MISSISSIPPI

PUBLIC SERVICE COMMISSION

Lynn Posey, Chairman
R. Stephen Renfroe, Vice Chairman Brandon Presley, Commissioner
Katherine Collier, Executive Secretary

PUBLIC UTILITIES STAFF

Virden C. Jones, Executive Director

Annual Report

Ending June 30, 2014

PUBLIC UTILITIES STAFF

TABLE OF CONTENTS

COMPOSITION AND FUNCTIONS	1
ORGANIZATIONAL CHART	3
EXECUTIVE DIRECTOR	4
DIVISIONS OF THE STAFF	5
ADMINISTRATIVE SERVICES	5
ELECTRIC, GAS AND COMMUNICATIONS	6
WATER AND SEWER	7
ECONOMICS AND PLANNING	8
LEGAL	9
ACTIONS OF THE STAFF	11
UTILITY CASE LOAD	11
ELECTRIC	11
GAS	26
TELECOMMUNICATIONS	32
WATER AND SEWER	37
UTILITIES SUMMARIES	40
ELECTRIC	41
GAS	42
TELEPHONE	43
AGENCY FINANCIAL REPORTS	44
RECEIPTS AND DISBURSEMENTS	44
OUT OF STATE TRAVEL	45

INDEX TO CHARTS/TABLES

GENERAL:

ORGANIZATIONAL CHART 3

ELECTRIC UTILITIES:

INVESTOR-OWNED SUMMARY 41

GAS UTILITIES:

SUMMARY 42

TELEPHONE UTILITIES:

SUMMARY 43

AGENCY FINANCIAL REPORTS:

RECEIPTS AND DISBURSEMENTS 44

OUT OF STATE TRAVEL 45

COMPOSITION AND FUNCTIONS

The Public Utilities Staff was established by the Legislature in 1990. It is an agency completely separate and independent from the Public Service Commission. The Staff's organization consists of the Executive Director, appointed by the Governor from a list of qualified candidates submitted by the Public Service Commission and confirmed by the Senate, and five divisions: Legal; Administrative Services; Water and Sewer; Electric, Gas and Communications; and Economics and Planning. Each division is headed by a division director. The organizational chart in this report gives the complete staffing structure.

The Staff, by law, represents the broad interests of the State of Mississippi by balancing the respective concerns of residential, commercial and industrial ratepayers; the state, its agencies and departments; and the public utilities.

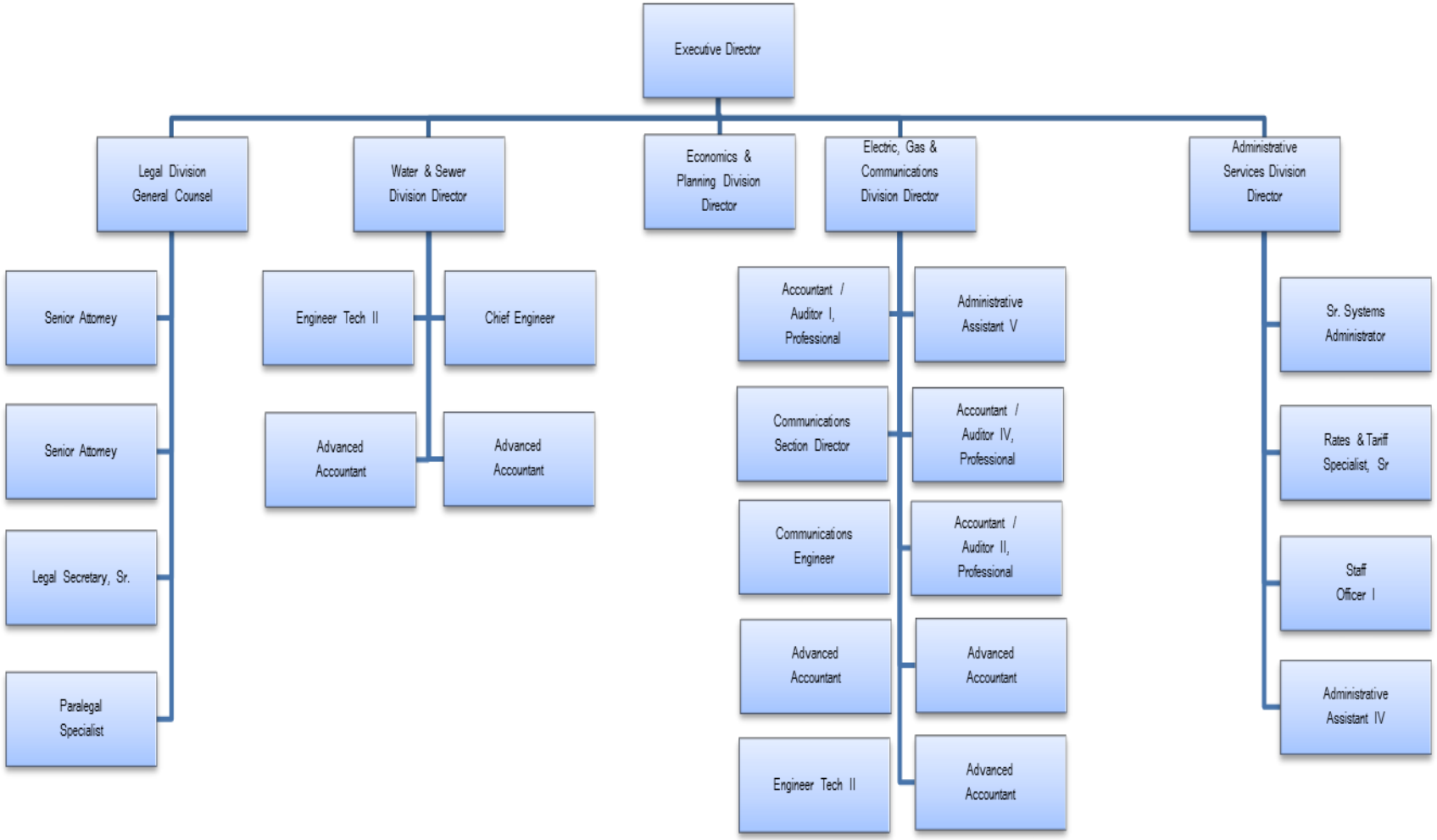
The primary functions of the Staff are investigative and advisory in nature to the Public Service Commission by and through the Executive Director. This includes, but is not limited to:

A. Reviewing, investigating and making recommendations with respect to the reasonableness of rates charged or proposed to be charged by any public utility.

B. Reviewing, investigating and making recommendations with respect to proposed investments and services furnished or proposed to be furnished by jurisdictional utilities.

C. Making recommendations regarding all Commission proceedings affecting the rates, service or area of any public utility when deemed necessary and in the broad public interest.

The composition of and services provided by the Staff, along with information related to each division, can be found on the Internet at http://www.psc.state.ms.us. The Organizational Chart on the following page depicts the Public Utilities Staff for the 2014 fiscal year.


Executive Director
Legal Division General Counsel
Senior Attorney
Senior Attorney
Legal Secretary, Sr.
Paralegal Specialist
Water & Sewer Division Director
Engineer Tech II
Chief Engineer
Advanced Accountant
Advanced Accountant
Economics & Planning Division Director
Electric, Gas & Communications Division Director
Accountant / Auditor I, Professional
Administrative Assistant V
Communications Section Director
Accountant / Auditor IV, Professional
Communications Engineer
Accountant / Auditor II, Professional
Advanced Accountant
Advanced Accountant
Engineer Tech II
Advanced Accountant
Administrative Services Division Director
Sr. Systems Administrator
Rates & Tariff Specialist, Sr
Staff Officer I
Administrative Assistant IV

EXECUTIVE DIRECTOR

The Executive Director is the head of the Public Utilities Staff with general responsibility and charge over the technical and administrative operations of the agency. He coordinates the activities of the divisions and is responsible for the formulation and implementation of policies and procedures.

Virden Jones was appointed Executive Director of the Public Utilities Staff on August 1, 2011, by Governor Haley Barbour and reappointed by Governor Phil Bryant on March 6, 2014, for a six year term beginning July 1, 2014. Jones is a certified public accountant and a member of the Mississippi Society of Certified Public Accountants. He received an undergraduate degree from Vanderbilt University in Nashville, Tennessee and a Master's degree in Business Administration from Emory University in Atlanta, Georgia.

Jones joined the Staff as a Financial Modeling Manager in 1998 and served in the capacity of Director of the Electric, Gas & Communications Division since 1999. Prior to joining the Staff, Jones worked in the private sector as an entrepreneur, investment advisor and professional accountant. Jones is a native of Greenville, Mississippi and has lived in the state most of his life. He is married to Dr. Libby Spence and currently resides in Madison.

DIVISIONS OF THE STAFF

ADMINISTRATIVE SERVICES

Technical and administrative support services are provided to the Staff and the Commission through the Director of Administrative Services and from the direction of the Executive Director. These services include issuing annual reports as required by state statute.

Financial data from all jurisdictional utilities are collected and reviewed. The division serves as a liaison between the Staff and federal and other state agencies, and provides information to the public involving interpretation of agency policy on various utility subject matters.

L to R: Randy Tew, Janie Keyes, Candace McQuarters, Jacqueline Leverette, Wayne Wilkinson

The Division provides utility mapping services and support utilizing an automated Geographic Information System. A complete and current record of utilities' rates and tariffs is maintained. In addition, a library of utility reference material on current subjects and innovative trends in the utility industry is maintained. The Staff's central filing is kept in accordance with a computer case tracking system. Administrative support services are provided to all Staff divisions, the consuming public and public utilities.

ELECTRIC, GAS & COMMUNICATIONS

(Front Row) Jennifer Boen, Brandi Myrick, Patti Hentschel, Tera Agee (Back Row) David Kennedy, Joyce Upton, Michael Douglas, Donna Chandler, Bill Hammett

The Electric, Gas & Communications Division provides investigative, audit and advisory services to the Public Service Commission. It also interfaces directly with the regulated utilities subject to the Commission's jurisdiction to facilitate their interaction with the Commission. Applicants seeking certificates of public convenience and necessity for additional service areas or facilities, as well as other interested parties, are informed about procedural and other regulatory requirements. General rate cases, special rate requests, service rule revisions and other miscellaneous filings are also reviewed and investigated to determine if proposed changes are necessary and in the public interest. Typically, the Division issues data requests, analyzes the information provided and makes recommendations to the Commission. When necessary, testimony is prepared and presented to the Commission in contested matters.

The Division periodically examines financial records of the utilities to ensure that only allowable, necessary and prudently incurred expenses are included in rates. Furthermore, the Division monitors the earnings of the regulated companies to verify that these earnings fall within a reasonable range as determined by formulary rate plans approved by the Commission. The purpose of these plans is to provide performance incentives and a mechanism to annually evaluate the rates of each utility in relation to their cost of service and authorized earnings. Use of the plans has reduced the frequency of traditional rate cases and enabled the Staff to have an ongoing familiarity with the operations of the companies.

The Staff is also engaged in ongoing year-round audits of the fuel and energy purchases of investor-owned electric utilities and natural gas local distribution companies. Under state law, fuel and energy purchases are a direct pass-through to ratepayers, and utilities are not permitted to profit from their sales. Fuel and energy purchases are reviewed to ensure that only allowable, prudently incurred costs are recovered from ratepayers. Energy prices are market driven and unregulated. However, the Commission, upon the Staff's recommendation, has approved and encouraged the use of hedging programs to help reduce the volatility of fuel and energy prices.

WATER & SEWER

L to R: Ron Brewer, Mike McCool, David Boackle, Hugh Green, (Not pictured) Maurita Nesmith

The Water and Sewer Division investigates all water and sewer filings before the Public Service Commission and makes recommendations thereon. Filings reviewed include applications for construction of facilities, applications

to serve customers, and notices to revise the rates and charges authorized by the Commission. The Division presents testimony in selected cases at hearings before the Commission. In addition, the Division reviews and makes utility viability determinations for Mississippi Development Authority block grant water improvement projects; the Mississippi State Department of Health, regarding new public water systems; and the Mississippi State Department of Environmental Quality, regarding new public sewer systems.

A variety of activities are performed to ensure that utilities comply with all applicable laws and rules. These include auditing water and sewer companies, making cost studies of construction projects, monitoring construction of new facilities, reviewing operation and maintenance procedures, and examining customer service practices of water and sewer utilities. To aid utilities in compliance, the Division reviews accounting, engineering, and operational matters. Technical assistance is also given to Commission staff in their enforcement duties.

ECONOMICS AND PLANNING

Dr. Christopher Garbacz is Director of the Economics and Planning Division. Dr. Garbacz coordinates strategy for rate hearings with other divisions in order to develop comprehensive technical analyses of issues and to prepare appropriate oral and written testimony. This includes analyzing rate of return on investments, financing and rate structures. The Director testifies in Commission hearings regarding the Staff's findings and also makes economic and financial presentations in other venues. Routine filings and issues currently before the Commission are examined for the long-term impact on Mississippi ratepayers and utilities. Chief among these issues are the activities of the interstate holding companies and federal regulators.

Research activities on issues not currently before the Commission are performed. New forms of regulation, the changing competitive structure of the utility industry, energy markets, environmental regulation, and similar issues on the national agenda are examined for their potential impact on Mississippi.

LEGAL

L to R: Missy Zebert, Cassandra Lowe, Sam Mabry, Chad Reynolds, Paige Wilkins, Patricia Trantham

The Legal Division provides advisory services to all Staff divisions, the Staff Executive Director, and the Commission. The Legal Division represents the Staff in hearings held before the Commission, where the Staff may participate in contested matters as either a party litigant, which may be in a public advocacy or prosecutorial capacity, or as an advisor to the Commission. If the Staff operates as a party in a matter set for hearing, the open communication between the Commission and Staff regarding the contested issue ceases to exist and, for the limited purpose of the contested matter, all participants must act as adversaries to protect the fairness of the proceedings.

On a routine basis, the Legal Division performs legal research for all Staff divisions and for the Commission; prepares cases for hearings, which includes issuing data requests and conducting pre-hearing conferences for negotiation and potential settlement; works with expert consultants pursuant to Staff investigations; develops the Commission hearing record by conducting direct and cross-examination; participates in the preparation and recommendation of the rules and regulations of the Commission; prepares proposed state legislation; interfaces with counsel for utilities, which includes informing utilities of Commission expectations, entering into stipulated agreements with the utilities regarding their regulated activities, and assistance with the preparation of proposed orders; prepares Staff's proposed orders and other legal documents for the consideration of the Commission; alerts the Staff and the Commission of statutory deadlines for which action must be taken; keeps the Staff and the Commission apprised of new laws and recent developments in all areas of public utility matters; and serves as the Commission's counsel in matters before various federal agencies, including the Federal Energy Regulatory Commission ("FERC") and the Federal Communications Commission ("FCC").

An important role of the Legal Division is its continuous involvement with FERC and the dockets heard before that agency. The Legal Division acts as Counsel to the Commission in these dockets. Since FERC regulates wholesale rates of Entergy and the Southern Company, its opinions directly impact the ratepayers of Mississippi. The Legal Division's dual role as advisor and adversary provides a unique opportunity to work closely with the Commission and its staff, while providing balance to the legal interpretations of questions affecting the broad interests of the State of Mississippi.

ACTIONS OF THE STAFF

UTILITY CASE LOAD

During FY 2014, the Public Utilities Staff participated in 288 utility filings before the Public Service Commission. Staff action involved reviewing and investigating contested and uncontested matters and included making recommendations to the Commission with respect to the reasonableness of rates charged, or proposed to be charged, by the utility. In addition, the Staff continually reviewed, investigated and made recommendations with respect to services furnished, or proposed to be furnished, by jurisdictional utilities. There are 1,517 certificated utilities of record.

Overall, the Staff conducts studies and makes recommendations regarding all Commission proceedings affecting rates, service and area of regulated public utilities in this state.

ELECTRIC

FUEL AUDITS - Based on Mississippi Attorney General (AG) Opinion No. 2010-00554,[1] the Staff has maintained its continuous monitoring activities and other statutory duties related to the fuel adjustment clauses, and has continued many of its audit procedures during the course of its monitoring activities.

The Commission fulfilled its mandatory duty to conduct or obtain the fuel audits through its "Contract for Fuel Audit Services" with Nicholson & Company, PLLC ("Nicholson") and McFadden Consulting Group, Inc. ("McFadden"), executed on

[1] In 2010, the AG issued an opinion at the request of Commissioner Brandon Presley, regarding the requirement that individual purchases of energy be examined by the Commission to determine if they were economical at the time they were made, pursuant to M.C.A. §77-3-42. The AG concluded that the Commission has a mandatory duty to conduct such audits of energy purchases, in accordance with generally accepted auditing standards and the provisions of Section 77-3-42. The AG also concluded that, although individual purchases must be examined by the auditor, an appropriate sample of energy purchases could, depending on the volume of purchases, be examined.

May 10, 2012, to perform the fuel audit and management reviews for Mississippi Power Company ("MPCo") for audit years 2012 and 2013. The Commission signed a "Contract for Fuel Audit Services" with Boston Pacific Company, Inc. ("BPI") on May 29, 2012, to perform its management review of Entergy Mississippi, Inc. ("EMI"), and with Horne LLP ("Horne") on August 17, 2012, to perform its financial audit of EMI, both for the audit years 2012 and 2013. On June 4, 2013, the Commission ordered a temporary suspension of the management review audit of EMI until October 1, 2014, due to the company's integration into MISO,[2] at which time a two-year management review audit will be conducted for years 2013 and 2014. On June 5, 2014, the Commission extended the "Contract for Fuel Audit Services" with Horne for the additional fuel audit year of 2014.

The end product of the management review and financial audit for MPCo was one report divided into three segments:

1) "A Report on the Management of the Costs Recovered Through Mississippi Power Company's Fuel Cost Recovery Mechanism" prepared by McFadden;

2) The "Mississippi Power Company Fuel Adjustment Audit for the Year Ended September 30, 2013" prepared by Nicholson; and

3) The "Communication with Those Charged with Governance At or Near the Conclusion of the Audit" prepared by Nicholson.

The end product of the financial audit for EMI was two separate reports:

1) The "Entergy Mississippi, Inc. Fuel Adjustment Audit for the Period from October 1, 2012, through September 30, 2013," prepared by Horne; and

2) The "Independent Auditor's Communication with Those Charged with Governance" prepared by Horne.

In addition, on January 3, 2014, and January 6, 2014, the Staff filed its Summary and Comments of the Staff's Certified Public Accountant which addressed

[2] See "Integration into MISO" section below.

the filed reports for EMI and MPCo, respectively. The financial audits of the independent auditors confirmed that there were no material misstatements of allowable fuel and purchased energy expenditures during the audit period. The management review report for MPCo was generally very favorable, but they also included some recommendations for improvement. On January 7, 2014, the Commission certified all of the reports to the Legislature.

FORMULARY PLANS – The non-fuel portions of rates for both EMI and MPCo are regulated primarily through formulary rate plans, which are Commission-approved tariffs. These tariffs provide a formula approach to determining rates based on each company's annual operating results and allowed return on investment. Generally, rates of return on equity ("ROE") are calculated using pre-established financial formulas. Performance adjustments to the ROEs are made based on customer satisfaction, price and reliability scores that are used to calculate the performance-adjusted ROE. This adjusted ROE is then included in each company's weighted average cost of capital to determine its benchmark return. Once the benchmark is determined, the expected return based on present rates is calculated to determine if such rates provide the company a reasonable opportunity to earn a return at or near the benchmark. A range of "no change" is established above and below the benchmark. If the company's expected return is above or below the range of no change, rates are adjusted accordingly. If the expected return is within the range, no adjustment is made. Both companies make evaluation filings annually. The Staff reviews these filings to ensure compliance with Commission rules, the underlying tariffs, generally accepted accounting principles, and accepted ratemaking practices.

ENERGY EFFICIENCY – On July 11, 2013, the Commission entered its Final Order Adopting Rule, enacting Rule 29 of the Commission's Public Utilities Rules of Practice and Procedure, entitled "Conservation and Energy Efficiency Programs." Section 102 of Rule 29 requires that each electric and natural gas utility serving more than 25,000 customers (meters) and subject to the jurisdiction of the

Commission shall file a Quick Start Plan for energy efficiency programs for its service territory. Quick Start Plans and cost recovery mechanisms were filed by EMI, MPCo, Atmos Energy Mississippi Gas, and CenterPoint Energy Mississippi. Also, the applicable electric power associations ("EPAs") filed plans. Staff reviewed each plan and cost recovery mechanism and recommended changes when necessary for compliance with Rule 29. The Commission granted approval of each company's plan according to Staff's recommendation.

INVESTIGATION OF THE ADOPTION OF A UNIFORM FORMULA RATE PLAN– On June 3, 2014, the Commission issued an order opening a proceeding to investigate and review the adoption of a uniform formula rate plan ("FRP") for EMI and MPCo. Pursuant to Miss. Code Ann. § 77-3-2, the Commission is authorized, at its discretion, to consider and adopt FRPs. In the past the Commission has adopted FRPs for EMI, MPCo and the three Mississippi gas utilities. On August 7, 2012, the Commission established dockets to investigate whether the formulaic methodologies used in the electric companies' FRPs to calculate the return on investment ("ROE") (including performance indicators) were still appropriate. The Staff hired Christensen Associates Energy Consulting ("Christensen Associates") to assist in its investigation and review. On March 14, 2013, Staff filed a report provided by Christensen Associates which discusses the FRPs of EMI and MPCo. Building upon Staff's report, the Commission decided to consolidate these dockets and expand the scope of the review to investigate and study the merits of adopting a uniform FRP that could be applied, in whole or in part, to both EMI and MPCo in order to achieve greater consistency in the plans. Staff's review is still in progress, and this matter remains pending before the Commission.

Entergy Mississippi, Inc. ("EMI")

FRP-5 (REVISED) – On January 7, 2014, the Commission issued an order suspending the company's FRP-5 (Revised) filing due to be filed on or before March 15, 2014, in anticipation of the company's rate case filing.

RATE CASE – On June 10, 2014, EMI filed its Notice of Intent to Modernize Rates to Support Economic Development, Power Procurement, and Continued Investment ("rate case") proposing a net increase in revenues in the amount of $49.1 million, or approximately 3.96% for the calendar year 2015. Staff conducted an extensive investigation and on October 14, 2014, Staff and EMI entered into a Joint Stipulation, along with a Second Joint Stipulation entered into on October 31, 2014. The effects of both Joint Stipulations are as follows.

Rate Base – Staff and the company agreed to reduce the capital costs associated with the return to service of Baxter Wilson 1 to reflect the application of insurance proceeds. In addition, Staff and the company agreed that rate base shall be reduced by approximately $18.1 million and no changes shall be made to the company's fuel oil inventory level at this time. However, Staff recommended that the Commission review the issue of the appropriate level of fuel oil inventory in its next procurement review. Further, Staff and the company agreed that $10.3 million related to the outage at Gerald Andrus and $10 million for 2015 in connection with increased transmission capital maintenance expenditures should be reflected in rate base.

Revenues, Operating Expenses, Cost of Capital, and Rate of Return – Staff and EMI agreed that the company's proposed depreciation expense should be reduced by approximately $14 million to reflect new depreciation rates designed to fully address the company's change to amortization accounting for general plant. Also, EMI agreed to file a depreciation study at least every four years and to file a dismantlement plan for its retired units, including the current estimated costs of dismantlement, by December 31, 2016.

Staff and EMI agreed that costs associated with MISO membership that are not currently recovered through the Energy Cost Recovery Schedule ECR-4, should be recovered in a separate rider schedule. Revenues expected to be received by EMI under the wholesale arrangement with MEAM (Municipal Energy Agency of Mississippi) during the rate effective period of 2015 shall be reflected through the MISO Rider, subject to a true-up during 2016. Further, due to EMI's System

Agreement withdrawal on November 7, 2015, Staff and the company agreed to reflect no revenues under MSS-1 or MSS-2 of the Entergy System Agreement in base rates. Instead, all revenues received by EMI under the System Agreement (excluding revenues reflected through Schedule ECR) beginning February 1, 2015, shall be reflected through the Unit Power Cost Rider Schedule.

Staff and EMI agreed that $5,987,536 in operations and maintenance ("O&M") cost associated with Baxter Wilson Unit 1 should be deferred into a regulatory asset. The regulatory asset should accrue carrying costs at the company's cost of short-term borrowing from internal funds, with amortization to occur over two years. The foregoing is subject to a prudence determination by the Commission, and a final accounting of costs and insurance proceeds to be reflected in the FRP to be filed in the first quarter of 2016.

Staff and the company agreed to various other operating income and expense adjustments that resulted in an overall reduction for ratemaking purposes of $16.8 million. Staff and EMI also agreed to an ROE of 10.07% and that no adjustment will be made to the ROE to reflect the company's performance. The ROE of 10.07% results in a weighted average cost of capital of 7.51%.

Formula Rate Plan Rider Schedule FRP-6 – The company proposed certain changes which were incorporated into the Formula Rate Plan Rider Schedule FRP-6 ("FRP-6") as part of the company's rate case. EMI modified FRP-6 to incorporate a forward-looking test year. Staff reviewed the proposed forward-looking test year and requested that certain changes be adopted by the company. Staff and EMI agreed to modify the Formula Rate Plan to incorporate: future net investment based on historical costs adjusted for known and measurable changes, including electric plant, accumulated depreciation and amortization, and accumulated deferred income taxes; the filing of an annual Transmission and Distribution Plan ("T&D Plan"), presenting the projects that the company plans to undertake and to include in rate base in the next year; a provision allowing the company and Staff to propose adjustments for annualization, normalization and known and measurable changes

to depreciation, amortization and O&M expenses, for review by the Staff and approval by the Commission; the true-up of depreciation expenses and property taxes only, unless inclusion of additional expenses is mutually agreed; and a review of the plan after the company has made its year ending 2018 filing, at which time a determination will be made to verify whether the provisions relating to future net investment and operating expenses are resulting in just and reasonable rates.

Other Provisions – Staff recommended and the company agreed to changes in the company's regression analysis methodology, customer charge and rate design proposal, and cost recovery in base rates of a solar pilot project. Staff and EMI also agreed that EMI will consolidate into the rate case its proposal to recover the deferred costs related to the development activities for Grand Gulf 3 in the amount of $56,776,306.66, and EMI will not further pursue the recovery of these costs unless EMI decides to move forward with nuclear development in Mississippi. At that time, EMI may re-present for consideration by the Commission only those costs directly associated with the Early Site Permit, and only to the extent that the costs are verifiable, prudent and relevant to any such option pursued.

Based upon the agreements and stipulated terms, the Staff and EMI agree to a total rate base for the 2015 test year of approximately $2,014,330,539 and a revenue requirement of $1,054,419,629. The Commission approved the Joint Stipulations between the Staff and the company on December 11, 2014.

<u>INTEGRATION INTO MISO</u> - The Midcontinent (formerly Midwest) Independent System Operator ("MISO") is an independent, nonprofit regional transmission organization ("RTO") that supports the reliable delivery of electricity in 13 U.S. states. MISO has an established "Day 2" energy market, a term that refers to a centralized market-driven generation dispatch process that optimizes the use of the transmission system and generation assets. On November 15, 2012, the Commission issued an order approving the transfer of functional control of EMI's transmission facilities to MISO.

On December 17, 2013, EMI filed a report updating the Commission on its MISO integration activities. Since the last reporting period of February 2013, EMI completed several critical activities required for the December 2013 integration including: (a) commercial registration of EMI's load and assets in the MISO RTO; (b) provision of EMI data required for representation of EMI assets and load in MISO market models; (c) implementation of the systems and procedures for RTO operations; (d) resolution of issues regarding contracts with several of EMI's embedded entities; and (e) participation in MISO market simulations and mock auctions. On December 18, 2013, EMI successfully integrated into MISO, thereby transferring functional control of EMI's transmission facilities to MISO.

POST-SYSTEM AGREEMENT TRANSITION - On November 8, 2007, EMI provided its notice of withdrawal from the Entergy System Agreement ("ESA"), effective November 8, 2015. In its order approving the MISO integration, the Commission also required EMI to file a report addressing the company's post-System Agreement ("PSA") structure and operations within 90 days. The report was to specifically discuss EMI's proposed PSA business model, proposed staffing changes, proposed services to be outsourced to affiliates and new services to be performed in house, the timetable for implementation of proposed changes, and any other relevant information concerning how EMI plans to operate after exiting the ESA. Accordingly, EMI filed its PSA report on February 15, 2013, indicating significant progress toward its ability to operate effectively after its withdrawal from the ESA. On December 17, 2013, EMI filed a report updating the status of its transition to into MISO and its PSA operations.

Accomplishments cited include implementation of EMI's participation in the MISO RTO; implementation of EMI governance processes; organizational preparations for PSA operations; update of Integrated Resource Plan; and participation in MISO transmission planning processes. In the report, EMI indicated that it expects to finalize the transition plan and the associated

implementation work plans and budget, to prepare for November 2015 operational readiness, in the fourth quarter of 2014.

ACCOUNTING TREATMENT OF GRAND GULF III EVALUATION COSTS - On October 29, 2010, EMI filed an Application for Approval of Accounting Treatment ("Application") requesting approval by the Commission of the accounting treatment for costs incurred and to be incurred in connection with generation resource planning, evaluation, monitoring, and development activities related to a new generating unit at the site of the existing Grand Gulf Nuclear Station located in Claiborne County, Mississippi ("Grand Gulf 3"). On October 31, 2011, the Staff and EMI entered into a Joint Stipulation wherein the parties agreed that there should be a deferral of costs incurred from the development activities for Grand Gulf 3 in the amount of $56,776,306.66, to be treated as a regulatory asset, until such time as the docket is resolved. On November 10, 2011, the Commission issued an Order adopting the Joint Stipulation. On October 14, 2014, in the Joint Stipulation in EMI's rate case filing, EMI agreed that it will not further pursue the recovery of these costs unless EMI decides to move forward with nuclear development in Mississippi. At that time, EMI may re-present for consideration by the Commission only those costs directly associated with the Early Site Permit, and only to the extent that the costs are verifiable, prudent and relevant to any such option pursued. The Commission approved the rate case Joint Stipulation on December 11, 2014.

Mississippi Power Company ("MPCo")

PEP-5 - On March 15, 2011, MPCo filed its 2010 Look-Back Evaluation under Rate Schedule PEP-5 with the Commission. The purpose of the Look-Back filing is to examine the company's actual results to determine if a surcharge or refund is indicated. The company reported an Actual Retail Return on Investment ("ARRI") of 8.026% which was within the range of no change (7.571% to 8.571%), indicating no need for a surcharge or refund. The Staff and company have not yet agreed on

certain expense disallowances, therefore, the filing remains open pending a resolution.

On March 15, 2013, MPCo filed its 2012 Look-Back Evaluation under Rate Schedule PEP-5. The company reported an ARRI of 8.210% which was above the range of no change of 6.953% to 7.953%, indicating the need for a revenue adjustment of ($4,718,252). The Staff and company have not yet agreed on certain expense disallowances, therefore, the filing remains open pending a resolution.

On March 18, 2014, MPCo filed its 2013 Look-Back Evaluation under Rate Schedule PEP-5 with the Commission. The company reported an ARRI of 6.872% which was within the range of no change (6.509% to 7.509%), indicating no need for a surcharge or refund. The Staff and company have not yet agreed on certain expense disallowances, therefore, the filing remains open pending a resolution.

KEMPER COUNTY PROJECT - *Commission's Final Order on Remand:* On April 24, 2012, the Commission issued a Final Order on Remand Granting a Certificate of Public Convenience and Necessity, Authorizing Application of Baseload Act, and Approving Prudent Pre-Construction Costs ("Final Order on Remand"). The Final Order on Remand was a one-hundred thirty-two (132) page order detailing the Commission's findings and conclusions after full re-examination and re-consideration of the record. The Sierra Club appealed the Commission's order to the Chancery Court of Harrison County. The Chancery Court upheld the Commission's order whereupon the Sierra Club appealed to the Supreme Court. On August 1, 2014, MPCo and the Sierra Club executed a Settlement Agreement. As a result of the Settlement Agreement, the Sierra Club filed motions to withdraw from, and to strike all testimony in, all Kemper Project-related proceedings. On August 4, 2014, Thomas Blanton filed a Motion to Stay Joint Motion to Dismiss asking that the Certificate Appeal not be dismissed. The Supreme Court has yet to rule on this Motion.

Rate Mitigation Plan ("7-Year Plan"): Pursuant to a Settlement Agreement between the Commission and MPCo, on February 26, 2013, MPCo filed its plan to govern rates related to the Kemper Project for the first seven years of plant operations. The plan is intended to mitigate and stabilize the rate impacts to customers by locking in a series of annual revenue requirements in the initial years of service. The differences between the retail revenue requirements calculated for portions of the Kemper Project to be included in rate base and the rate level established by the proposed rate mitigation plan will be made up from the funds collected by the company through the "Mirror CWIP" rate. The filing also acknowledges that certain costs will vary from year to year, including by-product revenues, non-fuel operating and maintenance expenses and maintenance capital, beneficial capital, tax impacts, changes in law or governmental or regulatory actions, and force majeure events. MPCo proposes to account for these variances by recording any differences between the actual costs and the planned costs as a regulatory asset or liability. The deferred amounts will be reviewed at the end of the 7-Year Plan for prudence and a recovery amount and period of amortization will be determined.

On March 22, 2013, MPCo supplemented its 7-Year Plan to accommodate the modifications required by the Commission's final order on the "Mirror CWIP" request proposed by MPCo on January 25, 2013. Though there was no change to the Kemper Project retail revenue requirements, the amortization of the "Mirror CWIP" funds in the 7-Year Plan and the revenue collection required did necessitate adjustment. Billing under the 7-Year Plan was initially proposed to begin with the first billing cycle of May 2014, but the company intends to file a revised plan due to the construction delays and the resulting in loss of certain tax credits due to failure to meet IRS deadlines.

Petition for Finding of Prudence: Pursuant to the Settlement Agreement between the Commission and MPCo, on June 28, 2013, MPCo filed a request for the Commission to review the prudency of its Kemper Project costs incurred as of

March 31, 2013. Thomas Blanton, EMI, Sierra Club, and Queshaun Sudbury intervened. On July 26, 2013, the Commission issued a scheduling order which directed the company to file testimony no later than August 9, 2013, and expressed its intention to limit any prudence determination made by reserving final judgment of the used and usefulness of the Kemper Project. Accordingly, the company filed costs of $2,377,297,207 for review on August 9, 2013, with supplemental detail filed on September 17, 2013, at the Staff's request. In the past year, the Commission has issued several amended schedules and multiple rounds of testimony have been filed. On August 4, 2014, as a result of its Settlement agreement with the company, Sierra Club filed a motion to withdraw its intervention in the docket. On August 5, 2014, the Commission cancelled the prudence hearings, which had been scheduled for September 8, 2014. The hearings will be rescheduled, but will not be conducted until after the plant enters commercial operation.

Petition to Place Combined Cycle Gas Turbine ("CCGT") Portion of Kemper into Service: In discussions with the Staff and Commission, MPCo indicated that it intended to place the CCGT and certain related portions of the Kemper Project into service sometime in the summer of 2014. MPCo claimed that doing so would benefit both MPCo and its customers by allowing MPCo to take advantage of certain time-limited federal tax provisions, specifically bonus depreciation, and that the CCGT would be available for economic dispatch, fueled by natural gas, pending completion of the Kemper Project. On August 5, 2014, the Commission entered an order directing the company to file, in a new docket, its analysis supporting its decision to place the Kemper Project CCGT into service. On August 9, 2014, MPCo declared the CCGT to be in service. On August 18, 2014, MPCo submitted its report and analysis supporting its decision to place the CCGT generating facilities into service. This matter is still pending before the Commission.

<u>INSTALLATION OF SCRUBBERS ON PLANT DANIEL</u> - On July 2, 2010, MPCo filed a Petition for a Certificate of Public Convenience and Necessity to install flue gas desulfurization equipment ("scrubbers") at Plant Daniel Units 1 & 2 in

anticipation of new Environmental Protection Agency ("EPA") regulations barring sulfur emissions and controlling the disposal of coal ash. The Commission authorized the company in its 2011 ECO filing to continue to spend the minimum amount required to keep the scrubber project viable until the EPA issued its final rule. On December 21, 2011, the EPA released the final Mercury and Air Toxic Standards ("MATS") rule. On April 3, 2012, the Commission issued an order granting MPCo a Certificate of Public Convenience and Necessity to build the scrubber. On May 3, 2012, the Sierra Club appealed the Commission's Order to the Chancery Court of Harrison County. On August 1, 2014, MPCo and the Sierra Club executed a Settlement Agreement that resulted in Sierra Club filing a motion to withdraw from the proceeding. The Plant Daniel scrubber project is ongoing and the docket remains pending before the Commission.

FEDERAL ENERGY REGULATORY COMMISSION – There have been several proceedings commenced at FERC that are "spin offs" of the full production cost equalization case. The following proceedings have either been heard or will be set for hearing:

- Docket ER10-1350 (2010) is the fourth annual Bandwidth Filing required under Order No. 480. In this filing, EMI ratepayers received $19M in rough production cost equalization payments. This proceeding was set to be heard before an ALJ in March 2011. However, on March 3, 2011, the ALJ ordered that the proceeding be held in abeyance until the Commission rules on issues pending before it in other proceedings (ER08-1056 and ER09-1224) that were also raised in this proceeding. On October 17, 2013, the ALJ issued an order lifting the stay. On September 19, 2014, the ALJ issued its initial decision. None of the issues decided by the ALJ affected the payments received by EMI.

- Docket ER11-3658 (2011) is the fifth annual Bandwidth Filing required under Opinion No. 480. In this filing, EMI ratepayers received $40M in rough production cost equalization payments. The Commission has established

hearing procedures. However, in order to prevent re-litigation of issues that are subject to other procedures pending before the Commission, the hearing procedures have been held in abeyance pending a future Commission order.

- Docket ER12-1920 (2012) is the sixth annual Bandwidth Filing required under Opinion No. 480. In this filing, EMI ratepayers received no rough production cost equalization payments. The Commission has established hearing procedures. However, in order to prevent re-litigation of issues that are subject to other procedures pending before the Commission, the hearing procedures have been held in abeyance pending a further Commission order.

Other FERC Proceedings:

- Docket ER09-61 (2009) is a Complaint filed by the LPSC at the FERC alleging that EAI had violated the Entergy System Agreement by selling excess energy to third party power marketers rather than selling it to the MSS-3 pool. This proceeding was heard before an ALJ in August 2010. Due to EMI's ratepayers being harmed by the actions of EAI, the MPSC filed an Initial Joint Post-Hearing Brief with the LPSC. An Initial Decision was issued on December 9, 2010, finding that EAI's wholesale opportunity sales, associate energy, and cost allocations did violate the System Agreement and that damages, in the form of refunds, shall be paid by EAI shareholders to the Operating Companies that were harmed. On June 21, 2012, the Commission issued an order Affirming in Part the Initial Decision and Establishing Further Hearing Procedures. The FERC reversed the ALJ's ruling that the EAI wholesale opportunity sales violated the System Agreement. However, the FERC affirmed the ALJ's ruling that the opportunity sales were not properly allocated under the System Agreement and that damages are warranted. The FERC ordered that further hearing procedures are necessary to determine the amount of damages due to be refunded. On August 28, 2013, the ALJ issued an Initial Decision requiring Entergy to re-run the Intra System Bill with the lowest-priority, highest-cost

energy allocated to the opportunity sales. Entergy will measure each operating company's initial payment resulting from the misallocation, find what each operating company should have paid under a proper allocation, and find the difference for each operating company. The Initial Decision has been appealed to the full Commission.

• Docket ER12-1384 (2012) concerns whether the securitized costs of the cancelled Little Gypsy 3 ("LG3") repowering project in Louisiana should be included in the Entergy System Agreement rough production cost equalization bandwidth formula. The MPSC contested the inclusion of LG3 costs through the bandwidth formula. On June 6, 2013, the ALJ issued and Initial Decision agreeing that the LG3 costs should not be included in the bandwidth formula. Entergy and the LPSC have appealed the decision to the full Commission.

• Docket ER13-432 (2013) concerns what is the amount of settlement benefits, if any, expected to be realized by EAI after December 18, 2013, resulting from the 2008 settlement with Union Pacific Railroad Company for damages resulting from an alleged contractual breach in 2005 and 2006 and whether it is appropriate for EAI retain that amount from the 2008 settlement. A hearing was held before an ALJ in September 2014. In order to protect the interest of EMI ratepayers, MPSC filed expert testimony, participated in the proceeding and filed its Post-Hearing Brief on October 14, 2014. On December 12, 2014, the ALJ issued its Initial Decision ruling in favor of the MPSC. In fact, the ALJ specifically cited the MPSC's testimony as being the most persuasive in leading to his decision. Entergy Services and the Arkansas Public Service Commission will likely appeal the Initial Decision to the full Commission.

GAS

FORMULARY PLANS — The three largest natural gas local distribution companies ("LDCs") in the state all operate under formulary plans similar to those of the investor-owned electric utilities. However, only the plan of Atmos Energy Corporation ("Atmos") provides for performance adjustments to the company's allowed return on equity. Each LDC files an evaluation report annually which is reviewed by the Staff. Investments, revenues, and expenses not properly includable in rates are disallowed and removed from the calculation of each company's revenue requirement. Typically, the Staff and the LDCs agree to certain adjustments in a joint stipulation which is then submitted to the Commission for approval. If some issues remain in dispute at the end of the Staff's review, they are argued in memorandum briefs filed with the Commission for resolution.

PURCHASED GAS ADJUSTMENTS - The Staff continued monitoring the purchased gas adjustments of the three major LDCs in the state. Atmos and CenterPoint Energy Inc. ("CenterPoint") were reviewed monthly, and Willmut Gas & Oil Company ("Willmut") was reviewed on a bi-monthly schedule. All natural gas purchases were verified against pipeline invoices and other supporting documentation to determine that they were in conformity with underlying procurement contracts and price indices reflecting current market prices. Atmos and CenterPoint both employed Commission-approved hedging programs to help reduce the volatility of natural gas purchase prices.

Atmos Energy Corporation ("Atmos")

STABLE/RATE – On September 5, 2013, Atmos filed its annual Stable Rate Adjustment ("SRA") Evaluation for the twelve month period ended June 30, 2013. In its filing, the company reported an expected return on equity of 9.29%, which was within the range of no change (9.20% to 11.20%), indicating no revenue adjustment was necessary. Pursuant to the provisions of the SRA Rider, the Staff reviewed the 2013 Evaluation Report, its supporting work papers, and additional information

obtained through data requests. On December 30, 2013, the Staff and Atmos agreed in a Joint Stipulation to decrease rate base by $1,326,469; reduce operating and maintenance expense by $1,481,922; decrease amortization of debt expense by $2,265; decrease interest on long term debt by $40,270; and increase income available for equity by $949,334. As a result of the stipulated adjustments, Atmos' expected rate of return increased to 9.96%, which is still within the range of no change, therefore, no revenue adjustment was required. By order dated January 7, 2014, the Commission adopted the Joint Stipulation.

NOTICE TO ESTABLISH SYSTEM INTEGRITY PLAN AND RURAL DEVELOPMENT PILOT PROGRAM – On May 30, 2014, Atmos filed a notice of intent to amend its tariff Rider Schedule 327, establish a System Integrity Plan, establish a Rural Development Pilot Program and request approval of a Rural Development Rate Rider. Atmos proposed an incremental investment of $10 million per year in the System Integrity Plan to proactively replace existing infrastructure in an effort to reduce the potential for system integrity threats. The Rural Development Pilot Program is proposed in response to increased demand to provide gas to communities where it is currently uneconomic to provide service. The Pilot Program will initially be implemented in the Avon community in Washington County and White Oak in Tunica County. It will provide for extension of gas facilities and an incentive to participants to convert their homes and appliances. The company proposed to add the associated investment for both the System Integrity Plan and the Rural Development Pilot Program to rate base in the Stable/Rate filing. The company also proposed to amend the Stable/Rate tariff to allow the company's annual depreciation and ad valorem tax expense to be recovered on a prospective basis. Staff is currently reviewing the company's proposal, therefore, this filing is pending before the Commission.

CenterPoint Energy Inc. (”CenterPoint”)

RRA – On May 1, 2014, CenterPoint filed its annual Rate Regulation Adjustment Rider and Weather Normalization Adjustment Rider evaluation with an earned return of 2.12% which fell below the allowed return of 9.274% and outside the range of no change of 8.274% to 10.274%, indicating the need for a revenue increase of $4,066,534. The Staff's review of the filing resulted in a Joint Stipulation whereby several adjustments were made that reduced rate base by $234,660 and operating and maintenance expenses by $1,258,161. The net effect of these adjustments increased the earned return to 4.36%, which resulted in a revenue requirement increase of $2,783,300. The Joint Stipulation was approved by the Commission on August 5, 2014.

REVISED GAS FACILTIES EXTENSION POLICY – On June 16, 2014, CenterPoint made a filing to revise its Gas Facility Extension Policy (“Revised Policy”). The company proposed several changes to the current Gas Facilities Extension Policy which was approved in 2003. The Revised Policy reflected the following changes summarized below.

- Updates the company's legal name.
- Increases the per foot amounts used to calculate Main Construction Charges and Service Line Construction Charges to more accurately reflect the current costs associated with such construction. The per foot Main Construction Charges are being changed from $6.50 to $8.00 and the per foot Service Line Construction Charges are revised from $5.30 to $9.00 for service line in excess of 100 feet.
- Includes the Multi-Unit High Rise Condominium customers to the service categories.
- Updates the dollar amounts per customer for calculating the Facilities Rate available to customers who want gas service and desire to pay for the extension of service over a period of time, instead of a lump sum amount. The

company may, at its option, apply a Facilities Rate in lieu of a refundable or non-refundable cash advance, for extensions greater than 100 feet. The Facilities Rate shall apply to all future billings for customers who are served directly from the new facilities for which the Facilities Rate was instituted. The company will review such extension annually for a period not to exceed five years, to determine if sufficient growth has occurred to reduce or eliminate the Facilities Rate. Includes a new three-year pilot program that facilitates expansion into rural areas by allowing the company to deviate from the standard main extension requirements and waive the Contribution in Aid of Construction (CIAC) required in whole or in part, provided that the company determines that a project does not otherwise meet the company's economic feasibility parameters. This will allow the company to serve areas with significant growth potential such that, if that potential is reached, the project will meet such feasibility parameters. Prior to any such deviation where the amount of the CIAC exceeds $25,000 but does not exceed $100,000, the company will provide its economic analysis to the Commission for its review. If the CIAC exceeds $100,000, the company will seek Commission approval for a waiver of such CIAC. The company will provide an annual report of the CIAC waivers to the Commission before March 15th of each year. The company is proposing that the CIAC waiver provisions be established for a pilot period from November 1, 2014, through October 31, 2017. This change should make the Facilities Rate more available to rural customers and should greatly aid in the expansion of gas service to rural areas without burdening existing customers.

The Commission approved the Revised Policy with an order issued on October 7, 2014.

Willmut Gas and Oil Company ("Willmut")

RSA – On September 16, 2013, Willmut made its annual Rate Stabilization Adjustment ("RSA") filing for the twelve months ended June 30, 2013. The filing reflected an earned return on equity of 5.74% and an allowed return of 8.66%, which fell outside the range of no change of 7.66% to 9.66%, indicating the need for a revenue increase of $402,425. The company and the Staff reached a Joint Stipulation on December 9, 2013, agreeing to several adjustments, including a reduction in rate base of $106,284 and expense disallowances of $39,589. The equity capitalization ratio was reduced by 12.52%. The earned return on equity was revised to 4.49% and the allowed return to 9.32%. These adjusted resulting in a revenue requirement increase of $537,841. The Commission approved the Joint Stipulation by order dated December 10, 2013.

CHANGE TO RIDER RSA ALLOWED RETURN METHODOLOGY – On March 6, 2014, Willmut filed to change the Rider RSA. The company proposed that the Capital Asset Pricing Model ("CAPM") be removed from the return calculation in the RSA Tariff. The RSA averages the results from three methodologies in calculating the allowed return for Willmut: Discounted Cash Flow ("DCF"), CAPM and Regression Analysis. Staff reviewed the filing and determined that eliminating the CAPM would result in return calculation that is more in line with the Atmos and CenterPoint allowed return calculations. The effect of this change on future filings would be minimal due to the fact that the Staff has eliminated the CAPM in the allowed return calculation in previous years. On May 6, 2014, the Commission approved an order granting the proposed modifications to Rider RSA.

Southeast Utilities, LLC

RATE CASE – On June 27, 2013, Southeast Utilities, LLC ("Southeast") filed its notice to change rates for gas service in its certificated area in Walthall County. P. Truly Conerly, Jerry Kelly and the Town of Tylertown intervened in this proceeding. Staff conducted a full investigation. Southeast took over operations of its certificated area in Walthall County on December 20, 2013, therefore, a full year

of audited financial data regarding system operations was not available. Staff was unable to make a final recommendation to the Commission at that time. However, based on its review, Staff did find that the current rate schedule did not provide sufficient funds to operate. Therefore, Staff recommended a temporary rate until Southeast provides sufficient information for Staff to make a final recommendation to the Commission. The Commission appointed Shawn Shurden as Hearing Examiner in this case. Staff and Southeast agreed to certain adjustments and temporary rates in a Joint Stipulation filed on January 30, 2014. The Hearing Examiner issued an order approving the Joint Stipulation on February 7, 2014, setting temporary rates until final resolution of this case.

Mississippi River Gas, LLC

RATE CASES – On May 10, 2013, Mississippi River Gas ("MRG") filed five separate rate cases using the same financial data seeking a uniform rate structure for all of its systems. The company proposed to establish a fixed charge of $12.00 and to change its volumetric charge to $6.32, citing a desire to increase its investment in technologies to improve customer service, increase training and compensation for its employees, allow for risk compensation for its investors, earn a just and reasonable return on rate base, and retain and grow its industrial rate base, as the loss of industrial customers due to disaster and a poor economy has had a negative effect on the company. The Cities of Port Gibson, Fayette and Tchula, Dorothy Staer, and the Board of Supervisors of Jefferson County intervened in these proceedings. MRG's filing included an Allowed Return on Equity of 6.02% with a Return on Rate Base of 6.74%, resulting in a Revenue Requirement of $1,630,078. Staff reviewed the company's filing and made numerous adjustments decreasing the requested Revenue Requirement to $1,546,841 and a volumetric charge of $5.32 per Mcf. Staff and MRG entered into a Joint Stipulation on October 11, 2013. The City of Port Gibson did not agree to the Joint Stipulation between Staff and MRG. Staff and MRG reevaluated the documentation on file and on May 8, 2014, entered into an Amended Joint Stipulation agreeing to reduce the proposed fixed customer charge

from $12.00 to $9.00 and increase the proposed volumetric charge from $5.32 to $5.92 per Mcf. The stipulated changes resulted in an increase in revenue requirement of $1,546,841 with an allowed return on rate base of 6.37%. The Commission appointed its attorney, Shawn Shurden, as Hearing Examiner and consolidated the rate case dockets. A Scheduling Order was issued by the Commission. City of Fayette, City of Port Gibson and City of Tchula all filed motions to dismiss for lack of jurisdiction. The Commission issued an Order denying Intervenors' Motion to Dismiss on May 16, 2014. The City of Port Gibson filed an appeal with the Supreme Court on June 13, 2014, and this case is currently pending before the Mississippi Supreme Court.

TELECOMMUNICATIONS

COMPETITION - The impact of competition and migration to different technologies in the local Mississippi telecommunications market is continuing its unabated advance. Mississippi's largest Incumbent Local Exchange Carrier ("ILEC"), AT&T Mississippi, is no longer required to report access lines to the Commission. In 2013, Mississippi's Independent Rural ILECs reported a line loss of 3,959. Intermodal competition from wireless, cable and satellite represents a major portion of the telecommunications competition faced by Mississippi's rural companies.

Wireless telephone companies and cable companies, utilizing Voice over Internet Protocol ("VoIP"), are becoming increasingly formidable in their competition with wireline companies. The Wireline Competition Bureau's June 2014 Local Telephone Competition Report ("Competition Report") stated that the June 2013 statistics revealed that 47.1% of all residential wireline connections are interconnected VoIP. The Cellular Telecommunications Industry Association's December 2013 data reflects that 39.4% of the households in the United States were served by wireless only. Mississippi's wireless only households' percentage continues to rank as one of the highest in the United States. The Competition

Report also indicates that Mississippi's wireless subscribers for June, 2013 were over 2.6 million.

SUPPORT OF LIFELINE/LINK-UP PROGRAMS IN MISSISSIPPI- On February 6, 2012, the FCC released FCC 12-11 Report and Order ("Lifeline Order") to comprehensively reform and begin to modernize the Lifeline Program. The reforms adopted in this Order substantially strengthen protections against waste, fraud, and abuse; improve program administration and accountability; improve enrollment and consumer disclosures; and initiate modernization of the program for broadband.

Lifeline provides discounts that make telephone service more affordable for millions of Americans. The Lifeline Order eliminated Link Up support in non-Tribal areas which reduces the one-time costs associated with initiating telephone service and line extension to the consumer's residence. Consumers apply for the discounts through their telephone provider. These companies are then reimbursed through the Low Income Program of the Universal Service Fund for the revenue they forgo by providing discounted service to eligible consumers. In Mississippi, consumers qualify for Lifeline if they are eligible for Temporary Assistance to Needy Families, Supplemental Security Income, Supplemental Nutrition Assistance Program, Medicaid, all Federal Public Housing Assistance, National School Lunch Program's Free Lunch Initiative, Low Income Home Energy Assistance Programs or an income-based criterion. The income-based criterion allows a consumer to be eligible for Lifeline if the consumer's household income is at or below 135% of the Federal Poverty Guidelines. Each consumer who participates in Lifeline must recertify annually to their service provider of their continued eligibility in either the program-based or the income-based criteria. Mississippi revised its Lifeline guidelines in Docket 2007-AD-487 to reflect the FCC changes. In 2013, Mississippi customers received $19.5 Million from the Lifeline program which was a decrease from $33.3 Million from 2012. This decrease can be attributed to the strengthened FCC 12-11, the new recertification requirements, and the implementation of the National Lifeline Accountability Database ("NLAD"). The NLAD was operational in

Mississippi on February 27, 2014 and is designed to help carriers identify and resolve duplicate claims for Lifeline Program-supported service and prevent future duplicates. Carriers must confirm with NLAD before approving Lifeline applicant that the customer is not already receiving a Lifeline benefit. The NLAD offers improved accountability of the one-per-household rule.

AREA CODE EXHAUST PLANNING- The 662 Numbering Plan Area ("NPA") is facing the exhaust of numbers required for assignment to central office codes. In September 2008, the Commission initiated a mechanism to forestall the area code relief planning process by requesting the Federal Communications Commission ("FCC") to approve a Petition for Delegated Authority to implement number conservation measures. Such delegated authority would allow the Commission to mandate 1,000 block number pooling and assignment. In May 2010, the FCC entered an Order granting the Commission's Petition. This FCC action will allow the Commission to forgo the need for current relief planning and will defer 662 NPA exhaust, as well as the creation of a new NPA in the 662 area. On May 5, 2011, the Commission approved the implementation of number conservation measures order in NPA 662 in Docket No. 2011-AD-129. Meetings were held between the Pooling Administrator of the North American Numbering Plan Administration ("NANPA") and the affected carriers to develop an implementation timetable for the mandatory pooling in order to defer and mitigate the effects of the future exhaust of NPA 662. Mandatory pooling of thousands-block in NPA 662 began in September 2011. NANPA's April 2014 forecast estimates that exhaust of NPA 662 will occur in the third quarter of 2020.

FEDERAL UNIVERSAL SERVICE HIGH-COST SUPPORT- The Universal Service Fund (USF) is one fund with four programs - High Cost, Low Income, Rural Health Care and Schools & Libraries. The Commission has oversight responsibilities for the High Cost and the Low Income programs. The High Cost program ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those in urban

areas. The Low Income program, commonly known as Lifeline, provides discounts that make local telephone service affordable to millions of low-income consumers. In order for a carrier to receive funds from either of these programs, they have to be designated as an eligible telecommunications carrier ("ETC"). The Commission has the primary responsibility for designating carriers as ETCs.

Yearly certification for ETC's is required for High cost support. The Commission has the primary responsibility to provide this annual certification to the Federal Communications Commission and the Universal Service Administrative Company. Certifications are due annually on or before October 1. The certification must state that all federal High Cost support provided to rural and/or non-rural carriers and competitive ETC's within the state has been and will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

On November 18, 2011, the FCC released FCC 11-161 Report and Order ("CAF Order") which comprehensively reformed the Universal Service Fund and will transition High Cost mechanisms to the Connect America Fund ("CAF"). This reform developed different avenues of support for price-cap carriers, rate of return carriers, competitive local exchange carriers, and mobility fund carriers. The CAF Order accelerates broadband build-out and expands the benefits of high-speed Internet to rural America. Many of the rural local exchange companies have expressed concern regarding the uncertainty and unpredictability of the CAF order. Mississippi's ETC Docket 2005-AD-662 has been revised to reflect the CAF Order so ETCs can comply with the FCC guidelines and Mississippi requirements. The Seventh Reconsideration Order, FCC 14-54, was released on June 10, 2014 and introduces many changes and clarifications to the CAF Order including transitioning residential local service rates to the rate floor of $20.46. The 2013 rate floor was established at $14.00, and effective January 2, 2015 the rate floor was set at $16.00.

Mississippi remains one of the largest national beneficiaries of monies allocated from the federal High-Cost support under the federal Universal Service Fund Support program. In 2012, Mississippi received over $208.3 million in High-Cost Universal Service funding. These monies were utilized by ETCs to improve the wireless and wireline network infrastructure in high cost areas of our state. Mississippi would be unable to maintain basic telephone rates in rural areas at rates comparable to those in more urban areas of the state without federal Universal Service Support. In addition, Universal Service funding ensures that Mississippians in all areas of the state are provided services, functionalities and features comparable to those offered in urban areas. As the transition of USF/CAF shifts to broadband implementation and acceptance, these funds will continue to be vital to Mississippians who are unserved or underserved with access to broadband.

Currently, there are 35 ETCs designated in Mississippi and eight of those are low income only. These are comprised of LECs, CLECs and wireless companies. The CAF Order offers other opportunities where providers may seek conditional designation to participate in competitive bidding. The Public Utilities Staff works in conjunction with the Commission to designate ETCs and also reviews and certifies ETC planned Universal Service expenditures. These actions ensure that monies received from federal Universal Service Fund are being used in accordance with the guidelines set forth in the Telecommunications Act of 1996.

SUPPORT OF MISSISIPPI BROADBAND TASKFORCE - The Mississippi Public Utilities Staff Director of Communications has served on Office of Governor Mississippi Broadband Taskforce since mid-2009. In this position, the Staff has supported the filing of two National Telecommunications and Information Administration ("NTIA") Broadband Mapping grants as well as the filing of both Round 1 and Round 2 Broadband Technology Opportunities Program ("BTOP") applications

DUAL PARTY RELAY SERVICE – Telecommunications Relay Service ("TRS") is a telephone service that allows persons with hearing or speech disabilities to place

and receive telephone calls. This Commission has been administering the Statute under 77-3-501 for 22 years. With the erosion of landlines, the TRS fund has become dangerously low. With the approval of the Commission, the TRS surcharge for landline services was increased on bills rendered on or after May 1, 2013, from $.03/month to $.10/month. The Staff continues to monitor this fund and advises the Commission accordingly.

FILING COMMENTS WITH THE FCC - The Staff monitors events of concern with the FCC and files comments on behalf of the Commission. Past comments filed include comments regarding the CAF Order, call completion concerns, cramming, and in-person distribution for handsets to prospective Lifeline customers.

WATER & SEWER

CURRENT NUMBER OF WATER & SEWER UTILITIES - The Mississippi Public Service Commission regulates 950 water and sewer utilities as follows:

Sewer Associations	38
Sewer Companies	132
Sewer Districts	39
Sewer Municipalities	35
Water Associations	496
Water Companies	41
Water Districts	43
Water Municipalities	126

FILINGS – The Water and Sewer Division is responsible for the investigation of all water and sewer related filings with the Commission for initial certificates, supplemental certificates, facility certificates, sale and transfers, initial rates and rate changes.

During this reporting period, there were 29 filings seeking initial, supplemental, and facility certificates and sale and transfer filings. Of the 29 total

filings, the specific breakdown by type of utility was as follows:

Sewer Associations	1
Sewer Companies	7
Sewer Districts	7
Sewer Municipalities	0
Water Associations	2
Water Companies	3
Water Districts	3
Water Municipalities	6

There were 22 rate filings. The filings by type of utility were as follows:

Sewer Companies	7
Sewer Municipalities	2
Water Companies	2
Water Municipalities	11

The Water and Sewer Division actively investigated all aspects of the 51 total filings made with the Commission. This investigation included: propounding data requests, reviewing engineering plans and specifications, reviewing reports and other documentation, conducting prehearing conferences, preparing pre-filed testimony, presenting testimony before the Commission at formal hearings and presenting recommendations to the Commission.

VIABILITY RECOMMENDATIONS - Pursuant to Miss. Code Ann., Section 43-35-504, the Water and Sewer Division reviewed and analyzed 36 water block grant applications as well as made utility viability recommendations to the Mississippi Development Authority. In addition, recommendations were made to the Mississippi State Department of Health and to the Mississippi Department of Environmental Quality.

AUDITS - Annual audits of certain regulated sewer companies that are connected to regional utility authorities for wastewater treatment were performed by the Division to ensure that these sewer companies were assessing the correct monthly

charges. The Division also determined the appropriate monthly charge to be assessed for the upcoming year.

INSPECTIONS – The continued monitoring of utility systems and various construction projects were performed by the Division throughout the reporting period.

UTILITIES SUMMARIES

ELECTRIC, GAS & TELEPHONE UTILITY SUMMARIES 2013

ELECTRIC UTILITIES SUMMARY 2013

COMPANY	NUMBER OF CUSTOMERS	KWH SOLD	AVERAGE REVENUE PER CUSTOMER	AVERAGE KWH PER CUSTOMER	AVERAGE REVENUE PER KWH	GROSS PLANT INVESTMENT	GROSS OPERATING REVENUES	RATIO GROSS INVESTMENT
ENTERGY MISSISSIPPI, INC.								
RESIDENTIAL	369,928	5,629,032,000	$ 1,424	15,217	$ 0.0936		$ 526,617,926	
COMMERCIAL	62,939	4,815,389,000	$ 6,868	76,509	$ 0.0898		$ 432,240,434	
INDUSTRIAL	3,629	2,265,144,000	$ 42,916	624,179	$ 0.0688		$ 155,741,584	
OTHER	4,582	409,403,000	$ 9,159	89,350	$ 0.1025		$ 41,966,700	
TOTAL	441,078	13,118,968,000	$ 2,622	29,743	$ 0.0882	$ 3,918,382,723	$ 1,156,566,644	30%
MISSISSIPPI POWER COMPANY								
RESIDENTIAL	152,608	2,087,705,000	$ 1,778	13,680	$ 0.1300		$ 271,300,824	
COMMERCIAL	33,209	2,864,947,000	$ 8,914	86,270	$ 0.1033		$ 296,016,736	
INDUSTRIAL	482	4,738,714,000	$ 658,078	9,831,357	$ 0.0669		$ 317,193,759	
OTHER	107	40,139,000	$ 67,296	375,131	$ 0.1794		$ 7,200,689	
TOTAL	186,406	9,731,505,000	$ 4,784	52,206	$ 0.0916	$ 6,023,811,729	$ 891,712,008	15%

Source: FERC FORM 1 - YE 12/31/2013

GAS UTILITIES SUMMARY 2013
(SOURCE: COMPANY ANNUAL REPORTS)

As of December 31, 2013
Number of companies reporting: 6

	Atmos	CenterPoint	MS River Gas	Tumlinson	Southeast Utilities*	Willmut	TOTALS
Plant (Intrastate Only)							
Plant in Service	426,768,566	178,633,874	2,981,034	293,500	321,597	45,123,811	654,122,382
Construction Work in Progress	3,957,295	9,521,576	0	0	0	31,534	13,510,405
Plant Acquisition Adjustment	7,977,971	0	0	0	0	0	7,977,971
Plant Held for Future Use	6,955,672	0	0	0	0	0	6,955,672
Materials and Supplies	690,144	938,092	30,605	0	11,285	272,877	1,943,003
Less:							
Depreciation and Amortization Reserves	153,289,770	89,597,922	1,637,514	293,500	20,381	24,832,850	269,671,937
Contributions in Aid of Construction	0	0	284,788	0	0	0	284,788
NET BOOK COSTS	293,059,878	99,495,620	1,089,337	0	312,501	20,595,372	414,552,708
Revenues and Expenses (Intrastate Only)							
Operating Revenues	198,809,794	83,235,234	2,950,244	1,080,209	469,475	20,227,565	306,772,521
Depreciation and Amortization Expenses	12,618,736	5,481,788	225,372	9,530	21,486	761,307	19,118,219
Income Taxes	5,883,271	2,468,920	0	13,108	0	488,450	8,853,749
Other Taxes	13,614,555	4,477,182	86,714	31,121	12,396	697,108	18,919,076
Other Operating Expenses	143,727,086	68,674,274	2,187,856	911,964	519,936	17,391,790	233,412,906
Total Operating Expenses	175,843,648	81,102,164	2,499,942	965,723	553,818	19,338,655	280,303,949
Net Operating Income	22,966,146	2,133,070	450,302	114,486	(84,343)	888,910	26,468,572
Other Income	921,850	265,643	17,002	0	36,854	129,380	1,370,729
Other Deductions	(11,484,607)	(2,376,490)	(23,476)	0	(12,310)	(145,858)	(14,042,741)
NET INCOME	12,403,389	22,223	443,828	114,486	(59,799)	872,432	13,796,560
Customers (Intrastate Only)							
Year-End Average:							
Residential	231,561	109,827	2,889	146	430	16,217	361,070
Commercial	24,073	12,351	218	54	160	2,800	39,656
Industrial	348	30	2	2	0	30	412
Others	2,826	0	98	0	0	0	2,924
Total Number of Customers	258,808	122,208	3,207	202	590	19,047	404,062
Other Statistics (Intrastate Only)							
Average Annual Residential Use (MCF)	48.56	49.53	47.25	39.36	39.37	48.16	45.37
Average Residential Cost per MCF ($)	9.61	8.67	12.73	9.17	12.02	8.94	10.19
Average Residential Monthly Bill	38.87	35.80	50.12	30.09	39.44	35.86	38.36
Gross Plant Investment per Customer	1,724.64	1,547.31	939.08	1,452.97	564.21	2,385.06	1,435.54

*The Commission approved the sale and transfer of the assets of Walthall Natural Gas Company to Southeast Utilities LLC in Docket 2012-UA-346.

MISSISSIPPI TELEPHONE UTILITIES SUMMARY 2013

COMPANY	NUMBER OF MS EXCHANGES	ACCESS LINES 2013	ACCESS LINES 2012	ACCESS LINE GROWTH FROM PREV. YEAR	GROSS PLANT IN SERVICE	OPERATING REVENUE	OPERATING EXPENSES	NET REVENUE
BPM (NOXAPATER)	1	660	713	(53)	$3,864,022	$1,825,340	$2,028,627	($203,287)
BAY SPRINGS	12	7,501	8,111	(610)	$65,333,746	$11,854,316	$10,510,022	$1,344,294
BELLSOUTH**	172		--	--				--
BRUCE	1	1,931	2,004	(73)	$19,943,646	$3,094,757	$2,944,806	$149,951
CALHOUN CITY (TDS)	3	2,387	2,558	(171)	$13,761,262	$2,192,222	$1,750,464	$441,758
CENTURYTEL OF ADAMSVILLE	1	105	110	(5)	$40,132,219	$5,259,336	$4,643,241	$616,095
CENTURYTEL OF NORTH MS	3	15,477	16,004	(527)	$102,300,835	$17,467,404	$11,559,234	$5,908,170
DECATUR	1	1,352	1,421	(69)	$8,786,486	$1,242,168	$1,557,232	($315,064)
DELTA	7	2,477	2,635	(158)	$25,119,860	$4,085,340	$3,468,455	$616,885
FRANKLIN	10	6,228	6,700	(472)	$72,568,692	$10,375,294	$7,910,633	$2,464,661
FRONTIER	4	3,474	4,009	(535)	$21,991,805	$3,569,068	$2,629,048	$940,020
FULTON	4	6,362	6,573	(211)	$32,185,987	$5,066,294	$5,955,641	($889,347)
GEORGETOWN	1	214	230	(16)	$5,388,338	$1,144,412	$836,262	$308,150
LAKESIDE	1	214	233	(19)	$4,557,738	$1,225,365	$1,119,611	$105,754
MOUND BAYOU	1	556	601	(45)	$3,819,374	$998,619	$786,057	$212,562
MYRTLE (TDS)	1	510	546	(36)	$3,394,460	$555,734	$530,776	$24,958
SLEDGE	1	274	285	(11)	$6,225,560	$1,247,734	$1,176,034	$71,700
SMITHVILLE	1	536	537	(1)	$2,278,230	$500,180	$633,143	($132,963)
SOUTHEAST MS (TDS)	4	2,624	2,823	(199)	$21,452,615	$3,228,336	$2,018,942	$1,209,394
WINDSTREAM	3	9,191	9,939	(748)	$44,927,926	$8,594,694	$4,023,765	$4,570,929

*Bell South no longer required to report access lines. (See 2012 HB825)

AGENCY FINANCIAL REPORTS

MISSISSIPPI PUBLIC UTILITIES STAFF

COMBINED STATEMENTS OF RECEIPTS AND DISBURSEMENTS

JULY 1, 2013 – JUNE 30, 2014

DISBURSEMENTS:	
Salaries & Fringe Benefits	**$1,958,084**
Travel	**70,232**
Contractual Services	**178,534**
Commodities	**8,120**
Capital Outlay Equipment	**0**
Subsidies, Loans, Grants	**0**
TOTAL OPERATING EXPENSES	**$2,214,970**
Transfers	**0**
TOTAL DISBURSEMENTS	**$2,214,970**
RECEIPTS:	
Utility Regulatory Tax	**$2,452,578**
Miscellaneous Receipts	**3361**
TOTAL RECEIPTS:	**$2,455,939**

MISSISSIPPI PUBLIC UTILITIES STAFF
OUT OF STATE TRAVEL
FISCAL YEAR 2014

Employee's Name	Destination	Purpose	Costs
David Boackle	Carmel, IN	MISO	915.59
Jennifer Boen	Woodlands, TX	Fuel Audit	743.75
	Birmingham, AL	Fuel Audit	553.24
Donna Chandler	San Destin, FL	TASE	1463.65
	Las Vegas, NV	NECA Expo	1051.46
	Washington, DC	NARUC	1726.48
	San Destin, FL	TASE	1517.48
Wendy Collins	Woodlands, TX	Fuel Audit	978.47
	Birmingham, AL	Fuel Audit	1080.30
Michael Douglas	San Destin, FL	TASE	1546.06
	San Destin, FL	TASE	1613.31
Chris Garbacz	Denver, CO	NARUC	1417.58
	Washington, DC	Atlantic Conference	152.39
	Washington, DC	Atlantic Conference	295.06
	Orlando, FL	NARUC	1710.23

	Washington, DC	**NARUC**	**2376.57**
Patti Hentschel	**Birmingham, AL**	**Fuel Audit**	**568.22**
	Albuquerque, NM	**Utility Rate School**	**1691.07**
Virden Jones	**Denver, CO**	**NARUC**	**943.25**
Mike McCool	**Baton Rouge, LA**	**Audit**	**352.02**
Brandi Myrick	**Woodlands, TX**	**Fuel Audit**	**786.31**
	Birmingham, AL	**Fuel Audit**	**572.62**
	Carmel, IN	**MISO**	**722.52**
Chad Reynolds	**San Destin, FL**	**Mississippi Bar**	**2690.66**
	Woodlands, TX	**Fuel Audit**	**1086.36**
	New Orleans, LA	**Entergy Meeting**	**264.40**
	Washington, DC	**MISO**	**1348.93**
	San Destin, FL	**Mississippi Bar**	**2292.68**
Randy Tew	**San Destin, FL**	**TASE**	**1531.05**
	Las Vegas, NV	**NECA Expo**	**1341.48**
	San Destin, FL	**TASE**	**1583.19**

MISSISSIPPI PUBLIC UTILITIES STAFF
OUT OF STATE TRAVEL
FISCAL YEAR 2014

Employee's Name	Destination	Purpose	Costs
Patricia Trantham	**Chattanooga, TN**	**SE Water Conference**	**966.76**
Paige Wilkins	**Woodlands, TX**	**Fuel Audit**	**860.16**
	Atlanta, GA	**SEEA Seminar**	**836.78**