

# SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

## 1995 ANNUAL REPORT

### 1995 PERFORMANCE HIGHLIGHTS

#### FINANCIAL

(\$ In Thousands)

	1995	1994	INCREASE (DECREASE)	% INCREASE (DECREASE)
Total Revenue	\$ 294,247	\$ 285,080	\$ 9,167	3.2 %
Current Net Margins	\$ 10,182	\$ 13,824	(\$ 3,642)	(26.3) %
Total Assets	\$ 759,043	\$ 763,033	(\$ 3,990)	(0.5) %
Total Equity	\$ 67,403	\$ 57,221	\$ 10,182	17.8 %
Equity as % of Assets	8.9 %	7.5 %		
TIER	1.23	1.31		
DSC	1.22	1.27		
Average Cost of Long-Term Debt	6.66 %	6.64 %		

#### OPERATIONAL

Wholesale Rate to Members-Mills/KWH	43.71	44.64	(0.93)	(2.1) %
Energy Sales (MWH)				
Members	6,368,144	5,979,874	388,270	6.5 %
Non-Members	520,262	651,485	(131,223)	(20.1) %
Total	6,888,406	6,631,359	257,047	3.9 %
Net Generation (MWH)	3,347,874	3,391,859	(43,985)	(1.3) %
Total System Demand (MW)	1,654	1,494	160	10.7 %

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## EXECUTIVE MESSAGE 1995

South Mississippi Electric Power Association's directors and employees continued to work with a unity of purpose to meet the challenges of a changing industry during 1995. Internal and external activities and relations were closely examined to determine the best process and plan to fulfill members' needs in an industry moving from traditional to non-traditional operations.

This report reflects successes achieved in every area and within every department. SMEPA experienced another rate decrease resulting in the lowest rates to members since 1981. Equity continued to increase as projected and capital projects were completed using internal funds. Health care costs remained constant and all-time safety records were achieved reflecting employee commitment.

As we approach 1996, aggressive evaluations will continue and changes will be made as necessary. SMEPA's employees and leadership have played a vital role in meeting historical change and are committed to being a positive part of a changing future.

*Henry Thomas*

Henry Thomas  
General Manager

*W.C. McKamy, Jr.*

W.C. McKamy, Jr.  
President



# MEMBER SYSTEMS



**1** COAHOMA EPA, LYON  
Giles Bounds, Manager  
Date energized 1/18/38  
1,446 miles of line  
6,192 meters

**2** COAST EPA, BAY ST. LOUIS  
Robert Occhi, General Manager  
Date energized 5/20/38  
4,183 miles of line  
50,729 meters

**3** DELTA EPA, GREENWOOD  
Harry H. Bonner, General Manager  
Date energized 1/30/39  
5,192 miles of line  
25,122 meters

**4** DIXIE EPA, LAUREL  
James T. Dudley, Jr., General Manager  
Date energized 7/28/39  
4,016 miles of line  
29,262 meters

**5** MAGNOLIA EPA, McCOMB  
Sammy Williams, Manager  
Date energized 9/19/39  
4,739 miles of line  
23,158 meters

**6** PEARL RIVER VALLEY EPA, COLUMBIA  
W.T. Shows, General Manager  
Date energized 5/19/39  
4,990 miles of line  
30,866 meters

**7** SINGING RIVER EPA, LUCEDALE  
Jack Ware, General Manager  
Date energized 12/5/39  
5,092 miles of line  
50,557 meters

**8** SOUTHERN PINE EPA, TAYLORSVILLE  
Donald Jordan, General Manager  
Date energized 5/13/39  
8,950 miles of line  
51,943 meters

**9** SOUTHWEST MISSISSIPPI EPA, LORMAN  
Robert St. John, General Manager  
Date energized 3/27/38  
3,921 miles of line  
21,863 meters

**10** TWIN COUNTY EPA, HOLLANDALE  
Vesper Bagley, Manager  
Date energized 12/24/38  
2,207 miles of line  
12,066 meters

**11** YAZOO VALLEY EPA, YAZOO CITY  
Charles H. Shelton, General Manager  
Date energized 3/23/38  
2,634 miles of line  
8,825 meters

## *BOARD OF DIRECTORS*



COAHOMA ELECTRIC POWER ASSOCIATION  
James Humber  
Giles Bounds, Manager



COAST ELECTRIC POWER ASSOCIATION  
Robert J. Occhi, General Manager  
Francis L. Lee



DELTA ELECTRIC POWER ASSOCIATION  
Henry Waterer, Jr.  
Harry H. Bonner, General Manager



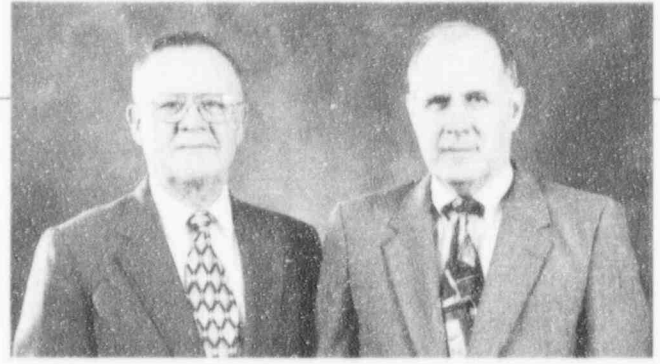
DIXIE ELECTRIC POWER ASSOCIATION  
L.G. Pierce  
James T. Dudley, Jr., General Manager



MAGNOLIA ELECTRIC POWER ASSOCIATION  
Hollis Alford, Secretary-Treasurer  
Sammy Williams, Manager



PEARL RIVER VALLEY ELECTRIC POWER ASSOCIATION  
Byrus E. Hurt  
W.T. Shows, General Manager and Acting Secretary



SINGING RIVER ELECTRIC POWER ASSOCIATION  
Frank Ely  
Jack Ware, General Manager



SOUTHERN PINE ELECTRIC POWER ASSOCIATION  
Harlan Rogers, Vice President  
Donald Jordan, General Manager



SOUTHWEST MISSISSIPPI ELECTRIC POWER ASSOCIATION  
Frances Noble  
Robert St. John, General Manager



TWIN COUNTY ELECTRIC POWER ASSOCIATION  
Vesper Bagley, Manager  
W.C. McKamy, Jr., President



YAZOO VALLEY ELECTRIC POWER ASSOCIATION  
R.D. Hines  
Charles H. Shelton, General Manager

# GENERAL INFORMATION

## ★ SMEPA HEADQUARTERS

Location: Hattiesburg, Forrest County

Employees: 116

SMEPA is fortunate to have its Morrow and Moselle generating stations located approximately fifteen miles from headquarters. Energy from both stations is dispatched from SMEPA's Control Center in Hattiesburg.

## ▮ GRAND GULF NUCLEAR STATION

(10% Undivided Interest)

Commercial Operation: 1985

Location: Port Gibson, Claiborne County

Capacity: 125 MW

Fuel: Nuclear

Employees: 1

SMEPA counts one employee among Entergy's 900+ who work at the nuclear site. Joe Czaika is the Association's nuclear specialist. Grand Gulf Nuclear Station is located approximately 145 miles from SMEPA's headquarters.

## ▮ R.D. MORROW, SR., GENERATING STATION

Commercial Operation: 1978

Location: Lamar County

Capacity: 400 MW

Fuel: Bituminous Coal

Employees: 97

## ▮ MOSELLE GENERATING STATION

Commercial Operation: 1970

Location: Moselle, Jones County

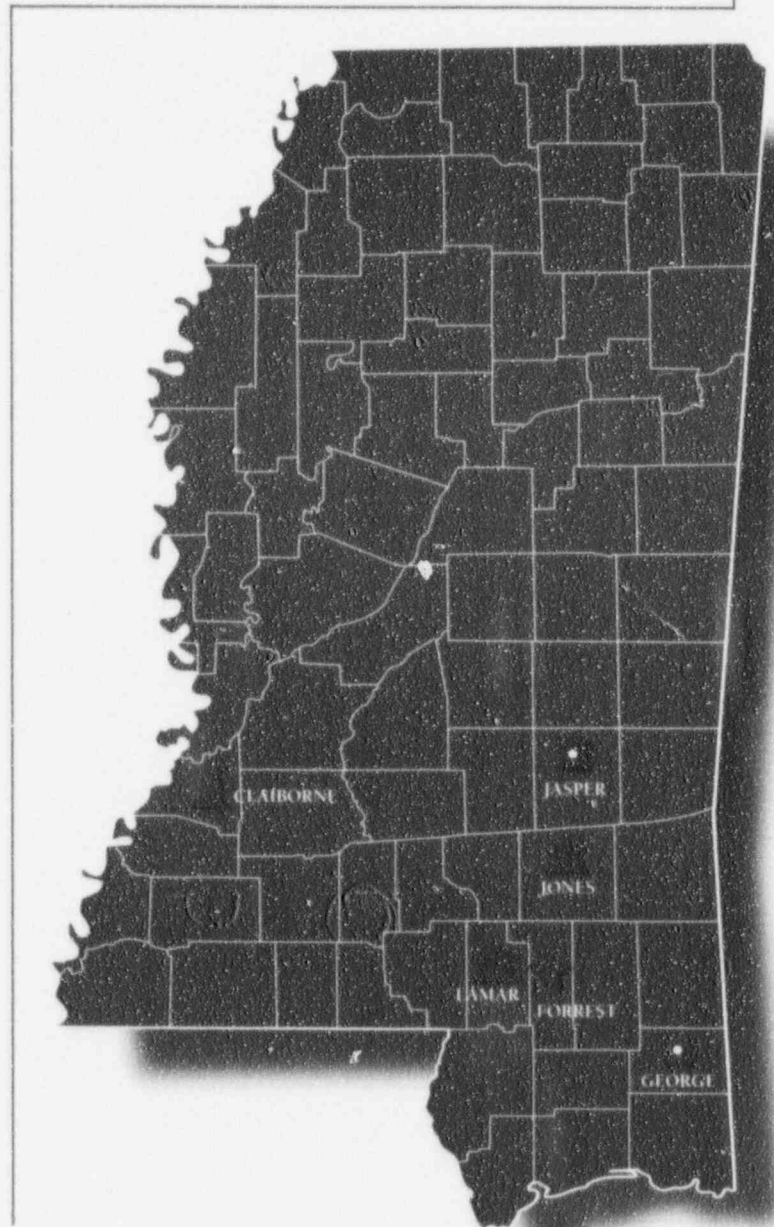
Capacity: 177 MW

Fuel: Natural Gas/Fuel Oil

Employees: 29

SMEPA's two combustion turbines, Paulding and Benndale, are unmanned stations remotely operated by the SMEPA Headquarters facility Control Center. Personnel from Plant Moselle maintain the two units.

During 1995, the units were operated on occasion to support load demand. The units were also placed in service from time to time for test purposes to assure continued availability and reliability.



▮ PAULDING UNIT  
Commercial Operation: 1972  
Location: Jasper County  
Capacity: 20 MW  
Fuel: Diesel Fuel  
1995 Production: 363 MWH

▮ BENNDALE UNIT  
Commercial Operation: 1969  
Location: George County  
Capacity: 16 MW  
Fuel: Natural Gas  
1995 Production: 2390 MWH

# DEPARTMENTS



## CORPORATE PLANNING & OPERATIONS DEPARTMENT

John Carley

## FINANCE DEPARTMENT

Jack Harpole



## ENGINEERING DEPARTMENT

Terry Lee

## HUMAN RESOURCES & DEVELOPMENT DEPARTMENT

Benny Murray



## TRANSMISSION DEPARTMENT

Jerry Pierce

In 1995, SMEPA's management team joined with board members and employees to prepare a strategic plan for the Association's future. SMEPA's six departments are responsible for many ongoing activities which support its missions and objectives. The new strategic plan identifies those additional actions which will enhance SMEPA's value to its member systems. SMEPA directors and employees are committed corporately and individually to achieving these common goals.

## MISSION STATEMENT

SMEPA is committed to being the preferred power provider of its members and customers.

- ❖ SMEPA will preserve its present strong financial condition.
- ❖ SMEPA will deliver high quality power to its member systems at a competitive price and more reliably than neighboring utilities.
- ❖ SMEPA will attract, develop, and retain dedicated and capable board members and employees while providing a workplace conducive to good morale and increasing productivity.
- ❖ SMEPA will continuously strengthen its competitive position through improvements in all planning processes.
- ❖ SMEPA will assist member systems to better serve their end users, to attract new loads, and to keep existing loads.

## PRODUCTION DEPARTMENT

Marcus Ware



## **MOSELLE GENERATING STATION**

Plant Moselle was again operated in an intermediate and peaking mode for the entire year. The net generation during 1995 amounted to 662,214 MWH — nearly 12% more than in 1994 and the highest production since 1978. The increase in output can be contributed to high availability of the Moselle units and the availability of natural gas at economically attractive price levels.

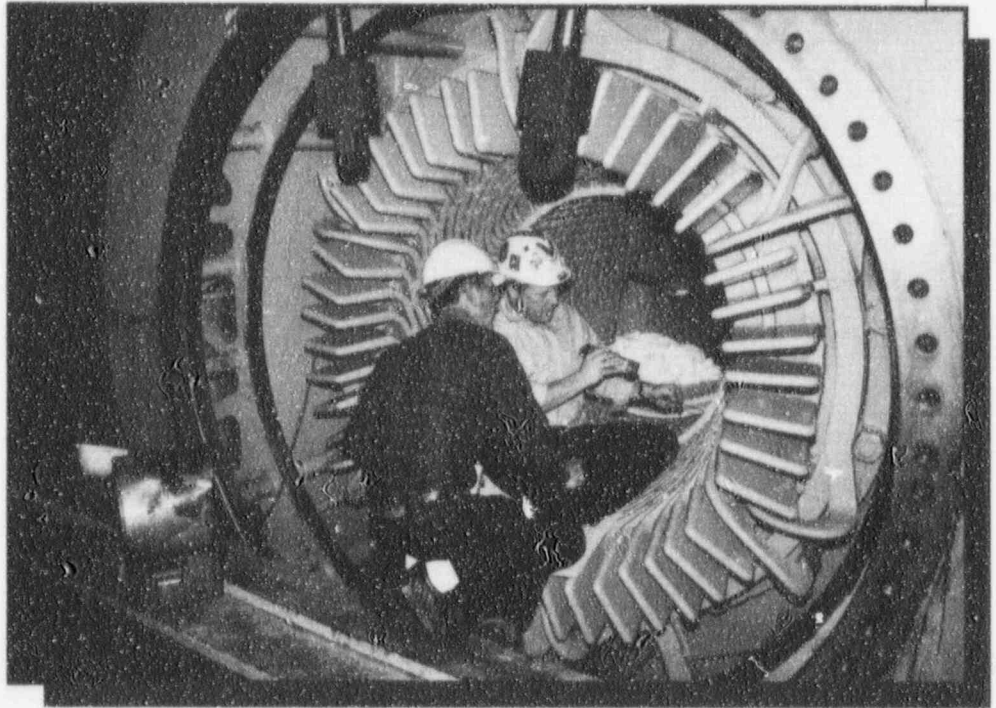
During a spring outage, a scheduled five-year inspection of the Unit 3 turbine and generator was completed. As part of the process, new retaining rings were installed on the generator rotor to address an industry-wide problem with the components.

This was the first full year of operation with the Continuous Emissions Monitoring System (CEMS) equipment in service. The equipment was installed on each of the stacks to monitor exhaust emissions as required by provisions of Clean Air Act Amendments.

During 1995, the decision was made to proceed with the installation of a combustion turbine generator at Plant Moselle. The new unit is intended to be instrumental in meeting the peaking requirements of SNEPA's growing system demand. An additional 20 acres of property were purchased to provide ample space for expansion of the station switchyard and for the installation of the new unit. The equipment will provide an additional 80 megawatts of capacity and is expected to be operational in early 1997.

## **OPERATING REPORT**

*PLANT SUPERINTENDENT JACK THOMPSON AND ELECTRICIAN SCOTT MIMS TAKE A CLOSER LOOK AT PLANT MOSELLE'S UNIT 3 GENERATOR DURING A SCHEDULED INSPECTION IN MARCH.*



Natural gas purchases were scheduled monthly to meet projected generation requirements. Usage amounted to 7,719,800 MMBtu for the year, which was about 10% more than the volume used during 1994 and was the highest annual volume of gas usage in the life of the plant.

### **R.D. MORROW, SR. GENERATING STATION**

Plant Morrow was primarily operated in an intermediate and base load mode during 1995. Simultaneous operation of the two Morrow units occurred primarily during the summer load season from May through September. Coal usage amounted to 812,120 tons, and the annual net generation from the facility amounted to 1,881,648 MWH, which was about 2% above 1994 production. The output was more than the average annual generation provided by the facility during the past ten years.

A scheduled five-year preventive maintenance turbine inspection was performed during a spring



*OPERATORS LARRY WILLIS AND LOUIS BROWN MONITOR OPERATION OF UNIT 1 USING THE FOUR DISPLAY SCREENS OF PLANT R.D. MORROW'S NEW DISTRIBUTED CONTROL SYSTEM (DCS). THE DCS ACCURATELY MONITORS BOILER PROCESSES AND RESPONDS TO CHANGES FASTER THAN THE OLD CONTROL BOARD.*



maintenance outage. As planned, the twenty-first stage blading was replaced with a new high efficiency design. Inspection of steam path components concluded with replacement of ninth stage blading along with an expected amount of diaphragm and seal renewal. Restart of the unit was on schedule and without incident and enhanced performance was confirmed during the subsequent high load demands of the summer season.

Plant Morrow was successful in reducing sulfur dioxide and nitric oxide emissions as a participant in the Substitution Program, which resulted from the Clean Air Act Amendments of 1990. The sulfur dioxide removal capacity of the scrubber was utilized more during 1995 because of the reduced emission limits for sulfur dioxide. Plant Morrow took advantage of operating at the lower nitric oxide limit a year in advance to insure that the Association could maintain the new emission rate for 1996. By participating in the program, SMEPA earned emission credits which may be either marketed or held for use to offset future sulfur dioxide emissions.

The total quantity of ash sold during 1995 was 15% greater than in 1994. The volume of good quality dry ash sold increased by 25%, reaching a new annual record

of 37,000 tons. This improvement became possible with enhancements made in the coal combustion process and has resulted in the consistent production of a marketable quality ash. The combined volume of dry ash and landfill material marketed during the year totaled 62,000 tons. Approximately 90% of the ash produced in 1995 was marketed.

### **GRAND GULF NUCLEAR STATION**

Overall, 1995 was a moderately successful year for Grand Gulf. The plant capacity factor for 1995 was 79.2%, the plant availability factor was 78%, and net generation was 8,013,504 MWH at an average thermal efficiency of 10,814 Btu/KWH. The thermal efficiency was 1.9% better than in 1994, due mainly to the upgrade of the high pressure turbine during a 1995 refueling outage. In fact, the yearly average heat rate was the best ever for Grand Gulf.

The plant staff replaced the high pressure turbine rotor with a new, more efficient design, increasing plant output by 37 MW (the expected gain was 27 MW). A record power level was established on December 10 at 1,261 MW Net, and the average power level for that 24 hours was 1,258 MW. More production records are expected to be established in 1996 and beyond as each of the low pressure turbine rotors are also upgraded during refueling outages.

Grand Gulf celebrated its tenth year of commercial operation in July of 1995 and reflected on the many positive aspects of its operating history. Accomplishments

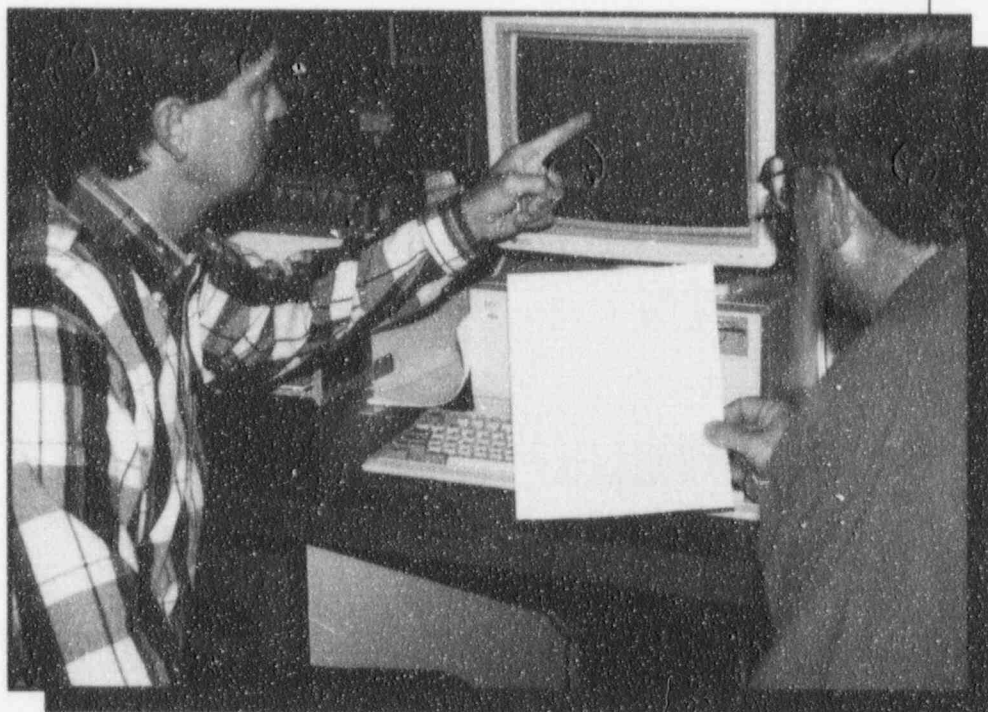
include receiving the highest possible ratings from the Institute of Nuclear Power Operations for three consecutive years — an accomplishment which very few plants have consistently achieved. Grand Gulf's staff increased the Nuclear Regulatory Commission's Systematic Assessment of Licensee Performance (SALP) scores from an average of 1.14 in 1989, to an average of 1.0, a perfect score. The plant has managed to lower its three-year production costs by more than 21% since 1986, and planned cost improvement programs are expected to result in further reductions. In addition, the rolling three-year average for Grand Gulf since 1992 has been more than 10% above the industry average for nuclear plants during the same time period.

### ***KENTUCKY COAL PROPERTY***

Ikerd-Bandy, a coal-mining firm, continued to develop reserves on SMEPA's property in eastern Kentucky under the provisions of a property lease arrangement. Clean coal production during 1995 amounted to approximately 261,720 tons from both surface and deep mine operations.

Under an Oil & Gas Lease Agreement with AKS Energy Corporation, SMEPA received payments as a result of oil and gas production from the property. In January 1995, AKS completed the installation of a pipeline gathering system and initiated flow of natural gas from wells on the SMEPA reserves. A relatively small but steady volume of gas flowed from a

*DIRECTOR OF OPERATIONS ROGER SMITH AND SYSTEM DISPATCHER NICK NICHOLAS TRACK THE MOVEMENT OF HURRICANE OPAL FROM SMEPA'S CONTROL CENTER IN EARLY OCTOBER. AS PART OF THE ASSOCIATION'S EMERGENCY CONTINGENCY PLAN, THE CENTER IS RESPONSIBLE FOR MONITORING WEATHER CONDITIONS WHICH COULD THREATEN ELECTRIC POWER TRANSMISSION.*



total of nine wells throughout the remainder of the year. Beginning in February, revenue was also provided from a limited amount of oil production.

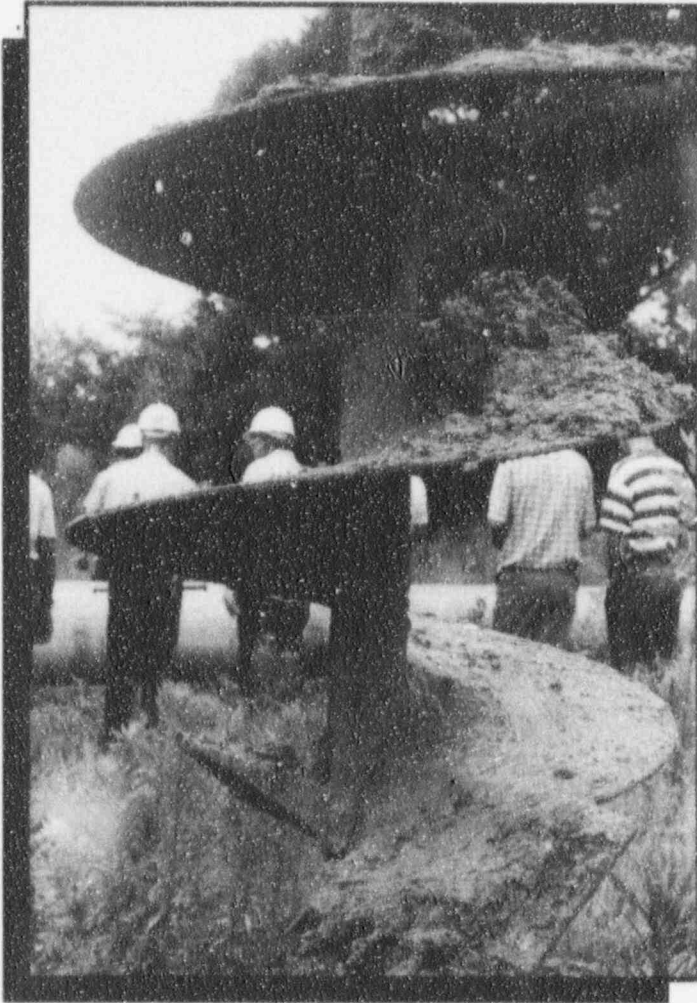
### ***ENGINEERING SERVICES***

A new look was given to power bills sent to member cooperatives, thanks to an upgraded and revised format developed by the billing group. Also, a new Interruptible Service Rate was adopted by the board that will promote the sale of more off-peak kilowatt-hours of energy.

Work was begun with four other utilities on the joint design and procurement of a new control system. Substantial dollar savings will be realized because of this cooperative effort.

### ***MARKETING***

SMEPA's marketing section assisted its member cooperatives in their efforts to develop successful in-house marketing programs, and focused on education and training of the commercial sector in energy-efficient electric technology. As part of those efforts, marketing hosted an educational geothermal



*SMEPA'S CREWS PREPARE TO SET A 115-FOOT CONCRETE POLE TO ACCOMMODATE A THREE-WAY SWITCH NEAR BRANDON.*

teleconference on residential heating, cooling and water heating. SMEPA also sponsored two training schools for dealers who install and service geothermal systems.

Manufactured homes are a significant source of billing complaints and non-payment for SMEPA's member cooperatives. SMEPA is therefore represented on the board of directors of a non-profit corporation that develops, demonstrates, and promotes energy efficient methods in manufactured housing. SMEPA is also represented on the board of directors of Energy Rated Homes of Mississippi, an organization that develops and implements uniform home energy ratings. These ratings aid builders in obtaining energy-efficient mortgages for new homes.

### ***ENVIRONMENTAL AFFAIRS***

Environmental efforts during 1995 centered around air quality, transmission projects for SMEPA and its

members, and permitting for a proposed new generating unit.

In the area of air quality, 'Title V' Air Operating Permit applications for all SMEPA generating units were deemed to be complete and acceptable by the Mississippi Department of Environmental Quality (MDEQ). The 'Title V' program, which quantifies and limits emissions of 189 pollutants, consolidates state and federal guidelines into a single permitting process. In addition, the Continuous Emissions Monitoring Systems (CEMS) on the Plant Morrow and Plant Moselle units were successfully recertified in 1995. Certification of these systems will be required on an annual basis in order to quantify emissions from SMEPA's generating units.

Borrower's Environmental Reports or Assessments were submitted to and approved by the Rural Utilities Service (RUS) for 46 miles of transmission lines, a SMEPA 230 kV substation, five member cooperative stations, and two microwave towers. Including member cooperatives in SMEPA's Borrower's Environmental Reports has resulted in more timely review and approval by RUS.

Environmental permitting for the combustion turbine and proposed combined cycle unit at Moselle was submitted to RUS and MDEQ. At the end of the year, RUS had issued a Finding of No Significant Impact (FONSI), and MDEQ had approved the Construction and Operating Permit applications.

### ***ELECTRONICS MAINTENANCE***

The existing microwave equipment was replaced with new equipment at Hattiesburg, Plant Morrow, and Plant Moselle, resulting in a much-improved transfer system for data from the transmission system back to the control center.

The electronics group assisted data processing in the installation of new PCs and peripherals, along with upgrading the local area networks, to assure that data is effectively and efficiently moved around the headquarters facility and to the outlying generating plants.

## **OPERATIONS CONTROL CENTER**

"Change" is the best word to describe control center operations throughout 1995. For the first time, SMEPA accessed the power market through power marketers, non-utility companies that buy and sell bulk wholesale energy. This option provides opportunities to save substantial dollars in the power market, with these savings passed on to our member cooperatives in the form of lower power costs.

A new concept in serving large power customers was used on a trial basis allowing the sale of economically priced energy during certain hours normally defined as peak usage hours. This allowed the delivery of 4,000 plus megawatt-hours of energy that normally would not have been available. The concept proved profitable for SMEPA, the member cooperatives, and the customers, and was added as a permanent rate.

## **TRANSMISSION UPGRADES AND CONSTRUCTION**

South Mississippi Electric Power Association crews completed installation of a three-way switch to serve Southern Pine Electric Power Association's future 115 kV East Whitfield substation. SMEPA

*LINEMEN MAIT READY, DARREN BUTLER, TRACY STIGLETS AND BILL REGAN SET A REPLACEMENT POLE NEAR PURVIS AFTER NEARLY ONE MILE OF 161 KV TRANSMISSION WAS DESTROYED WHEN A TORNADO TOUCHED DOWN IN DECEMBER.*



crews assisted in the installation of motor operators at Prentiss, Newton, and Polkville. In addition, line adjustments were made due to stream erosion, highway relocations and general line improvements.

The transmission department was responsible for coordinating the surveying and construction management of several on-going projects, including a 230 kV transmission line, two 115 kV lines for Magnolia EPA, a 115 kV line for Delta EPA, and a 69 kV line for Pearl River Valley EPA. Also, plans were being made to upgrade certain line switches by installing load break interrupters.

## **TRANSMISSION SYSTEM MAINTENANCE**

The transmission system is an integral part of SMEPA being a reliable power supplier, therefore significant emphasis is placed on maintaining SMEPA's approximately 1,450 miles of transmission lines, rights of way and numerous switches.

SMEPA's line crews performed climbing inspections on 4,050 structures and completed 961 line maintenance work orders which included changing or repairing broken crossarms, braces, insulators, guys, damaged conductors and poles.



*SMEPA'S CREWS INSTALL THE EAST WHITFIELD GOAB SWITCH, WHICH WILL SERVE A NEW SUBSTATION FOR SOUTHERN PINE ELECTRIC POWER ASSOCIATION.*

The annual re-clearing of approximately 25% of the transmission system's right of way consisted of re-clearing 4,200 line acres. A total of 2,013 danger trees were removed from critical transmission line sections. Pole groundline inspections and treatments were performed on 2,788 poles in the transmission system. Seasonal vegetation control was also performed at 100 line switch locations and stations, and aerial patrol inspections of the entire transmission system were conducted on an as-needed and periodic basis.

### ***PLANNING AND PROTECTION***

The Planning and Protection Section worked with consultant Black & Veatch to complete a long-range transmission study for the Association. They also participated with two member cooperatives in the review of the members' construction work plans and long-range system study. This group also developed short circuit equivalent data for seven member cooperatives

and loadflow equivalents for The Southern Company.

The electronic metering project was completed with installation of nine Quantum meters using cellular phones. At the end of 1995, all SMEPA delivery point meters were remotely accessible. There are 167 installed meters in 157 delivery points with SMEPA-owned metering. The Association uses cellular phones to communicate with meters at all but five sites. Two of those five sites use power line carriers and three use Bell South land lines.

### ***RELAY AND METER MAINTENANCE***

SMEPA relay technicians performed relay acceptance, calibration, and control circuit verification for the new relay panels at South Hattiesburg and Oak Grove. In routine calibration checks at 13 SMEPA substations and various member sites containing SMEPA relay and telemetry equipment, the relay technicians calibrated 1,769 relays and transducers in 1995.

Meter technicians assembled, wired, and installed new electronic meter boxes at nine different sites. Based on new load projections from member cooperatives, the meter technicians increased CT (current transformer) capacity at four member delivery points. Meter technicians also calibrated meters at all SMEPA wholesale delivery points.

### ***DESIGN ENGINEERING***

In substation design, highlights included completion of new facilities, including transformer, circuit switcher, and relay panel, for the South Hattiesburg and Oak Grove substations. Site work was also begun for two major projects — the Missionary 230/69 kV substation and Moselle 161 kV additions (associated with the new generator).

This group was responsible for the permanent installation of the system spare 30/40/50 MVA 161/69 kV auto transformer at Benndale before the summer peak. They also ordered and received a replacement for the spare unit before the end of 1995.

As the year closed, design on the new 230 kV line from West Waynesboro to Missionary was 90% complete, and the design guide was being readied for submittal to RUS for approval. In communications, engineering employees also completed the 2 to 6 GHz microwave system upgrade at Plant Moselle, Headquarters, and Plant Morrow.

*SUBSTATION TECHNICIANS GEORGE MORGAN, JESSE PORTIS AND KENNY CASANOVA PREPARE A 97,000-POUND, STRIPPED-DOWN TRANSFORMER TO BE LIFTED ONTO A FLATBED TRUCK FOR TRANSPORTING TO ATLANTA FOR REPAIRS.*



### ***SUBSTATION MAINTENANCE***

The substation maintenance crew completed routine testing of 51 bushings stored in the new bushings storage building at Plant Moselle. Maintenance on eight auto transformers, including replacement of three load tap changing (LTC) mechanisms for refurbished units, was also performed. Inspection was completed on nine 69 kV GCBs (gas circuit breakers), one 115 kV oil circuit breaker (OCB), and 27 motor operated switches.

### ***COMPUTER INFORMATION SYSTEMS***

SMEPA continued its efforts to move from a distributed terminal system to a client/server environment. A new Novell network was installed throughout SMEPA, including Plant Morrow, to allow all personal computer users to better share files.

One of the first steps in the client/server transition included rewriting SMEPA's payroll system, an effort which required both time and expertise by system analysts. In addition, a new Oracle database format for screens and reports was completed.

By the end of 1995, the computer information systems section had been successful in setting up four servers and plans were made to have all users connected by mid-1996.

### ***PERSONNEL***

A more competitive discount plan was negotiated with a new preferred health care provider, which allowed for cost savings to the Association's medical plan and participating employees in 1995. The implementation of a cost-neutral prescription drug card plan also proved to be a positive move for the Association's self-insured medical plan and provided low-cost prescriptions to SMEPA employees.

Personnel staff continued cost-effective management of the Association's health care plan and employees continued to utilize SMEPA's preferred health care providers. The efforts of all employees made 1995 the

EMPLOYEES LEARN HOW TO PERFORM CONFINED SPACE RESCUES DURING SAFETY TRAINING AT PLANT R.D. MORROW. FIELD SCENARIOS ARE USED TO SIMULATE REAL-LIFE RESCUE APPLICATIONS.



sixth consecutive year that the Association was able to provide quality health care benefits without an increase in funding requirements of the self-insured medical plan. During the year, 8,040 medical insurance claims were processed by the SMEPA benefits section.

### **SAFETY**

SMEPA employees continued to set new safety records in 1995. In July, all employees achieved a long-time goal of working one million man hours and more than two years without a lost-time accident. The number of reportable accidents tied the previous year's record of four, and accidents requiring medical attention were reduced to an all-time low of six for the year.

The 1995 safety record is an outstanding accomplishment which can be attributed to increased employee safety awareness, a successful safety program, and employee involvement. The Association plans to continue building on this ambitious safety record in 1996.

### **ASSOCIATION RELATIONS**

The Human Resources and Development Department coordinated the development of a revised Strategic Plan for the Association in 1995. SMEPA's original Strategic Plan was developed in 1989. Consultants were evaluated and Resource Management International was selected to facilitate the planning process as management, key employees, and members of the board of directors collectively developed a new Strategic Plan for the Association. The plan identifies specific initiatives that support SMEPA's mission and objectives in an increasingly competitive marketplace.

Requests for information abounded from a broad range of publics during 1995. SMEPA welcomed opportunities to share its story as the "Cooperative's Cooperative" and to explain how electricity has played a vital role in the ever-growing world of technology. Plant tours and educational presentations were provided for member systems, school groups, and others throughout the year, upon request.

SMEPA employees continued to give voluntarily of both their time and money for such causes as the United Way, St. Jude's, and the American Cancer Society. Employees remained highly visible throughout their communities as they supported a variety of academic and civic organizations. Each day, community involvement opportunities, such as SMEPA's Adopt-A-School partnership with North Forrest Elementary, reflects the pride and integrity of those employed by South Mississippi Electric Power Association.

## FINANCIAL REPORT

The year 1995 was another year of solid financial results for SMEPA. The wholesale power rate to SMEPA's eleven member cooperatives was reduced 2% and averaged slightly less than 44 mills per kilowatt hour, the lowest level since 1981. For the eighth consecutive year, the variable fuel components of the wholesale rate structure have been reduced.

Revenues from members amounted to \$278 million for 1995, up 4.3% or \$11 million from the previous year. Energy sales were up 6.5% to 6.37 million megawatt hours — the highest ever. Demand billings to members were up 8.4% to a monthly average of 1,250 megawatts — also the highest ever recorded. All eleven member cooperatives had increased individual purchases of energy from SMEPA in 1995, ranging from 2% to 14%. Overall, the member cooperatives are growing at a strong five-year compounded rate of 4.3%.

Margins for 1995 were \$10.2 million compared to the record \$13.8 million last year. SMEPA's equity increased to \$67.4 million and is now 8.9% of total assets, the highest ever.

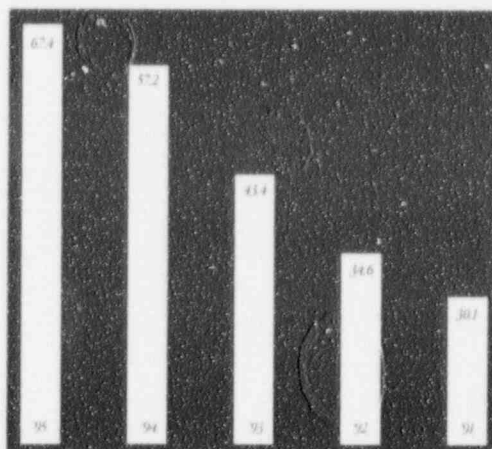
Total debt outstanding at year end 1995 was \$652 million, down \$20 million from the previous year and the lowest debt balance since 1982. The average interest rate on long-term debt was 6.7%. SMEPA's interest expense in 1995 was slightly less than \$46 million, the lowest since 1980. Between 1994 and the two years prior, SMEPA was able to reprice or refinance over \$330 million of debt which reduced interest costs about \$15 million per year. When coupled with the steady debt reduction over the past eight years including a \$40 million reduction for 1995 and 1994, interest cost savings have been a major factor in wholesale rate decreases.

Discretionary investments amounted to \$65 million at year end compared to \$55 million at the end of 1994. The discretionary investments were earning 6% at year end. SMEPA anticipates using about \$36 million of internal funds (discretionary investments) to pay for capital projects in 1996 compared to \$11 million and \$8 million used in 1995 and 1994, respectively. The largest project is a gas-fired combustion turbine mentioned elsewhere in this report.



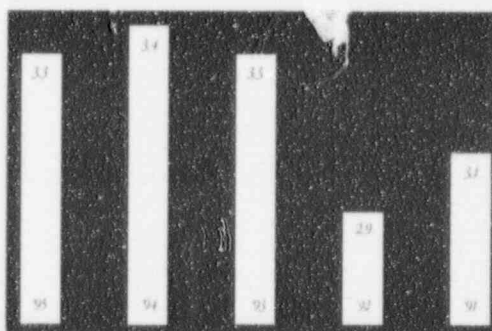
*Equities and Patronage Capital*

*Millions  
Dollars*



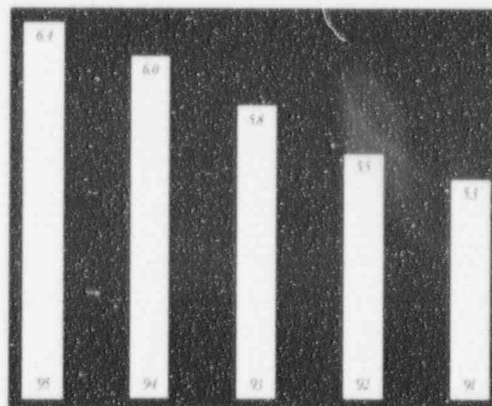
*Generation*

*Millions  
of  
MWH*



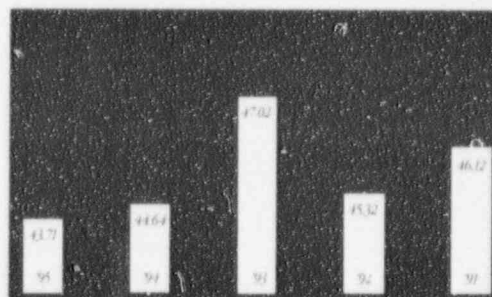
*Sales to Members*

*Millions  
of  
MWH*



*Wholesale Rate to Members*

*Mills/  
KWH*



## ELEMENTS OF CCST

TOTAL SYSTEM—MILLS/KWH OF SALES	1995	1994	1993	1992	1991
Production costs, purchased power, and interchanged power	28.99	28.03	27.90	26.24	26.14
Transmission O&M	1.65	1.70	1.62	1.60	1.70
A&G expense	.84	.80	.79	.76	.79
Depreciation and amortization	3.60	3.66	3.57	3.72	3.81
Interest (Net)	6.39	6.78	8.66	9.37	10.34
Taxes and other	.44	.41	.50	.21	.14
<b>TOTAL—MILLS/KWH OF SALES</b>	<b>41.91</b>	<b>41.38</b>	<b>43.04</b>	<b>41.90</b>	<b>42.92</b>

## COMPARATIVE BALANCE SHEETS AND SELECTED FINANCIAL RATIOS (\$ IN THOUSANDS)

	1995	1994	1993	1992	1991
<b>UTILITY PLANT</b>					
In service	\$ 762,221	\$ 751,518	\$ 737,175	\$ 733,882	\$ 731,832
Construction work in process	13,161	13,396	20,213	16,987	7,605
	<u>775,382</u>	<u>764,914</u>	<u>757,388</u>	<u>750,869</u>	<u>739,437</u>
Depreciation	261,583	240,410	218,934	199,257	182,675
<b>NFT UTILITY PLANT</b>	<b>\$ 513,799</b>	<b>\$ 524,504</b>	<b>\$ 538,454</b>	<b>\$ 551,612</b>	<b>\$ 556,762</b>
<b>OTHER ASSETS</b>					
Unrecovered plant cost	75,213	78,036	80,789	83,489	86,096
Cash and temporary investments	31,522	27,591	51,421	21,990	25,571
Inventories	25,169	24,759	21,604	32,568	28,234
Deferred charges	33,221	35,228	12,809	7,696	1,932
Other	80,119	72,915	67,555	59,253	60,432
<b>TOTAL OTHER ASSETS</b>	<b>245,244</b>	<b>238,529</b>	<b>234,178</b>	<b>204,996</b>	<b>202,265</b>
<b>TOTAL ASSETS</b>	<b>\$ 759,043</b>	<b>\$ 763,033</b>	<b>\$ 772,632</b>	<b>\$ 756,608</b>	<b>\$ 759,027</b>
<b>EQUITIES AND LIABILITIES</b>					
Equities and patronage capital	\$ 67,403	\$ 57,221	\$ 43,397	\$ 34,556	\$ 30,088
Long-term debt	626,735	651,518	674,597	686,045	693,319
Other liabilities	64,905	54,294	54,638	36,007	35,620
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$ 759,043</b>	<b>\$ 763,033</b>	<b>\$ 772,632</b>	<b>\$ 756,608</b>	<b>\$ 759,027</b>
<b>RATIOS</b>					
TIER	1.23	1.31	1.15	1.07	1.05
DSC	1.22	1.27	1.24	1.17	1.17
Equity as % of assets	8.88%	7.50%	5.62%	4.57%	3.96%
<b>DEBT</b>					
Long-term debt	\$ 626,735	\$ 651,518	\$ 674,597	\$ 686,045	\$ 693,319
Current maturities	25,677	20,294	16,791	15,375	14,274
<b>TOTAL DEBT</b>	<b>\$ 652,412</b>	<b>\$ 671,812</b>	<b>\$ 691,388</b>	<b>\$ 701,420</b>	<b>\$ 707,593</b>
Average rate	6.66%	6.64%	7.96%	8.41%	8.85%
<b>WHOLESALE RATE TO MEMBERS</b>					
Mills/KWH	43.71	44.64	47.02	45.32	46.12

**COMPARATIVE OPERATING STATEMENTS** (\$ IN THOUSANDS)

	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
<b>REVENUE</b>					
Sales of energy	\$ 292,760	\$ 283,345	\$ 293,440	\$ 267,898	\$ 261,908
Other	1,487	1,735	(108)	22	232
<b>TOTAL REVENUE</b>	<u>\$ 294,247</u>	<u>\$ 285,080</u>	<u>\$ 293,332</u>	<u>\$ 267,920</u>	<u>\$ 262,140</u>
<b>EXPENSE</b>					
Operation Expense:					
Production-fuel cost	59,770	59,904	64,674	52,149	55,049
Other production expenses	15,661	12,034	15,338	14,000	12,278
Purchased power	119,143	106,704	99,571	93,881	86,614
Transmission	9,306	9,391	9,243	8,587	8,764
Consumer accounts	46	64	66	55	52
Sales expense	170	151	132	121	93
Administrative & general	5,180	4,529	4,484	4,086	4,056
<b>Total Operation Expense</b>	<u>209,276</u>	<u>192,777</u>	<u>193,508</u>	<u>172,879</u>	<u>166,906</u>
Maintenance expense:					
Production	5,145	7,238	6,636	6,724	6,080
Transmission	2,060	1,880	1,546	1,593	1,629
General plant	581	584	593	569	637
<b>Total Maintenance Expense</b>	<u>7,786</u>	<u>9,702</u>	<u>8,775</u>	<u>8,886</u>	<u>8,346</u>
Depreciation and amortization	24,803	24,293	23,822	23,614	23,330
Taxes	1,064	1,039	1,121	1,031	791
Interest expense (net) and other deductions	45,504	46,623	58,501	59,880	63,603
<b>TOTAL EXPENSE</b>	<u>288,433</u>	<u>274,434</u>	<u>285,727</u>	<u>266,290</u>	<u>262,976</u>
<b>OPERATING MARGINS</b>	<u>5,814</u>	<u>10,646</u>	<u>7,605</u>	<u>1,630</u>	<u>(836)</u>
<b>NON-OPERATING MARGINS</b>	<u>4,368</u>	<u>3,178</u>	<u>1,236</u>	<u>2,838</u>	<u>3,874</u>
<b>NET MARGINS</b>	<u>\$ 10,182</u>	<u>\$ 13,824</u>	<u>\$ 8,841</u>	<u>\$ 4,468</u>	<u>\$ 3,038</u>

**COMPARATIVE SUMMARY  
ENERGY SOURCES AND SALES**

	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
ENERGY SOURCES—MWH					
Generated	3,347,874	3,391,859	3,342,187	2,892,049	3,071,853
Purchased	1,498,994	1,559,822	1,870,626	1,958,228	1,725,706
Interchanged Power (Net)	2,146,362	1,795,851	1,579,136	1,597,162	1,434,367
<b>TOTAL ENERGY AVAILABLE FOR SALE-MWH</b>	<b><u>6,993,230</u></b>	<b><u>6,747,532</u></b>	<b><u>6,791,949</u></b>	<b><u>6,447,439</u></b>	<b><u>6,231,926</u></b>
ENERGY SALES-MWH					
Members					
Coahoma EPA	107,630	101,366	100,573	89,130	90,591
Coast EPA	998,341	923,389	863,922	823,751	743,020
Delta EPA	428,443	399,291	399,880	367,242	366,018
Dixie EPA	554,745	505,377	505,394	491,085	462,245
Magnolia EPA	442,355	428,158	420,146	380,878	375,319
Pearl River Valley EPA	571,759	503,356	475,793	440,102	445,467
Singing River EPA	985,226	911,066	880,723	847,965	808,434
Southern Pine EPA	1,413,464	1,389,295	1,374,206	1,267,927	1,215,764
Southwest Mississippi EPA	389,941	372,818	378,546	348,734	336,997
Twin County EPA	247,178	229,376	217,716	204,507	217,231
Yazoo Valley EPA	229,062	216,382	214,072	219,443	232,134
<b>TOTAL SALES TO MEMBERS</b>	<b><u>6,368,144</u></b>	<b><u>5,979,874</u></b>	<b><u>5,830,971</u></b>	<b><u>5,480,764</u></b>	<b><u>5,293,220</u></b>
Non-Members	<u>520,262</u>	<u>651,485</u>	<u>843,908</u>	<u>873,955</u>	<u>828,500</u>
<b>TOTAL SALES</b>	<b><u>6,888,406</u></b>	<b><u>6,631,359</u></b>	<b><u>6,674,879</u></b>	<b><u>6,354,719</u></b>	<b><u>6,121,720</u></b>
<b>TOTAL SYSTEM DEMAND-KW</b> (Billing Demand-Non-concurrent)	<b><u>1,653,633</u></b>	<b><u>1,494,243</u></b>	<b><u>1,475,070</u></b>	<b><u>1,380,688</u></b>	<b><u>1,332,901</u></b>

# ***INDEPENDENT AUDITORS' REPORT***

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To the Board of Directors of  
South Mississippi Electric Power Association

We have audited the accompanying balance sheets of South Mississippi Electric Power Association ("SMEPA") as of December 31, 1995 and 1994, and the related statements of net margins and patronage capital and of cash flows for the years then ended. These financial statements are the responsibility of SMEPA'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 *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 SMEPA as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 1996, on our consideration of SMEPA's internal control structure and a report dated February 9, 1996, on its compliance with laws and regulations.

*Deloitte + Touche LLP*

February 9, 1996

*BALANCE SHEETS (\$ IN THOUSANDS)*

	December 31	
	<u>1995</u>	<u>1994</u>
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
In service — at cost	\$ 762,221	\$ 751,518
Construction work in process	13,161	13,396
	<u>775,382</u>	<u>764,914</u>
Less allowance for depreciation	261,583	240,410
Net utility plant	<b>513,799</b>	<b>524,504</b>
<b>OTHER ASSETS AND INVESTMENTS</b>		
Unrecovered plant cost — at cost	75,213	78,036
Investments in associated organizations	10,646	10,714
Debt service reserve investments	4,473	8,502
Decommissioning trust investments	4,311	3,474
Other investments	1,500	15,444
Other noncurrent assets	4	4
	<u>96,147</u>	<u>116,174</u>
<b>CURRENT ASSETS</b>		
Cash — general funds and cash equivalent investments	31,522	27,591
Other invested funds	32,433	11,002
Accounts receivable (including receivables from members of approximately \$23,589 [1995] and \$20,366 [1994])	25,013	22,180
Inventories (at average cost):		
Coal and other fuel	11,347	10,989
Materials and supplies	13,822	13,770
	<u>25,169</u>	<u>24,759</u>
Other	1,739	1,595
Total Current Assets	<b>115,876</b>	<b>87,127</b>
<b>DEFERRED CHARGES</b>	<u><b>33,221</b></u>	<u><b>35,228</b></u>
<b>TOTAL ASSETS</b>	<u><u><b>\$ 759,043</b></u></u>	<u><u><b>\$ 763,033</b></u></u>

See "Notes to Financial Statements"

	December 31	
	<u>1995</u>	<u>1994</u>
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships and donated capital	\$ 535	\$ 535
Patronage capital	66,868	56,686
	<u>67,403</u>	<u>57,221</u>
LONG-TERM DEBT, excluding current maturities	626,735	651,518
ACCRUED DECOMMISSIONING OBLIGATION	4,311	3,474
DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES	3,714	3,473
CURRENT LIABILITIES		
Accounts payable	19,197	14,703
Accrued interest	10,018	10,555
Other accrued expenses	1,988	1,795
Current maturities of long-term debt	25,677	20,294
	<u>56,880</u>	<u>47,347</u>
COMMITMENTS AND CONTINGENCIES		
TOTAL EQUITIES AND LIABILITIES	<u><u>\$ 759,043</u></u>	<u><u>\$ 763,033</u></u>

*STATEMENTS OF NET MARGINS AND PATRONAGE CAPITAL (\$ IN THOUSANDS)*

	Years Ended December 31	
	1995	1994
OPERATING REVENUE		
Electric energy revenue	\$ 292,760	\$ 283,345
Other -- net	1,487	1,735
	<u>294,247</u>	<u>285,080</u>
OPERATING EXPENSES		
Fuel	59,770	59,904
Production	15,661	12,034
Purchased power	119,143	106,704
Transmission	9,306	9,391
Administrative and general	5,396	4,744
Maintenance expenses:		
Production	5,145	7,238
Transmission	2,060	1,880
General	581	584
Depreciation and amortization	24,803	24,293
Taxes	1,064	1,039
	<u>242,929</u>	<u>227,811</u>
OPERATING MARGINS BEFORE INTEREST AND OTHER DEDUCTIONS	51,318	57,269
INTEREST AND OTHER DEDUCTIONS		
Interest	45,665	46,778
Allowance for funds used during construction	(236)	(224)
Other deductions	75	69
	<u>45,504</u>	<u>46,623</u>
OPERATING MARGINS	5,814	10,646
NON-OPERATING MARGINS -- PRINCIPALLY INTEREST INCOME	4,368	3,178
NET MARGINS	10,182	13,824
PATRONAGE CAPITAL AT BEGINNING OF YEAR	56,686	42,862
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 66,868</u>	<u>\$ 56,686</u>

See "Notes to Financial Statements"



*STATEMENTS OF CASH FLOWS (\$ IN THOUSANDS)*

	Years Ended December 31	
	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net margins	\$ 10,182	\$ 13,824
Adjustments necessary to reconcile net margins to net cash provided by operating activities:		
Depreciation, amortization, and depletion	27,201	26,681
(Increase) decrease in accounts receivable	(2,833)	3,294
(Increase) decrease in inventories	(408)	(3,156)
(Increase) decrease in other assets	(145)	(280)
Increase (decrease) in accounts payable and other liabilities	4,924	(1,811)
Increase (decrease) in accrued interest payable	(537)	(2,713)
Increase in accrued decommissioning payable	837	676
<b>Net Cash Provided by Operating Activities</b>	<b>39,221</b>	<b>36,515</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and acquisitions of electric utility plant	(11,843)	(8,331)
Retirements of electric utility plant (net of removal costs)	174	213
Increase in decommissioning trust investments	(837)	(676)
Purchases of investments	(7,487)	(17,472)
Proceeds from maturity of investments	68	9,000
<b>Net Cash Used in Investing Activities</b>	<b>(19,925)</b>	<b>(17,266)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(16,154)	(18,786)
Penalty associated with repricing of debt		(24,293)
Proceeds from long-term borrowings	789	
<b>Net Cash Used in Financing Activities</b>	<b>(15,365)</b>	<b>(43,079)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,931</b>	<b>(23,830)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>27,591</b>	<b>51,421</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 31,522</u></b>	<b><u>\$ 27,591</u></b>
Cash - general funds	\$ 709	\$ 186
Commercial paper	30,813	27,405
	<b><u>\$ 31,522</u></b>	<b><u>\$ 27,591</u></b>
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Securities held by creditor as a cushion of credit and used to reduce long-term indebtedness	<b><u>\$4,029</u></b>	<b><u>\$780</u></b>

See "Notes to Financial Statements"

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 1995 AND 1994

#### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Mississippi Electric Power Association ("SMEPA") is a member-owned, not-for-profit electric generation and transmission cooperative supplying wholesale electricity and other services to eleven member systems which, in turn, provide retail electric service to approximately 300,000 consumers in certain areas of Mississippi. Financing assistance is provided by the United States Department of Agriculture, Rural Utilities Service ("RUS"). 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 RUS. SMEPA maintains its accounting records in accordance with the Federal Energy Regulatory Commission's Chart of Accounts as modified and adopted by RUS. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As a regulated utility, the methods 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 by the straight-line method for utility plant at the following annual composite rates:

Nuclear generation plant	2.85%
Non-nuclear generation 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.

##### 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 (which has been abandoned) of \$75,213,000 and \$78,036,000 at December 31, 1995 and 1994, respectively, is being amortized over the remaining life of the related debt of approximately 26 years, and was \$2,823,000 and \$2,752,000 in 1995 and 1994, 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. INVESTMENT SECURITIES

Investment securities are classified as held to maturity and are carried at amortized cost, adjusted for the amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted to operations using the level yield method, adjusted for prepayments as applicable. SMEPA has the intent and the ability to hold these assets as investments until their estimated maturities. Under certain circumstances (including the significant deterioration of the issuer's credit worthiness or a significant change in statutory or regulatory requirements), securities held to maturity may be sold.

##### 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.

Deferred decontamination and decommissioning of past uranium enrichment operations represents SMEPA's ten percent portion of the GGNS assessment pursuant to provisions of the Energy Policy Act of 1992. The Act assesses domestic nuclear utilities fees which will be used to establish a fund into which payments from utilities and the federal government will be placed. The Act requires that regulators treat these assessments as costs of fuel when paid. SMEPA plans to expense these amounts as they are paid over fifteen years.

**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. EMPLOYEE BENEFITS**

Substantially all of SMEPA's employees participate in the National Rural Electric Cooperative Association ("NRECA") retirement programs, which include both a defined benefit pension plan and a defined contribution pension plan. Both plans are qualified under Section 401 and are tax-exempt under Section 501(a) of the Internal Revenue Code. SMEPA makes annual contributions to the defined benefit pension plan equal to the amounts paid to NRECA 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 paid \$336,000 in pension expense for the defined benefit pension plan in 1995 due to the lifting of the moratorium and \$159,000 in 1994. SMEPA makes monthly payments to NRECA for the benefit of those employees who voluntarily participate in the defined contribution pension plan. SMEPA expenses the payments as they are accrued and such expense amounted to \$316,000 and \$475,000 for 1995 and 1994, respectively.

**I. 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.

**J. 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.

**K. RECLASSIFICATIONS**

Certain reclassifications have been made in the 1994 financial statements to conform to the 1995 method of presentation.

**NOTE 2 — ELECTRIC UTILITY PLANT**

Electric utility plant consisted of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Nuclear generation plant	\$ 400,273	\$ 396,060
Non-nuclear generation plant	214,418	213,128
Transmission plant	95,669	91,258
Coal properties and preparation plant	23,235	23,235
Land and land rights	13,692	13,665
General plant and equipment	14,934	14,172
Electric plant in service	762,221	751,518
Construction work in process	13,161	13,396
	<u>\$ 775,382</u>	<u>\$ 764,914</u>

**NOTE 3 — COMMITMENTS REGARDING GRAND GULF NUCLEAR STATION**

SMEPA owns a 10% undivided interest in a nuclear generating station known as "Grand Gulf Nuclear Station" (GGNS), which was to consist 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 \$104,000,000, including allowance for funds used during construction of \$42,000,000. After transfers to GGNS Unit I of inventories and property, \$91,180,000 was transferred to unrecovered plant cost on the balance sheet and \$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 RUS (see Note 1).

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, 1995 and 1994. SMEPA estimates, based on a revised calculation, that the funding requirement will approximate \$571,000 annually through 2022, the expected date of decommissioning. The estimated funding requirement will continue to be recalculated and adjusted periodically.

#### NOTE 4 -- INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>1995</u>	<u>1994</u>
National Rural Utilities Cooperative Finance Corporation ("CFC") Certificates:		
Membership subscription	\$ 6,223	\$ 6,223
Loan and guarantee	4,018	4,089
Other	405	402
	<u>\$ 10,646</u>	<u>\$ 10,714</u>

CFC membership subscription certificates bear interest at a 5.0% rate and mature in 2070 through 2080. The loan and guarantee certificates bear interest at rates between 3.0% and 9.9% and mature in 2007 through 2015.

#### NOTE 5 -- INVESTMENT SECURITIES TO BE HELD TO MATURITY

The amortized cost and related approximate fair values of investment securities to be held to maturity were as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 1995				
Investments in associated organizations	\$ 10,646		\$ (2,613)	\$ 8,033
Debt service reserve -- obligations of states and political subdivisions	4,473	\$ 508		4,981
Decommissioning trust investments	4,311	565		4,876
Other long-term investments - primarily CFC obligations	1,500	8		1,508
Other invested funds -- primarily CFC obligations	32,433	210		32,643
Total	<u>\$ 53,363</u>	<u>\$ 1,291</u>	<u>\$ (2,613)</u>	<u>\$ 52,041</u>
December 31, 1994				
Investments in associated organizations	\$ 10,714		\$ (3,899)	\$ 6,815
Debt service reserve -- obligations of states and political subdivisions	8,502	\$ 283		8,785
Decommissioning trust investments	3,474	18	(134)	3,358
Other long-term investments -- primarily CFC obligations	15,444	70	(45)	15,469
Other invested funds -- primarily CFC obligations	11,002		(15)	10,987
Total	<u>\$ 49,136</u>	<u>\$ 371</u>	<u>\$ (4,093)</u>	<u>\$ 45,414</u>

- \* The amortized cost and approximate fair value of investment securities to be held to maturity at December 31, 1995, by contractual maturity, were as follows (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 32,433	\$ 32,643
Due after one year through five years	4,488	4,835
Due after ten years	16,442	14,563
	<u>\$ 53,363</u>	<u>\$ 52,041</u>

Actual maturities may differ from contractual maturities because of the borrowers' right to call or prepay obligations.

#### NOTE 6 — DEFERRED CHARGES

The following is a summary of amounts recorded as deferred charges (in thousands):

	<u>1995</u>	<u>1994</u>
Unamortized penalties on repriced debt	\$ 30,025	\$ 31,696
Unamortized debt discount and issuance cost	1,212	1,297
Past service retirement benefit cost	350	420
Nuclear fuel costs	47	27
Deferred decontamination and decommissioning of past uranium enrichment operations	1,587	1,788
	<u>\$ 33,221</u>	<u>\$ 35,228</u>

#### NOTE 7 — PATRONAGE CAPITAL

Patronage capital consisted of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Cumulative margins	\$ 72,721	\$ 62,539
Less: Retirements to date	5,853	5,853
	<u>\$ 66,868</u>	<u>\$ 56,686</u>

Under the provisions of debt covenants, until the patronage capital equals or exceeds 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 patronage capital of SMEPA represents 8.9% and 7.5% of the total assets at December 31, 1995 and 1994, respectively.

#### NOTE 8 — SHORT-TERM BORROWINGS

SMEPA has a \$25,000,000 short-term line of credit available with CFC which expires in September, 1996 and a \$5,000,000 short-term line of credit with a bank which expires in July, 1996. At December 31, 1995 and 1994, SMEPA had no borrowings against these lines of credit.

NOTE 9 — LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Mortgage notes payable to Federal Financing Bank ("FFB") at interest rates varying from 5.484% to 10.985%, due in quarterly installments through 2020	\$ 527,767	\$ 542,545
2% RUS mortgage notes payable, due in quarterly installments through 2009	19,276	21,189
5% RUS mortgage notes payable, due in quarterly installments through 2015	17,276	18,010
5% RUS mortgage notes payable, due in monthly installments through 2019	11,309	10,732
Mortgage notes payable to National Bank for Cooperatives at interest rates varying from 6.90% to 8.50%, due in quarterly installments through 2019	2,695	2,810
Lamar County, Mississippi, Pollution Control Bonds:		
1978 A Series, 5.85% to 6.125%, due semi-annually through 2008	1,790	1,885
1978 A-1 Series, 6.25% due semi-annually through 2008	655	685
1993 S Series, 4.15% to 5.00%, due annually through 2007	24,335	25,825
Claiborne County, Mississippi, Pollution Control Bonds:		
1985 G Series, variable interest rates (3.45% to 4.30% at December 31, 1995) due annually through 2015	45,000	45,800
Mortgage notes payable to CFC bearing interest at variable rates (6.20% at December 31, 1995) due in quarterly installments through 2022	2,221	2,236
Unamortized net premium on 1993 S Series Bonds	88	95
	<u>652,412</u>	<u>671,812</u>
Less current maturities	25,677	20,294
	<u><u>\$ 626,735</u></u>	<u><u>\$ 651,518</u></u>

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

Approximate annual maturities (scheduled periodic principal payments) of long-term debt for the next five years are as follows (in thousands):

1996	\$25,677
1997	\$22,359
1998	\$24,060
1999	\$25,184
2000	\$27,178

The unamortized net premium on bonds issued is being amortized over the remaining life of the affected bonds using a method which approximates the interest method.

- SMEPA paid approximately \$44,540,000 and \$47,986,000 in 1995 and 1994, respectively, in interest on long-term debt.
  - SMEPA is required by mortgage covenants to maintain certain financial ratios of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 1995 and 1994.
- SMEPA amended certain FFB mortgage notes in 1994 accomplishing a repricing of \$232,171,000. Penalties of \$24,293,000 were paid upon execution and will be deferred and amortized by equal monthly amounts over the life of the debt. Amortization of repricing penalties was \$1,655,000 in 1995 and \$1,577,000 in 1994.

#### NOTE 10 -- DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

The following is a summary of deferred credits and other long-term liabilities (in thousands):

	<u>1995</u>	<u>1994</u>
Postretirement benefit obligation (other than pensions)	\$ 2,248	\$ 1,997
Deferred decontamination and decommissioning of past uranium enrichment operations	1,438	1,435
Prior service pension benefit cost	28	41
	<u>\$ 3,714</u>	<u>\$ 3,473</u>

#### NOTE 11 -- FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by SMEPA in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Investment securities: The fair values for marketable debt and equity securities are based on quoted market prices and the present value of future cash flows discounted at a commensurate market rate. (See Note 5 for additional information.)

Long-term debt: The fair values of SMEPA's long-term debt are estimated using discounted cash flow analyses based on SMEPA's current incremental borrowing rates for similar types of borrowing arrangements and rates which would be charged by the applicable issuer where appropriate.

The carrying amounts and approximate fair values of long-term debt are as follows (in thousands):

	<u>1995</u>	<u>1995</u>	<u>1994</u>	<u>1994</u>
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt, including current maturities:				
FFB	\$ 527,767	\$ 570,690	\$ 542,545	\$ 495,841
RUS	47,861	44,736	49,931	41,941
Pollution Control Bonds	71,868	72,062	74,290	72,231
Other	4,916	4,916	5,046	5,045
	<u>\$ 652,412</u>	<u>\$ 692,404</u>	<u>\$ 671,812</u>	<u>\$ 615,058</u>

There was no material difference between the contract or notional amount and the estimated fair value of loan commitments.

The aggregate estimated fair value amounts presented do not represent the underlying value of SMEPA and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of these assets and liabilities.

#### NOTE 12-- EMPLOYEE BENEFITS

SMEPA provides certain health benefits to retired employees and their eligible dependents and also provides life insurance benefits to a closed group of seven employees who retired prior to January 1, 1990. The approximate periodic expense for postretirement benefits included the following components (in thousands):

	<u>1995</u>	<u>1994</u>
Service cost of benefits earned	\$ 85	\$ 85
Interest cost on accumulated benefit obligation	167	141
Total current year expense	<u>\$ 252</u>	<u>\$ 226</u>

The Accumulated Postretirement Benefit Obligation ("APBO") is comprised of the following (in thousands):

	<u>1995</u>	<u>1994</u>
Retirees and dependents	\$ 359	\$ 319
Fully eligible active plan participants	213	189
Active participants not yet eligible	1,676	1,489
	<u>\$ 2,248</u>	<u>\$ 1,997</u>

The weighted average discount rate used in determining the APBO was nine percent. The assumed health care cost trend rate of increase used in measuring the APBO was 11.3 and 11.5 percent in 1995 and 1994, respectively, declining to six percent by the year 2005.

The health care cost trend rate of increase assumption has a significant effect on the APBO and periodic expense. A one percent increase in the trend rate for health care costs would have increased the APBO by approximately 23% and service and interest costs by approximately 25%.

#### NOTE 13 — ACCOUNTING STANDARD TO BE ADOPTED IN THE FUTURE

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which is effective for fiscal years beginning after December 15, 1995. This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management anticipates the adoption of SFAS 121 will not have a material effect on SMEPA's financial statements.

#### NOTE 14 — COMMITMENTS AND CONTINGENCIES

SMEPA's coal supply agreement provides for minimum annual purchase requirements.

SMEPA has construction commitments for various non-nuclear utility projects totaling approximately \$3,591,000.

SMEPA is a 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 statements.