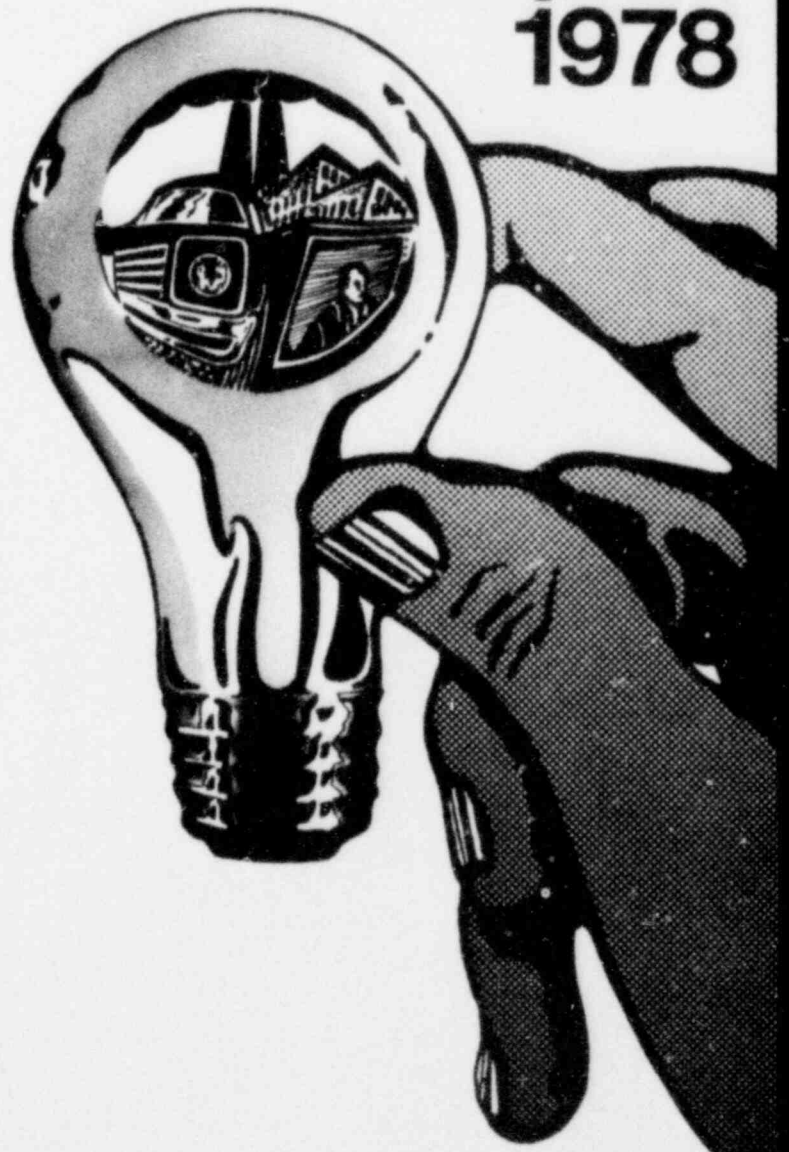


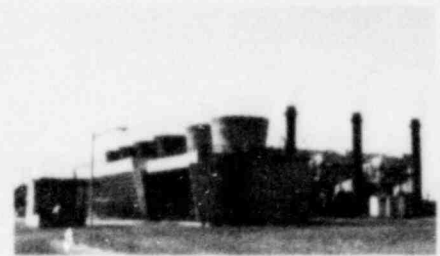
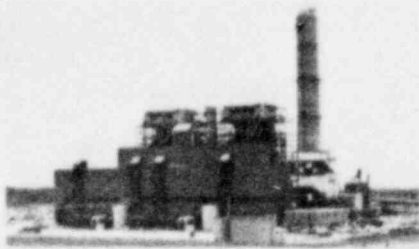
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**annual
report
1978**



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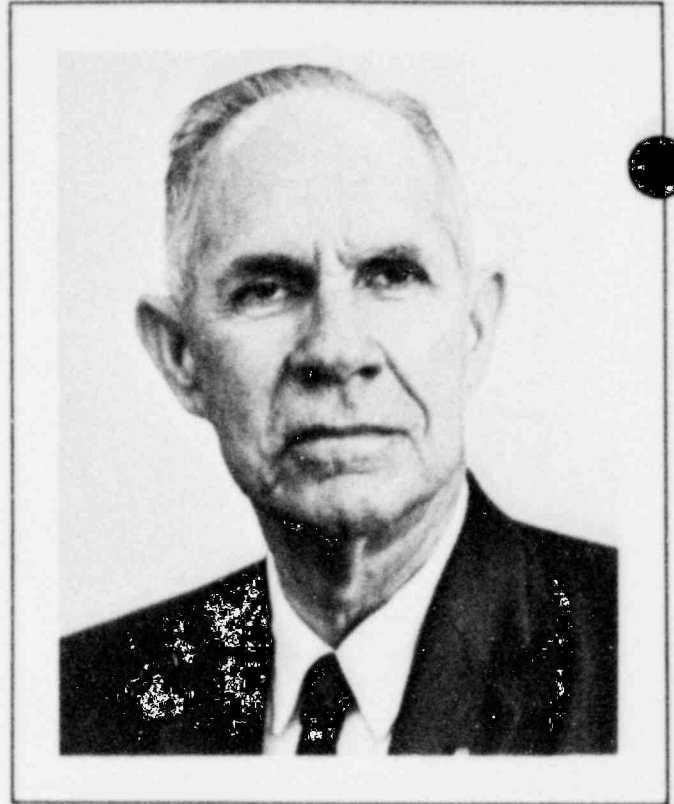
SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION



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PRESIDENT'S MESSAGE



As we look back at another year, it is clear to me that the job of providing the power for a growing area is getting to be a larger one.

Inflation, the regulatory process, complex environmental laws, a growing distrust of the utility industry and conflicting stories of where we have been and where we are going make it very difficult for all of us in our efforts to provide service to our members.

The truth is getting more difficult to determine, but one thing is evident: the need for low cost electric power in the rural areas of our country is real. This need will continue to be a major concern of those of us with the responsibility of providing that service.

As the many problems were confronted during the past year, I could not help but think that only 40 years ago almost 90 per cent of the people in the countryside had no reliable electric power. They went without comforts and conveniences which even then city residents took for granted. It took the rural electrification program, and the determined people within the program, to make that "impossible dream" come true.

It was difficult in those years. The problems that were faced at that time were considered to be as large, if perhaps not as complex, as the ones we face today. We were successful. Our success has made it possible for the people of rural America to enjoy a standard of living that was unheard of or even dreamed of. In addition to providing the comforts, it has provided for the feeding and clothing of the world. Modern agriculture today is the eighth wonder of the world. Electric power has enabled the American farmer to produce food and fiber for a demanding world, and has also freed people to pursue other avenues that have bettered mankind.

We face tremendous problems. As in the past, we must band together to let our voices be heard. We must continue to work through our elected representatives to make sure that the countryside continues to have the high level of productivity and the high standard of living that has helped make this country great.

We would not have achieved the measure of success that we have without the help of our fine senators and congressmen, the Administrator and staff of REA and the staffs of NRECA and CFC. We must continue to work together along with those leaders and with the consultants and suppliers who have also helped us so much in the past.

It is the day of problems. Where does that leave us? It leaves us where we have always been. We are in the middle . . . trying to supply the needs of a growing rural America as we meet the demands placed upon us. We cannot give up. We will provide the service needed. We must.

A handwritten signature in dark ink, appearing to read "R.D. Morrow, Sr.", written in a cursive style.

R.D. Morrow, Sr.
President



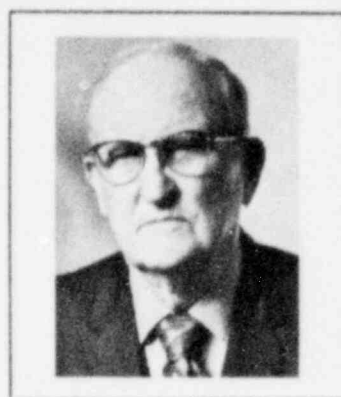
BOARD
OF
DIRECTORS



R. D. MORROW, SR. - President
*Southern Pine
Electric Power Association*



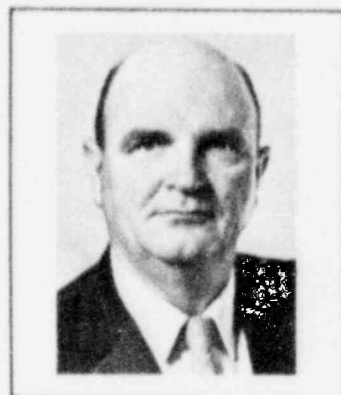
C. C. CLARK - Vice President
*Magnolia Electric
Power Association*



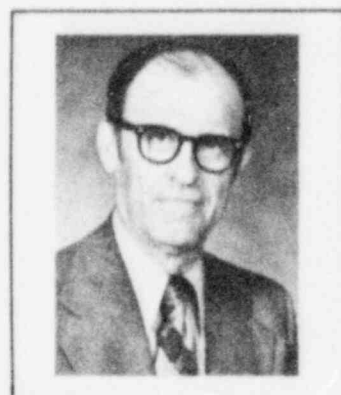
D. R. WARE - Secretary Treasurer
*Singing River
Electric Power Association*



L. G. PIERCE - Assistant Secretary
*Dixie Electric
Power Association*



W. W. BOND
*Pearl River Valley
Electric Power Association*



J. T. DUDLEY, SR.
*Singing River
Electric Power Association*



BLAINE H. EATON
*Southern Pine
Electric Power Association*



ROBERT L. GRAHAM
*Dixie Electric
Power Association*



H. M. LITTLE
*Southwest Mississippi
Electric Power Association*



E. C. PARKER
*Magnolia Electric
Power Association*



JAMES A. RESTER *
*Coast Electric
Power Association*



W. T. SHOWS
*Pearl River Valley
Electric Power Association*



ROBERT ST. JOHN
*Southwest Mississippi
Electric Power Association*



HENRY L. THOMAS *
Coast Electric Power Association

* Elected to
Board in January, 1979



POOR ORIGINAL

REPORT OF THE GENERAL MANAGER



The uncertainty that surrounds the electric utility industry throughout the United States was certainly no stranger to this Association during 1978. The uncertainties of load growth, regulatory processes, environmental protection and public sentiment were very much with us throughout the year. In spite of the uncertainties that plagued us, however, 1978 was an eventful year and will be remembered for the challenge and opportunity it afforded those of us who have responsibility of power supply.

The board of directors accepted Coast Electric Power Association's application for membership during 1978 and thereby increased the membership from six to seven. Coast executed a long-term wholesale power contract with the Association, and an amendment to the Power Cost Equalization Agreement was executed by all seven members, making Coast a party to that agreement and putting all seven members on an equal footing for power costs.

The by-laws of the Association were amended to allow for:

- (1) Each member cooperative to have two representatives on the board of directors, and
- (2) The managers of the member cooperatives to serve on the board of directors if selected by their cooperative for that service.

The board of directors therefore increased from six members to twelve members in December, including the managers of five of the six member cooperatives. (Coast E.P.A. became active in January 1979, making fourteen members of the board, including six managers.)

With the expansion of the board of directors, existing committees were expanded and new committees were appointed. Committees of the board now include:

- (1) Operations Review Committee
- (2) Budget and Finance Committee
- (3) Wage and Salary Committee
- (4) Fuel Committee
- (5) Bylaws Committee
- (6) Bid Committee
- (7) Power Supply Committee

I. LOAD GROWTH

Load growth during 1978, as reflected by KWH sales to SMEPA's members, was down from 1977. It appears that the general appeal for conservation and the increased cost of electric service have begun to have some effect on load growth. Percentage load growth as a function of kilowatt hour sales for the last several years is indicated in the following table:

1972 -	18.80%
1973 -	9.52%
1974 -	4.70%
1975 -	9.55%
1976 -	7.85%
1977 -	9.24%
1978 -	6.59%



II. COST OF POWER

As the load growth slowed during the year, costs continued to increase. The total electric revenue per KWH sold by the Association to its members is reflected in the following table:

YEAR	Revenue in Mills per KWH	% Increase Over Previous Year
1970	7.22	
1971	7.64	5.8
1972	9.05	18.5
1973	11.61	28.3
1974	16.83	45.0
1975	20.47	21.6
1976	23.97	17.1
1977	27.29	13.9
1978	31.49	15.4

A complete breakdown of costs is given on page 13 of this report.

The 31.49 mills/KWH in 1978 reflects the addition of the new generating capacity to the system for only a part of the year (from April 16 for Unit #1 and from December 1 for Unit #2). Comparable cost figures for 1979 will reflect that addition for the entire year and will be considerably higher for that reason.

CONSTRUCTION

A. Plant Morrow

The dedication of the R.D. Morrow, Sr. Generating Plant, held on October 27, was a highlight for the year. Perfect weather and a good crowd of people provided the setting for a special tribute to Mr. Morrow and his family on that day.

The first unit at Plant Morrow went into commercial operation April 16, 1978, and the second unit on December 1, 1978. A multitude of problems, ranging from boiler tube leaks to a mill fire to a near building collapse, greatly decreased the plant's reliability during the year. It is believed, however, that most of the problems have been solved now and that the plant will be available for years of reliable service.

B. Coal Preparation Plant (in Kentucky)

The coal preparation plant, originally scheduled to be completed in 1978, is now expected to be in operation by the fall of 1979. Original plans anticipated four environmental permits. New laws, rules and regulations, however, have required 23 different permits thus far, and no one can be certain that some agency of government won't require still more.

When the facility is complete, coal will be of better quality as it comes to SMEPA. It will weigh less, have less sulfur and more heat (per pound) and will burn cleaner in the boilers.

C. Other Construction

Other projects completed or under construction during 1978 included:

1. 161 KV line, Magee-Homewood
2. Homewood 161/69 KV substation
3. 161 KV line, Plant Morrow to Plant Moselle
4. Magee interconnection with MP&L Company

IV. FUEL AND POWER PURCHASES

Activities in fuel and power sales and purchases probably have a greater impact upon the well being of the Association than any other group of activities. During 1978, activities in this area included:

- A. Completion of the unit train loading facility in Kentucky. This gives Sandy Fork Mining Company the capability of loading a 70-car train in less than four hours and reduces the freight rate to Plant Morrow by approximately \$5.00 per ton.
- B. A shift in mining on SMEPA land from 100 percent surface mining to 98 per cent underground mining, with 81 per cent of the coal mined there during 1978 being from underground mines. The shift, of course, was caused by rules promulgated under the Surface Mining Act of 1977.
- C. An amendment to the Coal Supply Agreement with Sandy Fork Mining Company. The original agreement with Sandy Fork was written prior to Sandy Fork's going into commercial operation, and the escalation factors proved to be laden with ambiguities and were very difficult to use. The revised agreement is based primarily upon published indices of prices and will be much easier to use, while protecting both Sandy Fork and SMEPA.
- D. An extension of the gas contract with Florida Gas Company through 1983, subject to cancellation upon the giving of notice.
- E. An amendment to the interconnection contract with Mississippi Power Company, providing for a change in the use of protective capacity by the Association.
- F. A shift from purchasing firm power from Mississippi Power Company to selling firm power to that company.
- G. An option to Big Rivers Electric Corporation of Henderson, Kentucky for the sale of surplus capacity.
- H. The continuation of negotiations with Mississippi Power & Light Company for the purchase of a portion of the Grand Gulf Nuclear Plant and related services, including the transmission of power through its system for SMEPA.
- I. The short-term lease of 55 coal cars to Mississippi Power Company.



V. FINANCES

Financing played a major role in the life of the Association during 1978. The items and actions listed below summarize the financial activities for the year:

- A. Advances received from the Federal Financing Bank during the year totaled \$12,561,000, at an average interest rate of 8.566%.
- B. FFB notes maturing and "rolled over" totaled \$72,543,000. The average interest rate on these notes increased from 6.673% before "roll over" to 8.460% afterward.
- C. Total FFB advances through 1978 amount to \$145,938,000 at an average interest rate of 7.721% as of December 31, 1978.
- D. The Association participated in the sale of Pollution Control Bonds by Lamar County in the amount of \$3,825,000 at an average effective rate of interest of 6.460%. This brings the total of such bonds to \$43,825,000 at an average effective rate of interest of 6.298%.
- E. Arrangements were completed during 1978 to transfer the general funds of the Association to the Deposit Guaranty National Bank in Hattiesburg and to provide for the automatic investment of surplus general funds on a daily basis.
- F. The Association continues to maintain an open line of credit with CFC in the amount of \$12,000,000.
- G. CFC was designated as the paying agent for the Association in the matter of making payments both to CFC and to REA. This helps insure prompt payment on those accounts.
- H. The Board of Directors authorized a new policy for the repayment of capital credits on a current basis. The new policy, still awaiting approval by REA is tied to the maintenance of revenues at levels sufficient to cover expenses and provide an adequate debt service coverage.

VI. PLANNING

Southern Engineering Company continued power supply studies for the Association through 1978. The studies center primarily around the purchase of a portion of Grand Gulf Nuclear Plant, but also include the possibility of other electric power associations joining SMEPA for power supply.

The Association has retained Dames & Moore, another engineering firm, for the purpose of making a plant site study and fuel and transportation study for the next increment of generation, now planned for the late 1980's. These studies are now in progress.

VII. MISCELLANEOUS

Two new delivery points were approved during the year:

Oak Grove — Pearl River Valley E.P.A.
Wade — Singing River E.P.A.

In addition, changes were authorized at two additional delivery points:

North Petal — Dixie E.P.A.
Brookhaven — Southwest Mississippi E.P.A.

Sixteen (16) contracts were completed and closed out.

Contracts for 328 miles of right-of-way clearing were completed.

Ground-line inspection and treatment was completed for 151 miles of line.

The Association employed NUS Corporation to make a heat rate study of Plant Moselle. The study was completed and a report was issued which included the statement that "It is to be concluded, therefore, that a significant increase in the efficiency of operation of the Moselle Generating Station is not possible. The power plant is being operated at, or near, the highest levels of efficiency possible."

The position of Job Training and Safety Director was established, and enlarged training, testing and safety programs were undertaken.

Average oil prices increased from \$1.78 per million BTU in 1977 to \$1.85 in 1978; average gas prices increased from \$1.76 to \$1.86 but, because of the injection of coal into the fuel supply, the average total cost of fuel decreased from \$1.77 to \$1.76 per million BTU.

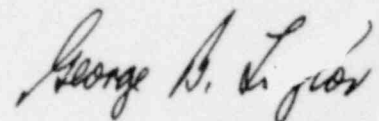
An election for representation of certain employees by the IBEW was held on August 17, 1978 and was won by the union by a vote of 61 to 42. Certification by NLRB is presently under review and, as a result, recognition has not been extended to the union.

Employee life and medical insurance coverages were increased and improved, in cooperation with NRECA, at no additional cost to the employees.

Wage and salary increases of 3.55% in May and 5.0% in November were given, in accordance with the policies of the Association, to reflect the increase in the cost of living.

The number of employees of the Association increased from 172 to 186 during the year.

In conclusion, I would like to personally thank the Board of Directors for its outstanding leadership and direction and each employee for his (or her) faithfulness and dedication to the job which we face together. Although uncertainty still surrounds us, we have confidence that in working together, we can provide our members with an adequate source of power at the lowest possible cost.



George B. Taylor
General Manager



BALANCE SHEET

DECEMBER 31st

Assets (Note 1)

	1977	1978
UTILITY PLANT (Note 2)		
Electric Plant in Service — at cost	\$ 71,959,317	\$ 253,027,210
Construction Work in Progress	163,664,898	14,852,799
	<u>\$235,624,215</u>	<u>\$267,880,009</u>
Less: Accumulated Provision for Depreciation	10,219,917	13,865,264
Net Utility Plant	<u>\$225,404,298</u>	<u>\$254,014,745</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations (Note 9)	\$ 3,249,343	\$ 3,892,931
Other Investments, Including Temporary Investments	301,460	300,333
Special Deposits	32,580	425,532
	<u>\$ 3,583,383</u>	<u>\$ 4,618,796</u>
CURRENT ASSETS		
Cash — General Funds	\$ 65,128	\$ 71,870
Cash — REA/FFB Loan Funds	40,797	144,188
Deposits — Pollution Control		
Bond Proceeds (Note 3)	20,436,185	3,940,348
Accounts Receivable — Member Consumers	4,529,414	5,612,897
Accounts Receivable — Others	119,830	332,021
Fuel Stock, Materials and Supplies	3,509,158	4,752,039
Other Current and Accrued Assets	464,192	559,354
	<u>\$ 29,164,704</u>	<u>\$ 15,418,717</u>
DEFERRED CHARGES (Note 6)	\$ 1,071,537	\$ 3,511,116
TOTAL ASSETS	<u>\$259,223,922</u>	<u>\$277,563,374</u>
EQUITIES AND MARGINS		
Memberships	\$ 30	\$ 30
Patronage Capital (Note 4)	1,149,533	2,439,937
Other Equities (Note 5)	535,436	535,436
	<u>\$ 1,684,999</u>	<u>\$ 2,975,403</u>
LONG-TERM DEBT (Note 6)		
REA Mortgage Notes	\$ 64,880,476	\$ 64,774,401
Other Long-Term Debt	175,237,512	193,567,699
	<u>\$240,117,988</u>	<u>\$258,342,100</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable — CFC Line of Credit (Note 7)	\$ 2,400,000	\$ 2,865,000
Accounts Payable — General	5,118,036	5,160,714
Accounts Payable — Retainage	8,902,846	7,240,468
Accrued Taxes	43,391	70,095
Accrued Interest	814,433	682,495
Other Current and Accrued Liabilities	81,752	103,428
	<u>\$ 17,360,458</u>	<u>\$ 16,122,200</u>
DEFERRED CREDITS (Note 8)	\$ 60,477	\$ 123,671
TOTAL LIABILITIES AND OTHER CREDITS	<u>\$259,223,922</u>	<u>\$277,563,374</u>

Liabilities and Other Credits (Note 9)

The accompanying notes are an integral part of this statement.



REVENUE AND PATRONAGE CAPITAL

FOR THE YEAR ENDED DECEMBER 31

	1977	1978
OPERATING REVENUE AND PATRONAGE CAPITAL		
Electric Energy Revenues	\$ 57,127,699	\$ 70,655,998
Income from Leased Property — Net	272,888	289,147
	<u>\$ 57,400,587</u>	<u>\$ 70,945,145</u>
OPERATING DEDUCTIONS		
Operation Expense		
Production — Steam	\$ 16,551,716	\$ 26,534,084
Other Power Generation	677,356	828,474
Cost of Purchased Power	34,158,430	27,721,339
Transmission	382,677	487,997
Consumer Accounts	12,342	10,679
Administrative and General	818,011	1,180,852
Operation Expense Total	<u>\$ 52,600,532</u>	<u>\$ 56,763,425</u>
Maintenance Expense		
Production	\$ 494,113	\$ 604,850
Transmission	488,335	637,655
General Plant	37,110	43,700
Maintenance Expense Total	<u>\$ 1,019,558</u>	<u>\$ 1,286,205</u>
Depreciation Expense	\$ 1,648,309	\$ 4,224,653
Tax Expense	\$ 96,883	\$ 161,134
Total Operating Deductions	<u>\$ 55,365,282</u>	<u>\$ 62,435,509</u>
Interest Expense	10,891,567	14,331,944
Interest Charged to Construction — Credit	(8,996,367)	(6,974,404)
	<u>\$ 57,260,482</u>	<u>\$ 69,793,049</u>
NET OPERATING MARGINS (Notes 6 and 8)	<u>\$ 140,105</u>	<u>\$ 1,152,096</u>
NON-OPERATING MARGINS	<u>82,130</u>	<u>138,308</u>
NET PATRONAGE CAPITAL OR MARGINS (Note 4)	<u>\$ 222,235</u>	<u>\$ 1,290,404</u>
	(Note 10)	

POOR ORIGINAL



The accompanying notes are an integral part of this statement.

CHANGE IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31

	1977	1978
FUNDS WERE PROVIDED BY		
Net Margins	\$ 222,235	\$ 1,290,405
Add: Expenses not Requiring an Outlay of Working Capital in Current Period:		
Depreciation, Depietion and Amortization	1,772,574	4,444,248
Charge For Addition to Insurance Loss Deductible Reserve	17,500	60,000
Increase in Long Term Debt — REA Advances	2,592,000	1,377,000
Increase in Long Term Debt — REA — Other	396,431	0-
Increase in Long Term Debt — Other Advances — FFB	21,984,000	12,561,000
Gross Proceeds from Pollution Control Revenue Bond Issue	40,000,000	3,825,000
Salvage Credits Less Retirement Costs (Excess Costs)	459,092	(25,413)
Decrease in Working Capital	0-	12,507,728
Decrease in Other Investments	968,340	1,127
Decrease in Deferred Credits	0-	3,194
Decrease in Special Deposits	51,756	0-
	<u>\$ 68,463,928</u>	<u>\$ 36,044,289</u>
FUNDS WERE USED FOR		
Extension and Replacement of Plant Transmission Facilities Acquired from Distribution Cooperative (Note 6)	\$ 45,257,284	\$ 33,023,611
Payments on Long Term Debt — REA	407,647	0-
Payments on Long Term Debt — REA — Other	1,285,449	1,470,515
Payments on Long Term Debt — Other	12,028	12,561
Increase in Investments — Associated Organizations	256,856	255,475
Increase in Special Deposits	2,355,019	643,588
Increase in Deferred Charges	0-	392,952
Increase in Working Capital	859,911	245,587
	<u>18,029,734</u>	<u>0-</u>
	<u>\$ 68,463,928</u>	<u>\$ 36,044,289</u>
NET CHANGES IN WORKING CAPITAL		
Increase (Decrease) in Current Assets		
Cash — General Funds and Loan Funds	\$ (411,303)	\$ 110,133
Unadvanced Funds - Pollution Control Revenue Bond Proceeds	20,436,185	(16,489,837)
Accounts Receivable — Consumers	496,144	1,083,483
Accounts Receivable — Other	(10,157)	212,191
Material, Supplies and Fuel Oil	(512,764)	1,242,881
Prepayments and Other Current Assets	(118,109)	95,162
	<u>\$ 19,879,996</u>	<u>\$ (13,745,987)</u>
Increase (Decrease) in Current Liabilities		
Notes Payable — CFC	\$ 2,400,000	\$ 465,000
Accounts Payable — General and Retainage	(1,030,737)	(1,619,700)
Accrued Taxes	14,483	26,704
Accrued Interest	435,429	(131,938)
Other Current and Accrued Liabilities	31,087	21,676
	<u>\$ 1,850,262</u>	<u>\$ (1,238,258)</u>
	<u>\$ 18,029,734</u>	<u>\$ (12,507,729)</u>

The accompanying notes are an integral part
of this statement.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1978

POOR ORIGINAL

(1) ASSETS PLEDGED

All assets are pledged as security for long term debt.

(2) ELECTRIC PLANT, DEPRECIATION AND DEPLETION PROCEDURES

Following are the major classes of utility plant, as of December 31, 1977 and 1978

	1977	1978
Franchises and Consents (a)	\$ 459,285	\$ 459,285
Electric Plant Purchased — Transmission	407,648	407,648
Electric Plant Leased to Others	1,907,598	1,981,922
Land and Land Rights	5,964,172	6,295,608
Generation Plants	26,275,651	29,471,616
Transmission System	30,119,972	33,985,486
General Plant	1,846,920	3,324,061
	<u>\$ 66,981,246</u>	<u>\$ 75,925,626</u>
Completed Construction — Not Classified	0	172,123,513
Kentucky Coal Property — Land and Minerals	4,799,071	4,799,071
Kentucky Coal Property — Depreciable Plant and Equipment	179,000	179,000
	<u>4,978,071</u>	<u>177,101,584</u>
Electric Plant In Service	<u>\$ 71,959,317</u>	<u>\$253,027,210</u>
Construction Work In Progress	163,664,898	14,852,799
	<u>\$235,624,215</u>	<u>\$267,880,009</u>

(a) Consists primarily, of pre-operating expense allocated to this account in 1972.

Depreciation is computed monthly on straight line composite rates for GT Plant accounts as follows:

	Annual Rate
Transmission Lines	2.75%
Transmission Stations	2.75%
Moselle and Morrow Steam Plants	3.10%
Gas Turbines and Other Production Equipment	3.00%

No depreciation has been taken in the current or prior years on Land and Land Rights.

General Plant assets are also depreciated monthly, on yearly straight line composite rates as follows:

Structures and Improvements	4.00%
Office Furniture, Fixtures and Equipment	6.25% - 8.00%
Transportation Equipment	10.00% - 25.00%
Lab Equipment, Tools, Shop and Work Equipment	8.00%
Communications Equipment Stores Equipment	6.00%
General Plant Equipment	10.00%
Power Operated Equipment	12.00%



Depletion of cost of Kentucky coal reserves is computed on a "tonnage sold" basis calculated to fully amortize such cost when estimated deposits have been recovered. This property is presently leased to an independent coal producing company for a royalty based on selling price per ton.

(3) DEPOSITS -- POLLUTION CONTROL BOND PROCEEDS

This account includes the unadvanced portion of proceeds and accrued interest from Pollution Control Revenue Bond issues sold by National Rural Utilities Cooperative Finance Corporation (CFC) in 1977 and 1978. (See Footnote 6 for details regarding these bond issues). These funds are on deposit in various trust accounts of Morgan Guaranty Trust Company of New York and Deposit Guaranty National Bank (Mississippi), invested in short term CD's bearing interest at rates ranging between 8.75% to 9.9% at December 31, 1978. Advances are requisitioned from these funds as required.

(4) DETAIL OF NET PATRONAGE CAPITAL OR MARGINS

	1977	1978
Net Patronage Capital -- Beginning of Year	\$ 927,298	\$ 1,149,533
Net Margin	<u>222,235</u>	<u>1,290,404</u>
Net Patronage Capital -- End of Year	<u>\$ 1,149,533</u>	<u>\$ 2,439,937</u>

By-laws of the Association provide for allocation of all margins to patrons. All margins earned subsequent to beginning of operation of plant have been assigned to patrons except the margin for the year 1978.

(5) OTHER EQUITIES

The balance in this account at the dates indicated represents contributions made by present and former patrons during pre-operating years and is carried in the general ledger as Donated Capital.

(6) LONG-TERM DEBT

Rural Electrification Administration (REA)

Unadvanced funds on notes executed to REA not reflected in long term debt totalled \$2,352,000 at December 31, 1978.

Rural Electrification Administration -- Other

During 1977, South Mississippi Electric Power Association (SMEPA) agreed to purchase, subject to REA approval, certain transmission facilities previously leased from Singing River Electric Power Association (SREPA), Mississippi -- 39 -- Jackson, carried by SREPA in its accounts at a net book value of \$407,647 on which property \$396,430 was owed to REA by SREPA at the date of agreement to purchase. Entries have been made in the accounts of SMEPA setting up these assets at SREPA's net book value and an assumption of notes with balances outstanding at December 31, 1978 of \$371,842.

Federal Financing Bank (FFB)

Not reflected in long term debt is unadvanced portion (\$ 63,975,000) of notes totalling \$ 209,913,000 at December 31, 1978, executed since 1974 to FFB. The proceeds were or are being used for completion of R.D. Morrow, Sr. generating plant at Purvis, Mississippi and payment of retainage associated therewith, purchase of railroad cars used to transport coal from its Kentucky properties to its Purvis plant and to finance the cost of coal preparation facilities presently under construction on its land in Kentucky.

CFC Pollution Control Bond Issue

This account represents principal balance due on bond issues of CFC Guaranteed Pollution Control Revenue Bonds, Series 1977, 1978-A and 1978-A-1 issued by Lamar County, Mississippi. Details of Series 1977 issue of \$40,000,000 were set forth in our previous (1977) audit report.

During 1978 additional bonds totaling \$3,825,000 were sold as coupon bonds bearing interest at rates of from 4.30% to 6.25% (if interest is not timely paid, rate will be one percentage point higher than that stated on such overdue payments) to assist SMEPA in financing additional pollution control facilities which qualified for this lesser cost medium of financing. SMEPA is required to pay all principal and interest installments on these bonds as they become due, and CFC has unconditionally guaranteed these payments as due, both as to principal and interest. SMEPA's obligation to make such payments is evidenced by a Pollution Control Note issued to CFC and secured by a Supplemental Mortgage and Security agreement, among such cooperative, CFC and the United States of America acting through the Administrator of REA. This mortgage will also secure other debt of SMEPA to REA, and, in certain cases, to CFC. Interest is due semi-annually on each of the bond issues. Interest and principal will be tendered to CFC for transmittal to the trustees for the bondholders, Morgan Guaranty Trust Company and Deposit Guaranty National Bank.

Serial bonds of the \$2,825,000 issue (1978A Series) mature semi-annually beginning March 1, 1980 through September 1, 1998. Term bonds of the 1978A Series and the 1978A-1 Series (\$1,000,000) mature March 1, 2008. Mandatory semi-annual sinking fund payments required in connection with these additional issues begin in 1999 for the \$2,825,000 issue and in 1980 for the \$1,000,000 issue. None of the bonds of either series represent a general obligation of the issuer, Lamar County, Mississippi, nor of the State of Mississippi, nor are they a charge against the credit or taxing power of such county or state.

Under the terms of the above referred to additional financing package, SMEPA was required to purchase CFC unsecured subordinated capital term certificates (CTC's) equal to 5% of the \$3,825,000 bond issues handled through CFC, in addition to its obligation referred to in Note (9). The underwriters spread was deducted from gross proceeds of these additional issues and set up, along with other costs incurred to December 31, 1978 by SMEPA as deferred charges to be amortized over the life of the obligation.

Counsel for the cooperative advises that all financing documents relative to all bond issues including (in addition to those named above) certain guaranty, assignment and agency agreements between CFC and the trustees have been properly executed.

Kentucky Coal Property (1974 Purchase)

Other long term debt also includes 7% notes totalling \$1,071,826 payable in connection with Kentucky coal properties purchased in 1974. These notes are payable over a ten (10) year period from 1974 and are secured by mortgages on real property purchased.

Other

Also reflected as long-term debt at December 31, 1978 are advances from member cooperatives (under provisions of power equalization or supply agreements) for construction of transmission facilities leased to publicly owned utilities (\$392,951), an amount SMEPA agreed to pay Breeder Reactor Corporation (BREEDER) for its pro-rata portion of estimated cost of research to develop additional or substitute fuels to produce electric energy (\$140,261) and a contractual agreement (an amendment to Coal Supply Agreement between SMEPA and its coal producer) to pay a fee for loading its (SMEPA's) coal for shipment to SMEPA, of \$26,502 per month for seven (7) years (total \$2,226,168, the contra entry of which is in Deferred Debits).

Regarding BREEDER referred to above, in 1977 BREEDER suspended requirements that yearly payments of participants in this program be made when the United States of America halted its financial participation in this program. Charges against income of \$23,377 in each of the years 1977 and 1978 (and concurrent credits to Deferred Charges, the account in which the contra entry of the obligation was set up) were recorded although no payments were made in either year to BREEDER. Future payments to BREEDER will be dependent upon the government's essential involvement in the program. If and when the project goes forward (the GAO recently issued a report supporting continuation of the Clinch River Project) the currently deferred installments will be called for as well as other installments as they become due.

(7) NOTES PAYABLE - CFC LINE OF CREDIT

SMEPA had an established short term line of credit of \$12,000,000 with CFC against which had been withdrawn \$2,865,000 at December 31, 1978. This line of credit matures with interest to maturity at not in excess of prime plus 1%, August 9, 1979.

(8) DEFERRED CREDITS

The balance in this account represents royalties on deposit (\$42,977) in an escrow bank account received from sale of coal on certain land, title to which is in dispute (the bank account balance is included in deferred charges) and an insurance reserve totalling \$77,500 at December 31, 1978. This insurance reserve is being increased at the rate of \$60,000 per year until such reserve reaches approximately \$300,000. It was established to primarily compensate for the large insurance loss deductibles on generating plant coverages. This reserve was established in accordance with generally acceptable industry accounting practices. Charges to income (and credits to the reserve) of \$17,500 and \$60,000 were made in 1977 and 1978, respectively.

(9) CONTINGENT LIABILITIES

The association entered into a binding agreement to subscribe to CFC unsecured subordinated CTC's commencing in 1973 through 1983. Purchases are made annually in amounts approximating 0.9% of operating revenues. The balance of the subscription obligation at December 31, 1978 is estimated at \$5,400,000.

After reviewing correspondence regarding all asserted claims and pending litigation in which the Cooperative is a defendant, and discussing all such claims and litigation with General Counsel and management of the Association, we are of the opinion at this time that the prospect of an unfavorable outcome is remote.

(10) RESTATEMENT OF 1977 FINANCIAL STATEMENTS

The 1977 Statement of Revenue and Patronage Capital has been restated for comparative purposes with 1978. As originally shown in our 1977 audit report, electric energy revenues sold to Mississippi Power Company (MPCo) totalled \$271,316 and have been offset in this restated 1977 statement against purchased power from MPCo. Electric energy revenues totalling \$3,306,379 in 1978 were offset in the 1978 statements in a like manner.

OTHER NOTES

Income Tax Status - More than 85% of the Association's income is collected from its members. Exemption from federal income tax has been obtained and Internal Revenue Forms 990 have been timely filed.

POOR ORIGINAL

HORACE A. BRADLEY BRADLEY HURT BUILDING 208 S. MANILLA STREET
 OFFICE 847-5478 TELEPHONE# RESIDENCE 847-5484
 LUCEDALE, MISSISSIPPI 39452
 CERTIFIED PUBLIC ACCOUNTANT

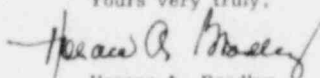
Board of Directors
 South Mississippi Electric Power Association
 Highway 49-North
 Hattiesburg, Mississippi 39401

Gentlemen:

We have examined the balance sheet of South Mississippi Electric Power Association as of December 31, 1978, and the related statements of revenue and patronage capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of South Mississippi Electric Power Association on December 31, 1978, and the results of its operations and changes in financial position for the calendar year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours very truly,



Horace A. Bradley
 Certified Public Accountant

Prepared: May 15, 1979
 Lucedale, Mississippi
 HAB/rmb

POOR ORIGINAL

ELEMENTS OF COST

I. SMEPA's Own Generation and Transmission System

	1973	1974	1975	1976	1977	1978
Cost of Fuel Burned in SMEPA's Plants - ¢ / MMBTU	67.66	118.99	131.15	160.32	177.03	175.30
Production Costs and Purchased Power/Interchanged Power - mills/KWH	9.66	15.51	16.60	20.29	22.42	22.15
Transmission O & M - mills / KWH	.37	.47	.48	.49	.74	.89
A & G Expenses - mills / KWH	.48	.54	.59	.61	.75	1.00
Depreciation & Amort -mills/KWH	1.39	1.38	1.37	1.40	1.41	3.40
Interest-mills/KWH	1.14	1.03	1.12	1.25	1.08	5.57
Taxes and Other-mills/KWH	.04	.09	.11	.09	.35	.27
	<u>13.08</u>	<u>19.02</u>	<u>20.27</u>	<u>24.13</u>	<u>26.75</u>	<u>33.28</u>

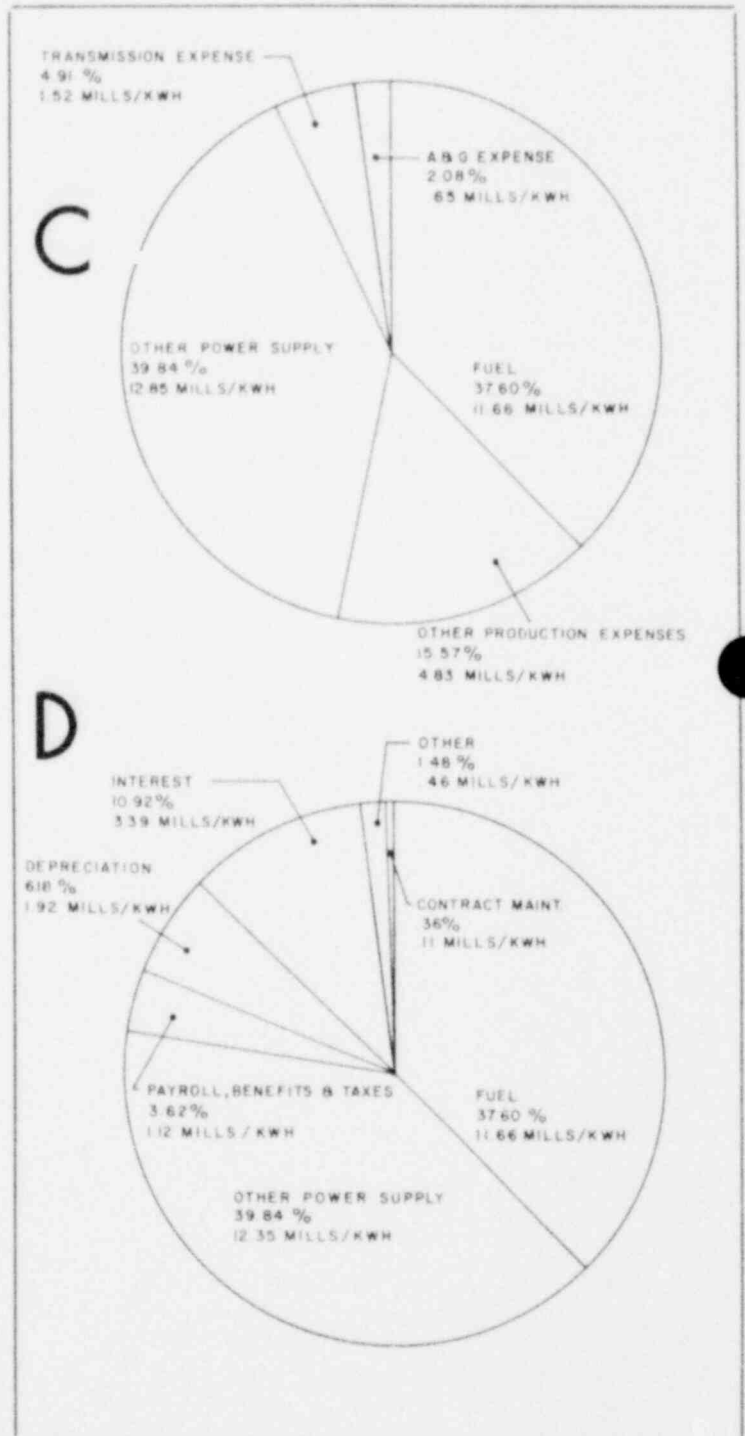
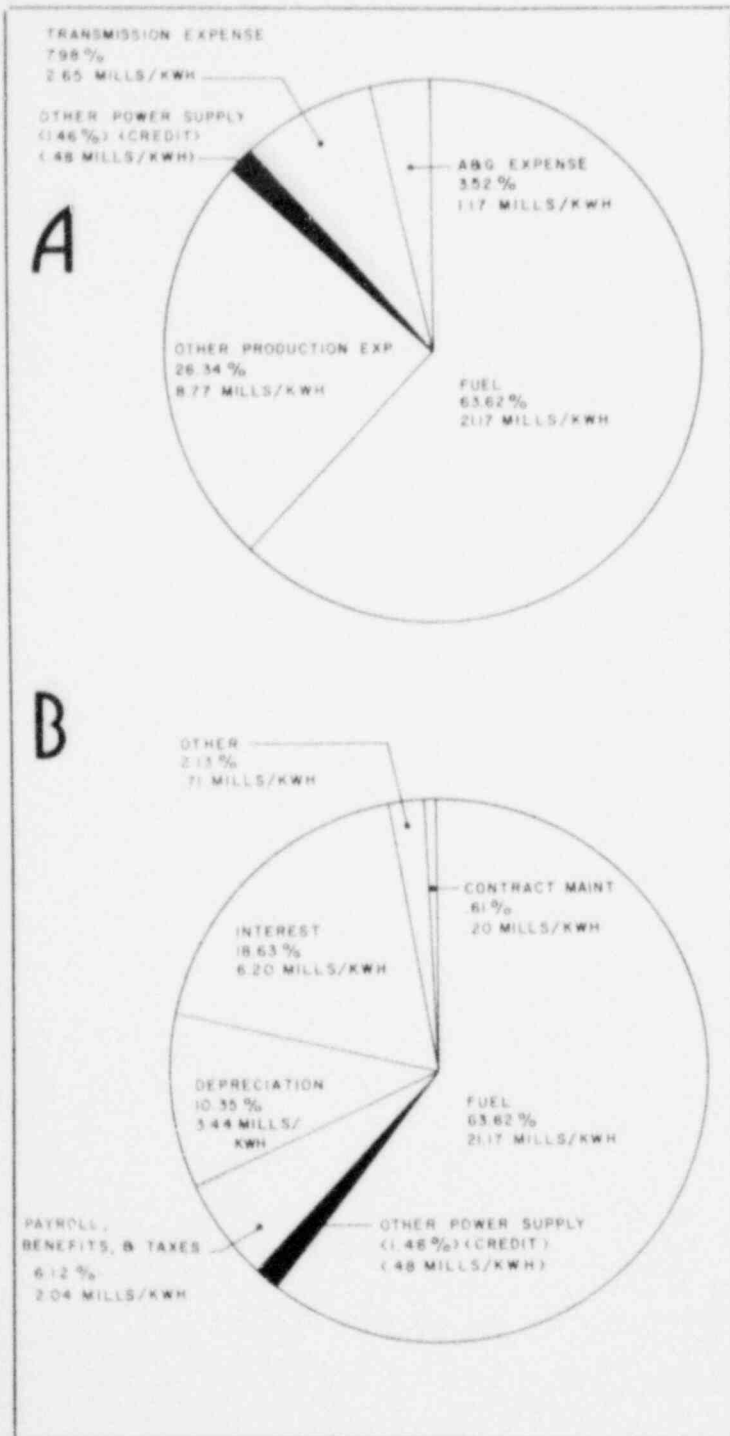
II. Borderline System

	1973	1974	1975	1976	1977	1978
Purchased Power/Interchanged Power -mills/KWH	10.00	13.82	20.55	23.39	27.39	28.09
Transmission O & M-mills/KWH	-	.01	.01	.01	.02	.03
Depreciation & Amort -mills/KWH	.03	.03	.04	.04	.05	.05
Interest-mills/KWH	.04	.04	.03	.03	.06	.06
TOTAL-mills/KWH	<u>10.07</u>	<u>13.90</u>	<u>20.63</u>	<u>23.47</u>	<u>27.52</u>	<u>28.23</u>



These two pie charts show the actual 1978 expenses of the generation and transmission system operated by SMEPA (without the "Borderline" Transactions). Chart A shows these expenses broken down by major accounting categories. Chart B shows the same expenses broken down differently in order to clearly show the types of expenses

These two pie charts show the actual 1978 expenses of the generation and transmission system operated by SMEPA (including the "Borderline" Transactions). Chart C shows these expenses broken down by major accounting categories. Chart D shows the same expenses broken down differently in order to clearly show the types of expenses.



POOR ORIGINAL

COMPARATIVE SUMMARY

ENERGY SOURCES - MWH	1973	1974	1975	1976	1977	1978
Generated:						
Steam	681,716	660,216	514,545	479,771	779,572	1,228,110
Other Generation	146,401	23,954	6,501	5,846	20,117	23,930
	<u>828,117</u>	<u>684,170</u>	<u>521,046</u>	<u>485,617</u>	<u>799,689</u>	<u>1,252,040</u>
Purchased:						
Firm, Protective & Unintentional	50,772	242,253	508,090	619,932	395,125	74,270A
Borderline	713,063	739,114	793,124	860,756	960,978	43,927A
	<u>763,835</u>	<u>981,367</u>	<u>1,301,214</u>	<u>1,480,688</u>	<u>1,356,103</u>	<u>118,197</u>
Interchanged Power						<u>924,939A</u>
Total	<u>1,591,952</u>	<u>1,665,537</u>	<u>1,822,260</u>	<u>1,966,305</u>	<u>2,155,792</u>	<u>2,295,176</u>
SALES - MWH						
Southwest Mississippi EPA	151,824	153,355	165,478	185,646	241,433	254,388
Dixie EPA	210,719	215,398	236,925	254,539	283,556	325,892
Pearl River Valley EPA	196,217	205,497	216,602	229,617	244,581	266,292
Singing River EPA	412,214	435,192	466,085	501,061	545,442	562,480
Southern Pine EPA	433,609	467,731	536,285	578,605	611,838	642,224
Magnolia EPA	153,252	153,916	165,431	177,535	178,268	192,592
Mississippi Power Company	294	4,537	235	175	8,372	—
Total	<u>1,558,129</u>	<u>1,635,626</u>	<u>1,787,041</u>	<u>1,927,178</u>	<u>2,113,490</u>	<u>2,243,868</u>
TOTAL SYSTEM DEMAND - KW	371,841	396,094	417,139	445,817	473,251	520,432

(A) Accounting Method changed in 1978.

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION ALLOCATION AND PROPOSED ALLOCATION OF CAPITAL CREDITS 1970 - 1978

PATRON	1972	1974	1976	1977	Proposed Allocation of Capital Credits 1978	TOTALS
Dixie EPA	\$ 53,948.50	\$ 43,281.15	\$ 29,412.16	\$ 30,387.56	\$ 188,540.90	\$ 345,570.27
Magnolia EPA	37,476.83	30,748.08	20,381.28	18,916.67	110,914.08	218,436.94
Pearl River Valley EPA	48,958.03	41,016.79	26,351.18	25,977.52	152,897.37	295,200.89
Singing River EPA	97,860.13	87,366.55	57,765.74	57,800.50	328,129.04	628,921.96
Southern Pine EPA	104,936.81	93,352.78	65,736.94	64,476.45	368,406.42	696,909.40
Southwest Miss EPA	37,306.75	30,370.42	21,027.19	24,676.56	141,516.00	254,896.92
	<u>\$ 380,487.05</u>	<u>\$ 326,135.77</u>	<u>\$ 220,674.49</u>	<u>\$ 222,235.26</u>	<u>\$ 1,290,403.81(A)</u>	<u>\$ 2,439,936.38</u>

Reflects re-allocation of Capital Credits in 1978

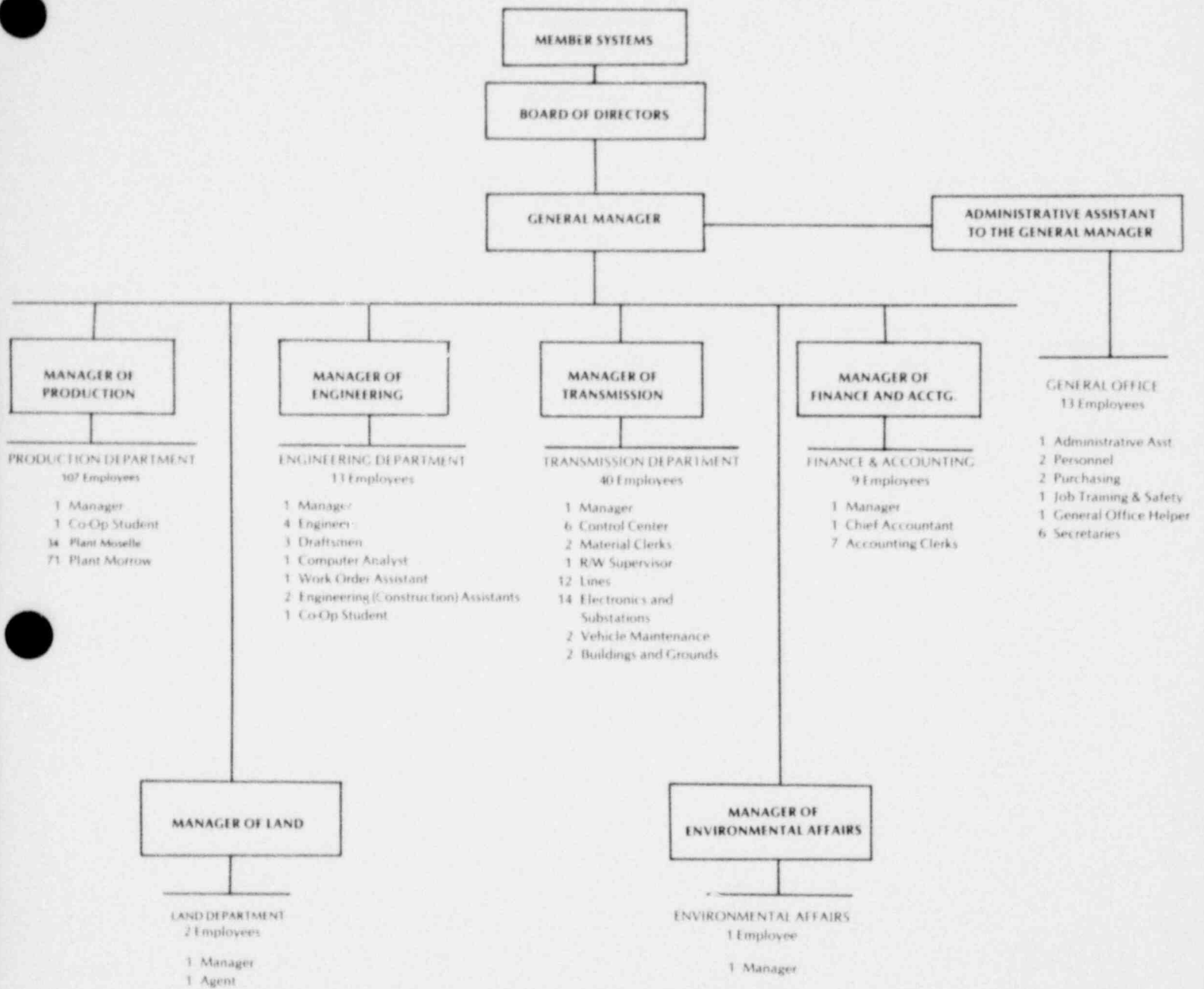
COMPARATIVE OPERATING REPORT

REVENUE	1973	1974	1975	1976	1977	1978
Sales of Energy	\$18,087,653	\$27,529,928	36,581,399	\$46,195,188	\$57,399,015	\$70,655,998
Other	35,704	334,935	140,631	172,778	272,888	289,147
Total Revenue	<u>18,123,357</u>	<u>27,864,863</u>	<u>36,722,030</u>	<u>46,367,966</u>	<u>57,671,903</u>	<u>70,945,145</u>
EXPENSE						
Operation Expense:						
Production-Fuel Cost	7,100,467	9,980,152	8,370,788	9,571,057	16,770,261	26,160,937
Other Production Expenses	304,395	351,219	411,795	452,645	458,811	1,201,621
Purchased Power	7,677,641	13,551,289	23,806,259	31,492,395	34,429,746	27,721,339
Transmission	120,618	143,932	172,436	207,643	382,677	487,997
Consumer Accounts	8,367	9,033	10,243	9,504	12,342	10,679
Administrative & General	381,226	453,375	557,429	611,472	818,011	1,175,735
Total Operation Expense	<u>15,592,714</u>	<u>24,489,000</u>	<u>33,328,950</u>	<u>42,344,716</u>	<u>52,871,848</u>	<u>56,758,308</u>
Maintenance Expense:						
Production	213,028	235,618	208,428	192,450	494,113	604,850
Transmission	211,932	297,829	335,783	342,217	488,335	637,655
General Plant	12,813	25,620	13,901	26,619	37,110	43,792
Total Maintenance Expense	<u>437,773</u>	<u>559,067</u>	<u>558,112</u>	<u>561,286</u>	<u>1,019,558</u>	<u>1,286,297</u>
Depreciation	1,179,598	1,242,904	1,371,296	1,504,568	1,648,309	4,224,653
Taxes	30,968	51,799	64,433	71,493	96,883	161,134
Interest Expense (Net)	936,948	1,222,535	1,495,090	1,676,134	1,895,200	7,362,657
Total Expense	<u>18,178,001</u>	<u>27,565,305</u>	<u>36,817,881</u>	<u>46,158,197</u>	<u>57,531,798</u>	<u>69,793,049</u>
NET OPERATING MARGINS						
(Loss)(a)	<u>(54,644)</u>	<u>299,558</u>	<u>(95,851)</u>	<u>209,769</u>	<u>140,105</u>	<u>1,152,096</u>
NON OPERATING MARGINS	<u>130,593</u>	<u>95,211</u>	<u>53,961</u>	<u>52,795</u>	<u>82,130</u>	<u>138,308</u>
NET MARGINS (Loss)	<u>\$ 75,949</u>	<u>\$ 394,769</u>	<u>\$(41,890)</u>	<u>\$ 262,564</u>	<u>\$ 222,235</u>	<u>\$ 1,290,404</u>

(a) Differs from margins reported on REA Form 12a ("Operating Report-Financial") for 1973 due to netting of credit for interest on funds used during construction against "Interest on Long-Term Debt".



ORGANIZATION



TOTAL NUMBER EMPLOYEES — 186
December 31, 1978

MORROW PLANT DEDICATION

Dedication ceremonies for the R.D. Morrow, Sr. Generating Plant were held Friday, October 27, 1978. Over 500 people attended the ceremony. This coupled with the beautiful weather made for a delightful day.

The highlight of the day's activities was the presentation of a plaque to R.D. Morrow, Sr., President of SMEPA, in recognition of his many accomplishments in the rural electrification program and more specifically South Mississippi Electric Power Association. The presentation was made by Blaine Eaton, Manager of Southern Pine Electric Power Association, Taylorsville, Mississippi.

Senator John C. Stennis was the keynote speaker and told the crowd, "We have got to make arrangements somehow, somehow, to keep from paying out \$45 billion per year for imported oil when just a few years ago, we paid only \$5 billion for that purpose." Stennis said Mississippians have reason to be optimistic as a result of strides in electric power generation such as the construction of the 2-unit coal-fired R.D. Morrow, Sr. Generating Plant.

Dave Hamil made his last public appearance as Administrator of the Rural Electrification Administration at the dedication ceremony. Mr. Hamil praised the work done to put the Morrow plant on line.

Both Stennis and Hamil praised R.D. Morrow, Sr. of Brandon, for whom the generating plant is named, as a pioneer in securing adequate electric power supplies for Mississippi.

The board of directors of SMEPA presented Mrs. Morrow with a dozen long stemmed red roses for her support of Mr. Morrow's work and her contributions to his accomplishments.

The day included a demonstration of the coal unloading facility, tours of the generating plant, refreshments and a luncheon for invited guests.

George B. Taylor, general manager, said that the day was a total success. Taylor stated, "It is gratifying to have seen 500 people assembled for the dedication of the Morrow plant. Everything was well planned and executed, and we were honored by so many distinguished guests. The Hattiesburg community has been supportive of our efforts, and the success of this dedication is another example of the support that has helped to make South Mississippi Electric Power Association the viable electric utility it is."





1



2



3

1. George Taylor, General Manager, welcomes guests.

2. Senator John C. Stennis makes Keynote Address.

3. REA Administrator Dave Hamil makes last official appearance.

4. R.D. Morrow, Sr. receives plaque from Blaine Eaton, Manager, Southern Pine EPA.

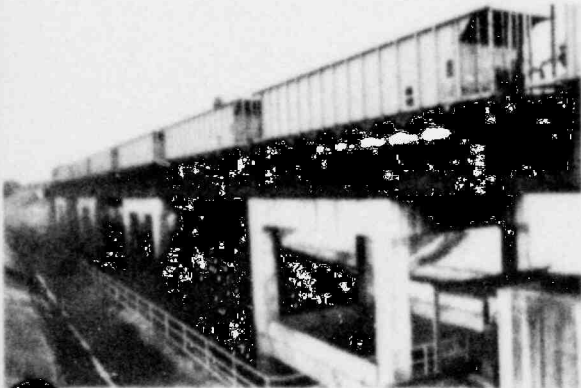
5. Coal unloading facility was demonstrated.

6. J. K. Smith, Governor of CFC, (foreground) and members of Morrow family enjoy the dedication.



4

POOR ORIGINAL



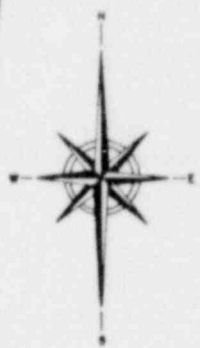
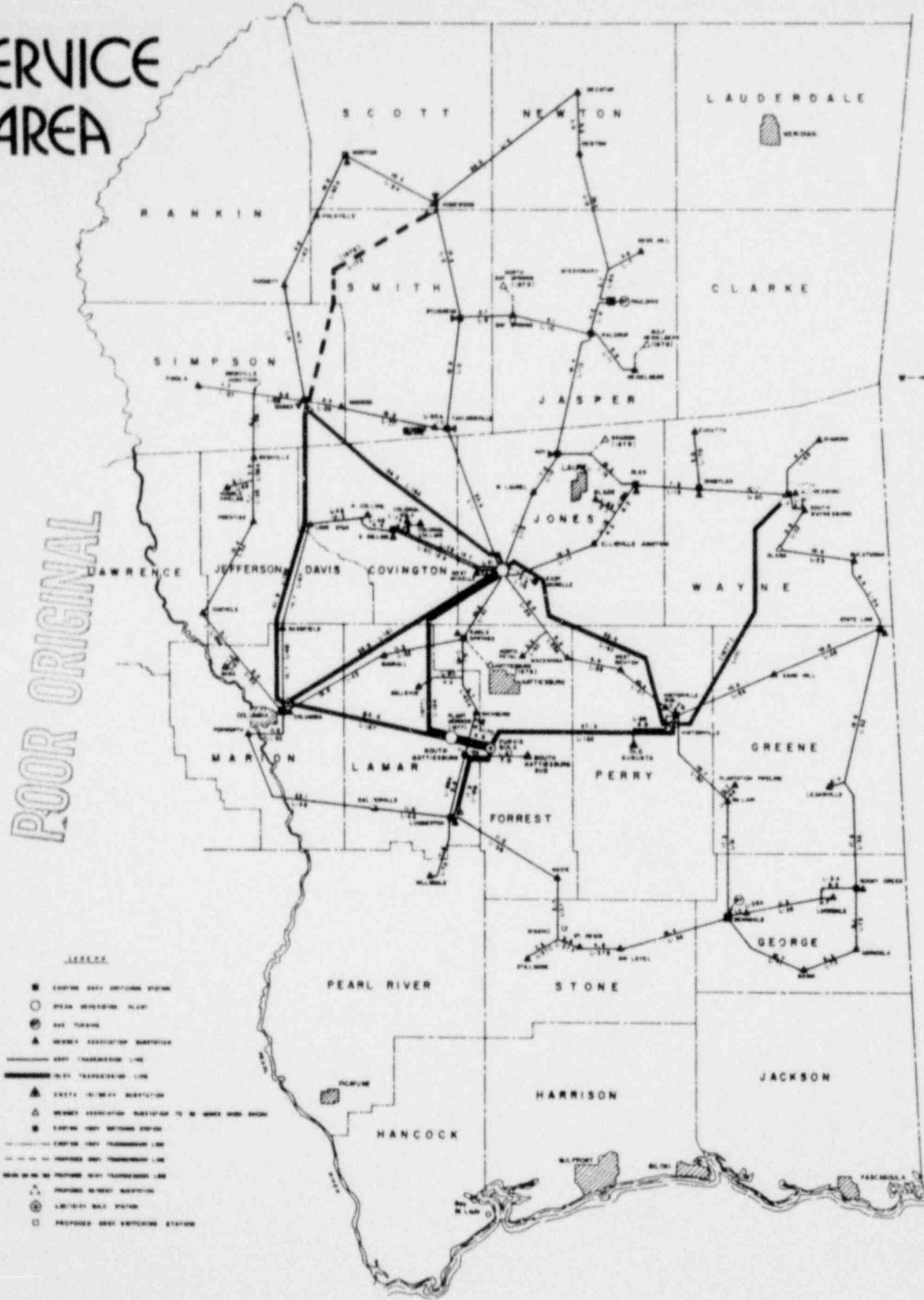
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SERVICE AREA

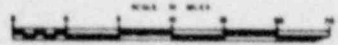
POOR ORIGINAL



A L A B A M A

LEGEND

- EXISTING DAY SERVICE STATION
- NIGHT SERVICE STATION
- ⊙ ALL TOWNS
- ▲ MEMBER ASSOCIATION HEADQUARTERS
- EXISTING TRANSMISSION LINE
- PROPOSED TRANSMISSION LINE
- ▲ EXISTING RAILWAY STATION
- ▲ MEMBER ASSOCIATION HEADQUARTERS TO BE MOVED FROM EXISTING
- EXISTING DAY SERVICE STATION
- EXISTING NIGHT SERVICE STATION
- EXISTING TRANSMISSION LINE
- PROPOSED TRANSMISSION LINE
- ▲ PROPOSED RAILWAY STATION
- ⊙ EXISTING RAIL STATION
- PROPOSED DAY SERVICE STATION



POOR ORIGINAL

THE COVER:

The complex energy situation is often seen as a simple process. This contrast is graphically demonstrated by J.R. Bice.

EXHIBIT E

SMEPA ADDITIONAL FINANCIAL INFORMATION

(Items 1-9)

ITEM 1

Indicate the percentage ownership in the facility and any difference between this and the cooperative's percentage entitlement to the electrical capacity and output of the units. Explain the reason for the difference, if any.

RESPONSE

SMEPA will have a ten percent (10%) undivided interest in Grand Gulf Nuclear Units 1 and 2 and will be entitled to ten percent (10%) of the electrical capacity and output of the units. See Article II of the Ownership Agreement (Exhibit A) and Article IV of the Operating Agreement (Exhibit B).

ITEM 2

Provide a copy of the executed Ownership Agreement between MSE and SMEPA.

RESPONSE

The Ownership Agreement will be executed by MSE and SMEPA in substantially the form attached as Exhibit A.

ITEM 3

Indicate the amounts of the respective dollar payments to be made to the power company by cooperative system participants upon the execution of the Ownership Agreement. Provide estimates of the total additional payments to be made subsequent to the execution of the agreement and through completion of the units.

RESPONSE

There will be no payments by SMEPA to MSE upon the execution of the Ownership Agreement. As outlined in Section 2.02 of the Ownership Agreement (Exhibit A), SMEPA will acquire an undivided ownership in Grand Gulf by assuming responsibility for all costs of construction of Grand Gulf until such time as the amount of the costs of construction borne by SMEPA equals ten percent (10%) of the total Costs of Construction of the facility.

On the Final Adjustment Date, as such term is defined in Section 1.11 of the Ownership Agreement (Exhibit A), SMEPA will have acquired a ten percent (10%) undivided ownership interest in Grand Gulf at an estimated cost of \$304.9 million. Thereafter, SMEPA will pay monthly ten percent (10%) of the monthly cost of construction of Grand Gulf until its completion. The total estimated construction cost of Grand Gulf is \$3.049 billion.

Section 2.C3 of the Ownership Agreement (Exhibit A) provides that on the Final Adjustment Date, SMEPA will pay MSE \$1,500,000, which amount represents all costs incurred, past, present and future, relating to Grand Gulf, which were not capitalized in calculating the Cost of Construction of Grand Gulf.

All payments made by SMEPA, subsequent to the execution of the Agreements and through completion of the Units, will be made with funds borrowed from the Rural Electrification Administration.

ITEM 4

If financing is to be provided through REA guaranteed sources, the applicant must provide copies of favorable Letters of Intent from REA regarding the proposed REA loans. These must be provided prior to issuance of the amendment to the construction permit. Indicate whether the REA has provided loans to the applicant in the past.

RESPONSE

The Letter of Intent of REA to make or guarantee the proposed loan will be provided at a later date. REA has provided loans to the applicant in the past.

ITEM 5

Explain the contractual arrangements between the cooperative and its members that will provide funds for interest payments on the loan(s) and its eventual retirement. Provide representative copies of such contracts.

RESPONSE

SMEPA has entered into a wholesale power contract with each of its members whereby SMEPA agrees to furnish and the members agree to purchase all of their power requirements at the rate approved by SMEPA's board of directors and REA. A copy of such a contract is attached.

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

REA PROJECT Mississippi 30 Jones

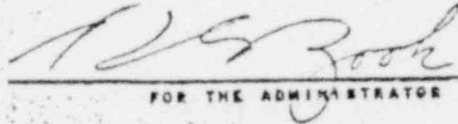
THE WITHIN Wholesale Power Contract with South

Mississippi Electric Power Association.

(Miss. 53 Covington)

(All Points)

SUBMITTED BY THE BORROWER PURSUANT TO THE TERMS OF THE
LOAN CONTRACT FOR THE ABOVE-DESIGNATED PROJECT, IS HEREBY
APPROVED SOLELY FOR THE PURPOSES OF SUCH LOAN CONTRACT.


FOR THE ADMINISTRATOR

ASST. ADMIN.

DATED

12/30/59

WHOLESALE POWER CONTRACT

AGREEMENT made as of the 12 day of May, 1959, between South Mississippi Electric Power Association (hereinafter called the "Seller"), a corporation organized and existing under the laws of the State of Mississippi, and Dixie Electric Power Association, (hereinafter called the "Consumer"), a corporation organized and existing under the laws of the State of Mississippi.

WHEREAS, the Seller proposes to construct an electric generating plant and transmission system and may purchase or otherwise obtain electric power and energy for the purpose, among others, of supplying electric power and energy to borrowers from the Rural Electrification Administration which are or may become members of the Seller; and

WHEREAS, the Seller has heretofore entered into or presently will enter into agreements for the sale of electric power and energy identical in form with this agreement with all said borrowers which are members of the Seller, and may enter into similar contracts with other such borrowers who may become members; and

WHEREAS, the Consumer desires to purchase electric power and energy from the Seller on the terms and conditions herein set forth;

NOW THEREFORE, in consideration of the mutual undertakings herein contained the parties hereto agree as follows:

1. General. The Seller shall sell and deliver to the Consumer and the Consumer shall purchase and receive from the Seller all electric

power and energy which the Consumer shall require to the extent that the Seller shall have such power and energy available, provided, however that the Consumer shall have the right to continue to purchase electric power and energy under any existing contract or contracts with a supplier other than the Seller during the remainder of the term thereof. The Consumer shall terminate, if the Seller shall, with the approval or at the direction of the Administrator of the Rural Electrification Administration (hereinafter called the "Administrator"), so request, any such existing contract or contracts with a supplier other than the Seller at such times as it may legally do so, provided the Seller shall have sufficient electric power and energy available for the Consumer.

2. Electric Characteristics and Delivery Point(s). Electric power and energy to be furnished hereunder shall be alternating current, three phase, sixty cycle. The Seller shall make and pay for all final connections between the systems of the Seller and the Consumer at the point(s) of delivery. The point(s) of delivery and delivery voltage shall be:

Waynesboro-West	69,000 volts
Waynesboro-South	69,000 volts
Battles	69,000 volts
Cleo	69,000 volts
Macedonia	69,000 volts
Moselle-West	69,000 volts
Laurel	69,000 volts

and such point or points as may be agreed upon by the Seller and the Consumer.

3. Substation. The Consumer shall install, own, and maintain the necessary substation equipment at the point(s) of connection. The Seller shall own and maintain switching and protective equipment which may be reasonably necessary to enable the Consumer to take and use the electric power and energy hereunder and to protect the system of the Seller. Meters and metering equipment shall be furnished, maintained and read by the Seller and shall be located at the point of delivery on the Consumer's side of such transforming equipment.

4. Rate. (a) The Consumer shall pay the Seller for all electric power and energy furnished hereunder at the rates and on the terms and conditions set forth in Rate Schedule A, attached hereto and made a part hereof.

(b) The Board of Directors of the Seller at such intervals as it shall deem appropriate, but in any event not less frequently than once in each calendar year, shall review the rate for electric power and energy furnished hereunder and under similar agreements with other member associations and, if necessary, shall revise such rate so that it shall produce revenues which shall be sufficient, but only sufficient, with the revenues of the Seller from all other sources, to meet the cost of the operation and maintenance of the generating plant, transmission system and related facilities of the Seller, the cost of any power and energy purchased for resale hereunder by the Seller, pay taxes, make payments on account of principal of and interest on all indebtedness of the Seller, and to provide for the establishment and maintenance of reasonable reserves. The Seller shall cause a notice

in writing to be given to the Consumer and other members of the Seller and the Administrator which shall set out all the proposed revisions of the rate with the effective date thereof, which shall be not less than thirty (30) nor more than forty-five (45) days after the date of the notice, and shall set forth the basis upon which the rate is proposed to be adjusted and established. The Consumer agrees that the rate from time to time established by the Board of Directors of the Seller shall be deemed to be substituted for the rate herein provided and agrees to pay for electric power and energy furnished by the Seller to it hereunder after the effective date of any such revisions at such revised rates; provided, however, that no such revision shall be effective unless approved in writing by the Administrator.

5. Meter Readings and Payment of Bills. The Seller shall read meters monthly. Electric power and energy furnished hereunder shall be paid for at the office of the Seller in Laurel, Mississippi, monthly within fifteen (15) days after the bill therefor is mailed to the Consumer. If the Consumer shall fail to pay any such bill within such fifteen-day period, the Seller may discontinue delivery of electric power and energy hereunder upon fifteen (15) days' written notice to the Consumer of its intention so to do.

6. Meter Testing and Billing Adjustment. The Seller shall test and calibrate meters by comparison with accurate standards at intervals of twelve (12) months. The Seller shall also make special meter tests at any time at the Consumer's request. The costs of all tests shall be borne by the Seller, provided, however, that if any special meter test

made at the Consumer's request shall disclose that the meters are recording accurately, the Consumer shall reimburse the Seller for the cost of such test. Meters registering not more than two per cent (2%) above or below normal shall be deemed to be accurate. The readings of any meter which shall have been disclosed by test to be inaccurate shall be corrected for the ninety (90) days previous to such test in accordance with the percentage of inaccuracy found by such test. If any meter shall fail to register for any period, the Consumer and the Seller shall agree as to the amount of energy furnished during such period and the Seller shall render a bill therefor.

7. Notice of Meter Reading or Test. The Seller shall notify the Consumer in advance of the time of any meter reading or test so that the Consumer's representative may be present at such meter reading or test.

8. Right of Access. Duly authorized representatives of either party hereto shall be permitted to enter the premises of the other party hereto at all reasonable times in order to carry out the provisions hereof.

9. Continuity of Service. The Seller shall use reasonable diligence to provide a constant and uninterrupted supply of electric power and energy hereunder. If the supply of electric power and energy shall fail or be interrupted, or become defective through act of God or of the public enemy, or because of accident, labor troubles, or any other cause beyond the control of the Seller, the Seller shall not be liable therefor or for damages caused thereby.

10. Term. This Agreement shall become effective only upon approval in writing by the Administrator and shall remain in effect until August 11, 1998, and thereafter until terminated by either party's giving to the other not less than six months' written notice of its intention to terminate. Subject to the provisions of Article 1 hereof, service hereunder and the obligation of the Consumer to pay therefor shall commence upon completion of the facilities necessary to provide service.

EXECUTED THE day and year first above mentioned.

SOUTH MISSISSIPPI ELECTRIC POWER
ASSOCIATION

By *[Signature]*
President

Attest:

[Signature]
Secretary

Dixie Electric Power Association
Consumer

By *[Signature]*
President

Attest:

[Signature]
Secretary

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION
SCHEDULE "A"

Availability:

Available to all cooperative associations which are or shall be members of the Seller. The electric power and energy furnished hereunder shall be separately metered and billed for each delivery point.

Monthly Rate:

Demand Charge:

\$1.00 per kw of maximum demand, plus

Energy Charge:

.59¢ per kwh for the first 300 kwh used per month
per kw of billing demand.

.29¢ per kwh for all remaining kwh used per month.

Minimum Monthly Charge:

The minimum monthly charge under the above rate shall be \$1.50 per kw of billing demand.

Determination of Billing Demand:

The billing demand shall be the highest average demand measured over a thirty minute period during the month.

Power Factor:

The power factor shall be maintained at as near 100 per cent as is reasonably possible. However, should the power factor at any time during maximum loading be below 85 per cent, the kw for billing purposes should be adjusted by multiplying the kw registered by 85 per cent and dividing the product by the actual power factor.

Fuel Adjustment:

The net bill for energy furnished to the cooperative shall be increased or decreased by .00125¢ per kwh for each one-tenth of a cent increase or decrease per million BTU in fuel cost from the base of 13.5¢ per million BTU.

ITEM 6

Provide copies of excerpts from State Statutes on which the cooperative is relying as authority to incur debt and to take other actions necessary to acquire partial ownership of the subject facility.

RESPONSE

The following statutes of the State of Mississippi, upon which SMEPA relies, as its authority to incur the debt and to take other actions necessary to acquire an ownership interest in the Grand Gulf Nuclear Plant, are attached:

1. Miss. Code Ann. § 77-5-231(a)-(h) (1972).
2. Miss. Code Ann. § 77-5-237 (1972).
3. Miss. Code Ann. § 77-5-203(b)-(f) (1972).
4. Miss. Code Ann. § 77-5-223(b)-(d) (1972).
5. Miss. Code Ann. § 77-5-229 (1972).

ELECTRIC POWER

§ 77-5-231

§ 77-5-227. Certificate of membership; voting.

A corporation may issue to its members certificates of membership in such form as the bylaws may prescribe. Each member shall be entitled to only one vote on each matter submitted to a vote at the meetings of the members of the corporation, but voting by proxy or by mail may be provided for in the by-laws.

SOURCES: Codes, 1942, § 5471; Laws, 1936, ch. 184; 1938, ch. 252.

§ 77-5-229. General powers of corporation.

Each corporation formed under this article is hereby vested with all power necessary or requisite for the accomplishment of its corporate purpose, and no enumeration of particular powers hereby granted in this article shall be construed to impair any general grant of power herein contained, or to limit any such grant to a power or powers of the same class or classes as those so enumerated.

SOURCES: Codes, 1942, § 5473; Laws, 1936, ch. 184.

§ 77-5-231. Specific powers of corporation.

A corporation created under the provisions of this article shall have power to do any and all acts or things necessary or convenient for carrying out the purposes for which it was formed, including, but not limited to:

(a) To sue and be sued.

(b) To have a seal and alter the same at pleasure.

(c) To acquire, hold and dispose of property, real and personal, tangible and intangible, or interests therein and to pay therefor in cash or property or on credit, and to secure and procure payment of all or any part of the purchase price thereof on such terms and conditions as the board shall determine.

(d) To render service and to acquire, own, operate, maintain and improve a system or systems within the state and in counties adjacent thereto.

(e) To pledge all or any part of its revenues and to mortgage or otherwise incur all or any part of its property for the purpose of securing the payment of the principal of and interest on any of its bonds or other obligations.

(f) To use any right of way, easement or other similar property right necessary or convenient in connection with the acquisition, improvement, operation or maintenance of a system, granted by the state or any political subdivision thereof, provided that the governing body of such political subdivision shall consent to such

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use, and to have and exercise the power of eminent domain in the manner provided by the condemnation laws of this state for acquiring private property for public use, such right to be paramount except as to the property of the state or of any political subdivision thereof.

(g) To accept gifts or grants of money, property, real or personal, from any person, municipality or federal agency and to accept voluntary and uncompensated services.

(h) To make any and all contracts necessary or convenient for the full exercise of the powers in this article granted, including, but not limited to, contracts with any person, federal agency or municipality for the purchase or sale of energy and/or the acquisition of all or any part of any system, and in connection with any such contract to stipulate and agree to such covenants, terms and conditions as the board may deem appropriate, including covenants, terms and conditions with respect to the resale rates, financial and accounting methods, services, operation and maintenance practices and the manner of disposing of the revenues of the system operated and maintained by the corporation.

(i) To sell, lease, or otherwise dispose of all or any part of its property, subject however to the provisions of section 77-5-237.

(j) To contract debts, borrow money and to issue, assume or indorse the payment of bonds or other evidences of indebtedness.

(k) To fix, maintain and collect fees, rents, tolls and other charges for services rendered.

(l) To acquire and to sell, lease, distribute and generally to deal in electrical and plumbing appliances, apparatus, machinery and equipment for the purpose of and in connection with the promotion of the sale of electric energy to its customers; to assist its customers to purchase or otherwise obtain such appliances, apparatus, machinery and equipment; to assist its customers to wire their premises and to install therein such appliances, apparatus, machinery and equipment; to acquire and to indorse, sell, pledge, hypothecate and dispose of notes, bonds and other obligations of its customers in carrying out the purposes expressed in this paragraph.

(m) To perform any and all of the foregoing acts and to do any and all of the foregoing things under, through or by means of its own officers, agents and employees, or by contracts with any person, federal agency or municipality.

(n) To condemn any land, easements, or rights of way, either on, under, or above the ground, as the association may deem necessary for any purposes mentioned in this article, and such property or interest in such property may be so acquired whether

effective the powers conferred by this article, the corporation shall have power to acquire, own, operate, maintain, and/or improve a generating and/or transmission system or systems outside the State of Mississippi.

SOURCES: Codes, 1942, § 5475; Laws, 1936, ch. 184.

§ 77-5-235. Rates.

A corporation formed under the provisions of this article shall have power to charge reasonable fees, rents, tolls, prices and other charges for service rendered which shall be sufficient at all times to pay all operating and maintenance expenses necessary or desirable for the prudent conduct and operation of its business, and to pay the principal of and interest on such obligations as the corporation may have issued and/or assumed in the performance of the purpose for which it was formed. The revenues and receipts of a corporation shall first be devoted to such operating and maintenance expenses and to the payment of such principal and interest and thereafter to such reserves for improvement, new construction, depreciation and contingencies as the board may from time to time prescribe. Revenues and receipts not needed for these purposes shall be returned to the members, by the reimbursement of membership fees, or by way of general rate reductions, as the board may decide.

SOURCES: Codes, 1942, § 5481; Laws, 1936, ch. 184.

JUDICIAL DECISIONS

An amortization charge collected by an electric cooperative from its customers as a condition of receiving service, related to the amount of electricity consumed, but segregated from other charges for service and used ex-

clusively for the payment of its long-term indebtedness, is income upon which a sales tax is collectible. *Monaghan v Pontotoc Electric Power Asso.* 237 M 883, 116 So 2d 827.

§ 77-5-237. Disposing of corporate property.

No corporation may, unless authorized so to do by the votes of at least a majority of its members, sell, mortgage, lease or otherwise encumber or dispose of any of its property other than (1) property which, in the judgment of the board, is neither necessary nor useful in operating and maintaining the corporation's system and which in any one year shall not exceed ten percent (10%) in value of all of the property of the corporation, or (2) merchandise. However, notwithstanding anything herein contained, or any other provisions of law, the board of directors of the corporation, without authorization by the members thereof, shall have full

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power and authority upon the affirmative vote of two-thirds ($\frac{2}{3}$) of the members constituting the full board to authorize the execution and delivery of a mortgage or mortgages or a deed or deeds of trust upon, or the pledging or encumbering of, any or all of the property, assets, rights, privileges, licenses, franchises and permits of the corporation, whether acquired or to be acquired, and wherever situated, as well as the revenues and income therefrom, all upon such terms and conditions as the board of directors upon the affirmative vote of two-thirds ($\frac{2}{3}$) of the members constituting the full board shall determine, to secure any indebtedness of the corporation to the United States of America or any instrumentality or agency thereof, or to a national financing institution, organized on a cooperative plan for the purpose of financing its members' programs, projects and undertakings, in which the corporation holds membership.

During the first year of the existence of a corporation its property shall not be sold or leased, wholly or in part, unless the sale or lease shall be authorized not only by a majority of its members but also by a majority of all persons who have signed customers' survey forms or otherwise signified in writing their intention to become members of the corporation. All such persons shall be deemed to have a beneficial interest in the affairs of the corporation insofar as the sale or lease of the property of the corporation is concerned and the members of the board are hereby declared to be the trustees of such persons with respect thereto.

SOURCES: Codes, 1942, § 5476; Laws, 1936, ch. 184; 1938, ch. 252; 1970, ch. 423, § 1, eff from and after passage (approved March 26, 1970).

§ 77-5-239. Issuance of bonds by corporation.

A corporation formed under the provisions of this article shall have power and is hereby authorized, from time to time, to issue its bonds for any corporate purpose. Said bonds may be authorized by resolution or resolutions of the board, and may bear such date or dates, mature at such time or times, not exceeding forty years from their respective dates, bear interest at such rate or rates within limitations set forth in other provisions of this article, payable semiannually, be in such denominations, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in such medium of payment, at such place or places, and be subject to such terms of redemption not exceeding par and accrued interest, as such resolution or resolutions may provide. Such bonds may be issued for money or property at public or private sale, for such price or prices as the

An amortization charge collected by an electric cooperative from its customers as a condition of receiving service, related to the amount of electricity consumed, but segregated from other charges for service and used ex-

clusively for the payment of its long-term indebtedness, is income upon which a sales tax is collectible. *Monaghan v Pontotoc Electric Power Assn.* 237 M 883, 116 So 2d 827.

§ 77-5-203. Definitions.

The following terms whenever used or referred to in this article shall have the following meanings, unless a different meaning clearly appears from the context:

(a) "Corporation" shall mean a corporation formed under this article.

(b) "Bonds" shall mean and include bonds, interim certificates or receipts, notes, debentures and all other evidences of indebtedness, either issued or the payment thereof assumed by the corporation.

(c) "Person" shall mean and include natural persons, firms, associations, corporations, business trusts, partnerships and bodies politic.

(d) "Energy" shall mean and include any and all electric energy no matter how or where generated or produced.

(e) "Acquire" shall mean and include construct, acquire by purchase, lease, devise, gift, or other mode of acquisition.

(f) "System" shall mean and include any plant, works, system, facilities, or properties, or parts thereof, together with all appurtenances thereto, used or useful in connection with the generation, production, transmission or distribution of energy.

(g) "Law" shall mean any act or statute, general, special or local of this state.

(h) "Federal agency" shall mean and include the United States of America, the President of the United States of America, Tennessee Valley Authority, the Federal Emergency Administrator of Public Works, the Administrator of the Rural Electrification Administration, and any and all other authorities, agencies and instrumentalities of the United States of America, heretofore or hereafter created.

(i) "Improve" shall mean and include construct, reconstruct, improve, replace, extend, enlarge, alter, better or repair.

(j) "Board" shall mean the board of directors of a corporation formed under this article.

(k) "Member" shall mean and include each natural person signing the certificate of incorporation of a corporation and each

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Such corporation shall continue for the purpose of paying, satisfying and discharging any existing liabilities or obligations and collecting or liquidating its assets, and doing all other acts required to adjust and wind up its business and affairs, and may sue and be sued in its corporate name. Any assets remaining after all liabilities or obligations of the corporation have been satisfied or discharged shall be ratably distributed to the members thereof.

SOURCES: Codes, 1942, § 5482; Laws, 1936, ch. 184.

§ 77-5-221. Board of directors.

Each corporation formed under the provisions of this article shall have a board of directors, and the powers of the corporation shall be vested in and exercised by such board of directors. The directors of the corporation elected to succeed those named in its certificate of incorporation, as well as the directors elected to succeed those presently serving as directors of corporations previously formed under the provisions of this article, shall be elected annually by the members entitled to vote as follows: one-third to be elected for a term of one year, one-third for a term of two years, and one-third for a term of three years. Thereafter, all directors shall be elected for a term of three years. The directors must be members and shall not be entitled to compensation for their services as directors but shall be entitled to reimbursement for expenses incurred by them in the performance of their duties. The board shall elect annually from its own number a president and a vice-president.

SOURCES: Codes, 1942, § 5469; Laws, 1936, ch. 184; 1966, Ex Sess, ch. 34, § 1, eff from and after passage (approved December 28, 1966).

JUDICIAL DECISIONS

When a corporate employer knew that some of its directors were ineligible to hold office and took no action to remove them, the actions of a majority of de facto directors were binding upon the corporation insofar as increases in salary to employees, health policies, retirement policies, expense allowances, and a deferred compensation agreement were concerned. Capital Electric Power Assn. v Phillips, 240 So 2d 133.

§ 77-5-223. Powers of board of directors.

The board shall have power to do all things necessary or convenient in conducting the business of a corporation, including, but not limited to:

(a) The power to adopt and amend by-laws for the management and regulation of the affairs of the corporation. The by-laws of a corporation may make provisions, not inconsistent with law or its certificate of incorporation, regulating the admission, withdrawal,

suspension or expulsion of members; the transfer of membership; the fees and dues of members and the termination of memberships on nonpayment of dues or otherwise; the numbers, times and manner of choosing, qualifications, terms of office, official designations, powers, duties and compensation of its officers; defining a vacancy in the board or in any office and the manner of filling it; the number of members to constitute a quorum at meetings, the date of the annual meeting and the giving of notice thereof and the holding of special meetings and the giving of notice thereof; the terms and conditions upon which the corporation is to render service to its members, the disposition of the revenues and receipts of the corporation; regular and special meetings of the board and the giving of notice thereof; and such other matters as the board may deem appropriate or desirable.

(b) To appoint agents and employees and to fix their compensation and the compensation of the officers of the corporation.

(c) To execute all instruments.

(d) To delegate to one or more of the directors or to the officers, agents and employees of a corporation such powers and duties as it may deem proper.

(e) To make its own rules and regulations as to its procedure.

(f) To select an executive committee the members of which shall be users of energy supplied by the corporation, and a majority of which shall be members of the board of directors, and to delegate to said committee any or all of the powers granted to the board of directors in this article other than its powers to adopt and amend by-laws for the management and regulation of the affairs of the corporation.

SOURCES: Codes, 1942, § 5470; Laws, 1936, ch. 184.

JUDICIAL DECISIONS

The right of members of a nonprofit electric power association to vote by proxy derives directly from the charter, does not require implementation through the adoption of bylaws, and may not be impaired by action of the board of directors. Dixie Electric Power Assn. v Hosey, 208 So 2d 751.

§ 77-5-225. Membership in corporation.

Except as hereinafter provided, the corporate purpose of each corporation formed under the provisions of this article shall be to render service to its members only. Any person may become and remain a member if such person shall use energy supplied by such corporation and shall comply with the terms and conditions in respect to membership contained in the by-laws of such corporation, which terms and conditions shall be nondiscriminatory. Any

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§ 77-5-227. Certificate of membership; voting.

A corporation may issue to its members certificates of membership in such form as the bylaws may prescribe. Each member shall be entitled to only one vote on each matter submitted to a vote at the meetings of the members of the corporation, but voting by proxy or by mail may be provided for in the by-laws.

SOURCES: Codes, 1942, § 5471; Laws, 1936, ch. 184; 1938, ch. 252.

§ 77-5-229. General powers of corporation.

Each corporation formed under this article is hereby vested with all power necessary or requisite for the accomplishment of its corporate purpose, and no enumeration of particular powers hereby granted in this article shall be construed to impair any general grant of power herein contained, or to limit any such grant to a power or powers of the same class or classes as those so enumerated.

SOURCES: Codes, 1942, § 5473; Laws, 1936, ch. 184.

§ 77-5-231. Specific powers of corporation.

A corporation created under the provisions of this article shall have power to do any and all acts or things necessary or convenient for carrying out the purposes for which it was formed, including, but not limited to:

(a) To sue and be sued.

(b) To have a seal and alter the same at pleasure.

(c) To acquire, hold and dispose of property, real and personal, tangible and intangible, or interests therein and to pay therefor in cash or property or on credit, and to secure and procure payment of all or any part of the purchase price thereof on such terms and conditions as the board shall determine.

(d) To render service and to acquire, own, operate, maintain and improve a system or systems within the state and in counties adjacent thereto.

(e) To pledge all or any part of its revenues and to mortgage or otherwise incumber all or any part of its property for the purpose of securing the payment of the principal of and interest on any of its bonds or other obligations.

(f) To use any right of way, easement or other similar property right necessary or convenient in connection with the acquisition, improvement, operation or maintenance of a system, granted by the state or any political subdivision thereof, provided that the governing body of such political subdivision shall consent to such

ITEM 7

Describe the rate-setting authority and rate covenants of the Cooperative and how that authority will be used to insure the satisfaction of financial obligations in relation to the design and construction of Grand Gulf Units 1 and 2.

RESPONSE

The statutory rate setting authority of SMEPA is set forth in Section 77-5-235 of the Mississippi Code of 1972, Annotated, a copy of which is attached hereto. Further, the Wholesale Power Contracts between SMEPA and four of its member cooperatives, provide that the Board of Directors of SMEPA shall have the right to set such rates as shall "meet the cost of the operation and maintenance of the generating plant, transmission system and related facilities of the seller, the cost of any power and energy purchased for resale hereunder by the seller, pay taxes, make payments on account of principal of and interest on all indebtedness of the seller, and to provide for the establishment and maintenance of reasonable reserves." A copy of Section 4 (a) and (b) of said Wholesale Power Contracts is attached hereto. Further, the covenants of SMEPA under its Supplemental Mortgage to the REA, which is attached hereto, requires that the cooperative design its rates so as to be able to meet

its financial obligations as the same become due (Section 15 thereof). Therefore, under the provisions of the document referred to, the Board of Directors of the Cooperative is required to adopt such rates as shall enable SMEPA to meet its financial obligations as the same become due.

§ 77-5-233 PUBLIC UTILITIES AND CARRIERS

effective the powers conferred by this article, the corporation shall have power to acquire, own, operate, maintain, and/or improve a generating and/or transmission system or systems outside the State of Mississippi.

SOURCES: Codes, 1942, § 5475; Laws, 1936, ch. 184.

§ 77-5-235. Rates.

A corporation formed under the provisions of this article shall have power to charge reasonable fees, rents, tolls, prices and other charges for service rendered which shall be sufficient at all times to pay all operating and maintenance expenses necessary or desirable for the prudent conduct and operation of its business and to pay the principal of and interest on such obligations as the corporation may have issued and/or assumed in the performance of the purpose for which it was formed. The revenues and receipts of a corporation shall first be devoted to such operating and maintenance expenses and to the payment of such principal and interest and thereafter to such reserves for improvement, new construction, depreciation and contingencies as the board may from time to time prescribe. Revenues and receipts not needed for these purposes shall be returned to the members, by the reimbursement of membership fees, or by way of general rate reductions, as the board may decide.

SOURCES: Codes, 1942, § 5481; Laws, 1936, ch. 184.

JUDICIAL DECISIONS

An amortization charge collected by an electric cooperative from its customers as a condition of receiving service, related to the amount of electricity consumed, but segregated from other charges for service and used exclusively for the payment of its long-term indebtedness, is income upon which a sales tax is collectible. *Monaghan v Pontotoc Electric Power Asso.* 237 M 883, 116 So 2d 827.

§ 77-5-237. Disposing of corporate property.

No corporation may, unless authorized so to do by the votes of at least a majority of its members, sell, mortgage, lease or otherwise encumber or dispose of any of its property other than (1) property which, in the judgment of the board, is neither necessary nor useful in operating and maintaining the corporation's system and which in any one year shall not exceed ten percent (10%) in value of all of the property of the corporation, or (2) merchandise. However, notwithstanding anything herein contained, or any other provisions of law, the board of directors of the corporation, without authorization by the members thereof, shall have full

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4. Rate. (a) The Consumer shall pay the Seller for all electric power and energy furnished hereunder at the rates and on the terms and conditions set forth in Rate Schedule A, attached hereto and made a part hereof.

(b) The Board of Directors of the Seller at such intervals as it shall deem appropriate, but in any event not less frequently than once in each calendar year, shall review the rate for electric power and energy furnished hereunder and under similar agreements with other member associations and, if necessary, shall revise such rate so that it shall produce revenues which shall be sufficient, but only sufficient, with the revenues of the Seller from all other sources, to meet the cost of the operation and maintenance of the generating plant, transmission system and related facilities of the Seller, the cost of any power and energy purchased for resale hereunder by the Seller, pay taxes, make payments on account of principal of and interest on all indebtedness of the Seller, and to provide for the establishment and maintenance of reasonable reserves. The Seller shall cause a notice in writing to be given to the Consumer and other members of the Seller and the Administrator which shall set out all the proposed revisions of the rate with the effective date thereof, which shall be not less than thirty (30) nor more than forty-five (45) days after the date of the notice, and shall set

EXHIBIT "B"

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forth the basis upon which the rate is proposed to be adjusted and established. The Consumer agrees that the rate from time to time established by the Board of Directors of the Seller shall be deemed to be substituted for the rate herein provided and agrees to pay for electric power and energy furnished by the Seller to it hereunder after the effective date of any such revisions at such revised rates; provided, however, that no such revision shall be effective unless approved in writing by the Administrator.

5. Meter Readings and Payment of Bills. The Seller shall read meters monthly. Electric power and energy furnished hereunder shall be paid for at the office of the Seller in Hattiesburg, Mississippi, monthly within fifteen (15) days after the bill therefor is mailed to the Consumer. If the Consumer shall fail to pay any such bill within such fifteen-day period, the Seller may discontinue delivery of electric power and energy hereunder upon fifteen (15) days' written notice to the Consumer of its intention so to do.

6. Meter Testing and Billing Adjustment. The Seller shall test and calibrate meters by comparison with accurate standards at intervals of twelve (12) months. The Seller shall also make special meter tests at any time at the Consumer's request. The costs of all tests shall be borne by the Seller, provided, however, that if any special meter test made at the

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(hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Mississippi, UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Electrification Administration (hereinafter called "REA"), and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC"), a corporation existing under the laws of the District of Columbia (the Government and CFC being hereinafter sometimes collectively called the "Mortgagees").

WHEREAS, the Mortgagor, for value received, has heretofore duly authorized and executed, and has delivered to the Government, or has assumed the payment of, certain mortgage notes all payable in installments to the order of, or obligating the Mortgagor otherwise to, the Government, of which the mortgage notes (hereinafter collectively called the "Outstanding REA Notes") identified in the twelfth "Whereas" clause hereof (hereinafter called the "Instruments Recital") are now outstanding and held by the Government, all of which Outstanding REA Notes evidence loans made by the Government either to the Mortgagor or to third parties to finance electric plants, lines and related facilities, and assumed by the Mortgagor; and

WHEREAS, the loans made by the Government to the Mortgagor were also made pursuant to a loan contract or amending loan contract, made by and between the Mortgagor and the Government, acting through the Administrator of REA (said loan contract or amending loan contract, as it may have been amended or supplemented heretofore or may hereafter from time to time be amended or supplemented, being identified in the Instruments Recital as, and hereinafter called, the "REA Loan Agreement"), and the loan or loans made by one or more legally organized lending agencies and guaranteed by the Government were guaranteed pursuant to the Rural Electrification Act of 1936, as amended, including, without limitation, the amendment thereof of May 11, 1973 by P.L. 93-32 (such Act, as so amended, being hereinafter called the "Act") and pursuant to that certain agreement, identified in the Instruments Recital as, and hereinafter called, the "Contract of Guarantee", among the Mortgagor, the Government, acting through the Administrator of REA and the party identified in the Instruments Recital under the heading of "Contract of Guarantee", and pursuant to the REA Loan Agreement; and

WHEREAS, the Outstanding REA Notes and the notes evidencing such guaranteed loans (identified in the Instruments Recital as the "Guaranteed Notes") are hereinafter collectively called the "Outstanding Notes"; and

WHEREAS, the Outstanding Notes are secured by the security instruments (hereinafter collectively called the "REA Mortgage") made by the Mortgagor to the Government and identified in the Instruments Recital; and

WHEREAS, with the consent of REA, the Mortgagor has entered, or is about to enter, into a Financing Agreement, an Agreement of Sale or a Lease (hereinafter, whether in the form of a Financing Agreement, Agreement of Sale or Lease, called the "Financing Agreement") with a political subdivision, municipality, or instrumentality (hereinafter called the "Issuer") of the State of Mississippi under which the Mortgagor will supply the funds to pay all amounts becoming due on account of a series of bonds (hereinafter called the "Bonds") issued, or to be issued, by the Issuer to finance the acquisition, construction or installation of pollution control equipment in an electric generating plant owned, or to be owned, in whole or in part, by the Mortgagor, and the Bonds are, or will be, issued pursuant to and secured by an indenture (hereinafter called the "Indenture") made, or to be made, by and between the Issuer and Morgan Guaranty Trust Company of New York (hereinafter called the "Trustee") and the Mortgagor has also executed, and delivered, or will execute and deliver, its note payable to the order of CFC, identified in the Instruments Recital and hereinafter called the "Pollution Control Note", to evidence the Mortgagor's obligation to make payments under the Financing Agreement; and

WHEREAS, CFC has executed and delivered to the Trustee its contract of guaranty dated as of the date hereof (hereinafter called the "Guaranty Agreement") by which CFC guarantees payment of the principal of, premium, if any, and interest on the Bonds and assigns the Pollution Control Note, and its rights under this Mortgage relating thereto, to the Trustee; and the Mortgagor, pursuant to an agreement, dated as of October 15, 1977 between CFC and the Mortgagor (hereinafter called the "CFC-Cooperative

This instrument was prepared by Gerald R. Tarrant, Esquire, 1115 - 30th Street, Washington, D. C. 20007.

Gerald R. Tarrant

Exhibit C to

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Agreement") has executed and delivered, or will execute and deliver, to CFC its note identified in the Instruments Recital as, and hereinafter called, the "CFC Guaranty Note", evidencing the obligation of the Mortgagor to reimburse CFC for all payments made by CFC pursuant to the Guaranty Agreement; and

WHEREAS, under the provisions of the Act and other applicable law, the Administrator of REA is authorized to amend, supplement and consolidate the REA Mortgage as herein provided; and

WHEREAS, the changes in the REA Mortgage which the parties thereto and hereto desire now to effect make advisable the consolidating and restating of each of the instruments constituting the REA Mortgage in its entirety.

Now, THEREFORE, this Supplemental Mortgage and Security Agreement

WITNESSETH:

That each of the instruments constituting the REA Mortgage is hereby amended, supplemented and consolidated to read in its entirety from and after the date of execution of this Supplemental Mortgage and Security Agreement (the REA Mortgage, as amended, supplemented and consolidated hereby, being herein called "this Mortgage") as follows:

WHEREAS, the Mortgagor now owns electric generating facilities and related electric transmission lines and other facilities identified in Schedule I attached hereto and made a part hereof (hereinafter called the "Existing Electric Facilities"); and

WHEREAS, the Mortgagor has determined to enter into the Financing Agreement and, pursuant thereto to undertake to supply the Issuer with funds for repayment of all amounts to become due on account of the Bonds, and to obtain CFC's guaranty of the performance of the Bonds; and

WHEREAS, it is intended that (1) the Outstanding Notes, as well as additional notes executed and delivered by the Mortgagor to evidence loans made or guaranteed by REA, and notes executed and delivered by the Mortgagor from time to time to refund, in renewal of, or in substitution for any such notes (such additional, renewal and substitute notes being hereinafter collectively called the "REA Additional Notes"), and (2) the Pollution Control Note, the CFC Guaranty Note, any note executed and delivered by the Mortgagor to CFC pursuant to the terms of section 24(b) of article II hereof (hereinafter called a "section 24(b) note"), as well as any notes executed and delivered to CFC in connection with additional pollution control facility projects, and notes executed and delivered by the Mortgagor from time to time to refund, in renewal of, or in substitution for the Pollution Control Note, the CFC Guaranty Note, any section 24(b) note and any notes issued to CFC for additional pollution control facility projects (the Pollution Control Note and the CFC Guaranty Note being hereinafter collectively called the "CFC Notes", and such refunding, renewal and substitute notes, any such section 24(b) note, and any such additional notes issued to CFC for additional pollution control facility projects being hereinafter called the "CFC Additional Notes"; and the REA Notes, the REA Additional Notes, the CFC Notes and the CFC Additional Notes being hereinafter collectively called the "notes") shall be secured hereby as hereinafter provided; and

WHEREAS, the instruments referred to in the recitals hereof and the Maximum Debt Limit referred to in article I section 1 hereof are hereby identified at follows:

INSTRUMENTS RECITAL

"REA Loan Agreement" (exclusive of amendments), dated as of July 28, 1958

"Outstanding REA Notes":

.....18..... certain mortgage notes in an aggregate principal amount of \$70,120,101.06,
all of which will finally mature on or before October 22, 2011.

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"Contract of Guarantee":

Name of Guaranteed Lender
Federal Financing Bank

Dated as of
August 14, 1974, as heretofore amended.

"Guaranteed Notes":

<u>Dated</u>	<u>Principal Amount</u>	<u>Interest Rate (per annum)</u>	<u>Final Payment Date</u>
July 20, 1977	\$44,176,000.00	Determined when advances made	34 yrs from year of advance
October 11, 1974	\$5,000,000.00	Determined when advances made	34 yrs from year of advance
September 18, 1974	\$160,737,000.00	Determined when advances made	34 yrs from year of advance

"REA Mortgage":

<u>Instrument</u>	<u>Date</u>	<u>Trustees, if any</u>
Indenture	July 29, 1956	Deposit Guaranty Bank and Trust Co
Supplemental Indenture	July 21, 1961	Deposit Guaranty Bank and Trust Co
Supplemental Indenture	July 12, 1966	Deposit Guaranty National Bank (formerly Deposit Guaranty Bank and Trust Company)
Supplemental Indenture	May 26, 1971	Deposit Guaranty National Bank
Supplemental Indenture	September 19, 1973	Deposit Guaranty National Bank
Mortgage	September 18, 1974	

"Pollution Control Note":

<u>Date</u>	<u>Principal Amount</u>	<u>Final Payment Date</u>
December 1, 1977	\$40,000,000.00	30 years from date

"CFC Guaranty Note":

<u>Date</u>	<u>Principal Amount</u>	<u>Final Payment Date</u>
December 1, 1977	Determined when advances made	On demand

"Maximum Debt Limit" for the purposes of article I, section 1 hereof shall be \$500,000,000.00; and

WHEREAS, the Government, CFC, and the Mortgagor are authorized to enter into this Mortgage; and

WHEREAS, to the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the Uniform Commercial Code of any state (hereinafter called the "Uniform Commercial Code"), the parties hereto desire that this Mortgage be regarded as a "security agreement" and as a "financing statement" for said security agreement under the Uniform Commercial Code;

NOW, THEREFORE, THIS MORTGAGE WITNESSETH that, in order to secure the payment of the principal and interest on the notes, according to their terms and effect, and further to secure the due performance of the covenants, agreements and provisions contained in this Mortgage and to declare the terms and conditions on which the notes are to be secured, the Mortgagor, in consideration of the premises, has

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executed and delivered this Mortgage, and has granted, bargained, sold, conveyed, warranted, assigned, transferred, mortgaged, pledged and set over, and by these presents does hereby grant, bargain, sell, convey, warrant, assign, transfer, mortgage, pledge and set over, unto the Mortgagees and their respective assigns all and singular the following described property (hereinafter sometimes called the "Mortgaged Property"):

I

All right, title and interest of the Mortgagor in and to the Existing Electric Facilities referred to in Schedule I attached hereto and electric plants, lines or other facilities hereafter constructed or acquired by the Mortgagor, wherever located, and in and to all extensions and improvements thereof and additions thereto, including all substations, service and connecting lines (both overhead and underground), poles, towers, posts, crossarms, wires, cables, conduits, mains, pipes, tubes, transformers, insulators, meters, electrical connections, lamps, fuses, junction boxes, fixtures, appliances, generators, dynamos, water turbines, water wheels, boilers, steam turbines, nuclear fuel assemblies, motors, switch boards, switch racks, pipelines, machinery, tools, supplies, switching and other equipment, and any and all property of every nature and description, used or acquired for use by the Mortgagor in connection therewith, and including, without limitation, the property described in the property schedule attached hereto as Schedule I and included herein by reference;

II

All right, title and interest of the Mortgagor in, to and under any and all grants, privileges, rights of way and easements now owned, held, leased, enjoyed or exercised, or which may hereafter be owned, held, leased, acquired, enjoyed or exercised, by the Mortgagor for the purposes of, or in connection with, the construction or operation by or on behalf of the Mortgagor of electric transmission or distribution lines, or systems, whether underground or overhead or otherwise, or of any electric generating plant, wherever located;

III

All right, title and interest of the Mortgagor in, to and under any and all licenses, franchises, ordinances, privileges and permits heretofore granted, issued or executed, to it or to its assignors by the United States of America, or by any state, or by any county, township, municipality, village or other political subdivision thereof, or by any agency, board, commission or acquisition, or operation of electric generating plant or plants, insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged, or pledged;

IV

All right, title and interest of the Mortgagor in, to and under any and all contracts heretofore or hereafter executed by and between the Mortgagor and any person, firm, or corporation providing for the purchase, sale or exchange of electric power or energy by the Mortgagor together with any and all other accounts, contract rights and general intangibles (as such terms are defined in the applicable Uniform Commercial Code) heretofore or hereafter acquired by the Mortgagor;

Also, all right, title and interest of the Mortgagor in and to all other property, real or personal, tangible or intangible, of every kind, nature and description, and wheresoever situated, now owned or hereafter acquired by the Mortgagor, it being the intention hereof that all such property now owned but not specifically described herein or acquired or held by the Mortgagor after the date hereof shall be as fully embraced within and subjected to the lien hereof as if the same were now owned by the Mortgagor and were specifically described herein to the extent only, however, that the subjection of such property to the lien hereof shall not be contrary to law;

Together with all rents, income, revenues, profits and benefits at any time derived, received or had from any and all of the above-described property of the Mortgagor.

Provided, however, that except as provided in section 13(b) of article II hereof, no automobiles, trucks, trailers, tractors or other vehicles (including without limitation aircraft or ships, if any) owned or used by the Mortgagor shall be included in the Mortgaged Property.

TO HAVE AND TO HOLD all and singular the Mortgaged Property unto the Mortgagees and their respective assigns forever, to secure equally and ratably the payment of the principal of and interest on the notes, all according to their tenor and effect without preference, priority or distinction as to interest on, or principal of the notes (except as otherwise specifically provided herein or to the extent that any note provides for subordination thereof) or as to lien or otherwise of any note over any other of the notes by reason of the priority in time or maturity thereof or of the assignment or negotiation thereof, or otherwise, and to secure the due performance of the covenants, agreements and provisions herein contained, and for the uses and purposes and upon the conditions, provisions and agreements hereinafter expressed and declared.

ARTICLE I ADDITIONAL NOTES

SECTION 1. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time (1) execute and deliver one or more REA Additional Notes and (2) execute and deliver to CFC one or more CFC Additional Notes. All such notes shall contain such provisions and shall be executed and delivered upon such terms and conditions as the board of directors of the Mortgagor in the resolution or resolutions authorizing the execution and delivery thereof and the relevant lender shall prescribe; *provided, however*, that the notes at any one time secured hereby shall not exceed in the aggregate principal amount the amount identified in the Instruments Recital as the Maximum Debt Limit, and no note shall mature more than fifty (50) years after the date hereof.

No CFC Additional Notes shall be secured by this Mortgage without the prior written approval thereof by the Government.

SECTION 2. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time, execute, acknowledge, deliver, record and file mortgages supplemental to this Mortgage which thereafter shall form a part hereof, for the purpose of formally confirming this Mortgage as security for the notes. Nothing herein contained shall require the execution and delivery by the Mortgagor of a supplemental mortgage in connection with the issuance hereunder or the securing hereby of such notes except as hereinafter provided in section 13 of article II hereof.

ARTICLE II PARTICULAR COVENANTS OF THE MORTGAGOR

The Mortgagor covenants with the Mortgagees and the holders of notes secured hereby (hereinafter sometimes collectively called the "noteholders") and each of them as follows:

SECTION 1. The Mortgagor is duly authorized under its articles of incorporation and bylaws and the laws of the State of its incorporation and all other applicable provisions of law to execute and deliver the Outstanding Notes, the REA Additional Notes, the CFC Notes, the CFC Additional Notes and this Mortgage; and all corporate action on its part for the execution and delivery of the Outstanding Notes, the CFC Notes, and this Mortgage has been duly and effectively taken; and the notes, obligations of the Mortgagor, the REA Additional Notes, the CFC Additional Notes and this Mortgage are, or when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

SECTION 2. The Mortgagor warrants that it has good right and lawful authority to mortgage the property described in the granting clauses of this Mortgage for the purposes herein expressed, and that the said property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or

affecting the title thereto, except (i) the lien of this Mortgage and taxes or assessments not yet due; (ii) deposits or pledges to secure payment of workmen's compensation, unemployment insurance, old age pensions or other social security; and (iii) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of borrowed money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business. The Mortgagor will, so long as any of the notes shall be outstanding, maintain and preserve the lien of this Mortgage superior to all other liens affecting the Mortgaged Property, and will forever warrant and defend the title to the property described as being mortgaged hereby to the Mortgagees against any and all claims and demands whatsoever. The Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such lien or charge might exist or could be created and any and all lawful taxes, rates, levies, assessments, liens, claims or other charges imposed upon or accruing upon any of the Mortgagor's property (whether taxed to the Mortgagor or to any noteholder), or the franchises, earnings or business of the Mortgagor, as and when the same shall become due and payable; and whenever called upon so to do the Mortgagor will furnish to the Mortgagees or to any noteholder adequate proof of such payment or discharge; *provided, however*, that this provision shall not be deemed to require the payment or discharge of any tax, rate, levy, assessment or other governmental charge while the Mortgagor is contesting the validity thereof by appropriate proceedings in good faith and so long as it shall have set aside on its books adequate reserves with respect thereto.

SECTION 3. Except to secure loans to the Mortgagor, or to a third party or parties the obligation of which is assumed by the Mortgagor, made or guaranteed by the Government or loans evidenced by CFC Notes or by CFC Additional Notes, in each case in the manner specified in section 1 of article I hereof, the Mortgagor will not, without the consent in writing of the Government, charge, assign, pledge, mortgage or otherwise encumber any of its property, real or personal, tangible or intangible, wheresoever located, which at the time is, or at any time may become, subject to the lien of this Mortgage, but in no event contrary to the provisions of section 2 of this article II, except that, in the event that the Mortgagor shall have duly applied for a loan from another lender or lenders which the Government shall have in writing approved and determined to be financially feasible for the Mortgagor, then the Mortgagor may obtain a commitment for such loan from such other lender or lenders and agree, if the Government consents thereto, to so encumber its property by amending this Mortgage to secure under this Mortgage, in such manner as the Government shall prescribe, the evidence of such loan from such other lender or lenders, and in such event CFC will consent to and execute and deliver, an amendment to this Mortgage, or such other instrument as may be appropriate, in order to secure such note or notes of such other lender or lenders under this Mortgage; *provided* that, by such amendment to this Mortgage or otherwise, such other lender or lenders shall receive substantially the same, and in no event greater, rights or powers than those granted to CFC under this Mortgage; and *provided, further* that, any charge, assignment, pledge, mortgage or other encumbrance incurred pursuant to this section 3 shall comply with the indenture, dated as of December 1, 1972, between CFC and Manufacturers Hanover Trust Company, as Trustee.

SECTION 4. The Mortgagor will duly and punctually pay the principal of and interest on the notes at the dates and places and in the manner provided therein, according to the true intent and meaning thereof, and all other sums becoming due thereunder and hereunder.

SECTION 5. The Mortgagor will at all times, so long as any of the notes shall be outstanding, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and to preserve and renew all franchises, rights of way, easements, permits and licenses now or hereafter to it granted or upon it conferred, and will comply with all valid laws, ordinances, regulations and requirements applicable to it or its property. The Mortgagor will not (1) without the approval in writing of the Government consolidate with or merge into any other corporation or permit any other corporation to merge into the Mortgagor or acquire all or substantially all of the business or assets of another corporation if such acquisition is analogous in purpose or effect to a merger or consolidation, or so consolidate or merge or permit any such merger or so acquire any such business or assets without the approval in writing of the holders of not less than 65% in principal amount of the notes at the time outstanding, which holders shall include the Government so long as it is a holder of any notes then outstanding (such holder or holders, including the Government so long as it is a holder of any notes then outstanding, being hereinafter sometimes called the "two-thirds noteholders") unless the corporation

surviving such transaction shall have assumed the payment of the notes and the performance of the Mortgagor's covenants in this Mortgage, or (2) without the approval in writing of the two-thirds noteholders, sell, lease or transfer (or make any agreement therefor) any capital asset, unless the fair market value of such asset is less than \$50,000 and the aggregate value of assets so sold, leased or transferred in any 12-month period is less than \$200,000 and the proceeds of such sale, lease or transfer, less ordinary and reasonable expenses incident to such transaction, are immediately (i) applied as a prepayment of the notes, *pro rata* according to the aggregate unpaid principal amount of the notes, to such installments thereof as may be designated by the respective noteholders at the time of any such prepayment, (ii) in the case of dispositions of equipment, materials or scrap, applied to the purchase of other property useful in the Mortgagor's business, not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the lien of this Mortgage or (iii) set aside as a deposit in the construction fund contemplated by Account Number 132.1 of the Uniform System of Accounts prescribed by REA for its Electric Borrowers (hereinafter, as in effect on the date hereof, called the "Uniform System of Accounts"). Any reference in this Mortgage to any Account Number of the Uniform System of Accounts shall apply to such Account Number included in the Uniform System of Accounts as of March 1, 1973, or to any other Account Number which may thereafter be prescribed with respect to the information contemplated by the Account Number herein specified; or, if no such Account Number shall be applicable after such date to the accounts of the Mortgagor for such information, such reference shall apply to the corresponding information otherwise determined in an appropriate manner.

SECTION 6. (a) The Mortgagor will at all times maintain and preserve the Mortgaged Property and each and every part and parcel thereof in good repair, working order and condition and in compliance with all applicable laws, regulations and orders, and will from time to time make all needful and proper repairs, renewals, and replacements, and useful and proper alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times keep its plant and properties in necessary continuous operating condition and use all reasonable diligence to furnish the consumers served by it through the Mortgaged Property, or any part thereof, with an adequate supply of electric energy and other services furnished by the Mortgagor. If any substantial part of the Mortgaged Property is leased by the Mortgagor to any other party, the lease agreement between the Mortgagor and the lessee shall obligate the lessee to comply with the provisions of subsections (a) and (b) of this section in respect of the leased facilities and to permit the Mortgagor to operate the leased facilities in the event of any failure by the lessee to so comply.

(b) The Mortgagor will cause the sum of the amount used during each period of five consecutive calendar years for maintenance, renewals, and replacements of the Mortgaged Property and any available Maintenance Credit (as hereinbelow defined), to be at least equal to the lesser (hereinafter called the "Standard") of either (i) 10% of the result obtained by deducting from the amount of Operating Revenues and Patronage Capital (as shown on line 32 of REA Bulletin 1-1 for Power Supply Borrowers, as now in effect with respect to each calendar year) of the Mortgagor for such five-year period, the sum of operating expenses as shown on lines 35, 36 and 37 of said REA Bulletin and Fixed Costs on Production Plant (Account Numbers 403.1, 408, 427, 924, 925 and 926, as shown on lines 18, 19, 20 and 21 of REA Form 12d, rev. 12/70, and the corresponding Accounts of REA Forms 12e and 12f, rev. 12/70, as applicable) of the Mortgagor for such five-year period, or (ii) 15% of the sum obtained by adding the amount charged to Depreciation and Amortization Expense (as shown on line 47 of said REA Bulletin) and Maintenance Expense-Total (as shown on line 42 of said REA Bulletin) of the Mortgagor for such five-year period.

The term "Maintenance Credit" shall mean the sum of (1) the excess of the amount used in each period of five consecutive calendar years for maintenance, renewals and replacements over the Standard during such five-year period and (2) the amount of such excesses from prior years, less amounts thereof previously utilized as permitted by this section.

The term "Maintenance Deficit" shall mean the amount by which the Standard in each period of five consecutive calendar years exceeds the sum of (1) the amount applied during such five-year period for maintenance, renewals and replacements and (2) the amount of any available Maintenance Credit.

The amount used for maintenance in each year shall be the amount shown for the Mortgagor for such year on line 42 of said REA Bulletin 1-1, as now in effect, and the amounts used for renewals and replacements shall be based upon improvements and replacements of Utility Plant associated with retirements thereof, less net salvage value.

In furtherance of the covenant contained in this subsection (b), the Mortgagor will, within five months after the close of the fifth complete calendar year after the year in which this Mortgage is executed, and within five months after the end of each five-year period following said fifth calendar year, furnish to the Mortgagees an Officer's Certificate, setting forth separately and in reasonable detail:

(1) The amount of Operating Revenues and Patronage Capital derived by the Mortgagor from the Mortgaged Property during the five preceding calendar years and the Mortgagor's Operation Expense-Total, Fixed Costs on Production Plant, Depreciation and Amortization Expense, and Maintenance Expense-Total for such five-year period;

(2) The amounts used during such five preceding calendar years for maintenance, renewals and replacements of the Mortgaged Property;

(3) Any Maintenance Credit not theretofore utilized as permitted by this section and the computation thereof; and

(4) The resulting Maintenance Credit or Maintenance Deficit.

In case any such Officer's Certificate shows a Maintenance Deficit, the Mortgagor shall either (i) immediately apply an amount equal to the largest integral multiple of \$1,000 which equals or is less than the amount so determined to the prepayment of the Notes, *pro rata* according to the unpaid principal amounts thereof (such prepayments to be applied to such installments thereof as may be designated by the respective noteholders at the time of any such prepayment), or (ii) immediately deposit the amount so determined in a bank or banks satisfactory to the Government to be held by such bank or banks in a Restricted Maintenance Fund in trust for the benefit of the noteholders pursuant to a trust agreement satisfactory to the Government; *provided, however*, that at the direction or with the approval of the Government, the Mortgagor may cause funds held in such Restricted Maintenance Fund to be applied to the making of expenditures for maintenance, renewals and replacements of the Mortgaged Property; *provided, further, however*, that in the event that there shall have been a balance in said Restricted Maintenance Fund at the end of each of two such consecutive reporting periods, the Government may thereafter cause the funds held therein to be applied as provided in clause (i) above; and *provided, further, however*, that in the event of such a Maintenance Deficit, the Mortgagor may promptly cause to be made an inspection of the Mortgaged Property by a professional engineer satisfactory to the Government and may cause to be issued a report of such engineer, satisfactory in form and substance to the Government, stating the minimal aggregate amount which, in his judgment, is then needed for maintenance, renewals, and replacement of the Mortgaged Property in accordance with sound industry practices, and in the event such amount shall be less than such Maintenance Deficit, the maximum amount which the Mortgagor shall be required to apply to prepayment or to deposit in a Restricted Maintenance Fund pursuant to this paragraph shall in all events be the amount so stated by such professional engineer.

In case any such certificate shows a Maintenance Credit, the Mortgagor may withdraw the amount of such Maintenance Credit from said Restricted Maintenance Fund to the extent that there is an accumulated balance therein, and the Government, as agent of the noteholders, shall in such case cause such withdrawal to be permitted.

The amount of any Maintenance Credit not utilized to reduce a Maintenance Deficit or so withdrawn from the Restricted Maintenance Fund shall be available until utilized for such purposes.

The Mortgagor agrees that it will, within five months after the close of each calendar year after the year in which the first Officer's Certificate is required to be furnished pursuant to the fifth paragraph of this subsection (b) (other than during years in which an Officer's Certificate is required to be furnished pursuant to said paragraph) furnish to the Mortgagees an Officer's Certificate, setting forth separately and in reasonable detail the amounts described in clauses (1) and (2) of said paragraph for the preceding

calendar year; *provided, however*, that the foregoing requirements to furnish the Officer's Certificate pursuant to this paragraph and the fifth paragraph of this subsection (b) shall not relieve the Mortgagor of the obligation to furnish any Officer's Certificate with respect to maintenance, renewals and replacements of the Mortgaged Property previously required under the REA Mortgage.

SECTION 7. Except as specifically authorized in writing in advance by the Government and subject in all events to the provisions of section 2 of this article II, the Mortgagor will purchase all materials, equipment and replacements to be incorporated in or used in connection with the Mortgaged Property outright, and not subject to any conditional sales agreement, chattel mortgage, bailment lease, or other agreement reserving to the seller any right, title or lien. The Mortgagor will not, without the approval in writing of the Government, become or be obligated under Long-Term Leases for the rental from others of Restricted Property if the aggregate amount of rentals thereunder accrued or which may accrue during any period of 12 calendar months shall exceed 2% of the Equity of the Mortgagor at the time any determination of such rental obligations is made hereunder. As used herein, the term "Equity" shall have the meaning assigned to it in section 16 of this article II. "Long-Term Leases" shall mean leases having unexpired terms (taking into account terms of renewal at the option of the lessor, whether or not such leases have theretofore been renewed) of more than 12 months, and "Restricted Property" shall mean all properties other than automobiles, trucks, trailers, tractors, other vehicles (including, without limitation, aircraft and ships), office, garage and warehouse space and office equipment (including, without limitation, computers).

SECTION 8. (a) The Mortgagor will take out, as the respective risks are incurred, and maintain the following classes and amounts of insurance: (1) fidelity bonds covering each officer and employee of the Mortgagor in not less than the following amounts, based on the estimated annual gross revenues of the Mortgaged Property:

<u>Annual Gross Revenue</u>		<u>Amount of Coverage</u>
Less than	\$ 200,000	\$ 10,000
\$200,001 to	400,000	20,000
400,001 to	600,000	40,000
600,001 to	800,000	60,000
800,001 to	1,000,000	80,000
over	1,000,000	100,000

and each collection agent of the Mortgagor shall be included in such fidelity bonds for not less than \$2,500, or 10 percent of the highest amount collected annually by any one collection agent, whichever is greater; (2) workmen's compensation insurance covering all employees of the Mortgagor, in such amounts as may be required by law, or if the Mortgagor or any of its employees are not subject to the workmen's compensation laws of the State or States in which the Mortgagor conducts its operations, then its workmen's compensation policy shall provide voluntary compensation coverage to the same extent as though the Mortgagor and such employees were subject to such laws; and including occupational disease liability coverage, and "additional medical" coverage of not less than \$10,000 in States where full medical coverage is not required by law; (3) public liability and property damage liability insurance, covering ownership liability, and all operations of the Mortgagor, with limits for bodily injury or death of not less than \$100,000 for one person and \$300,000 for each accident, and with limits for property damage of not less than \$50,000 for each accident and \$100,000 aggregate for the policy period; (4) liability insurance on all motor vehicles, trailers, semitrailers, and aircraft used in the conduct of the Mortgagor's business, whether owned, non-owned or hired by the Mortgagor, with bodily injury limits of not less than \$100,000 for one person and \$300,000 for each accident, and with property damage limits of \$25,000 for each accident; in connection with aircraft liability, also passenger bodily injury limits of \$100,000 per person and \$300,000 for each accident; (5) comprehensive, or separate fire, theft and windstorm insurance covering loss of or damage to all owned motor vehicles, trailers, and aircraft of the Mortgagor, having a unit value in excess of \$1,000, in an amount not less than the actual cash value of the property insured; (6) fire and extended coverage insurance, designating the Government and CFC as mortgagees in the policy.

on each building and its contents, and on any other property of the Mortgagor, other than power lines and other distribution facilities, including without limitation property situated at each storage location of materials and supplies, poles and crossarms, owned by the Mortgagor, having a value at any one location in excess of \$5,000, or in excess of one percent of the total plant value, whichever is larger, and in an amount not less than 80 percent of the current cost to replace the property new, less actual depreciation; and (7) boiler and machinery insurance, if the Mortgaged Property includes electric generating facilities, in an amount for each accident not less than the actual current cash value of the property of the Mortgagor and of other adjacent property that could be damaged thereby.

The Mortgagor will also, from time to time, increase or supplement the classes and amounts of insurance specified above to the extent requested by the Government or the holder or holders of not less than a majority in principal amount of the notes at the time outstanding (hereinafter called the "majority noteholders") or required to conform to the accepted practice of companies of the size and character of the Mortgagor. The Mortgagor will, upon request of either of the Mortgagees, submit to the Mortgagees a schedule of its insurance in effect on the date specified in such request and copies of any policies or contracts relating thereto.

The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities, including standard REA endorsements and riders used by the insurance industry to provide coverage for REA borrowers. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right of cancellation reserved to such insurer, such policy or contract shall continue in force for at least 10 days after written notice to the Mortgagees of cancellation.

(b) In the event of damage to or the destruction or loss of any portion of the Mortgaged Property which shall be covered by insurance, unless the Government shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed or lost portion so that the Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss, and shall apply the proceeds of the insurance for that purpose; *provided, however*, that in the event the Mortgagor, with agreement therefor by the Government, shall not so replace or restore such damaged, destroyed or lost portion of the Mortgaged Property, the Mortgagor shall apply the proceeds of the insurance as a ratable prepayment of or on account of the unpaid principal of the notes, to such installments thereof as may be designated by the respective noteholders at the time of any such payment. The Mortgagor shall replace the loss or shall commence such restoration promptly after such damage, destruction or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance all costs and expenses in connection therewith so that such replacement or restoration shall be so completed that the portion of the Mortgaged Property so replaced or restored shall be free and clear of all mechanics' liens and other claims.

Sums recovered under any fidelity bond by the Mortgagor for a loss of funds advanced under the notes or recovered by a Mortgagee for any loss under such bond shall, unless otherwise directed by the two-thirds noteholders, be applied to the prepayment of the notes, *pro rata* according to the unpaid principal amounts thereof (such prepayments to be applied to such installments thereof as may be designated by the respective noteholders at the time of any such prepayment), or to construct or acquire facilities approved by the Government, which will become part of the Mortgaged Property.

SECTION 9. In the event of the failure of the Mortgagor in any respect to comply with the covenants and conditions herein contained with respect to the procuring of insurance, the payment of taxes, assessments and other charges, the keeping of the Mortgaged Property in repair and free of liens and other claims or to comply with any other covenant contained in this Mortgage, either Mortgagee shall have the right (without prejudice to any other rights arising by reason of such default) to advance or expend moneys for the purpose of procuring such insurance, or for the payment of insurance premiums, taxes, assessments or other charges, or to save the Mortgaged Property from sale or forfeiture for any unpaid tax or assessment, or otherwise, or to redeem the same from any tax or other sale, or to purchase any tax title thereon, or to remove or purchase any mechanic's liens or other encumbrance thereon, or to make repairs thereon or to comply with any other covenant herein contained or to prosecute or defend any suit in

relation to the Mortgaged Property or in any manner to protect the Mortgaged Property and the title thereto, and all sums so advanced for any of the aforesaid purposes with interest thereon at the highest legal rate but not in excess of ten per centum (10%) per annum shall be deemed a charge upon the Mortgaged Property in the same manner as the notes at the time outstanding are secured and shall be forthwith paid to the Mortgagee making such advance or advances upon demand. It shall not be obligatory for any Mortgagee in making any such advances or expenditures to inquire into the validity of any such tax title, or of any of such taxes or assessments or sales therefor, or of any such mechanics' liens or other encumbrance. A Mortgagee acting hereunder shall not be liable to the Mortgagor, the other Mortgagee or any noteholder except for losses resulting from gross negligence or wilful misfeasance.

SECTION 10. The Mortgagor will not, without the approval in writing of the Government: (a) construct, make, lease, purchase or otherwise acquire any extensions or additions to its system or enter into any contract therefor, except such extensions or additions as may be financed with loans evidenced by additional notes; (b) enter into any contract or contracts for the operation or maintenance of all or any part of its property, for the purchase of electric power or energy, for the sale or resale, or for the sale to the ultimate consumer, of electric power and energy in excess of 1,000 kilowatts, for any transmission, interconnection or pooling arrangements, or for the use by others of any of its property; (c) incur any expenses for legal, engineering, supervisory, accounting or other similar services, except such reasonable expenses as are incurred in the routine course of business; or (d) deposit any of its funds, regardless of the source thereof, in any bank or other depository which is not a member of the Federal Deposit Insurance Corporation, or the successor thereof, or of a Federal Reserve Bank.

SECTION 11. The Mortgagor will not pay its directors, as such, any salaries for their services, except such as shall have been approved by the Government, *provided* that nothing herein contained shall preclude any director from serving the Mortgagor in any other capacity and receiving compensation therefor. Salaries and wages paid officers and employees shall be reasonable and in conformity with the usual practice of corporations of the size and nature of the Mortgagor.

SECTION 12. The Mortgagor will at all times keep, and safely preserve proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Mortgagor, in accordance with the methods and principles of accounting prescribed in the Uniform System of Accounts. The Mortgagor will prepare and furnish each of the Mortgagees not later than the 20th day of each month, or at less frequent intervals when specified by such Mortgagee, financial and statistical reports on its condition and operations. Such reports shall be in such form and include such information as may be specified by such Mortgagee, including, without limitation, an analysis of the Mortgagor's revenues, expenses and consumer accounts. The Mortgagor will cause to be prepared and furnished to each of the Mortgagees, at least once during each 12-month period during the term hereof, a full and complete report of its financial condition as of a date (hereinafter called the "Fiscal Date") not more than 90 days prior to the date such report is furnished to the Mortgagees hereunder, and of its operations for the 12-month period ended on the Fiscal Date, in form and substance satisfactory to the Government, audited and certified by independent certified public accountants satisfactory to the Government and accompanied by a report of such audit in form and substance satisfactory to the Government. Either Mortgagee, through its representatives, shall at all times during reasonable business hours have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, cancelled checks, statements and other documents and papers of every kind belonging to or in the possession of the Mortgagor or in anywise pertaining to its property or business.

SECTION 13. (a) The Mortgagor will from time to time upon written demand of the Government or CFC make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, deeds of trust, mortgages, financing statements, continuation statements, security agreements, instruments and conveyances as may reasonably be requested by the Government or CFC, and take or cause to be taken all such further action as may reasonably be requested by the Government or CFC to effectuate the intention of these presents and to provide for the securing and payment of the principal of and interest on the notes equally and ratably according to the terms thereof and for the purpose of fully conveying, transferring and confirming unto the Mortgagees the property hereby conveyed, mortgaged and pledged, or intended so to be, whether now

owned by the Mortgagor or hereafter acquired by it and to reflect the assignment of the rights or interests of either of the Mortgagees or of any noteholder hereunder or under any note. The Mortgagor will cause this Mortgage and any and all supplemental indentures of mortgage, mortgages and deeds of trust and every security agreement, financing statement, continuation statement and every additional instrument which shall be executed pursuant to the foregoing provisions forthwith upon execution to be recorded and filed and rerecorded and refiled as conveyances and mortgages and deeds of trust of and security interests in real and personal property in such manner and in such places as may be required by law or reasonably requested by either Mortgagee in order fully to preserve the security for the notes and to perfect and maintain the superior lien of this Mortgage and all supplemental indentures of mortgage, mortgages and deeds of trust and the rights and remedies of the Mortgagees and the noteholders.

(b) In the event that the Mortgagor suffers in the future a deficit in net income, as determined in accordance with methods of accounting prescribed in section 12 of article II hereof, for any fiscal year while any of the notes are outstanding, the Mortgagor will at any time or times upon written demand of the Government or CFC make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, mortgages, security agreements, financing statements, instruments and conveyances, and take or cause to be taken all such further action, as may reasonably be requested by either Mortgagee in order to include in this Mortgage as Mortgaged Property, and to subject to all the terms and conditions of this Mortgage, all right, title and interest of the Mortgagor in and to, all and singular, the automobiles, trucks, trailers, tractors, aircraft, ships and other vehicles then owned by the Mortgagor, or which may thereafter be owned or acquired by the Mortgagor. From and after the time of such written demand of the Government or CFC, such vehicles shall be deemed to be part of the Mortgaged Property for all purposes thereof.

SECTION 14. Any noteholder may, at any time or times in succession without notice to or the consent of the Mortgagor or any other noteholder and upon such terms as such noteholder may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of or interest on any note held by or indebtedness owed to such noteholder or who may be affected by the lien hereby created, an extension of the time for the payment of such principal or interest, and after such extension the Mortgagor will remain liable for the payment of such note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

SECTION 15. The Mortgagor, subject to applicable laws and rules and orders of regulatory bodies, will design its rates for electric energy and other services furnished by it with a view to paying and discharging all taxes, maintenance expenses, cost of electric energy and other operating expenses of its electric transmission and distribution system and electric generating facilities, if any, and also to making all payments in respect of principal of and interest on the notes when and as the same shall become due, to providing and maintaining reasonable working capital for the Mortgagor and to maintaining a Times Interest Earned Ratio (herein called "TIER") of not less than 1.0 and a Debt Service Coverage (herein called "DSC") of not less than 1.0. Where a change in design is proposed, the Mortgagor shall so redesign its rates to comply with the requirements of the preceding sentence, except that Net Patronage Capital or Margins, as defined below, shall be determined as though the rates proposed by the Mortgagor had been in effect for each of the 3 calendar years immediately preceding the date of such determination. The Mortgagor shall give 90 days prior written notice to each of the Mortgagees of any proposed change in its general rate structure.

For purposes of this section, TIER of the Mortgagor shall mean the average of the two largest ratios with respect to each of the three years (herein called the "test years") last preceding the date of the determination as to the adequacy of the design of rates, determined as follows: for each test year: add Net Patronage or Capital (as computed for purposes of Line B.29 on REA Form 12a) of the Mortgagor to Interest Expense (as computed for purposes of Line B.20 on REA Form 12a) of the Mortgagor, and divide the total so obtained by Interest Expense (as so computed) of the Mortgagor; *provided, however*, that in computing Interest Expense, there shall be added, to the extent not otherwise included, an amount equal to 33 1/3% of the excess of rentals of Restricted Property (as defined in section 7 of article II hereof) under Long-term Leases (as defined in section 7 of article II hereof) of the Mortgagor over 2% of the

Mortgagor's Equities and Margins (as defined in the Uniform System of Accounts). Any reference in this Mortgage to REA Form 12a shall apply to the 12/71 revision (or to the revision of any other date which may be specified) of such REA Form 12a or to any later revision thereof which shall have been at the time prescribed for use by REA; if some other form containing the corresponding information shall at the time be prescribed by REA, such reference shall apply to the corresponding item in such other form; or if no such form is applicable to the accounts of the Mortgagor, such reference shall apply to the corresponding information otherwise determined in a comparable manner.

For purposes of this section, DSC of the Mortgagor shall mean the average of the two largest ratios with respect to each of the test years, determined as follows: for each test year: add Net Patronage Capital or Margins (as computed in accordance with the principles set forth in the preceding paragraph hereof) and Interest Expense (as computed in accordance with the principles set forth in the preceding paragraph hereof) of the Mortgagor to Depreciation and Amortization Expense (an amount as computed for purposes of Line B.18 on REA Form 12a) of the Mortgagor, and divide the total so obtained by an amount equal to the sum of all payments of principal and interest required to be made during each of the test years on account of Total Long-Term Debt (as computed for purposes of Line A.35 on REA Form 12a, including interest computed in the same manner as Interest Expense, as provided above) of the Mortgagor; provided, however, that in the event that any Long-Term Debt (being any amount included in Total Long-Term Debt computed as provided above) has been refinanced during any test year the payments of principal and interest required to be made during such year on account of such Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payments of principal and interest required to be made during the following year on account of such refinancing debt.

SECTION 16. The Mortgagor will not, in any one year, without the approval in writing of the two-thirds noteholders, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other cash distributions (such dividends, refunds, retirements and other distributions being hereinafter collectively called "distributions"), to its members, stockholders or consumers if after giving effect to any such distribution the total Equity of the Mortgagor will not equal or exceed 40% of its total assets and other debts; *provided, however*, that the Mortgagor may nevertheless make distributions in any year up to 25% of the patronage capital and margins received by the Mortgagor in the next preceding year where after giving effect to any such distribution the total Equity of the Mortgagor will equal or exceed 20% of its total assets and other debts; and *provided, further, however*, that in no event will the Mortgagor make any distributions if there is unpaid when due any installment of principal or interest on the notes, if the Mortgagor is otherwise in default hereunder or if, after giving effect to any such distribution, the Mortgagor's total current and accrued assets would be less than its total current and accrued liabilities.

For the purpose of this section, a "cash distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Mortgagor, but not the repayment of a membership fee of not in excess of \$100 upon termination of a membership. As used or applied in this Mortgage (1) "Equity" shall mean the aggregate of Equities and Margins (as such terms are defined in the Uniform System of Accounts) and Subordinated Indebtedness; and (2) "Subordinated Indebtedness" shall mean unsecured indebtedness of the Mortgagor, payment of which shall be subordinated to the prior payment of the notes by subordination agreement in form and substance satisfactory to the Government.

SECTION 17. In the event that the Mortgaged Property, or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom, except to the extent that both of the Mortgagees shall consent to other use and application thereof by the Mortgagor, shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness by this Mortgage secured other than principal or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes, to such installments thereof as may be designated by the respective noteholders at the time of any

such payment, and, fourth, the balance shall be paid to whosoever shall be entitled thereto; *provided, however,* that any noteholder may cause funds to which it may be entitled under clause third hereof to be applied by the Mortgagor to the making of a deposit in the construction fund contemplated by Account 131.2 of the Uniform System of Accounts instead of causing such funds to be applied to the prepayment of any note held by such noteholder.

SECTION 18. The Mortgagor will not at any time employ, or enter into any contract for the employment of, any general manager of the Mortgagor's system or any person exercising comparable authority to such a manager, unless such employment or such contract shall first have been approved by the Government. If, during such periods as the Mortgagor shall be in default in the making of payment or payments of principal of or interest on one or more of the notes or otherwise be in default hereunder, the Government shall at any time give notice to the Mortgagor that in its opinion such system is not being efficiently operated and shall request the termination of the employment of any such manager or person exercising comparable authority, or shall request the termination of any operating contract in respect of any such system, the Mortgagor will terminate such employment or operating contract within thirty (30) days after the date of such notice. All contracts in respect of the employment of any such manager or person exercising comparable authority, or for the operation of any such system, shall contain provisions to permit compliance with the foregoing covenants.

SECTION 19. The Mortgagor will well and truly observe and perform all of the covenants, agreements, terms and conditions contained in the REA Loan Agreement, as from time to time amended, on its part to be observed or performed. The Mortgagor will promptly furnish each Mortgagee with written notice of any amendment or modification of the REA Loan Agreement, this Mortgage, the Contract of Guarantee, the Guaranty Agreement, the Financing Agreement or the Indenture and of the occurrence of any event of default thereunder. For purposes of this Mortgage, in the event of any inconsistency between the terms of this Mortgage and the terms of the REA Loan Agreement, as from time to time amended, the terms of this Mortgage shall govern.

SECTION 20. The Mortgagor will promptly notify the Mortgagees in writing of any change in location of its chief place of business or the office where its records concerning accounts and contract rights are kept.

SECTION 21. The Mortgagor will obtain all such rights of way, easements from landowners and releases from lienors as shall be necessary or advisable in the conduct of its business, and, if requested by either Mortgagee, deliver to such Mortgagee evidence satisfactory to such Mortgagee of the obtaining of such rights of way, easements or releases.

SECTION 22. The Mortgagor will not, without the written approval of the Government, hereafter make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guarantee, assume or otherwise become obligated or liable with respect to the obligations of, any person, firm or corporation, except (i) securities or deposits issued, guaranteed or fully insured as to payment by the United States Government or any agency thereof, (ii) Capital Term Certificates or other securities of CFC, (iii) capital credits resulting from the payment for power and energy purchased and actually received from a generating and transmission cooperative of which the Mortgagor is a member, (iv) loans, deposits, advances, investments, securities and obligations which the Mortgagor has, prior to the date hereof, committed itself to make, purchase or undertake, as the case may be, and as to which the Mortgagor has given the Mortgagees notice in writing prior to the date hereof, and (v) such other loans, deposits, advances, investments and obligations as may from time to time be made, purchased or undertaken by the Mortgagor; *provided, however,* that the aggregate cost of investments, plus the total unpaid principal amount of loans, deposits, advances and obligations, permitted under this clause (v) shall not at any time exceed 3% of the total utility plant (as such term is defined in the Uniform System of Accounts) of the Mortgagor.

SECTION 23. If all the notes issued to the Government have been paid and discharged while any of the CFC Notes are still outstanding, all rights and powers of the Government and the holders of notes issued to the Government under this Mortgage shall immediately vest in CFC and the holders of the CFC Notes, respectively, and, correspondingly, if all the CFC Notes have been paid and discharged while any of the

notes issued to the Government are still outstanding, all rights and powers of CFC and the holders of the CFC Notes under this Mortgage shall immediately vest in the Government and the holders of the notes issued to the Government, respectively. CFC, the Government, the Mortgagor and the noteholders shall execute and deliver such instruments, assignments, releases or other documents as shall be reasonably required to carry out the intention of this section.

SECTION 24. (a) The Mortgagor makes to each Mortgagee the same representations made by it in subsections (g), (h), (i), (j), (k), (l) and (n) of section 2.2 of the Financing Agreement and covenants and agrees with each Mortgagee that it will comply with the provisions of section 5.5 of the Financing Agreement.

(b) In the event that any representation by the Mortgagor contained in said subsections of section 2.2 of the Financing Agreement shall prove to be incorrect or untrue in any material respect, or the Mortgagor shall fail to observe or perform any covenant or agreement contained in section 5.5 of the Financing Agreement and as a result the Bonds shall have been accelerated in accordance with the terms of the Indenture, the Mortgagor will pay amounts thereupon due on account of the Bonds at the time specified in article III, section 2(b)(2) hereof. To the extent that it has insufficient funds available for this purpose from other sources, the Mortgagor will apply to CFC for a long-term loan, the proceeds of which will be used to make such payments on the Bonds; and if the Government gives written approval to the CFC Additional Note or Notes evidencing such CFC loan in accordance with article I, section 1 hereof, CFC agrees to make such loan, upon substantially the same terms and conditions as shall be then generally applicable to CFC long-term loan to its power supply members.

ARTICLE III

REMEDIES OF THE MORTGAGEES AND NOTEHOLDERS

SECTION 1. If one or more of the following events (hereinafter called "events of default") shall happen, that is to say:

(a) default shall be made in the payment of any installment of or on account of interest on, premium, if any, or principal of any note or notes when and as the same shall be required to be made whether by acceleration or otherwise;

(b) any representation or warranty made by the Mortgagor herein, in the REA Loan Agreement or in any certificate delivered hereunder or thereunder shall prove to have been incorrect or untrue in any material respect;

(c) default shall be made in the due observance or performance of any of the covenants, conditions or agreements on the part of the Mortgagor contained in sections 3, 4, 5, 7, 10, 16, 22 and 24(a) of article II hereof;

(d) default shall be made in the due observance or performance of any other of the covenants, conditions or agreements on the part of the Mortgagor, in any of the notes or in this Mortgage contained, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Mortgagor by any noteholder;

(e) the Mortgagor shall file a petition in bankruptcy or be adjudicated a bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization or proceedings instituted by others for its reorganization shall not be dismissed within thirty (30) days after the institution thereof;

(f) a receiver, trustee or liquidator of the Mortgagor or of any substantial portion of its property shall be appointed and the order appointing such receiver, trustee or liquidator shall not be vacated within thirty (30) days after the entry thereof;

(g) the Mortgagor shall forfeit or otherwise be deprived of its corporate charter or franchises, permits, easements or licenses required to carry on any material portion of its business;

(h) a final judgment shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of thirty (30) days; or

(i) a violation of the terms of any subordination agreement delivered pursuant to section 16 of article II hereof shall have occurred;

then in each and every such case the Government, may, on behalf of all the noteholders, to the extent permitted by applicable state law, in its discretion

(aa) without protest, presentment or demand, declare all unpaid principal of and accrued interest on the notes to be due and payable immediately; and upon any such declaration all such unpaid principal and accrued interest so declared to be due and payable, shall become and be due and payable immediately, anything contained herein or in any note or notes to the contrary notwithstanding;

(bb) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues and profits pertaining to or arising from the Mortgaged Property, or any part thereof, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable;

(cc) proceed to protect and enforce the rights of the Mortgagees and the rights of the noteholder or noteholders under this Mortgage by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed most effectual to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit, the Government shall have the right, irrespective of the adequacy of the security, to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues and profits pertaining thereto or arising therefrom derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers in like and similar cases, to the fullest extent permitted by law, and if application is made hereunder for the appointment of a receiver the Mortgagor hereby expressly consents that the court to which such application shall be made may, irrespective of the adequacy of the security, make said appointment; and

(dd) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction or otherwise, as may be prescribed or permitted, and in the manner prescribed or permitted by applicable law.

SECTION 2. (a) Upon the expiration of 30 days after the happening of an event or events of default, any right or remedy herein or by law conferred which the Government shall not have proceeded to exercise or enforce may, to the extent permitted by applicable state law, be exercised and enforced by the majority noteholders on behalf of all the noteholders.

(b) Notwithstanding the remedial rights of the Government provided for in section 1 of this article III and of the majority noteholders provided for in subsection (a) of this section 2:

(1) upon the occurrence of any event of default described in section 1(a) of this article III in respect of any CFC Note or CFC Additional Note, (i) if such event of default, or any other event of default under such section in respect of any CFC Note or CFC additional Note (herein called "non-payment event of default") shall not have been cured after the expiration of 360 days from the initial occurrence of a non-payment event of default and (ii) if after the expiration of such 360 days CFC

shall, in writing, request the Government to exercise the remedy provided for in section 1(bb) of this article III, then the Government shall, on or before the expiration of sixty (60) days from the date of such written request, exercise such remedy on behalf of all the noteholders if, and to the extent, permitted by applicable law. If the Government fails to exercise such remedy at such time, and if the non-payment event of default first occurring, or any other such event of default, shall not have been cured, CFC may forthwith exercise the remedy provided in said section 1(bb) on behalf of all the noteholders. If, upon the expiration of 720 days after the occurrence of the initial non-payment event of default, such initial non-payment event of default or any other subsequently occurring non-payment event of default shall not have been cured, CFC may exercise on behalf of all the noteholders any right or remedy described in section 1 of this article; and

(2) if any representation by the Mortgagor contained in section 24(a) of article II hereof shall prove to be incorrect or untrue in any material respect, or the Mortgagor shall fail to observe or perform any covenant or agreement contained in said section 24(a), and a ruling is made to the effect that as a result of such incorrect or untrue representation or failure by the Mortgagor, the interest payable on the Bonds is includible in the gross income for Federal Income Tax purposes of the holder of holders thereof (other than a "substantial user" of the pollution control facilities as provided in section 103(b)(7) of the Internal Revenue Code or a "related person" as defined in section 103(b)(6)(c) thereof), such ruling being either by: (i) the Internal Revenue Service in a published or private ruling or technical advice memorandum in which the Mortgagor has been given the opportunity to participate directly or through any holder or holders of any of the Bonds and the effect of which ruling or memorandum the Mortgagor, in its discretion, does not contest by any appropriate legal judicial proceeding directly or through any holder or holders of any of the Bonds, or (ii) a final determination by any court of competent jurisdiction in the United States in a proceeding in which the Mortgagor has been given an opportunity to participate directly or through any holder or holders of any of the Bonds, and if the Bonds have been accelerated because of such ruling, and the Mortgagor has not paid the amounts due on the Bonds as a result of such acceleration within 120 days after the Mortgagor obtains knowledge of the ruling, CFC may exercise on behalf of all the noteholders any right or remedy described in section 1 of this article III; and

(3) if, in the opinion of counsel satisfactory to the Government, the Government may not lawfully act on behalf and for the benefit of all noteholders other than the Government, CFC shall have the right to exercise any right or remedy described in section 1 of this article III: (i) immediately upon the Government's exercise of any right or remedy hereunder; or (ii) on a date 120 days or more after the occurrence of an event of default, which is then continuing, if the Government has failed, prior to such date, to exercise any right or remedy hereunder.

(c) CFC may, at any time or times, by specific performance or injunctive action, obtain compliance by the Mortgagor with any covenant of the Mortgagor herein (other than covenants providing for payments on account of the notes) which expressly runs to CFC as such (whether referred to as "CFC" or as a "Mortgagee") and which expressly provides for or requires the consent of, approval of, notice to, or request or direction by, CFC as such (whether referred to as "CFC" or as a "Mortgagee") contained in the fifth and ninth paragraphs of section 6(b), the second paragraph of section 8(b), sections 12, 13, 15, 17, 19, 20 and 24(a), of article II hereof, section 3 of article III hereof and section 8 of article V hereof, and any covenants or agreements which run to CFC (whether referred to as "CFC" or as a "Mortgagee") added by amendment of this Mortgage pursuant to the provisions of section 8 of article V hereof.

(d) The holder of any CFC Note or CFC Additional Note may declare all unpaid principal of, premium, if any, and interest on all outstanding CFC Notes and CFC Additional Notes to be due and payable immediately, in the manner described in section 1(aa) of this article III, if: (i) the Government or any person other than such holder or the Trustee shall have duly caused acceleration on account of any of the notes; or (ii) any of the events of default specified in section 1(e) or (f) of this article III shall have occurred at the instance of any person (including the Government) other than such holder or the Trustee.

(e) Nothing in this Mortgage contained shall affect or impair the right, which is absolute and unconditional, of any holder of any CFC Note or any other note which may be secured hereby, to enforce the payment of the principal of, premium, if any, or interest on such note on the date or dates any such

interest, premium or principal shall become due and payable, whether by acceleration or otherwise, in accordance with the terms of such note; *provided, however*, that no such acceleration by any holder of any CFC Note shall be effective unless pursuant to section 2(b) or section 2(d) of this article III.

SECTION 3. The Mortgagor covenants that it will give immediate written notice to both of the Mortgagees and to all of the noteholders of the occurrence of any event of default or in the event that any right or remedy described in clauses (aa) through (dd) of section 1 of this article III is exercised or enforced, or any action is taken to exercise or enforce any such right or remedy. Each Mortgagee covenants that it will give immediate written notice to the other Mortgagee and to all of the noteholders of the occurrence of any event of default of which it has knowledge or in the event that such Mortgagee exercises or enforces any right or remedy described in said clauses (aa) through (dd), or takes any action to exercise or enforce any such right or remedy.

SECTION 4. At any sale hereunder any noteholder or noteholders shall have the right to bid for and purchase the Mortgaged Property, or such part thereof as shall be offered for sale.

SECTION 5. Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies and any other sums received by the Mortgagees, the disposition of which is not otherwise herein specifically provided for, shall be applied (except to the extent that any note provides for subordination thereof) first, to the payment of indebtedness hereby secured other than the principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and which shall be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes; and the balance, if any, shall be paid to whosoever shall be entitled thereto. Any proceeds or funds collected by the Government under this Mortgage for the account or benefit of, or which are distributable or attributable to, CFC or any holder of any note other than an outstanding REA Note or other note issued to the Government are not payments of principal of or interest on the outstanding REA Note or other note issued to the Government as contemplated by 7 United States Code Annotated Section 903(f) and shall be held by the Government in trust for the benefit of CFC or such holder, as the case may be, and in no event shall be deemed to be moneys received for the use of the United States of America as contemplated by 31 United States Code Annotated.

SECTION 6. Every right or remedy herein conferred upon or reserved to the Mortgagees or to the noteholders shall be cumulative and shall, except as otherwise limited herein, be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy hereunder shall not be deemed to be an election and shall not preclude the pursuit of any other right or remedy.

SECTION 7. The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisal, valuation, stay, extension or redemption laws now or hereinafter in force in any locality where any of the Mortgaged Property may be situated and the Mortgagor, for itself and all who may claim through or under it, hereby waives the benefit of all such laws unless such waiver shall be forbidden by law.

SECTION 8. If at any time after an event of default and prior to the institution of foreclosure proceedings, all payments in respect of principal and interest which shall have become due and payable by the terms of the notes shall be paid to the respective noteholders, and all other defaults hereunder and under the notes shall have been cured, together with reimbursement for any resulting expense or damage, to the satisfaction of all the noteholders, together with interest at the highest legal rate but not in excess of ten per centum (10%) per annum, then and in every such case, the Mortgagee or Mortgagees who shall have instituted any of the foregoing remedies may, by written notice to the Mortgagor, waive such default or defaults, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 9. For purposes of this article III, to the extent permitted by applicable state law, each noteholder appoints the Mortgagee or Mortgagees exercising any remedy as above provided as its attorney(s)-in-fact for such purpose.

SECTION 10. Nothing herein contained shall be deemed to authorize the Mortgagees to authorize or consent to or accept or adopt on behalf of any noteholder any plan of reorganization, arrangement, adjustment or composition affecting the notes or the rights of any holder thereof, or to authorize the Mortgagees to vote in respect of the claim of any noteholder in any such proceeding.

SECTION 11. Any rights of action and claims under this Mortgage or the notes may be prosecuted and enforced by the Mortgagee or Mortgagees prosecuting and enforcing the same without the possession of any of the notes, or the production thereof in any proceeding relating thereto, and, to the extent permitted by applicable state law, any such proceeding instituted by either Mortgagee shall be brought in its own name as attorney-in-fact for the noteholders, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Mortgagees, their agents and counsel, be for the ratable benefit of the noteholders in respect of which such judgment has been recovered.

ARTICLE IV

POSSESSION UNTIL DEFAULT—DEFEASANCE CLAUSE

SECTION 1. Until some one or more of the events of default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

SECTION 2. If the Mortgagor shall well and truly pay or cause to be paid the whole amount of the principal of and interest on the notes at the times and in the manner therein provided, according to the true intent and meaning thereof, and shall also pay or cause to be paid all other sums payable under the REA Loan Agreement, as amended from time to time, and hereunder by the Mortgagor and shall well and truly keep and perform, according to the true intent and meaning of this Mortgage, all covenants herein required to be kept and performed by it, then and in that case, all property, rights and interests hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagees and the noteholders shall thereupon cease, determine and become void and the Mortgagees and the noteholders, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of this Mortgage upon the record. In any event, each noteholder, upon payment in full to him by the Mortgagor of all principal of and interest on any note held by him and the payment and discharge by the Mortgagor of all charges due to such noteholder hereunder, shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

ARTICLE V

MISCELLANEOUS

SECTION 1. It is hereby declared to be the intention of each of the parties hereto that all electric generating plants and appurtenances thereto, transmission and distribution lines, or systems, embraced in the Mortgaged Property, including, without limitation, all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the construction, operation or maintenance of such plants, lines, or systems, and all service and connecting lines, poles, posts, crossarms, wires, cables, conduits, mains, pipes, tubes, transformers, insulators, meters, electrical connections, lamps, fuses, junction boxes and fixtures forming part of, or used in connection with, such plants, lines, or systems, and all other property physically attached to any of the foregoing-described property, shall be deemed to be real property.

SECTION 2. All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagees shall pass to and inure to the benefit of the successors and assigns of the Mortgagees and shall be deemed to be granted or conferred for the ratable benefit and security of all who shall from time to time be the holders of notes executed and delivered as herein provided. The Mortgagor and each of the Mortgagees hereby agree to execute and deliver such consents, acknowledgments and other instruments as may be reasonably requested by either of the Mortgagees or any noteholder in connection with any assignment of the rights or interests of either Mortgagee or any noteholder hereunder or under the notes. Notwithstanding the foregoing, no sale, assignment or transfer of any CFC Notes or any CFC Additional Notes and no assignment of any right or power of CFC hereunder, shall be effective as against the Government or the Mortgagor, unless such sale, assignment or transfer shall have been previously approved in writing by the Government, it being understood that no such approval shall be required for or in connection with any assignment, transfer, mortgage, hypothecation or pledge (hereinafter called a "security interest"): (i) by CFC of any CFC Note, CFC Additional Notes or any right or power of CFC or the holder of any CFC Notes or CFC Additional Notes hereunder in connection with a borrowing by CFC, which security interest provides that the rights and powers of CFC and the holders of such notes under the terms of such notes and this Mortgage shall be exercised by the holders thereof or CFC unless and until a default by CFC exists under the terms governing such security interest and that the restrictions herein contained shall not apply to any sale, assignment, transfer or other disposition pursuant to the terms governing such security interest and shall not apply to any such disposition by any person other than CFC; or (ii) by CFC of any CFC Note or CFC Additional Note pursuant to the Guaranty Agreement.

SECTION 3. All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if mailed by registered mail addressed to the proper party or parties at the following addresses:

As to the Mortgagor:

South Mississippi Electric Power Association
P.O. Box 1589
Hattiesburg, Mississippi 39401

As to the Mortgagees:

CFC: National Rural Utilities
Cooperative Finance Corporation
1115 30th Street, N.W.
Washington, D.C. 20007

The Government:
Rural Electrification
Administration
Washington, D.C. 7

and as to any other person, firm, corporation, or governmental body or agency having an interest herein by reason of being the holder of any note or otherwise, at the last address designated by such person, firm, corporation, governmental body or agency to the Mortgagor and the Mortgagees. The Mortgagor or the Mortgagees may from time to time designate to each other a new address to which demands, notices, reports, approvals, designations or directions may be addressed and from and after any such designation the address designated shall be deemed to be the address of such party in lieu of the address hereinabove given.

SECTION 4. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Mortgage shall not affect the remaining portions hereof, nor shall any such invalidity as to one Mortgagee or as to any holder of notes hereunder affect the rights hereunder of the other Mortgagee or any other holder of notes.

SECTION 5. Accounting terms not referred to above are used in this Mortgage in accordance with the meanings given them in the Uniform System of Accounts or, failing provision therefor in said System, the meanings given them by generally accepted accounting practices. Any reference herein to "directors" or "board of directors" shall be deemed to mean "trustee" or "board of trustees", as the case may be.

SECTION 6. To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the Uniform Commercial Code this Mortgage is hereby deemed a "security agreement" under the Uniform Commercial Code, and a "financing statement" under the Uniform Commercial Code for said security agreement. The mailing addresses of the Mortgagor as debtor, and of the Mortgagees as secured parties, are as set forth in section 3 of this article V.

SECTION 7. The Mortgagor agrees to indemnify and save harmless each of the Mortgagees against any liability or damages which either of them may incur or sustain in the exercise and performance of their powers and duties hereunder. For such reimbursement and indemnity, the Mortgagees shall be secured under this Mortgage in the same manner as the notes and all such reimbursements for expense or damage shall be paid to the Mortgagees incurring or suffering the same with interest at the rate specified in section 9 of article II hereof.

SECTION 8. Notwithstanding any other provisions of this Mortgage, the consent of CFC or any holder of any of the CFC Notes or CFC Additional Notes shall not be required for any amendment of this Mortgage for any one or more of the following purposes:

(a) to convey, transfer and assign to the Mortgagees and to subject to the lien of this Mortgage, with the same force and effect as though included in the granting clause hereof, additional property;

(b) to add to the covenants of the Mortgagor further covenants, restrictions or conditions for the protection of the holders of the notes secured hereby, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a default or an event of default permitting the enforcement of any or all of the several remedies provided in this Mortgage as herein set forth; *provided, however*, that in respect of any such additional covenant, restriction or condition such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults, but in no event longer than thirty days) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Mortgagees upon such default;

(c) to increase the amount of the Maximum Debt Limit specified in the Instruments Recital.

SECTION 9. At all times when any note is held by the Government, or in the event the Government shall assign a note without having insured the payment of such note, this Mortgage shall secure payment of such note for the benefit of the Government or such uninsured holder thereof, as the case may be. Whenever any note may be sold to an insured purchaser, it shall continue to be considered a "note" as defined herein, but as to any such insured note the Government, and not such insured purchaser, shall be considered to be, and shall have the rights of, the noteholder for purposes of this Mortgage. Notice of the rights of the Government under the preceding sentence shall be set forth in all such insured notes. As to any note which may evidence a loan or loans guaranteed pursuant to the Act, the Government, and not the guaranteed lender or lenders, shall be considered to be, and shall have the rights of, the noteholder for purposes of this Mortgage.

SECTION 10. In the event that the Pollution Control Note and the CFC Guaranty Note shall not have been executed and delivered on or before June 1, 1978, no CFC Notes or CFC Additional Notes shall be secured by the Mortgage unless otherwise provided by or in a supplement to this Mortgage duly authorized, executed and delivered.

SECTION 11. Any reference herein to the Administrator shall be deemed to mean the Administrator of the Rural Electrification Administration or his duly authorized representative or any other person or authority in whom may be vested the duties and functions which the Administrator is now or may hereafter be authorized by law to perform.

SECTION 12. This Mortgage may be simultaneously executed in any number of counterparts, and all said counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SCHEDULE I

Property Schedule

(a) The Existing Electric Facilities are located in the Counties of Adams, Amite, Covington, Forrest, Franklin, George, Greene, Jasper, Jefferson-Davis, Jones, Lamar, Lincoln, Lawrence, Marion, Newton, Pearl River, Perry, Pike, Rankin, Scott, Simpson, Smith, Stone, Wayne and Wilkinson, in the State of Mississippi, and in the Counties of Ball, Clay, Leslie and Harlan in the Commonwealth of Kentucky.

(b) The property referred to in the last two lines of paragraph I of the Granting Clause includes the following:

1. A certain tract or parcel of land in Forrest County, Mississippi, described in the following deeds:
 - (a) A certain deed, dated September 14, 1973, by Fannie G. Brown, a widow, et al, heirs at law of Louis W. Brown, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 385, on page 191;
 - (b) A certain deed dated October 6, 1973, by Doris L. Brown Martin Chambliss, an heir at law of Louis W. Brown, deceased, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 385, on page 183;
 - (c) A certain deed, dated September 20, 1973, by Joan L. Brown Loftin, an heir of Louis W. Brown, deceased, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 385, on page 179;
 - (d) A certain deed, dated October 16, 1973, by Ona Faye Brown Gunthrope, an heir at law of Louis W. Brown, deceased, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 385, on page 187;
2. A certain tract of land described in a certain deed, dated March 5, 1970, by Walter L. Beech, Sr., and Bessie M. Beech, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 145, on pages 219-221;
3. A certain tract of land described in a certain deed, dated May 31, 1968, by Luke Hinton and Malissia Hinton, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Perry County, in the State of Mississippi, in Deed Book LD-27, on pages 412-14;

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Mortgagor, has caused this Supplemental Mortgage and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, has caused this Supplemental Mortgage and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and UNITED STATES OF AMERICA, as Mortgagee, has caused this Supplemental Mortgage and Security Agreement to be duly executed in its behalf, all as of the day and year first above written.

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

by [Signature]
President

(Seal)
Attest: [Signature]
Secretary

Executed by the Mortgagor in the presence of:

[Signature]
[Signature]
Witnesses

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

by [Signature]
Governor

(Seal)
Attest: [Signature]
Ira Shesser
Assistant Secretary

Executed by National Rural Utilities Cooperative Finance Corporation, Mortgagee, in the presence of:

[Signature]
[Signature]
Witnesses

UNITED STATES OF AMERICA

by [Signature]
Acting Administrator
of
Rural Electrification
Administration

Executed by United States of America, Mortgagee, in the presence of:

[Signature]
[Signature]
Witnesses

4. A certain tract of land described in a certain deed, dated August 16, 1971, by Willie McDonald, and Sebell McDonald, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Perry County, in the State of Mississippi, in Deed Book LD-38, on pages 87-8;
5. A certain tract or parcel of land in Perry County, Mississippi, described in the following deeds:
 - (a) A certain deed dated July 19, 1971, by Luke Hinton, a widower, et al, heirs at law of Malissia Hinton, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Perry County, in the State of Mississippi, in Deed Book LD-38, on pages 55-59;
 - (b) A certain deed dated July 30, 1971, by Ray Hinton, et al, heirs at law of Malissia Hinton, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Perry County, in the State of Mississippi, in Deed Book LD-38, on pages 60-65;
6. A certain tract of land described in a certain deed, dated December 29, 1959, by E. M. Windham, Jr., as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 72, on page 424;
7. A certain tract of land described in a certain deed, dated December 29, 1959, by Charity Windham, a widow, et al, heirs of E. M. Windham, Sr., deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 72, on page 426;
8. A certain tract of land described in a certain deed, dated January 29, 1968, by Charity Windham, a widow, et al, heirs of E. M. Windham, Sr., deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 132, on pages 171-73;
9. A certain tract of land described in a certain deed, dated July 26, 1973, by T. J. Flynt of Juanita C. Flynt, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 170, on pages 575-76;

10. A certain tract of land described in a certain deed, dated August 9, 1968, by A. P. Rahaim and Helen Rahaim, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Perry County, in the State of Mississippi, in Deed Book LD-28, on pages 258-9;
11. A certain tract of land described in a certain deed, dated October 16, 1968, by Ruby Alma Wooley, a widow, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Jefferson Davis County, in the State of Mississippi, in Deed Book 87, on page 543;
12. A certain tract of land described in a certain deed, dated October 22, 1968, by B. O. Phillips and Vermell Phillips, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jasper County, in the State of Mississippi, in Deed Book 53, on pages 115-16;
13. A certain tract of land described in a certain deed, dated March 15, 1968, by Roy Cook, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Marion County, in the State of Mississippi, in Deed Book 595, on page 521;
14. A certain tract of land described in a certain deed, dated May 13, 1971, by M. S. Gatlin, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Wayne County, in the State of Mississippi, in Deed Book 433, on pages 227-29;
15. A certain tract or parcel of land in Amite County, Mississippi, described in the following deeds:
 - (a) A certain deed dated March 3, 1973, by Esau P. Steptoe, et al, heirs at law of Charles Steptoe, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Amite County, in the State of Mississippi, in Deed Book 166, on pages 219-21;
 - (b) A certain deed, dated March 1, 1973, by R. J. Steptoe, an heir at law of Charles Steptoe, deceased, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery court of Amite County, in the State of Mississippi, in Deed Book 166, on pages 216-18;
 - (c) A certain deed, dated March 10, 1973, by E. W. Steptoe, et al, heirs at law of Charles Steptoe, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Amite County, in the State of Mississippi, in Deed Book 166, on pages 222-24;

- (d) A certain deed, dated April 24, 1973, by Louis Steptoe and Albert Steptoe, heirs at law of Charles Steptoe, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Amite County, in the State of Mississippi, in Deed Book 166, on pages 449-51;
- (e) A certain deed, dated April 24, 1973, by Easter McClinton James and Flanders McClinton, Jr., heirs at law of Charles Steptoe, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Amite County, in the State of Mississippi, in Deed Book 166, on pages 446-48;
16. A certain tract of land described in a certain deed, dated March 7, 1968, by Virginia Lou Lucas Milstead and J. J. Milstead, her husband, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Greene County, in the State of Mississippi, in Deed Book P-2, on page 333;
17. A certain tract of land described in a certain deed, dated March 29, 1969, by Edward N. Garner, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jasper County, in the State of Mississippi, in Deed Book 36, on pages 93-5;
18. A certain tract of land described in a certain deed, dated July 1, 1971, by Walter A. Cochran and Mrs. Katie Cochran, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Wayne County, in the State of Mississippi, in Deed Book 433, on pages 451-53;
19. A certain tract of land described in a certain deed, dated March 26, 1968, by Sim Clark, Jr., and Mary Virginia Clark, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Chancery Clerk of the Chancery Court of George County, in the State of Mississippi, in Deed Book 76, on pages 378-79;
20. A certain tract of land described in a certain deed, dated May 3, 1971, by Masonite Corporation, a corporation in the laws in the State of Delaware, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jasper County, in the State of Mississippi in Deed Book 39, on pages 295-99;

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21. A certain tract of land described in a certain deed, dated June 17, 1969, by C. I. Moore and Wilma Moore, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the Second Judicial District of Jones County, in the State of Mississippi, in Deed Book 344, on page 172;
22. A certain tract of land described in a certain deed, dated October 6, 1969, by Edith Harris, et al, heirs at law of T. L. Harris, deceased, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Newton County, in the State of Mississippi, in Deed Book 143, on page 272;
23. A certain tract or parcel of land in the First Judicial District of Jones County, Mississippi, described in the following deeds:
 - (a) A certain deed dated June 24, 1971, by Stewart Gammill, III, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 153, on pages 214-16;
 - (b) A certain deed, dated September 8, 1972, by L. O. Crosby, III, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of the First Judicial District of Jones County, in the State of Mississippi, in Deed Book 164, on pages 531-32;
24. A certain tract or parcel of land in Forrest County, Mississippi, described in the following deeds:
 - (a) A certain deed, dated September 30, 1971, by Ray E. Davis, Jr., and Doris Davis Sennett, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 353, on page 546;
 - (b) A certain deed, dated September 27, 1971, by W. W. Hutto and Ray E. Davis, Jr., as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 353, on page 544;
 - (c) A certain deed, dated October 12, 1971, by LeRoy Wheat and Alline Wheat, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 354, on page 171;

- (d) A certain deed, dated October 28, 1971, by Fannie Lou Wheat and Rosemary W. Matthews, as grantors to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 354, on page 493;
- (e) A certain deed, dated October 28, 1971, by Fannie Lou Wheat and Rosemary W. Matthews, as grantors, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 354, on page 495;
- (f) A certain deed, dated November 5, 1971, by Jessie M. Hudson, as grantor, to the Mortgagor, as grantee, and recorded in the Office of the Clerk of the Chancery Court of Forrest County, in the State of Mississippi, in Deed Book 355, on page 36;
25. A certain tract of land described in a certain deed dated June 24, 1974, by W. S. Tatum, et al, as grantors, to the mortgagor as grantee, and recorded in the Office of the Clerk of the Chancery Court of Lamar County, in the State of Mississippi, in Deed Book 5-K, on page 142;
26. A certain tract of land described in a certain deed dated May 3, 1974, by Charles Bringardner, et al, as grantors, to the mortgagor as grantee, and recorded in the Office of the Clerk of the County Court of Harlan, County, in the State of Kentucky, in Deed Book 211, on page 1, and recorded in the Office of the Clerk of the County Court of Clay County, in the State of Kentucky, in Deed Book 146, on pages 141 through 382, and recorded in the Office of the Clerk of the County Court of Leslie County, in the State of Kentucky, in Deed Book 77, on pages 283 through 510, and recorded in the Office of the Clerk of County Court of Bell County, in the State of Kentucky, in Deed Book 211, pages 762 through 928, in Deed Book 212, on pages 1 through 61; subject to the liens of certain purchase money mortgages all executed and delivered by the Mortgagor as follows:

<u>Grantee</u>	<u>Date</u>	<u>Recording Data</u>
Constance Bringardner	May 3, 1974	Office of Clerk of the County Court of Leslie County, Kentucky Mtg. Book 15 page 187
		Office of Clerk of the County Court of Clay County, Kentucky Mtg. Book 51 page 42
		Office of Clerk of the County Court of Bell County, Kentucky Mtg. Book 68 page 155

POOR ORIGINAL

Grantee

Date

Recording Data

Joan Bringardner

May 3, 1974

Office of Clerk of the County Court
of Harlan County, Kentucky
Mtg. Book 112 page 400

Office of the Clerk of the County Court
of Leslie County, Kentucky
Mtg. Book 15 page 185

Office of the Clerk of the County Court
of Clay County, Kentucky
Mtg. Book 51 page 35

Office of the Clerk of the County Court
of Bell County, Kentucky
Mtg. Book 65 page 139

Office of the Clerk of the County Court
of Harlan County, Kentucky
Mtg. Book 112 page 392

Don Bringardner

May 3, 1974

Office of the Clerk of the County Court
of Leslie County, Kentucky
Mtg. Book 15 page 190

Office of the Clerk of the County Court
of Clay County, Kentucky
Mtg. Book 51 page 49

Office of the Clerk of the County Court
of Bell County, Kentucky
Mtg. Book 68 page 163

Office of the Clerk of the County Court
of Harlan County, Kentucky
Mtg. Book 112 page 408

Fred Bringardner

May 3, 1974

Office of the Clerk of the County Court
of Leslie County, Kentucky
Mtg. Book 15 page 178

Office of the Clerk of the County Court
of Clay County, Kentucky
Mtg. Book 51 page 21

Office of the Clerk of the County Court
of Bell County, Kentucky
Mtg. Book 68 page 131

Office of the Clerk of the County Court
of Harlan County, Kentucky
Mtg. Book 112 page 376

POOR ORIGINAL

27. A certain tract of land described in a certain deed, dated June 24, 1974, by Mrs. Dimple Rutledge Grumblés, as grantor, to the mortgagor as grantee, and recorded in the Office of the Clerk of the Chancery Court of Lamar County, in the State of Mississippi, in Deed Book 5-K, on page 190;
28. A certain tract of land described in a certain deed, dated December 3, 1974, by Roy Cook, as grantor, to the mortgagor as grantee, and recorded in the Office of the Clerk of the Chancery Court of Marion County, in the State of Mississippi, in Deed Book 688 on page 547;
29. A certain tract of land described in a certain deed, dated October 23, 1974, by the State of Mississippi, as grantor, to the mortgagor as grantee, and recorded in the Office of the Clerk of the Chancery Court of Simpson County, in the State of Mississippi, in Deed Book 612, on page. 575;
30. A certain tract of land described in a certain deed, dated December 8, 1975, by John S. Gatlin, et al, as grantors, to the mortgagor as grantee, and recorded in the office of the Clerk of the Chancery Court of Wayne County, in the State of Mississippi, in Deed Book 500, on pages 26 through 29;
31. A certain tract of land described in a certain deed, dated April 23, 1976, by Hugh H. Young, as grantor, to the mortgagor as grantee, and recorded in the office of the Clerk of the Chancery Court of Lincoln County, in the State of Mississippi, in Deed Book 665, on pages 73 through 75;
32. A certain tract of land described in a certain deed, dated July 15, 1977, by James C. Barnes, et ux, as grantors, to the mortgagor as grantee, and recorded in the office of the Clerk of the Chancery Court of Scott County, in the State of Mississippi, in Deed Book 7-N, on pages 299-300;

The lands herein referred to, in the State of Mississippi, being subject to certain outstanding oil, gas and mineral interests, which were excepted conveyed or reserved prior to or at the time of the conveyance of said lands to Mortgagor, all as reflected by the deed records of the various Chancery Clerks Offices in said State as herein referred to.

Said lands and minerals in the State of Kentucky above referred to are subject to that unrecorded Coal Lease executed on October 16, 1974, by Mortgagor to Sandy Fork Mining Company, Inc., a Kentucky corporation.

STATE OF MISSISSIPPI)
) SS
COUNTY OF FORREST)

I, Peggy Diane Branton, a Notary Public in and for the County and State aforesaid, do hereby certify that R. D. Morrow, Sr. personally known to me to be the President of South Mississippi Electric Power Association, a corporation of the State of Mississippi and to me known to be the identical person whose name is as President of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the County aforesaid and acknowledged that as such President he signed the foregoing instrument pursuant to authority given by the Board of Directors of said corporation as his free and voluntary act and deed and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth and that the seal affixed to the foregoing instrument is the corporate seal of said corporation.

Given under my hand and official seal this 1st day of December, 1977.

(Notarial Seal)

Peggy Diane Branton
Notary Public

My commission expires My Commission Expires Aug. 24, 1981

DISTRICT OF COLUMBIA) SS

I, Ruth Stockton, a Notary Public in and for the District of Columbia, do hereby certify that J. K. Smith personally known to me to be the Governor of National Rural Utilities Cooperative Finance Corporation, a corporation of the District of Columbia, and to me known to be the identical person whose name is, as Governor of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the District aforesaid and acknowledged that as such Governor he signed the foregoing instrument pursuant to authority given by the Board of Directors of said corporation as his free and voluntary act and deed and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth and that the seal affixed to the foregoing instrument is the corporate seal of said corporation.

Given under my hand and official seal this 18 day of November, 1977

(Notarial Seal)

Ruth Stockton
Notary Public

My commission expires My Commission Expires April 22, 1979

POOR ORIGINAL

I, Ruth Stockton, a Notary Public in and for the District of Columbia, do hereby certify that JOSEPH VELLONE, personally known to me to be the Acting Administrator of the Rural Electrification Administration of the United States of America, and to me known to be the identical person whose name is, as Acting Administrator of said Rural Electrification Administration, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the District of Columbia, aforesaid, acknowledged that as such Administrator he signed the foregoing instrument pursuant to authority given to him as such officer as his free and voluntary act and deed and as the free and voluntary act and deed of the United States of America for the uses and purposes therein set forth.

1977. Given under my hand and official seal this 18 day of November,

(Notarial Seal)

Ruth Stockton
Notary Public

My commission expires My Commission Expires April 30, 1978

STATE OF MISSISSIPPI)
) SS
COUNTY OF FORREST)

I, Peggy Diane Branton, a Notary Public in and for said County in said State, hereby certify that on the 1st day of December, 1977, personally appeared before me the within named R. D. Morrow, Sr. and D. R. Ware President and Secretary, respectively, of South Mississippi Electric Power Association, a corporation, whose names are signed to the foregoing instrument and who are known to me, and who acknowledged before me on this day that, being informed of the contents of the instrument, they, as such officers, and with full authority signed, executed and delivered the foregoing instrument on the 1st day of December, 1977, as of the day and year therein mentioned, voluntarily for and as the act of said corporation.

Given under my hand, this 1st day of December, 1977.

(Notarial Seal)

Peggy Diane Branton
Notary Public

My commission expires No Commission Expires Aug. 29, 1981

DISTRICT OF COLUMBIA) SS

I, Ruth Stockton, a Notary Public in and for the District of Columbia, hereby certify that on the 18 day of November, 1977, personally appeared before me the within named J. K. Smith and Irg Shesser, Governor and Assistant Secretary, respectively, of National Rural Utilities Cooperative Finance Corporation, a corporation of the District of Columbia, whose names are signed to the foregoing instrument, and who are known to me, and who acknowledged before me on this day that, being informed of the contents of the instrument, they, as such officers and with full authority, signed, executed and delivered the foregoing instrument on the 18 day of November, 1977, as of the day and year therein mentioned, voluntarily for and as the act and deed of said corporation.

Given under my hand, this 18 day of November, 1977.

(Notarial Seal)

Ruth Stockton
Notary Public

My commission expires

My Commission Expires April 30, 1979

POOR ORIGINAL

I, Ruth Stockton, a Notary Public in and for the District of Columbia, hereby certify that on the 18 day of November, 1977, personally appeared before me JOSEPH WELLS, Administrator of the Rural Electrification Administration of the United States of America, whose name is signed to the foregoing instrument and who is personally well known to me and known to me to be such officer and who acknowledged before me on this day that, being informed of the contents of the instrument, he, as such officer and with full authority, signed, executed and delivered the foregoing instrument on the 18 day of November, 1977, as of the day and year therein mentioned, voluntarily for and as the act and deed of the United States of America.

Given under my hand, this 18 day of November, 1977.

(Notarial Seal)

Ruth Stockton
Notary Public

My commission expires April 20, 1979

CERTIFIED a true copy of original instrument
now on record in my office. This the 4th day
of October 1979

Susan Mayfield
CHANCERY CLERK
Covington County, Miss.

By: Sandra Kay Mayfield, D.C.

POOR ORIGINAL

ITEM 8

Describe the nature and amount of the cooperative's most recent rate relief action(s) and its anticipated effect on net margins. In addition, indicate the nature and amount of any pending rate relief action(s).

RESPONSE

South Mississippi Electric Power Association's board of directors adopted Rate Schedule A-15 on February 14, 1979 to be effective on April 1, 1979. A copy of the rate schedule along with a letter of approval from REA is attached. Rate schedule A-15 was designed to return all power costs under the 1979 operating budget plus sufficient margins to establish a Times Interest Earned Ratio of 1.1.

When the 1980 Operating Budget has been completed, a rate schedule will be designed and proposed that will return all power costs under that budget plus sufficient margins to establish a TIER of 1.1.

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

Proposed SCHEDULE A-15

AVAILABILITY

Available to all electric power associations which are or shall be members of the Seller. The electric power and energy furnished hereunder shall be separately metered and billed for each delivery point.

MONTHLY RATE

\$500.00 Delivery Point charge, plus
\$ 4.00 per KW for all KW required, plus
22.65 mills per KWH for all KWH.

MINIMUM MONTHLY CHARGE

For the first 60 months of service for a new delivery point, the minimum monthly charge shall be the greater of the following:

1. 70% of the maximum demand charge for the previous 11 months.
2. 1/60 of the total estimated investment required to serve the new delivery point.

Following 60 months of service, the minimum monthly charge shall be equal to 70% of the maximum demand charge for the previous 11 months.

When a new delivery point is approved by the Board of Directors, the Member for whom the delivery point is provided will be requested to give the date on which the new delivery point is desired. The minimum monthly charge, then will begin 90 days after such date, or 90 days after the date on which South Mississippi notifies the Member that all required facilities provided by South Mississippi have been built and are ready for service, which ever is later.

DETERMINATION OF BILLING DEMAND

The billing demand shall be the highest average demand measured over a fifteen minute period during the month.

POWER FACTOR

The power factor shall be maintained at as near 100 per cent as is reasonably possible. However, should the ratio of KVAR to KW at the time of highest average 15-minute demand be greater than 60 per cent, the bill will be adjusted as follows:

All KVAR in excess of sixty per cent of billing demand will be billed at the rate of 20¢ per KVAR.

DISCOUNT FOR HIGH VOLTAGE DELIVERY

Where the member association has constructed and owns facilities for 110 KV delivery and where delivery is made through such facilities at 110 KV, a discount of 18¢ per KW of billing demand will be allowed.

FUEL COST ADJUSTMENT

The total charges for electric service shall be adjusted for variations in fuel costs by adding or subtracting an amount determined as follows:

- (1) For fuel burned in South Mississippi's generating plants, the base is \$1.25 per million BTU. Increases or decreases in this fuel cost shall be determined by multiplying the algebraic difference between the actual cost of such fuel per million BTU and \$1.25 per million BTU by the total BTU consumed in the Association's generating plants each month. The amount thus determined shall be taken as the increase or decrease in fuel cost for fuel consumed in the Association's generating plants.
- (2) For fuel adjustment paid either by South Mississippi or its members to Mississippi Power Company and/or Mississippi Power & Light Company, the base is zero mills per KWH. The amount actually paid for fuel cost adjustment or credit received shall be taken as the increase or decrease in fuel cost for purchases from Mississippi Power Company and Mississippi Power & Light Company.
- (3) The algebraic sum of the amounts derived as indicated above shall be taken to be the total increase or decrease in fuel cost for each month. The total sum shall then be divided by the total KWH sold by South Mississippi Electric Power Association to its members for the same month and the adjustment in mills per KWH shall be thus determined. This adjustment will be applied, then, to KWH sold by South Mississippi to its members in the first subsequent month.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
WASHINGTON, D.C. 20250

APR 5 1979

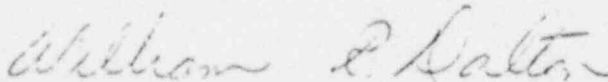
SUBJECT Mississippi 53 Covington

TO Mr. George B. Taylor, Manager
South Mississippi Electric
Power Association
P. O. Box 1589
Hattiesburg, Mississippi 39401

This is to inform you that the request for a new rate increase (Schedule A-15) for your member systems effective April 1, 1979, has been approved.

It is our understanding that based upon the approved 1979 budget, this new rate with a delivery point charge of \$500, plus a demand charge of \$4.00 per kW per month and an energy charge of 22.65 mills per kWh will produce sufficient margins to maintain a TIER of 1.1.

If we can be of further assistance, please let us know.



WILLIAM R. DALTON
Director
Southeast Area - Electric

ITEM 9

Provide copies of the latest annual and interim financial statements. Also provide copies of similar statements for the corresponding periods ended in the previous year. Continue to submit copies of the annual financial statements each year as required by 10 C.F.R. 50.71(b).

RESPONSE

A copy of the 1978 Annual Report of SMEPA which contains a 12-month statement of operations is Exhibit "D" to the Application. Attached to this response is a copy of the 1978 Report on Examination of Financial Records, a copy of the December, 1979 financial statement and a copy of the January, 1980 financial statement. A copy of the 1979 Annual Report and of the 1979 Report on Examination of Financial Records will be provided as soon as they become available.

MISSISSIPPI - 53
SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION
HIGHWAY 49-NORTH
HATTIESBURG, MISSISSIPPI
REPORT ON EXAMINATION OF THE
FINANCIAL RECORDS
YEAR 1978

HORACE A. BRADLEY
CERTIFIED PUBLIC ACCOUNTANT

BRADLEY-HURT BUILDING - 208 S. MANILLA STREET
OFFICE 847-3378 TELEPHONES RESIDENCE 847-3482
LUCEDALE, MISSISSIPPI 39452

Board of Directors
South Mississippi Electric Power Association
Hattiesburg, Mississippi 39401

Gentlemen:

Enclosed are twenty (20) copies of our report covering examination of the financial statements of South Mississippi Electric Power Association (SMEPA), Hattiesburg, Mississippi as of December 31, 1978.

As reported in our auditor's opinion dated May 15, 1979, we performed our examination in accordance with generally accepted auditing standards. Our examination included the auditing procedures required by REA Bulletin 185-1; 485-1; AUDIT OF REA BORROWERS' ACCOUNTING RECORDS, as amended. Two (2) copies of our audit adjusting journal entries are also included for transmittal to REA.

The following comments supplement the information included in the financial statements and notes:

Internal Control - The cooperative has a generally effective and satisfactory system of internal control. The functional responsibilities of the association personnel are generally appropriately segregated. The system of authorizations and recording procedures in effect to provide reasonable safeguards over association assets produces reliable accounting data. This association has only seven (7) members (Coast Electric Power Association, Bay St. Louis, Mississippi was accepted as a member in latter 1978), all which are electric distribution power cooperatives. All amounts billed to these member cooperatives are paid monthly by check. All sums received representing loan proceeds, advances of deposits from bond proceeds, maturing CD's, royalties from producing minerals, etc., are by check or wired to the cooperative's depository. Few, if any funds are received in cash. An EDP system is not in use by SMEPA.

Accounting and Records - Procedures used in accounting for material, labor and overhead costs provide an equitable distribution of these costs to the real and nominal accounts. The cooperative's other accounting procedures in effect during the year are considered to be adequate in all material respects. (See Note 1)

Materials Control - Physical inventories of the materials and supplies were made quarterly by association personnel in 1978. We observed the taking of the inventories at various dates during the year. We test checked quantities and unit prices to subsidiary records maintained and reviewed coal inventory engineering data. It was determined after an analysis of the detailed differences in the subsidiary accounts that reconciliation to the general ledger balances (except for coal inventory) required only minor adjustments to the materials accounts with any offsetting differences being cleared through the appropriate accumulated provision for depreciation.

Inventory of coal supplies totalled \$2,257,192 at December 31, 1978. An inventory taken by association engineering personnel on October 19 and 20, 1978 indicated a difference in association perpetual inventory records (78,390 tons) and actual inventory (71,014 tons) of 5,376 tons or 7% less than book inventory. In view of the fact that the coal fired plant went on-line in mid-1978 and of the immateriality of the difference in book and actual inventories, no adjustment was made in 1978 to reconcile the difference. Another method of inventorying coal, utilizing aerial photography or stereography, will be tried in June 1979 and the results thereof evaluated after that time.

Compliance with Loan Documents - The association has complied with provisions of its loan contracts and mortgages to REA with regards to retirement of capital credits during the audit period. No retirements have been made by the association.

Reports to REA - We examined on a test basis association copies of financial statements forwarded to REA during the year ended December 31, 1978. These statements were compared with the books of account and found to be in agreement therewith in all material respects. Financial statistical reports submitted to REA appear to be prepared in conformity with generally accepted accounting principles consistently followed. Detailed subsidiary schedules and analyses of various significant accounts are maintained by the Manager of Finance and Accounting and his staff, supporting information contained in the above referred to reports.

Deposits - All amounts shown as cash on hand and on deposit with banks and in savings and loan associations are in institutions whose accounts are insured by an agency of the federal government. All general fund cash bank accounts were independently reconciled to book balances as of December 31, 1978. All depository balances, including treasury securities, if any, held by others for the association, were confirmed by us with the depositories.

Insurance Certifications - Copies of bond and insurance certificates maintained by the association indicate that REA was notified of coverages maintained by the cooperative. We reviewed the prepaid insurance account, examining on a test basis invoices supporting charges to this account. Analyses maintained by the association supporting allocations to the various accounts were also reviewed in conjunction with our review of the policies and appear to be proper.

Service Contracts - The association is not a party to any management, operations or billing service contracts.

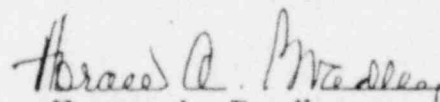
Litigation - See Note 10, Contingent Liabilities.

Related Party Transactions - Power Pooling Agreement - South Mississippi is a party to an "Agreement for Equalization of Power Costs" with its seven (7) members, Singing River, Southern Pine, Dixie, Pearl River Valley, Southwest Mississippi, Coast and Magnolia electric power associations. This agreement provides, among other things, that South Mississippi shall serve as agent for these cooperatives whereby members' power supply costs are paid for by South Mississippi without regard to the sources of their wholesale power supply. South Mississippi, in turn, invoices the members monthly for power purchased by the members, regardless of source, based on it's (South Mississippi's) uniform rate schedule.

Pension Costs - Pension and supplementary savings plan benefits for substantially all employees are provided through participation in the NRECA Retirement and Security Plan. Costs to the Association were \$187,019 in 1978 compared to \$207,741 in 1977, which 1977 amount included approximately \$65,000 of past service costs due to upgrading of benefits. The plan is approved by the Internal Revenue Service.

Depreciation, Depletion and Amortization - The depreciation, depletion and amortization rates maintained by the association were reviewed in detail. The rates used in 1978 are based on rates for each individual plant account which are, in all cases, within the range of rates recommended by REA. We tested the depreciation, depletion and amortization charges for the year for each plant account involved. Adjustments necessary to correct accruals, if any, were made by office personnel during the course of our audit before preparation of yearend financial statements. Rates are reviewed annually with responsible accounting personnel and appropriate steps are taken to revise those which appear to be inadequate (See, also, Note 3).

Yours very truly,


Horace A. Bradley
Certified Public Accountant

Prepared: May 15, 1979
Lucedale, Mississippi
HAB:rmb

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

December 31, 1978

C O N T E N T S

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Statement of Changes in Financial Position	5
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Officers, Directors, Manager and Miscellaneous	17

HORACE A. BRADLEY
CERTIFIED PUBLIC ACCOUNTANT

BRADLEY-HURT BUILDING - 208 S. MANILLA STREET
OFFICE 947-3578 TELEPHONES RESIDENCE 947-3482
LUCEDALE, MISSISSIPPI 39452

ACCOUNTANTS' REPORT

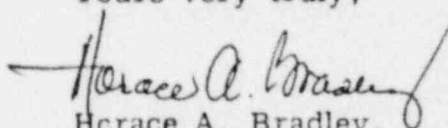
Board of Directors
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi 39401

Gentlemen:

We have examined the balance sheet of South Mississippi Electric Power Association as of December 31, 1978, and the related statements of revenue and patronage capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of South Mississippi Electric Power Association on December 31, 1978, and the results of its operations and changes in financial position for the calendar year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours very truly,



Horace A. Bradley,
Certified Public Accountant

Prepared: May 15, 1979
Lucedale, Mississippi
HAB:rmb

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Balance Sheet
December 31, 1977 and 1978

Assets (Note 2)

	<u>1977</u>	<u>1978</u>
<u>Utility Plant (Note 3)</u>		
Electric Plant in Service - at cost	\$ 71,959,317	\$ 253,027,210
Construction Work in Progress	163,664,898	14,852,799
	<u>\$ 235,624,215</u>	<u>\$ 267,880,009</u>
Less: Accumulated Provision for Depreciation	10,219,917	13,865,264
Net Utility Plant	<u>\$ 225,404,298</u>	<u>\$ 254,014,745</u>
<u>Other Property and Investments</u>		
Investments in Associated Organizations (Note 11)	\$ 3,249,343	\$ 3,892,931
Other Investments, including Temporary Investments	301,460	300,333
Special Deposits (Note 4)	32,580	425,532
	<u>\$ 3,583,383</u>	<u>\$ 4,618,796</u>
<u>Current Assets</u>		
Cash - General Funds	\$ 65,128	\$ 71,870
Cash - REA/FFB Loan Funds	40,797	144,188
Deposits - Pollution Control Bond Proceeds (Note 5)	20,436,185	3,946,348
Accounts Receivable - Member Consumers	4,529,414	5,612,897
Accounts Receivable - Other	119,830	332,021
Fuel Stock, Materials and Supplies (Note 1)	3,509,158	4,752,039
Other Current and Accrued Assets	464,192	559,354
	<u>\$ 29,164,704</u>	<u>\$ 15,418,717</u>
<u>Deferred Charges</u>	<u>\$ 1,071,537</u>	<u>\$ 3,511,116</u>
	<u>\$ 259,223,922</u>	<u>\$ 277,563,374</u>

The accompanying notes are an integral part
of this statement.

Mississippi-53
 South Mississippi Electric Power Association
 Highway 49-North
Hattiesburg, Mississippi

Balance Sheet
December 31, 1977 and 1978

Liabilities and Other Credits (Notes 8, 9 and 11)

	<u>1977</u>	<u>1978</u>
<u>Equities and Margins</u>		
Memberships	\$ 30	\$ 30
Patronage Capital (Note 6)	1,149,533	2,439,937
Other Equities (Note 7)	535,436	535,436
	<u>\$ 1,684,999</u>	<u>\$ 2,975,403</u>
<u>Long-Term Debt (Note 1 and 8)</u>		
REA Mortgage Notes	\$ 64,880,476	\$ 64,774,401
Other Long Term Debt	175,237,512	193,567,699
	<u>\$ 240,117,988</u>	<u>\$ 258,342,100</u>
<u>Current and Accrued Liabilities</u>		
Notes Payable - CFC Line of Credit (Note 9)	\$ 2,400,000	\$ 2,865,000
Accounts Payable - General	5,118,036	5,160,714
Accounts Payable - Retainage	8,902,846	7,240,468
Accrued Taxes	43,391	70,095
Accrued Interest	814,433	682,495
Other Current and Accrued Liabilities	81,752	103,428
	<u>\$ 17,360,458</u>	<u>\$ 16,122,200</u>
<u>Deferred Credits (Note 10)</u>	<u>\$ 60,477</u>	<u>\$ 123,671</u>
	<u>\$ 259,223,922</u>	<u>\$ 277,563,374</u>

The accompanying notes are an integral part
 of this statement.

Mississippi-53
 South Mississippi Electric Power Association
 Highway 49-North
 Hattiesburg, Mississippi

Statement of Revenue and Patronage Capital
 For the Year Ended December 31

	<u>1977</u>	<u>1978</u>
<u>Operating Revenue and Patronage Capital</u>		
Electric Energy Revenues (Note 12)	\$ 57,127,699	\$ 70,655,998
Income from Leased Property - Net	272,888	289,147
	<u>\$ 57,400,587</u>	<u>\$ 70,945,145</u>
<u>Operating Deductions</u>		
<u>Operating Expense</u>		
Production - Steam	\$ 16,551,716	\$ 26,534,084
Other Power Generation	677,356	828,474
Cost of Purchased Power (Notes 1 and 12)	34,158,430	27,721,339
Transmission	382,677	487,997
Consumer Accounts	12,342	10,679
Administrative and General	818,011	1,180,852
Operation Expense Total	<u>\$ 52,600,532</u>	<u>\$ 56,763,425</u>
<u>Maintenance Expense</u>		
Production	\$ 494,113	\$ 604,850
Transmission	488,335	637,655
General Plant	37,110	43,792
Maintenance Expense Total	<u>\$ 1,019,558</u>	<u>\$ 1,286,297</u>
Depreciation Expense (Note 3)	<u>\$ 1,648,309</u>	<u>\$ 4,224,653</u>
Tax Expense	<u>\$ 96,883</u>	<u>\$ 161,134</u>
Total Operating Deductions	<u>\$ 55,365,282</u>	<u>\$ 62,435,509</u>
Interest Expense	10,891,567	14,331,944
Interest Charged to Construction - Credit (Note 1)	(8,996,367)	(6,974,404)
	<u>\$ 57,260,482</u>	<u>\$ 69,793,049</u>
<u>Net Operating Margins</u>	<u>\$ 140,105</u>	<u>\$ 1,152,096</u>
<u>Non-Operating Margins</u>	<u>82,130</u>	<u>138,308</u>
<u>Net Patronage Capital or Margins (Note 6)</u>	<u>\$ 222,235</u>	<u>\$ 1,290,404</u>

The accompanying notes are an integral part
of this statement.

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Statement of Changes in Financial Position
For the Year Ended December 31

	<u>1977</u>	<u>1978</u>
<u>Funds Were Provided By</u>		
Net Margins	\$ 222,235	\$ 1,290,405
Add: Expenses not Requiring an Outlay of Working Capital in Current Period:		
Depreciation, Depletion and Amortization	1,772,574	4,444,248
Charges For Addition to Insurance Loss Deductible Reserve	17,500	60,000
NRUCFC and Other Capital Credits (Non Cash)	(1,745)	(37,177)
Increase in Long Term Debt - REA Advances	2,592,000	1,377,000
Increase in Long Term Debt - REA - Other (Note 8)	396,431	-0-
Increase in Long Term Debt - Other Advances - FFB	21,984,000	12,561,000
Gross Proceeds from Pollution Control Revenue Bond Issue (Note 8)	40,000,000	3,825,000
Salvage Credits Less Retirement Costs (Excess Costs)	459,092	(25,413)
Decrease in Working Capital	-0-	12,507,728
Decrease in Other Investments	968,340	1,127
Decrease in Deferred Credits	-0-	3,194
Decrease in Special Deposits	51,756	-0-
	<u>\$ 68,462,183</u>	<u>\$ 36,007,112</u>
<u>Funds Were Used For</u>		
Extension and Replacement of Plant Transmission Facilities Acquired from Distribution Cooperative (Note 8)	407,647	-0-
Payments on Long Term Debt - REA	1,285,449	1,470,515
Payments on Long Term Debt - REA - Other	12,028	12,561
Payments on Long Term Debt - Other	256,856	255,475
Increase in Investments - Associated Organizations	2,353,274	606,411
Increase in Special Deposits	-0-	392,952
Increase in Deferred Charges	859,911	245,587
Increase in Working Capital (Schedule C-Page 2)	18,029,734	-0-
	<u>\$ 68,462,183</u>	<u>\$ 36,007,112</u>

The accompanying notes are an integral part
of this statement.

Mississippi-53
 South Mississippi Electric Power Association
 Highway 49-North
Hattiesburg, Mississippi

Statement of Changes in Financial Position
For the Year Ended December 31

	<u>1977</u>	<u>1978</u>
<u>Net Changes in Working Capital</u>		
Increase (Decrease) in Current Assets		
Cash - General Funds and Loan Funds	\$ (411,303)	\$ 110,133
Unadvanced Funds-Pollution Control		
Revenue Bond Proceeds	20,436,185	(16,489,837)
Accounts Receivable - Consumers	496,144	1,083,483
Accounts Receivable - Other	(10,157)	212,191
Material, Supplies and Fuel Oil	(512,764)	1,242,881
Prepayments and Other Current Assets	(118,109)	95,162
	<u>\$ 19,879,996</u>	<u>\$ (13,745,987)</u>
Increase (Decrease) in Current Liabilities		
Notes Payable - CFC	\$ 2,400,000	\$ 465,000
Accounts Payable - General and Retainage	(1,030,737)	(1,619,700)
Accrued Taxes	14,483	26,704
Accrued Interest	435,429	(131,938)
Other Current and Accrued Liabilities	31,087	21,676
	<u>\$ 1,850,262</u>	<u>\$ (1,238,258)</u>
<u>Net Increase in Working Capital (Decrease)</u>	<u>\$ 18,029,734</u>	<u>\$ (12,507,729)</u>

The accompanying notes are an integral part
 of this statement.

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Notes to Financial Statements
December 31, 1978

(1) Summary of More Significant Accounting Policies

- (a) The accounting records of South Mississippi Electric Power Association (SMEPA or South Mississippi) Mississippi-53, conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for class A and B electric utilities modified for electric borrowers of the Rural Electrification Administration.
- (b) Perpetual inventory records are maintained for materials and supplies. The various inventory items, including fuel supplies are priced at average cost. Transfers of materials and supplies to construction and operating costs are recorded monthly.
- (c) The portion of long term debt due in one year is not reflected as a current liability.
- (d) A portion of interest on borrowed funds for construction, less income from invested construction funds, is capitalized as a component of the cost of construction of utility plant until such construction is placed in service, and is reflected as a reduction of interest expense. Rates used for capitalization are equivalent to actual rates paid.
- (e) Revenue from energy sold to Mississippi Power Company, a public utility, is offset in the accounts against cost of energy purchased from outside suppliers, including Mississippi Power Company.

(2) Assets Pledged

All assets are pledged as security for long term debt.

Mississippi-53
 South Mississippi Electric Power Association
 Highway 49-North
Hattiesburg, Mississippi

Notes to Financial Statements
December 31, 1978

- (3) Electric Plant, Depreciation and Depletion Procedures
 Following are the major classes of utility plant, as of
 December 31, 1977 and 1978:

	<u>1977</u>	<u>1978</u>
Franchises and Consents (a)	\$ 459,285	\$ 459,285
Electric Plant Purchased - Transmission	407,648	407,648
Electric Plant Leased to Others	1,907,598	1,981,922
Land and Land Rights	5,964,172	6,295,608
Generation Plants	26,275,651	29,471,616
Transmission System	30,119,972	33,985,486
General Plant	1,846,920	3,324,062
	<u>\$ 66,981,246</u>	<u>\$ 75,925,627</u>
Completed Construction - Not Classified (Morrow)	-0-	172,123,513
Kentucky Coal Property - Land and Minerals	4,799,071	4,799,071
Kentucky Coal Property - Depreciable Plant and Equipment	179,000	179,000
	<u>179,000</u>	<u>179,000</u>
Electric Plant In Service	\$ 71,959,317	\$ 253,027,211
Construction Work In Progress (b)	163,664,898	14,852,799
	<u>\$ 235,624,215</u>	<u>\$ 267,880,010</u>

(a) Consists, primarily, of pre-operating expense allocated to this account in 1972.

(b) Consists of \$157,343,886 at December 31, 1977 and \$2,856,984 at December 31, 1978 associated with construction of R. D. Morrow, Sr. Generating Plant at Purvis.

Mississippi-53
 South Mississippi Electric Power Association
 Highway 49-North
Hattiesburg, Mississippi

Notes to Financial Statements
December 31, 1978

- (3) Electric Plant, Depreciation and Depletion Procedures -(Cont'd)
 Depreciation is computed monthly on straight line composite rates for GT Plant accounts as follows:

	<u>Annual Rate</u>
Transmission Lines	2.75%
Transmission Stations	2.75%
Moselle Steam Plant	3.10%
Benndale Gas Turbine and Other Production Equipment	3.00%

No depreciation has been taken in the current or prior years on Land and Land Rights.

General Plant assets are also depreciated monthly, on yearly straight line composite rates as follows:

Structures and Improvements	4.00%
Office Furniture, Fixtures and Equipment	6.25%-8.00%
Transportation Equipment	10.00%-25.00%
Lab Equipment, Tools, Shop and Work Equipment	8.00%
Communications Equipment, Stores Equipment	6.00%
General Plant Equipment	10.00%
Power Operated Equipment	12.00%

Depletion of cost of Kentucky coal reserves is computed on a "tonnage sold" basis calculated to fully amortize such cost when estimated deposits have been recovered. This property is presently leased to an independent coal producing company for a royalty based on selling price per ton.

- (4) Special Deposit
 SMEPA advanced to Kentucky Utilities Company \$411,098 during 1978 to cover the estimated cost to Kentucky Utilities of construction facilities necessary to supply electric service to SMEPA's coal preparation facility in Kentucky. Kentucky Utilities will apply this deposit toward electrical services furnished SMEPA at the rate of 20% of its electrical bill per year

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
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Notes to Financial Statements
December 31, 1978

(4) Special Deposit (Cont'd)

beginning January 1, 1980. Electric energy furnished SMEPA will be billed at Kentucky Utilities' regular rate for like consumers except that total charges per calendar year will not be less than \$163,500. The maximum period for which SMEPA receives credits against this deposit for energy used is five (5) years, after which time any remaining unused deposit will be forfeited.

(5) Deposits - Pollution Control Bond Proceeds

This account includes the unadvanced portion of proceeds and accrued interest from Pollution Control Revenue Bond issues sold by National Rural Utilities Cooperative Finance Corporation (CFC) in 1977 and 1978. (See Footnote 6 for details regarding these bond issues). These funds are on deposit in various trust accounts of Morgan Guaranty Trust Company of New York and Deposit Guaranty National Bank (Mississippi), invested in short term CD's bearing interest at rates ranging between 8-3/4% to 9.9% at December 31, 1978. Advances are requisitioned from these funds as required.

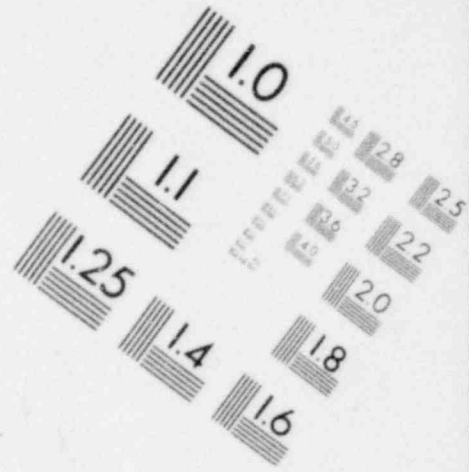
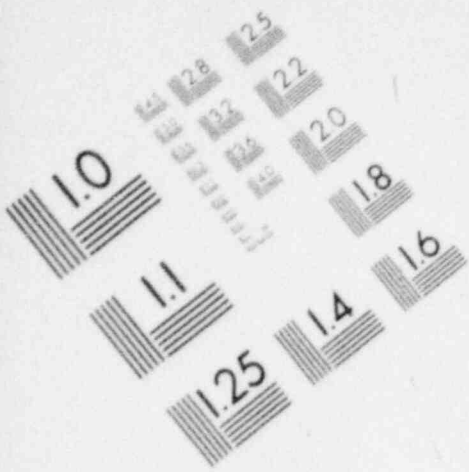
(6) Detail of Net Patronage Capital or Margins

	<u>1977</u>	<u>1978</u>
Net Patronage Capital-Beginning of Year	\$ 927,298	\$ 1,149,533
Net Margin	222,235	1,290,404
Net Patronage Capital-End of Year	<u>\$ 1,149,533</u>	<u>\$ 2,439,937</u>

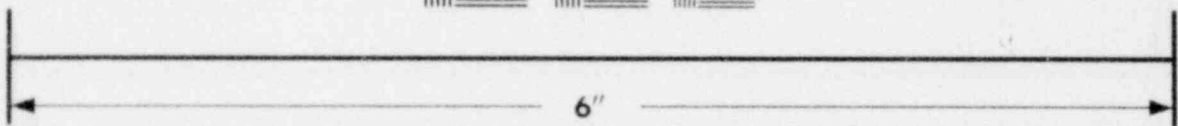
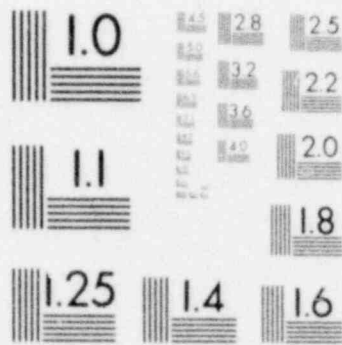
By-laws of the Association provide for allocation of all margins to patrons. All margins earned subsequent to beginning of operation of plant have been assigned to patrons except the margin for the year 1978.

(7) Other Equities

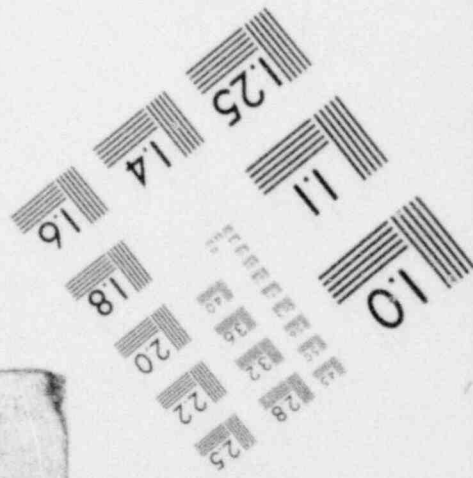
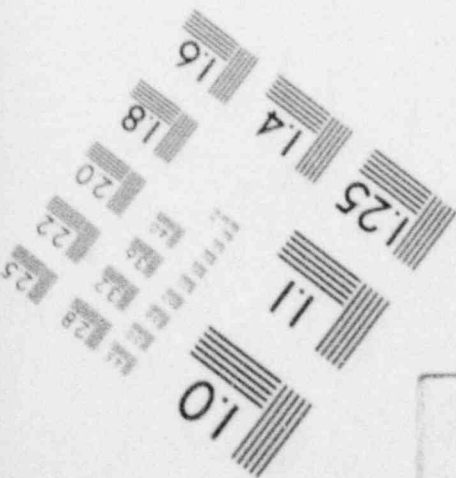
The balance in this account at the dates indicated represents contributions made by present and former patrons during pre-operating years and is carried in the general ledger as Donated Capital.



**IMAGE EVALUATION
TEST TARGET (MT-3)**



MICROCOPY RESOLUTION TEST CHART



Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Notes to Financial Statements
December 31, 1978

(8) Long Term Debt

Rural Electrification Administration (REA)

Unadvanced funds on notes executed to REA not reflected in long term debt totalled \$2,352,000 at December 31, 1978. Long term debt to REA is represented by 2% and 5% mortgage notes payable to the United States of America. The notes are for periods of 35 years each. Under the provisions of the loan agreements, principal payments are deferred for three (3) or five (5) years from the date of execution of the notes.

Principal repaid during the year totalled \$1,470,515 and interest expense on these obligations amounted to \$1,819,169 for the year 1978.

It is estimated that payments of principal of \$1,531,000 will be made to REA in 1979 together with interest totalling approximately \$1,835,000.

Rural Electrification Administration - Other - Electric Plant Purchased
During 1977, SMEPA agreed to purchase, subject to REA approval, certain transmission facilities previously leased from Singing River Electric Power Association (SREPA), Mississippi - 39 - Jackson, carried by SREPA in its accounts at a net book value of \$407,647 on which property \$396,430 was owed to REA by SREPA at the date of agreement to purchase. Entries have been made in the accounts of SMEPA setting up these assets at SREPA's net book value and an assumption of notes with balances outstanding at December 31, 1978 of \$371,842.

Federal Financing Bank (FFB)

Not reflected in long term debt is unadvanced portion (\$63,975,000) of notes totalling \$209,913,000 at December 31, 1978, executed since 1974 to FFE. The proceeds were or are being used for completion of R. D. Morrow, Sr. generating plant at Purvis, Mississippi and payment of retainages associated therewith, purchase of railroad cars used to transport coal from its Kentucky properties to its Purvis Plant and to finance the cost of coal preparation facilities presently under construction on its lands in Kentucky.

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South Mississippi Electric Power Association
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Notes to Financial Statements
December 31, 1978

(8) Long Term Debt (Cont'd)

CFC Pollution Control Bond Issue

This account represents principal balance due on bond issues of OFC Guaranteed Pollution Control Revenue Bonds, Series 1977, 1978A and 1978A-1 issued by Lamar County, Mississippi. Details of Series 1977 issue of \$40,000,000 were set forth in our previous (1977) audit report.

During 1978 additional bonds totalling \$3,825,000 were sold as coupon bonds bearing interest at rates of from 4.30% to 6.25% (if interest is not timely paid, rate will be one percentage point higher than that stated on such overdue payments) to assist SMEPA in financing additional pollution control facilities which qualified for this lesser cost medium of financing. SMEPA is required to pay all principal and interest installments on these bonds as they become due and CFC has unconditionally guaranteed these payments as due, both as to principal and interest. SMEPA's obligation to make such payments is evidenced by a Pollution Control Note issued to CFC and secured by a Supplemental Mortgage and Security agreement among such cooperative, CFC and the United States of America acting through the Administrator of REA. This mortgage will also secure other debt of SMEPA to REA, and, in certain cases, to CFC. Interest is due semi-annually on each of the bond issues. Interest and principal will be tendered to CFC for transmittal to the trustees for the bondholders, Morgan Guaranty Trust Company and Deposit Guaranty National Bank.

Serial bonds of \$2,825,000 issue (1978A Series) mature semi-annually beginning March 1, 1980 through September 1, 1998. Term bonds of the 1978A Series and the 1978A-1 Series (\$1,000,000) mature March 1, 2008. Mandatory semi-annual sinking fund payments required in connection with these additional issues begin in 1999 for the \$2,825,000 issue and in 1980 for the \$1,000,000 issue. None of the bonds of either series represent a general obligation of the issuer, Lamar County, Mississippi, nor of the State of Mississippi, nor or they a charge against the credit or taxing power of such county or state.

Under the terms of the above referred to additional financing package, SMEPA was required to purchase CFC unsecured subordinated capital term certificates (CTC's) equal to 5% of the \$3,825,000 bond issues handled through CFC, in addition to its obligation referred to in Note 11.

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
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Notes to Financial Statements
December 31, 1978

(8) Long Term Debt (Cont'd)

CFC Pollution Control Bond Issue (Cont'd)

The underwriters spread was deducted from gross proceeds of these additional issues and set up, along with other costs incurred to December 31, 1978, as deferred charges to be amortized over the lives of the obligations.

Counsel for the cooperative advises that all financing documents, in addition to those named above, relative to all bond issues including certain guaranty, assignment and agency agreements between CFC and the trustees have been properly executed.

Kentucky Coal Property (1974 Purchase)

Other long term debt also includes 7% notes totalling \$1,071,826 payable in connection with Kentucky coal properties purchased in 1974. These notes are payable over a ten (10) year period from 1974 and are secured by mortgages on real property purchased.

Other

Also reflected as long-term debt at December 31, 1978 are advances from member cooperatives (under provisions of power equalization or supply agreements) for construction of transmission facilities leased to publicly owned utilities (392,951), an amount SMEPA agreed to pay Breeder Reactor Corporation (BREEDER) for its pro-rata portion of estimated cost of research to develop additional or substitute fuels to produce electric energy (\$140,261) and a contractual agreement (an amendment to Coal Supply Agreement between SMEPA and its coal producer) to pay a fee for loading its (SMEPA's) coal for shipment to SMEPA, of \$26,502 per month for seven (7) years (total \$2,226,168, the contra entry of which is in Deferred Debits).

Regarding BREEDER referred to above, in 1977 BREEDER suspended requirements that yearly payments of participants in this program be made when the United States of America halted its financial participation in this program. Charges against income of \$23,377 in each of the years 1977 and 1978 (and concurrent credits to Deferred Charges, the account in which the contra entry of the obligation was set up) were recorded although no payments were made in either year to BREEDER. Future payments to BREEDER will be dependent upon the government's essential involvement in the program. If and when the project goes forward (the GAO recently issued a report supporting continuation of the Clinch River Project) the currently deferred installments will be called for as well as other installments as they become due.

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South Mississippi Electric Power Association
Highway 49-North
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Notes to Financial Statements
December 31, 1978

(9) Notes Payable - CFC Line of Credit

SMEPA had an established short term line of credit of \$12,000,000 with CFC against which had been withdrawn \$2,865,000 at December 31, 1978. This line of credit matures with interest to maturity at not in excess of prime plus 1%, August 9, 1979 (interest calculated at 11.75% at December 31, 1978).

(10) Deferred Credits

The balance in this account represents royalties on deposit (\$42,977) in an escrow bank account received from sale of coal on certain land, title to which is in dispute (the bank account balance is included in deferred charges) and an insurance reserve totalling \$77,500 at December 31, 1978. This insurance reserve is being increased at the rate of \$60,000 per year until such reserve reaches approximately \$300,000. It was established primarily to compensate for the large insurance loss deductibles on generation plant coverages. This reserve was established in accordance with generally acceptable industry accounting practices. Charges to income (and credits to the reserve) of \$17,500 and \$60,000 were made in 1977 and 1978, respectively.

(11) Contingent Liabilities

The association entered into a binding agreement to subscribe to CFC unsecured subordinated CTC's commencing in 1973 through 1983. Purchases are made annually in amounts approximating 0.9% of operating revenues. The balance of the subscription obligation at December 31, 1978 is estimated at \$5,400,000.

After reviewing correspondence regarding all asserted claims and pending litigation in which the cooperative is a defendant and discussing all such claims and litigation with General Counsel and management of the association, we are of the opinion at this time that the prospect of an unfavorable outcome to the association is remote.

(12) Restatement of 1977 Financial Statements

The 1977 Statement of Revenue and Patronage Capital has been restated for comparative purposes with 1978. As originally shown in our 1977 audit report, electric energy revenues sold to Mississippi Power Company (MPCo) totalled \$271,316 and have been offset in this restated 1977 statement against purchased power from MPCo. Electric energy revenues totalling \$3,306,379 in 1978 were offset in the 1978 statements in a like manner.

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Notes to Financial Statements
December 31, 1978

Other Notes

Income Tax Status - More than 85% of the Association's income is collected from its members. Exemption from federal income tax has been obtained and Internal Revenue Forms 990 have been timely filed.

Mississippi-53
South Mississippi Electric Power Association
Highway 49-North
Hattiesburg, Mississippi

Officers, Directors and Members
of the Association
December 31, 1978

OFFICERS

R. D. (Bob) Morrow, Sr.	President
C. C. Clark	Vice President
D. R. Ware	Secretary-Treasurer
L. G. Pierce	Assistant Secretary
George Taylor	General Manager

MEMBERS AND DIRECTORS

Southern Pine Electric Power Association	R. D. Morrow, Sr. Blaine H. Eaton
Dixie Electric Power Association	L. G. Pierce Robert L. Graham
Magnolia Electric Power Association	C. C. Clark E. C. Parker
Pearl River Valley Electric Power Association	Warren W. Bond W. T. Shows
Singing River Electric Power Association	D. R. Ware J. T. Dudley, Sr.
Southwest Mississippi Electric Power Association	H. M. Little Robert St. John
Coast Electric Power Association	James R. Rester Henry L. Thomas

OTHER

John K. Keyes, Esquire Attorney at Law	General Counsel
Horace A. Bradley Certified Public Accountant	Independent Auditor

USDA - REA

Form Approved
OMB No. 40-10506

CORPORATE NAME

South Mississippi Electric Power Association

OPERATING REPORT - FINANCIAL

BORROWER DESIGNATION Mississippi 53

U.S. DEPARTMENT OF AGRICULTURE REA WASHINGTON, D.C. 20250

MONTH ENDING December 31,

1979

INSTRUCTIONS - Submit original and four copies of this report. For detailed instructions, see REA Bulletin 10R-2. Ministry report consists of REA Forms 12a, 12b, 12c, 12d, 12e, 12f and 12g. December report also includes REA Form 12a.1

REA USE ONLY

SECTION A. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. TOTAL UTILITY PLANT IN SERVICE	701,333,081	26. MEMBERSHIPS	35
2. CONSTRUCTION WORK IN PROGRESS	16,929,498	27. PATRONAGE CAPITAL	
3. TOTAL UTILITY PLANT (1 + 2)	718,262,579	a. ASSIGNED AND ASSIGNABLE	2,439,936
4. ACCUM. PROVISION FOR DEPRECIATION & AMORT.	21,305,619	b. RETIRED THIS YEAR	2,439,936
5. NET UTILITY PLANT (1 - 4)	256,955,960	c. RETIRED PRIOR YEARS	--
6. NON-UTILITY PROPERTY - NET	--	d. NET PATRONAGE CAPITAL	--
7. INVEST. IN ASSOC. ORG. - PATRONAGE CAPITAL	68,453	28. OPERATING MARGINS - PRIOR YEARS	--
8. INVEST. IN ASSOC. ORG. - OTHER - GEN. FUNDS	1,065	29. OPERATING MARGINS - CURRENT YEAR	3,075,933
8.1 INVEST. - ASSOC. ORG. - OTHER - NON G.F.	4,291,922	30. NON-OPERATING MARGINS	337,829
9. OTHER INVESTMENTS	12,500	31. OTHER MARGINS & EQUITIES	535,436
10. SPECIAL FUNDS	--	32. TOTAL MARGINS & EQUITIES (26 + 27a + 28 + 29 + 30 + 31)	3,949,293
11. TOTAL OTHER PROPERTY & INVEST. (6 thru 10)	4,373,940	33. LONG-TERM DEBT - REA	63,836,640
12. CASH - GENERAL FUNDS	388,259	34. LONG-TERM DEBT - OTHER	209,706,132
13. CASH - CONSTRUCTION FUNDS - TRUSTEE	141,442	35. TOTAL LONG-TERM DEBT (33 + 34)	273,542,772
14. SPECIAL DEPOSITS	2,497,601	36. NOTES PAYABLE	59,239
15. TEMPORARY INVESTMENTS	1,200,000	37. ACCOUNTS PAYABLE	12,134,415
16. NOTES RECEIVABLE - NET	12,600	38. TAXES ACCRUED	63,965
17. ACCOUNTS RECEIVABLE - NET	8,844,376	39. INTEREST ACCRUED	630,125
18. INVENTORY STOCK	9,560,648	40. OTHER CURRENT & ACCRUED LIABILITIES	170,293
19. MATERIALS & SUPPLIES - OTHER	2,715,431	41. TOTAL CURRENT & ACCRUED LIAB. (36 thru 40)	13,058,037
20. PREPAYMENTS	435,048	42. DEFERRED CREDITS	42,977
21. OTHER CURRENT & ACCRUED ASSETS	35,394	43. OPERATING RESERVES	139,100
22. TOTAL CURRENT & ACCRUED ASSETS (17 thru 21)	25,830,809	44. ACCUMULATED DEFERRED INCOME TAXES	--
23. UNMORT. DEBT DISC. & EXTRAORD. PROP. LOSS	996,211	45. TOTAL LIABILITIES & OTHER CREDITS (26 + 27 + 28 + 29 + 30 + 31 + 32 + 33 + 34 + 35 + 36 + 37 + 38 + 39 + 40 + 41 + 42 + 43 + 44)	--
24. OTHER DEFERRED DEBITS	2,575,259		
25. TOTAL ASSETS & OTHER DEBITS (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 8.1 + 9 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18 + 19 + 20 + 21 + 22 + 23 + 24 + 25)	290,732,179		290,732,179

Sec. B - Statement of Operations MWH Sales

ITEM	YEAR - TO - DATE			
	LAST YEAR	THIS YEAR	BUDGET	THIS MONTH
1. ELECTRIC ENERGY REVENUES	70,655,998	95,938,934	103,611,600	8,136,883
2. INCOME FROM LEASED PROPERTY - NET	275,161	1,059,652	489,497	95,514
3. OTHER OPERATING REVENUE & INCOME	13,986	52,242	55,005	3,888
4. TOTAL OPER. REVENUES & PATRONAGE CAP. (1 thru 3)	70,945,145	97,050,828	104,156,097	8,236,285
5. OPERATION EXPENSE - PRODUCTION - EXCL. FUEL	1,201,621	1,587,006	2,647,100	130,628
5.1 OPERATION EXPENSE - PRODUCTION - FUEL	26,160,937	26,973,753	23,684,523	2,462,057
6. OPERATION EXPENSE - OTHER POWER SUPPLY	27,721,339	37,592,694	40,934,133	3,235,055
7. OPERATION EXPENSE - TRANSMISSION	487,997	451,314	378,676	40,018
8. OPERATION EXPENSE - DISTRIBUTION	--	--	--	--
9. OPERATION EXPENSE - CONSUMER ACCOUNTS	10,679	13,159	10,200	1,299
9.1 OPERATION EXPENSE - CONS. SERV. & INFORM.	--	--	--	--
10. OPERATION EXPENSE - SALES	342	--	--	--
11. OPERATION EXPENSE - ADMINISTRATIVE & GENERAL	1,175,393	1,605,999	1,578,197	160,203
12. TOTAL OPERATION EXPENSE (5 thru 11)	56,758,303	63,213,955	74,132,329	6,029,263
13. MAINTENANCE EXPENSE - PRODUCTION	604,850	1,138,779	3,369,123	101,079
14. MAINTENANCE EXPENSE - TRANSMISSION	637,655	616,613	735,135	51,478
15. MAINTENANCE EXPENSE - DISTRIBUTION	--	--	--	--
16. MAINTENANCE EXPENSE - GENERAL PLANT	43,703	50,704	45,005	5,813
17. TOTAL MAINTENANCE EXPENSE (13 thru 16)	1,286,208	1,815,096	4,149,263	158,401
18. DEPRECIATION & AMORTIZATION EXPENSE	4,224,653	7,225,326	7,414,010	620,799
19. TAXES	161,134	219,556	218,205	22,552
20. INTEREST ON LONG-TERM DEBT	14,168,431	17,503,736	--	1,628,078
20.1 INTEREST CHARGED TO CONSTRUCTION - CREDIT	6,974,403	1,122,649	10,407,155	93,992
20.2 OTHER INTEREST EXPENSE	130,317	62,774	30,000	605
21. OTHER DEDUCTIONS	75,645	64,268	72,000	844
22. TOTAL COST OF ELECTRIC SERVICE (12 + 13 + 14 + 15 + 16 + 17 + 18 + 19 + 20 + 20.1 + 20.2 + 21)	69,830,383	93,982,054	102,423,482	8,370,542
23. OPERATING MARGINS (4 - 22)	1,114,762	3,068,774	1,732,615	(134,257)
24. INTEREST INCOME	137,623	337,708	153,000	54,527
25. ALLOCANCE FOR FUNDS USED DURING CONST.	--	--	--	--
26. OTHER NON-OPERATING INCOME - NET	677	100	--	--
27. GENERATION & TRANSMISSION CAPITAL CREDITS	--	--	--	--
27.1 OTHER CAPITAL CREDITS AND PAT. DIVIDENDS	37,333	7,215	--	369
28. EXTRAORDINARY ITEMS	--	--	--	--
29. NET PATRONAGE CAPITAL OR MARGINS (23 + 24 + 25 + 26 + 27 + 27.1 + 28)	1,290,402	3,413,497	1,885,615	74,896

ITEM	MILLS/KWH (Historical with 1979 Budget)			
	LAST YEAR	THIS YEAR	BUDGET	THIS MONTH
30. ELECTRIC ENERGY REVENUE PER KWH SOLD	37.45	36.23	33.23	
31. TOTAL OPERATION AND MAINTENANCE PER KWH SOLD	27.33	27.37	27.07	
32. TOTAL COST OF ELECTRIC SERVICE PER KWH SOLD	26.69	35.81	33.33	
33. PURCHASED POWER COST PER KWH	8.25	8.29	8.24	

We certify herein that the entries in this report, including REA Form 12a to the extent of the entries and other records of the system and that the report reflects the status of the system to the best of our knowledge and belief.

POOR ORIGINAL

OPERATING REPORT - FINANCIAL

U.S. DEPARTMENT OF AGRICULTURE REA WASHINGTON D.C. 20250

INSTRUCTIONS - Submit original and four copies of this report. For detailed instructions, see REA Bulletin 108-2.
(Monthly reports consist of NE 4 Forms 12a, 12b, 12c, 12d, 12e, 12f, and 12g; December report also includes NE 4 Form 12h.)

SECTION A. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. TOTAL UTILITY PLANT IN SERVICE	261,539,226	26. MEMBERSHIPS	35
2. CONSTRUCTION WORK IN PROGRESS	16,914,778	27. PATRONAGE CAPITAL	
3. TOTAL UTILITY PLANT (1 + 2)	278,454,004	a. ASSIGNED AND ASSIGNABLE	5,853,758
4. ACCUM. PROVISION FOR DEPRECIATION & AMORT.	21,951,508	b. RETIRED THIS YEAR	--
5. NET UTILITY PLANT (1 + 2 - 4)	256,502,496	c. RETIRED PRIOR YEARS	2,439,936
6. NON-UTILITY PROPERTY - NET	--	d. NET PATRONAGE CAPITAL	3,413,822
7. INVEST. IN ASSOC. ORG. - PATRONAGE CAPITAL	68,453	28. OPERATING MARGINS - PRIOR YEARS	--
8. INVEST. IN ASSOC. ORG. - OTHER - GEN. FUNDS	1,065	29. OPERATING MARGINS - CURRENT YEAR	(314,152)
8.1 INVEST. - ASSOC. ORG. - OTHER - NON G.P.	4,291,922	30. NONOPERATING MARGINS	53,007
9. OTHER INVESTMENTS	12,500	31. OTHER MARGINS & EQUITIES	535,436
0. SPECIAL FUNDS	--	32. TOTAL MARGINS & EQUITIES (26 + 27d thru 31)	3,688,148
1. TOTAL OTHER PROPERTY & INVEST. (6 thru 10)	4,373,940	33. LONG-TERM DEBT - REA	63,410,343
2. CASH - GENERAL FUNDS	16,936	34. LONG-TERM DEBT - OTHER	210,017,782
3. CASH - CONSTRUCTION FUNDS - TRUSTEE	91,019	35. TOTAL LONG-TERM DEBT (33 + 34)	273,428,125
4. SPECIAL DEPOSITS	1,968,780	36. NOTES PAYABLE	--
5. TEMPORARY INVESTMENTS	3,175,000	37. ACCOUNTS PAYABLE	13,821,962
6. NOTES RECEIVABLE - NET	12,500	38. TAXES ACCRUED	65,230
7. ACCOUNTS RECEIVABLE - NET	9,833,579	39. INTEREST ACCRUED	1,733,392
8. STOCK	10,072,730	40. OTHER CURRENT & ACCRUED LIABILITIES	63,225
9. SUPPLIES & SUPPLIES - OTHER	2,798,603	41. TOTAL CURRENT & ACCRUED LIAB. (36 thru 40)	15,684,809
10. PREPAYMENTS	515,656	42. DEFERRED CREDITS	42,977
11. OTHER CURRENT & ACCRUED ASSETS	48,887	43. OPERATING RESERVES	144,100
12. TOTAL CURRENT & ACCRUED ASSETS (11 thru 17)	28,533,600	44. ACCUMULATED DEFERRED INCOME TAXES	--
13. UNMORT. DEBT DISC. & EXTRAORD. PROP. LOSS	991,959	45. TOTAL LIABILITIES & OTHER CREDITS	
14. OTHER DEFERRED DEBITS	2,586,164	(12 + 15 + 41 thru 44)	292,938,159
15. TOTAL ASSETS & OTHER DEBITS (1 + 15)	292,988,159		

Sec. B - Statement of Operations Mill Sales

ITEM	YEAR - TO - DATE			THIS MONTH
	LAST YEAR	THIS YEAR	BUDGET	
1. ELECTRIC ENERGY REVENUES	7,037,829		9,112,100	8,261,830
2. INCOME FROM LEASED PROPERTY - NET	12,609		88,374	114,001
3. OTHER OPERATING REVENUE & INCOME	2,143		5,000	3,184
4. TOTAL OPER. REVENUES & PATRONAGE CAP. (1 thru 3)	7,052,581		9,205,474	8,379,015
5. OPERATION EXPENSE - PRODUCTION - EXCL. FUEL	127,729		168,812	129,709
5.1 OPERATION EXPENSE - PRODUCTION - FUEL	2,519,741		2,820,810	2,287,727
6. OPERATION EXPENSE - OTHER POWER SUPPLY	2,236,021		3,508,600	3,639,758
7. OPERATION EXPENSE - TRANSMISSION	38,687		39,271	49,172
8. OPERATION EXPENSE - DISTRIBUTION	--		--	--
9. OPERATION EXPENSE - CONSUMER ACCOUNTS	980		1,050	1,422
9.1 OPERATION EXPENSE - CONS. SERV. & INFORM.	--		--	--
10. OPERATION EXPENSE - SALES	--		--	--
11. OPERATION EXPENSE - ADMINISTRATIVE & GENERAL	143,370		158,845	169,881
12. TOTAL OPERATION EXPENSE (5 thru 11)	5,066,537		6,647,338	6,276,664
13. MAINTENANCE EXPENSE - PRODUCTION	58,389		126,319	148,746
14. MAINTENANCE EXPENSE - TRANSMISSION	31,753		72,676	42,284
15. MAINTENANCE EXPENSE - DISTRIBUTION	--		--	--
16. MAINTENANCE EXPENSE - GENERAL PLANT	5,863		5,400	22,584
17. TOTAL MAINTENANCE EXPENSE (13 thru 16)	96,005		204,425	213,614
18. DEPRECIATION & AMORTIZATION EXPENSE	602,230		619,301	619,394
19. TAXES	23,700		25,696	24,979
20. INTEREST ON LONG-TERM DEBT	1,335,150			1,651,557
20.1 INTEREST CHARGED TO CONSTRUCTION - CREDIT	85,832		1,593,519	96,935
20.2 OTHER INTEREST EXPENSE	25,340		4,098	128
21. OTHER DEDUCTIONS	4,909		5,069	4,335
22. TOTAL COST OF ELECTRIC SERVICE (17 + 18 thru 21)	7,074,633		9,209,495	8,693,211
23. OPERATING MARGINS (4 + 22)	(22,052)		(4,021)	(314,216)
24. INTEREST INCOME	13,750		30,000	53,007
25. ALLOANANCE FOR FUNDS USED DURING CONST.	--		--	--
26. OTHER NON-OPERATING INCOME - NET	--		--	--
27. GENERATION & TRANSMISSION CAPITAL CREDITS	--		--	--
27.1 OTHER CAPITAL CREDITS AND PAT. DIVIDENDS	--		--	64
28. EXTRAORDINARY ITEMS	--		--	--
29. NET PATRONAGE CAPITAL OR MARGINS (23 thru 28)	(8,302)		25,679	(261,154)

ITEM	MILLS PER kWh (Estimated Rate by Borrower)	
30. ELECTRIC ENERGY REVENUE PER kWh SOLD	36.50	37.15
31. TOTAL OPERATION AND MAINTENANCE PER kWh SOLD	27.89	29.12
32. TOTAL COST OF ELECTRIC SERVICE PER kWh SOLD	36.89	38.05
33. PURCHASED POWER COST PER kWh	9.41	9.01

We hereby certify that the entries in this report, including NE-4 Form 12h (if any) are in accordance with the accounts and other records of the system and that the report reflects the status of the system to the best of our knowledge and belief.

Man. Fin. & Acct.

POOR ORIGINAL