MISSISSIPPI POWER & LIGHT COMPANY
Helping Build Mississippi
P. O. BOX 1640, JACKSON, MISSISSIPPI 39205

June 28, 1982

NUCLEAR PRODUCTION DEPARTMENT

U. S. Nuclear Regulatory Commission
Office of Nuclear Reactor Regulation
Washington, D.C. 20555

Attention: Mr. Harold R. Denton, Director

Dear Mr. Denton:

SUBJECT: Grand Gulf Nuclear Station
Units 1 and 2
Docket Nos. 50-416 and 50-417
File 0260/16551
Financial Reports
AECM-82/284

The annual financial reports for 1981 of Middle South Energy, Inc. and South Mississippi Electric Power Association, owners of and Mississippi Power & Light Company, operator of Grand Gulf Nuclear Station, are herein submitted in response to the requirement of 10 CFR 50.71(b).

Yours truly,

L. F. Dale
Manager of Nuclear Services

PJR/JDR:de
Attachments

cc: Mr. N. L. Stampley (w/o)
Mr. R. B. McGehee (w/o)
Mr. T. B. Conner (w/o)
Mr. G. B. Taylor (w/o)

Mr. Richard C. DeYoung, Director (w/a)
Office of Inspection & Enforcement
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Mr. J. P. O'Reilly, Regional Administrator (w/a)
Office of Inspection and Enforcement
U.S. Nuclear Regulatory Commission
Region II
101 Marietta St., N.W., Suite 3100
Atlanta, Georgia 30303

M004

Deloitte
Haskins+Sells

MIDDLE SOUTH ENERGY, INC.

Financial Statements for the
Years Ended December 31, 1981 and 1980
and Auditors' Opinion

Deloitte
Haskins+Sells

39th Floor
One Shell Square
New Orleans, Louisiana 70139
(504) 581-2727
Cable DEHANDS

AUDITORS' OPINION

Middle South Energy, Inc.:

We have examined the balance sheets of Middle South Energy, Inc. as of December 31, 1981 and 1980 and the related statements of income, stockholder's equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1981 and 1980 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 12, 1982

MIDDLE SOUTH ENERGY, INC.

BALANCE SHEETS, DECEMBER 31, 1981 AND 1980

-- A S S E T S --	1981 (in thousands)	1980
UTILITY PLANT - Construction work in progress, at cost (Notes 1-D, 2 and 4).......	$2,184,343	$1,784,351
CURRENT ASSETS:		
Cash and special deposits (Note 2)...........	1,735	35,400
Working funds advanced for construction......	2,370	
Recoverable income taxes.....................	7,992	8,437
Other..	871	8
Total............................	12,968	43,845
DEFERRED DEBITS:		
Recoverable Federal income taxes (Note 1-C)..	189,759	125,220
Other..	26	3,666
Total............................	189,785	128,886
TOTAL.................	$2,387,096	$1,957,082

-- L I A B I L I T I E S --	1981 (in thousands)	1980
CAPITALIZATION:		
Common stock - no par value; authorized 1,000,000 shares; issued and outstanding 491,900 shares in 1981 and 443,600 shares in 1980......................................	$ 491,900	$ 443,600
Retained earnings (Note 3)...................	292,039	196,240
Total stockholder's equity............	783,939	639,840
Long-term debt (Note 2):		
Promissory notes - banks...................	941,000	671,000
First mortgage bonds.......................	498,500	498,500
Total long-term debt..................	1,439,500	1,169,500
Total............................	2,223,439	1,809,340
CURRENT LIABILITIES:		
Notes payable (Note 2).......................	92,375	78,151
Accounts payable:		
Contractors' retentions....................	1,653	2,877
Associated companies.......................	148	147
Other......................................	5,062	441
Taxes accrued................................	8,680	7,021
Interest accrued.............................	25,670	26,424
Total............................	133,588	115,061
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1-C)...........................	12,469	18,797
Accumulated deferred income taxes (Note 1-C).	17,600	13,884
Total............................	30,069	32,681
COMMITMENTS AND CONTINGENCIES (Note 2)		
TOTAL.................	$2,387,096	$1,957,082

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	(in thousands)	
INCOME:		
Operating revenues	None	None
Interest income	$ 34	$ 17
Total	34	17
EXPENSES:		
Interest expense	237,496	161,928
Taxes (Note 1-C):		
Federal income taxes	(103,877)	(79,138)
State income taxes	(2,563)	(2,993)
Deferred income taxes and investment tax credit adjustments - net	(2,612)	4,471
Total	128,444	84,268
LOSS BEFORE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	(128,410)	(84,251)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (Note 1-D):		
Equity funds	95,799	66,991
Borrowed funds	128,410	84,251
Total	224,209	151,242
NET INCOME	$ 95,799	$ 66,991

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	(in thousands)	
COMMON STOCK:		
Balance - beginning of year..................	$443,600	$385,700
Sale of 48,300 shares in 1981 and 57,900 shares in 1980 of common stock at $1,000 a share..........................	48,300	57,900
Balance - end of year........................	491,900	443,600
RETAINED EARNINGS (Note 3):		
Balance - beginning of year..................	196,240	129,249
Add - net income.............................	95,799	66,991
Balance - end of year........................	292,039	196,240
TOTAL STOCKHOLDER'S EQUITY...................	$783,939	$639,840

See Notes to Financial Statements.

FUNDS [illegible]		
Operations:		
Net income	(131,022)	[illegible]
Deferred income taxes and investment tax cr[illegible] adjustments - net	224,209	151,242
Allowance for funds used during construction		
Total funds provided from operations		
Other:		
Allowance for funds used during construction		
Decrease in working capital*	35,180	
Miscellaneous - net	3,640	
Total funds provided excluding financing	132,007	71,462
Financing transactions:		
Common stock		57,900
Mortgage bonds	48,300	98,500
Long-term notes payable - banks	270,000	124,000
Short-term securities - net	14,224	82,251
Total funds provided from financing	332,524	362,651
TOTAL FUNDS PROVIDED	$ 464,531	$ 434,113
FUNDS APPLIED TO:		
Utility plant additions:		
Construction expenditures (includes allowance for funds used during construction)	$ 399,992	$ 364,922
Other:		
Deferral of recoverable Federal income taxes	64,539	55,806
Increase in working capital*		9,626
Miscellaneous - net		3,759
TOTAL FUNDS APPLIED	$ 464,531	$434,113

*Decrease (increase) in working capital (excluding short-term securities):		
Cash and special deposits	$ 33,665	$ (3,580)
Working funds advanced for construction	(2,370)	6,007
Recoverable income taxes	445	(8,437)
Accounts payable	3,398	(4,700)
Taxes accrued	1,659	(6,746)
Other - net	(1,617)	7,830
TOTAL	$ 35,180	$ (9,626)

See Notes to Financial Statements.

MIDDLE SOUTH ENERGY, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	(in thousands)	
FUNDS PROVIDED BY:		
Operations:		
Net income	$ 95,799	$ 66,991
Deferred income taxes and investment tax credits adjustments - net	(2,612)	4,471
Allowance for funds used during construction	(224,209)	(151,242)
Total funds provided from operations	(131,022)	(79,780)
Other:		
Allowance for funds used during construction	224,209	151,242
Decrease in working capital*	35,180	
Miscellaneous - net	3,640	
Total funds provided excluding financing	132,007	71,462
Financing transactions:		
Common stock	48,300	57,900
Mortgage bonds		98,500
Long-term notes payable - banks	270,000	124,000
Short-term securities - net	14,224	82,251
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Miscellaneous - net		3,759
TOTAL FUNDS APPLIED	$ 464,531	$434,113

	1981	1980
*Decrease (increase) in working capital (excluding short-term securities):		
Cash and special deposits	$ 33,665	$ (3,580)
Working funds advanced for construction	(2,370)	6,007
Recoverable income taxes	445	(8,437)
Accounts payable	3,398	(4,700)
Taxes accrued	1,659	(6,746)
Other - net	(1,617)	7,830
TOTAL	$ 35,180	$ (9,626)

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Company is authorized to conduct business as a wholly-owned subsidiary of Middle South Utilities, Inc. to provide financing and ownership of certain future base-load electric generating units within the Middle South Utilities System (System).

B. System of Accounts

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

C. Income Taxes

The Company joins its parent in the filing of a consolidated Federal income tax return. In addition, the Company files a consolidated Mississippi state income tax return with certain other System companies.

The Company's interest expense and capitalized taxes are deducted currently for tax return purposes. Deferred Federal income taxes are provided for the income tax effect of such taxes capitalized for book purposes. The allowance for funds used during construction is excluded for purposes of determining taxable income.

Non-current recoverable Federal income taxes represent the tax benefit of the Company's portion of the consolidated Federal tax losses which is expected to be realized during the loss carryforward period.

Investment tax credits allocated to the Company are deferred and will be amortized, based upon the average useful life of the related property, beginning with the year allowed in the consolidated tax return. Unused investment tax credits at December 31, 1981 amounted to $133,768,000, of which $909,000 may be carried forward through 1991, $19,952,000 through 1992, $30,556,000 through 1993, $44,210,000 through 1994, $20,563,000 through 1995, and $17,578,000 through 1996.

construction

the same manner as construction

non-cash items, these credits to the income statement

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. The Company determines its accrual rate for AFDC based on actual interest cost, net of related income taxes, plus a stated rate of return on average common equity as allowed by regulatory authorities. The Company accrued the equity component of AFDC at a 11.6% rate through October 31, 1980. Beginning November 1, 1980, the rate of return used was increased to 13.75%, subject to final regulatory approval. A rate of return of 14% was approved in July 1981 and was applied retroactively to November 1980.

2. COMMITMENTS AND FINANCING

<u>Construction Program</u>

The Company's construction program contemplates construction expenditures (including AFDC) for the Grand Gulf Generating Station (nuclear) of approximately $419.3 million, $216.1 million, and $298.5 million in 1982, 1983, and 1984, respectively. Based upon its anticipated 87.52% interest in Grand Gulf, as discussed in Note 4, and a February 1983 commercial operation date, the Company presently projects total cost (excluding nuclear fuel) for Unit No. 1 to be approximately $2.1 billion. Commercial operation of the two units is dependent upon, among other things, the receipt of operating licenses from the Nuclear Regulatory Commission. Through December 31, 1981, the Company had invested $2,184 million in the Grand Gulf Plant. The Company estimates, pending final review of the cost allocation between the two units upon completion of Unit No. 1, that of this total, $1,723 million was invested in Unit No. 1 and $461 million in Unit No. 2. Construction on Unit No. 2 has been halted pending commercial operation of Unit No. 1. The schedule and cost to complete Unit No. 2 will be dependent upon, among other things, the commercial operation of Unit No. 1.

D. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC). Under this utility industry practice, construction work in progress 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. The Company determines its accrual rate for AFDC based on actual interest cost, net of related income taxes, plus a stated rate of return on average common equity as allowed by regulatory authorities. The Company accrued the equity component of AFDC at a 11.6% rate through October 31, 1980. Beginning November 1, 1980, the rate of return used was increased to 13.75%, subject to final regulatory approval. A rate of return of 14% was approved in July 1981 and was applied retroactively to November 1980.

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Revo...

At Decembe... of promissory notes under ... $808 million with a number of ba... the sum of the prime rate of a speci... 1%. Under this agreement, the Company pa... portion of the commitment and was required to ma... compensating balance on the amount outstanding. Effe... 15, 1981, the agreement was amended and restated, increasin... commitment to $1.311 billion.

At December 31, 1981, the Company had issued $941 million of promissory notes under the restated agreement. This agreement terminates on the earlier of the date the first unit is placed in commercial operation or December 31, 1983 at which time the outstanding principal can be converted to term loans with the banks. Such term loans would mature December 31, 1986 subject to mandatory prepayments of $100 million per year plus interest commencing with the year following the termination date. The promissory notes bear interest at 110% of the sum of the prime rate of a specified New York bank and 1.3%. The Company pays a fee on the unused portion of the commitment. No compensating balances are required.

During 1981 and 1980, the average interest rate on borrowings under these agreements was 22% and 18%, respectively.

Subsequent to year-end the Company negotiated a $315 million loan agreement with a group of foreign banks to supplement its existing credit facilities.

First Mortgage Bonds

The Company placed $400 million of 9.25% First Mortgage Bonds due July 1, 1989 and $98.5 million of 12.50% First Mortgage Bonds due January 1, 2000 with a limited number of institutional investors in 1977 and 1980, respectively. Bonds of the 9.25% Series are redeemable through mandatory sinking fund payments totaling $328 million, with annual requirements ranging from $32 million to $56 million beginning in 1982 through 1988. Bonds of the 12.50% Series are redeemable through mandatory sinking fund payments totaling $93,525,750, with an annual requirement of $6,235,050 beginning in 1985 through 1999. Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indentures. The $32 million sinking fund payment due in 1982 has not been classified with current liabilities as the Company intends to refinance this obligation on a long-term basis through existing credit facilities.

Revolving Credit Agreements

At December 31, 1980, the Company had issued $671 million of promissory notes under a revolving credit agreement of $808 million with a number of banks bearing interest at 110% of the sum of the prime rate of a specified New York bank and 3/4 of 1%. Under this agreement, the Company paid a fee on the unused portion of the commitment and was required to maintain a 5% compensating balance on the amount outstanding. Effective June 15, 1981, the agreement was amended and restated, increasing the commitment to $1.311 billion.

At December 31, 1981, the Company had issued $941 million of promissory notes under the restated agreement. This agreement terminates on the earlier of the date the first unit is placed in commercial operation or December 31, 1983 at which time the outstanding principal can be converted to term loans with the banks. Such term loans would mature December 31, 1986 subject to mandatory prepayments of $100 million per year plus interest commencing with the year following the termination date. The promissory notes bear interest at 110% of the sum of the prime rate of a specified New York bank and 1.3%. The Company pays a fee on the unused portion of the commitment. No compensating balances are required.

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The Company has covenanted with the bondholders that it will complete the first unit of the generating plant no later than December 31, 1984 and the second unit no later than December 31, 1988. In the event either of these covenants is not fulfilled or the Company defaults with respect to 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, Middle South Utilities, Inc. would be required to provide the Company with sufficient funds, to the extent not obtained from other sources, to meet these obligations.

Agreements with Middle South System Operating Companies

The Company and the System operating companies have entered into a series of agreements (collectively, Availability Agreement) whereby (i) the Company has agreed to sell the power available to it from the Grand Gulf Plant to the operating companies and (ii) the operating companies have agreed to make payments or subordinated advances adequate to cover (to the extent not covered by amounts paid for power purchases) all of the operating expenses and certain of the capital costs of the Company. Under certain circumstances, payments under (ii) above may be required to be made commencing December 31, 1984 if the first unit of the plant is not in commercial operation by that date. The Company has assigned its rights to payments from the System operating companies under the Availability Agreement to secure the first mortgage bonds and the borrowings under the revolving credit agreements described above.

In addition, the Company and the System operating companies, in June 1981, entered into an agreement whereby the operating companies are obligated, if the first unit of the plant is not in commercial operation by December 31, 1983, to make advance payments for power purchases to the Company which in the aggregate total $12.5 million per month, such payments commencing January 2, 1984 and continuing until commercial operation of the first unit or December 31, 1984, whichever occurs earlier.

Short-Term Borrowings

The Company has obtained short-term borrowings both through lines of credit established with various banks and through the issuance of unsecured short-term notes with several additional banks. Borrowings under the lines of credit mature on March 31, 1982 and bear interest based on the prime rate of a New York bank. Interest rates on the unsecured notes are based primarily on the Federal funds rate.

Borrowings under these arrangements were as follows:

	December 31, 1981	December 31, 1980
	(In thousands)	
Lines of credit	$72,600	$60,000
Outstanding borrowings under lines of credit	$62,375	$38,151
Other short-term borrowings	30,000	40,000
Total short-term borrowings	$92,375	$78,151
Average borrowing:		
Lines of credit	$37,099	$37,124
Other	40,740	20,428
Total average borrowing	$77,839	$57,552
Average interest rate:		
Lines of credit	19.3%	16.1%
Other	17.6%	14.4%
Combined	18.4%	15.7%
Compensating balances (restricted as to withdrawal at December 31, 1981)	$ 1,715	$ 1,800

Nuclear Fuel Lease

As of December 31, 1981 the Company has a nuclear fuel lease permitting a maximum of $110 million in nuclear fuel. Lease payments, based upon nuclear fuel use, 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, 1981 and 1980 was [illegible]173,000 and $55,211,000, respectively.

[illegible] EARNINGS

[illegible] provisions of the Company's bank loan agreement and [illegible]ond indentures restrict the amount of retained [illegible] for cash dividends on common stock. As of [illegible]e of the retained earnings were available

Borrowings under these arrangements were as follows:

	December 31, 1981	December 31, 1980
	(In thousands)	
Lines of credit......................	$72,600	$60,000
Outstanding borrowings under lines of credit.........................	$62,375	$38,151
Other short-term borrowings..........	30,000	40,000
Total short-term borrowings..........	$92,375	$78,151
Average borrowing:		
Lines of credit..................	[illegible]	$37,124
Other............................	40,740	20,428
Total average borrowing..............	$77,839	$57,552
Average interest rate:		
Lines of credit..................	19.3%	16.1%
Other............................	17.6%	14.4%
Combined.........................	18.4%	15.7%
Compensating balances (restricted as to withdrawal at December 31, 1981)	$ 1,715	$ 1,800

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As of December 31, 1981 the Company has a nuclear fuel lease permitting a maximum of $110 million in nuclear fuel. Lease payments, based upon nuclear fuel use, 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, 1981 and 1980 was $92,173,000 and $55,211,000, respectively.

3. RETAINED EARNINGS

The provisions of the Company's bank loan agreement and first mortgage bond indentures restrict the amount of retained earnings available for cash dividends on common stock. As of December 31, 1981, none of the retained earnings were available for cash dividends.

Borrowings under these arrangements were as follows:

	December 31, 1981	December 31, 1980
	(In thousands)	
Lines of credit	$72,600	$60,000
Outstanding borrowings under lines of credit	$62,375	$38,151
Other short-term borrowings	30,000	40,000
Total short-term borrowings	$92,375	$78,151
Average borrowing:		
Lines of credit	$37,099	$37,124
Other	40,740	20,428
Total average borrowing	$77,839	$57,552
Average interest rate:		
Lines of credit	19.3%	16.1%
Other	17.6%	14.4%
Combined	18.4%	15.7%
Compensating balances (restricted as to withdrawal at December 31, 1981)	$ 1,715	$ 1,800

Nuclear Fuel Lease

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4. ACQUISITION OF UNDIVIDED INTEREST

During 1980, the Company entered into a "Joint Construction, Acquisition and Ownership Agreement" with South Mississippi Electric Power Association (SMEPA) which provides for the acquisition by SMEPA of a 10% undivided interest in the generating units being constructed.

Under this Agreement, SMEPA advanced, from November 1980 through June 1981, 100% of the cost of construction until such time as their advances aggregated 10% of the total cost of construction after giving consideration to the allowances for funds used during construction accrued by SMEPA and by the Company. Thereafter, the Company and SMEPA fund the cost of construction in their respective ownership percentages.

Negotiations are also currently being conducted for the acquisition, by a third party, of an additional 2.48% undivided interest in the generating units being constructed.

5. RATE MATTERS

The Availability Agreement requires the Company to sell all of the power available from its share of the Grand Gulf Plant to the System operating companies. Such sales will be made either under a power purchase agreement or under the System Agreement. Rates for such sales must be filed with the FERC. The Company presently contemplates that it will tender such rates for filing with the FERC between 120 and 60 days prior to the date upon which electric service of Unit No. 1 is to commence, as provided in current FERC regulations. Once filed, such rates will be subject to FERC review as to their justness and reasonableness and may be modified by the FERC.