ENTERGY

Entergy Operations, Inc.
River Bend Station
5485 U.S. Highway 61
P.O. Box 220
St. Francisville, LA 70775
Tel 504 336 6225
Fax 504 635 5068

James J. Fisicaro
Director
Nuclear Safety

August 29, 1995

U.S. Nuclear Regulatory Commission
Document Control Desk
Mail Stop P1-37
Washington, D.C. 20555

Subject: Entergy Operations' 1994 Annual Financial Report
River Bend Station - Unit 1
Docket No. 50-458

File No.: G9.5, G9.25.1.5

RBG-41897
RBF1-95-0207

Gentlemen:

In accordance with 10 CFR 50.71(B), enclosed is Entergy Operations' 1994 Annual Financial Report. This document contains a cash flow statement for the guarantee of funds in the event of a retrospective call under the Secondary Financial Protection Program (as required by 10CFR140.21, "Licensee Guarantees of Payment of Deferred Premiums"). The enclosed statement is certified true and accurate to the best of our knowledge.

If you have any questions regarding the enclosed, please contact Mr. Wayne R. Stacey at (504) 336-6332.

Sincerely,

James J. Fisicaro

JJF/JS/kvm
enclosure

M004
1/1

cc: U.S. Nuclear Regulatory Commission
Region IV
611 Ryan Plaza Drive, Suite 400
Arlington, TX 76011

NRC Resident Inspector (w/o)
P.O. Box 1051
St. Francisville, LA 70775

Mr. David L. Wigginton (w/o)
U. S. Nuclear Regulatory Commission
M/S OWFN 13-H-2
Washington, DC 20555

Why Entergy?

1994 Annual Report

Why Entergy?

1994 Annual Report

Entergy Corporation is one of the largest investor-owned public utility holding companies in the United States and the leading electricity supplier in the Middle South region. Headquartered in New Orleans, Entergy serves more than 2.4 million retail customers through its operating companies in Arkansas, Louisiana, Mississippi, and Texas. Entergy also provides wholesale electricity to other utilities and markets its energy expertise worldwide. (See pages 14 and 15 for more detail.)

Principal Subsidiaries:

AP&L	Arkansas Power & Light
GSU	Gulf States Utilities
LP&L	Louisiana Power & Light
MP&L	Mississippi Power & Light
NOPSI	New Orleans Public Service Inc.
EPI	Entergy Power, Inc.
SASI	Entergy Systems and Service, Inc.
System Energy	System Energy Resources, Inc.

Service area map appears on page 56.

Entergy Corporation is one of the largest investor-owned public utility holding companies in the United States and the leading electricity supplier in the Middle South region. Headquartered in New Orleans, Entergy serves more than 2.4 million retail customers through its operating companies in Arkansas, Louisiana, Mississippi, and Texas. Entergy also provides wholesale electricity to other utilities and markets its energy expertise worldwide. (See pages 14 and 15 for more detail.)

Principal Subsidiaries:

AP&L	Arkansas Power & Light
GSU	Gulf States Utilities
LP&L	Louisiana Power & Light
MP&L	Mississippi Power & Light
NOPSI	New Orleans Public Service Inc.
EPI	Entergy Power, Inc.
SASI	Entergy Systems and Service, Inc.
System Energy	System Energy Resources, Inc.

Service area map appears on page 58

Dear Fellow Shareholders

I hope the questions on the inside front cover touch on some of the things you want to know about Entergy. This year we are using a question and answer format to present the Entergy story. The basic question is "Why Entergy?"— or more precisely, "Why invest in Entergy?" In the pages that follow we will try to answer that question and others relating to our 1994 operations, financial performance, and strategy.

1994 was a year of mixed performance. First, I was very disappointed that Entergy's stock price fell considerably more than the electric utility average and that we did not meet our top-quartile total return objective. The industry average dropped primarily because of rising interest rates. Entergy dropped further because the market anticipated our 1994 earnings per share would be lower than in 1993 and that future dividend growth would be slower than in the past.

Regulatory actions in Mississippi, Louisiana, New Orleans, and Texas reduced our 1994 revenues by about $180 million. These actions will also cause revenue reductions in 1995 of approximately $80 million. It is not possible to immediately offset such large revenue reductions. As a result, 1994 earnings per share were down from 1993, and during this period of decreasing revenues we felt that holding the dividend at its current level would be prudent. I believe the current quarterly dividend of 45 cents per share is appropriate. Future dividend growth will be tied to sustainable earnings growth. Our business plans show earnings improvement from current levels. Both our core utility business and our noncore business expansion activities contribute to the improvement.

There are several aspects of our 1994 operating performance that give me confidence about the future. Our sales were up a strong 3.4 percent, ongoing operation and maintenance expenses were down 2.1 percent, and we cut total interest and preferred dividend charges by 6.4 percent. Cash flow was a healthy $1.5 billion, which let us continue building our noncore businesses with investments in power generation and energy services.

Average Annual Total Return To Shareholders
(1990-1994)

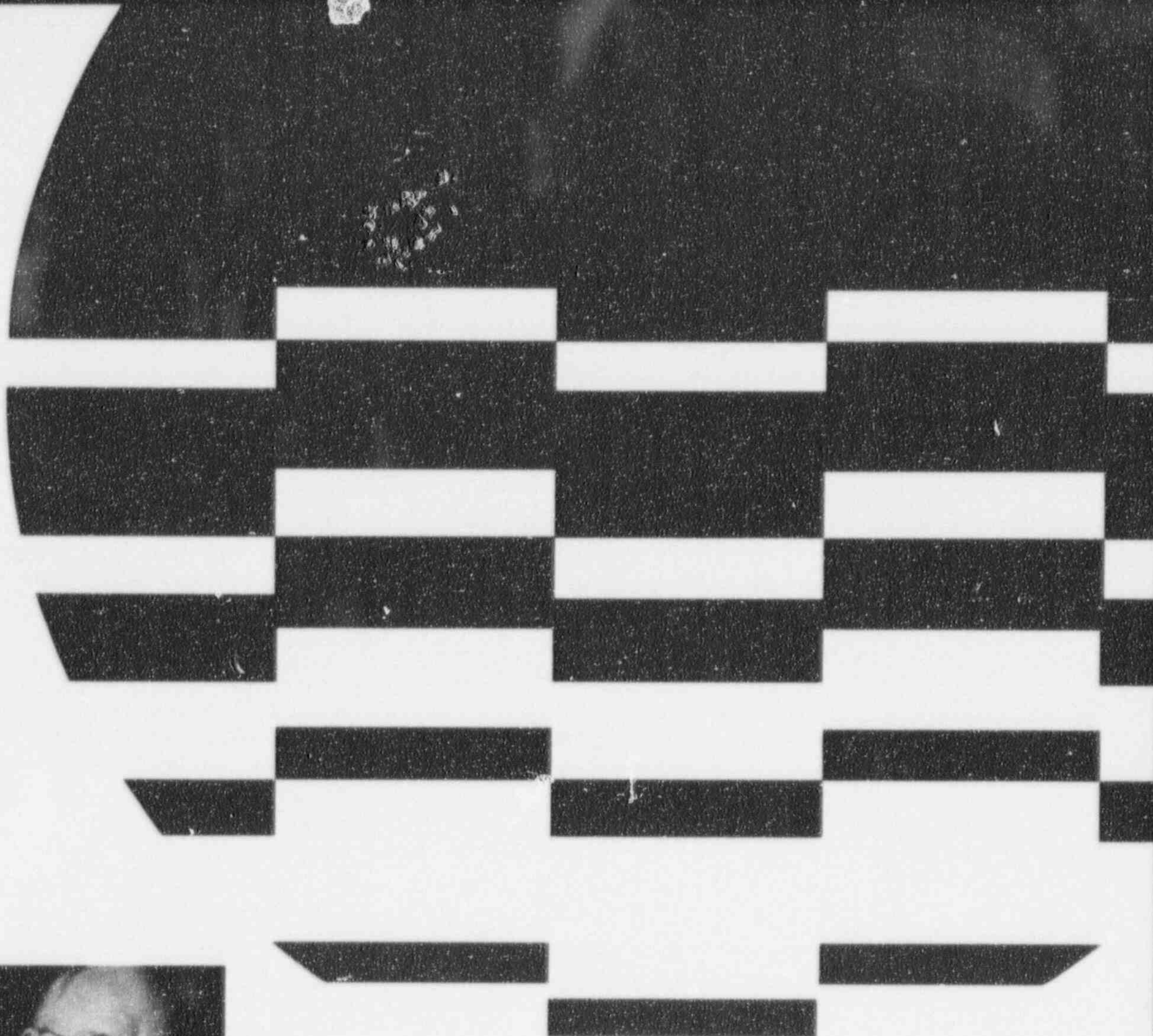
In 1994 Entergy fell short on its goal of giving a 5-year total return (dividends paid and stock price appreciation) ranking in the top quartile of electric utilities.

Financial Highlights

Entergy Corporation and Subsidiaries
(Dollars in millions, except per share amounts)

	1994	Entergy & GSU Combined 1993	Entergy 1993
Financial Results			
Total operating revenues	$5,963	$6,302	$4,485
Ongoing operation and maintenance expense	$1,418	$1,448	$1,044
Ongoing net income	$ 496	$ 554	$ 476
Ongoing earnings per share	$ 2.17	$ 2.39	$ 2.69
Consolidated net income	$ 342	$ 595	$ 552
Consolidated earnings per share	$ 1.49	$ 2.57	$ 3.16
Average shares outstanding	228,734,843	231,583,280	174,887,556
Net cash flow provided by operating activities	$1,538	$1,330	$1,074
Operating Data			
Retail kilowatt-hour sales (in millions)	89,544	86,635	59,142
Peak demand (megawatts)	18,028	18,470	12,858
Retail customers served at year end	2,359,514	2,337,081	2,337,081
Year-end employees, core business	15,543	16,501	16,501
Year-end employees, business expansion	494	178	178

1993 Entergy and GSU results are combined in the second column for comparison with 1994 results, and Entergy's reported 1993 results appear in the third column. See page 16 for a five-year summary showing both reported and combined operating results.



Another positive is how quickly we have integrated Gulf States Utilities into Entergy. As you know, we completed the industry's largest merger on December 31, 1993. I was pleased with the improvement in GSU's underlying business operations. Electric sales were up 4.6 percent and ongoing operating costs were down significantly. We have begun achieving the merger savings we forecasted, and they will accelerate in 1995.

Our larger size will make us a formidable competitor in the future, both in our traditional utility business and our new non-core electric power endeavors.

I believe we are doing the right things to prepare for the coming tough, competitive environment. Entergy employees from the top down are working very hard to find better, smarter ways of running our business. The financial markets will recognize our efforts.

The Q&A that follows will give you a better understanding of our performance, both positives and negatives. To be sure we cover all of the right questions, we asked Daniel J. Goldfarb, a security analyst with Wilmington Trust Company, to be a part of this year's report. Dan follows Entergy and the electric power industry. His job is to ask the right questions, analyze the answers, and then make buy and sell recommendations on specific stocks. Wilmington Trust Company was an owner of Entergy shares at year-end 1994.

Sincerely,

Ed Lupberger
Chairman and CEO
March 24, 1995

The following questions were asked by Daniel J. Goldfarb, an investment analyst who follows the electric utility industry and makes stock recommendations for Wilmington Trust Company.

"What caused the large decrease in 1994 consolidated net income?"

Daniel J. Goldfarb

Earnings Performance

It is a bit difficult to compare Entergy's 1994 and 1993 operating results because of the GSU merger. Where is the best place to start?

The major problem in comparing the two years is that Entergy's reported 1993 operating results do not include GSU. This is because the GSU merger took place on the last day of 1993. It was accounted for as a purchase of assets and 1993 financial results were not restated.

To help compare the two years we have developed the Income Statement Comparison table on page 5 that shows 1993 Combined Entergy and GSU operating results. This adds together Entergy and GSU 1993 operating results. Those are good numbers to use when comparing 1994 and 1993.

What caused the large decrease in 1994 consolidated net income?

Two factors affect comparison of 1994 and 1993 consolidated net income: unusual items and reductions in revenue by our regulators.

Unusual items can either increase or decrease consolidated net income. In 1993 several large unusual accounting items increased Entergy's consolidated net income by $41 million to $595 million. On the other hand, 1994 consolidated net income was reduced by $154 million because of unusual items.

What were the unusual items in 1994?

Of the $154 million total, there were three major items. *First,* $44 million relate to one-time merger charges – primarily personnel costs for relocation and various separation programs. *Second,* there were $27 million for restructuring our Fossil and Customer Service organizations to make them more efficient and competitive. And *third,* a $24 million settlement with NOPSI's regulators.

By adjusting consolidated net income for these unusual items, you get a picture of what we call ongoing net income. Ongoing net income shows the underlying earning power of Entergy's businesses by removing the distortion caused by unusual items.

Income Statement Comparison

Entergy Corporation and Subsidiaries *(In millions, except per share data)*	*1994 Entergy*	*1993 Entergy & GSU Combined*
Consolidated net income	$ 342	$ 595
Unusual items	$ (154)	$ 41
Ongoing net income	**$ 496**	**$ 554**
Consolidated earnings per share	$ 1.49	$ 2.57
Unusual items per share	$ (.68)	$ .18
Ongoing earnings per share	**$ 2.17**	**$ 2.39**
Shares at year-end	227.4	231.2

See page 16 for a five-year summary showing both reported and combined operating results.

"The smart investor in electric utility stocks today wants a company's management to do the right things to succeed in tomorrow's more competitive environment. Obviously, I believe that Entergy's management is doing those things."

Gerald D. McInvale
Senior Vice President and Chief Financial Officer, Entergy Corporation

Why was ongoing net income down by $58 million?

1994 ongoing net income was down by $58 million for one major reason: $183 million of revenue reductions by regulators in Mississippi, Louisiana, Texas, and New Orleans. As the table below shows, these revenue reductions caused ongoing net income to be $88 million lower. Stated another way, ongoing net income before regulatory revenue reductions was $30 million higher than 1993. We simply could not offset those regulatory reductions in one year even though we had excellent sales growth and made good progress in reducing costs during 1994.

Other than regulatory issues, how did Entergy perform in 1994?

Entergy's basic underlying business was strong in 1994. There were several positive factors: *First,* we sold more electricity. Our 1994 electric sales were up 3.4 percent over 1993. This is considerably above the 2 to 2.5 percent national average. *Second,* we had costs under control and, in fact, reduced ongoing operation and maintenance expenses by 2.1 percent or $30 million. *Third,* we continued to reduce capital costs by retiring and refinancing $550 million of high-cost debt and preferred stock. During 1994 interest expense and preferred dividends were $51 million lower. *Finally,* our cash flow from operations exceeded $1.5 billion. This provides Entergy with a major resource to strengthen its operations and meet competitive challenges.

Why were your ongoing earnings per share down by 22 cents?

The reduction in ongoing EPS was caused principally by the large regulatory revenue reductions. Ongoing EPS decreased from $2.39 in 1993 to $2.17 in 1994. This 22-cent decrease includes a 38-cent decrease from regulatory revenue reductions. This was just too large to overcome in one year, even though we had significant cost reductions.

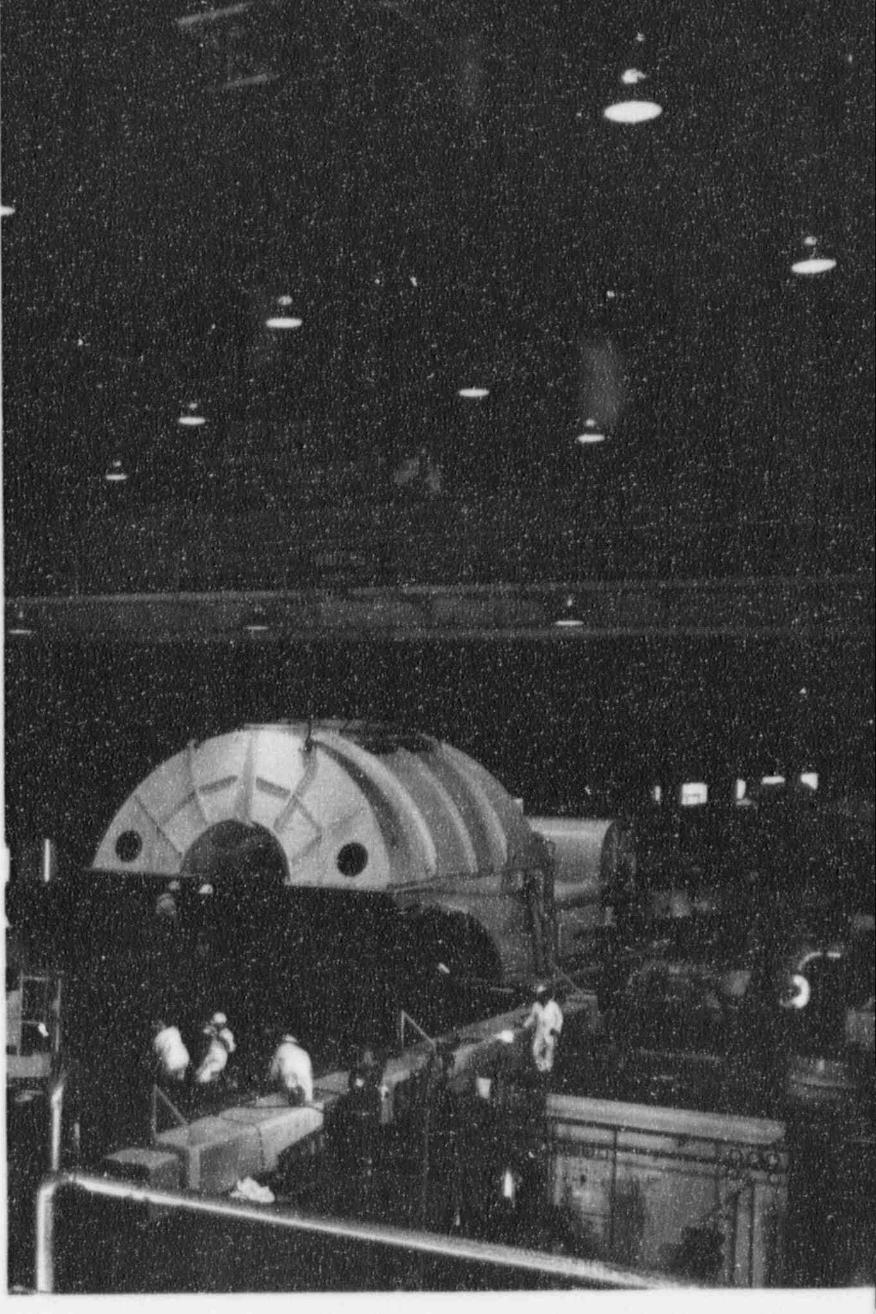
The Entergy 1994 and Entergy-GSU combined 1993 EPS reflect the 56.7 million new shares issued to acquire GSU. During 1994 we repurchased 4 million shares as part of our ongoing common stock repurchase program.

1994 Regulatory Reductions

(In millions)	*Revenues*	*Ongoing Net Income*
MP&L	$ 22	$13
LP&L	28	17
GSU	81	49
NOPSI	52	9
Total	$183	$88

Regulatory actions in four jurisdictions reduced 1994 revenues and ongoing net income.

Stock Performance



"Why did Entergy's stock price fall so far in 1994?"

Daniel J. Goldfarb

Why did Entergy's stock price fall so far in 1994?
There was a 39 percent decline in our 1994 share price, from \$36 to \$21⅞. This was the result of several factors, some of which applied to the entire industry and some of which were specific to Entergy.

Okay, what happened in the industry?
Electric utility stocks generally decline when interest rates rise. In 1994 the Standard & Poor's Electric Utilities Index fell 19 percent and the 30-year Treasury bond yield rose from 6.35 percent to 7.87 percent. Also contributing to the general decline in electric utility stocks was investor concern about increased industry competition. Finally, there was concern about dividend safety. Several utilities cut their dividends in 1994.

And what about Entergy's performance?
The positive outlook for Entergy's earnings and dividend growth was revised downward in mid-1994 because of several factors. *First*, regulators were reducing Entergy's revenues. *Second*, there were questions about whether the GSU merger would produce anticipated cost savings. And *third*, there were uncertainties regarding River Bend nuclear station regulatory and legal issues. These factors caused analysts and investors to project slower dividend growth for Entergy than the double-digit trend of the past five years. This, in turn, caused a reduction in Entergy's stock price.

Are the challenges Entergy faces different from other electric utilities?
Because Entergy recently completed the largest electric utility merger in history, it faces challenges other electrics do not have. However, Entergy's objectives are much the same as other electric utilities who are preparing for a more competitive environment: 1) Reduce prices and costs to retain customers and profit margins; 2) Better understand customer needs; 3) Develop alternative products and services that will build revenues and profitability. We are making good progress on all three.

(See pages 14 and 15 for a review of Entergy's investments in nonregulated businesses and of the company's cost performance, as measured against peer utilities.)

Independence coal plant's Unit 1 turbine generator is inspected and plant maintenance performed. Making more effective use of plant maintenance is an important element of the Fossil organization's Best-In-Class improvement program.

Regulatory Activity

"We've been able to anticipate some of the changes in our industry. We've even been able to turn some of the changes into opportunities. We aren't planning on just being around as the industry evolves, we plan on being leaders."

Jerry D. Jackson
Executive Vice President-Marketing and External Affairs, Entergy Corporation

Why was there so much regulatory activity in 1994?
A combination of circumstances occurred. *First,* there were five-year rate freezes at MP&L and LP&L that were negotiated in the late 1980s and expired in 1993. During this period we had no significant rate decreases even though the companies significantly reduced their operating costs and interest expenses. From a regulatory standpoint, 1994 and 1995 are "catch-up" years. *Second,* at GSU the large regulatory revenue reductions were based on its operations in 1992 and 1993 – the two years prior to its merger with Entergy. These reductions also were based on cost improvements GSU achieved during those years. *Finally,* at NOPSI there was an adjustment to the 1991 settlement agreement with the New Orleans City Council.

Do you expect major regulatory actions in 1995?
Hearings before the Louisiana Public Service Commission on LP&L's earnings review ended on March 14, 1995, and we expect a final order in the April-May timeframe. This will complete a series of earnings reviews that began in mid-1993. However, we have appealed the LPSC's regulatory decision on GSU to the appropriate court, and have asked the Public Utility Commission of Texas for a rehearing on its March 20, 1995, GSU order.

What is your strategy for dealing with regulators in the future?
It is most important that we cooperate with our regulators at the state and federal level to bring about an orderly transition from the present cost-based regulation to the future market-based competitive environment. We believe regulators should encourage utilities to cut costs to operate more efficiently, and that incentive-based plans are the right way to do it. We have such a plan at MP&L and are developing one for LP&L. The merger plan also has cost-cutting incentives that were approved by Texas and Louisiana regulators.

We are pacesetters in working with the Federal Energy Regulatory Commission to encourage competition in the area of open access transmission.

But regulators must revise outmoded, costly, and cumbersome regulatory processes if there is to be an orderly transition to a competitive marketplace. We will be working to repeal the Public Utility Holding Company Act of 1935. It regulates only 11 electric utilities and severely restricts their ability to compete on a level playing field with the other 85 major investor-owned electric utilities.

"What is Entergy's dividend policy and how safe is the current dividend level?"

Daniel J. Goldfarb

GSU Merger

How did the merger affect Entergy's 1994 operating performance?
First, GSU's underlying business operations showed significant improvement over 1993. Electric sales were up 4.6 percent, ongoing O&M expenses were down about $20 million and interest and preferred dividends were down $12 million. *Second*, GSU's River Bend nuclear station also showed good progress in 1994. A three-year improvement plan was ahead of schedule and the Nuclear Regulatory Commission noted improvements in previously identified weaknesses at the station.

But the impact of $81 million in revenue reductions from GSU's Texas and Louisiana regulators reduced Entergy's ongoing net income by $49 million.

Also, there were one-time merger charges that reduced consolidated net income by $44 million. We do not expect further significant merger integration expenses in 1995.

And *finally*, amortization of the merger acquisition premium added an additional $16 million to Entergy's 1994 expenses.

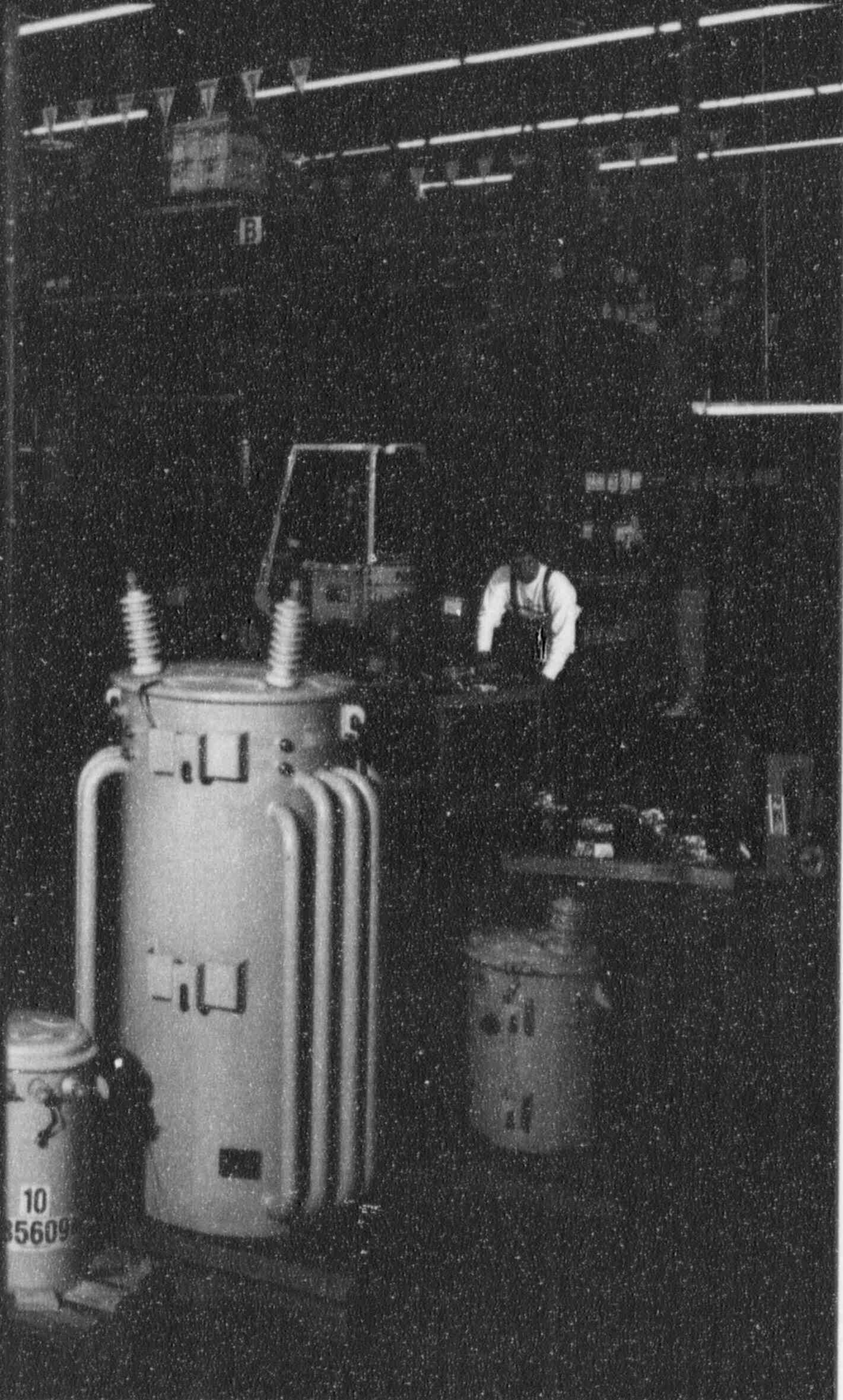
Do you still expect to achieve the merger savings you previously targeted?
Yes. During merger testimony before state and federal regulators, we targeted nonfuel operating savings of $670 million and fuel savings of $850 million over 10 years. We expect to achieve these.

Dividend Policy

What is Entergy's dividend policy and how safe is the current dividend level?
Management believes that, over time, dividends should reflect a payout of ongoing earnings in the 65 to 75 percent range. In addition, growth in dividends should be tied to growth in ongoing earnings. Even though the current payout ratio is higher than 75 percent, we believe the current quarterly dividend of 45 cents per share is appropriate. In the future, management will make dividend growth recommendations to the Board of Directors based upon sustainable growth in ongoing earnings.

"We are improving our performance, our delivery of services, and our position in the industry. We're heading in the right direction and I'm convinced we're going to reap significant benefits."

Jerry L. Maulden
President and
Chief Operating Officer,
Entergy Corporation



Entergy will revamp its buying, inventorying, and warehousing practices for all materials and supplies coming into the Entergy system, including these at the Central Distribution Warehouse in Little Rock, Arkansas. Significant annual savings will be realized.

Everything considered, was your merger with GSU a good idea?

There were four major reasons the merger was a good idea, and one year into it we are still very comfortable with them. *First,* we acquired attractive and growing markets in the Baton Rouge and the north suburban Houston areas. *Second,* we were next-door neighbors, with many interconnections. This made the integration of our systems easier. *Third,* the combined companies make Entergy about a third larger than it was, and this lets us achieve economies of scale by spreading operating costs over a larger revenue base. *Fourth,* we felt we could operate River Bend considerably more efficiently and realize the benefits of a multi-site nuclear organization.

The one-time merger integration expenses are largely behind us and we believe we'll deal successfully with the River Bend regulatory and litigation issues.

What is the status of the two River Bend issues?

Abeyed costs. Currently $463 million of River Bend plant costs and other costs (net of taxes and depreciation) have been excluded from GSU's regulatory assets by Texas regulators. GSU believes these costs should be included and has appealed this to the Texas Supreme Court. A full discussion of this issue appears on pages 34 and 35 of the Notes to the Financial Statements.

Cajun lawsuit. In June 1989 Cajun Electric Power Cooperative, a 30 percent owner of River Bend, filed a civil action against GSU alleging, among other things, fraud and error in connection with the River Bend plant. GSU believes the suit is without merit and is contesting it vigorously. In December 1994 Cajun filed a petition seeking relief under Chapter 11 of the U.S. Bankruptcy Code. The matter is continuing. A full discussion of these issues appears on pages 45 and 46 of the Notes to the Financial Statements.

Entergy will revamp its buying, inventorying, and warehousing practices for all materials and supplies coming into the Entergy system, including these at the Central Distribution Warehouse in Little Rock, Arkansas. Significant annual savings will be realized.

Everything considered, was your merger with GSU a good idea?

There were four major reasons the merger was a good idea, and one year into it we are still very comfortable with them. *First*, we acquired attractive and growing markets in the Baton Rouge and the north suburban Houston areas. *Second*, we were next-door neighbors, with many interconnections. This made the integration of our systems easier. *Third*, the combined companies make Entergy about a third larger than it was, and this lets us achieve economies of scale by spreading operating costs over a larger revenue base. *Fourth*, we felt we could operate River Bend considerably more efficiently and realize the benefits of a multi-site nuclear organization.

The one-time merger integration expenses are largely behind us and we believe we'll deal successfully with the River Bend regulatory and litigation issues.

What is the status of the two River Bend issues?

Abeyed costs. Currently $463 million of River Bend plant costs and other costs (net of taxes and depreciation) have been excluded from GSU's regulatory assets by Texas regulators. GSU believes these costs should be included and has appealed this to the Texas Supreme Court. A full discussion of this issue appears on pages 34 and 35 of the Notes to the Financial Statements.

Cajun lawsuit. In June 1989 Cajun Electric Power Cooperative, a 30 percent owner of River Bend, filed a civil action against GSU alleging, among other things, fraud and error in connection with the River Bend plant. GSU believes the suit is without merit and is contesting it vigorously. In December 1994 Cajun filed a petition seeking relief under Chapter 11 of the U.S. Bankruptcy Code. The matter is continuing. A full discussion of these issues appears on pages 45 and 46 of the Notes to the Financial Statements.

"Is Entergy financially prepared for competition?"

Daniel J. Goldfarb

Financial Strength

Is Entergy financially prepared for competition?
One of our major financial strengths is our large cash flow. In 1994 we had $1.5 billion of operating cash flow. We used about $1.1 billion of this to make investments in our core electric business to remain competitive and to pay dividends to our 250,000 shareholders. After meeting those requirements we had about $400 million in free cash flow available to prepare for competition.

One use is to keep our balance sheet strong by retiring or refinancing high-cost debt. We have set targets for equity ratios that assure a solid investment-grade credit rating for each of our operating subsidiaries. *Another use* is to make investments in businesses closely related to the electric power business that have superior profit and growth potential.

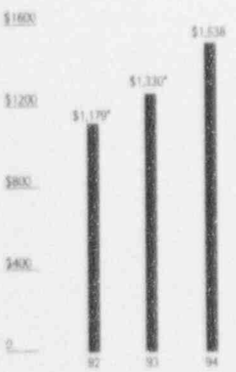
Entergy has the size, stability, mind-set, and financial strength to be a fierce competitor. We do not expect to lose market share to predators. In fact, our financial strength allows us to expand beyond our current service territory into attractive new national and international markets.

Will you continue your common stock repurchase program?
Yes. This is another use of our free cash flow. During 1994 Entergy used about $120 million to buy back about 4 million shares. We believe that buying Entergy shares at current prices is a bargain and we expect to continue the program in 1995.

You have many large industrial customers who could generate their own electricity. How many of them may leave Entergy?
We have developed strong relationships with our major industrial and commercial customers. Since the mid-1980s we have offered both flexible pricing and partnering options to meet their needs. We have had no significant loss of customers to cogeneration or to other forms of competition, although GSU did have some defections in the late 1980s.

Our competitive electric rates have helped customers expand their businesses and increase their use of electricity. The large revenue reductions ordered by our regulators in 1994 and 1995 will result in further price reductions to these important customers. This will make Entergy more competitive with alternative sources of electricity.

Net Cash Flow From Operations
(Dollars in millions)



*For consistency, 1992 and 1993 Entergy and GSU pre-merger cash flows are combined.

"No matter how good you are, if you look hard enough you're going to find ways to improve. We've found many opportunities to streamline the way we do work through process improvements and new technology. Consequently, we're able to do more — and do it better — with less."

Michael B. Bemis
Executive Vice President-Customer Service, Entergy Services, Inc.

"Our current involvement with international and domestic power projects demonstrates our strategic direction. We will be a major player in the worldwide growth of electric energy."

Terry Ogletree
Executive Vice President,
Entergy Enterprises, Inc.

Centralized phone answering centers such as this one in Beaumont, Texas, where Anita Smith responds to a caller's question, provide customers with better service through new technology and increased capabilities.

Business Expansion

You have stated that you would like to invest about $150 million annually in business expansion activities. Are you following this plan?

These targets have not changed. At the end of 1994 our business expansion investments totaled about $472 million. During the year we invested $50 million in a Pakistan power generation project and about $66 million in our energy services business, Entergy SASI. By 1998 we would like to have about $1 billion invested in noncore electric power ventures. These would have a long-term profit potential considerably above the 11 to 12 percent return we get from our core regulated business. *(See page 14 for a discussion of Entergy's business expansion activities.)*

What about the risks involved in overseas investments?

We recognize that risk is higher overseas, which is why the returns we expect are higher, as well. Moreover, we manage the risk by working with partners knowledgeable about the countries in which we are investing, by assessing each project individually, and by limiting excessive exposure in any one country. Also, we're structured so that our core business is insulated from our nonregulated ventures, which are managed by separate legal entities and personnel.

"Where does Entergy plan to be five years from now?"

Daniel J. Goldfarb

Estera Burza, left, and Caroline Page assemble electronic ballast components for use in energy-efficient lighting systems installed by Entergy Systems and Service, Inc., which has 17 sales offices from Houston to Chicago and to the Eastern Seaboard.

(Entergy SASI's rapid growth in 1994 is discussed on page 14.)

Competitive Tomorrow

Where does Entergy plan to be five years from now?

We will be a major competitor– whatever form the new competitive environment takes. While we are not able to predict precisely the changes that will occur between now and 2000, we have begun preparing for them in six key areas:

- We have Best-In-Class programs to become low-cost producers in our Fossil and Nuclear generation organizations.
- We are aggressively reducing costs and improving efficiencies in our other business units.
- We are reducing our prices to be competitive with alternative sources of electricity.
- We are building a new culture that challenges and empowers every employee.
- We are checking every aspect of our regulatory environment for ways to improve or streamline it.
- We are making significant investments in electric energy businesses that should produce growth and returns superior to our core electric utility business.

We do not underestimate the challenges ahead and will be flexible as we deal with obstacles and tough competitors. But the prospect of competition presents us with opportunities to improve our business, succeed in attractive new markets, and diversify with new products and services. The actions we are taking now are based on the value-driver framework we have discussed in the past. Using this framework keeps our attention on the bottom-line issue: creating shareholder value.

How are you getting your costs down? Are you a low-cost producer of electricity?

We're not there yet but we're making good progress. On page 15 we review our improvements in cost competitiveness. Benchmarking shows Entergy's performance already ranks in the top 25 percent of electric utility companies. Our individual business units are making good headway when measured against similar units in peer companies.

Over the past five years we have streamlined our organization, reduced staffing levels, and made our business processes more efficient. During this period, employment in our core utility business has declined from more than 18,000 to about 15,500, and our ongoing operation and maintenance expense is down approximately $100 million.

"Our Best-In-Class initiative introduces new work processes and reduces costs. Our coal and gas plants are well on their way to becoming the very best in the industry."

Frank F. Gallaher
Executive Vice President-Fossil Operations, Entergy Services, Inc.

"Employees in Entergy's nuclear organization have achieved outstanding results in three performance areas: operations, cost, and regulatory and safety. Our new goals will make our plants the best in the nuclear industry and will strengthen Entergy's position for the future."

Donald C. Hintz
Executive Vice President and Chief Nuclear Officer, Entergy Corporation

What role will Entergy's nuclear plants play in the competitive tomorrow?
Entergy has a major investment in nuclear generation and an international reputation for running the plants well. Nuclear plants produced 30 percent of Entergy's 1994 electricity.

In 1990 Entergy's nuclear organization began a program to raise performance in three strategic areas: *operations* as measured by capacity factor, *cost* as measured by production cost in cents per kilowatt hour, and *safety/regulatory* as measured by the NRC's SALP (Systematic Assessment of Licensee Performance) scores and by INPO (Institute of Nuclear Power Operations) evaluations. By these measures Waterford 3 was in the top 25 percent of all U.S. nuclear plants with its 1994 performance, and Arkansas Nuclear One, Units 1 and 2, and Grand Gulf 1 are projected to attain this level by year-end 1995.

However, to meet the increasing competitive pressures from independent power producers, wholesale wheeling, and the prospect of retail wheeling, Entergy will improve what is already excellent performance.

In 1994 goals were set to move ANO, Grand Gulf 1, and Waterford 3 into the top 10 percent of U.S. nuclear sites in each performance area by 1998.

A three-year River Bend improvement plan was also established in 1994. Over the period 1996–98, operating and cost targets will improve the plant's capacity factor and reduce production cost. Significant improvement in the safety/regulatory measures is also targeted.

In achieving 1998 performance objectives, Entergy's nuclear organization will provide customers with low-cost, safe electric generation unequaled by any other source.

"Employees in Entergy's nuclear organization have achieved outstanding results in three performance areas: operations, cost, and regulatory and safety. Our new goals will make our plants the best in the nuclear industry and will strengthen Entergy's position for the future."

Donald C. Hintz
Executive Vice President and Chief Nuclear Officer, Entergy Corporation

What role will Entergy's nuclear plants play in the competitive tomorrow?
Entergy has a major investment in nuclear generation and an international reputation for running the plants well. Nuclear plants produced 30 percent of Entergy's 1994 electricity.

In 1990 Entergy's nuclear organization began a program to raise performance in three strategic areas: *operations* as measured by capacity factor, *cost* as measured by production cost in cents per kilowatt hour, and *safety/regulatory* as measured by the NRC's SALP (Systematic Assessment of Licensee Performance) scores and by INPO (Institute of Nuclear Power Operations) evaluations. By these measures Waterford 3 was in the top 25 percent of all U.S. nuclear plants with its 1994 performance, and Arkansas Nuclear One, Units 1 and 2, and Grand Gulf 1 are projected to attain this level by year-end 1995.

However, to meet the increasing competitive pressures from independent power producers, wholesale wheeling, and the prospect of retail wheeling, Entergy will improve what is already excellent performance.

In 1994 goals were set to move ANO, Grand Gulf 1, and Waterford 3 into the top 10 percent of U.S. nuclear sites in each performance area by 1998.

A three-year River Bend improvement plan was also established in 1994. Over the period 1996–98, operating and cost targets will improve the plant's capacity factor and reduce production cost. Significant improvement in the safety/regulatory measures is also targeted.

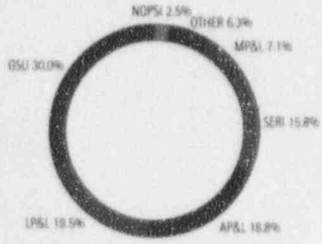
In achieving 1998 performance objectives, Entergy's nuclear organization will provide customers with low-cost, safe electric generation unequaled by any other source.

Business Expansion

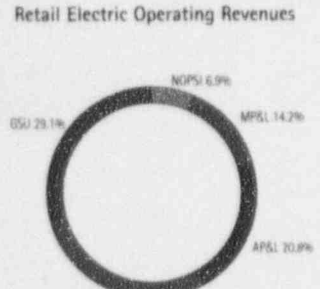
	Ownership
Power Development	
Entergy Power, Inc., *809 megawatts*	100%
Independent power plant, Richmond, Virginia, *250 megawatts*	50%
Argentina generation, *1,250 megawatts*	6%
Argentina distribution, *1.9 million customers*	5%
Argentina transmission, *5,000 miles of high-voltage lines*	9.6%
Pakistan generation, *1,292 megawatts*	10%
Energy Services	
Entergy Systems and Service, Inc.	100%
Systems and Service International, Inc.	9.9%
First Pacific Networks, Inc.	7.9%

Capturing Expanding Opportunities

Total Assets



Retail Electric Operating Revenues



Retail Electric Customers

Core Electric Business

Entergy Corporation is a holding company that provides electric service to 2.4 million customers through its five operating companies – Arkansas Power & Light, Gulf States Utilities, Louisiana Power & Light, Mississippi Power & Light, and New Orleans Public Service Inc. Gas service is also provided in Baton Rouge and New Orleans, Louisiana. *(Service area map appears on page 56.)*

Entergy's core retail utility business is organized along functional lines. A Fossil group manages all aspects of generation at the company's 88 fossil-fueled units. A Nuclear group manages Entergy's five nuclear units. An Operations group manages the transmission and distribution of electricity, as well as customer service. By organizing along functional rather than geographic lines, Entergy has been able to perform as a single, efficient company.

Expanding Businesses

Entergy also is expanding into businesses that are closely related to the generation and sale of electricity and that offer risk-adjusted rates of return and growth opportunities significantly higher than in the core business.

Since 1990, Entergy has invested $472 million in two areas:

- Power development ($374 million)
- Energy services ($98 million).

Current investments are shown in the chart above. Entergy's target is to invest about $150 million a year in these businesses and other projects, reaching a total investment of about $1 billion by 1998. By that time, the investments should be self-sustaining in terms of leverage and cash flow.

Power Development. Entergy Power Group has a net ownership of 1,140 megawatts in five generation projects in operation or under construction. These projects, situated in the U.S., Argentina, and Pakistan, total 4,180 megawatts. Entergy Power, Inc., markets 809 megawatts of merchant power into the U.S. wholesale market. Of seven long-term contracts for about 500 megawatts, three are currently generating revenue, and four more, totaling about 300 megawatts, will begin generating revenue in 1995 and 1996.

Entergy is an aggressive player in overseas power development projects because of the superior risk adjusted returns these opportunities offer. Entergy is one of the few U.S. utilities to participate in the international generation, transmission, and distribution markets. Future power development will likely occur in foreign arenas in each of Entergy's core areas of expertise.

Entergy Power Group earlier invested $90 million in the privatization of Argentina's electric energy infrastructure, and in 1994 invested $50 million to join an international consortium developing the Hub River Project near Karachi, Pakistan. The consortium funded the majority of the equity for the project through Hubco, a publicly traded company in Pakistan, Europe, and the U.S. Entergy plans to continue pursuit of the privatization and greenfield development markets, and is currently active in China, India, Indonesia, Brazil, and Australia.

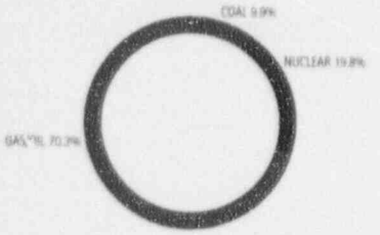
Energy Services. Much of the 1994 investment in nonregulated ventures went for the continued rapid domestic expansion of Entergy Systems and Service, Inc., a subsidiary providing energy-efficient lighting, heating, ventilation, air-conditioning and refrigeration systems, and energy controls. Entergy SASI serves commercial customers in a wide area, extending from Houston to Chicago and to the East Coast. Entergy SASI also offers energy management services to traditional utilities. In 1994 it won a three-year $80 million contract from Texas Utilities Company to reduce TU customers' demand for electricity by 24 megawatts. Additionally, 1994 marked an expansion in service from a base of commercial customers to an entry in institutional markets by acquiring the assets of Hospital Energy Services, Inc., of Baton Rouge, Louisiana, and to an entry in governmental markets through an alliance with Public Technologies, Inc.

Entergy also has a pilot project with First Pacific Networks, Inc., for development of a "smart" telecommunications switching technology that would enable customers to program appliances for cost-efficient energy usage, and, ultimately, to control all kinds of telecommunications coming into their homes or businesses.

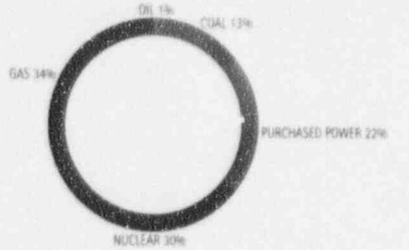
Information Services

Entergy is also exploring opportunities to exploit its communications and information services assets. With close to 1,000 miles of high-capacity fiber optic cable connecting system facilities, Entergy operates a major intercompany telecommunications system that could generate revenues by allowing outside parties to transmit data within the service area.

Generating Capability
22,604MW



1994 Sources of Electricity

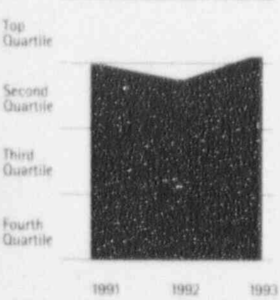


Meeting Operating and Cost Goals

Entergy's cost performance is top quartile when measured against a comparable group of 45 electric utilities and all U.S. nuclear plants. As the chart at lower left indicates, Entergy's overall cash costs, as measured in the areas of O&M, capital expenditures, fuel, and purchased power, reached top quartile in 1993 – the latest year for which data are available – after performing in the upper second quartile in 1992 and 1991. The 1993 data include GSU for the first time.

In addition to benchmarking total company performance, Entergy also measures the performance of individual business units. The following is a review of how each contributes to Entergy's overall performance.

Achieving Top-Quartile Cash Cost Performance



Entergy's total cash cost performance ranks in the top quartile when measured against peer electric companies and U.S. nuclear power plants. Performance is measured in the areas of O&M, capital expenditures, fuel, and purchased power.

Fossil

These 88 coal, gas, and oil-fueled units provide generation flexibility by supplying a combination of base load and intermediate, stand-by, and peaking power. The Fossil group, a consistently strong performer in the O&M and capital areas, launched a new three-year Best-In-Class initiative in 1994 to close the gap between the operating costs of Entergy's fossil plants and the very best U.S. plants in each fuel category. This goal will be achieved through further reductions in capital spending, outage expenses, and staffing, as well as through improvements in work processes. These are expected to produce a $55 million reduction in annual operating costs by 1997. In a second component of the Fossil initiative, a team has begun a program to appreciably reduce the company's fuel and purchased power costs. Initial savings from the fuels component will be realized in 1995 and will increase through 1997.

Nuclear

Entergy's five nuclear units provide base-load generation for the system by running as close to capacity as possible. A consistently strong performer, Nuclear dropped into the second quartile in 1993 because of the inclusion of operating statistics for GSU's River Bend nuclear plant. During 1994 Entergy initiated a program to raise River Bend's operating performance to near that of Entergy's four other nuclear units. Excluding River Bend, Nuclear was a top-quartile performer in 1993.

With an eye toward competition, Nuclear redefined its goals in 1994. The group's new vision is for Arkansas Nuclear One, Units 1 and 2, Grand Gulf 1, and Waterford 3 to collectively move beyond the best, taking the lead in the nuclear industry. The Nuclear group plans to meet this goal, in part, by reducing nonfuel O&M and capital spending levels $80 million annually by 1997. These savings will be achieved by reducing the cost of meeting licensing regulations, by making outages more efficient, and by improving work processes.

Transmission, Distribution, and Customer Service

This group delivers reliable power from generating plants to 2.4 million customers over 115,000 miles of lines. Its cost-performance ranking improved in 1992 and entered the top quartile in 1993, primarily due to lower capital expenditures. O&M expenses increased but at a lower rate than the benchmark group. To continue to lower costs, the customer service group has undertaken a multi-faceted program that includes eliminating customer payment centers and consolidating phone centers. These actions and the outsourcing of meter reading and other labor-intensive functions will enable Entergy to reduce the customer service workforce by 20 to 30 percent by 1997. This should reduce operating costs by $100 million annually by the end of 1997.

Administrative and General Office

This category includes the financial, legal, human resources, and other support functions for the entire Entergy system. Reduced O&M expenses, resulting from restructuring and from workforce reductions, continued to improve this category ranking in 1993 – moving it well within the second quartile.

Entergy has also instituted a program to revamp the way it buys, stores, and uses materials and supplies. This program, called SOAR (Supply Optimization and Reengineering), has the potential for significant savings because Entergy spends about $1 billion a year for the thousands of items that keep the company up and running. The SOAR team will target areas in all functional groups to achieve savings.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL AND OPERATING DATA

AS REPORTED

(In thousands, except per share amounts)	1994	1993	1992	1991	1990
Selected Financial Data:					
Operating revenues	**$ 5,963,290**	$ 4,485,337	$ 4,116,499	$ 4,051,429	$ 3,982,062
Income before cumulative effect of a change in accounting principle	**$ 341,841**	$ 458,089	$ 437,637	$ 482,032	$ 478,318
Earnings per share before cumulative effect of a change in accounting principle	**$ 1.49**	$ 2.62	$ 2.48	$ 2.64	$ 2.44
Dividends declared per share	**$ 1.80**	$ 1.65	$ 1.45	$ 1.25	$ 1.05
Book value per share, year-end	**$ 27.93**	$ 28.27	$ 24.35	$ 23.46	$ 22.18
Common shares outstanding:					
At year-end	**227,409**	231,220	175,137	178,809	185,257
Weighted average	**228,735**	174,888	176,574	182,665	195,877
Total assets	**$22,613,491**	$22,876,697	$14,239,537	$14,383,102	$14,831,394
Long-term obligations	**$ 7,817,366**	$ 8,177,882	$ 5,630,505	$ 5,801,364	$ 6,395,951
Preference and preferred stock	**$ 1,000,901**	$ 1,050,008	$ 718,560	$ 702,934	$ 653,440
Long-term debt (excluding currently maturing debt)	**$ 7,093,473**	$ 7,355,962	$ 5,149,344	$ 5,282,906	$ 5,765,885
Cash from operations	**$ 1,537,767**	$ 1,074,387	$ 831,226	$ 961,935	$ 1,024,845
Return on average common equity	**5.31%**	12.58%	10.35%	11.61%	11.47%
Electric Revenues:					
Residential	**$ 2,126,260**	$ 1,596,480	$ 1,440,360	$ 1,463,281	$ 1,449,768
Commercial	**1,499,206**	1,072,583	1,007,420	996,619	988,409
Industrial	**1,832,916**	1,199,172	1,097,023	1,068,802	1,051,796
Governmental	**159,694**	136,649	127,753	128,762	124,597
Total retail	**5,618,076**	4,004,884	3,672,556	3,657,464	3,614,570
Sales for resale	**311,018**	293,894	252,288	220,347	212,504
Other	**(131,325)**	95,568	118,711	96,667	67,045
Total electric	**$ 5,797,769**	$ 4,394,346	$ 4,043,555	$ 3,974,478	$ 3,894,119
Electric Energy Sales: *(Millions of kwh)*					
Residential	**26,231**	18,946	17,549	18,329	18,174
Commercial	**20,050**	13,420	12,928	13,164	12,977
Industrial	**41,030**	24,889	23,610	23,466	22,795
Governmental	**2,233**	1,887	1,839	1,903	1,831
Total retail	**89,544**	59,142	55,926	56,862	55,777
Sales for resale	**7,908**	8,291	7,979	7,346	6,292
Total sales	**97,452**	67,433	63,905	64,208	62,069

ENTERGY & GSU COMBINED*

(In thousands, except per share amounts)	1994	1993	1992	1991	1990
Selected Financial Data:					
Operating revenues	**$ 5,963,290**	$ 6,302,341	$ 5,870,971	$ 5,746,489	$ 5,658,300
Income before cumulative effect of a change in accounting principle	**$ 341,841**	$ 491,969	$ 527,348	$ 531,353	$ 379,177
Earnings per share before cumulative effect of a change in accounting principle	**$ 1.49**	$ 2.12	$ 2.26	$ 2.22	$ 1.50
Common shares outstanding:					
At year-end	**227,409**	231,220	231,832	235,504	241,952
Weighted average	**228,735**	231,583	233,269	239,360	252,572
Total assets	**$22,613,491**	$22,876,697	$21,403,984	$21,566,221	$21,966,793
Long-term obligations	**$ 7,817,366**	$ 8,177,882	$ 8,429,273	$ 8,617,941	$ 9,059,200
Preference and preferred stock	**$ 1,000,901**	$ 1,050,008	$ 1,124,391	$ 1,301,958	$ 1,328,515
Long-term debt (excluding currently maturing debt)	**$ 7,093,473**	$ 7,355,962	$ 7,523,802	$ 7,576,888	$ 7,839,997
Cash from operations	**$ 1,537,767**	$ 1,329,822	$ 1,178,754	$ 1,395,680	$ 1,344,523
Electric Revenues:					
Residential	**$ 2,126,260**	$ 2,182,279	$ 2,000,912	$ 2,010,428	$ 1,973,679
Commercial	**1,499,206**	1,487,850	1,408,223	1,380,502	1,366,662
Industrial	**1,832,916**	1,849,402	1,739,321	1,651,370	1,630,724
Governmental	**159,694**	162,767	153,948	153,554	148,698
Total retail	**5,618,076**	5,682,298	5,302,404	5,195,854	5,119,763
Sales for resale	**311,018**	315,176	257,871	257,308	246,182
Other	**(131,325)**	134,217	158,914	138,100	110,362
Total electric	**$ 5,797,769**	$ 6,131,691	$ 5,719,189	$ 5,591,262	$ 5,476,307
Electric Energy Sales: *(Millions of kwh)*					
Residential	**26,231**	26,138	24,374	25,254	25,008
Commercial	**20,050**	19,131	18,402	18,624	18,365
Industrial	**41,030**	39,183	38,023	37,095	36,142
Governmental	**2,233**	2,183	2,141	2,198	2,116
Total retail	**89,544**	86,635	82,940	83,171	81,631
Sales for resale	**7,908**	8,484	7,488	8,081	6,749
Total sales	**97,452**	95,119	90,428	91,252	88,380

**Combined data is for comparative purpose only and will not agree with reported data.*

Financial Review

GLOSSARY

Entergy or System–Entergy Corporation and its various direct and indirect subsidiaries.

Entergy Operations–Entergy Operations, Inc., a subsidiary of Entergy Corporation that has operating responsibility for Grand Gulf 1, Waterford 3, Arkansas Nuclear One, and River Bend nuclear plants.

Entergy Power–Entergy Power, Inc., a subsidiary of Entergy Corporation that markets capacity and energy for resale from certain generating facilities to other parties, principally non-affiliates.

Merger–The combination transaction, consummated on December 31, 1993, by which GSU became a subsidiary of Entergy Corporation and Entergy Corporation became a Delaware corporation.

1991 NOPSI Settlement–Agreement, retroactive to October 4, 1991, among NOPSI, the Council of the City of New Orleans, Louisiana (Council), the Alliance for Affordable Energy, Inc., and others that settled certain Grand Gulf 1 prudence issues and pending litigation related to the resolution (including the Determinations and Order referred to therein) adopted by the Council on February 4, 1988, disallowing NOPSI's recovery of $135 million of previously deferred Grand Gulf 1-related costs.

Rate Cap–The level of GSU's retail electric base rates in effect at December 31, 1993, for the Louisiana retail jurisdiction, and the level in effect prior to the Texas Cities Rate Settlement for the Texas retail jurisdiction, that may not be exceeded for the five years following December 31, 1993.

System Agreement–Agreement, effective January 1, 1983, as subsequently modified by FERC, among the System operating companies relating to the sharing of generating capacity and other power resources.

System operating companies–AP&L, GSU, LP&L, MP&L, and NOPSI, collectively.

CONSOLIDATED BALANCE SHEETS

ASSETS

December 31, (In thousands)	1994	1993
Utility Plant:		
Electric	$21,184,013	$20,848,844
Plant acquisition adjustment – GSU	487,955	380,117
Electric plant under leases	668,846	663,024
Property under capital leases – electric	161,950	175,276
Natural gas	164,013	156,452
Steam products	77,307	75,689
Construction work in progress	476,816	533,112
Nuclear fuel under capital leases	265,520	329,433
Nuclear fuel	70,147	17,760
Total	23,556,567	23,179,707
Less – accumulated depreciation and amortization	7,639,549	7,157,981
Utility plant – net	15,917,018	16,021,726
Other Property and Investments:		
Decommissioning trust funds	207,395	172,960
Other	240,745	183,597
Total	448,140	356,557
Current Assets:		
Cash and cash equivalents:		
Cash	87,700	27,345
Temporary cash investments – at cost, which approximates market	526,207	536,404
Total cash and cash equivalents	613,907	563,749
Special deposits	8,074	36,612
Notes receivable	19,190	17,710
Accounts receivable:		
Customer (less allowance for doubtful accounts of $6.7 million in 1994 and $8.8 million in 1993)	325,410	315,796
Other	66,651	81,931
Accrued unbilled revenues	240,610	257,321
Fuel inventory	93,211	110,204
Materials and supplies – at average cost	365,956	360,353
Rate deferrals	380,612	333,311
Prepayments and other	98,811	98,144
Total	2,212,432	2,175,131
Deferred Debits and Other Assets:		
Regulatory Assets:		
Rate deferrals	1,451,926	1,876,051
SFAS 109 regulatory asset – net	1,417,646	1,385,824
Unamortized loss on reacquired debt	232,420	210,698
Other regulatory assets	316,878	283,846
Long-term receivables	277,830	228,030
Other	339,201	338,834
Total	4,035,901	4,323,283
Total	$22,613,491	$22,876,697

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

December 31, (In thousands)	1994	1993
Capitalization:		
Common stock, $0.01 par value, authorized 500,000,000 shares; issued 230,017,485 shares in 1994 and 231,219,737 shares in 1993	$ 2,300	$ 2,312
Paid-in capital	4,202,134	4,223,682
Retained earnings	2,223,739	2,310,082
Less – treasury stock (2,608,908 shares in 1994)	77,378	–
Total common shareholders' equity	6,350,795	6,536,076
Subsidiaries' preference stock	150,000	150,000
Subsidiaries' preferred stock:		
Without sinking fund	550,955	550,955
With sinking fund	299,946	349,053
Long-term debt	7,093,473	7,355,962
Total	14,445,169	14,942,046
Other Noncurrent Liabilities:		
Obligations under capital leases	273,947	322,867
Other	310,977	296,572
Total	584,924	619,439
Current Liabilities:		
Currently maturing long-term debt	349,085	322,010
Notes payable	171,867	43,667
Accounts payable	471,120	413,727
Customer deposits	134,478	127,524
Taxes accrued	92,578	118,267
Accumulated deferred income taxes	40,313	73,933
Interest accrued	195,639	210,894
Dividends declared	13,599	13,404
Deferred revenue – gas supplier judgment proceeds	–	14,632
Deferred fuel cost	27,066	4,528
Obligations under capital leases	151,904	194,015
Reserve for rate refund	56,972	–
Other	327,330	233,313
Total	2,031,951	1,769,914
Deferred Credits:		
Accumulated deferred income taxes	3,915,138	3,829,041
Accumulated deferred investment tax credits	649,898	793,375
Other	986,411	922,882
Total	5,551,447	5,545,298
Commitments and Contingencies (Notes 2, 8, and 9)		
Total	$22,613,491	$22,876,697

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

For the Years Ended December 31, *(In thousands)*	1994	1993	1992
Operating Activities:			
Net income	$ 341,841	$ 551,930	$ 437,637
Noncash items included in net income:			
Cumulative effect of a change in accounting principle	–	(93,841)	–
Change in rate deferrals/excess capacity – net	394,344	200,532	109,153
Depreciation and decommissioning	656,896	443,550	424,958
Deferred income taxes and investment tax credits	(123,503)	17,669	118,562
Allowance for equity funds used during construction	(11,903)	(8,049)	(7,355)
Amortization of deferred revenues	(14,632)	(42,470)	(38,646)
Gain on sale of property – net	–	–	(19,612)
Changes in working capital:			
Receivables	22,377	(40,682)	(19,150)
Fuel inventory	16,993	(1,161)	20,008
Accounts payable	57,393	(9,167)	(54,559)
Taxes accrued	(25,689)	(32,761)	28,561
Interest accrued	(15,255)	(758)	(10,845)
Reserve for rate refund	56,972	–	–
Other working capital accounts	144,297	51,100	(12,428)
Refunds to customers – gas contract settlement	–	(56,027)	(56,066)
Decommissioning trust contributions	(24,755)	(20,402)	(20,896)
Provision for estimated losses and reserves	22,522	20,832	(24,911)
Other	39,869	94,092	(43,185)
Net cash flow provided by operating activities	1,537,767	1,074,387	831,226
Investing Activities:			
Merger with GSU – cash paid	–	(250,000)	–
Merger with GSU – cash acquired	–	261,349	–
Construction/capital expenditures	(676,180)	(512,235)	(438,845)
Allowance for equity funds used during construction	11,903	8,049	7,355
Nuclear fuel purchases	(179,932)	(118,216)	(60,359)
Proceeds from sale/leaseback of nuclear fuel	128,675	121,526	62,332
Investment in nonregulated/nonutility properties	(49,859)	(76,870)	(35,189)
Proceeds received from sale of property	26,000	–	67,985
Decrease in other temporary investments	–	17,012	114,651
Net cash flow used in investing activities	(739,393)	(549,385)	(282,070)
Financing Activities:			
Proceeds from the issuance of:			
First mortgage bonds	59,410	605,000	637,114
General and refunding mortgage bonds	24,534	350,000	65,000
Preferred stock	–	–	120,999
Other long-term debt	164,699	106,070	48,067
Premium and expense on refinancing sale/leaseback bonds	(48,497)	–	–
Retirement of:			
First mortgage bonds	(303,800)	(911,692)	(1,009,320)
General and refunding mortgage bonds	(45,000)	(99,400)	–
Other long-term debt	(148,962)	(69,982)	(17,412)
Repurchase of common stock	(119,486)	(20,558)	(105,673)
Redemption of preferred stock	(49,091)	(56,000)	(109,369)
Common stock dividends paid	(410,223)	(287,483)	(256,117)
Changes in short-term borrowings	128,200	43,000	–
Net cash flow used in financing activities	(748,216)	(341,045)	(626,711)
Net increase (decrease) in cash and cash equivalents	50,158	183,957	(77,555)
Cash and cash equivalents at beginning of period	563,749	379,792	457,347
Cash and cash equivalents at end of period	$ 613,907	$ 563,749	$ 379,792

STATEMENTS OF CONSOLIDATED CASH FLOWS (Continued)

For the Years Ended December 31, (In thousands)	1994	1993	1992
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for:			
Interest – net of amount capitalized	**$660,150**	$ 485,876	$570,199
Income taxes	**$218,667**	$ 159,659	$125,079
Noncash investing and financing activities:			
Capital lease obligations incurred	**$ 88,574**	$ 126,812	$ 75,040
Deficiency of fair value of decommissioning trust assets over amount invested	**$ (2,198)**	–	–
Merger with GSU – common stock issued	–	$2,031,101	–

See Notes to Consolidated Financial Statements.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is important to Entergy due to the capital intensive nature of its business, which requires large investments in long-lived assets. While large capital expenditures for the construction of new generating capacity are not currently planned, the System does require significant capital resources for the periodic maturity of certain series of debt and preferred stock and ongoing construction expenditures. Net cash flow from operations totaled $1,538 million, $1,074 million, and $831 million in 1994, 1993, and 1992, respectively. In recent years, this cash flow, supplemented by cash on hand, has been sufficient to meet substantially all investing and financing requirements, including capital expenditures, dividends, and debt/preferred stock maturities. Entergy's ability to fund these capital requirements with cash from operations results, in part, from continued efforts to streamline operations and reduce costs as well as collections under Grand Gulf 1 and River Bend rate phase-in plans, which exceed the current cash requirements for Grand Gulf 1-related costs. (In the income statement, these revenue collections are offset by the amortization of previously deferred costs; therefore, there is no effect on net income.) These phase-in plans will continue to contribute to Entergy's cash position for the next several years. Further, Entergy Corporation's subsidiaries have the ability to meet future capital requirements through future debt or preferred stock issuances, as discussed below. See Note 8 for additional information on the System's capital and refinancing requirements in 1995–1997. Also, to the extent current market interest and dividend rates allow, the System operating companies and System Energy may continue to refinance high-cost debt and preferred stock prior to maturity.

Productive investment by Entergy Corporation of excess funds is necessary to enhance the long-term value of its common stock. In 1994, Entergy Corporation invested in the Hub River Company which is constructing a generating station near Karachi, Pakistan. In 1993, Entergy Corporation invested in an electric distribution company and a high-voltage transmission system in Argentina. In 1992, Entergy Corporation invested in a generating facility in Argentina, an independent power plant in Virginia, a lighting efficiency services company, and a company that develops energy management and other technology applications. Entergy Corporation may invest up to $150 million per year for the next several years in nonregulated business opportunities. See "Significant Factors and Known Trends – Nonregulated Investments" for additional information.

Certain agreements and restrictions limit the amount of mortgage bonds and preferred stock that can be issued by the System operating companies and System Energy. Based on the most restrictive applicable tests as of December 31, 1994, and an assumed annual interest or dividend rate of 9.25%, the System operating companies could have issued bonds or preferred stock in the following amounts, respectively: AP&L - $253 million and $468 million; GSU - $0 million and $0 million; LP&L - $107 million and $784 million; MP&L - $246 million and $95 million; and NOPSI - $89 million and $17 million. System Energy could also have issued $241 million of bonds, but its charter does not presently provide for the issuance of preferred stock. In addition, the System operating companies and System Energy have the conditional ability to issue bonds against the retirement of bonds, in some cases without meeting an earnings coverage test. Although GSU was precluded from issuing first mortgage bonds under its earnings coverage test as of December 31, 1994, GSU has the ability to issue $578 million of first mortgage bonds against the retirement of first mortgage bonds without meeting such test. AP&L may also issue preferred stock to refund outstanding preferred stock without meeting an earnings coverage test. GSU has no limitations on the issuance of preference stock. See Note 4 for information on the System's short-term borrowings.

Entergy Corporation's current primary capital requirements are to periodically invest in, or make loans to, its subsidiaries. Entergy Corporation expects to meet these requirements in

1995-1997 with internally generated funds and cash on hand. Further, Entergy Corporation paid $410.2 million of dividends on its common stock in 1994. Declarations of dividends on common stock are made at the discretion of Entergy Corporation's Board of Directors (Board). It is anticipated that management will not recommend future dividend increases to the Board unless such increases are justified by sustained earnings growth of Entergy Corporation and its subsidiaries. Entergy Corporation receives funds through dividend payments from its subsidiaries. During 1994, these common stock dividend payments totaled $763.4 million. Certain restrictions may limit the amount of these distributions. See Note 7 for additional information.

See Notes 2 and 8 for information regarding litigation with Cajun Electric Power Cooperative, Inc. (Cajun) and River Bend rate appeals. Substantial write-offs or charges resulting from adverse rulings in these matters could result in substantial additional net losses being reported by Entergy and GSU in 1995 and subsequent periods, with resulting substantial adverse adjustments to common shareholder's equity. Also, adverse resolution of these matters could adversely affect GSU's ability to continue to pay dividends and obtain financing, which could in turn affect GSU's liquidity.

Entergy Corporation has a program to repurchase shares of its outstanding common stock. The timing and amount of such repurchases depend upon market conditions and Board authorization. Entergy Corporation has requested, but not yet received, Securities and Exchange Commission (SEC) authorization for a $300 million bank line of credit, the proceeds of which are expected to be used for common stock repurchases, investments in nonregulated and nonutility businesses, and other optional activities. Certain parties have intervened in this proceeding, and the application is pending. See Notes 4 and 5 for additional information.

Increasing competition in the utility industry brings an increased need to stabilize costs and reduce retail rates. See "Significant Factors and Known Trends - Competition" for additional information on rate issues affecting the System.

On March 20, 1995, the Public Utility Commission of Texas (PUCT) ordered GSU to implement a $72.9 million annual base rate reduction for the period March 31, 1994, through September 1, 1994, decreasing to an annual base rate reduction of $52.9 million after September 1, 1994. In accordance with the Merger agreement, the rate reduction is applied retroactively to March 31, 1994. As a result, GSU recorded a $57 million reserve for rate refund in 1994. See Note 2 for additional information.

In March 1994, the Mississippi Public Service Commission (MPSC) issued a final order adopting a formulary incentive rate plan. The order also adopted previously agreed-upon stipulations of a required return on equity of 11% and certain accounting adjustments that resulted in a 4.3% ($28.1 million) reduction in MP&L's June 30, 1993, test-year base revenues effective March 25, 1994. The plan allows for periodic small adjustments in rates based on an annual comparison of earned to benchmark rates of return and upon certain other performance factors. See Note 2 for additional information.

As discussed in Note 2, NOPSI agreed to reduce electric and gas rates and issue credits and refunds to customers pursuant to the 1994 NOPSI Settlement. Under the terms of the settlement, NOPSI implemented rate reductions totaling $44.9 million effective January 1, 1995. NOPSI will implement an additional $4.4 million rate reduction on October 31, 1995. In addition, the 1994 NOPSI Settlement requires NOPSI to credit its customers $25 million over a 21-month period, beginning January 1, 1995, in order to resolve disputes with the Council regarding the interpretation of the 1991 NOPSI Settlement. The 1994 NOPSI Settlement also required NOPSI to refund $9.3 million of overcollections associated with Grand Gulf 1 operating costs and $10.5 million of refunds associated with the settlement by System Energy of a Federal Energy Regulatory Commission (FERC) tax audit.

As discussed in Note 2, in November 1994, FERC approved an agreement settling a long-standing dispute involving income tax allocation procedures of System Energy. In connection with this settlement, System Energy refunded approximately $61.7 million to AP&L, LP&L, MP&L, and NOPSI, which in turn have made or will make refunds or credits to their customers (except for those portions attributable to AP&L's and LP&L's retained share of Grand Gulf 1 costs). Additionally, System Energy will refund a total of approximately $62 million, plus interest, to AP&L, LP&L, MP&L, and NOPSI over the period through June 2004. AP&L, LP&L, MP&L, and NOPSI also wrote off certain related unamortized balances of deferred investment tax credits.

Entergy Corporation has agreed to supply to System Energy sufficient capital to (1) maintain System Energy's equity capital at an amount equal to a minimum of 35% of its total capitalization (excluding short-term debt), and (2) permit the continuation of commercial operation of Grand Gulf 1 and to pay in full all indebtedness for borrowed money of System Energy when due under any circumstances. In addition, under supplements to the Capital Funds Agreement assigning System Energy's rights as security for specific debt of System Energy, Entergy Corporation has agreed to make cash capital contributions to enable System Energy to make payments on such debt when due. See Note 8 for additional information.

STATEMENTS OF CONSOLIDATED INCOME

For the Years Ended December 31, (In thousands, except share data)	1994	1993	1992
Operating Revenues:			
Electric	**$5,797,769**	$4,394,346	$4,043,555
Natural gas	**118,962**	90,991	72,944
Steam products	**46,559**	–	–
Total	**5,963,290**	4,485,337	4,116,499
Operating Expenses:			
Operation and maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	**1,446,397**	912,233	802,682
Purchased power	**350,903**	278,070	228,679
Nuclear refueling outage expenses	**63,979**	76,383	87,885
Other operation and maintenance	**1,568,810**	1,043,838	1,020,894
Depreciation and decommissioning	**656,896**	443,550	424,958
Taxes other than income taxes	**284,234**	199,151	197,895
Income taxes	**131,965**	251,163	210,081
Rate deferrals:			
Rate deferrals	**–**	(1,651)	(24,176)
Amortization of rate deferrals	**391,365**	289,259	209,015
Total	**4,894,549**	3,491,996	3,157,913
Operating Income	**1,068,741**	993,341	958,586
Other Income (Deductions):			
Allowance for equity funds used during construction	**11,903**	8,049	7,355
Miscellaneous – net	**20,631**	50,957	135,475
Income taxes	**241**	(33,640)	(46,382)
Total	**32,775**	25,366	96,448
Interest Charges:			
Interest on long-term debt	**665,541**	503,797	546,805
Other interest – net	**22,354**	5,740	12,549
Allowance for borrowed funds used during construction	**(9,938)**	(5,478)	(5,094)
Preferred dividend requirements of subsidiaries and other	**81,718**	56,559	63,137
Total	**759,675**	560,618	617,397
Income before Cumulative Effect of a Change in Accounting Principle	**341,841**	458,089	437,637
Cumulative effect to January 1, 1993, of Accruing Unbilled Revenues (net of income taxes of $57,188)	**–**	93,841	–
Net Income	**$ 341,841**	$ 551,930	$ 437,637
Earnings per average common share before cumulative effect of a change in accounting principle	**$1.49**	$2.62	$2.48
Earnings per average common share	**$1.49**	$3.16	$2.48
Dividends declared per common share	**$1.80**	$1.65	$1.45
Average number of common shares outstanding	**228,734,843**	174,887,556	176,573,778

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS AND PAID-IN CAPITAL

For the Years Ended December 31, (In thousands)	**1994**	1993	1992
Retained Earnings, January 1	**$2,310,082**	$2,062,188	$1,943,298
Add – Net income	**341,841**	551,930	437,637
Total	**2,651,923**	2,614,118	2,380,935
Deduct:			
Dividends declared on common stock	**411,806**	288,342	255,479
Common stock retirements	**13,940**	13,906	59,187
Capital stock and other expenses	**2,438**	1,788	4,081
Total	**428,184**	304,036	318,747
Retained Earnings, December 31	**$2,223,739**	$2,310,082	$2,062,188
Paid-In Capital, January 1	**$4,223,682**	$1,327,589	$1,357,883
Add:			
Loss on reacquisition of subsidiaries' preferred stock	**(23)**	(20)	(1,323)
Issuance of 56,695,724 shares of common stock in the merger with GSU	**–**	2,027,325	–
Issuance of 174,552,011 shares of common stock at $.01 par value net of the retirement of 174,552,011 shares of common stock at $5.00 par value	**–**	871,015	–
Total	**4,223,659**	4,225,909	1,356,560
Deduct:			
Common stock retirements	**22,468**	4,389	28,127
Capital stock discounts and other expenses	**(943)**	(2,162)	844
Total	**21,525**	2,227	28,971
Paid-In Capital, December 31	**$4,202,134**	$4,223,682	$1,327,589

See Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

On December 31, 1993, GSU became a subsidiary of Entergy Corporation. In accordance with the purchase method of accounting, the results of operations for the 12 months ended December 31, 1993, of Entergy Corporation and subsidiaries reported in its Statements of Consolidated Income and Cash Flows do not include GSU's results of operations. However, the following discussion between the years 1994 and 1993 is presented with GSU's 1993 results of operations included for comparative purposes. The discussion between the years 1993 and 1992 reflects reported results which do not include GSU.

In the second half of 1994, Entergy recorded certain charges that significantly affected results of operations as discussed below. These charges included, among other things, the FERC Settlement refund, NOPSI rate reductions and credits, Merger-related costs, and restructuring costs (see Notes 2, 11, and 12).

Net Income

Consolidated net income decreased $253.4 million in 1994 due primarily to the one-time recording in 1993 of the cumulative effect of the change in accounting principle for unbilled revenues for AP&L, GSU, MP&L, and NOPSI and a base rate reduction ordered by the PUCT applied retroactively to March 31, 1994 (see Note 2). In addition, net income was impacted by a decrease in revenues, increased Merger-related costs, certain restructuring costs, and decreased miscellaneous income - net, partially offset by a decrease in interest on long-term debt and preferred dividend requirements.

Consolidated net income increased in 1993 due primarily to the one-time recording of the cumulative effect of the change in accounting principle for unbilled revenues for AP&L, MP&L, and NOPSI. This increase was partially offset by the effects of implementing Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes" (SFAS 109) and SFAS 106, "Employer's Accounting for

Postretirement Benefits Other Than Pensions" (SFAS 106), and the impact in March 1992 of an after-tax gain from the sale of AP&L's Missouri properties.

Significant factors affecting the results of operations and causing variances between the years 1994 and 1993, and 1993 and 1992, are discussed under "Revenues and Sales," "Expenses," and "Other" below.

Revenues and Sales

See "Five-Year Summary of Selected Financial and Operating Data" on page 16 for information on operating revenues by source and kilowatt-hour (kwh) sales.

Electric operating revenues decreased in 1994 due primarily to rate reductions/credits at GSU, MP&L, and NOPSI, the effects of the 1994 NOPSI Settlement and the FERC Settlement, and decreased fuel adjustment revenues, partially offset by increased retail energy sales and increased collections of previously deferred Grand Gulf 1-related costs.

Electric operating revenues were higher in 1993 due primarily to increased residential and commercial energy sales resulting from favorable weather conditions, increased industrial sales due to improving market conditions in the petrochemical, lumber, and plywood industries, and increased fuel adjustment revenues and collections of previously deferred Grand Gulf 1-related costs, neither of which affects net income, partially offset by the impact of a System Energy rate reduction settlement.

Expenses

Purchased power decreased in 1994 due primarily to decreased power purchases from nonassociated utilities due to changes in generation requirements for the System operating companies. Purchased power increased in 1993 due to increased power purchases from non-associated utilities, resulting from changes in fuel-related costs and increased energy sales.

Nuclear refueling outage expenses decreased in 1994 due primarily to Grand Gulf 1 outage expenses incurred in 1993. Nuclear refueling outage expenses decreased in 1993 due primarily to a decrease in the number of scheduled and unscheduled refueling outages.

Total income taxes decreased in 1994 due primarily to lower pretax book income and the effects of the FERC Settlement. Total income taxes increased in 1993 due primarily to higher pretax income, an increase in the federal income tax rate as a result of the Omnibus Budget Reconciliation Act of 1993, and the implementation of SFAS 109, partially offset by the impact of the March 1992 sale of AP&L's Missouri properties.

The amortization of rate deferrals increased in 1994 and 1993 due primarily to collection of more Grand Gulf 1-related costs from customers.

Interest expense decreased in 1994 due primarily to the refinancing of high-cost debt partially offset by interest recorded on the FERC Settlement. Interest expense decreased in 1993 due primarily to the refinancing of high-cost debt and debt reduction activities.

Preferred dividend requirements decreased in 1994 and 1993 due primarily to stock redemption activities.

Other

Miscellaneous income - net decreased in 1994 due primarily to amortization of plant acquisition adjustment related to the Merger, the adoption of SFAS 116, "Accounting for Contributions Made and Contributions Received," and reduced Grand Gulf 1 carrying charges at AP&L. Miscellaneous income - net decreased in 1993 due primarily to the 1992 pretax gain of approximately $33.7 million from the sale of AP&L's Missouri properties.

SIGNIFICANT FACTORS AND KNOWN TRENDS

Competition

The electric utility industry, including Entergy, is experiencing increased competitive pressures. Entergy is seeking to become a leading competitor in the changing electric energy business. Competition presents Entergy with many challenges. The following have been identified by Entergy as its major competitive challenges.

Retail and Wholesale Rate Issues - Increasing competition in the utility industry brings an increased need to stabilize or reduce retail rates. The retail regulatory philosophy is shifting in some jurisdictions from traditional cost-of-service regulation to incentive-rate regulation. Incentive and performance-based rate plans encourage efficiencies and productivity while permitting utilities and their customers to share in the results. MP&L implemented an incentive-rate plan in 1994 and LP&L filed a performance-based formula rate plan with the Louisiana Public Service Commission (LPSC) in August 1994. GSU agreed to shared-savings plans as part of the Merger. Recognizing that many industrial customers have energy alternatives, Entergy continues to work with these customers to address their needs. In certain cases, competitive prices are negotiated, using variable-rate designs.

In a settlement with the Council that was approved on December 29, 1994, NOPSI agreed to reduce electric and gas rates and issue credits and refunds to customers. Effective January 1, 1995, NOPSI implemented a $31.8 million permanent reduction in electric base rates and a $3.1 million permanent reduction in gas base rates. These adjustments resolved issues associated with NOPSI's return on equity exceeding 13.76% for the test year ended September 30, 1994. Under the 1991 NOPSI Settlement, NOPSI is recovering from its retail customers its allocable share of certain costs related to Grand Gulf 1. NOPSI's base rates to recover those costs were derived from estimates of those costs made at that time. Any overrecovery of costs is required to be returned to customers. Grand Gulf 1 has experienced lower operating costs than previously estimated, and NOPSI accordingly is reducing its base rates in two steps to more accurately match the current costs related to Grand Gulf 1. On January 1, 1995, NOPSI implemented a $10 million permanent reduction in base electric rates to reflect the reduced costs related to Grand Gulf 1, to be followed by an additional $4.4 million rate reduction on October 31, 1995. These Grand Gulf 1 rate reductions, which are expected to be largely offset by lower operating costs, may reduce NOPSI's after-tax net income by approximately $1.4 million per year beginning November 1, 1995. The next scheduled Grand Gulf 1 phase-in rate increase in the amount of $4.4 million on October 31, 1995, will not be affected by the 1994 NOPSI Settlement.

The 1994 NOPSI Settlement also requires NOPSI to credit its customers $25 million over a 21-month period, beginning January 1, 1995, in order to resolve disputes with the Council regarding the interpretation of the 1991 NOPSI Settlement. NOPSI recorded a $15.4 million net-of-tax reserve associated with the credit in the fourth quarter of 1994. The 1994 NOPSI Settlement further required NOPSI to refund, in December 1994, $13.3 million of credits previously scheduled to be made to customers during the period January 1995 through July 1995. These credits were associated with a July 7, 1994, Council resolution that ordered a $24.95 million rate reduction based on NOPSI's overearnings during the test year ended September 30, 1993. Accordingly, NOPSI recorded an $8 million net-of-tax charge in the fourth quarter of 1994.

MP&L's formulary incentive rate plan allows for periodic small adjustments in rates based on a comparison of earned to benchmark returns and upon certain performance factors. In addition, certain previously agreed-upon stipulations of a required return on equity of 11% and certain accounting adjustments resulted in a 4.3% ($28.1 million) reduction in MP&L's revenues effective March 25, 1994. See Note 2 for further information.

LP&L's five-year rate freeze expired in March 1994. In August 1994, LP&L filed a performance-based formula rate plan with the LPSC. The proposed formula rate plan would continue existing LP&L rates at current levels, while providing financial incentive to reduce costs and maintain high levels of customer satisfaction and system reliability. Hearings were held in March 1995. See Note 2 for additional information.

In connection with the Merger, AP&L and MP&L agreed with their respective retail regulators not to request any general retail rate increases that would take effect before November 1998, with certain exceptions. MP&L also agreed that during this period retail base rates under its formula rate plan would not be increased above the level of rates in effect on November 1, 1993. In connection with the Merger, NOPSI agreed with the Council to reduce its annual electric base rates by $4.8 million effective for bills rendered on or after November 1, 1993. GSU agreed with the LPSC and PUCT to a five-year Rate Cap on retail electric rates, and to pass through to retail customers the fuel savings and a certain percentage of the nonfuel savings created by the Merger. Under the terms of their respective Merger agreements, the LPSC and PUCT have reviewed GSU's base rates during the first post-Merger earnings analysis. The LPSC ordered a $12.7 million annual rate reduction effective January 1, 1995. GSU received an injunction delaying implementation of $8.3 million of the reduction and on January 1, 1995, reduced rates by $4.4 million. The entire $12.7 million is being appealed. On March 20, 1995, the PUCT ordered a $72.9 million annual base rate reduction for the period March 31, 1994, through September 1, 1994, decreasing to an annual base rate reduction of $52.9 million after September 1, 1994. In accordance with the Merger agreement, the rate reduction is applied retroactively to March 31, 1994. The rate reduction is being appealed and no assurance can be given as to the timing or outcome of the appeal. See Note 2 for further information.

Retail wheeling, the transmission by an electric utility of energy produced by another entity over the utility's transmission and distribution system to a retail customer in the electric utility's area of service, is also evolving. Over a dozen states have been or are studying the concept of retail competition. In April 1994, the state of Michigan initiated a five-year experiment that allows limited competition among public utilities. During the same month, the California Public Utilities Commission proposed to deregulate that state's electric power industry, starting on January 1, 1996, to allow the largest industrial customers to select the lowest cost supplier for electricity service. Under the proposal, by the year 2002, smaller companies and residential customers in California would also be able to buy power from any suppliers. The California Public Utilities Commission is currently reviewing its proposal and is expected to make a ruling in the first half of 1995. The retail market for electricity is expected to become more competitive with such moves toward deregulation.

In some areas of the country, municipalities (or comparable entities) whose residents are served at retail by an investor-owned utility pursuant to a franchise are exploring the possibility of establishing new or extending existing distribution systems or seeking new delivery points in order to serve retail customers, especially large industrial customers, that currently receive service from an investor-owned utility. These options depend on the terms of a utility's franchise as well as on state law and regulation. In addition, FERC's authority to order utilities to transmit for a new or expanding municipal system is limited in certain respects. Where successful, however, the establishment of a municipal system or the acquisition by a municipal system of a utility's customers could result in the inability to recover costs that the utility has incurred in serving those customers.

In mid-1994, FERC issued a notice of proposed rulemaking concerning a regulatory framework for dealing with recovery of stranded costs, such as high-cost nuclear generating units, which may be incurred by electric utilities as a result of increased competition. In addition to addressing recovery of stranded costs related to wholesale service, the proposal requested comment as to recovery of retail stranded costs in transmission rates where state regulatory authorities failed to address the issue or were in conflict. Comments and reply comments have been filed, and the matter is pending. The risk of exposure to stranded costs which may result from competition in the industry will depend on the extent and timing of retail competition, the resolution of jurisdictional issues concerning stranded cost recovery, and the extent to which such costs are recovered from departing or remaining customers, among other matters.

Cogeneration projects developed or considered by certain of GSU's industrial customers over the last several years have resulted in GSU developing and securing approval of rates lower than the rates previously approved by the PUCT and LPSC for such industrial customers. Such rates are designed to retain such customers, and to compete for and develop new loads, and do not presently recover GSU's full cost of service. The pricing agreements at non-full cost-of-service-based rates fully recover all related costs but provide only a minimal return. Substantially all of such pricing agreements expire no later than 1997. In 1994, kwh sales to GSU's industrial customers at non-full cost-of-service rates, which make up approximately 28% of GSU's total industrial class, increased 13%. Sales to the remaining GSU industrial customers increased 2%.

See Note 2 for information with respect to a settlement between System Energy and FERC in which System Energy refunded approximately $61.7 million to AP&L, LP&L, MP&L, and NOPSI, which in turn have made or will make refunds or credits to their customers (except for those portions attributable to AP&L's and LP&L's retained share of G and Gulf 1 costs). Additionally, System Energy will refund a total of approximately $62 million, plus interest, to AP&L, LP&L, MP&L, and NOPSI over the period through June 2004. AP&L, LP&L, MP&L, and NOPSI also wrote off certain related unamortized balances of deferred investment tax credits.

In the wholesale rate area, FERC approved in 1992, with certain modifications, the proposal of AP&L, LP&L, MP&L, NOPSI, and Entergy Power to sell wholesale power at market-based rates and to provide to electric utilities "open access" to the System's transmission system (subject to certain requirements). GSU was later added to this filing.
On October 31, 1994, as amended on January 25, 1995, Entergy Services filed with FERC revised transmission tariffs intended to provide access to transmission service on the same or comparable basis, terms, and conditions as the System operating companies, and the matter is pending. Open access and market pricing, once it takes effect, will increase marketing opportunities for the System, but will also expose the System to the risk of loss of load or reduced revenues due to competition with alternative suppliers.

In March 1994, North Little Rock, Arkansas, awarded AP&L a wholesale power contract that will provide estimated revenues of $347 million over 11 years. Under the contract, the price per kwh was reduced 18%, with increases in price through the year 2004. AP&L, which has been serving North Little Rock for over 40 years, was awarded the contract after intense bidding with several competitors. On May 22, 1994, FERC accepted the contract. Rehearings were requested by one of AP&L's competitors and were held in February 1995. The matter is pending.

In light of the rate issues discussed above, Entergy is aggressively reducing costs to avoid potential earnings erosions that might result as well as to successfully compete by becoming a low-cost producer. In 1994, Entergy announced a restructuring program related to certain of its operating units. This program is designed to reduce costs and improve operating efficiencies. See Note 11 for further information. Also, in response to an increasingly competitive environment, AP&L, LP&L, MP&L, and NOPSI have announced intentions to revise their initial least-cost planning activities and GSU is continuing to work with the PUCT regarding integrated resource planning.

The Energy Policy Act of 1992 - The EPAct addresses a wide range of energy issues and is altering the way Entergy and the rest of the electric utility industry operate. The EPAct encourages competition and affords utilities the opportunities and the risks associated with an open and more competitive market environment. The EPAct creates exemptions from regulation under the Public Utility Holding Company Act of 1935 (Holding Company Act) and creates a class of exempt wholesale generators consisting of utility affiliates and non-utilities that are owners and operators of facilities for the generation and transmission of power for sale at wholesale. The EPAct also gives FERC the authority to order investor-owned utilities, including the System operating companies, to transmit power and energy to or for wholesale purchasers and sellers. The law creates the potential for electric utilities and other power producers to gain increased access to the transmission systems of other entities to facilitate wholesale sales. Both the System operating companies and Entergy Power expect to compete in this market. In addition, the EPAct allows utilities to own and operate foreign generation, transmission, and distribution facilities. See "Nonregulated Investments" below for further information.

Public Utility Holding Company Act of 1935 - Entergy Corporation, along with 10 other electric utility holding companies, recently asked Congress to repeal the Holding Company Act. The Holding Company Act requires oversight by the SEC of many business practices and activities of utility holding companies and their subsidiaries including, among other things, nonutility activities. Entergy Corporation believes that the Holding Company Act inhibits its ability to compete in the evolving electric energy marketplace, and largely duplicates the oversight activities already performed by FERC and state and local public service commissions.

Litigation and Regulatory Proceedings

See Note 2 for information on the possible material adverse effects on GSU's financial condition and results of operations as a result of substantial write-offs and/or refunds in connection with outstanding appeals and remands regarding approximately $1.4 billion of abeyed company-wide River Bend plant costs and approximately $187 million ($170 million net of tax) of Texas retail jurisdiction deferred River Bend operating and carrying costs.

See Note 8 for information on the bankruptcy proceedings of Cajun and litigation with Cajun concerning Cajun's ownership interest in River Bend and the related possible material adverse effects on GSU's financial condition.

Entergy Corporation-GSU Merger

The acquisition of GSU by Entergy Corporation was the largest electric utility merger in United States history. Entergy expects to achieve $850 million in fuel cost savings and $670 million in operation and maintenance expense savings over 10 years as a result of the Merger. In 1994, GSU recorded charges associated with certain preacquisition contingencies, severance and augmented retirement costs, and restructuring costs. See Notes 12 and 11 for further information. Although common shareholders experienced some dilution in earnings as a result of the Merger, Entergy believes that the Merger will ultimately be beneficial to common shareholders in terms of strategic benefits as well as economies and efficiencies produced. For further information, see Note 2.

Nonregulated Investments

Entergy Corporation continues to consider opportunities to expand its utility and utility-related businesses that are not regulated by state and local regulatory authorities (nonregulated businesses). Entergy Corporation's investment strategy is to invest in nonregulated business opportunities that have the potential to earn a greater rate of return than its regulated utility operations, and Entergy Corporation may invest up to approximately $150 million per year for the next several years in nonregulated businesses. Entergy Corporation's nonregulated businesses currently fall into two broad categories: power development and new technology related to the utility business. Entergy Corporation made investments in Argentina's and Pakistan's electric energy infrastructures and is also pursuing additional projects in Central America, South America, Europe, and Asia. Entergy Corporation opened an office in Hong Kong during 1994 and expects to open offices in South America and Europe in 1995. Entergy Corporation is negotiating in China to participate in two power generation projects, Datong and Taishan, which are expected to receive final approval in 1995 or 1996. To date, Entergy Corporation has made no investment in the China projects; however, Entergy Corporation's share of these projects may total approximately $115 million. In addition, Entergy Corporation is exploring the possibility to provide telecommunications services that allow customers to control energy usage.

In 1994, Entergy Corporation's nonregulated investments reduced consolidated net income by approximately $31.7 million. In the near term, these investments are unlikely to have a positive effect on earnings; but management believes that these investments will contribute to future earnings growth.

ANO Matters

Arkansas Nuclear One, Unit 2, experienced a forced outage for repair of certain steam generator tubes in March 1992. Further inspections and repairs were conducted at subsequent refueling and mid-cycle outages in September 1992, May 1993, April 1994, and January 1995. AP&L's budgeted maintenance expenditures were adequate to cover the cost of such repairs. ANO 2's output has been reduced 15 megawatts or 1.6% due to secondary side fouling, tube plugging, and reduction of primary temperature. Entergy Operations continues to take steps at ANO 2 to reduce the number and severity of future tube cracks. In addition, Entergy Operations continues to meet with the Nuclear Regulatory Commission (NRC) to discuss such steps and results of inspections of the generator tubes, as well as the timing of future inspections. Additional inspections are planned for the normal refueling outage scheduled for October 1995.

Deregulated Portion of River Bend

As of December 31, 1994, GSU had not recovered a significant amount of its investment in, or received any return associated with, the portion of River Bend included in the deregulated asset plan in Louisiana and the portion of River Bend placed in abeyance as part of the Texas rate order which went into effect in July 1988. See Note 2 for further information. Future earnings will continue to be limited as long as the limited recovery of the investment and lack of return continues.

For the year ended December 31, 1994, GSU recorded revenues resulting from the sale of electricity from the deregulated asset plan of approximately $34.1 million. Operation and maintenance expenses, including fuel, were approximately $30 million, and depreciation expense associated with the deregulated asset plan investment was approximately $16.7 million for the year ended December 31, 1994. For the year ended December 31, 1994, GSU recorded nonfuel revenue of $32.5 million (included in the $34.1 million of total deregulated asset plan revenue discussed above) which, absent the deregulated asset plan, would not have been realized. The operation and maintenance expenses and depreciation expense allocated to the deregulated asset plan as detailed above would have been incurred at River Bend with or without the deregulated asset plan. The future impact of the deregulated asset plan on GSU's results of operations and financial position will depend on River Bend's future operating costs, the unit's efficiency and availability, and the future market for energy over the remaining life of the unit. Based on current estimates of the factors discussed above, GSU anticipates that future revenues from the deregulated asset plan will fully recover all related costs.

Property Tax Exemptions

Exemptions from the payment of Louisiana local property taxes on Waterford 3 and River Bend, which have been in effect for 10 years for each of the plants, will expire in December 1995 and December 1996, respectively. LP&L and GSU are working with taxing authorities to determine the method for calculating the amount of the property taxes to be paid when the exemptions expire. LP&L believes that assessed property taxes will be recovered from its customers through rates. GSU believes that assessed property taxes allocated to its retail jurisdictions will be recovered from those customers through rates.

Environmental Issues

GSU has been notified by the United States Environmental Protection Agency (EPA) that it has been designated as a potentially responsible party for the cleanup of sites on which GSU and others have or have been alleged to have disposed of material designated as hazardous waste. GSU is currently negotiating with the EPA and state authorities regarding the cleanup of some of these sites. Several class action and other suits have been filed in state and federal courts seeking relief from GSU and others for damages caused by the disposal of hazardous waste and for asbestos-related disease allegedly resulting from exposure on GSU premises. While the amounts at issue in the cleanup efforts and suits may be substantial, GSU believes that its results of operations and financial condition will not be materially affected by the outcome of the suits.

During 1993, the Louisiana Department of Environmental Quality issued new rules for solid waste regulation, including waste water impoundments. LP&L has determined that certain of its power plant waste water impoundments are affected by these regulations and has chosen to either upgrade or close them. The aggregate cost of the upgrades and closures, to be completed by 1996, is estimated to be $16 million.

Accounting Issues

Proposed Accounting Standards - The Financial Accounting Standards Board (FASB) has proposed a SFAS on Accounting for the Impairment of Long-Lived Assets, effective January 1, 1996. The proposed standard describes circumstances which may result in assets (including goodwill such as the Merger acquisition adjustment, see Note 1) being impaired and provides criteria for recognition and measurement of asset impairment. Note 2 describes regulatory assets of $170 million (net of tax) related to Texas retail deferred River Bend operating and carrying costs. Management believes these deferred costs will be required to be written off under the provisions of the new standard unless there are favorable regulatory or court actions related to these costs prior to the adoption of the new standard by Entergy. Certain other operations of Entergy are potentially affected by this standard, and any resulting write-offs will depend on future operating costs, generating units' efficiency and availability, and the future market for energy over the remaining life of the units. Based on current estimates, Entergy anticipates that future revenues will fully recover the costs of such operations.

Continued Application of SFAS 71 - Entergy's financial statements currently reflect, for the most part, assets and costs based on current cost-based ratemaking regulations, in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation." As discussed above, the electric utility industry is changing and these changes could possibly result in the discontinuance of the application of SFAS 71, which would result in the elimination of regulatory assets and liabilities. See Note 1 for further information.

Accounting for Decommissioning Costs - The FASB is currently reviewing the accounting for decommissioning of nuclear plants. This project could possibly change the System's, as well as the entire utility industry's, accounting for such costs. For further information, see Note 8.

REPORT OF MANAGEMENT

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

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

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

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

EDWIN LUPBERGER
Chairman and
Chief Executive Officer

GERALD D. MCINVALE
Senior Vice President and
Chief Financial Officer

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Entergy Corporation Board of Directors' Audit Committee is comprised of four directors, who are not officers of Entergy Corporation: H. Duke Shackelford (Chairman), Lucie J. Fjeldstad, Dr. Norman C. Francis, and James R. Nichols. The committee held four meetings during 1994.

The Audit Committee oversees Entergy Corporation's financial reporting process on behalf of Entergy Corporation's Board of Directors. In fulfilling its responsibility, the committee recommended to the Board, subject to stockholder approval, the selection of Entergy Corporation's independent public accountants (Coopers & Lybrand L.L.P.).

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

H. DUKE SHACKELFORD
Chairman, Audit Committee

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Entergy Corporation

We have audited the accompanying consolidated balance sheet of Entergy Corporation and Subsidiaries as of December 31, 1994, and the related statements of consolidated income, retained earnings and paid-in capital and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Entergy Corporation and Subsidiaries as of December 31, 1993 and for the years ended December 31, 1993 and 1992, were audited by other auditors, whose report, dated February 11, 1994, included explanatory paragraphs that (i) described changes in 1993 in methods of accounting for revenues, income taxes and postretirement benefits other than pensions (Notes 1, 3 and 10, respectively); (ii) uncertainties regarding costs capitalized by Gulf States Utilities Company for its River Bend Unit I Nuclear Generating Plant (River Bend) and other rate-related contingencies which may result in a refund of revenues previously collected (Note 2); and, (iii) an uncertainty regarding civil actions against Gulf States Utilities Company (Note 8).

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entergy Corporation and Subsidiaries as of December 31, 1994, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the net amount of capitalized costs for River Bend exceed those costs currently being recovered through rates. At December 31, 1994, approximately $685 million is not currently being recovered through rates. If current regulatory and court orders are not modified, a write-off of all or a portion of such costs may be required. Additionally, as discussed in Note 2 to the consolidated financial statements, other rate-related contingencies exist which may result in refunds of revenues previously collected. The extent of such write-off of capitalized River Bend costs or refunds of revenues previously collected, if any, will not be determined until appropriate rate proceedings and court appeals have been concluded. Accordingly, the accompanying consolidated financial statements do not include any adjustments or provision for write-off or refund that might result from the outcome of these uncertainties.

As discussed in Note 8 to the consolidated financial statements, civil actions have been initiated against Gulf States Utilities Company to, among other things, recover the co-owner's investment in River Bend and to annul the River Bend Joint Ownership Participation and Operating Agreement. The ultimate outcome of these proceedings cannot presently be determined.

Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
New Orleans, Louisiana
February 21, 1995, except for the last paragraph of "Filings with the PUCT and Texas Cities" in Note 2, as to which the date is March 20, 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its direct and indirect subsidiaries: AP&L, GSU, LP&L, MP&L, NOPSI, System Energy, Entergy Operations, Entergy Pakistan, Ltd., Entergy Power, Entergy Power Development Corporation, Entergy Richmond Power Corporation, Entergy Services, Inc., System Fuels, Inc., Entergy Enterprises, Inc., Entergy SASI, Entergy S.A., Entergy Argentina S.A., Entergy Transener S.A., Entergy Asia, Ltd., Entergy Yacyreta I, Inc., and Entergy Edegel, Inc. Because the acquisition of GSU was consummated on December 31, 1993, under the purchase method of accounting, GSU is included only in the December 31, 1993, consolidated balance sheet amounts. GSU is included in all of the consolidated financial statements for 1994. All references made to Entergy or the System as of, and subsequent to, the Merger closing date include amounts and information pertaining to GSU as an Entergy company. All significant intercompany transactions have been eliminated. Entergy Corporation's utility subsidiaries maintain accounts in accordance with FERC and other regulatory guidelines. Certain previously reported amounts have been reclassified to conform to current classifications.

Revenues and Fuel Costs

The System operating companies accrue estimated revenues for energy delivered since the latest billings. However, prior to January 1, 1993, AP&L, GSU, MP&L, and NOPSI recognized electric and gas revenues when billed. To provide a better matching of revenues and expenses, effective January 1, 1993, AP&L, GSU, MP&L, and NOPSI adopted a change in accounting principle to provide for accrual of estimated unbilled revenues. The cumulative effect of this accounting change as of January 1, 1993, (excluding GSU) increased net income by $93.8 million or $0.54 per share. Had this new accounting method been in effect during prior years, net income before the cumulative effect would not have been materially different from that shown in the accompanying financial statements. In accordance with a LPSC rate order, GSU recorded a deferred credit of $16.6 million for the January 1, 1993, amount of unbilled revenues. See Note 2 regarding recent LPSC rate actions regarding the deferred unbilled revenues.

The System operating companies' rate schedules (except GSU's Texas retail rate schedules) include fuel adjustment clauses that allow either current recovery or deferrals of fuel costs until such costs are reflected in the related revenues. GSU's Texas retail rate schedules include a fixed fuel factor approved by the PUCT, which remains in effect until changed as part of a general rate case, fuel reconciliation, or a fixed fuel factor filing.

Utility Plant

Utility plant is stated at original cost. The original cost of utility plant retired or removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance, repairs, and minor replacement costs are charged to operating expenses. Substantially all of the utility plant is subject to liens of the subsidiaries' mortgage bond indentures.

Utility plant includes the portions of Grand Gulf 1 and Waterford 3 that were sold and are currently under lease. For financial reporting purposes, these sale and leaseback transactions are reflected as financing transactions.

Total System net electric utility plant in service of $14.5 billion as of December 31, 1994, (excluding approximately $0.5 billion of plant acquisition adjustment related to the Merger) includes $9.8 billion of production plant, $1.4 billion of transmission plant, $2.8 billion of distribution plant, and $0.5 billion of other plant.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives and costs of removal of the various classes of property. Depreciation provisions on average depreciable property approximated 3.0% in 1994 and 1993, and 3.1% in 1992.

The Allowance for Funds Used During Construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases utility plant and increases earnings, it is only realized in cash through depreciation provisions included in rates. The System operating companies' effective composite rates for AFUDC were 9.5% for 1994, 10.6% for 1993, and 10.8% for 1992.

Jointly-Owned Generating Stations

Certain Entergy Corporation subsidiaries own undivided interests in several jointly-owned electric generating facilities and record the investments and expenses associated with these generating stations to the extent of their respective ownership interests. As of December 31, 1994, the System's investment and accumulated depreciation in each of these generating stations were as follows:

GENERATING STATIONS		FUEL TYPE	TOTAL MEGAWATT CAPABILITY	OWNERSHIP	INVESTMENT	ACCUMULATED DEPRECIATION
					(In thousands)	
Grand Gulf		Nuclear	1,143	90.00% [1]	$3,366,471	$751,717
River Bend	Unit 1	Nuclear	936	70.00% [2]	$3,080,019	$617,002
Independence	Units 1 and 2	Coal	1,678	56.50%	$ 541,893	$170,837
White Bluff	Units 1 and 2	Coal	1,660	57.00%	$ 400,918	$151,830
Roy S. Nelson	Unit 6	Coal	550	70.00%	$ 390,033	$145,897
Big Cajun 2	Unit 3	Coal	540	42.00%	$ 219,788	$ 74,442

(1) Includes System Energy's ownership and leasehold interests in Grand Gulf 1.
(2) See Note 8 regarding the current status of Cajun's 30% undivided ownership interest in River Bend.

Income Taxes

Entergy Corporation and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the System companies in proportion to their contribution to consolidated taxable income. SEC regulations require that no Entergy Corporation subsidiary pay more taxes than it would have had a separate income tax return been filed. Deferred taxes are recorded for all temporary differences between book and taxable income. Investment tax credits are deferred and amortized based upon the average useful life of the related property in accordance with rate treatment. As discussed in Note 3, in 1993 Entergy changed its accounting for income taxes to conform with SFAS 109.

Acquisition Adjustment

Entergy Corporation, upon completion of the Merger in December 1993 (see Note 12 for additional details), recorded an acquisition adjustment in utility plant in the amount of $380 million representing the excess of the purchase price over the net assets acquired of GSU. During 1994, the System recorded an additional $115 million of acquisition adjustment related to the resolution of certain preacquisition contingencies and appropriate allocation of purchase price, which combined with the amortization of the acquisition adjustment of $16 million in 1994, resulted in an unamortized balance of $479 million of acquisition adjustment as of December 31, 1994. The acquisition adjustment is being amortized on a straight-line basis over a 31-year period beginning January 1, 1994, which approximates the remaining average book life of the plant acquired as a result of the Merger. The System anticipates that its future net cash flows will be sufficient to recover such amortization.

Reacquired Debt

The premiums and costs associated with reacquired debt are being amortized over the life of the related new issuances, in accordance with ratemaking treatment.

Cash and Cash Equivalents

Entergy considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Continued Application of SFAS 71

As a result of the EPAct and actions of regulatory commissions, the electric utility industry is moving toward a combination of competition and a modified regulatory environment. The System's financial statements currently reflect, for the most part, assets and costs based on current cost-based ratemaking regulations, in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation." Continued applicability of SFAS 71 to the System's financial statements requires that rates set by an independent regulator on a cost-of-service basis (including a reasonable rate of return on invested capital) can actually be charged to and collected from customers.

In the event that either all or a portion of a utility's operations cease to meet those criteria for various reasons, including deregulation, a change in the method of regulation or a change in the competitive environment for the utility's regulated services, the utility should discontinue application of SFAS 71 for the relevant portion. That discontinuation should be reported by elimination from the balance sheet of the effects of any actions of regulators recorded as regulatory assets and liabilities.

As of December 31, 1994, and for the foreseeable future, the System's financial statements continue to follow SFAS 71, with the exceptions noted below.

SFAS 101

SFAS 101, "Accounting for the Discontinuation of Application of FASB 71," specifies how an enterprise that ceases to meet the criteria for application of SFAS 71 to all or part of its operations should report that event in its financial statements. GSU discontinued regulatory accounting principles for its wholesale jurisdiction and steam department and the Louisiana deregulated portion of River Bend during 1989 and 1991, respectively.

Fair Value Disclosures

The estimated fair value of financial instruments has been determined by Entergy, using available market information and appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. In addition, gains or losses realized on financial instruments may be reflected in future rates and not accrue to the benefit of stockholders.

Entergy considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. In addition, Entergy does not presently expect that performance of its obligations will be required in connection with certain off-balance sheet commitments and guarantees considered financial instruments. Due to this factor, and because of the related party nature of these commitments and guarantees, determination of fair value is not considered practicable. See Notes 5, 6, and 8 for additional fair value disclosure.

Entergy adopted the provisions of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. As a result, as of December 31, 1994, Entergy recorded on the balance sheet a reduction of

$2.2 million in decommissioning trust funds, representing the amount by which the fair value of the securities held in such funds is less than amounts for decommissioning recovered in rates and deposited in the funds and the related earnings on the amounts deposited. Due to the regulatory treatment for decommissioning trust funds, the System recorded an offsetting amount in unrealized losses on investment securities as a regulatory asset.

NOTE 2. RATE AND REGULATORY MATTERS

River Bend

In May 1988, the PUCT granted GSU a permanent increase in annual revenues of $59.9 million resulting from the inclusion in rate base of approximately $1.6 billion of company-wide River Bend plant investment and approximately $182 million of related Texas retail jurisdiction deferred River Bend costs (Allowed Deferrals). In addition, the PUCT disallowed as imprudent $63.5 million of company-wide River Bend plant costs and placed in abeyance, with no finding of prudence, approximately $1.4 billion of company-wide River Bend plant investment and approximately $157 million of Texas retail jurisdiction deferred River Bend operating and carrying costs. The PUCT affirmed that the ultimate rate treatment of such amounts would be subject to future demonstration of the prudence of such costs. GSU and intervening parties appealed this order (Rate Appeal) and GSU filed a separate rate case asking that the abeyed River Bend plant costs be found prudent (Separate Rate Case). Intervening parties filed suit in a Texas district court to prohibit the Separate Rate Case. The district court's decision was ultimately appealed to the Texas Supreme Court, which ruled in 1990 that the prudence of the purported abeyed costs could not be relitigated in a separate rate proceeding. The Texas Supreme Court's decision stated that all issues relating to the merits of the original PUCT order, including the prudence of all River Bend-related costs, should be addressed in the Rate Appeal.

In October 1991, the Texas district court in the Rate Appeal issued an order holding that, while it was clear the PUCT made an error in assuming it could set aside $1.4 billion of the total costs of River Bend and consider them in a later proceeding, the PUCT, nevertheless, found that GSU had not met its burden of proof related to the amounts placed in abeyance. The court also ruled that the Allowed Deferrals should not be included in rate base. The court further stated that the PUCT had erred in reducing GSU's deferred costs by $1.50 for each $1.00 of revenue collected under the interim rate increases authorized in 1987 and 1988. The court remanded the case to the PUCT with instructions as to the proper handling of the Allowed Deferrals. GSU's motion for rehearing was denied and, in December 1991, GSU filed an appeal of the October 1991 district court order. The PUCT also appealed the October 1991 district court order, which served to supersede the district court's judgment, rendering it unenforceable under Texas law.

In August 1994, the Texas Third District Court of Appeals (the Appellate Court) affirmed the district court's decision that there was substantial evidence to support the PUCT's 1988 decision not to include the abeyed construction costs in GSU's rate base. While acknowledging that the PUCT had exceeded its authority when it attempted to defer a decision on the inclusion of those costs in rate base in order to allow GSU a further opportunity to demonstrate the prudence of those costs in a subsequent proceeding, the Appellate Court found that GSU had suffered no harm or lack of due process as a result of the PUCT's error. Accordingly, the Appellate Court held that the PUCT's action had the effect of disallowing the company-wide $1.4 billion of River Bend construction costs for ratemaking purposes. In its August 1994 opinion, the Appellate Court also held that GSU's deferred operating and maintenance costs associated with the allowed portion of River Bend should be included in rate base and that GSU's deferred River Bend carrying costs included in the Allowed Deferrals should also be included in rate base. The Appellate Court's August 1994 opinion affirmed the PUCT's original order in this case.

The Appellate Court's August 1994 opinion was entered by two judges, with a third judge dissenting. The dissenting opinion states that the result of the majority opinion is, among other things, to deprive GSU of due process at the PUCT because the PUCT never reached a finding on the $1.4 billion of construction costs.

In October 1994, the Appellate Court denied GSU's motion for rehearing on the August 1994 opinion as to the $1.4 billion in River Bend construction costs and other matters. GSU appealed the Appellate Court's decision to the Texas Supreme Court, where it is pending.

As of December 31, 1994, the River Bend plant costs disallowed for retail ratemaking purposes in Texas, the River Bend plant costs held in abeyance, and the related operating and carrying cost deferrals totaled (net of taxes) approximately $13 million, $280 million (both net of depreciation), and $170 million, respectively. Allowed Deferrals were approximately $107 million, net of taxes and amortization, as of December 31, 1994. GSU estimates it has collected approximately $158 million of revenues as of December 31, 1994, as a result of the originally ordered rate treatment by the PUCT of these deferred costs. If recovery of the Allowed Deferrals is not upheld, future revenues based upon those allowed deferrals could also be lost, and no assurance can be given as to whether or not refunds of revenue received based upon such deferred costs previously recorded will be required.

No assurance can be given as to the timing or outcome of the remands or appeals described above. Pending further developments in these cases, GSU has made no write-offs or reserves for the River Bend-related costs. Management believes, based on advice from Clark, Thomas & Winters, a Professional Corporation, legal counsel of record in the Rate

Appeal, that it is reasonably possible that the case will be remanded to the PUCT, and the PUCT will be allowed to rule on the prudence of the abeyed River Bend plant costs. Rate Caps imposed by the PUCT's regulatory approval of the Merger could result in GSU being unable to use the full amount of a favorable decision to immediately increase rates; however, a favorable decision could permit some increases and/or limit or prevent decreases during the period the Rate Caps are in effect. At this time, management and legal counsel are unable to predict the amount, if any, of the abeyed and previously disallowed River Bend plant costs that ultimately may be disallowed by the PUCT. A net of tax write-off as of December 31, 1994, of up to $293 million could be required based on an ultimate adverse ruling by the PUCT on the abeyed and disallowed costs.

In prior proceedings, the PUCT has held that the original cost of nuclear power plants will be included in rates to the extent those costs were prudently incurred. Based upon the PUCT's prior decisions, management believes that its River Bend construction costs were prudently incurred and that it is reasonably possible that it will recover in rate base, or otherwise through means such as a deregulated asset plan, all or substantially all of the abeyed River Bend plant costs. However, management also recognizes that it is reasonably possible that not all of the abeyed River Bend plant costs may ultimately be recovered.

As part of its direct case in the Separate Rate Case, GSU filed a cost reconciliation study prepared by Sandlin Associates, management consultants with expertise in the cost analysis of nuclear power plants, which supports the reasonableness of the River Bend costs held in abeyance by the PUCT. This reconciliation study determined that approximately 82% of the River Bend cost increase above the amount included by the PUCT in rate base was a result of changes in federal nuclear safety requirements and provided other support for the remainder of the abeyed amounts.

There have been four other rate proceedings in Texas involving nuclear power plants. Investment in the plants ultimately disallowed ranged from 0% to 15%. Each case was unique, and the disallowances in each were made on a case-by-case basis for different reasons. Appeals of two of these PUCT decisions are currently pending.

The following factors support management's position that a loss contingency requiring accrual has not occurred, and its belief that all, or substantially all, of the abeyed plant costs will ultimately be recovered:

1. The $1.4 billion of abeyed River Bend plant costs have never been ruled imprudent and disallowed by the PUCT.
2. Sandlin Associates' analysis which supports the prudence of substantially all of the abeyed construction costs.
3. Historical inclusion by the PUCT of prudent construction costs in rate base.
4. The analysis of GSU's internal legal staff, which has considerable experience in Texas rate case litigation.

Additionally, management believes, based on advice from Clark, Thomas & Winters, a Professional Corporation, legal counsel of record in the Rate Appeal, that it is reasonably possible that the Allowed Deferrals will continue to be recovered in rates. Management also believes, based on advice from Clark, Thomas & Winters, a Professional Corporation, legal counsel of record in the Rate Appeal, that it is reasonably possible that the deferred costs related to the $1.4 billion of abeyed River Bend plant costs will be recovered in rates to the extent that the $1.4 billion of abeyed River Bend plant is recovered. However, a net of tax write-off of the $170 million of deferred costs related to the $1.4 billion of abeyed River Bend plant costs would be required if they are not allowed to be recovered in rates.

A proposed accounting standard, "Accounting for the Impairment of Long-Lived Assets," which is expected to become effective January 1, 1996, may require the write-off of the $170 million of rate deferrals discussed above, upon adoption of the standard, unless there are favorable regulatory or court actions related to these costs prior to adoption.

Merger-Related Rate Agreements

In November 1993, Entergy Corporation, AP&L, MP&L, and NOPSI entered into separate settlement agreements whereby the Arkansas Public Service Commission (APSC), MPSC, and Council agreed to withdraw from the SEC proceeding related to the Merger. In return AP&L, MP&L, and NOPSI agreed, among other things, that their retail ratepayers would be protected from (1) increases in the cost of capital resulting from risks associated with the Merger, (2) recovery of any portion of the acquisition premium or transactional costs associated with the Merger, (3) certain direct allocations of costs associated with GSU's River Bend nuclear unit, and (4) any losses of GSU resulting from resolution of litigation in connection with its ownership of River Bend. AP&L and MP&L agreed not to request any general retail rate increase that would take effect before November 1998, except for, among other things, increases associated with the recovery of certain Grand Gulf 1-related costs, recovery of certain taxes, and force majeure (defined to include, among other things, war, natural catastrophes, and high inflation), and in the case of AP&L, excess capacity costs and costs related to the adoption of SFAS 106 that were previously deferred. MP&L also agreed that retail base rates under the formula rate plan would not be increased above November 1, 1993, levels for a period of five years beginning November 9, 1993 (described below).

In 1993, the LPSC and the PUCT approved separate regulatory proposals that include the following elements: (1) a five-year Rate Cap on GSU's retail electric base rates in the respective states, except for force majeure (defined to include, among other things, war, natural catastrophes, and high inflation); (2) a provision for passing through to retail customers in the respective states the jurisdictional portion of the fuel savings created by the Merger; and (3) a mechanism for tracking nonfuel operation and maintenance savings created by the Merger. The LPSC regulatory plan provides that such nonfuel savings will be shared 60% by the shareholder and 40% by ratepayers during the eight years following the Merger. The LPSC plan requires regulatory filings each year by the end of May through 2001. The PUCT regulatory plan provides that such savings will be shared equally by the shareholder and ratepayers, except that the shareholder's portion will be reduced by $2.6 million per year on a total company basis in years four through eight. The PUCT plan also requires a series of future regulatory filings in November 1996, 1998, and 2001 to ensure that ratepayers' share of such savings be reflected in rates on a timely basis and requires Entergy Corporation to hold GSU's Texas retail customers harmless from the effects of the removal by FERC of a 40% cap on the amount of fuel savings GSU may be required to transfer to other System operating companies under the FERC tracking mechanism (see below). On January 14, 1994, Entergy Corporation filed a request for rehearing of FERC's December 15, 1993, order approving the Merger requesting that FERC restore the 40% cap provision in the fuel cost protection mechanism. The matter is pending.

FERC approved certain rate schedule changes to integrate GSU into the System Agreement. Certain commitments were adopted to provide reasonable assurance that the ratepayers of AP&L, LP&L, MP&L, and NOPSI will not be allocated higher costs, including, among other things, (1) a tracking mechanism to protect AP&L, LP&L, MP&L, and NOPSI from certain unexpected increases in fuel costs, (2) the distribution of profits from power sales contracts entered into prior to the Merger, (3) a methodology to estimate the cost of capital in future FERC proceedings, and (4) a stipulation that AP&L, LP&L, MP&L, and NOPSI will be insulated from certain direct effects on capacity equalization payments should GSU acquire Cajun's 30% share in River Bend (see Note 8).

Formula Rate Plan

Under a formulary incentive rate plan (Formula Rate Plan) effective March 25, 1994, MP&L's earned rate of return is calculated automatically every 12 months and compared to and adjusted against a benchmark rate of return (calculated under a separate formula within the Formula Rate Plan). The Formula Rate Plan allows for periodic small adjustments in rates based on a comparison of earned to benchmark returns and upon certain performance factors. In the same proceeding, the MPSC conducted a general review of MP&L's current rates and on March 1, 1994, issued a final order adopting the Formula Rate Plan and previously agreed-upon stipulations of (1) a required return on equity of 11% and (2) certain accounting adjustments that resulted in a 4.3% ($28.1 million) reduction in MP&L's June 30, 1993, test-year base revenues. The MPSC's order required MP&L to file rates designed to provide for this reduction in operating revenues for the test year on or before March 18, 1994, which became effective March 25, 1994. The final order was appealed to the Mississippi Supreme Court on May 17, 1994, by Mississippi Valley Gas Company (MVG) on the grounds that the MPSC issued the final order without having reviewed the cost of MP&L's promotional practices, some of which MVG alleged to be improper. MVG filed a motion to dismiss the appeal, and on October 28, 1994, the Mississippi Supreme Court granted MVG's motion.

FERC Settlement

In November 1994, FERC approved an agreement settling a long-standing dispute involving income tax allocation procedures of System Energy Resources, Inc. In accordance with the agreement, System Energy refunded approximately $61.7 million to AP&L, LP&L, MP&L, and NOPSI, which in turn have made or will make refunds or credits to their customers (except for those portions attributable to AP&L's and LP&L's retained share of Grand Gulf 1 costs). Additionally, System Energy will refund a total of approximately $62 million, plus interest, to AP&L, LP&L, MP&L, and NOPSI over the period through June 2004. The settlement also required the write-off of certain related unamortized balances of deferred investment tax credits by AP&L, LP&L, MP&L, and NOPSI. The settlement reduced Entergy Corporation's consolidated net income for the year ended December 31, 1994, by approximately $68.2 million, offset by the write-off of the unamortized balances of related deferred investment tax credits of approximately $69.4 million ($2.9 million for Entergy Corporation; $27.3 million for AP&L; $31.5 million for LP&L; $6 million for MP&L; and $1.7 million for NOPSI). System Energy also reclassified from utility plant to other deferred debits approximately $81 million of other Grand Gulf 1 costs. Although excluded from rate base, System Energy will be permitted to recover such costs over a 10-year period. Interest on the $62 million refund and the loss of the return on the $81 million of other Grand Gulf 1 costs will reduce Entergy's and System Energy's net income by approximately $10 million annually over the next 10 years.

As a result of the charges associated with the settlement, System Energy obtained the consent of certain banks (parties to the Reimbursement Agreement) to waive temporarily the fixed charge coverage covenant in the letters of credit and Reimbursement Agreement related to the Grand Gulf 1 sale and leaseback transaction until November 30, 1995. System Energy expects that upon expiration of the waiver period, it will be in compliance with the fixed charge coverage covenant. Absent a waiver, System Energy's failure to perform this covenant could cause a draw under the letters of credit and/or early termination of the letters of credit. If the letters of credit were not replaced in a timely manner, a default or early termination of System Energy's leases could result.

Rate Deferrals

The System operating companies have various rate moderation or phase-in plans that reduced the immediate effect of Grand Gulf 1, River Bend, and Waterford 3 costs on ratepayers. Under these plans, certain costs are either retained permanently (and not recovered from ratepayers), deferred in early years and collected in later years, or recovered currently from customers. These plans vary in the proportions of costs each company retains, defers, or recovers and in the length of the deferral/recovery periods. Only those costs retained permanently and not recovered through rates or through sales to third parties result in a reduction of net income. The carrying charges associated with unamortized deferrals were either deferred or recovered currently from customers.

GSU deferred approximately $369 million of River Bend operating costs, purchased power costs, and accrued carrying charges pursuant to a 1986 PUCT accounting order. Approximately $182 million of these costs are being amortized over a 20-year period, and the remaining $187 million are not being amortized pending the ultimate outcome of the Rate Appeal. As of December 31, 1994, the unamortized balance of these costs was $321 million. Further, GSU deferred approximately $400.4 million of similar costs pursuant to a 1986 LPSC accounting order. These costs, of which approximately $122 million were unamortized as of December 31, 1994, are being amortized over a 10-year period ending in 1997.

In accordance with a phase-in plan approved by the LPSC, GSU deferred $294 million of its River Bend costs related to the period February 1988 through February 1991. GSU has amortized $129 million through December 31, 1994, and the remainder of $165 million will be recovered over approximately 3.2 years.

AP&L's permanently retained share of Grand Gulf 1 costs is 7.92% in 1994 and all succeeding years of the unit's commercial operation. In the event AP&L is not able to sell its retained share to third parties, it may sell such energy to its retail customers at a price equal to its avoided energy cost, which is currently less than AP&L's cost of such energy. LP&L permanently absorbs 18% of its 14% (approximately 2.52%) FERC-allocated share of Grand Gulf 1-related costs. LP&L is able to recover through the fuel adjustment clause 4.6 cents per kwh (as of May 1994) for the energy related to its retained portion of these costs. Alternatively, LP&L may sell such energy to nonaffiliated parties at prices above the fuel adjustment clause recovery amount, subject to LPSC approval. For the year ended December 31, 1994, System Energy's billings for Grand Gulf 1-related costs totaled approximately $475 million.
A deregulated asset plan representing an unregulated portion (approximately 22%) of River Bend (plant costs, generation, revenues, and expenses) was established pursuant to a January 1992 LPSC order. The plan allows GSU to sell such generation to Louisiana retail customers at 4.6 cents per kwh or off-System at higher prices with certain sharing provisions for such incremental revenue. Based on current estimates, Entergy anticipates that future revenues will fully recover all related costs.

Filings with the PUCT and Texas Cities

In March 1994, the Texas Office of Public Utility Counsel and certain cities served by GSU instituted an investigation of the reasonableness of GSU's rates. In June 1994, GSU provided the cities with information that GSU believed supported the current rate level. GSU filed the same information with the PUCT in June 1994, pursuant to provisions of the Merger. In September 1994, various cities adopted ordinances directing GSU to reduce its Texas retail rates by $45.9 million. GSU appealed the cities' ordinances to the PUCT for a determination of reasonableness of GSU's rates.

In November 1994, those cities that intervened in the PUCT appeal filed testimony with the PUCT supporting a $118 million base rate reduction in lieu of the previously proposed $45.9 million reduction. In November 1994, the PUCT staff filed testimony that supported a $38.2 million base rate reduction. GSU filed information with the PUCT that it believed supported the current level of rates. Hearings were held in December 1994 and on March 20, 1995, the PUCT ordered a $72.9 million annual base rate reduction for the period March 31, 1994, through September 1, 1994, decreasing to an annual base rate reduction of $52.9 million after September 1, 1994. In accordance with the Merger agreement, the rate reduction is applied retroactively to March 31, 1994. As a result, GSU recorded a $57 million reserve for rate refund in 1994. The rate reduction is being appealed and no assurance can be given as to the timing or outcome of the appeal.

Texas Cities Rate Settlement - 1993

In June 1993, 13 cities within GSU's Texas service area instituted an investigation to determine whether GSU's current rates were justified. In October 1993, the general counsel of the PUCT instituted an inquiry into the reasonableness of GSU's rates. In November 1993, a settlement agreement was filed with the PUCT which provided for an initial reduction in GSU's annual retail base revenues in Texas of approximately $22.5 million effective for electric usage on or after November 1, 1993, and a second reduction of $20 million effective September 1994. Pursuant to the settlement, GSU reduced rates with a $20 million one-time bill credit in December 1993, and refunded approximately $3 million to Texas retail customers on bills rendered in December 1993. The PUCT approved the settlement agreement on July 21, 1994. The cities' rate inquiries were settled earlier on the same terms.

LPSC Rate Reviews

In May 1994, GSU made the required first post-Merger earnings analysis filing with the LPSC. On December 14, 1994, the LPSC ordered a $12.7 million annual rate reduction for GSU effective January 1995. The rate order included, among other things, a reduction in GSU's Louisiana jurisdictional authorized return on equity from 12.75% to 10.95% and the amortization for the benefit of the customer of $8.3 million of previously deferred unbilled revenue, representing one-half of the total resulting from a change in accounting as discussed in Note 1. On December 28, 1994, GSU received a preliminary injunction from the 19th Judicial District Court regarding $8.3 million of the reduction. On January 1, 1995, GSU reduced rates by $4.4 million. The entire $12.7 million reduction is being appealed and no assurance can be given as to the timing or outcome of the appeal.

In August 1994, LP&L filed a performance-based formula rate plan with the LPSC. The proposed formula rate plan would continue existing LP&L rates at current levels, while providing financial incentive to reduce costs and maintain high levels of customer satisfaction and system reliability. A performance rating adjustment feature of the plan would allow LP&L the opportunity to earn a higher rate of return if it improves performance over time. Conversely, if performance declines, the rate of return LP&L could earn would be lowered. This provides financial incentive for LP&L to maintain continuous improvement in all three performance categories (customer price, customer satisfaction, and customer reliability). Under the proposed plan, if LP&L's earnings fall within a bandwidth around a benchmark rate of return, there would be no adjustment in rates. If LP&L's earnings are above the bandwidth, the proposed plan would automatically reduce LP&L's base rates. Alternatively, if LP&L's earnings are below the bandwidth, the proposed plan would automatically increase LP&L's base rates. The reduction or increase in base rates would be an amount representing 50% of the difference between the earned rate of return and the nearest limit of the bandwidth. In no event would the annual adjustment in rates exceed 2% of LP&L's retail revenues. Hearings were held in March 1995. No assurance can be given that the LPSC will accept the performance-based formula rate plan, or that the current rate review will not result in a rate decrease.

February 1994 Ice Storm/Rate Rider

In early February 1994, an ice storm left more than 221,000 Entergy customers without electric power across the System's four-state service area. The storm was the most severe natural disaster ever to affect the System, causing damage to transmission and distribution lines, equipment, poles, and facilities in certain areas, primarily in Mississippi. Repair costs totaled approximately $116.2 million, $30.8 million, and $77.2 million for the System, AP&L, and MP&L, respectively, with $85 million, $18.7 million, and $64.6 million of these amounts capitalized as plant-related costs. The remaining balances have been charged against the respective companies' regulatory storm damage reserves, except for MP&L which recorded a deferred debit. On April 15, 1994, MP&L filed for rate recovery of costs related to the ice storm. MP&L's filing, as subsequently amended, requested recovery of the revenue requirement associated with MP&L's ice storm costs recorded through April 30, 1994, representing approximately 86% of the total estimated ice storm costs. MP&L may make another ice storm rate filing with the MPSC during 1995 to recover ice storm costs recorded by MP&L after April 30, 1994. In August 1994, MP&L and the MPSC's Public Utilities Staff entered into a stipulation with respect to the recovery of ice storm costs recorded through April 30, 1994, and in September 1994, the MPSC approved the stipulation. Under the stipulation, MP&L implemented an ice storm rider schedule, which went into effect on September 29, 1994, that will increase rates approximately $8 million annually for five years. At the end of the five-year period, the revenue requirement associated with the undepreciated ice storm capitalized costs will be included in MP&L's base rates to the extent that this revenue requirement does not result in MP&L's rate of return on rate base being above the benchmark rate of return under MP&L's formula rate plan.

PUCT Fuel Cost Review (December 1, 1986 - September 30, 1991)

In January 1992, GSU applied to the PUCT for a new fixed fuel factor and requested a final reconciliation of fuel and purchased power costs incurred between December 1, 1986, and September 30, 1991. GSU proposed to recover net underrecoveries and interest (including underrecoveries related to Nelson Industrial Steam Company (NISCO), discussed below) over a 12-month period.

In April 1993, the presiding PUCT administrative law judge (ALJ) issued a report concluding that GSU incurred approximately $117 million of nonreimbursable fuel costs on a company-wide basis (approximately $50 million on a Texas retail jurisdictional basis) during the reconciliation period. Included in the nonreimbursable fuel costs were payments above GSU's avoided cost rate for power purchased from NISCO. The PUCT ordered in 1986 that the purchased power costs from NISCO in excess of GSU's avoided costs be disallowed. The PUCT disallowance resulted in approximately $12 million to $15 million of unrecovered purchased power costs on an annual basis, which GSU continued to expense as the costs were incurred. In April 1991, the Texas Supreme Court, in the appeal of such order, ordered the PUCT to allow GSU to recover purchased power payments in excess of its avoided cost in future proceedings, if GSU established to the PUCT's satisfaction that the payments were reasonable and necessary expenses.

In June 1993, the PUCT concluded that the purchased power payments made to NISCO in excess of GSU's avoided cost were not reasonably incurred. As a result of the order, GSU recorded additional fuel expenses (including interest) of

$2.8 million for non-NISCO related items. The PUCT's order resulted in no additional expenses related to the NISCO issue, or for overcollections related to the fixed fuel factor, as those charges were expensed by GSU as they were incurred. The PUCT concluded that GSU had over-collected its fuel costs in Texas and ordered GSU to refund approximately $33.8 million to its Texas retail customers, including approximately $7.5 million of interest. In that proceeding, the PUCT also set GSU's fixed fuel factor in Texas at 1.84 cents per kwh in response to GSU's request that the factor be set at 2.02 cents per kwh. In October 1993, GSU appealed the PUCT's order to the Travis County District Court where the matter is still pending. No assurance can be given as to the timing or outcome of that appeal. In a subsequent proceeding to review GSU's fuel factor, the PUCT approved GSU's request to further reduce its fixed fuel factor in Texas to 1.78 cents per kwh from 1.84 cents per kwh.

PUCT Fuel Cost Review (October 1, 1991 - December 31, 1993)

On January 9, 1995, GSU and various parties reached an agreement for the reconciliation of over- and under-recovery of fuel and purchased power expenses for the period October 1, 1991, through December 31, 1993. While the settlement still requires PUCT approval, GSU believes it will ultimately be approved and has accordingly recorded a reserve of $7.6 million.

LPSC Fuel Cost Review

In November 1993, the LPSC ordered a review of GSU's fuel costs for the period October 1988 through September 1991 (Phase 1) based on the number of outages at River Bend and the findings in the June 1993 PUCT fuel reconciliation case. In July 1994, the LPSC ruled in the Phase 1 fuel review case and ordered GSU to refund approximately $27 million to its customers. Under the order, a refund of $13.1 million, which was not contested under a Louisiana Supreme Court decision as discussed below, was made through a billing credit on August 1994 bills. In August 1994, GSU appealed the remaining portion of the LPSC ordered-refund to the district court. GSU has made no reserve for the remaining portion, pending outcome of the district court appeal, and no assurance can be given as to the timing or outcome of the appeal.

On January 18, 1995, GSU met with the special counsel of the LPSC to discuss the procedural schedule for the upcoming fuel review (Phase II). The period under investigation was determined to be from October 1991 to December 1994. Hearings are scheduled to begin in July 1995.

In February 1990, the LPSC disallowed the pass-through to ratepayers for the portion of GSU's cost to purchase power from NISCO representing the excess of NISCO's purchase price of the units over GSU's depreciated cost of the units. GSU appealed the 1990 order. In March 1994, the Louisiana Supreme Court ruled in favor of the LPSC. In 1994, GSU recorded an estimated refund provision of $13.1 million, before related income taxes of $5.3 million.

1994 NOPSI Settlement

In a settlement with the Council that was approved on December 29, 1994, NOPSI agreed to reduce electric and gas rates and issue credits and refunds to customers. Effective January 1, 1995, NOPSI implemented a $31.8 million permanent reduction in electric base rates and a $3.1 million permanent reduction in gas base rates. These adjustments resolved issues associated with NOPSI's return on equity exceeding 13.76% for the test year ended September 30, 1994. Under the 1991 NOPSI Settlement, NOPSI is recovering from its retail customers its allocable share of certain costs related to Grand Gulf 1. NOPSI's base rates to recover those costs were derived from estimates of those costs made at that time. Any overrecovery of costs is required to be returned to customers. Grand Gulf 1 has experienced lower operating costs than previously estimated, and NOPSI accordingly is reducing its base rates in two steps to more accurately match the current costs related to Grand Gulf 1. On January 1, 1995, NOPSI implemented a $10 million permanent reduction in base electric rates to reflect the reduced costs related to Grand Gulf 1, to be followed by an additional $4.4 million rate reduction on October 31, 1995. These Grand Gulf 1 rate reductions, which are expected to be largely offset by lower operating costs, may reduce NOPSI's after-tax net income by approximately $1.4 million per year beginning November 1, 1995. The next scheduled Grand Gulf 1 phase-in rate increase in the amount of $4.4 million on October 31, 1995, will not be affected by the 1994 NOPSI Settlement.

The 1994 NOPSI Settlement also requires NOPSI to credit its customers $25 million over a 21-month period, beginning January 1, 1995, in order to resolve disputes with the Council regarding the interpretation of the 1991 NOPSI Settlement. NOPSI reduced its revenues by $25 million and recorded a $15.4 million net-of-tax reserve associated with the credit in the fourth quarter of 1994. The 1994 NOPSI Settlement further required NOPSI to refund, in December 1994, $13.3 million of credits previously scheduled to be made to customers during the period January 1995 through July 1995. These credits were associated with a July 7, 1994, Council resolution that ordered a $24.95 million rate reduction based on NOPSI's overearnings during the test year ended September 30, 1993. Accordingly, NOPSI recorded an $8 million net-of-tax charge in the fourth quarter of 1994.

The 1994 NOPSI Settlement also required NOPSI to refund $9.3 million of overcollections associated with Grand Gulf 1 operating costs, and $10.5 million of refunds associated with the settlement by System Energy of a FERC tax audit. The settlement of the FERC tax audit by System Energy required refunds to be passed on to NOPSI and to other Entergy subsidiaries and then on to customers. These refunds have no effect on current period net income.

NOTE 3. INCOME TAXES

Income tax expense consisted of the following:

For the Years Ended December 31, (In thousands)	1994	1993	1992
Current:			
Federal	$227,046	$236,513	$ 99,898
State	50,300	30,618	23,596
Total	277,346	267,131	123,494
Deferred – net:			
Reclassification due to net operating loss carryforward	48,482	(17,131)	35,969
Rate deferrals – net	(137,376)	(88,651)	(54,079)
Gas contract settlement	5,483	9,513	15,180
Liberalized depreciation	127,881	116,513	107,976
Unbilled revenue	7,246	56,315	(18,902)
Alternative minimum tax	(614)	(10,270)	6,577
Bond reacquisition cost	(4,481)	17,958	11,496
Nuclear refueling and maintenance	552	(7,929)	9,740
Decontamination and decommissioning fund	2,366	27,303	–
Provision for rate refunds	(31,739)	–	–
FERC Settlement	(23,098)	–	–
Adjustment to Grand Gulf 2 tax basis	(14,037)	–	–
Other	(35,094)	15,035	(1,595)
Total	(54,429)	118,656	112,362
Investment tax credit adjustments – net	(24,739)	(43,796)	20,607
Investment tax credit amortization – FERC Settlement	(66,454)	–	–
Recorded income tax expense	$131,724	$341,991	$256,463
Charged to operations	$131,965	$251,163	$210,081
Charged to other income	(241)	33,640	46,382
Charged to cumulative effect	–	57,188	–
Recorded income tax expense	131,724	341,991	256,463
Income taxes applied against the debt component of AFUDC	–	–	696
Total income taxes	$131,724	$341,991	$257,159

Total income taxes differ from the amounts computed by applying the statutory federal income tax rate to income before taxes. The reasons for the differences were:

For the Years Ended December 31, (Dollars in thousands)	1994		1993		1992	
	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME	AMOUNT	% OF PRETAX INCOME
Computed at statutory rate	**$194,448**	**35.0**	$332,555	35.0	$257,461	34.0
Increases (reductions) in tax resulting from:						
Amortization of excess deferred income taxes	**(5,845)**	**(1.1)**	(7,063)	(0.7)	(6,537)	(0.9)
State income taxes net of federal income tax effect	**13,766**	**2.5**	30,160	3.2	26,057	3.5
Amortization of investment tax credits	**(27,337)**	**(4.9)**	(25,911)	(2.7)	(26,885)	(3.6)
Investment tax credit amortization – FERC Settlement	**(66,454)**	**(12.0)**	–	–	–	–
Depreciation	**9,995**	**1.8**	5,925	0.6	4,527	0.6
SFAS 109 adjustment	**–**	**–**	9,547	1.0	–	–
Other – net	**13,151**	**2.4**	(3,222)	(0.4)	1,840	0.3
Recorded income tax expense	**131,724**	**23.7**	341,991	36.0	256,463	33.9
Income taxes applied against debt component of AFUDC	**–**	**–**	–	–	696	0.1
Total income taxes	**$131,724**	**23.7**	$341,991	36.0	$257,159	34.0

Significant components of net deferred tax liabilities as of December 31, 1994 and 1993, were:

(In thousands)	1994	1993
Deferred tax liabilities:		
Net regulatory assets	**$(1,645,119)**	$(1,676,161)
Plant-related basis differences	**(3,092,889)**	(2,945,933)
Rate deferrals	**(617,699)**	(767,124)
Other	**(181,743)**	(167,478)
Total	**$(5,537,450)**	$(5,556,696)
Deferred tax assets:		
Sale and leaseback	**$ 247,842**	$ 241,391
Accumulated deferred investment tax credit	**227,473**	330,852
Alternative minimum tax credit	**137,387**	138,063
Removal cost	**88,052**	92,618
Standard coal plant	**29,275**	30,165
NOL carryforwards	**251,000**	307,737
Pension-related items	**30,040**	24,879
Unbilled revenues	**25,328**	23,587
Provision for rate refunds	**37,838**	–
Investment tax credit carryforwards	**190,987**	314,862
Other	**316,777**	149,568
Total	**$ 1,581,999**	$ 1,653,722
Net deferred tax liabilities	**$(3,955,451)**	$(3,902,974)

As of December 31, 1994, Entergy had federal net operating loss (NOL) carryforwards of $666.7 million and state NOL carryforwards of $498.2 million related to GSU operations. Investment tax credit (ITC) and other credit carryforwards, as of December 31, 1994, amounted to $282.6 million. The ITC carryforwards include the 35% reduction required by the Tax Reform Act of 1986 and may be applied against federal income tax liabilities and, if not utilized, will expire between 1995 and 2005. It is currently anticipated that approximately $64.4 million will expire unutilized. A valuation allowance has been provided for deferred tax assets relating to that amount. The alternative minimum tax (AMT) credit carryforwards as of December 31, 1994, were $137.4 million. This AMT credit can be carried forward indefinitely and will reduce the System's federal income tax liability in the future.

In accordance with the System Energy FERC Settlement, the System wrote off $66.5 million of unamortized deferred investment tax credits in 1994.

In 1993, the System adopted SFAS 109. SFAS 109 required that deferred income taxes be recorded for all temporary differences and carryforwards, and that deferred tax balances be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. SFAS 109 required that regulated enterprises recognize adjustments resulting from implementation as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. A substantial majority of the adjustments required by SFAS 109 was recorded to deferred tax balance sheet accounts with offsetting adjustments to regulatory assets and liabilities. As a result of the adoption of SFAS 109, 1993 net income and earnings per share were decreased by $13.2 million and $0.08 per share, respectively, and assets and liabilities were increased by $822.7 million and $835.9 million, respectively. The cumulative effect of the adoption of SFAS 109 is included in income tax expense charged to operations.

In August 1994, Entergy received an Internal Revenue Service report covering the federal income tax audit of Entergy Corporation and subsidiaries for the years 1988 – 1990. The report asserts an $80 million tax deficiency for the 1990 consolidated federal income tax returns related primarily to the application of accelerated investment tax credits associated with Waterford 3 and Grand Gulf nuclear plants. Entergy believes there is no material tax deficiency and is vigorously contesting the proposed assessment.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

The SEC has authorized AP&L, GSU, LP&L, MP&L, NOPSI, and System Energy to effect short-term borrowings up to an aggregate of $664 million, which may be increased to as much as $1.216 billion (subject to individual authorizations for each company) after further SEC approval. These authorizations are effective through November 30, 1996. As of December 31, 1994, AP&L, GSU, LP&L, MP&L, NOPSI, and System Energy had total outstanding borrowings of $91.8 million (including $8 million under the Money Pool arrangement). Short-term borrowings by MP&L and NOPSI are also limited by the terms of their respective General and Refunding Mortgage Bond (G&R Bond) indentures to amounts not exceeding the greater of 10% of capitalization or 50% of Grand Gulf 1 rate deferrals available to support the issuance of G&R Bonds.

As of December 31, 1994, GSU had unused lines of credit for short-term borrowings of $5 million from banks within its service territories. Entergy Services, Inc. has bank lines of credit permitting it to borrow up to $70 million, of which $65 million in borrowings was outstanding as of December 31, 1994. Interest rates associated with AP&L, Entergy Services, Inc., GSU, LP&L, and MP&L's lines of credit generally are based on the prime rate, the EURO dollar rate, a certificate of deposit rate, the London interbank offered rate, or a bid rate. Commitment fees on these lines of credit are 0.125% of the amount of available credit. In addition, AP&L, GSU, LP&L, MP&L, NOPSI, System Energy, Entergy Operations, Entergy Services, Inc., and System Fuels, Inc. can borrow from each other and from Entergy Corporation through the Money Pool, an intra-System borrowing arrangement designed to reduce the System's dependence on external short-term borrowings.

Entergy Corporation has requested, but not yet received, SEC approval for a $300 million three-year bank line of credit. System Fuels, Inc. has financing agreements with banks permitting it to borrow up to $65 million, of which $23 million was outstanding as of December 31, 1994. Borrowings under System Fuels, Inc. financing agreements are restricted as to use, and are secured by fuel inventories and certain accounts receivable from the sales of these inventories.

NOTE 5. PREFERENCE, PREFERRED, AND COMMON STOCK

The number of shares and dollar value of the System operating companies' preference and preferred stock were:

As of December 31, *(Dollars in thousands)*	SHARES AUTHORIZED AND OUTSTANDING 1994	1993	TOTAL DOLLAR VALUE 1994	1993	CALL PRICE PER SHARE AS OF DECEMBER 31, 1994
Preference Stock					
Cumulative, without par value 7% Series [1][2]	**6,000,000**	6,000,000	**$150,000**	$150,000	**–**
Preferred Stock					
Without sinking fund:					
Cumulative, $100 par value					
4.16% - 5.56% Series	**1,201,715**	1,201,715	**$120,172**	$120,172	**$102.50 to $108.00**
6.08% - 8.56% Series	**2,262,829**	2,262,829	**226,283**	226,283	**$101.80 to $103.78**
9.16% - 11.48% Series	**425,000**	425,000	**42,500**	42,500	**$104.06 to $104.64**
Cumulative, $25 par value					
8.00% - 9.68% Series	**3,880,000**	3,880,000	**97,000**	97,000	**$26.56**
Cumulative, $0.01 par value					
$2.40 Series [1][2]	**2,000,000**	2,000,000	**50,000**	50,000	**–**
$1.96 Series [1][2]	**600,000**	600,000	**15,000**	15,000	**–**
Total without sinking fund	**10,369,544**	10,369,544	**$550,955**	$550,955	
Preferred Stock					
With sinking fund:					
Cumulative, $100 par value					
7.00% - 9.76% Series	**1,935,372**	2,126,539	**$193,537**	$212,654	**$100.00 to $106.75**
12.00% - 15.44% Series	**72,195**	117,195	**7,219**	11,720	**$106.00 to $107.72**
Adjustable, 7.10% - 7.15% as of December 31, 1993	**519,000**	553,500	**51,900**	55,350	**$100.00 to $103.00**
Cumulative, $25 par value					
9.92% - 12.64% Series	**1,691,666**	2,311,666	**42,290**	57,791	**$25.67 to $27.37**
13.28% Series	**200,000**	461,537	**5,000**	11,538	**$28.22**
Total with sinking fund	**4,418,233**	5,570,437	**$299,946**	$349,053	

(1) The total dollar value represents the involuntary liquidation value of $25 per share.
(2) These series are not redeemable as of December 31, 1994.

The fair value of the System operating companies' preferred and preference stock with sinking fund was estimated to be approximately $437.4 million and $526.2 million as of December 31, 1994 and 1993, respectively. The fair values were determined using quoted market prices or estimates from nationally recognized investment banking firms. See Note 1 for additional information on disclosure of fair value of financial instruments.

Changes in the preferred stock of AP&L, GSU, LP&L, MP&L, and NOPSI with and without sinking fund during the last three years were (excluding GSU in 1992):

	NUMBER OF SHARES 1994	1993	1992
Preferred Stock Issuances:			
$100 par value	**–**	–	700,000
$ 25 par value	**–**	–	1,480,000
$0.01 par value	**–**	–	600,000
Preferred Stock Retirements:			
$100 par value	**(270,667)**	(265,000)	(589,940)
$ 25 par value	**(881,537)**	(1,180,000)	(1,895,160)

Cash sinking fund requirements for the next five years for preferred stock outstanding as of December 31, 1994, are (in millions): 1995 - $38.8, 1996 - $23.3, 1997 - $22.6, 1998 - $15.3, and 1999 - $64.8.

On December 31, 1993, Entergy Corporation issued 56,695,724 shares of common stock in connection with the Merger. In addition, Entergy Corporation redeemed 174,552,011 shares of $5 par value common stock and reissued 174,552,011 shares of $0.01 par value common stock resulting in an increase in paid-in capital of $871 million.

Entergy Corporation has a program to repurchase shares of its outstanding common stock. The timing and amount of such repurchases depend upon market conditions and authorization from the Board of Directors of Entergy Corporation (Board). Under this program, Entergy Corporation repurchased and retired (returned to authorized but unissued status) 1,230,000 shares at a cost of $30.7 million in 1994, and 3,671,900 shares at a cost of $161.6 million in 1992. No shares were repurchased under the program in 1993. In addition, 2,805,000 shares, 627,000 shares, and 1,943 shares of treasury stock were purchased for cash during 1994, 1993, and 1992, respectively, at a cost of $88.8 million, $20.6 million, and

$0.1 million, respectively. A portion of the treasury shares purchased in 1993 were subsequently reissued and, in connection with the Merger on December 31, 1993, all of the existing balance of 579,274 shares of treasury shares was canceled. On December 9, 1994, the Board approved the repurchase of common shares for an aggregate consideration of not in excess of $300 million during the period through January 1996.

Entergy Corporation has SEC authorization to acquire up to 3,000,000 shares of its common stock to be held as treasury shares and to be reissued to meet the requirements of the Stock Plan for Outside Directors (Directors' Plan), the Equity Ownership Plan of Entergy Corporation and Subsidiaries (Equity Plan), and certain other stock benefit plans. The Directors' Plan awards nonemployee directors a portion of their compensation in the form of a fixed number of shares of Entergy Corporation common stock. Shares awarded under the Directors' Plan were 18,757, 12,550, and 14,904 during 1994, 1993, and 1992, respectively. The Equity Plan grants stock options, restricted shares, and equity awards to key employees of the System companies. The costs of awards are charged to income over the period of the grant or restricted period, as appropriate. Amounts charged to compensation expense in 1994 were immaterial. Stock options, which comprise 50% of the shares targeted for distribution under the Equity Plan, are granted at exercise prices not less than market value on the date of grant. The options are generally exercisable no less than six months nor more than 10 years after the date of grant.

Nonstatutory stock options transactions are summarized as follows:

	OPTION PRICE	NUMBER OF OPTIONS
Options granted during 1992	29.625	50,000
Options exercised during 1992	29.625	(5,000)
Options granted during 1993:	34.75	70,000
	39.75*	6,107
Options exercised during 1993:	29.625	(13,198)
	34.75	(5,000)
Options granted during 1994	37.00	67,500
Options exercised during 1994	–	–
Options remaining as of December 31, 1994		170,409

Options are not currently exercisable as of December 31, 1994.

Entergy Corporation received SEC authorization in 1994 to issue new shares for the Employee Stock Investment Plan (ESIP) or to acquire, through March 31, 1997, up to 2,000,000 shares of its common stock to be held as treasury shares and reissued to meet the requirements of the ESIP. Under the ESIP, employees may be granted the opportunity to purchase, for up to 10% of their regular annual salary (but not more than $25,000), common stock at 85% of the market value on the first or last business day of the plan year, whichever is lower. The 1994 plan year runs from April 1, 1994, to March 31, 1995.

NOTE 6. LONG-TERM DEBT

The long-term debt of Entergy Corporation's subsidiaries as of December 31, 1994 and 1993, was:

	MATURITIES		INTEREST RATES			
	From	To	From	To	1994	1993
					(In thousands)	
First Mortgage Bonds						
	1995	1999	4-5/8%	14%	**$1,290,210**	$1,354,810
	2000	2004	6%	11%	**1,282,320**	1,143,520
	2005	2009	6.65%	10%	**335,000**	635,000
	2015	2019	9-5/8%	11-3/8%	**90,319**	90,319
	2020	2024	7%	10-3/8%	**1,083,818**	1,083,818
G&R Bonds						
	1995	1999	5.95%	14.95%*	**221,200**	284,200
	2000	2023	6-5/8%	8.65%	**375,000**	350,000
Governmental Obligations **						
	1992	2008	6.125%	10%	**142,622**	139,009
	2009	2023	5.95%	12.5%	**1,499,768**	1,481,678
Debentures – Due 1998, 9.72%					**200,000**	200,000
Long-Term DOE Obligation (Note 8)					**105,163**	101,029
Waterford 3 Lease Obligation, 8.76% (Note 9)					**353,600**	353,600
Grand Gulf Lease Obligation, 7.02% (Note 9)					**500,000**	500,000
Other Long-Term Debt					**6,879**	6,879
Unamortized Premium and Discount – Net					**(43,341)**	(45,890)
Total Long-Term Debt					**7,442,558**	7,677,972
Less Amount Due Within One Year					**349,085**	322,010
Long-Term Debt Excluding Amount Due Within One Year					**$7,093,473**	$7,355,962

** $20 million of the 14.95% Series G&R Bonds and $9.2 million of the 13.9% Series G&R Bonds were due 2/1/95. All other series are at interest rates within the range of 5.95% – 11.2%.*

***Consists of pollution control bonds, certain series of which are secured by non-interest bearing first mortgage bonds.*

The fair value of Entergy Corporation's long-term debt, excluding lease obligations and long-term DOE obligations, as of December 31, 1994 and 1993, was estimated to be $6.293 billion and $7.207 billion, respectively. The fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms.

For the years 1995, 1996, 1997, 1998, and 1999, Entergy Corporation's subsidiaries have long-term debt maturities (excluding lease obligations) and cash sinking fund requirements aggregating (in millions) $349.1, $558.0, $361.3, $314.9, and $172.4, respectively. In addition, other sinking fund requirements will be satisfied by cash or by certification of property additions at the rate of 167% of such requirements. The amounts associated with this provision total approximately $20.9 million for each of the years 1995 through 1999.

NOTE 7. DIVIDEND RESTRICTIONS

Various agreements relating to the long-term debt and preferred stock of Entergy Corporation's subsidiaries restrict the payment of cash dividends or other distributions on their common stock. In addition to these restrictions, the Holding Company Act prohibits Entergy Corporation's subsidiaries from making loans or advances to Entergy Corporation. As of December 31, 1994, Entergy Corporation's subsidiaries had restricted common equity of approximately $4.495 billion, including $497 million of restricted retained earnings, which were unavailable for distribution to Entergy Corporation. In February 1995, Entergy Corporation received common stock dividend payments from its subsidiaries totaling $96.8 million.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Cajun – River Bend

GSU has significant business relationships with Cajun, including co-ownership of River Bend and Big Cajun 2, Unit 3. GSU and Cajun own 70% and 30% undivided interests in River Bend, respectively, and 42% and 58% undivided interests in Big Cajun 2, Unit 3, respectively.

In June 1989, Cajun filed a civil action against GSU in the United States District Court for the Middle District of Louisiana (District Court). Cajun's complaint seeks to annul, rescind, terminate, and/or dissolve the Joint Ownership Participation and Operating Agreement entered into on August 28, 1979 (Operating Agreement) relating to River Bend. Cajun alleges fraud and error by GSU, breach of its fiduciary duties owed to Cajun, and/or GSU's repudiation, renunciation, abandonment, or dissolution of its core obligations under the Operating Agreement, as well as the lack or failure of cause and/or consideration for Cajun's performance under the Operating Agreement. The suit also seeks to recover Cajun's alleged $1.6 billion investment in the unit as damages, plus attorneys' fees, interest, and costs. Two member cooperatives of Cajun have brought an independent action to declare the Operating Agreement void, based upon failure to get prior LPSC approval alleged to be necessary. GSU believes the suits are without merit and is contesting them vigorously.

A trial without jury on the portion of the suit by Cajun to rescind the Operating Agreement which began in April 1994, has been completed, and an order from the District Court is pending. No assurance can be given as to the outcome of this litigation. If GSU were ultimately unsuccessful in this litigation and were required to make substantial payments, GSU would probably be unable to make such payments and would probably have to seek relief from its creditors under the United States Bankruptcy Code. If GSU prevails in this litigation, there can be no assurance that the Bankruptcy Court will allow funding of all required costs of Cajun's ownership in River Bend.

Since 1992 Cajun has not paid its full share of operating and maintenance expenses and other costs for repairs and improvements to River Bend. In addition, certain costs and expenses paid by Cajun were paid under protest. These actions were taken by Cajun based on its contention, which GSU disagrees, that River Bend's operating and maintenance expenses were excessive.

In a letter dated October 21, 1994, and at a subsequent meeting, Cajun representatives advised Entergy Corporation and GSU that, on October 25, 1994, Cajun would exhaust its 1994 budget for operating and maintenance expenses for River Bend, and did not make any further payments to GSU in 1994 for River Bend operating, maintenance, or capital costs. Cajun also advised that the Rural Utility Services (which provided funding to Cajun for its investment in River Bend) would not permit Cajun to budget funds in 1995 to pay its share of operating and maintenance expenses or capital costs for River Bend. However, Cajun stated that it would continue to fund its share of the nuclear decommissioning trust payments for River Bend, as well as insurance and safety-related expenses. The unpaid portion of Cajun's River Bend operating, maintenance, and capital costs for 1994 (which has been fully reserved) was approximately $22.4 million. Cajun's total share of River Bend annual operating (including nuclear fuel) and maintenance expenses and capital costs was approximately $76.1 million in 1994.

In view of Cajun's stated expectation that it will fund only a limited portion of its share of River Bend related operating, maintenance, and capital costs, GSU notified Cajun that it would (i) credit GSU's share of expenses for Big Cajun 2, Unit 3 against amounts due from Cajun to GSU and (ii) seek to market Cajun's share of the power from River Bend and apply the proceeds to the amounts due from Cajun to GSU. On November 2, 1994, Cajun discontinued GSU's entitlement of energy from Big Cajun 2, Unit 3. In response, on November 3, 1994, GSU filed pleadings in District Court seeking an order requiring Cajun to provide GSU with the energy from Big Cajun 2, Unit 3 to which GSU is entitled, and holding that GSU is entitled to credit amounts due from GSU to Cajun for Big Cajun 2, Unit 3 against amounts due from Cajun to GSU with respect to River Bend. On December 19, 1994, the District Court issued an injunction prohibiting Cajun from denying its share of energy from Big Cajun 2, Unit 3 and stipulating that GSU must make payments for its portion of expenses for Big Cajun 2, Unit 3 to the registry of the District Court.

On December 14, 1994, the LPSC ordered Cajun to decrease the rates charged to its member distribution cooperatives by approximately $30 million per year. The rate decrease is associated with the LPSC's prior finding of imprudence in Cajun's participation in River Bend.

On December 21, 1994, Cajun filed a petition in the United States Bankruptcy Court for the Middle District of Louisiana seeking bankruptcy relief under Chapter 11 of the United States Bankruptcy Code. Cajun's bankruptcy could have a material adverse effect on GSU, including the possibility of an NRC action with respect to the operation of River Bend. However, GSU is taking appropriate steps to protect its interests and its claims against Cajun arising from the co-ownership in River Bend and Big Cajun 2, Unit 3. On December 31, 1994, the District Court issued an order lifting an automatic stay as to certain proceedings, with the result that the preliminary injunction granted by the Court on December 19, 1994, remains in effect. Cajun filed a Notice of Appeal on January 18, 1995, to the United States Court of Appeals for the Fifth Circuit seeking a reversal of the District Court's grant of the preliminary injunction. No hearing date has been set on Cajun's appeal.

In the bankruptcy proceedings, Cajun filed on January 10, 1995, a motion to reject the River Bend Operating Agreement as a burdensome executory contract. GSU responded on January 10, 1995, with a memorandum opposing Cajun's motion filed with the District Court. This memorandum argues that the motion should be denied because (1) the Operating Agreement is not an executory contract that can be rejected under the United States Bankruptcy Code, but an agreement establishing property rights and obligations; (2) Cajun legally cannot have its payment obligations under the Operating Agreement suspended while retaining the benefits from co-ownership in River Bend, as the benefits and obligations are indivisible; (3) Cajun cannot seek to dispose of its property interest in River Bend or reject the Operating Agreement with respect thereto without disposing of all of its property interests and rejecting all of the arrangements under the River Bend package of agreements consisting of the Operating Agreement, Big Cajun 2, Unit 3 facility, certain transmission lines and the buy-back agreement pursuant to when GSU paid Cajun approximately $600 million for River Bend capacity and energy during the early years of operation of River Bend; and (4) a legal determination of Cajun's obligations and interests in River Bend should only be made as part of a plan of reorganization in bankruptcy and such determination should be subject to regulatory approvals by certain agencies with jurisdiction over Cajun, including the NRC. If the court were to grant Cajun's motion to reject the Operating Agreement, Cajun would be relieved of its financial obligations under the contract, while GSU would likely have a substantial damage claim arising from any such rejection. Although GSU believes that Cajun's motion to reject the Operating Agreement is non-meritorious, it is not possible to predict the outcome or ultimate impact of these proceedings.

During the period in which Cajun is not paying its share of River Bend costs, GSU intends to fund all costs necessary for the safe, continuing operation of the unit. The responsibilities of Entergy Operations as the licensed operator of River Bend for safely operating and maintaining the unit are not affected by Cajun's actions.

The total resulting from Cajun's failure to fund repair projects, Cajun's funding limitation on refueling outages, and the weekly funding limitation by Cajun was $55.6 million as of December 31, 1994, compared with $33.3 million as of December 31, 1993. These amounts are reflected in long-term receivables with an offsetting reserve in other deferred credits. Cajun's bankruptcy may affect the ultimate collectibility of the amounts owed to GSU, including any amounts that may be awarded in litigation.

In September 1994, in connection with Entergy Corporation's analysis of certain preacquisition contingencies, Entergy Corporation increased its acquisition adjustment and GSU recorded a loss provision associated with the River Bend litigation between GSU and Cajun and certain underpayments by Cajun of River Bend costs, in accordance with SFAS 5, "Accounting for Contingencies." See Note 12 for additional information on provisions for preacquisition contingencies recorded during 1994.

Cajun - Transmission Service

GSU and Cajun are parties to FERC proceedings relating to transmission service charge disputes. In April 1992, FERC issued a final order. In May 1992, GSU and Cajun filed motions for rehearings which are pending at FERC. In June 1992, GSU filed a petition for review in the United States Court of Appeals regarding certain of the issues decided by FERC. In August 1993, the United States Court of Appeals rendered an opinion reversing the FERC order regarding the portion of such disputes relating to the calculations of certain credits and equalization charges under GSU's service schedules with Cajun. The opinion remanded the issues to FERC for further proceedings consistent with its opinion. In December 1994, FERC held a hearing to address the issues remanded by the Court of Appeals. In February 1995, FERC clarified its order, eliminating an issue that GSU believes the Court of Appeals directed FERC to reconsider.

GSU interprets the 1992 FERC order and the United States Court of Appeals' decision to mean that Cajun would owe GSU approximately $93.3 million as of December 31, 1994.

However, FERC's February 1995 order indicates that FERC believes an issue, estimated by GSU to constitute approximately $26.2 million of this amount, may not be pursued by GSU in the remand proceedings. GSU further estimates that if it prevails in its May 1992 motion for rehearing, Cajun would owe GSU approximately $129.6 million as of December 31, 1994. If Cajun were to prevail in its May 1992 motion for rehearing to FERC, and if GSU were not to prevail in its May 1992 motion for rehearing to FERC, and if FERC does not implement the court's remand as GSU contends is required, GSU estimates it would owe Cajun approximately $85.6 million as of December 31, 1994. The above amounts are exclusive of a $7.3 million payment by Cajun on December 31, 1990, which the parties agreed to apply to the disputed transmission service charges. GSU and Cajun further agreed that their positions at FERC would remain unaffected by the $7.3 million payment. Pending FERC's ruling on the May 1992 motions for rehearing, GSU has continued to bill Cajun utilizing the historical billing methodology and has booked underpaid transmission charges, including interest, in the amount of $160.2 million as of December 31, 1994. This amount is reflected in long-term receivables with an offsetting reserve in other deferred credits.

Capital Requirements and Financing

Construction expenditures (excluding nuclear fuel) for the years 1995, 1996, and 1997 are estimated to total $568 million, $568 million, and $565 million, respectively. The System will also require $1.4 billion during the period 1995-1997 to meet long-term debt and preferred stock maturities and cash sinking fund requirements. The System plans to meet the above requirements primarily with internally generated funds and cash on hand, supplemented by the issuance of debt and preferred stock. Certain System companies may also continue with the acquisition or refinancing of all or a portion of certain outstanding series of preferred stock and long-term debt.

Capital Funds and Availability Agreements

Entergy Corporation has agreed to supply to System Energy sufficient capital to (1) maintain System Energy's equity capital at an amount equal to a minimum of 35% of its total capitalization (excluding short-term debt), and (2) permit the continuation of commercial operation of Grand Gulf 1 and to pay in full all indebtedness for borrowed money of System Energy when due under any circumstances. In addition, under supplements to the Capital Funds Agreement assigning System Energy's rights as security for specific debt of System Energy, Entergy Corporation has agreed to make cash capital contributions to enable System Energy to make payments on such debt when due.

System Energy has entered into various agreements with AP&L, LP&L, MP&L, and NOPSI, whereby AP&L, LP&L, MP&L, and NOPSI are obligated to purchase their respective entitlements of capacity and energy from System Energy's 90% ownership and leasehold interest in Grand Gulf 1, and to make payments that, together with other available funds, are adequate to cover System Energy's operating expenses. System Energy would have to secure funds from other sources, including Entergy Corporation's obligations under the Capital Funds Agreement, to cover any shortfalls from payments received from AP&L, LP&L, MP&L, and NOPSI under these agreements.

Long-Term Contracts

The System has several long-term contracts to purchase natural gas and low-sulfur coal for use at its generating units. LP&L has a long-term agreement through the year 2031 to purchase energy generated by a hydroelectric facility. If the maximum percentage (94%) of the energy is made available to LP&L, current production projections would require estimated payments of approximately $47 million per year through 1996, $54 million in 1997, and a total of $3.5 billion for the years 1998 through 2031. LP&L recovers the cost of purchased energy through its fuel adjustment clause.

In 1988, GSU entered into a joint venture with a primary term of 20 years with Conoco, Inc., Citgo Petroleum Corporation, and Vista Chemical Company (Industrial Participants) whereby GSU's Nelson Units 1 and 2 were sold to a partnership (NISCO) consisting of the Industrial Participants and GSU. The Industrial Participants are supplying the fuel for the units, while GSU operates the units at the discretion of the Industrial Participants and purchases the electricity produced by the units. GSU is continuing to sell electricity to the Industrial Participants. For the years ended December 31, 1994, 1993, and 1992, the purchases of electricity from the joint venture totaled $58.3 million, $62.6 million, and $37.8 million, respectively.

Nuclear Insurance

The Price-Anderson Act limits public liability for a single nuclear incident to approximately $8.92 billion as of December 31, 1994. The System has protection for this liability through a combination of private insurance (currently $200 million each) and an industry assessment program. Under the assessment program, the maximum amount the System would be required to pay for each nuclear incident would be $79.3 million per reactor, payable at a rate of $10 million per licensed reactor per incident per year. As a co-licensee of Grand Gulf 1 with System Energy, South Mississippi Electric Power Association (SMEPA) would share 10% of this obligation. With respect to River Bend, any assessments pertaining to this program are allocated in accordance with the respective ownership interests of GSU and Cajun. The System has five licensed reactors. In addition, the System participates in a private insurance program which provides coverage for worker tort claims filed for bodily injury caused by radiation exposure. The program provides for a maximum assessment of approximately $16.0 million for the System's five nuclear units in the event losses exceed accumulated reserve funds.

AP&L, GSU, LP&L, and System Energy are also members of certain insurance programs that provide coverage for property damage, including decontamination and premature decommissioning expense, to members' nuclear generating plants. As of December 31, 1994, AP&L, GSU, LP&L, and System Energy each were insured against such losses up to $2.75 billion, with $250 million of this amount designated to cover any shortfall in the NRC required decommissioning trust funding. In addition, AP&L, GSU, LP&L, MP&L, and NOPSI are members of an insurance program that covers certain replacement power and business interruption costs incurred due to prolonged nuclear unit outages. Under the property damage and replacement power/business interruption insurance programs, these System companies could be subject to assessments if losses exceed the accumulated funds available to the insurers. As of December 31, 1994, the maximum amounts of such possible assessments were: AP&L - $37.2 million; GSU - $22.6 million; LP&L - $34.7 million; MP&L - $0.9 million; NOPSI - $0.5 million; and System Energy - $29.7 million. Under its agreement with System Energy, SMEPA would share in System Energy's obligation. Cajun shares approximately $4.4 million of GSU's obligation.

The amount of property insurance presently carried by the System exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured would any remaining proceeds be made available for the benefit of plant owners or their creditors.

Spent Nuclear Fuel and Decommissioning Costs

AP&L, GSU, LP&L, and System Energy provide for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. The affected System companies entered into contracts with the Department of Energy (DOE), whereby the DOE will furnish disposal service at a cost of one mill per net kwh generated and sold after April 7, 1983, plus a one-time fee for generation prior to that date. AP&L, the only System company that generated electricity with nuclear fuel prior to that date, elected to pay the one-time fee, plus accrued interest, no earlier than 1998, and has recorded a liability as of December 31, 1994, of approximately $105 million. The fees payable to the DOE may be adjusted in the future to assure full recovery. The System considers all costs incurred or to be incurred, except accrued interest, for the disposal of spent nuclear fuel to be proper components of nuclear fuel expense, and provisions to recover such costs have been or will be made in applications to regulatory authorities.

Delays have occurred in the DOE's program for the acceptance and disposal of spent nuclear fuel at a permanent repository. In a statement released February 17, 1993, the DOE asserted that it does not have a legal obligation to accept spent nuclear fuel without an operational repository for which it has not yet arranged. Currently the DOE projects it will begin to accept spent fuel no earlier than 2010. In the meantime, all System companies are responsible for spent fuel storage. Current on-site spent fuel storage capacity at River Bend, Waterford 3, and Grand Gulf 1 is estimated to be sufficient until 2003, 2000, and 2004, respectively. Thereafter, the affected companies will provide additional storage. Current on-site spent fuel storage capacity at ANO is estimated to be sufficient until mid-1995, at which time an ANO storage facility using dry casks will begin operation. This facility is estimated to provide sufficient storage until 2000, with the capability of being expanded further as required. The initial cost of providing the additional on-site spent fuel storage capability required at ANO, River Bend, Waterford 3, and Grand Gulf 1 is expected to be approximately $5 million to $10 million per unit. In addition, approximately $3 million to $5 million per unit will be required every two to three years subsequent to 1995 for ANO and every four to five years subsequent to 2003, 2000, and 2004 for River Bend, Waterford 3, and Grand Gulf 1, respectively, until the DOE's repository begins accepting such units' spent fuel.

Entergy Operations and System Fuels, Inc., joined in lawsuits against the DOE, seeking clarification of the DOE's responsibility to receive spent nuclear fuel beginning in 1998. The original suits, filed June 20, 1994, asked for a ruling stating that the Nuclear Waste Policy Act require the DOE to begin taking title to the spent fuel and to start removing it from nuclear power plants in 1998, a mandate for the DOE's nuclear waste management program to begin accepting fuel in 1998 and court monitoring of the program, and the potential for escrow of payments to a nuclear waste fund instead of directly to the DOE.

Decommissioning costs for ANO, River Bend (excluding Cajun's 30% share), Waterford 3, and Grand Gulf 1 (excluding South Mississippi Electric Power Association's 10% share) were estimated to be approximately $806.3 million (based on a 1994 interim update to the 1992 cost study), $267.8 million (based on a 1991 cost study reflecting 1990 dollars), $320.1 million (based on a 1994 updated study in 1993 dollars), and $365.9 million (based on a 1994 cost study using 1993 dollars), respectively. AP&L is authorized to recover through rates amounts that, when added to estimated investment income, should be sufficient to meet the above estimated decommissioning costs for ANO. GSU is currently recovering in rates decommissioning costs based on the 1985 original cost study of $141 million. GSU filed a 1991 study with the PUCT requesting a rate adjustment for decommissioning expense. As discussed in Note 2, on March 20, 1995, the PUCT ruled in the current rate case. The PUCT order included recovery of River Bend decommissioning costs totaling $204.9 million. GSU plans to include the 1991 study in its next LPSC rate review scheduled for mid-1995. LP&L currently is recovering in rates decommissioning costs based on a 1988 study update reflecting a cost of $203 million.

LP&L filed with the LPSC a request for a rate adjustment for decommissioning expense based on a 1994 cost study update and the matter is under review. System Energy is currently recovering in rates amounts sufficient to fund $198 million (in 1989 dollars) of its decommissioning costs. A filing with FERC to request the updated decommissioning costs in rates is under consideration by System Energy. AP&L, GSU, LP&L, and System Energy regularly review and update estimated decommissioning costs, and applications will be made to the appropriate regulatory authorities to reflect in rates any future change in projected decommissioning costs. The amounts recovered in rates are deposited in external trust funds and reported at market value. The accumulated decommissioning liability has been recorded in accumulated depreciation for AP&L, GSU, and LP&L, and in other deferred credits for System Energy, in the amounts of $137.4 million, $22.2 million, $28.2 million, and $31.9 million, respectively, as of December 31, 1994. Decommissioning expense amounting to $25.1 million was recorded in 1994. The actual decommissioning costs may vary from the estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment. Management believes that actual decommissioning costs are likely to be higher than the amounts presented above.

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry, regarding the recognition, measurement, and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In response to these questions, the FASB is currently reviewing the accounting for decommissioning. If current electric utility industry accounting practices for such decommissioning are changed, annual provisions for decommissioning could increase, the estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation, and trust fund income from the external decommissioning trusts could be reported as investment income rather than as a reduction to decommissioning expense.

The EPAct has a provision that assesses domestic nuclear utilities with fees for the decontamination and decommissioning of the DOE's past uranium enrichment operations. The decontamination and decommissioning assessments will be used to set up a fund into which contributions from utilities and the federal government will be placed. AP&L's, GSU's, LP&L's, and System Energy's annual assessments, which will be adjusted annually for inflation, are approximately $3.4 million, $0.9 million, $1.3 million, and $1.4 million (in 1995 dollars), respectively, for approximately 15 years. FERC requires that utilities treat these assessments as costs of fuel as they are amortized. The cumulative liability of $75.9 million as of December 31, 1994, is recorded in other current liabilities and other noncurrent liabilities and is offset in the consolidated financial statements by a regulatory asset.

ANO Matters

ANO 2 experienced a forced outage for repair of certain steam generator tubes in March 1992. Further inspections and repairs were conducted at subsequent refueling and mid-cycle outages in September 1992, May 1993, April 1994, and January 1995. AP&L's budgeted maintenance expenditures were adequate to cover the cost of such repairs. ANO 2's output has been reduced 15 megawatts or 1.6% due to secondary side fouling, tube plugging, and reduction of primary temperature. Entergy Operations continues to take steps at ANO 2 to reduce the number and severity of future tube cracks. In addition, Entergy Operations continues to meet with the NRC to discuss such steps and results of inspections of the steam generator tubes, as well as the timing of future inspections. Additional inspections are planned for the normal refueling outage scheduled for October 1995.

Sales/Use Tax Issues

In September 1994, the Louisiana Supreme Court (Court) issued an opinion (in a case in which none of the System companies was a party) holding, in part, that the Louisiana state legislature's suspension of state sales and use tax exemptions also had the effect of suspending exemptions from local sales and use taxes. On January 27, 1995 the Court, after rehearing, reversed its opinion. Because of the Court's most recent ruling, sales of electricity and gas, fuels and other items used by GSU, LP&L, and NOPSI to generate electricity in Louisiana, as well as other items exempt from sales and use taxes, continue to be exempt from local sales and use taxes, even though the state exemptions for sales and use tax have been suspended.

NOTE 9. LEASES

General

As of December 31, 1994, the System had capital leases and noncancelable operating leases (excluding nuclear fuel leases and the sale and leaseback transactions discussed below) with minimum lease payments as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES
	(In thousands)	
1995	$ 33,008	$ 65,429
1996	29,054	57,133
1997	24,653	48,861
1998	24,634	47,446
1999	24,610	43,128
Years thereafter	136,294	246,303
Minimum lease payments	272,253	$508,300
Less: Amount representing interest	103,596	
Present value of net minimum lease payments	$168,657	

Rental expense for capital and operating leases (excluding nuclear fuel leases and the sale and leaseback transactions) amounted to approximately $64.8 million, $62.7 million, and $75.5 million in 1994, 1993, and 1992, respectively.

Nuclear Fuel Leases

AP&L, GSU, LP&L, and System Energy have arrangements to lease nuclear fuel in an aggregate amount up to $430 million as of December 31, 1994. The lessors finance their acquisitions of nuclear fuel through credit agreements and the issuance of notes. If a lessor cannot arrange financing upon maturity of its borrowings, the lessee must purchase nuclear fuel in an amount sufficient to enable the lessor to retire such borrowings.

Lease payments are based on nuclear fuel use. Nuclear fuel lease expense for AP&L, GSU, LP&L, and System Energy of $163.4 million (including interest of $27.3 million) was charged to operations in 1994. Excluding GSU, nuclear fuel lease expense of $145.8 million and $158.4 million (including interest of $20.5 million and $25.6 million) was charged to operations in 1993 and 1992, respectively.

Sale and Leaseback Transactions

In 1988 and 1989, System Energy and LP&L, respectively, sold and leased back portions of their ownership interests in Grand Gulf 1 and Waterford 3, for 26 1/2-year and 28-year lease terms, respectively. Both companies have options to terminate the leases, to repurchase the sold interests, or to renew the leases at the end of their terms.

Under System Energy's sale and leaseback arrangements, letters of credit are required to be maintained to secure certain amounts payable, for the benefit of equity investors, by System Energy under the leases. The letters of credit currently maintained are effective until January 1997. It is expected that the letters of credit will either be renewed, extended, or replaced prior to expiration. On January 18, 1994, System Energy refinanced the debt portion of the sale and leaseback arrangements. The new secured lease obligation bonds of $356 million, 7.43% series due 2011, and $79 million, 8.2% series due 2014, will be indirectly secured by liens on, and a security interest in, certain ownership interests and the respective leases relating to Grand Gulf 1.

LP&L did not exercise its option to repurchase the undivided interests in Waterford 3 on the fifth anniversary (September 1994) of the closing date of the sale and leaseback transactions. As a result, LP&L was required to provide collateral to the Owner Participants for the equity portion of certain amounts payable by LP&L under the lease. Such collateral was in the form of a new series of non-interest bearing first mortgage bonds in the aggregate principal amount of $208.2 million issued by LP&L in September 1994 under its first mortgage bond indenture.

As of December 31, 1994, System Energy and LP&L had future minimum lease payments (reflecting implicit rates of 7.02% after the above refinancing and 8.76%, respectively) as follows:

YEAR	SYSTEM ENERGY	LP&L
	(In thousands)	
1995	$ 42,464	$ 32,569
1996	42,753	35,165
1997	42,753	39,805
1998	42,753	41,447
1999	42,753	50,530
Years thereafter	802,820	676,214
Total	$1,016,296	$875,730

NOTE 10. POSTRETIREMENT BENEFITS

Pension Plans

The System companies have various postretirement benefit plans covering substantially all of their employees. The pension plans are noncontributory and provide pension benefits that are based on employees' credited service and compensation during the final years before retirement. Entergy Corporation and its subsidiaries fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plans include common and preferred stocks, fixed income securities, interest in a money market fund, and insurance contracts.

Total 1994, 1993, and 1992 pension cost of Entergy Corporation and its subsidiaries (excluding GSU for 1993 and 1992), including amounts capitalized, included the following components:

For the Years Ended December 31, (In thousands)	1994	1993	1992
Service cost – benefits earned during the period	**$35,712**	$21,760	$18,784
Interest cost on projected benefit obligation	**77,943**	53,371	50,225
Actual return on plan assets	**10,381**	(81,708)	(43,772)
Net amortization and deferral	**(96,893)**	27,261	(8,243)
Other	**17,963**	–	–
Net pension cost	**$45,106**	$20,684	$16,994

The funded status of Entergy's various pension plans as of December 31, 1994 and 1993 was:

(In thousands)	1994	1993
Actuarial present value of accumulated pension plan obligation:		
Vested	**$ 851,194**	$ 851,726
Nonvested	**6,479**	17,867
Accumulated benefit obligation	**857,673**	$ 869,593
Plan assets at fair value	**$1,014,430**	$1,059,715
Projected benefit obligation	**999,153**	1,064,364
Plan assets in excess of (less than) projected benefit obligation	**15,277**	(4,649)
Unrecognized prior service cost	**25,501**	20,288
Unrecognized transition asset	**(54,209)**	(61,561)
Unrecognized net loss (gain)	**(9,332)**	32,634
Accrued pension liability	**$ (22,763)**	$ (13,288)

The pension liability for 1993 has been restated in order to make GSU's presentation of certain early retirement plan liabilities consistent with the other System companies. The significant actuarial assumptions used in computing the information above for 1994, 1993, and 1992 (only 1994 and 1993 with respect to GSU's plan), were as follows: weighted average discount rate, 8.5% for 1994, 7.5% for 1993, and 8.25% for 1992; weighted average rate of increase in future compensation levels, 5.1% for 1994 and 5.6% (5% for GSU) for 1993 and 1992; and expected long-term rate of return on plan assets, 8.5%. Transition assets of the System are being amortized over the greater of the remaining service period of active participants or 15 years.

Other Postretirement Benefits

The System companies also provide certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for the System companies. The cost of providing these benefits, recorded on a cash basis, to retirees in 1992 (excluding GSU) was approximately $13 million.

Effective January 1, 1993, Entergy adopted SFAS 106. The new standard requires a change from a cash method to an accrual method of accounting for postretirement benefits other than pensions. The System operating companies, other than MP&L and NOPSI, continue to fund these benefits on a pay-as-you-go basis. During 1994, pursuant to regulatory directives, MP&L and NOPSI began to fund their post-retirement benefit obligation. At January 1, 1993, the actuarially determined accumulated postretirement benefit obligation (APBO) earned by retirees and active employees was estimated to be approximately $241.4 million and $128 million for Entergy (other than GSU) and for GSU, respectively. Such obligations are being amortized over a 20-year period beginning in 1993.

The System operating companies have sought approval, in their respective regulatory jurisdictions, to implement the appropriate accounting requirements related to SFAS 106 for ratemaking purposes. AP&L has received an order permitting deferral, as a regulatory asset, of these costs. MP&L is expensing its SFAS 106 costs, which are reflected in rates pursuant to an order from the MPSC in connection with MP&L's formulary incentive rate plan (see Note 2). The LPSC ordered GSU and LP&L to use the pay-as-you-go method for ratemaking purposes for postretirement benefits other than pensions, but the LPSC retains the flexibility to examine individual companies' accounting for postretirement benefits to determine if special exceptions to this order are warranted. NOPSI is expensing its SFAS 106 costs. Pursuant to resolutions adopted in November 1993 by the Council related to the Merger, NOPSI's SFAS 106 expenses through October 31, 1996, will be allowed by the Council for purposes of evaluating the appropriateness of NOPSI's rates. Pursuant to a ruling by the PUCT applicable to all Texas utilities, including GSU, amounts recorded in compliance with SFAS 106 and included in a rate filing test period, will be recoverable in rates (at the time of the next general rate case), and postretirement benefits amounts allowed in rates must then be funded by the utility.

Total 1994 and 1993 postretirement benefit cost of Entergy Corporation and its subsidiaries (excluding GSU for 1993), including amounts capitalized and deferred, included the following components:

(In thousands)	**1994**	1993
Service cost – benefits earned during the period	**$11,863**	$ 7,751
Interest cost on APBO	**23,312**	19,394
Return on plan assets	**–**	(71)
Net amortization and deferral	**9,891**	12,071
Net periodic postretirement benefit cost	**$45,066**	$39,145

The funded status of Entergy's postretirement plans as of December 31, 1994 and 1993, was:

(In thousands)	**1994**	1993
Accumulated postretirement benefit obligation:		
Retirees	**$ 186,570**	$ 221,562
Other fully eligible participants	**58,330**	68,283
Other active participants	**52,324**	95,854
	297,224	385,699
Plan assets at fair value	**9,733**	354
Plan assets less than APBO	**(287,491)**	(385,345)
Unrecognized transition obligation	**217,275**	229,346
Unrecognized net loss (gain)	**(58,178)**	28,529
Accrued postretirement benefit liability	**$(128,394)**	$(127,470)

The assumed health care cost trend rate used in measuring the APBO of the System companies was 9.4% for 1995, gradually decreasing each successive year until it reaches 5.0% in 2011. A one percentage-point increase in the assumed health care cost trend rate for each year would have increased the APBO of the System companies, as of December 31, 1994, by 8.9%, and the sum of the service cost and interest cost by approximately 11.3%. The assumed discount rate and rate of increase in future compensation used in determining the APBO were 8.5% for 1994 and 7.5% for 1993 and 5.1% for 1994 and 5.5% (5% for GSU) for 1993, respectively.

NOTE 11. RESTRUCTURING COSTS

During the third quarter of 1994, Entergy announced a restructuring program related to certain of its operating units. The program is designed to reduce costs, improve operating efficiencies, and increase shareholder value in order to enable Entergy to become a low-cost producer. The program includes reductions in the number of employees and the consolidation of offices and facilities. In 1994, AP&L, GSU, LP&L, MP&L, and NOPSI recorded restructuring charges of $12.5 million, $6.5 million, $6.8 million, $6.2 million, and $3.4 million, respectively. These charges primarily include employee severance costs related to the expected termination of approximately 1,850 employees. As of December 31, 1994, 35 AP&L employees were terminated under the program at a severance cost of approximately $0.3 million.

NOTE 12. ENTERGY CORPORATION – GSU MERGER

On December 31, 1993, Entergy Corporation and GSU consummated their Merger. GSU became a wholly-owned subsidiary of Entergy Corporation and continues to operate as a corporation under the regulation of FERC, the PUCT, and the LPSC. As consideration to GSU's shareholders, Entergy Corporation paid $250 million and issued 56,695,724 shares of its common stock in exchange for the 114,055,065 outstanding shares of GSU common stock. In addition, $33.5 million of transaction costs were capitalized in connection with the Merger.

As a result of the December 31, 1993, Merger closing, GSU recorded expenses totaling $49 million, net of related tax effects, for early retirement and other severance related plans and the payment to financial consultants involved in Merger negotiations on behalf of GSU. Additionally, GSU recorded $23.8 million in 1994 for remaining severance and augmented retirement benefits related to the Merger. See Note 2 for information regarding Merger-related rate agreements.

In 1993, Entergy Corporation recorded an acquisition adjustment in utility plant in the amount of $380 million representing the excess of the purchase price over the net assets acquired of GSU. The acquisition adjustment will be amortized on a straight-line basis over a 31-year period, which approximates the remaining average book life of GSU's plant. During the allocation period (which expired on December 31, 1994), Entergy Corporation completed its analyses with respect to preacquisition contingencies and revised the allocation of the purchase price for a number of preacquisition contingencies. In 1994, GSU wrote off assets or recorded liabilities totaling approximately $137 million net of tax for the Cajun-River Bend litigation, unfunded Cajun-River Bend costs, environmental cleanup costs, obsolete spare parts, Louisiana River Bend rate deferrals previously disallowed by the LPSC, plant held for future use, and a PUCT fuel reconciliation settlement. Any items recorded in 1995 or later will result in write-offs and/or losses charged to operations on GSU's financial statements and Entergy Corporation's consolidated financial statements.

In accordance with the purchase method of accounting, the 12-month results of operations for Entergy Corporation reported in its Statements of Consolidated Income, Cash Flows, and Retained Earnings do not reflect GSU's results of operations for any period prior to January 1, 1994, as a result of the Merger. The pro forma combined revenues, net income, earnings per common share before extraordinary items, cumulative effect of accounting changes, and earnings per common share of Entergy Corporation presented below give effect to the Merger as if it had occurred at January 1, 1992. This unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the Merger been consummated for the period for which it is being given effect, nor is it necessarily indicative of future operating results.

Year Ended December 31,	1993	1992
(In thousands, except per share amounts)		
Revenues	$6,286,999	$5,850,973
Net income	$ 595,211	$ 521,783
Earnings per average common share before extraordinary items and cumulative effect of accounting changes	$ 2.10	$ 2.26
Earnings per average common share	$ 2.57	$ 2.24

NOTE 13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The business of the System is subject to seasonal fluctuations with the peak period occurring during the third quarter. Consolidated operating results for the four quarters of 1994 and 1993 were:

	OPERATING REVENUES	OPERATING INCOME	NET INCOME (LOSS)	EARNINGS (LOSS) PER SHARE
(In thousands, except per share amounts)				
1994:				
First Quarter	**$1,406,039**	**$253,870**	**$ 70,735**	**$ 0.31**
Second Quarter	**$1,586,298**	**$325,935**	**$144,337**	**$ 0.63**
Third Quarter	**$1,805,524**	**$336,611**	**$143,198**	**$ 0.63**
Fourth Quarter	**$1,165,429**	**$152,325**	**$ (16,429)**	**$(0.07)**
1993:				
First Quarter	$ 926,412	$ 192,743	$ 151,154	$ 0.86
Second Quarter	$ 1,070,102	$ 260,574	$ 130,860	$ 0.75
Third Quarter	$ 1,410,951	$ 359,938	$ 233,430	$ 1.34
Fourth Quarter	$ 1,077,872	$ 180,086	$ 36,486	$ 0.21

See Note 1 for information regarding the recording of the cumulative effect of the change in accounting principle for unbilled revenues in January 1993.

DIRECTORS

W. Frank Blount, Chief Executive Officer, Telstra Communications Corporation, Sydney, Australia. Joined the Entergy Board in 1987. Age, 56

John A. Cooper Jr., Chairman of the Board, Cooper Communities, Inc., Bella Vista, Arkansas. An Entergy director since 1985. Age, 56

Lucie J. Fjeldstad, President – Multimedia, Tektronix Inc., Portland, Oregon. Joined the Entergy Board in 1992. Age, 51

Norman C. Francis, President – Xavier University of Louisiana, New Orleans, Louisiana. Joined the Entergy Board in 1994. Age, 64

Kaneaster Hodges Jr., Attorney, Newport, Arkansas. Joined the Entergy Board in 1984. Age, 56

Robert v.d. Luft, Senior Vice President, DuPont, and President, DuPont Europe, Geneva, Switzerland. An Entergy director since 1992. Age,59

Ed Lupberger, Entergy's Chairman of the Board and Chief Executive Officer, New Orleans, Louisiana. Age,58

Adm. Kinnaird R. McKee, U.S. Navy (ret.), former director of Navy Nuclear Propulsion, Oxford, Maryland. Joined the Entergy Board in 1990. Age, 65

Paul W. Murrill, Retired Chairman of the Board and Chief Executive Officer, Gulf States Utilities, Baton Rouge, Louisiana. An Entergy director since 1993. Age, 60

James R. Nichols, Partner, Nichols & Pratt (family trustees), attorney and chartered financial analyst, Boston, Massachusetts. Joined the Entergy Board in 1986. Age, 56

Eugene H. Owen, Chairman and Chief Executive Officer, Owen and White, Inc.; Chairman and President, Utility Holdings, Inc., Baton Rouge, Louisiana. An Entergy director since 1993. Age, 65

John N. Palmer Sr., Chairman of the Board and Chief Executive Officer, Mobile Telecommunication Technologies Corp., Jackson, Mississippi. Joined the Entergy Board in 1992. Age, 60

Robert D. Pugh, Chairman of the Board, Portland Gin Company, Portland, Arkansas. An Entergy director since 1977. Age, 66

H. Duke Shackelford, Planter, President and Director of Shackelford Co., Inc., Bonita, Louisiana. Joined the Entergy Board in 1981. Age, 68

Wm. Clifford Smith, President of T. Baker Smith & Son, Inc., Houma, Louisiana. An Entergy Director since 1983. Age, 59

Bismark A. Steinhagen, Chairman and Director of Steinhagen Oil Company, Inc., Beaumont, Texas. An Entergy director since 1993. Age, 60

OFFICERS

Ed Lupberger, Chairman and CEO. Joined Entergy in 1979; elected chairman in 1985. Age, 58

Jerry L. Maulden, President and Chief Operating Officer. Serves on the boards of Entergy's five operating companies. Joined Entergy in 1965. Age, 58

Jerry D. Jackson, Executive Vice President – Marketing and External Affairs. Joined Entergy in 1987 after private legal practice and service on Arkansas Public Service Commission. Age, 50

Donald C. Hintz, Executive Vice President and Chief Nuclear Officer. Joined Entergy in 1989. Previously in charge of nuclear power for another utility. Age, 52

Gerald D. McInvale, Senior Vice President and Chief Financial Officer. Joined Entergy in 1991 after holding executive positions with a major consumer products firm. Age, 51

Michael G. Thompson, Senior Vice President, Chief Legal Officer and Secretary. Joined Entergy in 1992 after private legal practice. Age, 54

S.M. Henry Brown Jr., Vice President – Federal Governmental Affairs. Joined Entergy in 1989 after 17 years of corporate and trade association public affairs work. Age, 56

Charles L. Kelly, Vice President – Corporate Communications and Public Relations. Joined Entergy in 1977, following a career in radio and television. Age, 58

Lee W. Randall, Vice President and Chief Accounting Officer. Joined Entergy in 1979 after six years with a public accounting firm. Age, 46

Christopher T. Screen, Assistant Secretary. Joined Entergy in 1976 after private legal practice. Age, 44

(Additional officers who appear in the question and answer section)

Michael B. Bemis, Executive Vice President – Customer Service, Entergy Services, Inc. Executive VP of Entergy's five operating companies. Joined Entergy in 1982. Former partner for a national accounting firm. Age, 47

Frank F. Gallaher, Executive Vice President – Fossil Operations, Entergy Services, Inc. Named GSU president; merger implementation manager in 1994. Joined Entergy in 1969. Age, 49

Terry Ogletree, Executive Vice President – Entergy Enterprises, Inc. Manages the nonregulated Power Group businesses in the U.S. and overseas. Joined Entergy in 1993. Previously an executive with major independent power firms. Age, 51

INVESTOR INFORMATION

The 1995 Annual Meeting of Shareholders will be held Friday, May 26, at the James M. Cain Energy Education Center, LA Highway 3127, Taft, Louisiana. The meeting will begin at 10 a.m. (CDT).

Dividend Payments

The entire amount of dividends paid during 1994 is taxable as ordinary income. The Board of Directors declares dividends quarterly and sets the record and payment dates. Subject to board discretion, those dates for 1995 are:

Declaration Date	Record Date	Payment Date
January 27	February 10	March 1
March 24	May 12	June 1
July 28	August 11	September 1
October 27	November 10	December 1

Quarterly dividend payments in cents-per-share have been:

Quarter	1995	1994	1993	1992	1991
1	45	45	40	35	30
2		45	40	35	30
3		45	40	35	30
4		45	45	40	35

Dividend Reinvestment Plan

Mellon Securities Trust Company offers an Automatic Dividend Reinvestment Plan to registered holders of Entergy common stock. The plan provides shareholders of record with a convenient and economical way of acquiring additional shares of Entergy common stock. The plan also accommodates payments of up to $3,000 per month for the purchase of Entergy common shares. Contact Mellon for information and an enrollment form.

Investor Information

Entergy's quarterly earnings results, dividend action, and other news and information of investor interest may be obtained by calling Entergy Shareholder Direct at 1-800-ENTERGY (368-3749). You may also use this service to receive a printed copy of the quarterly earnings release by fax or mail. Updated quarterly earnings results can be expected in late April, July, and October, and early in February. Dividend information will be updated near the end of January, March, July, and October.

Security analysts and representatives of financial institutions may contact Stuart Ball at 1-504-576-4817 regarding Entergy's financial and operating performance.

For copies of Entergy's 10-K and 10-Q reports filed with the Securities and Exchange Commission, call 1-800-292-9960 or write to: Entergy Corporation, Investor Relations, P.O. Box 61005, New Orleans, LA 70161.

Shareholder Account Information

Mellon Securities Trust Company is Entergy's transfer agent, registrar, dividend disbursing agent, and dividend reinvestment agent. Shareholders of record with questions about lost certificates, lost or missing dividend checks, or notifications of change of address should contact:

Mellon Securities Trust Company
Recordkeeping Services
P.O. Box 590
Ridgefield Park, NJ 07660
Telephone: (800) 333-4368

Common Stock Information

The company's common stock is listed on the New York, Chicago, and Pacific stock exchanges under the symbol "ETR." The Entergy share price is reported daily in the financial press under "Entergy" in most listings of New York Stock Exchange securities. Entergy common stock is a component of the following indices: S&P 500, S&P 100, S&P Utility Index, Kemper Securities Utilities Index, and the NYSE Composite Index.

At year-end 1994 there were 227,408,577 shares of Entergy common stock outstanding. Shareholders of record totaled approximately 104,000, and approximately 145,000 investors held Entergy stock in "street name" through a broker.

The high and low trading prices for each quarterly period in 1994 and 1993 were as follows:

	1994		1993	
	High	Low	High	Low
(In dollars)				
First	37 3/8	31 1/8	36 1/2	32 1/2
Second	32 1/8	24 5/8	38 1/4	33 1/4
Third	26 1/4	22 5/8	39 7/8	36 1/4
Fourth	24 3/4	21 1/4	39 1/4	35 1/8

Public Policy Newsletter

Entergy encourages its shareholders to take an active role in the legislative and public policy issues that affect the company and the electric energy industry. Copies of *The Entergy Constituent*, Entergy's newsletter on those issues, may be obtained by writing to: *The Entergy Constituent*, Entergy Corporation, P.O. Box 61000, New Orleans, LA 70161.

Entergy's retail service area covers the portions of Arkansas, Louisiana, Mississippi, and Texas shown in light blue.

ENTERGY

Entergy Corporation
P.O. Box 61005
New Orleans, LA 70161