



GULF STATES UTILITIES COMPANY
POST OFFICE BOX 2951 • BEAUMONT, TEXAS 77704
AREA CODE 713 838-6631

October 16, 1978
RBG - 5751
File No. G95

Mr. Harold H. Denton, Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555

River Bend Station - Units 1 and 2
Docket Nos. 50-458 and 50-459

Dear Mr. Denton:

Your letter of September 1, 1978, to Gulf States Utilities Company (GSU) requested that we advise the Nuclear Regulatory Commission of the results of our study of the nuclear construction program. Briefly, the comprehensive analysis noted in the Chairman of the Board's Interim Report to shareholders dated June 15, 1978, consisted of a review by Company management of current load growth projections, evaluations of various combinations of generation mix for meeting projected load growth with proper consideration given to projected revenues, financing options, availability and price of various fuels, system reliability and of other factors which affect overall planning decisions. The actions taken by the management and Board of Directors of GSU as a result of the above mentioned review are described on pages 18 and 19 of the SEC Form S-7 Registration Statement which was filed on September 22, 1978. A copy of this Registration Statement is enclosed as responsive to your inquiry.

You also requested information relating GSU entering into

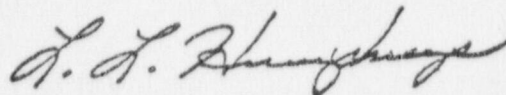
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an agreement with General Electric Company and the Gideon Trust.

Pursuant to a Trust Agreement dated January 25, 1978, the Gideon Trust was established by GSU for the sole purpose of having the Trust obtain financing and acquiring the right to purchase, own and thereafter sell certain steam turbine/generator equipment to be installed as a part of River Bend Unit No. One to GSU. Under an Agreement of Assignment dated January 25, 1978, and executed with J. Henry Schroder Bank and Trust Company, acting as Trustee of the Gideon Trust, GSU assigned to the Trust all of GSU's right, title and interest in and to certain purchase orders relating to acquisition of the steam turbine/generator equipment from and storage of such equipment by General Electric Corporation pending GSU's purchase from the Trust. Incident to execution of the Agreement of Assignment, GSU and the Trust also entered into an Agreement of Purchase dated January 25, 1978. This Agreement of Purchase provides for sale to GSU of all of the Trust's right, title and interest in and to the steam turbine/generator equipment and the related purchase orders at such time as GSU may direct, but in no event later than January 2, 1981. If, for any reason, GSU does not acquire the steam turbine/generator equipment by January 2, 1981, then on such date GSU will be obligated to make the acquisition pursuant to the Agreement of Purchase. In any event, GSU will purchase this steam turbine/generator from the Trust prior to its delivery to the River Bend Site.

Copies of the Trust Agreement, Agreement of Assignment,
and Agreement of Purchase are attached in response to your
request.

Yours very truly,



L. L. Humphreys
Senior Vice President
Energy Development

Enclosures 2

WJR/mb

Crawford/Lee/Jackson/Repper/Worthy/Humphreys/Weigand/Derr/Booker/Calvert/Cannon/
West/Richardson/Glazar/Hudson/Walker/Reed/Leavines/Kirkebo-S&W/Powell-GE/
Wetterhahn-CN&C/Eng. Files-Pet. 5/Nuc. Records-Pet. 3/Nuc. Records-Main 10/NRC Log

ATTACHMENT 1

Attachment 1 is composed of the following
document herein enclosed:

FORM S-7

REGISTRATION STATEMENT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-7

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Gulf States Utilities Company

(Exact name of registrant as specified in charter)

Texas

(State or other jurisdiction of
incorporation or organization)

74-0662730

(I.R.S. Employer Identification No.)

P.O. Box 2951
Beaumont, Texas

(Address of principal
executive offices)

77704

(Zip Code)

713-838-6631

(Registrant's telephone number, including area code)

W. DONHAM CRAWFORD, *Chairman of the Board*
Gulf States Utilities Company

P. O. Box 2951

Beaumont, Texas 77704

R. W. JACKSON, *Vice President & Secretary*
Gulf States Utilities Company

P. O. Box 2951

Beaumont, Texas 77704

(Names and addresses of agents for service)

Approximate date of proposed public offering: As soon as practicable after the effective date of the
Registration Statement.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, without par value	5,000,000 shs.	\$13.00*	\$65,000,000*	\$13,000.00

* These amounts have been inserted solely for the purpose of calculating the filing fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

GULF STATES UTILITIES COMPANY

Cross Reference Sheet Pursuant to Rule 404(c) Between Registration Statement (Form S-7) and Form of Prospectus

<u>Item Number and Caption</u>	<u>Heading or Page Number In Prospectus</u>
1. Distribution Spread	Cover
2. Plan of Distribution	Underwriting
3. Use of Proceeds to Registrant	Application of Proceeds
4. Selling Security Holders	Not Applicable
5. Business	The Company, Construction and Financing Program, Management's Discussion and Analysis of the Statements of Income, Business, Present Generating Facilities, Proposed Generating Facilities, Fuel Supply, Regulation and Rates, Employees, Litigation, Environmental Matters
6. Statement of Income	Statements of Income, Financial Statements
7. Capital Stock to be Registered	Description of Common Stock
8. Debt Securities to be Registered	Not Applicable
9. Other Securities to be Registered	Not Applicable
10. Management and Others	Not Applicable
11. Other Financial Statements and Schedules	Financial Statements
12. Statement of Available Information	Available Information

PRELIMINARY PROSPECTUS DATED SEPTEMBER 22, 1978

PROSPECTUS

5,000,000 Shares

Gulf States Utilities Company

Common Stock
(Without Par Value)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts(1)	Proceeds to Company(2)
Per Share.....	\$	\$	\$
Total.....	\$	\$	\$

(1) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(2) Before deduction of expenses payable by the Company estimated at \$113,000.

The Common Stock is offered subject to prior sale, when, as and if delivered to and accepted by the Underwriters, and subject to approval of certain legal matters by their counsel and counsel for the Company. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part.

It is expected that delivery of the certificates for the Common Stock will be made in New York, N. Y., on or about October , 1978.

Merrill Lynch White Weld Capital Markets Group

Merrill Lynch, Pierce, Fenner & Smith Incorporated

Kidder, Peabody & Co.
Incorporated

Dean Witter Reynolds Inc.

The date of this Prospectus is October , 1978.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK, MIDWEST AND PACIFIC STOCK EXCHANGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

Gulf States Utilities Company (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Information, as of particular dates, concerning directors and officers, their remuneration, the principal holders of securities of the Company, and any material interest of such persons in transactions with the Company is disclosed in proxy statements filed with the Commission. The Company has not granted any stock options.

Such reports, proxy statements and other information can be inspected and copied at the offices of the Commission at Room 6101, 1100 L Street, N. W., Washington, D. C.; Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street Chicago, Illinois; Room 1100, Federal Building, 26 Federal Plaza, New York, New York; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California. Copies of such material can also be obtained from the Commission at prescribed rates at its principal office at 500 N. Capitol St., N.W. Washington, D.C. 20549. In addition, reports, proxy material and other information concerning the Company may be inspected at the offices of the New York, Pacific and Midwest Stock Exchanges.

No dealer, salesman or other person has been authorized to give any information or to make any representation, other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to its date.

THE ISSUE IN BRIEF

The following material is qualified in its entirety by the detailed information and financial statements (including the notes thereto) appearing elsewhere in this Prospectus.

THE OFFERING

Proposed Offering Date	October 19, 1978
Common Stock Offered	5,000,000 Shares
Listing.....	New York, Midwest and Pacific Stock Exchanges (Symbol: GTU)
1978 Price Range through September 21, 1978.....	14¼-12¾
Closing Price on September 21, 1978.....	12¾
Application of Proceeds	To pay a portion of short-term notes

GULF STATES UTILITIES COMPANY

Principal Business.....	Generation, purchase, transmission, distribution and sale of electric energy
Service Area.....	Southeastern Texas and South Central Louisiana
Customers (June 30, 1978)	Approximately 457,000
Source of Revenues (Twelve months ended June 30, 1978)	Electric 90%, Steam 7%, Gas 3%
Electric Revenues.....	Derived 54% from Louisiana and 46% from Texas

FINANCIAL INFORMATION

(in thousands except per share amounts)

	Twelve Months Ended June 30, 1978 (Unaudited)	Year Ended December 31, 1977
Total operating revenues	\$659,363	\$587,760
Net income	\$ 65,949	\$ 65,650
Income applicable to common stock	\$ 54,959	\$ 55,074
Earnings per share of common stock:		
Based on weighted average shares outstanding	\$1.68	\$1.69
Assuming conversion of convertible debentures	\$1.58	\$1.65
Dividends per common share	\$1.21	\$1.15
Current quarterly dividend per common share—31¢		

Capitalization at June 30, 1978 (Unaudited)				
	Actual		Adjusted*	
	(000)	Percent	(000)	Percent
Long-Term Debt.....	\$ 805,657	55.0	\$ 805,657	52.7
Preferred Stock	167,500	11.5	167,500	11.0
Common Stock Equity.....	490,718	33.5	555,718	36.3
Total Capitalization	<u>\$1,463,875</u>	<u>100.0</u>	<u>\$1,528,875</u>	<u>100.0</u>

* Adjusted to give effect to the estimated proceeds from the sale of the Additional Common Stock. See "Capitalization."

THE COMPANY

The Company was incorporated in 1925 under the laws of the State of Texas and is engaged principally in the business of generating electric energy and transmitting, distributing and retailing such energy in a 28,000 square mile area in Southeastern Texas and in South Central Louisiana, extending a distance of over 350 miles in Texas and Louisiana, principally in the coastal area. The Company also sells electric energy at wholesale to various municipalities and rural electric cooperatives. The Company's electric system is interconnected, and interconnections with other utilities are maintained for the exchange of power. The Company also conducts a steam products business and sells natural gas in the Baton Rouge, Louisiana area.

The Company's service area is a major producer of oil, gas, sulfur, refined products, chemicals, petrochemicals, steel products, oil tools and related manufacturing, processing and servicing activities. Paper, cement, building materials, cotton, rice, soybeans and cattle are also important products of the service area. It is characterized by a favorable year-round climate and ready access to air, land and water transportation.

The Company has been experiencing, in varying degrees, some of the significant problems common to the electric utility industry in general, including (a) difficulties in obtaining adequate and timely rate relief and adequate rate of return on invested capital, particularly, in the case of the Company in Louisiana (see "Regulation and Rates"), (b) regulation and increasing cost of fuels and need to convert to alternate fuels (see "Fuel Supply"), (c) greater construction costs, (d) longer licensing and construction periods necessitating substantial advance expenditures and commitments, with the attendant risk of cancellation charges and other losses, (e) increased amounts of external capital needed, (f) compliance with environmental requirements (see "Environmental Matters"), and (g) an unpredictable rate of peak load growth (see "Proposed Generating Facilities").

APPLICATION OF PROCEEDS

The net proceeds from the sale of the Common Stock offered hereby (the "Additional Common Stock"), assumed to be approximately \$65,000,000, will be used by the Company to repay a portion of its then outstanding short-term notes, expected to be approximately \$120,000,000. See "Underwriting" for circumstances under which less than all the Additional Common Stock may be sold.

The funds obtained from the issuance of such short-term notes were used in connection with the Company's construction program and for other corporate purposes. The Company expects to continue to raise funds for construction and other purposes through short-term borrowings and to arrange permanent financings to repay such borrowings.

CONSTRUCTION AND FINANCING PROGRAM

The 1978 and 1979 construction programs are expected to consist of the following principal items:

	1978	1979
	(In Thousands)	
Electric production plant	\$257,800*	\$281,000***
Electric transmission and distribution facilities	47,300	101,300
Other electric, gas and steam plant	4,900	6,700
Total estimated expenditures	<u>\$310,000**</u>	<u>\$389,000</u>

* Including \$31,600,000 toward the cost of nuclear fuel.

** Expenditures through June 30, 1978, were approximately \$154,000,000.

*** Excludes expenditures budgeted for 1979 which are expected to be paid by proposed joint participants in the River Bend Station (see "Proposed Generating Facilities—Nuclear Units.")

The present estimate of construction expenditures by the Company in 1980 is \$424,000,000. Estimated expenditures for 1978-80 include allowance for funds used during construction. The programs for 1979 and 1980 are subject to substantial changes if proposed joint participation is not accomplished. For recent changes in and details of the programs, see "Proposed Generating Facilities."

The Company's 1977 and 1978 construction programs were curtailed as a result of 1977 denials in whole in Louisiana and in part in Texas of requested electric service rate increases. (See "Regulation and Rates.")

Total gross additions to the plant account of the Company during the period June 30, 1973, to June 30, 1978, amounted to approximately \$917,834,000 and during the same period retirements from the plant account amounted to approximately \$22,733,000. Gross additions during the period amount to approximately 42% of total net plant (excluding nuclear fuel) at June 30, 1978.

The principal sources of funds for the construction program and other capital requirements during the balance of 1978 and 1979 are expected to be obtained from (i) the sale of the Additional Common Stock offered hereby, (ii) internally generated funds, (iii) funds from expected participation by others in the Company's construction projects, (iv) approximately \$55,000,000 from the expected disposition, with certain retained rights, of a portion of the Company's uranium inventory, and (v) short-term borrowings. In addition, during 1979, it is anticipated that the Company will seek to reduce the level of its short-term borrowings through other permanent financings, the form, nature, time, and extent of which have not yet been determined but are expected to include the sale of additional common and preferred stock and bonds of the Company. It is presently anticipated that internally generated funds will account for an average of approximately 32% of funds to meet construction requirements through 1980.

The Company must periodically obtain Federal Energy Regulatory Commission ("FERC") approval to make short-term borrowings in excess of certain levels. The Company has FERC authority to issue during 1978 short-term notes in the form of commercial paper or notes to banks and others up to an aggregate amount of \$200,000,000 at any one time outstanding, and has applied for similar authority in 1979. However, the Company has not attempted to make short-term credit arrangements for borrowing up to the maximum amount. (See Note E to financial statements with respect to existing lines of credit.)

The Company's Mortgage places certain limitations upon the issuance of additional bonds. In addition, the Company's debenture indenture limits issuance of funded debt of the Company. On the basis of the unaudited financial statements of the Company for the twelve months ended June 30, 1978, the amount of additional funded indebtedness permitted to be issued under the more restrictive debenture indenture test (assuming an interest rate of 9%) would be approximately \$295,000,000.

The Company's Articles of Incorporation place certain limitations upon the issuance of additional preferred shares. On the basis of the unaudited financial statements of the Company for the twelve months ended June 30, 1978, the amount of additional preferred stock permitted to be issued under the most restrictive provision (at an assumed dividend rate of 9%) would be approximately \$175,000,000.

The Company's ability to meet the earnings coverage provisions necessary to issue additional funded debt or preferred stock depends primarily on the adequacy and timing of future rate relief (see "Regulation and Rates"). The inability to obtain adequate and timely rate relief could force the Company to again curtail its construction program and therefore impair the quality and reliability of service to its customers.

The Company, at the time of issuance of its First Mortgage Bonds, 8 $\frac{1}{2}$ % Series due 2007, obtained the consent of the holders thereof to effect two amendments to its Mortgage. One amendment would change the aggregate limit on bonds outstanding from \$1,000,000,000 to \$100,000,000,000, and the other would modify the definition of "minimum provision for depreciation" in the Mortgage from 15% to 10% of total operating revenues. It is anticipated that efforts to obtain consents to these two amendments from holders of other series of bonds will be initiated before the end of 1978. Based upon present estimates, the \$1,000,000,000 limitation could operate to restrict further financing under the Mortgage in 1980 if present financing practices and construction plans are continued and the present minimum depreciation provisions could under various circumstances impose material burdens on the Company in the early 1980's. If the Mortgage amendments are not approved, the Company would attempt to arrange other forms of financing to avoid having to suspend, defer, or cancel needed construction, but can not give assurance that it will succeed in doing so. While the Company intends to use its best efforts to obtain bondholders' consents to these amendments, there can be no assurance that the amendments will be approved.

COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company has paid dividends on its Common Stock since 1947 when it first became a publicly-owned Company. In the years 1973-1977, the Company paid annual cash dividends per share of Common Stock of \$1.10, \$1.12, \$1.12, \$1.12 and \$1.15 respectively. A quarterly dividend of \$.31 has been paid beginning in the last quarter of 1977. It is presently expected that the next quarterly dividend will be payable on December 15, 1978 to holders of record November 22, 1978. Holders of the Additional Common Stock on the record date will be entitled to receive such dividend if declared.

It is the present policy of the Board of Directors to pay quarterly dividends on the Common Stock, but since dividends are necessarily dependent upon earnings, the financial condition of the Company and other relevant factors, the Board of Directors will determine from time to time the amount of dividends to be paid. For restrictions as to the payment of dividends on the Common Stock, see "Limitation on Payment of Dividends on Common Stock" under "Description of Common Stock."

The Company offers the holders of record of its Common and Preferred Stock the opportunity to purchase shares of its authorized but unissued Common Stock without payment of any brokerage commission or service charge through its Automatic Dividend Reinvestment and Stock Purchase Plan. A prospectus with full information on the terms and provisions of this plan is available from: Texas Commerce Bank, N.A., Dividend Reinvestment Department, P.O. Box 2558, Houston, Texas 77001.

The shares of the Common Stock of the Company are listed on the New York, Midwest and Pacific Stock Exchanges. Prices shown in the table below are the high and low sales prices, as reported in the Wall Street Journal, on the New York Stock Exchange through January 23, 1976 and thereafter on the composite tape.

<u>Year</u>	<u>High</u>	<u>Low</u>	<u>Year</u>	<u>High</u>	<u>Low</u>
1973.....	22¾	13	1977		
1974.....	16	8¾	First Quarter	14¾	13
1975.....	14¾	10¾	Second Quarter	14¾	12¾
1976			Third Quarter	14¾	13
First Quarter	15¾	12¾	Fourth Quarter.....	14¾	13
Second Quarter	14	11¾	1978		
Third Quarter.....	14¾	11¾	First Quarter	14¼	13¾
Fourth Quarter.....	15¼	13¼	Second Quarter	13¾	12¾
			Third Quarter		
			(through September		
			21)	14¼	12¾

The closing sale price on September 21, 1978, was 12¾. As of June 30, 1978, the book value per share of such Common Stock was \$14.89.

CAPITALIZATION

The capitalization of the Company as of June 30, 1978, and as adjusted to reflect the issuance of the Additional Common Stock, is set forth below:

		Actual		Adjusted	
	<u>Aut'orized</u>	<u>Outstanding</u>	<u>Percent</u>	<u>Outstanding</u>	<u>Percent</u>
		(Thousands of Dollars)			
Long-Term Debt (see the State- ments of Capitalization):					
First Mortgage Bonds.....	\$1,000,000,000	\$ 700,000		\$ 700,000	
Debentures.....		8,625		8,625	
Convertible Debentures		49,998		49,998	
Unamortized Premium, Dis- count on Debt, net		(966)		(966)	
Pollution Control Bonds and Industrial Development Bonds.....		48,000		48,000	
Total Long-Term Debt		<u>805,657</u>	<u>55.0</u>	<u>805,657</u>	<u>52.7</u>
Preferred Stock—\$100 Par Value (see the Statements of Capital- ization(a).....	6,000,000 sh.	<u>167,500</u>	<u>11.5</u>	<u>167,500</u>	<u>11.0</u>
Authorized and unissued shares without par value	10,000,000 sh.				
Common Stock—without par value (see the Statements of Capital- ization):					
32,956,997 and 37,956,997 shares outstanding, respec- tively.....	100,000,000 sh.	280,380		345,380(b)	
Premium and expense on Capital Stock.....		705		705	
Retained Earnings.....		<u>209,633</u>		<u>209,633</u>	
Total Common Equity(a) .		<u>490,718</u>	<u>33.5</u>	<u>555,718</u>	<u>36.3</u>
Total Capitalization.....		<u>\$1,463,875</u>	<u>100.0</u>	<u>\$1,528,875</u>	<u>100.0</u>
Short-Term Notes Payable (see Note E of Notes to Financial Statements.....		\$ 101,875		\$ 55,000(c)	

(a) The Company expects to file for FERC approval to issue a new series of preferred stock to be offered in exchange for certain outstanding series of preferred stock bearing lower dividend rates than the new series. The exchange would result in a decreased number of outstanding shares of preferred stock but would increase preferred stock dividend requirements. If the transaction is approved and the offer made, then a portion of the preferred stock capital account attributable to the shares surrendered in exchange would be converted to common equity.

(b) Adjusted to give effect to the estimated proceeds from the issuance of the Additional Common Stock.

(c) After application of the net proceeds from the sale of the Additional Common Stock (assumed for purposes of this Prospectus to be \$65,000,000) to the payment of a portion of the \$120 million estimated to be outstanding at the time of such sale. Further substantial reduction of the amount of short-term notes outstanding would result from the proposed disposition of uranium, if consummated.

GULF STATES UTILITIES COMPANY

STATEMENTS OF INCOME

The following statements of income for the years 1973 through 1977 have been examined by Coopers & Lybrand, independent certified public accountants, whose report appears elsewhere herein. The statements should be read in conjunction with the other financial statements and related notes included elsewhere in this Prospectus. The data for the twelve months ended June 30, 1978 (not examined by independent certified public accountants), in the opinion of the Company, reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations.

	Twelve Months Ended June 30, 1978 (Unaudited)	Years Ended December 31,				
		1977	1976	1975	1974	1973
		(In Thousands Except Per Share Amounts)				
OPERATING REVENUES (Note I)						
Electric	\$594,113	\$534,351	\$408,543	\$332,330	\$334,277	\$261,886
Steam	43,865	37,838	28,106	21,249	24,543	18,689
Gas	21,385	15,571	11,090	8,655	7,670	7,237
	<u>659,363</u>	<u>587,760</u>	<u>447,739</u>	<u>362,234</u>	<u>366,490</u>	<u>287,812</u>
OPERATING EXPENSES AND TAXES						
Fuel (Note 2)	297,672	257,013	183,190	125,007	137,307	82,751
Purchased Power	38,618	30,931	8,481	5,982	4,691	4,949
Other Operations	65,593	56,956	46,774	41,577	36,968	33,101
Maintenance	30,374	27,742	17,745	14,301	13,943	13,515
Depreciation (Notes A & 3)	61,896	59,882	53,717	50,060	44,685	35,784
Taxes (Notes A & 4)						
Federal Income						
Current	12,905	7,804	12,540	11,306	22,460	21,097
Deferred-Net	12,693	12,485	8,375	8,629	8,316	6,494
Investment Credit						
Deferred	19,482	20,263	11,303	8,422	3,457	1,361
Amortization of Prior Years'						
Deferments	(2,035)	(1,935)	(1,528)	(1,218)	(937)	(789)
State Income						
Current	2,708	2,198	858	666	748	671
Deferred-Net	1,233	939	418	358	312	206
Other Than Income (Note H)	25,161	23,633	21,279	18,984	17,618	18,228
	<u>566,300</u>	<u>497,911</u>	<u>363,152</u>	<u>284,074</u>	<u>289,568</u>	<u>217,368</u>
OPERATING INCOME	93,063	89,849	84,587	78,160	76,922	70,444
OTHER INCOME AND DEDUCTIONS-NET (Notes 5 & 8)	2,568	4,443	(445)	970	866	746
Allowance for Equity Funds Used During Construction (Note 6)	16,127	15,072	13,110	8,161	5,798	5,749
INCOME BEFORE INTEREST CHARGES	<u>111,758</u>	<u>109,364</u>	<u>97,252</u>	<u>87,291</u>	<u>83,586</u>	<u>76,939</u>
INTEREST CHARGES						
Interest on Long-term Debt	55,385	53,495	47,020	40,506	35,152	28,543
Amortization of Premium, Discount and Expenses on Debt	211	127	58	33	(4)	(25)
Other Interest Charges	3,951	2,931	4,403	6,796	6,185	2,986
Allowance for Borrowed Funds Used During Construction (Note 6)	(13,738)	(12,839)	(10,640)	(9,737)	(5,715)	(4,319)
	<u>45,809</u>	<u>43,714</u>	<u>40,841</u>	<u>37,598</u>	<u>35,618</u>	<u>27,185</u>
NET INCOME (Note 3)	65,949	65,650	56,411	49,693	47,968	49,754
PREFERRED DIVIDEND REQUIREMENTS	10,990	10,576	6,730	6,730	6,730	6,730
INCOME APPLICABLE TO COMMON STOCK	<u>\$ 54,959</u>	<u>\$ 55,074</u>	<u>\$ 49,681</u>	<u>\$ 42,963</u>	<u>\$ 41,238</u>	<u>\$ 43,024</u>
AVERAGE COMMON SHARES OUTSTANDING	32,797	32,637	32,214	27,547	25,547	25,547
EARNINGS PER SHARE OF COMMON STOCK (Note 7)						
Based on Average Shares Outstanding	\$1.68	\$1.69	\$1.54	\$1.56	\$1.61	\$1.68
Assuming Conversion of Convertible Debentures	1.58	1.65	—	—	—	—
DIVIDENDS PER COMMON SHARE	1.21	1.15	1.12	1.12	1.12	1.10

The notes to the financial statements and the notes to the statements of income are integral parts of this statement.

GULF STATES UTILITIES COMPANY

NOTES TO STATEMENTS OF INCOME

(Information relating to dates after December 31, 1977, is unaudited.)

(1) The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not recorded for energy delivered and unbilled at the end of each fiscal period. The costs of fuel and of gas distributed are charged to expense as used.

Rate schedules of the Company provide for adjustments to substantially all rates for increases or decreases in the costs of fuel for generation and of gas distributed.

(2) The Company's wholly-owned subsidiary, Varibus Corporation, supplied, at cost, a portion of the Company's fuel requirements amounting to \$29,637,000 for the twelve months ended June 30, 1978, and \$27,130,000, \$48,671,000, \$35,000,000 and \$64,000,000 for the years ended December 31, 1977, 1976, 1975 and 1974, respectively.

(3) Effective January 1, 1975, the Company began recognizing depreciation on easements for the first time. Effective January 1, 1974, the Company adopted the practice of recognizing depreciation on new additions in the year in which they were placed in service rather than at the beginning of the following year. The effect of the two aforementioned changes reduced net income for 1975 and 1974 by \$622,000 (\$.02 per share) and \$2,003,000 (\$.08 per share), respectively.

The Company increased book depreciation rates in 1975 and 1974 on selected properties to reflect revised estimates of the remaining service lives. These changes in depreciation estimates had the effect of decreasing net income for 1975 and 1974 by \$1,815,000 (\$.07 per share) and \$2,140,000 (\$.08 per share), respectively.

(4) The provisions for Federal income tax were less than the amount obtained by using the 48% statutory rate primarily due to the following:

	Twelve Months Ended June 30, 1978	Years Ended December 31,				
		1977	1976	1975	1974	1973
Statutory rate	48.0%	48.0%	48.0%	48.0%	48.0%	48.0%
Increases (decreases) resulting from:						
Exclusions from taxable income of allowance for borrowed and equity funds used during construction	(13.1)	(12.8)	(13.0)	(10.9)	(6.9)	(6.1)
Items capitalized for book purposes but expensed for tax purposes	(2.7)	(3.5)	(3.5)	(4.1)	(3.6)	(2.0)
Effect of excess book depreciation over normalization basis	6.8	7.1	6.8	5.6	4.5	(0.9)
Other items	1.0	(1.7)	(2.4)	(4.0)	(1.9)	(2.5)
Effective tax rate	<u>40.0%</u>	<u>37.1%</u>	<u>35.9%</u>	<u>34.6%</u>	<u>40.1%</u>	<u>36.5%</u>

GULF STATES UTILITIES COMPANY

NOTES TO STATEMENTS OF INCOME — (Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

Deferred Federal income tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	Twelve Months Ended June 30, 1978	Years Ended December 31,				
		1977	1976	1975	1974	1973
		(In Thousands)				
Excess of accelerated tax depreciation over straight-line tax depreciation	\$9,965	\$9,429	\$8,894	\$8,190	\$8,599	\$6,779
Sales tax deducted for tax purposes in 1975, but expensed in 1976 on books	—	—	(713)	713	—	—
Accrued payroll expense deducted for tax purposes in 1975, but expensed in 1976 on books ..	—	—	(73)	73	—	—
Items expensed for tax purposes, capitalized as depreciable plant on books	1,715	2,002	632	—	—	—
Loss on pollution control bond refunding recognized currently for tax purposes but amortized on books	1,403	1,403	—	—	—	—
Amortization of prior years deferments	(390)	(349)	(365)	(347)	(283)	(285)
	<u>\$12,693</u>	<u>\$12,485</u>	<u>\$8,375</u>	<u>\$8,629</u>	<u>\$8,316</u>	<u>\$6,494</u>

(5) The Company's equity in losses of its subsidiary were approximately \$1,188,000, \$2,238,000, \$740,000 and \$233,000 for the twelve months ended June 30, 1978, and the years ended December 31, 1977, 1976 and 1975, respectively, and has been included in "Other Income and Deductions—Net" in the statements of income. Prior to 1975, such amounts were not material.

(6) Allowance for funds used during construction ("AFUDC") is a non-cash item which is calculated under the FERC formula and is capitalized as part of the cost of utility plant. The composite rate used has been 7½% since 1973. Such AFUDC has been segregated into two component parts: borrowed funds and equity funds. That portion allocated to borrowed funds is reflected as an adjustment of interest charges.

The Company's wholly-owned subsidiary, Varibus Corporation, capitalizes interest incurred on certain mine projects prior to the production stage.

(7) Earnings per share of common stock assuming conversion of convertible debentures were based upon the assumed conversion on the issue date, September 28, 1977, of \$50,000,000 of 7¼% Convertible Debentures (\$49,998,000 currently outstanding), at a conversion price of \$14.85 per share and after giving effect to the elimination of interest expense and amortization of discount and issuance expense (net of related income taxes). Had all the debentures been converted on the day of issuance, approximately

GULF STATES UTILITIES COMPANY

NOTES TO STATEMENTS OF INCOME — (Concluded)

(Information relating to dates after December 31, 1977, is unaudited.)

3,367,000 additional shares of common stock assuming conversion of convertible debentures would have been issued. The following table details the computation of earnings per share of common stock assuming conversion of convertible debentures.

	Twelve Months Ended June 30, 1978	Year Ended December 31, 1977
	(In Thousands)	
Income applicable to common stock	\$54,959	\$55,074
Adjustment for interest expense and amortization of discount and issuance expense, net of related income taxes, for the assumed conversion of convertible debentures	1,455	496
Income applicable to common stock assuming conversion of convertible debentures.....	<u>\$56,414</u>	<u>\$55,570</u>
Average shares of common stock outstanding	32,797	32,637
Adjustment for assumed conversion of convertible debentures	2,806	1,123
Average shares of common stock—assuming conversion of convertible debentures.....	<u>35,603</u>	<u>33,760</u>
Earnings per share of common stock assuming conversion of convertible debentures.....	<u>\$ 1.58</u>	<u>\$ 1.65</u>

(8) During 1977, the Company sold certain equipment and a portion of its uranium concentrates and abandoned certain property under construction. A net gain of \$1,000,000 (\$.03 per share) and \$3,415,000 (\$.10 per share), net of related income taxes, for the twelve months ended June 30, 1978, and for the year ended December 31, 1977, respectively, is included in "Other Income and Deductions—Net".

(9) The quarterly data shown below are unaudited. In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of such amounts have been included (in thousands except for per share amounts).

				Earnings Per Share of Common Stock	
				Based on Average Shares Outstanding	Assuming Conversion of Convertible Debentures
	Operating Revenues	Operating Income	Net Income		
1978					
First Quarter	\$160,134	\$19,809	\$11,693	\$.27	\$.26
Second Quarter	171,435	20,797	14,461	.36	.34
1977					
First Quarter	\$123,169	\$18,421	\$10,880	\$.26	—
Second Quarter	136,797	18,971	14,975	.38	—
Third Quarter	183,407	31,053	24,429	.66	\$.64
Fourth Quarter	144,387	21,404	15,366	.39	.37
1976					
First Quarter	\$ 91,050	\$15,691	\$ 8,645	\$.22	—
Second Quarter	103,608	17,717	12,806	.32	—
Third Quarter	134,923	28,273	21,251	.60	—
Fourth Quarter	118,158	22,906	14,429	.40	—

(10) See "Management's Discussion and Analysis of the Statements of Income" and "Regulation and Rates" for the effect of rate increases.

(11) Alphabetical notes refer to notes to financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENTS OF INCOME

The following discussion and analysis of the Company's operations set forth the factors the Company believes to be reasonable causes for the changes in revenue and expense items for the three most recent periods presented on the accompanying statements of income.

Operating Revenues

The Company derived 90% of its operating revenues from sales of electricity for the twelve months ended June 30, 1978 and 91% for each of the years ended December 31, 1977 and 1976. The balance of operating revenues were derived from sales of steam and gas. The changes in operating revenues for the three periods were attributable to the following (in thousands):

	Twelve Months Ended June 30, 1978	Years Ended December 31, 1977	1976
General rate increases.....	\$ 3,634	\$ 10,566	\$13,548
Fuel included in base.....	(484)	13,666	23,723
Fuel adjustment.....	44,002	70,508	18,213
Sales volume.....	24,451	45,281	30,021
Net increase.....	<u>\$ 71,603</u>	<u>\$140,021</u>	<u>\$85,505</u>
Increase over previous period.....	<u>12%</u>	<u>31%</u>	<u>24%</u>

The sales volume increases for both the twelve months ended June 30, 1978 and the year 1977, when compared to the previous periods, were due to unusually cold winter weather and warmer than normal summer temperatures. The increase in sales volume in 1976 from the previous period was due in large part to the rebounding national economy.

Operating Expenses

Increases in fuel expense for electric generation of \$40,723,000, \$74,043,000 and \$57,705,000 for the twelve months ended June 30, 1978 and the years ended December 31, 1977 and 1976, respectively, when compared to the previous periods, were primarily due to increased generation requirements, changes in fuel mix and increased unit fuel costs. The increases in sales volume discussed above brought about the increased generation requirements, while relatively fixed supplies of natural gas for boiler fuel required the use of more expensive oil.

Increases in purchased power expense of \$7,687,000 and \$22,450,000 for the twelve months ended June 30, 1978 and the year 1977, respectively, when compared to the previous periods, were principally caused by a combination of forced outages, increased peak loads caused by the extreme weather, and downtime of certain units due to conversion for heavy fuel oil burning capability.

Increases in other operations expense of \$8,637,000 and \$10,182,000 for the twelve months ended June 30, 1978 and the year 1977, respectively, when compared to the previous periods, were principally due to increases in gas purchased for resale (primarily caused by price increases) and payroll charged to operations (due principally to contract wage escalations).

Maintenance expense increased \$2,632,000 for the twelve months ended June 30, 1978 over the year 1977 and \$9,997,000 for 1977 over the year 1976 due primarily to increased maintenance of generating equipment necessitated by the above mentioned forced outages.

Depreciation expense increases of \$2,014,000, \$6,165,000 and \$3,657,000 for the twelve months ended June 30, 1978, and the years 1977 and 1976, respectively, when compared to the previous periods, were principally caused by additions to plants and increases in the composite depreciation rate.

Increases in taxes for the twelve months ended June 30, 1978 and the years 1977 and 1976 over the previous periods were principally the result of increased pretax income between the periods. The pretax income increases were primarily caused by the revenue increases detailed above.

Other Income

Allowance for equity funds used during construction increased \$1,055,000 for the twelve months ended June 30, 1978 over the year 1977 primarily due to the additional expenditures made on the Company's Sabine unit. See Note 6 to the statements of income.

The decrease in Other Income and Deductions—Net of \$1,875,000 for the twelve months ended June 30, 1978 over the year 1977 was primarily due to the gain on the sale of certain equipment and a portion of the Company's uranium concentrates and a loss on abandonment of certain property under construction which occurred in June, 1977. See Note 8 to the statements of income.

Interest Charges

Interest charges increased \$2,095,000 for the twelve months ended June 30, 1978 over the year 1977 primarily due to the issuance of the convertible debentures in September of 1977. Interest on long-term debt for the years 1977 and 1976 increased when compared to prior periods primarily due to the issuance of additional securities.

Interest charges of the Company do not include interest incurred by the Gideon Trust. See Note F to the financial statements.

The AFUDC reflected in the financial statements does not represent funds received. However, the inclusion of AFUDC as an item of income is in accordance with the Uniform System of Accounts prescribed by the FERC, the Louisiana Public Service Commission, the Public Utility Commission of Texas and with generally accepted accounting principles. See Note 6 to the statements of income.

GULF STATES UTILITIES COMPANY

OPERATING STATISTICS AND CERTAIN DETAILS OF REVENUES

	Twelve Months Ended June 30, 1978	Years Ended December 31,				
		1977	1976	1975	1974	1973
ELECTRIC						
Number of customers at month end:						
Residential.....	398,433	391,031	377,302	365,335	356,649	349,292
Commercial.....	48,371	47,352	45,752	44,281	42,871	41,986
Industrial.....	3,443	3,379	3,455	5,970*	5,300*	5,602*
Temporary Construction.....	4,856	4,389	3,404	—	—	—
Other.....	1,736	1,690	1,626	1,552	1,509	1,433
Total.....	456,839	447,841	431,539	417,138	406,338	398,313
Sales—kilowatt-hours (thousands):						
Residential.....	5,040,928	4,789,630	4,198,447	4,004,403	3,724,192	3,730,837
Commercial.....	3,632,981	3,486,193	3,170,084	2,949,455	2,684,199	2,579,961
Industrial.....	13,842,465	13,216,824	11,886,799	10,530,108*	11,304,846*	11,001,560*
Temporary Construction.....	32,379	23,017	14,269	—	—	—
Other.....	2,221,732	2,025,933	1,713,762	1,583,054	1,458,972	1,519,578
Total Sales.....	24,770,485	23,541,597	20,983,361	19,067,020	19,172,209	18,831,936
Revenues (thousands):						
Residential.....	\$ 169,359	\$ 156,078	\$ 123,984	\$ 108,089	\$ 105,851	\$ 91,355
Commercial.....	111,313	102,276	83,005	70,999	67,685	55,659
Industrial.....	266,051	235,516	173,947	133,055*	140,698*	99,231*
Temporary Construction.....	1,026	783	488	—	—	—
Other.....	46,364	39,698	27,119	20,187	20,043	15,641
Total Electric Revenues.....	\$ 594,113	\$ 534,351	\$ 408,543	\$ 332,330	\$ 334,277	\$ 261,886
Average KWH Use Per Customer:						
Residential.....	12,876	12,480	11,303	11,096	10,549	10,819
Commercial.....	76,606	74,785	70,370	67,754	63,196	62,120
Industrial.....	4,066,529	3,858,927	3,477,705	1,879,705*	2,054,679*	1,830,542*
Revenue per KWH—Cents:						
Residential.....	3.36	3.26	2.95	2.70	2.84	2.45
Commercial.....	3.06	2.93	2.62	2.41	2.52	2.16
Industrial.....	1.92	1.78	1.46	1.26*	1.24*	.90*
Electric Department Energy Generated and Purchased (millions of KWH):						
Net KWH Generated.....	26,349	25,165	23,135	20,741	20,950	20,430
Net KWH Purchased and Interchanged.....	1,675	1,604	789	884	790	918
Total Output.....	28,024	26,769	23,924	21,625	21,740	21,348
Interdepartmental Sales, Line Loss, Etc.....	3,254	3,227	2,941	2,558	2,568	2,516
Total Sales.....	24,770	23,542	20,983	19,067	19,172	18,832
System Peak Load—Including Interruptible Load (MW)						
Total Capability (Including Contract Purchases)	4,969	4,657	4,161	3,977	3,896	3,782
—At Time of System Peak Load (MW)	5,620	5,734	5,686	5,250	4,707	4,732
STEAM:						
Steam Revenues (thousands).....	\$ 43,865	\$ 37,838	\$ 28,106	\$ 21,249	\$ 24,543	\$ 18,689
Steam Sales—KWH (millions).....	3,006	2,996	2,819	2,514	2,856	2,880
Steam Sales—millions of pounds.....	16,709	16,987	19,346	18,772	23,829	25,723
GAS:						
Gas Revenues (thousands).....	\$ 21,385	\$ 15,571	\$ 11,090	\$ 8,655	\$ 7,670	\$ 7,237
Number of customers.....	80,937	80,116	77,260	74,350	72,900	71,854
Output—MM/cu. ft. of natural gas purchased.....	11,024	10,072	10,074	8,997	8,420	9,503
Sales—MM/cu. ft.....	10,512	9,866	9,782	8,443	8,462	9,115
Weather Data:						
Cooling degree days (Normal 2,741).....	2,945	2,918	2,286	2,636	2,686	2,734
Percentage change from normal.....	7.4	6.5	(16.6)	(3.8)	(2.0)	(.3)
Heating degree days (Normal 1,544).....	2,012	1,655	1,782	1,472	1,256	1,551
Percentage change from normal.....	30.3	7.2	15.4	(4.7)	(18.7)	.5

* For the years prior to 1976 both industrial and temporary construction were classified as industrial customers.

BUSINESS

For the twelve months ended June 30, 1978, 90% of the Company's operating revenues were derived from the electric utility business, 7% from the steam business and 3% from the gas business. Of the electric operating revenues, 54% were derived from within Louisiana and 46% from within Texas. The gas and steam products businesses were conducted entirely in Louisiana. Additional information about the principal classes of service and the operating revenues therefrom are provided under "Operating Statistics and Certain Details of Revenues."

The Company generates substantially all of the electric energy it sells. The Company has interconnection agreements with Central Louisiana Electric Company, Inc., Louisiana Power & Light Company, the cities of Lafayette and Plaquemine, Louisiana, and Cajun Electric Power Cooperative, Inc., which contain terms upon which the parties may provide each other emergency, economy, maintenance and other types of electric service. Through such interconnections, the Company also participates in a diversity interchange with the Tennessee Valley Authority. The Company's participation in such interchange, presently 215,000 kilowatts, is to be reduced under contract in the latter parts of 1979 and 1980 to 158,000 and 100,000 kilowatts respectively. The Company also has an interconnection arrangement with Houston Lighting & Power Company providing the Company with a minor amount of emergency service only. The Company and Central & South West Corporation are proceeding with plans for interconnection of their systems.

The Company's three steam products customers are large industrial corporations which use process steam and by-product electricity supplied from the Company's specially designed steam-electric extraction plants. The customers have been supplying the great majority of the fuel requirements for these plants. While the Company does not have long-term contracts with such customers at this time, the Company does expect to continue supplying such customers until at least the early to mid-1980's either pursuant to new contracts being negotiated, or on an interim basis until such time as the customers complete alternative facilities now being considered by them.

The Company distributes natural gas in Baton Rouge and its environs, which have an estimated population of 285,850. Such gas is purchased under an agreement with a single supplier, which contract can be cancelled on one year's notice by either party, subject to regulatory approval.

There are 21 rural electric cooperatives sponsored by the Rural Electrification Administration, 21 municipal electric systems, and five investor-owned utilities operating within or adjacent to the service area of the Company. Their operation in certain areas and required regulatory certification for extension of service tend to restrict expansion of the Company's system in such areas. However, the Company is continuing to extend its service into areas around such municipalities, areas adjacent to such other utilities, and into rural areas.

PRESENT GENERATING FACILITIES

The following table sets forth information with respect to the present generating stations of the Company. Information with respect to capability is based on current operating conditions.

<u>Generating Station</u>	<u>Fuel Capability</u>	<u>June 30, 1978 Capability (Megawatts)</u>	<u>Years placed in service</u>
In Louisiana:			
LOUISIANA NO. 1 (9 Units)	Gas	147	1930-54
LOUISIANA NO. 2 (3 Units)	Gas	154	1950-53
WILLOW GLEN			
Units 1-2	Gas	344	1960-64
Unit 3	Gas/Oil	580/522*	1968
Unit 4	Gas/Oil	580/522*	1973
Unit 5	Oil/Gas	550	1976
ROY S. NELSON			
Units 1-3	Gas	346	1959-60
Unit 4	Gas/Oil	580/522*	1970

<u>Generating Station</u>	<u>Fuel Capability</u>	<u>June 30, 1978 Capability (Megawatts)</u>	<u>Years placed in service</u>
In Texas:			
NECHES			
Units 3-8	Gas	427	1938-59
LEWIS CREEK			
Units 1-2	Gas	530	1970-71
SABINE			
Units 1-4	Gas	1,458	1962-74

* The Company is currently evaluating the results of tests of the capability of these units when operated with oil as fuel. Preliminary analysis indicates a further loss of capability (de-rating), as compared to their gas-fired capability, from that indicated in the table.

Willow Glen Unit No. 5 was constructed for continuous operation with either natural gas or heavy (No. 6) oil as fuel, or a combination of both (split-firing). All of the other generating stations were originally constructed for continuous operation only with natural gas as fuel; however, Willow Glen Units Nos. 3 and 4 and Roy S. Nelson Unit No. 4 have been adapted to continuous No. 6 oil burning capability and may also be split-fired. All units except Neches Units 3-6 and Sabine Units 1 and 4 are capable of burning light (No. 2) fuel oil for at least short periods.

PROPOSED GENERATING FACILITIES

For several years the construction program of the Company has been under continual review and change principally because of inadequate rate relief, particularly in Louisiana (see "Regulation and Rates"), regulatory requirements and delays (see "Nuclear Units" and "Fuel Supply"), fluctuating peak load growth, substantial increases in construction costs, delay in obtaining joint participation by others in the nuclear projects, and uncertain national energy policies.

Annual peak load growth has fluctuated substantially. Historic growth in the range of 9-11% fell during the period 1974-76 to a range of 2-4% and has in 1977-78 returned to a level of approximately 12% and 10%, respectively. (See "Operating Statistics and Certain Details of Revenues.") The Company's system peak load during 1978 was approximately 5,138 megawatts through August 31, at which time the Company had a generating reserve capacity of approximately 14%. The Company believes that the lower rate of load growth experienced during 1974-76 was attributable principally to mild weather conditions, conservation programs, the impact upon consumption levels of higher prices charged for electricity, and generally uncertain economic conditions. Based upon its most recent studies the Company is now planning its construction program for an anticipated average annual load growth of approximately 6% and reserve capacity including purchased power of a minimum of 12%.

The Company's present plans for construction of additional generating facilities as outlined below, are subject to continuing review and change, particularly in the light of the uncertainties mentioned above.

<u>Generating Station</u>	<u>Fuel Capability</u>	<u>Planned Capability (Megawatts)</u>	<u>Scheduled In-Service Date</u>	<u>Expenditures Through 1977</u>	<u>Expenditures Budgeted For 1978*</u>	<u>Estimated Total Cost*</u>
(In Thousands)						
In Louisiana:						
ROY S. NELSON						
Unit 5	Coal	540	1982 }	\$ 33,341	\$ 37,356	\$ 701,289
Unit 6	Coal	540	1982 }			
RIVER BEND						
Unit 1	Nuclear	940	1984	\$232,695	\$124,418	\$1,333,193
Unit 2	Nuclear	940	(a)	\$ 27,099	\$ 16,509	(b)
In Texas:						
SABINE						
Unit 5	Oil/Gas	480	1979	\$ 75,443	\$ 29,119	\$ 120,311

(a) A specific in-service date has not yet been set.

(b) The Company cannot make a reasonably reliable estimate of the total cost of such unit at this time because of the extended in-service date.

* Updated as of August, 1978.

The costs in the above table include allowance for funds used during construction and presently planned environmental control facilities. Costs of nuclear facilities exclude expenditures toward the cost of nuclear fuel. (See "Fuel Supply-Nuclear Fuel").

In addition to the proposed generating facilities set forth in the table above, the Company's present estimates indicate the need for the construction of additional units having an aggregate capability of at least 2,400 megawatts in the period 1985-1988 based upon 6% load growth and 12% generating reserves.

The Company has been negotiating with Cajun Electric Power Cooperative, Inc. and more recently with Sam Rayburn Dam Electric Cooperative, Inc. with respect to their participation in the ownership of River Bend Station to the extent of 40%. While negotiations are proceeding toward such participation, there can be no assurance that it will be accomplished. If such participation is not secured by early 1979 or alternative arrangements made for participations by others, the Company would either have to undertake construction of River Bend Unit No. 1 without other participants and procure the necessary funds for such construction or if unable to do so to further delay construction of such unit, which would result in substantial increases in its ultimate cost and impair the Company's ability to serve its anticipated load. There is no present assurance that such alternative arrangements can be accomplished.

Current guidelines of the Southwest Power Pool, with which the Company is interconnected, provide for maintenance of a minimum generating capacity reserve of 12%. This guideline is taken into account in the Company's plans; however, based upon present plans and the derating of units which the Company is experiencing and expects to experience upon operation of units fueled with oil (See "Fuel Supply—Conversion of Units"), the current construction program is not expected to provide such minimum reserves consistently throughout the construction period reflected in the table above without purchases of power from others. If actual load growth should exceed present estimates, further deficiencies in reserves or even shortages of capacity could occur. Further, preliminary studies indicate that during certain years in the early 1980's the Company may not meet the Pool guidelines required to qualify for the minimum reserve of 12% and may instead be subject to the Pool guideline requiring 15% reserves. To the extent that deficiencies in reserves should occur, the Company would attempt to obtain any needed capacity or energy through purchases from others, but cannot be assured that supplies in needed amounts will be available. Current information available to the Company indicates that the Southwest Power Pool may in the aggregate have a significant reserve shortage during the same period which will limit supplies available for purchase.

To the extent it should become necessary to cover deficiencies and to the extent sufficient lead time is available, the Company may also install gas/oil-fueled turbine units. No material amounts are presently included in the construction program for these units. The Company believes such units would take approximately two years to install and could be in service by mid-1981, presently estimated as the time at which reserve deficiencies may occur. The number of such units, if any, which may be installed has not been determined, but the Company estimates that six of such units having an aggregate 300,000 kilowatt capacity would have an aggregate cost of approximately \$55,000,000 (including allowance for funds used during construction). For limitations on use of gas in Texas for such units under existing and proposed Texas Railroad Commission ("TRC") orders, see "Fuel Supply—Natural Gas." If the turbine units were to be located in Texas, approval of the Public Utility Commission of Texas would have to be obtained and there can be no assurance that it would be granted.

The Company's plan for future peak loads and its presently scheduled construction program may change because of rate and financial limitations, load growth changes, construction and regulatory contingencies, and the effects of various programs which may be adopted or imposed to conserve electricity and fuel (see below and "Fuel Supply"). The Company is keeping its construction plans as flexible as practicable with the intention of accommodating any further changes that may develop. Actual expenditures and estimates may be affected by greater than anticipated escalation in costs, additional expenditures for environmental and other factors, and further acceleration or delay of portions of such program.

With respect to the planned units, the Company has in the ordinary course of business entered into contracts and letters of intent and made substantial financial commitments relating to the construction and equipping of the units. If at some point in the future any planned units or applications for permits should

be cancelled or abandoned and if and to the extent that costs expended thereon cannot be properly assigned to the sites retained for future use or transferred to other projects, such costs, the amount of which cannot presently be estimated, may then have to be written off or amortized over an appropriate period. (See "Nuclear Units" with respect to disposition of certain costs related to cancellation of previously planned construction at the Blue Hills Station.)

For discussion of the possible impact of limitations on financing and fuel usage upon the operations of existing units and construction of planned generating units, see "Construction and Financing Program," "Regulation and Rates," and "Fuel Supply."

Nuclear Units

Since 1973 the Company has been pursuing the licensing and construction of four nuclear-fueled units for service during the mid-1980's and early 1990's, consisting of River Bend Units 1 and 2 to be built near St. Francisville, Louisiana, and Blue Hills Units 1 and 2 in Newton County, Texas.

Construction and operation of nuclear-fueled units are subject to regulation by appropriate governmental agencies, including the issuing of permits and licenses by the Nuclear Regulatory Commission ("NRC"). In September, 1973, the Company applied for construction permits for the two River Bend units. The NRC issued construction permits to the Company on March 25, 1977, authorizing the construction of these two units. Because of two court decisions adversely affecting all pending applications for construction permits, the NRC issued these permits on a conditional basis pending adoption of a rule concerning reprocessing of spent nuclear fuel and waste disposal. The U.S. Supreme Court has reversed these decisions and remanded them to the U.S. Court of Appeals for further consideration. Such permits are subject to the final outcome of the proceedings resulting from such court decisions. Because of the conditional basis of such construction permits, further delays may be encountered which could result in additional revisions of the anticipated in-service dates. Actual site preparation work for the River Bend units commenced on September 15, 1975, pursuant to a limited work authorization issued by the NRC.

Although expenditures have continued for equipment and contracts, construction work on River Bend Units 1 and 2 at the site was temporarily suspended in March, 1977 due to the absence of favorable rate relief in Louisiana and pending negotiations for 40% participation in such units by one or more neighboring rural electric cooperatives and utility companies. Present plans are to reactivate construction of River Bend Unit 1 in early 1979 with a proposed in-service date of 1984. Through June 30, 1978, costs of approximately \$305 million had been incurred on River Bend Unit 1, including approximately \$32.9 million in allowance for funds used during construction.

The Board of Directors of the Company at its May, 1978 meeting accepted management's recommendations to consider the uncoupling of construction of River Bend Unit 2 from Unit 1. River Bend Unit 2 was scheduled for operation in the mid-1980's. Based upon consultation with suppliers and agreement on extension of major contracts, the Board of Directors, at its August, 1978 meeting, decided that River Bend Unit 2 will be retained as a future generating unit and a final decision on its construction schedule will be deferred until the end of 1980. Approximately \$35.6 million had been expended on River Bend Unit 2 through June 30, 1978, including \$29.5 million in related equipment contracts, \$3.1 million in related engineering, \$2.7 million in allowance for funds used during construction and \$.3 million in miscellaneous charges. From June 30, 1978, through the end of 1980, additional expenditures and commitments of approximately \$46 million to \$56 million are expected with respect to this unit. Of this amount, approximately \$1 million relates to engineering, \$5 million to allowance for funds used during construction, \$28-\$38 million to related equipment contracts and purchase orders and \$12 million to future commitments on equipment contracts.

In August, 1974, the Company filed its application for permits to construct the two Blue Hills nuclear units to be built in Texas. To date the Company has not received notice of any intervention having been filed in such proceeding, except that the State of Texas, acting through its Attorney-General, has filed a request to intervene as an interested state. At its May, 1978 meeting, the Board of Directors accepted management's recommendations to consider an indefinite deferral of further planning and construction of the Blue Hills Units. After study, the Board of Directors authorized the cancellation of the Blue Hills Units at its August, 1978 meeting. The Company will retain the Blue Hills site, attempt to secure approvals from

the NRC for future use of the site for nuclear generation purposes, and maintain it as a site for future nuclear generating units.

Through June 30, 1978, approximately \$47.3 million had been expended on Blue Hills Units 1 and 2, including approximately \$5.8 million in related equipment contracts, \$27.8 million in related engineering, \$2.2 million in land and easements, \$9.2 million in allowance for funds used during construction and \$2.3 million in miscellaneous charges. After June 30, 1978, an additional \$8.5 million will be expended to cancel equipment commitments previously made by the Company bringing total expenditures to approximately \$55.8 million. Assuming that the Company obtains requisite NRC site approval, approximately \$30.8 million of such total expenditures is assignable to the site retained for future nuclear generation, leaving cancellation costs of approximately \$25 million. Of the \$25 million, approximately \$14.3 million relates to cancellation of equipment contracts, \$7.8 million to related engineering and \$2.9 million to related miscellaneous charges and allowance for funds used during construction. The Company plans to request authority from the Public Utility Commission of Texas, the Louisiana Public Service Commission and the Federal Energy Regulatory Commission to allow such cancellation costs to be recovered through increased rates by amortizing them as cost-of-service items over a reasonable period of time. It would expect decisions from the Commissions on the rate treatment for such costs in late 1978 or 1979. There can be no assurance that the regulatory commissions will grant such rate relief. The Company presently proposes to commence amortizing these cancellation costs over a five-year period beginning in January, 1979, although rate orders may not have been received by that time. In the event one or more of the Commissions refuses the Company's request to recover such costs through the Company's rates for service, the applicable portion of such costs will be written off against income at that time which would have an adverse effect on the results of operations of the Company.

The expenditure of funds, as well as execution of contracts for the construction of nuclear units and the purchase of equipment and fuel therefor, prior to assurance that unconditional construction permits and operating and other related permits will be obtained, has been deemed necessary by the Company to put it in a position to make application for the regulatory approvals required and to enable it to complete construction within the time necessary to meet estimated future load plans.

FUEL SUPPLY

The Company used natural gas almost exclusively as fuel through 1972. Since that time the Company's use of fuel oil has substantially increased. During the six months ended June 30, 1978 approximately 30% of total generation by the Company was produced with fuel oil.

During the periods indicated below, the Company's total generation (excluding generation from its steam products units) was provided by various fuels approximately as follows:

	<u>1977</u>	<u>6 mos. ended June 30, 1978</u>
By gas under contracts then having a term of five years or longer:		
from Exxon Company, U.S.A.	48%	43%
from United Gas Pipeline Co.	7	3
from Texas Intrastate Gas Co.	3	3
By gas under contract with Monterey Pipeline Co.*	5	5
By gas under short-term or interruptible contracts	12	16
By fuel oil.....	25	30
	<u>100%</u>	<u>100%</u>

* Contract expires January 1, 1981.

Natural Gas

Boiler gas for the Company's Texas units is provided under contracts with Exxon Company, U.S.A., ("Exxon") and Texas Intrastate Gas Company ("Texas Intrastate"), both running until January 1, 1985.

Exxon (which supplies fuel for approximately 44% of the total generating capability of the Company which was responsible for 45% of total generation in the twelve months ended June 30, 1978), has stated to the TRC that it has sufficient gas reserves to supply the aggregate quantities of gas contracted, but at Exxon's request negotiations are being conducted with the Company to discuss possible deliverability problems during the later contract years. Gradual reduction of deliveries and extension of the contract term (which are expected to require TRC approval under its existing orders) and price increases over the contract terms as extended are being discussed.

Texas Intrastate (which supplies fuel for approximately 2% of the total generating capability of the Company) is not presently delivering the quantities required by its contract. However, arrangements have been made, which will run to April 1, 1979, which have resulted in an increase in the deliveries of gas to the Company over the quantities which Texas Intrastate had actually been delivering, an increase in price, and a reservation of rights under the existing contract with such supplier.

These existing supplies of natural gas in Texas and any future arrangements for additional supplies in Texas during or after the period of existing contracts are subject to present and future rules and orders of the TRC. These rules and orders presently provide for a phase out of natural gas as a boiler fuel in Texas; restrictions on sales and transportation by gas utilities subject to TRC jurisdiction of natural gas for such use (including use in gas turbines) for the generation of steam or electricity; and statewide priorities upon curtailment that would cause deliveries to large industrial customers such as the Company to be curtailed before deliveries to other customers. If the TRC phase-out order remains in effect, it would effectively prevent the Company from obtaining natural gas in quantities needed to fuel its Texas units when existing supply contracts terminate. However, in its order the TRC has reserved the right to grant exceptions in particular circumstances where it determines that it is in the public interest for natural gas to be used as a boiler fuel, and the TRC has under advisement proposed rules which would permit the Company to obtain additional supplies of natural gas. Except to the extent the Company is successful in obtaining additional gas supplies pursuant to exceptions granted by the TRC or under future TRC rules, or that gas-fired generation in Texas is replaced by other generation in the system, the Company will be required to convert some of its Texas units to other fossil fuel capability earlier than would have been necessary by reason of the expiration of existing contracts (see "Conversion of Units" below.) These rules may also affect the Company's consideration of installing gas/oil burning turbines. Except as indicated herein the Company is presently unable to predict the effect that present or future TRC rules or orders will have on its operations.

Boiler gas is provided in Louisiana under a contract running until January 1, 1981, with Monterey Pipeline Company and under a contract running until 1987 with United Gas Pipe Line Company ("United"). United provides gas to the Company's Willow Glen (other than Units Nos. 4 and 5) and Roy S. Nelson power stations in Louisiana. Curtailments of gas deliveries by United since November, 1970, at which time United was supplying approximately 52% of the Company's fuel requirements, have reduced it to a relatively small supplier at this time and further curtailment is expected. There are numerous FERC proceedings and related court appeals now in various stages involving the Company, United, and other customers of United. Such proceedings involve numerous questions affecting United's gas supply service to the Company. An existing FERC order provides that if it is necessary for the Company to avoid shedding firm electric load, United is authorized to deliver additional gas to the Company to the extent required to avoid such load shedding, but any such additional deliveries are to be offset against subsequent gas allotments from United. The Company cannot at this time anticipate the final outcome or the overall impact of such proceedings upon its gas supply from United or the operation of its generating units served by United.

In order to obtain gas to offset the effect of existing gas curtailment, the Company and its wholly-owned subsidiary, Varibus Corporation ("Varibus") (see below), have been purchasing gas on a temporary, interruptible basis and on a firm short-term basis from several intrastate suppliers in Louisiana,

and expect to continue to purchase gas on such bases to the extent available. Such gas is currently available but there can be no assurance that supplies will remain available. The Company is continuing its efforts to purchase additional gas.

Different versions of a National Energy Act have been passed by the House of Representatives and the Senate and have been and are presently being considered by a House-Senate conference committee. The conference committee has reached agreement in principle on provisions of the legislation involving energy conservation, public utility regulatory reform and natural gas pricing and allocation, including the following: granting the federal government the right to intervene in state and local rate-making proceedings for gas and electric utilities under certain conditions; granting the FERC authority to order mandatory interconnection, pooling and wheeling of power under certain conditions; granting the federal government the authority to allocate certain supplies of intrastate natural gas to interstate pipelines under certain conditions; placing federal ceiling prices on natural gas produced and sold in the same state; exempting from federal jurisdiction certain short-term sales of gas by intrastate and interstate pipelines to other intrastate and interstate pipelines and their customers; and phasing out over a period of seven to nine years the federal price controls on certain categories of natural gas. Coal conversion legislation approved by the conference committee granting the Department of Energy authority to prohibit the use of oil and natural gas as a boiler fuel in most new electric power plants and generally prohibiting the use of natural gas and oil as fuels in any existing power plant after 1990, has recently been passed by the Senate and awaits House consideration. This legislation provides incentives for conversion of facilities to the use of coal and penalties for the use of oil and gas as fuel. Legislative proposals that would impose federal excise taxes on certain uses of oil and natural gas and on the wellhead price of crude oil and natural gas liquids have yet to be resolved by the conference committee. It is not possible to predict the ultimate content of any such legislation that may be enacted. If adopted, however, some of the proposed measures would adversely affect the Company.

Conversion of Units. By reason of existing and proposed legal restrictions upon the use of natural gas as boiler fuel described above, most of the 59 percent of total generating capability of the Company not presently able to burn oil on a continuous basis will have to be adapted to have a continuous heavy oil, coal, or lignite burning capability. Depending upon the legal restriction which may apply, such conversions could be required by 1985 or 1990.

The capital costs of conversion to oil of the Texas units which are economically susceptible of such conversion, stated in 1978 costs, are presently estimated at approximately \$200 million and such conversion would result in increased operating costs, but estimates of such costs are not presently available. Such conversion work has not commenced. To meet the problems anticipated from curtailment of gas deliveries by United, the Company has adapted two of its gas-fired units served by United in Louisiana to enable them to have a continuous heavy oil burning and gas burning capability at a cost of \$105 million including emission control equipment and incidental supply facilities. The Company has abandoned conversion work on other Louisiana units, principally because the Company is currently able to purchase adequate supplies of gas on a short-term basis to permit it to burn gas and split-fire such units with gas and No. 2 oil to the extent required. It is estimated that the capital costs of conversion to oil of the remaining Louisiana units which are economically susceptible of such conversion would be approximately \$70 million, stated in 1978 costs.

After conversion to the capability of continuously using oil as fuel, the Company's equipment is expected to need more maintenance than when operated with natural gas. Adaption of units to use heavy fuel oil on a continuous basis has resulted in a greater than anticipated reduction in the capability of such units. Actual experience to date has indicated a substantial reduction in capability (see the table under "Present Generating Facilities.") In addition, conversion work has resulted in units being out of service for long periods causing significant loss of available generating reserves during such periods and resulting in higher than normal purchases of power from other systems. Also, more problems may be experienced with air pollution in using oil and coal as fuel than the Company presently experiences in using gas.

If legal restrictions are imposed on the use of both gas and oil for boiler fuel use, conversion to fueling by coal or lignite, directly or through gasification (if determined to be commercially feasible), would be

required. The Company has scheduled the construction of new coal units in the future (see "Proposed Generating Units"). Construction of such units together with nuclear units presently under construction, was planned to give the Company a balanced fuel mix. However, due to various factors, including, among others, the anticipated high cost of conversion, the Company is not presently converting its existing generating units to coal. The cost of converting or replacing the Company's present generating capability of 5,522 megawatts from gas and oil to coal has been estimated to be approximately \$5.7 billion. Cost estimates for conversion to fueling by gasification processes are not available.

Fuel Oil

The Company has experienced no reduction or interruption in service to the Company's customers because of fuel supply shortages or fuel allocation. However, the ability of the Company to avoid future interruptions and curtailments will depend upon the success of its efforts to continue to obtain necessary fuel to supplement its curtailed gas supply under then existing market conditions and applicable governmental allocation and rationing programs.

The Company has been purchasing fuel oil on the spot market as required but neither the Company nor Varibus has as yet obtained substantial long-term contracts for fuel oil. However, the Company is now attempting to secure a portion of its fuel oil under short-term contracts. The Company has been able to obtain, and expects to continue to be able at least during the balance of 1978 to obtain, an adequate supply of fuel oil, but cannot be assured of being able to obtain its total future fuel oil requirements. The Federal Energy Administration ("FEA") allocated fuel oil to users from 1973 until July 1, 1976, but is not presently doing so.

The Company owns and maintains storage facilities for No. 6 fuel oil, principally at its Willow Glen and Roy S. Nelson stations. On June 30, 1978, the Company had an oil inventory on hand at these stations which was in excess of the largest monthly requirements for the supply of oil expected during 1978. The Company plans to maintain an inventory of oil which approximately equals a 30 days' supply for these stations.

The Company maintains the capability for using No. 2 fuel oil alone in its gas-fired units for short periods. The Company has burned substantial quantities of No. 2 fuel oil in conjunction with gas to meet load demand at certain times and may burn larger quantities of such oil to meet future load demand if such oil is available.

Gas and Oil Costs

The Company's rate schedules and contracts covering substantially all kilowatt-hour sales contain fuel adjustment provisions making automatic adjustments for changes in fuel costs. (See "Regulation and Rates" with respect to the effect of lags in such adjustments and "Management's Discussion and Analysis of the Statements of Income.")

The cost of natural gas and fuel oil experienced since 1972 has been as follows:

	Weighted Average		
	Combined Cost per KWH	Natural Gas Cost per KWH	Fuel Oil Cost per KWH
1972.....	.237¢	.232¢	.781¢
1973.....	.398¢	.287¢	1.078¢
1974.....	.647¢	.402¢	2.759¢
1975.....	.593¢	.515¢	2.653¢
1976.....	.781¢	.648¢	1.864¢
1977.....	1.012¢	.630¢	2.092¢
Twelve Months Ended June 30, 1978.....	1.121¢	.745¢	2.091¢

For the twelve months ended June 30, 1978, the system-wide average fuel cost was 104.2¢ per million Btu as compared to 94.8¢ per million Btu for the year 1977. The Exxon contract price is 21.5¢ per million Btu while short-term and interruptible gas prices to the Company as of June 30, 1978, ranged between \$1.81 and \$2.15 per million Btu. Through June 30, 1978, the most recent price per barrel, excluding transportation, paid by the Company for open market purchases of No. 6 fuel oil was \$10.85 and for No. 2 fuel oil was \$13.86, amounting on the average to \$1.75 and \$2.35 per million Btu respectively.

Coal

The Company has contracted with Kerr-McGee Coal Corporation for a supply of 50 million tons of low sulfur Wyoming coal over a 20-year period. The Company's current projections indicate such quantity of coal will only be sufficient to satisfy slightly more than the fuel requirement of one of the coal-fired units for this period. The contract provides that the coal is to have an average sulfur content (as received) of approximately .48% by weight.

Recent federal legislation affecting surface mining of coal would result in an increase in the cost of coal from such supplier, but, based on the information from such supplier, is not presently expected to make the coal from this source unavailable.

The Company expects to be able to make arrangements for transportation of the Wyoming coal in time for new in-service dates proposed for the new coal units. While the cost of transporting such coal approximately 1,500 miles will be substantial, the Company deems the use of such coal, including transportation costs, to be economically feasible in view of the high cost and availability problems of alternative fossil fuels.

Due to projected fuel needs in the 1980's, the Company is currently evaluating other sources of coal supply.

Nuclear Fuel

The Company has contracts with Gulf Oil Corporation (since assigned by Gulf to General Atomic Company, a partnership between Gulf and Scallop Nuclear, Inc.) and Ranchers Exploration and Development Corporation and HNG Oil Company for the purchase by the Company of approximately 5,000,000 pounds of uranium concentrates. Under such contracts, approximately 2,250,000 pounds have been delivered through June 30, 1978, at prices averaging \$21.25 per pound. Approximately 650,000 pounds of the amount remaining to be delivered under the contracts are subject to certain disputes as to price and delivery has been put in doubt by a suit instituted in September, 1977, by Reserve Oil & Minerals Corporation in the U. S. District Court in Albuquerque, New Mexico, against Gulf, et al. The suit seeks to have the contract under which Reserve and Sohio Petroleum Company were to supply concentrates to Gulf for delivery to the Company declared void because of certain alleged violations of federal and state antitrust laws. Except to the extent that uranium may be available through these contracts or may be discovered in the Company's exploration efforts (see "Varibus Corporation"), additional concentrates will have to be acquired by the Company for the long-term operation of the nuclear units. The market price of concentrates on June 30, 1978, was approximately \$43.40 per pound.

Because of the rescheduling of the in-service dates of the River Bend units (see "Proposed Generating Facilities—Nuclear Units") in 1977, the Company sold 500,000 pounds of concentrates previously delivered to it. The Company is considering the sale of approximately 2,000,000 pounds of concentrates, with certain repurchase rights (see "Construction and Financing Program"). Due to the rescheduling of the River Bend units, the Company may consider deferring deliveries or making sales of additional concentrates. The 4,500,000 pounds still on hand or to be delivered under such contracts would be a sufficient quantity to provide the initial core for the first River Bend unit and to provide fuel for approximately eight years' operation of such unit.

The Company entered into thirty-year fixed-commitment contracts with the Energy Research and Development Administration for enrichment of the fuel for four proposed nuclear units, and a contract has been entered into for conversion of eight million pounds of uranium. The Company sold all of its rights for enrichment services with respect to one of the Blue Hills units and sold the first ten years' rights with respect to the other Blue Hills unit. Since construction of these two units has been abandoned (see "Proposed Generating Facilities—Nuclear Units"), the Company intends to attempt to sell its remaining rights under this contract.

Varibus Corporation

The Company's wholly-owned subsidiary, Varibus Corporation, has supplied and will continue to supply at cost a portion of the Company's natural gas fuel requirements. During the years 1976 and 1977, 13.1% and 5.5% of the natural gas used was supplied by Varibus. The gas supplied by Varibus has been purchased by it under both short-term firm and interruptible arrangements.

Varibus is involved in programs to prospect for and develop fossil fuel resources as well as other sources of fuel. Substantially all of the cash requirements of Varibus for these programs have been borrowed by Varibus or advanced by the Company. From early 1970 to date, approximately \$11.96 million has been expended in oil and gas lease acquisitions and associated exploration and development programs. An additional \$13.89 million (subject to adjustments for title defects) has been invested in lignite lease acquisitions with a balance of approximately \$7.1 million, including interest payable over the next two years, and \$1.47 million has been invested in uranium exploration and other related activities for the benefit of the Company as more fully explained in the following paragraphs.

Oil and gas exploration programs in Mississippi have resulted in some commercial production but are not presently expected to provide the Company a direct source of fuel. Production from these programs is being marketed in the areas of discovery. Varibus has written off approximately \$1,889,000 of lease acquisition costs and \$1,597,000 of exploration costs for these projects through June 30, 1978. Varibus may make material expenditures in the future to develop such properties and process production, and the Company may deem it advisable to make funds available to Varibus for such purpose. In the event exploration or development of any prospect is abandoned, it is anticipated that certain costs associated therewith may either be written off at the time of abandonment or amortized against production.

Varibus has acquired lignite leases on approximately 17,500 acres of land in Texas near the Company's service area. If Varibus should develop such deposits, it would be obligated to provide or arrange for such financing, presently expected to exceed \$50 million, primarily for mining equipment, as may be needed to obtain production in the mid-1980's. The Company is currently evaluating these lignite deposits and others for possible future use. Varibus has been advised that the existence of certain high-pressure natural gas reserves, not owned by Varibus, under a significant portion of the leases could affect the recoverability of the lignite. The significance of this situation is under investigation at this time. If the Company chooses to use the lignite to meet planned generation requirements, all or a portion of the leases may be assigned to the Company.

In May, 1976, Varibus entered into contracts with the Felmont Oil Corporation for two uranium exploration projects. The arrangements call for Varibus to advance funds over periods up to three years which, in the aggregate, are not presently expected to exceed approximately \$2.4 million for the purpose of exploratory drilling to test prospects and prospect and search for deposits of uranium-bearing ores. Varibus' participation may earn it an interest in discoveries and a limited call upon Felmont's share. There is no assurance that this effort will be successful in locating any deposits. If any of the efforts are successful, before the ores could be available as a new source of fuel for the Company's nuclear units, they would have to be mined and milled.

See Note (5) to Statements of Income for the Company's equity in Varibus' losses.

REGULATION AND RATES

The retail rates and services of the Company in Texas are subject to regulation by municipal authorities or the Public Utility Commission of Texas (the "PUCT"). Texas law also requires utilities to obtain initially from the PUCT certificates of public convenience and necessity to authorize operations in areas already served and thereafter to authorize extensions of service into certain new areas.

The Company filed for a \$24,300,000 retail rate increase on December 30, 1977 with the PUCT and with the cities the Company serves. This increase was based on an average 1976 level of business, a requested 15% return on equity and the inclusion of all construction work in progress in rate base and the elimination of all AFUDC from income. The PUCT granted a revenue increase totaling \$10,693,159. The revised tariffs became effective on June 28, 1978 in unincorporated areas and in cities which had approved the same increase as the PUCT, and in July, 1978 in those cities which had failed to act. Temporary rates, at the level approved by the PUCT for rural areas, were implemented in thirteen cities by the Company with PUCT approval in July, 1978, subject to refund after hearings expected in October, 1978. The PUCT allowed 71.57% of construction work in progress in rate base, eliminating the related AFUDC from income, and allowed a 9.209% return on rate base, equivalent to 14% return on equity.

The Louisiana Public Service Commission ("LPSC") has jurisdiction over the retail rates and services of the Company. On December 31, 1975, the Company filed with the LPSC a general electric rate increase application which, if granted in full, would have produced additional annual revenues of \$23,800,000 based on the 1975 level of business. At the same time the Company also filed with the LPSC an application for general gas rate increases which, if granted in full, would have produced additional annual revenues of \$2,100,000 based on the 1975 level of business. On February 4, 1977, the LPSC denied in full the Company's application for increased electric rates and granted a gas rate increase, which has been in effect since February 16, 1977, sufficient to produce \$717,575 of operating income after taxes.

The Company appealed the order of the LPSC to a state district court which remanded the case back to the LPSC to determine rates using an AFUDC rate of 7.5% rather than 8.7% and based upon attrition since January 1, 1976. The LPSC, after hearings, returned the matter to the District Court which ordered an increase based on attrition of \$1,253,000, effective February 6, 1978. The Company's appeal of this case to the Louisiana State Supreme Court is pending.

The Company also filed on December 19, 1977 for a \$42,956,463 increase in Louisiana retail electric rates based on an average 1976 level of business with the same assumptions as the case filed in Texas. Updated data for a 1977 level of business, as requested by the Commission, now indicate a revenue deficiency based on 1977 of \$65,743,169, plus attrition since June, 1977 in the amount of \$9,914,000 for a total revenue deficiency of \$75,657,169. The LPSC is expected to act on this case by the end of the year.

Both state commissions have been reviewing rate design of all electric utilities subject to their jurisdiction. Generic rate hearings were recently concluded in Texas, and the LPSC has issued a general order for all utilities to submit restructured rates which consider (1) utilization of rate forms other than declining block, (2) marginal or long-run incremental costs, and (3) other rate forms deemed appropriate; with such restructured rates providing neither a revenue increase nor a revenue decrease. The impact of these hearings on the Company is not determinable at this time.

In certain of its activities, including its wholesale sales of electric energy in interstate commerce and the rates therefor, transmission of electric energy in interstate commerce, and the issuance and sale of securities, including the Additional Common Stock, the Company is subject to the jurisdiction of the FERC. A FERC order authorizing the Company to issue such Additional Common Stock has been applied for.

Effective September 2, 1976 as to certain rural electric cooperative customers and December 1, 1976 as to certain municipal customers, the FERC authorized the Company to charge, subject to hearings and refund, increased rates of approximately \$1,000,000 on an annual basis. The Company and its wholesale customers agreed to a reduction in the filed rates of approximately \$173,000 on an annual basis based on the 1975 level of business with a "moratorium" on future increases in such wholesale rates until April 1, 1979. The agreed reduction will be subject to refund, with interest, upon approval of the settlement now pending before the FERC.

The Company's fuel adjustment clauses involve lags in collection of two months in Louisiana and one month in wholesale for resale rates subject to FERC jurisdiction, while in Texas the fuel adjustment clause is billed on an estimated basis with a subsequent correction factor for over or under recovery of fuel costs.

While the operation of the Texas and FERC clauses resulted in recovery of substantially all fuel costs in 1977, the Company failed to recover approximately \$4,682,000 of fuel costs under the Louisiana clauses.

The Company is not a holding company or member of a holding company system subject to the Public Utility Holding Company Act of 1935.

EMPLOYEES

The Company has approximately 3,450 employees as of June 30, 1978. Of these, approximately 2,393 operating personnel are represented by the International Brotherhood of Electrical Workers. On June 23, 1978, the Company and such union reached agreement on a new two-year contract providing for a general wage increase of approximately 9% during the first year and 8% during the second year.

The Company has received notice that there are at least 11 charges of discrimination presently pending against it before the Equal Employment Opportunity Commission. These charges concern various procedures and practices of the Company that allegedly discriminate against the charging parties on the basis of race or sex. The limits of the potential classes, the remedies to be sought, and the amount and materiality of monetary claims, if any, which may arise therefrom are not presently known.

LITIGATION

On August 5, 1974, the Company filed a \$225 million damage suit in the Civil District Court for the Parish of Orleans, New Orleans, Louisiana against United Gas Pipe Line Company alleging United's failure to fulfill its contractual obligations to supply natural gas to the Company. The Company has also filed with the LPSC a petition for a declaratory order providing a method whereby that part of the damages, recovered from United in such suit attributable to increased cost of fuel passed through to the Company's customers under fuel adjustment clauses, would be made available to customers who receive service under the jurisdictional authority of the LPSC, less an appropriate portion of the costs of recovery. These proceedings, together with related proceedings before the FERC, are still pending and their outcome cannot presently be predicted.

In 1975, Varibus received initial notification from the FEA alleging that certain sales of oil by Varibus to the Company and to certain other purchasers, were subject to the FEA's Mandatory Petroleum Price Regulations. Pursuant to court order and upon instruction from the FEA, Varibus will refund approximately \$307,944 plus interest to customers other than the Company. The FEA has also advised Varibus and the Company that cumulative overcharges of approximately \$3,250,000 resulted from oil sales to the Company and that the FEA may issue a remedial order requiring Varibus to refund these overcharges to the Company. Varibus and the Company do not intend to contest any remedial order that the FEA may issue as to sales to the Company, but cannot guarantee that any such contest will be successful. Upon receipt of a refund from Varibus, if ordered and upheld, the Company expects that it would be treated as a reduction of the cost of oil then in its inventory, thereby resulting in a decrease of the rates charged to its customers over the period in which such oil is burned.

In January, 1976, Varibus gave notice of cancellation of a contract for the purchase of fuel oil from South Hampton Co. based upon a failure of the supplier to provide certain facilities by the stipulated date. The supplier filed suit against Varibus in February, 1976, in a District Court of Jefferson County, Texas, alleging a breach of the contract by Varibus and asserting claim for \$13,000,000 in damages. The Company believes the suit can be successfully defended.

ENVIRONMENTAL MATTERS

The application of federal and state restrictions to protect the environment involves or may involve review, certification or issuance of permits by various state or federal authorities, including the Administrator of the Environmental Protection Agency ("EPA"), the Corps of Engineers and the NRC, with respect to construction of new facilities or modification of existing facilities and with respect to initial or continued operation of facilities. The Company believes that it is in compliance with all presently

applicable requirements and is not involved in pending proceedings (other than the proceedings in the NRC relating to the construction permits discussed above under "Proposed Generating Facilities") and does not know of any threatened proceeding in which the Company is or will be charged with material violation of such requirements, except that to comply with EPA requirements the Company will construct a new settling pond at the Sabine Station at a cost of approximately \$500,000. However, environmental restrictions, particularly in regard to emissions into the air and water, may increase the cost of operations of the Company's generating installations and may in the future require substantial investments in new equipment at existing installations and significant increases in the cost of proposed new facilities. The Company believes that the capital expenditures and operating costs incurred in response to environmental considerations will be fully allowable for rate-making purposes. However, there can be no assurance that this will be the case. Depending upon certain regulatory developments, the Company presently anticipates that it may be necessary to make expenditures on its present units of up to \$10,000,000 for additional environmental control facilities. In addition, substantial portions of the Company's construction program for new generating units are expected to be for environmental control facilities. Of the estimated construction costs for 1978 and 1979, it is estimated that an aggregate of approximately \$10,800,000 and \$25,500,000, respectively, are for environmental control facilities at existing and planned units. (See "Construction and Financing Program".)

DESCRIPTION OF COMMON STOCK

The information set forth below is summarized from the Articles of Incorporation of the Company as amended, and from the indentures relating to the Company's debentures and mortgage bonds, which are Exhibits to the Registration Statement. The statements and descriptions hereinafter contained do not purport to be complete, and are qualified in their entirety by general reference to said documents, as amended.

The Articles of Incorporation provide that the number of authorized shares of the capital stock of the Company shall be 116,000,000 shares, divided into 6,000,000 shares of Preferred Stock—\$100 Par Value, 10,000,000 shares of Preferred Stock—without par value, and 100,000,000 shares of Common Stock, without par value. The holders of the Common Stock have no pre-emptive rights.

The presently outstanding Common Stock is, and the Additional Common Stock will be, listed on the New York, Midwest and Pacific stock exchanges. The Transfer Agents for the Common Stock are The American National Bank of Beaumont, Beaumont, Texas, The Chase Manhattan Bank N.A., New York, New York, and the First National Bank of Chicago, Chicago, Illinois.

Dividend Rights

The holders of the Common Stock shall be entitled to receive such dividends as may be declared by the Board of Directors, subject to the rights of creditors and of the holders of the Preferred Stock to receive cumulative quarterly dividends at the rates set forth in the titles of each series thereof, respectively, before any dividends are paid to holders of the Common Stock. For the amount of present Common Stock dividends, see "Common Stock Dividends and Price Range" and "Statements of Income."

Limitation on Payment of Dividends on Common Stock

Certain limitations on the payment of dividends on Common Stock are contained in the Company's Restated Articles of Incorporation, as amended, and indentures. The most restrictive limitation is that contained in the Trust Indenture dated as of September 1, 1977. Such Trust Indenture provides that amounts which may be paid as dividends on Common Stock after December 31, 1976, shall be limited to the sum of \$100,000,000 plus (or minus in the case of a deficit) the aggregate amount of the Company's net income available for dividends (as defined in such Indenture) accumulated after December 31, 1976, as defined. The retained earnings available for payment of dividends under such Indenture as of June 30, 1978, amounted to \$111,927,000.

Other less restrictive limitations are contained in the Restated Articles of Incorporation, as amended, and the indentures covering the first mortgage bonds and the 4% Debentures of the Company due in 1981.

Voting Rights and Non-Cumulative Voting

The holders of the Common Stock shall possess one vote per share for the election of directors and for all other corporate purposes, subject, however, to the voting rights of the holders of the Preferred Stock. The shares of Common Stock do not have cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors can elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining less than 50% of the shares voting for the election of directors will not be able to elect any person or persons to the Board of Directors.

The Articles of Incorporation expressly confer upon all series of the Preferred Stock, acting as one class, voting power, by plurality vote, to elect the smallest number of directors of the Company necessary to constitute a majority of the Board, in case the Company shall fail to declare and pay or set aside for payment in full any quarterly dividend on any of the Preferred Stock and shall not on or before the fourth succeeding quarterly dividend date declare and pay or set aside for payments in full said dividend in arrears and also all dividends which shall in the meantime have become due and payable on all of the outstanding Preferred Stock. In addition, the Preferred Stock and each class thereof has certain class voting rights for certain protective purposes including, but not limited to, rights to approve any merger or consolidation, certain reductions of capital, and creation of stock of equal or prior rank to the Preferred Stock.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holders of its Common Stock other than by way of dividends out of the net profits or the surplus of the Company, the holders of the Common Stock shall be entitled to receive pro rata all assets of the Company distributable to shareholders, but only (in all cases plus accrued and unpaid dividends) to the holders of the Preferred Stock of the Company as provided in the Company's Articles of Incorporation for each series. For the amounts to which the holders of Preferred Stock would be entitled on voluntary liquidation, see Note B to the Financial Statements.

LEGAL OPINIONS

The legality of the Additional Common Stock will be passed on by Messrs. Orgain, Bell & Tucker, Beaumont, Texas, counsel for the Company and by Messrs. Beekman & Bogue, New York, New York, counsel for the Underwriters. All matters pertaining to conformity to Texas laws will be passed on by Messrs. Orgain, Bell & Tucker. All matters pertaining to conformity to Louisiana laws will be passed on by Messrs. Taylor, Porter, Brooks & Phillips, Baton Rouge, Louisiana. Messrs. Beekman & Bogue will rely as to matters of Texas and Louisiana law, respectively, upon the opinions of Messrs. Orgain, Bell & Tucker and Messrs. Taylor, Porter, Brooks & Phillips. Partners and associates of Messrs. Orgain, Bell & Tucker and Messrs. Taylor, Porter, Brooks & Phillips beneficially own, respectively, by firms, approximately 19,000 shares of Common Stock and 3 shares of Preferred Stock of the Company; and 1,570 shares of Common Stock and 100 shares of Preferred Stock of the Company.

EXPERTS

The financial statements which appear in the Prospectus and in the Registration Statement have been examined by Coopers & Lybrand, independent certified public accountants, to the extent indicated by their report. Such financial statements have been included in reliance upon such report of said firm and upon the authority of said firm as experts in accounting and auditing.

The statements of legal conclusions made herein under "Regulation and Rates," "Litigation" and "Description of Common Stock" have been prepared or reviewed (a) as to all matters, except those governed by the laws of Louisiana, by Messrs. Orgain, Bell & Tucker, and (b) as to all matters governed by the laws of Louisiana, by Messrs. Taylor, Porter, Brooks & Phillips, both counsel for the Company. All such statements are, as to matters of law, made on the authority of said respective counsel as experts.

MANAGEMENT

The directors and officers of the Company are as follows:

Directors

JOHN W. BARTON	<i>President of Jack's Cookie Company, Baton Rouge, Louisiana.</i>
W. DONHAM CRAWFORD	<i>Chairman of the Board and Chief Executive Officer of the Company, Beaumont, Texas.</i>
EDWIN W. HIAM	<i>Investment Adviser, Boston, Massachusetts.</i>
WILLIAM H. LEBLANC, JR.	<i>President, Baton Rouge Supply Co., Inc., Baton Rouge, Louisiana.</i>
NORMAN R. LEE	<i>President and Chief Operating Officer of the Company, Beaumont, Texas.</i>
JOSEPH R. MURPHY	<i>Senior Vice President of Production of the Company, Beaumont, Texas.</i>
ALVIN T. RAETZSCH, SR.	<i>Assistant to the Vice President & General Manager Chemical Division—U.S. PPG Industries, Inc., Lake Charles, Louisiana.</i>
MONROE J. RATHBONE, JR.	<i>Medical Doctor and Partner, The Surgical Clinic, Baton Rouge, Louisiana.</i>
LORENE L. ROGERS	<i>President, The University of Texas, Austin, Texas.</i>
BISMARCK A. STEINHAGEN	<i>Partner, Steinhagen Oil Company, Beaumont, Texas.</i>
JAMES E. TAUSSIG II	<i>Realtor and Real Estate Developer, Lake Charles, Louisiana.</i>
ARTHUR TEMPLE	<i>Chairman of the Board, President and Chief Executive Officer of Temple-Eastex, Inc., Diboll, Texas.</i>
CHARLES P. MANSHIP, JR. *	<i>President and Director, Capital City Press, Baton Rouge, Louisiana.</i>
BENJAMIN D. ORGAIN*	<i>Member of the Law Firm of Orgain, Bell & Tucker, General Counsel for the Company, Beaumont, Texas.</i>

* Advisory Directors

Officers

W. DONHAM CRAWFORD	<i>Chairman of the Board and Chief Executive Officer</i>
NORMAN R. LEE	<i>President and Chief Operating Officer</i>
JOSEPH E. BONDURANT	<i>Senior Vice President—Division Operations and System Engineering</i>
JOSEPH R. MURPHY	<i>Senior Vice President—Production</i>
LAWRENCE L. HUMPHREYS	<i>Senior Vice President—Energy Development</i>
THOMAS H. BURBANK	<i>Vice President—Rates and Economic Analysis</i>
JAMES H. DERR, JR.	<i>Vice President—Power Plant Engineering and Design</i>
CHARLES D. GLASS	<i>Vice President—Beaumont Division</i>
WILLIAM E. HEANER, JR.	<i>Vice President—Legal Services</i>
ROBERT W. JACKSON	<i>Vice President—Financial Services & Secretary</i>
EDWARD M. LOGGINS, JR.	<i>Vice President—Personnel</i>
LESLIE M. MOOR, JR.	<i>Vice President—Administrative Services</i>
ALBERT A. POLLANS	<i>Vice President—Accounting Services</i>
AUBREY D. SPRAWLS	<i>Vice President—Consumer Services</i>
JASPER F. WORTHY	<i>Vice President—Public Affairs</i>
JAMES L. BRASWELL	<i>Controller</i>
PATRICIA P. BROUSSARD	<i>Assistant Secretary</i>
WILLIAM A. CROPPER	<i>Assistant Treasurer</i>
ROY E. EYLES	<i>Assistant Secretary</i>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
GULF STATES UTILITIES COMPANY:

We have examined the balance sheet and statement of capitalization of GULF STATES UTILITIES COMPANY as of December 31, 1977, and the related statements of income, retained earnings and sources of funds invested in utility and other plant for each of the five years in the period ended December 31, 1977. 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 financial statements referred to above present fairly the financial position of GULF STATES UTILITIES COMPANY as of December 31, 1977, and the results of its operations and sources of its funds invested in utility and other plant for each of the five years in the period ended December 31, 1977, in conformity with generally accepted accounting principles consistently applied during the periods except for the changes adopted on January 1, 1975 and 1974, with which we concur, in the method of computing depreciation as described in Note 3 to the statements of income.

As discussed in Note I to the financial statements, the Company has cancelled plans to construct two nuclear units in Texas. At this time, it is uncertain what part of the project costs and the cost to be incurred in cancelling equipment contracts will be recoverable.

COOPERS & LYBRAND

Houston, Texas
January 31, 1978,
except for Note I and the last paragraph above as
to which the date is September 6, 1978.

GULF STATES UTILITIES COMPANY

BALANCE SHEETS

A S S E T S

	June 30, 1978 (Unaudited)	December 31, 1977
	(In Thousands)	
UTILITY AND OTHER PLANT, at original cost		
Plant in service		
Electric	\$1,566,704	\$1,555,579
Steam	55,098	55,124
Gas	23,885	23,772
	1,645,687	1,634,475
Less: Accumulated provision for depreciation	519,448	488,814
	1,126,239	1,145,661
Construction work in progress	563,218	441,206
Nuclear fuel	48,055	28,856
	1,737,512	1,615,723
OTHER PROPERTY AND INVESTMENTS		
Construction funds held by Trustee (Note C)	2,273	4,846
Subsidiary company (Note A)	14,664	27,116
Other, at cost	740	909
	17,677	32,871
CURRENT ASSETS		
Cash	13,052	7,726
Receivables, less provision for uncollectible accounts		
Customers	65,096	46,948
Other	2,146	4,752
Materials and supplies, at average cost	6,616	6,308
Fuel stock, at average cost (Note F)	34,157	35,613
Prepayments and other	4,244	3,029
	125,311	104,376
DEFERRED CHARGES		
Unamortized debt expense	2,753	2,808
Other	4,706	2,796
	7,459	5,604
	<u>\$1,887,959</u>	<u>\$1,758,574</u>

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

GULF STATES UTILITIES COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	June 30, 1978 (Unaudited)	December 31, 1977
	(In Thousands)	(In Thousands)
CAPITALIZATION (See Statements of Capitalization)		
Common shareholders' equity	\$ 490,718	\$ 488,343
Preferred stock	167,500	167,500
Long-term debt	805,657	805,656
	<u>1,463,875</u>	<u>1,461,499</u>
CURRENT LIABILITIES		
Long-term debt due within one year	—	12,099
Notes payable (Note E)	—	10,000
Bank	18,586	15,252
Master notes	83,289	5,012
Commercial paper		
Accounts payable	66,797	52,915
Trade (Note F)	3,650	6,043
Subsidiary	14,561	2,396
Taxes accrued	15,379	15,648
Interest accrued	15,280	13,659
Other	<u>217,542</u>	<u>133,024</u>
DEFERRED CREDITS		
Investment tax credit	60,638	57,357
Accumulated deferred income taxes	110,323	103,718
Other	3,236	2,976
	<u>174,197</u>	<u>164,051</u>
Equipment purchase obligations (Note F)	32,345	—
	<u>\$1,887,959</u>	<u>\$1,758,574</u>

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

GULF STATES UTILITIES COMPANY

STATEMENTS OF CAPITALIZATION

	June 30, 1978 (Unaudited)	December 31, 1977
	(In Thousands)	
COMMON SHAREHOLDERS' EQUITY (Note B)		
Common stock		
Authorized 100,000,000 shares without par value		
Outstanding 32,956,997 and 32,795,552 shares, respectively	\$ 280,380	\$ 278,222
Premium and expense on capital stock.....	705	754
Retained earnings.....	209,633	209,360
	<u>490,718</u>	<u>488,343</u>
PREFERRED STOCK (Note B)		
\$100 par value		
Authorized 6,000,000 shares		
Outstanding 1,675,000 shares	167,500	167,500
Authorized and unissued 10,000,000 shares without par value.....	—	—
	<u>167,500</u>	<u>167,500</u>
LONG-TERM DEBT (Note C)		
First mortgage bonds (authorized \$1,000,000,000)		
Maturing 1979 through 1982		
2¼% due December 1, 1979	10,000	10,000
2¼% due June 1, 1980	13,000	13,000
3¼% due November 1, 1981	10,000	10,000
3¼% due December 1, 1982	10,000	10,000
Maturing 1983 through 1992—3¾% to 5¼%	122,000	122,000
Maturing 1993 through 2002—5% to 8½%	265,000	265,000
Maturing 2003 through 2007—8¾% to 10.15%	270,000	270,000
Pollution control and industrial development bonds—due 2006 and 2007—5.9% to 7%	48,000	48,000
Debentures—due 1981—4¼%	8,625	8,625
Convertible debentures—due 1992—7¼%	49,998	50,000
	<u>806,623</u>	<u>806,625</u>
Unamortized premium and discount on debt—net	(966)	(969)
	<u>805,657</u>	<u>805,656</u>
	<u>\$1,463,875</u>	<u>\$1,461,499</u>

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

GULF STATES UTILITIES COMPANY

STATEMENTS OF RETAINED EARNINGS

	Twelve Months Ended June 30, 1978 (Unaudited)	Years Ended December 31,				
		1977	1976	1975	1974	1973
		(In Thousands)				
BALANCE, beginning of period.....	\$194,355	\$191,816	\$178,588	\$166,758	\$154,133	\$139,211
ADDITIONS						
Net income	65,949	65,650	56,411	49,693	47,968	49,754
	<u>260,304</u>	<u>257,466</u>	<u>234,999</u>	<u>216,451</u>	<u>202,101</u>	<u>188,965</u>
DEDUCTIONS						
Cash dividends						
Preferred stock (at annual rates indicated below)						
\$4.40 dividend.....	528	528	528	528	528	528
\$4.50 dividend.....	225	225	225	225	225	225
\$4.40 dividend—1949 Series.....	264	264	264	264	264	264
\$4.20 dividend.....	294	294	294	294	294	294
\$4.44 dividend.....	222	222	222	222	222	222
\$5.00 dividend.....	375	375	375	375	375	375
\$5.08 dividend.....	508	508	508	508	508	508
\$4.52 dividend.....	452	452	452	452	452	452
\$6.08 dividend.....	1,216	1,216	1,216	1,216	1,216	1,216
\$7.56 dividend.....	2,646	2,646	2,646	2,646	2,646	2,646
\$8.52 dividend.....	4,260	3,846	—	—	—	—
Common stock	<u>39,681</u>	<u>37,530</u>	<u>36,453</u>	<u>31,133</u>	<u>28,613</u>	<u>28,102</u>
	<u>50,671</u>	<u>48,106</u>	<u>43,183</u>	<u>37,863</u>	<u>35,343</u>	<u>34,832</u>
BALANCE, end of period (Note B)	<u>\$209,633</u>	<u>\$209,360</u>	<u>\$191,816</u>	<u>\$178,588</u>	<u>\$166,758</u>	<u>\$154,133</u>

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

GULF STATES UTILITIES COMPANY

SOURCES OF FUNDS INVESTED IN UTILITY AND OTHER PLANT

	Twelve Months Ended June 30, 1978 (Unaudited)	For the Years Ended December 31,				
		1977	1976	1975	1974	1973
		(In Thousands)				
PROVIDED FROM OPERATIONS						
Net income	\$ 65,949	\$ 65,650	\$ 56,411	\$ 49,693	\$ 47,968	\$ 49,754
Less—Preferred dividends	10,990	10,576	6,730	6,730	6,730	6,730
Common dividends	39,681	37,530	36,453	31,133	28,613	28,102
Earnings reinvested	15,278	17,544	13,228	11,830	12,625	14,922
Principal income items not requiring current funds						
Depreciation	61,896	59,882	53,717	50,060	44,685	35,784
Deferred income taxes—net	13,926	13,424	8,793	8,987	8,628	6,700
Investment tax credits—net	17,447	18,328	9,775	7,204	2,520	572
Equity component of allowance for funds used during construction	(16,127)	(15,072)	(13,110)	(8,161)	(5,798)	(5,749)
Net gain on sales of nuclear fuel and other property	(1,000)	(6,052)	—	—	—	—
Total provided from operations	91,420	88,054	72,403	69,920	62,660	52,229
PROVIDED FROM FINANCING						
Sales of securities						
Common stock	4,855	3,385	56,124	31,140	—	—
Preferred stock	—	50,000	—	—	—	—
First mortgage bonds (principal amount)	—	60,000	60,000	40,000	60,000	50,000
Convertible debentures (principal amount) .	50,000	50,000	—	—	—	—
Pollution control and industrial development bonds						
Proceeds on issuance	23,000	23,000	25,000	—	20,000	—
Change in escrow deposit	4,722	8,854	(278)	5,599	(19,021)	—
Net change in short-term borrowings	38,113	(82,246)	13,683	19,972	36,409	(30,796)
Reduction of long-term debt	(32,377)	(20,375)	(27,375)	(375)	(375)	(375)
Total provided from financing	88,313	92,618	127,154	96,336	97,013	18,829
OTHER SOURCES						
Provided from sales of nuclear fuel and other property	13,008	34,259	—	—	—	—
Equipment purchase obligations	32,345	—	—	—	—	—
Other— net	14,556	(4,988)	(2,000)	(1,493)	2,263	30,427
Total provided from other sources	59,909	29,271	(2,000)	(1,493)	2,263	30,427
EXPENDITURES FOR UTILITY AND OTHER PLANT	239,642	209,943	197,557	164,763	161,936	101,485
Equity component of allowance for funds used during construction	16,127	15,072	13,110	8,161	5,798	5,749
INVESTED IN UTILITY AND OTHER PLANT	\$255,769	\$225,015	\$210,667	\$172,924	\$167,734	\$107,234

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

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS

(Information relating to dates after December 31, 1977, is unaudited.)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System of Accounts and Reclassification

The accounting records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission ("FERC") and adopted by the Louisiana Public Service Commission and the Public Utility Commission of Texas.

Certain amounts included in the financial statements for the five years ended December 31, 1977 have been reclassified to conform with the 1978 presentation with no effect on net income.

Utility and Other Plant

Utility and other plant is stated at original cost when first dedicated to public service. Costs of repairs and minor replacements are charged to expense as incurred. The original cost of depreciable utility plant retired and cost of removal, less salvage, are charged to accumulated provision for depreciation.

The provision for depreciation is computed using the straight-line method at rates which will amortize the unrecovered cost of depreciable plant over the estimated remaining service life. The average depreciation rates for the twelve months ended June 30, 1978, were equivalent to: electric 3.92%, steam 3.00% and gas 3.58%.

Income Taxes

The Company follows a policy of comprehensive interperiod income tax allocation where such treatment is permitted for rate-making purposes by regulatory bodies. Deferred Federal income taxes, which result from timing differences in the recognition of revenue and expense for tax and financial statement purposes, are charged to income and concurrently credited to accumulated deferred income taxes.

The Company defers investment tax credits and amortizes the accumulated balance over the useful lives of the property which gave rise to such credits. Effective January 1, 1976, the Company claimed an additional 1% investment tax credit under provisions of the Tax Reduction Act of 1975 for the Tax Reduction Act Stock Ownership Plan ("TRASOP").

Subsidiary Company

The Company has made investments in and advances to Varibus Corporation and accounts for its investments on the equity basis.

Employee Benefits

The Company has a contributory pension plan covering all employees who meet certain age and service requirements, the accrued cost of which is being funded. Past service costs are being funded by the Company over a thirty-year period.

The Company has a TRASOP under which contributions may be made by the Company to the Trustee either in cash or the Company's common stock in amounts equal to an additional 1% of the Company's qualified investments as defined in the Internal Revenue Code. The TRASOP was amended, effective January 1, 1977, to permit the Company to claim up to an additional 1/2 of 1% of its qualified investments as defined by the Internal Revenue Code to the extent the Company's contribution is matched by the TRASOP participants' contributions. The contributions have no significant effect on net income.

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS— (Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

B. CAPITAL STOCK AND RETAINED EARNINGS

The common stock issued through the Employees Thrift Plan ("Thrift"), Automatic Dividend Reinvestment and Stock Purchase Plan ("DRIP"), TRASOP and on conversion of the convertible debentures for the six months ended June 30, 1978, and the year ended December 31, 1977, is detailed below:

	1978		1977	
	Number of Shares	Amount (In Thousands)	Number of Shares	Amount (In Thousands)
Thrift.....	72,874	\$ 981	61,729	\$ 854
DRIP	83,539	1,103	117,222	1,594
TRASOP	4,898	65	69,273	937
Conversion of Debentures	134	2	—	—
	<u>161,445</u>	<u>\$2,151</u>	<u>248,224</u>	<u>\$3,385</u>

The Company sold 4,000,000 and 3,000,000 shares of common stock through public offerings in February, 1976, and May, 1975, respectively.

As of June 30, 1978, the Company had reserved 1,490,465 shares of common stock to be issued in connection with the Thrift Plan, the DRIP and the TRASOP.

The redemption and liquidation prices of all preferred stock issues, in the aggregate, were \$178,436,510 at June 30, 1978.

Certain limitations on the payment of cash dividends on common stock are contained in the Company's Restated Articles of Incorporation and indentures, the most restrictive presently being that contained in the Trust Indenture, dated as of September 1, 1977, which limits the amounts which may be paid after December 31, 1976, to the sum of \$100,000,000 plus (or minus in the case of a deficit) the aggregate amount of net income available for dividends, as defined, accumulated after December 31, 1976. Retained earnings available for payment of dividends on common stock as of June 30, 1978 and December 31, 1977, amounted to \$111,927,000 and \$111,739,000, respectively.

At June 30, 1978, 6,000,000 shares of preferred stock, \$100 par value, cumulative, were authorized with 1,675,000 shares outstanding as follows:

120,000 shares \$4.40 dividend, entitled upon redemption to \$108 per share.....	\$ 12,000,000
50,000 shares \$4.50 dividend, entitled upon redemption to \$105 per share.....	5,000,000
60,000 shares \$4.40 dividend, 1949 series, entitled upon redemption to \$103 per share.....	6,000,000
70,000 shares \$4.20 dividend, entitled upon redemption to \$102.818 per share.....	7,000,000
50,000 shares \$4.44 dividend, entitled upon redemption to \$103.75 per share.....	5,000,000
75,000 shares \$5.00 dividend, entitled upon redemption to \$104.25 per share.....	7,500,000
100,000 shares \$5.08 dividend, entitled upon redemption to \$104.63 per share.....	10,000,000
100,000 shares \$4.52 dividend, entitled upon redemption to \$103.57 per share.....	10,000,000
200,000 shares \$6.08 dividend, entitled upon redemption to \$103.34 per share.....	20,000,000
350,000 shares \$7.56 dividend, entitled upon redemption to \$106.80 per share prior to September 1, 1982, then until September 1, 1987, to \$103.80 per share, and thereafter to \$101.80 per share.....	35,000,000
500,000 shares \$8.52 dividend, entitled upon redemption to \$109.95 per share prior to January 1, 1982, then until January 1, 1987, to \$106.43 per share, then until January 1, 1992, to \$104.43 per share, and thereafter to \$102.43 per share	50,000,000
	<u>\$167,500,000</u>

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

C. LONG-TERM DEBT

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

The Trust Indenture for the 4% debentures requires annual redemption for sinking fund purposes of \$375,000 principal amount through 1980.

The Convertible Debentures may be converted into the Company's common stock at a price of \$14.85 per share. The closing price of the Company's common stock at June 30, 1978, was \$12 $\frac{1}{4}$.

Aggregate sinking fund requirements of bonds and debentures outstanding, for the remaining six months of 1978 and each of the five years subsequent to December 31, 1978 are as follows:

1978.....	\$2,616,000
1979.....	8,775,000
1980.....	8,655,000
1981.....	8,124,000
1982.....	8,004,000
1983.....	7,884,000

The payment of the principal and interest on \$23,000,000 of 5.9% Pollution Control Revenue Refunding Bonds due 2007 issued in September, 1977, by the Parish of Calcasieu, Louisiana, was unconditionally guaranteed by the Company, with authorization from the FERC. Under the terms of the Trust Indenture, the net proceeds of \$22,470,000 from the issuance thereof were deposited with the Trustee to be utilized for the payment of interest on the \$20,000,000 Pollution Control Revenue Bonds (Gulf States Utilities Company Project) Series 1974 and the retirement of these bonds on December 1, 1984.

The Trust Indentures of the pollution control and industrial development bonds provide that the proceeds from the issuance thereof be deposited with the Trustee who disburses amounts to the Company as the various pollution control projects are constructed.

D. EMPLOYEE PENSION PLAN

At December 31, 1977, unfunded past service cost under the Company's pension plan was approximately \$14,300,000 and the actuarially computed value of vested benefits exceeded plan assets by approximately \$5,400,000.

The annual contributions made by the Company for the twelve months ended June 30, 1978 and for the years 1973 through 1977 were allocated as follows:

	Twelve Months Ended June 30, 1978	Years Ended December 31,				
		1977	1976	1975	1974	1973
		(In Thousands)				
Charged to income.....	\$2,164	\$2,040	\$1,450	\$1,633	\$1,286	\$1,147
Charged to construction and other accounts.....	922	870	770	555	547	487
Total.....	<u>\$3,086</u>	<u>\$2,910</u>	<u>\$2,220</u>	<u>\$2,188</u>	<u>\$1,833</u>	<u>\$1,634</u>

E. SHORT-TERM BORROWINGS

At June 30, 1978, the Company had agreements with numerous banks providing for borrowings of up to \$117,825,000 at the prime commercial lending rate in effect from time to time without payment of a commitment fee. These agreements will terminate at various dates. The Company maintains non-

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

segregated working cash balances which generally average, over the life of the agreements, approximately 10% of the commitment.

In addition, the Company had agreements with several banks providing for borrowings of up to \$26,000,000 at 115% of the prime commercial lending rate in effect from time to time with payment of an annual fee of 5% of the prime lending rate on the commitment.

The weighted average interest rate of the aggregate short-term borrowings was 7.67% and 6.29% at June 30, 1978, and December 31, 1977, respectively. The maximum aggregate short-term borrowings outstanding at any one time (notes payable to banks and to holders of commercial paper) were \$102,707,000 and \$114,595,000 for the twelve months ended June 30, 1978 and for the year ended December 31, 1977, respectively. For the twelve months ended June 30, 1978, the average monthly short-term borrowings approximated \$55,435,000 and the average interest rate was approximately 6.44%. The average monthly short-term borrowings during 1977 approximated \$40,895,000 and the average interest rate was approximately 6.24%. Average monthly short-term borrowings represent the sum of the ending monthly borrowings outstanding divided by 12 and the average interest rate is determined by dividing accrued interest during the year by this average.

The average interest rates at June 30, 1978, and December 31, 1977, on \$18,586,000 and \$15,252,000 of demand master notes outstanding were approximately 7.3% and 6.5%, respectively.

F. COMMITMENTS AND CONTINGENCIES

Various state and Federal laws require governmental permits prior to construction and operation of certain facilities. Substantial expenditures and commitments are made prior to obtaining such permits. Unless and until events occur making such permits unobtainable, no provision is made in the financial statements for possible losses which could occur if such permits should not be obtained.

The Company's fuel supply arrangements include commitments to purchase fuel oil from the Spindletop Trust which purchases fuel oil for resale to the Company. Purchases of the Trust are assumed to have been made on behalf of the Company. Accordingly, the balance sheet at June 30, 1978 and December 31, 1977, included \$26,824,000 and \$14,174,000, respectively, recorded in "Current Assets—Fuel Stock, at average cost" and "Current Liabilities—Accounts Payable—Trade", reflecting the Company's commitments to purchase the Trust's fuel oil inventory.

On January 25, 1978, the Company entered into an agreement with General Electric Corporation and the Gideon Trust whereby the Company assigned to the Trust its right to purchase from General Electric a turbine generator to be used in the Company's River Bend Station. The Trust made the required payment for 1978 of approximately \$32,600,000 to General Electric. The Company has agreed to purchase the turbine generator from the Trust on or before January 2, 1981.

On June 15, 1978, the Company entered into an agreement with Westinghouse Corporation and the Tur-Gen Trust whereby the Company assigned to the Trust its right to purchase from Westinghouse a turbine generator to be used in the Company's Nelson Station coal unit. The Trust will make the required payment for 1978 of approximately \$17,000,000 to Westinghouse commencing in September, 1978. The Company has agreed to purchase the turbine generator from the Trust on or before June 30, 1982.

The 1978 construction program is estimated to be \$310,000,000 and, in that connection, the Company has incurred substantial commitments.

See "Litigation" for discussion of assertions by the Federal Energy Administration that Varibus must refund overcharges with respect to certain sales of fuel oil.

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

Varibus is a defendant in a lawsuit filed February 17, 1976, involving an alleged breach of contract whereby the plaintiff is seeking damages of \$13,000,000. In the opinion of management and the preliminary opinion of counsel, the subsidiary's position can be successfully defended.

The Company, at the time of issuance of its First Mortgage Bonds, 8½% Series due 2007, obtained the consent of the holders thereof to effect two amendments to its Mortgage so that financing will not be restricted in the early 1980's as present estimates indicate. One amendment would change the aggregate limit on bonds outstanding from \$1,000,000,000 to \$100,000,000,000, and the other would modify the definition of "minimum provision for depreciation" in the Mortgage. It is anticipated that efforts to obtain consents to these two amendments from holders of other series of bonds will be initiated before the end of 1978.

G. CURRENT REPLACEMENT COST INFORMATION—(Unaudited)

The following replacement cost information for certain of the Company's assets and related depreciation is presented to comply with the reporting requirements of the Securities and Exchange Commission as set forth in their Accounting Series Release No. 190.

The Company advises readers of the imprecise nature of these data and of the subjective judgments required in the replacement cost estimation.

This information does not represent the current value or reproduction costs of the assets or the amounts which could be realized if the assets were sold. Rather, replacement cost generally represents the estimated amount that would be required to replace, at today's prices, the productive capacity of certain existing assets with assets of a modern type including additional pollution control equipment presently required under environmental regulations.

As these data are limited to selected categories of assets and related depreciation and does not relate to other asset, liability and equity accounts, or to other expense and revenue accounts, there are significant limitations in using this information to evaluate the effect of inflation on the Company. They should not be used to adjust and compare this Company's balance sheet or income statement with any other company's financial statements.

Subject to these limitations and the imprecise and subjective nature of the data, these data and related disclosures are provided in good faith in compliance with the Commission's rules and regulations.

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Information relating to dates after December 31, 1977, is unaudited.)

The computed replacement costs of the Company's productive capacity, depreciated replacement cost and related depreciation expense with comparative historical costs are presented below:

	Computed Replacement Cost	Actual Historical Cost
	(In Thousands)	
At December 31, 1977:		
Total Utility Plant in Service	\$2,982,445	\$1,631,263
Property Held for Future Use	3,212	3,212
Total Plant in Service	2,985,657	1,634,475
Less: Accumulated Provision for Depreciation	1,031,147	488,814
Total Plant in Service less Accumulated Provision for Depreciation	1,954,510	1,145,661
Construction Work in Progress	441,206	441,206
Nuclear Fuel	28,856	28,856
Total Utility and Other Plant	<u>\$2,424,572</u>	<u>\$1,615,723</u>
For the Year Ended December 31, 1977:		
Depreciation Expense	<u>\$ 105,091</u>	<u>\$ 59,882</u>

Land and land rights, property held for future use, construction work in progress, and nuclear fuel are included in the above data at original cost.

The Company's productive capacity was interpreted to relate to Total Plant in Service as of December 31, 1977.

It was assumed that plant would be replaced substantially in kind and in place with allowances for technological changes and environmental requirements. Broad classes and sub-classes of plant were utilized to facilitate the use of available unit cost figures. Replacement cost figures were developed by applying to the various categories of plant a combination of unit costs based on engineering cost estimates and the standard Handy-Whitman indices.

The replacement cost of generating facilities is based on the current unit costs of various types of capacity which would be installed if replacement of all existing capacity were to be required at year end including provision for all pollution control equipment required by current regulations.

The Handy-Whitman Index of Public Utility Construction Costs was applied to the original cost of surviving transmission plant, distribution plant, general plant, and gas plant properties. The reasonableness of the conclusions was tested by current engineering judgment of unit cost. Replacement costs of steam products facilities were based on current unit costs of an equivalent facility with the same steam and power output.

The related accumulated depreciation based on the replacement cost was developed by applying the same percentage relationship that existed between gross plant and accumulated depreciation by functional groups on an historical cost basis to the replacement cost.

Depreciation expense for the replacement cost was developed by applying the actual functional class depreciation rates in use to the respective functional class average replacement cost figures.

GULF STATES UTILITIES COMPANY

NOTES TO FINANCIAL STATEMENTS—(Concluded)

(Information relating to dates after December 31, 1977, is unaudited.)

H. SUPPLEMENTARY STATEMENTS OF INCOME INFORMATION

The amounts of maintenance, repairs and depreciation, other than those shown in the statements of income, and the amounts of royalties, advertising costs, and research and development costs have been omitted as each is less than one percent of total revenue and sales. Taxes, other than Federal and State income taxes, are set forth by classes as follows (in thousands):

	Twelve Months Ended June 30, 1978	Years Ended December 31,				
		1977	1976	1975	1974	1973
Real estate and property.....	\$12,866	\$12,365	\$11,606	\$10,746	\$ 9,108	\$ 8,696
Gross receipts	4,560	4,239	3,517	2,978	3,469*	5,538
Payroll	2,127	1,905	1,647	1,218	1,440	1,282
Street rental	1,464	1,307	1,155	1,104	975	837
Other.....	4,144	3,817	3,354	2,938	2,626	1,875
Total	<u>\$25,161</u>	<u>\$23,633</u>	<u>\$21,279</u>	<u>\$18,984</u>	<u>\$17,618</u>	<u>\$18,228</u>
Taxes, other than income, were also charged to vari- ous other accounts (stores and transportation expenses clearing, construction, etc.) in the amounts of.....	\$ 1,696	\$ 1,078	\$ 916	\$ 969	\$ 867	\$ 1,620
Rents charged to income**.....	<u>\$ 2,424</u>	<u>\$ 2,211</u>	<u>\$ 2,078</u>	<u>\$ 2,110</u>	<u>\$ 1,995</u>	<u>\$ 1,764</u>

* The Louisiana electric generation tax was repealed effective January 1, 1974.

** The Company's lease agreements at June 30, 1978, and December 31, 1977, generally do not contain options to extend the lease terms or to purchase the lease^d properties. The present value, as of June 30, 1978, and December 31, 1977, of minimum lease commitments is less than five percent of long-term debt and shareholders' equity. The effect on net income if all financing leases were to be capitalized is less than three percent of the average net income for the most recent three years and therefore is not significant.

I. SUBSEQUENT EVENTS

At the August, 1978 Board of Directors' meeting, the Company cancelled construction of its two planned nuclear units at the Blue Hills site in East Texas. These units had been planned for completion in the late 1980's and early 1990's. The cancellation costs of these units amount to approximately \$25 million and consist of project costs incurred through June 30, 1978 not assignable to the site and additional costs to be incurred to cancel equipment contracts. The Company plans to seek proper rate treatment from the Public Utility Commission of Texas, the Louisiana Public Service Commission, and the FERC. There can be no assurance that the regulatory commissions having jurisdiction will authorize the costs of cancelling such units as cost-of-service items to be amortized over a reasonable period of time. The Company would expect decisions from the Commissions on the rate treatment for such costs in late 1978 or 1979. The Company presently proposes to commence amortizing these cancellation costs over a five-year period beginning in January, 1979, although rate orders may not have been received by that time.

In the event one or more of the Commissions refuses the Company's request to recover such costs through the Company's rates for service, the applicable portion of such costs will be charged against income at that time, which charge would have a significant effect on the results of operations of the Company. See "Proposed Generating Facilities—Nuclear Units" for a further discussion thereof.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Company the following numbers of shares of the Additional Common Stock:

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Kidder, Peabody & Co. Incorporated	
Dean Witter Reynolds Inc.	

Underwriter

Number
of
Shares

Total..... 5,000,000

The Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the shares of the Additional Common Stock if any are purchased. However, under certain circumstances involving defaults by Underwriters, less than all of the Additional Common Stock may be purchased.

The Company has been advised by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Kidder, Peabody & Co. Incorporated and Dean Witter Reynolds Inc., as Representatives of the Underwriters, that the Underwriters propose to offer the shares of the Additional Common Stock to the public initially at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of ¢ per share; that the Underwriters and such dealers may allow a discount not in excess of ¢ per share on sales to other dealers; and that the public offering price and concessions and discounts to dealers may be changed by the Representatives.

The Purchase Agreement further provides that the Company will indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

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5,000,000 Shares

Gulf States Utilities Company

Common Stock

(Without Par Value)

PROSPECTUS

Dated October , 1978

PART II. INFORMATION NOT REQUIRED IN PROSPECTUS.

Item 13. *Other Expenses of Issuance and Distribution.*

Securities and Exchange Commission registration fee	\$ 13,000
Federal Energy Regulatory Commission filing fee	500
Qualification under Blue Sky laws	1,700*
Printing and engraving expenses.....	34,000*
Transfer Agent's and Registrar's charges	15,000*
Counsel fees	14,000*
Accountant's fees	14,500*
Cost of listing	13,000*
Miscellaneous expenses of issue:	
Telephone, telegraph, traveling and incidental expenses.....	7,300*
Total	<u>\$113,000</u>

* Estimated.

Item 14. *Relationship with Registrant of Experts Named in Registration Statement.*

None.

Item 15. *Indemnification of Directors and Officers.*

Article IX of the Articles of Incorporation of the Company, as amended effective May 13, 1976, provides that the Company will indemnify, on certain conditions, each present and future director and officer of the Company (i) against expenses, judgments, fines and amounts paid in settlement of civil, criminal, administrative or investigative suits or proceedings (other than actions by or in the right of the Company) if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to criminal proceedings, if he had no reasonable cause to believe his conduct was unlawful, and (ii) against expenses in defending or settling actions by or in the right of the Company if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and is not adjudged liable for negligence or misconduct. Said Article is included in the Articles of Incorporation of the Company filed as an exhibit to the Registration Statement and is incorporated herein by reference.

The Company has procured Directors and Officers liability insurance with a limit of \$15,000,000 with a \$5,000 retention for each Director or each Officer, subject to an aggregate maximum of \$20,000 for any one loss; as respects corporate reimbursement, a \$20,000 retention per loss is applicable. There is a 5% participation by the insured on the first \$1,000,000 of any one loss after application of the \$20,000 retention. The insurer will pay on behalf of the insured 100% of that portion of any loss in excess of \$1,000,000 up to the policy limit of \$15,000,000. This is a professional liability policy for the Directors and Officers and an indemnity policy for the corporation to protect it for liability assumed or incurred in behalf of the Directors and Officers including defense provisions. The Directors and Officers are insured against loss arising from any civil claim or claims by reason of breach of duty, neglect, error, misstatement, misleading statement, omission, or act done or wrongfully attempted or alleged to have been done while acting in their respective capacities as Directors or Officers. It does not insure against libel or slander or lawsuits arising out of illegal acts. It also insures the corporation against loss incurred by it pursuant to the indemnity provision of the Articles of Incorporation of the Company for indemnifying the Directors or Officers for damages, cost or expenses incurred by them.

Item 16. *Treatment of Proceeds from Stock to be Registered.*

The consideration received for the Common Stock is to be credited to the Company's Capital Stock account entitled "Common Stock, without par value."

Item 17. *Other Documents Filed as a part of the Registration Statement.*

- (a) Statement of eligibility and qualification of each person designated to act as trustee under an indenture to be qualified under the Trust Indenture Act of 1939.

Not applicable.

(b) Exhibits:

The Exhibits designated by an asterisk are filed herewith. Certain other of the following exhibits have heretofore been filed with the SEC under the Securities Act of 1933 or the Securities Exchange Act of 1934 and are incorporated herein by reference as indicated. The Exhibits designated with a dagger have heretofore been classified as basic documents under Rule 24(b) of the SEC Rules of Practice.

Exhibit

- *1-A —Form of Agreement Among Underwriters
- *1-B —Form of Purchase Agreement
- *1-C —Form of Selected Dealers Agreement
- 2-A-1 —Form of Certificate for Common Stock. (Exhibit 2-A to Registration No. 2-57930.)
- †2-A-2 —Indenture of Mortgage dated September 1, 1926. (Exhibit B-a-I-1 to Registration No. 2-2449.)
- 2-A-3 —Supplemental Indentures to Mortgage:

<u>Number</u>	<u>Dated as of</u>	<u>File Reference</u>	<u>Exhibit</u>
†First	May 1, 1929	2-2449	B-a-I-2
†Second	June 1, 1931	2-2449	B-a-I-3
†Third	October 1, 1936	2-3666	B-a-I-4
†Fourth	September 1, 1938	2-4076	B-a-I-5
†Fifth	May 1, 1939	Form 8-A July 7, 1939	B-a-I-7
†Sixth	August 1, 1944	2-5457	7-A-8
†Seventh	May 1, 1946	2-6893	7-A-9
†Eighth	April 1, 1948	2-7770	7-A-10
†Ninth	December 1, 1949	Form 8-A December 19, 1949	1-k
†Tenth	June 1, 1950	2-8452	7-A-12
†Eleventh	November 1, 1951	Form 8-K December 6, 1951	B
†Twelfth	December 1, 1952	Form 8-A December 15, 1952	1-n
†Thirteenth	December 1, 1953	Form 8-A December 14, 1953	1-o
†Fourteenth	September 1, 1956	Form 8-K October 1, 1956	C
†Fifteenth	October 1, 1957	Form 8-K November 1, 1957	C
†Sixteenth	May 1, 1958	Form 8-K June 2, 1958	D
†Seventeenth	January 1, 1959	Form 8-K February 2, 1959	D
†Eighteenth	August 12, 1959	Form 8-K September 1, 1959	B
†Nineteenth	December 1, 1959	Form 8-K January 4, 1960	B
†Twentieth	July 1, 1960	Form 8-K August 1, 1960	B
†Twenty-first	May 1, 1962	Form 8-K June 1, 1962	B
†Twenty-second	January 1, 1966	Form 8-K February 1, 1966	B
†Twenty-third	February 1, 1967	Form 8-K March 1, 1967	B
†Twenty-fourth	February 1, 1968	Form 8-K March 1, 1968	C
†Twenty-fifth	October 1, 1968	Form 8-K November 1, 1968	B
†Twenty-sixth	March 1, 1969	Form 8-K April 1, 1969	B
†Twenty-seventh	September 1, 1969	Form 8-K October 1, 1969	B
†Twenty-eighth	February 1, 1970	Form 8-K March 2, 1970	C
†Twenty-ninth	December 1, 1970	Form 8-K January 4, 1971	B
†Thirtieth	November 1, 1971	Form 8-K December 1, 1971	C
†Thirty-first	August 1, 1973	Form 8-K September 4, 1973	B
†Thirty-second	March 1, 1974	Form 8-K April 5, 1974	B
†Thirty-third	May 1, 1975	Form 8-K June 2, 1975	C
†Thirty-fourth	February 1, 1976	Form 8-K March 1, 1976	C
†Thirty-fifth	January 1, 1977	Form 8-K February 7, 1977	C

Exhibit

- †2-A-3 —Indenture dated March 21, 1939, accepting resignation of The Chase National Bank of the City of New York as Trustee and appointing Central Hanover Bank and Trust Company as Successor Trustee. (Exhibit B-a-1-6 to Registration No. 2-4076.)
- 2-A-4 —Trust Indenture, dated as of September 1, 1977, between the Company and Chemical Bank, Trustee. (Exhibit 2-B-4 to Registration No. 2-59739.)
- †2-A-5 —Trust Indenture, dated as of October 1, 1961, between the Company and The American National Bank of Beaumont, Beaumont, Texas, as Trustee, relating to an issue of 4½% Debentures due 1981. (Exhibit A to Form 8-K, dated November 1, 1961.)
- 2-A-6 —Restated Articles of Incorporation, as amended. (Exhibit A to Form 8-K, dated June 7, 1976; Exhibit D to Form 8-K, dated February 7, 1977.)
- *2-A-7 —Bylaws, as amended August 10, 1978.
- *3-1 —Opinion of Messrs. Orgain, Bell & Tucker.
- *3-2 —Opinion of Messrs. Taylor, Porter, Brooks & Phillips.
- 4 —Reference is made to Article IX of the Restated Articles of Incorporation of the Company (Exhibit A to Form 8-K, dated June 7, 1976) and to the insurance policy referred to in Exhibit 5-14.
- 5-1 —Contract effective January 1, 1968, between the Company and Humble Oil & Refining Company and Enjay Chemical Company. (Exhibit A to Form 8-K, dated January 7, 1969.)
- 5-2 —Contract effective October 1, 1968, between the Company and Ethyl Corporation. (Exhibit B to Form 8-K, dated January 7, 1969.)
- 5-3 —Agreement dated September 8, 1967, between the Company and Allied Chemical Corporation. (Exhibit C to Form 8-K, dated October 5, 1967.)
- 5-4 —SCEC/TVA Diversity Exchange Interconnection and Amendatory Agreements and Allied Service Schedules. (Exhibit 13-15 to Registration No. 2-21712.)
- 5-5 —Agreement effective February 1, 1964, between Sabine River Authority, State of Louisiana, and Sabine River Authority of Texas, and Gulf States Utilities Company, Central Louisiana Electric Company, Inc., and Louisiana Power & Light Company, as supplemented. (Exhibit B to Form 8-K, dated May 6, 1964, Exhibit A to Form 8-K, dated October 5, 1967, Exhibit A to Form 8-K, dated May 5, 1969, and Exhibit A to Form 8-K, dated December 1, 1969.)
- 5-6 —Agreement dated April 10, 1964, between the Company and Humble Oil & Refining Company (now Exxon Company, U.S.A.), as supplemented. (Exhibit A to Form 8-K, dated May 6, 1964, Exhibit 4-10 to Registration No. 2-30101 and Exhibit B to Form 8-K, dated December 6, 1976.)
- 5-7 —Agreement dated August 15, 1968, between the Company and Texas Intrastate Gas Company, as supplemented. (Exhibit 4-11 to Registration No. 2-30101, Exhibit 5-7-a to Registration No. 2-59739, Exhibit A to Form 8-K, dated June 7, 1978, and Exhibit A to Form 8-K, dated July 5, 1978.)
- 5-8 —Agreement dated August 24, 1965, between the Company and United Gas Pipe Line Company, as supplemented. (Exhibit A to Form 8-K, dated September 1, 1965, Exhibit B to Form 8-K, dated July 1, 1969, Exhibit C to Form 8-K, dated July 6, 1972, Exhibit B to Form 8-K, dated August 1, 1972, and Exhibits B and D to Form 8-K, dated December 1, 1972 and Exhibit F to Form 8-K, dated August 6, 1976.)
- 5-9 —Agreement dated July 6, 1972, between the Company and Sugar Bowl Industrial Gas Corporation, as supplemented. (Exhibit A to Form 8-K, dated August 1, 1972, Exhibit A to Form 8-K, dated December 1, 1972, Exhibit A to Form 8-K, dated March 5, 1973, Exhibit A to Form 8-K, dated October 5, 1973, Exhibit B to Form 8-K, dated November 6, 1973, Exhibit C to Form 8-K, dated April 5, 1974, Exhibit C to Form 8-K, dated February 6, 1975, Exhibit A to Form 8-K, dated August 6, 1975, Exhibit A to Form 8-K, dated November 6, 1975, Exhibit A to Form 8-K, dated February 5, 1976, Exhibit E to Form 8-K, dated February 7, 1977, Exhibit B to Form 8-K, dated August 5, 1977, and Exhibit C to Form 8-K, dated February 6, 1978.)
- 5-10 —Agreement with Mid Louisiana Gas Company (formerly Humble Gas Transmission Company) dated December 6, 1973. (Exhibit A to Form 8-K, dated January 7, 1974.)

Exhibit

- 5-11 —Agreement dated August 3, 1971, between the Company and Central Louisiana Electric Company, Inc., Louisiana Power & Light Company, and Louisiana Electric Cooperative, Inc. (Exhibit 5-13 to Registration No. 2-42051.)
- 5-12 —Agreement dated December 12, 1972, between the Company and Cajun Electric Power Cooperative, Inc. (Exhibit A to Form 8-K, dated February 5, 1973.)
- 5-13 —Agreement dated May 30, 1973 between the Company and Exxon Company, U.S.A. (formerly Humble Oil & Refining Company). (Exhibit 5-18 to Registration No. 2-48460.)
- 5-14 —Insurance Policy dated June 1, 1977, between the Company and American Home Assurance Company, New York, as supplemented. (Exhibit 5-14 to Registration No. 2-59739.)
- 5-15 —Agreement dated January 8, 1974, between the Company and the City of Lafayette, Louisiana. (Exhibit A to Form 8-K, dated February 7, 1974.)
- 5-16 —Agreement dated January 8, 1974, between the Company and the City of Plaquemine, Louisiana. (Exhibit B to Form 8-K, dated February 7, 1974.)
- 5-17 —Agreements dated April 22, 1974, between Company and AEC for enrichment services. (Exhibits A, B, C, and D to Form 8-K, dated August 7, 1974 and Exhibit B to Form 8-K, dated July 7, 1976.)
- 5-18 —Agreements dated December 19, 1974, between Varibus Corporation (Varibus) and Saga Petroleum U.S. Inc., et al. (Exhibits A and D to Form 8-K, dated February 6, 1975.)
- 5-19 —Agreement dated September 14, 1967, between the Company and Monterey Pipeline Company, successor to Humble Gas Transmission Company, as supplemented. (Exhibit B to Form 8-K, dated October 5, 1967, Exhibit B to Form 8-K, dated April 6, 1973, Exhibit C to Form 8-K, dated September 4, 1973, and Exhibit C to Form 8-K, dated January 7, 1974.)
- 5-20 —Agreement dated January 14, 1975 between Varibus and South Hampton Co. (Exhibit B to Form 8-K, dated February 6, 1975, cancelled by Varibus on January 14, 1976.)
- 5-21 —Agreement dated February 11, 1975 between Company and Kerr-McGee Nuclear Corporation. (Exhibit 5-25 to Registration No. 2-52878.)
- 5-22 —Guaranty Agreement dated as of December 1, 1974, relating to Pollution Control Revenue Bonds of the Industrial Development Board of the Parish of Calcasieu, Inc. (Louisiana). (Exhibit 5-26 to Registration No. 2-52878.)
- 5-23 —Agreement dated April 4, 1975, between Varibus and Energy Consultants, Inc. as supplemented. (Exhibit A to Form 8-K, dated May 6, 1975, Exhibit A to Form 8-K, dated April 5, 1976 and Exhibit E to Form 8-K, dated August 6, 1976.)
- 5-24 —Agreement dated December 11, 1973, between the Company and Gulf Oil Corporation. (Amendment No. 1 on Form 8, dated August 11, 1975, to Form 8-K, dated January 7, 1974 and Exhibit B to Form 8-K, dated September 7, 1976.)
- 5-25 —Agreement dated April 30, 1976, between Varibus and Felmont Oil Corporation. (Exhibit B to Form 8-K, dated May 6, 1976.)
- 5-26 —Agreement dated May 20, 1976, between Varibus and Felmont Oil Corporation. (Exhibit B to Form 8-K, dated June 7, 1976.)
- 5-27 —Agreement dated December 22, 1975, between Varibus and Consolidation Coal Co. (Exhibit B to Form 8-K, dated January 2, 1976.)
- 5-28 —Agreement dated June 14, 1976, between the Company and Ranchers Exploration and Development Corp. and HNG Oil Co. (Exhibit D to Form 8-K, dated July 7, 1976.)
- 5-29 —Agreement dated July 22, 1976, between the Company and Varibus. (Exhibit C to Form 8-K, dated September 7, 1976.)
- 5-30 —Agreement dated July 22, 1976, between the Company and Varibus. (Exhibit D to Form 8-K, dated September 7, 1976.)
- 5-31 —Agreement dated September 22, 1976, between Varibus and Louisiana Intrastate Gas Corp. (Exhibit A to Form 8-K, dated October 5, 1976 and Exhibit F to Form 8-K, dated February 7, 1977.)

Exhibit

- 5-32 --Agreement dated September 30, 1976, between the Company and Ranchers Exploration and Development Corp. and HNG Oil Co. (Exhibit B to Form 8-K, dated October 5, 1976 and Exhibit A to Form 8-K, dated December 6, 1976.)
- 5-33 --Guaranty Agreement dated July 1, 1976, between the Company and the Parish of Iberville, Louisiana. (Exhibits C and D to Form 8-K, dated August 6, 1976.)
- 5-34 --Agreement dated August 30, 1976, between Varibus and Louisiana Intrastate Gas Corporation. (Exhibit A to Form 8-K, dated November 5, 1976.)
- 5-35 --Agreement dated March 30, 1976, between Varibus and Continental Oil Company. (Exhibit A to Form 8-K, dated May 6, 1976, and Exhibit A to Form 8-K, dated August 5, 1977.)
- 5-36 --Agreement dated December 30, 1976, between the Company and Sam Rayburn Dam Electric Cooperative, Inc. (Exhibit G to Form 8-K, dated January 6, 1977.)
- 5-37 --Agreement dated December 30, 1976, between Varibus and the American National Bank of Beaumont. (Exhibit F to Form 8-K, dated January 6, 1977, and Exhibit B to Form 8-K, dated March 7, 1977.)
- 5-38 --Agreements dated December 30, 1976, between the Company and Varibus. (Exhibits D and E to Form 8-K, dated January 6, 1977.)
- 5-39 --Agreements dated December 8, 1976, between the Company, Varibus, and Marine Midland Bank. (Exhibits A, B, and C to Form 8-K, dated January 6, 1977.)
- 5-40 --Agreement dated January 29, 1977, between the Company and Cajun Electric Power Cooperative, Inc. (Exhibit A to Form 8-K, dated March 7, 1977.)
- 5-41 --Agreement dated March 10, 1977, between Varibus and Energy Consultants, Inc. (Exhibit A to Form 8-K, dated April 7, 1977.)
- 5-42 --Agreement dated September 16, 1977, between Varibus and Louisiana Resources Company (Exhibit A to Form 8-K, dated October 3, 1977, Exhibit A to Form 8-K, dated December 6, 1977, Exhibit A to Form 8-K, dated April 5, 1978, Exhibit A to Form 8-K, dated May 5, 1978, Exhibit C to Form 8-K, dated June 7, 1978, and Exhibit E to Form 8-K, dated July 5, 1978.)
- 5-43 --Agreement dated November 15, 1977, between the Company and Varibus (Exhibit B to Form 8-K, dated December 6, 1977.)
- 5-44 --Agreement dated October 31, 1977, between the Company and Louisiana Intrastate Gas Corporation (Exhibit A to Form 8-K, dated January 6, 1978.)
- 5-45 --Agreement dated December 9, 1977, between the Company and Kerr-McGee Coal Corporation (Exhibit B to Form 8-K, dated January 6, 1978.)
- 5-46 --Agreement dated September 29, 1977, between the Company and Ranchers Exploration and Development Corporation, HNG Oil Company, General Atomic Company, Gulf Oil Corporation, and Scallop Nuclear, Inc. (Exhibit A to Form 8-K, dated February 6, 1978.)
- 5-47 --Agreement dated October 7, 1977, between Varibus and International Minerals Corporation and Mitchell Energy Corporation, et al (Exhibit B to Form 8-K, dated February 6, 1978.)
- 5-48 --Agreements dated January 25, 1978, between the Company and J. Henry Schroder Bank and Trust Company and Chemical Bank (Exhibits A, B, and C to Form 8-K, dated March 6, 1978.)
- 5-49 --Agreements dated February 14, 1978, between Varibus and Continental Oil Company (Exhibits D and E to Form 8-K, dated March 6, 1978, Exhibit D to Form 8-K, dated June 7, 1978, and Exhibit A to Form 8-K, dated August 7, 1978.)
- 5-50 --Agreements dated June 15, 1978, between the Company and The American National Bank of Beaumont and Bank of America National Trust and Savings Association (Exhibits B, C, and D to Form 8-K, dated July 5, 1978.)
- 5-51 --Agreement dated November 15, 1973, between Varibus, Exxon Company, U. S. A., and Louisiana Intrastate Gas Corporation (Exhibit B to Form 8-K, dated May 6, 1974, and Exhibit B to Form 8-K, dated August 7, 1978.)

UNDERTAKINGS

A. Each person whose signature appears on the signature page hereby authorizes any agent for service named in the registration statement to execute in the name of each such person, and to file, an amendment to the registration statement pursuant to the above undertaking, which amendment may make such other changes in the registration statement as the registrant deems appropriate.

B. Directors and officers of the undersigned registrant are in certain cases entitled, pursuant to provisions in the Restated Articles of Incorporation to indemnification against expenses and liabilities under judgments and reimbursements of amounts paid in settlement. The registrant also has an insurance policy covering directors and officers and covering the liability of the registrant under such provisions. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to such provisions, insurance policy or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) or for reimbursement of amounts paid in settlement is asserted, under such provisions, insurance policy or otherwise, by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Beaumont and State of Texas, on the 22nd day of September, 1978.

GULF STATES UTILITIES COMPANY

By: W. DONHAM CRAWFORD

(W. Donham Crawford,
Chairman of the Board)

Pursuant to the requirements of the Securities Act of 1933, this registration statement or amendment thereto has been signed below by the following persons in the capacities, with regard to Gulf States Utilities Company, and on the date indicated.

<u>(Signature)</u>	<u>(Title)</u>	<u>(Date)</u>
<u>W. DONHAM CRAWFORD</u> (W. Donham Crawford)	Chairman of the Board (Chief Executive Officer and Director)	} September 22, 1978
<u>R. W. JACKSON</u> (R. W. Jackson)	Vice President & Secretary (Principal Financial Officer)	
<u>A. A. POLLANS</u> (A. A. Pollans)	Vice President (Principal Accounting Officer)	
<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <p>* JOHN W. BARTON, EDWIN W. HIAM, WILLIAM H. LEBLANC, JR., NORMAN R. LEE, JOSEPH R. MURPHY, ALVIN T. RAETZSCH, SR., MONROE J. RATHBONE, JR., LORENE L. ROGERS, BISMARCK A. STEINHAGEN, JAMES E. TAUSSIG II, ARTHUR TEMPLE</p> </div> <div style="flex: 0.5; text-align: center; font-size: 3em; margin: 0 10px;">}</div> <div style="flex: 1;"> <p style="text-align: center;">Directors</p> </div> </div>		
<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <p>* By: <u>R. W. JACKSON</u> (R. W. Jackson, Attorney-in-Fact)</p> </div> <div style="flex: 0.5; text-align: center; font-size: 3em; margin: 0 10px;">}</div> </div>		

CONSENTS OF EXPERTS

The consent of Messrs. Orgain, Bell & Tucker, Beaumont, Texas, is contained in their opinion filed as Exhibit 3-1 to this Registration Statement.

The consent of Messrs. Taylor, Porter, Brooks & Phillips, Baton Rouge, Louisiana, is contained in their opinion filed as Exhibit 3-2 to this Registration Statement.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the inclusion of our report, dated January 31, 1978, except for Note I and the last paragraph of our report as to which the date is September 6, 1978, which appears in the prospectus in the registration statement to be used in registering, under the Securities Act of 1933, 5,000,000 shares of Additional Common Stock, without par value, of GULF STATES UTILITIES COMPANY.

We further consent to the references to our firm under the captions "STATEMENTS OF INCOME" and "EXPERTS" in the prospectus.

COOPERS & LYBRAND

Houston, Texas
September 22, 1978

ATTACHMENT 2

Attachment 2 is composed of the following
three documents herein enclosed:

- 1) Trust Agreement
- 2) Agreement of Assignment
- 3) Agreement of Purchase

TRUST AGREEMENT

EXECUTED AS OF JANUARY 25, 1978

BY AND BETWEEN

RUSSELL B. SCHULMAN, *RBS*

AS TRUSTOR

AND

J. HENRY SCHRODER BANK & TRUST COMPANY,

AS TRUSTEE

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THE STATE OF NEW YORK §
COUNTY OF NEW YORK §

TRUST AGREEMENT

THIS TRUST AGREEMENT, executed as of the 25th day of January, 1978, by and between Russell B. Schulman, a ~~Red~~ resident of the State of New York (the "Trustor"), and J. Henry Schroder Bank & Trust Company, as Trustee, a New York banking corporation having its principal offices in the City of New York, New York (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Trustor desires to create a trust with a situs in the State of New York for the purposes of (i) having the Trustee acquire the right to purchase the hereinafter described steam turbine generating equipment from General Electric Company, a New York corporation having offices in Schenectady, Schenectady County, New York ("General Electric"), (ii) having the Trustee obtain financing for the acquisition of such steam turbine generating equipment through execution of the hereinafter described credit agreement with Chemical Bank in its capacity as a New York banking corporation ("Chemical"), (iii) having the Trustee own and thereafter sell such steam turbine generating equipment to Gulf States Utilities Company, a Texas corporation

having its principal offices in Beaumont, Jefferson County, Texas ("Gulf States"), or its designee in accordance with the hereinafter described agreement of purchase, and (iv) obtaining for Chemical and Gulf States the benefits provided for in this Trust Agreement and all agreements and documents referred to herein;

WHEREAS, the Trustee is willing to accept the duties and obligations imposed by this Trust Agreement and the agreements and documents referred to herein; and

WHEREAS, the Trustor has paid to the Trustee the sum of One Hundred Dollars (\$100.00), in cash, to be held as part of the Trust, the receipt of which sum is hereby acknowledged by the Trustee.

NOW, THEREFORE, the parties hereby agree as follows:

SECTION 1. Definitions

For purposes of this Trust Agreement, the terms set forth below shall be defined as follows:

(a) "Assignment Agreement" shall mean the Agreement of Assignment executed as of this date by Gulf States and the Trustee, providing, among other things, for the assignment to the Trustee by Gulf States (with the consent of General Electric as set forth in the Transfer Agreement) of all of

Gulf States' right, title and interest in and to the Purchase Orders relating to the acquisition and storage of the Steam Turbine Equipment.

(b) "Collateral Assignment" shall mean the Collateral Assignment and Security Agreement executed as of this date by the Trustee and Chemical, providing, among other things, for the collateral assignment to Chemical by the Trustee (with the consent of Gulf States) of all of the Trustee's right, title and interest in and to the Purchase Agreement so as to secure repayment of the Trustee's obligations owing to Chemical under the Credit Agreement.

(c) "Credit Agreement" shall mean the Credit Agreement executed as of this date by the Trustee and Chemical, providing, among other things, for the extension of credit to the Trustee in order to finance the acquisition, storage and ownership of the Steam Turbine Equipment.

(d) "Purchase Agreement" shall mean the Agreement of Purchase executed as of this date by Gulf States and the Trustee, providing, among other things, for the sale to Gulf States (or its designee) by the Trustee of the Steam Turbine

Equipment and all accompanying rights, claims, guaranties and warranties with respect thereto arising under the Purchase Orders or otherwise.

(e) "Purchase Orders" shall mean the purchase orders more fully described in the Assignment Agreement executed as of this date by Gulf States and the Trustee.

(f) "Steam Turbine Equipment" shall mean the steam turbine generating equipment more fully described in the Assignment Agreement executed by the Trustee and Gulf States as of this date, together with all rights, claims, guaranties and warranties arising with respect thereto under the Purchase Orders or otherwise.

(g) "Transfer Agreement" shall mean the Agreement and Consent to Transfer executed as of this date by Gulf States, General Electric and the Trustee, pursuant to the terms of which Gulf States and General Electric have made certain modifications and revisions to the Purchase Orders so as to allow the Trustee to acquire, store and hold the Steam Turbine Equipment on the terms and conditions herein and therein set forth and to thereafter sell such Equipment to Gulf States pursuant to the Purchase Agreement.

(h) "Trust Agreement" shall mean this Trust Agreement executed as of this date by the Trustor and the Trustee.

(i) "Trust Estate" shall mean all right, title and interest of the Trustee in and to the Purchase Orders, the Steam Turbine Equipment, any payments or proceeds arising from the assignment, sale, destruction or taking of the Steam Turbine Equipment under the Purchase Agreement, and any and all payments, proceeds, rights, claims, guaranties, warranties, properties, and privileges (other than payments to the Trustee for its fees, or in connection with any indemnification afforded to the Trustee pursuant to this Trust Agreement or any other agreement or document referred to herein, or as reimbursement for out-of-pocket expenses of the Trustee paid from other than the Trust Estate), received under or arising out of or in connection with this Trust Agreement and all other agreements and documents referred to herein.

SECTION 2. Creation and Declaration of Trust

By execution hereof and on the terms and conditions herein set forth, the Trustor hereby creates and

establishes this trust to be known as the "Gideon Trust". Except as otherwise specifically provided herein, the Trustee hereby declares that it shall, and hereby undertakes and agrees to, receive, accept and hold the Trust Estate in and under this Trust and the provisions hereof, subject to (i) the terms and conditions of, and the rights of Gulf States under, the Purchase Agreement and the Transfer Agreement, and (ii) the rights of Chemical as holder of the notes, obligations, or other evidences of indebtedness issued by the Trustee under the Credit Agreement and the rights of Chemical under the Collateral Assignment.

SECTION 3. Authorizations and Directions to Trustee

The Trustee is hereby authorized and directed, not in its individual capacity, but solely on behalf of the Trust:

(a) to accept, execute and deliver the Assignment Agreement, and to perform all of the obligations and duties and to exercise all of the rights of the Trust thereunder and of the assignee under such Agreement;

(b) to accept, execute and deliver the Transfer Agreement, and to receive the benefits provided for therein to the Trust;

(c) to purchase, acquire, store and hold title to the Steam Turbine Equipment under the

terms set forth in the Purchase Orders, and to exercise all rights as the owner of such Equipment in accordance with this Trust Agreement and the other agreements and documents referred to herein;

(d) to accept, execute and deliver the Credit Agreement and the Collateral Assignment, to perform all of the obligations and duties and to exercise all the rights of the Trust under the Credit Agreement, and to assign (as provided in the Collateral Assignment) all of the Trust's right, title and interest in and to the Purchase Agreement so as to secure the payment and performance of all of the obligations and duties of the Trust owing to Chemical under the Credit Agreement;

(e) to execute and deliver to Chemical any notes, obligations or other evidences of indebtedness so as to obtain funds (pursuant to the Credit Agreement and not otherwise) sufficient or necessary to acquire, finance, ship, transport, hold, handle, store, inspect, maintain, insure and sell the Steam Turbine Equipment on the terms and conditions set forth in this Trust Agreement and the other agreements and documents referred to

herein, and with such funds to pay all costs, expenses, and fees (including attorneys' and accountants' fees), to exercise all rights, and to perform all duties and obligations imposed upon the Trust under this Trust Agreement and the other agreements and documents referred to herein or otherwise associated with the acquisition, financing, shipping, transportation, holding, handling, storage, inspection, insurance, maintenance or sale of such Steam Turbine Equipment;

(f) to accept, execute and deliver the Purchase Agreement, to sell the Steam Turbine Equipment to Gulf States (or its designee) in accordance with and on the terms and conditions therein set forth, and to perform all of the duties and obligations and to exercise all of the rights of the Trust thereunder;

(g) prior to sale of the Steam Turbine Equipment to Gulf States (or its designee) pursuant to the Purchase Agreement, to appoint Gulf States as irrevocable agent for and on behalf of the Trust to provide for (i) the transportation, shipment, holding, handling, storage, inspection, maintenance and insurance of the Steam Turbine

Equipment, (ii) the payment of all taxes or other governmental charges or assessments imposed, assessed, or levied on the Steam Turbine Equipment or in respect of the Trust Estate, and (iii) the amendment, supplementation or revision of the Purchase Orders on such terms and conditions as may be provided in the Assignment Agreement;

(h) to accept, execute and deliver all other instruments, documents and agreements and, through the acts of the Trustee or any agent appointed pursuant to this Trust Agreement and the other agreements and documents referred to herein, to do all such things and take all such actions (including but not limited to obtaining any regulatory or governmental approval) as may be necessary, incidental, appropriate, desirable or convenient to consummate the transactions and to perform or exercise the rights, powers, privileges, duties, obligations and discretions of the Trust as contemplated by this Trust Agreement and the other agreements and documents referred to herein; and

(i) subject to receipt of any necessary approvals or consents of others or subsequent to any action by an authorized agent of the Trust

acting in such respect, to accept, execute and deliver any modification, supplement or amendment to this Trust Agreement and the other agreements and documents referred to herein and to perform any of the duties, responsibilities, and obligations and to exercise all of the rights and privileges of the Trust under any such agreements or documents as so modified, supplemented or amended.

The documents referred to in the foregoing clauses (a) through (f) of this Section 3 shall be executed in substantially the forms delivered to the Trustee by Chemical and Gulf States concurrently herewith.

SECTION 4. Limitations on Authority of Trustee

Except to perform the duties and obligations set forth in this Trust Agreement and in the other agreements and documents referred to in Section 3 hereof and to exercise and carry out or cause to be exercised and carried out the rights, powers, authorizations and discretions of the Trust thereunder and hereunder on the terms and conditions herein and therein set forth, the Trustee shall have no power, right, duty, authority or discretion to own, acquire, finance, manage, control, handle, ship, transport, inspect, use, operate, store, sell, lease, insure, assign, mortgage,

encumber, dispose of or in any manner deal in or with the Steam Turbine Equipment or any other property at any time constituting part of the Trust Estate. Nothing contained in this Section 4 shall be deemed to limit or restrict the power and authority of the Trustee to enforce the terms and provisions of this Trust Agreement, the Purchase Orders, the Assignment Agreement, the Transfer Agreement, the Purchase Agreement, the Collateral Assignment and the Credit Agreement, or to collect and receive sums payable thereunder, or otherwise to exercise the rights, powers, authorizations and discretions of the Trust as provided for by such agreements and documents to the fullest extent permitted by applicable law.

SECTION 5. Beneficiaries of Trust

Gulf States and Chemical shall be the beneficiaries of the Trust to the extent and on the terms and conditions set forth in this Trust Agreement and in the other agreements and documents referred to herein, and shall be subject to such duties and obligations and shall be entitled to the benefit of such rights, powers, authorizations and discretions herein and therein provided.

SECTION 6. Agreements of Trustee

By execution hereof, the Trustee, not in its

individual capacity but solely as Trustee, hereby agrees as follows:

(a) to accept, execute and deliver the documents referred to in Section 3 hereof on behalf of the Trust, and to perform all of the obligations and duties and to exercise all of the rights of the Trust under this Trust Agreement and all other agreements and documents referred to herein, subject only to the terms and conditions contained herein and therein, to the availability of credit or funds pursuant to the Credit Agreement and the Purchase Agreement, and to compliance with all applicable laws and regulations;

(b) to accept and receive assignment of the Purchase Orders under the Assignment Agreement and to exercise the rights of the assignee under such Agreement through purchase and storage of the Steam Turbine Equipment pursuant to the terms of such Purchase Orders as modified by the Transfer Agreement;

(c) to acquire and hold title to the Steam Turbine Equipment under the terms set forth in the Purchase Orders, this Trust Agreement and the

other agreements and documents referred to herein, to exercise all functions of ownership with respect to such Equipment as herein and therein provided, and to thereafter sell such Equipment to Gulf States (or its designee) in accordance with the Purchase Agreement;

(d) subsequent to acquisition of the Steam Turbine Equipment by the Trust but prior to sale to Gulf States (or its designee), to provide for the shipment, transportation, holding, handling, storage, inspection, maintenance and insurance of the Steam Turbine Equipment at the cost and expense of the Trust, and to pay out of the Trust Estate all taxes or other governmental charges or assessments imposed, assessed or levied on such Equipment or in respect of the Trust Estate, and for such purposes the Trustee hereby irrevocably designates and appoints Gulf States as agent for and on behalf of the Trust (but without any fee or compensation therefor) to provide for and ensure completion of such shipment, transportation, holding, handling, storage, inspection, and maintenance at the cost and expense of the Trust, to provide for the payment by the Trust of all

such taxes, charges and assessments imposed, assessed or levied on such Equipment or in respect of the Trust Estate, to procure such insurance (at the cost of the Trust) as may be required by subsection (o) of this Section and by Section 8 of the Purchase Agreement, and to sign and draw checks for such purposes on the Trust's checking account maintained at Chemical (through the signatures of authorized employees of Gulf States designated in writing to the Trustee and Chemical);

(e) subject to the conditions contained in the Credit Agreement, to issue on behalf of the Trust under such Agreement any notes, obligations or other evidences of indebtedness so as to obtain all funds sufficient or necessary to perform all of the obligations and duties and to exercise all of the rights of the Trust under this Trust Agreement and all other agreements and documents referred to herein;

(f) through the Collateral Assignment, to authorize Chemical to receive all proceeds from the sale, destruction or taking of the Steam Turbine Equipment under the Purchase Agreement and all payments to which the Trust may be entitled

under any other agreement or document referred to herein, with such proceeds and payments to be deposited to the Trust's checking account maintained at Chemical for such purpose and to be thereafter applied and distributed in the following manner and in the order so listed: (i) payment of the Trustee's fees and out-of-pocket expenses to the extent not theretofore paid under the provisions of Section 12 of this Trust Agreement, (ii) payment to Chemical of any indebtedness arising under the Credit Agreement, including interest thereon at the rates provided for in the Credit Agreement, to the extent that such indebtedness may be then due and payable, (iii) payment to Chemical of any fees or other amounts payable to it with respect to its commitment under the Credit Agreement, to the extent that such fees and amounts may be then due and payable, (iv) payment of all amounts, fees, and taxes (if the same are then due and payable) to any other person, authority or entity in connection with the purchase, acquisition, shipment, transportation, holding, handling, ownership, inspection, storage, maintenance, insurance, sale or other disposition of the Steam Turbine Equipment or otherwise incident to performance of this

Trust Agreement and the other agreements and documents referred to herein, (v) investment if otherwise practical in accordance with Section 13.5 hereof, but only to the extent that such proceeds or payments are not then required to be applied as specified in subclauses (i) through (iv) above, and (vi) upon termination of this Trust Agreement pursuant to the provisions of Section 11 hereof, payment of all amounts described in such subclauses (i) through (iv) above, with any balance remaining to be paid over and distributed as set forth in such Section 11 of the Trust Agreement and in Sections 8, 9 or 13 of the Purchase Agreement;

(g) to grant no lien, mortgage, security interest or other encumbrance on all or any part of the Trust Estate (except as and to the extent provided in the Collateral Assignment and in the Purchase Agreement), and to use its best efforts to permit or suffer no such lien, mortgage, security interest or encumbrance to be placed thereon by operation of law or otherwise;

(h) to execute and file all appropriate tax returns for the Trust and all such other reports, certificates and instruments as may be required by

applicable law regarding the Trust, the Steam Turbine Equipment, the agreements and documents referred to herein, the Trust Estate, and all other aspects of the transactions contemplated by this Trust Agreement and such other agreements and documents, but only as may be specified from time to time in written instructions from Chemical or Gulf States which shall in all events be accompanied by the returns, reports, certificates or instruments to be filed and shall be received by the Trustee no later than fifteen (15) days before the required filing date;

(i) to give Chemical and Gulf States prompt notice of any defaults or breaches or claimed defaults or breaches under any of the agreements and documents referred to herein, but only if and to the extent any officer or employee of the Trustee responsible for administration of the Trust has actual knowledge thereof;

(j) to administer the Trust Estate and to use its best efforts to collect when due all sums payable by Gulf States (or its designee) under the Purchase Agreement, or by any other person or entity under any agreement or document relating to the transactions contemplated by this Trust Agreement;

(k) upon written instructions given at any time and from time to time by Chemical, to furnish such notice or direction and to exercise such right or power under the Credit Agreement as shall be specified in such instructions from Chemical, and to approve as satisfactory to the Trustee all matters required by the terms of such Agreement to be satisfactory to the Trustee, it being expressly understood that without instructions of Chemical, the Trustee shall not approve any such matter as satisfactory to it;

(1) upon written instructions given from time to time or at any time by Gulf States, but only if the Trustee does not have actual knowledge of any event of default existing under the Purchase Agreement, to furnish such notice or direction and to exercise such right or power under the Purchase Orders or the Purchase Agreement as shall be specified in such instructions from Gulf States, and to approve as satisfactory to the Trustee all matters required by the terms of such Purchase Orders or Purchase Agreement to be satisfactory to the Trustee, it being expressly understood that without instructions from Gulf States, the Trustee shall not approve any such matter as satisfactory

to it;

(m) to execute, record and file such deeds, bills of sale, conveyances, and other documents or instruments as are required to maintain the interests created hereunder in the Trust Estate, but only as may be specified from time to time in written instructions from Chemical or Gulf States which in all events shall be accompanied by the form of such documents or instruments to be filed or recorded and shall be received by the Trustee no later than fifteen (15) days before the required filing date;

(n) to furnish to Chemical and Gulf States promptly upon receipt thereof, originals, duplicates or copies of all reports, notices, requests, demands, certificates, financial statements and other instruments furnished to the Trustee under the agreements and documents referred to herein, but only to the extent that the same shall not have theretofore been furnished to or by Chemical or Gulf States;

(o) to cause all insurance procured with respect to the Steam Turbine Equipment to be obtained in such amounts and from such companies

and on such terms and conditions as may be required by the Purchase Agreement and to cause any proceeds of such insurance to be made payable jointly to the Trustee, Gulf States and Chemical, as their respective interests may appear, with such proceeds to be paid over and distributed as provided in Section 8 of the Purchase Agreement; and

(p) pursuant to written instructions from Chemical, to exercise the rights of the Trustee (to the extent that such rights relate to payment to Chemical of amounts due or to become due to Chemical under the Credit Agreement) as provided in Section 13.4 of the Purchase Agreement upon occurrence of an event of default as therein set forth.

SECTION 7. Special Provisions Concerning Trustee

7.1 Trustee's Liability

The Trustee assumes no liability for anything in its individual capacity other than its own gross negligence, fraud or willful misconduct and the material breach or material failure of any warranty, representation or covenant made by the Trustee specifically in its individual capacity

under this Trust Agreement and the other agreements and documents referred to herein. In accepting the trusts hereby created, the Trustee acts solely in its capacity as such trustee hereunder, and all persons, including but not limited to Chemical and Gulf States, having any claim against the Trustee by reason of the transactions contemplated hereby shall look only to the Trust Estate for payment or satisfaction thereof, except as otherwise expressly provided herein. Neither the Trustee nor any shareholder, officer, employee or agent of the Trustee shall be held to any personal liability hereunder, nor shall resort be had to their private property for the satisfaction of any claim hereunder or in connection with the affairs of the Trust, but the Trust property only shall be liable, unless such liability arises under the first sentence of this Section. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Trust Agreement and the other agreements and documents referred to herein, and no implied covenants or obligations shall be read into such agreements or documents against the Trustee.

7.2 Limitations of Trustee's Duties

Notwithstanding any provision herein to the contrary, it is understood and agreed that by virtue of the provisions of this Trust Agreement and the other agreements

and documents referred to herein, (i) the Trustee shall not be obligated to make any payment or distribution hereunder or thereunder unless and until the funds for such payment or distribution have been received in the Trust Estate by the Trustee in cash or immediately available funds, (ii) except as provided in written instructions or directions furnished by Chemical or Gulf States pursuant to Section 6 above, the Trustee shall have no duty to attend to any recording or filing of this Trust Agreement, the Collateral Assignment or any other document or instrument that may be required or permitted to be recorded or filed under the laws of any jurisdiction so as to perfect or protect the interests created for Chemical, Gulf States, or the Trust by or pursuant to this Trust Agreement or any other agreement or document referred to herein, or to see to the maintenance of any such recording or filing, (iii) except as provided in written instructions or directions furnished by Chemical or Gulf States pursuant to Section 6 above, the Trustee shall have no duty to prepare, execute or file any tax returns or any other reports, certificates and instruments as may be required by applicable law regarding the Trust, the Steam Turbine Equipment, the agreements and documents referred to herein, the Trust Estate and all other aspects of the transactions contemplated by this Trust Agreement and such other agreements

and documents, and (iv) the Trustee shall have no obligation or responsibility to inspect the Steam Turbine Equipment or the locations where it is stored at any time, or to ascertain or inquire as to the performance or observance of any of Gulf States' covenants with respect thereto under this Trust Agreement, the Assignment Agreement, the Purchase Agreement, or any other agreements and documents referred to herein, or to purchase, acquire, own, ship, transport, hold, handle, store, finance, maintain, insure, sell, release or dispose of the Steam Turbine Equipment other than pursuant to the terms of this Trust Agreement and the Purchase Agreement, or to otherwise take any action under this Trust Agreement and the other agreements and documents referred to herein (including but not limited to obtaining any governmental or regulatory approval or instituting any action, suit or legal or administrative proceeding), in the absence of specific authorization herein or therein or in any instructions furnished to the Trustee by Chemical or Gulf States for such purpose and then only if the Trustee shall be provided with indemnity satisfactory to it that the Trustee shall incur no personal, individual or corporate liability therefor or by reason thereof.

7.3 Reliance on Writings and Telephonic Messages

The Trustee shall not be liable to Chemical or Gulf States, and shall at all times be within the standard

of care to which it is bound hereunder, in acting upon any writings (including but not limited to instructions from Chemical or Gulf States), certificates, letters, telecopier messages, telexes, and telephonic messages, and in assuming the truth and correctness of any statement, opinion or assertion of any nature made therein or during the course thereof, provided that any such writing or message is reasonably believed by the Trustee to be genuine and to have been sent or made by the proper person or entity.

7.4 Investigation by Trustee

The Trustee shall not be bound to make any investigation into the facts or matters stated in any telex, telephonic or telecopier message, or in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document received by the Trustee and supplied to it by Chemical or Gulf States, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

7.5 Use of Agents

The Trustee may exercise its powers and perform its duties hereunder or under any of the agreements and documents referred to herein by or through such agents as it shall appoint in good faith, and it shall not be liable to Chemical or Gulf States for any misconduct, negligence, or

failure by such agent to exercise the powers and perform the duties assigned to it, provided that if the Trustee appoints any person or entity other than Gulf States as such an agent, the appointment shall be subject to the prior written approval of Gulf States and Chemical.

7.6 Reliance on Opinions of Counsel

The Trustee shall be entitled to the advice of counsel (who may be, in cases deemed by the Trustee in its reasonable discretion to be appropriate, counsel for Chemical or Gulf States), and shall not be liable to Chemical or Gulf States and shall at all times be within the standard of care to which it is bound hereunder in respect to any action taken, suffered or omitted by it hereunder in accordance with the advice of such counsel.

7.7 Negation of Certain Duties

Unless otherwise expressly agreed to by the Trustee in writing, the Trustee shall not be liable to anyone for any defect in or for the condition, existence, quality, quantity, location, storage, shipment, transportation, handling, repair, inspection, insurance, or maintenance of any assets which may from time to time or at any time constitute part of the Trust Estate, and nothing contained in this Trust Agreement or in any of the other agreements and documents referred to herein shall be construed as a representation or warranty on the part of the Trustee in

respect of the title to any assets comprising part of the Trust Estate, or with regard to the sufficiency, validity or effect of this Trust Agreement or any of such agreements and documents.

7.8 Appointment of Co-Trustees or Separate Trustees

At any time and from time to time, for the purposes of satisfying the legal requirements of any jurisdiction in which any part of the Trust Estate may be located, the Trustee shall have the power to appoint one or more persons or entities approved by Chemical and Gulf States to act as co-trustee of all or any part of the Trust Estate, or to act as separate trustee of any property or assets comprising all or any part thereof, and in either case to vest in any such person or entity pursuant to a written instrument of appointment approved by Gulf States and Chemical, any property, title, right or power hereunder deemed necessary or desirable. Every separate trustee or co-trustee shall exercise, jointly with the Trustee, such of the rights, powers, duties and obligations of the Trustee hereunder as may be conferred or imposed upon such separate trustee or co-trustee in the instrument of appointment, except to the extent that, under or because of any law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent, unqualified, or incapacitated to perform such act or acts, in which event such separate

trustee or co-trustee shall become the trustee hereunder for such purposes and shall exercise and perform all of the rights, powers, duties and obligations of the Trust in such respects in conformity with and to the fullest extent possible under applicable law in accordance with the instructions of the Trustee. Subject to the provisions of Section 9 hereof, by an instrument in writing executed by the Trustee and approved by Gulf States and Chemical, the Trustee may accept the resignation of or remove any separate trustee or co-trustee appointed under this Section 7.8.

Upon the acceptance in writing of such appointment by any separate trustee or co-trustee, such trustee shall be vested with the estates or property specified in the instrument of appointment subject to all the terms of this Trust Agreement and the other agreements and documents referred to herein. Each such acceptance shall be filed with the Trustee and a copy of same shall be delivered to Gulf States and Chemical. Any separate trustee or co-trustee may, at any time by an instrument in writing, appoint the Trustee as agent and attorney-in-fact for any such trustee, with full power and authority to do all acts and things and to exercise all discretions on behalf of and in the name of any such trustee, provided that in no event shall any trustee appointed hereunder (including the Trustee) be liable to

Gulf States or Chemical for the misconduct, negligence, or failure to exercise its powers and perform its duties hereunder by any other trustee (including the Trustee). Except as above provided, no separate trustee or co-trustee shall assign any of its rights, powers, trusts, estates, or properties, or delegate any of its duties and obligations hereunder (whether by merger, consolidation or otherwise), without the prior written consent of the Trustee, Chemical and Gulf States.

In the event that any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by applicable law, shall vest in and be exercised by the Trustee without the appointment of a new trustee as successor to such separate trustee or co-trustee and without the execution or filing of any paper or any further action by the Trustee, Chemical or Gulf States.

SECTION 8. Effect of Sales by Trustee

Any sale of all or any part of the Trust Estate made by the Trustee pursuant to and in compliance with the terms of this Trust Agreement and the Purchase Agreement shall bind Gulf States and Chemical hereunder, and shall be

effective for the benefit of the purchaser or purchasers thereof to divest and transfer all right, title and interest of the Trust in the property so sold, and no such purchaser shall be required to ascertain whether the Trustee has complied with the terms of this Trust Agreement and the Purchase Agreement or to see to the application of any consideration paid for such property.

SECTION 9. Resignation and Removal of Trustee,
Co-Trustees or Separate Trustees

9.1 Resignation or Removal

The Trustee, or any separate trustee or co-trustee appointed pursuant to Section 7.8 hereof, may resign at any time, with or without cause, by giving at least thirty (30) days' prior written notice to the Trustor, Gulf States and Chemical (and in the case of a separate trustee or co-trustee, to the Trustee), with such resignation to become effective upon expiration of such thirty (30) day period or any such greater period as may be specified in the notice. In addition, at the written request of Gulf States, the Trustor shall, upon at least thirty (30) days' prior written notice, remove the Trustee or a separate trustee or co-trustee, with or without cause. Prior to the effective date of any resignation or removal of the Trustee, the Trustor (or Gulf States acting alone if the Trustor shall fail to do so for any reason) shall appoint a successor to the

Trustee but only with the written consent of Gulf States and Chemical. Upon the resignation or removal of a separate trustee or co-trustee, a successor to any such separate trustee or co-trustee may be appointed pursuant to the provisions of Section 7.8 hereof. Should the Trustee or any separate trustee or co-trustee become incapable of acting as such or be adjudged as bankrupt or insolvent, or should a receiver for or of the property of the Trustee or any separate trustee or co-trustee be appointed, or should any public officer take charge or control of the Trustee, any separate trustee or co-trustee, or their respective properties or affairs for the purpose of rehabilitation, conservation or liquidation, the Trustee or any such separate trustee or co-trustee, as appropriate, shall be deemed to have resigned effective immediately prior to such occurrence.

9.2 Rights of Successor Trustee

Upon appointment of a successor to the Trustee hereunder and after the consent thereto of Chemical and Gulf States if expressly required by the terms of this Trust Agreement, the predecessor Trustee shall execute and deliver a bill of sale and other appropriate instruments in due form and in the required number of counterparts for recording or filing, transferring to the successor Trustee all of the estate, properties, rights, powers, duties, obligations and trusts of the predecessor Trustee, and such predecessor

Trustee shall duly assign, transfer, deliver and pay over to the successor Trustee any property or monies then held by such predecessor Trustee hereunder. The successor Trustee shall execute and deliver to the predecessor Trustee, the Trustor, Gulf States and Chemical, an instrument or instruments in due form and in the required number of counterparts for recording or filing, accepting such appointment and assuming the obligations of the predecessor Trustee under this Trust Agreement and the other agreements and documents referred to herein, and thereupon such successor Trustee shall become the Trustee hereunder vested with the estate, properties, rights, powers, duties, obligations and trusts of the predecessor Trustee. Upon completion of any such transfer and assignment, the predecessor Trustee shall be relieved of and discharged from any and all further duties and obligations hereunder or under any agreement or document referred to herein, except for any responsibility such predecessor Trustee may have for acts or omissions occurring or arising prior to such transfer and assignment.

SECTION 10. Assignment of Rights and
Transfer of Duties by Trustee

Unless otherwise expressly provided to the contrary in this Trust Agreement or in the agreements and documents referred to herein, the Trustee shall not transfer, sell or assign (whether by merger, consolidation or

sale of all or substantially all of its assets) any of its right, title and interest hereunder and in the Trust Estate, nor shall the Trustee delegate any of its powers, duties, obligations, or discretions hereunder, without the prior written consent of Gulf States and Chemical.

SECTION 11. Duration and Termination of
and Amendment to Trust

11.1 Duration and Termination

The Trust created hereunder shall continue and remain in full force and effect until expiration of a period of sixty (60) days after occurrence of the Purchase Date or the Settlement Date established in the Purchase Agreement, whichever may be applicable, but in no event later than January 1, 1986.

11.2 Distribution of Trust Estate
Upon Termination

On the effective date of termination of this Trust pursuant to the provisions of Section 11.1, the Trustee shall transfer all of its right, title and interest in the Trust to the persons and entities hereinafter provided, and after paying all obligations and indebtedness of the Trust as set forth in Section 6(f) and after making such transfer and accounting for all funds which may have come into its hands, the Trustee shall be discharged and free of and from any further liability hereunder, except any such liability not payable exclusively out of the assets of the Trust

Estate which may be shown by such accounting then to exist.

No later than the effective date of termination of this Trust as provided in Section 11.1, but only if the Trustee has not elected to proceed under Section 13.4 of the Purchase Agreement (in which event the provisions of such Section shall govern and control as to transfer and disposition of the Trust Estate), the Trustee shall execute and deliver to Gulf States or its designee a bill of sale (in due form and in the required number of counterparts for filing or recording, if necessary) and any other written documents in form and content reasonably requested by Gulf States or its designee prior to such termination, evidencing the transfer of title to Gulf States or its designee of all of the remainder of the Trust Estate, if any. Upon receipt of the bill of sale and other written documents more fully described in the immediately preceding sentence, Gulf States or its designee shall execute and deliver to the Trustee and Chemical a written instrument or instruments (in the required number of counterparts for filing or recording, if necessary) in form and content reasonably requested by the Trustee and Chemical, evidencing the assumption by Gulf States or its designee of all of the duties, obligations and liabilities of the Trust, if any, under this Trust Agreement, the Credit Agreement, and all other agreements and documents referred to herein and therein. By virtue of and subsequent to such assumption,

Gulf States or its designee shall be solely responsible for, and (except for any liability described in Section 7.1 hereof which is not payable exclusively out of the assets of the Trust Estate and which may be shown by accounting then to exist) the Trustee shall be relieved, released and discharged from all responsibility for, performance and satisfaction of all of the duties, obligations and liabilities of the Trustee hereunder and thereunder, if any, and Gulf States or its designee shall succeed to all of the rights, powers, authorizations, discretions and benefits of the Trust under this Trust Agreement and all other agreements and documents referred to herein.

11.3 Amendments to Trust Agreement

This Trust Agreement may, from time to time or at any time, be amended, modified or supplemented by an instrument in writing duly executed by the Trustor and the Trustee, but only if such instrument shall first be approved in writing by Gulf States and Chemical.

SECTION 12. Compensation of Trustee

The Trustee shall receive as compensation for its services hereunder the sum of Seven Thousand Dollars (\$7,000.00), with Five Thousand Dollars (\$5,000.00) of such sum to be paid out of the Trust Estate at such time and in such manner as may be mutually acceptable to Gulf States, and with the

balance of Two Thousand Dollars (\$2,000.00) to be paid directly by Chemical at such time and in such manner as may be mutually acceptable to Chemical. In addition to the foregoing, the Trustee (or any separate trustee or co-trustee appointed under Section 7.8) shall be entitled to (i) payment of reasonable fees out of the Trust Estate for such extraordinary services as the Trustee (or such separate trustee or co-trustee) may from time to time perform hereunder or under any of the agreements and documents referred to herein, and (ii) reimbursement out of the Trust Estate for all out-of-pocket expenses reasonably incurred by the Trustee (or such separate trustee or co-trustee) in the performance of its duties hereunder or under any of the agreements and documents referred to herein. Any such payment or reimbursement shall be made at the time and in the manner and amount mutually agreed upon with Gulf States, and the making of such payment or reimbursement shall not affect any indemnity to which the Trustee may be otherwise entitled under this Trust Agreement and the other agreements and documents referred to herein.

SECTION 13. Miscellaneous Provisions

13.1 Notices

All notices and communications required to be in writing hereunder shall become effective when received, addressed as follows:

Russell B. Schulman
240 West 98th Street
Room 13H
New York, New York 10025

Gulf States Utilities Company
Post Office Box 2951
Beaumont, Texas 77704
Attention: William F. Malec;

Gideon Trust, c/o J. Henry Schroder Bank & Trust
Company, as Trustee
One State Street
New York, New York 10015
Attention: Corporate Trust Division

Chemical Bank
20 Pine Street
New York, New York 10005
Attention: Ellen Lapson;

or to such other address as any of the foregoing parties or their successors may designate by notice duly given in accordance with this Section 13.1. All of such notices and communications may be given in person or by mail, postage prepaid, or by telegram, charges prepaid, or by telex, telecopier or telephonic message, if promptly confirmed by mail, postage prepaid.

13.2 Situs of Trust and Applicable Law

The Trust has been accepted by the Trustee and shall be located and administered in the State of New York, and the validity and construction of this Trust Agreement shall be governed by the laws of such State. No bond or other security shall be required of the Trustee (or any separate trustee or co-trustee appointed under Section 7.8)

unless such is a requirement of applicable law which cannot be waived.

13.3 Counterparts

This Trust Agreement may be simultaneously executed in any number of counterparts, each of which so executed shall be deemed to be an original, and all of which counterparts together shall constitute and be one and the same instrument.

13.4 Binding Effect of Trust Agreement

This Trust Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the named beneficiaries hereunder, their respective successors and assigns, provided that in no event shall the foregoing be deemed to modify or otherwise alter the provisions of Section 10 hereof.

13.5 Status of Monies Received by Trustee

All monies received by the Trustee under or pursuant to any provisions of this Trust Agreement (other than payments to the Trustee for its fees, or in connection with any indemnification of the Trustee pursuant to this Trust Agreement or any agreement or document referred to herein, or as reimbursement for out-of-pocket expenses of the Trustee paid from other than the Trust Estate) shall constitute trust funds for the purpose for which they were paid or are held, but need not be segregated in any manner from any

other monies and may be deposited by the Trustee under such conditions as may be permitted by this Trust Agreement or the other agreements and documents referred to herein.

At any time and from time to time as directed by Gulf States, the balance of monies received by the Trustee in excess of amounts sufficient to satisfy the amounts then owing and subject to distribution as provided in Section 6 hereof may, to the extent practicable and in all events without hinderance to the satisfaction or payment of the obligations of the Trustee under this Trust Agreement and the other agreements and documents referred to herein, be invested by the Trustee in any certificates of deposit issued by banks in the United States of America having capital and surplus aggregating at least \$20,000,000.

13.6 Trust Agreement for Benefit of
Gulf States and Chemical Only

Nothing in this Trust Agreement, whether express or implied, shall be construed to give any person or entity other than the Trustor, the Trustee, Gulf States and Chemical any legal or equitable right, remedy or claim under or in respect of this Trust Agreement, and this Trust Agreement shall be held to be for the sole and exclusive benefit of Gulf States and Chemical, with no other person or entity to have or acquire any right, remedy or claim hereunder.

13.7 Miscellaneous

(a) Section headings herein are for the convenience of the parties only, and shall be

given no substantive or interpretive effect whatsoever.

(b) Waiver of the breach of any provision hereof shall not be deemed to be a waiver of any prior or subsequent breach of the same or any other provision hereunder.

(c) Pursuit of any remedy shall not be deemed to be or otherwise constitute a waiver of any other remedy hereunder or at law or equity.

(d) Any provision of this Trust Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(e) The Trustee and any corporation or entity in or with which the Trustee may be interested or affiliated and any agent appointed by the Trustee, may have commercial relations and otherwise deal with persons with whom the Trustee has now or may hereafter have agreements or with any other person or entity having relations with

such persons, and with any other person or entity,
whether or not affiliated with the Trustee.

IN WITNESS WHEREOF, the Trustor and the Trustee
have caused this instrument to be duly executed before the
undersigned witnesses as of the day and year first above
written.

WITNESSES:

Ellen LaPrade
William J. Lynch

Russell B. Schulman
RUSSELL B. SCHULMAN Trustor *RS*

J. HENRY SCHRODER BANK & TRUST
COMPANY

WITNESSES:

Ellen LaPrade
William J. Lynch

By: M. J. Pellino
Its: Assistant Vice President
Trustee

THE STATE OF NEW YORK §

COUNTY OF NEW YORK §

BEFORE ME, the undersigned authority, on this day personally appeared RUSSELL B. SCHULMAN, as Trustor, known *RBS* to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Terry S. Siegel (Adelblans)
Notary Public in and for
New York County, New York

TERRY S. SIEGEL
NOTARY PUBLIC, State of New York
No. 41-4514392
Qualified in Queens
Commission Expires March 30, 1978

THE STATE OF NEW YORK §

COUNTY OF NEW YORK §

BEFORE ME, the undersigned authority, on this day personally appeared MICHAEL J. PELLINO, Assistant Vice President of J. HENRY SCHRODER BANK & TRUST COMPANY, as Trustee, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated as the act and deed of said Corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Terry S. Siegel (Adelblans)
Notary Public in and for
New York County, New York

TERRY S. SIEGEL
NOTARY PUBLIC, State of New York
No. 41-4514392
Qualified in Queens County
Commission Expires March 30, 1978

AGREEMENT OF ASSIGNMENT

EXECUTED AS OF JANUARY 25, 1978

BY AND BETWEEN

GULF STATES UTILITIES COMPANY,

AS ASSIGNOR

AND

THE GIDEON TRUST,

AS ASSIGNEE

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THE STATE OF NEW YORK

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AGREEMENT OF ASSIGNMENT

COUNTY OF NEW YORK

§

THIS AGREEMENT OF ASSIGNMENT, executed as of the 25th day of January, 1978, by and between Gulf States Utilities Company, as Assignor, a Texas corporation having its principal offices in Beaumont, Jefferson County, Texas ("Gulf States"), and the Gideon Trust, as Assignee, acting herein by and through J. Henry Schroder Bank & Trust Company, not in its individual capacity but solely in its capacity as Trustee of such Trust (the "Trustee").

W I T N E S S E T H:

WHEREAS, pursuant to the terms of that certain Trust Agreement (as hereinafter defined), the "Gideon Trust" has been established with a situs in the State of New York for the purposes of (i) having the Trustee acquire the right to purchase certain Steam Turbine Equipment (as hereinafter defined) from General Electric Company, a New York corporation having offices in Schenectady, Schenectady County, New York ("General Electric"), (ii) having the Trustee obtain financing for acquisition of the Steam Turbine Equipment through execution of that certain Credit Agreement (as hereinafter defined) with Chemical Bank in its capacity as a state banking corporation ("Chemical"), (iii) having the Trustee own and thereafter sell the Steam Turbine Equipment

to Gulf States or its designee in accordance with that certain Agreement of Purchase (as hereinafter defined), and, (iv) obtaining for Chemical and Gulf States the benefits provided for in the Trust Agreement and all other agreements and documents referred to therein;

WHEREAS, Gulf States now desires to assign, and the Trustee desires to acquire, all of Gulf States' right, title and interest in and to certain Purchase Orders (as hereinafter defined) relating to the acquisition and storage of the Steam Turbine Equipment; and

WHEREAS, General Electric, the Trustee and Gulf States have executed that certain Transfer Agreement (as hereinafter defined) so as to permit such assignment to be made to the Trustee on the terms and conditions set forth in this Agreement of Assignment and in the Trust Agreement.

NOW, THEREFORE, the parties hereby agree as follows:

SECTION 1. Definitions

For purposes of this Agreement of Assignment, the terms used herein shall have the meanings set forth in the Trust Agreement executed as of this date by and between Russell B. Schulman, as Trustor, and the Trustee, with the following additional terms to have the meanings set forth below:

(a) "Purchase Orders" shall mean a purchase order issued by Gulf States (either directly or through its agent, Stone & Webster Engineering Corporation) or a contract to which Gulf States (either directly or through such agent) is a party, all as more fully listed in the Exhibit "A" attached hereto and made a part hereof by this reference, the rights to which Purchase Orders are being assigned to and the obligations and duties under which are being assumed by the Trustee with respect to the purchase, acquisition, ownership, shipment, transportation, storage, inspection, maintenance, insurance and handling of the Steam Turbine Equipment, as such Purchase Orders have been modified on this date through the Transfer Agreement and as such Purchase Orders may hereafter be amended, supplemented or revised by the Trustee with the prior written consent of Gulf States or through Gulf States in its capacity as agent on behalf of the Trust.

(b) "Steam Turbine Equipment" shall mean those items of material, machinery and devices, or parts thereof, now or hereafter comprising and constituting the steam turbine generating equipment

described in the Purchase Orders, together with all engineering drawings and specifications, and all rights, claims, guaranties and warranties arising with respect thereto under the Purchase Orders or otherwise.

(c) The "Trust" shall mean the Gideon Trust established by the Trust Agreement.

SECTION 2. Assignment of Purchase Orders

For and in consideration of the agreements of the Trustee as contained herein and in the other agreements and documents referred to herein, the receipt and sufficiency of which is hereby acknowledged, and on the terms and conditions herein and therein set forth, Gulf States hereby assigns, sells, transfers and sets over unto the Trustee, and the Trustee hereby acquires from Gulf States, all of the right, title and interest of Gulf States in, to and under the Purchase Orders described in the attached Exhibit "A", together with all of the right, title and interest of Gulf States in and to the Steam Turbine Equipment identified in such Purchase Orders.

SECTION 3. Acceptance of Purchase Orders and Assumption of Duties

By execution hereof, the Trustee acknowledges receipt of the Purchase Orders described in Section 2 above

During such period of ownership, the Trustee further agrees that it shall grant no lien, mortgage, security interest or other encumbrance on any part of the Steam Turbine Equipment or the Trust Estate (other than as provided in the Collateral Assignment and the Purchase Agreement), and the Trustee shall use its best efforts to permit or suffer no such lien, mortgage, security interest or encumbrance to be placed thereon by operation of law or otherwise. Prior to sale of the Steam Turbine Equipment to Gulf States or its designee, the Trustee covenants and agrees that (i) except as provided in clause (iii) below, the Purchase Orders shall not be assigned, amended, modified or supplemented by the Trustee without the prior written consent of Gulf States and any other party whose consent may be so required by the terms of the Trust Agreement and the other agreements and documents referred to therein, (ii) the Trustee shall not use or operate the Steam Turbine Equipment in any manner that would cause the Trust to be or become an "electric utility company" within the meaning of the Public Utility Holding Company Act of 1934, as in effect from time to time, and (iii) Gulf States shall be and is hereby irrevocably designated and appointed as agent for and on behalf of the Trust (but without any fee or compensation therefor) to make any amendments, supplementations or revisions to the Purchase Orders (which

shall thereafter be binding upon the Trustee and Chemical) on such terms and conditions as Gulf States shall deem to be appropriate from time to time or at any time, with photostatic copies of any such amendment, supplementation or revision to be promptly furnished to the Trustee and Chemical.

SECTION 6. Title to Equipment and Procurement
of Insurance

Subsequent to acquisition of the Steam Turbine Equipment by the Trustee under the Purchase Orders, title to and ownership of such Equipment shall be vested in the Trustee, subject to the terms of this Agreement of Assignment, the Purchase Agreement, the Trust Agreement, and the other agreements and documents referred to herein and therein. Prior to sale of the Steam Turbine Equipment to Gulf States or its designee in accordance with the Purchase Agreement, the Trustee shall procure and maintain such insurance on the Steam Turbine Equipment as may be required by Section 6(o) of the Trust Agreement and Section 8 of the Purchase Agreement, with any proceeds of such insurance to be made payable and thereafter distributed in the manner provided in such Sections of the Trust Agreement and Purchase Agreement.

SECTION 7. Effect of Transfer Agreement

Effective as of this date, Gulf States and the Trustee have entered into the Transfer Agreement with General Electric. Neither the execution of the Transfer Agreement nor the terms and provisions thereof shall affect any of the terms and provisions of this Agreement of Assignment, and all of the terms and provisions hereof shall be applicable to the Purchase Orders to which the Transfer Agreement pertains.

SECTION 8. Custody of Documents

At all times subsequent to the date hereof, custody of the original Purchase Orders, as well as the originals of all other documents concerning title, ownership, shipment, transportation, insurance, holding, maintenance and storage of the Steam Turbine Equipment (including all engineering drawings, specifications and other similar work products now or hereafter held by Gulf States with respect to such Equipment) shall remain with Gulf States, but upon request Gulf States shall deliver to the Trustee copies of all such papers, documents, drawings, specifications and similar work products.

SECTION 9. Amendments

Any and all amendments, waivers, supplements or modifications to this Agreement of Assignment shall not be effective unless the same are reduced to writing, signed by Gulf States and the Trustee, and consented to by Chemical.

SECTION 10. Relationship of Parties

Nothing contained in this Agreement of Assignment shall be construed as creating any relationship by and between Gulf States, the Trustee, and Chemical as joint venturers, partners, or as principals and agents.

SECTION 11. Notices

All notices and communications required to be in writing hereunder shall become effective when received, addressed as follows:

Gulf States Utilities Company
Post Office Box 2951
Beaumont, Texas 77704
Attention: William F. Malec;

Gideon Trust, c/o J. Henry Schroder Bank &
Trust Company, Trustee
One State Street
New York, New York 10015
Attention: Corporate Trust Department;

Chemical Bank
20 Pine Street
New York, New York 10005
Attention: Ellen Lapson;

or to such other address as any of the foregoing parties or their successors may designate by notice duly given in accordance with this Section. All of such notices and communications may be given in person or by mail, postage prepaid, or by telegram, charges prepaid, or by telex, telecopier or telephonic message, if promptly confirmed by mail, postage prepaid.

SECTION 12. Binding Effect of Agreement

This Agreement of Assignment shall be binding upon and shall inure to the benefit of Gulf States and the Trustee, their respective successors and assigns, except that in no event shall the Trustee assign, transfer or delegate all or any part of its rights, powers, duties and obligations hereunder without the prior written consent of Gulf States and Chemical (unless otherwise expressly provided to the contrary in this Agreement of Assignment, the Trust Agreement, and the other agreements and documents referred to herein and therein).

SECTION 13. Successor Trustee

Gulf States agrees that in the case of appointment of any successor Trustee for the Trustee under the terms of the Trust Agreement prior to termination thereof, the successor Trustee shall, upon written notice of acceptance by

such successor Trustee delivered to the Trustor, Gulf States and Chemical, succeed to all of the rights, powers and title of the Trustee hereunder and shall be deemed to be the owner of the Purchase Orders, the Steam Turbine Equipment and all other rights therein for all purposes hereof, without in any way altering the terms of this Agreement of Assignment or Gulf States' obligations hereunder. Upon the appointment of a successor Trustee pursuant to the Trust Agreement, the predecessor Trustee shall have no further rights, powers, duties or obligations under this Agreement of Assignment, except to the extent otherwise provided in the Trust Agreement and the agreements and documents referred to therein. One such appointment and designation of a successor Trustee shall not exhaust or otherwise preclude exercise of the right to appoint and designate further successor Trustees under the Trust Agreement from time to time or at any time as long as such Agreement shall remain in effect.

SECTION 14. Other Documents and Instruments

Each party hereto agrees to execute such other documents and instruments, and to take such other actions, as may be necessary or appropriate to effectuate the purposes of this Agreement of Assignment.

SECTION 15. Miscellaneous

15.1 Counterparts

This Agreement of Assignment may be simultaneously executed in any number of counterparts, each of which so executed shall be deemed to be an original and all of which counterparts together shall constitute and be one and the same instrument.

15.2 Agreement for Benefit of Trustee, Gulf States and Chemical

Nothing in this Agreement of Assignment, whether express or implied, shall be construed to give any person or entity other than the Trustee, Gulf States and Chemical, any legal or equitable right, remedy or claim under or in respect of this Agreement of Assignment, and this Agreement of Assignment shall be held to be for the sole and exclusive benefit of such parties, with any other person or entity not to have or acquire any right, remedy or claim hereunder.

15.3 Section Headings

Section headings herein are for the convenience of the parties only, and shall be given no substantive or interpretive effect whatsoever.

15.4 Waiver

Waiver of the breach of any provision hereof shall not be deemed to be a waiver of any prior or subsequent breach of the same or any other provision hereunder.

15.5 Pursuit of Remedy

Pursuit of any remedy shall not be deemed to be or otherwise constitute a waiver of any other remedy hereunder or at law or equity.

15.6 Severability

Any provision of this Agreement of Assignment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

15.7 Governing Law

This Agreement of Assignment shall be governed by and construed in accordance with the laws of the State of Texas.

15.8 Recourse Against Trustee

The representations, warranties, covenants, duties and obligations set forth in this Agreement of Assignment as having been made by or undertaken by the Trust have been made by or undertaken by the Trustee of the Trust acting as such Trustee pursuant to the authority vested in it under the laws of the State of New York and in conformity with the Trust Agreement. Reference is hereby made to the Trust

Agreement, and all provisions of the Trust Agreement shall be construed as extending to all the rights, duties, and obligations of the Trustee under this Agreement of Assignment as fully for all intents and purposes as if those provisions were contained herein. The name "the Trustee" refers to the Trustee under the Trust Agreement in its capacity as Trustee, and not individually or personally, and neither the Trustee nor any shareholder, officer, employee or agent of the Trustee shall be held to any personal liability hereunder, nor shall resort be had to their private property for the satisfaction of any claim hereunder or in connection with the affairs of the Trust, but the Trust property only shall be liable, unless otherwise provided to the contrary in the Trust Agreement.

IN WITNESS WHEREOF, this Agreement of Assignment has been executed by the parties as of the day and year first above written.

ATTEST:

R. E. Cyle
Assistant Secretary

GULF STATES UTILITIES COMPANY

By: *R. W. Jackson*
Its: Vice President and Secretary

ATTEST:

[Signature]

GIDEON TRUST,
By J. HENRY SCHRODER BANK &
TRUST COMPANY, As Trustee

By: *[Signature]*
Its: Assistant Vice President

THE STATE OF TEXAS §

COUNTY OF JEFFERSON §

BEFORE ME, the undersigned authority, on this day personally appeared ROBERT W. JACKSON, Vice President and Secretary of GULF STATES UTILITIES COMPANY, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Alice D. Simon
Notary Public in and for
Jefferson County, Texas
ALICE D. SIMON

THE STATE OF NEW YORK §

COUNTY OF NEW YORK §

BEFORE ME, the undersigned authority, on this day personally appeared MICHAEL J. PELLINO, Assistant Vice President of J. HENRY SCHRODER BANK & TRUST COMPANY, as Trustee of the Gideon Trust, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated as the act and deed of said Trust.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Terry S. Siegel (Admitted)
Notary Public in and for
New York County, New York

TERRY S. SIEGEL
NOTARY PUBLIC, State of New York
No. 51 121 1972
Qualified in New York County
Commission Expires March 30, 1978

EXHIBIT "A"

AGREEMENT OF ASSIGNMENT

EXECUTED AS OF JANUARY 25, 1978,

BY AND BETWEEN

GULF STATES UTILITIES COMPANY,

AS ASSIGNOR,

AND

THE GIDEON TRUST,

AS ASSIGNEE

1. Gulf States Utilities Company
Purchase Order No. RBS-231.000-001,
Job Order 12210, dated March 19, 1975.
2. Gulf States Utilities Company
Contract No. 1545-00 dated October 1, 1977, and also
referred to as General Electric Company Contract
No. 350T17315 dated October 13, 1977.
3. Gulf States Utilities Company
Purchase Order No. K-77-17614, dated November 4, 1977.

AGREEMENT OF PURCHASE

EXECUTED AS OF JANUARY 25, 1978

BY AND BETWEEN

THE GIDEON TRUST

AND

GULF STATES UTILITIES COMPANY

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THE STATE OF NEW YORK

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COUNTY OF NEW YORK

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AGREEMENT OF PURCHASE

THIS AGREEMENT OF PURCHASE, executed as of the 25th day of January, 1978, by and between the Gideon Trust established under that certain Trust Agreement (as hereinafter defined), acting herein by and through J. Henry Schroder Bank & Trust Company, not in its individual capacity but solely in its capacity as Trustee of such Trust (the "Trustee"), and Gulf States Utilities Company, a Texas corporation having its principal offices in Beaumont, Jefferson County, Texas ("Gulf States").

W I T N E S S E T H:

WHEREAS, pursuant to the terms of that certain Trust Agreement (as hereinafter defined), the "Gideon Trust" has been established with a situs in the State of New York for the purposes of (i) having the Trustee acquire the right to purchase certain Steam Turbine Equipment (as hereinafter defined) from General Electric Company, a New York corporation having offices in Schenectady, Schenectady County, New York ("General Electric"), (ii) having the Trustee obtain financing for acquisition of the Steam Turbine Equipment through execution of that certain Credit Agreement (as hereinafter defined) with Chemical Bank in its capacity as a state banking corporation ("Chemical"), (iii) having the

Trustee own and thereafter sell the Steam Turbine Equipment to Gulf States or its designee in accordance with the terms of this Agreement of Purchase, and (iv) obtaining for Chemical and Gulf States the benefits provided for in the Trust Agreement and all other agreements and documents referred to therein;

WHEREAS, concurrently with the execution of this Agreement of Purchase, Gulf States and the Trustee have executed that one certain Agreement of Assignment (as hereinafter defined) which provides, among other things, for the assignment to the Trustee by Gulf States of all of Gulf States' right, title and interest in and to the Purchase Orders (as hereinafter defined) relating to the acquisition and storage of the Steam Turbine Equipment; and

WHEREAS, on the terms and conditions hereinafter set forth, Gulf States now desires to contract for the purchase, and the Trustee now desires to provide for the sale, of all of the Trust's right, title, and interest in and to the Steam Turbine Equipment and the Purchase Orders.

NOW, THEREFORE, it is hereby agreed as follows:

SECTION 1. Definitions

For purposes of this Agreement of Purchase, the terms used herein shall have the meanings set forth in (i)

the Trust Agreement executed as of this date by and between Russell B. Schulman, as Trustor, and the Trustee, and (ii) the Agreement of Assignment executed as of this date by Gulf States and the Trustee, with the following additional terms to have the meanings set forth below:

(a) "Events of Default" shall mean the occurrences described in Section 14 hereof.

(b) "Purchase Date" shall mean the purchase and sale date established pursuant to Section 3.

(c) "River Bend Unit No. 1" shall mean the nuclear facility of Gulf States, located in West Feliciana Parish, Louisiana, at which the Steam Turbine Equipment is to be used in the generation of electricity.

(d) "Settlement Date" shall mean the date for payment established pursuant to Section 12 hereof.

(e) "Taking" shall mean a loss, prior to purchase by Gulf States or its designee as herein provided, of the ownership, use or possession of the Steam Turbine Equipment or any part thereof or any interest therein, as a result of or in lieu or in anticipation of an exercise of the right of condemnation or eminent domain pursuant to any

law, general or special, or by reason of the temporary requisition of the use of such Steam Turbine Equipment or any part thereof, by any governmental body, authority or entity, whether civil or military.

SECTION 2. Agreement to Purchase and Sell

For and in consideration of the mutual covenants and agreements herein contained, the receipt and sufficiency of which are hereby acknowledged, and on the terms and conditions set forth in this Agreement of Purchase and in the other agreements and documents referred to herein, Gulf States agrees to purchase, and the Trustee agrees to sell to Gulf States (or its designee), all of the Trustee's right, title, and interest in and to the Steam Turbine Equipment (including any additions to, substitutions for, or replacements of such Equipment), together with all engineering drawings and specifications, and all rights, claims, guaranties, and warranties arising at any time with respect thereto under the Purchase Orders, or otherwise.

SECTION 3. Date of Purchase

Unless a Settlement Date shall be sooner established pursuant to the provisions of Section 12 of this Agreement

of Purchase, the purchase and sale of the Steam Turbine Equipment shall be made on such date (the "Purchase Date") as all or substantially all of the Steam Turbine Equipment shall be delivered to the installation site or sites previously specified by Gulf States or its designee in written delivery instructions furnished to the Trustee for such purpose at any time or from time to time selected by Gulf States in the exercise of its sole discretion. On the Purchase Date, Gulf States or its designee shall pay the purchase price determined as provided in Section 5.1. In such event, the Trustee shall sell, transfer, assign and convey the Steam Turbine Equipment and Purchase Orders to Gulf States or its designee as of such date on the terms and conditions set forth in Section 13.2 but without the requirement that any further payment be made therefor or thereunder.

SECTION 4. Passage of Title, Risk of Loss,
and Shipment of Equipment

Subject to payment of the amounts required by Section 3 or 13 hereof, as appropriate, and only if the Trustee has not elected to proceed under Section 13.4, title to and ownership of the Steam Turbine Equipment shall vest in Gulf States or its designee on the earlier of the Purchase Date or the Settlement Date. The risk of loss as to the

Steam Turbine Equipment shall pass from the Trustee to Gulf States or its designee on the date the Trustee receives written instructions as to delivery from Gulf States or its designee, but in any event not later than the Settlement Date established by Section 12. On such date of passage, Gulf States (or its designee) shall assume and agree to perform all of the Trustee's obligations under the Purchase Orders (with the Trustee to have no further responsibility therefor), and it shall be the sole obligation of Gulf States (or its designee) to provide for the shipment, transportation, delivery, storage, insurance, installation, inspection, handling and maintenance of the Steam Turbine Equipment subsequent to the Trustee's receipt of such delivery instructions or to the establishment of a Settlement Date pursuant to Section 12, whichever may be the case. In either such instance, Gulf States (or its designee) shall, to the extent and on the terms and conditions set forth in Section 6.4, succeed to all of the Trustee's rights, claims and interests with respect to such shipment, transportation, delivery, storage, insurance, installation, inspection, handling and maintenance of the Steam Turbine Equipment notwithstanding the responsibility or obligation of Gulf States (or its designee) to provide therefor.

SECTION 5. Determination of Purchase Price

5.1 Purchase Price

Subject to the provisions of Section 5.2, the purchase price to be paid by Gulf States (or its designee) for the Steam Turbine Equipment as of the purchase and sale date established pursuant to Section 3 shall be equal to the sum of the following:

(a) the aggregate unpaid balance of all indebtedness and other sums due and owing to Chemical from the Trustee under the Credit Agreement and the Collateral Assignment as of such date, including all interest payable on such indebtedness and all other fees and amounts then owing to Chemical thereunder;

(b) all other costs, charges, taxes, and expenses of the Trust due and owing from the Trust as of such date with respect to the acquisition, ownership, transportation, shipment, holding, delivery, storage, insurance, maintenance, installation, handling, inspection and sale of the Steam Turbine Equipment, but only to the extent that such costs, charges, taxes, and expenses have not been paid (or provision for such payment made)

out of the amounts described in clause (a) above;
and

(c) all commissions, fees, and other reasonable costs and administrative expenses then due and owing to the Trustee under Section 12 of the Trust Agreement and not otherwise included in the calculation of purchase price under clauses (a) or (b) above.

5.2 Gain or Loss from Investments

Any gain or loss by the Trust on investments made pursuant to Section 13.5 of the Trust Agreement shall be applied toward reduction of or shall be treated as an increase in the costs and administrative expenses of the Trustee described in clause (c) of Section 5.1 above, as appropriate.

5.3 Method of Payment

Payment of the purchase price for the Steam Turbine Equipment shall be made by Gulf States (or its designee) directly to Chemical as provided in the Collateral Assignment, or to any other person or entity designated in writing by the Trustee and approved by Gulf States and Chemical. Such payment shall be made in cash or immediately available funds.

SECTION 6. Obligations and Agreements of Gulf States

6.1 Unconditional Obligation to Pay

The obligation of Gulf States to make all payments pursuant to this Agreement of Purchase shall be absolute and unconditional, and is not to be affected by circumstances of any character. TO THIS END, IT IS AGREED THAT THE OBLIGATION OF GULF STATES TO ACQUIRE AND PAY FOR THE STEAM TURBINE EQUIPMENT AND PURCHASE ORDERS, AND THE TRUSTEE'S RIGHTS WITH RESPECT TO ANY SUCH EQUIPMENT OR PURCHASE ORDERS ASSIGNED, SOLD OR DELIVERED DURING THE TERM OF THIS AGREEMENT OF PURCHASE OR OTHERWISE, IS WITHOUT ANY WARRANTY OR REPRESENTATION AS TO ANY MATTER WHATSOEVER ON THE PART OF THE TRUSTEE OR THE TRUST, AND, AS BETWEEN GULF STATES, THE TRUSTEE, AND CHEMICAL, BUT SUBJECT TO THE PROVISIONS OF SECTION 6.4 HEREOF, GULF STATES ASSUMES ALL RISKS AND WAIVES ANY AND ALL DEFENSES TO SUCH OBLIGATION TO PURCHASE AND MAKE ALL OTHER REQUIRED PAYMENTS IN ACCORDANCE WITH THE PROVISIONS HEREOF, INCLUDING WITHOUT LIMITATION ANY DEFENSE RELATING TO (A) THE TITLE, TAKING, CONDITION, QUALITY, QUANTITY, FITNESS, OR SUITABILITY FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER QUALITY OR CHARACTERISTIC OF THE STEAM TURBINE EQUIPMENT WHETHER OR NOT SUCH EQUIPMENT IS DELIVERED TO GULF STATES OR THE DESTRUCTION, THEFT, OR THE OTHER PARTIAL OR COMPLETE LOSS OF THE STEAM TURBINE EQUIPMENT, (B) ANY SETOFF, COUNTERCLAIM, RECOUPMENT DEFENSE, OR OTHER RIGHT WHICH GULF

STATES MAY HAVE AGAINST ANY PERSON OR ENTITY SELLING, DELIVERING, SHIPPING, HANDLING OR TRANSPORTING THE STEAM TURBINE EQUIPMENT TO THE TRUST OR AGAINST THE TRUST, THE TRUSTEE, OR CHEMICAL, OR AGAINST ANY OTHER PERSON OR ENTITY FOR ANY REASON WHATSOEVER, (C) ANY DEFECT IN TITLE OR OWNERSHIP OF THE STEAM TURBINE EQUIPMENT OR PURCHASE ORDERS, (D) ANY INABILITY OR ILLEGALITY WITH RESPECT TO THE OWNERSHIP OR USE OR POSSESSION OF THE STEAM TURBINE EQUIPMENT BY GULF STATES OR THE OWNERSHIP THEREOF BY THE TRUST, (E) ANY INSOLVENCY, BANKRUPTCY, REORGANIZATION, OR SIMILAR PROCEEDING BY OR AGAINST GULF STATES, (F) ANY EXPIRATION, INTERRUPTION, SUSPENSION OR OTHER TERMINATION OF ANY REQUIRED GOVERNMENTAL LICENSES, PERMITS, CONSENTS, AUTHORIZATIONS, OR APPROVALS AS TO THE STEAM TURBINE EQUIPMENT ACQUIRED BY GULF STATES, THE TRUST OR THE TRUSTEE PRIOR TO ANY SUCH EXPIRATION, INTERRUPTION, SUSPENSION, OR OTHER TERMINATION, (G) THE INVALIDITY OR UNENFORCEABILITY OF THIS AGREEMENT OF PURCHASE OR ANY OTHER INFIRMITY HEREIN (INCLUDING FAILURE TO OBTAIN REQUIRED REGULATORY APPROVAL, CONSENT OR AUTHORIZATION) OR ANY LACK OF POWER OR AUTHORITY OF THE TRUST OR THE TRUSTEE TO ENTER INTO THIS AGREEMENT OF PURCHASE, AND (H) ANY DESIGNATION BY GULF STATES OF A THIRD PARTY TO PURCHASE THE STEAM TURBINE EQUIPMENT AS PROVIDED IN SECTION 19 HEREOF.

6.2 Waiver of Termination Rights

To the extent permitted by applicable law, Gulf States hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, rescind, revoke, or surrender this Agreement of Purchase other than in accordance with the express terms hereof. All payments made by Gulf States (or its designee) under Section 3 or 13.2 hereof shall be final as between and among Gulf States, its designee, the Trustee and Chemical, and it is agreed that neither Gulf States nor its designee shall have any right to recover all or any part of such payments from the Trustee or Chemical for any reason whatsoever, unless expressly provided to the contrary in this Agreement of Purchase and in the other agreements and documents referred to herein. Notwithstanding the foregoing, if an error or mistake has been made in the computation of any amounts paid by Gulf States (or its designee) pursuant to Section 3 or 13.2 hereof, and such error or mistake has resulted in the payment of an amount in excess of or less than the amount which should have been paid pursuant to such Sections, Gulf States, its designee, the Trustee, or Chemical, as appropriate, shall not be precluded by this Section from recovering the amount of such excess or deficiency from the party or parties responsible therefor.

6.3 Disclaimer of Warranties

By execution hereof, Gulf States acknowledges and agrees that THE STEAM TURBINE EQUIPMENT HAS NOT BEEN SELECTED BY THE TRUSTEE, THAT THE TRUSTEE HAS NOT SUPPLIED ANY SPECIFICATIONS WITH RESPECT THERETO, AND THAT NEITHER THE TRUSTEE, THE TRUST, AND CHEMICAL, NOR ANY PERSON OR ENTITY ACTING ON ITS OR THEIR BEHALF OTHER THAN GULF STATES (i) IS A MANUFACTURER OR PRODUCER OF OR A DEALER IN STEAM TURBINE EQUIPMENT, (ii) HAS MADE ANY RECOMMENDATION, GIVEN ANY ADVICE, OR TAKEN ANY OTHER ACTION WITH RESPECT TO THE CHOICE OF ANY PRODUCER, SUPPLIER, VENDOR, PROCESSOR, FABRICATOR, OR TRANSPORTER OF, OR ANY OTHER CONTRACTOR WITH RESPECT TO, THE STEAM TURBINE EQUIPMENT OR ANY PART THEREOF, OR HAS GIVEN ANY SUCH ADVICE OR TAKEN ANY SUCH ACTION WITH RESPECT TO THE STEAM TURBINE EQUIPMENT OR ANY PORTION THEREOF AT ANY STAGE OF ACQUISITION, PRODUCTION, PROCESSING, SHIPMENT, TRANSPORTATION OR STORAGE, (iii) HAS AT ANY TIME HAD PHYSICAL POSSESSION OF ANY PORTION OF THE STEAM TURBINE EQUIPMENT OR MADE ANY INSPECTION THEREOF, OR (iv) HAS MADE ANY WARRANTY OR OTHER REPRESENTATION, EXPRESS OR IMPLIED, THAT THE STEAM TURBINE EQUIPMENT WILL NOT RESULT IN INJURY OR DAMAGE TO PERSONS OR PROPERTY, OR HAS BEEN OR WILL BE PROPERLY PRODUCED, STORED OR TRANSPORTED OR WILL ACCOMPLISH THE RESULTS WHICH GULF STATES INTENDS THEREFOR, OR IS SAFE IN ANY MANNER OR RESPECT. THE PROVISIONS OF THIS SECTION HAVE BEEN NEGOTIATED WITH THE

INTENTION OF COMPLETELY EXCLUDING AND NEGATING ALL WARRANTIES BY THE TRUSTEE, THE TRUST, CHEMICAL, OR ANY OTHER PERSON OR ENTITY ACTING ON BEHALF OF EITHER OF THEM, WHETHER EXPRESS OR IMPLIED, RELATING TO THE STEAM TURBINE EQUIPMENT OR ANY PART THEREOF, WITH RESPECT TO MERCHANTABILITY, FITNESS, OR ANY OTHER CIRCUMSTANCE OR MATTER, WHETHER ARISING PURSUANT TO A UNIFORM COMMERCIAL CODE OR ANY OTHER FUTURE OR PRESENT LAW, OR OTHERWISE.

6.4 Reservation of Rights

Nothing contained in this Agreement of Purchase or in the other agreements and documents referred to herein shall limit, abrogate or rescind the liability of any seller, vendor, manufacturer, transporter, insurer, or other contractor (except for the Trustee, the Trust or Chemical as elsewhere herein provided) under any agreement, instrument, contract, purchase order, document, warranty, guarantee, claim, or undertaking, whether expressed or implied, relating to the Steam Turbine Equipment, or the shipment, transportation, ownership, delivery, storage, insurance, installation, inspection, handling or maintenance thereof, that the Trustee may have or hold as of the Purchase Date or the Settlement Date, as the case may be, or that shall arise or accrue at any time prior or subsequent to either such date, under any such agreement, instrument, contract, document, purchase

order, warranty, guarantee, claim or undertaking, or otherwise, in respect thereof. All of such agreements, instruments, documents, contracts, purchase orders, warranties, guaranties, claims, and undertakings, whether express or implied, shall constitute a part of the Steam Turbine Equipment (as described in Section 2 hereof) to be assigned and transferred over to Gulf States (or its designee) as a part of and incident to the sale of the Steam Turbine Equipment on the Purchase Date or Settlement Date, as appropriate. Following such assignment and transfer, Gulf States or its designee shall be permitted to assert all rights and claims, and to bring all suits, actions, and proceedings, in its own name and on its own behalf, in respect of any such agreement, instrument, document, contract, purchase order, warranty, guarantee, claim or undertaking, and shall be entitled to retain all proceeds, recoveries or other amounts or benefits receivable or payable as a result of or otherwise arising from any of the foregoing.

6.5 Maintenance and Operation of Steam Turbine Equipment

As agent for the Trust, Gulf States irrevocably agrees to maintain, preserve and keep the Trust Estate in good condition and repair at the sole cost and expense of the Trust so that at all times preceding the sale and transfer provided for herein the efficiency of the Trust Estate shall be maintained and preserved. Prior to sale and transfer of

the Steam Turbine Equipment and Purchase Orders as herein set forth, Gulf States, in its capacity as agent for and on behalf of the Trust, shall not use or operate, or cause to be used or operated, the Steam Turbine Equipment in any manner that would cause the Trust to be or become an "electric utility holding company" within the meaning of the Public Utility Holding Company Act of 1934, as in effect from time to time or at any time.

6.6 Acceptance of Appointment

By execution hereof, Gulf States hereby irrevocably accepts appointment by the Trustee as agent for and on behalf of the Trust to the extent and on the terms and conditions set forth in this Agreement of Purchase, the Trust Agreement and the other agreements and documents referred to therein.

SECTION 7. Agreements of Trustee

By execution hereof, the Trustee agrees that prior to sale and transfer of the Steam Turbine Equipment and Purchase Orders as herein set forth, the Trustee shall not (i) sell, transfer or assign any interest in the Steam Turbine Equipment or the Purchase Orders to any person or entity other than Gulf States or its designee under this Agreement of Purchase, except to the extent otherwise expressly provided to the contrary in Section 13.4 hereof, (ii) place any lien, mortgage, security interest or other encumbrance on

all or any part of the Trust Estate (except as and to the extent provided in the Collateral Assignment), using its best efforts to permit or suffer no such lien, mortgage, security interest, or encumbrance to be placed thereon by operation of law or otherwise, (iii) use or operate the Steam Turbine Equipment in any manner that would cause the Trust to be or become an "electric utility holding company" within the meaning of the Public Utility Holding Company Act of 1934, as in effect from time to time, and (iv) take or at any time claim any depreciation or other similar deduction or credit available with respect to its ownership of the Steam Turbine Equipment on any federal, state, or other income tax return required to be filed by or on behalf of the Trust or the Trustee.

SECTION 8. Insurance and Risk of Loss Prior to Sale

8.1 Risk of Loss

The risk of loss with respect to the Steam Turbine Equipment, after such risk has passed from General Electric to the Trustee under the Purchase Orders, shall rest with the Trustee until Gulf States or its designee shall assume and bear such risk as provided in Section 4 hereof.

8.2 Procurement of Insurance

Notwithstanding the provisions of Section 8.1 above, at all times prior to sale of the Steam Turbine

Equipment under this Agreement of Purchase, Gulf States (as agent for and on behalf of the Trust) shall cause the Steam Turbine Equipment to be covered by "all risk" insurance issued by insurance companies acceptable to Gulf States and authorized to transact an insurance business in the jurisdiction or jurisdictions where such coverage is to be effected. The insurance shall be in such amounts and with such coverages as are consistent with industry practice for investor-owned electric utility companies (as determined by Gulf States as agent for the Trustee), and all policies providing such coverage shall name Gulf States, the Trustee and Chemical as insureds, with all losses under the policies to be payable to each to the extent that their respective interests may appear. The insurance required by this Section shall be maintained on behalf of the Trust at its sole cost and expense. In its capacity as agent, Gulf States shall arrange for the Trustee's compliance with all terms of such insurance policies and with all requirements of the companies issuing the same, and the Trustee shall have no responsibility with respect to compliance with such terms and requirements except that the Trustee shall take any action as Gulf States may from time to time reasonably request in connection therewith. Gulf States shall furnish the Trustee and Chemical with a copy of each insurance policy maintained hereunder,

and shall promptly deliver to the Trustee and Chemical a copy of any and all amendments to such policies, provided that no such amendment shall adversely affect the rights or obligations of the Trustee or Chemical under the policies without the prior written consent of each.

8.3 Disposition of Insurance Proceeds

In the event of any loss, damage or destruction to the Steam Turbine Equipment prior to sale or transfer as herein provided, the Trustee and Gulf States shall promptly notify the other and Chemical of any such loss, damage or destruction which comes to its attention. If such loss, damage or destruction is fully covered by the insurance maintained pursuant to Section 8.2, the proceeds of such insurance shall be applied by the Trustee, Gulf States and Chemical toward repair, reconstruction or replacement of the Steam Turbine Equipment, and in such event all of the rights and obligations of the parties under this Agreement of Purchase and the other agreements and documents referred to herein shall remain unaffected. If such loss, damage or destruction is not fully covered by the insurance, Gulf States shall have a period of ninety (90) days after the occurrence thereof within which to pay to the Trustee a sum of money that, when added to the insurance proceeds available therefor, will be sufficient to provide for the full repair,

reconstruction or replacement of the Steam Turbine Equipment. In such event, the Trustee, Gulf States and Chemical shall cause the insurance proceeds to be applied toward such repair, reconstruction or replacement, and thereafter the rights and obligations of the parties under this Agreement of Purchase and the other agreements and documents referred to herein shall remain unaffected. If Gulf States shall fail to pay such sum of money for repair, reconstruction or replacement as above provided, such failure of Gulf States shall constitute an Event of Default under Section 14(b). In such instance, the Trustee shall have the rights and remedies provided for in Section 15, and if Gulf States shall pay all amounts due and owing hereunder as of the Settlement Date established on or subsequent to such occurrence, Gulf States shall be entitled to receive and retain, and the Trustee and Chemical shall assign and make available to Gulf States, all insurance rights and proceeds as a part of the Steam Turbine Equipment to be transferred to Gulf States under Section 13.2 of this Agreement of Purchase. Thereafter, Gulf States shall have full right and authority, in its own name and on its own behalf, to claim against any insurance company or other third party so as to prosecute, settle, compromise and dispose of any and all such claims arising with respect to the loss, damage or destruction of the Steam

Turbine Equipment on such terms and conditions as Gulf States shall deem appropriate in the exercise of its sole discretion. If Gulf States shall fail to pay all amounts due and owing hereunder as of the Settlement Date, such failure shall constitute an Event of Default within the meaning of Section 13.4, and in addition to exercising the rights and remedies provided in such Section and in Section 15, the Trustee shall be entitled to receive and retain all insurance proceeds to the extent of the amounts due and owing from Gulf States hereunder, with any balance thereafter remaining to be disposed of as provided in Section 13.4.

SECTION 9. Taking of Equipment

In the event that Gulf States or the Trustee shall acquire any knowledge that proceedings or negotiations have been commenced which may result in any Taking of the Steam Turbine Equipment prior to sale and transfer as elsewhere herein provided, the party acquiring such knowledge shall promptly notify the other party and Chemical in writing, describing in general the nature and extent of such proceedings or negotiations, as the case may be. If the proceedings or negotiations shall result in a Taking of the Steam Turbine Equipment, such occurrence shall constitute an Event of Default under Section 14(i) of this Agreement of Purchase. In such event, the Trustee shall have the rights and remedies

provided for in Section 15, and if Gulf States shall pay all amounts due and owing under Section 13.2 as of the Settlement Date established on or subsequent to such occurrence, Gulf States shall be entitled to receive and retain, and the Trustee and Chemical shall assign and make available to Gulf States, all proceeds and other rights arising from the Taking as a part of the Steam Turbine Equipment to be transferred to Gulf States under Section 13.2 of this Agreement of Purchase. Thereafter, Gulf States shall have full right and authority, in its own name and on its own behalf, to claim against any governmental authorities or other third parties so as to prosecute, settle, compromise and dispose of any and all such claims arising with respect to the Taking on such terms and conditions as Gulf States shall deem appropriate in the exercise of its sole discretion. If Gulf States shall fail to pay all amounts due and owing hereunder as of the Settlement Date, such failure shall constitute an Event of Default within the meaning of Section 13.4, and in addition to exercising the rights and remedies provided in such Section and in Section 15, the Trustee shall be entitled to receive and retain all proceeds from the Taking to the extent of the amounts due and owing from Gulf States hereunder, with any balance thereafter remaining to be disposed of as provided in Section 13.4.

SECTION 10. Special Covenants by Gulf States

Prior to sale and transfer of the Steam Turbine Equipment as herein provided, Gulf States shall furnish to Chemical and the Trustee (i) on or before the Closing Date (as defined in the Credit Agreement) certified copies of resolutions of the Board of Directors of Gulf States authorizing and ratifying the execution, delivery and performance of this Agreement of Purchase, the Assignment Agreement, the Transfer Agreement, and the Purchase Orders, a copy of the Certificate of Incorporation and Articles of Incorporation of Gulf States certified as of a recent date by the Secretary of the State of Texas, and Certificates of the Secretary of the State of Texas and the Secretary of the State of Louisiana, dated as of recent dates, as to the good standing of Gulf States and its charter documents on file, (ii) a certificate of the Secretary or Assistant Secretary of Gulf States dated as of such Closing Date certifying (x) an attached copy of the Bylaws of Gulf States as true and correct on such date, (y) the incumbency and signatures of the officers of Gulf States executing this Agreement of Purchase, the Assignment Agreement, the Transfer Agreement, and any other agreements and documents delivered in connection herewith, and (z) the Certificate of Incorporation of Gulf States has not been amended since the date of the last amendment thereto indicated

on the certificate furnished pursuant to clause (i) above, (iii) as soon as available but in no event more than sixty (60) days after the end of each of the first three (3) fiscal quarters of Gulf States, a balance sheet of Gulf States dated as of the close of each such period, together with statements of income and expense to the close of such period, certified by the Treasurer, Assistant Treasurer, Secretary, or Assistant Secretary of Gulf States, and accompanied by a certificate of such officer stating whether any event has occurred which constitutes an Event of Default hereunder or which would constitute such an Event of Default with the giving of notice or the lapse of time, or both, and, if so, stating the facts and circumstances with respect thereto, (iv) as soon as available but in no event more than ninety (90) days after the close of each of Gulf States' fiscal years, a copy of the annual report relating to Gulf States prepared in accordance with generally accepted accounting principles and certified by Coopers & Lybrand or other acceptable independent accountants, together with financial statements consisting of a balance sheet of Gulf States as of the end of each such fiscal year and statements of income and expense and retained earnings of Gulf States for each such fiscal year, (v) as soon as available, but in no event more than ninety (90) days after the close of each of Gulf States' fiscal years, a written statement from the Treasurer,

Assistant Treasurer, Secretary, or Assistant Secretary of Gulf States which certifies whether any event has occurred to the close of each such fiscal year that constitutes an Event of Default hereunder or that would constitute such an Event of Default with the giving of notice or the lapse of time, or both, and, if so, which states the facts and circumstances with respect thereto, (vi) as soon as available, copies of all periodic reports on Form 10-K filed by Gulf States under the Securities Exchange Act of 1934, (vii) prompt written notice describing the facts and circumstances surrounding the occurrence of any event which constitutes an Event of Default hereunder or which would constitute such an Event of Default with the giving of notice or the lapse of time, or both, and (viii) such additional information, reports or statements as the Trustee may from time to time reasonably request.

SECTION 11. Indemnification by Gulf States

Gulf States shall pay, and shall protect, indemnify, and hold harmless the Trustee, its successors and assigns, and its officers, directors, shareholders, employees, agents, and servants, from and against all liabilities, obligations, impositions, losses, claims, damages, penalties, causes of action, suits, costs and expenses (including, without limitation, attorneys' fees and court costs), judgments of any

nature, or any sales, use, income, or other taxes (exclusive of any income taxes payable by the Trustee on any fee received by it under the Trust Agreement) imposed on or incurred or suffered by the Trustee and not paid out of the assets of the Trust Estate, as a result of (i) the Trustee's ownership of the Steam Turbine Equipment or the purchase, repurchase, acceptance, acquisition, ownership, financing, storage, shipment, transportation, delivery, nondelivery, possession, holding, use, non-use, operation, condition, maintenance, insurance, inspection, handling, management, sale, re-sale, return or other disposition of such Equipment, or (ii) the acceptance or administration of the Trust or the acts or omissions of the Trustee or any of the employees, agents, contractors, servants, licensees, or invitees of Gulf States or the Trustee under the Trust Agreement, the other agreements and documents referred to therein or otherwise, or (iii) any claims or penalties arising from any violation by Gulf States or the Trustee of any laws, regulations or provisions, terms or conditions of any licenses, permits, consents, authorizations, or approvals pertaining to the Steam Turbine Equipment, or the failure to obtain any such licenses, permits, consents, authorizations or approvals, or (iv) any claims arising out of latent or other defects in the Steam Turbine Equipment, whether or not discoverable by the Trustee or Gulf States, or (v) any accident, injury, death, or damage caused by or connected with any of the acts, events, conditions,

omissions or occurrences hereinabove described. Notwithstanding the foregoing, in no event shall Gulf States be obligated or otherwise required to indemnify or hold harmless the Trustee from the consequences of any fraud, gross negligence or willful misconduct of the Trustee, or for the material breach or material failure of any warranty, representation, or covenant made by the Trustee specifically in its individual capacity as a state banking corporation in this Agreement of Purchase or in any of the other agreements and documents referred to herein. In the event that any action, suit, or proceeding is brought against the Trustee by reason of any act, event, condition, omission or occurrence as to which the Trustee is entitled to indemnity under this Section, Gulf States shall at its sole cost and expense, resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by Gulf States and acceptable to the Trustee, and in such event the counsel so designated by Gulf States shall control the conduct of litigation as to any such action, suit or proceeding. The obligations of Gulf States under this Section shall survive any sale or transfer of the Steam Turbine Equipment pursuant to this Agreement of Purchase or otherwise, and Gulf States shall afford indemnity to the Trustee as hereinabove provided at all times subsequent to any such sale or transfer notwithstanding any provision to the contrary in Section 13 hereof.

SECTION 12. Settlement Date

Unless the Steam Turbine Equipment shall be sooner purchased as of the Purchase Date established in Section 3, a Settlement Date shall be established under this Agreement of Purchase upon occurrence of any of the following:

(a) January 2, 1981; or

(b) ten (10) days after delivery to Gulf States by the Trustee of written notice of the occurrence of any Event of Default as defined in Section 14 hereof; or

(c) after delivery to the Trustee by Gulf States or its designee of ten (10) days' prior written notice to the effect that the Steam Turbine Equipment is to be purchased as of the expiration of such period but at the option of Gulf States or such designee is to remain in storage.

SECTION 13. Procedure Upon Establishment of Settlement Date

13.1 Discharge of Future Obligations

On the Settlement Date established as provided in Section 12, all obligations and liabilities of the Trustee and Gulf States under this Agreement of Purchase shall cease and terminate except with respect to (i) obligations and

liabilities of Gulf States, whether actual or contingent, that arose hereunder on or prior to the Settlement Date, (ii) obligations of Gulf States under Section 11 hereof, and (iii) obligations of the Trustee to transfer the Steam Turbine Equipment pursuant to Section 13.2 or to exercise the termination rights and remedies provided in Section 13.4.

13.2 Payment of Pre-Existing Obligations

On the Settlement Date fixed by or in accordance with Section 12, Gulf States (or its designee) shall pay to the Trustee an amount equal to the purchase price for the Steam Turbine Equipment determined pursuant to Section 5 hereof as of such Settlement Date. Upon receipt of such payment which shall be made in the manner provided in Section 5.3, the Trustee shall execute and deliver to Gulf States or its designee a bill of sale (in due form and in the required number of counterparts for filing or recording, if necessary) and any other written documents in form and content reasonably requested by Gulf States, evidencing the transfer and vesting in Gulf States or its designee of all of the Trustee's right, title, and ownership interest in and to the Steam Turbine Equipment, the Purchase Orders, and this Agreement of Purchase, all as more fully described in Section 2 hereof.

13.3 Discharge of Pre-Existing Obligations

Upon payment of the amounts described in Section 13.2 and delivery of the bill of sale and other documents

described therein, Gulf States and the Trustee agree to execute and deliver a written instrument discharging the other party from all further duties, obligations and liabilities under this Agreement of Purchase (except for any obligations which by the express terms hereof shall survive such sale and transfer).

13.4 Election Upon Certain Events of Default

Notwithstanding the foregoing provisions of this Section, in the event the Settlement Date is established under Section 12 hereof in accordance with written notice from the Trustee to Gulf States stating that (i) an Event of Default has occurred under clauses (a), (d), (e), (f) or (g) of Section 14, and (ii) in lieu of the sale and transfer of the Steam Turbine Equipment to Gulf States (or its designee) as provided in Sections 13.1 and 13.2, the Trustee has elected to proceed pursuant to the provisions of this Section, then the Trustee may, on written instructions from Chemical given pursuant to clause (p) of Section 6 of the Trust Agreement, take one or more of the following actions with respect to the Steam Turbine Equipment then held by the Trustee hereunder:

(a) the Trustee may demand that Gulf States, and Gulf States shall upon receipt of such written demand, deliver all or any part of the Steam Turbine Equipment to the Trustee or its designee; or

(b) the Trustee or its designee may enter upon the premises where the Steam Turbine Equipment is located and take immediate possession of and hold or remove the same by summary proceedings or otherwise, all without liability on the part of the Trustee or the Trust by reason of such entry, taking of possession, or removal; or

(c) the Trustee may sell all or any part of the Steam Turbine Equipment at public or private sale (as the Trustee on written instructions from Chemical may so determine) free and clear of any rights of Gulf States hereunder; or

(d) the Trustee may take such other action or resort to such other remedy permitted under applicable law.

In the event that the Trustee shall sell or otherwise dispose of all or any part of the Steam Turbine Equipment pursuant to clause (c) of this Section, or in the event that the Trustee shall retain any proceeds from the insurance or Taking of such Equipment as provided in Section 8 or 9 hereof, any proceeds so received by the Trustee shall be applied (i) first, to the payment of all costs and expenses of every kind paid or incurred in realizing such proceeds or in any way relating

to the exercise of the rights of the Trustee under this Agreement of Purchase, including any reasonable attorneys' fees and court costs incurred or paid by the Trustee, (ii) second, to the payment of all amounts owing from Gulf States to the Trustee hereunder, whether such obligations shall be due or not due, matured or not matured, and (iii) third, to the persons or entities entitled to the balance of such proceeds, if any, pursuant to the provisions of Section 8 or 9 of this Agreement of Purchase or Section 11 of the Trust Agreement, as appropriate.

SECTION 14. Events of Default

Any of the following events shall constitute an Event of Default under this Agreement of Purchase and shall give rise to the rights on the part of the Trustee as described in Section 15:

(a) default by Gulf States in the payment of any amount under Section 3 or 13.2 of this Agreement of Purchase for more than ten (10) days after the due date for payment of same; or

(b) default by Gulf States in the payment of any other sum or in the satisfaction or performance of any other liability or obligation or covenant of Gulf States under this Agreement of Purchase or

the other agreements and documents referred to herein, and the continuance of such default for ten (10) days after written notice to Gulf States; or

(c) any representation or warranty made by Gulf States herein or in any instrument furnished to the Trustee or its designee pursuant to or contemplated by this Agreement of Purchase and the other agreements and documents referred to herein, shall prove at any time to be incorrect or false as of the date made in any material respect; or

(d) Gulf States shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of Gulf States or all or a substantial part of its properties or assets, (ii) admit in writing its inability to pay its debts as they mature, (iii) make a general assignment for the benefit of creditors, (iv) be adjudicated as bankrupt or insolvent, or (v) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an

answer admitting the material allegations of a petition filed against it in any proceeding under the law, or if corporate action shall be taken by Gulf States for the purpose of effecting any of the foregoing; or

(e) all or substantially all of the property of Gulf States shall be condemned, seized or otherwise appropriated by any governmental body, authority or entity, or a receiver or trustee shall take possession of all or substantially all of the properties of Gulf States, and in either such instance possession shall not be recovered within sixty (60) days; or

(f) the termination of existence or business failure of Gulf States; or

(g) an order, judgment or decree shall be entered, without the application, approval or consent of the debtor by any court of competent jurisdiction, approving a petition seeking reorganization of Gulf States, or of all or a substantial part of the properties or assets of Gulf States, or appointing a receiver, trustee or liquidator of Gulf States and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days; or

(h) default in respect of payment of principal or interest on any obligation for borrowed money in excess of \$1,000,000 for which Gulf States is liable (either directly, by assumption or as guarantor), or in respect of payment of principal or interest on any obligation in excess of \$1,000,000 which is secured by any mortgage, pledge, title retention agreement or other security interest, lien, charge or encumbrance on any property of Gulf States, and in either of such instances the default shall continue for more than the period of grace, if any, therein specified or shall not be cured as therein provided; or

(i) the Taking of the Steam Turbine Equipment as provided in Section 9 hereof; or

(j) Gulf States shall announce cancellation of construction of River Bend Unit No. 1, or shall announce or otherwise effect the postponement of commercial operation of such unit to a date later than September 1, 1985.

SECTION 15. Rights of Trustee Upon Default

Upon the occurrence and during the continuance of any Event of Default, the Trustee may, in its discretion,

proceed by appropriate judicial proceedings, either at law or in equity, to enforce performance or observation by Gulf States of the applicable provisions of this Agreement of Purchase, or to recover damages, losses and expenses sustained by reason of such default, or to establish a Settlement Date under Section 12 hereof. In addition to the foregoing, upon the occurrence and during the continuance of any such Event of Default described in clauses (a), (d), (e), (f) or (g) of Section 14, the Trustee may, in its discretion, exercise such rights and remedies as are provided in Section 13.4 of this Agreement of Purchase.

SECTION 16. Warranties and Representations
of Gulf States

As of the Closing Date (as defined in the Credit Agreement), Gulf States hereby warrants and represents to the Trustee and Chemical as follows:

(a) Gulf States is duly incorporated and validly existing as a corporation in good standing under the laws of the State of Texas, with full corporate power and authority to conduct its business in Texas and Louisiana, is duly qualified to do business as a foreign corporation in all states (including Louisiana) where the conduct of its business and ownership of property requires

such qualification, and has full corporate power and authority to execute and deliver, and perform its obligations under, this Agreement of Purchase, the Assignment Agreement, and the Transfer Agreement;

(b) this Agreement of Purchase, the Assignment Agreement, and the Transfer Agreement have been and will be duly authorized, and have been duly executed and delivered by Gulf States, and constitute and will constitute legal, valid and binding obligations of Gulf States enforceable in accordance with their respective terms;

(c) there is no charter, bylaw or preference stock provision of Gulf States and no provision of any existing mortgage, indenture, contract or agreement binding on Gulf States or affecting its properties, or any law, administrative regulation or court decree applicable to Gulf States, which would conflict with or in any way prevent the execution or delivery of this Agreement of Purchase, the Assignment Agreement or the Transfer Agreement, nor the fulfillment by Gulf States of the terms, conditions or provisions hereof or thereof, and no approval, authorization or consent of any governmental

body is required with respect to the transactions herein or therein contemplated;

(d) Gulf States is not in default in any material manner, and no condition exists which, with notice or the lapse of time or both, would constitute a default in any material manner under any mortgage, credit agreement or indenture to which Gulf States is a party or by which it is bound or under any other instrument pursuant to which it has borrowed money or which secures payment of money it has borrowed, or otherwise;

(e) Gulf States is not in default, and no condition exists which, with notice or the lapse of time or both, would constitute a default, in any respect material to its performance of this Agreement of Purchase, the Assignment Agreement or the Transfer Agreement, under any judgment, order, writ, injunction or decree of any court or governmental body, authority or entity; and

(f) so far as the officers of Gulf States know, there is no pending or threatened suit or proceeding against Gulf States which in the opinion of Gulf States is reasonably likely to materially affect the consummation of the transactions contemplated by this Agreement of Purchase, the Assignment

Agreement and the Transfer Agreement, or otherwise, or to materially interfere with full performance by Gulf States hereunder or thereunder.

On such Closing Date, counsel for Gulf States shall deliver to the Trustee and the Gideon Trust an opinion substantially to the effect and tenor of the representations and warranties of Gulf States set forth above, with such opinion to state that Chemical shall be authorized to rely thereon.

SECTION 17. Binding Effect of Agreement

This Agreement of Purchase shall be binding upon and shall inure to the benefit of Gulf States and the Trustee, their respective successors, designees and assigns, except that in no event shall the Trustee assign, transfer or delegate all or any part of its rights, powers, duties and obligations hereunder without the prior written consent of Gulf States and Chemical (unless otherwise expressly provided to the contrary in this Agreement of Purchase, the Trust Agreement, and the other agreements and documents referred to herein and therein).

SECTION 18. Successor Trustee

Gulf States agrees that in the case of appointment of any successor Trustee for the Trustee under the terms of the Trust Agreement prior to termination thereof, the

successor Trustee shall, upon written notice of acceptance by such successor Trustee delivered to Gulf States and Chemical, succeed to all of the rights, powers and title of the Trustee hereunder and shall be deemed to be the owner of the Purchase Orders, the Steam Turbine Equipment, and all other rights therein for all purposes hereof, without in any way altering the terms of this Agreement of Purchase or Gulf States' obligations hereunder. Upon appointment of a successor Trustee pursuant to the Trust Agreement, the predecessor Trustee shall have no further rights, powers, duties or obligations under this Agreement of Purchase, except (i) the rights provided by Section 11 hereof shall continue to apply to the predecessor Trustee and (ii) as and to the extent otherwise provided in the Trust Agreement and in the other agreements and documents referred to herein. One such appointment and designation of a successor Trustee shall not exhaust or otherwise preclude exercise of the right to appoint and designate further successor Trustees under the Trust Agreement from time to time or at any time as long as such Agreement shall remain in effect.

SECTION 19. Sales to Designees of Gulf States

Notwithstanding the other provisions of this Agreement of Purchase, at the request of Gulf States the Trustee shall sell all or any part of the Steam Turbine Equipment to such persons or entities as may be designated

by Gulf States for a purchase price equal to the purchase price determined as of the date of sale pursuant to Section 5 hereof, with the proceeds of any such sale to be subject to the terms of this Agreement of Purchase and to be paid over and distributed as herein set forth. The sale of all or any part of the Steam Turbine Equipment shall, to the extent of the interest so passing to the designee, be made on the same terms and conditions (including the disclaimers as to warranty set forth in Section 6.3) and with the same transfer of rights, warranties, guaranties, claims and interests by the Trustee, just as if Gulf States rather than the designee had made the purchase hereunder. As a condition to any such sale, Gulf States shall in all events provide the Trustee with the undertaking of Gulf States indemnifying and holding the Trustee harmless from and against any loss or liability (other than as to the sales price to the extent paid by the designee) which may be incurred by reason of such sale, as well as with the opinion of counsel for the designee to the effect that such sale shall not violate any applicable law, statute, order, ruling or regulation.

SECTION 20. Amendments

Any and all amendments, waivers, supplements or modifications to this Agreement of Purchase shall not be effective unless the same are reduced to writing, signed by Gulf States and the Trustee, and consented to by Chemical.

SECTION 21. Relationship of Parties

Nothing contained in this Agreement of Purchase shall be construed as creating any relationship by and between Gulf States, the Trustee, and Chemical, as joint venturers, partners, or as principals and agents.

SECTION 22. Notices

All notices and communications required to be in writing hereunder shall become effective when received, addressed as follows:

Gulf States Utilities Company
Post Office Box 2951
Beaumont, Texas 77704
Attention: William F. Malec;

Gideon Trust, c/o J. Henry Schroder Bank & Trust
Company, Trustee
One State Street
New York, New York 10015
Attention: Corporate Trust Department;

Chemical Bank
20 Pine Street
New York, New York 10005
Attention: Ellen Lapson;

or to such other address as any of the foregoing parties or their successors may designate by notice duly given in accordance with this Section. All of such notices and communications may be given in person or by mail, postage prepaid, or by telegram, charges prepaid, or by telex, telecopier or telephonic message, if promptly confirmed by mail, postage prepaid.

SECTION 23. Other Documents and Instruments

Each party hereto agrees to execute such other documents and instruments, and to take such other actions, as may be necessary or appropriate to effectuate the purposes of this Agreement of Purchase at any time prior or subsequent to sale and transfer of the Steam Turbine Equipment as herein provided.

SECTION 24. Failure of Performance by Trustee

If the Trustee shall fail to perform any act which the Trustee is obligated to perform under this Agreement of Purchase or under any other agreement or document referred to herein, and if such failure shall continue for five (5) days following written notice thereof from Gulf States to the Trustee and Chemical, Gulf States shall be entitled and is hereby irrevocably appointed as agent of the Trustee to perform any such act on behalf of and in the name of the Trustee. The designation and appointment of Gulf States as agent for the Trustee under this Section shall be in addition to and not in lieu of any such designation or appointment of Gulf States as agent under the Trust Agreement and the other agreements and documents referred to therein.

SECTION 25. Miscellaneous

25.1 Counterparts

This Agreement of Purchase may be simultaneously executed in any number of counterparts, each of which so executed shall be deemed to be an original and all of which counterparts together shall constitute and be one and the same instrument.

25.2 Agreement for Benefit of Trustee, Gulf States and Chemical

Nothing in this Agreement of Purchase, whether express or implied, shall be construed to give any person or entity other than the Trustee, Gulf States, its designees, and Chemical, any legal or equitable right, remedy or claim under or in respect of this Agreement of Purchase, and this Agreement of Purchase shall be held to be for the sole and exclusive benefit of such parties, with any other person or entity not to have or acquire any right, remedy or claim hereunder.

25.3 Section Headings

Section headings herein are for the convenience of the parties only, and shall be given no substantive or interpretive effect whatsoever.

25.4 Waiver

Waiver of the breach of any provision hereof shall not be deemed to be a waiver of any prior or subsequent breach of the same or any other provision hereunder.

25.5 Pursuit of Remedy

Pursuit of any remedy shall not be deemed to be or otherwise constitute a waiver of any other remedy hereunder or at law or equity.

25.6 Severability

Any provision of this Agreement of Purchase which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

25.7 Governing Law

This Agreement of Purchase shall be governed by and construed in accordance with the laws of the State of Texas.

25.8 Recourse Against Trustee

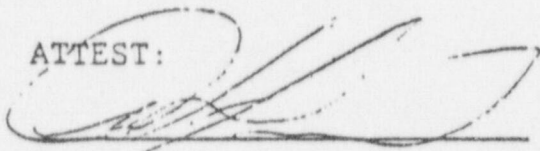
The representations, warranties, covenants, duties and obligations set forth in this Agreement of Purchase as having been made by or undertaken by the Trust have been made by or undertaken by the Trustee of the Trust acting as such Trustee pursuant to the authority vested in it under the laws of the State of New York and in conformity with the Trust Agreement. Reference is hereby made to the Trust Agreement, and all provisions of the Trust Agreement shall


be construed as extending to all the rights, duties and obligations of the Trustee under this Agreement of Purchase as fully for all intents and purposes as if those provisions were contained herein. The name "the Trustee" refers to the Trustee under the Trust Agreement in its capacity as Trustee, and not individually or personally, and neither the Trustee nor any shareholder, officer, employee or agent of the Trustee shall be held to any personal liability hereunder, nor shall resort be had to their private property for the satisfaction of any claim hereunder or in connection with the affairs of the Trust, but the Trust property only shall be liable, unless otherwise provided to the contrary in the Trust Agreement.

IN WITNESS WHEREOF, this Agreement of Purchase has been executed by the parties as of the day and year first above written.

GIDEON TRUST
By J. HENRY SCHRODER BANK &
TRUST COMPANY, As Trustee

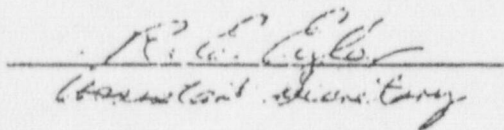
ATTEST:

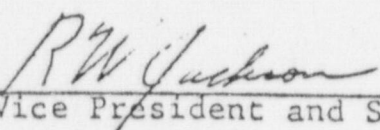


By: 
Its: Assistant Vice President

GULF STATES UTILITIES COMPANY

ATTEST:


Assistant Secretary

By: 
Its: Vice President and Secretary

THE STATE OF NEW YORK §

COUNTY OF NEW YORK §

BEFORE ME, the undersigned authority, on this day personally appeared MICHAEL J. PELLINO, Assistant Vice President of J. HENRY SCHRODER BANK & TRUST COMPANY, as Trustee of the Gideon Trust, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated as the act and deed of said Trust.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Terry S. Siegel (Adelphi)
Notary Public in and for
New York County, New York

TERRY S. SIEGEL
NOTARY PUBLIC, State of New York
No. 41-251-192
Qualified in Queens County
Commission Expires March 30, 1978

THE STATE OF TEXAS §

COUNTY OF JEFFERSON §

BEFORE ME, the undersigned authority, on this day personally appeared ROBERT W. JACKSON, Vice President and Secretary of GULF STATES UTILITIES COMPANY, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 25th day of January, 1978.

Alice D. Simon
Notary Public in and for
Jefferson County, Texas
ALICE D. SIMON