ENTERGY

Entergy Operations, Inc.
P.O. Box 756
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W. T. Cottle
Vice President
Operations
Grand Gulf Nuclear Station

May 29, 1992

U.S. Nuclear Regulatory Commission
Mail Station P1-137
Washington, D.C. 20555

Attention: Document Control Desk

Subject: Grand Gulf Nuclear Station
Unit 1
Docket No. 50-416
License No. NPF-29
Financial Reports

GNRO-92/00067

Gentlemen:

The 1991 annual financial reports for System Energy Resources, Inc., South Mississippi Electric Power Association, and Entergy Operations, Inc., licensees of Grand Gulf Nuclear Station, are herein submitted in response to the requirement of 10CFR50.71(b).

Yours truly,

WTC/WBB/mtc
attachment: 1991 Financial Report
cc: Mr. D. C. Hintz (w/o)
Mr. J. L. Mathis (w/a)
Mr. R. B. McGehee (w/o)
Mr. N. S. Reynolds (w/a)
Mr. H. L. Thomas (w/o)

Mr. Stewart D. Ebneter (w/a)
Regional Administrator
U.S. Nuclear Regulatory Commission
Region II
101 Marietta St., N.W., Suite 2900
Atlanta, Georgia 30323

Mr. P. W. O'Connor, Project Manager (w/2)
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Mail Stop 13H3
Washington, D.C. 20555

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System Energy Resources, Inc./1991 Financial Statements

System Energy

SYSTEM ENERGY RESOURCES, INC.

System Energy Resources, Inc. (System Energy), a nuclear generating company, has a 90 percent interest in the Grand Gulf Nuclear Station located near Port Gibson, Mississippi.

System Energy is a wholly-owned subsidiary of Entergy Corporation, a public utility holding company. For the past 43 years, the Entergy System has been the leading electric energy supplier to an 84,000-square-mile region along the lower reaches of the Mississippi River.

The Entergy System's vast network of interconnected transmission and distribution lines and diversified grid of fossil fuel and nuclear generating plants provides electricity to more than 1.7 million retail customers in Arkansas, Louisiana, and Mississippi.

Headquartered in New Orleans, Louisiana, Entergy Corporation includes four retail operating companies: Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc. Entergy Corporation also owns all of the outstanding common stock of Entergy Services, Inc., Entergy Operations, Inc., Entergy Power, Inc., and System Energy Resources, Inc. Entergy Services provides various technical, administrative, and corporate services to the various Entergy System companies. Entergy Operations, a nuclear management company, operates the System's nuclear generating units. Entergy Power, an independent power producer, markets capacity and energy in certain wholesale markets not otherwise served presently by the Entergy System.

The Entergy System began a functional restructuring of its activities during 1990 in order to be prepared to successfully meet challenges in the changing utility industry and to have the flexibility to compete effectively in the years ahead. In addition to the formation of Entergy Operations, the System consolidated its generation and transmission capabilities, formerly spread throughout the System, into a single "G&T" organization focusing on transmission, bulk power marketing, and fossil-fueled generation. During 1991, realignment continued with a restructuring of the System's distribution, customer service and marketing activities into a single "DCS" organization consisting of customer services, retail marketing, state regulatory and governmental affairs and communications groups. In addition, the "EBS" or Entergy Business Support organization was established to direct the collective administrative and general office business functions for the System.

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SYSTEM ENERGY RESOURCES, INC.

DEFINITIONS

Certain abbreviations or acronyms used in System Energy's Financial Statements, Notes and Management's Financial Discussion and Analysis are defined below:

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANO	AP&L's Arkansas Nuclear One Steam Electric Generating Station (nuclear)
AP&L	Arkansas Power & Light Company
APSC	Arkansas Public Service Commission
Availability Agreement	Agreement, dated as of June 21, 1974, as amended, among System Energy and the System operating companies, and the assignments thereof
Capital Funds Agreement	Agreement, dated as of June 21, 1974, as amended, between System Energy and Entergy, and the assignments thereof
City of New Orleans or City	New Orleans, Louisiana
Council	Council of the City of New Orleans, Louisiana
DOE	Department of Energy
Entergy	Entergy Corporation
Entergy Operations	Entergy Operations, Inc.
FASB	Financial Accounting Standards Board
February 4 Resolution	The Resolution (including the Determinations and Order referred to therein) adopted by the Council on February 4, 1988 disallowing the recovery by NOPSI of $135 million of previously deferred Grand Gulf 1-related costs
FERC	Federal Energy Regulatory Commission
FERC Complaint Case	Complaint filed with the FERC by the APSC, LPSC, MPSC, Mississippi Attorney General, and City of New Orleans on February 1, 1990 with respect to System Energy's Grand Gulf 1 rates, which matter was settled effective September 16, 1991
FERC Settlement	Settlement offer filed with the FERC on June 9, 1989, by the System operating companies and System Energy and approved by the FERC on July 21, 1989, to settle, among other things, certain then pending Grand Gulf Station-related issues, litigation and other rate matters
Grand Gulf Station	Grand Gulf Steam Electric Generating Station (nuclear)
Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
June 13 Decision	An order issued by the FERC on June 13, 1985 (Opinion No. 234) relating to the Unit Power Sales Agreement
KWH	Kilowatt-Hours
LP&L	Louisiana Power & Light Company
LPSC	Louisiana Public Service Commission

SYSTEM ENERGY RESOURCES, INC.

DEFINITIONS — (Concluded)

Abbreviation or Acronym	Term
Money Pool	Entergy System Money Pool, which allows certain System companies to borrow from, or lend to, certain other System companies
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
NOPSI	New Orleans Public Service Inc.
NRC	Nuclear Regulatory Commission
Project Olive Branch	The System's 1989 effort to settle certain outstanding issues and litigation involving System Energy, the System operating companies, and the Grand Gulf Station, and to stabilize retail rates in the System's service area, which culminated in the FERC Settlement and related state and local settlements
PCRBs	Pollution Control Revenue Bonds
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards promulgated by the FASB
SMEPA	South Mississippi Electric Power Association
System or Entergy System	Entergy and its various direct and indirect subsidiaries
System Energy	System Energy Resources, Inc.
System Fuels	System Fuels, Inc.
System operating companies	AP&L, LP&L, MP&L and NOPSI, collectively
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended, among the System operating companies and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf 1
Waterford 3	Unit No. 3 of LP&L's Waterford Steam Electric Generating Station (nuclear)

SYSTEM ENERGY RESOURCES, INC.

REPORT OF MANAGEMENT

The management of System Energy Resources, Inc. has prepared and is responsible for the financial statements and related financial information included herein. The financial statements are based on generally accepted accounting principles. Financial information included elsewhere in this report is consistent with the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls that is designed to provide reasonable assurance, on a cost-effective basis, as to the integrity, objectivity, and reliability of the financial records, and as to the protection of assets. This system includes communication through written policies and procedures, an employee Code of Conduct, and an organizational structure that provides for appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program.

The independent public accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

Management believes that these policies and procedures provide reasonable assurance that its operations are carried out with a high standard of business conduct.

WILLIAM CAVANAUGH, III
President and Chief Executive Officer

GERALD D. MCINVALE
Senior Vice President and Chief Financial Officer

SYSTEM ENERGY RESOURCES, INC.

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Entergy Operations Board of Directors' Audit Committee functions as the Audit Committee for System Energy. The Audit Committee is composed of three directors, who are not officers of System Energy or Entergy Operations: James B. Campbell (Chairman), Robert D. Pugh, and William Clifford Smith. The committee held two meetings during 1991.

The Audit Committee oversees System Energy's financial reporting process on behalf of System Energy's Board of Directors and provides reasonable assurance to the Board that sufficient operating, accounting, and financial controls are in existence and are adequately reviewed by programs of internal and external audits.

The Audit Committee discussed with Entergy's internal auditors and the independent public accountants (Deloitte & Touche) the overall scope and specific plans for their respective audits, as well as System Energy's financial statements and the adequacy of System Energy's internal controls. The committee met, together and separately, with Entergy's internal auditors and independent public accountants, without management present, to discuss the results of their audits, their evaluation of System Energy's internal controls, and the overall quality of System Energy's financial reporting. The meetings also were designed to facilitate and encourage any private communication between the committee and the internal auditors or independent public accountants.

James B. Campbell

James B. Campbell
Chairman, Audit Committee

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SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Grand Gulf 1 was on-line for 335 of 365 days in 1991 as compared to 282 of 365 days in 1990. The capacity factor, which is a measure of the unit's performance (based on a ratio of net electrical generation to maximum dependable capacity), was 91.1% for 1991 as compared to 73.9% for 1990. The improved capacity factor in 1991 was primarily attributable to Grand Gulf 1 having a 57 day refueling outage in 1990 but no refueling outage in 1991.

Listed in the table below are those significant factors affecting results of operations for which changes have occurred between the years 1991 and 1990, and 1990 and 1989. The principal reasons for the changes from period to period are discussed following the table.

				1991 vs 1990		1990 vs 1989	
Description	1991	1990	1989	Increase/ (Decrease)	%	Increase/ (Decrease)	%
				(Dollars in Millions)			
Net income (loss)	$104.6	$168.7	$(655.5)	$ (64.1)	(38)	$ 824.2	—
Operating revenues	$686.7	$801.6	$ 837.3	$(114.9)	(14)	$ (35.7)	(4)
Other operation expense	$ 79.5	$ 97.1	$ 98.6	$ (17.6)	(18)	$ (1.5)	(2)
Maintenance	$ 14.3	$ 31.6	$ 29.8	$ (17.3)	(55)	$ 1.8	6
Depreciation and decommissioning	$ 87.3	$ 75.5	$ 103.1	$ 11.5	15	$ (27.3)	(27)
Total income taxes	$ 73.6	$113.9	$ (89.7)	$ (40.3)	(35)	$ 203.6	—
Miscellaneous other income — net	$ 6.4	$ 25.1	$ 11.0	$ (18.7)	(75)	$ 14.1	128
Gain on disposition of property	$ —	$ 7.2	$ —	$ (7.2)	(100)	$ 7.2	—

Net Income (Loss)

Net income decreased in 1991 as compared to 1990 due, in part, to the effect of the FERC Complaint Case settlement which reduced net income by approximately $36 million in 1991, of which approximately $15.8 million related to billings in 1990. The FERC Complaint Case settlement is expected to reduce net income by approximately $12 million in 1992 and by decreasing amounts in years thereafter. See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference. In addition, as discussed below, net income decreased due to the impact of the lower return System Energy earned on its investment in Grand Gulf 1 and a number of other factors, including changes in interest income, depreciation expense, and gain on disposition of property.

Net income increased in 1990 as compared to 1989 primarily due to the implementation in 1989 of the terms of the FERC Settlement, including the cancellation and write-off of System Energy's investment in Grand Gulf 2, the write-off of $43 million of Grand Gulf 1 AFUDC and a $50 million one-time credit to the System operating companies. System Energy's 1989 net income would have been approximately $156 million absent the impact of the FERC Settlement. Net income was also affected to a lesser extent by a number of other factors, including changes in interest income, income taxes, depreciation expense and a lower return on System Energy's investment in Grand Gulf 1.

Operating Revenues

Operating revenues recover operating expenses, depreciation and capital costs attributable to Grand Gulf 1. The capital costs are computed by allowing a return (currently set at a rate of 13%, see System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference) on System Energy's common equity funds allocable to its investment in Grand Gulf 1 and adding to such amount System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf 1.

Operating revenues decreased in 1991 as compared to 1990 primarily due to the effect of the FERC Complaint Case settlement. As a result of this settlement, System Energy's operating revenues were reduced by approximately $70 million during 1991 and are estimated to be reduced by approximately $22 million in 1992 and by lesser amounts in years thereafter. Operating revenues also declined due to the lower return System Energy earned on its investment in Grand Gulf 1 resulting from a decrease in net unit investment. Future revenues attributable to the return on investment are expected to decrease by approximately $13 million in 1992 and by declining amounts each year thereafter as a result of the depreciation of System Energy's investment in Grand Gulf 1.

Operating revenues decreased in 1990 as compared to 1989 by approximately $35.7 million primarily due to a decrease in System Energy's return on its investment in Grand Gulf 1 resulting from a decrease in the equity portion of its capital structure due to the impact of the write-offs associated with the FERC Settlement and a decrease in net unit investment.

Other Operation Expense

Other operation expense decreased in 1991 as compared to 1990 primarily due to the FERC Complaint Case settlement providing for 1991 credits from System Energy to the System operating companies totaling approximately $10 million relating to System Energy's rate treatment of the portions of Grand Gulf 1 sold and leased back. These credits were provided through a reduction in other operation expense which decreased billings to the System operating companies. (See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference.)

Maintenance

Maintenance expense decreased in 1991 as compared to 1990 primarily due to the fact that G[illegible] Gulf 1's fourth refueling outage, which lasted approximately 57 days, occurred during 1990, wh[illegible] there was no refueling outage for Grand Gulf 1 during 1991. Maintenance expense for [illegible] attributable to Grand Gulf 1's fourth refueling outage was approximately $22 million.

Depreciation and Decommissioning

Depreciation expense increased during 1991 as compared to 1990 and decreased in 1990 as compared to 1989 due to the deferral in 1990 of approximately $30.0 million of depreciation expense representing current and prior year depreciation expense related to the sale and leaseback property. The amount of depreciation expense deferred in 1991 was approximately $15 million. In December 1990, consistent with a recommendation contained in a FERC audit report, System Energy recorded as a deferred asset the current and prior year difference between the amounts collected in revenues for lease payments and the amounts expensed for interest and depreciation on the related property. The deferred asset will increase in the early years of the lease term and will reverse over the later years of the lease term as the revenues associated with the leases exceed the charges for depreciation and lease interest. (See System Energy's Note 9, "Leases," incorporated herein by reference.)

Total Income Taxes

Total income taxes decreased in 1991 as compared to 1990 due to a decrease in pretax income due primarily to the FERC Complaint Case settlement. (See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference.)

Total income taxes for 1989 reflect a tax benefit resulting from the write-off of System Energy's investment in Grand Gulf 2, offset in part by the reversal of related deferred income taxes.

Miscellaneous Other Income — Net

Miscellaneous other income-net decreased in 1991 as compared to 1990 due to one-time charges associated with the FERC Complaint Case settlement that were recorded in June 1991. (See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference.) The reduction in miscellaneous other income-net was also due to a decrease in interest income as a result of lower investment balances.

Miscellaneous other income-net increased in 1990 as compared to 1989 primarily due to an increase in interest income on System Energy's temporary cash investments, which were maintained at higher than average balances during 1990.

Gain on Disposition of Property

System Energy's gain on disposition of property in 1990 was due to the sale of certain Grand Gulf 2 property which was written off in 1989.

FINANCIAL CONDITION

General

On December 21, 1990, the FERC Division of Audits issued an audit report for System Energy which recommended, among other things, that System Energy write off and not recover in its rates approximately $95 million of Grand Gulf 1 costs included in utility plant, and compute refunds for overcollections from the System operating companies related to amounts alleged to be incorrectly included in utility plant. In an initial decision dated November 21, 1991, the FERC ALJ concurred with the recommendations contained in the FERC audit report. If the decision is ultimately sustained and implemented, System Energy estimates that as of December 31, 1991, net income would be negatively impacted by approximately $128.7 million. This amount includes refund obligations of approximately $66.2 million (including interest). See System Energy's Note 2, "Rate and Regulatory Matters — FERC Audit," incorporated herein by reference, for further information.

Liquidity

System Energy's primary cash requirements for 1991 included, among other things, ongoing operating expenses, construction expenditures, retirement of long-term debt and common stock dividend payments. Cash requirements in 1991 were satisfied with internally generated funds and cash on hand at the beginning of the period.

Net cash flow provided by operating activities totaled approximately $282.6 million in 1991. As detailed in the Statements of Cash Flows, cash flow from operating activities was affected by a number of factors representative of normal operations. In addition, net cash flow provided by operating activities during 1991 was reduced due to the impact of the FERC Complaint Case settlement on System Energy's net income. (See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case," incorporated herein by reference.)

Investing activities for 1991 resulted in cash provided of approximately $75.4 million due primarily to the reduction of other temporary investments offset, in part, by construction expenditures and nuclear fuel expenditures.

Financing activities for 1991 resulted in a net utilization of cash of approximately $395.5 million due primarily to the retirement of approximately $294 million of first mortgage bonds and the payment of approximately $115.8 million of cash dividends on common stock to Entergy. This net utilization of cash was partially offset by approximately $14.6 million in proceeds from the sale and leaseback of nuclear fuel.

Capital and Refinancing Requirements and Capital Resources

See System Energy's Note 8, "Commitments and Contingencies — Capital Requirements and Financing," incorporated herein by reference, for information on System Energy's capital and refinancing requirements for the period 1992-1994.

The amount of additional first mortgage bonds that System Energy can issue in the future is contingent upon earnings, the amount of unfunded bondable property available to support the issuance of additional first mortgage bonds and equity ratio requirements contained in its mortgage and the reimbursement agreement related to System Energy's sale and leaseback transactions. System Energy's minimum earnings coverage requirement for the issuance of additional first mortgage bonds is 2.0 times the annual interest on a pro forma basis. For System Energy's first mortgage bonds, the earnings coverage for the year ended December 31, 1991 was 3.80 times the annual bond interest requirements. Based upon the most restrictive of the above tests, System Energy could have issued approximately $284 million of additional first mortgage bonds at December 31, 1991. In addition, System Energy has the ability, subject to meeting certain conditions, to issue first mortgage bonds against the retirement of outstanding first mortgage bonds without satisfying an earnings coverage test.

In connection with the financing of Grand Gulf 1, Entergy has undertaken in the Capital Funds Agreement, in relevant part, to provide or cause to be provided to System Energy sufficient capital to (1) maintain System Energy's equity capital at an amount equal to at least 35% of System Energy's total capitalization (excluding short-term debt) and (2) permit the continuation of commercial operation of Grand Gulf 1 and enable System Energy to pay in full all indebtedness for borrowed money of System Energy, whether at maturity, on prepayment, on acceleration or otherwise. In addition, Entergy has agreed in the Capital Funds Agreement to make cash capital contributions to enable System Energy to make payments when due on its long-term debt, as specified therein.

See System Energy's Note 4, "Lines of Credit and Related Borrowings," incorporated herein by reference, for information regarding short-term lines of credit.

ACCOUNTING ISSUES

SFAS No. 106

See System Energy's Note 10, "Postretirement Benefits," incorporated herein by reference, for information with respect to a new accounting standard on employers' accounting for postretirement benefits other than pensions.

SFAS No. 109

See System Energy's Note 3, "Income Taxes," incorporated herein by reference, for information with respect to a new accounting standard on accounting for income taxes.

INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of
System Energy Resources, Inc.:

We have audited the accompanying balance sheets of System Energy Resources, Inc. (System Energy) as of December 31, 1991 and 1990, and the related statements of income (loss), retained earnings and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of System Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of System Energy at December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 2, "Rate and Regulatory Matters — FERC Audit" of Notes to Financial Statements, a regulatory proceeding is pending which, if ultimately resolved in an adverse manner, would require that System Energy (1) write off and not recover in rates approximately $95 million of costs charged to utility plant resulting from System Energy's accounting for certain allocated income tax charges and (2) make refunds for overcollections from the Entergy System operating companies related thereto. The ultimate outcome of this uncertainty cannot presently be determined. Accordingly, no provision has been made in the accompanying financial statements for the possible effects of a decision adverse to System Energy.

Deloitte & Touche

DELOITTE & TOUCHE
February 14, 1992
New Orleans, Louisiana

SYSTEM ENERGY RESOURCES, INC.

BALANCE SHEETS

ASSETS

	December 31, 1991	December 31, 1990
	(In Thousands)	
Utility Plant (Note 1):		
Electric	$3,011,223	$3,011,911
Electric plant under lease (Note 9)	438,410	438,499
Construction work in progress	34,091	26,491
Plant held for future use	12,119	4,425
Nuclear fuel under capital leases (Notes 8 and 9)	85,206	133,908
Nuclear fuel (Note 11)	14,369	—
Total	3,595,418	3,615,234
Less — Accumulated depreciation and amortization	505,928	419,923
Utility plant — net	3,089,490	3,195,311
Other Investments:		
Decommissioning trust fund (Note 8)	13,486	11,285
Current Assets:		
Cash and cash equivalents (Note 1):		
Cash	175	58
Temporary cash investments — at cost, which approximates market	94,335	131,940
Total cash and cash equivalents	94,510	131,998
Other temporary investments — at cost, which approximates market	—	125,225
Accounts receivable:		
Associated companies (Note 11)	61,962	56,496
Other	3,735	3,671
Materials and supplies — at average cost	66,189	76,668
Recoverable income taxes (Note 3)	54,600	69,600
Prepayments and other	4,165	9,384
Total	285,161	473,042
Deferred Debits:		
Recoverable income taxes (Note 3)	164,766	135,489
Unamortized loss on reacquired debt	11,751	15,866
Other (Note 9)	77,549	52,248
Total	254,066	203,603
TOTAL	$3,642,203	$3,883,241

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1991	December 31, 1990
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 1,000,000 shares; issued and outstanding 789,350 shares in 1991 and 1990	$ 789,350	$ 789,350
Retained earnings (Note 7)	375,306	386,469
Total common shareholder's equity	1,164,656	1,175,819
Long-term debt (Note 6)	1,682,265	1,795,991
Total	2,846,921	2,971,810
Other Noncurrent Liabilities:		
Obligations under capital leases (Note 9)	25,206	53,909
Current Liabilities:		
Currently maturing long-term debt (Note 6)	115,750	294,000
Accounts payable:		
Associated companies (Note 11)	16,345	1,805
Other	49,446	26,475
Taxes accrued	20,552	20,730
Interest accrued	49,308	59,553
Obligations under capital leases (Note 9)	60,000	80,000
Other	139	121
Total	311,540	482,684
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	315,148	282,024
Accumulated deferred investment tax credits (Note 3)	111,981	69,489
Other	31,407	23,325
Total	458,536	374,838
Commitments and Contingencies (Notes 2 and 8)		
TOTAL	$3,642,203	$3,883,241

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF INCOME (LOSS)

	For the Years Ended December 31,		
	1991	1990	1989
		(In Thousands)	
Operating Revenues	$686,664	$801,618	$ 837,307
Operating Expenses:			
Operation:			
Fuel for electric generation and fuel-related expenses	78,060	78,968	88,350
Other	79,494	97,133	98,647
Maintenance	14,358	31,594	29,789
Depreciation and decommissioning (Notes 8 and 9)	87,296	75,789	103,065
Taxes other than income taxes	27,342	25,879	24,350
Income taxes (Note 3)	81,302	110,227	131,225
Total	367,852	419,590	475,426
Operating Income	318,812	382,028	361,881
Other Income (Deductions):			
Project Olive Branch Settlement (Note 2)	—	—	(1,000,932)
Allowance for equity funds used during construction (Note 1)	763	442	985
Miscellaneous — net	6,378	25,093	11,018
Income taxes — (debit) credit (Notes 1 and 3)	7,726	(3,675)	220,937
Gain on disposition of property	—	7,189	—
Total	14,867	29,049	(767,992)
Interest Charges:			
Interest on long-term debt	218,538	230,643	239,697
Other interest — net	11,111	11,992	10,116
Allowance for borrowed funds used during construction (Note 1)	(592)	(235)	(400)
Total	229,057	242,400	249,413
Net Income (Loss)	$104,622	$168,677	$ (655,524)

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1991	1990	1989
		(In Thousands)	
Retained Earnings, January 1	$386,469	$497,022	$1,240,219
Add:			
Net income (loss)	104,622	168,677	(655,524)
Total	491,091	665,699	584,695
Deduct:			
Cash dividends	115,785	279,230	87,673
Retained Earnings, December 31 (Note 7)	$375,306	$386,469	$ 497,022

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1991	1990	1989
		(In Thousands)	
Operating Activities:			
Net income (loss)	$ 104,622	$ 168,677	$(655,524)
Noncash items included in net income (loss):			
Depreciation and amortization	85,986	69,653	101,952
Deferred income taxes and investment tax credits	79,660	109,282	78,727
Allowance for equity funds used during construction	(763)	(442)	(985)
Amortization of debt discount	7,495	10,532	8,069
Burnup of nuclear fuel not under lease	—	—	6,224
Loss on Grand Gulf 2 cancellation	—	—	907,932
Writeoff of AFUDC — equity	—	—	43,000
Changes in working capital:			
Receivables	(5,530)	13,175	14,077
Accounts payable	37,511	(23,632)	(7,571)
Materials and supplies	10,479	(6,577)	(27,776)
Taxes and interest accrued	(10,423)	(481)	1,142
Other working capital accounts	5,237	(264)	(1,020)
Income tax impact of future benefits related to AFUDC (Note 3)	—	9,861	69,316
Recoverable income taxes (Note 3)	(14,277)	32,246	(237,335)
Gain on disposition of property	—	(7,189)	—
Change in decommissioning trust	(2,201)	(5,847)	(1,344)
Other	(15,175)	900	13,944
Net cash flow provided by operating activities	282,621	369,894	312,828
Investing Activities:			
Construction expenditures	(21,663)	(24,633)	(28,153)
Allowance for equity funds used during construction	763	442	985
Nuclear fuel expenditures	(28,922)	(48,607)	(26,672)
Expenditures on Grand Gulf 2	—	—	(7,175)
Proceeds from sale of assets	—	13,046	—
Decrease (Increase) in other temporary investments	125,225	(125,225)	—
Net cash flow provided (used) by investing activities	75,403	(184,977)	(61,015)
Financing Activities:			
Proceeds from sale and leaseback of nuclear fuel	14,552	48,607	44,197
Retirement of first mortgage bonds (Note 6)	(294,000)	(72,234)	(487,697)
Common stock dividend payments	(115,785)	(279,230)	(87,673)
Other	(279)	279	—
Net cash flow used by financing activities	(395,512)	(302,578)	(531,173)
Net decrease in cash and cash equivalents	(37,488)	(117,661)	(279,360)
Cash and cash equivalents at beginning of period	131,998	249,659	529,019
Cash and cash equivalents at end of period	$ 94,510	$ 131,998	$ 249,659
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest (net of amount capitalized)	$ 238,199	$ 246,280	$ 244,129
Income taxes (refund)	$ (12,667)	$ (37,383)	$ 11,741
Noncash investing and financing activities:			
Capital lease obligations incurred	—	—	$ 187,000
Plant impact of future benefits related to AFUDC	—	—	$ 69,593

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

System Energy, formerly Middle South Energy, Inc., is a generating company providing electricity to the System operating companies and has a 90% interest in Grand Gulf 1, a nuclear generating station which began commercial operation July 1, 1985. The Grand Gulf Station was originally designed as two 1250 megawatt nuclear generating units. In September 1989, System Energy canceled and wrote off its investment in Grand Gulf 2, construction on which had been suspended since September 1985. (See System Energy's Note 2, "Rate and Regulatory Matters -- Project Olive Branch Settlements.") On June 6, 1990, Entergy Operations assumed responsibility for the operation and maintenance of Grand Gulf 1.

System Energy has a combined ownership and leasehold interest of 90% and SMEPA has an undivided ownership interest of 10% in Grand Gulf 1. System Energy records its investment associated with Grand Gulf 1 to the extent to which it owns and maintains a leasehold interest in the generating station. Likewise, System Energy's operating expenses reflected in the accompanying financial statements represent 90% of such Grand Gulf 1 expenses.

Regulation and System of Accounts

The accounts of System Energy are maintained in accordance with the Uniform System of Accounts prescribed by its regulator, the FERC.

Utility Plant

Utility plant is stated at original cost. Additions to utility plant (labor, materials, overhead, and AFUDC) are recorded at cost. The original cost of utility plant retired or otherwise removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance and repairs of property and minor replacement costs are charged to operating expenses.

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC results in an increase in utility plant and represents current earnings, it is a non-cash item and is realized in cash through recovery of depreciation provisions included in rates. System Energy's effective composite rates for AFUDC were 9.9%, 10.2%, and 10.7% for 1991, 1990, and 1989, respectively.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provisions on average depreciable property approximated 2.85% in 1991 and 1990 and 3.0% in 1989.

Substantially all of the utility plant owned by System Energy is subject to the lien of its mortgage bond indenture.

Utility plant includes the portions of Grand Gulf 1 that were sold and are currently under lease. System Energy retired such property from its continuing property records as formerly owned property released from and no longer subject to System Energy's mortgage and deed of trust. System Energy is reflecting such property on its books and records for financial reporting purposes as property under lease from others and is depreciating this leased property over the life of the basic lease term. Such depreciation is being deferred until recoverable from customers in future periods. (See System Energy's Note 9, "Leases.")

Income Taxes

System Energy joins its parent and affiliates in filing a consolidated federal income tax return. Pursuant to an intra-System income tax allocation agreement, income taxes are allocated to System Energy in proportion to its contribution to the consolidated taxable income. In accordance with SEC regulations, no System company is required to make payments greater than would have been paid had a separate income tax return been filed. Deferred income taxes are recorded based on differences between book and taxable income to the extent permitted by System Energy's regulatory body for ratemaking purposes. Investment tax credits allocated to System Energy are deferred and amortized based upon the average useful life of the related property.

In addition, System Energy files a consolidated Mississippi state income tax return with certain other System companies.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, System Energy considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NOTE 2. RATE AND REGULATORY MATTERS

FERC Audit

On December 21, 1990, the FERC Division of Audits issued an audit report for System Energy for the years 1986 through 1988. The report recommended, among other things, that System Energy (1) write off and not recover in its rates approximately $95 million of Grand Gulf 1 costs included in utility plant related to the System's income tax allocation procedures (and System Energy's accounting resulting from certain allocated income tax charges) alleged to be inconsistent with FERC's accounting requirements and (2) compute refunds for the years 1987 to date to correct for overcollections from the System operating companies of depreciation expense and return on rate base related to amounts alleged to be incorrectly included in utility plant.

Hearings before a FERC ALJ were held in August 1991. In an initial decision dated November 21, 1991 (November 21 Decision), the FERC ALJ found, among other things, that System Energy overstated its Grand Gulf 1 utility plant account by approximately $95 million as indicated in the FERC audit report. The decision, if ultimately sustained and implemented, would requre System Energy to make correcting accounting entries and refunds, with interest, to the System operating companies. Should that be necessary, System Energy estimates that as of December 31, 1991, its net income would be negatively impacted by approximately $128.7 million. This amount includes System Energy's potential refund obligation to the System operating companies which is estimated to be approximately $66.2 million (including interest) as of December 31, 1991. The ongoing effect of this decision, if implemented, would be to reduce System Energy's revenues by approximately $22 million in 1992, and by a comparable amount (but decreasing by approximately $0.5 million per year) in each subsequent year.

In addition, because of the resulting impact on System Energy's earnings if the November 21 Decision is ultimately sustained and implemented, System Energy would need to obtain the consent of certain banks to waive the fixed charge coverage covenants in the letter of credit reimbursement agreement related to the Grand Gulf 1 sale and leaseback transactions (see System Energy's Note 8, "Commitments and Contingencies — Reimbursement Agreement") for a limited period of time in order to avoid violation of this covenant upon implementation of the November 21 Decision. Should that be necessary, System Energy would request a waiver by the banks. Absent a waiver, failure of

System Energy to perform this covenant could give rise to a draw under the letters of credit and/or early termination of the letters of credit, and if the letters of credit were not replaced in a timely manner, could result in a default under, or early termination of, System Energy's leases.

On January 8, 1992, System Energy filed a brief on exceptions with the FERC. Notwithstanding the November 21 Decision, System Energy believes that its consolidated income tax accounting procedures and related rate treatment are in compliance with SEC and FERC requirements and intends to vigorously contest this issue. However, the ultimate resolution of this matter cannot be determined. Accordingly, no provision has been made in the accompanying financial statements for the possible effects of a decision adverse to System Energy.

FERC Complaint Case

On February 1, 1990, the APSC, the LPSC, the MPSC, the Mississippi Attorney General, and the City of New Orleans filed a complaint with the FERC against System Energy and Entergy Services, Inc. (as agent for Entergy and the System operating companies), alleging that the rates then being charged to the System operating companies by System Energy for capacity and energy from Grand Gulf 1 were not just and reasonable. This filing was consolidated with proceedings related to System Energy's decommissioning collections.

On May 21, 1991, a settlement in the consolidated proceedings was reached which, among other things, (1) reduced System Energy's rate of return on common equity from 14% to 13% effective retroactively to April, 1990, (2) imposed no ceiling for ratemaking purposes on System Energy's common equity ratio, (3) established a zero-cash working capital allowance for System Energy, effective retroactively to April 1990, (4) resolved the cost of service treatment of certain Grand Gulf 2 assets transferred to Grand Gulf 1, (5) set the amount to be collected in rates for the cost of decommissioning System Energy's 90% interest in Grand Gulf 1 at approximately $198 million in 1989 dollars (with a new study of these costs to be prepared and submitted to FERC on or before June 1, 1995) and increased System Energy's decommissioning expense collections from approximately $1.1 million to approximately $4.3 million per year, effective retroactively to June 1990, subject to a 5% annual inflation adjustment, and (6) provided for 1991 credits from System Energy to the System operating companies totalling approximately $17 million relating to System Energy's rate treatment of the portions of Grand Gulf 1 sold and leased back. The settlement did not resolve income tax accounting issues raised in the complaint (see "FERC Audit" above). The settlement was filed with a FERC ALJ on June 14, 1991, and was approved by the FERC on September 16, 1991.

Based on the settlement, System Energy credited in June 1991 approximately $47.6 million in the aggregate (including interest) against its bills to the System operating companies for capacity and energy from Grand Gulf 1. As a result of the FERC Complaint Case settlement, 1991 net income was reduced by approximately $36.0 million, of which approximately $15.8 million relates to billings in 1990.

Grand Gulf 1 Rate Activity — System Operating Companies

The February 4 Resolution required NOPSI to write off, and not recover from its retail electric customers, $135 million of its previously deferred costs associated with Grand Gulf 1. This write-off, which was recorded in NOPSI's 1987 financial statements, was in addition to the $51.2 million of Grand Gulf 1-related costs originally absorbed and not recovered by NOPSI in a 1986 rate settlement. On August 29, 1991, representatives of NOPSI reached an agreement in principle with advisors to the Council and with the Alliance for Affordable Energy, Inc. and others that resolved the Grand Gulf 1 prudence issues and the pending litigation related to the February 4 Resolution. The Council adopted a resolution approving and substantially incorporating the agreement in principle on October 3, 1991.

In accordance with the Council's October 3 resolution, several actions were taken and a final settlement in this matter became effective as of October 4, 1991.

As a result of the above settlement, NOPSI will be allowed to recover additional deferred Grand Gulf 1 costs and should continue to have adequate resources to meet its monthly Grand Gulf 1 payment obligations to System Energy.

Project Olive Branch Settlements

In the FERC Settlement, System Energy and the System operating companies agreed with the FERC staff, state and local regulators and officials, and other interested parties to resolve a number of Grand Gulf Station-related and other rate matters that had been adversely affecting the System for a number of years. Implementation of the FERC Settlement in 1989, including the cancellation and abandonment of Grand Gulf 2, resulted in, among other things, a $900 million pre-tax write-off of System Energy's investment in Grand Gulf 2 without seeking recovery from its customers, the System operating companies. Additionally, System Energy made a one-time credit to the System operating companies' bills in an aggregate amount of $50 million, which was allocated among the System operating companies in accordance with their respective allocations of Grand Gulf 1 capacity and energy. System Energy also recorded a $43 million write-off of Grand Gulf 1 AFUDC - equity.

The after tax impact on System Energy's 1989 net income was a reduction of approximately $803 million. However, System Energy's cash position was not materially affected.

While all parties to the FERC Settlement agreed not to pursue any prudence disallowance of Grand Gulf 1 construction costs and operating and maintenance expenses recorded through June 9, 1989, the FERC Settlement, among other things, does not prejudice any party's right to seek disallowance of such costs recorded after that date or the right of the parties to seek future changes to the Unit Power Sales Agreement that are not inconsistent with the FERC Settlement. (See "FERC Audit" and "FERC Complaint Case" above.)

Nuclear Management Consolidation

In 1990, Entergy Operations was organized as a subsidiary of Entergy with responsibility for the operation of ANO, Waterford 3, and Grand Gulf 1, subject, respectively, to AP&L's, LP&L's, and System Energy's oversight. AP&L, LP&L, System Energy, and the other Waterford 3 and Grand Gulf 1 co-owners retain their ownership interests in their respective nuclear generating units. Further, AP&L, LP&L, and System Energy retain their associated capacity and energy entitlements and reimburse Entergy Operations at cost for services associated with the operation and maintenance of these units.

NOTE 3. INCOME TAXES

Income tax expense (credit) consists of the following:

	For the Years Ended December 31, 1991	1990	1989
		(In Thousands)	
Current:			
Federal	$(31,900)	$ (4,176)	$(145,012)
State	5,052	8,796	(23,427)
Total	(26,848)	4,620	(168,439)
Deferred — net:			
Liberalized depreciation	45,551	46,825	43,290
Nuclear fuel	(2,927)	1,424	(1,336)
Capitalized interest	(1,441)	(721)	(13,674)
Taxes capitalized	(572)	(1,154)	(672)
Grand Gulf 2 cancellation	—	2,363	55,892
Alternative minimum tax	—	(189)	7,807
Other	(3,443)	4,414	1,741
Total	37,168	52,962	93,048
Investment tax credit adjustments — net	63,256	56,320	(14,321)
Recorded income tax expense (credit)	$ 73,576	$113,902	$ (89,712)
Charged to operations	$ 81,302	$110,227	$ 131,225
Charged (credited) to other income	(7,726)	3,675	(220,937)
Recorded income tax expense (credit)	73,576	113,902	(89,712)
Income taxes applied against the debt component of AFUDC	(352)	(140)	(238)
Total income taxes (credit)	$ 73,224	$113,762	$ (89,950)

Total income taxes differ from the amounts computed by applying the statutory federal income tax rate to income or loss before taxes. The reasons for the differences are (dollars in thousands):

	For the Years Ended December 31,					
	1991		1990		1989	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed at statutory rate	$60,587	3	$ 96,077	34.0	$(253,380)	34.0
Increases (reductions) in tax resulting from:						
Depreciation	8,343	4.7	8,326	2.9	14,874	(2.0)
State income taxes net of federal income tax effect	6,084	3.4	10,115	3.6	(7,695)	1.0
Project Olive Branch Settlement	—	—	—	—	154,995	(20.8)
Other	(1,438)	(0.8)	(616)	(0.2)	1,494	(0.2)
Recorded income tax expense	73,576	41.3	113,902	40.3	(89,712)	12.0
Income taxes applied against the debt component of AFUDC	(352)	(0.2)	(140)	(0.1)	(238)	0.1
Total income taxes (credit)	$73,224	41.1	$113,762	40.2	$ (89,950)	12.1

Recoverable income taxes includes the tax effects of the substantial tax loss generated in September 1989 by the Grand Gulf 2 write-off. The loss was recognized in 1989 and increased System Energy's tax net operating loss carryforward to a total of approximately $699 million as of December 31, 1991, which may be utilized in the future to offset taxable income. If not utilized to offset consolidated federal taxable income, income tax benefits related to the net operating loss carryforwards will expire in the years 2000 through 2004.

The alternative minimum tax (AMT) credit at December 31, 1991 was $19 million. This AMT credit can be carried forward indefinitely and will reduce System Energy's federal income tax liability in the future.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires that deferred income taxes be recorded for all temporary differences and carryforwards and that deferred tax balances be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. The impact of the new standard is currently under study by the System. Based on a preliminary study, System Energy expects that the new standard will result in an increase in accumulated deferred income taxes with a corresponding increase in assets and will not significantly impact System Energy's results of operations. System Energy plans to adopt SFAS No. 109 in 1993.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

System Energy is authorized by the SEC, through November 1992, to effect short-term borrowings in an aggregate amount outstanding at any one time up to $125 million, subject to increase to a maximum of $290 million with further SEC approval. Additionally, System Energy participates with certain other System companies in the Money Pool, an intra-System borrowing arrangement designed to reduce the System's dependence on external short-term borrowings. System Energy may borrow from these sources subject to its maximum authorized level of short-term borrowings and the availability of funds. System Energy had no outstanding short-term borrowings at December 31, 1991.

NOTE 5. COMMON STOCK

There were no changes in the number of shares of System Energy's common stock during the years 1991, 1990 and 1989.

NOTE 6. LONG-TERM DEBT

The long-term debt of System Energy at December 31, 1991 and 1990 was as follows:

	1991	1990
	(In Thousands)	
First Mortgage Bonds:		
9⅞% Series due 1991	—	$ 294,000
14.34% Series due 1992	$ 100,000	100,000
14% Series due 1994	200,000	200,000
10½% Series due 1996	250,000	250,000
11% Series due 2000	255,750	255,750
11⅜% Series due 2016	90,319	90,319
Total First Mortgage Bonds	896,069	1,190,069
Pollution Control Revenue Bonds:		
Claiborne County, Mississippi —		
9½% Series due 2013	49,500	49,500
8.25% Series due 2014	27,100	27,100
9⅞% Series due 2014	206,000	206,000
12.5% Series due 2015	44,000	44,000
9.5% Series due 2016	90,000	90,000
Total Pollution Control Revenue Bonds	416,600	416,600
Grand Gulf 1 Lease Obligations, 9.86% (Note 9)	500,000	500,000
Miscellaneous	—	279
Total	500,000	500,279
Unamortized Discount	(14,654)	(16,957)
Total Long-Term Debt	1,798,015	2,089,991
Less — Amount Due Within One Year	115,750	294,000
Long-Term Debt Excluding Amount Due Within One Year	$1,682,265	$1,795,991

For the years 1992, 1993, 1994, 1995, and 1996 System Energy has long-term debt maturities and sinking fund requirements of (in millions) $115.8, $30.0, $230.0, $30.0, and $2[illegible]0.0, respectively.

In September 1991, System Energy retired, upon maturity, $294 million in principal amount of its 9⅞% Series First Mortgage Bonds.

System Energy has SEC authorization for the acquisition of not more than $400 million of its outstanding first mortgage bonds through December 1992, of which $72.2 million have been acquired at December 31, 1991.

The PCRBs due 2015 at 12.50% and those due 2016 at 9.50% are collateralized by $47.2 million and $95.6 million, respectively, of non-interest bearing first mortgage bonds.

NOTE 7. RETAINED EARNINGS

The provisions of System Energy's first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. Under its mortgage, System Energy may not declare dividends, other than stock dividends, or make other distributions on or acquisitions of its stock (except where concurrently certain contributions or stock proceeds are received) unless System Energy is not in default under certain of its financing agreements, and the sum of certain indebtedness does not exceed 65% of adjusted capitalization.

In connection with the 1988 sale and leaseback transactions, System Energy agreed, under the provisions of the letters of credit and reimbursement agreement, as amended, to maintain its equity at not less than 33% of its adjusted capitalization (as defined in the agreement) and to maintain its common equity at not less than 29% of such amount. (See System Energy's Note 8, "Commitments and Contingencies — Reimbursement Agreement," for more information.)

At December 31, 1991, approximately $196 million of retained earnings were free from the above restrictions.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

Construction expenditures (including AFUDC but excluding nuclear fuel) during the years 1992, 1993, and 1994 are estimated to be approximately $22.6 million, $24.6 million, and $25.8 million, respectively. In addition to construction expenditure requirements, System Energy will require $375.8 million during the period 1992-1994 to meet long-term debt maturities and to satisfy sinking fund requirements. System Energy plans to meet the above requirements with internally generated funds and cash on hand unless System Energy chooses to externally finance such obligations. (See System Energy's Note 6, "Long-Term Debt," regarding the possible redemption, purchase, or other acquisition of one or more series of its outstanding first mortgage bonds.)

Capital Funds, Unit Power Sales, Availability, and Reallocation Agreements

Under the Capital Funds Agreement, Entergy has agreed to supply or cause to be supplied to System Energy sufficient amounts of capital to (1) maintain System Energy's equity capital at an amount equal to at least 35% of System Energy's total capitalization (excluding short-term debt) and (2) permit the continuation of commercial operation of Grand Gulf 1 and enable System Energy to pay in full all indebtedness for borrowed money of System Energy, whether at maturity, on prepayment, on acceleration or otherwise. In addition, Entergy has agreed in the Capital Funds Agreement to make cash capital contributions to enable System Energy to make payments when due on its long-term debt, as specified therein. System Energy has, with the consent of Entergy, assigned its rights under this agreement to certain creditors.

Under the Unit Power Sales Agreement among System Energy and the System operating companies, System Energy agreed to sell to the System operating companies all of its 90% owned and leased share of the capacity and energy from Grand Gulf 1 in accordance with specified percentages (AP&L 36%, LP&L 14%, MP&L 33%, NOPSI 17%) as ordered by the FERC in the June 13 Decision. Charges under this agreement are paid in consideration for the respective entitlements of the System operating companies to receive capacity and energy, and are payable irrespective of the quantity of energy delivered so long as the unit remains in commercial operation. Charges under the Unit Power Sales Agreement are based on System Energy's total cost of service, including System Energy's operating expenses, depreciation, and capital costs (including a return on common equity). The monthly obligation for payments from the System operating companies to System Energy for Grand

Gulf 1 capacity and energy is approximately $62 million. The agreement will remain in effect until terminated by the parties and approved by the FERC, which most likely would occur after Grand Gulf 1 is retired from service.

The System operating companies are also individually obligated, under the Availability Agreement to make payments or subordinated advances to System Energy in accordance with stated percentages (AP&L 17.1%, LP&L 26.9%, MP&L 31.3%, NOPSI 24.7%) in amounts that, when added to any amounts received by System Energy under the Unit Power Sales Agreement or otherwise, are adequate to cover all of System Energy's operating expenses. System Energy has assigned its rights to payments and advances to certain creditors as security for certain obligations. Payments or advances under the Availability Agreement are only required to be made to the extent that funds available to System Energy from all sources, including the Unit Power Sales Agreement, are less than the amount required under the Availability Agreement.

In June 1989, System Energy and the System operating companies amended the Availability Agreement so that the writeoff of Grand Gulf 2 in September 1989 would be amortized for Availability Agreement purposes over 27 years rather than in the month the write-off was recognized on System Energy's books and would not require a payment by the System operating companies under the Availability Agreement. Since commercial operation of Grand Gulf 1, payments under the Unit Power Sales Agreement (which include a return on equity) have exceeded the amounts payable under the Availability Agreement (which does not provide for a return on equity). Accordingly, no payments have ever been required under the Availability Agreement. Should there be a shortfall in any month as a result of the inability of any System operating company to make a payment under the Unit Power Sales Agreement, amounts received by System Energy from any other sources (including financings, sales of property and the like) and available at that time would be credited toward the obligations owing under the Availability Agreement.

In 1981, the System operating companies entered into a Reallocation Agreement, which would have allocated the capacity and energy available to System Energy from the Grand Gulf Station and the related costs to LP&L, MP&L, and NOPSI. These companies agreed to assume all the responsibilities and obligations of AP&L with respect to the Grand Gulf Station under the Availability Agreement, with AP&L relinquishing its rights to the capacity and energy from the Grand Gulf Station. However, the FERC's June 13 Decision allocating a portion of Grand Gulf 1 capacity and energy to AP&L supersedes the Reallocation Agreement as it related to Grand Gulf 1. Responsibility for any Grand Gulf 2 amortization amounts has been allocated to LP&L 26.23%, MP&L 43.97% and NOPSI 29.80% under the terms of the Reallocation Agreement. However, the Reallocation Agreement does not affect the obligation of AP&L to System Energy's lenders under the assignments referred to in the second preceding paragraph, and AP&L would be liable for its share of such amounts only if the other System operating companies were unable to meet their contractual obligations. No payments of any amortization amounts will be required as long as amounts paid to System Energy under the Unit Power Sales Agreement, together with other funds available to System Energy, exceed amounts required under the Availability Agreement, which is expected to be the case for the foreseeable future.

Reimbursement Agreement

On December 28, 1988, System Energy entered into two entirely separate, but identical, arrangements for the sales and leasebacks of an approximate aggregate 11.5% ownership interest in Grand Gulf 1 (see System Energy's Note 9, "Leases"). In connection with the equity funding of the sale and leaseback arrangements, letters of credit are required to be maintained to secure certain amounts payable for the benefit of the equity investors by System Energy under the leases. The letters of credit currently maintained are effective until January 15, 1994.

Under the provisions of the reimbursement agreement, as amended, related to the letters of credit, System Energy has agreed to a number of covenants relating to, among other things, the maintenance of certain capitalization and fixed charge coverage ratios. In this connection, System Energy agreed, during the term of the reimbursement agreement, to maintain its equity at not less than 33% of its adjusted capitalization (as defined in the reimbursement agreement) and to maintain its common equity at not less than 29% of such amount. In addition, System Energy must maintain, with respect to each fiscal quarter during the term of the reimbursement agreement, a ratio of adjusted net income to interest expense (calculated, in each case, as specified in the reimbursement agreement) of at least 1.60. At December 31, 1991, System Energy's equity and common equity in each case approximated 37.26% of its adjusted capitalization, and its fixed charge coverage ratio was 1.74.

Failure by System Energy to perform its covenants under the reimbursement agreement could give rise to a draw under the letters of credit and/or an early termination of the letters of credit. If such letters of credit were not replaced in a timely manner, a default under System Energy's related leases could result. Draws under the letters of credit must be repaid by System Energy within 5 days (and, in some cas[illegible]days) following the date of drawing.

See System [illegible]s Note 2, "Rate and Regulatory Matters — FERC Audit," for information with respect to a FERC ALJ decision that, if ultimately sustained and implemented, could cause System Energy to seek waivers from the banks to avoid violation of the fixed charge coverage covenant.

Nuclear Insurance

The Price-Anderson Act provides a limit of public liability for a single nuclear incident, which at December 31, 1991, was approximately $7.81 billion. System Energy has protection with respect to this liability through a combination of private insurance (currently $200 million) and an industry assessment program. Under the assessment program, the maximum amount System Energy would be required to pay, with respect to each nuclear incident at a licensed nuclear facility, would be $66.15 million per reactor (such amount to be indexed every five years for inflation and includes a 5% surcharge in the event the total public liability claims and legal costs approach or exceed the limit of protection otherwise established), payable at a rate of $10 million per licensed reactor per incident per year. As a co-licensee of Grand Gulf 1 with System Energy, SMEPA would share in this assessment obligation. System Energy has one licensed reactor.

System Energy, on behalf of itself and other insured interests (including other co-owners of Grand Gulf 1), is a member of certain insurance programs that provide coverage for property damage, including decontamination expense, to members' nuclear generating plants. At December 31, 1991, System Energy was insured against such losses up to $2.45 billion with a $300 million sublimit for premature decommissioning coverage. Under the property damage insurance program, System Energy could be subject to assessments if losses exceed the accumulated funds available to the insurers. At December 31, 1991, the maximum amount of such possible assessments to System Energy was $16.71 million. Under its agreement with System Energy, SMEPA would share in System Energy's obligation.

The amount of property insurance presently carried by System Energy exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, [illegible]d, to complete required decontamination operations. Only after proceeds are used or dedicate[illegible] such use and appropriate regulatory approval is obtained would the balance of these proceeds, if any, be available for plant owners' or their creditors' benefit.

Spent Nuclear Fuel and Decommissioning Costs

System Energy is providing for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. System Energy has entered into a contract with the DOE, whereby the DOE will furnish disposal service at a cost of one mill per net KWH generated and sold after April 7, 1983. The fees payable to the DOE may be adjusted in the future to assure full cost recovery. System Energy considers all costs incurred or to be incurred in connection with disposal of spent nuclear fuel to be proper components of nuclear fuel expense and recovers such costs in rates.

The DOE's repository program for the acceptance of spent nuclear fuel has been delayed. System Energy's initial shipment of spent fuel to the DOE's storage facilities is expected to occur after 2019. In the meantime, System Energy will be responsible for storage of spent fuel. Current on-site spent fuel storage capacity is estimated to be sufficient to store fuel from normal operations until 2004. It is expected that any additional storage capacity required due to, among other things, delay of the DOE's repository program will be provided by System Energy. The cost of providing the additional on-site spent fuel storage capability required at Grand Gulf 1 by 2004 is estimated to approximate $5.0 million to $10.0 million (in 1991 dollars). In addition, approximately $3.0 million to $5.0 million (in 1991 dollars) will be required every two to three years subsequent to 2004 until DOE's repository begins accepting Grand Gulf 1 spent fuel.

As a result of the FERC Complaint Case settlement, the amount to be collected in rates for the total cost of decommissioning System Energy's 90% interest in Grand Gulf 1 was set at approximately $198 million (in 1989 dollars). These collections through rates are deposited in external trust funds, with an after-tax market value of $14.1 million at December 31, 1991, that can only be used for future decommissioning costs. These decommissioning costs are estimated to approximate $248.7 million in 1989 dollars based on a 1989 decommissioning cost study. System Energy regularly reviews and updates estimated decommissioning costs to reflect inflation and changes in regulatory requirements and technology. Applications will be made to the FERC to reflect in rates any changes in estimated decommissioning costs.

System Fuels

On October 3, 1989, System Fuels entered into a revolving credit agreement with banks that provides for up to $45 million of borrowings to finance System Fuels' nuclear materials and services inventory. In connection with these arrangements, System Energy, AP&L and LP&L, as purchasers from System Fuels of the nuclear materials and services, agreed to purchase from System Fuels the nuclear materials and services financed under the agreement if System Fuels should default in its obligations thereunder. The purchases under these circumstances would be of percentages agreed upon among the parties but, in the absence of such agreement, System Energy, AP&L, and LP&L would each be obligated to purchase one-third of System Fuels' nuclear materials and services.

Other Commitments and Contingencies

See System Energy's Note 2, "Rate and Regulatory Matters," for information with respect to the FERC Audit.

NOTE 9. LEASES

Nuclear Fuel Leases

System Energy has a leasing arrangement permitting the leasing of nuclear fuel of up to $130 million at December 31, 1991. The lessor finances its acquisition and ownership of nuclear fuel under a credit agreement and through the issuance of intermediate-term notes. The credit agreement, which was entered into in 1989 has been extended to February 1995 and the intermediate-term notes have varying remaining maturities of up to 10 years. It is expected that the credit arrangements will be extended or [illegible] financing will be secured by the lessor upon the maturity of the current arrangements. If the lessor cannot arrange for alternative financing upon the regularly scheduled maturity of its borrowings, System Energy must purchase nuclear fuel in an amount equal to the amount required by the lessor to retire such borrowings.

Lease payments, based upon nuclear fuel use, are treated as a cost of fuel. Nuclear fuel lease expense, including interest, of $66.9 million, $72.4 million, and $75.3 million, was charged to operations in 1991, 1990, and 1989 respectively. The unrecovered cost base of the leases was $85 million and $134 million at December 31, 1991 and 1990, respectively.

Sale and Leaseback Transactions

On December 28, 1988, System Energy entered into two entirely separate, but identical, arrangements for the sales and leasebacks of an approximate aggregate 11.5% undivided ownership interest in Grand Gulf 1 for an aggregate cash consideration of $500 million. System Energy is leasing back the undivided interest on a net lease basis over a 26½ year basic lease term. System Energy has options to terminate the leases and to repurchase the undivided interest in Grand Gulf 1 at certain intervals during the basic lease term. Further, at the end of the basic lease term, System Energy has an option to renew the leases or to repurchase the undivided interest in Grand Gulf 1. See System Energy's Note 8, "Commitments and Contingencies — Reimbursement Agreement," with respect to certain other terms of the transaction.

In accordance with SFAS No. 98, "Accounting for Leases," due to "continuing involvement" by System Energy, the sales and leasebacks of the undivided portions of Grand Gulf 1, as described above, are required to be reflected for financial reporting purposes as financing transactions in System Energy's financial statements. The amounts charged for financial reporting purposes to expense include the interest portion of the lease obligations and depreciation of the plant. However, operating revenues include the recovery of the lease payments since the transactions are accounted for as sales and leasebacks for rate-making purposes. The total of interest and depreciation expense exceeds the corresponding revenues realized during the early part of the lease term. In December 1990, consistent with a recommendation contained in a FERC audit report, System Energy recorded as a deferred asset the current and prior year difference between the recovery of the lease payments and the amounts expensed for interest and depreciation, and began recording such difference as a deferred asset on an ongoing basis. Recognition of the deferred asset resulted in an increase in net income of approximately $[illegible] million in 1990 compared to 1989. The effect of the deferral was to decrease depreciation expense by approximately $15 million in 1991 and $30 million in 1990, to decrease interest expense by approximately $1 million in 1991 and $2 million in 1990, and to increase related taxes by approximately $4 million in 1991 and $8 million in 1990. The deferral will reverse over the later years of the lease term as the revenues associated with the leases exceed the charges for depreciation and lease interest.

See System Energy's Note 1, "Summary of Significant Accounting Policies — Utility Plant," for further information regarding the accounting for the sale and leaseback transactions.

At December 31, 1991, System Energy had future minimum lease payments (reflecting an overall implicit rate of 9.86%) in connection with the sale and leaseback transactions as follows:

	Minimum Lease Payments (In Thousands)
1992	$ 49,333
1993	49,333
1994	51,295
1995	52,247
1996	52,247
Years thereafter	1,143,626
Total	$1,398,081

NOTE 10. POSTRETIREMENT BENEFITS

System Energy participates in a defined benefit pension plan sponsored by Entergy. Effective June 6, 1990, all of System Energy's employees became employees of Entergy Operations. However, the employees still remain under System Energy's plan and no transfers of related pension liabilities and assets have been made. The pension plan, which covers substantially all of the employees, is noncontributory and provides pension benefits that are based on employees' credited service and average compensation, generally during the last five years before retirement. System Energy's policy is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

System Energy's 1991, 1990, and 1989 pension cost (credit), including amounts capitalized, was as follows:

	For the Years Ended December 31,		
	1991	1990	1989
		(In Thousands)	
Service cost — benefits earned during the period	$ 1,327	$ 1,398	$ 1,073
Interest cost on projected benefit obligation	1,035	762	559
Actual return on plan assets	(5,432)	48	(3,992)
Net amortization and deferral	2,991	(2,402)	1,759
Other	17	—	—
Net pension cost (credit)	$ (62)	$ (194)	$ (601)

The assets of the plan consist primarily of common and preferred stocks, fixed income securities, and interest in a money market fund.

The funded status of System Energy's pension plan at December 31, 1991 and 1990 was as follows:

	1991	1990
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$ 8,580	$ 4,036
Nonvested	2,088	982
Accumulated benefit obligation	$10,668	$ 5,018
Plan assets at fair value	$28,194	$22,797
Projected benefit obligation	16,067	10,478
Plan assets in excess of projected benefit obligation	12,127	12,319
Unrecognized prior service cost	971	156
Unrecognized transition asset	(8,274)	(8,871)
Unrecognized net gain	(2,825)	(1,667)
Accrued pension asset	$ 1,999	$ 1,937

The significant actuarial assumptions used included a weighted average discount rate of 8.25% for 1991, 8.75% for 1990, and 8.5% for 1989 and a weighted average rate of increase in future compensation of 5.6% for valuing the projected benefit obligation for 1991, 1990, and 1989. An assumed expected long-term rate of return on plan assets of 8.5% was used for 1991, 1990, and 1989. Transition assets are being amortized over the average remaining service period of active participants.

System Energy also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for the Entergy System. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for active employees. The cost of providing these benefits, recorded on a cash basis, and the number of active employees and retirees for the last three years were:

	1991	1990	1989
Total cost of health care and life insurance (in thousands)	$2,453	$2,845	$1,865
Number of active employees	1,283	1,307	1,147
Number of retirees	5	4	3

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires a change from a cash method to an accrual method of accounting for those benefits. At January 1, 1992, the actuarially determined accumulated postretirement benefit obligation earned by retirees and active employees was estimated to be approximately $5 million. This obligation may be amortized to expense over a 20 year period beginning in 1993 or alternatively, recorded as expense immediately upon the adoption of the new accounting standard. Adoption of the new standard is expected to increase annual expense associated with these benefits by approximately $1 million for System Energy, including the effects of the amortization of the transition obligation. The portion of this additional expense that will immediately or ultimately be allowed in rates cannot presently be determined. In addition, the degree of regulatory assurance of future recovery that may be required to recognize a regulatory asset, and thus avoid an impact on earnings, cannot be determined at this time. System Energy plans to adopt this standard in the first quarter of 1993.

NOTE 11. TRANSACTIONS WITH AFFILIATES

System Energy sells all of the capacity and energy from its share of Grand Gulf 1 to the System operating companies under rate schedules approved by the FERC in its June 13 Decision regarding the Unit Power Sales Agreement. Accordingly, all of System Energy's operating revenues consist of billings to the System operating companies.

MP&L provides a minimal amount of technical and advisory services and other miscellaneous services to System Energy. In addition, pursuant to a service agreement, System Energy receives technical and advisory services from Entergy Services, Inc. Charges from MP&L and Entergy Services, Inc. for technical, advisory and miscellaneous services amounted to approximately $10.9 million in 1991, $10.6 million in 1990, and $12.3 million in 1989. Also, effective June 6, 1990, Entergy Operations assumed operating responsibility for, but not ownership of, Grand Gulf 1. In return, System Energy pays directly or reimburses Entergy Operations for the costs associated with operating Grand Gulf 1, which were approximately $136.0 million in 1991 and $138.0 million in 1990.

In addition, certain materials and services required for fabrication of nuclear fuel are acquired and financed by System Fuels and then sold to System Energy, as needed. Charges for these materials and services, which represent additions to nuclear fuel, amounted to approximately $28.9 million in 1991, $34.3 million in 1990, and $0.06 million in 1989.

NOTE 12. QUARTERLY FINANCIAL DATA (Unaudited)

Operating results for the four quarters of 1991 and 1990 were:

	Operating Revenues	Operating Income	Net Income
		(In Thousands)	
1991:			
First Quarter	$185,048	$ 87,703	$35,184
Second Quarter	$143,738	$ 65,216	$ 6,910(1)
Third Quarter	$174,516	$ 82,443	$30,589
Fourth Quarter	$183,362	$ 83,450	$31,939
1990:			
First Quarter	$201,660	$ 88,955	$38,487
Second Quarter	$197,992	$ 86,431	$36,122
Third Quarter	$204,583	$ 88,280	$36,569
Fourth Quarter	$197,383	$118,362	$57,499(2)

(1) See System Energy's Note 2, "Rate and Regulatory Matters — FERC Complaint Case."

(2) See System Energy's Note 9, "Leases — Sale and Leaseback Transactions."

SYSTEM ENERGY RESOURCES, INC.

SELECTED FINANCIAL DATA — FIVE-YEAR COMPARISON

	1991	1990	1989	1988	1987
			(In Thousands)		
Operating revenues	$ 686,664	$ 801,618	$ 837,307	$ 933,828	$ 962,549
Net income (loss)	$ 104,622	$ 168,677	$ (655,524)	$ 180,314	$ 198,801
Total assets	$3,642,203	$3,883,241	$3,987,055	$5,160,249	$5,422,329
Long-term obligations(1)	$1,707,470	$1,849,900	$2,229,022	$2,553,002	$2,245,155

(1) Includes long-term debt (excluding current maturities) and noncurrent capital lease obligations.

SYSTEM ENERGY RESOURCES, INC.

DIRECTORS, OFFICERS, AND OTHER INFORMATION

DIRECTORS

James M. Cain
Vice Chairman of Entergy

William Cavanaugh, III
Senior Vice President, System Executive — Nuclear of Entergy; President and Chief Executive Officer of System Energy; Executive Vice President and Chief Nuclear Officer of AP&L and LP&L

Edwin Lupberger
Chairman of the Board and Chief Executive Officer of Entergy; Chairman of the Board of System Energy

Jerry L. Maulden
Group President, System Executive — Distribution and Customer Service of Entergy; Chairman of the Board and Chief Executive Officer of AP&L, LP&L, MP&L, and NOPSI

OFFICERS

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Chairman of the Board

William Cavanaugh, III
President and Chief Executive Officer

Gerald D. McInvale
Senior Vice President and Chief Financial Officer

Glenn E. Harder
Vice President — Administrative Services and Regulatory Affairs

Lee W. Randall
Vice President and Chief Accounting Officer

H. Stuart Ball
Treasurer

Joseph L. Blount
Secretary

Susan P. Engle
Assistant Treasurer

Mary Ball E. Markow
Assistant Treasurer (B)

Robert D. Morehead
Assistant Treasurer (A)

Christopher T. Screen
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System Energy's 1991 Annual Report to the Securities and Exchange Commission on Form 10-K (including financial statement schedules) is available to any interested parties without charge. Interested parties can obtain a copy by calling or writing to:

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To request a copy of the 1991 Entergy Corporation Annual Report or the 1991 Form 10-K, call or write:

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(A) Effective January, 1992
(B) Resigned effective January, 1992