1991

ANNUAL REPORT

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

50 Years

Contents

About SMEPA

SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION (SMEPA) IS A RURAL ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE (G&T). SMEPA SERVES AS AN ECONOMICAL POWER SOURCE FOR ELEVEN MEMBER-OWNER DISTRIBUTION COOPERATIVES WHICH PROVIDE ELECTRICITY TO MORE THAN 270,000 MISSISSIPPIANS. THROUGH COMMITTED LEADERSHIP AND COMMITTED EMPLOYEES, SMEPA IS ABLE, YEAR AFTER YEAR, TO FULFILL THIS MISSION.

EXECUTIVE MESSAGE

W. C. McKamy, Jr., President, with Henry Thomas, General Manager

South Mississippi Electric Power Association became fifty years of age in 1991, with many of those years spent as a paper entity. During the past twenty years, however, South Mississippi has grown into a full-fledged G&T cooperative power supplier, providing the generation and transmission requirements of eleven member systems.

The many challenges faced during SMEPA's formation and construction were successfully overcome. The commitment of past managers, directors, and employees is reflected throughout the Association's operation. However, the complexity of the power industry continues to bring forth new issues, creating an ongoing environment of change. SMEPA's success is, and will be, the result of the same determination by its current managers, directors, and employees. Few organizations can equal the records of accomplishment as does SMEPA, operating with 234 well-trained and highly motivated employees dedicated to the same cooperative philosophy as those in the past.

During 1991, SMEPA continued to closely monitor cost with results. New methods of operation and management techniques have proved highly successful in stabilizing costs; this was reflected in stable rates and reliable service which were maintained even while the Association was experiencing rapid growth.

SMEPA also entered into a new spirit of cooperation—rather than competition—with its investor-owned neighbor, Mississippi Power Company. These agreements and understandings will allow both to have a more positive impact on the State of Mississippi.

While we proudly look back over the life of SMEPA, we also look boldly at its future. Many changes will occur and many problems will be presented; but with the support of its members and employees, SMEPA will continue the credibility, respectability, accountability, and responsibility necessary for success in today's ever-changing business environment.

We are proud to share the success of SMEPA and its employees in meeting the needs of a changing industry.

W. C. McKamy

Henry Thomas

W. C. MCKAMY

HENRY THOMAS

BOARD OFFICERS

Seated, from left:
W. C. McKamy, Jr., President;
Naif Jordan, Vice President

Standing, from left:
Hollis Alford, Secretary-Treasurer;
W. T. Shows, Acting Secretary-Treasurer

SMEPA'S HISTORY

We never tire of telling our story and use the occasion of our 50th anniversary to do so again. In so doing, we also celebrate and pay tribute to the cooperatives that organized SMEPA, to the men under whose guidance SMEPA flourished, and to the cooperatives that are members today.

While our history began with our incorporation, we share a history behind the history with all rural electric cooperatives: the formation of the rural electrification program. There's a lasting and satisfying pride in knowing that we, to this day, continue the legacy of cooperation and dedication laid out more than half a century ago.

Representatives from seven electric power associations (EPAs) organized South Mississippi EPA on April 4, 1941 in downtown Hattiesburg. A resolution was passed that day in favor of organizing a G&T cooperative "so as to make possible the generating and transmitting of power by our Rural Electric Administration (REA) cooperatives and thereby reducing the cost of power and further extending the fundamentals upon which our electric power cooperatives are founded." The co-ops represented were Coast EPA, East Mississippi EPA, Jones County EPA (now Dixie), Magnolia EPA, Pearl River Valley EPA, Southern Pine EPA, and Singing River EPA.

Original plans for SMEPA's first generating plant placed the facility on the Pearl River at Columbia. The fuel source for plant generation was to be waste products extracted from the manufacture of wood and timber. In October, the original loan for the plant of $2,100,000 was approved by REA; construction plans were completed on December 6, 1941. The next day, the United States was plunged into World War II, causing all plans to be put on hold.

The end of the War did not activate construction. Other delaying factors soon came into play, and it was not until 1958 that SMEPA's members were able to proceed as planned. However, from 1960 to 1968, South Mississippi Electric was engaged in a long and fierce public battle with investor-owned utilities attempting to halt construction of SMEPA's generating facilities. The Association would fight and win one of the toughest battles ever encountered in the utility industry. It would last almost nine years ending on December 16, 1968, when the U. S. Supreme Court upheld the decision reached June 10 by the Mississippi Supreme Court in favor of SMEPA.

OF THE SEVEN ELECTRIC POWER ASSOCIATIONS THAT ORGANIZED SMEPA, SIX REMAIN MEMBER EPA'S: COAST, DIXIE, MAGNOLIA, PEARL RIVER VALLEY, SINGING RIVER, AND SOUTHERN PINE.

IN 1947, CAPITAL EPA, SOUTHWEST MISSISSIPPI EPA, AND WASHINGTON-ST. TAMMANY ELECTRIC CO-OP (OF LOUISIANA) BECAME MEMBERS. SOUTHWEST IS THE ONLY REMAINING MEMBER.

THE FOUR SYSTEMS LOCATED IN THE NORTHWESTERN PART OF THE STATE JOINED THE ASSOCIATION IN 1980. THOSE EPAS ARE: COAHOMA, DELTA, TWIN COUNTY, AND YAZOO.

R. D. Morrow, Sr., for whom our coal-fired plant was named, is shown here as a very special guest at the dedication ceremony for the Plant on October 27, 1978.

Mr. Morrow served on the Association's Board for 24 years and as Board President from June 1970 to October 1980. He represented Southern Pine Electric Power Association. Mr. Morrow died August 25, 1985.

Groundbreaking for the Moselle Generating Station was held on September 12, 1968; on August 1, 1970, the three-unit, 177-MW plant began commercial operation. The transmission system consisted of 300 miles of line to serve 52 substations.

Plant R. D. Morrow, Sr., began commercial operation in 1978. The plant, located on 884 acres of land near Purvis, Mississippi, houses two units with a total 400-MW capacity.

A SPECIAL THANK YOU

Throughout all of the delaying factors and intervening years, SMEPA, as an organization, did not lie totally dormant. Frustrations may have built, and activity may have diminished, but no one ever thought of abandoning the dream.

The pages following pay tribute to the first managers of South Mississippi Electric Power Association, J. T. (Tim) Dudley, Sr. and George Taylor, and to SMEPA's eleven member distribution cooperatives.

Tim Dudley was manager of Singing River Electric Power Association when he was asked in 1958 by SMEPA's Board of Directors to be manager also of the Association. Without hesitation, he took on the additional responsibilities and the obstacles inherent in forging a G&T system. Very capably he marshaled the best people and together they tenaciously took on every roadblock and every delaying tactic as they surfaced. Mr. Dudley's efforts in laying the groundwork for Mississippi's first and only G&T have been unforgettable.

George Taylor's association with SMEPA began in 1959 and was to last twenty-six years, during which time he served as consultant, engineer, and manager. By the time he became manager in 1967, Mr. Taylor already had played a very important part in the formation of the Association. The next phase would give him the exciting task of constructing South Mississippi Electric Power Association. From construction of the first gas turbine, through two power plants, and yet another gas turbine, SMEPA remained in very capable leadership.

And our member-owner distribution cooperatives . . . They are, as has been said many times over, our sole reason for existence for our primary goal is to supply them with a reliable, economical source of wholesale power. Pages 7 through 18 highlight our member systems.

J. T. DUDLEY, SR. WAS MANAGER OF SINGING RIVER EPA FROM 1948 TO 1960 AND WAS MANAGER OF SMEPA FROM 1958 TO 1967.

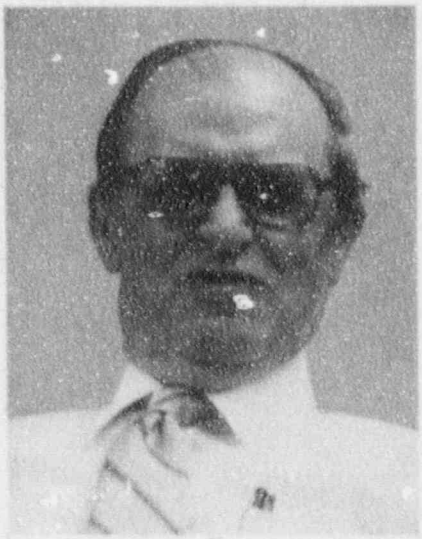
GEORGE B. TAYLOR BECAME MANAGER OF SMEPA IN 1967 AND RETIRED IN 1985.

We brought Tim Dudley and George Taylor together one day and asked them for their memories of SMEPA—from what they knew of the incorporation through construction. It was with extreme pleasure that we sat back and listened to these two dedicated and determined former managers recall the trials and successes in bringing SMEPA from a vision to a reality.

J. T. DUDLEY, SR.

The first problem I guess the electric power associations had was getting the Enabling Act passed. They had tried and been unable to do it. After President Roosevelt called Governor Hugh White, the Act passed.

Then neither one of the investor-owned utilities would sell SMEPA power; but when the owner of a sawmill and generating plant in Crosby, Mississippi, sold them power, that broke the impasse. They got the first loan pretty soon after that for about $2.1 million.



"And I'm a darn poor loser."
— Tim Dudley

Of course, World War II started about that time, and SMEPA couldn't get materials; so they had to shut her down. Then we made a push around 1950—to no avail.

The push started again around 1955. We had some studies made. We were encouraged by some of the staff members in Washington, but there hadn't been a loan made in years for a new startup G&T system. We kept plugging. The power company gave us an increase of 35-40%, and that's what got the loan approved. That was in 1958.

In late 1958, they asked me to be manager for about six months. About nine years later we finished.

By the time we finished the first round of court hearings, we had planned for three 22-megawatt generators; and by the time we got through with the Supreme Court the first round, the loads had grown so that we couldn't serve them. We had to go back to try to get another loan to increase the size of the Moselle plant to three 59-megawatt units. We didn't really have any problem with that.

Hamil approved the first loan. Clapp was administrator when REA approved the second and third loans.

It was '64 or '65 when we got all the loans in order to build the system. We had to go back through the Mississippi Public Service Commission and the Supreme Court. (We went through the Mississippi Supreme Court three or four times altogether.) We also had a problem with the gas supply; we needed Federal Power Commission approval. It was one of the last hurdles we had up there that I remember.

The things we had to go through — that'll make you scrap. And I'm a darn poor loser anyway . . .

Although in his "retirement years," Mr. Dudley has found the right mix of business and well-earned leisure. He remains a consultant at Singing River EPA. Mr. Dudley lent his expertise to three of our member systems that were threatened with takeover in the late '80s, and he also served as Executive Director of the George County Economic Development Foundation for about six years.

He and his wife Daphne have traveled quite extensively.

GEORGE B. TAYLOR

The first I heard of SMEPA was in January 1959. I was working for Southern Engineering. They had just gotten a big filebox of stuff in from SMEPA, and they turned it over to me. They told me to make a study and get ready to go to the Mississippi Public Service Commission. My total work back in those days was making G&T studies. I did it for groups of co-ops all over the eastern part of the country.

I came to Lucedale in May of 1962 to work for Tim at Singing River EPA as chief engineer—actually, the only engineer. Until I became manager of SMEPA in 1967, I held that position.

I think we had an excellent working relationship with REA during the first years of formation. It got kind of stormy later on sometimes.

I never was involved back in those days with any of the politics. Tim did all that. Primarily, my job was engineering and making all the studies.

Of course, I was more interested in designing SMEPA's system because that was my big part in it. REA released the funds on August 29, 1967, to build the system and the plant. About $36 million. We did get the system built on schedule and within the budget. That was good. And in the beginning, before the shortage of gas caused prices to increase so much, we delivered power for what we had estimated several years earlier—about 7.25 mills per kilowatt hour. We were always proud of that.

I know it was hard to get SMEPA off the ground. We could have given up lots of times and just quit. But of course, Tim wouldn't do that; he's not a quitter. I like that because I like to keep on going.

It was fun for me right from the word go. It was a challenge; and things kept falling apart, and we kept putting them back together. When I was in a game, I wanted to win; and when I had a job to do, I wanted to prove that it could be done. Then when I was privileged to serve as manager and build this system—that was a lot of fun. Not many people get to build a new power system, from buying the right-of-way through the plant construction. I'm not sure whether this was the last power system built in this country or not; but if it wasn't, it was close to it.

"For me it was a challenge and a fight."— George Taylor

I've had only two bosses in my life, and Tim was one of them. I really enjoyed working for him.

Mr. Taylor thoroughly enjoys his retirement. He keeps busy doing a variety of things. He spent 3-1/2 years teaching one person to read; worked with SCORE as a consultant for small businesses; has been very active in church work and other community-related activities. One activity he looks forward to is reading stories to students in kindergarten through 3rd grade. (Being a grandfather of 7 has well-prepared him for this role.)

COAHOMA ELECTRIC POWER ASSOCIATION
LYON, MISSISSIPPI

Coahoma Electric Power Association is nestled in the Delta area of northwest Mississippi amid fields of cotton, rice, and other row crops. Farming—seasonal and highly vulnerable to the elements—makes up 10% of Coahoma's load.

In the 1950s, Coahoma EPA had twice the consum[illegible] is now. The outward migration of farm labor in the 60s and 70s, due to chemicals and machines, caused the drop in membership. However, being small—and Coahoma

Members of SMEPA's Board of Directors (l-r):

•James Humber
•Giles Bounds, Manager

Coahoma's commercial load comprises a catfish processing plant, a furniture manufacturer, and Coahoma Junior College. The cooperative also serves a portion of Clarksdale which has a population of approximately 22,000.

is the smallest of SMEPA's member-owners—allows the co-op to have a lot of contact with its members.

THEN:

ENERGIZED	1/18/38
MILES OF LINE	100
CONSUMERS	300
COUNTIES	2

NOW:

MILES OF LINE	1,425
CONSUMERS	6,500
COUNTIES	7
MWH PURCHASED	90,591

COAST ELECTRIC POWER ASSOCIATION
BAY ST. LOUIS, MISSISSIPPI

Through the years, Coast Electric Power Association has earned the reputation as being among the fastest growing electric cooperatives in Mississippi and the nation, with an average yearly growth rate of 6%. Rural areas combine with the densely populated urban areas to bring the average member per mile of line to eleven. Coast Electric has a 93.4% residential load.

Two industrial parks lie within the cooperative's service area: Port Bienville in Hancock County and the Long Beach Industrial Park in Harrison County. Because the service area borders the Gulf of Mexico, several marine industries are numbered among Coast EPA's commercial consumers.

There is a price for having the Gulf at your doorstep with thirty miles of sandy beach to enjoy: Residents must be mindful of the potential for hurricanes. Who could forget Hurricane Camille?

Members of SMEPA's Board of Directors (l-r):

•Richard Dossett
•Robert Occhi, General Manager

The coastal areas, over which eight flags have flown, proudly reflect their multinational heritage; but the French influence dominates to this day. This is sampled in the cuisine, heard in the spoken word, and experienced fully during the Mardi Gras season.

THEN:

ENERGIZED	5/20/38
MILES OF LINE	25
CONSUMERS	50
COUNTIES	3

NOW:

MILES OF LINE	3,827
CONSUMERS	43,300
COUNTIES	3
MWH PURCHASED	743,020

DELTA ELECTRIC POWER ASSOCIATION
GREENWOOD, MISSISSIPPI

A steamer trunk filled with Delta EPA's valuable documents was taken to Washington in the late '30s to prove a need for electric service to cover a four-county area. The co-op's attorney said that they took that trunk everywhere—even had to put it on top of a taxi to take it to REA offices.

operated by Shell Pipeline Corporation for seven major oil companies that pump crude oil through a 44-inch pipe from the Gulf of Mexico to refineries in the mid-western and eastern parts of the U. S.

The Staplcotn Compress and Warehouse is the largest

Board of Directors

•Henry C. Waterer, Jr.
•Harry H. Bonner,
General Manager

The mission was successful, and the original line construction was completed without there even being a company office. Today, Delta EPA serves four consumers per mile of line, 84% of whom are residential.

The cooperative's service area includes several large commercial enterprises. The Capline Pumping Station is

cotton compress and storage facility in the Southeast. There are 27 buildings, with a total floor space of 1,166,400 square feet (approximately 27 acres under roof).

Cotton gins, irrigation pumping, and aquaculture are also large electric consumers. These loads are seasonal and vary greatly.

THEN:	
ENERGIZED	1/30/39
MILES OF LINE	135
CONSUMERS	450
COUNTIES	4
NOW:	
MILES OF LINE	5,787
CONSUMERS	29,701
COUNTIES	13
MWH PURCHASED	366,018

DIXIE ELECTRIC POWER ASSOCIATION
LAUREL, MISSISSIPPI

Dixie Electric Power Association was incorporated as Jones County EPA to provide service to a portion of that one county. The territory soon expanded to include parts of three additional counties. In 1949, the co-op's name was changed to Dixie EPA with the number of counties up to seven.

Located in the piney woods area of southeastern Mississippi, Dixie EPA serves a variety of industries, some of which are:

Oil-related—Chevron, Murphy Oil USA, Inc., Texaco, Amerada Hess, Fina Oil;

Lumber-related—Scott Paper, Mississippi Forestry Commission, Leaf River Forest Products, Georgia-Pacific, Hood Industries;

Poultry production and processing—Southern Hens, Marshall Durbin Farms;

Members of SMEPA's Board of Directors (l-r):

- *L. G. Pierce*
- *J. T. Dudley, Jr., General Manager*

Chemical processing—Odom Industries, Wayne County Lime Co., Hattiesburg Gas Storage Co., Delta Storage and Distribution.

The Hattiesburg/Laurel Regional Airport, Broadcasters of Mississippi, Robinson Tilapia Fish Farms, and Stevens Sportswear Co., are additional commercial consumers.

THEN:		
ENERGIZED	•	7/28/39
MILES OF LINE	•	210
CONSUMERS	•	494
COUNTIES	•	1
NOW:		
MILES OF LINE	•	3,750
CONSUMERS	•	21,369
COUNTIES	•	7
MWH PURCHASED	•	462,245

MAGNOLIA ELECTRIC POWER ASSOCIATION
McCOMB, MISSISSIPPI

Magnolia Electric Power Association serves one of the more rural parts of Mississippi with less than five consumers per mile of line.

The co-op's territory is very compact, so there are no district offices. Linemen can travel to the extreme boundaries within 45 minutes.

Among the more than 21,000 members of the Association are entertainer Jerry Clower and popular columnist and author Rose Budd Stevens.

Percy Quinn State Park is served by Magnolia. The park has a large lake and recreation area with cabins and camping facilities. The Association also supplies electricity to a number of smaller private and public recreational areas.

Several Magnolia substations serve carbon dioxide injection stations. These are part of Shell Oil Company's $250,000,000 enhanced oil recovery project.

Poultry processing plants, dairy farming, sawmills, a turkey caller manufacturer, and an airplane emergency escape chute factory are other types of industries in Magnolia Electric Power Association's service territory.

Members of SMEPA's Board of Directors (l-r):

Hollis Alford
Sammy Williams, Manager

THEN:	
ENERGIZED	9/19/39
MILES OF LINE	328
CONSUMERS	420
COUNTIES	6

NOW:	
MILES OF LINE	4,437
CONSUMERS	21,118
COUNTIES	6
MWH PURCHASED	375,919

PEARL RIVER VALLEY ELECTRIC POWER ASSOCIATION
COLUMBIA, MISSISSIPPI

The Pearl River, 425 miles long, runs through C' mbia which is the headquarters for Pearl River Valley Electric Power Association. Spread across twelve counties, the Association's service area is the second-fastest growing in the state, with the coastal region ranked first.

lines includes Georgia-Pacific, Chevron, Methodist Hospital, and Mississippi Farmers' Cooperative.

Quite a few recreational facilities are served by Pearl River Valley. The largest areas are Paul B. Johnson State Park in Hattiesburg, Little Black Creek Water Park in

Members of SMEPA's Board of Directors (l-r):

•K. . .y Speights
•W. T. Shows, General Manager

The co-op's membership has been increasing by approximately 3% a year for the past several years. Sixty-four percent of Pearl River Valley's load is residential, leaving 36% commercial. The fastest growth on the system is to be found west and south of Hattiesburg.

A sampling of the industries on Pearl River Valley EPA's

Purvis, and Flint Creek Water Park ir Wiggins.

Pearl River Valley also serves several large residential developments: Timberton, a 465-acre development which includes several lakes, ponds, and streams, and an 18-hole championship golf course; and Canebrake, which includes a 300-acre lake.

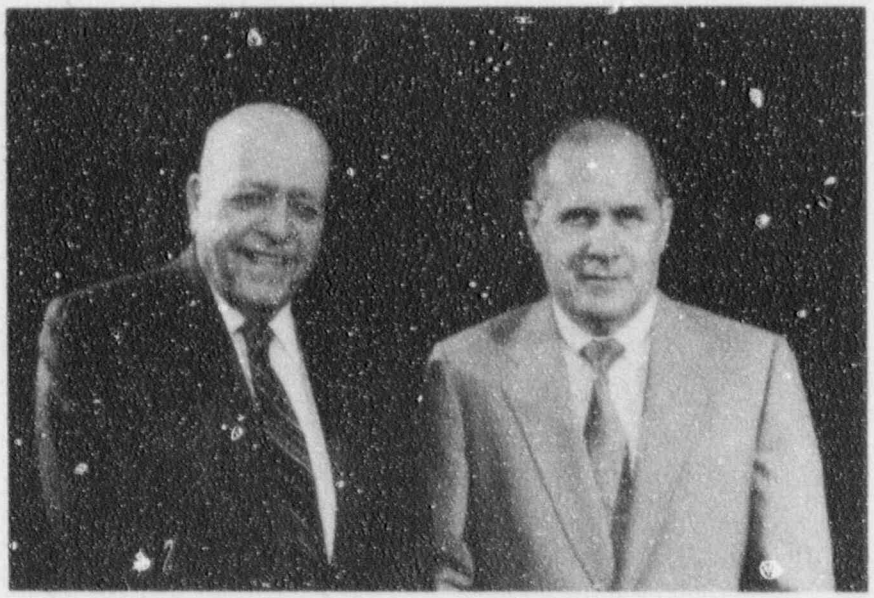
THEN:		
ENERGIZED	•	5/19/39
MILES OF LINE	•	187
CONSUMERS	•	226
COUNTIES	•	12
NOW:		
MILES OF LINE	•	4,667
CONSUMERS	•	26,207
COUNTIES	•	12
MWH PURCHASED	•	445,467

SINGING RIVER ELECTRIC POWER ASSOCIATION
LUCEDALE, MISSISSIPPI

Singing River Electric Power Association is bordered by Alabama to the east and the Gulf of Mexico to the south. Jackson County, along the coas the most industrialized county in Mississippi and accounts for almost 83% of the co-op's total system load. The County is also the most heavily populated of Singing River's area with more than 70% of the cooperative's consumers living there.

The northern part of the service area is primarily timberland that is managed for pulp, with the remainder being used for farming.

Singing River EPA's commercial and industrial consumers account for 24% of its load. A sampling follows. *Plantation Pipeline* is a refined petroleum products pumping station used to transport products to the North. The *South Mississippi Corrections Department* has a state prison facility in Greene County, with an expansion planned for 1994.



Members of SMEPA's Board of Directors (l-r):

- *Naif Jordan*
- *Jack Ware, General Manager*

Bird-Johnson Propeller Corporation manufactures large ship propellers. *Jackson County Community College*, a satellite campus of the Mississippi Gulf Coast Community College, is located in Gautier. The *Jackson County Port Authority* has a pumping station that transports water through a twenty-mile pipeline from the Pascagoula River to the coastal area.

THEN:		
ENERGIZED	·	12/5/39
MILES OF LINE	·	76
CONSUMERS	·	89
COUNTIES	·	3
NOW:		
MILES OF LINE	·	4,626
CONSUMERS	·	44,267
COUNTIES	·	6
MWH PURCHASED	·	808,434

SOUTHERN PINE ELECTRIC POWER ASSOCIATION
TAYLORSVILLE, MISSISSIPPI

Southern Pine Electric Power Association is one of the largest rural electric cooperatives in the United States and the largest of Mississippi's twenty-five. Membership grows at a rate of 4.5% per year.

Southern Pine's accounts are balanced at 50% residential sales and 50% commercial/industrial sales. The largest residential concentration is found in Rankin County which is adjacent to the state's capital. The largest industrial consumer is the Georgia-Pacific paper mill plant in Monticello; the paper mill's Taylorsville plant ranks second.

The majority of Southern Pine's commercial/industrial consumers are to be found in:

- Oil production and related processes;
- Production of refined petroleum products, including storage and transportation;
- The poultry industry: growers, processing protein conversion, hatcheries, etc.;
- Forest products, including sawmills;
- Lighting manufacture;
- Industrial parks, state parks, and recreational areas.

To better serve its members, Southern Pine will begin constructing three new district offices, scheduled for completion in 1992.

Members of SMEPA's Board of Directors (l-r):

- *Harlan B. Rogers*
- *Don Jordan, Manager*

THEN:	
ENERGIZED	5/13/39
MILES OF LINE	303
CONSUMERS	481
COUNTIES	11

NOW:	
MILES OF LINE	8,875
CONSUMERS	47,301
COUNTIES	11
MWH PURCHASED	1,215,764

SOUTHWEST MISSISSIPPI ELECTRIC POWER ASSOCIATION
LORMAN, MISSISSIPPI

Southwest Mississippi EPA's load is 92.1% residential, with the remainder classified as 5.8% industrial and 2.1% public buildings.

Shell Pumping Station is one of Southwest Mississippi EPA's large consumers, served since 1976. This station pumps crude oil through a 44-inch pipe from the Gulf of Mexico to refineries in the mid-western and eastern parts of the United States.

Other types of loads served by Southwest are sawmills; cotton, soybean, and corn crops; dairy farms; cattle operations; chicken houses; and a few bed-and-breakfast homes.

Southwest Mississippi EPA's headquarters is located just about midway between Vicksburg and Natchez, so the service area is steeped in history. Colorful landmarks exist to this day to the delight of tourists. Historical markers dot the highways and roads, noting Indian burial grounds, Civil War battles and those who perished, and buildings and sites. Antebellum homes abound.

Several institutions of higher learning are located in Southwest's service area: Alcorn State University, Hinds Community College, Alcorn State University School of Nursing, and Co-Lin Vocational School.

Members of SMEPA's Board of Directors (l-r)

•James A. Ventress
•Robert St. John, General Manager

THEN:		
ENERGIZED	•	3/27/38
MILES OF LINE	•	202
CONSUMERS	•	606
COUNTIES	•	6
NOW:		
MILES OF LINE	•	3,785
CONSUMERS	•	20,429
COUNTIES	•	9
MWH PURCHASED	•	336,997

TWIN COUNTY ELECTRIC POWER ASSOCIATION
HOLLANDALE, MISSISSIPPI

Twin County Electric Power Association was so named because it began service to members who lived in Humphreys and Washington Counties. Major portions of these counties are served today.

Twin County EPA provides service in west-central Mississippi in an area that is considered the heart of the Mississippi Delta.

The service area is bounded on the west by the Mississippi River from Greenville to the mouth of the Yazoo River near Vicksburg. Its eastern boundary extends to the Yazoo River and some areas beyond.

The land is essentially level, with elevation ranging from 85 feet to 127 feet above sea level.

The area along the Mississippi River has several oxbow lakes formed by changes in the current of the river. These lakes provide excellent fishing and sites for recreational facilities.

Members of SMEPA's Board of Directors (l-r):

- *W. C. McKamy, Jr.*
- *Vesper Bagley, Manager*

Residential consumers account for 46% of Twin County's load. All-electric gins and four catfish-related companies compose the cooperative's industrial load.

Humphreys County claims the title of "Catfish Capital of the World" because more than a third of the state's 100,000 acres of catfish ponds are located within its borders.

THEN:	
ENERGIZED	12/24/38
MILES OF LINE	277
CONSUMERS	835
COUNTIES	2

NOW:	
MILES OF LINE	2,142
CONSUMERS	12,601
COUNTIES	7
MWH PURCHASED	217,231

YAZOO VALLEY ELECTRIC POWER ASSOCIATION
YAZOO CITY, MISSISSIPPI

Yazoo Valley Electric Power Association is headquartered in Yazoo City which is very much a part of Mississippi's Delta.

Approximately 88% of Yazoo Valley EPA's load is residential. The largest commercial consumer is International Paper of Redwood, fifteen miles north of Vicksburg.

Service to the catfish industry is significant. Yazoo Valley EPA serves a number of catfish producers and two large processing plants: Simmons, Inc., and Fresh-Water Processing.

Of the gas and oil industries, YVEPA serves Pennzoil Producing Company, Darnell Engineering Corp., Union Oil of California, Koch Pipeline Company, and W. S. Hancock, Inc., known worldwide in the oil field construction business. Electric pumps for oil wells also contribute to Yazoo Valley's industrial loads.

The co-op has its share of the Delta's cotton-related industries, serving eight cotton gins and other cotton-farming operations, including irrigation.

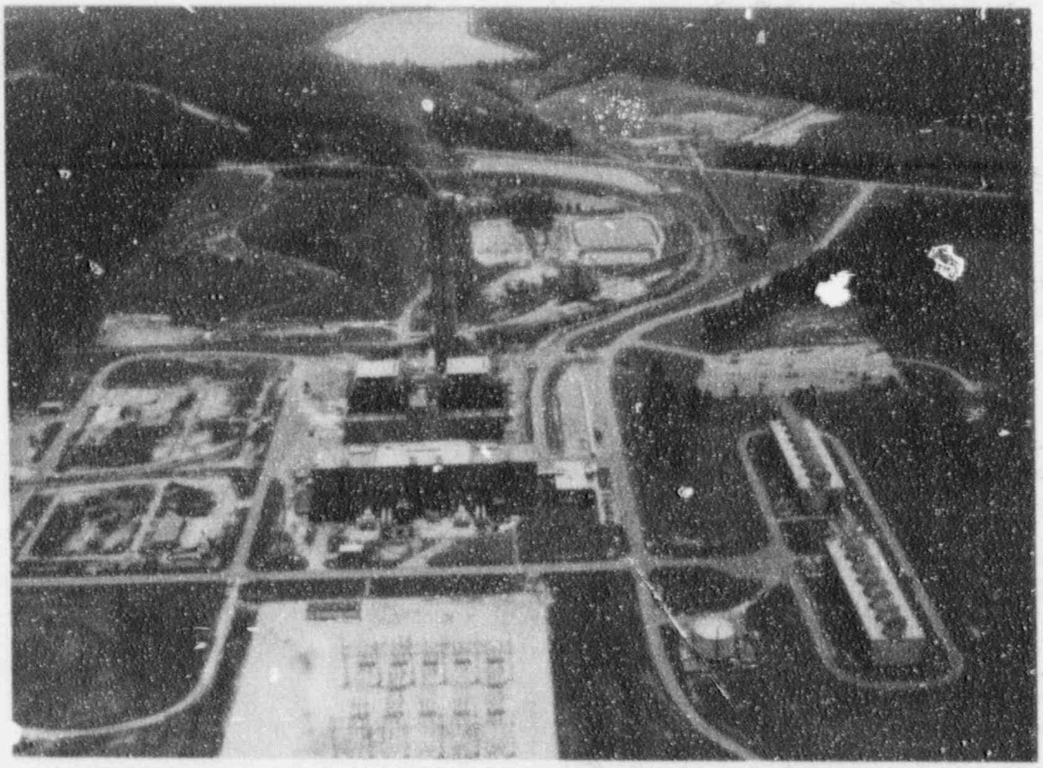
Members of SMEPA's Board of Directors (l-r):

R. D. Hines
C. H. Shelton, Manager

THEN:	
ENERGIZED	3/23/38
MILES OF LINE	492
CONSUMERS	878
COUNTIES	6

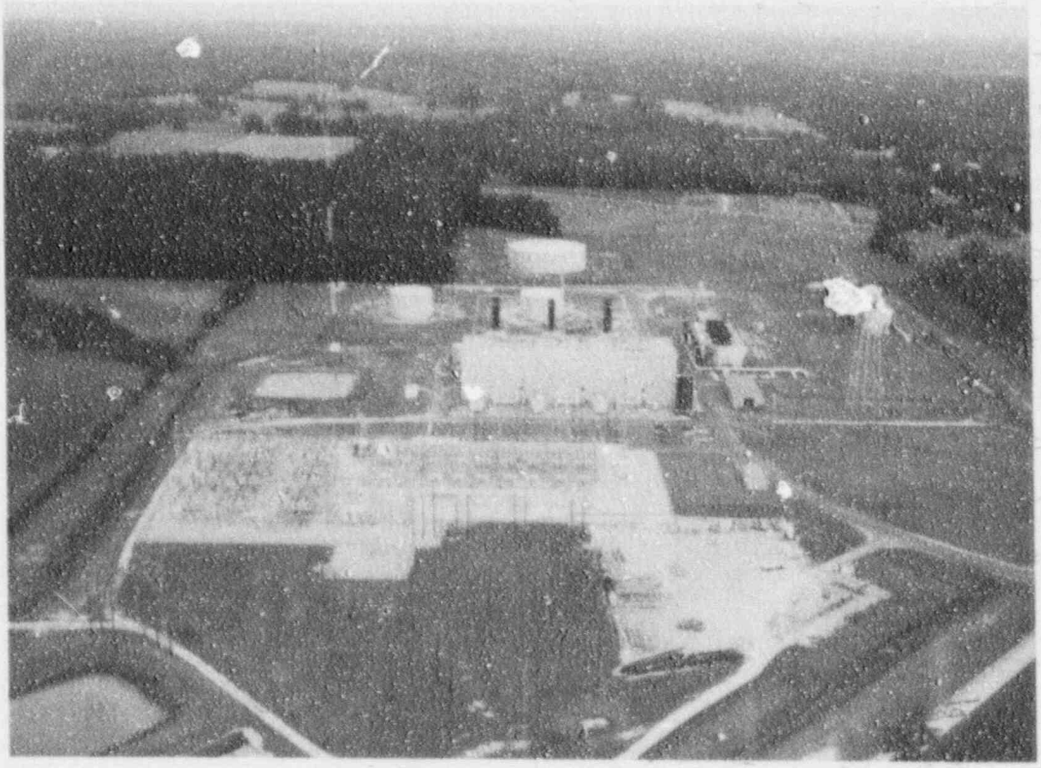
NOW:	
MILES OF LINE	2,500
CONSUMERS	8,500
COUNTIES	6
MWH PURCHASED	232,134

1991 OPERATING REPORT



PLANT R. D. MORROW, SR. IS SMEPA'S LARGEST GENERATING FACILITY. IT IS LOCATED ON 884 ACRES IN LAMAR COUNTY. IN 1991, THE PLANT BURNED APPROXIMATELY 2,000 TONS OF BITUMINOUS COAL EVERY DAY TO GENERATE ELECTRICITY. TWO 200-MEGAWATT POWER UNITS PROVIDE A TOTAL CAPACITY OF 400 MEGAWATTS.

ENVIRONMENTAL PROTECTION EQUIPMENT WAS INSTALLED DURING THE PLANT'S CONSTRUCTION AND ASSURES COMPLIANCE WITH ENVIRONMENTAL REGULATIONS.



THE MOSELLE GENERATING STATION WAS COMPLETED IN 1970. IT SITS ADJACENT TO THE LEAF RIVER ON 65 ACRES IN MOSELLE, MISSISSIPPI. THIS PLANT IS EQUIPPED TO USE EITHER NATURAL GAS OR FUEL OIL AND HOUSES THREE POWER UNITS, EACH RATED AT 59 MEGAWATTS. SEVEN MILLION GALLONS OF FUEL OIL CAN BE STORED ON SITE.

PLANT MOSELLE PERSONNEL ALSO MAINTAIN SMEPA'S TWO PEAKING TURBINE GENERATORS—ONE LOCATED IN JASPER COUNTY, THE OTHER IN GEORGE COUNTY.

Moselle Generating Station

Change in Command

Following the announcement of the planned retirement of Howard Hensarl[illegible] Jack Thompson was named [illegible]ceed Hensarling as Plant Su[illegible]tendent. Harold Lowery was promoted to Plant Supervisor to assist Thompson in managing the facility.

Hensarling joined SMEPA in 1969 and became superintendent of the Moselle Station in 1983. Thompson and Lowery have worked at Plant Moselle since 1972 and 1969, respectively.

Operations

The Plant was operated in an intermediate and peaking mode for the entire year. Units were cycled into service as needed to meet system generation demand.

The number of units in service varied according to load requirements, economic considerations, and the need for load regulation support. A minimum of one unit was in operation at all times during the year.

Natural gas remained available in sufficient quantities and at favorable pricing levels for most of the year which served to promote the operation of the facility. Three units were consistently operated during the summer load season, and this production contributed significantly to the success in meeting peak demand requirements for the system.

MOSELLE GENERATING STATION NET GENERATION: 627,559 MWH -THIS IS 18.5% GREATER THAN THE 1990 PRODUCTION AND REPRESENTS THE MOST PRODUCTION FROM THE FACILITY SINCE 1976, THE YEAR THE PLANT MORROW UNITS ENTERED COMMERCIAL OPERATION.

NATURAL GAS USED: 7,564,000 MMBTU -PRICING FOR FUEL WAS THE LOWEST DURING THE SUMMER LOAD SEASON WHEN POWER DEMAND WAS GREATEST. SMEPA REALIZED A FUEL COST SAVINGS OF ALMOST $1,600,000 FOR THE YEAR.

FUEL OIL USED: 3,400 GALLONS

Plant Moselle Superintendent Howard Hensarling (left) retired this year after 22 years with SMEPA. Jack Thompson, former Maintenance Supervisor, is Moselle's new Superintendent. Jack has been at the Plant for 19 years.

Zeke Jordan, Moselle Shift Supervisor, checks the readings on the protective relays for Unit 3 condensate pumps. Zeke, employed with SMEPA since 1969, has been a Shift Supervisor for 11 years.

Planned major inspection procedures were completed on the Unit 3 turbine-generator, and the unit was returned to service in February. The inspection process began in October 1990 as part of the plant's preventive maintenance program.

Reassembly was delayed as a result of finding unexpected damage to two stages of the turbine blading. New turbine blades were installed in the two rows which were damaged.

The inspection was performed by the plant maintenance staff; contract personnel conducted certain field and shop repairs.

The No. 5 feedwater heater on Unit 1 was replaced as planned during a fall outage. Replacement was necessary to restore operating efficiency and to improve unit reliability.

Certain instruments and control devices were replaced during the year to enhance operability and reliability of the units:

- Steam-flow totalizers were installed on each unit to replace obsolete and inaccurate equipment. These will provide an indication of steam flow and an instantaneous readout of unit heat rate, which is beneficial to operators in optimizing boiler operation.
- New fuel/air ratio controllers were secured for each of the boilers. These devices monitor and automatically control the mixture of fuel and air for efficient firing and operation of the boilers.

Planned equipment repair and replacement were completed on the plant cooling towers as part of a multi-year facility upgrade program. The new fan assemblies are more efficient than the original components resulting in significant operational savings.

Other 1991 preventive maintenance measures and upgrades included painting certain areas of the plant and rebuilding two condensate pumps.

PLANT PERFORMANCE GOALS WERE MORE THAN MET AS THE NET HEAT RATE WAS LESS THAN 12,000 BTU/KWH FOR FIVE MONTHLY PERIODS. THE BEST PERFORMANCE WAS ACHIEVED IN JULY WHEN THE NET HEAT RATE DECREASED TO 11,368 BTU/KWH.

Charles Stuart (right) and Bill Small assumed new positions at Plant Morrow in 1991. Charles, the new Plant Superintendent, has been with SMEPA since 1977. Bill, Operations Supervisor, is an 18-year veteran of the Association. They are pictured in the Plant's Control Room.

PLANT R. D. MORROW, SR.

NET GENERATION: 1,529,350 MWH

-THIS IS APPROXIMATELY 23% BELOW THE 1990 PRODUCTION AND REPRESENTS THE LOWEST ANNUAL PRODUCTION SINCE 1979, THE FIRST FULL YEAR OF OPERATION AFTER COMMERCIAL OPERATION.

COAL SHIPPED: 806,223 TONS

COAL USED: 663,945 TONS

-THE INVENTORY OF COAL SHOWED A NET INCREASE OF 130,700 TONS, RESULTING IN A YEAR-ENDING STOCKPILE OF 299,065 TONS.

FUEL OIL USED: 391,929 GALLONS

-AS REQUIRED FOR STARTUP AND FLAME STABILIZATION PURPOSES

Plant R. D. Morrow, Sr.

Change in Command

After serving as Plant Superintendent since 1985, Roger Smith accepted a position in the Corporate Planning & Operations Department as Director of Operations. Plant Supervisor Charles Stuart was promoted to the superintendent's position in June.

Shift Supervisor Bill Small was named Operations Supervisor to complete staff changes.

Operations

The plant was operated primarily in an intermediate and base load mode for much of the year. However, loading on the units was cycled as necessary to match system demand.

The simultaneous operation of the two Morrow units was required only during the summer load season and for a limited time in January and November. The need for single-unit operation was a result of seasonal system demand variations, a planned spring turbine inspection outage on Unit 1, purchased energy commitments, the relatively successful operation of Grand Gulf 1, and the availability of natural gas for the Moselle Station on an economical basis.

A major inspection of the Unit 2 turbine-generator was completed during a planned spring outage. The inspection, initiated a year ahead of schedule, led to the purchase and installation of an enhanced design nozzle block.

Other significant work during the outage included the repair of major steam path components and installation of new blading in the low-pressure section of the turbine. The new blading results in higher efficiency and a slight increase in capacity. The generator and main boiler feed pump turbine were disassembled for inspection and required only routine maintenance.

The boiler waterwall of Unit 2 experienced a series of tube leaks in the reverse slope section, and the decision was made to secure

and install replacement tube sections. To reduce the potential for overheating and water circulation problems, rifled tubes were specified instead of the smooth bore of the original tubes.

Delivery was completed in January on the fleet of new railcars for SMEPA's coal movements. The investment has reduced railcar maintenance, decreased operating costs for unloading coal, and resulted in significant coal transportation cost savings. The 110 new aluminum cars replaced SMEPA's original fleet of 160 steel-bodied railcars.

A Caterpillar 621E motor scraper was purchased for use in the handling of coal and plant waste products. An aging dump truck was retired as part of this process. The purchase of the scraper increased the capability of the plant to move coal, ash, and sludge, and to complete on-site dirt moving projects.

An extensive corrosion protection project was undertaken on the coal unloading trestle. This project addressed the need for protecting trestle structures from coal accumulation and subsequent corrosion problems. This action is intended to decrease the amount of repair work required in the future and to extend the life of the structure.

The second-year phase of a four-year planned contract painting project was completed in 1991. Structural painting of the Unit 1 scrubber and limestone handling areas was completed by midsummer. Primary focus in 1992 will be on coal and ash-handling components.

A program was initiated to reduce the carbon loss in the coal combustion process. A lower loss of ignition represents less unburned fuel in the combustion refuse. Investigations resulted in operating adjustments along with some significant physical modifications to fuel-burning equipment. The success of the program has been reflected in an increase in the availability of fly ash of marketable quality.

Some other upgrades and preventive maintenance measures were:
•Office renovations •Mobile

ASH SALES : 38,000 TONS MARKETED
•THIS REPRESENTS A COMBINED VOLUME OF DRY FLY ASH AND LANDFILL MATERIAL AND MARKS A 12% INCREASE IN VOLUME SOLD OVER 1990.

Plant Morrow Mechanics (from left) Tommy Mills, James Woods, and Don Harvey change out air preheater baskets located in the combustion air path. Weighing up to 300 pounds apiece, the baskets act as heat exchangers to help improve combustion efficiency in the boilers.

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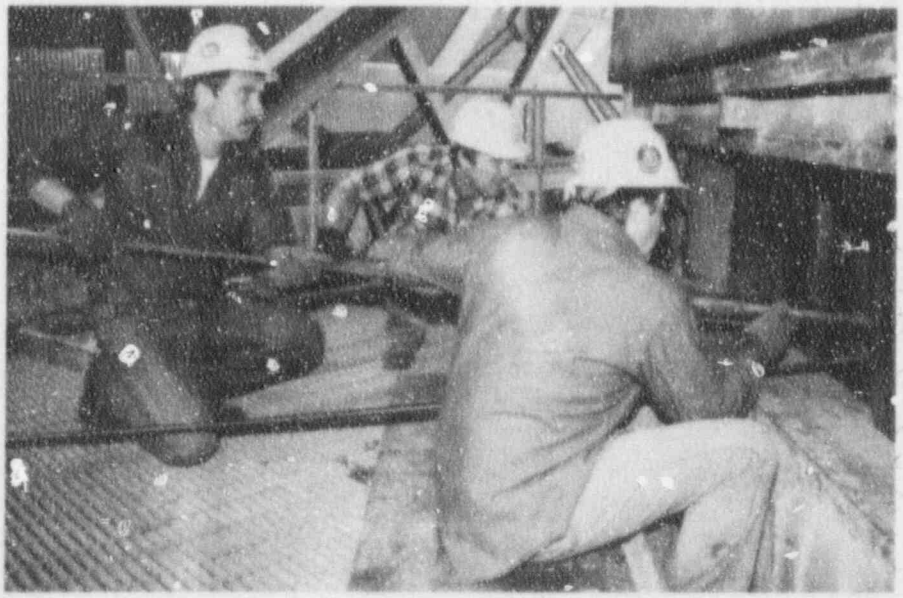

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equipment storage building construction •Upgrade of waste disposal system with purchase of a rotary air compressor for the Dewatering Building •Repairs of the perimeter fence to improve security and general appearance of plant •Installation of a new aboveground ash sluice water supply piping system from the ash sluice pumps to the bottom ash hoppers on each unit

Grand Gulf Nuclear Station

GRAND GULF NUCLEAR PLANT NET GENERATION TO SMEPA: 913,299 MWH •THIS FIGURE IS 21% HIGHER THAN LAST YEAR'S DUE TO REFUELING AND UNSCHEDULED OUTAGES IN 1990 AND REPRESENTS THE SECOND HIGHEST ANNUAL OUTPUT SINCE THE UNIT ENTERED COMMERCIAL OPERATION IN 1985.

The results of two independent assessments placed the Grand Gulf Nuclear Station among the top performing nuclear plants in the nation.

The Nuclear Regulatory Commission completed its Systematic Assessment of License Performance Review, covering a 16-month period through March 1991. The Grand Gulf staff was rated superior in performance in six of seven rated areas. An improved rating was awarded in the single remaining area.

In April, after completing an evaluation of the Grand Gulf operation, the Institute of Nuclear Power Operations gave the facility an overall assessment of Category 1, the highest available rating. This makes the second consecutive year that the facility has been evaluated at this level.

Kentucky Coal Property

KENTUCKY COAL PROPERTY CLEAN COAL PRODUCTION: 652,000 TONS •FROM BOTH SURFACE AND DEEP-MINE OPERATIONS

Andalex Resources continued to develop the coal reserves on SMEPA's property in eastern Kentucky under the provisions of a property lease arrangement.

Royalty payments were received for coal produced from certain isolated tracts of SMEPA's property under two separate sublease arrangements, one with Shamrock Coal Company and the other with Great Western Coal. SMEPA and Andalex have shared equally in royalty payments made during 1991.

Timber marketing from the Kentucky property continued throughout the year, with further sales anticipated during 1992.

Under the terms of an oil and gas lease, Penn Virginia Resources completed a seismic survey of the property and initiated plans to begin a drilling program for exploration and development; in return, SMEPA received annual delay rental payments for these rights. The drilling of two wells is expected to be completed by April 1992, with additional development in the remaining months of the year.

CORPORATE PLANNING & OPERATIONS DEPARTMENT

Control Center

1991 proved to be a good year for the purchase and sale of economy energy, allowing SMEPA to supplement its own generation and reduce energy costs to its members. An agreement for the purchase of 50MW of around-the-clock energy was extended through 1992. This energy is being purchased from Cajun Electric Power Cooperative at a favorable price.

SMEPA continued to work with its members to attract strong industrial loads and with existing customers to resolve problems. This should be to the advantage of all members in keeping wholesale power costs down in the future.

SMEPA maintained its position on the North American Electric Reliability Council's Control Performance Honor Roll, moving up to second best in the southeastern United States and fifth in the nation.

During 1991, the Department worked closely with Production to incorporate "daily balancing" on United Gas supply at Plant Moselle.

Marketing

SMEPA continued to work closely with its members in promoting electric heat pumps with its incentive program. As a result, members participating in the program reported an increase of 56% for qualified heat pump installations in 1991 compared to 1990. Of special interest was the installation according to program standards of fourteen ground-source heat pumps.

The Marketing Specialist was instrumental in providing training for twenty-two member representatives in Assisting Commercial Customers. Before 1991, most of the marketing efforts had been in the residential and industrial sectors.

Electronic Support

The Electronics section and Engineering coordinated the replacement of five Remote Terminal Units to enhance the transfer of data back to the Control Center. This improves the reliability of delivery of power to our members.

As SMEPA's system grows older, it becomes necessary to replace outdated equipment. In 1991, the Electronics group replaced battery sets at five substations and replaced the telephone system at Plant Moselle with a new, upgraded version.

Billing

The Billing section worked with the metering design section to incorporate remote metering at 36 member delivery points. Remote metering makes it possible for SMEPA to retrieve billing data without going to the delivery point. It also allows periodic checks of the data during the month to determine load patterns and changes.

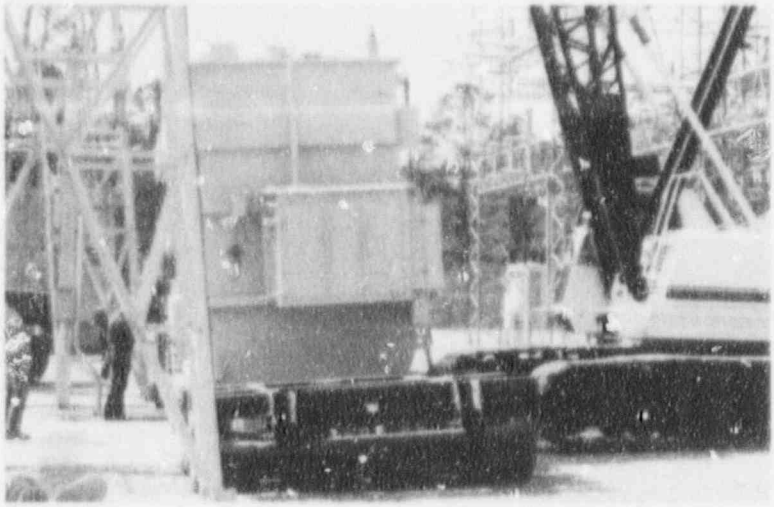
CONTROL CENTER DISPATCHES (MWH)

HOW MUCH	
NET GENERATION	3,071,853
PURCHASES FOR SALES DISPATCHED	1,770,934
TOTAL ENERGY DISPATCHED	4,842,787
WHERE IT WENT	
SALES TO OTHERS OUTSIDE SYSTEM	836,057
SMEPA AND MP&L LOAD (SMEPA'S CONTROL AREA)	4,006,730

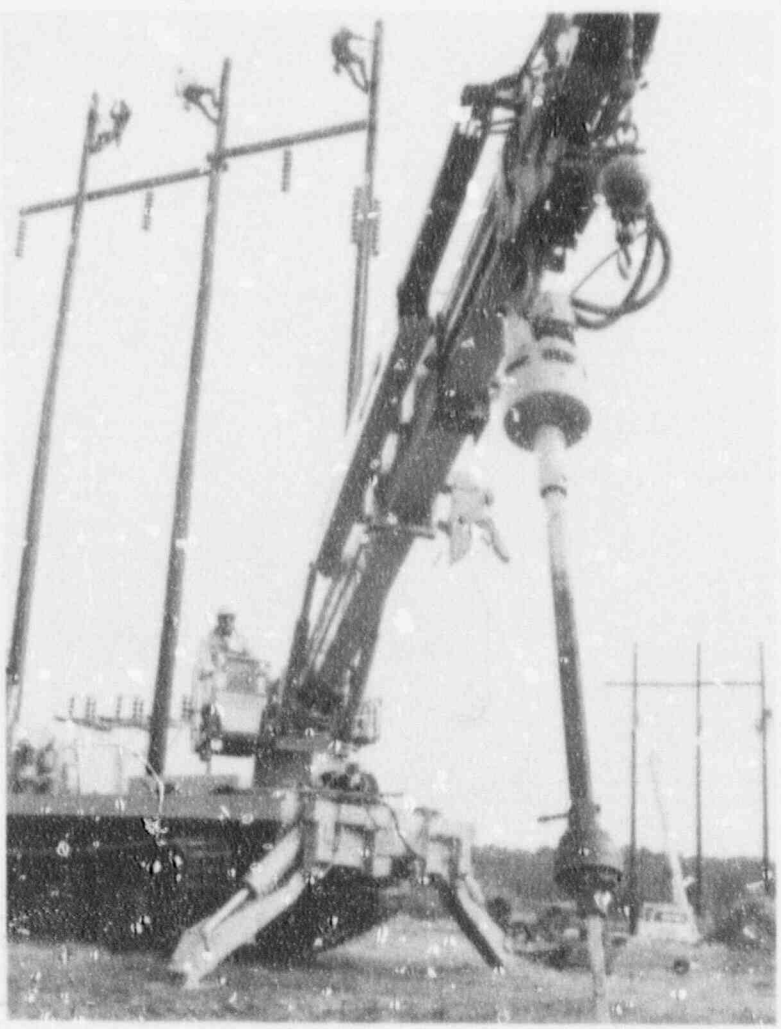
Vernon Bowling (inset) retired in October after 20 years with SMEPA. It is with sadness that we report his death on December 29. During his tenure as Chief Dispatcher, SMEPA consistently received high national ratings and placed first in the Southeast in reliability among electric utilities by the National Electric Reliability Council (NERC).

At left are Dan Kay and Charles Holliman, Senior System Dispatchers. Control Center Dispatchers work on an hour-to-hour (sometimes minute-to-minute) basis, twenty-four hours a day, to assure that SMEPA's member systems receive the most economical supply of electricity.

(Right) SMEPA installed a second 161/69-kV transformer at the Homewood substation. The 56-ton transformer traveled by train to Forest, Mississippi, from San José, California, where it was manufactured. Special cranes and moving equipment were required to deliver and install.



At left, Lineman William Murphy emerges from the woods after performing routine maintenance on one of SMEPA's lines. The Association's preventive maintenance program includes climbing inspections of the entire transmission system on a four-year cycle.



During construction of Line 515 near Lorman, Matt Ready, Tracy Stiglets, and Darren Butler finish framing the top of a structure while "Bigfoot" sets guywire anchors, some of which may extend more than 25 feet into the ground. Because SMEPA's line crews were able to complete this project earlier than originally planned, Southwest Mississippi EPA was able to avoid an extensive outage.

ENGINEERING, CONSTRUCTION & MAINTENANCE DEPARTMENT

Planning and Protection

SMEPA obtained REA approval of the Environmental Assessment and Finding of No Significant Impact related to the proposed Alabama Electric Cooperative (AEC)/SMEPA 230-kV intertie. SMEPA has also obtained REA approval to reclassify unencumbered guaranteed L-8 loan funds for the engineering and construction of these transmission facilities. This project will improve transmission reliability in the southeastern part of our system, firm up our existing intertie with AEC, and eliminate some proposed transmission construction projects.

The electronic metering replacement program was continued. As of December 31, there were 48 remotely accessible wholesale meters at 44 sites on SMEPA's system. Thirty-eight locations use cellular telephones; two use power line carriers; four use South Central Bell phone circuits.

The Planning and Protection section also completed application of 100% stator ground fault protection schemes for Plants Morrow and Moselle and completed the required third harmonic field tests on each generator. The equipment will be installed in 1992.

Design Engineering

The Design Engineering section administered completion of construction of the second autotransformer addition at the Homewood Substation, including installation of all new control board equipment.

Personnel supervised replacement of Harris Remote Terminal Units (RTUs) with Westronics RTUs at three substations.

Design Engineering completed a major portion of the design of the Benndale 230-kV Substation, awarded contracts for major equipment and material, and administered site preparation.

1991 INSTALLATION FIGURES FOR ELECTRONIC METERING REPLACMENT:
•36 METERS •33 SITES •31 CELLULAR PHONES •1 POWERLINE CARRIER
•1 SOUTH CENTRAL BELL CIRCUIT

Myles Corley (left), Relay and Metering Supervisor, and Mike Collum, Planning and Protection Engineer, discuss and coordinate 1992 relay projects. Included among the many projects is work to be done on the new Benndale 230-kV Substation.

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THE LAND SECTION WAS RESPONSIBLE FOR PURCHASING AND MARKING 3300 DANGER TREES ON SMEPA'S TRANSMISSION SYSTEM.

THE LAND SECTION ASSISTED THE NRECA STAFF IN ORTAINING AN AMENDMENT BY CONGRESS TO THE UNIFORM RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION POLICIES ACT (URLAP) TO GIVE REA THE SAME EXEMPTION FROM URLAP THAT IS PROVIDED TVA. ENACTMENT OF THIS HARD-WON LEGISLATIVE INITIATIVE HAS BEEN ESTIMATED TO SAVE RURAL ELECTRIC SYSTEMS NATIONWIDE SOME $138 MILLION ANNUALLY.

For the Benndale 161-kV Substation switchyard additions, the section completed a major portion of the design and awarded contracts.

Design for Line 231 (Benndale-McIntosh 230-kV) was also completed.

System Construction

SMEPA crews constructed two new tap lines in 1991. One provides service to Coast EPA's Watts Substation at 115-kV. The other will serve the Southwest Mississippi EPA Alcorn Substation also at 115-kV. In addition to the above, SMEPA crews installed three new GOAB switches which provide 69-kV service to new substations for Singing River EPA, Southern Pine EPA, and Dixie EPA.

Contract crews rebuilt the 69-kV line crossing the Pascagoula River. The line provides service to Singing River EPA's Vancleave Substation.

Line Maintenance

The annual right-of-way reclearing program involved the clearing of approximately 350 miles of transmission line right-of-way. A total of 3 300 danger trees were recleared on 150 miles of transmission line.

Ground-line inspection of 155 miles of transmission line resulted in the treatment of 2,150 poles for decay, insect damage, or mechanical damage.

Aerial line inspections were performed on SMEPA's 1,450 miles of transmission line on a bimonthly basis.

Climbing inspections were performed by SMEPA crews on 357 miles of transmission line. Inspections by Osmose identified 21 poles for changeout.

Substation Maintenance

SMEPA technicians calibrated and tested all metering equipment in the system. Relay calibration netted 718 relays.

Technicians also assisted North American personnel in repair of a new transformer at Homewood and replaced a failed 230-kV bushing on the intertie transformer at Waynesboro.

Infrared surveys were completed on substation facilities belonging to SMEPA, Dixie EPA, Yazoo Valley EPA, Magnolia EPA, Southern Pine EPA, Pearl River Valley EPA, and Twin County EPA.

Additional work involved replacing defective current transformers at eleven meter locations, completing civil site maintenance of all substation GOABs and microwave and radio towers, and installation of 31 cellular telephones at selected meter locations.

Land Section

In 1991, the Land section accomplished the following:

- Assisted in negotiating timber sales and gas leases on SMEPA's Kentucky property.
- Acquired right-of-way for six transmission line projects for a total of more than 35 miles. Also abstracted and permitted two other transmission projects totaling 11 miles.

HUMAN RESOURCES & DEVELOPMENT DEPARTMENT

Facilities

During 1991, a 2500-square-foot expansion accommodating a new records storage vault and offices for the Data Processing section was added to the Headquarters office. Office renovations were also completed within the Control Center and Land sections.

Transportation

Established fleet procurement and maintenance programs continued in 1991. Today's fleet consists of 58 vehicles which travel almost 1,000,000 miles per year covering the SMEPA system.

The fleet also consists of 26 pieces of off-road and maintenance equipment which enables construction and maintenance crews to work throughout the system, regardless of the terrain they encounter. Fleet reliability is maintained through a comprehensive maintenance program.

Safety

SMEPA's safety record for 1991 was the best in more than fifteen years in terms of accident frequency and accidents involving lost time from work. Employees have been outstanding in their attempts to maintain safe working environments and practice safe work habits.

The Association also received its fourth consecutive safety accreditation from NRECA. Safety accreditations are issued every three years; therefore, SMEPA has met all requirements for the past twelve years.

Personnel Administration

During 1991, the Association continued to address the escalating cost of fringe benefit programs. An evaluation was conducted of SMEPA's medical insurance plan to ensure that the most cost-effective means of providing quality health care was being utilized. The study resulted in plan design changes that offered

Gordon Nanney (far left), Director of Facilities, oversaw construction of the much-needed 2500-square-foot addition to the headquarters building. He is shown in the new records storage vault which accounts for 1400 square feet of the addition.

Arthur Ricketson (far right), Vehicle Maintenance Foreman, assures that SMEPA's fleet is kept in top-notch, reliable condition. Vic Barber, Laborer, is one of the maintenance employees who helps Arthur keep the fleet rolling.

additional cost-containment measures as well as increased employee awareness and participaton in managed health-care systems.

Discussion with local health-care providers also began in 1991 in an attempt to create competition in the health-care community. The results of these talks will continue to offer SMEPA and its employees additional cost savings.

Information Services

South Mississippi Electric Power Association continued to expand its internal, member, and public relations efforts during 1991.

In addition to maintaining its high level of in-house support to all departments, the Information Services department produces all internal and external publications, including a monthly newsletter, SMEPA's annual report, a biweekly employee publication, and numerous brochures. The section also produces newsletters for four member systems, as well as other member-related publications, such as annual reports, brochures, and cookbooks.

Lights On!, a video explaining the generation and transmission process, was produced in association with the University of Southern Mississippi. It quickly became an excellent tool for helping both internal and external audiences better understand what SMEPA does. Besides being made available to SMEPA employees, the video was used as part of a presentation developed specifically for member systems' employees to help them understand the relationship between their co-ops and the G&T. Two systems scheduled the presentations in 1991, with more planned for 1992.

The section also continued to oversee other educational and community-oriented activities, including plant tours, civic club presentations, Adopt-a-Family, and Adopt-a-School. Participation in such programs provides many opportunities for SMEPA employees to enhance the Association's relations with the public and within the community.

SMEPA management and employees participated in several community-related activities this year. Among them was the "Corporate Challenge" part of the local United Way campaign kickoff. Fourteen organizations entered teams of employees who competed in six categories, from volleyball to tug-of-war. In this photo, SMEPA employees get ready for a few hours of fun and physical exertion.

Left to right: Tommy Clark, Rod Dobson, Robin Harris, William Eakes, Tracy Stiglets, Yvette Evans, Larry Brown, Odis Waters, and J. T. Hartfield.

MANAGEMENT

South Mississippi Electric Power Association's Managers, left to right:
- *Benny Murray, Human Resources & Development*
- *John Carley, Corporate Planning & Operations*
- *Richard Montgomery, Finance*
- *Marcus Ware, Production*
- *Jim Hughes, Engineering, Construction & Maintenance*

The day-to-day operations of South Mississippi Electric Power Association are carried out through five departments under the management of the men pictured above.

The Production Department's primary responsibility is to the Association's generating facilities, which includes operating and maintaining the facilities and securing fuel. The Department also assures equipment, unit, and plant availability and reliability, along with the generation of economical and dependable electric power.

Corporate Planning & Operations designs marketing and industrial development concepts to encourage better use of resources and lower power costs through rate and incentive programs. Responsibilities include load forecasting, generation and power supply planning, Control Center operations, rate analysis and design, member billing, marketing, electronics maintenance, control computer system, and environmental affairs.

The overall function of the Engineering, Construction & Maintenance Department is the delivery of wholesale power through 1,450 miles of high-voltage transmission lines to the Association's eleven member systems. This is accomplished through system planning (Long-range Transmission Studies and Five-year Construction Work Plans); design (substations and transmission lines); and construction and maintenance (substations, transmission lines, rights-of-way, and ground and aerial patrols).

Human Resources and Development is responsible for headquarters facility maintenance and construction, transmission system warehousing, fleet procurement and maintenance, personnel administration, member and public relations, administrative services, safety, and training.

The Finance Department is responsible for accounting, finance and cash management, purchasing, and data processing.

FINANCIAL SECTION

INDEX TO FINANCIAL SECTION

The Data Processing section includes a Director and three Systems Analysts. From the left are Steve Lancaster; Buddy Yearwood, Director; Pam Eavenson; and John Lang.

During the year, Data Processing continued the conversion from the Harris 800 computer system to the Hewlett-Packard 9000 system. Almost all of the major systems (payroll, Human Resources, accounts payable, and general ledger) were converted in 1991, with completion of other systems scheduled for 1992.

1991 FINANCIAL REPORT

NET MARGINS

SMEPA earned net margins of $3,037,700 in 1991 as compared to the record net margin of $8,702,243 recorded in 1990. The 1990 margin was unusually high as the system experienced warm weather extremes causing the on-system peak demand in 1990 to reach 862 megawatts as compared to the summer peak of 790 megawatts in 1991. The 1991 net margins marked a return to more normal levels as did the 790-megawatt concurrent on-system peak which, when adjusted for the aberration in 1990, reflected continued growth in system demand.

SALES OF ELECTRICITY

Revenues from sales of electricity to members fell from approximately $251,860,000 in 1990 to $244,140,000 in 1991, a reduction of 3.1%. The reduction was affected by the decreased demand and occurred despite an increase in energy sales to members of 2.44%. The reduction also reflects reductions in fuel and purchased power costs coupled with decreases in interest expense and cost containment in other items comprising operation and maintenance expenses. As a result, the average cost of wholesale power to SMEPA members fell from 48.74 mills per kilowatt hour in 1990 to 46.12 mills per kilowatt hour in 1991. This marks the fourth successive year in which power costs to SMEPA members have declined.

In the fourth year of a contract with Alabama Electric Cooperative, energy sales reached their highest level, increasing from 444,555 megawatt hours in 1990 to 828,500 megawatt hours in 1991. Gross revenues from the sales increased from approximately $12,465,000 to $17,767,000 in 1991 which, while affecting total electric energy revenues, had minimal effect upon net margins under the terms of the contract.

EQUITY INCREASE

SMEPA's equity as a percentage of total assets increased from 3.54% at December 31, 1990, to 3.96% at year-end 1991.

TIER AND DSC

The 1991 times interest earned ratio (TIER) was 1.03 while the debt service coverage (DSC) ratio was 1.17. Both of these ratios exceeded mortgage requirements and met SMEPA's policy goals.

LONG-TERM DEBT

Long-term debt decreased from approximately $719,277,000 at the close of 1990 to $707,593,000 at December 31, 1991. The average interest rate on long-term debt at year-end 1991 stood at 8.85%, a decrease from the 8.97% rate at December 31, 1990.

SMEPA drew only $1,524,000 in 1991 against concurrent REA/CFC loans and did not receive any advances under REA-guaranteed Federal Financing Bank loans. Construction work in progress was generally at a lower level than that of the past several years. SMEPA used internally generated funds to initially finance certain construction projects and to permanently finance other projects. Loan advances are expected to increase in 1992 as construction activity increases particularly with regard to the 300-megawatt addition to the interconnection between SMEPA and Alabama Electric Cooperative and the construction of a 230-kV transmission line associated with that project. SMEPA plans to continue using general funds for front-end financing to the extent that such financing is economical.

CASH AND INVESTMENTS

General fund cash and short-term investments increased slightly to approximately $46,560,000 at the end of 1991 despite the investment of such funds on a short-term basis to support construction work in progress.

GGNS I DECOMMISSIONING

The external tax-qualified grantor trust established in 1990 to provide for decommissioning expenses of Grand Gulf Nuclear Station I was funded on January 2, 1991, with an initial contribution of approximately $1,127,000 to which an additional $439,000 was contributed during the year. The trust assets (at cost) totaled $1,652,400 at the close of 1991. The overall yield on trust assets exceeded that used in the projection of the requirement for sufficient funds to decommission GGNS I in the year 2022.

GGNS II AMORTIZATION

Amortization of the cost of Grand Gulf Nuclear Station Unit II construction which was abandoned in 1989 was approximately $2,506,000 in 1991. The unamortized balance at December 31, 1991, was approximately $86,096,000 and will be amortized on a predetermined basis through the year 2016. Amortization in 1992 will be approximately $2,605,000.

THE ELEMENTS OF COST

	1987	1988	1989	1990	1991
I. SMEPA'S OWN GENERATION & TRANSMISSION SYSTEM					
Cost of Fuel Burned in SMEPA's Plants – ¢/MMBTU	176.38	181.64	176.72	175.77	160.03
Production Costs and Purchased Power/ Interchanged Power - Mills/kWh	25.49	25.27	25.94	26.02	23.55
Transmission O&M - Mills/kWh	2.77	2.46	2.38	2.25	2.20
A&G Expense - Mills/kWh	1.25	1.09	1.12	1.10	1.02
Depreciation and Amortization - Mills/kWh	6.16	5.41	5.08	5.39	4.93
Interest - Mills/kWh	20.81	17.80	16.50	15.22	13.38
Taxes and Other - Mills/kWh	.41	.22	2.77	.22	.19
TOTAL — MILLS/KWH OF SALES	**56.89**	**52.25**	**53.79**	**50.33**	**45.27**
II. BORDERLINE SYSTEM					
Purchased Power/Interchanged Power - Mills/kWh	38.91	34.34	34.65	33.08	34.93
Depreciation and Amortization - Mills/kWh	.02	.02	.02	.02	.02
Interest - Mills/kWh	.05	.03	.03	.03	.03
TOTAL — MILLS/KWH OF SALES	**38.98**	**34.39**	**34.90**	**33.13**	**34.98**
III. TOTAL SYSTEM					
Production Costs and Purchased Power/ Interchanged Power - Mills/kWh	29.23	27.59	28.14	27.72	26.14
Transmission O&M - Mills/kWh	2.00	1.83	1.79	1.81	1.70
A&G Expense - Mills/kWh	.90	.81	.85	.83	.79
Depreciation and Amortization - Mills/kWh	4.46	4.03	3.83	4.10	3.81
Interest - Mills/kWh	15.04	13.25	12.43	11.56	10.34
Taxes and Other - Mills/kWh	.29	.17	2.10	.16	.14
TOTAL [A] — MILLS/KWH OF SALES	**51.92**	**47.68**	**49.14**	**46.18**	**42.92**

[A] Excludes Kentucky coal operations.

COMPARATIVE OPERATING STATEMENTS

	1987	1988	1989	1990	1991
REVENUE					
Sales of Energy	$231,025,124	$237,797,763	$251,362,947	$264,325,407	$261,907,622
Other	138,691	(230,848)	(474,686)	(209,843)	231,995
TOTAL REVENUE	**$231,163,815**	**$237,566,915**	**$250,888,261**	**$264,115,564**	**$262,139,617**
EXPENSE					
Operation Expense:					
Production-Fuel Cos	57,521,531	62,232,299	62,868,631	60,782,368	55,049,192
Other Production Expenses	10,270,142	11,138,366	12,241,178	13,201,932	12,479,297
Purchased Power	53,892,164	57,526,467	66,361,893	74,296,846	86,613,715
Transmission	7,269,310	7,454,432	7,721,419	8,458,919	8,763,606
Consumer Accounts	56,447	40,144	41,798	40,185	51,942
Sales Expense	—	11,522	95,612	83,529	93,023
Administrative & General	3,468,286	3,390,732	3,850,741	3,980,047	4,055,849
Total Operation Expense	132,477,880	141,753,962	153,181,292	160,843,826	166,905,624
Maintenance Expense:					
Production	6,525,996	4,872,231	6,641,474	7,268,466	6,079,990
Transmission	1,509,539	1,553,780	1,721,705	1,696,906	1,629,329
General Plant	433,135	525,626	470,433	561,611	637,168
Total Maintenance Expense	8,468,670	6,951,637	8,833,612	9,526,983	8,346,487
Depreciation and Amortization	19,559,144	19,846,754	19,782,095	22,984,653	23,329,781
Taxes	650,720	754,384	765,595	836,436	791,058
Interest Expense (Net) and Other Deductions	66,902,644	65,585,509	75,931,841[A]	65,182,661	63,603,175
TOTAL EXPENSE	**228,059,058**	**234,932,246**	**258,494,435**	**259,374,559**	**262,976,125**
OPERATING MARGINS	3,104,757	$ 2,634,669	(7,606,174)[A]	4,741,005	(836,508)
NON-OPERATING MARGINS	2,043,929	2,221,756	3,400,861	3,961,238	3,874,208
NET MARGINS	**$ 5,148,686**	**$ 4,856,425**	**($ 4,205,313)**	**$8,702,243**	**$3,037,700**

[A] Initial write-off of unrecoverable expenses of $10,130,000 upon abandonment of GGNS Unit II is included in "Other Deductions."

THE COMPARATIVE SUMMARY

	1987	1988	1989	1990	1991
ENERGY SOURCES — MWH					
Generated:					
Steam	2,953,615	3,135,747	3,218,046	3,169,106	3,070,210
Other Generation	1,322	1,595	348	3,584	1,643
	2,954,937	3,137,342	3,218,394	3,171,990	3,071,853
Purchased:					
Direct Purchase	298,487	562,736	726,824	982,926	1,629,558
Borderline - (SEPA)	72,098	60,346	87,190	106,648	96,148
	370,585	623,082	814,014	1,089,574	1,725,706
Interchanged Power - (Net)	1,163,930	1,263,398	1,345,741	1,457,712	1,434,367
TOTAL ENERGY AVAILABLE FOR SALE — MWH	**4,489,452**	**5,023,822**	**5,378,149**	**5,719,276**	**6,231,926**
SALES — MWh					
Southwest Mississippi EPA	287,278	304,212	329,528	337,582	336,997
Dixie EPA	400,435	411,036	425,274	436,878	462,245
Pearl River Valley EPA	410,533	414,742	427,557	440,644	445,467
Singing River EPA	716,158	738,911	758,895	786,146	808,434
Southern Pine EPA	946,401	982,333	1,128,945	1,183,249	1,215,764
Magnolia EPA	301,036	337,915	369,027	378,111	375,319
Coast EPA	645,480	673,761	701,440	731,342	743,020
Yazoo Valley EPA	118,094	203,598	201,468	201,657	232,134
Coahoma EPA	83,143	90,108	86,583	88,763	90,591
Delta EPA	305,681	334,935	332,986	367,305	366,018
Twin County EPA	169,734	187,272	184,609	215,478	217,231
Alabama Electric Cooperative	3,015	239,851	316,902	444,355	828,500
Southeastern Power Administration	—	3,416	—	—	—
TOTAL SALES — MWH	**4,386,918**	**4,922,090**	**5,263,214**	**5,611,510**	**6,121,720**
TOTAL SYSTEM DEMAND — kW	**1,067,395**	**1,248,607**	**1,290,464**	**1,448,259**	**1,[illegible]2,901**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT OF DELOITTE AND TOUCHE

Board of Directors
South Mississippi Electric Power Association
Hattiesburg, Mississippi

We have audited the accompanying balance sheets of South Mississippi Electric Power Association as of December 31, 1991 and 1990, and the related statements of net margins and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Association'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 and the Government Auditing Standards, issued by the Comptroller General of the United States. 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 South Mississippi Electric Power Association as of December 31, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte + Touche

February 12, 1992

THE BALANCE SHEETS

ASSETS

	December 31, 1991	1990
ELECTRIC UTILITY PLANT (Notes 1a, 1b, 1c, 2, and 3)		
In service — at cost	$ 731,831,767	$ 726,048,283
Construction work in process	7,604,965	10,468,466
	739,436,732	736,516,749
Less allowance for depreciation	182,674,721	169,891,336
	556,762,011	**566,625,413**
OTHER ASSETS AND INVESTMENTS		
Unrecovered plant cost (Note 3) — at cost	86,095,731	87,983,865
Investments in associated organizations (Note 4)	11,265,403	11,342,874
Debt service reserve for pollution control bonds	4,462,430	4,633,838
Decommissioning trust (Note 3) — at cost	1,652,400	—
Other noncurrent assets	3,375	3,670
	103,479,339	**103,964,247**
CURRENT ASSETS		
General fund cash and temporary cash equivalent investments (Note 1i)	25,571,033	38,184,190
Other invested funds	20,991,553	7,627,726
Accounts receivable (including receivables from members of approximately $18,956,714 [1991] and $19,762,000 [1990]) (no allowance for doubtful accounts deemed necessary)	20,767,662	21,448,134
Inventories (Note 1d)		
Coal	14,910,323	8,547,128
Other fuel	821,115	777,429
Material and supplies	12,502,413	13,024,704
	28,233,851	22,349,261
Other	1,289,982	2,197,206
	96,854,481	**91,806,517**
DEFERRED CHARGES (Notes 1e and 5)	**1,931,644**	**1,549,598**
TOTAL ASSETS	**$ 759,027,475**	**$ 763,945,575**

See "Notes to Financial Statements"

THE BALANCE SHEETS — Continued

EQUITIES AND LIABILITIES

	December 31, 1991	December 31, 1990
EQUITIES (Notes 1f and 6)		
Memberships	$ 55	$ 55
Donated capital	535,436	535,436
Patronage capital	29,552,313	26,514,613
	30,087,804	27,050,104
LONG-TERM DEBT, excluding current maturities (Note 8)	693,319,139	705,964,390
ACCRUED DECOMMISSIONING OBLIGATION (Notes 1b and 3)	1,652,203	1,126,952
CURRENT LIABILITIES		
Accounts payable	16,881,623	14,673,747
Accrued interest	773,315	833,584
Other accrued expenses	2,039,262	984,578
Current maturities of long-term debt	14,274,069	13,312,220
	33,968,329	29,804,129
COMMITMENTS AND CONTINGENCIES (Notes 3 and 10)		
TOTAL EQUITIES AND LIABILITIES	$ 759,027,475	$ 763,945,575

STATEMENTS OF NET MARGINS AND PATRONAGE CAPITAL

	Years Ended December 31, 1991	1990
OPERATING REVENUE		
Electric energy revenue	$ 261,907,622	$ 264,325,407
Other — net	231,995	(209,843)
	262,139,617	**264,115,564**
OPERATING EXPENSES		
Operation expenses:		
Fuel	55,049,192	60,782,368
Production	12,278,297	13,201,932
Purchased power	86,613,715	74,296,846
Transmission	8,763,606	8,458,919
Administrative and general	4,200,814	4,103,761
	166,905,624	160,843,826
Maintenance expenses:		
Production	6,079,990	7,268,466
Transmission	1,629,329	1,696,906
General	637,168	561,611
	8,346,487	9,526,983
Depreciation and amortization (Notes 1a and 1b)	23,329,781	22,984,653
Taxes	791,058	836,436
	199,372,950	**194,191,898**
OPERATING MARGINS BEFORE INTEREST AND OTHER DEDUCTIONS	**62,766,667**	**69,923,666**
INTEREST AND OTHER DEDUCTIONS		
Interest	63,673,417	65,191,402
Allowance for funds used during construction (Note 1c)	(153,342)	(91,841)
Other deductions — net	83,100	83,100
	63,603,175	**65,182,661**
OPERATING MARGINS	**(836,508)**	**4,741,005**
NON-OPERATING MARGINS — PRINCIPALLY INTEREST INCOME	**3,874,208**	**3,961,238**
NET MARGINS	**3,037,700**	**8,702,243**
PATRONAGE CAPITAL AT BEGINNING OF YEAR	**26,514,613**	**17,812,370**
PATRONAGE CAPITAL AT END OF YEAR	**$ 29,552,313**	**$ 26,514,613**

See "Notes to Financial Statements"

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,037,700	$ 8,702,243
Adjustments necessary to reconcile net margins to net cash provided by operating activities:		
Depreciation, amortization, and depletion	24,110,245	24,213,966
Gain on sale of investment	(123,481)	—
Decrease in accounts receivable	680,472	2,955,350
Increase in inventories	(5,884,590)	(190,483)
Decrease (increase) in other assets	371,950	(506,383)
Increase (decrease) in accounts payable and other liabilities	3,262,560	(2,242,295)
Decrease in accrued interest payable	(60,209)	(14,731,443)
Increase in accrued decommissioning payable	525,251	1,126,952
NET CASH PROVIDED BY OPERATING ACTIVITIES	**25,919,898**	**19,327,907**
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisitions of electric utility plant	(13,058,142)	(11,339,271)
Retirements of electric utility plant	852,418	4,423,408
Net sales of debt service reserve for pollution control bonds	294,932	—
Increase in decommissioning trust	(1,652,400)	—
Increase in other invested funds	(13,363,827)	(7,625,762)
Other	77,766	(177,413)
NET CASH USED IN INVESTING ACTIVITIES	**(26,849,253)**	**(14,719,038)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of debt	(13,207,402)	(17,584,045)
Proceeds from debt	1,524,000	9,404,035
NET CASH USED IN FINANCING ACTIVITIES	**(11,683,402)**	**(3,180,010)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(12,612,757)**	**(3,571,141)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**38,184,190**	**41,755,331**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$25,571,433**	**$ 38,184,190**
CASH AND CASH EQUIVALENTS AT YEAR END		
Cash	$ 565,420	$ 398,337
Commercial paper	25,006,013	37,785,853
	$ 25,571,433	**$ 38,184,190**

See "Notes to Financial Statements"

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 1991 AND 1990

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Mississippi Electric Power Association (SMEPA) is a rural electric cooperative established under the laws of the State of Mississippi. SMEPA is a generation and transmission cooperative which provides electric power to eleven owner-members which are rural electric distribution cooperatives providing electric power to consumers in certain areas of Mississippi. Financing assistance is provided by the United States Department of Agriculture, Rural Electrification Administration (REA). In addition to being subject to regulation by its own governing board of directors, SMEPA is subject to certain rules and regulations promulgated for rural electric borrowers by REA. SMEPA maintains its accounting records in accordance with the Federal Energy Regulatory Commission's Chart of Accounts as modified and adopted by REA. As a regulated utility, the method of allocating costs and revenue to time periods may differ from those principles generally applied by nonregulated companies. The more significant accounting policies are generally described as follows:

a. Electric Utility Plant and Depreciation

Electric utility plant is stated at cost, which includes contract work, materials and direct labor, allowance for funds used during construction, and allocable overhead costs. The cost of electric generating stations and related facilities also includes costs of training and production incurred, less revenue earned, prior to the date of commercial operation.

Depreciation is provided on the straight-line method for utility plant at the following annual composite rates:

Nuclear plant	2.85%
Non-nuclear plant	3.00% to 3.10%
Transmission plant	2.75%
General plant and transportation equipment	2.00% to 25.00%

At the time units of electric utility plant are retired, their original cost and cost of removal, less net salvage value, are charged to the allowance for depreciation. Replacements of electric utility plant involving less than a designated unit value of property are charged to maintenance expense.

Coal reserves are stated at cost. Depletion is provided by the units mined method.

b. Cost of Decommissioning Nuclear Plant and Amortization of Unrecovered Plant Costs

SMEPA's portion of the estimated decommissioning cost of Grand Gulf Nuclear Station (GGNS) Unit I is charged to operating expenses over the service life of Unit I of approximately 35 years.

SMEPA's portion of the unrecovered plant costs of GGNS Unit II is amortized over the remaining life of the related debt of approximately 27 years, and approximated $2,506,000 and $2,398,000 in 1991 and 1990, respectively.

c. Allowance for Funds Used During Construction

Allowance for funds used during construction represents the cost of directly related borrowed funds used for construction of the electric plant, where applicable, and an allowance based on the average cost of appropriate borrowings when general funds are used to fund construction. The allowance is capitalized as a component of the cost of the electric plant while it is under construction.

Capitalization ceases when the electric plant is placed in service, or in the case of electric generating stations and related facilities, at the date of commercial operation.

d. Inventories

Inventories are stated at average costs.

e. Deferred Charges

Cost of preliminary surveys for development of possible methods to obtain and deliver energy to fulfill members' future requirements, including feasibility studies leading to financing necessary plant expenditures, are recorded as deferred charges. If construction of a project results from such surveys, the deferred charges are transferred to the cost of the facilities. If a preliminary survey is abandoned, the costs incurred are written off.

Bond issue costs are being amortized by the straight-line method, which does not differ materially from the interest method, over the term of the related debt. The amortization during the period of construction is capitalized.

f. Patronage Capital

The bylaws of SMEPA provide that any excess of revenue over expenses and accumulated prior year deficits shall be treated as advances of capital by the member patrons and credited to them on the basis of their patronage.

g. Interchange Power

SMEPA records the electrical power received or provided on an interchange basis at its cost as determined under various contractual arrangements.

h. Income Taxes

SMEPA is exempt from United States income taxes pursuant to Section 501 (c) (12) of the Internal Revenue Code, which requires that at least 85% of SMEPA's gross income be derived from its members.

i. Cash and Cash Equivalents

For purposes of reporting cash flows, all temporary investments with maturities of three months or less when purchased are deemed to be cash equivalents.

NOTE 2 — ELECTRIC UTILITY PLANT

Electric utility plant consisted of the following:

	1991	1990
Nuclear production plant	$394,983,346	$ 394,252,417
Non-nuclear production plant	210,546,218	208,937,254
Transmission plant	75,518,204	73,435,329
Coal properties and preparation plant	24,601,851	24,601,851
Land and land rights	12,454,744	12,399,983
General plant and transportation equipment	13,727,404	12,421,449
Electric Plant in service	731,831,767	726,048,283
Construction work in process	7,604,965	10,468,466
	$739,436,732	$736,516,749

NOTE 3 — CONSTRUCTION WORK IN PROCESS AND COMMITMENTS REGARDING GRAND GULF NUCLEAR STATION

SMEPA is a 10% participant in a nuclear generating station known as "Grand Gulf Nuclear Station" (GGNS), which consisted of two 1250-megawatt generating units. Commercial operation for Unit I began on July 1, 1985. In September 1985, the construction of Unit II was suspended by regulatory authorities.

In September 1989, the majority owner elected to abandon Unit II. SMEPA's accumulated cost in Unit II was approximately $104,000,000, including allowance for funds used during construction of approximately $42,000,000. At the date of abandonment, SMEPA made a determination as to the cost that could be recovered through future rate increases and charged the remaining cost to expense. After transfers to GGNS Unit I inventories of approximately $2,085,000 and property accounts of approximately $605,000, approximately $91,180,000 was transferred to unrecovered plant cost on the balance sheet during 1989; and the unrecoverable cost approximating $10,130,000 was included as a loss in the statement of net margins and patronage capital for 1989. This accounting for Unit II has been reviewed and approved by REA (see Note 1b).

In 1990, SMEPA submitted a formal plan to the Nuclear Regulatory Commission (NRC) that demonstrated assurance that sufficient financial resources would be available at the time it becomes necessary to decommission Unit 1. In addition, SMEPA received approval from the Internal Revenue Service to establish a "tax-free" grantor trust as a vehicle to fund the estimated decommissioning costs.

SMEPA has contributed to the trust amounts sufficient to fund the estimated accrued decommissioning obligation that existed at December 31, 1991. SMEPA estimates that the funding requirement will approximate $439,000 annually through 2022, the expected date of decommissioning. The estimated funding requirement will be recalculated and adjusted periodically.

NOTE 4 — INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations are stated at cost and consisted of the following:

	1991	1990
National Rural Utilities Cooperative Finance Corporation (CFC) Capital Term Certificates	$ 8,414,533	$ 8,414,533
CFC Subordinated Term Certificates	2,490,000	2,490,000
Other	360,870	438,341
	$11,265,403	$11,342,874

Capital Term Certificates bear interest at 3% and 4% and mature in 2007 through 2080. The Subordinated Term Certificates bear interest at 9.873% and mature in 2015.

NOTE 5 — DEFERRED CHARGES

The following is a summary of amounts recorded as deferred charges as of December 31, 1991 and 1990:

	1991	1990
Unamortized debt discount	$1,201,160	$1,284,260
Past service benefit retirement estimate	649,678	—
Nuclear fuel costs	80,806	254,190
Other	—	10,948
	$1,931,644	$1,549,398

NOTE 6 — PATRONAGE CAPITAL

At December 31, 1991 and 1990, patronage capital consisted of:

	1991	1990
Assignable	$ 3,037,700	$4,496,930
Assigned to date	32,368,371	27,871,441
	35,406,071	32,368,371
Less: Retirements to date	5,853,758	5,853,758
	$29,552,313	$26,514,613

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed forty percent of the total assets of SMEPA, the return to patrons of contributed capital is generally limited to twenty-five percent of the patronage capital or margins received by SMEPA in the prior calendar year. The equities and margins of SMEPA represent 3.96% and 3.54% of the total assets at December 31, 1991 and 1990, respectively.

NOTE 7 — SHORT-TERM BORROWINGS

SMEPA has a $25,000,000 short-term line of credit available with National Rural Utilities Cooperative Finance Corporation (CFC). At December 31, 1991 and 1990, SMEPA had no borrowings against this line of credit. Interest rates on short-term borrowings with CFC averaged approximately 7.43% and 9.49% for 1991 and 1990, respectively. Capital Term Certificates in CFC, which are included in other assets and investments, cannot be redeemed so long as the line of credit is in place.

NOTE 8 — LONG-TERM DEBT

Long-term debt consisted of the following:

	1991	1990
2% REA mortgage notes payable, due in quarterly installments through 2009	$ 26,715,706	$ 28,481,702
5% REA mortgage notes payable, due in quarterly installments through 2015	20,004,391	20,605,936
5% REA mortgage notes payable, due in monthly installments through 2019	9,149,772	8,020,979
Mortgage notes payable to Federal Financing Bank (FFB) at interest rates varying from 7.160% to 14.512%, due in quarterly installments through 2019	567,474,555	576,288,905
Notes payable to National Bank for Cooperatives at interest rates varying from 6.95% to 8.80%, due in quarterly installments through 2022	3,152,784	3,250,088
Lamar County, Mississippi, Pollution Control Bonds:		
1977 Series, 5.25% to 6.125%, due semi-annually through 2007	29,780,000	30,885,000
1978 A Series, 5.40% to 6.125%, due semi-annually through 2008	2,140,000	2,215,000
1978 A-1 Series, 6.25% due semi-annually through 2008	775,000	805,000
Claiborne County, Mississippi, Pollution Control Bonds — 1985 G Series, variable interest rates (3.80% to 4.40% at December 31, 1991), due annually through 2015	47,600,000	48,200,000
9.75% note payable to National Rural Utilities Cooperative Finance Corporation, due in quarterly installments through 2022	801,000	524,000
	707,593,208	719,276,610
Less current maturities	14,274,069	13,312,220
	$ 693,319,139	$ 705,964,390

Substantially all assets of SMEPA were pledged as collateral on long-term debt.

SMEPA has the option on FFB promissory note advances to elect (subject to REA approval) interim maturity dates of approximately two years after the date of the advance or a long-term maturity ranging from approximately 27 to 34 years (depending on the terms of the particular note) after the end of the calendar year in which the advance was made. If the long-term maturity date is not selected, then on subsequent interim maturity dates, SMEPA may designate that it desires either another short-term maturity or the long-term maturity date as specified in the note.

Approximate annual maturities of long-term debt for the next five years are as follows:

1992	$14,274,000
1993	15,296,000
1994	16,288,000
1995	17,280,000
1996	18,550,000

The above maturity schedule reflects management's prerogative of converting FFB advances at interim maturity dates (1992 through 1996 to long-term maturities. SMEPA has used a rate it estimates to be an appropriate long-term rate, based on December 31, 1991 interest rates, to compute the annual principal requirement.

December 31, 1991. SMEPA had unfunded loan commitments from FFB, CFC, and REA of $27,682,000, $1,505,000, and $4,309,000, respectively. Of the commitment from FFB, $15,000,000 is restricted for possible future funding of GGNS.

[illegible] $734,000 in 1991 and $79,923,000 in 1990 in interest on long-term debt.

SMEPA [illegible] agreements to maintain certain average levels of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 1991.

[illegible] December 19[illegible] SMEPA agreed with FFB and REA to amend two promissory notes effecting a refinancing of $15,933,000 [illegible] financing had not been executed as of February 12, 1992. The interest rate will be established from FFB and [illegible] payment penalty of approximately $4,845,000 will be paid upon execution (which will be deferred and amortized over the remaining life of the affected loans).

NOTE 9 — PENSION PLANS

Substantially all of SMEPA's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. SMEPA makes annual contributions to the program equal to the amounts accrued for pension expense except for the period since July 1, 1987 when a moratorium on contributions was placed in effect due to reaching full funding limitation. In this multiemployer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. SMEPA had no pension expense for this plan in 1991 or 1990. In 1990, SMEPA amended its retirement plan to provide for an earlier retirement. The amendment became effective January 1, 1991. SMEPA elected to amortize prior service costs created by the amendment over ten years. The effect of the amendment is not material to the financial statements.

In addition to providing pension benefits, SMEPA provides certain health care insurance benefits for retired employees. Substantially all of SMEPA's employees may become eligible for these benefits if they reach normal retirement age while working for SMEPA. SMEPA recognizes the cost of providing these benefits by expensing the annual insurance premiums, which were not material for 1991 or 1990.

In 1990, the Financial Accounting Standards Board issued Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," which is generally effective for calendar year 1995. Management is currently evaluating the effects of the application of Statement No. 106, which are not presently known.

NOTE 10 — COMMITMENTS AND CONTINGENCIES

In March 1988, SMEPA began receiving its coal supply under an agreement with a new supplier. This agreement provides that certain conditions be met including, among other things, minimum annual delivery requirements, and does not require the coal produced for SMEPA's consumption be taken from SMEPA's coal reserves, so long as the coal meets the quality requirements of the agreement.

SMEPA has construction commitments for various non-nuclear utility projects totaling approximately $2,384,000 at December 31, 1991.

SMEPA is defendant in certain litigation incurred in the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate resolution of the litigation will not have a material adverse effect on SMEPA's financial condition.

LOCATIONS

Moselle Generating Station
Commercial Operation: 1970
Location: Jones County
Capacity: 177MW
Fuel: Natural Gas/Fuel Oil
Employees: 28

R. D. Morrow, Sr. Generating Plant
Commercial Operation: 1978
Location: Lamar County
Capacity: 400MW
Fuel: Bituminous Coal
Employees: 94

SMEPA Headquarters
Location: Hattiesburg
(Forrest County)
Employees: 111

Gas Turbine Units
Unmanned stations remotely operated by SMEPA's Control Center located at the headquarters facility:

Benndale Unit
Commercial Operation: 1969
Location: George County
Capacity: 16MW
Fuel: Natural Gas

Paulding Unit
Commercial Operation: 1972
Location: Jasper County
Capacity: 20MW
Fuel: Diesel Fuel/Natural Gas

Grand Gulf Nuclear Station
(10% Undivided Interest in Unit 1)
Commercial Operation: 1985
Location: Port Gibson
(Claiborne County)
Capacity at 10%: 125MW
Fuel: Nuclear
Employees: 1

South Mississippi
Electric Power Association

"The Cooperative's Cooperative"

Post Office Box 15849
Hattiesburg, Mississippi 39404-5849
601-268-2083

Deloitte & Touche

ENTERGY OPERATIONS, INC.

FINANCIAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 1991

Deloitte & Touche

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One Shell Square
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New Orleans, Louisiana 70139-3700

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Entergy Operations Inc.:

We have audited the accompanying balance sheets of Entergy Operations, Inc. (Company) as of December 31, 1991 and 1990, and the related statements of income and of cash flows for the year ended December 31, 1991 and for the period from June 6, 1990 (date of inception) to December 31, 1990. These financial statements are the responsibility of the Company'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 the Company as of December 31, 1991 and 1990, and the results of its operations and its cash flows for the year ended December 31, 1991 and for the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules - analysis of charges for service associate and nonassociate companies (page 11) and schedule of expense distribution by department or service function (pages 12 and 13) for the year ended December 31, 1991 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche

February 14, 1992

TABLE OF CONTENTS

ENTERGY OPERATIONS, INC.

BALANCE SHEETS

ASSETS

	December 31, 1991	December 31, 1990
PROPERTY AND FACILITIES - at cost:		
Service company property (including leasehold improvements)	$ 8,416,662	$ 6,557,036
Construction work in progress	1,281,587	455,179
Total	9,698,249	7,012,215
Less - accumulated depreciation and amortization (Note 1)	1,339,672	453,715
Property and facilities - net	8,358,577	6,558,500
CURRENT ASSETS:		
Cash	51,923	33,685
Accounts receivable - associated companies	7,750,806	5,232,516
Other	-	2,403
Total	7,802,729	5,268,604
DEFERRED DEBITS:		
Other	249,035	136,931
TOTAL	$ 16,410,341	$ 11,964,035

ENTERGY OPERATIONS, INC.

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1991	December 31, 1990
CAPITALIZATION:		
Common stock, $5 par value, authorized 1,000 shares; issued and outstanding 1,000 shares (Note 3)	$ 5,000	$ 5,000
Paid in capital	995,000	995,000
Total	1,000,000	1,000,000
CURRENT LIABILITIES:		
Notes payable to associated companies (Note 2)	7,410,000	5,[illegible]0,000
Accounts payable:		
Associated companies	2,144,937	1,382,961
Other	5,042,742	4,216,098
Other	521,972	34,802
Total	15,119,651	10,903,861
DEFERRED CREDITS:		
Accumulated deferred income taxes (Note 1)	140,864	60,174
Other	149,826	-
Total	290,690	60,174
TOTAL	$ 16,410,341	$ 11,964,035

See Notes to Financial Statements.

ENTERGY OPERATIONS, INC.

STATEMENTS OF INCOME

	For the Years Ended December 31,	
	1991	1990 (1)
REVENUES:		
Services rendered to associated companies	$ 535,669,594	$ 414,167,018
Miscellaneous income	53,844	98,156
Total	535,723,438	414,265,174
EXPENSES:		
Salaries and wages	173,866,951	105,202,775
Other general and administrative	156,997,285	106,763,525
Outside services employed	76,392,048	190,771,421
Rent expense	14,539,616	6,227,806
Depreciation and amortization	899,825	453,715
Taxes other than income taxes	12,446,790	4,596,620
Interest expense	394,224	249,312
Income tax expense	187,699	-
Total	535,723,438	414,265,174
NET INCOME	$ NONE	$ NONE

(1) For the period from June 6, 1990 (date of inception) to December 31, 1990

See Notes to Financial Statements.

ENTERGY OPERATIONS, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	1991	1990 (1)
OPERATING ACTIVITIES:		
Net income	$ NONE	$ NONE
Non-cash items included in net income:		
Depreciation and amortization	898,825	453,715
Changes in:		
Accounts receivable	(2,518,290)	(5,232,516)
Accounts payable	1,588,620	5,599,059
Other current assets and liabilities	489,573	32,399
Other	105,544	(76,757)
Net Cash Flow Provided By Operating Activities	564,272	775,900
INVESTING ACTIVITIES:		
Construction and acquisition of plant	(2,686,034)	(7,012,215)
Net Cash Flow Used By Investing Activities	(2,686,034)	(7,012,215)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	1,000,000
Notes payable to associated companies	2,140,000	5,270,000
Net Cash Flow Provided By Financing Activities	2,140,000	6,270,000
Net Change in Cash	18,238	33,685
Cash at Beginning of Period	33,685	-
CASH AT END OF PERIOD	$ 51,923	$ 33,685
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 397,375	$ 215,453

(1) For the period from June 6, 1990 (date of inception) to December 31, 1990

See Notes to Financial Statements.

ENTERGY OPERATIONS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE

Organization

Entergy Operations, Inc. (Entergy Operations), a nuclear management service company wholly-owned by Entergy Corporation, was formed on June 6, 1990 to assume operating responsibility for Arkansas Power & Light Company's (AP&L) Arkansas Nuclear One Generating Station Units 1 and 2 (ANO), Louisiana Power & Light Company's (LP&L) Waterford Steam Electric Generating Station Unit No. 3 (Waterford 3) and System Energy Resources, Inc.'s (System Energy) Grand Gulf Nuclear Station Unit 1 (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 Grand Gulf 1 and Waterford 3 co-owners retained their ownership interests in their respective nuclear generating units. Further, AP&L, LP&L and System Energy retained their associated capacity and energy entitlements and pay directly or reimburse Entergy Operations for the costs associated with the operation and maintenance of these units. Entergy Corporation entered into separate guarantee agreements with AP&L, LP&L and System Energy whereby Entergy Corporation guaranteed the financial ability of Entergy Operations to meet its various financial obligations to AP&L, LP&L and System Energy under the operating agreements, as long as AP&L, LP&L and System Energy continue to meet their payment obligations to Entergy Operations under the applicable operating agreements.

Applications for approval of or non-opposition to, as applicable, nuclear management consolidation were filed with the Nuclear Regulatory Commission (NRC), the Arkansas Public Service Commission (APSC), the Louisiana Public Service Commission (LPSC), the Council of the City of New Orleans, Louisiana and the Securities and Exchange Commission (SEC), and all such approvals were received by June 5, 1990. The APSC's order was appealed by the Arkansas Electric Energy Consumers, an intervenor in the APSC proceeding, and was later denied. The APSC Order approving the nuclear management consolidation included, among other things, a provision whereby the APSC staff and AP&L would designate an independent consultant to audit Entergy Operations to determine the extent of savings achieved as a result of the consolidation. The APSC staff agreed to the consolidation on the basis that the independent evaluation would be performed and that the APSC could cause AP&L to terminate the operating agreement with Entergy Operations if the APSC determined that the agreement was not in the public interest (the LPSC also reserved this right). The APSC staff and AP&L selected an independent consultant to perform the audit, which was to be conducted in two phases, an initial phase to evaluate the projected benefits of consolidation and a follow-up phase to determine the progress of the consolidation savings. The auditors completed the majority of Phase 1 fieldwork in December 1991 and expect to issue a final report thereon during the second quarter of 1992. Phase 2 of the audit is expected to be performed during mid to late 1992.

System of Accounts

The accounts of Entergy Operations are maintained in accordance with the system of accounts prescribed by the SEC.

Depreciation and Amortization

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Amortization of leasehold improvements is computed on the straight-line basis over the lease terms.

Income Taxes

Entergy Operations joins its parent and affiliates (System companies) in the filing of a consolidated Federal income tax return. Income taxes are allocated to Entergy Operations in proportion to its contribution to consolidated taxable income. In accordance with SEC regulations, no System company is required to pay more income taxes than would have been paid had a separate income tax return been filed. In addition, Entergy Operations files a consolidated Mississippi state income tax return with certain other System companies.

Entergy Operations provides for deferred taxes resulting from recognition of expense timing differences for income tax purposes as compared with financial statement purposes.

The tax net operating loss carryforward at December 31, 1991 is approximately $240 thousand and is available to offset federal taxable income in future years. If not utilized, the carryforwards will expire in the year 2006.

In February 1992, the Financial Accounting Standards Board (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. Entergy Operations plans to adopt SFAS No. 109 in 1993. It is not expected that Entergy Operations would be significantly impacted by the adoption of SFAS No. 109.

Postretirement Benefits

Entergy Operations' employees participate in the postretirement plans of AP&L, LP&L and System Energy. The System'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, and to fund and record other postretirement plan costs on a cash basis. See Note 5, "Postretirement Benefits."

NOTE 2. LINES OF CREDIT AND RELATED BORROWINGS

Entergy Operations, through a line of credit (at an interest rate of prime), is authorized by the SEC, through June 30, 1992 to effect short-term borrowings with Entergy Corporation in an aggregate amount outstanding at any one time of up to $15 million, subject to increase to a maximum of $20 million with further SEC approval. Entergy Operations is currently seeking SEC approval to extend such lines of credit. This line of credit was not used during 1991.

Entergy Operations participates with certain other System companies in the System Money Pool (Money Pool), an intra-system borrowing arrangement designed to reduce the System's dependence on external short-term borrowings. As authorized by the SEC, the borrowings by Entergy Operations from the Money Pool may not exceed the amount of the unused portion of the line of credit discussed above.

The borrowings from the Money Pool and applicable interest rates for 1991 and 1990 were as follows:

	1991	1990
Average borrowing	$6,409,096	$5,367,000
Maximum borrowing at any month end	$7,410,000	$5,740,000
Average interest rate:		
During the year	6.1%	8.0%
At end of year	5.2%	8.1%

NOTE 3. COMMON STOCK

There was no change in the number of shares of Entergy Operations' common stock during the year 1991. On June 6, 1990, Entergy Operations issued 1000 shares of $5 par value common stock to Entergy Corporation for an aggregate consideration of $1 million.

NOTE 4. OPERATING LEASES

Effective with the formation of Entergy Operations, certain operating leases were either assigned to Entergy Operations by System Energy or entered into directly by Entergy Operations.

Total rental charges to expense for 1991 and 1990 were approximately $14.5 million and $6.2 million, respectively, of which approximately $10.6 million and $5 million, respectively, related to rent expense associated directly with AP&L, LP&L or System Energy leases and approximately $3.9 million and $1.2 million, respectively, related to rent expense associated with Entergy Operations leases discussed above. At December 31, 1991 Entergy Operations had noncancelable operating leases with future minimum rental commitments on building space, vehicles, computer equipment and other office equipment as follows:

	Minimum Lease Payments (In Thousands)
1992	$3,059
1993	2,713
1994	2,094
1995	2,026
1996	2,026
For years thereafter	14,222
TOTAL	$26,140

NOTE 5. POSTRETIREMENT BENEFITS

Effective June 6, 1990, all of System Energy's employees became employees of Entergy Operations. However, the employees still remain under System Energy's postretirement benefit plan and no transfers of related pension liabilities and assets have been made. In addition, ANO and Waterford 3 employees who transferred to Entergy Operations on June 6, 1990, remain under AP&L's and LP&L's plans, respectively, and no transfers of related pension liabilities and assets have been made. Entergy Operations' employees, not formerly in the Entergy System, participate in the postretirement plans of either AP&L, LP&L or System Energy, depending upon their work location

Entergy Operations 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. These benefits and similar benefits

for active employees are provided through payment of premiums to insurance companies, and Entergy Operations recognizes the cost of providing these benefits by expensing the amounts as incurred. Entergy Operations is then reimbursed by AP&L, LP&L and System Energy for their share of these expenses. In 1991 and 1990, these reimbursements totaled approximately $5.9 million and $1.6 million, $3.9 million and $1.9 million, and $2.5 million and $1.9 million for AP&L, LP&L and System Energy, respectively.

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. Adoption of the new standard is expected to increase annual expense associated with these benefits, and Entergy Operations will be reimbursed by AP&L, LP&L and System Energy to the extent of such increased costs. Entergy Operations plans to adopt this statement in 1993.

NOTE 6. TRANSACTIONS WITH AFFILIATES

Pursuant to operating agreements, Entergy Operations has been authorized to act as an agent for AP&L, LP&L and System Energy in the operation, but not ownership, of ANO, Waterford 3 and Grand Gulf 1. In return, AP&L, LP&L and System Energy pay directly or reimburse Entergy Operations for the costs associated with operating those units.

Upon its formation on June 6, 1990, Entergy Operations purchased approximately $5.9 million of corporate assets at net book value from System Energy.

Pursuant to a service agreement, Entergy Operations receives technical and advisory services from Entergy Services, Inc. These charges amounted to approximately $12.4 million in 1991 and $11.6 million in 1990, with AP&L, LP&L and System Energy reimbursing Entergy Operations for their respective portions.

Schedule XVI – Analysis of Charges for Service Associate and Nonassociate Companies

Instruction:

Total cost of service will equal for associate and nonassociate companies the total amount billed under their separate analysis of billing schedules.

Account	Description of Items	Associate Company Charges			Nonassociate Company Charges			Total Charges for Service		
		Direct Cost	Indirect Cost	Total	Direct Cost	Indirect Cost	Total	Direct Cost	Indirect Cost	Total
920	Salaries and Wages	$153,183,729	$20,683,222	$173,866,951				$153,183,729	$20,683,222	$173,866,951
921	Office Supplies and Expenses	124,963,538	11,769,944	136,733,482				124,963,538	11,769,944	136,733,482
922	Administrative Expense Transferred – Credit	0	0	0				0	0	0
923	Outside Services Employed	163,452,241	12,939,807	176,392,048				163,452,241	12,939,807	176,392,048
924	Property Insurance	844,570	955,909	1,800,479				844,570	955,909	1,800,479
925	Injuries and Damages	0	303,452	303,452				0	303,452	303,452
926	Employee Pensions and Benefits	698,588	14,981,349	15,679,937				698,588	14,981,349	15,679,937
928	Regulatory Commission Expense	0	749,108	749,108				0	749,108	749,108
930.1	General Advertising Expenses	0	0	0				0	0	0
930.2	Miscellaneous General Expenses	102,638	778,868	881,506				102,638	778,868	881,506
931	Rents	10,642,870	3,896,746	14,539,616				10,642,870	3,896,746	14,539,616
932	Maintenance of Structures and Equipment	0	0	0				0	0	0
403	Depreciation and Amortization Expense	0	898,825	898,825				0	898,825	898,825
408	Taxes Other Than Income Taxes	12,322,706	124,084	12,446,790				12,322,706	124,084	12,446,790
409	Income Taxes	0	46,835	46,835				0	46,835	46,835
410	Provision for Deferred Income Taxes	0	316,084	316,084				0	316,084	316,084
411	Provision for Deferred Income Taxes – Credit	0	(175,220)	(175,220)				0	(175,220)	(175,220)
411.5	Investment Tax Credit	0	0	0				0	0	0
426.1	Donations	127,338	0	127,338				127,338	0	127,338
426.5	Other Deductions	721,983	0	721,983				721,983	0	721,983
427	Interest on Long-Term Debt	0	0	0				0	0	0
431	Other Interest Expense	0	394,224	394,224				0	394,224	394,224
	TOTAL EXPENSES	467,060,201	68,663,237	535,723,438				467,060,201	68,663,237	535,723,438
	Compensation for use of Equity Capital									
430	Interest on Debt to Associate Companies									
	TOTAL COST OF SERVICE	$467,060,201	$68,663,237	$535,723,438				$467,060,201	$68,663,237	$535,723,438

ANNUAL REPORT OF ENTERGY OPERATIONS, INC.

For the Year Ended December 31, 1991

Schedule XVII – Schedule of Expense Distribution by Department or Service Function

Instruction:

Indicate each department or service function. (See Instruction 01-3 General Structure of Accounting System: Uniform System of Accounts).

Account Number	Description of Items	Total Amount	Overhead	DEPARTMENT OR SERVICE FUNCTION						
				Arkansas Nuclear One	Grand Gulf Nuclear Station	Waterford 3	Accounting and Treasury	President and CEO	Legal and External Affairs	Human Resources
920	Salaries and Wages	173,866,951	0	$67,097,746	$42,883,382	$43,202,601	$5,195,923	$346,340	$975,116	$7,522,899
921	Office Supplies and Expenses	136,733,482	0	61,068,646	32,077,235	31,817,657	4,965,392	98,620	479,887	3,926,092
922	Administrative Expense Transferred - Credit	0	0	0	0	0	0	0	0	0
923	Outside Services Employed	176,392,048	0	84,097,578	26,467,675	52,886,988	9,583,077	3,242	1,503,546	1,246,264
924	Property Insurance	1,800,479	0	58,842	729,029	56,699	955,909	0	0	0
925	Injuries and Damages	303,452	0	0	0	0	5,749	0	0	297,703
926	Employee Pensions and Benefits	15,679,937	0	9,479	689,109	0	406,360	0	0	14,582,418
928	Regulatory Commission Expense	749,108	0	0	0	0	106,780	0	642,328	0
930.1	General Advertising Expense	0	0	0	0	0	0	0	0	0
930.2	Miscellaneous General Expense	881,506	0	0	103,247	(609)	658,868	0	0	0
931	Rents	14,539,616	0	7,649,505	1,677,707	1,315,648	3,555,851	5,006	29,500	18,271
932	Maintenance of Structures and Equipment	0	0	0	0	0	0	0	0	0
40	Depreciation and Amortization Expense	898,825	898,825	0	0	0	0	0	0	0
408	Taxes Other Than Income Taxes	12,446,790	124,084	5,326,778	3,266,013	3,729,915	0	0	0	0
409	Income Taxes	46,835	46,835	0	0	0	0	0	0	0
410	Provision for Deferred Income Taxes	316,084	316,084	0	0	0	0	0	0	0
411	Provision for Deferred Income Taxes - Credit	(175,220)	(175,220)	0	0	0	0	0	0	0
411.5	Investment Tax Credit	0	0	0	0	0	0	0	0	0
426.1	Donations	127,338	0	894	125,732	712	0	0	0	0
426.5	Other Deductions	721,983	0	26,105	632,273	63,605	0	0	0	0
427	Interest on Long-Term Debt	0	0	0	0	0	0	0	0	0
430	Interest on Debt to Associate Companies	0	0	0	0	0	0	0	0	0
431	Other Interest Expense	394,224	394,224	0	0	0	0	0	0	0
	TOTAL EXPENSES	$535,723,438	$1,604,832	$225,335,573	$108,651,402	$133,073,226	$25,438,909	$453,208	$3,640,377	$27,594,471

ANNUAL REPORT OF ENTERGY OPERATIONS, INC.

For the Year Ended December 31, 1991

Schedule XVII – Schedule of Expense Distribution by Department or Service Function

Account Number	DEPARTMENT OR SERVICE FUNCTION											
	Nuclear Operations & Engineering	Purchasing										
920	$6,305,574	$337,370										
921	2,250,735	48,418										
922	0	0										
923	578,198	20,480										
924	0	0										
925	0	0										
926	2,050	(9,479)										
928	0	0										
930.1	0	0										
930.2	120,000	0										
931	267,758	10,360										
932	0	0										
403	0	0										
408	0	0										
409	0	0										
410	0	0										
411	0	0										
411.5	0	0										
426.1	0	0										
426.5	0	0										
427	0	0										
430	0	0										
431	0	0										
	$9,524,315	$407,149										