LOUISIANA POWER & LIGHT / 142 DELARONDE STREET P. O. BOX 6008 • NEW ORLEANS, LOUISIANA 70174 • (504) 366-2345

MIDDLE SOUTH UTILITIES SYSTEM

February 27, 1981

D. L. ASWELL
Vice President-Power Production

W3P81-0323
3-A1.01.04
Q-3-A30.11
3-A1.10

Mr. A. Schwencer
Chief of Licensing Branch No. 2
Division of Licensing
U.S. Nuclear Regulatory Commission
Washington, D. C. 20555

SUBJECT: Waterford SES Unit No. 3
Docket No. 50-382
Response to Request for Additional Financial Information

REFERENCE: Letter from Robert L. Tedesco to D. L. Aswell dated February 5, 1981

Dear Mr. Schwencer:

The referenced letter transmitted seven specific requests for additional information that were prepared by the Utility Finance Branch. Attached are our responses to these questions. Formal transmittal of the responses will be via Amendment No. 16 currently scheduled for submittal on March 9, 1981.

Yours very truly,

D L Aswell

D. L. Aswell

DLA/RMW/jc

Attachment

cc: E. Blake
W. M. Stevenson

B005
S
1/1
SEND Encl. to:
TERA (return to REG Files after filming)

8103030635

1. a. Indicate the estimated annual cost by year to operate the subject facility for the first five full years of the unit's commercial operation. The types of costs included in the estimates should be indicated and include (but not necessarily be limited to) operation and maintenance expense (with fuel costs shown separately), depreciation, taxes and a reasonable return on investment. (Enclosed is a form which should be used for each year of the five year period.) Indicate the projected plant capacity factor (in percent) for the unit during each of the above years. Provide separate estimates using 50 percent and 60 percent plant capacity factors.

   b. Indicate the unit price per kwh experienced by the applicant on system-wide sales of electric power to all customers for the most recent 12-month period.

RESPONSE:

a. See the attached sheets.

b. The unit price on system-wide sales of electric power to all customers for calendar year 1980 was 3.53¢/kwh.

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 19 83*

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %)	$ 32,825
Other operating expenses	3,770
Maintenance expenses	8,570
Total nuclear power generation	45,165
Transmission expenses	617
Administrative and general expenses	
Property and liability insurance	1,872
Other A.&G. expenses	13,626
Total A.&G. expenses	15,498
TOTAL O&M EXPENSES	61,280
Depreciation expense	45,752
Taxes other than income taxes	1,314
Income taxes	61,648
Return (rate of return: 11.476 %)	128,464
TOTAL ANNUAL COST OF OPERATION	$ 298,458

* 9 Months' Operation

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1984

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %).................	$ 39,517
Other operating expenses.................................	4,040
Maintenance expenses.....................................	7,435
Total nuclear power generation....................	50,992
Transmission expenses....................................	798
Administrative and general expenses	
Property and liability insurance.........................	2,496
Other A.&G. expenses.....................................	29,558
Total A.&G. expenses................................	32,054
TOTAL O&M EXPENSES..................................	83,844
Depreciation expense.....................................	61,003
Taxes other than income taxes............................	1,752
Income taxes...	80,078
Return (rate of return: 11.637%).........................	168,361
TOTAL ANNUAL COST OF OPERATION	$ 395,038

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 19 85

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %)	$ 37,524
Other operating expenses	4,355
Maintenance expenses	6,330
Total nuclear power generation	48,209
Transmission expenses	808
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,133
Total A.&G. expenses	32,629
TOTAL O&M EXPENSES	81,646
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	78,012
Return (rate of return: 11.679 %)	161,792
TOTAL ANNUAL COST OF OPERATION	$ 384,205

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1986

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %)	$ 34,386
Other operating expenses	4,810
Maintenance expenses	7,155
Total nuclear power generation	46,351
Transmission expenses	1,070
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,073
Total A.&G. expenses	32,569
TOTAL O&M EXPENSES	79,990
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	76,003
Return (rate of return: 11.730 %)	155,386
TOTAL ANNUAL COST OF OPERATION	$ 374,134

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 19 87

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %)	$ 39,728
Other operating expenses	5,285
Maintenance expenses	7,630
Total nuclear power generation	52,643
Transmission expenses	1,113
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,998
Total A.&G. expenses	33,494
TOTAL O&M EXPENSES	87,250
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	73,052
Return (rate of return: 11.758 %)	148,606
TOTAL ANNUAL COST OF OPERATION	$ 371,663

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 198[illegible]

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 50 %)	$ 38,547
Other operating expenses	5,915
Maintenance expenses	10,320
Total nuclear power generation	54,782
Transmission expenses	1,172
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	28,547
Total A.&G. expenses	31,043
TOTAL O&M EXPENSES	86,997
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	70,156
Return (rate of return: 11.778 %)	141,593
TOTAL ANNUAL COST OF OPERATION	$ 36 501

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 19 83*

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 37,729
Other operating expenses	3,770
Maintenance expenses	8,570
Total nuclear power generation	50,069
Transmission expenses	617
Administrative and general expenses	
Property and liability insurance	1,872
Other A.&G. expenses	13,626
Total A.&G. expenses	15,498
TOTAL O&M EXPENSES	66,184
Depreciation expense	45,752
Taxes other than income taxes	1,314
Income taxes	61,648
Return (rate of return: 11.476 %)	128,464
TOTAL ANNUAL COST OF OPERATION	$ 303,362

* 9 Months' Operation

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1984

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 44,650
Other operating expenses	4,040
Maintenance expenses	7,435
Total nuclear power generation	56,125
Transmission expenses	798
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	29,558
Total A.&G. expenses	32,054
TOTAL O&M EXPENSES	88,977
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	80,078
Return (rate of return: 11.637 %)	168,361
TOTAL ANNUAL COST OF OPERATION	$ 400,171

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1985

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 40,291
Other operating expenses	4,355
Maintenance expenses	6,330
Total nuclear power generation	50,976
Transmission expenses	808
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,133
Total A.&G. expenses	32,629
TOTAL O&M EXPENSES	84,413
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	78,012
Return (rate of return: 11.679 %)	161,792
TOTAL ANNUAL COST OF OPERATION	$ 386,972

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1986

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 41,722
Other operating expenses	4,810
Maintenance expenses	7,155
Total nuclear power generation	53,687
Transmission expenses	1,070
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,073
Total A.&G. expenses	32,569
TOTAL O&M EXPENSES	87,326
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	76,003
Return (rate of return: 11.730 %)	155,386
TOTAL ANNUAL COST OF OPERATION	$ 381,470

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 19 87

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 41,321
Other operating expenses	5,285
Maintenance expenses	7,630
Total nuclear power generation	54,236
Transmission expenses	1,113
Administrative and general expenses	
Property and liability insurance	2,496
Other A.&G. expenses	30,998
Total A.&G. expenses	33,494
TOTAL O&M EXPENSES	88,843
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	73,052
Return (rate of return: 11.758 %)	148,606
TOTAL ANNUAL COST OF OPERATION	$ 373,256

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: Waterford SES Unit No. 3
FOR THE CALENDAR YEAR 1988

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 60 %)	$ 48,093
Other operating expenses	5,915
Maintenance expenses	10,320
Total nuclear power generation	64,328
Transmission expenses	1,172
Administrative and general expenses	
Property and liab lity insurance	2,496
Other A.&G. expenses	28,547
Total A.&G. expenses	31,043
TOTAL O&M EXPENSES	96,543
Depreciation expense	61,003
Taxes other than income taxes	1,752
Income taxes	70,156
Return (rate of return: 11.778 %)	141,593
TOTAL ANNUAL COST OF OPERATION	$ 371,047

2. Indicate the estimated cost of permanently shutting down the facility, stating what is included in such costs, the assumptions made in estimating the costs, the type of shutdown contemplated, and the intended source of funds to cover these costs.

RESPONSE:

The only type of shutdown contemplated for Waterford 3 is decommissioning after its useful (i.e. approximately 30 to 40 years) lifetime has passed. Please refer to the OL Stage Environmental Report Section 5.8 for a discussion of alternate approaches to decommissioning. The generic costs are normalized to the mothballing option. The cost for mothballing is given in 1975 dollars. The references cited discuss the assumptions made in detail.

A discussion will not be made as to the preferred decommissioning alternative until the end of Waterford-3's useful lifetime. At that time, LP&L will perform a detailed study to determine the preferred alternative, both in terms of costs and environmental impact. LP&L believes that it is logical to wait until near the end of the plant's lifetime to perform this study because only at that time will the actual technological, economical and regulatory conditions be known.

For the purpose of present financial planning the generic decommissioning cost estimates are considered to be sufficiently accurate.

The source of funds is through increased depreciation of the plant.

3. Provide an estimate of the annual cost to maintain the facility in a safe condition. Indicate what is included in the estimate, assumptions made in estimating the costs, and the intended source of funds to cover these costs.

RESPONSE:

Please refer to the OL Stage Environmental Report Section 5.8 for a discussion of alternate approaches to decommissioning. The references cited discuss the assumptions made in predicting annual maintenance and surveillance costs for a shutdown facility. For mothballing, these annual costs are estimated to be $88,000 (in 1975 dollars) if a 24-hour security force is not required, and $167,000 if such a security precaution is necessary.

For the purpose of present financial planning the generic decommissioning cost estimates are considered to be sufficiently accurate.

The source of funds is through increased depreciation of the plant.

5. Describe aspects of the regulatory environment including, but not necessarily limited to, the following: Prescribed treatment of allowance for funds used during construction; rate base (original cost, fair value, other); accounting for deferred income taxes and investment tax credits; fuel adjustment clauses in effect or proposed; historical, partially projected, or fully projected test year.

RESPONSE:

The Louisiana Public Service Commission's practice has been to use a historical test year. The Commission also uses an average original cost rate base that includes all Construction Work in Progress (CWIP) but they also include in income Allowance for Funds Used During Construction (AFUDC). In LP&L's last rate case the Commission's order lowered the AFUDC rate to 5% on $736.2 million of CWIP thus allowing the Company additional cash earnings.

All non-investor supplied capital, including deferred income taxes and pre 1971 investment tax credits, are deducted from the rate base.

LP&L's fuel adjustment clause in all of its rates subject to the Louisiana Public Service Commission reads as follows: "Plus or minus .001 cent per kwh used during the month for each .001 cent by which the average fuel cost per kwh as delivered to Company's customers during the second preceding calendar month is more or less than .230 cent, adjusted for any over or under collection."

This clause allows LP&L to pass through its total fuel cost associated with generating kwh's for its Louisiana customers. In addition, LP&L is allowed to pass through the energy cost of any kwh's which were purchased for its Louisiana customers with the exception of emergency power on which only the fuel cost can be passed through.

4. Provide the following for both LP&L and Middle South:
Copies of the prospectus for the most recent security issue and copies of the most recent SEC Form 10-K and 10-Q.
Copies of the preliminary prospectus for any pending security issue.
Submit copies of the Annual Report to Stockholders each year as required by 10 CFR 50.71(b).

RESPONSE:

Copies of the requested documents are attached. Copies of the 1980 Annual Report to Stockholders will be available by April 1, 1981, and copies will be submitted as required by 10 CFR 50.71(b).

5. - continued

Corrections for over and under collections are made by taking the cumulative over and under amount and dividing by the kwh sales for the twelve month period ending with the current month. This adjustment factor is added or subtracted to the fuel adjustment which is based on the second prior month's costs and generation.

6. Describe the nature and amount of the most recent rate relief action(s). In addition, indicate the nature and amount of any pending rate relief action(s). Use the attached form to provide this information. Provide copies of the submitted financially related testimony and exhibits of the staff and company in the most recent rate relief action or pending action. Furnish copies of the hearing examiner's report and recommendation, and final opinion last issued, including all financially related exhibits referred to therein.

RESPONSE:

In December 1979 the Louisiana Public Service Commission granted LP&L a $59.6 million rate increase based on a 1978 test year. In October 1980 the Commission granted an interim rate increase of $32.6 million which is a part of the current rate case pending requesting $203.6 million based on a 1979 adjusted test year. Hearings are scheduled to begin in March 1981 and a decision is expected by May 30, 1981.

See attachment for rate developments.

ATTACHMENT FOR ITEM NO. 6

RATE DEVELOPMENTS

	Electric	Gas	Steam
Granted			
Test year utilized	1978	N/A	N/A
Annual amount of revenue increase requested-test year basis (000's)	$114,700		
Date petition filed	12-18-78		
Annual amount of revenue increase allowed-test year basis (000's)	$59,600		
Percent increase in revenues allowed	18%		
Date of final order	12-18-79		
Effective date	12-18-79		
Rate base finding (000's)			
Construction work in progress included in Rate base (000's)	See No. 5		
Rate of return on rate base authorized	10.5%		
Rate of return on common equity authorized	13.25%		
Revenue Effect (000's)			
Amount received in year granted			
Amount received in subsequent year (If not abailable, annualize amounts received in year granted)	$72,000		
Pending Requests			
Test year utilized	1979		
Amount (000's)	$203,600		
Percent increase	37%		
Date petition filed	5-30-80		
Date by which decision must be issued	5-30-81		
Rate of return on rate base requested	10.94		
Rate of return on common equity requested	16.0		
Amount of rate base requested	$1,809,087,000		
Amount of construction work in progress requested for inclusion in rate base	$1,025,868,368		

7. Complete the enclosed form entitled, "Financial Statistics," for the most recent 12-month period and for the calendar years 1980 and 1979.

RESPONSE:

See the attached form entitled "Financial Statistics."

ATTACHMENT FOR ITEM NO. 7
FINANCIAL STATISTICS

	12 months' ended 1980		1979	
	(dollars in millions)			
Earnings available to common equity	$76.2		$49.7	
Average common equity	$525.8		$452.3	
Rate of return on average common equity	14.5%		11.0%	
Times total interest earned before FIT:				
Gross income (both including and excluding AFCD) + current and deferred FIT ÷ total interest charges + amortization of debt discount and expense	INCL AFDC 2.59	EXCL AFDC 2.01	INCL AFDC 2.07	EXCL AFDC 1.42
Times long-term interest earned before FIT:				
Gross income (both including and excluding AFDC) + current and deferred FIT ÷ long-term interest charges + amortization of debt discount and expense	INCL AFDC 3.18	EXCL AFDC 2.47	INCL AFDC 2.44	EXCL AFDC 1.68
Bond ratings (end of period)				
Standard and Poor's	BBB		BBB	
Moody's	Baa		Baa	
Times interest and preferred dividends earned after FIT:				
Gross income (both including and excluding AFDC ÷ total interest charges + amortization of debt discount and expense + preferred Dividends.	INCL AFDC 1.69	EXCL AFDC 1.24	INCL AFDC 1.57	EXCL AFDC 1.04
AFUDC	$49.5		$45.6	
Net income after preferred dividends	$76.2		$49.7	
%	65.0%		91.8%	
Market price of common*	$11.50		$12.625	
Book value of common*	$17.75		$18.40	
Market-book ratio (end of period)*	64.8%		68.6%	
Earnings avail. for common less AFDC + depreciation and amortization, deferred taxes, and invest. tax credit adjust.-deferred.	$89.6		$59.7	
Common dividends	$69.1		$52.7	
Ratio	77.1%		88.2%	
Short-term debt				
Bank loans	$44.3		$32.4	
Commercial paper	-		-	
Capitalization (Amount & Percent)				
Long-term debt	$829.0	49.9%	$827.4	53.2%
Preferred stock	$267.3	16.1%	$238.9	15.4%
Common equity	564.1	34.0%	487.4	31.4%

* If subsidiary company, use parent's data.

Attachment to question #4 from letter W3P81-0323

PROSPECTUS

8,000,000 Shares

Middle Soutn Utilities, Inc.

Common Stock

$5 Par Value

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

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share	$12.125	$.3721	$11.7529
Total	$97,000,000	$2,976,800	$94,023,200

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

(2) Before expenses payable by the Company estimated at $180,000.

The Company has made application for the listing of the additional shares of Common Stock on the New York, Midwest and Pacific Stock Exchanges.

The above Common Stock is offered by the Purchasers named herein, subject to prior sale, when, as and if issued and accepted by them and subject to the approval of counsel. It is expected that delivery of the shares will be made on or about October 21, 1980.

Kidder, Peabody & Co.
Incorporated

Drexel Burnham Lambert
Incorporated

Goldman, Sachs & Co.

Merrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Salomon Brothers

Dean Witter Reynolds Inc.

The date of this Prospectus is October 14, 1980.

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

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Purchasers. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or its subsidiaries since the date hereof.

AVAILABLE INFORMATION

Middle South Utilities, Inc. ("Company" or "MSU") is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Information concerning directors and officers, their remuneration and any material interests of such persons in transactions with the Company, as of particular dates, is disclosed in proxy statements distributed to shareholders of the Company and filed with the SEC. Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Ill.; Room 1100, Federal Building, 26 Federal Plaza, New York, N.Y.; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, Calif. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 500 North Capitol Street, N.W., Washington, D. C. 20549. The Common Stock of the Company is listed on the New York, Midwest and Pacific Stock Exchanges. Reports, proxy statements and other information concerning the Company can be inspected and copied at the respective offices of these exchanges at 20 Broad Street, New York, N.Y., at 120 South LaSalle Street, Chicago, Ill. and at 301 Pine Street, San Francisco, Calif.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the SEC pursuant to the Exchange Act are incorporated in this Prospectus by reference:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1979. A revised opinion of the independent certified public accountants is included herein.
2. The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, and June 30, 1980.
3. The Company's Proxy Statement for the Annual Meeting of Stockholders held on May 16, 1980.

All documents filed by the Company pursuant to Section 13 or 14 of the Exchange Act after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests should be directed to Mr. Dan E. Stapp, Secretary and Assistant Treasurer, Middle South Utilities, Inc., P.O. Box 61005, New Orleans, Louisiana 70161. The information relating to the Company contained in this Prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company and the offering, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

Issuer	Middle South Utilities, Inc.
Securities Offered	8,000,000 shares of Common Stock, $5 Par Value
Listing (Symbol: MSU)	New York, Midwest and Pacific Stock Exchanges
Price Range (composite): January 1, 1980 through October 13, 1980	14¼-10¼
Closing Price on October 14, 1980	11⅞

THE COMPANY AND ITS SUBSIDIARIES

Business of utility subsidiaries	Electric, gas and transit service
Service Area	Portions of the States of Arkansas, Louisiana, Mississippi and Missouri
Sources of 1979 Operating Revenues	Electric 91.6%; Natural Gas 6.4%; Transit 2.0%
Sources of 1979 Operating Income (loss)	Electric 99.5%; Natural Gas 1.5%; Transit and other (1.0)%
Electric Customers at December 31, 1979	Approximately 1,520,000
Fuel for Electric Generation during 1979	Natural Gas 57%; Oil 33%; Nuclear 10%

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands except per share figures)

	Year Ended December 31,		
	1977	1978	1979
INCOME STATEMENT DATA:			
Operating Revenues	$ 1,443,057	$ 1,622,177	$ 1,823,059
Operating Income	$ 203,663	$ 228,262	$ 218,198
Net Income	$ 144,969	$ 185,438	$ 182,058
Weighted Average Common Shares Outstanding	66,598,876	75,522,179	85,444,691
Earnings Per Share of Common Stock on Weighted Average Number of Shares Outstanding	$2.18	$2.46	$2.13
Dividends Declared per Common Share	$1.395	$1.46	$1.535

	Capitalization at June 30, 1980 (Unaudited)			
	Actual		Adjusted*	
	(000)	Percent	(000)	Percent
BALANCE SHEET DATA:				
Common Shareholders' Equity	$1,752,408	31%	$1,846,431	33%
Preferred Stock (without sinking fund)	330,967	6	330,967	6
Preferred Stock (with sinking fund)	255,562	4	255,562	4
Long-Term Debt	3,319,932	59	3,225,909	57
Total Capitalization	$5,658,869	100%	$5,658,869	100%

* Gives effect to the proposed issuance of the 8,000,000 shares of Common Stock offered hereby and the related reduction of long-term debt.

THE COMPANY

The Company, incorporated under the laws of the State of Florida on May 27, 1949, is a holding company registered under the Public Utility Holding Company Act of 1935 and neither owns nor operates any physical properties. The Company and its various direct and indirect subsidiaries are hereinafter referred to as the Middle South System. The Company is the owner of all the outstanding common stock of its principal operating subsidiaries ("System operating companies"), Arkansas Power & Light Company ("AP&L"), Arkansas-Missouri Power Company ("Ark-Mo"), Louisiana Power & Light Company ("LP&L"), Mississippi Power & Light Company ("MP&L") and New Orleans Public Service Inc. ("NOPSI").

The two other wholly-owned principal subsidiaries of the Company are Middle South Services, Inc., a service company, and Middle South Energy, Inc. ("MSE"), a generating company formed in 1974 to undertake the construction, financing and ownership of certain base load generating units. In 1972, AP&L, LP&L, MP&L and NOPSI formed a special purpose company, System Fuels, Inc. ("SFI"), to plan and implement programs for the procurement, delivery and storage of fuel supplies for the Middle South System. In addition, Ark-Mo has a wholly-owned subsidiary, Associated Natural Gas Company ("Associated").

The principal executive offices of the Company are located at 225 Baronne Street, New Orleans, Louisiana 70112 (telephone 504-529-5262).

USE OF PROCEEDS AND CONSTRUCTION PROGRAM

The Company proposes to apply the net proceeds (see Cover Page) from the sale of the 8,000,000 shares of Common Stock offered hereby ("Additional Common Stock") to a reduction in the amount of bank loans outstanding under the revolving credit agreement hereinafter referred to. (The Company may sell less than all of the shares of the Additional Common Stock in the event of a default by less than all of the Purchasers, see "Purchasers".) The Company estimates that outstanding bank loans will be approximately $198,000,000 at the time the proceeds from the sale of the Additional Common Stock are received. The Company has a revolving credit agreement with various banks providing for the issuance of not to exceed $230 million of unsecured promissory notes. The agreement will terminate December 31, 1984, and the maximum principal amount of allowable borrowings will be reduced to seventy-five percent (75%) of the original commitment on December 31, 1982 and to fifty percent (50%) of the original commitment on December 31, 1983. Proceeds derived from bank borrowings are used principally to make investments in certain of the Middle South System companies, which use funds so invested for the construction and/or acquisition of property or for the retirement of short-term indebtedness.

The 1980 construction expenditures (exclusive of nuclear fuel costs) for the Middle South System were estimated at July 31, 1980 by the Company to total $901.2 million, of which $538.2 million had been expended through July 31, 1980. Construction expenditures during the period 1981 through 1983 were estimated at July 31, 1980 to total $2,446.1 million (including $569.9 million of allowance for funds used during construction ("AFDC")).

The estimates by years are as follows: 1981, $911.8 million; 1982, $821.1 million; and 1983, $713.2 million (including AFDC of $263.1 million for 1981, $194.2 million for 1982 and $112.6 million for 1983).

The estimated construction expenditures for 1980 include $722.6 million for production, $69.3 million for transmission, $94.1 million for distribution and $15.2 million for other plant. These amounts include estimated environmental expenditures for 1980 of $65.0 million.

The following tabulation shows certain details with respect to certain planned generating facilities included in the estimated construction expenditures for 1980-1983.

	Location	Fuel Type	Net System Capability MW	Expenditures: Before 1980	1980	1981	1982	1983	Total System Company Cost(1)	Cost Per KW(2)	Scheduled Year of Completion
				(Millions of Dollars—except Cost Per KW)							
Independence, No. 1(5)(7)	Newark, Ark.	Coal	424	$ 35.5	$ 34.7	$149.8	$ 54.7	$ 3.7	$ 284.2	$ 670(4)	1983
Independence, No. 2(5)(7)	Newark, Ark.	Coal	424	6.9	0.2	42.9	58.2	67.5	219.3	517(4)	1985
Sub-total				42.4	34.9	192.7	112.9	71.2	$ 503.5		
AP&L											
White Bluff, No. 2(3)(7)	Redfield, Ark.	Coal	428	103.9	27.9	35.9	—	—	$ 167.7	392(4)	1981
Sub-total				103.9	27.9	35.9	—	—	$ 167.7		
LP&L											
Waterford No. 3	Killona, La.	Nuclear	1,165	819.3	197.9	235.2	207.5	31.6	$1,491.5	1,280	1983
Sub-total				819.3	197.9	235.2	207.5	31.6	$1,491.5		
MSE											
Grand Gulf, No. 1(6)	Grand Gulf, Miss.	Nuclear	1,094	1,147.3	312.0	184.0	46.7	—	$1,690.0	1,545	1982
Grand Gulf, No. 2(6)	Grand Gulf, Miss.	Nuclear	1,094	272.1	26.0	46.0	188.3	229.0	1,170.0	1,069	1986
Sub-total				1,419.4	338.0	230.0	235.0	229.0	$2,860.0		
Total				$2,385.0	$598.7	$693.8	$555.4	$331.8			

(1) The costs shown include AFDC. Costs of acquiring nuclear fuel (net of amounts already provided for under existing leases of AP&L, LP&L and MSE) excluded from construction expenditures of the nuclear units are estimated to amount to (in millions) $33, $126, $104 and $42 for the years 1980, 1981, 1982 and 1983, respectively. SFI has entered into an arrangement for the financing of $60,000,000 of expenditures in connection with its nuclear fuel procurement and services program for the Middle South System.

(2) Common costs are identified with the first unit of each station. Therefore, the Cost Per KW is substantially greater for the first, as compared to the second units, at the Independence Steam Electric Generating Station ("Independence Plant") and the Grand Gulf Generating Station ("Grand Gulf Plant").

(3) Co-owners Arkansas Electric Cooperative Corporation ("AECC"), City Water and Light Plant of the City of Jonesboro, Jonesboro, Arkansas ("Jonesboro"), The City of Conway, Arkansas ("Conway"), and The City of West Memphis, Arkansas ("West Memphis") own undivided interests of 35%, 5%, 2%, and 1%, respectively, in Unit No. 2 of the White Bluff Steam Electric Generating Station ("White Bluff Plant"). The Table reflects AP&L's 57% ownership interest in the project. On August 22, 1980, Unit No. 1 of the White Bluff Plant was placed in commercial operation. Based on preliminary capability tests of Unit No. 1 of the White Bluff Plant, the capability of each of Unit Nos. 1 and 2 of the White Bluff Plant has initially been determined to be 750 MW instead of 740 MW.

(4) Costs of sulfur dioxide removal equipment for the White Bluff and Independence Plants are not included in the above Costs Per KW. The Plants have been designed and are being constructed so that such equipment could be installed should it become economically feasible and should AP&L be required to make such installation in the future. AP&L has estimated that the Cost Per KW would be increased by approximately $111 and $79 for Unit No. 1 and Unit No. 2 of the White Bluff Plant, respectively, and by approximately $106 and $77 for Unit No. 1 and Unit No. 2 of the Independence Plant, respectively, should sulfur dioxide removal equipment be required. AP&L is burning low sulfur coal from Wyoming to operate Unit No. 1 of the White Bluff Plant and expects to burn low sulfur coal at Unit No. 2 and at the Independence Plant.

(5) The Independence Plant is owned by AP&L, AECC, Jonesboro, Conway, West Memphis and the City of Osceola, Arkansas ("Osceola") in proportions of 56.5%, 35%, 5%, 2%, 1% and .5%, respectively. AP&L and MP&L have initiated negotiations for the sale by AP&L to MP&L of 25% of the Independence

Plant, to be derived from AP&L's 56.5% interest in the Plant. The consummation of such sale will be dependent upon the successful conclusion of these negotiations and the receipt of various regulatory approvals. The Table reflects the combined 31.5% and 25% interest in the project of AP&L and MP&L, respectively, after the completion of such sale, and AP&L and MP&L's combined 100% ownership interest in the coal handling equipment. The amounts shown for 1980 have not been reduced for the 1% and .5% interest sold to West Memphis and Osceola, respectively, in 1980. Based on preliminary capability tests of Unit No. 1 of the White Bluff Plant, the capability of each of Unit Nos. 1 and 2 of the Independence Plant has been determined to be 750 MW instead of 740 MW.

(6) MSE has entered into an agreement for the acquisition by South Mississippi Electric Power Association ("SMEPA") of a 10% undivided ownership interest in the Grand Gulf Plant and is negotiating with Municipal Energy Agency of Mississippi ("MEAM") for the possible acquisition by MEAM of up to a 2.48% undivided ownership interest in the Grand Gulf Plant. The construction expenditures reflect the agreement with SMEPA and assume the consummation of the transaction with MEAM. The Table reflects MSE's resulting 87.52% ownership interest in the project. At August 31, 1980, construction of Unit Nos. 1 and 2 of the Grand Gulf Plant was approximately 86% and 23% completed, respectively, and engineering was approximately 88% and 43% completed, respectively.

(7) Pursuant to its notice to the other joint owners of Unit No. 2 of the White Bluff Plant and of Unit No. 1 and Unit No. 2 of the Independence Plant, AP&L exercised its contractual right to cease making contributions to the construction of those Units on June 1, 1980, and AECC has been paying AP&L's share of such construction costs since that date in order to keep the Units on schedule. As of July 31, 1980, AECC had advanced approximately $12,533,000 of AP&L's share of construction expenditures. AP&L has a contractual right to repay to AECC the money advanced for the AP&L share of construction costs at any time before June 1, 1982, and thereby retain the ownership of its share of the plants. AP&L and AECC have executed a written agreement for the purpose of facilitating the transfer to AECC of any portion of AP&L's share of either plant for which AP&L does not reimburse AECC by June 1, 1982, for the construction costs advanced for it by AECC.

The foregoing are only estimates of construction expenditures for the various facilities referred to. Actual expenditures and dates of completion for the various construction projects may vary from the estimates because of availability of financing, changes in the plans of the respective companies, cost fluctuations, sales of interests in projects, availability of labor, materials and equipment, licensing and testing delays and other factors. The Middle South System is continuing to experience increases in costs for construction of new facilities as a result of continuing rises in the costs of material, labor and capital, increasing requirements of expenditures for environmental and ecological purposes, and deferred completion dates of projects.

In addition to construction of utility plant, SFI expects to increase its investment in its fuel procurement and exploration programs. SFI's increased investment (excluding fuel oil inventory) is expected to be $51 million in 1980, $19 million in 1981, $72 million in 1982 and $45 million in 1983. Middle South System expenditures for nuclear fuel not already provided for under existing leases are expected to amount to $33 million in 1980, $126 million in 1981, $104 million in 1982 and $42 million in 1983.

FUTURE FINANCING

Construction expenditures (exclusive of nuclear fuel costs) for the Middle South System during the period 1981 through 1983 were estimated at July 31, 1980 by MSU to be approximately $2,446.1 million (including $569.9 million in AFDC). During the period 1981-1983, increased investment in the fuels programs net of amounts provided for by existing leases will add $408 million to total capital requirements (including nuclear fuel cost not provided for under existing leases). MSU estimates that $1,298.9 million will be raised from sources outside the Middle South System through the sale of additional bonds and shares of preferred stock, long and short-term borrowings and pollution control revenue bond financing and through the sale and leaseback or repurchase of property and leasing of nuclear fuel. Approximately $291.5 million is expected to be raised from the sale of MSU Common Stock. The balance of the capital expenditures for the period 1981 through 1983, presently estimated at $1,263.7 million, is to be met with internally generated funds (including $569.9 million in AFDC).

In addition to the financing requirements needed for capital expenditures, MSU estimates that during the period 1981-1983 the Middle South System will need to raise capital funds from external sources to refinance maturing long-term debt, or to make sinking fund redemptions, totalling $284 million and to redeem $9 million of preferred stock pursuant to sinking fund requirements.

The coverage provisions of the indentures and charters of the System operating companies generally require minimum earnings coverages of twice the pro forma annual bond interest charges for the issuance of additional bonds and minimum earnings coverages of one and one-half times the pro forma annual interest charges and preferred dividends for the issuance of additional shares of preferred stock.

On the basis of the formulas contained in the indentures and charters of certain of the System operating companies, the earnings coverages for the years ended December 31, 1975 and 1979 and the twelve months ended August 31, 1980 would be those stated in the following tabulation:

	AP&L		LP&L		MP&L		NOPSI	
Year	Bonds	Preferred Stock	Bonds	Preferred Stock	Bonds	Preferred Stock	Bonds	Preferred Stock
1975	1.80	1.38	2.45	1.81	2.86	1.81	1.92	1.33
1979	1.56	1.70	1.71	1.36	3.00	1.87	2.46	1.87
Twelve months ended August 31, 1980	2.12	1.55	2.33	1.56(a)	3.50(b)	2.02(b)	2.27	1.43

(a) LP&L is seeking regulatory approval for the sale in November 1980 of not in excess of 1,200,000 shares of Cumulative Preferred Stock, $25 Par Value.

(b) Includes in earnings the effect of certain revenues which may be subject to refund with interest (see "Recent Developments—Rate Matters—MP&L").

Based on the above earnings coverage tests as of August 31, 1980, and assuming the availability of bondable property, AP&L, LP&L, MP&L and NOPSI could have issued first mortgage bonds or preferred stock amounting to the following, at an assumed interest and dividend rate of 13.5%:

	First Mortgage Bonds	Preferred Stock
AP&L	$ 29,000,000	$ 26,000,000
LP&L	80,000,000	31,000,000
MP&L	98,700,000	60,700,000
NOPSI	8,800,000	—
Total	$216,500,000	$117,700,000

In addition to the above first mortgage bonds these System operating companies could issue additional first mortgage bonds for refunding purposes.

The amounts of additional bonds and preferred stock which can be issued by the System operating companies in the future are contingent upon earnings and may be contingent upon the ability of the System operating companies to obtain adequate rate relief.

Certain of the System operating companies have arranged and are attempting, to the extent practicable, to arrange in the future for the financing of certain of their estimated expenditures for pollution control facilities through the issuance by local governmental units of pollution control revenue bonds.

MSE estimated at July 31, 1980 that the total cost to MSE, assuming an 87.52% ownership interest (see Note 6 to the Table under "Use of Proceeds and Construction Program") for the Grand Gulf Plant, excluding nuclear fuel, will be approximately \$2,860.0 million. In connection with the Grand Gulf Plant, MSU has undertaken, to the extent not obtained by MSE from other sources, to furnish or cause to be furnished to MSE sufficient capital for construction and operation of the Grand Gulf Plant and related purposes. Through July 31, 1980, MSU had invested \$425.5 million in the common stock of MSE. In March 1980, MSE entered into an amendment to its revolving loan agreement with a group of banks to increase the amount available thereunder to \$808 million and to extend the term and commitment period of such borrowings to December 31, 1985. At July 31, 1980, MSE had borrowed \$587.0 million under this loan agreement and had outstanding \$400 million of its First Mortgage Bonds, 9¼% Series due 1989 and \$98.5 million of its First Mortgage Bonds, 12½% Series due 2000. MSE is obligated to make annual cash sinking fund payments with respect to the 9¼% Bonds commencing July 1, 1982 designed to retire \$328 million of those Bonds by maturity and with respect to the 12½% Bonds commencing on January 1, 1985 designed to retire about \$93.5 million of those Bonds by maturity. Also, MSE has covenanted with the bondholders and the banks that it will complete Unit No. 1 no later than December 31, 1982. MSE has also covenanted with the bondholders that Unit No. 2 will be completed no later than December 31, 1986. In the event either of these covenants is not fulfilled or MSE defaults in respect of either the Bonds or the bank borrowings, the Bonds and the bank borrowings will become due and payable unless extensions of time can be arranged. In these cases, MSU would be required to provide MSE with sufficient funds, to the extent not obtained by MSE from other sources, to meet these payment obligations of MSE with respect to any of the foregoing \$498.5 million of Bonds and any bank borrowings under the \$308 million revolving loan agreement, which are then outstanding.

MSE and the System operating companies have entered into a series of agreements (collectively, "Availability Agreement") whereby (i) MSE has agreed to complete the Grand Gulf Plant, to join in the System Agreement on or before the completion of the first unit of the Grand Gulf Plant and to sell to the System operating companies power available to MSE from the Grand Gulf Plant under the terms of the System Agreement, (ii) the System operating companies have agreed to pay to MSE (on the apportionment bases provided for in the Availability Agreement) such amounts as (when added to any amounts received by MSE under the System Agreement or otherwise) will be at least equal to MSE's operating expenses or an equivalent amount if either unit is not in operation (including such expenses as might be incurred by MSE for maintenance and surveillance in the event of shutdown of either or both units), including MSE's interest charges and an amount equal to an assumed depreciation rate for 27.4 years of 3.65% per annum applied to MSE's gross investment in the Grand Gulf Plant (exclusive of land and land rights), (iii) the System operating companies have agreed to make subordinated advances under certain circumstances to MSE in amounts equal to payments which would otherwise be owing under the payment formula of the Availability Agreement described in (ii) above and (iv) the System operating companies have agreed that their obligations to make payments or advances to MSE are absolute and unconditional. The requirement to make payments under (ii) above commences on the date on which either unit of the Grand Gulf Plant is placed in commercial operation; provided that if Unit No. 1 is not placed in commercial operation prior to December 31, 1982, the commencement date in respect to both Units is December 31, 1982; and provided, further, if Unit No. 1 is placed in commercial operation prior to December 31, 1982 then, with respect to the assumed depreciation charge related to Unit No. 2, the commencement date for Unit No. 2 is the earlier of the date of commercial operation of Unit No. 2 or December 31, 1986. (For information with respect to proposed sales by MSE of an aggregate 12.48% interest in the Grand Gulf Plant to SMEPA and MEAM, see Note 6 to the Table under "Use of Proceeds and Construction Program.")

The System operating companies have executed a Memorandum of Understanding by which it is agreed that the capability of the portion of Grand Gulf Unit No. 1 and Grand Gulf Unit No. 2 owned by MSE will be allocated among LP&L, MP&L and NOPSI on a fixed percentage basis, subject to change by mutual agreement of such companies. The proposed percentages of allocated capability of MSE's share of Unit No. 1 and Unit No. 2 would be LP&L, 38.57% and 26.23%, MP&L, 31.63% and 43.97% and NOPSI, 29.80% and 29.80%, respectively. LP&L, MP&L and NOPSI have agreed to assume all of the responsibilities and obligations of AP&L and Ark-Mo with respect to these Units and, in consideration thereof, AP&L and Ark-Mo have agreed to relinquish their rights in the Units. The Memorandum of

Understanding and the consummation of the transactions contemplated thereby is subject to the receipt of the approval of all regulatory agencies having jurisdiction of the matters and of all other necessary approvals.

RECENT DEVELOPMENTS

Recent Earnings

Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended June 30, 1980, amounted to $2,002.4 million, $166.7 million and $1.86, respectively. Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended June 30, 1979, amounted to $1,669.8 million, $206.0 million and $2.57, respectively. These amounts for each respective period are unaudited but, in the opinion of the Company, include all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of such amounts for each respective period.

Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended August 31, 1980, amounted to $2,142.6 million, $187.3 million and $2.`4, respectively. Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended August 31, 1979, amounted to $1,698.6 million, $199.2 million and $2.44, respectively. These amounts for each respective period are unaudited but, in the opinion of the Company, include all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of such amounts for each respective period.

Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended September 30, 1980, amounted to $2,226.2 million, $188.7 million and $2.03, respectively. Consolidated operating revenues, net income and earnings per share on weighted average number of shares outstanding for the twelve months ended September 30, 1979, amounted to $1,719.2 million, $197.0 million and $2.39, respectively. These amounts for each respective period are unaudited but, in the opinion of the Company, include all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of such amounts for each respective period.

The decrease in net income for the twelve months ended June 30, 1980, compared to the twelve month period ended June 30, 1979, the decrease in net income for the twelve months ended August 31, 1980, compared to the twelve month period ended August 31, 1979, and the decrease in net income for the twelve months ended September 30, 1980, compared to the twelve month period ended September 30, 1979, are due primarily to increased operating expenses as a result primarily of inflationary pressures which were not offset by adequate rate relief, conservation efforts by residential and commercial customers and higher financing costs. Additionally, milder weather during the twelve months ended June 30, 1980 contributed to the decrease in net income compared to the twelve month period ended June 30, 1979.

Rate Matters

AP&L. On August 28, 1980, AP&L filed with the Federal Energy Regulatory Commission ("FERC") an application for an increase in its wholesale rates designed to produce approximately $9,970,000 additional annual revenues, based on billing determinants for the twelve months ended August 31, 1979. In its filing, AP&L asked that it be permitted to place the proposed rates into effect as of November 1, 1980, but that, pursuant to the terms of a settlement agreement entered into between AP&L and its wholesale customers, AP&L would voluntarily defer implementation of the proposed increase as follows: increases designed to produce approximately $6,996,000 of the total proposed $9,970,000 increase would be placed into effect upon implementation of increased retail rates on file with the Arkansas Public Service Commission ("APSC") in AP&L's currently pending retail rate proceeding, either under bond or pursuant to an interim or final order of the APSC; and increases designed to produce the remainder of the total proposed $9,970,000 increase would be placed into effect on June 1, 1981, on which date a corresponding phase of AP&L's retail rate increase is proposed to become effective. The wholesale customers have agreed to increases in their rates up to the estimated amounts set out above, with some possible reductions therein if the APSC should not allow the full amount of retail rate increases requested by AP&L in its currently pending retail rate increase application.

The Attorney General of Arkansas filed a complaint with the APSC on April 23, 1979, in which he alleged that AP&L had erroneously applied the existing fuel adjustment clause. On July 7, 1980, the APSC entered an order in the proceeding finding that AP&L had, prior to July 1, 1979, collected fuel adjustment overcharges totaling $1,308,000 and directed it to refund these overcharges by credits to bills to customers beginning in September 1980. On August 6, 1980, the Attorney General filed a petition for rehearing alleging the APSC order required too little refunds, and AP&L filed a petition for rehearing alleging that no refund should have been ordered. On September 29, 1980, the APSC entered an order which delayed initiation of the refund period until October 30, 1980. On September 5, 1980, the APSC entered an order granting the rehearing requested by the Attorney General and the rehearing requested by AP&L.

Ark-Mo. On July 23, 1980, Ark-Mo filed with the APSC an application to increase annual electric revenues by approximately $7,479,000, based on an April 30, 1980 test year. On August 22, 1980, the APSC suspended the proposed rates and set the matter for hearing in February 1981.

LP&L. In July 1977, LP&L filed with the Federal Power Commission ("FPC") an application for an increase in LP&L's rates to rural electric cooperatives, which would have resulted in additional annual revenues of approximately $7,489,000. LP&L's application also requested an increase in LP&L's rates to the four municipalities to which it served firm power, the effect of which would have resulted in additional annual revenues of approximately $1,055,000 above the revenues produced by rate schedules currently in effect as to these municipalities, based on a test year ending December 31, 1977. The application proposed, among other things, (a) the inclusion of all construction work in progress ("CWIP") in the rate base, based upon FPC Order No. 555 which permits such inclusion "where the utility is in severe financial stress", and (b) the concurrent cessation of capitalization of AFDC on the CWIP so included. LP&L's contracts with the rural electric cooperatives and two of the municipalities have expired. These customers are now receiving their power requirements from other sources. Decision on the application is currently pending before the FERC.

On May 30, 1980, LP&L filed with the Louisiana Public Service Commission ("LPSC") a general rate increase application with respect to customers under its jurisdiction, asking authorization to put into effect new retail rate schedules designed to provide additional annual revenues of approximately $203,600,000 on the basis of the test year ended December 31, 1979, and in connection therewith, on July 15, 1980, LP&L filed with the LPSC a request for almost $53,000,000 in interim emergency rate relief, to be put into effect under protective bond pending the outcome of the application filed on May 30, 1980. The application proposes, among other things, the inclusion of CWIP in the rate base and the concurrent cessation of capitalization of AFDC on the CWIP so included. A hearing was held on the request for emergency rate relief on August 25, 1980, and at such hearing LP&L revised the amount of such request to approximately $36,500,000. By order dated October 8, 1980, the LPSC permitted LP&L to implement an interim rate increase of approximately $32,400,000 under protective bond, subject to refund. The general rate increase application filed on May 30, 1980 is pending.

MP&L. On May 28, 1980, MP&L filed an application with the Mississippi Public Service Commission for an increase in its [illegible]ric ra[illegible] to its Mississippi retail customers designed to produce annually approximately $68,768,[illegible] revenues. The application is based on a projected test year ended June 30, 1981. The new r[illegible] into effect, subject to refund, on July 1, 1980. Hearings have been held and further hearings are sch[illegible]ginning October 16, 1980. There have been interventions filed in this proceeding. The matter is pending.

Other Developments

Unit No. 1 of White Bluff Plant Operational. Unit No. 1 of AP&L's White Bluff Plant was placed in commercial operation on August 22, 1980. The net capability of the Unit available to AP&L is 428 MW, but such capability may be rated higher after subsequent testing.

Arkansas Nuclear One Generating Station Shut Down. Unit No. 1 of AP&L's Arkansas Nuclear One Generating Station was shut down September 5, 1980, due to a steam generator tube leak. Unit No. 2 of Arkansas Nuclear One Generating Station was shut down September 4, 1980, due to a blockage in the reactor building air cooling system. Unit No. 1 returned to operation on September 28, 1980 and Unit No. 2 returned to operation on October 2, 1980. The outages of these Units will have the effect of reducing AP&L's earnings to an extent not presently determinable.

Revised Fuel Source Estimates. As a result of increased availability of natural gas, the Middle South System's percentages of generation by type of fuel for 1980, were estimated at July 31, 1980 to be 58% natural gas; 19% oil; 18% nuclear and 5% coal. Fuel sources for 1981 were estimated to be 51% natural gas; 17% oil; 18% nuclear and 14% coal.

The System operating companies have filed petitions for temporary exemptions from the restrictions on the use of natural gas for boiler fuel prescribed by the Powerplant and Industrial Fuel Use Act. Other than for three power plants for which petitions are currently pending, the Economic Regulatory Administration ("ERA") has granted all petitions filed by the System operating companies. The temporary exemptions allow specified power plants to exceed the restrictions. Most of the exemptions granted to the System operating companies expire on October 31, 1981 but are subject to extension for additional periods for a maximum exemption term of five years, including the initial period. It has been the policy of the ERA to take no action with respect to any natural gas used by generating units for which temporary exemptions are pending. The granting of exemptions by the ERA to various utilities, including those granted to the System operating companies, are the subject of suits and administrative proceedings filed or instituted by various industrial groups seeking to challenge such action by the ERA. The System operating companies have intervened in these suits, which are pending in the United States Court of Appeals for the District of Columbia Circuit, and are participants in the administrative proceedings before the ERA.

MP&L Litigation. On October 8, 1980, Shell Oil Company filed suit against MP&L in the United States District Court for the Southern District of Mississippi, alleging breach of a contract under which MP&L agreed to purchase and Shell Oil Company agreed to sell natural gas. The suit seeks an injunction against MP&L to compel compliance with the terms of the contract and damages during the pendency of the breach, or in the alternative, judgment for damages of $17,964,000. The Company has been informed by MP&L that MP&L believes that it has meritorious defenses to the suit. The matter is pending.

PRICE RANGE AND DIVIDENDS

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

Year	High	Low
1975	16⅜	12⅜
1976	17⅜	13⅝
1977	17⅞	15⅜
1978—		
First Quarter	16¾	15¾
Second Quarter	16⅞	15⅜
Third Quarter	17⅜	15½
Fourth Quarter	16	14¼

Year	High	Low
1979—		
First Quarter	16¼	14½
Second Quarter	15⅜	13⅝
Third Quarter	16⅜	13⅞
Fourth Quarter	14⅛	12¼
1980—		
First Quarter	13⅛	10¼
Second Quarter	14¼	11
Third Quarter	13⅝	11½
Fourth Quarter (through October 13)	12⅛	11¼

The closing sale price on October 14, 1980 on the New York Stock Exchange was $11⅞. The consolidated book value per share of the Common Stock as of June 30, 1980 was $17.87, and, after giving effect to the sale of 8,000,000 shares of the Additional Common Stock in October 1980, the consolidated book value of the Common Stock of the Company at that date would have been $17.41.

During the years 1975 through 1979 and the twelve months ended July 31, 1980, the Company paid annual dividends on its Common Stock as follows:

Year	Annual Dividend Per Common Share
1975	$1.26
1976	1.32
1977	1.38
1978	1.44
1979	1.52
Twelve months ended July 31, 1980	1.565

On October 1, 1980, the Company paid a quarterly dividend of 39½¢ per share on its Common Stock.

The Company has a Dividend Reinvestment and Stock Purchase Plan ("Plan") under which participating shareholders may have cash dividends on all or a portion of their shares of Common Stock automatically reinvested and/or invest optional cash payments of not less than $25 nor more than $5,000 per quarter. Under the Plan the price of shares of Common Stock purchased through reinvestment of cash dividends is 95% of the average of the daily high and low sale prices of the Common Stock, based on consolidated trading of the Common Stock for the period of the last three days on which Common Stock was traded immediately preceding the date of investment, and optional cash payments are invested at a price of 100% of such average. No commission or service charge is paid by participants in connection with purchases under the Plan. Shares of Common Stock are offered for sale under the Plan only by means of a separate prospectus available upon request from the Company.

The Company's tax position in 1979 was such that 49.04% of the July 2, 1979 dividend payment and 61.75% of the October 1, 1979 dividend payment are estimated to be nontaxable as dividend income to the stockholder. These percentages are subject to verification and approval by the Internal Revenue Service at a future date. Based upon present estimates of operations for the calendar year 1980, a substantial portion of the quarterly common stock dividend payments in 1980 will not be taxable as dividend income. The non-taxable portion of a dividend payment is treated under the Federal income tax law as a return of the shareholder's capital and necessitates a reduction in the tax basis of the shares on which these dividends were paid.

The Company has paid dividends without interruption since October 1, 1949. No representation is made as to future dividends, because dividend action will be taken by the Board of Directors of the Company in light of future earnings, the financial condition of the Company and other factors.

DESCRIPTION OF COMMON STOCK

A copy of the Company's Restated Articles of Incorporation is filed as an Exhibit to the Registration Statement. The following summary does not purport to be complete and is subject in all respects to the provisions of such Restated Articles of Incorporation and does not relate to or give effect to the provisions of the statutory or common law of the State of Florida. The summary given below is qualified in its entirety by reference to such Restated Articles of Incorporation and the laws of the State of Florida.

All shares of the Company's Common Stock participate equally with respect to dividends and rank equally upon liquidation. The record holder of each share of Common Stock is entitled to one vote. Cumulative voting is permitted at elections of directors. The holders of Common Stock have no preemptive rights except that if the Company offers shares for money (other than by a public offering or an offering to or through underwriters or investment bankers for prompt public offering or pursuant to plans open to all stockholders, including without limitation dividend reinvestment and stock purchase plans or limited investment plans or pursuant to plans for share ownership by, or for the benefit of, employees of the Company or any company of which the Company holds directly or indirectly at least 50% of the outstanding voting stock, including without limitation employee stock purchase, bonus or option plans), such shares must be offered first pro rata to the holders of the then outstanding Common Stock upon terms not less favorable than the terms upon which the stock is issued or proposed to be issued to persons other than stockholders. The shares of Common Stock which are outstanding are fully paid and non-assessable. Upon the issuance and sale as herein described of the shares of the Additional Common Stock, such shares will be fully paid and non-assessable.

The Common Stock of the Company is listed on the New York, Midwest and Pacific Stock Exchanges. The Additional Common Stock will be listed, subject to notice of issuance, on these Exchanges.

The Company owns all of the outstanding common stock of the System operating companies. Upon default in payment of four successive quarterly dividends on the preferred stock of any of the System operating companies which have preferred stock outstanding, the holders of such stock have the right to elect a majority of the board of directors of such company so long as any default continues. No preferred dividends presently are in default.

The indentures and agreements under which the long-term debt of the System operating companies has been issued and the portions of their amended certificates of incorporation relating to preferences of preferred stocks contain certain provisions setting forth restrictions with respect to the payment of dividends on the common stocks of the respective companies. In the aggregate these provisions cannot be briefly summarized, and the effect from time to time of each provision can be determined only by applying the restrictions to the relevant accounting data for the particular period involved. The application of none of these restrictions at present precludes the payment of dividends on the common stock of any System operating company. The provisions of the bank loan agreement and first mortgage bond indenture of MSE prohibit the payment of cash dividends on its common stock until the first unit of its Grand Gulf Plant is placed in commercial operation (presently scheduled for 1982) and thereafter generally limit dividends to current earnings.

Transfer Agents and Registrars: The transfer agents for the Company's Common Stock are Morgan Guaranty Trust Company of New York, The First National Bank of Boston, Continental Illinois National Bank and Trust Company of Chicago, Hibernia National Bank in New Orleans and Bank of America National Trust and Savings Association. The registrars are Morgan Guaranty Trust Company of New York, State Street Bank and Trust Company, The First National Bank of Chicago, Whitney National Bank of New Orleans and Wells Fargo Bank, N.A.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Middle South Utilities, Inc.:

We have examined the balance sheets of Middle South Utilities, Inc. and the consolidated balance sheets of Middle South Utilities, Inc. and its subsidiaries as of December 31, 1979 and 1978 and the related statements of income, retained earnings, paid-in surplus, and source of funds for investment (in consolidation, source of funds for utility plant additions) for the years then ended, incorporated herein by reference to the Company's 1979 Annual Report (Form 10-K) to the Securities and Exchange Commission. 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 February 15, 1980, our opinion on the 1979 and 1978 consolidated financial statements of Middle South Utilities, Inc. was qualified as being subject to the effects, if any, of the outcome of an allegation by the Attorney General of Arkansas that Arkansas Power & Light Company had erroneously applied its fuel adjustment clause to retail customers and thereby overcharged these customers $17,297,000. As a result of subsequent actions by the Arkansas Public Service Commission and the Attorney General, the amounts now subject to possible refund would not have a material impact on the consolidated financial statements. Accordingly, our present opinion on the 1979 and 1978 consolidated financial statements, incorporated by reference herein, is different from that expressed in our previous report.

In our opinion, the above-mentioned financial statements present fairly the financial position and the consolidated financial position of Middle South Utilities, Inc. at December 31, 1979 and 1978 and the results of their operations and source of funds for investment (in consolidation, source of funds for utility plant additions) for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

New Orleans, Louisiana
February 15, 1980 (August 11, 1980 as to
the second and third paragraphs above)

EXPERTS AND LEGALITY

The financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries included in the Annual Report of the Company and certain of the Company's subsidiaries on Form 10-K for the year ended December 31, 1979 have been examined by Deloitte Haskins & Sells, independent Certified Public Accountants, as stated in their opinion appearing herein, and have been so included in reliance upon such opinion given upon their authority as experts in auditing and accounting.

With respect to the unaudited interim financial information for the periods ended March 31, 1980 and 1979 and June 30, 1980 and 1979, incorporated by reference in this Prospectus, Deloitte Haskins & Sells have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their separate reports included in the Company's Quarterly Report on Form 10-Q for such quarters, and incorporated by reference herein, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte Haskins & Sells are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by the accountant within the meaning of Sections 7 and 11 of the Act.

All statements in the above referred to Annual Report on Form 10-K and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, and June 30, 1980 and all statements herein as to matters of law and legal conclusions pertaining to the titles to properties, franchises and other operating rights of certain of the Company's subsidiaries, and their subsidiaries, the regulations to which they are subject and any legal proceedings to which they are parties are made on the authority of House, Holmes & Jewell, P.A., Tower Building, Little Rock, Arkansas, as to AP&L; Messrs. Schlafly, Griesedieck, Ferrell & Toft, Marquette Building, St. Louis, Missouri, as to Ark-Mo and Associated; Messrs. Monroe & Lemann, Whitney Building, New Orleans, Louisiana, as to LP&L; Messrs. Wise Carter Child & Caraway, Electric Building, Jackson, Mississippi, as to MP&L; and Burke & Mayer A Professional Law Corporation, One Shell Square, New Orleans, Louisiana, as to NOPSI.

The statements in the above referred to Annual Report on Form 10-K as to matters of law and legal conclusions with respect to the proceedings with respect to NOPSI referred to under Item 1—"Business—Regulation and Litigation—Other Regulation and Litigation" have been prepared under the supervision of, and reviewed by, William C. Nelson, Esq., Vice President--Administration and Legal, and Secretary of NOPSI, and such statements are included herein upon his authority as an expert. Mr. Nelson is a full-time employee of NOPSI.

The legality of the Additional Common Stock will be passed upon for the Company by Messrs. Reid & Priest, 40 Wall Street, New York, N.Y. The legality of the Additional Common Stock will be passed upon for the Purchasers by Messrs. Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, N.Y. Said firms will rely as to matters governed by Florida law upon the opinion of Messrs. Steel Hector & Davis, Southeast First National Bank Building, Miami, Florida. Matters pertaining to the titles to properties, franchises and other operating rights of the System operating companies and of Associated, the regulations to which they are subject and any legal proceedings to which they are parties will be passed upon only by the respective law firms or individual named in the two preceding paragraphs.

August L. Griesedieck, a member of the firm of Messrs. Schlafly, Griesedieck, Ferrell & Toft, acting for that firm in connection with this matter, owns of record and beneficially 2,377 shares of Common Stock of the Company. Attorneys with the firm of Messrs. Monroe & Lemann, acting for that firm in connection with this matter, own of record or beneficially 1,335 shares of Common Stock of the Company.

PURCHASERS

The Purchasers named below have severally agreed, subject to the terms and conditions of the Purchase Agreement, to purchase from the Company the respective numbers of shares of the Additional Common Stock set forth below opposite their names. The Purchase Agreement provides that the obligations of the Purchasers are subject to certain conditions precedent, and that the Purchasers will be obligated to purchase all of the shares of the Additional Common Stock if any are purchased; provided that, under certain circumstances involving a default of Purchasers, less than all of the shares of the Additional Common Stock may be purchased. Default by one or more Purchasers would not relieve the non-defaulting Purchasers from their several obligations, and in the event of such default, the non-defaulting Purchasers may be required by the Company to purchase the respective numbers of shares of the Additional Common Stock which they have severally agreed to purchase and, in addition, to purchase the shares of the Additional Common Stock which the defaulting Purchaser or Purchasers shall have so failed to purchase up to a number thereof equal to one-ninth (1/9th) of the respective numbers of shares of the Additional Common Stock which such non-defaulting Purchasers shall have otherwise agreed to purchase.

Purchasers	Number of Shares
Kidder, Peabody & Co. Incorporated	1,925,000
Drexel Burnham Lambert Incorporated	1,000,000
Goldman, Sachs & Co.	400,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,145,000
Salomon Brothers	1,925,000
Dean Witter Reynolds Inc.	600,000
Butcher & Singer Inc.	100,000
Oppenheimer & Co., Inc.	100,000
Rauscher Pierce Refsnes, Inc.	75,000
Wheat, First Securities, Inc.	75,000
Birr, Wilson & Co., Inc.	50,000
B.C. Christopher & Co.	50,000
R.G. Dickinson & Co.	50,000
Doft & Co., Inc.	50,000
Ferris & Company, Incorporated	50,000
J.J.B. Hilliard, W.L. Lyons, Inc.	50,000
Prescott, Ball & Turben	50,000
First of Michigan Corporation	25,000
Coughlin & Company, Inc.	20,000
Faherty & Faherty Inc.	20,000
Jesup & Lamont Securities Co., Inc.	20,000
Johnson, Lane, Space, Smith & Co., Inc.	20,000
Morgan, Olmstead, Kennedy & Gardner Incorporated	20,000
Newhard, Cook & Co. Incorporated	20,000
David A. Noyes & Company	20,000
Oberweis Securities, Inc.	20,000
Philips, Appel & Walden, Inc.	20,000
Raymond, James & Associates, Inc.	20,000
Burton J. Vincent, Chesley & Co.	20,000
Fahnestock & Co.	10,000

Purchasers	Number of Shares
George K. Baum & Company Incorporated	5,000
Chiles, Heider & Co., Inc.	5,000
Frederick & Company, Inc.	5,000
Freehling & Co.	5,000
Haas Securities Corporation	5,000
Mason & Lee, Inc.	5,000
McCourtney-Breckenridge & Company	5,000
Northeast Securities Corporation	5,000
Sade & Co.	5,000
Edward A. Viner & Co., Inc.	5,000
Total	8,000,000

The Company has been advised by the several Purchasers through their representatives, Kidder, Peabody & Co. Incorporated—Drexel Burnham Lambert Incorporated—Goldman, Sachs & Co.—Merrill Lynch White Weld Capital Markets Group Merrill Lynch, Pierce, Fenner & Smith Incorporated—Salomon Brothers—Dean Witter Reynolds Inc. as follows:

The several Purchasers may offer the Shares in part directly to the public at the public offering price set forth on the cover page of this Prospectus, and the balance to dealers at a price which represents a concession of 34¢ per share. The Purchasers may allow and such dealers may reallow a concession of not in excess of 10¢ per share to certain dealers.

After the initial public offering, the public offering price and the concessions may be changed.

$50,000,000

LOUISIANA POWER & LIGHT COMPANY

FIRST MORTGAGE BONDS, 15¾% SERIES DUE DECEMBER 1, 1988

Interest Payable June 1 and December 1

The New Bonds will be redeemable at the option of the Company at any time upon not less than 30 days' notice at the general redemption prices and, under certain circumstances, at the special redemption price as described herein, provided that, prior to December 1, 1985, no redemption may be made at a general redemption price through refunding at an effective interest cost to the Company of less than 16.0125% per annum. Such limitation does not, however, apply to redemptions at the special redemption price by operation of the current sinking or improvement fund or for the replacement fund or with certain deposited cash and proceeds of released property. See "Description of New Bonds—Redemption and Purchase of Bonds" herein.

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

	Price to Public(1)	*Underwriting Discounts and Commissions(2)*	*Proceeds to Company(1)(3)*
Per Bond	99.555%	.716%	98.839%
Total	$49,777,500	$358,000	$49,419,500

(1) Plus accrued interest from December 1, 1980 to date of delivery and payment.

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

(3) Before deduction of expenses payable by the Company estimated at $220,000.

The New Bonds are offered by the several Purchasers named herein subject to prior sale, when, as and if issued and accepted by the Purchasers and subject to their right to reject any orders for the purchase of the New Bonds, in whole or in part. It is expected that the New Bonds will be ready for delivery on or about December 16, 1980, in New York City.

BLYTH EASTMAN PAINE WEBBER
INCORPORATED

BACHE HALSEY STUART SHIELDS
INCORPORATED

THE FIRST BOSTON CORPORATION

MERRILL LYNCH WHITE WELD CAPITAL MARKETS GROUP
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

SALOMON BROTHERS

DILLON, READ & CO. INC.

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

The date of this Prospectus is December 9, 1980.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Purchasers. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

AVAILABLE INFORMATION

Louisiana Power & Light Company ("Company") is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act") and in accordance therewith files report and other information with the Securities and Exchange Commission ("SEC"). Such reports include information, as of particular dates, concerning the Company's directors and officers, their remuneration, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company. Such reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Ill.; Room 1100, Federal Building, 26 Federal Plaza, New York, N.Y.; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, Calif. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 500 North Capitol Street, N.W., Washington, D.C. 20549.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the SEC pursuant to the Securities Act of 1933 and the Exchange Act are incorporated in this Prospectus by reference:

1. The Company's prospectus, dated October 28, 1980 (Registration No. 2-69305), for the registration of 1,200,000 shares of the Company's 15.20% Preferred Stock, Cumulative, $25 Par Value, as filed with the SEC on October 30, 1980 pursuant to Rule 424 under the Securities Act of 1933 ("Rule 424 Prospectus").

2. The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 1980.

All documents filed by the Company pursuant to Section 13 or 14 of the Exchange Act after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests should be directed to Mr. W. H. Talbot, Secretary, Louisiana Power & Light Company, 142 Delaronde Street, New Orleans, Louisiana 70174. The information relating to the Company contained in this Prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company and the offering, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

Issuer .... Louisiana Power & Light Company
Securities Offered .... \$50,000,000 principal amount of First Mortgage Bonds, 15¾% Series due December 1, 1988 ("New Bonds")
Interest Payment Dates .... June 1 and December 1
Use of Proceeds .... For payment in part of short-term borrowings, for financing in part of construction program, and for other corporate purposes

THE COMPANY

Business.......... Generation, transmission, distribution and sale of electric energy
Service Area .... 46 of the 64 parishes (counties) in Louisiana
Estimated 1980 and 1981 Percentages of Generation by Type of Fuel.......... 1980: 80% natural gas; 20% fuel oil
1981: 94% natural gas; 6% fuel oil

SELECTED FINANCIAL INFORMATION

	Year Ended December 31,					Twelve Months Ended September 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
			(Dollars In Thousands)			
INCOME DATA:						
Operating Revenues	\$264,844	\$331,277	\$378,951	\$456,375	\$557,476	\$764,912
Net Income	\$ 43,695	\$ 39,277	\$ 44,406	\$ 53,744	\$ 65,129	\$ 88,395

	September 30, 1980 (Unaudited)			
	Actual		Adjusted*	
	Amount	Percent	Amount	Percent
	(Dollars In Thousands)			
BALANCE SHEET DATA:				
Common Shareholder's Equity	\$ 558,230	34%	\$ 563,230	33%
Preferred Stock (without sinking fund)	145,882	9	145,882	9
Preferred Stock (with sinking fund)	92,990	6	121,381	7
Long-Term Debt	829,213	51	879,213	51
Total Capitalization	\$1,626,315	100%	\$1,709,706	100%

* Gives effect (1) to the sale by the Company in October 1980 of 757,600 shares of its Common Stock, no par value, to Middle South Utilities, Inc. for \$5,000,000, (2) to the sale in November 1980 of 1,200,000 shares of its 15.20% Preferred Stock, Cumulative, \$25 Par Value, and (3) to the sale in December 1980 of the New Bonds.

THE COMPANY

The Company was incorporated under the laws of the State of Louisiana on October 15, 1974, and is successor by merger to a predecessor Louisiana Power & Light Company which was incorporated under the laws of the State of Florida in 1927. The merger of such predecessor corporation into the Company became effective on February 28, 1975, and information and data herein with respect to a time or period on or prior to that date refer to the predecessor corporation. The Company's principal executive office is located at 142 Delaronde Street, New Orleans, Louisiana 70174. Its telephone number, including area code, is 504-366-2345.

The Company is an electric public utility company with all of its operations in the State of Louisiana. Middle South Utilities, Inc. ("Middle South"), which is a registered public utility holding company under the Public Utility Holding Company Act of 1935 ("Holding Company Act"), owns all of the outstanding Common Stock of the Company. The Company, Arkansas-Missouri Power Company, Arkansas Power & Light Company ("AP&L"), Mississippi Power & Light Company ("MP&L") and New Orleans Public Service Inc. ("NOPSI") are the principal operating subsidiaries of Middle South. Middle South owns all of the capital stock of Middle South Energy, Inc., a generating subsidiary organized in 1974 to provide financing and ownership of certain future base load generating units within the Middle South System. Middle South also has a wholly-owned service subsidiary, Middle South Services, Inc.

The Company, AP&L, MP&L and NOPSI own all the capital stock of System Fuels, Inc. ("SFI"), a special purpose company formed to plan and implement programs for the procurement, delivery and storage of fuel supplies for the Middle South System.

USE OF PROCEEDS

The net proceeds to be received from the issuance and sale of the New Bonds (see cover page and "Purchasers") will be used for the payment in part of outstanding short-term borrowings estimated not to exceed $100,000,000 at the time the sale proceeds are received, for the financing in part of the Company's construction program, and for other corporate purposes.

CONSTRUCTION PROGRAM AND FUTURE FINANCING

The Company's 1980 construction program contemplates expenditures of approximately $263,800,000, of which $192,667,000 had been expended through September 30, 1980. This estimate contemplates the expenditure of approximately $212,700,000 for production facilities, $14,100,000 for transmission facilities, $35,800,000 for distribution facilities and $1,200,000 for general plant, including office and service facilities and transportation and communication equipment. These amounts exclude expenditures for nuclear fuel. The Company estimates that its construction expenditures (excluding nuclear fuel expenditures) will amount to approximately $280,000,000 in 1981, $294,000,000 in 1982 and $191,000,000 in 1983 (including allowance for funds used during construction ("AFDC") of $61 million in 1981, $72 million in 1982 and $34 million in 1983). Estimated amounts allocable to environmental matters included above in the Company's estimated construction expenditures for the years 1980, 1981, 1982 and 1983 are $35,700,000, $24,800,000, $4,600,000 and $1,800,000, respectively.

The Company estimates that subsequent to the receipt of the proceeds from the sale of the New Bonds it will require approximately $69,000,000 of additional funds from external sources to finance its 1980 construction program and for other corporate purposes, and expects to obtain these funds through short-term borrowings. The Company estimates that its requirements for capital funds from external sources during the period 1981-1983 will be approximately $551,000,000, principally for construction and for the funding of $107,000,000 of maturing long-term debt. The Company has received authority from the SEC under the Holding Company Act to make short-term borrowings from time to time through June 30, 1982 in amounts at any one time outstanding of up to the lesser of $190,000,000 or 10% of the Company's total capitalization by the issuance and sale of commercial paper and by loans from banks. The proceeds of these borrowings will be used to finance construction and other corporate expenditures pending permanent financing. Reference is made to information below and to information under the subheading "Business-Rates" in the Rule 424 Prospectus, incorporated herein by reference, concerning the ability of the Company to raise additional funds from external sources through the sale of additional First Mortgage Bonds or Preferred Stock to finance its construction program beyond 1980.

The following tabulation shows details with respect to certain new generating facilities included in the estimated construction expenditures for 1980-1983.

Unit	Location	Net Capability in MW	Prior to 1980	1980	1981	1982	1983	Total Cost*	Cost per KW	Scheduled Year of Completion
			(Millions of Dollars—except Cost per KW)							
Waterford No. 3 (nuclear)	Killona, La.	1,165	$819.3	$197.9	$235.2	$207.5	$31.6	$1,491.5	$1,280	1983

* The costs shown above include AFDC. Costs of acquiring nuclear fuel (net of amounts already provided for under existing leases) excluded from construction expenditures are estimated to amount to (in millions) $6, $14, $8 and $2 for the years 1980, 1981, 1982 and 1983, respectively.

Actual expenditures and dates of completion for construction projects may vary from the estimates because of availability of financing, changes in the Company's plans, additions and changes required by regulatory authorities, cost fluctuations, the availability of labor, materials and equipment, licensing delays and other factors. As a result of anticipated delays in operating license proceedings before the Nuclear Regulatory Commission and financing limitations, the Company announced in May 1980 that the commercial operation date for Waterford No. 3 had been rescheduled from early to late 1982. Since that time, the Company, as part of its continuing review of its construction program, has revised, in light of the above factors, its scheduled commercial operation date for Waterford No. 3 from late 1982 to early 1983, resulting in an increase in the total estimated cost of the Unit to approximately $1.5 billion. Extended deferral of the construction expenditures and commercial operation date for Waterford No. 3 could require the Company to rely increasingly upon purchases of power or peaking units to meet the needs and the reserve requirements of the area which it serves.

The financing program followed by the Company in recent years has involved in large measure the issuance of First Mortgage Bonds in amounts designed to maintain the ratio of First Mortgage Bonds to total capitalization in the general range of 56%. Earnings coverage provisions are contained in the Company's Mortgage (hereinafter defined) and its Restated Articles of Incorporation, as amended ("Articles of Incorporation"), for the issuance of additional First Mortgage Bonds and additional shares of Preferred Stock, respectively. Under the Company's Mortgage, additional First Mortgage Bonds may not (except for the purpose of refunding maturing First Mortgage Bonds and certain other purposes) be issued unless the adjusted net earnings of the Company (as defined in the Mortgage) for 12 consecutive months out of the 15 months immediately preceding the issuance of the additional First Mortgage Bonds shall have been at least twice the amount of the annual interest requirements on all First Mortgage Bonds at the time outstanding, including the additional First Mortgage Bonds being issued, and any indebtedness of prior rank. Under the Articles of Incorporation, the Company may not, without the consent of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, issue additional shares of Preferred Stock unless the gross income of the Company (as defined in the Articles of Incorporation) for 12 consecutive months out of the 15 months immediately preceding the issuance of the additional shares shall have been at least one and one-half times the sum of the annual interest charges on all interest bearing indebtedness of the Company and the annual dividend requirements on all outstanding shares of Preferred Stock, including the additional shares being issued.

On the basis of these requirements, the First Mortgage Bond and Preferred Stock earnings coverages would be those stated in the following tabulation:

	Twelve Months Ended							
	December 31,					September 30,	October 31, 1980	
	1975	1976	1977	1978	1979	1980	Actual	Pro Forma
First Mortgage Bond Coverage	2.45	2.24	2.39	1.94	1.71	2.48	2.59	2.33(a)
Preferred Stock Coverage	1.81	1.67	1.68	1.63	1.36	1.60	1.65	1.51(a)

(a) As adjusted to give effect to the sale in November 1980 of 1,200,000 shares of the Company's 15.20% Preferred Stock, Cumulative, $25 Par Value, and to the sale in December 1980 of the New Bonds at an assumed annual interest rate of 15%.

The amounts of additional First Mortgage Bonds and Preferred Stock which may be issued in the future are contingent upon increases in earnings and the ability of the Company to obtain adequate rate relief. Unless earnings are increased (see information under the subheading "Business-Rates" in the Rule 424 Prospectus, incorporated herein by reference, with respect to the Company's pending rate applications), the amounts of additional First Mortgage Bonds and Preferred Stock which the Company can issue will be limited. As of October 31, 1980, and after giving effect to the issuance in November 1980 of 1,200,000 shares of the Company's 15.20% Preferred Stock, Cumulative, $25 Par Value, and in December 1980 of the New Bonds at an assumed annual interest rate of 15%, the Company could have issued approximately $81,000,000 of additional Bonds at an assumed annual interest rate of 15% (plus any Bonds issued for refunding purposes) or approximately $6,000,000 of additional Preferred Stock at an assumed annual dividend rate of 15%. If the Company is unable to obtain the required capital funds, it will be necessary for the Company to reduce, defer or eliminate certain construction expenditures, including expenditures for the construction of Waterford No. 3.

RECENT OPERATING RESULTS

The following results of operations of the Company for the twelve months ended October 31, 1980 should be considered in conjunction with the information appearing elsewhere in this Prospectus, including the documents incorporated by reference in this Prospectus. In the opinion of the Company, all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of the results of operations for that period have been made.

	Twelve Months Ended October 31, 1980 (Unaudited)
	(In Thousands, except Ratios)
Income Data:	
Operating Revenues	$799,381
Net Income	$ 93,061(a)
Ratios of Earnings to Fixed Charges (b):	
Actual	2.48(a)(c)
Pro forma	2.27(a)

(a) In January 1979, the Company received authorization from the Louisiana Public Service Commission allowing and requiring the Company to credit or charge customers through the fuel adjustment clause in future billings for net over or under-collections of fuel costs in excess of those included in base rates. Concurrently with this change in billing for fuel costs, the Company commenced deferring on its books fuel costs in excess of those included in base rates until these costs are reflected in billings to customers pursuant to the fuel adjustment clause. This deferral amounted to $11,733,000 for the twelve months ended October 31, 1980, and is being recovered in subsequent months through the fuel adjustment clause. The effect of this deferral, net of deferred income taxes, was to increase net income for that period by $6,052,000.

(b) "Earnings" represent the aggregate of (1) net income, (2) taxes based on income, (3) investment tax credit adjustments-net and (4) fixed charges. "Fixed charges" represent interest, related amortization and interest applicable to rentals (which are immaterial) charged to operating expenses.

The pro forma ratio of earnings to fixed charges for the twelve months ended October 31, 1980, after giving effect to (1) the annual interest requirements on the New Bonds (15% rate assumed), the balance of annual interest requirements on First Mortgage Bonds issued in November 1979, and the elimination of the annual interest requirements on First Mortgage Bonds which matured on November 1, 1980, (2) the balance of annual interest requirements on municipal revenue bond obligations assumed in June 1980, and (3) interest at an average rate of 14.3% (bank loans) and 14.3% (commercial paper), on average short-term borrowings of approximately $81,222,000 for bank loans and approximately $10,189,000 for commercial paper outstanding during the twelve months ended October 31, 1980, assumed to be reborrowed during the next twelve months, would be 2.27. A change of 1/8 of 1% in the interest rate on the New Bonds would result in a change of approximately .002 in this ratio.

The Company has calculated supplemental ratios of earnings to fixed charges pursuant to Accounting Series Release No. 122 of the SEC. In these supplemental calculations, "earnings" are defined as above and "fixed charges", in addition to items referred to above, include the interest factor related to fuel purchased from SFI, an affiliated company. The supplemental ratio of earnings to fixed charges for the twelve months ended October 31, 1980 is 2.35. The supplemental pro forma ratio of earnings to fixed charges for the twelve months ended October 31, 1980, adjusted to give effect to the items in the preceding paragraph, would be 2.17. A change of 1/8 of 1% in the interest rate on the New Bonds would result in a change of approximately .001 in this ratio.

(c) The corresponding ratios of earnings to fixed charges, as computed in accordance with (b) above, for the years 1975, 1976, 1977, 1978, 1979 and for the twelve months ended September 30, 1980 (unaudited) were 2.60, 2.44, 2.34, 2.11, 2.06, and 2.42, respectively. The corresponding supplemental ratios of earnings to fixed charges, so computed, for each of those periods, were 2.54, 2.35, 2.27, 2.05, 1.99, and 2.31, respectively.

DESCRIPTION OF NEW BONDS

General. The New Bonds are to be issued under the Company's Mortgage and Deed of Trust, dated as of April 1, 1944, with The Chase National Bank of the City of New York (The Chase Manhattan Bank (National Association), successor) and Carl E. Buckley (J. A. Payne, successor), as Trustees, as supplemented by twenty-eight supplemental indentures, all of which (collectively referred to as the "Mortgage") are filed as exhibits to the Registration Statement. The statements herein concerning the New Bonds and the Mortgage are merely an outline and do not purport to be complete. They make use of terms defined in the Mortgage and are qualified in their entirety by express reference to the cited Sections and Articles.

Form and Exchanges. The New Bonds will be registered bonds without coupons in denominations of $1,000 or any multiple thereof. The New Bonds will be exchangeable without charge for other New Bonds of different authorized denominations, in each case for a like aggregate principal amount, and may be transferred without charge, other than for applicable taxes or other governmental charges in either case.

Interest and Payment. The New Bonds will mature December 1, 1988, and will bear interest at the rate shown in their title, payable June 1 and December 1. Principal and interest are payable in New York City. The Company has covenanted to pay interest on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest on the Bonds of all series at the rate of 6% per annum.

Redemption and Purchase of Bonds. The New Bonds will be redeemable, in whole or in part, on 30 days' notice (a) at the special redemption prices set forth below for the current sinking or improvement fund or for the replacement fund or with certain deposited cash and proceeds of released property, and (b) at the general redemption prices set forth below for all other redemptions:

If redeemed during 12 months period ending November 30	General Redemption Price(%)	Special Redemption Price(%)
1981	115.31	100.00
1982	113.12	100.00
1983	110.94	100.00
1984	108.75	100.00
1985	106.56	100.00
1986	104.38	100.00
1987	102.19	100.00
1988	100.00	100.00

together, in each case, with accrued interest to the date fixed for redemption; provided, however, that none of the New Bonds shall be redeemed at the general redemption prices prior to December 1, 1985, if such redemption is for the purpose or in anticipation of refunding such bond through the use, directly or indirectly, of funds borrowed by the Company at an effective interest cost to the Company (computed in accordance with generally accepted financial practice) of less than 16.0125% per annum. Such limitation does not, however, restrict the right of the Company to redeem a New Bond at any time at a special redemption price for the current sinking or improvement fund or for the replacement fund or with certain deposited cash and proceeds of released property.

If at the time the notice is given, the redemption moneys are not on deposit with the Trustee, the redemption may be made subject to their receipt before the date fixed for redemption, and such notice shall be of no effect unless such moneys are so received.

Cash deposited under any provisions of the Mortgage (with certain exceptions) may be applied to the purchase of Bonds of any series.

(Mortgage, Art. X; Twenty-eighth Supplemental, Sec. 1.)

Replacement Fund. In addition to actual expenditures for maintenance and repairs, the Company is required to expend or deposit for each year, for replacements and improvements in respect of the mortgaged electric, gas, steam and/or hot water utility property and certain automotive equipment, an amount equal to $800,000 plus 2¼% of net additions to the mortgaged electric, gas, steam and/or hot water utility property made after December 31, 1943 and prior to the beginning of such year. Such requirement may be met by depositing cash or certifying gross property additions or expenditures for certain automotive equipment or by taking credit for Bonds and qualified lien bonds retired. Such cash may be withdrawn against gross property additions or waiver of the right to issue Bonds. (Mortgage, Sec. 39; Twenty-eighth Supplemental, Sec. 7.)

Sinking or Improvement Fund. The sinking or improvement fund requirement with respect to the New Bonds begins in 1982 and is stated as 1% per year of the greatest amount of the New Bonds outstanding prior to the beginning of the year, less deductions for certain New Bonds retired. The Company, however, may in effect reduce such stated requirement by an amount not exceeding $100,000 on the basis of the principal amount of Bonds that the Company had the right to have authenticated and delivered against property additions in 1954 but which right the Company waived during such period to satisfy sinking fund requirements in respect of the Company's 1983 Series Bonds. The resulting requirement with respect to the New Bonds may be satisfied in cash or principal amount of New Bonds or with property additions at 60%. The sinking or improvement fund requirement in respect of the New Bonds may be anticipated at any time, but if the date fixed for any resulting redemption shall be prior to the calendar year in which such sinking fund payment is due, redemption shall be at the general redemption price and subject to the limitation on such redemptions as set forth under "Redemption and Purchase of Bonds". Similar but not identical provisions are in effect with respect to the Bonds of other series now outstanding. (Second through Eleventh, Thirteenth through Twentieth and Twenty-second through Twenty-eighth Supplementals, Sec. 2.)

Special Provisions for Retirement of Bonds. If, during any 12 months' period, mortgaged property is disposed of by order of or to any governmental authority, resulting in the receipt of $5,000,000 or more as proceeds, the Company (subject to certain conditions) must apply such proceeds, less certain deductions, to the retirement of Bonds. (Mortgage, Sec. 64.) The New Bonds are redeemable at the special redemption prices for this purpose.

Security. The New Bonds, together with all other Bonds now or hereafter issued under the Mortgage, will be secured by the Mortgage, which constitutes, in the opinion of General Counsel for the Company, a first mortgage lien on all of the present properties of the Company (except as stated below), subject to (a) leases of minor portions of the Company's property to others for uses which, in the opinion of such counsel, do not interfere with the Company's business, (b) leases of certain property of the Company not used in its business, and (c) excepted encumbrances. There are excepted from the lien all cash and securities; certain equipment, materials and supplies; automobiles and other vehicles and aircraft; timber, mineral rights and royalties; receivables, contracts, leases and operating agreements.

The Mortgage contains provisions subjecting after-acquired property (subject to pre-existing liens) to the lien thereof, subject to limitations in the case of consolidation, merger or sale of substantially all of the Company's assets. (Mortgage, Sec. 87.)

The Mortgage provides that the Trustees shall have a lien on the mortgaged property, prior to the Bonds, for the payment of their reasonable compensation and expenses and for indemnity against certain liabilities. (Mortgage, Sec. 96.)

The Mortgage contains restrictions, some of which apply only so long as certain prior series are outstanding, on the acquisition of property subject to liens and on the issuance of bonds under divisional or prior lien mortgages. (Mortgage, Sec. 46; Third Supplemental, Secs. 4 and 5; and Fourth through Sixth Supplementals, Sec. 4.)

Issuance of Additional Bonds. The maximum principal amount of Bonds which may be issued under the Mortgage is limited to One Hundred Billion Dollars at any time outstanding, subject to property, earnings and other limitations of the Mortgage. Bonds of any series may be issued from time to time upon the bases of: (1) 60% of property additions after adjustments to offset retirements; (2) retirement of Bonds or qualified lien bonds; and (3) deposit of cash. Property additions generally include electric, gas, steam or hot water property acquired after December 31, 1943, but may not include securities, automobiles or other vehicles or aircraft or property used principally for the production or gathering of natural gas.

With certain exceptions in the case of (2) above, the issuance of Bonds is subject to adjusted net earnings (before interest and income taxes) for 12 consecutive months out of the 15 months immediately preceding the issuance of additional Bonds being at least twice the annual interest requirements on all Bonds at the time outstanding, including the additional Bonds being issued, and all indebtedness of prior rank. Such adjusted net earnings are computed after provisions for retirement and depreciation of property at least equal to the replacement fund requirements for such period.

The New Bonds will be issued against property additions. The Company estimates that after the issuance of the New Bonds there will be approximately $478,000,000 remaining property additions available as of September 30, 1980.

The Company has reserved the right (without any consent or other action by holders of the 1999 Series Bonds or any subsequently created series, including the New Bonds) to include nuclear fuel (and similar or analogous devices or substances) as property additions. The Company has also reserved the right to amend the Mortgage, without any consent or other action of the holders of the 2008 Series Bonds or any subsequently created series (including the New Bonds), to make available as property additions any form of space satellites (including solar power satellites), space stations and other analogous facilities.

No Bonds may be issued on the basis of property additions subject to qualified liens, if the qualified lien bonds secured thereby exceed 50% of such property additions, or if the qualified lien bonds and Bonds then outstanding which have been issued against property additions subject to continuing qualified liens and certain other items would in the aggregate exceed 15% of the Bonds and qualified lien bonds outstanding.

(Mortgage, Secs. 4 to 7 and 20 to 30; Twelfth Supplemental, Sec. 1; Thirteenth Supplemental, Sec. 5; and Twenty-fifth Supplemental, Sec. 5.)

Release and Substitution of Property. Property may be released upon the bases of (1) deposit of cash, or to a limited extent, purchase money mortgages, (2) property additions, after adjustments in certain cases to offset retirements and after making adjustments for qualified lien bonds outstanding against property additions, and (3) waiver of the right to issue Bonds without applying any earnings test. Cash may be withdrawn upon the bases stated in (2) and (3) above. When property released is not funded property, property additions used to effect the release may again, in certain cases, become available as credits under the Mortgage, and the waiver of the right to issue Bonds to effect the release may, in certain cases, cease to be effective as such a waiver. Similar provisions are in effect as to cash proceeds of such property. The Mortgage contains special provisions with respect to qualified lien bonds pledged and disposition of moneys received on pledged prior lien bonds. (Mortgage, Secs. 5, 31, 32, 37, 46 to 50, 58 to 62 and 100.)

Dividend Covenant. The Company covenants in substance that, so long as any of the New Bonds remain outstanding, it will not pay any cash dividends on common stock except from credits to earned surplus after November 30, 1980, plus $110,000,000, plus such additional amounts as shall be approved by the SEC. (Mortgage, Sec. 39; and Twenty-eighth Supplemental, Sec. 3.)

Modification. The rights of the Bondholders may be modified with the consent of the holders of 70% of the Bonds, and, if less than all series of Bonds are affected, the consent also of the holders of 70% of the Bonds of each series affected. The Company has reserved the right (without any consent or other action by holders of the 2000 Series Bonds or any subsequently created series, including the New Bonds) to substitute for the foregoing provision a provision to the effect that the rights of the Bondholders may be modified with the consent of holders of 66⅔% of the Bonds, and, if less than all series of Bonds are affected, the consent also of holders of 66⅔% of the Bonds of each series affected. In general, no modification of the terms of payment of principal or interest, no modification of the obligations of the Company under Section 64 (until the foregoing substitution is made), and no modification affecting the lien or reducing the percentage required for modification, is effective against any Bondholder without his consent. (Mortgage, Art. XIX; Fourteenth Supplemental, Sec. 5.)

Relationships with Corporate Trustee. The Company and certain of its affiliated companies maintain bank accounts with, and from time to time make short-term borrowings from, the Corporate Trustee and make short-term investments in commercial paper of an affiliate of the Corporate Trustee.

Defaults and Notice Thereof. Defaults are: default in payment of principal; default for 60 days in payment of interest or installments of funds for retirement of Bonds; certain events in bankruptcy, insolvency or reorganization; defaults with respect to qualified lien bonds; and default for 90 days after notice in other covenants. (Mortgage, Sec. 65.) The Trustees may withhold notice of default (except in payment of principal, interest or fund for retirement of Bonds) if they think it is in the interests of the Bondholders. (Mortgage, Sec. 66; First Supplemental, Sec. 11.) No periodic evidence is required to be furnished as to the absence of default or as to compliance with the terms of the Mortgage.

The Corporate Trustee or the holders of 25% of the Bonds may declare the principal and interest due on default, but a majority may annul such declaration if such default has been cured. (Mortgage, Sec. 67.) No holder of Bonds may enforce the lien of the Mortgage without giving the Trustees written notice of a default and unless the holders of 25% of the Bonds have requested the Trustees in writing to act and offered them reasonable opportunity to act and indemnity satisfactory to the Trustees against the costs, expenses and liabilities to be incurred thereby and the Trustees shall have failed to act. (Mortgage, Sec. 80.) Holders of a majority of the Bonds may direct the time, method and place of conducting any proceedings for any remedy available to the Trustees, or exercising any trust or power conferred upon the Trustees. (Mortgage, Sec. 71; First Supplemental, Sec. 12.)

EXPERTS AND LEGALITY

The balance sheet as of December 31, 1979 and the related statements of income, retained earnings and source of funds for utility plant additions for each of the five years in the period then ended included in the Rule 424 Prospectus have been examined by Deloitte Haskins & Sells, independent Certified Public Accountants, as stated in their opinion appearing therein, and have been so included in reliance upon such opinion given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information for the periods ended March 31, 1980 and 1979, June 30, 1980 and 1979 and September 30, 1980 and 1979, incorporated by reference in this Prospectus, Deloitte Haskins & Sells have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their reports included in the Company's Quarterly Reports on Form 10-Q for such quarters, and incorporated by reference herein, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte Haskins & Sells are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not "reports" or a "part" of the Registration Statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

The statements as to matters of law and legal conclusions made under "Description of New Bonds" (contained herein) have been reviewed by Monroe & Lemann (A Professional Corporation), General Counsel for the Company, and, except as to "Security" under "Description of New Bonds", by Messrs. Reid & Priest, and are set forth herein in reliance upon the opinions of said firms, respectively, and upon their authority as experts. The statements as to matters of law and legal conclusions made under "Business-Regulation and Litigation" and "Business-Environmental Matters" in the Rule 424 Prospectus and, with respect to the Company, under Item 1-"Legal Proceedings" in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1980 have been reviewed by Monroe & Lemann (A Professional Corporation) and are set forth therein, and have been incorporated by reference herein, upon the opinion of said firm and upon their authority as experts.

The legality of the New Bonds will be passed upon for the Company by Monroe & Lemann (A Professional Corporation), Whitney Building, New Orleans, Louisiana, and Messrs. Reid & Priest, 40 Wall Street, New York, New York, and for the Purchasers by Messrs. Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York. However, all legal matters pertaining to the organization of the Company and all matters of Louisiana law will be passed upon only by Monroe & Lemann (A Professional Corporation).

Attorneys with the firm of Monroe & Lemann (A Professional Corporation) participating or who may participate in the work on this financing own of record or beneficially 1,335 shares of the Common Stock of the Company's parent, Middle South.

PURCHASERS

The Purchasers named below, for which Blyth Eastman Paine Webber Incorporated; Bache Halsey Stuart Shields Incorporated; The First Boston Corporation; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Salomon Brothers; Dillon, Read & Co. Inc. and Donaldson, Lufkin & Jenrette Securities Corporation are acting as Representatives, have severally agreed, subject to the terms and conditions contained in the Purchase Agreement, to purchase from the Company the principal amount of New Bonds set forth below opposite their respective names.

Purchaser	Principal Amount
Blyth Eastman Paine Webber Incorporated	$ 7,250,000
Bache Halsey Stuart Shields Incorporated	7,150,000
The First Boston Corporation	7,150,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	7,150,000
Salomon Brothers	7,150,000
Dillon, Read & Co. Inc.	3,000,000
Donaldson, Lufkin & Jenrette Securities Corporation	7,150,000
Boettcher & Company	500,000
J. A. Glynn & Co.	200,000
The Illinois Company Incorporated	200,000
Ladenburg, Thalmann & Co. Inc.	1,500,000
Rotan Mosle Inc.	500,000
Scharff & Jones, Incorporated	200,000
Stern Brothers & Co.	400,000
Burton J. Vincent, Chesley & Co.	500,000
Total	$50,000,000

The Representatives of the Purchasers advised the Company that sales of New Bonds to certain dealers may be made at a concession not in excess of .5% of the principal amount under the public offering price, and that the Purchasers may allow, and such dealers may reallow, discounts not in excess of .25% of the principal amount on sales to certain other dealers. After the initial public offering, the public offering price, concession and discounts may be changed.

The Purchase Agreement provides that the obligations of the Purchasers are subject to certain conditions precedent and that the Purchasers will be obligated to purchase all of the New Bonds if any New Bonds are purchased, provided that, under certain circumstances involving a default of Purchasers, less than all of the New Bonds may be purchased. Default by one or more Purchasers would not relieve the non-defaulting Purchasers from their several obligations, and in the event of such default, the non-defaulting Purchasers may be required by the Company to purchase the respective principal amounts of the New Bonds which they have severally agreed to purchase and, in addition, to purchase the principal amount of the New Bonds which the defaulting Purchaser or Purchasers shall have so failed to purchase up to a principal amount thereof equal to one-ninth ($\frac{1}{9}$th) of the respective principal amounts of the New Bonds which such non-defaulting Purchasers have otherwise agreed to purchase.

PROSPECTUS

1,200,000 Shares

Louisiana Power & Light Company

15.20% Preferred Stock, Cumulative, $25 Par Value

Reference is made to "Description of New Preferred Stock—Redemption Provisions" herein for the terms of a limitation on the right of the Company to redeem a share of New Preferred Stock prior to November 1, 1985. The New Preferred Stock will be entitled to a sinking fund sufficient to retire annually, commencing in 1985, a minimum of 60,000 shares and a maximum of 120,000 shares at $25 per share plus accrued dividends.

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

	Price to Public (1)	Underwriting Commissions (2)	Proceeds to Company (1) (3)
Per Share	$25.00	$1.341	$23.659
Total	$30,000,000	$1,609,200	$28,390,800

(1) Plus accrued dividends, if any, from November 6, 1980.

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

(3) Before deducting expenses estimated at $170,000.

The New Preferred Stock is offered by the Purchasers named herein, subject to prior sale, when, as and if issued and accepted by them. It is expected that certificates for such stock will be ready for delivery on or about November 6, 1980.

Kidder, Peabody & Co.
Incorporated

Bache Halsey Stuart Shields
Incorporated

Blyth Eastman Paine Webber
Incorporated

Merrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Dean Witter Reynolds Inc.

The date of this Prospectus is October 28, 1980.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Purchasers. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

TABLE OF CONTENTS

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the SEC. Such reports include information, as of particular dates, concerning the Company's directors and officers, their remuneration, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company. Such reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at Room 6101, 1100 L Street, N.W., Washington, D. C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Ill.; Room 1100, Federal Building, 26 Federal Plaza, New York, N. Y.; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, Calif. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 500 North Capitol Street, N.W., Washington, D. C. 20549.

DEFINITIONS

The following abbreviations or acronyms used in the text and notes are defined below:

Abbreviation or Acronym	Term
AEC	Atomic Energy Commission
AFDC	Allowance for Funds used During Construction
Ambient Air Standards	National Ambient Air Quality Standards
AP&L	Arkansas Power & Light Company
Ark-Mo	Arkansas-Missouri Power Company
Articles of Incorporation	The Company's Restated Articles of Incorporation
Company	Louisiana Power & Light Company
Council	Council of the City of New Orleans
CPI-U	Consumer Price Index for all Urban Consumers
CWIP	Construction Work in Progress
DOE	Department of Energy
EPA	Environmental Protection Agency
ERA	Economic Regulatory Administration
FERC	Federal Energy Regulatory Commission
FPC	Federal Power Commission
FWPCA	Federal Water Pollution Control Act
Grand Gulf Plant	MSE's Grand Gulf Generating Station (nuclear)
Holding Company Act	Public Utility Holding Company Act of 1935
HWI	Handy-Whitman Index of Public Utility Construction Costs
LPSC	Louisiana Public Service Commission
MEAM	Municipal Energy Agency of Mississippi
Middle South	Middle South Utilities, Inc.
Middle South System	Middle South and its various direct and indirect subsidiaries
MP&L	Mississippi Power & Light Company
MSE	Middle South Energy, Inc.
MSS	Middle South Services, Inc.
New Preferred Stock	1,200,000 shares of Preferred Stock, Cumulative, $25 Par Value, offered hereby
Ninemile Point Station	The Company's Ninemile Point Steam Electric Generating Station
NOPSI	New Orleans Public Service Inc.
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
Preferred Stock	The two classes of preferred stock of the Company
$100 Preferred Stock	$100 par value class of preferred stock of the Company
$25 Preferred Stock	$25 par value class of preferred stock of the Company
PSD	Prevention of Significant Deterioration of air quality
RCRA	Resource Conservation and Recovery Act
SEC	Securities and Exchange Commission
SFI	System Fuels, Inc.
SMEPA	South Mississippi Electric Power Association
State Plan	State Implementation Plan
Sterlington Station	The Company's Sterlington Steam Electric Generating Station
System Agreement	Agreement, among the Company and the four other System operating companies, relating to the sharing of generating capacity and other power sources
System operating companies	The Company, AP&L, Ark-Mo, MP&L and NOPSI
TVA	Tennessee Valley Authority
United	United Gas Pipe Line Company
Waterford No. 3	Unit No. 3 (nuclear) at the Waterford Station
Waterford Station	The Company's Waterford Steam Electric Generating Station

THE COMPANY

The Company was incorporated under the laws of the State of Louisiana on October 15, 1974, and is successor by merger to a predecessor Louisiana Power & Light Company which was incorporated under the laws of the State of Florida in 1927. The merger of such predecessor corporation into the Company became effective on February 28, 1975, and information and data herein with respect to a time or period on or prior to that date refer to the predecessor corporation. The Company's principal executive office is located at 142 Delaronde Street, New Orleans, Louisiana 70174. Its telephone number, including area code, is 504-366-2345.

The Company is an electric public utility company with all of its operations in the State of Louisiana and is a subsidiary of Middle South, which is a registered public utility holding company under the Holding Company Act and owns all of the outstanding Common Stock of the Company. The Company, AP&L, MP&L, NOPSI and Ark-Mo are the principal operating subsidiaries of Middle South. Middle South owns all the capital stock of MSE, a generating subsidiary organized in 1974 to provide financing and ownership of certain future base load generating units within the Middle South System. See "Property—Interconnections". Middle South also has a wholly-owned service subsidiary, MSS.

The Company, AP&L, MP&L and NOPSI own all the capital stock of SFI, a special purpose company formed to plan and implement programs for the procurement, delivery and storage of fuel supplies for the Middle South System. See "Business—Fuel Supply".

INDUSTRY AND COMPANY PROBLEMS

Industry Problems. The electric utility industry in general is currently experiencing problems in a number of areas, including (a) increasing costs of fuel, wages and materials, (b) greater capital outlays and longer construction periods for the larger and more complex new generating units needed to meet current and future service requirements of customers, (c) increased reliance on capital markets with higher costs and limited availability of both equity and borrowed capital, (d) fuel shortages, (e) compliance with environmental requirements, (f) controversies over the use of nuclear power, and (g) regulatory lag in granting needed rate increases and the inadequacy of such increases when granted. In addition, Federal energy legislation enacted in 1978 may adversely affect electric utilities, including the Company. Summarized below are certain factors currently affecting the Company.

Construction Program. In common with the industry, the Company is experiencing increasing costs for wages and materials. Waterford No. 3 is requiring larger capital outlays and a longer construction period than the conventional generating units constructed by the Company in the past. As a result, the Company is having to rely more heavily on capital markets for funding, in which connection the Company has experienced increased funding costs. See "Construction Program and Financing".

A Presidential Commission, Congress and the NRC have investigated the cause of the incident which occurred at the Three Mile Island Unit 2 nuclear power plant located near Harrisburg, Pennsylvania. The report of the Presidential Commission recommended, among other things, that the NRC be reorganized and that the NRC or its successor should, on a case-by-case basis, before issuing a new construction permit or operating license in respect of a nuclear generating plant: (a) assess the need to introduce new safety improvements recommended in the report, and in NRC and industry studies; (b) review the competency of the prospective operating licensee to manage the plant and the adequacy of its training program for operating personnel; and (c) condition licensing upon review and approval of state and local emergency plans. The Company cannot predict the extent of new regulations to be imposed or design changes to be made applicable to nuclear facilities now under construction as a result of these investigations or the ultimate effect these investigations will have upon the construction schedule, licensing, in-service date or cost of Waterford No. 3. As a result, however, of anticipated delays in operating license proceedings before the NRC and the Company's financing limitations (see below), the Company has recently delayed the scheduled commercial operation date for Waterford No. 3 from 1982 to 1983. It is anticipated that this rescheduling will increase the total cost of this Unit from approximately $1.2 billion to approximately $1.5 billion. See "Construction Program and Financing" and "Business—Regulation and Litigation".

Financing Limitations. The Company estimates its requirements for capital funds from external sources during the period 1981-1983 will be approximately $544,000,000, principally for construction and for the funding of $107,000,000 of maturing long-term debt. The Company's Bond and Preferred Stock earnings coverages have declined and as a consequence, the Company's ability to issue additional Bonds and Preferred Stock is limited. Based upon the earnings coverages as of September 30, 1980 and after giving effect to the issuance of the New Preferred Stock at an assumed annual dividend rate of 13½%, the Company could have issued approximately $116,000,000 of additional Bonds at an assumed annual interest rate of 13½% (plus any Bonds issued for refunding purposes) or approximately $23,000,000 of additional Preferred Stock at an assumed annual dividend rate of 13½%. See "Construction Program and Financing", third paragraph following Notes to Statements of Income, and Note 3 to Financial Statements.

Need for Rate Relief. To continue its construction program, to offset increasing costs in connection with its operations and to maintain earnings at acceptable levels, the Company is seeking and intends to continue to seek periodic rate relief as may be required in the future. The ability of the Company to finance its construction program beyond 1980 will be dependent upon increases in earnings and the ability to obtain adequate rate relief. See "Business—Rates".

Fuel Supply. For information with respect to the extent of the Company's dependence on natural gas for boiler fuel, the supply of natural gas available to the Company, the use of oil as a boiler fuel by the Company, the increasing costs of both natural gas and oil for boiler fuel and the greater cost of oil, and the availability to the Company of the necessary fuel oil, see "Business—Fuel Supply". See "Business—Rates" as to adjustment clauses in the Company's rate schedules for changes in fuel costs.

The burning of natural gas as boiler fuel does not cause air pollution problems. The Company estimates that it will be able to fuel approximately 80% and 94% of its 1980 and 1981 generation, respectively, with natural gas (13% and 14%, respectively, with interstate gas), see "Business—Fuel Supply". For information with respect to the Company meeting emission regulations and ambient air quality standards in its use of oil as boiler fuel and its compliance with environmental requirements generally, see "Business—Environmental Matters".

Federal Legislation. Federal legislation enacted in 1978, among other things, (i) requires state public utility commissions to consider standards relating to retail rate design, restrictions on automatic adjustment clauses and time-of-day and seasonal rates, (ii) requires states to develop residential energy conservation plans, (iii) grants the FERC authority to order wheeling and interconnection in specified situations and to limit automatic adjustment clauses for wholesale rates, (iv) deregulates the first sale prices of natural gas in 1985, (v) extends price regulation of natural gas to the intrastate market, (vi) provides for incremental pricing of higher priced new gas to industrial customers (other than electric utilities) of interstate pipelines, (vii) prohibits existing power plants from using natural gas as boiler fuel after 1990 with provisions for exemption from such prohibition until the year 2000, (viii) prohibits the use of natural gas in an existing electric power plant in greater proportion than the average yearly proportion of natural gas which such power plant used as a primary energy source in calendar years 1974 through 1976 with provisions for exemption from such prohibition, and (ix) grants the Secretary of Energy the authority to limit or prohibit the use of petroleum and natural gas in certain existing power plants. See "Business—Fuel Supply" with respect to certain exemptions granted to the Company in 1980 relating to its use of natural gas as power plant fuel and related legal and administrative proceedings.

Certain of the System operating companies, including the Company, are petitioners in litigation, which is pending before the United States Court of Appeals for the Fourth Circuit, seeking judicial review of rules promulgated by the DOE to implement the portions of such legislation which would prohibit and regulate the use of petroleum or natural gas as a primary energy source in electric power plants.

CONSTRUCTION PROGRAM AND FINANCING

The net proceeds to be received by the Company from the issuance and sale of the New Preferred Stock will be used for the payment in part of outstanding short-term borrowings estimated not to exceed $131,000,000 at the time the sale proceeds are received, for the financing in part of the Company's construction program, and for other corporate purposes. (The Company may sell less than all of the New Preferred Stock in the event of a default by less than all of the Purchasers, see "Purchasers".)

During 1980, but prior to the issuance of the New Preferred Stock, the Company will have issued and sold an aggregate of 10,606,400 shares of Common Stock, no par value, to Middle South for $70,000,000. In addition, the Company expects to receive in 1980 approximately $23,500,000 through the sale and leaseback by the Company of certain office buildings and related real properties. The proceeds derived from these transactions have been or will be used for the payment in part of outstanding short-term borrowings, for the financing in part of the Company's construction program and for other corporate purposes.

The Company has received authority under the Holding Company Act to make short-term borrowings at any one time outstanding from time to time through December 31, 1980 of up to the lesser of $165,000,000 or 10% of the Company's total capitalization, through the issuance and sale of commercial paper and through bank loans. Currently, the Company has arrangements with a commercial paper dealer and with various banks which provide for such borrowings. The proceeds of these borrowings are used to finance construction and other corporate expenditures pending permanent financing. At June 30, 1980, the Company had outstanding $10,000,000 of commercial paper and $112,500,000 of bank loans. Reference is made to Note 5 to Financial Statements. The Company has filed for authority under the Holding Company Act to make short-term borrowings from time to time through June 30, 1982 in amounts at any one time outstanding of up to the lesser of $190,000,000 or 10% of the Company's total capitalization by the issuance and sale of commercial paper and by loans from banks.

The Company's 1980 construction program contemplates expenditures of approximately $263,800,000, of which $135,862,000 had been expended through June 30, 1980. This estimate contemplates the expenditure of approximately $212,700,000 for production facilities, $14,100,000 for transmission facilities, $35,800,000 for distribution facilities and $1,200,000 for general plant, including office and service facilities and transportation and communication equipment. These amounts exclude expenditures for nuclear fuel. The Company estimates that its construction expenditures (excluding nuclear fuel expenditures) will amount to approximately $280,000,000 in 1981, $294,000,000 in 1982 and $191,000,000 in 1983 (including AFDC of $65 million in 1981, $84 million in 1982 and $34 million in 1983). Reference is made to "Business—Environmental Matters" for information with respect to estimated amounts allocable to environmental matters included above in the Company's estimated construction expenditures for the years 1980-1983.

The Company estimates that subsequent to the receipt of the proceeds from the sale of the New Preferred Stock, it will require up to $100,000,000 of additional funds from external sources for the financing in part of its 1980 construction program, for the payment in part of short-term borrowings and for other corporate purposes, and expects to obtain such funds through the issuance and sale of such securities as may be determined to be appropriate. The Company currently anticipates that it will sell up to $100,000,000 of additional First Mortgage Bonds prior to the end of 1980. The Company estimates that its requirements for capital funds from external sources for 1981 will be approximately $240,000,000, principally for construction and for the funding of $52,000,000 of maturing long-term debt. Reference is made to information below under this subheading and to "Business—Rates" concerning the ability of the Company to raise additional funds from external sources through the sale of additional First Mortgage Bonds or Preferred Stock to finance its construction program beyond 1980.

The following tabulation shows details with respect to certain new generating facilities included in the estimated construction expenditures for 1980-1983.

Unit	Location	Net Capability in MW	Prior to 1980	1980	1981	1982	1983	Total Cost*	Cost per KW	Scheduled Year of Completion
			(Millions of Dollars—except Cost per KW)							
Waterford No. 3	Killona, La.	1,165	$819.3	$197.9	$235.2	$207.5	$31.6	$1,491.5	$1,280	1983

* The costs shown above include AFDC. Costs of acquiring nuclear fuel (net of amounts already provided for under existing leases) excluded from construction expenditures are estimated to amount to (in millions) $6, $14, $8 and $2 for the years 1980, 1981, 1982 and 1983, respectively. For information with respect to the sale and leaseback of nuclear fuel by the Company, see Note 8 to Financial Statements.

Actual expenditures and dates of completion for construction projects may vary from the estimates because of availability of financing, changes in the Company's plans, additions and changes required by regulatory authorities, cost fluctuations, the availability of labor, materials and equipment, licensing delays and other factors. As a result of anticipated delays in operating license proceedings before the NRC and financing limitations, the Company announced in May 1980 that the commercial operation date for Waterford No. 3 had been rescheduled from early to late 1982. Since that time, the Company, as part of its continuing review of its construction program, has revised, in light of the above factors, its scheduled commercial operation date for Waterford No. 3 from late 1982 to early 1983, resulting in an increase in the total estimated cost of the Unit to approximately $1.5 billion. Extended deferral of the construction expenditures and commercial operation date for Waterford No. 3 could require the Company to rely increasingly upon purchases of power or peaking units to meet the needs and the reserve requirements of the area which it serves.

The financing program followed by the Company in recent years has involved in large measure the issuance of First Mortgage Bonds in amounts designed to maintain the ratio of First Mortgage Bonds to total capitalization in the general range of 56%. Earnings coverage provisions are contained in the Company's Mortgage and its Articles of Incorporation for the issuance of additional First Mortgage Bonds and additional shares of Preferred Stock, respectively. Under the Company's Mortgage, additional First Mortgage Bonds may not (except for the purpose of refunding maturing First Mortgage Bonds and certain other purposes) be issued unless the adjusted net earnings of the Company (as defined in the Mortgage) for 12 consecutive months out of the 15 months immediately preceding the issuance of the additional First Mortgage Bonds shall have been at least twice the amount of the annual interest requirements on all First Mortgage Bonds at the time outstanding, including the additional First Mortgage Bonds being issued, and any indebtedness of prior rank. Under the Company's Articles of Incorporation, the Company may not, without the consent of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, issue additional shares of Preferred Stock unless the gross income of the Company (as defined in the Articles of Incorporation) for 12 consecutive months out of the 15 months immediately preceding the issuance of the additional shares shall have been at least one and one-half times the sum of the annual interest charges on all interest bearing indebtedness of the Company and the annual dividend requirements on all outstanding shares of Preferred Stock, including the additional shares being issued.

On the basis of these requirements, the First Mortgage Bond and Preferred Stock earnings coverages would be those stated in the following tabulation:

	Twelve Months Ended							
	December 31,					August 31,	September 30, 1980	
	1975	1976	1977	1978	1979	1980	Actual	Pro Forma
First Mortgage Bond Coverage	2.45	2.24	2.39	1.94	1.71	2.33	2.48	2.48
Preferred Stock Coverage	1.81	1.67	1.68	1.63	1.36	1.56	1.60	1.54(a)

(a) As adjusted to give effect to the sale of the New Preferred Stock at an assumed annual dividend rate of 13½%.

The amounts of additional First Mortgage Bonds and Preferred Stock which may be issued in the future are contingent upon increases in earnings and the ability of the Company to obtain adequate rate relief. Unless earnings are increased (see "Business—Rates" for information with respect to the Company's pending rate applications), the amounts of additional First Mortgage Bonds and Preferred Stock which the Company can issue will be limited. As of September 30, 1980, and after giving effect to the issuance of the New Preferred Stock at an assumed annual dividend rate of 13½%, the Company could have issued approximately $116,000,000 of additional Bonds at an assumed annual interest rate of 13½% (plus any Bonds issued for refunding purposes) or approximately $23,000,000 of additional Preferred Stock at an assumed annual dividend rate of 13½%. If the Company is unable to obtain the required capital funds, it will be necessary for the Company to reduce, defer or eliminate certain construction expenditures, including expenditures for the construction of Waterford No. 3. See "Industry and Company Problems", third paragraph following Notes to Statements of Income and "Business—Rates".

Initial authorizing resolutions have been adopted by the Police Jury (the governing body) of the Parish (county) of St. Charles, Louisiana, and memoranda of agreement have been executed by the Company with the Police Jury, looking toward the issuance and sale by the Parish at a time or times not now determinable of tax-exempt revenue bonds to finance pollution control facilities at Waterford No. 3. Determination of what facilities are pollution control facilities for purposes of tax-exempt financing is dependent upon action by the Internal Revenue Service.

STATEMENTS OF INCOME

The following statements of income for the five years ended December 31, 1979 have been examined by Deloitte Haskins & Sells, independent Certified Public Accountants, whose opinion with respect thereto is included elsewhere in this Prospectus. The statement for the twelve months ended June 30, 1980 has not been audited but, in the opinion of the Company, includes all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of the results of operations for that period. These statements should be considered in conjunction with their notes and with the other financial statements and related notes appearing elsewhere in this Prospectus.

	Twelve Months Ended					
	December 31,					June 30, 1980
	1975	1976	1977	1978	1979	(Unaudited)
	(In Thousands)					
Operating Revenues(b)	$264,844	$331,277	$378,951	$456,375	$557,476	$660,387
Operating Expenses:						
Operation:						
Fuel for electric generation(b)	85,134	135,211	141,236	168,177	190,226	209,957
Purchased power(b)	14,095	18,260	44,047	69,730	140,111	199,324
Other	30,625	33,035	36,061	43,430	38,318(a)	47,910(a)
Maintenance	14,523	16,728	20,817	29,213	31,769	31,290
Depreciation	27,837	33,866	35,999	38,389	40,363	41,739
Amortization of property losses	2,720	2,720	2,835	4,101	4,101	2,051
Taxes other than income taxes	11,746	12,414	13,918	14,106	15,977	17,008
Income taxes	18,535	19,990	21,482	19,919	22,750	27,851
Total operating expenses	205,215	272,224	316,395	387,065	483,615	576,230
Operating Income	59,629	59,053	62,556	69,310	73,861	84,157
Other Income:						
Allowance for funds used during construction(c):						
Total	14,029	12,823	—	—	—	—
Equity funds	—	—	13,047	20,823	30,722	31,528
Miscellaneous income and deductions — net	2,723	3,590	1,938	2,422	4,920	6,669
Income taxes	3,776	2,802	5,456	9,058	11,751	12,248
Total other income	20,528	19,215	20,441	32,303	47,393	50,445
Interest Charges:						
Interest on mortgage bonds	34,434	37,864	41,267	50,007	57,889	63,260
Interest on other long-term debt	—	72	826	1,952	2,374	2,730
Other interest — net of debt premium	2,028	1,055	2,924	6,166	10,993	12,182
Allowance for borrowed funds used during construction(c)	—	—	(6,426)	(10,256)	(15,131)	(16,569)
Total interest charges — net	36,462	38,991	38,591	47,869	56,125	61,603
Net Income	$ 43,695	$ 39,277	$ 44,406	$ 53,744	$ 65,129(a)	$72,999(a)
Ratio of Earnings to Fixed Charges and Preferred Dividends (as defined)(e):						
Actual	2.18	2.05	1.99	1.81	1.64(a)	1.59(a)
Pro forma						1.32(a)

(a) In January 1979, the Company received authorization from the LPSC allowing and requiring the Company to credit or charge customers through the fuel adjustment clause in future billings for net over or under-collections of fuel costs in excess of those included in base rates. Concurrently with this change in billing for fuel costs, the Company commenced deferring on its books fuel costs in excess of base rates until these costs are reflected in billings to customers pursuant to the fuel adjustment clause. This deferral amounted to $15,054,000 and $12,779,000 for the year 1979 and the twelve months ended June 30, 1980, respectively, and is being recovered in subsequent months through the fuel adjustment clause. The effect of this deferral, net of deferred income taxes, was to increase net income for the year 1979 and the twelve months ended June 30, 1980 by $7,765,000 and $6,592,000, respectively.

(b) Operating revenues include sales to affiliates, and operating expenses include fuel purchased from an affiliate and purchased power from affiliates, as follows:

Year	Sales to affiliates	Fuel purchased from an affiliate	Purchased power from affiliates
		(In Thousands)	
1975	$53,823	$ 18,960	$ 6,767
1976	95,129	62,817	3,047
1977	48,412	79,917	22,009
1978	41,655	92,203	27,205
1979	29,366	104,776	54,012
Twelve months ended June 30, 1980	21,084	114,864	97,720

(c) In accordance with the accounting practice with respect to the capitalizing of AFDC (a non-cash item) described in Note 1(F) to Financial Statements, the Company has used a composite accrual rate of 7.50% for the years 1975 and 1976, 6.75% for 1977 and 1978, and 6.94% for 1979. For the first six months of 1980, the Company has used an accrual rate of 5% on a portion of CWIP in the amount of $736,180,000 in accordance with the December 18, 1979 LPSC order granting a rate increase to the Company (see "Business—Rates"), and an accrual rate of 7.84% on the balance of CWIP. Such accrual rates were determined on the basis of, but were less than, the cost of incremental capital employed to finance the Company's construction program and were arrived at on the assumption that over the two year period ended December 31, 1976, funds required for construction were supplied 60% from debt, 5% from preferred stock and 35% from common stock equity. Effective January 1, 1977, in accordance with FPC Order No. 561, the Company adopted the formula, which permits compounding, for determining the rate to be used in computing AFDC (except as to the effect of the above mentioned LPSC order during the first six months of 1980), and adopted the accounting and reporting requirements for AFDC.

The Company has not reclassified AFDC into its debt and equity components for periods prior to January 1, 1977 because the Company believes such reclassification would be inappropriate since the allocation between the debt and equity components for periods prior to January 1, 1977 would not be comparable to the allocation between such components determined after December 31, 1976 utilizing the revised procedures of the FPC.

(d) Unaudited operating results for the four quarters of 1978 and 1979 and the first and second quarters of 1980 are as follows:

	Operating Revenues	Operating Income	Net Income
		(In Thousands)	
Quarter Ended:			
March 31, 1978	$112,993	$13,692	$9,007
June 30, 1978	88,757	4,195	639
September 30, 1978	148,957	28,368	24,432
December 31, 1978	105,668	23,055	19,666
March 31, 1979*	109,885	20,973	17,031
June 30, 1979*	121,435	15,52[illegible]	12,569
September 30, 1979*	169,192	22,668	20,966
December 31, 1979*	156,964	14,695	14,563
March 30, 1980*	164,921	25,478	21,697
June 30, 1980*	169,310	21,316	15,773

* See Note (a) to Statements of Income regarding accounting for deferral of fuel costs beginning January 1979.

In the opinion of the Company, these operating results include all adjustments (consisting of only normal recurring accruals except for a $1,730,000 reduction in income tax expense in the quarter ended December 31, 1978 for the excess taxes provided for the years 1967 through 1970 over the settlement amount reached with the Internal Revenue Service and except for a reduction in operating revenues of $2,880,000 in the quarter ended June 30, 1979 for revenues refunded to industrial customers) necessary for a fair presentation of the amounts shown. The business of the Company is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

(e) "Earnings" represent the aggregate of (1) net income, (2) taxes based on income, (3) investment tax credit adjustments—net and (4) fixed charges. "Fixed charges" represent interest, related amortization and interest applicable to rentals (which are immaterial) charged to operating expenses; and "preferred dividends (as defined)" represent th preferred dividend requirements multiplied by the ratio that pre-tax income bears to net income.

The pro forma ratio of earnings to fixed charges and preferred dividends for the twelve months ended June 30, 1980, after giving effect to (1) the annual dividend requirements on the New Preferred Stock (13½% rate assumed) and the balance of annual dividend requirements on the Preferred Stock issued in July 1979 and October 1979, (2) the balance of annual interest requirements on the First Mortgage Bonds issued in November 1979 and the annual interest requirements on the First Mortgage Bonds (13½% rate assumed) planned to be issued in late 1980 (see "Construction Program and Financing"), (3) the balance of annual interest requirements on the municipal revenue bond obligations assumed in July 1979 and June 1980, (4) the balance of annual interest requirements on the pollution control and industrial development revenue bonds issued in October 1979, and (5) interest at an average rate of 15.2% (bank loans) and 13.2% (commercial paper), on average short-term borrowings of approximately $59,259,000 for bank loans and $17,885,000 for commercial paper outstanding during the twelve months ended June 30, 1980, assumed to be reborrowed during the next twelve months, would be 1.32. A change of 4/25 of 1% in the dividend rate on the New Preferred Stock would result in a change of approximately .0006 in this ratio.

The Company has calculated supplemental ratios of earnings to fixed charges and preferred dividends pursuant to Accounting Series Release No. 122 of the SEC. In these supplemental calculations "earnings" are defined as above and "fixed charges", in addition to items referred to above, include the interest factor related to fuel purchased from SFI, an affiliated company. The supplemental ratios of earnings to fixed charges and preferred dividends for the years 1975, 1976, 1977, 1978, 1979 and the twelve months ended June 30, 1980 are 2.14, 1.99, 1.95, 1.77, 1.61 and 1.55, respectively. The supplemental pro forma ratio of earnings to fixed charges and preferred dividends for the twelve months ended June 30, 1980 would be 1.30. A change of 4/25 of 1% in the dividend rate on the New Preferred Stock would result in a change of approximately .0005 in this ratio.

Annual dividend requirements on the presently outstanding Preferred Stock amount to $23,806,200. Annual dividend requirements on the New Preferred Stock will amount to $4,560,000.

For the twelve months ended August 31, 1980, operating revenues and net income amounted to $729,718,000 and $84,027,000, respectively; deferred fuel costs as referred to in Note (a) to Statements of Income amounted to $15,131,000, and had the effect of increasing net income by $7,805,000; and the ratio of earnings to fixed charges and preferred dividends was 1.71 and the pro forma ratio of earnings to fixed charges and preferred dividends as referred to in Note (e) to Statements of Income would be 1.46. For the same period, the supplemental ratio of earnings to fixed charges and preferred dividends was 1.67, and the supplemental pro forma ratio of earnings to fixed charges and preferred dividends would be 1.43. These amounts and ratios are unaudited but, in the opinion of the Company, include all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of the results of operations for that period.

For the twelve months ended September 30, 1980, operating revenues and net income amounted to $764,912,000 and $88,395,000, respectively; deferred fuel costs as referred to in Note (a) to Statements of Income amounted to $23,436,000, and had the effect of increasing net income by $12,088,000; and the ratio of earnings to fixed charges and preferred dividends was 1.76 and the pro forma ratio of earnings to fixed charges and preferred dividends as referred to in Note (e) to Statements of Income would be 1.51. For the same period, the supplemental ratio of earnings to fixed charges and preferred dividends was 1.71, and the supplemental pro forma ratio of earnings to fixed charges and preferred dividends would be 1.48. These amounts and ratios are unaudited but, in the opinion of the Company, include all adjustments (consisting of only normal recurring accruals) necessary for a fair statement of the results of operations for that period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENTS OF INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the Company's results of operations during the years 1978 and 1979 and the twelve months ended June 30, 1980. Each comparison is made with the comparable period for the preceding year.

Operating Revenues. The principal components of the increases in revenues are shown in the following tabulation:

	Twelve Months Ended					
	December 31,				June 30,	
	1978		1979		1980	
	Amount ($000)	% of Total	Amount ($000)	% of Total	Amount ($000)	% of Total
Increase (decrease) in Operating Revenues Attributable to:						
Sales of energy	$33,339	43%	$ (3,008)	(3)%	$ (731)	—
Rate increase	11,419	15	—	—	33,063	19%
Increased fuel cost recovery*	33,850	44	103,882	103	141,584	81
Miscellaneous	(1,184)	(2)	227	—	526	—
Total	$77,424	100%	$101,101	100%	$174,442	100%

* Includes increased fuel cost recovered through fuel adjustment clauses and increased fuel cost included in new levels of base rates.

Operating revenues for the year 1978 increased $77 million or 20% primarily due to increased energy sales to ultimate customers and the recovery of increased fuel and the fuel component of purchased power costs. Also, during the first quarter of 1978, the Company was called upon to supply large quantities of energy to other utilities as a result of a national coal miners' strike and extremely cold weather. Operating revenues increased $101 million or 22% for the year 1979 and $174 million or 36% for the twelve months ended June 30, 1980 primarily due to the recovery of increased fuel costs and the fuel component of purchased power costs.

Of the total payments received from affiliates in 1978, 1979 and the twelve months ended June 30, 1980 amounting to approximately $41,655,000, $29,366,000, and $21,084,000, respectively (see Note (b) to Statements of Income), approximately $40,476,000, $29,159,000, and $21,007,000, respectively, represented payments to the Company for fuel costs and $961,000 in 1978 and $94,000 in 1979 represented payments to the Company for capability equalization charges. During 1978, 1979 and the twelve months ended June 30, 1980 revenues derived from payments under the System Agreement decreased due primarily to the availability from other Middle South System companies of lower cost sources of power to meet Middle South System demands.

Fuel for Electric Generation and Purchased Power. Fuel costs increased $27 million or 19% in 1978 as a result of higher demands for electric service, higher unit prices for natural gas and oil and increased oil-fired generation. Fuel costs increased $22 million or 13% in 1979 and $40 million or 23% for the twelve months ended June 30, 1980 primarily due to higher average unit prices for natural gas and oil partially offset by a decline in oil-fired generation.

Purchased power expense increased $25 million or 58% in 1978 as a result of increased demand for electric service and higher average unit prices. Purchased power expense increased $70 million or 101% in 1979 and $120 million or 152% for the twelve months ended June 30, 1980. The increase for 1979 is primarily due to additional amounts of purchased power utilized in replacement of higher cost oil-fired generation. The increase for the twelve months ended June 30, 1980 is primarily due to larger volumes of energy purchased at higher average unit prices to displace higher cost gas and oil-fired generation.

Other Operation and Maintenance Expenses. Other operation expense increased $7 million in 1978 primarily due to the effects of inflation on wages, materials and supplies and services. For the year 1979 and for the twelve months ended June 30, 1980, other operation expense decreased $5 million or 11% and increased $18 million or 63%, respectively. Excluding the effects of deferred fuel cost accounting policies, as described below, other operation expense increased $10 million or 21% and $12 million or 26%, respectively. The increases are primarily attributable to inflationary pressures on wages, materials and supplies and services.

Effective January 1979, the Company commenced deferring fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the necessary adjustments can be quite large.

Maintenance expense increased in 1978 by $8 million or 40%. This increase was due to increased scheduled maintenance on generating units, which is required by continuous usage of oil as a boiler fuel, unscheduled maintenance and inflationary pressures.

Amortization of Property Losses. The increase in amortization expense for 1978 ($1.3 million) is due to settlement of cancellation charges with a contractor in excess of the amount estimated. The decrease of $2.1 million for the twelve months ended June 30, 1980 is due to the abandonment loss having been completely amortized by December 31, 1979 and thus no amortization has been recorded in 1980.

Taxes Other Than Income Taxes. The increase in this item for the year 1979 and the twelve months ended June 30, 1980 is due primarily to increased real and personal property taxes and franchise taxes.

Income Taxes. Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes, and a reconciliation of the statutory to the effective book income tax rates.

The fluctuations in total income tax expense included in operating expenses and in other income in 1978, 1979 and the twelve months ended June 30, 1980 are primarily attributable to changes in income before income taxes, and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided. In addition, the 1979 change is partially attributable to a change in the Federal income tax rate.

AFDC. The increase in this item in 1978, 1979 and the twelve months ended June 30, 1980 is attributable to the increased amounts of CWIP. See Note (c) to Statements of Income, Note 1 (F) to Financial Statements and information under "Construction Program and Financing".

Interest Charges. Interest expense increased during each year primarily as a result of issuances of additional debt in conjunction with financing the construction program and increased reliance on short-term financing at high interest rates.

Miscellaneous Income and Deductions—Net. Additional investments in SFI, an affiliated company, and higher rates of interest on such investments are primarily responsible for the increases in 1979 and the twelve months ended June 30, 1980.

OPERATING STATISTICS

	Twelve Months Ended					
	December 31,					June 30,
	1975	1976	1977	1978	1979	1980
Energy Generated, Purchased and Interchanged (Millions of KWH):						
Generated—net station output	18,932	21,541	20,204	21,251	18,429	16,529
Purchased	1,153	1,077	1,901	2,799	5,860	7,991
Interchanged—net	2	134	(32)	(70)	33	37
Total generated, purchased and interchanged	20,087	22,752	22,073	23,980	24,322	24,557
Company use, distribution losses and unaccounted for	930	1,201	1,121	1,268	1,070	1,017
Total energy sales	19,157	21,551	20,952	22,712	23,252	23,540
Average Fuel Cost per KWH Generated (Cents)	0.45	0.63	0.70	0.79	1.03	1.27
Energy Sales (Millions of KWH):						
Residential	4,346	4,597	5,334	5,862	5,996	6,009
Commercial	1,852	1,965	2,268	2,624	2,721	2,726
Industrial	6,600	8,068	9,028	9,685	11,388	11,982
Governmental	290	297	359	394	445	448
Total sales to ultimate customers	13,088	14,927	16,989	18,565	20,550	21,165
Sales for resale(1)	6,069	6,624	3,963	4,147	2,702	2,375
Total energy sales	19,157	21,551	20,952	22,712	23,252	23,540
Total Operating Expenses per KWH of Energy Sales (Cents)(2)	1.07	1.26	1.51	1.70	2.08	2.45
Number of Customers (End of period):						
Residential	366,242	384,213	395,479	427,938	443,527	450,809
Commercial	36,166	38,632	40,096	44,884	46,848	47,819
Industrial	5,824	6,586	7,651	7,518	7,162	6,620
Governmental	2,434	2,569	2,704	2,978	3,108	3,161
Total ultimate customers	410,666	432,000	445,930	483,318	500,645	508,409
Sales for resale	62	65	66	66	65	64
Total customers	410,728	432,065	445,996	483,384	500,710	508,473
Operating Revenues (In Thousands):						
Residential	$ 87,819	$ 93,712	$124,500	$146,326	$180,364	$203,007
Commercial	39,789	42,505	55,398	68,328	85,983	97,754
Industrial	64,386	77,278	114,874	141,803	212,853	277,747
Governmental	4,854	5,153	7,129	8,451	11,688	13,655
Total from ultimate customers	196,848	218,648	301,901	364,908	490,888	592,163
Sales for resale(1)	65,455	109,977	73,963	87,677	61,704	62,818
Total from energy sales	262,303	328,625	375,864	452,585	552,592	654,981
Miscellaneous	2,541	2,652	3,087	3,790	4,884	5,406
Total operating revenues	$264,844	$331,277	$378,951	$456,375	$557,476	$660,387
Average Revenue per KWH (Cents):						
Residential	2.02	2.04	2.33	2.50	3.01	3.38
Commercial	2.15	2.16	2.44	2.60	3.16	3.59
Industrial(2)	0.98	0.96	1.27	1.46	1.87	2.32
Governmental	1.67	1.74	1.99	2.15	2.63	3.05
Sales for resale(1)	1.08	1.66	1.87	2.11	2.28	2.65
Total energy sales	1.37	1.52	1.79	1.99	2.38	2.78

---

(1) This item includes intra-system transactions and the Company's portion of emergency, economy, interchange (net) and other transactions with neighboring unaffiliated systems. These transactions, which are made on a when available and needed basis, are subject to considerable fluctuation. This item also includes firm sales to others for resale.

Approximately 34% of the revenues from sales for resale for the twelve months ended June 30, 1980 were intra-system sales. For information concerning intra-system sales and planning, see "Property—Interconnections".

(2) Total Operating Expenses per KWH represent an average for all sales to all classes of customers. Although Average Revenues per KWH from industrial customers are lower than such average, Average Revenues per KWH sold to industrial customers are greater than the expenses per KWH sold to industrial customers.

BUSINESS

Territory. The Company operates in 46 of the 64 parishes (counties) in Louisiana. Electric service is supplied directly in 518 communities. The estimated population of the area in which the Company furnishes electric service was 1,532,000 as of June 30, 1980.

The Mississippi River, which flows through areas served by the Company, makes available ample water to industries requiring water transportation, water for cooling or water for processing. The advantages of deep water sites along the Mississippi River are added to the vast resources of the area as industrial attractions. The principal industries served by the Company include petroleum refining, chemical processing, sugar processing, and the manufacturing of wood, paper and plastic products.

Electric Service. During the twelve months ended June 30, 1980 the Company derived 31% of its operating revenues from the sale of electric service to residential customers; 15% from sales to commercial customers; 42% from sales to industrial customers; and 12% from sales to governmental customers, public utilities and others. During that twelve month period, the Company derived 48% of its industrial revenues from chemical and allied product industries and 18% of its industrial revenues from petroleum refining and related industries.

Rates. The following table sets forth certain information with respect to the Company's applications for rate increases and related proceedings within the past five years. The effective dates and amounts approved shown in this table are the effective dates of final actions with respect to the applications and the final amounts approved.

	Requested Increase		Approved Increase	
	Filed	Amount ($000)	Effective	Amount ($000)
LPSC	11/12/76	$ 54,000	7/24/78	$13,790
	12/18/78	114,700	12/18/79	59,600
	5/30/80	203,600	Pending	
	7/15/80(a)	53,000	10/8/80	32,400
Council(b)	12/30/76	1,700	11/9/78	443
	3/6/79	3,191	2/21/80	1,298
	7/3/80	4,400	Pending	
	10/24/80(c)	704	Pending	
FPC/FERC	7/29/77(d)	7,489	Pending	
	7/29/77(e)	1,055	Pending	

(a) Request for interim emergency rate relief pending the outcome of the May 30, 1980 general rate increase application; amount of emergency relief requested was revised subsequent to initial filing to approximately $36,500,000.

(b) The rates of the Company's retail customers in the Fifteenth Ward of the City of New Orleans are regulated by the Council rather than by the LPSC.

(c) Request for interim emergency rate relief pending the outcome of the July 3, 1980 rate increase application.

(d) Applicable to rates to rural electric cooperatives.

(e) Applicable to rates to four municipalities.

On May 30, 1980 the Company filed with the LPSC a general rate increase application with respect to customers under its jurisdiction, asking authorization to put into effect new retail rate schedules designed to provide additional annual revenues of approximately $203,600,000 on the basis of the test year ended December 31, 1979, and in connection therewith, on July 15, 1980, the Company filed with the LPSC a request for almost $53,000,000 in interim emergency rate relief, to be put into effect under protective bond pending the outcome of the application filed on May 30, 1980. The application proposes, among other things, the inclusion of CWIP in the rate base and the concurrent cessation of capitalization of AFDC on the CWIP so included. A hearing was held on the request for emergency rate relief on August 25, 1980, and at such hearing the Company revised the amount of such request to approximately $36,500,000. By order dated October 8, 1980, the LPSC permitted the Company to implement an interim rate increase of approximately $32,400,000 under protective bond, subject to refund. The general rate increase application filed on May 30, 1980 is pending.

On July 3, 1980, the Company filed with the Council a rate increase application with respect to its retail customers in the Fifteenth Ward of the City of New Orleans, asking authorization to put into effect new retail rate schedules designed to provide additional revenues of approximately $4,400,000 annually on the basis of the test year ended December 31, 1979, and in connection therewith, on October 24, 1980, the Company filed with the Council a request for $704,000 in interim emergency rate relief, to be put into effect subject to refund pending the outcome of the application filed on July 3, 1980. The matters are pending.

On July 29, 1977, the Company filed with the FPC an application for an increase in the Company's rates to rural electric cooperatives, which would have resulted in additional annual revenues of approximately $7,489,000. The Company's application also requested an increase in the Company's rates to the four municipalities to which it served firm power, the effect of which would have resulted in additional annual revenues of approximately $1,055,000 above the revenues produced by rate schedules in effect as to these municipalities, based on a test year ending December 31, 1977. The application proposed, among other things, (a) the inclusion of all CWIP in the rate base, based upon FPC Order No. 555 which permits such inclusion "where the utility is in severe financial stress", and (b) the concurrent cessation of capitalization of AFDC on the CWIP so included. The Company's contracts with the rural electric cooperatives and two of the municipalities have expired. These customers are now receiving their power requirements from other sources. Decision on the application is currently pending before the FERC.

All rate schedules include adjustments for changes in the cost of fuel (which generally results in a two month lag between changes in fuel costs and billings therefor) and directly allocable taxes such as sales or excise taxes. In January 1979, the Company received authorization from the LPSC allowing and requiring the Company to credit or charge customers through the fuel adjustment clause in future billings for net over or under-collections of fuel costs in excess of those included in base rates. Concurrently with this change in billing for fuel costs, the Company commenced deferring on its books fuel costs to be reflected in billings to customers pursuant to the fuel adjustment clause until such amounts are billed to customers. This deferral amounted to $12,779,000 at June 30, 1980 and is being recovered in subsequent months through the fuel adjustment clause. The effect of this deferral, net of deferred income taxes, was to increase net income for the twelve months ended June 30, 1980 by $6,592,000.

Fuel Supply. The Company's primary fuel is natural gas and all of the Company's generating units have the capability of burning gas as primary fuel. Of the Company's total net capability of 4,625 MW, units with an aggregate net capability of 1,584 MW have been built or converted to burn gas or oil or a combination of the two as primary fuel. The Company's other units (except for a 44 MW unit at the Sterlington Station) are equipped to burn oil as a standby fuel but cannot burn oil on a continuous basis for more than a few days at a time. The burning of oil causes generating units to require more maintenance and restoration work, with increased shutdown time. When oil is burned in a unit not built or converted to burn oil as primary fuel, the oil is burned in combination with gas to minimize the effect of burning oil. While there are no plans at this time for so converting other generating units, the Company is continually reviewing this matter.

The Company's major gas supply contracts by their terms are non-interruptible except by reason of force majeure and provide for an adequate supply of gas for the Little Gypsy Steam Electric Generating Station (1,253 MW) through 1985; and for the Ninemile Point Station (1,827 MW) through 1990 and in part through 1992; and provide for part of the fuel requirements for the Sterlington Station (471 MW) through August 10, 2001 (but see footnotes to second table below under this subheading).

The Company's average fuel cost per KWH generated by natural gas and fuel oil, and the percentage of each used during the last five years and the twelve months ended June 30, 1980, are shown in the following table:

	Natural Gas		Fuel Oil	
Year	Cost per KWH	Percent of Generation	Cost per KWH	Percent of Generation
1975	0.37¢	94.8%	1.93¢	5.2%
1976	0.40	84.1	1.83	15.9
1977	0.38	79.9	1.96	20.1
1978	0.46	78.2	1.98	21.8
1979	0.66	82.0	2.75	18.0
12 months ended 6/30/80	0.80	82.9*	3.52	17.1

* 91% of this gas was supplied under the major gas supply contracts tabulated below.

For information with respect to the average fuel cost per KWH generated and purchased power costs, see "Operating Statistics".

The Company's current arrangements with its only interstate supplier, United, provide for a gas supply for approximately 10% of the Company's total maximum generating capability. Gas supplied by United under these arrangements has been subjected to various curtailment, certification and abandonment proceedings under the Natural Gas Act, some of which proceedings are still pending.

Deliveries by United have been curtailed in varying amounts since 1970 and the Company anticipates that such curtailments will continue to be severe. During the twelve months ended June 30, 1980 these curtailments amounted to 48% of contract entitlement, and for the year 1980 these curtailments are estimated to be 32% of contract entitlement. Due to uncertainties of United's curtailment plan currently before Federal regulatory authorities and the courts, it is impossible to predict anticipated 1980 deliveries from United. The deficiencies in deliveries by United have been, and will be, compensated for by the use of fuel oil and gas purchased from other sources and by energy purchases from other companies.

Expiration dates of the Company's major natural gas supply contracts and entitlement thereunder are shown in the following table:

Contract Expiration Date	Annual Quantity 1980-1981 (Trillion BTU)
Indeterminate	9.1*
January 1, 1986	66.6**
January 1, 1991	43.0**(1980) 37.0**(1981)
January 1, 1993	42.0**
January 1, 1993	29.2*
August 11, 2001	18.1***

* Interstate gas contracts with United which have been subject to substantial curtailments (see above under this subheading).

** Each of these contracts is with a major gas supplier and is for intrastate gas. Under Federal energy legislation, during periods of national emergency the President may direct the emergency allocation of intrastate gas to others, subject to provisions for compensation. Such an allocation could

(Notes continued on following page)

adversely affect the intrastate market. In the event of "extreme shortages" in the Louisiana intrastate market and the declaration by the Governor of Louisiana of a state of emergency, deliveries under these contracts may be subject to reduction of up to 10% of the maximum daily quantities contracted to be delivered. Actual deliveries under these contracts have recently been less than the contract quantities and the supplier has recently advised that it will be unable to deliver the contract quantities. The Company estimates that actual deliveries will amount to about 60% of contract quantities in 1980 and slightly higher in 1981. There have been some negotiations with regard to the possible supply of alternate fuel by the supplier in replacement of undelivered contract quantities.

*** Deliveries under this contract (or contracts) are for the Sterlington Station and entitlement is at least 49,644 Mcf per day but actual deliveries have been at a declining rate and in the six months ended June 30, 1980 have been averaging only about 3,700 Mcf per day. Other supply arrangements, some of them short-term, currently provide additional deliveries to the Sterlington Station averaging about 73,000 Mcf per day.

The Company estimates that its percentages of generation by type of fuel for 1980 will be 80% natural gas and 20% fuel oil, and for 1981 will be 94% natural gas and 6% fuel oil. These percentages reflect the receipt by the Company from the ERA for certain of its power plants of temporary exemptions from restrictions on the use of natural gas as boiler fuel prescribed in the Powerplant and Industrial Fuel Use Act. That Act, among other things, prohibits the use of natural gas in an existing electric power plant in greater proportion than the average yearly proportion of natural gas which such power plant used as a primary energy source in calendar years 1974 through 1976. The temporary exemptions allow the power plants for which such exemptions have been granted to use natural gas as a primary energy source in excess of the amounts mandated by the above described prohibition. Most of the exemptions granted to the Company expire on October 31, 1981 but are subject to extension for additional periods for a maximum exemption term of five years, including the initial period. The exemptions granted by the ERA to various utilities, including those granted to the Company, are the subject of suits and administrative proceedings filed or instituted by various industrial groups seeking to challenge such action by the ERA. The Company has intervened in these suits, which are pending in the United States Court of Appeals for the District of Columbia Circuit, and is participating in the administrative proceedings before the ERA.

Factors which may affect the percentages of generation by type of fuel in 1980 and future years include availability of supplies and price of natural gas and oil, availability of nuclear generation, customer power demands, availability and price of purchased power, environmental protection requirements and the effect of provisions of Federal energy legislation restricting the use of natural gas as boiler fuel.

The Company has been able to obtain and expects to obtain an adequate supply of fuel oil through 1981. Such supplies have been and will be supplied primarily by SFI. The Company owns 33% of the common stock of SFI, which operates on a non-profit basis. SFI's costs are recovered through charges for fuel delivered. As of June 30, 1980, the fuel oil requirements of the Middle South System for the remainder of 1980 and for 1981 were estimated to be approximately 20.6 million barrels for all of which the Middle South System has contracted. At June 30, 1980, the total fuel oil inventory of the Middle South System was approximately 4.6 million barrels. The Middle South System's storage capacity at June 30, 1980 was 10 million barrels.

During 1976, SFI entered into a long-term oil supply agreement with Marathon Oil Company providing for the sale of 50,000 barrels per day for a twenty-year period with the option of SFI, upon two years written notice, to reduce the contract quantity to no less than 35,000 barrels per day. Deliveries of oil to SFI under this agreement commenced in January 1977. On February 21, 1979, SFI filed suit in the United States District Court for the Eastern District of Louisiana charging that Marathon had breached the contract by failing to meet the quality specifications of some of the oil delivered under the contract and refusing to make appropriate adjustments to the price of the oil to reflect such quality deviations. SFI is seeking money damages and specific enforcement of the contract. On April 9, 1979, Marathon filed a counterclaim against SFI seeking dismissal of SFI's action and the reformation of certain parts of the contract. The counterclaim alleges, among other things, that the refinery from which the oil is to be provided is not capable of producing oil up to the specifications set out in the 1976 contract. The matter is pending.

SFI is also engaged in oil and gas exploration activities. As of June 30, 1980, SFI had participated in the drilling of 108 wells, of which 44 resulted in natural gas wells capable of commercial production. SFI's investment in developed and undeveloped oil and gas properties, however, amounted to less than 1% of the consolidated assets of the Middle South System at June 30, 1980.

Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce a concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas, fabrication of the nuclear fuel assemblies and reprocessing of the spent fuel. The Company has firm arrangements for segments of the nuclear fuel cycle for the continued operation of Waterford No. 3 to the extent indicated below:

Year	Purchase of Concentrate	Conversion	Enrichment	Fabrication	Reprocessing*
1982	X	X	↓	X	
1983	X	X		X	
1984	X	X		X	
1985	X	X	Firm	X	
1986	X		Contract	X	
1987	X		with	X	
1988			DOE	X	
1989			through	X	
1990			2007	X	
1991			↑	X	
1992				X	
1993				X	

* The Company has no contract for the reprocessing of spent fuel. It is the Company's understanding that no contractor in the United States is presently available to supply this service for the nuclear fuel involved. Presently planned on site storage facilities will be sufficient so that reprocessing services will not be needed until 1995.

The initial full load of nuclear fuel for Waterford No. 3 is to be purchased, converted, enriched and fabricated ready for use by late 1982, and the first reload is to be ready for use in late 1984. Additional arrangements for segments of the nuclear fuel supply assembly process beyond the dates shown above will be required. At this time the ultimate availability and cost thereof are not predictable.

Beginning in 1978, SFI assumed the responsibility for contracting for the acquisition, conversion and enrichment of those nuclear materials required for the fabrication of nuclear fuel which may be utilized for any of the present or proposed Middle South System nuclear units and for establishing an inventory of such materials during the various stages of processing. Each Middle South System company having nuclear capacity is responsible for contracting for the fabrication of its own nuclear fuel and for purchasing the required enriched uranium hexafluoride from SFI. When possible, SFI will arrange for reprocessing of spent fuel and will purchase the uranium and plutonium residuals from the appropriate Middle South System company, unless such company is contractually obligated to sell such residuals to a third party. To finance a portion of this program, SFI is selling commercial paper backed by an insurance company bond of indemnity up to a maximum amount of $60,000,000 at any one time outstanding, of which $6,850,000 was outstanding at June 30, 1980. SFI's parent companies, including the Company, as sole stockholders of the common stock of SFI, 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 under this arrangement.

SFI has also initiated a program which involves SFI, acting individually or with non-affiliates, in conducting explorations for uranium ores suitable for potential future extraction and conversion into nuclear fuels. Exploration efforts are largely in the preliminary stages and results to date have not been significant.

In 1976, SFI entered into a contract with a joint venture consisting of a subsidiary of Peabody Coal Company and a subsidiary of Panhandle Eastern Pipeline Company for the supply from a mine to be developed in Wyoming of an expected 150 to 210 million tons of coal over a period from 26 to 42 years. Coal so supplied is expected to be used in two future coal-fueled units to be constructed for the Middle South System. The Company, AP&L, MP&L, and NOPSI, each acting in accordance with its respective share of ownership of SFI, joined in, ratified, confirmed and adopted the contract and the obligations of SFI thereunder, and Peabody joined in, ratified, confirmed and adopted the contract and the obligations of the joint venture thereunder. Under the contract, investment in the mine for leases, plant and equipment is the responsibility of the joint venture. However, in order to limit the joint venture's investment rights and hence the amount to be paid to it as a component of the price of coal, SFI will provide 50% of the funds for plant and equipment in excess of $43,800,000 up to $49,000,000 and 100% of any funds required for such purposes in excess of the latter amount. SFI also has, under the terms of the contract, the option of investing funds in certain rail facilities at the mine and certain coal leases to be mined by the joint venture. During the period through June 30, 1980, SFI made such an investment of $4.8 million, which it borrowed from its parent companies. In addition to this amount, SFI anticipates its total additional investments to be approximately $30 to $40 million in current dollars over the 26 to 42 year life of the contract. Any funds supplied by SFI under these conditions will be obtained either through borrowings from its parent companies or other methods of financing. If these funds are borrowed from its parent companies, the Company's share will be $12 million to $16 million. The joint venture management has advised SFI of difficulty experienced in its initial attempts to obtain permits for the mine.

To finance, in part, its fuel supply arrangements, SFI has entered into various borrowing arrangements with its parent companies, including the Company, as follows:

	Period in Effect	Term of Loans Outstanding	Maximum Borrowings Authorized at 6/30/80	Company's Share of Maximum Borrowings Authorized at 6/30/80	Total Amount Outstanding at 6/30/80	Company's Share of Total Amount Outstanding at 6/30/80
Loan Agreement dated January 4, 1972	1/4/72-12/31/73	10 years from date of borrowing	—	—	$26,500,000	$ 8,925,250
Loan Agreement dated January 5, 1974, as amended	1/5/74-12/31/77	25 years from date of borrowing	—	—	13,000,000	5,070,000
Loan Agreement dated January 4, 1978, as amended*	1/4/78-12/31/80	due 12/31/2005	$173,500,000	$73,305,000	49,500,000	19,985,000
					$89,000,000	$33,980,250

* Currently proposed to be further amended, upon receipt of SEC approval under the Holding Company Act, to extend term for an additional year and to increase total maximum authorized borrowings up to $261,500,000, of which the Company's share would be $111,145,000.

In connection with certain borrowing arrangements by SFI for the financing of a portion of its fuel oil inventory and for other corporate purposes, the Company and the three other companies, as sole holders of the common stock of SFI, 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 under these borrowing arrangements. The total loan commitments under these arrangements amounted to $101,290,000 at June 30, 1980, of which $57,290,000 had been borrowed by SFI and was outstanding at that date. SFI's stockholders, including the Company, have made similar covenants and agreements in connection with a long-term lease of certain oil storage and handling facilities located at MP&L's Gerald Andrus Steam Electric Generating Station near Greenville, Mississippi entered into by SFI with a discounted value, as of June 30, 1980, of $17,134,000 and in connection with long-term leases by SFI of an aggregate of 1,350 coal hopper cars having a total cost of approximately $55,200,000. In addition, these companies expect to file shortly for authority under the Holding Company Act to make such covenants and agreements in connection with a proposed additional $60,000,000 borrowing arrangement to be entered into by SFI for the financing, in part, of its fuel supply business.

As a result of the national fuel shortage, a national effort to reduce the use of electricity has been launched. Primary emphasis has so far been placed on requests by Federal energy authorities that businesses and individual customers voluntarily reduce their use of electric energy. These measures generally have resulted in a slower rate of increase in sales of electric energy to these customers by the Company.

Regulation and Litigation. As a subsidiary of Middle South, the Company is subject to regulation by the SEC pursant to the provisions of the Holding Company Act.

The Company is subject in certain of its activities to the provisions of the Federal Power Act, which is administered by the FERC and the DOE and provides for regulation of the business of, and facilities for, transmission of electric energy in interstate commerce and sale of electric energy at wholesale in interstate commerce. The FERC also exercises accounting jurisdiction over the Company.

The Company is subject to the jurisdiction of the LPSC as to rates and charges, standards of service, depreciation, accounting and other matters, except in the City of New Orleans which has the power of local regulation. The LPSC does not exercise jurisdiction over the issuance of securities by the Company because these matters are subject to the jurisdiction of the SEC under the Holding Company Act.

Under the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, broad jurisdiction is vested in the NRC over the construction and operation of nuclear reactors, particularly with regard to public health and safety and antitrust matters. The Company, as owner and prospective operator of Waterford No. 3, is subject to the jurisdiction of the NRC. The Company's application for the necessary permit and license to construct the Unit was filed with the AEC on December 31, 1970. After hearings with respect to certain interventions, and after the Company, in connection with the question whether its construction and operation of the Unit would create or maintain a situation inconsistent with the antitrust laws, and for the purpose of maintaining competitive conditions, had accepted licensing conditions relating principally to reserve-sharing coordination, bulk power supply, access to nuclear generation and transmission service, the AEC issued a construction permit for the Unit on November 14, 1974. Construction of the Unit is proceeding under the permit. On September 29, 1978, the Company filed with the NRC an application for the necessary operating license for the Unit. Actions taken by the NRC over recent months indicate that there will be delays in licensing all nuclear reactors, including Waterford No. 3 (see "Construction Program and Financing"). Petitions for leave to intervene in the operating license proceedings have been filed by Oystershell Alliance, Inc. and Save Our Wetlands, Inc. and by Louisiana Consumer's League, Inc. In general, these petitions ask that the Company's application be disapproved or, if approved, that it be approved subject to additional safeguards. The Company has answered and intends to oppose these petitions. The application is pending.

On October 31, 1978, a suit was filed against the Company in the Civil District Court for the Parish of Orleans, State of Louisiana (Docket No. 78-15965), by Save Our Wetlands, Inc., seeking a declaratory judgment decreeing Waterford No. 3 to be a nuisance, apparently on the basis that it will (allegedly) endanger the safety of the public, and an injunction to prevent the Company from proceeding with the construction of such Unit. On November 17, 1978, the Company filed a declinatory exception directed at the insufficiency of service of process upon it. In addition, on April 2, 1979, a mandamus suit (to which the Company is not a party) was filed in the same Court (Docket No. 79-4853) by Save Our Wetlands, Inc. against the Governor and the Attorney General of the State of Louisiana and the State itself, asking that the Governor and the Attorney General be ordered to devise an adequate evacuation plan for metropolitan New Orleans in case of a "plant accident" at Waterford No. 3, and if such an evacuation plan is impossible (which plaintiff alleges it is), that these defendants be ordered to immediately enjoin the coustruction of Waterford No. 3. Both matters are pending.

On August 28, 1979, a suit was filed against the Company in the United States District Court for the Eastern District of Louisiana (Docket No. 79-3326) by The Waldinger Corporation alleging that it had contracted to do the heating, ventilating and air conditioning work on Waterford No. 3, and that during the course of the work the Company had breached the contract by terminating Waldinger's right to perform further work thereunder, and making claim for $20,092,050.51, costs, interest, and such other relief as the Court might consider proper. The $20,092,050.51 consists of a claim for punitive damages of not less than $10,000,000, damage to reputation and loss of prospective business in the amount of $7,000,000, withheld amounts allegedly due under the contract totaling $720,235.51, reimbursement allegedly due under the contract for certain home office overhead costs in the amount of $1,670,000, tools and equipment allegedly misappropriated and alleged to have a reasonable value of $351,815, and the cost of developing proprietary information and trade secrets furnished to the Company in the amount of not less than $350,000. In the opinion of General Counsel for the Company, (a) the claims for punitive damages of not less than $10,000,000 and damage to reputation and loss of prospective business in the amount of $7,000,000 are without merit and will be unsuccessful if and when proceeded with to final judgment, and (b) the other claims are of such nature that it will be necessary for the litigation to progress further before such Counsel will be in a position to reach an opinion with respect thereto. On the same date, August 28, 1979, the Company filed suit against Waldinger in the same Court, claiming $21,250,000 in liquidated damages plus an unestimated additional amount of unliquidated claims, interest, costs and attorneys' fees resulting from Waldinger's failure to perform its commitments under the contract. The two suits have been consolidated for trial and on June 5, 1980 the Company filed its answer and counterclaim in the suit brought by Waldinger, the answer denying liability and the counterclaim seeking judgment against Waldinger for the same amounts as the Company's suit against Waldinger. The matters are pending.

On September 5, 1974, the Company filed suit in Civil District Court for the Parish of Orleans, State of Louisiana, against United and Pennzoil Company, alleging breach of gas supply contracts, tortious conduct, and violations of Louisiana antitrust laws, and seeking compensatory damages in the amount of $182,904,607 (of which $55,639,457 is for the increased cost for replacement fuel through June 1974), trebled to $548,713,821. On the same date the Company filed with the LPSC a petition for a declaratory order providing a method whereby that part of the damages recovered from United in such suit attributable to increased cost of fuel passed through to the Company's customers under fuel adjustment clauses would be made available to customers who receive service under the jurisdictional authority of the LPSC, less an appropriate portion of the costs of recovery. Discovery procedures are under way and the suit is pending in the state court.

On November 21, 1975 the Company was charged by the Equal Employment Opportunity Commission with discrimination in employment on the basis of race, sex and/or national origin, in violation of the Civil Rights Act of 1964. The Company has denied the charge. An investigation was commenced and the charge is pending before that Commission.

Environmental Matters. The Company is subject to regulation as to air and water quality and other environmental matters by state and Federal authorities. Regulations on environmental matters are continuously subject to change, and are changed periodically, and it is impossible to know what their ultimate cost to the Company will be in the future. It is estimated, however, that the Company will make capital expenditures for environmental control facilities during 1980, 1981, 1982 and 1983 in the approximate amounts of $35,700,000, $24,800,000, $4,600,000 and $1,800,000, respectively.

Air Quality: Under the Clean Air Act, as amended through 1970, the EPA was required to establish Ambient Air Standards for certain air pollutants and to establish NSPS for all new facilities emitting such air pollutants. It also provided a framework for the states to establish air emission standards for existing sources in order to achieve the Ambient Air Standards.

The State of Louisiana adopted a State Plan, including regulations to meet Ambient Air Standards, as applicable, which was approved, subject to certain exceptions, by the EPA pursuant to the Clean Air Act, as amended through 1970.

The State of Louisiana has submitted, in part, revisions to its State Plan as required by the 1977 Clean Air Act Amendments. It is not possible at this time to determine what effect, if any, these revisions may have on the Company over and above the basic effects of the Clean Air Act Amendments of 1977 and the EPA rulemaking activity thereunder.

The Clean Air Act Amendments of 1977 require that the states review and revise, as appropriate, certain elements of their State Plans; that the Administrator of the EPA promulgate revised NSPS; and that State Plans contain emission limitations and such other measures as may be necessary to prevent significant deterioration of air quality in accordance with maximum allowable increases in sulfur oxides and particulates. On June 19, 1978, the EPA promulgated its PSD regulations. A group of utilities, including the Company, petitioned for judicial review of certain portions of the PSD regulations to the United States Court of Appeals for the District of Columbia Circuit. By decisions dated June 18, 1979 and December 14, 1979, the Court held invalid certain provisions of the 1978 PSD regulations. Pursuant to these decisions, the EPA proposed amendments to its 1978 PSD regulations and, after the Court issued its mandate on July 29, 1980 with regard to these decisions, the amendments were published and made effective on August 7, 1980.

The EPA has also promulgated final regulations on NSPS. The Company, as a member of the same group of utilities referred to above, has petitioned for judicial review of these regulations to the United States Court of Appeals for the District of Columbia Circuit and has also petitioned the EPA to reconsider them. On January 30, 1980, the petition for reconsideration was denied by the EPA. At present a petition to review the EPA's denial has been consolidated with the petition for judicial review pending before the Court. Given the complexities and the uncertainties of the litigation and rulemaking stemming from the EPA's implementation of the 1977 Clean Air Act Amendments, the Company cannot at this time predict the final outcome thereof, although adverse decisions and/or regulations could necessitate the expenditure of substantial additional funds for pollution control equipment.

The Company believes that the operation of its existing plants is meeting applicable emission regulations and ambient air quality standards and that such plants will continue to do so. On March 21, 1979 the EPA published its proposal for "Assessment and Collection of Penalties for Noncompliance" pursuant to the requirement of Section 120 of the 1977 Clean Air Act Amendments and on July 28, 1980 the EPA promulgated final Section 120 noncompliance penalty regulations. The "Update of Power Plants Potentially Subject to Section 120 Noncompliance Penalties; Availability" issued by the EPA under date of July 27, 1979 does not name the Company and the Company believes it would not be named under any current update.

Water Quality: The FWPCA discontinued the discharge permit system of the Army Corps of Engineers under the Refuse Act of March 3, 1899 and established the NPDES. Pursuant to the FWPCA, in October 1974 the EPA promulgated effluent limitations and guidelines for certain existing and future steam power generating plants. The Company appealed certain portions of the regulations to appropriate United States Courts of Appeals. The appeals were consolidated in the United States Court of Appeals for the Fourth Circuit, which rendered an opinion on July 16, 1976 remanding a significant portion of the regulations to the EPA for further consideration. If, as a result of the EPA limitations and guidelines, the Company should be required to install closed cycle cooling systems at certain existing steam electric generating stations, substantial additional expenditures would be involved.

The Company has requisite NPDES permits for all major existing generating stations. Permits for these generating stations have also been issued by the applicable state authority. The Company's NPDES permits will be subject to renegotiation and revision in late 1980 in accordance with the Clean Water Act Amendments of 1977 and the regulations promulgated thereunder. These Amendments, in concert with ongoing programs instituted under the FWPCA, have raised a variety of issues concerning toxic and hazardous substances. At the time of permit renewal, substantial new requirements concerning these matters could be incorporated into the NPDES permits under new NPDES regulations, issued June 7, 1979. These new requirements as well as changes in NPDES program administration regulations could entail increases in expenditures for pollution control equipment and sampling or monitoring procedures in amounts not presently determinable. A group of utilities, including the Company, are challenging in the courts certain portions of the June 1979 NPDES regulations as well as the NPDES aspects of the Consolidated Permit regulations, which EPA promulgated on May 19, 1980, since these Consolidated Permit regulations incorporate, with some changes, the June 1979 NPDES regulations. These matters are pending.

The Company, in common, it understands, with many other electric utilities, was not able to meet the July 1, 1977 deadline for applying the "best practicable control technology currently available" to effluent discharges from existing plants, but pollution control facilities necessary to meet these standards have now been constructed at all major generating stations and (although not yet accepted from the contractor as completed) are operational and are substantially meeting these standards. These pollution control projects have also required the Company to obtain, and the Company has obtained, amendments to its above-mentioned NPDES permits. The Company's inability to meet the above-mentioned July 1, 1977 deadline could subject it to claims for fines which, if imposed, might in the aggregate be substantial. On November 17, 1978, the Company filed applications with the EPA for variances from, or alternatively for extensions of the deadline for, the July 1, 1977 standards with respect to its four major generating stations. On June 7, 1979, the EPA advised the Company with respect to the applications relating to two of these stations, that it would be more appropriate for the Company to apply for an extension than for a variance. These two extensions were applied for by the Company and granted by the EPA for the period to April 1, 1979, and the Company believes that it effected timely compliance with such extension order. The Company has heard nothing from the EPA with regard to its applications relating to the other two stations. The Company has made and filed with the EPA a study with respect to compliance under state and Federal laws and regulations dealing with environmental matters of the generating facilities of four of the six municipalities which the Company is operating. With respect to the generating facilities of the other two municipalities which the Company has begun to operate more recently, the Company has commenced a study regarding the facilities of one municipality and has made a preliminary determination regarding the facilities of the other municipality that they are in compliance with environmental laws and regulations. See "Property—Interconnections".

Facilities have been constructed at the Company's steam electric stations which treat water and bring discharges from these stations into compliance with the NPDES regulations. In accordance with permit conditions, the Company has reported instances of non-compliance to the EPA.

Hazardous Materials: The EPA's polychlorinated biphenyl regulations promulgated under the authority of the Toxic Substances Control Act require additional expenditures of funds for the marking, handling, storage, transportation and disposal of this substance, which is occasionally found in some previously installed capacitors and transformers. However, the resultant costs are expected to be distributed over a substantial period of time in the course of phasing out the use of polychlorinated biphenyls. In addition, the Company was required to implement procedures for the handling, transportation and disposal of polychlorinated biphenyls pursuant to these regulations. Conformance to these procedures will effectively minimize the possibility of the inadvertent release of polychlorinated biphenyls to the environment, which could result in substantial fines. A group of utilities, including the Company, has intervened on behalf of the EPA in a suit filed in the United States Court of Appeals for the District of

Columbia Circuit by the Environmental Defense Fund seeking review of the final polychlorinated biphenyl regulations. The matter is pending.

On February 26, 1980 and May 19, 1980, pursuant to the RCRA, the EPA promulgated regulations for the management of certain hazardous wastes. Although the Company is participating with other companies in challenging these regulations as not being authorized under RCRA, it did comply with an August 18, 1980 interim status filing deadline by reporting to the EPA certain possible hazardous waste activities. Based, in part, upon tests to be conducted in the near future, the Company will decide which of these activities will necessitate the filing by the Company of a permit application by the required date of November 19, 1980. Because these hazardous waste regulations are newly promulgated and because the status of utility wastes is uncertain, estimates of costs associated with compliance, which could be substantial, cannot yet be made.

The State of Louisiana is implementing a state hazardous waste program that is generally consistent with that of the EPA and has adopted legislation relating to a solid waste management and resource recovery program.

PROPERTY

Generating Stations. The Company owns four steam electric generating stations with a total net capability of 4,373,000 KW (including a 203,000 KW combined cycle unit) and a gas turbine unit with a net capability of 19,000 KW, for an aggregate net capability of 4,392,000 KW. "Net capability", as used herein, is the present dependable load carrying ability of generating stations, as demonstrated under actual operating conditions, using natural gas for fuel (except for 822,000 KW tested with fuel oil). For information with respect to reduction of generating capability resulting from the use of fuel oil, see "Property—Interconnections".

In addition, the Company is operating as part of its system the generating stations of the Towns of Lake Providence, Homer, Jonesboro and Rayville, Louisiana and the City of Thibodaux, Louisiana pursuant to operating agreements, and of the City of Monroe, Louisiana pursuant to an emergency interim agreement, which generating stations have a total net capability of 233,000 KW (consisting of 166,000 KW of steam units and 67,000 KW of internal combustion units). The Company has filed with the SEC under the Holding Company Act for authority to enter into an operating agreement with the City of Monroe. A citizens group has filed a petition to intervene and a protest and request for hearing. On June 8, 1978 the same citizens group filed with the FERC a complaint directed at the Company, requesting that an investigation be instituted and a hearing held and that the FERC order the Company to sell to the City of Monroe firm base load power on terms (allegedly not offered to the City) at least equivalent to the arrangement afforded another Louisiana municipality, and further, that the FERC order immediate temporary service to the City on such terms. Both matters are pending.

Under the terms of the above mentioned operating agreements and emergency interim agreement, the Company has the right and option, but not the obligation, to operate and/or maintain the generating facilities of the respective municipalities involved. The Company is presently operating and maintaining these generating stations and this had no significant effect on the Company's operations.

The FWPCA has made it necessary for the Company to consume additional electric power, estimated at approximately 1,800 KW, at generating stations in order to operate pollution control equipment and, by limiting the maximum permitted temperature of once through cooling water, could cause, under certain conditions, a minor reduction in generating capacity.

Additions and Retirements of Electric Utility Property. From January 1, 1975 to June 30, 1980, the Company made expenditures of $449,507,000 for gross additions (not including CWIP which amounted to $938,845,000 at June 30, 1980) to electric utility plant. During the same period $34,688,000 of utility plant was retired. The net additions during this period thus amounted to $414,819,000, an increase of 48.5%.

Interconnections. The electric power supply facilities of the Middle South System consist principally of steam electric production facilities strategically located with reference to availability of fuel, protection of local loads, and other controlling economic factors. These are interconnected by a transmission system operating at voltages of up to 500 KV. With the exception of MSE's Grand Gulf Plant described below, ownership of facilities is in each instance in the System operating company, including the Company, in the area in which the facilities are located. The System Agreement provides that parties to the System Agreement who have excess generating capacity will sell the available excess to those parties to the System Agreement who have deficiencies in generating capacity and that for this entitlement the purchasers will pay to the sellers a capability equalization charge sufficient to cover the seller's related operating expenses, fixed charges on debt and a fair rate of return on related equity investment. Generating facilities are operated with a view to realizing the greatest economy. This operation seeks, among other things, the lowest cost sources of power from hour to hour. The minimum of investment and the most efficient use of plant are sought to be achieved in part through the coordinated scheduling of maintenance, inspection and overhaul. Where energy is supplied with respect to which capability equalization payments have been made, the purchaser is required only to pay the cost of fuel consumed in generating such energy. For other energy generated and supplied under the System Agreement, the purchasers are required to pay the cost of fuel consumed in generating such energy plus a charge to cover other incremental costs.

The Company also has direct interconnections with facilities of the Gulf States Utilities Company, Mississippi Power Company, Southwestern Electric Power Company, Central Louisiana Electric Company, Inc., and Cajun Electric Power Cooperative, Inc. In addition there are direct interconnections between other companies of the Middle South System and Mississippi Power Company, Oklahoma Gas and Electric Company, Southwestern Electric Power Company, Empire District Electric Company, Union Electric Company, Arkansas Electric Cooperative Corporation, TVA, Associated Electric Cooperative Inc., Southwestern Power Administration and SMEPA.

The Company is a member of the Southwest Power Pool, which has 41 members. The primary purpose of the Southwest Power Pool is to ensure the reliability and adequacy of the electric bulk power supply in the Southwest Region of the United States. The Southwest Power Pool is a member of the National Electric Reliability Council.

The Middle South System peak demand of 11,769,000 KW occurred on July 16, 1980. At the time of the peak, net firm purchases available to the System operating companies amounted to 680,000 KW resulting in a requirement for Middle South System generated output of 11,089,000 KW. System owned and leased capability, adjusted to reflect curtailments of primary fuel (natural gas) and the use of alternate fuel, plus 832,000 KW of available non-firm purchases, amounted to 12,801,000 KW. The reserve margin at the time of peak was approximately 15%. Continuing capability evaluations by the Middle South System indicate that during the 1980 peak load season its loss of generating capability due to natural gas curtailment and the substitution of fuel oil was approximately 719,000 KW, of which the Company's share was approximately 147,000 KW. The peak demand for the Company's service area load was 4,078,000 KW and occurred on July 16, 1980.

Arrangements have been made under which the Company, AP&L, MP&L and NOPSI, seven neighboring utilities and the TVA exchange capacity which is available for such purpose because of diversity in the periods of peak demands. The purpose of these exchange arrangements is to effect economies for the benefit of each of the systems involved. From November 15, 1979 through November 1980, the investor-owned companies are supplying 1,100,000 KW to TVA during the winter exchange period, November 15 through March 15, and TVA is supplying a like amount of power to the investor-owned companies during the summer exchange period, June 1 through October 1. After November 1980, the amount exchanged will be 700,000 KW unless changed or terminated by one of the parties after 4 years' notice. Of the total amount to be exchanged, the Middle South System's share is approximately 30% and the Company's share is approximately 11%. Each participant in the arrangements is providing the necessary transmission lines and related facilities in its territory at voltages up to 500 KV. The annual costs of these lines and facilities are shared among the participants in the exchange substantially in proportion to their respective benefits.

MSE has under construction a two-unit nuclear plant, the Grand Gulf Plant, having an expected aggregate capability of approximately 2,500 MW, on the Mississippi River near Grand Gulf, Mississippi. The first unit had been scheduled for commercial operation in 1981 and the second unit in 1984. Commercial operation of the two units is dependent, among other things, upon the receipt of operating licenses from the NRC. Actions taken by the NRC over recent months indicate there will be delays in licensing all nuclear reactors. In view of this, MSE has reviewed its schedule for testing and completion of the units and, as a result of the anticipated delays in licensing and by delaying expenditures on the second unit, has changed its scheduled commercial operation dates to 1982 and 1986 for the first unit and second unit, respectively. The total cost to MSE, assuming an 87.52% ownership interest, for the Grand Gulf Plant (exclusive of nuclear fuel) is currently estimated to be approximately $2,860.0 million. MSE has entered into an agreement for the acquisition by SMEPA of a 10% undivided ownership interest in the Grand Gulf Plant and is negotiating with MEAM for the possible acquisition of up to a 2.48% undivided ownership interest in the Grand Gulf Plant. Giving effect to the acquisition by SMEPA of the 10% undivided ownership interest and to the possible acquisition by MEAM of a 2.48% undivided ownership interest, MSE's share of the aggregate capability will be approximately 2,188 MW. At August 31, 1980, construction of Unit Nos. 1 and 2 of the Grand Gulf Plant was approximately 86% and 23% completed, respectively, and engineering was approximately 88% and 43% completed, respectively.

Middle South has undertaken to furnish or cause to be furnished to MSE sufficient capital for construction and continued operation of the Grand Gulf Plant and related purposes to the extent not obtained by MSE from other sources. In addition, MSE and the System operating companies, including the Company, have entered into a series of agreements (collectively, Availability Agreement) whereby (i) MSE has agreed to complete the Grand Gulf Plant, to join in the System Agreement on or before the completion of the first unit of the Grand Gulf Plant and to sell to the System operating companies power available to MSE from the Grand Gulf Plant under the terms of the System Agreement, (ii) the System operating companies have agreed to pay to MSE (on the apportionment bases provided for in the Availability Agreement) such amounts as (when added to any amounts received by MSE under the System Agreement or otherwise) will be at least equal to MSE's operating expenses or an equivalent amount if either unit is not in operation (including such expenses as might be incurred by MSE for maintenance and surveillance in the event of shutdown of either or both units), including MSE's interest charges and an amount equal to an assumed depreciation rate for 27.4 years of 3.65% per annum applied to MSE's gross investment in the Grand Gulf Plant (exclusive of land and land rights), (iii) the System operating companies have agreed to make subordinated advances under certain circumstances to MSE in amounts equal to payments which would otherwise be owing under the payment formula of the Availability Agreement described in (ii) above, and (iv) the System operating companies have agreed that their obligations to make payments or advances to MSE are absolute and unconditional. The requirement to make payments under (ii) above commences on the date on which either unit of the Grand Gulf Plant is placed in commercial operation; provided that if Unit No. 1 is not placed in commercial operation prior to December 31, 1982, the commencement date in respect of both units is December 31, 1982; and provided, further, that if Unit No. 1 is placed in commercial operation prior to December 31, 1982 then, with respect to the assumed depreciation charge related to Unit No. 2, the commencement date for Unit No. 2 is the earlier of the date of commercial operation of Unit No. 2 or December 31, 1986.

The System operating companies, including the Company, have executed a Memorandum of Understanding by which it is agreed that the capability of the portion of Grand Gulf Unit No. 1 and Grand Gulf Unit No. 2 owned by MSE will be allocated among the Company, MP&L and NOPSI on a fixed percentage basis, subject to change by mutual agreement of such companies. The proposed percentages of allocated capability of MSE's share of Unit No. 1 and Unit No. 2 would be the Company, 38.57% and 26.23%, MP&L, 31.63% and 43.97% and NOPSI, 29.80% and 29.80%, respectively. The Company, MP&L and NOPSI have agreed to assume all of the responsibilities and obligations of

AP&L and Ark-Mo with respect to these Units and, in consideration thereof, AP&L and Ark-Mo have agreed to relinquish their rights in the Units. The Memorandum of Understanding and the consummation of the transactions contemplated thereby are subject to the receipt of the approval of all regulatory agencies having jurisdiction of the matters and of all other necessary approvals.

Substations. As of June 30, 1980, the Company owned and operated 234 substations with a total transformer capacity, not including spare transformers, of 18,384,000 kilovolt-amperes, of which transformers with a total capacity of 5,145,000 kilovolt-amperes were located at generating stations. These figures do not include "line-type" transformer installations serving customers at secondary voltages under 2,200 volts.

DESCRIPTION OF NEW PREFERRED STOCK

A copy of the Articles of Incorporation, together with a copy of the form of proposed Articles of Amendment thereto establishing the New Preferred Stock, are filed as exhibits to the Registration Statement. The following summary does not purport to be complete and is subject in all respects to the provisions of the Articles of Incorporation of the Company and the Articles of Amendment, and does not relate to or give effect to the provisions of statutory or jurisprudential law. The summary given below is qualified in its entirety by reference to Articles 3 and 6 of the Articles of Incorporation and to the Articles of Amendment.

General. The Articles of Incorporation provide for two classes of Preferred Stock of the Company, the \$100 Preferred Stock and the \$25 Preferred Stock. The \$100 Preferred Stock and the \$25 Preferred Stock have the same rank and, except as to those characteristics relating to par value, voting rights (including matters relating to quorums and adjournments) and in certain other respects as to which there may be variations among series, the shares of each series of Preferred Stock confer equal rights upon the holders. The respects in which there may be variations as between series consist of (a) the number of shares constituting each series and the distinguishing serial designation thereof, (b) the annual dividend rate, initial dividend payment date and the date from which dividends shall be cumulative, (c) the amounts payable on redemption, and (d) the terms and amount of sinking fund requirements (if any) for the purchase or redemption of shares of each series of Preferred Stock other than the first through tenth series of the \$100 Preferred Stock heretofore issued by the Company. When a new series of the Preferred Stock is created, the number of shares constituting such series, its distinguishing serial designation and its distinctive characteristics (in those limited respects as to which there may be variations) are fixed by an amendment to the Articles of Incorporation.

Dividend Rights. The New Preferred Stock, *pari passu* with each other series of the Preferred Stock, shall be entitled when and as declared by the Board of Directors, in preference to the common stock, to dividends at the rate stated in the title thereof, payable quarterly on February 1, May 1, August 1, and November 1 of each year. The first dividend payment date for the New Preferred Stock will be February 1, 1981, and such dividends will be cumulative from November 6, 1980.

Redemption Provisions. Subject to certain restrictions, the Company may, upon the vote of the holders of a majority of the common stock, redeem the New Preferred Stock in whole or in part upon not less than 30 days' notice at \$28.80 per share through November 1, 1985, \$27.85 per share thereafter through November 1, 1990, \$26.90 per share thereafter through November 1, 1995, and \$25.95 per share thereafter, in each case together with accumulated and unpaid dividends to the date fixed for redemption; provided, however, that no share of the New Preferred Stock shall be redeemed prior to November 1, 1985 if such redemption is for the purpose or in anticipation of refunding such share through the use, directly or indirectly, of funds borrowed by the Company, or through the use, directly or indirectly, of funds derived through the issuance by the Company of stock ranking prior to or on a parity with the New Preferred Stock as to dividends or assets, if such borrowed funds have an effective interest cost to the Company (computed in accordance with generally accepted financial practice) or such stock has an effective dividend cost to the Company (so computed) of less than 16.0616% per annum.

In general, at any time when dividends payable on the Preferred Stock are in default, the Company may not (1) make any payment, or set aside funds for payment, into any sinking fund for the purchase or redemption of any shares of the Preferred Stock, or (2) redeem, purchase or otherwise acquire less than all of the shares of the Preferred Stock, in either case unless approval is obtained under the Holding Company Act. Any shares of the Preferred Stock which are redeemed, purchased or acquired shall be retired and cancelled.

Sinking Fund for the New Preferred Stock. The New Preferred Stock will be subject to a sinking fund pursuant to which the Company will redeem, out of funds legally available therefor, on November 1 in each year, commencing with the year 1985 and ending in the year in which all shares of the New Preferred Stock have been redeemed, 60,000 shares of New Preferred Stock at a price equal to $25 per share, plus an amount equal to the accumulated and unpaid dividends on such share. The Company's sinking fund obligation with respect to the New Preferred Stock during the specified period will be cumulative. The Company may, however, credit against its sinking fund obligation for any year shares of New Preferred Stock (including shares of New Preferred Stock optionally redeemed as hereinafter set forth) redeemed in any manner, other than shares of New Preferred Stock redeemed pursuant to its required sinking fund obligation, purchased or otherwise acquired, and not previously credited against such sinking fund obligation. The Company will have the option also on November 1 in each year, commencing with the year 1985, to redeem up to an additional 60,000 shares of New Preferred Stock, at a price equal to $25 per share, plus an amount equal to the accumulated and unpaid dividends on such share. The Company's option to redeem up to an additional 60,000 shares of New Preferred Stock during the specified period will be non-cumulative.

Voting Rights. Except for those purposes only for which the right to vote is expressly conferred upon the holders of the Preferred Stock, the holders of the Preferred Stock shall have no power to vote and shall be entitled to no notice of any meeting of stockholders of the Company.

If and when dividends payable on Preferred Stock of the Company shall be in default in an amount equal to four full quarterly payments or more per share, and thereafter until all dividends on any such Preferred Stock in default shall have been paid, the holders of all Preferred Stock, voting separately as a class, in such manner that the holders of the $100 Preferred Stock shall have one vote per share and the holders of the $25 Preferred Stock shall have one-quarter vote per share, shall be entitled to elect the smallest number of directors necessary to constitute a majority of the full Board of Directors, and the holders of the common stock, voting separately as a class, shall be entitled to elect the remaining directors of the Company.

Restrictions on Issuance of Stock; Restrictions on Altering Terms of Preferred Stock. So long as any shares of the Preferred Stock are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of at least two-thirds of the total number of shares of the Preferred Stock then outstanding (for purposes of this computation each share of the $100 Preferred Stock shall count as one share, and each share of the $25 Preferred Stock shall count as one-quarter share):

(1) Issue any new stock which would rank prior to the Preferred Stock or issue any security convertible into shares of any such stock except for the purpose of providing funds for the redemption of all of the Preferred Stock then outstanding; or

(2) Amend or alter any of the express terms of the Preferred Stock then outstanding in a manner prejudicial to the holders thereof; the increase or decrease in the authorized amount of the Preferred Stock or the creation, or increase or decrease in the authorized amount, of any new class of stock ranking on a parity with the Preferred Stock shall not, for the purposes of this paragraph, be deemed to be prejudicial to the holders of the Preferred Stock.

Restrictions on Merger, Sale of Assets, Issue of Unsecured Debt, Sale of Additional Preferred Stock. So long as any shares of the Preferred Stock are outstanding, the Company shall not, without the consent (given by vote at a meeting called for that purpose) of the holders of a majority of the total number of shares of the Preferred Stock then outstanding (for purposes of this computation each share of the $100 Preferred Stock shall count as one share, and each share of the $25 Preferred Stock shall count as one-quarter share):

(1) Merge or consolidate with or into any other corporation, or sell or otherwise dispose of all or substantially all of the assets of the Company, without obtaining the prior approval of regulatory authority of the United States under the provisions of the Holding Company Act; or

(2) Issue or assume any unsecured indebtedness for purposes other than (i) the refunding of outstanding unsecured indebtedness theretofore issued or assumed by the Company, (ii) the reacquisition, redemption or other retirement of any indebtedness which has been authorized by regulatory authority of the United States under the provisions of the Holding Company Act, or (iii) the reacquisition, redemption or other retirement of all outstanding shares of the Preferred Stock, or preferred stock ranking prior to, or *pari passu* with, the Preferred Stock, if immediately after such issue or assumption, the total principal amount of all unsecured indebtedness issued or assumed by the Company, including unsecured indebtedness then to be issued or assumed (but excluding the principal amount then outstanding of any unsecured indebtedness having a maturity in excess of ten years and in amount not exceeding 10% of the aggregate of (a) and (b) below) would exceed 10% of the aggregate of (a) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Company and then to be outstanding, and (b) the capital and surplus of the Company as then to be stated on the books of account of the Company. When unsecured debt of a maturity in excess of ten years shall become of a maturity of ten years or less, it shall then be regarded as unsecured debt of a maturity of less than ten years and shall be computed with such debt for the purpose of determining the percentage ratio to the sum of (a) and (b) above of unsecured debt of a maturity of less than ten years, and when provision shall have been made, whether through a sinking fund or otherwise, for the retirement, prior to its maturity, of unsecured debt of a maturity in excess of ten years, the amount of any such security so required to be retired in less than ten years shall be regarded as unsecured debt of a maturity of less than ten years (and not as unsecured debt of a maturity in excess of ten years) and shall be computed with such debt for the purpose of determining the percentage ratio to the sum of (a) and (b) above of unsecured debt of a maturity of less than ten years, provided, however, that the payment due upon the maturity of unsecured debt having an original single maturity in excess of ten years or the payment due upon the latest maturity of any serial debt which had original maturities in excess of ten years shall not, for purposes of this provision, be regarded as unsecured debt of a maturity of less than ten years until such payment or payments shall be required to be made within five years (provided that the words "five years" shall read "three years" when none of the 4.96% Preferred Stock remains outstanding); furthermore, when unsecured debt of a maturity of less than ten years shall exceed 10% of the sum of (a) and (b) above, no additional unsecured debt shall be issued or assumed (except for the purposes set forth in (i), (ii) and (iii) above) until such ratio is reduced to 10% of the sum of (a) and (b) above; or

(3) Issue, sell or otherwise dispose of any shares of the Preferred Stock, or of any other class of stock ranking on a parity with the Preferred Stock as to dividends or in liquidation, dissolution, winding up or distribution (a), so long as any of the 4.96% Preferred Stock remains outstanding, unless the net income of the Company available for dividends for a period of 12 consecutive calendar months within the 15 calendar months immediately preceding the issuance, sale or disposition of such stock, is at least equal to twice the annual dividend requirements on all outstanding shares of the Preferred Stock and of all other classes of stock ranking prior to or on a parity with the Preferred Stock, including the shares proposed to be issued, and (b), so long as any Preferred Stock remains outstanding, unless the gross income of the Company for such period available for the payment of interest shall have been at least 1½ times the sum of the annual

interest charges on all interest bearing indebtedness of the Company and the annual dividend requirements on all outstanding Preferred Stock and of all other classes of stock ranking prior to, or on a parity with, the Preferred Stock including the shares proposed to be issued, and (c) unless the aggregate of the capital of the Company applicable to the common stock and the surplus of the Company shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the Company in respect of all shares of the Preferred Stock and all shares of stock, if any, ranking prior thereto, or on a parity therewith, as to dividends or distributions, which will be outstanding after the issue of the shares proposed to be issued.

Liquidation Rights. In the event of any voluntary liquidation, dissolution or winding up of the Company, the Preferred Stock shall have a preference over the common stock until an amount equal to the then current redemption price shall have been paid. In the event of any involuntary liquidation, dissolution or winding up of the Company, the Preferred Stock shall also have a preference over the common stock until the par value thereof ($25 in the case of the New Preferred Stock) plus accumulated and unpaid dividends shall have been paid.

Pre-emptive or Other Subscription Rights. No holder of any stock of the Company shall be entitled as of right to purchase or subscribe for any part of any stock of the Company or of any additional stock of any class to be issued by reason of any increase of the authorized capital stock of the Company.

Liability to Further Calls and to Assessment. All of the New Preferred Stock will be validly issued and fully paid and non-assessable upon receipt by the Company of the purchase price thereof.

Limitations on Payment of Common Stock Dividends. The Articles of Incorporation in effect restrict the payment of dividends on common stock to 75% of net income available for common stock dividends if the percentage of common stock equity to total capitalization, as defined, is between 20% and 25%, and to 50% of such net income if such percentage is less than 20%. At any time when common stock equity is 25% or more of total capitalization, the Company may not declare dividends on the common stock which would reduce common stock equity below 25% of total capitalization, except as hereinbefore provided. Certain other limitations on payment of common stock dividends also exist in the Articles of Incorporation. Certain limitations on payment of common stock dividends exist in the Company's Mortgage and Deed of Trust dated as of April 1, 1944, as supplemented. See Note 3 to Financial Statements herein.

Transfer Agent and Registrar. The transfer agent for the New Preferred Stock is Hibernia National Bank in New Orleans, New Orleans, Louisiana, and the registrar is Whitney National Bank of New Orleans, New Orleans, Louisiana.

EXPERTS AND LEGALITY

The balance sheet as of December 31, 1979 and the related statements of income, retained earnings and source of funds for utility plant additions for each of the five years in the period then ended included herein have been examined by Deloitte Haskins & Sells, independent Certified Public Accountants, as stated in their opinion, and have been so included in reliance upon such opinion given upon their authority as experts in accounting and auditing.

The statements made as to matters of law and legal conclusions under "Description of New Preferred Stock" have been reviewed by Messrs. Monroe & Lemann, General Counsel for the Company, and by Messrs. Reid & Priest and are set forth herein in reliance upon the opinions of said firms, respectively, and upon their authority as experts. The statements as to matters of law and legal conclusions made under "Business—Regulation and Litigation" and "Business—Environmental Matters" have been reviewed by Messrs. Monroe & Lemann and are set forth herein in reliance upon the opinion of said firm and upon their authority as experts.

The legality of the New Preferred Stock will be passed upon for the Company by Messrs. Monroe & Lemann, General Counsel for the Company, Whitney Building, New Orleans, Louisiana, and Messrs. Reid & Priest, 40 Wall Street, New York, New York, and for the Purchasers by Messrs. Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York. However, all legal matters pertaining to the organization of the Company and all matters of Louisiana law will be passed upon only by Messrs. Monroe & Lemann.

Attorneys with the firm of Monroe & Lemann participating or who may participate in the work on this financing own of record or beneficially 1,335 shares of the Common Stock of the Company's parent, Middle South.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Louisiana Power & Light Company:

We have examined the balance sheet of Louisiana Power & Light Company as of December 31, 1979 and the related statements of income, retained earnings and source of funds for utility plant additions for each of the five years in the period 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 opinion, such financial statements present fairly the financial position of the Company at December 31, 1979 and the results of its operations and source of funds for utility plant additions for each of the five years in the period then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

New Orleans, Louisiana
February 15, 1980

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

ASSETS

	December 31, 1979	June 30, 1980 (Unaudited)
	(In Thousands)	
Utility Plant (Note 1C):		
Electric	$1,237,269	$1,270,352
Construction work in progress	831,837	938,845
Total	2,069,106	2,209,197
Less accumulated depreciation	353,994	375,973
Utility plant—net	1,715,112	1,833,224
Other Property and Investments:		
Investment in associated company—at equity (Note 4)	36,997	33,987
Other	382	395
Total	37,379	34,382
Current Assets:		
Cash (Note 5)	11,078	24,861
Special deposits	10,289	10,214
Temporary investments, at cost which approximates market	8,000	7,600
Notes receivable	938	922
Accounts receivable—(less allowance for doubtful accounts of $135 thousand)		
Customer	24,826	31,384
Other	1,441	2,967
Associated companies	100	37
Deferred fuel costs (Note 1B)	15,054	31,498
Materials and supplies—at average cost	10,795	8,525
Other	4,975	7,143
Total	87,496	125,151
Deferred Debits—Unamortized debt expense and other	2,378	2,750
TOTAL	$1,842,365	$1,995,507

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

LIABILITIES

	December 31, 1979	June 30, 1980 (Unaudited)
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 150,0^0,000 shares; issued and outstanding 65,140,000 shares in 1979 and 73,473,600 shares in 1980 (Note 2)	$ 428,900	$ 483,900
Retained earnings (Note 3)	58,541	51,916
Total common shareholder's equity	487,441	535,816
Preferred stock, without sinking fund (Note 2)	145,882	145,882
Preferred stock, with sinking fund (Note 2)	92,990	92,990
Long-term debt (Note 3)	827,430	829,796
Total capitalization	1,553,743	1,604,484
Current Liabilities:		
Notes payable (Note 5):		
Banks	32,375	112,500
Commercial paper	—	10,000
Currently maturing long-term debt	11,871	12,038
Accounts payable:		
Associated companies	22,902	32,207
Other	36,698	21,782
Customer deposits	13,159	14,537
Taxes accrued (Note 6)	3,459	6,721
Accumulated deferred income taxes (Notes 1E and 6)	7,289	15,251
Interest accrued	19,825	19,774
Dividends declared	6,156	5,952
Other	634	723
Total	154,368	251,485
Deferred Credits:		
Accumulated deferred income taxes (Notes 1E and 6)	91,221	94,560
Accumulated deferred investment tax credits (Notes 1E and 6)	28,382	27,822
Other	7,729	9,692
Total	127,332	132,074
Reserves (Note 1G):		
Property insurance	5,792	6,063
Injuries and damages	1,130	1,401
Total	6,922	7,464
Commitments and Contingencies (Note 4)		
TOTAL	$1,842,365	$1,995,507

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF RETAINED EARNINGS

	Twelve Months Ended					
	December 31,					June 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	(In Thousands)					
Balance at beginning of period	$ 67,356	$ 68,601	$ 58,825	$ 59,863	$ 63,292	$ 62,054
Add—net income	43,695	39,277	44,406	53,744	65,129	72,999
Total	111,051	107,878	103,231	113,607	128,421	135,053
Deduct:						
Dividends—Cash:						
Preferred stock at prescribed rates (Note 2)	5,276	5,276	5,976	8,108	16,749	22,913
Common stock (per share: 1975, $0.8475; 1976 and 1977, $0.85; 19[illegible] $0.86; 197[illegible], $0.872 and the twe[illegible] months ended June 30, 1980, $0.916)	[illegible]	33,617	37,273	42,194	52,673	59,752
Special common dividend*	6,797	—	—	—	—	—
Transfer to common stock account	2,145	[illegible]	—	—	—	—
Capital stock expense, etc.	37	2[illegible]	119	13	458	472
Total	42,450	49,053	[illegible]	50,315	69,880	83,137
Balance at end of period (Note 3)	$ 68,601	$ 58,825	$ 59,863	$ 63,292	$ 58,541	$ 51,916

* Special dividend to the parent company which was concurrently reinvested in the Company's common stock.

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

	Twelve Months Ended					
	December 31,					June 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	(In Thousands)					
Source of Funds:						
From operations:						
Net income	$ 43,695	$ 39,277	$ 44,406	$ 53,744	$ 65,129	$ 72,999
Depreciation	27,837	33,866	35,999	38,389	40,863	41,739
Amortization of property losses	2,720	2,720	2,835	4,101	4,101	2,051
Deferred income taxes and investment tax credit adjustments—net	22,657	13,005	8,618	4,915	10,896	12,809
Allowance for funds used during construction	(14,029)	(12,823)	(19,473)	(31,079)	(45,853)	(48,097)
Total from operations	82,880	76,045	72,385	70,070	75,136	81,501
Dividends declared:						
Preferred stock	(5,276)	(5,276)	(5,976)	(8,108)	(16,749)	(22,913)
Common stock	(34,992)	(33,617)	(37,273)	(42,194)	(52,673)	(59,752)
Funds retained in business	42,612	37,152	29,136	19,768	5,714	(1,164)
From (increases) decreases in working capital (excluding short-term securities and currently maturing long-term debt and deferred income taxes included as current liabilities)	(4,072)	10,964	5,586	3,187	(7,136)	5,182*
From reimbursement of advances for fuel oil purchases	—	23,492	—	—	—	—
Less funds used for:						
Advances for fuel oil purchases	(8,057)	(12,629)	—	—	—	—
Investments in associated company	784	510	(6,240)	1,780	(16,195)	3,010
Extraordinary property losses	(13,600)	—	(2,877)	—	—	—
Other—net	11,239	1,609	2,133	2,366	979	(418)
Total	28,906	61,098	27,738	27,101	(16,638)	6,610
From financing transactions:						
Common stock	56,797	25,000	30,000	50,000	75,000	80,000
Preferred stock	—	—	30,033	—	128,063	92,990
First mortgage bonds:						
Issues	50,000	40,000	—	135,000	100,000	55,000
Retirements	—	—	—	(10,000)	—	—
Other long-term debt—net	—	16,837	978	29,017	9,579	13,449
Sale and leaseback of nuclear fuel	—	—	—	8,210	—	—
Sale of nuclear fuel	—	—	—	4,834	—	—
Short-term securities—net	(40,685)	(15,760)	90,627	23,923	(59,715)	2,940
Total	66,112	66,077	151,638	240,984	252,927	244,379
TOTAL	$ 95,018	$127,175	$179,376	$268,085	$236,289	$250,989
Utility Plant Additions (exclusive of allowance for funds used during construction):						
Construction expenditures	$ 93,750	$109,726	$172,340	$242,269	$234,493	$245,058
Nuclear fuel expenditures	1,268	574	7,036	131	—	—
Other plant additions	—	16,875	—	25,685	1,796	5,931
TOTAL	$ 95,018	$127,175	$179,376	$268,085	$236,289	$250,989

* The decrease in working capital for the twelve months ended June 30, 1980 is primarily due to an increase in accounts payable and a decrease in other current assets offset by an increase in accounts receivable and deferred fuel costs.

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

For the Five Years Ended December 31, 1979 and (Unaudited) the Twelve Months Ended June 30, 1980

1. 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 LPSC, which substantially conforms to that of the FERC.

B. *Revenues*

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. The rate schedules of the Company include fuel 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. As described in Note (a) to Statements of Income, effective in January 1979 the Company commenced deferring on its books fuel costs in excess of base rates until such amounts are reflected in billings to customers pursuant to the fuel adjustment clause.

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 AFDC. The costs of units of property retired are removed from utility plant and such costs plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and the replacement of items determined to be less than units of property are charged to operating expenses. Substantially all of the utility plant is subject to the lien of the Company's Mortgage.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided amounted to approximately 3.2% on average depreciable property for the year 1975, 3.4% for the years 1976 and 1977 and 3.5% for the years 1978, 1979 and the twelve months ended June 30, 1980.

D. *Pension Plan*

The Company's pension plan is non-contributory and covers substantially all employees. Pension costs amounted to approximately $3,494,000 in 1975, $3,331,000 in 1976, $3,237,000 in 1977, $3,639,000 in 1978, $4,654,000 in 1979 and $5,543,000 in the twelve months ended June 30, 1980 including amortization of unfunded prior service costs over remaining periods up to 27 years. The Company's policy is to fund pension cost accrued. As of January 1, 1980, the unfunded prior service cost approximated $31,808,000.

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 rate-making purposes.

Investment tax credits allocated to the Company are deferred and amortized based on the average useful life of the related property beginning with the year allowed in the consolidated tax return.

F. *Allowance for Funds Used During Construction*

In accordance with the regulatory system of accounts, the Company capitalizes AFDC as an appropriate cost of utility plant. 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 (see Note (c) to Statements of Income).

G. *Reserves*

The Company provides 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 rate-making purposes.

Effective in January of 1979, the Company commenced recognizing deferred income taxes on these reserves.

2. Preferred and Common Stock

Preferred stock at December 31, 1979 and June 30, 1980 consisted of the following:

Cumulative, $100 Par Value	Shares Authorized at June 30, 1980	Shares Outstanding at June 30, 1980	Shares Outstanding at December 31, 1979	Current Call Price Per Share
Without sinking fund:				
4.96% Series	60,000	60,000	60,000	$104.25
4.16% Series	70,000	70,000	70,000	104.21
4.44% Series	70,000	70,000	70,000	104.06
5.16% Series	75,000	75,000	75,000	104.18
5.40% Series	80,000	80,000	80,000	103.00
6.44% Series	80,000	80,000	80,000	102.92
9.52% Series	70,000	70,000	70,000	108.96
7.84% Series	100,000	100,000	100,000	107.70
7.36% Series	100,000	100,000	100,000	107.04
8.56% Series	100,000	100,000	100,000	107.42
9.44% Series	300,000	300,000	300,000	111.44
11.48% Series	350,000	350,000	350,000	113.98
Total	1,455,000	1,455,000	1,455,000	
Unissued	3,045,000	—	—	
Total	4,500,000	1,455,000	1,455,000	
Cumulative, $25 Par Value				
With sinking fund:				
10.72% Series	2,400,000	2,400,000	2,400,000	27.68
13.12% Series	1,600,000	1,600,000	1,600,000	28.28
Total	4,000,000	4,000,000	4,000,000	
Unissued	8,000,000	—	—	
Total	12,000,000	4,000,000	4,000,000	

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

	June 30, 1980	December 31, 1979
	(In Thousands)	
Without sinking fund:		
Stated at $100 a share	$145,500	$145,500
Premium	382	382
Total preferred stock and premium, without sinking fund	$145,882	$145,882
With sinking fund:		
Stated at $25 a share	$100,000	$100,000
Issuance expense	(7,010)	(7,010)
Total preferred stock and issuance expense, with sinking fund	$ 92,990	$ 92,990

The 9.44%, 11.48%, 10.72% and 13.12% preferred stock issues contain provisions restricting the redemption of any of the shares thereof prior to November 1, 1982, March 1, 1984, July 1, 1984 and October 1, 1984, respectively, with funds effectively costing the Company less than 9.4297%, 11.456%, 11.2705% and 14.6103% per annum, respectively. In addition, the 10.72% and 13.12% preferred stock issues are each subject to a sinking fund pursuant to which the Company is obligated to redeem, out of funds legally available therefor, on July 1 and October 1, respectively, commencing with the year 1984 and ending in the year in which all of the shares of said issues have been redeemed, 120,000 and 80,000 shares, respectively, at a price of $25 per share plus accumulated and unpaid dividends. This obligation is cumulative but is subject to a credit for prior redemptions not effected pursuant to and not previously credited against such obligation. In addition, the Company may at its option redeem up to an additional 120,000 shares of the 10.72% preferred stock and 80,000 shares of the 13.12% preferred stock on the above applicable sinking fund redemption dates at the sinking fund redemption price.

The increases in the number of shares of Common and Preferred Stock outstanding and premium and issuance expense on Preferred Stock during the five years ended December 31, 1979 and the six months ended June 30, 1980 were as follows:

	Twelve Months Ended December 31,					Six Months Ended June 30,
	1975	1976	1977	1978	1979	1980
Common Stock shares sold	9,282,500	3,900,000	4,700,000	7,576,000	11,364,000	8,333,600
$100 Preferred Stock shares sold	—	—	300,000	—	350,000	—
$25 Preferred Stock shares sold	—	—	—	—	4,000,000	—
Premium on Preferred Stock	—	—	$33,000	—	$73,500	—
Issuance expense on Preferred Stock	—	—	—	—	$7,010,400	—

Subsequent to June 30, 1980 and prior to the sale of the New Preferred Stock, the Company will have sold 2,272,800 shares of its Common Stock, no par value, to Middle South for $15,000,000. See "Construction Program and Financing".

3. Long-Term Debt

Long-term debt at December 31, 1979 and June 30, 1980 consisted of the following:

	December 31, 1979	June 30, 1980
	(In Thousands)	
First Mortgage Bonds:		
9½% Series due 1981	$ 50,000	$ 50,000
9⅜% Series due 1983	50,000	50,000
3⅛% Series due 1984	18,000	18,000
9 % Series due 1986	75,000	75,000
4¾% Series due 1987	20,000	20,000
10⅞% Series due 1989	45,000	45,000
5 % Series due 1990	20,000	20,000
4⅝% Series due 1994	25,000	25,000
5¾% Series due 1996	35,000	35,000
5⅝% Series due 1997	16,000	16,000
6½% Series due September 1, 1997	18,000	18,000
7⅛% Series due 1998	35,000	35,000
9⅜% Series due 1999	25,000	25,000
9⅜% Series due 2000	20,000	20,000
7⅞% Series due 2001	25,000	25,000
7½% Series due 2002	25,000	25,000
7½% Series due November 1, 2002	25,000	25,000
8 % Series due 2003	45,000	45,000
8¾% Series due 2004	45,000	45,000
8¾% Series due 2006	40,000	40,000
10 % Series due 2008	60,000	60,000
13½% Series due 2009	55,000	55,000
Total First Mortgage Bonds	772,000	772,000
Other:		
Principal amount of municipal revenue bond obligations, 1¼%-8% due serially, 1981-2004 and other future obligations under operating agreements	39,473	42,215
Pollution control and industrial development revenue bond obligations, 6.40%-8% due 1988-2009	16,300	16,300
Less: Amounts held by trustees	(1,333)	(1,000)
Total Other	54,440	57,515
Unamortized premium and discount on long-term debt	990	281
Total Long-Term Debt	$827,430	$829,796

Sinking fund requirements on First Mortgage Bonds and maturities under long-term debt instruments in effect at December 31, 1979 and June 30, 1980 for the years 1980 through 1985 are as follows:

Year	Sinking Fund* December 31, 1979	Sinking Fund* June 30, 1980	Maturities**
	(In Thousands)		
1980	$6,720	$6,720	$12,000***
1981	7,720	7,720	52,162
1982	7,220	7,220	2,267
1983	7,220	7,220	52,350
1984	6,540	6,540	20,462
1985	6,540	6,540	2,549

* Sinking fund requirements may be satisfied by certification of property additions at a rate of 167% of such requirements.

** It is anticipated that First Mortgage Bond maturities will be refinanced at maturity.

*** During the first six months of 1980, $1,330,000 of this amount was paid at maturity.

The Mortgage, which is presently more restrictive than the Articles of Incorporation, contains provisions restricting the payment of dividends or other distributions to common stockholders based generally on an initial restriction in the amount of retained earnings at various dates, less certain deductions as provided in the Mortgage, and a restriction based on a comparison of the Company's provisions for depreciation and retirement of property with the related replacement fund requirements.

At December 31, 1979, and June 30, 1980 $44,419,000 and $37,794,000, respectively, of the retained earnings was free under the Mortgage provisions which were then the most restrictive.

4. Commitments and Contingencies

Reference is made to "Construction Program and Financing" for information concerning the Company's construction program and restrictions with respect to the issuance of First Mortgage Bonds and Preferred Stock.

Reference is also made to "Business—Fuel Supply" for information concerning the Company's commitments and obligations relating to SFI and to "Business—Regulation and Litigation" for information concerning certain litigation involving the Company.

Reference is made to "Property—Interconnections" for information concerning the Company's obligations relating to MSE's Grand Gulf Plant.

The Federal income tax returns for the years 1971 through 1976 have been examined by the Internal Revenue Service and adjustments have been proposed. The principal issue is whether customer deposits are includible in taxable income. A formal written protest has been filed and conferences are being held with an Appeals Officer of the Internal Revenue Service. Any final liability for taxes resulting from settlement with the Internal Revenue Service would not have a material effect on net income. Income taxes on customer deposits would be normalized. Most of the other issues have been settled and adequate provisions have been recorded.

5. Short-term Borrowings

As of December 31, 1979 and June 30, 1980, respectively, the Company had arrangements with certain banks and a commercial paper dealer under which the Company could effect short-term borrowings aggregating up to (i) $150,000,000 and (ii) the lesser from time to time of $165,000,000 or 10% of total capitalization, outstanding at any one time. Accounts are maintained with the Louisiana lending banks and, although immaterial 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. Each of the non-Louisiana lending banks requires a compensating balance with respect to the amount of its loan commitment and/or with respect to the amount of its loans to the Company outstanding, but in no case does any compensating balance or the total of such compensating balances so required exceed 20%. The amount of unused short-term borrowings as of December 31, 1979 and June 30, 1980 was $117,625,000 and $33,500,000, respectively.

The short-term borrowings and the applicable interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company were as follows:

	Twelve Months Ended	
	December 31, 1979	June 30, 1980
Maximum borrowing:		
Bank loans	$77,577,500	$112,500,000
Commercial paper	$37,050,000	$ 10,000,000
Average borrowing:		
Bank loans	$52,773,000	$ 59,259,000
Commercial paper	$29,503,000	$ 17,885,000
Average interest rate during the period:		
Bank loans	12.1%	15.2%
Commercial paper	11.5%	13.2%
Average interest rate at end of period:		
Bank loans	15.3%	12.0%
Commercial paper	—	11.0%

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS—(Continued)

6. Income Tax Expense

Income tax expense is composed of the following:

	Twelve Months Ended					
	December 31,					June 30,
	1975	1976	1977	1978	1979	1980
	(In Thousands)					
Current:						
Federal	$(8,359)	$ 3,232	$ 5,231	$ 5,149	$ 106	$ 2,307
State	461	951	2,177	797	(3)	487
Total	(7,898)	4,183	7,408	5,946	103	2,794
Deferred—net:						
Liberalized depreciation	8,400	8,262	6,517	8,494	7,674	7,583
Deferred fuel cost	—	—	—	—	7,289	6,188
Test energy	1,819	(70)	(70)	(70)	(70)	(70)
Differences between book and tax gains and losses on sales and abandonment of property	5,169	(1,292)	96	(1,986)	(1,986)	(993)
Unbilled revenue	(553)	(306)	(520)	(318)	(1,074)	(1,0[illegible])
Other	—	—	—	—	82	238
Total	14,835	6,594	6,023	6,120	11,915	11,872
Investment tax credit adjustments—net	7,822	6,411	2,595	(1,205)	(1,019)	937
Total income taxes	$14,759	$17,188	$16,026	$10,861	$10,999	$15,603
Charged to operations	$18,535	$19,990	$21,482	$19,919	$22,750	$27,851
Credited to other income	(3,776)	(2,802)	(5,456)	(9,058)	(11,751)	(12,248)
Total income taxes	$14,759	$17,188	$16,026	$10,861	$10,999	$15,603

The Company's effective income tax rates were less than the Federal income tax statutory rates for each period. The reasons for these differences follow:

	Twelve Months Ended					
	December 31,					June 30,
	1975	1976	1977	1978	1979	1980
Federal income tax statutory rates	48.0%	48.0%	48.0%	48.0%	46.0%	46.0%
Increase (decrease) in income tax rates resulting from:						
Exclusion from taxable income of allowance for funds used during construction for which no deferred taxes are provided	(11.5)	(10.9)	(15.5)	(23.1)	(27.7)	(25.0)
Estimated tax reduction attributable to the filing of a consolidated return	(2.1)	(3.7)	(2.1)	(1.5)	—	(1.0)
Taxes charged to construction	(1.3)	(2.2)	(2.5)	(2.8)	(2.4)	(2.2)
State income tax, net of Federal income tax benefit	1.1	1.2	2.4	1.1	0.9	1.0
Other miscellaneous items, none of which is individually greater than 5% of computed tax expense	(9.0)	(2.0)	(3.8)	(4.9)	(2.4)	(1.2)
Effective income tax rates	25.2%	30.4%	26.5%	16.8%	14.4%	17.6%

Unused investment tax credits aggregated approximately $66,140,000 at December 31, 1979 and $73,839,000 at June 30, 1980 of which $10,130,000 may be carried forward through 1984, $24,269,000 through 1985, $31,741,000 through 1986 and $7,699,000 through 1987.

Prior to 1979 the investment tax credit utilized in the consolidated tax return was allocated to the Company on the basis of such credit contributed. Effective in 1979 the method of allocating investment tax credit was changed so that the Company is allocated the credit on the basis of its portion of the consolidated tax liability. Any additional consolidated credit utilized is allocated on the basis of the remaining tax credits.

7. Supplementary Income Statement Information

	Twelve Months Ended					
	December 31,					June 30,
	1975	1976	1977	1978	1979	1980
	(In Thousands)					
Depreciation, other than that set out separately in the Statements of Income, charged to transportation expenses-clearing account	$ 963	$ 1,048	$ 1,096	$ 1,688	$ 1,482	$ 1,296
Taxes, other than income taxes:						
Ad valorem	$ 8,692	$ 9,063	$ 9,971	$ 9,123	$ 9,732	$10,230
All other taxes	4,473	5,210	6,757	8,791	9,401	9,824
Total	13,165	14,273	16,728	17,914	19,133	20,054
Amounts included above charged principally to construction and other nonoperating accounts	(1,419)	(1,859)	(2,810)	(3,808)	(3,156)	(3,046)
Total charged to operations	$11,746	$12,414	$13,918	$14,106	$15,977	$17,008
Technical services, consultation and assistance rendered at cost under contract with MSS (an affiliated company)	$ 3,778	$ 3,515	$ 3,846	$ 4,825	$ 8,534	$10,681

Other than amounts set out separately in the Statements of Income, the amounts for maintenance and repairs, royalties and advertising costs were not significant.

8. Leases

On June 1, 1978, the Company sold its interest in a supply of nuclear fuel for $8,210,000, representing cost, and simultaneously entered into a $60,000,000 nuclear fuel lease. Lease payments, based upon nuclear fuel used, will be treated as cost of fuel. The lease unless sooner terminated by one of the parties will continue through June 1, 2028. The unrecovered cost base of the lease at December 31, 1979 and June 30, 1980 was $13,425,000 and $34,332,000, respectively. Other lease commitments are not significant.

9. Changing Prices (Unaudited)

The following supplementary information about the effects of changing prices on the Company is provided in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices". It should be viewed as an estimate of the effect of changing prices, rather than as a precise measure.

Constant dollar amounts represent historical costs adjus. for the effects of general inflation. The effects are determi..d by converting these costs into dollars of equal purchasing power using the CPI-U.

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the year of acquisition to the present. The current costs of property, plant and equipment, which represent the estimated costs of replacing existing plant assets, are determined by applying the HWI to the cost of the surviving plant by year of acquisition. Land and certain other plant assets which are not included in the HWI were converted using the CPI-U.

The difference between current cost amounts and constant dollar amounts results from specific prices of property, plant and equipment (as measured by the HWI) changing at a rate different from the rate of general inflation (as measured by the CPI-U).

The current year's depreciation expense on the constant dollar and current cost amounts of property, plant and equipment were determined by applying the reported depreciation rate of the Company to the indexed amounts.

The cost of fuel used in generation has not been restated from historical cost in nominal dollars. Regulation limits the recovery of fuel costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

The regulatory commissions to which the Company is subject allow only the historical cost of plant to be recovered in revenues as depreciation. Therefore the excess cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates. This excess is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, the Company believes, based on past experiences, that it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations presented below, the reduction of net property, plant and equipment to net recoverable cost is offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt.

STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported in the Financial Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$ 557,476	$ 557,476*	$ 557,476*
Operating Expenses (Excluding Depreciation)	(442,752)	(442,752)*	(442,752)*
Depreciation	(40,863)	(84,144)	(85,095)
Total Operating Expenses	(483,615)	(526,896)	(527,847)
Operating Income	73,861	30,580	29,629
Other Income	47,393	47,393*	47,393*
Interest & Other Charges	(56,125)	(56,125)*	(56,125)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 65,129	$ 21,848**	$ 20,897
Increase in Specific Prices (Current Costs) of Property, Plant and Equipment Held During the Year			$ 201,029***
Reduction to Net Recoverable Cost		$(151,872)	(21,094)
Effect of Increase in General Price Level			(330,856)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			(150,921)
Gain From Decline in Purchasing Power of Net Amounts Owed		139,841	139,841
Net		$ (12,031)	$ (11,080)

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $130,024,000 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation, was $2,902,015,000, while historical cost or net cost recoverable through depreciation $1,715,112,000.

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS—(Concluded)

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1975	1976	1977	1978	1979
	(In Thousands of Average 1979 Dollars)				
Operating Revenues	$357,178	$422,402	$453,906	$507,758	$557,476
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)					$ 21,848
Net assets at year-end at net recoverable cost					$461,943
Current cost information					
Income from operations (excluding reduction to net recoverable cost)					$ 20,897
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost					$150,921
Net assets at year-end at net recoverable cost					$461,943
General information					
Gain from decline in purchasing power of net amounts owed					$139,841
Average consumer price index	161.2	170.5	181.5	195.4	217.4

NOTE: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

PURCHASERS

The Purchasers named below have severally agreed to purchase from the Company the following respective numbers of shares of the New Preferred Stock:

Purchaser	Number of Shares
Kidder, Peabody & Co. Incorporated	175,000
Bache Halsey Stuart Shields Incorporated	100,000
Blyth Eastman Paine Webber Incorporated	100,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	620,000
Dean Witter Reynolds Inc.	100,000
Ladenburg, Thalmann & Co. Inc.	30,000
Rotan Mosle Inc.	30,000
The Robinson-Humphrey Company, Inc.	15,000
Wm. E. Pollock & Co., Inc.	10,000
Thomson McKinnon Securities Inc.	10,000
Elkins & Co.	5,000
Kormendi, Byrd Brothers, Inc.	5,000
Total	1,200,000

The Purchase Agreement provides that the obligations of the Purchasers are subject to certain conditions precedent and that the Purchasers will be obligated to purchase all the shares of the New Preferred Stock if any are purchased, provided that, under certain circumstances involving a default of Purchasers, less than all of the shares of the New Preferred Stock may be purchased. Default by one or more Purchasers would not relieve the non-defaulting Purchasers from their several obligations, and in the event of such default, the non-defaulting Purchasers may be required by the Company to purchase the respective numbers of shares of the New Preferred Stock which they have severally agreed to purchase and, in addition, to purchase the number of shares of the New Preferred Stock which the defaulting Purchaser or Purchasers shall have so failed to purchase up to a number thereof equal to one-ninth of the respective numbers of shares of the New Preferred Stock which such non-defaulting Purchasers have otherwise agreed to purchase.

The Company has been advised by the several Purchasers through their representatives, Kidder, Peabody & Co. Incorporated—Bache Halsey Stuart Shields Incorporated—Blyth Eastman Paine Webber Incorporated—Merrill Lynch, Pierce, Fenner & Smith Incorporated—Dean Witter Reynolds Inc., as follows:

> The several Purchasers may offer the New Preferred Stock in part directly to the public at the public offering price set forth on the cover page of this Prospectus, and the balance to dealers at a price which represents a concession of $1.10 per share. The Purchasers may allow and such dealers may reallow a concession of not in excess of $.50 per share to certain dealers.
>
> After the initial public offering, the public offering price and the concessions may be changed.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1979

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-3517	**MIDDLE SOUTH UTILITIES, INC.** (A Florida Corporation) 225 Baronne Street New Orleans, Louisiana 70112 Telephone (504) 529-5262	13-5550175
0-375	**ARKANSAS POWER & LIGHT COMPANY** (An Arkansas Corporation) P.O. Box 551 Little Rock, Arkansas 72203 Telephone (501) 371-4000	71-0005900
0-1236	**LOUISIANA POWER & LIGHT COMPANY** (A Louisiana Corporation) 142 Delaronde Street New Orleans, Louisiana 70174 Telephone (504) 366-2345	72-024[illegible]90
0-320	**MISSISSIPPI POWER & LIGHT COMPANY** (A Mississippi Corporation) P.O. Box 1640 Jackson, Mississippi 39205 Telephone (601) 969-2311	64-0205830
1-1319	**NEW ORLEANS PUBLIC SERVICE INC.** (A Louisiana Corporation) 317 Baronne Street New Orleans, Louisiana 70112 Telephone (504) 586-2121	72-0273040

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of Class	Outstanding at December 31, 1979	Name of Each Exchange on Which Registered
Middle South Utilities, Inc.	Common Stock, $5 Par Value	90,432,998	New York Stock Exchange, Inc. Midwest Stock Exchange Incorporated Pacific Stock Exchange Incorporated

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of Class
Arkansas Power & Light Company	Preferred Stock, Cumulative, $100 Par Value Preferred Stock, Cumulative, $25 Par Value
Louisiana Power & Light Company	Preferred Stock, Cumulative, $100 Par Value Preferred Stock, Cumulative, $25 Par Value
Mississippi Power & Light Company	Preferred Stock, Cumulative, $100 Par Value
New Orleans Public Service Inc.	Preferred Stock, Cumulative, $100 Par Value

---

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ✓ No __

TABLE OF CONTENTS

The two other wholly-owned principal subsidiaries of MSU are MSS, a service company, and MSE, a generating company formed in 1974 to undertake the construction, financing and ownership of certain base load generating units. In 1972, AP&L, LP&L, MP&L and NOPSI formed a special purpose company, SFI, to plan and implement programs for the procurement, delivery and storage of fuel supplies for the Middle South System. In addition, Ark-Mo has a wholly-owned subsidiary, Associated.

INDUSTRY AND COMPANY PROBLEMS

The electric utility industry in general is currently experiencing problems in a number of areas, including increasing costs of fuel, wages and materials, greater capital outlays and longer construction periods for the larger and more complex new generating units needed to meet current and future service requirements of customers, increased reliance on capital markets with higher costs and limited availability of both equity and borrowed capital, fuel shortages, compliance with environmental requirements, controversies over the use of nuclear power, regulatory lag in granting needed rate increases and the inadequacy of such increases when granted. In addition, Federal energy legislation enacted in 1978 may adversely affect electric utilities, including the Middle South System. Summarized below are certain factors currently affecting the Middle South System.

Construction Program and Financing Requirements and Restrictions

Construction expenditures (exclusive of nuclear fuel costs) for the Middle South System during the period 1980 through 1982 were estimated at March 1, 1980 by MSU to be $2,632 million (including $626 million in AFDC). During this period the Middle South System will need to obtain a substantial portion of these funds in the financial markets, which have been characterized in recent years by high interest rates. Moreover, the System operating companies' ability to issue additional bonds and shares of preferred stock is limited by certain earnings coverage tests. Under the respective earnings coverage tests as of December 31, 1979, LP&L would have been precluded from issuing additional first mortgage bonds, except for refunding purposes, and from issuing additional preferred stock and AP&L would have been precluded from issuing additional first mortgage bonds, except for refunding purposes. Based upon the same coverage tests and assuming the availability of bondable property AP&L, after adjusting for the sale of preferred stock in January 1980, MP&L and NOPSI, after adjusting for a proposed sale of preferred stock in March 1980, could have issued, in the aggregate, approximately $79,000,000 of preferred stock at an assumed annual dividend rate of 15% or $73,300,000 of first mortgage bonds at an assumed annual interest rate of 15%, plus any first mortgage bonds issued for refunding purposes. (See "Future Financing" for the amounts of bonds and preferred stock issuable at December 31, 1979 by AP&L, LP&L, MP&L and NOPSI under their respective coverage tests, and for future financing requirements, including those of SFI and MSE.) The future ability of AP&L, LP&L, MP&L and NOPSI to issue additional first mortgage bonds and preferred stock is contingent upon increases in earnings and may be contingent upon the ability to obtain adequate rate relief. (See "Rate Matters".)

A Presidential Commission, Congress and the NRC have been investigating the cause of the incident which occurred at the Three Mile Island Unit 2 nuclear power plant located near Harrisburg, Pennsylvania. The report of the Presidential Commission has recommended, among other things, that the NRC be reorganized and that the NRC or its successor should, on a case-by-case basis, before issuing a new construction permit or operating license in respect of a nuclear generating plant: (a) assess the need to introduce new safety improvements recommended in the report, and in NRC and industry studies; (b) review the competency of the prospective operating licensee to manage the plant and the adequacy of its training program for operating personnel; and (c) condition licensing upon review and approval of state and local emergency plans. MSU cannot predict the extent of new regulations to be imposed or design changes to be made applicable to nuclear facilities now under construction as a result of these investigations or what additional effect, if any, these investigations may have upon the construction schedule, licensing, in-service

This combined Form 10-K is separately filed by Middle South Utilities, Inc., Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company and New Orleans Public Service Inc. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

DEFINITIONS

The following abbreviations or acronyms used in the text and notes are defined below:

Abbreviation or Acronym	Term
AEC	Atomic Energy Commission
AECC	Arkansas Electric Cooperative Corporation
AFDC	Allowance for Funds used During Construction
Ambient Air Standards	National Ambient Air Quality Standards
ANO	The two units at AP&L's Arkansas Nuclear One Generating Station
ANO No. 1	Unit No. 1 of AP&L's Arkansas Nuclear One Generating Station
ANO No. 2	Unit No. 2 of AP&L's Arkansas Nuclear One Generating Station
AP&L	Arkansas Power & Light Company
APSC	Arkansas Public Service Commission
Ark-Mo	Arkansas-Missouri Power Company
Associated	Associated Natural Gas Company
Company or MSU	Middle South Utilities, Inc.
Conway	The City of Conway, Arkansas
Council	Council of the City of New Orleans
CPI-U	Consumer Price Index for all Urban Consumers
CWIP	Construction Work In Progress
DOE	Department of Energy
EPA	Environmental Protection Agency
EPRI	Electric Power Research Institute
ERDA	Energy Research and Development Administration
FERC	Federal Energy Regulatory Commission
FPC	Federal Power Commission
FWPCA	Federal Water Pollution Control Act
Grand Gulf Plant	MSE's Grand Gulf Generating Station (nuclear)
Holding Company Act	Public Utility Holding Company Act of 1935
HWI	Handy-Whitman Index of Public Utility Construction Costs
Independence Plant	AP&L's Independence Steam Electric Generating Station (coal)
Jonesboro	City Water and Light Plant of the City of Jonesboro, Jonesboro, Arkansas
LP&L	Louisiana Power & Light Company
LPSC	Louisiana Public Service Commission
MEAM	Municipal Energy Agency of Mississippi
Middle South System	The Company and its various direct and indirect subsidiaries
MP&L	Mississippi Power & Light Company
MSE	Middle South Energy, Inc.
MSS	Middle South Services, Inc.
MSU or Company	Middle South Utilities, Inc.
New Source Standards	New Source Performance Standards
NOPSI	New Orleans Public Service Inc.
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
Osceola	City of Osceola, Arkansas
PSCM	Public Service Commission of Missouri
Reynolds	Reynolds Metals Company
SEC	Securities and Exchange Commission
SFI	System Fuels, Inc.
SMEPA	South Mississippi Electric Power Association
SPA	Southwestern Power Administration
State Plan	State Implementation Plan
System Agreement	Agreement among the five System operating companies relating to the sharing of generating capacity and other power sources
System operating companies	AP&L, Ark-Mo, LP&L, MP&L and NOPSI
TVA	Tennessee Valley Authority
United	United Gas Pipe Line Company
Waterford No. 3	Unit No. 3 (nuclear) at LP&L's Waterford Steam Electric Generating Station
West Memphis	City of West Memphis, Arkansas
White Bluff Plant	AP&L's White Bluff Steam Electric Generating Station (coal)

PART I

ITEM 1. BUSINESS

GENERAL

MSU, incorporated under the laws of the State of Florida on May 27, 1949, is a holding company registered under the Holding Company Act and neither owns nor operates any physical properties. MSU is the owner of all the outstanding common stock of its principal operating subsidiaries, AP&L, Ark-Mo, LP&L, MP&L and NOPSI.

date or cost of Waterford No. 3 and the Grand Gulf Plant. (See "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974," with respect to the December 1979 revision of the scheduled commercial operation dates of the Units at the Grand Gulf Plant.) Additionally, MSU cannot predict whether new regulations or design changes applicable to currently operating nuclear facilities will be required or what effect, if any, these investigations may have upon the operation of nuclear facilities, including ANO, in the future. Since April 1979, the NRC has developed an extensive list of requirements for nuclear plants through the activities of its "Bulletins and Orders", "Lessons Learned" and Emergency Planning task forces. The requirements include plant design modifications, accident analysis and procedural changes. The affected Middle South System operating companies have committed themselves to implement these items within the time frames requested by the NRC. Certain other modifications which have already been required are referred to in "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974."

Fuel Supply

The Middle South System's primary source of fuel has traditionally been natural gas. Curtailments of natural gas deliveries have required the System operating companies to burn large amounts of higher priced oil. To diversify the Middle South System's generating fuels base, the first nuclear-fueled generating unit went into operation in December 1974 and the second unit is expected to be in commercial operation in the first quarter of 1980. In addition, the Middle South System presently has under construction three nuclear-fueled units and four coal-fueled units (see "Construction Program"). The first coal-fueled unit is scheduled for commercial operation in 1980. For further information with respect to supplies of (i) natural gas, (ii) fuel oil, (iii) coal and (iv) nuclear fuel, see "Fuel Supply".

Need for Rate Relief and Rate Matter

To offset increasing costs and to maintain earnings at acceptable levels, certain of the System operating companies have recently requested, and will in the future request, increases in retail or wholesale electric and gas rates from state or municipal regulatory authorities or the FERC. (See "Rate Matters".)

The Attorney General of Arkansas filed a complaint with the APSC on April 23, 1979, in which he alleged that AP&L had erroneously applied the existing fuel adjustment clause to retail customers from April 1977 through March 1979 and thereby overcharged these customers $17,297,000 ($2,205,000 in 1977, $12,945,000 in 1978 and $2,147,000 in the three months ended March 31, 1979). The complaint alleged that such overcharges would continue as long as AP&L continued to apply the fuel adjustment clause in the same manner. This matter is discussed in Note 10 to Financial Statements and in "Rate Matters—AP&L", to which reference is hereby made.

Compliance With Environmental Standards

Oil, coal and nuclear-fueled generation require various types of pollution control equipment. While the Middle South System generally is not experiencing significant delays attributable to environmental standards, it is incurring additional capital costs and operational expenses to meet such standards and may, in the future, incur additional costs and expenses. The System operating companies have had no difficulty in complying with present air quality standards when burning solely natural gas as boiler fuel. (See "Regulation and Litigation—Environmental Regulation".)

Federal Legislation

Federal energy legislation enacted in 1978, among other things, (i) requires state public utility commissions to consider standards relating to retail rate design, restrictions on automatic adjustment clauses and time-of-day and seasonal rates, (ii) requires states to develop residential energy conservation plans, (iii) grants the FERC authority to order wheeling and interconnection in specified situations and to limit automatic adjustment clauses for wholesale rates, (iv) deregulates the first sale prices of natural gas in 1985, (v) extends price regulation of natural gas to the intrastate market, (vi) provides for incremental pricing of higher priced new gas to industrial customers (other than electric utilities) of interstate pipelines, (vii) prohibits existing power plants from using natural gas as boiler fuel after 1990 with provisions for exemption from such prohibition until the year 2000, (viii) prohibits the use of natural gas in an existing electric power plant in greater proportion than the average yearly proportion of natural gas which such power plant used as a primary energy source in calendar years 1974 through 1976 with provisions for exemption from such prohibition, and (ix) grants the Secretary of Energy the authority to limit or prohibit the use of petroleum and natural gas in certain existing power plants. See "Fuel Supply" with respect to exemptions granted to certain of the System operating companies in 1980 relating to their use of natural gas as power plant fuel.

Certain of the System operating companies are petitioners in litigation, which has been set for hearing on September 22, 1980 before the United States Court of Appeals for the Fourth Circuit, seeking judicial review of rules promulgated by the DOE to implement the portions of such legislation which would prohibit and regulate the use of petroleum or natural gas as a primary energy source in electric power plants. (See "Fuel Supply".)

BUSINESS OF SYSTEM OPERATING COMPANIES

As of December 31, 1979, the System operating companies furnished electric service to 1,432 communities, of which 26 were served at wholesale, and to extensive rural areas at wholesale and retail, in the States of Arkansas, Louisiana, Mississippi and Missouri. In addition, NOPSI furnished gas and transit services in the City of New Orleans and Ark-Mo's subsidiary, Associated, provided gas service in certain areas of the States of Arkansas and Missouri. For information with respect to the proposed disposition of the gas properties of Associated, the proposed divestiture of the transit properties of NOPSI and the proposed consolidation of the operations of Ark-Mo and AP&L, see "Regulation and Litigation—Holding Company Act".

The aggregate population of the Middle South System area is approximately 5,000,000. Although the area is predominantly agricultural, it has a large number of natural resource industries and has had a continued growth of industry.

As of December 31, 1979, the System operating companies provided electric service to 1,520,147 custo[illegible] NOPSI and Associated provided gas service to 240,454 customers as indicated below:

	Area Served	Customers at December 31, 1979 Electric	Gas
AP&L	Portions of State of Arkansas	463,087	—
LP&L	Portions of State of Louisiana	500,710	—
MP&L	Portions of State of Mississippi	303,723	—
NOPSI	City of New Orleans with exception of one ward served electricity by LP&L	193,769	177,136
Ark-Mo	Portions of States of Arkansas and Missouri	58,858	—
Associated	Portions of States of Arkansas and Missouri	—	63,318
Consolidated		1,520,147	240,454

Selected 1979 sales data for the registrants is listed below:

Selected Electric Energy Sales Data—1979

	Consolidated	AP&L	LP&L	MP&L	NOPSI
		(Millions of KWH)			
Sales to ultimate customers	47,479	13,684	20,550	7,275	4,602
Sales for resale—affiliates	—	1,739	1,132	3,637	1,166
—others	5,468	2,465	1,570	1,316	59
Total	52,947	17,888	23,252	12,228	5,827
Average use per residential customer (KWH)	11,116	9,778	13,758	10,801	9,049

Selected Natural Gas Sales Data—1979

	Consolidated	NOPSI
Sales to ultimate customers (Million Cubic Feet)	45,933	33,067

The effect of natural gas and transit operations on consolidated operating revenues and income for each of the five years ended December 31, 1979 is immaterial on a consolidated basis, but significant for NOPSI. The following table shows consolidated operating revenues and operating income by type of business (expressed as percentages) for each of the five years ended December 31, 1979. (See "NOPSI Industry Segments" for a similar description of NOPSI's business segments.) Because it is impracticable to allocate interest charges and other income and deductions, the contribution to net income by type of business is not shown.

	Year Ended December 31,				
	1979*	1978*	1977*	1976	1975
Consolidated					
Operating Revenues:					
Electric	91.6%	91.9%	92.0%	92.9%	93.3%
Natural gas	6.4	5.9	5.8	5.5	5.3
Transit	2.0	2.2	2.2	1.6	1.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Income (Loss):					
Electric	99.5%	97.8%	98.6%	101.2%	103.9%
Natural gas	1.5	2.0	2.1	3.0	1.5
Transit and other	(1.0)	0.2	(.7)	(4.2)	(5.4)
Total	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes adjustment for transit subsidy. See "Regulation and Litigation—Holding Company Act" regarding the subsidy of NOPSI's transit operations by the City of New Orleans and Note (a) to Summaries of Operations concerning the reclassification of certain revenues in 1979, 1978 and 1977.

The System operating companies generally are not in direct competition with privately or municipally owned electric utilities. However, a few municipalities distribute electricity within their corporate limits and environs, and some of these generate all or a portion of their requirements.

A number of electric cooperative associations or corporations serve a substantial number of retail customers in or adjacent to areas served by the System operating companies. With the exception of those in Arkansas, most of these cooperatives purchase all or a major portion of their energy requirements at wholesale rates from certain of the System operating companies. During the year ended December 31, 1979, the total revenue received by the Middle South System from service supplied to rural electric cooperatives was 5.1% of consolidated electric operating revenues. Certain cooperatives in Arkansas, Louisiana and Mississippi are participants in arrangements for the construction and operation of steam electric generating stations which have superseded in part and may supersede, in whole or in part, the Middle South System as the supplier of their power requirements.

Revenues derived from certain power supply contracts with Reynolds constituted approximately 11.3% of AP&L's total operating revenues for the year ended December 31, 1979. The contracts, one with Reynolds covering four plants located in Arkansas and the other with Reynolds and the United States of America, acting through the Secretary of the Interior, in connection with Reynolds' Patterson Reduction Plant, provide for AP&L to supply Reynolds with both power and energy to meet a stated amount of firm demand and also to supply a variable amount of non-firm demand to Reynolds during off-peak periods. Both contracts with Reynolds extend to December 31, 1983, with Reynolds having the right under the first to cancel, upon 48 months' notice, if the energy charge thereunder exceeds limits set for a consecutive 12 month period or upon 24 months' notice after any adverse rate adjustment, while the second contract allows Reynolds to cancel with one year's prior notice. (See "Regulation and Litigation—Other Regulation and Litigation" for litigation in regard to AP&L's contract with Reynolds and the United States of America.)

A total of 11,959 persons were employed by the Middle South System at year-end 1979. Included in the above number are 259 part-time employees. Details follow:

	December 31, 1979		
	Full Time	Part Time	Total Employees
MSU	3	—	3
AP&L	3,668	46	3,714
LP&L	2,274	55	2,329
MP&L	1,691	85	1,776
NOPSI	2,945	44	2,989
Other subsidiaries	1,119	29	1,148
Total	11,700	259	11,959

CONSTRUCTION PROGRAM

The 1980-1982 construction expenditures (exclusive of nuclear fuel costs) for the Middle South System were estimated at March 1, 1980 by MSU to total $2,632 million. The estimates by years are as follows: 1980, $928 million; 1981, $960 million; and 1982, $744 million (including AFDC of $245 million for 1980, $248 million for 1981, and $133 million for 1982). These estimates by company are as follows:

	1980	1981	1982
		(In Millions)	
Registrants:			
AP&L	$285	$227	$210
LP&L	285	269	169
MP&L	47	45	41
NOPSI	30	26	28
Other subsidiaries:			
MSE	273	384	287
Ark-Mo and Associated	8	9	9
Consolidated	$928	$960	$744

The estimated construction expenditures for 1980 for AP&L, LP&L, MP&L, NOPSI and MSU's other subsidiaries, and on a consolidated basis, include:

	Production	Trans-mission	Distribution	Other Plant
	(In Millions)			
Registrants:				
AP&L	$ 203	$ 36	$ 37	$ 9
LP&L	234	15	35	1
MP&L	5	25	14	3
NOPSI	10	—	10	10
Other subsidiaries:				
MSE	273	—	—	—
Ark-Mo and Associated	—	1	3	4
Consolidated	$ 725	$ 77	$ 99	$ 27

The above table includes estimated environmental expenditures of $21 million for AP&L, $33 million for LP&L, $1 million for MP&L, $1 million for NOPSI and $6 million for MSE.

The following tabulation shows certain details with respect to certain planned generating facilities included in the estimated construction expenditures for 1980-1982.

	Location	Fuel Type	Net System Capability MW	Expenditures Before 1980	1980	1981	1982	Total System Company Cost(1)	Cost Per KW(2)	Scheduled Year of Completion
				(Millions of Dollars—except Cost Per KW)						
AP&L										
White Bluff, No. 1(3)	Redfield, Ark.	Coal	422	$ 207.3	$ 23.0	$ 2.9	—	$ 229.6	$ 544(4)	1980
White Bluff, No. 2(3)	Redfield, Ark.	Coal	422	101.5	41.9	12.5	—	154.1	365(4)	1981
Independence, No. 1(5)	Newark, Ark.	Coal	422	35.5	78.2	95.0	$ 50.0	262.6	622(4)	1983
Independence, No. 2(5)	Newark, Ark.	Coal	422	6.9	5.0	36.5	60.1	219.3	520(4)	1985
Sub-total				351.2	148.1	146.9	110.1	$ 865.6		
LP&L										
Waterford No. 3	Killona, La.	Nuclear	1,165	819.3	214.1	166.7	29.1	$1,229.2	1,055	1982
Sub-total				819.3	214.1	166.7	29.1	$1,229.2		
MSE										
Grand Gulf, No. 1(6)	Grand Gulf, Miss.	Nuclear	1,125	1,147.3	210.3	227.1	67.1	$1,651.8	1,468	1982
Grand Gulf, No. 2(6)	Grand Gulf, Miss.	Nuclear	1,125	272.1	62.6	157.3	220.1	1,140.5	1,014	1985
Sub-total				1,419.4	272.9	384.4	287.2	$2,792.3		
Total				$2,589.9	$635.1	$698.0	$426.4			

---

(1) The costs shown include AFDC. Costs of acquiring nuclear fuel (net of amounts already provided for under existing leases) excluded from construction expenditures of the nuclear units are estimated to amount to (in millions) $4, $92 and $45 for the years 1980, 1981 and 1982, respectively. For information with respect to the sale and leaseback of nuclear fuel by AP&L, LP&L and MSE, see Note 8 to Financial Statements. In 1978, SFI entered into an arrangement for the financing of $60,000,000 of expenditures in connection with its nuclear fuel procurement and services program for the Middle South System, see "Fuel Supply—Nuclear Fuel".

(2) Common costs are identified with the first unit of each station. Therefore, the Cost Per KW is substantially greater for the first, as compared to the second units, at the White Bluff, Independence, and Grand Gulf Plants.

(3) In 1977 AP&L sold a 35% undivided interest in the White Bluff Plant to AECC and a 5% undivided interest to Jonesboro. The expenditures for these Units reflect AP&L's 60% share of the cost of construction through June 30, 1979, no expenditures except AFDC through September 10, 1979 (during which period Conway paid 60% of the cost of construction) and thereafter 58%, based upon an exchange of properties which was made with Conway pursuant to a contract effective July 1, 1979 under which Conway became the owner of a 2% undivided interest. West Memphis has paid 58% of the cost of the construction of the White Bluff Plant from February 1 to March 7, 1980 and has paid 1% of such cost since March 7 under a contract which obligates it to exchange the property so acquired with AP&L for a 1% undivided interest in the White Bluff Plant. Construction expenditures in 1980 are not reduced by the initial participation amount by West Memphis. The Total System Company Cost shown is 57% of the total project cost, including coal handling equipment costs. In 1979, AP&L determined that the net capability of each of these Units is 740 MW instead of 700 MW. On December 20, 1979, AP&L exchanged a fractional undivided interest in the White Bluff Plant for the entire undivided ownership interests of AECC and Jonesboro in the coal handling equipment for Unit No. 1 and Unit No. 2 of the White Bluff Plant. Concurrently, AP&L sold a portion of such equipment to a trustee acting for several institutions and leased back such equipment under a net lease having a primary term of twenty-five years. The proceeds from such sale to AP&L were approximately $24.7 million. During 1980, AP&L expects to sell and lease back the remainder of such equipment, which is expected to result in the receipt by AP&L of additional proceeds totaling approximately $18.8 million. The estimated expenditures for these White Bluff Units have not been adjusted to reflect the sales of the coal handling equipment.

(4) Costs of sulfur dioxide removal equipment for the White Bluff and Independence Plants are not included in the above Costs Per KW. The Plants have been designed and are being constructed so that such equipment could be installed should it become economically feasible and should AP&L be required to make such installation in the future. AP&L has estimated that the Cost Per KW would be increased to approximately $649 and $440 for Unit No. 1 and Unit No. 2 of the White Bluff Plant, respectively, and to approximately $722 and $593 for Unit No. 1 and Unit No. 2 of the Independence Plant, respectively, should sulfur dioxide removal equipment be required. AP&L expects to burn low sulfur coal from Wyoming to operate the White Bluff and the Independence Plants. For information with respect to existing agreements for fuel supplies, see "Fuel Supply".

(5) On July 31, 1979, AP&L transferred to AECC, Jonesboro and Conway a 35%, 5% and 2% interest, respectively, in the Independence Plant. In addition, AP&L sold and conveyed a 1% interest to West Memphis on January 24, 1980 and a 0.5% interest to Osceola on March 3, 1980. The expenditures for these Units reflect the full cost of construction through June 30, 1979, and 58% thereafter. The amount shown for 1980 has not been reduced for any payments by West Memphis and Osceola. The Total System Company Cost shown is 100% of coal handling equipment costs and 57% of all other project costs. In 1979, AP&L determined that the net capability of each of these Units is 740 MW instead of 700 MW.

(6) Negotiations are currently being conducted for the acquisition of a 10% undivided interest in the Grand Gulf Plant by SMEPA during 1980. The expenditures for these units are estimated to reflect the full cost of construction through May 31, 1980, no expenditures except AFDC and taxes capitalized through February 28, 1981 (during which period SMEPA is expected to pay for the basic cost of construction, see "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974" for information concerning the acquisition by SMEPA of 10% of the Grand Gulf Plant) and thereafter 90% of the cost of construction. Assuming consummation of this acquisition, 90% of the capability of the Grand Gulf Plant, or 2,250 MW, would be available to the Middle South System. At December 31, 1979, construction of Units No. 1 and 2 of the Grand Gulf Plant was approximately 80% and 24% completed, respectively, and engineering was approximately 91% and 43% completed, respectively.

Construction of ANO No. 2 is complete. An operating license for this unit was issued in the summer of 1978. Testing of the unit is continuing and it is expected to be in commercial operation in the first quarter of 1980 (see "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974"). For information with respect to the fuel supply for ANO, see "Fuel Supply—Nuclear Fuel".

The foregoing are only estimates of construction expenditures for the various facilities referred to. Actual expenditures and dates of completion for the various construction projects may vary from the estimates because of availability of financing, changes in the plans of the respective companies, cost fluctuations, sales of interests in projects, availability of labor, materials and equipment, licensing and testing delays and other factors. The Middle South System is continuing to experience increases in costs for construction of new facilities as a result of continuing rises in the costs of material, labor and capital, increasing requirements of expenditures for environmental and ecological purposes, and deferred completion dates of projects. (See "Regulation and Litigation—Environmental Regulation" for the estimated amount of environmental expenditures during the period 1980-82.)

In addition to construction of utility plant, SFI expects to increase its investment in its fuel procurement and exploration programs. SFI's increased investment (excluding fuel oil inventory) is expected to be $62 million in 1980, $42 million in 1981 and $135 million in 1982. Middle South System expenditures for nuclear fuel not already provided for under existing leases will amount to $4 million in 1980, $92 million in 1981 and $45 million in 1982.

FUTURE FINANCING

Construction expenditures (exclusive of nuclear fuel costs) for the Middle South System during the period 1980 through 1982 were estimated at March 1, 1980 by MSU to be approximately $2,632 million (including $626 million in AFDC). During the period 1980-1982, increased investment in the fuels programs net of amounts provided for by existing leases will add $380 million to total capital requirements (including nuclear fuel cost not provided for under existing leases). MSU estimates that $1,513 million will be raised from sources outside the Middle South System through the sale of additional bonds and shares of preferred stock, long and short-term borrowings and pollution control revenue bond financing and through the sale and leaseback or repurchase of property. Approximately $521 million is expected to be raised from the sale of MSU Common Stock. The balance of the capital expenditures for the period 1980 through 1982, presently estimated at $978 million, is to be met with internally generated funds (including $626 million in AFDC—see Note (e) to Summaries of Operations).

In addition to the financing requirements needed for capital expenditures, MSU estimates that during the period 1980-1982 the Middle South System will need to raise capital funds from external sources to refinance maturing long-term debt, or to make sinking fund redemptions, totalling $322 million and to redeem $9 million of preferred stock pursuant to sinking fund requirements. See Notes 2 and 3 to Financial Statements.

The coverage provisions of the indentures and charters of the System operating companies generally require minimum earnings coverages of twice the pro forma annual bond interest charges for the issuance of additional bonds and minimum earnings coverages of one and one-half times the pro forma annual interest charges and preferred dividends for the issuance of additional shares of preferred stock.

On the basis of the formulas contained in the indentures and charters of certain of the System operating companies, the earnings coverages for the years ended December 31, 1975 and 1979 would be those stated in the following tabulation:

	AP&L		LP&L		MP&L		NOPSI	
Year	Bonds	Preferred Stock	Bonds	Preferred Stock	Bonds	Preferred Stock	Bonds	Preferred Stock
1975	1.80	1.38	2.45	1.81	2.86	1.81	1.92	1.33
1979	1.56(a)	1.58(a)(b)	1.71	1.36	3.00	1.87	2.46	1.54(c)

(a) Includes in earnings the effect of those revenues which are the subject of a complaint filed by the Attorney General of Arkansas with the APSC and those which were mentioned by the APSC in a preliminary order and referred to under "Rate Matters—AP&L".

(b) As adjusted to give effect to the sale in January 1980 of 2,000,000 shares of 13.28% Preferred Stock, Cumulative, $25 Par Value.

(c) As adjusted to give effect to the proposed sale in March 1980 of 150,000 shares of Preferred Stock, Cumulative, $100 Par Value, at an assumed annual dividend rate of 15%.

Based on the above earnings coverage tests as of December 31, 1979, and assuming the availability of bondable property, AP&L, LP&L, MP&L and NOPSI could have issued first mortgage bonds or preferred stock amounting to the following, at an assumed interest and dividend rate of 15%:

	First Mortgage Bonds	Preferred Stock
AP&L	—	$39,000,000
LP&L	—	—
MP&L	$60,000,000	38,000,000
NOPSI	13,300,000	2,000,000
Total	$73,300,000	$79,000,000

In addition to the above first mortgage bonds these System operating companies could issue additional first mortgage bonds for refunding purposes.

The amounts of additional bonds and preferred stock which can be issued by the System operating companies in the future are contingent upon earnings and may be contingent upon the ability of the System operating companies to obtain adequate rate relief.

Certain of the System operating companies have arranged and are attempting, to the extent practicable, to arrange in the future for the financing of certain of their estimated expenditures for pollution control facilities through the issuance by local governmental units of pollution control revenue bonds.

MSE estimated at December 31, 1979, that the total cost to MSE, assuming a 90% ownership interest, for the Grand Gulf Plant, excluding nuclear fuel, will be approximately $2,792.3 million. See "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974" for further information with respect to the pending acquisition of 10% of the Grand Gulf Plant by SMEPA and the December 1979 revision in the scheduled completion dates of Unit No. 1 and Unit No. 2 of the Grand Gulf Plant from 1981 and 1984 to 1982 and 1985, respectively. In connection with the Grand Gulf Plant, MSU has undertaken, to the extent not obtained by MSE from other sources, to furnish or cause to be furnished to MSE sufficient capital for construction and operation of the Grand Gulf Plant and related purposes. Through December 31, 1979, MSU had invested $385.7 million in the common stock of MSE. At December 31, 1979, MSE had made interim-term bank borrowings of $547 million, which are due December 31, 1982, under a $565 million revolving loan agreement with a group of banks. In March 1980, MSE entered into an amendment to the loan agreement to increase the total amount of borrowings permitted thereunder to $808 million and to extend the term of the borrowings thereunder to December 31, 1985. At December 31, 1979, MSE had issued and sold $400 million of its First Mortgage Bonds, 9¼% Series due 1989. In January 1980, MSE entered into an agreement under which it has issued and sold $15 million and will issue and sell on or prior to July 1, 1980, an additional $83.5 million of its First Mortgage Bonds, 12½% Series due 2000. MSE is obligated to make annual cash sinking fund payments with respect to the 9¼% Bonds commencing July 1, 1982 designed to retire $328 million of those Bonds by maturity and with respect to the 12½% Bonds commencing in January 1, 1985 designed to retire about $93.5 million of those Bonds by maturity. Also, MSE has covenanted with the bondholders and the banks that it will complete Unit No. 1 no later than December 31, 1982. MSE has also covenanted with the bondholders that Unit No. 2 will be completed no later than December 31, 1986. In the event either of these covenants is not fulfilled or MSE defaults in respect of either the Bonds or the bank borrowings, the Bonds and the bank borrowings will become due and payable unless extensions of time can be arranged. In these cases, MSU would be required to provide MSE with sufficient funds, to the extent not obtained by MSE from other sources, to meet these payment obligations of MSE with respect to any of the foregoing $498.5 million of Bonds and bank borrowings under the $808 million revolving loan agreement, which are then outstanding.

MSE and the System operating companies have entered into a series of agreements (collectively, "Availability Agreement") whereby (i) MSE has agreed to complete the Grand Gulf Plant, to join in the System Agreement (see "Property—Interconnections" for information with respect to the System Agreement) on or before the completion of the first unit of the Grand Gulf Plant and to sell to the System operating companies power available from the Grand Gulf Plant under the terms of the System Agreement, (ii) the System operating companies have agreed to pay to MSE (on the apportionment bases provided for in the Availability Agreement) such amounts as (when added to any amounts received by MSE under the System Agreement or otherwise) will be at least equal to MSE's operating expenses or an equivalent amount if either unit is not in operation (including such expenses as might be incurred by MSE for maintenance and surveillance in the event of shutdown of either or both units), including MSE's interest charges and an amount equal to an assumed depreciation rate for 27.4 years of 3.65% per annum applied to MSE's gross investment in the Grand Gulf Plant (exclusive of land and land rights), (iii) the System operating companies have agreed to make subordinated advances under certain circumstances to MSE in amounts equal to payments which would otherwise be owing under the payment formula of the Availability Agreement described in (ii) above and (iv) the System operating companies have agreed that their obligations to make payments or advances to MSE are absolute and unconditional. The requirement to make payments under (ii) above commences on the date on which either unit of the Grand Gulf Plant is placed in commercial operation; provided that if Unit No. 1 is not placed in commercial operation prior to December 31, 1982, the commencement date is December 31, 1982; and provided, further, if Unit No. 1 is placed in commercial operation prior to December 31, 1982 then, with respect to the assumed depreciation charge related to Unit No. 2, the commencement date is the earlier of the date of commercial operation of Unit No. 2 or December 31, 1986.

Dividends of $1.52 per share were paid by MSU on its Common Stock in 1979. MSU's tax position in 1979 was such that 49.04% of the July 2 dividend payment and 61.75% of the October 1 dividend payment are estimated to be nontaxable as dividend income to the stockholder. These percentages are subject to verification and approval by the Internal Revenue Service at a future date. The portion of a dividend payment which does not represent income is treated under the Federal income tax law as a return of the shareholder's capital and necessitates a reduction in the tax basis of the shares on which these dividends were paid.

Dividends paid by AP&L on its preferred stock in recent years have been fully taxable as dividend income to recipient shareholders. AP&L's tax position in 1979 was such that 100% of the preferred stock dividend payments in 1979 are estimated to be nontaxable as dividend income. This estimate is subject to verification and approval by the Internal Revenue Service at a future date. The portion of a dividend payment which does not represent dividend income is treated under the Federal income tax law as a return of the shareholder's capital and necessitates a reduction in the tax basis of the shares on which such dividends were paid.

RATE MATTERS

General

As of March 1, 1980, certain of the System operating companies had pending applications before their state or municipal regulatory authorities or the FERC or on appeal before the courts, for electric and gas rate increases. Certain of the applications also request authorization to modify other provisions of rate schedules.

For details as to various electric and gas rate increase applications of the System operating companies, see below under this heading.

AP&L

AP&L, on April 30, 1979, filed with the FERC an application for an increase in its wholesale rates. It is estimated that based on a projected test year ended December 31, 1979, the request would increase revenues of AP&L approximately $6,700,000 per year. On March 7, 1980, AP&L placed these rates in effect, subject to refund. Under the terms of a settlement agreement entered into in January 1980 between AP&L and its intervening wholesale customers, subject to the required approval of the FERC, AP&L's proposed rate increase would be changed to approximately $4,700,000. AP&L has agreed with its intervening wholesale customers that in the event that the increased retail rates authorized by the APSC's February 29, 1980 order (discussed in the next paragraph) have not been implemented by AP&L by April 7, 1980, AP&L will refund to its wholesale customers a portion of the increased rates implemented March 7, 1980. In addition, AP&L has agreed to seek FERC approval of the use at wholesale of a fuel adjustment clause similar to whatever fuel adjustment clause the APSC approves in AP&L's pending retail rate increase proceeding.

On October 23, 1978, AP&L filed with the APSC an application for an increase in its retail electric rates which would produce approximately $29,000,000 of increased revenues based on a June 30, 1978 test year. The $29,000,000 was subsequently changed to approximately $27,000,000 primarily because of changes in the Internal Revenue Code. The filing included: optional time-of-day rates for residential customers; a lower residential rate for customers with low year-round usage; air-conditioning load control switch programs for commercial customers; and stand-by service for customers who desire to generate their own electricity. The application primarily involves rate structure changes for the commercial operation of ANO No. 2 which is now estimated for the first quarter of 1980. On September 12, 1979, AP&L and the Staff of the APSC executed a written stipulation recommending to the APSC that AP&L's rates be increased to produce additional annual revenues of $13,578,000 on the test year basis; that decommissioning costs for nuclear plants be determined and added to the rates described above; and that an agreed fuel adjustment clause be adopted and negative salvage value of nuclear fuel be recovered under that clause. The APSC has ruled that no part of any increase in rates in this case will be placed in effect until ANO No. 2 is in commercial operation. On February 29, 1980 the APSC entered an order granting rate increases designed to produce additional revenue of $14,695,000 on a test-year basis; requiring mandatory time-of-use rates for all industrial, commercial and special class customers whose loads exceed 100 KW; permitting optional time-of-use rates for residential customers; requiring AP&L to make the air-conditioning load control switch program available on an optional basis to customers who elect time-of-use rates; requiring tariffs for charges to qualified cogenerators to be the same as tariffs for payments to cogenerators; requiring the use of a three base fuel adjustment clause until one of the nuclear units has been out of service for 30 consecutive days for a reason other than refueling, after which AP&L will go to a single base fuel adjustment clause with 90% of the added expense being passed to the customer and 10% being absorbed by AP&L; permitting AP&L to add to the rates amounts sufficient to pay the costs of decommissioning the nuclear plant and transporting and storing spent nuclear fuel. The APSC found, in the order, that there was no evidence to support the difference in risk as to classes of customers which AP&L has used, and ordered AP&L to cease using risk multipliers. If this portion of the order is not changed, it will result in a substantial increase in rates for residential customers and a reduction in rates for industrial and commercial customers. On March 6, 1980, the staff of APSC filed a petition for rehearing requesting the APSC to modify this portion of the order. On March 7, 1980, AP&L filed a response requesting a similar modification, and the APSC entered an order directing AP&L and all intervenors to file any responses they have to the staff's petition for rehearing by March 17, 1980.

The Attorney General of Arkansas filed a complaint with the APSC on April 23, 1979, in which he alleged that AP&L had erroneously applied the existing fuel adjustment clause to retail customers from April 1977 through March 1979 and thereby overcharged these customers a total of $17,297,124 and that such overcharges would continue as long as AP&L continued to apply the fuel adjustment clause in the same manner. The Staff of the APSC filed a Motion concurring in the Attorney General's conclusion that AP&L erroneously applied the fuel adjustment clause and alleging that the overcharges from April 1977 through March 1979 totaled $17,158,719. AP&L does not believe there was any erroneous application or overcharge. On July 3, 1979, the APSC issued an interim order directing AP&L to begin and continue in the future applying its fuel adjustment clause according to the Attorney General's interpretation when the nuclear generating units are not down for refueling and in accordance with AP&L's interpretation when the nuclear generating units are down for refueling. The July 3, 1979 order stated it was not deciding the propriety and legality of ordering refunds by AP&L for its administration of the fuel adjustment clause from May 21, 1976 (which was the date of a final order of the APSC under which a new fuel adjustment clause similar to the clause which was the subject of the Attorney General's complaint was placed in effect) to the date of the July 3, 1979 order and stated that decision would be made later. AP&L has appealed the decision to the Circuit Court of Pulaski County, Arkansas.

All of AP&L's present retail rate schedules, with the exception of the large power supply contracts with Reynolds, have a multiple base fuel adjustment clause which provides for the recovery of the cost of nuclear fuel in excess of 2.557 mills per KWH, fossil fuel in excess of 15.246 mills per KWH and purchased power in excess of 16.444 mills per KWH incurred in the second preceding month. In addition, 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 by nuclear fuel when the nuclear plant is down for refueling. This fund bears interest and is credited to the fuel and purchased power expenses incurred during the time the nuclear plant is actually down for refueling. The February 29, 1980 order of the APSC in the retail rate case of AP&L will change the fuel adjustment clause and collection thereunder. The actual effect of the order will not be known until rate design discussions have been concluded with the APSC. Energy charges to Reynolds on energy not supplied by SPA under a contract, dated January 29, 1952, are based on the weighted average cost of fuel and purchased power and therefore do not contain a fuel adjustment factor. For information concerning the power supply contracts with Reynolds, see "Business of System Operating Companies."

The wholesale rates to municipal and distribution cooperative customers contain a single base fuel adjustment clause, which is based on the weighted average cost of fuel and purchased power in the second preceding month in excess of a stated base. Reference is made to the first paragraph under "Rate Matters—AP&L" for a proposed change in AP&L's wholesale adjustment clause.

All rate schedules (including contracts fixing rates), except the large power supply contracts with Reynolds, the service schedules under interconnection agreements with other utilities and those applicable to rural electric cooperatives, contain a tax adjustment clause to cover increases and decreases in taxes which is operative only by approval of the APSC. A municipal tax adjustment rider is in effect whereby billings to customers of AP&L within a municipality will be increased by an amount equal to the excess of any charges (other than special millage or general taxes applicable to all taxpayers) levied by that municipality upon AP&L over the standard franchise tax. On February 7, 1980 the APSC entered an order requiring that AP&L, on or before December 31, 1980, eliminate from base rates an amount representing municipal franchise taxes and collect from customers residing in each municipality all of the franchise tax levied by that municipality on AP&L.

Ark-Mo and Associated

On September 14, 1979, Associated filed with the APSC an application for an increase in its retail gas rates which would have produced approximately $1,500,000 of increased revenues if the proposed rates had been in effect during the twelve months ended May 31, 1979. The application requested emergency interim relief. The APSC held a hearing on the matter, and subsequent thereto, Associated received authorization from the APSC to put into effect rates which will result in $1,258,000 of additional revenues on gas consumed after October 17, 1979. This increase is subject to refund with interest, pending final determination of the matter.

Ark-Mo's Arkansas retail and resale fuel adjustment clauses allow fuel cost recovery on their respective sales. On April 14, 1976, the PSCM issued an order effective June 1, 1976 which continued automatic fuel adjustment on all classifications of customers but excluded recovery of fuel costs related to oil-fired generation and purchases. The Public Counsel appealed from the PSCM order. On June 29, 1979, the

Supreme Court of Missouri ruled that the PSCM did not have statutory authority to permit automatic fuel adjustment for residential and small commercial customers. In addition, the Court ruled that a surcharge authorized by the PSCM in its 1976 order be refunded and remanded the case to the Circuit Court to determine the amount of the refund and the persons entitled thereto. A motion for rehearing filed on behalf of all Missouri electric utilities was denied on September 11, 1979. The decision is now final and Ark-Mo will be liable to refund $351,000 to its residential and small commercial customers and $949,000 to its large industrial and commercial customers. The Circuit Court ordered the payment of interest on the refund at the rate of six percent per annum from September 11, 1979 until paid. The Public Counsel has appealed the interest computation alleging that interest is due from the date the surcharge was collected.

As a consequence of the Missouri Supreme Court ruling, Ark-Mo on July 17, 1979 filed revised permanent electric tariffs with the PSCM, which would increase revenues by $5,900,000 on an annual basis. Simultaneously with the filing for permanent rates, Ark-Mo requested an emergency interim rate increase of $2,700,000 on an annual basis. The PSCM has suspended both the permanent rates and the interim rates until June 14, 1980. However, on September 27, 1979, the PSCM authorized Ark-Mo to increase its retail electric rates $2,094,559 on an annual basis effective October 1, 1979 after which automatic fuel adjustment will no longer be applicable for any classification of customers. Of this amount, $1,260,671 is subject to refund pending further action by the PSCM. At the same time Ark-Mo agreed to withdraw the request for an emergency interim rate increase for $2,700,000 upon final order from the PSCM approving the October 1 rates. The Office of Public Counsel is seeking a refund of all revenues collected under the fuel adjustment clause from the date of the Missouri Supreme Court decision on June 29, 1979, to the date on which those clauses were eliminated on October 1, 1979. Such revenues totaled $1,257,776.

LP&L

In July 1977, LP&L filed with the FPC an application for an increase in LP&L's rates to rural electric cooperatives, which would result in additional annual revenues of approximately $7,489,000. LP&L's application also requested an increase in LP&L's rates to the four municipalities to which it serves firm power, the effect of which would result in additional annual revenues of approximately $1,055,000 above the revenues produced by rate schedules currently in effect as to these municipalities, based on a test year ending December 31, 1977. The application proposed, among other things, (a) the inclusion of all CWIP in the rate base, based upon FPC Order No. 555 which permits such inclusion "where the utility is in severe financial stress", and (b) the concurrent cessation of capitalization of AFDC on the CWIP so included. Decision on the application is currently pending before the FERC.

In November 1976, LP&L filed with the LPSC a general rate increase application, asking authorization to put into effect new retail rate schedules designed to provide additional revenues of approximately $54,000,000 annually on the basis of pro forma 1976 test year data. The application proposed, among other things, the inclusion of CWIP in the rate base and the concurrent cessation of capitalization of AFDC on the CWIP so included. On November 23, 1977, the LPSC issued its order thereon allowing LP&L rate increases only to industrial customers designed to produce additional revenues of approximately $4,970,000 annually on the basis of the test year and denying the proposed treatment of CWIP. On appeal by LP&L to the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana, that Court, on July 24, 1978, signed a judgment setting aside the LPSC order, permitting LP&L a rate increase of $13,790,000, allocated in the manner which the LPSC, acting at the direction of the Court, had theretofore found to be in order, which allocation included rate increases to industrial customers of approximately $4,970,000, and ordering LP&L to render an accounting as to any refund or credit due the industrial customers for amounts paid by them pursuant to the LPSC order of November 23, 1977, from the implementation thereof by LP&L to July 24, 1978, in excess of the amount which would have been allocable to them if the increase permitted by the LPSC order had been allocated among all classes of customers in the proportions established by the Court's judgment. On March 2?, 1979, LP&L filed with the District Court a motion for allocation, rendering an accounting showing a refund or credit of approximately $2,880,000 to be due the industrial customers and asking for an order authorizing such refund or credit and an offsetting surcharge in the same amount to be allocated among and collected from LP&L's other classes of customers. On May 11, 1979, the District Court signed a judgment ordering such refund or credit and denying such offsetting surcharge. On appeal, this judgment was affirmed by the Louisiana Supreme Court on November 12, 1979 and a rehearing was denied by that Court on December 13, 1979. In May 1979, LP&L recorded on its books a reduction in operating revenues of $2,880,000, which amount has been refunded to customers.

On December 18, 1978, LP&L filed with the LPSC a general rate increase application with respect to customers under its jurisdiction, asking authorization to put into effect new retail rate schedules designed to provide additional revenues of approximately $114,700,000 annually on the basis of the test year ended August 31, 1978. The application proposed, among other things, the inclusion of CWIP in the rate base and the concurrent cessation of capitalization of AFDC on the CWIP so included. On December 18, 1979, the LPSC, by order, granted LP&L a $59.6 million increase in its electric service rates, but the LPSC did not allow the inclusion of CWIP in the rate base as requested in LP&L's application. On March 11, 1980, a group of industrial customers filed in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana, an appeal from the LPSC order of December 18, 1979, asking that such order be annulled insofar as it grants a rate increase allocated on a flat kilowatt hour basis and that the increase be allocated among customer classes on a cost of service basis, and asking further that LP&L's industrial customers be given credit or reimbursement for amounts paid under the LPSC order in the interim in excess of what they would have paid had the increase been allocated among customer classes on the basis of cost of service. LP&L intends to seek expedited handling of the appeal and affirmance of the LPSC order. The matter is pending.

The rates of LP&L's retail customers in the Fifteenth Ward of the City of New Orleans are regulated by the Council rather than by the LPSC. On March 6, 1979, LP&L filed with the Council a rate increase application with respect to such customers asking authorization to put into effect new retail rate schedules designed to provide additional revenues of approximately $3,191,000 annually on the basis of the test year ended August 31, 1978. On January 7, 1980, LP&L filed an amended application asking authorization to implement the same rates authorized by the LPSC on December 18, 1979, which would provide additional revenues of $1,298,000 annually on the basis of a test year ended December 31, 1978. After holding hearings on the matter, the Council, by resolution adopted on February 21, 1980, authorized the implementation of the rates requested in the amended application, and such rates have gone into effect.

All rate schedules include adjustments for changes in the cost of fuel (which generally results in a two month lag between changes in fuel costs and billings therefor) and directly allocable taxes such as sales or excise taxes. In January 1979, LP&L received authorization from the LPSC allowing and requiring LP&L to reflect in future billings to customers through the fuel adjustment clause net over or under-collections of fuel costs in excess of those included in base rates. Concurrently with this change in billing for fuel costs, LP&L commenced deferring on its books fuel costs in excess of base rates until such costs are reflected in billings to customers pursuant to the fuel adjustment clause. See Note (c) to Summaries of Operations for the effect of this deferral on net income.

MP&L

MP&L's electric rate schedules sales to ultimate customers include fuel adjustment clauses which permit MP&L to recover from custom , each month any increase or decrease in the estimated cost of fuel and purchased energy applicable to sales to ultimate customers. The calculations of the monthly fuel adjustment rate involve the use of projected sales and energy costs for the month, adjusted for any over or under recoveries due to differences between the actual and estimated costs of energy and sales levels for the second prior month.

MP&L's wholesale rate schedules for municipal and rural cooperative distributors include a fuel adjustment clause which also allows the recovery from customers of any monthly increase or decrease in the cost of fuel and purchased energy. The calculation of the wholesale fuel adjustment reflects such increase or decrease based upon the second prior month's cost of energy.

NOPSI

NOPSI's electric rate schedules include fuel adjustment clauses which allow for the full recovery of increased power plant and purchased power fuel costs above the fuel costs collected through the basic rates. Similarly, NOPSI's gas rate schedules include a gas cost adjustment clause which allows for the full recovery of increased purchased gas costs above the gas costs collected through the basic rates. Both adjustment clauses allow for the monthly reconciliation of actual fuel or purchased gas costs incurred and billed. Any difference is included in the determination of the adjustments to be billed in the second following month. Two months' interest at the prime rate is paid on any resultant overcollections.

PROPERTY

Generating Stations

The net capability of the Middle South System's generating stations at December 31, 1979 by location is indicated below:

	Net Capability MW(1)				
		Steam Turbine		Gas Turbine and Internal Combustion	
Location	Total(2)	Fossil Fueled	Nuclear		Hydro
Arkansas	3,390	2,200	836	285(3)	69
Louisiana	5,649	5,614(4)	—	35	—
Mississippi	2,763	2,752	—	11	—
Missouri	35	35	—	—	—
Total	11,837	10,601	836(5)	331	69

(1) "Net Capability" as used herein is the present dependable load carrying ability of the station, as demonstrated under actual operating conditions based on the primary fuel which each station was designed to utilize.

(2) Ownership of capacity, by location, is as follows: Arkansas, all capacity is owned by AP&L except for 188 MW of gas turbine capacity leased by Ark-Mo; Louisiana, 4,373 MW of fossil fueled capacity and 19 MW of gas turbine capacity is owned by LP&L and 1,241 MW and 16 MW, respectively, by NOPSI; Mississippi, all capacity is owned by MP&L; and Missouri, 35 MW is owned by Ark-Mo.

(3) Includes 188 MW of capacity leased through 1999.

(4) Includes 203 MW Combined Cycle (Gas/Oil-Fired).

(5) The Middle South System's second nuclear-fueled unit, ANO No. 2, with a net capability of 912 MW is expected to attain commercial operation in the first quarter of 1980.

Interconnections

The electric power supply facilities of the Middle South System consist principally of steam electric production facilities strategically located with reference to availability of fuel, protection of local loads and other controlling economic factors. These are interconnected by a transmission system operating at various voltages of up to 500 KV. With the exception of MSE's Grand Gulf Plant, ownership of facilities is in each instance in the System operating company located in the area in which the facilities are located. Under the terms of the System Agreement among the System operating companies, generating capacity and other power resources are shared. Among other things, the System Agreement provides that parties to the System Agreement who have excess generating capacity will sell the available excess to those parties to the System Agreement who have deficiencies in generating capacity and that for this entitlement the purchasers will pay to the sellers a capability equalization charge sufficient to cover the sellers' related operating expenses, fixed charges on debt and a fair rate of return on related equity investment. Generating facilities are operated with a view to realizing the greatest economy. This operation seeks, among other things, the lowest cost sources of power from hour to hour. The minimum of investment and the most efficient use of plant are sought to be achieved in part through the coordinated scheduling of maintenance, inspection and overhaul. Where energy is supplied with respect to which capability equalization payments have been made, the purchaser is required to pay only the cost of fuel consumed in generating such energy. For other energy generated and supplied under the System Agreement, the purchasers are required to pay the cost of fuel consumed in generating such energy plus a charge to cover other incremental costs.

The System operating companies have direct interconnections with neighboring utilities, including, in individual cases, Gulf States Utilities Company, Mississippi Power Company, Southwestern Electric Power Company, SPA, Central Louisiana Electric Company, Inc., Oklahoma Gas and Electric Company, Empire District Electric Company, Union Electric Company, AECC, TVA and SMEPA.

The System operating companies are members of the Southwest Power Pool, which has 41 members. The primary purpose of the Southwest Power Pool is to ensure the reliability and adequacy of the electric bulk power supply in the Southwest Region of the United States. The Southwest Power Pool is a member of the National Electric Reliability Council.

Arrangements have been made under which a group of eleven investor-owned utilities, including four of the System operating companies, and TVA exchange capacity and energy which is available for such purpose because of diversity in the periods of peak demands. The purpose of these exchange arrangements is to effect economies for the benefit of each of the systems involved. From November 15, 1979 through November 1980, the investor-owned companies are supplying 1,100,000 KW to TVA during the winter exchange period, November 15 through March 15, and TVA is supplying a like amount of power to the investor-owned companies during the summer exchange period, June 1 through October 1. After November 1980, the amount exchanged will be 700,000 KW unless changed or terminated by one of the parties after 4 years' notice. Of the total amount to be exchanged, the Middle South System's share is approximately 30%. Each participant in the arrangements is providing the necessary transmission lines and related facilities in its territory at voltages up to 500 KV. The annual costs of these lines and facilities are shared among the participants in the exchange substantially in proportion to their respective benefits.

The Middle South System peak demand of 10,687,000 KW occurred on August 6, 1979. At the time of the peak, net firm purchases available to the System operating companies amounted to 782,000 KW resulting in a requirement for Middle South System generated output of 9,905,000 KW. System owned and leased capability, adjusted to reflect curtailments of primary fuel (natural gas) and the use of alternate fuel, plus 519,000 KW of available non-firm purchases, amounted to 11,637,000 KW. The reserve margin at the time of peak was approximately 18%. Continuing capability evaluations by the Middle South System indicate that during the 1979 peak load season its loss of generating capability due to natural gas curtailment and the substitution of fuel oil was approximately 720,000 KW. (See "Fuel Supply".)

Representatives of the Middle South System regularly review load and capacity conditions in order to coordinate and recommend the location and time of installation of additional generating capacity and of interconnections in the light of the availability of power, the location of new loads and maximum economy to the Middle South System. The Middle South System presently is planning additional generating facilities designed for a 16% reserve at the time of a Middle South System peak. The Middle South System anticipates that it will have the ability to supply its presently forecasted load, subject to its ability to install presently planned capacity, to the receipt of purchased power under various contracts, to the magnitude, duration and timing of equipment forced outages, to the availability of fuel as required and to other factors.

Other Electric Property

At December 31, 1979, the System operating companies owned and operated 11,086 pole miles of electric lines of 33 KV and over (including 993 pole miles of 500 KV) and 66,610 pole miles of electric lines under 33 KV. These companies also owned and operated 797 substations.

Gas Property

At December 31, 1979, NOPSI distributed and transmitted natural gas within the limits of the City of New Orleans through a total of 1,422 miles of gas distribution mains and 39 miles of gas transmission lines. Deliveries of natural gas for distribution purposes by NOPSI are received at eleven separate locations or

"City Gates". Gas from United is received by NOPSI at six of the City Gates and intrastate gas from other suppliers is received at the other gates.

At December 31, 1979, Associated owned approximately 576 miles of gas transmission lines ranging in size from 2 inch to 10 inch and approximately 1,268 miles of gas distribution mains. In addition Associated leases approximately 22 miles of gas transmission and 23 miles of distribution mains from four Arkansas towns.

Transit Property

At December 31, 1979, NOPSI owned or leased 493 motor coaches and 35 streetcars which operate over 488.5 miles of motor coach routes and 14.6 miles of single track equivalent of street railway track.

In 1973, the City of New Orleans, in cooperation with NOPSI, secured a Federal Urban Mass Transportation Administration capital grant of approximately \$3.3 million to pay two-thirds of the cost of 108 new transit motor coaches which replaced a like number of motor coaches owned by NOPSI. The City owns the motor coaches and has leased them to NOPSI for a period of ten years. NOPSI advanced the City one-third of the cost thereof, \$1,700,000, as prepaid rent. An application by the City for an additional grant was approved in September 1978, which has resulted in the consummation of a second lease between the City and NOPSI for an additional 185 replacement motor coaches. Eighty percent of the cost of these buses has been provided by a capital grant of \$15.7 million from the Federal Urban Mass Transportation Administration, with the remaining \$3.9 million paid by NOPSI as prepaid rent for a ten year lease of the vehicles. At December 31, 1979, NOPSI had received the 185 buses.

Titles

The Middle South System's electric generating stations are generally located on lands owned in fee simple. The greater portion of the transmission and distribution lines of System operating companies have been constructed over lands of private owners pursuant to easements or on public highways and streets pursuant to appropriate permits. The rights of each company in the realty on which its properties are located are considered by it to be adequate for its use in the conduct of its business. Minor defects and irregularities customarily found in properties of like size and character exist, but such defects and irregularities do not materially impair the use of the properties affected thereby. The System operating companies generally have the right of eminent domain whereby they may, if necessary, perfect or secure titles to privately-held lands used or to be used in their utility operations.

Substantially all the properties of each System operating company and MSE are subject to the lien of the mortgage and deed of trust securing the first mortgage bonds of such company.

FUEL SUPPLY

The Middle South System traditionally burned gas as its primary fuel but has in recent years because of curtailments generally burned increased amounts of oil. Fuel usage in 1979 did not conform to this recent trend because of two basic factors: (1) the increased amounts of natural gas available for use in power plants during 1979, and (2) the higher cost of fuel oil during 1979.

The following tabulation shows the average cost of fuel and the percentage of natural gas, fuel oil and nuclear fuel used during the past five years:

	Natural Gas		Oil		Nuclear	
Year	Percent of Generation	Fuel Cost Per KWH	Percent of Generation	Fuel Cost Per KWH	Percent of Generation	Fuel Cost Per KWH*
1975**	62%	.49¢	24%	1.87¢	13%	.26¢
1976	53	.57	37	1.87	10	.25
1977	43	.66	46	1.97	11	.24
1978	42	.74	47	1.94	11	.27
1979	57	1.31	33	2.45	10	.37

* Credits for sale of spent fuel (including plutonium and uranium residuals) pursuant to an existing contract are taken in computing item costs and amounted to approximately .02¢ per KWH for the year 1975 and .01¢ per KWH for the years 1976 through 1979. The costs of reprocessing of spent fuel are not included in computing item costs. For information with respect to the unavailability of reprocessing services, which will not be required until 1985 at the earliest, see "Fuel Supply—Nuclear Fuel" and Note 12 to Financial Statements.

**The balance of the Middle South System's total generation (approximately 1% during 1975) was provided by hydroelectric power.

The Middle South System's percentages of generation by type of fuel were, during 1979, and are estimated to be, in 1980, the following:

	Natural Gas		Oil		Nuclear		Coal	
	1979	1980*	1979	1980	1979	1980	1979	1980
Consolidated	57%	44%	33%	29%	10%	20%	—	7%
AP&L**	23	15	37	15	38	52	—	17
Ark-Mo	61	98	39	2	—	—	—	—
LP&L	82	84	18	16	—	—	—	—
MP&L	40	34	60	66	—	—	—	—
NOPSI	75	75	25	25	—	—	—	—

* These percentages reflect the receipt by certain of the System operating companies of exemptions from restrictions on the use of natural gas as boiler fuel prescribed in the Powerplant and Industrial Fuel Use Act. That Act, among other things, prohibits the use of natural gas in an existing electric power plant in greater proportion than the average yearly proportion of natural gas which such power plant used as a primary energy source in calendar years 1974 through 1976. In view of the recent increase in the availability of natural gas supplies (including SFI gas), AP&L, LP&L, MP&L and NOPSI petitioned the DOE in April 1979 for exemptions from these natural gas use restrictions so as to allow these companies to burn increased quantities of natural gas in replacement of fuel oil. AP&L, LP&L, MP&L and NOPSI were permitted by the DOE during the pendency of their petitions to burn increased quantities of natural gas. In February 1980, the DOE granted the companies' petitions with respect to certain generating units requesting that they be allowed to continue to burn, through October 1981, quantities of natural gas in excess of the restrictions contained in the Powerplant and Industrial Fuel Use Act.

** The balance of AP&L's generation is provided by hydroelectric power.

Additional nuclear units under construction by LP&L and MSE, AP&L's coal-fueled units under construction at the White Bluff and Independence Plants, commercial operation of AP&L's ANO No. 2 and additional coal-fueled units now in the design phase are expected to alter these percentages substantially in future years. Factors which may also affect the percentages in future years include availability of supplies of natural gas and oil, customer power demands, availability and price of purchased power, restrictions on coal mining, environmental protection requirements, requirements of the NRC, and the effect of the provisions of Federal energy legislation enacted in 1978 restricting the use of natural gas as boiler fuel.

System Fuels, Inc.

SFI was organized to plan and implement programs for the procurement of fuel supplies for the Middle South System. AP&L owns 35%, LP&L owns 33%, MP&L owns 19% and NOPSI owns 13% of the common stock of SFI. SFI operates on a non-profit basis; its costs are recovered through charges for fuel delivered. SFI supplies fuel for the Middle South System primarily through purchases from third parties.

SFI is also engaged in oil and gas exploration activities. As of March 1, 1980, SFI had participated in the drilling of 102 wells, of which 41 resulted in natural gas wells capable of commercial production. SFI's investment in developed and undeveloped oil and gas properties, however, amounted to less than 1% of the consolidated assets of the Middle South System at March 1, 1980. During 1978, SFI initiated a program of exploration for uranium ores suitable for potential future extraction and conversion into nuclear fuels. Uranium exploration efforts are largely in the preliminary stages and results to date have not been significant. At March 1, 1980, SFI estimated gross expenditures in 1980 of approximately $36.2 million for oil and gas exploration and development and for uranium exploration.

As of March 1, 1980, SFI had chartered a number of towboats and barges for the transport of fuel oil.

For details of other fuel supply activities of SFI, reference is made to the subheadings, "Natural Gas", "Fuel Oil", "Coal" and "Nuclear Fuel" under this heading.

To finance, in part, its fuel supply arrangements, SFI has entered into various borrowing arrangements with its parent companies as follows:

	Period in Effect	Term of Loans Outstanding	Maximum Borrowings Authorized At 3/1/80	Amount Outstanding At 3/1/80
Loan Agreement dated January 4, 1972 ..	1/4/72-12/31/73	10 years from date of borrowing	—	$26,500,000
Loan Agreement dated January 5, 1974, as amended	1/5/74-12/31/77	25 years from date of borrowing	—	13,000,000
Loan Agreement dated January 4, 1978, as amended	1/4/78-12/31/80	due 12/31/2005	$173,500,000	56,500,000
				$96,000,000

MSU and SFI's parent companies have certain commitments with respect to other borrowing arrangements, contractual commitments and long-term leases of SFI, including the guaranty by MSU of payment and performance by SFI under certain leasing and credit arrangements. For further information with respect to SFI's other borrowing arrangements as well as its contractual commitments, including long-term leases, and any related commitments by MSU or SFI's parent companies, see Notes 7 and 9 to the Financial Statements and "Fuel Supply—Fuel Oil", "Fuel Supply—Coal" and "Fuel Supply—Nuclear Fuel" herein.

Natural Gas

For 1979, approximately 68% of the natural gas used by the generating stations as boiler fuel was obtained from intrastate sources and approximately 32% was obtained from interstate pipeline companies which have been deemed to be subject to regulation under the Natural Gas Act. Deliveries of natural gas by these interstate pipeline companies are subject to curtailment programs in effect and in the process of development under that Act. Under the provisions of Federal energy legislation enacted in 1978, curtailments of natural gas by intrastate suppliers may be made by the FERC in national emergency situations.

During 1979, AP&L received less than 22%, and for the year 1980 estimated (at March 1, 1980) that it will receive less than 19% of requested quantities of gas from Arkansas Louisiana Gas Company, AP&L's principal supplier of gas. United is the principal interstate supplier of natural gas to MP&L and NOPSI and its contracts with LP&L provide for approximately 10% of LP&L's total maximum generating capability. For 1979, LP&L and MP&L received approximately 22% and 32%, respectively, and, during 1980, LP&L and MP&L, respectively, estimated (at March 1, 1980) that they will receive approximately 11% and 35%, respectively, of contracted quantities from United. During 1979, NOPSI received approximately 38% and for 1980 it estimated (at March 1, 1980) that it will receive approximately 20% of its base requirements assigned to it by United for power plant gas from United. Due to uncertainties of United's curtailment plan currently before Federal regulatory authorities and the courts, it is impossible to predict with certainty anticipated 1980 deliveries from United.

In July 1973, MP&L executed an agreement with Mississippi Fuel Co., a non-affiliated company, under which Mississippi Fuel Co. will transport gas purchased by MP&L to MP&L's Rex Brown Steam Electric Generating Station. Mississippi Fuel Co. has financed construction of an approximately 203 mile pipeline system by the private placement of $9,500,000 of its notes (guaranteed by MP&L) to be amortized over a 20-year period at 8% interest per annum, and by an advance of $1,069,000 from MP&L to cover the excess cost of the pipeline above the amount provided by such notes. MP&L has installed approximately 123 miles and SFI has installed approximately 16 miles of pipeline to bring additional intrastate natural gas to the Mississippi Fuel Co. pipeline.

Natural gas produced and/or purchased by SFI in Mississippi is primarily being sold to MP&L and energy generated by MP&L with such gas is shared among SFI's parent companies in proportion to their respective investments in SFI.

In large part, as a result of curtailments of natural gas, the System operating companies will be required to supplement natural gas with oil during 1980. However, as a result of burning oil, the generating units require greater maintenance and restoration work. The anticipated oil usage is expected to continue to reduce the net generating capability of the oil-burning generating units. (See "Property—Interconnections".)

Fuel Oil

The System operating companies expect during 1980 to obtain an adequate supply of fuel oil. Such supplies have been and will, during 1980, be supplied primarily by SFI. As of March 1, 1980, the fuel oil requirements of the Middle South System for 1980 were estimated to be approximately 21.4 million barrels, for all of which the Middle South System has contracted. At March 1, 1980, the total fuel oil inventory of the Middle South System was approximately 7.2 million barrels. The Middle South System's storage capacity at March 1, 1980 was 10.2 million barrels.

SFI is currently seeking authorization from the SEC to enter into a $150,000,000 borrowing arrangement to be used to finance its fuel oil inventory. In connection with this arrangement, SFI's parent companies would agree, 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 under this arrangement.

During 1976, SFI entered into a long-term oil supply agreement with Marathon Oil Company providing for the sale of 50,000 barrels per day for a twenty-year period with the option of SFI, upon two years written notice, to reduce the contract quantity to no less than 35,000 barrels per day. Deliveries of oil to SFI under this agreement commenced in January 1977. On February 21, 1979, SFI filed suit in the United States District Court for the Eastern District of Louisiana charging that Marathon had breached the contract by failing to meet the quality specifications of some of the oil delivered under the contract and refusing to make appropriate adjustments to the price of the oil to reflect such quality deviations. SFI is seeking money damages and specific enforcement of the contract. On April 9, 1979, Marathon filed a counter-claim against SFI seeking dismissal of SFI's action and the reformation of certain parts of the contract. The counterclaim alleges, among other things, that the refinery from which the oil is to be provided is not capable of producing oil up to the specifications set out in the 1976 contract. Discovery has begun and trial has been set for September 8, 1980.

Coal

AP&L estimates that each unit of the White Bluff Plant will require approximately 2.5 million tons of coal annually. AP&L has made arrangements for coal for the White Bluff Plant. Thereunder, AP&L has agreed to purchase, over a twenty-year period, 100 million tons, and has the option to purchase, over a further 10 year period, an additional 50 million tons. The coal to be purchased under this arrangement is to be supplied by surface mining in the State of Wyoming from a mine which has been operational since January 1978. The weighted average sulfur content of the coal to be purchased under this agreement is estimated by AP&L to be 0.48%. On September 26, 1977, AP&L and SFI instituted proceedings before the Interstate Commerce Commission to determine a fair rate to be paid to the railroads for transporting this coal from Wyoming to the White Bluff Plant. Various issues arising out of these initial proceedings and SFI's challenges to the applicability of subsequent general or specific tariff additions proposed by the railroads are either pending before the Commission or on appeal to the Courts. Coal deliveries into the White Bluff Plant began on December 22, 1979. As of March 1, 1980, 269,449 tons of coal had been delivered.

On December 22, 1976, SFI entered into a contract with a joint venture consisting of a subsidiary of Peabody Coal Company and a subsidiary of Panhandle Eastern Pipeline Company for the supply from a mine to be developed in Wyoming of an expected 150 to 210 million tons of coal over a period of from 26 to 42 years. Coal so supplied is expected to be used in the Independence Plant. AP&L, LP&L, MP&L and NOPSI, each acting in accordance with its present share of the ownership of SFI, joined in, ratified, confirmed and adopted the contract and the obligations of SFI thereunder and Peabody joined in, ratified, confirmed and adopted the contract and the obligations of the joint venture thereunder. Under the contract, investment in the mine for leases, plant and equipment is the responsibility of the joint venture. However, in order to limit the joint venture's investment rights and, hence, the amount to be paid to it as a component of the price of coal, the contract provides that SFI invest 50% of the funds for plant and equipment in excess of \$43,800,000 up to \$49,000,000 and 100% of any funds required for such purposes in excess of the latter amount. SFI also has, under the terms of the contract, the option of investing funds in certain rail facilities at the mine and certain coal leases to be mined by the joint venture. Through 1979, SFI made such an investment in the amount of \$4.8 million, which was borrowed from its parent companies. In addition to this amount, SFI anticipated, at March 1, 1980, that its total additional investments would be approximately \$15 to \$20 million in current dollars over the 26 to 42 year life of the contract. Any funds supplied by SFI under its options in the contract will be obtained either through borrowings from its parent companies or other methods of financing. The joint venture management has recently advised SFI of difficulty experienced in its initial attempts in obtaining permits for the mine. Should delay of the mine opening date result, it is SFI's opinion that alternate coal supplies can be secured at reasonable cost.

On February 29, 1980, SFI executed a contract with Shell Oil Company, subject to regulatory approval, for the purchase of an estimated 247 million tons of lignite in Calhoun County, Arkansas over a thirty-year period. By separate agreement, AP&L guaranteed SFI's performance of the contract and agreed to purchase the lignite from SFI. The lignite is to be used at a planned lignite-fired power plant.

SFI is involved in negotiations with various non-affiliated parties with respect to possible arrangements for the transportation of coal from Wyoming to the Middle South System, including transportation by a coal slurry pipeline system and by rail cars. The transporting of coal through a slurry pipeline system is dependent upon, among other things, the availability of adequate supplies of water and the ability to finance a project of this magnitude, to obtain necessary rights-of-way and the comparative economics of pipeline versus other modes of transportation. On November 2, 1979, SFI entered into an agreement for the lease of 600 coal hopper cars (see Note 9 to Financial Statements) to be used initially to supply coal to the White Bluff Plant.

Presently, SFI is contemplating the additional leasing of approximately 700 coal hopper cars to be received in the third and fourth quarters of 1980.

On September 27, 1974, SFI exercised its option to purchase a 3,840 acre ranch in the Powder River Basin of Wyoming under which coal is believed to be located. The total purchase price for the ranch was $1,920,000. The actual mining rights to the coal are owned by the Federal government and would have to be bid on competitively by SFI.

Nuclear Fuel

Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce a concentrate, the conversion of uranium concentrate to uranium hexafluoride, enrichment of that gas, fabrication of the nuclear fuel assemblies and reprocessing of the spent fuel.

Beginning in 1978, SFI assumed the responsibility for contracting for the acquisition, conversion and enrichment of those nuclear materials required for the fabrication of nuclear fuel which may be utilized for any of the present or proposed Middle South System nuclear units and for establishing an inventory of such materials during the various stages of processing. Each Middle South System company having nuclear capacity is responsible for contracting for the fabrication of its own nuclear fuel and for purchasing the required enriched uranium hexafluoride from SFI. When possible, SFI will arrange for reprocessing of spent fuel and will purchase the uranium and plutonium residuals from the appropriate Middle South System company, unless such company is contractually obligated to sell such residuals to a third party. To finance a portion of this program, SFI is selling commercial paper backed by an insurance company bond of indemnity up to a maximum amount of $60,000,000 at any one time outstanding, of which $7,550,000 was outstanding at March 1, 1980. SFI's parent companies as sole stockholders of the common stock of SFI, 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 under this arrangement.

Based upon the scheduled completion dates and planned fuel cycles for the Middle South System's nuclear units (including the one in service), the following tabulation shows the years through which existing contracts will provide materials and services for the continued operation of the respective units.

	Uranium Concentrate	Acquisition of or Conversion to Hexafluoride	Enrichment	Fabrication	Reprocessing (1)	Scheduled Completion Date
ANO No. 1	—(2)	1994	2001	1994		1974
ANO No. 2	—(2)	1994	2001	1990		1978
Waterford No. 3	1985	1983	2007	1991		1982
Grand Gulf No. 1	1983	1983	2008	1985		1982
Grand Gulf No. 2	1984	1984	2010	1985		1985

(1) It is the Company's understanding that no contractor is presently available in the United States who is able and willing to supply this service for the nuclear fuel involved. In the event reprocessing services do not become available at the time required, which is not earlier than 1985, additional arrangements will be necessary for the storage of spent fuel, the extent and cost of which cannot at this time be predicted. If the capability of full core discharge is not retained, then reprocessing or disposal services or additional storage capacity would not be needed until at least 1988. (See Note 12 to Financial Statements and "Rate Matters—AP&L".)

(2) Under its existing contracts, AP&L acquires uranium converted to hexafluoride directly from the vendor.

Additional arrangements for segments of the nuclear fuel supply assembly process beyond the dates shown above will be required. At this time the Middle South System cannot predict the ultimate availability or cost thereof, which will probably be higher than existing costs.

Natural Gas Purchased for Resale

Associated and NOPSI obtain deliveries of natural gas for resale from various natural gas pipeline companies. Such deliveries of natural gas are subject to curtailments. As a result of shortages of natural gas for resale, Associated has had some reduction of gas service to interruptible and certain industrial customers.

Associated and NOPSI have also experienced increases in the cost of gas purchased for resale. Gas rate schedules for these companies include adjustment clauses for changes in the cost of gas purchased for resale.

During the year ended December 31, 1979, natural gas entitlements, subject to curtailment, of Associated amounted to approximately 18.0 billion cubic feet. Actual curtailments during this period amounted to approximately 2.8 billion cubic feet. It was estimated at March 1, 1980 that curtailments for the year ending December 31, 1980 based on the same contract entitlements, will amount to 2.6 billion cubic feet.

NOPSI's principal supplier of natural gas for resale is United. On January 31, 1975, NOPSI entered into a service agreement with United extending its contract for the purchase of gas for resale from June 1, 1975 to June 1, 1985. The annual base requirement for resale gas from United is approximately 37.2 billion cubic feet. As a result of curtailment by United during the year ended December 31, 1979, NOPSI was allocated 33.2 billion cubic feet of gas for resale.

NOPSI and Associated anticipate as of March 1, 1980, that they will be able to obtain an adequate supply of gas to meet the requirements of their "Human Needs" customers. The ability of NOPSI and Associated to serve their industrial customers in the future may be affected by Federal energy legislation enacted in 1978, the severity of future winters and decisions by regulatory and judicial bodies. Because of United's inability to serve NOPSI's entire requirements, NOPSI has contracted for supplementary supplies of intrastate natural gas to lessen the possibility of having to curtail deliveries to its natural gas customers.

Research

The Middle South System is a member of the EPRI and is actively supporting this effort. The Middle South System and EPRI are working cooperatively with the Federal government on segments of the energy research and development needs of the nation.

MSS is one of three companies selected nationwide by the ERDA to design an experimental energy storage system. If proven economically practical, it would ultimately reduce energy costs and oil consumption by storing compressed air in underground caverns for later use in producing electricity. The compressed air energy storage system would use excess power available during times of low customer demand, to pump air, under pressure, into a large underground cavity. During high demand periods the air would be released, then heated by burning about one-third the amount of oil normally needed for driving a turbine to generate a like amount of electricity. MSS' design will use as the storage facility one of the many salt domes that underlie much of Louisiana and Mississippi. The design site location will depend on a number of factors, including its proximity to existing electric transmission facilities. The design of the project began in late 1977 with completion estimated by mid 1980. When the evaluation is finished, the technical, geological, economic and environmental information will help MSS, EPRI, and the DOE determine whether the project should be built.

For the years 1978, 1979 and 1980, the Middle South System has contributed or has a commitment to contribute approximately $7.1, $8.0 and $9.1 million, respectively, for the various research programs in which the Middle South System is involved.

REGULATION AND LITIGATION

Holding Company Act

The Company is a registered public utility holding company, subject to the broad regulatory provisions of the Holding Company Act. Section 11(b)(1) of the Holding Company Act limits the operations of a registered holding company system to a single integrated public utility system, plus additional systems and businesses as restricted by that Section. On March 20, 1953, the SEC issued an order and an accompanying opinion which, among other things, (i) found that the electric properties of the Middle South System constitute an integrated electric utility system; (ii) ordered AP&L, LP&L and MP&L to dispose of their non-electric utility properties; (iii) stated that, in view of the unified operations under which electric, gas and transit properties are operated in New Orleans, and in view of the expressed strong desire of the City of New Orleans for continued unified operation, the SEC did not then propose to take any action regarding gas and transit properties of NOPSI; and (iv) released the jurisdiction which had been reserved over problems under Section 11(b)(1) of the Act. The disposition of non-electric utility properties required by such order was completed in October 1960.

On May 5, 1971, the SEC issued its findings and opinion, and an accompanying order under the Holding Company Act which, among other things, (i) approved the proposal of the Company to acquire the common stock of Ark-Mo from the holders thereof by offering in exchange therefor Common Stock of the Company and (ii) ordered the Company to dispose of any direct or indirect interests in the gas properties of Ark-Mo and its subsidiary, Associated.

On April 25, 1973, the SEC issued its Memorandum Opinion and Order approving Ark-Mo's application for exemption from Rule 50 in connection with divestiture of its gas properties and denying a request for a hearing. After unsuccessful efforts to sell its entire natural gas business, in September 1976, Ark-Mo and Associated filed an application with the SEC under the Holding Company Act requesting authority for a program to reorganize the natural gas business of the two companies whereby Ark-Mo would transfer all of its gas properties to Associated. Such a transfer would consolidate in one corporate entity gas properties which, with the exception of isolated operations of Associated, are already operated as an integrated system and would enable Associated, as an expanded gas corporation, to establish an operating record which could provide a basis for developing a plan for the eventual disposition of securities of Associated held by Ark-Mo. Ark-Mo received an order from the SEC on May 2, 1978 permitting the reorganization of its gas properties and Ark-Mo subsequently transferred its gas properties to Associated on May 12, 1978.

On March 2, 1979, it was announced that, in the interest of increased economic efficiency, Ark-Mo and AP&L will jointly begin developing a plan to consolidate their electric operations. Under the proposed arrangement, subject to the receipt of necessary regulatory approvals, Ark-Mo would become a division of AP&L, while Ark-Mo's subsidiary, Associated, would become a subsidiary of AP&L. Applications for approval of this transaction have been filed with the APSC, the Tennessee Public Service Commission, the PSCM and the SEC under the Holding Company Act.

Due to the continued financial burden placed on NOPSI and its electric and gas customers by its transit operations, on July 15, 1976, NOPSI filed with the SEC an application for approval of a plan for divestiture of its transit properties to enable it to comply with the standards prescribed by the Holding Company Act. The City of New Orleans filed with the SEC a memorandum of law in opposition to NOPSI's application, and three citizens' groups requested that the SEC hold a hearing and that they be allowed to participate. The matter is pending before the SEC.

By letter dated July 15, 1976, NOPSI notified the Council that (i) it was surrendering its Indeterminate Transit Permits and Temporary Transit Franchise; (ii) it would discontinue transit operation at the earliest practicable time but in no event later than midnight, December 31, 1976; (iii) it was tendering its transit properties to the City of New Orleans pursuant to the option to purchase contained in the Indeterminate

Transit Permits and Temporary Transit Franchise and (iv) in the event the City of New Orleans did not, prior to midnight, December 31, 1976, exercise its option and purchase NOPSI's transit properties or make other acceptable arrangements with NOPSI for the sale thereof to others, NOPSI would dispose of the transit properties. NOPSI continued and continues to operate the transit system on an interim basis beyond December 31, 1976 under subsidy agreements with the City of New Orleans for 1977, 1978, 1979 and 1980.

Pursuant to the subsidy agreements, the City of New Orleans has agreed, subject to certain limitations, to make monthly payments to NOPSI in such amounts as, when added to operating revenues from the transit operation and any subsidy from the combined electric and gas operations, will provide NOPSI with an annualized 8.33% rate of return on its transit rate base. To the extent combined electric and gas revenues for any month exceed the amount required for NOPSI to earn an annualized 8.33% rate of return on the rate base applicable to electric and gas operations, such excess is required to be applied by NOPSI to subsidize the transit operation in reduction of the City's subsidy obligation. The subsidy agreements for 1978, 1979 and 1980 also provide for a sharing as between NOPSI (70%) and the City (30%) of the financial burden of any money damages, attorney fees, court costs and/or reduction in transit fares that may ultimately be assessed in connection with the class action suit involving transit revenues collected pursuant to the transit fare increase, effective November 14, 1975. See "Regulation and Litigation—Other Regulation and Litigation" and "NOPSI Industry Segments".

State Regulation

AP&L is subject to regulation by the APSC and by the municipalities in which it operates. APSC regulation includes the authority to fix rates, determine reasonable and adequate service, fix the value of property used and useful, require proper accounting, control leasing, acquisition or sale of any public utility plant or property constituting an operating unit or system, fix rates of depreciation, issue certificates of convenience and necessity and certificates of environmental compatability and public need, and control the issuance and sale of securities. AP&L is also subject to regulation by the Tennessee Public Service Commission as to standards of service and rates for service to customers in Tennessee, accounting, issuance of securities and certificates of convenience and necessity.

Ark-Mo is subject to regulation by the APSC and the PSCM as to rates and charges, services, accounting, depreciation, property valuations, sale or acquisition of utility property, issuance and sale of securities, reorganizations and in other respects. Associated is subject to regulation as a public utility by the APSC and PSCM.

LP&L is subject to the jurisdiction of the LPSC as to rates and charges, standards of service, depreciation, accounting and other matters, except in the City of New Orleans where it is regulated by the Council, which has power of local regulation. The LPSC does not exercise jurisdiction over the issuance of securities by LP&L because these matters are subject to the jurisdiction of the SEC under the Holding Company Act.

MP&L is subject to regulation as to service, service areas, facilities and retail rates by the Mississippi Public Service Commission.

NOPSI is subject to regulation by the Council. The ordinances under which NOPSI operates provide, among other things, for the establishment and continuing determination of NOPSI's rate base, the rate of return on the rate base and the rates and fares to produce such return; for the keeping of books of account; for an option to the City of New Orleans to purchase the property and assets of NOPSI's electric and/or gas and/or transit operations at respective rate base values; for the regulation of services rendered and for the regulation of the issuance of securities having maturities longer than twelve months.

Franchises

AP&L, LP&L and Ark-Mo hold franchises to provide electric service in a total of 258, 114 and 65 incorporated cities and towns, respectively. Associated holds franchises to provide gas service in 72 incorporated cities and towns. NOPSI holds indeterminate permits and a temporary franchise to provide electric, gas and transit service in the incorporated City of New Orleans.

In addition, AP&L provides electric service in 7 communities in which franchises are not required. LP&L supplies electric service in 403 unincorporated communities, all of which are located in parishes (counties) from which LP&L holds franchises to serve the areas in which the respective unincorporated communities are located. MP&L has received from the Mississippi Public Service Commission certificates of public convenience and necessity to provide electric service to the areas of Mississippi which MP&L serves. Ark-Mo provides electric service in 18 communities and Associated provides gas service in 19 communities in which franchises are not required.

Federal Power Act

The System operating companies are subject to regulatory jurisdiction under the Federal Power Act, administered by the FERC and the DOE, over, among other things, the licensing of certain hydroelectric projects, the business of and facilities for the transmission and sale at wholesale of electric energy in interstate commerce and certain other activities of the System operating companies as interstate electric utilities, including accounting policies and practices.

AP&L held a license for two hydroelectric projects (69 MW) which expired February 6, 1973. On February 4, 1970, AP&L filed with the FPC an application, which is still pending before the FERC, for a new long-term license for the projects. Under FERC regulations, annual licenses are issued pending the ultimate disposition of the application for the new long-term license.

Natural Gas Act

Associated is subject to provisions of the Natural Gas Act, as administered by the FERC and the DOE, since certain of its transmission lines, serving various parts of its distribution system, cross the Arkansas-Missouri state line. Regulatory jurisdiction under the Natural Gas Act relates to the construction and operation of facilities used in the transportation of natural gas in interstate commerce, the sale of natural gas in interstate commerce for resale for ultimate public consumption, and ' abandonment of either transportation facilities or the sale of natural gas for resale.

Environmental Regulation

The System operating companies are subject to air and water regulation by various Federal and state authorities. In meeting environmental protection standards the Middle South System is incurring increased costs of construction and operation. Regulations on environmental matters are continuously subject to change and it is impossible to know what their ultimate cost to the Middle South System will be in the future. MSU, however, estimated as of March 1, 1980, that the Middle South System will make capital expenditures for environmental control purposes during 1980, 1981 and 1982 in the approximate amounts of $61.6 million, $44.1 million and $47.1 million, respectively.

Air Quality: Under the Clean Air Act as amended through 1970, the EPA was required to establish Ambient Air Standards for certain air pollutants and to establish New Source Standards for all new facilities emitting such air pollutants. It also provided a framework for the states to establish air emission standards for existing sources in order to achieve the Ambient Air Standards.

The States of Arkansas, Louisiana, Mississippi and Missouri adopted State Plans, including regulations to meet Ambient Air Standards, as applicable, which were approved, subject to certain exceptions, by the EPA pursuant to the Clean Air Act, as amended through 1970. The States have submitted, in part, revisions to their State Plans as required by the 1977 Clean Air Act Amendments. It is not possible at this time to determine what effect, if any, these revisions may have on the Middle South System over and above the basic effects of the Clean Air Act Amendments of 1977 and the EPA rulemaking activity thereunder.

The Clean Air Act Amendments of 1977 require that the states review and revise, as appropriate, certain elements of their State Plans; that the Administrator of the EPA promulgate revised New Source Standards; and that State Plans contain emission limitations and such other measures as may be necessary to prevent significant deterioration of air quality in accordance with maximum allowable increases of sulfur oxides and particulates. On June 19, 1978, the EPA promulgated its regulations for the prevention of significant deterioration of air quality. A group of utilities, including the System operating companies, petitioned for judicial review of certain portions of the regulations to the United States Court of Appeals for the District of Columbia Circuit. On December 14, 1979, the Court issued its decision requiring the EPA to propose and promulgate revised regulations.

The EPA has also promulgated final regulations on New Source Standards. The System operating companies, as members of the same group of utilities referred to above, have petitioned for judicial review of these regulations to the United States Court of Appeals for the District of Columbia Circuit and have also petitioned the EPA to reconsider them. On January 30, 1980, the petition for reconsideration was denied by the EPA. At present a petition to review the EPA's denial has been consolidated with the petition for judicial review pending before the Court. Given the complexities and the uncertainties of the litigation and rulemaking stemming from the EPA's implementation of the 1977 Clean Air Act Amendments, the System operating companies cannot at this time predict the final outcome thereof, although adverse decisions and/or regulations could necessitate the expenditure of substantial additional funds for pollution control equipment.

Each of the System operating companies believes that the operation of its existing plants is generally meeting applicable emission regulations and ambient air quality standards and that such plants will continue to do so. NOPSI has experienced some problems with the opacity of its emissions, and these have been reported to the appropriate state agency which has taken no formal action against NOPSI. To assist in the control of the problem of opacity, NOPSI is in the process of installing new opacity monitors on those generating units using significant quantities of oil as a boiler fuel. These monitors should provide the operational control necessary to keep the opacity levels in compliance.

On March 21, 1979, the EPA published its proposal for "Assessment and Collection of Penalties for Noncompliance" pursuant to the requirement of Section 120 of the 1977 Clear Air Act Amendments. The System operating companies are unable to assess, at this time, the full implications of this proposal without specific knowledge concerning the EPA's method of determining unit or facilities noncompliance. However, the "Update of Power Plants Potentially Subject to Section 120 Noncompliance Penalties; Availability" issued by the EPA under the date of July 27, 1979 does not name any of the System operating companies.

Water Quality: The FWPCA discontinued the discharge permit system of the Army Corps of Engineers under the Refuse Act of March 3, 1899 and established the NPDES. Pursuant to the FWPCA, in October 1974, the EPA promulgated effluent limitations and guidelines for certain existing and future steam power generating plants. A group of utilities, including the System operating companies, appealed certain portions of the regulations to appropriate United States Courts of Appeal. The appeals were consolidated in the United States Court of Appeals for the Fourth Circuit, which rendered an opinion July 16, 1976 remanding a significant portion of the regulations to the EPA for further consideration. If, as a result of the EPA limitations and guidelines, the System operating companies should be required to install closed cycle cooling systems at certain existing steam electric generating stations, substantial additional expenditures would be involved.

The System operating companies currently have requisite NPDES permits for all major existing generating stations. Permits for these generating stations have also been issued by the applicable state authorities. The System operating companies' NPDES permits are subject to renegotiation in accordance with Federal regulations. The System operating companies' NPDES permits will be subject to revision in late 1980 in accordance with the Clean Water Act Amendments of 1977. These Amendments, in concert with ongoing programs instituted under the FWPCA, have raised a variety of issues concerning toxic and hazardous substances. At the time of permit renewal, substantial new requirements concerning these matters could be incorporated into the NPDES permits under new NPDES regulations. Compliance with these requirements could entail increases in expenditures for pollution control equipment and sampling or monitoring procedures in amounts not presently determinable. A group of utilities, including the System operating companies, have appealed certain portions of the new NPDES regulations to the United States District Court for the Western District of Virginia and to appropriate United States Court of Appeals where the matter is pending.

LP&L, in common, it understands, with many other electric utilities, was not able to meet the July 1, 1977 deadline for applying the "best practicable control technology currently available" to effluent discharges from existing plants, but pollution control facilities necessary to meet these standards have now been constructed at all major generating stations and (although not yet accepted from the contractor as completed) are operational and are substantially meeting these standards. These pollution control projects have also required LP&L to obtain, and LP&L has obtained, amendments to its above-mentioned NPDES permits. LP&L's inability to meet the above-mentioned July 1, 1977 deadline could subject it to claims for fines which, if imposed, might in the aggregate be substantial. On November 17, 1978, LP&L filed applications with the EPA for variances from, or alternatively for extensions of the deadline for, the July 1, 1977 standards with respect to its four major generating stations. On June 7, 1979, the EPA advised LP&L, with respect to the applications relating to two of these stations, that it would be more appropriate for LP&L to apply for an extension than for a variance. These two extensions were applied for by LP&L and granted by the EPA for the period to April 1, 1979, and LP&L believes that it effected timely compliance with such extension orders. LP&L has heard nothing from the EPA with regard to its applications relating to the other two stations. LP&L has made and filed with the EPA a study with respect to compliance under state and Federal laws and regulations dealing with environmental matters of the generating facilities of four of the five municipalities which LP&L is now operating, and has commenced such a study with regard to the fifth, which LP&L has begun to operate more recently.

Facilities have been constructed at the System operating companies' steam electric stations which permit treating water and bringing discharges from these stations into compliance with the NPDES regulations. In accordance with permit conditions, the System operating companies have reported instances of non-compliance to the EPA.

In March 1979, the National Wildlife Federation filed suit in the U.S. District Court for the District of Columbia against the EPA to force the agency to require NPDES permits for spillway discharge from dams and turbine discharges in the case of hydroelectric dams. The System operating companies, as members of a utilities group, have intervened in the suit. The suit is presently at the discovery stage, and responses to the plaintiff's first set of interrogatories have been filed by the System operating companies. AP&L is the only System operating company that would be affected by a ruling finding for the National Wildlife Federation. It is not known, at this time, what economic effects, if any, would occur as the result of an NPDES permit requirement being applied to AP&L's two hydroelectric facilities.

NOPSI has been experiencing certain water pollution control problems at its transit motor coach garage and maintenance facilities relating to the discharge of oil and certain other wastes which could subject it to claims for fines and penalties in amounts not presently determinable. Studies are being made to determine what steps, including the effecting of revised operating procedures and capital expenditures, must be taken to control the subject discharges beyond those measures which NOPSI has already implemented. The Sewerage and Water Board of New Orlea[illegible]ware of certain oil discharges at one facility and has directed that the situation be corrected. To [illegible]is situation, revised operating procedures have been instituted at this location.

Hazardous Materials: [illegible]s polychlorinated biphenyl regulations recently promulgated under the authority of the Toxic Substan[illegible]ontrol Act will require additional expenditure of funds for the marking, handling, storage, transportation and disposal of this substance, which is characteristically found in some previously installed capacitors and transformers. However, the resultant costs are expected to be distributed over a substantial period of time in the course of phasing out the use of polychlorinated biphenyls. In addition, the System operating companies were required to implement procedures for the handling, transportation and disposal of polychlorinated biphenyls pursuant to these regulations. Conformance to these procedures will effectively minimize the possibility of the inadvertent release of polychlorinated biphenyls to the environment, which could result in substantial fines. A group of utilities, including the System operating companies, have intervened on behalf of the EPA in a suit filed by the Environmental Defense Fund seeking revi.v of the final polychlorinated biphenyl regulations.

Pursuant to the Resource Conservation and Recovery Act, the EPA has proposed regulations for the management of certain hazardous wastes. Estimates of costs associated with compliance must, however, await promulgation of final regulations as the status of utility wastes as a special waste is still uncertain.

The State of Louisiana has implemented a hazardous waste program that is generally consistent with that proposed by the EPA. Plans for compliance with state regulations have been formulated by LP&L and NOPSI, but costs can not now be predicted.

The States of Arkansas and Mississippi are formulating hazardous waste programs that will be generally consistent with that proposed by the EPA. Plans for compliance will be made once state regulations are finalized. Therefore, costs can not now be predicted.

Atomic Energy Act of 1954 and Energy Reorganization Act of 1974

The Atomic Energy Act of 1954, as amended, vested broad jurisdiction in the AEC over the construction and operation of nuclear reactors, particularly with regard to public health and safety and antitrust matters. Under the terms of the Energy Reorganization Act of 1974, effective January 19, 1975, the AEC was abolished, its general licensing and regulatory jurisdiction was assumed by the NRC, and its general research functions were assumed by the ERDA.

As the owner and operator of ANO, AP&L is subject to such jurisdiction. ANO No. 1 began commercial operation December 19, 1974. Its nuclear reactor was supplied by Babcock & Wilcox Company and is similar to the Unit 2 reactor at the Three Mile Island nuclear power station. Pursuant to an agreement with the NRC, AP&L has made certain modifications to the Unit and has agreed to make further modifications, certain of which were made in January 1980. Additional modifications are expected to be made during the refueling outage in early 1981. While the modifications were being made in January 1980 AP&L inspected one of two low pressure turbine rotors of ANO No. 1. It discovered cracks in two of the disks which hold the blades on the rotor. These cracked disks were removed and ANO No. 1 is being operated with a 13% reduction in capacity. The turbine rotor will be replaced during the early 1981 refueling outage.

The construction permit for ANO No. 2 was issued on December 6, 1972. The engineering and construction for ANO No. 2 is being performed by Bechtel Power Corporation. The turbine-generator was supplied by General Electric Company and the nuclear reactor was supplied by Combustion Engineering, Inc. An operating license for ANO No. 2 authorizing fuel loading, testing and full operation was issued by the NRC in the summer of 1978. Fuel loading was completed in July of 1978 and testing was started shortly thereafter. Testing revealed various repairs, replacements and adjustments which would be necessary prior to the Unit's acceptance for commercial operation. The time required for these repairs, replacements and adjustments has been substantial. In February 1980, a shaft in one of the auxiliary power diesel generators broke. A new shaft has been installed. Pursuant to an agreement with the NRC, AP&L has made certain modifications to the Unit, and has agreed to make further modifications, some of which are expected to be made at the end of 1980. The full extent f additional modifications, if any, which may be required at ANO and the cost thereof are not known at this time. Commercial operation of ANO No. 2 is expected to occur in the first quarter of 1980.

LP&L, as owner and prospective operator of Waterford No. 3, is subject to the jurisdiction of the NRC. LP&L's application for the necessary permit and license to construct the Unit was filed with the AEC on December 31, 1970. After hearings with respect to certain interventions, and after LP&L, in connection with the question whether its construction and operation of the Unit would create or maintain a situation inconsistent with the antitrust laws, and for the purpose of maintaining competitive conditions, had accepted licensing conditions relating principally to reserve-sharing coordination, bulk power supply, access to nuclear generation and transmission service, the AEC issued a construction permit for the Unit on November 14, 1974. Construction of the Unit is proceeding under the permit. On September 29, 1978, LP&L filed with the NRC an application for the necessary operating license for the Unit which will permit the loading of fuel scheduled to begin in September of 1981. Recent statements by NRC officials indicate that there may be delays in licensing all nuclear reactors. Petitions for leave to intervene in the operating license proceeding have been filed by Oystershell Alliance, Inc., Save Our Wetlands, Inc. and by Louisiana Consumer's League, Inc. In general, these petitions ask that LP&L's application be disapproved or, if approved, that it be approved subject to additional safeguards. LP&L has answered and intends to oppose these petitions. The application is pending.

MSE, as owner, and MP&L, as prospective operator, of the two units at the Grand Gulf Plant are subject to the jurisdiction of the NRC. The application with the AEC for the requisite construction permits was filed on November 17, 1972. The Department of Justice accepted MP&L's and MSE's commitments, including those relating to interconnection, reserve-sharing and coordinated development with other systems; transmission for other systems; and wholesale power sales or the sale of an undivided interest in the Grand Gulf Plant to other systems, and recommended that no antitrust hearing would be necessary on MP&L's and MSE's application if such commitments were imposed by the AEC as operating license conditions for the Grand Gulf Plant. On September 4, 1974, the AEC issued construction permits for the two units containing such conditions. MP&L and MSE's joint application for operating licenses for Unit Nos. 1 and 2 was docketed for review by the NRC on June 30, 1978. The first unit was scheduled for commercial operation in 1981 and the second unit in 1984. Commercial operation of the two units is dependent, among other things, upon the receipt of operating licenses from the NRC. Recent statements by NRC officials indicate there may be delays in licensing all nuclear reactors. In view of this, MSE has reviewed its schedule for testing and completion of the units and, as a result of the anticipated delays in licensing and by delaying expenditures on the second unit, has changed the scheduled commercial operation dates to 1982 and 1985 for the first unit and the second unit, respectively.

Under antitrust conditions in the construction permits issued by the AEC for the Grand Gulf Plant, MSE was obligated to offer an opportunity to participate in the Grand Gulf Plant to entities in a defined area of Western Mississippi through ownership of a portion of the Plant or a contractual right to purchase a portion of the output of the Plant. Several entities expressed an interest in participating in the ownership of the Grand Gulf Plant, and MSE is currently conducting negotiations with SMEPA for the acquisition of a 10% undivided ownership interest in the Grand Gulf Plant by SMEPA. SMEPA would become responsible for 10% of the cost of construction of the Grand Gulf Plant and upon completion of the Grand Gulf Plant, SMEPA would be entitled to 10% of the energy from, and liable for 10% of the operating costs of, the Plant.

Another entity, MEAM, has asked, among other things, to be offered an ownership interest of at least 2.48% in the Grand Gulf Plant. The request for participation was rejected on the grounds of not being timely under the antitrust conditions referred to above. MEAM has asked the NRC to commence proceedings to require MSE and MP&L to offer MEAM a participation in the Grand Gulf Plant and to require MP&L to comply with the antitrust conditions relating to interconnection and coordination of reserves and wheeling of bulk power. The United States Department of Justice has advised the NRC that it supports MEAM's request that a hearing be held to determine whether such antitrust conditions have been violated. The matter is presently pending before the NRC.

The Price-Anderson Act limits the public liability of a licensee of a nuclear power plant to $560,000,000 for a single nuclear incident, which amount is to be covered by private insurance and indemnity agreements with the NRC. Insurance for this exposure for the Middle South System companies which are licensees has been or will be provided by purchasing private insurance in the maximum available amount of $160,000,000 and the remainder is, or will be provided by a combination of retrospective assessments and, if necessary, such indemnity agreements with the NRC. Effective August 1, 1977, as part of a program to phase out the government indemnity, every licensee of a nuclear power plant became obligated in the event of a nuclear incident involving any commercial nuclear facility in the United States that results in damages in excess of the private insurance, to pay retrospective assessments of up to $5,000,000 for each licensed reactor operated by it and, in the event of more than one such incident, up to $10,000,000 in any calendar year for such reactor. The government indemnity will be reduced by the aggregate amount of all such assessments payable.

Other Regulation and Litigation

To supply Reynolds' Patterson Reduction Plant with power and energy, Reynolds, the United States of America, acting through the Secretary of the Interior, and AP&L entered into an agreement dated January 29, 1952. This agreement, as amended, extends to December 31, 1983, with Reynolds having the right to cancel after 15 years from the date of commencement of service on one year's prior written notice, and provides that the Department of the Interior will cause SPA to deliver to AP&L 150,000 KW and not less than 360,000,000 KWH per year and AP&L will in turn deliver to Reynolds 110,000 KW and the equivalent of the aforesaid 360,000,000 KWH annually. In April 1979, SPA notified AP&L of an increase in rates higher than that provided for in this agreement. On May 8, 1979, AP&L and Reynolds filed an action in the United States District Court in the District of Columbia for a declaratory judgment that the proposed rate increase is unlawful. DOE and SPA filed an answer claiming the right to increase the rates and charges. In addition, on May 16, 1979, AP&L and Reynolds petitioned to intervene in the proceeding pending before the FERC for final confirmation and approval by the FERC of the increased SPA rates.

On August 28, 1979, a suit was filed against LP&L in the United States District Court for the Eastern District of Louisiana by The Waldinger Corporation alleging that it had contracted to do the heating, ventilating and air conditioning work on Waterford No. 3 and that during the course of the work LP&L had breached the contract by terminating Waldinger's right to perform further work thereunder, and making claim for $20,092,050.51, costs, interest, and such other relief as the Court might consider proper. The $20,092,050.51 consists of a claim for punitive damages of not less than $10,000,000, damage to reputation and loss of prospective business in the amount of $7,000,000, withheld amounts allegedly due under the contract totalling $720,235.51, reimbursement allegedly due under the contract for certain home office overhead costs in the amount of $1,670,000, tools and equipment allegedly misappropriated allegedly having a reasonable value of $351,815, and the cost of developing proprietary information and trade secrets furnished to LP&L in the amount of not less than $350,000. LP&L intends to deny liability and defend the suit vigorously. In the opinion of General Counsel for LP&L, (a) the claims for punitive damages of not less than $10,000,000 and damage to reputation and loss of prospective business in the amount of $7,000,000 are without merit and will be unsuccessful if and when proceeded with to final judgment, and (b) the other claims are of such nature that it will be necessary for the litigation to progress further before such General Counsel will be in a position to reach an opinion with respect thereto. On the same date, August 28, 1979, LP&L filed suit against Waldinger in the same Court claiming $21,250,000 in liquidated damages plus an unestimated additional amount of unliquidated claims, interest, costs and attorneys' fees resulting from Waldinger's failure to perform its commitments under the contract. The matters are pending.

On September 5, 1974, LP&L filed suit in Civil District Court for the Parish of Orleans, State of Louisiana, against United and Pennzoil Company, alleging breach of gas supply contracts, tortious conduct, and violations of Louisiana antitrust laws, and seeking compensatory damages in the amount of $182,904,607 (of which $55,639,457 is for the increased cost for replacement fuel through June 1974), trebled to $548,713,821. On the same date LP&L filed with the LPSC a petition for a declaratory order providing a method whereby that part of the damages recovered from United in such suit attributable to increased cost of fuel passed through to LP&L's customers under fuel adjustment clauses would be made available to customers who receive service under the jurisdictional authority of the LPSC, less an appropriate portion of the costs of recovery. Discovery procedures are under way and the suit is pending in the state court.

LP&L has been named as one of the defendants in a class action which was filed in the United States District Court for the Southern District of Texas on or about August 11, 1975 against Petrofunds, Inc. and numerous other defendants arising out of investments by plaintiffs in certain oil and gas drilling funds. The alleged involvement of LP&L is based upon a long-term gas purchase contract or contracts entered into by LP&L with one of the other defendants, Louisiana Gas Purchasing Corporation. The suit is based upon alleged fraudulent violations of the securities laws, common law actions of fraud, breach of contract and of fiduciary duties, tortious conspiracy, conversion and other matters; alleges, in connection with the contract or contracts, that LP&L knowingly conspired with certain defendants to implement a fraudulent scheme to deprive the plaintiffs of profits to which they were allegedly entitled; and, insofar as LP&L is concerned, seeks judgment for damages against LP&L and certain other defendants, jointly and severally, in the sum of $200,000,000 or such lesser or greater sum as may be found upon trial, or alternatively, the setting aside of the contract or contracts, together with actual damages for the "true excess" market value of gas so far purchased by LP&L ("true excess" apparently meaning the difference between market value and either what the plaintiffs received or what LP&L paid), and "exemplary damages in the sum of Ten Million Dollars ($10,000,000) against all defendants involved or participating in the fraudulent or tortious conduct" (which would, under the allegations of the suit, include LP&L). LP&L moved to dismiss the suit as to it for lack of jurisdiction. Following discovery on the question of the entitlement of the plaintiffs to have the suit certified by the Court as a class action, the Court, on June 12, 1978, rendered an order certifying the suit, at least provisionally, as a class action and ordering that discovery on the merits be proceeded with. On June 25, 1979, the Court orally denied LP&L's motion to dismiss. In the opinion of General Counsel for LP&L, the suit is without merit as against LP&L and will be unsuccessful as against LP&L if and when proceeded with to final judgment.

On October 31, 1978, a suit was filed against LP&L in the Civil District Court for the Parish of Orleans, State of Louisiana, by Save Our Wetlands, Inc., seeking a declaratory judgment decreeing LP&L's Waterford No. 3 to be a nuisance, apparently on the basis that it will (allegedly) endanger the safety of the public, and an injunction to prevent LP&L from proceeding with the construction of such Unit. On November 17, 1978, LP&L filed a declinatory exception directed at the insufficiency of service of process upon it. In addition, on April 2, 1979, a mandamus suit (to which LP&L is not a party) was filed in the same Court by Save Our Wetlands, Inc. against the Governor and the Attorney General of the State of Louisiana and the State itself, asking that the Governor and the Attorney General be ordered to devise an adequate evacuation plan for metropolitan New Orleans in case of a "plant accident" at Waterford No. 3, and if such an evacuation plan is impossible (which plaintiff alleges it is), that these defendants be ordered to immediately enjoin the construction of Waterford No. 3. Both matters are pending.

MP&L filed suit on August 30, 1974 against United and Pennzoil Company in the United States District Court for the Southern District of Mississippi, for damages for breach of contract and for misrepresentations made to MP&L. The suit seeks the recovery of damages from United and Pennzoil in the amount of $160,200,000 incurred as a result of breach of a Gas Sales Agreement between United and MP&L for the supply of up to 190,000 Mcf of gas per day for use as fuel in MP&L's Rex Brown and Baxter Wilson Steam Electric Stations. The damages sought include: $50,000,000 of increased fuel and power costs which MP&L incurred and passed on as fuel adjustment to its customers since United began curtailing gas deliveries and through July 31, 1974, which amount MP&L seeks to refund to its customers; $67,750,000 incurred or to be incurred by MP&L in converting its power plant facilities to use fuel oil as a primary boiler fuel and $42,450,000 for the cost of replacing capacity lost as a result of modifying its power plant facilities to use fuel oil as a substitute fuel. A declaration of rights is also being sought covering damages accruing with respect to increased fuel and power costs after July 31, 1974 and through the remaining term of the contract. On motion of the defendants, the Court on April 4, 1975 stayed these proceedings pending certain FPC actions; and on April 21, 1977, the Court referred the matter to the FPC. The FERC (successor to the FPC) accepted some of the referred issues, which are now pending before it.

On August 9, 1974, the United States filed suit against MP&L in the United States District Court for the Southern District of Mississippi seeking (1) a determination that MP&L is a government contractor as defined by Executive Order 11246 and subject to the equal employment opportunity clause and other obligations imposed upon contractors with the Federal government pursuant to the Executive Order and (2) an order enjoining MP&L from refusing to comply with the terms and conditions imposed by Executive Order 11246 and implementing regulations issued thereunder. MP&L filed a motion for judgment on the pleadings and the United States responded with a motion for partial summary judgment. On April 23, 1975, the District Court granted the government's motion and enjoined MP&L from refusing to comply with Executive Order 11246. On June 6, 1977, the Court of Appeals for the Fifth Circuit affirmed the opinion but vacated the injunction and remanded the case to the General Services Administration for administrative proceedings. On June 5, 1978, the United States Supreme Court granted MP&L's petition for writ of certiorari, vacated the Fifth Circuit's decision, and remanded the case for further consideration. The Fifth Circuit in turn remanded the case to the District Court. MP&L has renewed its motion for summary judgment, and the United States has renewed its motion for partial summary judgment. On May 30, 1979, the District Court ruled against MP&L. From this order MP&L filed an appeal to the Court of Appeals for the Fifth Circuit. On July 16, 1979, the District Court stayed its judgment of May 30, 1979 pending this appeal.

On January 30, 1979, MSE filed suit in the United States District Court, Southern District of Mississippi, against Zurn Industries, Inc. alleging breach of the contract between MSE and Zurn Industries, Inc. for the design and construction of two natural draft cooling towers at the Grand Gulf Plant and seeking judgment for damages of $6,000,000. On March 12, 1979, Zurn Industries, Inc. filed a counterclaim against MSE, Bechtel Power Corporation and, individually, forty-three insurance companies in the American Nuclear Insurers property insurance pool, which insures the cooling towers at the Grand Gulf Plant, and a third-party complaint against the insurance companies. The counterclaim and third-party complaint allege that MSE, Bechtel Power Corporation, and the insurance companies breached or caused to be breached the contract between MSE and Zurn Industries, Inc. and committed other wrongful acts and seeks damages against the counter-defendants in the amount of $37,130,000, including damages for breach of contract and other wrongful acts. On March 14, 1980, the District Court granted Zurn Industries, Inc.'s motion to amend its counterclaim against MSE and Bechtel Power Corporation to seek judgment for additional damages of $5,000,000 punitive and $1,000,000 actual. The District Court further, on March 18, 1980, approved a settlement reached between the insurance companies and Zurn Industries, Inc. and dismissed with prejudice the counterclaim and third-party complaint against the insurance companies. The matter is pending.

On August 4, 1977, the Metropolitan New Orleans Chapter of the Louisiana Consumers' League, Inc. and others filed a class action suit in the Civil District Court for the Parish of Orleans against NOPSI and the Council. The plaintiffs are seeking to compel the defendants to refund the increase in transit fares collected under authority of a resolution of the Council, which resolution became effective on November 14, 1975; or, in the alternative, plaintiffs seek to compel a reduction of present transit fares for a sufficient period of time to allow transit riders to recoup the increase in fares collected under the resolution. The law suit results from the fact that the transit fare increase, which became effective on November 14, 1975 and, despite a judgment by the trial court that the increase was invalid, was permitted by the courts to continue in effect during the pendency of appeals through November 7, 1977, was finally held to be invalid on November 4, 1977, when the Louisiana Supreme Court refused to review rulings of lower courts which had held that the Council had failed to follow the prescribed statutory procedures in adopting the transit fare increase and hence the increase was null and void. (On December 1, 1977, the Council adopted a resolution, effective December 4, 1977, increasing the transit fare by the amount it was reduced.) NOPSI has filed responsive pleadings in the proceeding and has taken the position that the increased transit fares so collected during the period November 14, 1975 through November 7, 1977 were lawfully collected. On May 15, 1979, the District Court granted plaintiffs' request for a Summary Judgment against defendants and awarded the plaintiffs $5,518,990 (plus judicial interest), which sum has been ordered to be paid through a reduction of NOPSI's transit fares by five cents for a period of two years. The Court further ordered defendants to pay plaintiffs' attorney's fees in the amount of $100,000. On June 20, 1979, NOPSI and the Council filed a suspensive appeal from this

Summary Judgment of the District Court to the Louisiana Fourth Circuit Court of Appeals. NOPSI and the Council therein allege that the Summary Judgment was improperly granted by the District Court and request that the matter be returned to the District Court for a trial. Under the subsidy agreements for 1978, 1979 and 1980 with the City of New Orleans, the City would assume 30% of any ultimate liability resulting from this litigation. See "Regulation and Litigation—Holding Company Act."

On February 4, 1975, the Metropolitan New Orleans Chapter of the Louisiana Consumers' League, Inc. and others filed a class action suit in the Civil District Court for the Parish of Orleans against NOPSI and the Council alleging, among other things, that NOPSI's fuel adjustment clause in its electric rate schedules allows it to pass increased costs of fuel on to its customers without required regulatory hearing. A preliminary injunction and damages in the amount of $26.2 million are being sought. On January 19, 1979, the District Court refused to grant plaintiff's motion for summary judgment. On December 19, 1979, after trial of the case, the District Court entered a judgment in favor of both NOPSI and the Council and against the plaintiffs. On December 27, 1979, the plaintiffs filed an appeal of the District Court judgment to the Louisiana Fourth Circuit Court of Appeals. It is the opinion of NOPSI that final disposition of this matter will not have a material adverse effect upon NOPSI's financial position or results of operations.

On January 30, 1979, a class action suit was filed in Civil District Court for the Parish of Orleans against NOPSI, the City of New Orleans and the Council by two individuals on behalf of all of NOPSI's electric and gas customers alleging that the Council has allowed NOPSI to subsidize its transit operation with funds which NOPSI has received and is continuing to receive from its electric and gas customers. Plaintiffs further allege that they have never consented to nor did they have knowledge of this arrangement. A refund of all sums paid by plaintiffs to NOPSI for the subsidization of the transit operation and damages in the amount of $1.0 billion are being sought. NOPSI filed exceptions on April 12, 1979 and the matter is pending. NOPSI has been advised by counsel that based on its understanding of the facts and law, it is counsel's belief that NOPSI has substantial and meritorious defenses which will ultimately prevail.

NOPSI, the City of New Orleans and others filed suit on July 1, 1974 (amended June 8, 1978) against United in the Civil District Court for the Parish of Orleans, State of Louisiana, for damages for breach of contract. Petitioners also include representatives of a class consisting of all persons and organizations purchasing electricity from NOPSI within the City of New Orleans. The suit, as amended, seeks the recovery of damages from United in the amount of $105,187,681 incurred as a result of breach of a Gas Sales Contract between United and NOPSI for the supply of all NOPSI's natural gas requirements for the generation of electricity. Of the total amount of damages sought, $43.2 million represents the increased amount of fuel costs which NOPSI incurred and passed on to its consumers of electricity through June 1, 1975, since United began curtailing gas deliveries for power plant generation in April 1971. Of the remainder of the damages sought, $62.0 million, $1.2 million represents increases in gross receipt and franchise taxes paid by NOPSI due to increases in gross revenues which resulted from the above mentioned $43.2 million increased cost of fuel being passed on to NOPSI's electric customers through the operation of the fuel adjustment clause in its electric rate schedules; $8.0 million represents expenditures up to June 1, 1975 for conversion of power plants to burn oil for prolonged periods and $52.8 million represents the profits NOPSI would have realized from the generation and sale of additional quantities of electricity had United not breached its contract with NOPSI and delivered to it the volumes of gas which United had contracted with NOPSI to deliver, but did not deliver. The defendant effected the removal of the suit from the state court to the United States District Court for the Eastern District of Louisiana. Plaintiffs moved for the remand of the suit to the state court which was granted by the United States District Court on November 20, 1974. United then filed a motion to dismiss on the grounds that the FPC had primary jurisdiction. On February 7, 1975, the state court denied the motion. On June 26, 1979, the District Court denied defendants' motions for Referral of Issues to the FERC and for stay of trial pending the outcome of such referral. The matter is pending.

In May 1973, the United States of America filed suit against NOPSI in the United States District Court for the Eastern District of Louisiana seeking a determination that NOPSI is a "government contractor" as defined by Executive Order 11246 and is subject to the equal employment opportunity clause and other obligations imposed upon contractors with the Federal government pursuant to the Executive Order. The

United States also sought an order requiring NOPSI to submit to a review of its records and employment practices to determine whether NOPSI meets the non-discrimination requirements prescribed by the Executive Order and requiring NOPSI to comply with its provisions. The District Court rendered a decision on November 16, 1979 holding NOPSI to be a government contractor and entered an order on December 17, 1979 permitting the United States to proceed by administrative action to enforce NOPSI's compliance with the Executive Order and the rules and regulations thereunder. On December 21, 1979, NOPSI filed notice of appeal with the United States Fifth Circuit Court of Appeals where the matter is pending.

NOPSI INDUSTRY SEGMENTS

Selected Financial Information Relating to Industry Segments(1)

	Year Ended December 31,				
	1979	1978	1977	1976	1975
			(In Thousands)		
Revenue from sales to unaffiliated customers(2)(3):					
Electric	$204,486	$181,418	$168,198	$153,169	$125,933
Natural gas	85,624	70,013	61,218	44,169	33,784
Transit	36,996	36,399	31,828	18,873	13,176
Total	$327,106	$287,830	$261,244	$216,211	$172,893
Operating income (loss)(3):					
Electric	$ 16,238	$ 15,521	$ 14,142	$ 19,402	$ 14,907
Natural gas	1,046	2,269	2,951	4,142	1,495
Transit	759	530	519	(6,136)	(4,949)
Total	$ 18,043	$ 18,320	$ 17,612	$ 17,408	$ 11,453
Total utility plant:					
Electric	$318,377	$308,935	$300,403	$293,646	$286,859
Natural gas	69,771	61,239	58,615	56,392	54,577
Transit	19,049	21,081	19,623	19,781	19,841
Construction work in progress:					
Electric	4,638	1,251	1,534	1,063	1,431
Natural gas	147	1,989	107	14	26
Transit	1	3	2	—	—
Total	$411,983	$394,498	$380,284	$370,896	$362,734

(1) Because it is impracticable to allocate interest charges and other income and deductions, the contribution to net income by type of business is not shown.

(2) NOPSI's intersegment sales are not material (less than 1% of sales to unaffiliated customers). See Note (b) to Summaries of Operations for sales to affiliates.

(3) Includes adjustment for transit subsidy. See "Regulation and Litigation—Holding Company Act" regarding the subsidy of NOPSI's transit operations by the City of New Orleans and Note (a) to Summaries of Operations concerning the reclassification of certain revenues in 1979, 1978 and 1977.

Narrative Description of Industry Segments

Electric Service. Electric service was supplied to 193,769 customers at December 31, 1979. During 1979, and before giving effect to the transit subsidy, 30% of electric operating revenues was derived from residential sales, 31% from commercial sales, 13% from industrial sales, 10% from sales to governmental and municipal customers, 16% from sales to public utilities and from other sources.

Natural Gas Service. Natural gas service was supplied to 177,136 customers at December 31, 1979. During 1979, 43% of gas operating revenues was derived from residential sales, 16% from commercial sales, 26% from industrial sales and 15% from sales to governmental and municipal customers. (See "Fuel Supply—Natural Gas Purchased for Resale".)

Transit Service. The transit service of NOPSI consists of motor coach and electric railway services. During the year ended December 31, 1979, the company's transit vehicles traveled approximately 14 million miles while carrying approximately 89.2 million passengers. During 1979, the company consumed approximately 4 million gallons of diesel fuel in its transit operations and was able to obtain a sufficient supply thereof. NOPSI anticipates receiving an adequate supply of diesel fuel during 1980. The company's average cost per gallon of diesel fuel increased from 29.70¢ in January 1974 to 75.70¢ in December 1979, an increase of 155%.

For further information with respect to NOPSI's industry segments, see "Business of System Operating Companies", "Property", "Regulation and Litigation—Holding Company Act" and Note 15 to Financial Statements.

Employees by Segment

NOPSI's employees by industry segments are as follows:

	December 31, 1979		
	Full Time	Part Time	Total
Electric	622	1	623
Natural Gas	221	—	221
Transit	1,253	—	1,2[illegible]
General	849	43	892
Total	2,945	44	2,989

ITEM 2. SUMMARIES OF OPERATIONS

CONSOLIDATED

	1979	1978	1977 (In Thousands)	1976	1975
Operating Revenues:					
Electric	$1,669,451	$1,489,915	$1,327,319	$1,063,036	$ 868,100
Gas	116,612	95,863	83,910	62,502	49,513
Transit(a)	36,996	36,399	31,828	18,873	13,176
Total	1,823,059	1,622,177	1,443,057	1,144,411	930,789
Operating Expenses:					
Fuel for Electric Generation and Purchased Power	955,983	757,331	655,077	483,643	329,557
Gas Purchased for Resale	88,801	68,657	58,577	37,852	30,994
Other Operation Expenses and Maintenance	311,658	299,347	253,595	204,183	190,437
Depreciation	119,304	112,805	106,748	101,045	92,770
Income Taxes Charged to Operating Expenses(d)	51,266	86,004	98,091	68,795	55,560
Taxes Other Than Income Taxes	77,849	69,771	67,306	61,561	56,481
Total Operating Expenses	1,604,861	1,393,915	1,239,394	957,079	755,799
Operating Income	218,198	228,262	203,663	187,332	174,990
Allowance For Funds Used During Construction—Total(e)	213,333	148,290	99,377	62,169	46,064
Income Taxes Credited to Other Income—cr.(d)	76,232	50,105	29,393	18,287	14,175
Interest Charges	(297,381)	(221,981)	(171,265)	(148,290)	(132,663)
Preferred Dividend Requirements of Subsidiaries	(36,264)	(25,477)	(23,109)	(21,780)	(16,660)
Miscellaneous—Net	7,940	6,239	6,910	8,329	4,397
Net Income(f)	$ 182,058(c)	$ 185,438	$ 144,969	$ 106,047(c)	$ 90,303
Weighted Average Number of Shares of Common Stock Outstanding	85,444,691	75,522,179	66,598,876	58,395,628	50,733,782
Earnings Per Common Share on Weighted Average Number of Shares Outstanding	$2.13	$2.46	$2.18	$1.82	$1.78
Dividends Declared Per Common Share	$1.535	$1.46	$1.395	$1.335	$1.275

AP&L

	1979	1978	1977	1976	1975
			(In Thousands)		
Operating Revenues(b)	$583,826	$556,488	$537,408	$396,597	$316,831
Operating Expenses:					
Fuel for Electric Generation and Purchased Power(b)	346,092	288,485	284,115	215,196	132,344
Other Operation Expenses and Maintenance	92,032	90,992	81,917	57,850	54,923
Depreciation	39,708	38,365	36,768	35,025	33,790
Income Taxes Charged to Operating Expenses(d)	11,213	33,813	43,937	17,164	20,363
Taxes Other Than Income Taxes	25,032	23,436	20,154	18,858	17,989
Total Operating Expenses	514,077	475,091	466,891	344,093	259,409
Operating Income	69,749	81,397	70,517	52,504	57,422
Allowance for Funds Used During Construction—Total(e)	65,903	50,262	36,666	26,445	18,978
Income Taxes Credited to Other Income—cr.(d)	16,753	12,403	6,660	7,014	5,111
Interest Charges	(75,536)	(61,025)	(48,964)	(45,855)	(43,818)
Miscellaneous—Net	6,873	4,583	5,806	3,314	3,020
Income Before Cumulative Effect of Accounting Change	82,742	87,620	70,685	43,422	40,713
Cumulative Effect to January 1, 1976 of Change in Accounting for Fuel Costs(c)	—	—	—	3,541	—
Net Income(f)	83,742	87,620	70,685	46,963(c)	40,713
Preferred Dividend Requirements	(17,474)	(14,020)	(14,020)	(13,155)	(8,035)
Balance for Common Stock	$ 66,268	$ 73,600	$ 56,665	$ 33,808	$ 32,678

LP&L

	1979	1978	1977	1976	1975
			(In Thousands)		
Operating Revenues(b)	$557,476	$456,375	$378,951	$331,277	$264,844
Operating Expenses:					
Fuel for Electric Generation and Purchased Power(b)	330,337	237,907	185,283	153,471	99,229
Other Operation Expenses and Maintenance	73,688	76,744	59,713	52,483	47,868
Depreciation	40,863	38,389	35,999	33,866	27,837
Income Taxes Charged to Operating Expenses(d)	22,750	19,919	21,482	19,990	18,535
Taxes Other Than Income Taxes	15,977	14,106	13,918	12,414	11,746
Total Operating Expenses	483,615	387,065	316,395	272,224	205,215
Operating Income	73,861	69,310	62,556	59,053	59,629
Allowance for Funds Used During Construction—Total(e)	45,853	31,079	19,473	12,823	14,029
Income Taxes Credited to Other Income—cr.(d)	11,751	9,058	5,456	2,802	3,776
Interest Charges	(71,256)	(58,125)	(45,017)	(38,991)	(36,462)
Miscellaneous—Net	4,920	2,422	1,938	3,590	2,723
Net Income	65,129(c)	53,744	44,406	39,277	43,695
Preferred Dividend Requirements	(15,441)	(8,108)	(5,740)	(5,276)	(5,276)
Balance for Common Stock	$ 49,688	$ 45,636	$ 38,666	$ 34,001	$ 38,419

MP&L

	1979	1978	1977	1976	1975
			(In Thousands)		
Operating Revenues(b)	$436,524	$400,276	$365,346	$308,776	$240,057
Operating Expenses:					
Fuel for Electric Generation and Purchased Power(b)	286,255	248,210	223,639	177,292	128,720
Other Operation Expenses and Maintenance	62,137	49,099	43,708	38,316	33,064
Depreciation	21,974	20,528	19,728	18,151	17,532
Income Taxes Charged to Operating Expenses(d)	9,995	20,492	20,964	16,759	11,560
Taxes Other Than Income Taxes	16,177	14,950	14,299	12,962	11,626
Total Operating Expenses	396,538	353,279	322,338	263,480	202,502
Operating Income	39,986	46,997	43,008	45,296	37,555
Allowance for Funds Used During Construction—Total(e)	1,077	1,172	1,601	—	1,853
Income Taxes Charged to Other Income—cr.(d)	(1,145)	(916)	(113)	(913)	(919)
Interest Charges	(20,237)	(20,694)	(20,496)	(20,342)	(19,452)
Miscellaneous—Net	2,900	2,286	1,027	1,704	1,766
Net Income	22,581	28,845	25,027	25,745	20,803
Preferred Dividend Requirements	(2,384)	(2,384)	(2,384)	(2,384)	(2,384)
Balance for Common Stock	$ 20,197	$ 26,461	$ 22,643	$ 23,361	$ 18,419

NOPSI

	1979	1978	1977	1976	1975
			(In Thousands)		
Operating Revenues(a)(b):					
Electric	$240,032	$191,845	$178,040	$157,135	$129,305
Gas	85,624	70,013	61,218	44,169	33,784
Transit	36,996	36,399	31,828	18,873	13,176
Total	362,652	298,257	271,086	220,177	176,265
Operating Expenses:					
Fuel for Electric Generation and Purchased Power(b)	161,349	117,089	111,[illegible]80	84,207	66,870
Gas Purchased for Resale	68,291	52,439	43,[illegible]01	26,730	21,547
Other Operation Expenses and Maintenance	84,433	77,497	64,[illegible]85	58,552	50,970
Depreciation	13,379	12,290	11,[illegible]71	11,133	10,985
Income Taxes Charged to Operating Expenses(d)	1,379	7,817	7,694	8,270	2,052
Taxes Other Than Income Taxes	15,778	12,805	15,143	13,877	12,388
Total Operating Expenses	344,609	279,937	253,474	202,769	164,812
Operating Income	18,043	18,320	17,612	17,408	11,453
Allowance for Funds Used During Construction—Total(e)	238	136	52	156	228
Income Taxes Charged to Other Income—cr.(d)	(702)	(706)	(637)	(747)	(470)
Interest Charges	(9,447)	(8,640)	(7,907)	(8,094)	(8,204)
Miscellaneous—Net	1,878	1,533	1,392	1,680	971
Net Income	10,010	10,643	10,512	10,403	3,978
Preferred Dividend Requirements	(965)	(965)	(965)	(965)	(965)
Balance for Common Stock	$ 9,045	$ 9,678	$ 9,547	$ 9,438	$ 3,013

NOTES TO SUMMARIES OF OPERATIONS

(a) Under transit subsidy agreements between NOPSI and the City of New Orleans for 1979, 1978 and 1977, transit operations recorded a subsidy amount sufficient to earn on the transit rate base a year-to-date rate of return of 8.33% on a monthly basis. Such subsidy came first from electric and gas earnings in excess of an annualized 8.33% rate of return on those combined operations, on a monthly basis, and the balance came from the City. During the years 1979, 1978 and 1977, the transit operations recorded subsidy amounts of approximately $19.1 million ($2.1 million from combined electric and gas operations and $17.0 million from the City), $19.1 million ($7.1 million from combined electric and gas operations and $12.0 million from the City), and $14.8 million ($13.0 million from combined electric and gas operations and $1.8 million from the City), respectively. See Item 1—"Business—Regulation and Litigation—Holding Company Act" for information concerning the proposed divestiture of transit operations.

(b) Electric operating revenues include sales to affiliates as follows:

	1979	1978	1977	1976	1975
			(In Thousands)		
AP&L	$48,320	$35,680	$48,934	$14,948	$19,617
LP&L	29,366	41,655	48,412	95,129	53,823
MP&L	90,959	82,899	74,186	56,117	39,268
NOPSI	35,546	10,427	9,842	3,966	3,372

Operating expenses include power purchased from affiliates as follows:

	1979	1978	1977	1976	1975
			(In Thousands)		
AP&L	$88,483	$79,903	$84,295	$88,432	$46,792
LP&L	54,012	27,205	22,009	3,047	6,767
MP&L	26,750	19,084	30,600	33,135	30,744
NOPSI	28,694	33,342	32,000	35,090	25,385

Fuel for electric generation includes purchases from SFI as follows:

	1979	1978	1977	1976	1975
			(In Thousands)		
AP&L	$106,296	$141,486	$146,561	$85,675	$44,630
LP&L	104,776	92,203	79,917	62,817	18,960
MP&L	133,233	143,842	125,247	92,992	60,186
NOPSI	34,020	46,615	43,238	32,075	27,815

(c) Effective January 1, 1976, AP&L adopted the accounting policy of deferring fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers pursuant to 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 AP&L's nuclear plant is not operating.

This accounting change, net of deferred income taxes of $4,175,000, resulted in an increase in net income for 1976 of $3,992,000 ($0.07 per share) of which, $3,541,000 ($0.06 per share) represents the cumulative effect of the change (net of taxes) as of January 1, 1976 and is not shown separately in the Consolidated Summaries of Operations.

In January 1979, LP&L received authorization from the LPSC allowing and requiring LP&L to credit or charge customers through the fuel adjustment clause in future billings for net over or undercollections of fuel costs in excess of those included in base rates. Concurrently with this change in billing for fuel costs, LP&L commenced deferring on its books fuel costs to be reflected in billings to customers pursuant to the fuel adjustment clause until such amounts are billed. The effect of this deferral, net of deferred income taxes, was to increase net income for the year 1979 by $7,765,000.

(d) Reference is made to Notes 1(F) and 6 to Financial Statements for information relating to income taxes and investment tax credits.

Beginning January 1, 1975, AP&L, LP&L and MSE have included in Other Income an amount representing the income tax effect of the debt portion of AFDC. During 1977, MP&L and NOPSI began following this same practice in their presentation of AFDC. Net income is not affected since the income tax effect was previously credited to operating expenses.

The amount of investment tax credit adjustments—net for each of the five years is as follows:

	1979	1978	1977	1976	1975
			(In Thousands)		
Consolidated	$(2,566)	$(4,166)	$9,634	$31,087	$20,040
AP&L	(753)	(1,435)	1,333	8,127	5,839
LP&L	(1,019)	(1,205)	2,595	6,411	7,822
MP&L	1,286	(907)	205	3,814	1,960
NOPSI	1,651	(312)	58	719	910

(e) Reference is made to Note 1(G) of the Financial Statements for information relating to AFDC. The composite rates for AFDC for each of the five years is as follows:

	1979	1978	1977	1976	1975
AP&L	7.7%	7.6%	7.4%	7.5%	7.5%
LP&L	6.9	6.8	6.8	7.5	7.5
MP&L	7.8	7.4	6.9	—	7.5
NOPSI	6.5	5.8	6.6	7.5	7.5

Effective January 1, 1977, in accordance with FPC Order No. 561, the System operating companies adopted the formula, which permits compounding, for determining the rate to be used in computing AFDC, and adopted accounting and reporting requirements for AFDC. MSE determines its accrual rate for AFDC based on an 11.6% return on average common equity plus actual interest costs, net of related income taxes.

(f) Reference is made to Note 10 to Financial Statements relating to AP&L's fuel adjustment clause.

CONSOLIDATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARIES OF OPERATIONS

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of the Middle South System during the years 1979 and 1978.

Operating Revenues

The principal components of the increases in electric operating revenues are shown in the following tabulation:

	1979		1978	
	Amount (In Thousands)	% of Total	Amount (In Thousands)	% of Total
Sales of energy	$(12,615)	(7)%	$ 63,553	39%
Rate increases	2,084	1	28,034	17
Recovery of fuel cost*	183,505	102	60,494	37
Miscellaneous**	6,562	4	10,515	7
Total	$179,536	100%	$162,596	100%

* Includes the effect of increased fuel cost recovered through fuel adjustment clauses and increased fuel cost included in the new levels of base rates. See Note (c) to Summaries of Operations.

** Includes the effect of adjustments for transit subsidy. See Note (a) to Summaries of Operations and Item 1—"Business-Regulation and Litigation-Holding Company Act" regarding the subsidy agreements for 1979 and 1978 with the City of New Orleans with respect to NOPSI's transit operations and the reclassification of certain revenues in these years.

Electric operating revenues increased by $180 million or 12% in 1979 principally due to increased fuel cost recoveries through fuel adjustment clauses and increased fuel cost included in the new levels of base rates. In 1978, electric operating revenues increased by $163 million or 12% principally due to increased sales of energy to other utilities as a result of a national coal miner's strike in the early part of 1978 and increased fuel cost recoveries through fuel adjustment clauses and increased fuel cost included in the new levels of base rates.

The increases in gas revenues for the years 1979 and 1978 ($21 million, 22% and $12 million, 14%, respectively) are principally due to the recovery of increased costs through purchased gas adjustment clauses.

Transit revenues increased in 1978 by $5 million (14%) primarily due to the operation of the transit subsidy agreements, see Note (a) to Summaries of Operations

Fuel for Electric Generation and Purchased Power

The increase in fuel expense for 1979, $74 million, is primarily due to higher average unit costs for gas and oil-fired generation. The increase in fuel expense for 1978, $54 million, reflects additional generation to meet increased energy requirements.

The increase in purchased power expense in 1979, $124 million, is primarily attributable to reduced volumes of oil-fired generation and the outages of ANO No. 1 during the second quarter, half of the third quarter and approximately one month in the fourth quarter of 1979. See Item 1—"Business—Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization of 1974". The increase in the cost of purchased power in 1978, $48 million, is attributable to the escalating unit cost per KW of purchased power in order to meet customer demands and to additional shut-downs of major generating units in the second quarter of 1978.

It is the policy of the Middle South System to buy available power from neighboring utilities when the cost thereof is less than the incremental cost of generating with the Middle South System's generating units.

Gas Purchased for Resale

The increases in gas purchased for resale in 1979 and 1978 ($20 million and $10 million, respectively) are attributable to the rising cost of purchased gas.

Other Operation Expenses and Maintenance

Other operation expenses increased $0.9 million in 1979 and $19 million in 1978. Excluding the effects of the nuclear fuel reserve and deferred fuel cost accounting policies, as described below, expenses increased $31 million or 15% for the year 1979 and $29 million or 17% for the year 1978. These increases are primarily attributable to the Middle South System's growth and to inflationary pressures on wages, employee benefits, services, and materials and supplies.

Other operation expenses reflect AP&L's nuclear fuel reserve fund estimated to offset the effect of higher cost of generation when the nuclear plant is out of service for refueling.

AP&L and LP&L defer fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. See Note (c) to Summaries of Operations.

The increase in maintenance expense for the year 1979 ($11 million) is due primarily to a major overhaul completed at a generating unit, the continuous usage of oil as a boiler-fuel and inflationary pressures. The increase in maintenance expense for the year 1978 ($27 million) is due to more scheduled maintenance on generating units required by a continuous and greater usage of oil as a generator fuel, unscheduled maintenance and inflationary pressures.

AFDC

The increases in AFDC are due primarily to increased levels of CWIP.

Income Taxes

Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes, and a reconciliation of the statutory to the effective book income tax rates.

The fluctuations in total income tax expense included in operating expenses and in other income in the years 1979 and 1978 are attributable primarily to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided. In addition, the 1979 change is partially attributable to a change in the Federal income tax rate.

Taxes Other than Income Taxes

The increase in taxes other than income taxes for the year 1979 ($8 million or 12%) is due primarily to increased ad valorem taxes, local franchise taxes and Federal Insurance Contribution Act taxes.

Interest and Preferred Dividends

Interest expense and preferred dividend requirements increased during each year primarily as a result of additional issuances of debt and preferred stock in conjunction with the construction program of the Middle South System and rising interest and dividend rates.

Net Income and Earnings Per Share

Net income decreased $3 million or 2% for the year 1979 and increased $39 million or 24% for the year 1978. In each year the percentage change in earnings per share did not change proportionately to the change in net income due primarily to common stock sales in January and November of 1979 (8.5 and 5 million shares, respectively) and January 1978 (8.5 million shares).

AP&L

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARIES OF OPERATIONS

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of AP&L during the years 1979 and 1978.

Operating Revenues

The principal components of the increases in electric operating revenues are shown in the following tabulation:

	1979		1978	
	Amount (In Thousands)	% of Total	Amount (In Thousands)	% of Total
Sales of energy	$ 1,911	7%	$ 3,709	19%
Rate increases	—	—	15,113	79
Recovery of fuel cost*	26,652	97	470	3
Miscellaneous	(1,225)	(4)	(212)	(1)
Total	$27,338	100%	$19,080	100%

* Includes increased fuel cost recovered through fuel adjustment clauses and increased fuel cost included in the new levels of base rates. See Note (c) to Summaries of Operations.

Purchased Power

The increase in purchased power expense for the year 1979 of $51 million or 42% is due primarily to additional amounts of purchased power being required to replace oil-fired generation and the outage of ANO No. 1 during the second quarter, half of the third quarter and approximately one month of the fourth quarter of 1979. In addition, higher unit costs for purchased power were incurred during the year 1979 as compared to the previous year.

Other Operation Expenses and Maintenance

Other operation expenses decreased $0.3 million in 1979 and $2 million in 1978. Excluding the effects of the nuclear fuel reserve and deferred fuel cost accounting policies, as described below, expenses increased $14 million or 23% for the year 1979 and $11 million or 20% for the year 1978. The increase in each period is primarily attributable to inflationary pressures on wages, property insurance, employee benefits, services and materials and supplies.

Other operation expenses reflect AP&L's nuclear fuel reserve fund estimated to offset the effect of higher cost of generation when the nuclear plant is out of service for refueling.

AP&L adopted an accounting policy of deferring fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The policy results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. See Note (c) to Summaries of Operations.

Maintenance expense increased by $10 million or 60% in 1978 due to more scheduled maintenance on generating units which was required by the continuous and greater usage of oil as a generator fuel during 1978 and inflationary pressures.

Income Taxes

Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes, and a reconciliation of the statutory to the effective book income tax rates.

The changes in total income tax expense included in operating expenses and in other income in 1979 and 1978 are attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided. The 1979 change is also partially attributable to a change in the Federal income tax rate. In addition, the fluctuation in income tax expense included in other income for 1978 is also attributable to recording of taxes associated with the gain on the sale of the White Bluff Plant in 1977.

Taxes Other than Income Taxes

The increase in 1978 is due to additional investment in facilities and to increases in the base tax rates.

AFDC

The increases in AFDC during each year are due primarily to continued capitalization of AFDC on ANO No. 2, the White Bluff and Independence Plants.

Interest and Preferred Dividends

Interest expense in 1979 and 1978 and preferred dividend requirements in 1979 increased primarily as a result of additional issuances of debt and preferred stock in conjunction with the construction program and rising interest and dividend rates.

Miscellaneous—Net

The increase for the year 1979 is primarily due to a $1.3 million gain on the sale of an interest in the Independence Plant during the third quarter of 1979. The 1978 decrease in miscellaneous—net is due to the absence of the net effect of the gain on the sale of the White Bluff Plant partially offset by an increase in interest and dividend income.

LP&L

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARIES OF OPERATIONS

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of LP&L during the years 1979 and 1978.

Operating Revenues

The principal components of the increases in electric operating revenues are shown in the following tabulation:

	1979		1978	
	Amount (In Thousands)	% of Total	Amount (In Thousands)	% of Total
Sales of energy	$ (3,008)	(3)%	$33,339	43%
Rate increases	—	—	11,419	15
Recovery of fuel cost*	103,882	103	33,850	44
Miscellaneous	227	—	(1,184)	(2)
Total	$101,101	100%	$77,424	100%

* Includes increased fuel cost recovered through fuel adjustment clauses and increased fuel cost included in the new levels of base rates.

Electric operating revenues increased $101 million or 22% for the year 1979 primarily due to the recovery of increased fuel costs and the fuel component of purchased power costs. Electric operating revenues for the year 1978 increased $77 million or 20% primarily due to increased energy sales to ultimate customers and the recovery of increased fuel and the fuel component of purchased power costs. Also, during the first quarter of 1978, LP&L was called upon to supply large quantities of energy to other utilities as a result of a national coal miners' strike and extremely cold weather.

Fuel for Electric Generation and Purchased Power

The increase in fuel costs in the year 1979, $22 million or 13%, is primarily due to higher average unit prices for natural gas and oil partially offset by a decline in oil-fired generation. Fuel costs increased by approximately $27 million or 19% in 1978. The increase resulted from a higher demand for electric service, higher unit prices for natural gas and oil and increased oil-fired generation.

Purchased power expense increased $70 million or 101% in 1979 due primarily to additional amounts of purchased power needed to replace reductions in gas and oil-fired generation. Purchased power expense in 1978 increased $26 million or 58%. The change resulted from increased demand for electric service and higher unit prices.

Other Operation Expenses and Maintenance

For the year 1979 other operation expenses decreased $5 million or 11%. Excluding the effects of deferred fuel cost accounting policies, as described below, expenses increased $10 million or 21%. The increase is primarily attributable to inflationary pressures on wages, employee benefits, services and materials and supplies. Other operation expenses such as costs of labor, materials and supplies and services increased by $9 million in 1978 primarily due to the effects of inflation.

LP&L commenced deferring fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. See Note (c) to Summaries of Operations.

Maintenance expense increased in 1978 by $8 million or 40%. This increase was due to increased scheduled maintenance on generating units, which is required by continuous usage of oil as a boiler fuel, unscheduled maintenance and inflationary pressures.

Income Taxes

Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes and a reconciliation of the statutory to the effective book income tax rates.

The fluctuations in total income tax expense included in operating expenses and in other income in 1979 and 1978 are primarily attributable to changes in income before income taxes, and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided. In addition, the 1979 change is partially attributable to a change in the Federal income tax rate.

AFDC

The increases in AFDC are due primarily to increased levels of CWIP.

Taxes Other than Income Taxes

The increase in this item for the year 1979 is due primarily to increased Federal Insurance Contribution Act taxes and local franchise taxes.

Interest and Preferred Dividends

Interest expense and preferred dividend requirements increased during each year primarily as a result of additional issuances of debt and preferred stock in conjunction with financing the construction program and rising interest and dividend rates.

Miscellaneous—Net

Additional investments in SFI, an affiliated company, and higher rates of interest on such investments are primarily responsible for a $2 million increase in miscellaneous—net in 1979.

MP&L

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARIES OF OPERATIONS

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of MP&L during the years 1979 and 1978.

Operating Revenues

The principal components of the increases in electric operating revenues are shown in the following tabulation:

	1979		1978	
	Amount (In Thousands)	% of Total	Amount (In Thousands)	% of Total
Sales of energy	$(11,559)	(32%)	$22,239	64%
Recovery of fuel cost*	45,803	126	8,397	24
Miscellaneous	2,003	6	4,294	12
Total	$ 36,247	100%	$34,930	100%

* Includes increased fuel costs recovered through fuel adjustment clauses.

Fuel for Electric Generation and Purchased Power

Fuel costs increased by approximately $27 million or 15% in 1978. The increase resulted from a higher demand for electric service and increased oil-fired generation which increased by 14% in 1978.

Purchased power expense increased $29 million or 73% in 1979 due primarily to larger volumes of KWH's purchased to displace higher cost oil-fired generation.

Other Operation Expenses and Maintenance

The increase in other operation expenses in 1979, $7 million or 20%, is due primarily to increased expenses for fire and property insurance and inflationary pressures on the costs of labor, materials and supplies, services and wages. Other operation expenses such as costs of labor, materials and supplies and services increased by $4 million in 1978 primarily due to the effects of inflation.

Maintenance expenses increased by approximately $6 million in 1979 due to increased scheduled maintenance on generating units which is required by the continuous usage of oil as a boiler fuel and inflationary pressures. Also, a major overhaul shut down MP&L's Gerald Andrus Steam Electric Generating Station in the fourth quarter of 1979 resulting in additional maintenance expenses.

Maintenance expenses increased by approximately $2 million in 1978 due to increased scheduled maintenance on generating units which is required by the greater usage of oil as boiler fuel and inflationary pressures. In addition, MP&L's Baxter Wilson Steam Electric Generating Station Unit No. 2 was shut down for scheduled maintenance for approximately five months in 1978.

Income Taxes

Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes, and a reconciliation of the statutory to the effective book income tax rates.

The fluctuation in total income tax expense included in operating expenses in 1979 is primarily attributable to changes in income before income taxes, a change in the Federal income tax rate and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

Miscellaneous—Net

Additional investments in SFI, an affiliated company, and higher rates of interest on such investments are primarily responsible for the $0.6 million increase in miscellaneous—net in 1979. The $1.3 million increase in 1978 resulted primarily from increased interest earned on a higher level of temporary cash investment balances during the year.

NOPSI

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARIES OF OPERATIONS

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of NOPSI during the years 1979 and 1978.

Operating Revenues

The principal components of the increases in electric operating revenues are shown in the following tabulation:

	1979		1978	
	Amount (In Thousands)	% of Total	Amount (In Thousands)	% of Total
Sales of energy	$12,471	26%	$ 5,156	37%
Recovery of fuel cost*	29,816	62	3,112	23
Miscellaneous**	5,900	12	5,537	40
Total	$48,187	100%	$13,805	100%

* Includes increased fuel costs recovered through fuel adjustment clauses.

** Includes the effect of adjustments for transit subsidy. See Note (a) to Summaries of Operations and Item 1—"Business—Regulation and Litigation—Holding Company Act" regarding the subsidy agreements for 1979 and 1978 with the City of New Orleans with respect to NOPSI's transit operations and the reclassification of certain revenues in these years.

Electric operating revenues increased by $48 million or 25% in 1979 principally due to the recovery of increased fuel costs and to increased energy sales to affiliates under the System Agreement. The increase in energy sales to affiliates is attributable to an arrangement whereby SFI was able to purchase natural gas from intrastate sources at prices lower than the cost of available fuel oil and to sell that gas to NOPSI for use as fuel for generation. Approximately 90% of the power generated by NOPSI from this SFI gas was sold to other System operating companies. Additionally, increased fuel cost recoveries through fuel adjustment clauses and fuel cost recoveries through sales for resale contributed to the increase.

Gas revenues increased by $16 million (22%) and $9 million (14%) in the years 1979 and 1978, respectively, principally due to the recovery of increased costs through purchased gas adjustment clauses.

Transit revenues increased in 1978 by $5 million (14%) primarily due to the operation of the transit subsidy agreement, see Note (a) to Summaries of Operations.

Fuel for Electric Generation and Purchased Power

The increase in fuel expense for 1979, $38 million or 53%, reflects primarily higher average unit costs for oil and gas and the substantial increase in energy generated (gas-fired) and sold to affiliates. See Item 1—"Business—Fuel Supply."

The increases in purchased power expenses in 1979 and 1978, approximately $6 million each year, are due primarily to increased purchases and higher unit prices. The increase in purchases in 1979 resulted primarily from a higher demand for electric service, higher unit prices for natural gas and oil and decreased oil-fired generation. The increase in purchases in 1978 was a result of meeting customer demands during an unscheduled outage at a generating station and increased scheduled maintenance on generating units.

Gas Purchased for Resale

The increased costs in 1979 and 1978 of $16 million and $9 million, respectively, are primarily due to the rising cost of purchased gas.

Other Operation Expenses and Maintenance

Other operation expenses such as costs of labor, materials and supplies and services increased by $7 million in 1978, primarily due to the effects of inflation.

Increased maintenance expenses on generating units in 1978 was due to the greater usage of oil as a boiler fuel. In addition, generator failure at one of NOPSI's generating stations was responsible, in part, for the increase in 1978.

Income Taxes

Reference is made to Note 6 to Financial Statements for details of income taxes, including deferred taxes, and a reconciliation of the statutory to the effective book income tax rates.

The fluctuation in total income tax expense included in operating expenses in 1979 is primarily attributable to changes in income before income taxes, a change in the Federal income tax rate and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

Taxes Other than Income Taxes

The $3 million increase in taxes other than income taxes in 1979 is due primarily to increased ad valorem taxes. A $2 million decrease in taxes other than income taxes in 1978 was due to decreases in ad valorem taxes resulting from changes in the method of assessment.

Miscellaneous—Net

The increase of $0.3 million or 23% in this item for the year 1979 is due primarily to higher interest rates on short-term investments.

ITEM 3. PROPERTIES

Reference is made to Item 1—"Business—Property" for information regarding the properties of the registrants.

ITEM 4. PARENTS AND SUBSIDIARIES

The five registrants, MSU, AP&L, LP&L, MP&L and NOPSI, and their active subsidiaries, are listed below. All of the companies, with the exception of The Arklahoma Corporation, are included in the consolidated financial statements included herein. In addition, separate financial statements are included for each of the registrants.

	State of Incorporation	Percentage of Common Stock Owned by Immediate Parent(s)(a)
Middle South Utilities, Inc.	Florida	—
Arkansas Power & Light Company	Arkansas	100%
The Arklahoma Corporation	Arkansas	34
Louisiana Power & Light Company	Louisiana	100
Mississippi Power & Light Company	Mississippi	100
New Orleans Public Service Inc.	Louisiana	100
System Fuels, Inc.	Louisiana	100
Arkansas-Missouri Power Company	Arkansas	100
Associated Natural Gas Company	Delaware	100
Middle South Energy, Inc.	Arkansas	100
Middle South Services, Inc.	Delaware	100

(a) MSU owns all of the Common Stock of AP&L, LP&L, MP&L, NOPSI, Ark-Mo, MSE and MSS. AP&L owns 34% of the Common Stock of The Arklahoma Corporation. The capital stock of SFI is owned in proportions of 35%, 33%, 19% and 13% by AP&L, LP&L, MP&L and NOPSI, respectively. Ark-Mo owns all of the Common Stock of Associated.

ITEM 5. LEGAL PROCEEDINGS

Reference is made to Item 1—"Business—Rate Matters" for details of registrants' pending rate proceedings and to Item 1—"Business—Industry and Company Problems—Federal Legislation", Item 1—"Business—Regulation and Litigation", and Item 1—"Business—Fuel Supply—Fuel Oil" and "Fuel Supply—Coal" for information relating to the registrants' pending regulatory proceedings (other than rate proceedings) and litigation.

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

(a) Increases and decreases in outstanding equity securities during 1979 were as follows:

	(In Thousands)	
MSU		
Common stock, $5 par value:		
Balance, January 1, 1979		$380,491
Sale of 8,500,000 shares on January 17, 1979 through competitive bidding		42,500*
Sale of 5,000,000 shares on November 20, 1979 through competitive bidding		25,000*
Sale of 12,452 shares under the Employee Stock Ownership Plan:		
January 12, 1979	$ 30	
April 5, 1979	32	62**
Sale of 608,875 shares under the Dividend Reinvestment and Stock Purchase Plan:		
January 3, 1979	464	
February 2, 1979	105	
March 2, 1979	60	
April 2, 1979	500	
May 1, 1979	157	
June 1, 1979	79	
July 1, 1979	596	
August 1, 1979	117	
September 4, 1979	75	
October 1, 1979	668	
November 1, 1979	149	
December 3, 1979	75	3,045**
Sale of 214,433 shares under the System Savings Plan:		
January 8, 1979	68	
January 29, 1979	70	
February 28, 1979	67	
March 20, 1979	77	
April 24, 1979	97	
May 23, 1979	74	
June 21, 1979	77	
July 24, 1979	13	
July 26, 1979	76	
August 23, 1979	72	
September 26, 1979	99	
October 1, 1979	20	
October 19, 1979	84	
November 16, 1979	85	
December 18, 1979	93	1,072**
Retirement of 994 shares of MSU stock on April 20, 1979		(5)***
Balance, December 31, 1979		$452,165

* Proceeds from the January 17, 1979 and November 20, 1979 sales were $14.94 and $12.6199 per share or $126,990,000 and $63,099,500, respectively. Excess over par value, $84,490,000 and $38,099,500, respectively, was credited to paid-in surplus.

** Total proceeds from sales under the Employee Stock Ownership Plan, Dividend Reinvestment and Stock Purchase Plan, and System Savings Plan were $187,801, $8,909,427 and $3,092,807, respectively; excess over par value, $125,541, $5,865,052 and $2,020,642, respectively, credited to paid-in surplus.

*** Total proceeds from the retirement of 994 unclaimed shares at $10.95 per share pertaining to the purchase of Ark-Mo in 1972 was $10,884; excess over par value $5,914, charged to paid-in surplus.

	(In Thousands)	
AP&L		
Common stock, $12.50 par value:		
Balance, January 1, 1979		$397,960
Sale of 2,400,000 shares to MSU:		
September 26, 1979	$10,000	
October 26, 1979	10,000	
December 26, 1979	10,000	30,000
Balance, December 31, 1979		$427,960
Preferred stock and premium; cumulative, $25 par value, without sinking fund:		
Balance, January 1, 1979		$ 10,051
Sale of 600,000 shares on February 1, 1979, 10.40% series, through competitive bidding		15,182
Balance, December 31, 1979		$ 25,233
Preferred stock and premium; cumulative, $25 par value, with sinking fund:		
Balance, January 1, 1979		—
Sale of 1,600,000 shares on June 28, 1979, 9.92% series, through competitive bidding		$ 40,454
Balance, December 31, 1979		$ 40,454
LP&L		
Common stock, no par value:		
Balance, January 1, 1979		$353,900
Sale of 11,364,000 shares to MSU:		
April 10, 1979	$50,000	
October 10, 1979	25,000	75,000
Balance, December 31, 1979		$428,900
Preferred stock and premium; cumulative, $100 par value, without sinking fund:		
Balance, January 1, 1979		$110,809
Sale of 350,000 shares on March 1, 1979, 11.48% series, through competitive bidding		35,073
Balance, December 31, 1979		$145,882
Preferred stock, premium and issuance expense; cumulative, $25 par value, with sinking fund:		
Balance, January 1, 1979		—
Sale of 2,400,000 shares on July 19, 1979, 10.72% series, through competitive bidding		$ 57,070
Sale of 1,600,000 shares on October 17, 1979, 13.12% series, through competitive bidding		35,920
Balance, December 31, 1979		$ 92,990

(b) Increases and decreases in outstanding debt securities previously reported in reports on Form 10-Q were as follows:

	(In Thousands)
AP&L	
First Mortgage Bonds:	
Balance, January 1, 1979	$715,200
Sale of 10¼% Series due 2009	60,000*
Retirements	(8,700)
Balance, December 31, 1979	$766,500
LP&L	
First Mortgage Bonds:	
Balance, January 1, 1979	$681,900
Sale of 10⅞% Series due 1989	45,000**
Balance, September 30, 1979	$726,900

*Net proceeds from the sale of $60,000,000 of First Mortgage Bonds were used for the reduction of short-term indebtedness incurred for the AP&L construction program and the balance was used for AP&L's construction program. A further description may be found in Form 10-Q dated March 31, 1979.

**Net proceeds from sale of $45,000,000 of First Mortgage Bonds were used to reduce short-term debt, to finance part of LP&L's construction program and for other corporate purposes. A further description may be found in Form 10-Q dated June 30, 1979.

(c) Details of the increase in debt securities during the fourth quarter of 1979 for LP&L were as follows:

(1) First Mortgage Bonds:

	(In Thousands)
Balance, September 30, 1979	$726,900
Sale of 13½% Series due 2009	55,000
Balance, December 31, 1979	$781,900

(2) On November 15, 1979, LP&L issued and sold to the purchasers whose bid, in response to the company's Public Invitation for Bids, provided LP&L with the lowest "cost of money" for said bonds, $55,000,000 in principal amount of First Mortgage Bonds, 13½% Series due November 1, 2009, at a price of 98.729% of the principal amount thereof plus accrued interest from November 1, 1979 to November 15, 1979.

(3) (i) The net proceeds to LP&L were $54,300,950 (before deducting expenses estimated at $195,000 and exclusive of accrued interest).

(ii) The representatives of the principal purchasers of said First Mortgage Bonds were: Salomon Brothers; Blyth Eastman Dillon & Co. Incorporated; The First Boston Corporation; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Smith Barney, Harris Upham & Co.; Dillon, Read & Co. Inc. and Donaldson, Lufkin & Jenrette Securities Corporation.

(iii) The net proceeds from the issuance and sale of the $55,000,000 First Mortgage Bonds, were used for the payment in part of outstanding short-term borrowings, for the financing in part of LP&L's construction program and for other corporate purposes.

(iv) The First Mortgage Bonds were registered under the Securities Act of 1933 (File No. 2-65673).

ITEM 7. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

At a special meeting of stockholders of NOPSI held on February 12, 1980 and an adjournment thereof held on February 27, 1980, the requisite majority of the stockholders of NOPSI voted to amend NOPSI's Restated Articles of Incorporation to permit NOPSI to establish sinking fund requirements for the purchase or redemption of new shares of NOPSI's $100 par value serial preferred stock. This amendment will permit NOPSI to include a sinking fund provision for the purchase or redemption of shares of any new series of its $100 par value serial preferred stock to be issued at any time in the future. Prior to such amendment, NOPSI was prohibited by its Restated Articles of Incorporation from issuing a series of preferred stock containing a sinking fund. This amendment is applicable only to series of preferred stock issued after its adoption and does not affect the terms of previously existing series of NOPSI's preferred stock. At the same special meeting and adjournment, the stockholders of NOPSI voted to raise the ceiling on the amount of capital stock of NOPSI from $100,000,000 to $200,000,000. See Item 10.

ITEM 8. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS(1)

Name of Registrant	Title of Class	Approximate Number of Record Holders at December 31, 1979(2)
MSU	Common Stock, $5 Par Value	144,068
AP&L	Preferred Stock, Cumulative, $100 Par Value:	
	4.32% series	185
	4.72% series	2,092
	4.56% series	218
	4.56% 1965 series	180
	6.08% series	481
	7.32% series	521
	7.80% series	545
	7.40% series	109
	7.88% series	146
	10.60% series	286
	11.04% series	978
	Total	5,741
	Preferred Stock, Cumulative, $25 Par Value(3):	
	8.84% series	1,007
	10.40% series	620
	9.92% series	166
	Total	1,793

Name of Registrant	Title of Class	Approximate Number of Record Holders at December 31, 1979(2)
LP&L	Preferred Stock, Cumulative, $100 Par Value:	
	4.96% series	1,018
	4.16% series	232
	4.44% series	197
	5.16% series	399
	5.40% series	135
	6.44% series	352
	9.52% series	555
	7.84% series	141
	7.36% series	213
	8.56% series	113
	9.44% series	308
	11.48% series	221
	Total	3,884
	Preferred Stock, Cumulative, $25 Par Value:	
	10.72% series	1,395
	13.12% series	[illegible]
	Total	2,344
MP&L	Preferred Stock, Cumulative, $100 Par Value:	
	4.36% series	214
	4.56% series	972
	4.92% series	159
	[illegible]6% series	203
	7.44% series	53
	Total	1,601
NOPSI	Preferred Stock, Cumulative, $100 Par Value (4):	
	4.36% series	270
	$4\frac{3}{4}$ %	541
	5.56% series	114
	Total	925

(1) The common stock of AP&L, LP&L, MP&L and NOPSI is 100% owned by MSU.

(2) The number of AP&L's record holders is as of December 15, 1979, LP&L's record holders is as of January 10, 1980 and MP&L's record holders is as of October 15, 1979.

(3) On January 30, 1980, AP&L sold 2,000,000 shares of Preferred Stock, Cumulative, $25 Par Value.

(4) In March 1980, NOPSI plans to sell 150,000 shares of Preferred Stock, Cumulative, $100 Par Value.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information called for by this Item, to the extent applicable, is omitted in accordance with the instructions to this Item, because it has been provided in registrants' Form 10-Q for the quarter ended June 30, 1979 and additionally as to NOPSI only in Forms 10-Q for the quarters ended March 31, 1979 and September 30, 1979.

A special meeting of stockholders of NOPSI was held on February 12, 1980 and an adjournment thereof on February 27, 1980. The stockholders entitled to vote at the meeting and the adjournment were the holders of NOPSI's Common Stock, its $4^3/_4$% Preferred Stock, its 4.36% Preferred Stock, and its 5.56% Preferred Stock. These stockholders voted to approve amendments to NOPSI's Restated Articles of Incorporation which: (1) raised the ceiling on the amount of capital stock of NOPSI from $100,000,000 to $200,000,000 and (2) permitted NOPSI to establish sinking fund requirements for the purchase or redemption of new shares of NOPSI's $100 par value serial preferred stock. The voting for the amendment raising the ceiling on capital stock was 5,935,900 shares of Common Stock voted for, no shares voted against and 64,430 shares of $4^3/_4$% Preferred Stock for and 120 shares against such amendment. (Only the Common Stock and the $4^3/_4$% Preferred Stock were entitled to vote on this amendment). The voting for the amendment permitting the sinking fund was 5,935,900 shares of Common Stock for and no shares against, 56,662 shares of $4^3/_4$% Preferred Stock for and 7,638 against, and 82,628 shares of 4.36% and 5.56% Preferred Stock voting together as a class for and 10,885 shares against such amendment.

ITEM 11. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Information called for by Item 11 of Form 10-K as to MSU, AP&L, LP&L, MP&L and NOPSI is omitted in accordance with Instruction H to Form 10-K because the information called for by Item 11 as to such companies would be unchanged from that contained in the Annual Reports on Form 10-K of the registrants for the years ended December 31, 1977 and December 31, 1978.

ITEM 12. FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

(a) I. Financial statements:

Financial statements filed, including supporting schedules, are listed in the Index to Financial Statements on page F-1.

II. Exhibits:

	Incorporated Herein by Reference to
LP&L	
a. Twenty-sixth Supplemental Indenture, dated as of May 1, 1979	Exhibit C-1 to Rule 24 Certificate, dated May 3, 1979, in File No. 70-6278
b. Twenty-seventh Supplemental Indenture, dated as of November 1, 1979	Exhibit C-1 to Rule 24 Certificate, dated November 15, 1979, in File No. 70-6355
c. Articles of Amendment to the Articles of Incorporation executed on July 2, 1979	Exhibit A-6(a) to Rule 24 Certificate, dated July 12, 1979, in File No. 70-6316
NOPSI	
a. Restated Articles of Incorporation of NOPSI as presently in effect together with By-Laws of NOPSI as presently in effect	Exhibit A-1 to Form U-1 dated December 6, 1979, in File No. 70-6392
b. Articles of Amendment of Restated Articles of Incorporation of NOPSI raising the fixed ceiling on capital stock and permitting sinking fund provisions for new series of Preferred Stock	Exhibit A-2(a) to Rule 24 Certificate, dated March 5, 1980 in File No. 70-6392

(b) Reports on Form 8-K:

None of the registrants filed reports on Form 8-K for the three months ended December 31, 1979.

Certain of the information called for by Part II of Form 10-K as to MSU is omitted in accordance with Instruction H to Form 10-K because MSU will file with the SEC a definitive proxy statement pursuant to Regulation 14A not later than April 30, 1980.

ITEM 13. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) MSU owns 100% of the outstanding common stock of the four other registrants, AP&L, LP&L, MP&L and NOPSI. The registrants know of no contractual arrangements which may at a subsequent date result in a change in control of any of the registrants.

(b) The directors listed below and the directors and officers as a group for AP&L, LP&L, MP&L and NOPSI, respectively, beneficially owned directly or indirectly the following cumulative preferred stock of their company and common stock of MSU:

	As of January 31, 1980								
	Preferred Stock, $100 Par Value			Preferred Stock, $25 Par Value			MSU Common Stock		
	Amount and Nature of Beneficial Ownership(A)			Amount and Nature of Beneficial Ownership(A)			Amount and Nature of Beneficial Ownership(A)		
Name	Sole Voting and Investment Power(B)	Other Beneficial Ownership	Percent of Class	Sole Voting and Investment Power(B)	Other Beneficial Ownership	Percent of Class	Sole Voting and Investment Power(B)	Other Beneficial Ownership(C)(D)	Percent of Class
AP&L									
Lawrence Blackwell	—	—	—	—	—	—	1,600	—	.0018%
L. C. Carter	—	—	—	—	—	—	400	—	.0004
Floyd W. Lewis	—	—	—	—	—	—	2,581	2,162(F)	.0052
Jerry L. Maulden	—	100(E)	.0062%	—	—	—	—	513(G)	.0006
Roy L. Murphy	—	—	—	300	—	.0065%	434	200(R)	.0007
James D. Phillips	130	—	.0081	—	—	—	1,965	346	.0026
Robert D. Pugh	—	—	—	—	—	—	142	3,397(I)	.0039
Reeves E. Ritchie	654	50(H)	.0436	—	—	—	2,815	—	.0031
R. E. L. Wilson	—	—	—	—	—	—	1,145	335(S)	.0016
All directors and officers	794	265	.0656	300	40	.0074	14,918	8,694	.0261
LP&L									
James M. Cain	—	—	—	—	—	—	—	344(G)	.0004
Charles J. Cassidy	—	—	—	—	—	—	3.000	—	.0033
Harry M. England	—	—	—	—	—	—	100	800(G)	.0010
Tex R. Kilpatrick	—	100(K)	.0069	—	—	—	—	3,000(K)	.0033
Floyd W. Lewis	—	55(L)	.0038	—	—	—	2,581	2,162(F)	.0052
E. A. Rodrigue	87	—	.0060	—	—	—	3,247	—	.0036
H. Duke Shackelford	—	—	—	—	—	—	1,000	—	.0011
Jack M. Wyatt	5	—	.0003	—	—	—	2,092	499	.0029
All directors and officers	112	155	.0184	—	—	—	17,214	10,119	.0302

Name	Preferred Stock, $100 Par Value — Amount and Nature of Beneficial Ownership(A): Sole Voting and Investment Power(B)	Preferred Stock, $100 Par Value — Other Beneficial Ownership	Preferred Stock, $100 Par Value — Percent of Class	Preferred Stock, $25 Par Value — Amount and Nature of Beneficial Ownership(A): Sole Voting and Investment Power(B)	Preferred Stock, $25 Par Value — Other Beneficial Ownership	Preferred Stock, $25 Par Value — Percent of Class	MSU Common Stock — Amount and Nature of Beneficial Ownership(A): Sole Voting and Investment Power(B)	MSU Common Stock — Other Beneficial Ownership(C)(D)	MSU Common Stock — Percent of Class
	As of January 31, 1980								
MP&L									
G. Lawrence Adams	—	—	—	—	—	—	259	—	.0003%
Robert M. Hearin	—	1,275(J)	.3366%	—	—	—	400	—	.0004
J. Herman Hines	—	—	—	—	—	—	1,000	—	.0011
J. Harvey Johnston, Jr.	—	—	—	—	—	—	600	—	.0007
Floyd W. Lewis	—	—	—	—	—	—	2,581	2,162(F)	.0052
Donald C. Lutken	10	—	.0026	—	—	—	2,815	1,384(M)	.0046
Richard D. McRae	—	—	—	—	—	—	—	300(N)	.0003
LeRoy P. Percy	—	—	—	—	—	—	1,380	—	.0015
Dr. Walter Washington	—	—	—	—	—	—	—	131(G)	.0001
All directors and officers	14	1,287	.3434	—	—	—	12,797	8,210	.0232
NOPSI									
James M. Cain	—	—	—	—	—	—	—	344(G)	.0004
Brooke H. Duncan	—	—	—	—	—	—	—	142(Q)	.0002
Richard W. Freemen	—	—	—	—	—	—	3,600	—	.0040
Sam Israel, Jr.	—	—	—	—	—	—	1,000	—	.0011
Arthur L. Jung, Jr.	—	—	—	—	—	—	1,406	3,000(O)	.0049
Floyd W. Lewis	—	—	—	—	—	—	2,581	2,162(F)	.0052
William C. Nelson	—	—	—	—	—	—	—	261	.0003
John B. Smallpage	—	—	—	—	—	—	300	1,168(P)	.0016
Charles C. Teamer	—	—	—	—	—	—	60	—	.0001
Jack M. Wyatt	—	—	—	—	—	—	2,092	499	.0029
All directors and officers	—	—	—	—	—	—	15,329	10,015	.0280

(A) Based on information furnished by the respective individuals.

(B) Includes all shares which the individual has the sole power to vote and dispose of, or to direct the voting and disposition of.

(C) Includes, for the named persons, shares of MSU Common Stock held in the Employee Stock Ownership Plan of the registrants as follows: Floyd W. Lewis, 288 shares; Jerry L. Maulden, 111 shares; James D. Phillips, 162 shares; James M. Cain, 140 shares; Jack M. Wyatt, 177 shares; Donald C. Lutken, 244 shares; William C. Nelson, 102 shares.

(D) Includes, for the named persons, shares of MSU Common Stock held in the System Savings Plan as follows: Floyd W. Lewis, 623 shares; Jerry L. Maulden, 234 shares; James M. Cain, 104 shares; Donald C. Lutken, 331 shares; Jack M. Wyatt, 322 shares; William C. Nelson, 159 shares; James D. Phillips, 184 shares.

(E) Includes 100 shares held by Jerry L. Maulden for his minor child.

(F) Includes 1,023 shares held by Floyd W. Lewis' children, and 228 shares held in a trust of which he is a trustee. Floyd W. Lewis disclaims any personal interest in these 1,251 shares.

(G) Includes, for the named persons, shares of MSU Common Stock held jointly with their wives in which voting and investment powers are shared: James M. Cain, 100 shares; Harry M. England, 800 shares; Walter Washington, 131 shares; Jerry L. Maulden, 168 shares.

(H) Owned jointly with wife.

(I) Includes 1,840 shares over which Robert D. Pugh has power as attorney-in-fact and in which voting and investment powers are shared. Robert D. Pugh disclaims any personal interest in these shares. Also includes 1,557 shares held by Robert D. Pugh's wife.

(J) Robert M. Hearin is a principal stockholder of VGS Corporation which owns beneficially approximately 80% of the outstanding voting stock of Lamar Life Corporation, which owns the 1,275 shares of MP&L Preferred Stock.

(K) Tex R. Kilpatrick is President and 50% owner of Central American Life Insurance Company which owns 3,000 shares of MSU Common Stock and 100 shares of LP&L 7.36% Preferred Stock.

(L) Floyd W. Lewis is the trustee of a trust, the assets of which include 30 shares of 9.52% Preferred Stock and 5 shares of 7.84% Preferred Stock of LP&L. His daughter owns 20 shares of 9.52% Preferred Stock of LP&L. Floyd W. Lewis disclaims any personal interest in all these shares.

(M) Includes 200 shares held by Donald C. Lutken's wife in which he disclaims any personal interest and 609 shares of which Donald C. Lutken is custodian for family members.

(N) Includes 300 shares owned by wife of Richard D. McRae.

(O) Arthur L. Jung, Jr. is President of Jung Realty Co., Inc., which owns 3,000 shares of MSU Common Stock.

(P) Reflects 240 shares held in trusts of which John B. Smallpage is the trustee, 40 shares in which he has sole voting and investment power and 200 shares in which he has shared voting and investment power. Also includes 928 shares over which John B. Smallpage has power as attorney-in-fact in which voting and investment powers are shared. John B. Smallpage disclaims any personal interest in these shares.

(Q) Includes 142 shares owned by wife of Brooke H. Duncan in which he disclaims any personal interest.

(R) Includes 200 shares held by Roy L. Murphy for his minor child.

(S) Includes 335 shares owned by R. E. L. Wilson's wife.

ITEM 14. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS[1]

As of December 31, 1979

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
MSU					
Officers					
Floyd W. Lewis	54	Chairman of the Board and Chief Executive Officer	1968	1972	Chairman of the Board and Chief Executive Officer since May 1979; Chairman of the Board, Chief Executive Officer and President from 1972 to May 1979[3]
F. E. Autrey	55	President	—	June 1979	President of MSU and MSS since June 1979; Executive Vice President of Florida Power & Light Co. since 1975
Donald J. Winfield	64	Senior Vice President—Finance	—	Oct. 1977	Senior Vice President—Finance since October 1977; Vice President—Finance from 1974 to October 1977; Vice President since 1970
Edwin A. Lupberger	43	Vice President—Finance	—	Feb. 1979	Vice President—Finance of MSU and MSS since February 1979; Senior Vice President of Finance of Indianapolis Power and Light Company from 1977 to January 1979; Vice President and Treasurer of Gulf Power Company from 1969 to 1977
Dan E. Stapp	45	Secretary	—	Nov. 1974	Secretary since November 1974; Vice President and Secretary of MSS since 1968
Rodney J. Estrada	42	Treasurer	—	Feb. 1979	Treasurer of MSU and MSS since February 1979; Controller of MSS from 1970 to February 1979
AP&L					
Directors					
Lawrence Blackwell	69	—	1958	—	Attorney-at-Law, Pine Bluff, AR.
L. C. Carter	70	—	1960	—	President of Riceland Foods to November 1977, Stuttgart, AR.
Floyd W. Lewis	54	—	1971	—	Chairman of the Board and Chief Executive Officer of MSU since May 1979; Chairman of the Board, Chief Executive Officer and President of MSU from 1972 to May 1979[3]
Jerry L. Maulden	43	President and Chief Executive Officer	1979	April 1979	President and Chief Executive Officer of AP&L since April 1979; Vice President and Treasurer of MSU and MSS from May 1978 to February 1979; President of MSS from February 1979 through April 1979; Vice President, Treasurer and Secretary of AP&L from May 1975 to February 1979[3]
Roy L. Murphy	52	—	1977	—	President, Chairman of the Board and Director of Mid-South Engineering Co. (Consulting Engineers), Hot Springs, AR.
William C. Nolan, Jr.	40	—	1971	—	Attorney-at-Law, Nolan & Alderson, Attorneys; Director of Murphy Oil Corporation and Subsidiaries
James D. Phillips	61	Senior Vice President, System Engineering and Planning	1972	Aug. 1977	Senior Vice President, System Engineering and Planning since August 1977; Senior Vice President, Production, Transmission and Engineering from 1973 to August 1977
Robert D. Pugh	50	—	1971	—	President of Portland Gin Company (Agricultural and Agri-Business), January 1, 1977 to present; Partner, Pugh and Company (Agricultural and Agri-Business), 1972-1976, Portland, AR.[3]
Reeves E. Ritchie	65	—	1962	—	Chairman of the Board from 1976 through July 1979; President of AP&L from 1962 to 1976
R.E.L. Wilson	66	—	1967	—	Chairman of the Board of Lee Wilson & Co. (Agriculture and Agri-Business) and the Bank of Wilson, AR.; President of Delta Products Company (Cottonseed Oil Mill), Wilson, AR.[3]

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
Officers					
Jerry L. Maulden	43	President and Chief Executive Officer	1979	April 1979	President and Chief Executive Officer of AP&L since April 1979; Vice President and Treasurer of MSU and MSS from May 1978 to February 1979; President of MSS from February 1979 through April 1979; Vice President, Treasurer and Secretary of AP&L from May 1975 to February 1979[3]
James D. Phillips	61	Senior Vice President, System Engineering and Planning	1972	Aug. 1977	Senior Vice President, System Engineering and Planning since August 1977; Senior Vice President, Production, Transmission and Engineering from 1973 to August 1977
William M. Murphey	64	Senior Vice President, Customer Services	—	May 1976	Senior Vice President, Customer Services from May 1976 to date; Senior Vice President, Administrative Services from 1973 to May 1976
Charles L. Steel	55	Vice President—Assistant to President	—	May 1979	Vice President—Assistant to President since May 1979; Vice President, Public Affairs from May 1975 to May 1979; Director of Public Affairs from 1970 to May 1975
William Cavanaugh III	40	Vice President, Generation and Construction	—	Jan. 1979	Vice President Generation and Construction since January 1979; Executive Director of Generation and Construction from August 1977 to 1979; Assistant Director of Power Production from June 1976 to 1977; Manager of Nuclear Services from February 1974 to 1976
Jack King	40	Vice President, Divisions	—	Dec. 1979	Vice President, Divisions since December 1979; Director of Divisional Services from August 1978 to December 1979; Division Manager from August 1975 to August 1978
John J. Harton	38	Treasurer	—	May 1979	Treasurer since May 1979; Director of Corporate Planning from 1974 to May 1979
Jerry D. Jackson	35	Secretary	—	July 1979	Secretary since July 1979; Attorney-at-Law from April 1969 to July 1979, Little Rock, AR
LP&L					
Directors					
James M. Cain	46	—	1978	—	President of NOPSI, April 1978 to date; President of MSS, November 1975 to April 1978; Vice President of NOPSI, 1973 to April 1975[3]
Charles J. Cassidy	68	—	1966	—	Chairman of the Board and President of First State Bank & Trust Company, Bogalusa, LA
Harry M. England	66	—	1970	—	President of Coastal Canning Enterprises, Inc. and Coastal Beverages, Inc.; Chairman of the Boards of First Commerce Corporation and First National Bank of Commerce from 1975 to 1978, New Orleans, LA
Tex R. Kilpatrick	47	—	1972	—	President of Central American Life Insurance Company, West Monroe, LA
Floyd W. Lewis	54	—	1967	—	Chairman of the Board and Chief Executive Officer of MSU since May 1979; Chairman of the Board, Chief Executive Officer and President of MSU from 1972 to May 1979[3]
E. A. Rodrigue	67	—	1967	—	President of LP&L, 1972 to 1976; President of Armelise Planting Co. from January 1975 to present

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
H. Duke Shackelford	53	—	1972	—	Planter; President of Shackelford Co., Inc., Shackelford Gin, Inc., Bonita Elevator Co., Inc., Union Oil Mill, Inc. and Louisiana Cotton Warehouse Co., Inc. (All Agricultural and Agri-Businesses), Bonita, LA.
Jack M. Wyatt	61	President	1976	May 1976	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976; Senior Vice President of LP&L from 1970 to June 1975[3]
Officers					
Jack M. Wyatt	61	President	1976	May 1976	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976; Senior Vice President of LP&L from 1970 to June 1975[3]
Gerald D. McLendon	57	Senior Vice President—Operations	—	May 1977	Senior Vice President—Operations since May 1977; Vice President—Operations from May 1975 to May 1977; Vice President of Division Operations and Assistant to President from January 1975 to May 1975; Corporate Services Manager from 1968-1975
John H. Erwin, Jr.	57	Vice President and Treasurer	—	Jan. 1974	Vice President since January 1974; Treasurer since 1967
W. H. Talbot	49	Secretary and Controller	—	1968	Secretary and Controller
Donald L. Aswell	53	Vice President—Power Production	—	May 1977	Vice President—Power Production from May 1977 to present; Manager of Power Production from 1965 to May 1977
Kenneth M. Brumfield	61	Vice President—Administration	—	May 1977	Vice President—Administration since May 1977; Corporate Services Manager from January 1975; Algiers-Gretna District Manager from 1967 to January 1975
Gus F. Delery	52	Vice President—Consumer Services	—	May 1977	Vice President—Consumer Services from May 1977 to date; Manager of Marketing from February 1974; General Sales Manager from 1970 to 1974
Joseph M. Mooney	62	Vice President—Governmental and Public Affairs	—	May 1977	Vice President—Governmental and Public Affairs since May 1977; Vice President—Administration from May 1975 to May 1977; Vice President of Public Affairs from 1968 to May 1975
Jack Davey	53	Vice President and Chief Engineer	—	May 1979	Vice President and Chief Engineer since May 1979; Chief Engineer from August 1976 to May 1979; System Planning Manager from September 1965 to August 1976
MP&L					
Directors					
G. Lawrence Adams	66	—	1961	—	Attorney-at-Law, Adams, Forman, Truly, Ward, Smith and Bramlette, Attorneys, Natchez, MS.
Norman B. Gillis, Jr.	52	—	1968	—	Attorney-at-Law, McComb, MS.
Robert M. Hearin	63	—	1959	—	Chairman of the Board and Chief Executive Officer of First National Bank of Jackson; Chairman of the Board of School Pictures, Inc.; Director of Lamar Life Corp., Lamar Life Insurance Co., South Central Bell Telephone Co. and Amerada Hess Corp.
J. Herman Hines	65	—	1975	—	Chairman of the Board and Chief Executive Officer of Deposit Guaranty National Bank
J. Harvey Johnston, Jr.	61	—	1956	—	Surgeon

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
R. E. Kennington II	47	—	1974	—	Chairman of the Board and Chief Executive Officer of Grenada Banking System, Grenada, MS
Floyd W. Lewis	54	—	1971	—	Chairman of the Board and Chief Executive Officer of MSU since May 1979; Chairman of the Board, Chief Executive Officer and President of MSU from 1972 to May 1979[3]
Donald C. Lutken	55	President/Chief Executive	1970	1971	President and Chief Executive Officer of MP&L since 1971; Director of Lamar Life Corp., Lamar Life Insurance Co. and Magna Corp.[3]
Richard D. McRae	58	—	1976	—	President of McRae's Inc. (Department Stores), Jackson, MS
LeRoy P. Percy	62	—	1959	—	Cotton farmer; Chairman of the Boards of Mississippi Chemical Company and First Mississippi Corporation (Agriculture and Chemical Supplies and Gas Exploration), Greenville, MS.; President of Greenville Compress Co.[3]
Dr. Walter Washington	56	—	1977	—	President of Alcorn State University, Lorman, MS.[3]
R. M. Williams, Jr.	43	—	1976	—	Partner, Reeves-Williams Builders, Southaven, MS
Officers					
Donald C. Lutken	55	President/Chief Executive	1970	1971	President and Chief Executive Officer of MP&L since 1971; Director of Lamar Life Corp., Lamar Life Insurance Co. and Magna Corp.[3]
Norris L. Stampley	59	Vice President, Production and Engineering	—	Dec. 1977	Vice President, Production and Engineering since December 1977; Vice President, Production from 1972 to December 1977
Alex McKeigney	62	Vice President, Information Services	—	1967	Vice President, Information Services
W. Donald Colmer	61	Vice President, Public Affairs and Environmental Matters	—	1971	Vice President, Public Affairs and Environmental Matters
John D. Holland	57	Vice President, Area Affairs	—	Jan. 1976	Vice President, Area Affairs from January 1976 to present; Vice President and Central Division Manager from 1971 to January 1976
J. Stewart Frame	58	Vice President, Personnel and Administrative Services	—	May 1978	Vice President, Personnel and Administrative Services since May 1978; Director of Personnel from April 1977 to May 1978; Division Manager from 1962 to April 1977
Donald E. Meiners	44	Vice President, Customer Services	—	May 1978	Vice President, Customer Services from May 1978 to date; Manager of Customer Services from June 1977 to May 1978; Manager of Division Operations from 1971 to June 1977
Frank S. York, Jr	58	Vice President, Finance and Secretary	—	May 1978	Vice President, Finance since May 1978; Controller from 1975 to May 1978; Secretary since 1962
James R. Martin	48	Treasurer	—	Dec. 1977	Treasurer since December 1977; Assistant Treasurer from 1968 to December 1977
NOPSI					
Directors					
James M. Cain	46	President	1978	April 1978	President of NOPSI, April 1978 to date; President of MSS, November 1975-April 1978; Vice President of NOPSI, 1973-April 1975[3]
Brooke H. Duncan	55	—	1967	—	President and director of The Foster Company, Inc. (Canvas Fabricator), New Orleans, LA.[4]

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
Laurance Eustis	66	—	1969	—	President of Laurance Eustis Mortgage Corporation and Laurance Eustis Insurance Agency, Inc; Director of New Orleans Bancshares, Inc., New Orleans, LA.
Richard W. Freeman	66	—	1961	—	Chairman of The Louisiana Coca-Cola Bottling Company, Ltd.; Director of Delta Airlines, Inc., New Orleans, LA.[3 4]
Sam Israel, Jr.	69	—	1969	—	Vice-Chairman and Director of ACLI International, Inc. (Commodities Broker); Director of Zapata Oil Company New Orleans, LA.[4]
Arthur L. Jung, Jr.	64	—	1951	—	President of Jung Realty Co., Inc.; Director of the First Commerce Corporation and the First National Bank of Commerce, New Orleans, LA.
Floyd W. Lewis	54	—	1970	—	Chairman of the Board and Chief Executive Officer of MSU since May 1979; Chairman of the Board, Chief Executive Officer and President of MSU from 1972 to May 1979[3]
William C. Nelson	57	Vice President, Administration and Legal and Secretary	1979	May 1978	Vice President, Administration and Legal since May 1978; Vice President and General Counsel from 1971 to May 1978; Secretary since November 1976
John B. Smallpage	54	—	1969	—	President-Secretary and Chairman of the Board of Donovan Boat Supplies, Inc., New Orleans, LA.
Charles C. Teamer, Sr.	46	—	1978	—	Vice President for Fiscal Affairs of Dillard University, New Orleans, LA.
Jack M. Wyatt	61	—	1976	—	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976; Senior Vice President of LP&L from 1970 to June 1975[3]
Officers					
James M. Cain	46	President	1978	April 1978	President of NOPSI, April 1978 to date; President of MSS, November 1975-April 1978; Vice President of NOPSI, 1973-April 1975[3]
A. J. Brodtmann	64	Vice President, Finance	—	1971	Vice President, Finance
Sherwood A. Cuyler	58	Vice President, Public and Regulatory Affairs	—	Nov. 1976	Vice President, Public and Regulatory Affairs since November 1976; Vice President, Community Relations from 1970 to November 1976
William C. Nelson	57	Vice President, Administration and Legal and Secretary	1979	May 1978	Vice President, Administration and Legal since May 1978; Vice President and General Counsel from 1971 to May 1978; Secretary since November 1976
Malcolm L. Hurstell	52	Vice President, Engineering and Production	—	May 1978	Vice President, Engineering and Production from May 1978 to present; Vice President, Engineering from April 1975 to May 1978; Manager, Electric System Planning Division from 1965 to April 1975
Hero J. Edwards, Jr.	46	Vice President, Operations	—	May 1978	Vice President, Operations from May 1978 to present; Vice President, Administration from May 1976 to May 1978; Director of Personnel from February 1975 to May 1976; Executive Assistant in the Community Relations Department from 1969 to February 1975
Donald F. Schultz	63	Vice President, Corporate Communications	—	Nov. 1976	Vice President, Corporate Communications since November 1976; Manager of Public Relations from 1962 to November 1976

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
John H. Chavanne	38	Controller	—	Nov. 1976	Controller since November 1976; Assistant to Vice President, Finance from July 1974 to November 1976; Manager of the Audit, Budget and Statistical Department from 1972 to July 1974
Harvey K. Hawkins	45	Treasurer	—	Nov. 1976	Treasurer from November 1976 to present; Assistant Secretary and Assistant Treasurer from 1972 to November 1976

1. Each director and officer is elected yearly to serve until the first Board Meeting after the Annual Meeting of Shareholders of the appropriate company, which annual meetings are currently expected to be held as follows:

MSU—May 16, 1980	MP&L—May 21, 1980
AP&L—May 22, 1980	NOPSI—May 26, 1980
LP&L—May 19, 1980	

2. Directorships shown are limited to entities subject to Sections 12 or 15(d) of the Securities Exchange Act of 1934 or to the Investment Company Act of 1940.

3. Presently a director of MSU.

4. Also a director of Hibernia Corporation and the Hibernia National Bank in New Orleans.

ITEM 15. MANAGEMENT REMUNERATION AND TRANSACTIONS

REMUNERATION OF OFFICERS AND DIRECTORS

The tables below set forth the aggregate remuneration, in cash, cash-equivalent and contingent form, paid by AP&L, LP&L, MP&L and NOPSI during the year 1979 to the five most highly compensated executive officers or directors of the respective companies whose compensation exceeded $50,000 during the year. Also set forth are the respective totals of such remuneration paid to all officers and directors of the respective companies during the year as a group.

AP&L

		Cash and Cash-Equivalent Forms of Remuneration		
Name of Individual or Number of Persons in Group	Capacities in Which Served	Salaries, Fees, Directors' Fees(1), Commissions and Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate of Contingent Forms of Remuneration(2)
Reeves E. Ritchie	Chairman of the Board(4)	$111,533	$6,271(3)	—
Jerry L. Maulden	President and Director	77,771	3,234(3)	$1,472(3)
James D. Phillips	Senior Vice President, System Engineering and Planning and Director	72,775	4,529(3)	—
William M. Murphey ...	Senior Vice President, Customer Services	70,159	4,868(3)	—
William Cavanaugh III .	Vice President, Generation and Construction	60,103	2,973(3)	225(3)
All directors and officers as a group consisting of 13 persons, including the above named		723,955	32,188(3)	4,826(3)

(1) The directors of AP&L are paid an attendance fee of $300 for attendance at meetings of the Board of Directors and $150 for meetings of the Executive Committee of the Board. In addition, directors who are not employees of a Middle South System company are paid $250 per month.

(2) This column does not reflect the amount of contributions made by AP&L to its retirement income plan (defined benefit plan), as such amount in respect of any individual is not, and cannot be, separately or individually calculated. During 1979, aggregate contributions by AP&L to the plan were equivalent to 8.8% of the 1979 remuneration of plan participants. Generally, compensation covered under the plan is average annual earnings for the highest five consecutive years during the ten years immediately preceding retirement.

(3) Reflects amounts paid pursuant to the Middle South Utilities System Savings Plan. The System Savings Plan provides that eligible employees (who elect to participate in the Savings Plan), may contribute through payroll deductions each payroll period from 1% to 6% of their base wages or salary. The employing System company contributes to the Plan from its current or accumulated earnings and profits an amount equal to 50% of each participant's contribution for each month. Amounts allocable to company contributions under the Plan are reflected as either a current or contingent form of remuneration depending upon whether or not the recipient, or his estate, has a vested, non-forfeitable right to the same.

(4) Pursuant to an agreement dated June 21, 1979, Reeves E. Ritchie has agreed to provide advisory services, if and when requested, to the management of AP&L during the five-year period following his retirement as Chairman of the Board (but not as a director) of AP&L, with compensation at the annual rate of $25,000. Such five-year period commenced on July 31, 1979, the date of his retirement from AP&L.

Under the Employee Stock Ownership Plan, MSU and its subsidiaries may contribute each year to a trustee an amount equal to the additional 1% investment tax credit allowable under the Internal Revenue Code of 1954, as amended. The trustee uses the contribution to purchase Common Stock of MSU, which is allocated to the account of each eligible employee. No contributions were made during 1979 because the additional 1% investment tax credit claimed for the tax years 1977 and 1978 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1980 in respect of the tax year 1979.

The following tabulation shows estimated annual benefits upon retirement to persons in specified compensation and years-of-service categories payable pursuant to the retirement income plans (see Note (2) to the remuneration table):

Annual Covered Compensation	Years of Service			
	10	20	30	40
$ 20,000	$ 3,000	$ 6,000	$ 9,000	$12,000
40,000	6,000	12,000	18,000	24,000
60,000	9,000	18,000	27,000	36,000
80,000	12,000	24,000	36,000	48,000
100,000	15,000	30,000	45,000	60,000

LP&L

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash and Cash-Equivalent Forms of Remuneration: Salaries, Fees, Directors' Fees(1), Commissions and Bonuses	Cash and Cash-Equivalent Forms of Remuneration: Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate of Contingent Forms of Remuneration(2)
Jack M. Wyatt	President and Director	$120,675	$8,957(3)	—
Gerald D. McLendon	Senior Vice President—Operations	68,000	5,268(3)	—
John H. Erwin, Jr.	Vice President and Treasurer	61,433	4,341(3)	—
Donald L. Aswell	Vice President—Power Production	53,100	2,970(3)	$1,195(3)
Joseph M. Mooney	Vice President—Governmental and Public Affairs	52,550	3,336(3)	—
All directors and officers as a group consisting of 22 persons, including the above named		721,115	35,450(3)	6,831(3)

(1) The directors of LP&L are paid an attendance fee of $275 for attendance at meetings of the Board of Directors and $275 for meetings of committees of the Board (except in the case of a committee meeting on the same day as a Board meeting, in which case the fee for attendance at the committee meeting is $125). In addition, directors who are not employees of a Middle South System company are paid $250 per month.

(2) This column does not reflect the amount of contributions made by LP&L to its retirement income plan (defined benefit plan), as such amount in respect of any individual is not, and cannot be, separately or individually calculated. During 1979, aggregate contributions by LP&L to the plan were equivalent to 12.2% of the 1979 remuneration of plan participants. Generally, compensation covered under the plan is average annual earnings for the highest five consecutive years during the ten years immediately preceding retirement.

(3) Reflects amounts paid pursuant to the Middle South Utilities System Savings Plan. The System Savings Plan provides that eligible employees (who elect to participate in the Savings Plan), may contribute through payroll deductions each payroll period from 1% to 6% of their base wages or salary. The employing System company contributes to the Plan from its current or accumulated earnings and profits an amount equal to 50% of each participant's contribution for each month. Amounts allocable to company contributions under the Plan are reflected as either a current or contingent form of remuneration depending upon whether or not the recipient, or his estate, has a vested, non-forfeitable right to the same.

Under the Employee Stock Ownership Plan, MSU and its subsidiaries may contribute each year to a trustee an amount equal to the additional 1% investment tax credit allowable under the Internal Revenue Code of 1954, as amended. The trustee uses the contribution to purchase Common Stock of MSU, which is allocated to the account of each eligible employee. No contributions were made during 1979 because the additional 1% investment tax credit claimed for the tax years 1977 and 1978 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1980 in respect of the tax year 1979.

The following tabulation shows estimated annual benefits upon retirement to persons in specified compensation and years-of-service categories payable pursuant to the retirement income plans (see Note (2) to the remuneration table):

Annual Covered Compensation	Years of Service			
	10	20	30	40
$ 20,000	$ 3,000	$ 6,000	$ 9,000	$12,000
40,000	6,000	12,000	18,000	24,000
60,000	9,000	18,000	27,000	36,000
80,000	12,000	24,000	36,000	48,000
100,000	15,000	30,000	45,000	60,000

Pursuant to a memorandum of understanding effective December 1, 1977, E. A. Rodrigue was retained as a consultant to the management of LP&L during the five-year period following the retirement of E. A. Rodrigue as Chairman of the Board (but not as a director) of LP&L, with compensation at the annual rate of $25,000. The arrangement also provides that during such five-year period E. A. Rodrigue will be provided with an office and secretarial assistance, and will be annually re-elected as a member of the Board of Directors of LP&L, but that he will not stand for re-election at the first annual meeting following his 70th birthday.

MP&L

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash and Cash-Equivalent Forms of Remuneration: Salaries, Fees, Directors' Fees(1), Commissions and Bonuses	Cash and Cash-Equivalent Forms of Remuneration: Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate of Contingent Forms of Remuneration(2)
Donald C. Lutken	President and Director	$ 30,444	$8,303(3)	—
Norris L. Stampley	Vice President, Production and Engineering	62,109	3,108(3)	—
Frank S. York, Jr.	Vice President, Finance and Secretary	53,389	3,696(3)	—
Alex McKeigney	Vice President, Information Services	49,932	3,428(3)	—
Donald E. Meiners	Vice President, Customer Services	49,043	1,576(3)	$ 534(3)
All directors and officers as a group consisting of 24 persons, including the above named		607,084	30,426(3)	2,101(3)

(1) The directors of MP&L are paid, since May 1978, an attendance feet of $300 for attendance at meetings of the Board of Directors and $300 for meetings of committees of the Board (except in the case of a committee meeting on the same day as a Board meeting, in which case there is no fee for attendance at the committee meeting). In addition, directors who are not employees of a Middle South System company are paid $150 per month.

(2) This column does not reflect the amount of contributions made by MP&L to its retirement income plan (defined benefit plan), as such amount in respect of any individual is not, and cannot be, separately or individually calculated. During 1979, aggregate contributions by MP&L to the plan were equivalent to 11.6% of the 1979 remuneration of plan participants. Generally, compensation covered under the plan is average annual earnings for the highest five consecutive years during the ten years immediately preceding retirement.

(3) Reflects amounts paid pursuant to the Middle South Utilities System Savings Plan. The System Savings Plan provides that eligible employees (who elect to participate in the Savings Plan), may contribute through payroll deductions each payroll period from 1% to 6% of their base wages or salary. The employing System company contributes to the Plan from its current or accumulated earnings and profits an amount equal to 50% of each participant's contribution for each month. Amounts allocable to company contributions under the Plan are reflected as either a current or contingent form of remuneration depending upon whether or not the recipient, or his estate, has a vested, non-forfeitable right to the same.

Under the Employee Stock Ownership Plan, MSU and its subsidiaries may contribute each year to a trustee an amount equal to the additional 1% investment tax credit allowable under the Internal Revenue Code of 1954, as amended. The trustee uses the contribution to purchase Common Stock of MSU, which is allocated to the account of each eligible employee. No contributions were made during 1979 because the additional 1% investment tax credit claimed for the tax years 1977 and 1978 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1980 in respect of the tax year 1979.

The following tabulation shows estimated annual benefits upon retirement to persons in specified compensation and years-of-service categories payable pursuant to the retirement income plans (see Note (2) to the remuneration table):

Annual Covered Compensation	Years of Service			
	10	20	30	40
$ 20,000	$ 3,000	$ 6,000	$ 9,000	$12,000
40,000	6,000	12,000	18,000	24,000
60,000	9,000	18,000	27,000	36,000
80,000	12,000	24,000	36,000	48,000
100,000	15,000	30,000	45,000	60,000

NOPSI

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash and Cash-Equivalent Forms of Remuneration: Salaries, Fees, Directors' Fees(1), Commissions and Bonuses	Cash and Cash-Equivalent Forms of Remuneration: Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate of Contingent Forms of Remuneration(2)
James M. Cain	President and Director	$ 94,217	$2,909(3)	$ 895(3)
William C. Nelson	Vice President, Administration and Legal and Secretary	59,667	5,731(3)	—
A. J. Brodtmann	Vice President, Finance	58,500	3,742(3)	—
Hero J. Edwards, Jr.	Vice President, Operations	52,167	3,734(3)	1,174(3)
Sherwood A. Cuyler	Vice President, Public and Regulatory Affairs	50,333	3,572(3)	—
All directors and officers as a group consisting of 25 persons, including the above named		646,532	34,226(3)	5,749(3)

(1) The directors of NOPSI are paid an attendance fee of $225 for attendance at meetings of the Board of Directors and $200 for meetings of the Audit Committee of the Board (except in the case of an Audit Committee meeting on the same day as a Board meeting, in which case the fee for attendance at such meeting

is $100). In addition, directors who are not employees of a Middle South System company are paid $250 per month.

(2) This column does not reflect the amount of contributions made by NOPSI to its retirement income plan (defined benefit plan), as such amount in respect of any individual is not, and cannot be, separately or individually calculated. During 1979, aggregate contributions by NOPSI to the plan were equivalent to 9.7% of the 1979 remuneration of plan participants. Generally, compensation covered under the plan is average annual earnings for the highest five consecutive years during the ten years immediately preceding retirement.

(3) Reflects amounts paid pursuant to the Middle South Utilities System Savings Plan. The System Savings Plan provides that eligible employees (who elect to participate in the Savings Plan), may contribute through payroll deductions each payroll period from 1% to 6% of their base wages or salary. The employing System company contributes to the Plan from its current or accumulated earnings and profits an amount equal to 50% of each participant's contribution for each month. Amounts allocable to company contributions under the Plan are reflected as either a current or contingent form of remuneration depending upon whether or not the recipient, or his estate, has a vested, non-forfeitable right to the same.

Under the Employee Stock Ownership Plan, MSU and its subsidiaries may contribute each year to a trustee an amount equal to the additional 1% investment tax credit allowable under the Internal Revenue Code of 1954, as amended. The trustee uses the contribution to purchase Common Stock of MSU, which is allocated to the account of each eligible employee. No contributions were made during 1979 because the additional 1% investment tax credit claimed for the tax years 1977 and 1978 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1980 in respect of the tax year 1979.

The following tabulation shows estimated annual benefits upon retirement to persons in specified compensation and years-of-service categories payable pursuant to the retirement income plans (see Note (2) to the remuneration table):

Annual Covered Compensation	Years of Service			
	10	20	30	40
$ 20,000	$ 3,000	$ 6,000	$ 9,000	$12,000
40,000	6,000	12,000	18,000	24,000
60,000	9,000	18,000	27,000	36,000
80,000	12,000	24,000	36,000	48,000
100,000	15,000	30,000	45,000	60,000

OTHER TRANSACTIONS

LP&L and NOPSI have obtained short-term bank loans from time to time in the ordinary course of business from First National Bank of Commerce ("FNBC"). The maximum amount of these loans outstanding during 1979 for LP&L and NOPSI was $3,900,000 and $3,000,000, respectively. In addition, SFI borrowed a maximum amount of $5,000,000 from FNBC during 1979. Mr. Arthur L. Jung, Jr., a director of NOPSI, is a director of FNBC and First Commerce Corporation.

MSU and certain of its subsidiaries have had, and it is anticipated that they will continue to have, relationships with Hibernia National Bank in New Orleans ("Hibernia"), through loan agreements, bank accounts, transfer agent and registrar arrangements and through Hibernia's position as trustee for the Middle South Utilities System Savings Plan for employees. The maximum aggregate principal amount of bank loans to the companies outstanding at any one time during 1979 was $10,108,000, and the aggregate principal amount of such loans outstanding at December 31, 1979 was $5,828,000. In addition, cash received by Hibernia as trustee under the System Savings Plan has been, and may in the future be, invested for brief periods of time in United States treasury securities purchased from Hibernia, subject to repurchase agreements of Hibernia (commonly called "Repos"), pending distribution or investment in accordance with the Plan. Mr. Richard W. Freeman, a director of MSU and NOPSI, and Messrs. Brooke H. Duncan and Sam Israel, Jr., each directors of NOPSI, are also directors of Hibernia and its parent, Hibernia Corporation.

Mid-South Engineering Co. provides engineering consulting services to AP&L. Roy L. Murphy, director of AP&L, is the President and Chairman of the Board of Mid-South Engineering Co. Total billings to AP&L during 1979 amounted to approximately $40,000.

LP&L also borrowed a maximum of $384,000 during 1979 from First State Bank & Trust Company in Bogalusa, Louisiana. Mr. Charles J. Cassidy, Chairman of the Board and President of that Bank, is a director of LP&L.

Lamar Life Insurance Company ("Lamar Life") provides group hospital and medical insurance for MP&L. Total premiums paid by MP&L to Lamar Life for 1979 aggregated approximately $906,000. Mr. Donald C. Lutken, President and a director of MP&L and a director of MSU, and Mr. Robert M. Hearin, a director of MP&L, are directors of Lamar Life and of its parent, Lamar Life Corporation. In addition, Mr. Lutken owns beneficially approximately 1.4% of the outstanding voting stock of Lamar Life Corporation, and VGS Corporation, of which Mr. Hearin is a principal stockholder, owns beneficially approximately 80% of the outstanding voting stock of Lamar Life Corporation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of each undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MIDDLE SOUTH UTILITIES, INC.

By E. A. LUPBERGER
(E. A. Lupberger, Vice President, Finance)

ARKANSAS POWER & LIGHT COMPANY

By JOHN J. HARTON
(John J. Harton, Treasurer and Assistant Secretary)

LOUISIANA POWER & LIGHT COMPANY

By J. H. ERWIN, JR.
(J. H. Erwin, Jr., Vice President and Treasurer)

MISSISSIPPI POWER & LIGHT COMPANY

By F. S. YORK, JR.
(F. S. York, Jr., Vice President and Secretary)

NEW ORLEANS PUBLIC SERVICE INC.

By A. J. BRODTMANN
(A. J. Brodtmann, Vice President, Finance)

Date: March 20, 1980

INDEX TO FINANCIAL STATEMENTS

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Middle South Utilities, Inc. and Subsidiaries:

We have examined the consolidated financial statements and supplemental schedules of Middle South Utilities, Inc. and subsidiaries and the financial statements and supplemental schedules of Middle South Utilities, Inc. and each of its subsidiaries, as listed in the accompanying indexes (pages F-1 and S-1). 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.

As more fully discussed in Note 10, in April 1979, the Attorney General of Arkansas alleged that Arkansas Power & Light Company had erroneously applied its fuel adjustment clause to retail customers and thereby overcharged these customers $17,297,000. On July 3, 1979, the Arkansas Public Service Commission issued an interim order modifying the application of AP&L's fuel adjustment clause. The order stated it was not deciding the propriety and legality of ordering refunds and stated that decision would be made later. In our report dated February 16, 1979 our opinion on the 1978 financial statements was unqualified; however, in view of such rate matter our present opinion as expressed herein is different from that expressed in our previous report.

As explained in the second paragraph of Note 12, legal action is pending against New Orleans Public Service Inc. concerning the return of, or future reductions to compensate for, increased transit fares authorized by the Council of the City of New Orleans in 1975. In our report dated February 16, 1979 our opinion on the 1978 financial statements was qualified as being subject to the effect of any loss which might result from the final settlement of this matter. Management subsequently decided that any material adjustments will be retroactively applied to the operations of 1976 and 1977 when such fares were collected. Accordingly, our opinion on the 1978 financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, subject to the effects, if any, of the outcome of the matter discussed in the second preceding paragraph on the consolidated financial statements of Middle South Utilities, Inc. and the financial statements of AP&L, the above-mentioned financial statements present fairly the financial position and the consolidated financial position of the companies at December 31, 1979 and 1978 and the results of their operations, source of funds for investment of the Company and source of funds for utility plant additions of the Company and subsidiaries and each of its subsidiaries for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the accompanying schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

New Orleans, Louisiana
February 15, 1980

FINANCIAL STATEMENTS OF

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

AND

MIDDLE SOUTH UTILITIES, INC.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Utility Plant (Notes 1(D), 8, 12 and Schedules V and VI):		
Electric	$3,597,923	$3,472,059
Natural gas	102,878	93,366
Transit (Note 11)	19,049	21,081
Construction work in progress	3,282,202	2,465,517
Total	7,002,052	6,052,023
Less accumulated depreciation	1,139,164	1,038,256
Utility plant—net	5,862,888	5,013,767
Other Property and Investments:		
Property of non-utility subsidiaries in service or under construction	89,694	82,583
Notes receivable	—	14,737
Other	2,112	2,208
Total	91,806	99,528
Current Assets:		
Cash (Note 7)	52,038	51,321
Special deposits	13,342	11,170
Certificates of deposit	25	225
Temporary investments—at cost, which approximates market	69,814	64,300
Notes receivable	17,706	2,509
Accounts receivable—(less allowance for doubtful customer accounts of (in thousands) $1,800 in 1979 and $1,601 in 1978—Schedule XII):		
Customer	101,148	73,086
Other	22,197	23,267
Deferred fuel cost	28,929	5,714
Fuel oil—at average cost (Note 7)	137,058	72,478
Materials and supplies—at average cost	36,488	28,332
Other	21,743	32,303
Total	500,488	364,705
Deferred Debits:		
Unamortized debt expense	6,552	6,577
Unamortized abandoned project cost	—	4,101
Other	41,334	12,349
Total	47,886	23,027
TOTAL	$6,503,068	$5,501,027

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1979 and 1978

LIABILITIES

	1979	1978
	(In Thousands)	
Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares in 1979 and 100,000,000 shares in 1978; issued and outstanding 90,432,998 shares in 1979 and 76,098,232 shares in 1978 (Note 4)	$ 452,165	$ 380,491
Paid-in surplus	630,450	499,855
Retained earnings (Note 5)	581,445	534,893
Total common shareholders' equity	1,664,060	1,415,239
Subsidiaries' preferred stock, without sinking fund (Note 3)	330,966	280,712
Subsidiaries' preferred stock, with sinking fund (Note 3)	193,508	60,063
Subsidiaries' long-term debt and premium (Note 2)	3,017,816	2,629,711
Total capitalization	5,206,350	4,385,725
Current Liabilities:		
Notes payable—banks (Notes 7 and 9):		
Company	145,900	129,000
Subsidiaries	118,375	93,575
Commercial paper—subsidiaries (Note 7)	20,630	100,865
Currently maturing long-term debt	149,830	23,034
Accounts payable	210,123	125,634
Customer deposits	33,289	33,815
Taxes accrued	55,435	49,732
Accumulated deferred income tax (Notes 1(F) and 6)	14,950	3,735
Interest accrued	75,737	65,606
Dividends declared	47,594	35,287
Other	25,679	19,951
Total	897,542	680,234
Deferred Credits:		
Accumulated deferred income taxes (Notes 1(F) and 6)	257,599	299,532
Accumulated deferred investment tax credits (Notes 1(F) and 6)	104,835	107,380
Other	17,282	15,246
Total	379,716	422,158
Reserves (Note 1(H) and Schedule XII):		
Property insurance	13,338	7,947
Injuries and damages	6,122	4,963
Total	19,460	12,910
Commitments and Contingencies (Notes 8 through 12)		
TOTAL	$6,503,068	$5,501,027

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Operating Revenues (Note 11):		
Electric	$ 1,669,451	$ 1,489,915
Natural gas	116,612	95,863
Transit	36,996	36,399
Total	1,823,059	1,622,177
Operating Expenses:		
Operation:		
Fuel for electric generation	697,607	623,402
Purchased power	258,376	133,929
Gas purchased for resale	88,801	68,657
Other	200,264	199,406
Maintenance	111,394	99,941
Depreciation	119,304	112,805
Taxes other than income taxes	77,849	69,771
Income taxes (Note 6)	51,266	86,004
Total	1,604,861	1,393,915
Operating Income	218,198	228,262
Other Income:		
Allowance for equity funds used during construction (Note 1(G))	124,086	93,573
Miscellaneous income and deductions—net	7,940	6,239
Income taxes-cr. (Note 6)	76,232	50,105
Total	208,258	149,917
Interest and Other Charges:		
Interest on long-term debt	255,242	199,212
Other interest—net	42,139	22,769
Allowance for borrowed funds used during construction-cr. (Note 1(G))	(89,247)	(54,717)
Preferred dividend requirements of subsidiaries (Note 3)	36,264	25,477
Total	244,398	192,741
Net Income (Note 10)	$ 182,058	$ 185,438
Weighted Average Number of Shares of Common Stock Outstanding	85,444,691	75,522,179
Earnings Per Common Share on Weighted Average Number of Shares Outstanding	$2.13	$2.46
Dividends Declared Per Common Share	$1.535	$1.46

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

STATEMENTS OF RETAINED EARNINGS AND PAID-IN SURPLUS (COMPANY AND CONSOLIDATED)

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
RETAINED EARNINGS		
Retained Earnings, January 1	$534,893	$460,608
Add—Net Income	182,058	185,438
Total	716,951	646,046
Deduct:		
Dividends declared on common stock—$1.535 and $1.46 a share for 1979 and 1978, respectively	132,585	110,849
Capital stock expenses, etc.	2,921	304
Total	135,506	111,153
Retained Earnings, December 31 (Note 5)	$581,445	$534,893

	1979	1978
PAID-IN SURPLUS		
Paid-in Surplus, January 1	$499,855	$401,156
Add excess of Proceeds over Par Value:		
8,500,000 shares of common stock sold in January 1978	—	94,460
8,500,000 shares of common stock sold in January 1979	84,490	—
5,000,000 shares of common stock sold in November 1979	38,099	—
Common stock issued in connection with dividend reinvestment and stock purchase plan	5,865	4,053
Common stock issued in connection with employee stock ownership plan	126	54
Common stock issued in connection with employee savings plan	2,021	132
Retirement of 944 unclaimed shares of MSU stock	(6)	—
Paid-in Surplus, December 31	$630,450	$499,855

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$182,058	$185,438
Depreciation	119,304	112,805
Amortization of property loss	4,10.	4,101
Deferred income taxes and investment tax credit adjustments—net	(24,856)	36,427
Allowance for funds used during construction	(213,333)	(148,290)
Total	67,274	190,481
Dividends declared on common stock	(132,585)	(110,849)
Funds retained in business	(65,311)	79,632
(Increase) in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)*	(12,637)	(52,754)
Decrease in deferred construction contracts payable	—	(4,200)
Deferred costs on coal plant standardization study	(6,776)	(1,781)
Developed and undeveloped oil and gas properties	(9,163)	(3,962)
Advance for non-utility property	14,737	(14,737)
Uranium exploration program	(8,487)	(2,232)
Prepayment of rent for motor coaches leased from the City of New Orleans	(3,696)	165
Miscellaneous—net	(8,272)	8,770
Total	(99,605)	8,901
From financing transactions:		
Common stock	202,269	143,147
Preferred stock	183,699	—
First mortgage bonds:		
Issues	160,000	242,000
Retirements	(19,802)	(27,854)
Promissory notes and other long-term debt:		
Issues and assumptions	378,863	235,623
Retirements	(3,313)	(2,177)
Sale and leaseback transactions (Note 8)	65,359	8,210
Book value of utility plant sold	34,199	—
Short-term securities—net	(43,849)	135,575
Total	957,425	734,524
Total	$857,820	$743,425
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$812,735	$754,471
Fabrication costs of nuclear core	46,803	7,105
Other—net	(1,718)	(18,151)
Total	$857,820	$743,425

* The 1979 increase in working capital is primarily due to increases in accounts receivable and fuel oil inventory offset by an increase in accounts payable. The 1978 increase is primarily due to an increase in cash and special deposits and a decrease in taxes accrued.

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC.

BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Investments in Wholly-owned Subsidiaries—at equity (Schedule III)	$1,803,840	$1,533,638
Current Assets:		
Cash (Note 7)	1,315	7,151
Notes receivable from subsidiary	2,100	2,100
Temporary investments—at cost which approximates market	38,714	30,400
Other	103	25
Total	42,232	39,676
Deferred Debits	—	66
Total	$1,846,072	$1,573,380

LIABILITIES

	1979	1978
Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares in 1979 and 100,000,000 shares in 1978; issued and outstanding 90,432,998 shares in 1979 and 76,098,232 shares in 1978 (Note 4)	$ 452,165	$ 380,491
Paid-in surplus	630,445	499,850
Retained earnings (Note 5)	581,445	534,893
Total	1,664,055	1,415,234
Current Liabilities:		
Notes payable—banks (Notes 7 and 9)	145,900	129,000
Accounts payable:		
Associated company	124	27
Other	208	110
Interest and taxes accrued	71	92
Dividends declared	35,714	28,917
Total	182,017	158,146
Commitments and Contingencies (Notes 9 and 12)		
Total	$1,846,072	$1,573,380

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC.

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Income:		
Dividends from subsidiaries	$141,793	$119,216
Undistributed earnings of subsidiaries (Note 5)	53,942	75,357
Interest on loans to subsidiaries	1,115	798
Other interest	881	404
Total	197,731	195,775
Expenses and Other Deductions:		
Administrative and general expenses	2,919	2,247
Taxes	17	12
Interest	12,737	8,078
Total	15,673	10,337
Net Income (Note 10)	$182,058	$185,438

STATEMENTS OF SOURCE OF FUNDS FOR INVESTMENT

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Funds From Operations:		
Net income	$182,058	$185,438
Undistributed earnings of subsidiaries	(53,942)	(75,357)
Total	128,116	110,081
Dividends Declared On Common Stock	(132,585)	(110,849)
Funds used in business	(4,469)	(768)
Funds From Financing:		
Common stock	202,269	143,147
Notes payable:		
Issues	209,000	111,000
Retirements	(192,100)	(140,000)
Funds from financing—net	219,169	114,147
Decrease in Working Capital (excluding notes payable)	4,415	4,908
Miscellaneous—net	(415)	(287)
Investment in Subsidiaries	$218,700	$118,000

See Notes to Financial Statements.

FINANCIAL STATEMENTS OF ARKANSAS POWER & LIGHT COMPANY

ARKANSAS POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Utility Plant (Notes 1(D), 8, 12 and Schedules V and VI):		
Electric	$1,231,832	$1,178,565
Construction work in progress	980,054	785,684
Total	2,211,886	1,964,249
Less accumulated depreciation	364,447	331,195
Utility plant—net	1,847,439	1,633,054
Other Property and Investments:		
Investment in associated companies—at equity (Note 9)	32,002	19,384
Other, at cost (less accumulated depreciation)	467	523
Total	32,469	19,907
Current Assets:		
Cash (Note 7)	3,811	703
Special deposits	52	66
Notes receivable	1,801	1,442
Accounts receivable—(less allowance for doubtful accounts of (in thousands) $924 in 1979 and $744 in 1978—Schedule XII):		
Customer	27,155	22,036
Other	1,870	1,262
Associated companies	697	77
Deferred fuel cost (Note 1(C))	13,192	4,779
Materials and supplies—at average cost	6,930	5,935
Other	2,303	3,120
Total	57,811	39,420
Deferred Debits:		
Unamortized debt expense	2,313	2,261
Other	2,024	(305)
Total	4,337	1,956
TOTAL	$1,942,056	$1,694,337

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

LIABILITIES

	1979	1978
	(In Thousands)	
Capitalization:		
Common stock, $12.50 par value, authorized 50,000,000 shares; issued and outstanding 34,236,773 shares in 1979 and 31,836,773 shares in 1978 (Note 4)	$ 427,960	$ 397,960
Retained earnings (Note 5)	90,657	81,448
Total common shareholder's equity	518,617	479,408
Preferred stock, without sinking fund (Note 3)	126,890	111,709
Preferred stock, with sinking fund (Note 3)	100,518	60,063
Long-term debt and premium (Note 2)	819,716	749,262
Total capitalization	1,565,741	1,400,442
Current Liabilities:		
Notes payable (Note 7):		
Banks	77,000	—
Commercial paper	3,130	40,200
Currently maturing long-term debt	6,000	8,700
Accounts payable:		
Associated companies	3,791	8,982
Other	46,839	19,326
Customer deposits	4,949	7,512
Taxes accrued	24,328	19,391
Accumulated deferred income taxes (Notes 1(F) and 6)	6,496	2,443
Interest accrued	22,730	16,763
Dividends declared	4,887	3,505
Other	10,741	12,268
Total	210,891	139,090
Deferred Credits:		
Accumulated deferred income taxes (Notes 1(F) and 6)	125,417	114,209
Accumulated deferred investment tax credits (Notes 1(F) and 6)	32,211	32,963
Other	7,192	6,724
Total	164,820	153,896
Reserves (Note 1(H) and Schedule XII):		
Property insurance	—	239
Injuries and damages	604	670
Total	604	909
Commitments and Contingencies (Notes 8, 9, 10 and 12)		
TOTAL	$1,942,056	$1,694,337

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Operating Revenues (Note 14)	$583,826	$556,488
Operating Expenses:		
Operation:		
Fuel for electric generation (Note 14)	174,667	167,681
Purchased power (Note 14)	171,425	120,804
Other	61,850	62,136
Maintenance	30,182	28,856
Depreciation	39,708	38,365
Taxes other than income taxes	25,032	23,436
Income taxes (Note 6)	11,213	33,813
Total	514,077	475,091
Operating Income	69,749	81,397
Other Income:		
Allowance for equity funds used during construction (Note 1(G))	45,045	36,214
Miscellaneous income and deductions—net	6,874	4,583
Income taxes-cr. (Note 6)	16,753	12,403
Total	68,672	53,200
Interest and Other Charges:		
Interest on long-term debt	67,091	56,949
Other interest—net	8,446	4,076
Allowance for borrowed funds used during construction-cr. (Note 1(G))	(20,858)	(14,048)
Total	54,679	46,977
Net Income (Note 10)	83,742	87,620
Preferred Dividend Requirements (Note 3)	17,474	14,020
Balance for Common Stock	$ 66,268	$ 73,600

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Retained Earnings, January 1	\$81,448	\$55,641
Add—Net Income	83,742	87,620
Total	165,190	143,261
Deduct—Dividends Declared:		
Preferred stock—at prescribed rates for each series (Note 3)	17,474	14,020
Common stock—\$1.77 and \$1.555 a share for 1979 and 1978, respectively	57,059	47,793
Total	74,533	61,813
Retained Earnings, December 31 (Note 5)	\$90,657	\$81,448

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$83,742	$ 87,620
Depreciation	39,708	38,365
Deferred income taxes and investment tax credit adjustments—net	14,508	25,197
Allowance for funds used during construction	(65,903)	(50,262)
Total	72,055	100,920
Dividends declared:		
Preferred stock	(17,474)	(14,020)
Common stock	(57,059)	(47,793)
Total	(74,533)	(61,813)
Funds retained in business	(2,478)	39,107
Decrease (increase) in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)*	12,128	(48,367)
(Decrease) in deferred construction contracts payable	—	(4,200)
(Increase) decrease in investment in associated company—net	(12,618)	1,643
Miscellaneous—net	(2,148)	550
Total	(5,116)	(11,267)
From financing transactions:		
Common stock	30,000	15,000
Preferred stock	55,636	—
First mortgage bonds:		
Issues	60,000	75,000
Retirements	(8,700)	(7,500)
Other long-term debt	16,406	15,317
Book value of utility plant sold	34,199	13,532
Sale and leaseback transactions	20,314	—
Short-term securities—net	39,930	69,515
Total	247,785	180,864
Total	$242,669	$169,597
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$226,126	$213,055
Fabrication costs of nuclear core	20,056	330
Other—net	(3,513)	(43,788)
Total	$242,669	$169,597

* The decrease in working capital for 1979 is primarily attributable to an increase in accounts payable and the 1978 increase is primarily due to decreases in accounts payable and taxes accrued.

See Notes to Financial Statements.

FINANCIAL STATEMENTS OF

LOUISIANA POWER & LIGHT COMPANY

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Utility Plant (Note 1(D) and Schedules V and VI):		
Electric	$1,237,269	$1,193,456
Construction work in progress	831,837	599,496
Total	2,069,106	1,792,952
Less accumulated depreciation	353,994	317,583
Utility plant—net	1,715,112	1,475,369
Other Property and Investments:		
Investment in associated company—at equity (Note 9)	36,997	20,802
Other	382	358
Total	37,379	21,160
Current Assets:		
Cash (Note 7)	11,078	13,559
Special deposits	10,289	10,015
Temporary investments, at cost which approximates market	8,000	—
Notes receivable	938	698
Accounts receivable—(less allowance for doubtful accounts of $135 thousand—Schedule XII):		
Customer	24,826	16,530
Other	1,441	1,121
Associated companies	100	64
Deferred fuel cost (Note 1(C))	15,054	—
Materials and supplies—at average cost	10,795	8,043
Other	4,975	4,143
Total	87,496	54,173
Deferred Debits:		
Unamortized debt expense	2,378	2,354
Unamortized abandoned project cost	—	4,101
Total	2,378	6,455
TOTAL	$1,842,365	$1,557,157

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

LIABILITIES

	1979	1978
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 150,000,000 shares in 1979 and 100,000,000 shares in 1978; issued and outstanding 65,140,000 shares in 1979 and 53,776,000 shares in 1978 (Note 4)	$ 428,900	$ 353,900
Retained earnings (Note 5)	58,541	63,292
Total com ion shareholder's equity	487,441	417,192
Preferred stock, without sinking fund (Note 3)	145,882	110,809
Preferred stock, with sinking fund (Note 3)	92,990	—
Long-term debt and premium (Note 2)	827,430	728,748
Total capitalization	1,553,743	1,256,749
Current Liabilities:		
Notes payable (Note 7):		
Banks	32,375	59,675
Commercial paper	—	24,415
Currently maturing long-term debt	11,871	1,783
Accounts payable:		
Associated companies	22,902	7,757
Other	36,698	43,268
Customer deposits	13,159	11,837
Taxes accrued	3,459	1,485
Accumulated deferred income taxes (Notes 1(F) and 6)	7,289	—
Interest accrued	19,825	17,727
Dividends declared	6,156	2,027
Other	634	545
Total	154,368	170,519
Deferred Credits:		
Accumulated deferred income taxes (Notes 1(F) and 6)	91,221	90,032
Accumulated deferred investment tax credits (Notes 1(F) and 6)	28,382	29,400
Other	7,729	5,602
Total	127,332	125,034
Reserves (Note 1(H) and Schedule XII):		
Property insurance	5,792	3,661
Injuries and damages	1,130	1,194
Total	6,922	4,855
Commitments and Contingencies (Notes 8, 9 and 12)		
TOTAL	$1,842,365	$1,557,157

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Operating Revenues (Note 14)	$557,476	$456,375
Operating Expenses:		
Operation:		
Fuel for electric generation (Note 14)	190,226	168,177
Purchased power (Note 14)	140,111	69,730
Other	42,419	47,531
Maintenance	31,269	29,213
Depreciation	40,863	38,389
Taxes other than income taxes	15,977	14,106
Income taxes (Note 6)	22,750	19,919
Total	483,615	387,065
Operating Income	73,861	69,310
Other Income:		
Allowance for equity funds used during construction (Note 1(G))	30,722	20,823
Miscellaneous income and deductions—net	4,920	2,422
Income taxes—cr. (Note 6)	11,751	9,058
Total	47,393	32,303
Interest and Other Charges:		
Interest on long-term debt	60,263	51,959
Other interest—net	10,993	6,166
Allowance for borrowed funds used during construction—cr. (Note 1(G))	(15,131)	(10,256)
Total	56,125	47,869
Net Income	65,129	53,744
Preferred Dividend Requirements (Note 3)	15,441	8,108
Balance for Common Stock	$ 49,688	$ 45,636

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Retained Earnings, January 1	$ 63,292	$ 59,863
Add—Net Income	65,129	53,744
Total	128,421	113,607
Deduct:		
Dividends declared:		
Preferred stock—at prescribed rates for each series (Note 3)	16,749	8,108
Common stock—$0.872 and $0.86 a share for 1979 and 1978, respectively	52,673	42,194
Capital stock expenses, etc.	458	13
Total	69,880	50,315
Retained Earnings, December 31 (Note 5)	$ 58,541	$ 63,292

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 65,129	$ 53,744
Depreciation	40,863	38,389
Amortization of property loss	4,101	4,101
Deferred income taxes and investment tax credit adjustments—net	10,896	4,915
Allowance for funds used during construction	(45,853)	(31,079)
Total	75,136	70,070
Dividends declared:		
Preferred stock	(16,749)	(8,108)
Common stock	(52,673)	(42,194)
Total	(69,422)	(50,302)
Funds retained in business	5,714	19,768
(Increase) decrease in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)*	(7,136)	3,187
(Increase) decrease in investment in associated company—net	(16,195)	1,780
Miscellaneous—net	979	2,366
Total	(16,638)	27,101
From financing transactions:		
Common stock	75,000	50,000
Preferred stock	128,063	—
First mortgage bonds:		
Issues	100,000	135,000
Retirements	—	(10,000)
Other long-term debt:		
Issues and assumptions	11,458	29,531
Retirements	(1,879)	(514)
Sale and leaseback of nuclear fuel (Note 8)	—	13,044
Short-term securities—net	(59,715)	23,923
Total	252,927	240,984
Total	$236,289	$268,085
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$234,493	$242,269
Fabrication costs of nuclear core	—	131
Other—net	1,796	25,685
Total	$236,289	$268,085

* The 1979 increase in working capital is primarily due to an increase in accounts receivable and deferred fuel costs offset by an increase in accounts payable.

See Notes to Financial Statements.

FINANCIAL STATEMENTS OF
MISSISSIPPI POWER & LIGHT COMPANY

MISSISSIPPI POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Utility Plant (Notes 1(D) and 8 and Schedules V and VI):		
Electric	$726,710	$710,805
Construction work in progress	25,913	10,820
Total	752,623	721,625
Less accumulated depreciation	218,476	197,299
Utility plant—net	534,147	524,326
Other Property and Investments:		
Investment in associated company—at equity (Note 9)	16,984	10,269
Other	905	930
Total	17,889	11,199
Current Assets:		
Cash	1,373	445
Special deposits	736	891
Temporary investments—at cost, which approximates market	1,000	24,500
Accounts receivable—(less allowance for doubtful accounts of $154 thousand—Schedule XII):		
Customer	20,196	15,185
Other	2,624	1,076
Associated companies	8,014	4,724
Fuel oil—at average cost	6,238	5,439
Materials and supplies—at average cost	9,805	7,185
Other	2,189	6,683
Total	52,175	66,128
Deferred Debits:		
Unamortized debt expense	1,092	1,149
Other	2,341	1,010
Total	3,433	2,159
TOTAL	$607,644	$603,812

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

BALANCE SHEETS

December 31, 1979 and 1978

LIABILITIES

	1979	1978
	(In Thousands)	
Capitalization:		
Common stock, no par value (stated value $23 per share), authorized 5,000,000 shares; issued and outstanding 4,540,000 shares	$104,420	$104,420
Paid-in surplus	5	5
Retained earnings (Note 5)	65,383	64,618
Total common shareholder's equity	169,808	169,043
Preferred stock, without sinking fund (Note 3)	38,077	38,077
Long-term debt and premium (Note 2)	263,380	271,374
Total capitalization	471,265	478,494
Current Liabilities:		
Currently maturing long-term debt	7,929	7,905
Accounts payable:		
Associated companies	10,566	6,776
Other	13,609	11,122
Customer deposits	9,085	8,303
Taxes accrued	12,841	15,528
Interest accrued	6,279	6,961
Dividends declared	596	596
Other	2,961	1,649
Total	63,866	58,840
Deferred Credits:		
Accumulated deferred income taxes (Notes 1(F) and 6)	51,803	47,369
Accumulated deferred investment tax credits (Notes 1(F) and 6)	17,763	16,478
Other	507	344
Total	70,073	64,191
Reserves (Note 1(H) and Schedule XII):		
Property insurance	1,364	900
Injuries and damages	1,076	1,387
Total	2,440	2,287
Commitments and Contingencies (Notes 8, 9 and 12)		
TOTAL	$607,644	$603,812

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Operating Revenues (Note 14)	$436,524	$400,276
Operating Expenses:		
Operation:		
Fuel for electric generation (Note 14)	217,161	208,161
Purchased power (Note 14)	69,094	40,049
Other	38,637	32,102
Maintenance	23,500	16,997
Depreciation	21,974	20,528
Taxes other than income taxes	16,177	14,950
Income taxes (Note 6)	9,995	20,492
Total	396,538	353,279
Operating Income	39,986	46,997
Other Income:		
Allowance for equity funds used during construction (Note 1(G))	747	826
Miscellaneous income and deductions—net	2,900	2,286
Income taxes—cr. (Note 6)	(1,145)	(916)
Total	2,502	2,196
Interest and Other Charges:		
Interest on long-term debt	19,587	19,842
Other interest—net	650	852
Allowance for borrowed funds used during construction—cr. (Note 1(G))	(330)	(346)
Total	19,907	20,348
Net income	22,581	28,845
Preferred Dividend Requirements (Note 3)	2,384	2,384
Balance for Common Stock	$ 20,197	$ 26,461

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF RETAINED EARNINGS AND PAID-IN SURPLUS

For the Years Ended December 31, 1979 and 1978

RETAINED EARNINGS

	1979	1978
	(In Thousands)	
Retained Earnings, January 1	$64,618	$55,954
Add—Net Income	22,581	28,845
Total	87,199	84,799
Deduct—Dividends Declared:		
Preferred stock—at prescribed rates for each series (Note 3)	2,384	2,384
Common stock—$4.28 and $3.92 a share for 1979 and 1978, respectively	19,432	17,797
Total	21,816	20,181
Retained Earnings, December 31 (Note 5)	$65,383	$64,618

PAID-IN SURPLUS

Paid-in Surplus, January 1 and December 31	$ 5	$ 5

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$22,581	$28,845
Depreciation	21,974	20,528
Deferred income taxes and investment tax credit adjustments—net	6,620	4,572
Allowance for funds used during construction	(1,077)	(1,172)
Total	50,098	52,773
Dividends declared:		
Preferred stock	(2,384)	(2,384)
Common stock	(19,432)	(17,797)
Total	(21,816)	(20,181)
Funds retained in business	28,282	32,592
(Increase) decrease in working capital (excluding short-term securities and current maturities)*	(4,545)	(11,986)
(Increase) decrease in investment in associated company—net	(6,715)	1,070
Miscellaneous—net	(476)	4,144
Total	16,546	25,820
From financing transactions:		
First mortgage bond retirement	(7,500)	—
Other long-term debt:		
Issues	—	275
Retirements	(405)	(381)
Short-term securities—net	23,500	(2,500)
Total	15,595	(2,606)
Total	$32,141	$23,214
Utility Plant Additions:		
Construction expenditures (excludes allowance for funds used during construction)	$32,141	$ 23,214

* The 1979 increase in working capital is primarily due to an increase in accounts receivable and the 1978 increase is primarily due to a decrease in taxes accrued.

See Notes to Financial Statements.

FINANCIAL STATEMENTS OF
NEW ORLEANS PUBLIC SERVICE INC.

NEW ORLEANS PUBLIC SERVICE INC.

BALANCE SHEETS

December 31, 1979 and 1978

ASSETS

	1979	1978
	(In Thousands)	
Utility Plant (Note 1(D) and Schedules V and VI):		
Electric	$318,377	$308,935
Natural gas	69,771	61,239
Transit (Note 11)	19,049	21,081
Construction work in progress	4,786	3,243
Total	411,983	394,498
Less accumulated depreciation	162,293	155,018
Utility plant—net	249,690	239,480
Other Property and Investments:		
Investment in associated company—at equity (Note 9)	10,217	6,267
Other	49	49
Total	10,266	6,316
Current Assets:		
Cash	1,440	1,593
Special deposits	60	159
Temporary investments—at cost, which approximates market	2,500	9,400
Accounts and notes receivable—(less allowance for doubtful accounts of (in thousands) $500 in 1979 and $370 in 1978—Schedule XII):		
Customer	23,177	14,365
Other	4,564	12,351
Materials and supplies—at average cost	6,671	5,106
Other	1,683	2,342
Total	40,095	45,316
Deferred Debits:		
Prepayment of rent for motor coaches leased from City of New Orleans	4,684	988
Other	1,091	689
Total	5,775	1,677
TOTAL	$305,826	$292,789

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

BALANCE SHEETS

December 31, 1979 and 1978

LIABILITIES

	1979	1978
	(In Thousands)	
Capitalization:		
Common stock, $10 par value, authorized 6,000,000 shares; issued and outstanding 5,935,900 shares	$ 59,359	$ 59,359
Retained earnings (Note 5)	19,309	19,453
Total common shareholder's equity	78,668	78,812
Preferred stock, without sinking fund (Note 3)	20,117	20,117
Long-term debt and premium and discount (Note 2)	126,541	126,563
Total capitalization	225,326	225,492
Current Liabilities:		
Accounts payable:		
Associated companies	4,233	4,104
Other	18,468	8,722
Customer deposits	4,930	4,080
Taxes accrued	1,230	5,055
Interest accrued	2,711	2,666
Dividends declared	241	241
Other	3,790	692
Total	35,603	25,560
Deferred Credits:		
Accumulated deferred income taxes (Notes 1(F) and 6)	26,394	29,643
Accumulated deferred investment tax credits (Notes 1(F) and 6)	7,482	5,831
Other	1,760	1,767
Total	35,636	37,241
Reserves (Note 1(H) and Schedule XII):		
Property insurance	6,181	3,021
Injuries and damages	3,080	1,475
Total	9,261	4,496
Commitments and Contingencies (Notes 9 and 12)		
TOTAL	$305,826	$292,789

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Operating Revenues (Notes 11, 14 and 15):		
Electric	$240,032	$191,845
Natural gas	85,624	70,013
Transit	36,996	36,399
Total	362,652	298,257
Operating Expenses:		
Operation:		
Fuel for electric generation (Note 14)	111,039	72,549
Purchased power (Note 14)	50,310	44,540
Gas purchased for resale	68,291	52,439
Other	60,504	55,060
Maintenance	23,929	22,437
Depreciation	13,379	12,290
Taxes other than income taxes	15,778	12,805
Income taxes (Note 6)	1,379	7,817
Total	344,609	279,937
Operating Income	18,043	18,320
Other Income:		
Allowance for equity funds used during construction (Note 1(G))	54	100
Miscellaneous income and deductions—net	1,878	1,533
Income taxes—cr. (Note 6)	(702)	(706)
Total	1,230	927
Interest and Other Charges:		
Interest on long-term debt	8,760	7,844
Other interest—net	687	796
Allowance for borrowed funds used during construction—cr. (Note 1(G))	(184)	(36)
Total	9,263	8,604
Net Income	10,010	10,643
Preferred Dividend Requirements (Note 3)	965	965
Balance for Common Stock	$ 9,045	$ 9,678

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Retained Earnings, January 1	$19,453	$18,204
Add—Net Income	10,010	10,643
Total	29,463	28,847
Deduct—Dividends Declared:		
Preferred stock—at prescribed rates for each series (Note 3)	965	965
Common stock—$1.548 and $1.42 a share for 1979 and 1978, respectively	9,189	8,429
Total	10,154	9,394
Retained Earnings, December 31 (Note 5)	$19,309	$19,453

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.

STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 10,010	$ 10,643
Depreciation	13,379	12,290
Deferred income taxes and investment tax credit adjustments—net	2,494	1,718
Allowance for funds used during construction	(238)	(136)
Total	25,645	24,515
Dividends declared:		
Preferred stock	(965)	(965)
Common stock	(9,189)	(8,429)
Total	(10,154)	(9,394)
Funds retained in business	15,491	15,121
Decrease (increase) in working capital (excluding short-term securities and current maturities)*	8,365	(13,739)
(Increase) decrease in investment in associated company—net	(3,950)	500
Prepayment of rent for motor coaches leased from the City of New Orleans	(3,696)	165
Miscellaneous—net	333	254
Total	16,543	2,301
From financing transactions:		
First mortgage bonds:		
Issue	—	15,000
Retirement	—	(10,000)
Short-term securities—net	6,900	10,388
Total	6,900	15,388
Total	$ 23,443	$ 17,689
Utility Plant Additions (excludes allowance for funds used during construction)	$ 23,443	$ 17,689

* The decrease in working capital for 1979 is primarily attributable to an increase in accounts payable and the 1978 increase is primarily attributable to an increase in other accounts receivable and a decrease in taxes accrued.

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

B. *System of Accounts*

The accounts of the Company and its service subsidiary are maintained in accordance with the Holding Company Act which has adopted the systems of accounts prescribed by the FERC.

The accounts of the System operating companies and MSE are maintained in accordance with the systems of accounts prescribed by the applicable regulatory bodies, which systems of accounts substantially conform to those prescribed by the FERC. SFI capitalizes all costs related to its exploration activities. These costs are amortized by the unit-of-production method in the period in which revenue is recognized on oil and gas reserves produced and sold.

NOPSI operates pursuant to ordinances and orders of the City of New Orleans, relating to regulation, supervision and control. Under these ordinances, the City has an option to purchase NOPSI's properties and operations.

C. *Revenues and Fuel Costs*

The System operating companies record electric and gas revenues as billed to their customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period. The rate schedules of the operating subsidiaries include adjustment clauses under which the cost of fuel used for generation and gas purchased for resale above or below specified base levels is permitted to be billed or required to be credited to customers. As described in Note (c) to Summaries of Operations, prior to 1979 AP&L had adopted an accounting policy of deferring fuel costs in excess of base levels until these costs are reflected in billings to customers pursuant to the fuel adjustment clause. Effective January 1, 1979, pursuant to an order by its regulatory commission, the LPSC, LP&L commenced deferring fuel costs in excess of base rates until such costs are reflected in billings to customers pursuant to the fuel adjustment clauses, the effect of which was to increase net income in 1979 by $7,765,000, net of deferred income taxes.

The fuel adjustment factor for AP&L contains an amount for a nuclear reserve fund, estimated to cover the costs of replacement energy 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.

D. *Utility Plant and Depreciation*

Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads and AFDC. The costs of units of property retired are removed from utility plant and such costs, plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs 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 rates for the nuclear plant include a provision for nuclear plant decommissioning costs (see Note 12). Depreciation provided in 1979 and 1978 amounted to approximately the following percentages on average depreciable property:

	1979	1978
AP&L	3.4%	3.4%
LP&L	3.5	3.5
MP&L	3.3	3.3
NOPSI	3.4	3.3
Consolidated	3.5	3.4

Substantially all of the utility plant of the Company's operating subsidiaries and MSE is subject to the liens of their respective first mortgage bond indentures.

E. *Pension Plans*

The Company and its subsidiaries have various pension plans covering substantially all of their employees. The policy of the Middle South System is to fund pension costs accrued. Assets of the plans are in excess of vested benefits.

The unfunded prior service liability as of December 31, 1978 and the total pension costs, which include amortization of unfunded prior service costs over periods of 10 to 30 years for 1979 and 1978 are as follows:

	Unfunded Prior Service Liability	Pension Costs 1979	Pension Costs 1978
	(In Thousands)		
Company	$ 212	$ 55	$ 55
AP&L	2,532	5,035	5,202
LP&L	24,567	4,654	3,639
MP&L	7,712	2,712	2,402
NOPSI	18,405	4,761	4,269
Consolidated	60,243	18,605	16,843

F. *Income Taxes*

The Company and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to all subsidiaries based on their contributions 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 utilized are deferred and amortized over the average useful life of the related property.

G. *Allowance For Funds Used During Construction*

In accordance with the regulatory system of accounts, the Company's operating subsidiaries capitalize AFDC as an appropriate cost of utility plant. This allowance (a non-cash item) represents the net costs of funds used to finance construction. See Note (e) to Summaries of Operations as to rate determination.

The Company's operating subsidiaries continue to capitalize AFDC on projects during periods of interrupted construction when such interruption is temporary and can be justified as being reasonable under the circumstances.

H. *Reserves*

It is the policy of the Company's operating subsidiaries 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.

Effective in the first quarter of 1979, certain of the operating subsidiaries commenced recognizing deferred income taxes on their property insurance reserves and on their injuries and damages reserves.

2. Long-Term Debt

	Outstanding at December 31,	
	1979	1978
	(In Thousands)	
First Mortgage Bonds:		
AP&L:		
2 7/8% Series due 1980	—	$ 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	75,000
9 7/8% Series due 2008	75,000	75,000
10 1/4% Series due 2009	60,000	—
Total AP&L	760,500	706,500
LP&L:		
3 % Series due 1980	—	9,900
9 1/2% Series due 1981	50,000	50,000
9 3/8% Series due 1983	50,000	50,000
3 1/8% Series due 1984	18,000	18,000
9 % Series due 1986	75,000	75,000
4 3/4% Series due 1987	20,000	20,000
10 7/8% Series due 1989	45,000	—
5 % Series due 1990	20,000	20,000
4 5/8% Series due 1994	25,000	25,000
5 3/8% Series due 1996	35,000	35,000
5 5/8% Series due 1997	16,000	16,000
6 1/2% Series due 1997	18,000	18,000
7 1/8% Series due 1998	35,000	35,000
9 3/8% Series due 1999	25,000	25,000
9 3/8% Series due 2000	20,000	20,000
7 7/8% Series due 2001	25,000	25,000
7 1/2% Series due 2002	25,000	25,000
7 1/2% Series due 2002	25,000	25,000
8 % Series due 2003	45,000	45,000
8 3/4% Series due 2004	45,000	45,000
8 3/4% Series due 2006	40,000	40,000
10 % Series due 2008	60,000	60,000
13 1/2% Series due 2009	55,000	—
Total LP&L	772,000	681,900

	Outstanding at December 31,	
	1979	1978
	(In Thousands)	
MP&L:		
$2\frac{7}{8}$% Series due 1980	—	$ 7,500
$3\frac{5}{8}$% Series due 1983	$ 12,000	12,000
$4\frac{1}{8}$% Series due 1988	15,000	15,000
$4\frac{5}{8}$% Series due 1995	20,000	20,000
$5\frac{1}{8}$% Series due 1996	25,000	25,000
$6\frac{3}{8}$% Series due 1996	10,000	10,000
$9\frac{5}{8}$% Series due 1999	20,000	20,000
$9\frac{1}{4}$% Series due 2000	17,500	17,500
$7\frac{3}{4}$% Series due 2002	15,000	15,000
$7\frac{3}{4}$% Series due 2003	30,000	30,000
$8\frac{1}{4}$% Series due 2003	20,000	20,000
$9\frac{7}{8}$% Series due 2004	25,000	25,000
$10\frac{7}{8}$% Series due 2005	25,000	25,000
Total MP&L	234,500	242,000
NOPSI:		
$4\frac{1}{8}$% Series due 1983	6,000	6,000
$3\frac{1}{4}$% Series due 1984	6,000	6,000
$4\frac{1}{2}$% Series due 1987	6,000	6,000
5 % Series due 1991	15,000	15,000
$4\frac{1}{2}$% Series due 1992	8,000	8,000
$5\frac{5}{8}$% Series due 1996	23,250	23,250
$5\frac{7}{8}$% Series due 1997	12,000	12,000
10 % Series due 2004	35,000	35,000
$9\frac{1}{2}$% Series due 2008	15,000	15,000
Total NOPSI	126,250	126,250
Ark-Mo and Associated:		
$5\frac{3}{8}$% Series due 1982	572	680
$4\frac{1}{2}$% Series due 1983	1,202	1,232
$5\frac{1}{2}$% Series due 1988	598	612
$5\frac{5}{8}$% Series due 1990	1,400	1,430
$9\frac{3}{8}$% Series due 1993	6,650	6,860
$6\frac{1}{4}$% Series due 1996	3,560	3,600
$8\frac{3}{4}$% Series due 1998	9,800	10,000
$9\frac{3}{4}$% Series due 2000	4,600	4,650
Total Ark-Mo and Associated	28,382	29,064
MSE:*		
$9\frac{1}{4}$% Series due 1989 ($328 million redeemable beginning in 1982 through cash sinking fund payments of from $32 million to $56 million annually from 1982 through 1988)	400,000	400,000
Total First Mortgage Bonds	2,321,632	2,185,714

* In January 1980, MSE entered into an agreement under which it has issued and sold $15.0 million and will issue and sell on or prior to July 1, 1980, an additional $83.5 million of its First Mortgage Bonds, $12\frac{1}{2}$% Series due 2000.

	Outstanding at December 31, 1979	Outstanding at December 31, 1978
	(In Thousands)	
Other:		
Debentures:		
Ark-Mo and Associated:		
$5\frac{7}{8}$% due 1983	$ 340	$ 370
7% due 1993	3,500	3,650
Total Debentures (cash sinking fund requirements for issues outstanding amount to $180 thousand annually for 1980 through 1982 and $150 thousand for 1983)	3,840	4,020
Promissory Notes:		
SFI:		
At 109% of the prime rate due 1980	—	40,000
At prime rate due 1980	—	25,090
At prime rate plus $\frac{1}{2}$ of 1% due 1982	1,196	1,381
At 110% of the prime rate due 1980	—	15,000
MSE:		
110% of the sum of $\frac{3}{4}$ of 1% plus the prime rate due 1982	547,000	237,000
MSS:		
At 110% of prime rate due 1980	—	1,500
At prime rate plus $\frac{1}{2}$ of 1% due 1982	331	710
Total Promissory Notes	548,527	320,681
Lease:		
MP&L:		
Principal amount of capitalized lease—8% due serially through 1993	7,648	7,977
Municipal Revenue Bond Obligations:		
LP&L:		
Municipal revenue bond obligations due serially, 1981-2004, $1\frac{1}{4}$%-8% and other obligations	39,473	39,681
Pollution Control and Industrial Development Revenue Bond Obligations:		
AP&L:		
$7\frac{3}{8}$% due 2006	16,600	16,600
$6\frac{1}{8}$% due 2007 (net of $13,150 thousand and $25,587 thousand held by trustee at December 31, 1979 and 1978, respectively)	33,850	21,413
$7\frac{1}{4}$% due 2008 (net of $5,096 thousand and $9,066 thousand held by trustee at December 31, 1979 and 1978, respectively)	7,004	3,034
LP&L:		
6.4%-8% due 1988-2009 (net of $1,333 thousand and $1,632 thousand cash held by trustee at December 31, 1979 and 1978, respectively)	14,967	5,368
MP&L:		
$7\frac{1}{2}$% due 2004	9,400	9,400
$8\frac{1}{2}$% due 2004	8,575	8,575
$6\frac{1}{4}$%-$8\frac{1}{2}$% due 1981-1995	2,100	2,200
Total Industrial Development and Pollution Control Revenue Bond Obligations	92,496	66,590
Unamortized premium and discount on debt-net	4,200	5,048
Total Other	696,184	443,997
Total Long-Term Debt	$3,017,816	$2,629,711
Annual interest requirements on Long-Term Debt	$ 298,277	$ 226,899
Average annual interest rate on Long-Term Debt (excluding unamortized premium and discount on debt-net)	9.90%	8.64%

The following tabulation summarizes the long-term debt of the registrants:

	1979				1978			
	AP&L	LP&L	MP&L	NOPSI	AP&L	LP&L	MP&L	NOPSI
	(In Thousands)							
First Mortgage Bonds	$760,500	$772,000	$234,500	$126,250	$706,500	$681,900	$242,000	$126,250
Other**	59,216	55,430	28,880	291	42,762	46,848	29,374	313
Total Long-Term Debt	$819,716	$827,430	$263,380	$126,541	$749,262	$728,748	$271,374	$126,563
Annual interest requirements on Long-Term Debt	$ 66,069	$ 68,644	$ 20,082	$ 8,760	$ 59,042	$ 56,131	$ 20,239	$ 8,760
Average annual interest rate on Long-Term Debt (excluding unamortized premium and discount on debt-net)	8.08%	8.31%	7.66%	6.94%	7.90%	7.72%	7.49%	6.94%
**Includes unamortized premium and discount on debt-net in the following amounts	$ 1,762	$ 990	$ 1,157	$ 291	$ 1,715	$ 1,799	$ 1,222	$ 313

Sinking fund requirements for the ensuing five years for first mortgage bonds and other long-term debt instruments outstanding at December 31, 1979 are listed below:

	1980	1981	1982	1983	1984
	(In Thousands)				
AP&L	$ 6,973	$ 6,893	$ 6,143	$ 6,143	$ 6,068
LP&L	6,720	7,720	7,220	7,220	6,540
MP&L	2,304	2,304	2,304	2,148	2,148
NOPSI	995	995	995	935	815
Total sinking fund requirements (which may be met by certification of property additions)***	16,992	17,912	16,662	16,446	15,571
Ark-Mo and Associated	861	861	807	833	903
MSE	—	—	32,000	40,000	48,000
Consolidated	$17,853	$18,773	$49,469	$57,279	$64,474

*** Sinking fund requirements of AP&L, LP&L, MP&L and NOPSI may be met by certification of property additions at the rate of 167% of the required amounts. The annual requirements of the other subsidiaries must be met by cash sinking fund payments. No effect is given to the impact of the issuance of first mortgage bonds to refinance maturing first mortgage bonds.

After giving effect to sinking fund payments, maturities for long-term debt (including currently maturing long-term debt) and sinking fund maturities outstanding as of December 31, 1979 amount to:

	1980	1981	1982	1983	1984
	(In Thousands)				
Registrants:					
AP&L	$ 6,000	$ 68,000	$15,000	—	$ 7,500
LP&L	11,871	52,032	2,127	$ 52,205	20,312
MP&L	7,929	456	484	12,515	548
NOPSI	—	—	—	6,000	6,000
Other Subsidiaries:					
Ark-Mo and Associated	861	—	410	1,422	—
MSE****	—	—	32,000	40,000	48,000
SFI	118,790	—	1,196	—	—
MSS	4,379	—	331	—	—
Consolidated	$149,830	$120,488	$51,548	$112,142	$82,360

**** Maturities for MSE are sinking fund maturities.

It is anticipated that long-term debt will be refinanced at maturity.

At December 31, 1979 no limitation was contained in the mortgages of AP&L, Ark-Mo and Associated and MP&L on the maximum amount of bonds authorized to be issued thereunder. The maximum amount authorized by LP&L's mortgage is $100,000,000,000 and the maximum amount authorized by NOPSI's mortgage is $250,000,000. The issuance of bonds under all mortgages is subject to property and earnings ratios and other provisions of the mortgages. NOPSI has reserved the right to increase the maximum amount authorized to $1,000,000,000 without any consent or other action by the holders of 1996 and any subsequent series bonds, and to $100,000,000,000 without any consent or other action by the holders of 2004 and any subsequent series bonds. Arkansas law requires that stockholders approve the issuance of bonds and the stockholders of AP&L have approved up to $1,000,000,000 of such bonds.

3. Preferred Stock

There were no sales of preferred stock in 1978. During 1979, the number of shares and the premium or issuance expense on the preferred stock of the operating subsidiaries increased through the following sales:

	Shares	Premium or (Issuance Expense)
AP&L		
10.40%, $25 par, without sinking fund	600,000	$ 181,800
9.92%, $25 par, with sinking fund	1,600,000	454,400
LP&L		
11.48%, $100 par, without sinking fund	350,000	73,500
10.72%, $25 par, with sinking fund	2,400,000	(2,930,400)
13.12%, $25 par, with sinking fund	1,600,000	(4,080,000)
Total	6,550,000	$(6,300,700)

The number of preferred shares (cumulative) of the operating subsidiaries as of December 31, 1979 and 1978 are as follows:

	Shares Authorized at December 31, 1979	Shares Outstanding at December 31, 1979	Shares Outstanding at December 31, 1978	Current Call Price Per Share At December 31, 1979
$100 Par Value, Without Sinking Fund:				
AP&L				
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	103.17
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	106.94
LP&L				
4.96% Series	60,000	60,000	60,000	104.25
4.16% Series	70,000	70,000	70,000	104.21
4.44% Series	70,000	70,000	70,000	104.06
5.16% Series	75,000	75,000	75,000	104.18
5.40% Series	80,000	80,000	80,000	103.00
6.44% Series	80,000	80,000	80,000	102.92
9.52% Series	70,000	70,000	70,000	108.96
7.84% Series	100,000	100,000	100,000	107.70

	Shares Authorized at December 31, 1979	Shares Outstanding At December 31, 1979	1978	Current Call Price Per Share At December 31, 1979
$100 Par Value, Without Sinking Fund:				
LP&L (Continued)				
7.36% Series	100,000	100,000	100,000	$107.04
8.56% Series	100,000	100,000	100,000	107.42
9.44% Series	300,000	300,000	300,000	111.44
11.48% Series	350,000	350,000	—	113.98
MP&L				
4.36% Series	60,000	59,920	59,920	103.86
4.56% Series	44,476	43,888	43,888	107.00
4.92% Series	100,000	100,000	100,000	102.88
9.16% Series	75,000	75,000	75,000	108.64
7.44% Series	100,000	100,000	100,000	106.53
NOPSI(1)				
4.36% Series	60,000	60,000	60,000	104.58
5.56% Series	60,000	60,000	60,000	102.59
4¾%	77,798	77,798	77,798	105.00
Total $100 par value shares, without sinking fund	3,045,774	3,045,106	2,695,106	
$100 Par Value, With Sinking Fund:				
AP&L				
10.60% Series	200,000(2)	200,000	200,000	112.04
11.04% Series	400,000(2)	400,000	400,000	112.54
Total $100 par value shares, with sinking fund	600,000	600,000	600,000	
Unissued, $100 Par Value:				
AP&L	2,386,500			
LP&L	3,045,000			
MP&L	325,000			
Total	9,402,274			
$25 Par Value, Without Sinking Fund:				
AP&L				
8.84% Series	400,000	400,000	400,000	28.21
10.40% Series	600,000	600,000	—	28.60
Total $25 par value shares, without sinking fund	1,000,000	1,000,000	400,000	
$25 Par Value, With Sinking Fund:				
AP&L(3)				
9.92% Series	1,600,000(2)	1,600,000		28.18
LP&L				
10.72% Series	2,400,000(2)	2,400,000		27.68
13.12% Series	1,600,000(2)	1,600,000		28.28
Total $25 par value shares, with sinking fund	5,600,000	5,600,000		
Unissued, $25 Par Value:				
AP&L	7,400,000			
LP&L	8,000,000			
Total	22,000,000			

The amounts of preferred stock of the operating subsidiaries as of December 31, 1979 and 1978 are as follows:

	Consolidated	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)		
December 31, 1979					
Without Sinking Fund:					
Total amount at $100 par value	$304,511	$101,350	$145,500	$37,881	$19,780
Total amount at $25 par value	25,000	25,000	—	—	—
Premium	1,455	540	382	196	337
Total	$330,966	$126,890	$145,882	$38,077	$20,117
With Sinking Fund:					
Total amount at $100 par value	$ 60,000	$ 60,000	—	—	—
Total amount at $25 par value	140,000	40,000	$100,000	—	—
Premium	518	518	—	—	—
Issuance expense	(7,010)	—	(7,010)	—	—
Total	$193,508	$100,518	$ 92,990	—	—
December 31, 1978					
Without Sinking Fund:					
Total amount at $100 par value	$269,511	$101,350	$110,500	$37,881	$19,780
Total amount at $25 par value	10,000	10,000	—	—	—
Premium	1,201	359	309	196	337
Total	$280,712	$111,709	$110,809	$38,077	$20,117
With Sinking Fund:					
Total amount at $100 par value	$ 60,000	$ 60,000	—	—	—
Premium	63	63	—	—	—
Total	$ 60,063	$ 60,063	—	—	—

The annual preferred stock dividend requirements and the average annual preferred stock dividend rate on par value for shares outstanding at December 31, 1979 and 1978 are as follows:

	Requirement		Rate (%)	
	1979	1978	1979	1978
	(In Thousands)			
Consolidated	$46,703	$25,477	8.82%	7.50%
AP&L	19,548	14,020	8.64	8.18
LP&L	23,806	8,108	9.70	7.34
MP&L	2,384	2,384	6.29	6.29
NOPSI	965	965	4.88	4.88

As to the series of preferred shares issued and sold within the last 5 years, none of the shares of such series may be redeemed for a specified period through refunding of such shares by the incurring of debt or the issuance of preferred stock where the cost of such debt or such preferred stock is less than the cost to the particular company of such outstanding series.

---

(1) In March 1980, NOPSI plans to sell 150,000 shares of Preferred Stock, Cumulative, $100 Par Value, with sinking fund provisions.

(2) These Series are to be retired in full through the operation of sinking funds at a redemption price of $100 per share on the 10.60% and 11.04% Series and $25 per share on the 9.92%, 10.72% and 13.12% Series plus accumulated dividends to the date of such redemption. Beginning J[illegible]y 1, 1980, the 10.60% Series is to be redeemed at the rate of 10,000 shares each year. Beginning November 1, 1980, the 11.04% Series is to be redeemed at the rate of 20,000 shares each year. Beginning June 1, 1984, the 9.92% Series is to be redeemed at the rate of 80,000 shares each year. Beginning July 1, 1984, the 10.72% Series is to be redeemed

at the rate of 120,000 shares each year. Beginning October 1, 1984, the 13.12% Series is to be redeemed at the rate of 80,000 shares each year. In addition, AP&L and LP&L have the non-cumulative option to redeem an additional like amount of said shares each year commencing in the first year of redemption in each respective series.

(3) In January 1980, AP&L issued and sold 2,000,000 shares of its 13.28%, $25 Par Value Preferred Stock, with sinking fund provisions.

4. Common Stock

The reasons for and the changes in the number of shares of common stock outstanding of the registrants for the years ended December 31, 1979 and 1978 were as follows:

	Number of Shares					
	Company		AP&L		LP&L	
Type of Transaction	1979	1978	1979	1978	1979	1978
Sales	13,500,000	8,500,000	—	—	—	—
Dividend reinvestment and stock purchase plan	608,875	372,110	—	—	—	—
Employee stock ownership plan	12,452	4,825	—	—	—	—
Employee savings plan	214,433	12,687	—	—	—	—
Company purchases from registrant subsidiaries	—	—	2,400,000	1,200,000	11,364,000	7,576,000
Retirement of unclaimed shares	(994)	—	—	—	—	—
	14,334,766	8,889,622	2,400,000	1,200,000	11,364,000	7,576,000

In January 1980, the Company issued 159,195 shares of its Common Stock under the Dividend Reinvestment and Stock Purchase Plan and 25,919 shares under the Employee Savings Plan. The Company is also seeking authorization from the SEC to issue and sell up to 7,000,000 shares of its Common Stock in the second quarter of 1980.

5. Retained Earnings

The indenture provisions relating to the operating subsidiaries' long-term debt and transfers by such subsidiaries from retained earnings to the stated value of common stock and the provisions of the MSE bank loan agreement (See Note 7) and indenture restrict the amount of consolidated retained earnings available for cash dividends on common stock. As of December 31, 1979 and 1978, retained earnings were free from such restrictions in the following amounts:

	1979	1978
	(In Thousands)	
Consolidated	$378,023	$258,307
AP&L	65,838	71,697
LP&L	44,419	49,170
MP&L	43,768	43,003
NOPSI	10,019	10,164

MSU follows the equity method of accounting for its investment in subsidiaries. At December 31, 1979 and 1978, retained earnings included $500,749,000 and $449,247,000, respectively, of undistributed earnings of subsidiaries.

6. Income Tax Expense

Income tax expense (credit) is composed of the following:

	Consolidated	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)		
1979					
Current:					
Federal	$ (1,475)	$(20,593)	$ 106	$ 3,748	$ (413)
State	1,365	545	(3)	772	—
Total	(110)	(20,048)	103	4,520	(413)
Deferred—net:					
Liberalized depreciation	40,639	25,134	7,674	4,617	1,860
Deferred fuel cost	11,215	4,052	7,289	—	—
Taxes capitalized on books	8,153	4,633	—	—	—
Exploration expenses	6,848	—	—	—	—
Gain on fuel oil sales	(5,848)	—	—	—	—
Interest capitalized on nuclear fuel	3,778	3,778	—	—	—
Differences between book and tax gains and losses on sales and abandonment of property	(3,527)	(851)	(1,986)	—	—
Revenues collected in advance—nuclear fuel reserve	3,041	3,041	—	—	—
Unbilled revenue	(651)	(9)	(1,074)	524	(434)
Property insurance, injuries and damages reserves	298	398	81	210	(310)
Other	2,017	908	(69)	(17)	—
Reduction due to tax loss carryforwards	(88,253)	(25,824)	—	—	(273)
Total	(22,290)	15,260	11,915	5,334	843
Investment tax credit adjustments—net	(2,566)	(752)	(1,019)	1,286	1,651
Total income taxes	$(24,966)	$ (5,540)	$ 10,999	$ 11,140	$ 2,081
Charged to operations	$ 51,266	$ 11,213	$ 22,750	$ 9,995	$ 1,379
Charged (credited) to other income	(76,232)	(16,753)	(11,751)	1,145	702
Total income taxes	$(24,966)	$ (5,540)	$ 10,999	$ 11,140	$ 2,081
1978					
Current:					
Federal	$ (3,275)	$ (3,248)	$ 5,149	$ 15,410	$ 6,129
State	2,747	(540)	797	1,426	676
Total	(528)	(3,788)	5,946	16,836	6,805
Deferred—net:					
Liberalized depreciation	34,411	17,626	8,494	5,139	1,979
Taxes capitalized on books	6,720	4,022	—	—	—
Interest capitalized on nuclear fuel	3,109	3,109	—	—	—
Amortization of abandoned project	(1,986)	—	(1,986)	—	—
Other	4,826	1,876	(388)	340	51
Reduction due to tax loss carryforwards	(6,487)	—	—	—	—
Total	40,593	26,633	6,120	5,479	2,030
Investment tax credit adjustments—net	(4,166)	(1,435)	(1,205)	(907)	(312)
Total income taxes	$ 35,899	$ 21,410	$ 10,861	$ 21,408	$ 8,523
Charged to operations	$ 86,004	$ 33,813	$ 19,919	$ 20,492	$ 7,817
Charged (credited) to other income	(50,105)	(12,403)	(9,058)	916	706
Total income taxes	$ 35,899	$ 21,410	$ 10,861	$ 21,408	$ 8,523

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Total income taxes differ from the amounts computed by applying the statutory Federal income tax rate to income before taxes. The reasons for the differences are as follows:

	Consolidated	AP&L	LP&L	MP&L	NOPSI
1979					
Federal income tax statutory rates	46.0%	46.0%	46.0%	46.0%	46.0%
Increase (decrease) in income tax statutory rates resulting from:					
AFDC	(50.8)	(38.8)	(27.7)	(1.5)	(0.9)
Difference between book depreciation and tax straight-line depreciation	(3.9)	(11.5)	1.5	—	4.4
Taxes capitalized on books and deducted on tax return	(1.5)	(0.6)	(2.4)	(0.9)	(3.2)
Difference between interest capitalized on nucelar fuel combined with tax depreciation of nuclear fuel and nuclear fuel expense	(1.2)	(3.1)	—	—	—
Tax savings due to filing a consolidated return	—	2.4	—	(9.5)	(13.9)
Adjustments resulting principally from Internal Revenue Service examination	(0.4)	0.3	0.2	0.1	(9.7)
Other miscellaneous items, none of which is individually greater than 5% of computed tax expense	(1.1)	(1.8)	(3.2)	(1.2)	(5.5)
Effective income tax rates	(12.9)%	(7.1)%	14.4%	33.0%	17.2%
1978					
Federal income tax statutory rates	48.0%	48.0%	48.0%	48.0%	48.0%
Increase (decrease) in income tax statutory rates resulting from:					
AFDC	(28.9)	(22.1)	(23.1)	(1.1)	(0.3)
Difference between book depreciation and tax straight-line depreciation	(1.3)	(4.1)	1.6	0.1	2.1
Taxes capitalized on books and deducted on tax return	(1.0)	—	(2.8)	(0.4)	(1.7)
Tax savings due to filing a consolidated return	—	(0.3)	(1.5)	(3.8)	(2.9)
Adjustments resulting principally from Internal Revenue Service examinations	(0.7)	0.2	(2.6)	(0.5)	0.5
Other miscellaneous items, none of which is individually greater than 5% of computed tax expense	(1.6)	(2.1)	(2.8)	0.3	(1.2)
Effective income tax rates	14.5%	19.6%	16.8%	42.6%	44.5%

The tax effects of the consolidated 1978 and 1979 Federal tax losses of $212,685,000 have been recorded as reductions of deferred income taxes. Unused investment tax credits at December 31, 1979 amounted to $231,731,000 of which $38,469,000 may be carried forward through 1984, $92,966,000 through 1985 and $100,296,000 through 1986.

Prior to 1979 the investment tax credit utilized in the consolidated tax return was allocated to the respective System operating companies on the basis of such credit contributed. Effective in 1979 the method of allocating investment tax credit was changed so that it is allocated on the basis of each company's portion of the consolidated tax liability; any additional credit utilized is allocated on the basis of the remaining tax credits. This change has no effect on consolidated investment tax credit recorded.

7. Lines of Credit and Related Borrowings

The Company has a revolving credit agreement with a number of banks extending through June 27, 1980. At December 31, 1979 MSE had a revolving credit agreement with a number of banks expiring at December 31, 1982, at which time all notes issued thereunder were to be due and payable. MSE's agreement and the maturity date of the notes was extended in March 1980 to December 31, 1985. Under these two agreements, compensating balances are maintained which are not restricted as to withdrawal and commitment fees are paid on the unused portions of the revolving credit agreements.

The operating subsidiaries have made arrangements, not requiring commitment fees, with various banks providing for short-term borrowings through bank loans and with commercial paper dealers for the sale of commercial paper. AP&L, LP&L and MSE maintain compensating balances with certain of their lending banks which are not restricted as to withdrawal.

An SFI bank agreement allows for borrowings up to $50,000,000 subject to a limit equivalent to 60% of the fair market value of SFI's fuel oil inventory. In addition, SFI may borrow up to $60,000,000 through the sale of commercial paper. Borrowings under these agreements are restricted as to use and are secured by SFI's fuel oil and nuclear fuel inventories and accounts receivable arising from the sales of these inventories.

The lines of credit, borrowings and compensating balances of the companies were as follows:

	December 31, 1979			December 31, 1978		
	Line of Credit	Borrowing	Compensating Balance	Line of Credit	Borrowing	Compensating Balance
			(In Thousands)			
Short-term						
Registrants:						
Company	$226,820	$145,900	—	$174,800	$129,000	$ 6,088
AP&L	125,000(1)	80,130	$ 7,263	125,000	40,200	5,813
LP&L	150,000	32,375	13,455	120,000	84,090	12,950
MP&L	26,000(2)	—	—	22,000	—	—
NOPSI	20,000(3)	—	—	20,000	—	—
Other Subsidiaries:						
Ark-Mo and Associated	11,000(4)	9,000	—	5,500	3,000	—
MSE	60,000	—	1,800	45,000	7,100	1,350
SFI	110,000(5)	17,500	—	85,000	60,050	—
Consolidated	$728,820	$284,905	$22,518	$597,300	$323,440	$26,201

	December 31, 1979			December 31, 1978		
	Line of Credit	Borrowing	Compensating Balance	Line of Credit	Borrowing	Compensating Balance
			(In Thousands)			
Long-term						
Other Subsidiaries:						
MSE	$565,000(6)	$547,000	$27,350	$565,000	$237,000	$11,850
SFI	115,000	103,590	—	65,090	65,090	—
MSS	10,000(7)	4,000	—	10,000	1,500	—
Consolidated	$690,000	$654,590	$27,350	$640,090	$303,590	$11,850

(1) AP&L increased this amount to $150,000,000 in January 1980.

(2) MP&L has applied to the SEC for authority to make borrowings under a line of credit increased to $34,000,000.

(3) NOPSI increased this amount to $22,000,000 in January 1980.

(4) Ark-Mo increased this amount to $16,000,000 in January 1980.

(5) SFI has applied to the SEC for authority to make borrowings under a proposed $150,000,000 borrowing arrangement.

(6) MSE increased this amount to $808,000,000 in March 1980 and extended the term of borrowings thereunder to December 31, 1985.

(7) MSS has applied to the SEC to make borrowings of up to $30,000,000.

The short-term borrowings and interest rates for the Middle South System companies were as follows:

	During Year				At Year End	
	Borrowings		Average Interest Rate			
	Average	Maximum	Bank Loans	Commercial Paper	Bank Loans	Commercial Paper
	(In Thousands)					
Year Ended December 31, 1979:						
Registrants:						
Company	$ 86,135	$164,000	14.8%	—	17.1%	—
AP&L	53,105	96,000	13.9	11.0%	15.8	13.7%
LP&L	82,276	114,628	12.1	11.5	15.3	—
MP&L	1,153	9,000	—	11.2	—	—
NOPSI	2,662	14,000	11.5	—	—	—
Other Subsidiaries:						
Ark-Mo and Associated	7,800	11,100	11.7	—	15.4	—
MSE	36,396	60,000	13.9	—	—	—
SFI	46,534	66,475	13.0	12.3	—	15.7
Consolidated	$316,061	398,015	13.6	11.7	16.4	15.4
Year Ended December 31, 1978:						
Registrants:						
Company	$ 73,953	129,000	10.9	—	12.7	—
AP&L	39,151	87,100	—	8.1	—	10.4
LP&L	50,816	84,090	8.8	8.8	11.8	11.5
NOPSI	1,000	4,000	9.0	—	—	—
Other Subsidiaries:						
Ark-Mo and Associated	6,305	17,600	8.3	—	10.5	—
MSE	58	7,100	12.6	—	12.6	—
SFI	28,490	60,050	8.9	11.2	12.4	12.0
Consolidated	$199,773	323,440	10.0	8.6	12.1	10.8

8. Leases

The Company's subsidiaries account for leases on the same basis as that used by their respective regulatory authorities in the ratemaking process which determines the revenues utilized to recover the lease costs. Application of criteria used to define a capital lease would permit recording the following assets and liabilities on the balance sheet:

	Consolidated	AP&L (In Thousands)	MP&L
December 31, 1979:			
Assets:			
Utility plant	$61,319	$38,982	$ 8,584
Accumulated amortization	(16,493)	(9,533)	(3,934)
Net	$ 44,826	$29,449	$ 4,650
Other property and investments—net	$ 50,318	—	—
Liabilities:			
Noncurrent obligations under capital leases	$104,357	$30,730	$ 4,113
Current obligations under capital leases	$ 4,565	$ 2,431	$ 826
December 31, 1978:			
Assets:			
Utility plant	$ 55,722	$33,948	$ 8,022
Accumulated amortization	(12,904)	(7,201)	(3,228)
Net	$ 42,818	$26,747	$ 4,794
Other property and investments—net	$ 52,751	—	—
Liabilities:			
Noncurrent obligations under capital leases	$102,293	$27,117	$ 4,348
Current obligations under capital leases	$ 3,632	$ 1,718	$ 705

The recording of such leases would not materially affect the amounts reported as either expense or net income.

At December 31, 1979 there were noncancelable leases with minimum rental commitments as follows:

	Consolidated	AP&L (In Thousands)	MP&L
1980	$ 25,261	$ 8,230	$ 1,806
1981	24,101	8,036	1,778
1982	24,320	8,851	1,617
1983	20,989	6,637	1,444
1984	17,160	5,067	1,404
For years thereafter	249,526	100,228	4,269
Total	$361,357	$137,049	$12,318

Prior to August 31, 1978, AP&L was a party to two nuclear fuel leases aggregating $90,000,000. On August 31, 1978, AP&L terminated one of the leases and amended the remaining lease to permit AP&L to lease nuclear fuel up to a maximum of $100,000,000. On November 2, 1979, AP&L's nuclear fuel lease was increased from $100,000,000 to $130,000,000. Lease payments which are not included in the tabulations above are based on nuclear fuel use. Nuclear fuel expense of $14,998,000 and $13,279,000 was charged to operations in 1979 and 1978, respectively. The lease, unless sooner terminated by one of the parties, will continue through 2018. The unrecovered cost base of the lease at December 31, 1979 and December 31, 1978 was $111,040,000 and $91,318,000, respectively.

On June 1, 1978, LP&L sold its interest in nuclear fuel for $8,210,000 representing cost, and simultaneously entered into a $60,000,000 nuclear fuel lease. Lease payments, based upon nuclear fuel used, will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through June 1, 2028. The unrecovered cost base of the lease at December 31, 1979 and December 31, 1978 was $13,425,000 and $11,700,000, respectively.

On October 17, 1979, MSE sold and leased back $44,943,000 of nuclear fuel for Unit No. 1 at the Grand Gulf Plant under an $80,000,000 nuclear fuel lease. Lease payments, based upon nuclear fuel used, will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through October 15, 2029. The unrecovered cost base of the lease at December 31, 1979 was $46,524,000.

Rental expense for the registrants in 1979 and 1978 is shown below:

	Consolidated	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)		
1979	$29,453	$8,017	$1,996	$1,560	$464
1978	26,977	7,295	665	1,344	401

9. Commitments and Financing

See Item 1—"Business—Construction Program" for the Middle South System's construction program for 1980.

See Item 1—"Business—Future Financing" regarding the Company's and the System operating companies' obligations relating to MSE's Grand Gulf Plant.

See Item 1—"Business—Future Financing" concerning restrictions with respect to the issuance of additional first mortgage bonds and preferred stock.

The Federal income tax returns for the years 1971 through 1976 have been examined by the Internal Revenue Service and adjustments have been proposed. The principal issue is whether customer deposits are includible in taxable income. A formal written protest has been filed and conferences are being held with an Appeals Officer of the Internal Revenue Service. Any final liability for taxes resulting from settlement with the Internal Revenue Service would not have a material effect on net income. Income taxes on customer deposits would be normalized. Most of the other issues have been settled and adequate provisions have been recorded.

SFI has a long-term oil supply agreement with a major oil company providing for the sale to SFI of 50,000 barrels of oil per day for a twenty-year period with the option to reduce, upon two years written notice, the contract quantity to no less than 35,000 barrels. See Item 1—"Business—Fuel Supply—Fuel Oil".

AP&L has an agreement for the purchase of 100 million tons of coal over a twenty-year period. SFI has contracted 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. Subsequent to year end, SFI executed a contract, subject to regulatory approval, for the purchase of an estimated 247 million tons of lignite over a thirty-year period. See Item 1—"Business—Fuel Supply—Coal".

MSU is the unconditional guarantor of various loan agreements entered into by SFI with certain banks to borrow up to $75,000,000 at December 31, 1979, and $25,090,000 at December 31, 1978. As of December 31, 1979 and 1978, the principal amount outstanding was $63,590,000 and $25,090,000, respectively.

AP&L, LP&L, MP&L and NOPSI, as parent companies of SFI have made loans to SFI to further its fuel supply business. As of December 31, 1979, SFI had borrowed $56,500,000 under a loan agreement dated January 4, 1978. The loan agreement, as amended January 1, 1980, provides for borrowings of up to $173,500,000 through December 31, 1980. Notes issued thereunder, will mature on December 31, 2005. In addition, as of December 31, 1979 and 1978, SFI had borrowed $39,500,000 under previous loan agreements. Loans mature in 10 and 25 years from the date of borrowing under the provisions of the loan agreements.

In connection with certain bank borrowings by SFI, its parent companies, as sole holders of the common stock of SFI, 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 under the borrowing arrangements. The total loan commitment of these banks amounted to $56,396,000, all of which had been borrowed by SFI at December 31, 1979. Similar covenants and agreements would be included in a $150,000,000 borrowing arrangement, for which SEC approval is currently being sought, to be entered into by SFI for the financing of its fuel oil inventory. Also, SFI's stockholders have made similar covenants and agreements in connection with a 25-year lease of certain oil storage and handling facilities located at MP&L's Gerald Andrus Steam Electric Station near Greenville, Mississippi entered into by SFI with a discounted value, as of December 31, 1979, of $17,300,000 and in connection with the issuance and sale by SFI of up to $60,000,000 at any one time outstanding of commercial paper, of which $17,500,000 was outstanding at December 31, 1979. A leasing transaction for 600 coal hopper cars with a discounted value of $22,800,000 at December 31, 1979 entered into by SFI on November 2, 1979, contains similar covenants and agreements by SFI's parent companies. Presently, SFI is contemplating the additional leasing of approximately 700 coal hopper cars at an estimated cost of approximately $28,000,000 to be received in the third and fourth quarter of 1980.

MSU has covenanted that it will take any and all action as may be necessary to keep MSS in a sound financial condition and to place MSS in a position to discharge its obligations in connection with $4,710,000 of bank borrowings outstanding as of December 31, 1979. MSU would guarantee a $30,000,000 borrowing arrangement for which SEC approval is currently being sought, to be entered into by MSS for the financing of, among other things, its coal plant standardization study.

MSU has guaranteed lease payments by SFI and MSS of $85,600,000 and $200,000, respectively. MSU is also the unconditional guarantor of the performance by MSE of its obligations under its $80,000,000 nuclear fuel lease.

10. Rate Matter

The Attorney General of Arkansas filed a complaint with the APSC on April 23, 1979, in which he alleged that AP&L had erroneously applied the then existing fuel adjustment clause to retail customers from April 1977 through March 1979 and thereby overcharged these customers $2,205,000 in 1977, $12,945,000 in 1978 and $2,147,000 in the three months ended March 31, 1979. The complaint alleged that such overcharges would continue as long as AP&L continued to apply the fuel adjustment clause in the same manner. The Staff of the APSC has concurred with the Attorney General's conclusion. AP&L does not believe that there was any erroneous application or overcharge. On July 3, 1979, the APSC issued an interim order directing AP&L to begin and continue in the future applying its fuel adjustment clause according to the Attorney General's interpretation when the nuclear generating units are not down for refueling and in accordance with AP&L's interpretation when the nuclear generating units are down for refueling. The July 3, 1979 order stated it was not deciding the propriety and legality of ordering refunds by AP&L for its administration of the fuel adjustment clause from May 21, 1976 (which was the date of a final order of the APSC under which a new fuel adjustment clause similar to the clause which was the subject of the Attorney General's complaint was placed in effect) to the date of the July 3, 1979 order and stated that decision would be made later. A petition for rehearing of the issues in the July 3, 1979 order filed by AP&L August 3, 1979 was legally deemed denied when the APSC did not pass on the petition by September 2, 1979. AP&L has appealed the decision to the Circuit Court of Pulaski County.

11. Transit Operations

See Item 1—"Business—Regulation and Litigation—Holding Company Act" for information with respect to the proposed divestiture of NOPSI's transit properties and the transit subsidy agreements with the City of New Orleans.

12. Litigation and Contingencies

AP&L, under the terms of its nuclear fuel lease, is responsible for storage or disposal of spent nuclear fuel. The company has contracted to sell the first six batches of spent fuel upon discharge from ANO No. 1; however, the effectiveness of the contract is under question due to the government's policy disallowing reprocessing of spent nuclear fuel. Accordingly, AP&L is reevaluating its policy regarding salvage value (which has been previously accrued) as opposed to possible storage or disposal costs for spent nuclear fuel. AP&L expects that all costs, determined to be its liability in connection with the use of nuclear fuel, are proper components of nuclear fuel expense and provisions to recover such costs have been made in applications to regulatory commissions. Based upon a recent study performed by AP&L, nuclear plant decommissioning costs are projected to be in excess of amounts AP&L is presently recovering through increased depreciation charges over the life of its nuclear plant. AP&L is requesting and will request recovery of estimated increased costs in applications to its regulatory commissions. Subsequent to year end, AP&L received an order from the APSC regarding its then pending retail rate case. Included in that order was approval of the collection of the additional costs associated with the storage or disposal of spent nuclear fuel and decommissioning the nuclear units at the end of their service lives.

In November 1975, the Council authorized a transit fare increase. In a suit contesting the imposition of the fare increase, judgment was rendered that the Council did not give the required public notice. An appeal was granted that permitted NOPSI to continue collecting the increased fare until November 1977. It is estimated by NOPSI that the fare increase during that period generated approximately $5,000,000 additional transit revenue. In a collateral suit petitioners are seeking a return of the fare increase, or as an alternative, a reduction in the basic transit fare for a similar period of time. On May 15, 1979, the District Court granted plaintiffs' request for a Summary Judgment against defendants and awarded plaintiffs $5,518,990 (plus judicial interest), which sum has been ordered to be paid through a reduction of NOPSI's transit fares by five cents for a period of two years. The Court further ordered defendants to pay plaintiffs' attorney fees in the amount of $100,000. On June 20, 1979, NOPSI and the Council filed an appeal from this Summary Judgment of the District Court to the Louisiana Fourth Circuit Court of Appeal. NOPSI and the Council therein allege that the Summary Judgment was improperly granted by the District Court and request that the matter be returned to the District Court for a trial. Under the subsidy agreements for 1978, 1979 and 1980 with the City of New Orleans, the City would assume 30% of any ultimate liability resulting from this litigation. Any material adjustments will be retroactively applied to the operations of 1976 and 1977 when such fares were collected.

See Item 1—"Business—Regulation and Litigation—Other Regulation and Litigation" regarding legal action pending against NOPSI relating to its fuel adjustment clause in its electric rate schedules.

See Item 1—"Business—Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974" for information relating to liability of an operator of a nuclear fueled generator.

13. Supplementary Income Statement Information

In addition to the amounts of maintenance set out separately in the Statements of Income, the System operating companies incurred sundry maintenance expenses of relatively minor amounts which have been charged to other profit and loss accounts.

Provisions for depreciation and amortization of plant, other than those set out separately in the Statements of Income, represent provisions for automobiles, trucks, aircraft and other assets charged to clearing accounts and distributed from those accounts to appropriate operating and construction accounts or charged directly to construction, plant acquisition adjustments and other appropriate accounts are as follows:

	Consolidated	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)		
Year ended December 31:					
1979	$3,279	$ 64	$1,607	$1,364	$91
1978	4,917	287	1,790	2,167	62

Taxes other than income taxes include taxes charged to clearing accounts and distributed from those accounts to appropriate operating and construction accounts or charged directly to construction and other appropriate accounts and are net of severance tax credits, which credits are included in miscellaneous income and deductions—net in the Statements of Income, are shown below:

	Consolidated	MSU	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)			
Year Ended December 31, 1979:						
Ad Valorem	$ 54,388	—	$20,820	$ 9,732	$10,345	$ 4,671
State and city franchise	25,639	—	8,901	4,368	3,707	7,560
Payroll taxes	13,977	$14	4,288	2,882	2,115	3,416
Other	7,246	3	2,156	2,151	1,112	422
Total	$101,250	$17	$36,165	$19,133	$17,279	$16,069
Year Ended December 31, 1978:						
Ad Valorem	$48,139	—	$19,045	$ 9,123	$ 9,768	$ 3,127
State and city franchise	22,853	—	8,161	3,643	3,406	6,737
Payroll taxes	10,799	$10	3,280	2,145	1,747	2,689
Other	7,527	3	1,284	3,003	814	495
Total	$89,318	$13	$31,770	$17,914	$15,735	$13,048

Technical services, consultation and assistance rendered at cost under contract with MSS (eliminated for Statements of Consolidated Income) are as follows:

	Company	AP&L	LP&L	MP&L	NOPSI
			(In Thousands)		
Year ended December 31:					
1979	$762	$8,382	$8,534	$4,771	$2,994
1978	544	5,358	4,825	2,978	1,907

14. Transactions with Affiliates

The System operating companies buy and sell electricity among themselves under rate schedules filed with the FERC. In addition, the System operating companies purchase fuel from SFI.

Operating revenues include revenues from sales to affiliates and operating expenses include fuel costs and purchased power charges from affiliates for 1979 and 1978 as follows:

	Operating Revenues		Operating Expenses	
	1979	1978	1979	1978
		(In Thousands)		
AP&L	$48,320	$35,680	$197,864	$221,389
LP&L	29,366	41,655	158,788	119,408
MP&L	90,959	82,899	161,302	162,928
NOPSI	35,546	10,427	62,714	79,957

15. Segment Information

Segment information for NOPSI follows:

	Electric	Gas	Transit	Total
		(In Thousands)		
1979:				
Operating revenues	$240,032	$85,624	$36,996	$362,652
Operating income before income taxes	19,525	564	(667)	19,422
Operating income	16,238	1,046	759	18,043
Net utility plant	196,301	46,073	7,316	249,690
Depreciation expense	10,139	2,128	1,112	13,379
Capital expenditures (excluding AFDC)	14,569	7,085	1,789	23,443
1978:				
Operating revenues	$191,845	$70,013	$36,399	$298,257
Operating income before income taxes	21,729	2,721	1,687	26,137
Operating income	15,521	2,269	530	18,320
Net utility plant	191,790	41,053	6,637	239,480
Depreciation expense	9,815	1,778	697	12,290
Capital expenditures (excluding AFDC)	11,131	4,973	1,585	17,689

Transit subsidy agreements for 1979 and 1978 between NOPSI and the City of New Orleans assured the company a specified rate of return on transit operations. Under such agreements, transit operations received subsidies sufficient to earn on the transit rate base a rate of return of 8.33% on a monthly basis. These subsidies came first from electric and gas earnings in excess of an 8.33% rate of return on those operations, on a monthly basis, and the balance from the City of New Orleans. Transit subsidies included in operating revenues for 1979 and 1978, respectively, totaled approximately $19 million (of which $17 million was billed to the City of New Orleans and $2 million was provided by electric and gas operations) and $19 million (of which $12 million was billed to the City of New Orleans and $7 million was provided by electric and gas operations).

16. Quarterly Results (Unaudited)

The business of the Middle South System is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results of operations for a full year.

Quarter Ended	Operating Revenues	Operating Income	Earnings for Common Stock	Earnings Per Common Share(1)
		(In Thousands)		
Consolidated:				
March 31, 1979	$401,579	$58,899	$50,247	$0.60
June 30, 1979	407,257	43,556	34,131	0.40
September 30, 1979	538,121	70,764	61,777	0.73
December 31, 1979	476,102	44,979	35,903	0.40
March 31, 1978	415,339	52,740	41,814	0.56
June 30, 1978	345,896	32,043	21,972	0.29
September 30, 1978	488,662	80,929	70,780	0.94
December 31, 1978	372,280	62,550	50,872	0.67
AP&L:				
March 31, 1979	131,017	18,127	17,146	
June 30, 1979	129,486	13,386	11,992	
September 30, 1979	172,838	24,334	24,269	
December 31, 1979	150,485	13,902	12,862	
March 31, 1978	143,527	17,841	16,656	
June 30, 1978	122,311	13,656	11,669	
September 30, 1978	167,485	30,919	28,928	
December 31, 1978	123,165	18,981	16,347	
LP&L:				
March 31, 1979(2)	109,885	20,973	14,664	
June 30, 1979(2)	121,435(3)	15,525(3)	9,531(3)	
September 30, 1979(2)	169,192	22,668	15,777	
December 31, 1979(2)	156,964	14,695	9,716	
March 31, 1978	112,993	13,692	6,980	
June 30, 1978	88,757	4,195	(1,388)	
September 30, 1978	148,957	28,365	22,405	
December 31, 1978	105,668	23,058	17,639(4)	

Quarter Ended	Operating Revenues	Operating Income	Earnings for Common Stock
		(In Thousands)	
MP&L:			
March 31, 1979	$ 99,000	$11,389	$6,342
June 30, 1979	97,145	7,219	2,285
September 30, 1979	136,005	13,133	8,129
December 31, 1979	104,374	8,245	3,441
March 31, 1978	104,034	12,059	6,968
June 30, 1978	81,894	7,629	2,231
September 30, 1978	119,694	14,839	9,752
December 31, 1978	94,654	12,470	7,510
NOPSI:			
March 31, 1979	82,372	4,472	2,246
June 30, 1979	82,319	3,487	1,206
September 30, 1979	103,047	5,734	3,367
December 31, 1979(5)	94,914	4,350	2,226
March 31, 1978	74,557	4,651	2,453
June 30, 1978	72,935	4,560	2,465
September 30, 1978	81,315	4,553	2,489
December 31, 1978	69,450	4,556	2,271

(1) Quarterly earnings per common share are based on the average number of common shares outstanding during the quarter.

(2) See Note 1(B) regarding LP&L's deferral of fuel costs.

(3) LP&L refunded $2,880,000 to industrial customers in the second quarter of 1979 pursuant to a rate-making proceeding. See Item 1—"Business—Rate Matters—LP&L".

(4) LP&L recorded a reduction in income tax expense of $1,730,000 in the fourth quarter of 1978 for the excess taxes provided for the years 1967 through 1970 over the settlement amount reached with the Internal Revenue Service.

(5) NOPSI recorded a reduction in estimated tax liabilities for prior years amounting to $1,416,000 and a revision of the estimated consolidated tax benefits of approximately $1,200,000 in the fourth quarter of 1979, both of which were substantially offset by the operation of the transit subsidy agreement. See Item 1—"Business—Regulation and Litigation—Holding Company Act" for information regarding the transit subsidy agreement.

17. Changing Prices (Unaudited)

The following supplementary information about the effects of changing prices on the registrants is provided in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices". It should be viewed as an estimate of the effect of changing prices, rather than as a precise measure.

Constant dollar amounts represent historical costs adjusted for the effects of general inflation. The effects are determined by converting these costs into dollars of equal purchasing power using the CPI-U.

Current cost amounts reflect the changes in specific prices of property, plant and equipment from the year of acquisition to the present. The current costs of property, plant and equipment, which represent the estimated costs of replacing existing plant assets, are determined by applying the HWI to the cost of the surviving plant by year of acquisition. Land and certain other plant assets which are not included in the HWI were converted using the CPI-U.

The difference between current cost amounts and constant dollar amounts results from specific prices of property, plant and equipment (as measured by the HWI) changing at a rate different from the rate of general inflation (as measured by the CPI-U).

The current year's depreciation expense on the constant dollar and current cost amounts of property, plant and equipment were determined by applying the reported depreciation rate of each Middle South System company to the indexed amounts.

Fuel inventories, the cost of fuel used in generation and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

The regulatory commissions to which the Middle South System is subject allow only the historical cost of plant to be recovered in revenues as depreciation. Therefore the excess cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates. This excess is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, the Middle South System believes, based on past experiences, that it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statements of Income from Operations presented below, the reduction of net property, plant and equipment to net recoverable cost is offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Middle South System does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

CONSOLIDATED STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported In The Financial Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$1,823,059	$1,823,059*	$1,823,059*
Operating Expenses (Excluding Depreciation)	(1,485,557)	(1,485,557)*	(1,485,557)*
Depreciation	(119,304)	(236,134)	(264,803)
Total Operating Expense	(1,604,861)	(1,721,691)	(1,750,360)
Operating Income	218,198	101,368	72,699
Other Income	208,258	208,258*	208,258*
Interest & Other Charges	(244,398)	(244,398)*	(244,398)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 182,058	$ 65,228**	$ 36,559
Increase In Specific Prices (Current Cost) Of Property, Plant And Equipment Held During The Year			$921,384***
Reduction To Net Recoverable Cost		$ (549,246)	(283,434)
Effect Of Increase In General Price Level			(1,158,526)
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost			(520,576)
Gain From Decline In Purchasing Power Of Net Amounts Owed		272,476	272,476
Net		$ (276,770)	$(248,100)

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $484,018 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $9,574,218, while historical cost or net cost recoverable through depreciation was $5,862,888.

CONSOLIDATED FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands of Average 1979 Dollars)				
Operating Revenues	$1,823,059	$1,804,817	$1,728,488	$1,459,208	$1,255,295
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	$ 65,228				
Income per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	$ 0.76				
Net assets at year-end at net recoverable cost	$1,577,012				
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	$ 36,559				
Income per common share (after dividend requirements on preferred stock)	$ 0.43				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 520,576				
Net assets at year-end at net recoverable cost	$1,577,012				
General information					
Gain from decline in purchasing power of net amounts owed	$ 272,476				
Cash dividends declared per common share	$1.535	$1.62	$1.67	$1.70	$1.72
Market price per common share at year-end	$12⅝	$16½	$19½	$21	$19¼
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Note: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

AP&L

STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported In The Financial Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$ 583,826	$ 583,826*	$ 583,826*
Operating Expenses (Excluding Depreciation)	(474,369)	(474,369)*	(474,369)*
Depreciation	(39,708)	(75,610)	(88,789)
Total Operating Expense	(514,077)	(549,979)	(563,158)
Operating Income	69,749	33,847	20,668
Other Income	68,672	68,672*	68,672*
Interest & Other Charges	(54,679)	(54,679)*	(54,679)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 83,742	$ 47,840**	$ 34,661
Increase In Specific Prices (Current Cost) Of Property, Plant and Equipment Held During The Year			$271,808***
Reduction To Net Recoverable Cost		$(177,462)	(71,141)
Effect Of Increase In General Price Level			(364,950)
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost			(164,283)
Gain From Decline In Purchasing Power Of Net Amounts Owed		151,975	151,975
Net		$(25,487)	$(12,308)

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $129,622 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $3,200,897, while historical cost or net cost recoverable through depreciation was $1,847,603.

AP&L

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1979	1978	1977	1976	1975
		(In Thousands of Average 1979 Dollars)			
Operating Revenues	$ 583,826	$619,143	$643,705	$505,690	$427,289
Historical cost information adjusted for general inflation					
Income from operations (Excluding reduction to net recoverable cost)	$ 47,840				
Net assets at year-end at net recoverable cost	$ 491,488				
Current cost information					
Income from operations (Excluding reduction to net recoverable cost)	$ 34,661				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 164,283				
Net assets at year-end at net recoverable cost	$ 491,488				
General information					
Gain from decline in purchasing power of net amounts owed	$ 151,975				
Average consumer price index	217.4	195.4	181.5	170.5	161.2

NOTE: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

LP&L

STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported In The Financial Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$ 557,476	$ 557,476*	$ 557,476*
Operating Expenses (Excluding Depreciation)	(442,752)	(442,752)*	(442,752)*
Depreciation	(40,863)	(84,144)	(85,095)
Total Operating Expense	(483,615)	(526,896)	(527,847)
Operating Income	73,861	30,580	29,629
Other Income	47,393	47,393*	47,393*
Interest & Other Charges	(56,125)	(56,125)*	(56,125)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 65,129	$ 21,848**	$ 20,897
Increase In Specific Prices (Current Cost) Of Property, Plant And Equipment Held During The Year			$ 201,029***
Reduction To Net Recoverable Cost		$(151,872)	(21,094)
Effect Of Increase In General Price Level			(330,856)
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost			(150,921)
Gain From Decline in Purchasing Power Of Net Amounts Owed		139,841	139,841
Net		$(12,031)	$ (11,080)

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $146,773 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $2,902,015, while historical cost or net cost recoverable through depreciation was $1,715,112.

LP&L

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands of Average 1979 Dollars)				
Operating Revenues	$ 557,476	$507,758	$453,906	$422,402	$357,178
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	$ 5,099				
Net assets at year-end at net recoverable cost	$ 461,943				
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	$ 4,148				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 150,921				
Net assets at year-end at net recoverable cost	$ 461,943				
General information					
Gain from decline in purchasing power of net amounts owed	$ 139,841				
Average consumer price index	217.4	195.4	181.5	170.5	161.2

NOTE: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

MP&L

STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported In The Financial Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$ 436,524	$ 436,524*	$ 436,524*
Operating Expenses (Excluding Depreciation)	(374,564)	(374,564)*	(374,564)*
Depreciation	(21,974)	(40,397)	(47,172)
Total Operating Expense	(396,538)	(414,961)	(421,736)
Operating Income	39,986	21,563	14,788
Other Income	2,502	2,502*	2,502*
Interest & Other Charges	(19,907)	(19,907)*	(19,907)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 22,581	$ 4,158**	$ (2,617)
Increase In Specific Prices (Current Cost) Of Property, Plant And Equipment Held During The Year			$ 262,692***
Reduction To Net Recoverable Cost		$ (46,794)	(110,103)
Effect Of Increase In General Price Level			(192,607)
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost			(40,018)
Gain From Decline In Purchasing Power Of Net Amounts Owed		44,253	44,253
Net		$ (2,541)	$ 4,235

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $42,636 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $1,194,994, while historical cost or net cost recoverable through depreciation was $532,574.

MP&L

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1979	1978	1977	1976	1975
		(In Thousands of Average 1979 Dollars)			
Operating Revenues	$436,524	$445,343	$437,610	$393,712	$323,749
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	$ 4,158				
Net assets at year-end at net recoverable cost	$160,925				
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	$ (2,617)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 40,018				
Net assets at year-end at net recoverable cost	$160,925				
General information					
Gain from decline in purchasing power of net amounts owed	$ 44,253				
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Note: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

NOPSI

STATEMENT OF INCOME FROM OPERATIONS AND OTHER FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

FOR THE YEAR ENDED DECEMBER 31, 1979

	As Reported In The Financial Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes In Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$362,652	$362,652*	$362,652*
Operating Expenses (Excluding Depreciation)	(331,230)	(331,230)*	(331,230)*
Depreciation	(13,379)	(25,973)	(32,419)
Total Operating Expense	(344,609)	(357,203)	(363,649)
Operating Income	18,043	5,449	(997)
Other Income	1,230	1,230*	1,230*
Interest & Other Charges	(9,263)	(9,263)*	(9,263)*
Income From Operations (Excluding reduction to net recoverable cost)	$ 10,010	$ (2,584)**	$ (9,030)
Increase In Specific Prices (Current Cost) Of Property, Plant And Equipment Held During The Year			$ 65,045***
Reduction To Net Recoverable Cost		$(17,581)	(633)
Effect Of Increase In General Price Level			(75,547)
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost			(11,135)
Gain From Decline In Purchasing Power Of Net Amounts Owed		20,428	20,428
Net		$ 2,847	$ 9,293

* Assumed to be in "average for the year" dollars and thus are not restated.

** Including the reduction to net recoverable cost, the loss from operations on a constant dollar basis would have been $20,166 for 1979.

*** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation was $642,825, while historical cost or net cost recoverable through depreciation was $249,690.

NOPSI

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands of Average 1979 Dollars)				
Operating Revenues	$362,652	$331,838	$324,706	$280,742	$237,717
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	$ (2,584)				
Net assets at year-end at net recoverable cost	$ 74,553				
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	$ (9,030)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 11,135				
Net assets at year-end at net recoverable cost	$ 74,553				
General information					
Gain from decline in purchasing power of net amounts owed	$ 20,428				
Average consumer price index	217.4	195.4	181.5	170.5	161.2

NOTE: The statement requires that historical cost information adjusted for general inflation and current cost information be provided for 1979 and subsequent years. Comparable information is not readily available for the years prior to 1979 and thus is not provided.

INDEX TO SUPPLEMENTAL SCHEDULES AND ADDITIONAL INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

Schedules other than those listed above are omitted because they are either not required, not applicable or the required information is shown in the financial statements or notes thereto.

Columns omitted from schedules filed have been omitted because the information is not applicable.

Separate financial statements of The Arklahoma Corporation (AP&L owns 34% of the capital stock and uses the equity method of accounting) have been omitted since it does not constitute a significant subsidiary.

MIDDLE SOUTH UTILITIES, INC.

SCHEDULE III—INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

Years Ended December 31, 1979 and 1978

(In Thousands Except Share Amounts)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period	
Name of Issuer and Description of Investment	Number of Shares or Units—Principal Amount of Bonds and Notes	Amount in Dollars (a)	Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other (b)	Distribution of Earnings by Persons in Which Earnings (Losses) Were Taken Up	Other (c)	Number of Shares or Units—Principal Amount of Bonds and Notes	Amount in Dollars
Year Ended December 31, 1979:								
AP&L, Common Stock	31,836,773	$ 479,408	$ 66,268	$ 30,000	$ 57,060	—	34,236,773	$ 518,617
LP&L, Common Stock	53,776,000	417,192	49,688	75,000	52,673	$1,765	65,140,000	487,441
MP&L, Common Stock	4,540,000	169,038	20,197	—	19,432	—	4,540,000	169,804
NOPSI, Common Stock	5,935,900	78,812	9,045	—	9,189	—	5,935,900	78,668
Ark-Mo, Common Stock	4,691,988	28,810	3,020	—	3,440	675	4,691,988	27,715
MSE, Common Stock	272,000	353,732	47,517	113,700	—	—	385,700	514,949
MSS:								
Common Stock	2,000	20	—	—	—	—	2,000	20
Notes	$ 6,626	6,626	—	—	—	—	$ 6,626	6,626
Total		$1,533,638	$195,735	$218,700	$141,794	$ 2,440		$1,803,840
Year Ended December 31, 1978:								
AP&L, Common Stock	30,636,773	$ 438,602	$ 73,600	$ 15,000	$ 47,793	—	31,836,773	$ 479,408
LP&L, Common Stock	46,200,000	363,763	45,636	50,000	42,194	$13	53,776,000	417,192
MP&L, Common Stock	4,540,000	160,374	26,461	—	17,797	—	4,540,000	169,038
NOPSI, Common Stock	5,935,900	77,562	9,678	—	8,429	—	5,935,900	78,812
Ark-Mo, Common Stock	4,691,988	28,226	3,587	—	3,003	—	4,691,988	28,810
MSE, Common Stock	219,000	265,121	35,611	53,000	—	—	272,000	353,732
MSS:								
Common Stock	2,000	20	—	—	—	—	2,000	20
Notes	$ 6,626	6,626	—	—	—	—	$ 6,626	6,626
Total		$1,340,294	$194,573	$118,000	$119,216	$13		$1,533,638

(a) Represents 100% ownership interest.
(b) Investment in common stock of subsidiaries by MSU.
(c) Charges to subsidiaries' retained earnings not recognized by MSU.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE V—UTILITY PLANT

Year Ended December 31, 1979

(In Thousands)

Column A Classification (Note 1)	Column B Balance at Beginning of Period	Column C Additions at Cost	Column D Retirements or Sales	Column E Other Changes—Debits (Credits) (Note 2)	Column F Balance at End of Period
Electric Utility Plant:					
Intangible	$ 424	$ 16	—	—	$ 440
Production	1,439,807	25,872	$ 4,429	$ (6)	1,461,244
Transmission	589,394	16,313	994	(14)	604,699
Distribution	1,300,165	94,603	13,964	14	1,380,818
General	97,537	8,715	2,636	3	103,619
Leased to others	5,144	—	—	—	5,144
Plant held for future use	11,296	514	10	—	11,800
Plant in process of reclassification	—	317	—	—	317
Plant purchased or sold	23,685	1,796	—	87	25,568
Natural Gas:					
Intangible	280	17	—	—	297
Storage	4,669	1	—	—	4,670
Transmission	9,202	5,652	2	—	14,852
Distribution	72,625	3,587	270	—	75,942
General	6,280	792	269	6	6,809
Transit:					
Land	135	—	—	—	135
Way and structures	4,109	139	3	—	4,245
Revenue equipment	14,206	1,252	3,641	—	11,817
General	2,631	417	193	(3)	2,852
Construction Work in Progress	2,465,517	916,241*	99,556**	—	3,282,202
Plant Acquisition Adjustments	4,917	1	—	(336)	4,582
Total Utility Plant	$6,052,023	$1,076,245	$125,967	$(249)	$7,002,052

NOTES:

(1) All intangibles identifiable in the accounts are set forth above, and Schedule VII is omitted.

(2) Transfers among functional groups of accounts .... $ 26

Represents accumulated expenses associated with Ark-Mo/AP&L merger	$ 87
Amortization of plant acquisition adjustments	(336)
Total	$ (249)

* Includes cost of nuclear core	$46,804

** Sales included the following:	
Sale and leaseback transactions	$65,357
Book value of utility plant sold	34,199
Total	$99,556

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE V—UTILITY PLANT

Year Ended December 31, 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification (Note 1)	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debits (Credits) (Notes 2 and 3)	Balance at End of Period
Electric Utility Plant:					
Intangible	$ 257	$ 236	—	$ (69)	$ 424
Production	1,405,360	34,803	$ 2,169	1,813	1,439,807
Transmission	570,407	20,310	1,328	5	589,394
Distribution	1,221,760	89,079	12,176	1,502	1,300,165
General	95,811	4,485	2,784	25	97,537
Leased to others	5,144	—	—	—	5,144
Plant held for future use	11,315	68	39	(48)	11,296
Plant purchased or sold	—	25,736	—	(2,051)	23,685
Natural Gas:					
Intangible	53	227	—	—	280
Production	1	—	—	(1)	—
Storage	4,668	1	—	—	4,669
Transmission	8,231	865	11	117	9,202
Distribution	70,804	2,119	183	(115)	72,625
General	5,917	794	426	(5)	6,280
Transit:					
Land	135	—	—	—	135
Way and structures	3,961	150	2	—	4,109
Revenue equipment	13,131	1,075	—	—	14,206
General	2,396	387	152	—	2,631
Construction Work in Progress	1,759,440	714,287*	8,210**	—	2,465,517
Plant Acquisition Adjustments	4,493	744	—	(320)	4,917
Total Utility Plant	$5,183,284	$895,366	$27,480	$ 853	$6,052,023

NOTES:

(1) All intangibles identifiable in the accounts are set forth above, and Schedule VII is omitted.

(2) Transfer of gross assets from plant purchased or sold to other functional groups of accounts	$3,347
(3) Transfers among functional groups of accounts	$ 192
Transfer of the balance in plant purchased or sold to appropriate accounts	$1,296
Adjustment to capitalized lease	(54)
Represents a direct charge for costs associated with computer software	(69)
Amortization of plant acquisition adjustments	(320)
Total	$ 853
* Includes cost of nuclear core	$8,910
** Includes cost of nuclear core sold to non-affiliates	$8,210

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A Classification	Column B Balance at Beginning of Period	Column C Additions at Cost (Note 3)	Column D Retirements or Sales	Column E Other Changes— Debits (Credits) (Notes 1-4)	Column F Balance at End of Period
Year ended December 31, 1979					
Electric Utility Plant:					
Intangible	$ 86	—	—	—	$ 86
Production	472,151	$ 16,683	$ 1,866	—	486,968
Transmission	220,951	7,161	380	—	227,732
Distribution	464,849	31,274	4,678	—	491,445
General	17,241	4,858	674	—	21,425
Plant purchased or sold	—	—	—	$ 87	87
Plant in process of reclassification	—	317	—	—	317
Plant held for future use	2,968	514	10	—	3,472
Construction Work in Progress	785,684	248,883*	54,513***	—	980,054
Plant Acquisition Adjustments	319	—	—	(19)	300
Total Utility Plant	$1,964,249	$309,690	$62,121	$ 68	$2,211,886
Year ended December 31, 1978					
Electric Utility Plant:					
Intangible	$ 155	—	—	$ (69)	$ 86
Production	464,741	$ 8,034	$ 624	—	472,151
Transmission	218,859	2,310	218	—	220,951
Distribution	435,774	32,876	4,231	430	464,849
General	16,721	1,565	1,045	—	17,241
Plant held for future use	3,119	(112)	39	—	2,968
Plant purchased or sold	—	430	—	(430)	—
Construction Work in Progress	623,304	175,912*	13,532**	—	785,684
Plant Acquisition Adjustments	126	213	—	(20)	319
Total Utility Plant	$1,762,799	$221,228	$19,689	$ (89)	$1,964,249

Notes:

	1979	1978
(1) Represents a direct charge for costs associated with computer software	—	$ (69)
(2) Amortization of plant acquisition adjustment	$ (19)	$ (20)
(3) Represents purchase of Citizens Light & Power Company distribution system	—	$ 430
(4) Represents accumulated expenses associated with Ark-Mo/AP&L merger	$ 87	—
* Includes cost of nuclear core	$20,314	$ 785
** Includes cost of nuclear core (sold in 1978 to SFI)	—	$13,532
*** Sales included the following:		
Sale and leaseback transactions	$20,314	—
Book value of utility plant sold	34,199	—
Total	$54,513	—

LOUISIANA POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A Classification	Column B Balance at Beginning of Period	Column C Additions at Cost	Column D Retirements or Sales	Column E Other Changes—Debits (Credits) (Notes 1, 2 & 3)	Column F Balance at End of Period
Year ended December 31, 1979					
Electric Utility Plant:					
Intangible	$ 63	—	—	—	$ 63
Production	479,987	$ 5,100	$1,907	—	483,180
Transmission	159,967	3,891	138	$ (8)	163,712
Distribution	475,478	41,351	5,766	8	511,071
General	42,912	786	1,175	—	42,523
Leased to others	5,144	—	—	—	5,144
Plant held for future use	4,599	—	—	—	4,599
Plant purchased or sold	23,685	1,796	—	—	25,481
Construction Work in Progress	599,496	232,341	—	—	831,837
Plant Acquisition Adjustments	1,621	—	—	(125)	1,496
Total Utility Plant	$1,792,952	$285,265	$8,986	$(125)	$2,069,106
Year ended December 31, 1978					
Electric Utility Plant:					
Intangible	$ 63	—	—	—	$ 63
Production	457,645	$ 21,208	$ 736	$1,870	479,987
Transmission	159,314	808	174	19	159,967
Distribution	445,766	32,837	4,130	1,005	475,478
General	42,775	675	561	23	42,912
Leased to others	5,144	—	—	—	5,144
Plant held for future use	4,599	—	—	—	4,599
Plant purchased or sold	—	25,306	—	(1,621)	23,685
Construction Work in Progress	393,189	219,351*	13,044**	—	599,496
Plant Acquisition Adjustment	1,290	433	—	(102)	1,6[illegible]
Total Utility Plant	$1,509,785	$300,618	$18,645	$1,194	$1,7[illegible]

Notes:

	1979	1978
(1) Transfer of gross assets from plant purchased or sold to other functional groups of accounts	—	$ 2,917
(2) Transfers among functional groups of accounts	$ 8	—
(3) Transfer of the balance in plant purchased or sold to appropriate accounts	—	$ 1,296
Amortization of plant acquisition adjustments	$(125)	(102)
Total	$(125)	$ 1,194
* Includes cost of nuclear core	—	$ 568
** Includes cost of nuclear core ($4,834 sold to SFI in 1978)	—	$13,044

MISSISSIPPI POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A Classification	Column B Balance at Beginning of Period	Column C Additions at Cost (Note 1)	Column D Retirements or Sales	Column E Other Changes Debits (Credits) (Notes 2-4)	Column F Balance at End of Period
Year ended December 31, 1979					
Electric Utility Plant:					
Intangible	$ 34	—	—	—	$ 34
Production	351,646	$ 1,232	$ 214	$ (6)	352,658
Transmission	146,227	3,930	266	(4)	149,887
Distribution	190,820	12,406	1,869	4	201,361
General	16,220	999	131	6	17,094
Plant held for future use	3,270	—	—	—	3,270
Construction Work in Progress	10,820	15,093	—	—	25,913
Plant Acquisition Adjustments	2,588	—	—	(182)	2,406
Total Utility Plant	$721,625	$33,660	$2,480	$(182)	$752,623
Year ended December 31, 1978					
Electric Utility Plant:					
Intangible	$ 34	—	—	—	$ 34
Production	349,195	$ 2,756	$ 248	$ (57)	351,646
Transmission	132,966	13,454	196	3	146,227
Distribution	180,035	13,063	2,278	—	190,820
General	16,120	295	195	—	16,220
Plant held for future use	3,270	—	—	—	3,270
Construction Work in Progress	15,660	(4,840)	—	—	10,820
Plant Acquisition Adjustments	2,769	—	—	(181)	2,588
Total Utility Plant	$700,049	$24,728	$2,917	$(235)	$721,625

Notes:

	1979	1978
(1) Represents increase of $33,660 and $24,728 less transfers to plant in service of $18,567 and $29,567 in 1979 and 1978, respectively	$15,093	$(4,840)
(2) Transfer among functional groups of accounts	$ 10	$ 3
(3) Amortization of plant acquisition adjustments	$ (182)	$ (181)
(4) Adjustment to capital lease	—	$ (54)

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Addition at Cost	Retirements or Sales	Other Changes—Debits (Credits) (Note 1)	Balance at End of Period
Year ended December 31, 1979					
Electric Utility Plant:					
Production	$128,886	$ 2,846	$ 442	—	$131,290
Transmission	33,644	71	36	—	33,679
Distribution	129,495	7,016	1,265	—	135,246
General	16,631	1,736	481	$ (3)	17,883
Plant held for future use	279	—	—	—	279
Natural Gas:					
Transmission	688	5,607	—	—	6,295
Distribution	55,224	2,889	213	—	57,900
General	5,327	447	203	6	5,577
Transit:					
Land	135	—	—	—	135
Way and structures	4,109	139	3	—	4,245
Revenue equipment	14,206	1,252	3,641	—	11,817
General	2,631	417	193	(3)	2,852
Construction Work in Progress	3,243	1,542	—	—	4,785
Total Utility Plant	$394,498	$23,962	$6,477	—	$411,983
Year ended December 31, 1978					
Electric Utility Plant:					
Production	$126,663	$ 2,783	$ 560	—	$128,886
Transmission	34,175	24	555	—	33,644
Distribution	123,300	6,994	847	$ 48	129,495
General	15,938	1,549	856	—	16,631
Plant held for future use	327	—	—	(48)	279
Natural Gas:					
Transmission	—	688	—	—	688
Distribution	53,616	1,744	139	3	55,224
General	4,999	710	379	(3)	5,327
Transit:					
Land	135	—	—	—	135
Way and structures	3,961	150	2	—	4,109
Revenue equipment	13,131	1,075	—	—	14,206
General	2,396	387	152	—	2,631
Construction Work in Progress	1,643	1,600	—	—	3,243
Total Utility Plant	$380,284	$17,704	$3,490	—	$394,498

Note:

	1979	1978
(1) Transfers among functional groups of accounts	$ 6	$51

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Year Ended December 31, 1979

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income (Note 1)	Charged to Other Accounts (Note 2)	Retirements, Renewals, and Replacements	Add (Deduct) (Note 3)	Balance at End of Period
Accumulated depreciation of utility plant:						
Electric:						
Intangible	$ 58	$ 63	—	—	—	$ 121
Production	414,204	50,333	$1,096	$3,037	—	462,596
Transmission	150,946	14,390	—	663	$114	164,787
Distribution	384,177	46,707	—	11,035	(58)	419,791
General	38,582	3,258	1,761	2,259	26	41,367
Leased to others	2,232	346	—	—	—	2,578
Natural Gas:						
Intangible	87	68	—	—	—	155
Production	(11)	6	—	—	—	(5)
Storage	1,161	212	—	—	—	1,373
Transmission	3,436	540	—	2	20	3,994
Distribution	26,266	2,061	—	394	(7)	27,926
General	2,671	209	86	242	23	2,747
Transit:						
Way and structures	1,395	91	—	11	—	1,475
Revenue equipment	12,367	872	—	3,640	—	9,599
General	685	149	—	174	—	660
Total	$1,038,256	$119,305	$2,943	$21,457	$118	$1,139,164
Accumulated depreciation of non-utility property	$ 124	$ 30	—	—	—	$ 154

Notes:

(1) Accumulated amortization of utility plant acquisition adjustments classified as depreciation.

(2) Provision on basis of usage or estimated life of transportation equipment (automobiles, trucks and aircraft) charged to clearing accounts and allocated on the basis of the use of such equipment $1,847

Provision on basis of usage or estimated life of transportation equipment (automobiles, trucks and aircraft) charged to clearing accounts and allocated on the basis of the use of such equipment	$1,847
Amortization of pipelines charged to fuel expense	1,096
Total	$2,943

(3)

Transfer of reserve from plant purchased or sold	$ 50
Transfer of reserve applicable to property transferred between departments and subsidiary	1
Accumulated depreciation on equipment purchased under a lease-purchase agreement	59
Accumulated depreciation on property acquired	8
Total	$ 118

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Year Ended December 31, 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income (Note 1)	Charged to Other Accounts (Note 2)	Retirements, Renewals and Replacements	Add (Deduct) (Note 3)	Balance at End of Period
Accumulated depreciation of utility plant:						
Electric:						
Intangible	$ 3	$ 55	—	—	—	$ 58
Production	366,086	46,804	$1,890	$ 1,434	$ 856	414,204
Transmission	137,696	14,198	102	1,110	60	150,946
Distribution	348,541	44,829	183	10,306	930	384,177
General	35,431	3,159	2,215	2,246	22	38,582
Leased to others	1,886	346	—	—	—	2,232
Natural Gas:						
Intangible	24	63	—	—	—	87
Production	(16)	5	—	—	—	(11)
Storage	949	212	—	—	—	1,161
Transmission	3,096	241	110	11	—	3,436
Distribution	24,466	1,985	30	235	20	26,266
General	2,773	209	66	378	1	2,671
Transit:						
Way and structures	1,938	87	—	630	—	1,395
Revenue equipment	11,878	477	—	(12)	—	12,367
General	951	133	—	399	—	685
Total	$935,702	$112,803	$4,596	$16,737	$1,889	$1,038,256
Accumulated depreciation of non-utility property	$ 93	$ 31	—	—	—	$ 124

Notes:

(1) Accumulated amortization of utility plant acquisition adjustments classified as depreciation.

(2) Provision on basis of usage or estimated life of transportation equipment (automobiles, trucks and aircraft) charged to clearing accounts and allocated on the basis of the use of such equipment $2,706

Amortization of pipelines charged to fuel expense 1,890

Total $4,596

(3) Accrued depreciation on acquisition of Citizens Light & Power Company .... $ 282

Transfer of reserve from plant purchased or sold 1,349

Reserve applicable to property transferred between departments and subsidiary 146

Accumulated depreciation on equipment purchased under a lease-purchase agreement 89

Adjustment for depreciation recorded on buildings sold in 1976 23

Total $1,889

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Note 1)	Retirements, Renewals and Replacements	Add (Deduct) (Notes 2 and 3)	Balance at End of Period
Year ended December 31, 1979						
Accumulated depreciation of utility plant:						
Electric:						
Production	$133,973	$17,006	—	$1,526	—	$149,453
Transmission	53,619	5,518	—	359	—	58,778
Distribution	136,163	16,598	—	4,104	—	148,657
General	7,440	586	$ 45	512	—	7,559
Total	$331,195	$39,708	$ 45	$6,501	—	$364,447
Accumulated depreciation of non-utility property	$ 28	$ 1	—	—	—	$ 29
Year ended December 31, 1978						
Accumulated depreciation of utility plant:						
Electric:						
Production	$117,726	$16,840	—	$ 593	—	$133,973
Transmission	48,490	5,310	—	181	—	53,619
Distribution	123,850	15,699	—	3,668	$282	136,163
General	7,382	516	$267	748	23	7,440
Total	$297,448	$38,365	$267	$5,190	$305	$331,195
Accumulated depreciation of non-utility property	$ 25	$ 3	—	—	—	$ 28

Notes:

	1979	1978
(1) Provision on basis of usage of transportation equipment (automobiles, trucks and aircraft) charged to clearing accounts and allocated on the basis of the use of such equipment	$ 45	$267
(2) Accrued depreciation on acquisition of Citizens Light & Power Company	—	$282
(3) Adjustment for depreciation recorded on buildings sold in 1976	—	$ 23

LOUISIANA POWER & LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Note 1)	Retirements, Renewals and Replacements	Add (Deduct) (Note 2)	Balance at End of Period
Year ended December 31, 1979						
Accumulated depreciation of utility plant:						
Electric:						
Production	$117,756	$15,045	—	$ 986	—	$131,815
Transmission	46,457	4,473	—	189	$ 1	50,742
Distribution	132,942	19,397	—	3,636	(72)	148,631
General	18,196	1,602	$1,482	1,052	—	20,228
Leased to others	2,232	346	—	—	—	2,578
Total	$317,583	$40,863	$1,482	$5,863	$ (71)	$353,994
Year ended December 31, 1978						
Accumulated depreciation of utility plant:						
Electric:						
Production	$103,361	$14,258	—	$ 720	$ 857	$117,756
Transmission	42,202	4,342	—	57	(30)	46,457
Distribution	117,506	17,874	—	2,961	523	132,942
General	15,404	1,569	$1,688	464	(1)	18,196
Leased to others	1,886	346	—	—	—	2,232
Total	$280,359	$38,389	$1,688	$4,202	$1,349	$317,583

Notes:

	1979	1978
(1) Provision on basis of estimated life of transportation equipment (automobiles and trucks) charged to a clearing account and allocated on the basis of the use of such equipment	$1,482	$1,688
(2) Transfer of reserve from plant purchased or sold	$ (79)	$1,349
Accumulated depreciation on property acquired	8	—
Total	$ (71)	$1,349

MISSISSIPPI POWER & LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Note 1)	Retirements, Renewals and Replacements	Add (Deduct) (Note 2)	Balance at End of Period
Year Ended December 31, 1979						
Accumulated depreciation of utility plant:						
Electric:						
Production	$99,752	$13,859	$1,096	$ 189	—	$114,518
Transmission	32,430	2,690	—	112	$59	35,067
Distribution	59,294	5,120	—	1,624	—	62,790
General	5,823	305	86	113	—	6,101
Total	$197,299	$21,974	$1,182	$2,038	$59	$218,476
Accumulated depreciation of non-utility property	$ 75	$ 25	—	—	—	$ 100
Year ended December 31, 1978						
Accumulated depreciation of utility plant:						
Electric:						
Production	$ 86,793	$11,337	$1,890	$ 268	—	$ 99,752
Transmission	29,620	2,873	—	152	$89	32,430
Distribution	55,393	5,941	—	2,040	—	59,294
General	5,518	377	96	168	—	5,823
Total	$177,324	$20,528	$1,986	$2,628	$89	$197,299
Accumulated depreciation of non-utility property	$ 50	$ 25	—	—	—	$ 75

Notes:

	1979	1978
(1) Provision on basis of estimated life of transportation equipment (automobiles, trucks and aircraft) charged to a clearing account and allocated on the basis of the use of such equipment	$ 86	$ 96
Amortization of pipelines charged to fuel expense	1,096	1,890
Total	$1,182	$1,986
(2) Accumulated depreciation on equipment purchased under a lease—purchase agreement	$ 59	$ 89

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATON OF PROPERTY

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions		Deductions	Other Changes	
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Note)	Retirements, Renewals and Replacements	Add (Deduct)	Balance at End of Period
Year ended December 31, 1979						
Accumulated depreciation of utility plant:						
Electric:						
Production	$ 58,117	$ 4,157	—	$ 336	—	$ 61,938
Transmission	11,625	1,051	—	(171)	—	12,847
Distribution	42,959	4,264	—	1,285	—	45,938
General	5,696	667	$35	407	—	5,991
Natural Gas:						
Transmission	51	343	—	—	—	394
Distribution	20,003	1,616	—	337	—	21,282
General	2,120	169	56	176	—	2,169
Transit:						
Way and structures	1,395	91	—	11	—	1,475
Revenue equipment	12,367	872	—	3,640	—	9,599
General	685	149	—	174	—	660
Total	$155,018	$13,379	$91	$6,195	—	$162,293
Year ended December 31, 1978						
Accumulated depreciation of utility plant:						
Electric:						
Production	$ 53,885	$ 4,084	—	$ (148)	—	$ 58,117
Transmission	11,100	1,060	—	535	—	11,625
Distribution	39,839	4,068	—	948	—	42,959
General	5,795	603	$35	737	—	5,696
Natural Gas:						
Transmission	—	51	—	—	—	51
Distribution	18,643	1,551	—	191	—	20,003
General	2,248	176	27	331	—	2,120
Transit:						
Way and structures	1,938	87	—	630	—	1,395
Revenue equipment	11,878	477	—	(12)	—	12,367
General	951	133	—	399	—	685
Total	$146,277	$12,290	$62	$3,611	—	$155,018

Note:

	1979	1978
Provision on basis of estimated life of transportation equipment (automobiles and trucks) charged to a clearing account and allocated on the basis of the use of such ..	$91	$62

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE XII—RESERVES

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to other Accounts (Note 1)	Deductions from Reserves (Note 2)	Balance at End of Period
Year ended December 31, 1979					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 1,601	$3,904	—	$ 3,705	$ 1,800
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$ 7,947	$5,221	$7,478	$ 8,788	$11,858*
Injuries and damages (Notes 3 and 4)	4,963	4,531	2,065	5,438	6,122
Total	$12,910	$9,752	$9,543	$14,226	$17,980
Year ended December 31, 1978					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 1,046	$3,895	—	$ 3,340	$ 1,601
Reserves Not Deducted from Assets:					
Property insurance	$ 8,269	$2,839	—	$ 3,161	$ 7,947
Injuries and damages (Note 3)	4,037	5,513	$ 412	4,999	4,963
Total	$12,306	$8,352	$ 412	$ 8,160	$12,910

Notes:

(1) Charged to clearing and other accounts.

(2) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the reserve for doubtful accounts, such deductions are reduced by recoveries of amounts previously written off.

(3) Injuries and damages reserve is provided to absorb all current expenses appropriate thereto and for the estimated cost of settling claims for injuries and damages.

(4) Effective during the first quarter of 1979, certain of the System operating companies commenced recognizing deferred income taxes on reserves which resulted in no effect on net income.

* Reclassification of the property insurance reserve balances for two subsidiaries have been made to deferred debits for financial statement presentation.

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE XII—RESERVES

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves (Note 1)	Balance at End of Period
Year ended December 31, 1979					
Accumulated Provisions Deducted from Assets—					
Doubtful Accounts	$ 744	$1,171	—	$ 991	$ 924
Reserves Not Deducted from Assets:					
Property insurance (Note 3)	$ 239	$2,311	—	$3,963	$(1,413)*
Injuries and damages (Notes 2 and 3)	670	1,776	—	1,842	604
Total	$ 909	$4,087	—	$5,805	$ (809)
Year ended December 31, 1978					
Accumulated Provisions Deducted from Assets—					
Doubtful Accounts	$ 410	$1,704	—	$1,370	$ 744
Reserves Not Deducted from Assets:					
Property insurance	$ 565	$ 772	—	$1,098	$ 239
Injuries and damages (Note 2)	570	1,856	—	1,756	670
Total	$1,135	$2,628	—	$2,854	$ 909

Notes:

(1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the reserve for doubtful accounts, such deductions are reduced by recoveries of amounts previously written off.

(2) Injuries and damages reserve is provided to absorb all current expenses appropriate thereto and for the estimated cost of settling claims for injuries and damages.

(3) Effective during the first quarter of 1979, AP&L commenced recognizing deferred income taxes on reserves which resulted in no effect on net income.

---

* Reclassified to deferred debits for the purpose of financial statement presentation.

LOUISIANA POWER & LIGHT COMPANY

SCHEDULE XII—RESERVES

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Note 1)	Deductions from Reserves (Note 2)	Balance at End of Period
Year ended December 31, 1979					
Accumulated Provisions Deducted from Assets—					
Doubtful Accounts	$ 135	$ 655	—	$ 655	$ 135
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$3,661	$ 600	$3,436	$1,905	$5,792
Injuries and damages (Notes 3 and 4)	1,194	454	586	1,104	1,130
Total	$4,855	$1,054	$4,022	$3,009	$6,922
Year ended December 31, 1978					
Accumulated Provisions Deducted from Assets—					
Doubtful Accounts	$ 135	$ 468	—	$ 468	$ 135
Reserves Not Deducted from Assets:					
Property insurance	$3,691	$ 634	—	$ 664	$3,661
Injuries and damages (Note 3)	874	1,035	$ 343	1,058	1,194
Total	$4,565	$1,669	$ 343	$1,722	$4,855

Notes:

(1) Charged to clearing and other accounts.

(2) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the reserve for doubtful accounts, such deductions are reduced by recoveries of amounts previously written off.

(3) Injuries and damages reserve is provided to absorb all current expenses appropriate thereto and for the estimated cost of settling claims for injuries and damages.

(4) Effective during the first quarter of 1979, LP&L commenced recognizing deferred income taxes on its property insurance reserves and on its injuries and damages reserves.

MISSISSIPPI POWER & LIGHT COMPANY

SCHEDULE XII—RESERVES

Year Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves (Note 1)	Balance at End of Period
Year ended December 31, 1979					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 154	$ 448	—	$ 448	$ 154
Reserves Not Deducted from Assets:					
Property insurance (Note 3)	$ 900	$1,848	$899	$2,283	$1,364
Injuries and damages (Notes 2 and 3)	1,387	636	—	947	1,076
Total	$2,287	$2,484	$899	$3,230	$2,440
Year ended December 31, 1978					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 154	$ 440	—	$ 440	$ 154
Reserves Not Deducted from Assets:					
Property insurance	$ 570	$ 380	—	$ 50	$ 900
Injuries and damages (Note 2)	1,291	629	—	533	1,387
Total	$1,861	$1,009	—	$ 583	$2,287

Notes:

(1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the reserve for doubtful accounts, such deductions are reduced by recoveries of amounts previously written off.

(2) Injuries and damages reserve is provided to absorb all current expenses appropriate thereto and for the estimated cost of settling claims for injuries and damages.

(3) Effective during the first quarter of 1979, MP&L commenced recognizing deferred income taxes on reserves which resulted in no effect on net income.

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE XII—RESERVES

Years Ended December 31, 1979 and 1978

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts (Notes 1 and 4)	Deductions from Reserves (Note 2)	Balance at End of Period
Year ended December 31, 1979					
Accumulated Provisions Deducted from Assets— Doubtful Accounts	$ 370	$1,309	—	$1,179	$ 500
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$3,021	$ 360	$3,143	$ 343	$6,181
Injuries and damages (Notes 3 and 4)	1,475	1,602	1,479	1,476	3,080
Total	$4,496	$1,962	$4,622	$1,819	$9,261
Year ended December 31, 1978					
Accumulated Provisions Deducted from Assets— Doubtful Accounts	$ 270	$1,086	—	$ 986	$ 370
Reserves Not Deducted from Assets:					
Property insurance	$3,329	$1,034	—	$1,342	$3,021
Injuries and damages (Note 3)	1,075	1,925	$ 70	1,595	1,475
Total	$4,404	$2,959	$ 70	$2,937	$4,496

Notes:

(1) Charged to clearing and other accounts.

(2) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the reserve for doubtful accounts, such deductions are reduced by recoveries of amounts previously written off.

(3) Injuries and damages reserve is provided to absorb all current expenses appropriate thereto and for the estimated cost of settling claims for injuries and damages.

(4) Effective during the first quarter of 1979, NOPSI commenced recognizing deferred income taxes on reserves which resulted in no effect on net income.

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1980

Commission File Number	Company	I.R.S. Employer Identification No.
1-3517	MIDDLE SOUTH UTILITIES, INC. (A Florida Corporation) 225 Baronne Street New Orleans, Louisiana 70112 Telephone (504) 529-5262	13-5550175
0-375	ARKANSAS POWER & LIGHT COMPANY (An Arkansas Corporation) P.O. Box 551 Little Rock, Arkansas 72203 Telephone (501) 371-4000	71-0005900
0-1236	LOUISIANA POWER & LIGHT COMPANY (A Louisiana Corporation) 142 Delaronde Street New Orleans, Louisiana 70174 Telephone (504) 366-2345	72-0245590
0-320	MISSISSIPPI POWER & LIGHT COMPANY (A Mississippi Corporation) P.O. Box 1640 Jackson, Mississippi 39205 Telephone (601) 969-2311	64-0205830
1-1319	NEW ORLEANS PUBLIC SERVICE INC. (A Louisiana Corporation) 317 Baronne Street New Orleans, Louisiana 70112 Telephone (504) 586-2121	72-0273040

Common Stock Outstanding		Outstanding at September 30, 1980
Middle South Utilities, Inc.	($5 par value)	98,610,686

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ___X___ No _________

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 1980

This combined Form 10-Q is separately filed by Middle South Utilities, Inc., Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company and New Orleans Public Service Inc. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

DEFINITIONS

The following abbreviations or acronyms used in the text and notes are defined below:

Abbreviation or Acronym	Term
AECC	Arkansas Electric Cooperative Corporation
AFDC	Allowance for funds used during construction
AP&L	Arkansas Power & Light Company
APSC	Arkansas Public Service Commission
Ark-Mo	Arkansas-Missouri Power Company
Citibank	Citibank, N.A.
CWIP	Construction Work In Progress
ERA	Economic Regulatory Administration
FERC	Federal Energy Regulatory Commission
Holding Company Act	Public Utility Holding Company Act of 1935
Independence Plant	AP&L's Independence Steam Electric Generating Station (coal)
LP&L	Louisiana Power & Light Company
MEAM	Municipal Energy Agency of Mississippi
Middle South System	MSU and its various direct and indirect subsidiaries
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
MSE	Middle South Energy, Inc.
NOPSI	New Orleans Public Service Inc.
NRC	Nuclear Regulatory Commission
Reynolds	Reynolds Metals Company
SFI	System Fuels, Inc.
Shell	Shell Oil Company
SMEPA	South Mississippi Electric Power Association
SPA	Southwest Power Administration
System operating companies	AP&L, Ark-Mo, LP&L, MP&L and NOPSI
White Bluff Plant	AP&L's White Bluff Steam Electric Generating Station (coal)

Deloitte Haskins+Sells

39th Floor
One Shell Square
New Orleans, Louisiana 70139
(504) 581-2727
Cable DEHANDS

REVIEW REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Middle South Utilities, Inc.,
Its Directors and Stockholders:

We have made a review of the consolidated financial statements of Middle South Utilities, Inc. and subsidiaries and the financial statements of certain of its subsidiaries, as listed in the accompanying index, as of September 30, 1980 and 1979 and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

DELOITTE HASKINS & SELLS

November 10, 1980

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
ASSETS		
Utility Plant	$7,666,244	$6,777,545
Less accumulated depreciation	1,232,446	1,118,126
Utility Plant - Net	6,433,798	5,659,419
Other Property and Investments	90,599	89,642
Current Assets:		
Cash and special deposits	95,972	66,635
Temporary investments - at cost, which approximates market	69,090	51,477
Accounts and notes receivable (less allowance for doubtful accounts and notes of $1,958 thousand in 1980 and $1,513 thousand in 1979)	197,085	157,896
Deferred fuel cost	78,081	41,884
Fuel inventory - at average cost	138,727	113,597
Materials and supplies - at average cost	34,128	32,707
Other	29,720	25,940
Total	642,803	490,136
Deferred Debits	66,441	30,715
TOTAL	$7,233,641	$6,269,912
LIABILITIES		
Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares; issued and outstanding 98,610,686 shares in 1980 and 85,199,144 shares in 1979	$ 493,054	$ 425,996
Paid-in capital	690,413	590,312
Retained earnings	620,403	583,788
Total common equity	1,803,870	1,600,096
Subsidiaries' preferred stock, without sinking fund	330,967	330,967
Subsidiaries' preferred stock, with sinking fund	255,562	157,587
Long-term debt and premium	3,421,602	2,905,233
Total capitalization	5,812,001	4,993,883
Current Liabilities:		
Notes payable:		
Company	....	129,000
Subsidiaries	438,717	269,015
Currently maturing long-term debt	40,456	85,093
Accounts payable	228,520	138,938
Taxes accrued	71,373	48,466
Accumulated deferred income taxes on deferred fuel	38,680	21,309
Interest accrued	72,275	63,116
Other	132,404	94,971
Total	1,022,425	849,908
Deferred Credits	376,963	407,168
Reserves	22,252	18,953
TOTAL	$7,233,641	$6,269,912

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
September 30, 1980 and 1979
(Unaudited)

Operating Revenues:
- Electric
- Natural gas
- Transit
  - Total

Operating Expenses:
- Operation:
  - Fuel for electric generation
  - Purchased power
  - Deferred fuel cost
  - Gas purchased for resale
  - Other
- Maintenance
- Depreciation
- Taxes other than income taxes
- Income taxes
  - Total

Operating Income

Other Income:
- Allowance for equity funds used during construction
- Miscellaneous income and deductions-net
- Income taxes-cr
  - Total

Interest and Other Charges:
- Interest on long-term debt
- Other interest-net
- Allowance for borrowed funds used during construction-cr
- Preferred dividend requirements of subsidiaries
  - Total

Net Income

Weighted Average Number of Shares of Common Stock Outstanding

Consolidated Earnings Per Share of Common Stock

Dividends Declared Per Share of Common Stock

See Notes to Financial Statements.

Three Months Ended 1980	Three Months Ended 1979	Nine Months Ended 1980	Nine Months Ended 1979
(In Thousands)		(In Thousands)	
$ 731,250	$ 508,751	$ 1,629,595	$ 1,235,184
19,533	20,124	88,313	83,526
11,091	9,246	32,163	28,247
761,874	538,121	1,750,071	1,346,957
353,004	224,495	737,055	538,910
92,812	71,675	239,301	179,970
(31,909)	(2,912)	(49,153)	(36,167)
15,518	16,417	67,423	62,016
73,804	50,786	195,903	153,516
26,085	26,533	78,434	80,134
36,910	29,547	104,170	88,690
19,293	20,386	63,533	59,177
64,389	30,430	88,618	47,492
649,906	467,357	1,525,284	1,173,738
111,968	70,764	224,787	173,219
28,762	32,948	90,199	89,359
1,134	2,569	4,320	5,668
21,964	19,736	74,936	53,003
51,860	55,253	169,455	148,030
78,624	65,396	237,978	183,613
13,642	11,253	50,266	28,054
(26,087)	(23,348)	(87,294)	(62,265)
13,833	10,939	40,494	25,692
80,012	64,240	241,444	175,094
$ 83,816	$ 61,777	$ 152,798	$ 146,155
98,506,715	85,149,215	94,766,235	84,696,190
$0.85	$0.73	$1.61	$1.73
$0.395	$0.38	$1.185	$1.14

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
For the Nine Months Ended September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 152,798	$ 146,155
Depreciation	104,170	88,690
Amortization of property loss	....	3,076
Deferred income taxes and investment tax credit adjustments - net	12,491	1,710
Allowance for funds used during construction	(177,493)	(151,624)
Total	91,966	88,007
Dividends declared on common stock	(113,502)	(96,871)
Funds (used) in business	(21,536)	(8,864)
(Increase) in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)	(86,349)	(116,526)
Miscellaneous - net	(4,628)	1,627
Total	(112,513)	(123,763)
From financing transactions:		
Common stock	100,382	135,962
Preferred stock:		
Issues	65,058	147,779
Retirements	(3,003)	....
First mortgage bonds:		
Issues	98,500	105,000
Retirements	(14,127)	(11,048)
Promissory notes and other long-term debt:		
Issues and assumptions	317,362	246,630
Retirements	(106,457)	(2,919)
Sale and leaseback transactions	34,700	....
Book value of utility plant sold	19,599	....
Short-term securities - net	154,561	87,623
Total	666,575	709,027
Total	$ 554,062	$ 585,264
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$ 506,908	$ 557,040
Fabrication costs of nuclear core	42,864	37,574
Other - net	4,290	(9,350)
Total	$ 554,062	$ 585,264

	1980	1979
(Increase) in Working Capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities):		
Cash & special deposits	$ (30,592)	$ (4,144)
Accounts and notes receivable	(56,034)	(59,034)
Deferred fuel cost	(49,152)	(36,170)
Fuel inventory	(1,669)	(41,119)
Materials & supplies	2,360	(4,375)
Other current assets	(7,977)	6,363
Accounts payable	18,397	13,304
Taxes accrued	15,938	5,221
Interest accrued	(3,462)	(2,490)
Other current liabilities	25,842	5,918
Total	$ (86,349)	$(116,526)

See Notes to Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Rate Matter

Refer to Part II, Item 1. - "Legal Proceedings" in connection with the Attorney General of Arkansas' suit against AP&L for alleged erroneous application of the existing fuel adjustment clause to retail customers from April 1977 through March 1979 and MP&L's application filed with the MPSC on May 28, 1980 for an increase in electric rates to retail customers which were put into effect subject to refund on July 1, 1980.

2. Commitments and Financing

AP&L

As was stated on page 6 of Form 10-Q for the quarter ended June 30, 1980, AP&L notified the other joint owners of Unit No. 2 of the White Bluff Plant and of Unit No. 1 and Unit No. 2 of the Independence Plant that AP&L would exercise its contractual right to cease making contributions to the construction of those units June 1, 1980. AP&L has ceased to make such contributions, and the AECC has been paying AP&L's share of such construction costs since that date. AP&L has a contractual right to repay to AECC the money advanced for AP&L's share of construction costs at any time before June 1, 1982, and thereby retain its ownership of its share of the plants. AP&L and AECC have executed a written agreement for the purpose of facilitating the transfer to AECC of any portion of AP&L's share of either plant for which AP&L does not reimburse AECC by June 1, 1982, for the construction costs advanced for it.

AP&L and MP&L have initiated negotiations for the sale by AP&L to MP&L of 25% of the Independence Plant from AP&L's 56.5% interest in the Plant and 50% of its interest in the coal handling equipment. The consummation of such sale will be dependent upon the successful conclusion of these negotiations and various regulatory approvals.

LP&L

On October 30, 1980, LP&L received approximately $23,500,000 through the sale and leaseback by LP&L of certain office buildings and related real properties.

MSE

MSE has under construction a two-unit nuclear plant, the Grand Gulf Plant, having an expected aggregate capability of approximately 2,500 MW, on the Mississippi River near Grand Gulf, Mississippi. The first unit had been scheduled for commercial operation in 1981 and the second unit in 1984. Commercial operation of the two units is dependent, among other things, upon the receipt of operating licenses from the NRC. Actions taken by the NRC over recent months indicate there will be delays in licensing all nuclear reactors. In view of this, MSE has reviewed its schedule for testing and completion of the units and, as a result of the anticipated delays in licensing and by delaying expenditures on the second unit, has changed its scheduled commercial operation dates to 1982 and 1986 for the first unit and second unit, respectively. MSE has entered into an agreement for the acquisition by SMEPA of a 10% undivided ownership interest in the Grand Gulf Plant and is negotiating with MEAM for the possible acquisition of up to a 2.48% undivided ownership interest in the Grand Gulf Plant. Giving effect to the acquistion by SMEPA of the 10% undivided ownership interest and to the possible acquisition by MEAM of a 2.48% undivided ownership interest, MSE's share of the aggregate capability will be approximately 2,188 MW and the total cost to MSE, (exclusive of nuclear fuel) is currently estimated to be approximately $2,860.0 million. At September 30, 1980, construction of Unit Nos. 1 and 2 of the Grand Gulf Plant was approximately 87% and 23% completed, respectively, and engineering was approximately 88% and 43% completed, respectively.

On October 31, 1980 SMEPA advanced the sum of $42 million for its initial share of construction costs of the Grand Gulf Plant. Its agreement with MSE requires SMEPA to continue advancing 100% of construction costs each month until such payments (plus SMEPA's AFDC) equals 10% of the total cost of the Grand Gulf Plant (including both SMEPA's and MSE's AFDC). It is presently estimated that SMEPA's interest will equal 10%, computed on such basis, by July, 1981, at which time MSE and SMEPA will commence sharing construction costs on a 90% - 10% basis, respectively.

Middle South has undertaken to furnish or cause to be furnished to MSE sufficient capital for construction and continued operation of the Grand Gulf Plant and related purposes to the extent not obtained by MSE from other sources. In addition, MSE and the System operating companies have entered into a series of agreements (collectively, Availability Agreement) whereby (i) MSE has agreed to complete the Grand Gulf Plant, to join in the System Agreement on or before the completion of the first unit of the Grand Gulf Plant and to sell to the System operating companies power available to MSE from its share of the Grand Gulf Plant under the terms of the System Agreement, (ii) the System operating companies have agreed to pay to MSE (on the apportionment bases provided for in the Availability Agreement) such amounts as (when added to any amounts received by MSE under the System Agreement or otherwise) will be at least equal to MSE's operating expenses related to the interests in the Grand Gulf Plant which it continues to own or an equivalent amount if either unit is not in operation (including such expenses as might be incurred by MSE for maintenance and surveillance in the event of shutdown of either or both units), including MSE's interest charges and an amount equal to an assumed depreciation rate for 27.4 years of 3.65% per annum applied to MSE's gross investment in its share of the Grand Gulf Plant (exclusive of land and land rights), (iii) the System operating companies have agreed to make subordinated advances under certain circumstances to MSE in amounts equal to payments which would otherwise be owing under the payment formula of the Availability Agreement described in (ii) above, and (iv) the System operating companies have agreed that their obligations to make payments or advances to MSE are absolute and unconditional. The requirement to make payments under (ii) above commences on the date on which either unit of the Grand Gulf Plant is placed in commercial operation; provided that if Unit No. 1 is not placed in commercial operation prior to December 31, 1982, the commencement date in respect of both units is December 31, 1982; and provided, further, that if Unit No. 1 is placed in commercial operation prior to December 31, 1982 then, with respect to the assumed depreciation charge related to Unit No. 2, the commencement date for Unit No. 2 is the earlier of the date of commercial operation of Unit No. 2 or December 31, 1986.

The System operating companies have executed a Memorandum of Understanding by which it is agreed that the capability of the portion of Grand Gulf Unit No. 1 and Grand Gulf Unit No. 2 owned by MSE will be allocated among LP&L, MP&L and NOPSI on a fixed percentage basis, subject to change by mutual agreement of such companies. The proposed percentages of allocated capability of MSE's share of Unit No. 1 and Unit No. 2 would be LP&L, 38.57% and 26.33%, MP&L, 31.63% and 43.97% and NOPSI, 29.80% and 29.80%, respectively, LP&L, MP&L and NOPSI have agreed to assume all of the responsibilities and obligations of AP&L and Ark- Mo with respect to these Units and, in consideration thereof, AP&L and Ark-Mo have agreed to relinquish their rights in the Units. The Memorandum of Understanding and the consummation of the transactions contemplated thereby is subject to the receipt of the approval of all regulatory agencies having jurisidiction of the matters and of all other necessary approvals.

SFI

SFI was organized to plan and implement programs for the procurement of fuel supplies for the Middle South System. AP&L owns 35%, LP&L owns 33%, MP&L owns 19% and NOPSI owns 13% of the common sotck of SFI. SFI has filed for authority under the Holding Company Act to enter into a Loan Agreement with Citibank for the purpose of financing a portion of SFI's fuel oil inventory and of financing certain of its other activities. Under the proposed Loan Agreement, SFI will be entitled to borrow and reborrow through December 31, 1982 an aggregate principal amount not to exceed at any one time outstanding the lesser of $60,000,000 or 85 percent of the net book value of the assets owned by SFI from time to time and reflected on SFI's balance sheet under the caption "Property Plant and Equipment-At Cost", exclusive of leasehold improvements and construction work in progress (the "Collateral"). If requested by Citibank during the term of the Loan Agreement, SFI would grant Citibank a security interest in the Collateral to secure the performance of its obligations under the Loan Agreement. In addition, AP L, LP&L, MP&L and NOPSI will be parties to the Loan Agreement and will convenant that they will take any and all action as, from time to time, may be 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 Citibank.

In addition, to finance, in part, its fuel supply arrangements, SFI has filed for authority under the Holding Company Act to further amend its $173,500,000 Loan Agreement, dated June 4, 1978, with AP&L, LP&L, MP&L and NOPSI to provide for maximum borrowings thereunder of $261,500,000. Such borrowings would include $83,870,000 from AP&L, $111,145,000 from LP&L, $42,385,000 from MP&L and $24,100,000 from NOPSI, would be authorized through December 31, 1981 and would mature December 31, 2006.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
THE STATEMENTS OF CONSOLIDATED INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the consolidated results of operations of MSU and its subsidiaries for the third quarter of 1980 compared with the second quarter of 1980 and the third quarter of 1979 and the nine months ended September 1980 compared with the corresponding prior year period.

The business of Middle South System operating companies is subject to seasonal fluctuations with the peak periods occurring during the summer months for electric and during the winter months for gas operations. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

Operating Revenues

Electric operating revenues increased $280 million or 62%, $222 million or 44% and $394 million or 32% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increases are due primarily to the recovery of increased fuel costs through fuel adjustment clauses, increases in energy sales and rate increases which were granted to certain subsidiaries, some of which are subject to refund.

Gas operating revenues decreased $5 million or 21% compared to the quarter ended June 1980 due primarily to a decline in the recovery of purchased gas costs and a reduction in gas sales brought about by warmer weather.

Transit revenues increased $3.9 million or 14% compared to the nine-month period ended September 1979 due primarily to a transit fare increase effective January 1980.

Fuel for Electric Generation

Fuel costs increased $148 million or 72%, $129 million or 57% and $198 million or 37% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increase over the previous quarter is due primarily to increased oil-fired generation and higher average unit prices for natural gas. The increases over the three and nine-month periods ended September 1979 are due primarily to higher average unit prices for natural gas and oil. In addition, the increase over the prior year nine-month period was partially offset by a decline in oil-fired generation.

Purchased Power

Purchased power expenses increased $19 million or 25%, $21 million or 29% and $59 million or 33% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively.

Purchased Power (Continued)

These increases are due primarily to higher average unit prices on KWH's (Kilowatt Hours) purchased. Additionally, the increase over the nine-month period ended September 1979 is due to larger volumes of KWH's purchased to displace higher cost oil-fired generation.

Deferred Fuel Cost

AP&L and LP&L defer fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. The effect of this adjustment in the second and third quarter of 1980, the third quarter of 1979, and the nine-month periods ended September 1980 and September 1979 was to reduce operating expenses by $16 million, $32 million, $3 million, $49 million and $36 million, respectively.

Other Operation Expenses

Other operat[illegible] expenses increased $11 million or 17%, $23 million or 45% and $42 mi[illegible] or 28% as compared to the previous quarter and the three and nine-mon[illegible]iods ended September 1979, respectively. Excluding the effects of the [illegible]r fuel reserve accounting policy, as described below, other operatio[illegible]enses increased $10 million or 16%, $14 million or 24% and $26 millio[illegible]r 16% compared to the previous quarter and the three and nine-month periods ended September 1979, respectively. The increases are due primarily to inflationary pressures on wages, benefits, materials and supplies and services.

Other operation expenses of AP&L reflect the inclusion of a deferral provision in amounts equivalent to nuclear fuel surcharges reflected in operating revenues. This provision is designed to offset the effects of higher cost of generation when the nuclear units are out of service for refueling. At such time, amounts previously deferred will be used to reduce expenses, thus the accounting policy more properly matches revenue with expenses. This deferral provision partially accounts for the increases in expenses over the three and nine-month periods ended September 1979.

Depreciation

Depreciation expenses increased $7 million or 25% and $15 million or 17% as compared to the three and nine-month periods ended September 1979, respectively. The increases are due primarily to the additional depreciation expense recorded as a result of Unit No. 2 at ANO and Unit No. 1 at the White Bluff Plant being placed into commercial operation in March of 1980 and August of 1980, respectively.

Income Taxes

The fluctuations in total income tax expense included in operating expenses and other income for all comparable periods are primarily

Income Taxes (Continued)

attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

AFDC

The increase in AFDC as compared to the nine-month period ended September 1979 is due primarily to increased levels of CWIP.

Interest Expense

The $16 million and $77 million increases in interest expense compared to the three and nine-month periods ended September 1979, respectively, are due primarily to additional issuances of debt in conjunction with financing the construction program of the Middle South System.

Preferred Dividends

The increases in this item compared to the nine-month period ended September 1979 are due to additional issuances of preferred stock in conjunction with financing the construction program of the Middle South System.

Net Income and Earnings Per Share

Net income increased $63 million or 302% and $22 million or 36% as compared to the quarter ended June 1980 and the quarter ended September 1979, respectively. The percentage change in earnings per share for the comparable periods did not change proportionately to the change in net income due primarily to the sales of common stock of 5 million shares in November 1979 and 7 million shares in May 1980.

OTHER FINANCIAL INFORMATION

In the opinion of MSU, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of MSU and its subsidiaries as of September 30, 1980 and 1979, and the results of operations for the three and nine-month periods then ended and source of funds for utility plant additions for the nine-month periods then ended.

The financial statements required by instruction 4 have been reviewed by independent public accountants and all adjustments or additional disclosures proposed by such accountants have been made.

ARKANSAS POWER & LIGHT COMPANY
BALANCE SHEETS
September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
ASSETS		
Utility Plant	$2,349,639	$2,146,416
Less accumulated depreciation	400,850	356,067
Utility Plant - Net	1,948,789	1,790,349
Other Property and Investments:		
Investment in associated companies - at equity	28,902	32,028
Other	320	479
Total	29,222	32,507
Current Assets:		
Cash and special deposits	16,785	6,445
Accounts and notes receivable (less allowance for doubtful accounts and notes of $939 thousand in 1980 and $759 thousand in 1979)	57,967	34,604
Deferred fuel cost	27,743	15,253
Fuel inventory - at average cost	25,413	....
Materials and supplies - at average cost	6,256	6,408
Other	4,163	2,429
Total	138,327	65,139
Deferred Debits	6,082	4,349
TOTAL	$2,122,420	$1,892,344
LIABILITIES		
Capitalization:		
Common stock, $12.50 par value, authorized 50,000,000 shares; issued and outstanding 35,836,773 shares in 1980 and 32,636,773 shares in 1979	$ 447,960	$ 407,960
Paid-in capital	471	....
Retained earnings	76,070	92,592
Total common equity	524,501	500,552
Preferred stock, without sinking fund	126,890	126,890
Preferred stock, with sinking fund	147,853	100,518
Long-term debt and premium	835,560	814,469
Total capitalization	1,634,804	1,542,429
Current Liabilities:		
Notes payable	108,950	63,600
Currently maturing long-term debt	....	14,700
Accounts payable	70,053	32,874
Taxes accrued	34,706	16,892
Accumulated deferred income taxes on deferred fuel	13,660	7,511
Interest accrued	26,436	21,979
Other	59,419	22,110
Total	313,224	179,666
Deferred Credits	173,425	169,777
Reserves	967	472
TOTAL	$2,122,420	$1,892,344

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY
STATEMENTS OF INCOME
September 30, 1980 and 1979
(Unaudited)

Operating Revenues..
Operating Expenses:
Operation:
Fuel for electric generation........................
Purchased power....................................
Deferred fuel cost.................................
Other..
Maintenance..
Depreciation.......................................
Taxes other than income taxes......................
Income taxes.......................................
Total..
Operating Income..
Other Income:
Allowance for equity funds used during construction...
Miscellaneous income and deductions-net...............
Income taxes-cr.......................................
Total...
Interest and Other Charges:
Interest on long-term debt............................
Other interest-net....................................
Allowance for borrowed funds used during construction-cr..............................
Total...
Net Income..
Preferred Dividend Requirements...........................
Balance for Common Stock..................................

See Notes to Financial Statements.

Three Months Ended		Nine Months Ended	
1980	1979	1980	1979
(In Thousands)		(In Thousands)	
$245,852	$172,838	$555,514	$433,341
81,059	49,004	189,276	136,973
58,569	47,954	130,142	125,663
(13,955)	3,623	(14,551)	(10,473)
30,016	12,644	77,719	44,563
6,822	6,905	18,271	22,916
16,315	9,950	42,300	29,687
4,267	6,460	19,295	19,119
22,002	11,964	22,387	9,046
205,095	148,504	484,839	377,494
40,757	24,334	70,675	55,847
3,382	11,769	19,400	32,544
792	2,654	4,124	5,241
1,273	3,878	10,405	11,912
5,447	18,301	33,929	49,697
16,811	16,916	49,970	50,237
3,970	1,927	11,110	4,593
(2,195)	(5,390)	(12,968)	(15,280)
18,586	13,453	48,112	39,550
27,618	29,182	56,492	65,994
6,465	4,913	18,937	12,587
$ 21,153	$ 24,269	$ 37,555	$ 53,407

ARKANSAS POWER & LIGHT COMPANY
STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
For the Nine Months Ended September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 56,492	$ 65,994
Depreciation	42,300	29,687
Deferred income taxes and investment tax credit adjustments - net	11,980	20,866
Allowance for funds used during construction	(32,368)	(47,824)
Total	78,404	68,723
Dividends declared:		
Preferred stock	(18,937)	(12,587)
Common stock	(52,143)	(42,263)
Total	(71,080)	(54,850)
Funds retained in business	7,324	13,873
(Increase) in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)	(8,167)	(19,611)
Decrease (Increase) in investment in associated companies - net	3,100	(12,640)
Miscellaneous - net	2,957	(2,572)
Total	5,214	(20,950)
From financing transactions:		
Common stock	20,000	10,000
Preferred stock:		
Issues	50,338	55,636
Retirements	(3,003)	....
First mortgage bonds:		
Issues	....	60,000
Retirements	(6,000)	....
Issues of other long-term debt	15,929	11,131
Book value of utility plant sold	19,599	....
Short-term securities - net	28,820	23,400
Total	125,683	160,167
Total	$130,897	$139,217
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$127,472	$138,312
Fabrication costs of nuclear core	3,262	12,030
Other - net	163	(11,125)
Total	$130,897	$139,217

	1980	1979
(Increase) in Working Capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities):		
Cash and special deposits	$(12,922)	$ (5,676)
Accounts and notes receivable	(26,443)	(9,787)
Deferred fuel cost	(14,551)	(10,474)
Fuel inventory	(25,413)	....
Other current assets	(1,187)	218
Accounts payable	19,423	4,566
Taxes accrued	10,378	(2,498)
Interest accrued	3,706	5,216
Dividends declared	17,193	1,430
Other current liabilities	21,649	(2,606)
Total	$ (8,167)	$(19,611)

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY
NOTES TO FINANCIAL STATEMENTS

1. Rate Matter

Refer to Part II, Item 1. - "Legal Proceedings" in connection with the Attorney General of Arkansas' suit against AP&L for alledged erroneous application of the existing fuel adjustment clause to retail customers from April 1977 through March 1979.

2. Commitments and Financing

Refer to Middle South Utilities, Inc. and Subsidiaries Notes to Financial Statements for information regarding certain commitments and financing obligations of the Middle South System including AP&L.

ARKANSAS POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
THE STATEMENTS OF INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of AP&L for the third quarter of 1980 compared with the second quarter of 1980 and the third quarter of 1979 and the nine months ended September 1980 compared with the corresponding prior year period.

The business of AP&L is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

Operating Revenues

Operating revenues increased $91 million or 59%, $73 million or 42% and $122 million or 28% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increases are due primarily to increased energy sales to ultimate customers and a rate increase to ultimate customers. Additionally, the increase over the nine-month period ended September 1979 was also due to recovery of increased fuel costs through fuel adjustment clauses.

Fuel for Electric Generation

Fuel costs increased $25 million or 45% as compared to the quarter ended June 1980 primarily due to increased volumes of high cost oil-fired generation.

Fuel costs increased $32 million or 65% as compared to the quarter ended September 1979 primarily due to increased oil-fired generation and higher average unit prices for natural gas and nuclear fuel.

Fuel costs increased $52 million or 38% as compared to the nine-month period ended September 1979 due primarily to increased gas-fired and nuclear generation at higher average unit prices. In addition, the increase was partially offset by a decline in higher priced oil-fired generation.

Purchased Power

Purchased power expenses increased $30 million or 106% and $11 million or 22% as compared to the quarters ended June 1980 and September 1979, respectively. The increases for each period are primarily due to higher average unit prices on KWH's purchased.

Deferred Fuel Cost

AP&L's policy is to defer fuel costs in excess of base levels allowed in rate schedules until their recovery (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of

Deferred Fuel Cost (Continued)

energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. The effect of this adjustment was to decrease operating expenses by $14 million for the quarter ended September 1980 and to increase operating expenses by $2.4 million and $3.6 million for the quarters ended June 1980 and September 1979, respectively.

In addition, this adjustment for deferred fuel reduced operating expenses by $15 million and $10 million during the nine-month periods ended September 1980 and September 1979, respectively.

Other Operation Expenses

Other operation expenses increased $4 million or 14%, $17 million or 137% and $33 million or 74% over the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. Excluding the effects of the nuclear fuel reserve accounting policy, as described below, other operation expenses increased $3 million or 13% over the quarter ended June 1980 primarily as a result of inflationary pressures on wages and materials and supplies and services. Other operation expenses increased $8 million or 43% and $17 million or 32% over the three and nine-month periods ended September 1979. The increases are primarily attributable to increased wages, special services, insurance expense and inflationary pressures.

Other operation expenses reflect the inclusion of a deferral provision in amounts equivalent to nuclear fuel surcharges reflected in operating revenues. This provision is designed to offset the effects of higher cost of generation when the nuclear units are out of service for refueling. At such time, amounts previously deferred will be used to reduce expenses, thus the accounting policy more properly matches revenue with expenses. This deferral provision accounts for increases of $9 million and $16 million over the three and nine-month periods ended September 1979, respectively.

Maintenance

Maintenance expense decreased $4.6 million or 20% as compared to the nine-month period ended September 1979 as a result of lesser volumes of oil-fired generation, thereby requiring less maintenance.

Depreciation

Depreciation expenses increased $6 million or 64% and $13 million or 42% as compared to the three and nine-month periods ended September 1979, respectively. The increases are due primarily to the additional depreciation expense recorded as a result of Unit No. 2 at ANO and Unit No. 1 at the White Bluff Plant being placed into commercial operation in March of 1980 and August of 1980, respectively.

Taxes Other Than Income Taxes

Taxes other than income taxes decreased $3.4 million or 45% and $2.2 million or 34% as compared to the quarters ended June 1980 and September 1979, respectively. The decreases are primarily due to a reclassification related to an alternate treatment of franchise taxes as required by an APSC rate order in July 1980.

Income Taxes

The fluctuations in total income tax expense included in operating expenses and in other income for all comparable periods are primarily attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

AFDC

The decrease in this item compared to the quarter ended June 1980 is due to the decrease of AFDC in the quarter ended September 1980 on Unit No. 1 of the White Bluff Plant which went into commercial operation in August of 1980.

The decreases in this item for all other comparable periods are due to the decrease of AFDC in the quarter ended September 1980 on the above mentioned White Bluff Plant and Unit No. 2 of ANO, which went into commercial operation in March of 1980.

Miscellaneous Income and Deductions - Net

The $1.9 million or 70% decrease in this item compared to the quarter ended September 1979 is due primarily to the 1979 gain on disposition of property.

Interest Expense

The $19 million and $10 million increases in interest expense compared to the three and nine-month periods ended September 1979, respectively, are due primarily to additional issuances of debt in conjunction with financing the construction program and increased reliance on short-term financing at high interest rates.

Preferred Dividends

The increases in this item compared to the three and nine-month periods ended September 1979 are due to additional issuances of preferred stock in conjunction with financing the construction program.

OTHER FINANCIAL INFORMATION

In the opinion of AP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of AP&L as of

September 30, 1980 and 1979, and the results of operations for the three and nine-month periods then ended and source of funds for utility plant additions for the nine-month periods then ended.

The financial statements required by instruction 4 have been reviewed by independent public accountants and all adjustments or additional disclosures proposed by such accountants have been made.

LOUISIANA POWER & LIGHT COMPANY
BALANCE SHEETS
September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
ASSETS		
Utility Plant	$2,264,696	$1,985,118
Less accumulated depreciation	385,595	346,219
Utility Plant - Net	1,879,101	1,638,899
Other Property and Investments:		
Investment in associated company	32,697	36,997
Other	401	376
Total	33,098	37,373
Current Assets:		
Cash and special deposits	30,930	21,418
Temporary cash investments - at cost, which approximates market	17,300	....
Accounts and notes receivable (less allowance for doubtful accounts of $135 thousand)	49,448	38,717
Deferred fuel cost	49,266	25,830
Materials and supplies - at average cost	9,070	8,389
Other	2,893	4,796
Total	158,907	99,150
Deferred Debits	2,635	3,337
TOTAL	$2,073,741	$1,778,759
LIABILITIES		
Capitalization:		
Common stock, no par value, authorized 150,000,000 shares; issued and outstanding 74,988,800 shares in 1980 and 61,352,000 shares in 1979	$ 493,900	$ 403,900
Retained earnings	64,330	64,652
Total common equity	558,230	468,552
Preferred stock, without sinking fund	145,882	145,882
Preferred stock, with sinking fund	92,990	57,070
Long-term debt and premium	829,213	774,302
Total capitalization	1,626,315	1,445,806
Current Liabilities:		
Notes payable	130,650	106,615
Currently maturing long-term debt	12,059	1,957
Accounts payable	59,964	42,557
Taxes accrued	18,933	4,855
Accumulated deferred income taxes on deferred fuel	23,855	12,507
Interest accrued	20,593	17,113
Other	37,934	[illegible],523
Total	303,988	204,127
Deferred Credits	136,157	121,557
Reserves	7,281	7,269
TOTAL	$2,073,741	$1,778,759

See Note to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF INCOME
September 30, 1980 and 1979
(Unaudited)

Operating Revenues....................................
Operating Expenses:
Operation:
Fuel for electric generation..........................
Purchased power.......................................
Deferred fuel cost....................................
Other...
Maintenance...
Depreciation..
Taxes other than income taxes.........................
Income taxes..
Total...
Operating Income......................................
Other Income:
Allowance for equity funds used during construction......
Miscellaneous income and deductions-net...............
Income taxes-cr.......................................
Total...
Interest and Other Charges:
Interest on long-term debt............................
Other interest-net....................................
Allowance for borrowed funds used during construction-cr.......................................
Total...
Net Income..
Preferred Dividend Requirements.......................
Balance for Common Stock..............................

See Note to Financial Statements.

Three Months Ended		Nine Months Ended	
1980	1979	1980	1979
(In Thousands)		(In Thousands)	
$273,716	$169,192	$607,948	$400,512
115,765	61,566	222,692	148,762
75,622	46,590	182,665	94,419
(17,768)	(7,111)	(34,212)	(25,830)
14,898	14,500	45,091	40,328
6,558	7,260	21,669	22,350
10,604	10,167	31,813	30,500
4,437	4,281	13,676	12,487
23,550	9,270	37,711	18,330
233,666	146,523	521,105	341,346
40,050	22,669	86,843	59,166
8,142	8,067	23,003	22,122
1,437	1,191	5,143	3,149
3,583	3,135	9,593	8,648
13,162	12,393	37,739	33,919
17,327	15,246	51,832	44,024
4,101	2,825	11,857	9,392
(4,579)	(3,974)	(12,939)	(10,896)
16,849	[illegible],097	50,750	42,520
36,363	20,965	73,832	50,565
5,952	5,188	17,855	10,593
$ 30,411	$ 15,777	$ 55,977	$ 39,972

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
For the Nine Months Ended September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 73,832	$ 50,565
Depreciation	31,813	30,500
Amortization of property loss	....	3,076
Deferred income taxes and investment tax credit adjustments - net	20,955	10,134
Allowance for funds used during construction	(35,942)	(33,018)
Total	90,658	61,257
Dividends declared:		
Preferred stock	(17,855)	(10,593)
Common stock	(50,174)	(38,473)
Total	(68,029)	(49,066)
Funds retained in business	22,629	12,191
(Increase) in working capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities)	(27,520)	(46,575)
Decrease (Increase) in investment in associated company - net	4,300	(16,195)
Miscellaneous - net	4,788	2,348
Total	4,197	(48,231)
From financing transactions:		
Common stock	65,000	50,000
Preferred stock	....	92,143
First mortgage bonds:		
Issues	....	45,000
Other long-term debt:		
Issues and assumptions	4,573	2,499
Retirements	(1,885)	(1,678)
Short-term securities - net	88,975	22,525
Total	156,663	210,489
Total	$160,860	$162,258
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$156,725	$160,483
Other - net	4,135	1,775
Total	$160,860	$162,258

	1980	1979
(Increase) in Working Capital (excluding short-term securities, current maturities and deferred taxes included in current liabilities):		
Cash and special deposits	$ (9,563)	$ 2,156
Accounts and notes receivable	(22,143)	(20,304)
Deferred fuel cost	(34,212)	(25,830)
Materials and supplies	1,725	(346)
Accounts payable	364	(8,468)
Taxes accrued	15,474	3,370
Dividends declared	15,273	2,827
Other - net	5,562	20
Total	$(27,520)	$(46,575)

See Note to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
NOTE TO FINANCIAL STATEMENTS

1. Commitments and Financing

Refer to Middle South Utilities, Inc. and Subsidiaries Notes to Financial Statements for information regarding certain commitments and financing obligations of the Middle South System including LP&L.

LOUISIANA POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
THE STATEMENTS OF INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of LP&L for the third quarter of 1980 compared with the second quarter of 1980 and the third quarter of 1979 and the nine months ended September 1980 compared with the corresponding prior year period.

The business of LP&L is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

Operating Revenues

The $104 million or 62% increase over the second quarter of 1980 is primarily due to increased recovery of increased fuel costs through fuel adjustment clauses and larger volumes of electric energy sales. Electric operating revenues increased $105 million or 62% and $207 million or 52% over the three and nine-month periods ended September 1979 primarily due to the recovery of increased fuel costs through fuel adjustment clauses and a rate increase to ultimate customers.

Fuel for Electric Generation

Fuel costs increased $56 million or 94% as compared to the quarter ended June 1980 primarily due to increased oil-fired generation and a higher average unit price for natural gas.

The increases in fuel costs compared to the three and nine-month periods ended September 1979 of $54 million or 88% and $74 million or 50%, respectively, are primarily due to higher average unit prices for natural gas and oil partially offset by a decline in gas-fired generation as a result of reduced availability of natural gas.

Purchased Power

Purchased power expenses increased $13 million or 21%, $29 million or 62% and $88 million or 94% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increases for each period are primarily due to larger volumes of KWH's purchased at higher average unit prices to partially offset the reduced availability of natural gas and to displace higher cost oil-fired generation.

Deferred Fuel Cost

LP&L defers fuel costs in excess of base levels allowed in rate schedules until these costs are reflected in billings to customers (generally two months later) pursuant to the fuel adjustment clause. The deferral results in a better matching of energy costs with related revenues. Thus, the deferred fuel cost amount represents a net adjustment of energy costs. When there are wide fluctuations in the cost of energy between periods, the adjustments necessary can be quite large. The effect of this adjustment for the quarters ended September 1980 and September 1979 and the nine-month periods ended September 1980 and September 1979 was to reduce operating expenses by $18 million, $7 million, $34 million and $26 million, respectively.

Other Operation Expenses

Other operation expenses increased $5 million or 12% as compared to the nine-month period ended September 1979 primarily due to inflationary pressures on wages, materials and supplies and services.

Maintenance

Maintenance expense decreased $2.1 million or 24% as compared to the quarter ended June 1980 due primarily to a greater demand for energy necessitating the performance of only the minimum amount of maintenance during the quarter ended September 1980.

Income Taxes

The fluctuations in total income tax expense included in operating expenses for all comparable periods are primarily attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

AFDC

The increase in AFDC over the quarter ended June 1980 is due primarily to increased levels of CWIP.

Miscellaneous Income and Deductions - Net

Higher rates of interest on investments in SFI, an affiliated company, and temporary cash investments are primarily responsible for the $2 million increase in this item over the nine-month period ended September 1979.

Interest Expense

The $3 million and $10 million increases in interest expense compared to the three and nine-month periods ended September 1979, respectively, are due primarily to additional issuances of debt in conjunction with financing the construction program and increased reliance on short-term financing at high interest rates.

Preferred Dividends

The increase in this item compared to the nine-month period ended September 1979 is due to additional issuances of preferred stock in conjunction with financing the construction program.

OTHER FINANCIAL INFORMATION

In the opinion of LP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of LP&L as of

September 30, 1980 and 1979, and the results of operations for the three and nine-month periods then ended and source of funds for utility plant additions for the nine-month periods then ended.

The financial statements required by instruction 4 have been reviewed by independent public accountants and all adjustments or additional disclosures proposed by such accountants have been made.

MISSISSIPPI POWER & LIGHT COMPANY
BALANCE SHEETS
September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
ASSETS		
Utility Plant	$773,705	$750,285
Less accumulated depreciation	234,863	212,753
Utility Plant - Net	538,842	537,532
Other Property and Investments:		
Investment in associated company	15,284	16,984
Other	885	911
Total	16,169	17,895
Current Assets:		
Cash and special deposits	6,455	2,666
Temporary investments - at cost, which approximates market	1,500	2,500
Accounts receivable (less allowance for doubtful accounts of $154 thousand)	49,709	27,763
Fuel inventory - at average cost	5,861	3,809
Materials and supplies - at average cost	9,659	9,571
Other	6,701	5,360
Total	79,885	51,669
Deferred Debits	3,148	1,774
TOTAL	$638,044	$608,870
LIABILITIES		
Capitalization:		
Common stock, no par value (stated value $23 per share) authorized 5,000,000 shares; issued and outstanding 4,540,000 shares	$104,420	$104,420
Paid-in capital	5	5
Retained earnings	73,550	66,801
Total common equity	177,975	171,226
Preferred stock, without sinking fund	38,077	38,077
Long-term debt and premium	262,876	263,396
Total capitalization	478,928	472,699
Current Liabilities:		
Notes payable	....	9,000
Currently maturing long-term debt	456	7,929
Accounts payable	32,369	17,243
Taxes accrued	25,849	14,989
Interest accrued	5,358	4,969
Other	16,831	12,325
Total	80,863	66,455
Deferred Credits	74,254	67,894
Reserves	3,999	1,822
TOTAL	$638,044	$608,870

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF INCOME
September 30, 1980 and 1979
(Unaudited)

Operating Revenues..
Operating Expenses:
Operation:
Fuel for electric generation........................
Purchased power.....................................
Other...
Maintenance...
Depreciation..
Taxes other than income taxes...........................
Income taxes..
Total...
Operating Income..
Other Income:
Allowance for equity funds used during construction...
Miscellaneous income and deductions-net...............
Income taxes-cr...
Total...
Interest and Other Charges:
Interest on long-term debt..............................
Other interest-net......................................
Allowance for borrowed funds used during construction-cr......................................
Total...
Net Income..
Preferred Dividend Requirements...........................
Balance for Common Stock..................................

See Notes to Financial Statements.

Three Months Ended		Nine Months Ended	
1980	1979	1980	1979
(In Thousands)		(In Thousands)	
$191,202	$136,005	$410,720	$332,150
97,614	77,275	208,710	166,909
29,373	13,272	64,605	50,759
10,795	10,053	30,194	27,396
5,728	6,725	18,045	15,482
5,685	5,275	17,055	15,824
4,710	4,313	13,251	12,238
15,032	5,959	19,763	11,801
168,937	122,872	371,623	300,409
22,265	13,133	39,097	31,741
156	183	394	382
402	508	2,127	1,746
16	(100)	(502)	(514)
574	591	2,019	1,614
4,841	4,895	14,615	14,690
241	270	701	468
(252)	(166)	(634)	(347)
4,830	4,999	14,682	14,811
18,009	8,725	26,434	18,544
596	596	1,788	1,788
$ 17,413	$ 8,129	$ 24,646	$ 16,756

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
For the Nine Months Ended September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 26,434	$ 18,544
Depreciation	17,055	15,824
Deferred income taxes and investment tax credit adjustments - net	4,239	4,589
Allowance for funds used during construction	(1,028)	(729)
Total	46,700	38,228
Dividends declared:		
Preferred stock	(1,788)	(1,788)
Common stock	(16,480)	(14,574)
Total	(18,268)	(16,362)
Funds retained in business	28,432	21,866
(Increase) in working capital (excluding short-term securities and current maturities)	(2,740)	(8,950)
Decrease (Increase) in investment in associated company - net	1,700	(6,715)
Miscellaneous - net	2,707	65
Total	30,099	6,266
From financing transactions:		
Retirement of first mortgage bonds	(7,500)	(7,500)
Other long-term debt:		
Retirements	(429)	(405)
Short-term securities - net	(500)	31,000
Total	(8,429)	23,095
Total	$ 21,670	$ 29,361
Utility Plant Additions:		
Construction expenditures (excluded allowance for funds used during construction)	$ 21,670	$ 29,361

	1980	1979
(Increase) in Working Capital (excluding short-term securities and current maturities):		
Cash and special deposits	$ (4,346)	$ (1,330)
Accounts receivable	(18,875)	(6,778)
Fuel inventory	377	1,630
Materials and supplies	146	(2,386)
Other current assets	(4,512)	1,323
Accounts payable	8,194	(655)
Taxes accrued	13,008	(539)
Interest accrued	(921)	(1,992)
Other current liabilities	4,189	1,777
Total	$ (2,740)	$ (8,950)

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
NOTES TO FINANCIAL STATEMENTS

1. Rate Matter

Refer to Part II, Item 1 - "Legal Proceedings" in connection with MP&L's application filed with the MPSC on May 28, 1980 for an increase in electric rates to retail customers which were put into effect subject to refund on July 1, 1980.

2. Commitments and Financing

Refer to Middle South Utilities, Inc. and Subsidiaries Notes to Financial Statements for information regarding certain commitments and financing obligations of the Middle South System including MP&L.

MISSISSIPPI POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
THE STATEMENTS OF INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of MP&L for the third quarter of 1980 compared with the second quarter of 1980 and the third quarter of 1979 and the nine months ended September 1980 compared with the corresponding prior year period.

The business of MP&L is subject to seasonal fluctuations with the peak period occurring during the summer months. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

Operating Revenues

Electric operating revenues increased $85 million or 80%, $55 million or 41% and $79 million or 24% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. These increases are due primarily to the recovery of increased fuel costs through fuel adjustment clauses, to increased energy sales and to a rate increase placed into effect, subject to refund, to ultimate customers.

Fuel for Electric Generation

Fuel costs increased $40 million or 69% over the quarter ended June 1980 due primarily to increased oil-fired and gas-fired generation at higher average unit prices required to meet increased customer demand brought about by unusually hot weather.

Fuel costs increased $20 million or 26% and $42 million or 25% as compared to the three and nine-months periods ended September 1979, respectively, due primarily to increased gas-fired generation at higher average unit prices which were partially offset by reduced volumes of higher cost oil-fired generation.

Purchased Power

Purchased power expenses increased $14 million or 90%, $16 million or 121% and $14 million or 27% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. These increases are due to larger volumes of higher priced KWH's purchased in order to meet increased customer demand brought about by unusually hot weather.

Other Operation Expenses

Other operation expenses increased $1.8 million or 20% compared to the previous quarter due primarily to other operation expenses being lower in the previous quarter because of a reclassification made in the second quarter of 1980 (retroactive from January 1, 1980) of certain items previously credited to miscellaneous income.

Other Operation Expenses (continued)

Other operation expenses for the nine-month period ended September 1980 increased \$2.8 million or 10% compared to the corresponding period in 1979 due to inflationary pressures on wages and on materials and supplies.

Maintenance

Maintenance expense decreased \$0.7 million or 11% and \$1.0 million or 15% as compared to the quarter ended June 1980 and the three month period ended September 1979, respectively. The decreases are primarily due to reduced scheduled power plant maintenance in order to meet the greater demand for energy in the quarter ended September 1980.

Maintenance expense for the nine-month period ended September 1980 increased \$2.6 million or 17% compared to the corresponding period in 1979 due primarily to increased scheduled maintenance on generating units which is required by the continuous usage of oil as a boiler-fuel and due to inflationary pressures.

Taxes Other Than Income Taxes

The \$0.6 million or 14% increase in taxes other than income taxes compared to the previous quarter is due primarily to increased city franchise taxes.

Income Taxes

The fluctuations in total income tax expense included in operating expenses compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979 are primarily attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

OTHER FINANCIAL INFORMATION

In the opinion of MP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of MP&L as of September 30, 1980 and 1979, and the results of operations for the three and nine-month periods then ended and source of funds for utility plant additions for the nine-month periods then ended.

The financial statements required by instruction 4 have been reviewed by independent public accountants and all adjustments or additional disclosures proposed by such accountants have been made.

NEW ORLEANS PUBLIC SERVICE INC.
BALANCE SHEETS
September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
ASSETS		
Utility Plant	$421,514	$410,250
Less accumulated depreciation	168,677	163,458
Utility Plant - Net	252,837	246,792
Other Property and Investments:		
Investment in associated company	9,317	10,217
Other	49	49
Total	9,366	10,266
Current Assets:		
Cash and special deposits	4,619	3,889
Temporary investments-at cost, which approximates market	23,200	2,100
Accounts and notes receivable (less allowance for doubtful accounts of $500 thousand in 1980 and $370 thousand in 1979):		
Customer	27,144	27,646
Other	6,843	3,504
Materials and supplies - at average cost	6,768	6,116
Other	7,643	4,466
Total	76,217	47,721
Deferred Debits	5,841	1,980
TOTAL	$344,261	$306,759
LIABILITIES		
Capitalization:		
Common stock, $10 par value, authorized 7,000,000 shares in 1980 and 6,000,000 shares in 1979; issued and outstanding 5,935,900 shares	$ 59,359	$ 59,359
Retained earnings	16,516	19,381
Total common equity	75,875	78,740
Preferred stock, without sinking fund	20,117	20,117
Preferred stock, with sinking fund	14,720	....
Long-term debt and premium	126,525	126,546
Total capitalization	237,237	225,403
Current Liabilities:		
Accounts payable	37,381	20,178
Taxes accrued	7,057	5,343
Interest accrued	4,956	4,872
Other	11,030	7,476
Total	60,424	37,869
Deferred Credits	36,851	34,489
Reserves	9,749	8,998
TOTAL	$344,261	$306,759

See Note to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF INCOME
SEPTEMBER 30, 1980 and 1979
(Unaudited)

Operating Revenues:
- Electric..
- Natural gas.....................................
- Transit...
  - Total...

Operating Expenses:
- Operation:
  - Fuel for electric generation..................
  - Purchased power...............................
  - Gas purchased for resale......................
  - Other...
- Maintenance.....................................
- Depreciation....................................
- Taxes other than income taxes...................
- Income taxes....................................
  - Total...

Operating Income..................................

Other Income:
- Allowance for equity funds used during construction.
- Miscellaneous income and deduction-net..........
- Income taxes-cr.................................
  - Total...

Interest and Other Charges:
- Interest on long-term debt......................
- Other interest-net..............................
- Allowance for borrowed funds used during construction-cr..............................
  - Total...

Net Income..
Preferred Dividend Requirements...................

Balance for Common Stock..........................

See Note to Financial Statements.

	Three Months Ended 1980	Three Months Ended 1979	Nine Months Ended 1980	Nine Months Ended 1979
	(In Thousands)		(In Thousands)	
	$ 97,265	$ 77,630	$213,224	$179,299
	14,859	16,171	59,733	60,192
	11,091	9,246	32,163	28,247
	123,215	103,047	305,120	267,738
	54,769	35,470	111,413	82,644
	15,155	19,360	38,642	38,022
	12,463	13,696	47,544	46,638
	17,886	14,967	50,095	43.604
	6,341	4,995	18,525	17,526
	3,415	3,322	10,332	10,108
	4,542	4,124	12,674	11,688
	2,605	1,379	3,196	3,815
	117,176	97,313	292,421	254,045
	6,039	5,734	12,699	13,693
	24	38	111	143
	692	564	2,394	1,315
	(256)	(228)	(996)	(547)
	460	374	1,509	911
	2,190	2,190	6,570	6,570
	187	325	921	551
	(25)	(16)	(116)	(60)
	2,352	2,499	7,375	7,061
	4,147	3,609	6,833	7,543
	820	242	1,914	724
	$ 3,327	$ 3,367	$ 4,919	$ 6,819

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS
For the Nine Months Ended September 30, 1980 and 1979
(Unaudited)

	1980	1979
	(In Thousands)	
Source of Funds:		
From operations:		
Net income	$ 6,833	$ 7,543
Depreciation	10,332	10,108
Deferred income taxes and investment tax credit adjustments - net	976	1,279
Allowance for funds used during construction	(227)	(203)
Total	17,914	18,727
Dividends declared:		
Preferred stock	(1,914)	(723)
Common stock	(7,539)	(6,892)
Total	(9,453)	(7,615)
Funds retained in business	8,461	11,112
Decrease in working capital (excluding short-term securities and current maturities)	9,399	2,604
Decrease (Increase) in investment in associated company - net	900	(3,950)
Miscellaneous - net	563	222
Total	19,323	9,988
From financing transactions:		
Preferred stock	14,720	....
Short-term securities - net	(20,700)	7,300
Total	(5,980)	7,300
Total	$ 13,343	$17,288
Utility Plant Additions (excludes allowance for funds used during construction):		
Construction expenditures	$ 13,348	$17,288
Other - net	(5)	....
Total	$ 13,343	$17,288

	1980	1979
Decrease in Working Capital (excluding short-term securities and current maturities):		
Cash and special deposits	$ (3,119)	$(2,137)
Accounts and notes receivable	(6,246)	(4,434)
Materials and supplies	(97)	(1,010)
Other current assets	(5,960)	(2,124)
Accounts payable	14,680	7,352
Taxes accrued	5,827	288
Interest accrued	2,245	2,206
Other current liabilities	2,069	2,463
Total	$ 9,399	$ 2,604

See Note to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
NOTE TO FINANCIAL STATEMENTS

1. Commitments and Financing

Refer to Middle South Utilities, Inc. and Subsidiaries Notes to Financial Statements for information regarding certain commitments and financing obligations of the Middle South System including NOPSI.

NEW ORLEANS PUBLIC SERVICE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
THE STATEMENTS OF INCOME

The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations of NOPSI for the third quarter of 1980 compared with the second quarter of 1980 and the third quarter of 1979 and the nine months ended September 1980 compared with the corresponding prior year period.

The business of NOPSI is subject to seasonal fluctuations with the peak periods occurring during the summer months for electric and during the winter months for gas operations. Accordingly, earnings information for any interim period should not be considered as a basis for estimating the results of operations for a full year.

Operating Revenues

Electric operating revenues increased $36 million or 59%, $20 million or 25% and $34 million or 19% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increases are due primarily to increased fuel cost recoveries through fuel adjustment clauses. Additionally, the increase over the previous quarter is also due to increased energy sales to ultimate customers and affiliates.

Transit revenues increased $1.8 million or 20% and $3.9 million or 14% compared to the three and nine-month periods ended September 1979, respectively. The increases are due primarily to a transit fare increase effective January 1980.

Fuel for Electric Generation

Fuel costs increased $25 million or 82%, $19 million or 54% and $29 million or 35% as compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The increases are primarily due to increased gas-fired generation at higher average unit prices. Additionally, the increases over the previous quarter of 1980 and the nine-months ended September 1979 were partially offset by reduced volumes of higher cost oil-fired generation.

Purchased Power

Purchased power expenses increased $2.5 million or 20% compared to the previous quarter of 1980 due primarily to KWH's purchased at higher average unit prices.

The decrease in purchased power of $4.2 million or 22% over the quarter ended September 1979 is due primarily to lesser volumes of KWH's purchased.

Other Operation Expenses

Other operation expenses increased $1.8 million or 11%, $2.9 million or 20% and $6 million or 15% compared to the quarter ended June 1980 and the three and nine-month periods ended September 1979, respectively. The

Other Operation Expenses (Continued)

increases over each comparable period are due primarily to inflationary pressures on the costs of wages, employee benefits, materials and supplies and services.

Maintenance

Maintenance expense increased $1.3 million or 27% compared to the quarter ended September 1979 due primarily to increased wages and inflationary pressures.

Taxes Other Than Income Taxes

The increase of $0.7 million or 18% over the previous quarter is due primarily to increases in street use franchise taxes.

The increase of $0.4 million or 10% over the quarter ended September 1979 is due primarily to the increases in street use franchise taxes and FICA taxes.

Income Taxes

The fluctuations in total income tax expense included in operating expenses compared to the quarter ended June 1980 and the quarter ended September 1979 are primarily attributable to changes in income before income taxes and to differences in timing between deductions for tax and book purposes for which deferred taxes were not provided.

Miscellaneous Income and Deductions - Net

The decrease in this item compared to the quarter ended June 1980 is primarily due to a decline in interest on decreased investments in SFI, an affiliated company.

The increase in this item compared to the nine-month period ended September 1979 is primarily due to increased amounts of temporary cash investments at higher interest rates.

Preferred Dividends

The increases in this item compared to the three and nine-month periods ended September 1979 are due to the issuance of additional preferred stock in March 1980 in conjunction with financing the construction program.

OTHER FINANCIAL INFORMATION

In the opinion of NOPSI, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of NOPSI as of September 30, 1980 and 1979, and the results of operations for the three and nine-month periods then ended and source of funds for utility plant additions for the nine-month periods then ended.

The financial statements required by instruction 4 have been reviewed by independent public accountants and all adjustments or additional disclosures proposed by such accountants have been made.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Middle South Utilities, Inc. and Subsidiaries

AP&L

(a) As previously discussed on page 12 of Form 10-K for the year ended December 31, 1979, and page 38 of Form 10-Q for the quarter ended June 30, 1980, the Attorney General of Arkansas filed a complaint with the APSC on April 23, 1979, in which he alleged that AP&L had erroneously applied the existing fuel adjustment clause. On July 7, 1980, the APSC entered an order which found that AP&L had, prior to July 1, 1979, collected fuel adjustment overcharges totaling $1,308,000 and directed it to refund to its customers the overcharges by credits to September bills. Both the Attorney General and AP&L filed petitions for rehearing. By an order entered October 27, 1980, the APSC found AP&L had over-collected from its customers in 1977, 1978 and 1979 a net of approximately $6,200,000 and ordered AP&L to repay this amount plus interest (aggregating approximately $1,580,000 to the date of the order) to its customers by crediting the fuel adjustment charges over six months beginning with November, 1980. On November 3, 1980, AP&L appealed the APSC decision to the Circuit Court of Pulaski County, Arkansas and obtained a temporary stay of the obligation to credit the refund.

(b) As previously discussed on page 39 of Form 10-Q for the quarter ended June 30, 1980, AP&L filed with the APSC on May 29, 1980, an application for a new retail rate increase of approximately $130,100,000, with a request that $86,700,000 of the increase be placed in effect now and the balance of $43,400,000 be placed in effect June 1, 1981. AP&L placed the first phase of the rate increase into effect subject to refund to be applied to electric consumption after October 27, 1980.

(c) On August 28, 1980, AP&L filed with the FERC an application for an increase in its wholesale rates designed to produce approximately $9,970,000 additional annual revenues, based on billing determinants for the twelve months ended August 31, 1979. In its filing, AP&L stated that, pursuant to the terms of a settlement agreement entered into between AP&L and its wholesale customers, it proposed to implement the proposed increase as follows: increases designed to produce approximately $6,996,000 of the total proposed $9,970,000 increase would be placed into effect following implementation of increased retail rates on file with the APSC in AP&L's currently pending retail rate proceeding (as described in paragraph (b)) either under bond or pursuant to an interim or final order of the APSC; and increases designed to produce the remainder of the total proposed $9,970,000 increase would be placed into effect on June 1, 1981, on which date a corresponding phase of AP&L's retail rate increase is proposed to become effective. The wholesale

AP&L

(c) customers have agreed to increases in their rates up to the estimated amounts set out above, with some possible reductions therein if the APSC should not allow the full amount of retail rate increases requested by AP&L in its currently pending retail rate increase application. By order issued October 21, 1980, the FERC accepted the proposed rates, suspended them for one day and permitted them to become effective thereafter, subject to refund, pursuant to the terms of the settlement agreement. AP&L placed the first phase of the new rates into effect, subject to refund, to be applied to electric consumption from November 2, 1980.

(d) On September 15, 1980, AP&L filed with the APSC an application seeking modification, as of October 1, 1980, of its retail fuel adjustment clause so as to eliminate from the computation of its fuel adjustment the cost of coal used as fuel at the White Bluff Plant. The modification was requested because the cost of constructing the unit is not yet included in the rate base, but AP&L is required to factor the lower cost of coal into its fuel adjustment computations. The cost of constructing the unit will not be included in the rate base until the effective date of the final order in the pending proceeding for retail rate increases. The amount of increased revenue from the allowance of this modification would vary from month to month, but it is estimated that it would be approximately $750,000 per month. The APSC in an order entered October 27, 1980 denied the relief requested by AP&L.

(e) As previously reported on page 32 of Form 10-K for the year ended December 31, 1979, AP&L and Reynolds had filed an action in the United States District Court in the District of Columbia against the Secretary of the Interior and SPA alleging that an SPA proposed increase in rates for power and energy to be supplied by SPA for the Reynolds Patterson Reduction Plant pursuant to an agreement dated January 29, 1952, was higher than the increases allowed by the agreement. AP&L and Reynolds asked for a declaratory judgment that the proposed rate was unlawful. On October 20, 1980, the District Court entered an Order finding the proposed rate increase unlawful and enjoining SPA and the Secretary of the Interior from imposing any rate higher than those permitted by the agreement.

MP&L

(a) As previously discussed on page 41 of Form 10-Q for the quarter ended June 30, 1980, MP&L filed an application with the MPSC on May 28, 1980, for an increase in its electric rates to its Mississippi retail customers designed to produce annually approximately $68,768,000 in increased revenues, based on a projected test year ended June 30, 1981. The new rates were put into effect, subject to refund, Item 1. Legal Proceedings (concluded)

MP&L

(a) on July 1, 1980. As of September 30, 1980, MP&L had collected $17,966,475 in additional revenues which are subject to refund. Hearings have been held, and, as is required under Mississippi law, the MPSC will render a decision by November 28, 1980. There have been interventions filed in the rate proceeding. The matter is pending.

(b) On October 8, 1980, Shell filed suit against MP&L in the United States District Court for the Southern District of Mississippi, alleging breach of a contract under which MP&L agreed to purchase and Shell agreed to sell natural gas. The suit seeks an injunction against MP&L to compel compliance with the terms of the contract and damages during the pendancy of the breach, or in the alternative, judgment for damages of $17,964,000. MP&L believes that it has meritorious defenses to the suit. The matter is pending.

Other

(a) The System operating companies have filed petitions for temporary exemptions from the restrictions on the use of natural gas for boiler fuel prescribed by the Powerplant and Industrial Fuel Use Act. Other than for three power plants for which petitions are currently pending, the ERA has granted all petitions filed by the System operating companies. The temporary exemptions allow specified power plants to exceed the restrictions. Most of the exemptions granted to the System operating companies expire on October 31, 1981 but are subject to extension for additional periods for a maximum exemption term of five years, including the initial period. It has been the policy of the ERA to take no action with respect to any natural gas used by generating units for which temporary exemptions are pending. The granting of exemptions by the ERA to various utilities, including those granted to the System operating companies, are the subject of suits and administrative proceedings filed or instituted by various industrial groups seeking to challenge such action by the ERA. The System operating companies have intervened in these suits, which are pending in the United States Court of Appeals for the District of Columbia Circuit, and are participants in the administrative proceedings before the ERA.

Item 9. Exhibits and Reports on Form 8-K

No reports on Form 8-K have been filed by any of the registrants for the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signatures for each undersigned company shall be deemed to relate only to matters having reference to such a company or its subsidiaries.

MIDDLE SOUTH UTILITIES, INC.

/s/ Edwin Lupberger
Edwin Lupberger, Vice President - Chief Financial Officer

/s/ R. J. Estrada
R. J. Estrada, Treasurer

ARKANSAS POWER & LIGHT COMPANY

/s/ Jerry D. Jackson
Jerry D. Jackson, Vice President and Secretary

/s/ John J. Harton
John J. Harton, Treasurer

LOUISIANA POWER & LIGHT COMPANY

/s/ J. H. Erwin, Jr.
J. H. Erwin, Jr., Vice President and Treasurer

/s/ W. H. Talbot
W. H. Talbot, Secretary and Controller

MISSISSIPPI POWER & LIGHT COMPANY

/s/ F. S. York, Jr.
F. S. York, Jr., Vice President, Finance and Secretary

/s/ J. R. Martin
J. R. Martin, Treasurer

NEW ORLEANS PUBLIC SERVICE INC.

/s/ J. H. Chavanne
J. H. Chavanne, Vice President - Finance

/s/ H. K. Hawkins
H. K. Hawkins, Treasurer

Date: November 12, 1980