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**Jerry C. Roberts**  
Director  
Nuclear Safety Assurance

June 23, 2000

U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Attention: Document Control Desk

Subject: Grand Gulf Nuclear Station  
Unit 1  
Docket No. 50-416  
License No. NPF-29  
1999 Financial Report for South Mississippi Electric Power Association  
(SMEPA)

GNRO-2000/00038

Gentlemen:

The 1999 Annual Financial Report for South Mississippi Electric Power Association (SMEPA), one of the licensees of Grand Gulf Nuclear Station, is herein submitted in response to the requirement of 10CFR50.71(b).

The 1999 Annual Financial Reports for System Energy Resources, Inc., Entergy Mississippi, Inc., and Entergy Operations, Inc., will be submitted as part of the Entergy Corporation Annual Report by our Corporate Staff.

Should there be any questions concerning this submittal, please contact this office.

Yours truly,

A handwritten signature in black ink, appearing to be "JCR/AMT".

JCR/AMT

attachment: 1999 South Mississippi Electric Power Association Annual Report  
(SMEPA)

cc: (See Next Page)

June 23, 2000  
GNRO-2000/00038  
Page 2 of 2

cc:

Dixon-Herrity	J. L.	GGNS Senior Resident)	(w/a)
Levanway	D. E.	(Wise Carter)	(w/o)
Reynolds	N. S.		(w/o)
Smith	L. J.	(Wise Carter)	(w/o)
Thomas	H. L.		(w/o)

Mr. E. W. Merschoff (w/o)  
Regional Administrator  
U.S. Nuclear Regulatory Commission  
Region IV  
611 Ryan Plaza Drive, Suite 400  
Arlington, TX 76011

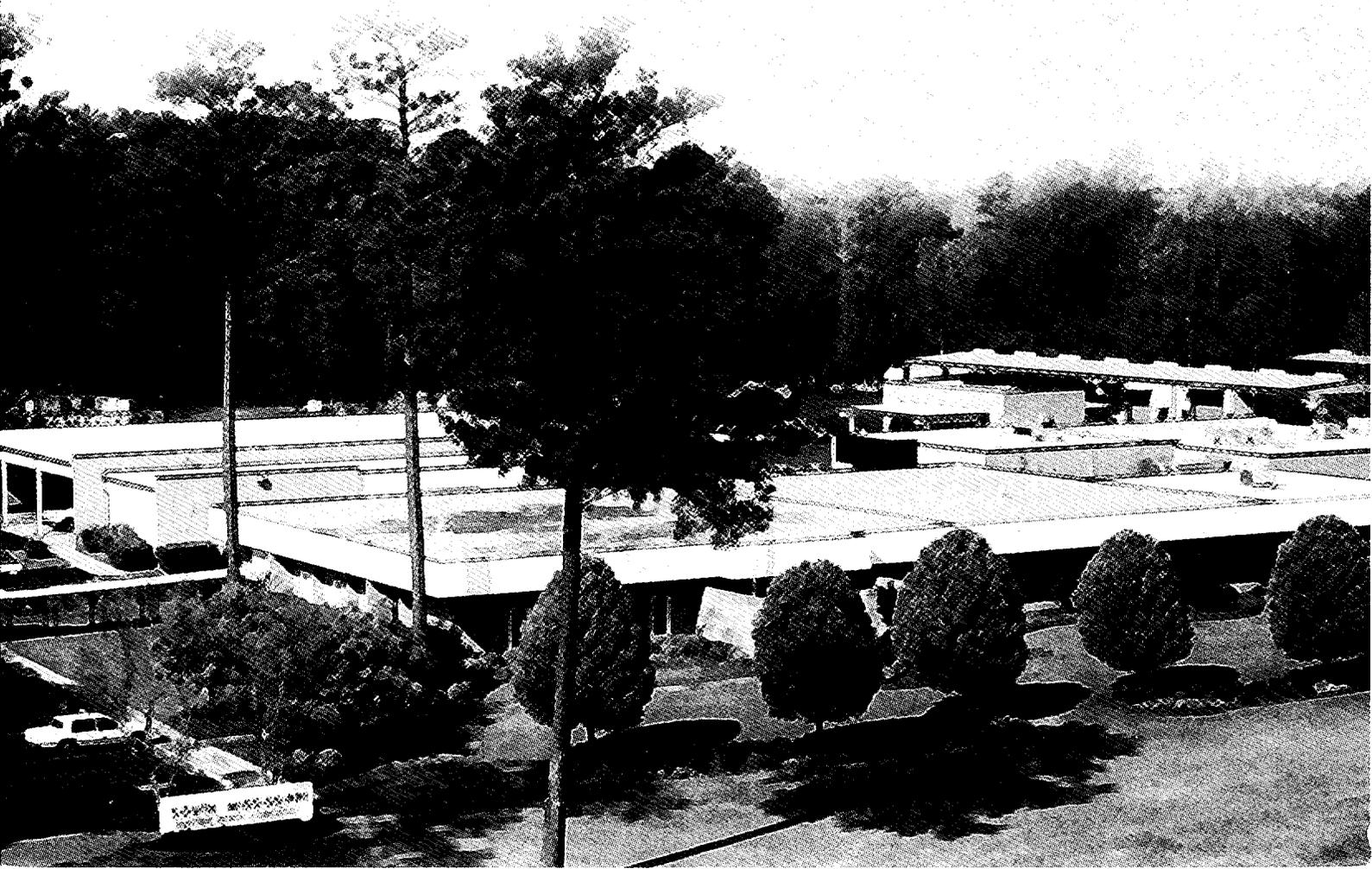
Mr. S. P. Sekerak, NRR/DLPM/PD IV-I (W/2)  
U.S. Nuclear Regulatory Commission  
One White Flint North, Mail Stop 07-D1  
11555 Rockville Pike  
Rockville, MD 20852-2378

**ATTN: ADDRESSEE ONLY**

# SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

# SMPPA

1999 ANNUAL  
REPORT



# SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

## 1999 PERFORMANCE HIGHLIGHTS

### Financial

(\$ In Thousands)	1999	1998	Increase (Decrease)	% Increase -Decrease
Total Revenue	\$329,274	\$313,425	\$15,849	5.1%
Current Net Margins	\$2,011	\$2,038	(\$27)	-1.3%
Total Assets	\$712,239	\$713,108	(\$869)	-0.1%
Total Equity	\$80,883	\$78,872	\$2,011	2.5%
Equity as % of Assets	11.4%	11.1%		
TIER	1.06	1.05		
DSC	1.02	1.06		
Average Cost of Debt	6.23%	6.27%		

### Operational

Wholesale Rate to Members — Mills/KWH	41.95	40.75	1.20	2.9%
Energy Sales (MWH)				
Members	7,836,023	7,503,403	332,620	4.4%
Non-Members	12,716	280,252	(267,536)	-95.5%
Total	7,848,739	7,783,655	65,084	0.8%
Net Generation (MWH)	3,654,436	4,000,428	(345,992)	-8.6%
Member Demand (MW)	1,892	1,762	130	7.4%

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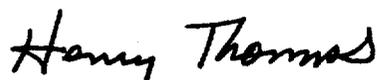
# EXECUTIVE MESSAGE

As South Mississippi Electric Power Association ends a proud history of accomplishments and service in the 1900's, we are busy positioning for the challenges on the horizon. Many issues have been addressed and resolved but an ongoing complicated focal point is the issue of deregulation. Many questions have arisen to date with few positive answers. We continue to study, monitor, evaluate, and provide input into this ongoing process with the express purpose of ensuring that residential and small business consumers are treated equally and fairly. As issues continue to unfold, we continue to be a part of the process.

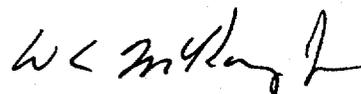
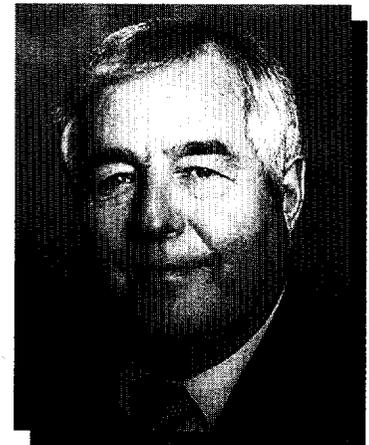
Nineteen hundred and ninety-nine closed with records in usage and demand reaching new levels that were compounded by excessive heat and problems among systems in other parts of the country. With a unified commitment, SMEPA employees were successful in maintaining reliable service while purchasing excessive energy requirements and operating our units effectively.

The year also brought to a close the much discussed Y2K issue. SMEPA employees worked to ensure all systems were compliant and 2000 came without any problems for the successful start of a new year. As we move into 2000, employees are prepared and committed to meeting all challenges with the same dedicated effort of the past in providing reliable cost energy to a growing membership.

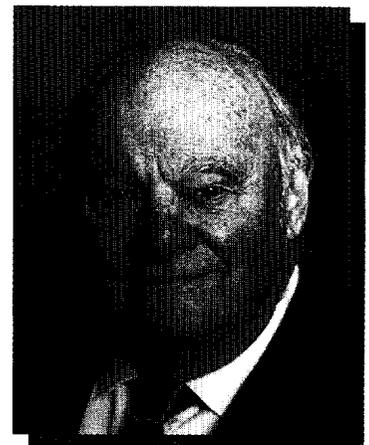
This report illustrates this commitment.



**Henry Thomas**  
*General Manager*



**W.C. McKamy, Jr.**  
*President*



# MEMBER SYSTEMS

## Coahoma EPA

### *Lyon*

Giles Bounds, Manager  
Date energized 1/18/38  
1,478 miles of line  
6,681 meters

## Coast EPA

### *Bay St. Louis*

Robert Occhi, General Manager  
Date energized 5/20/38  
4,761 miles of line  
64,250 meters

## Delta EPA

### *Greenwood*

Harry H. Bonner, General Manager  
Date energized 1/30/39  
5,394 miles of line  
22,932 meters

## Dixie EPA

### *Laurel*

James T. Dudley, Jr.,  
General Manager  
Date energized 7/28/39  
4,334 miles of line  
32,482 meters

## Magnolia EPA

### *McComb*

Sammy Williams, General Manager  
Date energized 9/19/39  
4,989 miles of line  
25,556 meters

## Pearl River Valley EPA

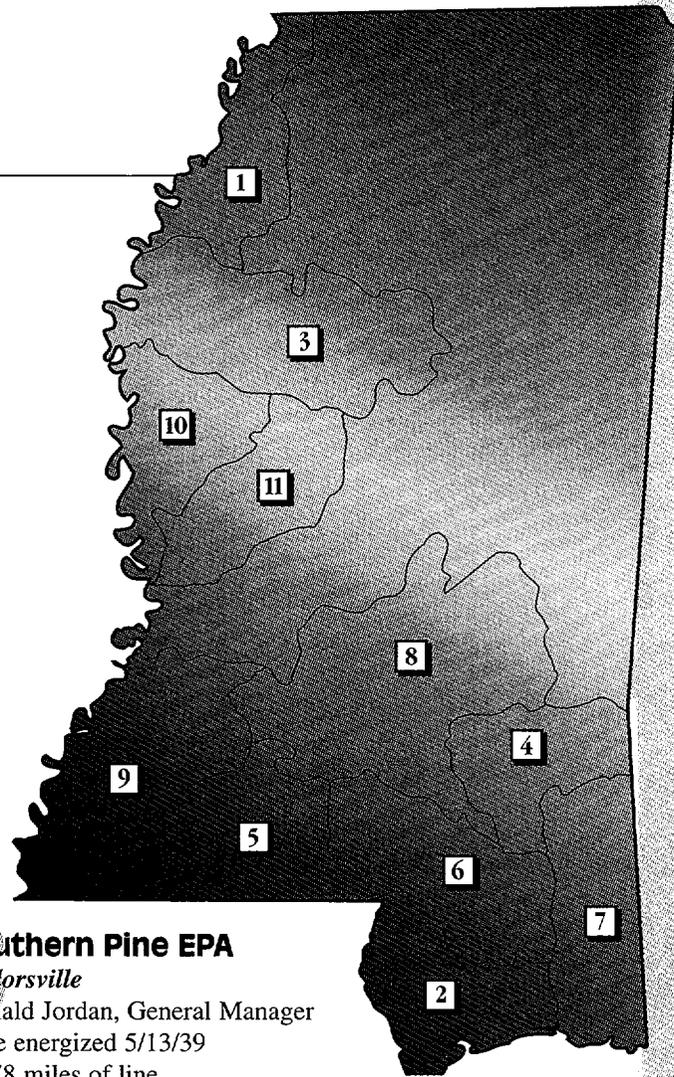
### *Columbia*

W.T. Shows, General Manager  
Date energized 5/19/39  
5,513 miles of line  
35,693 meters

## Singing River EPA

### *Lucedale*

Lee Hedegaard, General Manager  
Date energized 12/5/39  
5,650 miles of line  
57,312 meters



## Southern Pine EPA

### *Taylorsville*

Donald Jordan, General Manager  
Date energized 5/13/39  
9,278 miles of line  
65,546 meters

## Southwest Mississippi EPA

### *Lorman*

Percy McCaa, Manager  
Date energized 3/27/38  
4,110 miles of line  
23,454 meters

## Twin County EPA

### *Hollandale*

Vesper Bagley, Manager  
Date energized 12/24/38  
2,283 miles of line  
12,800 meters

## Yazoo Valley EPA

### *Yazoo City*

Charles H. Shelton, General Manager  
Date energized 3/23/38  
2,703 miles of line  
9,560 meters

# BOARD OF DIRECTORS

## COAHOMA ELECTRIC POWER ASSOCIATION

**Billy Hardin**  
*(left)*

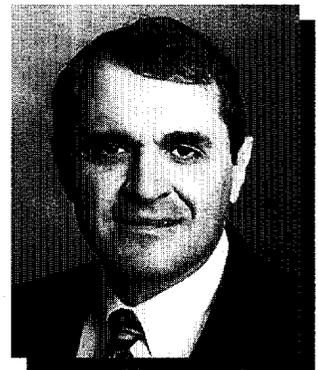
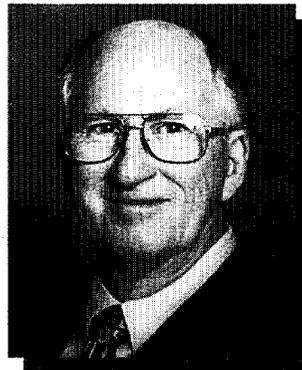
**Giles Bounds, Manager**  
*(right)*



## COAST ELECTRIC POWER ASSOCIATION

**Gordon R. Lee**  
*(left)*

**Robert J. Occhi, General Manager**  
*(right)*



## DELTA ELECTRIC POWER ASSOCIATION

**Henry Waterer, Jr.**  
*(left)*

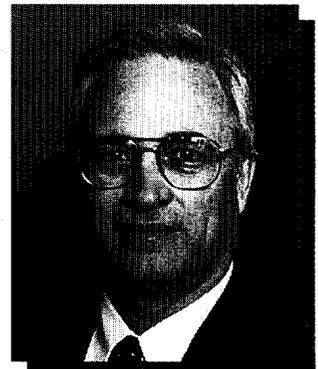
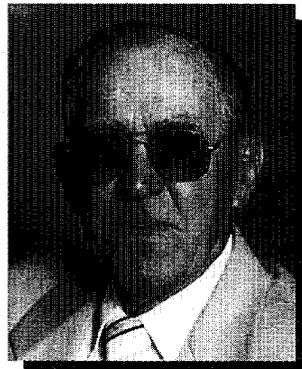
**Harry H. Bonner, General Manager**  
*(right)*



## DIXIE ELECTRIC POWER ASSOCIATION

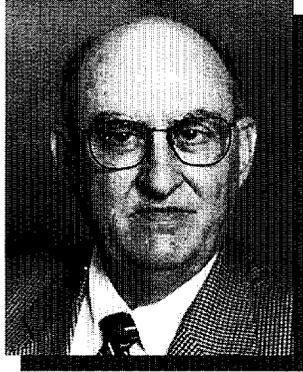
**L.G. Pierce**  
*(left)*

**James T. Dudley, Jr., General Manager**  
*(right)*



# BOARD OF DIRECTORS

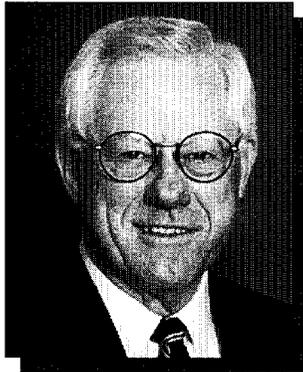
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## MAGNOLIA ELECTRIC POWER ASSOCIATION

**Jewell Smith**  
*(left)*

**Sammy Williams**, *General Manager*  
*(right)*



## PEARL RIVER VALLEY ELECTRIC POWER ASSOCIATION

**W.A. Kendrick**  
*(left)*

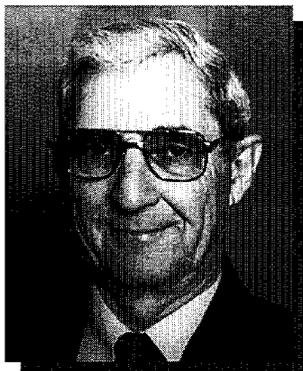
**W.T. Shows**, *General Manager and Acting Secretary-Treasurer*  
*(right)*



## SINGING RIVER ELECTRIC POWER ASSOCIATION

**Roy Grafe**  
*(left)*

**Lee Hedegaard**, *General Manager*  
*(right)*



## SOUTHERN PINE ELECTRIC POWER ASSOCIATION

**Harlan Rogers**, *Vice President*  
*(left)*

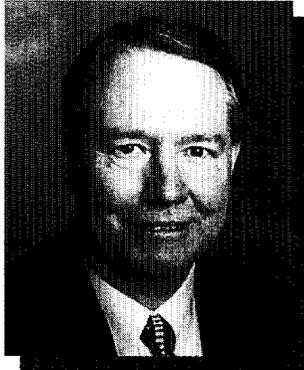
**Donald Jordan**, *General Manager*  
*(right)*

# BOARD OF DIRECTORS

## SOUTHWEST MISSISSIPPI ELECTRIC POWER ASSOCIATION

**Virgil Smith**  
*(left)*

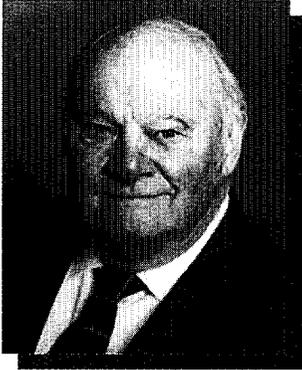
**Percy McCaa, Manager**  
*(right)*



## TWIN COUNTY ELECTRIC POWER ASSOCIATION

**W.C. McKamy, Jr., President**  
*(left)*

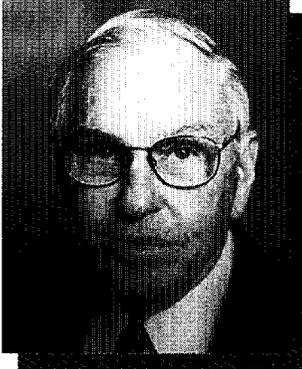
**Vesper Bagley, Manager**  
*(right)*



## YAZOO VALLEY ELECTRIC POWER ASSOCIATION

**R.D. Hines**  
*(left)*

**Charles H. Shelton, General Manager**  
*(right)*



# GENERAL INFORMATION

## SMEPA HEADQUARTERS

*Location:* Hattiesburg, Forrest County

*Employees:* 103

SMEPA is fortunate to have its Morrow and Moselle generating stations each located approximately fifteen miles from Headquarters. Energy from both stations is dispatched from SMEPA's Control Center in Hattiesburg.

## R.D. MORROW, SR., GENERATING STATION

*Commercial Operation:* 1978

*Location:* Lamar County

*Capacity:* 400 MW

*Fuel:* Bituminous Coal

*Employees:* 95

## MOSELLE GENERATING STATION

*Commercial Operation:* 1970

*Location:* Moselle, Jones County

*Capacity:* 260 MW

*Fuel:* Natural Gas/Fuel Oil

*Employees:* 30

## GRAND GULF NUCLEAR STATION

(10% Undivided Interest)

*Commercial Operation:* 1985

*Location:* Port Gibson,  
Claiborne County

*Capacity:* 1,250 MW

*Fuel:* Nuclear

*Employees:* 1

SMEPA counts one employee among Entergy's 800+ who work at the nuclear site. Joe Czaika is the Association's nuclear specialist. Grand Gulf Nuclear Station is located approximately 145 miles from SMEPA's headquarters.

## BENNDALE UNIT

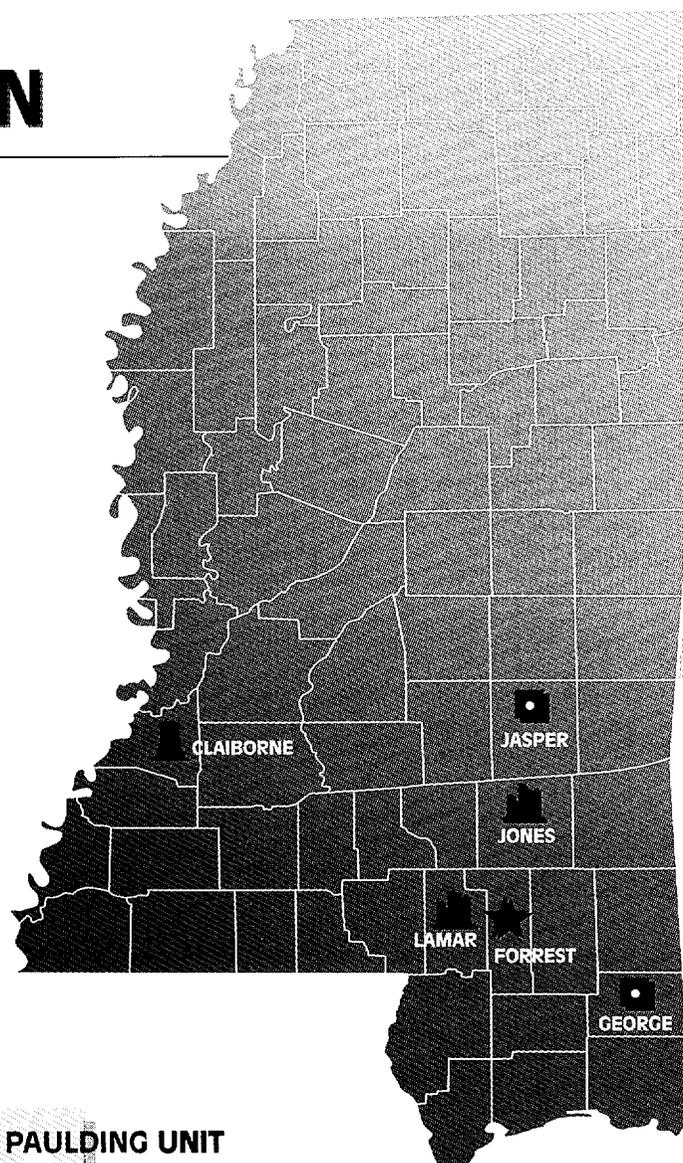
*Commercial Operation:* 1969

*Location:* George County

*Capacity:* 16.2 MW

*Fuel:* Natural Gas

*1999 Production:* 2,967 MWH



## PAULDING UNIT

*Commercial Operation:* 1972

*Location:* Jasper County

*Capacity:* 20.6 MW

*Fuel:* Diesel Fuel

*1999 Production:* 1,210 MWH

SMEPA's two combustion turbines, Benndale and Paulding, are unmanned stations remotely operated from the Control Center located at SMEPA's headquarters facility. Personnel from Plant Moselle maintain the two units.

During 1999, the units were operated on occasion to support load demand. The units were also placed into service from time to time for test purposes to assure continued availability and reliability.

# SMEPA DEPARTMENTS

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## **John Carley retires**

*John Carley retired his position of Corporate Planning and Operations Manager after 27 years of service. Carley joined SMEPA as a Systems Planning Engineer in June of 1972. Since serving as Systems Planning Engineer, Carley has served SMEPA in a number of capacities including Chief Engineer, Manager of Engineering, Manager of Engineering and Land, Manager of Engineering and Operations, and finally his most recent position of Manager of Corporate Planning and Operations. He has significantly contributed to the growth of SMEPA from seeing it's first million dollar month in sales and a total load on it's generation of 159MW in 1972, to it's now \$30 million sales to members in some months and 1,200MW load.*



**John Carley**

*Carley has shared his time, knowledge, talents and spirit as an integral part of the successful development of South Mississippi Electric Power Association and its employees. We will miss his keen wit and expertise, but wish him the very best during his retirement.*

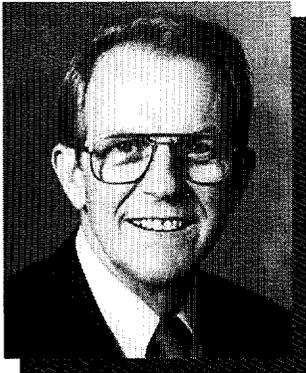
## **Gary D. Tipps joins SMEPA**

*Gary D. Tipps came on board as the new Manager of Power Supply (formerly Corporate Planning and Operations) on July 28, 1999. Tipps is a Florida native, but most recently lived in Raleigh, North Carolina where he served as Senior Vice President of TSE Services, Inc. Before joining TSE Services, Tipps was Senior Vice President of the power supply division at North Carolina Electric Membership Corporation. His past 25 years of progressive experience in the utility industry also includes work with Tampa Electric and Seminole Electric Cooperative. He received his Bachelor of Science degree in Engineering from the University of South Florida and his Master of Business Administration degree from the University of Tampa. SMEPA welcomes Tipps to its dynamic management team.*

# SMEPA DEPARTMENTS

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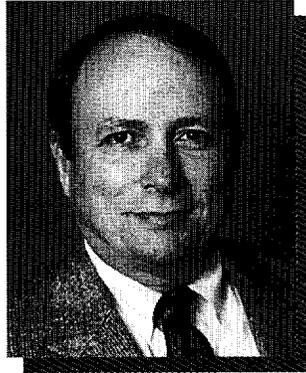
South Mississippi Electric Power Association is led by a dedicated management team. Each member of this team strives to oversee the responsibilities of his department in such a way as to add to the cohesiveness of the Association, unified through the excellence of leadership.



## FINANCE DEPARTMENT

**Jack Harpole**

*(left)*



## ENGINEERING DEPARTMENT

**Terry Lee**

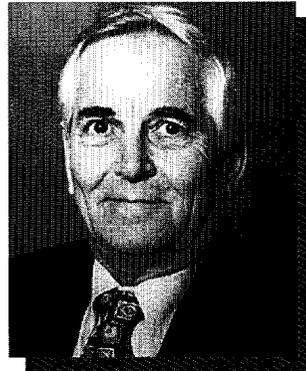
*(right)*



## HUMAN RESOURCES & DEVELOPMENT DEPARTMENT

**Benny Murray**

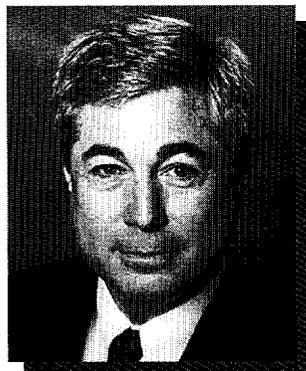
*(left)*



## TRANSMISSION DEPARTMENT

**Jerry Pierce**

*(right)*



## POWER SUPPLY DEPARTMENT

**Gary D. Tipps**

*(left)*



## PRODUCTION DEPARTMENT

**Marcus Ware**

*(right)*

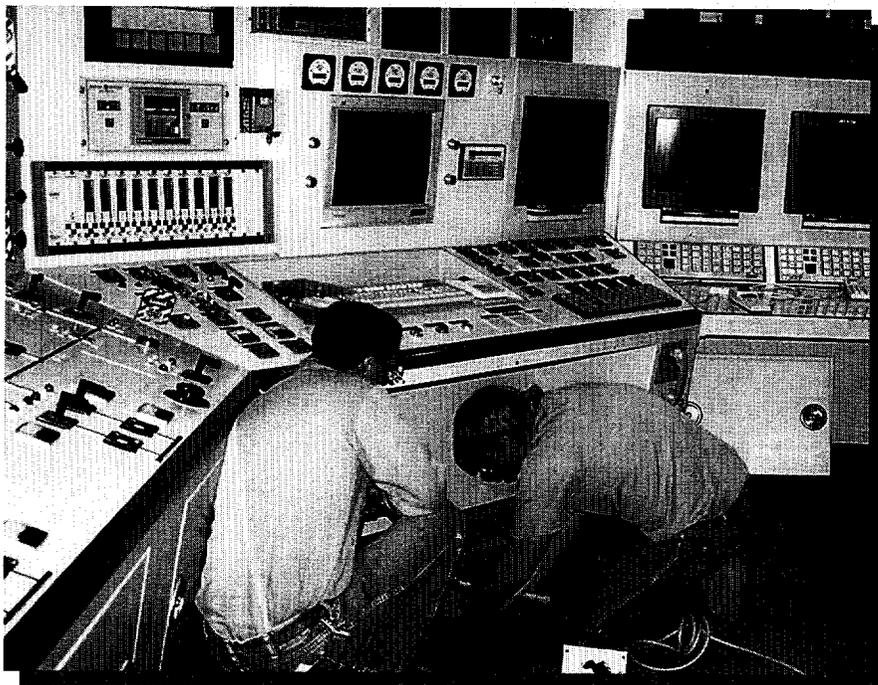
# OPERATING REPORT

## PLANT MOSELLE

The Moselle Station was again operated in an intermediate and peaking mode for the entire year. Availability of the Moselle units remained especially good and operating efficiency remained fairly consistent. Two of the three steam units were in operation most of the time, however, units were cycled into service as needed to meet system generation requirements. The higher than normal summer load demand for the second consecutive year led to substantial utilization of the facility during 1999. Favorable early 1999 fuel costs enhanced the economics of operating the Moselle units. The usage of natural gas was the second highest for an annual period in the life of the station, exceeded only by usage during 1998.

The net generation during 1999 amounted to 719,871 MWH. This includes 69,402 MWH of production from the Moselle combustion turbine. This is 1.6% less than the 1998 production. Output from the steam units actually increased by 1% while production from the combustion turbine declined by more than 26%.

Since entering commercial operation in June 1997, the 83.5 MW simple cycle combustion turbine has been utilized in peaking service as needed. Unit operability, availability, and reliability have met the high expectations which were established for the unit.



The plant maintenance staff completed the 5-year inspection of the Unit #1 turbine-generator with technical assistance provided by General Electric. Some of the major repair activity included the installation of new 14th stage turbine blading and replacement of erosion shields on the 17th stage turbine blading and multiple rows of shaft packing. Numerous steam path components were also repaired or replaced as part of the routine inspection process. No significant findings associated with the generator were noted. The inspection was completed as scheduled and the required expenditures were within budgeted amounts.

During the year various testing and/or monitoring equipment was secured and placed into service to continue to improve the efficiency of plant operations.

Natural gas purchases were scheduled on a monthly basis to meet projected generation requirements. Usage amounted to 8,613,860 MMBtu for the year, which is about 2.4% less than the volume used during 1998 and represents the second highest gas usage for an annual period since the plant began service in 1970. As in 1998, the greatest demand for the fuel was associated with the need for the four Moselle units during the challenging summer load season.

# OPERATING REPORT

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Fuel oil usage for 1999 amounted to only 3,862 gallons. The fuel oil was used in the steam units as part of an operator refresher training program; in the combustion turbine for test purposes; and in the steam units as part of SMEPA's Y2K preparedness program.

## PLANT MORROW

Plant Morrow was again primarily operated in an intermediate and base load mode during the year. Simultaneous operation of the two Morrow units occurred as load demand permitted, primarily during the winter and summer load seasons. Coal usage amounted to 913,825 tons, which was about 11% below 1998 activity.

The annual net generation from the facility was 2,086,848 MWH, reflecting the lowest output since 1995. The production was almost 12% below 1998 levels, and yet the output was 7.3% more than the average annual generation which was provided by the facility during the 10 year period 1989-1998.

A new General Electric (GE) Mark V Digital Control System was installed by plant technicians to replace the GE Mark II Analog Control System which was a part of the original equipment when the turbine was placed into service in 1978. The Mark V Control System includes control, protection, and monitoring for the turbine generator. In conjunction with the upgrade of plant control equipment, technical training was provided for plant I&E personnel during the year.

A significant amount of time and effort was dedicated to assuring that all plant systems and equipment were Y2K compliant in advance of the arrival of the new millennium. The efforts proved to be successful as the "time" transition was accomplished without incident.

Two spare motors, a 4,000 horsepower induced draft fan motor, and a 250 horsepower condensate pump motor, were purchased during 1999. The spare critical service motors will limit potentially costly electrical production losses which could result from in-service motor failures on specific critically important equipment.

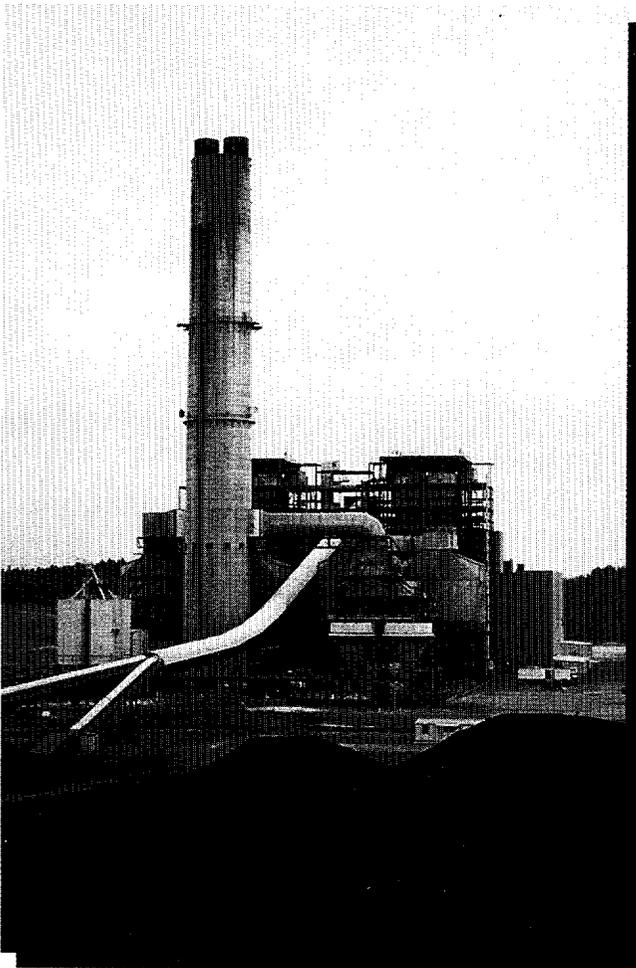
A computer networking system was installed at Plant Morrow. This network allows users to view and use data from the boiler control systems, the precipitator control systems, the CEMS, and the scrubber performance monitoring system. The data is also stored and can be used for troubleshooting and various performance-related calculations.

Scheduled preventive maintenance and equipment upgrades were performed on Morrow coal and waste handling conveying systems. Repairs were completed to assure continued reliable and safe operation.

Scheduled preventive maintenance projects included the disassembly and inspection of the Unit #2 main generator (6-year schedule) and turbine valve assemblies (3-year schedule).

A scrubber study was awarded to Radian International for the purpose of analyzing scrubber performance and securing recommendations for improving limestone

# OPERATING REPORT



utilization at Plant Morrow. The recommendations are currently being considered to determine which best suits Morrow operations and may provide appropriate economic benefits.

The scrubber performance Data Acquisition System (DAS) was purchased from Yokogawa and implemented by SMEPA personnel in 1999. This system is used to optimize Plant Morrow's flue gas desulfurization (FGD) systems.

A Plant Life Assessment Study was completed in 1999 by Black and Veatch. The purpose of this assessment study was to address concerns about plant condition and performance, and to recommend major inspections and repairs with associated cost estimates for the next 15 to 20 years. An action plan is being developed to implement the recommendations.

The combined volume of dry fly ash and landfill material marketed during the year totaled 60,000 tons. This reflects a significant increase in both volume and income when compared to 1998 figures as a result of positive sales activity. Approximately 71% of the ash produced during the year was marketed, representing the highest sales volume since 1995.

## GRAND GULF

Although Grand Gulf performed well for most of 1999, overall performance did not meet expectations for the year. The statistics were heavily affected by four forced outages; an extended refueling outage; and several power reductions. The plant capacity factor was 82.3%, which was disappointingly low based upon a net dependable capacity of 1,204 MW. The capacity factor for the last three years was 90%, which was boosted by the previous years' excellent plant runs. The plant availability factor was 80.7% for 1999.

The net generation from the facility for the year was 8,428,397 MWH, which ranks the third highest among previous years in which a refueling outage occurred. The average net thermal efficiency for the year was 10,528 Btu/KWH, which was one of the bright spots in the yearly statistics. This value is the best for a year with a refueling outage, due primarily to operation most of the year with an upgraded high-pressure turbine and with two of three low-pressure turbines upgraded. The last low-pressure turbine was upgraded in the fall of 1999 during the refueling outage. Thus, the plant operated during December with the main turbine fully upgraded. The upgrade has resulted in approximately 84 MW of additional output.

Grand Gulf had a tenth refueling outage, designated RFO-10, starting in October 1999. RFO-10 was the safest outage in plant history in terms of nuclear and personnel safety. The plant operated continuously for 234 days from the conclusion of an outage on March 2, to the beginning of RFO-10 on October 23.

# OPERATING REPORT

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SMEPA received a total of 843,540 MWH of energy from Grand Gulf during 1999, which is about 11% less than 1998 deliveries as a result of the extended refueling outage, multiple forced outage incidents, and numerous capacity restrictions. However, mid-year operation continued to be characterized by relatively high availability. The overall production reflected the positive benefits which have been realized from recent high pressure and low-pressure turbine upgrades. A final low-pressure turbine upgrade was completed during the 1999 refueling outage.

## **BENNDALE AND PAULDING**

The two remotely located combustion turbines again were operated for peaking and test purposes during the year. Both units were needed to support load demand on several occasions during peak demand periods primarily during the summer load season. Otherwise, the units were placed in service for test purposes at approximately 90 day intervals in an effort to assure availability and reliability.

## **KENTUCKY COAL PROPERTY**

Ikerd-Bandy, a coal mining firm, continued to develop the coal reserves on SMEPA's property in eastern Kentucky under the provisions of a property lease arrangement. Clean coal production during 1999 amounted to approximately 587,286 tons from both surface and deep mine operations. This represents a decrease of 80% from 1998 production and reflects the lowest annual production from the property since 1995. The decline in production appears to be the result of the depletion of reserves which could be economically mined at prevailing market conditions.

In addition, royalty payments, under a sublease arrangement, were received for coal produced from certain isolated tracts of SMEPA's property. SMEPA received royalty fees for 215,000 tons of coal which were mined during the first half of 1999.

SMEPA also received royalty payments as a result of oil and gas production from the Oil & Gas Lease Agreement with Miller Petroleum. A relatively small but steady volume of gas flowed from a total of twenty-six wells throughout the year. Revenue was also provided from a limited amount of oil production each month.

With only limited efforts during 1999, SMEPA was successful in marketing a small amount of additional timber from the Kentucky property. With timber sales during 1999, the total income to SMEPA from this source since 1989 has amounted to \$1,026,540.

## **ENVIRONMENTAL AFFAIRS**

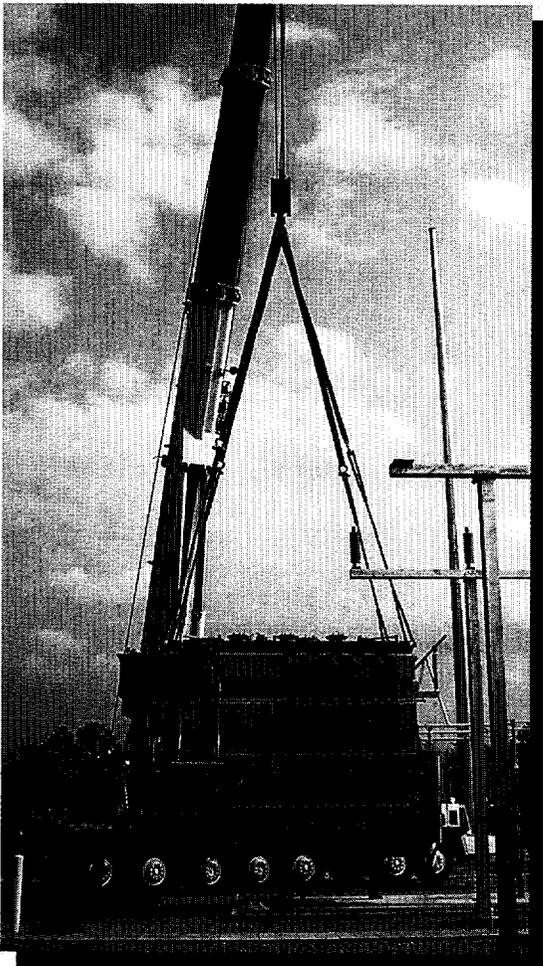
Environmental efforts during 1999 focused on continued compliance with existing regulations as well as developing systems to comply with new regulations. 1999 marked the fifth and final year of successful participation of SMEPA's R. D. Morrow, Sr. Generating Plant in a substitution plan under Phase I of the Acid Rain Program.

# OPERATING REPORT

Phase II of the program, as set by EPA, began on January 1, 2000. SMEPA's election to voluntarily substitute the Morrow units into the program resulted in reduced emission rates of acid rain pollutants as well as the "banking" of emission credits for use in meeting future generation requirements. Continuous Emission Monitors (CEMS), used to quantify and account for unit emissions, were successfully recertified at all SMEPA generating plants.

SMEPA was required to report Toxic Release Inventory (TRI) information to the EPA in July of 1999 for releases that occurred at the R. D. Morrow, Sr. Generating Plant during 1998. SMEPA voluntarily released the results to the media prior to the reporting deadline as set by the EPA.

Borrower's Environmental Reports or Assessments were submitted to and approved by RUS for approximately 7 miles of SMEPA transmission line, two member cooperative substations, one SMEPA 161:69 kV substation, and several categorically excluded SMEPA projects. As the year ended, environmental reports were in process for six transmission-related projects.



## POWER SUPPLY

The Corporate Planning and Operations Department underwent a name change. The new Power Supply Department was named to more closely match the future direction of the department.

## POWER SUPPLY PLANNING

The 1999 Power Requirements Studies (load forecast) for SMEPA's eleven member cooperatives were completed and provided for review and approval. Upon approval, the final Power Requirements Study will be utilized to forecast SMEPA's future generation needs.

In 1999, SMEPA issued, via the internet, a request for proposals (RFP) for long term power supply. Evaluation of proposals occurred after their receipt and negotiations were initiated with a short list of the bidders. In the final analysis, Aquila Energy was selected as the successful bidder. Under the Aquila contract, SMEPA will receive 279 megawatts of capacity and energy up to a twenty-year period from Unit 3 of the LS Power owned and operated Batesville, MS, plant. The three-unit plant is currently under construction. Each unit consists of a state-of-the-art combined cycle unit consisting of a gas fired combustion turbine-generator, exhaust heat recovery boiler and steam turbine-generator.

In 1999, SMEPA added a powerful new analytical tool. Proscreen II is a software product that will be used to analyze new generation needs and associated costs. This software also will be utilized to model SMEPA's load, generation, fuels, purchases, and predict the impacts of any changes in the system.

# OPERATING REPORT

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## OPERATIONS CONTROL CENTER

The summer of 1999 was one of extremes for SMEPA and neighboring utilities. Extreme heat and forced outages of several neighboring utilities' generating units caused serious reliability problems in the area. SMEPA managed its resources to satisfy load demand without resorting to using rolling blackouts or the issuance of public appeals to reduce electricity use.

SMEPA operating personnel produced excellent performance results for North American Electric Reliability Council (NERC) performance criteria, CPS1, CPS2 and Disturbance Control. SMEPA's performance on CPS1, a measure of control impact on frequency, was 182%, 82 points better than the 100% required minimum. CPS2, a function of the ten-minute Area Control Error, was recorded at 99.8%. Minimum requirement for CPS2 is 90% and perfect performance is 100%. Also, SMEPA recorded no violations of the Disturbance Control Standard.

In the spring, SMEPA operating personnel participated in SERC operator training which provided updates on new NERC rules, electric utility deregulation and the new electronic tagging. Additionally, all operating personnel completed requirements for certification as system operators.

In September, SMEPA, along with the rest of the electric utility industry, began sharing transmission schedules or "tags" electronically. Prior sharing of transmission schedules had been performed by fax and voice. The new "e-tagging" allows utilities to more quickly and efficiently share, review, approve and implement transmission scheduling data for the transmission of energy between utilities. SMEPA system operators received both on-site and off-site training on the use of the new e-tagging system.

In a first for SMEPA and what will become the norm in the future, SMEPA wheeled power to the electric grid from an industrial customer of one of SMEPA's member cooperatives. The co-generator, with the assistance of a power marketer, sold some of its excess power outside the SMEPA system.

## TRANSMISSION UPGRADES AND CONSTRUCTION

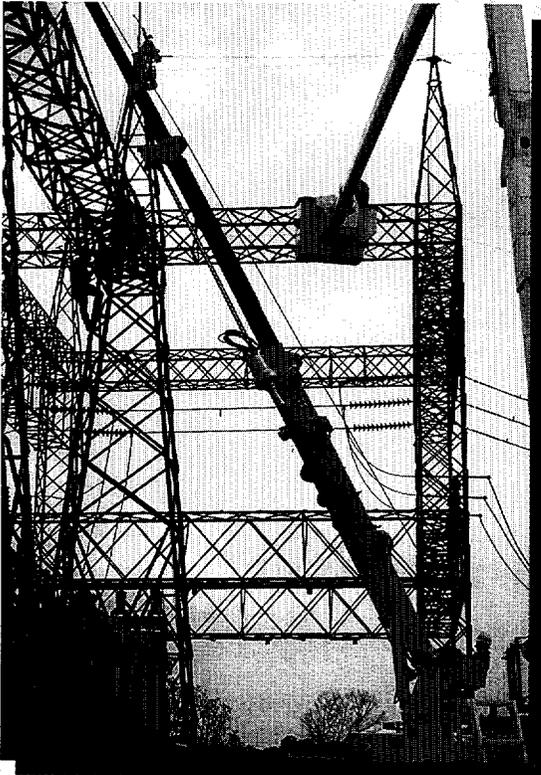
SMEPA crews invested a great deal of time during 1999 upgrading and completing construction of various lines and coordinating on-going projects.

Line adjustments were completed on several SMEPA transmission lines due to highway construction. SMEPA completed construction of a 115kV transmission line to serve Coast EPA's Nacaise substation, a 115kV transmission line to serve Southwest EPA's Centerpoint substation, and a 69kV transmission line to serve Pearl River Valley EPA's Holly Springs substation.

Coordination of the surveying and construction management of on-going projects continued. These projects include two 115kV lines for Singing River EPA, a 115kV line for Twin County EPA, a 115kV line for Coast EPA, a 115kV line for Southern Pine EPA, a 115kV line for Coahoma EPA, a 115kV line for Southwest EPA, numerous line

# OPERATING REPORT

adjustments for highway projects, uprating of SMEPA transmission lines, and four transmission lines for system improvements.



## TRANSMISSION SYSTEM MAINTENANCE

An integral part of SMEPA's commitment to providing reliable power is the maintenance of 1,540 miles of transmission line, right of way, and numerous switches.

SMEPA's line crews performed climbing inspections on 3,981 structures and completed 279 line maintenance work orders.

The annual reclearing of right of way was performed over 4,500 acres. Pole groundline inspections and treatments were performed on 2,239 poles and a number of danger trees were removed from critical lines.

Seasonal vegetation control was performed at 122 switch and station locations, and aerial patrol inspections were performed bi-monthly.

## ENGINEERING DESIGN AND SUBSTATION MAINTENANCE

SMEPA's engineering staff completed the design of 20 miles of tap transmission lines for new member delivery points, the new Station Creek 161/69kV Substation, and the design and construction of two new 69kV capacitor banks.

Major substation maintenance activities were performed throughout the year. These include collecting Dissolved Gas Analysis (DGA) samples from 40 power transformers and 27 LTC's (Load Tap Changers), installing five temperature differential monitors on five auto transformers, and completing annual infrared surveys for all SMEPA facilities and six SMEPA member systems. Preventive routine maintenance was also performed on thirteen 161kV, twenty-two 69kV OCB's (Oil Circuit Breakers), three 230kV GCB's (Gas Circuit Breakers), and 37 motor-operated switches.

## TRANSMISSION SYSTEM PLANNING AND PROTECTION

SMEPA prepared Addendum I, II, and III to the 1998 Construction Work Plan Update (CWPU). These Addenda address two new switching stations and 8 miles of new transmission line taps required to serve five new delivery points, an uprate of 41 miles of existing 69kV transmission lines and the addition of six 69kV circuit breakers to improve system reliability.

SMEPA also successfully completed the 1999 Pilot Program for the new NERC

# OPERATING REPORT

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## Planning Standards.

Metering technicians checked calibration of 205 wholesale revenue meters at 174 different sites in the SMEPA system. They installed new meter packages at four new member delivery points and calibrated 128 underfrequency relays at 46 sites. Relay technicians calibrated 2,060 relays at 17 different locations and installed new relay equipment at 14 substations.

## ELECTRONICS MAINTENANCE

Communications personnel installed a new telephone system at the headquarters office and tied in the Moselle and Morrow plants. All personal computer network cabling was upgraded at headquarters and the two plants. A wide area network service was provided to plants Morrow and Moselle over the newly installed digital microwave hops, retiring leased lines. A MSAT satellite phone service was installed in the control center.

## COMPUTER INFORMATION SYSTEMS

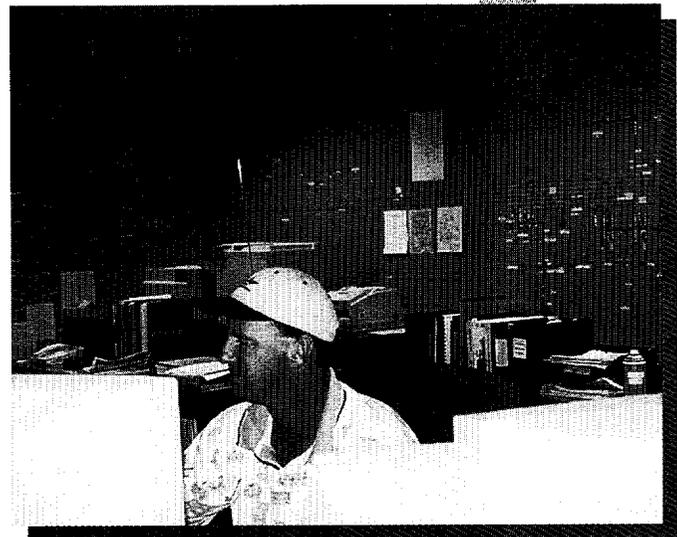
Computer Information Systems (CIS) spent much of 1999 successfully preparing for the Year 2000 rollover. A great deal of time and effort was expended in analyzing system components, updating and fine tuning, to ensure Y2K compliance.

SMEPA participated in and successfully executed two NERC drills; one on April 9 (the 99th day of the year), and the other on September 9 (9/9/99). SMEPA was also selected for and participated in an audit conducted on behalf of the Department of Energy (DOE). The audit consisted of control center EMS/SCADA system checks, sub-system checks, device level and integration testing and evaluation of all Y2K documentation. At the conclusion of the audit SMEPA had received a Level 3 rating, the highest rating possible.

Coordination of networking projects continued throughout 1999. Fiber installation and utilization of the new microwave was conducted at Headquarters, Plant Moselle and Plant Morrow. Data can now be transferred at Plant Morrow from the boiler control, emission monitoring system, as well as various other sub-systems, into a new graphical presentation software known as Macro View.

In keeping with meeting the departmental goals set forth for 1999, communications at SMEPA have been upgraded to now include a high-speed Internet connection. Security and screening are provided and monitored with increased utilization.

CIS continued to provide support for the systems network. Modifications and enhancements were completed on production systems developed in-house, new equipment was placed and implemented within the network system, and new software



# OPERATING REPORT

components were installed and configured on a number of devices. In addition, through incorporating business applications into the desktop environment, SMEPA was also able to eliminate certain special forms, producing a savings in both cost and time spent.

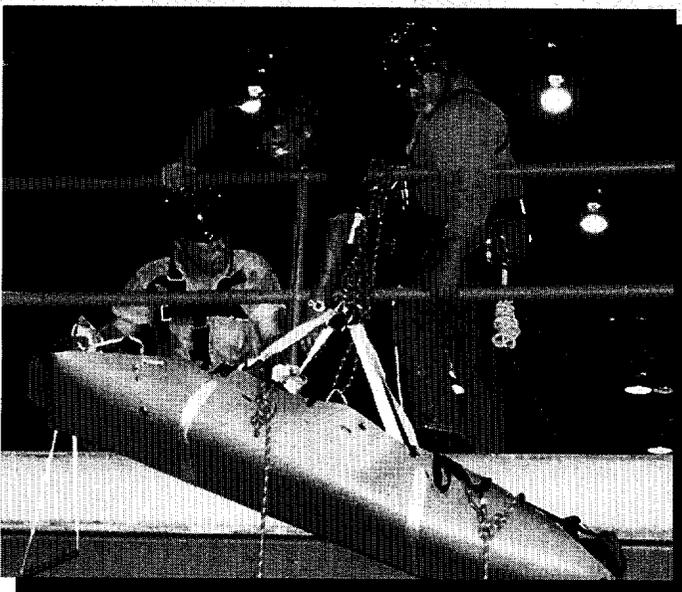
## MARKETING

By the year-end, SMEPA and its member cooperatives had combined forces in an effort to realize economies of scale and increased consumer satisfaction through planning a joint marketing effort. The joint marketing endeavor was launched during the October "Exploring Possibilities" conference with the formation of the SMEPA Member Marketing Committee.

SMEPA conducted a workshop for member engineers and marketers aimed at increasing technical skill in functional outdoor lighting design for streets, parking lots, and commercial buildings. SMEPA continued to work with members providing informational and technical support in the areas of developer/builder relationships, high bill complaints, marketing promotions, commercial customer services, marketing staff planning, and new marketing employee training.

## SAFETY

SMEPA employees achieved another milestone with the completion of their sixth consecutive year of full time production, and more than three million man-hours worked without incurring a lost time accident due to an on the job injury. Employee commitment and effective safety programs continue to drive this unprecedented record. All employees are congratulated for this most important achievement.



## ASSOCIATION RELATIONS

SMEPA continues to invest in the surrounding community through a number of volunteer projects. Employee support was once again evident in such community programs as the United Way campaign, Adopt-A-Family, the EPA's Youth Leadership Tour, MathCounts, the Hattiesburg Area Education Foundation, the Area Development Partnership and the Adopt-A-School Partnership.

Public relation efforts centered more specifically on deregulation than in the past, and member relations remained a priority with continued publication, printing and resource support.

# FINANCIAL REPORT

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The year 1999 was one of mixed financial results for SMEPA. As the electric utility industry moved toward a more competitive regulatory structure, SMEPA encountered a radically changed market for summer peaking power in late July and early August. The budget for 1999 included about \$6 million to pay for summer peaking power but actual outlays were about \$19 million. At times, the market price SMEPA paid for one hour of peaking power was enough to pay for about four days of electrical energy under moderate weather and market conditions. One of the nation's largest electric utilities was forced to curtail service to some of its customers in Mississippi because of the extreme conditions.

Readers will note in the financial statements and footnotes that SMEPA has set \$9.6 million of these costs for recovery through future rate revenues which means the cash and rate impact will persist into the future. For the year, the wholesale power rate to SMEPA's eleven member cooperatives averaged 41.9 mills per kilowatt hour, up about 3% over 1998 following two increases in the rate during 1999. The budget for year 2000 anticipates the average rate will increase another 4%.

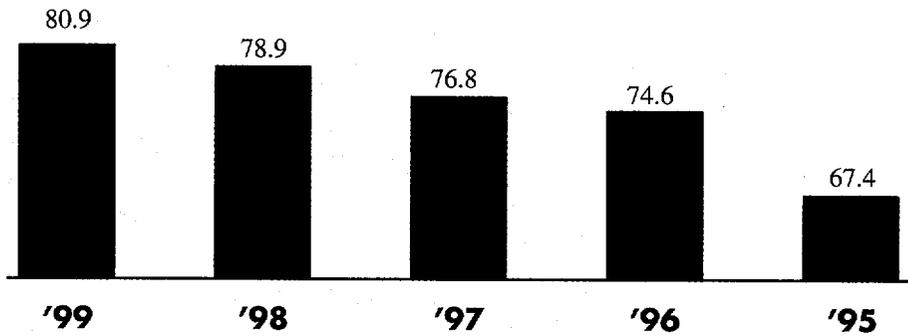
Revenues from members amounted to \$329 million for 1999, up 7.5% or \$23 million from the previous year. Energy sales to members were up 4.4% to 7.8 million megawatt hours — the highest ever. Demand billings to members were up 5.8% with a monthly average of 1,512 megawatts, an increase of 83 megawatts and also the highest ever. Unlike 1998 when all eleven member cooperatives reflected increases in their individual purchases from SMEPA, a few of the members had little or no growth for 1999. Most of the growth in sales continues to come from the coastal and southern areas served by SMEPA.

The \$2 million margin for 1999 was close to budget and about the same as the previous year. SMEPA's equity increased to \$80.9 million and is now 11.4% of total assets. Total assets at year-end 1999 were about the same at \$712 million while total debt outstanding was \$590 million, down \$7 million from the previous year and the lowest debt balance since 1981. The average cost of outstanding debt declined slightly to 6.2%. SMEPA's margin and cash flow for the year were sufficient to exceed all covenants related to outstanding debt.

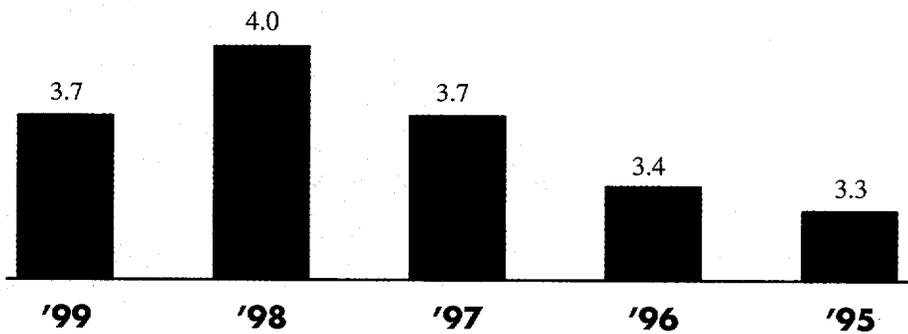
SMEPA invested \$12 million during the year for capital improvements and additions, about the same as last year. New long term loan funds financed about \$2.3 million of the capital additions and SMEPA used internal funds of about \$10 million for the difference. Discretionary investments were down considerably during the year because of the market conditions mentioned above and various other variances, and SMEPA used its \$25 million line of credit starting late in the year for liquidity reasons. At the end of 1999, \$18 million was owed on the line of credit but the line was reduced to zero in early January 2000.

# FINANCIAL REPORT

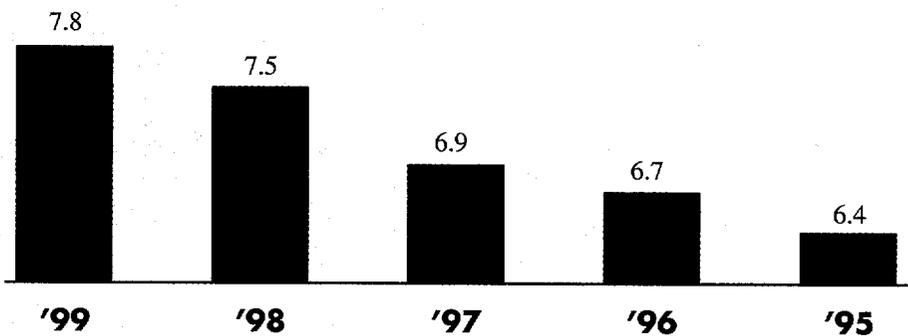
## EQUITIES AND PATRONAGE CAPITAL (millions of dollars)



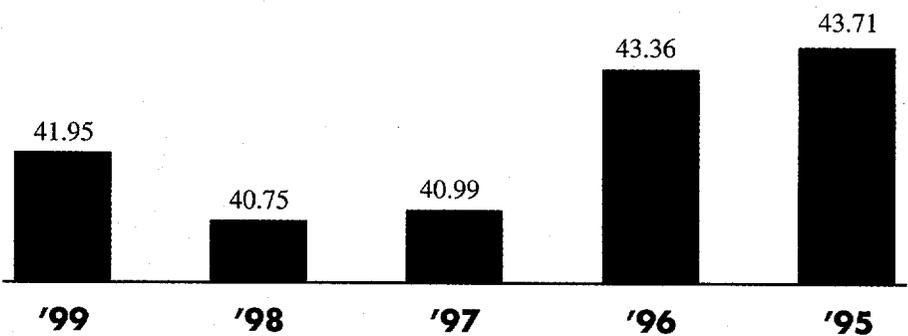
## GENERATION (millions of MWH)



## SALES TO MEMBERS (millions of MWH)



## WHOLESALE RATE TO MEMBERS (mills per KWH)



# FINANCIAL REPORT

## Comparative Balance Sheets and Selected Financial Ratios (\$ in Thousands)

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<b>ELECTRIC UTILITY PLANT</b>					
In Service - at cost	\$ 820,003	\$ 815,305	\$ 809,115	\$ 770,186	\$ 762,221
Construction work in process	24,620	20,861	17,326	37,525	13,161
	<u>844,623</u>	<u>836,166</u>	<u>826,441</u>	<u>807,711</u>	<u>775,382</u>
Less accumulated depreciation	350,183	330,062	308,328	284,463	261,583
<b>Net Utility Plant</b>	<b>\$ 494,440</b>	<b>\$ 506,104</b>	<b>\$ 518,113</b>	<b>\$ 523,248</b>	<b>\$ 513,799</b>
<b>INVESTMENTS</b>					
Investments in associated organizations	7,814	7,905	10,481	10,569	10,646
Debt service reserve investments	4,613	5,488	5,554	9,694	4,473
Decommissioning trust investments	10,220	9,666	7,981	6,087	4,311
Other investments	-	-	-	3,000	1,500
<b>Total Investments</b>	<b>22,647</b>	<b>23,059</b>	<b>24,016</b>	<b>29,350</b>	<b>20,930</b>
<b>CURRENT ASSETS</b>					
Cash - general funds and cash equivalent investments	23,122	17,124	14,275	3,793	31,522
Other invested funds	2,251	11,727	13,577	20,001	32,433
Accounts Receivable - Members	27,498	24,091	23,714	24,577	23,589
Accounts Receivable - Others	1,003	1,088	4,017	1,709	1,424
Coal and other fuel inventories	18,446	11,022	14,313	10,785	11,347
Materials and supplies inventories	15,467	15,836	15,735	15,272	13,822
Other	1,030	3,602	989	1,310	1,739
<b>Total Current Assets</b>	<b>88,817</b>	<b>84,490</b>	<b>86,620</b>	<b>77,447</b>	<b>115,876</b>
<b>DEFERRED CHARGES</b>	<b>106,335</b>	<b>99,455</b>	<b>104,013</b>	<b>110,812</b>	<b>108,438</b>
<b>TOTAL ASSETS</b>	<b>\$ 712,239</b>	<b>\$ 713,108</b>	<b>\$ 732,762</b>	<b>\$ 740,857</b>	<b>\$ 759,043</b>
<b>EQUITIES AND LIABILITIES</b>					
<b>EQUITIES</b>					
Patronage capital	\$ 80,348	\$ 78,337	\$ 76,299	\$ 74,069	\$ 66,868
Memberships and donated capital	535	535	535	535	535
	<u>80,883</u>	<u>78,872</u>	<u>76,834</u>	<u>74,604</u>	<u>67,403</u>
Long-Term Debt (excluding current maturities)	549,557	571,672	594,152	606,840	626,735
Accrued Decommissioning Obligation	10,220	9,666	5,955	5,113	4,311
Deferred Credits and Other Long-Term Liabilities	4,096	3,962	3,991	3,879	3,714
<b>CURRENT LIABILITIES</b>					
Accounts payable	24,666	20,326	22,969	24,610	19,197
Notes payable	18,000	-	-	-	-
Accrued interest	566	804	642	666	10,018
Other accrued expenses	2,127	2,166	1,795	1,568	1,988
Current maturities of long-term debt	22,124	25,640	24,398	22,603	25,677
	<u>67,483</u>	<u>48,936</u>	<u>49,804</u>	<u>49,447</u>	<u>56,880</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 712,239</b>	<b>\$ 713,108</b>	<b>\$ 730,736</b>	<b>\$ 739,883</b>	<b>\$ 759,043</b>
<b>RATIOS</b>					
TIER	1.06	1.05	1.06	1.17	1.23
DSC	1.02	1.06	1.11	1.19	1.22
Equity as % of Assets	11.4%	11.1%	10.8%	10.2%	8.9%
<b>DEBT</b>					
Long-Term Debt and Notes Payable	\$ 567,557	\$ 571,672	\$ 594,152	\$ 606,840	\$ 626,735
Current Maturities on Long-Term Debt	22,124	25,640	24,398	22,603	25,677
<b>TOTAL DEBT</b>	<b>\$ 589,681</b>	<b>\$ 597,312</b>	<b>\$ 618,550</b>	<b>\$ 629,443</b>	<b>\$ 652,412</b>
Average Interest Rate	6.23%	6.27%	6.23%	6.35%	6.66%

# FINANCIAL REPORT

## Comparative Operating Statements (\$ in Thousands)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<b>OPERATING REVENUES</b>					
Electric energy revenue from members	\$ 328,716	\$ 305,751	\$ 281,472	\$ 291,060	\$ 278,359
Other electric energy revenue	547	7,301	19,632	13,667	14,401
Other - net	11	373	1,355	1,328	1,460
	<u>\$ 329,274</u>	<u>\$ 313,425</u>	<u>\$ 302,459</u>	<u>\$ 306,055</u>	<u>\$ 294,220</u>
<b>OPERATING EXPENSES</b>					
Fuel	66,641	74,885	64,940	62,809	59,770
Production	13,616	12,970	13,192	14,056	15,661
Purchased Power	157,532	132,977	132,714	131,697	119,143
Transmission	11,977	11,424	10,361	9,766	9,306
Administrative and General	3,661	3,424	3,467	5,123	5,396
Maintenance expenses:					
Production	8,871	9,789	7,508	5,404	5,145
Transmission	2,294	1,810	2,215	1,911	2,060
General Plant	692	609	656	601	581
Depreciation and amortization	25,736	25,776	27,720	27,188	24,803
Taxes	-	-	-	1,037	1,064
	<u>291,020</u>	<u>273,664</u>	<u>262,773</u>	<u>259,592</u>	<u>242,929</u>
<b>OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS</b>	<b>38,254</b>	<b>39,761</b>	<b>39,686</b>	<b>46,463</b>	<b>51,291</b>
<b>INTEREST AND OTHER DEDUCTIONS</b>					
Interest	38,444	40,594	41,705	44,215	45,665
Other Deductions	44	54	61	85	75
	<u>38,488</u>	<u>40,648</u>	<u>41,766</u>	<u>44,300</u>	<u>45,740</u>
<b>OPERATING MARGIN</b>	<b>(234)</b>	<b>(887)</b>	<b>(2,080)</b>	<b>2,163</b>	<b>5,551</b>
<b>NONOPERATING MARGIN:</b>					
Interest income	1,943	2,590	3,131	4,354	4,327
Allowance for funds used during construction	217	258	1,119	619	236
Other	85	77	60	65	68
	<u>2,245</u>	<u>2,925</u>	<u>4,310</u>	<u>5,038</u>	<u>4,631</u>
<b>NET MARGIN</b>	<b>\$ 2,011</b>	<b>\$ 2,038</b>	<b>\$ 2,230</b>	<b>\$ 7,201</b>	<b>\$ 10,182</b>

# FINANCIAL REPORT

## Selected Financial Data

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<b>Mills per KWh</b>					
Wholesale Rate to Members	41.95	40.75	40.99	43.36	43.71
Wholesale Rate to Non-Members	42.95	26.05	29.15	30.41	27.68
Average Cost of Purchased Power	33.15	27.63	27.58	26.97	26.33
Average Cost of Fuel (per net generation)	18.24	18.72	17.54	18.38	17.85

## Comparative Summary / Energy Sources and Sales

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<b>ENERGY SOURCES - MWH</b>					
Generated	3,654,436	4,000,428	3,703,426	3,417,432	3,347,874
Purchased	<u>4,340,954</u>	<u>3,938,824</u>	<u>3,964,582</u>	<u>3,864,325</u>	<u>3,645,356</u>
<b>TOTAL ENERGY AVAILABLE FOR SALE - MWH</b>	<u>7,995,390</u>	<u>7,939,252</u>	<u>7,668,008</u>	<u>7,281,757</u>	<u>6,993,230</u>
<b>ENERGY SALES - MWH</b>					
Members					
Coahoma EPA	127,441	128,845	113,455	111,778	107,630
Coast EPA	1,345,675	1,186,129	1,082,399	1,045,075	998,341
Delta EPA	530,839	521,834	448,519	448,928	428,443
Dixie EPA	676,403	669,078	611,153	638,819	554,745
Magnolia EPA	522,275	514,763	488,867	463,651	442,355
Pearl River EPA	761,825	717,346	631,588	603,743	571,759
Singing River EPA	1,189,922	1,143,285	1,067,486	1,036,248	985,226
Southern Pine EPA	1,634,359	1,584,680	1,491,970	1,474,607	1,413,464
Southwest Mississippi EPA	443,512	445,689	412,882	403,979	389,941
Twin County EPA	296,437	294,815	267,243	252,552	247,178
Yazoo Valley EPA	<u>307,335</u>	<u>296,939</u>	<u>251,935</u>	<u>233,540</u>	<u>229,062</u>
<b>TOTAL SALES TO MEMBERS</b>	<u>7,836,023</u>	<u>7,503,403</u>	<u>6,867,497</u>	<u>6,712,920</u>	<u>6,368,144</u>
Non-Members	<u>12,716</u>	<u>280,252</u>	<u>673,562</u>	<u>449,450</u>	<u>520,262</u>
<b>TOTAL SALES</b>	<u>7,848,739</u>	<u>7,783,655</u>	<u>7,541,059</u>	<u>7,162,370</u>	<u>6,888,406</u>
<b>MEMBER DEMAND -- KW</b> (Non-Concurrent Peak)	<u>1,892,133</u>	<u>1,762,216</u>	<u>1,646,802</u>	<u>1,695,672</u>	<u>1,553,633</u>

# INDEPENDENT AUDITORS' REPORT

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To the Board of Directors of

South Mississippi Electric Power Association

We have audited the accompanying balance sheets of South Mississippi Electric Power Association ("SMEPA") as of December 31, 1999 and 1998, and the related statements of revenues, expenses and patronage capital, and of cash flows for the years then ended. These financial statements are the responsibility of SMEPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of SMEPA as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Deloitte + Touche LLP*

Jackson, Mississippi

February 4, 2000

# FINANCIAL REPORT

## South Mississippi Electric Power Association

### Balance Sheets

(In Thousands)

	December 31	
	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
In service - at cost	\$ 820,003	\$ 815,305
Construction work in process	24,620	20,861
	<u>844,623</u>	<u>836,166</u>
Less accumulated depreciation	350,183	330,062
Net utility plant	<b>494,440</b>	<b>506,104</b>
<b>INVESTMENTS</b>		
Investments in associated organizations	7,814	7,905
Debt service reserve investments	4,613	5,488
Decommissioning trust investments	10,220	9,666
	<u>22,647</u>	<u>23,059</u>
Total Investments	<b>22,647</b>	<b>23,059</b>
<b>CURRENT ASSETS</b>		
Cash - general funds and cash equivalent investments	23,122	17,124
Other invested funds	2,251	11,727
Accounts receivable:		
Members	27,498	24,091
Others	1,003	1,088
Inventories (at average cost):		
Coal and other fuel	18,446	11,022
Materials and supplies	15,467	15,836
Other	1,030	3,602
	<u>88,817</u>	<u>84,490</u>
Total Current Assets	<b>88,817</b>	<b>84,490</b>
<b>DEFERRED CHARGES</b>		
	<u>106,335</u>	<u>99,455</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 712,239</u></b>	<b><u>\$ 713,108</u></b>

See "Notes to Financial Statements"



# FINANCIAL REPORT

**South Mississippi Electric Power Association**  
**Statements of Revenues, Expenses and Patronage Capital**  
(In Thousands)

	<b>Years Ended December 31</b>	
	<u>1999</u>	<u>1998</u>
<b>OPERATING REVENUES</b>		
Electric energy revenue from members	\$ 328,716	\$ 305,751
Other electric energy revenue	547	7,301
Other - net	11	373
	<u>329,274</u>	<u>313,425</u>
<b>OPERATING EXPENSES</b>		
Fuel	66,641	74,885
Production	13,616	12,970
Purchased Power	157,532	132,977
Transmission	11,977	11,424
Administrative and general	3,661	3,424
Maintenance expenses:		
Production	8,871	9,789
Transmission	2,294	1,810
General	692	609
Depreciation and amortization	25,736	25,776
	<u>291,020</u>	<u>273,664</u>
<b>OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS</b>	<b>38,254</b>	<b>39,761</b>
<b>INTEREST AND OTHER DEDUCTIONS</b>		
Interest	38,444	40,594
Other deductions	44	54
	<u>38,488</u>	<u>40,648</u>
<b>OPERATING MARGIN</b>	<b>(234)</b>	<b>(887)</b>
<b>NONOPERATING MARGIN:</b>		
Interest income	1,943	2,590
Allowance for funds used during construction	217	258
Other	85	77
<b>Total Nonoperating Margin</b>	<b>2,245</b>	<b>2,925</b>
<b>NET MARGIN</b>	<b>2,011</b>	<b>2,038</b>
<b>PATRONAGE CAPITAL AT BEGINNING OF YEAR</b>	<b>78,337</b>	<b>76,299</b>
<b>PATRONAGE CAPITAL AT END OF YEAR</b>	<b>\$ 80,348</b>	<b>\$ 78,337</b>

See "Notes to Financial Statements"

# FINANCIAL REPORT

## South Mississippi Electric Power Association Statements of Cash Flows

(In Thousands)

Years Ended December 31  
1999                      1998

### CASH FLOWS FROM OPERATING ACTIVITIES

Net Margin	\$ 2,011	\$ 2,038
Adjustments necessary to reconcile net margin to net cash provided by operating activities:		
Depreciation, amortization, and depletion	30,619	30,613
Allowance for funds used during construction	(217)	(258)
Decrease (increase) in accounts receivable	(3,322)	2,552
Decrease (increase) in inventories	(7,055)	3,190
(Increase) decrease in other assets	2,164	(125)
Decrease in accounts payable and other liabilities	4,435	(2,301)
Increase (decrease) in accrued interest payable	(238)	162
Nuclear outage maintenance costs	(2,154)	(2,273)
Unbilled fuel cost	(9,629)	-
Increase in accrued decommissioning payable	533	816
<b>Net Cash Provided by Operating Activities</b>	<b>17,147</b>	<b>34,414</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Construction and acquisitions of electric utility plant	(12,114)	(11,681)
Proceeds (cost) of retirements of electric utility plant (net)	35	159
Purchase of available for sale securities	(755)	(1,869)
Sale of available for sale securities	222	1,053
Investment in associated organizations	91	86
Maturities of held to maturity securities	10,480	14,652
Purchase of held to maturity securities	(129)	(12,734)
<b>Net Cash Used in Investing Activities</b>	<b>(2,170)</b>	<b>(10,334)</b>

### CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	(27,879)	(24,634)
Proceeds from short-term borrowings	18,000	-
Proceeds from long-term borrowings	2,255	3,403
Penalty associated with repricing of debt	(1,355)	-
<b>Net Cash Used in Financing Activities</b>	<b>(8,979)</b>	<b>(21,231)</b>

### NET INCREASE IN CASH AND CASH EQUIVALENTS

5,998                      2,849

### CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

17,124                      14,275

### CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 23,122                      \$ 17,124

# FINANCIAL REPORT

## South Mississippi Electric Power Association Notes to Financial Statements Years Ended December 31, 1999 and 1998

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Mississippi Electric Power Association ("SMEPA") is a member-owned, not-for-profit electric generation and transmission cooperative supplying wholesale electricity and other services to eleven member systems which, in turn, provide retail electric service to approximately 300,000 consumers in certain areas of Mississippi. Under long-term wholesale power contracts with each of its members, SMEPA is obligated to provide all of the power required by the member systems to the extent that SMEPA has power available. Financing assistance is provided by the United States Department of Agriculture, Rural Utilities Service ("RUS"). In addition to being subject to regulation by its own governing board of directors, SMEPA is subject to certain rules and regulations promulgated for rural electric borrowers by RUS. SMEPA maintains its accounting records in accordance with the Federal Energy Regulatory Commission's ("FERC") Chart of Accounts as modified and adopted by RUS. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As a regulated utility, the methods of allocating costs and revenue to time periods may differ from those principles generally applied to nonregulated companies.

SMEPA owns a 10% undivided interest in a nuclear generating plant known as Grand Gulf Unit 1 ("Grand Gulf"). System Energy Resources, Inc. ("System Energy"), a subsidiary of Entergy Corporation ("Entergy") owns the remaining 90% either outright or through leasehold interests. Entergy Operations, also a subsidiary of Entergy, operates the plant along with other nuclear plants owned by Entergy subject to owner oversight. Grand Gulf commenced commercial operation on July 1, 1985.

The more significant accounting policies are generally described as follows:

a. Electric Utility Plant and Depreciation

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

Depreciation is provided by the straight-line method for utility plant at the following annual composite rates:

Nuclear generation plant	2.85%
Non-nuclear generation plant	3.00% to 3.10%
Transmission plant	2.75%
General plant and transportation equipment	2.00% to 25.00%

At the time units of electric utility plant are retired, their original cost and cost of removal, less net salvage value, are charged to accumulated depreciation. Replacements of electric utility plant involving less than a designated unit value of property are charged to maintenance expense. At each balance sheet date SMEPA evaluates the recoverability of long-lived assets based upon expectations of nondiscounted cash flows and operating income.

# FINANCIAL REPORT

b. Cost of Decommissioning Nuclear Plant

SMEPA's portion of the estimated decommissioning cost of Grand Gulf is charged to operating expenses over the estimated service life of the plant. The current operating license received from the Nuclear Regulatory Commission terminates in 2024.

c. Allowance for Funds Used During Construction

Allowance for funds used during construction represents an allowance based on the average cost of appropriate borrowings when general funds are used to fund construction. The allowance is capitalized as a component of the cost of electric plants and related facilities while it is under construction.

d. Investment Securities

Debt service investments, other investments and other invested funds are categorized as held to maturity and are carried on the balance sheet at amortized cost. SMEPA has the intent and ability to hold these securities until their estimated maturities, but may sell them under certain circumstances.

Decommissioning trust investments are categorized as available for sale and are carried at fair value. In prior years SMEPA recorded the unrealized gains on investments as a component of equity. However, in accordance with the regulatory treatment for decommissioning trust funds, SMEPA has reclassified the amount in unrealized gains on investment securities as a regulatory liability as part of the accrued decommissioning obligation.

Premiums and discounts are amortized and accreted to operations using the level yield method, adjusted for prepayments as applicable.

e. Deferred Charges

SMEPA was a 10% owner in a second unit at the Grand Gulf site when construction was terminated in 1989. With the approval of the RUS, SMEPA is amortizing its remaining investment over a 27-year period ending in 2016.

As a condition of repricing certain outstanding debt in recent years so as to significantly reduce annual interest expenses, SMEPA paid penalties of varying amounts which are accounted for as deferred charges to be amortized over the remaining life of the debt.

Bond issue costs are being amortized by the straight-line method, which does not differ materially from the interest method, over the term of the related debt. The amortization during the period of construction is capitalized.

Nuclear outage maintenance costs represent SMEPA's ten percent share of Grand Gulf's incremental maintenance costs associated with refueling outages. These costs are recorded as deferred charges when incurred and are amortized by the straight-line method over the eighteen months between outages.

From time to time, the Board will set a benchmark fuel cost adjustment rate to be collected from Members so as to match revenues with actual and forecasted fuel and purchased power costs consistent with the cooperative not-for-profit operation of SMEPA. Material variances between these revenues and costs may cause the recognition of deferred credits or deferred charges from one year to the next.

SMEPA's accounting policies include compliance with Statement of Financial Accounting Standards ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation." In accordance with SFAS 71, SMEPA has regulatory assets of approximately \$106 million, including \$63.4 million relating to the unamortized cost of abandoned plant (Note 7). In the event SMEPA is no longer able to comply with SFAS 71 as the result of a change in regulation

# FINANCIAL REPORT

or effects of competition, SMEPA would be required to recognize the effects of its regulatory assets and liabilities currently in its statements of revenue, expenses and patronage capital.

f. Patronage Capital

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

g. Income Taxes

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

h. Cash and Cash Equivalents

For purposes of reporting cash flows, all temporary investments with original maturities of three months or less are deemed to be cash equivalents.

i. Reclassifications

Certain amounts in the 1998 financial statements have been reclassified to conform with the 1999 presentation.

## NOTE 2 - ACCOUNTING STANDARD TO BE ADOPTED IN THE FUTURE

SMEPA has not completed the process of evaluating the impact that will result from adopting SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". SMEPA is therefore unable to disclose the impact that adopting SFAS 133 will have on its financial position and results of operations when such statement is adopted in the year ended December 31, 2001.

## NOTE 3 - ELECTRIC UTILITY PLANT

Electric utility plant consisted of the following (in thousands):

	Cost		Accumulated Depreciation	
	1999	1998	1999	1998
Grand Gulf Nuclear	\$402,395	\$402,395	\$147,475	\$136,039
Morrow Steam	190,150	189,789	114,867	109,038
Moselle Steam	23,979	23,903	19,655	18,870
Moselle Gas Turbine	21,723	21,659	1,648	997
Benndale/Paulding Gas Turbines	<u>3,844</u>	<u>3,844</u>	<u>3,237</u>	<u>3,122</u>
Total Generating Plant	642,091	641,590	286,882	268,066
Transmission Plant	136,404	131,619	41,316	38,242
General Plant and Equipment	16,353	16,941	8,423	10,797
Electric Plant Leased to Others	<u>25,155</u>	<u>25,155</u>	<u>13,534</u>	<u>12,885</u>
	177,912	173,715	63,273	61,924
Electric Plant in Service	<u>820,003</u>	<u>815,305</u>	<u>350,155</u>	<u>329,990</u>
Construction Work in Process	<u>24,620</u>	<u>20,861</u>	<u>28</u>	<u>72</u>
Total Utility Plant	<u>\$844,623</u>	<u>\$836,166</u>	<u>\$350,183</u>	<u>\$330,062</u>

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## NOTE 4 - COMMITMENTS REGARDING GRAND GULF

SMEPA and System Entergy are parties to a joint ownership contract that sets forth the rights and obligations of the Grand Gulf owners and SMEPA is generally obligated to pay 10% of all operating and capital costs and is entitled to receive 10% of the electricity generated by the plant. SMEPA paid \$18,285,000 and \$19,046,000 under the contract in 1999 and 1998, respectively. Ownership of nuclear capacity entails risks and uncertainties somewhat more complex than those for non-nuclear capacity and these are discussed below.

### Nuclear Insurance and Assessments

As the 90% majority co-owner of Grand Gulf, System Energy is responsible for arranging appropriate insurance and industry assessment programs for itself and SMEPA. SMEPA is obligated to pay 10% of all appropriate costs and assessments, if any. Under the incident assessment program, SMEPA could be assessed up to approximately \$9 million for each nuclear incident involving licensed reactors payable at a rate of \$1 million per reactor per incident per year.

The property insurance presently arranged by System Energy exceeds the NRC's minimum requirement for nuclear power plant licensees of \$1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors. Under a member assessment program, SMEPA could be assessed approximately \$1.2 million for property damage, decontamination or premature decommissioning expense involving other members' nuclear generation plants.

### Nuclear Fuel

System Energy contracts with System Fuels Inc., another Entergy subsidiary company, for nuclear fuel for Grand Gulf, including maintaining inventories. System Energy has a nuclear fuel lease arrangement for up to \$80 million with respect to Grand Gulf. SMEPA pays for nuclear fuel as it is consumed and such payments include appropriate charges for processing, fabrication, storage, inventory, shipment and handling.

### Spent Nuclear Fuel

System Energy and SMEPA provide for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. System Energy entered into contracts with the Department of Energy ("DOE"), whereby the DOE will furnish disposal service at a cost of one mill per net KWh generated and sold. The fees payable to the DOE may be adjusted in the future to assure full recovery. Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. The DOE has asserted that it does not have a legal obligation to accept spent nuclear fuel without an operational repository for which it has not yet arranged. Current on-site spent fuel storage capacity at Grand Gulf is estimated to be sufficient until 2004. The initial cost of providing any additional on-site spent fuel storage capability required at Grand Gulf is expected to be approximately \$5 million to \$10 million. In addition, about \$3 million to \$5 million will be required every four to five years subsequent to 2004 until the DOE's repository begins accepting spent fuel. SMEPA will be responsible for paying 10% of whatever costs are necessary.

### Decommissioning Costs

The total cost to decommission Grand Gulf has been estimated to be approximately \$601 million (based on a 1999 cost study using 1999 dollars.) SMEPA is responsible for 10% of the estimated cost and has submitted a formal plan to the NRC that demonstrated assurance that sufficient financial resources would be available at the time it becomes necessary to decommission. In addition, SMEPA received approval from the Internal Revenue Service to establish a "tax-free" grantor trust as a vehicle to fund the estimated decommissioning costs. SMEPA estimates, based on a revised calculation, that the funding requirement will approximate

# FINANCIAL REPORT

\$571,000 annually through 2024. The estimated funding requirement will continue to be recalculated and adjusted periodically. In the current year no additional funding was made due to above average market returns on prior year trust fund investments.

The Energy Policy Act of 1992 has a provision that assesses nuclear utilities with fees for the decontamination and decommissioning of the DOE's past uranium enrichment operations. The decontamination and decommissioning assessments will last for fifteen years and will be used to set up a fund into which contributions from utilities and the federal government will be placed. SMEPA's aggregate liability is estimated at \$2,000,000 and is being paid over the fifteen year term.

## Depreciation Rate

The depreciation rate for Grand Gulf was tentatively increased to 3.33% for 1996 and 1997 pending action by regulators for the co-owners, System Energy and SMEPA. Prior to 1996 and after 1997, SMEPA recorded depreciation charges using a previously approved 2.85% straight-line rate. Because SMEPA is a minority co-owner in Grand Gulf, RUS regulations generally require it to use the same rate as that used by the majority co-owner unless RUS has approved a different rate. At this time, however, the proposed rate being used by System Energy has not received final regulatory approval and SMEPA is using the previously approved 2.85% rate which had been used by both co-owners since commercial operation of the plant in 1986 except for the changes noted herein. As of the end of 1998 and 1999 the accumulated depreciation account includes \$3,966,000 in depreciation charges related to the higher rate. Management believes that the impact, if any, of final action by regulators on this matter will be accounted for prospectively and will not have a material effect on the financial statements.

## NOTE 5 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investment in associated organizations are stated at cost and consisted of the following (in thousands):

	<u>1999</u>	<u>1998</u>
National Rural Utilities Cooperative Finance Corporation ("CFC") Certificates:		
Membership subscription	\$6,223	\$6,223
Loan and guarantee	1,267	1,350
Other	<u>324</u>	<u>332</u>
	<u>\$7,814</u>	<u>\$7,905</u>

CFC membership subscription certificates bear interest at a 5.0% rate and mature in 2070 through 2080. The loan and guarantee certificates bear interest at rates of 3.0% and 5.8% and mature in 2007.

## NOTE 6 - INVESTMENT SECURITIES

The amortized cost and related approximate fair values of investment securities were as follows (in thousands):

December 31, 1999	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Decommissioning Trust:				
Equity mutual funds	\$2,174	\$3,169		\$5,343
Fixed income mutual funds	<u>5,129</u>	<u>0</u>	<u>\$252</u>	<u>4,877</u>
	<u>\$7,303</u>	<u>\$3,169</u>	<u>\$252</u>	<u>\$10,220</u>

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December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities to be Held to Maturity:				
CFC and CoBank obligations	\$2,251		\$3	\$2,248
Obligations of states and political subdivisions	4,484	\$180		4,664
Unapplied debt prepayments	129			129
	<u>\$6,864</u>	<u>\$180</u>	<u>\$3</u>	<u>\$7,041</u>
December 31, 1998				
Decommissioning Trust:				
Equity mutual funds	\$2,126	\$2,702	\$0	\$4,828
Fixed income mutual funds	4,645	193		4,838
	<u>\$6,771</u>	<u>\$2,895</u>	<u>\$0</u>	<u>\$9,666</u>
Securities to be Held to Maturity:				
CFC and CoBank obligations	\$7,750	\$74	\$0	\$7,824
U.S. Government securities	1,975	89		2,064
U.S. Government agencies	2,002	41		2,043
Obligations of states and political subdivisions	4,481	302		4,783
Unapplied debt prepayments	1,007			1,007
	<u>\$17,215</u>	<u>\$506</u>	<u>\$0</u>	<u>\$17,721</u>

The amortized cost and approximate fair value of investment securities to be held to maturity at December 31, 1999, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$6,545	\$6,722
Due after five years through ten years	190	190
Unapplied debt prepayments	129	129
	<u>\$6,864</u>	<u>\$7,041</u>

Actual maturities may differ from contractual maturities because of the borrowers' right to call or prepay obligations.

Sales of Decommissioning Trust Assets by the trustee aggregated \$222,000 in 1999 and \$1,053,000 in 1998 resulting in realized gains of \$108,000 in 1999 and \$208,000 in 1998 under the specific identification method.

## NOTE 7 - DEFERRED CHARGES (INCLUDING REGULATORY ASSETS)

The following is a summary of amounts recorded as deferred charges (in thousands):

	1999	1998
Unamortized cost of abandoned plant	\$63,367	\$66,297
Unamortized penalties on repriced debt	28,623	29,204
Unamortized debt discount and issuance cost	888	966
Nuclear outage maintenance cost	2,026	1,405
Unbilled Fuel Cost	9,629	0
Deferred decontamination and decommissioning of past uranium enrichment operations	1,324	1,443
Other	478	140
	<u>\$106,335</u>	<u>\$99,455</u>

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Plans for constructing a second unit at the Grand Gulf site were terminated in 1989. SMEPA was to have been a 10% owner in the second unit and had invested approximately \$104 million, net of recoveries and transfers. With the written approval of the RUS, SMEPA is amortizing its remaining investment in the abandoned plant over a 27 year period ending in 2016, and amortization was \$2,930,000 and \$3,048,000 in 1999 and 1998, respectively.

SMEPA has repriced or refinanced over one-half of its outstanding debt in recent years including \$14,130,000 of FFB mortgage notes in 1999 so as to significantly reduce annual interest expense. As a condition of the transactions, SMEPA paid penalties of varying amounts including \$1,355,000 in 1999 which are treated as deferred charges to be amortized over the remaining life of the debt. Amortization of all such penalties was \$1,936,000 in 1999 and \$1,875,000 in 1998.

During 1999, SMEPA incurred excess purchased power costs that were not recovered through the benchmark revenue rate, the fuel cost adjustment charge, set by the Board even after two adjustments. Consistent with the cooperative not-for-profit operation of SMEPA, certain of these costs amounting to \$9,629,000 have been deferred as of December 31, 1999 and will be recovered through revenue rate adjustments in the year ended December 31, 2000.

## NOTE 8 - PATRONAGE CAPITAL

Patronage capital consisted of the following (in thousands):

	<u>1999</u>	<u>1998</u>
Cumulative margins	\$86,202	\$84,191
Less: Retirements to date	<u>5,854</u>	<u>5,854</u>
	<u>\$80,348</u>	<u>\$78,337</u>

Under the provisions of debt covenants, until the patronage capital equals or exceeds forty percent of the total assets of SMEPA, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by SMEPA in the prior calendar year. The patronage capital of SMEPA represents 11.4% and 11.1% of the total assets at December 31, 1999 and 1998, respectively.

## NOTE 9 - SHORT-TERM BORROWINGS

SMEPA has a \$25,000,000 short-term line of credit available with CFC which expires in September, 2000 and a \$5,000,000 short-term line of credit with a bank which expires in July, 2000. At December 31, 1999 SMEPA had borrowings of \$18,000,000 against the CFC line of credit at an interest rate of 7.05% and no borrowings against these lines of credit as of December 31, 1998.

## NOTE 10 - LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):	<u>1999</u>	<u>1998</u>
Mortgage notes payable to Federal Financing Bank ("FFB") at interest rates varying from 4.935% to 10.705%, due in quarterly installments through 2020	\$463,142	\$481,678
2% RUS mortgage notes payable, due in quarterly installments through 2009	11,237	13,295
5% RUS mortgage notes payable, due in quarterly installments through 2015	13,947	14,842
5%, 5.375%, 5.125% and 5.75% RUS mortgage notes payable, due in monthly installments through 2020	17,625	16,540

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Mortgage notes payable to National Bank for Cooperatives at 6.41% interest rate, due in quarterly installments through 2019	2,238	2,352
Mortgage notes payable to CFC bearing interest at variable rates (6.85% at December 31, 1999), due in quarterly installments through 2022	4,633	4,723
Lamar County, Mississippi, Pollution Control Bonds:		
1978 A Series, 6.125%, due semi-annually through 2008	1,355	1,475
1978 A-1 Series, 6.25%, due semi-annually through 2008	0	535
1993 S Series, 4.25% to 4.95%, due annually through 2007	17,659	19,472
Claiborne County, Mississippi, Pollution Control Bonds:		
1985 G Series, variable interest rates (3.40% to 3.90% at December 31, 1999) due annually through 2015	<u>39,845</u>	<u>42,400</u>
	\$571,681	\$597,312
Less current maturities	<u>22,124</u>	<u>25,640</u>
	<u>\$549,557</u>	<u>\$571,672</u>

Substantially all assets of SMEPA are pledged as collateral on long-term debt.

Approximate annual maturities (scheduled periodic principal payments) of long-term debt for the next five years are as follows (in thousands):

2000	\$22,124
2001	\$34,277
2002	\$30,423
2003	\$31,884
2004	\$32,591

SMEPA paid approximately \$36,743,000 and \$38,557,000 in 1999 and 1998, respectively, in interest on long-term debt.

SMEPA is required by mortgage covenants to maintain certain financial ratios of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 1999 and 1998.

## NOTE 11 - DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

The following is a summary of deferred credits and other long-term liabilities (in thousands):

	<u>1999</u>	<u>1998</u>
Postretirement benefit obligation (other than pensions)	\$2,972	\$2,863
Deferred decontamination and decommissioning of past uranium enrichment operations	<u>1,124</u>	<u>1,099</u>
	<u>\$4,096</u>	<u>\$3,962</u>

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## NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by SMEPA in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value.

Other invested funds: The carrying amount reported in the balance sheets for other invested funds approximates fair value.

Investment securities: The fair values for debt and equity securities are based on quoted market prices when available and the present value of future cash flows discounted at a commensurate market rate. Medium-term CFC obligations have been estimated based upon published terms of recent issues of comparable instruments since quoted market prices are not available. See Note 6 for additional information.

Investments in associated organizations: The fair value of investments in associated organizations is not estimable since these instruments must be held by SMEPA and can only be returned to CFC. CFC requires SMEPA to hold these investments as a condition of CFC financing.

Notes payable: The carrying amount reported in the balance sheets for notes payable approximates fair value.

Long-term debt: The fair values of SMEPA's long-term debt are estimated using discounted cash flow analyses based on SMEPA's current incremental borrowing rates for similar types of borrowing arrangements and rates which would be charged by the applicable issuer where appropriate.

The carrying amounts and approximate fair values of long-term debt are as follows (in thousands):

	1999		1998	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Long-term debt, including current maturities:				
FFB	\$463,142	\$457,045	\$481,678	\$550,564
RUS	42,809	41,106	44,677	44,001
Pollution Control Bonds	58,859	58,859	63,882	64,637
Other	<u>6,871</u>	<u>6,871</u>	<u>7,075</u>	<u>7,075</u>
	<u>\$571,681</u>	<u>\$563,881</u>	<u>\$597,312</u>	<u>\$666,277</u>

There was no material difference between the contract or notional amount and the estimated fair value of loan commitments.

The aggregate estimated fair value amounts presented do not represent the underlying value of SMEPA and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of these assets and liabilities.

## NOTE 13 - EMPLOYEE BENEFITS

SMEPA sponsors a defined benefit plan that provides certain health insurance benefits to retired employees and their eligible dependents and also provides life insurance benefits to a closed group of seven employees who retired prior to January 1, 1990. The estimated costs of these benefits are accrued over the years that the employees render service. The approximate periodic expense for postretirement benefits other than pensions included the following components (in thousands):

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	<u>1999</u>	<u>1998</u>
Service cost of benefits earned	\$ 81	\$ 75
Interest cost on accumulated benefit obligation	132	124
Amortization of actuarial gain	<u>(36)</u>	<u>(36)</u>
Total current year expense	<u>\$177</u>	<u>\$163</u>

Payments relating to postretirement benefits other than pensions were \$68,000 in 1999 and \$55,000 in 1998.

The Accumulated Postretirement Benefit Obligation ("APBO") is accrued as an unfunded long-term liability and is comprised of the following (in thousands):

	<u>1999</u>	<u>1998</u>
Retirees and dependents	\$608	\$636
Fully eligible active plan participants	36	32
Active participants not yet eligible	1,587	1,418
Unrecognized gain	<u>741</u>	<u>777</u>
	<u>\$2,972</u>	<u>\$2,863</u>

The weighted average discount rate used in determining the APBO was 7.0 percent. The assumed health care cost trend rate of increase used in measuring the APBO was 8.5 and 9.0 percent in 1999 and 1998, respectively, declining to five percent by the year 2005. For measurement purposes an 8.0% annual rate of increase in cost of covered health care benefits was assumed for 2000.

The health care cost trend rate of increase assumption has a significant effect on the APBO and periodic expense. A one percentage point increase in the trend rate for health care costs would have increased the APBO by approximately 9.3% and service and interest costs by approximately 10%.

Substantially all of SMEPA's employees participate in the National Rural Electric Cooperative Association ("NRECA") retirement programs, which include both a defined benefit pension plan and a defined contribution pension plan. Both plans are qualified under Section 401 and are tax-exempt under Section 501(a) of the Internal Revenue Code. The defined benefit pension plan is a multiemployer plan available to all member cooperatives of NRECA, but the accumulated benefits and plan assets are not determined or allocated separately by individual employer. SMEPA paid \$740,000 in pension expense for the defined benefit pension plan in 1999 and \$701,000 in 1998. SMEPA makes monthly payments to NRECA for the benefit of those employees who voluntarily participate in the defined contribution pension plan. SMEPA expenses the payments as they are accrued and such expense amounted to \$356,000 and \$343,000 for 1999 and 1998, respectively.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

Contract commitments for coal and coal transportation and for gas and purchased power are as follows (in thousands):

	<u>Coal and Coal Transportation</u>	<u>Gas and Purchased Power</u>
2000	\$28,355	\$46,419
2001	26,550	52,709
2002	26,550	44,187
2003	4,425	44,440
2004	0	45,408
2005 and thereafter	<u>0</u>	<u>443,119</u>
	<u>\$85,880</u>	<u>\$676,282</u>

Contract cost estimates are based on current or contractual prices which include inflation and escalation clauses.

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SMEPA has construction commitments totaling approximately \$6,006,000.

SMEPA is a defendant in certain litigation incurred in the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate resolution of the litigation will not have a material adverse effect on SMEPA's financial statements.

## Competition

In July 1997 the Mississippi Public Service Commission ("MPSC") issued an order directing the Mississippi Public Utilities Staff to submit a report outlining a plan for restructuring the electric utility industry in Mississippi. On November 3, 1997, the Mississippi Public Utilities Staff submitted to the MPSC a proposed transition plan for retail competition in the electric industry in Mississippi. On June 17, 1998, the MPSC issued a revision of the proposed transition plan. The plan includes an implementation schedule in which retail competition would begin on January 1, 2001. The plan assumes the passage of necessary enabling legislation in 2000. The plan also provides for a transition period, from January 1, 2001, through December 31, 2004, for the recovery of any allowed stranded costs through a non-bypassable charge or other appropriate alternative.

SMEPA is not currently subject to rate regulation by the MPSC and may not be involved in implementing the transition plan for retail competition. The same is true for SMEPA's members. The proposed plan provides that electric power associations have the choice of participating in retail competition; therefore, SMEPA and its members are monitoring and participating in the hearings so as to protect the long-term interests of retail customers. Management is unable to determine what effect, if any, changes related to retail competition in Mississippi will have on SMEPA's financial statements.

