.

Coal reserves are stated at cost. Depletion is provided by the units mined method. The coal mine is operated under an operating agreement with a third party. Substantially all of the coal used in SMEPA's generation of electricity is supplied from coal mines located on SMEPA's property.

NOTE A--THE ASSOCIATION AND ITS ACCOUNTING POLICIES--Continued

Allowance for Funds Used During Construction: Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of the electric plant, where applicable, and an allowance based on the average cost of appropriate borrowings when general funds are used to fund construction. The allowance is capitalized as a component of the cost of the electric plant while it is under construction.

Capitalization ceases when the electric plant is placed in service, or in the case of electric generating stations and related facilities, at the date of commercial operation. The average rates used in determining the allowance were 11.0% and 11.6% in 1984 and 1983, respectively.

Inventories: Inventories are stated at average cost.

Deferred Charges: Costs of preliminary surveys for development of possible methods to obtain and deliver energy to fulfill members' future requirements, including feasibility studies leading to financing necessary plant expenditures, are recorded as deferred charges. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are written off.

Bond issue costs are being amortized by the straight-line method over the term of the related debt. The amortization during the period of construction is capitalized.

Patronage Capital: The bylaws of SMEPA provide that any excess of revenues over expenses and accumulated prior year deficits shall be treated as advances of capital by the member patrons and credited to them on the basis of their patronage.

Interchange Power: SMEPA records the electrical power received or provided on an interchange basis at its cost as determined under various contractual arrangements.

Income Tax Status: SMEPA is exempt from United States income taxes pursuant to Section 501(c)(12) of the Internal Revenue Code, which requires that at least 85% of the Association's gross income come from its members.

NOTE B--ELECTRIC UTILITY PLANT

Electric utility plant consists of the following:

	December 31 1984	December 31 1983
Intangible plant	$ 459,285	$ 459,285
Land and land rights	10,031,712	9,570,463
Production plant	207,430,730	206,794,541
Transmission plant	50,557,019	47,592,618
Coal properties	24,698,610	24,684,384
General plant and transportation equipment	4,934,398	4,833,307
ELECTRIC PLANT IN SERVICE	298,111,754	293,934,598
Construction work in process	478,529,918	409,497,161
	$776,641,672	$703,431,759

NOTE C--CONSTRUCTION WORK IN PROCESS AND COMMITMENTS

SMEPA is a 10% participant in the construction and operation of a 2,500 megawatt nuclear generating station known as "Grand Gulf Nuclear Station" (GGNS), consisting of two 1,250 megawatt generating units. Fuel loading for the first unit has occurred and commercial operation is anticipated for the second quarter of 1985. The second unit is 34% complete and commercial operation is anticipated for 1992. SMEPA's accumulated costs of construction at December 31, 1984 are $473,000,000, including allowance for funds used during construction of $160,000,000.

The Mississippi Public Service Commission held hearings to consider rescinding the Certificate of Necessity authorizing construction of GGNS Unit 2. No order has been issued. If the Unit 2 Certificate of Necessity is rescinded or Unit 2 is otherwise cancelled, SMEPA would have to recover the costs of Unit 2 through future rate increases even though no power would be generated by Unit 2. At December 31, 1984, construction work in process includes approximately $101,400,000 applicable to Unit 2.

SMEPA's share of the basic costs of construction (excluding allowance for funds used during construction) to complete are estimated to be approximately $9,400,000 for Unit 1 and $161,600,000 for Unit 2.

Prior to SMEPA's entry as a participant in GGNS, the construction of GGNS generated tax net operating losses for the other participant. If these losses are utilized to offset income taxes in future years by the other participant, SMEPA could receive a refund of up to $14,500,000 which will be credited to utility plant when it is received.

NOTE D--INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at cost consist of:

	December 31 1984	1983
National Rural Utilities Cooperative Finance Corporation (CFC) Capital Term Certificates	$8,414,533	$7,438,366
Other	44,320	57,489
	$8,458,853	$7,495,855

Capital Term Certificates bear interest at 3% and begin maturing in 2007.

NOTE E--NOTES PAYABLE

SMEPA has a $35,000,000 short-term line of credit available with National Rural Utilities Cooperative Finance Corporation (CFC), of which $21,953,680 was outstanding at December 31, 1984. There were no borrowings against this line at December 31, 1983. Interest rates on short-term borrowings with CFC averaged approximately 11.8% and 10.4% for the years ended December 31, 1984 and 1983, respectively. Capital Term Certificates in CFC, which are included in other assets and investments, cannot be redeemed so long as the line of credit is in place.

NOTE F--LONG-TERM DEBT

Substantially all the assets, rents, revenues, and profits of the Association are pledged as collateral. Long-term debt consists of the following:

	December 31 1984	1983
2% REA mortgage notes payable, due in quarterly installments through 2009	$ 37,964,033	$ 39,481,756
5% REA mortgage notes payable, due in quarterly installments through 2015	23,093,186	23,046,523
Mortgage notes payable to Federal Financing Bank (FFB) at interest rates varying from 9.326% to 14.801% due in quarterly installments between 1985 and 2017	563,894,669	560,746,720
Lamar County, Mississippi, Pollution Control Bonds:		
1977 Series, 4.6% to 6.125% due 1985 through 2007	36,445,000	37,225,000
1978 A Series, 4.7% to 6.125% due 1985 through 2008	2,590,000	2,640,000
1978 A-1 Series, 6.25% due 1985 through 2008	930,000	950,000
Other	1,016,367	1,476,348
	665,933,255	665,566,347
Less current maturities	5,716,425	5,009,253
	$660,216,830	$660,557,094

SMEPA has the option on FFB promissory note advances to elect (subject to REA approval) interim maturity dates of not less than two years nor more than seven years after the date of the advance. At the date of the advance or on the maturity of an interim advance, SMEPA may also designate that it desires a long-term maturity of 34 years after the end of the calendar year in which the advance was made. At December 31, 1984, SMEPA had $186,940,000 of FFB advances maturing in 1985 through 1989 which it intends to refinance for 34 years.

Approximate annual maturities of long-term debt for the next five years are as follows:

1985	$5,716,425
1986	6,053,705
1987	6,605,899
1988	6,887,988
1989	8,556,690

NOTE F--LONG-TERM DEBT--Continued

The above maturity schedule reflects management's prerogative of converting all FFB advances maturing in 1985 through 1989 to long-term debt. SMEPA has used a rate it estimates to be an appropriate long-term rate, based on the December 31, 1984 interest rate, to compute the annual principal requirement.

At December 31, 1984, SMEPA had unadvanced loan commitments from FFB and REA of $156,896,000 and $8,335,000, respectively. REA has placed a hold on FFB loan funds totaling $98,500,000, pending the outcome of the hearings regarding GGNS Unit 2 (Note C) and other matters.

SMEPA has a commitment from the Jackson Bank for Cooperatives for $60,000,000 in loan funds. Draws against these loan funds will originally be short-term with the agreement that any amounts outstanding at January 1, 1987 must be converted to a 10-year amortization with principal amortization to begin in the third quarter of 1988.

SMEPA is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. The Association was in compliance with such requirements at December 31, 1984.

NOTE G--DEFERRED REVENUE

SMEPA established its wholesale power rates on March 1, 1983 and 1984, in anticipation of Grand Gulf Nuclear Station Unit 1 beginning commercial operation in October 1983 and September 1, 1984, respectively. Unit 1 has not yet begun commercial operation. A portion of these rates established were designed to recover increased cost of power after Unit 1 began commercial operation. This portion has been deferred and will be amortized beginning with commercial operations in such a manner as to reflect the revenue in the period the cost being recovered is incurred. The deferral was approved by the Board of Directors of SMEPA and by REA.

NOTE H--DEFERRED MARGINS

During 1984, the Association's operations produced margins in excess of those budgeted necessary to meet levels of interest coverage and annual debt service coverage required by mortgage covenants. The Board of Directors of SMEPA has directed the Association to defer margins in excess of those needed to meet these requirements. This deferral has not been approved by REA.

NOTE I--PENSION PLAN

Substantially all of SMEPA's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. SMEPA makes annual contributions to the plan equal to the amounts accrued for pension expense. In this master multiple-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not available by individual employer. SMEPA's pension expense for this plan for the years ended December 31, 1984 and 1983 was $420,000 and $525,000, respectively.

MISSISSIPPI POWER & LIGHT COMPANY
Helping Build Mississippi
P. O. BOX 1640, JACKSON, MISSISSIPPI 39215-1640

July 31, 1985

NUCLEAR LICENSING & SAFETY DEPARTMENT

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

Attention: Mr. Harold R. Denton, Director

Dear Mr. Denton:

SUBJECT: Grand Gulf Nuclear Station
Units 1 and 2
Docket Nos. 50-416 and 50-417
License No. NPF-29
File: 0260/16551
Financial Reports
AECM-85/0210

The annual financial reports for 1984 of Middle South Energy, Inc. and South Mississippi Electric Power Association, owners of and Mississippi Power and Light Company, operator of Grand Gulf Nuclear Station, are herein submitted in response to the requirement of 10CFR50.71(b).

Yours truly,

L. F. Dale
Director

PJR/JGC:dmm
Attachments

cc: Mr. J. B. Richard (w/a)
Mr. O. D. Kingsley, Jr. (w/a)
Mr. R. B. McGehee (w/a)
Mr. N. S. Reynolds (w/a)
Mr. G. B. Taylor (w/o)
Mr. R. C. Butcher (w/a)

Mr. James M. Taylor, Director (w/a)
Office of Inspection & Enforcement
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Dr. J. Nelson Grace, Regional Administrator (w/a)
U. S. Nuclear Regulatory Commission
Region II
101 Marietta St., N. W., Suite 2900
Atlanta, Georgia 30323

A004
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Member Middle South Utilities System