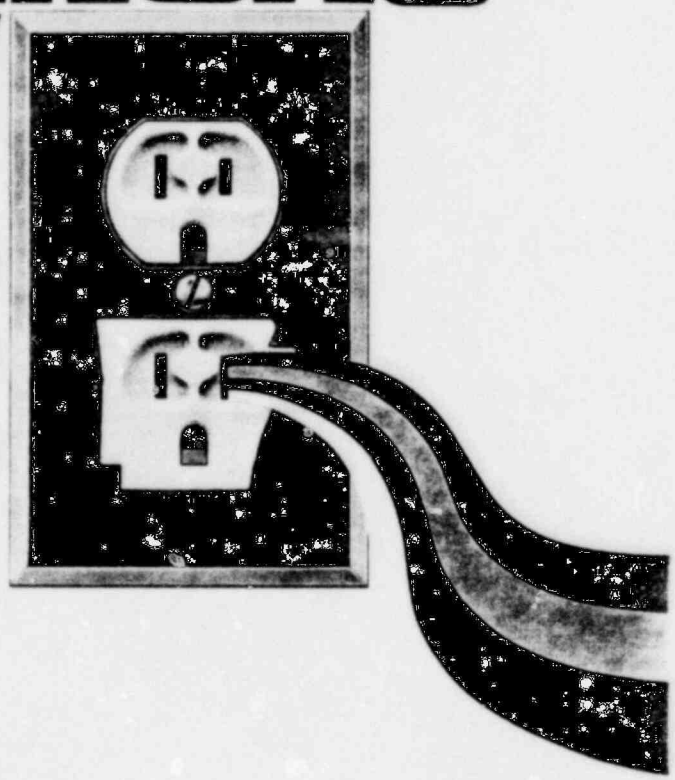
WORKING TOGETHER ON ARKANSAS' ENERGY



ARKANSAS POWER & LIGHT COMPANY/1977 ANNUAL REPORT

"Our goal is to be the best utility in the nation."

Like most investor-owned electric utilities in the nation, Arkansas Power & Light has weathered some very stormy times during the Seventies. However, we believe that those troublesome times have made us a stronger and, hopefully, wiser company.

That is not to say that the challenges posed by increasing costs, vast capital outlays, environmental concerns, financing, various fuel options and longer construction leadtimes have disappeared. Those problems remain, but we clearly perceive that AP&L's ability to meet those challenges has immeasurably improved.

We believe that 1977 was a year of decided improvement and are firmly committed to strengthening the Company internally and externally through both a disciplined and imaginative approach. This progress is reflected in this annual report, and we encourage you to review the comments made by various key management executives along with the financial statements.

We are optimistic in our outlook for four primary reasons.

First, we believe our service area will continue to experience economic and population growth in the years ahead with progress equalling and, in some cases, exceeding the growth that is taking hold throughout the entire Sunbelt. For example, total AP&L customers climbed from 350,458 at year-end 1967 to 447,802 at the end of 1977.

Second, we have made significant strides in reinforcing our financial stability through internal efficiencies and an open and cooperative channel of communications and action with regulatory bodies. We have worked diligently to gain a financial turnaround at AP&L and are seeking to improve it further since this is in the best interests of our customers and investors.

Net income in 1977 totaled $70.7 million. Of this amount, $34 million was due to earnings from revenues and $36.7 million resulted from allowance for funds used during construction (a non-cash source of earnings.) The increase over 1976 net income was $23.7 million, reflecting increases of $17 million from revenues and $10.2 million from allowance for funds used during construction and a decrease of $3.5 million due to an accounting change in 1976.

Operating revenues in 1977 reached $537.4 million, a 36 percent increase over 1976 revenues. During this same period, operating expenses also increased 36 percent to $466.9 million. The rise in operating revenues is due primarily to increases in energy usage in all customer classifications and to the effect of higher retail rates which were placed into effect in April following

Performance Highlights	1977	1976	% Increase
Revenues from operations (000)	$ 537,408	$ 396,597	36
Operation and maintenance expenses (000)	$ 366,032	$ 273,046	34
Net Income (000)	$ 70,685	$ 46,963	51
Capitalization (000)	$1,277,857	$1,170,154	9
Construction expenditures (000)	$ 195,105	$ 174,749	12
Total utility plant investment—end of year (000)	$1,762,815	$1,621,350	9
Customers (End of year)	447,802	438,839	2
Energy sales to ultimate customers (Millions of Kilowatt hours)	12,556	11,143	13
Employees (End of year)	3,082	3,012	2
Peak demand (Megawatts)	3,336	3,242	3
Average use per customer (Kilowatt hours)			
Residential	10,010	8,975	12
Commercial	49,611	46,632	6
Average price per kilowatt hour (cents)			
Residential	4.02	3.57	13
Commercial	3.97	3.48	14

Reeves E. Ritchie

Arch P. Pettit

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Arkansas Public Service Commission approval in March.

Total energy sales increased 3.3 billion kilowatt-hours over 1976 to 17.7 billion kilowatt-hours, a 23 percent increase. Sales to ultimate customers, which excludes energy sold to others for resale, totaled 12.6 billion kilowatt-hours, an increase of 13 percent. Occurring despite concerted efforts to encourage energy conservation, this increase in energy sales was influenced by unseasonable weather, with the winter months colder than normal and the summer months hotter than normal, both contributing to increased electric energy usage.

Fuel for generation and purchased power cost amounted to $284.1 million in 1977, or 61 percent of total operating expenses of $466.9 million. These costs also account for $68.9 million of the increase of $122.8 million in operating expenses over 1976. Fuel oil continued as the major fuel used for generation in 1977, accounting for 55.2 percent of all energy generated. Nuclear generation was 40.2 percent; natural gas generation, 3.8 percent; and 0.8 percent for hydro generation.

Our third reason for optimism is the fact that we are making major strides toward a generating system that will provide us with a balanced and more stable fuel mix.

Following completion of our second nuclear-fueled unit in 1978, nuclear generation will reach 52 percent of total generation in 1979. Coal-fired generation is scheduled to climb to 29 percent by 1982 when White Bluff Steam Electric Station is completed and, hopefully, with the addition of the proposed Independence Steam Electric Station by 1985, 49 percent of our energy generation will be fueled with coal.

Projecting into the mid-to-late 1980's, it appears that Arkansas lignite can be utilized to fuel some future generation.

Fourth, we are firmly dedicated to continue reinforcement of our ability to develop programs and policies that will provide logical, timely and cost-effective solutions to the challenging tasks at hand. This belief is anchored in a management approach created by a willingness to seek out non-traditional answers to age-old problems, to discover methods for improved manpower utilization and productivity, and to develop an organizational structure best suited to current operations and opportunities.

To a major extent, these efforts are being guided by AP&L staff studies, a broad management audit conducted by Theodore Barry & Associates and specialized policy/procedure reviews commissioned through United Research Company. We are encouraged not only by the positive results that these studies have yielded but also by the responsiveness of the total AP&L team in implementing more efficient programs in virtually every area of Company operations.

Our goal is to be the best utility in the nation. The attainment of that objective requires the personal commitment of each of our more than 3,000 employees and the continuing support of our investors and customers. We appreciate your confidence and welcome your comments and suggestions about our endeavors at AP&L at any time.

Reeves Ritchie
Chairman of the Board

Arch Pettit
President & Chief Executive Officer

"The marketplace for borrowed money has become one of the real tests in AP&L's efforts to meet its responsibilities."

Jerry L. Maulden
Vice President/Financial Services, Treasurer & Secretary

The maintenance of AP&L's financial integrity has a direct bearing on our ability to successfully fulfill our responsibility in meeting growing electric energy needs. While we experienced an improved financial year in 1977, we also were faced with record operating expenses totaling more than $466 million.

To some degree, our efforts in achieving financial stability have been hampered by the fact that many people assume that we use the money we receive from customers to totally pay for the multi-million-dollar construction projects we've undertaken. That's simply not true.

To build generating facilities, we have to borrow the money through the sale of common or preferred stock or mortgage bonds. In other words, we must attract investors who will allow us to use their money for construction in return for interest payments and dividends. Without those investments and the financial performance to attract them, we would not be able to build needed generating facilities. The marketplace for borrowed money has become one of the real tests in AP&L's efforts to meet its responsibilities.

Let's take a look at our 1977 financing record. In May we sold $15 million of common stock to Middle South Utilities. By competitive bidding in December, we sold $75 million in first mortgage bonds with a 9 1/8 percent interest rate. Interim financing was by bank loans and commercial paper.

Nearly 40 of the nation's leading utility investment analysts visited Arkansas as a part of a Middle South Utilities tour in November to be briefed on AP&L's performance and plans.

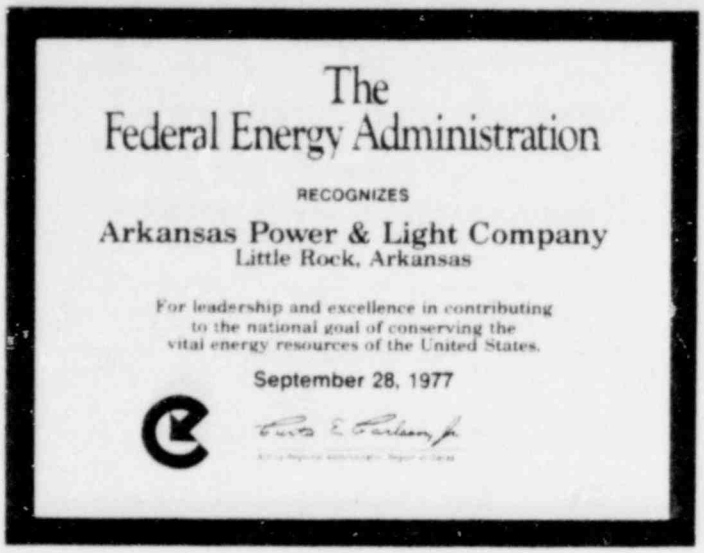
During the year, AP&L entered into installment purchase contracts with Jefferson County for the issuance of pollution control bonds and industrial revenue bonds in connection with the White Bluff Steam Electric Station. While a total of $47 million in bonds was issued by the county, only $9.1 million was available for use in 1977, the remainder being held in construction funds for future use.

Also in connection with White Bluff, we sold a 35 percent and 5 percent share of the generating station to Arkansas Electric Cooperative Corporation and the City of Jonesboro respectively. A total of $62.6 million was received as reimbursement for prior Company expenditures with future expenditures to be reimbursed currently as made.

We anticipate that a new load and energy forecasting methodology will aid us in making growth projections so that energy demand, construction planning and fiscal requirements will be as finely tuned as possible. Along with our sister companies in the Middle South System, we employed Data Resources, Inc., to develop a computer-based econometric model for this purpose. Data Resources is an internationally-recognized economic information and forecasting service firm.

This econometric approach will undoubtedly provide AP&L management with the most sophisticated load projections possible. For our customers, this ability means that we will be able to better and more efficiently forecast the timing of needed generating facilities. For our investors and employees, it represents another step forward in improving management control.

Jerry L. Maulden


The
Federal Energy Administration

RECOGNIZES

Arkansas Power & Light Company
Little Rock, Arkansas

For leadership and excellence in contributing to the national goal of conserving the vital energy resources of the United States.

September 28, 1977

Arkansas Power & Light was one of only 25 utilities in the nation honored by the Federal Energy Administration for outstanding contributions to energy conservation. The award was presented in connection with the Utilities Conservation Action Now program.

John S. Williams
Director of Marketing

"Effective load management and conservation programs are of benefit to both the Company and its customers."

AP&L has made a strong commitment to research and develop new methods of energy management to help reduce peak demand and assist customers in conservation.

These innovative programs have brought national recognition to the Company as a leader in the field of load management. For instance, last fall AP&L was presented a special award by the Federal Energy Administration as a part of the Utilities Conservation Action Now program. The Company was one of only 25 utilities in the nation receiving such recognition and was the only utility in Arkansas honored.

AP&L's marketing efforts have played a major role in the implementation of conservation programs for many years. The Arkansas Energy Saving Home is a prime example. The Company helped develop and pioneer this new concept in residential building techniques to increase thermal quality. In cooperation with the Federal Housing Administration, marketing representatives have worked with builders, developers, manufacturers and customers in securing widespread acceptance of the Home. In addition, AP&L staff members have participated in more than 100 seminars on this concept, providing information to state and federal agencies and utilities in virtually every state.

In 1977 AP&L introduced two major efforts to aid residential customers in conservation. In June the Energy Audit program was implemented through co-sponsorship by the Company and the University of Arkansas at Little Rock. Endorsed by the State Energy Office, the Audit provides customers with a free evaluation of home energy characteristics and recommendations on how to achieve greater energy efficiency.

The Energy Conservation Loan program was announced in late summer. Under this financial program, AP&L is working with participating banks, savings and loan associations and contractors. Customers who qualify can make home energy improvements and then pay for them monthly on their AP&L bill.

Effective load management and conservation programs are of benefit to both the Company and its customers. We look forward to the future development and marketing of additional services as AP&L seeks to meet President Carter's national energy goals.

John Sharp Williams

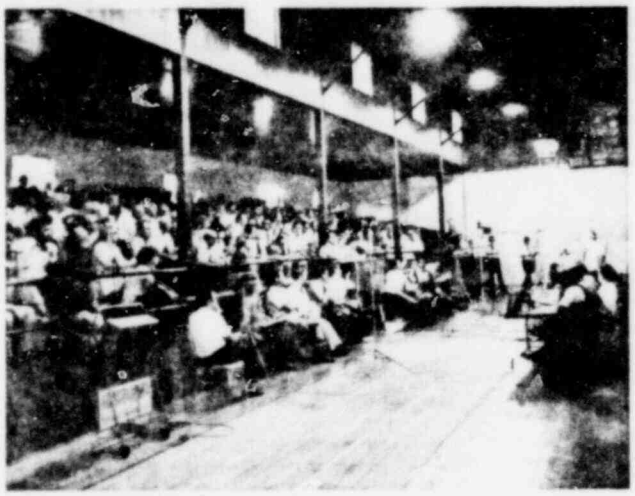
William Cavanaugh III
Executive Director of Generation & Construction

"By 1985 we hope to meet almost 90 percent of our energy requirements with generating facilities fueled by coal and nuclear."

We are striving to help stabilize electric energy costs for our customers by constructing a generating system that will utilize the advantages of coal and nuclear fuel to their fullest.

The chart below graphically illustrates the shift away from expensive fuel oil and scarce natural gas as boiler fuels. By 1985 we hope to meet almost 90 percent of our energy requirements with generating facilities fueled by coal and nuclear fuel. Both of these fuels represent commodities that are abundant, domestically available, environmentally compatible and economically sound.

To meet that objective, we have undertaken the largest construction program in AP&L's 64-year history. In 1977 AP&L's construction expenditures totaled $195.1 million and this year we estimate that costs will rise to $215.2 million. These expenditures include $162.2 million in 1977



In August AP&L and governmental officials briefed residents in the Newark area on the Independence Steam Electric Station project. Over 300 citizens attended the public forum in the Newark School gymnasium.

ENERGY SOURCES - PERCENT OF NET INPUT

	1972	1977	1979	1981	1982	1983	1985
Nuclear	—	29	52	50	48	42	39
Gas	41	3	3	2	1	1	—
Oil	17	36	34	8	10	7	6
Coal	—	—	—	16	29	40	49
Hydro	1	1	1	1	1	1	1
Purchased Power	41	31	10	23	11	9	5
Total	100	100	100	100	100	100	100
Includes first full year of operation of:			Arkansas Nuclear One Unit 2	White Bluff Unit 1	White Bluff Unit 2	Independence Unit 1	Independence Unit 2

Arkansas Nuclear One, the Southwest's first nuclear-fueled electric generating station, will be complete in 1978 when Unit 2 begins commercial operation. Or[illegible]e since 1974, Unit 1 set a record in 1977 for longest continuous operation for a reactor of its type and manufacture.

and $168.4 million in 1978 for construction of new or improved production facilities.

Being built near Russellville on the Dardanelle Reservoir, the second unit of Arkansas Nuclear One is nearing completion with commercial operation scheduled for late 1978. Unit 1 went into commercial operation in 1974, making this facility the first nuclear-fueled electric generating station in the Southwest.

Rapid progress is being made on construction of the two-unit, coal-fired White Bluff Steam Electric Station at Redfield. The facility will have a 1,400-megawatt net generating capability, utilizing low sulfur Wyoming coal as its boiler fuel. The first unit is scheduled to go on line in 1980 with the second unit to be completed in 1982. The total project is estimated to cost $596.3 million, of which AP&L's portion will be $357.8 million.

In August the Company announced plans to build two additional 700-megawatt net units near Newark. Named Independence Steam Electric Station, the facility is scheduled to burn low sulfur Wyoming coal. Like White Bluff, this station will be jointly owned by AP&L, Arkansas Electric Cooperative Corporation and the City of Jonesboro. We are projecting commercial operation in 1983 and 1985. Licensing applications have been filed with regulatory approvals hoped for in 1978.

Several significant steps have been taken to help assure quality, cost-effective management of these and other construction projects.

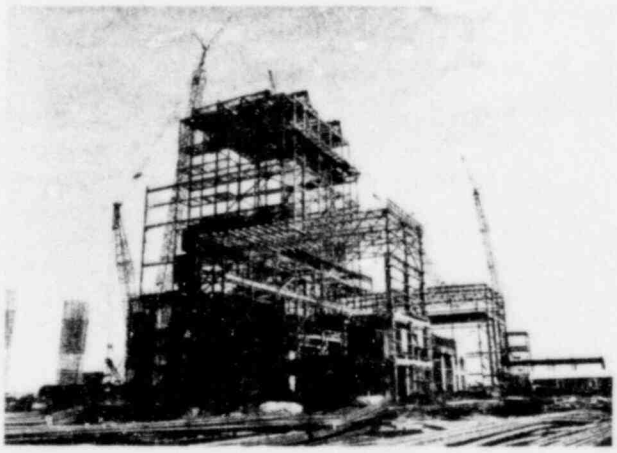
For instance, the Company's generation and construction areas were reorganized during 1977. This new management system has had three primary benefits.

First, this format has already achieved economic efficiencies, especially in the areas of contract negotiations, pre-construction planning and scheduling. Second, the system has brought various satellite and often fragmented support areas into a single coordinated effort. Third, it has given the Company expanded technical and administrative capabilities in controlling several major construction projects at the same time.

In addition, we have developed a new construction management information system for major project planning and control. This system is primarily designed to support project management, scheduling, document control, accounting interface, materials control and financial management.

We believe that all of these steps will be valuable in helping to assure on-time, in-budget project completions.

William Scherneckau



Construction is now underway at the White Bluff Steam Electric Station near Redfield. The two-unit facility will have a 1,400-megawatt net generating capability upon total project completion.

"The consulting team reported that it found AP&L to be a well-managed utility with many strengths and a sound past performance record, but with some avenues for increased efficiencies."

Because of expanding operations, rising costs and an aggressive management posture, AP&L has undertaken several major studies to help evaluate internal organization and to analyze the Company's future fuel options.

In April the Company released the findings of an in-depth management audit conducted by Theodore Barry & Associates of Los Angeles, a nationally-known consulting firm that has audited more than 20 utilities. The study was initiated by Company management to identify opportunities for additional improvement of AP&L operating procedures and policies. The Company staff worked with the TB&A research team for over eight months, keeping the Arkansas Public Service Commission fully informed during all study phases since the audit addressed some of the Commission's concerns.

The consulting team reported that it found AP&L to be a well-managed utility with many strengths and a sound past performance record, but with some avenues for increased efficiencies. The 162 study recommendations encouraged continuation of some programs, minor to significant modifications in others and development of some new policies and procedures.

Following the report's presentation, the Company instituted a disciplined follow-up implementation plan which TB&A called the most thorough and impressive response to a utility management audit they had seen. Major progress has been made on this management improvement effort with follow-up still continuing.

Ralph C. Mitchell III
Director of Management Services

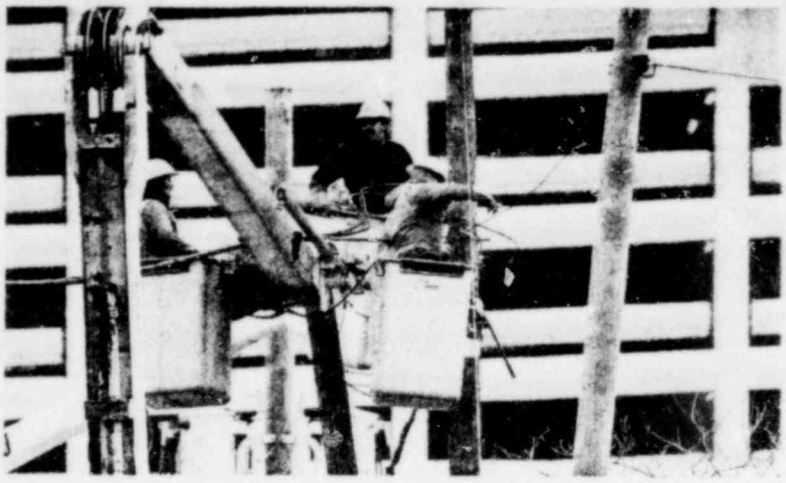
In an effort to determine the potential of using Arkansas lignite and coal as boiler fuels in generating electric energy, AP&L and Arkansas Electric Cooperative Corporation jointly sponsored an extensive fuel research project during 1977. The $300,000 study is presently underway with Stone & Webster Engineering Corporation and Battelle Memorial Institute serving as technical consultants.

While the study will not be fully completed until the spring of 1978, preliminary data indicates that lignite most probably will be a viable fuel alternative for electric generation in the 1986-88 time frame.

These steps demonstrate the Company's desire to approach its goals openly and realistically as it meets the challenges of this decade and prepares for the opportunities of the next.

Ralph C. Mitchell III

Governor David Pryor (center) joins with AP&L president Arch Pettit (right) and Harry Oswald, general manager of Arkansas Electric Cooperative Corporation, at a news conference on the comprehensive Arkansas lignite study.



In 1977 AP&L began implementation of a Distribution Construction and Operations System. This new management tool will allow for computerized control of customer service requests. Information on various projects will be displayed on video screens (left) so that progress can be checked on each service order. Distribution crew productivity will be increased as well as system reliability.

"The Air Conditioning Switch program is a pioneering effort in the electric utility industry."

The expansion of the AP&L Air Conditioning Switch program and the implementation of a Distribution Construction and Operations Management System received priority attention in 1977.

The Air Conditioning Switch program is a pioneering effort in the electric utility industry. It involves free placement of radio-controlled devices on qualifying residential central air conditioning units. Participating customers agree to allow AP&L to switch off their units for two-7½ minute periods in any one hour during high electric usage periods. For participation, customers receive a credit on their electric bill—averaging about $7 per month—during a three month summer period. At year-end, approximately 10,000 customers had requested installation.

For AP&L, the program represents a significant load management tool. We anticipate that it will take several years to install enough switches to significantly affect the total peak load of residential customers. However, a Company-wide system would defer 127,000 kilowatts of future generation (costing about $500 per kilowatt) and provide the capability of shedding 500 megawatts of non-essential load during emergency shortage periods.

In an effort to streamline internal organization, improve efficiency and expedite service to the customers, AP&L is implementing a Distribution Construction and Operations Management System. This control format will increase the productivity of designers, crews, plant accounting staff and clerical personnel by providing a data link to all parties involved in this Company service function. The System will produce annual benefits in the range of $3 million and require about three years for Company-wide implementation.

M. W. Rice
Director of Distribution Plant

These two endeavors are demonstrative of AP&L's innovative approach to problem solving and cost effectiveness in the vital distribution area.

MWRice

"We hope to offer time-of-day rate schedules as a customer option since this will allow for further study of the pricing concept."

In 1977 one of the most extensive time-of-day rate experiments was concluded in Arkansas. As a result, AP&L plans to file an application before the Arkansas Public Service Commission in 1978 seeking approval for an optional time-of-day residential electric rate schedule.

Time-of-day pricing is a utility rate concept that results in the cost of electric energy to the consumer being at a higher cost during the time of day when peak demand occurs. This concept more closely aligns rates and the cost of supplying service during periods of high usage.

Arkansas was one of eight states receiving funding from the Federal Energy Administration for studies to test customer consumption patterns while electric prices changed drastically. AP&L and the Arkansas Public Service Commission jointly applied for the research grant.

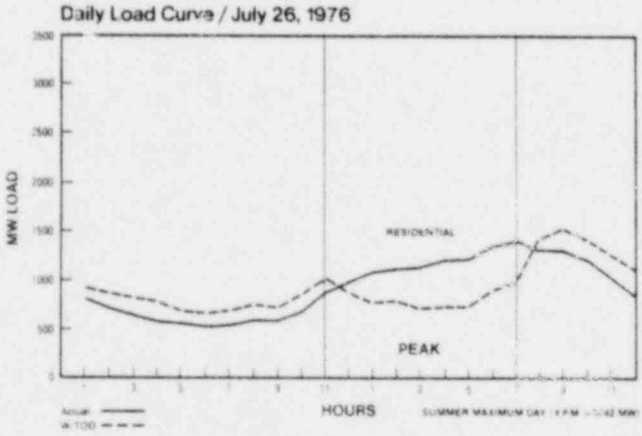
Spanning a 13-month period, the tests were conducted in Beebe, Dumas, Hamburg and Wynne since each of the communities was thought to be representative of the AP&L system in terms of types of customers, population mix, energy consumption and other demographics.

The results showed that time-of-day rates proved effective in reducing consumption during high demand periods, especially in the hot summer months. A study of the attitudes and opinions of persons participating in the experiment showed that three-fourths of all types of customers agreed that energy conservation is desirable. However, 80 percent of the residential customers and 50 percent of the commercial customers preferred voluntary reduction.

We hope to offer time-of-day rate schedules as a customer option since this will allow for further study of the pricing concept. With this additional research, we will have an even better perspective on the benefits of this concept both for AP&L and our customers.

O. V. Holeman

O. V. Holeman
Director of Rates & Research



The effect of time-of-day rates on customer usage is reflected in the above graph. During the peak demand day in 1976, time-of-day customers reduced usage during the critical summer afternoon hours when the impact of air conditioning is most heavily felt.

MIDDLE SOUTH UTILITIES SYSTEM

1977 ARKANSAS POWER & LIGHT COMPANY FINANCIAL REVIEW
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. System of Accounts

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

B. Revenues and Fuel Costs

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period.

Substantially all of the rate schedules of the Company include adjustment clauses under which fuel costs above or below the levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers. The Company has adopted a deferral method of accounting for those fuel costs recoverable under fuel adjustment clauses. Under this method, such costs are deferred to the month in which the related revenues are recorded.

Beginning in 1977, the fuel adjustment factor contains an amount for a nuclear reserve fund, estimated to cover the replacement cost of energy which would have been generated using nuclear fuel when the nuclear plant is down for refueling. The fund bears interest and is credited to fuel and purchased power expenses when the plant is down for refueling.

C. Utility Plant and Depreciation

Utility plant is stated at original cost. The costs of additions to utility plant include contracted work, direct labor and materials, allocable overheads and an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant and such costs plus removal cost, less salvage, are charged to accumulated depreciation. Maintenance and repair of property and replacement of items determined to be less than units of property are charged to operating expenses.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided in 1977 and 1976 amounted to approximately 3.3% on the average depreciable property. Principally all the Company's utility plant is subject to the lien of its mortgage.

D. Pension Plan

The Company has a pension plan covering substantially all of its employees. Pension costs in 1977 and 1976 amounted to $4,560,000 and $4,137,000, respectively, including amortization of unfunded prior service costs over a period of 20 years. The policy of the Company is to fund pension costs accrued.

E. Income Taxes

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

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for ratemaking purposes. Investment tax credits are deferred and amortized over the average useful life of the related property.

F. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction. This allowance (a non-cash item) represents the net costs of funds used to finance construction. Prior to January 1, 1977, the corresponding credit was to non-operating income. Effective January 1, 1977, the Company adopted FPC Order No. 561 as to rate determination and reporting requirements which provide for separation of the common equity component and borrowed funds component of funds used during construction. The rates used for such allowances were 7.38% and 7.50% for the years 1977 and 1976, respectively.

The Company has not reclassified the allowance for funds into its debt and equity components for periods prior to January 1, 1977 since the allocation between such components for prior periods would not be comparable utilizing the revised procedures.

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

G. Reserves

It is the policy of the Company to provide reserves for uninsured property risks and for claims for injuries and damages through charges to operating expense on an accrual basis. Accruals for these reserves have been allowed for ratemaking purposes.

MIDDLE SOUTH UTILITIES SYSTEM

BALANCE SHEET AT DECEMBER 31, 1977 AND 1976

ASSETS

	1977	1976
	In Thousands	
Utility Plant:		
Electric plant	$1,139,511	$1,111,119
Construction work in progress	610,557	505,669
Nuclear fuel	12,747	4,562
Total	1,762,815	1,621,350
Less—accumulated depreciation and amortization	297,464	265,099
Utility plant—net	1,465,351	1,356,251
Other Property and Investments:		
Investments in associated companies, at equity (Note 6)	21,027	15,707
Other, at cost (less accumulated depreciation)	1,777	1,166
Total	22,804	16,873
Current Assets:		
Cash and special deposits (Note 4)	4,135	10,273
Temporary investments, at cost which approximates market	29,315	1,500
Notes receivable (less allowance for doubtful notes)	1,227	1,302
Accounts receivable:		
Customer and other (less allowance for doubtful accounts — $410,000)	22,884	18,594
Associated companies	966	78
Deferred fuel cost (Note 2)	5,185	8,167
Materials and supplies, at average cost	5,184	5,275
Prepayments and other	4,025	1,720
Total	72,921	46,909
Deferred Debits	2,468	1,907
Total	$1,563,544	$1,421,940

See Notes to Financial Statements

LIABILITIES

	1977	1976
	In Thousands	
Capitalization:		
Equity capital:		
Preferred stock (Page 14)	$ 171,772	$ 171,772
Common stock ($12.50 par value), authorized 50,000,000 shares; issued and outstanding 30,636,773 shares in 1977 and 29,436,773 shares in 1976	382,960	367,960
Retained earnings (Notes 1 & 7)	55,641	39,040
Total equity capital	610,373	578,772
Long-term debt (Page 14)	667,484	591,382
Total	1,277,857	1,170,154
Current Liabilities:		
Notes payable—Banks (Note 4)		4,500
Currently maturing long-term debt (Page 14)	7,500	11,000
Accounts payable:		
Associated companies	8,272	8,432
Other	57,071	30,392
Customer deposits	6,994	6,415
Taxes accrued	28,242	6,323
Accumulated deferred income taxes	2,651	4,175
Interest accrued	13,951	12,245
Dividends declared	3,505	3,284
Nuclear fuel reserve	9,264	
Other	3,431	2,353
Total	140,881	89,119
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	87,369	78,311
Accumulated deferred investment tax credits	43,969	33,066
Revenues subject to possible refund plus interest (Note 1)		15,887
Deferred payments on construction contracts	4,200	26,709
Other	8,133	7,875
Total	143,671	161,848
Reserves	1,135	819
Total	$1,563,544	$1,421,940

See Notes to Financial Statements

MIDDLE SOUTH UTILITIES SYSTEM

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Years Ended December 31, 1977 and 1976

	1977	1976
	In Thousands	
Statement of Income		
Operating Revenues (Note 1)	$537,408	$396,597
Operating Expenses:		
Operation:		
Fuel	169,890	107,213
Purchased power	114,225	107,983
Other	63,827	44,056
Maintenance	18,090	13,794
Depreciation	36,768	35,025
Taxes other than income taxes	20,154	18,858
Income taxes (Note 3)	43,937	17,164
Total	466,891	344,093
Operating Income	70,517	52,504
Other Income and Deductions:		
Allowance for funds used during construction:		
Total (prior to 1977)		26,445
Other	26,703	
Miscellaneous—net	5,806	3,314
Income taxes (Note 3)	6,660	7,014
Total	39,169	36,773
Interest Charges:		
Interest on long-term debt	45,047	43,152
Other interest—net of debt premium	3,917	2,703
Allowance for borrowed funds used during construction	(9,963)	
Total	39,001	45,855
Income Before Cumulative Effect of Accounting Change	70,685	43,422
Cumulative Effect to January 1, 1976 of Change in Accounting for Fuel Costs (Note 2)		3,541
Net Income (Note 2)	$ 70,685	$ 46,963
Statement of Retained Earnings		
Retained Earnings, January 1 (Note 1)	$ 39,040	$ 41,297
Add—Net income	70,685	46,963
Total	109,725	88,260
Deduct—Cash dividends:		
Preferred stock	14,039	13,136
Common stock	40,045	36,084
Total	54,084	49,220
Retained Earnings, December 31 (Notes 1 & 7)	$ 55,641	$ 39,040

See Notes to Financial Statements

MIDDLE SOUTH UTILITIES SYSTEM

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1977 and 1976

	1977	1976
	In Thousands	
Source of Funds:		
From operations:		
Net income	$ 70,685	$ 46,963
Depreciation	36,768	35,025
Deferred income taxes and investment tax credit adjustments—net	19,960	19,114
Allowance for funds used during construction	(36,666)	(26,445)
Total	90,747	74,657
Dividends declared:		
Preferred stock	(14,039)	(13,136)
Common stock	(40,045)	(36,084)
Total	(54,084)	(49,220)
Funds retained in business	36,663	25,437
From decrease in working capital (excluding short-term securities and currently maturing long-term debt)	61,564*	15,435
Book value of utility plant sold	62,631	
Refund of revenues in excess of that allowed by Arkansas Public Service Commission	(15,887)	
Advances for fuel oil purchases:		
Payments		(12,629)
Refund		23,492
Deferred payments on construction contracts	(22,509)	9,139
Miscellaneous—net	(6,142)	(1,699)
Total	116,320	59,175
From financing transactions:		
Common stock	15,000	30,585
Preferred stock		10,000
First mortgage bonds:		
Issues	75,000	
Retirements	(11,000)	
Installment purchase transactions	9,130	53,317
Short-term securities—net	(32,315)	24,104
Total	55,815	118,006
TOTAL	$172,135	$177,181
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$159,012	$148,495
Nuclear fuel	7,613	3,669
Other plant additions—net	5,510	25,017
TOTAL	$172,135	$177,181

*The decrease in working capital for 1977 is primarily attributable to increases in accounts payable and taxes accrued.

See Notes to Financial Statements

MIDDLE SOUTH UTILITIES SYSTEM

SCHEDULE OF PREFERRED STOCK AND LONG-TERM DEBT

Preferred Stock	Shares Authorized	Shares Outstanding 1977	Shares Outstanding 1976	Current Call Price Per Share
CUMULATIVE, $100 PAR VALUE:				
4.32% series	70,000	70,000	70,000	$103.647
4.72% series	93,500	93,500	93,500	107.00
4.56% series	75,000	75,000	75,000	102.83
4.56%—1965 series	75,000	75,000	75,000	102.50
6.08% series	100,000	100,000	100,000	102.83
7.32% series	100,000	100,000	100,000	104.67
7.80% series	150,000	150,000	150,000	107.15
7.40% series	200,000	200,000	200,000	106.50
7.88% series	150,000	150,000	150,000	108.91
10.60% series*	200,000	200,000	200,000	112.04
11.04% series*	400,000	400,000	400,000	112.54
Unissued	2,386,500			
TOTAL	4,000,000	1,613,500	1,613,500	
CUMULATIVE, $25 PAR VALUE:				
8.84% series	400,000	400,000	400,000	$ 28.21
Unissued	9,600,000			
TOTAL	10,000,000	400,000	400,000	
TOTAL PREFERRED STOCK	14,000,000	2,013,500	2,013,500	

	In Thousands	
STATED AT $100 A SHARE	$161,350	$161,350
STATED AT $25 A SHARE	10,000	10,000
PREMIUM ON PREFERRED STOCK	422	422
TOTAL	$171,772	$171,772

Long-Term Debt	1977	1976
	In Thousands	
FIRST MORTGAGE BONDS:		
2-7/8% series due 1977		$ 11,000
3-1/8% series due 1978	$ 7,500	7,500
2-7/8% series due 1979	8,700	8,700
2-7/8% series due 1980	6,000	6,000
3-5/8% series due 1981	8,000	8,000
9-1/4% series due 1981	60,000	60,000
3-1/2% series due 1982	15,000	15,000
3-1/4% series due 1984	7,500	7,500
3-3/8% series due 1985	18,000	18,000
4-7/8% series due 1991	12,000	12,000
4-3/8% series due 1993	15,000	15,000
4-5/8% series due 1995	25,000	25,000
5-3/4% series due 1996	25,000	25,000
5-7/8% series due 1997	30,000	30,000
7-3/8% series due 1998	15,000	15,000
9-1/4% series due 1999	25,000	25,000
9-5/8% series due 2000	25,000	25,000
7-5/8% series due 2001	30,000	30,000
8% series due 2001	30,000	30,000
7-3/4% series due 2002	35,000	35,000
7-1/2% series due 2002	15,000	15,000
8% series due 2003	40,000	40,000
8-1/8% series due 2003	40,000	40,000
10-1/2% series due 2004	40,000	40,000
10-1/8% series due 2005	40,000	40,000
9-1/8% series due 2007	75,000	
TOTAL FIRST MORTGAGE BONDS**	647,700	583,700
INSTALLMENT PURCHASE CONTRACTS:		
Pope County, Arkansas, Due 2006, 7-3/8%	16,600	16,600
Jefferson County, Arkansas, Due 2007, 6-1/8%	47,000	
Less: Amount held in construction funds	37,870	
TOTAL INSTALLMENT PURCHASE CONTRACTS	25,730	16,600
UNAMORTIZED PREMIUM AND DISCOUNT ON DEBT-NET	1,554	2,082
TOTAL	674,984	602,382
LESS: CURRENT MATURITIES INCLUDED IN CURRENT LIABILITIES	7,500	11,000
LONG-TERM DEBT, EXCLUDING AMOUNT DUE WITHIN ONE YEAR	$667,484	$591,382

*Commencing in the year 1980, and annually thereafter, 10,000 shares of the 10.60% series and 20,000 shares of the 11.04% series must be redeemed at $100 per share plus accumulated dividend to date of redemption.

**Annual sinking fund requirements, which may be met by certification of property additions at the rate of 167% of such requirements, amount to $5,352,000 in 1978.

See Notes to Financial Statements

MIDDLE SOUTH UTILITIES SYSTEM

Notes to Financial Statements

1. Rates

In September 1974, the Company placed into effect, subject to refund with interest, revised retail schedules designed to yield $38,600,000 additional annual revenues. In March 1975, the Arkansas Public Service Commission (APSC) granted the Company an increase of $20,200,000. The decision of the APSC was appealed and the Company continued to bill customers on the basis of the rates designed to yield $38,600,000, but deferred, retroactive to September 1, 1974, for accounting purposes the difference between amounts billed and the amounts allowed by the APSC. In February 1977, the Supreme Court of Arkansas issued an opinion which allowed the Company to retain approximately $9,678,000 of the additional revenues which had been deferred. The Company refunded approximately $15,400,000, including interest, in 1977, and restated its financial statements for 1974 and 1975 to reflect increases in net income of $1,276,000 and $4,104,000, respectively.

2. Accounting Change

In 1976, the Company adopted, effective January 1, 1976, the accounting policy of deferring fuel costs in excess of base levels allowed in rate schedules until their recovery through the fuel adjustment clause. Deferral of the excess fuel costs for accounting purposes was adopted due to (1) the continuing increase in the unit cost of fuel, and (2) the significant increase in unrecovered fuel costs during those periods when the Company's nuclear plant is not operating.

This accounting change, net of deferred income taxes, resulted in an increase in net income for 1976 of $3,992,000, of which $3,541,000 represents the cumulative effect of the change as of January 1, 1976.

3. Income Taxes

Income tax expense consists of the following:

	1977	1976
	In Thousands	
Current:		
Federal	$21,089	$(3,434)
State	4,412	1,012
Total	25,501	(2,422)
Deferred-Net:		
Liberalized depreciation	8,514	9,277
Taxes, pension costs, and interest capitalized on books and deducted on tax return	5,653	6,241
Revenues collected in advance - nuclear fuel reserve	(4,657)	—
Deferred fuel expenses	(1,524)	471
Gain on sale of assets	—	(3,729)
Other	(453)	(801)
Total deferred taxes	7,533	11,459
Investment tax credit adjustment - net	10,903	8,127
Total charged to operations	43,937	17,164
Credited to other income and deductions	(6,660)	(7,014)
Total	$37,277	$10,150

The total income tax expense reflects reductions resulting primarily from the exclusion from taxable income of the allowance for funds used during construction. The effective income tax rates for 1977 and 1976 were 35% and 23%, respectively.

Investment tax credits generated in 1977, including approximately $9,200,000 in excess of the amount utilized, have been deferred. Unused credits are available to reduce the income taxes to be paid in future years.

The Federal income tax returns for the years 1967 through 1972 have been examined and assessments, which have been protested, have been proposed by the Internal Revenue Service. The years subsequent to 1972 are subject to examination. Management is of the opinion that adequate provisions have been made for any taxes that may ultimately be assessed.

4. Lines of Credit and Short-Term Borrowings

The Company has arrangements with certain banks and a commercial paper dealer providing for short-term borrowings of up to $110,000,000. Accounts are maintained with certain lending Arkansas banks and, although balances in some of these accounts may be deemed to be compensating balances, most of these accounts are working accounts and fluctuations in their balances do not reflect or depend upon fluctuations in the amounts of bank loans outstanding. In support of the arrangements with non-Arkansas banks, the Company maintains compensating balances of 10% of the lines of credit with these banks ($7,150,000 at December 31, 1977) which are not restricted as to withdrawal. Borrowings under these arrangements require compensating balances of up to an additional 10% of the average annual amount of outstanding loans from these banks. The aggregate amount of the unused lines of credit as of December 31, 1977 was $110,000,000.

The bank and commercial paper notes are unsecured short-term loans with various maturity dates not in excess of nine months. The interest rates on bank loans are the prime rates in effect from time to time of the lending banks. During 1977 the maximum aggregate amount of short-term borrowings outstanding at the end of any month was $81,700,000. The average amount of short-term borrowings outstanding during 1977 (based on the average of the sum of daily outstanding principal balances) approximated $37,408,000 of bank loans and $8,139,000 of commercial paper. The approximate average interest rate (determined by dividing the actual interest expense on short-term borrowings during the year by the average short-term borrowings) was 6.58% for bank loans and 6.86% for commercial paper.

5. Leases

The following disclosures have been made to fulfill the requirements of the Financial Accounting Standards Board (FASB) Statement No. 13 for those leases which meet the criteria used to define a capital lease. The Company is continuing to account for leases on the same basis as that used by its regulatory authority in the ratemaking process which determines the revenues utilized to recover the lease costs. Application of FASB Statement No. 13 would permit recording the following assets and liabilities on the balance sheet:

	1977	1976
	In Thousands	
Assets:		
Utility plant	$32,048	$32,048
Accumulated amortization	5,718	3,627
Net leased property	$26,330	$28,421
Liabilities:		
Noncurrent obligations under capital leases	$25,876	$27,599
Current obligations under capital leases	$ 1,723	$ 1,557

The application of FASB Statement No. 13 would not materially affect the amounts reported as either expense or net income.

At December 31, 1977, there were noncancelable leases with minimum rental commitments as follows:

	In Thousands
1978	$ 4,855
1979	4,754
1980	4,144
1981	2,728
1982	2,676
For years thereafter	54,491
TOTAL	$73,648

The Company has entered into two nuclear fuel leases aggregating $90,000,000 and has agreed to lease additional fuel in the future. Lease payments, which are not included in the tabulations above, are based on nuclear fuel use. Payments on the second lease are expected to commence in 1978. Nuclear fuel expense of $11,603,000 and $9,057,000 was charged to operations in 1977 and 1976, respectively. The leases, unless sooner terminated by one of the parties, will continue through 2013 and 2018, respectively. The unrecovered cost base of the leases was $70,892,000 and $63,100,000 at December 31, 1977 and 1976, respectively.

Rental expense (excluding nuclear fuel) amounted to approximately $6,863,000 and $4,606,000 in 1977 and 1976, respectively.

6. Commitments and Contingencies

The construction program contemplates Company construction expenditures of approximately $215,200,000 in 1978 and $168,500,000, in 1979.

During 1977, the Company sold a 40% interest in the White Bluff Steam Electric Station to unrelated parties. At December 31, 1977, after the sale, construction work in progress related to White Bluff amounted to approximately $156 million; the Company's share of additional construction costs is estimated to approximate $201 million.

The Company has a 35% interest in System Fuels, Inc. (SFI), a jointly-owned subsidiary of four of the principal operating subsidiaries of Middle South Utilities, Inc. (SFI stockholders). SFI operates on a nonprofit basis in planning and implementing programs for the procurement of fuel supplies for the generating units of these operating companies; its costs are recovered through charges for fuel delivered.

The Company has made loans to SFI to further its fuel supply business under certain loan agreements which provide for SFI to borrow from its stockholders up to $209,500,000 ($40,000,000 of which is subject to receipt of further requisite order of the Securities and Exchange Commission). As of December 31, 1977, the Company had loaned $20,825,250 to SFI pursuant to the loan agreements, and the Company's share of the unused loan commitment is approximately $48,840,000. Loans mature in 10 and 25 years from the date of borrowing.

In connection with certain bank borrowings by SFI, totaling $41,887,000 at December 31, 1977, the Company and the other SFI stockholders have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge, its obligations to the lending banks. Also, SFI's stockholders, including the Company, have made similar covenants and agreements in connection with arrangements entered into by SFI covering the sale, for a consideration of $20,827,104, and leaseback pursuant to a 25-year lease of certain oil storage and handling facilities located at a generating station of one of the operating companies.

The Company has agreed to purchase over a 20 year period, 100 million tons of coal for use at the White Bluff Steam Electric Station. In addition, SFI has entered into a contract with a joint venture for a supply of coal from a mine to be developed in Wyoming, which is expected to provide 150 to 210 million tons over a period of 26 to 42 years; coal so supplied is expected to be used in the proposed Independence Steam Electric Station.

7. Retained Earnings

The indenture relating to the Company's long-term debt and provisions of the articles of incorporation relating to the Company's preferred stock provide for restrictions on the payment of cash dividends on common stock. As of December 31, 1977, $45,891,000 of retained earnings are free from such restrictions.

8. Transaction with Affiliates

The Company buys from and sells electricity to the operating subsidiaries of Middle South Utilities, Inc., its parent, under rate schedules filed with the Federal Energy Regulatory Commission. In addition, the Company purchases fuel from System Fuels, Inc.

Operating revenues include revenues from sales to affiliates amounting to $48,934,000 in 1977 and $14,948,000 in 1976. Operating expenses include fuel cost and purchased power charges from affiliates totaling $235,253,000 in 1977 and $174,108,000 in 1976.

9. Quarterly Results (Unaudited)

Operating results for the four quarters of 1977 and 1976 are as follows:

	1977			
	March	June	September	December
	(In Thousands)			
Operating revenues	$96,929	$140,362	$170,873	$129,253
Operating income	9,561	13,825	29,620	17,511
Net Income	8,963	13,823	29,415	18,484

	1976			
	March	June	September	December
	(In Thousands)			
Operating revenues	$84,908	$ 83,331	$125,224	$103,134
Operating income	11,543	9,481	18,108	13,372
Income before cumulative effect of accounting change	8,804	7,436	16,154	11,028
Net Income	12,345(a)	7,436	16,154	11,028

(a) The quarter ended March 31, 1976 has been adjusted for the change in accounting described in Note 2. The cumulative effect of the change as of January 1, 1976 increased net income for the quarter ended March 31, 1976 by $3,541,000.

In addition to the adjustment noted in (a) above, the quarterly figures reflect the seasonal fluctuations which are normal to the Company's operations. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results for a full year.

10. Replacement Cost Information (Unaudited)

The impact of the rate of inflation experienced by the Company in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information is disclosed in Middle South Utilities, Inc. annual report to the Securities and Exchange Commission on Form 10-K.

11. Accounting Policies

The summary of significant accounting policies on page 9 is an integral part of these notes to financial statements.

Accountants' Opinion

Haskins & Sells
Certified Public Accountants

One Shell Square
New Orleans, Louisiana 70139

Arkansas Power & Light Company:

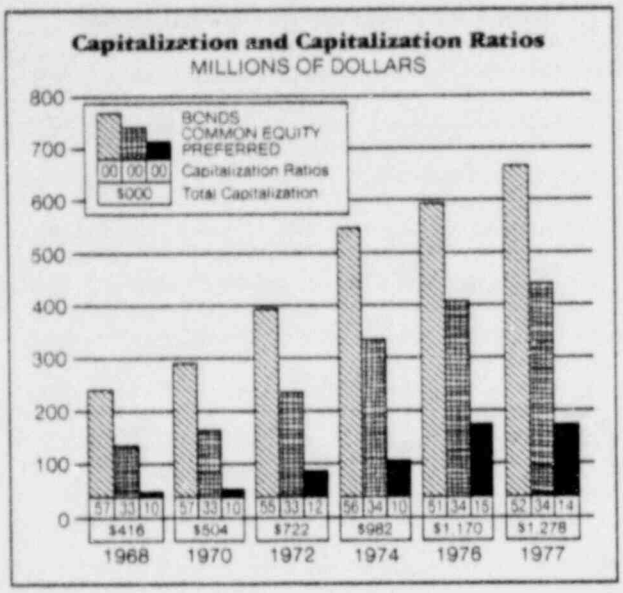
We have examined the balance sheets of Arkansas Power & Light Company as of December 31, 1977 and 1976 and the related statements of income, retained earnings, and source of funds for utility plant additions for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

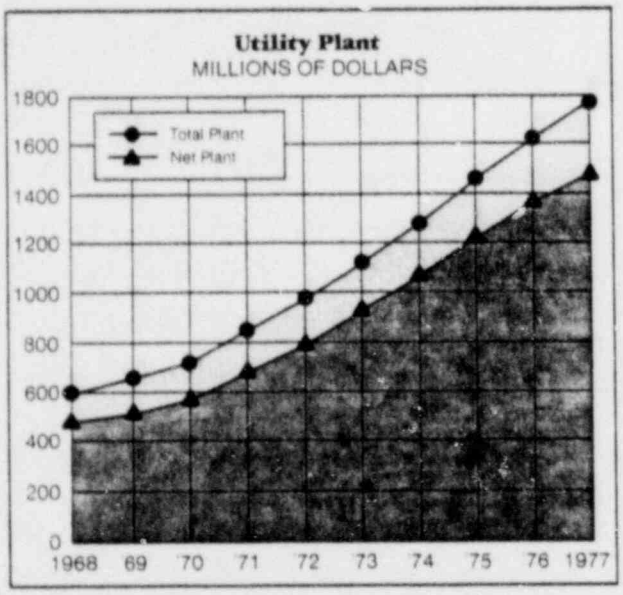
In our report dated January 31, 1977, our opinion on the 1976 financial statements was qualified as being subject to any increase in operating revenues which might result from the final settlement of a rate matter. As explained in Note 1, the rate matter has been settled and the financial statements have been restated. Accordingly, our opinion on the 1976 financial statements, as presented herein, is different from that expressed in our previous report.

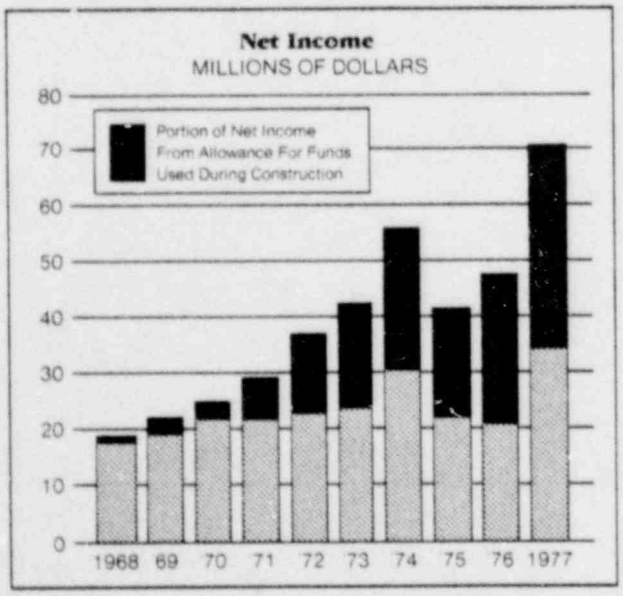
In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1977 and 1976 and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, subsequent to the change in 1976, with which we concur, in accounting for fuel costs as discussed in Note 2.

February 10, 1978

Haskins & Sells







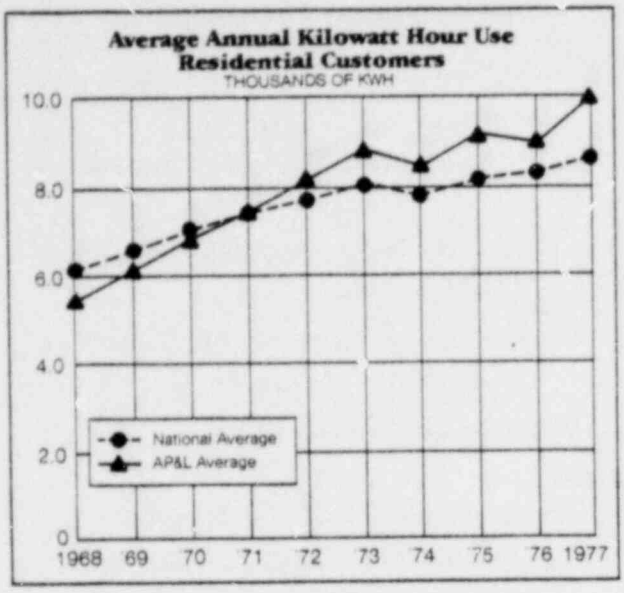
Ten Years of Progress/Financial 1977

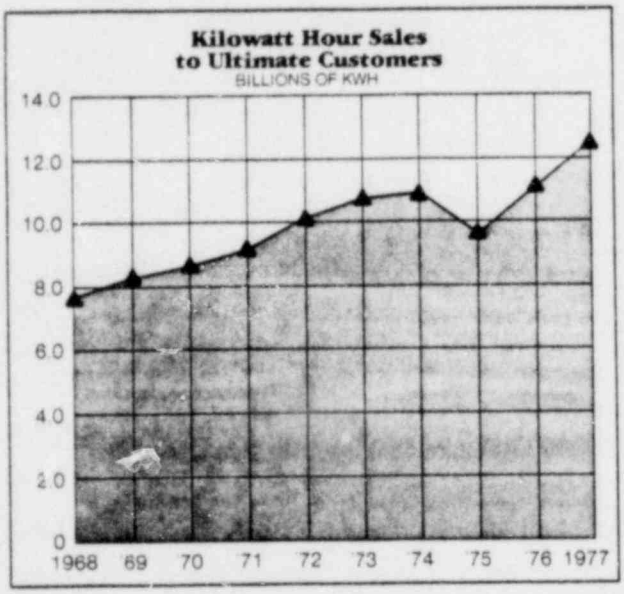
(In Thousands of Dollars)

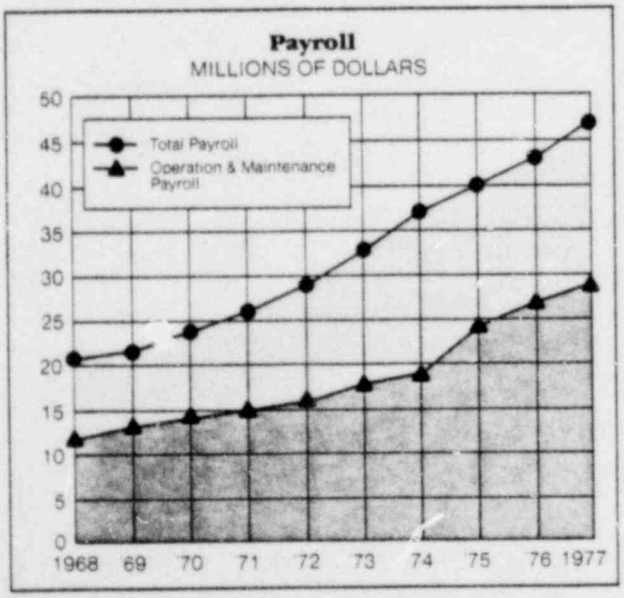
Capitalization—End of period:	
Equity capital:	
Preferred stock and premium	$ 171,77
Common stock	382,96
Retained earnings	55,641
Total	610,37
Long-term debt:	
First mortgage bonds and premium[1]	642,97
Installment purchase contract and discount	24,50
Sinking fund debentures	
Total	667,4
Total capitalization	$1,277,85
Annual Payment Requirements:	
Interest on:	
First mortgage bonds	$ 49,36
Installment purchase contract	4,10
Dividends on preferred stock	14,02
Utility Plant—End of period:	
Electric plant completed	$1,139,51
Construction work in progress	610,55
Nuclear fuel	12,74
Total utility plant	1,762,81
Less—accumulated depreciation	297,46
Net utility plant	$1,465,35
Income Statement:	
Operating revenues	$ 537,40
Operating expenses:	
Fuel	169,89
Purchased power	114,22
Payroll—Operation and maintenance	29,44
Other operation and maintenance	52,46
Depreciation	36,76
Taxes	64,09
Total	466,89
Operating income	70,51
Other income and deductions—net (excluding AFDC*)	12,46
Interest and other charges:	
Interest on long-term debt	45,04
Other interest—net of debt premium	3,91
Total (excluding AFDC*)	48,96
Income from revenues	34,01
Non-cash income from AFDC*	36,66
Income from accounting change[2]	
Net income	$ 70,68

[1]Includes unamortized premium on long-term debt beginning in 1973.
[2]Cumulative effect to January 1, 1976, of change in accounting for fuel costs.
*AFDC - Allowance for funds used during construction.

1976	1975	1974	1973	1972	1971	1970	1969	1968
$ 171,772	$ 161,720	$ 101,657	$ 101,657	$ 86,615	$ 51,529	$ 51,529	$ 51,529	$ 41,487
367,960	337,375	292,375	257,375	202,375	172,375	137,375	121,375	111,375
39,040	41,297	41,869	36,827	34,714	31,043	25,982	26,582	23,954
578,772	540,392	435,901	395,859	323,704	254,947	214,886	199,486	176,816
575,184	586,318	546,284	476,354	393,700	343,700	283,700	258,700	233,700
16,198								
			4,475	4,475	4,700	4,925	5,150	5,375
591,382	586,318	546,284	480,829	398,175	348,400	288,625	263,850	239,075
$1,170,154	$1,126,710	$ 982,185	$ 876,688	$721,879	$603,347	$503,511	$463,336	$415,891
$ 42,837	$ 42,837	$ 38,787	$ 29,974	$ 23,524	$ 19,687	$ 15,000	$ 12,593	$ 10,281
1,224								
14,020	13,136	6,600	6,600	5,418	2,768	2,768	2,768	2,036
$1,111,119	$1,097,913	$1,051,248	$ 762,319	$727,558	$684,668	$658,853	$587,608	$563,176
505,669	350,941	215,794	330,585	216,055	151,797	49,595	56,557	28,808
4,562	8,179	5,229	29,953	26,722	9,148			
1,621,350	1,457,033	1,272,271	1,122,857	970,335	845,613	708,448	644,165	591,984
265,099	240,014	211,456	193,400	175,144	160,665	145,712	131,726	120,060
$1,356,251	$1,217,019	$1,060,815	$ 929,457	$795,191	$684,948	$562,736	$512,439	$471,924
$ 396,597	$ 316,831	$ 296,811	$ 209,327	$184,810	$166,063	$149,317	136,044	$118,943
107,213	76,322	83,840	46,605	36,648	30,151	27,124	20,516	17,187
107,983	56,022	55,936	28,737	25,334	16,705	9,592	13,808	9,052
26,626	24,286	19,486	17,647	15,731	14,841	13,840	13,108	12,045
31,224	30,637	24,114	19,416	16,799	15,621	14,501	12,396	11,206
35,025	33,790	23,885	21,373	19,609	18,742	17,400	16,059	15,060
36,022	38,352	24,949	25,766	25,288	30,235	31,110	29,375	26,685
344,093	259,409	232,210	159,544	139,409	126,295	113,567	105,262	91,235
52,504	57,422	64,601	49,783	45,401	39,768	35,750	30,782	27,708
10,328	8,131	1,352	572	45	75	(127)	(149)	(179)
43,152	40,553	32,554	25,528	21,843	17,750	13,594	10,543	9,888
2,703	3,265	3,323	1,557	1,002	592	701	1,164	635
45,855	43,818	35,877	27,085	22,845	18,342	14,295	11,707	10,523
16,977	21,735	30,076	23,270	22,601	21,501	21,328	18,926	17,006
26,445	18,978	25,486	18,676	14,170	7,407	3,429	2,878	1,405
3,541								
$ 46,963	$ 40,713	$ 55,562	$ 41,946	$ 36,771	$ 28,908	$ 24,757	$ 21,804	$ 18,411







Ten Years of Progress/Operating — 1977

Electric Operating Revenues:	
(In Thousands of Dollars)	
Residential	$154,35
Commercial	93,31
Industrial—Aluminum processing	40,48
Industrial—Other	103,24
Government and municipal	10,63
Revenue adjustment	70
Total from ultimate customers	402,72
Public utilities	128,17
Miscellaneous revenues	6,51
Total electric operating revenues	$537,40
Electric Sales (Millions of Kilowatt Hours):	
Residential	3,83
Commercial	2,35
Industrial—Aluminum processing	2,59
Industrial—Other	3,44
Government and municipal	32
Total sales to ultimate customers	12,55
Public utilities	5,17
Total energy sold	17,72
Number of customers—end of year:	
Residential	387,49
Commercial	47,58
Industrial—Aluminum processing	
Industrial—Other	11,18
Government and municipal	1,5
Total ultimate customers	447,7
Public utilities	
Total customers	447,8
Electric Energy:	
Source and disposition (Millions of Kilowatt Hours)	
Generated—net station output	
Gas	4
Oil	6,9
Nuclear	5,0
Hydro	
Total generated	12,6
Purchased	6,1
Net interchange	1
Total	18,7
Less: Company uses, losses and unaccounted for	9
Total energy sold	17,7
Peak demand (Megawatts)	3,3

1976	1975	1974	1973	1972	1971	1970	1969	1968
$120,423	$109,258	$ 87,329	$ 68,098	$ 57,976	$ 49,718	$ 45,230	$ 41,045	$ 36,998
75,199	64,760	53,975	43,448	38,092	33,989	31,214	28,697	26,575
33,100	12,652	28,061	17,358	14,803	13,132	12,334	12,147	12,173
82,873	66,431	60,601	43,865	36,380	31,141	27,930	27,246	25,057
8,451	7,623	6,126	4,737	4,248	3,836	3,594	3,424	3,139
2,342	(12,607)	(3,706)						
322,388	248,117	232,386	177,506	151,499	131,816	120,302	112,559	103,942
70,362	65,346	61,169	28,942	30,392	32,209	27,067	21,934	13,894
3,847	3,368	3,256	2,879	2,919	2,038	1,948	1,551	1,107
$396,597	$316,831	$296,811	$209,327	$184,810	$166,063	$149,317	$136,044	$118,943
3,369	3,386	3,077	3,103	2,770	2,393	2,182	1,917	1,644
2,162	2,072	1,893	1,903	1,753	1,614	1,503	1,373	1,247
2,145	1,011	2,569	2,594	2,569	2,540	2,574	2,574	2,564
3,160	2,840	3,042	2,920	2,702	2,426	2,230	2,170	1,969
307	297	284	290	285	276	265	262	242
11,143	9,606	10,865	10,810	10,079	9,249	8,754	8,296	7,666
3,247	3,548	3,640	2,899	3,382	4,594	4,906	4,123	2,470
14,390	13,154	14,505	13,709	13,461	13,843	13,660	12,419	10,136
379,556	371,491	364,954	355,673	343,468	330,566	318,732	311,815	306,950
45,944	45,657	44,957	44,073	43,188	46,785	45,606	44,771	44,195
1	1	1	1	1	1	1	1	1
10,913	10,431	9,926	9,508	9,175	4,733	4,638	4,532	4,428
1,500	1,446	1,396	1,317	1,282	1,235	1,188	1,131	1,085
438,814	429,026	421,234	410,572	397,114	383,320	370,165	362,250	356,659
25	25	25	25	24	71	75	75	78
438,839	429,051	421,259	410,597	397,138	383,391	370,240	362,325	356,737
1,168	2,645	3,209	3,919	5,932	7,630	9,676	7,386	6,416
4,010	2,242	3,920	4,089	2,484	1,496	382	177	82
3,858	4,874	171						
94	172	230	321	125	92	133	139	208
9,130	9,933	7,530	8,329	8,541	9,218	10,191	7,702	6,706
6,172	4,070	7,670	5,890	5,944	5,474	4,268	5,467	4,078
43	101	181	361	10	17	36	41	88
15,345	14,104	15,381	14,580	14,495	14,709	14,495	13,210	10,872
955	950	876	871	1,034	866	835	791	736
14,390	13,154	14,505	13,709	13,461	13,843	13,660	12,419	10,136
3,242	2,868	3,049	2,744	2,607	2,565	2,312	2,176	1,927

Directors

Lawrence Blackwell
Attorney
Pine Bluff, Arkansas
Elected 1958

L. C. Carter
Past President
Riceland Foods, Ret.
Stuttgart, Arkansas
Elected 1960

Floyd W. Lewis
President
Middle South Utilities, Inc.
New Orleans, Louisiana
Elected 1971

Roy Murphy
President
Mid-South Engineering Co.
Hot Springs, Arkansas
Elected 1977

William J. Nolan, Jr.
Attorney
El Dorado, Arkansas
Elected 1971

Arch P. Pettit
President and Chief Executive
Officer of the Company
Little Rock, Arkansas
Elected 1976

J. D. Phillips
Senior Vice President
of the Company
Pine Bluff, Arkansas
Elected 1972

Robert D. Pugh
Partner, Pugh and Company
Portland, Arkansas
Elected 1971

Reeves E. Ritchie
Chairman of the Board
of the Company
Little Rock, Arkansas
Elected 1962

R. E. L. Wilson
Chairman of the Board
& Chief Executive Officer
Lee Wilson and Company
Wilson, Arkansas
Elected 1967

Arkansas Power & Light Company Service Area

Arkansas Power & Light Company owns electric facilities in 62 of Arkansas' 75 counties. At December 31, 1977, the Company furnished retail electric energy in 254 incorporated municipalities. AP&L also furnished power at wholesale to eight municipalities, one association of rural electric cooperatives, and one small investor-owned system. AP&L's system is interconnected with and operated as a part of the Middle South Utilities System, which supplies the power requirements of more than 1.4 million customers in a 92,000-square-mile area of Arkansas, Louisiana, Mississippi and southeast Missouri.

Officers

Reeves E. Ritchie
Chairman of the Board
AP&L since 1936

Arch P. Pettit
President & Chief Executive Officer
AP&L since 1969

W. M. Murphey
Senior Vice President
AP&L since 1936

J. D. Phillips
Senior Vice President
AP&L since 1963

Jerry L. Maulden
Vice President
Treasurer & Secretary
AP&L since 1965

Charles L. Steel
Vice President
AP&L since 1970

W. A. Mebane
Assistant Treasurer &
Assistant Secretary
AP&L since 1944

Miss Jean Brown
Assistant Secretary
AP&L since 1960

Company Directory

Transfer Agents for Preferred Stock—Union National Bank of Little Rock, 1 Union National Plaza, Little Rock, Arkansas 72203, and The Commercial National Bank of Little Rock, Second and Main Streets, Little Rock, Arkansas 72203

Registrar of Preferred Stock—The First National Bank in Little Rock, Capitol and Broadway Streets, Little Rock, Arkansas 72203

Certified Public Accountants—Haskins & Sells, One Shell Square, New Orleans, Louisiana 70139

Executive Office—The First National Building, Capitol and Broadway Streets, Little Rock, Arkansas 72203, Phone (501) 371-4000

Engineering Office—Sixth Avenue and Pine Streets, Pine Bluff, Arkansas 71601, Phone (501) 541-4700

Annual Meeting—Fourth Thursday of May

MIDDLE SOUTH
UTILITIES SYSTEM

ARKANSAS POWER & LIGHT COMPANY