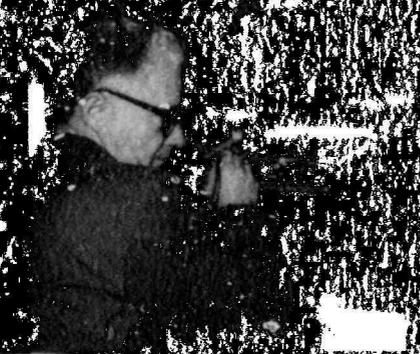


UNITY OF
PEOPLE

UNITY OF
PURPOSE



SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION
1987 ANNUAL REPORT

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MEMBER SYSTEMS

1. **Coahoma Electric Power Association**
Giles Bounds, General Manager
Headquarters - Lyon, MS
2. **Delta Electric Power Association**
Harry Bonner, General Manager
Headquarters - Greenwood, MS
3. **Twin County Electric Power Association**
Floyd Lynk, General Manager
Headquarters - Hollandale, MS
4. **Yazoo Valley Electric Power Association**
L. R. Parker, General Manager
Headquarters - Yazoo City, MS
5. **Southwest Mississippi Electric Power Association**
Robert St. John, General Manager
Headquarters - Lorman, MS
6. **Magnolia Electric Power Association**
E. C. Parker, General Manager
Headquarters - McComb, MS
7. **Pearl River Valley Electric Power Association**
W. T. Shows, General Manager
Headquarters - Columbia, MS
8. **Coast Electric Power Association**
Robert J. Occhi, General Manager
Headquarters - Bay St. Louis, MS
9. **Singing River Electric Power Association**
Jack Ware, General Manager
Headquarters - Lucedale, MS
10. **Dixie Electric Power Association**
J. T. Dudley, Jr., General Manager
Headquarters - Laurel, MS
11. **Southern Pine Electric Power Association**
Don Jordan, General Manager
Headquarters - Taylorsville, MS

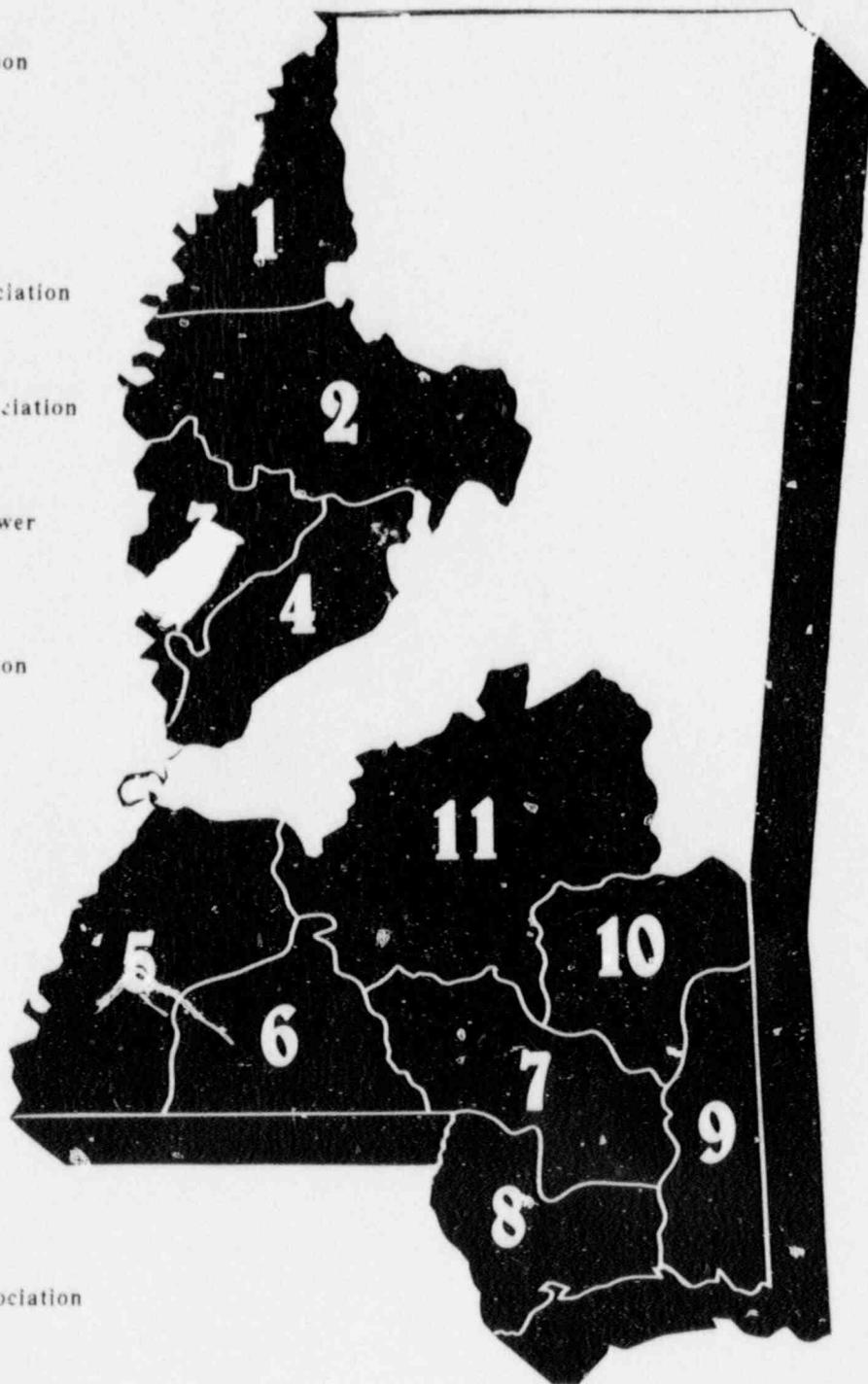


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SOUTH MISSISSIPPI ELECTRIC POWER ASSOCIATION

*Unity of People,
Unity of Purpose*

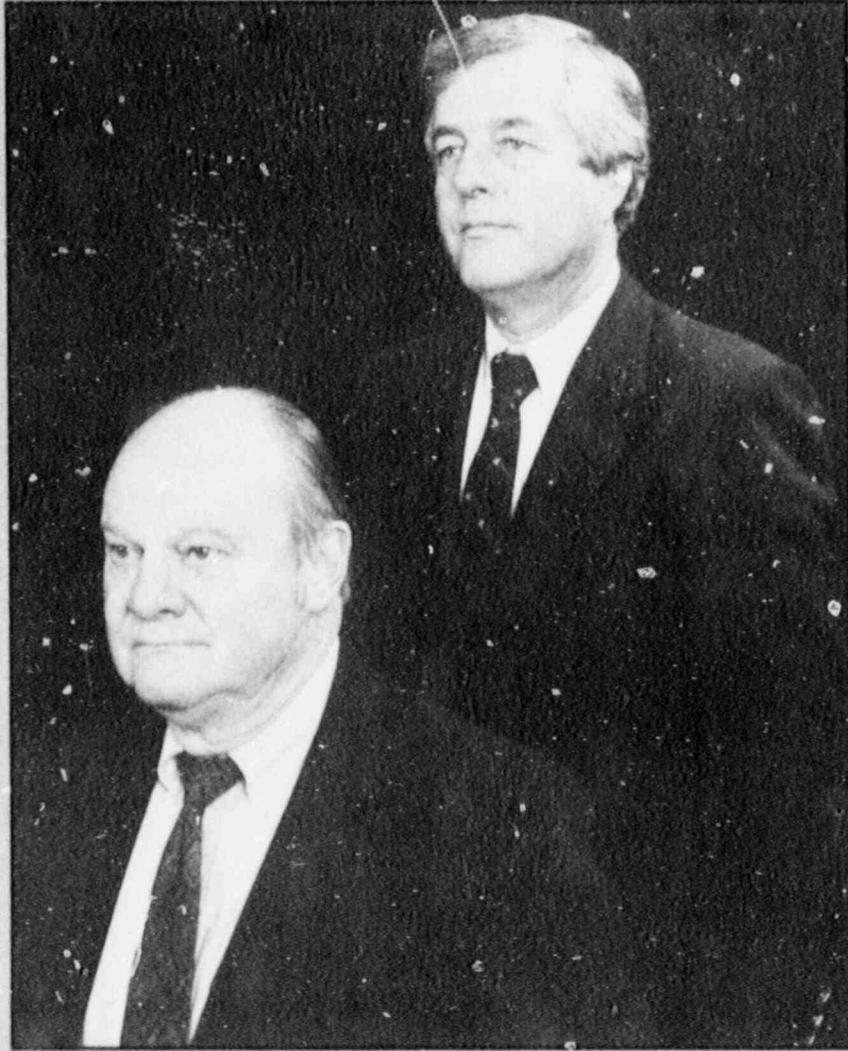
South Mississippi Electric Power Association is a rural electric generation and transmission cooperative (G&T). As the wholesale power supplier for 11 member distribution cooperatives throughout Mississippi, South Mississippi serves as an economical power source for over 255,000 Mississippians, a purpose we have served since the Association was formed in 1941.

The employees of South Mississippi number 220 and work in three locations: the Headquarters Office located on Highway 49 North in Hattiesburg; Plant Moselle located in Jones County; and Plant Morrow located in Lamar County. Each employee is dedicated to providing dependable power to South Mississippi's members at the lowest possible cost.

United in purpose, the efforts of South Mississippi's employees, directors, and members are evident by the accomplishments reported in this publication.

As South Mississippi faces a new year, we are challenged to make a good organization even better. This challenge will be met with the united efforts of people dedicated toward a common purpose.

UNITY OF PEOPLE, UNITY OF PURPOSE



W. C. McKamy, Jr.
President

Henry L. Thomas
General Manager

PROVIDING EFFECTIVE LEADERSHIP

PRESIDENT AND GENERAL MANAGER'S REPORT

1987 was a year of challenge, commitment, and change at SMEPA. Accomplishments were made in every job in every area of operation through the effort of dedicated employees working for common goals.

The Board of Directors, through management, has taken many positive actions which have resulted and will continue to result, in substantial savings while improving the efficiency of operation. Previously established plans of action are beginning to yield quantitative and qualitative results, enhancing SMEPA's growing commitments and responsibilities to its membership. Reorganization of departments and streamlining procedures have expanded its efforts in long-range planning, economic development, marketing, and area assistance programs.

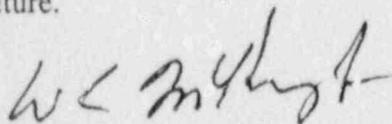
Internally and externally, the face of SMEPA changed with much-needed space additions and renovations, creating more efficient and environmentally improved workplaces.

A major goal achieved in 1987 was that SMEPA operated approximately 12% under budget and finished the year with a positive cash position. As a result, SMEPA's 1988 budget is lower than 1987's, with cost decreases projected in every area of operation.

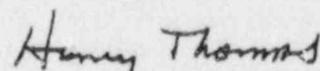
The member systems, through their Boards of Directors and management, have supported mutually beneficial plans which continue to improve SMEPA's position within the industry and at the marketplace.

The success of 1987 could not have occurred without the committed effort of all employees supported by families who share our pride in being a people business, totally service oriented.

This report is visual and graphic evidence that SMEPA has resolved many areas of historical concern while meeting present needs with visionary plans for the future.



W. C. McKamy, Jr.
President



Henry L. Thomas
General Manager

UNITY OF PEOPLE, UNITY OF PURPOSE



*Giles Bounds
Coahoma EPA*



*Horace H. Twiford, Jr.
Coahoma EPA*



*Harry Bonner
Delta EPA*



*Henry C. Waterer
Delta EPA*



*Floyd Lynk
Twin County EPA*



*W. C. McKamy, Jr. (Pres.)
Twin County EPA*



*L. R. Parker
Yazoo Valley EPA*



*Henry R. Bridgforth
Yazoo Valley EPA*



*Robert St. John
Southwest Mississippi EPA*



*Joe W. Noble
Southwest Mississippi EPA*



*E. C. Parfer
Magnolia EPA*



*Hollis Alford (Sec.-Treas.)
Magnolia EPA*

THE BOARD OF DIRECTORS



*W. T. Shows
(Acting Sec.-Treas.)
Pearl River Valley EPA*



*W. W. Bond
Pearl River Valley EPA*



*Robert J. Occhi
Coast EPA*



*Gordon R. Lee
Coast EPA*



*Jack Ware
Singing River EPA*



*Naif Jordan (Vice-President)
Singing River EPA*



*Robert L. Graham
Dixie EPA*



*L. G. Pierce
Dixie EPA*



*Donald L. Jordan
Southern Pine EPA*



*Dr. Harlan B. Rogers
Southern Pine EPA*

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GENERATING RELIABLE POWER

PRODUCTION

THE MOSELLE GENERATING STATION

South Mississippi's Moselle Generating Station is situated in Jones County, adjacent to the Leaf River, on 65 acres of land. The plant, which entered commercial operation in 1970, has a staff of 23 employees and a total capacity of 177 megawatts provided by three 59-megawatt power units. Plant Moselle was originally designed to burn natural gas; however, in 1974, the plant was converted to also burn fuel oil.

During 1987, the Moselle Generating Station completed replacement of Unit 3's boiler water-wall tubes, which resulted in improved operating safety and reliability of the unit. The boiler tube replacement, insulation and lagging work, and subsequent boiler chemical cleaning were completed under separate contracts with coordination and administration provided by South Mississippi personnel.

With assistance from water treatment specialists from two chemical supply firms, Plant Moselle's staff was successful in reducing costs associated with chemically treating the circulating water system by approximately \$50,000 per year.

A fuel cost savings of 2.2 million dollars was achieved for South Mississippi and its members due to the availability of natural gas for Plant Moselle at attractive and competitive rates. During 1987, the price of natural gas decreased 24%, dropping from \$2.12/MCF in 1986, to \$1.70/MCF in 1987.

This reduction promoted increased usage of Plant Moselle, which produced 442,168 megawatt-hours of generation in 1987, representing 1.2 times more production than last year. The 1987 output reflects the highest annual production from the facility since 1978. The Moselle Station also achieved a 2.5% improvement over 1986 in net heat rate, a measure of operating efficiency.

BENNDALE AND PAULDING GAS TURBINES

The Benndale Gas Turbine Unit, rated at 16 megawatts, is located in George County and burns natural gas as a primary fuel. The unit entered commercial operation in 1969 and was South Mississippi's first generating facility.

The Paulding Gas Turbine Unit is located in Jasper County and entered commercial operation in 1972. The unit is rated at 20 megawatts and is designed to burn diesel fuel or natural gas. Both units, which are unmanned stations remotely operated by South Mississippi's Control Center, serve primarily during emergency situations for peaking power and voltage control.

During 1987, the Paulding and Benndale Stations underwent their first major inspection. The combustion turbines were completely disassembled, inspected, repaired as necessary, and reassembled during spring and fall outages at the respective stations. The integrity of the internal components and the associated design clearances were restored during the process in order to maintain unit capacity, availability, and reliability.

THE R.D. MORROW, SR., GENERATING STATION

The R. D. Morrow, Sr., Generating Station is located in Lamar County on 884 acres of land near Black Creek. The plant entered commercial operation in 1978 and is South Mississippi's largest generating facility. Plant Morrow has a staff of 89 employees and a total capacity of 400 megawatts provided by two 200-megawatt power units. Plant Morrow burns bituminous coal as its primary fuel.

Plant Morrow's fuel source originates from 17,000 acres of coal land which South Mississippi owns in eastern Kentucky. The coal property is leased to a contract miner for mining purposes. The coal is run through a washing plant to remove shale and other foreign material and is then delivered to South Mississippi by a fleet of 160 railcars owned by the Association.

During 1987, external and internal boiler system improvements were made at Plant Morrow. Sloped metal canopies were installed over the plant's boilers to replace original sheetmetal roofs which had warped due to rainwater, heat, and corrosion.

Internally, the boiler feed pumps on Unit 1 were subjected to major inspection procedures during 1987, which included the main turbine-driven boiler feed pump, the motor driven booster pump, and motor driven startup boiler feed pump.

As a result of the manufacturer's recommendation after inspection, the lead-potted standoff bushings in the Morrow generators were replaced with an epoxy-potted design which has proven to have a longer useful life. The replacement promotes continued availability and reliability of the Morrow generators.

Sequential events recorders, which are used to log operating conditions of plant systems and equipment, were replaced during 1987 due to continued problems with the old system and the unavailability of spare parts. The Morrow staff installed a new system during planned outages on the respective units.

In early 1987, an aluminum dome measuring fifty-two feet in diameter was installed over Plant Morrow's raw water storage tank to provide a more dependable source of water for plant operation and better water quality control. The dome also prevents the growth of an aquatic weed which had previously caused pluggage problems in the water system.

Paving repairs were initiated on heavily used roadways and other areas surrounding Plant Morrow during 1987. Approximately 11,000 square yards of paving were repaired or resurfaced.

Plant Morrow completed the installation of 1,150 feet of railroad track during 1987 to enhance the maintenance of South Mississippi's railcar fleet and the handling and storage of spare cars. The work was completed by a local contractor, with South Mississippi personnel providing the material and coordinating the project.

In addition, a contract was awarded for specified maintenance on South Mississippi's approximately two miles of railroad track. About 2,700 ties were replaced, maintenance was performed on rail switches, and track elevation and movement problems were addressed.

After completing negotiations with the CSX and Norfolk-Southern Railroads, South Mississippi secured a \$0.50/ton reduction in transportation charges for coal deliveries to Plant Morrow. The rate decrease became effective October 1, and resulted in a savings of \$100,000 for South Mississippi and its members.

THE GRAND GULF NUCLEAR STATION

South Mississippi owns a 10% undivided interest in the Grand Gulf Nuclear Station which is located on 2,300 acres of land on the east bank of the Mississippi River in Claiborne County, about 6 miles northwest of Port Gibson, 25 miles southwest of Vicksburg, and 37 miles northeast of Natchez.

Under the terms of the agreement, South Mississippi pays 10% of the operating cost of Grand Gulf Unit 1 and, in return, receives up to 10% of the unit's rated output of 1,250 megawatts. Grand Gulf is 90% owned by System Energy Resources, Inc., and entered commercial operation in July, 1985. The nuclear unit produces electricity by the atomic fission of uranium.

Grand Gulf Unit 1 set a new world's record during 1987, remaining in service for 171 consecutive days. This replaces the previous world's record of 157 days and represents the longest continuous operation for a boiling water reactor during the second fuel cycle.

Grand Gulf's second refueling outage (RF02) began in early November, 1987. The unit was returned to service on January 6, 1988. As part of the refueling process, about one-third of the nuclear fuel was replaced.

Other major outage work included the inspection of one of three low pressure sections of the main

turbine; chemical cleaning of the condenser tubes and standby service water system; inspection of the station emergency diesel generators; control room renovation and expansion; and various other surveillance and maintenance projects.

South Mississippi received a total generation of 774,262 megawatt-hours from the nuclear station during 1987, which represents an 88% increase over 1986.

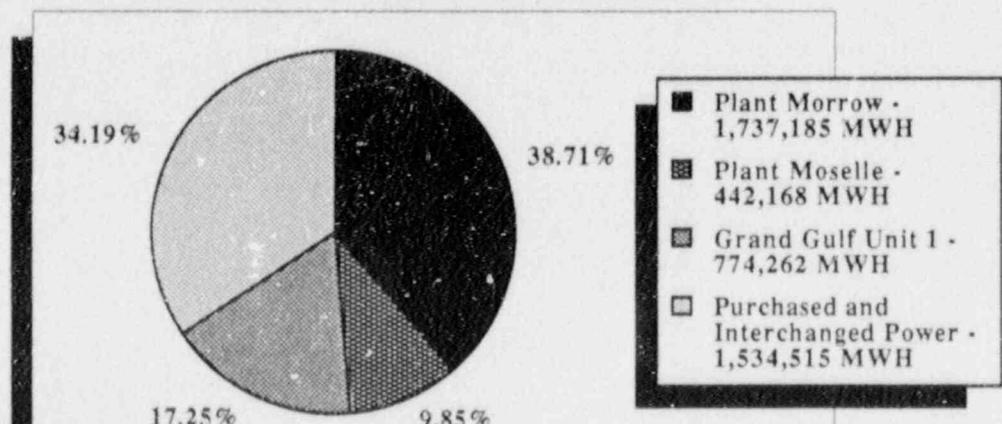
FUEL HISTORY

During 1987, 795,281 tons of coal were delivered to Plant Morrow. Shipments from Sandy Fork Mining Company totaled 762,207 tons, and spot coal purchases of 25,936 tons and 7,138 tons were secured from Westmoreland and Addington Resources, Inc., respectively.

1987 FUEL CONSUMPTION

PLANT	FUEL	USAGE
Morrow	Coal	723,508 Tons
	Fuel Oil	328,208 Gallons
Moselle	Natural Gas	5,250,477 MCF
	Fuel Oil	50,994 Gallons
Benndale	Natural Gas	20,733 MCF
Paulding	Fuel Oil	29,443 Gallons

1987 ENERGY SOURCES



Note: Total net energy for 1987 equals 4,489,452 megawatt-hours (MWH). This includes 1,322 MWH of generation from South Mississippi's gas turbine units which is not shown in the above chart (less than .01%).

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TRANSMITTING YOUR ENERGY NEEDS

ENGINEERING, CONSTRUCTION, AND MAINTENANCE

SUBSTATION MAINTENANCE CREW ADDED

In order to meet the increasing maintenance responsibilities demanded by South Mississippi's transmission system, the Association added a substation maintenance crew, consisting of an engineer, foreman, and four technicians. The crew is implementing a preventive maintenance program which includes maintenance of SMEPA's circuit breakers, transformers, and station equipment.

In the fall of 1987, South Mississippi received the first of two 161/69 KV 200 MVA transformers ordered for the Moselle Generating Station. The transformers will replace two 50 MVA units presently at the facility, allowing more flexibility and reliability in system operation.

Prior to transformer delivery, the substation maintenance crew installed four 69 KV SF₆ gas circuit breakers at Plant Moselle, replacing units rated too low for the two new transformers. Two of the retired oil circuit breakers were installed in the Cleo Substation in conjunction with a new relaying protection scheme.

South Mississippi's Relaying Department installed underfrequency relaying packages in the Association's off-system (MP&L) area. The load preservation scheme gives South Mississippi's members the ability to serve as much load as possible during a catastrophic loss of generation.

POWER REQUIREMENTS STUDY

South Mississippi completed a Power Requirements Study which uses econometric modeling and forecasts load requirements for South Mississippi's members through the year 2007. Approval by the Rural Electrification Administration is expected in early 1988.

In addition, South Mississippi performed an Appliance Saturation Survey for its eleven members in compliance with the Rural Electrification Administration. The survey, which is conducted every three years, provides data for South Mississippi's Power Requirements Study and also serves as a good marketing database for load management projects.

CONSTRUCTION PROJECTS UNDERTAKEN TO MEET LOAD GROWTH

To meet increased member load, South Mississippi completed a 115 KV switching station and transmission line at Heathman to serve Delta EPA; a 115 KV switching station at Isola to serve Twin County EPA; a 115 KV switching station and transmission line at Shady Grove to serve Southern Pine EPA; and a 69 KV GOAB (Ground Operated Air Break Switch) tower and transmission line at Pickwick to serve Pearl River Valley EPA. Modifications to Dixie EPA's Cleo delivery point were also completed, providing greater reliability.

Construction projects nearing completion at the end of 1987 include the construction of a 115 KV transmission line at Derby to serve Coast EPA and upgrading the Cumbest Bluff to Vancleave 69 KV transmission line to 115 KV to serve Singing River EPA's Vancleave Substation.

Other major projects which began in 1987 include survey and design of 30 miles of 161 KV transmission line from Hintonville to Benndale, additions to the Hintonville Substation, and a new Benndale 161/69 KV Substation.

RIGHT-OF-WAY MAINTENANCE PROGRAM INITIATED

In order to assure the continuing overall reliability of the transmission system, the regular program of right-of-way reclearing and pole treatment was completed during 1987. A program was also initiated to clear all critical transmission lines (lines in which service cannot be restored by switching when failure occurs) of danger trees annually.

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MEETING FUTURE DEMAND

CORPORATE PLANNING AND OPERATIONS

SOUTH MISSISSIPPI FORMS NEW DEPARTMENT IN 1987

In November, 1987, South Mississippi formed a new Corporate Planning and Operations Department. The new department provides much needed marketing support for member systems in designing rate structures, incentives, and load management programs which will encourage maximum efficiency of South Mississippi's generation, transmission and purchased power resources.

Direct functions of Corporate Planning and Operations include marketing and industrial development concepts, system rate analysis and billing, environmental requirements, system communications, and the operation of South Mississippi's Control Center.

NEW CONTROL CENTER COMPUTER INSTALLATION COMPLETE

After two years of design and construction, South Mississippi installed a new Control Center computer system during 1987, replacing its original ten-year-old system. The new Harris System features several unique software programs to improve both reliability and the economics of purchased and generated power for South Mississippi's eleven member rural electric distribution cooperatives.

An On-Line Dispatchers' Load Flow Program, which contains a simulated model of South Mississippi's transmission system, is used by dispatchers to determine what happens to voltage levels if a breaker is opened on the transmission system at a given load. A Transaction Evaluation Program tells dispatchers when to generate power, when to buy and sell power, and the most economical price to pay for each transaction. Another software feature of the Harris System is the State

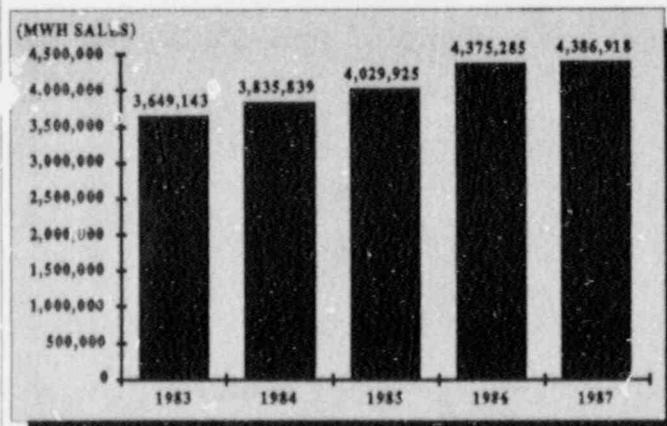
Estimator Program, which constantly monitors South Mississippi's transmission devices for normal operation. Abnormal readings are reported through the Harris Control System for preventive maintenance. The features of the new Harris System translate into significant long-range savings for South Mississippi and its members.

NEW HIGH-LOAD FACTOR RATE INCORPORATED FOR MEMBERS

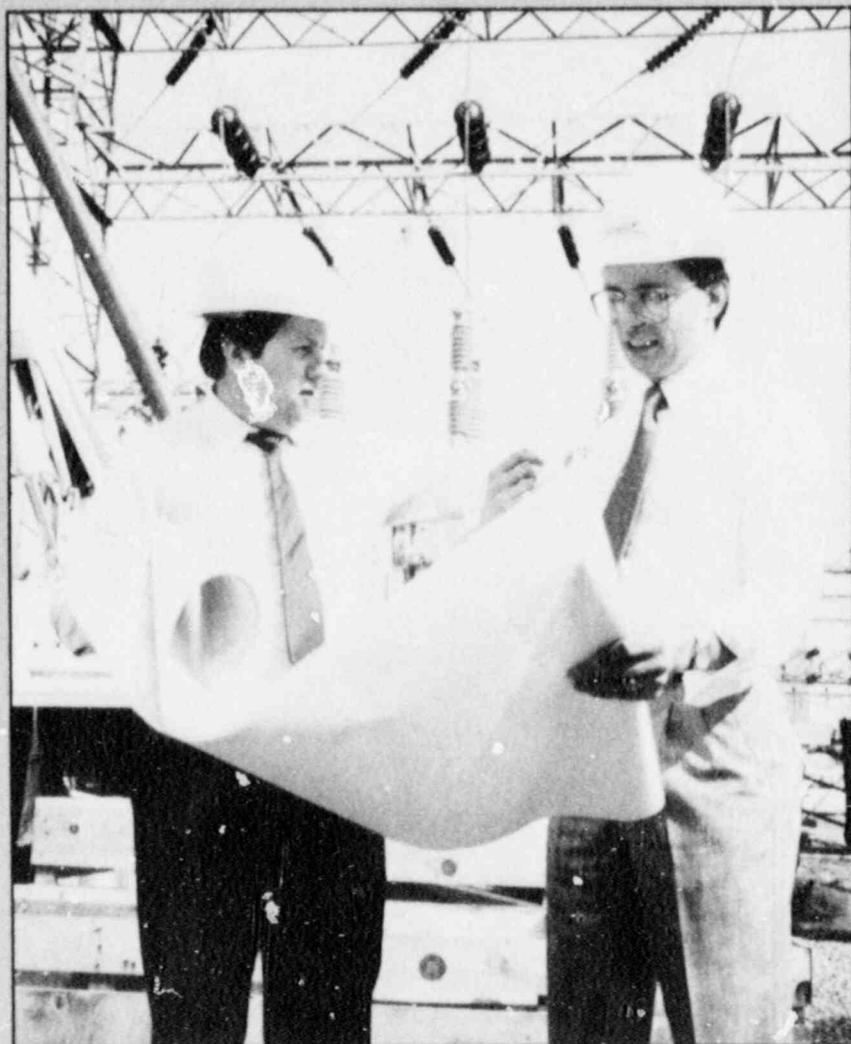
South Mississippi, in a move to encourage marketing among its member systems, incorporated a high load factor rate with an industrial incentive discount to encourage new and expanding industrial loads. Qualifications for the new rate include a monthly demand of not less than 5,000 KW, and the use of at least 545 KWH per KW demand, a usage requirement which produces a 75% or higher load factor. By spreading the fixed cost of generation capacity over the sale of more kilowatt-hours, South Mississippi can offer its member systems a lower rate per kilowatt-hour for delivery points serving industrial loads.

The overall effect of serving such consumers increases South Mississippi's load factor by distributing consumer demand more evenly over time, which benefits South Mississippi, its members, and the consumer. The new rate, which was approved in 1987, is viewed as the first innovative move in the area of marketing, a trend expected to continue during 1988.

TOTAL SALES MEGAWATT-HOURS 1983-1987



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DEVELOPING THE WINNING TEAM

HUMAN RESOURCES AND DEVELOPMENT

RETIREMENT PROGRAM ENHANCED

On May 1, 1987, South Mississippi improved retirement programs for employees by adopting a 401(k) option to its existing supplemental savings plan. The revised plan offers tax-deferral advantages to employees which allow for greater ease of employee financial planning for retirement.

NEW COMPENSATION PLAN IMPLEMENTED

South Mississippi introduced a new wage and salary plan to employees on November 1, 1987. Plan development included an analysis of all position responsibilities; collection and analysis of survey data within appropriate marketplaces; design of pay structures; development of administrative policies; and supervisory training. The new compensation plan is designed to recognize internal and external market values of positions while basing pay determinations on employee performance and progress.

NEW AND IMPROVED HEADQUARTERS FACILITIES

A 10,000-square-foot vehicle storage and maintenance building and a 3,000-square-foot materials storage building were constructed in 1987. The new vehicle building provides an enclosed facility for protection and maintenance of the Association's vehicle and equipment fleet. The materials building provides relief from overcrowded warehouse conditions. Over 3,600 tons of asphalt were laid on the areas surrounding the

building additions, including the resurfacing of existing parking areas.

A renovation of the Headquarters office building was also completed, resulting in an improved work environment for employees.

NEW SERVICES OFFERED TO MEMBER SYSTEMS

During 1987, South Mississippi implemented an orientation program to better inform its members of the G&T's operations. The eight-hour program was offered to directors of each member cooperative and consisted of department overviews, tours of South Mississippi's facilities, and basic instruction in power plant generation and high-voltage transmission. The program will be expanded during 1988 to include key cooperative employees.

The purchase of a desktop publishing system during 1987 enabled South Mississippi to offer member cooperatives and internal departments support in publication design and layout. The system greatly enhances production time and quality, while minimizing publication cost.

Further support in the area of video production was offered to members and internal departments. The Association is now in the process of developing a video communications program for educating, training, and updating employees and members.

FLEET IMPROVEMENTS CONTINUE IN 1987

Included in South Mississippi's 1987 fleet improvements was the purchase of a new Mack truck outfitted with a specially designed Telelect Commander III hydraulic derrick. The only one of its kind operating in the Southeastern United States, the rig contains a four-stage hydraulic boom which extends to a maximum height of 70 feet and has a horizontal rotation capacity of 360 degrees.

UNITY OF PEOPLE, UNITY OF PURPOSE



STREAMLINING OPERATING COSTS

FINANCE

REVENUES AND SALES

Total revenues from sales of electricity by South Mississippi totaled \$231,025,124 in 1987, reflecting an increase of 2.6% over 1986. Sales of energy to members amounted to 4,383,903 megawatt-hours in 1987, a 1.6% increase from 1986. Overall energy sales rose three-tenths of 1% from 1986 to 1987. Average revenue from sales to members was 52.68 mills per kilowatt-hour in 1987, compared to 51.90 mills per kilowatt-hour in 1986, reflecting an increase in revenues per kilowatt-hour of 1.5%.

2.1% DECREASE IN TOTAL COST OF ELECTRICITY

Increased sales revenue, coupled with decreased expenses, resulted in net margins for the year ended December 31, 1987, of \$5,148,686, as compared to net margins of \$100,960 for the year ended December 31, 1986. The total cost of electric service in 1987 decreased 2.1% from total expenses for 1986. The decrease resulted from a number of factors including a substantial increase in the proportion of total energy requirements met by SMEPA generation, lower cost of power purchased for the borderline system, lower costs for natural gas and nuclear fuel, a decrease in interest expense, and improved operation and maintenance expenses which reflect South Mississippi's continuing commitment to cost containment.

Total Association assets declined from \$810,904,532 at December 31, 1986, to \$776,674,877 at December 31, 1987, resulting primarily from the absorption of \$22,259,493 of margins and revenues deferred from previous years due to the delayed commercial operation of Grand Gulf Unit 1. Receipt of approximately \$10,676,000 from System Energy Resources, Inc., for the Association's share of a tax net operating loss carryover also contributed to the decrease in total assets as well as to a decrease in long-term debt as the proceeds from the carryover were used to repay loans from the Federal Financing Bank.

GRAND GULF UNIT 2

South Mississippi's investment in Grand Gulf Unit 2 decreased from \$114,546,741 at December 31, 1986, to \$104,409,295 at December 31, 1987. The decrease resulted from a transfer of investment from Unit 2 to Unit 1 upon completion of property records for the initial nuclear plant investment by Systems Energy Resources, Inc., and also from application of part of the tax net operating loss carryover. At the end of 1987, construction of Unit 2 remained suspended, with the Association's maximum remaining obligation totaling \$1,899,961.

CONSTRUCTION LOANS/ OUTSTANDING DEBTS

In May, 1987, South Mississippi received a commitment from the Rural Electrification Administration (REA) to make or guarantee loans totaling \$14,772,000 for the construction of new control center and transmission facilities over the next three years. As part of the commitment, South Mississippi was required to obtain an additional loan of \$2,306,000 from a private lender for the remainder of its capital requirements. In December, 1987, the Association executed documents for a \$2,306,122 loan (including \$46,122 of capital stock) from National Rural Utilities Cooperative Finance Corporation, for an insured loan from REA of \$5,960,000, and for an REA guaranteed loan from the Federal Financing Bank of \$8,812,000.

Advances in 1987 against previously executed loans were relatively small as the Association drew \$428,000 from the Federal Financing Bank at an 8.357% long-term interest rate and \$665,600 under a concurrent loan from the Jackson Bank for Cooperatives at intermediate rates averaging 8.85%. Approximately \$8,682,815 of maturing short-term FFB notes were extended short-term at rates averaging 8.612%.

The Association's overall long-term debt cost was little changed from December 31, 1986, to December 31, 1987, rising from 8.82% to 8.85%.

THE ELEMENTS OF COST

	1983	1984	1985	1986	1987
I. SMEPA's Own Generation & Transmission System					
Cost of Fuel Burned in SMEPA's Plants - ¢/MMBTU	222.27	227.00	214.54	195.27	176.38
Production Costs and					
Purchased Power/Interchanged Power - Mills/KWH	25.88	26.16	23.09	27.66	25.49
Transmission O&M - Mills/KWH	2.26	2.41	2.44	2.50	2.77
A & G Expense - Mills/KWH	.90	1.00	1.12	1.14	1.25
Depreciation and Amortization - Mills/KWH	2.89	2.85	4.30	4.79	6.16
Interest - Mills/KWH	9.23	7.11	12.77	21.23	20.81
Taxes and Other - Mills/KWH	.14	.14	.19	.88	.41
TOTAL - Mills/KWH of Sales	41.30	39.67	48.91	58.20	56.89
II. Borderline System					
Purchased Power/Interchanged Power - Mills/KWH	42.41	41.65	41.62	40.12	38.91
Depreciation & Amortization - Mills/KWH	.03	.03	.03	.02	.02
Interest - Mills/KWH	.04	.04	.04	.03	.05
TOTAL - Mills/KWH of Sales	42.48	41.72	41.69	40.17	38.98
III. Total System					
Production Costs and					
Purchased Power/Interchanged Power -Mills/KWH	30.32	30.48	31.79	31.08	29.23
Transmission O & M - Mills/KWH	1.65	1.74	1.77	1.81	2.00
A & G Expense - Mills/KWH	.66	.72	.82	.83	.90
Depreciation and Amortization - Mills/KWH	2.12	2.06	3.13	3.48	4.46
Interest - Mills/KWH	6.77	5.14	9.29	15.41	15.04
Taxes and Other - Mills/KWH	.10	.10	.13	.64	.29
TOTAL(A) - Mills/KWH of Sales	41.62	40.24	46.93	53.25(B)	51.92

- (A) Excludes Kentucky coal operations.
 (B) Extraordinary item excluded.

THE COMPARATIVE SUMMARY

	1983	1984	1985	1986	1987
ENERGY SOURCES - MWH					
Generated:					
Steam	2,126,192	2,218,262	2,625,376	2,686,598	2,953,615
Other Generation	328	663	505	1,910	1,322
	2,126,520	2,218,925	2,625,881	2,688,508	2,954,937
Purchased:					
Direct Purchase	539,305	488,178	197,317	519,003	298,487
Borderline - (SEPA)	78,741	97,334	73,236	61,120	72,098
	618,046	585,512	270,553	580,123	370,585
Interchanged Power - (Net)	985,675	1,105,403	1,215,490	1,200,497	1,163,930
Total	3,730,241	3,909,840	4,111,924	4,469,128	4,489,452
SALES - MWH					
Southwest Mississippi EPA	249,798	247,112	270,005	290,948	287,278
Dixie EPA	369,094	395,807	392,633	413,306	400,435
Pearl River Valley EPA	362,338	380,715	401,597	415,442	410,533
Singing River EPA	617,347	661,742	675,179	710,062	716,158
Southern Pine EPA	720,195	735,695	796,395	911,339	946,401
Magnolia EPA	231,348	238,029	251,781	276,749	301,036
Coast EPA	485,972	535,605	563,372	630,812	645,410
Yazoo Valley EPA	167,346	167,883	181,129	123,316	118,094
Coahoma EPA	76,829	75,782	79,219	81,165	83,143
Delta EPA	239,791	255,659	269,094	297,388	305,681
Twin County EPA	129,085	135,276	149,521	162,473	169,734
Arkansas Electric Cooperative Corp.	-	5,967	-	-	-
Alabama Electric Cooperative	-	-	-	62,285	3,015
Cajun Electric Power Cooperative	-	567	-	-	-
TOTAL	3,649,143	3,835,839	4,029,925	4,375,285	4,386,918
TOTAL SYSTEM DEMAND - KW	938,112	1,177,057	1,006,570	1,211,133	1,067,395

COMPARATIVE OPERATING COST

	1983	1984	1985 ^(A)	1986	1987
REVENUE					
Sales of Energy	\$156,462,892	\$156,606,556	\$192,307,266	\$225,201,107	\$231,025,124
Other	960,113	1,636,127	697,964	249,449	138,691
Total Revenue	157,423,005	158,242,683	193,005,230	225,450,556	231,163,815
EXPENSE					
Operation Expense:					
Production-Fuel Cost	49,745,001	53,932,527	61,653,239	57,970,573	57,521,531
Other Production Expenses	2,379,564	2,211,866	7,038,621	11,324,392	10,270,142
Purchased Power	56,760,906	59,082,453	55,137,353	60,107,447	53,892,164
Transmission	5,013,509	5,540,686	6,002,402	6,912,131	7,269,310
Consumer Accounts	48,440	38,523	47,527	53,964	56,447
Administrative & General	2,116,894	2,418,037	2,849,402	3,211,115	3,468,286
Total Operation Expense	116,064,314	123,224,092	132,728,544	139,579,622	132,477,880
Maintenance Expense:					
Production	1,762,051	1,672,461	4,278,423	6,579,262	6,525,996
Transmission	1,025,266	1,128,478	1,130,358	1,030,377	1,509,539
General Plant	232,330	294,279	396,459	358,880	433,135
Total Maintenance Expense	3,019,647	3,095,218	5,805,240	7,969,119	8,468,670
Depreciation	7,734,269	7,921,214	12,626,522	15,233,182	19,559,144
Taxes	324,269	380,939	515,171	649,579	650,720
Interest Expense (Net) and Other Deductions	25,358,307	20,572,428	41,302,119	61,870,198	66,902,644
Total Expense	152,500,806	155,193,891	192,977,596	225,301,700	228,059,058
OPERATING MARGINS	4,922,199	3,048,792	27,634	148,856	3,104,757
NON-OPERATING MARGINS	1,446,654	543,867	681,947	2,026,816	2,043,929
NET MARGINS BEFORE EXTRAORDINARY ITEM	\$ 6,368,853	\$ 3,592,659	\$ 709,581	\$ 2,175,672	\$ 5,148,686

(A) The financial statements for year ended December 31, 1985, have been restated to correct the recording of allowance for funds used during construction of Grand Gulf Nuclear Station Unit No. 2. The effect of the restatement was to decrease net margins for 1985 and patronage capital and construction work in progress at December 31, 1985, by \$3,366,841.

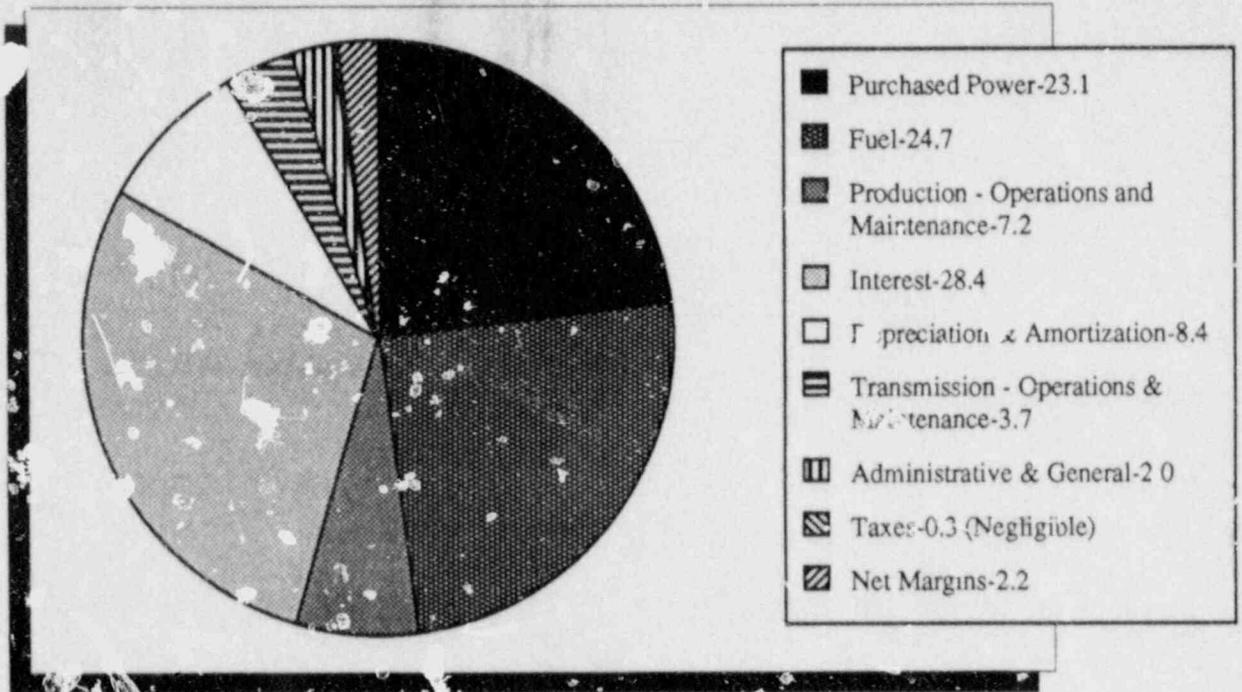
COMPARATIVE OPERATING COST
(Continued)

	1983	1984	1985	1986	1987
EXTRAORDINARY ITEM ^(B)				\$ 2,074,712	
NET MARGINS	\$ 6,368,853	\$ 3,592,659	\$ 709,581	\$ 100,960	\$ 5,148,686

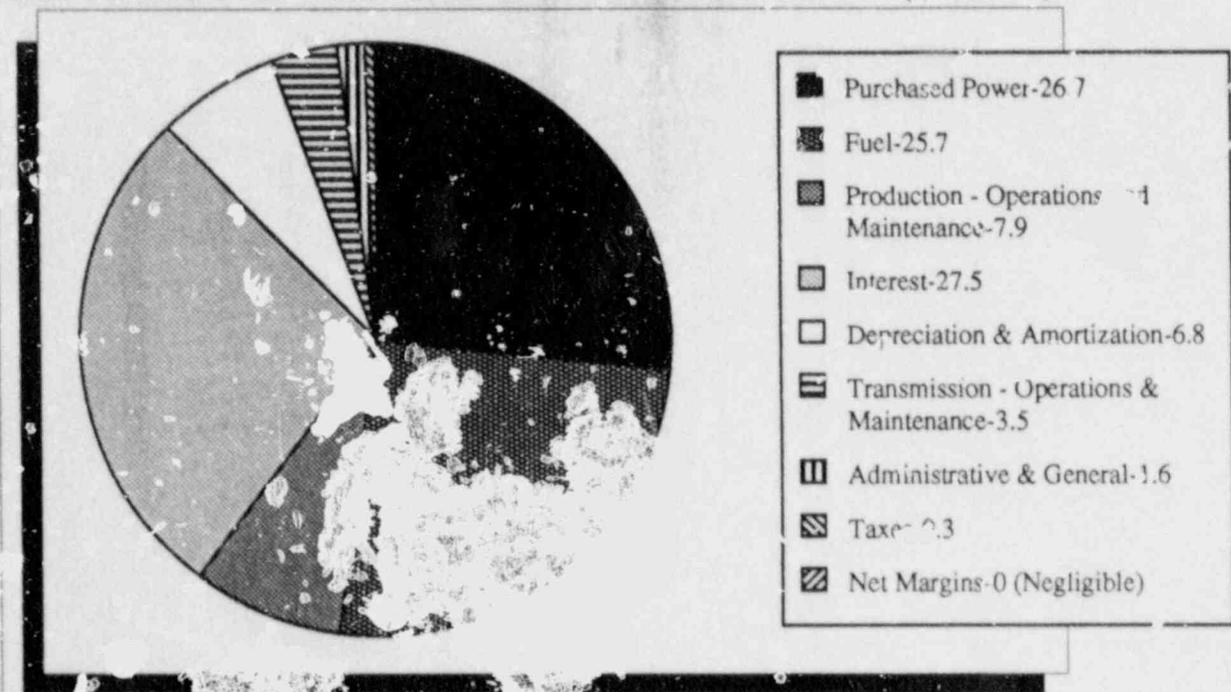
(B) Net loss on early extinguishment of debt.

DISTRIBUTION OF REVENUE DOLLAR

DISTRIBUTION OF 1987 REVENUE DOLLAR (¢/\$1.00)



DISTRIBUTION OF 1986 REVENUE DOLLAR (¢/\$1.00)



AUDITOR'S REPORT

Report of Touche Ross & Co.
Independent Auditors

Board of Directors
South Mississippi Electric Power Association
Hattiesburg, Mississippi

We have examined the balance sheets of South Mississippi Electric Power Association as of December 31, 1987 and 1986, and the related statements of net margins and patronage capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of South Mississippi Electric Power Association as of December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross + Co.
Certified Public Accountants

Jackson, Mississippi
February 16, 1988

THE BALANCE SHEETS

December 31,
1987 1986

ASSETS

ELECTRIC UTILITY PLANT (Notes A-1, A-2, A-3, B and C):

In service	\$704,144,750	\$703,970,625
Construction work in process	<u>114,293,585</u>	<u>118,192,271</u>
	818,438,335	822,162,896
Less allowance for depreciation	<u>112,824,748</u>	<u>93,958,093</u>
	705,613,587	728,204,803

OTHER ASSETS AND INVESTMENTS:

Investment in associated organizations (Note D)	11,226,031	11,192,324
Debt service reserve for pollution control bonds	4,460,847	4,464,133
Other noncurrent assets	<u>15,897</u>	<u>16,437</u>
	15,702,775	15,672,894

CURRENT ASSETS:

General fund cash and temporary cash equivalent investments	7,005,131	14,765,301
Construction fund cash	1,657	1,657
Accounts receivable (including receivables from members of approximately \$17,238,000 (1987) and \$24,392,000 (1986)) (no allowance for doubtful accounts deemed necessary)	18,503,954	27,033,237
Inventories (Note A-4):		
Coal	15,464,338	11,636,612
Other fuel	1,340,088	1,397,997
Material and supplies	<u>9,217,885</u>	<u>6,984,048</u>
	26,022,311	20,018,657
Other	<u>1,236,659</u>	<u>1,215,991</u>
	52,769,712	63,064,843

DEFERRED CHARGES (Note A-5)

	<u>2,588,803</u>	<u>3,961,992</u>
	<u>\$776,674,877</u>	<u>\$810,904,532</u>

See notes to financial statements.

December 31,	
1987	1986

EQUITIES AND LIABILITIES

EQUITIES (Note A-6):		
Memberships	\$ 55	\$ 55
Donated capital	535,436	535,436
Patronage capital	<u>17,161,258</u>	<u>12,012,572</u>
	17,696,749	12,548,063
LONG-TERM DEBT, excluding current maturities (Note F)	730,012,835	749,862,503
CURRENT LIABILITIES:		
Accounts payable	16,849,721	16,487,514
Accrued interest	1,091,104	850,411
Other accrued expenses	986,413	635,093
Current maturities of long-term debt	<u>10,038,055</u>	<u>8,261,455</u>
	28,965,293	26,234,473
DEFERRED REVENUE AND MARGINS (Note G)		22,259,493
COMMITMENTS AND CONTINGENCIES (Notes C and J)		
	<u>\$776,674,877</u>	<u>\$810,904,532</u>

STATEMENTS OF NET MARGINS AND PATRONAGE CAPITAL

	Year Ended December 31,	
	1987	1986
OPERATING REVENUE:		
Electric energy revenue (Note G)	\$231,025,124	\$225,201,107
Other income	138,691	249,449
	<u>231,163,815</u>	<u>225,450,556</u>
OPERATING EXPENSES:		
Operation expenses:		
Fuel	57,521,531	57,970,573
Production	10,270,142	11,324,392
Purchased Power	53,892,164	60,107,447
Transmission	7,265,310	6,912,131
Administrative and general	3,524,733	3,265,079
	<u>132,477,880</u>	<u>139,579,622</u>
Maintenance expenses:		
Production	6,525,996	6,579,862
Transmission	1,509,539	1,030,377
General	433,135	358,880
	<u>8,468,670</u>	<u>7,969,119</u>
Depreciation and amortization (Note A-1)	19,559,144	15,233,182
Taxes	650,720	649,579
	<u>161,156,414</u>	<u>163,411,502</u>
OPERATING MARGIN BEFORE INTEREST AND OTHER DEDUCTIONS AND EXTRAORDINARY ITEM	70,007,401	62,019,054
INTEREST AND OTHER DEDUCTIONS:		
Interest	66,680,675	67,812,934
Allowance for borrowed funds used during construction (Note A-3)	(434,872)	(127,905)
Refunds received on purchased power (Note I)		(8,520,276)
Refunds paid to members (Note I)		2,620,276
Other deductions - net	656,841	85,169
	<u>66,902,644</u>	<u>61,870,198</u>
OPERATING MARGIN BEFORE EXTRAORDINARY ITEM	3,104,757	148,856
NON-OPERATING MARGIN - PRINCIPALLY INTEREST INCOME		
	<u>2,043,929</u>	<u>2,026,816</u>
NET MARGIN BEFORE EXTRAORDINARY ITEM	5,148,686	2,175,672

STATEMENTS OF NET MARGINS AND PATRONAGE CAPITAL

(Continued)

	<u>Year Ended December 31,</u>	
	<u>1987</u>	<u>1986</u>
EXTRAORDINARY ITEM:		
Net loss on early extinguishment of debt (Note F)	\$ _____	\$ 2,074,712
NET MARGIN	5,148,686	100,960
PATRONAGE CAPITAL AT BEGINNING OF YEAR	<u>12,012,572</u>	<u>11,911,612</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 17,161,258</u>	<u>\$ 12,012,572</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,	
	1987	1986
SOURCES OF FUNDS:		
From operations:		
Net margins before extraordinary item	\$ 5,148,686	\$ 2,175,672
Items not affecting working capital:		
Provision for depreciation, amortization, and depletion	20,727,236	16,065,799
Recognition of deferred revenue and margins	<u>(22,259,493)</u>	<u>(17,055,538)</u>
Funds provided by operations	3,616,429	1,185,933
Extraordinary item		(2,074,712)
Additional long-term borrowings	1,093,600	64,171,400
Decrease in other noncurrent assets	540	
Decrease in deferred charges	1,269,019	
Decrease in debt service reserve		35,619
Disposals of electric utility plant, net of additions	1,971,436	
Decrease in working capital	<u>13,025,951</u>	
	<u>\$20,976,975</u>	<u>\$63,318,240</u>
USES OF FUNDS:		
Additions to electric utility plant less carrying amount of retirements		\$ 7,844,182
Payments of long-term debt	\$20,943,268	8,050,360
Increase in investment in associated organizations	33,707	120,768
Increase in deferred charges		201,015
Increase in other noncurrent assets		3,837
Increase in working capital		<u>47,098,078</u>
	<u>\$20,975,975</u>	<u>\$63,318,240</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
General fund cash and temporary cash equivalent investments	(\$ 7,760,170)	\$14,087,332
Construction fund cash		(111,087)
Pollution control revenue bonds proceeds		(41,873,000)
Accounts receivable	(8,529,283)	10,084,638
Inventories	6,003,654	1,749,222
Other	(9,332)	80,228
Notes payable		25,173,507
Accounts payable	(362,207)	(1,863,006)
Accrued interest and other accrued expenses	(592,013)	(141,437)
Current maturities of long-term debt	<u>(1,776,600)</u>	<u>39,911,681</u>
	<u>(\$13,025,951)</u>	<u>\$47,098,078</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended
December 31, 1987 and 1986

NOTE A - 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 customers 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 Char. of Accounts as modified and adopted by REA. 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:

1. 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%

Prior to 1987, depreciation for nuclear utility plant was provided on the units of production method.

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 of property are charged to maintenance expense.

Coal reserves are stated at cost. Depletion is provided by the units mined method. The coal mine is operated under an operating agreement with a third party. A majority of the coal used in SMEPA's generation of electricity is supplied from coal mines located on SMEPA's property.

NOTE A - Summary of Significant Accounting Policies (Continued):

2. Cost of Decommissioning Nuclear Plant

SMEPA's portion of the estimated decommissioning cost of Grand Gulf Nuclear Station Unit 1 (GGNS) is charged to operating expenses.

3. 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.

4. Inventories

Inventories are stated at average costs.

5. Deferred Charges

Costs 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.

6. Patronage Capital

The By-laws 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.

7. Interchange Power

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

8. 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 come from its members.

NOTE B - Electric Utility Plant:

Electric utility plant consists of the following:

NOTE B - Electric Utility Plant (Continued):

	December 31,	
	1987	1986
Nuclear production plant	\$394,039,690	\$398,340,296
Non-nuclear production plant	208,041,205	208,111,278
Transmission plant	59,167,458	55,613,353
Coal properties and preparation plant	24,687,603	24,607,879
Land and land rights	10,898,014	10,614,616
General plant and transportation equipment	7,310,780	6,683,203
ELECTRIC PLANT IN SERVICE	704,144,750	703,970,625
Construction work in process	114,293,585	118,192,271
	<u>\$818,438,335</u>	<u>\$822,162,896</u>

NOTE C - Construction Work in Process and Commitments:

SMEPA is a 10% participant in the construction and operation of a 2,500 megawatt nuclear generating station known as "Grand Gulf Nuclear Station" (GGNS), consisting of two 1,250 megawatt generating units. Commercial operation for Unit 1 began on July 1, 1985.

The Mississippi Public Service Commission held hearings in 1984 to consider rescinding the Certificate of Necessity authorizing construction of Unit 2.

On September 18, 1985, the Commission issued an Order suspending construction on Unit 2. During 1986, the majority owner announced its intention to defer any final decision on the status of Unit 2 until 1990.

On August 1, 1985, SMEPA discontinued payments on Unit 2 and began negotiations to limit its investment in Unit 2. On February 7, 1986, SMEPA signed a Supplementary Agreement limiting its future obligation for Unit 2. The Agreement provides that SMEPA's obligation to pay its proportionate share of the cost of construction of Unit 2 incurred subsequent to July 31, 1985, will not exceed approximately \$4,951,000. SMEPA's share of such costs incurred to December 31, 1987 and 1986, amounted to approximately \$3,051,000 and approximately \$2,085,000, respectively, and have been included in the accompanying balance sheets.

In the event the majority owner elects to resume full construction, the Supplementary Agreement provides SMEPA with the option to either have payments made subsequent to July 31, 1985 refunded or to leave such payments invested in Unit 2. In the event full construction resumes, the ownership interest of the participants will be adjusted periodically to reflect the proportionate investment of each participant.

The failure of the 90% owner to complete Unit 2 due to an inability to obtain regulatory approval for the completion of construction would be excused under the force majeure provision of the Joint Ownership Agreement, and SMEPA would have no recourse against the 90% owner. If this occurs, SMEPA would have to recover the costs of Unit 2 through future rate increases even though no power would be generated by Unit 2. If Unit 2 is abandoned, and if the carrying amount of the unit exceeded the present value of the future revenue (discounted using SMEPA's incremental borrowing rate) that is expected to result from inclusion of the cost of Unit 2 for rate-making purposes, a loss would be

NOTE C - Construction Work in Process and Commitments (Continued):

immediately recognized to the extent of the excess. The remaining cost would be deferred and amortized over the period of the future revenue. At December 31, 1987, SMEPA's accumulated cost in Unit 2, included in construction work in process, was approximately \$104,409,000 including allowance for funds used during construction of approximately \$42,340,000.

Prior to SMEPA's entry as a participant in Grand Gulf, the construction of Grand Gulf generated tax net operating losses for the other participant. During 1987, the other participant utilized part of these losses and refunded approximately \$10,676,000 to SMEPA, which was credited to utility plant. SMEPA could receive an additional refund of approximately \$3,400,000 if the additional tax net operating losses of the other participant are utilized to offset income taxes in future years.

SMEPA has construction commitments for various projects other than GGNS totaling approximately \$1,261,000 at December 31, 1987.

NOTE D - Investments in Associated Organizations:

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

	December 31,	
	1987	1986
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	<u>321,498</u>	<u>287,791</u>
	<u>\$11,226,031</u>	<u>\$11,192,324</u>

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

NOTE E - 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, 1987 and 1986, SMEPA had no borrowings against this line of credit. Interest rates on short-term borrowings with CFC averaged approximately 7.68% and 8.25% for 1987 and 1986, 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 F - Long-term Debt:

Long-term debt consisted of the following:

NOTE F - Long-term Debt (Continued):

	December 31,	
	1987	1986
2% REA mortgage notes payable, due in quarterly installments through 2009.	\$ 33,438,857	\$ 34,835,090
5% REA mortgage notes payable, due in quarterly installments through 2015.	22,241,011	22,692,045
5% REA mortgage notes payable, due in monthly installments (beginning in 1987) through 2019.	3,900,507	3,926,000
Mortgage notes payable to Federal Financing Bank (FFB) at interest rates varying from 7.160% to 14.512%, due in quarterly installments between 1987 and 2018.	591,979,283	607,179,099
Notes payable to Jackson Bank for Cooperatives at interest rates varying from 8.5% to 9.0%, due in quarterly installments (beginning in 1988) through 2,022.	1,794,000	1,128,400
Lamar County, Mississippi, Pollution Control Bonds:		
1977 Series, 4.6% to 6.125%, due 1987 through 2007	33,870,000	34,770,000
1978 A Series, 4.7% to 6.125%, due 1987 through 2008	2,415,000	2,475,000
1978 A-1 Series, 6.25% due 1987 through 2008.	870,000	890,000
Claiborne County, Mississippi, Pollution Control Bonds - 1985 G Series, 3.75% to 4.375%, due 1987 through 2015.	49,400,000	49,800,000
Other	141,232	428,324
	740,050,890	758,123,958
Less current maturities	10,038,055	8,261,455
	<u>\$730,012,835</u>	<u>\$749,862,503</u>

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

NOTE F - Long-term Debt (Continued):

The net proceeds of the Claiborne County, Mississippi, Pollution Control Bonds were used in 1986 to repay FFB for funds borrowed to pay original project costs. Initially SMEPA has the option on FFB promissory note advances to elect (subject to REA approval) interim maturity dates of 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 initially selected, then on subsequent interim maturity dates, SMEPA may designate that it desires either another two-year interim maturity or the long-term maturity date as specified in the note.

In 1986, SMEPA repaid or refinanced \$97,353,000 principal amount of notes payable to the Federal Financing Bank prior to scheduled maturities. Of this amount \$27,372,000 was refinanced (pursuant to REA directives) with a portion of the proceeds of the 1985G Series Pollution Control Bonds issued by Claiborne County for facilities at the Grand Gulf Nuclear Station. The remainder, approximately \$69,981,000, resulted from the early conversion of short-term debt payable to the FFB in advance of normal maturity dates ranging from July 2, 1986 to October 1, 1987. In conformity with generally accepted accounting principles, the early payments of interest at discounted amounts were reported as an extraordinary loss of approximately \$2,075,000. To the extent that the bond refinancing and the early extension of FFB debt resulted in interest savings in 1987, such savings decreased the interest expense as reported on the Statement of Net Margins and Patronage Capital.

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

1988	\$10,038,000
1989	10,986,000
1990	12,697,000
1991	13,979,000
1992	15,124,000

The above maturity schedule reflects management's prerogative of converting FFB advances at interim maturity dates from 1988 through 1992 to long-term maturities. SMEPA has used a rate it estimates to be an appropriate long-term rate, based on the December 31, 1987 interest rates, to compute the annual principal requirement.

At December 31, 1987, SMEPA had unfunded loan commitments from FFB and REA of \$55,791,000 and \$3,926,000, respectively. SMEPA had a loan commitment from the Jackson Bank for Cooperatives for \$3,542,000, of which \$665,600 and \$1,128,400 were advanced in 1987 and 1986, respectively.

In addition, SMEPA authorized aggregate additional borrowings of approximately \$17,078,000, subject to approval by the lending agency.

SMEPA is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. SMEPA was in compliance with such requirements at December 31, 1987.

NOTE G - Deferred Revenue and Margins:

SMEPA established its wholesale power rates on March 1, 1983 and 1984, in anticipation of Grand Gulf Nuclear Station Unit 1 beginning commercial operation in October 1983 and September 1,

NOTE G - Deferred Revenue and Margins (Continued):

1984, respectively. A portion of these rates was designed to recover increased cost of power after Unit 1 began commercial operation. This portion, prior to commercial operation on July 1, 1985 was deferred and was amortized in such a manner as to reflect the revenue in the period the cost being recovered was incurred. The deferral was approved by the Board of Directors of SMEPA and by REA.

During 1984, SMEPA's operations produced margins in excess of those budgeted necessary to meet levels of interest coverage and annual debt service coverage required by mortgage covenants. These excess margins were deferred by action of the Board of Directors. The deferral was approved by REA on January 15, 1987. The deferred margins were amortized on the same basis as the deferred revenue.

NOTE H - Pension Plan:

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 contribution 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's pension expense for this plan for 1987 and 1986 was approximately \$145,000 and \$418,000, respectively.

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 those 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 approximately \$15,000 and \$11,000 for 1987 and 1986, respectively.

NOTE I - Purchased Power Refund:

During 1986, SMEPA recorded refunds due from Mississippi Power & Light Company of approximately \$8,520,000 as a result of Mississippi Power & Light Company's settlement of litigation with a natural gas supplier. Of this amount, approximately \$2,620,000 was refunded by SMEPA to its members. This method of accounting for the refunds was approved by REA and SMEPA's Board of Directors.

NOTE J - Contingencies:

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.

NOTE K - Subsequent Event:

On January 25, 1988, SMEPA terminated its existing coal supply agreement and lease agreement and entered into new agreements with another corporation. These agreements are subject to approval by REA.

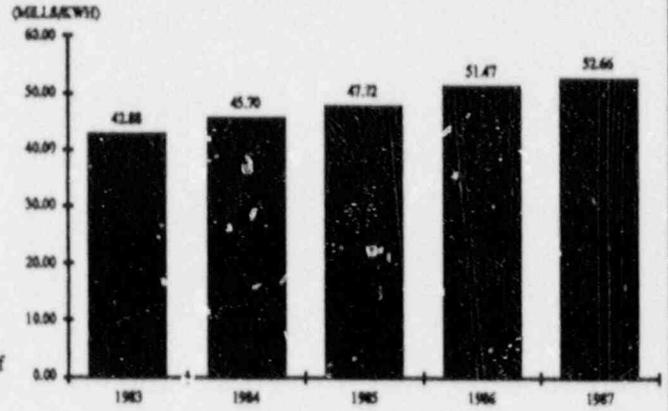
STATISTICS

REVENUE FROM SALES OF ELECTRICITY (MILLS/KWH)

YEAR	REVENUE (MILLS/KWH)
1983	42.88
1984	45.70*
1985	47.72**
1986	51.47
1987	52.66

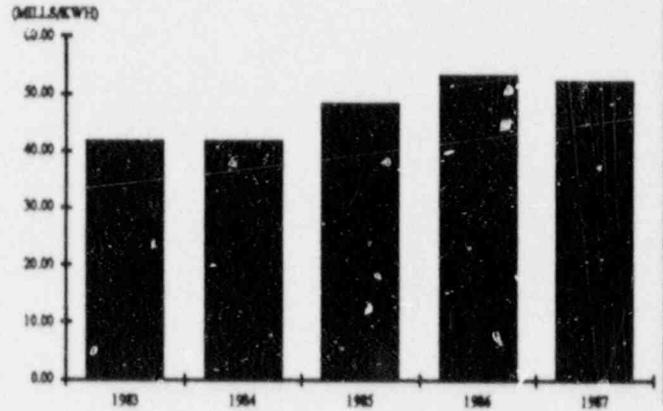
* Note: Net of deferred margins.

** Note: 1985 reflects first six months of commercial operation for Grand Gulf Nuclear Station Unit 1.



TOTAL COST OF ELECTRIC SERVICE (MILLS/KWH)

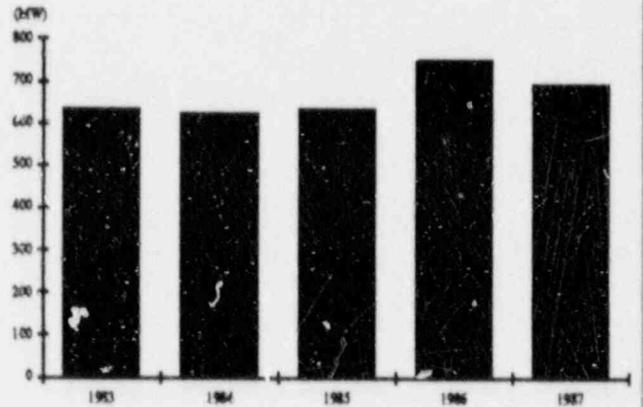
YEAR	COST (MILLS/KWH)
1983	41.79
1984	41.70
1985	48.28
1986	53.32
1987	52.09



ANNUAL COINCIDENTAL PEAK DEMAND (KW)

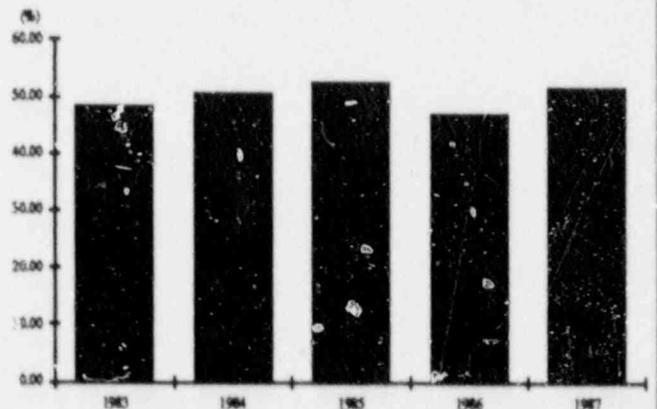
YEAR	COINCIDENTAL PEAK DEMAND (KW)***
1983	632,000
1984	624,000
1985	635,000
1986	752,000
1987	691,000

***Demand on SMLPA generation only.



ANNUAL LOAD FACTOR (PERCENT)

YEAR	ANNUAL LOAD FACTOR (%)
1983	48.22
1984	50.50
1985	52.64
1986	47.10
1987	51.64



TRIBUTE



W. T. Ruffin
1913-1987

South Mississippi Electric pays tribute to W. T. "Buster" Ruffin, former Director of South Mississippi Electric Power Association, who died on September 29, 1987.

He served as Director of South Mississippi Electric from November 19, 1980, until his death.

Ruffin was elected as a Director of Southern Pine Electric Power Association, South Mississippi's largest member system, in 1957. He served as Director of Southern Pine for thirty years, with 13 years as Board Vice-President. His dedication and efforts to the Rural Electrification Program will not be forgotten.

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