



**LOUISIANA**  
POWER & LIGHT

317 BARONNE STREET • P. O. BOX 60340  
NEW ORLEANS, LOUISIANA 70160 • (504) 595-3100

October 12, 1988

W3P88-1825  
A4.05  
QA

U.S. Nuclear Regulatory Commission  
ATTN: Document Control Desk  
Washington, D.C. 20555

SUBJECT: **Waterford SES Unit 3**  
**Docket No. 50-382**  
**License No. NPF-38**  
**LP&L/SERI Proposed Operating Agreements**

REFERENCE: W3P88-1677, dated September 9, 1988

Gentlemen:

In our June 15, 1988 meeting with you and in the July 1, 1988 submittals requesting license amendments for Systems Energy Resources, Inc. (SERI) to assume responsibility for the conduct of licensed operations at Arkansas Nuclear One and Waterford 3, many of the issues involved in such license amendments were to be handled through operating agreements between Arkansas Power & Light Company (AP&L) and SERI or Louisiana Power & Light Company (LP&L) and SERI.

AP&L, LP&L and SERI submitted the proposed operating agreements to the Securities and Exchange Commission (SEC) for SEC review and approval on October 7 and 11, 1988. This letter submits a copy of the SEC application.

SERI has reviewed and concurs with the operating agreement.

Yours very truly,

R.F. Burski  
Manager  
Nuclear Safety & Regulatory Affairs

RFB/MJM/plm

Attachment

cc: E.L. Blake, W.M. Stevenson, J.A. Calvo, D.L. Wigginton, R.D. Martin,  
NRC Resident Inspector's Office (W3)

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PDR ADOCK 05000382  
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"AN EQUAL OPPORTUNITY EMPLOYER"

REID & PRIEST  
40 WEST 57<sup>TH</sup> STREET  
NEW YORK, N.Y. 10019-4097  
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DIRECT DIAL NUMBER

212 603-2142

New York, New York  
October 7, 1988

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Re: System Energy Resources, Inc.  
Nuclear Operations Consolidation

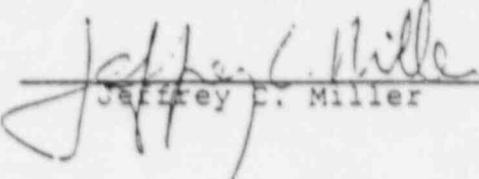
Gentlemen:

For filing with you via EDGAR pursuant to the Public Utility Holding Company Act of 1935, enclosed please find a Declaration on Form U-1 and Form 13-1 of Arkansas Power & Light Company, Louisiana Power & Light Company, and System Energy Resources, Inc. ("SERI") relating to the consolidation of all Middle South Utilities, Inc. System nuclear operations in SERI.

Very truly yours,

REID & PRIEST, COUNSEL of  
System Energy Resources, Inc.

By:

  
Jeffrey C. Miller

Enclosures

cc: Mr. William C. Weeden

File No. 70-

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM U-1  
DECLARATION  
under  
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

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Arkansas Power & Light Company 425 W. Capitol Street Little Rock, Arkansas 72203	Louisiana Power & Light Company 317 Baronne Street New Orleans, Louisiana 70112
--	---

System Energy Resources, Inc.  
One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201

(Name of companies filing this statement and addresses of  
principal executive offices)

---

Middle South Utilities, Inc.

(Name of top registered holding company parent of each applicant  
or declarant)

---

J. L. Maulden, President and Chief Executive Officer Arkansas Power & Light Company 425 W. Capitol Street Little Rock, Arkansas 72203	J. M. Cain, President and Chief Executive Officer Louisiana Power & Light Company 317 Baronne Street New Orleans, Louisiana 70112
---	---

W. Cavanaugh, III, President and  
Chief Executive Officer  
System Energy Resources, Inc.  
One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201  
(Names and addresses of agents for service)

The Commission is also requested to send copies of any communications in connection with this matter to:

McChord Carrico, Esq.  
Monroe & Lemann  
201 St. Charles Avenue  
New Orleans, Louisiana 70170

Paul B. Benham III, Esq.  
Friday, Eldridge & Clark  
2000 First Commercial Building  
Little Rock, Arkansas 72201

Robert B. McGehee, Esq.  
Wise Carter Child & Caraway  
Professional Association  
P.O. Box 651  
Jackson, Mississippi 39205

Jeffrey C. Miller, Esq.  
Reid & Priest  
40 West 57th Street  
New York, New York 10019

Item 1. Description of Proposed Transaction

(Item 1 has been completed in response to the requirements of Form U-1 and Form U-13-1).

System Energy Resources, Inc. ("SERI"), a subsidiary of Middle South Utilities, Inc. ("MSU"), a registered holding company under the Public Utility Holding Company Act of 1935 ("Act"), proposes herein to assume operating responsibility for all of the nuclear power plants of the MSU System ("System"). SERI currently has a 90% undivided ownership interest in the Grand Gulf Nuclear Project, and operates Grand Gulf Unit 1 for itself and a Mississippi electric cooperative, South Mississippi Electric Power Association ("SMEPA"), which owns a 10% undivided interest. Under the proposal SERI will assume all operating responsibilities for the Arkansas Nuclear One, Units 1 and 2, nuclear power plant ("ANO"), owned and operated by Arkansas Power & Light Company ("AP&L"), and the Waterford 3 nuclear power plant ("Waterford 3"), owned and operated by Louisiana Power & Light Company ("LP&L").

Both AP&L and LP&L are also subsidiaries of MSU. ANO and Waterford 3 ("Plants") will continue to be owned by AP&L and LP&L, respectively.

The Declarants believe that consolidation of operation of the System's nuclear power plants in one organization will enhance efficiency of operation and reduce costs, and is in accord with industry trends. It is anticipated that the consolidation of nuclear operations within SERI will be concluded on or about January 1, 1989.

It is proposed that SERI, under licenses to be granted by the Nuclear Regulatory Commission ("NRC"), will operate the Plants as agent for, and pursuant to separate operating agreements with, AP&L and LP&L ("Agreements"). These Agreements will provide that all costs incurred will be paid by SERI with funds directly provided by AP&L and LP&L or will be billed to AP&L and LP&L at SERI's cost pursuant to the applicable rules and regulations of the Securities and Exchange Commission ("Commission") under the Act. The Agreements also provide for indemnities between SERI and AP&L and SERI and LP&L in connection with the service activities. Reference is made to Exhibits B-1 and B-2 hereto.

SERI is a corporation organized under the laws of the state of Arkansas. Its original formation as Middle South Energy, Inc. was approved by the Commission

on June 4, 1974 in Holding Company Act Release No. 18437, File No. 70-5399.

Pursuant to the terms of an Operating Agreement dated as of May 1, 1980 between SERI and SMEPA, SERI operates the 10% portion of Grand Gulf 1 owned by SMEPA and SMEPA pays an allocable share of Grand Gulf 1 operating expenses. This arrangement was approved by the Commission on October 30, 1980, in Holding Company Act Release No. 21,770, File No. 70-6337.

SERI currently has 1,000,000 shares of authorized common stock, no par value. There are no other classes of stock authorized. Currently, SERI has 789,350 shares of common stock issued and outstanding. MSU owns 100% of SERI's outstanding common stock, and paid \$1,000 for each share.

SERI does not anticipate the need to raise any additional capital for this proposed transaction since it will not be financing the service activities proposed herein; however, in the event that it becomes necessary for SERI to raise additional capital, further authorization will be sought from the Commission prior to such action.

SERI plans to acquire no new property to enable it to engage in its servicing activities. If SERI needs to acquire any property or engage in any construction for the improvement of the facilities owned by AP&L or LP&L,

SERI will acquire such property, or engage in any construction, as agent for AP&L or LP&L. SERI will, pursuant to the Agreements, include the costs of such acquisitions in the Costs of Operation and Costs of Capital Improvements, and AP&L or LP&L will own such acquired or constructed property.

It is proposed that, upon obtaining all requisite regulatory approvals, SERI will assume, pursuant to the Agreements, responsibility for the operation of the Plants as agent for the owning companies. Upon approval of the arrangement, essentially all employees of the respective owning utilities based at the nuclear plants will become employees of SERI. In addition, essentially all nuclear support employees of LP&L and AP&L will be transferred to SERI. SERI currently has an employee force of almost 1,200. AP&L would, under the plan, transfer approximately 1,100 employees to SERI, while LP&L would transfer about 850. Approximately 50 employees in the Nuclear Engineering Services Group of MSU System Services, Inc. would also be transferred to SERI.

The Agreements provide SERI with the power and sole authority to make any capital improvements and to operate the Plants subject to certain limitations as provided in the Agreements. All decisions relating to public health and safety will be made by SERI. However, the owning utility shall have the exclusive authority to

determine when the useful economic life of the plant has ended.

The Agreements specifically recognize that the owning utility of each Plant will continue to own all of the output of that Plant. Payment for SERI's operation of the Plants will be at cost in accordance with the Act and the rules thereunder. Specifically, the Agreements propose to charge costs of operation of each of the Plants to its respective owning utility. Thus, costs incurred in the operation of Waterford 3 will be charged to LP&L, and costs incurred in the operation of ANO will be charged to AP&L. All costs specifically related to a unit will be charged directly to that unit. Some costs, principally administrative and general costs, relating to functions which benefit more than one unit will be allocated based on reasonable and equitable methods as agreed to by SERI, AP&L and LP&L.

The Agreements provide for SERI and each respective owning utility to agree by November 1 of each year during the term of the Agreements upon maximum amounts to be paid by each utility for the following budget year with respect to Capital Improvements and Costs of Operation. In the Agreements, Capital Improvements mean any improvements, additions, modifications or replacements of property at the Plants that are properly capitalized and recorded on the owning utility's books of account as an

asset under the FERC Uniform System of Accounts and are in accordance with applicable rules and regulations of any regulatory authority having jurisdiction in the matter. The Agreements state that the word Operate and its derivatives means to possess, use, manage, control, maintain, repair, operate and decommission. Costs of Operation include all costs and expenses relating to the operation of the Plants, costs of decontamination and decommissioning and any related taxes incurred or accrued under the Agreements and attributable to the particular Plants. The Agreements explicitly provide that all such costs will be calculated in accordance with any applicable rules and regulations of the Commission under the Act. Pursuant to the Agreements, SERI agrees to furnish estimates of the above Costs of Operation, and Costs of Capital Improvements, expected to be owed for the next succeeding period, and the respective utility agrees to deposit such amounts pursuant to a payment method outlined in the Agreements. Each Agreement also provides for SERI to act as agent for each owner in the making of contracts related to the owner's Plant. Furthermore, each owner agrees to pay for costs incurred under such contracts.

The Agreements also contain provisions regarding indemnification. The pertinent provision is §6.2, which provides for SERI to indemnify the respective owning utility against all actual losses, costs, liabilities and

expenses (except for consequential damages as defined in the Agreements) resulting from SERI's gross negligence or willful misconduct (as defined in the Agreements). However, if in the performance of any of its duties under the Agreements, SERI otherwise incurs any liability to any third party, any amounts paid by SERI on account of such liability will be considered a Cost of Operation payable by the owning utility.

The Agreements further provide that the owning utility will indemnify and hold harmless SERI and its agents, officers, directors, shareholders and employees to the full extent permitted by law regardless of alleged or actual fault or negligence of SERI against any claims for consequential damages, death, injury or property damage to any of the owning utility's employees or agents, or to third persons not employed by SERI, and against any other claims, causes of action, damages or expenses, including attorney's fees, or any other penalties arising out of or in the course of performance of services by SERI under the Agreements.

Item 2. Fees, Commissions and Expenses

The estimated fees, commissions and expenses to be incurred in connection herewith will be filed by amendment.

Item 3. Applicable Statutory Provisions

A. The indemnification provisions contained in the proposed Agreements described in Item 1 are subject to Section 12(b) of the Act and Rule 45 thereunder.

B. The conduct of SERI's service activities is subject to Section 13(b) of the Act and Rules 86-91, 93 and 94 thereunder. In particular, SERI will be subject to the Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies and will be obligated to file annual reports on Form U-13-60 pursuant to Rule 94 under the Act. Declarants believe that the information set forth in this Declaration, as amended, includes substantially all of the information that would be required by a Form U-13-1, and that this Declaration, as amended, therefore constitutes a sufficient response to the requirements of such Form U-13-1. Any significant variations in the proposed transactions, including significant changes in SERI's organizational structure, services to be rendered or method of cost allocation, would be reported under a 60-day letter procedure prescribed by the Commission.

Item 4. Regulatory Approval

LP&L and AP&L have applied to the NRC to amend the operating licenses of Waterford 3 and ANO to allow SERI to operate each Plant. Final Commission approval

will be sought before the NRC has granted the operating license amendments.

The Arkansas Public Service Commission ("APSC") has previously issued to AP&L Certificates of Public Convenience and Necessity with regard to the operation of ANO. Concurrently with this declaration AP&L will file an application with the APSC for approval of the arrangement with SERI proposed herein. Reference is made to Exhibit D-3.

Both the Louisiana Public Service Commission ("LPSC") and the City of New Orleans ("CNO") have a right to investigate the reasonableness of contracts entered into by LP&L and the charges therefor in setting rates for LP&L. Approximately 98% of LP&L's revenues are subject to LPSC jurisdiction and the remainder are subject to CNO jurisdiction. Both the LPSC and the CNO are concurrently being requested by LP&L to review the proposed arrangement with SERI for the operation of Waterford 3. Reference is made to Exhibits D-4 and D-5.

Item 5. Procedure

SERI is scheduled to assume its service obligations on or about January 1, 1989. Accordingly, the parties hereby request that the Commission's order be issued as soon as practicable; waive a recommended decision by a hearing officer or any other responsible officer of the Commission; agree that the Staff of the Division of Investment Management may assist in the preparation of the

Commission's decision; and request that there be no waiting period between the date of issuance of the Commission's order and the date on which it is to become effective.

Item 6. Exhibits and Financial Statements

The following exhibits and financial statements are filed as a part of this Declaration:

- A- Not applicable.
- \*B-1 - Proposed Operating Agreement between SERI and AP&L.
- \*B-2 - Proposed Operating Agreement between SERI and LP&L.
- C- Not applicable.
- \*D-1 - NRC License Amendment Application for ANO 1 and 2.
- \*D-2 - NRC License Amendment Application for Waterford 3.
- \*D-3 - APSC Application.
- \*D-4 - LPSC Application.
- \*D-5 - CNO Application.
- F- Not applicable.
- \*F- Legal Opinions.
- \*\*G-1 - SERI's Articles of Incorporation, as amended and currently in effect (Exhibit 3(a) in 33-8253).
- \*\*G-2 - SERI's by-laws, as amended and currently in effect (Exhibit 19 to Form 10-Q for the quarter ended March 31, 1987, in 1-9067).

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\* To be supplied by amendment.

\*\* Supplied in response to the requirements of Form U-13-1.

\*(\*\*)G-3 - SERI's balance sheet as of the latest available date and profit and loss statement for the year ended on that date.

H - Form of notice.

(b) Financial Statements

Financial Statements of MSU and its subsidiary companies have been omitted since they are not deemed material to or necessary for a proper disposition of the proposed transactions.

Item 7. Information as to Environmental Effects

(a) The proposed transaction subject to the jurisdiction of the Commission and described in response to the requirements of Form U-1 relates only to the indemnification provisions outlined in Item 1 and the approval by the Commission of SERI a service company and has no environmental impact in and of itself.

(b) No.

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\*\* Supplied in response to the requirements of Form U-13-1.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this statement to be signed on their behalf by the undersigned thereunto duly authorized.

Dated: October 7, 1988 SYSTEM ENERGY RESOURCES, INC.

By /s/ Glenn E. Harder  
Glenn E. Harder  
Vice President-  
Accounting and Treasurer

ARKANSAS POWER & LIGHT COMPANY

By /s/ John Harton  
John Harton  
Vice President, Treasurer  
and Assistant Secretary

LOUISIANA POWER & LIGHT COMPANY

By /s/ Malcolm H. McLetchie  
Malcolm H. McLetchie  
Senior Vice President-  
Accounting and Finance

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35- )

Filings Under the Public Utility Holding Company Act  
of 1935 ("Act")

October , 1988

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) thereto is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by \_\_\_\_\_, 1988 to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of

any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After said date, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Arkansas Power & Light Company  
Louisiana Power & Light Company  
System Energy Resources, Inc.

(70- )

Arkansas Power & Light Company ("AP&L"), 425 W. Capitol Street, Little Rock, Arkansas 72203, Louisiana Power & Light Company ("LP&L"), 317 Baronne Street, New Orleans, Louisiana 70112 and System Energy Resources, Inc. ("SERI"), 188 East Capitol Street, One Jackson Place, Jackson, Mississippi 39201, subsidiaries of Middle South Utilities, Inc. ("Middle South"), a registered holding company, have filed a declaration pursuant to Sections 12(b) and 13(b) of the Act and Rules 45, 86-91, 93 and 94 thereunder.

It is proposed that SERI become the nuclear operating company for the Middle South system. SERI will become, pursuant to operating agreements ("Operating Agreements"), the operator, but not the owner, of the nuclear stations at Arkansas Nuclear One, Units 1 and 2 ("ANO") and Waterford 3 ("Waterford 3"). These stations will continue to be owned by AP&L and LP&L, respectively. SERI will continue to own and operate for itself and South

Mississippi Electric Power Association the Grand Gulf Nuclear Station.

The Operating Agreements will provide that all services provided by SERI will be billed to AP&L and LP&L at SERI's cost pursuant to the applicable rules and regulations under the Act. Costs incurred by SERI at each of the plants will be funded directly by the owning utility and paid by SERI, or will be allocated to the owning utility. The Operating Agreements also provide for indemnities between SERI and AP&L and SERI and IP&L in connection with the service activities. SERI will indemnify the respective owning utility against all actual losses, costs, liabilities and expenses (except consequential damages as defined in the Operating Agreements) resulting from SERI's gross negligence or willful misconduct as defined in the Operating Agreements. If SERI otherwise incurs any liability to any third party, any amounts paid by SERI to such third party will be a cost passed on to the owning utility.

It is proposed that, upon obtaining all requisite approvals, including Nuclear Regulatory Commission approval of a licensing amendment making SERI a co-licensee for ANO and Waterford 3, SERI will assume, pursuant to the Operating Agreements, responsibility for the operation of the plants. Upon approval of the arrangement, essentially all the employees currently

assigned to the nuclear operations area of the owning utilities will become employees of SERI.

Under the proposed Operating Agreements AP&L and LP&L will continue to own the entire output of ANO and Waterford 3, respectively.

For the Commission by the Division of Investment Management.

**REID & PRIEST**  
40 WEST 57<sup>TH</sup> STREET  
NEW YORK, N. Y. 10019-4097  
212 603-2000

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220534 RDPT UN  
FACSIMILE 212 603-2298  
DIRECT DIAL NUMBER

212 603-2142

New York, New York  
October 11, 1988

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Re: System Energy Resources, Inc.  
File No. 70-7570

Gentlemen:

For filing with you via EDGAR pursuant to the Public Utility Holding Company Act of 1935, enclosed please find Amendment No. 1 to the Declaration on Form U-1 of Arkansas Power & Light Company ("AP&L"), Louisiana Power & Light Company ("LP&L") and System Energy Resources, Inc. ("SERI") (File No. 70-7570) relating to the consolidation of all Middle South Utilities Inc. System nuclear operations in SERI.

Very truly yours,

REID & PRIEST, Counsel for  
System Energy Resources, Inc.

By: /s/ Jeffrey C. Miller  
Jeffrey C. Miller

Enclosures

cc: Mr. William C. Weeden

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM U-1

---

AMENDMENT NO. 1 TO  
DECLARATION ON FORM U-1  
UNDER  
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

---

System Energy Resources, Inc.  
188 East Capitol Street  
One Jackson Place  
Jackson, Mississippi 39201

Arkansas Power & Light Company  
425 W. Capitol Street  
Little Rock, Arkansas 72203

Louisiana Power & Light Company  
317 Baronne Street  
New Orleans, Louisiana 70112

(Name of companies filing this statement and  
addresses of principal executive offices)

---

Middle South Utilities, Inc.  
(Name of top registered holding company  
of each applicant or declarant)

---

William Cavanaugh, III  
President and Chief Executive Officer  
System Energy Resources, Inc.  
188 East Capitol Street  
One Jackson Place  
Jackson, Mississippi 39201

J. L. Maulden  
President and Chief Executive  
Officer  
Arkansas Power & Light Company  
425 W. Capitol Street  
Little Rock, Arkansas 72203

J. M. Cain  
President and Chief Executive  
Officer  
Louisiana Power & Light Company  
317 Baronne Street  
New Orleans, Louisiana 70112

(Name and addresses of agents for service)

The Commission is also requested to send copies of any communications in connection with this matter to:

McChord Carrico, Esq.  
Monroe & Lemann  
201 St. Charles Avenue  
New Orleans, Louisiana 70170

Paul B. Benham, Esq.  
Friday, Eldredge & Clark  
2000 First Commercial Building  
Little Rock, Arkansas 72201

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Professional Association  
P.O. Box 651  
Jackson, Mississippi 39205

Jeffrey C. Miller, Esq.  
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40 West 57th Street  
New York, New York 10019

Item 6. Exhibits and Financial Statements

The following exhibits and financial statements are filed as part of this Declaration:

- B-1 - Proposed Operating Agreement between SERI and AP&L.
- B-2 - Proposed Operating Agreement between SERI and LP&L.
- D-1 - NRC License Amendment Application for ANO 1 and 2.
- D-2 - NRC License Amendment Application for Waterford 3.
- D-3 - APSC Application.
- D-4 - LPSC Application.
- D-5 - CNO Application.
- \*\*G-3 - SERI's balance sheet as of the latest available date and profit and loss statement for the year ended on that date.

\*\* Supplied in response to the requirements of Form U-13-1.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this amendment to be signed on their behalf by the undersigned thereunto duly authorized.

Dated: October 11, 1988 SYSTEM ENERGY RESOURCES, INC.

By: /s/ Glenn E. Harder  
Glenn E. Harder  
Vice President-  
Accounting and Treasurer

ARKANSAS POWER & LIGHT COMPANY

By: /s/ John Harton  
John Harton  
Vice President, Treasurer  
and Assistant Secretary

LOUISIANA POWER & LIGHT COMPANY

By: /s/ Malcolm H. McLetchie  
Malcolm H. McLetchie  
Senior Vice President-  
Accounting and Finance

REID & PRIEST  
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220534 RDPT UR  
FACSIMILE 212 603 2298  
DIRECT DIAL NUMBER

212 603-2142

New York, New York  
October 11, 1988

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

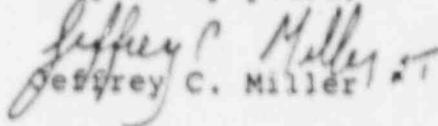
Re: System Energy Resources, Inc.  
File No. 70-7570

Gentlemen:

Enclosed for filing with the Securities and Exchange Commission ("SEC") please find one executed and two conformed copies of Form SE, dated October 11, 1988, of Arkansas Power & Light Company ("AP&L"), Louisiana Power & Light Company ("LP&L") and System Energy Resources, Inc. ("SERI"), together with Exhibits B-1, B-2, D-1, D-2, D-3, D-4, D-5 and G-3 relating to Amendment No. 1 to AP&L's, LP&L's and SERI's Declaration on Form U-1 ("U-1") which is being filed with the SEC today and relates to the proposed consolidation of all Middle South Utilities, Inc. System nuclear operations in SERI. Amendment No. 1 to the U-1 is being filed with you by a direct transmission to the EDGAR System.

Please stamp and return the enclosed copy of this letter to acknowledge receipt of the filing.

Very truly yours,

  
Jeffrey C. Miller

Enclosures

cc: Mr. William C. Weeden

OMB APPROVAL  
OMB Number 3235-0327  
Expires October 31, 1989

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM SE Dated October 11, 1988

(FORM FOR EXHIBITS UNDER THE EDGAR PILOT)

<u>Amendment No. 1 to Declaration on Form U-1</u>	<u>70-7570</u>
Report, Schedule or Statement of Which the Documents Are a Part	SEC File No. of Form, Schedule or Statement
<u>System Energy Resources, Inc.</u>	<u>202584</u>
(Exact Name of Registrant As Specified In Charter)	Registrant CIK Number

Name of Person Other than the Registrant Filing the Form, Schedule or Statement

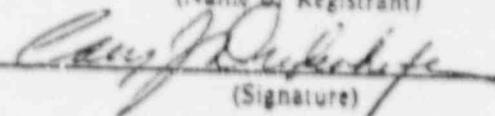
The undersigned hereby files the following documents:

Attach an exhibit index and the exhibits not filed electronically as required by  
Item 601 of Regulation S-K, the applicable Form, Schedule or Statement.

SIGNATURES: Complete A or B, as Appropriate  
See General Instructions to Form SE

A. Filings Made on Behalf of the Registrant: The Registrant has duly caused this form to be signed on its behalf by the under-  
signed, thereunto duly authorized, in the City of New Orleans, State of Louisiana  
on the 11th day of October, 1988.

System Energy Resources, Inc.  
(Name of Registrant)

By:   
(Signature)

Cary J. Dudenhefer  
(Print Name)

Assistant Secretary  
(Title)

B. Filings Made by Persons Other Than the Registrant: After reasonable inquiry and to the best of my knowledge and belief,  
I certify that the information set forth in this statement is true, complete and correct.

\_\_\_\_\_  
(Date) (Signature)

\_\_\_\_\_  
(Print the Name and Title of Each Person Who Signs the Form)

EXHIBIT INDEX

FORM SE

dated October 11, 1988

SYSTEM ENERGY RESOURCES, INC.  
[202584]

- B-1 - Proposed Operating Agreement between SERI and AP&L.
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- D-3 - APSC Application.
- D-4 - LPSC Application.
- D-5 - CNO Application.
- G-3 - SERI's balance sheet as of the latest available date and profit and loss statement for the year ended on that date.

ARKANSAS NUCLEAR ONE  
OPERATING AGREEMENT

This Operating Agreement is made and entered into as of \_\_\_\_\_, 1988 between System Energy Resources, Inc. (SERI) and Arkansas Power & Light Company (AP&L).

WHEREAS, both of the parties hereto are wholly owned subsidiaries of Midco South Utilities, Inc. (MSU) and,

WHEREAS, AP&L is an electric utility that generates, transmits and distributes electricity primarily in the States of Arkansas and Missouri and that owns a nuclear power plant near Russellville, Arkansas, known as Arkansas Nuclear One (ANO); and

WHEREAS, AP&L is the holder of Facility Operating License No. DPR-51 for ANO, Unit 1, and Operating License No. NPF-6 for ANO, Unit 2, issued by the NRC; and

WHEREAS, AP&L desires that SERI assume operating responsibility for - but not ownership of - ANO; and

WHEREAS, AP&L desires that such operating responsibility be consistent with AP&L's obligations and responsibilities under all pertinent Arkansas and federal law; and

WHEREAS, AP&L desires to contract with SERI so as to enable SERI to possess, use and operate ANO, and SERI desires to undertake such responsibility, all subject to and in accordance with the terms and conditions set forth herein;

NOW THEREFORE, IN CONSIDERATION of the mutual obligations set forth herein, the parties hereto agree to the following:

ARTICLE I.

DEFINITIONS

As used herein:

1.1 "Application" means the Application of AP&L (consented to by SERI) before the Nuclear Regulatory Commission to amend the Operating License so as to authorize and reflect in the license the change from AP&L to SERI as the licensee authorized to possess, use and operate ANO, as previously or hereafter supplemented or amended.

1.2 "Arkansas Nuclear One" ("ANO") means the two-unit ("ANO-1" and "ANO-2") nuclear-powered electric generating station owned by AP&L and located on a site in southwestern Pope County, Arkansas, about six miles west-northwest of Russellville, Arkansas on a peninsula formed by the Dardanelle Reservoir. ANO includes all the real property owned by AP&L at the site, and all buildings, structures, facilities and equipment located thereon. This

Operating Agreement delineates certain specific structures, facilities and equipment located at ANO that AP&L will continue to operate and maintain; e.g., certain switchyard breakers, transmission lines and related equipment that are downstream of the generating units' main output breakers.

1.3 "Capital Improvements" means improvements, additions, modifications or replacements of property at ANO that are properly capitalized and recorded on AP&L's books of account as assets under the FERC Uniform System of Accounts and are in accordance with applicable rules and regulations of any regulatory authority having jurisdiction in the matter.

1.4 "Consequential Damages" means incidental, indirect or special damages including, but not limited to, loss of profits or revenue, loss of use of power or property, cost of capital, cost of purchased or replacement power, inventory or use charges, claims of customers or third parties for service interruptions and any other incidental, indirect, or special damages of any nature.

1.5 "Costs of Capital Improvements" means all costs of Capital Improvements as defined in Section 1.3 herein.

1.6 "Costs of Operation" or "Cost of Operation" means all costs of Operation, decontamination and decommissioning and any related taxes incurred or accrued

under or with respect to this Operating Agreement and attributable or allocable to ANO and properly recordable in expense accounts under the FERC Uniform System of Accounts. These costs shall include, without limitation, any costs incurred in connection with the Operation of ANO, but excluding (a) costs of Nuclear Fuel that is owned by AP&L or leased directly by AP&L from one or more third parties and (b) losses, costs, liabilities and expenses (except for Consequential Damages as defined in Section 1.4 herein) directly resulting from the Gross Negligence or Willful Misconduct of SERI. All of such Costs of Operation shall be calculated, and allocation of such costs shall be made as the parties shall from time to time agree, and shall be made in accordance with any applicable rules and regulations of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, the FERC under the Federal Power Act and other regulatory authorities having jurisdiction in the matter.

1.7 "Effective Date" means the effective date of this Operating Agreement as determined pursuant to Section 8.1.

1.8 "FERC" means the Federal Energy Regulatory Commission or its successor.

1.9 "Force Majeure" means any act, delay or failure to act on the part of any state or federal

governmental authority, whether legislative, executive, judicial or administrative, including delay or failure to act by any governmental authority in the issuance of permits or licenses required in connection with ANO, and the prohibiting of acts necessary to performance hereunder or the permitting of any such acts only subject to unreasonable conditions; acts of God, damage, accidents or disruptions, including, but not limited to, fire, flood, explosion, tornado, hurricane, earthquake, windstorm, or equipment breakdown; failure or delay beyond either party's reasonable control in securing necessary financing, materials, equipment, services or facilities; forced outages or forced unit deratings; labor difficulties such as strikes, slowdowns or shortages; delays in transportation, civil unrest, disturbances, demonstrations; or any other cause beyond the affected party's reasonable control.

1.10 "Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant proportion of the electric utility industry at the time of the reference, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with reliability, safety and expedition. Good Utility Practice shall apply not only to

functional parts of ANO, but also to appropriate structures, landscaping, signs, lighting and other facilities and public relations programs reasonably designed to promote the public's understanding and acceptance of ANO. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of prudent and acceptable practices, methods or acts.

1.11 "Gross Negligence and/or Willful Misconduct" means any act or omission by or authorized by a party's officers or Board of Directors that is performed, authorized or omitted consciously with prior actual knowledge or with reckless disregard of facts indicating that such conduct or omission is likely to result in actionable damages or injury to persons or property or to result in a violation of laws or regulations.

1.12 "NRC" or "Nuclear Regulatory Commission" means the United States Nuclear Regulatory Commission or its successor having responsibility for administration of the licensing and regulation of the operation of nuclear utilization facilities under the Atomic Energy Act of 1954 and amendments thereto.

1.13 "Nuclear Fuel" means any source, special nuclear or by-product material as defined in the Atomic Energy Act of 1954 and any amendments thereto, including any

ores, mined or unmined, uranium concentrates, natural or enriched uranium hexafluoride, or any other material in process containing uranium, and any fuel assemblies or parts thereof, any of which are required for the generation of electricity at ANO.

1.14 "Operate" and its derivatives means to possess, use, manage, control, maintain, repair, operate and decommission.

1.15 "Operating License" means the Facility Operating License No. DPR-51 for ANO, Unit 1 and Operating License No. NPF-6 for ANO, Unit 2 and amendments thereto as issued from time to time by the NRC.

## ARTICLE II.

### SERI'S AUTHORITY AND RESPONSIBILITY WITH RESPECT TO OPERATION OF ANO

2.1 Authority for Operation. SERI and AP&L agree that SERI shall take all actions necessary to make Capital Improvements to ANO in accordance with Good Utility Practice and in the best interest of AP&L. SERI shall take all action necessary to Operate ANO in accordance with Good Utility Practice, and SERI is solely responsible for the manner of Operation of ANO, the manner of accomplishing the work, shall use its own methods in Operating ANO and is not subject to the control of AP&L in any respect with regard to the performance of the operation of ANO. AP&L hereby grants

SERI the authority to take any and all action, in AP&L's name and on AP&L's behalf, necessary to obtain and/or maintain all licenses and permits issued by the NRC or other regulatory bodies relating to ANO and necessary to comply with all applicable regulations of the NRC and other governmental bodies having jurisdiction over any aspect of the Cost of Operation, Cost of Capital Improvements, making of Capital Improvements and/or Operation of ANO. Without limiting the foregoing delegation, SERI shall act as the agent for AP&L in all matters related to NRC licensing of ANO. Furthermore, SERI shall provide AP&L with data and assistance as may be requested by AP&L to enable AP&L to satisfactorily discharge, as the owner of ANO, its responsibilities with regard to ANO, including its responsibilities to its securities holders, to regulatory authorities and others. SERI shall Operate, and make Capital Improvements at, ANO in accordance with the Operating License and applicable laws and regulatory requirements and shall have sole authority, as the Operator of ANO, to make all decisions relating to public health and safety. Subject to the provisions of Sections 2.2 and 2.3 herein, in order to enable SERI fully and effectively to perform its duties hereunder, SERI shall have, and AP&L does hereby grant to SERI, the power and authority to exercise in accordance with applicable laws, the rights of AP&L under

and to execute, modify, amend or terminate any contracts, including, without limitation, leases, easements, agreements, purchase orders, licenses, permits and privileges relating to the Operation of, and making of Capital Improvements to ANO, as agent for AP&L for such contracting purposes. SERI may perform its duties hereunder through its employees or non-affiliated persons. Except as provided in Section 11.5 hereof, the duties of AP&L and SERI hereunder shall be subject in all events to receipt of any further necessary consents or regulatory approvals. Subject to SERI's obligations and responsibilities under this Operating Agreement, the Operating License and applicable laws and regulatory requirements, SERI agrees that it shall comply with directions from AP&L relating to the making of Capital Improvements (including the costs thereof) of ANO.

#### 2.2 Limitation on SERI's Authority.

Notwithstanding Section 2.1 above, SERI shall have no authority under this Operating Agreement without the written approval of AP&L, which approval shall not be unreasonably withheld, (a) to obligate AP&L to pay Costs of Capital Improvements and Costs of Operation that are either materially different from or in excess of the expenditures to be agreed upon pursuant to Section 5.1 herein, (b) to obligate AP&L to pay Costs of Capital Improvements that have not been approved pursuant to AP&L's policy with respect to

its Board of Director's approval of capital expenditures, (c) to modify, amend or terminate any contracts executed by AP&L that are existing and were in effect prior to the Effective Date and that are presently or in the future will be categorized as material by AP&L, (d) to sell, encumber or otherwise dispose of any real property or any equipment or personal property comprising ANO, and/or (e) to sell or otherwise dispose of capacity and energy from ANO. In addition, AP&L shall have exclusive authority to define the economic life and to determine when the economic life of ANO has ended and, in its sole discretion, may direct SERI, in writing, to retire and decommission ANO or to Operate ANO at reduced capacity and/or to place ANO in a safe shutdown condition; provided, however, SERI shall take such action in a manner which it determines, in its sole judgment, is consistent with public health and safety, the Operating License and applicable laws and regulations. In addition, SERI is authorized to Operate ANO at a reduced capacity or otherwise to place ANO in a safe shutdown condition at any time SERI determines such action is necessary to comply with the Operating License and applicable laws and regulations. All costs incurred by SERI in taking such action relating to decommissioning or shutdown of ANO shall be considered Costs of Operation or Costs of Capital Improvements, as the case may be. With respect to acquisitions by SERI, as AP&L's

agent for such purpose, of Capital Improvements and other equipment or property, including, but not limited to, materials, supplies and spare parts inventories, for ANO, AP&L's Chief Financial Officer shall provide SERI from time to time as necessary with instructions or guidelines as to the preferred financial structure of such acquisitions (i.e. purchase, lease, etc.), which shall be used in implementing such acquisitions.

### 2.3 Execution; Disclosures in Third-Party

Contracts. Contracts relating to the Operation of ANO, including, without limitation, any contracts for Capital Improvements or contracts for the sale, lease or acquisition of materials, inventories, supplies, spare parts, equipment, fuel, Nuclear Fuel (excluding contracts for the financing through lease or otherwise for Nuclear Fuel) or services, shall be executed by SERI, as agent for AP&L for this purpose, or by AP&L, upon SERI's reasonable request. If a contract subject to Section 2.1 relates to both ANO and one or more other power plants that are Operated by SERI, such contracts ("Multi-Plant Contracts") shall be executed by AP&L at SERI's request on reasonable grounds or by SERI on behalf of AP&L and the owners of the other applicable plants. SERI further agrees that with respect to Multi-Plant Contracts, SERI will not enter into such Multi-Plant Contracts without the prior written consent of

AP&L unless such contract contains a provision for several but not joint liability of the owners of the plants under such Multi-Plant Contracts in proportion to the costs allocated to the various power plants under such contracts. In order to induce third parties to contract with SERI with regard to the performance of SERI's obligations under this Operating Agreement, AP&L hereby expressly agrees to be bound by the terms of all contracts executed by SERI in accordance with its agency authority as described herein (including, without limitation, any provisions that limit or protect against a third party's liability, provisions granting indemnity to third parties and limitations or exclusions of warranties) to the same extent as if AP&L were an original signatory to such contract. In addition, if AP&L's signature is deemed by SERI to be necessary to induce a third-party to contract with SERI, AP&L agrees to not unreasonably refuse to execute such additional third-party agreements as SERI may request from time to time. It is further agreed that the Chief Financial Officer of AP&L shall notify SERI in writing of the contracts or types of contracts related to ANO that are to be executed by SERI, in its capacity as AP&L's agent for that purpose, that AP&L desires to review in order for AP&L to monitor and evaluate the potential impact on AP&L of such contracts and to advise SERI of such impact so that SERI shall take all steps to

protect AP&L's interest. Accordingly, SERI agrees to provide AP&L copies of such contracts within a reasonable time prior to SERI's proposed execution thereof.

2.4 Enforcement of Rights.

A. AP&L hereby recognizes that, except with respect to facts and circumstances existing, or litigation instituted by or against AP&L prior to the Effective Date, SERI has complete and exclusive authority with respect to the handling of the defense, prosecution and/or settlement of disputes with third parties relating in any way to ANO, provided that SERI shall obtain AP&L's written consent prior to instituting or settling any lawsuit, claim, proceeding or action relating to ANO which is of a type categorized as material by AP&L.

B. With respect to litigation relating to ANO that arises out of facts or circumstances existing prior to the Effective Date, AP&L shall in consultation with SERI decide upon the appropriate manner of defending, prosecuting or settling such litigation.

C. Subject to Section 6.2, it is further agreed that to the extent SERI incurs any liability to a third party in performing its duties under this Operating Agreement, amounts paid by SERI on account of such liability and SERI's expenses in defending claims by third parties or

prosecuting claims against third parties shall be considered  
Costs of Operation.

2.5 SERI's Responsibilities at Other Plants.

SERI's duties and responsibilities under this Operating Agreement shall not be construed to interfere with SERI's authority and responsibility to Operate any other plants for which it has operating responsibility; provided, however, that SERI hereby agrees that it will not knowingly take any action or fail to take any action in connection with ANO that is inconsistent with Good Utility Practice and puts AP&L at a disadvantage to SERI or to the owners of such other plants.

ARTICLE III.

AP&L'S RESPONSIBILITY AND OBLIGATIONS

3.1 Payment. In consideration of the services rendered by SERI hereunder, and subject to the provisions of this Operating Agreement, AP&L hereby agrees to pay to SERI the Costs of Operation and Costs of Capital Improvements pursuant to Article V hereof.

3.2 Site Access and Control. In order for SERI to Operate ANO in accordance with the Operating License and other applicable regulatory requirements, AP&L grants SERI possession and use of the property constituting ANO and agrees to provide SERI, its agents, employees and contractors unrestricted access to the property constituting

ANO, including, without limitation, the real property and the switchyard, facilities, equipment and personal property located on the ANO site. As required by the Operating License and applicable statutes, and NRC regulations, AP&L further agrees that SERI shall have authority to exercise complete control over the Exclusion Area as defined in the Safety Analysis Report for ANO and to determine all activities within that area. Toward this end, AP&L hereby assigns to SERI its rights under an easement with the United States Army Corps of Engineers (No. DACW03-2-76-322) to exercise exclusion area control with respect to certain specified Dardanelle Reservoir bed and bank properties owned by the United States Government.

3.3 Support Services from AP&L. AP&L agrees that it will cooperate with SERI in a manner so that SERI may exercise its authority and fulfill its responsibilities pursuant to this Operating Agreement. In this connection, AP&L further agrees to provide (1) ANO switchyard, switching station, and transmission line services and other support in accordance with a separate Memorandum of Understanding to be executed by the parties contemporaneously with the execution of this Operating Agreement, an executed copy of which is attached hereto as Exhibit A, as such exhibit may be hereafter supplemented or amended, (2) support for the ANO Emergency Plan and emergency training and drills in

accordance with a separate agreement to be executed by the parties contemporaneously with the execution of this Operating Agreement, an executed copy of which is attached hereto as Exhibit B, as such exhibit may be hereafter supplemented or amended, and (3) essential support for ANO in accordance with a separate agreement to be executed contemporaneously with the execution of this Operating Agreement, an executed copy of which is attached hereto as Exhibit C, as such exhibit may be hereafter supplemented or amended. Subject to its reasonable capability and availability, AP&L agrees to provide additional services or assistance required by SERI and agreed to by AP&L in writing in connection with the Operation of ANO, including, without limitation, the following: (1) communications access and support, (2) transportation support, (3) payroll and personnel assistance, and (4) other services as may be required in order to allow SERI to conduct safe, economic and efficient operations at ANO.

3.4 No Changes to Facilities, Procedures or Practices. So that SERI will be capable of Operating ANO in accordance with the Operating License and other applicable regulatory requirements, AP&L agrees that it will not make any changes to facilities, procedures or practices that affect compliance with NRC regulations or commitments, including, but not limited to, physical changes to the

electrical transmission or distribution facilities that directly provide an off-site power supply to ANO without prior consultation with and written consent from SERI, which consent SERI shall not unreasonably withhold.

3.5 Offsite Power Supply. AP&L agrees that it shall provide ANO with an assured source of offsite power in accordance with procedures to be agreed upon, from time to time, by the parties.

#### ARTICLE IV.

##### ENTITLEMENT TO CAPACITY AND ENERGY

4.1 Entitlement and Delivery of Capacity and Energy. AP&L, at all times during the term of this Agreement, shall be and remain the owner of, and shall be entitled to all of, the capacity and energy from ANO.

4.2 Determination of Output. Net positive output of ANO shall be the gross generation of ANO, less station service requirements, and less adjustments for losses experienced. In the event the output is negative (i.e., station service and losses exceed the gross generation) AP&L shall be responsible for providing necessary power at ANO during such period in accordance with Good Utility Practice and Section 3.5 herein.

## ARTICLE V.

PAYMENT; AUDIT AND INSPECTION RIGHTS

5.1 Payment Obligation. On or before November 1 (or such other dates as may be agreed to by the parties) of each year during the term of this Operating Agreement, (1) SERI will submit for AP&L's review and approval the total annual construction budget for ANO, the annual operating and construction programs (as used herein the term "annual operating and construction programs" shall include details of the budgeted costs for those programs) for ANO, and the components of SERI's five-year business plan that relate to ANO, and (2) SERI and AP&L will agree in writing upon maximum amounts to be paid, within parameters of the then-current SERI five-year business plan, by AP&L for the following budget year pursuant to this Operating Agreement with respect to (i) Costs of Capital Improvements and (ii) Costs of Operation. AP&L and SERI recognize that mutually agreeable adjustments may be made to such maximum amounts to be paid and/or to the previously approved construction budget, operating and construction programs or the components of SERI's five-year business plan relating to ANO, from time to time during any budget year, to reflect the impact of force majeure, unforeseen circumstances, financial constraints or other events. Without limiting AP&L's obligations under Section 6.2, AP&L agrees to pay any

and all Costs of Operation and Costs of Capital Improvements within such maximum amounts to be paid and consistent with the previously approved construction budget and operating and construction programs, but AP&L shall not be obligated to pay Costs of Operation and Costs of Capital Improvements in excess of the applicable maximum expenditure limitations or which differ materially from the types of expenditures reflected in the construction budget and operating programs previously approved by AP&L, except for any such excess or different Costs of Operation and Costs of Capital Improvements that AP&L agrees to pay. It is further agreed that SERI will keep AP&L timely informed and obtain AP&L's approval regarding projects which are reasonably anticipated to cause a material change to the components of the then-current SERI five-year business plan that relate to ANO as previously approved by AP&L.

5.2 Payment and Billing. Subject to Section 5.1 above and in accordance with procedures to be agreed upon in writing by the parties, SERI hereby agrees to furnish AP&L, at such times as may be required by AP&L, estimates of the Costs of Operation and Costs of Capital Improvements expected to be owed by AP&L for the next succeeding period. AP&L shall promptly deposit in the bank account(s) to be established pursuant to Section 5.3 such funds as shall be adequate to pay SERI and third parties on a timely basis

with respect to Costs of Capital Improvements and Costs of Operation. In addition, AP&L will pay for costs incurred under any contracts relating to ANO with respect to which SERI, as agent for that purpose, has approved and has directed the third party to provide direct billing to AP&L. Payments of the Costs of Capital Improvements and Costs of Operation specified herein shall be made notwithstanding the availability or lack of availability of ANO to produce power. No payment made pursuant to this Operating Agreement shall constitute a waiver of any right of AP&L to question or contest the correctness of Costs of Capital Improvements and Costs of Operation charged to AP&L.

5.3 Bank Accounts. The parties agree that one or more special bank accounts may be established and maintained in one or more banks of AP&L's choice, in a manner that will indicate the custodial nature of the accounts, for the deposit by AP&L and disbursement by SERI or AP&L of Costs of Capital Improvements and Costs of Operation.

5.4 Audit and Adjustments. SERI shall maintain books and records to support the Costs of Capital Improvements and Costs of Operation for such period of time as AP&L shall direct. From time to time, AP&L may, and SERI shall permit, at AP&L's option and expense as appropriate, in accordance with any applicable Middle South Utilities System established auditing policies (excluding any such

policy that would limit or preclude the right of AP&L to conduct such audits), conduct or cause to be conducted by others, (including regulatory authorities having jurisdiction, audits of the books and records of SERI. Such audits shall be conducted at reasonable mutually agreed upon times, with agreement not being unreasonably withheld. Further, SERI shall make available to AP&L a copy of any audit reports prepared by or at the request of SERI concerning its books and records relating to the Operation of ANO, and the cost of preparing such audit reports shall be a Cost of Operation payable pursuant to this Article V. SERI shall credit AP&L with recoveries, whenever received, from third parties and shall charge or credit AP&L with any underpayments or overpayments of Costs of Capital Improvements and Costs of Operation, as the case may be. Force Majeure shall not excuse failure by SERI to credit AP&L with third-party recoveries or overpayments of Costs of Capital Improvements and Costs of Operation owing at any time.

#### ARTICLE VI.

##### LIMITATION OF LIABILITY; INDEMNITY

6.1 Release and Limitation of Liability. To the fullest extent permitted by applicable law, AP&L shall not be entitled to recover from and hereby expressly releases, SERI, its agents, officers, directors, shareholders or

employees (except to the extent AP&L shall be entitled to share in insurance recoveries obtained by SERI hereunder) from or for any damages, claims, causes of action, losses and/or expenses of whatever kind or nature, including, but not limited to, attorneys' fees, that are in any way, directly or indirectly, connected with SERI's Operation of ANO or for any damage thereto, whether arising in tort, fraud, contract, strict liability, negligence or any other theory of legal liability or as a result of fines or other penalties imposed by the NRC or other governmental authority, unless such damages, claims, causes of action, losses and/or expenses (other than Consequential Damages, which shall not be recoverable from SERI in any event) shall have resulted from the Gross Negligence and/or Willful Misconduct of SERI. In no event shall SERI or its agents, officers, directors, shareholders or employees be liable to AP&L for any loss or damage suffered by AP&L in connection with SERI's performance under this Operating Agreement in an amount greater than AP&L's uninsured loss or for any Consequential Damages. The duty of SERI to perform its obligations under this Operating Agreement in accordance with Good Utility Practice shall be construed or modified to the extent necessary to give full effect to the provisions of this Article VI.

## 6.2 Indemnities.

A. SERI shall indemnify AP&L against all actual losses, costs, liabilities, fines imposed by the NRC or other regulatory body, and expenses (except for Consequential Damages) resulting from SERI's Gross Negligence and/or Willful Misconduct in performing this Operating Agreement, but in the event AP&L, as a result of the performance of duties pursuant to this Operating Agreement otherwise incurs any liability to any third party, any amount paid by SERI on account of such liability shall be considered Costs of Operation to be paid by AP&L pursuant to Article V.

Workers Compensation benefits payable by SERI as a result of performing this Operating Agreement shall also be considered Costs of Operation to be paid by AP&L pursuant to Article V.

B. AP&L shall indemnify and hold SERI and its agents, officers, directors, shareholders and employees harmless, to the fullest extent permitted by applicable law and regardless of alleged or actual fault, strict liability, and/or sole or concurrent negligence of SERI, against any claims for death, injury or property damage to any of AP&L's employees or agents or to third persons not employed by SERI, and against any other claims, causes of action, damages or expenses, including, but not limited to, attorneys' fees, NRC fines or penalties of whatever kind or nature arising directly out of or in the course of

performance of services by SERI under this Operating Agreement, except for such injuries or damages (excluding Consequential Damages) which arise out of the Gross Negligence and/or Willful Misconduct of SERI and except to the extent such injuries or damages have been compensated through insurance proceeds. It is further agreed that AP&L shall indemnify and hold SERI and its agents, officers, directors, shareholders and employees harmless, regardless of actual or alleged fault, strict liability, negligence (whether sole or concurrent) or Gross Negligence and/or Willful Misconduct of SERI, against any claims for Consequential Damages.

#### ARTICLE VII.

##### INSURANCE

7.1 With respect to ANO, SERI will provide Workers Compensation coverage in accordance with all applicable laws. SERI will also, acting for itself or acting as AP&L's agent for that purpose, provide and maintain or cause to be provided and maintained, in the name of and on behalf of AP&L and SERI, as their respective interests may appear, protection through insurance or otherwise covering SERI's and AP&L's obligations to pay damages because of personal injury, death, or property damage caused by other than nuclear energy hazard, including, without limitation, protection through insurance

or otherwise covering nuclear property and nuclear liability, and other insurance and financial protection in accordance with customary industry practice and as necessary to comply with all applicable laws and regulations. AP&L, after consultation with SERI, shall determine the coverage limits and deductibles for any insurance policies obtained pursuant to this Agreement.

7.2 SERI will establish necessary procedures, cooperate with the insurers and otherwise comply with requirements of the insurers to maintain coverages in effect and to obtain payment of claims recoverable under such insurance applicable to ANO.

#### ARTICLE VIII.

##### TERM AND TERMINATION

8.1 Term. This Agreement shall become effective \_\_\_\_\_, 1988 and, unless sooner terminated as provided hereinafter, it shall remain in effect, subject to Section 8.2 below, until ANO shall have been retired and decommissioned in accordance with all applicable regulatory and governmental requirements and the parties hereto agree in writing, with agreement not to be unreasonably withheld, that all responsibilities hereunder have been fulfilled.

8.2 Termination. This Operating Agreement may be terminated prior to the expiration of the term as set forth in Section 8.1 above, subject to receipt of any and all

necessary regulatory approvals, upon (1) agreement of the parties hereto or (2) either party giving the other party at least three hundred sixty-five (365) days' prior written notice of the intention to effect such termination. In addition, this Operating Agreement shall be cancelled to the extent and from the time that performance hereunder may conflict with any rule, regulation or order of the Securities and Exchange Commission adopted before or after the execution hereof. SERI agrees that any and all licenses, permits, records, books, privileges or rights acquired by SERI relating to Operation of ANO shall be assigned or otherwise transferred to AP&L upon termination of this Operating Agreement.

8.3 Survival. The indemnification, release, and limitation of liability provisions contained in Article VI shall survive termination to the extent they pertain to events giving rise to such indemnification, release and liability that occurred during the term of this Operating Agreement. Further, it is agreed that in no event shall this Operating Agreement terminate unless all payments required to have been made by AP&L to SERI or by SERI to AP&L, as the case may be, shall have been made and all necessary regulatory approval for transfer of responsibility of ANO shall have been obtained.

ARTICLE IX.

INFORMATION PROVIDED TO AP&L

9.1 Reports to AP&L. When required by AP&L, SERI shall provide data and/or reports to AP&L to support Costs of Capital Improvements and Costs of Operation payable by AP&L so as to allow AP&L to comply with any applicable laws and any rules and regulations promulgated by regulatory authorities. SERI shall also comply with any other reasonable reporting requirements.

9.2 Site Access. AP&L or its designee, shall have access to ANO, subject to SERI's obligation to limit such access pursuant to the Operating License and the applicable rules and regulations of the NRC or other regulatory authorities.

ARTICLE X

TRANSFERS OF PERSONNEL

10.1 Transfer. AP&L non-bargaining unit employees who are selected by AP&L and SERI, as being necessary or appropriate for the Operation of ANO will be transferred to the employ of SERI as of the Effective Date of this Operating Agreement. Transfers, after the initial transfer, will be carried out in accordance with the then-current MSU System policy.

SERI agrees to adopt the collective bargaining agreement currently in effect at ANO. Upon the

stated expiration date of the current collective bargaining agreement, SERI will assume the responsibility for bargaining with the union on contract renewal. All AP&L applicable bargaining unit employees will be transferred to the employ of SERI as of the Effective Date of this Operating Agreement.

10.2 Benefit Plans. It is the objective of the parties hereto that SERI will assume, as of the date when an individual is transferred from the employ of AP&L to SERI, the obligations, if any, of AP&L to such employee for accrued benefits under AP&L's Employee Benefit Plans (as defined in Section 3(3) of the Employee Retirement Income Act of 1974) in effect at the time of such transfer, and AP&L will make appropriate provision (by the transfer of funds to a trustee under an Employee Benefit Plan established by SERI, the reservation of funds in the existing trust fund under an Employee Benefit Plan sponsored by AP&L or otherwise) for the payment of such accrued benefits to the extent that they have been funded as of the date of such employee transfer. Consistent with that objective, AP&L and SERI agree that, in determining benefits payable by SERI under any Employee Benefit Plan established by it to an employee transferred to it by AP&L, SERI shall give credit for service by such employee with AP&L as if such service had been performed by such transferred employee

for SERI unless AP&L shall make provision for the direct payment by it of such benefits to the transferred employee. If AP&L decides to effect a transfer of assets and liabilities attributable to the accrued benefits of transferred AP&L employees to an Employee Benefit Plan maintained by SERI, AP&L and SERI shall determine the amount of assets to be transferred to meet the then-current accrued liabilities (determined in accordance with Section 414(1) of the Internal Revenue Code of 1986 and the regulations thereunder) of such transferred employees. The plans and documentation to achieve this objective shall be established by the Boards of Directors of AP&L and of SERI.

#### ARTICLE XI.

##### MISCELLANEOUS

11.1 Confidentiality. Either party may, from time to time, come into possession of information of the other party that is confidential or proprietary (including, without limitation, Safeguards Information as defined in 10 C.F.R. Part 70). Each party having any such information which the other party has advised it is confidential or proprietary will not reproduce, copy, or disclose (except upon prompt and prior notification to the other party of the event precipitating such disclosure and upon agreement of the parties that such disclosure is required by law) any such information in whole or in part for any purpose without

the prior written consent of the other party. Safeguards Information relative to ANO shall be controlled and protected in accordance with 10 C.F.R. 73.21.

11.2 Restricted Data. SERI and AP&L agree that, unless otherwise required by law, they will not permit any person to have access to Restricted Data, as defined in 42 U.S.C. §2014.y, until the federal Office of Personnel Management shall have made an investigation and report to the NRC on the character, associations and loyalty of such person and the NRC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

11.3 Assignment and Successors. This Operating Agreement shall not be assignable by either party hereto without the prior written consent of the other party and without first obtaining all necessary regulatory approval, and any attempted assignment without such consent and approval shall be void. Subject to the preceding sentence, this Operating Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns.

11.4 Governing Law. The validity; interpretation and performance of this Operating Agreement and each of its provisions shall be governed by the laws of the State of Arkansas.

11.5 No Delay in Payments. No disagreement or dispute of any kind between the parties concerning any matter, including, without limitation, the amount of any payment due from AP&L to SERI or from SERI to AP&L, as the case may be, or the correctness of any charge made to AP&L or SERI, or any reason, excuse or circumstance, including Force Majeure, shall permit either party to delay or withhold payment due and owing under this Operating Agreement, except that AP&L shall have the right to make any payments required of it under protest and to reserve its rights to conduct audits in accordance with Section 5.4.

11.6 Notices. Any notice, request, consent or other communication permitted or required by this Operating Agreement shall be in writing and shall be deemed to have been given when deposited in the United States mail, first class, postage pre-paid and, until written notice of a new address is given, shall be addressed as follows:

If to SERI:

System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215  
Attention: President

If to AP&L:

Arkansas Power & Light Company  
Post Office Box 551  
Little Rock, Arkansas 72203  
Attention: President

11.7 Amendments. This Operating Agreement may be amended only by a written instrument duly executed and delivered by both of the parties hereto and with any and all necessary regulatory approvals previously obtained.

11.8 Relationship. Nothing herein shall be construed to create a partnership or joint venture between SERI and AP&L or to impose a trust, fiduciary or partnership duty, obligation or liability upon SERI or AP&L or to create any agency relationship except as expressly granted herein.

11.9 Counterparts. This Operating Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.10 Force Majeure. SERI shall not be in default in performance of its obligations or duties hereunder (other than any obligation to credit AP&L with its recoveries or overpayments of Costs of Operation owing at any time) if such failure of performance is due to Force Majeure. AP&L shall not be in default in performance of any duties or obligations hereunder (other than any obligation to pay monies to or at the direction of SERI as provided in this

Operating Agreement) if such failure of performance is due to Force Majeure.

11.11 Good Utility Practice. The parties hereto shall discharge any and all obligations under this Operating Agreement in accordance with Good Utility Practice.

11.12 Entire Agreement. This Operating Agreement, including Exhibits A, B, and C shall constitute the entire understanding and agreement between the parties superseding any and all previous understandings and agreements between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Operating Agreement by their duly authorized representatives.

SYSTEM ENERGY RESOURCES, INC.

ARKANSAS POWER & LIGHT COMPANY

BY: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

SWITCHYARD AND TRANSMISSION INTERFACE

This Memorandum of Understanding is executed by and between Arkansas Power & Light Company, an Arkansas Corporation ("AP&L"), and System Energy Resources, Inc., an Arkansas Corporation ("SERI"), and is dated as of \_\_\_\_\_, 1988.

WHEREAS, this Agreement is being executed pursuant to Paragraph 3.3 of the Operating Agreement between AP&L and SERI dated \_\_\_\_\_, 1988 (the "Operating Agreement") relating to operation of Arkansas Nuclear One, Units 1 and 2 ("ANO"); and

WHEREAS, prerequisite to amending the ANO Operating Licenses so as to substitute SERI for AP&L with respect to operation of ANO, as contemplated by the Operating Agreement, the NRC has requested AP&L to express a commitment to support ANO, with respect to the ANO Switchyard and Transmission activities; and

WHEREAS, the parties desire to set forth in this Memorandum of Understanding their respective commitments and responsibilities regarding the ANO switchyard and related transmission matters.

NOW, THEREFORE, effective upon and following the Effective Date as defined in the Operating Agreement, AP&L and SERI undertake and agree as follows:

- A. EXCLUSION AREA CONTROL, SWITCHYARD ACCESS AND SECURITY
1. AP&L agrees to provide SERI unrestricted access to the real property owned by AP&L at or adjacent to the ANO site and to the switchyard, facilities, equipment and personal property located on that property.
  2. As necessary to comply with federal regulations, SERI shall have authority to exercise complete control over AP&L property and easements in the Exclusion Area, as defined in the ANO Safety Analysis Reports (SARs), and to determine all activities within that area (including exclusion of AP&L personnel, contractors, visitors, guests and other persons from the plant and the switchyard). To the extent practicable, SERI will exercise this control in such a fashion that normal AP&L use and access to the switchyard will not be restricted.
  3. For the purposes of providing security, SERI shall have authority to exercise complete control over the ANO switchyard and other AP&L property in the vicinity of the switchyard. This authority includes the authority to conduct interactions with law enforcement agencies which are deemed necessary by SERI and the authority to file associated civil or criminal complaints against third parties as deemed necessary by SERI. The parties will cooperate in good faith as jointly determined

appropriate to support prosecution of any such complaints.

4. The parties shall maintain switchyard perimeter fence gates in a locked condition except when attended or to allow ingress or egress.
5. SERI will make a regular routine security patrol of the switchyard fence perimeter.
6. SERI will notify AP&L of problems requiring maintenance, repair or replacement of the switchyard perimeter fence, gates, locks, lights or other security related devices or equipment or of other conditions which may effect security.
7. AP&L will provide such maintenance, or effect repair or replacement, or correct the condition, in a reasonable time period.
8. SERI will provide an appropriate security response to an increased threat situation including potential situations caused by needed maintenance, repair or replacement of security devices or equipment.
9. Key control for the switchyard gates will be maintained as follows:
  - a. Each party will be allowed to possess keys to all switchyard gates, except AP&L will not possess keys allowing access to the plant protected areas.

- b. Keys will be issued only to personnel with an identified need for switchyard access.
- 10. Authorized personnel entering the switchyard for the performance of duties or activities which could have any direct effect on power supply to ANO, including routine maintenance of switchyard equipment, will advise the on-duty SERI shift supervisor of entry, the purpose of entry, and anticipated duration of stay. Entry for performance of inspections, routine rounds or patrols, and other activities such as retrieving vehicles or equipment stored in the switchyard or to report for duty or meet work crews or other activities associated purely with use of the switchyard as a crew headquarters does not require such notification.
- 11. AP&L will not exercise its right to explore or recover minerals in any area within the exclusion area or convey or lease its mineral rights within the exclusion area to any third party without SERI approval. Further, AP&L will cooperate with SERI as necessary to assist in control of mineral exploration or recovery activities in the exclusion area.

B. OPERATION

1. SERI will make regular rounds of the switchyard and carry out the following activities:
  - a. make observations of equipment and facilities,
  - b. obtain readings of appropriate equipment parameters,
  - c. conduct other routine activities at the request of AP&L,
  - d. provide AP&L with appropriate reports as to findings during these activities.
2. The parties will operate equipment located in the switchyard as follows:
  - a. SERI will be the exclusive operator of the main generator output breakers except for maintenance activities as designated in B.3. SERI will coordinate the operation of these breakers with AP&L, except in emergency situations.
  - b. AP&L will normally operate (or provide for the operation of) all 500KV, 161KV, and 22KV switchyard breakers and associated equipment other than the main generator output breakers, remotely or locally, but authorized SERI personnel will operate any such breakers or other equipment locally in the switchyard at AP&L request.

- c. SERI will normally be informed in advance of the operation of all switchyard breakers and disconnects to remove equipment from service.
  - d. SERI will provide other operating support for the switchyard at the request of AP&L.
3. AP&L will operate switchyard equipment as necessary for maintenance to be performed in accordance with Section C below and may return equipment to service upon completion of maintenance.

C. MAINTENANCE

- 1. Maintenance responsibility (including necessary repair or replacement) for the ANO Startup, Unit Auxiliary and Main Output transformers will be divided as follows:
  - a. AP&L will maintain the transformers with the exception of related auxiliary equipment; e.g., cooling, instrumentation, nitrogen capping, etc.
  - b. SERI will maintain the auxiliary equipment associated with these transformers; e.g., cooling, instrumentation, nitrogen capping, etc.
- 2. Upon request by SERI, AP&L will review maintenance arrangements between SERI and its contractors for major maintenance, repair or replacement activities with

- respect to the main output transformers, and will provide oversight of those maintenance activities.
3. SERI will maintain the switchyard control power batteries and their associated battery chargers, including specifically any surveillance requirements contained in the ANO Technical Specifications.
  4. AP&L will maintain (including necessary repair or replacement) all other equipment located in the switchyard, including, but not limited to:
    - a. 500KV breakers (including the main output breakers) and related equipment;
    - b. 161 KV breakers and related equipment;
    - c. the 500/161-22KV bus tie autotransformer and related equipment;
    - d. 22KV breakers and related equipment.
  5. AP&L will be responsible for procuring, filling, analyzing and replacing transformer oil. Analysis results will be provided to SERI when requested by SERI.
  6. Maintaining an appropriate inventory of spare parts for equipment located in the switchyard will be the responsibility of the company that is responsible for maintaining the equipment as specified in this Section.

D. COORDINATION

1. SERI will coordinate planned plant outages with AP&L. The AP&L dispatcher and the Middle South system dispatcher will be informed at a minimum.
2. AP&L will coordinate all activities which will directly affect power supply to ANO with SERI. At a minimum, the operations superintendent or designee will be informed by the system dispatcher or AP&L dispatcher or maintenance crew during the planning of these activities. Activities which cannot be planned in advance and the detailed conduct of planned activities will be coordinated with the on-duty shift supervisor. These activities include, but are not limited to:
  - a. removal from service of any 500KV or 161KV transmission line terminating in the switchyard;
  - b. breaker switching which can affect power supply to ANO (i.e., switching of lines identified in Item (a) above);
  - c. maintenance activities which can affect power supply to ANO.

E. REVIEW AND APPROVAL

1. AP&L will obtain SERI review and approval of procedure changes, design changes, tests or changes in the

conduct of other activities which might affect compliance with regulatory requirements and/or commitments involving the ANO switchyard and associated transmission lines and equipment which could affect offsite power supply to ANO prior to implementing such changes or commencing such tests. Changes or tests at or beyond the first major switching station outside of the ANO switchyard are not included unless indefinitely de-energizing one of the transmission lines serving ANO is involved.

2. SERI will review these proposed changes and tests in accordance with applicable commitments and regulatory requirements and will obtain prior NRC approval if required.

F. PROCEDURES

SERI and AP&L will develop and implement appropriate procedures to (1) define the power transmission interface between AP&L and SERI, (2) delineate the responsibilities for the operation, maintenance, testing and security of the equipment which comprises that interface (as specified in this Memorandum of Understanding) and (3) define AP&L's responsibilities pursuant to federal regulations for providing power to ANO.

G. TRAINING

1. SERI will provide regular training (on a schedule jointly agreed to by AP&L and SERI) to AP&L dispatcher personnel to explain the critical need for power at ANO during emergencies, and the legal requirements associated with ANO power supply.
2. AP&L will make appropriate dispatcher personnel available to receive training on a schedule jointly agreed to by AP&L and SERI.

H. COMPENSATION

Costs incurred by SERI pursuant to this Memorandum of Understanding shall be considered Costs of Operation as defined in the Operating Agreement, and services performed by AP&L hereunder shall be without cost or charge to SERI.

I. GENERAL

This Agreement is intended to supplement the Operating Agreement. The performance of services described herein by SERI and AP&L shall be governed by the

Operating Agreement. Modifications or amendments to this Memorandum of Understanding must be executed by an authorized officer of each party. Prior to execution of any such modification or amendment to this Memorandum of Understanding, SERI will review the proposed change to assure that it is in compliance with its licensing commitments and regulatory requirements applicable to nuclear power plants. If regulatory approval is needed, SERI will obtain that approval prior to execution of the modification or amendment. This Memorandum of Understanding and the Operating Agreement are intended to be complementary, and in the event of any inconsistencies between the two documents, the Operating Agreement shall govern.

IN WITNESS WHEREOF, the parties have executed this Agreement.

\_\_\_\_\_  
 J. L. MAULDEN  
 President and Chief Executive  
 Officer  
 Arkansas Power & Light Company

\_\_\_\_\_  
 Date

\_\_\_\_\_  
 W. CAVANAUGH, III  
 President and Chief Executive  
 Officer  
 System Energy Resources, Inc.

\_\_\_\_\_  
 Date

EXHIBIT B TO  
OPERATING AGREEMENT

EMERGENCY PLANNING SUPPORT BY AP&L

This Agreement is made and entered into as of \_\_\_\_\_, 1988 between System Energy Resources, Inc. (SERI) and Arkansas Power & Light Company (AP&L). This Agreement is being executed pursuant to the Operating Agreement, dated \_\_\_\_\_, 1988, between SERI and AP&L (the "Operating Agreement"), Article 3, Paragraph 3.3(2).

ARTICLE I

EMERGENCY PLANNING EQUIPMENT AND FACILITIES

- 1.1 ACCESS. Paragraph 3.2 of the Operating Agreement grants SERI unrestricted access to equipment and facilities located on the ANO site, including, without limitation, equipment and facilities relied on to execute the ANO Emergency Plan. In addition, in order for SERI to operate ANO in accordance with the Operating License and other applicable regulatory requirements, AP&L agrees to provide SERI, its agents, employees and contractors unrestricted access upon request, to specific additional equipment and facilities located off the ANO site including, without limitation, access for emergency training exercises, emergency drills and, on a first priority basis for an actual emergency.

- 1.2 INVENTORY. An inventory of the specific offsite equipment and facilities for which SERI will be provided the access specified in Paragraph 1.1 above, shall be maintained by the \_\_\_\_\_ and may be revised as necessary to reflect changes in the needs of the ANO Emergency Plan or changes in the availability of the equipment and facilities. Such revisions shall only be made with the written concurrence of designated AP&L and SERI representatives.

## ARTICLE II

### AP&L PERSONNEL SUPPORTING THE ANO EMERGENCY PLAN

- 2.1 PERSONNEL SUPPORT. AP&L will provide personnel to support the ANO Emergency Plan, including, without limitation, personnel to staff the Little Rock Control Center, the Little Rock Support Center, and the Emergency News Center. These personnel shall be provided by AP&L upon request by SERI to support emergency training exercises and emergency drills and on a first priority basis for an actual emergency.
- 2.2 PERSONNEL ROSTER. A roster of the specific AP&L personnel that will provide the support described in Paragraph 2.1 above, shall be maintained by \_\_\_\_\_ and may be revised as necessary to reflect changes in the needs of the ANO Emergency

Plan or changes in the availability of personnel. Such revisions shall only be made with the written concurrence of designated AP&L and SERI representatives.

ARTICLE III

TERMS AND CONDITIONS

3.1 This Agreement is intended to supplement the Operating Agreement by specifying services to be performed by AP&L without cost or charge to SERI, and the performance of the services described herein and the rights and obligations of the parties with respect thereto shall be governed by the Operating Agreement.

SYSTEM ENERGY RESOURCES,  
INC.

ARKANSAS POWER & LIGHT  
COMPANY

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT C TO  
OPERATING AGREEMENT  
BETWEEN SERI AND AP&L

AGREEMENT FOR ESSENTIAL SUPPORT

This Agreement is dated as of \_\_\_\_\_, 1988 and is between System Energy Resources, Inc. (SERI) and Arkansas Power & Light Company (AP&L). This Agreement is executed pursuant to Section 3.3 of the Operating Agreement dated \_\_\_\_\_, 1988 between SERI and AP&L (the "Operating Agreement").

1. Scope of Support Services.

The parties hereby agree that AP&L shall provide the following support services relative to Arkansas Nuclear One, Units 1 and 2 ("ANO") so as to enable SERI to carry out its responsibilities under the Operating Agreement in an efficient and economic manner:

(A) Technical Support. AP&L's Technical Support Department which reports to the Vice President-Fossil and Transmission Operations of AP&L will provide support to ANO in the areas of (1) metallurgical engineering, including material failure analysis, steam generator cleaning support, borated water corrosion analysis, etc., (2) welding engineering, (3) telecommunications support,

(4) equipment diagnostics, including vibration analysis, etc., (5) piping erosion/corrosion program support, (6) nondestructive evaluation support, (7) MOVATS technical consulting, (8) predictive maintenance consulting, (9) electrical apparatus technical consulting (generator bushings, transformers, etc.), (10) participation in the Babcock and Wilcox Owners Group Systems and Materials Committee, (11) transformer testing and substation maintenance, (12) relay engineering support, (13) departmental processor operation of mini-computer planning and scheduling program.

(B) Environmental/Radiological Support.

AP&L's Fossil and Transmissions Operations Department agrees to provide continued support to ANO with respect to environmental/ radiological related services including: (1) National Pollution Discharge Elimination System permit coordination, (2) environmental/radiological monitoring and reporting including management of the contracts for Lake Dardanelle water, sediment, plankton and fish collection and analysis, (3) Environmental Protection Agency interface and coordination, (4) Arkansas Department of Pollution Control and Ecology interface

and coordination, (5) underground storage tank management and (6) meteorological data validation.

(C) Security. AP&L Corporate Services shall continue to provide ANO with nuclear security oversight.

(D) Land Management. The Technical Specifications for ANO contain Special Requirements related to the land management of the rights-of-way of the five electric transmission lines serving ANO. AP&L shall implement these Special Requirements by planting grass and clover to prevent further erosion and by making further plantings of game food and cover in cooperation with landowners and the Arkansas Game and Fish Commission. It is agreed that no herbicides shall be used for land management on transmission rights-of-way.

2. Schedule.

This Agreement shall become effective on the same date as the Operating Agreement. The support described in Article 1 above shall continue to be made available until SERI provides AP&L with thirty (30) days' prior written notice that the support services are to be discontinued in whole or in part. AP&L agrees to discontinue any or all of the services in accordance with the schedule or schedules of termination to be supplied by SERI.

3. Representatives.

The following representatives are designated by SERI and AP&L, respectively, for communication and liaison regarding the interim support services to be provided pursuant to this Agreement.

SERI: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

AP&L: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Terms and Conditions.

This Agreement is intended to supplement the Operating Agreement by specifying services to be performed by AP&L, without cost or charge to SERI, and the performance of the services described herein and the rights and obligations of the parties with respect thereto shall be governed by the Operating Agreement.

SYSTEM ENERGY RESOURCES, INC.      ARKANSAS POWER & LIGHT COMPANY

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

WATERFORD STEAM ELECTRIC STATION,

UNIT NO. 3

OPERATING AGREEMENT

This Operating Agreement is made and entered into as of \_\_\_\_\_, 1988 between System Energy Resources, Inc. (SERI) and Louisiana Power & Light Company (LP&L).

WHEREAS, both of the parties hereto are wholly owned subsidiaries of Middle South Utilities, Inc. (MSU) and,

WHEREAS, LP&L is an electric utility that generates, transmits and distributes electricity in the State of Louisiana and that owns a nuclear power plant near Taft, Louisiana, known as the Waterford Steam Electric Station, Unit No. 3 (Waterford 3); and

WHEREAS, LP&L is the holder of Facility Operating License, No. NPF-38, NRC Docket No. 50-382, for Waterford 3, issued by the NRC; and

WHEREAS, LP&L desires that SERI assume operating responsibility for - but not ownership of - Waterford 3; and

WHEREAS, LP&L desires that such operating responsibility be consistent with LP&L's obligations and

responsibilities under all pertinent Louisiana and federal law; and

WHEREAS, LP&L desires to contract with SERI so as to enable SERI to possess, use and operate Waterford 3 as LP&L's agent, and SERI desires to undertake such responsibility, all subject to and in accordance with the terms and conditions set forth herein;

NOW THEREFORE, IN CONSIDERATION of the mutual obligations set forth herein, the parties hereto agree to the following:

ARTICLE I.

DEFINITIONS

As used herein:

1.1 "Application" means the Application of LP&L (consented to by SERI) before the Nuclear Regulatory Commission to amend the Operating License so as to authorize and reflect in the license the change from LP&L to SERI as the licensee authorized to possess, use and operate Waterford 3, as previously or hereafter supplemented or amended.

1.2 "Capital Improvements" means improvements, additions, modifications or replacements of property at Waterford 3 that are properly capitalized and recorded on LP&L's books of account as assets under the FERC Uniform System of Accounts, and that are in accordance with

applicable rules and regulations of any regulatory authority having jurisdiction in the matter.

1.3 "Consequential Damages" means incidental, indirect or special damages including, but not limited to, loss of profits or revenue, loss of use of power or property, cost of capital, cost of purchased or replacement power, inventory or use charges, claims of customers or third parties for service interruption and any other incidental, indirect or special damages of any nature.

1.4 "Costs of Capital Improvements" means all costs of Capital Improvements as defined in Section 1.2 herein.

1.5 "Costs of Operation" or "Cost of Operation" means all costs of Operation, decontamination and decommissioning and any related taxes incurred or accrued under or with respect to this Operating Agreement and attributable or allocable to Waterford 3 and properly recordable in expense accounts under the FERC Uniform System of Accounts. These costs shall include, without limitation, any costs incurred in connection with the Operation of Waterford 3, but excluding (a) costs of Nuclear Fuel that is owned by LP&L or leased directly by LP&L from one or more third parties and (b) losses, costs, liabilities and expenses (except for Consequential Damages as defined in Section 1.3 herein) directly resulting from the Cross

Negligence or Willful Misconduct of SERI. All of such Costs of Operation shall be calculated, and allocation of such costs shall be made as the parties shall from time to time agree, and shall be made in accordance with any applicable rules and regulations of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, the FERC under the Federal Power Act and other regulatory authorities having jurisdiction in the matter.

1.6 "Effective Date" means the effective date of this Operating Agreement as determined pursuant to Section 8.1.

1.7 "FERC" means the Federal Energy Regulatory Commission or its successor.

1.8 "Force Majeure" means any cause beyond the affected party's reasonable control.

1.9 "Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant proportion of the electric utility industry at the time of the reference, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with reliability, safety and expedition. Good Utility Practice shall apply not only to functional parts of Waterford 3, but also to appropriate

structures, landscaping, signs, lighting and other facilities and public relations programs reasonably designed to promote the public's understanding and acceptance of Waterford 3. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of prudent and acceptable practices, methods or acts.

1.10 "Gross Negligence and/or Willful Misconduct" means any act or omission by or authorized by a party's officers or Board of Directors that is performed, authorized or omitted consciously with prior actual knowledge or with reckless disregard of facts indicating that such conduct or omission is likely to result in actionable damages or injury to persons or property or to result in a violation of laws or regulations.

1.11 "NRC" or "Nuclear Regulatory Commission" means the United States Nuclear Regulatory Commission or its successor having responsibility for administration of the licensing and regulation of the operation of nuclear utilization facilities under the Atomic Energy Act of 1954 and amendments thereto.

1.12 "Nuclear Fuel" means any source, special nuclear or by-product material as defined in the Atomic Energy Act of 1954 and any amendments thereto, including any ores, mined or unmined, uranium concentrates, natural or

enriched uranium hexafluoride, or any other material in process containing uranium, and any fuel assemblies or parts thereof, any of which are required for the generation of electricity at Waterford 3.

1.13 "Operate" and its derivatives means to possess, use, manage, control, maintain, repair, operate and decommission.

1.14 "Operating License" means the Facility Operating License No. NPF-38 for Waterford 3 and amendments thereto as issued from time to time by the NRC.

## ARTICLE II.

### SERI'S AUTHORITY AND RESPONSIBILITY WITH RESPECT TO OPERATION OF WATERFORD 3

2.1 Authority for Operation. SERI and LP&L agree that SERI shall act as the agent of LP&L to take all actions necessary to make Capital Improvements to and to Operate Waterford 3, each in accordance with Good Utility Practice and in the best interest of LP&L. LP&L hereby grants SERI the authority to take any and all action, in LP&L's name and on LP&L's behalf, necessary to obtain and/or maintain all licenses and permits issued by the NRC or other regulatory bodies relating to Waterford 3 and necessary to comply with all applicable regulations of the NRC and other governmental bodies having jurisdiction over any aspect of the Cost of Operation, Cost of Capital Improvements, making of Capital

Improvements and/or Operation of Waterford 3. Without limiting the foregoing delegation, SERI shall act as the agent for LP&L in all matters related to NRC licensing of Waterford 3. Furthermore, SERI shall provide LP&L with data and assistance as may be requested by LP&L to enable LP&L to satisfactorily discharge, as the owner of Waterford 3, its responsibilities with regard to Waterford 3, including its responsibilities to its securities holders, to regulatory authorities and others. SERI shall Operate, and make Capital Improvements at, Waterford 3 in accordance with the Operating License and applicable laws and regulatory requirements and shall have sole authority, as the Operator of Waterford 3, to make all decisions relating to public health and safety. Subject to the provisions of Sections 2.2 and 2.3 herein, in order to enable SERI fully and effectively to perform its duties hereunder, SERI shall have, and LP&L does hereby grant to SERI, as agent for LP&L, the power and authority to exercise in accordance with applicable laws, the rights of LP&L under, and to execute, modify, amend or terminate, any contracts, including, without limitation, leases, easements, agreements, purchase orders, licenses, permits and privileges relating to the Operation of, and making of Capital Improvements to, Waterford 3, as agent for LP&L. SERI may perform its duties hereunder through its employees, affiliated persons or

non-affiliated persons. Except as provided in Section 11.5 hereof, the duties of LP&L and SERI hereunder shall be subject in all events to receipt of any further necessary consents or regulatory approvals. Subject to SERI's obligations and responsibilities under this Operating Agreement, the Operating License and applicable laws and regulatory requirements, SERI agrees that it shall comply with directions from LP&L relating to the Operation and making of Capital Improvements (including the costs thereof) of Waterford 3.

#### 2.2 Limitation on SERI's Authority.

Notwithstanding Section 2.1 above, SERI shall have no authority under this Operating Agreement without the written approval of LP&L, which approval shall not be unreasonably withheld, (a) to obligate LP&L to pay Costs of Capital Improvements and Costs of Operation that are either materially different from or in excess of the expenditures to be agreed upon pursuant to Section 5.1 herein, (b) to obligate LP&L to pay Costs of Capital Improvements that have not been approved pursuant to any LP&L policy with respect to its Board of Directors' approval of capital expenditures, (c) to modify, amend or terminate any contracts executed by LP&L that are existing and were in effect prior to the Effective Date and that are presently or in the future will be categorized as material by LP&L, and/or (d) to sell,

encumber or otherwise dispose of any real property or any equipment or personal property comprising Waterford 3. In addition, LP&L shall have exclusive authority to define the economic life and to determine when the economic life of Waterford 3 has ended and, in its sole discretion, may direct SERI, in writing, to retire and decommission Waterford 3 or to Operate Waterford 3 at reduced capacity and/or to place Waterford 3 in a safe shutdown condition; provided, however, SERI shall take any such action in a manner which it determines, in its sole judgment, is consistent with public health and safety, the Operating License and applicable laws and regulations. In addition, SERI is authorized to Operate Waterford 3 at a reduced capacity or otherwise to place Waterford 3 in a safe shutdown condition at any time SERI determines such action is necessary to comply with the Operating License and applicable laws and regulations. All costs incurred by SERI in taking such action relating to decommissioning or shutdown of Waterford 3 shall be considered Costs of Operation or Costs of Capital Improvements, as the case may be. With respect to acquisitions by SERI, as LP&L's agent, of Capital Improvements and other equipment or property, including, but not limited to, materials, supplies and spare parts inventories, for Waterford 3, LP&L's Chief Financial Officer shall provide SERI from time to time as necessary

with instructions or guidelines as to the preferred financial structure of such acquisitions (i.e. purchase, lease, etc.), which shall be used in implementing such acquisitions.

2.3 Execution; Disclosures in Third-Party Contracts. Contracts relating to the Operation of Waterford 3, including, without limitation, any contracts for Capital Improvements or contracts for the sale, lease or acquisition of materials, inventories, supplies, spare parts, equipment, fuel, Nuclear Fuel (excluding contracts for the financing through lease or otherwise for Nuclear Fuel) or services, shall be executed by SERI, as agent for LP&L, or by LP&L, upon SERI's reasonable request. If a contract subject to Section 2.1 relates to both Waterford 3 and one or more other power plants that are Operated by SERI, such contracts ("Multi-Plant Contracts") shall be executed by LP&L at SERI's request, on reasonable grounds, or by SERI, on reasonable grounds, on behalf of LP&L and the owners of the other applicable plants. SERI further agrees that with respect to Multi-Plant Contracts, SERI will not enter into such Multi-Plant Contracts without the prior written consent of LP&L unless such contract contains a provision for several but not solidary liability of the owners of the plants under such Multi-Plant Contracts in proportion to the costs allocated to the various power

plants under such contracts. In order to induce third parties to contract with SERI with regard to the performance of SERI's obligations under this Operating Agreement, LP&L hereby expressly agrees to be bound by the terms of all contracts executed by SERI in accordance with its agency authority as described herein (including, without limitation, any provisions that limit or protect against a third party's liability, provisions granting indemnity to third parties and limitations or exclusions of warranties) to the same extent as if LP&L were an original signatory to such contract. In addition, if LP&L's signature is deemed by SERI to be necessary to induce a third-party to contract with SERI, LP&L agrees to not unreasonably refuse to execute such third-party agreements as SERI may request from time to time. It is further agreed that the Chief Financial Officer of LP&L shall notify SERI in writing of the contracts or types of contracts related to Waterford 3 that are to be executed by SERI, in its capacity as LP&L's agent, that LP&L desires to review in order for LP&L to monitor and evaluate the potential impact on LP&L of such contracts and to advise SERI of such impact so that SERI shall take all steps to protect LP&L's interest. Accordingly, SERI agrees to provide LP&L copies of such contracts within a reasonable time prior to SERI's proposed execution thereof. Notwithstanding anything in this section to the contrary, no such

Multi-Plant Contract shall be entered into by SERI or LP&L that is not reasonably beneficial to LP&L.

2.4 Enforcement of Rights.

A. LP&L hereby recognizes that, except with respect to facts and circumstances existing, or litigation instituted by or against LP&L, prior to the Effective Date, SERI has complete and exclusive authority with respect to the handling of the defense, prosecution and/or settlement of disputes with third parties relating in any way to Waterford 3, provided that SERI shall obtain LP&L's written consent prior to instituting or settling any lawsuit, claim, proceeding or action relating to Waterford 3 which is of a type categorized as material by LP&L.

B. With respect to litigation relating in any way to Waterford 3 that arises out of facts or circumstances existing prior to the Effective Date, LP&L shall, after consultation with SERI, decide upon the appropriate manner of defending, prosecuting or settling such litigation.

C. Subject to Section 6.2, it is further agreed that to the extent SERI incurs any liability to a third party in performing its duties under this Operating Agreement, amounts paid by SERI because of such liability and SERI's expenses in defending claims by third parties or

prosecuting claims against third parties shall be considered  
Costs of Operation.

2.5 SERI's Responsibilities at Other Plants.

SERI's duties and responsibilities under this Operating Agreement shall not be construed to interfere with SERI's authority and responsibility to operate any other plants for which it has operating responsibility; provided, however, that SERI hereby agrees that it will not knowingly take any action or fail to take any action in connection with Waterford 3 that is inconsistent with Good Utility Practice and puts LP&L at a disadvantage to SERI or to the owners of such other plants.

ARTICLE III.

LP&L'S RESPONSIBILITY AND OBLIGATIONS

3.1 Payment. In consideration of the services rendered by SERI hereunder, and subject to the provisions of this Operating Agreement, LP&L hereby agrees to pay the Costs of Operation and Costs of Capital Improvements incurred by SERI pursuant to Article V hereof.

3.2 Site Access and Control. In order for SERI to Operate Waterford 3 in accordance with the Operating License and other applicable regulatory requirements, LP&L grants SERI possession and use of the property constituting Waterford 3 and agrees to provide SERI, its agents, employees and contractors unrestricted access to the

property constituting Waterford 3, including, without limitation, the real property and the switchyard, facilities, equipment and personal property located on the Waterford 3 site. As required by the Operating License and applicable statutes, and NRC regulations, LP&L further agrees that SERI shall have authority to exercise complete control over the Exclusion Area as defined in the Final Safety Analysis Report for Waterford 3 and to determine all activities within that area.

3.3 Support Services from LP&L. LP&L agrees that it will cooperate with SERI in a manner so that SERI may exercise its authority and fulfill its responsibilities pursuant to this Operating Agreement. In this connection, LP&L further agrees to provide (1) Waterford 3 switchyard, switching station, and transmission line services and other support in accordance with a separate agreement to be executed by the parties contemporaneously with the execution of this Operating Agreement, an executed copy of which is attached hereto as Exhibit A, as such exhibit may be hereafter supplemented or amended, (2) support for the Waterford 3 Emergency Plan and emergency training and drills in accordance with a separate agreement to be executed by the parties contemporaneously with the execution of this Operating Agreement, an executed copy of which is attached hereto as Exhibit B, as such exhibit may be hereafter

supplemented or amended. LP&L agrees to provide, subject to their reasonable capability and availability, additional services or assistance required by SERI and agreed to by LP&L in writing in connection with the Operation of Waterford 3, including, without limitation, the following: (1) communications access and support, (2) transportation support, (3) payroll and personnel assistance, and (4) other services as may be required in order to allow SERI to conduct safe, economic and efficient operations at Waterford 3.

3.4 No Changes to Facilities, Procedures or Practices. So that SERI will be capable of Operating Waterford 3 in accordance with the Operating License and other applicable regulatory requirements, LP&L agrees that it will not make any changes to facilities, procedures or practices that affect compliance with NRC regulations or commitments, including, but not limited to, physical changes to the electrical transmission or distribution facilities that directly provide an off-site power supply to Waterford 3 without prior consultation with and written consent from SERI, which consent SERI shall not unreasonably withhold.

3.5 Offsite Power Supply. LP&L agrees that it shall provide Waterford 3 with an assured source of offsite

power in accordance with procedures to be agreed upon, from time to time, by the parties.

ARTICLE IV.

OWNERSHIP OF CAPACITY AND ENERGY

4.1 Ownership of Capacity and Energy. LP&L, at all times during the term of this Agreement, shall be and remain the owner of, and shall be entitled to all of, the capacity and energy from Waterford 3.

4.2 Determination of Output. Net positive output of Waterford 3 shall be the gross generation of Waterford 3, less station service requirements, and less adjustments for losses experienced. In the event the output is negative (i.e., station service and losses exceed the gross generation) LP&L shall be responsible for providing necessary power at Waterford 3 during such period in accordance with Good Utility Practice and Section 3.5 herein.

ARTICLE V.

PAYMENT; AUDIT AND INSPECTION RIGHTS

5.1 Payment Obligation. On or before November 1 (or such other dates as may be agreed to by the parties) of each year during the term of this Operating Agreement, (1) SERI will submit for LP&L's review and approval the total annual construction budget for Waterford 3, the annual operating and construction programs (as used herein the term

"annual operating and construction programs" shall include details of the budgeted costs for those programs) for Waterford 3, and the components of SERI's five-year business plan that relate to Waterford 3, and (2) SERI and LP&L will agree in writing upon maximum amounts to be paid, within parameters of the then-current SERI five-year business plan, by LP&L for the following budget year pursuant to this Operating Agreement with respect to (i) Costs of Capital Improvements and (ii) Costs of Operation. LP&L and SERI recognize that mutually agreeable adjustments may be made to such maximum amounts to be paid and/or to the previously approved construction budget, operating and construction programs or the components of SEKI's five-year business plan relating to Waterford 3, from time to time during any budget year, to reflect the impact of Force Majeure, unforeseen circumstances, financial constraints or other events. Without limiting LP&L's obligations under Section 6.2, LP&L agrees to pay any and all Costs of Operation and Costs of Capital Improvements within such maximum amounts to be paid and consistent with the previously approved construction budget and operating and construction programs, but LP&L shall not be obligated to pay Costs of Operation and Costs of Capital Improvements in excess of the applicable maximum expenditure limitations or which differ materially from the types of expenditures reflected in the construction budget

and operating programs previously approved by LP&L, except for any such excess or different Costs of Operation and Costs of Capital Improvements that LP&L agrees to pay. It is further agreed that SERI will keep LP&L timely informed and obtain LP&L's approval regarding projects which are reasonably anticipated to cause a material change to the components of the then-current SERI five-year business plan that relate to Waterford 3 as previously approved by LP&L.

5.2 Payment and Billing. Subject to Section 5.1 above and in accordance with procedures to be agreed upon in writing by the parties, SERI hereby agrees to furnish LP&L, at such times as may be required by LP&L, estimates of the Costs of Operation and Costs of Capital Improvements expected to be owed by LP&L for the next succeeding period. LP&L shall promptly deposit in the bank account(s) to be established pursuant to Section 5.3 such funds as shall be adequate to pay SERI and third parties on a timely basis with respect to Costs of Capital Improvements and Costs of Operation. In addition, LP&L will pay for costs incurred under any contracts relating to Waterford 3 with respect to which SERI, as agent, has approved and has directed the third party to provide direct billing to LP&L. Payments of the Costs of Capital Improvements and Costs of Operation specified herein shall be made notwithstanding the availability or lack of availability of Waterford 3 to

produce power. No payment made pursuant to this Operating Agreement shall constitute a waiver of any right of LP&L to question or contest the correctness of Costs of Capital Improvements and Costs of Operation charged to LP&L.

5.3 Bank Accounts. The parties agree that one or more special bank accounts may be established and maintained in one or more banks of LP&L's choice, in a manner that will indicate the custodial nature of the accounts, for the deposit by LP&L and disbursement by SERI or LP&L of Costs of Capital Improvements and Costs of Operation.

5.4 Audit and Adjustments. SERI shall maintain books and records to support the Costs of Capital Improvements and Costs of Operation for such period of time as LP&L shall direct. From time to time, LP&L may, and SERI shall permit, at LP&L's option and expense as appropriate, in accordance with any applicable Middle South Utilities System established auditing policies (excluding any such policy that would limit or preclude the right of LP&L to conduct such audits), conduct or cause to be conducted by others, including regulatory authorities having jurisdiction, audits of the books and records of SERI. Such audits shall be conducted at reasonable mutually agreed upon times, with agreement not being unreasonably withheld. Further, SERI shall make available to LP&L a copy of any audit reports prepared by or at the request of SERI

concerning its books and records relating to the Operation of Waterford 3, and the cost of preparing such audit reports shall be a Cost of Operation payable pursuant to this Article V. SERI shall credit LP&L with recoveries, whenever received, from third parties and shall charge or credit LP&L with any underpayments or overpayments of Costs of Capital Improvements and Costs of Operation, as the case may be. Force Majeure shall not excuse failure by SERI to credit LP&L with third-party recoveries or overpayments of Costs of Capital Improvements and Costs of Operation owing to LP&L at any time.

#### ARTICLE VI.

##### LIMITATION OF LIABILITY; INDEMNITY

6.1 Release and Limitation of Liability. To the fullest extent permitted by applicable law, LP&L shall not be entitled to recover from, and hereby expressly releases, SERI, its agents, officers, directors, shareholders or employees (except to the extent LP&L shall be entitled to share in insurance recoveries obtained by SERI hereunder) from or for any damages, claims, causes of action, losses and/or expenses of whatever kind or nature, including, but not limited to, attorneys' fees, that are in any way, directly or indirectly, connected with SERI's Operation of Waterford 3 or for any damage thereto, whether arising in tort, fraud, contract, strict liability, negligence or any

other theory of legal liability or as a result of fines or other penalties imposed by the NRC or other governmental authority, unless such damages, claims, causes of action, losses and/or expenses (other than Consequential Damages, which shall not be recoverable from SERI in any event) shall have resulted from the Gross Negligence and/or Willful Misconduct of SERI. In no event shall SERI or its agents, officers, directors, shareholders or employees be liable to LP&L for any loss or damage suffered by LP&L in connection with SERI's performance under this Operating Agreement in an amount greater than LP&L's uninsured loss or for any Consequential Damages. The duty of SERI to perform its obligations under this Operating Agreement in accordance with Good Utility Practice shall be construed or modified to the extent necessary to give full effect to the provisions of this Article VI.

#### 6.2 Indemnities.

A. SERI shall indemnify and hold harmless LP&L, its agents, officers, directors, shareholders and employees against all actual losses, costs, liabilities, fines imposed by the NRC or other regulatory body, and expenses (except for Consequential Damages) resulting from SERI's Gross Negligence and/or Willful Misconduct in performing this Operating Agreement, but in the event LP&L, its agents, officers, directors, shareholders and employees,

as a result of the performance of duties pursuant to this Operating Agreement otherwise incur any liability to any third party, any amount paid by SERI c . account of such liability shall be considered Costs of Operation to be paid by LP&L pursuant to Article V.

B. Except for such injuries or damages (excluding Consequential Damages) which arise out of the Gross Negligence and/or Willful Misconduct of SERI and except to the extent that such injuries or damages have been compensated through insurance proceeds, LP&L shall indemnify, defend and hold SERI and its agents, officers, directors, shareholders and employees harmless, to the fullest extent permitted by applicable law and regardless of alleged or actual fault, strict liability, and/or sole or concurrent negligence of SERI, against any claims for death, injury or property damage to any of LP&L's agents, officers, directors, shareholders and employees, or to third persons not employed by SERI, and against any other claims, causes of action, damages or expenses, including, but not limited to, attorneys' fees, NRC fines or penalties of whatever kind or nature arising directly out of or in the course of performance of services by SERI under this Operating Agreement. It is further agreed that LP&L shall indemnify and hold SERI and its agents, officers, directors, shareholders and employees harmless, regardless of actual or

alleged fault, strict liability, negligence (whether sole or concurrent) or Gross Negligence and/or Willful Misconduct of SERI, against any claims for Consequential Damages.

ARTICLE VII.

INSURANCE

7.1 With respect to Waterford 3, SERI, acting as LP&L's agent and subject to the direction of LP&L, shall provide and maintain or cause to be provided and maintained, in the name of and on behalf of LP&L and SERI, as their respective interests may appear, protection through insurance or otherwise covering SERI's and LP&L's obligations to pay damages because of personal injury, death or property damage, including, without limitation, obligations under applicable workers compensation laws, and protection through insurance or otherwise covering nuclear property and nuclear liability and other insurance and financial protection in accordance with customary industry practice and as necessary to comply with all applicable laws and regulations. All insurance policies obtained pursuant to this Operating Agreement shall be issued, as LP&L deems appropriate, with LP&L and SERI named as insureds, as appropriate to the particular coverage, and, if obtainable and economically feasible, workers compensation and all bodily injury (including death) and property damage liability coverages shall be issued by the same insurance carrier(s).

LP&L, after consultation with SERI, shall determine the coverage limits and deductibles for any insurance policies obtained pursuant to this Agreement. Additionally, all insurance coverages applicable to those obligations surviving termination of this Agreement pursuant to Section 8.3 below, shall also survive said termination to the extent that such obligations so survive and to the extent that such coverages are reasonably available.

7.2 Acting as agent for and subject to the direction of LP&L, SERI will establish necessary procedures, cooperate with the insurers and otherwise comply with requirements of the insurers to maintain coverages in effect and to obtain payment of claims recoverable under such insurance applicable to Waterford 3.

#### ARTICLE VIII.

##### TERM AND TERMINATION

8.1 Term. This Agreement shall become effective \_\_\_\_\_, 1988 or upon receipt of all necessary regulatory approvals of this Operating Agreement, whichever is later, and, unless sooner terminated as provided hereinafter, it shall remain in effect, subject to Section 8.2 below, until Waterford 3 shall have been retired and decommissioned in accordance with all applicable regulatory and governmental requirements and the parties hereto agree

in writing, with agreement not to be unreasonably withheld, that all responsibilities hereunder have been fulfilled.

8.2 Termination. This Operating Agreement may be terminated prior to the expiration of the term as set forth in Section 8.1 above, subject to receipt of any and all necessary regulatory approvals, upon (1) agreement of the parties hereto or (2) either party giving the other party at least three hundred sixty-five (365) days' prior written notice of the intention to effect such termination. In addition, this Operating Agreement shall be cancelled to the extent and from the time that performance hereunder may conflict with any rule, regulation or order of the Securities and Exchange Commission adopted before or after the execution hereof. SERI agrees that any and all licenses, permits, records, books, privileges or rights acquired by SERI relating to Operation of Waterford 3 shall be assigned or otherwise transferred to LP&L upon termination of this Operating Agreement.

8.3 Survival. The indemnification, release, and limitation of liability provisions contained in Article VI shall survive termination to the extent they pertain to events giving rise to such indemnification, release and liability that occurred during the term of this Operating Agreement. Further, it is agreed that in no event shall this Operating Agreement terminate unless all payments

required to have been made by LP&L to SERI or by SERI to LP&L, as the case may be, shall have been made and all necessary regulatory approval for transfer of responsibility of Waterford 3 shall have been obtained.

#### ARTICLE IX.

##### INFORMATION PROVIDED TO LP&L

9.1 Reports to LP&L. When required by LP&L, SERI shall provide data and/or reports to LP&L to support Costs of Capital Improvements and Costs of Operation payable by LP&L so as to allow LP&L to comply with any applicable laws and any rules and regulations promulgated by regulatory authorities. SERI shall also comply with any other reasonable reporting requirements.

9.2 Site Access. LP&L or its designee shall have access to Waterford 3, subject to SERI's obligation to limit such access pursuant to the Operating License and the applicable rules and regulations of the NRC or other regulatory authorities.

#### ARTICLE X

##### TRANSFERS OF PERSONNEL

10.1 Transfer. LP&L employees who are selected by LP&L and SERI as being necessary or appropriate for the Operation of Waterford 3 will be transferred to the complete and direct control of SERI as of the Effective Date of this Operating Agreement and shall remain under such control for

the term of this Operating Agreement, unless any of their respective employments is terminated for any reason (it being understood that, except as expressly provided herein, this Operating Agreement affords no rights to, or for the benefit of, any such employees, including without limitation, the right to employment for any particular term). Those employees transferred to SERI shall perform services designated by SERI in accordance with SERI rules, regulations, and safety or health procedures, but LP&L shall remain ultimately responsible to reimburse SERI for any and all compensation and benefits provided to such employees by SERI. Transfers, after the initial transfer, will be carried out in accordance with the then-current MSU System policy.

10.2 Benefit Plans. It is the objective of the parties hereto that SERI will assume, as of the date when an individual is transferred from the employ of LP&L to SERI, the obligations, if any, of LP&L to such employee for accrued benefits under LP&L's Employee Benefit Plans (as defined in Section 3(3) of the Employee Retirement Income Act of 1974) in effect at the time of such transfer, and LP&L will make appropriate provision (by the transfer of funds to a trustee under an Employee Benefit Plan established by SERI, the reservation of funds in the existing trust fund under an Employee Benefit Plan sponsored by LP&L,

or otherwise) for the payment of such accrued benefits to the extent that they have been funded as of the date of such employee transfer. Consistent with that objective, LP&L and SERI agree that, in determining benefits payable by SERI under any Employee Benefit Plan established by it to an employee transferred to it by LP&L, SERI shall give credit for service by such employee with LP&L as if such service had been performed by such transferred employee for SERI unless LP&L shall make provision for the direct payment by it of such benefits to the transferred employee. If LP&L decides to effect a transfer of assets and liabilities attributable to the accrued benefits of transferred LP&L employees to an Employee Benefit Plan maintained by SERI, LP&L and SERI shall determine the amount of assets to be transferred to meet the then-current accrued liabilities (determined in accordance with Section 414(1) of the Internal Revenue Code of 1986 and the regulations thereunder) of such transferred employees. The plans and documentation to achieve this objective shall be established by the Boards of Directors of LP&L and of SERI.

#### ARTICLE XI.

##### MISCELLANEOUS

11.1 Confidentiality. Either party may, from time to time, come into possession of information of the other party that is confidential or proprietary (including,

without limitation, Safeguards Information as defined in 10 C.F.R. Part 70). Each party having any such information which the other party has advised it is confidential or proprietary will not reproduce, copy, or disclose (except upon prompt and prior notification to the other party of the event precipitating such disclosure and upon agreement of the parties that such disclosure is required by law) any such information in whole or in part for any purpose without the prior written consent of the other party. Safeguards Information relative to Waterford 3 shall be controlled and protected in accordance with 10 C.F.R. 73.21.

11.2 Restricted Data. SERI and LP&L agree that, unless otherwise required by law, they will not permit any person to have access to Restricted Data, as defined in 42 U.S.C. §2014.y, until the federal Office of Personnel Management shall have made an investigation and report to the NRC on the character, associations and loyalty of such person and the NRC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

11.3 Assignment and Successors. This Operating Agreement shall not be assignable by either party hereto without the prior written consent of the other party and without first obtaining all necessary regulatory approval, and any attempted assignment without such consent and

approval shall be void. Subject to the preceding sentence, this Operating Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns.

11.4 Governing Law. The validity, interpretation and performance of this Operating Agreement and each of its provisions shall be governed by the laws of the State of Louisiana.

11.5 No Delay in Payments. No disagreement or dispute of any kind between the parties concerning any matter, including, without limitation, the amount of any payment due from LP&L to SERI or from SERI to LP&L, as the case may be, or the correctness of any charge made to LP&L or SERI, or any reason, excuse or circumstance, including Force Majeure, shall permit either party to delay or withhold payment due and owing under this Operating Agreement, except that LP&L shall have the right to make any payments required of it under protest and to reserve its rights to conduct audits in accordance with Section 5.4.

11.6 Notices. Any notice, request, consent or other communication permitted or required by this Operating Agreement shall be in writing and shall be deemed to have been given when deposited in the United States mail, first class, postage pre-paid and, until written notice of a new address is given, shall be addressed as follows:

If to SERI:

System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215  
Attention: President

If to LP&L:

Louisiana Power & Light Company  
317 Baronne Street  
New Orleans, Louisiana 70112  
Attention: President

11.7 Amendments. This Operating Agreement may be amended only by a written instrument duly executed and delivered by both of the parties hereto and with any and all necessary regulatory approvals previously obtained.

11.8 Relationship. Nothing herein shall be construed to create a partnership or joint venture between SERI and LP&L or to impose a trust, fiduciary or partnership duty, obligation or liability upon SERI or LP&L or to create any agency relationship except as expressly granted herein.

11.9 Counterparts. This Operating Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.10 Force Majeure. SERI shall not be in default in performance of its obligations or duties hereunder (other than any obligation to credit LP&L with its recoveries or overpayments of Costs of Operation owing at any time) if

such failure of performance is due to Force Majeure. LP&L shall not be in default in performance of any duties or obligations hereunder (other than any obligation to pay monies to or at the direction of SERI as provided in this Operating Agreement) if such failure of performance is due to Force Majeure.

11.11 Good Utility Practice. The parties hereto shall discharge any and all obligations under this Operating Agreement in accordance with Good Utility Practice.

11.12 Entire Agreement. This Operating Agreement, including Exhibits A and B, shall constitute the entire understanding and agreement between the parties superseding any and all previous understandings and agreements between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Operating Agreement by their duly authorized representatives.

SYSTEM ENERGY RESOURCES, INC.

LOUISIANA POWER & LIGHT COMPANY

BY: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

EXHIBIT A TO  
OPERATING AGREEMENT

SWITCHING STATION, SWITCHYARD, TRANSMISSION  
AND WATERFORD 1 & 2 INTERFACE

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is executed by and between Louisiana Power & Light Company ("LP&L") and System Energy Resources, Inc. ("SERI") and is dated as of \_\_\_\_\_, 1988.

WHEREAS, this Agreement is being executed pursuant to Paragraph 3.3 of the Operating Agreement between SERI and LP&L dated \_\_\_\_\_, 1988 (the "Operating Agreement");

WHEREAS, prerequisite to amending the Waterford Steam Electric Station Unit No. 3 ("W3") Operating License so as to substitute SERI for LP&L with respect to operation of W3, as contemplated by the Operating Agreement, the Nuclear Regulatory Commission ("NRC") has requested LP&L to express a commitment to support W3 with respect to various activities; and

WHEREAS, the parties desire to set forth in this Memorandum of Understanding their respective commitments and responsibilities regarding Waterford 1 and 2 Steam Electric

Station Fossil Units ("W1&2"), the W3 Switching Station, 230KV Switchyard and related transmission matters.

NOW, THEREFORE, upon and following the Effective Date as defined in the Operating Agreement, LP&L and SERI undertake and agree as follows:

1.0 ACCESS CONTROL, EXCLUSION AREA CONTROL, SECURITY, MINERAL RIGHTS

1.1 W3 Site, W1&2, Switching Station

1.1.1 Access Control - To comply with the requirements of the W3 Emergency Plan, LP&L agrees to provide SERI unrestricted access to the real property owned by LP&L at or adjacent to the W3 site and to W1&2, and the switching station, and to facilities, equipment and personal property located on that property. SERI will notify the W1&2 shift supervisor prior to access of W1&2. Authorized personnel entering the W3 Switching Station for the performance of duties or activities which could have any direct effect on power supply to W3 including routine maintenance of W3

Switching Station equipment will advise the on-duty SERI shift superintendent of entry and anticipated duration of stay.

- 1.1.2 Exclusion Area Control - As necessary to comply with federal regulations, SERI shall have authority to exercise complete control over LP&L property and easements in the Exclusion Area, as defined in the W3 Updated Final Safety Analysis Report ("Exclusion Area"), and to determine all activities within that area (including exclusion of LP&L personnel, contractors, visitors, guests and other persons from the plant and the switching station). To the extent practicable, SERI will exercise this control in such a fashion that normal LP&L use and access to the switchyard will not be restricted.

1.1.3 Security

- 1.1.3.1 General - SERI shall have authority to exercise complete

control over the W3 Switching Station and W1&2 and other LP&L property in the vicinity of the Switching Station and W1&2 for purposes of providing security. This authority includes the authority to conduct interactions with law enforcement agencies which are deemed necessary by SERI and the authority to file associated civil or criminal complaints against third parties as deemed necessary by SERI. The parties will cooperate in good faith as jointly determined appropriate to support prosecution of any such complaints.

1.1.3.2 Locks - The parties shall maintain W3 Switching Station and W1&2 perimeter fence gates in a locked condition except when attended or to allow ingress or egress. Key control for the W3 Switching Station gates and for W1&2 gates

will be maintained in accordance with procedures as mutually agreed upon by both SERI and LP&L.

1.1.3.3 Patrols - SERI will make a regular routine security patrol of the W3 Switching Station fence perimeter and will make an occasional security patrol of the W1&2 fence perimeter.

1.1.3.4 Maintenance - SERI will notify LP&L of problems requiring maintenance, repair or replacement of the W3 Switching Station and W1&2 perimeter fences, gates, locks, lights or other security related devices or equipment or of other conditions which may affect security. The cost of enhancements which are implemented due to NRC regulatory requirements shall be considered Costs of Operation of W3. LP&L will provide such maintenance or effect

repair or replacement or correct the condition of which it receives notice in a reasonable time period.

1.1.3.5 Security Response - SERI will provide an appropriate security response to an increased threat situation including potential situations caused by needed maintenance, repair or replacement of security devices or equipment.

1.2 230KV Switchyard

1.2.1 Access Control - LP&L will have unrestricted access to the real property owned by LP&L and designated as the Waterford 230KV switchyard, facilities, equipment and personal property located on that property.

1.2.2 Exclusion Area Control - The Waterford 230KV switchyard is not in the Exclusion area.

### 1.2.3 Security

1.2.3.1 General - SERI shall have authority to exercise complete control over the 230KV switchyard and other LP&L property in the vicinity of the 230KV switchyard for purposes of providing security. This authority includes the authority to conduct interactions with law enforcement agencies that are deemed necessary by SERI and the authority to file associated civil or criminal complaints against third parties as deemed necessary by SERI. The parties will cooperate in good faith as jointly determined appropriate to support prosecution of any such complaints.

1.2.3.2 Locks - LP&L shall maintain 230KV switchyard perimeter fence gates in a locked condition except when attended or to allow ingress or

egress. Key control for the 230KV switchyard will be maintained in accordance with procedures as mutually agreed upon by both SERI and LP&L.

1.2.3.3 Patrols - SERI will make a regular routine security patrol of the 230KV switchyard fence perimeter.

1.2.3.4 Maintenance - SERI will notify LP&L of problems requiring maintenance, repair or replacement of the 230KV switchyard perimeter fence, gates, locks, lights or other security related devices or equipment or of other conditions that may affect security. LP&L will provide such maintenance or effect repair or replacement or correct the condition of which it receives notice in a reasonable time period.

1.2.3.5 Security Response - SERI will provide an appropriate security response to an increased threat situation including potential situations caused by needed maintenance, repair or replacement of security devices or equipment.

1.3 Mineral Rights - LP&L will not exercise its right to explore or recover minerals in any area within the Exclusion Area or convey or lease its mineral rights within the Exclusion Area to any third party without SERI approval. Further, LP&L will cooperate with SERI as necessary to assist in control of mineral exploration or recovery activities in the Exclusion Area.

## 2.0 OPERATION

2.1 Switching Station - SERI will make regular rounds of the W3 Switching Station to make observations of equipment and facilities and obtain readings of appropriate equipment parameters. SERI will conduct other routine activities as requested by

LP&L and provide LP&L with appropriate reports as to findings during these activities.

2.2 W3 Switching Station and 230KV Switchyard

Operation - LP&L will normally operate equipment located in the 230KV switchyard and SERI will normally operate equipment in the W3 switching station. SERI will provide operating support for the 230KV switchyard at the request of LP&L. LP&L and SERI will evaluate the need for notification of the LP&L Control Operator and the System Control Operator and make appropriate notification, if needed, prior to operation of equipment. LP&L will operate 230KV switchyard equipment as necessary for maintenance to be performed in accordance with Section 3.0 and may return equipment to service upon completion of maintenance.

2.3 W1&2 Operation - The activities associated with operation of W1&2 which are to be performed within the Exclusion Area are unrelated to operation of W3 and, therefore, will remain under the operational control of LP&L.

3.0 MAINTENANCE

- 3.1 W3 Startup & Auxiliary Transformer - SERI will maintain (including necessary repair or replacement) the W3 Start-up and Auxiliary transformers and associated equipment regardless of location.
- 3.2 W3 Main Transformer - SERI will maintain (including necessary repair or replacement) the main output transformers. Upon request by SERI, LP&L will review maintenance arrangements between SERI and its contractors for major maintenance, repair or replacement activities with respect to the main output transformers, and will provide oversight of those maintenance activities.
- 3.3 Switching Station & 230KV Switchyard - LP&L will maintain (including necessary repair or replacement) all other equipment located in the switching station and 230KV Switchyard.
- 3.4 Spare Parts - LP&L will be responsible for maintaining an appropriate inventory of spare parts for equipment covered by Section 3.0.

- 3.5 W1&2 Maintenance - Maintenance activities for W1&2 are unrelated to operation of W3 and, therefore, will remain under the operational control of LP&L.

#### 4.0 COORDINATION

- 4.1 Outages - SERI will coordinate planned plant outages with LP&L. The LP&L dispatcher and the system dispatcher will be informed as a minimum.
- 4.2 Power Supply - LP&L will coordinate with SERI all activities which will directly affect power supply to W3. As a minimum, the SERI operations superintendent or designee will be informed by the system dispatcher or LP&L dispatcher or maintenance crew during the planning of these activities. Activities which cannot be planned in advance and the detailed conduct of planned activities will be coordinated with the on-duty W3 shift superintendent or shift supervisor.

#### 5.0 REVIEW AND APPROVAL

- 5.1 LP&L Responsibilities - LP&L will obtain SERI review and approval of procedure changes, design

changes, tests or changes in the conduct of other activities that might affect the safe operation of W3, compliance with regulatory requirements and/or commitments involving the W3 Switching Station and 230KV switchyard and associated transmission lines and equipment which could affect offsite power supply to W3, prior to implementing such changes or commencing such tests.

5.2 SERI Responsibilities - SERI will review any such proposed changes and tests in accordance with applicable commitments and regulatory requirements and will obtain NRC approval if required.

## 6 0 PROCEDURES

LP&L recognizes that it must respond to the critical need to provide power in an emergency and will assure that procedures are in place to make operating and maintenance personnel aware of such need.

## 7.0 TRAINING

SERI will provide regular training (on a schedule agreed to by LP&L and SERI) to appropriate LP&L

dispatch personnel to explain the critical need for power at W3 during emergencies, the legal requirements associated with W3 power supply, and legal requirements of W1&2 during W3 emergencies.

#### 8.0 COMPENSATION

Costs incurred by SERI pursuant to this Memorandum of Understanding shall be considered Costs of Operation as defined in the Operating Agreement, and services performed by LP&L hereunder shall be without cost or charge to SERI.

#### 9.0 GENERAL

This Memorandum of Understanding is intended to supplement the Operating Agreement. The performance of services described herein by SERI shall be governed by the Operating Agreement. Modifications or amendments to this Memorandum of Understanding must be executed by an authorized officer of each party. Prior to execution of any such modification or amendment to this Memorandum of Understanding, SERI will review the proposed change to assure that it is in compliance with its licensing commitments and regulatory requirements

applicable to nuclear power plants. If regulatory approval is needed, SERI will obtain the approval prior to execution of the modification or amendment. This Memorandum of Understanding and the Operating Agreement are intended to be complementary, and in the event of any inconsistencies between the two documents, the Operating Agreement shall govern.

IN WITNESS WHEREOF, the parties have executed this Memorandum of Understanding.

\_\_\_\_\_  
President and Chief Executive Officer  
LOUISIANA POWER & LIGHT COMPANY

\_\_\_\_\_  
Date

\_\_\_\_\_  
W. Cavanaugh, III  
President and Chief Executive Officer  
SYSTEM ENERGY RESOURCES, INC.

\_\_\_\_\_  
Date

EXHIBIT B TO  
OPERATING AGREEMENT

EMERGENCY PLANNING SUPPORT BY LP&L,

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is made and entered into as of \_\_\_\_\_, 1988 between System Energy Resources, Inc. (SERI) and Louisiana Power & Light Company (LP&L). This Agreement is being executed pursuant to the Operating Agreement, dated \_\_\_\_\_, 1988, between SERI and LP&L (the "Operating Agreement"), Article 3, Paragraph 3.3(2).

ARTICLE I

EMERGENCY PLANNING EQUIPMENT AND FACILITIES

1.1 ACCESS. Paragraph 3.2 of the Operating Agreement grants SERI unrestricted access to equipment and facilities located on the Waterford 3 site, including, without limitation, equipment and facilities relied on to execute the Waterford 3 Emergency Plan. In addition, in order for SERI to operate Waterford 3 in accordance with the Operating License and other applicable regulatory requirements, LP&L agrees to provide SERI, its agents, employees and contractors unrestricted access, upon request, to specific additional equipment and facilities located on the

Waterford 3 site, including, without limitation, access for emergency training exercises, emergency drills and, on a first priority basis for an actual emergency.

- 1.2 INVENTORY. An inventory of the specific offsite equipment and facilities for which SERI will be provided the access specified in Paragraph 1.1 above, shall be maintained by the \_\_\_\_\_ and may be revised as necessary to reflect changes in the needs of the Waterford 3 Emergency Plan or changes in the availability of the equipment and facilities. Such revisions shall only be made with the written concurrence of designated LP&L and SERI representatives.

## ARTICLE II

### LP&L PERSONNEL SUPPORTING THE WATERFORD 3 EMERGENCY PLAN

- 2.1 PERSONNEL SUPPORT. LP&L will provide personnel to support the Waterford 3 Emergency Plan, including, without limitation, personnel to staff the Corporate Command Center, the Emergency News Center and to act as Rumor Control operators. These personnel shall be provided by LP&L upon request by SERI to support emergency training exercises and emergency drills and on a first priority basis for an actual emergency.

2.2 PERSONNEL ROSTER. A roster of the specific LP&L personnel that will provide the support described in Paragraph 2.1 above, shall be maintained by \_\_\_\_\_ and may be revised as necessary to reflect changes in the needs of the Waterford 3 Emergency Plan or changes in the availability of personnel. Such revisions shall only be made with the written concurrence of designated LP&L and SERI representatives.

ARTICLE III

TERMS AND CONDITIONS

3.1 This Memorandum of Understanding is intended to supplement the Operating Agreement by specifying services to be performed by LP&L without cost or charge to SERI, and the performance of the services described herein and the rights and obligations of the parties with respect thereto shall be governed by the Operating Agreement.

SYSTEM ENERGY RESOURCES,  
INC.

LOUISIANA POWER & LIGHT  
COMPANY

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_



ARKANSAS POWER & LIGHT COMPANY  
 CAPITOL TOWER BUILDING/P. O. BOX 551/LITTLE ROCK, ARKANSAS 72203/(501) 377-3525  
 July 1, 1988

T. GENE CAMPBELL  
 Vice President - Nuclear

BCAN078801

U. S. Nuclear Regulatory Commission  
 Document Control Desk  
 Mail Stop P1-137  
 Washington, DC 20555

ATTN: Mr. Dennis M. Crutchfield, Director  
 Division of Reactor Projects III, IV, V  
 and Special Projects

SUBJECT: Arkansas Nuclear One - Units 1 & 2  
 Docket Nos. 50-313 and 50-360  
 License Nos. DPR-51 and NPF-6  
SERI License Amendment Application

Dear Mr. Crutchfield:

Arkansas Power & Light Company (AP&L), as the licensee for Arkansas Nuclear One, Units 1 and 2 (ANO-1 and ANO-2), hereby submits the enclosed application to amend facility operating licenses Nos. DPR-51 and NPF-6. This application requests NRC approval for System Energy Resources, Inc. (SERI) to assume responsibility for operation of the ANO units. In order to effect this change, the existing AP&L nuclear organization will be transferred, virtually intact, to SERI. Thus, essentially the same organization and staff currently responsible for operating these two units will continue those responsibilities as a part of SERI.

The application to amend the ANO-1 and ANO-2 operating licenses contains the information required to effect the requested transfer of licensed activities and to amend the operating licenses. In addition, the application contains the significant hazards consideration evaluation required by 10 C.F.R. 50.92 and 50.91. A more detailed description of the application is set forth below.

As the NRC is aware, this license amendment application is associated with the consolidation of nuclear operations of AP&L, Louisiana Power and Light Company (LP&L), and SERI. To ensure that complete and accurate information is submitted to the NRC, and to provide what can be called the "total picture" of the associated licensing activities germane to AP&L's application, this letter provides certain factual information and describes the similar licensing

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actions planned by LP&L. A similar license amendment application is being forwarded under separate cover by LP&L addressing SERI's assumption of operating responsibility for Waterford 3. The NRC should rely on LP&L's license amendment application for information specifically pertaining to LP&L and Waterford 3. Similarly, the NRC should rely on any submittals forwarded by SERI for information on SERI operations at the Grand Gulf Nuclear Station (GGNS).

#### A. INTRODUCTION

By way of background, AP&L, SERI, and LP&L are wholly-owned subsidiaries of Middle South Utilities, Inc. (MSU). AP&L is presently licensed to own and operate the ANO units. LP&L is licensed to own and operate Waterford 3. SERI is presently licensed to own and operate the GGNS, Unit 1, and to own and construct GGNS, Unit 2. For reasons discussed in the application, MSU has decided that SERI will become its system-wide nuclear operating company. Under the MSU plan, SERI will assume (in addition to its existing responsibilities for GGNS) all responsibilities for the management and operation -- but not ownership -- of ANO-1 and ANO-2. Similarly, as discussed in LP&L's amendment application, SERI will assume operating responsibilities of Waterford 3. The enclosed amendment application specifically addresses SERI's assumption of responsibilities for the two ANO units.

#### B. OPERATING RESPONSIBILITIES

As described in greater detail in the attached application, the transfer of operating responsibilities will be accomplished for ANO by an operating agreement between the owner (AP&L) and the new operator (SERI). This agreement will give SERI exclusive authority to make operational safety decisions and to conduct licensing activities with the NRC. Under the agreement, SERI's costs of operating ANO-1 and ANO-2 will be paid by AP&L, as the owner of the units, and AP&L will be entitled to all power generated at ANO. Although the operating agreement has not been completed as of this filing, we will make it available to the NRC as soon as practicable and, in any event, prior to issuance of the proposed amendment.

#### C. OPERATIONAL/ORGANIZATIONAL CHANGES

AP&L, LP&L and SERI have taken a system-wide approach, with strong management oversight, to direct the task of consolidating management of the MSU plants. A special consolidation organization, drawing on resources and expertise from all three companies, has been specifically set up to ensure that licensing and other relevant substantive issues are addressed. One clear objective of consolidation activities has been to minimize disruption due to the changes, and to ensure that there is no degradation to organizational performance or public safety.

The above philosophy has been particularly manifest in the planning of the new SERI integrated operating organization. As discussed in the enclosure, the present application does not contemplate any major organizational changes in AP&L's nuclear organization, other than the transfer of personnel to SERI. The present nuclear organization will remain essentially in place, with a change to the lines of authority such that the Vice President, Nuclear for ANO will

report directly to the President and Chief Executive Officer of SERI. The ANO Nuclear Quality organization will also have direct access to the President and Chief Executive Officer of SERI on matters related to quality.

It is anticipated that SERI will in the future, after issuance of this amendment, be considering organization changes to achieve further integration and efficiencies. However, those changes have not yet been identified and are not part of, or necessary for, the present application. Any such future changes will be governed by an internal policy that will provide appropriate management controls and ensure the continued integration of critical support functions. In addition, SERI will inform the NRC in advance of planned organizational changes which involve major restructuring of line or nuclear support functions at its nuclear facilities and that are important to plant safety. This commitment shall remain in effect until the NRC and SERI mutually agree that it is no longer required.

A guiding principle of the consolidation task force has been to recognize that MSU currently has three strong, successful organizations operating its plants. The reorganization plan therefore specifically acknowledges and maintains the special needs of each existing nuclear organization. Individual plant priorities and ongoing plant improvement initiatives will not be adversely impacted by the consolidation.

Additionally, and in response to an NRC staff concern regarding future operational activities, it is recognized that the operating licenses for ANO-1 and ANO-2 would not permit the transfer of spent fuel between ANO and any other facility operated by SERI without specific regulatory approval.

#### D. NOTIFICATIONS AND APPROVALS

While the assumption of responsibilities for ANO by SERI requires the consent of certain creditors and the review and/or approval of federal and state agencies other than the NRC, it is anticipated that these consents, reviews and approvals will be completed prior to the end of this year. The NRC will be kept informed of the progress of these parallel efforts and will, of course, be informed in writing should it appear that any of these actions will not be completed in a reasonable time.

The consolidation task force has also been committed to keeping other relevant state and local officials, and the public, informed with respect to the MSU nuclear plan. The NRC will be kept informed of these informational activities.

#### E. SCHEDULE

Finally, with respect to scheduling, it is our intent to submit this application concurrently with the LP&L amendment application for Waterford 3. In order that administrative matters associated with the change (including the transfers of personnel from AP&L to SERI) can be completed in a timely and orderly fashion, it is requested that the two amendments be issued simultaneously. We are, however, striving to implement the proposed changes as soon as practicable, consistent with obtaining other necessary regulatory approvals. Therefore, we request your expeditious review and approval.

Mr. Dennis M. Crutchfield

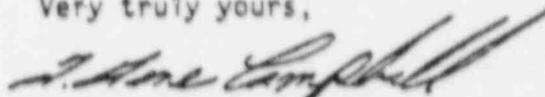
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July 1, 1988

This application and the proposed amendments have been reviewed and approved by the ANO Plant Safety Committee and Safety Review Committee. As discussed in the application, AP&L has concluded that the proposed amendments to the ANO operating licenses do not involve a significant hazards consideration.

In accordance with the requirements of 10 C.F.R. § 170.21, the appropriate application fee of \$150.00 is provided with this letter. A copy of this application has been forwarded to the appropriate designated state official as required by 10 C.F.R. 50.91(b).

Very truly yours,



T. Gene Campbell

TGC:mb

Attachments

cc: Ms. Greta Dicus, Director  
Division of Radiation Control  
and Emergency Management  
Arkansas Department of Health  
4815 West Markham Street  
Little Rock, Arkansas 72201

STATE OF ARKANSAS )  
                          )  
COUNTY OF PULASKI )

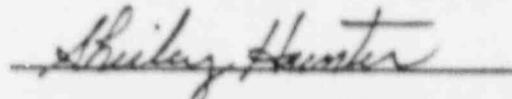
SS

I, T. Gene Campbell, being duly sworn, subscribe to and say that I am Vice President, Nuclear for Arkansas Power & Light Company; that I have full authority to execute this oath; that I have read the document numbered BCAN778871 and know the contents thereof; and that to the best of my knowledge, information and belief the statements in it are true.



T. Gene Campbell

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the County and State above named, this 30<sup>th</sup> day of June, 1988.



Notary Public

My Commission Expires:

3-1-91

UNITED STATES OF AMERICA  
NUCLEAR REGULATORY COMMISSION

In the Matter of  
ARKANSAS POWER & LIGHT COMPANY  
  
(Arkansas Nuclear One,  
Units 1 and 2)

)  
)  
)  
)  
)

Docket Nos. 50-313  
50-368

APPLICATION TO AMEND FACILITY  
OPERATING LICENSE NOS. DPR-51 AND NPF-6

Arkansas Power & Light Company (AP&L) is the holder of Facility Operating License No. DPR-51 for Arkansas Nuclear One, Unit 1, and Operating License No. NPF-6 for Arkansas Nuclear One, Unit 2. The operating licenses presently authorize AP&L to possess, use and operate Arkansas Nuclear One, Units 1 and 2 (ANO-1 and ANO-2) in accordance with the terms and conditions of these licenses.

AP&L is a wholly-owned subsidiary of Middle South Utilities, Inc. (MSU). MSU also owns the common stock of Louisiana Power & Light (LP&L), which is licensed by the Nuclear Regulatory Commission (NRC) to possess, use and operate the Waterford Steam Electric Station, Unit No. 3 (Waterford 3), and System Energy

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Resources, Inc. (SERI), which is licensed to possess, use and operate Grand Gulf Nuclear Station (GGNS), Unit 1 and to construct GGNS, Unit 2.

MSU now plans for SERI to become its system-wide nuclear operating company. As such, SERI, in addition to operating GGNS, Unit 1, would assume operating responsibility for -- but not ownership of -- ANO-1, ANO-2 and Waterford 3. This assumption of operating responsibility will be accomplished by operating agreements between AP&L and SERI, and between LP&L and SERI, each designating SERI as its agent and authorizing SERI to operate its plant or plants. The assumption of operating responsibility by SERI for ANO-1, ANO-2 and Waterford 3 will not impact existing plant ownership or entitlements to capacity and energy.

Upon receipt of necessary regulatory approvals and transfer to SERI of AP&L nuclear operational personnel, SERI will succeed AP&L as operator of ANO-1 and ANO-2. This amendment application requests that the NRC amend Operating License Nos. DPR-51 and NPF-6 to authorize and reflect in the licenses the change from AP&L to SERI as the licensee authorized to possess, use and operate ANO-1 and ANO-2.<sup>1</sup>

Specifically, pursuant to 10 C.F.R. § 50.90, the Licensee hereby requests that the NRC amend Operating License No. DPR-51 to change the name of the licensee for ANO-1, such that:

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1 The proposed changes to the ANO-1 and ANO-2 Operating Licenses to reflect the establishment of SERI as the licensee responsible for the operation and licensing of ANO-1 and ANO-2 are included in Attachments 1 and 2. Other than submittals currently pending NRC approval, this amendment application involves no additional changes to the Technical Specifications for either unit.

- (1) SERI, pursuant to section 104b of the Atomic Energy Act of 1954, as amended (the "Act"), and 10 C.F.R. Part 50, "Licensing of Production and Utilization Facilities," is licensed to possess, use and operate ANO-1, at the designated location in Pope County, Arkansas, in accordance with the procedures and limitations set forth in the License;
- (2) AP&L, pursuant to the Act and 10 C.F.R. Part 50, is licensed to possess ANO-1 at the designated location in Pope County, Arkansas, in accordance with the procedures and limitations set forth in the License;
- (3) SERI, pursuant to the Act and 10 C.F.R. Part 70, is licensed to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;
- (4) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;

- (5) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess and use in amounts as required any by-product, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and
- (6) SERI, pursuant to the Act and 10 C.F.R. Parts 30 and 70, is licensed to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of ANO-1.

Further, the Licensee hereby requests that the NRC amend Operating License No. NPF-6 to change the name of the licensee for ANO-2, such that:

- (1) SERI, pursuant to Section 103 of the Act, as amended, and 10 C.F.R. Part 50, "Licensing of Production and Utilization Facilities," is licensed to possess, use and operate ANO-2, at the designated location in Pope County, Arkansas, in accordance with the procedures and limitations set forth in the License;
- (2) AP&L, pursuant to the Act and 10 C.F.R. Part 50, is licensed to possess ANO-2 at the designated location in Pope County, Arkansas, in accordance with the procedures and limitations set forth in the License;

- (3) SERI, pursuant to the Act and 10 C.F.R. Part 70, is licensed to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;
- (4) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess, and use at any time any by-product, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
- (5) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess and use in amounts as required any by-product, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and
- (6) SERI, pursuant to the Act and 10 C.F.R. Parts 30 and 70, is licensed to possess, but not separate, such by-product and special nuclear materials as may be produced by the operation of ANO-2.

Other conforming license changes are noted in the attachments to this Application.<sup>2</sup> Set forth below is the information in support of the Application to Amend Facility Operating Licenses Nos. DPR-51 and NPF-6.

1. GENERAL INFORMATION CONCERNING LICENSE AMENDMENT

A. Proposed Additional Licensee: System Energy Resources, Inc.

B. Address: Post Office Box 23054  
Jackson, Mississippi 39215

C. Description of Business or Occupation:

SERI is a wholly-owned subsidiary of MSU. SERI, formerly Middle South Energy, Inc. (MSE), was formed in 1974 to construct, finance and own base-load generating units for the operating subsidiaries of MSU. On July 22, 1986, the Boards of Directors of MSU and MSE took action to change the name of MSE to SERI and to authorize transferring to SERI all responsibility for the operation of GGNS, Unit 1, and construction of GGNS, Unit 2. This was accomplished on December 20, 1986, upon receipt of the necessary regulatory approvals.

To date, SERI's business has comprised owning and financing its ninety percent ownership interest in the GGNS, and operating the plant. Prior to issuance of these license amendments, SERI will take necessary corporate action to authorize it to operate Waterford 3, ANO-1 and ANO-2.

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<sup>2</sup> Conforming changes, if necessary, in insurance and indemnity agreements will be made in due course by separate correspondence.

After approval of these requested amendments and a similar amendment to the Operating License for Waterford 3, SERI will be responsible for the operation and maintenance of all nuclear plants in the MSU System, including ANO-1 and ANO-2. Upon receipt of necessary regulatory approvals, SERI, as distinct from AP&L as the owner of the facilities, will have responsibility for and control over the physical construction, operation, maintenance, and licensing of the facilities.

D. Organization and Management of Operating Corporation

SERI is a corporation organized and existing under the laws of the State of Arkansas. Its principal office is located in Jackson, Mississippi. The corporation is neither owned, controlled nor dominated by an alien, a foreign corporation, nor a foreign government.

All directors and principal officers of SERI are citizens of the United States. Their names and addresses are as follows: <sup>3</sup>

Directors

Mr. E. A. Lupberger  
Chairman of the Board  
System Energy Resources, Inc.  
225 Baronne Street  
New Orleans, Louisiana 70112

Mr. William Cavanaugh, III  
President and Chief Executive Officer  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

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<sup>3</sup> Additional directors and officers may be named at a later date.

Mr. D. C. Lucken  
 Chairman of the Board and Chief Executive Officer  
 Mississippi Power & Light Company  
 P.O. Box 1640  
 Jackson, Mississippi 39215-1640

Mr. J. M. Cain  
 President and Chief Executive Officer  
 Louisiana Power & Light Company  
 New Orleans Public Services, Inc.  
 Post Office Box 60340  
 New Orleans, Louisiana 70160

Mr. J. L. Maulden  
 President and Chief Executive Officer  
 Arkansas Power & Light Company  
 Post Office Box 551  
 Little Rock, Arkansas 72203

Dr. Joseph M. Hendrie  
 Nuclear Engineering Consultant  
 50 Bellport Lane  
 Bellport, New York 11713;  
 Senior Scientist, Research and  
 Development  
 Brookhaven National Laboratory

Officers

Mr. E. A. Lupberger  
 Chairman of the Board  
 System Energy Resources, Inc.  
 225 Baronne Street  
 New Orleans, Louisiana 70112

Mr. William Cavanaugh III  
 President and Chief Executive Officer  
 System Energy Resources, Inc.  
 Post Office Box 23054  
 Jackson, Mississippi 39215

Mr. Glenn E. Harder  
 Vice President - Accounting  
 System Energy Resources, Inc.  
 Post Office Box 23054  
 Jackson, Mississippi 39215

Mr. Richard J. Landy  
 Vice President - Human Resources  
 and Administration  
 System Energy Resources, Inc.  
 Post Office Box 23054  
 Jackson, Mississippi 39215

Mr. Oliver D. Kingsley, Jr.  
Vice President - Nuclear Operations  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Ted H. Cloninger  
Vice President - Nuclear Engineering  
and Support  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Dan E. Stapp  
Secretary  
System Energy Resources, Inc.  
Post Office Box 61005  
New Orleans, Louisiana 70161

Upon issuance of these operating license amendments, certain officers of AP&L will become officers of SERI. The names of these officers will be announced following approval by the SERI Board of Directors.

E. Technical Qualifications

The technical qualifications of SERI to carry out its responsibilities under the Operating Licenses for ANO-1 and ANO-2, as amended, will meet or exceed the present technical qualifications of AP&L. AP&L will continue to act as the operator of ANO-1 and ANO-2, pending the amendment of the Operating Licenses. When the amendments become effective, SERI will assume responsibility for and control over the physical construction, operation, maintenance, and licensing of the facilities. The present ANO-1 and ANO-2 nuclear organizations will be transferred essentially intact to SERI. The technical qualifications of the proposed ANO-1 and ANO-2 organizations therefore will be at least equivalent to those of the existing organization.

The central objectives in planning the proposed consolidation of the AP&L and SERI organizations have been to minimize disruption to the operation of the plants and to respect the integrity of the existing, successful organizations. Therefore, in the proposed consolidated SERI organization, each nuclear organization for the operating plants will be preserved, with the only change that the senior nuclear executive of AP&L and LP&L will report directly to the President and Chief Executive Officer of SERI. This organization is illustrated in Attachment 3. Thus, for ANO-1 and ANO-2, T. G. Campbell, Vice President, Nuclear, will report directly to W. Cavanaugh III, President and Chief Executive Officer of SERI. The Nuclear Quality organization for the plant will also have direct access to the President and Chief Executive Officer of SERI on matters related to quality.

This approach to the consolidation accommodates the current plant-specific structure of the AP&L and SERI organizations. This allows the transfer of AP&L nuclear personnel to SERI with virtually no organizational changes or disruption. It also allows the management for each facility to retain sufficient independence to address plant-specific needs and to maintain existing priorities and ongoing plant improvement projects. Importantly, and as discussed below, there will be in the near term no organizational or physical location changes to the existing, dedicated organization, which would include the engineering, quality assurance, and licensing organizations supporting the ANO-1 and ANO-2 plants.

The significant elements and advantages to the proposed SERI organization can be summarized as follows:

- (1) The structure provides clear lines of authority and responsibility while ensuring that essential nuclear support functions are dedicated to each project and report to a single responsible project executive.
- (2) The effectiveness of project quality assurance will not be degraded.
- (3) The project structure will continue to provide the project executive the flexibility necessary for managing his resources to achieve optimal results. Ongoing plant improvement plans will not be impacted.
- (4) The project structure provides the flexibility necessary to adapt to different procedures and methods used at each plant. This is particularly important initially since most project nuclear activities will be transferred essentially "as is" to SERI.
- (5) The effectiveness of a dedicated nuclear support organization is enhanced by identity with and sharing of the SERI goals and objectives.

The consolidation of the SERI, LP&L, and AP&L nuclear organizations will be a long-term, evolutionary process. For the time being, and for the purposes of the present application, only certain non-nuclear support functions, such as accounting and human resources, may be combined, if it appears beneficial and appropriate to do so. The licensees will continue to study possible organizational and programmatic changes to enhance objectives and to realize

further benefits from the establishment of SERI as the single company responsible for all nuclear operations in the MSU System. Such changes will only be implemented after careful consideration. SERI will inform NRC in advance of planned organizational changes that involve major restructuring of line or nuclear support functions at its nuclear facilities and that are important to plant safety. This commitment shall remain in effect until the NRC and SERI mutually agree that it is no longer required.

F. Statement of Purposes for the License Amendments

The assumption of operational responsibility for ANO-1 and ANO-2 by SERI (along with responsibility for Waterford 3 and GGNS, Unit 1) will provide benefits inherent to an integrated nuclear operating company. Some of the expected benefits are as follows:

- (1) SERI, as an operating company for multiple reactors, will have a repository of system nuclear operating expertise and experience. Presently, there is a wealth of nuclear operations talent spread throughout the MSU system. Consolidation of this talent into one company should have a synergistic effect. The change will enhance the already high level of public safety and cost-effective plant operation.
- (2) Consolidation of talent not only will result in a merger of expertise and experience for system-wide nuclear operational support, but it also permit the specialization of expertise in certain areas that might not otherwise be developed if each of the companies continued to operate their separate facilities.

- (3) SERI will be better able to provide a consistent vision for the philosophy of operation of the system nuclear units. A single company responsible for all nuclear operations in the MSU system will allow development of a consistent philosophy which will be specifically designed for nuclear plant operations. This focused philosophy can be used to maintain excellence in all aspects of nuclear operation.
- (4) As a result of the consolidation, there will be more effective communication and use of system nuclear operating experience. For example, the system-wide nuclear operating company will allow "lessons learned" to be shared promptly, efficiently, and consistently among the units.
- (5) Certain non-nuclear support functions will become specialized and focused on the requirements of all of the system's nuclear units and will thereby be more effective.
- (6) Bringing all of the MSU nuclear units under the management of one company will provide a broader base and more competitive environment for upper management candidates who are specialized in nuclear power generation. Further, SERI, in its new role, should provide an environment in which all employees continue to be motivated toward high performance. SERI, with its expanded responsibilities, will also provide greater opportunity for career progression and thus greater opportunity to retain valued employees.

- (7) More specifically, as a result of this consolidation, salary structures, career path policies and procedures will be internally consistent. Since all of SERI's employees will be "nuclear employees", there will no longer exist any distinction in these areas between employees who support nuclear operations and those who do not. This will permit nuclear managers to focus entirely upon the special needs, qualifications, and requirements of nuclear employees. Human resource and compensation policies tailored to nuclear operations will allow SERI to be competitive in the market for skilled nuclear professionals without directly influencing, or being bound by, personnel policies and procedures governing non-nuclear related personnel. The ability to attract superior nuclear talent and retain quality individuals once recruited will have a direct and positive impact on the quality of nuclear operations.

G. Financial Considerations

As is discussed below, SERI is an "electric utility" as that term is defined by 10 C.F.R. § 50.2. Therefore, under 10 C.F.R. § 50.33(f), a full financial qualifications review of this application to amend the licenses is not necessary. By way of demonstrating that SERI is an "electric utility" and apprising the NRC of the relationships that will exist between SERI and AP&L (the facility owner), the following brief discussion is provided.

The following interrelations will be established by an operating agreement between AP&L and SERI:

1. SERI will not have any ownership interest in the ANO plants or facilities; however, it will have overall responsibility for plant operations. SERI will operate ANO-1 and ANO-2 in accordance with the Operating Licenses and shall have exclusive responsibility for making safety decisions.
2. AP&L will retain certain controls over ultimate spending limits, such as the authority to direct that ANO-1 or ANO-2 be shut down in an orderly fashion by SERI (and in accordance with SERI's safety judgment). This retained authority will limit SERI's spending authority, but will not encumber SERI's ability to make operational safety decisions and will have no impact on safe operation of ANO-1 or ANO-2.
3. All costs for the operation, construction, maintenance, repair, decontamination and decommissioning of ANO-1 and ANO-2 incurred or accrued will be the responsibility of AP&L when incurred or accrued.

Section 50.2 of 10 C.F.R. defines an "electric utility" as:

. . . any entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority. Investor-owned utilities, including generation and distribution subsidiaries, public utility districts,

municipalities, rural electric cooperatives, and State and Federal agencies, including associations of any of the foregoing, are included within the meaning of electric utility.

SERI is a generating subsidiary of MSU. SERI operates GGNS, Unit 1, and sells power at wholesale to operating companies in the Middle South System pursuant to rates established by the Federal Energy Regulatory Commission. Upon receiving necessary regulatory approvals, it will also operate, for the benefit of their owners, Waterford 3, ANO-1 and ANO-2 for the generation of electricity. SERI's costs of operation for ANO-1 and ANO-2 will be recovered from AP&L who in turn recovers such costs through retail rates established by state regulatory authorities, and through wholesale rates established by the Federal Energy Regulatory Commission. Hence, SERI is an "electric utility" as defined in 10 C.F.R. § 50.2.

AP&L is subject to the rate jurisdiction of the Arkansas and Missouri public service commissions, and the Federal Energy Regulatory Commission. Therefore, AP&L also remains an "electric utility" and is committed to provide all funds necessary to continue safe operation of ANO-1 and ANO-2, to shut down ANO-1 and ANO-2 permanently, if necessary, and to maintain the units in a safe condition, all in conformance with NRC regulations. AP&L and its sources of funds will remain the same as under the present licenses. The operating agreement terms regarding costs, discussed above, give SERI the same financial qualifications as the present licensee, AP&L.

## H. Antitrust Considerations

MSU's plan for SERI to operate and manage ANO-1 and ANO-2 will not impact the existing ownership of the units or existing entitlements to power. These proposed license amendments do not require antitrust review pursuant to Section 105 of the Atomic Energy Act and 10 C.F.R. § 2.101(e).

## I. Restricted Data

This Application does not contain any Restricted Data or other defense information, and it is not expected that any such information will become involved in the licensed activities. However, in the event that such information does become involved, SERI agrees that it will appropriately safeguard such information and it will not permit any individual to have access to Restricted Data until the Office of Personnel Management shall have made an investigation and report to the NRC on the character, associations and loyalty of such individual, and the NRC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

## II. SPECIFIC INFORMATION REGARDING RELATED ISSUES

### A. Emergency Planning

Upon approval of the license amendments to authorize operation of ANO-1 and ANO-2 by SERI, SERI will assume authority and responsibility for functions necessary to fulfill the emergency planning requirements specified in 10 C.F.R. § 50.47(b) and Part 50, Appendix E. No changes will be made to the on-site

aspects of the existing emergency plans for ANO-1 and ANO-2. In addition, there will be no changes to the existing Emergency Planning Organization. SERI will add organizational components to reflect its assumption of responsibility for emergency planning. Transition plans will be established to ensure that the support described in the existing emergency plans will be maintained throughout the transition and as needed following the transition.

Appropriate action will be taken as necessary with respect to existing agreements for support from organizations and agencies not affiliated with the licensees to reflect SERI's agency relationship with the owner and SERI's responsibility for management and operation of ANO-1 and ANO-2. This will be accomplished as necessary by AP&L prior to the transfer of responsibility.

Following the transfer of operating responsibility to SERI, emergency planning support will be provided by AP&L as needed. In essence, to the extent that personnel, resources, and facilities are not being transferred to SERI, AP&L will continue to fulfill selected emergency planning functions. These functions have been thoroughly reviewed and the required support will be assured by an agreement between SERI and AP&L. Long-term utilization of AP&L resources in these areas will be based on cost-effectiveness and existing relationships with offsite organizations and agencies.

In sum, the proposed license amendments will not impact compliance with the emergency planning requirements. Because the effectiveness of the emergency plan will not be decreased, specific emergency plan and procedure changes will be submitted to the NRC within 30 days after the changes are made, pursuant to 10 C.F.R. § 50.54(q) and Appendix E, Section V.

B. General Design Criterion 17

The amendments to authorize assumption of operating responsibility by SERI involve no changes in the ownership or design of the offsite power systems for ANO-1 and ANO-2, or in their operation, maintenance or testing. Upon approval of the amendments, AP&L will continue to fulfill its current responsibilities with respect to compliance with General Design Criterion (GDC) 17.

GDC 17 specifically requires that there be an assured source of offsite power to the plants. Pursuant to this requirement, SERI and AP&L will maintain and implement procedures and agreements specifying: (1) the arrangements for provision of a continued source of offsite power and (2) the arrangements for controlling operation, maintenance, repair, and other activities with respect to the transmission lines and the switchyard, such that adequate independent sources of offsite power will continue to be provided.

In essence, the written procedures and agreements will provide for the future interface between SERI and AP&L. First, AP&L has committed to providing offsite power to the units. Second, the procedures and agreements will provide for the continuation of current arrangements for the operation and maintenance of the switchyard and associated transmission facilities. The procedures and agreements will also specify that AP&L will obtain concurrence from SERI prior to implementing any changes in this equipment.

C. Exclusion Area

Upon approval of the amendments providing for assumption of operating responsibility by SERI, SERI will have authority to determine all activities

within the ANO-1 and ANO-2 exclusion areas, to the extent required by 10 C.F.R. Part 100.

As stated in Chapters 2.2.2 and 2.1.2.1 of the Safety Analysis Reports (SARs) for ANO-1 and ANO-2 respectively, AP&L controls all surface rights within the exclusion area boundary of the units. With respect to certain property owned by the United States Government, AP&L controls the area under an easement. Under the operating agreement to be entered into between SERI and AP&L, AP&L will agree to provide SERI with unrestricted access to the property constituting the ANO site, including the facilities, equipment, switchyard, and personal property located on the site. Also, SERI will have authority to exercise complete control over the exclusion areas as designated in the SARs for the plants, and to determine all activities within those areas (including all areas of the site and the switchyard). This authority will allow SERI to control ingress and egress and to order an evacuation if necessary. To the extent practicable, SERI will, of course, exercise this control in such a fashion that AP&L's access to the switchyard and transmission facilities for proper operation and maintenance of the electric systems on the ANO site will not be unduly restricted.

As stated in the SARs, certain activities unrelated to plant operation (e.g., use of roads) will occur in the exclusion area. There will be no change from the existing situation. SERI will assume responsibility for the emergency plans as discussed above.

D. Security

The proposed license amendments will not impact compliance with the physical security requirements of 10 C.F.R. Part 73. Upon assumption of operating responsibility, SERI will assume ultimate responsibility for implementation of all aspects of the present security program. Appropriate action will be taken as necessary with respect to existing agreements for support from outside organizations and agencies to reflect SERI's agency relationship with the owner and SERI's responsibility for management and operation of ANO-1 and ANO-2. Changes to the plans to reflect this transition will not decrease the effectiveness of the plans and will be submitted to the NRC within 30 days after the changes are made, in accordance with 10 C.F.R. § 50.54(p).

E. Quality Assurance

The proposed license amendments will not impact compliance with the quality assurance requirements of 10 C.F.R. 50, Appendix B, nor will they reduce the commitments in the NRC-accepted quality assurance program descriptions for ANO-1 and ANO-2. Upon assumption of operating responsibility, SERI will assume the ultimate responsibility for present functions associated with the ANO-1 and ANO-2 quality assurance programs. The organization, function and structure of the nuclear quality organization will not be affected by these license amendments. Changes to reflect this transition, which will be handled in accordance with 10 C.F.R. 50.54(a), will not reduce the commitments in the quality assurance program descriptions.

F. Safety Analysis Reports

With the exception of areas discussed in this license amendment application, the proposed license amendments will not change or invalidate information presently appearing in the ANO SARs. Changes necessary to accommodate the proposed license amendments will be incorporated into the ANO-1 and ANO-2 SARs following NRC approval of the license amendment application in accordance with 10 C.F.R. 50.71(e).

G. Training

The proposed license amendments will not impact compliance with the operator requalification program requirements of 10 C.F.R. 50.54 and related sections, nor maintenance of the Institute of Nuclear Power Operations accreditation for licensed and non-licensed training. Upon assumption of operating responsibility for ANO-1 and ANO-2, SERI will assume ultimate responsibility for implementation of present training programs. Changes to the programs to reflect this transition will not decrease the scope of the approved operator requalification program without the specific authorization of the NRC in accordance with 10 C.F.R. 50.54(i).

H. Engineering Support

Currently the engineering support for ANO-1 and ANO-2 is provided by a dedicated engineering organization that is an integral part of the nuclear organization. Because the existing nuclear organization at AP&L will transfer

virtually intact to SERI upon approval of these license amendments, there will be essentially no change in the engineering support provided and no change in the interface between the organizations responsible for engineering support, and maintenance and operations for each plant. Thus there will be no degradation of the engineering support function and its integration with maintenance and operations. After issuance of the license amendments, as evolutionary changes are made to consolidate organizations within SERI, we will ensure the continued integration of the engineering support function with the maintenance and operation function.

### III. NO SIGNIFICANT HAZARDS CONSIDERATION EVALUATION

PURSUANT TO 10 C.F.R. 50.92

#### A. Proposed Change

The proposed amendments would revise Facility Operating License No. DPR-51 and Facility Operating License No. NPF-6 for ANO-1 and ANO-2, respectively, to authorize SERI to act on behalf of AP&L, with responsibility for and control over the physical construction, operation, and maintenance of the facilities.

#### B. Background

SERI is a wholly-owned subsidiary of MSU. It is presently licensed to operate the GGNS, Unit 1, and to construct GGNS, Unit 2. Under the proposed amendments, SERI would assume all responsibilities for operating ANO-1 and ANO-2. Under the current operating licenses, these responsibilities are now

held by AP&L, which also is a wholly-owned subsidiary of MSU. This application is being filed simultaneously with a similar application by LP&L to transfer to SERI operational responsibility for Waterford 3.

Under the terms of the proposed amendments, the operating licenses for ANO-1 and ANO-2 would recognize SERI as the legal entity which will provide the technical and managerial resources for the continued safe operation of the facilities, and as the entity with exclusive authority to make operational safety decisions. The proposed license amendments involve no change in the ownership of the facilities and no physical changes to the plants.

All of the current license conditions will remain in effect and the Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications will remain unchanged. While the emergency plan, security plan, and plant operating and emergency procedures will require administrative changes to reflect SERI's role as agent for the owner and operator of the units, no changes will be made that decrease the effectiveness of these plans and procedures. Similarly, while the Quality Assurance Program may require administrative changes to reflect the role of SERI, no changes will be made that reduce the commitments in that Program. A transition plan will ensure an orderly transfer of existing emergency preparedness responsibilities to SERI. Written procedures and agreements maintained and implemented by SERI and AP&L will clearly ensure continued compliance with GDC 17. Similarly, an operating agreement will ensure that SERI has authority to determine all activities within the exclusion area.

The technical qualifications of SERI to carry out its responsibilities under the Operating Licenses, as amended, will meet or exceed the present technical qualifications of AP&L. AP&L will continue to act as the operator of ANO-1 and ANO-2, pending amendment of the Operating Licenses. When the amendments become effective, SERI will assume responsibility for, and control over, the physical construction, operation, and maintenance of the facilities. The present ANO-1 and ANO-2 nuclear organizations will be transferred essentially intact to SERI. The technical qualifications of the SERI ANO-1 and ANO-2 organizations therefore will be at least equivalent to those of the existing organization.

The assumption of operational responsibility for ANO-1 and ANO-2 by SERI (along with responsibility for Waterford 3 and GGNS, Unit 1) will provide benefits inherent to an integrated nuclear operating company. Some of the expected benefits are as follows:

- (1) SERI, as an operating company for multiple reactors, will have a repository of system nuclear operating expertise and experience. Presently, there is a wealth of nuclear operations talent spread throughout the MSU system. Consolidation of this talent into one company should have a synergistic effect. The change will enhance the already high level of public safety and cost-effective plant operation.
- (2) Consolidation of talent not only will result in a merger of expertise and experience for system-wide nuclear operational support, but also will permit the specialization of expertise in certain areas that might not otherwise be developed if each of the companies continued to operate their separate facilities.

- (3) SERI will be better able to provide a consistent vision for the philosophy of operation of the system nuclear units. A single company responsible for all nuclear operations in the MSU system will allow development of a consistent philosophy which will be specifically designed for nuclear plant operations. This focused philosophy can be used to achieve excellence in all aspects of nuclear operation.
- (4) As a result of the consolidation, there will be more effective communication and use of system nuclear operating experience. For example, the system-wide nuclear operating company will allow "lessons learned" to be shared promptly, efficiently, and consistently among the units.
- (5) Certain non-nuclear support functions will become specialized and focused on the requirements of all of the system's nuclear units and will thereby be more effective.
- (6) Bringing all of the MSU nuclear units under the management of one company will provide a broader base and more competitive environment for upper management candidates who are specialized in nuclear power generation. Further, SERI, in its new role, should provide an environment in which all employees continue to be motivated toward high performance. SERI, with its expanded responsibilities, will also provide greater opportunity for career progression and thus greater opportunity to retain valued employees.

- (7) More specifically, as a result of consolidation, salary structures, career path policies and procedures will be internally consistent. Since all of SERI's employees will be "nuclear employees", there will no longer exist any distinction in these areas between employees who support nuclear operations and those who do not. This will permit nuclear managers to focus entirely upon the special needs, qualifications, and requirements of nuclear employees. Human resource and compensation policies tailored to nuclear operations will allow SERI to be competitive in the market for skilled nuclear professionals without directly influencing, or being bound by, personnel policies and procedures governing non-nuclear related personnel. The ability to attract superior nuclear talent and retain quality individuals once recruited will have a direct and positive impact on the quality of ANO operations.

C. Analysis

The following discussion provides a specific analysis of the proposed change against the three standards delineated in 10 C.F.R. § 50.92 and demonstrates that the proposed change involves no significant hazards consideration:

1. The proposed change will not increase the probability or consequences of an accident previously evaluated. The technical qualifications of SERI will be at least equivalent to those of AP&L presently. Personnel qualifications will remain the same as those discussed in the Technical Specifications and the SARs for ANO-1 and ANO-2.

SERI presently owns and operates GGNS, Unit 1. The employees of LP&L and AP&L presently engaged in the operation of Waterford 3, ANO-1 and ANO-2 will become employees of SERI. The organizational structure of SERI will provide for clear management control and effective lines of authority and communication among the organizational units involved in the management, operation, and technical support of the facilities.

As a result of the proposed amendments, there will not be physical changes to the facilities, and all Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications will remain unchanged. With the exception of administrative changes to reflect the role of SERI, the quality assurance programs, the emergency plans, security plans and training programs are unaffected. Operating agreements will ensure continued compliance with GDC 17 as well as SERI control over activities within the exclusion areas.

Therefore, the proposed changes will not increase the probability or consequences of an accident previously evaluated.

2. The proposed amendments will not create the possibility of a new or different kind of accident from any accident previously evaluated. The design and design bases of ANO-1 and ANO-2 remain the same. Therefore, the current plant safety analyses remain complete and accurate in addressing the licensing basis events and analyzing plant response and consequences.

The Limiting Conditions for Operation, Limiting Safety System Settings and Safety Limits are not affected by the proposed amendments. With the exception of administrative changes to reflect the role of SERI, plant operating and emergency procedures are unaffected. As such, the plant conditions for which the design basis accident analyses have been performed are still valid. Therefore, the proposed amendments cannot create the possibility of a new or different kind of accident than previously evaluated.

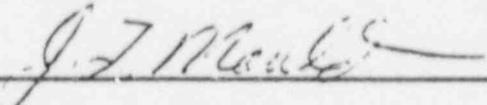
3. The proposed amendments will not involve a reduction in a margin of safety. Plant safety margins are established through Limiting Conditions for Operation, Limiting Safety System Settings and Safety Limits specified in the Technical Specifications. Since there will be no change to the physical design or operation of the plants, there will be no change to any of these margins. The proposed amendments therefore will not involve a reduction in a margin of safety.

#### D. Conclusion

Based upon the analysis provided herein, the proposed amendments will not increase the probability or consequences of an accident previously evaluated, create the possibility of a new or different kind of accident from any accident previously evaluated, or involve a reduction in a margin of safety. Therefore, the proposed amendments meet the requirements of 10 C.F.R. 50.92(c) and do not involve a significant hazards consideration.

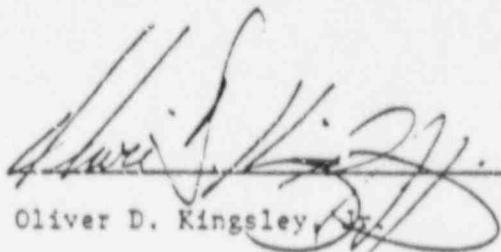
## ENDORSEMENT AND CONSENT

AP&L, presently the sole licensee, hereby endorses and consents to this application filed under oath or affirmation by T. G. Campbell, Vice President, Nuclear, of AP&L, and the proposed assumption of operating and licensing responsibilities for ANO-1 and ANO-2 by SERI as described above.

  
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Mr. J. L. Maulden  
President and Chief Executive Officer  
Arkansas Power & Light Company

ACCEPTANCE

SERI hereby consents to this application filed under oath or affirmation by T. G. Campbell, Vice President, Nuclear, of AP&L, and accepts the proposed assumption of operating and licensing responsibilities for ANO-1 and ANO-2 by SERI as described above. Upon approval and effectiveness of the proposed amendments, SERI agrees to be bound by all applicable NRC regulations, applicable license conditions (as identified in the amended license), technical specifications, and prior licensee commitments.



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Oliver D. Kingsley, Jr.  
Vice President, Nuclear Operations  
System Energy Resources, Inc.

SYSTEM ENERGY RESOURCES, INC.  
ARKANSAS POWER AND LIGHT COMPANY  
DOCKET NO. 50-313  
(ARKANSAS NUCLEAR ONE, UNIT 1)  
FACILITY OPERATING LICENSE

Amendment No. 1  
License No. DPR-51

1. The Atomic Energy Commission (the Commission) having found that:
  - a. The issuance of this license, as amended, to the Arkansas Power and Light Company ("AP&L") and System Energy Resources, Inc. ("SERI") (the licensees\*) complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's rules and regulations set forth in 10 CFR Chapter I and all required notifications to other agencies or bodies have been duly made;
  - b. Construction of Arkansas Nuclear One, Unit 1 (the facility) has been substantially completed in conformity with Construction Permit No. CPPR-57, and the application, as amended, the provisions of the Act and the rules and regulations of the Commission;
  - c. The facility will operate in conformity with the application, as amended, the provisions of the act, and the rules and regulations of the Commission;
  - d. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the rules and regulations of the Commission;
  - e. SERI is technically qualified and AP&L is financially qualified to engage in the activities authorized by this operating license in accordance with the rules and regulations of the Commission;
  - f. AP&L has satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements," of the Commission's regulations;

\*After a transfer of AP&L nuclear personnel to SERI, SERI has succeeded AP&L as the operator of Arkansas Nuclear One, Unit 1 (the facility). Consequently, SERI is authorized to act for itself and for AP&L and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility. Hereinafter, the term licensees refers to both AP&L and SERI.

- g. The issuance of this amended operating license will not be inimical to the common defense and security or to the health and safety of the public;
  - h. After weighing the environmental, economic, technical, and other benefits of the facility against environmental costs and considering available alternatives, the issuance of Facility Operating License No. DPR-51, as amended, is in accordance with 10 CFR Part 50, Appendix D, of the Commission's regulations and all applicable requirements of said Appendix D have been satisfied; and,
  - i. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70, including 10 CFR Section 30.33, 40.32, 70.23 and 70.31.
2. Facility Operating License No. DPR-51, as amended, is hereby issued to AP&L and SERI to read as follows:
- a. This license applies to Arkansas Nuclear One, Unit 1, a pressurized water reactor and associated equipment (the facility), owned by AP&L and operated by SERI. The facility is located in Pope County, Arkansas and is described in the "Final Safety Analysis Report" as supplemented and amended (Amendments 1 through 45) and the Environmental Report as supplemented and amended (Supplements 1 through 5).
  - b. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:
    - (1) SERI pursuant to Section 104b of the Act and 10 CFR Part 50, "Licensing of Production and Utilization Facilities," to possess, use, and operate the facility at the designated location in Pope County, Arkansas, in accordance with the procedures and limitations set forth in this license;
    - (2) AP&L, pursuant to the Act and 10 CFR Part 50, to possess the facility at the designated location in Pope County, Arkansas, in accordance with the limitations set forth in this license;
    - (3) SERI, pursuant to the Act and 10 CFR Part 70, to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;
    - (4) SERI, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;

- (5) SERI, pursuant to the Act and 10CFR Parts 30, 40 and 70, to receive, possess and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components;
- (6) SERI, pursuant to the Act and 10 CFR Parts 30 and 70, to possess, but not separate, such byproducts and special nuclear materials as may be produced by the operation of the facility.

c. This license shall be deemed to contain and is subject to the conditions specified in the following Commission regulations in 10 CFR Chapter I: Part 20, Section 30.34 of Part 30, Section 40.41 of Part 40, Sections 50.54 and 50.59 of Part 50, and Section 70.32 of Part 70; is subject to all applicable provisions of the Act and to the rules, regulations, and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) Maximum Power Level

SERI is authorized to operate the facility at steady state reactor core power levels not in excess of 2568 megawatts thermal.

(2) Technical Specifications

The Technical Specifications contained in Appendices A and B, as revised through Amendment No.     , are hereby incorporated in the license. SERI shall operate the facility in accordance with the Technical Specifications.

- (3) AP&L\* may proceed with and is required to complete the modifications identified in Paragraphs 3.1 through 3.19 of the NRC's Fire Protection Safety Evaluation (SE) on the facility dated August 22, 1978 and supplements thereto. These modifications shall be completed as specified in Table 3.1 of the Safety Evaluation Report or supplements thereto. In addition, the licensee may proceed with and is required to complete the modifications identified in Supplement 1 to the Fire Protection Safety Evaluation Report, and any future supplements. These modifications shall be completed by the dates identified in the supplement.

\*The original licensee authorized to possess, use, and operate the facility was AP&L. Consequently, certain historical references to AP&L remain in the license conditions.

(4) Physical Protection

SERI shall fully implement and maintain in effect provisions of the following Commission approved documents, including amendments and changes made pursuant to the authority of 10 CFR 50.54(p). These approved documents consist of information withheld from public disclosure pursuant to 10 CFR 2.790(d):

- (a) "Arkansas Nuclear One Industrial Security Plan" dated January 11, 1979, as revised by submittals dated January 2, 1981 (Enclosure 2), and April 30, 1981.
- (b) "Arkansas Nuclear Station Safeguards Contingency Plan," Revision 1 dated February 26, 1980, revised by Revision 2 page changes dated April 30, 1980, and submitted pursuant to 10 CFR 73.40. The Contingency Plan shall be fully implemented in accordance with 10 CFR 73.40(b).
- (c) "Arkansas Nuclear One Security Force Training and Qualification Plan" as submitted by letter dated September 9, 1980, as revised by pages dated February 5, 1981, and April 27, 1981. This Plan shall be followed in accordance with 10 CFR 73.55(b)(4), 60 days after approval by the Commission. All security personnel, as required in the above plans, shall be qualified within two years of this approval. SERI may make changes to this plan without prior Commission approval if the changes do not decrease the safeguards effectiveness of the plan. SERI shall maintain records of and submit reports concerning such changes in the same manner as required for changes made to the Security Plan and Safeguards Contingency Plan pursuant to 10 CFR 50.54(p).

(5) Systems Integrity

SERI shall implement a program to reduce leakage from systems outside containment that would or could contain highly radioactive fluids during a serious transient or accident to as low as practical levels. This program shall include the following:

1. Provisions establishing preventive maintenance and periodic visual inspection requirements, and
2. Integrated leak test requirements for each system at a frequency not to exceed refueling cycle intervals.

(6) Iodine Monitoring

SERI shall implement a program which will ensure the capability to accurately determine the airborne iodine

concentration in vital areas under accident conditions. The program shall include the following:

1. Training of personnel,
2. Procedures for monitoring, and
3. Provisions for maintenance of sampling and analysis equipment.

(7) Secondary Water Chemistry Monitoring

A secondary water chemistry monitoring program shall be implemented to minimize steam generator tube degradation. This program shall include:

1. Identification of a sampling schedule for the critical parameters and control points for these parameters;
2. Identification of the procedures used to measure the values of the critical parameters;
3. Identification of process sampling points;
4. Procedures for the recording and management of data;
5. Procedures defining corrective actions for off-control point chemistry conditions; and
6. A procedure identifying the authority responsible for the interpretation of the data and the sequence and timing of administrative events required to initiate a corrective action.

- d. This license is effective as of the date of issuance and shall expire at midnight, December 6, 2008.

FOR THE ATOMIC ENERGY COMMISSION

A. Giambusso, Deputy Director

Date of Issuance: May 21 1974

SYSTEM ENERGY RESOURCES, INC.  
ARKANSAS POWER AND LIGHT COMPANY  
DOCKET NO. 50-368  
ARKANSAS NUCLEAR ONE, UNIT 2  
FACILITY OPERATING LICENSE

Amendment No. 2  
License No. NPF-6

1. The Nuclear Regulatory Commission (the Commission) having found that:
  - A. The issuance of this license, as amended, to the Arkansas Power and Light Company ("AP&L") and System Energy Resources, Inc. ("SERI") (the licensees\*) complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I;
  - B. Construction of Arkansas Nuclear One, Unit 2 (the facility) has been substantially completed in conformity with Construction Permit No. CPPR-89, and the application, as amended, the provisions of the Act and the regulations of the Commission;
  - C. The facility requires exemptions from certain requirements of (1) Sections 50.55a(g)(2) and 50.55a(g)(4) of 10 CFR Part 50, (2) Appendices G and H to 10 CFR Part 50 and (3) Appendix J to 10 CFR Part 50 for a period of three years. These exemptions are described in the Office of Nuclear Reactor Regulation's safety evaluations supporting the granting of these exemptions which are enclosed in the letter transmitting this license amendment. These exemptions are authorized by law and will not endanger life or property or the common defense and security and are otherwise in the public interest. The exemptions are, therefore, hereby granted. With the granting of these exemptions, as amended, the provisions of the Act, and the regulations of the Commission;

\*After a transfer of AP&L nuclear personnel to SERI, SERI has succeeded AP&L as the operator of Arkansas Nuclear One, Unit 2 (the facility). Consequently, SERI is authorized to act for itself and for AP&L and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility. Hereinafter, the term licensees refers to both AP&L and SERI.

- D. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the regulations of the Commission;
  - E. SERI is technically qualified and AP&L is financially qualified to engage in the activities authorized by this operating license in accordance with the regulations of the Commission;
  - F. AP&L has satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements," of the Commission's regulations;
  - G. The issuance of this amended operating license will not be inimical to the common defense and security or to the health and safety of the public;
  - H. After weighing the environmental, economic, technical and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of Facility Operating License No. NPF-6, as amended, subject to the conditions for protection of the environment set forth herein, is in accordance with 10 CFR Part 51 (formerly Appendix D to 10 CFR Part 50) of the Commission's regulations and all applicable requirements have been satisfied; and
  - I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70, including 10 CFR Sections 30.33, 40.32, 70.23 and 70.31.
2. Facility Operating License No NPF-6, as amended, is hereby issued to AP&L and SERI to read as follows:
- A. This amended license applies to Arkansas Nuclear One, Unit 2, a pressurized water reactor and associated equipment (the facility) owned by AP&L and operated by SERI. The facility is located in Pope County, Arkansas, and is described in the Final Safety Analysis Report as supplemented and amended (Amendments 20 through 47) and the Environmental Report as supplemented and amended (Amendments 1 through 7).
  - B. Subject to the Conditions and requirements incorporated herein, the Commission hereby licenses:
    - (1) SERI, pursuant to Section 103 of the Act and 10 CFR Part 50, "Licensing of Production and Utilization Facilities," to possess, use, and operate the facility at the designated location in Pope County, Arkansas in accordance with the procedures and limitations set forth in this amended license;

- (2) AP&L, pursuant to the Act and 10 CFR Part 50, to possess the facility at the designated location in Pope County, Arkansas, in accordance with the limitations set forth in this license;
- (3) SERI, pursuant to the Act and 10 CFR Part 70, to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;
- (4) SERI, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
- (5) SERI pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and
- (6) SERI, pursuant to the Act and 10 CFR Parts 30 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility.

C. This amended license shall be deemed to contain and is subject to conditions specified in the following Commission regulations in 10 CFR Chapter I; Part 20, Section 30.34 of Part 30, Section 40.41 of Part 40, Sections 50.54 and 50.59 of Part 50, and Section 70.32 of Part 70; and is subject to all applicable provisions of the Act and to the rules, regulations, and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) Maximum Power Level

SERI is authorized to operate the facility at steady state reactor core power levels not in excess of 2815 megawatts thermal. Prior to attaining this power level SERI shall comply with the conditions in Paragraph 2.C.(3).

(2) Technical Specifications

The Technical Specifications contained in Appendices A & B, as revised through Amendment No. \_\_\_ are hereby incorporated in the license. SERI shall operate the facility in accordance with the Technical Specifications, except where otherwise stated in specific license conditions.

(3) Additional Conditions

The matters specified in the following conditions shall be completed to the satisfaction of the Commission within the stated time periods following the issuance of the license or within the operational restrictions indicated. The removal of these conditions shall be made by an amendment to the license supported by a favorable evaluation by the Commission.

(a) "Fuel Performance" was deleted.

(b) Fire Protection

SERI shall maintain in effect and fully implement all provisions of the approved fire protection program. The approved fire protection program consists of the following licensee's documents:

<u>Date</u>	<u>Document</u>
-	Final Safety Analysis Report Section 9.5.1 through Amendment 47 dated June 16, 1978
May 17, 1977	AP&L* Letter submitting a comparison of the AND-2 Fire Protection Program to Branch Technical Position 9.5-1.
August 30, 1977	AP&L Letter transmitting the Fire Hazards Analysis and responses to staff questions.
September 21, 1977	AP&L Letter transmitting responses to staff questions and positions.
October 26, 1977	AP&L Letter transmitting Fire Hazards Analysis Information and responses to staff questions and positions.
February 3, 1978	AP&L Letter transmitting Fire Hazards Analysis Information
February 28, 1978	AP&L Letter transmitting Administrative Controls information.
March 31, 1978	AP&L Letter transmitting responses to staff questions.
April 12, 1978	AP&L Letter transmitting responses to staff questions and positions.

\*The original licensee authorized to possess, use, and operate the facility was AP&L. Consequently, certain historical references to AP&L remain in the license conditions.

April 17, 1978 AP&L Letter transmitting responses to staff questions and positions.

April 26, 1978 AP&L Letter transmitting responses to staff questions and positions.

June 8, 1978 AP&L Letter transmitting affidavit for previously docketed letters.

June 13, 1978 AP&L Letter transmitting Administrative Controls information.

June 15, 1978 AP&L Letter transmitting Administrative Controls information.

June 29, 1978 AP&L Letter transmitting Administrative Control information.

July 7, 1978 AP&L Letter transmitting affidavit for previously docketed letters.

July 7, 1978 AP&L Letter transmitting Administrative Controls information.

July 13, 1978 AP&L Letter transmitting affidavit for previously docketed letters.

(c) Less Than Four Reactor Coolant Pump Operation

SERI shall not operate the reactor in operational Modes 1 and 2 with fewer than four reactor coolant pumps in operation, except as allowed by Special Test Exception 3.10.3 of the facility Technical Specifications.

(d) "Instrument Trip Setpoints Drift Allowance" was deleted.

(e) Fire Protection

AP&L shall complete the following modifications by the indicated dates in accordance with the staff's findings as set forth in the fire protection evaluation report, NUREG-0223 "Fire Protection Safety Evaluation Report."

Implementation Dates for Proposed Modifications

Applicable  
Section of  
NUREG-0223

		<u>Date</u>
3.1	Portable Radio Communication Equipment	March 31, 1979
3.2	Separation of Power Cables in Manholes	*
3.3	Protection from Water Spray	*
3.4	Protection of Redundant Cables in the MCC Room (2096-M)	December 30, 1978
3.5	Protection of Redundant Cables in the Hallway - Elevation 372 (2109-U)	*, **
3.6	Protection of Redundant Cables in the Cable Spreading Room (2098-L)	*
3.7	Protection of Redundant Cables in the Switchgear Room (2100-Z)	*
3.8	Protection of Redundant Cables in the Electrical Equipment Room (2091-BB)	September 30, 1978
3.9	Protection of Redundant Cables in the Lower South Electrical Penetration Room (2111-T)	September 30, 1978
3.10	Protection of Safe Shutdown Cables in the Upper South Piping Penetration Room (2084-DD)	September 30, 1978
3.11	Protection of Redundant Reactor Protection System Cables (2136-I)	*, **
3.12	Fire Dampers	September 30, 1978
3.13	Portable Extinguisher for the Control Room (2199-J)	November 15, 1978
3.14	Smoke Detectors	*, **
3.15	Manual Hose Stations (2055-JJ, 2084-DD, Containment, Elev. 317' of Auxiliary Building)	*, **
3.16	Portable Smoke Exhaust Equipment	December 1, 1978

3.17	Emergency Lighting	December 1, 1978
3.18	Reactor Coolant Pump Oil Collection System	*
3.19	Control of Fire Doors	March 31, 1979
3.20	Administrative Control Changes	December 1, 1978

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 (Numbers in parentheses refer to fire zone designations in the AP&L fire hazards analysis.)

\*Prior to startup following the first regularly scheduled refueling outage.

\*\*Technical Specifications covering these items should be proposed not later than 90 days prior to implementation.

(f) "Overpressure Mitigating System" was deleted.

(g) Verification of Transient Analysis Code

AP&L shall complete tests to verify the use of the CESEC Code during the initial startup and power ascension testing program and submit the results for Commission review and approval.

The CESEC verification test results shall include an analysis of the uncertainties associated with the test instrumentation and a demonstration that the test instrumentation was adequate for the intended purpose.

(h) "Main Feedwater System Modification" was deleted.

(i) Containment Radiation Monitor

AP&L shall, prior to July 31, 1980 submit for Commission review and approval documentation which establishes the adequacy of the qualifications of the containment radiation monitors located inside the containment and shall complete the installation and testing of these instruments to demonstrate that they meet the operability requirements of Technical Specification No. 3.3.3.6.

(j) "Environmental Qualifications of Safety Related Instrumentation" was deleted.

(k) "Core Protection Calculator System (CPCS)" was deleted.

(l) "CEA Guide Tube Surveillance Program" was deleted.

(m) "Redundant Valve Position Indication" was deleted.

(n) "Fire Barrier Testing" was deleted.

(o) "Offsite Power System" was deleted.

(p) Secondary Water Chemistry Monitoring

SERI shall implement a secondary water chemistry monitoring program using the overall plant administrative procedure "Steam Generator Water Chemistry Monitoring, Unit II", to minimize steam generator tube degradation. The program shall be defined in specific plant procedures and shall include:

1. Identification of sampling schedule for the critical parameters and control points for these parameters;
2. Identification of the procedures used to measure the values of the critical parameters;
3. Identification of process sampling points;
4. Procedure for the recording and management of data;
5. Procedures defining corrective actions for off control point chemistry conditions; and
6. A procedure identifying the authority responsible for the interpretation of the data, and the sequence and timing of administrative events required to initiate corrective action.

(4) SERI shall implement a program to reduce leakage from systems outside containment that would or could contain highly radioactive fluids during a serious transient or accident to as low as practical levels. This program shall include the following:

1. Provisions establishing preventive maintenance and periodic visual inspection requirements, and
2. Integrated leak test requirements for each system at a frequency not to exceed refueling cycle intervals.

(5) SERI shall implement a program which will ensure the capability to accurately determine the airborne iodine concentration in vital areas under accident conditions. This program shall include the following:

1. Training of personnel,
2. Procedures for monitoring, and
3. Provisions for maintenance of sampling and analysis equipment.

D. Physical Protection

SERI shall fully implement and maintain in effect provisions of the following Commission approved documents, including amendments and changes made pursuant to the authority of 10 CFR 50.54(p). These approved documents consist of information withheld from public disclosure pursuant to 10 CFR 2.790(d):

- (1) "Arkansas Nuclear One Industrial Security Plan" dated January 11, 1979, as revised by submittals dated January 2, 1981 (Enclosure 2), and April 30, 1981.
- (2) "Arkansas Nuclear Station Safeguards Contingency Plan," Revision 1 dated February 26, 1980, revised by Revision 2 page changes dated April 30, 1980, and submitted pursuant to 10 CFR 73.40. The Contingency Plan shall be fully implemented in accordance with 10 CFR 73.40(b).
- (3) "Arkansas Nuclear One Security Force Training and Qualification Plan" as submitted by letter dated September 9, 1980, as revised by pages dated February 5, 1981, and April 27, 1981. This Plan shall be followed in accordance with 10 CFR 73.55(b)(4), 60 days after approval by the Commission. All security personnel, as required in the above plans, shall be qualified within two years of this approval. SERI may make changes to this plan without prior Commission approval if the changes do not decrease the safeguards effectiveness of the plan. SERI shall maintain records of and submit reports concerning such changes in the same manner as required for changes made to the Security Plan and Safeguards Contingency Plan pursuant to 10 CFR 50.54(p).

E. This license is subject to the following additional condition for the protection of the environment:

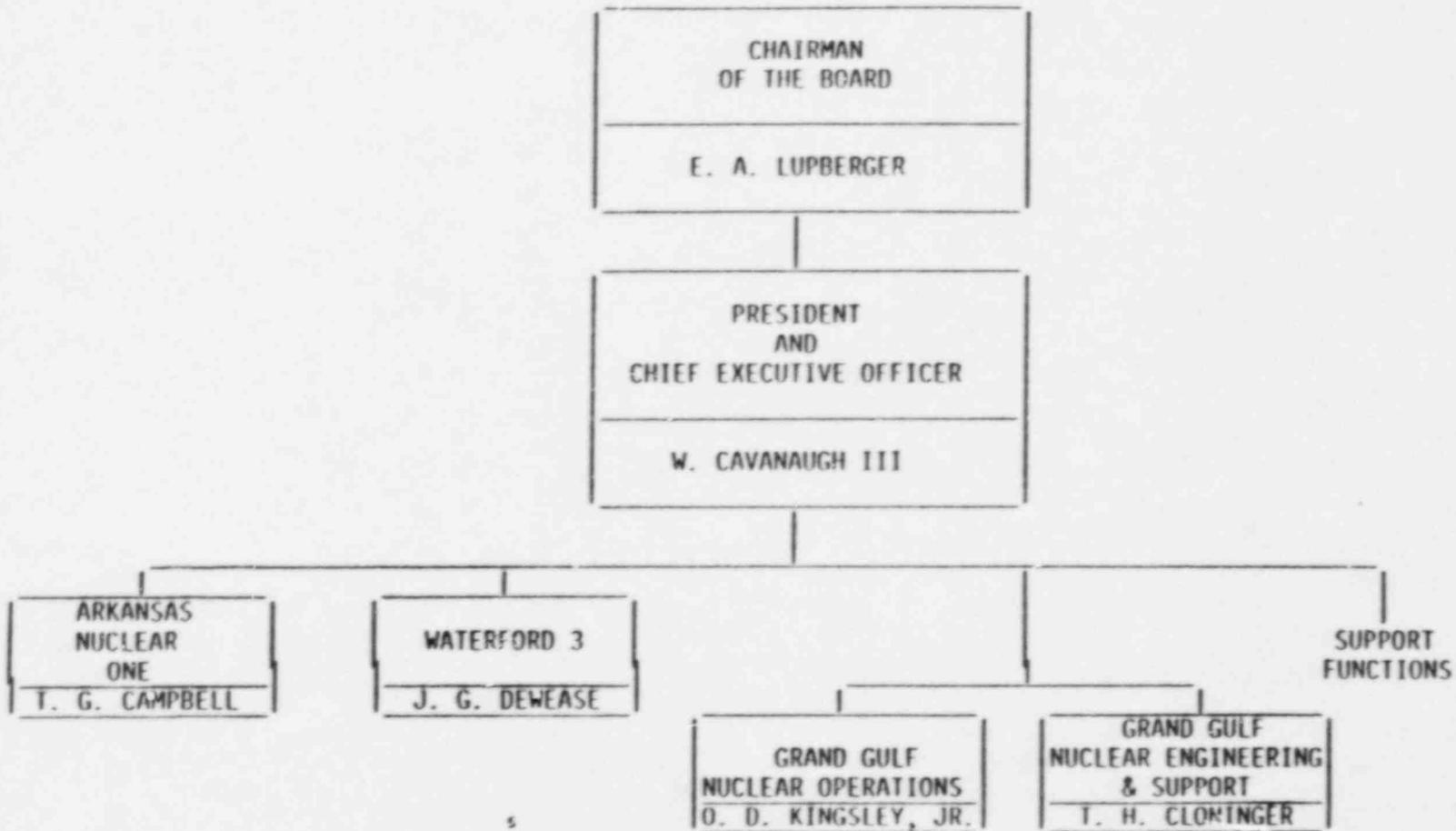
Before engaging in additional construction or operational activities which may result in an environmental impact that was not evaluated by the Commission, SERI will prepare and record an environmental evaluation for such activity. When the evaluation indicates that such activity may result in a significant adverse environmental impact that was not evaluated, or that is significantly greater than that evaluated, in the Final Environmental Statement (NUREG-0254) or any addenda thereto, SERI shall provide a written evaluation of such activities and obtain prior approval from the Director, Office of Nuclear Reactor Regulation.

F. This license is effective as of the date of issuance and shall expire at midnight, December 6, 2012.

Roger S. Boyd, Director

Date of Issuance: September 1, 1978

PROPOSED SERI ORGANIZATION CHART



NOTE: QUALITY ORGANIZATIONS FOR EACH PLANT HAVE ACCESS TO PRESIDENT & CEO ON MATTERS RELATED TO QUALITY

*include in U-1*

Exhibit D-2



**LOUISIANA**  
POWER & LIGHT

317 BARONNE STREET • P. O. BOX 60340  
NEW ORLEANS, LOUISIANA 70160 • (504) 595-2781

J. G. DEWEASE  
SENIOR VICE PRESIDENT  
NUCLEAR OPERATIONS

July 1, 1988

W3P88-1243  
A4.05  
QA

U.S. Nuclear Regulatory Commission  
ATTN: Document Control Desk  
Washington, D.C. 20555

Subject: Waterford 3 SES  
Docket No. 50-382  
License No. NPF-38 (Change Request No. NPF-38-83)  
SERI License Amendment Application for Waterford 3

Attn: Mr. Dennis M. Crutchfield, Director  
Division of Reactor Projects III, IV, V and Special Projects

Gentlemen:

Louisiana Power & Light (LP&L), as the licensee for Waterford 3, hereby submits the enclosed application to amend facility operating license No. NPF-38. This application requests NRC approval for System Energy Resources, Inc. (SERI) to assume responsibility for operation of Waterford 3. In order to effect this change, the existing LP&L nuclear organization will be transferred, virtually intact, to SERI. Thus, essentially the same organization and staff currently responsible for operating Waterford 3 will continue those responsibilities as a part of SERI.

The application to amend the LP&L operating license contains the information to effect the requested transfer of licensed activities and to amend the operating license. In addition, the application contains the significant hazards consideration evaluation required by 10CFR50.92 and 50.91. A more detailed description of the application is set forth below.

As the NRC is aware, this license amendment application is associated with the consolidation of nuclear operations of LP&L, Arkansas Power & Light Company (AP&L), and SERI. To ensure that complete and accurate information is submitted to the NRC and to provide what can be called the "total picture" of the associated licensing activities germane to LP&L's application, this letter provides certain factual information and describes similar licensing actions planned by AP&L. A similar license amendment application is being forwarded under separate cover by AP&L addressing SERI's assumption of operating responsibilities for Arkansas Nuclear One, Units 1 and 2 (ANO 1 and 2). The NRC should rely on AP&L's license

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"AN EQUAL OPPORTUNITY EMPLOYER"

amendment application for information specifically pertaining to AP&L and ANO 1 and 2. Similarly, the NRC should rely on any submittals forwarded by SERI for information on SERI operations at the Grand Gulf Nuclear Station (GGNS).

A. INTRODUCTION

By way of background, LP&L, SERI, and AP&L are wholly-owned subsidiaries of Middle South Utilities, Inc. (MSU). LP&L is presently licensed to own and operate Waterford 3. AP&L is licensed to own and operate ANO 1 and 2. SERI is presently licensed to own and operate GGNS, Unit 1, and to own and construct GGNS, Unit 2.

For reasons discussed in the application, MSU has decided that SERI will become its system-wide nuclear operating company. Under the MSU plan, SERI will assume all responsibilities for the management and operation -- but not ownership -- of Waterford 3. Similarly, as discussed in AP&L's amendment application, SERI will assume operating responsibilities of ANO 1 and 2. The enclosed amendment application specifically addresses SERI's assumption of responsibilities for Waterford 3.

B. OPERATING RESPONSIBILITIES

As described in greater detail in the attached application, the transfer of operating responsibilities will be accomplished for Waterford 3 by an operating agreement between the owner (LP&L) and the new operator (SERI). This agreement will give SERI exclusive authority to make operational safety decisions and to conduct licensing activities with the NRC. Under the agreement, SERI's costs of operating Waterford 3 will be paid by LP&L, as the owner of the unit, and LP&L will be entitled to all power generated at Waterford 3. Although the operating agreement has not been completed as of this filing, we will make it available to the NRC as soon as practicable and, in any event, prior to issuance of the proposed amendment.

C. OPERATIONAL/ORGANIZATIONAL CHANGES

LP&L, AP&L, and SERI have taken a system-wide approach, with strong management oversight, to direct the task of consolidating management of the MSU plants. A special consolidation organization, drawing on resources and expertise from all three companies, has been specifically set up to ensure that licensing and other relevant substantive issues are addressed. One clear objective of consolidation activities has been to minimize disruption due to the changes, and to assure that there is no degradation to organizational performance or public safety.

The above philosophy has been particularly manifest in the planning of the new SERI integrated operating organization. As discussed in the enclosure, the present application does not contemplate any major organizational changes in LP&L's nuclear organization, other than the transfer of personnel to SERI. The present nuclear organization will

remain essentially in place, with a change only to the lines of authority such that the Senior Vice President - Nuclear Operations for Waterford 3 will report directly to the President and Chief Executive Officer of SERI. The Waterford 3 Quality Assurance Department will also have direct access to the President and Chief Executive Officer of SERI on matters related to quality.

It is anticipated that SERI will in the future, after issuance of this amendment, be considering organization changes to achieve further integration and efficiencies. However, those changes have not yet been identified and are not part of, or necessary for, the present application. Any such future changes will be governed by an internal policy that will provide appropriate management controls and assure the continued integration of critical support functions. In addition, SERI will inform the NRC in advance of planned organization changes which involve major restructuring of line or nuclear support functions at its nuclear facilities and that are important to plant safety. This commitment shall remain in effect until the NRC and SERI mutually agree that it is no longer required.

A guiding principle of the consolidation task force has been to recognize that MSU currently has three strong, successful organizations operating its plants. The reorganization plan therefore specifically acknowledges and maintains the special needs of each existing nuclear organization. Individual plant priorities and ongoing plant improvement initiatives will not be adversely impacted by the consolidation.

Additionally, and in response to an NRC staff concern regarding future operational activities, it is recognized that the operating license for Waterford 3 would not permit the transfer of spent fuel between Waterford 3 and any other facility operated by SERI without specific regulatory approval.

#### D. NOTIFICATIONS AND APPROVALS

While the assumption of responsibilities for Waterford 3 by SERI requires the consent of certain creditors and the review and/or approval of federal and state agencies other than the NRC, it is anticipated that these consents, reviews, or approvals will be completed prior to the end of this year. The NRC will be kept informed of the progress of these parallel efforts and will, of course, be informed in writing should it appear that any of these actions will not be completed in a reasonable time.

The consolidation task force has also been committed to keeping other relevant state and local officials, and the public, informed with respect to the MSU nuclear plan. The NRC will be kept informed of these informational activities.

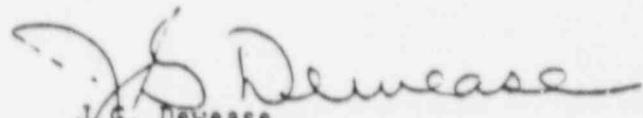
#### E. SCHEDULE

Finally, with respect to scheduling, it is our intent to submit this application concurrently with the AP&L amendment application for ANO 1 and 2. In order that administrative matters associated with the change

(including the transfers of personnel from LP&L to SERI) can be completed in a timely and orderly fashion, it is requested that the Waterford 3 amendment be issued simultaneously with that for ANO 1 and 2. We are seeking, however, to implement the proposed changes as soon as practicable, consistent with obtaining other necessary regulatory approvals. Therefore, we request your expeditious review and approval.

This application and the proposed amendment has been reviewed and approved by the Waterford 3 Plant Operations Review Committee and Safety Review Committee. As discussed in the application, LP&L has concluded that the proposed amendment to the Waterford 3 operating license does not involve an unreviewed safety question nor a significant hazards consideration.

Yours very truly,

  
J.G. Dewease  
Senior Vice President -  
Nuclear Operations

JGD/MJM/plm

Enclosures: NPF-38-83  
Filing fee - \$150

cc: R.D. Martin, J.A. Calvo, D.L. Wigginton, NRC Resident Inspectors Office, E.L. Blake, W.M. Stevenson, Administrator Nuclear Energy Division (State of Louisiana), American Nuclear Insurers

W3P88-1243

bcc: R.P. Barkhurst, R.F. Burski, T.F. Gerrets, F.J. Drummond,  
S.A. Alleman, N.S. Carns, D.F. Packer, P.V. Prasankumar,  
M.J. Meisner, G.E. Wuller, G.E. Wilson, R.W. Prados, L.W. Laughlin,  
C.E. DeDeaux, J.B. Moughtaling, R.T. Lally, Jr., W.A. Cross,  
R.P. O'Neill, Records Center, Administrative Support,  
Licensing Library, Site Licensing Support File



NPF-38-83



MSU now plans for SERI to become its system-wide nuclear operating company. As such, SERI, in addition to operating Grand Gulf, Unit 1, would assume operating responsibility for -- but not ownership of -- Waterford 3, ANO-1, and ANO-2. This assumption of operating responsibility will be accomplished by operating agreements between LP&L and SERI, and between AP&L and SERI, each designating SERI as its agent and authorizing SERI to operate its plant or plants. The assumption of operating responsibility by SERI for Waterford 3, ANO-1, and ANO-2 will not impact existing plant ownership or entitlements to capacity and energy.

Upon receipt of necessary regulatory approvals and transfer to SERI of LP&L Nuclear Operations personnel, SERI will succeed LP&L as operator of Waterford 3. This amendment application requests that the NRC amend Operating License No. NPF-38 to authorize and reflect in the license the change from LP&L to SERI as the licensee authorized to possess, use and operate Waterford 3. 1/

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1/ The proposed changes to the Waterford 3 Operating License to reflect the establishment of SERI as the licensee responsible for the operation of Waterford 3 are included in Attachment 1. Other than submittals currently pending NRC approval, this amendment application involves no additional changes to the Technical Specifications.

Specifically, pursuant to 10 C.F.R. § 50.90, the Licensee hereby requests that the NRC amend Operating License No. NPF-38 to change the name of the licensee for Waterford 3 , such that:

- (1) SERI, pursuant to section 103 of the Atomic Energy Act of 1954, as amended, ("the Act") and 10 C.F.R. Part 50 "Domestic Licensing of Production and Utilization Facilities," is licensed to possess, use and operate Waterford 3 at the designated location in St. Charles Parish, Louisiana, in accordance with the procedures and limitations set forth in the License;
- (2) LP&L, pursuant to the Act and 10 C.F.R. Part 50, is licensed to possess Waterford 3 at the designated location in St. Charles Parish, Louisiana, in accordance with the procedures and limitations set forth in the License;
- (3) SERI, pursuant to the Act and 10 C.F.R. Part 70, is licensed to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;

- (4) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess, and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
- (5) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to receive, possess and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and
- (6) SERI, pursuant to the Act and 10 C.F.R. Parts 30, 40 and 70, is licensed to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of Waterford 3.

Other conforming license changes are noted in the attachments to this Application. 2/ Set forth below is the information in support of the Application to Amend Facility Operating License No. NPF-38.

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2/ Conforming changes, if necessary, in insurance and indemnity agreements will be made in due course by separate correspondence.

I. GENERAL INFORMATION CONCERNING LICENSE AMENDMENT

A. Proposed Additional Licensee: System Energy Resources, Inc.

B. Address: Post Office Box 23054

Jackson, Mississippi 39215

C. Description of Business or Occupation

SERI is a wholly-owned subsidiary of Middle South Utilities, Inc. SERI, formerly Middle South Energy, Inc. ("MSE"), was formed in 1974 to construct, finance and own base-load generating units for the operating subsidiaries of MSU. On July 22, 1986, the Boards of Directors of MSU and MSE took action to change the name of MSE to SERI and to authorize transferring to SERI all responsibility for the operation of Grand Gulf Unit 1 and construction of Grand Gulf Unit 2. This was accomplished on December 20, 1986, upon receipt of the necessary regulatory approvals.

To date, SERI's business has comprised owning and financing its ninety percent ownership interest in the Grand Gulf Nuclear Station, and operating the plant. Prior to issuance of this

license amendment, SERI will take necessary corporate action to authorize it to operate Waterford 3 and ANO 1 and ANO 2.

After approval of this requested amendment and a similar amendment to the Operating Licenses for ANO 1 and ANO 2, SERI will be responsible for the operation and maintenance of all nuclear plants in the MSU System, including Waterford 3. Upon receipt of necessary regulatory approvals, SERI, as distinct from LP&L as the owner of the facility, will have responsibility for and control over the physical construction, operation, and maintenance of the facility.

D. Organization and Management of Operating Corporation

SERI is a corporation organized and existing under the laws of the State of Arkansas. Its principal office is located in Jackson, Mississippi. The corporation is neither owned, controlled nor dominated by an alien, a foreign corporation, nor a foreign government.

All directors and principal officers of SERI are citizens of the United States. Their names and addresses are as follows: 3/

Directors

Mr. E. A. Lupberger  
Chairman of the Board  
System Energy Resources, Inc.  
225 Baronne Street  
New Orleans, Louisiana 70112

Mr. William Cavanaugh, III  
President and Chief Executive Officer  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, MS 39215

Mr. D. C. Lutken  
Chairman of the Board and Chief Executive  
Officer  
Mississippi Power & Light Company  
P.O. Box 1640  
Jackson, MS 39215-1640

Mr. J. M. Cain  
President and Chief Executive Officer  
Louisiana Power & Light Company/  
New Orleans Public Services, Inc.  
Post Office Box 60340  
New Orleans, Louisiana 70160

Mr. J. L. Maulden  
President and Chief Executive Officer  
Arkansas Power & Light Company  
Post Office Box 551  
Little Rock, Arkansas 72203

Dr. Joseph M. Hendrie  
Nuclear Engineering Consultant  
50 Bellport Lane  
Bellport, New York 11713;  
Senior Scientist, Research and  
Development  
Brookhaven National Laboratory

---

3/ Additional directors and officers may be named at a later date.

Officers

Mr. E. A. Lupberger  
Chairman of the Board  
System Energy Resources, Inc.  
225 Baronne Street  
New Orleans, Louisiana 70112

Mr. William Cavanaugh III  
President and Chief Executive Officer  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Glenn E. Harder  
Vice President - Accounting  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Richard J. Landy  
Vice President - Human Resources  
and Administration  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Oliver D. Kingsley, Jr.  
Vice President - Nuclear Operations  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Ted H. Cloninger  
Vice President - Nuclear Engineering  
and Support  
System Energy Resources, Inc.  
Post Office Box 23054  
Jackson, Mississippi 39215

Mr. Dan E. Stapp  
Secretary  
System Energy Resources, Inc.  
Post Office Box 61005  
New Orleans, Louisiana 70161

Upon issuance of the Operating License amendment, certain officers of LP&L will become officers of SERI. The names of these officers will be announced following approval by the SERI Board of Directors.

E. Technical Qualifications

The technical qualifications of SERI to carry out its responsibilities under the Operating License for Waterford 3, as amended, will meet or exceed the present technical qualifications of LP&L. LP&L will continue to act as the operator of Waterford 3, pending the amendment of the Operating License. When the amendment becomes effective, SERI will assume responsibility for, and control over, the physical construction, operation, and maintenance of the facility. The present Waterford 3 Nuclear Operations organization will be transferred essentially intact to SERI. The technical qualifications of the proposed Waterford 3 organization therefore will be at least equivalent to those of the existing organization.

The central objectives in planning the proposed consolidation of the LP&L and SERI organizations have been to minimize disruption to the operation of the plants and to respect the integrity of the existing, successful organizations. Therefore, in the proposed consolidated SERI organization, each nuclear organization of the operating plants will be preserved with the only change that the senior nuclear executive of LP&L and AP&L

will report directly to the President and Chief Executive Officer of SERI. This organization is illustrated in Attachment 2. Thus, for Waterford 3, J. G. Dewease, Senior Vice President - Nuclear Operations, will report directly to W. Cavanaugh III, President and Chief Executive Officer of SERI. The Nuclear Quality Assurance Department for the plant will also have direct access to the President and Chief Executive Officer of SERI on matters related to quality.

This approach to the consolidation accommodates the current plant-specific structure of the LP&L and SERI organizations. This allows the transfer of LP&L nuclear personnel to SERI with virtually no organizational changes or disruption. It also allows the management for each facility to retain sufficient independence to address plant-specific needs and to maintain existing priorities and ongoing plant improvement projects. Importantly, and as discussed below, there will be in the near term no organizational or physical location changes to the existing, dedicated, organization, which would include the engineering, quality assurance, and licensing organizations supporting Waterford 3.

The significant elements and advantages to the proposed SERI organization can be summarized as follows:

- (1) The structure provides clear lines of authority and responsibility while ensuring that essential nuclear functions are dedicated to each project and report to a single responsible project executive.
- (2) The effectiveness of project quality assurance will not be degraded.
- (3) The project structure will continue to provide the project executive the flexibility necessary for managing his resources to achieve optimal results. Ongoing plant improvement plans will not be impacted.
- (4) The project structure provides the flexibility necessary to adapt to different procedures and methods used at each plant. This is particularly important initially, since most project nuclear activities will be transferred essentially "as is" to SERI.
- (5) The effectiveness of a dedicated nuclear support organization is enhanced by identity with and sharing of the SERI goals and objectives.

The consolidation of the SERI, LP&L, and AP&L nuclear organizations will be a long-term, evolutionary process. For the time being, and for purposes of the present application, only certain non-nuclear support functions, such as accounting and human resources, may be combined, if it appears beneficial and appropriate to do so. The licensees will continue to study possible organizational and programmatic changes to enhance objectives and to realize further benefits from the establishment of SERI as the nuclear operating company for the MSU System. Such changes will only be implemented after careful consideration. SERI will inform NRC in advance of planned organizational changes that involve major restructuring of line or nuclear support functions at its nuclear facilities and that are important to plant safety. This commitment shall remain in effect until the NRC and SERI mutually agree that it is no longer required.

F. Statement of Purposes for the License Amendment

The assumption of operational responsibility for Waterford 3, by SERI (along with responsibility for ANO-1, ANO-2, and Grand Gulf) will provide benefits inherent to an integrated nuclear operating company. Some of the expected benefits are as follows:

- (1) SERI, as an operating company for multiple reactors, will have a repository of system nuclear operating expertise and experience. Presently, there is a wealth of nuclear operations talent spread throughout the MSU

system. Consolidation of this talent into one company should have a synergistic effect. The change should enhance the already high level of public safety and cost-effective operations.

- (2) Consolidation of talent not only will result in a merger of expertise and experience for system-wide nuclear operations support, but also will permit the specialization of expertise in certain areas that might not otherwise be developed if each of the companies continued to operate their separate facilities.
- (3) SERI will be better able to provide a consistent vision for the philosophy of operation of the system nuclear units. A single company responsible for all nuclear operations in the MSU System will allow development of a consistent philosophy which will be specifically designed for nuclear plant operations. This focused philosophy can be used to maintain excellence in all aspects of nuclear operation.
- (4) As a result of the consolidation, there will be more effective communication and use of system nuclear operating experience. For example, the system-wide nuclear operating company will allow "lessons learned" to be shared promptly, efficiently, and consistently among the units.

- (5) Certain non-nuclear support functions will become specialized and focused on the requirements of all of the System's nuclear units and will thereby be more effective.
- (6) Bringing all of the MSU nuclear units under the management of one company will provide a broader base and more competitive environment for upper management candidates who are specialized in nuclear power generation. Further, SERI, in its new role, should provide an environment in which all employees continue to be motivated toward high performance. SERI, with its expanded responsibilities, will also provide greater opportunity for career progression and thus greater opportunity to retain valued employees.
- (7) More specifically, as a result of this consolidation, salary structures, career path policies and procedures will be internally consistent. Since all of SERI's employees will be "nuclear employees", there will no longer exist any distinction in these areas between employees who support nuclear operations and those who do not. This will permit nuclear managers to focus entirely upon the special needs, qualifications, and requirements of nuclear employees. Human resource and compensation policies tailored to nuclear operations will allow SERI to be competitive in the market for

skilled nuclear professionals without directly influencing, or being bound by, personnel policies and procedures governing non-nuclear related personnel. The ability to attract superior nuclear talent and retain quality individuals once recruited will have a direct and positive impact on the quality of nuclear operations.

G. Financial Considerations

As is discussed below, SERI is an "electric utility" as that term is defined by 10 C.F.R. § 50.2. Therefore, under 10 C.F.R. § 50.33(f), a full financial qualifications review of this application to amend the license is not necessary. By way of demonstrating that SERI is an "electric utility" and apprising the NRC of the relationships that will exist between SERI and LP&L (the facility owner) the following brief discussion is provided.

The following interrelations will be established by an operating agreement between LP&L and SERI:

1. SERI will not have any ownership interest in the Waterford 3 plant, or facilities; however, it will have overall responsibility for plant operations. SERI will operate Waterford 3 in accordance with the Operating License and shall have exclusive responsibility for making safety decisions.

2. LP&L will retain certain controls over ultimate spending limits, such as the authority to direct that Waterford 3 be shut down in an orderly fashion by SERI (and in accordance with SERI's safety judgment). This retained authority will limit SERI's spending authority, but will not encumber SERI's ability to make operational safety decisions and will have no impact on safe operation of Waterford 3.
  
3. All costs for the operation, construction, maintenance, repair, decontamination and decommissioning of Waterford 3 incurred or accrued will be the responsibility of LP&L when incurred or accrued.

Section 50.2 of 10 C.F.R. defines an "electric utility" as:

. . . any entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority. Investor-owned utilities, including generation and distribution subsidiaries, public utility districts, municipalities, rural electric cooperatives, and State and Federal agencies, including associations of any of the foregoing, are included within the meaning of 'electric utility.'

SERI is a generating subsidiary of MSU. It operates Grand Gulf, Unit 1, and sells power at wholesale to operating companies in the Middle South System pursuant to rates established by the Federal Energy Regulatory Commission. Upon receiving necessary regulatory approvals, it will also operate, for the benefit of their owners, Waterford 3 and ANO 1 and ANO 2 for the generation of electricity. SERI's costs of operation for Waterford 3 will be recovered from LP&L who in turn recovers such costs through retail rates established by state and city regulatory authorities and through wholesale rates established by the Federal Energy Regulatory Commission. Hence, SERI is an "electric utility" as defined in 10 C.F.R. § 50.2.

LP&L is subject to the rate jurisdiction of the Louisiana Public Service Commission, the City Council of New Orleans and the Federal Energy Regulatory Commission. Therefore, LP&L also remains an "electric utility" and is committed to provide all funds necessary to continue safe operation of Waterford 3, to shut down Waterford 3 permanently, if necessary, and to maintain Waterford 3 in a safe condition, all in conformance with NRC regulations. LP&L and its sources of funds will remain the same as under the present license. The operating agreement terms regarding costs, discussed above, give SERI the same financial qualifications as the present licensee, LP&L.

H. Antitrust Considerations

MSU's plan for SERI to operate and manage Waterford 3 will not impact the existing ownership of Waterford 3 or existing entitlements to power. Further, the proposed license amendment to designate SERI as the entity authorized to possess, use and operate Waterford 3 will not alter the existing antitrust license conditions applicable to LP&L. Those conditions will remain applicable to LP&L. Therefore, this proposed license amendment does not require antitrust review pursuant to Section 105 of the Atomic Energy Act and 10 C.F.R. § 2.101(e).

I. Restricted Data

This Application does not contain any Restricted Data or other defense information, and it is not expected that any such information will become involved in the licensed activities. However, in the event that such information does become involved, SERI agrees that it will appropriately safeguard such information and it will not permit any individual to have access to Restricted Data until the Office of Personnel Management shall have made an investigation and report to the NRC on the character, associations and loyalty of such individual, and the NRC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

II. SPECIFIC INFORMATION REGARDING RELATED ISSUES

A. Emergency Planning

Upon approval of the license amendment to authorize operation of Waterford 3 by SERI, SERI will assume authority and responsibility for functions necessary to fulfill the emergency planning requirements specified in 10 C.F.R. § 50.47(b) and Part 50, Appendix E. No changes will be made to the present LP&L aspects of the existing Waterford 3 emergency plan. In addition, there will be no changes to the existing Emergency Planning Organization. SERI will add organizational components to reflect its assumption of responsibility for emergency planning. Transition plans will be established to ensure that support described in the existing emergency plan will be maintained throughout the transition and as needed following the transition.

Appropriate action will be taken as necessary with respect to existing agreements for support from organizations and agencies not affiliated with the licensees to reflect SERI's agency relationship with the owner and SERI's responsibility for management and operation of Waterford 3. This will be accomplished as necessary by LP&L prior to the transfer of responsibility.

Following the transfer of operating responsibility to SERI, emergency planning support will be provided by LP&L as needed. In essence, to the extent that personnel, resources, and facilities are not being transferred to SERI, LP&L will continue to fulfill selected emergency planning functions. These functions have been thoroughly reviewed and the required support will be assured by an agreement between SERI and LP&L. Long-term utilization of LP&L resources in these areas will be based on cost-effectiveness and existing relationships with offsite organizations and agencies.

In sum, the proposed license amendment will not impact compliance with the emergency planning requirements. Because the effectiveness of the emergency plan will not be decreased, specific emergency plan and procedure changes will be submitted to the NRC within 30 days after the changes are made, pursuant to 10 C.F.R. § 50.54(q) and Appendix E, Section V.

B. General Design Criterion 17

The amendment to authorize assumption of operating responsibility by SERI involves no changes in the ownership or design of the offsite power system for Waterford 3, or in its operation, maintenance or testing. Upon approval of the amendment, LP&L will continue to fulfill its current responsibilities with respect to compliance with General Design Criterion ("GDC") 17.

GDC 17 specifically requires that there be an assured source of offsite power to the plant. Pursuant to this requirement, SERI and LP&L will maintain and implement procedures and agreements specifying: (1) the arrangements for provision of a continued source of offsite power and (2) the arrangements for controlling operation, maintenance, repair, and other activities with respect to the Switching Station, the transmission lines and the Switchyard, such that adequate independent sources of offsite power will continue to be provided.

The term "Switching Station" applies to the station located immediately adjacent to Waterford 3. The purpose of this station is to connect the plant to the Waterford Switchyard by means of two 230 kv lines.

The term "Switchyard" applies to the 230 kv switchyard closest to Waterford 3 consisting of two buses and bays connected in the typical breaker and a half scheme.

In essence, the written procedures and agreements will provide for the future interface between SERI and LP&L. First, LP&L has committed to providing offsite power to Waterford 3. Second, the procedures and agreements will provide for the continuation of current arrangements for the operation and maintenance of the Switching Station, the Switchyard and associated transmission facilities. The procedures and agreements

will also specify that LP&L will obtain approval from SERI prior to implementing any changes to the equipment in the Switching Station, which includes the unit oil circuit breakers, switching disconnects, transmission lines and protective relaying which are directly adjacent to the Waterford 3 protected area. In addition, procedures will also specify that LP&L will obtain concurrence from SERI prior to implementing any changes to the 230 kv switchyard equipment dedicated to Waterford 3.

C. Exclusion Area

Upon approval of the amendment providing for assumption of operating responsibility by SERI, SERI will have authority to determine all activities within the Waterford 3 exclusion area, to the extent required by 10 C.F.R. Part 100.

As stated in Section 2.1.2 of the Waterford 3 Final Safety Analysis Report (FSAR), LP&L owns all surface rights within the exclusion area boundary of the plant. Under the operating agreement between SERI and LP&L, LP&L will agree to provide SERI with unrestricted access to the property constituting the Waterford 3 site, including the facilities, equipment, Switching Station and personal property located on the site. Except as modified below with respect to Waterford 1 and 2, SERI shall have authority to exercise complete control over the exclusion area as designated in the FSAR for the plant, and to determine all activities within that area (including all areas of the

Waterford 3 plant and the Switching Station). This authority will allow SERI to control ingress and egress and to order an evacuation if necessary. To the extent practicable, SERI will, of course, exercise this control in such a fashion that LP&L's access to the Switching Station, transmission facilities and to Waterford 1 & 2 for proper operation and maintenance of the electric systems on the Waterford site will not be unduly restricted.

Those activities associated with the operation and maintenance of the LP&L Waterford 1 & 2 fossil generating plants, which are located in the exclusion area, are unrelated to the operation of Waterford 3 and therefore will remain under the control of LP&L. Written procedures and agreements will provide for the interface between SERI and LP&L to address the operation of these facilities during emergency situations.

With respect to the activities unrelated to plant operation that will occur in the exclusion area identified in Section 2.1.2 of the FSAR, there will be no change. SERI will assume responsibility for the Emergency Plan as discussed above. In essence, there will be no changes to the Waterford 3 Emergency Plan other than the fact that it will become the responsibility of SERI.

D. Security

The proposed license amendment will not impact compliance with the physical security requirements of 10 C.F.R. Part 73. Upon assumption of operating responsibility, SERI will assume ultimate responsibility for implementation of all aspects of the present security program. Appropriate action will be taken as necessary with respect to existing agreements for support from organizations and agencies not affiliated with the licensees to reflect SERI's agency relationship with the owner and SERI's responsibility for management and operation of Waterford 3. Changes to the plans to reflect this transition will not decrease the effectiveness of the plans and will be submitted to the NRC within 30 days after the changes are made, in accordance with 10 C.F.R. § 50.54(p).

E. Quality Assurance Program

The proposed license amendment will not impact compliance with the quality assurance requirements of 10 C.F.R. 50, Appendix B, nor will it reduce the commitments in the NRC accepted quality assurance program description for Waterford 3. Upon assumption of operating responsibility, SERI will assume the ultimate responsibility for present functions associated with the Waterford 3 quality assurance program. The organization, function and structure of the Waterford 3 quality assurance department will not be affected by this license amendment. Changes to reflect this transition, which will be handled in accordance with

10 C.F.R. 50.54(a), will not reduce the commitments in the quality assurance program description.

F. Final Safety Analysis Report

With the exception of areas discussed in this license amendment application, the proposed license amendment will not change or invalidate information presently appearing in the Waterford 3 FSAR. Changes necessary to accommodate the proposed license amendment will be incorporated into the Waterford 3 FSAR following NRC approval of the license amendment application, in accordance with 10 C.F.R. 50.71(e).

G. Training

The proposed license amendment will not impact compliance with the operator requalification program requirements of 10 C.F.R. 50.54 and related sections, nor maintenance of the Institute of Nuclear Power Operations accreditation for licensed and non-licensed training. Upon assumption of operating responsibility for Waterford 3, SERI will assume ultimate responsibility for implementation of present training programs. Changes to the programs to reflect this transition will not decrease the scope of the approved operator requalification program without the specific authorization of the NRC in accordance with 10 C.F.R. 50.54(i).

H. Engineering Support

Currently the engineering support for Waterford 3 is provided by a dedicated engineering organization that is an integral part of the Nuclear Operations organization. Because the existing Nuclear Operations organization at LP&L will transfer virtually intact to SERI upon approval of this license amendment, there will be essentially no change in the engineering support provided and no change in the interface between the organizations responsible for engineering support, and maintenance and operations at Waterford 3. Thus there will be no degradation of the engineering support function and its integration with maintenance and operations. After issuance of the license amendment, as evolutionary changes are made to consolidate organizations within SERI, we will ensure the continued integration of the engineering support function with the maintenance and operation function.

III. NO SIGNIFICANT HAZARDS CONSIDERATION EVALUATION

PURSUANT TO 10 C.F.R. 50.92

A. Proposed Change

The proposed amendment would revise Facility Operating License No. NPF-38 for Waterford 3 to authorize SERI to act on behalf of LP&L, with responsibility for and control over the physical construction, operation, and maintenance of the facility.

B. Background

SERI is a wholly-owned subsidiary of MSU. It is presently licensed to operate Grand Gulf Unit 1, and to construct Grand Gulf Unit 2. Under the proposed amendment, SERI would assume all responsibilities for operating Waterford 3. Under the current operating license for Waterford 3, these responsibilities are now held by LP&L, which also is a wholly-owned subsidiary of MSU. This application is being filed simultaneously with a similar application by AP&L to transfer to SERI operational responsibility for ANO.

Under the terms of the proposed amendment, the operating license for Waterford 3 would recognize SERI as the legal entity which will provide the technical and managerial resources for the

continued safe operation of the facility, and as the entity with exclusive authority to make operational safety decisions. The proposed license amendment involves no change in the ownership of the facility and no physical changes to the plant.

All of the current license conditions will remain in effect and the Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications will remain unchanged. While the emergency plan, security plan, and plant operating and emergency procedures may require administrative changes to reflect SERI's role as agent for the owner and operator of Waterford 3, no changes will be made that decrease the effectiveness of these plans and procedures. Similarly, while the Quality Assurance Program may require administrative changes to reflect the role of SERI, no changes will be made that reduce the commitments in the program. A transition plan will ensure an orderly transfer of existing emergency preparedness responsibilities to SERI. Written procedures and agreements maintained and implemented by SERI and LP&L will clearly ensure continued compliance with GDC 17. Similarly, an operating agreement will ensure that SERI has authority to determine all activities within the exclusion area.

The technical qualifications of SERI to carry out its responsibilities under the Operating License, as amended, will meet or exceed the present technical qualifications of LP&L. LP&L will continue to act as the operator of Waterford 3, pending the

amendment of the Operating License. When the amendment becomes effective, SERI will assume responsibility for, and control over, the physical construction, operation, and maintenance of the facility. The present Waterford 3 Nuclear Operations staff will be transferred essentially intact to SERI. The technical qualifications of the SERI Waterford 3 organization therefore will be at least equivalent to those of the existing organization.

The transfer of operational responsibility for Waterford 3 from LP&L to SERI (along with the transfer from AP&L to SERI of responsibility for ANO-1 and ANO-2) will provide benefits inherent to an integrated system-wide, nuclear operating company. Some of the expected benefits are as follows:

- (1) SERI, as an operating company for multiple reactors, will have a repository of system nuclear operating expertise and experience. Presently, there is a wealth of nuclear operations talent spread throughout the Middle South electric system. Consolidation of this talent into one company should have a synergistic effect. The change will enhance public safety and cost-effective operation.
- (2) Consolidation of talent not only will result in a merger of expertise and experience for system-wide nuclear operational support, but also will permit the

specialization of expertise in certain areas that might not otherwise be developed if each of the companies continued to operate their separate facilities.

- (3) SERI will be better able to provide a consistent vision for the philosophy of operation of the system nuclear units. A single company responsible for all nuclear operations in the MSU System will allow development of a consistent philosophy which will be specifically designed for nuclear plant operations. This focused philosophy can be used to maintain excellence in all aspects of nuclear operation.
- (4) As a result of the consolidation, there will be more effective communication and use of system nuclear operating experience. For example, the system-wide nuclear operating company will allow "lessons learned" to be shared promptly, efficiently, and consistently among the units.
- (5) Certain non-nuclear support functions will become specialized and focused on the requirements of all of the System's nuclear units and will thereby be more effective.

- (6) Bringing all of the MSU nuclear units under the management of one company will provide a broader base and more competitive environment for upper management candidates who are specialized in nuclear power generation. Further, SERI, in its new role, should provide an environment in which all employees continue to be motivated toward high performance. SERI, with its expanded responsibilities, will also provide greater opportunity for career progression and thus greater opportunity to retain valued employees.
- (7) More specifically, as a result of this consolidation, salary structures, career path policies and procedures will be internally consistent. Since all of SERI's employees will be "nuclear employees", there will no longer exist any distinction in these areas between employees who support nuclear operations and those who do not. This will permit nuclear managers to focus entirely upon the special needs, qualifications, and requirements of nuclear employees. Human resource and compensation policies tailored to nuclear operations will allow SERI to be competitive in the market for skilled nuclear professionals without directly influencing, or being bound by, personnel policies and procedures governing non-nuclear related personnel. The ability to attract superior nuclear talent and retain

quality individuals once recruited will have a direct and positive impact on the quality of Waterford 3 operations.

C. Analysis

The following discussion provides a specific analysis of the proposed change against the three standards delineated in 10 C.F.R. § 50.92 and demonstrates that the proposed change involves no significant hazards consideration:

1. The proposed change will not increase the probability or consequences of an accident previously evaluated. The technical qualifications of SERI will be at least equivalent to those of LP&L presently. Personnel qualifications will remain the same as those discussed in the Technical Specifications and the FSAR.

SERI presently owns and operates Grand Gulf. The employees of LP&L and AP&L presently engaged in the operation of Waterford 3, ANO 1 and ANO 2 will become employees of SERI. The organizational structure of SERI will provide for clear management control and effective lines of authority and communication among the organizational units involved in the management, operation, and technical support of the facility.

As a result of the proposed amendment, there will not be physical changes to the facility, and all Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications will remain unchanged. With the exception of administrative changes to reflect the role of SERI, the quality assurance program, the emergency plan, security plan, and training program are unaffected. Operating agreements will ensure continued compliance with GDC 17 as well as SERI control over activities within the exclusion area.

Therefore, the proposed changes will not increase the probability or consequences of an accident previously evaluated.

2. The proposed amendment will not create the possibility of a new or different kind of accident from any accident previously evaluated. The design and design bases of Waterford 3 remain the same. Therefore, the current plant safety analyses remain complete and accurate in addressing the licensing basis events and analyzing plant response and consequences.

The Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits are not affected by the proposed amendment. With the exception of

administrative changes to reflect the role of SERI, plant procedures are unaffected. As such, the plant conditions for which the design basis accident analyses have been performed are still valid. Therefore, the proposed amendment cannot create the possibility of a new or different kind of accident than previously evaluated.

The proposed amendment will not involve a reduction in a margin of safety. Plant safety margins are established through Limiting Conditions for Operation, Limiting System Settings, and Safety Limits specified in the Technical Specifications. Since there will be no change to the physical design or operation of the plant, there will be no change to any of these margins. The proposed amendment therefore will not involve a reduction in a margin of safety.

D. Conclusion

Based upon the analysis provided herein, the proposed amendment will not increase the probability or consequences of an accident previously evaluated, create the possibility of a new or different kind of accident from any accident previously evaluated,

or involve a reduction in a margin of safety. Therefore, the proposed amendment meets the requirements of 10 C.F.R. 50.92(c) and does not involve a significant hazards consideration nor an unreviewed safety question.

ENDORSEMENT AND CONSENT

LP&L, presently the sole licensee, hereby endorses and consents to this application filed under oath or affirmation by J. G. Dewease, Senior Vice President - Nuclear Operations of LP&L, and the proposed assumption of operating and licensing responsibilities for Waterford 3 by SERI as described above.



D. Hunter

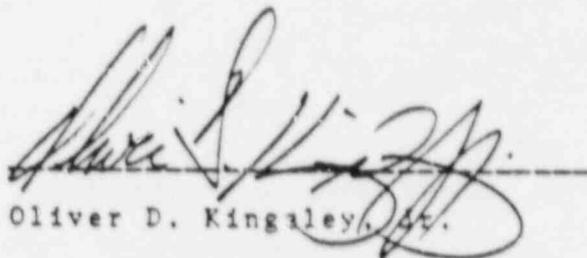
Executive Vice President -

Operations

Louisiana Power & Light Company

ACCEPTANCE

SERI hereby consents to this application filed under oath or affirmation by J. G. Dewease, Senior Vice President, Nuclear Operations of LP&L, and accepts the proposed assumption of operating and licensing responsibilities for Waterford 3 by SERI as described above. Upon approval and effectiveness of the proposed amendments, SERI agrees to be bound by all applicable NRC regulations, applicable license conditions (as identified in the amended license), technical specifications, and prior licensee commitments.



Oliver D. Kingley, Jr.

Vice President, Nuclear

Operations

System Energy Resources, Inc.

NPF-38-83  
ATTACHMENT 1



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D. C. 20555

add →

LOUISIANA POWER AND LIGHT COMPANY  
SYSTEM ENERGY RESOURCES, INC.  
DOCKET NO. 50-382

WATERFORD STEAM ELECTRIC STATION, UNIT 3  
FACILITY OPERATING LICENSE

License No. NPF-38

1. The Nuclear Regulatory Commission (the Commission or the NRC) has found that:
- (LP+L)
- A. The application for license filed by the Louisiana Power and Light Company ~~(licensee)~~ complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;
- B. Construction of the Waterford Steam Electric Station, Unit 3 (facility), has been substantially completed in conformity with Construction Permit No. CPPR-103 and the application as amended, the provisions of the Act, and regulations of the Commission;
- C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Sections 1.I. and 2.D. below);
- D. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I (except as exempted from compliance in Sections 1.I. and 2.D. below);
- E. SYSTEM ENERGY RESOURCES, INC. (SERI) #  
~~The Louisiana Power & Light Company~~ is technically qualified to engage in the activities authorized by this operating license in accordance with the Commission's regulations set forth in 10 CFR Chapter I;
- F. LP+L  
~~The licensee~~ has satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements", of the Commission's regulations;

add  
Footnote →

After a transfer of LP&L nuclear personnel to SERI, SERI has succeeded LP&L as the operator of the Waterford Steam Electric Station, Unit 3. Consequently, SERI is authorized to act for itself and for LP&L and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility.

- G. The issuance of this license will not be inimical to the common defense and security or to the health and safety of the public;
- H. After weighing the environmental, economic, technical, and other benefits of the facility against environmental and other costs, and after considering available alternatives, the issuance of the Facility Operating License No. NPF-38, subject to the conditions for protection of the environment set forth in the Environmental Protection Plan attached as Appendix B, is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied; and
- I. The receipt, possession, and use of source, byproduct, and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70, except that an exemption to the provisions of 10 CFR 70.24 is granted as described in Supplement No. 8 to the Safety Evaluation Report. This exemption is authorized under 10 CFR 70.24(d) and will not endanger life or property or the common defense and security and is otherwise in the public interest.

2. Pursuant to approval by the Nuclear Regulatory Commission at a meeting on March 15, 1985, the license for fuel loading and low power testing, License No. NPF-26, issued on December 18, 1984, is superseded by Facility Operating License No. NPF-38 hereby issued to the Louisiana Power and Light Company ~~(the licensee)~~ to read as follows:

*AND SYSTEM ENERGY RESOURCES, INC.*

A. This license applies to the Waterford Steam Electric Station, Unit 3, a pressurized water reactor and associated equipment (the facility), owned by Louisiana Power and Light Company, ~~(the licensee)~~. The facility is located on the ~~licensee's~~ site in St. Charles Parish, Louisiana and is described in the Louisiana Power and Light Company Final Safety Analysis Report as amended, and the Environmental Report as amended.

*LP+L's*

B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses: ~~Louisiana Power and Light Company (LP&L)~~

*LP+L,*

1. <sup>A</sup> Pursuant to Section 103 of the Act and 10 CFR Part 50, to possess ~~use and operate~~ the facility at the designated location in St. Charles Parish, Louisiana in accordance with the procedures and limitations set forth in this license;

2. <sup>A</sup> Pursuant to the Act and 10 CFR Part 70, to receive, possess, and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended, ~~through~~  
~~Amendment 38;~~

3. *SERI,*

ADD ATTACHED  
INSERT B.2

INSERT B.2 for Waterford 3 License

2. SERI, pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use and operate the facility at the designated location in St. Charles Parish, Louisiana in accordance with the procedures and limitations set forth in this license;

4. ~~2.~~ <sup>SERI,</sup> Pursuant to the Act and 10 CFR Parts 30, 40, and 70, to receive, possess, and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
5. ~~A.~~ <sup>SERI,</sup> Pursuant to the Act and 10 CFR Parts 30, 40, and 70, to receive, possess, and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and
6. ~~B.~~ <sup>SERI,</sup> Pursuant to the Act and 10 CFR Parts 30, 40, and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility authorized herein.
- C. This license shall be deemed to contain and is subject to the conditions specified in the Commission's regulations set forth in 10 CFR Chapter I and is subject to all applicable provisions of the Act and to the rules, regulations and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:
1. Maximum Power Level.  
~~SERI~~ ~~The licensee~~ is authorized to operate the facility at reactor core power levels not in excess of 3390 megawatts thermal (100% power) in accordance with the conditions specified herein and in Attachment 1 to this license. The items identified in Attachment 1 to this license shall be completed as specified. Attachment 1 is hereby incorporated into this license.
  2. Technical Specifications and Environmental Protection Plan  
The Technical Specifications contained in Appendix A, as revised through Amendment No. ~~30~~, and the Environmental Protection Plan contained in Appendix B, are hereby incorporated in the license.  
~~SERI~~ ~~The licensee~~ shall operate the facility in accordance with the Technical Specifications and the Environmental Protection Plan.
  3. Antitrust Conditions  
~~LP+L~~ ~~The licensee~~ shall comply with the antitrust conditions in Appendix C to this license.

4. Broad Range Toxic Gas Detectors (Section 2.2.1, SSER 6\*)

Prior to startup following the first refueling outage, the licensee shall propose technical specifications for the Broad Range Toxic Gas Detection System for inclusion in Appendix A to this license.

5. Initial Inservice Inspection Program (Section 6.6, SSER 5)

By June 1, 1985, the licensee must submit an initial inservice inspection program for staff review and approval.

6. Environmental Qualification (Section 3.11, SSER 8)

Prior to November 30, 1985, the licensee shall environmentally qualify all electrical equipment according to the provisions of 10 CFR 50.49.

7. Axial Fuel Growth (Section 4.2, SSER 5)

Prior to entering Startup (Mode 2) after each refueling, the licensee shall either provide a report that demonstrates that the existing fuel element assemblies (FEA) have sufficient available shoulder gap clearance for at least the next cycle of operation, or identify to the NRC and implement a modified FEA design that has adequate shoulder gap clearance for at least the next cycle of operation. This requirement will apply until the NRC concurs that the shoulder gap clearance provided is adequate for the design life of the fuel.

8. Emergency Preparedness (Section 13.3, SSER 8)

In the event that the NRC finds that the lack of progress in completion of the procedures in the Federal Emergency Management Agency's final rule, 44 CFR Part 350, is an indication that a major substantive problem exists in achieving or maintaining an adequate state of emergency preparedness, the provisions of 10 CFR Section 50.54(s)(2) will apply.

\*The parenthetical notation following the title of many license conditions denotes the section of the Safety Evaluation Report and/or its supplements wherein the license condition is discussed.

+The license originally authorized LP&L to possess, use and operate the facility. Consequently, certain historical references applicable to LP&L as the "Licensee" appear in these license conditions.

add footnote

9. Fire Protection (Section 9.5.1, SSER 8)

- SERI*
- a. ~~The licensee~~ shall maintain in effect all provisions of the approved fire protection program as described in the Final Safety Analysis Report for the facility through Amendment 36 and as approved in the SER through Supplement 9, subject to provisions b & c below.
- SERI*
- b. ~~The licensee~~ may make no change to features of the approved fire protection program which would decrease the level of fire protection in the plant without prior approval of the Commission. To make such a change ~~the licensee~~ must submit an application for license amendment pursuant to 10 CFR 50.90.
- SERI* *SERI*
- c. ~~The licensee~~ may make changes to features of the approved fire protection program which do not decrease the level of fire protection without prior Commission approval, provided:
- (1) such changes do not otherwise involve a change in a license condition or technical specification or result in an unreviewed safety question (see 10 CFR 50.59).
  - (2) such changes do not result in failure to complete the fire protection program approved by the Commission prior to license issuance.

*SERI* ~~The licensee~~ shall maintain, in an auditable form, a current record of all such changes including an analysis of the effects of the change on the fire protection program and shall make such records available to NRC inspectors upon request. All changes to the approved program made without prior Commission approval shall be reported annually to the Director of the Office of Nuclear Reactor Regulation, together with supporting analyses.

- d. The licensee shall provide smoke detectors in the Control Room main control panels, which are installed in accordance with NFPA 72E, prior to startup following the first refueling outage.
- e. The licensee shall complete modifications resulting from its spurious signal analysis prior to startup following the first refueling outage, but in any case not later than June 1, 1987.

- f. The licensee shall provide neutron flux indication at LCP-43 which is electrically independent of the control room and cable vault prior to start-up following the first refueling outage, but in any case not later than June 1, 1987.
- g. The licensee shall provide a continuous fire watch in the relay room at the isolation panel from initial criticality until acceptable resolution of adverse effects, if any, of the loss of this panel on safe shutdown.

10. Post-Fuel-Loading Initial Test Program (Section 14, SSER 10)

Any changes to the Initial Test Program described in Section 14 of the FSAR made in accordance with the provisions of 10 CFR 50.59 shall be reported in accordance with 50.59(b) within one month of such change.

11. Emergency Response Capabilities (Section 22, SSER 8)

*SERI* ~~The licensee~~ shall comply with the requirements of Supplement 1 to NUREG-0737 for the conduct of a Detailed Control Room Design Review (DCRDR). Prior to May 1, 1985, the licensee shall submit for staff review and approval the DCRDR Summary Report, including a description of the process used in carrying out the function and task analysis performed as a part of both the DCRDR and the Procedures Generation Package efforts.

12. Reactor Coolant System (RCS) Depressurization Capability (Section 5.4.3, SSER 8)

By June 18, 1985, the licensee shall submit the results of confirmatory tests regarding the depressurization capability of the auxiliary pressurizer spray (APS) system. This information must demonstrate that the APS system can perform the necessary depressurization to meet the steam generator single-tube rupture accident acceptance criteria (SRP 15.6.3) with loop charging isolation valve failed open. Should the test results fail to demonstrate that the acceptance criteria are met, the licensee must provide for staff review and approval, justification for interim operation, and a schedule for corrective actions.

13. Response to Salem ATWS Event (Section 7.2.9, SSER 8)

The licensee shall submit responses and implement the requirements of Generic Letter 83-28 on a schedule which is consistent with that given in the licensee's letter of May 30, 1984.

14. Fuel Movement in the Fuel Handling Building

In the fuel handling building, during Modes 1-5, no more than one fuel assembly shall be outside an approved shipping container, an approved storage rack, the fuel transfer tube (including upender), the fuel elevator, or the spent fuel handling machine.

In addition to the above fuel assembly inspection/reconstitution may take place outside of an approved storage rack, when required, provided that the inspection/reconstitution area is borated to a level at or above 1720 ppm.

15. Qualification of Personnel (Section 13.1.3, SSER 8)

~~SERI The licensee~~ shall have on each shift operators who meet the requirements described in Attachment 2. Attachment 2 is hereby incorporated into this license.

16. Operational QA Enhancement Program (SSER 9)

The items listed below shall be completed on the schedule indicated.

- a. Prior to completion of Phase III of the Waterford 3 startup test program, the licensee shall conduct a comprehensive audit of the Operational QA Program that will include a summary QA document of the Operational QA Program, the definition of responsibilities and interfaces, and guidance on the location of information on QA matters at all levels of concern.
- b. Prior to completion of Phase III of the Waterford 3 startup test program, the licensee shall supplement its existing QA training program to incorporate specific discussion of QA problems experienced during construction and how this experience applies to operational activities.
- c. Prior to completion of Phase III of the Waterford 3 startup test program, the licensee shall address each of the recommendations in the Task Force Support Group (TFSG) Limited Scope Audit Report of LP&L Operational Quality Assurance Program, dated December 4, 1984.
- d. Prior to completion of Phase III of the Waterford 3 startup test program, the licensee shall complete corrective actions related to the 23 NRC issues as identified in the LP&L responses.

17. Basemat

The licensee shall comply with its commitments to perform a basemat cracking surveillance program and additional confirmatory analyses of basemat structural strength as described in its letter of February 25, 1985. Any significant change to this program shall be reviewed and approved by the NRC staff prior to its implementation.

- D. The facility requires an exemption from certain requirements of Appendices E and J to 10 CFR Part 50. These exemptions are described in the Office of Nuclear Reactor Regulation's Safety Evaluation Report, Supplement No. 10 (Section 6.1.2) and Supplement No. 8 (Section 6.2.6), respectively. These exemptions are authorized by law and will not endanger life or property or the common defense and security and are otherwise in the public interest. These exemptions are, therefore, hereby granted pursuant to 10 CFR 50.12. With the granting of these exemptions, the facility will operate, to the extent authorized herein, in conformity with the application, as amended, the provisions of the Act, and the rules and regulations of the Commission.

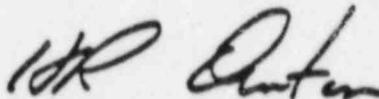
- E. ~~The licensee~~ <sup>SERI</sup> shall fully implement and maintain in effect all provisions of the Commission-approved physical security, guard training and qualification, and safeguards contingency plans including amendments made pursuant to provisions of the Miscellaneous Amendments and Search Requirements revisions to 10 CFR 73.55 (51 FR 27817 and 27822) and to the authority of 10 CFR 50.90 and 10 CFR 50.54(p). The plans, which contain Safeguards Information protected under 10 CFR 73.21, are entitled: "Waterford Physical Security Plan," with revisions submitted through March 21, 1988; "Waterford Security Training and Qualification Plan," with revisions submitted through December 16, 1983; and "Waterford Safeguards Contingency Plan," with revisions submitted through January 6, 1987. Changes made in accordance with 10 CFR 73.55 shall be implemented in accordance with the schedule set forth therein.

- F. Except as otherwise provided in the <sup>SERI</sup> Technical Specifications or the Environmental Protection Plan, ~~the licensee~~ shall report any violations of the requirements contained in Section 2.C of this license in the following manner. Initial notification shall be made within 24 hours to the NRC Operations Center via the Emergency Notification System with written follow-up within 30 days in accordance with the procedures described in 10 CFR 50.73 (b), (c) and (e).

- G. ~~The licensee~~ <sup>LP+L</sup> shall have and maintain financial protection of such type and in such amounts as the Commission shall require in accordance with Section 170 of the Atomic Energy Act of 1954, as amended, to cover public liability claims.

- H. This license is effective as the date of issuance and shall expire at midnight on December 18, 2024.

FOR THE NUCLEAR REGULATORY COMMISSION



Harold R. Denton, Director  
Office of Nuclear Reactor Regulation

Enclosures:

1. Attachment 1
2. Attachment 2
3. Appendix A (Technical Specifications) (NUREG-1117)
4. Appendix B (Environmental Protection Plan)
5. Appendix C (Antitrust Conditions)

Date of Issuance: March 16, 1985

## ATTACHMENT 1

WATERFORD STEAM ELECTRIC STATION  
OPERATING LICENSE NPF-38

This attachment identifies items which must be completed to the Commission's satisfaction prior to startup following the first refueling outage.

- Continuous, direct position indication in the control room for the containment isolation valves for instrument line penetrations 53 and 65.

Waterford Steam Electric Station  
Operating License NPF-38

Operating Staff Experience Requirements

SERI

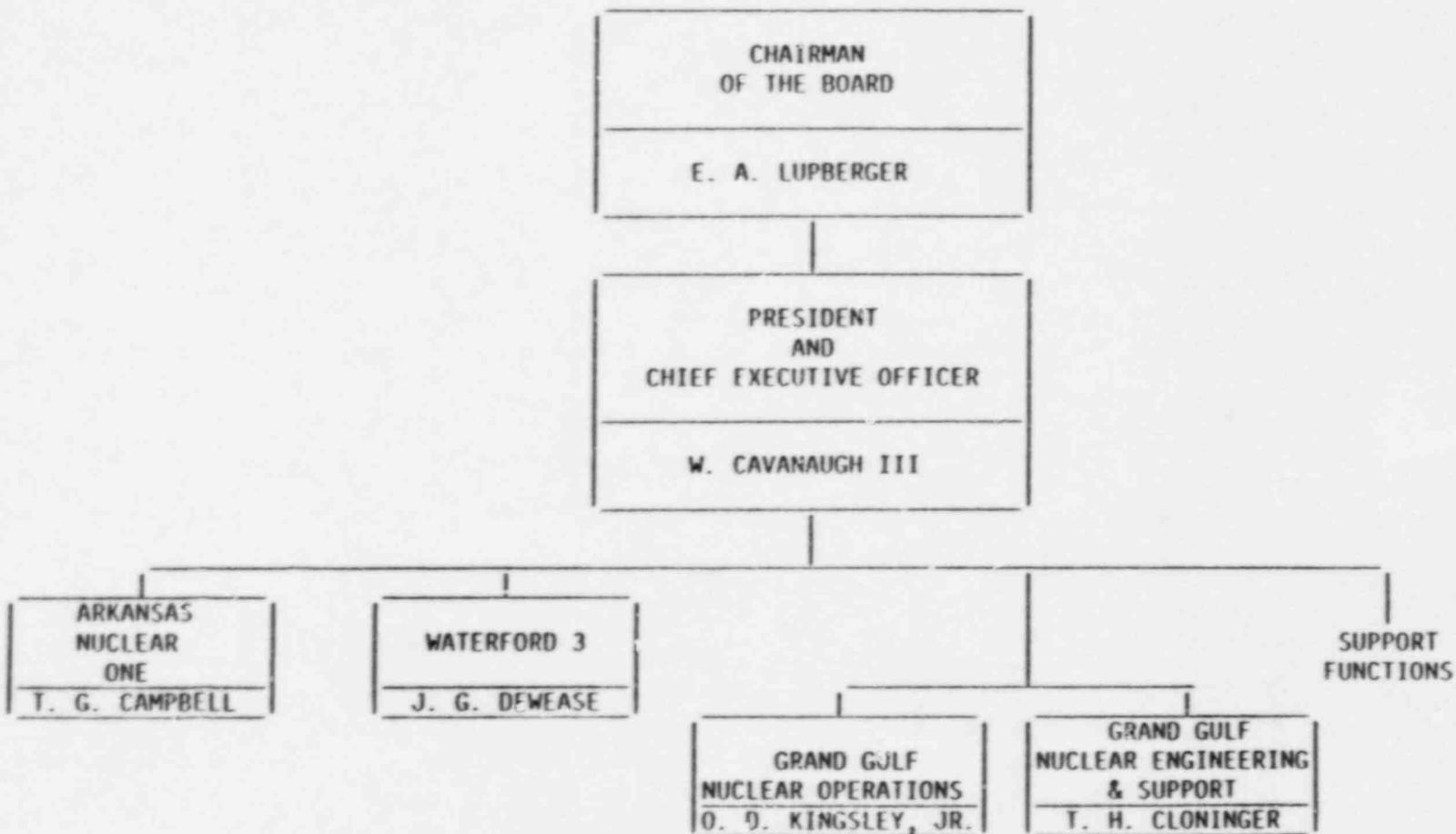
~~ES&E~~ shall have a licensed senior operator on each shift who has had at least six months of hot operating experience on a pressurized water reactor, including at least six weeks at power levels greater than 20% of full power, and who has had startup and shutdown experience. For those shifts where such an individual is not available on the plant staff, an advisor shall be provided who has had at least four years of power plant experience, including two years of nuclear plant experience, and who has had at least one year of experience on shift as a licensed senior operator at a similar type facility. Use of advisors who were licensed only at the RO level will be evaluated on a case-by-case basis. Advisors shall be trained on plant procedures, technical specifications and plant systems, and shall be examined on these topics at a level sufficient to assure familiarity with the plant. For each shift, the remainder of the shift crew shall be trained in the role of the advisors. Advisors, or fully trained and qualified replacements, shall be retained until the experience levels identified in the first sentence above have been achieved. The names of any replacement advisors shall be certified by ~~ES&E~~ prior to these individuals being placed on shift. The NRC shall be notified at least 30 days prior to the date ~~ES&E~~ proposes to release the advisors from further service.

SERI

SERI

NPF-38-83  
ATTACHMENT 2

PROPOSED SERT ORGANIZATION CHART



NOTE: QUALITY ORGANIZATIONS FOR EACH PLANT HAVE ACCESS TO PRESIDENT & CEO ON MATTERS RELATED TO QUALITY

*Includes 10-1*

ARKANSAS PUBLIC SERVICE COMMISSION 7 P2: 03

IN THE MATTER OF THE APPLICATION )  
OF ARKANSAS POWER & LIGHT COMPANY )  
FOR AUTHORITY TO OPERATE ITS )  
NUCLEAR GENERATING FACILITIES, )  
ARKANSAS NUCLEAR ONE, UNIT 1 AND )  
UNIT 2 PURSUANT TO AN OPERATING )  
AGREEMENT WITH SYSTEM ENERGY )  
RESOURCES, INC. )

COMMISSION  
DOCKET NO. 88-156-U

APPLICATION

Comes Arkansas Power & Light Company (AP&L) and files herewith its Application for authority to operate and maintain its nuclear-fueled generating facilities, Arkansas Nuclear One Unit 1 (ANO-1) and Arkansas Nuclear One Unit 2 (ANO-2) pursuant to an operating agreement with System Energy Resources, Inc. (SERI) and in support thereof states:

1. AP&L is a corporation organized and existing under the laws of the State of Arkansas and is engaged in the business of generating, transmitting and distributing electrical power and energy as a public utility as defined in Act 324 of 1935 as amended. The principal place of business of AP&L is Suite 4000, Capitol Avenue at Broadway Street, Little Rock, Arkansas. Its mailing address is P. O. Box 551, Little Rock, Arkansas 72203. The articles of incorporation, as amended, for AP&L are on file with the Commission and are incorporated herein by reference. Pursuant to Rule 2.03 of the Commission's Rules of Practice and Procedure, the individuals

to whom notices are to be addressed and who should be shown on the official service list for AP&L are

Michael B. Bemis  
Executive Vice President - Operations  
Arkansas Power & Light Company  
P. O. Box 551  
Little Rock, AR 72203  
Phone: 377-3530

and

Kent Foster  
Mitchell, Williams, Selig & Tucker  
1000 Savers Federal Building  
Little Rock, AR 72201  
Phone: 688-8811

2. The Commission has jurisdiction over AP&L and over the subject matter of this Application pursuant to Section 41 of Act 324 of 1935, the same being Ark. Code Ann. § 23-3-201.

3. AP&L presently owns, maintains and operates two nuclear-fueled generating units on a common site, Section 28, Township 8 North, Range 21 West, in Pope County, near Russellville, Arkansas. On October 2, 1967, this Commission entered an order in Docket No. U-2084 granting to AP&L a certificate of convenience and necessity to construct, operate, and maintain an 800 megawatt (nameplate) nuclear-fueled steam electric generating unit, with step-up transformer and other related facilities, at the site in Pope County. (A copy of this order is attached as Application Exhibit A.) On September 16, 1970, this Commission entered an order in Docket No. U-2286 granting to AP&L a certificate of convenience and

necessity to construct, operate, and maintain a 950 megawatt (nameplate) nuclear-fueled steam electric generating unit, with step-up transformer and other related facilities, at the site in Pope County. (A copy of this order is attached as Application Exhibit B.)

4. Pursuant to the certificates granted by this Commission, ANO-1 was constructed and placed into commercial operation in December of 1974, and ANO-2 was constructed and placed into commercial operation in March of 1980. Both units have remained in commercial operation since the date they were originally declared to be in commercial operation and have continuously provided service to AP&L's Arkansas retail customers, except for periods when the units have been out of service for required maintenance or refueling.

5. AP&L is a wholly owned subsidiary of Middle South Utilities, Inc. (MSU). MSU also owns the common stock of Louisiana Power & Light Company (LP&L), which is licensed by the Nuclear Regulatory Commission (NRC) to possess, use and operate the Waterford Steam Electric Station No. 3 (Waterford 3) near Taft, Louisiana. In addition, MSU owns the common stock of SERI, an Arkansas corporation which is licensed to possess, use and operate the Grand Gulf Nuclear Station Unit 1 (Grand Gulf 1) near Port Gibson, Mississippi.

6. SERI, formerly Middle South Energy, Inc. (MSE), was formed in 1974 to construct, finance, and own baseload

generating units. On July 22, 1986, the Board of Directors of MSU and MSE took action to change the name of MSE to SERI and to authorize transferring to SERI from Mississippi Power & Light Company all responsibility for the operation of Grand Gulf Unit 1 which was accomplished on December 20, 1986. At this time SERI owns and finances its 90% ownership interest in Grand Gulf Unit 1 and operates the plant.

7. For the reasons set forth above, AP&L and MSU desire that SERI become the system-wide nuclear operating company for the Middle South Utilities System. It is therefore proposed that SERI, in addition to operating Grand Gulf Unit 1, will assume operating responsibility for, but not ownership of, ANO-1 and ANO-2. Payment for operation of the plants will be at cost in accordance with the provisions of the Public Utility Holding Company Act of 1935 and the rules of the Securities and Exchange Commission thereunder. SERI will enter into a substantially identical arrangement with LP&L to assume operating responsibility for, but not ownership of, Waterford 3. The proposed assumption of operating responsibility will be accomplished by the operating agreement between AP&L and SERI authorizing SERI to operate ANO-1 and ANO-2. Said Operating Agreement is attached hereto as Application Exhibit C. The assumption of operating responsibility by SERI for ANO-1 and ANO-2 will not impact

existing plant ownership or ownership or entitlements to capacity and energy.

8. The technical qualifications for SERI to carry out the operating responsibility for ANO-1 and ANO-2 will meet or exceed the qualifications of AP&L. SERI will assume responsibility for and control over the physical construction, operation, maintenance, and licensing of the facilities. The present ANO-1 and ANO-2 nuclear organizations will be transferred essentially intact to SERI. Therefore, the technical qualifications of the proposed ANO-1 and ANO-2 organizations will be at least equivalent to those of the existing organization.

9. As a result of the consolidation of nuclear operations into one System nuclear operating company, the proposed plan is expected to provide significant savings to AP&L's Arkansas retail customers. Specifically, it is projected that after a four-year implementation period, the proposed consolidation will result in annual savings in operating and maintenance expenses for AP&L through operations of ANO-1 and ANO-2 of approximately \$7.6 million. In addition, AP&L will realize 36% of the operating and maintenance savings to be achieved by SERI through consolidation at Grand Gulf 1 which are expected to amount to approximately \$2.4 million per year after the four-year implementation period. Once implementation begins,

the savings will build over time as each change is made. Though implementation costs initially will reduce the benefits, net operating and maintenance savings for all of the units will still be approximately \$45 million during the four-year implementation period.

10. Additionally, the following benefits are expected to be achieved by the proposed consolidation of operating responsibility for System nuclear plants into SERI:

a. SERI, as an operating company for multiple reactors, will be a repository for System nuclear operating expertise and experience. Presently, there is a wealth of nuclear operations talent spread throughout the MSU System. Consolidation of this talent into one company should have a synergistic effect. The change will enhance the already high level of public safety and cost effective plant operation.

b. Consolidation of talent not only will result in a merger of expertise and experience for System-wide nuclear operational support, but it also should permit the specialization of expertise in certain areas that might not otherwise be developed if each of the companies continue to operate their separate facilities.

c. A single company responsible for all nuclear operations in the MSU System will allow development of a consistent philosophy which will be specifically designed for

nuclear plant operations. This focused philosophy can be used to maintain excellence in all aspects of nuclear operation.

d. As a result of the proposed consolidation, there will be more effective communication and use of System nuclear operating experience. For example, lessons learned through the operation and maintenance of the System's nuclear-fueled generating facilities will be shared promptly, efficiently, and consistently among the units.

e. Certain non-nuclear support functions are expected to become specialized and focused on the requirements of all of the System's nuclear units and will thereby be more effective.

f. Placing all of the MSU nuclear-fueled generating facilities under the management of one company will provide a broader base and more competitive environment for senior management candidates who are specialized in nuclear power generation. The proposed consolidation should provide an environment in which all employees continue to be motivated toward high performance. SERI will provide greater opportunity for career progression and thus greater opportunity to retain valued employees.

g. The proposed consolidation will permit nuclear managers to focus entirely upon the special needs, qualifications, and requirements allowing SERI to be competitive in the market for skilled nuclear professionals.

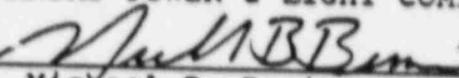
11. Submitted herewith in support of this Application is the prepared direct testimony of Jerry L. Maulden, President and Chief Executive Officer of Arkansas Power & Light Company; William Cavanaugh III, President and Chief Executive Officer of SERI; Lee W. Randall, Senior Vice President - Finance and Administration and Chief Financial Officer of Arkansas Power & Light Company; and Robert A. Irvin, a partner of McKinsey & Company, a management consulting firm.

WHEREFORE, AP&L respectfully prays that this Commission enter an order granting to AP&L authority to operate ANO-1 and ANO-2 through the attached operating agreement with SERI and for all other proper relief.

Respectfully submitted,

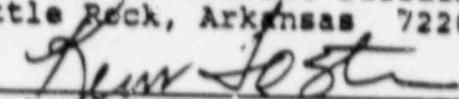
ARKANSAS POWER & LIGHT COMPANY

By

  
Michael B. Benis  
Executive Vice President -  
Operations

MITCHELL, WILLIAMS, SELIG & TUCKER  
1000 Savers Federal Building  
Little Rock, Arkansas 72201

By

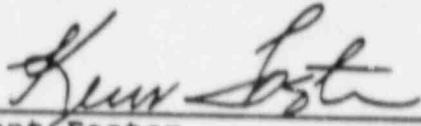
  
Kent Foster

Attorneys for Arkansas Power & Light  
Company



CERTIFICATE OF SERVICE

I, Kent Foster, do hereby certify that a copy of the foregoing Application has been mailed to Attorney General Steve Clark, 4th and Center Streets, Little Rock, Arkansas 72201, this 7<sup>th</sup> day of October, 1988.

  
\_\_\_\_\_  
Kent Foster

ARKANSAS  
PUBLIC SERVICE COMMISSION

<p>PRESENT:</p> <p>Lewis M. Robinson, Chairman</p> <p>J. H. Malone, Commissioner</p> <p>Robert C. Dromie, Commissioner</p>	<p>At a session of the Public Service Commission held in its offices, Justice Building, Capitol Grounds, Little Rock, Ark., October 2, 1967.</p>
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IN THE MATTER OF THE APPLICATION OF )  
 ARKANSAS POWER & LIGHT COMPANY FOR )  
 A CERTIFICATE OF CONVENIENCE AND )  
 NECESSITY TO CONSTRUCT, MAINTAIN )  
 AND OPERATE A NUCLEAR GENERATING )  
 UNIT, WITH RELATED FACILITIES, ON ) DOCKET NO. U-2084  
 A SITE ON A PENINSULA INTO THE )  
 DARDANELLE RESERVOIR, SECTION 28, )  
 TOWNSHIP 8 NORTH, RANGE 21 WEST, IN )  
 POPE COUNTY, ARKANSAS NEAR RUSSELL- )  
 VILLE, ARKANSAS. )

O R D E R

On September 13, 1967, Arkansas Power & Light Company filed an application seeking a certificate of convenience and necessity to construct and maintain and operate an 800 megawatt (nameplate rating) nuclear fueled generating station, with stepup transformers and related facilities and appliances, near Russellville, Pope County, Arkansas.

Pursuant to an order of the Commission, notice of hearing was issued and served setting the Application for hearing, which was held on September 29, 1967, in the hearing room of the Commission, Justice Building, Little Rock, Arkansas.

From the evidence and testimony introduced at the hearing, and from other records and information in the Commission's files, the Commission makes the following findings:

1. The Commission has jurisdiction over the Applicant and the subject matter of the application.

2. Arkansas Power & Light Company proposes to construct, maintain and operate an 800 megawatt (nameplate rating) nuclear fueled steam electric generating unit, including stepup transformers and other necessary related facilities and appliances, at a site situated on a peninsula in the Dardanelle Reservoir near Russellville Pope County, Arkansas. The major portion of the plant and related facilities will be located in Section 28, Township 8 North, Range 21 West, Pope County, and the site includes approximately 1500 acres in Section 28 and surrounding sections, an area of such size being necessary for the unit and related facilities and to meet requirements of the Atomic Energy Commission. The proposed unit will be designed and engineered by the Bechtel Corporation, which concern the Company has employed for this purpose. Bechtel Corporation will also supervise the construction. The Company witnesses represented that the Bechtel Corporation is an experienced concern with a national reputation and has designed and constructed a number of similar nuclear units for other electric utilities throughout the country. The Company's witnesses generally reviewed the specifications, capabilities and operation of various features of the proposed unit and stated that it was expected to be the most efficient generating unit on its system. The Company has determined that there is

an economic advantage in using nuclear fuel as a fuel supply for the proposed unit, and has made arrangements for a four-year supply of nuclear material. The Company is in the process of preparing the necessary applications for filing with the Atomic Energy Commission for a construction license, operating permit and other necessary permits. The Company witnesses testified that the proposed unit was located on the Pope County site because of the abundance of cooling water from the Arkansas River Dardanelle Reservoir, suitable geographic and foundation conditions, nearby river, rail and highway transportation facilities, and nearby transmission facilities of the Company. Except for about 120 acres owned by the United States in and adjacent to the reservoir, the Company has secured options for substantially all of the necessary lands and expects to purchase or condemn these lands and to obtain other required easements and permits.

3. The Company witnesses testified that the location, design, capacity and general construction of the proposed generating unit are based upon the best economic and engineering determinations that could be made by its technical staff after consultation with retained independent experts. Company witnesses also testified as to the results of its load studies showing projected loads and requirements of its customers in 1973 and thereafter. The requirements of the present and future customers of the Company are such that the construction of the additional generating unit proposed in this application is necessary in order to enable the Company to meet the needs and demands of its present and future customers for ever increasing quantities of electric energy.

4. The Company, following authorization from this Commission, plans to file an application for a construction license with the Atomic Energy Commission which exercises rigid control over construction and operating safeguards of all nuclear plants. As soon as the Atomic Energy Commission licenses and approvals are obtained as required by Federal law, the Company proposes to start construction of the proposed generating unit. The Company estimates that the generating unit, together with its stepup transformers and other necessary facilities and appliances will be ready for operation on or about December 31, 1972, subject to possible delay in construction and delivery of materials, equipment and supplies.

5. The Company estimates that the construction cost of the proposed generating facility will be approximately \$140,000,000, which will be incurred during the years 1967, 1968, 1969, 1970, 1971, 1972, and perhaps 1973. These construction costs will be financed from funds generated from the Company's operations and from the net proceeds which the Company may realize from the sale of capital securities which the Company will issue in such amounts and under such conditions as this Commission and other regulatory authorities having jurisdiction may hereafter authorize.

6. The Commission finds that the public convenience and necessity requires that the Company construct, operate and maintain the proposed 600 megawatt (nameplate rating) nuclear fueled generating station, stepup transformers and related facilities and appliances, and that it is in the public interest that this application be approved.

IT IS, THEREFORE, ORDERED THAT:

Arkansas Power & Light Company be, and it is hereby, granted a certificate of convenience and necessity to construct, operate and maintain an 600 megawatt (nameplate) nuclear fueled steam

electric generating unit, with stepup transformer and other related facilities, at its proposed site in Pope County, near Russellville, Arkansas, as generally described and specified in the record of this proceeding.

The Company is directed to file with this Commission at intervals of six (6) months, beginning July 1, 1968, reports of the progress made in the construction of the proposed facility.

This order shall be in full force and effect from and after date of its issuance.

BY ORDER OF THE COMMISSION

This 2nd day of October, 1967.

Lewis M. Robinson, Chairman

J. M. Malone, Commissioner

Robert C. Downie, Commissioner

*Teresa Castillo*  
Teresa Castillo, Secretary

ARKANSAS  
PUBLIC SERVICE COMMISSION

PRESENT: At a session of the Public Service  
Lewis M. Robinson, Chairman Commission held in its offices,  
Robert C. Downie, Commissioner Justice Building, Capitol Grounds,  
Don S. Smith, Commissioner Little Rock, Ark., September 3, 1970

IN THE MATTER OF THE APPLICATION OF )  
ARKANSAS POWER & LIGHT COMPANY FOR A )  
CERTIFICATE OF CONVENIENCE AND NECES- )  
SITY TO CONSTRUCT, MAINTAIN AND OPER- )  
ATE A NUCLEAR GENERATING UNIT, WITH ) DOCKET NO. U-2286  
RELATED FACILITIES, ON THE ARKANSAS )  
NUCLEAR ONE GENERATING STATION SITE, )  
SECTION 29, TOWNSHIP 8 NORTH, RANGE )  
21 WEST, IN POPE COUNTY, ARKANSAS )  
NEAR RUSSELLVILLE, ARKANSAS )

ORDER

On July 27, 1970, Arkansas Power & Light Company filed an application seeking a certificate of convenience and necessity to construct and maintain and operate a 950 megawatt nuclear fueled steam electric generating station, with stepup transformers and related facilities and appliances, on the Arkansas Nuclear One generating station site near Russellville, Pope County, Arkansas.

Pursuant to an order of the Commission, notice of hearing was issued and served on July 29, 1970, setting the Application for hearing, which was held on September 3, 1970, in the hearing room of the Commission, Justice Building, Little Rock, Arkansas.

From the evidence and testimony introduced at the hearing, and from other records and information in the Commission's files, the Commission makes the following findings:

1. The Commission has jurisdiction over the Applicant and the subject matter of the application.

2. Arkansas Power & Light Company proposes to construct, maintain and operate a 950 megawatt nuclear fueled steam electric generating unit, including stepup transformers and other necessary related facilities and appliances on the Arkansas Nuclear One generating station site. This site is in Section 29, Township 8 North, Range 21 West in Pope County, Arkansas and is located on a peninsula jutting out into the Dardanelle Reservoir created by the damming of the Arkansas River by the Dardanelle Dam. The site itself consists of approximately 1300 acres. The unit site is located in the approximate center of the entire site and all of the proposed land area is necessary in order to locate other related facilities to meet the requirements of the Atomic Energy Commission. This site has already been approved by this Commission and by the AEC from a geological and geographical standpoint. Except for about 200 acres owned by the United States which the Company acquires through easement from the Corps of Engineers, the Company has already purchased all of the land within the proposed site.

The proposed unit will be designed and engineered by Bechtel and Bechtel will also procure materials and perform construction management for the project. Bechtel is a nationally known engineering firm and is the same firm that is performing the design work for Arkansas Nuclear One.

4. The Company's witnesses reviewed the specifications, capabilities and operation of various features of the proposed unit. A cooling tower will be added to Unit Two to prevent the discharge of large amounts of heated water into the Reservoir and, according to company testimony, studies have indicated that the small amount of additional heated water which will be discharged will not significantly affect the temperature of the Reservoir.

5. The Company has determined and we find that there is an economic advantage in using nuclear fuel as a fuel supply for the proposed unit. This is because even though the investment for a nuclear unit is considerably in excess of that required for a fossil fuel unit, the fuel costs are considerably lower and these lower fuel costs offset higher carrying charges on the extra investment for the nuclear unit. Also, the company's witnesses were of the opinion that the long term source of energy for electrical power generation will be from nuclear energy. The company has made arrangements for the supply of the nuclear fuel.

6. The site of Arkansas Nuclear One was selected for the proposed Unit Two because: It had been previously determined that this was a good site from the standpoint of transportation and foundations; only an incremental addition to the operating staff would be required; the site was purchased with the thought in mind that the ultimate development would be at least two units; many of the auxiliary facilities, such as the service building, chemistry labs, machine shop, etc., will be available for use in connection with the second unit; and switchyard and transmission additions will be less than would be required at a new site.

7. The Company is preparing and plans to file an application for a construction license with the Atomic Energy Commission which exercises rigid control over construction and operating safeguards of all nuclear plants. As soon as the Atomic Energy Commission licenses and approvals are obtained as required by Federal law, the Company proposes to start construction of the proposed generating unit. The Company estimates that the generating unit, together with its stepup transformers and other necessary facilities and appliances will be ready for operation on or about December 31, 1975, subject to possible delay in construction and delivery of materials, equipment and supplies.

8. Very thorough and lengthy studies have been made with regard to the effect on the environment of this nuclear generating unit. The company will be required to obtain permits from various state and federal agencies, including the Arkansas Pollution Control Commission, before the Atomic Energy Commission will issue a construction permit. The company witnesses testified that they were satisfied that they could meet the criteria for these permits.

9. The location, design, capacity and general construction of the proposed generating unit are based upon the best economic and engineering determinations that could be made by the company's technical staff after consultation with retained independent experts. Company witnesses testified as to the results of its load studies showing projected loads and requirements of its customers in 1976 and thereafter. The requirements of the present and future customers of the company are such that the construction of the additional generating unit proposed in this application is necessary to enable the company to meet the needs and demands of its present and future customers for ever increasing quantities of electric energy.

10. The company estimates that the construction cost of the proposed generating facility will be approximately \$182,000,000

which will be incurred during the years 1970, 1971, 1972, 1973, 1974, 1975 and 1976. These construction costs will be financed from funds generated from the company's operations and from the net proceeds which the company may realize from the sale of capital securities which the company will issue in such amounts and under such conditions as this Commission and other regulatory authorities having jurisdiction may hereafter authorize.

11. The Commission finds that the public convenience and necessity requires that the Company construct, operate and maintain the proposed 950 megawatt nuclear fueled steam electric generating unit, stepup transformers and related facilities and appliances, and that it is in the public interest that this application be approved.

IT IS, THEREFORE, ORDERED:

Arkansas Power & Light Company be, and it is hereby, granted a certificate of convenience and necessity to construct, operate, and maintain a 950 megawatt nuclear fueled steam electric generating unit, with stepup transformer and other related facilities and appliances at its proposed site which is on the site of Arkansas Nuclear One in Pope County, near Russellville, Arkansas as generally described and specified in the record of this proceeding.

The Company is directed to file with this Commission at intervals of six (6) months, beginning July 1, 1971, reports of the progress made in the construction of the proposed facility.

This order shall be in full force and effect from and after date of its issuance.

BY ORDER OF THE COMMISSION

This 16th day of September, 1970.

Lewis M. Robinson, Chairman

Robert C. Downie, Commissioner

Don S. Smith, Commissioner

Tommye Castellow  
Tommye Castellow, Secretary

BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION

EX PARTE APPLICATION OF  
LOUISIANA POWER & LIGHT COMPANY  
CONCERNING AN OPERATING  
AGREEMENT FOR LOUISIANA POWER  
& LIGHT COMPANY'S WATERFORD STEAM  
ELECTRIC STATION, UNIT NO. 3.

DOCKET NO. U-

APPLICATION

NOW COMES Louisiana Power & Light Company ["LP&L" or the "Company"] for this, its Application requesting this Commission to approve an Operating Agreement between LP&L and System Energy Resources, Inc. [SERI], by which SERI would assume the management and the operation, but not the ownership, of LP&L's Waterford Steam Electric Station, Unit No. 3 [Waterford 3], a nuclear-fueled electric generating station located near Taft, Louisiana, and in support of this Application LP&L respectfully shows as follows:

I.

LP&L is an electric public utility organized and existing under the laws of the State of Louisiana with its general office and principal place of business at 142 Delaronde Street, New Orleans, Louisiana 70174, and is engaged in the manufacture, generation, transmission, distribution and sale of electricity to residential, commercial, industrial and governmental consumers in forty-three (43) of the sixty-four (64) parishes of Louisiana. LP&L furnishes electric service to approximately 570,000 customers.

II.

LP&L presently owns, manages and operates Waterford 3, which was placed into commercial operation on September 24, 1985. LP&L is the holder of a Facility Operating License for Waterford 3, No. NPF-38, NRC Docket No. 50-382, issued by the Nuclear Regulatory Commission ["NRC"] in connection with LP&L's ownership and operation of Waterford 3.

III.

SERI, an Arkansas corporation with its principal office in Jackson, Mississippi, is presently licensed to, and presently does, possess, use and operate Unit No. 1 of the Grand Gulf Nuclear Station [Grand Gulf 1].

IV.

Both LP&L and SERI are wholly owned subsidiaries of Middle South Utilities, Inc. ["MSU"], which also owns all of the common

stock of Arkansas Power & Light Company ["AP&L"], an electric public utility which owns and is licensed by the NRC to possess, use and operate two (2) nuclear-fueled, electric generating units, Arkansas Nuclear One ["ANO"], Units 1 and 2, located near Russellville, Arkansas.

V.

LP&L desires to enter into an Operating Agreement by which SERI would assume operational responsibility for - but not ownership of - Waterford 3 and by which SERI would be authorized to operate - but not own - Waterford 3 as LP&L's agent. SERI would not furnish electric service within Louisiana as a result of this transaction.

VI.

As such, SERI, in addition to possessing, using and operating Grand Gulf Unit 1, would assume operating responsibility for -- but not ownership of -- Waterford 3. This proposed assumption of responsibility as LP&L's agent would be accomplished by an operating agreement between LP&L and SERI in the form and substance of that attached hereto and made part hereof, marked for identification herewith as Appendix 1. This assumption of operation by SERI as LP&L's agent would not alter existing ownership or entitlement to capacity or energy from Waterford 3 or plant ownership.

VII.

Concurrent herewith, SERI and AP&L will make all necessary filings with appropriate regulatory authorities concerning a

similar operating agreement between SERI and AP&L with respect to AP&L's ANO units.

#### VIII.

On July 1, 1988, LP&L filed with the NRC an Application to Amend Facility Operating License No. NPF-38 in order to effect the required regulatory approval by the NRC for the transfer of operation of Waterford 3 to SERI. A copy of that filing is attached hereto and made part hereof, marked for identification as Appendix 2.

#### IX.

LP&L shows that this operating agreement is not an attempt to alter the regulatory oversight of the Louisiana Public Service Commission, as is evident from the Operating Agreement (Appendix 1) and from the fact that activities in which SERI engages with respect to the plant would be activities conducted as agent for LP&L. Further, essentially all of LP&L's nuclear operations department, which presently operates Waterford 3, will be transferred to SERI, so that there will be no erosion of the current high standard of expertise and safety presently experienced in Waterford 3's operations.

#### X.

The consolidation of all nuclear operations into a system-wide nuclear operating company is expected to provide significant savings. Specifically, it is projected that after a four-year implementation period, the proposed consolidation will result in annual savings in operating and maintenance (O&M)

expenses for LP&L through operations of Waterford 3 of approximately \$6 to \$8 million. In addition, LP&L will realize savings to be achieved through consolidation at Grand Gulf Unit 1, which are expected to represent additional O&M savings to LP&L of approximately \$1 million per year after the four-year implementation period, for a total annual O&M savings for LP&L at that time of approximately \$7 to \$9 million. In addition, several million dollars in annual capital reductions should be realized from the creation of the nuclear management company. Once implementation begins the savings will build over time as each change is made. Though implementation costs initially will reduce the benefits, net O&M savings for all of the units will still be approximately \$45 million during the four year implementation period.

#### XI.

Other benefits contemplated by consolidation of the nuclear operations and management of ANO, Grand Gulf 1 and Waterford 3 in one company, which are discussed in greater detail in the testimony attached hereto, would include:

- A. Elimination of the duplication in manpower and management responsibility resulting from the diverse geographical location and separate corporate management of the four (4) nuclear units involved;
- B. Formation of a unified repository of system nuclear operating expertise and experience;

- C. Economies of scale in the acquisition of materials and personnel for nuclear operations; and
- D. Assurance of the retention and attraction of highly qualified employees in the specialized field of nuclear power generation.

XII.

LP&L recognizes the Commission's authority to review the rate-making impact of this transaction at such time as that impact may become known and measurable; however, this transaction involves such a significant portion of LP&L's operational and maintenance expenses, 98% of which expenses are Louisiana Public Service Commission-jurisdictional for rate-making purposes, that LP&L desires to specifically seek this Commission's approval of this proposed transaction at this time.

XIII.

The direct testimony of those witnesses to be presented in support of this application, together with the Appendices and the Exhibits of the witnesses, are attached hereto and filed herewith as part of this Application.

WHEREFORE, Louisiana Power & Light Company prays as follows:

1. That this Commission promptly institute proceedings related to the foregoing Application, so that the Commission may issue an order on this matter prior to year-end 1988;

2. That, after such proceedings are had, this Commission find that the Operating Agreement is in the public interest and approve the foregoing Application and approve the execution by LP&L and SERI of the Operating Agreement; and
3. For all other orders and decrees as may be necessary, and for all general and equitable relief that the law and the nature of the case may permit.

Thomas O. Lind  
Vice President - Regulatory Counsel  
LOUISIANA POWER & LIGHT COMPANY  
317 Baronne Street  
New Orleans, Louisiana 70112

MONROE & LEMANN  
J. Wayne Anderson  
McChord Carrico  
W. Glenn Burns

BY: J. Wayne Anderson  
Suite 3300  
201 St. Charles Avenue  
New Orleans, Louisiana 70170-3300  
Telephone: (504) 586-1900

ATTORNEYS FOR APPLICANT,  
LOUISIANA POWER & LIGHT COMPANY

**WITNESSES:**

James M. Cain  
Malcolm H. McLetchie  
William Cavanaugh III  
Robert A. Irvin

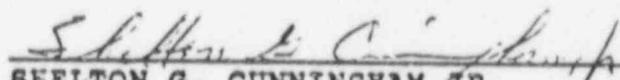
Anticipated time of presentation: ONE DAY

STATE OF LOUISIANA

PARISH OF ORLEANS

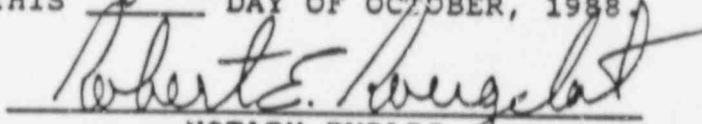
SHELTON G. CUNNINGHAM JR., being duly sworn, did depose and say:

That he is the Senior Vice-President of Louisiana Power & Light Company, applicant in the above proceedings; that he has read the foregoing Application and that he knows the contents thereof; that the same are true as stated, except as to matters and things, if any, stated on information and belief, and that as to those matters and things, he verily believes them to be true.

  
SHELTON G. CUNNINGHAM JR.

SWORN TO AND SUBSCRIBED BEFORE ME

THIS 6<sup>th</sup> DAY OF OCTOBER, 1988.

  
NOTARY PUBLIC

ROBERT E. ROUGELOT  
Notary Public  
Parish of Orleans, State of Louisiana  
My Commission is issued for life.

BEFORE THE  
COUNCIL OF THE CITY OF NEW ORLEANS

EX PARTE APPLICATION OF  
LOUISIANA POWER & LIGHT COMPANY  
CONCERNING AN OPERATING  
AGREEMENT FOR LOUISIANA POWER  
& LIGHT COMPANY'S WATERFORD STEAM  
ELECTRIC STATION, UNIT NO. 3.

DOCKET NO. CD-88-

APPLICATION

NOW COMES Louisiana Power & Light Company ["LP&L" or the "Company"] for this, its Application requesting this Council to review an Operating Agreement between LP&L and System Energy Resources, Inc. [SERI], by which SERI would assume the management and the operation, but not the ownership, of LP&L's Waterford Steam Electric Station, Unit No. 3 [Waterford 3], a nuclear-fueled electric generating station located near Taft, Louisiana, and further requesting this Council to thereafter state its non-opposition to LP&L's entering into such Operating

Agreement, and in support of this Application LP&L respectfully shows as follows:

I.

LP&L is an electric public utility organized and existing under the laws of the State of Louisiana with its general office and principal place of business at 142 Delaronde Street, New Orleans, Louisiana 70174, and is engaged in the manufacture, generation, transmission, distribution and sale of electricity to approximately 570,000 residential, commercial, industrial and governmental consumers in forty-three (43) of the sixty-four (64) parishes of Louisiana, including the Fifteenth Ward of the City of New Orleans (Algiers).

II.

LP&L presently owns, manages and operates Waterford 3, which was placed into commercial operation on September 24, 1985. LP&L is the holder of a Facility Operating License for Waterford 3, No. NPF-38, NRC Docket No. 50-382, issued by the Nuclear Regulatory Commission ["NRC"] in connection with LP&L's ownership and operation of Waterford 3.

III.

SERI, an Arkansas corporation with its principal office in Jackson, Mississippi, is presently licensed to, and presently does, possess, use and operate Unit No. 1 of the Grand Gulf Nuclear Station [Grand Gulf 1].

IV.

Both LP&L and SERI are wholly owned subsidiaries of Middle South Utilities, Inc. ["MSU"], which also owns all of the common stock of Arkansas Power & Light Company ["AP&L"], an electric public utility which owns and is licensed by the NRC to possess, use and operate two (2) nuclear-fueled, electric generating units, Arkansas Nuclear One ["ANO"], Units 1 and 2, located near Osage, Arkansas.

V.

LP&L desires to enter into an Operating Agreement by which SERI would assume operational responsibility for - but not ownership of - Waterford 3 and by which SERI would be authorized to operate - but not own - Waterford 3 as LP&L's agent. SERI would not furnish electric service within Louisiana as a result of this transaction.

VI.

As such, SERI, in addition to possessing, using and operating Grand Gulf Unit 1, would assume operating responsibility for -- but not ownership of -- Waterford 3. This proposed assumption of responsibility as LP&L's agent would be accomplished by an operating agreement between LP&L and SERI in the form and substance of that attached hereto and made part hereof, marked for identification herewith as Appendix 1. This assumption of operation by SERI as LP&L's agent would not alter

existing ownership or entitlement to capacity or energy from Waterford 3 or plant ownership.

VII.

Concurrent herewith, SERI and AP&L will make all necessary filings with appropriate regulatory authorities concerning a similar operating agreement between SERI and AP&L with respect to AP&L's ANO units.

VIII.

On July 1, 1988, LP&L filed with the NRC an Application to Amend Facility Operating License No. NPF-38 in order to effect the required regulatory approval by the NRC for the transfer of operation of Waterford 3 to SERI. A copy of that filing is attached hereto and made part hereof, marked for identification as Appendix 2.

IX.

LP&L shows that this agreement is not an attempt to alter the regulatory oversight of the Council, as is evident from the Operating Agreement (Appendix 1) and from the fact that activities in which SERI engages with respect to the plant would be activities conducted as agent for LP&L. Further, essentially all of LP&L's nuclear operations department, which presently operates Waterford 3, will be transferred to SERI, so that there will be no erosion of the current high standard of expertise and safety presently experienced in Waterford 3's operations.

X.

The consolidation of all nuclear operations into a system-wide nuclear operating company is expected to provide significant savings. Specifically, it is projected that after a four-year implementation period, the proposed consolidation will result in annual savings in operating and maintenance (O&M) expenses for LP&L through operations of Waterford 3 of approximately \$6 to \$8 million. LP&L will realize savings to be achieved through consolidation at Grand Gulf Unit 1, which are expected to represent additional O&M savings to LP&L of approximately \$1 million per year after the four-year implementation period, for a total annual O&M savings for LP&L at that time of approximately \$7 to \$9 million. In addition, New Orleans Public Service Inc. [NOPSI] will realize 17% of the savings to be achieved through consolidation at Grand Gulf Unit 1, which are expected to amount to approximately \$1 million per year for NOPSI after the four-year implementation period. In addition, several million dollars in annual capital reductions should be realized from the creation of the nuclear management company. Once implementation begins the savings will build over time as each change is made. Though implementation costs initially will reduce the benefits, net O&M savings for

all of the units will still be approximately \$45 million during the four year implementation period.

#### XI.

Other benefits contemplated by consolidation of the nuclear operations and management of ANO, Grand Gulf 1 and Waterford 3 in one company, which are discussed in greater detail in the testimony attached hereto, would include:

- A. Elimination of the duplication in manpower and management responsibility resulting from the diverse geographical location and separate corporate management of the four (4) nuclear units involved;
- B. Formation of a more unified repository of system nuclear operating expertise and experience;
- C. Economies of scale in the acquisition of materials and personnel for nuclear operations; and
- D. Assurance of the retention and attraction of highly qualified employees in the specialized field of nuclear power generation.

#### XII.

Notwithstanding the fact that this transaction involves four (4) nuclear units and savings for every operating company in the Middle South System, and the fact that the Algiers jurisdictional portion of LP&L's non-fuel nuclear O&M expenses

is only two (2%) percent of LP&L's total non-fuel nuclear O&M and a much smaller percentage of such expenses for the entire system, LP&L recognizes the rate regulatory authority of this Council and hereby seeks a statement by it of the Council's non-opposition to the Operating Agreement.

XIII.

The direct testimony of those witnesses to be presented in support of this application, together with the Appendices and the Exhibits of the witnesses, are attached hereto and filed herewith as part of this Application.

WHEREFORE, Louisiana Power & Light Company prays as follows:

1. That this Council promptly institute proceedings related to the foregoing Application, so that the Council may take action on this matter prior to year-end 1988;
2. That, after such proceedings are had, the Council of the City of New Orleans find that the Operating Agreement is in the public interest and state its non-opposition to LP&L's execution of the Operating Agreement; and

3. For all other orders and decrees as may be necessary,  
and for all general and equitable relief that the law  
and the nature of the case may permit.

Thomas O. Lind  
Vice President - Regulatory Counsel  
LOUISIANA POWER & LIGHT COMPANY  
317 Baronne Street  
New Orleans, Louisiana 70112

MONROE & LEMANN  
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201 St. Charles Avenue  
New Orleans, Louisiana 70170-3300  
Telephone: (504) 586-1900

ATTORNEYS FOR APPLICANT,  
LOUISIANA POWER & LIGHT COMPANY

WITNESSES:

James M. Cain  
Malcolm H. McLetchie  
William Cavanaugh III  
Robert A. Irvin

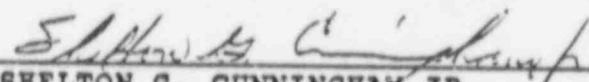
Anticipated time of presentation: ONE DAY

STATE OF LOUISIANA

PARISH OF ORLEANS

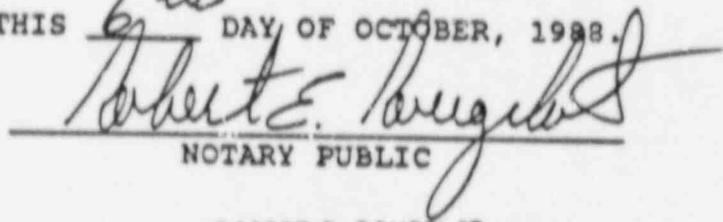
SHELTON G. CUNNINGHAM JR., being duly sworn, did depose and say:

That he is the Senior Vice-President of Louisiana Power & Light Company, applicant in the above proceedings; that he has read the foregoing Application and that he knows the contents thereof; that the same are true as stated, except as to matters and things, if any, stated on information and belief, and that as to those matters and things, he verily believes them to be true.

  
SHELTON G. CUNNINGHAM JR.

SWORN TO AND SUBSCRIBED BEFORE ME

THIS 6<sup>th</sup> DAY OF OCTOBER, 1988.

  
NOTARY PUBLIC

ROBERT E. ROUGÉLOT  
Notary Public  
Parish of Orleans, State of Louisiana  
My Commission is issued for life.

FINANCIAL STATEMENTS

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C.

SYSTEM ENERGY RESOURCES, INC.  
(Name of Company)

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AS OF JUNE 30, 1988  
(Unaudited)

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Pages 1 thru 42

SYSTEM ENERGY RESOURCES, INC.  
STATEMENT OF INCOME  
TWELVE MONTHS ENDED JUNE 30, 1988  
(Unaudited)

Operating Revenues.....	<u>\$935,216</u>
Operating Expenses:	
Operation:	
Fuel.....	91,713
Other.....	97,724
Maintenance.....	27,959
Depreciation and decommissioning.....	92,666
Taxes other than income taxes.....	28,802
Income taxes (Note 2).....	169,051
Total.....	<u>507,915</u>
Operating Income.....	<u>427,301</u>
Other Income:	
Allowance for equity funds used during construction (Note 1).....	522
Miscellaneous income and deductions - net.....	22,140
Income taxes and credits in lieu of income taxes (Notes 1 and 2).....	30,807
Total.....	<u>53,469</u>
Interest and Other Charges:	
Long-term debt.....	280,967
Other-net.....	16,081
Allowance for borrowed funds used during construction (Note 1).....	4,310
Total.....	<u>301,358</u>
Net Income.....	<u><u>\$179,412</u></u>

See Notes to Financial Statements

SYSTEM ENERGY RESOURCES, INC.  
BALANCE SHEET  
JUNE 30, 1988  
(Unaudited)

ASSETS

Utility Plant (Notes 1, 5 and 7):	
Electric.....	\$3,347,90
Construction work in progress.....	32,118
Nuclear fuel under capital leases (Note 9).....	166,426
Total.....	<u>3,546,424</u>
Less-accumulated depreciation and amortization.....	198,708
Utility plant-net.....	<u>3,347,716</u>
Other Investments:	
Letter of credit escrow (Note 5).....	150,723
Decommissioning trust fund (Note 1).....	3,428
Total.....	<u>154,151</u>
Current Assets:	
Cash.....	192
Temporary investments-at cost, which approximates market.....	55,165
Total cash and cash equivalents.....	<u>55,357</u>
Bonding trust arrangement (Note 7).....	185,926
Accounts receivable:	
Associated companies.....	90,603
Other.....	4,735
Materials and supplies - at average cost.....	40,489
Prepayments.....	6,110
Unamortized fuel expense.....	1,152
Other.....	5,348
Total.....	<u>389,720</u>
Deferred Debits:	
Suspended construction project (Note 7).....	893,296
Future benefits related to AFDC (Notes 1 and 2).....	440,667
Unamortized premium on reacquired debt.....	12,011
Other.....	6,642
Total.....	<u>1,352,616</u>
 TOTAL.....	 <u><u>\$5,244,203</u></u>

See Notes to Financial Statements

SYSTEM ENERGY RESOURCES, INC.  
BALANCE SHEET  
JUNE 30, 1988  
(Unaudited)

LIABILITIES

Capitalization:

Common stock, no par value; authorized 1,000,000 shares; issued and outstanding 789,350 shares (Note 4).....	\$ 789,350
Retained earnings (Note 6).....	1,445,923
Total common shareholder's equity.....	<u>2,235,273</u>
Long-term debt (Notes 3, 5 and 7).....	2,055,346
Total.....	<u>4,290,619</u>

Current Liabilities:

Currently maturing long-term debt (Notes 3, 5 and 7).....	320,863
Obligations under capital lease (Note 9).....	166,426
Accounts payable:	
Associated companies.....	1,107
Other.....	46,290
Taxes accrued.....	10,680
Interest accrued.....	51,660
Other.....	97
Total.....	<u>597,123</u>

Deferred Credits:

Accumulated deferred income taxes (Notes 1 and 2).....	341,195
Accumulated deferred investment tax credits (Notes 1 and 2)..	11,689
Other.....	3,577
Total.....	<u>356,461</u>

Commitments and Contingencies (Notes 7 and 8)

TOTAL.....	<u>\$5,244,203</u>
------------	--------------------

See Notes to Financial Statements

SYSTEM ENERGY RESOURCES, INC.  
STATEMENT OF RETAINED EARNINGS  
TWELVE MONTHS ENDED JUNE 30, 1983  
(Unaudited)

Retained Earnings, Beginning of period (Note 6).....	\$1,266,511
Add:	
Net Income.....	<u>179,412</u>
Retained Earnings, End of period.....	<u>\$1,445,923</u>

SYSTEM ENERGY RESOURCES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1988  
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

System Energy Resources, Inc. (SERI or the Company), formerly Middle South Energy, Inc. (MSE), is a wholly-owned subsidiary of Middle South Utilities, Inc. (MSU). The Company was created in 1974 to finance and construct certain base-load generating units for the operating subsidiaries of MSU. The Company is engaged in the management, operation and maintenance of, and financing of its 90% ownership interest in a two-unit nuclear generating station located near Port Gibson, Mississippi (Grand Gulf Station). The Grand Gulf Station is designed as two 1250 megawatt (MW) nuclear generating units. The Company sells capacity and energy from Unit No. 1 of the Grand Gulf Station (Grand Gulf 1) to Arkansas Power & Light Company (AP&L), Louisiana Power & Light Company (LP&L), Mississippi Power & Light Company (MP&L) and New Orleans Public Service Inc. (NOPSI), collectively referred to as the "System operating companies."

On July 28, 1986, the name of MSE was changed to System Energy Resources, Inc. and, effective December 20, 1986, the Company assumed the primary responsibilities, previously assigned to MP&L, for the management, operation and maintenance of the Grand Gulf Station. On October 28, 1986, the Company amended its bylaws to change the location of its principal business offices from New Orleans, Louisiana to Jackson, Mississippi.

The Company and South Mississippi Electric Power Association (SMEPA) own undivided ownership interests of 90% and 10%, respectively, in the Grand Gulf Station. The Company records its investment associated with the Grand Gulf Station to the extent to which it owns and participates in the generating station.

The Nuclear Regulatory Commission (NRC) issued a full power operating license for Grand Gulf 1 on August 31, 1984. The Company had no operating revenues prior to commercial operation of Grand Gulf 1. This unit began commercial operation July 1, 1985. Grand Gulf 2 is presently 34% complete based on the estimated man-hours needed to complete the unit, but construction on the unit has been suspended since 1985. See Note 7 "Commitments and Contingencies - Suspended Construction Project - Grand Gulf 2".

In addition to its management and operating responsibility for the Grand Gulf Station, plans were announced on May 9, 1988, for SERI to assume management and operating responsibility for AP&L's Arkansas Nuclear One Generating Station and LP&L's Waterford 3. Under the proposed arrangement, which must be approved by various regulatory bodies, AP&L and LP&L will retain ownership of their respective nuclear units as well as the associated energy entitlements. All necessary regulatory approvals and corporate arrangements are expected to be complete by year-end 1988.

SYSTEM ENERGY RESOURCES, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
JUNE 30, 1988  
(Unaudited)

Systems of Accounts

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

Postretirement Benefits

The Company participates in an MSU System postretirement plan covering substantially all of its employees. The Company's policy is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974 and to fund other postretirement plan costs as incurred.

Income Taxes

The Company joins its parent and affiliates in the filing of a consolidated Federal income tax return. Income taxes are allocated to the Company in proportion to its contribution to the consolidated taxable income. In addition, the Company files a consolidated Mississippi state income tax return with certain other System companies. See Note 2 "Income Taxes" for more information on the Company's Income Tax expense (credit).

Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC). Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction program and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service, the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates charged for utility service. During the first half of 1985, the Company used an accrual rate for AFDC based on a return on average common equity of 14% plus actual interest cost net of related income taxes. As a result of the FERC's decision on June 13, 1985, the 14% return on common equity rate was increased to 16% effective July 1, 1985. See Note 8, "Rate and Regulatory Matters" for information with respect to a settlement which, among other things, reduced the 16% rate of return on common equity to 14% retroactive to July 1, 1987.

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AFDC attributable to Grand Gulf 1 construction ceased accruing as of July 1, 1985, the commercial operation date of the unit.

On September 18, 1985, the Mississippi Public Service Commission (MPSC) issued an Order Directing Suspension of Construction of Grand Gulf 2, which directed the Company and MP&L to suspend construction of Grand Gulf 2 as of the date of the Order. Following the issuance of the Order, the Company suspended construction of Grand Gulf 2 and ceased accruing AFDC on the unit effective September 18, 1985. (See Note 7 - "Commitments and Contingencies - Suspended Construction Project - Grand Gulf 2" and Note 8, "Rate and Regulatory Matters - Rate Activity - System Operating Companies.")

Utility Plant, Depreciation and Decommissioning

Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads, and AFDC. The costs of units of property retired are removed from utility plant and such costs plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and the replacement of items determined to be less than units of property are charged to operating expenses. Substantially all of the utility plant is subject to the lien of the Company's first mortgage bond indenture.

Depreciation on Grand Gulf 1 was being computed on the units-of-production method for the initial twelve months of commercial operation (which began July 1, 1985) and, with FERC approval, for an additional six months. Subsequent to December 31, 1986, depreciation is being computed on the straight-line basis. Depreciation provisions on average depreciable property approximated 2.85% in 1987. No depreciation was recorded in 1984. On October 30, 1986, the Company filed an application with the FERC proposing a 3.1% straight-line depreciation rate, and the FERC initiated a proceeding, to determine the appropriate straight-line depreciation rate for Grand Gulf 1. On April 28, 1987, a settlement in principle was achieved which, among other things, decreased the depreciation rate in the Unit Power Sales Agreement from 3.10% to 2.85%, retroactive to January 1, 1987. Such settlement was approved by the FERC on September 15, 1987.

The Company is recovering approximately \$1.1 million per year for utility plant decommissioning costs for Grand Gulf 1 and will deposit these amounts in an external fund held by a trustee. The Company was permitted by the FERC to recover these amounts based on studies of the estimated costs of decommissioning Grand Gulf 1.

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Interim Financial Statements

In the opinion of the Company, the accompanying unaudited financial statements, as of June 30, 1988 and for the twelve months then ended, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the results for the interim period presented. The results for the interim periods presented should not necessarily be used as a basis for estimating results of operations for a full year.

2. INCOME TAXES

Income tax expense (credit) for the twelve months ended June 30, 1988 is composed of the following:

(In Thousands)

Current:	
Federal.....	<u>\$ 65,816</u>
Deferred -- net:	
Liberalized depreciation.....	56,860
Nuclear fuel.....	9,899
Other.....	5,938
Total.....	<u>72,697</u>
Investment tax credit adjustments - net.....	(269)
Recorded income tax expense.....	<u>\$138,244</u>
Charged to operations.....	\$169,051
Credited to other income.....	(30,807)
Total Income Taxes.....	<u>\$138,244</u>

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the FERC for ratemaking purposes. AFDC is excluded for purposes of determining taxable income.

Total income taxes and credits in lieu of income taxes differ from the amounts computed by applying the statutory Federal income tax rate to income before taxes. The reasons for the differences are as follows:

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	Twelve Months Ended June 30, 1988	
	Amount	% of Pre-Tax Income
	(In Thousands)	
Computed at statutory rate.....	\$118,012	37.15
Reductions in tax resulting from:		
Depreciation.....	11,758	3.70
State income taxes net of Federal income tax expense.....	5,791	1.82
Other.....	2,683	.85
Total Income Taxes.....	\$138,244	43.52

The statutory rate of 37.15% is a blended rate, reflecting six months of income at a 40% federal rate and six months of income at a 34% federal rate. This is due to the reductions provided by the Tax Reform Act of 1986.

The balance sheet account described as "future benefits related to AFDC" represents the tax benefits of the Company's portion of the consolidated Federal tax losses that are expected to be realized during the loss carry-forward period. Such benefits are paid to the Company when realized in the consolidated return of MSU or are realized as reductions of income tax liabilities arising from the commercial operation of Grand Gulf 1. If not utilized to offset consolidated Federal taxable income, future benefits related to AFDC will expire in 1993 through 2000.

Investment tax credits allocated to the Company have been deferred and those relating to Grand Gulf 1 are being amortized based upon the average useful life of the related property. Unused investment tax credits at December 31, 1987 amounted to \$137.9 million after the 35% reduction required by the Tax Reform Act of 1986. These credits may be applied against Federal income tax liabilities in future years. If not used, they will expire in 1992 through 2001.

The Alternative Minimum Tax (AMT) credit at December 31, 1987 was \$1.3 million. This AMT credit can be carried forward indefinitely and will reduce regular income tax in the future.

In December 1987 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, Accounting for Income Taxes, which is effective for years beginning after December 15, 1988. Under the liability method adopted by SFAS No. 96, deferred tax

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balances will be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. SFAS No. 96 expands the requirement to record deferred income taxes for all temporary differences that are reported in one year for financial reporting purposes and a different year for tax purposes. This will require the recognition of deferred tax balances for certain items not previously reflected in the financial statements, such as a deferred tax liability relating to AFDC. Under the liability method adopted by SFAS No. 96, deferred tax balances will be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse.

It is expected that reductions in deferred taxes resulting from the lower corporate federal tax rates will be reflected as liabilities to customers since the Company's regulator may require any such savings to be passed on to the ratepayers. The impact of SFAS No. 96 on the financial position or results of operations of the Company has not yet been determined.

3. LINES OF CREDIT AND RELATED BORROWINGS

The Company and a group of domestic commercial banks, with Manufacturers Hanover Trust Company and Citibank, N.A., as co-agents, are parties to the U.S. Bank Loan Agreement which provided SERI with \$1,711 million for use in connection with the construction of the Grand Gulf Station. The U.S. Bank Loan Agreement presently provides for a term loan due February 5, 1989, subject to semi-annual mandatory payments of \$125 million due on the first day of each March and September. A portion of these semi-annual payments will be applied to an escrow account for the benefit of certain parties to the U.S. Bank Loan Agreement (LC Banks) which provided a letter of credit in connection with Series C of the Claiborne County, Mississippi adjustable/fixed rate Pollution Control Revenue Bonds (PCRB's). The outstanding balance under the U.S. Bank Loan Agreement (not including required escrow payments through maturity of approximately \$83.9 million, as further described below) at June 30, 1988 was \$164.8 million. On September 1, 1988, SERI made its scheduled principal payment of \$125 million.

SERI and a group of foreign banks, with Credit Suisse First Boston Limited, as agent, are parties to the Foreign Bank Loan Agreement which provided SERI with \$378 million for use in connection with the construction of the Grand Gulf Station. The Foreign Bank Loan Agreement presently provides for a term loan due February 5, 1989, subject to semi-annual principal payments of \$47.25 million to be made on February 5 and August 5 of each year. The outstanding balance under the Foreign Bank Loan Agreement at June 30, 1988 was \$79.5 million. On August 5, 1988, SERI made its scheduled principal installment payment of \$47.25 million.

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With the consent of the U.S. and Foreign Banks, SERI deferred the September 1987 payment to the U.S. Banks and the August 1987 payment to the Foreign Banks, which payments were subsequently made in November 1987. In connection with these deferrals, SERI agreed not to pay any dividends on its common stock to MSU until all loans outstanding under the U.S. and Foreign Bank Loan Agreements are fully paid, the scheduled final maturities under these agreements being in February 1989. Certain mandatory prepayment provisions of the U.S. and Foreign Bank Loan Agreements provide that banks holding not less than certain specified percentages of the indebtedness under the applicable Agreement can require prepayment of the applicable loans if, among other things, (i) any System operating company should fail to maintain acceptable retail rate relief from its respective state or local regulatory authorities recognizing as legitimate operating expenses FERC-approved costs relating to Grand Gulf 1, (ii) Grand Gulf 1 is shut down for 90 continuous days for any reason other than fuel loading and maintenance customary or common in the nuclear utility industry, or (iii) a law, rule, order or similar process is issued and unstayed and has the effect, in the reasonable judgment of banks holding a specified percentage of the applicable outstanding borrowings, of making continued commercial operation of Grand Gulf 1 impractical. Upon the occurrence of any of the events described above, SERI would attempt to either obtain waivers, restructure the debt or negotiate other arrangements with the U.S. and Foreign Banks to avoid such a prepayment, if it is so requested. The Foreign Bank Loan Agreement also limits SERI to capital expenditures not to exceed \$40 million for each of the first six months and last six months of any fiscal year plus any amounts required to be expended by regulatory authorities. Unless waived, this restriction would preclude resumption of full construction of Grand Gulf 2 prior to 1989.

In December 1984, SERI arranged for the issuance and sale of \$206 million of Series C PCRBs. In connection therewith, the LC Banks provided a \$234 million letter of credit under a Reimbursement Agreement with SERI, and, from the net proceeds of the sale of the Series C PCRBs and other funds, in August 1985, SERI repaid \$234 million of the borrowings made from the LC Banks under the U.S. Bank Loan Agreement. The U.S. Bank Loan Agreement provides that future repayments to the LC Banks will be applied to reduce SERI's remaining borrowings from them under such agreement, and that, once those borrowings have been repaid, the portion of subsequent repayments under the U.S. Bank Loan Agreement allocable to the LC Banks will be placed in an escrow account and credited pro rata in accordance with each LC Bank's original loan under the U.S. Bank Loan Agreement. In the event the Reimbursement Agreement associated with the Series C PCRBs is terminated, the escrowed funds, under certain circumstances, would be retained by the LC Banks to satisfy SERI's liability for their providing the letter of credit or, otherwise, would be applied to the reduction of the outstanding balance under the U.S. Bank Loan Agreement.

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SERI is entitled to replace the existing letter of credit with a new one at any time or, upon any "fixed rate date", to terminate the letter of credit by suspending its obligation to repurchase the Series C PCRBs. The next such date occurs December 1, 1988. Other fixed rate dates occur annually thereafter.

The Company has separate "interest rate swap" agreements, each with a bank, through February 1989 for \$78.75 million and \$63 million. The Company has agreed to make semi-annual interest payments based upon an 11.5% and 11.16% fixed rate, respectively, in exchange for semi-annual interest payments by the banks based upon the London Interbank Offered Rate (LIBOR). These agreements serve to offset fluctuations in variable rates to be paid under the Company's Foreign Bank Loan Agreement. They do not change the Company's obligations to the Foreign Banks for interest payments of LIBOR plus 2%.

The Company is subject to limitations on the maximum amount of short-term borrowings outstanding under both the Public Utility Holding Company Act of 1935 and the terms of its bank loan agreements. The Company is currently authorized by the SEC to effect short-term borrowings in an aggregate amount outstanding at any one time of up to 10% of its capitalization as defined. However, the Company's ability to borrow is subject to the availability of funds through bank lines and other credit sources. The Company is limited by certain of its credit agreements to short-term borrowings in an aggregate amount not exceeding the lesser of 5 percent of capitalization (approximately \$232.3 million at June 30, 1988) or \$200 million. The Company does not have any bank lines of credit currently available.

Additional authorized borrowings of the Company up to the authorized amount can be effected through the System Money Pool (Money Pool), subject to the availability of funds which at any particular time may be limited. The Money Pool provides the means whereby Middle South System companies with available funds can lend such funds to other participating companies in the System (other than MSU) having short-term borrowing needs, thereby reducing the System's dependence upon external short-term borrowings. At June 30, 1988, the funds available in the Money Pool for borrowing aggregated approximately \$179.3 million, with System Money Pool borrowings of \$18.7 million outstanding at that date. Pursuant to its bank loan agreements, SERI is permitted to lend an aggregate amount of up to \$10 million through the Money Pool. Prior to 1987, the Company participated only as a lender/investor with certain other companies of the Middle South System in the Money Pool. Effective January 1, 1987, the Money Pool arrangement was amended to allow the Company to borrow funds, subject to its maximum authorized level of short-term borrowings and limitations in its bank loan agreements.

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The short-term borrowings (excluding Money Pool borrowings) and the interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company were as follows:

	(In Thousands)
Twelve months ended June 30, 1988:	
Average borrowing.....	\$ 90,224
Maximum borrowing.....	\$158,000
Year-end borrowing.....	\$ -
Average interest rate:	
During period.....	9.69%
At end of period.....	-

4. COMMON STOCK

There were no changes in the number of shares of the Company's common stock during the twelve months ended June 30, 1988.

5. LONG-TERM DEBT

The long-term debt of the Company as of June 30, 1988 was as follows:

	(In Thousands)
First Mortgage Bonds:	
Due 2000, 16.00% Series.....	\$ 300,000
Due 2000, 15 3/8% Series.....	100,000
Due 2000, 11% Series.....	300,000
Due 1991, 9 7/8% Series.....	300,000
Due 1996, 10 1/2% Series.....	250,000
Due 2016, 11 3/8% Series.....	200,000
Due 1994, 14.00% Series.....	200,000
Due 1992, 14.34% Series.....	100,000
Total.....	<u>1,750,000</u>
Bank Notes:	
U. S. bank line -	
Due 1988-1989, at 110% of the sum of prime and 1.3%.....	164,760
Foreign bank line -	
Due 1988-1989, at LIBOR plus 2%.....	79,500
Total.....	<u>244,260</u>

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Pollution Control Revenue Bonds:	
Claiborne County, Mississippi-	
Due 2013, at 7% adjustable/fixed rate....	49,500
Due 2014, at 5.5% adjustable/fixed rate...	27,100
Due 2014, at 8.25% adjustable/fixed rate..	206,000
Due 2015, at 12.5%.....	44,000
Due 2016, at 9.50%.....	90,000
Total.....	<u>416,600</u>
Unamortized discount on debt.....	<u>(34,651)</u>
Total long-term debt.....	2,376,209
Less-Amount due within one year..	<u>320,863</u>
Long-Term Debt Excluding Amount	
Due Within One Year.....	<u>\$2,055,346</u>

The PCB's due 2015 at 12.50% and those due 2016 at 9.50% are collateralized by \$47.2 million and \$95.6 million, respectively, of non-interest bearing first mortgage bonds. The PCB's due 2013 currently at 7.00% (Series A), those due 2014 currently at 5.5% (Series B), and those due 2014 currently at 3.25% (Series C) are secured by letters of credit which terminate in December 1988, June 1989, and December 1989, respectively. See Note 7, "Commitments and Contingencies - Capital Requirements and Financing."

Sinking fund requirements and maturities for the ensuing five years for the Company's long-term debt were as follows:

	<u>June 30, 1988</u>	
	Cash	
	Sinking	
	Fund	Maturities*
	(In Thousands)	
Remainder of 1988.....	-	\$130,088
1989.....	\$53,500	\$114,174
1990.....	\$53,500	-
1991.....	\$68,500	\$300,000
1992.....	\$68,500	\$100,000

\*Excludes remaining requirements for escrow payments of \$126.0 million through 1989 for the benefit of the LC Banks.

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Substantially all of the Company's utility plant is subject to the lien of its first mortgage bond indenture.

6. RETAINED EARNINGS

The provisions of certain of the Company's financing agreements and its first mortgage bond indenture restrict the amount of retained earnings available for cash dividends on common stock. Additionally, in connection with certain deferrals in 1987 scheduled payments under the Foreign and U.S. Bank Loan Agreements, the Company agreed not to declare or pay any dividends on common stock until all loans outstanding under these Agreements are fully paid, the final maturities being in February 1989.

After these final maturities are paid the Company would continue to be limited in the payment of cash dividends on common stock by provisions of the Reimbursement Agreements for its Series A and B Pollution Control Revenue Bonds. Under these agreements, the Company is presently limited in the amount of dividends it may pay on its capital stock (other than dividends payable solely in shares of common stock and dividends payable in cash where, concurrently, the Company receives a capital contribution or sells shares of its common stock) to an amount equal to its accumulated net income for the period July 1, 1985 to the date of the payment. This amount was approximately \$584.4 million as of June 30, 1988. The Company has paid no dividends on its capital stock to date.

7. COMMITMENTS AND CONTINGENCIES

General

On June 24, 1988, the United States Supreme Court rendered a decision (June 24 Decision) that is fundamentally important to the continuing viability of SERI as a wholesale seller of power to the System operating companies. In the June 24 Decision, the United States Supreme Court affirmed MP&L's right to recover its Grand Gulf 1 - related costs and upheld the principle of federal preemption which is necessary to serve implementation of SERI's federally mandated wholesale rates through the retail rate structures of the System operating companies. For further information on the June 24 Decision, see Note 8, "Rate Matters - System Operating Companies Rate Matters - MP&L and Supreme Court Litigation."

Notwithstanding the very favorable development represented by the June 24 Decision described above, at June 30, 1988, a number of significant uncertainties continued to confront SERI, either directly, or indirectly through potentially adverse effects upon the ability of the System operating companies, the Company's only customers, to continue to make monthly payments to the Company for Grand Gulf 1 capacity and energy. These uncertainties

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relates to (1) the potential adverse impact on SERI if certain findings stemming from a FERC audit of SERI and the Grand Gulf Station are ultimately sustained, (2) the ultimate resolution of the status of Grand Gulf 2, construction of which has been suspended, including related accounting and rate issues, (3) the continuing controversies over the rate treatment of Grand Gulf 1, including a \$135 million prudence disallowance with respect to NOPSI and, as a consequence, the potential obligation of NOPSI to purchase all or a portion of its outstanding General & Refunding Mortgage Bonds (G&R Bonds), and (4) the outcome of the Council's consideration of the municipalization of NOPSI's electric and gas properties and operations. A discussion of some of these issues and uncertainties immediately follows.

FERC Audit of SERI

The FERC has performed an audit of the Company and the Grand Gulf Station as part of its regulatory function in auditing utilities subject to its jurisdiction. The audit report, which pertains to the period from the Company's inception through December 31, 1985, was issued on June 18, 1987. In the report (as updated by FERC Staff testimony), the FERC Staff states, among other things, that the Grand Gulf Station's AFDC is overstated by \$130.4 million (\$101.7 million relating to Grand Gulf 1 and \$28.7 million relating to Grand Gulf 2) because the "AFDC calculation failed to take into account all cost-free capital generated by the Company expenditures and claimed on consolidated income tax returns". The FERC Staff recommends that the Company change its income tax accounting procedures and record an accounting entry to charge the alleged AFDC overstatement arising from the Company's alleged incorrect accounting against net income, recompute billings to customers since July 1, 1985 to reflect adjusted plant and equity balances, and refund, with interest, the difference between the recomputed billings and amounts previously charged customers. Further, the FERC Staff recommends that \$327.2 million of "Recoverable Taxes" representing a significant portion of the Company's unrealized recorded income tax benefits, should be reclassified to "Accounts Receivable From Associated Companies", the net effect of which would be a \$255.2 million reduction of Grand Gulf 1's rate base on which the Company earns a refund. The Staff recommends that the Company refund, with interest, the change in billings since July 1, 1985 due to this rate base reduction.

The Company has strongly disagreed with the Staff's position, asserting that the Staff's position is in violation of the SEC's tax allocation regulations applicable to holding company systems and contrary to the FERC's own accounting rules. Various parties, including the Arkansas Public Service Commission, Louisiana Public Service Commission, Mississippi Public Service Commission, and the New Orleans City Council (the Council), have intervened in this proceeding. A hearing was held on October 4, 1988. The matter is pending.

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If the Staff's findings are ultimately sustained, the resulting charges against net income and refund requirements would have a significant material adverse impact on the Company. The Company estimates that as of June 30, 1988, the impact on net income could be as high as \$291 million (net of tax effect), and the Company could be obligated to refund \$267 million, including interest, to its customers. In addition, the Staff's proposed adjustments would adversely impact the Company's prospective net income, earnings coverages and cash flow. The Company cannot predict the ultimate outcome of the examination.

Suspended Construction Project - Grand Gulf 2

As of June 30, 1988, the Company had invested approximately \$893 million in Grand Gulf 2 (including approximately \$393 million of AFDC). In September 1985, following an order of the MPSC, the Company suspended construction activities at Grand Gulf 2 which was approximately 34% complete based on the estimated man-hours needed to complete the unit, and ceased accruing AFDC on the unit. Since that time, the Company has limited expenditures to only those activities which are absolutely necessary for suspension and demobilization of the unit. A special group of Middle South System officials and outside consultants completed in late November 1986 its evaluation and review of Grand Gulf 2. In December 1986, the Company's Board of Directors (with the MSU Board of Directors concurring) adopted the group's recommendation that suspension of construction be continued and that a further decision be made by 1990 on the future status of Grand Gulf 2 in light of alternatives available at that time. During the period of suspension, the energy needs of the region served by the Middle South System, as well as some of the uncertainties surrounding the costs of constructing nuclear power plants, should be further clarified.

While the Company believes that all of its investment to date in Grand Gulf 2 has been prudent, in connection with any subsequent decision with respect to Grand Gulf 2, the Company will, at an appropriate time, make a determination as to the appropriate recovery of its investment. As was the case with Grand Gulf 1, proceedings relating to Grand Gulf 2 before the FERC and, with respect to recognition in retail rates of FERC-approved rates, before state and local regulatory authorities, could be protracted and strongly contested on various grounds, including imprudence. In view of the controversies over the Grand Gulf Station, including the adverse reaction of various rate regulatory bodies to allocation of costs, and regulatory uncertainties, including rate-making, attendant to a delay in the decision as to the future of Grand Gulf 2, there can be no assurance that the full cost of Grand Gulf 2 will be recovered or as to the timing of any recovery. In addition, during the period to 1990, certain issues could cause a decrease in the valuation of the investment in Grand Gulf 2. The Company believes, however, that it is justified in carrying Grand Gulf 2 at its full value because the

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property currently comprising Grand Gulf 2 is of the same design as that of Grand Gulf 1 and is being properly maintained and is therefore suitable for its intended purpose. Failure to obtain rate relief for all or a substantial portion of the cost of Grand Gulf 2 could have a material and adverse effect upon the financial condition of the Company, MSU and possibly the System operating companies, depending upon, among other things, the timing of the realization of any such loss.

In January 1988, the FERC issued an order which modified its policy regarding recovery of cancelled or abandoned plant costs by utilities subject to its jurisdiction. The revised policy provides for a "50/50 sharing" of prudently incurred costs of a cancelled plant between the owner and the ratepayers, whereby 50 percent of the prudently incurred costs of the cancelled plant would be amortized and recovered from ratepayers over the expected life of the plant as if it had been completed. The currently unamortized portion of such amount would also be included in rate base, thereby allowing for a return thereon. The remaining 50 percent of prudently incurred costs would be written off. In May 1988, the FERC denied requests for rehearing pertaining to that portion of its January 1988 order which adopted the "50/50 sharing" methodology. Further applications for rehearing of the FERC's May order were denied, and various parties have filed petitions for review of the FERC's January and May orders with the D. C. Circuit.

In December 1986, the FASB issued SFAS No. 90, Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs, an Amendment of SFAS No. 71. SFAS No. 90 provides that, when an abandonment of a plant or certain disallowances of costs with respect to a newly completed plant becomes probable, the following amounts, net of related tax benefits, would be reported either by restating the appropriate prior years' financial statements or by charging such amounts against current income: (1) the cost of an abandoned plant in excess of the present value of estimated recoveries; or (2) the amount of a partial disallowance by regulators of a recently completed plant for ratemaking purposes. SFAS No. 90 is generally effective for fiscal years beginning after December 15, 1987 with retroactive application for prior transactions. SFAS No. 90 will not have any current effect upon the Company in light of the decision to continue suspension of Grand Gulf 2 (see above). The provisions of SFAS No. 90 would apply should the Company decide to abandon Grand Gulf 2, which would result in SERI recording a loss for any unrecovered amount.

#### Grand Gulf 1 Rate Relief

**General.** As noted above, the capacity and energy from (the Company's) share of Grand Gulf 1 has been allocated by the FERC to the System operating companies, and challenges still exist with respect to these allocations (see "Note 8 - Rate Matters-Unit Power Sales Agreement and System

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Agreement Rate Matters"). The financial condition of the Company significantly depends upon its receipt of payments from the System operating companies, and their ability in turn to make such payments depends primarily upon the continuing effectiveness of appropriate retail rate structures that provide for the recovery of costs associated with Grand Gulf 1. As discussed in detail below, NOPSI's retail rate structure providing for the recovery of its Grand Gulf 1-related costs is still being litigated. AP&L, LP&L and MP&L all have retail rate structures currently in effect which they believe are sufficient to enable them to meet their respective Grand Gulf 1 obligations to the Company. However, the Grand Gulf 1 rate structures of AP&L and MP&L, as well as NOPSI's Grand Gulf 1 cost recovery program, embody phase-in plans pursuant to which certain costs associated with Grand Gulf 1 incurred by these companies are deferred in the early years and recovered in later years through annual or periodic increases retail rates. Challenges or attempts to change existing rate structures initiated by regulatory bodies or other parties could occur in the future in an attempt to thwart the implementation of higher rates as they scheduled to become effective pursuant to the step-up provisions of these phase-in plans.

SFAS No. 92. In August 1987, the FASB issued SFAS No. 92, Regulated Enterprises - Accounting for Phase-in Plans, an amendment of SFAS No. 71. SFAS No. 92 requires, among other things, the following conditions for deferral of costs related to a newly completed plant: (1) the costs are deferred pursuant to a formal plan that has been agreed to by the regulator, (2) the plan specifies when recovery of costs will occur, (3) the costs deferred are scheduled for recovery within ten years of the date when deferrals begin, and (4) the percentage increase in rates for each future year is no greater than the percentage increase in rates for each immediately preceding year. Subject to the transition provisions discussed below, the new statement is generally effective beginning the first quarter of 1988 and requires that amounts deferred under plans that do not meet the requirements of the statement be written off. SFAS No. 92 has transition rules designed to allow any affected company to delay application of the new statement and to continue deferral of costs under its existing phase-in plan provided that both of the following conditions are met: (1) the company has file a rate application to have the plan amended to meet the requirements of the statement or it intends to do so as soon as practicable and (2) it is reasonably possible that the regulator will change the terms of the phase-in plan so that it will meet the requirement of the statement.

The rate phase-in plans of AP&L and MP&L provide for the recovery of certain deferred Grand Gulf 1-related costs over periods in excess of the 10-year recovery cap established by the FASB in SFAS No. 92, Regulated Enterprises. As a result, AP&L and MP&L are in the process of seeking revisions to their retail rate phase-in plans in order to accelerate recovery of

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previously deferred Grand Gulf 1-related costs. While the Company believes that the June 24 Decision clearly affirms AP&L's and MP&L's legal right to recover these costs through retail rates, the Company cannot predict the outcome of related proceedings before the APSC and the MPSC in terms of the ultimate operation of the phase-in plans and the future timing of recoveries of Grand Gulf 1-related costs.

The phase-in plans of LP&L and NOPSI for the recovery of deferred Waterford 3 and Grand Gulf 1-related costs, respectively, satisfy the requirements of SFAS No. 92.

**NOPSI Prudence Disallowance and Liquidity Crisis.** On February 4, 1988, after a lengthy prudence investigation, which was vigorously contested by NOPSI, the Council adopted the February 4 Resolution that required NOPSI to write off, and not recover from its retail electric customers, \$135 million of its previously deferred Grand Gulf 1-related costs in addition to the \$51.2 million of such costs that NOPSI absorbed as part of its March 1986 Rate Settlement. NOPSI is seeking relief in the court against this finding of alleged imprudence by the Council. See Note 8 "Rate Matters - System Operating Companies - NOPSI."

The February 4 Resolution has had a substantial and adverse effect upon NOPSI's financial condition and cash flow. Specifically, the \$135 million write-off in 1987 caused NOPSI to suffer a net loss for the year of approximately \$49 million, caused the elimination of NOPSI's retained earnings and produced an accumulated deficit of approximately \$34 million as of December 31, 1987 (\$27.9 million at June 30, 1988). Additionally, should the February 4 Resolution remain in effect, NOPSI would have its future revenues over the period of the Rate Settlement reduced not only by the \$135 million disallowance but also by the loss of the accumulated carrying charges that would have been recoverable on the deferred amounts written off, which could amount to an additional \$165 million over that period.

The ultimate consequences of the February 4 Resolution, should it remain in effect, are that NOPSI's ability to obtain the requisite funds to meet its continuing obligations, to effect long- or short-term external borrowings, to declare future dividends upon preferred or common stock (NOPSI has not declared its regular April 1, July 1 or October 1 dividends on preferred stock), to meet future sinking fund requirements upon preferred stock or to satisfy potential obligations to redeem all of its outstanding G&R Bonds will have been significantly and adversely affected and NOPSI could be rendered insolvent. In this connection, NOPSI has continued to retain independent counsel experienced in bankruptcy matters to help evaluate the options available.

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NOPSI is pursuing remedies in federal and state court against the February 4 Resolution (see Note 8 - "Rate Matters - System Operating Companies' Rate Matters - NOPSI"). To date, NOPSI has been unsuccessful in obtaining relief from the federal courts. A state court proceeding is pending. However, in May 1988, the state court denied NOPSI's request for injunctive relief during the course of the litigation. NOPSI appealed this denial of injunctive relief to the Louisiana Fourth Circuit Court of Appeal, which on August 2, 1988, denied NOPSI's request for expedited appeal. NOPSI has been advised by its counsel that, without expedited treatment, a decision by the Fourth Circuit Court of Appeal could take up to one year. Without expedited treatment NOPSI's current liquidity problems will be prolonged.

In order to mitigate the negative effects upon NOPSI's financial condition and cash flow caused by the February 4 Resolution and thereby reduce the risk of insolvency, NOPSI has adopted or is in the process of implementing a series of cash conservation and other measures. In this connection, commencing in April 1988, NOPSI has deferred for limited periods (in each case less than 30 days) its monthly payment to the Company under the Unit Power Sales Agreement covering NOPSI's monthly payment obligations for capacity an energy from Grand Gulf 1. NOPSI plans to continue to defer, from time to time in the future, its monthly payments to SERI for similar periods in order to conserve cash. The failure of NOPSI to make any monthly payment to the Company under the Unit Power Sales Agreement within 30 days after such payment is due could result in acceleration of the Company's bank and other indebtedness, unless waivers were obtained, the debt were restructured or other arrangements could be negotiated.

In view of the fact that NOPSI was not able to obtain a timely court injunction staying enforcement of the February 4 Resolution, NOPSI was required, by the terms of its 1987 mortgage indenture, to cause an independent arbiter to deliver to the trustee for the holders of NOPSI's \$115 million of outstanding G&P Bonds a certificate as to whether, in the independent arbiter's opinion, the February 4 Resolution has materially impaired or will materially impair NOPSI's ability to perform its obligations in respect of the outstanding G&R Bonds. In a certificate dated June 24, 1988 ("Arbiter's Report"), the independent arbiter concluded, based upon the hypothetical assumption that the February 4 Resolution would not be reversed by the courts and upon certain related assumptions of NOPSI's management regarding future events, that NOPSI's projected cash flows during certain future periods "appear to be insufficient to cover projected regularly scheduled debt service requirements when required." NOPSI believes that the February 4 Resolution is in violation of the Federal Power Act, FERC orders with respect to the allocation of Grand Gulf 1 and federal law as interpreted by the United States Supreme Court (including, most recently, the June 24 Decision), and will ultimately be so declared by the courts. However, because the Arbiter's Report indicated that the February 4 Resolution currently in effect will materially

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impair NOPSI's ability to perform its obligations in respect of the outstanding G&R Bonds, any holder thereof had the option, through August 11, 1988, to require NOPSI to redeem its G&R Bonds on August 26, 1988 at a price of 100% of the principal amount plus accrued interest to the date of redemption.

Given that NOPSI could not be assured that one or more bondholders would not demand redemption of their G&R Bonds and that, as a result of the February 4 Resolution, NOPSI would not have sufficient available cash resources or financing capabilities to redeem any significant amount of G&R Bonds tendered for redemption on August 26, 1988, NOPSI commenced discussions with its G&R Bondholders (consisting of a limited number of institutional investors) in order to attempt to reduce the possibility of NOPSI having to redeem any G&R Bonds on August 26, 1988. NOPSI notified the bondholders that if they would forbear from tendering their G&R Bonds for redemption on August 11, 1988, NOPSI would agree (subject to requisite regulatory approval) that, upon written notice from any G&R Bondholder between November 24 and December 13, 1988, NOPSI will purchase, on February 10, 1989, the G&R Bonds held by such G&R Bondholder, at a price of 100% of the principal amount thereof plus accrued interest to the date of purchase. However, the bondholders would not have the right to give such notice, and NOPSI would not be required to purchase any G&R Bonds, if an independent arbiter has delivered to each bondholder on or prior to November 23, 1988 a certificate stating that the impairment of NOPSI's ability to perform its obligations in respect of the G&R Bonds, described in the Arbiter's Report, has ceased because of judicial or regulatory action. In addition, a G&R Bondholder may revoke notice of tender given by it at any time prior to the purchase of its G&R Bonds.

While NOPSI believes that the June 24 Decision represents a very favorable development in terms of NOPSI's ability to obtain ultimate reversal of the February 4 Resolution, vindicating NOPSI's position that the Council may not, through a prudence investigation, disallow NOPSI's right to recover FERC-mandated Grand Gulf 1-related costs, there is no assurance that one or more bondholders will not demand redemption of their G&R Bonds. If this were to occur and any significant amount of G&R Bonds were tendered for redemption, there is no assurance that NOPSI would have sufficient available cash resources or financing capabilities at that time to meet its purchase obligations, in which case NOPSI could be rendered insolvent unless such obligations could be deferred, restructured or other arrangements negotiated.

Insolvency of NOPSI, should it occur, could, under certain agreements relating to the Company's indebtedness, lead to acceleration of such indebtedness (but only upon further action by the requisite percentage of the Company's creditors), unless (1) waivers were obtained, (2) the debt were restructured or (3) other arrangements could be negotiated. Given the substantial amount of the Company's debt, it would not be able to meet its

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obligations, if accelerated. Under the Company's financing agreements, the System operating companies would not be responsible for the payment of accelerated obligations if the Company could not meet them. MSU, with its financial resources currently limited, would not at this time be in a position to satisfy the Company's obligations, if accelerated.

Also, certain of SFI's financing agreements and leases may require payments by the System operating companies, MSU or the Company in the event that SFI's obligations under such agreements are accelerated as a result of the insolvency of NOPSI, and in the event that SFI is unable to meet these obligations or to otherwise satisfy these obligations through the sale of the collateral securing such obligations. In addition, insolvency of NOPSI would affect the terms of financing, including an increase in the cost of financing, or could preclude financing for other Middle South System Companies.

Municipalization of NOPSI

In connection with controversies over the cost of capacity and energy from the Grand Gulf Station and the disputes regarding the allocation thereof among the System operating companies and their customers, various governmental bodies and officials have been investigating the possibility of condemning, expropriating, or otherwise acquiring electric utility properties of certain of the System operating companies. The Council of the City of New Orleans (the Council) is considering the acquisition by the City of New Orleans (the City) of the electric and gas utility properties of NOPSI and the electric utility properties of LP&L in Algiers, and on March 7, 1985, the Council established a public power authority for the purposes, among others, of acquiring and operating electric power utilities in the City. On October 16, 1987, the Council received an updated report from a team of legal, engineering and financial advisors with respect to the potential municipalization of NOPSI's electric utility facilities. The updated report, which purported to not make a policy recommendation for or against municipalization, asserted, among other things, that municipalization holds the potential for producing significant savings for electric customers in the City over the 15-year period covered thereby (1988-2002) and that (although the matter was not free from doubt) in conjunction with such municipalization the "better view" is that the City would not be required to assume NOPSI's obligations with respect to its FERC-allocated share of Grand Gulf 1 capacity and energy. The Alliance for Affordable Energy, Inc., a group of local citizens, also filed a report on October 16, 1987 recommending that the Council go forward with municipalization. NOPSI filed on that date a critical analysis of the Council's consultants' original draft report, which was received by the Council in mid-April 1987. NOPSI, on the basis of its own critical analysis and studies and the advice of its own legal and engineering consultants and their review of the draft report and the updated report, believes that the conclusions of the reports are based on legal, financial and engineering assumptions that are

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unfounded, unproven or so subject to a variety of future contingencies, and that the reports are otherwise so internally flawed, that such conclusions should not be relied upon as a basis for a municipalization decision, and further believes that any attempt by the City to municipalize NOPSI's electric utility facilities in order to enable electric customers in the City to avoid paying their federally allocated share of Grand Gulf 1-related costs would result in extensive and complex proceedings before various regulatory authorities and the courts, all of which could take many years to resolve. The reports further consider the possibility of also acquiring, by condemnation, the electric properties of LP&L in Algiers. The matter is pending.

On March 29, 1988, the Council proposed to MSU to discuss a "friendly buy-out" of NOPSI by the City. MSU has indicated a willingness to consider alternatives that the Council might propose if they are in the best interests of stockholders, customers, and employees. Representatives of NOPSI and MSU have been meeting with members of the Council and their consultants to discuss these matters. Additional meetings will be scheduled in the future. The outcome of such future discussions cannot be predicated at this time.

On May 19, 1988, the Council adopted a resolution calling for a "management audit and evaluation of (NOPSI)", expressing the Council's concern "with the degree and status of the so-called functional consolidation of NOPSI with Louisiana Power and Light Company that has reportedly occurred to date, notwithstanding the lack of appropriate regulatory approvals for formal consolidation, including that required by the Council", and initiating "an investigation into the management and operations of NOPSI." On June 14, 1988, NOPSI received a letter from a national accounting firm, which letter set out the auditing procedures that the accounting firm, a local accounting firm and a national engineering firm plan to follow, along with an initial request for documents. This matter is pending.

Condemnation or taking of the property, or the sale of the common stock, of any System operating company might cause acceleration of the Company's indebtedness (but only upon further action by the requisite percentage of the Company's creditors) unless waivers were obtained, the debt were restructured or other arrangements could be made.

#### Capital Requirements and Financing

The capital requirements and the expected net financing requirements with respect to such capital requirements, estimated as of June 30, 1988, for the years 1988-1990, are based on certain assumptions and judgments with respect to, among other things, pending regulatory and judicial proceedings, earnings, dividend policy, financing plans and access to capital markets.

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Among the assumptions with potential significant future impact on the Company's capital and net financing requirements are the following. (1) The February 4 Resolution reduced NOPSI's previously granted Grand Gulf 1 rate relief by \$135 million due to alleged imprudence. The following assumes reversal of the February 4 Resolution in 1989, reinstatement on NOPSI's books of an asset of \$135 million previously written off and resumption of collection of the level of rates provided in the Rate Settlement. In the interim, it is assumed that NOPSI will continue to defer payments to the Company under the Unit Power Sales Agreement as described above in "NOPSI Prudence Disallowance and Liquidity Crisis". (2) The deferred amounts associated with the implemented rate moderation plans for the period 1988-1990 for AP&L, MP&L and NOPSI are \$206.5 million, \$204.2 million and \$128.3 million, respectively. The recovery of previously deferred amounts associated with the implemented rate moderation plan for such period for LP&L is \$60.6 million. These amounts do not reflect any adjustments to the implemented phase-in plans to AP&L and MP&L that may be required as a result of SFAS No. 92. (3) With respect to the nuclear fuel leases of the Company terminating during the period, such financing arrangements are assumed to be replaced as discussed in detail below. (4) In an audit of the Company, the FERC staff has challenged the accounting treatment of certain items which, if ultimately upheld by the FERC, could have a material adverse impact on the Company. It is assumed that these audit issues are resolved in the Company's favor. If future events should vary significantly from the above assumptions, material changes in capital and external financing requirements could result. See "Grand Gulf 1 Rate Relief," for further information with respect to certain of these issues.

The Company's construction program contemplates expenditures (excluding nuclear fuel expenditures assumed to be financed under lease) of approximately \$40.4 million in 1988 (of which \$9.5 million was expended through June 30, 1988), \$45.8 million in 1989 and \$43.6 million in 1990 in connection with its 90% interest in the Grand Gulf Station. In addition, the Company will require \$481.4 million during the period 1988-1990 to refinance maturing long-term debt. The Company has nuclear fuel leases for \$165 million and for \$50 million. The \$165 million lease is scheduled to terminate February 28, 1989. The \$50 million lease may be terminated by the lessor upon one year's written notice. Also, the Company's nuclear fuel leases would terminate during this period if the credit lines supporting the nuclear fuel leases terminate as scheduled. Fuel under lease at the termination of the Company's lease must also be purchased by the lessee upon termination of its lease. It is currently assumed that the existing nuclear fuel leases of the Company will be replaced in 1989 and that \$215 million of nuclear fuel may be financed under these new arrangements by the Company. To the extent that new nuclear fuel leasing arrangements are not obtained or existing arrangements are not extended, additional financing requirements could result. In addition to the above, certain of the Company's pollution control revenue bonds may be

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required to be reacquired during the 1988-1989 in the event they cannot be remarketed. Under this circumstance, additional funds of up to \$78 million may be required to reacquire such bonds.

Certain of SERI's pollution control revenue bonds may be required to be reacquired during the 1988-1989 in the event they cannot be remarketed. Under this circumstance, additional funds of up to \$78 million may be required to reacquire such bonds. With respect to SERI's Series C Pollution Control Revenue Bonds, a portion of SERI's payments under the U.S. Bank Loan Agreement is placed in an escrow account to fund the commitments of the banks providing the letter of credit. The letter of credit expires in 1989 and, in the event the Series C Pollution Control Revenue Bonds cannot be remarketed or the letter of credit is not extended or replaced, the amounts held in escrow (approximately \$150.7 million at June 30, 1988) would be used to repay amounts advanced by the letter of credit banks to reacquire the Series C Pollution Control Revenue Bonds rather than returned to SERI.

In connection with MP&L's bonding order from the Mississippi Supreme Court (see Note 8 "Rate Matters - System Operating Companies Rate Matters - MP&L Supreme Court Litigation") SERI had deposited each month into a trust account for the benefit of MP&L's ratepayers an amount equal to MP&L's cash collections from its customers for its Grand Gulf 1 obligations from June 1, 1987, until the June 24 Decision became final on August 8, 1988. The deposited funds totalled \$215.6 million (approximately \$224 million with inclusion of interest earned thereon) and were returned to SERI on August 11, 1988.

SERI anticipates that, with the return of the escrowed funds described above, its projected cash flow for the period 1988-1990 will enable it to satisfy its cash requirements from internal sources and that no additional funds will be required from external sources for this period. Furthermore, SERI may enter into arrangements for the sale and leaseback of property in which the proceeds from such transactions could be used to retire certain debt issues at par. However, a number of uncertainties continue to confront SERI and the Middle South System, and, depending upon the ultimate resolution of such uncertainties and the effects thereof upon SERI, SERI may be required to obtain funds from external sources.

SERI is proceeding, subject to receipt of any necessary regulatory approval, with arrangements for the possible redemption, purchase or other acquisition of all or a portion of one or more series of SERI's outstanding first mortgage bonds. Furthermore, the Company may enter into arrangements for the sale and leaseback of property in which the proceeds from such transactions could be used to retire certain debt issues at par. In this connection, SERI is considering possible arrangements for the sale and leaseback of up to \$500 million of appraised value of the Grand Gulf Station. Any such sale and leaseback arrangements will require various regulatory, corporate and other approvals. The Offered Bonds are redeemable with the proceeds of

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released property at the price of 125% of their principal amount together with accrued interest to the date fixed for redemption.

Shareholder Litigation

MSU and certain other Middle South System companies, including the Company, and individuals are defendants in a purported consolidated class action suit. The initial complaint was filed on August 19, 1985 by a MSU shareholder (purporting to represent a class that purchased MSU common stock). Four similar complaints were filed by MSU shareholders in August and September 1985 by shareholders of MSU (purporting to represent classes which purchased MSU common stock). The five actions were consolidated in the U.S. District Court for the Eastern District of Louisiana. The consolidated, amended and supplemental complaint alleged violations of the disclosure requirements of the Securities Exchange Act of 1934 and the Securities Act of 1933, common law fraud and common law negligent misrepresentation in connection with the financial condition of MSU and prayed for compensatory and punitive damages, legal costs and fees and other proper relief against MSU, the Company, LP&L, MP&L, AP&L and NOPSI; certain of the members of MSU's Board of Directors; certain officers and former officers of MSU, the Company, LP&L, MP&L, AP&L and NOPSI; the independent auditor of MSU and certain underwriters of MSU Common Stock. On March 14, 1986, the plaintiffs in the consolidated action filed a Motion for Class Action Determination. In April 1986, MSU and certain other Middle South System Companies and individual defendants, including the Company, filed a Motion to Dismiss or, in the alternative, a motion for summary judgment. On January 12, 1987, the District Court entered a judgment granting defendants' motions for summary judgment and dismissed the suit. On February 6, 1987, the plaintiffs in the consolidated action filed a Notice of Appeal in the U.S. Court of Appeals for the Fifth Circuit.

On June 7, 1988, the Fifth Circuit rendered a decision vacating the judgment of the District Court, based, in part, in the conclusion that the District Court had not adequately explained the bases for its decision. In remanding the case to the District Court for further proceedings, the Fifth Circuit suggested that the District Court could again consider the merits of the defendants' motion for summary judgment and determine, with the benefit of certain guidelines as to the interpretation of governing law articulated by the Fifth Circuit, whether the defendants are entitled to summary judgment as a matter of law. The District Court was directed, if it makes such a determination, to provide a detailed analysis supporting its conclusions that would facilitate judicial review. Alternatively, the Fifth Circuit noted, the District Court could decline to rule on the defendants' motion for summary judgment until further development of the case has taken place and the issues have been narrowed through the available pre-trial techniques. The matter is pending. The eventual outcome of this matter and its impact on the Company's and the Middle South System's financial condition cannot be predicted at this time.

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Unit Power Sales Agreement

On June 10, 1982, the Company and the System operating companies entered into a Unit Power Sales Agreement pursuant to which the Company agreed to sell all of the capacity and energy available to it from Grand Gulf 1 and Grand Gulf 2 to LP&L, MP&L and NOPSI in accordance with percentages specified therein, which conform with the percentages set forth in the Reallocation Agreement described below. As discussed under Note 8, "Rate and Regulatory Matters," the Unit Power Sales Agreement was, with certain modifications (capacity and energy from Grand Gulf 1 was allocated in the following percentages: AP&L, 36%, LP&L, 14%, MP&L, 33% and NOPSI, 17%), approved by the FERC in its June 13 Decision and ordered to become effective upon the initiation of service of Grand Gulf 1, which occurred on July 1, 1985. On remand from the D.C. Circuit, the June 13 Decision was reaffirmed by the FERC. In its June 13 Decision, the FERC did not rule on Grand Gulf 2's allocation and ordered the Company to remove the proposed Grand Gulf 2 percentage allocation from the Unit Power Sales Agreement.

The Unit Power Sales Agreement, as currently in effect, specifies the rates to be charged to the System operating companies for their respective entitlements to receive capacity and energy from Grand Gulf 1. Such rates are computed monthly on the basis of the Company's total cost of service, which is based on the Company's operating expenses, depreciation and capital costs attributable to the unit for the month. Such rates are paid in consideration for the respective entitlements of such companies to receive such capacity and energy, and are payable irrespective of the quantity of energy delivered so long as the unit remains in commercial operation. Generally, operating expenses are computed by reference to allocable amounts chargeable to the Company's operating expense accounts and capital costs and capital costs are computed by allowing a 14% return on the Company's common equity funds allocable to its investment in the unit and adding to such amount the effective interest and dividend cost to the Company during the billing period for its respective long-term debt and preferred stock, if any, allocable to its investment in the unit. See Note 8 - "Rate Matters - Unit Power Sales Agreement" for further information with respect to litigation and proceedings with respect to the Unit Power Sales Agreement.

Capital Funds, Availability and Reallocation Agreements

Under the Capital Funds Agreement, as supplemented, MSU has agreed to supply or cause to be supplied to the Company (1) such amounts of capital as may be required in order to maintain equity capital at an amount equal to at least 35% of the Company's total capitalization (excluding short-term debt) and (2) such amounts of capital as shall be required in order (a) for the Company to construct, own and place in commercial operation the Grand Gulf Station, (b) to provide for pre-operating expenses and interest charges of the

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Company, (c) to permit the continuation of such commercial operation after commencement thereof and (d) to pay in full all indebtedness for borrowed money whether at maturity, on prepayment, on acceleration or otherwise. In addition, in the supplements to the Capital Funds Agreement relating to specific indebtedness being secured, MSU has agreed to make cash capital contributions to enable the Company to make payments when due on its borrowings. Given the substantial amount of the Company's debt currently outstanding, in the event of an acceleration, the Company would not be able to meet these obligations and, assuming claims or demands against MSU under the Capital Funds Agreements, as supplemented were made and upheld, MSU, with its financial resources limited, would not at this time be in a position to satisfy the Company's obligations.

Except with respect to the Specific Payments, the performance by both MSU and the Company of their obligations under the Capital Funds Agreement, as supplemented, is subject to the receipt and continued effectiveness of all governmental authorizations necessary from time to time to permit such performance. Each of the supplemental agreements provides that MSU shall make its payments directly to the Company, provided that upon the occurrence and continuance of an event of default MSU shall make those payments which are required for the payment of the Company's obligations with respect to indebtedness secured by supplemental agreements to the holders of such indebtedness; and such payments (other than the Specific Payments) shall be made pro rata according to the amount of the respective obligations secured by the supplemental agreements.

Each of the Company's bank loan agreements effectively precludes the Company receiving any Specific Payments in the form of cash contributions by providing for mandatory debt acceleration if such contributions are received under any other agreement.

The System operating companies are severally obligated under the Availability Agreement in accordance with stated percentages (AP&L 17.1%, LP&L 26.9%, MP&L 31.3%, NOPS1 24.7%) to make payments or subordinated advances adequate to cover all of the operating expenses, including depreciation, of the Company. As discussed in Note 8 "Rate and Regulatory Matters", a separate Unit Power Sales Agreement has been entered into among the Company and the System operating companies under which the allocation percentages for sales of capacity and energy from Grand Gulf 1 have been changed. However, the allocation percentages under the availability Agreement remain in effect and would govern payments made thereunder in the event of a shortfall of payments by the System operating companies to the Company under the Unit Power Sales Agreement.

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In November 1981, the System operating companies entered into a Reallocation Agreement which would have allocated the capacity, energy and related costs available to the Company from the Grand Gulf Station to LP&L, MP&L and NOPSI. These companies thus had agreed to assume all the responsibilities and obligations of AP&L with respect to the Grand Gulf Station under the Availability Agreement and Power Purchase Advance Payment Agreement, with AP&L relinquishing its rights to capacity and energy from the Grand Gulf Station. Each of the System operating companies, including AP&L, however, would have remained primarily liable to the Company and its assignees for payments or advances under these agreements. AP&L was obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations. However, the FERC's June 13 Decision allocating a portion of Grand Gulf 1 capacity and energy to AP&L (See Note 8 "Rate Matters - Unit Power Sales Agreement and System Agreement Rate Matters") supersedes the Reallocation Agreement insofar as it relates to Grand Gulf 1.

Based on the June 13 Decision of the FERC, which was reaffirmed by the November 30 Order of the FERC, amounts that have been received by the Company under the Unit Power Sales Agreement have exceeded the amounts payable under the Availability Agreement, and, consequently, no payments under the Availability Agreement by the System operating companies have ever been required. If a System operating company or companies became unable in whole or in part to continue making payments to the Company under the Unit Power Sales Agreement, and the company were unable to procure funds from other sources sufficient to cover any potential shortfall between the amount owing under the Availability Agreement and the amount of continuing payments under the Unit Power Sales Agreement plus other funds then available to the Company, LP&L and NOPSI could become subject to claims or demands by the Company or its creditors for payments or advances under the Availability Agreement or the assignments thereof. The amount, if any, which these companies would become liable to pay or advance over and above amounts they currently pay under the Unit Power Sales Agreement for capacity and energy from Grand Gulf 1 would depend on a variety of factors (especially the degree of any such shortfall and the Company's access to other funds). It cannot be predicted whether any such claims or demands, if made and upheld, could be satisfied. In NOPSI's case, if any such claims or demands were upheld, the holders of NOPSI's outstanding G&R Bonds could, subject to certain conditions, require redemption of their bonds at par.

The ability of the System operating companies to recover from their customers potential payments under the Availability Agreement, or under the assignments thereof, made either before or after the filing of such agreement with the FERC, would depend upon the outcome of regulatory proceedings before the state and local regulatory authorities having jurisdiction. In view of the controversy surrounding the allocation of capacity and energy from Grand

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Gulf 1 pursuant to the Unit Power Sales Agreement, the Company would anticipate opposition to recovery but cannot predict the outcome of such proceedings, should they occur.

The ability of the System operating companies to sustain payments under the Availability Agreement, and under the assignments thereof, in material amounts without substantially equivalent recovery from their customers would be limited by their respective available cash resources and financing capabilities at the time.

Nuclear Insurance

On August 22, 1988, the Price-Anderson Act ("Act") was amended and extended until the year 2002. The Act, as amended limits the public liability of a licensee for a single nuclear incident at its nuclear power plant to approximately \$7 billion. Financial protection for this exposure is provided by private insurance and an indemnity agreement with the NRC. In the event of a nuclear incident involving a licensed commercial nuclear power plant in the United States that results in damages in excess of the private insurance, each reactor licensee is responsible to share in this maximum liability (therefore, licensees are required to share in an assessment). Additionally, a 5% surcharge per reactor would be imposed and triggered when a court determined that the combination of damages and legal costs nears the \$7 billion liability limit. The maximum SERI would be required to pay in respect of each incident at a United States nuclear plant would be approximately \$66 million, indexed every five years for inflation, provided not more than \$10 million would be required to be paid per incident per year. SERI has a 90% undivided ownership interest in one licensed reactor. The Middle South System has a total of four licensed reactors.

The Company is a member-insured of Nuclear Electric Insurance Limited an industry mutual insurer, that, as of June 30, 1988, provides its members with \$775 million of coverage for property damage sustained by the insured in excess of \$500 million caused by radioactive contamination or other specified damage. The Company has an additional \$250 million of excess property and decontamination insurance with American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters, a pool of private insurance carriers, thus giving the Company a total of \$1.025 billion excess property and decontamination insurance above the \$500 million primary amount. The Company is also a member-insured under a primary property damage insurance program provided by Nuclear Mutual Limited, another industry mutual insurer, providing \$500 million of coverage. As a member-insured with these industry mutual insurers, the Company is subject to assessments if losses exceed the accumulated funds available to the insurer. At June 30, 1988, the Company was subject to a maximum assessment for incidents occurring during a policy year of approximately \$35.6 million.

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Effective October 5, 1987, the NRC amended its regulations to require nuclear power plant licensees to obtain property insurance coverage in the minimum amount of \$1.06 billion. The regulations further provide that the proceeds of this insurance shall be used to first ensure that the licensed reactor is in a safe and stable condition and can be maintained in that condition so as to prevent any significant risk to the public health and safety. Within 30 days of stabilization, the licensee is required to prepare and submit to the NRC a cleanup plan for approval. The plan is required to identify all cleanup operations necessary to decontaminate the reactor sufficiently to permit the resumption of operations or to commence decommissioning. Any property insurance proceeds not already expended to place the reactor in a safe and stable condition must be used first to complete those decontamination operations that are ordered by the NRC. Property insurance proceeds subject to the decontamination priority must be payable to a separate trust established for the sole purpose of paying for costs incurred in decontaminating the reactor and removing radioactive debris. The NRC further requires that the decontamination priority and trust requirements set forth in the regulation be incorporated in on-site property damage insurance policies not later than April 4, 1990 (no extended by the NRC on September 7, 1988) and apply uniformly to all required on-site property damage insurance policies for nuclear power plants.

Effective as of January 1, 1988, the aggregate amount of property and decontamination expense insurance carried by the Company increased to \$1.525 billion. With this increase, the coverage available above the amount required by the NRC to be set aside for reactor stabilization and cleanup would be \$465 million. However, the Company is unable to predict what effect the NRC's new regulation may have at the time when insurance proceeds would be made available to it or the Trustee for the holders of the Company's First Mortgage Bonds.

Spent Nuclear Fuel

Under the terms of its nuclear fuel lease, the Company is responsible for the disposal of spent nuclear fuel. The Company has executed a contract with the Department of Energy (DOE) whereby the DOE will furnish disposal service for the companies' spent nuclear fuel at a cost of one mill per kilowatt-hour of net generation. The Company includes this one mill per kilowatt-hour as a component of its nuclear fuel expense.

8. RATE MATTERS

Unit Power Sales Agreement and System Agreement Rate Matters

On June 18, 1982, the Company tendered for filing with the FERC, as an initial rate schedule, the Unit Power Sales Agreement under which the

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Company would sell from its 90% share of Grand Gulf 1 and Grand Gulf 2 the following percentage allocations of capacity and energy: LP&L, 38.57% and 26.23%; MP&L, 31.63% and 43.97%; and NOPSI, 29.80% and 29.80%, respectively. The rates and charges after commercial operation commenced were to be based on the cost of service of each unit. Various parties, including the APSC, the LPSC, the MPSC, the Missouri Public Service Commission, and the Council, intervened in the proceedings, and some of these intervenors proposed, among other things, revised allocations of capacity and energy to the System operating companies, including an allocation of capacity and energy to AP&L.

On February 3, 1984, the Administrative Law Judge (ALJ) in the Unit Power Sales Agreement proceeding issued his initial decision. Principally, the decision recommended that the Company's request for the use of an automatic cost of service adjustment clause for Grand Gulf 1 be upheld, with certain modifications. The ALJ also recommended a proposal made by the LPSC, an intervenor in the proceeding, to allocate capacity and energy from Grand Gulf 1 and the cost thereof as follows: AP&L, 36%; LP&L, 14%; MP&L, 33%; and NOPSI, 17%.

On June 13, 1985, the FERC issued a decision (June 13 Decision) affirming the allocation of capacity and energy as proposed by the LPSC. In the June 13 Decision, the FERC affirmed the ALJ's decision on all issues except for rate of return, depreciation, annual amount of decommissioning expense, amortization of limited-term electric plant and use of an income tax formula. The FERC held that the Company be granted a 16.0% return on common equity instead of 16.04% as proposed by the ALJ, that the units-of-production depreciation method be allowed for up to twelve months (later extended to eighteen months) with straight-line depreciation being required thereafter, and that the annual amount of decommissioning expense be set at \$1,113,188 rather than \$1,236,876 as proposed by the ALJ and be accumulated in an external fund. The FERC did not rule on the allocation of Grand Gulf 2, and ordered the Company to remove the proposed Grand Gulf 2 percentage allocation from the Unit Power Sales Agreement.

For many years, the System operating companies have, through a series of agreements, engaged in the coordinated planning, construction and operation of generation and transmission facilities. On April 30, 1982, SSI, on behalf of the System operating companies, tendered for filing with the FERC a revised agreement, the System Agreement. On July 29, 1982, the FERC accepted the System Agreement for filing and ordered it suspended for five months from August 1, 1982. Rates under the System Agreement became effective, as requested by MSU/System Services, Inc. (SSI) a service company, on January 1, 1983, subject to refund. Various parties, including the Louisiana Public Service Commission (LPSC), the MPSC, the Arkansas Public Service Commission (APSC) and the Public Service Commission of Missouri (PSCM), intervened in the proceeding. Some parties to this proceeding contested the method

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by which the System Agreement equalized megawatts of reserve capacity among the System operating companies. An initial decision by an ALJ in this proceeding recommended that the System Agreement be adopted as it was filed with the FERC with certain modifications.

The June 13 Decision of the FERC also related to the System Agreement proceeding. In the June 13 Decision, the FERC generally approved the System Agreement as filed, with certain minor modifications. The FERC adopted 16.00% as the appropriate rate of return on common equity under the System Agreement rather than the 15.75% recommended by the ALJ. In accordance with the June 13 Decision, SSI submitted its compliance filing with the FERC in the System Agreement proceeding. Protests to or comments on that filing have been made by several parties and are based principally on objections to the June 13 Decision. Various parties to these proceeding requested rehearings and some parties, including AP&L, requested a stay of implementation of the June 13 Decision from the FERC. In a series of decisions, the FERC denied all requests for rehearing and took the position it does not have the authority to authorize a refund if the June 13 Decision is overturned by the courts on appeal, unless the court orders a refund. Various parties, including AP&L and MP&L, filed appeals of these orders and some parties filed motions for a stay of these orders with the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit).

On January 6, 1987, a three judge panel of the D.C. Circuit affirmed the FERC's June 13 Decision, including that part relating to allocation. In the January 6, 1987 decision, the panel of the D.C. Circuit held, among other things, that the FERC had authority to review and modify the allocation of power from Grand Gulf 1 and to establish an allocation of such power which the FERC found to be just and reasonable under the Federal Power Act. Various parties filed requests for rehearing with the D.C. Circuit and petitions for certiorari to the United States Supreme Court.

On June 24, 1987, the D.C. Circuit reversed, in part, the June 13 Decision and remanded the June 13 Decision to the FERC for reconsideration of its decision to equalize the capacity costs of all System nuclear plants and for an explanation of the criteria used to determine what constitutes "undue discrimination" under the Federal Power Act and why the June 13 Decision is not unduly discriminatory. In reversing, in part, the June 13 Decision, the D.C. Circuit did not change that part of its January 6, 1987 decision upholding the FERC's authority to review and modify the allocation of power from Grand Gulf 1.

As noted above, various parties filed petitions for certiorari with the United States Supreme Court seeking review of that portion of the D.C. Circuit's decision that affirmed the FERC's jurisdiction to allocate Grand Gulf 1 costs. Certain of these parties requested that the United States

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Supreme Court consider their challenges to FERC Jurisdiction at the same time the Court considered MP&L's appeal of the February 25 Decision. On December 14, 1987, the United States Supreme Court denied, without comment, these petitions for certiorari, thereby leaving in place that part of the January 6, 1987 decision upholding the FERC's jurisdiction to allocate Grand Gulf 1 costs.

On November 30, 1987, the FERC issued its November 30 Order in response to the June 24 Remand whereby the FERC reaffirmed and reinstated the June 13 Decision, thus maintaining the previous allocation of Grand Gulf 1 capacity and energy among the System operating companies. In issuing the November 30 order, the FERC found that the allocation in the June 13 Decision was not unduly discriminatory. Various parties file requests for rehearing of the FERC's November 30 Order, and by order dated January 29, 1988 orders have been filed with the D.C. Circuit by various parties.

It is not possible to predict the ultimate outcome of this matter, including possible reallocation, if any, or the effect thereof upon the Company and the System operating companies, including possible refunds, if any. Any material modification of the allocation established by the June 13 Decision would be the subject of further proceedings conducted in the adversely affected jurisdictions. See "System Operating Companies Rate Matters - MP&L and Supreme Court Litigation" in this section for information relating to the June 24 Decision affirming the principle of FERC allocation of Grand Gulf 1 capacity and energy cost among the System Operating Companies are binding upon state and local regulatory authorities.

The System operating companies have initiated a study, currently expected to be completed in the near future, to determine whether a more equitable method of allocating costs, including those relating to Grand Gulf 1, would be appropriate. See "System Operating Companies' Rate Matters" in this section for information regarding retail rate relief obtained by the System operating companies in connection with their respective Grand Gulf 1 obligations (which relief was based on the allocations in the June 13 Decision) and related controversies.

On September 17, 1986, the LPSC filed with the FERC complaints against the Company and SSI alleging that the 16.00% rate of return on common equity under the Unit Power Sales Agreement and the System Agreement, respectively authorized by the June 13 Decision had become unjust and unreasonable rate and sought the reduction thereof. Various parties intervened in these proceedings. On January 27, 1987, finding that the 16% return on common equity "may be excessive", the FERC denied the motions of the Company and SSI to dismiss the complaint and ordered that hearings be held on the justness and reasonableness of such amount. Any change ordered by the FERC would be prospective only. On April 28, 1987, a settlement in principle was achieved

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which, among other things, reduced the rate of return on common equity in the Unit Power Sales Agreement from 16.00% to 14.00% effective retroactively to July 1, 1987. Such settlement was approved by the FERC on September 15, 1987.

The one issue that the settlement on the Company's return on equity did not resolve is whether the Unit Power Sales Agreement should be modified to include a clause which would permit an annual investigation of the return on equity in the Unit Power Sales Agreement with special refund procedures which are not currently provided for. This clause is referred to as the "equity reopener". On April 8, 1988, the ALJ in the equity reopener proceeding issued his decision recommending that certain parties may file a motion with the FERC in August of each year, beginning in 1989, requesting that the FERC initiate proceedings investigating the rate of return on common equity in the Unit Power Sales Agreement. He also recommended that the FERC may also institute proceedings under this provision during that time period. Further, he recommended that if the FERC ultimately lowers such rate of return on common equity, refunds, with interest, would be due from the later of (a) 60 days from the date of the motion filed with the FERC or (b) the date of the FERC order setting the matter for investigation and hearing. If the FERC ultimately approves this provision, no refunds would be required for any period prior to January 1, 1990. The matter is pending.

System Operating Companies' Rate Matters

**General.** As noted above, the capacity and energy from the Company's share of Grand Gulf 1 has been allocated by the FERC to the System operating companies, and challenges still exist with respect to these allocations. The financial condition of the Company significantly depends upon its receipt of payments from the System operating companies, and their ability in turn to make such payments depends primarily upon the continuing effectiveness of appropriate retail rate structures that provide for the recovery of costs associated with Grand Gulf 1. As discussed in detail below, NOPSI's retail rate structure providing for the recovery of its Grand Gulf 1-related costs is still being litigated. AP&L, LP&L and MP&L all have retail rate structures currently in effect which they believe are sufficient to enable them to meet their respective Grand Gulf 1 obligations to the Company. However, the Grand Gulf 1-related rate structures of AP&L and MP&L, as well as NOPSI's Grand Gulf 1-related cost recovery program, embody phase-in plans pursuant to which portions of Grand Gulf 1-related costs incurred by these companies are deferred in the early years and recovered in later years through annual or periodic increases in retail rates. Attempts to change existing rate structures by regulatory bodies or other parties could occur in the future in an attempt to moderate higher rates as the step-up provisions of these phase-in plans become effective. Also, the rate phase-in plans of AP&L and MP&L provide for the recovery of certain deferred Grand Gulf 1-related costs over periods in excess

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of the 10-year recovery cap established by the FASB in a recent accounting pronouncement, SFAS No. 92, Regulated Enterprises-Accounting for Phase-in Plans, an Amendment of SFAS No. 71. As a result, AP&L and MP&L are in the process of seeking revisions to their retail rate phase-in plans in order to recover previously deferred Grand Gulf 1-related costs in conformity with the provisions of SFAS No. 92. In this connection, AP&L and certain other parties to the Settlement Agreement embodying AP&L's phase-in plan have filed a joint motion with the APSC to effect the appropriate modifications to AP&L's plan. MP&L has also filed with the MPSC a request to modify its phase-in plan. In light of, among other things, the June 24 Decision clearly affirming AP&L's and MP&L's legal right to recover these costs through retail rates, AP&L and MP&L believe it will be reasonably possible to achieve revisions to their phase-in plans which will be satisfactory to them, so that deferral of costs thereunder will meet the requirements of SFAS No. 92. However, such results cannot be assured and if either AP&L or MP&L is not successful in its efforts to review its phase-in plan, the financial position of such company would be materially and adversely affected. A discussion of the proceedings relating to MP&L's and NOPSI's Grand Gulf 1-related retail rates and of the accounting issues relating to the retail rate phase-in plans of AP&L and MP&L follows.

**MP&L and Supreme Court Litigation.** On February 25, 1987, the MPSC's Final Order on Rehearing, which had established a phase-in plan granting annual rate relief to MP&L with respect to its FERC-ordered allocation of Grand Gulf 1-related costs, was reversed by the Mississippi Supreme Court and remanded to the MPSC for further proceedings on the grounds, among others, that the MPSC's decision was in error because the MPSC did not first determine that MP&L's Grand Gulf 1-related expenses were prudently incurred. Subsequently, MP&L filed an appeal of the February 25 Decision with the United States Supreme Court and also filed an application asking that Court to stay the mandate of the February 25 Decision pending final disposition of the appeal.

On June 1, 1987, the United States Supreme Court granted MP&L's application for a stay conditioned upon the posting of a good and sufficient bond in a manner and amount which was to be determined by the Mississippi Supreme Court. On June 10, 1987, the Mississippi Supreme Court issued an order setting bond which provided that MP&L file an undertaking to refund past collections from September 20, 1985 to June 30, 1987, such undertaking to be co-guaranteed by the Company and MSU. The order further provided that MP&L's future Grand Gulf 1-related collections were to be secured by the Company placing the amount of such collections into escrow in a trust account on a monthly basis until final resolution of MP&L's appeal to the United States Supreme Court. The bonding arrangements established by the Mississippi Supreme Court, including the Company's corporate guaranty and the escrow arrangements, were implemented in September 1987. During the period that the

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stay was in effect, MP&L collected the rates approved by the MPSC in the Final Order on Rehearing, subject to refund. As of June 30, 1988, MP&L had billed approximately \$359.8 million of Grand Gulf 1-related costs to its customers and recorded expense deferrals of approximately \$624.3 million pursuant to the rate phase-in plan. As of August 1, 1988, the Company had deposited approximately \$215.6 million under the trust arrangement discussed above.

On June 24, 1988, the United States Supreme Court rendered the June 24 Decision, reversing the February 25 Decision of the Mississippi Supreme Court. The United States Supreme Court held that states may not alter FERC-ordered allocations of wholesale power by substituting their own determination of what would be just and fair, and that the MPSC must therefore recognize MP&L's Grand Gulf 1-related costs as reasonable operating expenses. The United States Supreme Court stated that "FERC-mandated allocations of power are binding on the States, and States must treat those allocations as fair and reasonable when determining retail rates."

In reaching its decision, the United States Supreme Court relied on its earlier decision in *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953 (1986). Interpreting its own decision in *Nantahala*, the United States Supreme Court held that (1) FERC has exclusive authority to determine the reasonableness of wholesale rates, (2) FERC's exclusive jurisdiction applies not only to such rates, but also to power allocations that affect wholesale rates, and (3) states may not bar regulated utilities from passing through to retail consumers FERC-mandated wholesale rates. Applying these principles to the facts in MP&L's case, the United States Supreme Court held "that a state utility commission setting retail prices must allow, as reasonable operating expenses, costs incurred as a result of paying a FERC-determined wholesale price....Once FERC sets such a rate, a state may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable. A state must rather give effect to Congress' desire to give FERC plenary authority over interstate wholesale rates, and to ensure that the states do not interfere with this authority.' Thus, we conclude that the Supremacy Clause compels the MPSC to permit MP&L to recover as a reasonable operating expense costs incurred as the result of paying a FERC-determined wholesale rate for a FERC-mandated allocation of power."

In addressing the "prudence" question relied upon in part by the Mississippi Supreme Court in reversing the Final Order on Rehearing, the United States Supreme Court held that the Mississippi Supreme Court erred in adopting the view that the pre-emptive effect of FERC jurisdiction turned on whether the issue of prudence was actually determined in the FERC proceedings, and that since, in the Mississippi Supreme Court's view, prudence was not addressed at the FERC proceedings, the MPSC could later address the question. Rather, the United States Supreme Court held that "States may not regulate in area where FERC has properly exercised its jurisdiction to determine just and

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reasonable wholesale rates or to insure that agreements affecting wholesale rates are reasonable." Therefore, the United States Supreme Court held that the MPSC may not, consistent with the Supremacy Clause, conduct any proceedings that challenge the reasonableness of FERC's allocation. Instead, the proper forum for such a challenge is at the FERC.

The United States Supreme Court stated that the Mississippi Supreme Court, in its February 25 Decision, attached considerable significance to the fact that the prudence of investing in Grand Gulf 1 by MP&L was not discussed in the proceedings at FERC. However, the United States Supreme Court noted that the question of prudence was not discussed because no party raised the issue, not because the matter was beyond the scope of FERC's jurisdiction, and that indeed the FERC had considered and rejected some aspects of the prudence review the Mississippi Supreme Court directed the MPSC to conduct. The United States Supreme Court also held that the MPSC lacks jurisdiction to reevaluate the reasonableness of the various agreements among MP&L, the Company and MSU relating to Grand Gulf 1. Furthermore, the United States Supreme Court stated that "the MPSC cannot evaluate either the prudence of MSU's decision to invest in Grand Gulf and bring it on line or the prudence of MP&L's decision to be a party to agreements to construct and operate Grand Gulf without traversing matters solely within FERC's jurisdiction."

On August 8, 1988, the United States Supreme Court issued its mandate in the MP&L proceeding. As a result, the judicial determination of the MPSC's Final Order on Rehearing became final, thereby allowing MP&L thereafter to collect rates approved in the Final Order on Rehearing not subject to refund. Further, MP&L, the Company and MSU were released from their respective obligations under the various corporate undertakings filed with the Mississippi Supreme Court as part of the bonding arrangement set by that court at the direction of the United States Supreme Court, and the Company obtained the release and return to it on August 11, 1988 of all escrow deposits previously made by the Company equivalent to MP&L's cash collections for Grand Gulf 1-related expenses from June 1, 1987 through August 1, 1988 (amounting to approximately \$224 million, including interest).

In a separate proceeding, the MPSC initiated, among other things, an investigation of the prudence of MP&L's involvement in the Grand Gulf Station. On September 16, 1986, the MPSC issued an Initial Order establishing a docket for the stated purposes, among other things, of examining the prudence of the actions of MP&L and/or the Company relating to the construction and operation of the Grand Gulf Station and the appropriate regulatory treatment of the associated costs; obtaining FERC review of the Company's rate of return on common equity; obtaining FERC revision and/or modification of various aspects of MP&L's Grand Gulf 1 expenses established by the FERC, including the allocation of Grand Gulf 1 costs; inquiring generally into the appropriateness of MP&L's general rate structure; and performing a detailed

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audit of the books and records of the Company. On November 4, 1986, the Company filed a Motion to Dismiss this proceeding based in part on the grounds that the MPSC is without jurisdiction over the Company and is without subject matter jurisdiction over costs associated with the Grand Gulf Station. At the same time, MP&L also filed with the MPSC a separate, but similar, Motion to Dismiss the proceeding. The MPSC, on January 28, 1987, overruled the Motions to Dismiss of the Company and of MP&L. In March 1987, the MPSC stated that the phase of this docket pertaining to the appropriateness of MP&L's present rate structure (Phase VII) was a proceeding in which MP&L's rates could be changed. In response, MP&L filed for and received a preliminary injunction from the Chancery Court of the First Judicial District of Hinds County, Mississippi which enjoined the MPSC from implementing Phase VII proceedings. However, the Chancery Court stated that such injunction would be lifted if the MPSC enters a new scheduling order which provides MP&L with adequate time to file testimony and provides a prehearing conference. On April 29, 1987, the MPSC filed a petition with the Mississippi Supreme Court seeking to have the Chancery Court's action set aside and vacated. On May 6, 1987, MP&L filed a motion with the Mississippi Supreme Court to dismiss the MPSC's petition. On May 20, 1987, the Mississippi Supreme Court issued an order setting aside and vacating the Chancery Court's action. The Court remanded the procedural scheduling of Phase VII to the MPSC for entry of a new scheduling order pursuant to Mississippi law. This matter is pending.

Furthermore, on February 3, 1987, the MPSC issued an Order in this docket directing the Company and MP&L to show cause why their Certificate of Public Convenience and Necessity relating to the Grand Gulf Station should not be cancelled for the failure of the Company and MP&L to allow the MPSC to audit the books and records of the Company. The Company had objected to the MPSC auditing its books and records on jurisdictional and other grounds. On February 23, 1987, the Company and MP&L, in response to the Show Cause Order, filed with the MPSC separate Motions to Dismiss, Response and Reservation of Rights. These filings asked the MPSC to dismiss the show cause proceeding on jurisdictional, constitutional and other grounds. On March 3, 1987, the MPSC allowed SMEPA to intervene in the show cause proceeding. SMEPA also filed a Motion to Dismiss and Response to the show cause order with the MPSC. The motions to dismiss filed by the Company, MP&L, and SMEPA have been overruled by the MPSC. On April 29, 1987, the Company filed a Complaint for Declaratory and Injunctive Relief in a U.S. District Court seeking a temporary restraining order, a preliminary injunction, and a permanent injunction enjoining the MPSC from all further proceedings in the docket with respect to the Company. The District Court has denied the Company's motion for temporary restraining order and permanent injunction. The Company, in light of the District Court's decision and in order to avoid irreparable harm that could result from the threatened cancellation of the Grand Gulf Certificate, has agreed to cooperate with the MPSC staff in an audit of the books and records of the Company relating to FERC-approved Grand Gulf 1 rates. The Company has stated that it

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intends to pursue its request for declaratory and permanent injunctive relief in the federal court action. This action is pending. Also, the show cause order of the MPSC has been rescheduled until further order of the MPSC. The District Court action seeking an injunction and declaratory relief is pending.

NOPSI. On March 25, 1986, NOPSI accepted in writing a March 20, 1986 settlement offer (including the various conditions thereof) from the Council with respect to the general retail electric rate increase application that NOPSI had filed with the Council on May 17, 1985. The Rate Settlement provides, among other things, for deferral and phase-in of a portion of NOPSI's non-fuel Grand Gulf 1-related costs and of the related carrying charges on the deferred amounts and for current recovery of certain portions of such costs and carrying charges. In addition, under the terms of this settlement, NOPSI agreed to permanently absorb \$51.2 million Grand Gulf 1 costs which it had previously incurred and expensed.

In connection with NOPSI's request for permanent retail electric rate relief, the Council, on October 17, 1985, initiated an investigation into all aspects of NOPSI's prudence regarding its involvement with Grand Gulf 1. The Attorney General of the State of Louisiana and the Citizens for Safe Energy, a local citizens group, intervened in this proceeding. Although NOPSI participated in the hearings before the Council, it did so under a full reservation of rights in connection with its position that the Council is barred by federal law from conducting such a prudence inquiry and from denying retail rate recovery of NOPSI's monthly payments to SERI for the FERC-allocated Grand Gulf 1 costs. The Council's consultants testified in the prudence hearings that NOPSI's involvement with Grand Gulf 1 was imprudent and that NOPSI should and could sustain further substantial disallowances of Grand Gulf 1-related costs and could remain financially viable. NOPSI vigorously contested the consultants' testimony. Further, the Council's consultants, at a public hearing held on October 23, 1987 presented summary arguments to the effect that the record developed in these proceedings supported the conclusion that NOPSI had been imprudent in its involvement with Grand Gulf 1. The Council's consultants orally recommended that NOPSI be disallowed the recovery of \$135 million of Grand Gulf 1-related costs in addition to the \$51.2 million already absorbed by NOPSI. The consultants further stated that this additional disallowance would permit NOPSI to remain financially viable and suggested that the previously agreed annual rate increases under NOPSI's phase-in plan could be reduced to provide for such disallowance.

On February 4, 1988, the Council adopted the February 4 Resolution adopting as its formal findings of fact and conclusions in its prudence investigation, and constituting as its final order and decision therein, and making a part of the February 4 Resolution, the Determinations and Order Regarding the Prudence of the Management of NOPSI with Respect to Grand Gulf 1

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attached to the February 4 Resolution. The February 4 Resolution required NOSPI to write off, and not recover from its retail electric customers, \$135 million of its Grand Gulf 1-related costs in addition to the \$51.2 million of such costs that NOPSI absorbed in the Rate Settlement. The following is a comparison of the rate increases provided for in the Rate Settlement to the rate increases provided for in the February 4 Resolution, commencing in 1988:

<u>Effective</u> <u>April 9</u>	<u>Rate Increases</u> <u>Per Rate Settlement</u>	<u>Rate Increases</u> <u>Per February 4</u> <u>Resolution</u>
1988.....	\$22.1 million	\$16.6 million
1989.....	\$23.4 million	\$17.3 million
1990.....	\$24.8 million	\$18.1 million
Thereafter.....	6% of \$439 million compounded annually*	4.5% of \$420.7 million compounded annually*

\* In each case until Grand Gulf 1-related costs are being fully recovered on a current basis and the amounts previously deferred (under the February 4 Resolution, less the additional \$135 million of disallowance) have been fully recovered.

The action of the Council has resulted in multiple state and federal court suits, as described below.

On February 4, 1988, the members of the Council in their capacity as such, the Mayor and the Director of Utilities of the City and the City (the "Plaintiffs") filed in the Civil District Court for the Parish of Orleans, Louisiana ("State Court") against James M. Cain, in his capacity as President and Chief Executive Officer of NOPSI, and NOPSI (the "Defendants"), a petition for declaratory and injunctive relief alleging, among other things, that the February 4 Resolution requires a one-time disallowance and write-off by NOPSI of the \$135 million and a reduction as set forth in the February 4 Resolution in planned (scheduled) rate increases commencing April 9, 1988 to reflect the \$135 million disallowance. The suit asks for a judgment, among other things, declaring that the February 4 Resolution is valid and enforceable and that failure by NOPSI to comply therewith will be unlawful, and restraining and enjoining the Defendants from collecting retail electric service rates in the City in a manner inconsistent with the February 4 Resolution. Furthermore, a suit was filed in the State Court against the Council by the Alliance for Affordable Energy, Inc. and others on February 4, 1988 asking that the February 4 Resolution be amended to order at least a minimum 31% or a maximum 63.8% disallowance of Grand Gulf 1-related costs from NOPSI's electric rates, or in the further alternative that the matter be remanded to the Council and the Council be directed to disallow the full costs stemming from NOPSI's

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(allegedly) imprudent Grand Gulf management decisions. On February 11, 1988, the Council filed a reconventional demand against NOPSI, thereby naming NOPSI as a party to this suit. Although NOPSI secured the removal of both State Court proceedings to the United States District Court for the Eastern District of Louisiana ("District Court"), they were subsequently remanded by the District Court to the State Court, where the matters are pending. NOPSI is vigorously defending its position in these State Court suits, and has also initiated its own actions seeking judicial relief.

NOPSI filed, on February 9, 1988, a complaint in the District Court seeking injunctive relief and a declaratory judgment enjoining the Council and its individual members from enforcing the February 4 Resolution and from disallowing, on grounds of alleged imprudence, the recovery of any of NOPSI's Grand Gulf 1-related costs in excess of the \$51.2 million of such costs previously absorbed by NOPSI in connection with the Rate Settlement. On March 10, 1988, the District Court invoked the doctrine of abstention, declined to rule on NOPSI's request, and ordered that NOPSI's complaint be dismissed without prejudice. On March 22, 1988, NOPSI filed with the United States Court of Appeals for the Fifth Circuit ("Fifth Circuit") motions for injunction pending appeal and for expedited appeal. On April 6, 1988, the Fifth Circuit denied NOPSI's request for an injunction pending appeal, but granted NOPSI's motion to expedite the appeal. Further, on June 28, 1988, NOPSI filed a letter brief with the Fifth Circuit alerting the Court that, among other things, the United States Supreme Court had rendered its June 24 Decision in litigation concerning NOPSI's affiliated company, MP&L, and MP&L's legal right to recover from its retail customers FERC-mandated Grand Gulf 1-related costs, asserting that this decision is dispositive of the merits of NOPSI's case pending before the Fifth Circuit. On July 28, 1988, the Fifth Circuit affirmed the judgment of the District Court. In its opinion, the Fifth Circuit observed that the United States Supreme Court in its June 24 Decision held that the "FERC" proceedings preempted a prudence inquiry by a state regulatory commission". The Fifth Circuit's opinion further noted that, although the basis of the Council's prudence inquiry is somewhat different from that at issue in the MP&L case before the United States Supreme Court, the language of June 24 Decision seems to "foreclose the ...kind of prudence inquiry" conducted by the Council. However, the Fifth Circuit noted that the federal courts do not have exclusive jurisdiction over this issue, and held that the District Court had not abused its discretion in abstaining from the exercise of its jurisdiction and deferring to the state court proceedings. On August 26, 1988, NOPSI filed a petition for writ of certiorari with the United States Supreme Court. The matter pending.

Further, on March 7, 1988, NOPSI filed a petition in the State Court seeking the State Court's review of the February 4 Resolution and a declaration by the State Court that the February 4 Resolution is null, void and without effect and that the matter be remanded to the Council with

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instructions to reinstate the rate schedule previously in effect pursuant to the Rate Settlement. On March 17, 1988, NOPSI amended and supplemented its original State Court petition seeking, among other things, (i) a preliminary and permanent injunction enjoining the Council from enforcing the February 4 Resolution and ordering the Council to permit NOPSI to collect retail rates in accordance with the Rate Settlement with the provision that the difference between the rates set forth in the Rate Settlement and those set forth in the February 4 Resolution would be collected subject to refund should the Council ultimately prevail and (ii) a declaration that the February 4 Resolution is null, void and without effect. On April 15, 1988, NOPSI filed a motion for preliminary injunction in the State Court. On May 5, 1988, the State Court denied NOPSI's motion for injunctive relief. On May 24, 1988, NOPSI filed with the Fourth Circuit Court of Appeal for the State of Louisiana ("Fourth Circuit") a Motion for Expedited Appeal from the State Court's May 5 decision. On June 16, 1988, the Fourth Circuit denied as premature NOPSI's motion for expedited appeal on the grounds that the record of the proceedings before the State Court had not yet been lodged with the Fourth Circuit. On July 18, 1988, the record of the proceedings having been lodged with the Fourth Circuit, NOPSI renewed its request for expedited appeal. On August 2, 1988, the Fourth Circuit denied NOPSI's motion for expedited appeal. NOPSI has been advised by its counsel that, without expedited treatment, a decision by the Fourth Circuit could take up to one year. Without expedited treatment, NOPSI's current liquidity problems will be prolonged. NOPSI has implemented cash conservation measures in order to help deal with its liquidity problems. The matter is pending.

In compliance with the February 4 Resolution, and pending resolution of NOPSI's judicial appeals, NOPSI implemented revised tariffs, effective April 9, 1988, designed to produce additional base revenue of \$16.6 million in respect of the third year of NOPSI's rate phase-in plan for the recovery of its Grand Gulf 1-related costs. This increase is approximately \$5.5 million less than the annual increase provided for in the Rate Settlement.

The February 4 Resolution has had a substantial and adverse effect upon NOPSI's financial condition and cash flow. In view of the fact that NOPSI was not able to obtain a court injunction staying enforcement of the February 4 Resolution, NOPSI was required by the terms of the February 4 Resolution and applicable generally accepted accounting principles to write off \$135 million of its previously deferred Grand Gulf 1-related costs and to reflect that write-off, net of income taxes, as a loss in 1987. See Note 7 "Commitments and Contingencies - NOPSI Prudence Disallowance and Liquidity Crisis."

As noted above, NOPSI is seeking relief in the courts against this finding by the Council of alleged imprudence. NOPSI believes that the February 4 Resolution is in violation of the Federal Power Act, FERC orders

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with respect to the allocation of Grand Gulf 1, and federal law as interpreted by the United States Supreme Court (including, most recently, in the June 24 Decision), and will ultimately be so declared by the courts.

9. NUCLEAR FUEL LEASE

At June 30, 1988 SERI had nuclear fuel leases for \$165 million and for \$50 million. The \$165 million lease is scheduled to terminate February 28, 1989. The \$50 million lease may be terminated by the lessor upon one year's written notice. Fuel under lease at the termination of the leases must also be purchased by the lessee upon termination of its lease. It is currently assumed that the existing nuclear fuel leases will be replaced during the period 1988-1990 and that \$215 million of nuclear fuel may be financed under this new arrangement. To the extent that new nuclear fuel leasing arrangements are not obtained or existing arrangements are not extended, additional financing requirements could result.

The amount of any such additional financing requirements would be dependent upon the amount of nuclear fuel financed at the time the particular lease terminates. In addition, certain lease payments, based upon nuclear fuel use, are treated as a cost of fuel. Lease expense charged to operations for the twelve months ended June 30, 1988 was \$79.5 million. The unrecovered cost base of the leases at June 30, 1988 was \$166.4 million.

10. TRANSACTIONS WITH AFFILIATES

The Company sells all of the capacity and energy from its 90% share of Grand Gulf 1 to the System operating companies of MSU under rate schedules approved by the FERC in its June 13 Decision regarding the Unit Power Sales Agreement. Accordingly, all of the Company's operating revenues consist of billings to the System operating companies.

Pursuant to a service agreement, MP&L provided technical and advisory services to the Company for the design, construction, maintenance and operation of the Grand Gulf Station. (See Note 1, "Summary of Significant Accounting Policies.") In return, the Company paid MP&L the actual cost of rendering these services and granted to MP&L the power and authority to act on the Company's behalf as agent. In addition, pursuant to another service agreement, the Company receives technical and advisory services from MSU System Services, Inc. Operating expenses included charges from MP&L and MSU System Services, Inc. for technical and advisory services totaled \$27.3 million for the 12 months ended June 30, 1988.

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11. QUARTERLY RESULTS (Unaudited)

Operating results for the last four quarters were as follows:

	Quarter Ended			
	September 30, 1987	December 31, 1987	March 31, 1988	June 30, 1988
	(In Thousands of Dollars)			
Operating Revenues.....	\$224,519	\$246,929	\$230,842	\$232,927
Operating Income.....	\$105,910	\$108,058	\$107,566	\$105,767
Net Income.....	\$ 44,431	\$ 48,963	\$ 40,010	\$ 46,008