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

D. L. ASWELL
Vice President-Power Production

August 31, 1981

W3P81-1954
3-A1.19

RECEIVED
AUG 31 1981
U.S. NUCLEAR REGULATORY COMMISSION

Mr. R. L. Tedesco
Assistant Director of Licensing
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

SUBJECT: Waterford 3 SES
Docket No. 50-382
Updated Information to Reflect the
Proposed LP&L - New Orleans Public Service
Consolidation

Dear Mr. Tedesco:

As has been discussed with your staff, a consolidation between Louisiana Power & Light Company and New Orleans Public Service Inc. (NOPSI) is presently being considered. This consolidation would yield a new corporation, entitled Louisiana Power & Light Company, of which the present LP&L would form 80%.

Enclosed is the latest available information which reflects the organizational structure, financial qualifications, and need for power of the proposed corporation.Upon approval of the consolidation by the appropriate agencies, this information will be fully incorporated into the applicable documents.

If you have any questions or comments, please advise.

Yours very truly,

DL Aswell

D. L. Aswell

DLA/RMF/pjl

Enclosure

cc: E. L. Blake, W. M. Stevenson, S. Black

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News Release

LOUISIANA POWER & LIGHT • Public Relations Department, 142 Delaronde St., New Orleans, La. 70174 • Telephone (504) 363-8827

NEW ORLEANS PUBLIC SERVICE • Corporate Communications Department, 317 Baronne St., New Orleans, La. 70160
• Telephone 586-2208/586-2404

FOR IMMEDIATE RELEASE

New Orleans, La., July 31, 1981---Louisiana Power & Light Company and New Orleans Public Service Inc. have jointly begun development of a plan to consolidate their operations which could become effective by early 1982.

The announcement was made today by Jack Wyatt and Jim Cain, presidents, respectively, of LP&L and NOPSI. LP&L presently serves about 524,000 electric customers in 44 Louisiana parishes, including the 15th Ward of the city of New Orleans on the West Bank of the Mississippi River. NOPSI serves about 196,000 electric customers in the city of New Orleans (excluding the 15th Ward) and also provides natural gas and transit service to the entire city of New Orleans.

The new company to emerge from the consolidation will be called Louisiana Power & Light Company (LP&L) and the area now served electricity by NOPSI will become a fourth operating division of LP&L in addition to the three present LP&L operating divisions. Because the electric systems of the two companies have long operated on an interconnected, integrated basis as member companies of Middle South Utilities, the consolidation of electric operations involves little or no significant change in procedures.

to work with the Mayor's Office of Transit Administration to expedite this transition in an orderly fashion and to protect transit employees' interests.

7. Detailed plans are being developed to seek necessary state and federal regulatory approvals and to identify any other legal or corporate issues which must be resolved.

8. The present Louisiana Power & Light Company would represent about 80% of the combined company in customer electric energy use and peak requirements and New Orleans Public Service Inc. would represent about 20%. LP&L is regulated by the Louisiana Public Service Commission in all parishes except the 15th Ward, city of New Orleans, and NOPSI is regulated by the New Orleans City Council. Transfer of regulatory jurisdiction over NOPSI electric and gas operations from the City Council to the Louisiana Public Service Commission will be submitted to New Orleans voters on November 28, 1981, if an ordinance now pending before the New Orleans City Council is adopted.

July 31, 1981

SOME FACTS ABOUT THE PLANNED CONSOLIDATION OF NEW ORLEANS PUBLIC SERVICE INC. AND LOUISIANA POWER & LIGHT COMPANY

1. Louisiana Power & Light Company and New Orleans Public Service Inc. have jointly begun development of a plan to consolidate their operations which could become effective by early 1982. The two companies will be consolidated into a new company to be called Louisiana Power & Light Company (LP&L). The choice of the name for the combined company as LP&L is consistent with names used throughout the Middle South System; i. e., Arkansas Power & Light Company (AP&L) and Mississippi Power & Light Company (MP&L).

2. Customers of both companies will be benefited by the operating economies and efficiencies to be achieved through pooling talent and the consolidation of various functions. Studies by the management and accounting firm of Drees Dunn Lubow & Company, Kansas City, Mo., have identified numerous areas in which savings could be expected, and have quantified in excess of $6,500,000 of annual savings through consolidation.

3. The consolidation will provide increased opportunities for employees of both companies. While detailed staffing has not been finalized, plans for such staffing will be expedited in order that employees can be informed as soon as possible. While a reduction in total employment would be anticipated following consolidation, such reduction will be achieved through normal attrition and no one will be terminated because of the consolidation. Employees' benefit programs likewise will not be adversely affected by the consolidation.

4. Jack Wyatt will serve as chairman and chief executive officer of the new company and Jim Cain will serve as president and chief operating officer. Both companies are presently headquartered in New Orleans and the new company will be headquartered there. The specific location of the consolidated general office has not been decided.

5. The consolidated company will be organized into four divisions, a newly-created Orleans division and the three existing LP&L divisions; i. e., Northern, Southeastern and West Bank. The gas operations of NOPSI will continue to be part of the consolidated company's Orleans division.

6. Since the transit operation requires subsidization from government sources, it is still the continued policy of the companies that the responsibility of providing this service should be transferred to the appropriate government agency. The new company will continue

an acceptable conclusion to this effort in the months ahead."

Consummation of the consolidation will require state and federal regulatory approvals which the companies will seek in due course.

Council. Transfer of regulatory jurisdiction over NOPSI electric and gas operations from the City Council to the Louisiana Public Service Commission will be submitted to New Orleans voters on November 28, 1981, if an ordinance now pending before the New Orleans City Council is adopted.

Louisiana Power & Light Company has 2416 employees and New Orleans Public Service Inc. has 1566 in electric and gas operations. "We anticipate that gas operations will be continued as a part of the new company," Cain said.

Officials of both companies will be working together in the months ahead to achieve an efficient consolidation of personnel, administration and operations. A reduction in total employment would be anticipated following the consolidation. Employees have been informed that such reduction will be achieved through normal attrition and no one will be terminated because of the consolidation. Employees' benefit programs likewise will not be adversely affected by the consolidation, both chief executive officers said.

NOPSI transit operations employ 1340 persons. "Our position with reference to transit continues to be that transit service, which in every major metropolitan area requires subsidy from governmental sources to support it, should be operated either by a municipality or a regional authority," Cain added. "As we have consistently stated, we wish to effect an orderly transfer of the NOPSI transit operation to regional or municipal control and operation and have been working toward that end with the Mayor's Office of Transit Administration. We hope to be able to reach

Upon consolidation of the companies Wyatt will serve as chairman and chief executive officer of the new company, with Cain serving as president and chief operating officer. Both companies are presently headquartered in New Orleans and the new company will also be headquartered there. Other operating companies of the Middle South system are Arkansas Power & Light Company, with its general office in Little Rock, and Mississippi Power & Light Company, with its general office in Jackson.

The two utility executives cited increased economic efficiency as a principal reason for the consolidation, pointing to rising costs and inflation as major factors intensifying the need for utilities to effect efficiencies whenever possible. A study of the operations of the two companies conducted by the management and accounting firm of Drees Dunn Lubow & Company, Kansas City, Mo., indicates numerous areas of savings through consolidation of which expense reductions of more than $6,500,000 annually have been quantified. Most savings would be achieved in administrative and operational costs through elimination of duplication of effort and economies achieved by consolidation of various functions such as engineering, planning, accounting, purchasing and others. Such operating economies and efficiencies would benefit customers of both companies.

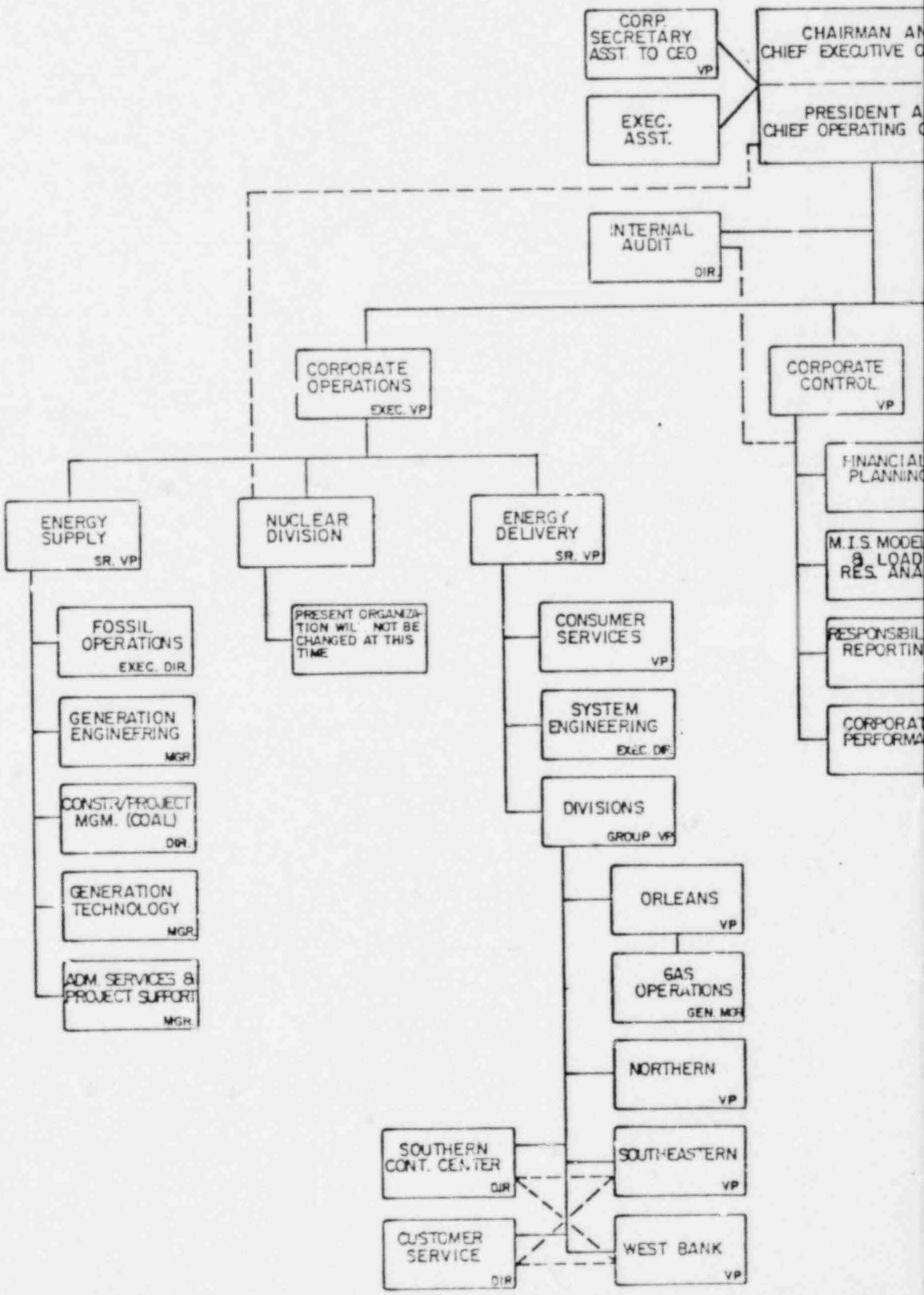
The present Louisiana Power & Light Company would represent about 80% of the combined company in customer electric energy use and peak requirements and New Orleans Public Service Inc. would represent about 20%. LP&L is regulated by the Louisiana Public Service Commission in all parishes except the 15th Ward, city of New Orleans, and NOPSI is regulated by the New Orleans City

ORGANIZATIONAL STRUCTURE

Figure 1 (attached) shows the organization chart for the proposed consolidated company. The implementation of the new organization is contingent upon ultimate approval of the plan for consolidation and the accomplishment of the legal actions required to create the new Louisiana Power & Light Company as a corporate entity.

In regards to the proposed Nuclear Division, the present organization will not be changed at this time other than the reporting structure as depicted on Figure 1.

ORGANIZATION C
LOUISIANA POWER & L
(CONSOLIDATE



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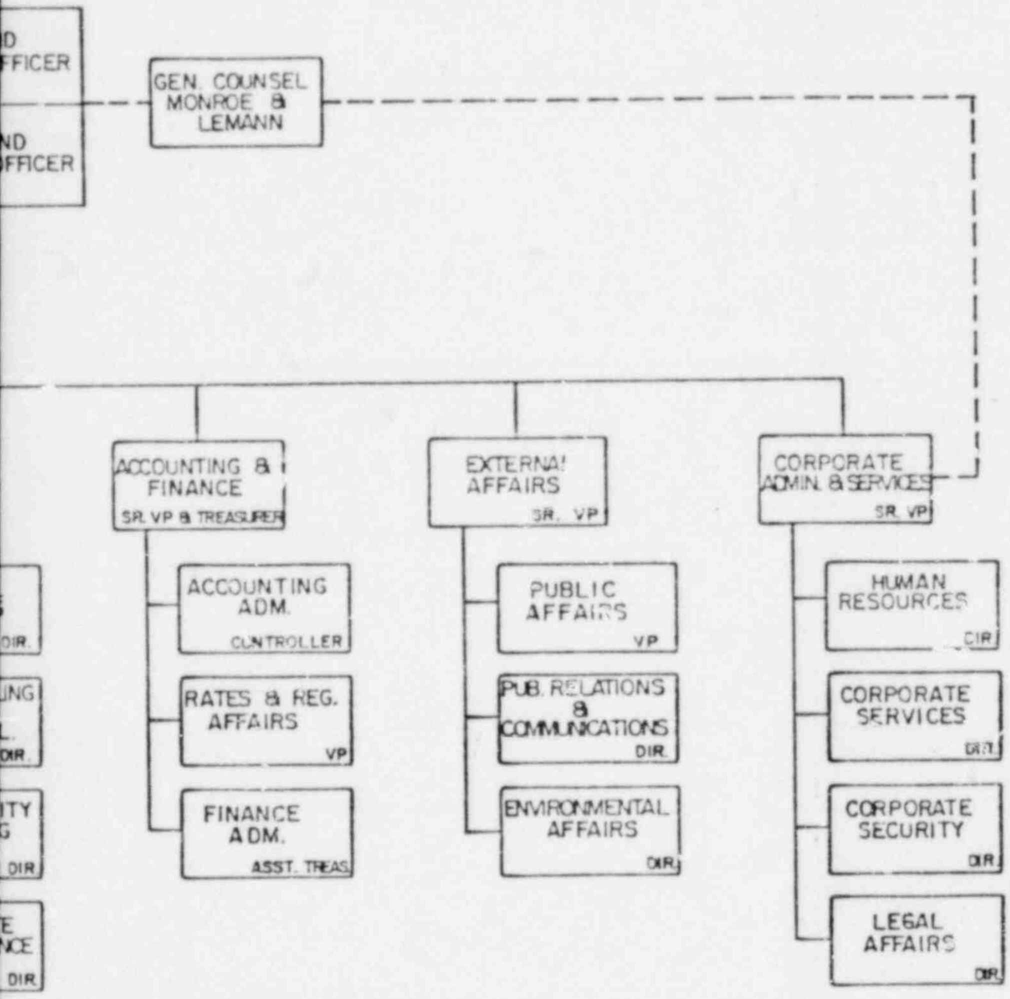

AUGUST 27, 1981

Need for Power

The Impact of the Proposed Consolidation of Louisiana Power & Light Company and New Orleans Public Service, Inc

A1.1.1 PURPOSE

This appendix discusses the impact of a proposed consolidation of Louisiana Power & Light Company (LP&L) and New Orleans Public Service Inc. (NOPSI) upon the presentations and analysis of Chapter 1 of the ER. As indicated in the discussion which follows, the proposed consolidation does not alter the reliability and economic benefits which will result from the commercial operation of Waterford Steam Electric Generating Station Unit No. 3.

A1.1.1.1 Profile of Companies

LP&L is an investor-owned utility serving large portions of Northern and Southeastern Louisiana. LP&L supplies electric service to meet the needs of its approximately 500,000 customers residing in 46 of Louisiana's 64 parishes (counties). NOPSI is an investor-owned utility serving approximately 200,000 customers residing in Orleans Parish (the city of New Orleans). Both LP&L and NOPSI are operating subsidiaries of Middle South Utilities, Inc., (MSU). Both LP&L and NOPSI are members of the Southwest Power Pool (SWPP).

A1.1.2 DEMAND PROJECTIONS

Both LP&L and NOPSI presently forecast future peak demand and energy requirements through the use of the econometric model described in section 1.1.2.3 of Chapter 1 of the report. Each company supplies data specific to its service area for the model's equations and parameters. Since these forecasts apply to independent service areas, a forecast for the consolidated operation of the two companies would consist of a summation of the LP&L and NOPSI load forecasts.

Table A1-1 presents a tabulation of historical and projected loads for LP&L. Table A1-2 presents this same information for NOPSI. Table A1-3 presents a load projection for the consolidated operations of LP&L and NOPSI.

A1.1.3 BENEFITS OF THE OPERATION OF WATERFORD 3

This section describes the advantages that will accrue to the customers served by the consolidated companies by the timely operation of Waterford Unit No. 3. These benefits are identical to those presented in section 1.1.3 of Chapter 1 of the ER. These benefits can be categorized into two types: cost savings to rate payers and an increase in the system reliability.

A1.1.3.1 Economic Advantages of the Operation of Waterford 3

Since all of the presently available LP&L and NOPSI generating capacity utilizes either natural gas or fuel oil, the primary benefit of the commercial operation of Waterford 3 will be fuel cost savings. Since the Middle South system operates under economic dispatch, the energy supplied from nuclear-fueled Waterford 3 will reduce the use of generation dependent on high cost gas and fuel oil. These fuel savings will accrue to the customers of the consolidated companies.

The revenue requirement analysis presented in section 1.1.3 of Chapter 1 discuss the costs associated with potential delays in the operational date for Waterford 3. As discussed below, the consolidation of LP&L and NOPSI will not alter the revenue requirements considered with this analysis. The revenue requirements components are as follows:

1. Capacity equalization charges which LP&L pays to other MSU companies;
2. The reduction in fuel expense by utilizing the nuclear-fueled Waterford 3 in lieu of more costly gas and oil resources; and
3. The revenue requirements to provide a rate of return on the Waterford 3 plant when it enters the rate base.

Capacity equalization charges are payments to other MSU operating companies which provide for the equalization of generating capacity reserve margins amongst the Middle South operating companies. Both LP&L and NOPSI are making capacity equalization payments to other MSU companies. As a result of these payments, LP&L, NOPSI, and the other MSU operating companies have the same percentage reserve margin. The consolidation of LP&L and NOPSI will not alter the reserve margin requirements of the resulting company and thus will not alter the capacity equalization payments. Thus the costs presented in section 1.1.3.1 associated with increased capacity equalization payments which would result if Waterford 3 is delayed will not be affected by the proposed consolidation.

A delay in the commercial operation of Waterford 3 would also result in increased fuel expense. The Middle South System is operated under economic dispatch. A consolidation of two operating companies does not alter the dispatch schedule for generating units within the Middle South system. Thus the fuel expense costs presented in ER sec. 1.1.3.1 would not change due to the proposed consolidation.

The revenue requirements associated with the inclusion of Waterford 3 in the rate base is a function of total plant costs, and thus is not affected by the proposed consolidation.

Since none of the components of the revenue requirment analysis change, the proposed consolidation of LP&L and NOPSI will not alter the analysis and conclusions pertaining to the economic benefits of the operation of Waterford 3.

A1.1.3.2 System Reliability Advantages of the Operation of Waterford 3

The operation of Waterford 3 will improve system reliability by providing diversity in the fuel mix and by providing generating capacity which will improve the system reserve margin. The presently available LP&L and NOPSI generating capacity is fueled from natural gas or fuel oil. The addition of the nuclear-fueled Waterford 3 unit contributes to the reliability of fuel sources by reducing the dependence upon oil and natural gas fuels.

The additional generating capacity provided through the operation of Waterford 3 will improve the reserves, and thus the reliability, of both the LP&L and NOPSI systems. Since the Middle South operating companies equalize reserve capacity, the consolidation of LP&L and NOPSI would have no effect upon the system reserve margins. The percent reserve margin for the consolidated companies (shown in Table A1-3) is identical to that of the existing LP&L and NOPSI systems (Table A1-1 and Table A1-2). The consolidation of LP&L and NOPSI will not diminish the reliability benefits resulting from the operation of Waterford 3.

A1.1.4 CONCLUSION

The proposed consolidation of LP&L and NOPSI will not alter the reliability and economic benefits which will result from the commercial operation of Waterford 3. The analysis and conclusions presented in Chapter 1 of the ER are unaffected by the proposed consolidation.

Table A1-1
Page 1 of 2

LOUISIANA POWER & LIGHT COMPANY
ANNUAL CAPABILITY, LOAD, AND ENERGY HISTORY

		1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1.	Capability with Curtailment	1887	2644	2616	3432	3426	3904	4292	4240	4245	4245	4245
2.	Purchases without Reserves											
	a. MSU Pool	194	-250	-130	-520	-584	-97	-314	-128	-122	198	447
	b. Other	89	45	249	103	145	30	30	74	233	234	288
3.	Total Capability (1+2)	2170	2439	2735	3015	2987	3837	4008	4186	4356	4677	4980
4.	Maximum Hourly Load	1872	2096	2389	2563	2692	2883	3180	3515	3852	4019	4078
5.	Firm Sales with Reserves	74	157	220	0	0	0	0	0	0	0	0
6.	Firm Purchases with Reserves	185	246	143	147	148	150	157	158	165	174	236
7.	Load Responsibility (4+5-6)	1761	2007	2466	2416	2544	2733	3023	3357	3687	3917	4314
8.	Reserve Margin (3-7)	409	432	269	599	443	1104	985	829	669	760	666
9.	Percent Reserve (8-7x100)	23.2	21.5	10.9	24.8	17.4	40.4	32.6	24.7	18.1	19.4	15.4
10.	Net Energy Requirements (gwh)	9763	10739	12060	13417	13865	15046	17289	19438	21375	23097	23945

*Units in megawatts unless otherwise noted

Installed capability at time of system peak

(1) Beginning in June, 1980 approximately 300MW of Rural Electric Cooperative load was no longer included in LP&L's load responsibility.

Table A1-1
Page 2 of 2

LOUISIANA POWER & LIGHT COMPANY
ANNUAL LOAD AND CAPABILITY FORECAST 1981-1990

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Capability with Assumed Fuel Constraints	4245	4245	5349	5280	5240	5177	5177	5897	5897	5827
2. Purchases without Reserves										
a. MSU Pool	706	1006	1096	1016	1317	1319	1292	840	1125	1418
b. Other	233	233	233	233	199	199	199	199	199	199
3. Total Capability (1+2)	5184	5483	6678	6529	6756	6695	6668	6936	7221	7444
4. Maximum Hourly Load	4130	4356	4605	4732	4989	5191	5292	5402	5516	5660
5. Firm Sales with Reserves	0	0	0	0	0	0	0	0	0	0
6. Firm Purchases with Reserves	80	85	87	25	25	25	25	25	25	25
7. Load Responsibility (4+5-6)	4050	4271	4518	4707	4964	5166	5267	5377	5491	5635
8. Reserve Margin (3-7)	1134	1213	2160	1822	1792	1529	1401	1559	1730	1809
9. Percent Reserve (8-7x100)	28.0	28.4	47.8	38.7	36.1	29.6	26.6	29.0	31.5	32.1
10. Net Energy Requirements (gwh)	22611	24460	25978	26834	27963	29106	29626	30182	30856	31719

Table A1-2
Page 1 of 2

NEW ORLEANS PUBLIC SERVICE, INC.

ANNUAL CAPABILITY, LOAD, AND ENERGY HISTORY

	1972	1973	1974	1975	1976	1977	1978	1979	1980
1. Capability with Curtailment	1250	1257	1257	1257	1257	1257	1257	1257	1257
2. Purchases without Reserves									
a. MSU Pool	-243	-89	-237	28	-41	-54	-238	-86	2
b. Other	0	0	0	0	0	0	0	0	0
3. Total Capability (1+2)	1007	1168	1020	1285	1216	1203	1019	1171	1259
4. System Maximum Hourly Load	908	936	869	915	917	965	967	981	1091
5. Firm Sales with Reserves	0	0	0	0	0	0	0	0	0
6. Firm Purchases with Reserves	0	0	0	0	0	0	0	0	0
7. Load Responsibility (4+5-6)	908	936	869	915	917	965	967	981	1091
8. Margin in Excess of Load (3-7)	99	232	151	370	299	238	52	190	168
9. Percent Reserve (8-7x100)	10.9	24.8	17.4	40.4	32.6	24.7	18.2	19.4	15.4
10. Net Energy Requirements (gwh)	4680	4190	3990	4110	4240	4540	4670	4620	4820

Table A1-2
Page 2 of 2

NEW ORLEANS PUBLIC SERVICES, INC.

ANNUAL CAPABILITY, LOAD, AND ENERGY FORECAST

		1982	1983	1984	1985	1986	1987	1988	1989	1990
1.	Capability with Curtailment	1257	1154	1154	1154	1154	1154	1108	1064	1064
2.	Purchases without Reserves (MSU Pool)	33	368	315	321	275	261	351	436	455
3.	Total Capability (1+2)	1290	1522	1469	1475	1429	1415	1459	1500	1519
4.	System Maximum Hourly Load	1005	1030	1059	1084	1103	1118	1131	1141	1150
5.	Firm Sales with Reserves	0	0	0	0	0	0	0	0	0
6.	Firm Purchases with Reserves	0	0	0	0	0	0	0	0	0
7.	Load Responsibility (4+5-6)	1005	1030	1059	1084	1103	1118	1131	1141	1150
8.	Margin in Excess of Load (3-7)	285	492	410	391	326	297	328	359	369
9.	Percent Reserve (8-7x100)	28.4	47.8	38.7	36.1	29.6	26.6	29.0	31.5	32.1
10.	Net Energy Requirements (gwh)	4711	4825	4967	5080	5174	5246	5312	5366	5414

Table A1-3

LP&L and NOPSI CONSOLIDATED

ANNUAL CAPABILITY, LOAD, AND ENERGY FORECAST

		1982	1983	1984	1985	1986	1987	1988	1989	1990
1.	Capability with Assumed Fuel Constraints	5545	6460	6391	6351	6288	6288	7042	7000	7000
2.	Purchases without Reserves									
	a. MSU Pool	1003	1510	1287	1647	1638	1600	1154	1522	1764
	b. Other	233	233	233	233	199	199	199	199	199
3.	Total Capability (1+2)	6781	8203	7911	8231	8125	8087	8395	8721	8963
4.	Maximum Hourly Load	5361	5635	5791	6073	6294	6413	6533	6657	6810
5.	Firm Sales with Reserves	0	0	0	0	0	0	0	0	0
6.	Firm Purchases with Reserves	80	85	87	25	25	25	25	25	25
7.	Load Responsibility (4+5-6)	5281	5550	5704	6048	6269	6388	6508	6632	6785
8.	Reserve Margin (3-7)	1500	2653	2207	2183	1856	1699	1887	2089	2178
9.	Percent Reserve (8-7x100)	28.4	47.8	38.7	36.1	29.6	26.6	29.0	31.5	32.1
10.	Net Energy Requirements (gwh)	29171	30803	31803	33043	34280	34872	35494	36222	37133

FINANCIAL QUALIFICATIONS

Attached is the following requested information concerning the Financial Qualifications of the proposed Company:

1. Louisiana Power & Light Company and New Orleans Public Service Inc. Pro Forma Financial Information.

2. Revised response to NRC Question 410.4.

3. Revised responses to NRC Questions 410.5 and 410.6 dealing with the present Louisiana Power & Light Company.

4. Revised responses to NRC Questions 410.5, 410.6, and 410.7 dealing with New Orleans Public Service Inc.

5. Note that previously submitted responses to NRC Questions 410.1, 410.2, and 410.3 are not addressed here as the proposed consolidation does not affect their validity.

Louisiana Power & Light Company and New Orleans Public Service Inc.
Pro Forma Financial Information

UNOFFICIAL NRC QUESTIONS PERTAINING TO THE CONSOLIDATION

1.) How will the present loans for both companies be handled? Refinancing?

NOPSI had only $4 million in loans at June 30, 1981 and does not expect to have any loans outstanding at year end 1981.

Louisiana Power & Light Company has, for many years, used short-term loans to provide interim financing of its construction program, selling bonds, preferred and common stock from time to time and paying off the short-term loans with the proceeds. We do not see any change in this procedure after the consolidation.

2.) What will be the bond ratings of the consolidated company?

At the present time LP&L's First Mortgage Bonds are rated Baa by Moody's Investor Service, Inc. and BBB- by Standard & Poor's. NOPSI's First Mortgage Bonds are rated A by Moody's and BBB+ by Standard & Poor's.

Any change in the aforementioned bond ratings upon consolidation would, of course, be difficult to ascertain at this time as the rating agencies will obviously make the final determination of the rating after consideration of a number of factors. LP&L and NOPSI believe the ratings should improve as a result of the consolidation.

3.) When will we file the proposed consolidation with the Securities and Exchange Commission?

The proposed consolidation will be filed as soon as possible with the SEC, probably by October 1, 1981, in order to allow adequate time for that Agency to review and issue an order prior to the January 1, 1982 scheduled consolidation date.

4.) Is the EIA loan enough?

This item was deleted.

5.) What are LP&L's and NOPSI's tax year?

Both LP&L's and NOPSI's tax year is the calendar year.

6.) What is the indebtedness of LP&L and NOPSI?

See Table 2 setting forth the capitalization of LP&L and NOPSI.

7.) Will there be a need for approval of debenture bonds?

We assume you are referring to approval from debt security holders. We do not need to secure the consent of the holders of the debt securities.

8.) Are there any swings in the financial reports of NOPSI that may be indicative of instability?

There are no swings in the financial reports of NOPSI that may be indicative of instability. Increases in electric and gas rates effective April 13, 1981 approximating \$18.9 million and \$8.0 million, respectively, should produce improvement in NOPSI financial condition and results of operation in future months.

Table 1

LOUISIANA POWER & LIGHT COMPANY AND NEW ORLEANS PUBLIC SERVICE INC. PRO FORMA CONSOLIDATED ANNUAL REVENUES FROM DELIVERED BENEIFTS

Net generating capacity = 1104 MWe
Expected long term capacity factor = 55%
(For Operational Life of Station)

Note: The below requested information will only be utilized to develop the total annual income (in 1983 dollars) from the sale of electricity. If an estimate of this total income is available, please supply this single figure instead of completing the remainder of this table.

Customer Class	Proportional Distribution of Electrical Energy (1983)	Customer Class Rate Schedule (1983)
Residential	%	¢/KWH
Commercial	%	¢/KWH
Industrial	%	¢/KWH
Government	%	¢/KWH
Total	%	¢/KWH
* Total Sales	100 %	5.88 ¢/KWH

Note: Specify if the breakdown presented above is representative of the entire operation period of Waterford 3, or for 1983.

Representative for 1983.

* Based on forecasts prepared in 1980.

Table 2

Louisiana Power & Light Company (LP&L) and New Orleans Public Service Inc. (NOPSI)
Pro Forma Consolidated Statement of Capitalization
June 30, 1981 (Unaudited)
(In Thousands)

	LP&L	NOPSI	Pro Forma
Long-Term Debt	$903,523	$126,508	$1,030,031
Preferred Stock with Sinking Fund	121,381	14,582	135,963
Preferred Stock without Sinking Fund	145,882	20,117	165,999
Common Stock	498,900	59,359	558,259
Retained Earnings	65,900	9,797	75,697
Total Capitalization	1,735.586	230,363	1,965.949
Notes Payable due within one year	63,192	4,000	67,192
Current maturing Long-Term Debt	52,224	-	52,224
Total Capitalization Including Short-Term Debt	$1,851,002	$234,363	$2,085,365

Table 3

LOUISIANA POWER & LIGHT COMPANY
AND
NEW ORLEANS PUBLIC SERVICE INC.
PRO FORMA CONSOLIDATED FINANCIAL STATISTICS

	12 months ended 1980		1979	
	(dollars in millions)			
Earnings available to common equity	$80.1		$58.7	
Average common equity	$601.4		$531.1	
Rate of return on average common equity	13.3%		11.1%	
Times total interest earned before FIT: Gross income + current and deferred FIT ÷ total interest charges + amortization of debt discount and expense	Incl. AFDC	Excl. AFDC	Incl. AFDC	Excl. AFDC
	2.52	2.00	2.09	1.52
Times long-term interest earned before FIT: Gross income + current and deferred FIT ÷ long-term interest charges + amortization of debt discount and expense	Incl. AFDC	Excl. AFDC	Incl. AFDC	Excl. AFDC
	3.09	2.45	2.44	1.78
Bond ratings (end of period)	LP&L	NOPSI	LP&L	NOPSI
Standard and Poor's	BBB-	BBB+	BBB-	A
Moody's	Baa	A	Baa	A
Times interest and preferred dividends earned after FIT: Gross income ÷ total interest charges + amortization of debt discount and expense + preferred dividends	Incl. AFDC	Excl. AFDC	Incl. AFDC	Excl. AFDC
	1.65	1.24	1.60	1.13
AFUDC	$49.8		$46.1	
Net income after preferred dividends	$80.1		$58.7	
%	62.1%		78.5%	
Market price of common per share*	$11.50		$12.625	
Book value of common per share*	$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	$95.7		$84.4	
Common dividends	$79.2		$61.9	
Ratio	1.38		1.36	
Short-term debt				
Bank loans	$44.3		$32.4	
Commercial Paper	-		-	

LOUISIANA POWER & LIGHT COMPANY
AND
NEW ORLEANS PUBLIC SERVICE INC.
PRO FORMA CONSOLIDATED FINANCIAL STATISTICS

	12 Months Ended 1980	1979
	(dollars in millions)	
Capitalization (Amount & Percent)		
Long-term debt	$955.5 - 50.5%	$954.0 - 53.6%
Preferred stock	$302.0 - 15.9%	$259.0 - 14.6%
Common equity	$636.6 - 33.6%	$566.1 - 31.8%

* If subsidiary company, use parent's data. (Middle South Utilities, Inc. data)

Table 4

Louisiana Power & Light Company and New Orleans Public Service Inc.

Pro Forma Consolidated Weighted Cost of Capital and Components of the Fixed Charge Rate

December 31, 1980

- Weighted Cost of Capital and Breakdown (1980$) (Estimated)

Investment Instrument	Capitalization Ratio	Rate of Return	Weighted Cost of Capital
Long-Term Debt	51.51%	8.53%	4.39%
Preferred Stock	15.45	10.51	1.62
Common Stock Equity	33.04	16.00	5.29
Weighted Cost of Capital	100.00%		11.30%

- Fixed Charges by Component and Rates (Estimated)

Please supply either the fixed charge rate or a breakdown of the various components comprising the fixed charge rate.

Component	Rate
Cost of Capital	11.30%
Income Taxes (Net of Depreciation Reserve)	.61
Depreciation	3.44
Franchise Tax	.18
Advalorem and Property Taxes	.97
Other Taxes	1.03
Property Insurance	.12
Total	17.65%

Table 5

Louisiana Power & Light Company (LP&L) and New Orleans Public Service Inc. (NOPSI)
Pro Forma Consolidated Statement of Income
For the Twelve Months Ended June 30, 1981 (Unaudited)
(In Thousands)

	LP&L	NOPSI	Pro Forma
Operating Revenues	$977,324	$431,798	$1,409,122
Operating Expenses	849,211	417,735	1,266,946
Operating Income	128,113	14,063	142,176
Other Income	60,420	2,441	62,861
Interest and Other Charges	70,684	10,277	80,961
Net Income	117,849	6,227	124,076
Preferred Dividend Requirements	26,783	3,281	30,064
Balance for Common Stock	$91,066	$2,946	$94,012

Note: No attempt has been made to eliminate intercompany transactions, the only significant items being sales for resale and purchased power transactions through the Middle South Power Pool.

Table 6

Louisiana Power & Light Company and New Orleans Public Service Inc.
Pro Forma Consolidation of Times Mortgage Bond Interest Earned (Mortgage Indenture Method) and Times Interest and Preferred Dividend Requirements Earned (Articles of Incorporation Method)
Twelve Months Ended June 30, 1981
(In Thousands)

	LP&L	NOPSI	Pro Forma
Mortgage Indenture Method			
(1) Net operating income	$128,113	$14,063	$142,176
(2) Add total operating taxes	79,221	19,501	98,722
(3) (Deduct) taxes other than income taxes	(19,396)	(17,885)	(37,281)
(4) (Deduct) excess depreciation-indenture method over book method	(5,416)	-	(5,416)
(5) Subtotal	182,522	15,679	198,201
(6) Other income-net	64,996	4,319	69,315
(7) Less excess of Line (6) over 10% of Line (5)	(46,744)	(2,751)	(49,495)
(8) Adjusted net Earnings	$200,774	$17,247	$218,021
(9) Annual interest requirements	$ 85,601	$ 8,760	$ 94,361
(10) Times earned	2.35	1.97	2.31
Articles of Incorporation Method			
(1) Income before interest charges	$188,533	$16,504	$205,037
(2) Allowance for borrowed funds used during construction	19,603	20	19,623
(3) Reduction in income taxes upon annualization of bond interest	6,396	-	6,396
(4) Adjusted net earnings	$214,532	$16,524	$231,056
(5) Interest charges	$ 90,286	$10,297	$100,583
(6) Amount to annualize bond interest	13,210	-	13,210
(7) Annual preferred dividend requirements	28,366	3,281	31,647
(8) Total requirements	$131,862	$13,578	$145,440
(9) Times earned	1.63	1.22	1.59

Question No.

410.4 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 10CDR50.71(b).

Response

Copies of the following documents are attached:

1. Prospectus, $75,000,000, Louisiana Power & Light Company, First Mortgage Bonds, 16% series due April 1, 1991, dated April 14, 1981.

2. Form 10-K, covering Middle South Utilities, Inc., Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc., for the Fiscal Year Ended December 31, 1980.

3. Form 10-Q, covering Middle South Utilities, Inc., Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc., for Quarters Ended March 31, 1981 and June 30, 1981.

4. Middle South Utilities, Inc., 1980 Annual Report.

5. Louisiana Power & Light Company, 1980 Annual Report.

6. New Orleans Public Service Inc., 1980 Annual Report.

PROSPECTUS

$75,000,000

Louisiana Power & Light Company

FIRST MORTGAGE BONDS, 16% SERIES DUE APRIL 1, 1991

Interest payable October 1 and April 1

The New Bonds will be redeemable at the option of the Company, in whole or in part, 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 April 1, 1986, no redemption may be made at a general redemption price through refunding at an effective interest cost to the Company of less than 16.2864% 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. The special redemption price for the New Bonds is 100.00% of the principal amount. 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 99.51% AND ACCRUED INTEREST

	Price to Public (1)	*Underwriting Discounts and Commissions (2)*	*Proceeds to Company (1) (3)*
Per Bond	*99.51%*	*.901%*	*98.609%*
Total	*$74,632,500*	*$675,750*	*$73,956,750*

(1) Plus accrued interest from April 1, 1981.

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

(3) Before deduction of estimated expenses of $225,000 payable by the Company.

The undersigned offered to purchase the New Bonds at public sale under a sealed bid in accordance with the Company's Statement of Terms and Conditions Relating to Bids and have agreed to purchase the New Bonds under the terms and subject to the conditions contained in the Purchase Agreement entered into with the Company.

The New Bonds are offered, subject to prior sale, when, as and if issued by the Company and accepted by the undersigned and subject to approval of certain legal matters by Messrs. Winthrop, Stimson, Putnam & Roberts, counsel for the Underwriters. It is expected that delivery of the New Bonds will be made on or about April 22, 1981, at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N. Y., against payment therefor in New York funds.

MORGAN STANLEY & CO.
Incorporated

BEAR, STEARNS & CO.

DREXEL BURNHAM LAMBERT
Incorporated

LEHMAN BROTHERS KUHN LOEB
Incorporated

L. F. ROTHSCHILD, UNTERBERG, TOWBIN

SHEARSON LOEB RHOADES INC.

SMITH BARNEY, HARRIS UPHAM & CO.
Incorporated

DEAN WITTER REYNOLDS INC.

April 14, 1981

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NEW BONDS OFFERED HEREBY OR ANY OTHER BONDS OF THE COMPANY AT LEVELS ABOVE THOSE 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 Underwriters. 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.

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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 Underwriters. 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.

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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
Articles of Incorporation	The Company's Restated Articles of Incorporation, as amended
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.

Abbreviation or Acronym	Term
New Bonds	$75,000,000 principal amount of the Company's First Mortgage Bonds, 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
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 three other System operating companies, relating to the sharing of generating capacity and other power sources
System operating companies	The Company, AP&L, 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 and NOPSI 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) compliance with environmental requirements, (e) controversies over the use of nuclear power, and (f) 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 financing 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. As a result of the Presidential, Congressional and NRC studies, the NRC issued a document titled, "NRC Action Plan Developed as a Result of the TMI-2 Accident" in May, 1980. Two other documents were issued which provided guidance for establishing radiological emergency plans and support facilities. The above documents require upgraded training and qualifications for operating personnel, improved accident and transient response procedures, plant systems safety improvements, establishment of emergency support facilities and a plant emergency plan that provides for Federal, state and local government involvement in responding to a radiological emergency. These documents and subsequent NRC correspondence have been thoroughly studied by the Company and applicable TMI-2 related modifications are being incorporated in Waterford No. 3.

As a result of anticipated delays in operating license proceedings before the NRC and the Company's financing limitations (see below), the Company delayed the scheduled commercial operation date for Waterford No. 3 from 1982 to 1983. See "Construction Program and Financing" and "Business—Regulation and Litigation".

Financing Limitations and Need for Rate Relief. The Company estimates its requirements for capital funds from external sources during the period 1981-1983 will be approximately $560,000,000, 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 from time to time limited in recent years the Company's ability to issue additional Bonds and Preferred Stock. 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 continue its construction program will be dependent upon its ability to obtain adequate rate relief and increases in earnings. See "Construction Program and Financing" and "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 currently 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 relatively greater cost of 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 94% of its 1981 generation with natural gas (15% with interstate gas), see "Business—Fuel Supply". For information with respect to the Company's 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 relating to its use of natural gas as power plant fuel and related legal proceedings.

The State of Mississippi and the Mississippi Public Service Commission filed a suit in the United States District Court for the Southern District of Mississippi challenging the constitutionality of the Federal energy legislation referred to in clauses (i) through (iii) above. MP&L intervened in the suit in support of the State of Mississippi and the Commission. In February 1981, the District Court ruled in favor of the State of Mississippi, the Commission and MP&L and held that portions of such legislation were unconstitutional. In March 1981, the FERC and the Secretary of Energy, defendants in the suit, appealed the ruling to the United States Supreme Court. The Company cannot, at this time, predict the effect of this litigation.

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/or 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 Bonds will be used for the payment in part of outstanding short-term borrowings estimated not to exceed $110,000,000 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 Bonds in the event of a default by less than all of the Underwriters, see "Underwriters".)

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 June 30, 1982 of up to the lesser of $190,000,000 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 through December 31, 1981. The proceeds of these borrowings are used to finance construction and other corporate expenditures pending permanent financing. At December 31, 1980 the Company had outstanding $44,292,000 of bank loans and no commercial paper. Reference is made to Note 5 to Financial Statements.

The Company's 1981 construction program contemplates expenditures of approximately $280,200,000 (including AFDC of $60,700,000). This estimate contemplates the expenditure of approximately $236,000,000 for production facilities, $9,200,000 for transmission facilities, $34,000,000 for distribution facilities and $1,000,000 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 $294,000,000 in 1982 and $191,000,000 in 1983 (including AFDC of $72,000,000 in 1982 and $34,000,000 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 1981-1983.

The Company estimates that subsequent to the receipt of the proceeds from the sale of the New Bonds, it will require up to $165,000,000 of additional funds from external sources in 1981, principally for construction and for the funding of $52,000,000 of maturing long-term debt, and expects to obtain these funds through short-term borrowings and through the issuance and sale of such other securities as may be determined to be appropriate. In this connection, the Company has received authority under the Holding Company Act to issue and sell to Middle South during 1981 a total of 6,060,700 shares of Common Stock, no par value, for an aggregate purchase price of $40,000,000. 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.

The following tabulation shows details with respect to new generating facilities included in the estimated construction expenditures for 1981-1983.

Unit	Location	Net Capability in MW	Prior to 1981	1981	1982	1983	Total Cost*	Cost per KW	Scheduled Year of Completion
			(Millions of Dollars—except Cost per KW)						
Waterford No. 3	Killona, La.	1,104	$1,010.6	$235.2	$207.5	$ 38.2	$1,491.5	$1,351	1983

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* 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) $14, $8 and $2 for the years 1981, 1982 and 1983, respectively. For information with respect to the sale and leaseback of nuclear fuel by the Company, see Note 7 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 and testing 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. 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 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 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:

	Year Ended December 31,			
			1980	
	1978	1979	Actual	Pro Forma
First Mortgage Bond Coverage	1.94	1.71	2.49(b)	2.14(a)(b)
Preferred Stock Coverage	1.63	1.36	1.56(b)	1.47(a)(b)

(a) As adjusted to give effect to the sale of the New Bonds at an assumed annual interest rate of 16%.

(b) 1980 coverage computations include in earnings revenues subject to refund collected through December 31, 1980 pursuant to the October 8, 1980 LPSC order (see "Business—Rates" and Note 9 to Financial Statements).

Although the Company's First Mortgage Bond coverages at year-end 1978 and 1979 and Preferred Stock coverage at year-end 1979 set forth in the table above were below 2.00 and 1.50, respectively, these coverages during the years 1978 and 1979 were from time to time above the required minimum earnings coverages so that the Company was able to sell additional First Mortgage Bonds and Preferred Stock as needed to continue its construction program. During the period 1978-1980, the Company sold $285,000,000 of additional First Mortgage Bonds and $165,000,000 of additional Preferred Stock. The amounts of additional First Mortgage Bonds and Preferred Stock which may be issued in the future will be contingent upon the ability of the Company to obtain adequate rate relief and increases in earnings. 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 December 31, 1980, and after giving effect to the issuance of the New Bonds at an assumed annual interest rate of 16%, the Company could have issued approximately $36,000,000 of additional Bonds at an assumed annual interest rate of 16% (plus any Bonds issued for refunding purposes) and would have been precluded from issuing additional Preferred Stock. If revenues subject to refund, collected through December 31, 1980 pursuant to the October 8, 1980 LPSC order, were excluded from earnings, the Company could have issued, on the same basis, approximately $9,000,000 of additional Bonds. 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.

Initial authorizing resolutions have been adopted by the Police Jury (the then 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.

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	1980	1979	1978	1977	1976
	(Dollars In Thousands)				
Operating Revenues	$ 853,523	$ 557,476	$ 456,375	$ 378,951	$ 331,277
Net income	100,676	65,129	53,744	44,406	39,277
Total assets	2,078,445	1,842,365	1,557,157	1,298,751	1,158,262
Long-term debt	828,989	827,430	728,748	566,315	575,809
Preferred Stock:					
With sinking fund	121,381	92,990	—	—	—
Without sinking fund	145,882	145,882	110,809	110,809	80,776
Ratio of earnings to fixed charges (as defined) (a)					
Actual	2.55	2.06	2.11	2.34	2.44
Pro forma	2.09				
Supplemental ratio of earnings to fixed charges (as defined) (b)					
Actual	2.41	1.99	2.05	2.27	2.35
Pro forma	2.00				

(a) "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 charged to operating expenses. The pro forma ratio of earnings to fixed charges for the year 1980, after giving effect to (1) the annual interest requirements on the New Bonds (16% rate assumed), the balance of annual interest requirements on the First Mortgage Bonds issued in December 1980, and the elimination of annual interest requirements on the First Mortgage Bonds paid at maturity in November 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 14.7% (bank loans) and 13.7% (commercial paper), on average short-term borrowings of approximately $92,302,000 for bank loans and $9,604,000 for commercial paper outstanding during the year 1980, assumed to be reborrowed during the next twelve months, would be 2.09. A change of ⅛ of 1% in the interest rate on the New Bonds would result in a change of approximately .0018 in this ratio.

(b) 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 in Note (a) above and "fixed charges", in addition to items referred to in Note (a), include the interest factor related to fuel purchased from SFI. The supplemental pro forma ratio of earnings to fixed charges for the year 1980, adjusted to give effect to the items in Note (a), would be 2.00. A change of ⅛ of 1% in the interest rate on the New Bonds would result in a change of approximately .0016 in this ratio.

For the twelve months ended February 28, 1981, operating revenues and net income amounted to $896,174,000 and $105,129,000, respectively; and the ratio of earnings to fixed charges was 2.59, and the pro forma ratio of earnings to fixed charges as referred to in Note (a) above would be 2.15. For the same period, the supplemental ratio of earnings to fixed charges was 2.[illegible]3, and the supplemental pro forma ratio of earnings to fixed charges as referred to in Note (b) above would be 2.06. 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.

Unscheduled outages of two of the Company's generating units have occurred recently as a result of mechanical problems (see "Property—Generating Stations"). These outages are requiring and will require the Company during certain periods to purchase and to rely increasingly upon the purchase of power from both affiliated and non-affiliated companies. Some of this purchased power may be more expensive than power generated by these units. See "Business—Rates" with respect to the Company's recovery of such increased costs from its customers.

Annual interest requirements on the presently outstanding First Mortgage Bonds amount to $73,601,250. Annual interest requirements on the New Bonds will amount to $12,000,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. Financial Condition.

Over the last three years, the Company has experienced problems in a number of areas. Two of the major problems involved (1) the Company's cash requirements necessary to finance large annual construction programs primarily related to the construction of Waterford No. 3, scheduled for operation in 1983, and (2) the inadequacy of and prolonged delays in obtaining rate increases. As a result of the need for capital to finance the annual construction programs, along with inadequate earnings, the Company's Bond and Preferred Stock earnings coverages were at depressed levels during this period.

As compared with the adverse economic conditions that existed over the last three years, the Company hopes shortly to obtain rate relief which should produce significant improvement in its financial condition. Some improvement actually began in 1980 as a result of a rate increase granted to the Company by the LPSC in December 1979 which, along with the unusually hot summer and the interim emergency rate relief granted in October 1980, caused the Company's 1980 earnings to improve when compared with 1979 and 1978.

II. Liquidity and Capital Resources.

As mentioned above, meeting the Company's cash requirements has been one of the major problems over the last three years. Primarily as a result of inadequate earnings and increased costs in conjunction with continuing the construction programs, the Company's net financing transactions amounted to $174,652,000, $252,927,000 and $240,984,000 for 1980, 1979 and 1978, respectively, or 67%, 90% and 88%, respectively, of construction expenditures (including AFDC). Such financing included primarily the sale of First Mortgage Bonds and Preferred Stock, when related earnings coverages, market conditions and other factors permitted, and sales of Common Stock to Middle South. Bank loans and commercial paper were used to finance construction on an interim basis pending permanent financing.

The Company estimates that its requirements for capital funds from external sources during the period 1981-1983 will be approximately $560,000,000, principally for construction programs totaling $765,000,000 and for the funding of $107,000,000 of maturing long-term debt. This $560,000,000 estimate is premised upon the receipt by the Company of adequate rate relief so that the Company's earnings coverages will enable the Company to sell additional First Mortgage Bonds and Preferred Stock over the period to provide funds as needed to continue the construction programs. Additional sales of Common Stock to Middle South and short-term borrowings are estimated to provide a major portion of the balance of funds from external sources. If the Company is unable to obtain the necessary rate relief, the Company may be required to reduce, defer or eliminate certain construction expenditures, including those associated with Waterford No. 3.

III. Results of Operations.

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 1980, 1979 and 1978.

Operating revenues increased $296,047,000, $10[illegible],101,000 and $77,424,000 for the years 1980, 1979 and 1978, respectively. Increased fuel cost recovered through fuel adjustment clauses and increased fuel cost included in new levels of base rates accounted for 69%, 103% and 44% of the respective increases. Rate increases received in this time period increased revenue by 27% in 1980 and by 15% in 1978. Changes in sales of energy were relatively small except in 1978 when increased energy sales to ultimate customers and sales to other utilities as a result of a national coal miners' strike and extremely cold weather accounted for 43% of the increase in operating revenues.

Increases in operation and maintenance expense were primarily due to higher fuel and purchased power costs. Fuel costs rose over the 1978-1980 period, reflecting increases in the average unit prices for natural gas and oil. Increased purchased power costs reflected not only higher average unit prices but also larger volumes of energy purchased to displace even higher cost gas and/or oil-fired generation. A portion of the increases in fuel and purchased power costs in 1978 also resulted from higher demands for electric service. Other operation expense, exclusive of deferred fuel cost, increased as a result of the effects of inflation 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 due to increased scheduled maintenance on generating units, which is required by continuous usage of oil as boiler fuel, unscheduled maintenance and inflationary pressures.

The amortization of property losses increased from $2,835,000 in 1977 to $4,101,000 in 1978 due to settlement of cancellation charges with a contractor in excess of the amount estimated. The abandonment loss had been completely amortized by December 31, 1979 and thus no amortization has been recorded in 1980.

The increase in taxes other than income taxes for the years 1979 and 1980 is due primarily to increased real and personal property taxes and franchise taxes.

The fluctuations in total income tax expense included in operating expenses and in other income in 1980, 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.

The increase in AFDC is primarily attributable to the increased amounts of CWIP.

Additional investments in SFI, an affiliated company, and higher rates of interest on such investments are primarily responsible for the increases in miscellaneous income and deductions in 1979 and 1980.

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

IV. Effects of Inflation.

Inflation has had a significant impact on the Company's operations in recent years (see Note 12 to Financial Statements).

V. Summary.

The Company believes that adequate and timely rate increases are the major factors in determining its ability to meet the energy demands of its customers. Such rate increases, along with the Company's continuing efforts to control costs in all areas of operation, should produce the earnings growth and the financing ability necessary to meet such demands. As of December 31, 1980, the Company had pending $216,544,000 in proposed annual rate increases (see "Business—Rates" and Note 9 to Financial Statements).

OPERATING STATISTICS

	Year Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	16,440	18,429	21,251
Purchased	8,670	5,860	2,799
Interchanged—net	5	33	(70)
Total generated, purchased and interchanged	25,115	24,322	23,980
Company use, distribution losses and unaccounted for	1,170	1,070	1,268
Total energy sales	23,945	23,252	22,712
Average Fuel Cost per KWH Generated (Cents)	1.81	1.03	0.79
Energy Sales (Millions of KWH):			
Residential	6,398	5,996	5,862
Commercial	2,876	2,721	2,624
Industrial	11,963	11,388	9,685
Governmental	463	445	394
Total sales to ultimate customers	21,700	20,550	18,565
Sales for resale(1)	2,245	2,702	4,147
Total energy sales	23,945	23,252	22,712
Total Operating Expenses per KWH of Energy Sales (Cents)(2)	3.08	2.08	1.70
Number of Customers (End of period):			
Residential	457,191	443,527	427,938
Commercial	48,617	46,848	44,884
Industrial	6,846	7,162	7,518
Governmental	3,242	3,108	2,978
Total ultimate customers	515,896	500,645	483,318
Sales for resale	8	65	66
Total customers	515,904	500,710	483,384
Operating Revenues (In Thousands):			
Residential	$265,080	$180,364	$146,326
Commercial	123,656	85,983	68,328
Industrial	358,177	212,853	141,803
Governmental	17,208	11,688	8,451
Total from ultimate customers	764,121	490,888	364,908
Sales for resale(1)	81,887	61,704	87,677
Total from energy sales	846,008	552,592	452,585
Miscellaneous	7,515	4,884	3,790
Total operating revenues	$853,523	$557,476	$456,375
Average Revenue per KWH (Cents):			
Residential	4.14	3.01	2.50
Commercial	4.30	3.16	2.60
Industrial(2)	2.99	1.87	1.46
Governmental	3.72	2.63	2.15
Sales for resale(1)	3.65	2.28	2.11
Total energy sales	3.53	2.38	1.99

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(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 57% of the revenues from sales for resale for the year 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 496 communities. The estimated population of the area in which the Company furnishes electric service was 1,553,000 as of December 31, 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 December 31, 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 47% of its industrial revenues from chemical and allied product industries and 19% 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 Company's contracts with the rural electric cooperatives and two of the municipalities have expired, and these customers are now receiving their power requirements from other sources. Although decision on the application is still pending before the FERC, the Company believes that, due to the loss of most of these customers, the total amount of rate relief ultimately awarded will not be material.

All of the Company's rate schedules include adjustments for changes in the cost of fuel (which generally result 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.

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 three years are shown in the following table:

	Natural Gas		Fuel Oil	
Year	Cost per KWH	Percent of Generation	Cost per KWH	Percent of Generation
1978	0.46¢	78.2%	1.98¢	21.8%
1979	0.66	82.0	2.75	18.0
1980	1.30	80.6*	3.92	19.4

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*95% of this gas was supplied under the major gas supply contracts tabulated below.

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 December 31, 1980 these curtailments amounted to 18% of contract entitlement, and for the year 1981 these curtailments are estimated to be 15% of contract entitlement. Due to uncertainties of United's curtailment plan currently before Federal regulatory authorities and the courts, it is impossible to predict accurately 1981 deliveries from United. The deficiencies in deliveries by United have been, and will be, compensated for by additional purchases of fuel oil and gas 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 (Trillion BTU)
Indeterminate	9.1*
January 1, 1986	66.6**
January 1, 1991	37.0**
January 1, 1993	42.0**
January 1, 1993	29.2*
August 11, 2001	18.1***

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* 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 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 in 1980 were substantially less than the contract quantities and the supplier has advised that it will be unable to deliver the contract quantities. The Company estimates that actual deliveries will amount to about 50% of contract quantities in 1981. Although there have been some negotiations with regard to the contract differences by the supplier relating to undelivered contract quantities, any deficiencies in deliveries by the supplier have been, and will be, compensated for by additional purchases of fuel oil and gas and by energy purchases from other companies.

*** 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 year 1980 averaged only about 3,400 Mcf per day. Other supply arrangements, some of them short-term, currently provide additional deliveries to the Sterlington Station averaging about 71,000 Mcf per day.

The Company estimated at December 31, 1980 that its percentages of generation by type of fuel 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. All but one of the exemptions granted to the Company expire in the last quarter of 1981, but are subject to extension for additional periods for a maximum exemption term of five years, including the initial period. One exemption has already been granted for the maximum five year term. All but one of these exemptions are the subject of suits by various industrial groups and a gas utility company seeking to challenge such action by the ERA. The Company has intervened in these suits, which have now been consolidated and are pending in the United States Court of Appeals for the District of Columbia Circuit.

Factors which may affect the percentages of generation by type of fuel in 1981 and future years include availability and price of supplies 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, during 1981, will be supplied primarily by SFI which operates on a non-profit basis for the purposes of planning and implementing programs for the procurement of fuel supplies for the Middle South System. As of January 31, 1981, the fuel oil requirements of the Middle South System for 1981 were estimated to be approximately 3.3 million barrels, for all of which the Middle South System has contracted. At January 31, 1981 the total fuel oil inventory of the Middle South System was approximately 5.2 million barrels. The Middle South System's storage capacity at January 31, 1981 was 10.2 million barrels.

SFI has a long-term fuel oil supply agreement with Marathon Oil Company providing for the purchase 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. In February 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. In April 1979, Marathon filed a counterclaim against SFI alleging mutual error and requesting that the contract be set aside. The matter is pending.

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	↓ Firm Contract with DOE through 2010 ↑	X	
1983	X	X		X	
1984	X	X		X	
1985	X	X		X	
1986	X			X	
1987	X			X	
1988				X	
1989				X	
1990				X	
1991				X	
1992				X	
1993				X	

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* 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, but 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, 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 1/31/81	Company's Share of Maximum Borrowings Authorized at 1/31/81	Total Amount Outstanding at 1/31/81	Company's Share of Total Amount Outstanding at 1/31/81
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	1/4/78-12/31/81	due 12/31/2006	$261,500,000	$89,010,000	54,500,000	22,135,000
					$ 94,000,000	$36,130,250

In addition, the System operating companies, including the Company, 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 certain borrowing arrangements. The total loan commitments under these arrangements amounted to $221,196,000 at January 31, 1981, of which $133,955,000 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 long-term leases of oil storage and handling facilities and coal hopper cars having, at January 31, 1981, an aggregate discounted value of approximately $59,150,000. The Company owns 33% of the common stock of SFI.

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 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, 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. During the period through January 31, 1981, SFI made such an optional investment of $4.8 million, which was borrowed from its parent companies. In addition to this amount, SFI anticipated at January 31, 1981 that its total additional investments would 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 its options in the contract 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 that due to difficulties in obtaining mining permits, first deliveries under the contract are estimated to be delayed approximately one year to January 1, 1984.

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 pursuant 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, where it is regulated by the Council. 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. Recent actions taken by the NRC have resulted in 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 were filed by Oystershell Alliance, Inc. and Save Our Wetlands, Inc. and by Louisiana Consumers' 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. Over the Company's opposition, these petitions to intervene have been granted. 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 construction 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. Waldinger has filed a motion for summary judgment as to some of the issues. 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 1981, 1982 and 1983 in the approximate amounts of $17,600,000, $18,500,000 and $4,100,000, 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.

On December 2, 1980, the EPA issued final regulations on visibility protection. A group of utilities, including the Company, is challenging portions of these regulations in a suit filed January 30, 1981 in the United States Court of Appeals for the District of Columbia Circuit.

The EPA has also promulgated final regulations on NSPS. The Company, as a member of the same group of utilities referred to above, petitioned for judicial review of these regulations to the United States Court of Appeals for the District of Columbia Circuit and 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 the 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. The Company, as part of a group of utilities, is challenging portions of the Section 120 Noncompliance regulations in a suit filed September 26, 1980 in the United States Court of Appeals for the District of Columbia Circuit.

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. Revisions of the remanded portions of the rules concerning thermal discharges have not been proposed by the EPA at this time.

The Company obtained requisite NPDES permits for all major existing generating stations and is now in the process of obtaining renewals, with draft permits and/or permit continuation letters having now been received from the EPA with respect to all such stations except the Sterlington Station. The renewal application for the Sterlington Station is presently being processed by the EPA. Permits for these generating stations have also been issued by the applicable state authority. The Clean Water Act Amendments of 1977 and the regulations promulgated thereunder, in concert with ongoing programs instituted under the FWPCA, have raised a variety of issues concerning toxic and hazardous substances. Substantial new requirements concerning these matters could be imposed by the EPA 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, is 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.

With respect to the generating facilities of the electric utility systems at the six municipalities which the Company is operating: one is covered by an existing NPDES permit and the Company has filed additional material with the EPA to obtain a renewal of the permit and has received from the EPA a draft renewal permit; two are the subject of EPA processing of the question whether NPDES permits are needed; one is the subject of a recent EPA request to the Company to file for such a permit; one municipality had filed for renewal of its NPDES permit before the Company commenced operation of its electric utility system but neither the Company nor the municipality has heard anything with respect thereto from the EPA and the original permit, by its terms, has expired; and one was covered by an NPDES permit and the Company has filed and is in the process of filing additional material with the EPA to obtain a renewal of the permit but the original permit had, by its terms, expired before the renewal application was filed.

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.

Toxic Substances: The EPA's polychlorinated biphenyls 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 frequently found in varying concentrations in capacitors and transformers manufactured before 1977. 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, 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 biphenyls regulations. On October 30, 1980, the Court overturned the 50 parts per million cut off for enforcement of the polychlorinated biphenyls regulations and the classification of transformers and capacitors as totally enclosed uses exempted from the use ban of the Toxic Substances Control Act. A motion for reconsideration was denied, but a temporary stay was granted until January 21, 1981 to allow for a negotiated settlement agreement. Such an agreement was reached on January 21, 1981, at which time a joint motion for an eighteen month stay was filed. This motion was granted on February 12, 1981. The agreement provides for an interim inspection program for certain transformers and for a program of information gathering designed to support subsequent EPA rulemaking.

Hazardous and Solid Wastes: Pursuant to the RCRA, the EPA has issued guidelines for the states to use in formulating a solid waste control program. Louisiana recently promulgated a solid waste control program, effective January 20, 1981, which contemplates creating a related program regulating resource recovery and recycling. The effect of this program is now being evaluated.

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 19, 1980 interim status filing deadline by reporting to the EPA certain possible hazardous waste activities. On November 19, 1980, the Company notified the EPA of (1) its withdrawal of its interim status filing as regards the treatment, storage or disposal aspects of its NPDES facilities and (2) the retention of waste generator status for certain temporary purposes. The RCRA also provides for state administration of certain elements of the hazardous waste program during the initial period of this new regulatory plan. In order to obtain authority to administer such a program, a state must show that its plan is no less stringent than the Federal rules and that it has the administrative capacity to handle the program. The State of Louisiana has received such authorization for a portion of its program. Plans for compliance with this program are being formulated by the Company. Rulemaking in this area continues, so the cost of compliance cannot now be estimated.

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. On May 15, 1978 a citizens group 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 be 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 has 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.

Unscheduled outages of two of the Company's generating units occurred in the first quarter of 1981 as a result of mechanical problems. One unit (436 MW) is expected to return to service in early August 1981. The other unit (748 MW) is expected to return to service in early July 1981, with a 10% reduction in capacity after repairs. The unit is expected to be restored to full capacity during the 1981-1982 winter season. See penultimate paragraph under "Selected Financial Data".

Additions and Retirements of Electric Utility Property. From January 1, 1976 to December 31, 1980, the Company made expenditures of $340,175,000 for gross additions (not including CWIP which amounted to $1,030,345,000 at December 31, 1980) to electric utility plant. During the same period, $47,052,000 of utility plant was retired. The net additions during this period thus amounted to $293,123,000, an increase of 29%.

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. Operating facilities are owned by the System operating company, including the Company, serving 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 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 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.

On March 30, 1979, MSS, on behalf of the System operating companies, filed with the FERC an application for an increase in rates charged by System operating companies to each other under the System Agreement for capability equalization, transmission equalization, energy exchange and other services. The application was designed to increase charges under the System Agreement primarily through the expansion of the categories of expenses subject to automatic adjustment clauses to include operation and maintenance expenses and overhead expenses and through an increase in the allowed rate of return on equity investment. The FERC permitted the proposed rates to become effective on June 1, 1979, subject to refund. The System operating companies commenced charging the new rates, subject to refund, effective June 1, 1979. The Attorney General of Arkansas, the Arkansas Public Service Commission and the LPSC have intervened in the proceeding. The record is complete and awaiting decision by the FERC. The final resolution of this proceeding is not expected to have a material effect upon the 1979 or 1980 results of operations or financial condition of the Company.

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 38 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 that time, 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 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. The investor-owned companies are supplying 700,000 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, 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. Recent actions taken by the NRC have resulted in 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 $2,846.0 million. MSE has entered into an agreement pursuant to which SMEPA is acquiring a 10% undivided ownership interest in the Grand Gulf Plant. MSE 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,[illegible]8 MW. At January 31, 1981, 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. Through January 31, 1981, approximately $1,802.7 million had been expended by MSE on the Grand Gulf Plant.

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.

MSE currently is negotiating for an increase in its bank borrowings to provide funds for the completion of the construction of Unit No. 1 of the Grand Gulf Plant. In addition, MSE is negotiating modifications in the covenants specified in the Availability Agreement with respect to the completion dates of the two units of the Grand Gulf Plant. If these negotiations are successful, necessary regulatory approvals will need to be obtained prior to effecting any modifications.

The System operating companies, including the Company, have agreed in principle that the capability of the portion of Grand Gulf Unit No. 1 and Grand Gulf Unit No. 2 owned by MSE will be permanently 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. Under the arrangement, the Company, MP&L and NOPSI will assume, in proportion to such allocations, all of the responsibilities and obligations with respect to these Units and, in consideration thereof, AP&L will relinquish its rights in the Units. The proposed reallocation is subject to the receipt of the approval of regulatory agencies and of all other necessary approvals.

Substations. As of December 31, 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 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-nine 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 April 1, 1991, and will bear interest at the rate shown in their title, payable October 1 and April 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 March 31	General Redemption Price(%)	Special Redemption Price(%)
1982	115.51	100.00
1983	113.79	100.00
1984	112.07	100.00
1985	110.34	100.00
1986	108.62	100.00
1987	106.90	100.00
1988	105.17	100.00
1989	103.45	100.00
1990	101.73	100.00
1991	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 April 1, 1986, 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 16.2864% 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-ninth 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-ninth Supplemental, Sec. 7.)

Sinking or Improvement Fund. The sinking or improvement fund requirement with respect to the New Bonds begins in 1983 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 $600,000 in any year or $5,900,000 in the aggregate on the basis of the principal amount of Bonds that the Company had the right to have authenticated and delivered against property additions but which right the Company waived to satisfy sinking fund requirements in respect of the Company's 1980 and 1981 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-ninth 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 $410,000,000 remaining property additions available as of December 31, 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 March 31, 1981, plus $108,000,000, plus such additional amounts as shall be approved by the SEC. (Mortgage, Sec. 39; and Twenty-ninth 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 sheets as of December 31, 1980 and 1979 and the related statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980 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 as to matters of law and legal conclusions made under "Description of New Bonds" 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" have been reviewed by Monroe & Lemann (A Professional Corporation) and are set forth 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 Underwriters 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 1,259 shares of the Common Stock of the Company's parent, Middle South.

AUDITORS' OPINION

Louisiana Power & Light Company:

We have examined the balance sheets of Louisiana Power & Light Company as of December 31, 1980 and 1979 and the related statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1980. 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, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

New Orleans, Louisiana
February 13, 1981

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF INCOME

	Year Ended December 31, 1980	1979	1978
	(In Thousands)		
Operating Revenues (Notes 1B, 8 and 9)	$853,523	$557,476	$456,375
Operating Expenses:			
Operation:			
Fuel (Note 8)	296,820	190,226	168,177
Purchased power (Note 8)	242,279	140,111	69,730
Other	59,830	[illegible]18	43,430
Maintenance	28,906	31,269	29,213
Depreciation	42,513	40,863	38,389
Amortization of property losses	—	4,101	4,101
Taxes other than income taxes	18,733	15,977	14,106
Income taxes (Notes 1E and 6)	48,141	22,750	19,919
Total	737,222	483,615	387,065
Operating Income	116,301	73,861	69,310
Other Income:			
Allowance for equity funds used during construction (Note 1F)	31,693	30,722	20,823
Miscellaneous income and deductions-net	7,301	4,920	2,422
Income taxes (Notes 1E and 6)	13,117	11,751	9,058
Total	52,111	47,393	32,303
Interest Charges:			
Interest on long-term debt	69,396	60,263	51,959
Other interest—net	16,167	10,993	6,166
Allowance for borrowed funds used during construction (Note 1F)	(17,827)	(15,131)	(10,256)
Total	67,736	56,125	47,869
Net Income	$100,676	$ 65,129	$ 53,744

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31, 1980	1979	1978
	(In Thousands)		
Retained Earnings, January 1	$ 58,541	$ 63,292	$ 59,863
Add—Net income	100,676	65,129	53,744
Total	159,217	128,421	113,607
Deduct:			
Dividends—cash:			
Preferred stock at prescribed rates (Note 2)	24,883	16,749	8,108
Common stock (per share: 1980, $0.97; 1979, $0.872 and 1978, $0.86)	69,110	52,673	42,194
Capital stock expense, etc.	15	458	13
Total	94,008	69,880	50,315
Retained Earnings, December 31 (Note 3)	$ 65,209	$ 58,541	$ 63,292

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

ASSETS

	December 31,	
	1980	**1979**
	(In Thousands)	
Utility Plant (Notes 1C, 4 and 7):		
Electric	$1,288,901	$1,237,269
Construction work in progress	1,030,345	831,837
Nuclear fuel	15,175	—
Total	2,334,421	2,069,106
Less accumulated depreciation	393,342	353,994
Utility plant—net	1,941,079	1,715,112
Other Property and Investments:		
Investment in associated company—at equity (Note 4)	36,137	36,997
Other	407	382
Total	36,544	37,379
Current Assets:		
Cash (Note 5)	12,696	11,078
Special deposits	10,636	10,289
Temporary investments—at cost, which approximates market	11,000	8,000
Notes receivable	812	938
Accounts receivable—(less allowance for doubtful customer accounts of $135,000):		
Customer	28,847	24,826
Other	2,046	1,441
Associated companies	115	100
Deferred fuel costs (Note 1B)	17,056	15,054
Materials and supplies—at average cost	10,299	10,795
Other	4,474	4,975
Total	97,981	87,496
Deferred Debits—Unamortized debt expense	2,841	2,378
TOTAL	$2,078,445	$1,842,365

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

LIABILITIES

	December 31,	
	1980	1979
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 150,000,000 shares; issued and outstanding 75,746,400 shares in 1980 and 65,140,000 shares in 1979 (Note 2)	$ 498,900	$ 428,900
Retained earnings (Note 3)	65,209	58,541
Total common shareholder's equity	564,109	487,441
Preferred stock, without sinking fund (Note 2)	145,882	145,882
Preferred stock, with sinking fund (Note 2)	121,381	92,990
Long-term debt (Note 3)	828,989	827,430
Total	1,660,361	1,553,743
Current Liabilities:		
Notes payable—banks (Note 5)	44,293	32,375
Currently maturing long-term debt	52,162	11,871
Accounts payable:		
Associated companies	28,015	22,902
Other	38,372	36,698
Customer deposits	16,368	13,159
Taxes accrued	12,099	3,459
Accumulated deferred income taxes (Notes 1E and 6)	8,259	7,289
Interest accrued	20,833	19,825
Dividends declared	23,882	6,156
Other	811	634
Total	245,094	154,368
Deferred Credits:		
Accumulated deferred income taxes (Notes 1E and 6)	91,744	91,221
Accumulated deferred investment tax credits (Notes 1E and 6)	47,360	28,382
Other	26,888	7,729
Total	165,992	127,332
Reserves (Note 1G):		
Property insurance	5,905	5,792
Injuries and damages	1,093	1,130
Total	6,998	6,922
Commitments and Contingencies (Notes 4, 7 and 9)		
TOTAL	$2,078,445	$1,842,365

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
Funds Provided By:			
Operations:			
Net income	$100,676	$ 65,129	$ 53,744
Depreciation	42,513	40,863	38,389
Amortization of property losses	—	4,101	4,101
Deferred income taxes and investment tax credit adjustments—net	20,471	10,896	4,915
Allowance for funds used during construction (Note 1F)	(49,520)	(45,853)	(31,079)
Total funds provided from operations	114,140	75,136	70,070
Other:			
Allowance for funds used during construction (Note 1F)	49,520	45,853	31,079
Decrease in working capital*	30,063	—	3,187
Miscellaneous—net	4,893	—	4,146
Total funds provided by operations and other	198,616	120,989	108,482
Financing and other transactions:			
Common stock	70,000	75,000	50,000
Preferred stock	28,391	128,063	—
First mortgage bonds	50,000	100,000	135,000
Other long-term debt	4,572	11,458	29,531
Short-term securities	8,918	—	23,923
Sale and leaseback transactions	24,771	—	13,044
Total funds provided from financing and other	186,652	314,521	251,498
Total funds provided	$385,268	$435,510	$359,980
Funds Applied To:			
Utility plant additions:			
Construction expenditures for utility plant	$259,979	$280,346	$272,911
Fabrication costs of nuclear core	15,175	—	568
Other—net	4,121	1,796	25,685
Total gross additions (includes allowance for funds used during construction of $49,520 in 1980, $45,853 in 1979 and $31,079 in 1978)	279,275	282,142	299,164
Other:			
Dividends declared on preferred stock	24,883	16,749	8,108
Dividends declared on common stock	69,110	52,673	42,194
Increase in working capital*	—	7,136	—
Miscellaneous—net	—	15,216	—
Total funds applied to other	93,993	91,774	50,302
Financing transactions:			
Retirement of first mortgage bonds	9,900	—	10,000
Retirement of other long-term debt	2,100	1,879	514
Repayment of short-term securities	—	59,715	—
Total funds applied to financing	12,000	61,594	10,514
Total funds applied	$385,268	$435,510	$359,980

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* The 1980 net decrease in working capital is primarily due to the increases in dividends declared, taxes accrued and accounts payable, while the 1979 net increase is primarily due to increases in accounts receivable and deferred fuel costs, reduced by an increase in accounts payable, and the 1978 net decrease is primarily due to an increase in accounts payable and interest accrued, reduced by increases in cash and special deposits. Working capital excludes short-term securities, current maturities and deferred taxes included in current liabilities.

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

For the Years ended December 31, 1980, 1979 and 1978

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 various rate schedules are permitted to be billed or required to be credited to customers.

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 billings 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 $2,002,000 and $15,054,000 for the years 1980 and 1979, respectively, and is recoverable 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 years 1980 and 1979 by $1,033,000 and $7,765,000, respectively.

C. 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 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 on average depreciable property amounted to approximately 3.5% in 1980, 1979 and 1978.

D. Pension Plan

The Company's pension plan is non-contributory and covers substantially all employees. The Company's policy is to fund pension cost accrued.

E. Income Taxes

The Company joins its parent in filing a consolidated Federal income tax return. 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

To the extent that the Company is not permitted by its regulatory bodies to recover in current rates the carrying cost of funds used for construction, it capitalizes, as an appropriate cost of utility plant, AFDC which is calculated and recorded as provided by the regulatory system of accounts. Under this utility industry practice, CWIP on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction program and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. For the year 1980, the Company 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, and an accrual rate of 7.84% on the balance of CWIP. The accrual rates were 6.94% for 1979 and 6.75% for 1978.

The Company's policy is to continue to capitalize AFDC on projects during periods of interrupted construction when such interruption is temporary and the continuation can be justified as being reasonable under the circumstances.

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.

2. Preferred and Common Stock

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

	Shares Authorized at December 31, 1980	Shares Outstanding at December 31,		Current Call Price Per Share
Cumulative, $100 Par Value		1980	1979	
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	106.58
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
15.20% Series	1,200,000	1,200,000	—	28.80
Total	5,200,000	5,200,000	4,000,000	
Unissued	6,800,000	—	—	
Total	12,000,000	5,200,000	4,000,000	

	December 31, 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	$130,000	$100,000
Issuance expense	(8,619)	(7,010)
Total preferred stock and issuance expense, with sinking fund	$121,381	$ 92,990

The 9.44%, 11.48%, 10.72%, 13.12% and 15.20% 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, October 1, 1984 and November 1, 1985, respectively, with funds effectively costing the Company less than 9.4297%, 11.456%, 11.2705%, 14.6103% and 16.0616% per annum, respectively. In addition, the 10.72%, 13.12% and 15.20% 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, commencing on July 1, 1984, October 1, 1984 and November 1, 1985, respectively, and ending in the year in which all of the shares of said issues have been redeemed, 120,000, 80,000 and 60,000 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, 80,000 shares of the 13.12% preferred stock and 60,000 shares of the 15.20% preferred stock on the above applicable sinking fund redemption dates at the sinking fund redemption prices.

The increases in the number of shares of Common and Preferred Stock outstanding during the three years ended December 31, 1980 were as follows:

	Year Ended December 31,		
	1980	1979	1978
Common Stock shares sold	10,606,400	11,364,000	7,576,000
$100 Preferred Stock shares sold	—	350,000	—
$25 Preferred Stock shares sold	1,200,000	4,000,000	—

3. Long-Term Debt

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

	December 31, 1980	December 31, 1979
	(In Thousands)	
First Mortgage Bonds:		
9½% Series due 1981	—	$ 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
15¾% Series due 1988	50,000	—
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 1982-2004, and other future obligations under operating agreements	41,421	39,473
Pollution control and industrial development revenue bond obligations, 6.40%-8% due 1988-2009	16,300	16,300
Less: Amounts held by trustees	(1,000)	(1,333)
Total Other	56,721	54,440
Unamortized premium and discount on long-term debt—net	268	990
Total Long-Term Debt	$828,989	$827,430

borrow any portion of these lines subject only to its maximum authorized level of short-term borrowings as specified below. Compensating balances are required by certain of the lending banks ($7,128,000 at December 31, 1980 and $11,862,500 at December 31, 1979). The amount of unused short-term borrowings as of December 31, 1980 and December 31, 1979 was $116,292,500 and $117,625,000, respectively.

The Company has received authorization from the SEC under which the Company can effect short-term borrowings aggregating up to the lesser from time to time of $190,000,000 ($150,000,000 in 1979) or 10% of total capitalization, outstanding at any one time.

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:

	Year Ended December 31,		
	1980	1979	1978
Maximum aggregate amount outstanding	$131,750,000	$114,627,500	$ 84,090,000
Average borrowing:			
Bank loans	$ 92,302,000	$ 52,773,000	$ 22,340,000
Commercial paper	$ 9,604,000	$ 29,503,000	$ 28,476,000
Average interest rate during the period:			
Bank loans	14.7%	12.1%	8.8%
Commercial paper	13.7%	11.5%	8.8%
Average interest rate at end of period:			
Bank loans	20.8%	15.3%	11.8%
Commercial paper	—	—	11.5%

6. Income Tax Expense

Income tax expense is composed of the following:

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
Current:			
Federal	$ 8,627	$ 106	$ 5,149
State	5,926	(3)	797
Total	14,553	103	5,946
Deferred-net:			
Liberalized depreciation	7,269	7,674	8,494
Deferred fuel cost	969	7,289	—
Test energy	(70)	(70)	(70)
Differences between book and tax gains and losses on sales and abandonment of property	(4,949)	(1,986)	(1,986)
Unbilled revenue	(1,689)	(1,074)	(318)
Other	(37)	82	—
Total	1,493	11,915	6,120
Investment tax credit adjustments-net	18,978	(1,019)	(1,205)
Total income taxes	$35,024	$10,999	$10,861
Charged to operations	$48,141	$22,750	$19,919
Credited to other income	(13,117)	(11,751)	(9,058)
Total income taxes	$35,024	$10,999	$10,861

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:

	Year Ended December 31,					
	1980		1979		1978	
	Amount	% Pre-Tax Income	Amount	% Pre-Tax Income	Amount	% Pre-Tax Income
Computed at statutory rate	$62,422	46.0%	$35,019	46.0%	$31,011	48.0%
Increases (reductions) in tax resulting from:						
Allowance for funds used during construction	(22,779)	(16.8)	(21,092)	(27.7)	(14,918)	(23.1)
Taxes capitalized on books and deducted on tax returns	(1,795)	(1.3)	(1,797)	(2.4)	(1,799)	(2.8)
Tax savings due to filing a consolidated return	(4,500)	(3.3)	—	—	(1,000)	(1.6)
Other - net	1,676	1.2	(1,131)	(1.5)	(2,433)	(3.7)
Recorded income taxes	$35,024	25.8%	$10,999	14.4%	$10,861	16.8%

Unused investment tax credits aggregated approximately $63,632,000 at December 31, 1980 of which $10,004,000 may be carried forward through 1984, $24,269,000 through 1985, $9,872,000 through 1986 and $19,487,000 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. Leases

The Company accounts for leases on the same basis as that used by its regulatory authority in the rate-making process which determines the revenues utilized to recover the lease costs.

On October 30, 1980, the Company entered into a sale and leaseback of certain office buildings and related real properties. A gain of $13,438,000 has been deferred and is being amortized over the life of the lease. The lease is for a primary term of 20 years and requires minimum annual rentals of approximately $2,996,000 through 1985 and $3,307,000 thereafter.

Rental expense amounted to approximately $1,519,000, $1,204,000 and $521,000 in 1980, 1979 and 1978, respectively.

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 on 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, 1980 was $59,400,000. The Company has received authorization from the SEC to increase the aggregate amount of the lease to $105,000,000.

Other lease commitments are not significant.

8. Transactions with Affiliates

The Company buys from and sells electricity to the other System operating companies under rate schedules filed with the FERC. In addition, the Company purchases fuel from SFI.

Operating revenues include revenues from sales to affiliates amounting to $46,778,000 in 1980, $29,366,000 in 1979 and $41,655,000 in 1978. Operating expenses include fuel cost and purchased power charges from affiliates totalling $333,033,000 in 1980, $158,788,000 in 1979 and $119,408,000 in 1978.

9. Rate Matters

As of December 31, 1980 the Company had pending $216,544,000 of proposed annual rate increases, including a general rate increase application filed in May 1980 with respect to customers under the LPSC jurisdiction in the amount of $203,600,000. In connection therewith, in October 1980 the LPSC permitted the Company to implement an interim rate increase of approximately $32,400,000 under protective bond, subject to refund. Included in operating revenues for the year 1980 is approximately $8,037,000 of such revenues subject to refund.

10. Pension Plan

Total pension expense of the Company for 1980, 1979 and 1978 was $5,346,000, $4,654,000 and $3,639,000, respectively, which includes amortization of past service cost over periods of up to 26 years. A comparison of accumulated plan benefits and plan net assets for the defined benefit plans is presented below:

	January 1,	
	1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$45,290,000	$42,230,000
Nonvested	2,786,000	2,337,000
Total	$48,076,000	$44,567,000
Net assets available for plan benefits	$56,184,000	$46,784,000

The weighted average assumed rate of return used in determining the actuarial present values of accumulated plan benefits was 6½% for the years 1980 and 1979.

11. Quarterly Results (Unaudited)

Unaudited operating results for the four quarters of 1980 and 1979 follow:

Quarter Ended	Operating Revenues	Operating Income	Net Income
		(In Thousands)	
1980:			
March	$164,921	$25,478	$21,697
June	169,310	21,315	15,772
September	273,717	40,050	36,363
December	245,575	29,458	26,844
1979:			
March	109,885	20,973	17,031
June*	121,435	15,525	12,569
September	169,192	22,668	20,366
December	156,964	14,695	14,563

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* Operating revenues in the quarter ended June 30, 1979 include a reduction of $2,880,000 for revenues refunded to industrial customers.

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.

12. Effect of Inflation on Operations (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 effects 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 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 Statement of Financial Accounting Standards 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, 1980

	As Reported in the Financial Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
		(In Thousands)	
Revenues	$ 853,523	$ 853,523*	$ 853,523*
Operating expenses (excluding depreciation)	(694,709)	(694,709)*	(694,709)*
Depreciation	(42,513)	(87,356)	(96,977)
Total operating expense	(737,222)	(782,065)	(791,686)
Operating income	116,301	71,458	61,837
Other income	52,111	52,111*	52,111*
Interest and other charges	(67,736)	(67,736)*	(67,736)*
Income from operations (excluding reduction to net recoverable cost)	$ 100,676	$ 55,833**	$ 46,212
Increase in specific prices (current costs) of property, plant and equipment held during the year			$ 402,322***
Reduction to net recoverable cost		$(164,873)	(189,201)
Effect of increase in general price level			(368,373)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(155,252)
Gain from decline in purchasing power of net amounts owed		151,379	151,379
Net		$ (13,494)	$ (3,873)

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* Assumed to be "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 $109,040,000 for 1980.

*** At December 31, 1980, current cost of utility plant, net of accumulated depreciation, was $3,461,100,000 while historical cost or net cost recoverable through depreciation was $1,925,904,000.

LOUISIANA POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS—(Concluded)

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES
IN THOUSANDS OF AVERAGE 1980 DOLLARS

	1980	1979	1978	1977	1976
Operating Revenues	$853,523	$632,866	$576,424	$515,290	$479,525
Historical Cost Information Adjusted For General Inflation					
Income from operations (excluding reduction to net recoverable cost)	$ 55,833	$ 24,803			
Net assets at year-end at net recoverable cost	$538,785	$524,414			
Current Cost Information					
Income from operations (excluding reduction to net recoverable cost)	$ 46,212	$ 23,723			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$155,252	$171,331			
Net assets at year-end at net recoverable cost	$538,785	$524,414			
General Information					
Gain from decline in purchasing power of net amounts owed	$151,379	$158,752			
Average consumer price index	246.8	217.4	195.4	181.5	170.5

UNDERWRITERS

The underwriters named below (the "Underwriters") have severally agreed to purchase from the Company the respective principal amounts of the New Bonds set forth below opposite their names.

Name	Principal Amount
Morgan Stanley & Co. Incorporated	$22,000,000
Bear, Stearns & Co.	8,000,000
Drexel Burnham Lambert Incorporated	8,000,000
Lehman Brothers Kuhn Loeb Incorporated	6,000,000
L. F. Rothschild, Unterberg, Towbin	8,000,000
Shearson Loeb Rhoades Inc.	8,000,000
Smith Barney, Harris Upham & Co. Incorporated	5,000,000
Dean Witter Reynolds Inc.	8,000,000
Basle Securities Corporation	1,000,000
Nomura Securities International, Inc.	500,000
Yamaichi International (America), Inc.	500,000
Total	$75,000,000

The Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters 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 Underwriters, less than all of the New Bonds may be purchased. Default by one or more Underwriters would not relieve the non-defaulting Underwriters from their several obligations, and in the event of such default, the non-defaulting Underwriters 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 Underwriter or Underwriters shall have so failed to purchase up to a principal amount thereof equal to one-ninth (1/9th) of the respective principal amounts of the New Bonds which such non-defaulting Underwriters have otherwise agreed to purchase.

The Company has been advised by the several Underwriters through their representatives, Morgan Stanley & Co. Incorporated; Bear, Stearns & Co.; Drexel Burnham Lambert Incorporated; Lehman Brothers Kuhn Loeb Incorporated; L. F. Rothschild, Unterberg, Towbin; Shearson Loeb Rhoades Inc.; Smith Barney, Harris Upham & Co. Incorporated and Dean Witter Reynolds Inc., as follows:

> The several Underwriters are offering part of the New Bonds directly to the public at the public offering price set forth on the cover page of this Prospectus and part to dealers at a price which represents a concession of .75 of 1% of the principal amount under the public offering price, and any Underwriter may offer New Bonds to certain brokers or dealers who are either a parent or subsidiary of such Underwriter at not less than such price to dealers. The Underwriters may allow and such dealers may reallow a concession of not in excess of .375 of 1% of the principal amount to certain other dealers.

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 June 30, 1981

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 July 31, 1981
Middle South Utilities, Inc.	($5 par value)	117,639,401

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

June 30, 1981

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 (consolidated into AP&L effective January 1, 1981)
Associated	Associated Natural Gas Company
Council	Council of the City of New Orleans
CWIP	Construction Work in Progress
FERC	Federal Energy Regulatory Commission
Grand Gulf Plant	MSE's Grand Gulf Generating Station (nuclear)
Holding Company Act	Public Utility Holding Company Act of 1935
Independence Plant	AP&L's Independence Steam Electric Generating Station (coal)
IRS	Internal Revenue Service
LP&L	Louisiana Power & Light Company
LPSC	Louisiana Public Service Commission
Middle South System	MSU and its various direct and indirect subsidaries
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
MSE	Middle South Energy, Inc.
MSS	Middle South Services, Inc.
MSU	Middle South Utilities, Inc.
NOPSI	New Orleans Public Service Inc.
NRC	Nuclear Regulatory Commission
PSCM	Public Service Commission of Missouri
SEC	Securities and Exchange Commission
SFI	System Fuels, Inc.
System operating companies	AP&L, 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 June 30, 1981 and for the three-month and six-month periods ended June 30, 1981 and 1980, in accordance with standards established by the American Institute of Certified Public Accountants. We previously examined and expressed our unqualified opinions dated February 13, 1981 on the consolidated financial statements (not presented herein) of Middle South Utilities, Inc. and subsidiaries and on the separate financial statements (not presented herein) of certain of its subsidiaries, as listed in the accompanying index, as of December 31, 1980 and for the year then ended, from which the accompanying condensed consolidated and separate company balance sheets as of December 31, 1980 are derived.

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 objectives 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 aforementioned condensed financial statements as of June 30, 1981 and for the three-month and six-month periods ended June 30, 1981 and 1980, for them to be in conformity with generally accepted accounting principles.

DELOITTE HASKINS & SELLS

August 7, 1981

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 1981 and December 31, 1980

ASSETS	June 30, 1981 (Unaudited)	December 31, 1980
	(In Thousands)	
Utility Plant	$8,290,440	$7,893,636
Less accumulated depreciation	1,334,978	1,264,525
Utility plant - net	6,955,462	6,629,111
Other Property and Investments	86,065	90,012
Current Assets:		
Cash and special deposits	45,677	75,203
Temporary investments - at cost, which approximates market	49,806	69,817
Accounts and notes receivable (less allowance for doubtful accounts and notes of (in thousands) $2,314 in 1981 and $2,233 in 1980	164,011	161,184
Deferred fuel cost	58,868	25,675
Fuel inventory - at average cost	162,551	153,334
Materials and supplies - at average cost	33,254	36,168
Other	48,050	26,223
Total	562,217	547,604
Deferred Debits	79,941	68,152
TOTAL	$7,683,685	$7,334,879

LIABILITIES

Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares; issued and outstanding 116,915,941 shares in 1981 and 107,349,943 shares in 1980	$ 584,580	$ 536,750
Paid-in capital	810,901	749,206
Retained earnings	624,429	619,572
Total common shareholders' equity	2,019,910	1,905,528
Subsidiaries' preferred stock without sinking fund	330,967	330,967
Subsidiaries' preferred stock with sinking fund	280,922	283,165
Long-term debt	3,527,404	3,392,309
Total capitalization	6,159,203	5,911,969
Current Liabilities:		
Notes payable	401,103	295,622
Currently maturing long-term debt	122,154	121,473
Accounts payable	280,438	276,991
Taxes accrued	54,483	67,401
Accumulated deferred income taxes on deferred fuel	30,613	14,602
Interest accrued	89,843	81,984
Other	136,230	139,797
Total	1,114,864	997,870
Deferred Credits	383,164	400,388
Reserves	26,454	24,652
TOTAL	$7,683,685	$7,334,879

See Notes to Consolidated Financial Statements.

INC. AND SUBSIDIARIES

STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 1981 and 1980
(Unaudited)

	Three Months Ended		Six Months Ended	
	1981	1980	1981	1980
	(In Thousands)		(In Thousands)	
Operating Revenues:				
Electric	$ 560,816	$ 450,812	$1,085,458	$ 898,345
Natural gas	26,335	24,677	77,400	68,780
Transit	12,313	10,688	24,276	21,072
Total	599,464	486,177	1,187,134	988,197
Operating Expenses:				
Operation:				
Fuel for electric generation	279,875	204,652	500,108	384,051
Purchased power	75,932	73,973	136,168	146,489
Deferred fuel cost	(33,451)	(15,708)	(33,194)	(17,244)
Gas purchased for resale	19,997	17,945	60,208	51,905
Other	68,226	63,303	137,055	122,099
Maintenance	38,309	28,732	68,023	52,349
Depreciation	39,019	35,912	77,869	67,260
Taxes other than income taxes	22,112	22,218	45,853	44,240
Income taxes	19,275	3,723	45,330	24,229
Total	529,294	434,750	1,037,420	875,378
Operating Income	70,170	51,427	149,714	112,819
Other Income:				
Allowance for equity funds used during construction	36,667	27,650	72,040	61,437
Miscellaneous income and deductions - net	3,992	1,488	8,032	3,186
Income taxes - cr	33,185	25,352	62,646	52,972
Total	73,844	54,490	142,718	117,595
Interest and Other Charges:				
Interest on long-term debt	105,591	80,580	207,928	159,354
Other interest - net	18,072	20,009	35,923	36,624
Allowance for borrowed funds used during construction - (cr)	(38,669)	(29,343)	(77,216)	(61,2[illegible])
Preferred dividend requirements of subsidiaries	14,891	13,833	29,818	26,661
Total	99,865	85,079	196,453	161,432
Net Income	$ 44,129	$ 20,838	$ 95,979	$ 68,982
Earnings Per Common Share	$0.39	$0.22	$0.87	$0.74
Dividends Declared Per Common Share	$0.405	$0.395	$0.81	$0.79
Weighted Average Number of Common Shares Outstanding	113,031,205	95,083,295	110,536,739	92,875,443

See Notes to Consolidated Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
For the Six Months Ended June 30, 1981 and 1980
(Unaudited)

	Six Months Ended	
	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 95.979	$ 68,982
Depreciation	77,869	67,260
Deferred income taxes and investment tax credit adjustments - net	(18,645)	(26,398)
Allowance for funds used during construction	(149,256)	(122,644)
Total funds provided (used) by operations	5,947	(12,800)
Other:		
Allowance for funds used during construction	149,256	122,644
Miscellaneous - net	16,003	10,892
Total funds provided by operations and other	171,206	120,736
Financing and other transactions:		
Common stock	109,216	93,592
Preferred stock	....	65,058
First mortgage bonds	75,000	46,500
Other long-term debt	892,120	266,483
Book value of utility plant sold	20,338	19,599
Short-term securities - net	125,492	86,169
Total funds provided by financing and other transactions	1,222,166	577,401
Total funds provided	$1,393,372	$ 698,137
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 407,463	$ 464,312
Nuclear fuel	15,927	7,533
Other	3,319	4,335
Total gross additions (includes allowance for funds used during construction)	426,709	476,180
Other:		
Dividends declared on common stock	91,121	74,564
Deferred costs on coal plant standardization project	2,682	3,657
Deferred costs relating to SFI's fuel acquisition program	1,347	9,534
Increase in working capital*	39,803	40,126
Total funds applied to other	134,953	127,881
Financing transactions:		
Retirement of other long-term debt	828,460	77,026
Retirement of first mortgage bonds	1,009	14,047
Retirement of preferred stock	2,241	3,003
Total funds applied to financing	831,710	94,076
Total funds applied	$1,393,372	$ 698,137

*Working capital does not include short-term securities, current maturities of long-term debt or deferred taxes included in current liabilities. The 1981 net increase in working capital is primarily due to increases in deferred fuel cost and other current assets, offset by a decrease in cash and special deposits; the 1980 net increase in working capital is primarily due to an increase in cash and special deposits and a decrease in accounts payable, reduced by a decrease in fuel inventory.

See Notes to Consolidated Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Commitments and Contingencies

At June 30, 1981, the Middle South System's construction program contemplated construction expenditures (including AFDC) of $1,087 million in 1981, $953 million in 1982 and $660 million in 1983. Of these expenditures, $376 million, $310 million and $162 million are applicable to MSE's anticipated 87.52% interest in the Grand Gulf Plant, a two-unit nuclear generating station. MSE currently projects a commercial operation date of 1982 for Unit No. 1. Based upon MSE's anticipated 87.52% ownership interest and a November 1982 commercial operation date, MSE estimated, at June 30, 1981, that its total cost (excluding nuclear fuel) for Unit No. 1 will be approximately $2 billion. Construction on Unit No. 2 has been temporarily halted pending completion of Unit No. 1. The schedule and cost to complete Unit No. 2 will be dependent, among other things, upon the completion of Unit No. 1. Through June 30, 1981, MSE had invested $1,588 million in Unit No. 1 and $312 million in Unit No. 2.

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 June 30, 1981, MSU had invested $456.9 million in the common stock of MSE. At June 30, 1981 MSE had made short-term borrowings of $83 million. In addition, at June 30, 1981, MSE had made interim bank borrowings of $745 million, which are due December 31, 1986, under a $1,311 million revolving loan agreement with a group of banks. At June 30, 1981, MSE had outstanding $400 million of its first mortgage bonds, 9-1/4% Series due 1989, and $98.5 million of its first mortgage bonds, 12-1/2% Series due 2000. MSE is obligated to make annual cash sinking fund payments with respect to the 9-1/4% bonds commencing July 1, 1982 designed to retire $328 million of those bonds by maturity and with respect to the 12-1/2% bonds commencing on January 1, 1985 designed to retire about $93.5 million of those bonds by maturity. MSE has covenanted with the bondholders that it will complete Unit No. 1 no later than December 31, 1984. MSE has also covenanted with the bondholders that Unit No. 2 will be completed no later than December 31, 1988. 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 $1,311 million revolving loan agreement which are then outstanding.

MSE and the System operating companies have entered into a series of agreements, as amended in June, 1981 (collectively, Availability Agreement) whereby (i) MSE has agreed to complete 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 either the Agreement, effective July 2, 1973, among the System operating companies relating to the sharing of generating capacity and other power sources (System Agreement) or a separate Power Purchase Agreement,

(ii) the System operating companies have severally agreed to pay to MSE (on the apportionment bases provided for in the Availability Agreement: AP&L, 17.1%, LP&L, 26.9%, MP&L, 31.3% and NOPSI, 24.7%) 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 severally 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 several 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, 1984, the commencement date in respect of both units is December 31, 1984; and provided, further, that if Unit No. 1 is placed in commercial operation prior to December 31, 1984 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, 1988. In addition, the System operating companies in June 1981 entered into a Power Purchase Advance Payment Agreement with MSE pursuant to which the System operating companies, severally in accordance with fixed percentages specified therein (AP&L, 17.1%, LP&L, 26.9%, MP&L, 31.3% and NOPSI, 24.7%), agreed, if Unit No. 1 of the Grand Gulf Plant is not placed in commercial operation by December 31, 1983, to make advance payments to MSE for power purchases which in the aggregate total $12,500,000 per month, such payments commencing January 2, 1984 and continuing until commercial operation of Unit No. 1 or December 31, 1984, whichever occurs earlier.

In July 1981, the System operating companies agreed that MSE's share of the capability of Unit No. 1 and Unit No. 2 of the Grand Gulf Plant, and the respective obligations of the System operating companies under the Availability Agreement and the Power Purchase Advance Payment Agreement, will be reallocated among LP&L, MP&L and NOPSI, subject to change by mutual agreement of such companies. The revised percentage allocations for Unit No. 1 and Unit No. 2 will be: LP&L, 38.57% and 26.23%, MP&L, 31.63% and 43.97%, and NOPSI, 29.80% and 29.80%, respectively. Under such agreement, LP&L, MP&L and NOPSI, in proportion to such allocations, will assume and hold AP&L harmless from all of the responsibilities and obligations of AP&L with respect to the Availability Agreement and the Power Purchase Advance Payment Agreement and, in consideration thereof, AP&L will relinquish its rights in the units. Each of the System operating companies, including AP&L, will, however, remain primarily liable to MSE and its assignees for payments under the Availability Agreement and the Power Purchase Advance Payment Agreement in accordance with the respective percentages set forth in the immediately preceding paragraph. In July 1981, an application was filed with the SEC under the Holding Company Act for approval of this proposed reallocation.

The Federal income tax returns for the years 1971 through 1976 have been examined by the IRS and adjustments have been proposed. The prinicipal 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 IRS. Any final liability for taxes resulting from settlement with the IRS would not have a material effect on net income. Income taxes on customer deposits will be normalized. Most of the other issues have been settled and adequate provisions have been recorded.

SFI is a jointly-owned subsidiary of the System operating companies. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered. The common stock of SFI is owned 35% by AP&L, 33% by LP&L, 19% by MP&L and 13% by NOPSI.

In connection with certain of SFI's borrowing arrangements, SFI's parent companies 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 arrangements. At June 30, 1981, the total loan commitment under these arrangements amounted to $221,104,000 of which $161,813,000 was outstanding at that date. Also, SFI's parent companies have made similar covenants and agreements in connection with long-term leases by SFI of oil storage and handling facilities and coal hopper cars. At June 30, 1981, the aggregate discounted value of these lease arrangements was $58,800,000. In addition, MSU has guaranteed the obligations of SFI in connection with long-term leases of other oil storage and handling facilities and bareboat charters of towboats and barges having, at June 30, 1981, an aggregate discounted value of approximately $38,584,000.

SFI has a long-term oil supply agreement with a major oil company providing for the purchase by SFI of 50,000 barrels of oil per day for a twenty year period ending in 1996 with the option, upon two years written notice, to reduce the contract quantity to no less than 35,000 barrels per day. SFI also has an agreement with another major oil company providing for the purchase by SFI of up to 200,000 barrels of oil per month through 1984.

AP&L is currently purchasing coal under an agreement that will provide approximately 100 million tons of coal over a twenty year period. In addition, SFI has entered into a contract with a joint venture for a supply of coal from a mine in Wyoming which is expected to provide 150 to 210 million tons over a period of 26 to 42 years. The parent companies of SFI, each acting in accordance with their respective shares of ownership of SFI's common stock, joined in, ratified, confirmed and adopted the contract and the obligations of SFI thereunder.

Under the terms of their nuclear fuel leases, three subsidiaries are responsible for the disposal of spent nuclear fuel. These companies consider all costs incurred or to be incurred in the use and disposal of nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory commissions. AP&L, the only Middle South System company with an operating nuclear station, collected approximately $5,028,000 in the first six months of 1981 for the storage or disposal of spent fuel. AP&L also recovered, in this six month period, approximately $342,000 for decommissioning costs for its two nuclear units through increased depreciation charges. Based on an AP&L study, decommissioning costs are projected to be in excess of the amounts currently being collected. AP&L is requesting and will request recovery of these estimated increased costs in applications to its regulatory commissions.

Note 2. Rate Increases

See Part II, Item 1. - "Legal Proceedings" regarding rate increases for certain of the System operating companies.

Note 3. Common Stock

In May 1981 MSU sold 8,000,000 shares of common stock in an underwritten public offering. The proceeds were used to reduce MSU's outstanding bank borrowings at that time.

Note 4. Subsequent Event

See Part II, Item 5. - "Other Information" regarding the development of a plan to consolidate LP&L and NOPSI and their operations.

In the opinion of MSU, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Re[illegible] S-X have been reviewed by independent public accountants as stated [illegible] report included herein.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The Middle South System's financial outlook for the near term improved during the second quarter of 1981 with the approval of retail rate increases for three of the System operating companies. These increases, some of which were already being collected subject to refund, totalled $279 million or approximately 76% of the amounts originally requested. The approved rates, however, were implemented at various times during the quarter and thus their full impact is not reflected in the second quarter results.

Liquidity and Capital Resources

Construction expenditures for the first six months of 1981 were $407 million, a decline of $57 million from the corresponding 1980 period. These expenditures were largely funded through external financing, including through short-term borrowings and the sale of first mortgage bonds by the System operating companies, intermediate-term bank borrowings by MSE and the sale by MSU of additional shares of its common stock. As of June 30, 1981, projected 1981 construction expenditures for the Middle South System, including AFDC, were $1,087 million.

LP&L sold $75 million of first mortgage bonds in the second quarter of 1981 and used a portion of the proceeds to reduce its short-term borrowings. Including this reduction by LP&L, the System operating companies' outstanding short-term borrowings were $155 million at June 30, 1981 as compared to $81 million at December 31, 1980.

MSE's construction program for the first six months of 1981 was financed through the sale of $13.3 million of common stock to MSU and approximately $74 million of intermediate-term bank borrowings. MSE's revolving line of credit was increased to $1.311 billion during the second quarter and at June 30, 1981, $566 million remained unused.

MSU sold eight million shares of its common stock in the second quarter and used the proceeds, approximately $90 million, to reduce its borrowings under its $230 million revolving credit agreement. MSU borrowings were approximately $73 million at the end of June 1981 as compared to approximately $108 million at December 31, 1980.

Results of Operations

Electric operating revenues for the three and six month periods ending June 30, 1981 were higher by $110 million and $187 million, respectively, than the corresponding periods in 1980. Both increases were due to a combination of the recovery of increased fuel costs and the effect of rate increases implemented in 1980 and 1981. Actual energy sales for the three month period were up 1.1% over the prior year, primarily due to an increase in retail sales. The six month period energy sales, on the other hand, decreased 2.2% due largely to a decrease in sales to municipals and cooperatives.

The increase in gas revenues of $1.7 million and $8.6 million for the two periods were primarily attributable to increased purchased gas costs which were billed to customers.

Increased depreciation expense is due primarily to the additional depreciation charges for generating units placed in service during 1980. Interest expense increased due to the additional debt incurred at higher interest rates during 1981. Increases in income taxes are due to increased taxable income, while increases in other expenses reflect the higher cost of operating in 1981.

Net income for the three and six month periods ended June 30, 1981 was $44 million and $96 million, respectively, as compared to $21 million and $69 million for the corresponding periods in 1980. However, AFDC, the effect of capitalizing the carrying costs of CWIP, exceeded net income for the three and six months ended June 30, 1981.

Summary

The Middle South System's financial condition and results of operations do not fully reflect the effect of the rate increases approved in the second quarter of 1981. The ability of the System to sustain any improvement which might result from these increases will depend on the response of the System's regulatory bodies to future requests for rate relief.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
BALANCE SHEETS
June 30, 1981 (Consolidated) and December 31, 1980

	June 30, 1981 (Unaudited)	December 1980
	(In Thousands)	
ASSETS		
Utility Plant	$2,659,260	$2,423,23
Less accumulated depreciation	494,933	417,43
Utility plant - net	2,164,327	2,005,79
Other Property and Investments:		
Investment in associated companies - at equity	36,818	31,37
Other	944	47
Total	37,762	31,84
Current Assets:		
Cash and special deposits	16,008	10,24
Temporary investments - at cost, which approximates market	4,770	...
Accounts and notes receivable (less allowance for doubtful accounts and notes of (in thousands) $1,564 in 1981 and $1,396 in 1980)	56,382	46,92
Deferred fuel cost	10,857	7,85
Fuel inventory - at average cost	33,715	28,98
Materials and supplies - at average cost	8,742	6,68
Other	5,346	5,11
Total	135,820	105,818
Deferred Debits	9,252	4,521
TOTAL	$2,347,161	$2,147,9
LIABILITIES		
Capitalization:		
Common stock, $12.50 par value, authorized 50,000,000 shares; issued and outstanding 43,380,196 shares in 1981 and 36,636,773 shares in 1980	$ 542,252	$ 457,960
Paid-in capital	4,742	609
Retained earnings	31,304	59,024
Total common shareholder's equity	578,298	517,593
Preferred stock without sinking fund	126,890	126,890
Preferred stock with sinking fund	144,822	147,065
Long-term debt	903,626	848,667
Total capitalization	1,753,636	1,640,215
Current Liabilities:		
Notes payable	87,400	36,400
Currently maturing long-term debt	69,363	68,000
Accounts payable	96,412	91,189
Taxes accrued	23,608	28,284
Accumulated deferred income taxes on deferred fuel	7,366	3,867
Interest accrued	27,380	23,194
Other	55,072	61,251
Total	366,601	312,185
Deferred Credits	223,169	192,445
Reserves	3,755	3,138
TOTAL	$2,347,161	$2,147,983

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
STATEMENTS OF INCOME
For the Three Months and Six Months Ended
June 30, 1981 (Consolidated) and 1980
(Unaudited)

	Three Months Ended		Six Months Ended	
	1981	1980	1981	1980
	(In Thousands)		(In Thousands)	
Operating Revenues:				
Electric	$ 214,914	$ 154,783	$ 422,322	$ 309,662
Natural gas	8,413	....	25,399	....
Total	223,327	154,783	447,721	309,662
Operating Expenses:				
Operation:				
Fuel for electric generation	81,223	56,020	156,260	108,217
Purchased power	38,433	28,408	71,615	71,573
Deferred fuel cost	4,243	2,357	(2,239)	(596)
Gas purchased for resale	6,172	....	19,347	....
Other	28,454	26,359	62,002	47,703
Maintenance	11,317	6,474	23,373	11,449
Depreciation	18,733	15,329	37,259	25,985
Taxes other than income taxes	6,266	7,729	13,910	15,028
Income taxes	3,006	(2,955)	9,779	385
Total	197,[illegible]7	139,721	391,306	279,744
Operating Income	25,480	15,062	56,415	29,918
Other Income:				
Allowance for equity funds used during construction	3,412	4,822	6,545	16,018
Miscellaneous income and deductions - net	2,998	1,657	5,693	3,332
Income taxes - cr	1,703	2,753	3,254	9,132
Total	8,113	9,232	15,492	28,482
Interest and Other Charges:				
Interest on long-term debt	21,568	16,840	42,636	33,159
Other interest - net	5,788	4,385	10,365	7,140
Allowance for borrowed funds used during construction - (cr)	(3,239)	([illegible],370)	(6,130)	(10,773)
Total	24,117	1[illegible],855	46,871	29,526
Net Income	9,476	6,439	25,036	28,874
Preferred Dividend Requirements	6,383	6,465	12,802	12,472
Balance for Common Stock	$ 3,093	$ (26)	$ 12,234	$ 16,402

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended
June 30, 1981 (Consolidated) and 1980
(Unaudited)

	Six Months Ended 1981	Six Months Ended 1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 25,036	$ 28,874
Depreciation	37,259	25,985
Deferred income taxes and investment tax credit adjustments - net	13,279	(8,747
Allowance for funds used during construction	(12,675)	(26,791
Total funds provided by operations	62,899	19,321
Other:		
Allowance for funds used during construction	12,675	26,791
Investment in associated company - at equity	....	2,170
Miscellaneous - net	6,924	6,865
Total funds provided by operations and other	82,498	55,147
Financing and other transactions:		
Common stock	55,000	20,000
Preferred stock	....	50,338
Promissory notes and other long-term debt	29,645	9,000
Book value of utility plant sold	20,338	19,599
Short-term securities - net	33,605	26,620
Total funds provided by financing and other transactions	138,588	125,557
Total funds provided	$ 221,086	$ 180,704
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 137,847	$ 110,070
Nuclear fuel	(5,598)	4,022
Other - net	3,319	208
Total gross additions (includes allowance for funds used during construction)	135,568	114,300
Other:		
Dividends declared on preferred stock	12,802	12,472
Dividends declared on common stock	39,954	33,986
Investment in associated company	5,440	....
Increase in working capital*	24,072	10,943
Total funds applied to other	82,268	57,401
Financing transactions:		
Retirement of first mortgage bonds	1,009	6,000
Retirement of preferred stock	2,241	3,003
Total funds applied to financing	3,250	9,003
Total funds applied	$ 221,086	$ 180,704

*Working capital does not include short-term securities, current maturities of long-term debt or deferred taxes included in current liabilities. The 1981 net increase in working capital is primarily due to increases in cash and accounts and notes receivable and decreases in other current liabilities; the 1980 net increase in workin capital is primarily due to increases in cash and special deposits and fuel inventory offset by increases in taxes accrued and other current liabilities.

See Notes to Financial Statements.

Note 1. Business Consolidation

Effective January 1, 1981, the electric operations of Ark-Mo were consolidated with those of AP&L and Associated became a subsidiary of AP&L. The financial statements for 1981 reflect this consolidation. Financial data for periods prior to January 1, 1981 have not been restated for the consolidation since the effect would not be material.

If the consolidation had occurred January 1, 1980, consolidated data would have been approximately:

	(Millions)
December 31, 1980-	
Total Assets	$2,250.5
Six Months Ended June 30, 1980:	
Operating Revenues	$ 362.3
Net Income	$ 30.5

Capitalization was affected by the consolidation as follows:

1) AP&L issued six new series of its first mortgage bonds in the aggregate principal amount of $21,160,310 in exchange for the surrender and cancellation of Ark-Mo bonds in the same principal amount previously outstanding.

2) AP&L issued 2,343,423 shares ($33,112,555 book value) of its $12.50 par value common stock to MSU at a price of $14.13 per share to acquire from MSU all the outstanding common stock of Ark-Mo.

3) Ark-Mo's short-term debt of $14 million was assumed by AP&L and retired in the first quarter of 1981.

Note 2. Commitments and Contingencies

At July 1, 1981, AP&L's construction program contemplated expenditures of approximately $336 million in 1981, $192 million in 1982 and $179 million in 1983. These expenditures reflect the planned sale by AP&L of a 25% interest in the Independence Plant to MP&L in 1981 and exclude coal handling equipment costs at that plant after the planned sale of such equipment to a wholly-owned subsidiary in 1981. In addition, 1981 expenditures assume the repayment by AP&L of advances for construction by AECC for Unit No. 2 of the White Bluff Plant and Unit No. 1 and Unit No. 2 of the Independence Plant (see below).

In the third quarter of 1981, AP&L expects to sell to MP&L a 25% interest in the Independence Plant (excluding coal handling equipment) derived from AP&L's 56.5% interest in the plant (excluding coal handling equipment). AP&L owns 100% of the coal handling equipment being constructed at the Independence Plant and expects to sell this equipment to a wholly-owned subsidiary which would, after financing its construction, sell the equipment to a third-party lessor, or as an alternative, sell or lease the equipment back to AP&L.

NOTES TO FINANCIAL STATEMENTS
(Concluded)

MP&L would become a 50% participant in any such arrangement. If this transaction is not consummated by September 30, 1981, or by such later date as the parties may agree, but in no event later than December 31, 1981, MP&L would purchase 50% of the coal handling equipment from AP&L. Thereafter AP&L would bear 50% of the remaining cost of construction of this equipment.

AP&L has a 35% interest in SFI, a jointly-owned subsidiary of the System operating companies. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,400 from its parent companies through December 31, 1981. As of June 30, 1981, AP&L had loaned $23,070,000 to SFI pursuant to this loan agreement and AP&L's share of the unused loan commitment was $60,800,000. Notes under this agreement mature December 31, 2006. In addition, AP&L had loaned SFI $13,565,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

During 1980, AP&L could not continue to fund its portion of three coal units under construction (Unit No. 2 of the White Bluff Plant and Unit No. 1 and Unit No. 2 of the Independence Plant), which AP&L owns jointly with both rural electric cooperatives and various municipalities. Upon notification of this fact one co-owner, AECC, exercised its option to advance AP&L's share of these construction funds in order to keep the construction on schedule. As of June 30, 1981, approximately $71.5 million was so advanced and construction of these projects continued on schedule. AP&L resumed payment of its current portion of construction expenditures for Unit No. 2 of the White Bluff Plant in February 1981, and for both units of the Independence Plant in June 1981. 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.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding commitments and financing obligations of the Middle South System, including AP&L.

Note 3. Rate Increases

See Part II, Item 1. - "Legal Proceedings" regarding AP&L's rate increases.

In the opinion of AP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

AP&L's financial condition took a major turn toward improvement in the second quarter of 1981 as it received an order from the APSC authorizing an increase in retail rates of $102.2 million on an annual basis. Also, this order moderated AP&L's adverse exposure to loss under its fuel adjustment clause by, in effect, allowing for an exact cost recovery on approximately 50% of its total retail sales. For additional information concerning this order, see Part II, Item 1. - "Legal Proceedings".

Also aiding the total financial picture, AP&L filed and implemented a surcharge adjustment on customer bills which will enable AP&L to recover costs associated with certain government-mandated expenditures on a more current basis. These collections were implemented May 1, 1981,subject to refund, and the total collected through June 30 was approximately $500,000.

Liquidity and Capital Resources

AP&L's 1981 construction expenditures (exclusive of nuclear fuel costs and the Independence Plant coal handling equipment costs after the sale of such equipment to a wholly-owned subsidiary) were estimated at July 1, 1981 to total $336.4 million, of which $137.1 million had been expended through June 30, 1981. AP&L estimated at July 1, 1981 that it will require approximately $121.3 million of additional funds from external sources to finance its 1981 construction program (exclusive of nuclear fuel costs and Independence Plant coal handling equipment costs after the sale of such equipment to a wholly-owned subsidiary). Additional funds from external sources will be required for the remainder of 1981, due to maturing long-term debt which totals $68.3 million and preferred stock sinking fund requirements which total $0.9 million. AP&L currently expects to obtain funds for such requirements through the sale of additional first mortgage bonds, short-term borrowings from banks, payments by Jefferson County and Independence County, Arkansas for pollution control facilities, the sale of a portion of the Independence Plant to MP&L, the sale of physical assets and the issuance and sale from time to time of such other securities as may then be determined to be appropriate.

The following are certain transactions consummated by AP&L during the second quarter of 1981 or which are planned by AP&L during the second half of 1981 in order to provide AP&L with the necessary funds from external sources:

In the second quarter of 1981, AP&L secured $10.5 million in connection with the prior sale of pollution control revenue bonds to finance construction of pollution control facilities at its coal units under construction. At June 30, 1981 approximately $18.9 million of additional pollution control bond proceeds were held in trust to finance additional pollution control costs to be incurred at these plants. Also during the second quarter, AP&L sold 4,000,000 shares of its common stock to MSU for $55 million. In addition, AP&L sold and leased back four buildings located at its nuclear steam electric station in May 1981. This transaction provided AP&L with approximately $22 million.

In general, under restrictions contained in AP&L's mortgage and charter, AP&L is required to have earnings coverage ratios of at least 2.00 and 1.50 in order to issue additional first mortgage bonds and preferred stock. As a result of the APSC order referred to above, AP&L's earnings coverage at June 30, 1981 have improved such that AP&L will be permitted to issue additional first mortgage bonds. For the twelve months ended June 30, 1981, AP&L's mortgage and charter coverage ratios were 2.23 mortgage and 1.25 charter (excluding $11 million of revenues subject to refund). If such revenues subject to refund were included, the corresponding ratios would be 2.39 and 1.30, respectively. AP&L is presently planning a first mortgage bond sale in August 1981 in an amount not to exceed $90 million. As of June 30, 1981, AP&L was still precluded from issuing any additional preferred stock.

AP&L is also planning to sell to MP&L a 25% interest in the Independence Plant. This sale will provide AP&L approximately $60.7 million in 1981. In addition, AP&L plans to sell its 100% interest in the coal handling equipment at the Independence Plant to a wholly-owned subsidiary prior to September 30, 1981. If completed, this transaction will provide AP&L with approximately $45.0 million in 1981. If this transaction is not completed by September 30, 1981, or by such later date as the parties may agree, but in no event later than December 31, 1981, MP&L plans to purchase 50% of the coal handling equipment from AP&L. Thereafter AP&L would bear 50% of the remaining cost of construction of this equipment.

AP&L is currently authorized to make short-term borrowings through June 1982 in an aggregate amount outstanding at any one time of up to the lesser of $170 million or 10% of its capitalization. At June 30, 1981, $87.4 million of short-term borrowings were outstanding, leaving available unused short-term borrowing authority of $82.6 million.

Results of Operations

Revenues in the second quarter 1981 and year to date 1981 were $223.3 million and $447.7 million, respectively, compared to $154.8 million and $309.7 million for the corresponding periods in 1980. Revenue increases were primarily due to the effect of recent rate increases and to the recovery of increased fuel costs.

Net income in the second quarter 1981 and year to date 1981 were $9.5 million and $25.0 million, respectively, compared to $6.4 million and $28.9 million for the corresponding periods in 1980. The reason for the year to date decline was attributed to the decline in first quarter 1981 earnings compared to first quarter 1980 earnings.

For the second quarter 1981, AFDC as a percent of net income was approximately 70% as compared to 127% in 1980. AFDC as a percent of net income was only 51%, year to date 1981, compared to 93% in 1980. The decreases in AFDC were primarily due to commencement of commercial operation of two AP&L generating units in March and August of 1980.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Concluded)

Summary

As a result of receiving a final order granting $102.2 million of the previously pending $130.1 million rate filing, AP&L's financial situation has improved significantly. Additionally Unit No. 2 of the White Bluff Plant, rated 816 MW (AP&L's share of which is 465 MW), was placed in commercial operation on July 23, 1981. Commercial operation of this unit enables AP&L to immediately begin recovery of fixed costs, as provided for in the System Agreement. Finally, when the 25% interest in the Independence Plant is sold to MP&L and the sale of the Independence Plant coal handling equipment is consummated, AP&L's financial and cash flow positions should show additional improvement.

LOUISIANA POWER & LIGHT COMPANY
BALANCE SHEETS
June 30, 1981 and December 31, 1980

	June 30, 1981 (Unaudited)	December 31, 1980
	(In Thousands)	
ASSETS		
Utility Plant	$2,450,971	$2,334,421
Less accumulated depreciation	412,765	393,342
Utility plant - net	2,038,206	1,941,079
Other Property and Investments:		
Investment in associated company - at equity	43,447	36,137
Other	419	407
Total	43,866	36,544
Current Assets:		
Cash and special deposits	22,901	23,332
Temporary investments - at cost, which approximates market	....	11,000
Accounts and notes receivable (less allowance for doubtful accounts of $135 thousand)	40,768	31,820
Deferred fuel cost	48,011	17,056
Materials and supplies - at average cost	7,316	10,299
Other	9,360	4,474
Total	128,356	97,981
Deferred Debits	2,678	2,841
TOTAL	$2,213,106	$2,078,445
LIABILITIES		
Capitalization:		
Common stock, no par value, authorized 150,000,000 shares; issued and outstanding 75,746,400 shares	$ 498,900	$ 498,900
Retained earnings	65,900	65,209
Total common shareholders's equity	564,800	564,109
Preferred stock without sinking fund	145,882	145,882
Preferred stock with sinking fund	121,381	121,381
Long-term debt	903,523	828,989
Total capitalization	1,735,586	1,660,361
Current Liabilities:		
Notes payable	63,192	44,293
Currently maturing long-term debt	52,224	52,162
Accounts payable	85,508	66,387
Taxes accrued	8,691	12,099
Accumulated deferred income taxes on deferred fuel	23,247	8,259
Interest accrued	23,608	20,833
Other	44,562	41,061
Total	301,032	245,094
Deferred Credits	169,087	165,992
Reserves	7,401	6,998
TOTAL	$2,213,106	$2,078,445

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF INCOME
For the Three Months and Six Months Ended
June 30, 1981 and 1980
(Unaudited)

	Three Months Ended		Six Months Ended	
	1981	1980	1981	1980
	(In Thousands)		(In Thousands)	
Operating Revenues	$ 233,068	$ 169,311	$ 458,032	$ 334,232
Operating Expenses:				
Operation:				
Fuel for electric generation	81,742	59,744	154,247	106,927
Purchased power	100,920	62,708	167,899	107,043
Deferred fuel cost	(37,694)	(17,713)	(30,955)	(16,444)
Other	17,438	15,193	34,231	30,193
Maintenance	9,590	8,668	16,509	15,111
Depreciation	10,874	10,604	21,749	21,209
Taxes other than income taxes	4,891	4,562	9,902	9,239
Income taxes	14,328	4,230	25,845	14,161
Total	202,089	147,996	399,427	287,439
Operating Income	30,979	21,315	58,605	46,793
Other Income:				
Allowance for equity funds used during construction	10,522	7,398	20,553	14,861
Miscellaneous income and deductions - net	2,306	1,917	4,414	3,706
Income taxes - cr	4,107	2,959	7,919	6,010
Total	16,930	12,274	32,886	24,577
Interest and Other Charges:				
Interest on long-term debt	21,505	17,225	40,713	34,505
Other interest - net	2,537	4,753	6,271	7,756
Allowance for borrowed funds used during construction - (cr)	(4,968)	(4,162)	(10,135)	(8,360)
Total	19,074	17,816	36,849	33,901
Net Income	28,835	15,773	54,642	37,469
Preferred Dividend Requirements	7,091	5,952	14,183	11,903
Balance for Common Stock	$ 21,744	$ 9,821	$ 40,459	$ [illegible],566

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended June 30, 1981 and 1980
(Unaudited)

	Six Months Ended	
	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 54,642	$ 37,469
Depreciation	21,749	21,209
Deferred income taxes and investment tax credit adjustments - net	17,751	10,742
Allowance for funds used during construction	(30,688)	(23,221)
Total funds provided by operations	63,454	46,199
Other:		
Allowance for funds used during construction	30,688	23,221
Investment in associated company - at equity	....	3,010
Miscellaneous - net	1,395	2,071
Total funds provided by operations and other	95,537	74,501
Financing and other transactions:		
Common stock	....	55,000
First mortgage bonds	75,000	....
Other long-term debt	975	4,573
Short-term securities - net	29,900	90,525
Total funds provided by financing and other transactions	105,875	150,098
Total funds provided	$ 201,412	$ 224,599
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 131,164	$ 135,862
Nuclear fuel	(11,768)	....
Other - net	....	4,135
Total gross additions (includes allowance for funds used during construction)	119,396	139,997
Other:		
Dividends declared on preferred stock	14,183	11,903
Dividends declared on common stock	39,767	32,170
Investment in associated company - at equity	7,310	....
Increase in working capital*	19,388	39,199
Total funds applied to other	80,648	83,272
Financing transactions - retirement of other long-term debt	1,368	1,330
Total funds applied	$ 201,412	$ 224,599

*Working capital does not include short-term securities, current maturities of long-term debt or deferred taxes included in current liabilities. The 1981 net increase in working capital is primarily due to increases in accounts and notes receivable and deferred fuel cost offset by an increase in accounts payable; the 1980 net increase in working capital is primarily due to increases in cash and special deposits, accounts and notes receivable and deferred fuel cost.

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 1. Commitments and Contingencies

At June 30, 1981, LP&L's construction program contemplated expenditures of approximately $292 million in 1981, $294 million in 1982 and $191 million in 1983.

LP&L has a 33% interest in SFI, a jointly-owned subsidiary of the System operating companies. SFI operates on a non-profit basis for purposes of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of June 30, 1981, LP&L had loaned $29,445,000 to SFI pursuant to this loan agreement and LP&L's share of the unused loan commitment was $81,700,000. Notes under this agreement mature December 31, 2006. In addition LP&L had loaned SFI $13,995,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including LP&L.

Note 2. Rate Increases

See Part II, Item 1. - "Legal Proceedings" regarding LP&L's rate increases.

Note 3. Subsequent Event

See Part II, Item 5. - "Other Information" regarding the development of a plan to consolidate LP&L and NOPSI and their operations.

In the opinion of LP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

LOUISIANA POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

During the first six months of 1981, LP&L's large construction program was financed primarily with short-term borrowings and the sale in April 1981 of $75 million principal amount of first mortgage bonds. As of June 30, 1981, after giving effect to the issuance of these bonds, LP&L could have issued, under LP&L's coverage restrictions contained in its mortgage and charter, approximately $92 million of additional first mortgage bonds at an assumed annual interest rate of 16% (plus any first mortgage bonds issued for refunding purposes) or approximately $69 million of additional preferred stock at an assumed annual dividend rate of 16%. These amounts of additional first mortgage bonds and preferred stock are based upon the inclusion in earnings of revenues collected pursuant to the interim rate increase granted by the LPSC in October 1980 and the rate increase granted by the LPSC in May 1981 (see below).

In connection with the general rate increase application filed in May 1980 with respect to customers under the LPSC jurisdiction in the amount of $203.6 million, the LPSC issued an order dated May 26, 1981, granting LP&L a rate increase of approximately $117.8 million in addition to the $32.4 million interim rate increase granted in October 1980. The appeal period has not yet run on the order of May 26, 1981.

Liquidity and Capital Resources

Total funds provided by operations increased from $46.2 million in the first six months of 1980 to $63.5 million in the corresponding period of 1981. This increase, along with a decline in construction expenditures (including AFDC) from $135.9 million to $131.2 million during the same periods, was a major factor in the reduction in funds provided by financing from $150.1 million in 1980 to $105.9 million in 1981.

LP&L's projection of construction expenditures for the year 1981 is currently $292 million. Requirements for capital funds for the year 1981 will approximate $200 million, including $52 million for the funding of maturing long-term debt. To meet such capital fund requirements, LP&L sold $75 million of first mortgage bonds in April, and plans to sell $40 million of common stock to MSU and such other securities including short-term debt as may be determined to be appropriate. The ability of LP&L to sell additional first mortgage bonds and preferred stock in 1981 is largely dependent upon the rate relief received in May 1981 and its effect upon LP&L's earnings.

Results of Operations

Net income for the first six months of 1981 increased $17.2 million or 46% over the corresponding period of 1980. During the second quarter of 1981, net income was up $13.1 million or 83% over the second quarter of 1980. The following are the more significant changes in the financial results as reflected in the Statements of Income for the first six months and the second quarters of 1981 and 1980.

LOUISIANA POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Concluded)

The $123.8 million or 37% and $63.8 million or 38% increases in electric operating revenues, as compared to the six months and three months ended June 30, 1980, are due primarily to the recovery of increased fuel costs through fuel adjustment clauses and an interim rate increase to retail customers.

Fuel costs for the six months and three months ended June 30, 1981 increased $47.3 million or 44% and $22 million or 37%, respectively, primarily as a result of higher average unit prices for natural gas and oil. Purchased power expenses rose $60.9 million or 57% and $38.2 million or 61%, respectively, as compared to the six months and three months ended June 1980 reflecting not only higher average unit prices but also larger volumes of energy purchased to displace even higher cost gas and/or oil-fired generation.

The increase in AFDC, $7.5 million or 32% and $3.[illegible] million or 34% for the six months and three months ended June 1981, is primarily attributable to the increased amounts of CWIP.

For the six months and three months ended June 30, 1981 Interest on long-term debt and Other interest - net increased $4.7 million or 11% and $2.1 million or 9%, respectively, primarily as a result of issuances of additional debt in conjunction with financing the construction programs and increased reliance on short-term financing at high interest rates.

Summary

LP&L believes that with the rate relief received in May 1981, its financial condition and results of operations will show substantial improvement during 1981.

MISSISSIPPI POWER & LIGHT COMPANY
BALANCE SHEETS
June 30, 1981 and December 31, 1980

	June 30, 1981 (Unaudited)	December 31, 1980
	(In Thousands)	
ASSETS		
Utility Plant	$ 793,768	$ 780,812
Less accumulated depreciation	250,429	239,534
Utility plant - net	543,339	541,278
Other Property and Investments:		
Investment in associated company - at equity	19,364	16,644
Other	951	962
Total	20,315	17,606
Current Assets:		
Cash and special deposits	3,837	2,562
Temporary investments - at cost, which approximates market	30,400	33,000
Accounts receivable (less allowance for doubtful accounts of $154 thousand)	29,846	34,340
Fuel inventory - at average cost	4,321	5,321
Materials and supplies - at average cost	9,510	9,104
Other	9,796	4,203
Total	87,710	88,530
Deferred Debits	1,498	1,687
TOTAL	$ 652,862	$ 649,101
LIABILITIES		
Capitalization:		
Common stock, no par value (stated value $23 per share), authorized 15,000,000 shares in 1981 and 5,000,000 shares in 1980; issued and outstanding 4,540,000 shares	$ 104,420	$ 104,420
Retained earnings	71,134	74,985
Total common shareholder's equity	175,554	179,405
Preferred stock without sinking fund	38,077	38,077
Long-term debt	261,755	262,860
Total capitalization	475,386	480,342
Current Liabilities:		
Currently maturing long-term debt	404	456
Accounts payable	49,776	43,312
Taxes accrued	23,483	24,740
Interest accrued	7,900	6,994
Other	17,159	18,027
Total	98,722	93,529
Deferred Credits	73,660	70,976
Reserves	5,094	4,254
TOTAL	$ 652,862	$ 649,101

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF INCOME
For the Three Months and Six Months Ended
June 30, 1981 and 1980
(Unaudited)

	Three Months Ended		Six Months Ended	
	1981	1980	1981	1980
	(In Thousands)		(In Thousands)	
Operating Revenues	$ 131,689	$ 106,455	$ 251,954	$ 219,518
Operating Expenses:				
Operation:				
Fuel for electric generation	71,488	57,381	123,245	111,096
Purchased power	22,882	15,979	47,384	35,232
Other	13,163	9,019	23,872	19,399
Maintenance	9,300	6,460	13,934	12,317
Depreciation	5,849	5,685	11,699	11,370
Taxes other than income taxes	4,761	4,125	9,534	8,541
Income taxes	(650)	677	5,042	4,731
Total	126,793	99,326	234,710	202,686
Operating Income	4,896	7,129	17,244	16,832
Other Income:				
Allowance for equity funds used during construction	284	112	542	238
Miscellaneous income and deductions - net	2,135	844	4,301	1,725
Income taxes - cr	(441)	(259)	(1,400)	(518)
Total	1,978	697	3,443	1,445
Interest and Other Charges:				
Interest on long-term debt	4,840	4,879	9,681	9,774
Other interest - net	553	179	1,007	460
Allowance for borrowed funds used during construction - (cr)	(103)	(180)	(196)	(382)
Total	5,290	4,878	10,492	9,852
Net Income	1,584	2,948	10,195	8,425
Preferred Dividend Requirements	596	596	1,192	1,192
Balance for Common Stock	$ 988	$ 2,352	$ 9,003	$ 7,233

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended June 30, 1981 and 1980
(Unaudited)

	Six Months Ended	
	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 10,195	$ 8,425
Depreciation	11,699	11,370
Deferred income taxes and investment tax credit adjustments - net	2,707	2,788
Allowance for funds used during construction	(738)	(620)
Total funds provided by operations	23,863	21,963
Other:		
Allowance for funds used during construction	738	620
Decrease in working capital*	3,465	2,846
Investment in associated company - at equity	....	1,190
Miscellaneous - net	1,441	1,673
Total funds provided by operations and other	29,507	28,292
Financing and other transactions - short-term securities - net	2,600	5,000
Total funds provided	$ 32,107	$ 33,292
Funds Applied To:		
Utility plant additions - construction expenditures (includes allowance for funds used during construction)	$ 15,347	$ 13,613
Other:		
Dividends declared on preferred stock	1,192	1,192
Dividends declared on common stock	12,848	10,987
Investment in associated company - at equity	2,720	....
Total funds applied to other	16,760	12,179
Financing transactions - retirement of first mortgage bonds	....	7,500
Total funds applied	$ 32,107	$ 33,292

*Working capital does not include short-term securities or current maturities of long-term debt. The 1981 net decrease in working capital is primarily due to a decrease in accounts receivable and an increase in accounts payable; the 1980 net decrease in working capital is primarily due to a decrease in accounts and notes receivable offset by a decrease in taxes accrued.

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
NOTE TO FINANCIAL STATEMENTS

Note. Commitments and Contingencies

At June 30, 1981, MP&L's 1981 construction program contemplated expenditures of approximately $54 million, excluding $61 million expected to be paid by MP&L to AP&L in 1981 in conjunction with MP&L's proposed purchase of a 25% interest in the Independence Plant currently being constructed by AP&L. Estimated 1981 construction expenditures also exclude MP&L's portion of the cost of coal handling equipment at that plant. Construction expenditures for 1982 and 1983 are estimated to be $118 million and $65 million, respectively.

In the third quarter of 1981, MP&L expects to buy from AP&L a 25% interest in the Independence Plant (excluding coal handling equipment) derived from AP&L's 56.5% interest in the plant (excluding coal handling equipment). AP&L currently owns 100% of the coal handling equipment being constructed at the Independence Plant and expects to sell this equipment to a wholly-owned subsidiary which would, after financing its construction, sell the equipment to a third-party lessor, or as an alternative, sell or lease the equipment back to AP&L. MP&L would become a 50% participant in any such arrangement. If this transaction is not consummated by September 30, 1981, or by such later date as the parties may agree, but in no event later than December 31, 1981, MP&L would purchase 50% of the coal handling equipment from AP&L. Thereafter MP&L would be responsible for 50% of the remaining costs of constructing that equipment.

MP&L has a 19% interest in SFI, a jointly-owned subsidiary of the System operating companies. SFI operates on a non-profit basis in planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of June 30, 1981, MP&L had loaned $11,985,000 to SFI pursuant to this loan agreement and MP&L's share of the unused loan commitment was $30,400,000. Notes under this agreement mature December 31, 2006. In addition, MP&L had loaned SFI $7,375,250 under the previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including MP&L.

In the opinion of MP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

MISSISSIPPI POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The financial condition of MP&L remained strong through the quarter ended June 30, 1981 although the coverage ratios declined slightly from the prior quarter. For the twelve months ended December 31, 1980, March 31, 1981 and June 30, 1981 the bond interest times earned coverage (as defined in the mortgage) were respectively 4.19 times; 4.50 times; and 4.39 times. For the same periods the coverage of interest charges and fixed preferred stock dividend requirements were respectively 2.34 times; 2.50 times; and 2.38 times. MP&L would be legally precluded from issuing additional bonds should the earnings coverage be less than 2.0 times the total bond interest requirements. The similar requirement for preferred stock is 1.5 times.

On May 28, 1980, MP&L filed with the MPSC for an increase in its retail electric rates of approximately $68,768,000 based on the projected test year beginning July 1, 1980 . The new rates were put into effect for service on or after July 1, 1980 subject to refund. On November 24, 1980, the MPSC rendered its decision allowing MP&L $48,277,000 in additional annual revenues. On December 23, 1980, MP&L, the Mississippi Attorney General's Office and the Mississippi Legal Services Coalition appealed the MPSC's Order to the Chancery Court of Hinds County, Mississippi. MP&L is requesting that the full rate increase sought be allowed, appealing the MPSC's decisions on rate of return, the disallowance of a portion of CWIP in rate base, and the disallowance of the working capital requested by MP&L. The intervenors are seeking a reversal of the MPSC's decisions in a number of areas and have not specified any particular rate level in their filings. Until a decision is reached, the full amount of the rate increase sought will continue to be collected. MP&L is currently including only that portion approved by the MPSC in its earnings.

Liquidity and Capital Resources

As a result of modest construction expenditures and adequate internal cash generation, on June 30, 1981 MP&L had a total of $34.2 million of cash, special deposits and temporary cash investments. In addition, based on earnings coverage tests as of June 30, 1981, assuming the availability of bondable property and assuming an interest and preferred dividend rate of 16%, MP&L could have issued first mortgage bonds in the amount of $132 million or preferred stock in the amount of $88 million.

MP&L's construction program for 1981 is expected to result in expenditures of approximately $53 million, excluding approximately $61 million anticipated to be paid by MP&L to AP&L in conjunction with MP&L's proposed acquisition of a 25% interest in the Independence Plant and excluding MP&L's portion of the cost of related coal handling equipment. The construction program for 1982 and 1983 is projected to be approximately $118 million and $65 million, respectively.

MISSISSIPPI POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Concluded)

MP&L presently expects to fund approximately $30 million of its expected $63 million of external cash requirements in 1981 through the issuance and sale of preferred stock scheduled for the third quarter of 1981. It is expected that the remaining $33 million of MP&L's requirements will be secured through short-term borrowings and through the issuance and sale of such other securities as may be determined to be appropriate.

Results of Operations

Operating results for the six month period ended June 30, 1981 improved from the corresponding period in 1980 and net income registered an increase of $1.8 million or 21%. Additional revenue of $20.1 million for the period, as a result of the new rate level approved in 1980 by the MPSC, is the primary factor in the increased net income. However, operating results for the quarter ended June 30, 1981 resulted in a decrease in net income of $1.4 million when compared to the same quarter of the prior year. The additional revenue of $10.9 million for the second quarter that resulted from the new rate level approved in 1980 was more than offset by reductions in sales to wholesale customers, sales to customers outside the state and a $9.9 million increase in operating and maintenance expenses.

Summary

The ability of MP&L to reach and maintain a sound financial position and thus be able to provide the generating capacity and other resources necessary to serve the present and future energy requirements of its customers at reasonable costs depends upon the granting of timely, fair and sufficient rate relief by the regulatory bodies to which MP&L is subject.

NEW ORLEANS PUBLIC SERVICE INC.
BALANCE SHEETS
June 30, 1981 and December 31, 1980

	June 30, 1981 (Unaudited)	December 31, 1980
	(In Thousands)	
ASSETS		
Utility Plant	$ 429,591	$ 423,978
Less accumulated depreciation	177,060	171,347
Utility plant - net	252,531	252,631
Other Property and Investments:		
Investment in associated company - at equity	11,567	10,037
Other	49	49
Total	11,616	10,086
Current Assets:		
Cash and special deposits	1,197	1,341
Temporary investments - at cost, which approximates market	7,800	21,700
Accounts and notes receivable (less allowance for doubtful accounts of $475 thousand):		
Customer	22,098	21,171
Other	10,620	7,657
Materials and supplies - at average cost	7,686	7,725
Other	17,462	3,747
Total	66,863	63,341
Deferred Debits	5,444	5,746
TOTAL	$ 336,454	$ 331,804
LIABILITIES		
Capitalization:		
Common stock, $10 par value, authorized 7,000,000 shares; issued and outstanding 5,935,900 shares	$ 59,359	$ 59,359
Retained earnings	9,797	13,162
Total common shareholder's equity	69,156	72,521
Preferred stock without sinking fund	20,117	20,117
Preferred stock with sinking fund	14,582	14,582
Long-term debt	126,508	126,519
Total capitalization	230,363	233,739
Current Liabilities:		
Notes payable	4,000	....
Accounts payable	36,431	31,624
Taxes accrued	5,155	4,359
Interest accrued	2,899	2,808
Other	8,733	11,127
Total	57,218	49,918
Deferred Credits	38,668	38,135
Reserves	10,205	10,012
TOTAL	$ 336,454	$ 331,804

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF INCOME
For the Three Months and Six Months Ended
June 30, 1981 and 1980
(Unaudited)

	Three Months Ended		Six Months Ended	
	1981	1980	1981	1980
	(In Thousands)		(In Thousands)	
Operating Revenues:				
Electric	$ 88,172	$ 61,352	$ 141,971	$ 115,959
Natural gas	17,921	15,839	52,000	44,874
Transit	12,313	10,689	24,276	21,072
Total	118,406	87,880	218,247	181,905
Operating Expenses:				
Operation:				
Fuel for electric generation	45,422	30,103	66,356	56,644
Purchased power	20,721	12,647	38,087	23,487
Gas purchased for resale	13,823	12,659	40,860	35,081
Other	18,618	16,089	36,187	32,209
Maintenance	8,103	6,462	14,208	12,184
Depreciation	3,561	3,404	7,161	6,917
Taxes other than income taxes	4,477	3,862	9,174	8,132
Income taxes	378	(94)	251	591
Total	115,103	85,132	212,284	175,245
Operating Income	3,303	2,748	5,963	6,660
Other Income:				
Allowance for equity funds used during construction	40	42	77	87
Miscellaneous income and deductions - net	972	921	2,294	1,702
Income taxes - cr	(434)	(406)	(1,030)	(740)
Total	578	557	1,341	1,049
Interest and Other Charges:				
Interest on long-term debt	2,190	2,190	4,380	4,380
Other interest - net	309	322	720	734
Allowance for borrowed funds used during construction - (cr)	(16)	(44)	(30)	(91)
Total	2,483	2,468	5,070	5,023
Net Income	1,398	837	2,234	2,686
Preferred Dividend Requirements	820	821	1,640	1,094
Balance for Common Stock	$ 578	$ 16	$ 594	$ 1,592

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Six Months Ended June 30, 1981 and 1980
(Unaudited)

	Six Months Ended	
	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 2,234	$ 2,686
Depreciation	7,161	6,917
Deferred income taxes and investment tax credit adjustments - net	772	766
Allowance for funds used during construction	(107)	(178)
Total funds provided by operations	10,060	10,191
Other:		
Allowance for funds used during construction	107	178
Investment in associated company - at equity	....	630
Miscellaneous - net	288	846
Total funds provided by operations and other	10,455	11,845
Financing and other transactions:		
Preferred stock	....	14,720
Short-term securities - net	17,900	....
Total funds provided by financing and other transactions	17,900	14,720
Total funds provided	$ 28,355	$ 26,565
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 7,104	$ 10,562
Other - net	....	(5)
Total gross additions (includes allowance for funds used during construction)	7,104	10,557
Other:		
Dividends declared on preferred stock	1,640	1,094
Dividends declared on common stock	3,959	4,986
Investment in associated company - at equity	1,530	....
Increase in working capital*	14,122	3,228
Total funds applied to other	21,251	9,308
Financing transactions - short-term securities - net	....	6,700
Total funds applied	$ 28,355	$ 26,565

*Working capital does not include short-term securities or current maturities of long-term debt. The 1981 net increase in working capital is primarily due to increases in accounts and notes receivable and other current assets partially offset by an increase in accounts payable; the 1980 net increase in working capital is primarily due to an increase in other current assets.

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Commitments and Contingencies

At June 30, 1981, NOPSI's construction program contemplated expenditures of approximately $20 million in 1981, $23 million in 1982 and $50 million in 1983.

NOPSI has a 13% interest in SFI, a jointly-owned subsidiary of the System operating companies. SFI operates on a non-profit basis for purposes of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of June 30, 1981, NOPSI had loaned $7,000,000 to SFI pursuant to this loan agreement and NOPSI's share of the unused loan commitment was $17,100,000. Notes under this agreement mature December 31, 2006. In addition, NOPSI had loaned SFI $4,564,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

In a suit pending against NOPSI concerning matters related to NOPSI's fuel adjustment clause in its electric rate schedules, the District Court has, after trial in December 1979, entered a judgment in favor of NOPSI. The plaintiffs have appealed. A suit has also been filed against NOPSI regarding the subsidization of its transit operation with revenues which NOPSI has received from its electric and gas operations. It is the opinion of NOPSI that final disposition of these suits will not have a material adverse effect on its financial position or results of operations.

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 and NOPSI was permitted to continue to collect the increased fare until November 1977 when the Louisiana Supreme Court refused to review an Appeals Court judgment in favor of the plaintiffs. 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. In May 1979 the trial court granted plaintiffs' request for a Summary Judgment against NOPSI and the Council. The court awarded the plaintiffs $5,518,990 (plus judicial interest), to be paid through a transit fare reduction, and attorneys' fees of $100,000. NOPSI and the Council appealed this judgment. On November 14, 1980, the Court of Appeal annulled the Summary Judgment and returned this matter to the District Court. The plaintiffs and defendants both sought review of this matter. On January 26, 1981, the Louisiana Supreme Court refused to hear the case and returned the parties to the District Court. Under the transit subsidy agreement with the City of New Orleans, NOPSI's maximum exposure to loss in this matter would be 70% of the amount of any ultimate liability resulting from this litigation. This matter is still pending; however, should any material adjustment be necessary, it will be retroactively applied to the operations of 1976 and 1977 when such fares were collected.

NEW ORLEANS PUBLIC SERVICE INC.
NOTES TO FINANCIAL STATEMENTS
(Concluded)

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including NOPSI.

Note 2. Subsequent Event

See Part II, Item 5. - "Other Information" regarding the development of a plan to consolidate LP&L and NOPSI and their operations.

In the opinion of NOPSI, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

NEW ORLEANS PUBLIC SERVICE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The implementation of increased rates effective April 13, 1981 has not yet had a significant impact upon NOPSI's financial condition. In response to NOPSI's April 1980 application to the Council for electric and gas rate relief, on April 9, 1981, the Council authorized NOPSI to increase its annual retail electric and gas rates approximately $18.9 million and $8.0 million, respectively, effective for bills rendered on and after April 13, 1981. NOPSI had requested annual increases in its electric and gas rates of approximately $23.3 million and $9.2 million, respectively. It is expected that implementation of these increased rates should produce some improvement in NOPSI's financial condition and results of operations in future months.

The indenture provisions relating to NOPSI's first mortgage bonds provide restrictions on the payment of cash dividends on common stock. As a result of these restrictions, NOPSI's common dividends decreased from $2.7 million for the first quarter of 1981 to $1.3 million for the quarter ended June 30, 1981. At June 30, 1981, $0.5 million of retained earnings were free from the indenture restrictions.

Liquidity and Capital Resources

At June 30, 1981, NOPSI's earnings coverage for its first mortgage bonds was 2.13 times the annual mortgage bond interest requirements, and its earnings coverage for preferred stock was 1.22 times the annual interest charges and preferred dividend requirements. Since under NOPSI's mortgage and charter the minimum earnings coverage tests are 2.0 times for selling additional first mortgage bonds and 1.5 times for selling additional preferred stock, NOPSI is currently prohibited from selling preferred stock.

Funds for construction expenditures of $3.4 million for the quarter ended June 30, 1981, were obtained principally through the application of funds previously held in short-term investments. NOPSI's only short-term borrowing made in the first six months of 1981 was for $4 million on June 25, 1981. NOPSI contemplates that its construction and other corporate commitments for the remainder of 1981 will be financed through the use of internally generated funds and short-term borrowings. No permanent financing is anticipated in 1981.

At June 30, 1981, CWIP was $4.1 million, less than 1% of plant in service.

Results of Operations

Net income for the second quarter of 1981 increased $0.6 million or 67% compared to the corresponding quarter of 1980. This increase is due primarily to rate relief received in April 1981 partially offset by continuing inflationary increases in the costs of wages, employee benefits, materials and supplies and services.

NEW ORLEANS PUBLIC SERVICE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Concluded)

Electric operating revenues for the quarter ended June 30, 1981 increased $26.8 million or 44% compared to the corresponding quarter in 1980. This increase is due primarily to the recovery of increased fuel costs and the effect of a recent rate increase.

Net income for the six months ended June 30, 1981 decreased $0.5 million or 17% compared to the corresponding year-to-date period in 1980. This decrease is due primarily to continuing inflationary increases in the cost of wages, employee benefits, materials and supplies and services partially offset by the rate relief effective April 13, 1981.

For the six months ended June 30, 1981 electric operating revenues increased $26.0 million or 22% and gas operating revenues increased $7.1 million or 16% compared to the corresponding year to date period in 1980. These increases are due primarily to the recovery of increased fuel and gas costs and the effect of a recent rate increase.

Summary

Rate relief granted in April 1981 should improve NOPSI's financial position during the remaining months of 1981. However, because the amount of increase authorized was less than that requested, the increased revenues will probably not be adequate to enable NOPSI to earn the 15% return on common equity authorized by the Council.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Middle South Utilities, Inc. and Subsidiaries

MSU

(a) As previously discussed on page 11 of Form 10-K for the year ended December 31, 1980, on March 30, 1979, MSS, on behalf of AP&L, Ark-Mo, LP&L, MP&L and NOPSI, filed with the FERC an application for an increase in rates charged by the System operating companies to each other under the Agreement, effective July 2, 1973, among the System operating companies relating to the sharing of generating capacity and other power sources ("System Agreement") for capability equalization, transmission equalization, energy exchange and other services. The application was designed to increase charges under the System Agreement primarily through the expansion of the categories of expenses subject to automatic adjustment clauses to include operation and maintenance expenses and overhead expenses and through an increase in the allowed rate of return on equity investment. The FERC permitted the proposed rates to become effective on June 1, 1979, subject to refund. The System operating companies commenced charging the new rates, subject to refund, effective June 1, 1979. On July 30, 1981, the FERC issued an order approving the application of automatic adjustment clauses to operation and maintenance expenses and overhead expenses and approving a 14% rate of return on equity investment. The order made certain other modifications to the formula rates. While the FERC order is being analyzed by the Middle South System, it is not expected that any resulting adjustments to revenues billed subject to refund will have a material effect on the financial condition or results of operations of the individual System operating companies or of MSU on a consolidated basis.

AP&L

(a) As previously discussed on page 12 of Form 10-K for the year ended December 31, 1980, on May 29, 1980, AP&L filed with the APSC an application to increase its retail rates a total of approximately $130.1 million on an annual basis. On October 28, 1980, AP&L placed in effect, subject to refund, approximately $86.7 million of the increase. On May 27, 1981, the APSC entered an order ("May Rate Order") authorizing an estimated increase in retail rates of $102.2 million on an annual basis. The May Rate Order directed AP&L to revise its computerized retail cost of service study to incorporate all adjustments contained in the order to determine the precise amount of the increase. The increase resulting from the revised cost of service study as submitted by AP&L amounted to $104.9 million. On June 4, 1981, the APSC approved and AP&L implemented interim rate schedules which would produce $104.9 million on an annual basis, to be collected on an interim basis until an order approving rate design is issued. The order states that these interim rates are not subject to refund except as to an amount disallowed relating to the treatment of AFDC on CWIP to be completed within twelve months, which is allowed in rate base, estimated in the order to amount to $2.7 million of the $104.9 million. AP&L did not contest the disallowance of the $2.7 million related to AFDC on CWIP. On July 10, 1981, AP&L filed final rate schedules designed to collect an additional $102.2 million on an annual basis. Those rate schedules were approved by the APSC on July 24, 1981.

In the May Rate Order, the APSC reduced AP&L's rate base $2.3 million by disallowing this amount of investment in AP&L's Arkansas Nuclear One Generating Station, Unit No. 2. On June 26, 1981, AP&L filed a petition for rehearing with the APSC challenging this $2.3 million deduction from AP&L's rate base.

In the rate proceeding discussed in the second preceding paragraph, AP&L had requested a full recovery fuel adjustment clause, which would have replaced the current retail fuel adjustment clause for over/under collection through this mechanism primarily as a result of variances from monthly targeted plant capacity factors of the nuclear unit. The APSC denied this request, but moderated AP&L's adverse exposure to loss by mandating an exact recovery fuel clause for all large customers who are billed on mandatory time of use rates. This directive affected approximately 34% of AP&L's retail sales, excluding sales to Reynolds Metals Company ("Reynolds"). This, coupled with AP&L's current agreement with Reynolds in regard to fuel recovery, leaves only approximately 50% of total ultimate sales under the nuclear incentive fuel clause. The APSC also reduced the targeted nuclear plant capacity factors as AP&L had requested, recognizing the lowering of the factors as a result of additional NRC requirements following the incident which occurred at the Three Mile Island Unit 2 nuclear power plant. This latter action also reduces AP&L's exposure to losses under the fuel adjustment clause.

Item 1. Legal Proceedings (continued)

(b) As previously discussed on page 33 of Form 10-Q for the quarter ended March 31, 1981, on May 1, 1981, AP&L filed with the APSC an application to increase its Arkansas retail rates a total of approximately $93 million over the level of rates authorized by the May Rate Order. Also, on May 1, 1981, AP&L filed with the APSC an interim surcharge tariff, pursuant to the provisions of an Arkansas law enacted in 1981 which permits recovery of certain costs and expenses reasonably incurred by AP&L as a direct result of legal requirements relating to the protection of public health, safety, or the environment. The total annual effect of the interim surcharge is approximately $3.3 million. This surcharge became effective upon filing, subject to refund, pending approval of the APSC. Hearings were held before an Administrative Law Judge ("ALJ") on July 16, 1981. On July 24, 1981, the ALJ entered a preliminary order approving the surcharge. The APSC may approve or modify the preliminary order. This amount is included in and does not represent an additional increase over and above the retail rate increase request filed on May 1, 1981. The interim surcharge will remain in effect only until such time as rate schedules in that rate case become effective.

(c) On June 2, 1981, AP&L filed an application with the PSCM to increase its retail rates in Missouri a total of approximately $9.2 million on an annual basis. On June 19, 1981, the PSCM suspended the effectiveness of the proposed rates for an initial period of four months. The PSCM may extend such suspension period up to a maximum of eleven months.

(d) As previously discussed on page 14 of Form 10-K for the year ended December 31, 1980, AP&L has been authorized by the APSC and the PSCM to provide electric service to Arkansas and Missouri customers under tariffs which are identical to the tariffs under which Ark-Mo was serving such customers. On July 23, 1980, Ark-Mo filed with the APSC an application to increase its retail electric rates approximately $7.5 million annually. The rates are based on an April 30, 1980 test year. Ark-Mo placed these rates in effect, subject to refund, for consumption on and after December 21, 1980. On July 17, 1981, the APSC entered an order on this rate increase filing of AP&L applicable to retail customers in Arkansas, which were formerly served by Ark-Mo. The order rejected the tariffs which have been collected subject to refund since December 21, 1980, but authorized the filing of new tariffs designed to recover an additional $5.7 million on an annual basis under the adjusted test year conditions. Refunds of any collections, since December 21, 1980, in excess of the rate levels in the tariffs authorized by the order must be made, together with interest at the rate of

Item 1. Legal Proceedings (continued)

10% per annum. The APSC order is currently being analyzed and the amount of such refund liability is not known at this time.

(e) As previously discussed on page 13 of Form 10-K for the year ended December 31, 1980, on August 28, 1980, AP&L filed with the FERC an application for an increase in its wholesale rates to those Arkansas municipal and cooperative customers who are not co-owners of Unit No. 1 of the White Bluff Plant, designed to produce approximately $10.0 million additional annual revenues. AP&L implemented the first phase of this increase, designed to produce approximately $7.0 million of the total proposed increase, subject to refund, for electric consumption from November 2, 1980. The remainder of the proposed increase was placed into effect on June 1, 1981. Pursuant to the terms of a settlement agreement with the wholesale customers, AP&L will recalculate the wholesale rates based on the cost of service established by the APSC in the rate proceeding discussed in (a) above to determine what refunds, if any, are required under the settlement agreement. In the event refunds are required, AP&L will file reduced rates with the FERC which will be subject to FERC review.

(f) On June 30, 1981, AP&L filed with the FERC an application for an increase in its wholesale rates to those municipal and cooperative customers who are not co-owners of Unit No. 1 of the White Bluff Plant designed to produce additional annual revenues of approximately $9.8 million from AP&L's Arkansas wholesale customers. AP&L and the Arkansas wholesale customers entered into a settlement agreement providing for a lower rate to these customers in the event the FERC suspends the effectiveness of the proposed rates for a maximum of one day. AP&L also agreed to delay implementation of such rates (in the event of a one day suspension) until the date the proposed Arkansas retail rates (described in (b) above) are implemented subject to refund by AP&L or by order of the APSC. The settlement rates are designed to produce approximately $8.0 million additional annual revenues from the affected Arkansas wholesale customers. The settlement rates have been offered to the Missouri customers formerly served by Ark-Mo and, if applied to these customers, would produce approximately $1.2 million in additional annual revenues. Pursuant to the terms of a settlement agreement with its Arkansas wholesale customers, AP&L will recalculate the wholesale rates based on the cost of service established by the APSC in the retail rate proceeding described in (b) above to determine what adjustments, if any, should be made to the proposed wholesale rates. Any such adjustments would require FERC approval.

Item 1. Legal Proceedings (continued)

(g) As previously discussed on page 12 of Form 10-K for the year ended December 31, 1980, on May 6, 1980, AP&L filed with the FERC new Power Coordination, Interchange and Transmission Service Agreements between AP&L and each of the co-owners of Unit No. 1 of the White Bluff Plant. The Agreements, which superseded certain power supply contracts with these wholesale customers, provide for the transmission of power and energy from jointly-owned sources and for the sale of power and energy to these wholesale customers, all under formula rates designed to change annually to reflect changes in AP&L's cost of providing service. Such formula rates, based on 1979 costs, were implemented subject, in part, to refund on August 22, 1980. Under a settlement agreement among the parties, it was agreed that the formulas would be revised effective March 1, 1981, and that no refunds would be required for rates collected under the original formulas. On July 20, 1981, the FERC issued an order approving the settlement agreement and terminating the docket on this matter.

LP&L

(a) As previously discussed on page 14 of Form 10-K for the year ended December 31, 1980, on May 30, 1980, 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 annual revenues of approximately $205,600,000 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. 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. By order dated May 26, 1981, the LPSC granted LP&L a rate increase of $117,761,000 in addition to the $32,400,000 previously permitted. A motion for reconsideration or rehearing by an intervenor was denied by the LPSC on June 22, 1981. The appeal period has not yet run on the order of May 26, 1981.

(b) On May 12, 1981, LP&L filed with the FERC (Docket No. ER81-457-000) a proposed Electric System Interconnection Agreement ("Interconnection Agreement") between the City of Winnfield ("City") and LP&L, in the same form as such agreements of LP&L with other Louisiana municipalities, making service available to the City under seven service schedules; and LP&L requested that the FERC waive its notice requirements and permit the Interconnection Agreement to become effective on May 15, 1981, to supersede an existing contract with the City expiring on May 14, 1981. Concurrently, LP&L filed a copy of the Interconnection Agreement in Docket No. EL81-13-000, wherein the City had filed a complaint seeking various kinds of relief on the basis of its alleged uncertainty regarding whether, and under what conditions, electric service by LP&L to the City would continue after May 14, 1981, and LP&L asked that the City's complaint in this docket be dismissed. On June 8, 1981, the City filed in Docket No. ER81-457-000 a protest, petition for permission to intervene, a motion to reject or summarily dispose of LP&L's application or, in the alternative, for a five-month suspension thereof, and request to consolidate this docket with Docket No. EL81-13-000, alleging that the proposed Interconnection Agreement offers only incrementally-priced rates, that such rates are inappropriate for service to a full-requirements customer such as the City, that the Interconnection Agreement can be expected to create a price squeeze, and that LP&L has not shown that the proposed rates are not unjust, unreasonable, discriminatory and anticompetitive. On July 10, 1981, the FERC issued an order granting the City's petition to intervene in Docket No. ER81-457-000, consolidating Docket Nos. ER81-457-000 and EL81-13-000 for purposes of hearing and decision, accepting for filing the Interconnection Agreement and the rates thereunder but denying LP&L's request for waiver of the notice requirements and suspending LP&L's filing for five months from 60 days after filing to become effective, subject to refund, on December 12, 1981, and ordering a public hearing to be held concerning the justness and reasonableness of LP&L's rates and practices, such hearing to be expedited so as to permit the FERC to take final action within the five month suspension period. The order also directed LP&L to refrain from demanding or collecting from the City any charge other than the filed rate under the contract which expired May 14, 1981 and to refund any amounts collected from the City in excess thereof. The order directed that the hearing in this proceeding should address the rates and appropriate form of service for the City, and also the allegations of discrimination, anticompetitive conduct and price squeeze. The matter is pending before the FERC.

(c) As previously discussed on page 14 of Form 10-K for the year ended December 31, 1980, on July 3, 1980, LP&L 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. On July 23, 1981, the Council adopted a resolution making effective rates designed to produce additional revenues of $3,040,000. The appeal period has not yet run on such rate increase.

Item 1. Legal Proceedings (concluded)

NOPSI

(a) On June 30, 1981, American Standard, Inc. and an association of thirty-six of its industrial insurers filed a suit in United States District Court for the Eastern District of Louisiana against NOPSI, the City of New Orleans, the New Orleans Fire Department and the Sewerage and Water Board of the City of New Orleans alleging that due to the acts or negligence of the defendants, American Standard, Inc. suffered damages of $70,000,000 relating to a fire which damaged its New Orleans plant on July 7, 1980. NOPSI is currently preparing an answer to the suit. 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.

Item 4. Submission of Matters to a Vote of Security Holders

AP&L

(a) A consent in lieu of the annual meeting of common stockholders was executed on May 27, 1981, pursuant to the Arkansas statute which permits such a procedure. The consent was signed on behalf of MSU, which owns all of the outstanding Common Stock.

(b) The common stockholder elected the following to the Board of Directors:

Hal E. Hunter, Jr.
Floyd W. Lewis
Jerry L. Maulden
Roy L. Murphy
William C. Nolan, Jr.
J. D. Phillips
Robert D. Pugh
George K. Reeves
Reeves E. Ritchie
Gus B. Walton, Jr.
Michael E. Wilson

LP&L

(a) A consent in lieu of the annual meeting of common stockholders was executed May 18, 1981, pursuant to the Louisiana statute which permits such a procedure. The consent was signed on behalf of MSU, which owns all of the outstanding Common Stock.

Item 4. Submission of Matters to a Vote of Security Holders (concluded)

(b) The Board of Directors elected by the common stockholder is as follows:

James M. Cain
Harry M. England
Tex R. Kilpatrick
Floyd W. Lewis
E. A. Rodrigue
H. Duke Shackelford
W. C. Smith
Jack M. Wyatt

MP&L

(a) A consent in lieu of the annual meeting of common stockholders was executed on May 27, 1981, pursuant to the Mississippi statute which permits such a procedure. The consent was signed on behalf of MSU, which owns all of the outstanding Common Stock.

(b) The common stockholder elected the following Directors to serve for the ensuing year:

G. L. Adams
Frank R. Day
Norman B. Gillis, Jr.
J. Harvey Johnston, Jr.
R. E. Kennington, II
Floyd W. Lewis
Donald C. Lutken
John P. Maloney
Richard D. McRae
LeRoy P. Percy
Walter Washington
R. M. Williams, Jr.
F. S. York, Jr.

NOPSI

(a) A consent in lieu of the annual meeting of common stockholders was executed on May 25, 1981, pursuant to the Louisiana statute which permits such a procedure. The consent was signed on behalf of MSU, which owns all of the outstanding Common Stock.

(b) The common stockholder set the membership of the board at nine and elected the following Directors to serve for the ensuing year:

James M. Cain
Brooke H. Duncan
Laurance Eustis
Richard W. Freeman
Arthur L. Jung, Jr.
Floyd W. Lewis
John B. Smallpage
Charles C. Teamer, Sr.
Jack M. Wyatt

Item 5. Other Information

AP&L

Unit No. 2 of the White Bluff Plant was placed in commercial operation on July 23, 1981. The capability of the unit has been determined to be 816 MW, of which AP&L's ownership share is 465 MW.

MSU, LP&L and NOPSI

On July 31, 1981, it was announced that, in the interest of increased economic efficiency, LP&L and NOPSI have jointly begun development of a plan to consolidate the two companies and their operations, which could become effective by early 1982. Under the proposed arrangement, subject to the receipt of necessary regulatory and other approvals, the two companies will be consolidated into a new company to be called Louisiana Power & Light Company.

MSU, which currently owns all the outstanding common stock of LP&L and NOPSI, would own all the common stock of the new company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

4. Instruments defining the rights of security holders, including indentures.

MSU

4(a)-1 -Restated Articles of Incorporation of MSU, as currently in effect (filed as Exhibit 9(a)-1 to Form 10-Q for the Quarter ended June 30, 1979, in File No. 1-3517).

4(a)-2 -By-laws of MSU, as amended and currently in effect (filed as Exhibit 9(a)-2 to Form 10-Q for the Quarter ended June 30, 1979, in File No. 1-3517).

4(a)-3 -Credit Agreement, dated as of June 27, 1980, between MSU and a group of Banks named therein (filed as Exhibit B-1 to Rule 24 Certificate, dated June 27, 1980, in File No. 70-6450).

4(a)-4 -Second Amended and Restated Bank Loan Agreement, dated as of June 15, 1981, among MSE, the Banks named in Schedule 1 thereto and Manufacturers Hanover Trust Company, as agent for the Banks (filed as Exhibit A to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592).

4(a)-5 -Loan Agreement, dated as of December 8, 1980, between SFI, AP&L, LP&L, MP&L, NOPSI and Citibank, N.A. (filed as Exhibit A to Rule 24 Certificate, dated January 30, 1981, in File No. 70-6519).

4(a)-6 -See 4(b) and 4(c) below for instruments, including indentures, defining the rights of security holders of AP&L and LP&L.

AP&L

4(b)-1 -Agreement of Consolidation or Merger of AP&L, as amended through July 16, 1975 (filed as Exhibit A-1 in File No. 70-5744).

4(b)-2 -Statement of Creation of the 11.04% Preferred Stock of AP&L (filed as Exhibit C-1 to Rule 24 Certificate in File No. 70-5744).

Item 6. Exhibits and Reports on Form 8-K (continued)

4(b)-3 -Amendments to Agreement of Consolidation or Merger of AP&L adopted June 17, 1976 (filed as Exhibit A-1c to Rule 24 Certificate in File No. 70-5818).

4(b)-4 -Statement of Creation of the 8.84% Preferred Stock of AP&L (filed as Exhibit C-1 to Rule 24 Certificate in File No. 70-5923).

4(b)-5 -Statement of Creation of the 10.40% Preferred Stock of AP&L (filed as Exhibit C-2 to Rule 24 Certificate in File No. 70-6308).

4(b)-6 -Statement of Creation of the 9.92% Preferred Stock of AP&L (filed as Exhibit C-1 to Rule 24 Certificate in File No. 70-6308).

4(b)-7 -Statement of Creation of the 13.28% Preferred Stock of AP&L (filed as Exhibit C-1 to Rule 24 Certificate in File No. 70-6386).

4(b)-8 -By-laws of AP&L as presently in effect (filed as Exhibit 3(b)-8 to Form 10-K for the year ended December 31, 1980 in File No. 0-375).

LP&L

4(c) -Mortgage and Deed of Trust of LP&L, dated as of April 1, 1944 (Exhibit A-1 in File No. 70-875), as amended by twenty-nine supplemental indentures (Exhibits A-2 in File No. 70-1747 (First); A-1(c) in File No. 70-2497 (Second); A-5 in File No. 70-3126 (Third); A-6 in File No. 70-3297 (Fourth); A-6 in File No. 70-3539 (Fifth); A-7 in File No. 70-3862 (Sixth); A-8 in File No. 70-4209 (Seventh); A-2 in File No. 70-4350 (Eighth); A-2 in File No. 70-4439 (Ninth); A-2 in File No. 70-4512 (Tenth); A-2 in File No. 70-4585 (Eleventh); A-2 in File No. 70-4700 (Twelfth); A-2 in File No. 70-4793 (Thirteenth); A-2 in File No. 70-4921 (Fourteenth); A-2 in File No. 70-4982 (Fifteenth); A-2 in File No. 70-5122 (Sixteenth); A-2(a) in File No. 70-5242 (Seventeenth); A-2 in File No. 70-5330 (Eighteenth); A-2 in File No. 70-5449 (Nineteenth); A-2 in File No. 70-5550 (Twentieth); A-6 in File No. 70-5598 (Twenty-first); A-2 in File No. 70-5711 (Twenty-second); A-2 in File No. 70-5919 (Twenty-third); C-1 to Rule 24 Certificate in File No. 70-6102

(Twenty-fourth); C-1 to Rule 24 Certificate in File No. 70-6169 (Twenty-fifth); C-1 to Rule 24 Certificate in File No. 70-6278 (Twenty-sixth); C-1 to Rule 24 Certificate in File No. 70-6355 (Twenty-seventh); C-1 to Rule 24 Certificate in File No. 70-6508 (Twenty-eighth); and C-1 to Rule 24 Certificate in File No. 70-6556 (Twenty-ninth).

20. Previously unfiled documents.

<u>MSU</u>

20(a)-1-Second Amendment to Availability Agreement among MSE and certain other Middle South System companies, dated as of June 15, 1981 (filed as Exhibit E to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592) (reference is made to Exhibits 10(a) (8) and 10(a) (9) to Form 10-K for the year ended December 31, 1980 in File No. 1-3517).

20(a)-2-Fifth Assignment of Availability Agreement, Consent and Agreement, dated as of June 15, 1981 with Manufacturers Hanover Trust Company, as agent (filed as Exhibit D to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592) (reference is made to Exhibits 10(a) (13) through 10(a) (14) to Form 10-K for the year ended December 31, 1980 in File No. 1-3517).

20(a)-3-Fifth Supplementary Capital Funds Agreement and Assignment, dated as of June 15, 1981, among MSU, MSE and Manufacturers Hanover Trust Company, as agent for various banks (filed as Exhibit C to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592) (reference is made to Exhibits 10(a) (14) through 10(a) (18) to Form 10-K for the year ended December 31, 1980 in File No. 1-3517).

20(a)-4-Power Purchase Advance Payment Agreement, dated as of June 15, 1981, among MSE and certain other Middle South System companies (filed as Exhibit F to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592).

20(a)-5-Third Supplemental Indenture, dated as of June 15, 1981, to Mortgage and Deed of Trust, dated as of June 15, 1977 from MSE to United States

Item 6. Exhibits and Reports on Form 8-K (concluded)

Trust Company of New York and Malcolm J. Hood, as supplemented (filed as Exhibit B to Rule 24 Certificate, dated July 1, 1981, in File No. 70-6592) (reference is made to Exhibit 4(a) (4) to Form 10-K for the year ended December 31, 1980 in File No. 1-3517).

<u>AP&L</u>

20(b)-1-Agreement, dated as of January 30, 1981, between AP&L and MP&L, relating to the Independence Plant (filed as Exhibit B-3 in File No. 70-6614).

20(b)-2-Amendment No. 1, dated as of June 30, 1981, to Agreement, dated as of January 30, 1981, between AP&L and MP&L, relating to the Independence Plant (filed as Exhibit 10(b) in File No. 2-73310).

<u>MP&L</u>

20(d)-1-Articles of Amendment to Restated Articles of Incorporation (filed as Exhibit A-2(a) in File No 70-6550) (reference is made to Exhibit 3(d) (1) to Form 10-K for the year ended December 31, 1980 in File No. 0-320).

20(d)-2-Agreement, dated as of January 30, 1981, between AP&L and MP&L, relating to the Independence Plant (filed as Exhibit B-3 in File No. 70-6614).

20(d)-3-Amendment No. 1, dated as of June 30, 1981, to Agreement, dated as of January 30, 1981, between AP&L and MP&L, relating to the Independence Plant (filed as Exhibit 10(f) (2) in File No. 2-73309).

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed by any of the registrants during 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 subsidiary.

MIDDLE SOUTH UTILITIES, INC.

/s/ Edwin Lupberger
Edwin Lupberger, Senior Vice President - Chief Financial Officer

/s/ Rodney J. Estrada
Rodney J. Estrada, Treasurer

ARKANSAS POWER & LIGHT COMPANY

/s/ John J. Harton
John J. Harton, Vice President, Treasurer and Assistant Secretary, Chief Financial Officer

/s/ Jerry D. Jackson
Jerry D. Jackson, Senior Vice President and Secretary

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/ John H. Chavanne
John H. Chavanne, Vice President - Finance and Treasurer

/s/ William C. Nelson
William C. Nelson, Vice President, Administration and Legal and Secretary

Date: August 10, 1981

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 March 31, 1981

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 April 30, 1981
Middle South Utilities, Inc.	($5 par value)	108,748,406

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
March 31, 1981

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
AFDC................................	Allowance for funds used during construction
AP&L................................	Arkansas Power & Light Company
APSC................................	Arkansas Public Service Commission
Ark-Mo..............................	Arkansas-Missouri Power Company
Associated..........................	Associated Natural Gas Company
Council.............................	Council of the City of New Orleans
CWIP................................	Construction Work In Progress
EPA.................................	Environmental Protection Agency
FERC................................	Federal Energy Regulatory Commission
Grand Gulf Plant....................	MSE's Grand Gulf Generating Station (Nuclear)
LP&L................................	Louisiana Power & Light Company
LPSC................................	Louisiana Public Service Commission
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.
MSS.................................	Middle South Services, Inc.
MSU.................................	Middle South Utilities, Inc.
NOPSI...............................	New Orleans Public Service Inc.
NRC.................................	Nuclear Regulatory Commission
NSPS................................	New Source Performance Standards
SEC.................................	Securities and Exchange Commission
SFI.................................	System Fuels, Inc.
System operating companies..........	AP&L, LP&L, MP&L and NOPSI
Waterford No. 3.....................	LP&L's Waterford Steam Electric Generating Station - Unit No. 3 (Nuclear)

**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 March 31, 1981 and for the three-month periods ended March 31, 1981 and 1980, in accordance with standards established by the American Institute of Certified Public Accountants. We previously examined and expressed our unqualified opinions dated February 13, 1981 on the consolidated financial statements (not presented herein) of Middle South Utilities, Inc. and subsidiaries and on the separate financial statements (not presented herein) of certain of its subsidiaries, as listed in the accompanying index, as of December 31, 1980 and for the year then ended, from which the accompanying condensed consolidated and separate company balance sheets as of December 31, 1980 are derived.

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 aforementioned condensed financial statements as of March 31, 1981 and for the three-month periods ended March 31, 1981 and 1980, for them to be in conformity with generally accepted accounting principles.

DELOITTE HASKINS & SELLS

May 8, 1981

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 1981 and December 31, 1980

	1981 (Unaudited)	1980
	(In Thousands)	
ASSETS		
Utility Plant	$8,072,058	$7,893,636
Less accumulated depreciation	1,300,201	1,264,525
Utility Plant - Net	6,771,857	6,629,111
Other Property and Investments	89,085	90,012
Current Assets:		
Cash and special deposits	74,859	75,203
Temporary investments - at cost, which approximates market	83,301	69,817
Accounts and notes receivable (less allowance for doubtful accounts and notes of (in thousands) $2,325 in 1981 and $2,253 in 1980)	139,835	161,184
Deferred fuel cost	25,418	25,675
Fuel inventory - at average cost	169,511	153,334
Materials and supplies - at average cost	32,635	36,168
Other	27,784	26,223
Total	553,343	547,604
Deferred Debits	75,804	68,152
TOTAL	$7,490,089	$7,334,879
LIABILITIES		
Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares; issued and outstanding 108,128,300 shares in 1981 and 107,349,943 shares in 1980	$ 540,642	$ 536,750
Paid-in capital	754,184	749,206
Retained earnings	627,640	619,572
Total common equity	1,922,466	1,905,528
Subsidiaries' preferred stock, without sinking fund	330,967	330,967
Subsidiaries' preferred stock, with sinking fund	282,157	283,165
Long-term debt and premium	3,489,067	3,392,309
Total capitalization	6,024,657	5,911,969
Current Liabilities:		
Notes payable	409,056	295,622
Currently maturing long-term debt	120,889	121,473
Accounts payable	208,329	276,991
Taxes accrued	70,947	67,401
Accumulated deferred income taxes on deferred fuel	14,524	14,602
Interest accrued	79,401	81,984
Other	137,786	139,797
Total	1,040,932	997,870
Deferred Credits	398,321	400,388
Reserves	26,179	24,652
Commitments and Contingencies		
TOTAL	$7,490,089	$7,334,879

See Notes to Consolidated Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Operating Revenues:		
Electric	$ 524,642	$ 447,533
Natural gas	51,065	44,103
Transit	11,963	10,384
Total	587,670	502,020
Operating Expenses:		
Operation:		
Fuel for electric generation	220,233	179,399
Purchased power	60,236	72,516
Deferred fuel cost	257	(1,536)
Gas purchased for resale	40,211	33,960
Other	68,829	58,796
Maintenance	29,714	23,617
Depreciation	38,850	31,348
Taxes other than income taxes	23,741	22,022
Income taxes	26,055	20,506
Total	508,126	440,628
Operating Income	79,544	61,392
Other Income:		
Allowance for equity funds used during construction	35,373	33,787
Miscellaneous income and deductions - net	4,040	1,698
Income taxes-cr	29,461	27,620
Total	68,874	63,105
Interest and Other Charges:		
Interest on long-term debt	102,337	78,774
Other interest - net	17,851	16,615
Allowance for borrowed funds used during construction-cr	(38,547)	(31,864)
Preferred dividend requirements of subsidiaries	14,927	12,828
Total	96,568	76,353
Net Income	$ 51,850	$ 48,144
Earnings Per Common Share	$0.48	$0.53
Dividends Declared Per Common Share	$0.405	$0.395
Weighted Average Number of Common Shares Outstanding	108,014,556	90,655,189

See Notes to Consolidated Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 51,850	$ 48,144
Depreciation	38,850	31,348
Deferred income taxes and investment tax credit adjustments - net	(4,661)	(6,529)
Allowance for funds used during construction	(73,920)	(65,651)
Total funds provided by operations	12,119	7,312
Other:		
Allowance for funds used during construction	73,920	65,651
Miscellaneous - net	3,935	2,980
Total funds provided by operations and other	89,974	75,943
Financing and other transactions:		
Common stock	3,892	3,660
Preferred stock	....	65,058
First mortgage bonds	....	15,000
Other long-term debt	98,969	51,139
Book value of utility plant sold	....	940
Short-term securities - net	99,950	152,191
Total funds provided by financing and other transactions	202,811	287,988
Total funds provided	$292,785	$363,931
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$174,741	$221,526
Nuclear fuel and other	7,361	9,028
Total gross additions (includes allowance for funds used during construction)	182,102	230,554
Other:		
Dividends declared on common stock	43,781	35,828
Deferred costs on coal plant standardization project	1,249	2,036
Deferred costs relating to SFI's fuel acquisition program	650	4,619
Increase in working capital*	61,965	72,429
Total funds applied to other	107,645	114,912
Financing transactions:		
Retirement of other long-term debt	1,420	16,553
Retirement of first mortgage bonds	610	410
Retirement of preferred stock	1,008	1,502
Total funds applied to financing	3,038	18,465
Total funds applied	$292,785	$363,931

*Working capital does not include short-term securities, current maturities of long-term debt or deferred taxes included in current liabilities. The 1981 net increase in working capital is primarily due to an increase in fuel inventory and a decrease in accounts payable partially offset by a decrease in accounts and notes receivable; the 1980 net increase in working capital is primarily due to increases in cash and special deposits and other current assets and a decrease in accounts payable partially offset by a decrease in accounts and notes receivable.

See Notes to Consolidated Financial Statements.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Commitments and Financing

At January 31, 1981, the Middle South System's construction program contemplated construction expenditures (including AFDC) of $897 million in 1981, $836 million in 1982 and $704 million in 1983, of which expenditures in the estimated amounts of $207 million, $234 million and $228 million, respectively, are applicable to MSE's 87.52% interest in the Grand Gulf Plant, a two-unit nuclear generating station. MSE currently projects commercial operation dates of 1982 and 1986 for the first and second units of this plant, respectively. In connection with this plant, MSU has undertaken to furnish or cause to be furnished to MSE, to the extent not obtained by MSE from other sources, sufficient capital for construction and operation of the plant and related purposes. At March 31, 1981, MSE had outstanding intermediate-term revolving credit borrowings and first mortgage bonds in the amount of approximately $1.2 billion and MSU had invested $456.9 million in the common stock of MSE. In addition MSE had short-term borrowings at March 31, 1981 of $81 million. In the event that Unit No. 1 of the Grand Gulf Plant is not in commercial operation by December 31, 1982, or Unit No. 2 in commercial operation by December 31, 1986, the outstanding bonds and revolving credit borrowings would become due and payable unless extensions of time are arranged. In this case MSU would be required to provide MSE with sufficient funds, to the extent not obtained by MSE from other sources, to meet these obligations.

The System operating companies are obligated under agreements with MSE to make payments or subordinated advances adequate to cover all of the operating expenses and capital costs of MSE and, in return, are entitled to receive the power available to MSE from the Grand Gulf Plant. During 1980 the operating companies agreed in principle to a permanent allocation of the Grand Gulf Plant's capability. Under this arrangement, those companies receiving allocations, LP&L, MP&L and NOPSI, will assume, in proportion to such allocations, all responsibilities and obligations related to the Grand Gulf Plant and AP&L, which did not receive an allocation, will relinquish its rights in the plant. These new agreements are subject to receipt of the approval of regulatory agencies and of all other necessary approvals.

The Federal income tax returns for the years 1971 through 1976 have been examined by the Internal Revenue Service (IRS) 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 IRS. Any final liability for taxes resulting from settlement with the IRS 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 is a jointly-owned subsidiary of the four System operating companies. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered. AP&L owns 35%, LP&L owns 33%, MP&L owns 19% and NOPSI owns 13% of the common stock of SFI.

In connection with certain of SFI's borrowing arrangements, SFI's parent companies 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 arrangements. At March 31, 1981, the total loan commitment under these arrangements amounted to $221,150,000 of which $172,122,00 was outstanding at that date. Also, SFI's parent companies have made similar covenants and agreements in connection with long-term leases by SFI of oil storage and handling facilities and coal hopper cars. At March 31, 1981, the aggregate discounted value of these lease arrangements was $58,800,000. In addition, MSU has guaranteed the obligations of SFI in connection with long-term leases of other oil storage and handling facilities and bareboat charters of towboats and barges having, at March 31, 1981, an aggregate discounted value of approximately $38,619,000.

SFI has a long-term oil supply agreement with a major oil company providing for the purchase by SFI of 50,000 barrels of oil per day for a twenty year period ending in [illegible]6 with the option, upon two years written notice, to reduce the contract quantity to no less than 35,000 barrels. SFI also has an agreement with another major oil company providing for the purchase by SFI of up to 200,000 barrels of oil per month through 1984.

AP&L is currently purchasing coal under an agreement that will provide approximately 100 million tons of coal over a twenty year period. In addition, SFI has entered into a contract with a joint venture for a supply of coal from a mine in Wyoming which is expected to provide 150 to 210 million tons over a period of 26 to 42 years. The parent companies of SFI, each acting in accordance with their respective shares of ownership of SFI's common stock, joined in, ratified, confirmed and adopted the contract and the obligations of SFI thereunder.

Under the terms of their nuclear fuel leases, three subsidiaries are responsible for the disposal of spent nuclear fuel. These companies consider all costs incurred or to be incurred in the use and disposal of nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory commissions. AP&L, the only Middle South System company with an operating nuclear station, collected approximately $2,996,000 in the first quarter of 1981 for the storage or disposal of spent fuel. AP&L is also recovering approximately $61 million for decommissioning costs for its two nuclear units through increased depreciation charges over the life of the station. Based on an AP&L study, decommissioning costs are projected to be in excess of the amounts currently being collected. AP&L is requesting and will request recovery of these estimated increased costs in applications to its regulatory commissions.

Note 2. Rate Increases

See Part II, Item 1. - "Legal Proceedings" regarding NOPSI's rate increases.

In the opinion of MSU, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The Middle South System's financial condition at the end of the first quarter of 1981 was substantially unchanged from year-end 1980. The System's inflation-impacted construction program coupled with less than adequate rate relief from regulatory bodies continued to be the predominant factors preventing any significant improvement. Rate increases pending at year-end remained unsettled at the end of the first quarter. In April 1981, NOPSI was authorized by the Council to increase its annual retail electric and gas rates by approximately $26.9 million.

Net income for the first quarter of 1981 was $52 million, an increase of approximately $4 million over the same period in 1980. Earnings, exclusive of the effect of capitalizing the carrying costs of construction work-in-progress (AFDC), declined $5 million.

Liquidity and Capital Resources

The slow pace of regulatory response to the System's needs continues to hamper the System operating companies in their efforts to generate internal funds to assist in the financing of construction. Construction expenditures, including AFDC, for the first quarter of 1981 were $175 million, a decline of $47 million from the same period in 1980. These expenditures were, as in 1980, largely funded through external sources - primarily short-term borrowings by the operating companies, to be refunded with long-term financing, and intermediate-term bank borrowings by MSE. Projected construction expenditures for 1981 remain substantially unchanged from year-end 1980.

Short-term borrowings for the System operating companies increased by $93 million from $81 million outstanding at year-end 1980 to $174 million outstanding at the end of the first quarter of 1981. There were no sales of first mortgage bonds or preferred stock during the quarter although LP&L sold $75 million of its bonds early in the second quarter.

MSE's first quarter construction program in connection with the Grand Gulf Plant was funded through the sale of $13 million of common stock to MSU and $62 million of intermediate-term borrowings under MSE's $808 million revolving line of credit. At March 31, 1981, $75 million of MSE's revolving credit line remained unused. In order to obtain additional funds required to complete Unit No. 1 of the Grand Gulf Plant, negotiations to have this line increased to $1.3 billion are continuing.

Results of Operations

Electric operating revenues of $525 million were $77 million higher than the comparable period in 1980. This increase, which was primarily due to the recovery of increased fuel costs and increased rates subsequently placed into effect during 1980, was partially offset by a 5.5% decrease, as compared to the first quarter of 1980, in total energy sales principally as a result of lower sales to other utilities. The increase of $7 million in gas operating revenues was due primarily to increased gas costs billed to customers.

Summary

Improvement in the System's results of operations and financial condition in 1981 will be significantly dependent upon regulatory bodies' rulings on certain pending rate increase requests.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
BALANCE SHEETS
March 31, 1981 (Consolidated) and December 31, 1980

ASSETS	1981 (Unaudited)	1980
	(In Thousands)	
Utility Plant	$2,591,472	$2,423,231
Less accumulated depreciation	478,002	417,435
Utility Plant - Net	2,113,470	2,005,796
Other Property and Investments:		
Investment in associated companies-at equity	35,218	31,378
Other	1,335	470
Total	36,553	31,848
Current Assets:		
Cash and special deposits	9,893	10,246
Temporary investments-at cost, which approximates market	3,275	....
Accounts and notes receivable (less allowance for doubtful accounts and notes of (in thousands) $1,576 in 1981 and $1,396 in 1980)	58,102	46,929
Deferred fuel cost	15,100	7,853
Materials and supplies - at average cost	8,655	6,689
Fuel inventory-at average cost	25,295	28,982
Other	8,977	5,119
Total	129,297	105,818
Deferred Debits	9,287	4,521
TOTAL	$2,288,607	$2,147,983

LIABILITIES

Capitalization:		
Common stock, $12.50 par value, authorized 50,000,000 shares; issued and outstanding 38,980,196 shares in 1981 and 36,636,773 shares in 1980	$ 487,252	$ 457,960
Paid-in capital	4,590	609
Retained earnings	48,198	59,024
Total common equity	540,040	517,593
Preferred stock, without sinking fund	126,890	126,890
Preferred stock, with sinking fund	146,057	147,065
Long-term debt and premium	894,765	848,667
Total capitalization	1,707,752	1,640,215
Current Liabilities:		
Notes payable	82,900	36,400
Currently maturing long-term debt	68,000	68,000
Accounts payable	84,814	91,189
Taxes accrued	33,178	28,284
Accumulated deferred income taxes on deferred fuel	9,528	3,867
Interest accrued	29,766	23,194
Other	60,419	61,251
Total	368,605	312,185
Deferred Credits	208,159	192,445
Reserves	4,091	3,138
Commitments and Contingencies		
TOTAL	$2,288,607	$2,147,983

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
STATEMENTS OF INCOME
For the Three Months Ended
March 31, 1981 (Consolidated) and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Operating Revenues:		
Electric	$207,408	$154,879
Natural Gas	16,986	....
Total	224,394	154,879
Operating Expenses:		
Operation:		
Fuel for electric generation	75,037	52,197
Purchased power	33,182	43,165
Deferred fuel cost	(6,482)	(2,953)
Gas purchased for resale	13,175	....
Other	33,548	21,344
Maintenance	12,056	4,975
Depreciation	18,526	10,656
Taxes other than income taxes	7,644	7,299
Income taxes	6,773	3,340
Total	193,459	140,023
Operating Income	30,935	14,856
Other Income:		
Allowance for equity funds used during construction	3,133	11,196
Miscellaneous income and deductions - net	2,695	1,675
Income taxes-cr	1,551	6,379
Total	7,379	19,250
Interest and Other Charges:		
Interest on long-term debt	21,068	16,319
Other interest - net	4,577	2,755
Allowance for borrowed funds used during construction-cr	(2,891)	(7,403)
Total	22,754	11,671
Net Income	15,560	22,435
Preferred Dividend Requirements	6,419	6,007
Balance for Common Stock	$ 9,141	$ 16,428

See Notes to Financial Statements.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

Note 1. Business Consolidation

Effective January 1, 1981, the electric operations of Ark-Mo were consolidated with those of AP&L and Associated became a subsidiary of AP&L. The financial statements for 1981 reflect this consolidation. Financial data for periods prior to January 1, 1981, have not been restated for the consolidation since the effect would not be material.

If the consolidation had occurred January 1, 1980, consolidated data would have been approximately:

	(Millions)
December 31, 1980	
Total Assets	$2,250.5
Quarter Ended March 31, 1980	
Operating Revenues	$ 184.1
Net Income	$ 23.7

Capitalization was affected by the consolidation as follows:

1) AP&L issued six new series of its first mortgage bonds in the aggregate principal amounts of $21,160,310 in exchange for the surrender and cancellation of Ark-Mo bonds in the same principal amount previously outstanding.
2) AP&L issued 2,343,423 shares ($33,112,555 book value) of its $12.50 par value common stock to MSU at a price of $14.13 per share to acquire from MSU all the outstanding common stock of Ark-Mo.
3) Ark-Mo's short-term debt of $14 million was assumed by AP&L and retired in the first quarter of 1981.

Note 2. Commitments and Contingencies

At January 31, 1981, AP&L's construction program contemplated expenditures of approximately $326 million in 1981, $189 million in 1982 and $166 million in 1983.

AP&L has a 35% interest in SFI, a jointly-owned subsidiary of the four System operating companies. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of March 31, 1981, AP&L had loaned $21,470,000 to SFI pursuant to this loan agreement and AP&L's share of the unused loan commitment is $62,400,000. Notes under this agreement mature December 31, 2006. In addition, AP&L had loaned SFI $13,565,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

During 1980, AP&L could not continue to fund its portion of three coal units under construction which AP&L owns jointly with both rural electric cooperatives and various municipalities. Upon notification of this fact one co-owner exercised its option to advance AP&L's share of these construction funds in order to keep the construction on schedule. As of March 31, 1981, approximately $65.9 million was so advanced and construction of these projects continued on schedule. Estimated 1981 construction expenditures reflect the reimbursement by AP&L of these expenditures.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding commitments and financing obligations of the Middle South System, including AP&L.

In the opinion of AP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

AP&L has continued to experience financial problems caused by (a) increasing costs of fuel, wages and materials, (b) greater capital outlays and longer construction periods for complex new generating units needed to both meet customer demands and accomplish fuel diversification, (c) extensive reliance on and high costs of debt and equity capital, (d) compliance with environmental requirements, (e) controversies and increased regulation over the use of nuclear power, and (f) regulatory lag in granting needed rate increases.

A specific symptom of these financial problems is the continued deterioriation of AP&L's mortgage and charter coverage ratios, which declined from December 31, 1980 (1.75 mortgage, 1.25 charter) to March 31, 1981 (1.66 mortgage, 1.13 charter). Revenues collected subject to refund of approximately $11 million in 1980 and $35 million in the twelve months ended March 31, 1981 were excluded in the calculation of these ratios. Since the mortgage coverage ratio must be at least 2.00 in order to issue additional bonds, and the charter coverage ratio must be at least 1.50 in order to issue additional preferred stock, AP&L is presently restricted from access to these capital markets. If revenues collected subject to refund were included, the March 31, 1981 mortgage and charter coverage ratios would be 2.16 and 1.26, respectively. A major factor in the decline of AP&L's mortgage and charter coverage ratios has been the lack of adequate and timely rate increases. AP&L currently has pending applications for both retail and wholesale rate increases on which action is expected to be taken by the appropriate regulatory bodies in the first half of 1981. Granting of the requested rate increases would enable AP&L to re-enter the long-term debt market when new long-term financing is required.

See Footnote 1 for information regarding the consolidation of the electric operations of Ark-Mo with those of AP&L.

Liquidity and Capital Resources

Although the availability of sufficient capital continues to be a problem, cash flow from operations after dividends on common and preferred stock was $9.9 million in the first quarter of 1981 compared to $8.3 million for the whole year of 1980. This improvement is primarily due to reduction of CWIP by the transfer to plant-in-service of two generating units in 1980 and the inclusion of these units in rate base, and to the effects of recent rate increases (see below).

AP&L is currently authorized to make short-term borrowings through June 1982 in an aggregate amount outstanding at any one time of up to the lesser of $170 million or 10% of capitalization. March 31, 1981, $82.9 million of short-term borrowings were outstanding so that AP&L had available unused short-term borrowings authority on that date of $87.1 million.

ARKANSAS POWER & LIGHT COMPANY AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(concluded)

In the first quarter of 1981, AP&L secured $19 million in connection with the prior sale of pollution control revenue bonds to finance construction of pollution control facilities at its coal units currently under construction. At March 31, 1981, approximately $28.5 million of additional pollution control revenue bond proceeds were held in trust to finance additional pollution control costs to be incurred at these plants.

Results of Operations

Revenues in the first quarter of 1981 were $224.4 million compared to $154.9 million in the first quarter of 1980. Revenue increases were primarily due to recovery of increased fuel costs and to the effect of recent rate increases. These rate increases include an annual retail rate increase of $14.7 million implemented in June 1980; an annual wholesale rate increase of $4.7 million implemented in May 1980; the implementation, subject to refund, in October 1980 of an annual increase of approximately $86.7 million in connection with a pending $130.1 million retail rate increase application; the implementation, subject to refund, in November 1980 of an annual increase of approximately $7.0 million in connection with a pending $10.0 million wholesale rate increase application, and the implementation, subject to refund, by Ark-Mo in December 1980 (prior to consolidation with AP&L) of an annual retail rate increase of approximately $7.5 million with respect to its Arkansas customers.

Net income in the first quarter of 1981 was $15.6 million compared to $22.4 million in the first quarter of 1980. The primary reasons for this decline were increased operation and maintenance expenses incurred during refueling outages of AP&L's nuclear units, increased interest and depreciation charges and reductions in AFDC credited to income. The increase in depreciation charges and decrease in AFDC were primarily due to commencement of commercial operation of two AP&L generating units in March and August of 1980. However, it should be noted that AFDC as a percent of net income was only 39% in the first quarter of 1981 compared to 83% in the first quarter of 1980.

Summary

Improvement of AP&L's financial position will be contingent on the completion and inclusion in rate base of one coal unit scheduled for commercial operation in 1981, the planned sale by AP&L of a portion of its interest in two other coal units under construction to MP&L and the approval by regulatory authorities of requested retail and wholesale rate increases.

LOUISIANA POWER & LIGHT COMPANY

BALANCE SHEETS

March 31, 1981 and December 31, 1980

ASSETS

	1981 (Unaudited)	1980
	(In Thousands)	
Utility Plant	$2,379,251	$2,334,421
Less accumulated depreciation	403,023	393,342
Utility Plant - Net	1,976,228	1,941,079
Other Property and Investments:		
Investment in associated company	41,297	36,137
Other	413	407
Total	41,710	36,544
Current Assets:		
Cash and special deposits	18,611	23,332
Temporary investments - at cost which approximates market	21,900	11,000
Accounts and notes receivable (less allowance for doubtful accounts of $135 thousand)	31,231	31,820
Deferred fuel cost	10,318	17,056
Materials and supplies - at average cost	6,982	10,299
Other	7,170	4,474
Total	96,212	97,981
Deferred Debits	3,236	2,841
TOTAL	$2,117,386	$2,078,445

LIABILITIES

	1981 (Unaudited)	1980
Capitalization:		
Common stock, no par value, authorized 150,000,000 shares; issued and outstanding 75,746,400 shares	$ 498,900	$ 498,900
Retained earnings	64,986	65,209
Total common equity	563,886	564,109
Preferred stock, without sinking fund	145,882	145,882
Preferred stock, with sinking fund	121,381	121,381
Long-term debt and premium	827,554	828,989
Total capitalization	1,658,703	1,660,361
Current Liabilities:		
Notes payable	91,293	44,293
Currently maturing long-term debt	52,224	52,162
Accounts payable	45,616	66,387
Taxes accrued	25,066	12,099
Accumulated deferred income taxes on deferred fuel	4,996	8,259
Interest accrued	23,099	20,833
Other	41,324	41,061
Total	283,618	245,094
Deferred Credits	167,783	165,992
Reserves	7,282	6,998
Commitments and Contingencies		
TOTAL	$2,117,386	$2,078,445

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF INCOME
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Operating Revenues	$224,964	$164,921
Operating Expenses:		
Operation:		
Fuel for electric generation	72,506	47,183
Purchased power	66,978	44,335
Deferred fuel cost	6,739	1,269
Other	16,793	15,000
Maintenance	6,919	6,443
Depreciation	10,875	10,605
Taxes other than income taxes	5,011	4,677
Income taxes	11,517	9,931
Total	197,338	139,443
Operating Income	27,626	25,478
Other Income:		
Allowance for equity funds used during construction	10,031	7,464
Miscellaneous income and deductions - net	2,108	1,789
Income taxes-cr	3,817	3,050
Total	15,956	12,303
Interest and Other Charges:		
Interest on long-term debt	19,208	17,280
Other interest - net	3,734	3,003
Allowance for borrowed funds used during construction-cr	(5,167)	(4,198)
Total	17,775	16,085
Net Income	25,807	21,696
Preferred Dividend Requirements	7,092	5,951
Balance for Common Stock	$ 18,715	$ 15,745

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 25,807	$ 21,696
Depreciation	10,875	10,605
Deferred income taxes and investment tax credit adjustments - net	(1,927)	802
Allowance for funds used during construction	(15,198)	(11,662)
Total funds provided by operations	19,557	21,441
Other:		
Allowance for funds used during construction	15,198	11,662
Decrease in working capital*	7,393	....
Miscellaneous - net	....	39
Total funds provided by operations and other	42,148	33,142
Financing and other transactions:		
Other long-term debt	....	334
Short-term securities - net	36,100	68,250
Total funds provided by financing and other transactions	36,100	68,584
Total funds provided	$ 78,248	$101,726
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 57,711	$ 68,823
Nuclear fuel	(11,444)	....
Other - net	....	(6)
Total gross additions (includes allowance for funds used during construction)	46,267	68,817
Other:		
Dividends declared on preferred stock	7,092	5,951
Dividends declared on common stock	18,937	15,634
Increase in working capital*	....	9,994
Miscellaneous - net	4,584	....
Total funds applied to other	30,613	31,579
Financing transactions - retirement of other long-term debt	1,368	1,330
Total funds applied	$ 78,248	$101,726

*Working capital does not include short-term securities, current maturities or deferred taxes included in current liabilities. The 1981 net decrease in working capital is primarily due to a decrease in accounts payable partially offset by an increase in taxes accrued; the 1980 net increase in working capital is primarily due to a decrease in accounts payable partially offset by an increase in taxes accrued.

See Notes to Financial Statements.

LOUISIANA POWER & LIGHT COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 1. Commitments and Contingencies

At January 31, 1981, LP&L's construction program contemplated expenditures of approximately $280 million in 1981, $294 million in 1982 and $191 million in 1983.

LP&L has a 33% interest in SFI, a jointly-owned subsidiary of the four System operating companies. SFI operates on a non-profit basis for purposes of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of March 31, 1981, LP&L had loaned $27,295,000 to SFI pursuant to this loan agreement and LP&L's share of the unused loan commitment is $83,850,000. Notes under this agreement mature December 31, 2006. In addition LP&L had loaned SFI $13,995,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowings under the provisions of the previous loan agreements.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including LP&L.

Note 2. Long-Term Debt

On April 22, 1981, LP&L sold $75 million of first mortgage bonds, 16% Series due April 1, 1991. Net cash proceeds to LP&L of $73,956,750 (before deducting expenses of approximately $225 thousand) were used to reduce short-term borrowings and for other corporate purposes.

Note 3. Leases

In the first quarter of 1981, LP&L's nuclear fuel lease was amended to increase the amount of nuclear fuel which LP&L is permitted to lease thereunder from $60 million to $105 million.

In the opinion of LP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

LOUISIANA POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The cash requirements necessary to finance LP&L's large construction program and its need for adequate rate relief continued to be the major problems of LP&L during the first quarter of 1981. During this quarter, construction expenditures were financed primarily with short-term borrowings pending the sale in April 1981 of $75 million principal amount of first mortgage bonds. Giving effect to the sale of these bonds, LP&L's bond and preferred stock earnings coverages at March 31, 1981, excluding revenues being collected subject to refund (see below), dropped below the minimum levels necessary to permit LP&L to sell additional first mortgage bonds or preferred stock. LP&L expects shortly to obtain rate relief which should produce a significant improvement in its financial condition and its ability to finance its continuing construction program.

In connection with the general rate increase application filed in May 1980 with respect to customers under the LPSC jurisdiction in the amount of $203.6 million, LP&L was granted an interim rate increase of approximately $32.4 million which was implemented, subject to refund, in October 1980. A decision by the LPSC on the full rate increase application is expected in May 1981.

Liquidity and Capital Resources

Construction expenditures (including AFDC) declined from $68.8 million in the first quarter of 1980 to $57.7 million in the corresponding period in 1981. Funds provided from outside financing (principally short-term borrowings) declined from $68.6 million to $36.1 million during the same periods.

This decline in construction expenditures is expected to be temporary, however, as LP&L continues to project its construction expenditures for the year 1981 at $280 million. Requirements for capital funds for the year 1981 will approximate $240 million, including $52 million for the funding of maturing long-term debt. To meet such capital fund requirements, LP&L sold $75 million of first mortgage bonds in April, and plans to sell $40 million of common stock to MSU and such other securities including short-term debt as may be determined to be appropriate. The ability of LP&L to sell additional first mortgage bonds and preferred stock is dependent upon the receipt of adequate rate relief and increases in earnings.

Results of Operations

Net income for the first quarter of 1981 increased $4.1 million or 19% over the corresponding period of 1980. The following are the more significant changes in the financial results as reflected on the Statements of Income for the first quarters of 1981 and 1980.

The $60.0 million or 36% increase in electric operating revenues is due primarily to the recovery of increased fuel costs through fuel adjustment clauses and an interim rate increase to ultimate customers.

Fuel costs increased $25.3 million or 54% primarily as a result of higher average unit prices for natural gas and oil. Purchased power expenses rose $22.6 million or 51% reflecting not only higher average unit prices but also larger volumes of energy purchased to displace even higher cost gas and/or oil-fired generation.

The increase in AFDC, $3.5 million or 30%, is primarily attributable to the increased amounts of CWIP.

LOUISIANA POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(concluded)

Interest on long-term debt and other interest-net increased $2.7 million or 13% primarily as a result of issuances of additional debt in conjunction with financing the construction programs and increased reliance on short-term financing at high interest rates.

Summary

LP&L continues to believe that the receipt of adequate rate relief is the crucial factor in determining whether LP&L's financial condition and results of operations will show substantial improvement during 1981.

MISSISSIPPI POWER & LIGHT COMPANY
BALANCE SHEETS
March 31, 1981 and December 31, 1980

	1981 (Unaudited)	1980
	(In Thousands)	
ASSETS		
Utility Plant	$787,199	$780,812
Less accumulated depreciation	245,067	239,534
Utility Plant - Net	542,132	541,278
Other Property and Investments:		
Investment in associated company	18,564	16,644
Other	956	962
Total	19,520	17,606
Current Assets:		
Cash and special deposits	3,393	2,562
Temporary investments - at cost, which approximates market	37,500	33,000
Accounts receivable (less allowance for doubtful accounts of $154 thousand)	22,018	34,340
Fuel oil - at average cost	4,456	5,321
Materials and supplies - at average cost	9,641	9,104
Other	3,017	4,203
Total	80,025	88,530
Deferred Debits	1,775	1,687
TOTAL	$643,452	$649,101
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
Retained earnings	76,570	74,985
Total common equity	180,990	179,405
Preferred stock, without sinking fund	38,077	38,077
Long-term debt and premium	262,845	262,860
Total capitalization	481,912	480,342
Current Liabilities:		
Currently maturing long-term debt	456	456
Accounts payable	37,619	43,312
Taxes accrued	22,329	24,740
Interest accrued	6,184	6,994
Other	17,868	18,027
Total	84,456	93,529
Deferred Credits	72,317	70,976
Reserves	4,767	4,254
Commitments and Contingencies		
TOTAL	$643,452	$649,101

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF INCOME
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Operating Revenues	$120,265	$113,063
Operating Expenses:		
Operation:		
Fuel for electric generation	51,757	53,215
Purchased power	24,502	19,753
Other	10,709	10,380
Maintenance	4,634	5,857
Depreciation	5,850	5,685
Taxes other than income taxes	4,773	4,416
Income taxes	5,692	4,054
Total	107,917	103,360
Operating Income	12,348	9,703
Other Income:		
Allowance for equity funds used during construction	258	126
Miscellaneous income and deductions - net	2,166	881
Income taxes-cr	(959)	(259)
Total	1,465	748
Interest and Other Charges:		
Interest on long-term debt	4,841	4,895
Other interest - net	454	281
Allowance for borrowed funds used during construction-cr	(93)	(202)
Total	5,202	4,974
Net Income	8,611	5,477
Preferred Dividend Requirements	596	596
Balance for Common Stock	$ 8,015	$ 4,881

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 8,611	$ 5,477
Depreciation	5,850	5,685
Deferred income taxes and investment tax credit adjustments - net	1,373	1,199
Allowance for funds used during construction	(351)	(328)
Total funds provided by operations	15,483	12,033
Other:		
Allowance for funds used during construction	351	328
Decrease in working capital*	3,932	5,271
Miscellaneous - net	....	387
Total funds provided	$19,766	$18,019
Funds Applied To:		
Utility plant additions - construction expenditures (includes allowance for funds used during construction)	$ 6,943	$ 4,930
Other:		
Dividends declared on preferred stock	596	596
Dividends declared on common stock	6,424	5,493
Miscellaneous - net	1,303	....
	8,323	6,089
Financing transactions - short-term securities - net	4,500	7,000
Total funds applied	$19,766	$18,019

*Working capital does not include short-term securities or current maturities of long-term debt. The 1981 net decrease in working capital is due primarily to a decrease in accounts receivable reduced by a decrease in accounts payable; the 1980 net decrease is due primarily to a decrease in accounts receivable reduced by a decrease in taxes accrued.

See Note to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY
NOTE TO FINANCIAL STATEMENTS

Note. Commitments and Contingencies

At January 31, 1981, MP&L's 1981 construction program contemplated expenditures of approximately $64 million, excluding $103 million expected to be reimbursed by MP&L to AP&L in 1981 as an initial payment in conjunction with MP&L's proposed purchase of a 25% interest in a coal-fired generating station currently being constructed by AP&L. The consummation of this purchase is dependent upon the receipt of various regulatory approvals. Construction expenditures for 1982 and 1983 are estimated to be $90 million and $69 million, respectively.

MP&L has a 19% interest in SFI, a jointly-owned subsidiary of the four System operating companies. SFI operates on a non-profit basis in planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of March 31, 1981, MP&L had loaned $11,185,000 to SFI pursuant to this loan agreement and MP&L's share of the unused loan commitment is $31,200,000. Notes under this agreement mature December 31, 2006. In addition MP&L had loaned SFI $7,375,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including MP&L.

In the opinion of MP&L, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

MISSISSIPPI POWER & LIGHT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The financial condition of MP&L improved during the quarter ended March 31, 1981. Bond interest times earned coverage increased from 4.19 times for the period ending December 31, 1980, to 4.50 times for the period ending March 31, 1981. The coverage of interest charges and fixed preferred stock dividend requirements increased from 2.34 times for the period ending December 31, 1980, to 2.50 times for the period ending March 31, 1981.

MP&L is continuing to bill customers using rates filed in May 1980 subject to refund and subject to final determination in the courts. Only the rate relief authorized by the MPSC in 1980 ($48.3 million of the $68.8 million filed for) is being recorded as revenue.

Liquidity and Capital Resources

As a result of modest construction expenditures and adequate internal cash generation, MP&L ended the quarter with a total of $40.1 million of cash and temporary cash investments or an increase of $4.6 million over the period ended December 31, 1980. Based on earnings coverage tests as of March 31, 1981, assuming the availability of bondable property, and assuming an interest and preferred dividend rate of 16%, MP&L could have issued first mortgage bonds in the amount of $139 million or preferred stock in the amount of $97 million.

MP&L's construction program for 1981 is expected to be $64 million, excluding $103 million anticipated to be paid as reimbursement by MP&L to AP&L in conjunction with MP&L's proposed acquisition of a 25% interest in the Independence Steam Electric Station. Such acquisition is subject to the approval of regulatory authorities.

MP&L presently expects to fund approximately $80 million of its expected $101 million of external cash requirements in 1981 through the issuance and sale of first mortgage bonds, preferred stock and common stock. It is expected that the remaining $21 million of MP&L's requirements will be secured through short-term borrowings.

Results of Operations

Operating results for the quarter improved from the corresponding quarter in 1980 and net income registered an increase of $3.1 million or 57%. Additional revenue of $9.2 million for the quarter as a result of the new rate level approved in 1980 is the primary factor in the increased net income. Also, maintenance expenses were $1.2 million less than in the corresponding quarter of 1980 primarily as a result of a reduction in power plant maintenance expense.

Summary

The ability of MP&L to maintain a sound financial condition in the future will depend upon the granting of timely, fair and sufficient rate relief.

NEW ORLEANS PUBLIC SERVICE INC.
BALANCE SHEETS
March 31, 1981 and December 31, 1980

	1981 (Unaudited)	1980
	(In Thousands)	
ASSETS		
Utility Plant	$426,989	$423,978
Less accumulated depreciation	174,303	171,347
Utility Plant - Net	252,686	252,631
Other Property and Investments:		
Investment in associated company - at equity	11,117	10,037
Other	49	49
Total	11,166	10,086
Current Assets:		
Cash and special deposits	3,743	1,341
Temporary investments - at cost, which approximates market	18,800	21,700
Accounts and notes receivable (less allowance for doubtful accounts of $475 thousand):		
Customer	20,476	21,171
Other	8,609	7,657
Materials and supplies - at average cost	7,358	7,725
Other	4,218	3,747
Total	63,204	63,341
Deferred Debits	5,591	5,746
TOTAL	$332,647	$331,804
LIABILITIES		
Capitalization:		
Common stock, $10 par value, authorized 7,000,000 shares; issued and outstanding 5,935,900 shares	$ 59,359	$ 59,359
Retained earnings	10,490	13,162
Total common equity	69,849	72,521
Preferred stock, without sinking fund	20,117	20,117
Preferred stock, with sinking fund	14,582	14,582
Long-term debt and premium	126,513	126,519
Total capitalization	231,061	233,739
Current Liabilities:		
Accounts payable	30,057	31,624
Taxes accrued	6,161	4,359
Interest accrued	5,039	2,808
Other	11,695	11,127
Total	52,952	49,918
Deferred Credits	38,595	38,135
Reserves	10,039	10,012
Commitments and Contingencies		
TOTAL	$332,647	$331,804

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF INCOME
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Operating Revenues:		
Electric	$53,799	$54,607
Natural gas	34,079	29,035
Transit	11,963	10,383
Total	99,841	94,025
Operating Expenses:		
Operation:		
Fuel for electric generation	20,934	26,541
Purchased power	17,366	10,840
Gas purchased for resale	27,037	22,422
Other	17,569	16,120
Maintenance	6,105	5,722
Depreciation	3,600	3,513
Taxes other than income taxes	4,697	4,270
Income taxes	(127)	685
Total	97,181	90,113
Operating Income	2,660	3,912
Other Income:		
Allowance for equity funds used during construction	37	45
Miscellaneous income and deductions - net	1,322	781
Income taxes-cr	(596)	(334)
Total	763	492
Interest and Other Charges:		
Interest on long-term debt	2,190	2,190
Other interest - net	411	412
Allowance for borrowed funds used during construction-cr	(14)	(47)
Total	2,587	2,555
Net Income	836	1,849
Preferred Dividend Requirements	820	273
Balance for Common Stock	$ 16	$ 1,576

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Three Months Ended March 31, 1981 and 1980
(Unaudited)

	1981	1980
	(In Thousands)	
Funds Provided By:		
Operations:		
Net income	$ 836	$ 1,849
Depreciation	3,600	3,513
Deferred income taxes and investment tax credit adjustments - net	487	408
Allowance for funds used during construction	(51)	(92)
Total funds provided by operations	4,872	5,678
Other:		
Allowance for funds used during construction	51	92
Decrease in working capital*	271	7,394
Miscellaneous - net	....	457
Total funds provided by operations and other	5,194	13,621
Financing and other transactions:		
Preferred stock	....	14,720
Short-term investments	2,900	....
Total funds provided by financing and other transactions	2,900	14,720
Total funds provided	$ 8,094	$28,341
Funds Applied To:		
Utility plant additions:		
Construction expenditures for utility plant	$ 3,677	$ 5,671
Other - net	....	(5)
Total gross additions (includes allowance for funds used during construction)	3,677	5,666
Other:		
Dividends declared on preferred stock	820	241
Dividends declared on common stock	2,689	2,434
Miscellaneous - net	908	....
Total funds applied to other	4,417	2,675
Financing transactions - short-term securities - net	....	20,000
Total funds applied	$ 8,094	$28,341

*Working capital does not include short-term securities or current maturities of long-term debt. The 1981 net decrease in working capital is primarily due to an increase in interest accrued reduced by an increase in cash and special deposits; the 1980 net decrease is primarily due to a decrease in accounts and notes receivable and an increase in accounts payable reduced by an increase in other current assets.

See Notes to Financial Statements.

NEW ORLEANS PUBLIC SERVICE INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Commitments and Contingencies

At January 31, 1981, NOPSI's construction program contemplated expenditures of approximately $20 million in 1981, $29 million in 1982 and $50 million in 1983.

NOPSI has a 13% interest in SFI, a jointly-owned subsidiary of the four System operating companies. SFI operates on a non-profit basis for purposes of planning and implementing programs for the procurement of fuel supplies for the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have made loans to SFI to finance its fuel supply business under a loan agreement dated January 4, 1978, as amended January 1, 1981, which provides for SFI to borrow up to $261,500,000 from its parent companies through December 31, 1981. As of March 31, 1981, NOPSI had loaned $6,550,000 to SFI pursuant to this loan agreement and NOPSI's share of the unused loan commitment is $17,550,000. Notes under this agreement mature December 31, 2006. In addition, NOPSI had loaned SFI $4,564,250 under previous loan agreements. Notes mature in 10 and 25 years from date of borrowing under the provisions of the previous loan agreements.

In a suit pending against NOPSI concerning matters related to NOPSI's fuel adjustment clause in its electric rate schedules, the District Court has, after trial in December 1979, entered a judgment in favor of NOPSI. The plaintiffs have appealed. A suit has also been filed against NOPSI regarding the subsidization of its transit operation with revenues which NOPSI has received from its electric and gas operations. It is the opinion of NOPSI that final disposition of these suits will not have a material adverse effect on its financial position or results of operations.

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 and NOPSI was permitted to continue to collect the increased fare until November 1977 when the Louisiana Supreme Court refused to review an Appeals Court judgment in favor of the plaintiffs. 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. In May 1979 the trial court granted plaintiffs' request for a Summary Judgment against NOPSI and the Council. The court awarded the plaintiffs $5,518,990 (plus judicial interest), o be paid through a transit fare reduction, and attorneys' fees of $100,000. NOPSI and the Council appealed this judgment. On November 14, 1980, the Court of Appeal annulled the Summary Judgment and returned this matter to the District Court. The plaintiffs and defendants both sought review of this matter. On January 26, 1981, the Louisiana Supreme Court refused to hear the case and returned the parties to the District Court. Under the transit subsidy agreement with the City of New Orleans, NOPSI's maximum exposure to loss in this matter would be 70% of the amount of any ultimate liability resulting from this litigation. This matter is still pending; however, should any material adjustment be necessary, it will be retroactively applied to the operations of 1976 and 1977 when such fares were collected.

See Middle South Utilities, Inc. and Subsidiaries Notes to Consolidated Financial Statements for information regarding certain commitments and financing obligations of the Middle South System, including NOPSI.

Note 2. Rate Increases

ee Part II, Item 1. - "Legal Proceedings" regarding NOPSI's rate increases.

NEW ORLEANS PUBLIC SERVICE INC.

In the opinion of NOPSI, the accompanying unaudited condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results for the interim periods presented.

The financial statements required by Rule 10-01 of Regulation S-X have been reviewed by independent public accountants as stated in their report included herein.

NEW ORLEANS PUBLIC SERVICE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

NOPSI's financial condition at March 31, 1981, continued to reflect the urgent need for adequate electric and gas rate relief as, for the twelve months ended March 31, 1981, NOPSI's return on common equity was 3.21%, down from 5.19% for the year 1980. NOPSI paid over $2.6 million of its 1981 first quarter common dividend out of retained earnings. The indenture provisions relating to NOPSI's first mortgage bonds provide restrictions on the payment of cash dividends on common stock. As a result of NOPSI's depressed earnings and recent payments of common dividends out of retained earnings, at March 31, 1981, only $1.2 million of retained earnings were free from such restrictions.

In response to NOPSI's April 1980 application to the Council for electric and gas rate relief, on April 9, 1981, the Council authorized NOPSI to increase its annual retail electric and gas rates approximately $18.9 million and $8.0 million, respectively, effective for bills rendered on and after April 13, 1981. NOPSI had requested annual increases in its electric and gas rates of approximately $23.3 million and $9.2 million, respectively. It is expected that implementation of these increased rates should produce some improvement in NOPSI's financial condition and results of operations.

Liquidity and Capital Resources

At March 31, 1981, NOPSI's earnings coverage for its first mortgage bonds was 1.99 times the annual mortgage bond interest requirements, and its earnings coverage for preferred stock was 1.18 times the annual interest charges and preferred dividend requirements. Since under NOPSI's governing instruments the minimum earnings coverage tests are 2.0 times for selling additional first mortgage bonds and 1.5 times for selling additional preferred stock, NOPSI is currently prohibited from selling first mortgage bonds or preferred stock.

Funds for construction expenditures of $3.7 million for the quarter ended March 31, 1981, were obtained through internally generated funds and the application of funds previously held in short-term investments. There were no short-term borrowings during the period. NOPSI contemplates that its construction and other corporate commitments for the remainder of 1981 will be financed through the use of internally generated funds, temporary investments on hand at March 31 and short-term borrowings. No permanent financing is anticipated in 1981.

At March 31, 1981, CWIP was $4.0 million, less than 1% of plant in service.

Results of Operations

Net income decreased $1.0 million or 55% compared to the corresponding quarter in 1980. This decrease is due primarily to continuing inflationary increases in the costs of wages, employee benefits, materials and supplies and services and the lack of adequate rate relief to provide for the recovery of these increased costs.

Summary

As stated under Financial Condition, NOPSI received authorization from the Counci in April 1981 to increase electric and gas rates $26.9 million, or approximately 83% of its original application of $32.5 million. It is anticipated that NOPSI's financial condition should improve during the remaining months of 1981. However, because the amount of increase authorized was less than that request[illegible]d a 1980 test year was used in the rate proceedings, the increased revenues will probably not be adequate to enable NOPSI to earn the 15% return on common equity authorized by the Council.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Middle South Utilities, Inc. and Subsidiaries

MSU

(a) As previously discussed on page 34 of Form 10-K for the year ended December 31, 1980, the NSPS revised by the EPA under the Clean Air Act Amendments of 1977 were challenged in litigation in the United States Court of Appeals for the District of Columbia Circuit by the System operating companies and MSS as members of a group of utilities. On April 29, 1981, the Appeals Court upheld the EPA's revised NSPS. The System operating companies and MSS are currently studying the impact this decision will have on the Middle South System.

AP&L

(a) On May 1, 1981, AP&L filed with the APSC an application to increase its retail rates in Arkansas a total of approximately $65.2 million on an annual basis. This proposed increase is in addition to the $130.1 million retail rate increase request now pending before the APSC. Consequently, any reduction by the APSC in the $130.1 million request will increase the amount being sought in this new filing.

(b) Also, on May 1, 1981, AP&L filed with the APSC an interim surcharge tariff, pursuant to the provisions of an Arkansas law enacted in 1981 which permits recovery of certain costs and expenses reasonably incurred by AP&L as a direct result of legal requirements relating to the protection of public health, safety, or the environment. The total annual effect of the interim surcharge is approximately $3.3 million. This surcharge became effective upon filing, subject to refund, pending approval of the APSC. This amount is included in and does not represent an additional increase over and above the $65.2 million rate increase request referred to above, and the interim surcharge will remain in effect only until such time as rate schedules in the $65.2 million case become effective.

LP&L

(a) As previously discussed on page 37 of Form 10-K for the year ended December 31, 1980, petitions for leave to intervene in LP&L's Waterford No. 3 operating license proceeding presently before the NRC were filed by Oystershell Alliance, Inc., Save Our Wetlands, Inc. and by Louisiana Consumers' League, Inc. LP&L answered and opposed such petitions but, over LP&L's opposition, these petitions to intervene have been granted. The application for the operating license is pending.

MP&L

(a) As previously discussed on page 40 of Form 10-K for the year ended December 31, 1980, the United States filed suit against MP&L on August 9, 1974 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

Item 1. Legal Proceedings (continued)

enjoining MP&L from refusing to comply with the terms and conditions imposed by the Executive Order. On appeal, on March 6, 1981, the Court of Appeals for the Fifth Circuit ruled against MP&L and held that Executive Order 11246 and implementing regulations issued thereunder were statutorily authorized and a proper exercise of congressional delegated authority and could be applied to MP&L, and that searches thereunder were properly limited in scope, but remanded the case to the District Court for a factual determination as to how the United States would initiate warrantless searches of utilities' records. MP&L plans to petition the United States Supreme Court for writ of certiorari.

NOPSI

(a) As previously discussed on page 15 of Form 10-K for the year ended December 31, 1980, NOPSI filed an application with the Council for an increase in its retail electric rates and its retail gas rates designed to produce annually approximately $23.3 million and $9.2 million, respectively, of increased revenues based on a projected December 31, 1980 test year. On April 9, 1981, the Council authorized NOPSI to increase electric and gas rates $18.9 million and $8.0 million, respectively, effective for bills rendered on and after April 13, 1981.

The request by NOPSI for a generation capability adjustment clause was separated from the rate application by the Council and it will be considered at a later date in 1981.

Item 4. Submission of Matters to a Vote of Security Holders

MP&L

(a) On April 29, 1981, a Special Meeting of the holders of MP&L's Common Stock and Preferred Stock was held at the office of MP&L in Jackson, Mississippi for the purpose of acting upon a proposal to amend MP&L's Restated Articles of Incorporation so as to increase the number of authorized shares of MP&L's Common Stock from 5,000,000 shares to 15,000,000 shares, and to increase the number of authorized shares of MP&L's serial Preferred Stock, $100 par value, from 704,476 shares to 2,004,476 shares. The resolution to increase the number of authorized shares of Common Stock and Preferred Stock of MP&L and to amend the Restated Articles of Incorporation of MP&L was adopted by the requisite vote of the Stockholders of MP&L. There were present in person or by proxy at the meeting the holders of record of two shares of Preferred Stock and 4,540,000 shares of Common Stock. All of the shares of Common Stock and the two shares of Preferred Stock of MP&L were voted for the resolution, and there were no votes against the resolution. No other business came before the meeting.

(b) On April 1, 1981, the Board of Directors of MP&L amended Section 8 of the By-Laws of MP&L so as to increase the number of directors from twelve to thirteen, and, on April 1, 1981, by an Action of Stockholders Without a Meeting, MSU, the sole owner of all the outstanding Common Stock of MP&L, elected Frank S. York, Jr., Vice President and Secretary of MP&L, to fill the resulting vacancy on MP&L's Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

AP&L

20 - Indenture of Mortgage and Deed of Trust, dated as of March 1, 1978, from Associated Natural Gas Company to Commerce Bank of Kansas City, N.A. (filed as Exhibit A-5 to Rule 24 Certificate in 70-5902).

MP&L

3 - Copy of By-Laws of MP&L as amended April 1, 1981, and presently in effect (filed under Item 13 (b), MP&L, 1980 Form U5S).

(b) Reports on Form 8-K

On February 4, 1981, NOPSI filed for the month of January 1981, under Item 5 - "Other Materially Important Events," information concerning the execution with the City of New Orleans of a subsidy agreement for 1981 which provides, among other things and with certain limitations, for the subsidy of NOPSI's transit operations by the City of New Orleans.

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 subsidiary.

MIDDLE SOUTH UTILITIES, INC.

/s/ Edwin Lupberger
Edwin Lupberger, Senior Vice President -
Chief Financial Officer

/s/ Rodney J. Estrada
Rodney J. Estrada, Treasurer

ARKANSAS POWER & LIGHT COMPANY

/s/ John J. Harton
John J. Harton, Vice President,
Treasurer and Assistant Secretary,
Chief Financial Officer

/s/ Jerry D. Jackson
Jerry D. Jackson, Senior Vice
President and Secretary

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/ John H. Chavanne
John H. Chavanne, Vice President -
Finance and Treasurer

/s/ William C. Nelson
William C. Nelson, Vice President,
Administration and Legal and
Secretary

Date: May 14, 1981

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, 1980

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	72-0245590
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

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

Registrant	Title of Class	Outstanding at February 28, 1981	Name of Each Exchange on Which Registered
Middle South Utilities, Inc.	Common Stock, $5 Par Value	108,052,530	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 4¾% Preferred Stock, Cumulative, $100 Par Value

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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__

The aggregate market value of Middle South Utilities, Inc. Common Stock, $5 Par Value, held by non-affiliates, was $1,309,488,651, based on the reported last sale price of such stock on the New York Stock Exchange on February 27, 1981. Middle South Utilities, Inc. is the sole holder of the common stock of Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company and New Orleans Public Service Inc.

DOCUMENTS INCORPORATED BY REFERENCE

Description	Part of Form 10-K Into Which Document Is Incorporated
Portions of Annual Reports to Shareholders of the following companies for the fiscal year ended December 31, 1980 as set forth in Part II: Middle South Utilities, Inc. Arkansas Power & Light Company Louisiana Power & Light Company Mississippi Power & Light Company New Orleans Public Service Inc.	Part II
Portions of Proxy Statement of Middle South Utilities, Inc. to be filed in connection with its Annual Meeting of Stockholders to be held May 15, 1981 as set forth in Part III	Part III

TABLE OF CONTENTS

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	AP&L's Arkansas Nuclear One Generating Station
ANO No. 1	Unit No. 1 of ANO
ANO No. 2	Unit No. 2 of ANO
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
CWIP	Construction Work in Progress
DOE	Department of Energy
EPA	Environmental Protection Agency
EPRI	Electric Power Research Institute
ERA	Economic Regulatory Administration
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
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
MPSC	Mississippi Public Service Commission
MSE	Middle South Energy, Inc.
MSS	Middle South Services, Inc.
MSU or Company	Middle South Utilities, Inc.
NOPSI	New Orleans Public Service Inc.
NPDES	National Pollutant Discharge Elimination System

Abbreviation or Acronym	Term
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
Osceola	The City of Osceola, Arkansas
PSCM	Public Service Commission of Missouri
PSD	Prevention of Significant Deterioration of Air Quality
RCRA	Resource Conservation and Recovery Act
Reynolds	Reynolds Metals Company
SEC	Securities and Exchange Commission
SFI	System Fuels, Inc.
SMEPA	South Mississippi Electric Power Association
SPA	Southwestern Power Administration
System Agreement	Agreement, effective July 2, 1973, among the System operating companies and Ark-Mo, relating to the sharing of generating capacity and other power sources
System operating companies	AP&L, LP&L, MP&L and NOPSI
TPSC	Tennessee Public Service Commission
TVA	Tennessee Valley Authority
United	United Gas Pipe Line Company
Waterford No. 3	LP&L's Waterford Steam Electric Generating Station—Unit No. 3 (nuclear)
West Memphis	The City of West Memphis, Arkansas
White Bluff Plant	AP&L's White Bluff Steam Electric Generating Station (coal)
White Bluff No. 1	Unit No. 1 of the White Bluff Plant
White Bluff No. 2	Unit No. 2 of the White Bluff Plant

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 operating subsidiaries, AP&L, LP&L, MP&L and NOPSI.

Effective as of January 1, 1981, the electric operations of Ark-Mo, the common stock of which had been owned by MSU, were consolidated with those of AP&L. Ark-Mo's wholly-owned subsidiary, Associated, became a subsidiary of AP&L. See "Regulation and Litigation—Holding Company Act" for further information with respect to the consolidation of the operations of AP&L and Ark-Mo.

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.

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, 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 of 1981 through 1983 were estimated at January 31, 1981 by MSU to be $2,437 million (including $556 million in AFDC). In addition, during the period 1981 through 1983, the Middle South System will need to raise $306 million to refinance maturing debt or to meet sinking fund requirements and $9 million to redeem preferred stock pursuant to sinking fund requirements. 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 for debt and high dividend rates for preferred stock as well as limited availability of capital. Moreover, the System operating companies' ability to issue additional first mortgage bonds and shares of preferred stock is limited by certain earnings coverage tests.

Under their respective earnings coverage tests as of December 31, 1980, AP&L would have been precluded from issuing additional first mortgage bonds, except for refunding purposes, and AP&L and NOPSI would have been precluded from issuing any additional preferred stock. Based upon the same coverage tests and assuming the availability of bondable property, LP&L, MP&L and NOPSI could have issued, based on earnings which, in the case of LP&L, include $8,037,000 of revenues subject to refund, in the aggregate, approximately $115,000,000 of preferred stock at an assumed annual dividend rate of 16% or $240,000,000 of first mortgage bonds at an assumed annual interest rate of 16%, plus any first mortgage bonds issued for refunding purposes. (See "Future Financing" for the amounts of bonds or preferred stock issuable at December 31, 1980 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 their earnings and upon their ability to obtain adequate rate relief. (See "Rate Matters".)

To satisfy the financing requirements of its construction program during 1981-1983, MSE is negotiating additional borrowing arrangements (see "Future Financing").

In April 1980, as a result of record levels of financing costs and other inflationary pressures resulting in reduced earnings in certain of the Company's subsidiaries, the Middle South System initiated a concentrated effort to reduce cash outlays and financing requirements. All areas of the construction program were reviewed for possible reductions, including proposed expenditures for generation, transmission and distribution facilities. In addition, reductions were sought in operating expenses and working capital requirements. The construction program discussed herein reflects these efforts.

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.

As a result of the Presidential, Congressional and NRC studies, the NRC issued a document titled, "NRC Action Plan Developed as a Result of the TMI-2 Accident" in May 1980. Two other documents were issued which provided guidance for establishing radiological emergency plans and support facilities. The above documents require upgraded training and qualifications for operating personnel, improved accident and transient response procedures, plant systems safety improvements, establishment of emergency support facilities and a plant emergency plan that provides for federal, state and local government involvement in responding to a radiological emergency. These documents and subsequent NRC correspondence have been thoroughly studied by the affected companies in the Middle South System and substantial implementation work was already underway by the end of 1980. Additional TMI-2 related modifications are scheduled to be made in 1981 at both ANO units. Applicable TMI-2 related modifications are being incorporated in Waterford No. 3 and Unit Nos. 1 and 2 of the Grand Gulf Plant and the currently scheduled start-up dates reflect the inclusion of applicable TMI-2 related requirements imposed to date by the NRC. See "Atomic Energy Act of 1954 and Energy Reorganization Act of 1974" for further information with respect to applicable TMI-2 related modifications.

Waterford No. 3 is presently scheduled to go into commercial operation by April 1983 and Unit Nos. 1 and 2 of the Grand Gulf Plant by April 1982 and in 1986, respectively. Delay in presently scheduled completion would substantially increase the cost of these units (see "Construction Program").

Fuel Supply

The Middle South System has planned to rely increasingly on nuclear fuel and coal in an effort to further diversify its generating fuels base which in recent years has been dependent upon supplies of natural gas and fuel oil. The Middle South System's first two nuclear-fueled generating units went into commercial operation in December 1974 and March 1980, respectively. The first coal-fueled unit went into commercial operation in August 1980. In addition, the Middle South System presently has under construction three nuclear-fueled units and three coal-fueled units (see "Construction Program"). For further information with respect to supplies of nuclear fuel and coal, see "Fuel Supply".

For information with respect to the extent of the Middle South System's dependence on natural gas for boiler fuel, the supply of natural gas currently available to the Middle South System, the use of oil as a boiler fuel by the Middle South System, the increasing costs of both natural gas and oil for boiler fuel and the relatively greater cost of oil, see "Fuel Supply".

Need for Rate Relief and Rate Matters

To continue construction programs, to offset increasing costs in connection with operations and to maintain earnings at acceptable levels, 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".)

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 "Fuel Supply" and "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 the System operating companies relating to their use of natural gas as power plant fuel and related legal proceedings.

The State of Mississippi and the MPSC filed a suit in the United States District Court for the Southern District of Mississippi challenging the constitutionality of the Federal energy legislation referred to in clauses (i) through (iii) above. MP&L intervened in the suit in support of the State of Mississippi and the MPSC. In February 1981, the District Court ruled in favor of the State of Mississippi, the MPSC and MP&L and held that portions of such legislation were unconstitutional. In March 1981, the FERC and the Secretary of Energy, defendants in the suit, appealed the ruling to the United States Supreme Court. The Middle South System cannot, at this time, predict the effect of this litigation.

The System operating companies 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/or 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, 1980, the Middle South System furnished electric service to 1,430 communities, of ich 18 were served at wholesale, and to extensive rural areas at wholesale and retail, in the States of kansas, Louisiana, Mississippi and Missouri. In addition, NOPSI furnished gas and transit services the City of New Orleans and Associated provided gas service in certain areas of the States of Arkansas Missouri. For information with respect to the status of the disposition of the gas properties of sociated and the divestiture of the transit properties of NOPSI, see "Regulation and Litigation—lding Company Act". For information with respect to the consolidation of the electric operations Ark-Mo with those of AP&L, reference is made to "Future Financing", "Rate Matters—AP&L" and gulation and Litigation—Holding Company Act."

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

As of December 31, 1980, the Middle South System provided electric service to 1,546,733 customers d gas service to 241,565 customers as indicated below:

		Customers at December 31, 1980	
	Area Served	Electric	Gas
AP&L	Portions of State of Arkansas	469,013	—
LP&L	Portions of State of Louisiana	515,904	—
MP&L	Portions of State of Mississippi	307,414	—
NOPSI	City of New Orleans with exception of one ward provided electric service by LP&L	195,273	176,539
Ark-Mo	Portions of States of Arkansas and Missouri	59,134	—
Associated	Portions of States of Arkansas and Missouri	—	65,026
Consolidated		1,546,733	241,565

Selected 1980 sales data for the registrants is listed below:

Selected Electric Energy Sales Data—1980

	Consolidated	AP&L	LP&L	MP&L	NOPSI
	(Millions of KWH)				
Sales to ultimate customers	50,055	14,540	21,700	7,591	4,810
Sales for resale—affiliates	—	2,636	1,254	4,250	772
—others	5,099	2,809	991	1,079	137
Total	55,154	19,985	23,945	12,920	5,719
Average use per residential customer (KWH)	11,968	11,112	14,177	11,687	9,677

Selected Natural Gas Sales Data—1980

	Consolidated	NOPSI
Sales to ultimate customers (Million Cubic Feet)	39,482	27,564

The effect of natural gas and transit operations on consolidated operating revenues and income for each of the three years in the period ended December 31, 1980 is immaterial on a consolidated basis, but signif [illegible] NOPSI. The following table shows consolidated operating revenues and operating income by type of business (expressed as percentages) for each of the three years in the period ended December 31,

1980. (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,		
	1980*	1979*	1978*
Consolidated			
Operating Revenues			
Electric	93.1%	91.6%	91.9%
Natural gas	5.0	6.4	5.9
Transit	1.9	2.0	2.2
Total	100.0%	100.0%	100.0%
Operating Income (Loss):			
Electric	100.1%	99.5%	97.8%
Natural gas	0.8	1.5	2.0
Transit and other	(0.9)	(1.0)	0.2
Total	100.0%	100.0%	100.0%

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* 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 "NOPSI Industry Segments" for information concerning the reclassification of certain revenues in 1980, 1979 and 1978.

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. Some 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, 1980, the total revenue received by the Middle South System from service supplied to rural electric cooperatives was 3.3% 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. These arrangements have superseded in part and may supersede in whole or in part the Middle South System as the supplier of the power requirements of these cooperatives.

Revenues derived from certain power supply contracts with Reynolds constituted approximately 9.2% of AP&L's total operating revenues for the year ended December 31, 1980. 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 capacity 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 contract to cancel upon 24 months written notice after any adverse rate adjustment, while the second contract allows Reynolds to cancel with one year's prior written notice. (See "Regulation and Litigation—Other Regulation and Litigation" for recently concluded litigation with respect to AP&L's contract with Reynolds and the United States of America.)

A total of 12,406 persons were employed by the Middle South System at year-end 1980. Included in the above number are 213 part-time employees. Details follow:

	December 31, 1980		
	Full Time	Part Time	Total Employees
MSU	3	—	3
AP&L	3,882	61	3,943
LP&L	2,342	34	2,376
MP&L	1,892	64	1,956
NOPSI	2,913	46	2,959
Other subsidiaries	1,161	8	1,169
Total	12,193	213	12,406

CONSTRUCTION PROGRAM

The 1981-1983 construction expenditures (exclusive of nuclear fuel costs) for the Middle South System were estimated at January 31, 1981 by MSU to total $2,437 million. The estimates by years are as follows: 1981, $897 million; 1982, $836 million; and 1983, $704 million (including AFDC of $260 million for 1981, $182 million for 1982, and $114 million for 1983). These estimates by company are as follows:

	1981	1982	1983
		(In Millions)	
Registrants:			
AP&L	$326(1)	$189	$166
LP&L	280	294	191
MP&L	64(2)	90	69
NOPSI	20	29	50
Other subsidiary:			
MSE	207	234	228
Consolidated	$897	$836	$704

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(1) This amount includes an assumed reimbursement in 1981 by AP&L to AECC for AP&L's share of construction expenditures of White Bluff No. 1 and Unit Nos. 1 and 2 of the Independence Plant made by AECC since June 1, 1980. This amount does not reflect the reimbursement assumed to be made in 1981 by MP&L to AP&L of approximately $103 million which represents an initial payment in conjunction with MP&L's proposed acquisition of an interest in the Independence Plant. See below under this subheading.

(2) This amount excludes the $103 million payment by MP&L to AP&L described in (1) above.

The estimated construction expenditures for 1981 for AP&L, LP&L, MP&L, NOPSI and MSE and on a consolidated basis, include:

	Production	Transmission	Distribution	Other Plant
		(In Millions)		
Registrants:				
AP&L	$243	$35	$39	$ 9
LP&L	236	9	34	1
MP&L	34	16	12	2
NOPSI	3	—	11	6
Other subsidiary:				
MSE	207	—	—	—
Consolidated	$723	$60	$96	$18

The above table includes estimated environmental expenditures of $20 million for AP&L, $18 million for LP&L, $5 million for MP&L, $3 million for NOPSI and $0.3 million for MSE.

In addition, SFI expects to increase its investment in its fuel procurement and exploration programs. SFI's increased investment (excluding fuel oil inventory and nuclear fuel) was estimated at January 31, 1981 to be $8 million in 1981, $57 million in 1982 and $23 million in 1983. (See "Fuel Supply" for further information as to SFI's fuel procurement programs.) Middle South System expenditures for nuclear fuel not already provided for under existing leases were estimated at January 31, 1981 to be approximately $107 million in 1981, $56 million in 1982 and $41 million in 1983.

The following tabulation shows certain details with respect to certain planned generating facilities included in the estimated construction expenditures for 1981-1983:

	Location	Fuel Type	Net System Company Capability MW	Expenditures				Total System Company Cost(1)	Cost Per KW(2)	Scheduled Year of Completion
				Before 1981	1981	1982	1983			
				(Millions of Dollars—except Cost Per KW)						
AP&L										
White Bluff No. 2(3)(5)	Redfield, Ark.	Coal	465	$ 125.9	$ 48.6	—	—	$ 174.5	$ 375(4)	1981
Independence No. 1(5)(6) ...	Newark, Ark.	Coal	257	69.8	127.5	$ 33.1	$ 2.0	153.4	597(4)	1983
Independence No. 2(5)(6) ...	Newark, Ark.	Coal	257	7.8	31.0	45.2	30.1	123.2	479(4)	1985
Sub-total				203.5	207.1	78.3	32.1	$ 451.1		
MP&L										
Independence No. 1(5)(6) ...	Newark, Ark.	Coal	204	—	20.0	24.4	2.0	$ 135.8	666(4)	1983
Independence No. 2(5)(6) ...	Newark, Ark.	Coal	204	—	10.8	25.5	29.4	96.8	475(4)	1985
Sub-total				—	30.8	49.9	31.4	$ 232.6		
LP&L										
Waterford No. 3	Killona, La.	Nuclear	1,104	1,010.6	235.2	207.5	38.2	$1,491.5	1,351	1983
Sub-total				1,010.6	235.2	207.5	38.2	$1,491.5		
MSE										
Grand Gulf No. 1(7)	Grand Gulf, Miss.	Nuclear	1,094	1,484.0	175.0	31.0	—	$1,690.0	1,545	1982
Grand Gulf No. 2(7)	Grand Gulf, Miss.	Nuclear	1,094	297.0	32.0	203.0	228.0	1,156.0	1,057	1986
Sub-total				1,781.0	207.0	234.0	228.0	$2,846.0		
Total				$2,995.1	$680.1	$569.7	$329.7			

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(1) The costs shown include AFDC. Costs of acquiring nuclear fuel (net of amounts already provided for under existing leases) are excluded from construction expenditures of the nuclear units. For information with respect to the sale and leaseback of nuclear fuel by AP&L, LP&L and MSE, see "Fuel Supply—Nuclear Fuel". 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. See "Fuel Supply—Nuclear Fuel" for additional information concerning the SFI nuclear fuel arrangement.

(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 and Grand Gulf Plants.

(3) Co-owners AECC, Jonesboro, Conway and West Memphis own undivided interests of 35%, 5%, 2% and 1%, respectively, in White Bluff No. 2. The Table reflects AP&L's 57% ownership interest in the project. On August 22, 1980, White Bluff No. 1 was placed in commercial operation. Based on capability tests of White Bluff No. 1 in January 1981, the net capability of White Bluff No. 2 was estimated in March 1981 to be 815 MW.

(4) Costs of sulfur dioxide removal equipment for the White Bluff Plant and the Independence Plant are not included. The Plants have been designed and are being constructed so that such equipment could be installed should such installation be required in the future. AP&L has estimated that the Cost Per KW would be increased by approximately $73 for White Bluff No. 2 and by approximately $97 and $71 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 at White Bluff No. 2 and at the Independence Plant.

(5) Pursuant to its notice to the other joint owners of White Bluff No. 2 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 advanced AP&L's share of such construction costs after that date in order to keep the Units on schedule. As of March 25, 1981, AECC had advanced approximately $65.9 million of AP&L's share of construction expenditures. AP&L resumed payment of its portion of construction expenditures on February 1, 1981 for White Bluff No. 2. AP&L funded its share of the Independence Plant in March 1981, but anticipates AECC funding AP&L's share of the Independence Plant in April, May and part of June 1981. In June 1981, AP&L plans to resume funding its portion of construction expenditures for the Independence Plant. 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 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 1981 construction expenditures assume the reimbursement of AECC in 1981.

(6) The Independence Plant is owned by AP&L, AECC, Jonesboro, Conway, West Memphis and Osceola in proportions of 56.5%, 35%, 5%, 2%, 1% and .5%, respectively. AP&L and MP&L have executed an agreement, effective as of January 30, 1981, pursuant to which MP&L has agreed to purchase from AP&L 25% of the Independence Plant from AP&L's 56.5% interest in the Plant and 50% of AP&L's 100% interest in the coal handling equipment. The consummation of such sale will be dependent upon the receipt of various regulatory approvals. The Table reflects AP&L's 31.5% interest and MP&L's 25% interest in the Plant and AP&L's 50% and MP&L's 50% interest in the coal handling equipment, assuming completion of such sale in 1981. Based on preliminary capability tests of White Bluff No. 1 in January 1981, the capability of each of Unit Nos. 1 and 2 of the Independence Plant was estimated in March 1981 to be 815 MW. The amounts shown for AP&L for the period before 1981 and for 1981 have not been reduced by an estimated $103,000,000 initial payment anticipated to be made by MP&L to AP&L for the proposed purchase by MP&L of an interest in the Independence Plant. The amounts shown for MP&L in 1981 do not include the $103,000,000 initial payment by MP&L to AP&L.

(7) MSE has entered into an agreement pursuant to which SMEPA is acquiring a 10% undivided ownership interest in the Grand Gulf Plant. MSE is negotiating with MEAM for the possible acquisition by MEAM of up to a 2.48% undivided ownership interest in the Grand Gulf Plant (see "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974"). 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 December 31, 1980, construction of Unit Nos. 1 and 2 of the Grand Gulf Plant was approximately 85% and 22% completed, respectively, and engineering was approximately 89% and 43% completed, respectively.

The foregoing are only estimates of construction expenditures for the various facilities referred to above. 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 (see "Regulation and Litigation—Environmental Regulation"), and deferred completion dates of projects.

ANO No. 2 and White Bluff No. 1 were placed into commercial operation in March 1980 and August 1980, respectively. For information with respect to the fuel supply for the units, see "Fuel Supply—Nuclear Fuel" and "Fuel Supply—Coal".

FUTURE FINANCING

Construction expenditures (exclusive of nuclear fuel costs) for the Middle South System during the period 1981 through 1983 were estimated at January 31, 1981 by MSU to be approximately $2,437 million (including $556 million in AFDC). During the period 1981-1983, increased investment in the fuels programs net of amounts provided for by existing leases will add $292 million to total capital requirements (including nuclear fuel cost not provided for under existing leases). MSU estimates that $1,071 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 and industrial development revenue bond financing and through the sale and leaseback or repurchase of property. In addition, $409 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 $1,249 million, is expected to be met with internally generated funds (including $556 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 $306 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 the System operating companies, the earnings coverages for the years ended December 31, 1978, 1979 and 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
1978	2.39	1.91	1.94	1.63	3.89	2.11	3.17	1.83
1979	1.56	1.70	1.71	1.36	3.00	1.87	2.46	1.87
1980	1.96(a)(b)	1.32(a)(b)	2.49(b)	1.56(b)	4.19	2.34	2.26	1.25

(a) As adjusted to give effect to the consolidation in January 1981 (which included the issuance of $21,160,310 principal amount of additional first mortgage bonds) of the operations of AP&L and Ark-Mo. See "Regulation and Litigation—Holding Company Act" for further information with respect to the consolidation of the operations of AP&L and Ark-Mo.

(b) Includes in earnings revenues currently being collected which are subject to refund. See "Rate Matters".

Although certain of the System operating companies' first mortgage bond and preferred stock coverages at times during the period 1978-1980 set forth in the table above were below 2.00 and 1.50, respectively, these coverages during the period 1978-1980 were from time to time above the required minimum earnings coverages so that these System operating companies were able to sell additional first mortgage bonds and preferred stock. During the period 1978-1980, AP&L, LP&L and NOPSI sold the following amounts of first mortgage bonds and preferred stock:

	AP&L	LP&L	NOPSI
		(In Thousands)	
First Mortgage Bonds	$205,000	$285,000	$15,000
Preferred Stock	$105,000	$165,000	$15,000

Based on the above earnings coverage tests as of December 31, 1980, and assuming the availability of bondable property, AP&L would have been precluded from issuing first mortgage bonds (except for refunding purposes) or preferred stock and LP&L, MP&L and NOPSI could have issued first mortgage bonds or preferred stock amounting to the following, at an assumed annual interest or dividend rate of 16%:

	First Mortgage Bonds	Preferred Stock
LP&L	$111,000,000	$ 32,000,000
MP&L	122,000,000	83,000,000
NOPSI	7,000,000	—
Total	$240,000,000	$115,000,000

In addition to the above first mortgage bonds these System operating companies could have issued 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 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 January 31, 1981, that the total cost to MSE, assuming an 87.52% ownership interest, for the Grand Gulf Plant, excluding nuclear fuel, will be approximately $2,846 million. See "Regulation and Litigation—Atomic Energy Act of 1954 and Energy Reorganization Act of 1974" for further information with respect to the acquisition of 10% of the Grand Gulf Plant by SMEPA and the possible acquisition of up to 2.48% of the Grand Gulf Plant by MEAM. 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, 1980, MSU had invested $443.6 million in the common stock of MSE. At February 28, 1981, MSE had made short-term borrowings of $81.6 million. In addition, at February 28, 1981, MSE had made interim bank borrowings of $700 million, which are due December 31, 1985, under an $808 million revolving loan agreement with a group of banks. At December 31, 1980, MSE 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. 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 $808 million revolving loan agreement which are then outstanding.

In order to obtain additional funds required by MSE to complete Unit No. 1 of the Grand Gulf Plant, MSE is negotiating for an increase in the amount of borrowings available under the revolving loan agreement to $1.3 billion. In addition, MSE is negotiating for changes in the covenants to extend the dates by which Unit Nos. 1 and 2 of the Grand Gulf Plant must be completed to not later than December 31, 1984 and not later than December 31, 1988, respectively. Necessary regulatory approvals will need to be obtained prior to effecting any changes.

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, 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 agreed in principle that the capability of the portion of Unit No. 1 and Unit No. 2 of the Grand Gulf Plant owned by MSE will be permanently 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. Under the arrangement, LP&L, MP&L and NOPSI will assume, in proportion to such allocations, all of the responsibilities and obligations with respect to these Units and, in consideration thereof, AP&L and Ark-Mo will relinquish their rights in the Units. The proposed reallocation is subject to the receipt of the approval of regulatory agencies and of all other necessary approvals.

Dividends of $1.58 per share were paid by MSU on its Common Stock in 1980. MSU's tax position in 1980 was such that 98.24% of each of the 1980 quarterly dividend payments is estimated to be non-taxable as dividend income to the stockholder. This percentage 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 income is treated under the Federal income tax law as a return of the stockholder's capital and necessitates a reduction in the tax basis of the shares on which these dividends were paid.

RATE MATTERS

General

On March 30, 1979, MSS, on behalf of AP&L, Ark-Mo, LP&L, MP&L and NOPSI, filed with the FERC an application for an increase in rates charged by System operating companies to each other under the System Agreement (see "Property-Interconnections") for capability equalization, transmission equalization, energy exchange and other services. The application was designed to increase charges under the System Agreement primarily through the expansion of the categories of expenses subject to automatic adjustment clauses to include operation and maintenance expenses and overhead expenses and through an increase in the allowed rate of return on equity investment. The FERC permitted the proposed rates to become effective on June 1, 1979, subject to refund. The System operating companies commenced charging the new rates, subject to refund, effective June 1, 1979. The Attorney General of Arkansas, the APSC and the LPSC have intervened in the proceeding. The record is complete and awaiting decision by the FERC. The final resolution of this proceeding is not expected to have a material effect upon the 1979 or 1980 results of operations or financial condition of the individual System operating companies or of MSU on a consolidated basis.

As of March 26, 1981, the System operating companies had applications for electric and gas rate increases pending before their regulatory authorities or on appeal before the courts. Certain of the applications also request authorization to modify other provisions of rate schedules.

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

AP&L

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. 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 modified its order entered July 7, 1980 and 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 this 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.

On May 29, 1980, AP&L filed with the APSC an application to increase its retail rates a total of approximately $130,100,000 on an annual basis, through a two stage process. On October 28, 1980, AP&L placed in effect, subject to refund, approximately $86,700,000 of the increase. The balance of approximately $43,400,000 is proposed to be implemented on June 1, 1981. In a pre-hearing stipulation agreement between AP&L and the APSC staff, the staff recommended an increase of approximately $90,000,000 and, in return, AP&L agreed not to contest certain staff adjustments which would have the effect of reducing AP&L's requested increase of $130,100,000 to approximately $117,000,000. The APSC has completed the taking of testimony and final briefs from all parties were filed in March 1981. Following a review of the record and the briefs the APSC will issue its order.

On May 6, 1980, AP&L filed with the FERC new Power Coordination, Interchange and Transmission Service Agreements between AP&L and each of the co-owners of White Bluff No. 1, AECC, Conway, Jonesboro and West Memphis. The Agreements, which superseded certain power supply contracts with these wholesale customers, provide for the transmission of power and energy from jointly-owned sources and for the sale of power and energy to these wholesale customers, all under formula rates which are designed to change annually to reflect changes in AP&L's cost of providing service. Such formula rates, based on 1979 costs, were implemented subject, in part, to refund on August 22, 1980. Under a settlement agreement among the parties, the formulas were revised and accepted by the parties on March 6, 1981. The settlement agreement provides that no refunds would be made for rates collected since August 22, 1980 and AP&L does not believe that the amount of any such refund which might be required would be material. On March 3, 1981, AP&L filed with the FERC revised formula rates, based on calendar 1980 costs, which would produce revenues (excluding the recovery of fuel costs) from these wholesale customers of approximately $12.3 million.

On August 28, 1980, AP&L filed with the FERC an application for an increase in its wholesale rates to those municipal and cooperative customers who are not co-owners in White Bluff No. 1 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 the second preceding paragraph) 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. 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.

All of AP&L's present retail rate schedules, with the exception of the large power supply contracts with Reynolds and rate schedules in effect with respect to AP&L's Missouri retail customers, have a fuel adjustment clause which provides for recovery of the excess cost of fuel and purchased power in the second preceding month with an assumed or targeted plant factor for the nuclear units when the units are not down for refueling. The targeted plant factor provision is a nuclear incentive and AP&L may either over- or under-recover the excess cost depending upon the generation from the nuclear units when they are not down for refueling. When either unit of ANO is down for refueling, the targeted plant factor for the unit down for refueling is 0 for the purpose of calculating the fuel adjustment factor. When either nuclear unit has been out of service for a period of 30 consecutive days for reasons other than refueling, beginning with the 31st day the targeted plant factor is 0 and the fuel adjustment clause provides for the recovery of 90% of the excess fuel and purchased power cost. The lack of any adjustment to the targeted plant factor during the first 30 days of a non-refueling outage has in the past resulted in a substantial decrease in AP&L's net income during the period involved. AP&L has requested in its currently pending retail rate case that it be allowed to place in effect a full recovery fuel adjustment clause. As an alternative, AP&L has proposed to limit the amount of over- or under-recovery on a monthly basis to a maximum of $1 million for its retail business sector. 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 a nuclear unit is down for refueling. This fund bears interest and is credited to the fuel and purchased power expense incurred during the time the nuclear unit is actually down for refueling. Energy charges to Reynolds on energy not supplied by SPA under a contract dated January 29, 1952 are based upon the weighted average cost of fuel and purchased power and therefore do not contain a fuel adjustment factor. Both the energy charge to Reynolds and the fuel adjustment factor contain an additional amount based upon the quantity of nuclear energy actually generated in the applicable cost month which is designed to recover the cost of disposing of spent nuclear fuel. For information concerning the power supply contracts with Reynolds, see "Business of System Operating Companies."

AP&L's wholesale rates to municipal and distribution co-operative customers being collected under a settlement agreement contain a fuel adjustment clause which is substantially the same as the retail fuel adjustment clause.

Substantially all of AP&L's rate schedules, 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 in Arkansas retail rates whereby billings to customers of AP&L within a municipality will be increased by an amount equal to the charges (other than special millage or general taxes applicable to all taxpayers) levied by that municipality upon AP&L. On February 7, 1980 the APSC entered an order requiring that each Arkansas utility subject to its jurisdiction, including AP&L, 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 muncipality on that utility. The rates now in effect, subject to refund, comply with this order.

AP&L has been authorized by the APSC and the PSCM to provide electric service to Ark-Mo's Arkansas and Missouri customers under tariffs which are identical to the tariffs under which Ark-Mo was serving such customers. On July 23, 1980, Ark-Mo filed with the APSC an application to increase its retail electric rates approximately $7,479,000 annually. The rates are based on an April 30, 1980 test year. Ark-Mo placed these rates in effect, subject to refund, for consumption on and after December 21, 1980. Hearings were held and the matter is pending before the APSC.

All present rate schedules for AP&L's Arkansas retail customers which were formerly Ark-Mo's customers contain a single base fuel adjustment tariff which provides for the recovery of the weighted average of the fuel cost of generation and the energy cost of purchased power in excess of 12.96 mills per KWH as incurred in the second preceding month.

No fuel adjustment tariff is currently in effect for AP&L's Missouri retail customers who were formerly Ark-Mo's customers. During 1979, the automatic fuel adjustment provision in Ark-Mo's rate schedule was eliminated by a Missouri Supreme Court ruling. The recovery of fuel cost and purchased power cost is presently limited to the amount of such costs as are included in each service rate schedule. In order to increase fuel cost recovery, it would be necessary to obtain a general rate increase.

AP&L assumed, effective with the consolidation, Ark-Mo's wholesale rate schedule containing a fuel adjustment tariff which allows for the recovery of the weighted average cost of fuel and energy cost of purchased power in excess of a stated base.

LP&L

On May 30, 1980, 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 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.

On July 3, 1980, LP&L 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, LP&L 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.

All of LP&L's rates 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 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, 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 to customers.

MP&L

On May 28, 1980, MP&L filed with the MPSC for an increase in its retail electric rates of approximately $68,768,000 based on the projected test year beginning July 1, 1980. The new rates were put into effect for service on or after July 1, 1980 subject to refund. On November 24, 1980, the MPSC rendered its decision allowing MP&L $48,277,000 in additional annual revenues. On December 23, 1980, MP&L, the Mississippi Attorney General's Office and the Mississippi Legal Services Coalition appealed the MPSC's Order to the Chancery Court of Hinds County, Mississippi. MP&L is requesting that the full rate increase sought be allowed, appealing the MPSC's decisions on rate of return, the disallowance of CWIP in rate base, and the disallowance of a portion of the working capital requested by MP&L. The intervenors are seeking a reversal of the MPSC's decisions in a number of areas and have not specified any particular rate level in their filings. Until a decision is reached, the full amount of the rate increase sought will continue to be collected. MP&L is currently including only that portion approved by the MPSC in its earnings.

MP&L's retail rate schedules include a fuel adjustment clause which permits recovery from customers each month of 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

In April 1980, NOPSI filed an application with the Council for an increase in its retail electric rates and its retail gas rates designed to produce annually approximately $23,277,000 and $9,181,000, respectively, of increased revenues based on a projected December 31, 1980 test year. Public hearings on the rate application have been completed and the matter is pending before the Council. The request by NOPSI for a generation capability adjustment clause has been separated from the rate application by the Council for consideration later in 1981.

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.

NOPSI INDUSTRY SEGMENTS

Selected Financial Information Relating to Industry Segments(1)

	Year Ended December 31,		
	1980	1979	1978
		(In Thousands)	
Revenue from sales to unaffiliated customers(2) (3):			
Electric	$242,807	$204,486	$181,418
Natural gas	79,680	85,624	70,013
Transit	44,112	36,996	36,399
Total	$366,599	$327,106	$287,830
Operating income (loss) (3):			
Electric	$ 14,631	$ 16,238	$ 15,521
Natural gas	(636)	1,046	2,269
Transit	765	759	530
Total	$ 14,760	$ 18,043	$ 18,320
Total utility plant:			
Electric	$331,155	$318,377	$308,935
Natural gas	71,873	69,771	61,239
Transit	17,535	19,049	21,081
Construction work in progress:			
Electric	3,159	4,638	1,251
Natural gas	256	147	1,989
Transit	—	1	3
Total	$423,978	$411,983	$394,498

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(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).

(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.

Narrative Description of Industry Segments

Electric Service. Electric service was supplied to 195,273 customers at December 31, 1980. During 1980, 31% of electric operating revenues was derived from residential sales, 30% from commercial sales, 13% from industrial sales, 11% from sales to governmental and municipal customers, 15% from sales to public utilities and from other sources.

Natural Gas Service. Natural gas service was supplied to 176,539 customers at December 31, 1980. During 1980, 47% of gas operating revenues was derived from residential sales, 17% from commercial sales, 18% from industrial sales, 15% from sales to governmental and municipal customers and 3% from other sources. (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, 1980, NOPSI's transit vehicles traveled approximately 14 million miles while carrying approximately 83.3 million passengers. During 1980, NOPSI 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 1981.

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

Employees by Segment

NOPSI's employees by industry segments are as follows:

	December 31, 1980		
	Full Time	Part Time	Total
Electric	628	—	628
Natural Gas	222	—	222
Transit	1,229	—	1,229
General	834	46	880
Total	2,913	46	2,959

OPERATING STATISTICS—CONSOLIDATED

ELECTRIC OPERATIONS

	Years Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	45,977	43,439	49,561
Purchased	13,078	12,476	6,183
Interchanged—net	(197)	340	(39)
Total generated, purchased and interchanged	58,858	56,255	55,705
Company use, losses and unaccounted for	3,704	3,308	3,731
Total energy sales	55,154	52,947	51,974
Energy Sales (Millions of KWH):			
Residential	16,065	14,606	14,782
Commercial	9,277	8,754	8,636
Industrial	22,876	22,329	19,714
Governmental	1,837	1,790	1,744
Total sales to ultimate customers	50,055	47,479	44,876
Sales for resale	5,099	5,468	7,098
Total energy sales	55,154	52,947	51,974
Number of Customers (End of period):			
Residential	1,351,838	1,327,515	1,299,831
Commercial	161,864	159,536	156,377
Industrial	23,880	23,996	24,088
Governmental	9,079	8,941	8,735
Total ultimate customers	1,546,661	1,519,988	1,489,031
Sales for resale	72	154	157
Total customers	1,546,733	1,520,142	1,489,188
Operating Revenues (In Thousands):			
Residential	$ 738,073	$ 553,746	$ 505,790
Commercial	447,688	357,064	317,412
Industrial	721,378	529,008	408,319
Governmental	77,428	63,054	54,171
Total from ultimate customers	1,984,567	1,502,872	1,285,692
Sales for resale	184,760	156,320	194,067
Total from energy sales	2,169,327	1,659,192	1,479,759
Miscellaneous	11,993	10,259	10,156
Total operating revenues	$2,181,320	$1,669,451	$1,489,915

AP&L

OPERATING STATISTICS

	Years Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	14,929	10,870	12,561
Purchased	6,459	7,740	6,162
Interchanged—net	(208)	296	8
Total generated, purchased and interchanged	21,180	18,906	18,731
Company use, losses and unaccounted for	1,195	1,018	1,157
Total energy sales	19,985	17,888	17,574
Energy Sales (Millions of KWH):			
Residential	4,480	3,884	4,061
Commercial	2,682	2,444	2,472
Industrial	7,086	7,030	6,231
Governmental	292	326	334
Total sales to ultimate customers	14,540	13,684	13,098
Sales for resale	5,445	4,204	4,476
Total energy sales	19,985	17,888	17,574
Number of Customers (End of period):			
Residential	405,717	400,290	394,766
Commercial	49,444	49,009	48,424
Industrial	12,285	12,152	11,725
Governmental	1,548	1,617	1,573
Total ultimate customers	468,994	463,068	456,488
Sales for resale	19	19	19
Total customers	469,013	463,087	456,507
Operating Revenues (In Thousands):			
Residential	$212,833	$161,466	$165,347
Commercial	128,477	101,048	99,021
Industrial	209,593	178,773	149,842
Governmental	12,824	11,486	11,326
Total from ultimate customers	563,727	452,773	425,536
Sales for resale	181,650	125,979	124,653
Total from energy sales	745,377	578,752	550,189
Miscellaneous	5,120	5,074	6,299
Total operating revenues	$750,497	$583,826	$556,488

LP&L

OPERATING STATISTICS

	Years Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	16,440	18,429	21,251
Purchased	8,670	5,860	2,799
Interchanged—net	5	33	(70)
Total generated, purchased and interchanged	25,115	24,322	23,980
Company use, losses and unaccounted for	1,170	1,070	1,268
Total energy sales	23,945	23,252	22,712
Energy Sales (Millions of KWH):			
Residential	6,398	5,996	5,862
Commercial	2,876	2,721	2,624
Industrial	11,963	11,388	9,685
Governmental	463	445	394
Total sales to ultimate customers	21,700	20,550	18,565
Sales for resale	2,245	2,702	4,147
Total energy sales	23,945	23,252	22,712
Number of Customers (End of period):			
Residential	457,191	443,527	427,938
Commercial	48,617	46,848	44,884
Industrial	6,846	7,162	7,518
Governmental	3,242	3,108	2,978
Total ultimate customers	515,896	500,645	483,318
Sales for resale	8	65	66
Total customers	515,904	500,710	483,384
Operating Revenues (In Thousands):			
Residential	$265,080	$180,364	$146,326
Commercial	123,656	85,983	68,328
Industrial	358,177	212,853	141,803
Governmental	17,208	11,688	8,451
Total from ultimate customers	764,121	490,888	364,908
Sales for resale	81,887	61,704	87,677
Total from energy sales	846,008	552,592	452,585
Miscellaneous	7,515	4,884	3,790
Total operating revenues	$853,523	$557,476	$456,375

OPERATING STATISTICS

	Years Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	10,327	9,910	11,882
Purchased	3,423	3,066	1,769
Interchanged—net	1	15	3
Total generated, purchased and interchanged	13,751	12,991	13,654
Company use, losses and unaccounted for	831	763	821
Total energy sales	12,920	12,228	12,833
Energy Sales (Millions of KWH):			
Residential	3,069	2,788	2,857
Commercial	1,918	1,833	1,782
Industrial	2,219	2,285	2,187
Governmental	385	369	371
Total sales to ultimate customers	7,591	7,275	7,197
Sales for resale	5,329	4,953	5,636
Total energy sales	12,920	12,228	12,833
Number of Customers (End of period):			
Residential	263,850	260,421	255,174
Commercial	38,115	37,919	37,405
Industrial	3,276	3,230	3,245
Governmental	2,132	2,087	2,049
Total ultimate customers	307,373	303,657	297,873
Sales for resale	41	66	68
Total customers	307,414	303,723	297,941
Operating Revenues (In Thousands):			
Residential	$153,396	$120,246	$110,706
Commercial	100,472	83,562	73,541
Industrial	94,834	83,491	70,306
Governmental	16,601	13,433	11,804
Total from ultimate customers	365,303	300,732	266,357
Sales for resale	173,453	132,770	130,292
Total from energy sales	538,756	433,502	396,649
Miscellaneous	(5,768)	3,022	3,627
Total operating revenues	$532,988	$436,524	$400,276

NOPSI

OPERATING STATISTICS

ELECTRIC OPERATIONS

	Years Ended December 31,		
	1980	1979	1978
Energy Generated, Purchased and Interchanged (Millions of KWH):			
Generated—net station output	4,186	4,093	3,663
Purchased	1,843	1,992	1,837
Interchanged—net	—	7	3
Total generated, purchased and interchanged	6,029	6,092	5,503
Company use, losses and unaccounted for	310	265	290
Total energy sales	5,719	5,827	5,213
Energy Sales (Millions of KWH):			
Residential	1,685	1,565	1,618
Commercial	1,571	1,537	1,537
Industrial	881	873	875
Governmental	673	627	624
Total sales to ultimate customers	4,810	4,602	4,654
Sales for resale	909	1,225	559
Total energy sales	5,719	5,827	5,213
Number of Customers (End of Period):			
Residential	174,791	173,322	172,433
Commercial	17,797	17,763	17,694
Industrial	1,132	1,151	1,282
Governmental	1,552	1,532	1,542
Total ultimate customers	195,272	193,768	192,951
Sales for resale	1	1	1
Total customers	195,273	193,769	192,952
Operating Revenues (In Thousands):			
Residential	$ 84,308	$ 73,220	$ 65,782
Commercial	82,845	75,575	66,409
Industrial	34,784	31,649	26,942
Governmental	29,451	25,256	21,538
Total from ultimate customers	231,388	205,700	180,671
Sales for resale	36,237	38,057	15,691
Interdepartmental	702	689	686
Total from energy sales	268,327	244,446	197,048
Interdepartmental rents	202	190	211
Miscellaneous	4,038	(3,725)	(4,517)
Total operating revenues, including interdepartmental	272,567	240,911	192,742
Less interdepartmental	904	879	897
Total operating revenues, excluding interdepartmental	$271,663	$240,032	$191,845

PROPERTY

Generating Stations

The net capability of the Middle South System's generating stations at December 31, 1980 by company is indicated below:

	Net Capability MW(1)				
		Steam Turbine		Gas Turbine and	
Company	Total	Fossil Fueled	Nuclear	Internal Combustion	Hydro
AP&L (includes Ark-Mo)	4,752	2,700(2)	1,694	289(3)	69
LP&L(4)	4,392	4,373(5)	—	19	—
MP&L	2,763	2,752	—	11	—
NOPSI	1,257	1,241	—	16	—
Total Middle South System	13,164	11,066	1,694	335	69

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

(2) Includes 465 MW for White Bluff No. 1 which represents AP&L's 57% ownership share of the 815 MW rated White Bluff No. 1.

(3) Includes 188 MW of capacity leased through 1999 and 4 MW of capacity leased through 1987.

(4) Excludes 233 MW (consisting of 166 MW of steam units and 67 MW of internal combustion units) which represents the capability of generating stations in certain Louisiana towns and cities, which generating stations are being operated as part of the LP&L system.

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

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. Operating facilities are owned by the System operating company serving the area in which the facilities are located. Under the terms of the System Agreement, 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, Cajun Electric Power Cooperative, Inc., Associated Electric Cooperative Inc. and SMEPA.

The System operating companies are members of the Southwest Power Pool, which has 38 members. The primary purpose of the Southwest Power Pool is to ensure the reliability and adequacy of the electric ulk 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 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 fect economies for the benefit of each of the systems involved. The investor-owned companies are supplying 700,000 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, unless changed or terminated by one of the parties after four 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 11,769,000 KW occurred on July 16, 1980. At that time, 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 32,000 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. (See "Fuel Supply".)

The peak demand, date of occurrence and net capability of owned and leased generating stations at the time of the peak for the System operating companies are indicated below:

	Peak Demand KW	Date	Net Capability at Time of Peak (KW)
AP&L	4,179,000	July 16, 1980	4,057,000
LP&L	4,078,000	July 16, 1980	4,392,000(1)
MP&L	2,078,000	July 15, 1980	2,763,000
NOPSI	1,091,000	July 16, 1980	1,257,000

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(1) Excludes 233 MW which represents the capability of generating stations in certain Louisiana towns and cities, which generating stations are being operated as part of the LP&L system.

Unscheduled outages of two LP&L generating units occurred in the first quarter of 1981 as a result of mechanical problems. One unit (436 MW) is expected to return to service in early August 1981. The other unit (748 MW) is expected to return to service in early July 1981, with a 10% reduction in capacity after repairs. The unit is expected to be restored to full capacity during the 1981-1982 winter season.

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 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, 1980, the System operating companies owned and operated 11,597 pole miles of electric lines of 33 KV and over (including 1,034 pole miles of 500 KV) and 63,592 pole miles of electric lines under 33 KV. These companies also owned and operated 873 substations.

Gas Property

At December 31, 1980, NOPSI distributed and transmitted natural gas within the limits of the City of New Orleans through a total of 1,424 miles of gas distribution mains and 38 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, 1980, Associated owned approximately 602 miles of gas transmission lines ranging in size from 2 inch to 10 inch and approximately 1,285 miles of gas distribution mains.

Transit Property

At December 31, 1980, NOPSI owned or leased 493 motor coaches and 35 streetcars which operate over 509.4 miles of motor coach routes and 14.6 miles of single track equivalent of street railway track.

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 natural gas as its primary fuel but in recent years has generally burned increased amounts of fuel oil because of natural gas curtailments. However, fuel usage in 1979 and 1980 was affected by (i) the increased amounts of natural gas available for use in power plants during 1979 and 1980, and (ii) the higher cost of oil during 1979 and 1980. The commercial operation of AP&L's ANO No. 2 and White Bluff No. 1 further altered the percentage generation by fuel source in 1980.

The following tabulation shows the percentages of natural gas, fuel oil, nuclear fuel, and coal used in KWH generation and the average fuel cost per KWH (without application of heat factor) generated by each type of fuel during the past three years:

	Natural Gas		Fuel Oil		Nuclear Fuel		Coal	
Year	Percent of Generation	Fuel Cost Per KWH	Percent of Generation	Fuel Cost Per KWH	Percent of Generation	Fuel Cost Per KWH*	Percent of Generation	Fuel Cost Per KWH
1978	42%	.74¢	47%	1.94¢	11%	.27¢	—	—
1979	57	1.31	33	2.45	10	.37	—	—
1980	63	2.03	18	3.58	17	.60	2%	1.77¢

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* Credits for sale of spent nuclear fuel (including plutonium and uranium residuals) pursuant to an existing contract are taken into account in computing item costs and averaged approximately .01¢ per KWH for the years 1978-1980. 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".

The Middle South System's percentages of generation by type of fuel were, during 1980, and are estimated to be, in 1981, the following:

	Natural Gas		Fuel Oil		Nuclear		Coal	
	1980*	1981*	1980	1981	1980	1981	1980	1981
Consolidated	63%	66%	18%	3%	17%	18%	2%	13%
AP&L**	31	24	11	1	52	43	5	31
Ark-Mo	46	—	54	—	—	—	—	—
LP&L	81	94	19	6	—	—	—	—
MP&L	68	94	32	6	—	—	—	—
NOPSI	94	99	6	1	—	—	—	—

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* These percentages reflect the receipt by the System operating companies from the ERA for certain of their 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. Some 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. Other exemptions have already been granted for the maximum five-year term. Certain of these exemptions are the subject of suits filed by various industrial groups and a gas utility company seeking to challenge such action by the ERA. The System operating companies have intervened in these suits, which have now been consolidated and are pending in the United States Court of Appeals for the District of Columbia Circuit.

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

AP&L's ANO No. 2 and White Bluff No. 1, which went into commercial operation in March 1980 and August 1980, respectively, have altered the percentages of generation by fuel source which the Middle South System has experienced in recent years. 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, 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 and price of fuel and purchased power, customer energy requirements, 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 operates on a non-profit basis for the purposes of planning and implementing 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 supplies fuel for the Middle South System primarily through purchases from third parties.

SFI is also engaged in oil and gas exploration activities. During 1980, SFI had varying degrees of participation in the drilling of 21 wells. Of these wells, SFI held a major working interest and acted as operator of eight wells, four of which became commercial producers. Of the remaining 13 wells drilled with other parties as operator, five proved commercially operational.

SFI's investment in developed and undeveloped oil and gas properties, however, amounted to approximately 1% of the consolidated assets of the Middle South System at January 31, 1981. The following table sets forth information as to the estimated net quantities of reserves, all of which are located within the United States, as of the dates indicated:

	1980	
	Natural Gas (MCF)	Oil and Condensate (Barrels)
Proved developed reserves:		
As of January 1, 1980	73,167,069	1,858,523
Revisions of previous estimates	(13,702,714)	(362,763)
Extensions, discoveries and other additions	3,862,680	472,798
Production	(5,506,657)	(228,672)
As of December 31, 1980	57,820,378	1,739,886
Proved undeveloped reserves as of December 31, 1980	800,722	359,628
Proved developed and undeveloped reserves as of December 31, 1980	58,621,100	2,099,514

SFI's natural gas production is sold to the Middle South System and, under limited circumstances, to third parties. Since SFI is limited to its recovery of the cost of the reserves, the cost of this natural gas to the Middle South System is less than the cost of natural gas which could be purchased in the open market thereby reducing the cost of energy to Middle South System customers. SFI's sales to third parties are made at market prices and the profits realized on such sales are used to reduce the cost of reserves and the cost of energy to Middle South System customers.

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 January 31, 1981, SFI estimated gross expenditures in 1981 of approximately $27.9 million for oil and gas exploration and development and for uranium exploration.

As of January 31, 1981, SFI had under charter 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 1/31/81	Amount Outstanding At 1/31/81
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	1/4/78-12/31/81	due 12/31/2006	$261,500,000	54,500,000
				$94,000,000

In addition, the System operating 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 certain borrowing arrangements. The total loan commitments under these arrangements amounted to $221.196.000 at January 31, 1981, of which $133,955.000 had been borrowed by SFI had was outstanding at that date. SFI's parent companies have made similar covenants and agreements in connection with long-term leases of oil storage and handling facilities and coal hopper cars having at January 31, 1981, an aggregate discounted value of approximately $59,150,000. In addition, MSU has guaranteed the obligations of SFI in connection with long-term leases of other oil storage and handling facilities and bareboat charters of towboats and barges having, at January 31, 1981, an aggregate discounted value of approximately $38,976,000.

For information regarding an additional commitment of the System operating companies in connection with SFI's fuel supply business, reference is made to "Coal" under this heading.

Natural Gas

For several years prior to 1979 the interstate pipeline companies serving the Middle South System's power plants, either directly or indirectly through gas distribution companies, had imposed severe levels of curtailment under gas curtailment plans in effect or in the process of development. An improvement in system supply for these pipeline companies became apparent in mid-1979 in the form of higher allowable daily allocations of gas for power plant use to various companies. These higher levels of deliveries continued through 1980 and coupled with more readily available "spot" gas, purchased by SFI on an interruptible basis for Middle South System use from intrastate pipelines and gas distribution companies, accounted for a dramatic increase in 1979 and 1980 (over 1978) in the percentage of energy generated by gas-fired units of the Middle South System.

The projected duration of the higher deliveries of power plant gas recently experienced is a subject of disagreement among experts in the field of energy forecasting. Factors affecting the amount of gas available for power plant use include: overall supply available to the supplying gas system, extent of storage capability, severity of weather in the area to be served, economic activity affecting demand by higher priority gas customers, policy regarding connection of new higher priority customers and conservation efforts by existing customers. Federal energy legislation enacted in 1978 permits curtailment of gas deliveries to power plant users under order of the FERC during national emergency situations. The curtailment policy of United, a major supplier to the Middle South System, is currently the subject of review or litigation before Federal regulatory agencies and the courts and therefore constitutes another area of uncertainty regarding future gas supply.

Natural gas produced 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 1981. 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 oil-burning generating units. (See "Property—Interconnections".)

Fuel Oil

The System operating companies expect during 1981 to obtain an adequate supply of fuel oil. Such supplies have been and, during 1981, will be supplied primarily by SFI. As of January 31, 1981, the fuel oil requirements of the Middle South System for 1981 were estimated to be approximately 3.5 million barrels, for all of which the Middle South System has contracted. At January 31, 1981, the total fuel oil inventory of the Middle South System was approximately 5.2 million barrels. The Middle South System's storage capacity at January 31, 1981 was 10.2 million barrels.

SFI has a long-term fuel oil supply agreement with Marathon Oil Company providing for the purchase 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. In February, 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. In April 1979, Marathon filed a counter-claim against SFI alleging mutual error and requesting that the contract be set aside. The matter is pending.

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. In September 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. Irrespective of the outcome of these proceedings, the passage of the Staggers Rail Act of 1980 (often referred to as the Railroad Deregulation Bill) may increase the cost of future deliveries of coal by rail to the White Bluff and Independence Plants and future coal burning units of the Middle South System; that Act narrows, in a number of respects, the Commission's jurisdiction over tariffs. Coal deliveries to the White Bluff Plant began in December 1979. As of January 31, 1981 approximately 1.8 million tons of coal had been delivered.

In December 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 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. During the period through January 31, 1981, SFI made such an optional investment in the amount of $4.8 million, which was borrowed from its parent companies. In addition to this amount, SFI anticipated, at January 31, 1981, that its total additional investments would 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 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 advised SFI that due to difficulties in obtaining mining permits, first deliveries under the contract are estimated to be delayed approximately one year to January 1, 1984. SFI does not anticipate any difficulty in obtaining alternate coal supplies at reasonable cost during the delay period.

In February 1980, SFI executed a contract with Shell Oil Company, subject to regulatory approval which has not yet been requested, for the purchase of an estimated 247 million tons of lignite in Calhoun County, Arkansas over a thirty-year period. By separate agreements, AP&L guaranteed SFI's performance of the contract and agreed to purchase the lignite from SFI. The lignite is to be used at AP&L's planned lignite-fired power plant.

SFI is involved in negotiations with various non-affiliated parties with respect to suitable 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, the ability to finance a project of this magnitude and to obtain necessary rights-of-way and the comparative economics of pipeline versus other modes of transportation. SFI has entered into long-term leases for an aggregate of 1,350 hopper cars to be used initially to supply coal to the White Bluff Plant.

The Strip Mining Reclamation Control Act of 1977 providing for, among other things, reclamation of surface-mined lands, may increase substantially the cost, but the Middle South System does not believe it will reduce the availability, of low-sulfur western coal for the White Bluff Plant and the Independence Plant.

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.

Based upon the scheduled completion dates and planned fuel cycles for the Middle South System's nuclear units (including the two 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		In service
ANO No. 2............	—(2)	1994	2001	1991		In service
Waterford No. 3.........	1987	1985	2010	1993		1983
Grand Gulf No. 1........	1983	1983	2010	1985		1982
Grand Gulf No. 2........	1984	1984	2012	1985		1986

(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.

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

Additional arrangements for segments of the nuclear fuel cycle 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.

AP&L is a party to a nuclear fuel lease permitting it to lease up to a maximum of $130,000,000 of nuclear fuel. Lease payments are based on nuclear fuel use and are treated as a cost of fuel. The lease, unless sooner terminated by one of the parties, will continue until 2018. The unrecovered cost base of the lease at December 31, 1980 was $123,740,000.

In March, 1981, the amount which LP&L is permitted to lease under its nuclear fuel lease was increased to $105,000,000 of nuclear fuel. Lease payments, based on 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, 1980 was $59,400,000.

MSE is a party to a nuclear fuel lease permitting it to lease up to a maximum of $80,000,000 of nuclear fuel. 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, 1980 was $55,211,000.

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, 1980, natural gas entitlements, subject to curtailment, of Associated amounted to approximately 18.0 billion cubic feet. Actual curtailments during this period amounted to approximately 480 million cubic feet. It was estimated at January 31, 1981, that curtailments for the year ending December 31, 1981, based on the same contract entitlements, will amount to 300 million 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. During 1980, United imposed curtailments on deliveries to NOPSI only during January and portions of February and March, 1980. Because of the mild weather experienced during this period as well as the low levels of curtailments imposed, NOPSI was allocated sufficient quantities of gas to meet customer requirements.

NOPSI and Associated anticipate as of January 31, 1981, 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 from time to time 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 EPRI and through this group is actively supporting the effort to work in cooperation 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 in early 1981. 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 approximately $7.1, $8.0 and $10.0 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 May 12, 1978, Ark-Mo transferred all of its gas properties to its subsidiary, Associated, thereby consolidating into one corporate entity gas properties which, with the exception of isolated operations of Associated, were already operated as an integrated system and enabling Associated, as an expanded gas corporation, to establish an operating record which could provide a basis for the eventual disposition of the securities or properties of Associated in accordance with the SEC's May 5, 1971 order.

On March 2, 1979, it was announced that, in the interest of increased economic efficiency, Ark-Mo and AP&L would jointly begin developing a plan to consolidate their electric operations. Effective January 1, 1981, and pursuant to authorizations of the SEC under the Holding Company Act and of the APSC, the TPSC and the PSCM, AP&L acquired from the Company all the outstanding common stock of Ark-Mo, whereupon AP&L, as sole stockholder of Ark-Mo, caused Ark-Mo to be dissolved and all of its assets, including all the outstanding common stock of Associated, to be distributed and conveyed to AP&L. Concurrently with the acquisition by AP&L of Ark-Mo's assets, AP&L assumed all of Ark-Mo's liabilities, including all contractual commitments, lease obligations and notes payable to banks, and, with respect to the $21,160,310 principal amount of Ark-Mo's outstanding first mortgage bonds, AP&L issued to the holders thereof, in exchange for the surrender and cancellation of such bonds, a like aggregate principal amount of AP&L's first mortgage bonds. Upon consummation of these transactions, Ark-Mo became a division of

AP&L and Associated a subsidiary of AP&L. At the time of the consolidation, the net book value of Ark-Mo was $33,112,555.

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 each of the years 1977 through 1981.

Pursuant to the subsidy agreement for 1981 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 (or such other rate of return as authorized by the Council on NOPSI's electric and gas 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 (or such other rate of return as authorized by the Council), 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 each of the years 1978 through 1981 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. 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 subject to regulation by the TPSC as to standards of service and rates for service to customers in Tennessee, accounting, issuance of securities and certificates of convenience and necessity. AP&L is also subject to regulation by the PSCM as to some of its activities. Associated is also subject to regulation as a public utility by the APSC and the 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 MPSC.

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.

ranchises

AP&L holds franchises to provide electric service in 321 incorporated cities and towns, 28 of which are in Missouri. Associated holds franchises to provide gas service in 76 incorporated cities and towns. LP&L holds franchises to provide electric service in 115 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.

LP&L supplies electric service in 381 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 MPSC certificates of public convenience and necessity to provide electric service to the areas of Mississippi which MP&L serves. Associated provides gas service in 15 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 holds a license for two hydroelectric projects (69 MW) which was granted July 2, 1980. This license, granted by the FERC, will expire February 2003.

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 the abandonment of either transportation facilities or the sale of natural gas for resale.

Environmental Regulation

In the area of air quality, water quality and other environmental matters, the System operating companies are subject to regulation by various federal, state and local authorities. The Middle South System has incurred increased costs of construction and increased operating costs in meeting environmental protection standards. Because environmental regulations are continually changing, the ultimate costs to the Middle South System cannot be precisely estimated. MSU estimates, as of January 31, 1981, that the Middle South System will make capital expenditures for environmental control purposes of approximately $46.3 million during 1981, $31.7 million during 1982, and $10.9 million during 1983.

Air Quality: Under the Clean Air Act, the EPA is required to establish NSPS for all new and modified facilities emitting certain pollutants and to establish ambient air standards for those pollutants. The NSPS for fossil fueled steam electric generating stations were revised by the EPA under the Clean Air Act Amendments of 1977 and are being challenged in litigation in the United States Court of Appeals for the District of Columbia Circuit by the System operating companies and MSS as members of a group of utilities.

The Clean Air Act provides a framework for states to regulate pollutants from certain sources in order to meet the ambient air standards. The states of Arkansas, Louisiana, Mississippi and Missouri adopted State Implementation Plans pursuant to the Clean Air Act as amended through 1970. The Clean Air Act Amendments of 1977 require revision of these plans. Among other things, the plans must incorporate such measures as may be necessary to prevent significant deterioration of air quality by certain pollutants in accordance with revised EPA PSD regulations.

In addition to the above litigation, the System operating companies and MSS are participating, as members of a group of utilities, in other litigation challenging the implementation of air quality legislation, including EPA regulations concerning PSD, visibility protection and certain noncompliance penalties.

Given the substantial complexities of the Clean Air Act Amendments of 1977 and the rules thus far promulgated pursuant thereto, and given the uncertainties of litigation and rulemaking, the Middle South System cannot predict the final impact of the amendments. Adverse decisions and/or regulations could necessitate the expenditure of substantial additional funds for pollution control equipment.

Each of the System operating companies believes its existing plants to be generally in compliance with current rules on air quality.

Water Quality: In October 1974, the EPA promulgated effluent guidelines and limitations under the FWPCA for certain existing and future steam electric generating stations. The FWPCA established the NPDES, which replaced the earlier Corps of Engineers Refuse Act permit program. The United States Court of Appeals for the Fourth Circuit in 1976 remanded a significant portion of the regulations to the EPA for further consideration. If the System operating companies were required to install closed cycle cooling systems at existing plants under revised rules, substantial expenditures would be involved. Revisions to the remanded portions of the rules concerning thermal discharges have not been proposed by the EPA at this time.

The System operating companies hold the requisite NPDES permits for their major existing generating stations. Facilities constructed at these stations have brought discharges into compliance with these permits. In accordance with permit conditions, the System operating companies have reported instances of noncompliance to the EPA.

In 1977 the FWPCA was amended and renamed the Clean Water Act. The Clean Water Act requires revision and renewal of all current NPDES permits. At the time of this renewal, substantial new requirements on toxic and hazardous substances could be incorporated into the permits under new EPA regulations issued May 19, 1980 and June 9, 1980, portions of which have been challenged in litigation by the System operating companies and MSS, as members of a group of utilities.

In March 1979, the National Wildlife Federation filed suit against the EPA in the United States District Court for the District of Columbia seeking to force the agency to require NPDES permits for spillway discharge from dams and for turbine discharges from hydroelectric dams. AP&L's two existing hydroelectric facilities could be affected. The System operating companies and MSS, as members of a utilities group, have intervened in the suit. The economic effect of an adverse ruling cannot be predicted at this time.

NOPSI has been experiencing certain water pollution control problems related to oil and other materials in discharges of water from its transit motor coach garages and maintenance facilities. Certain revised operating procedures have been instituted which have largely controlled these problems. At the direction of the Sewerage and Water Board of New Orleans, modifications of these facilities are being designed and will be installed during 1981 to bring these facilities into compliance.

Toxic Substances: Pursuant to the Toxic Substances Control Act the EPA has promulgated regulations for the control of polychlorinated biphenyls. These rules are requiring expenditures of funds for the proper handling, marking, storage, transportation and disposal of this substance, which is frequently found in varying concentrations in capacitors and transformers manufactured before 1977.

The System operating companies instituted plans for initial and continuing compliance with these regulations. Portions of the EPA rules were challenged by the Environmental Defense Fund. The System operating companies and MSS intervened in the suit as members of a utilities group. The United States Court of Appeals for the District of Columbia Circuit set aside certain of these regulations but granted in February 1981 an eighteen month stay of its ruling on the basis of a negotiated settlement agreement among the parties to the litigation which provides for an interim inspection program for certain transformers and for a program of information gathering designed to support subsequent EPA rulemaking.

Hazardous and Solid Wastes: Pursuant to the RCRA the EPA has issued guidelines for the states to use in formulating a solid waste control program. Louisiana recently promulgated a solid waste control program, effective January 20, 1981, and a related program regulating resource recovery and recycling. The effect of this program on LP&L and NOPSI is now being evaluated. Arkansas, Mississippi and Missouri also have solid waste control programs.

The EPA has promulgated and will continue to promulgate regulations for the cradle-to-grave regulation of hazardous waste under RCRA. The System operating companies filed the required August 19, 1980 notices of possible hazardous waste activities. Timely applications for permits were subsequently filed by November 19, 1980 for those facilities deemed to be treatment, storage or disposal facilities. The RCRA also provides for state administration of certain elements of the hazardous waste program during the initial period of this new regulatory plan. In order to obtain authority to administer such a program, a state must show that its plan is no less stringent than the federal rules and that it has the administrative capacity to handle the program. The States of Arkansas, Louisiana and Mississippi have received such authorization for portions of their programs. Plans for compliance with these programs have been or are being formulated by the System operating companies. The System operating companies and MSS, as members of a group of utilities, are participating in a court challenge to portions of the federal rules and the related portions of the Consolidated Permit Rules.

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 the jurisdiction of the NRC. 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 as a result of the incident at Three Mile Island and has agreed to make further modifications, certain of which were made in January 1980. Additional modifications were made during a refueling outage in early 1981. The Unit is to shut down to effect further modifications in the fall of 1981.

ANO No. 2 was placed in commercial operation on March 25, 1980. The engineering and construction for ANO No. 2 was performed by Bechtel Power Corporation. The turbine-generator was supplied by General Electric Company and the nuclear reactor was supplied by Combustion Engineering, Inc. Pursuant to an agreement with the NRC, AP&L has made certain modifications to ANO No. 2 as a result of the incident at Three Mile Island and has agreed to make further modifications, some of which are expected to be made during a refueling outage in early 1981.

The full extent of additional modifications, if any, which may be required at ANO as a result of the incident at Three Mile Island and the cost thereof are not known at this time.

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. Recent actions taken by the NRC have resulted in delays in licensing all nuclear reactors, including Waterford No. 3. Petitions for leave to intervene in the operating license proceeding have been filed by Oystershell Alliance, Inc., Save Our Wetlands, Inc. and by Louisiana Consumers' 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 certain other systems in Western Mississippi, 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's 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 actions taken by the NRC have resulted in 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 1986 for the first unit and the second unit, respectively.

Under the 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. MSE has entered into an agreement pursuant to which SMEPA is aquiring a 10% undivided ownership interest in the Grand Gulf Plant. SMEPA has become responsible for 10% of the cost of construction of the Grand Gulf Plant and upon completion of the Grand Gulf Plant, SMEPA will be entitled to 10% of the energy from, and liable for 10% of the operating costs of, the Plant

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 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. On May 29, 1980, in response to MEAM's request for enforcement of license conditions, the NRC issued a Notice of Violation to MSE and MP&L. The Notice of Violation stated that the NRC Staff had concluded that MSE and MP&L had violated the antitrust conditions in the construction permits, which relate to participation by MEAM in the ownership of the Grand Gulf Plant; to wheeling power for members of MEAM; and to selling for resale partial requirements power to members of MEAM. MSE and MP&L responded to the Notice of Violation on June 18, 1980, denying that they had violated the antitrust conditions and the construction permits, but offering to settle all issues raised in the Notice of Violation by allowing MEAM to acquire an interest in the Grand Gulf Plant, by agreeing to provide wheeling services for MEAM and by filing a rate schedule with the FERC under which members of MEAM can purchase partial requirements wholesale electric service from MP&L. MSE and MP&L are negotiating the settlement of these issues with MEAM. The NRC has retained jurisdiction over this matter pending the conclusion of these negotiations.

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 provided by purchasing private insurance in the maximum available amount of $160,000,000 and the remainder provided by 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 per incident for each licensed reactor operated by it and up to a maximum per reactor owned of $10,000,000 in any calendar year. The government indemnity will be reduced by the aggregate amount of all such assessments payable.

In 1980, AP&L became a member of Nuclear Electric Insurance Limited, a mutual insurer which provides insurance coverage to cover members for the cost of replacement power incurred due to prolonged outages of nuclear units caused by radioactive contamination or other specified damage. Members are insured against such increased costs in the amount of up to $2,000,000 per week (starting 26 weeks after the outage) for one year and $1,000,000 per week for a second year. Members are subject to assessments of up to five times their respective annual premiums if losses exceed the accumulated funds available to the insurer. The present maximum assessment for AP&L would be approximately $16.6 million.

Other Regulation and Litigation

AP&L

To supply Reynolds' Patterson Reduction Plant with capacity 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 October 20, 1980, the District Court entered an Order finding the proposed rate increase unlawful and enjoining SPA and the Secretary of Energy from imposing any rate higher than those permitted by the agreement. On December 19, 1980, DOE and SPA filed an appeal to the United States Court of Appeals for the District of Columbia Circuit. The appeal was voluntarily dismissed by DOE and SPA on January 26, 1981.

LP&L

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 two suits have been consolidated for trial and on June 5, 1980 LP&L 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 LP&L's suit against Waldinger.

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.

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.

MP&L

On October 4, 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 agreed to sell natural gas. The suit, which sought 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, has been dismissed.

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.

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. The matter has been argued in the Court of Appeals.

NOPSI

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.) 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 was 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. On November 14, 1980, the Court of Appeals ordered that the summary judgment issued by the District Court be annulled and that the case be returned to the District Court for further proceedings. In December 1980, the plaintiffs and the defendants petitioned the Louisiana Supreme Court for writs of review of the Court of Appeals decision. On January 26, 1981, the Louisiana Supreme Court denied the writs of review. Under the subsidy agreements for each of the years 1978 through 1981 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 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. On September 18, 1980, the District Court ordered that discovery be completed by May 31, 1981 and that trial be set for January 1, 1982.

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. On March 6, 1981 that Court issued an opinion affirming that NOPSI is a government contractor, but vacated the order and remanded the case to the District Court for a determination of whether or not the United States satisfied Constitutional criteria in seeking to inspect NOPSI's records without a warrant.

MSE

On January 30, 1979, MSE filed suit in the United States District Court for the Southern District of Mississippi, against Zurn Industries, Inc. alleging breach of the contract between MSE and Zurn 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 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 alleged that MSE, Bechtel, and the insurance companies breached or caused to be breached the contract between MSE and Zurn and committed other wrongful acts and seeks damages against the counter-defendants in the amount of $37,130,000. On March 18, 1980, the District Court approved a settlement reached between the insurance companies and Zurn and dismissed with prejudice the counterclaim and third-party complaint against the insurance companies. Also in 1980, the District Court allowed MSE and Bechtel to amend their complaint against Zurn and allowed Zurn, in two instances, to amend its counterclaim against MSE and Bechtel, in each case, to allege additional damages, and has, on two occasions, granted a motion of MSE and Bechtel for partial summary judgment, dismissing claims of Zurn for damages. The total damages sought by MSE and Bechtel in the complaint is now $14,300,000; and the total damages sought by Zurn against MSE and Bechtel in the counterclaim is now $36,321,000 actual and $5,000,000 punitive.

Item 2. *Properties*

Reference is made to Item 1—"Business—Property" for information regarding the properties of the registrants.

Item 3. *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 4. *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) Information called for by this item concerning the security ownership of the directors of MSU and the directors and officers of MSU as a group is set forth under the heading "Security Ownership of Management" contained in the Proxy Statement of MSU to be filed in connection with its Annual Meeting of Shareholders to be held May 15, 1981, which information is herein incorporated by reference. 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, 1981								
	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	—	.0015%
Hal E. Hunter	—	—	—	—	—	—	—	100(G)	.0001
Floyd W. Lewis	—	—	—	—	—	—	3,935	2,921(F)	.0064
Jerry L. Maulden	—	100(E)	.0064%	—	—	—	—	2,923(G)	.0027
Roy L. Murphy	—	—	—	300	—	.0065%	481	214(R)	.0006
James D. Phillips	—	130(H)	.0083	—	—	—	1,365	1,189(G)	.0024
Robert D. Pugh	—	—	—	—	—	—	162	3,899(I)	.0038
George K. Reeves	—	—	—	—	—	—	13,069	6,143(T)	.0178
Reeves E. Ritchie	654	50(H)	.0449	—	—	—	3,103	—	.0029
Gus B. Walton, Jr.	—	—	—	—	—	—	19,877	—	.0184
All directors and officers	674	320	.0634	300	40	.0074	47,412	21,159	.0635
LP&L									
James M. Cain	—	—	—	—	—	—	—	542(G)	.0005
Charles J. Cassidy	—	—	—	—	—	—	3,000	—	.0028
Harry M. England	—	—	—	—	—	—	100	300(G)	.0008
Tex R. Kilpatrick	—	100(K)	.0069	—	—	—	—	3,441(K)	.0032
Floyd W. Lewis	—	120(L)	.0082	—	—	-	3,935	2,921(F)	.0064
E. A. Rodrigue	87	—	.0060	—	—	—	3,247	—	.0030
H. Duke Shackelford	—	—	—	—	—	—	1,000	1,590(U)	.0024
Jack M. Wyatt	5	—	.0003	—	—	—	2,391	931	.0031
All directors and officers	112	220	.0228	—	—	—	19,174	16,084	.0327

	As of January 31, 1[illegible]								
	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
MP&L									
G. Lawrence Adams	—	5(S)	.0013%	—	—	—	—	—	—
Robert M. Hearin	—	275(J)	.0726	—	—	—	400	—	.0004%
J. Harvey Johnston, Jr. .	—	—	—	—	—	—	600	—	.0006
Floyd W. Lewis	—	—	—	—	—	—	3,935	2,921(F)	.0064
Donald C. Lutken	10	—	.0026	—	—	—	3,321	1,880(M)	.0048
Richard D. McRae	—	—	—	—	—	—	—	300(N)	.0003
LeRoy P. Percy	10	—	.0026	—	—	—	1,380	—	.0013
Dr. Walter Washington .	—	—	—	—	—	—	—	139(H)	.0001
All directors and officers	41	294	.0884	—	—	—	14,752	12,986	.0257
NOPSI									
James M. Cain	—	—	—	—	—	—	—	542(G)	.0005
Brooke H. Duncan	—	—	—	—	—	—	—	162(Q)	.0002
Richard W. Freemen ...	—	—	—	—	—	—	3,600	—	.0033
Sam Israel, Jr.	—	—	—	—	—	—	1,000	—	.0009
Arthur L. Jung, Jr.	—	—	—	—	—	—	1,406	3,000(O)	.0041
Floyd W. Lewis	—	—	—	—	—	—	3,935	2,921(F)	.0064
William C. Nelson	—	—	—	—	—	—	—	463	.0004
John B. Smallpage	—	—	—	—	—	—	300	1,168(P)	.0014
Charles C. Teamer	—	—	—	—	—	—	109	—	.0001
Jack M. Wyatt	—	—	—	—	—	—	2,391	931	.0031
All directors and officers	—	—	—	—	—	—	16,977	12,791	.0276

(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, 331 shares; Jerry L. Maulden, 127 shares; James D. Phillips, 186 shares; James M. Cain, 160 shares; Jack M. Wyatt, 203 shares; Donald C. Lutken, 280 shares; William C. Nelson, 116 shares.

(D) Includes, for the named persons, shares of MSU Common Stock held in the System Savings Plan as follows: Floyd W. Lewis, 1,377 shares; Jerry L. Maulden, 574 shares; James M. Cain, 267 shares; Donald C. Lutken, 741 shares; Jack M. Wyatt, 728 shares; William C. Nelson, 347 shares; James D. Phillips, 403 shares.

(E) Reflects 100 shares held by Jerry L. Maulden for his minor child.

(F) Includes 785 shares held by Floyd W. Lewis' children, and 428 shares held in trusts of which he is a trustee. Floyd W. Lewis disclaims any personal interest in these 1,213 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, 115 shares; Harry M. England, 800 shares; Jerry L. Maulden, 2,222 shares; James D. Phillips, 600 shares; Hal E. Hunter, 100 shares.

(H) Owned jointly with wife.

(I) Includes 2,112 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 1,787 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 100 shares of MP&L 4.36% Preferred Stock and 175 shares of MP&L 4.56% 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. Tex R. Kilpatrick holds jointly with his wife 441 shares of MSU Common Stock in which voting and investment powers are shared.

(L) Floyd W. Lewis is the trustee of two trusts, the assets of which include 95 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 659 shares held in trust of which he is trustee.

(N) Reflects 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) Reflects 162 shares owned by wife of Brooke H. Duncan in which he disclaims any personal interest.

(R) Reflects 214 shares held by Roy L. Murphy's minor child. Roy L. Murphy disclaims any personal interest in these shares.

(S) G. Lawrence Adams holds jointly with his wife 5 shares of MP&L 4.56% Preferred Stock in which voting and investment powers are shared.

(T) George K. Reeves owns jointly with his wife 403 shares of MSU Common Stock in which voting and investment powers are shared. Also includes 5,740 shares held by George K. Reeves' wife.

(U) Includes 1,000 shares owned by wife of H. Duke Shackelford in which he disclaims any personal interest and 590 shares over which Mr. Shackelford has power of attorney and voting power.

PART II

Item 5. *Market for the Registrants' Common Stock and Related Security Holder Matters.*

MSU. Reference is made to information under the headings "Corporate Information", "Financial Review-Common Stock Data" and Note 8 of "Notes to Consolidated Financial Statements" contained in MSU's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

AP&L, LP&L, MP&L and NOPSI. No similar information required by Item 9 of Regulation S-K is provided herein with respect to AP&L, LP&L, MP&L and NOPSI as the common stocks of all these companies are held solely by MSU.

Item 6. *Selected Financial Data.*

MSU. Reference is made to information under the heading "Financial Review—Selected Financial Data" contained in MSU's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

AP&L. Reference is made to information under the heading "Ten years of Progress/Financial—Selected Financial Data" contained in AP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

LP&L. Reference is made to information under the heading "Record of Progress 1970-1980" contained in LP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

MP&L. Reference is made to information under the heading "Mississippi Power & Light Company—Record of Progress 1970-1980—Selected Financial Data" contained in MP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

NOPSI. Reference is made to information under the heading "Financial & Operating Statistics—Selected Financial Data" contained in NOPSI's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

MSU. Reference is made to information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in MSU's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

AP&L. Reference is made to information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in AP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

LP&L. Reference is made to information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in LP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

MP&L. Reference is made to information under the heading "Mississippi Power & Light Company—Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in MP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

NOPSI. Reference is made to information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in NOPSI's Annual Report to Shareholders, which information is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data.***

MSU. Reference is made to information under the headings "Auditors' Opinion", "Consolidated Balance Sheets", "Statements of Consolidated Income", "Statements of Consolidated Retained Earnings and Paid-In Capital", "Statements of Changes in Consolidated Financial Position" and "Notes to Consolidated Financial Statements" contained in MSU's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

AP&L. Reference is made to information under the headings "Auditors' Opinion", "Balance Sheets at December 31, 1980 and 1979", "Statements of Income and Retained Earnings For the Years Ended December 31, 1980, 1979 and 1978", "Statements of Changes in Financial Position For the Years Ended December 31, 1980, 1979 and 1978" and "Notes to Financial Statements" contained in AP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

LP&L. Reference is made to information under the headings "Auditors' Opinion", "Balance Sheets", "Statements of Income", "Statements of Retained Earnings", "Statements of Changes in Financial Position" and "Notes to Financial Statements" contained in LP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

MP&L. Reference is made to information under the headings "Auditors' Opinion", "Mississippi Power & Light Company—Balance Sheets—December 31, 1980 and 1979", "Mississippi Power & Light Company—Statements of Income For the Years Ended December 31, 1980, 1979 and 1978", "Statements of Retained Earnings For the Years Ended December 31, 1980, 1979 and 1978", "Mississippi Power & Light Company—Statements of Changes in Financial Position For the Years Ended December 31, 1980, 1979 and 1978" and "Notes to Financial Statements" contained in MP&L's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

NOPSI. Reference is made to information under the headings "Auditors' Opinion", "Balance Sheets", "Statements of Income", "Statements of Retained Earnings", "Statements of Changes in Financial Position" and "Notes to Financial Statements" contained in NOPSI's 1980 Annual Report to Shareholders, which information is incorporated herein by reference.

PART III

Item 9. *Directors and Executive Officers of the Registrants.*(1)

MSU

Directors

The information called for by this item concerning directors of MSU is set forth under the heading "Election of Directors" contained in the Proxy Statement of MSU to be filed in connection with its Annual Meeting of Shareholders to be held May 15, 1981, which information is incorporated herein by reference.

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
Officers					
Floyd W. Lewis	55	Chairman of the Board and President	1968	1972	Chairman of the Board and President of MSU since May 1980; Chairman of the Board and Chief Executive Officer of MSU from May 1979 to May 1980; President and Chief Executive Officer of MSU from 1972 to May 1979[3]
Donald J. Winfield	65	Senior Vice President—Financial Consultant	—	May 1980	Senior Vice President—Financial Consultant since May 1980; Senior Vice President—Finance from October 1977 to May 1980; Vice President—Finance from 1974 to October 1977; Vice President since 1970
Edwin A. Lupberger	44	Senior Vice President—Chief Financial Officer	—	Feb. 1981	Senior Vice President—Chief Financial Officer of MSU and MSS since February 1981; Vice President—Chief Financial Officer of MSU and MSS from May 1980 to February 1981 and Vice President—Finance of MSU and MSS from February 1979 to May 1980; 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	46	Secretary	—	Nov. 1974	Secretary since November 1974; Senior Vice President and Secretary of MSS since June 1980; Vice President and Secretary of MSS from 1968 to June 1980
Rodney J. Estrada	43	Treasurer	—	Feb. 1979	Treasurer of MSU and MSS since February 1979; Controller of MSS from 1970 to February 1979
AP&L					
Directors					
Lawrence Blackwell	70	—	1958	—	Attorney-at-Law, Pine Bluff, AR.
Hal E. Hunter, Jr.	59	—	1981	—	Prosecuting Attorney, New Madrid County, MO.; Member of Hunter & Hunter, Attorneys-at-Law since 1962
Floyd W. Lewis	55	—	1971	—	Chairman of the Board and President of MSU since May 1980; Chairman of the Board and Chief Executive Officer of MSU from May 1979 to May 1980; President and Chief Executive Officer of MSU from 1972 to May 1979[3]
Jerry L. Maulden	44	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 1978[3]

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
Roy L. Murphy	53	—	1977	—	President, Chairman of the Board and Director of Mid-South Engineering Co. (Consulting Engineers), Hot Springs, AR.
William C. Nolan, Jr.	41	—	1971	—	Attorney-at-Law, Nolan & Alderson, Attorneys; Director of Murphy Oil Corporation and Subsidiaries and Noalmark Broadcasting Corp.
James D. Phillips	62	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	51	—	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)
George K. Reeves	66	—	1981	—	Partner, Ward & Reeves, Attorneys-at-Law(3)
Reeves E. Ritchie	66	—	1962	—	Chairman of the Board from 1976 through July 1979; President of AP&L from 1962 to 1976
Herman B. Smith, Jr.	53	—	1980	—	Chancellor of the University of Arkansas at Pine Bluff, AR. since July 1974
Gus B. Walton, Jr.	39	—	1981	—	Wright Lindsey & Jennings, Attorneys-at-Law; Director of Bar Review of Arkansas, Inc. and Pulaski Motor Lodge Corporation of AR.
Michael E. Wilson	38	—	1980	—	President of Lee Wilson & Company from February 1977 to the present, Vice President from February 1975 to February 1977; President of Lee Wilson Insurance Agency; President and Director of Delta Valley & Southern Railway Company since February 1979
Officers					
Jerry L. Maulden	44	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	62	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
Charles L. Steel	56	Senior Vice President—Assistant to President	—	Jan. 1981	Senior Vice President—Assistant to President since January 1981; Vice President—Assistant to President from May 1979 to January 1981; Vice President, Public Affairs from May 1975 to May 1979
William Cavanaugh III	41	Senior Vice President—Energy Supply	—	Jan. 1981	Senior Vice President—Energy Supply since January 1981; Vice President, Generation and Construction from January 1979 to January 1981; 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

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
[illegible] L. King	41	Senior Vice President—Energy Delivery and Services	—	Jan. 1981	Senior Vice President—Energy Delivery and Services since January 1981; Vice President, Divisions from December 1979 to January 1981; Director of Divisional Services from August 1978 to December 1979; Division Manager from April 1976 to August 1978
John J. Harton	39	Vice President, Treasurer and Chief Financial Officer	—	Jan. 1981	Vice President, Treasurer and Chief Financial Officer since January 1981; Treasurer from May 1979 to January 1981; Director of Corporate Planning from April 1974 to May 1979
[illegible]ry D. Jackson	36	Senior Vice President—Finance, Regulation and Legal Services and Secretary	—	Jan. 1981	Senior Vice President—Finance, Regulation and Legal Services and Secretary since January 1981; Vice President, General Counsel and Secretary from May 1980 to January 1981; Secretary since July 1979; Attorney-at-Law from April 1969 to July 1979, Little Rock, AR.
Willie Ray Southern	49	Vice President—Administrative Services	—	Jan. 1981	Vice President—Administrative Services since January 1981; Executive Director of Administrative Services from February 1980 to January 1981; Director of Internal Auditing until February 1980
Ralph C. Mitchell, III	45	Vice President—Conservation and Renewable Resources	—	Jan. 1981	Vice President—Conservation and Renewable Resources since January 1981; Executive Director Conservation and Renewable Resources from February 1980 to January 1981; Director of Corporate Communications from May 1979 to February 1980; Director, Management Services from May 1976 to May 1979; Special assistant to President of MSU from January 1976 to May 1976
Charles L. Kelly	43	Vice President—Corporate Communications	—	Jan. 1981	Vice President—Corporate Communications since January 1981; Director of Corporate Communications from February 1980 to January 1981; Communications Manager from February 1978 to February 1980; Manager of Media Communications from August 1977 to February 1978; News Director of KTHV-TV in Little Rock, Arkansas from 1966 to August 1977.

LP&L

Directors

James M. Cain	47	—	1978	—	President of NOPSI, April 1978 to date; President of MSS, November 1975 to April 1978(3)
Charles J. Cassidy	69	—	1966	—	Chairman of the Board and President of First State Bank & Trust Company, Bogalusa, LA.
Harry M. England	67	—	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	48	—	1972	—	President of Central American Life Insurance Company, West Monroe, LA.; Director of Misco, Inc.

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
Floyd W. Lewis	55	—	1967	—	Chairman of the Board and President of MSU, since May 1980; Chairman of the Board and Chief Executive Officer of MSU from May 1979 to May 1980; President and Chief Executive Officer of MSU from 1972 to May 1979(3)
E. A. Rodrigue	68	—	1967	—	Chairman of the Board of LP&L from May 1976 to November 1977; President of LP&L, 1972 to 1976; President of Armelise Planting Co. from January 1975 to present
H. Duke Shackelford	54	—	1972	—	Planter; President of Shackelford Co., Inc., Shackelford Gin, Inc., Union Oil Mill, Inc. and Louisiana Cotton Warehouse Co., Inc. (All Agricultural and Agri-Businesses), Bonita, LA.; Director of Bastrop National Bank, Bastrop, LA.
Jack M. Wyatt	62	President	1976	May 1976	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976(3)
Officers					
Jack M. Wyatt	62	President	1976	May 1976	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976(3)
Gerald D. McLendon	58	Senior Vice President—Operations	—	May 1977	Senior Vice President—Operations since May 1977; Vice President—Operations from May 1975 to May 1977
John H. Erwin, Jr.	58	Vice President and Treasurer	—	Jan. 1974	Vice President since January 1974; Treasurer since 1967
W. H. Talbot	50	Secretary and Controller	—	1968	Secretary and Controller
Donald L. Aswell	54	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	62	Vice President—Administration	—	May 1977	Vice President—Administration since May 1977; Corporate Services Manager from January 1975
Gus F. Delery	53	Vice President—Consumer Services	—	May 1977	Vice President—Consumer Services from May 1977 to date; Manager of Marketing from February 1974
Joseph M. Mooney	63	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
Jack Davey	54	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	67	—	1961	—	Attorney-at-Law, Adams, Forman, Truly, Ward, Smith and Bramlette, Attorneys, Natchez, MS.
Norman B. Gillis, Jr.	53	—	1968	—	Attorney-at-Law. McComb, MS.; Director of the First National Bank of Jackson. MS.
Robert M. Hearin	64	—	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.; Director of Lamar Life Insurance Co., South Central Bell Telephone Co., First Capital Corp. and Amerada Hess Corp.

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
[illegible]. Harvey Johnston, Jr.	62	—	1956	—	Surgeon
R. E. Kennington II	48	—	1974	—	Chairman of the Board and Chief Executive Officer of Grenada Banking System, Grenada, MS.
Floyd W. Lewis	55	—	1971	—	Chairman of the Board and President of MSU since May 1980; Chairman of the Board and Chief Executive Officer of MSU from May 1979 to May 1980; President and Chief Executive Officer of MSU from 1972 to May 1979(3)
Donald C. Lutken	56	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)
John P. Maloney	62	—	1980	—	Chairman of the Board and Chief Executive Officer of Deposit Guaranty National Bank; President, Chief Operating Officer and Director of Deposit Guaranty Corporation; Director of Jackson Packing Company and Mississippi Valley Title Insurance Company
Richard D. McRae	59	—	1976	—	President of McRae's, Inc. (Department Stores), Jackson, MS.; Director of Deposit Guaranty Corporation
LeRoy P. Percy	63	—	1959	—	Cotton farmer, Chairman of the Boards of Mississippi Chemical Company, Yazoo City, MS., and First Mississippi Corporation (Agriculture and Chemical Supplies and Gas Exploration); Jackson, MS.; President of Greenville Compress Co., Greenville, MS.(3)
Dr. Walter Washington	57	—	1977	—	President of Alcorn State University, Lorman, MS.(3)
R. M. Williams, Jr.	44	—	1976	—	Partner, Reeves-Williams Builders, Southaven, MS.
Officers					
Donald C. Lutken	56	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	60	Senior Vice President—Nuclear	—	Jan. 1981	Senior Vice President—Nuclear since January 1981; Senior Vice President—Engineering, Production and Construction from May 1980 to January 1981; Vice President—Production and Engineering from December 1977 to May 1980; Vice President—Production from 1972 to December 1977
Alex McKeigney	63	Vice President—Information Services	—	1967	Vice President—Information Services
W. Donald Colmer	62	Vice President—Public Affairs and Environmental Matters	—	1971	Vice President—Public Affairs and Environmental Matters
John D. Holland	58	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	59	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

Name	Age	Management Position	Director Since(1)	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships(2)
Walton T. Woods, Jr.	64	Vice President—General Property & Services	—	May 1980	Vice President—General Property and Services since May 1980; Manager—General Property and Services from 1976 to May 1980
Thomas A. Dallas	57	Vice President—Chief Engineer	—	June 1980	Vice President—Chief Engineer since June 1980; Manager—Engineering Systems Operations and Construction from 1976 to June 1980
Donald E. Meiners	45	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.	59	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	50	Treasurer	—	Dec. 1977	Treasurer since December 1977; Assistant Treasurer from 1968 to December 1977
NOPSI					
Directors					
James M. Cain	47	President	1978	April 1978	President of NOPSI, April 1978 to date; President of MSS, November 1975-April 1978(3)
Brooke H. Duncan	56	—	1967	—	President and director of Jno. Worner & Son, Inc. and The Foster Company, Inc. (Canvas Fabricator), New Orleans, LA.(4)
Laurance Eustis	67	—	1969	—	Chairman of the Board and Chief Executive Officer of Laurance Eustis Mortgage Corporation; President and Chief Executive Officer of Laurance Eustis Insurance Agency, Inc.; Director of the Bank of New Orleans and Trust Company, New Orleans, LA., and International Shipholding Corp.
Richard W. Freeman	67	—	1961	—	Chairman of The Louisiana Coca-Cola Bottling Company, Ltd.; Director of Delta Airlines, Inc., New Orleans, LA.(3)(4)
Sam Israel, Jr.	70	—	1969	—	Vice-Chairman and Director of ACLI International, Inc. (Commodities Broker); Director of Zapata Corporation, New Orleans, LA.(4)
Arthur L. Jung, Jr.	65	—	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	55	—	1970	—	Chairman of the Board and President of MSU since May 1980; Chairman of the Board and Chief Executive Officer of MSU from May 1979 to May 1980; President and Chief Executive Officer of MSU from 1972 to May 1979(3)
William C. Nelson	58	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	55	—	1969	—	President-Secretary and Chairman of the Board of Donovan Boat Supplies, Inc., New Orleans, LA.
Charles C. Teamer, Sr.	47	—	1978	—	Vice President for Fiscal Affairs of Dillard University, New Orleans, LA.

Name	Age	Management Position	Director Since[1]	Date Officer Elected to Present Position	Principal Occupations During Last 5 Years and Other Directorships[2]
Jack M. Wyatt	62	—	1976	—	President of LP&L, 1976 to date; President of SFI from June 1975 to May 1976[3]
Officers					
James M. Cain	47	President	1978	April 1978	President of NOPSI, April 1978 to date; President of MSS, November 1975-April 1978[3]
John H. Chavanne	39	Vice President, Finance	—	Nov. 1980	Vice President—Finance since November 1980; Controller from November 1976 to November 1980; Assistant to Vice President, Finance from July 1974 to November 1976
Sherwood A. Cuyler	59	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	58	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	53	Vice President, Engineering and Production	—	June 1978	Vice President, Engineering and Production from May 1978 to present; Vice President, Engineering from April 1975 to May 1978
Hero J. Edwards, Jr.	47	Vice President, Operations	—	June 1978	Vice President, Operations from May 1978 to present; Vice President, Administration from May 1976 to June 1978; Director of Personnel from February 1975 to May 1976
Donald F. Schultz	64	Vice President, Corporate Communications	—	Nov. 1976	Vice President, Corporate Communications since November 1976; Manager of Public Relations from 1962 to November 1976
Harvey K. Hawkins	46	Treasurer	—	Nov. 1976	Treasurer from November 1976 to present; Assistant Secretary and Assistant Treasurer from 1972 to November 1976

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1. Each director and officer is elected yearly to serve until the first Board meeting after the Annual Meeting of Shareholders of the applicable company, which annual meetings are currently expected to be held as follows:

MSU—May 15, 1981
AP&L—May 27, 1981
LP&L—May 25, 1981
MP&L—May 27, 1981
NOPSI—May 25, 1981

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 10. *Management Remuneration and Transactions.*

MSU

Information called for by this item concerning the directors and officers of MSU is set forth under the heading "Remuneration of Officers and Directors" contained in the Proxy Statement of MSU to be filed in connection with its Annual Meeting of Shareholders to be held May 15, 1981, which information is incorporated herein by reference.

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 1980 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	Credited Years of Service	Salaries, Fees, Directors' Fees(1), Commissions, Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits(2)	Aggregate of Contingent Forms of Remuneration
Jerry L. Maulden	President and Director	14	$122,030	$ 3,159(3)	$2,200(3)
James D. Phillips	Senior Vice President, System Engineering and Planning and Director	33	78,056	5,781(3)	—
William Cavanaugh III	Vice President, Generation and Construction	10	67,653	2,317(3)	211(3)
Jack L. King	Vice President, Divisions	13	59,440	2,989(3)	1,115(3)
Jerry D. Jackson	Vice President, General Counsel, Secretary and Assistant Treasurer	0	60,589	1,501(3)	1,127(3)
All directors and officers as a group consisting of 22 persons, including the above named			639,214	26,072(3)	6,270(3)

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(1) The directors of AP&L are paid an attendance fee of $400 for attendance at meetings of the Board of Directors and $400 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 $200). In addition, directors who are not employees of a Middle South System company are paid $250 per month.

(2) AP&L has adopted executive medical and disability plans for certain groups of employees. The plans provide benefits in excess of those benefits generally available to salaried employees. The medical plan provides 100% reimbursement of specified medical expenses defined in Section 213 (e) (1) (A) of the Internal Revenue Code that are not paid by the general benefit plan, up to $3,000 per year for the employee and family. The disability plan provides 60% of basic earnings not payable by sick leave or basic disability plans.

(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 1980 because the additional 1% investment tax credit claimed for the tax years 1977, 1978 and 1979 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1981 in respect of the tax year 1980.

AP&L's retirement income plan (a defined benefit plan) provides for a benefit at retirement from the Middle South System based upon (1) all years of service, after completion of one year of service, between ages 25 and 65, times (2) 1.5% for each year of service, times (3) the final average salary. Final average salary is based on the highest 60 months of covered compensation in the last 120 months of service. The normal form of benefit for a single employee is a life-time annuity and for a married employee is a 50% joint and survivor annuity. Other actuarially equivalent options are available to each retiree.

The maximum benefit under the plan is limited by Section 415 of the Internal Revenue Code; however, AP&L has adopted a pension equalization plan for those employees whose benefits would be affected by such limitation.

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 and pension equalization plans described in the preceding two paragraphs:

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
125,000	18,750	37,500	56,250	75,000
150,000	22,500	45,000	67,500	90,000
200,000	30,000	60,000	90,000	120,000
250,000	37,500	75,000	112,500	150,000

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.

LP&L

Name of Individual or Number of Persons in Group	Capacities in Which Served	Credited Years of Service	Cash and Cash-Equivalent Forms of Remuneration		Aggregate of Contingent Forms of Remuneration
			Salaries, Fees, Directors' Fees(1), Commissions, Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits(2)	
Jack M. Wyatt	President and Director	37	$142,633	$11,035(3)	—
Gerald D. McLendon ..	Senior Vice President—Operations	33	79,667	6,567(3)	—
John H. Erwin, Jr.	Vice President and Treasurer	32	69,633	5,467(3)	—
Kenneth M. Brumfield..	Vice President—Administration	32	59,567	4,720(3)	—
Donald L. Aswell	Vice President—Power Production	29	60,500	3,061(3)	$1,134(3)
All directors and officers as a group consisting of 22 persons, including the above named			815,408	46,036(3)	6,330(3)

(footnotes on following page)

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(1) The directors of LP&L are paid an attendance fee of $400 for attendance at meetings of the Board of Directors and $250 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) LP&L has adopted an executive medical plan for certain groups of employees. The plan provides benefits in excess of those benefits generally available to salaried employees. The medical plan provides 100% reimbursement of specified medical expenses defined in Section 213 (e) (1) (A) of the Internal Revenue Code that are not paid by the general benefit plan, up to $3,000 per year for the employee and family.

(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 1980 because the additional 1% investment tax credit claimed for the tax years 1977, 1978 and 1979 has not yet been utilized. For similar reas[illegible] is not anticipated that any contributions will be made during 1981 in respect of the tax year 198[illegible]

LP&L's retirement income plan (a defined benefit plan) provides for a benefit at retirement from the Middle South System based upon (1) all years of service, after completion of one year of service, between ages 25 and 65, times (2) 1.5% for each year of service, times (3) the final average salary. Final average salary is based on the highest 60 months of covered compensation in the last 120 months of service. The normal form of benefit for a single employee is a life-time annuity and for a married employee is a 50% joint and survivor annuity. Other actuarially equivalent options are available to each retiree.

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 described in the preceding paragraph:

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
125,000	18,750	37,500	56,250	75,000
150,000	22,500	45,000	67,500	90,000
200,000	30,000	60,000	90,000	120,000
250,000	37,500	75,000	112,500	150,000

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 sta[illegible] or re-election at the first annual meeting following his 70th birthday.

MP&L

			Cash and Cash-Equivalent Forms of Remuneration		
Name of Individual or Number of Persons in Group	Capacities in Which Served	Credited Years of Service	Salaries, Fees, Directors' Fees (1), Commissions, Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits (2)	Aggregate of Contingent Forms of Remuneration
Donald C. Lutken	President and Director	30	$148,394	$ 8,735(3)	—
Norris L. Stampley ...	Senior Vice President—Engineering, Production and Construction	32	75,097	5,641(3)	—
Frank S. York, Jr.	Vice President—Finance and Secretary	33	62,518	4,086(3)	—
Alex McKeigney	Vice President—Information Services	20	56,999	4,747(3)	—
Donald E. Meiners	Vice President—Customer Services	19	57,168	2,260(3)	$ 517(3)
All directors and officers as a group consisting of 28 persons, including the above named			793,450	48,191(3)	3,008(3)

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(1) The directors of MP&L are paid, since May 1980, an attendance fee of $350 for attendance at meetings of the Board of Directors and $350 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 $200 per month.

(2) MP&L has adopted an executive medical plan for certain groups of employees. The plan provides benefits in excess of those benefits generally available to salaried employees. The medical plan provides 100% reimbursement of specified medical expenses defined in Section 213 (e) (1) (A) of the Internal Revenue Code that are not paid by the general benefit plan, up to $3,000 per year for the employee and family.

(3) Reflects amount paid pursuant to the Middle South Utilities System Savings Plan. The System Savings Plan provides that eligible employes (who elect to participate in the Savings Plan), may contribute through payroll deductions [illegible] 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 1980 because the additional 1% investment tax credit claimed for the tax years 1977, 1978 and 1979 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1981 in respect of the tax year 1980.

MP&L's retirement income plan (a defined benefit plan) provides for a benefit at retirement from the Middle South System based upon (1) all years of service, after completion of one year of service, between ages 25 and 65, times (2) 1.5% for each year of service, times (3) the final average salary. Final average salary is based on the highest 60 months of covered compensation in the last 120 months of service. The normal form of benefit for a single employee is a life-time annuity and for a married employee is a 50% joint and survivor annuity. Other actuarially equivalent options are available to each retiree.

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 described in the preceding paragraph:

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
125,000	18,750	37,500	56,250	75,000
150,000	22,500	45,000	67,500	90,000
200,000	30,000	60,000	90,000	120,000
250,000	37,500	75,000	112,500	150,000

NOPSI

Name of Individual or Number of Persons in Group	Capacities in Which Served	Credited Years of Service	Cash and Cash-Equivalent Forms of Remuneration		Aggregate of Contingent Forms of Remuneration
			Salaries, Fees, Directors' Fees (1), Commissions, Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits (2)	
James M. Cain	President and Director	20	$108,700	$ 3,421(3)	$1,070(3)
William C. Nelson	Vice President, Administration and Legal and Secretary	33	66,850	4,471(3)	—
A. J. Brodtmann(4) ...	Vice President, Finance	40	64,862	4,024(3)	—
Hero J. Edwards, Jr. ..	Vice President, Operations	22	56,917	2,771(3)	1,067(3)
Sherwood A. Cuyler ...	Vice President, Public and Regulatory Affairs	33	54,917	4,356(3)	—
All directors and officers as a group consisting of 23 persons, including the above named			676,128	32,187(3)	4,861(3)

---

(1) The directors of NOPSI are paid an attendance fee of $350 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) NOPSI has adopted an executive medical plan for certain groups of employees. The plan provides benefits in excess of those benefits generally available to salaried employees. The medical plan provides 100% reimbursement of specified medical expenses defined in Section 213 (e) (1) (A) of the Internal Revenue Code that are not paid by the general benefit plan, up to $3,000 per year for the employee and family.

(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 remunera-

(footnotes continued on following page)

tion depending upon whether or not the recipient, or his estate, has a vested, non-forfeitable right to the same.

(4) A. J. Brodtmann retired effective November 1, 1980.

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 1980 because the additional 1% investment tax credit claimed for tax years 1977, 1978 and 1979 has not yet been utilized. For similar reasons, it is not anticipated that any contributions will be made during 1981 in respect of the tax year 1980.

NOPSI's retirement income plan (a defined benefit plan) provides for a benefit at retirement from the System based upon (1) all years of service, after completion of one year of service, between the ages 25 and 65, times (2) 1.5% for each year of service, times (3) the final average salary. Final average salary is based on the highest 60 months of covered compensation in the last 120 months of service. The normal form of benefit for a single employee is a life-time annuity and for a married employee is a 50% joint and survivor annuity. Other actuarially equivalent options are available to each retiree.

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 described in the preceding paragraph:

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
125,000	18,750	37,500	56,250	75,000
150,000	22,500	45,000	67,500	90,000
200,000	30,000	60,000	90,000	120,000
250,000	37,500	75,000	112,500	150,000

OTHER TRANSACTIONS

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 month end during 1980 was $3,750,000, and the aggregate principal amount of such loans outstanding at December 31, 1980 was $2,500,000. 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 a director of NOPSI, are also directors of Hibernia and its parent, Hibernia Corporation.

LP&L also borrowed a maximum of $480,000 during 1979 from First State Bank & Trust Company in Bogalusa, Louisiana. Mr. Charles J. Cassidy, Chairman of the Board and President of the 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 1980 aggregated approximately $994,000. 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 81% of the outstanding voting stock of Lamar Life Corporation.

PART IV

Item 11. *Exhibits, Financial Statement Schedules and Reports on Form 8-K.*

Page

(a) 1.(a) The following financial statements have been incorporated herein by reference (see Item 8).

MSU and its subsidiaries consolidated:

Auditors' Opinion; Consolidated Balance Sheets at December 31, 1980 and 1979; Consolidated Statements of Income, Changes in Financial Position, and Retained Earnings and Paid-In Capital for the years ended December 31, 1980, 1979 and 1978; and Notes to Consolidated Financial Statements; all as set forth in MSU's 1980 Annual Report to Shareholders.

AP&L, LP&L, MP&L and NOPSI:

Auditors' Opinions; Balance Sheets at December 31, 1980 and 1979; Statements of Income, Retained Earnings and Changes in Financial Position for the years ended December 31, 1980, 1979 and 1978; and Notes to Financial Statements; all as set forth in the 1980 Annual Reports to Shareholders for the above listed companies.

(a) 2. Financial Statement Schedules

Auditors' Opinion F-1

Financial Statements of Middle South Utilities, Inc.:

Balance Sheets—December 31, 1980 and 1979 .... F-2

Statements of Income—Years Ended December 31, 1980, 1979 and 1978 .... F-3

Statements of Retained Earnings and Paid-In Capital—Years Ended December 31, 1980, 1979 and 1978 .... F-4

Statements of Source of Funds for Investment—Years Ended December 31, 1980, 1979 and 1978 .... F-3

Notes to Financial Statements incorporated by reference from MSU's 1980 Annual Report to Shareholders

Other Financial Statement Schedules are listed in the Index to Financial Statement Schedules S-1

(a) 3. Exhibits

Exhibits for MSU, AP&L, MP&L, and NOPSI are listed in the Exhibit Index E-1

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by any of the registrants during the fourth quarter of 1980.

MIDDLE SOUTH UTILITIES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

Middle South Utilities, Inc.

By F. W. Lewis
F. W. Lewis, Chairman of the Board, President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Signature	**Title**	**Date**
F. W. Lewis **F. W. Lewis**	Chairman of the Board, President and Director (Principal Executive Officer)	March 26, 1981
E. A. Lupberger **E. A. Lupberger**	Senior Vice President—Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1981
George F. Bennett **George F. Bennett**	Directors	March 26, 1981
James M. Cain **James M. Cain**		
Richard W. Freeman **Richard W. Freeman**		
D. C. Lutken **D. C. Lutken**		
Jerry L. Maulden **Jerry L. Maulden**		
LeRoy P. Percy **LeRoy P. Percy**		
Robert D. Pugh **Robert D. Pugh**		
George K. Reeves **George K. Reeves**		
F. G. Smith **F. G. Smith**		
Walter Washington **Walter Washington**		
R. E. L. Wilson **R. E. L. Wilson**		
J. M. Wyatt **J. M. Wyatt**		

ARKANSAS POWER & LIGHT COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly uthorized. The signature of the undersigned company shall be deemed to relate only to matters having ference to such company and any subsidiaries thereof.

ARKANSAS POWER & LIGHT COMPANY

By JERRY L. MAULDEN
Jerry L. Maulden, President,
Chief Executive Officer and Director

ursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed elow by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the bove-named company and any subsidiaries thereof.

Signature	**Title**	**Date**
JERRY L. MAULDEN **Jerry L. Maulden**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1981
JOHN J. HARTON **John J. Harton**	Vice-President, Treasurer and Assistant Secretary, Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1981
LAWRENCE BLACKWELL **Lawrence Blackwell**	Directors	March 26, 1981
F. W. LEWIS **F. W. Lewis**		
ROY L. MURPHY **Roy L. Murphy**		
WILLIAM C. NOLAN, JR. **William C. Nolan, Jr.**		
J. D. PHILLIPS **J. D. Phillips**		
ROBERT D. PUGH **Robert D. Pugh**		
REEVES E. RITCHIE **Reeves E. Ritchie**		
HERMAN B. SMITH, JR. **Herman B. Smith, Jr.**		
MICHAEL E. WILSON **Michael E. Wilson**		

LOUISIANA POWER & LIGHT COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

LOUISIANA POWER & LIGHT COMPANY

By J. M. WYATT
J. M. Wyatt, President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Signature	**Title**	**Date**
J. M. WYATT **J. M. Wyatt**	President and Director (Principal Executive Officer)	March 26, 1981
J. H. ERWIN, JR. **J. H. Erwin, Jr.**	Vice President and Treasurer (Principal Financial and Accounting Officer)	March 26, 1981
JAMES M. CAIN **James M. Cain**	Directors	March 26, 1981
CHARLES J. CASSIDY **Charles J. Cassidy**		
HARRY M. ENGLAND **Harry M. England**		
TEX R. KILPATRICK **Tex R. Kilpatrick**		
F. W. LEWIS **F. W. Lewis**		
E. A. RODRIGUE **E. A. Rodrigue**		
H. DUKE SHACKELFORD **H. Duke Shackelford**		

MISSISSIPPI POWER & LIGHT COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER & LIGHT COMPANY

By D. C. LUTKEN
D. C. Lutken, President,
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the bove-named company and any subsidiaries thereof.

Signature	Title	Date
D. C. LUTKEN **D. C. Lutken**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1981
F. S. YORK, JR. **F. S. York, Jr.**	Vice President, Finance and Secretary (Principal Financial Officer)	March 26, 1981
J. R. MARTIN **J. R. Martin**	Treasurer (Principal Accounting Officer)	March 26, 1981
G. LAWRENCE ADAMS **G. Lawrence Adams**	Directors	March 26, 1981
NORMAN B. GILLIS, JR. **Norman B. Gillis, Jr.**		
ROBERT M. HEARIN **Robert M. Hearin**		
J. HARVEY JOHNSTON, JR. **J. Harvey Johnston, Jr.**		
ROBERT E. KENNINGTON, II **Robert E. Kennington, II**		
F. W. LEWIS **F. W. Lewis**		
JOHN P. MALONEY **John P. Maloney**		
RICHARD D. MCRAE **Richard D. McRae**		
LEROY P. PERCY **LeRoy P. Percy**		
WALTER WASHINGTON **Walter Washington**		
ROBERT M. WILLIAMS, JR. **Robert M. Williams, Jr.**		

NEW ORLEANS PUBLIC SERVICE INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

New Orleans Public Service Inc.

By JAMES M. CAIN
James M. Cain, President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Signature	**Title**	**Date**
JAMES M. CAIN **James M. Cain**	President and Director (Principal Executive Officer)	March 26, 1981
JOHN H. CHAVANNE **John H. Chavanne**	Vice President—Finance (Principal Financial and Accounting Officer)	March 26, 1981
BROOKE H. DUNCAN **Brooke H. Duncan**	Directors	March 26, 1981
LAURANCE EUSTIS **Laurance Eustis**		
R. W. FREEMAN **R. W. Freeman**		
SAM ISRAEL, JR. **Sam Israel, Jr.**		
ARTHUR L. JUNG, JR. **Arthur L. Jung, Jr.**		
F. W. LEWIS **F. W. Lewis**		
WILLIAM C. NELSON **William C. Nelson**		
JOHN B. SMALLPAGE **John B. Smallpage**		
CHARLES C. TEAMER **Charles C. Teamer**		
J. M. WYATT **J. M. Wyatt**		

AUDITORS' OPINION

Middle South Utilities, Inc. and Subsidiaries:

We have examined the consolidated financial statements of Middle South Utilities, Inc. and subsidiaries and the financial statements of certain of its subsidiaries, listed in Item 11 herein, as of December 31, 1980 and 1979 and for each of the three years in the period ended December 31, 1980, and have issued our opinions thereon dated February 13, 1981; such financial statements and opinions are included in your 1980 Annual Reports to Shareholders and are incorporated herein by reference. Our examinations also comprehended the supplemental schedules of Middle South Utilities, Inc. and subsidiaries and of certain of its subsidiaries, listed in Item 11. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

We have also examined the financial statements and supplemental schedules of Middle South Utilities, Inc., listed in Item 11. 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, the financial statements referred to in the preceding paragraph present fairly the financial position of Middle South Utilities, Inc. at December 31, 1980 and 1979 and the results of its operations and source of funds for investment for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis; also, in our opinion, such supplemental 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 13, 1981

MIDDLE SOUTH UTILITIES, INC.

BALANCE SHEETS

December 31, 1980 and 1979

ASSETS

	1980	1979
	(In Thousands)	
Investments in Wholly-owned Subsidiaries—at equity (Schedule III)	$2,012,474	$1,803,840
Current Assets:		
Cash	992	1,315
Notes receivable from subsidiary	—	2,100
Temporary investments—at cost, which approximates market	1,450	38,714
Dividends receivable	42,014	—
Other	40	103
Total	44,496	42,232
Total	$2,056,970	$1,846,072

LIABILITIES

	1980	1979
Capitalization:		
Common stock, $5 par value, authorized 150,000,000 shares; issued and outstanding 107,349,943 shares in 1980 and 90,432,998 shares in 1979	$ 536,750	$ 452,165
Paid-in capital	748,593	630,445
Retained earnings	619,572	581,445
Total common shareholders' equity	1,904,915	1,664,055
Long-term debt—promissory notes	108,150	—
Total capitalization	2,013,065	1,664,055
Current Liabilities:		
Notes payable—banks	—	145,900
Accounts payable:		
Associated company	97	124
Other	271	208
Interest and taxes accrued	72	71
Dividends declared	43,465	35,714
Total	43,905	182,017
Total	$2,056,970	$1,846,072

Notes to Financial Statements of Middle South Utilities, Inc. and Subsidiaries are incorporated herein by reference from MSU's 1980 Annual Report to Shareholders.

MIDDLE SOUTH UTILITIES, INC.

STATEMENTS OF INCOME

For the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
Income:			
Dividends from subsidiaries	$176,251	$141,793	$119,216
Undistributed earnings of subsidiaries	45,515	53,942	75,357
Interest on loans to subsidiaries	1,361	1,115	798
Other interest	526	881	404
Total	223,653	197,731	195,775
Expenses and Other Deductions:			
Administrative and general expenses	3,355	2,919	2,247
Taxes	8	17	12
Interest	24,383	12,737	8,078
Total	27,746	15,673	10,337
Net Income	$195,907	$182,058	$185,438

STATEMENTS OF SOURCE OF FUNDS FOR INVESTMENT

For the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
Funds From Operations:			
Net income	$195,907	$182,058	$185,438
Undistributed earnings of subsidiaries	(45,515)	(53,942)	(75,357)
Total	150,392	128,116	110,081
Dividends Declared On Common Stock	(156,968)	(132,585)	(110,849)
Funds used in business	(6,576)	(4,469)	(768)
Funds From Financing:			
Common stock	202,733	202,269	143,147
Notes payable:			
Issues	294,250	209,000	111,000
Retirements	(332,000)	(192,100)	(140,000)
Funds from financing—net	164,983	219,169	114,147
Decrease in Working Capital (excluding notes payable)	5,524	4,415	4,908
Miscellaneous—net	(281)	(415)	(287)
Investment in Subsidiaries	$163,650	$218,700	$118,000

Notes to Financial Statements of Middle South Utilities, Inc. and Subsidiaries are incorporated herein by reference from MSU's 1980 Annual Report to Shareholders.

MIDDLE SOUTH UTILITIES, INC.

STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

For the Years Ended December 31, 1980, 1979 and 1978

RETAINED EARNINGS

	1980	1979 (In Thousands)	1978
Retained Earnings, January 1	$581,445	$534,893	$460,608
Add—Net Income	195,907	182,058	185,438
Total	777,352	716,951	646,046
Deduct:			
Dividends declared on common stock—$1.59, $1.535 and $1.46 a share for 1980, 1979 and 1978, respectively	156,968	132,585	110,849
Capital stock expenses, etc.	812	2,921	304
Total	157,780	135,506	111.153
Retained Earnings, December 31	$619,572	$581,445	$534,893

PAID-IN CAPITAL

	1980	1979	1978
Paid-in Capital, January 1	$630,445	$499,850	$401,151
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	—
7,000,000 shares of common stock sold in May 1980	50,819	—	
8,000,000 shares of common stock sold in October 1980	54,023	—	
Common stock issued in connection with dividend reinvestment and stock purchase plan	11,030	5,865	4,053
Common stock issued in connection with employee stock ownership plan	74	126	54
Common stock issued in connection with employee savings plan	2,202	2,021	132
Retirement of 994 unclaimed shares of MSU stock	—	(6)	—
Paid-in Capital, December 31	$748,593	$630,445	$499,850

Notes to Financial Statements of Middle South Utilities, Inc. and Subsidiaries are incorporated herein by reference from MSU's 1980 Annual Report to Shareholders.

INDEX TO FINANCIAL STATEMENT SCHEDULES

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 RELATED PARTIES

Years Ended December 31, 1980, 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, 1980:								
AP&L, Common Stock	34,236,773	$ 518,617	$ 39,827	$ 30,000	$ 71,463	$ (3)	36,636,773	$ 516,984
LP&L, Common Stock	65,140,000	487,441	76,173	70,000	69,110	395	75,746,400	564,109
MP&L, Common Stock	4,540,000	169,804	31,570	—	21,974	—	4,540,000	179,400
NOPSI, Common Stock	5,935,900	78,668	3,944	—	10,091	138	5,935,900	72,383
Ark-Mo, Common Stock	4,691,988	27,715	3,261	5,750	3,613	—	6,991,988	33,112
MSE, Common Stock	385,700	514,949	56,991	57,900	—	—	443,600	639,840
MSS:								
Common Stock	2,000	20	—	—	—	—	2,000	20
Notes	$6,626	6,626	—	—	—	—	$6,626	6,626
Total		$1,803,840	$221,766	$163,650	$176,251	$ 530		$2,012,474
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, 1980

(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	$ 440	—	—	—	$ 440
Production	1,461,244	$ 858,846	$ 1,788	$ 6,314	2,324,615
Transmission	604,699	72,205	3,036	224	674,092
Distribution	1,380,818	100,215	14,855	3,440	1,469,619
General	103,619	4,897	19,092	155	89,579
Leased to others	5,144	—	—	—	5,144
Plant held for future use	11,800	117	—	—	11,917
Plant in process of reclassification	317	(317)	—	—	—
Plant purchased or sold	25,568	4,141	—	(5,899)	23,810
Natural Gas:					
Intangible	297	—	—	—	297
Storage	4,670	—	—	—	4,670
Transmission	14,852	62	3	—	14,911
Distribution	75,942	3,144	325	—	78,761
General	6,809	433	278	—	6,964
Transit:					
Land	135	—	—	—	135
Way and structures	4,245	141	1	—	4,385
Revenue equipment	11,817	—	1,580	—	10,237
General	2,852	68	140	(2)	2,778
Construction Work in Progress	3,282,202	(75,479)*	62,013**	—	3,144,710
Nuclear Fuel	—	22,326	—	—	22,326
Plant Acquisition Adjustments	4,582	(19)	—	(317)	4,246
Total Utility Plant	$7,002,052	$990,780	$103,111	$ 3,915	$7,893,636

Notes:

(1) All intangibles identifiable in the accounts are set forth above.

(2) Transfer of gross assets from plant purchased or sold to other functional groups of accounts	$10,131
(3) Transfers among functional groups of accounts	$ 42
Transfer in the balance in plant purchased or sold to appropriate accounts	$ 4,194
Represents accumulated expenses associated with Ark-Mo/AP&L merger	38
Amortization of plant acquisition adjustments	(317)
Total	$ 3,915
* Includes cost of nuclear fuel	$48,625
** Sales include the following:	
Cost of nuclear fuel	$44,663
Sales and leaseback transactions	16,416
Book value of utility plant sold	934
Total	$62,013

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE V—UTILITY PLANT

Year Ended December 31, 1979

(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) (Note 2)	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	15,313	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.

(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 fuel	$46,804
** Sales included the following:	
Sales 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.

(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 fuel	$8,010
** Includes cost of nuclear fuel sold to non-affiliates	$8,210

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost (Note 3)	Retirements or Sales	Other Changes—Debits (Credits) (Notes 1-4)	Balance at End of Period
Year ended December 31, 1980					
Electric Utility Plant:					
Intangible	$ 86	—	—	—	$ 86
Production	486,968	$ 834,573	$ 166	—	1,321,375
Transmission	227,732	43,866	2,463	—	269,135
Distribution	491,445	33,011	4,995	—	519,461
General	21,425	1,473	3,199	—	19,699
Plant purchased or sold ..	87	—	—	$ 38	125
Plant in process of reclassification	317	(317)	—	—	—
Plant held for future use ..	3,472	71	—	—	3,543
Construction Work in Progress	980,054	(680,328)	17,350***	—	282,376
Nuclear Fuel	—	7,151	—	—	7,151
Plant Acquisition Adjustments	300	—	—	(20)	280
Total Utility Plant ..	$2,211,886	$ 239,500	$ 28,173	$ 18	$2,423,231
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

(Footnotes on following page)

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT—(Continued)

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

	1980	1979	1978
Notes:			
(1) Represents a direct charge for costs associated with computer software	—	—	$ (69)
(2) Amortization of plant acquisition adjustment	$ (20)	$ (19)	$ (20)
(3) Represents purchase of Citizens Light & Power Company distribution system	—	—	$ 430
(4) Represents accumulated expenses associated with Ark-Mo/AP&L merger	$ 38	$ 87	—
* Includes cost of nuclear fuel	—	$20,314	$ 785
** Includes cost of nuclear fuel (sold in 1978 to SFI)	—	—	$13,532
*** Sales included the following:			
Sale and leaseback transactions	$16,416	$20,314	—
Book value of utility plant sold	934	34,199	—
Total	$17,350	$54,513	—

LOUISIANA POWER AND LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1980, 1979 and 1978
(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debits (Credits) (Notes 1, 2 & 3)	Balance at End of Period
Year ended December 31, 1980					
Electric Utility Plant:					
Intangible	$ 63	—	—	—	$ 63
Production	483,180	$ 15,684	$ 75	$ 6,302	505,091
Transmission	163,712	3,817	106	201	167,624
Distribution	511,071	43,785	5,638	3,465	552,683
General	42,523	741	14,785	163	28,642
Leased to others	5,144	—	—	—	5,144
Plant held for future use	4,599	—	—	—	4,599
Plant purchased or sold	25,481	4,141	—	(5,937)	23,685
Construction Work in Progress	831,837	198,508	—	—	1,030,345
Nuclear Fuel	—	15,175	—	—	15,175
Plant Acquisition Adjustments	1,496	(19)	—	(107)	1,370
Total Utility Plant	$2,069,106	$281,832	$20,604	$ 4,087	$2,334,421
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)	1,621
Total Utility Plant	$1,509,785	$300,618	$18,645	$ 1,194	$1,792,952

Notes:

	1980	1979	1978
(1) Transfer of gross assets from plant purchased or sold to other functional groups of accounts	$10,131	—	$ 2,917
(2) Transfers among functional groups of accounts	—	$ 8	—
(3) Transfer of the balance in plant purchased or sold to appropriate accounts	$ 4,194	—	$ 1,296
Amortization of plant acquisition adjustments	(107)	$(125)	(102)
Total	$ 4,087	$(125)	$ 1,194
* Includes cost of nuclear fuel	—	—	$ 568
** Includes cost of nuclear fuel ($4,834 sold to SFI in 1978)	—	—	$13,044

MISSISSIPPI POWER & LIGHT COMPANY

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost (Note 1)	Retirements or Sales	Other Changes—Debits (Credits) (Notes 2-4)	Balance at End of Period
Year ended December 31, 1980					
Electric Utility Plant:					
Intangible	$ 34	—	—	—	$ 34
Production	352,658	$ 2,483	$ 58	$ 1	355,084
Transmission	149,887	22,261	364	26	171,810
Distribution	201,361	13,371	2,669	(28)	212,035
General	17,094	1,962	450	1	18,607
Plant held for future use	3,270	46	—	—	3,316
Construction Work in Progress	25,913	(8,211)	—	—	17,702
Plant Acquisition Adjustments	2,406	—	—	(182)	2.224
Total Utility Plant	$752,623	$31,912	$3,541	$(182)	$780,812
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:

	1980	1979	1978
(1) Represents increase of $31.912, $33,660 and $24,728 less transfers to plant in service of $40.123, $18,567 and $29,567 in 1980, 1979 and 1978. respectively	$(8,211)	$15,093	$(4,840)
(2) Transfer among functional groups of accounts	$ 28	$ 10	$ 3
(3) Amortization of plant acquisition adjustments	$ (182)	$ (182)	$ (181)
(4) Adjustment to capital lease	—	—	$ (54)

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE V—UTILITY PLANT

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debits (Credits) (Note 1)	Balance at End of Period
Year ended December 31, 1980					
Electric Utility Plant:					
Production	$131,290	$ 6,103	$1,488	$ 11	$135,916
Transmission	33,679	1,847	22	—	35,504
Distribution	135,246	7,100	1,001	—	141,345
General	17,883	527	290	(9)	18,111
Plant held for future use	279	—	—	—	279
Natural Gas:					
Transmission	6,295	30	—	—	6,325
Distribution	57,900	2,424	301	—	60,023
General	5,577	123	175	—	5,525
Transit:					
Land	135	—	—	—	135
Way and structures	4,245	141	1	—	4,385
Revenue equipment	11,817	—	1,580	—	10,237
General	2,852	68	140	(2)	2,778
Construction Work in Progress	4,785	(1,370)	—	—	3,415
Total Utility Plant	$411,983	$16,993	$4,998	—	$423,978
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

(Continued on next page)

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE V—UTILITY PLANT—(Continued)

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debits (Credits) (Note 1)	Balance at End of Period
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:

	1980	1979	1978
(1) Transfers among functional groups of accounts	$11	$ 6	$51

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Year Ended December 31, 1980

(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	$ 121	$ 63	—	—	—	$ 184
Production	462,596	68,695	$1,161	$ 1,423	$ 2,682	533,711
Transmission	164,787	15,417	—	2,413	79	177,870
Distribution	419,791	49,922	—	10,585	980	460,108
General	41,367	3,306	1,394	(10,635)	(16,990)	39,712
Leased to others	2,578	346	—	—	—	2,924
Natural Gas:						
Intangible	155	69	—	—	—	224
Production	(5)	5	—	—	—	—
Storage	1,373	212	—	—	—	1,585
Transmission	3,994	833	—	3	50	4,874
Distribution	27,926	2,148	—	409	11	29,676
General	2,747	211	107	258	56	2,863
Transit:						
Way and structures	1,475	94	—	2	—	1,567
Revenue equipment	9,599	521	—	1,581	—	8,539
General	660	153	—	125	—	688
Total	$1,139,164	$141,995	$2,662	$ 6,164	$(13,132)	$1,264,525
Accumulated depreciation of non-utility property	$ 154	$ 38	—	$ 8	—	$ 184

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	$ 1,501
Amortization of pipelines charged to fuel expense	904
Interest on decommissioning of ANO	257
Total	$ 2,662

(3)

Transfer of reserve from plant purchased or sold	$ 4,223
Transfer of reserve applicable to property transferred between departments and subsidiary	33
Accumulated depreciation on equipment purchased under a lease-purchase agreement	61
Transfer of gain on sale from reserve to other accounts	(17,776)
Adjustment for depreciation recorded on buildings sold in 1980	(24)
Salvage less cost of removal on property retired	351
Total	$ (13,132)

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
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

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 company owned pipelines charged to fuel expense	1,890
Total	$ 4,596

(3)

Accrued depreciation on acquisition of Citizens Light and 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-purchased 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, 1980, 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, 1980						
Accumulated depreciation of utility plant:						
Electric:						
Production	$149,453	$35,035	$ 257	$ (173)	$ (2)	$184,916
Transmission	58,778	6,121	—	2,545	7	62,361
Distribution	148,657	17,725	—	3,853	(7)	162,522
General	7,559	593	7	601	(22)	7,636
Total	$364,447	$59,574	$ 264	$ 6,826	$ (24)	$417,435
Accumulated depreciation of non-utility property	$ 29	$ 6	—	$ 8	—	$ 27
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:

	1980	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	$ 7	$ 45	$267
Interest on decommissioning of ANO	257	—	—
Total	$264	$ 45	$267
(2) Accrued depreciation on acquisition of Citizens Light & Power Company	—	—	$282
(3) Adjustment for depreciation recorded on buildings sold in 1980 and 1976	$(24)	—	$ 23

LOUISIANA POWER & LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1980, 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, 1980						
Accumulated depreciation of utility plant:						
Electric:						
Production	$131,815	$15,184	—	$ (82)	$ 2,684	$149,765
Transmission	50,742	4,576	—	(328)	13	55,659
Distribution	148,631	20,881	—	3,279	938	167,171
General	20,228	1,526	$1,140	(12,117)	(17,188)	17,823
Leased to others	2,578	346	—	—	—	2,924
Total	$353,994	$42,513	$1,140	$ (9,248)	$(13,553)	$393,342
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:

	1980	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	$ 1,140	$1,482	$1,688
(2) Transfer of reserve from plant purchased or sold	$ 4,223	$ (79)	$1,349
Accumulated depreciation on property acquired	—	8	—
Transfer of gain on sale from reserve to other accounts	(17,776)	—	—
Total	$(13,553)	$ (71)	$1,349

MISSISSIPPI POWER & LIGHT COMPANY

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1980, 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, 1980						
Accumulated depreciation of utility plant:						
Electric:						
Production	$114,518	$13,943	$ 904	$ 59	—	$129,306
Transmission	35,067	2,963	—	333	$ 61	37,758
Distribution	62,790	5,453	—	1,991	—	66,252
General	6,101	313	71	267	—	6,218
Total	$218,476	$22,672	$ 975	$ 2,650	$ 61	$239,534
Accumulated depreciation of non-utility property	$ 100	$ 25	—	—	—	$ 125
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:

	1980	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	$ 71	$ 86	$ 96
Amortization of pipelines charged to fuel expense	904	1,096	1,890
Total	$975	$1,182	$1,986
(2) Accumulated depreciation on equipment purchased under a lease-purchase agreement	$ 61	$ 59	$ 89

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY

Years Ended December 31, 1980, 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, 1980						
Accumulated depreciation of utility plant:						
Electric:						
Production	$ 61,938	$ 4,268	—	$ 1,618	—	$ 64,588
Transmission	12,847	1,081	—	(218)	—	14,146
Distribution	45,938	4,457	—	910	—	49,485
General	5,991	684	$ 53	246	—	6,482
Natural Gas:						
Transmission	394	635	—	—	—	1,029
Distribution	21,282	1,685	—	385	—	22,582
General	2,169	161	66	155	—	2,241
Transit:						
Way and structures	1,475	94	—	2	—	1,567
Revenue equipment	9,599	521	—	1,581	—	8,539
General	660	153	—	125	—	688
Total	$162,293	$13,739	$ 119	$ 4,804	—	$171,347
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

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY—(Continued)

Years Ended December 31, 1980, 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, 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:

	1980	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..	$119	$91	$62

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 1980, 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, 1980					
Accumulated Provisions Deducted from Assets—					
Doubtful Accounts	$ 1,800	$ 4,378	$ 3	$ 3,928	$ 2,253
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$11,858*	$ 6,167	$ 307	$ 2,154	$16,178*
Injuries and damages (Notes 3 and 4)	6,122	5,396	743	5,360	6,901
Pensions and benefits (Note 5)	—	1,639	—	98	1,541
Total	$17,980	$13,202	$ 1,050	$ 7,612	$24,620
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	$ 8,268	$ 2,839	—	$ 3,161	$ 7,947
Injuries and damages (Note 3)	4,038	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.

(5) Pensions and benefits reserve is provided to account for provisions made by AP&L for group medical insurance coverage on its employees up to a limit as defined in the policy with the carrier.

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* Reclassification of the property insurance reserve balances for two subsidiaries in 1979 and for one subsidiary in 1980 have been made to deferred debits for financial statement presentation.

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 1980, 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, 1980					
Accumulated Provisions Deducted from Assets— Doubtful Accounts	$ 924	$ 1,572	—	$ 1,100	$ 1,396
Reserves Not Deducted from Assets:					
Property insurance (Note 3)	$(1,413)*	$ 3,161	—	$ 923	$ 825
Injuries and damages (Notes 2 and 3)	604	1,853	—	1,685	772
Pension and benefits (Note 4)	—	1,639	—	98	1,541
Total	$ (809)	$ 6,653	—	$ 2,706	$ 3,138
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.

(4) Pensions and benefits reserve is provided to account for provisions made by AP&L for group medical insurance coverage on its employees up to a limit as defined in the policy with the carrier.

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* Reclassified to deferred debits for the purpose of financial statement presentation.

LOUISIANA POWER & LIGHT COMPANY

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 1980, 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, 1980					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 135	$ 1,093	$ 3	$ 1,096	$ 135
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$ 5,792	$ 600	—	$ 487	$ 5,905
Injuries and damages (Notes 3 and 4)	1,130	639	$ 439	1,115	1,093
Total	$ 6,922	$ 1,239	$ 439	$ 1,602	$ 6,998
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 VIII—VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 1980, 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 Others Accounts	Deductions from Reserves (Note 1)	Balance at End of Period
Year ended December 31, 1980					
Accumulated Provisions Deducted from Assets—Doubtful Accounts	$ 154	$ 659	—	$ 659	$ 154
Reserves Not Deducted from Assets:					
Property insurance (Note 3)	$ 1,364	$ 1,944	—	$ 100	$ 3,208
Injuries and damages (Note 2)	1,076	617	—	647	1,046
Total	$ 2,440	$ 2,561	—	$ 747	$ 4,254
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 (Note 2)	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 property insurance reserves which resulted in no effect on net income.

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 1980, 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, 1980					
Accumulated Provisions Deducted from Assets— Doubtful Accounts	$ 500	$ 823	—	$ 848	$ 475
Reserves Not Deducted from Assets:					
Property insurance (Note 4)	$ 6,181	$ 360	$ 307	$ 576	$ 6,272
Injuries and damages (Notes 3 and 4)	3,080	2,230	304	1,874	3,740
Total	$ 9,261	$ 2,590	$ 611	$ 2,450	$10,012
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.

MIDDLE SOUTH UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B
Item	Charged to costs and expenses (Note 1)
Year Ended December 31, 1980	
Taxes, other than payroll and income taxes:	
Ad Valorem	$59,961
State and city franchise	29,741
Other	9,411
Total	$99,113
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	$54,388
State and city franchise	25,639
Other	6,619
Total	$86,646
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	$48,139
State and city franchise	22,853
Other	7,527
Total	$78,519

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(1) Taxes other than payroll and 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 for financial statement presentation.

MIDDLE SOUTH UTILITIES, INC.

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A Item	Column B Charged to costs and expenses
Year Ended December 31, 1980	
Taxes, other tnan payroll and income taxes:	
Ad Valorem	—
State and city franchise	—
Other	$ 3
Total	$ 3
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 1,251
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	—
State and city franchise	—
Other	$ 3
Total	$ 3
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 762
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	—
State and city franchise	—
Other	$ 3
Total	$ 3
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 544

ARKANSAS POWER & LIGHT COMPANY

SCHEDULE X--SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A Item	Column B Charged to costs and expenses (Note 1)
Year Ended December 31, 1980	
Taxes, other than payroll and income taxes:	
Ad Valorem	$22,443
State and city franchise	9,762
Other	2,629
Total	$34,834
Technical services, consultation and assistance rendered at cost under contract with MSS	$10,629
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	$20,820
State and city franchise	8,901
Other	1,529
Total	$31,250
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 8,382
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	$19,045
State and city franchise	8,161
Other	1,284
Total	$28,490
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 5,358

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(1) Taxes other than payroll and 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.

LOUISIANA POWER AND LIGHT COMPANY

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A	Column B
Item	Charged to costs and expenses (Note 1)
Year Ended December 31, 1980	
Taxes, other than payroll and income taxes:	
Ad Valorem	$11,138
State and city franchise	5,611
Other	1,890
Total	$18,639
Technical services, consultation and assistance rendered at cost under contract with MSS	$10,347
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 9,732
State and city franchise	4,368
Other	2,151
Total	$16,251
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 8,534
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 9,123
State and city franchise	3,643
Other	3,003
Total	$15,769
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 4,825

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(1) Taxes other than payroll and 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.

MISSISSIPPI POWER AND LIGHT COMPANY

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A Item	Column B Charged to costs and expenses (Note 1)
Year Ended December 31, 1980	
Taxes, other than payroll and income taxes:	
Ad Valorem	$10,855
State and city franchise	4,502
Other	1,748
Total	$17,105
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 5,546
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	$10,345
State and city franchise	3,707
Other	1,112
Total	$15,164
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 4,771
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 9,768
State and city franchise	3,406
Other	814
Total	$13,988
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 2,978

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(1) Taxes other than payroll and 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.

NEW ORLEANS PUBLIC SERVICE INC.

SCHEDULE X—SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years Ended December 31, 1980, 1979 and 1978

(In Thousands)

Column A Item	Column B Charged to costs and expenses (Note 1)
Year Ended December 31, 1980	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 4,868
State and city franchise	8,322
Other	453
Total	$13,643
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 3,628
Year Ended December 31, 1979	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 4,671
State and city franchise	7,560
Other	422
Total	$12,653
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 2,994
Year Ended December 31, 1978	
Taxes, other than payroll and income taxes:	
Ad Valorem	$ 3,127
State and city franchise	6,737
Other	495
Total	$10,359
Technical services, consultation and assistance rendered at cost under contract with MSS	$ 1,907

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(1) Taxes other than payroll and 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.

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the Commission, respectively, as the exhibits and in the file numbers indicated and are incorporated herein by reference.

(3) Articles of Incorporation and By-Laws

MSU

(a) 1—Restated Articles of Incorporation of MSU, as currently in effect (9(a)-1 to Form 10-Q for the Quarter ended June 30, 1979, in 1-3517).

(a) 2—By-Laws of MSU, as amended and currently in effect (9(a)-2 to Form 10-Q for the Quarter ended June 30, 1979, in 1-3517).

AP&L

(b) 1—Agreement of Consolidation or Merger of AP&L, as amended through July 16, 1975 (A-1 in 70-5744).

(b) 2—Statement of Creation of the 11.04% Preferred Stock of AP&L (C-1 to Rule 24 Certificate in 70-5744).

(b) 3—Amendments to Agreement of Consolidation or Merger of AP&L adopted June 17, 1976 (A-1c to Rule 24 Certificate in 70-5818).

(b) 4—Statement of Creation of the 8.84% Preferred Stock of AP&L (C-1 to Rule 24 Certificate in 70-5923).

(b) 5—Statement of Creation of the 10.40% Preferred Stock of AP&L (C-2 to Rule 24 Certificate in 70-6246).

(b) 6—Statement of Creation of the 9.92% Preferred Stock of AP&L (C-1 to Rule 24 Certificate in 70-6308).

(b) 7—Statement of Creation of the 13.28% Preferred Stock of AP&L (C-1 to Rule 24 Certificate in 70-6386).

*(b) 8—By-Laws of AP&L as presently in effect.

LP&L

(c) 1—Restated Articles of Incorporation of LP&L as executed February 21, 1980 (A-1 in 70-6491).

(c) 2—Articles of Amendment to LP&L's Restated Articles of Incorporation as executed October 28, 1980 (C-1 to Rule 24 Certificate in 70-6491).

(c) 3—By-Laws of LP&L as amended and presently in effect (A-3 in 70-6553).

MP&L

(d) 1—Restated Articles of Incorporation of MP&L, as filed in the office of the Secretary of State of the State of Mississippi on May 27, 1976 (Item 14(b)(5) of Form 8-K for the month of May, 1976).

(d) 2—By-Laws of MP&L as presently in effect (A-1 in 70-6550).

NOPSI

(e) 1—Restated Articles of Incorporation of NOPSI executed September 30, 1969 (A-1 in 70-6392), as amended by Articles of Amendment executed February 27, 1980 (A-2(a) to Rule 24 Certificate in 70-6392) and as amended by Articles of Amendment executed March 19, 1980 (C-1 to Rule 24 Certificate in 70-6404).

(e) 2—By-Laws of NOPSI as presently in effect (A-1 in 70-6392).

(4) Instruments Defining Rights of Security Holders, Including Indentures

MSU

(a) 1—Credit Agreement, dated as of June 27, 1980 (B-1 to Rule 24 Certificate, dated June 27, 1980 in 70-6450).

(a) 2—See (4)(b) through (4)(e) below for instruments defining the rights of holders of long-term debt of AP&L, LP&L, MP&L and NOPSI.

(a) 3—Amended and Restated Bank Loan Agreement, dated as of June 30, 1977, among MSE, the Banks named in Schedule 1 thereto and Manufacturers Hanover Trust Company, as agent for the Banks (A to Rule 24 Certificate, dated June 30, 1977 in 70-5399), as amended March 20, 1980 (A to Rule 24 Certificate in 70-5399).

(a) 4—Mortgage and Deed of Trust, dated as of June 15, 1977 from MSE to United States Trust Company of New York and Malcolm J. Hood, Trustees, as supplemented by two Supplemental Indentures (B and C to Rule 24 Certificate dated June 30, 1977 in 70-5890 (first) and B to Rule 24 Certificate in 70-6259 (second)).

(a) 5—Loan Agreement, dated as of December 8, 1980, between SFI, AP&L, LP&L, MP&L, NOPSI and Citibank, N.A. (A to Rule 24 Certificate in File No. 70-6519).

(a) 6—Loan Agreement, dated as of December 20, 1972, between SFI, AP&L, LP&L, MP&L, NOPSI and The First National Bank of Chicago (B-3 to Rule 24 Certificate in File No. 70-5274).

AP&L

(b) —Mortgage and Deed of Trust, as amended by thirty-three Supplemental Indentures (7(d) in 2-5463 (Mortgage); 7(b) in 2-7121 (First); 7(c) in 2-7605 (Second); 7(d) in 2-8100 (Third); 7(a)-4 in 2-8482 (Fourth); 7(a)-5 in 2-9149 (Fifth); 4(a)-6 in 2-9789 (Sixth); 4(a)-7 in 2-10261 (Seventh); 4(a)-8 in 2-11043 (Eighth); 2(b)-9 in 211468 (Ninth); 2(b)-10 in 2-15767 (Tenth); D in 70-3952 (Eleventh); D in 70-4099 (Twelfth); 4(d) in 2-23185 (Thirteenth); 2(c) in 2-24414 (Fourteenth); 2(c) in 2-25913 (Fifteenth); 2(c) in 2-28869 (Sixteenth); 2(d) in 2-28869 (Seventeenth); 2(c) in 2-35107 (Eighteenth); 2(d) in 2-36646 (Nineteenth); 2(c) in 2-39253 (Twentieth); 2(c) in 2-41080 (Twenty-first); C-1 to Rule 24 Certificate in 70-5151 (Twenty-second); C-1 to Rule 24 Certificate in 70-5257 (Twenty-third); C to Rule 24 Certificate in 70-5343 (Twenty-fourth); C-1 to Rule 24 Certificate in 70-5404 (Twenty-fifth); C to Rule 24 Certificate in 70-5502 (Twenty-sixth); C-1 to Rule 24 Certificate in 70-5556 (Twenty-seventh); C-1 to Rule 24 Certificate in 70-5693 (Twenty-eighth); C-1 to Rule 24 Certificate in 70-6078 (Twenty-ninth); C-1 to Rule 24 Certificate in 70-6174 (Thirtieth); C-1 to Rule 24 Certificate in 70-6246 (Thirty-first); C-1 to Rule 24 Certificate in 70-6498 (Thirty-second); and A-4b-2 to Rule 24 Certificate in 70-6326 (Thirty-third)).

LP&L

(c) —Mortgage and Deed of Trust, as amended by twenty-eight Supplemental Indentures (7(d) in 2-5317 (Mortgage); 7(b) in 2-7408 (First); 7(c) in 2-8636 (Second); 4(b)-3 in 2-10412 (Third); 4(b)-4 in 2-12264 (Fourth); 2(b)-5 in 2-12936 (Fifth); D in 70-3862 (Sixth); 2(b)-7 in 2-22340 (Seventh); 2(c) in 2-24429 (Eighth); 4(c)-9 in 2-25801 (Ninth); 4(c)-10 in 2-26911 (Tenth); 2(c) in 2-28123 (Eleventh); 2(c) in 2-34659 (Twelfth); C to Rule 24 Certificate in 70-4793 (Thirteenth); 2(b)-2 in 2-38378 (Fourteenth); 2(b)-2 in 2-39437 (Fifteenth); 2(b)-2 in 2-42523 (Sixteenth); C to Rule 24 Certificate in 70-5242 (Seventeenth); C to Rule 24 Certificate in 70-5330 (Eighteenth); C-1 to Rule 24 Certificate in 70-5449 (Nineteenth); C-1 to Rule 24 Certificate in 70-5550 (Twentieth); A-6(a) to Rule 24 Certificate in 70-5598 (Twenty-first); C-1 to Rule 24 Certificate in 70-5711 (Twenty-second); C-1 to Rule 24 Certificate in 70-5919 (Twenty-third); C-1 to Rule 24 Certificate in 70-6102 (Twenty-fourth); C-1 to Rule 24 Certificate in 70-6169 (Twenty-fifth); C-1 to Rule 24 Certificate in 70-6278 (Twenty-sixth); C-1 to Rule 24 Certificate in 70-6355 (Twenty-seventh) and C-1 to Rule 24 Certificate in 70-6508 (Twenty-eighth)).

MP&L

(d) —Mortgage and Deed of Trust, dated as of September 1, 1944, as amended by seventeen Supplemental Indentures (7(d) in 2-5437 (Mortgage); 7(b) in 2-7051 (First); 7(c) in 2-7763 (Second); 7(d) in 2-8484 (Third); 4(b)-4 in 2-10059 (Fourth); 2(b)-5 in 2-13942 (Fifth); A-11 to Form U-1 in 70-4116 (Sixth); 2(b)-7 in 2-23084 (Seventh); 4(c)-9 in 2-24234 (Eighth); 2(b)-9(a) in 2-25502 (Ninth); A-11(a) to Form U-1 in 70-4803 (Tenth); A-12(a) to Form U-1 in 70-4892 (Eleventh); A-13(a) to Form U-1 in 70-5165 (Twelfth); A-14(a) to Form U-1 in 70-5286 Thirteenth); A-15(a) to Form U-1 in 70-5371 (Fourteenth); A-16(a) to Form U-1 in 70-5417 (Fifteenth); A-17 to Form U-1 in 70-5484 (Sixteenth); 2(a)-19 in 2-54234 (Seventeenth)).

NOPSI

(e) —Mortgage and Deed of Trust, as amended by ten Supplemental Indentures (B-3 in 2-5411 (Mortgage); 7(b) in 2-7674 (First); 4(a)-2 in 2-10126 (Second); 4(b) in 2-12136 (Third); 2(b)-4 in 2-17959 (Fourth); 2(b)-5 in 2-19807 (Fifth); D to Rule 24 Certificate in 70-4023 (Sixth); 2(c) in 2-24523 (Seventh); 4(c)-9 in 2-26031 (Eighth); 2(a)-3 in 2-50438 (Ninth); and 2(a)-3 in 2-62575 (Tenth)).

(10) Contracts

MSU

(a) 1—Agreement among certain Middle South System companies, relating to System Planning and Development and Intra-System Transactions, dated April 16, 1973 (5(a)-1 in 2-49306).

(a) 2—Revised Service Schedules MSS-1 and MSS-2, effective July 2, 1973, to Agreement among certain Middle South System companies, dated April 16, 1973 (5(a)-1(a) in 2-50187).

(a) 3—Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-2 in 2-41080).

(a) 4—Amendment, dated February 10, 1971, to Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-4 in 2-41080).

(a) 5—Middle South Utilities System Agency Coordination Agreement, dated December 11, 1970 (5(a)-3 in 2-41080).

(a) 6—Form of Service Agreement between MSS and each of the other companies in the Middle South System (D in 37-63).

(a) 7—Form of Amendment dated as of January 1, 1972, to Service Agreement (A to Notice, dated October 14, 1971 in 37-63).

(a) 8—Availability Agreement among MSE and certain other Middle South System companies, dated June 21, 1974 (B to Rule 24 Certificate, dated June 24, 1974 in 70-5399).

(a) 9—First Amendment to Availability Agreement, dated as of June 30, 1977 (B to Rule 24 Certificate, dated June 24, 1977 in 70-5399).

(a) 10—First Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with Manufacturers Hanover Trust Company, as Agent (B to exhibit A to Rule 24 Certificate, dated June 24, 1977 in 70-5399).

(a) 11—Second Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with United States Trust Company and Malcolm J. Hood, as Trustees (C to exhibit A to Rule 24 Certificate, dated June 30, 1977 in 70-5890).

(a) 12—Third Assignment of Availability Agreement, Consent and Agreement, dated as of January 1, 1980, with United States Trust Company and Malcolm J. Hood, as Trustees (5(a)-11 in 2-66638).

(a) 13—Fourth Assignment of Availability Agreement, Consent and Agreement, dated as of March 20, 1980, with Manufacturers Hanover Trust Company, as Agent (B to Rule 24 Certificate dated March 28, 1980 in 70-5399).

(a) 14—Capital Funds Agreement, between the Company and Middle South Energy, Inc., dated June 21, 1974 (C to Rule 24 Certificate, dated June 24, 1974 in 70-5399).

(a) 15—First Supplementary Capital Funds Agreement and Assignment, dated as of June 30, 1977 among MSU, MSE, and Manufacturers-Hanover Trust Company, as Agent for various banks (D to Rule 24 Certificate, dated June 30, 1977 in 70-5399).

(a) 16—Second Supplementary Capital Funds Agreement and Assignment, dated as of June 30, 1977, among MSU, MSE and United States Trust Company of New York and Malcolm J. Hood, as Trustees (E to Rule 24 Certificate, dated June 30, 1977 in 70-5890).

(a) 17—Third Supplementary Capital Funds Agreement and Assignment, dated as of January 1, 1980, among MSU, MSE and United States Trust Company of New York and Malcolm J. Hood, as Trustees (D to Rule 24 Certificate, dated July 9, 1980 in 70-6259).

(a) 18—Fourth Supplementary Capital Funds Agreement and Assignment, dated as of March 20, 1980, among MSU, MSE and Manufacturers Hanover Trust Company, as Agent for various banks (C to Rule 24 Certificate, dated March 28, 1980 in 70-5399).

(a) 19—Agreement dated January 29, 1952, for the sale of electric power and energy between AP&L, the United States of America (SPA) and Reynolds, together with supplements, dated March 14, 1952, April 10, 1952, April 15, 1952, April 17, 1952, April 23, 1952 and A 25, 1952 (13(d) in 2-9789).

(a) 20—Supplemental Agreement, dated August 20, 1952, between AP&L, the United States of America (SPA) and Reynolds (13(d)-1 in 2-10261).

(a) 21—Supplemental Agreement, dated August 27, 1952, between AP&L, the United States of America (SPA) and Reynolds (13(d)-2 in 2-10261).

(a) 22—Contract, dated May 31, 1966, between AP&L and Reynolds (13(c)-1 in 2-25465).

(a) 23—Amendment of June 2, 1969 to Reynolds Contract, dated May 31, 1966 (5(c)-2 in 2-41080).

(a) 24—Amendment of May 26, 1970 to Reynolds Contract, dated May 31, 1966 (5(c)-3 in 2-41080).

(a) 25—Amendment effective as of July 8, 1977 to Reynolds Contract, dated May 31, 1966 (5(c)-4 in 2-60233).

(a) 26—South Central Electric Companies-TVA Diversity Power Exchange Arrangements with exhibits and related documents as compiled December 20, 1962 (4(b) in 2-21005).

(a) 27—Amendments of July 1, 1963, to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(c) in 2-22340).

(a) 28—Amendment of April 11, 1972, to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(b)-3 in 2-45916).

(a) 29—Southwest Power Pool Coordination Agreement, dated as of December 17, 1969, Amendment to Southwest Power Pool Coordination Agreement dated December 17, 1969, and Southwest Power Pool Amendatory Agreement, dated as of November 19, 1970 (5(n)-1 in 2-41080).

(a) 30—Coordination Agreement, dated as of February 10, 1964, and Memorandum of Agreement, dated June 24, 1971, regarding Scheduling of Diversity Capacity and Energy, among various other South Central Electric Companies (5(n)-2 in 2-41080).

(a) 31—Reliability Coordination Agreement between TVA and AP&L, LP&L, MP&L, NOPSI and MSS, dated as of November 21, 1968 (5(n)-3 in 2-41080).

(a) 32—Reliability Coordination Agreement between Middle South System companies and Southern companies, dated as of November 1, 1967 (5(n)-4 in 2-41080).

*(a) 33—Agreement between MSU and Donald J. Winfield regarding consulting services.

AP&L

(b) 1—Agreement among AP&L and certain other Middle South System companies, relating to System Planning and Development and Intra-System Transactions, dated April 16, 1973 (5(a)-1(a) in 2-49306).

(b) 2—Revised Service Schedules MSS-1 and MSS-2, effective July 2, 1973, to Agreement among AP&L and certain other Middle South System companies, dated April 16, 1973 (5(a)-1(a) in 2-50187).

(b) 3—Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-2 in 2-41080).

(b) 4—Amendment, dated February 10, 1971, to Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-4 in 2-41080).

(b) 5—Middle South Utilities System Agency Coordination Agreement, dated December 11, 1970 (5(a)-3 in 2-41080).

(b) 6—Service Agreement with MSS, dated as of April 1. 1963 (5(a)-5 in 2-41080).

(b) 7—Amendment, dated January 1, 1972, to Service Agreement with MSS (5(a)-6 in 2-43175).

(b) 8—Availability Agreement among MSE and certain other Middle South System companies, dated June 21, 1974 (B to Rule 24 Certificate, dated June 24, 1974 in 70-5399).

(b) 9—First Amendment to Availability Agreement. dated June 30, 1977 (B to Rule 24 Certificate, dated June 24, 1977 in 70-5399).

(b) 10—First Assignment of Availability Agreement, Consent and Agreement, dated as of June 30. 1977, with Manufacturers Hanover Trust Company, as Agent (B to exhibit A to Rule 24 Certificate, dated June 24, 1977 in 70-5399).

(b) 11—Second Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with United States Trust Company and Malcolm J. Hood, as Trustees (C to exhibit A to Rule 24 Certificate, dated June 30, 1977 in 70-5890).

(b) 12—Third Assignment of Availability Agreement, Consent and Agreement, dated as of January 1, 1980, with United States Trust Company and Malcolm J. Hood, as Trustees (5(a)-11 in 2-66638).

(b) 13—Fourth Assignment of Availability Agreement, Consent and Agreement, dated as of March 20, 1980, with Manufacturers Hanover Trust Company, as Agent (B to Rule 24 Certificate dated March 28, 1980 in 70-5399).

(b) 14—Agreement dated January 29, 1952, for the sale of electric power and energy between AP&L, the United States of America (SPA) and Reynolds, together with supplements, dated March 14, 1952, April 10, 1952, April 15, 1952, April 17, 1952, April 23, 1952 and April 25, 1952 (13(d) in 2-97[illegible]9).

(b) 15—Supplemental Agreement, dated August 20, 1952, between AP&L, the United States of America (SPA) and Reynolds (13(d)-1 in 2-10261).

(b) 16—Supplemental Agreement, dated August 27, 1952 between AP&L, the United States of America (SPA) and Reynolds (13(d)-2 in 2-10261).

(b) 17—Contract, dated May 31, 1966, between AP&L and Reynolds (13(c)-1 in 2-25465).

(b) 18—Amendment of June 2, 1969 to Reynolds Contract, dated May 31, 1966 (5(c)-2 in 2-41080).

(b) 19—Amendment of May 26, 1970 to Reynolds Contract, dated May 31, 1966 (5(c)-3 in 2-41080).

(b) 20—Amendment effective as of July 8, 1977 to Reynolds Contract, dated May 31, 1966 (5(c)-4 in 2-60233).

(b) 21—Agreement, dated August 20, 1954, between AP&L and the United States of America (SPA) (13(h) in 2-11467).

(b) 22—Amendment, dated April 19, 1955, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-2 in 2-41080).

(b) 23—Amendment, dated January 3, 1964, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-3 in 2-41080).

(b) 24—Amendment, dated September 5, 1968, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-4 in 2-41080).

(b) 25—Amendment, dated November 19, 1970, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-5 in 2-41080).

(b) 26—Amendment, dated July 18, 1961, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-6 in 2-41080).

(b) 27—Amendment, dated December 27, 1961, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-7 in 2-41080).

(b) 28—Amendment, dated January 25, 1958, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-8 in 2-41080).

(b) 29—Amendment, dated October 14, 1971, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-9 in 2-43175).

(b) 30—Amendment, dated January 10, 1977, to the United States of America (SPA) Contract, dated August 20, 1954 (5(d)-10 in 2-60233).

(b) 31—Agreement, dated May 14, 1971, between AP&L and the United States of America (SPA) (5(e) in 2-41080).

(b) 32—Amendment, dated January 10, 1977, to the United States of America (SPA) Contract, dated May 14, 1971 (5(e)-1 in 2-60233).

(b) 33—South Central Electric Companies-TVA Diversity Power Exchange Arrangements with exhibits and related documents as compiled December 20, 1962 (4(b) in 2-21005).

(b) 34—Amendments of July 1, 1963, to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(c) in 2-22340).

(b) 35—Agreement, dated November 26, 1963, between AP&L and AECC (13(g) in 2-22741).

(b) 36—Amendments, dated May 16, 1966, September 29, 1966, November 9, 1966, March 3, 1967, June 8, 1967, September 11, 1967, December 14, 1967, February 11, 1969, June 25, 1969, April 27, 1970, May 8, 1970, and January 19, 1971, to AECC Contract dated November 26, 1963 (5(h)-1 in 2-41080).

(b) 37—Amendment, dated July 30, 1971, to the AECC Contract, dated November 26, 1963 (5(h)-2 in 2-43175).

(b) 38—Amendment, dated April 20, 1972, to the AECC Contract, dated November 26, 1963 (5(h)-3 in 2-46152).

(b) 39—Amendment, dated November 2, 1972, to the AECC Contract, dated November 26, 1963 (5(h)-4 in 2-47975).

(b) 40—Amendment, dated May 9, 1974, to the AECC Contract, dated November 26, 1963 (5(h)-5 in 2-53844).

(b) 41—Amendment, dated January 13, 1975, to the AECC Contract, dated November 26, 1963 (5(h)-6 in 2-53844).

(b) 42—Amendment, dated December 16, 1975, to the AECC Contract, dated November 26, 1963 (5(h)-7 in 2-57628).

(b) 43—Amendment, dated January 4, 1977, to the AECC Contract, dated November 26, 1963 (5(h)-8 in 2-60233).

(b) 44—Power Coordination, Interchange, and Transmission Agreement dated April 20, 1972, between AP&L and AECC (5(i) in 2-46152).

(b) 45—Amendment, dated November 2, 1972, to the Power Coordination, Interchange, and Transmission Agreement dated April 20, 1972 (5(i)-1 in 2-47975).

(b) 46—Amendment, dated April 25, 1973, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-2 in 2-49306).

(b) 47—Amendment, dated May 9, 1974, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-3 in 2-53844).

(b) 48—Amendment, dated January 13, 1975, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-4 in 2-53844).

(b) 49—Amendment, dated May 22, 1975, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-5 in 2-54693).

(b) 50—Amendment, dated December 16, 1975, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-6 in 2-57628).

(b) 51—Amendment, dated January 4, 1977, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-7 in 2-60233).

(b) 52—Amendment, dated June 30, 1977, to the Power Coordination, Interchange, and Transmission Agreement, dated April 20, 1972 (5(i)-8 in 2-60233).

(b) 53—Interconnection Agreement, dated October 8, 1941, between AP&L and Empire District Electric Company, together with schedules in effect as of July 1, 1971 (5(j)-1 in 2-41080).

(b) 54—Interconnection Agreement, dated July 12, 1954 between AP&L and Oklahoma Gas & Electric Company, together with schedules in effect as of July 1, 1971 (5(j)-2 in 2-41080).

(b) 55—Interconnection Agreement, dated October 1, 1954, between AP&L and Southwestern Electric Company, together with schedules in effect as of July 1, 1971 (5(j)-3 in 2-41080).

(b) 56—Agreement, dated October 1, 1971, between AP&L and Ark-Mo (5(j)-4 in 2-43175).

(b 57—Agreement, dated December 14, 1972, between AP&L and Arkansas Louisiana Gas Company regarding peaking plant at Mablevale, Arkansas (5(k)-1 in 2-47975).

(b) 58—Agreement, dated December 14, 1972, between AP&L and Arkansas Louisiana Gas Company regarding electric generating plant designated as Lynch plant at North Little Rock, Arkansas (5(k)-2 in 2-47975).

(b) 59—Agreement, dated December 14, 1972, between AP&L and Arkansas Louisiana Gas Company regarding electric generating plant designated as Couch plant near Stamps, Arkansas (5(k)-3 in 2-47975).

(b) 60—Agreement, dated December 14, 1972, between [illegible]&L and Arkansas Louisiana Gas Company regarding electric generating plant designated as Ritchie Unit No. 1, No. 2 and Helena peaking plant at Helena, Arkansas (5(k)-4 in 2-47975).

(b) 61—Agreement, dated December 14, 1972, between AP&L and Arkansas Louisiana Gas Company regarding electric generating plant designated as Lake Catherine Unit Nos. 1, 2, 3 & 4 near Lake Catherine, Arkansas (5(k)-5 in 2-47975).

(b) 62—Contract, dated May 28, 1943, Amendment to Contract, dated July 21, 1949, and Supplement to Amendment to Contract, dated December 30, 1949, between AP&L and McKamie Gas Cleaning Company; Agreements, dated as of September 30, 1965, between AP&L and former stockholders of McKamie Gas Cleaning Company; and letter agreement, dated June 22, 1966, by Humble Oil & Refining Company accepted by AP&L June 24, 1966 (5(k)-7 in 2-41080).

(b) 63—Sales Contract, dated July 14, 1970, between AP&L and Kerr-McGee Corporation (5(1)-1 in 2-41080).

(b) 64—Amendment to Sales Contract, dated October 19, 1978, between AP&L and Kerr-McGee Nuclear Corporation (5-(1)-2 in 2-63192).

(b) 65—Life Storage Agreement dated October 19, 1978, between AP&L and Kerr-McGee Nuclear Corporation (5(1)-3 in 2-63192).

(b) 66—Agreement, dated April 3, 1972, between MSS and Gulf United Nuclear Fuels Corporation (5(1)-3 in 2-46152).

(b) 67—Agreement, dated April 25, 1947, Supplementary Agreement, dated April 6, 1966, and Amendatory Agreement, dated December 29, 1966, between AP&L and Southwestern Electric Power Company (formerly Southwestern Gas and Electric Company) (5(m)-1 in 2-41080).

(b) 68—Letter Agreement, dated April 21, 1967, accepted April 24, 1967, between AP&L and LP&L (5(m)-2 in 2-41080).

(b) 69—Operating Agreement between AP&L, Oklahoma Gas and Electric Company, and Southwestern Gas and Electric Company (now Southwestern Electric Power Company) dated December 9, 1947 (5(m)-3 in 2-41080).

(b) 70—Extension of Agreement and Indenture, dated September 6, 1977, between AP&L, Oklahoma Gas and Electric Company and Southwestern Electric Power Company (5(m)-4 in 2-63192).

(b) 71—Southwest Power Pool Coordination Agreement, dated as of December 17, 1969, Amendment to Southwest Power Pool Coordination Agreement, dated December 17, 1969, and Southwest Power Pool Amendatory Agreement, dated as of November 19, 1970 (5(n)-1 in 2-41080).

(b) 72—Coordination Agreement, dated as of February 10, 1964, and Memorandum of Agreement, dated June 24, 1971, regarding Scheduling of Diversity Capacity and Energy, among AP&L and other South Central Electric Companies (5(n)-2 in 2-41080).

(b) 73—Reliability Coordination Agreement between TVA and AP&L, LP&L, MP&L, NOPSI, and MSS, dated as of November 21, 1968 (5(n)-3 in 2-41080).

(b) 74—Reliability Coordination Agreement between Middle South System companies and Southern Companies, dated as of November 1, 1967 (5(n)-4 in 2-41080).

(b) 75—Coal Supply Agreement, dated as of June 14, 1973, between AP&L and Kerr-McGee Corporation (5(o)-2 in 2-47975).

(b) 76—Amended Coal Supply Agreement, dated September 21, 1978, between AP&L and Kerr-McGee Coal Corporation (5(o)-2 in 2-63192).

(b) 77—Nuclear Fuel Lease, dated as of June 25, 1974, as amended and restated as of August 31, 1978, between AP&L and Southwest Fuel Company (B-1(a) to Rule 24 Certificate in 70-6185).

*(b) 78—First Amendment, dated as of March 20, 1981, to the Fuel Lease, dated as of August 25, 1974, as amended and restated as of August 31, 1978 between AP&L and Russell Energy, Inc.

(b) 79—Group Annuity Contract with John Hancock Mutual Life Insurance Company, dated November 17, 1966 (11(e) in 2-30777).

(b) 80—White Bluff Operating Agreement among AP&L and AECC and Jonesboro, dated June 27, 1977 (B-2(a) to Rule 24 Certificate in 70-6009).

(b) 81—White Bluff Ownership Agreement among AP&L and AECC and Jonesboro, dated June 27, 1977 (B-1(b) to Rule 24 Certificate in 70-6009).

(b) 82—Agreement between AP&L and Conway, dated June 29, 1979 (5(r)-3 in 2-66235).

(b) 83—Transmission Agreement between AP&L and Jonesboro, dated August 2, 1977 (5(r)-3 in 2-60233).

(b) 84—Power Coordination, Interchange, and Transmission Service Agreement, dated as of June 27, 1977, between AECC and AP&L (5(r)-4 in 2-60233).

(b) 85—Independence Steam Electric Station Operating Agreement among AP&L and AECC and Jonesboro and Conway, dated July 31, 1979 (5(r)-6 in 2-66235).

(b) 86—Independence Steam Electric Station Ownership Agreement among AP&L and AECC and Jonesboro and Conway, dated July 31, 1979 (5(r)-7 in 2-66235).

(b) 87—Amendment, dated December 28, 1979, to the Independence Steam Electric Station Ownership Agreement (5(r)-7(a) in 2-66235).

(b) 88—Power Coordination, Interchange and Transmission Service Agreement, dated as of July 31, 1979 between AP&L and Jonesboro (5(r)-8 in 2-66235).

(b) 89—Power Coordination, Interchange and Transmission Agreement, dated as of June 29, 1979, between Conway and AP&L (5(r)-9 in 2-66235).

*(b) 90—Agreement, dated June 21, 1979, between AP&L and Reeves E. Ritchie.

LP&L

(c) 1—Agreement among LP&L and certain other Middle South System companies, relating to System Planning and Development and Intra-System Transactions, dated April 16, 1973 (5(a)-1 in 2-49306).

(c) 2—Revised Service Schedules MSS-1 and MSS-2, effective July 2, 1973, to Agreement among LP&L and certain other Middle South System companies, dated April 16, 1973 (5(a)-1(a) in 2-50187).

(c) 3—Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-2 in 2-41080).

(c) 4—Amendment, dated as of February 10, 1971, to Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-4 in 2-41080).

(c) 5—Middle South Utilities System Agency Coordination Agreement, dated December 11, 1970 (5(a)-3 in 2-41080).

(c) 6—Service Agreement with MSS, dated as of April 1, 1963 (5(a)-5 in 2-42523).

(c) 7—Amendment, dated as of January 1, 1972, to Service Agreement with MSS (4(a)-6 in 2-45916).

(c) 8—Availability Agreement among MSE and certain other Middle South System companies, dated June 21, 1974 (B to Rule 24 Certificate dated June 24, 1974 in 70-5399)

(c) 9—First Amendment to Availability Agreement, dated as of June 30, 1977 (B to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(c) 10—First Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with Manufacturers Hanover Trust Company, as Agent (B to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(c) 11—Second Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with United States Trust Company and Malcolm J. Hood, as Trustees (C to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5890).

(c) 12—Third Assignment of Availability Agreement, Consent and Agreement, dated as of January 1, 1980, with United States Trust Company and Malcolm J. Hood, as Trustees (5(a)-11 in 2-66638).

(c) 13—Fourth Assignment of Availability Agreement, Consent and Agreement, dated as of March 20, 1980, with Manufacturers Hanover Trust Company, as Agent (B to Rule 24 Certificate dated March 28, 1980 in 70-5399).

(c) 14—South Central Electric Companies-TVA Diversity Power Exchange Agreements with exhibits and related documents as compiled December 20, 1962 (4(b) in 2-21005).

(c) 15—Amendments of July 1, 1963 to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(c) in 2-22340).

(c) 16—Amendments of April 11, 1972 to South Central Electric Companies-TVA Diversity Exchange Arrangements (4(b)-3 in 2-45916).

(c) 17—Coordination Agreement, dated as of February 10, 1964, and Memorandum of Agreement, dated June 24, 1971, regarding Scheduling of Diversity Capacity and Energy, among LP&L and other South Central Electric Companies (5(n)-2 in 2-41080).

(c) 18—Reliability Coordination Agreement between TVA and AP&L, LP&L, MP&L, NOPSI and MSS, dated as of November 21, 1968 (5(n)-3 in 2-41080).

(c) 19—Reliability Coordination Agreement between Middle South System companies and Southern System companies, dated as of November 1, 1967 (5(n)-4 in 2-41080).

(c) 20—Interconnection Agreement of September 1, 1951 among LP&L, Central Louisiana Electric Company, Inc. and Gulf States Utilities Company, as supplemented and/or amended by letter of agreement dated October 15, 1952 extended the term of said Interconnection Agreement, and by various service schedules and agreements for additional interconnection points, through Service Schedule K dated May 11, 1971 5(e) in 2-42523).

(c) 21—Coordination Agreement of September 1, 1955 between LP&L and Central Louisiana Electric Company, Inc., covering system planning for coordination of construction and operation of generating, transmission and substation facilities (5(f)-1 in 2-42523).

(c) 22—Letter of Agreement, dated January 20, 1959, between LP&L and Central Louisiana Electric Company, Inc., supplementing and modifying their Coordination Agreement of September 1, 1955 as set forth in the "Operating Instructions" attached to said letter of agreement (5(f)-2 in 2-42523).

(c) 23—Letter of Agreement, dated September 18, 1970, between LP&L and Central Louisiana Electric Company, Inc., supplementing and modifying their Coordination Agreement of September 1, 1955 as set forth in the memorandum attached to said letter of agreement (5(f)-3 in 2-42523).

(c) 24—Letter of Agreement, dated May 1, 1973, between LP&L and Central Louisiana Electric Company, Inc., supplementing their Coordination Agreement of September 1, 1955 (5(e)-4 in 2-50187).

(c) 25—Southwest Power Pool Coordination Agreement, dated as of December 17, 1969, Amendment to Southwest Power Pool Coordination Agreement, dated December 17, 1969, and Southwest Power Pool Amendatory Agreement, dated as of November 19, 1970 (5(n)-1 in 2-41080).

*(c) 26—Memorandum of Understanding, effective December 1, 1977, between LP&L and E. A. Rodrigue.

MP&L

(d) 1—Agreement among MP&L and certain other Middle South System companies, relating to System Planning and Development and Intra-System Transactions, dated April 16, 1973 (5(a)-1 in 2-49306).

(d) 2—Revised Service Schedules MSS-1 and MSS-2, effective July 2, 1973, to Agreement among MP&L and certain other Middle South System companies, dated April 16, 1973 (5(a)-1(a) in 2-50187).

(d) 3—Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-2 in 2-41080).

(d) 4—Amendment, dated February 10, 1971, to Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-4 in 2-41080).

(d) 5—Middle South Utilities System Agency Coordination Agreement, dated December 11, 1970 (5(a)-3 in 2-41080).

(d) 6—Service Agreement with MSS, dated as of April 1, 1963 (D in 37-63).

(d) 7—Amendment, dated January 1, 1972, to Service Agreement with MSS (A to Notice, dated October 14, 1971 in 37-63).

(d) 8—Availability Agreement among MSE and certain other Middle South System companies, dated June 21, 1974 ("Availability Agreement") (B to Rule 24 Certificate dated June 24, 1974 in 70-5399).

(d) 9—First Amendment to Availability Agreement, dated as of June 30, 1977 (B to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(d) 10—First Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with Manufacturers Hanover Trust Company, as Agent (B to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(d) 11—Second Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with United States Trust Company and Malcolm J. Hood, as Trustee (C to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5890).

(d) 12—Third Assignment of Availability Agreement, Consent and Agreement, dated as of January 1, 1980, with United States Trust Company and Malcolm J. Hood, as Trustees (5(a)-11 in 2-66638).

(d) 13—Fourth Assignment of Availability Agreement, Consent and Agreement, dated as of March 20, 1980, with Manufacturers Hanover Trust Company, as Agent (B to Rule 24 Certificate dated March 28, 1980 in 70-5399).

(d) 14—South Central Electric Companies-TVA Diversity Power Exchange Arrangements with exhibits and related documents as compiled December 20, 1962 (4(b) in 2-21005).

(d) 15—Amendments of July 1, 1963 to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(c) in 2-22340).

(d) 16—Amendments of April 11, 1972 to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(b)-3 in 2-45916).

(d) 17—Coordination Agreement, dated as of February 10, 1964, and Memorandum of Agreement, dated June 24, 1971, regarding Scheduling of Diversity Capacity and Energy, among NOPSI and other South Central Electric Companies (5(n)-2 in 2-41080).

(d) 18—Reliability Coordination Agreement between TVA and AP&L, LP&L, MP&L, NOPSI, and MSS, dated as of November 21, 1968 (5(n)-3 in 2-41080).

(d) 19—Reliability Coordination Agreement between Middle South System companies and Southern Companies dated as of November 1, 1967 (5(n)-4 in 2-41080).

(d) 20—Southwest Power Pool Coordination Agreement, dated as of December 17, 1969, Amendment to Southwest Power Pool Coordination Agreement, dated December 17, 1969, and Southwest Power Pool Amendatory Agreement, dated as of November 19, 1970 (5(n)-1 in 2-41080).

(d) 21—Substitute Power Agreement, dated as of May 1980, between MP&L, MSE and SMEPA (B-3(a) in 70-6337).

NOPSI

(e) 1—Agreement among NOPSI and certain other Middle South System companies, relating to System Planning and Development and Intra-System Transactions, dated April 16, 1973 (5(a)-1 in 2-49305).

(e) 2—Revised Service Schedules MSS-1 and MSS-2, effective July 2, 1973, to Agreement among NOPSI and certain other Middle South System companies, dated April 16, 1973 (5(a)-1(a) in 2-50187).

(e) 3—Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-2 in 2-41080).

(e) 4—Amendment, dated as of February 10, 1971, to Middle South Utilities System Agency Agreement, dated December 11, 1970 (5(a)-4 in 2-41080).

(e) 5—Middle South Utilities System Agency Coordination Agreement, dated December 11, 1970 (5(a)-3 in 2-41080).

(e) 6—Service Agreement with Middle South Services, Inc., dated as of April 1, 1963 (5(a)-5 in 2-42523).

(e) 7—Amendment, dated as of January 1, 1972, to Service Agreement with Middle South Services, Inc. (4(a)-6 in 2-45916).

(e) 8—Availability Agreement among MSE and certain other Middle South System companies, dated June 21, 1974 (B to Rule 24 Certificate dated June 24, 1974 in 70-5399).

(e) 9—First Amendment to Availability Agreement dated June 30, 1977 (B to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(e) 10—First Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with Manufacturers Hanover Trust Company, as Agent (B to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5399).

(e) 11—Second Assignment of Availability Agreement, Consent and Agreement, dated as of June 30, 1977, with United States Trust Company and Malcolm J. Hood, as Trustees (C to exhibit A to Rule 24 Certificate dated June 30, 1977 in 70-5890).

(e) 12—Third Assignment of Availability Agreement, Consent and Agreement, dated as of January 1, 1980, with United States Trust Company and Malcolm J. Hood, as Trustees (5(a)-11 in 2-66638).

(e) 13—Fourth Assignment of Availability Agreement, Consent and Agreement, dated as of March 20, 1980, with Manufacturers Hanover Trust Company, as Agent (B to Rule 24 Certificate dated March 28, 1980 in 70-5399).

(e) 14—South Central Electric Companies-TVA Diversity Power Exchange Arrangements with exhibits and related documents as compiled December 20, 1962 (4(b) in 2-21005).

(e) 15—Amendments of July 1, 1963 to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(c) in 2-22340).

(e) 16—Amendments of April 11, 1972 to South Central Electric Companies-TVA Diversity Power Exchange Arrangements (4(b)-3 in 2-45916).

(e) 17—Coordination Agreement, dated as of February 10, 1964, and Memorandum of Agreement, dated June 24, 1971, regarding Scheduling of Diversity Capacity and Energy, among NOPSI and other South Central Electric Companies (5(n)-2 in 2-41080).

(e) 18—Reliability Coordination Agreement between TVA and AP&L, LP&L, MP&L, NOPSI, and MSS, dated as of November 21, 1968 (5(n)-3 in 2-41080).

(e) 19—Reliability Coordination Agreement between Middle South System companies and Southern Companies dated as of November 1, 1967 (5(n)-4 in 2-41080).

(e) 20—Southwest Power Pool Coordination Agreement, dated as of December 17, 1969, Amendment to Southwest Power Pool Coordination Agreement, dated December 17, 1969, and Southwest Power Pool Amendatory Agreement, dated as of November 19, 1970 (5(n)-1 in 2-41080).

(e) 21—Copy of Agreement between NOPSI and United Gas Pipe Line Company, dated January 31, 1975, relating to supply of power plant gas (5(e)-1 in 2-62575).

(e) 22—Copy of Letter Agreement, dated August 22, 1978, amending Agreement filed as Exhibit 5(e)-1 hereto (5(e)-2 in 2-62575).

(e) 23—Copy of Agreement between NOPSI and United, dated January 31, 1975, relating to supply of gas for resale (5(e)-3 in 2-62575).

(e) 24—1977 Subsidy and Indemnity Agreement, executed as of January 28, 1977, between the City of New Orleans and NOPSI ((a) to Form 10-K for Fiscal Year Ended December 31, 1977 in 1-1319).

(e) 25—1978 Subsidy and Indemnity Agreement, executed as of February 14, 1978, between the City of New Orleans and NOPSI ((b) to Form 10-K for Fiscal Year Ended December 31, 1977 in 1-1319).

(e) 26—1979 Subsidy and Indemnity Agreement, executed as of December 29, 1978, between the City of New Orleans and NOPSI ((b) to Form 10-K for Fiscal Year Ended December 31, 1978 in 1-1319).

(e) 27—Addendum, dated May 3, 1979, to 1979 Subsidy and Indemnity Agreement between the City of New Orleans and NOPSI (5(f)-4 in 2-66638).

(e) 28—1980 Subsidy and Indemnity Agreement, executed as of January 9, 1980, between the City of New Orleans and NOPSI (5(f)-5 in 2-66638).

*(e) 29—1981 Subsidy and Indemnity Agreement, executed as of December 31, 1980, between the City of New Orleans and NOPSI.

(13) Annual Report to Security Holders

*(a) MSU's 1980 Annual Report to Shareholders

*(b) AP&L's 1980 Annual Report to Shareholders

*(c) LP&L's 1980 Annual Report to Shareholders

*(d) MP&L's 1980 Annual Report to Shareholders

*(e) NOPSI's 1980 Annual Report to Shareholders

***(22) Subsidiaries of the Registrants**

LOUISIANA POWER & LIGHT RESPONSE

Question No.

410.5 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

Louisiana Power & Light Company (LP&L) operates in two retail regulatory jurisdictions. Approximately 97% of LP&L's retail business is under the jurisdiction of the Louisiana Public Service Commission with the remainder subject to the jurisdiction of the City Council of the City of New Orleans. In all retail rate cases to date the City Council has granted LP&L the same rates for the customers under its jurisdiction as were granted by the Louisiana Public Service Commission.

On November 28, 1981, the voters of Orleans Parish will vote on changing the jurisdiction of both New Orleans Public Service Inc. (NOPSI) and LP&L from the City Council to the Public Service Commission. If approved, all of LP&L's retail rates, as well as NOPSI's, will be under the jurisdiction of the Public Service Commission.

The Louisiana Public Service Commission's practice has been to use a historical test year but to make an attrition adjustment to give the opportunity for the utility to actually earn the allowed rate of return during the period the rates would be in effect. 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 three percent on $1,260,000,000 of CWIP in Waterford 3, 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 retail rates read as follows: "Plus .001 cent per kwh used during the month for each .001 cent of the average fuel cost per kwh as delivered to Company's customers during the second preceding calendar month, adjusted for any over or under collection."

Response (Cont'd)

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.

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.

LOUISIANA POWER & LIGHT RESPONSE

Question No.

410.6 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 May 1981 the Louisiana Public Service Commission granted LP&L a $117,761,000 rate increase based on the test year 1980. This increase was in addition to the interim increase of $32.6 million which was granted in October 1980. The Commission allowed a rate of return of 11.78 percent and a return on common equity of 14.9 percent. Included in the rate increase was an attrition allowance of $15 million. See Table 410.6-1 for rate developments.

The following documents were sent to the NRC under separate cover:

1. Louisiana Power & Light Company, Direct Testimony of John H. Erwin, Jr. (Sworn on May 26, 1980).

2. Louisiana Power & Light Company, Exhibits of John H. Erwin, Jr.

3. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14078), Testimony of Bruce M. Louiselle, re, Revenue Requirements, October, 1979, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

4. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14078), Exhibit of Bruce M. Louiselle, re, Revenue Requirements, October, 1979, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

5. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14078), Testimony of Richard J. Lurito, re, Fair Rate of Return, October, 1979, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

Response (Cont'd)

6. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14078), Exhibit of Bruce M. Louiselle, re, Revenue Requirements, October, 1979, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

7. Before the Louisiana Public Service Commission, Docket No. U-14078, Louisiana Power & Light Company, ExParte, In Re: Proposed Revision of its Electric Rates and Charges, Order No. U-14078 (Ordered on December 18, 1979).

The following additional documents are being furnished:

1. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14690), Testimony of Richard J. Lurito, re, Fair Rate of Return, April, 1981, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

2. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14690), Exhibit of Richard J. Lurito, re, Fair Rate of Return, April, 1981, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

3. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14690), Testimony of Bruce M. Louiselle, re, The Revenue Requirement, April, 1981, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

4. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14690), Detailed Analysis Exhibit of Bruce M. Louiselle, re, Financial Implications of the 1981-1990 Construction Program, April, 1981, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

5. Before the Public Service Commission of the State of Louisiana, ExParte Louisiana Power & Light Company (Docket No. U-14690), Exhibit of Bruce M. Louiselle, re, The Revenue Requirement, April, 1981, Kosh Louiselle Lurito & Associates, Inc., Arlington, Virginia.

6. Before the Louisiana Public Service Commission, Docket No U-14690, ExParte Louisiana Power & Light Company, In Re: Proposed Revision of Its Electrical Rates and Charges Within the State of Louisiana, Order No. U-14690A. (Ordered May 26, 1981)

TABLE 410.6-1

RATE DEVELOPMENTS

	Electric	Gas	Steam
Granted			
Test year utilized	1980	N/A	N/A
Annual amount of revenue increase requested-test year basis (000's)	$203,600		
Date petition filed	5/30/80		
Annual amount of revenue increase allowed-test year basis (000's)	$156,400		
Percent increase in revenues allowed	21%		
Date of final order	5/26/81		
Effective date	5/27/81		
Rate base finding (000's)			
Construction work in progress included in rate base (000's)	See Response to Question No. 410.5		
Rate of return on rate base authorized	11.78%		
Rate of return on common equity authorized	14.9%		
Revenue Effect (000's)			
Amount received in year granted			
Amount received in subsequent year (If not available, annualize amounts received in year granted)	$172,000*		
Pending Requests	None		

* Annualized for year 1981

Before the

PUBLIC SERVICE COMMISSION

of the

STATE OF LOUISIANA

Ex Parte

LOUISIANA POWER & LIGHT COMPANY

[Docket No. U-14690]

TESTIMONY

of

RICHARD J. LURITO

re

FAIR RATE OF RETURN

April 1981

KOSH LOUISELLE LURITO & ASSOCIATES, INC.

Arlington, Virginia

A. QUALIFICATIONS

Q. Please state your name and occupation.

A. My name is Richard J. Lurito. I am the senior economist at Kosh Louiselle Lurito & Associates, Inc. with offices in Arlington, Virginia.

Q. Please outline your education and experience.

A. I received the Bachelor of Arts degree in Economics from the University of Illinois in 1958 and the Ph.D. degree from Georgetown University in Economics in 1969. My doctoral dissertation treated the measurement of economies of scale in production. During my graduate study, I was awarded Fellowships by Georgetown University, the Relm Foundation, the H. B. Earhart Foundation and the American Enterprise Institute. I was an Instructor in Economics at Georgetown from 1967-1969 and an Assistant Professor from 1970 to 1973. For two years, I was a Lecturer at the University. During this period, I taught Economic Theory, Labor Economics, Statistics, Industrial Organization and Government Regulation of Business.

In July of 1971 I took leave of absence from Georgetown to become Deputy Economic Counselor to the Administrator of the General Services Administration. In February of 1972, I was promoted to Acting Economic Counselor, a position I held until I joined Kosh

Louiselle Lurito & Associates in October 1972. As Acting Economic Counselor, it was my responsibility to advise the Administrator of General Services on economic matters affecting all aspects of GSA's operations. Typical of the issues I dealt with were the economics of the construction-lease alternative, the appropriate level of the social rate of discount, alternative Government procurement policies or regulations to save costs, and regulatory policies to improve competition. I was the GSA representative to the Cabinet Committee on Construction, the Interagency Committee on Construction and the Government Regulations and Purchasing Review Board.

I served as an economic consultant to the Department of Health, Education and Welfare, to the General Services Administration, and several law firms dealing with international economic issues and problems, labor economics, industry economic analysis and the economics of human capital. Among the issues and problems I have dealt with in this connection were: a) an evaluation of the WIN (Work Incentive) Program, b) analyses of the effects of U.S. foreign trade policy on American industry, c) an analysis of minimum wage-hour legislation, and d) assembly of information inputs into a computerized retrieval system of anti-trust law and economics. Since joining Kosh Louiselle Lurito & Associates, Inc., I have been involved in the preparation of financial and economic studies concerning various aspects of utility rate regulation: fair rate of return, the design of utility rates for various rate classifications, and the broad subject of cost allocation. I have testified in the District of Columbia and the States of Louisiana, Maine, Maryland, New Jersey, New York, North Carolina, Ohio, Tennessee and Washington as well as before the Federal Communications Commission, the Canadian National Energy Board, and the Federal Energy Regulatory Commission.

B. GENERAL PRINCIPLES

Q. Mr. Lurito, are you familiar in general with the organization, operation and financial structure of the Louisiana Power & Light Company (LP&L)?

A. I am.

Q. Have you made a detailed study of the cost of capital and fair rate of return for LP&L?

A. I have.

[I ask that a multi-page document bearing on its cover sheet the title:

Before the
Public Service Commission
of the
State of Louisiana
Ex Parte
Louisiana Power & Light Company
[Docket No. U-14690]
Exhibit
of
Richard J. Lurito
re
Fair Rate of Return
April 1981

be marked for identification.]

Q. I show you Exhibit _______ for identification, and ask if it was prepared by you or under your supervision and direction.

A. It was.

Q. Does that exhibit summarize certain of the basic data upon which you relied in making your study, and your analysis thereof?

A. Yes it does.

Q. What are the principal sources of the data that you used in making your analyses?

A. The Annual Report to Stockholders, Moody's Manuals, Standard and Poor's Stock Guide, certain financial data contained in the Wall Street Journal, and, of course, the record and exhibits in the instant proceeding.

Q. Will you tell the Commission what, in your opinion, is the fair rate of return for the Louisiana Power & Light Company?

A. The analyses I propose to present indicate that a fair rate of return for LP&L is from 11.73% to 11.82% to be applied to an original cost rate base.

Q. Will you briefly describe the function of the fair rate of return in utility ratemaking?

A. Fair rate of return is a basic element in utility ratemaking, and its role is as follows: the fair rate of return times the rate base equals the fair return; the sum of all operating expenses (including taxes and depreciation) and the fair return equals the utility's revenue requirement. Rates for the various types of service and various groups of customers are then designed so as to collect from customers, in the aggregate, a sum equal to the above revenue requirement. It is thus evident that the fair return, i.e., the product of the fair rate of return and the rate base is one of the costs that makes up the total cost of service.

Q. Will you outline briefly why utility prices need to be set by means of a formula involving fair rate of return, whereas the determination of prices in general requires no such formula?

A. In a free enterprise economy, the levels of prices and earnings are generally determined by the forces of competition. However, unlimited price competition does not work in the case of public utility pricing.

Utilities are for the most part "Natural Monopolies", in which unlimited price competition does not work and, consequently, tends toward monopoly. Absent such competition--the normal regulator of both prices and earnings in the economy--a substitute must be found to maintain utility prices and earnings at competitive levels, a substitute that will simulate the workings of competition for the utility industries.

The substitute that has been developed is regulation. The basic function of regulation is to establish the conditions under which consumers are assured of an adequate supply of good service at reasonable prices. In order to do that, regulation must provide the utility a reasonable chance of earning a fair return on its investment. If it does not, investors will shy away from utilities, and service will deteriorate, and eventually may even stop.

Thus, to assure good service, regulation must make it possible for the utility to compete in the capital markets for the funds it requires. The utility's earnings, i.e., its RETURN, both actual and prospective, must be sufficient to maintain the credit of the utility so that it can attract the required capital on reasonable terms. The rate of return is but an intermediate factor; the basic requirement is a fair and reasonable dollar return.

In order to attract capital on reasonable terms, the utility must be able to pay the going price. Attraction of capital involves the same general conditions as the attraction of any other input the utility needs for efficient and successful operation: labor, materials, plant, managerial skill, etc. The utility must be able to pay the going price for these items as well as for capital. In the last analysis, regulation needs to set utility prices so that, in the long run, the utility can recover all of its costs, including the cost of capital.

Q. How important is the rate of return in fixing utility rates?

A. Rate of return is a most important element. This importance stems not only from the fact that the financial health of the utility, and hence its ability to provide good service, depends on the adequacy of the return, but also because the return is one of the major items of cost of service.

According to the Company's data for the twelve months ending December 31, 1980, utility operating income, essentially the dollar return for the Company's Louisiana operations was $192.0 million or approximately 23% of annual revenues of $820.8 million, i.e., 23 cents of each dollar of operating revenues went to return.

Moreover, a small change in the rate of return has a very substantial effect on revenue. For example, a change of 0.1% in the rate of return applied to a rate base, of say $1.[illegible] billion, equates to a change in annual revenue requirements of approximately $3,600,000.

Q. In general how does one determine what is a fair rate of return?

A. The principles involved in determining a fair rate of return are rather straightforward. What is complex is the application and quantification of those principles.

The utility has the responsibility of providing good service to all who demand it, at reasonable and non-discriminatory rates. If it is operating efficiently and economically, and fulfilling its public utility responsibility, the utility is entitled to every reasonable opportunity of earning a fair return. That in turn then means that regulation should set rates so that the utility can obtain a sufficient amount of revenue to cover all expenses and have enough left over to cover the cost of capital. If the utility earns its cost of capital, it can attract the required additional capital in reasonable amounts and on reasonable terms. This is the basic principle.

In practice, one must analyze the factors that affect the costs of the various types of capital--debt, preferred, and common equity, to arrive at an overall cost of total capital, i.e., the fair rate of return. The data for such an analysis are found in the marketplace where capital is hired, the financial markets.

In these highly competitive markets the demand for investment funds meets the supply of funds, and out of this competition are developed the terms at which various enterprises, both regulated and unregulated, can satisfy their capital requirements.

The cost of any form of capital is determined, in principle, by three considerations:

1. the pure rate of interest;
2. the compensation for inflation; and
3. the compensation for subjecting one's capital to risk.

The pure rate of interest reflects basically the time preference for, and productivity of capital. Pure interest is the payment required to induce the owner of funds to postpone the use of those funds, and to allow someone else to use them for a certain length of time. Pure interest is based on the hypothesis that there is no uncertainty involved in the investment; that is, that there is no doubt that the periodic interest will be paid, and that at maturity the funds will be returned.

In actuality there is no such investment although Government bonds may at times approach that situation. First, while the funds may very well be returned, due to inflation they may be returned with a loss in purchasing power. Second, each type of commitment has more or less risk attached to it.

Therefore, in addition to pure interest, compensation must be provided to offset the loss in purchasing power. Furthermore, risk must be compensated for otherwise the funds will not be forthcoming. Consequently, the cost of capital is a composite of these three factors: 1) pure rate of interest, 2) compensation for inflation, and 3) the payment for risk. Obviously the greater the risk, the higher will be the cost of capital.

While risk is difficult to quantify, investors must consider and analyze the various factors which affect the risk of an investment, and come to some sort of opinion as to the relative uncertainty, or looking at the other side of the coin, the relative desirability or potentiality of various investment opportunities. The relative costs of capital, as set by investors, reflect their views as to these relative risks.

There are many factors affecting risk, the principal ones being--the type of utility, the type of rate regulation to which it is subject, the capital structure, operating ratio, the composition of revenue, the earnings record of the utility, the extent of competition presented by substitute service, the service area, growth potential, and the quality of management.

However, for our immediate purposes we are not so much interested in the amount of risk as we are in the rate of return investors demand for subjecting their capital to a given level of risk.

The terms on which a company's debt and equity securities are traded provide evidence as to the cost of that particular type of capital to the issuing company. The yields of a company's bonds will reflect the cost of additional debt to that company and the terms on which the company's common stock is bought and sold provide a basis for estimating the cost of equity.

In addition to analyzing the securities of the company in question, and in order to get as much evidence as possible, as well as to guard against the possibility that the data for the company in question may be limited or distorted, it is desirable to select other companies, which are as similar as possible to the one in question, and on the basis of the market's appraisal of those other companies, to impute a cost of capital to the company in question, allowing as best we can for any differences.

Obviously the companies whose market experience is to be used in that way should reflect a degree of risk similar to that of the utility in question. We are thus led to a consideration of factors which affect risk and, by a qualitative consideration of these factors, to a determination of which companies do present an investment opportunity of similar risk to that of the company in question.

Q. Is the cost of capital determined as a unit, or is it established by determining the cost of its components?

A. Since capital is not homogeneous, and for the typical utility consists of debt plus equity capital, the measurement of the cost of capital consists of ascertaining:

1. The cost of debt capital,
2. The cost of preferred stock capital,
3. The cost of equity capital, and
4. The capital structure, i.e., the composition of total capital on the basis of which the above costs of debt, preferred and equity may be combined to arrive at an overall cost of total capital.

Q. How does capital structure affect the cost of capital?

A. The capital structure may affect both the cost of debt and the cost of equity; the smaller the proportion of debt, the safer is the debt investment. A company whose total capital is $1.8 billion of which $450 million is debt, is in a much less uncertain, much safer position, than if it has $1200 million of debt--all other things being the same. Conversely, as leverage increases, i.e., equity ratio decreases, a company may encounter serious problems, especially if earnings decline. Declining earnings in the face of a rising debt ratio will have two serious effects. First, the equity earnings will decline rapidly and second, interest coverage for the bonds will fall. Consequently, as leverage increases, the effect of a given decline in earnings has increasingly serious implications for both the cost of debt and equity owing to increasing risk.

Q. Why, then, have any debt?

A. A superficial appraisal of the above considerations might lead one to conclude that a utility should have little or no debt at all. Such a conclusion is, however, unwarranted. Investors in common stocks are not interested solely in safety and stability. If they were, they would turn to the generally safer, more stable debt investment. Equity investors are willing to accept hazards and risk, but they want the opportunity to make sufficiently high earnings to compensate them for subjecting their capital to those risks. Further, benefits in terms of a lower cost of capital can and should be realized by obtaining capital from all the components of the capital markets, thereby taking advantage of the supply of different types of capital.

Therefore, in computing the cost of capital it is essential to use a balanced capital structure which will provide debt with adequate protection and yet will contain enough leverage so that equity earnings are sufficient but are not made so volatile as to become speculative gambles. Of course, the cost rates of debt and equity must be consistent with the capital structure used.

Q. Are the "cost of capital" and "fair rate of return", as you use those terms, essentially equal?

A. Yes they are. It should be noted, however, that the problems involved in determining the cost of capital and its major components are in substantial measure matters of judgment. Necessarily, since many factors enter into a determination of cost of capital, judgments have to be made. If, at each point where a judgment has to be made, or where a question has to be resolved, the benefit of any reasonable doubt is resolved in the direction of a lower cost of capital then a fair rate of return based on such a cost of capital will tend to be at, or in the direction of, the lower end of the range of fair rate of return. On the other hand, if most reasonable doubts, or questions are resolved in the direction of a higher cost rate of capital, then the end result will be at or near the upper end of the range of cost of capital and fair rate of return.

C. COST OF DEBT

Q. Mr. Lurito, will you direct your attention to the cost of debt and describe how you proceeded to develop that cost?

A. In the present case, cost of debt has several important aspects. First, there is the question of the cost of outstanding debt, and whether the cost of a wholly-owned subsidiary, or the cost of the consolidated system, is appropriate for determining the cost of capital to the subsidiary. Second, there is the question of the cost of any additional debt that needs to be issued to meet the future construction program.

Before discussing the development of the cost of debt, I would like to deal with a threshold problem: whose cost of debt and whose capital structure are we concerned with? We are ultimately concerned with the rates and, hence, fair rate of return for Louisiana Power & Light Company. So at first glance it would seem that we should, in fact must, be interested in the cost of debt and capital structure of LP&L. But what is the capital structure of the Company; is it the nominal capital structure as shown on its books of account? This is not true with respect to the common stock of LP&L, and only partially true with respect to the bonds, because of the 100% stock ownership by Middle South Utilities, Inc. (MSU). A purchaser of an LP&L bond knows that MSU will not stand by and allow LP&L to default. As to stock, the influence of Middle South is very nearly absolute. The safety of LP&L's equity is not influenced by that company's capital structure, since an equity investment in LP&L is but a portion of the equity of the MSU System. Therefore, it is the capital structure of the System that influences an investment in the equity of LP&L and, therefore, the actual book capital structure of LP&L is not financially relevant. What is significant is the capital structure of Middle South Utilities.

Therefore, it is my opinion that the capital structure to be used in arriving at a fair rate of return for Louisiana Power & Light Company is the System capital structure.

Likewise, with respect to the question of whether, in determining LP&L's cost of capital, it is appropriate to use LP&L's cost of debt, or the cost of debt of MSU, it is my opinion that the appropriate cost is the cost of debt of the System.

The parent company, Middle South Utilities, is a holding company. One of the principal characteristics and advantages of a holding company form of organization is the ability it gives management to finance a wide diversity of activities on a System basis. Management retains complete control over the financing decisions. This control gives it great flexibility and the power to direct the timing and amounts of outside financing so that maximum economy to the System is achieved.

A consequence of this flexibility and System orientation is that the actual financing of any component of the System, at any particular time, is completely arbitrary. Thus, you would expect to find, and do find, that the cost rates of debt of similar individual components of a holding company organization vary considerably above or below the System's average cost of debt. Now I am not suggesting that there is anything necessarily wrong with a holding company form of organization. But what I am suggesting and recommending is that any cost advantage of the holding company arrangement be shared by all the customers served by its diverse components. This can be accomplished by the use of the System cost of debt as the basis for determining the return requirement of each operating unit of the System.

Q. Will you, in fact, rely on the cost rate of debt for the Middle South System for overall rate of return determination purposes?

A. I will with one qualification. Middle South Energy, Inc. (MSE), a subsidiary of the System was formed in 1974, to provide financing for the construction of base load generating units, the output of which is to be sold to subsidiaries of the System. The operations of MSE are largely devoted to the construction of Grand Gulf nuclear Units #1 and #2. Unit #1 is scheduled for commercial operation in 1982 and Unit #2 in 1986. At present MSE is accruing AFUDC at a net-of-tax rate; consequently, when the plant it is now constructing goes into operation, the rates at which MSE will sell power to the MSU subsidiaries--rates to be set by the FERC--will be sufficient to allow it to recover its capital-related construction costs. In view of this, it would not be appropriate to reflect the level or cost of MSE's debt (or equity for that matter) in determining the level or cost of the System's debt. Accordingly, I will use the MSU System cost rate of debt, excluding MSE, for overall rate of return determination purposes.

Q. Please explain how you arrived at the cost of debt for the MSU System, excluding MSE?

A. On Page 1 of Exhibit _____, I show the outstanding long-term debt for each subsidiary of Middle South Utilities at December 31, 1980. The detailed development of the System cost of long-term debt is shown on Appendix Page 1.

As shown on Page 1 of the Exhibit, the cost at December 31, 1980 of the long-term debt outstanding is 8.83%. In determining the cost of debt at December 31, 1981, I relied in large part on the Company's estimate of MSU's 1981 construction program, excluding MSE, and its internal financing sources. According to the Company, its 1981 construction program, excluding MSE and excluding AFUDC, will be $717.347 million. Its internal sources of funds are estimated to be $291.238 million. Hence, its external financing requirements will be $426.109 million ($717.347 million - $291.238 million), plus $82.640 million to finance its AFUDC and $124.473 million to meet its maturing debt and sinking fund requirements. In total, then, the System will need to raise $633.222 million of capital externally. In view of the System's year-end 1980 capital structure, it is my opinion that an attempt must be made to increase its equity ratio as rapidly as market conditions permit. Accordingly, the System should sell $312 million of first mortgage debt and draw down $18.62 million from pollution control bonds already sold, issue $41.40 million in promissory notes, increase short-term debt by $24.705 million, sell $30.00 million of preferred stock and $206.496 million of common stock. Such financing will bring the System (excluding MSE) to an equity ratio near 30%.

In view of the fact that the System will have to issue additional long-term debt this year, I have presented data in the Appendix on past and present bond yields. In this connection, I have compiled the yields on the four top grades of the Moody Public Utility Bonds. Moody's is a financial reporting organization that rates bonds, i.e., it classifies them by grade; a bond rated AAA is of the highest quality, AA is next, and so on. In addition to rating, or grading bonds, the Moody organization also prepares, keeps current, and published an index of the yields of various types of bonds, by individual grades. The System's subsidiaries' first mortgage bonds are rated "A" or "BAA" by Moody's.

Page 3 of the Appendix to my Exhibit shows the monthly and annual yields, beginning with January 1950, of the Moody AAA Public Utility Bonds. These yields represent the composite or average yield of a group of ten selected AAA bonds. The makeup of the group changes from time to time, and the changes are made so that the group continuously represents (in the opinion of the Moody organization) the current yields of the top grade utility bonds. Page 4 of the Appendix shows corresponding data for AA bonds; Page 5 for A; and Page 6 for BAA bonds.

The Moody yields reflect the general course of interest rates. For example, the effect of the Treasury Department-Federal Reserve "Accord" early in 1951 is reflected by an upward shift in bond yields. As of March 19, 1981, the Moody AAA yields were 13.32%, AA yields were 14.13%, A yields were 14.92%, and BAA yields were 15.49%.

On Pages 7-10 of the Appendix I show the derivation of the cost of new debt issues of electric and combination utilities for the years 1978, 1979, 1980 and 1981, to date. As Appendix Page 10 shows, recent new A-rated debt is costing about 15.4%. For purposes of my analysis, I will use 14.5% as the cost to the System of issuing $312 million of new first mortgage debt this year.

As mentioned, the System will increase its promissory notes by some $41.4 million. These notes carry a cost rate based on the prime rate plus .5%. In view of the fact that the prime rate has been falling and is expected to continue to fall, it is my judgment that over the period of time rates are likely to be in effect the prime rate will average 13.5%. Hence, a 14% cost rate for the promissory notes is reasonable. The cost rates for the $16.62 million of pollution control bonds are known since they have already been sold.

Given its $633.222 million external financing needs in 1981, it appears that MSU will have to increase its 1981 year-end, short-term indebtedness to a level of $242.176 million. It is reasonable to expect that short-term debt at year-end 1981 will be composed of bank loans and commercial paper. Given a prospective prime rate of 13.5% and a commercial paper rate of 13%, a 13.5% rate is indicated.

As shown on Page 1 to my Exhibit, the cost of debt at December 31, 1981, inclusive of the $242.176 million of short-term debt I recommend be outstanding, is 9.93%. I will use 9.93% as the cost of debt in determining the fair rate of return for the Louisiana Power & Light Company.

D. COST OF PREFERRED

Q. Please describe your studies and state your conclusions as to the cost of preferred stock to the Middle South Utilities System.

A. As shown on Page 2 of Exhibit _____, at December 31, 1980, the MSU System had outstanding $620.724 million of preferred stock at a composite cost of 9.78%. The detailed development of the cost of outstanding preferred is shown on Appendix Page 2.

During 1981, the MSU System will have to issue an additional $30 million of preferred stock to meet its construction program. To determine the cost of this additional preferred, I have shown on Page 11 of the Appendix the Moody indexes for the "High Grade" ("aa") and "Medium Grade" ("a") public utility preferreds by years 1950-1980 and by months for 1981. These yields indexes are similar in nature to the Moody bond yields I previously discussed.

In addition, on Pages 12-15 of the Appendix I show preferred stock offers made directly to the public by electric utilities, including combination companies during the years 1978, 1979, 1980 and 1981 to date. The cost of new "a"-rated preferred is in the 13.75%-14.5% area. A 14% cost rate is reasonable. As Page 2 of the Exhibit shows, the cost of preferred at year-end 1981, including the $30 million of additional preferred to be issued this year and excluding sinking fund requirements, is 9.97%. I will use 9.97% as the cost of preferred in the determination of the fair rate of return to LP&L.

E. COST OF EQUITY

Q. Turning now to the matter of the cost of equity, would you discuss the cost of equity capital as an economic concept?

A. In economics, the market price of any good or service represents what willing buyers are prepared to pay and what willing sellers are prepared to accept for something of value. Hence, it is said that the market price is determined by the forces of supply and demand. On the demand side, the price that a purchaser is willing to pay for a certain amount of a good or service depends on his evaluation of the worth to him of the benefits he expects to receive from his purchase. Of course, there is a risk that his benefits evaluation may prove to be overly optimistic or pessimistic. Consequently, the buyer must also take into account this risk aspect in establishing the price he is willing to pay. In any case, the price that a purchaser is willing to pay for a good or service reflects his assessment of the benefit to be derived from the purchase.

Certain goods and services, such as a ticket to a football game or a haircut, provide benefits which are enjoyed immediately or over short periods of time. Others, such as an automobile or an education, provide benefits which are enjoyed over substantially longer periods of time. These kinds of goods and services are typically purchased for non-monetary benefit purposes. However, there are other kinds of goods which are purchased because the benefits they provide are monetary in nature and typically are received over longer periods of time. A share of common stock is an example of such a good.

The market price of a share of common stock, like the price of other goods, is set by the forces of supply and demand. Here again, on the demand side, the price that a purchaser is willing to pay for a share of stock depends on the future stream of income he expects to receive from the ownership of a portion of the equity earnings of the company. Because the future stream of income the purchaser expects to receive is not in hand at the time of the purchase, he quite rationally places less value on it than if it were. That is, a dollar to be received sometime in the future is not worth a dollar today to an investor. There are three reasons for this. First, to the extent that the investor anticipates a positive rate of inflation, a dollar to be received in the future will have a lower purchasing power than a dollar does today. Since the investor is paying for the stock in today's dollars, he will discount the dollars he expects to receive in the future by the rate of inflation he anticipates. Second, the investor, as indicated, must decide to buy or not to buy the stock today. If he does, he is giving up the use of his capital funds today to someone else in exchange for future income. In order to do this, the investor requires compensation. Because the investor demands compensation for postponing the use of his funds, he must again discount the value of the income he expects to receive in the future. The size of this discount factor is, of course, related to the compensation required for postponing today's consumption until some time in the future. Finally, the investor takes into account the possibility that some or all of the stream of income he expects to receive in the future may not materialize. That is, the investor is taking a risk when he gives up a dollar today for the promise of future income. Obviously, then, the less certain the investor is that the future stream of income he expects will be forthcoming, the less those future dollars of income are worth to him today. In other words, the greater the equity risk the investor perceives, the more he will discount a future dollar of expected income. Or putting it somewhat differently, the greater the perceived risk, the greater is the cost of equity capital.

These three factors we have been discussing, inflation, postponement of consumption and risk, in combination, comprise the investor's cost of equity capital. It is apparent then that the price an investor is willing to pay for a share of stock today depends directly on the size of the future stream of income he expects to receive from its ownership and inversely on the cost of equity capital. It is also apparent that a share of comon stock is not at all homogeneous; rather, it comes in different qualities, which, in turn, command different prices.

Q. How do you propose to measure the cost of equity capital?

A. As I have already mentioned, the market price of a share of common equity, or any security for that matter, depends on two factors: 1) the expected stream of future income to be derived from the ownership of the stock, and 2) the investors' required rate of return, or cost of equity, which, as seen, depends, among other things, on the equity risk perceived by investors. In view of this, it is clear that the cost of equity depends on the investors' expected stream of future income and the market price of the equity. Approaches to the estimation of the cost of equity capital have been developed precisely along these lines.

The Discounted Cash Flow (DCF) method can be used to estimate the cost of equity capital or any other security, and it is based on the economic logic I have been discussing. It is a market-oriented, opportunity cost approach which views the relationship between the cost of equity, investors' income expectations and market price in a rational economic way. Specifically, the DCF method views the investors' cost of equity capital as being equal to the dividend yield plus the expected growth in dividends per share.

To see the logic of this approach, consider a simple world, where the dividend per share is at a given level and is expected by investors to remain at that level indefinitely. In this world, the market price would be set at a level equal to the dividend per share divided by the investors's cost of equity. Or putting it somewhat differently, the cost of equity would be equal to the dividend yield. This is the case, of course, because investors are not expecting to derive a portion of the return they require through market price appreciation and/or dividend per share growth, since, as indicated, they expect no dividend growth. Under these circumstances, it is clear that the investor's cost of equity can only be obtained from the current (and constant) level of dividends per share. Hence, in this world, rational investors will set the market price they are willing to pay for the stock at a level such that the current (and constant) level of dividends per share when divided by the market price will produce a return on investment (dividend yield) equal to their cost of equity. For example, if investors require a 10% rate of return from the stock and if they receive a $3 dividend per share which they expect will not change, it is clear that unless they set the price at $30 per share, they will not be able to obtain their 10% cost of equity capital. By setting the price at $30, a $3 dividend will produce a 10% dividend yield, because $3 divided by $30 is 10%. Consequently, when no growth in dividends per share, hence market price, can be expected, rational investors will set the market price at that level which will allow them to earn their cost of equity solely from the dividend yield of the stock. In this case, the stock can be viewed as if it were a bond in the sense that the yield on a bond represents the cost of debt precisely because the coupon rate for a bond is constant. Hence, the debt investor must recoup his entire required return in the yield.

The DCF method, which derives the investors' required rate of return (cost of equity) from the dividend yield, plus the expected growth in dividends per share, if applied to the example just given, would have correctly determined the cost rate of equity capital, since under the method a positive (10%) dividend yield would have been added to a zero growth in dividend expectation in arriving at the investors' cost of equity capital. The DCF approach is also capable of accurately determining the cost of equity capital under more complex and realistic conditions where rational investors can and do expect future growth in dividends per share.

For example, suppose that investors, upon evaluating the risk of an equity investment in a particular utility, decide that they require a 10% return on their investment in the utility--a return they consider commensurate with returns on other investments having corresponding risks. Suppose further that these investors, upon evaluating the prospects of future growth in dividends per share, decide that it is reasonable to expect a 3% annual growth. It is clear that if they require a 10% return on their investment, i.e., they have a 10% cost of equity, they will set the market price that they are willing to pay for the stock at a level sufficient to produce a 7% dividend yield. Since today's investors expect a 3% growth in dividends per share in the future, they recognize that tomorrow's investors will be willing to pay more for the stock if that rate of growth materializes. Hence, today's investors realize that their 10% rate of return requirement will be derived from two sources: 1) from the dividend yield, and 2) from higher future dividends and/or market price appreciation if they decide to sell the stock. Thus, rational investors set the market price at a level which allows them the opportunity of earning their cost of equity capital through a combination of dividend yield and dividend growth. These are precisely the two components of the investor's cost of equity capital which the DCF method seeks to determine. In the Appendix to my testimony, I have presented the mathematical derivation and properties of the DCF method.

Q. Up to this point you have described how the DCF method and formula work in principle and in theory. Will you now explain how you intend to use this method as a basis for estimating the cost of equity to LP&L?

A. Where regulation is on a net investment or original cost basis we are interested in developing a reasonable rate of return on equity for the utility, i.e., a cost of equity in the regulatory sense and not necessarily the minimum rate. The purpose of using a cost rate of equity in excess of the capitalization rate is to provide earnings that, on balance, will maintain the market price of the company's stock sufficiently above book value so that additional sales of stock can be made at net proceeds no less than book value per share. The first step, is, therefore, to determine what rate earned on equity, consistent with that cost rate, is needed to allow the investor the opportunity of earning his required return.

We are obviously concerned with the Louisiana Power & Light Company. Normally, we would be interested in analyzing the financial market data of LP&L, because these data would provide important evidence for estimating its cost of equity. However, since the common stock of LP&L is not traded we must rely on the financial market data of other companies which are generally similar to LP&L.

Q. Will you describe briefly how you selected the companies similar to LP&L?

A. My selection was based on resolving the problem I was faced with. We are trying to determine the cost of equity to LP&L. Since LP&L obtains all of its equity capital from its parent, Middle South Utilities, we are obviously interested in the parent's cost of equity, as indicated by the DCF method. However, while we are interested in the cost of equity of companies similar to the parent, we are are also interested in the cost of equity of companies similar to LP&L.

Consequently, in order to estimate the cost of equity to LP&L, I studied the financial market data as well as other data for MSU and a group of ten companies I selected as being of substantially similar investment risk as LP&L.

In selecting this group of comparable companies, I applied certain criteria to all electric and combination companies whose stock is traded on the market. The criteria were:

1. Total revenues in 1979 in the range of \$325 million to \$2.0 billion (Total revenues for the Middle South System in 1979 were \$1.8 billion; for LP&L \$557.5 million, virtually all of which came from electric operations);

2. Revenues from electric operations in 1979 equal to at least 80% of total revenues;
3. Cash dividends were continuously paid out of curernt earnings during the period used to analyze dividend yields;
4. The company was subject during the entire period 1965-1980 to state-wide regulation on an original cost rate base basis; and
5. The ratio of market price to book value did not exceed two times on average during the period 1965-1980.

The considerations leading to the last criterion were as follows: Under the type of regulation which uses a rate base equal to, or essentially equal to, net investment, at least adequate earnings are being allowed if these result in market prices of the common stock sufficiently above book value, so that the utility can sell additional common stock at net proceeds no less than the book value per share.

Common stock can normally be sold at a price some 7% to 10% below the going market price. As is well known, stock prices vary, and if we put the utility in the position of being able to sell stock at no less than net book value when the stock market is down, we may expect to see utility stock prices substantially <u>more</u> than 7% to 10% above book at a time when the stock market is high.

However, on occasion there was a tendency on the part of some regulatory agencies to allow earnings on a more than adequate rather than a meager basis. These high earnings contributed to maintaining market prices for some regulated companies substantially above book value per share.

For those reasons, utilities' market to book ratios can vary significantly. Therefore, in order to eliminate those companies whose securities may have been subject to speculative pressure, <u>and</u> as another step in the selection of companies similar to LP&L, I eliminated those companies whose ratios of market to book were abnormally high during the earlier part of the period of analysis.

I limited the companies to those regulated on the basis of an original cost rate base to further the objective of obtaining a homogeneous group of electric companies. Under original cost regulation, regardless of the jurisdiction, the rate base is nearly uniform in principle and measurement. This is not the case with regard to fair value.

The specification of what is fair value is virtually impossible. One state uses cost of reproduction new less depreciation; another uses an unspecified average of original cost and trended original cost. Still another makes a very small adjustment to original cost, yet calls itself fair value. Another uses an arbitrary, rather small percentage mark-up. Thus, in analyzing securities of companies located in fair value states, we have an unknown as to what investors are really appraising. Consequently, I have relied on those electric companies operating in states where regulation is on an original cost basis.

As mentioned, I have also limited the companies to those which in each year have paid out in common dividends less than 100% of current earnings over the period used to analyze dividend yields. Companies whose earnings are so low as to require the payment of dividends out of capital, give a strong indication to investors that the continuation of the dividend is in doubt. Under these circumstances, estimates of the growth rationally expected by investors cannot be made with confidence.

Page 16 of the Appendix indicates those electric companies which qualified on the basis of the criteria I mentioned, i.e., size, type of operation, type of regulation, payout ratio, and market to book ratio. Also, on Page 16 of the Appendix I show certain comparability data both for [illegible] and LP&L as well as the ten electric companies selected on the basis of the criteria already discussed. It seems to me that the general investment similarity is clearly indicated. In my opinion, the group of companies selected after application of all the various criteria I described is generally similar to LP&L's (and MSU's) operations from an investor's standpoint. Consequently, the determination of a cost of equity based on the experience of these ten companies I selected will provide valid additional evidence on the basis of which the cost of equity for LP&L can be estimated.

Q. At this point, will you explain how you proceeded to develop, for MSU and the selected group of companies, the growth rates that you will use as a basis for estimating the cost rate of equity for LP&L?

A. The first step was to determine the period of time during which to analyze growth. In 1946 fears of a post-war depression sent the stock market tumbling until it bottomed out in 1949. Late in 1949, it became generally clear that we would not have the classical post-war depression, and business, as well as the stock market, took off. Since the 1949 recession, we have had, with few exceptions, a continued growth in business and prosperity. The exceptions were five short recessions. The first lasted from about the middle of 1953, to the third quarter of 1954; the second lasted from the last quarter of 1957, to the middle of 1958; the third one lasted from the middle of 1960, through the first quarter of 1961; the fourth one lasted from the end of

1969, to the end of 1970; and the most recent recession lasted from the fourth quarter of 1973 to the second quarter of 1975. And, we seem to be in a recession at the present time, a recession that officially started in January of 1980. In my opinion, the period 1965 through 1980 will provide a framework which we may use to estimate a growth rate which may, in turn, be used to develop the cost of equity for LP&L.

Since the estimate of the growth plays an important role in the determination of the cost of equity, I have made several different analyses of growth that obtained during the period 1965-1980. My first step was to compute the annual rate of growth for MSU and each of the selected comparable companies of:

1. Dividends per share, and
2. Book value per share,

for all the periods beginning in each year since 1965 and ending in 1979. The method used was "Least Squares", a standard statistical approach to fitting a line to data to obtain a trend over time. On Pages 3 through 13 I have plotted the book value per share and dividend per share for each of the companies, i.e., Middle South Utilities and each of the ten selected comparable companies. There I show for each company the computed growth rates for selected periods ending in 1979.

Q. You have indicated that the Discounted Cash Flow method deals with the growth in dividends per share. That being the case, why did you in addition compute the growth in book value per share?

A. There can be no doubt that the growth in dividends depends in the long run on the growth in per share earnings. In analyzing book value per share I am fundamentally analyzing the growth in earnings per share, since the growth in book value per share is equal to the growth in earnings per share adjusted to eliminate any trend in the rate earned on book equity.

The reason we must eliminate any trend, up or down, in the rate earned on book is rather obvious. Suppose a company's rate of equity earnings shows a patter such as this--9%, 9 1/2%, 10%, 10 1/2%, 115, etc. Can we rationally assume that such a growth will or for that matter can continue indefinitely? Similarly a declining trend of say 11%, 10 1/2%, 10%, 9 1/2%, etc., must stop sometime, and soon, else the utility and its customers are in serious trouble.

So instead of computing the growth in earnings per share and then eliminating any trend in the <u>rate</u> earned, I short-cut the process by computing the growth in book value per share. And I emphasize that in so doing I have derived the growth in earnings per share properly adjusted to remove the trend.

It must be noted, however, that the historical growth in book value per share may or may not be a reasonable indicator of future dividend growth if it is based on earned returns on equity that cannot be expected to prevail in the future. Furthermore, if the historical growth in book value per share was so severely affected by the sale of common stock below book value per share that it has been negative, such a situation cannot be expected by investors to continue into the longer term future because the very survival of the company would be called into question. However, a situation where the growth from retained earnings is in excess of the historical growth in book value per share, where book value per share growth is positive, can continue indefinitely. Under this situation, the dividend growth that can be anticipated lies between book value per share growth and the growth from retained earnings. If the investor anticipates that the company's market to book ratio will rise to a point where dilution is minimal, then he could rationally expect dividend growth to approximate the growth from retained earnings. On the other hand, if he does not anticipate any significant change in the market to book ratio, then his expected dividend growth would be more in line with a book value per share growth consistent with a market to book ratio less than one. The investor, of course, could also expect a dividend growth in between the growth from retained earnings and book value per share growth. Hence, an analysis of expected dividend growth must consider the likely future growth in book value per share as well as the growth in book value per share from retained earnings growth.

Experienced growth in dividends per share may or may not provide a reasonable guide to future growth because it may reflect aberrations which cannot be expected to continue. For example, management may allow the dividend rate to remain the same for a period of years until earnings reach a level where an increase in the dividend is likely to "stick"; or management may increase the payout, i.e., increase dividends more rapidly than earnings; or, if in needs of cash, it may maintain a constant dividend in the face of rising per share earnings. Thus, it is important that the analyst supplement his analysis of past dividend growth by developing additional indicators of future dividend growth.

Q. Did you consider other data in arriving at your estimates of growth?

A. Yes. As I previously pointed out, Page 3 through 13 of the Exhibit not only show the actual dividend and book value growths, but also the computed growth rates for several intermediate periods. I have also computed and analyzed the year-to-year total growth in book value per share and the growth in book value from retained earnings during the period. This is shown graphically for MSU on Page 14. Furthermore, as I will discuss in greater detail later, I have relied on the average dividend yield for the 36-month period ending February 28, 1981; consequently, estimates of growth must reflect the same factors which influenced the level of dividend yields during this 36-month period. On Page 15 I have developed the average growth from retained earnings over the 1978-1980 period for MSU, as well as for the ten selected comparable companies. These growth rates are necessary and useful inputs into any meaningful analysis of growth expectations.

I have supplemented these computed figures with graphic anlayses of the past growth in book value per share to see if further insight can be obtained. The graphic analyses are in a sense as indicative and valid as the precise numerical computations, and I consider them as useful inputs in my ultimate judgment of growth.

In estimating future dividend growth, I have considered these historical growths and many other factors, including: 1) the growth in total capital for the companies during the entire period and recently; 2) the average historical market to book ratios for the selected companies during the entire period used as a framework for analyzing growth, as compared to the market to book ratios for the companies in recent years and currently; 3) the level, relative stability, and relative trend of equity earnings which produced such market to book ratios; and 4) the level, relative stability and trend of each company's dividend payout and earnings retention policy.

Q. Would you summarize your position as to the factors that should guide a rational appraisal of future dividend growth?

A. The past can be used as a guide to the future, if and only if, the many factors which produced the experience of the past can be presumed to persist in the future. This principle is applicable to the issue at hand. Since we are concerned with estimating future dividend growth, we must assess whether the factors which generated past dividend growth will persist in the future. Accordingly, the analyst must apraise the likely rate of earnings and payout ratio that is likely to prevail in the future, the potential for dilution of book value per share that may exist, and the likely prospective market and economic conditions that will persist. It is only after an appraisal of such factors that the past can be used in some meaningful way as a guide to future growth.

Q. Mr. Lurito, what other factors did you take into account in developing growth rates for MSU and the ten companies you selected for analysis?

A. I have mentioned previously that I will use the average dividend yield for the 36-month period ending February 28, 1981, in determining the cost of equity for the companies selected and for MSU. I have used the average dividend yield for this recent period to avoid having my results influenced by a spot market situation. Since we are seeking to set rates which can be relatively stable over the near-term future, we are interested in determining a fair rate of return and cost of equity which will obtain over the near-term future. We are simply not interested in today's or yesterday's spot cost of equity or fair rate of return.

To see what this means, consider the following. Subsequent to the dismal market experience of 1974-1975, the electric utility market improved during 1976 and 1977; indeed, the average market price of electric stocks in 1977 was some 30% above its 1974-1975 levels. In 1978, the market price for electrics, while somewhat below the 1977 levels, remained quite firm until November, when a sharp decline was experienced. The average market price in 1978 was about 5% below the 1977 level. After the sharp decline of November 1978, the market slowly eroded until September of 1979, when another sharp decline occurred which, by the end of

March 1980, took the market to a level about 26% below the 1978 average experience. Since March 1980, the market has slowly recovered to a level which by February 1981 is 20% below the 1978 experience. Thus, over the 36 months ending February 28, 1981, a cycle was completed during which the market fell from a high point reached in mid-1978 to a low point in March 1980, comparable to what was experienced in 1974, and then it recovered part of its loss. On average, the market experience over this period was about 9% below the 1978 average level and about 14% above the February 1981 market situation. While it is difficult to predict the market with precision, in my judgment, the recent moderation in inflation and interest rates means that the longer term prospects for the market are more favorable so that the sharp downside experience of the July 1980-February 1981 period is not likely to be repeated in the nearer term future. Thus, the current, spot situation of the market is not an appropriate basis for the determination of the fair rate of return for regulatory purposes. As mentioned, the 36-month period ending February 28, 1981 is appropriate for this purpose. Accordingly, the growth rates used should be consistent with the experience over this 36-month period.

It should be mentioned that over the 36-month period I will use to analyze dividend yields the rate of inflation proceeded at an 11.81% average annual rate.

Hence, only a relatively moderate improvement in recent inflation rates would be necessary for future inflation rates to approximate what has been experienced over the period of time used to analyze dividend yields.

Q. Will you now discuss how you arrive at your estimate of the future growth in dividends per share for MSU and the ten comparable companies you have selected?

A. Before answering the question, I must point out that I will discuss some of the financial parameters I analyzed; the discussion in no way purports to be exhaustive. With respect to Middle South Utilities, it should be noted that over the 1978-1980 period, the Company's growth from retained earnings has averaged 3.68%. However, the trend is strongly downward, from 5.70% in 1978, to 3.21% in 1979, to 2.14% in 1980. MSU's year-to-year growth in year-end book value per share over this period was -.24%. The negative book value per share growth is explained by the fact that Middle South has sold stock at net proceeds considerably below book value per share. As I mentioned previously, rational investors cannot expect MSU's book value per share to fall indefinitely, although given the realities, they could well expect the Company's future book value per share growth to be positive, albeit below its growth from retained earnings. While the Company's historical dividend growth has been in excess of its historical growth in book value and earnings per share and its historical growth from retained earnings, this situation cannot be expected to persist. It cannot be expected to persist because its past dividend growth has been achieved at the expense of a rising payout ratio which reached a level in excess of 80% last year. A 3.00% future dividend growth rate is all that investors can rationally expect because it reflects a reasonable balance between book value growth and growth from retained earnings in the longer run.

As far as Detroit Edison is concerned, its growth from retained earnings was 1.08% over the 1978-1980 period while its year-to-year growth rate in year-end book value per share was negative 1.27% due to sales of common stock well below book value. A 1.5% growth rate is all that can be expected in view of the realities.

Florida Power Corporation's growth from retained earnings was 3.47% over the 1978-1980 period, while its year-to-year growth in year-end book value per share was 4.00%. However, its recent earnings and growth have been well below its prior experience and are falling. A 4.25% growth estimate is appropriate in my opinion.

Florida Power & Light experienced a 5.83% growth from retained earnings over the 1978-1980 period; last year it was 3.68%. The Company had a 5.24% year-to-year growth in year-end book value per share over the period, which fell from 8.41% in 1978, to 5.60% in 1979, to 1.72% last year. In my judgment, a 5.5% growth rate is justified.

Hawaiian Electric's growth picture is quite stable. Since 1970 the Company's growth from retained earnings and year-to-year growth in year-end book value per share has varied within the 4-5% area. Over the 1978-1980 period, its growth from retained earnings averaged 4.57% and its year-end book value per share growth was 3.72%. A 4.5% growth rate is clearly indicated.

LILCO's 1978-1980 growth from retained earnings was 3.47% while its year-to-year growth in year-end book value per share was .44% due to stock sales below book value per share. A 3.25% growth estimate is indicated.

New York State Electric & Gas' growth from retained earnings has been steadily in the 3.75% to 5.25% range in the 1978-1980 period, averaging 4.56%. However, its year-to-year growth in year-end book value per share has been significantly lower--2.31%-- due to sales of common stock at net proceeds below book value per share. A 3.75% growth rate estimate is indicated based on all my analyses.

Niagara Mowhawk's growth from retained earnings averaged 2.80% over the 1978-1980 period while its growth in year-end book value per share was . 59% over the period due to stock sales below book value. A 2.5% growth rate is indicated.

PEPCO's 1978-1980 growth from retained earnings was 2.78% and its year-to-year growth in year-end book value per share was 2.41%. However, the trend in both growth rates has been upward with growth from retained earnings being 3.82% in 1980 and book value growth being 3.22% A 3.25% growth rate expectation is justified based on my studies.

Over the 1971-1977 period, Utah Power & Light's year-to-year growth in year-end book value was 3.33%, while growth from retained earnings averaged 4.16%. Book value growth fell to only 1.33% over the 1978-1980 period reflecting the sale of stock below book value per share. The Company's growth from retained earnings averaged only 1.79% over the period. If investors expect the Company's growth to return to its historical and more typical level, a 3.50% growth is all that can rationally be expected.

Over the 1978-1980 period, VEPCO's growth from retained earnings was 2.36% whereas its year-to-year growth in year-end book value per share was only 1.04%. Given the Company's continuing difficulties with its nuclear power plants, a 2.75% growth is all that can be expected.

In view of all these considerations and an analysis of the historical and current growth data, I estimate the expected growth rate for Middle South Utilities to be 3.00%; for the selected comparable companies the estimate of average growth is 3.48%. The growth rate for each individual company is shown on Page 16 of the Exhibit. These are the growth estimates I will use as a basis for estimating LP&L's cost of equity.

Q. Mr. Lurito, will you now discuss how you used these growth rates and dividend yields as a basis for estimating LP&L's cost of equity?

A. A proper application of the DCF method requires that the growth rates used to reflect investor expectations be consistent with the investor expectations as reflected in the market prices used to establish the dividend yields. Clearly, it would be improper to combine the high and rising dividend yields experienced by MSU and the ten selected comparable companies during most of 1978, 1979 and 1980, with high growth rate expectations based perhaps on some historical experience which bears little or no relationship to the conditions which produced the high dividend yields. Consequently, the dividend yields generated during the 36-month period ending February 28, 1981, are the appropriate yields to use in combination with current investor growth expectations.

As shown on Page 16 of my Exhibit, I combined the previously developed growth rates with the dividend yield over the 36-month perod ending February, 1981. As mentioned, I have used the average monthly dividend yield for this 36-month period, for the reasons already discussed and also to avoid having my results influenced by a spot market situation.

As shown on Page 16 for the ten electric companies, I combined the 3.48% average growth rate previously developed with an average dividend yield of 10.31% to arrive at an indicated capitalization rate of 13.78%. For MSU, I combined the 3.00% growth rate with an 11.03% dividend yield to arrive at an indicated capitalization rate of 14.03%. Based on this study, I conclude that the equity capitalization rate for LP&L is in the 13.75% to 14.00 range.

If the Company earns at this rate, the market price of its stock, if it were traded, would tend to equal its book value in the kind of market environment that we have experienced over the last three years, and investors would, in fact, be receiving what the economist would call the cost of equity capital. This would also be quite close to what would be an appropriate level of earnings if LP&L's parent, Middle South, were not to finance by the issuance of common stock. Were it necessary to issue common stock in the near-term future, then the rate of earnings would have to be higher than this 13.75%-14.00% capitalization rate, so that the utility would have an opportunity to sell stock at no less than book value per share in an average market situation.

Q. As I understand it, the cost of equity under the DCF approach is estimated by combining the dividend yield and the expected growth in dividends per share. Are uniform procedures used by analysts in determining the appropriate dividend yield to be used in a DCF analysis?

A. Leaving aside for the moment the issue as to whether the current dividend yield is appropriate to use for purposes of estimating the cost of equity for regulatory purposes, analysts do differ as to whether the current dividend per share needs to be increased by a portion or all of the expected annual growth in dividends per share in order to produce an unbiased estimate of the dividend yield and, hence, the cost of equity capital that is appropriate to apply to a regulated utility. In the Appendix to my testimony I have set forth a detailed analysis of this issue and show that for regulatory purposes the cost of equity capital is best estimated using a dividend yield based on the given month's dividend rather than on an upward adjusted dividend.

Q. Mr. Lurito, does the DCF method meet the criteria of <u>Bluefield</u> and <u>Hope</u> in that it reflects returns "commensurate with returns on investments in other enterprises having corresponding risk"?

A. Yes, it does, and I would like to discuss the reasons for my opinion. However, it should be mentioned that in discussing the <u>Bluefield</u> and <u>Hope</u> decisions I do so as an economist and financial analyst and not as a lawyer.

Under the DCF approach, the principle is that a utility's earnings should be sufficient to provide a return to the investor which is equal to, or similar to, the return requirement of investors in the common stock of the company and in the stock of companies similar in risk to the utility. In other words, the DCF method views the investor's required rate of return (capitalization rate) as an opportunity cost. The rationale for use of the DCF approach is that the investors' required rate of return for companies of corresponding risk can only be determined through an analysis of the relative stock market prices set by investors for their securities. To see why the investors' required rate of return must be analyzed in terms of marketplace transactions, consider the following:

Suppose there were two companies, one a regulated electric company and the other a wild-cat oil well drilling company. Suppose further that they are both earning the same rate of return on book equity. Do we have sufficient information upon which to conclude that these two companies provide comparable returns on investment? Clearly not, because we do not know whether the returns earned by each are commensurate with their relative risks. It must be remembered that it is the <u>investor's</u> required return that is at issue, not the companies'.

To determine whether the returns are commensurate with risk, the investor's return on the market price of his stock, i.e., his investment, in the two companies must be considered. There can be no doubt that given equal earnings, the investor will pay more for the stock of the electric company since the risks associated with such an investment are less than for the oil well drilling venture. Hence, all other things being the same, the different market prices for the stock of these two companies reflect the differential risks as perceived by the investor despite the fact that the returns on book equity were the same. In other words, it is the market price which balances risk and return. By setting different prices for the stock, the investor obtains different returns on his investment--returns which reflect the differences in risk as between the companies. It should be noted that it is through the price mechanism that risk differentials can be expressed and differential returns earned; the returns on book equity tell us nothing about relative risk or relative investor return requirements.

Now consider two regulated electric companies with different rates of earnings on book equity but with "corresponding risks". Certainly, all agree with the basic principle of finance that risk and required return are directly related. Thus, similar risk companies have similar return requirements. That being the case, investors will set the market prices for the stock of these two companies at different levels because they are earning at different levels. However, the level established for each stock will allow the investor to obtain a similar return on his investment; this will occur because they view the stocks as having similar risk. Thus, it is through the market prices paid by investors that "returns commensurate with returns on investments...having corresponding risks" are established.

Both of these examples show clearly that given a level of earnings, the market price of any company's stock reflects the risk and investors' return requirement of that stock *relative* to all alternative investment opportunities. It is for these reasons that the DCF method, which relies on an analysis of marketplace transactions, can determine the return required by investors in companies of corresponding risks.

Q. Mr. Lurito, from the economist's point of view is there anything in the language of the *Hope* and *Bluefield* decisions that indicates or implies that a fair return on equity capital is one which will, at each and every point in time, ensure that a utility's market to book ratio will be at least one?

A. No. The economic spirit of those decisions is that the return to the utility equity owner, i.e., the investor in utility common stock, should be commensurate with returns that he could earn were he to invest in the common stock of other enterprises of corresponding risk. Thus, these decisions express well the concept of opportunity cost. Now economic theory tell us that, in the long-run, unless a firm earns the opportunity cost of equity capital, it cannot survive. That is, unless all costs, including the cost of capital, are covered by revenues, the firm cannot remain in business over the long-run. Economic theory also tells us that firms can and do survive in the short-run, even if they do not earn the opportunity cost of equity capital. As long as the firm is able, in the short-run, to cover its variable costs, it will continue to operate. Since capital costs are fixed costs in the short-run, the firm will not always earn the opportunity cost of capital. Like a firm, the equity investor's realized rate of return on his common stock investment will not at each and every point in time equal his required return; however, on balance in the longer run he must be allowed the opportunity to earn his required rate of return, or he will eschew equity investment.

As is well known, if investors expect a firm to earn on equity at a rate equivalent to their required rate of return on equity (opportunity cost of equity), they will set the price of the common stock at a level which tends to equal book value per share. Accordingly, a utility should be allowed to earn rates of return which, on balance, in the longer run can be expected to afford the equity investor the opportunity to earn his required rates of return. That is, the investor can reasonably expect that regulation will allow returns on equity which, on balance, over the longer run will tend to produce market to book ratios of at least one. Not to do so is to promote economic confiscation because the investor will witness the dilution of his ownership position on balance over the longer run.

This in no way means that the investor can reasonably expect that regulation will allow returns on equity which at each and every point in time will produce a market to book ratio of one or more. Surely the competitive firm, which regulation is designed to simulate, does not and cannot expect such a rate of earnings at each and every point in time. The only requirement is that regulation set rates that can accomplish this goal on balance over the longer run.

The point is clear: to set rates on the basis of spot costs of equity capital can be unfair both to investors and consumers. To base the cost of equity on a high point in the market cycle when the computed cost of equity would be unrepresentative can only serve to penalize investors on balance over the longer run when the average market situation reasserts itself. To base the cost of equity on a low point in the market cycle when the computed cost of equity is also unrepresentative can only serve to penalize the consumer on balance over the longer run when a more normal market environment is reestablished. Consequently, the cost of equity in its proper regulatory light can only be viewed in this context. Not to do this is contrary to the economic mandate set out in the <u>Hope</u> decision, <u>viz.</u>, that the ratemaking process is designed to simulate competition, a process which as recognized in the <u>Hope</u>

decision balances the investor and the consumer interests. In my opinion, the method I use to determine the cost of equity capital is in the mainstream of economic logic and is consistent with the economic spirit of the Hope and Bluefield decisions.

Q. Mr. Lurito, you stated previously that the first step was to determine the investors's required rate of return (capitalization rate) and then to determine the rate the Company should be allowed to earn on equity. Are those two rates equal?

A. They are not necessarily equal. Based on the data shown on Page 16, the capitalization rate for LP&L, which I have determined to be 13.75% to 14.00% is an economic concept. It is that return on investment which the investor must expect to earn in order to induce him to furnish equity capital to the company. Clearly then, this capitalization rate is essentially independent of whatever rate the company in fact earns on its book value. If investors expect the company will earn considerably above the rate, they will respond by increasing the price they are willing to pay for the stock to a level above book value. Conversely, if the company is expected to earn considerably below the rate, the investor will bid down the price of the stock to a level below book value. The result is always the same; the investor sets the market price he is willing to pay in order that he be able to realize his required rate of return, that is, his capitalization rate.

Now one response to this is that since the investor will always set the market price so as to realize his required return, why should regulation be concerned about allowing the company to earn in excess of the bare cost rate or capitalization rate of equity. The answer is that to set the allowed rate of return at that level would result in dilution of the stockholders' investment were the company to have to issue additional stock.

When the rate earned on book value of the equity is equal to the capitalization rate, the market price per share will tend to equal the book value per share. If the company's stock is selling at book value and the company needs to sell stock, there is no doubt that the net proceeds from the sale of this additional stock will be below book value, i.e., dilution will result. This is because incident to the sale of stock are two costs, the cost of financing and pressure, which act to reduce the net proceeds to the company.

By cost of financing, I am referring to such costs as legal and brokerage fees, accounting expenses, taxes and the like. Pressure is a little more complex. When additional stock is thrown on the market, it may have the tendency of putting the market price under pressure, i.e., the price may drop. If there is this pressure drop in the market price during an offering period, it should be accounted for, since we are attempting to set equity earnings sufficient to allow for additional financing. Based on studies I have made, shown on Appendix

Pages 17 through 25, the effects of the cost of financing and pressure would act to reduce the net proceeds by no more than 7.5%. This indicates that at bare minimum the allowed rate earned on equity would have to be sufficient to produce a market price about 7.5% above book value, i.e., a market to book ratio of 1.075 if the company needed to sell additional common stock.

Obviously, such a margin is not sufficient under the usual circumstances. As is well known, stock prices fluctuate for two reasons: one, the earnings of the company itself fluctuate causing the market price to change; two, changes in the general level of confidence in the economy cause stock prices generally to vary, which in turn tends to pull all stocks up or down. Thus, allowing for just a minimum margin would provide no protection against these very real fluctuations in market prices. In that case, the company would have to be lucky to avoid dilution. It would have to hope that when it needed to raise equity capital its market price was at or above normal. That is clearly not a reasonable basis for setting rates where the company has the need to sell additional common stock.

Q. What is an appropriate rate to be earned on book value at this time in light of an investors' required rate of return of 13.75% to 14.00%?

A. The threshold question is, does Middle South Utilities need to have available to it additional equity in the near future; that is, the period of time rates subject to this proceeding are likely to be in effect? MSU's equity ratio at year-end 1980 was 30.0%. The System's equity ratio, excluding MSE, was only 28.4%. Given the System's 1981 construction program, excluding MSE, and the financing necessary to meet it, its year-end 1981 equity ratio will most likely be only 29.4%. As previously indicated, a total of $206 million in common stock sales will be required to provide part of the financing necessary to meet the System's 1981 construction objectives. Since these sales will not even be sufficient to produce an equity ratio within the range of reasonableness, the answer to the threshold question is that Middle South Utilities does have need for additional equity financing in the near-term future. Thus, under the prospective circumstances that the Company needs to attract additional equity capital, then it should be allowed to earn at a rate sufficient to protect it against possible downward price fluctuations, as well as to allow it to cover financing costs and pressure. Since the Company will have to sell additional equity, the extent to which the allowed return on equity should exceed the investors' required rate of return must be determined.

There are three basic factors that need to be considered in making this determination. First, in what phase of the stock market are we now? Second, what is the probable market drop for MSU common stock, on a relatively short-term basis; and third, what is an appropriate allowance for the cost of financing and pressure? I shall consider these factors in order.

As concerns MSU, the current market price for its common stock is on the low side. At present, the $12 market price for MSU common is about 70% of its high price over the last three years. Thus, it is clear that we still are in a somewhat depressed utility market situation relative to what was experienced over the last three years.

Second, based on an analysis of market prices over the last 36 months, which compares the high price in a given month with the low price two months later, it is reasonable to expect that on average a 7% margin of protection against short-term market declines in MSU's common stock is all that is required in a reasonably normal market. This is the kind of decline that can be expected at any time in the market cycle. I selected a two-month period because setting of the sales date of a new stock issue usually requires approximately a two-month lead time.

Third, as I have previously discussed, studies we have made over a period of many years indicate that the cost of financing and pressure is no more than 7.5%. To take care of these factors on a compound basis, a market price 16% above book value is needed.

Q. Have you made a study to determine what rate earned on book equity will produce a market price 16% above book?

A. Yes. It will be recalled that I have found the capitalization rate for LP&L, i.e., the investors' required rate of return, to be 13.75% to 14.00%. I have also determined that a reasonable market to book ratio is 1.16. The remaining question is, what margin in the rate of earnings above the capitalization rate is necessary to cause the market price to move to a level 16% above book value?

DCF theory, as well as common sense, tells us that as the rate of earnings on book value increases above the investors' required rate of return, the investor will bid up the price of the common stock so that he can anticipate receiving his required return, no more and no less. Assume for a moment that a company pays out all of its earnings in the form of dividends. Then the investor's total return is equal to the dividend yield. Assume further that the capitalization rate is 11.5%, and that investors expect the company to earn 11.5% on book value. As a result the investor will set the market price at book value in order to obtain an 11.5%

dividend yield, i.e., an 11.5% return. Now suppose the company's rate of earnings increases to 12.5% and that it pays it all out in dividends. Investors, still requiring an 11.5% return, will bid up the market price so that they will establish a market price at 1.087 times book value. Obviously, this must happen, since all investors are competing for this return, that is, the 11.5%, and are willing to pay the price which will allow them the expectation of earning their 11.5% required return. In that way, the 12.5% rate earned on book will produce an 11.5% return on market price.

Returning to the real world, we find that companies generally do not pay out 100% of earnings in dividends. In the past, Middle South Utilities has paid out about 65% of its earnings as dividends. In view of this, the response of [illegible] investor will depend primarily on four factors: first, the rate earned on book; second, the capitalization rate; third, the dividend payout ratio (or the retention ratio, which is one minus the payout ratio); and, fourth, the growth in total equity capital.

The last factor bears further discussion. When the company sells stock at net proceeds above book value, the company, and, hence, the investor, is able to obtain growth in earnings and dividends per share. Assume a company has 100 shares outstanding with a book value per share of $20, i.e., a total equity of $2,000. If that company were to sell an additional 10 shares at net proceeds of say $30, the equity capital would increase by $300, so that shares would now total 110, and equity would total $2,300. This produces a new book value per share of $20.91. Thus, the sale of stock added $.91 to book value per share, which resulted in a growth of 4.6%.

Now, with a constant rate of earnings on book value of say 12%, we find that earnings per share based on a $20 book value per share would be $2.40 and on a $20.91 book value per share would be $2.51. Again, an increase of 4.6%. With a constant dividend payout ratio, the dividend would also increase by 4.6%. Summarizing, we see that growth in dividends can come about solely from the sale of stock at net proceeds above book value.

The amount of such growth that can be expected is a function of two factors; first, the total growth in equity capital the company needs in the future, and the portion of this that will be obtained from retained earnings.

To continue the previous example, were the company to need a total increase in equity capital of $400 in a year and were it to have additional retained earnings of $100 in that year, it would have to sell stock sufficient to realize $300 of net proceeds. Thus, it can be seen that the total capital that must be obtained by the sale of stock is equal to the total needed increase in equity capital less the increase to be obtained from retained earnings.

On Page 17 of my Exhibit, I show that based on a capitalization rate of 13.75%, a 1.16 market to book ratio will be obtained with a 14.7% rate of earnings on book value. As shown there, I have based this determination on MSU's historical and likely long-term future retention ratio of 35% and a growth in total equity capital of 11%. I have also used the 7.5% maximum cost of financing and pressure, which I discussed previously, in determining the net proceeds of stock sales. On Page 18 of the Exhibit, I show that a 14.95% return on equity would be needed to produce a 1.16 market to book ratio at a 14.00% equity capitalization rate.

While the formulation appearing on Pages 17 and 18 seems complex, in reality it is not. Simply put, as shown there, the expected market price is equal to the dividend divided by the difference between the capitalization rate and the growth in book value per share. This basic DCF equation is then expanded to determine the total growth in book value per share from the two sources previously discussed, retained earnings and outside sales. This then permits us to determine what market to book ratio will be associated with a particular rate earned on book value and a particular capitalization rate in the kind of situation we have been experiencing.

In my judgment, if LP&L were to be allowed to earn 14.75% to 15.00% on its book equity, as opposed to rate base, and if, in fact, it earned at that level for a long enough period to demonstrate to investors that this is a sustainable level of earnings, then I think it is a reasonable conclusion that its common stock, if traded, would sell at prices about 16% above book in the kind of market situation that has prevailed, on average, over the last three years, and is likely to prevail in the nearer term future. Hence, I believe that a 14.75%-15.00% return on equity is a fair and reasonable level of earnings for Louisiana Power & Light.

Q. Mr. Lurito, what did you mean when you said book value as opposed to rate base?

A. Were a utility's total financial capital equal to its rate base, a 10% allowed return on rate base would, of course, equate to a 10% allowed return on total capital. However, if rate base exceeds total capital, a 10% allowed return on rate base will produce more than a 10% allowed return on total capital. For example, suppose a utility had $1,000 of equity capital in its capital structure and a 100% equity ratio. Suppose further that its rate base were $1,200 because $200 of plant represented non-investor supplied capital. If a 12.5% return on book equity were found appropriate, but such a return were applied to rate base, the allowed dollar return would be $150. Such a dollar return represents a 15% return on book equity and not a 12.5% return on book equity. It is clear that such a result would also obtain even if the utility had an equity ratio less than 100%.

Q. What is the relevance of this to the case at hand?

A. At December 31, 1980, unamortized job development tax credits were equal to about 2.5% of LP&L's total investor-supplied capital. Were an 11.73% overall rate of return allowed on a $1,025 rate base, that is, on a rate base which included $1,000 of investor-supplied capital and $25 of unamortized investment tax credits, a company would have a total dollar return of $120.23 ($1,025 x 11.73%). If the company has a capital structure consisting of $500 of debt at a cost rate of 9.93%, $130 of preferred at a cost rate of 9.97% and $370 of equity capital at a cost rate of 14.75%, its fixed charge obligations would be $62.61 ($500 x 9.93%, plus $130 x 9.97%). Thus, it would have $57.62 ($120.23 - $62.61) in income applicable to its common equity. Such an income available for equity would produce a 15.6% return on equity ($57.62/$370). In other words, a 14.75% allowed return on equity would actually result in the opportunity for LP&L to earn a 15.6% return on equity capital.

In view of the fact that in past rate orders this Commission has not deducted unamortized job development investment tax credits from the Company's rate base, a 14.75% return on equity, if adopted, will, based on the capital structure and cost rates of capital I find appropriate for regulatory purposes, provide the Company the opportunity to earn about a 15.6% return on equity.

Counsel has advised me that based on the recent IRS regulations relating to the issue of unamortized investment tax credits, this Commission can, in determining the appropriate return on equity to be allowed in this case, take into consideration the effect on several financial indicators, such as capital structure, coverage ratios, earnings/price ratios, and market to book ratios, of not deducting unamortized investment tax credits from rate base and allowing a return on such credits of no less than the overall cost of investor-supplied capital. In view of this, I would urge this Commission to consider the fact that while a 14.75% return on book equity would, if earned, likely produce a 1.16 market to book ratio, the effect of not deducting unamortized job development investment tax credits from the rate base will likely generate a higher market to book ratio than the 1.16 I have targeted. Indeed, at a 14.75% cost of equity, a 15.6% return on equity, if earned, could well produce a market to book ratio in excess of 1.20. I also urge the Commission to take note of the fact that interest and fixed charge coverage ratios will also be more favorable than what would appear to be implied by an allowed return on book equity of 14.75%. Should the Commission find that a 15% return on equity is appropriate, the Company would in effect be allowed to earn 15.8% on equity. While I have not reduced my 14.75% to 15.00% return on equity recommendation in light of this discussion, it would be proper for this Commission to give whatever weight it considers appropriate to it in determining the fair rate of return for the Company.

F. CAPITAL STRUCTURE

Q. Having developed the cost rates of debt, preferred and equity, what was the next step in the determination of the cost of capital and fair rate of return to Louisiana Power & Light?

A. Having developed these cost rates, I next developed the applicable capital structure. For the reasons stated previously, I have relied on the cost rates of the various types of capital and the capital structure of Middle South Utilities, excluding Middle South Energy.

I, therefore, developed the capital structure of the System, excluding MSE, at December 31, 1981, by adjusting the capital structure as of December 31, 1980 for 1981 financing. This produces a capital structure containing 57.46% debt, 13.13% preferred, and 29.41% common equity.

I previously indicated in the discussion of the cost of debt and preferred that MSU should meet its $717.347 million 1981 construction program through the flotation of $372.021 million in new long-term debt, $30 million of new preferred, $206.496 million of common stock and by increasing its short-term debt by $24.705 million. I also posited that $124.473 million of the funds raised externally will be used to meet its maturing debt and sinking fund requirements. The capital structure at December 31, 1981 was developed by adjusting the December 31, 1980 capital structure to include the 1981 financing described above. In my opinion, however, this does not produce a reasonable capital structure, that is, one which balances safety and economy. Based on my studies, a capital structure containing 50% debt, 13% preferred and 37% common equity is required to meet the test of reasonableness.

Q. On what basis do you conclude that a capital structure containing 37% common equity is reasonable?

A. Rate regulation should not necessarily be based on the existing capital structure, but rather on a safe and economical capital structure. The two main criteria in the determination of an appropriate capital structure are <u>economy</u> and <u>safety</u>.

The advantage of debt in the capital structure is that it costs less than equity. Not only is debt less costly, but the interest charges are deductible for income tax purposes, and, hence, act to reduce such taxes. Therefore, it would <u>appear</u> that the more of this lower cost capital there is in the capital structure, the lower the overall cost of capital and fair rate of return will be.

Whether that turns out to be the case depends, of course, on whether the increase in the debt ratio acts to increase the cost rates of both debt and equity so as to over-balance the benefits of the larger proportion of debt. This is the question of <u>economy</u>.

In addition, there is the overriding question of safety. A company must be sure that it does not finance with so much debt that it cannot cover interest charges during a period of depressed earnings.

A balance must, therefore, be struck between economy on the one hand, and safety on the other. Of course, ultimate safety is achieved where there is no debt in the capital structure, but that is totally unrealistic. Not only would 100% equity financing be overly and unnecessarily conservative, but it would preclude the utility from tapping a large source of capital, i.e., the institutions that by law or predisposition put all or a large part of their funds into debt securities. Reference here is to pension trusts, and the like.

Ultimately, safety is the determining factor as to what constitutes an appropriate capital structure, because within rather wide limits the overall cost of capital falls as the debt ratio rises. The economy is there; the question is how far may a company go without exposing itself to the danger of impaired credit or worse, possible default during a recession.

Theoretical studies have been published that argue that the cost of capital is unaffected by the capital structure. There also have been studies that argue the opposite position; the latter contending that the former are based on unrealistic assumptions, contrary to the facts of corporate life. It would seem beyond argument that if income taxes are taken into account (and the former school does <u>not</u> take them into account) the conclusion must be that capital structure does affect the overall cost of capital.

Q. With these principles in mind, why shouldn't the determination of the fair rate of return always be based on the use of the actual capital structure?

A. Assume first that the utility has a capital structure containing an excessive amount of debt. Use of such a capital structure in the determination of the fair rate of return could result in such low earnings as to make it impossible for the company to be able to lower its debt ratio. Low and volatile equity earnings stemming from excessive debt ratios are not conducive to equity financing. If this situation persists, the credit of the company may well deteriorate to a point where even with its unbalanced capital structure, the cost rates of debt and equity would rise. Consequently the overall cost of capital would be higher that it would have been had the company mantained a reasonable capital structure all along.

Suppose now that the contrary situation exists; namely, the debt ratio is well below a "desirable" debt ratio. Use of such a capital structure would impose an unnecessary penalty on the ratepayers, with no real benefit to investors. Thus, here too, sound regulation would require the use of a "desirable" capital structure for rate regulatory purposes. Consequently, regardless of the relationship between the actual and the "desirable" capital structure, it would seem that regulation should, except in the most unusual circumstances, be based on the "desirable" capital structure.

It is not really in the interest of investors to have too low a debt ratio. The extra protection for the debt may neither be necessary nor productive of a lower cost of debt; and the loss of leverage for the equity may adversely affect the quality of the equity investment. Equity investors are willing to assume some risks, else why would they invest in equities? They also want a chance for higher earnings, else why take the risks? One important way of achieving these higher equity earnings is by having leverage (i.e., having part of the operation financed by low cost debt); this permits a higher return on the equity than is available on the total capital. For example, if total capital earns 9%, but half of it is financed with 6% bonds, the equity will earn 12%. However, if only one-quarter is financed with 6% bonds, the equity will earn only 10%. At a given overall rate of earnings, the lower the debt ratio, the lower the rate of equity earnings.

It must be kept in mind that while debt is entitled to adequate protection, equity is entitled to a reasonable amount of leverage and the increased rate of equity earnings such leverage will produce. Thus, even from the investors' point of view, too low a debt ratio is not without its disadvantages.

On the other hand, too high a debt ratio will hurt not only the investor, but also the consumer, because too high a debt ratio will eventually harm the utility's ability to attract capital which will result in a higher required rate of return and higher utility rates.

Thus looked at with some perspective, it is to everyone's advantage for rate regulation to be based on a reasonable ("desirable") capital structure; one that is safe, but one that also is economical. So while we do not have a conflict to resolve, we do have to strike a balance as to capital structure.

With the above principles as a guide, I now turn to the question of whether Middle South Utilities' proforma year-end 1981 capital structure is a reasonable one for fair rate of return purposes.

I have compared MSU's equity ratio, on a year-end basis, to that of all other operating electric and combination companies regulated on an original cost basis, some 64 companies. The average year-end equity ratio for these companies in 1979 was 35.8%. MSU's was 29.6% in 1979 and 30.0% in 1980. Thus, MSU's year-end 1979 and 1980 equity ratio was far lower than the ratio for the average company. Consequently, I recommend that a capital structure containing 37% equity be used for regulatory purposes in this case since such a ratio is in line with that of the typical electric.

Q. Mr. Lurito, did you perform any other tests to determine the safety of the capital structure you have recommended?

A. Yes I did. I tested a 37% equity ratio given the overall cost rate of capital I have previously set forth. The study that was performed might best be described as a "variability test." For each year 1960 through 1980, I developed the rate earned on average total capital for Middle South Utilities. Using standard statistical techniques, I then developed a measure of the variability of the rate earned on average total capital for MSU during the period, taking the trend in the rate earned on average total capital into account. The rate earned on average total capital for MSU during the 1960-1980 period ranged from a low of 6.21% in 1961 to a high of 10.88% in 1980. During this period, the rate of earnings on average total capital grew at a trend rate of 2.48% and the average rate of earnings over the period was 7.93.%. Given these data, the variability of earnings for MSU was developed during the period, taking the slight upward trend into account.

Before we get lost in statistical jargon, this can be explained in more simple terms by way of an example. Suppose a given company has certain rates of earnings over a ten-year period. Suppose further that the company's rate of earnings has been increasing slightly during the period. Using statistical methods, the trend line in the rate of return on average total capital can be computed, and the extent to which the actual returns deviated, or fluctuated, around this trend line can be measured. The actual rate of earnings in a given year will most likely be either above or below the trended value for the given year. The question is: "What are the chances that in a given year, the actual rate of return on average total capital will be above or below the trended value by a certain amount?" It is here that statistical theory can help. Using standard statistical theory, it can be shown that 67% of the time the actual value will be within one "standard error" of the trended value. Another way of saying this, with respect to the rate of return on average total capital, is that the actual rate of earnings on average total capital in a given year can be expected to deviate from the trended value in that year by more than one standard deviation only one-third of the time, say about three years out of the ten years.

Returning now to the case at hand, I computed the standard error of estimate, which is the accepted measure of deviation or fluctuation around a trend line, for the rate of return on average total capital for MSU for the period 1960 through 1980. The standard error of estimate of the rate earned on average total capital for

MSU during this period was 4.2499% which would indicate that we can expect the actual rate of earnings in any given year to deviate either up or down from the trended value by more than 4.2499% of the trended value only one out of three times. Not only did I compute the standard error of estimate from 1960 to 1980, but also from each of the years in the period to 1980. The average of these standard errors of estimate was 4.5496%.

Now statistical theory would also indicate that the chances that the actual rate of return on average total capital for Middle South Utilities would deviate from the trended value, again above or below, by more than 2.5 standard errors of estimate are only 1 in 80, which are thin odds indeed. If we use the higher average standard error of estimate. 4.5496% over the 1960-1980 time interval, this means that the actual value can be expected to deviate <u>below</u> the trended value by 10.63% $(1-1/1.04596^{2.5} \text{ x } 100)$, or more in only 1 out of 80 times. The question is, what effect would such a 10.63% deviation <u>below</u> an 11.73% overall rate of return consistent with a 37% equity ratio have on MSU's <u>after tax</u> interest coverage?

To answer this question, I assume that MSU was earning an 11.73% overall rate of return and that this rate of return fell by 10.63%, that is, it fell by 2.5 standard errors of estimate. If this happened, the rate of return on total capital would be 10.48% (1 - .1063 x 11.73%). The portion of this 10.48% rate of return which MSU would have to use to meet its interest obligations is 4.97 percentage points (50% of 9.93%). This means then, that MSU's interest coverage, after taxes, would still be 2.1 times. What all this means, of course, is that a capital structure containing 37% equity is eminently safe for regulatory purposes.

It should be remembered that I have based my test on a very drastic possible outcome. That is, I have used the average standard error of estimate found for the period 1960-1980 along with a 10.63% fall in the overall rate of return--a fall that can be expected to occur in only 1 out of 80 years. Despite these drastic assumptions, we find that a capital structure containing 37% common equity is capable of withstanding an earnings decline with a 1 in 80 chance of occurring and still produce an after tax interest coverage of 2.1 times. Thus, in my opinion, a 37% equity ratio for MSU is well within the range of reasonableness.

Mr. Louiselle has performed an exhaustive analysis of the financial integrity of LP&L at various AFUDC capitalization rates using the capital structure I have recommended. As he has shown, were LP&L to capitalize AFDUC at the rates he has recommended for Waterford and the other construction projects, its coverage, both total interest and indenture, would be at levels sufficient to allow it to finance its future construction programs on reasonable terms. These analyses confirm the reasonableness of the capital structure I recommend be used for regulatory purposes.

G. FAIR RATE OF RETURN

Q. Having developed the cost rates of debt, preferred and equity what was the next step in the determination of the cost of capital and fair rate of return to the Louisiana Power & Light Company?

A. As shown on Page 19 of my Exhibit, at year-end 1981 Middle South Utilities, excluding MSE, should have a capital structure consisting of 50% debt, 13% preferred, and 37% equity capital. Combining this desirable capital structure and the cost rates I have developed produces a cost of capital of 11.73% to 11.82%.

Q. Does the 11.73% to 11.82% rate of return include any margin for safety?

A. Yes it does. The cost rates of debt and preferred stock fully reflect the increased cost of the additional financing necessary in 1981. One of the significant causes of the erosion in the rate earned on book equity is the sale of additional debt and preferred stock at cost rates in excess of the fair rate of return. By basing the fair rate of return on the costs of debt and preferred, inclusive of the additional financing, this potential cause of equity earnings erosion will be nearly eliminated at least through 1981.

Q. What then is your recommendation as to the fair rate of return for the Louisiana Power & Light Company?

A. I find that the fair rate of return for LP&L is from 11.73% to 11.82% to be applied to a net original cost rate base.

APPENDIX

DISCOUNTED CASH FLOW MODELS:
THEORETICAL PROPERTIES AND APPLICATION UNDER UTILITY REGULATION

The purpose of this Appendix is to set forth the mathematical derivation and properties of various Discounted Cash Flow (DCF) models. These models can be divided into two categories, discrete and continuous. Within the discrete models category, there are, of course, virtually an infinite number of possibilities as to the time pattern of payment of the expected dividends per share. However, the properties of three of the basic time patterns of dividend payments are interesting to consider.

I. Discrete Models

A. It can be assumed that dividends grow at a constant compound annual rate, g, and that they are paid annually at the end of each year, t. Under these conditions, the price today, Po, can be shown to be as follows:

(1) $Po = \frac{D_1}{k - 3}$, where D_1 is the dividend expected to be paid at the end of year 1 and k is the equity capitalization rate.

The equity capitalization rate is:

(2) $k = D_1/Po + g$

Hence, the appropriate dividend yield to use to compute the equity capitalization rate is D_1/Po. The proof for equations (1) and (2) appears on Appendix Schedule 1 to my Exhibit. A numerical example appears on Appendix Schedule 2. In this example, the selling price of the stock at the end of year 5 can be viewed as a dividend payment.

B. It can be assumed that dividends grow at a rate which when compounded quarterly produces an annual growth rate, g. It is assumed that dividends are paid quarterly at the end of each quarter. Under these conditions, the price today, Po, can be expressed as follows:

$$(1)\quad Po = Do \left[\frac{(1 + g)^{1/4}}{(1 + k/4)} + \frac{(1 + g)^{1/2}}{(1 + k/2)} + \frac{(1 + g)^{3/4}}{(1 + 3k/4)} + \frac{(1 + g)}{(1 + k)}\right] \left[\frac{k + 1}{k - g}\right]$$

The proof for this equation appears on Appendix Schedule 3 to my Exhibit. As noted there, equation (1) cannot be manipulated to produce an equation for k as simple as that which results from Discrete model IA. Nevertheless, in applying the DCF method, equation (1) can be solved for k, since Po, Do and g are knowns.

C. It can be assumed that dividends grow at a constant compound rate, g, and that they are paid quarterly at the end of each quarter. It is further assumed that they remain constant for four quarters, increase and remain constant for another four quarters. Under these conditions, the price today, Po, can be shown to be as follows:

$$(1)\quad Po = Do \left[\frac{1}{(1 + k/4)} + \frac{1}{(1 + k/2)} + \frac{1}{(1 + 3k/4)} + \frac{1}{(1 + k)}\right] \left[\frac{k + 1}{k - g}\right]$$

The proof for this equation appears on Appendix Schedule 4 to my Exhibit. As noted there, equation (1) cannot be manipulated to produce an equation for k as simple as that which results from Discrete Model IA. Nevertheless, in applying the DCF method, equation (1) can be solved for k, since Po, Do and g are knowns.

II. Continuous Model

The continuous DCF model assumes that dividends per share grow continuously at an annual rate, g, and that the dividend is paid out continuously. Under these conditions, the price today, Po, can be shown to be as follows:

(1) $Po = \frac{Do}{k - g}$, where Do is the current annual dividend, and k is the equity capitalization rate.

The equity capitalization rate is:

(2) $k = Do/Po + g$

Hence, the appropriate dividend yield to use to compute the equity capitalization rate is Do/Po. The proof of equations (1) and (2) appears on Appendix Schedules 5 and 6 to my Exhibit.

III. The Dividend Yield, Equity Capitalization Rate, Return on Equity Nexus

As can be seen from the foregoing analysis in this Appendix, the appropriate calculation for the dividend yield in the process of estimating the equity capitalization rate, k, depends on the time pattern assumed for the payment of dividends. For example, if it is assumed that dividends are paid annually, the appropriate dividend yield to use in estimating the equity capitalization rate is D_1/Po, where D_1 is the expected dividend and Po is the current stock price. On the other hand, if it is assumed that dividends grow and are paid continuously, the appropriate dividend yield to use to estimate the equity capitalization rate is Do/Po.

However, neither of these assumed time patterns of dividend payments reflects the typical pattern of dividend payments for public utilities. The typical pattern for utilities is the one described by Discrete Model IC, shown on Page 2 of this Appendix, where the quarterly dividend remains constant for a year, then increases and remains constant for another four quarters and then grows again, etc. In this more realistic world, there is no constant relationship between the current quarterly dividend, Do, and the extent to which it should be increased, in order to obtain the appropriate dividend yield for purposes of estimating the equity capitalization rate. In other words, while it was seen that it is appropriate to increase the current dividend by one plus the dividend growth rate in the case where dividends are assumed to grow annually and to be paid annually, there is no such simple relationship in the more realistic case just discussed. To see this is the case, consider the following example. Suppose it is assumed that the equity capitalization rate is 13%, that investors expect dividends to grow at a 4% rate and that the current quarterly dividend per share is \$.40. Equation (4), which appears on Appendix Schedule 4 to my Exhibit, can be used to solve for the market price, Po, investors would be willing to pay for such a stock as follows:

$$Po = \$.40 \left[\frac{1}{1 + .13/4} + \frac{1}{1 + .13/2} + \frac{1}{1 + .13(3)/4} + \frac{1}{1 + .13}\right] \left[\frac{.13 + 1}{.13 - .04}\right]$$

$$Po = \$18.60034$$

If the analyst observed an \$18.60034 market price, a \$.40 current quarterly dividend and knew that investors required a 13% return on their investment and expected a 4% growth rate, he would use a 9% dividend yield (13% - 4%) in applying the DCF method. However, a 9% dividend yield would not be produced using 4Do/Po or 4Do(1+g)/Po, but rather 8.602% or 8.946%. In this case, both the use of a current dividend yield and a dividend yield based on the expected dividend would produce an understated estimate of the equity capitalization rate.

Suppose the example above were changed so that a 6% growth rate were expected, everything else remaining the same. Using equation (4), the current market price would be:

$$Po = \$.40 \left[\frac{1}{1 + .13/4} + \frac{1}{1 + .13/2} + \frac{1}{1 + .13(3)/4} + \frac{1}{1 + .13}\right] \left[\frac{.13 + 1}{.13 - .06}\right]$$

$$Po = \$23.91472$$

If the analyst used 4Do/Po to estimate the dividend yield, he would obtain 6.6904%; if he used 4Do(1+g)/Po to estimate the dividend yield, he would obtain 7.09187%. Since the correct dividend yield is 7% (13% - 6%), the use of the current dividend yield understates the equity capitalization rate whereas the use of the expected dividend would produce an overstatement of the capitalization rate.

The point is clear: the extent to which the use of the current dividend yield understates the equity capitalization rate or the extent to which the use of the expected dividend understates or overstates the capitalization rate depends on the ratio of the expected growth rate to the capitalization rate. The larger the ratio, the smaller is the markup of the current dividend necessary to obtain the correct dividend yield and the capitalization rate. The larger the ratio, the greater is the extent to which the use of the expected dividend in computing the dividend yield tends to overstate the correct dividend yield and capitalization rate.

Even though equation (4) can be used to determine the correct dividend yield to be used to arrive at the correct equity capitalization rate, this in no way means that the resulting equity capitalization rate is appropriate for regulatory purposes. To see why this is the case consider the following example. Suppose the equity capitalization rate for a utility is correctly determined to be 13%, and that this 13% was arrived at either by correctly marking up the current dividend by some amount that was dictated by the relationship between the expected growth rate and the equity capitalization rate or by directly estimating the capitalization rate through the use of equation (4). Suppose further that regulation desired to permit the utility to earn a return on equity sufficient to produce a market to book ratio of 1.0. As will be shown, were the utility to be allowed to earn a 13% return on equity, it would actually be allowed to earn in excess of 13%. This occurs because a 13% rate of earnings when applied to rate base causes earnings to grow continuously at a 13% rate which results in an annual rate of earnings in excess of 13%. This result is analogous to putting $100 in a savings account at a 10% interest rate where interest is computed on a daily basis. The daily compounding will result in $10.51 of interest at year end, not $10. Hence, the effective interest rate is about 10.5%, not 10%.

The point is clear: if regulation were to allow a 13% return on equity because the equity capitalization rate were correctly found to be 13%, the utility would in effect be permitted to earn in excess of 13%. This would, of course, allow the utility to achieve a market to book ratio above the 1.0 targeted by regulation, which is improper. The question that arises, therefore, is what return on equity should the utility be allowed to earn? The correct answer can be obtained in either of two ways: (a) adjust the allowed return on equity to a level below 13%, even though the correct equity capitalization rate is 13%, or (b) compute the equity capitalization rate using the current dividend and current market price to calculate the dividend yield which results in an understatement of the capitalization rate of 13% and allow the utility to earn at that rate which will, as seen, actually result in a higher earned return on equity.

To see this concretely, consider the case at hand. Suppose this Commission were to allow MSU to earn 13.75% on equity, which, given the 13.75% equity capitalization rate I have found appropriate, would tend to produce a market to book ratio of 1.0. The Company's book value per share at year-end 1980 was $17.75. If regulation were to allow a 13.75% return on equity on a $17.75 book value per share, the Company's earnings per share would grow continuously at a daily rate of .1375/365, or .000376712. Hence, at the end of the first quarter, 91 days, MSU's earnings per share would be $.618915 ($17.75 x 1.000376712^{91} - $17.75). If it pays out a $.405 dividend, its retained earnings per share are $.618915 - $.405, or $.213915. Its book value per share is now $17.75 + $.213915, or $17.963915. In the second quarter its earnings per share will be $.626375 ($17.963915 x 1.000376712^{91} - $17.963915). If it pays out $.405, its retained earnings per share are $.221375. Its book value per share is $17.963915 + $.221375, or $18.185290. In the third quarter its earnings per share will be $.634093 ($18.185290 x 1.00036712^{91} - $18.185290). If it pays out $.405, its retained earnings per share are $.229093. Its book value per share is $18.185290 + $.229093, or $18.414383. In the fourth quarter, its per share earnings will be \$.642081 (\$18.414383 x 1.000376712^{91} - \$18.414383). If it pays out \$.405, its retained eanings per share are \$.237081. Its book value per share at the end of the fourth quarter is \$18.414383 + \$.237801, or \$18.661464.

In this year, the Company's income available for equity per share is the sum of its quarterly earnings per share, or \$2.521381 (\$.618915 + \$.626355 + \$.634093 + \$.642081). Its rate of return per share is thus 14.20% (\$2.521381/\$17.75), which is above the 13.75% equity capitalization rate. Hence, a market to book ratio greater than 1.0 will result.

However, as was mentioned, I have estimated MSU's dividend yield using the average of 36-months of current diviend yields; this perhaps understated the equity capitalization rate if investors determine the market price they are willing to pay for MSU stock using a DCF model like Discrete Model IC. To measure the extent of this possible understatement, I solved equation C.(1) shown on Page 2 of this Appendix using the 13.75% capitalization rate I have recommended, the 3.00% growth estimate I found appropriate for MSU, and MSU's current \$.405 quarterly dividend per share. The result is a market price of \$15.805123. Such a market price and a \$1.62 annual dividend produces a dividend yield of 10.25%, and an equity capitalization rate of 13.25%. Hence, it may understate the appropriate dividend yield by 50 basis points. However, as seen, a 13.75% return on equity allowance permits the Company to earn 14.20% on equity, not

13.75%, or an excess of 45 basis points. Therefore, the possible understatement of the equity capitalization rate using my method of computing the dividend yield is virtually offset by the excess earnings a 13.75% return on equity, if allowed, would produce. Accordingly, the 13.75% equity capitalization rate and the 14.75% return on equity based on it that may be appropriate in this case can be used for regulatory purposes.