Entergy

Entergy Operations, Inc.
Waterloo Road
P.O. Box 756
Port Gibson, MS 39150
Tel 601 437 6299

Charles A. Bottemiller
Manager
Plant Licensing

GNRO-2006/00026

April 12, 2006

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555-0001

Subject: South Mississippi Electric Power Association (SMEPA)
2005 Annual Report
Grand Gulf Nuclear Station, Unit 1
Docket No. 50-416
License No. NPF-29

Dear Sir or Madam:

The 2005 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 2005 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.

This letter does not contain any commitments.

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

Sincerely,

CAB/AMT;amt
attachment: SMEPA 2005 Annual Report
cc: (See Next Page)

M200

G060026

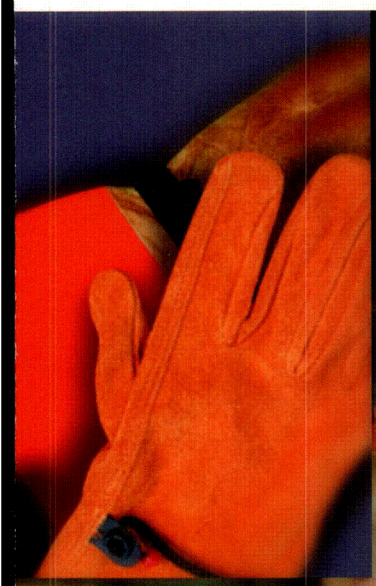
cc: NRC Senior Resident Inspector
Grand Gulf Nuclear Station
Port Gibson, MS 39150

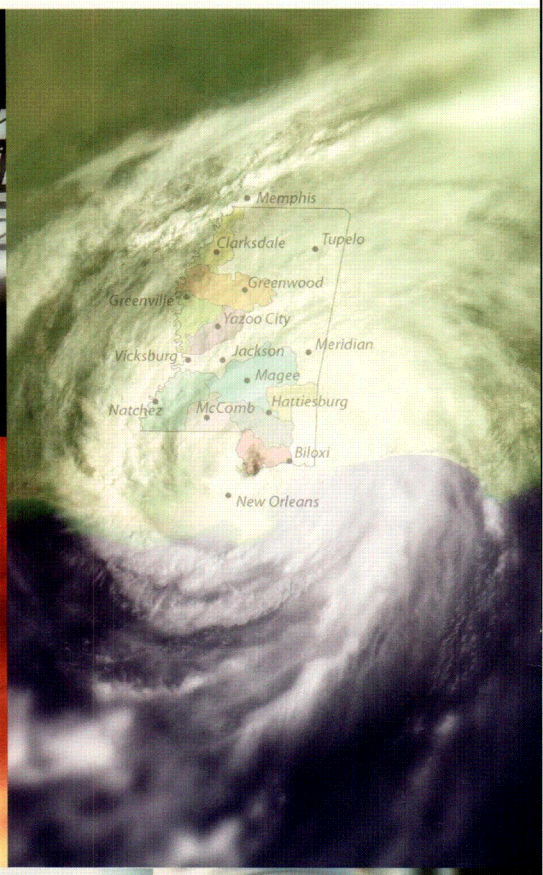
U.S. Nuclear Regulatory Commission
ATTN: Dr. Bruce S. Mallett (w/a)
Regional Administrator, Region IV
611 Ryan Plaza Drive, Suite 400
Arlington, TX 76011-4005

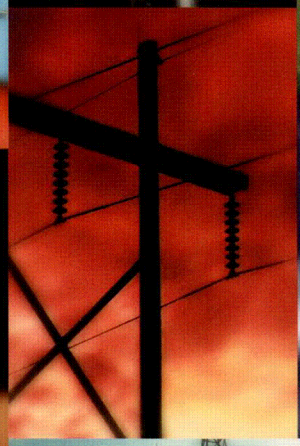
U.S. Nuclear Regulatory Commission
ATTN: Mr. Bhalchandra Vaidya, NRR/DORL (w/a)
ATTN: ADDRESSEE ONLY
ATTN: U.S. Postal Delivery Address Only
Mail Stop OWFN/O-7D1A
Washington, D.C. 20555-0001

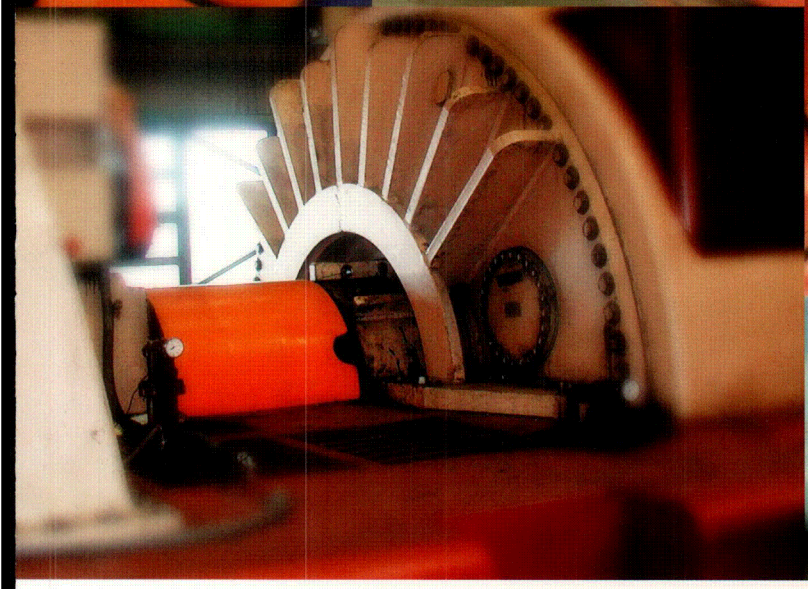
Mr. D. E. Levanway (Wise Carter) (w/a)
Mr. L. J. Smith (Wise Carter) (w/a)
Mr. N. S. Reynolds (w/a)
Mr. J. N. Compton

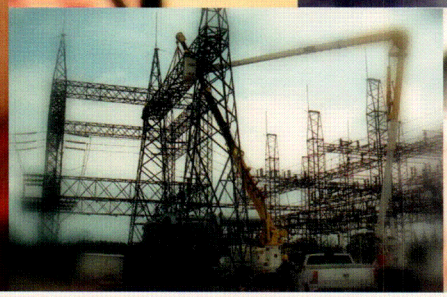
2005 Annual Report

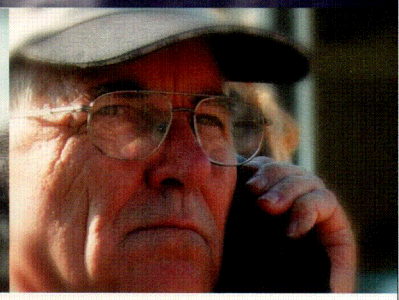












SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

2005 Performance Highlights

($ In Thousands)	*2005*	*2004*
Operating Revenues	$546,091	$464,712
Operating Expenses	$496,892	$423,691
Interest Expense	$41,297	$37,630
Net Margin	$3,096	$5,670
Utility Plant - Net	$715,714	$685,026
Total Assets	$1,007,169	$897,917
Total Equity	$100,347	$97,251
Equity as % of Assets	10.0%	10.8%
TIER	1.08	1.15
DSC	1.01	1.06
Average Cost of Debt	5.46%	5.43%
Energy Sales (MWH)		
Members	9,045,230	9,170,183
Non-Members	7,494	16,019
Total	9,052,724	9,186,202

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SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

Corporate Profile 2005

South Mississippi Electric Power Association is steadfast in its commitment to providing safe and reliable electric energy to its Member cooperatives at a reasonable cost. This commitment is driven by Member expectations, employee dedication and a desire to meet the changing requirements of the electric energy industry.

South Mississippi Electric Power Association is a rural electric cooperative which generates, transmits and sells wholesale power to eleven Member distribution cooperatives. These eleven Member systems own and maintain approximately 52,695 miles of distribution line and provide service to more than 377,800 meters in 56 counties in Mississippi.

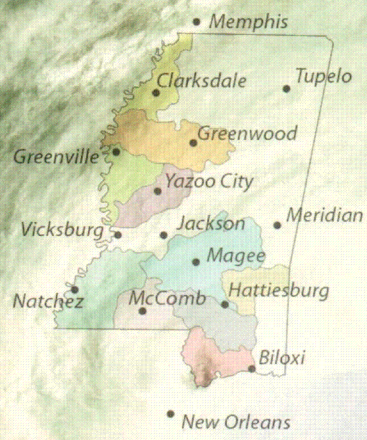
South Mississippi Electric Power Association and the eleven Member systems, who own the Association, are non-profit, consumer-owned businesses; therefore, South Mississippi Electric Power Association's rates reflect only the cost of supplying wholesale power to its rural electric systems.

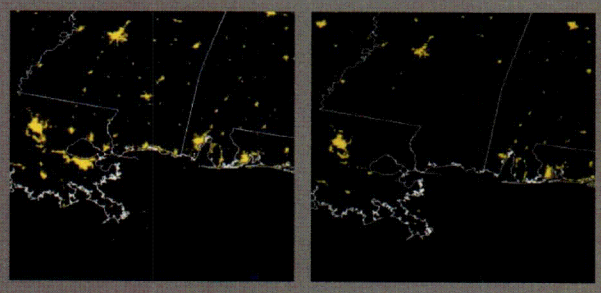
South Mississippi Electric Power Association's headquarters is located on Highway 49 North in Hattiesburg. The Association employs more than 270 skilled and professional employees.

South Mississippi Electric Power Association's generating fleet includes a coal-fired plant near Purvis and 10 percent undivided interest in the Grand Gulf Nuclear Station in Port Gibson. Gas and/or oil fired generation equipment include units near Moselle and eight combustion turbine units at Sylvarena, Silver Creek, Benndale and Paulding, utilized as generating capacity to meet peak demand. The modern transmission system delivers electric energy through 1,628 miles of high-voltage transmission line.

August 29, 2005

Hurricane Katrina severely damaged Mississippi's electrical system on August 29, 2005. South Mississippi Electric Power Association and its Member systems were tested by the monumental devastation. All eleven Member systems experienced outages with seven of the eleven systems completely de-energized. More than 1,100 miles of South Mississippi Electric's 1,628 miles of transmission line and 198 of 240 Member system substations were out of service. Also, South Mississippi Electric was disconnected from the regional transmission grid. Unit 1 at the Dudley Generating Station was only supplying station service because there was no demand for electric energy in South Mississippi.





These satellite images from the Joint Air Force and Army Weather Information Network taken before and after Hurricane Katrina show the impact of the storm on electric power grids in Louisiana, Mississippi and Alabama.

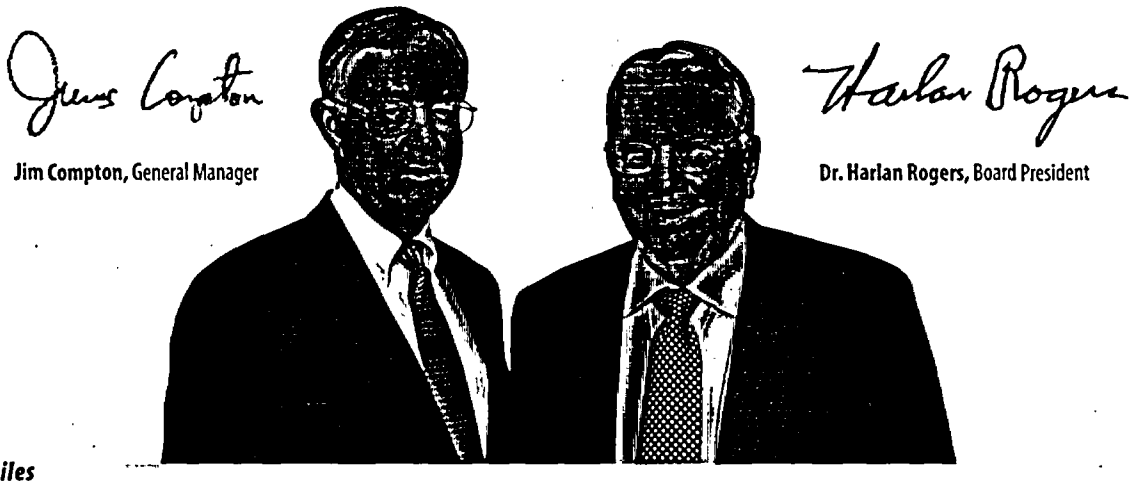
2005 Annual Report Executive Summary

South Mississippi Electric's commitment to its role as a reliable, cost-competitive, wholesale power supplier was subjected to the ultimate test in 2005 when Hurricane Katrina tore through Mississippi and Louisiana. On the afternoon of August 29, our bulk electric system was totally de-energized, and both of our generating plants located south of Jones County were off line. During the next nine days, the electric system was restored to service with the final Member substation energized on September 7. The commitment, skill and dedication of our employees were beyond anything we expected, and each employee responded faithfully to the ultimate challenge. At the end of 2005, we were still in the permanent repair phase of the restoration of our transmission system, a task that will continue well into 2006.

South Mississippi Electric's generation and transmission assets suffered damages requiring about $8 million to restore. Our Member systems incurred storm damages of more than $250 million. Our primary lender, the Rural Utilities Service, aided our joint recovery efforts by providing $93 million in new loan funds.

That short-term success was followed by the equally difficult, but long-term, task of maintaining competitive rates in the face of steep increases in the cost of natural gas, and in the growing challenges in the supply and delivery of coal. For the last four months of 2005, the price of natural gas was nearly double the budgeted amount, and our coal inventory was the lowest since Plant Morrow began operation. As a result of the fuel cost overrun, the Board of Directors authorized a $14 million fuel cost deferral into later years. The fuel cost adjustment component of the wholesale rate was increased by 9.25 mills effective December 1, 2005. The wholesale rate for Members for the year was 59.7 mills, a 20 percent increase from 2004. Nevertheless, South Mississippi Electric's Members maintained their competitive position on retail rates with other Mississippi electric power providers.

The generation planning effort, wholesale rate review, and long-range planning goals, which were underway during the first half of 2005, were delayed and reshaped as the impact of Hurricane Katrina was measured. Nonetheless, significant progress was made in planning for future power requirements and in improvements in fuel management and business processes. Beyond the population shift due to relocation of evacuees, Katrina has significantly impacted how we do business and how planning is done. The damage was so intense and widespread that the ultimate impact of the storm for South Mississippi Electric and our Member systems may not be clear for several years. What is clear is that we came out of the storm restoration as a stronger organization with a sharper focus on what we need to do to be equal to the next test.



Jim Compton, General Manager

Dr. Harlan Rogers, Board President

The Only Light on for Miles

Moselle Operators Dale Rounsaville and Ben Guthrie monitor the system during Katrina.

On August 29, 2005, South Mississippi Electric's transmission lines and Member systems' distribution lines were brought down by trees and high winds, rapidly decreasing load demand. Both units at Plant Morrow tripped due to the loss of significant load in the Hattiesburg area. As the day progressed, combustion turbine units were started to meet demand and then later shut down as the load dropped.

Operators at Plant Dudley were able to keep the plant operational, even though there was no load to serve, by activating plant auxiliary equipment. This crucial decision allowed the plant to remain on-line, which was instrumental in the restoration and recovery

South Mississippi Electric's Management Team

Manager of Finance Jack Harpole announced his retirement during 2005. He worked with electric cooperatives throughout most of his career and served as South Mississippi Electric's Manager of Finance since February 1994.

Before coming to South Mississippi Electric, Jack worked for Cajun Electric Power Cooperative in Louisiana from 1979 to 1994.

Jack graduated from Mississippi State University with both bachelor's and master's degrees. He was honorably discharged as a Captain from the United States Air Force in 1971. He then worked for Federal Intermediate Credit Bank in New Orleans before beginning his career with the electric cooperatives.

Jim Borsig, Manager of Corporate Information and Planning, will serve as the Interim Manager of Finance.

Also during 2005, Director of Transmission Brad Wolfe was promoted to Manager of Transmission Operations.

Pictured below left to right:

Jack Harpole, Manager of Finance

Roger Smith, Manager of Production

Jim Borsig, Manager of Corporate Information and Planning

Brad Wolfe, Manager of Transmission Operations

Marcus Ware, Assistant General Manager

Jim Compton, General Manager

Nathan Brown, Manager of Power Supply

Terry Lee, Manager of Engineering

Jerry Pierce, Manager of Transmission Construction

Benny Murray, Manager of Human Resources and Development

process. During storm planning, the staff agreed they needed to keep at least one unit operational.

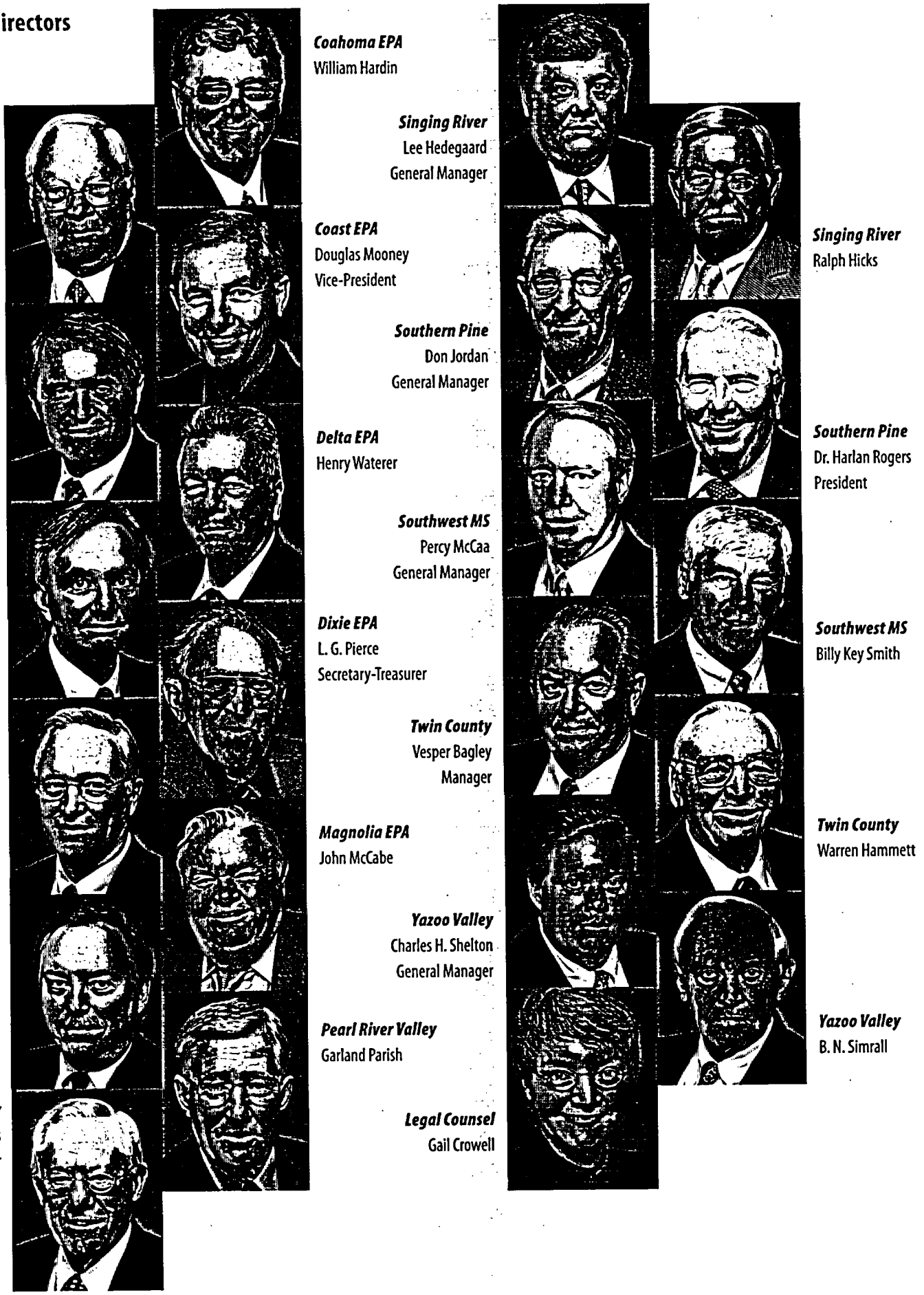
"Our goal was to keep a generator spinning at all costs. We had to dream up things to turn on, so we could keep Unit #1 running. It was touch and go the first 24 hours, but we made it," Shift Supervisor Dale Rounsaville said.

Plant Dudley, producing a mere six megawatts, was serving its own station service, and was the only "light on" for many miles across South Mississippi and Louisiana on the night of August 29.

The combustion turbine sites were manned during the storm. Mark Phillips and Jeremy Parker worked to keep Plant Benndale on-line. After experiencing a mechanical problem with the turbine and several futile attempts to restart the unit, Mark and Jeremy returned to Hattiesburg.

"The damage and debris on the way back was the worst thing I had ever seen. My experience at Benndale was very good training," Instrumentation and Electronics Foreman Mark Phillips said. Benndale was restored to operation on August 31 and served load in the George County area until the system was restored.

Board of Directors



Coahoma EPA
William Hardin

Coahoma EPA
Giles Bounds
Manager

Singing River
Lee Hedegaard
General Manager

Singing River
Ralph Hicks

Coast EPA
Douglas Mooney
Vice-President

Coast EPA
Robert Occhi
General Manager

Southern Pine
Don Jordan
General Manager

Southern Pine
Dr. Harlan Rogers
President

Delta EPA
Henry Waterer

Delta EPA
Ronnie Robertson
General Manager

Southwest MS
Percy McCaa
General Manager

Southwest MS
Billy Key Smith

Dixie EPA
L. G. Pierce
Secretary-Treasurer

Dixie EPA
James T. Dudley
General Manager

Twin County
Vesper Bagley
Manager

Twin County
Warren Hammett

Magnolia EPA
John McCabe

Magnolia EPA
Darrell Smith
Manager

Yazoo Valley
Charles H. Shelton
General Manager

Yazoo Valley
B. N. Simrall

Pearl River Valley
Garland Parish

Pearl River Valley
W. T. Shows
General Manager

Legal Counsel
Gail Crowell

2005 Member Systems

1 *Coahoma EPA*
Lyon
Giles Bounds, Manager
Date energized 1/18/38
1,572 miles of line
7,831 meters

2 *Coast EPA*
Bay St. Louis
Robert Occhi, General Manager
Date energized 5/20/38
5,743 miles of line
66,486 meters

3 *Delta EPA*
Greenwood
Ronald W. Robertson, General Manager
Date energized 1/30/39
5,600 miles of line
24,114 meters

4 *Dixie EPA*
Laurel
James T. Dudley, Jr., General Manager
Date energized 7/28/39
4,569 miles of line
35,386 meters

5 *Magnolia EPA*
McComb
Darrell Smith, Manager
Date energized 9/19/39
3,790 miles of line
28,120 meters

6 *Pearl River Valley EPA*
Columbia
W. T. Shows, General Manager
Date energized 5/19/39
6,072 miles of line
41,401 meters

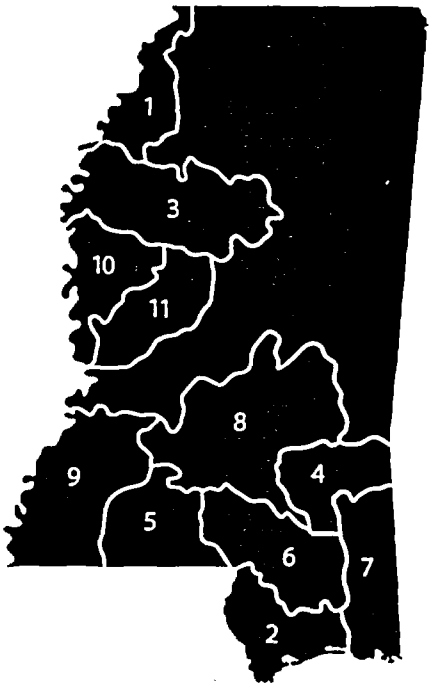
7 *Singing River EPA*
Lucedale
Lee Hedegaard, General Manager
Date energized 12/5/39
6,302 miles of line
63,202 meters

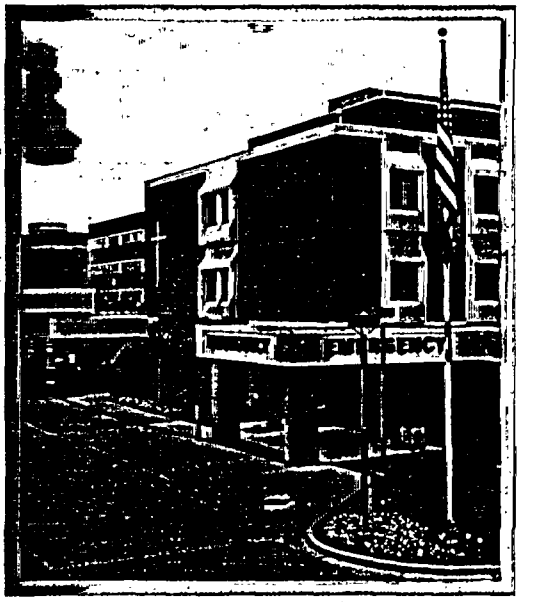
8 *Southern Pine EPA*
Taylorsville
Donald Jordan, General Manager
Date energized 5/13/39
9,751 miles of line
63,664 meters

9 *Southwest MS EPA*
Lorman
Percy McCaa, Manager
Date energized 3/27/38
4,226 miles of line
24,832 meters

10 *Twin County EPA*
Hollandale
Vesper Bagley, Manager
Date energized 12/24/38
2,334 miles of line
12,596 meters

11 *Yazoo Valley EPA*
Yazoo City
Charles H. Shelton, General Manager
Date energized 3/23/38
2,738 miles of line
10,240 meters





Wesley Medical Center is a 211-bed health care facility located in west Hattiesburg.

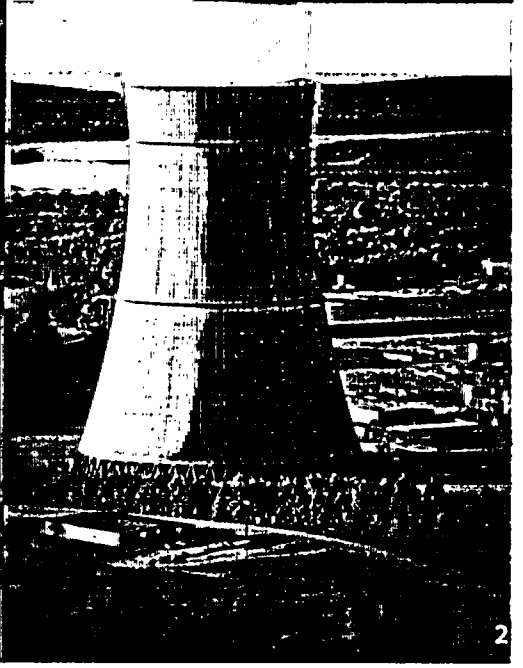
Providing medical care for the Hattiesburg area was essential immediately after the storm. Linecrews, engineers and system operators from South Mississippi Electric worked along with Pearl River Valley personnel to restore electric energy to the Lake Serene substation, which provided alternate service to Wesley Medical Center. Wesley Medical Center received service on Tuesday, August 30 at 9:30 p.m., just one day after the storm.

Restoring electric service to Wesley Medical Center was the first sign of hope. In the middle of a desperate situation, re-energizing Wesley was one of the first steps in restoring electric service to Members and rebuilding South Mississippi.

"Highway 98 was dark until I saw the lights at Wesley. They have never seemed brighter," Manager of Transmission Construction Jerry Pierce reported over South Mississippi Electric's radio system as he drove home on the night of August 30, 2005.

Of the 198 substations de-energized after the storm, 157 were restored during the first week after the storm. In addition to Wesley Medical Center, other critical loads restored during the first week included Stone County Hospital, Colonial Kola and Colonial Collins, rural water associations, Member system offices and other businesses that provide services to the pubic.

1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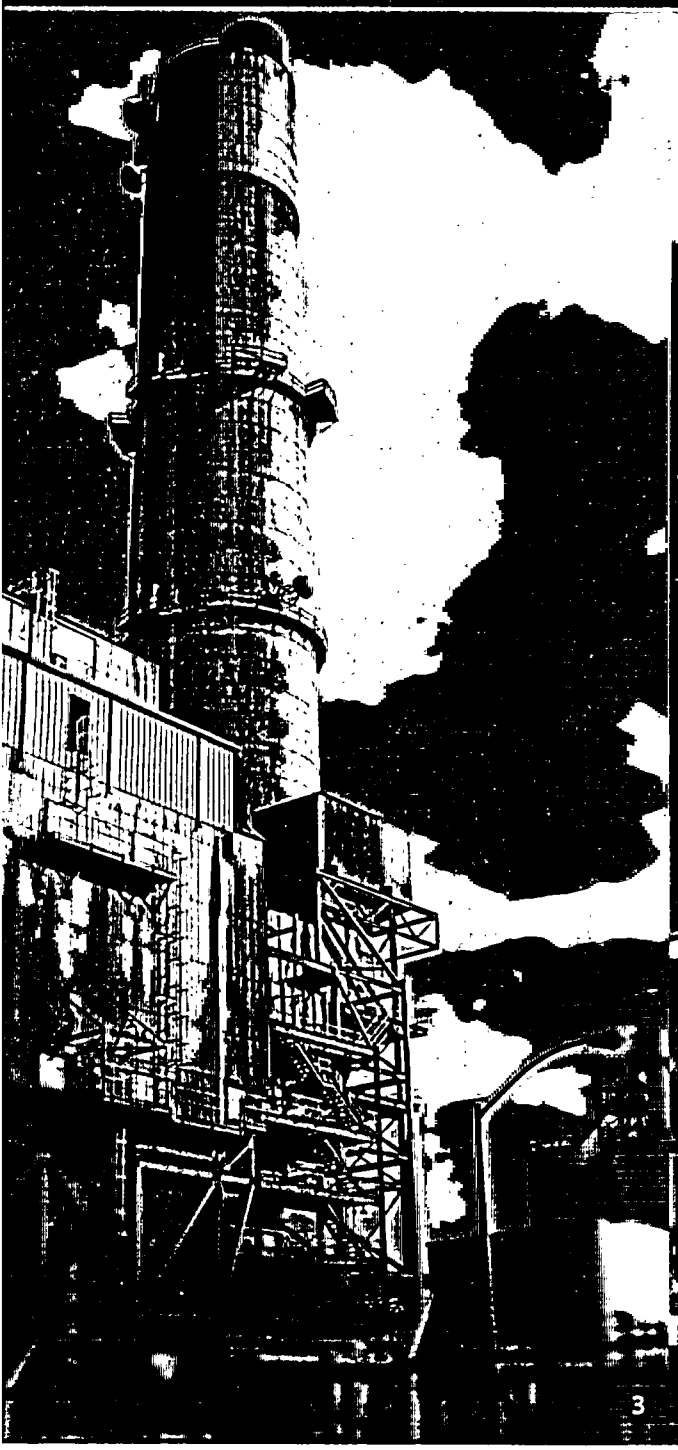
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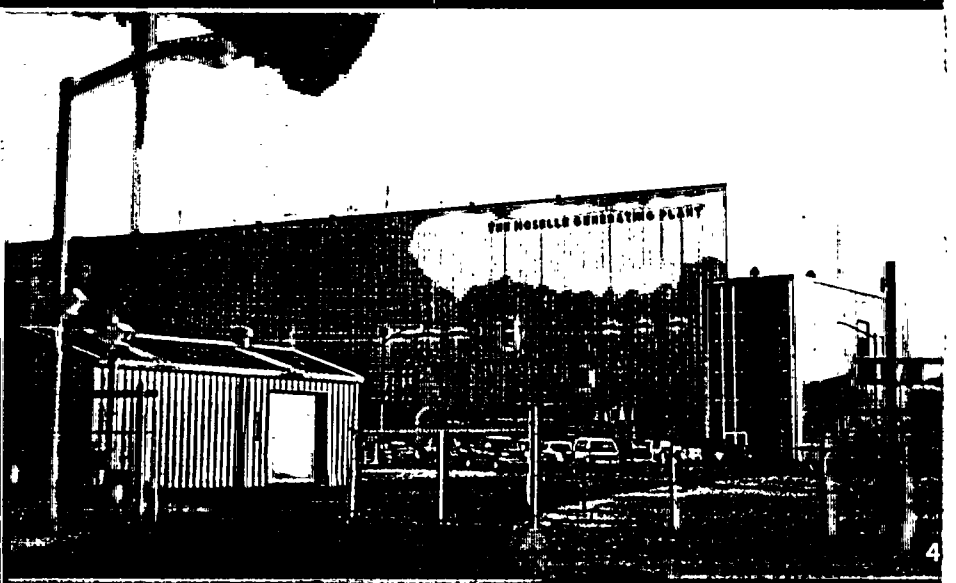
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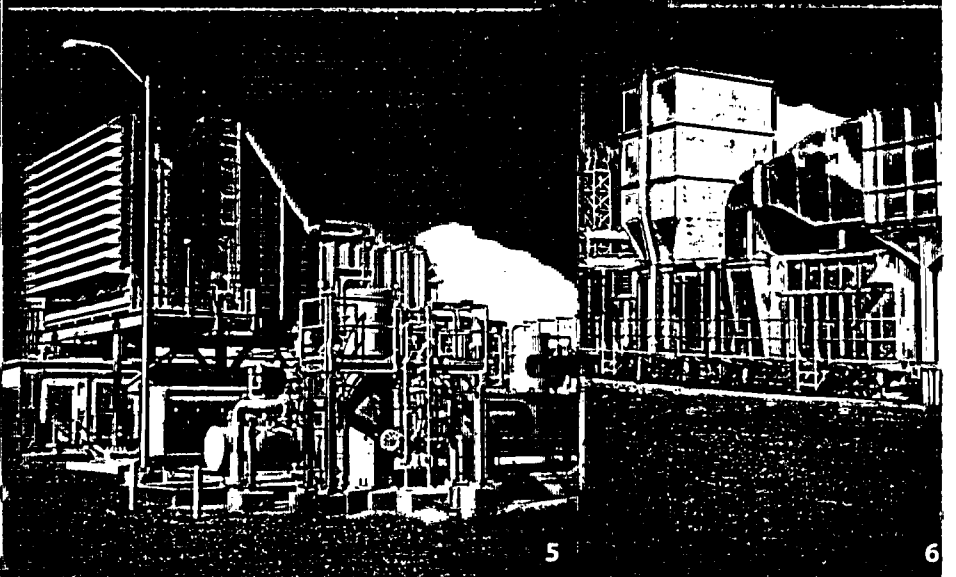
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6


7


8

1 ***South Mississippi Electric Headquarters***
Location: Hattiesburg, Forrest County
Employees: 137

2 ***Grand Gulf Nuclear Station***
(10% Undivided Interest)
Commercial Operation: 1985
Location: Port Gibson, Claiborne County
Capacity: 1,250 mw
Fuel: Nuclear
Employees: 1

3 ***R. D. Morrow, Sr. Generating Station***
Commercial Operation: 1978
Location: Hattiesburg, Lamar County
Capacity: 400 mw
Fuel: Bituminous Coal
Employees: 96

4 ***J. T. Dudley, Sr. Generation Complex***
Moselle Generating Station
Commercial Operation: 1970
Location: Moselle, Jones County
Capacity: 260 mw
Fuel: Natural Gas/Fuel Oil
Employees: 37

5 ***George B. Taylor, Sr. Generating Station***
Commercial Operation: 2003
Location: Jefferson Davis County
Capacity: 250 mw
Fuel: Natural Gas

6 ***Paulding Station***
Commercial Operation: 1972
Location: Jasper County
Capacity: 20.6 mw
Fuel: Diesel Fuel

7 ***Sylvarena Station***
Commercial Operation: 2003
Location: Smith County
Capacity: 141 mw
Fuel: Natural Gas

8 ***Benndale Station***
Commercial Operation: 1969
Location: George County
Capacity: 16.2 mw
Fuel: Natural Gas

The Colonial Pipeline near Collins became a national issue during the first week of restoration after Hurricane Katrina. According to their website, Colonial Pipeline delivers a daily average of 100 million gallons of gasoline, home heating oil, aviation fuel and other refined petroleum products to communities and businesses throughout the South and Eastern United States.

Former Mississippi Public Service Commissioner Michael Callahan said the U.S. Department of Energy called him on August 31, 2005. Callahan added that department officials said restoring service to the fuel line was a national priority. General Manager Jim Compton also called the Department of Energy to confirm their directive to restore service.

Don Jordan, Manager of Southern Pine Electric Power Association, said Vice President Dick Cheney's office called and left voice mails shortly after the storm struck, saying the Collins substations needed power restored immediately. Colonial is a Southern Pine consumer.

The team effort to get the Colonial Pipeline substations re-energized was an amazing engineering and transmission feat that was accomplished in 16 hours. This included developing a restoration plan and repairing more than 36 miles of transmission line between Plant Dudley and the pipeline sites near Collins. Unit #4 at Plant Dudley was isolated to serve this load until the transmission system was stabilized, so existing load would not be jeopardized.

"Due to transmission system damage as a result of Hurricane Katrina, South Mississippi Electric's generation was isolated and operating as islands with no connection to neighboring utilities. This complicated starting the large Colonial pump motors. It was important to develop a plan to restore service to the Colonial substations while minimizing the risk to other critical loads, mainly Wesley Medical Center," Manager of Power Supply Nathan Brown said.

Personnel from South Mississippi Electric and Southern Company Services worked together to develop the restoration plan. The ultimate solution was to utilize Plant Dudley Unit #4 and the 161kV and 69kV transmission lines between Moselle and Collins to restore the Colonial loads. The Colonial loads were served from Plant Dudley Unit #4 until the transmission system was stabilized.

On Tuesday, September 13, three cabinet members from President Bush's administration visited the Colonial Pipeline site. Energy Secretary Samuel Bodman, Interior Secretary Gale Norton and Transportation Secretary Norman Mineta thanked South Mississippi Electric personnel for their restoration efforts regarding the pipeline.

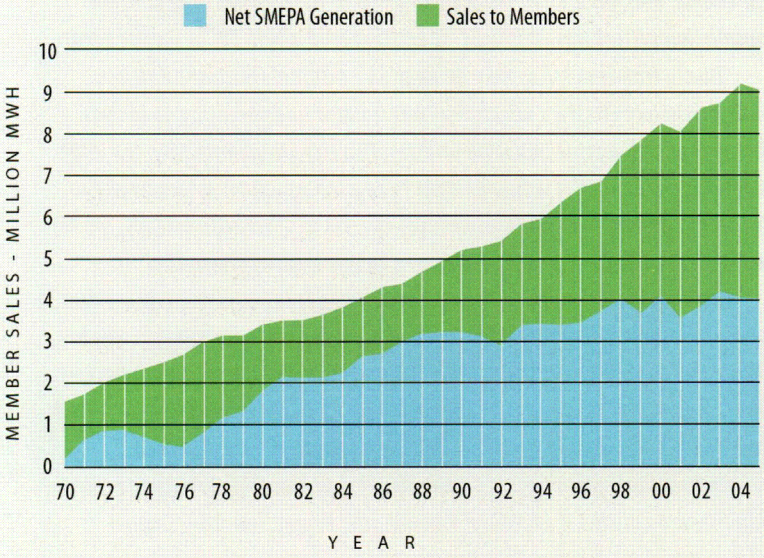
Left to right – Samuel Bodman, Energy Secretary; Norman Mineta, Transportation Secretary; and Gale Norton, Interior Secretary

2005 Year in Review

Future Resource Development

Perhaps the most difficult challenge of a generation and transmission cooperative such as South Mississippi Electric is generation planning. Increasing load growth requires new sources of power generation. Predicting the amount of growth, and where it will occur, and matching that load growth with appropriate size and type of generation facilities or purchased power contracts requires the highest order of engineering and long-range planning. This process is critical to maintaining a safe, reliable, cost-competitive wholesale power supply to our Members. In order to plan for those future generation resource needs, Burns & McDonnell was hired to assist South Mississippi Electric in the preparation of a Power Supply Options Study.

Annual Generation & Energy Sales



The Member systems depend upon South Mississippi Electric to find the most efficient generation sources to meet system growth. Identifying the best options and taking the necessary steps to incorporate those options as resources is a continuous process.

The study developed a long-range resource strategy to meet South Mississippi Electric's energy requirements through 2035. The planning process evaluated several scenarios for future generation growth using the latest generation technologies and the most feasible fuel options, coal and natural gas.

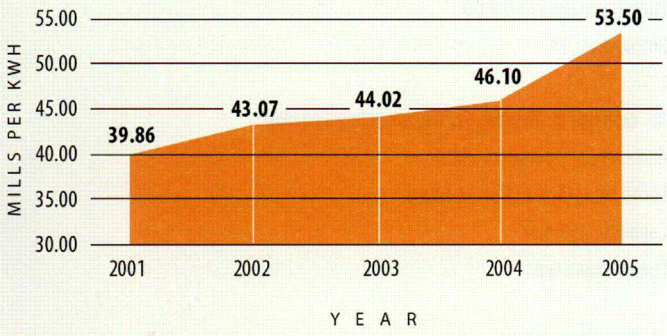
Due to increased volatility in energy markets, increased emission constraints on coal units, and increases in natural gas and coal prices, nuclear generation will likely become a viable option in the near future. Other options such as renewable technologies, conservation, and demand-side management were also considered.

The load growth projection shows an annual 2.5 percent growth rate for combined system peak demand for the 2006-2035 time period, ranging from 1,400 megawatts in 2009 to 3040 megawatts in 2035. This is the area where South Mississippi Electric has generation responsibilities.

The study found that the combined system has acceptable generation capacity to meet load and reserve requirements for the immediate future. The combined system includes both the on-system, which South Mississippi Electric serves directly from its transmission system, and the off-system, which South Mississippi Electric serves using Entergy Mississippi's transmission system. South Mississippi Electric's load in the Mississippi Power Company area is served via an all-requirements contract, which provides the generation and transmission facilities needed to serve the load.

South Mississippi Electric will need additional base load, intermediate, and peaking generation to meet growing demand through 2035. The most immediate need is for base-load generation in the off-system area. The study ultimately recommends that South Mississippi Electric evaluate options to add approximately 250 MW of base load generation in the off-system area.

Average Cost of Purchased Power



In order to properly evaluate self-build versus purchase options, South Mississippi Electric hired Burns & McDonnell to perform a Siting and Technology Assessment Study for the purpose of evaluating various generation technologies, fuel availability, and potential generation sites in Mississippi. In conjunction with this study, a Request for Proposal (RFP) was developed to solicit proposals from generation providers and utilities. At the end of 2005, Burns & McDonnell and South Mississippi Electric were in the process of evaluating the RFP responses and comparing these to South Mississippi Electric self-build options to determine the best overall solution to meet the Association's growing generation needs.

It is anticipated that the first elements of the future resource development will be determined by mid-2006 to meet load growth in the 2009-2012 period. During 2006 another Power Requirements Study will be developed to guide the selection of the next resources for 2013 and beyond.

Financial Impact of Hurricane Katrina

Hurricane Katrina restoration costs, incurred and estimated, are nearly $250 million for South Mississippi Electric and its 11 Member systems. South Mississippi Electric's 2005 direct costs amount to approximately $8 million and are being treated as deferred costs. Indirect costs are still being measured and are expected to be $6 million or higher. South Mississippi Electric anticipates reimbursement will be received from the Federal Emergency Management Agency for a majority of these direct costs. While the direct costs represent damage to generating plants and the transmission system, the major component of indirect costs is higher natural gas pricing resulting from this disaster and the impact of lost sales.

Energy sales in the hardest hit areas were down 30 percent in the month following Hurricane Katrina. Revenue loss from Coast and Singing River Electric Power Associations totaled $10.9 million in the four months following the storm. For South Mississippi Electric, energy sales to Members decreased from 9.2 million mwh in 2004 to 9.0 million mwh in 2005, which reflects a decline in sales of 1.4 percent.

Five Member systems utilized a deferred payment plan adopted by the South Mississippi Electric Board of Directors, which provided for a 60-day delay for impacted Members to pay wholesale power bills. These delayed payments allowed impacted Member systems to keep an average of $24 million per month, providing available funds for immediate restoration costs.

Transmission Line Supervisor Pete Taylor works to restore a connection in Eastabuchie in the aftermath of Hurricane Katrina.

A lineman reconnects a tie to Plant Morrow the day after Hurricane Katrina.

South Mississippi Electric's transmission and engineering crews worked long hours and overcame difficult obstacles to restore electric energy to the more than 1,100 miles of line deenergized due to Hurricane Katrina physical damage.

The transmission crews, assisted by contract crews, began work on August 30, 2005, to repair lines and energize substations. Lineman Jerry Glosson assessed damage by aerial patrol, utilizing fixed-wing contract crews. On the same day, linemen cut their way through downed trees and debris to begin restoring lines, which would once again tie Plant Morrow and Plant Dudley. The day after the storm, the linemen and engineering employees re-energized the Burr Creek substation, Shelton GOAB, Rawls Springs switching substation and Lake Serene substation. The linemen restored 17.7 miles of transmission line to feed these substations.

The restoration crews accomplished several amazing feats, including restoring electric energy to all the substations in nine days and repairing the transmission system in 16 days. This included replacing poles, broken crossarms and crossarm braces and removing many trees. They were also instrumental in quickly re-energizing Wesley Medical Center and Colonial Pipeline.

"The linemen did an exceptional job repairing lines and restoring electric service to our Member system substations. I appreciate their hard work and dedication to their jobs. They accomplished so much in a short time period and overcame so many obstacles," Manager of Transmission Operations Brad Wolfe said.

Impact of Rising Cost of Natural Gas

Natural gas is a key fuel for electric generation. South Mississippi Electric has 11 generating units that run on natural gas. As the cost of natural gas has tripled since 2003, the cost associated with the production of electric energy continues to rise.

Hurricanes Katrina and Rita initially halted more than 80 percent of the natural gas production in the Gulf of Mexico, severely damaged gas processing facilities, and shut down more than a dozen refineries along the Gulf Coast. The storms accelerated the already skyrocketing price of natural gas.

The unprecedented rise in the price of natural gas and 2005's unusual storm season caused the cost of producing electric power to increase substantially. Over the past two years, South Mississippi Electric's fuel budget increased approximately $70.4 million due to the rise in cost of this fuel. Natural gas purchases for 2005 were $20.6 million above budgeted amounts.

As a result of these conditions, a request was submitted to the Rural Utilities Service (RUS) by the management and Board of Directors of South Mississippi Electric to allow an interim fuel cost adjustment of 9.25 mills beginning December 1, 2005, an increase of 16 percent. This interim rate will be submitted to RUS on April 1, 2006, providing more time for analysis of the natural gas market and the financial effects of Hurricane Katrina. At this time no additional increase is anticipated. Coal costs are stable, but transportation costs from Norfolk Southern continue to rise.

South Mississippi Electric utilizes a diverse mixture of fuel sources to help control the cost of generating electricity; however, the volatile nature of natural gas pricing continues to impact the cost of power. South Mississippi Electric has taken steps to utilize less expensive fuel resources to the extent possible, such as reducing outage schedules at Plant Morrow, its coal-fired plant.

Portions of South Mississippi Electric's new coal transport upgrade are shown here which includes 120 new rail cars.

Milestones in 2005

March

- Removed the existing 150MVA 230/161kV interconnection autotransformer from service at West Waynesboro, and received and installed its 400MVA replacement for interconnection with Alabama Electric Cooperative

April

- Grand Opening of Separation Technologies at Plant Morrow

May

- Installed the GE Harris XA-21 Energy Management System
- Completed digital control system and power management system upgrades at Plant Dudley
- Launched www.smepa.coop website

June

- Completed Vulnerability and Risk Assessment
- Purchased and placed into service 120 new rail cars for coal delivery to Plant Morrow
- Completed and Commissioned Unit #3 at Silver Creek Generating Station

July

- Celebrated 20 years of commercial operation at Grand Gulf Nuclear Station
- Filed Viking Range Corporation and Delta Peanut, LLC REDLG funding applications

August

- Reached an all-time generation peak of 1,263 megawatts and a total system summer peak of 1,915 megawatts

September

- Named and dedicated the combustion turbine station at Silver Creek in honor of George B. Taylor, Sr., the first full-time general manager of South Mississippi Electric

November

- Completed Cost of Service Study
- Joined the Southwest Power Pool Reserve Sharing Group

December

- Achieved 1.75 million worker hours without a lost-time accident

Lineman Tracy Stiglets uses an ATV to survey line damage in a remote area of the system.

South Mississippi Electric 2005 Retirees

South Mississippi Electric Power Association is honored to salute the following retirees:

Larry Brown
Larry French
Jack Harpole
Patti Havard
Linda Hollimon
Roy Lott
Michael Welch

Thank you for all your years of hard work and dedication. From all of us in your "South Mississippi Electric family," congratulations and best wishes.

Handling the Logistics: Tremendous Effort by Employees

With more than 600 trouble tickets on the transmission lines, more than 135 contract crew workers and endless supplies of materials arriving daily, South Mississippi Electric employees adapted to working different job descriptions and handling the many challenging logistics.

During Hurricane Katrina recovery, more than 8,100 items were issued from inventory. In order to accommodate this volume of material, additional employees assisted in the warehouse, including the director of audit, accountants, the nuclear engineer and many others.

"We never ran out of materials, which was a miracle, considering the damage and the difficulty in getting items," Engineering Assistant Allen Keene said.

The command center was manned by employees of the engineering and accounting departments. The command center's role was to process information on the damaged lines and poles and prepare trouble tickets for the transmission crews.

Another difficult job was to prepare more than 5,000 line maps for the transmission crews to locate line damage. "Working on the system maps was an enormous undertaking. Lara Hages and I worked seven nights a week with the drafting department to print and mark the maps for the crews to use each morning," Engineering Department Secretary Janet Buti said.

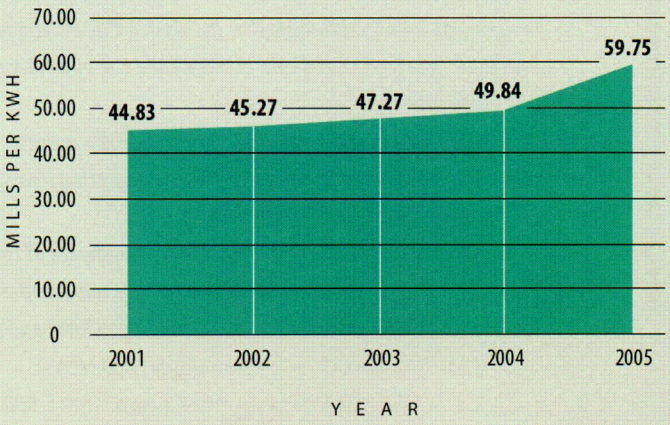
Accountants, the benefits specialist, painters and land clerk along with many others assisted in preparing approximately 1,000 meals per day for two weeks. Employees, contract linemen and other workers were fed three meals a day on-site at headquarters. It was a challenge to purchase large volumes of food in the early days after the storm due to closed stores and businesses, yet the cook team was able to acquire and prepare the food. Several employees also secured hotel rooms for contract crews and worked with the University of Southern Mississippi to wash and dry laundry.

Recovering from Hurricane Katrina was truly a team effort.

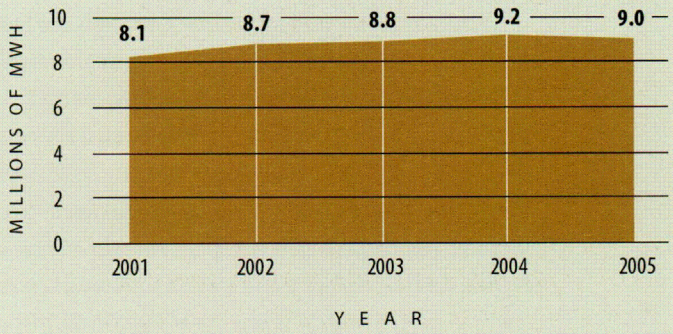
Linda Hollimon and Nettie Jones prepare lunches for personnel working in the field.

Key Indicators - Financial Analysis

Wholesale Rate to Members



Sales to Members



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December 31, 2005 and 2004

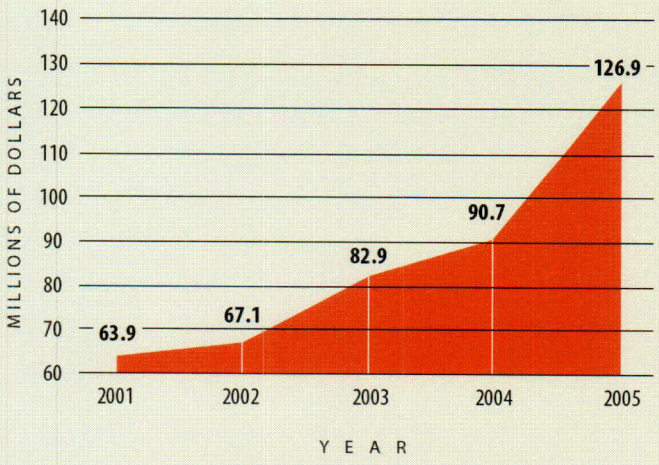
2005 Financial Review

Hurricane Katrina imposed financial challenges on South Mississippi Electric and its eleven Members beyond any precedent. As a result, South Mississippi Electric concluded the year with mixed financial results. Revenues from Member cooperatives exceeded the half-billion mark for the first time, at $542 million, up 17 percent. Energy sales to Members were down 1.4 percent, at 9.0 million megawatt hours. Generation by South Mississippi Electric-owned plants was about the same as last year at 4.0 million megawatt hours. Demand billings for the year were up about 60 megawatts, 3.5 percent, with a monthly average of 1,778 megawatts. The net margin for the year was lower at $3.1 million, but led to a TIER of 1.08 and DSC ratio of 1.01, thereby meeting loan covenants. Total equity increased to $100 million, 10 percent of total assets.

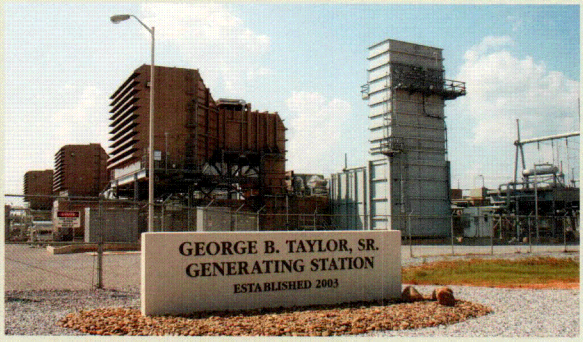
Rural Utilities Service, Cooperative Finance Corporation, CoBank and Trustmark National Bank provided and continue to supply extraordinary assistance to South Mississippi Electric. Lenders supplied increased liquidity, allowing South Mississippi Electric to postpone receipt of $56 million in wholesale power billings to Members which were devastated by the storm, and yet, the generation and transmission cooperative still met all cash flow obligations.

The wholesale rate to Members for the year averaged 59.7 mills per kilowatt hour, up 20 percent compared to 2004. The rising cost of natural gas during 2005 was a major issue. The 2005 hurricanes in the Gulf of Mexico severely disrupted the normal flow of natural gas, and market prices for this most volatile commodity spiked to historical levels. South Mississippi Electric's actual average cost for natural gas for 2005 was slightly over $8 per million BTU, 45 percent higher than 2004.

Cost of Fuel



South Mississippi Electric invested $61 million in new generation, transmission and other utility plant assets during 2005, bringing gross investments to more than $1.2 billion. About $8 million was invested to repair, replace or restore generation and transmission assets which were damaged by Hurricane Katrina. At mid-year, South Mississippi Electric successfully placed into service an 84 megawatt natural gas fueled, combustion turbine generator valued at more than $35 million, including costs related to transmission improvements. The new asset, located at the George B. Taylor, Sr., Generating Station, brought owned generating capacity to 1,216 megawatts.



Silver Creek Generating Station was dedicated to retired General Manager George B. Taylor, Sr., in 2005.

Looking forward, the lingering affects of Hurricane Katrina and the rising cost of natural gas continue to present issues for all Mississippi electric energy consumers, not just those served by rural electric cooperatives. South Mississippi Electric remains committed to providing its core customer-owners, the eleven Member cooperatives, with reliable wholesale power at the lowest possible cost.

Rural Utilities Service Support in 2005

- Authorized $93 million in FFB loan advances for interim financing purposes
- Authorized change in the approved purposes of the then pending W-8 loan to include the Hurricane Katrina expenses
- Approved W-8 Loan for $88.3 million, waiving loan requirements that could not be met due to Hurricane Katrina
- Granted a 120-day extension for Emergency Restoration Plan
- Approved interim fuel cost increase as of December 1, 2005

Five-Year Financial Summary

In thousands, as of December 31,	*2005*	*2004*	*2003*	*2002*	*2001*
SUMMARY OF OPERATIONS					
Total Operating Revenues	$ 546,091	$ 464,712	$ 411,588	$ 393,524	$ 354,447
Operating Expenses:					
Purchased Power	$ 279,251	$ 245,213	$ 210,981	$ 215,819	$ 185,497
Fuel	126,915	90,689	82,927	67,086	63,881
Production	18,623	17,393	16,856	15,687	13,639
Transmission	14,119	15,830	13,661	12,245	11,710
Maintenance	17,020	14,613	14,894	14,888	13,216
Depreciation and Amortization	34,198	33,877	30,376	27,707	26,960
Administrative and General	6,766	6,076	5,640	4,883	4,328
Total Operating Expenses	$ 496,892	$ 423,691	$ 375,335	$ 358,315	$ 319,231
Operating Margin	$ 49,199	$ 41,021	$ 36,253	$ 35,209	$ 35,216
Interest Expense	41,297	37,630	34,727	34,993	36,489
Other Deductions	6,725	24	38	34	29
Nonoperating Margin	1,919	2,303	2,689	2,374	3,428
Net Margin	$ 3,096	$ 5,670	$ 4,177	$ 2,556	$ 2,126
ELECTRIC UTILITY PLANT					
In Service - at Cost	$ 1,143,540	$ 1,075,024	$ 996,241	$ 859,736	$ 845,253
Construction Work in Process	73,891	87,846	111,894	188,948	84,354
Total	1,217,431	1,162,870	1,108,135	1,048,684	929,607
Less Accumulated Depreciation	501,717	477,844	446,938	420,938	397,434
Net Utility Plant	$ 715,714	$ 685,026	$ 661,197	$ 627,746	$ 532,173
TOTAL ASSETS	$ 1,007,169	$ 897,917	$ 873,855	$ 839,943	$ 731,551
TOTAL EQUITY AND PATRONAGE CAPITAL	$ 100,347	$ 97,251	$ 91,581	$ 87,404	$ 84,848
ENERGY SOURCES - MWH					
Generated	3,997,272	4,033,649	4,159,337	3,806,529	3,548,906
Purchased	5,220,070	5,318,771	4,792,965	5,010,337	4,653,782
Total Available for Sale	9,217,342	9,352,420	8,952,302	8,816,866	8,202,688
ENERGY SALES - MWH					
Member Cooperatives	9,045,230	9,170,183	8,780,699	8,651,954	8,050,419
Non-members	7,494	16,019	12,775	16,361	26,269
Total Sales	9,052,724	9,186,202	8,793,474	8,668,315	8,076,688
Wholesale Rate to Members	59.75	49.84	47.27	45.27	44.83
Member Demand - KW (non-concurrent peak)	2,130,812	2,071,412	2,176,084	2,010,942	1,976,642

Independent Auditors' Report

To the Board of Directors of
South Mississippi Electric Power Association
Hattiesburg, Mississippi

We have audited the accompanying balance sheets of South Mississippi Electric Power Association ("SMEPA") as of December 31, 2005 and 2004, and the related statements of revenues, expenses and patronage capital, and 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 the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Carr, Riggs & Ingram, L.L.C

Carr, Riggs & Ingram, LLC
Ridgeland, Mississippi
February 1, 2006

Balance Sheets

In thousands as of December 31,	*2005*	*2004*
Assets		
Electric utility plant:		
In service - at cost	$ 1,143,540	$ 1,075,024
Construction work in progress	73,891	87,846
	1,217,431	1,162,870
Less accumulated depreciation	501,717	477,844
Net utility plant	715,714	685,026
Investments:		
Investments in associated organizations	7,326	12,256
Debt service reserve and other investments	4,666	4,666
Decommissioning trust investments	17,118	15,055
Debt service prepayments	5,486	5,644
Total investments	34,596	37,621
Current assets:		
Cash - general funds and cash equivalent investments	27,421	21,978
Accounts receivable:		
Members	89,602	42,882
Others	175	337
Inventories (at average cost):		
Coal and other fuels	10,594	6,282
Materials and supplies	16,753	16,643
Other	737	999
Total current assets	145,282	89,121
Deferred charges	111,577	86,149
Total assets	$ 1,007,169	$ 897,917
Equities and Liabilities		
Equities:		
Patronage capital	$ 99,812	$ 96,716
Memberships and donated capital	535	535
Total equities	100,347	97,251
Long-term debt (excluding current maturities)	767,251	676,576
Accrued decommissioning obligation	35,408	32,938
Deferred credits and other long-term liabilities	9,363	5,030
Current liabilities:		
Accounts payable	42,014	33,046
Notes payable	-	7,000
Accrued interest	10,389	9,239
Other accrued expenses	2,074	1,787
Current maturities of long-term debt	40,323	35,050
Total current liabilities	94,800	86,122
Commitments and contingencies (Notes 3 and 13)		
Total equities and liabilities	$ 1,007,169	$ 897,917

See notes to financial statements.

Statements of Revenues, Expenses and Patronage Capital

In thousands for the years ended December 31,	*2005*	*2004*
Operating Revenues		
Electric energy revenue from members	$ 541,832	$ 464,313
Other electric energy revenue	477	587
Other - net	3,782	(188)
Total operating revenues	546,091	464,712
Operating Expenses		
Fuel	126,915	90,689
Production	18,623	17,393
Purchased power	279,251	245,213
Transmission	14,119	15,830
Administrative and general	6,766	6,076
Maintenance expenses:		
Production	11,935	10,258
Transmission	3,511	3,235
General	1,574	1,120
Depreciation and amortization	34,198	33,877
Total operating expenses	496,892	423,691
Operating margin before interest and other deductions	49,199	41,021
Interest and Other Deductions		
Interest	41,297	37,630
Other deductions	6,725	24
Total interest and other deductions	48,022	37,654
Operating margin	1,177	3,367
Nonoperating Margin		
Interest income	1,639	1,663
Allowance for funds used during construction	128	257
Other	152	383
Total Nonoperating Margin	1,919	2,303
Net Margin	3,096	5,670
Patronage Capital at Beginning of Year	96,716	91,046
Patronage Capital at End of Year	$ 99,812	$ 96,716

See notes to financial statements.

Statements of Cash Flows

In thousands for the years ended December 31,	*2005*	*2004*
Operating Activities		
Net margin	$ 3,096	$ 5,670
Adjustments necessary to reconcile net margin to net cash provided by operating activities:		
Depreciation, amortization, and depletion	41,088	37,735
Accretion of asset retirement obligation	2,470	2,337
Gain on sale of electric utility plant	(1,199)	-
Allowance for funds used during construction	(128)	(257)
Nuclear outage maintenance costs	(2,321)	(2,141)
Deferred fuel cost adjustments	(15,389)	(7,263)
Increase in deferred credits and other liabilities	4,542	-
Deferred costs of buyout of wholesale power contract	(14,929)	-
Change in operating assets and liabilities:		
Accounts receivable	(46,558)	(4,664)
Inventories	(4,422)	2,752
Other current assets	262	337
Accounts payable and other liabilities	9,056	4,512
Accrued interest payable	1,150	7,579
Net cash provided by (used in) operating activities	(23,282)	46,597
Investing Activities		
Construction and acquisitions of electric utility plant	(66,130)	(50,921)
Proceeds from sale of utility plant	4,050	-
Redemption of CFC equity certificates	4,930	23,512
Purchase of available for sale securities	(3,238)	(2,739)
Maturity of debt service prepayments	158	-
Purchase of held to maturity securities and debt service prepayments	-	(291)
Net cash used in investing activities	(60,230)	(30,439)
Financing Activities		
Principal payments on long-term debt	(108,387)	(259,244)
Proceeds from long-term borrowings	204,342	256,196
Payments on short-term borrowings	(7,000)	(3,600)
Net cash provided by (used in) financing activities	88,955	(6,648)
Net increase in cash and cash equivalents	5,443	9,510
Cash and cash equivalents at beginning of year	21,978	12,468
Cash and cash equivalents at end of year	$ 27,421	$ 21,978
Additional Cash Flow Disclosures:		
Interest paid	$ 40,251	$ 29,966

See notes to financial statements.

Note 1 - Nature of Operations

South Mississippi Electric Power Association ("SMEPA") is a member-owned, not-for-profit electric generation and transmission cooperative that supplies wholesale electricity and other services to its eleven member distribution cooperatives, which, in turn, provide retail electric service to consumers in certain areas of Mississippi through approximately 377,000 meters. 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. Revenue is generally recognized when power is delivered to its members. However, 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.

Note 2 – Summary of Significant Accounting Principles

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	3.0% to 3.1%
Transmission plant	2.75%
General plant and transportation equipment	2.0% to 25.0%

At the time units of electric utility plant are retired, their original cost and cost of removal, less salvage value, are charged to accumulated depreciation. Replacements of electric utility plant involving less than a designated unit 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.

Allowance for Funds Used During Construction

SMEPA capitalizes interest on certain significant construction and development projects while in progress. The interest cost capitalized related to debt specifically borrowed for construction and development projects during construction is reflected as a reduction in interest expense. The imputed interest cost related to construction and development projects funded without specific borrowings during construction is reflected as allowance for funds used during construction.

Cost of Decommissioning Nuclear Plant

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

Investment Securities

Decommissioning trust investments are categorized as available for sale and are carried at fair value. Because of SMEPA's ability to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, SMEPA has recorded an offsetting amount of unrealized losses as a component of the unrecovered cost of decommissioning obligation included in deferred charges.

Debt service reserve and other investments 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.

The primary components that determine a security's fair value are its coupon rate, maturity and credit characteristics. When the fair value of a security falls below amortized cost an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Securities that are not deemed to be temporarily impaired are written down to net realizable value by a charge to expense. Premiums and discounts are amortized and accreted to operations using the level yield method, adjusted for prepayments as applicable. Gains and losses on sales of investment securities are computed using the specific identification method.

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.

Emission Allowances

In accordance with the Federal Clean Air Act, SMEPA maintains an allotment of sulfur dioxide emission allowances. These allowances are carried at cost and are included in fuel inventories in the financial statements. SMEPA carries sufficient sulfur dioxide emission allowances to meet its operating needs.

Regulatory Accounting

SMEPA's accounting policies include compliance with Statement of Financial Accounting Standards ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation". Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. In the event that SMEPA is no longer able to comply with SFAS 71 as the result of a change in regulation 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.

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.

Periodically the Board of Directors 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.

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.

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.

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.

Derivative Financial Instruments

SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" requires that all derivatives be recognized in the balance sheet either as an asset or liability, measured at fair value, unless they meet the normal purchases and sales exemption criteria. Contracts in which SMEPA is hedging the variability of cash flows related to forecasted natural gas purchases are designated as cash flow hedges. Any gains or losses resulting from the fair value measurement of the hedges are passed through to Members using the mechanisms of the benchmark fuel cost

adjustment rate. Therefore these derivative instruments (natural gas hedges) are recorded at fair value in the accompanying balance sheets along with a corresponding offsetting regulatory asset or liability.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Material estimates that are particularly subject to change in the near term relate to the determination of liabilities associated with damages incurred from Hurricane Katrina (see Note 13). These liabilities are necessarily based on estimates and, accordingly, the amount ultimately paid will be more or less than such estimates.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of APB No. 43, Chapter 4." SFAS No. 151 retains the general principle that inventories are presumed to be stated at cost; however, it amends APB No. 43 to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventories based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this Statement is not expected to have a material impact on the valuation of inventory or operating results.

In November 2005 the FASB issued Staff Position 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". The Staff Position addresses the determination of when an investment is impaired, the measurement of an impairment loss and related required disclosures. If an impairment is deemed to be other-than-temporary, then an impairment loss is recorded for the entire difference between cost and fair value. The guidance is effective for fiscal years beginning after December 15, 2005. The adoption of this Statement is not expected to have a material impact on the valuation of investments or operating results.

Reclassifications

Certain reclassifications have been made in the 2004 financial statements to conform to the method of presentation used in 2005.

Note 3 – Commitments and Contingencies Regarding Grand Gulf

SMEPA and System Energy are co-licensees and parties to a joint ownership contract that sets forth the rights and obligations of the Grand Gulf owners, with SMEPA generally obligated to pay 10% of all operating and capital costs and entitled to receive 10% of the electricity generated by the plant. SMEPA paid $21,386,000 and $22,076,000 under the contract in 2005 and 2004, respectively. Ownership of nuclear capacity entails risks and uncertainties somewhat more complex than those for non-nuclear capacity, and these are discussed below.

Decommissioning Costs

SMEPA is responsible for 10% of the estimated cost to decommission Grand Gulf and has submitted a formal plan to the NRC that demonstrated 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 is currently funding $1,050,000 on an annual basis through 2024. The estimated funding requirement is recalculated and adjusted periodically based on market changes.

SMEPA has recorded an accrued decommissioning obligation based on the provisions of SFAS 143, "Accounting for Asset Retirement Obligations". As such, the liability is recorded at fair value (which is the present value of the estimated future outflows) in the period in which it is incurred, with an accompanying addition to the recorded cost of the long-lived asset, which is then depreciated over its useful life. The accrued obligation has increased from $30,640,000 to $32,938,000 to $35,408,000 at December 31, 2003, 2004 and 2005, respectively, with the entire change in each year attributable to accretion of the liability, which reflects the changes in the present value of the obligation. Because of SMEPA's ability to recover decommis-

sioning costs in rates, SMEPA has recorded a regulatory asset for that portion of decommissioning costs that have not yet been recovered through the ratemaking process. The regulatory asset for unrecovered costs increased from $13,796,000 to $14,408,000 at December 31, 2004 and 2005, respectively. The accompanying 2004 balance sheet includes a reclassification of $13,796,000 to increase regulatory assets and asset retirement obligations from amounts originally reported as of December 31, 2004.

The Energy Policy Act of 1992 contains 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 initial aggregate liability was estimated at $2,500,000 and is being paid in annual increments through 2006.

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 program, SMEPA could be assessed up to approximately $10.1 million for each nuclear incident involving licensed reactors, payable at a rate of $1.5 million per reactor per year.

The property insurance presently arranged by System Energy exceeds the Nuclear Regulatory Commission's (NRC) 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. The property insurance provides for recovery of property damage losses in the event of domestic-sponsored or foreign-sponsored acts of terrorism. Under a member assessment program, SMEPA could be assessed approximately $1.3 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 $110 million with respect to Grand Gulf. SMEPA pays for nuclear fuel as it is consumed; 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 United States Department of Energy ("DOE"), whereby the DOE will furnish disposal service at a cost of one mill per net kilowatt hour generated and sold. The fees payable to the DOE may be adjusted in the future to assure full recovery. Yucca Mountain, Nevada has been legislated to be the permanent spent fuel repository in the United States. The DOE will proceed with licensing and, if the license is granted by the NRC, eventual construction of the repository will begin and receipt of spent fuel may begin sometime after 2010. Considerable uncertainty remains regarding the time frame under which the DOE will begin to accept spent fuel for storage or disposal and as a result, future expenditures will be required to increase spent fuel storage capacity at the Grand Gulf plant site. Pending DOE acceptance and disposal of spent nuclear fuel, the owners of nuclear plants are responsible for their own spent fuel storage. Current on-site spent fuel storage capacity at Grand Gulf is estimated to be sufficient until approximately 2007, by which time dry cask storage facilities are planned to be in service.

As a result of DOE's failure to begin disposal of spent nuclear fuel in 1998 pursuant to the Nuclear Waste Policy Act of 1982, System Energy and SMEPA have incurred and will continue to incur damages. Litigation was initiated in November 2003 to recover the damages caused by DOE's delay in performance. Management cannot predict the timing or amount of any potential recovery.

Note 4 – Electric Utility Plant

Electric utility plant consisted of the following:

	Cost		Accumulated Depreciation	
In thousands as of December 31,	*2005*	*2004*	*2005*	*2004*
Grand Gulf Nuclear	$ 433,400	$ 430,465	$ 221,761	$ 209,527
Morrow Steam	200,721	192,670	145,934	143,400
Moselle Steam	26,839	25,092	21,930	22,627
Moselle Gas Turbine	21,750	21,750	5,552	4,901
Silver Creek/Sylvarena Gas Turbines	198,179	163,585	11,583	6,125
Benndale/Paulding Gas Turbines	4,725	4,725	3,773	3,631
Total Generating Plant	885,614	838,287	410,533	390,211
Transmission Plant	204,956	186,876	62,230	58,533
General Plant and Equipment	27,832	24,723	12,020	12,818
Electric Plant Leased to Others	25,138	25,138	16,985	16,411
Electric Plant in Service	1,143,540	1,075,024	501,768	477,973
Construction Work in Process	73,891	87,846	(51)	(129)
Total Utility Plant	$1,217,431	$1,162,870	$ 501,717	$ 477,844

Note 5 – Investments in Associated Organizations

Investments in associated organizations are stated at cost and consisted of the following:

In thousands as of December 31	*2005*	*2004*
National Rural Utilities Cooperative Finance Corporation ("CFC") Certificates:		
Membership subscription	$ 6,223	$ 6,223
Loan and guarantee	405	5,363
Other	698	670
	$ 7,326	$ 12,256

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 a rate of 5.8% and mature in 2006 and 2007.

Note 6 – Investment Securities

The amortized cost and related approximate fair values of investment securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
In thousands as of December 31, 2005				
Decommissioning Trust:				
Equity mutual funds	$ 16,134	$ -	$ 2,465	$ 13,669
Fixed income mutual funds	3,488	-	39	3,449
	$ 19,622	$ -	$ 2,504	$ 17,118
Securities to be held to maturity:				
Obligations of states and political subdivisions	$ 4,666	$ 434	$ -	$ 5,100
In thousands as of December 31, 2004				
Decommissioning Trust:				
Equity mutual funds	$ 13,488	$ -	$ 1,385	$ 12,103
Fixed income mutual funds	2,896	56	-	2,952
	$ 16,384	$ 56	$ 1,385	$ 15,055
Securities to be held to maturity:				
Obligations of states and political subdivisions	$ 4,666	$ 434	$ -	$ 5,100

During 2004 and 2005, there were no sales of available for sale securities. All investment securities to be held to maturity have contractual maturities providing for the securities to mature after five years but less than ten years from December 31, 2005. Actual maturities may differ from nominal maturities because of the borrowers' right to call or prepay obligations. All temporarily impaired securities are mutual funds and are summarized below:

In thousands as of December 31, 2005	Estimated Fair Value	Unrealized Losses
Held in a loss position less than 12 months	$ 3,449	$ 39
Held in a loss position 12 months or more	13,669	2,465
	$ 17,118	$ 2,504

Note 7 – Deferred Charges (Including Regulatory Assets)

The following is a summary of amounts recorded as deferred charges:

In thousands as of December 31,	*2005*	*2004*
Regulatory assets:		
Unamortized costs of abandoned plant	$ 44,084	$ 47,508
Deferred fuel cost adjustments	14,000	-
Unrecovered cost of decommissioning obligation (see Note 3)	14,408	13,796
Nuclear outage maintenance cost	1,960	1,129
Unrealized loss on gas hedges	621	-
Unamortized penalties on repriced debt	18,702	20,793
Deferred cost of buyout of wholesale power contract (see Note 13)	15,395	-
Unamortized debt discount and issuance cost	422	500
Deferred DOE assessments (see Note 3)	394	560
Other	1,591	1,863
	$ 111,577	$ 86,149

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, with such amortization being $3,424,000 and $3,338,000 in 2005 and 2004, respectively.

SMEPA repriced or refinanced significant amounts of its outstanding debt in recent years. As a condition of the transactions, SMEPA paid various prepayment penalties, which are treated as deferred charges to be amortized over the remaining life of the debt. Amortization of all such penalties was $2,091,000 in 2005 and 2004.

The deferred charge of $14,000,000 represents anticipated future revenue to recover fuel costs incurred in 2005. Recovery of such fuel costs is expected to occur in 2007-2009. The deferred revenue for fuel cost adjustments of $1,389,000 was collected from Members in the year deferred and was recognized as revenue in 2005 (see Note 10).

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.

Note 8 – Patronage Capital

Patronage capital consisted of the following:

In thousands as of December 31,	*2005*	*2004*
Cumulative margins	$ 105,666	$ 102,570
Less: Retirements to date	5,854	5,854
	$ 99,812	$ 96,716

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 9.9% and 10.8% of the total assets at December 31, 2005 and 2004, respectively.

Note 9 - Debt

SMEPA has a $50,000,000 short-term line of credit available with CFC that is subject to renewal in September 2006, a $15,000,000 short-term line of credit with a bank that expires May 2006 and a $25,000,000 short-term line of credit with a bank that expires September 2006. SMEPA expects to renew each of these three lines of credit.

Long-term debt consisted of the following:

In thousands as of December 31,	*2005*	*2004*
Mortgage notes payable in quarterly installments to Federal Financing Bank ("FFB") at interest rates varying from 3.657% to 10.705%, through 2030 to 2035	$ 705,218	$ 601,205
CoBank notes payable in quarterly installments, maturing in 2007	36,808	-
CFC advances at interest rates ranging from 4.20% to 6.45% to finance construction of new turbines	-	37,226
Mortgage notes payable in quarterly installments to CFC (6.25% at December 31, 2005, 4.20% in 2004), maturing in 2022	3,894	4,063
RUS mortgage notes payable in monthly or quarterly installments:		
2% notes maturing in 2009	811	1,624
5% to 5.75% notes maturing in 2015 through 2020	22,120	23,900
Mortgage notes payable in quarterly installments to CoBank (4.96% at December 31, 2005 and 2004), maturing in 2019	1,654	1,751
Lamar County, Mississippi, Pollution Control Bonds,		
1993 S Series, 4.85% to 4.95%, due semi-annually through 2007	5,024	7,367
1978 A Series, 6.125%, due semi-annually through 2008	-	645
Claiborne County, Mississippi, Pollution Control Bonds:		
1985 G Series, variable interest rates (3.08% to 3.27% at December 31, 2005), due annually through 2015	32,045	33,845
	807,574	711,626
Less current maturities	40,323	35,050
Long-term debt (excluding current maturities)	$ 767,251	$ 676,576

In 2005, SMEPA entered into two notes payable quarterly to CoBank with variable interest rates (5.985% as of December 31, 2005) that mature in March 2007. The note balances at December 31, 2005 are $21,308,000 and $15,500,000.

In 2005, RUS approved an $88,275,000 guaranteed loan from the FFB to SMEPA to finance capital needs. Subsequent to Hurricane Katrina, the RUS also approved funding operating cash flow needs through this loan. At December 31, 2005, the remaining unadvanced commitment was $32,747,000. In 2004, RUS approved a $275,000,000 guaranteed loan from the FFB to SMEPA that provided permanent financing for its combustion turbine project (See Note 13). At December 31, 2005, the remaining unadvanced commitment was $8,773,000. 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):

2006	$ 40,323
2007	42,417
2008	41,945
2009	44,590
2010	43,951
	$ 213,226

SMEPA is required by debt compliance covenants to maintain certain financial ratios of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 2005 and 2004.

Note 10 – Deferred Credits and Other Long-Term Liabilities

The following is a summary of deferred credits and other long-term liabilities:

In thousands as of December 31,	*2005*	*2004*
Regulatory liabilities:		
Deferred revenue for fuel cost adjustments	$ -	$ 1,389
Reserve for damages from Hurricane Katrina (see Note 13)	4,250	-
Deferred DOE assessments (see Note 3)	-	182
Postretirement benefit obligation (other than pensions)	3,369	3,337
Refundable credit support payments	1,321	-
Miscellaneous	423	121
	$ 9,363	$ 5,030

Note 11 – Financial Instruments

Derivative Instruments

SMEPA hedges a portion of its purchases of natural gas with contracts designated as cash flow hedges. The fair values for cash flow hedges are based on quoted market prices and are recorded as a liability of $621,000 as of December 31, 2005. As of December 31, 2005, all outstanding cash flow hedging derivatives had a maturity of less than twelve months.

Other financial instruments

Cash and cash equivalents, investments, notes payable and long-term debt are considered financial instruments. The carrying amount reported in the balance sheets for cash and cash equivalents and for notes payable approximates fair value due to the short maturity of these instruments. 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, included as a component of securities to be held to maturity, 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. 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.

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 arrange-

ments and rates which would be charged by the applicable issuer where appropriate. The carrying amounts and approximate fair values of long-term debt, including current maturities, are as follows (in thousands):

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FFB	$ 705,218	$ 751,190	$ 601,205	$ 648,750
RUS	22,931	23,733	25,524	26,146
Pollution Control Bonds	37,069	37,162	41,857	42,219
CFC and CoBank advances and notes	42,356	42,356	43,040	43,040
	$ 807,574	$ 854,441	$ 711,626	$ 760,155

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 12 – Employee Benefits

SMEPA sponsors a defined benefit plan that provides certain health insurance benefits to retired employees hired prior to January 1, 1995 and to their eligible dependents. The Plan 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. Payments relating to postretirement benefits other than pensions were approximately $104,000 in 2005 and 2004.

The approximate periodic expense for postretirement benefits, other than pensions, included the following components:

In thousands as of December 31,	2005	2004
Service cost of benefits earned	$ 67	$ 62
Interest cost on accumulated benefit obligation	143	142
Amortization of actuarial gain	(75)	(75)
	$ 135	$ 129

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

In thousands as of December 31,	2005	2004
Retirees and dependents	$ 856	$ 902
Fully eligible active plan participants	62	56
Active participants not yet eligible	1,431	1,285
Unrecognized gain	1,020	1,094
	$ 3,369	$ 3,337

The weighted average discount rate used in determining the APBO was 7.0% in 2005 and 2004. The assumed health care cost trend rate of increase used in measuring the APBO is 7.0% in 2006, declining to 5.5% by the year 2009. 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 and service and interest costs by approximately 6.9% in 2005 and 2004.

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 multi-employer 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 incurred $1,447,000 in pension expense for the defined benefit pension plan in 2005 and $1,537,000 in 2004. 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 $517,000 and $495,000 for 2005 and 2004, respectively.

SMEPA provides medical benefits to current employees through a managed care program in which SMEPA makes payments to a trust account controlled by an independent administrator for approved claims and expenses. SMEPA recorded expenses amounting to $1,608,000 and $1,403,000, respectively, for the years ended December 31, 2005 and 2004.

Note 13 – Commitments and Contingencies

In the normal course of doing business, SMEPA has entered into significant contractual commitments for coal, coal transportation, gas, and purchased power that extend through the year 2020. Such commitments require minimum annual purchases that are significantly less than anticipated purchases, and all such contractual costs will be recovered through normal operating revenue.

SMEPA uses natural gas as the fuel for several of its generating units and also purchases power from others that use natural gas as fuel. A portion of natural gas purchases are subject to short-term changes in the market price for gas, and such market prices are quite volatile. In the normal course of operations, SMEPA enters into forward purchase commitments for certain quantities of gas at agreed-to prices. All such commitments are expected to be recovered through normal operating revenue.

In 2005, SMEPA renegotiated its contract for rights to the output of a 280-megawatt gas-fired, combined-cycle combustion turbine-generator located near Batesville, Mississippi. In so doing, SMEPA paid approximately $16 million to buy out the remaining 15 year commitment with a wholesale power distributor and now makes capacity payments directly to the power producer, with such payments aggregating approximately $16 million on an annual basis. SMEPA has the right to substantially direct how the generating unit is operated and also is obligated to pay for gas fuel consumed and certain operating and maintenance costs that will vary as the output for SMEPA's usage increases or decreases.

SMEPA has contracts for the purchase and installation of seven gas-fired combustion turbine-generators on three sites owned by SMEPA ("the combustion turbine project"). The total cost of the project is budgeted to be $275 million including the purchase cost of the seven turbines, engineering and installation, transmission system improvements, internal costs and so forth. Six of the turbines were placed in service in 2003 through 2005 and one turbine is scheduled to be placed in service in 2006. The project includes four turbines rated at 84 megawatts each and 3 turbines rated at 47 megawatts each for a total of 477 megawatts. These natural gas fired simple cycle generators will be used to augment SMEPA's peaking resources and replace power previously purchased from other suppliers. SMEPA is using both internal funds and loan funds to pay for the project and total investment in the project was $259,608,000 and $236,100,000 at December 31, 2005 and 2004, respectively.

SMEPA and its Member cooperatives were severely impacted by Hurricane Katrina and other storms during 2005. Items of significance include the following:

- Hurricane Katrina, as well as other storms during 2005, disrupted oil and gas production in the Gulf of Mexico causing SMEPA to incur much higher costs for natural gas. This led to a $14 million under-recovery of fuel cost adjustment revenue for the year.

- Member systems impacted by Hurricane Katrina suffered lower sales and loss of memberships. Management believes that, over time, these reductions will be restored to pre-Katrina levels. With the help of RUS and supplemental lenders CFC and CoBank, SMEPA has been able to aid the recovery of its Members that suffered the most damage by carrying larger than normal accounts receivable balances from those Members. At year end, accounts receivable balances from Members were $35 million higher than normal.

- SMEPA purchases a substantial amount of wholesale power from Mississippi Power Company (MPCo). MPCo has indicated it plans to recover an estimated $10 million in its transmission system storm costs from certain wholesale power customers such as SMEPA, most likely through future rate increases.

- SMEPA's generating facilities suffered damage from the effects of Hurricane Katrina due to rapid unit shutdowns and abnormal load conditions. In addition, transmission lines were severely damaged, and these recovery costs have exceeded $8 million. Such amount has been capitalized as construction work in process pending further discussions with the RUS regarding rate recovery.

- SMEPA is working closely with the Federal Emergency Management Agency (FEMA) to identify costs that qualify for reimbursement. At December 31, 2005 SMEPA has recovered $1.8 million in damages from FEMA and anticipates a substantial amount of additional cost reimbursement in 2006.

- SMEPA must receive RUS approval for any change in rates charged to Member cooperatives. With RUS approval, SMEPA implemented an "interim" rate change on December 1, 2005 increasing its fuel cost adjustment charge by 9.3 mills per kilowatt hour. Because of the unknown effects of Hurricane Katrina, it was not possible to assemble a complete rate analysis package under the normal review process and therefore a more complete review by SMEPA and RUS will be conducted in the early part of 2006. SMEPA expects RUS to approve a final rate change in 2006, although the final rate may be higher or lower than the "interim" change implemented on December 1, 2005.

SMEPA continues to assess and identify the cost impact of the storm and expects to work with RUS to agree on how rates and revenues should be structured to facilitate a reasoned recovery. Of the $7 million in additional revenue collected through the interim rate increase in December 2005, SMEPA has deferred $4.25 million by establishing a reserve as of December 31, 2005 to offset future charges related to the storms that are not presently accruable.

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 such litigation will not have a material adverse effect on SMEPA's financial statements.

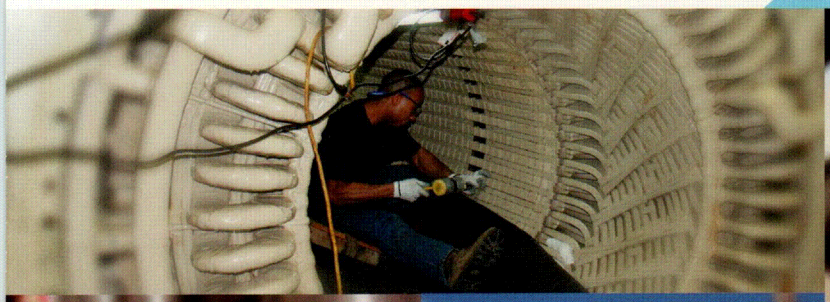
"Looking back to what I saw on August 30,
I never thought we could have the South Mississippi Electric system operational and serving all substations in less than two to three weeks. The challanges and stresses encountered were tremendous and were the ultimate test of South Mississippi Electric as an organization and us as individuals. I saw many employees working hard and working together. I saw our people showing that they had the brains, heart, and guts to take a system that was flat on its back and get service back to all our stations only nine days later.

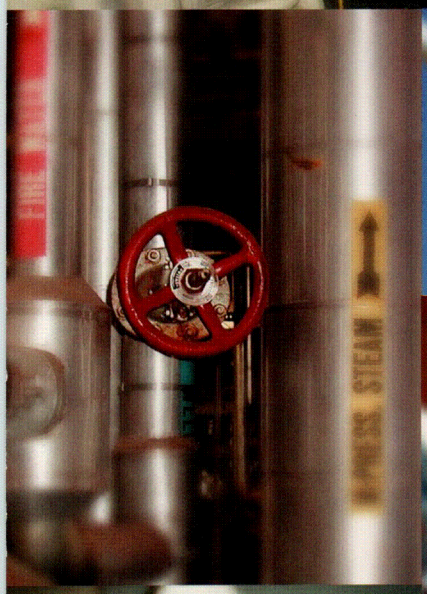
There is no doubt that South Mississippi Electric faced the ultimate test and passed with flying colors. When the history of South Mississippi Electric is finally written, no doubt this will be its finest hour."

Jim Compton, General Manager

SOUTH MISSISSIPPI ELECTRIC

This quotation was first published in the September/October 2005 issue of ***The Scanner****, the newsletter for employees of South Mississippi Electric.*





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